

**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 2000**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
Commission file number 1-14540**

**Deutsche Telekom AG**

(Exact Name of Registrant as specified in its charter)

**Germany**

(Jurisdiction of Incorporation or Organization)

**Friedrich-Ebert-Allee 140, 53113 Bonn, Germany**

(Address of Registrant's Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| <b>Title of each class</b>  | <b>Name of each exchange<br/>on which registered</b> |
|---|--|
| American Depositary Shares, each representing<br>one Ordinary Share | New York Stock Exchange                              |
| Ordinary Shares, no par value                                       | New York Stock Exchange*                             |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**NONE**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**NONE**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, no par value: 3,029,604,034  
(as of December 31, 2000)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected.

Item 17  Item 18

\* Not for trading, but only in connection with the registration of American Depositary Shares.

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### PART III

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## Forward-Looking Statements

This Annual Report contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

- financial projections and estimates and their underlying assumptions;
- statements regarding plans, objectives and expectations relating to future operations, products and services;
- statements regarding the impact of regulatory initiatives on Deutsche Telekom's operations;
- statements regarding Deutsche Telekom's share of new and existing markets;
- statements regarding general industry and macroeconomic growth rates and Deutsche Telekom's performance relative to them; and
- statements regarding future performance.

Forward-looking statements generally are identified by the words "expects", "anticipates", "believes", "intends", "estimates" and similar expressions.

Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and Deutsche Telekom undertakes no obligation to update any forward-looking statement in light of new information or future events, although Deutsche Telekom intends to continue to meet its ongoing disclosure obligations under the U.S. securities laws (such as its obligations to file annual reports on Form 20-F and reports on Form 6-K) and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and generally beyond Deutsche Telekom's control. Deutsche Telekom cautions you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

- risks and uncertainties relating to the benefits anticipated from the acquisition of VoiceStream and Powertel;
- the level of demand for telecommunications services, particularly for wireless telecommunications services, access lines, traffic and new higher value products;
- competitive forces, including pricing pressures, technological developments and alternative routing developments;
- Deutsche Telekom's ability to gain market share in new markets, including the United States, and to retain market share in existing markets in the face of competition from existing and new market entrants;
- Deutsche Telekom's ability to secure the licenses needed to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the effects of tariff reduction initiatives, particularly in the fixed-line voice telephony business but also with regard to many other areas;
- regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access and international settlement arrangements;
- the outcome of litigation in which Deutsche Telekom is involved or may become involved;
- the success of new business, operating and financial initiatives, many of which involve substantial start-up costs, and of new systems and applications, particularly with regard to integration of service offerings;
- concerns over health risks associated with the use of wireless handsets and other health and safety risks related to radio frequency emissions;
- the progress of Deutsche Telekom's domestic and international investments, joint ventures and alliances;
- the impact of Deutsche Telekom's efforts to focus its business on its four strategic pillars;
- the availability, terms and deployment of capital, particularly in view of Deutsche Telekom's debt refinancing needs, and the impact of regulatory and competitive developments on Deutsche Telekom's capital outlays;
- the level of demand in the market for Deutsche Telekom's shares and for the shares of its subsidiaries, which may affect Deutsche Telekom's acquisition strategies;

- Deutsche Telekom's ability to achieve cost savings and realize productivity improvements;
- Deutsche Telekom's ability to attract and retain qualified personnel;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the Euro zone;
- the development of the German real estate market in view of Deutsche Telekom's strategy of monetizing a significant portion of its large real estate portfolio, which had a book value of approximately EUR 14.4 billion as of December 31, 2000; and
- general economic conditions, government and regulatory policies, new legislation and business conditions in markets that Deutsche Telekom and its affiliates serve.

### Exchange Rates

Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro as their common currency. With the first quarter of 1999, Deutsche Telekom began publishing its consolidated financial statements in euros and, unless otherwise indicated, all amounts in this document are expressed in euros. Amounts stated in euros appearing in this document for periods prior to December 31, 1998, have been translated from Deutsche Marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583.

Where indicated, U.S. Dollar amounts have been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on March 31, 2001. This rate may differ from the actual rates Deutsche Telekom used in the preparation of its consolidated financial statements as of December 31, 2000 and 1999, and for each of the years in the three year period ended December 31, 2000. Accordingly, Dollar amounts appearing in this report may differ from the actual Dollar amounts that Deutsche Telekom originally translated into euros in the preparation of its financial statements.

Amounts appearing in this report that were translated into euros from currencies other than the U.S. Dollar were translated in accordance with the principles described in the consolidated financial statements under "Summary of accounting policies—Foreign currency translation".

The following table sets forth, for the periods indicated, the average, high, low or period-end Noon Buying Rates for the euro expressed in Dollars per EUR 1.00. Amounts for the period from 1996 through 1998 have been calculated based on Noon Buying Rates for the Deutsche Mark, converted into euros at the official fixed conversion rate and expressed in Dollars per EUR 1.00.

| <u>Year or month</u> | <u>Average (1)</u> | <u>High</u> | <u>Low</u> | <u>Period-End</u> |
|----------------------|--------------------|-------------|------------|-------------------|
| 1996 . . . . .       | 1.2978             |             |            | 1.2711            |
| 1997 . . . . .       | 1.1244             |             |            | 1.0871            |
| 1998 . . . . .       | 1.1120             |             |            | 1.1733            |
| 1999 . . . . .       | 1.0588             |             |            | 1.0070            |
| 2000 . . . . .       | 0.9207             |             |            | 0.9388            |
| October . . . . .    |                    | 0.8806      | 0.8270     |                   |
| November . . . . .   |                    | 0.8694      | 0.8382     |                   |
| December . . . . .   |                    | 0.9388      | 0.8755     |                   |
| 2001                 |                    |             |            |                   |
| January . . . . .    |                    | 0.9535      | 0.9181     |                   |
| February . . . . .   |                    | 0.9395      | 0.9057     |                   |
| March . . . . .      |                    | 0.9340      | 0.8794     |                   |
| April . . . . .      |                    | 0.9032      | 0.8814     |                   |

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

On May 3, 2001, the Noon Buying Rate was \$0.8891 per €1.00

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

## **PART I**

### **ITEM 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

### **ITEM 2. Offer Statistics and Expected Timetable**

Not applicable.

### **ITEM 3. Key Information**

The information set forth under the heading “Financial data of the Deutsche Telekom Group at a glance” on the inside front cover of this report is incorporated by reference into this item. The selected financial data incorporated by reference herein should be read in conjunction with the consolidated financial statements of Deutsche Telekom and the notes thereto that are included elsewhere in this Annual Report. Unless otherwise indicated, all amounts are in accordance with German generally accepted accounting principles (“GAAP”). The information set forth under the heading “Risk factors relating to the Deutsche Telekom/VoiceStream merger and the Deutsche Telekom/Powertel merger” on pages 25-28 of Deutsche Telekom’s registration statement on Form F-4 filed with the Securities and Exchange Commission on October 4, 2000, as amended through February 9, 2001, as well as the information set forth under the heading “Risk Management” on pages 38-40 of Deutsche Telekom’s Report on Form 6-K dated April 24, 2001 (the “2000 Annual Report”), is incorporated herein by reference.

## **ITEM 4. Information on the Company**

### **HISTORICAL BACKGROUND**

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

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

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

### **STRATEGY**

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

- Mobile telecommunications;
- Data communications and systems solutions;
- Consumer Internet services; and
- Network access.

In mobile telecommunications, Deutsche Telekom's strategic focus is on selling new products and services to the large subscriber bases it has gained in its existing operations during the past several years, expanding its business further internationally, in particular through the completion of the planned acquisitions of VoiceStream Wireless Corporation ("VoiceStream") and Powertel, Inc. ("Powertel"), and becoming a leading provider of mobile data and m-commerce services.

In data communications and systems solutions, Deutsche Telekom expects to consolidate its position among the largest integrated data communications and systems solutions providers in Europe with its acquisition in 2000 of 50.1 percent of debis Systemhaus. In this regard, Deutsche Telekom aims to offer an integrated service portfolio ranging from traditional transport and leased line services to complex information technology services and tailored business-to-business (B2B) commerce, business Internet and Application Service Provider (ASP) solutions.

In consumer Internet services, Deutsche Telekom's subsidiary, T-Online International AG, plans to build on its position as the largest Internet service provider in Europe and one of the largest in the world, and as the operator of the leading German language Internet portal. T-Online intends to grow its subscriber base across Europe, both through internal growth and through acquisitions as appropriate, enhance its portal content and services to increase visitor traffic and take measures to foster greater e-commerce and advertising revenues.

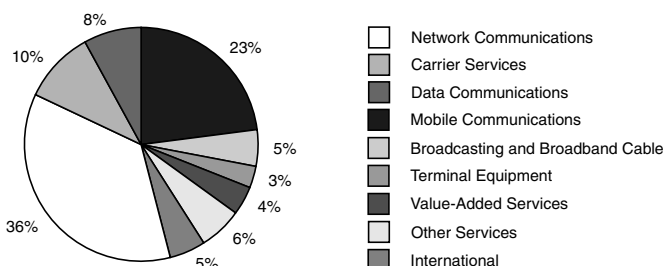
Deutsche Telekom's strategic focus in the network access field is to continue to shift the mix of its network communications revenues toward access charges and away from calling charges by migrating an increasing part of its customer base from narrow bandwidth products (which can carry only a modest amount of electronic signals at one time) to broadband access products (which can carry much larger amounts at

considerably higher speeds and so can open up new applications for customers). In this regard, Deutsche Telekom has applied the experience gained from the successful mass-market roll-out of digital (ISDN) access lines to its T-DSL product.

While Deutsche Telekom is focusing on the integration of businesses acquired in the past two years, it continues to evaluate potential acquisitions and business opportunities. Deutsche Telekom may continue to make investments on a selective basis where they match its strategic plans. Going forward, Deutsche Telekom intends to focus on acquisitions which allow it to exercise a degree of control over the companies in which it invests, and that are within its four strategic growth areas.

### DESCRIPTION OF BUSINESS SEGMENTS

Deutsche Telekom's consolidated net revenues are derived principally from telephone network communications services, which consist primarily of domestic and international public fixed network voice telephony services. Deutsche Telekom also obtains revenues from interconnection services for domestic and international network operators, domestic and international services in the field of data communications and systems solutions, and mobile communications services. Broadcasting and broadband cable, the supply and sale of terminal equipment, value-added services and other ancillary services, including the online services offered by T-Online and other multimedia services, round out the range of products and services offered by Deutsche Telekom. Revenues from activities outside Germany are generated by Deutsche Telekom's foreign subsidiaries. The following chart shows revenues from each of Deutsche Telekom's business areas for 2000 expressed as a percentage of consolidated net revenues for that year.



Approximately 19 percent of Deutsche Telekom's revenues in 2000 was derived from activities outside Germany. For a breakdown of revenues by geographic region, see note 1 to the consolidated financial statements.

#### Network Communications

Network communications—in essence, the provision of voice telephony services through the Deutsche Telekom fixed-line network—continues to be the main contributor to Deutsche Telekom's consolidated revenues and profits. In 2000, this segment generated net revenues of EUR 15.1 billion (36.8 percent of Deutsche Telekom's net consolidated revenues). The network communications business area includes access services and local, national long distance and international calling services as well as connections to mobile and online service providers. Other related services, such as directory assistance, public telephones, the supply of telephones and the handling of inbound international calls, are included in other business areas at Deutsche Telekom. In this business area, Deutsche Telekom is focusing on enhancing the value of basic access lines by coupling faster access rates with bundled products.

#### Access

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

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

As of December 31, 2000, Deutsche Telekom provided over 32 million analog access lines. In addition to these analog access lines, as of December 31, 2000, Deutsche Telekom had installed over seven million ISDN access lines, representing a total of 17.3 million channels. Of this number, 8.5 million were connected with business customers and 8.8 million with residential customers. While business customers continue to account for a majority of the ISDN channels in service, ISDN channel growth is strongest among residential customers. In 2000, Deutsche Telekom achieved overall ISDN channel growth of 22.9 percent, representing 16.8 percent growth among business customers and 45.2 percent growth among residential customers.

*T-ISDN.* In 2000, Deutsche Telekom maintained special traffic charges for calls initiated from telephones connected to ISDN lines. These special traffic charges were first implemented in 1999. Since customers with ISDN lines pay a higher monthly access fee and tend to make more and longer telephone calls than customers with analog lines, increasing the ISDN penetration rate among its customers is an important element of Deutsche Telekom's fixed-line strategy. For further information on Deutsche Telekom's tariffs for ISDN access lines, see "—Tariffs". While an increase in ISDN lines tends to result in a decline in the number of analog lines, due to a substitution effect, increased ISDN penetration contributes overall to higher fixed-line revenues.

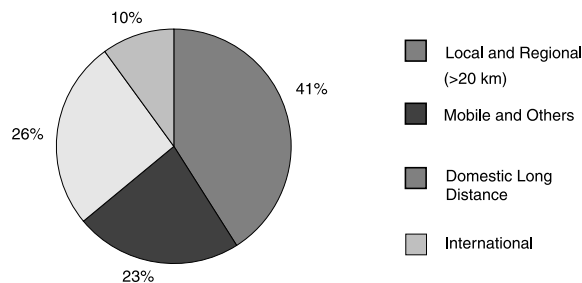
Deutsche Telekom intends to use ISDN access lines as the basis for introducing innovative products. For example, in 1999, with its T-ISDN AktivMobil service, Deutsche Telekom became one of the first providers worldwide to introduce a "genuine" bundled product that integrates ISDN and mobile phone services. With this product, a customer has the same phone number for a fixed-line phone and a mobile phone, receives a single phone bill and can answer calls on either phone, according to the customer's preference.

*T-DSL.* ADSL technology (Asymmetrical Digital Subscriber Line) is a telecommunications technology that allows for the transmission of data at very high rates using conventional telephone lines. Deutsche Telekom continued to develop the potential of ADSL-based broadband communications for its customers in 2000 under the general brand name "T-DSL". Due to the relatively low cost of this access technology, T-DSL enables Deutsche Telekom to bring the benefits of fast Internet communications and innovative multimedia applications to the mass market. At December 31, 2000, over 600,000 customers had placed orders with Deutsche Telekom for T-DSL service and over 100,000 had received T-DSL connections at that time.

Due to strong demand for Deutsche Telekom's digital subscriber line services, Deutsche Telekom has experienced some difficulties in obtaining supplies necessary to provide T-DSL services to customers as soon as customers have placed an order for those services. In some cases, waiting periods of several months have been necessary. Deutsche Telekom expects, however, that these supply difficulties will be resolved by the end of 2001.

**Overview of Calling Services**

Deutsche Telekom provides comprehensive local, national and international long distance fixed-line calling service to customers throughout Germany. The following chart indicates revenues from local calls, national long-distance calls, international calls and calls to mobile networks and calls to online services (excluding T-Online) and others as a percentage of total calling revenues during 2000.





In 2000, net revenues from fixed-line calling services amounted to EUR 8.6 billion. Residential customers provided 70.3 percent of call revenue, while 29.7 percent was generated by business customers. Revenue from calls to mobile numbers rose 9.9 percent over the previous year's figure.

Since January 1, 1998, the provision of fixed-line voice telephony services has been open to full competition. Deutsche Telekom is beginning to face competition in the market for local calls for which an area code is required, and such competition is expected to increase significantly in the medium term as competitors begin to offer access services. In 2000, competition still concentrated on long distance and international calls, both areas in which Deutsche Telekom competitors have made considerable inroads into the market. According to a report published by the Regulatory Authority for Telecommunications and Posts (*Regulierungsbehörde für Telekommunikation und Post*) (the "Regulatory Authority") Deutsche Telekom had a market share of approximately 60 percent in the combined domestic long-distance and international calling markets at year-end 2000. Fixed terms for interconnection, which particularly favor competitors that have not invested heavily in infrastructure, enabled competitors to benefit from Deutsche Telekom's infrastructure investments at low prices. In Germany, telephone customers are free to choose providers either through preselection—selecting one long-distance carrier to handle all domestic long distance and international calls on a default selection basis—or through call-by-call selection—selecting a carrier when such a call is made by dialing the carrier's numeric prefix before dialing the telephone number. In addition, mobile telephone calling services have begun to compete with the fixed-line calling services offered by Deutsche Telekom. Deutsche Telekom has countered the challenge posed by its competitors with sharply reduced tariffs and innovative, customer-oriented and reliable products and services.

#### *Domestic Traffic*

In 2000, Deutsche Telekom's customers generated 1.3 percent more domestic traffic minutes than in 1999. This growth was attributable largely to a substantial increase in minutes to online services and an increase in fixed-to-mobile traffic. The increase in minutes to online services includes calls to T-Online, although revenues from calls made after April 1, 1999 to T-Online under many of T-Online's tariff plans are shown under "other services." Adjusted for calls to T-Online for which the corresponding revenues are shown under "other services," minutes from domestic traffic decreased by approximately 6 percent. The increase in fixed-to-mobile traffic was more than offset by a decline in long-distance minutes, which was due to a decrease in market share resulting from competition, and by a decline in local traffic that resulted from the entry of competitors into this market and from competition from mobile networks.

#### *Outbound International Traffic*

The following table shows Deutsche Telekom's outbound international traffic in millions of minutes broken down by geographic regions in 2000. Total outbound international traffic in millions of minutes was 3,864 in 1999 and 4,711 in 1998.

|                          | <b>December 31,<br/>2000(1)</b> |
|--------------------------|---------------------------------|
| European Union . . . . . | 1,700                           |
| USA/Canada . . . . .     | 285                             |
| Others . . . . .         | <u>1,825</u>                    |
| Total . . . . .          | <u>3,810</u>                    |

(1) Estimated outgoing minutes.

#### *Tariffs*

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

Telephone subscribers are charged an initial connection fee, monthly subscription fee and traffic charges. Prices are set according to the distance called, the time of day and whether the day is a business day, a weekend

or a public holiday. In the residential market, traffic charges are now mostly based on minute prices, except for local calls, where traffic charges are still based on charging units. The duration of a unit varies according to the calling plan being used.

Subject to applicable regulatory limits, Deutsche Telekom intends to continue adjusting its tariffs to align its charges more closely with the preferences of its customer groups. For a discussion of regulatory developments and legal controversies affecting tariffs, see “—Regulation—Special Requirements Applicable to Market-Dominant Providers” and “Item 8. Financial Information—Litigation”.

#### *Access Charges*

Revenue from access consists principally of monthly subscription fees charged to customers for providing access lines as well as one-time initial connection fees. The level of monthly subscription fees generally is higher for ISDN access lines than for standard access lines. In 2000, revenue from ISDN access lines accounted for approximately 32.3 percent of total access revenues. Access charges remained constant from 1996 through the first quarter of 2000. On April 1, 2000, Deutsche Telekom reduced standard ISDN monthly subscription fees. Deutsche Telekom’s initial connection fees and monthly subscription fees (including value added tax), with effect as of April 1, 2001, are shown in the following table.

|   |           |
|---|-----------|
| Analog connection fee . . . . .                     | DM 100.86 |
| Analog monthly subscription fee . . . . .           | DM 24.81  |
| ISDN connection fee . . . . .                       | DM 100.86 |
| Standard ISDN monthly subscription fee . . . . .    | DM 44.89  |
| Komfort ISDN monthly subscription fee (1) . . . . . | DM 49.90  |

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

Consistent with its strategy of enhancing the value of its access lines to its customers, Deutsche Telekom offers a number of variations on these basic fees that are tailored to specific customer groups.

#### *Traffic Charges*

Following the complete liberalization of Germany’s telecommunications market in 1998, there has been intense competition in fixed-line telephony, in particular in the long-distance and international calling markets. Intense price competition continued in 2000, leading to falling margins in this segment of the telecommunications market and to the beginning of consolidation among some of Deutsche Telekom’s competitors. In January 1999, Deutsche Telekom reduced the charges for calls in its regional and national calling zones by up to 62 percent. T-ISDN customers particularly benefited from these price reductions. Deutsche Telekom reduced off-peak long distance prices in April 1999 and the standard rate for international calls to many European countries, the USA and Canada in July 1999. In February 2000, Deutsche Telekom reduced rates for calls from its fixed network into its mobile telephone network followed by the other mobile networks in May and July 2000. In March 2000, Deutsche Telekom again significantly cut rates for domestic calls, especially for regional and national calls. In addition, Deutsche Telekom introduced new, innovative products, of which T-ISDN xxl is of particular importance. Subject to regulatory approval, this access package will offer a T-ISDN line, the option AktivPlus and a flat rate for city and national long distance on Sundays and holidays, for a monthly fee of DM 59.90.

#### ***Special Service Offerings for Business Customers***

During 2000, Deutsche Telekom continued its marketing efforts for virtual private networks solutions for business customers under the brand name T-VPN. The T-VPN package consists of value added modules that can be combined in different configurations to produce applications that are tailored to the needs of particular customers.

T-VPN Global, the new international voice product, offers sophisticated state of the art solutions to the international needs of Deutsche Telekom key accounts all over the world, enabling them to carry out all of their national and international communications with Deutsche Telekom within a closed user group.

Deutsche Telekom’s “Business Call” products are designed to address the needs of business customers. Business Call 500, which is designed for small and medium-sized enterprises that have multiple access lines at a single location, offers a base tariff tailored to business customers and sales-related discounts. Business Call

700 is designed for larger business customers with multiple locations. Deutsche Telekom's "Business Premium" product offers advantages in the areas of network maintenance, billing and customer service, particularly to small and medium-sized enterprises.

### ***Competition***

Domestic and international public fixed-line voice telephony was opened to full competition on January 1, 1998. This market opening was the final step in a multi-step liberalization process that formally commenced in 1989. The size and affluence of the German telecommunications market and a decidedly pro-competitive telecommunications regulatory environment have combined to make Germany one of the world's most open and competitive telecommunications markets.

An important feature of the German telecommunications regulatory structure is that it essentially allows for an unlimited number of market entrants. From 1998 to 2000, many competitors crowded into Germany's fully liberalized fixed-line market. By the end of 1999, the Regulatory Authority had issued over 250 regional and nationwide licenses for voice telephony service. The licensees include providers of subscriber lines and local services (subscriber network operators) and providers of long-distance and international services (long-distance carriers). Competition in the markets for calls to mobile networks and regional calls is also intensifying.

The focus of competition in the fixed-line market has been on long-distance and international calls. In this battle, which has been waged almost exclusively on the basis of price, Deutsche Telekom's competitors have been able to gain significant market share.

Fixed terms for interconnection, which particularly favor competitors that have not invested in infrastructure, have enabled providers to profit from Deutsche Telekom's investments, at low prices, and to use them in designing their own products and services. The Regulatory Authority mandated reductions of up to 24 percent in interconnection rates in December 1999 and mandated further reductions in September 2000 which, if upheld by the courts, are to take effect in June 2001. As a result, Deutsche Telekom expects that there may be further price competition in the long-distance and international markets. For further information regarding these decisions and their effect on competition, see "—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection."

Among the international carriers holding a license for voice telephony services in Germany are MCI WorldCom and ACC. Among the larger domestic competitors are Mannesmann Arcor and VIAG Interkom. Mannesmann Arcor is a consortium led by Mannesmann, which owns the Mannesmann Mobilfunk (D2) mobile telephony provider and is owned by Vodafone Airtouch. Mannesmann Arcor is investing in creating direct fixed-line access to customers and has its own backbone network and international holdings. In 1999, Mannesmann Arcor acquired the fixed-line network business of o.tel.o., which resulted in a considerable increase in the fixed-line network capacity and customer-base of Mannesmann Arcor. A majority interest in VIAG Interkom is now held by British Telecom. VIAG Interkom offers fixed-network services to business and residential customers. Through its E2 business area, which commenced operations at the end of 1998, it participates in the mobile telephony market.

The consolidation of telecommunications carriers, such as the acquisition of Mannesmann by Vodafone Airtouch, and the creation of alliances, such as the investment by France Telecom in Mobilcom, will likely continue to have a noticeable effect on the competitive environment. Some aggressive smaller carriers, such as Mobilcom, have succeeded in capturing market share in Germany disproportionate to the relative sizes of their balance sheets. Some smaller German carriers, such as NetCologne, focused on building urban or regional networks from which to offer both local and long distance services. At present, local network operators, including NetCologne, compete against Deutsche Telekom in more than two dozen major cities in Germany. Deutsche Telekom generally expects the voice telephony market in Germany to undergo consolidation over the next year, although there may continue to be new entrants in the market.

Because Deutsche Telekom is required to provide its competitors with unbundled access to the telephone lines running into its customers' premises at prices based on the cost of providing such service, Deutsche Telekom is facing increasing competition in the access line market. Technological innovations that may allow competitors economically to provide telecommunications services to customers without using existing telephone lines (particularly cable television but also wireless, satellite or power lines access) are expected to have the

effect of further stimulating such competition. Regulatory measures of the European Union that are intended to increase competition in the access line market took effect in 2000 and in 2001, and similar regulatory initiatives of the Federal Republic are currently pending. For further information, see “—Regulation”.

Deutsche Telekom’s decision to divide its broadband cable business into regional companies and to seek investors to assume majority ownership and operating control over those companies may in time lead to additional competition from parties seeking to provide telecommunications services, including access services, and multimedia services through a broadband cable network. Majority interests in two of these regional companies already have been sold to third party investors, an agreement has been reached regarding the sale of a majority interest in a third company and a letter of intent has been signed with respect to the sale of interests in the remaining companies. For further information in this regard, see “—Broadband Cable and Broadcasting”.

Deutsche Telekom believes that its technologically advanced network, broad and sophisticated product and service line, nationwide reach and commitment to customer service, taken together with its new tariff structures, position it well to compete effectively in the fixed-line telecommunications market. Competition is expected to continue to be intense, however.

### **Carrier Services**

Since the full liberalization of the market at the beginning of 1998, a great number of new providers has entered the German telecommunications market. At the end of 2000, 566 providers had obtained class 3 licenses for transmission paths and 177 providers had obtained class 4 licenses for voice telephony. Most of these competitors use Deutsche Telekom’s network and related services as the basis for providing their own services to their customers. These special services to competitors are provided by the carrier services business area. This business area is also responsible for the company’s international inter-carrier business, which includes terminating incoming international calls to its customers. This business area’s net revenue in 2000 was approximately EUR 4.0 billion, or 10 percent of the consolidated revenues of Deutsche Telekom. This represents an increase of 38.1 percent over 1999.

#### ***Domestic Interconnection and Local Loop Access***

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

The terms for interconnection of Deutsche Telekom’s telephone network with networks of other national providers are contained in bilateral contracts. At the end of 2000, Deutsche Telekom had signed 111 such agreements. The total number of leased lines provided to carriers, i.e., transmission paths that are made available to competitors in the fixed-line network, rose by 55 percent from year end 1999 to year end 2000. The terms of interconnection established by the Regulatory Authority are very important, since they strongly influence the level of competition in the market.

In the national market, the terms on which Deutsche Telekom provides services to competitors are essentially determined by the Regulatory Authority. The interconnection rates charged by Deutsche Telekom prior to 2000 were set by the Ministry for Posts and Telecommunications, the predecessor to the Regulatory Authority, in September 1997. The Regulatory Authority reduced these rates in December 1999 by an average of approximately 24 percent, and in December 2000 the Regulatory Authority issued an order that if upheld by the courts will require an additional reduction of interconnection rates by an average of approximately 23 percent effective June 1, 2001. For a description of an appeal from this order that Deutsche Telekom has filed, see “—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection” and “Item 8. —Financial Information—Litigation”.

Deutsche Telekom is required to offer competitors so-called “unbundled” access to the subscriber line (“bare wire”) so that they have direct access to the customer. In March 2001, the Regulatory Authority reduced the price that Deutsche Telekom is permitted to charge for the unbundled subscriber line access from DM 25.40 to DM 24.40 for the period between publication of the decision and March 31, 2003. For further information regarding this decision, see “—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection”.

### ***International Call Termination***

The carrier services business area offers international network operators the opportunity to deliver their voice traffic to parties in Germany via Deutsche Telekom's network. In addition, this business area purchases termination services from foreign carriers for Deutsche Telekom's outbound international traffic, provides interconnection services to domestic competitors for termination of outgoing international calls and provides carrier transit services to other carriers for calls that originate outside Germany and are routed through Deutsche Telekom's network for termination in a third country. At the end of 2000, Deutsche Telekom maintained business relationships with more than 300 foreign telephone companies.

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

Deutsche Telekom pays for the use of networks of carriers in foreign countries for outgoing international calls and receives payments from other carriers for the use of its network for incoming international calls. Traditionally, these payments have been made pursuant to settlement arrangements under the general auspices of the International Telecommunications Union ("ITU"). In the last few years, on an increasing number of highly competitive routes, the traditional accounting rate arrangements have been replaced by negotiated commercial agreements. Deutsche Telekom has historically been a net debtor under these arrangements (i.e., payments made by Deutsche Telekom for outgoing international traffic have exceeded payments received for incoming international traffic) and, consequently, has benefited from the lowering of settlement rates in recent years. Deutsche Telekom expects further reductions in the settlement rates. Settlement payments are calculated using a currency basket in which U.S. Dollars have the greatest weight and settlement payments themselves are generally denominated in U.S. Dollars. In 2000, Deutsche Telekom's average bilateral settlement rates per minute decreased by 25 percent in comparison with the previous year.

### **Data Communications**

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

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

This business area's net revenue in 2000 was EUR 3.3 billion or 8.2 percent of the consolidated revenues of Deutsche Telekom, which represents an increase of 18.5 percent over 1999. This increase was achieved despite very strong downward pressures on price in the data communications area.

Among the data communications services that Deutsche Telekom offers are dedicated leased lines and data transmission services ranging from packet switching to state-of-the-art frame relay and Asynchronous Transfer Mode (ATM) communications, as well as Internet applications for business customers. ATM is a data transmission technology that permits data transmission at a rapid rate. Packet switching is a classical and common data transmission technology. While customers can obtain packet switched data transmission services less expensively than ATM services, packet switched data transmission is not as fast and flexible as ATM. Frame relay is a type of data transmission technology that also is not as fast as ATM.

### ***Leased Lines***

Deutsche Telekom is one of the leading providers of leased lines in Germany. Deutsche Telekom markets fixed data connections under the general product name “LeasedLink”. This product line includes standard leased lines, managed leased lines for data communications and international leased lines. Leased lines are used by business customers to assemble their own private networks and by telecommunications service resellers to establish networks to offer telecommunications services.

The trend among Deutsche Telekom’s customers toward the use of digital leased lines, which permit much higher transmission rates than analog connections, continued in 2000. As a result, the LeasedLink product line has seen a strong trend toward broadband transmission.

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

### ***T-InterConnect***

Deutsche Telekom offers a high-performance IP-based network platform for Internet and Intranet/Extranet communications applications under the brand name “T-InterConnect.” This platform is based on “Internet Protocol” technology, which forms the basis for the world-wide Internet network. The T-InterConnect platform can be used as the basis for private corporate networks. At December 31, 2000, the platform consisted of 74 national network nodes redundantly connected via 2.4 Gbit/s links in the core network. T-InterConnect, which can be accessed nationwide at the more favorable “City” (local) rates, features access bandwidth ranging from 64 kbit/s to 155 Mbit/s to support Internet and intranet solutions for the customers of Deutsche Telekom.

In 2000, Deutsche Telekom was one of Germany’s largest Internet service providers for business customers. The volume of traffic transported on the T-InterConnect platform strongly increased from 1999 to 2000, primarily due to substantial growth in Internet usage. Deutsche Telekom significantly reduced its rates for T-InterConnect services in 2000.

To achieve better integration with the international Internet network, Deutsche Telekom increased the “peering capacity” of its network several times over in 2000 and entered into additional “peering” agreements with major Internet service providers worldwide. “Peering” refers to the exchange of information between two separate Internet networks.

### ***T-ATM***

Deutsche Telekom offers high speed Asynchronous Transfer Mode (ATM) data transmission service by means of its T-ATM service, which was accessible nationwide throughout Germany at 70 locations as of December 31, 2000.

Since 1998, Deutsche Telekom has offered switched connections via T-ATM. Significant growth in the number of T-ATM connections took place in 2000, while average prices for T-ATM services began a downward trend. T-ATM is one of the world’s most modern telecommunications services. Deutsche Telekom is one of the market leaders in Germany in the use of ATM technology, which permits voice, text, data and video communications over one line and which supports flexible, cost-effective use of bandwidth resources.

### ***FrameLink Plus***

Deutsche Telekom’s FrameLink Plus service—which is based on frame relay technology—is especially designed to accommodate data communications that include high-volume bursts. FrameLink Plus is suitable both for linking LANs (Local Area Networks) and for building corporate networks. Instead of leasing a high-capacity leased line in order to accommodate occasional or intermittent traffic bursts, customers using FrameLink Plus pay for sufficient capacity to satisfy their day-to-day data requirements and are provided burst capacity up to the access rate to accommodate peaks in their data communications needs. Through FrameLink Plus, Deutsche Telekom offers frame relay service at a variety of access rates, generally ranging from 19.2 kbit/sec to 2 Mbit/sec.

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

Telekom continued to upgrade and optimize the existing frame relay network. Due to an increase in the number of local access points, customers are now able to obtain better performance at a lower price. In 2000, FrameLink Plus had a marked increase in international connections.

### ***T-LAN***

Deutsche Telekom provides complete enterprise network solutions and local area networks (LANs) for its business customers under the brand name T-LAN. As both internal and external communication needs of business customers increase, networks have quickly become the most important single element within a company's IT infrastructure. T-LAN comprises a wide range of services such as consulting, network planning and design, network integration, documentation, maintenance and support, network management and training.

### ***Network Solutions***

*Intranet/Extranet Solutions.* Using its products T-InterConnect, T-ATM and FrameLink Plus as components, Deutsche Telekom provides its customers with customized intranet solutions under the general product name "Intranet Solution". In addition, Deutsche Telekom provides extranet solutions to its customers, which link business customers to their customers or suppliers or link different locations of a single business customer over the world-wide web.

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

### ***International Activities***

Deutsche Telekom is in the process of expanding its own international network as the basis for providing international systems solutions for its customers. This process involves the expansion of Deutsche Telekom's existing data communications networks, with the highest priority given to the countries in which Deutsche Telekom has large German business customers. Deutsche Telekom's foreign subsidiaries, such as SIRIS, Multilink, Pragonet and MATÁV, are working intently on the expansion of the international network. In addition, debis Systemhaus subsidiaries are being integrated into the expansion program.

### ***Competition***

The field of data communications has been open to competition in Germany since the beginning of 1990. Competition in the business, based on price, quality and service, is rigorous and pricing pressures are intense. Among Deutsche Telekom's major competitors in the data telecommunications business are Mannesman Arcor, WorldCom, Colt and VIAG Interkom. Businesses that have built local networks, such as NetCologne, are also increasingly competitive in data communications. In systems solutions, competitors of Deutsche Telekom include EDS and IBM and included debis Systemhaus prior to 2000. In 2000, Deutsche Telekom acquired a majority interest in debis Systemhaus from DaimlerChrysler.

### **Mobile Communications**

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

For 2000, Deutsche Telekom's mobile communications business area included the activities of T-Mobil, Deutsche Telekom's German mobile communications subsidiary, the British company One2One and the Austrian company max.mobil., as well as Deutsche Telekom's interests in the Dutch company BEN Nederlands B.V. ("BEN"), the Czech company RadioMobil, the Polish company Polska Telefonía Cyfrowa ("PTC") and

the Russian company OJSC Mobile TeleSystems (“MTS”). All of these subsidiaries and affiliates were directly or indirectly held by T-Mobile International AG, with the exception of Deutsche Telekom’s interest in PTC, which is held in part through T-Mobile International and in part directly by Deutsche Telekom AG. Deutsche Telekom also has direct or indirect majority or minority investments in mobile communications providers in Hungary, Croatia, Slovakia, Ukraine, Indonesia, the Philippines and Malaysia. At present, none of these investments is held by T-Mobile International AG or accounted for as part of the “mobile communications” segment of Deutsche Telekom. For further information regarding these investments, see “International”.

Deutsche Telekom’s mobile communications business area generated revenues of EUR 9.2 billion (22.6 percent of the consolidated revenues of Deutsche Telekom) in 2000. Approximately 83 percent of the consolidated revenues of this business area in 2000 were derived from mobile telephone service, with the remaining 17 percent derived from handset sales and other services. Deutsche Telekom is considering having TMO become a publicly listed subsidiary, with Deutsche Telekom retaining a controlling interest in the company, although no decision has been reached in this regard and any decision to proceed would likely depend on an improvement in market conditions.

### ***T-Mobil, Germany***

T-Mobil offers digital mobile telephone services by means of its T-D1 digital network, which is based on the GSM (Global System for Mobile Communications) standard. Approximately 55 percent of revenues from Deutsche Telekom’s mobile communications business segment were derived from T-Mobil in 2000.

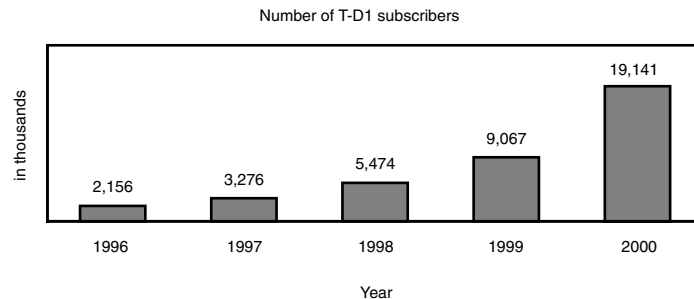
Network quality is one of the key factors affecting T-Mobil’s business. To maintain the high network quality in light of strong growth in numbers of customers, T-Mobil continued to expand its GSM network during 2000. In the course of the year, the number of base stations in the T-D1 network increased from about 24,500 to about 34,400. At year-end 2000, the T-D1 network had 672 base station controllers and 67 mobile switching centers. The investments made by T-Mobil in connection with network expansion in 2000 amounted to approximately EUR 800 million.

Prior to 2000, T-Mobil had entered into roaming agreements with 187 operators in 102 countries, which in principle allow T-D1 subscribers to make and receive calls while abroad on the same mobile phone they use in Germany. In 2000, T-Mobil further expanded the global coverage of the T-D1 network by entering into 66 new roaming agreements with GSM operators, with particular emphasis on operators of GSM 1800 networks in Europe and GSM 1900 networks in the United States. In the summer of 1999, T-Mobil began to provide national roaming service for VIAG Interkom subscribers.

Demand for mobile data communications services increased substantially during 2000. During December 2000, for example, the T-D1 network carried approximately 650 million “short messages” as compared to 300 million in December 1999. Since March 1999, T-D1 customers can use their mobile phones to access a number of programs that provide information, such as news, stock quotes, exchange rates, travel information or schedules for entertainment events. Since November 1999, these types of information, as well as further services such as e-mail and electronic banking, are also available based on “WAP” or Wireless Application Protocol. These WAP services were used by approximately 1.3 million subscribers during 2000. Deutsche Telekom expects that demand for mobile data services will grow substantially in the coming years.



*Subscribers.* At the end of 2000, the T-D1 network had approximately 19.1 million subscribers, or 10 million (111 percent) more than it had a year earlier. This growth is generally attributable to strong demand for prepay services, and T-Mobil continued to promote demand for mobile communication with new products and services. Prepay customers are counted as continuing subscribers for the fifteen-month period since the last time they used their prepay access services. The following chart shows the number of T-D1 subscribers at the end of each year indicated.



*Churn.* T-Mobil had a monthly churn rate in 2000 of approximately 1.0 percent, as compared to 1.1 percent in 1999. The churn rate for any given period represents the number of T-Mobil customers whose service was discontinued during that period due to a payment default or who voluntarily gave up a mobile telephony service during that period, expressed as a percentage of the average number of customers during that period.

The reduction in T-Mobil's churn rate from 1999 to 2000 was due to rapid growth in the number of new subscribers, which was greater than growth in the number of subscribers whose contracts were expiring. The probability that a customer will voluntarily terminate T-Mobil mobile service is highest at the time when the subscriber contract expires. T-Mobil believes the development of systems to identify and contact subscribers who are likely to give up T-Mobil service when their contracts expire and programs to win back subscribers who have given up T-Mobil service also contributed to some extent to the reduction in churn. Due to the highly competitive nature of the mobile communications business, however, churn is likely to rise in future periods.

T-Mobil's churn numbers are influenced by the manner in which it counts some inactive prepay customers as continuing subscribers. The introduction of a mobile number portability requirement could cause churn to rise.

*Traffic.* Outgoing traffic on T-Mobil's mobile network increased substantially from 1999 to 2000, primarily as a result of the substantial increase in the number of mobile subscribers of T-Mobil. Average monthly traffic per subscriber decreased from 1999 to 2000. One of the reasons for this development was the increasing number of prepay customers.

T-Mobil entered into an agreement with VIAG Interkom in 1999 which provides for the purchase of a significant number of bulk minutes for national roaming purposes by VIAG Interkom. This agreement, which has been approved by the Regulatory Authority, has led to increased utilization of the T-D1 network, particularly in rural areas. T-Mobil does not expect this agreement to lead to any capacity constraints.

*Tariffs.* The customers T-Mobil serves directly are billed monthly rental charges and call charges for outgoing traffic. Independent service providers purchase mobile telephone services from T-Mobil at a discount, resell those services and bill subscribers directly at rates they set independently. During 2000, traffic charges (including those paid by independent service providers) accounted for approximately 77 percent and monthly rental charges and initial connection fees together accounted for approximately 23 percent of revenues generated by T-D1 (excluding revenues from sales of handsets, revenues from visitors and sales reductions).

*T-C-Tel.* In 2000, T-Mobil closed down operations of T-C-Tel, the only analog mobile telephone service in Germany. The majority of T-C-Tel customers were migrated to the T-D1 platform on attractive terms by December 31, 2000.

*Data Services.* T-Mobil offers specialized mobile data transmission services under the name "Modacom". T-Mobil has continued to provide these services, while offering possibilities for Modacom customers to migrate to the new General Packet Radio Service (GPRS) platform beginning in the year 2001. The GPRS service has been commercially marketed since February 1, 2001.

### ***One 2 One, United Kingdom***

In the fall of 1999, Deutsche Telekom purchased One 2 One, the fourth largest provider of mobile communications services in the United Kingdom, for a purchase price of 6.9 billion British pounds (including the assumption of outstanding shareholder loans). One 2 One has been fully consolidated in Deutsche Telekom's consolidated financial statements since October 1, 1999. In connection with the acquisition, Cable & Wireless indemnified Deutsche Telekom for certain liabilities.

At year-end 2000, One 2 One had approximately 8.3 million subscribers, representing a share of approximately 21 percent of the mobile telecommunications market in the United Kingdom, according to the British telecommunications regulator. One 2 One increased its market share by approximately 4 percent as compared to year-end 1999. The total of 8.3 million subscribers, of which approximately 675,000 are customers of One 2 One's Virgin Mobile joint venture, represents an increase of 4.2 million subscribers as compared to the prior year. Customers using prepay services made up approximately 74 percent of One 2 One's subscriber base at year-end 2000 (not including customers of the Virgin Mobile joint venture). Monthly churn in 2000 was approximately 1.7 percent, and could be reduced by 0.4 percentage points in comparison to the year 1999 due to a lower churn rate for prepay. For purposes of calculating subscriber numbers and churn, One 2 One prepay customers are counted as subscribers during the twelve months following their last use of One 2 One services.

One 2 One commenced operations in 1993 with the world's first digital mobile network based on the GSM 1800 MHz standard and currently uses this network to offer its mobile services. A further development of mobile services consists of mobile internet access based on Wireless Application Protocol ("WAP"). One 2 One began providing WAP-based Internet services in July 2000 and the user base surpassed 135,000 at year-end. In 2001, One 2 One plans to offer high speed mobile data services based on GPRS and expects to launch packages using the GPRS technology in the second half of 2001.

One 2 One's network currently covers 98 percent of the British population (excluding Northern Ireland), and the company has entered into roaming agreements with 198 providers in 91 territories. One 2 One offers a broad range of prepay and contract mobile services. In November 1999, One 2 One launched a joint venture company with the Virgin group called "Virgin Mobile" to further increase its market share. Virgin Mobile is a so-called Mobile Virtual Network Operator which offers its own mobile services using One 2 One's network. Virgin Mobile has around 200 retail outlets in which "Virgin Mobile" can market products and services. In July 2000, One 2 One acquired 100 percent of the mobile phone retailer Pocketphone, which has around 160 shops.

### ***max.mobil., Austria***

Deutsche Telekom increased its shareholding in max.mobil. Telekommunikation Service GmbH ("max.mobil."), the second largest Austrian mobile telecommunications company, from 25 percent to 91 percent in 1999 and acquired full ownership of the company in April 2000. As a result, max.mobil. has been fully consolidated in Deutsche Telekom's consolidated financial statements since January 1, 1999. Through December 31, 2000, Deutsche Telekom has invested a total of 15.6 billion Austrian schillings in the equity shares of max.mobil.

In Austria, max.mobil. provides nationwide mobile telephony service through its digital GSM network, which covered approximately 97 percent of the Austrian population at year end 2000. In addition, max.mobil. has entered the fixed-line telephony business. max.mobil. has also offered virtual private network services to business customers since 1998. At year-end 2000, max.mobil. had more than 2.0 million GSM subscribers, representing a share of approximately 37 percent in the Austrian GSM telecommunications market, according to max.mobil. estimates. Customer growth is expected to slow in 2001 as compared to 2000, due to the relatively high penetration rate in Austria. The average monthly churn rate was 1.5 percent in 2000 and is expected to increase slightly to a rate of 1.7 percent in 2001. In 2000, max.mobil. generated revenues of EUR 1.0 billion, as compared to EUR 811 million in 1999.

### ***BEN, Netherlands***

In October 2000, T-Mobile International acquired an equity interest of 50 percent minus one share in BEN, one of five operators in the Dutch mobile communications market. The acquisition of the stake in BEN took place after TMO acquired a third generation UMTS licence ("UMTS") in the Netherlands in July 2000 in a consortium with Belgacom and Tele Danmark called 3-G Blue, which subsequently merged with BEN. At

year-end 2000, BEN had approximately 0.8 million subscribers, representing a share of approximately 7 percent of the mobile telecommunications market in the Netherlands, according to BEN's estimates. BEN generated revenues of EUR 248 million in 2000.

Contractual arrangements with Tele Danmark and Belgacom grant T-Mobile International the right to increase its interest in BEN to a majority interest between October 1, 2002 and December 31, 2002 for a fixed price of EUR 300 million. These contractual arrangements also permit Tele Danmark and Belgacom to put their interests in BEN to T-Mobile International between January 1, 2003 and December 31, 2010 (and between October 1, 2002 and December 31, 2002 if T-Mobile International exercises its rights to increase its interest in BEN to a majority interest). Through December 31, 2005, the exercise price is the higher of fair market value and an amount that corresponds to the total equity investments made by Tele Danmark and Belgacom in BEN, adjusted for any dividends paid to those companies. Starting January 1, 2006, the exercise price of this put option is the fair market value of the relevant BEN shares.

#### ***RadioMobil, Czech Republic***

Deutsche Telekom has an 87.3 percent interest in a company called CMobil, which in turn owns a 49 percent stake in the Czech mobile communications network operator RadioMobil. CMobil has exercised an option which allows it to increase its stake to 60.8 percent. The transfer of the related shares in RadioMobil to CMobil is expected to occur in the first half of 2001.

Primarily due to strong subscriber growth in the year 2000, which resulted in an increase of approximately 986,000 subscribers in comparison to year-end 1999, RadioMobil increased its revenues from EUR 297 million at year-end 1999 to EUR 499 million at year-end 2000. Compared to Western Europe, the penetration rate for the Czech Republic of approximately 42 percent is relatively low. RadioMobil's network covers 99 percent of the population in the Czech Republic.

#### ***PTC, Poland***

In Poland, Deutsche Telekom's affiliate, Polska Telefonía Cyfrowa, achieved a share of about 42 percent of the mobile communications market at year-end 2000, according to PTC's estimates, with approximately 2.8 million subscribers. PTC's revenue grew by 40 percent to EUR 907 million in 2000. Deutsche Telekom has held a 22.50 percent stake in PTC since December 1995 and acquired an additional 22.50 percent stake in March 2000. For information on an arbitral proceeding relating to Deutsche Telekom's interest in PTC, see "Item 8. Financial Information—Litigation".

#### ***MTS, Russia***

Deutsche Telekom holds an equity interest of approximately 36.2 percent in OJSC Mobile TeleSystems (MTS), a Russian mobile telephone company. MTS increased its subscriber base from more than 300,000 at year-end 1999 to more than one million subscribers at year-end 2000. The population of the areas covered by MTS's mobile licenses is approximately 67 million, of which MTS's mobile network currently covers approximately 41 million people. In 2000, MTS generated revenues of US\$ 535 million.

#### ***T-Motion, United Kingdom***

In March 2000, Deutsche Telekom bundled its mobile multimedia activities into a newly established company, T-Motion, located in London. T-Motion is a joint venture between T-Mobile International (60 percent) and T-Online International (40 percent). T-Motion provides products and services for customers who access the Internet by mobile phone. In September 2000, T-Motion launched its first products and services for customers in Germany, which included information and entertainment services. T-Motion subsequently launched in the United Kingdom in February 2001.

#### ***Pending Acquisitions***

In the summer of 2000, Deutsche Telekom entered into agreements pursuant to which it will acquire all of the outstanding equity securities of VoiceStream Wireless Corporation and of Powertel, Inc.. These acquisitions have been approved by the relevant U.S. regulatory authorities but remains subject to the satisfaction of certain conditions.

In the United States, VoiceStream is a nationwide provider of personal communications service using GSM wireless technology. According to VoiceStream's publicly available annual report on Form 10-K as filed

by VoiceStream with the U.S. Securities and Exchange Commission, during 2000, VoiceStream experienced a net loss of \$2.1 billion on total revenues of \$1.9 billion, as compared with a net loss in 1999 of \$454.7 million on total revenues of \$475.5 million and a net loss in 1998 of \$254.3 million on \$168.6 million in total revenues. Included in the results for 2000 were \$752.4 million in service revenues generated from markets newly acquired. Net cash used in operating activities was \$1.2 billion in 2000.

Powertel is a provider of wireless telecommunications services in the southeastern United States. According to Powertel's publicly available annual report on Form 10-K as filed by Powertel with the U.S. Securities and Exchange Commission, Powertel incurred a net loss of \$212.2 million in 2000 on total revenues of \$464.2 million, in comparison to a net loss of \$124.7 million in 1999 on total revenues of \$284.9 million and a net loss of \$265.8 million on revenues of \$179.0 million in 1998.

Certain risks associated with the acquisitions of VoiceStream and Powertel are described on pages 25 through 28 of Deutsche Telekom's registration statement on Form F-4 filed with the Securities and Exchange Commission on October 4, 2000, as amended through February 9, 2001, which are incorporated herein by reference. Further information concerning VoiceStream and Powertel may be obtained from the annual reports on Form 10-K and other information filed by VoiceStream and Powertel with the U.S. Securities and Exchange Commission. This further information is not incorporated herein by reference.

### *New Technologies and New Standards*

Deutsche Telekom expects that the current trend toward higher volumes of mobile data traffic as compared to mobile voice traffic will continue in the future and that mobile communication systems in the future will routinely support video transmission. Today's GSM networks offer maximum transmission rates of 9,600 bits per second. In contrast, GPRS (General Packet Radio Service) provides maximum transmission rates of 40,000 bits per second, which is necessary for more advanced data transmission. GPRS is a standardized packet-switched data service that is an extension of the GSM architecture. Possible applications and benefits to wireless users include faster web browsing and e-mail transmission, in addition to video streaming capabilities.

On August 17, 2000, T-Mobil emerged as one of six successful bidders for an UMTS license in Germany. With an aggregate bid of EUR 8.54 billion, T-Mobil acquired a UMTS license for two paired frequency blocks (2 x 10 MHz) and one unpaired block (5 MHz). T-Mobil conducted first field tests with UMTS technology during the spring of 2000, and plans to introduce UMTS services on a commercial basis at the end of 2002.

Deutsche Telekom acquired a UMTS license in the United Kingdom via its One 2 One subsidiary in May 2000 for 4 billion British pounds. In November 2000, Deutsche Telekom's subsidiary max.mobil. acquired a UMTS license in Austria for EUR 170 million. In July 2000, a consortium, in which Deutsche Telekom participated, was awarded a UMTS license in the Netherlands for EUR 395 million. Together with this license, Deutsche Telekom has acquired an indirect interest of 50 percent minus 1 share in BEN, a Dutch mobile telecommunications provider, for EUR 1.1 billion. The latest UMTS license acquisition was completed in Poland in December 2000, where PTC was awarded a UMTS license for EUR 650 million.

Deutsche Telekom continues to be interested in acquiring UMTS licenses in other countries, especially where there are existing operations, under appropriate circumstances, either independently or in cooperation with other parties.

In December 2000, Deutsche Telekom announced that it had entered into agreements with several suppliers for the purchase of equipment needed for the construction of its UMTS network. In the construction of UMTS networks, Deutsche Telekom will depend on the timely delivery of network components and price-competitive handsets from its suppliers, and failure of these suppliers to deliver in a timely manner could cause a delay in Deutsche Telekom's ability to offer UMTS services to subscribers. Technical difficulties in constructing the UMTS network or taking the network into operation could have an adverse effect on Deutsche Telekom's plans to increase the mobile business. The economic success of Deutsche Telekom's investment in UMTS licenses and technology will depend upon the availability of services based on UMTS technology that will be attractive enough to customers to generate sufficient traffic volume and sufficiently high prices. The level of demand for such UMTS services that will prevail in the future is unknown, however, and may not justify the cost of providing UMTS services, which include the costs to Deutsche Telekom of acquiring UMTS licenses and constructing, maintaining and upgrading its UMTS network.

### ***Growth rates in more mature markets***

In more mature mobile communications markets, such as Germany, Austria and the United Kingdom, Deutsche Telekom expects the rate of growth in the mobile communications customer base to be substantially lower in 2001 and future years than in 2000 and prior years. Growth in the revenues and profits of Deutsche Telekom's mobile communications segment has in the past been driven largely by growth in the number of mobile phone subscribers in these markets. This decline would mean that, to maintain growth in revenues from these markets, Deutsche Telekom would have to rely more on sales of new services, some of which are not yet in existence, to existing customers.

### ***Perceived health risks***

Media reports have suggested that some radio frequency emissions from wireless handsets and base stations may raise various health concerns. Although Deutsche Telekom does not believe that radio frequency emissions raise serious health concerns, customer concerns about radio frequency emissions may discourage the use of wireless handsets, make the placement of base stations in populated areas difficult, give rise to governmental regulation or litigation or have other consequences that could have an adverse effect on Deutsche Telekom's business.

### ***Competition***

#### ***General***

Competition in mobile communications is generally conducted on the basis of price, subscription options offered, offers of subsidized handsets, coverage, range of services offered, innovation and quality of service.

In the past, competition in the European mobile communications market has been conducted at the national level. Increasingly, however, competition in this market is being conducted on a more international basis than in the past. As the transition to GPRS and UMTS mobile communications standards takes place, those market participants that have a strong presence in all major European markets are likely to have a competitive advantage.

Deutsche Telekom has not acquired a UMTS license in auction or non-public tender procedures in Italy, Spain or France. It is unclear at the present time, however, to what extent ownership of a UMTS license in each of the major markets will be advantageous in comparison to other strategies for entering those markets, such as participating as a Mobile Virtual Network Operator (MVNO). A MVNO is a provider that relies on another company for its network, focusing its efforts on marketing and customer service.

Deutsche Telekom believes that the decisions by Germany, the United Kingdom and Austria to auction UMTS licenses, as contrasted with the decisions to conduct non-public tender procedures in Spain and other countries, have created an uneven competitive playing field within the European Union that benefits incumbent telecommunications providers in countries where auctions were not conducted.

In Germany, the United Kingdom and Austria, Deutsche Telekom is making an effort to reduce the level of subsidies offered on mobile handsets offered to new customers, particularly for prepaid services. This could contribute to slower growth in the number of customers or lead to some loss of market share. It is not certain whether competitive conditions will permit this effort to succeed.

#### ***Germany***

There are four mobile network operators in Germany. The two largest, T-Mobil (T-D1) and Vodafone Mobilfunk (D2), have been locked in a battle for market leadership over the past several years and currently have approximately equal market share. Between them, T-Mobil and Vodafone Mobilfunk command approximately 79.6 percent of the digital mobile telecommunications market in Germany (as estimated by Telecom Handel, a German trade publication) as of December 31, 2000. E-Plus, the third mobile network operator, entered the market using the GSM 1800 standard in 1994, two years after T-D1 and D2 commenced operations, and held an estimated 13.7 percent of the market at year-end 2000. E2, the fourth network operator, commenced operations in late 1998 using the GSM 1800 standard and currently has an estimated market share of 6.7 percent.

In the retail market, in addition to competition from other network operators, T-Mobil faces significant competition from resellers. Competition in the German retail market for mobile telecommunications services has generally been conducted on the basis of price, subscription options offered, offers of subsidized handsets, coverage and the quality of service. This competition has been intense. In the wholesale market, T-Mobil competes with other network operators to retain mobile traffic on its network.

T-Mobil signed a contract with VIAG Interkom in 1999 that allows calls from VIAG Interkom's E2 mobile service to be seamlessly transferred to the T-D1 mobile network. The contract has been approved by the Regulatory Authority.

#### *United Kingdom*

In the United Kingdom, One 2 One faces fierce competition, principally from Vodafone, BT Cellnet, a subsidiary of British Telecom, and Orange, a subsidiary of France Telecom. According to data published by the British telecommunications regulator, Vodafone had a market share of approximately 29 percent at December 31, 2000, while BT Cellnet had a market share of approximately 25 percent, Orange had a market share of approximately 25 percent and One 2 One had a market share of approximately 21 percent (including Virgin Mobile) at that date.

#### *Austria*

In Austria, there are four GSM operators: max.mobil., Mobilkom (A1), Connect Austria (One) and tele.ring. A1 started in 1993 as a GSM network, and was the market leader at the end of 2000. max.mobil. was launched in 1996 and commands the second largest market share with close to 37 percent at the end of 2000 according to max.mobil. estimates. One started in 1998 as a GSM 1800 network, and tele.ring launched its services in mid-2000. Competition has intensified, with the overall mobile penetration rate reaching 70 percent at the end of 2000.

#### *United States*

Assuming completion of the VoiceStream and Powertel acquisitions, Deutsche Telekom will face intense competition in the United States mobile communications market. VoiceStream and Powertel face competition from the national mobile providers Verizon Wireless, Cingular, AT&T Wireless, Sprint PCS, Nextel, and some regional operators, most of whom have been operating in the U.S. mobile communications market for a considerable time prior to VoiceStream and Powertel. Some of these competitors are substantially larger than VoiceStream and Powertel.

### **Broadcasting and Broadband Cable**

Deutsche Telekom's broadcasting and broadband cable activities include operating Germany's largest cable transmission network, providing services to other cable network operators and program providers and offering broadcasting services to public and private television and radio stations. The broadcasting and broadband cable business area generated revenues of approximately EUR 1.9 billion, or approximately 4.5 percent of the consolidated revenues of Deutsche Telekom in 2000.

#### ***Broadband Cable***

Through its wholly-owned subsidiary Kabel Deutschland GmbH, Deutsche Telekom currently owns substantial interests in regional cable companies that provide cable service to all of Germany. At March 31, 2001, Kabel Deutschland was the 100 percent owner of seven regional cable companies that provide service to approximately 85 percent of the geographic area and approximately 71 percent of the population of Germany. In addition, at that date, Kabel Deutschland owned a 45 percent interest in the regional cable company that provides service to the German state of North Rhine-Westphalia and a 35 percent interest in the regional cable company that provides service to the German state of Hesse. For further information on Deutsche Telekom's sale of interests in the regional cable companies, please refer to "—the Separation and Sale of the Cable Business" below. In the regions where Kabel Deutschland still owns 100 percent of the regional cable company, Deutsche Telekom provides cable transmission services and markets digital program packages.

### *Penetration and Coverage*

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

As of December 31, 2000, 12.2 million households received cable television service from regional cable companies that were indirect wholly owned subsidiaries of Deutsche Telekom. At December 31, 2000, the cable network of the regional cable companies in which Deutsche Telekom held a minority interest passed 5.4 million households.

### *Cable Television Service Offerings*

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

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

### *The Separation and Sale of the Cable Business*

To begin placing its cable business on a new economic and regulatory footing, Deutsche Telekom transferred the core of its broadband cable business, along with its non-current assets, to Kabel Deutschland at the turn of the year 1998/1999. Kabel Deutschland then created nine regional subsidiaries in 2000 to operate the cable business of Deutsche Telekom.

In February 2000, Deutsche Telekom reached an agreement to sell a 55 percent equity interest in the regional cable company for the German state of North Rhine-Westphalia to a consortium of investors led by Callahan Associates LLC, a communications development and operating company based in Denver and London. This sale closed in July 2000. In March 2000, Deutsche Telekom reached a further agreement for the sale of a 65 percent equity interest in the regional company for the German state of Hesse to a consortium of investors led by London-based Klesch & Company Limited. This sale closed in August 2000. In addition, in May 2000, Deutsche Telekom agreed to sell a 55 percent equity interest in the regional company for the German state of Baden-Württemberg to a consortium led by Callahan Associates LLC. This sale is expected to close in 2001, subject to certain conditions, including the arrangement of financing and the completion of ongoing negotiations.

In February 2001, Deutsche Telekom signed a letter of intent with a consortium of investors consisting of Klesch & Company Limited and Liberty Media relating to the purchase by the consortium of a 55 percent equity interest in each of the remaining six regional cable companies as well as MSG MediaServices GmbH and the respective regional parts of DeTe KabelService, Deutsche Telekom Kabel Service and an option to acquire an additional 20 percent minus one vote in these companies.

### ***Broadcasting***

Deutsche Telekom operates a terrestrial broadcasting network with over 8,000 radio and television transmitters in over 3,000 locations at December 31, 2000. Deutsche Telekom does not produce content for its broadcast networks.

In 2000, Deutsche Telekom reached agreements to provide terrestrial broadcasting facilities to ZDF, the second German national independent public TV-program company, and to ARD, the association of independent public regional broadcasting companies, through the end of 2006. In addition, Deutsche Telekom made significant progress in digitalizing its broadcast network on the basis of Asynchronous Transfer Mode technology.

### ***Competition***

Although, pending sale of majority interests in the remaining regional cable companies, Deutsche Telekom operates by far the largest cable network in Germany, its cable television business is subject to competition from a number of smaller cable companies and, more significantly, from the use of private satellite dishes. Increasing competition from digital terrestrial telecommunications systems will also be possible. Under the Federal Telecommunications Act, competitors of Deutsche Telekom have been permitted to operate cable transmission lines in Germany since August 1996.

As Deutsche Telekom sells majority interests in its regional cable companies, the cable companies can be expected to seek to use their network to compete against Deutsche Telekom in a number of telecommunications areas.

### **Supply and Service of Terminal Equipment**

Through its terminal equipment business area, Deutsche Telekom distributes an extensive range of telecommunications equipment, ranging from individual telephone sets and facsimile machines targeted at private customers to more complex telephone and facsimile terminals, private branch exchanges (PBXs) and complex network systems targeted at business customers. With most of Deutsche Telekom's terminal equipment, customers have the choice of purchasing or leasing. Deutsche Telekom also provides installation and repair services. In 2000, the terminal equipment business area generated revenues of EUR 1.0 billion, or 2.5 percent of the consolidated revenues of Deutsche Telekom, as compared to EUR 1.2 billion in 1999. Revenues from the sale of mobile handsets are recorded in the mobile telecommunications business area.

The telecommunications equipment sector has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. Deutsche Telekom believes, however, that the supply and service of telecommunications equipment is an integral part of being a full service telecommunications provider and contributes to customer loyalty. Financial results in the terminal equipment business area improved in 2000. This was accomplished through the continuation of measures implemented in 1998 and prior years, including internal cost reductions, streamlining of the product portfolio and the discontinuation of operations in unattractive market segments. In 2000, the development of new products and services, which offer integrated solutions to customers' needs, have effectively contributed to attract customers to Deutsche Telekom's core business.

In 2000, Deutsche Telekom purchased approximately 87 percent of its terminal equipment, including accessories, from its ten most important national and international suppliers. The total value of all orders was over EUR 600 million. Siemens AG, with a share of approximately 45 percent of all orders in 2000, is both Deutsche Telekom's most important supplier of terminal equipment and its largest competitor in the terminal equipment market.

### **Value Added Services**

Through its value added services business area, Deutsche Telekom offers a range of sales and service phone numbers for business and private use, provides directory assistance, has state-of-the-art call centers and offers messaging services. In addition, the value added services business area manages Deutsche Telekom's network of public telephones and produces telephone directories as well as prepaid calling cards. This business area is also responsible for providing customers with comprehensive solutions to their telecommunications-based dialogue marketing needs. In 2000, this business area generated revenue of EUR 1.8 billion, or 4.4 percent of the consolidated net revenue of Deutsche Telekom.



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

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |           |
|--|----------------------------|--------------|--------------|----------------------------|-----------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998 |
|  | (% change)                 |              |              |                            |           |
| Minutes from toll free numbers and information provider services<br>(in millions)(1) . . . . . | 6,223                      | 4,031        | 1,466        | 54.4                       | 175       |
| Minutes from directory inquiries services (in millions)(1) . . . . .                           | 264                        | 269          | 317          | (1.8)                      | (15.0)    |
| Minutes from public telephones (in millions)(1) . . . . .                                      | 1,534                      | 2,084        | 2,664        | (26.4)                     | (21.8)    |
| Total minutes (in millions)(1) . . . . .   | <u>8,021</u>               | <u>6,384</u> | <u>4,447</u> | 25.6                       | 43.6      |

(1) Estimated.

Deutsche Telekom offers toll-free, shared-cost, and premium rate numbers to its customers. In 2000, the number of calls made to service phone numbers provided by Deutsche Telekom was 12.8 percent higher than in 1999. This service accounted for more than half of the revenues of the value added services business area in 2000.

Deutsche Telekom is Germany's largest provider of directory assistance services. This business has become highly competitive in Germany. In the wake of increasing competition, price adjustments and the growing importance of online directory services, the number of calls to the service decreased again in 2000, from 325 million in 1999 to around 252 million in 2000. In 2000, Deutsche Telekom completed a substantial outsourcing program, which contributed significantly to an improvement in the profitability of the directory services without loss of quality. Upon request, Deutsche Telekom offers its customers call completion.

The publication of telephone directories is another function of the value added services business area. DeTeMedien GmbH, a 100 percent subsidiary, publishes "Yellow Pages", "White Pages" and a directory on CD-ROM and also produces additional CD-ROM based products. In addition, DeTeMedien is a provider of dialogue marketing.

Call center solutions provided by the value-added services business area include tele-sales and direct marketing services tailored to the needs of particular customers, such as billing and collection services.

Messaging services offered by the value added service business area include the T-NetBox, a digital voice mail system in the network of Deutsche Telekom. The number of users increased significantly from 700,000 at the end of 1999 to more than 1 million at the end of 2000.

As of December 31, 2000, Deutsche Telekom operated approximately 128,000 payphones, representing a penetration rate of 1.5 payphones for every 1,000 inhabitants. In 2000, Deutsche Telekom continued its efforts to improve performance in the area of payphones and other public communications. "Telestations", which are payphones that can accept both telephone cards and coins, constitute one important new initiative in this regard. Another important initiative is the introduction of "Telekiosks", multifunctional terminals that offer telephone, fax and internet services. Deutsche Telekom intends to place Telekiosks in busy public areas such as airports, train stations and shopping areas. Another important element in Deutsche Telekom's consolidation strategy has been to optimize placement of public telephones, in order to ensure that the public phone system both remains cost-effective and provides nationwide coverage. Deutsche Telekom plans to continue its site-optimization program in 2001.

The value added services business area is also responsible for producing and marketing telephone cards by DeTeCardService GmbH, a wholly-owned subsidiary of Deutsche Telekom. The product offering includes chipless calling cards useable all over the world as well as chip based prepaid cards for use in Deutsche Telekom's 91,000 card based pay phones.

Deutsche Telekom offers traffic information and various telematic services for the automobile industry through its 50 percent owned subsidiary Tegarom Telematics GmbH.

### International

Deutsche Telekom has focused the internationalization of its business on its four strategic growth areas:

- mobile communications,

- data communications,
- consumer Internet services, and
- access services.

During 1999 and 2000, Deutsche Telekom pursued growth in these areas aggressively, primarily through internal growth and acquisitions. In July 2000, the international strategy pursued by Deutsche Telekom in the mobile communications area throughout 1999 and 2000 culminated in the announcement that Deutsche Telekom had entered into an agreement with VoiceStream Wireless Corporation pursuant to which VoiceStream would merge with a wholly-owned subsidiary of Deutsche Telekom, subject to the satisfaction of certain conditions. In August 2000, Deutsche Telekom announced that it had entered into an agreement with Powertel, Inc. pursuant to which Powertel would merge with a wholly-owned subsidiary of Deutsche Telekom, subject to the satisfaction of certain conditions. These acquisitions remain pending.

Deutsche Telekom took other important steps in 2000 in the implementation of its internationalization strategy, including:

- the increase in Deutsche Telekom's stake in the Polish mobile provider Polska Telefonia Cyfrowa to 45 percent in 2000;
- the acquisition through T-Online International of Club Internet, one of the leading Internet service providers and web portals in France, which was completed in April 2000;
- the increase of its interest in max.mobil., the Austrian mobile company, from 91 percent to 100 percent in April 2000;
- the acquisition of 51 percent of Slovenské Telekomunikácie ("Slovak Telecom"), the state owned telecommunications company of Slovakia, which was completed in July 2000;
- the increase of its interest in MATÁV, Hungary's leading telecommunications provider, from 29.8 percent to 59.5 percent in July 2000;
- the acquisition through T-Online International of a 92.7 percent interest in ya.com, a leading Spanish Internet service provider, which was completed in October 2000;
- the acquisition of 50 percent minus one share of BEN, one of five operators in the Dutch mobile communications market, in October 2000;
- the acquisition of a 50.1 percent interest in debis Systemhaus, a leading European IT/systems solutions company with a global data network, which was completed in October 2000; and
- the acquisition through a MATÁV-led consortium of 51 percent of Makedonski Telekomunikacii ("Macedonia Telecom"), the state owned telecommunications company of Macedonia, which was completed in January 2001.

These steps built upon the significant steps taken by Deutsche Telekom in 1999 and earlier years to implement its internationalization strategy, which included:

- the acquisition of the British mobile telecommunications service provider One 2 One in 1999;
- the increase of Deutsche Telekom's interest in max.mobil. to 91 percent in 1999;
- the acquisition of a 35 percent equity stake in the principal Croatian telecommunications provider Hrvatske Telecomunicacije in 1999;
- the purchase of full ownership of the French fixed line and data communications provider SIRIS S.A.S. in 1999; and
- the acquisition from Media One International of equity interests in certain Central European mobile operators, including Westel Radiotelefon and Westel 900 in Hungary.

Taken together with investments made by Deutsche Telekom prior to 1999, Deutsche Telekom's internationalization strategy resulted in an increase in the percentage of Deutsche Telekom's revenues that are derived from sources outside Germany to approximately 19 percent in 2000.

Deutsche Telekom is now focusing on integrating the companies that it has acquired into its global business, including VoiceStream and Powertel subject to the closing of the VoiceStream and Powertel transactions. Deutsche Telekom will, however, continue to evaluate potential acquisitions as appropriate.

The following discussion provides further detail regarding Deutsche Telekom's international subsidiaries and investments.

### ***International Mobile Operations***

*European Union and the United States.* In 2000, Deutsche Telekom transferred its international mobile telecommunications subsidiaries One 2 One and max.mobil. from its international segment to its mobile communications segment. These companies are subsidiaries of T-Mobile International. For further information on these companies, please refer to "—Mobile Communications". Subject to closing of the pending mergers of VoiceStream and Powertel with wholly-owned subsidiaries of Deutsche Telekom, VoiceStream and Powertel will become part of Deutsche Telekom's mobile communications segment.

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

Deutsche Telekom has held a 22.50 percent stake in PTC since December 1995, which is accounted for in Deutsche Telekom's mobile communications segment, and acquired an additional 22.50 percent stake in March 2000, which is held through MediaOne Int. BV, a 100 percent subsidiary of Deutsche Telekom.

Deutsche Telekom has a significant indirect interest in the Czech mobile communications network operator RadioMobil and is in the process of exercising an option that will substantially increase this interest. In addition, as of December 31, 2000, Deutsche Telekom held an equity interest of approximately 36 percent in OJSC Mobile TeleSystems ("MTS"), the leading Russian mobile telephone company. Deutsche Telekom's interests in RadioMobil and MTS are accounted for in Deutsche Telekom's mobile communications segment. For further information regarding RadioMobil and MTS, see "—Mobile Communications."

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

Westel 900 held an approximate 53 percent share of the GSM market in Hungary, with approximately 1.6 million customers at year-end 2000, up from approximately 842,000 at year-end 1999.

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

### ***Fixed-line and data communications companies***

*MATÁV.* Deutsche Telekom holds a 59.5 percent equity interest in MATÁV. This interest is held through MagyarCom Holding GmbH ("MagyarCom"), a wholly-owned subsidiary of Deutsche Telekom. In 2000, MATÁV had consolidated revenues of EUR 1.7 billion, which represented an increase in revenues of 12.6 percent over 1999. In 2000, MATÁV continued to expand and modernize Hungary's telecommunications infrastructure.

MATÁV currently has approximately one billion common shares outstanding and a single Series B share, which is held by the Hungarian Republic through the Hungarian Ministry for Transport, Telecommunications and Water Management.

Prior to 2000, Deutsche Telekom and Ameritech Corporation (which has been acquired by SBC Communications Inc.) each held a 50 percent interest in MagyarCom. Deutsche Telekom and Ameritech

initially acquired their interests in MATÁV from the Hungarian state. The contractual arrangements pursuant to which Deutsche Telekom and Ameritech acquired these interests gave Ameritech an option to put its shares in MagyarCom to Deutsche Telekom, and Ameritech exercised this option in July 2000. Deutsche Telekom paid approximately US\$2.2 billion for Ameritech's shares in MagyarCom, which represented the fair market value of the corresponding MATÁV shares plus a US\$60 million control premium.

Although MagyarCom has the power to appoint a majority of MATÁV's board of directors, the Republic of Hungary retains significant influence over MATÁV's activities as the holder of the Series B share, the regulator of the Hungarian telecommunications sector and MATÁV's largest customer. The Series B share gives the Hungarian state certain special rights in the election of MATÁV's boards and with respect to certain decisions taken at shareholders' meetings. The MagyarCom shares held by Deutsche Telekom and the MATÁV shares held by MagyarCom are subject to substantial transfer restrictions.

MATÁV's monopoly in the Hungarian market for long-distance and international telecommunications services will expire at the end of 2001.

*Hrvatske Telekomunikacije.* In October 1999, Deutsche Telekom acquired a 35 percent equity interest in the state-owned Hrvatske Telekomunikacije, the leading full-service telecommunications service provider in Croatia, for a purchase price of US\$850 million. Hrvatske Telekomunikacije operates modern, largely digitized fixed-line and mobile networks and is the leading provider of online and data communications services in Croatia. In 2000, Hrvatske Telekomunikacije had revenues of EUR 763 million as compared to EUR 694 million in 1999.

*SIRIS.* In December 1999, Deutsche Telekom acquired 100 percent ownership of SIRIS S.A.S., a leading provider of fixed-line voice telephony and data communication services in France, for a purchase price of EUR 732 million. Measured in terms of revenues, SIRIS was one of the largest providers of fixed-line services to business customers and telecommunications operators in France in 2000. Deutsche Telekom believes that SIRIS, as operator of an optical fiber network linking all major business centers in France, has significant strengths in the voice telephony and data communications markets, particularly among business customers. SIRIS had revenues of approximately EUR 167 million in 2000.

*Pragonet.* In May 2000, Deutsche Telekom was selected to acquire a 51 percent holding in Pragonet for approximately US\$25 million. Pragonet has an approximately 60 kilometer long glass fiber network underlying the City of Prague.

*Slovak Telecom.* In July 2000, Deutsche Telekom acquired a 51 percent equity interest in the state-owned Slovak Telecom, the leading full-service telecommunications service provider in Slovakia, for a purchase price of EUR 1 billion. Slovak Telecom offers local, long-distance and international telephone services, data communications services, telex and telegraph services, distribution and broadcasting of radio and television signals and mobile communications services and is the leading provider of online services in Slovakia. In 2000, Slovak Telecom had revenues of EUR 128 million.

The Slovak Telecom shares held by Deutsche Telekom are subject to substantial transfer restrictions. In addition, Deutsche Telekom has agreed to meet targets relating to fixed-line penetration and digitization of the fixed-line network and to cause Slovak Telecom to invest at least EUR 1 billion in its core business by the end of 2004.

*Macedonia Telecom.* In January 2001, MATÁV acquired a 51 percent equity interest in the state-owned Macedonia Telecom for a purchase price of EUR 343 million. Macedonia Telecom is the principal communications provider in Macedonia. The Macedonian telecommunications market is at an early stage of development in terms of penetration of services, with fixed line penetration of approximately 25 percent and mobile penetration of 5 percent at the end of 2000.

### ***European Internet Operations***

In 2000, T-Online acquired Club Internet and Ya.com Internet Factory S.A. ("ya.com") as well as a 25 percent interest (since diluted to 21.35 percent) in comdirect bank. These businesses are subsidiaries or affiliates of T-Online International, and Deutsche Telekom therefore accounts for them in the "other services" segment. For further information regarding these businesses, please refer to "—Other Services."

### *Asian Investments*

Deutsche Telekom owns a 25 percent stake in Satelindo, an Indonesian mobile and international telecommunications operator, which was initially acquired by T-Mobil in 1995 for total consideration of US\$676 million. In Malaysia, Deutsche Telekom owns an approximate 21 percent interest in the Malaysian telecommunications provider Technology Resources Industries Bhd. (“TRI”). The total purchase price was approximately EUR 460 million at the date of purchase. In the Philippines, Deutsche Telekom owns approximately 42 percent interest in Globe Telecom, Inc., a leading national mobile communications provider.

### *Disengagement from France Telecom and Sprint*

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

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

In connection with these transactions, Deutsche Telekom publicly disclosed that it does not intend to remain as a long-term shareholder of Sprint. Deutsche Telekom expects to dispose of its shares in Sprint in an orderly manner in view of market conditions and subject to applicable legal and contractual restrictions. Relevant contractual restrictions include restrictions on the timing of Deutsche Telekom’s sale of Sprint FON shares and Sprint PCS shares. Sprint has filed with the United States Securities and Exchange Commission a registration statement relating to Deutsche Telekom’s planned sale of Sprint FON shares. Deutsche Telekom cannot guarantee whether or at what price or prices any sale of its interests in Sprint will be consummated.

Deutsche Telekom had been using Global One to offer its customers in the international market—such as companies and operators of other telecommunications networks and services—a range of telecommunications services. In connection with the agreements relating to separate sales by Deutsche Telekom and Sprint of their interests in Global One, Deutsche Telekom, France Telecom and Sprint were released from certain non-compete and exclusivity provisions of the Global One alliance, subject to transition provisions that lasted for one year after the closing of the relevant sale and have now expired. Transition arrangements agreed upon in connection with the transactions were designed to assure continuity of service for two years to Deutsche Telekom’s Global One customers. To offer its customers international communications solutions independent of Global One, Deutsche Telekom has commenced a program of expanding its international network through internal growth and cooperative arrangements. Deutsche Telekom will also contemplate acquisitions under appropriate circumstances as a means of expanding its international network. Disengagement from the Global One alliance has given Deutsche Telekom the freedom to pursue opportunities that were formerly closed to it under its contractual arrangements.

The alliance with France Telecom was supported by a cross-shareholding established in late 1998, in which Deutsche Telekom and France Telecom each purchased two percent of the other’s issued share capital. Both companies agreed that they would not sell these shares until after December 31, 2001, except under limited circumstances or as otherwise agreed. France Telecom entered into a separate agreement with KfW pursuant to which France Telecom agreed that it would not dispose of the Deutsche Telekom shares it purchased from KfW until after December 31, 1999, and that it would be able to sell those shares between

January 1, 2000, and June 30, 2001, only under certain circumstances (depending in part on whether KfW has notified France Telecom at the time of any proposed sale by France Telecom that KfW intends to sell Deutsche Telekom shares).

In 2000, Deutsche Telekom, France Telecom and KfW entered into an agreement pursuant to which KfW acquired the Deutsche Telekom shares held by France Telecom, and France Telecom may elect or be required to acquire the France Telecom shares held by Deutsche Telekom. Pursuant to a put/call arrangement, France Telecom may elect to acquire its shares from Deutsche Telekom on a date during the period from mid-January 2002 through the end of January 2003, as selected by France Telecom. If France Telecom does not exercise its call right, Deutsche Telekom may elect to require France Telecom to acquire the France Telecom shares on January 31, 2003. The per share price to be paid by France Telecom to Deutsche Telekom is to be determined on the basis of an average of market prices for France Telecom shares over an agreed period before the purchase, less certain deductions. The per share price to be paid by KfW to France Telecom is to be determined on the basis of an average of the market prices for Deutsche Telekom shares over an agreed period before the purchase, subject to certain maximum and minimum limits generally linked to the prices at which shares were sold to institutional and retail investors in the global offering of Deutsche Telekom shares conducted by KfW in June 2000.

#### ***Resolution of Disputes with France Telecom***

In November 1997, Deutsche Telekom, France Telecom and Enel formed the consortium “WIND” in Italy. WIND obtained a fixed-line telephony license in February 1998 and the third Italian mobile license (dual-band GSM 900/1800) in June 1998. Each of Deutsche Telekom and France Telecom owned 24.5 percent of WIND, with Enel owning the remaining 51 percent. Litigation concerning the shareholdings of Deutsche Telekom, France Telecom and Enel arose in 1999 as a consequence of Deutsche Telekom’s formerly proposed business combination with Telecom Italia. In July 2000, Deutsche Telekom, France Telecom and Enel reached an agreement resolving this litigation, and Deutsche Telekom sold its interest in Wind. In addition, France Telecom commenced separate arbitration proceedings relating to an alleged breach of Deutsche Telekom’s cooperation agreement with France Telecom. For a description of the litigation and the settlement, see “Item 8. Financial Information—Litigation”.

In May 2000, as part of its disengagement from France Telecom, Deutsche Telekom sold to France Telecom its indirect 25 percent interest in MetroHoldings Ltd., a British operator specializing in corporate telecommunications, and acquired Mutlilink S.A., a provider of fixed line telephony specializing in corporate network communications in Switzerland.

#### **Other Services**

Deutsche Telekom’s “other services” area primarily consists of internet access and multimedia activities as well as the activities of debis Systemhaus for the fourth quarter of 2000. This business area had revenues of EUR 2.4 billion in 2000, representing 5.9 percent of the consolidated revenue of Deutsche Telekom in 2000.

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

#### ***T-Online***

T-Online had approximately 7.9 million customers at December 31, 2000 (including customers of companies acquired in 2000) as compared to 4.2 million customers at December 31, 1999. The T-Online service, which is operated, developed and marketed by T-Online International AG, is Europe’s largest online-service and Internet-service provider based on number of subscribers. T-Online offers cost-effective, high-performance Internet access primarily to consumers. Average monthly minutes per subscriber increased by approximately 82 percent in 2000 as compared to 1999. In 2000, subscribers connected to the service a total of some 3.2 billion times, or approximately 110 percent more often than in the previous year.

T-Online became listed on the Neuer Markt segment of the Frankfurt Stock Exchange in April 2000 through a public offering of newly issued shares representing approximately ten percent of its equity capitalization. As of December 31, 2000, Deutsche Telekom had a controlling ownership interest of approximately 81.7 percent in T-Online.

In addition to Internet access, T-Online offers customers access to a number of value-added online services. The available applications cover a spectrum that includes database research, information, entertainment and online banking.

T-Online significantly expanded portal site activities in 2000, making T-Online the gateway to a wide range of information and entertainment services. T-Online offers a Shopping Portal through which customers have access to electronic commerce. Currently about 250 vendors present products and services from various industries on the Shopping Portal. The Fun & Action portal is geared primarily toward younger T-Online customers. This portal offers chat rooms, forums, online games and information tailored for specific target groups. Deutsche Telekom believes that these offers make the T-Online home page more attractive to customers and therefore more attractive to advertisers.

Subject to applicable regulatory constraints, T-Online's service offerings include products that bundle Internet access with services offered by other companies in the Deutsche Telekom group, such as T-DSL or access to the Internet via Deutsche Telekom's fixed-line telephone network. T-Online also seeks to promote Internet usage in Germany through special promotional offers, such as an offer of free Internet access and related software and customer service to schools in Germany.

To further its market leadership position in Germany, T-Online entered into an online banking relationship with comdirect bank AG, the online banking subsidiary of Commerzbank AG, in April 2000. As part of this relationship, T-Online agreed to take a 25 percent equity interest in comdirect, and Commerzbank took an equity stake in T-Online of approximately 2.0 percent (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of Club Internet described below). As a consequence of the initial public offering in 2000 of comdirect bank AG, T-Online's interest in comdirect was diluted to 21.35 percent. In addition, T-Online also acquired a 51 percent ownership interest in Atrada Trading Network AG for EUR 26 million. This company specializes in e-commerce and was purchased in order to achieve synergies in technology.

#### *International Internet Activities*

T-Online took a significant step in the development of its international business in March 2000, when it acquired a 99.9 percent equity interest in Club Internet, the online service business of the French Lagardère group, in exchange for shares of T-Online representing an equity interest of approximately 5.8 percent in T-Online (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of an interest in comdirect). Club Internet had approximately 580,000 customers in France at December 31, 2000.

In October 2000, T-Online acquired ya.com, a leading Spanish Internet service provider, in exchange for shares and cash of T-Online representing an equity interest of approximately 1.25 percent in T-Online. ya.com had approximately 680,000 customers in Spain and Portugal at December 31, 2000.

#### *Competition*

The German and European markets for Internet access and portal services have been and will continue to be extremely competitive. In the market for the provision of Internet access services, particularly in Germany, strong competitors (including AOL) have pursued aggressive marketing strategies that have led to a substantial decrease in prices for Internet access. Competition in this market depends on a variety of factors, including pricing, brand recognition, network speed and reliability, customer support and time to market with new products and services. Regulation also can exert a significant influence on the level of competition in this market. In the market for portal services, competition is intense due to low barriers to entry. Deutsche Telekom faces competition in this market from websites maintained by Internet service providers, Internet information retrieval services, online community websites, home page services and shopping portals, as well as from traditional media including newspapers, magazines, radio and television.

#### *Multimedia/Information and Communications Systems*

Deutsche Telekom offers a comprehensive range of multimedia applications and services for business customers, including complete service, consultation, implementation, training and operation.

### *Multimedia*

Deutsche Telekom offers business customers a variety of solutions for presenting their company in the Internet, and these solutions represent one of Deutsche Telekom's core activities in the multimedia area at present. For example, Deutsche Telekom offers a range of simple "home page" designs that can be downloaded and adapted by a business customer to establish a basic Internet presence. A customer that wishes to have a more extensive presence in the Internet can choose from a range of "shop" designs offered by Deutsche Telekom, or can work with an agency recommended by Deutsche Telekom to develop an Internet presence tailored to that customer's specific needs.

Convenient solutions that provide maximum security for payment transactions and sensitive data transmissions in the Internet represent another core activity in the multimedia area at present. For example, Secure Pay Services supports the use of credit cards complying with the SET (Secure Electronic Transaction) standard, an internationally recognized method of handling credit card transactions in the Internet. The acquisition of a majority interest in debis Systemhaus is expected to complement Deutsche Telekom's consulting expertise in the area of secure payment transactions and data transmissions.

Deutsche Telekom is focusing on the development of "electronic marketplaces" that are expected to optimize trading between suppliers and their business customers. Deutsche Telekom's goal is to establish an open business-to-business marketplace called "T-Mart", which is intended to be a marketplace for products required by businesses in a wide range of industries. In addition to offering its customers the opportunity to participate in this market, Deutsche Telekom makes use of this marketplace to improve its own procurement activities, save time and reduce costs. Electronic marketplaces for suppliers and their customers within specific industries are also a focus of Deutsche Telekom's multimedia activities. In 2000, Deutsche Telekom, together with Bayer AG und Infracore Hoechst, established "chemplorer", an electronic marketplace for companies active in the chemical and life sciences industries. Deutsche Telekom provides the technical platform for this marketplace, i.e., information technology and network infrastructure. The establishment of additional industry-specific electronic marketplaces is planned for 2001. Deutsche Telekom's electronic market services are based on technology licensed from Commerce One under an agreement signed in January 2000.

### *Information and Communications Systems*

Deutsche Telekom is positioning itself as an application service provider (ASP), which means that it provides standardized software so that business customers can lease and manage daily business processes. "ASPO", or Application Services Portal Online, is one of the first ASP services offered by Deutsche Telekom. The Application Services Portal technology offers standard software applications from a single source to many users within a company. Deutsche Telekom intends to offer applications that would assist customers with customer relation management, supply chain management and enterprise resource planning.

### *debis Systemhaus*

In October 2000, Deutsche Telekom acquired from DaimlerChrysler Services AG a 50.1 percent interest in debis Systemhaus GmbH by means of a capital increase as part of a strategic joint venture in the systems solutions field. Under the agreements relating to this transaction, Deutsche Telekom invested approximately EUR 4.6 billion in debis Systemhaus for the new shares and assumed day-to-day management control over debis Systemhaus. Deutsche Telekom has agreed that there will be a minimum annual dividend rising to up to EUR 70 million paid on the DaimlerChrysler Services AG interest in debis Systemhaus in respect of each financial year through 2004.

debis Systemhaus is one of Europe's largest systems solutions companies. It produces software for corporate communications systems and develops the infrastructure needed for communications among computers. The strategic engagement is expected to strengthen Deutsche Telekom's systems solutions business—which is one of the four pillars of its growth strategy—and provide Deutsche Telekom with access to debis Systemhaus' global data network. In the fourth quarter of 2000, the first period for which Deutsche Telekom consolidated debis Systemhaus in its financial statements, debis Systemhaus contributed EUR 922 million to the consolidated revenues of Deutsche Telekom.

The agreements relating to the joint venture confer on Deutsche Telekom the right to acquire from DaimlerChrysler Services AG, and on DaimlerChrysler Services AG the right to sell to Deutsche Telekom, the entire 49.9 percent interest of DaimlerChrysler Services AG in debis Systemhaus. The right in favor of



Deutsche Telekom is exercisable from January 1, 2002, through January 1, 2005, with the commencement of the exercise period subject to a delay of up to two years at the option of DaimlerChrysler Services AG. The right in favor of DaimlerChrysler Services AG is exercisable from the joint venture closing through January 1, 2005. The price for the purchase for the 49.9 percent interest would be approximately between EUR 4.6 billion and EUR 4.9 billion, depending on when the option is exercised as well as various other factors. The exercise of either option would give Deutsche Telekom full ownership of debis Systemhaus at the option exercise price, including full ownership of the then value in debis Systemhaus derived from Deutsche Telekom's initial investment.

## **Network Infrastructure**

Deutsche Telekom has made very substantial investments in its telecommunications and cable networks since 1990, including the installation of a new network in eastern Germany after German reunification in 1990. As a result, Deutsche Telekom's fixed-line network has evolved into one of the most technologically advanced major networks in the world, with fully digital trunk switching and international trunk switching, 100 percent digital local switching and 100 percent digital transmission. Deutsche Telekom has introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology on the basis of its advanced network. Compared to 1999, Deutsche Telekom's investments in network infrastructure increased in 2000, due to the further expansion of the fiber optic network. In addition, with digitalization, reorganization and increased productivity, the number of employees of Deutsche Telekom engaged in network infrastructure development, maintenance and operation had decreased to less than 44,000 at year end 2000 from over 65,500 at year end 1996.

### ***Fixed-Line Telecommunications Network***

Deutsche Telekom's domestic public switched telephone network and ISDN network consist of approximately 5,200 local networks (including approximately 8,000 local exchange areas) connected by a long-distance transmission network. At December 31, 2000, Deutsche Telekom's domestic network consisted of 32 million analog telephone lines in service and 17.3 million ISDN voice and data channels and reached virtually all German homes and German businesses.

### ***Transmission Network***

As of December 31, 2000, the transmission network linking Deutsche Telekom's local networks consisted of approximately 160,000 kilometers of fiber optic cable.

As of December 31, 2000, more than 75 percent of Deutsche Telekom's national transmission network consisted of Synchronous Digital Hierarchy (SDH) transmission links. SDH, which is a transmission standard for networks that use fiber optics, allows for a simpler and more easily managed network with enhanced reliability. Deutsche Telekom is developing its SDH networks further by installing additional high capacity SDH equipment in combination with WDM systems within its national transmission network.

### ***International Network***

Deutsche Telekom's international transmission infrastructure consists of both cable and satellite transmission systems, which linked Deutsche Telekom's national network directly to approximately 300 other telecommunications service providers worldwide at December 31, 2000.

Deutsche Telekom is an investor in approximately 80 fiber-optic submarine and terrestrial cables worldwide. In addition to investments in a number of smaller cables, Deutsche Telekom has substantial investments in the major submarine cables AC-1, TAT-10, TAT-12/13 and UK-G6 and is the largest investor in the SEA-ME-WE3 cable, one of the longest submarine cables systems in the world, which went into operation in August 1999. Deutsche Telekom has invested a total of approximately US\$120 million in the TAT-14 submarine cable, which is expected to go into operation in May 2001 with a total transmission capacity of 1280 Gbit/sec.

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

Deutsche Telekom plans to serve its international customers by seamlessly linking its national network with its worldwide platform. Deutsche Telekom had linked some 40 points of presence, in 16 countries, with this network by the end of 2000 and plans to enlarge this network to further cities in 2001. ATM, IP and voice technology will be made available at all of these locations.

Deutsche Telekom expanded its ability to serve its international customers in 2000 through the conclusion of contracts with several significant suppliers of network capacity.

### ***Internet Network***

The extremely rapid growth of Internet communications has continued to create enormous challenges for the international telecommunications industry. In 2000, Deutsche Telekom continued to expand its telecommunications networks for transport of national and international Internet traffic. From the end of 1999 to the end of 2000, Deutsche Telekom increased the number of dial-in ports in its national platform by a total of 350 percent. The transmission rate in the core network was increased in 2000 from 622 Mbit/s to over 80 Gbit/s, which is equivalent to more than 20 million "DIN-A4" (i.e., letter size) pages of text per second.

Deutsche Telekom also applied wavelength multiplexing technology in the expansion of its core network capacity in 2000. Wavelength division multiplexing systems permit the multiplication of the potential transmission capacity in optical fiber. In early 2000, Deutsche Telekom began to build up a completely new optical transport network across Germany which can be adjusted to the forecasted high capacity needs as required.

In 2000, Deutsche Telekom expanded its transmission capacity up to 10.4 Gbit/s to the United States, which plays a particularly important role in Internet communications. Deutsche Telekom accomplished this result using its own capacities in submarine cable systems.

### ***ADSL***

In 2000, Deutsche Telekom continued its ambitious ADSL technology (Asymmetrical Digital Subscriber Line) expansion program. ADSL permits transmission of data through the copper wire pairs that link customers to Deutsche Telekom's networks at faster rates than were previously possible: up to 6 Mbit/s from the network to the customer and up to 768 kbit/s from the customer to the network. ADSL thus makes faster Internet access possible.

At December 31, 2000, Deutsche Telekom had entered into contracts for the provision of T-DSL to more than 600,000 customers in Germany, of which more than 150,000 had received T-DSL connections at that date. At present, Deutsche Telekom only markets T-DSL together with T-ISDN. Deutsche Telekom currently plans to have introduced T-DSL throughout most of Germany by the end of 2003.

### **Sales and Service**

During 2000, Deutsche Telekom continued its program to focus on the customer, with the aim of optimizing customer service and fostering long-term customer loyalty in a highly competitive market.

Deutsche Telekom has hired and maintains close contact with a number of special sales experts to ensure that its sales staff is always able to give its customers top-quality, state-of-the-art advice regarding very complex telecommunications requirements—including, for example, highly sophisticated products in the areas of mobile communications, data communications, information technology and multimedia.

### ***Sales Channels***

Deutsche Telekom operated over 500 "T-Punkt" shops throughout Germany at end of 2000. These are one of Deutsche Telekom's most important sales channels for serving its residential customers and small business customers. At every T-Punkt, customers can choose from Deutsche Telekom's extensive range of products, including the type of telephone connection and tariff category, telephones, fax machines and T-Mobil's mobile communications products. During 2000, Deutsche Telekom continued its site-optimization program for its T-Punkt shops to improve their cost-effectiveness and increasingly focused the activities of the T-Punkt shops in the strategically key areas of T-ISDN, T-DSL, T-D1 and T-Online. Deutsche Telekom also made preparations for the introduction of T-Punkt Business shops, which are oriented in particular toward small

and mid-sized business customers. By the end of 2000, Deutsche Telekom operated 30 T-Punkt Business Shops, with further expansion of up to 90 additional T-Punkt Business Shops planned for 2001.

Deutsche Telekom also has a broad range of sales partners under contract with a total of some 45,000 sales outlets at the end of 2000. These sales partners sell products and services of Deutsche Telekom in addition to their own lines of products and services.

Deutsche Telekom maintains a “customer segment management” department through which Deutsche Telekom seeks to build stronger connections between customers and individual areas of Deutsche Telekom’s business. This measure is intended to ensure product development that is focused on the needs of particular customers and classes of customers, particularly in the areas of multimedia, mobile communications, data communications and information technology.

In order to improve service to its residential customers, Deutsche Telekom consolidated its telemarketing channels and its customer care activities under a single toll-free number in 2000. Using this number, customers can obtain information and order nearly all of Deutsche Telekom’s products and services 24 hours a day, seven days a week. After overcoming initial difficulties that customers had in reaching an operator under this new number, Deutsche Telekom was able to improve the response rate by the end of 2000 to the point where 74 percent of calls were answered within 20 seconds.

The mail-order business has become an important part of Deutsche Telekom’s sales operations. Customers can order by phone, through T-Online, by fax or by mail from Deutsche Telekom’s semiannually published catalogue, which provides comprehensive information regarding new products and services.

Deutsche Telekom has increased sales activities in the Internet to a considerable degree. Deutsche Telekom’s homepage provides both private and business customers with information about company products and services 24 hours a day. Customers may order articles directly from the online catalogue. Special online promotions as well as constant updates on the offers on the start pages round out Internet sales activities.

### ***T-Service***

“T-Service”, with its staff of over 26,000 persons at year end 2000, is responsible for the assembly, service and repair of telephone lines and terminal equipment of Deutsche Telekom’s customers. T-Service provides on-site and remote services to customers as well as a 24 hour hotline. In addition, the establishment of an international T-Service organization was initiated in 2000, in which close cooperation with subsidiaries and partners is of central importance.

### ***TelekomForum e.V.***

Deutsche Telekom continued and sought to intensify its dialogue with its business customers in 2000. One of Deutsche Telekom’s most effective resources in this regard is the TelekomForum, a business-customer advisory board founded in 1996. Currently, its members include more than 350 of the largest German companies. In the TelekomForum working groups, customers and product managers develop ideas for the improvement of Deutsche Telekom’s portfolio of products and services. In this way, some of Deutsche Telekom’s customers have direct input into the development and innovation processes at Deutsche Telekom.

### ***Telekom Training Courses, Events and Seminars***

Since 1993, Deutsche Telekom offers its customers seminars designed to help them get the most out of state-of-the-art telecommunications products. As new trends in services and innovative products come on to the market, Deutsche Telekom utilizes the opportunity to educate potential and current customers. Through project T@School, Deutsche Telekom connected over 31,000 schools throughout Germany to the Internet. Over 26,000 teachers were schooled in training courses as part of this program and over 20,000 personal computers will be donated by the summer of 2001 to these schools. Through project Germany goes Online, Deutsche Telekom offered approximately 1,500 seminars to small and medium-sized companies. Other courses such as

introductory Internet seminars were conducted over 15,000 times throughout Germany while still other Internet training programs specifically targeted seniors and women.

### **Information Technology**

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

DeTeCSM, a wholly-owned subsidiary of Deutsche Telekom, has the responsibility for operating and expanding Deutsche Telekom's IT infrastructure and applications. DeTeCSM offers a wide range of IT services, including operation of computer centers, client-server and workstation systems and desktop, call center, web and office communication services. In July 2000, DeTeCSM began gradually taking over the complete operations of the Deutsche Post Corporate Networks, including field service operations. Deutsche Telekom believes that this is the largest outsourcing project of this nature in Germany.

T-Nova is responsible for developing products, services and networks, as well as IT systems to support the business processes of the Deutsche Telekom group. As a service provider of innovative solutions in telematics, T-Nova offers services to its clients throughout the entire product cycle, including development, integration, consulting and implementation. The systematic integration of solution-oriented development and customer-oriented project management enables T-Nova to rapidly transform ideas and innovations into marketable products and applications. Operating independently of systems suppliers, T-Nova offers comprehensive solutions tailored to the specific business processes in question. T-Nova assists with system analysis and consulting, development of system functions, system integration, version management and technical support. Important examples include fiber optic networks, radio transmission, IP, security, voice and media technologies, software technologies, SAP and data-warehousing.

### **Innovation Management (Research and Development)**

Deutsche Telekom regards innovation as one of the most important tools for competing effectively and has committed significant resources to research and development activities. Research and development activities focus on the relevant growth areas for Deutsche Telekom. In recent years, Deutsche Telekom has reduced its focus on basic research and has placed increasing emphasis on observation and evaluation of medium-term and long-term trends in new telecommunications technologies and on the development of innovative products and services based on these technologies. Through its corporate venture capital subsidiary, T-Telematik Venture Holding GmbH, Deutsche Telekom provides capital for seed, early stage and first expansion investments both directly and through venture capital funds to young companies that operate in the telecommunications and information technology markets. Most of Deutsche Telekom's innovation management activities are carried out through its subsidiary, T-Nova Deutsche Telekom Innovationsgesellschaft mbH.

At December 31, 2000, Deutsche Telekom had approximately 5,295 employees dedicated to innovation management. Deutsche Telekom's expenditures for research and development amounted to approximately EUR 700 million in 2000, (including MATÁV, One 2 One and max.mobil) as compared to EUR 700 million in each of 1999 and 1998 (excluding MATÁV, One 2 One and max.mobil.). More than half of the research and development expenditures in 2000 related to software development. In 2000, 561 patents and other intellectual property rights resulted from research and development activities.

## **REGULATION**

### **Liberalization**

The legal framework for the regulation of the telecommunications sector in Germany was completely transformed through the German Telecommunications Act, which came into force on August 1, 1996. The Telecommunications Act required the complete liberalization of the German telecommunications market by January 1, 1998, as mandated by the directives of the European Commission. This represented the final step in the liberalization effort that began in 1989.

## **The Regulatory Framework**

The Telecommunications Act allows virtually unrestricted market access by qualified entrants. The principal objectives of the Telecommunications Act are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The Telecommunications Act aims to achieve these objectives principally by requiring licenses for the conduct of certain telecommunications activities, allocating frequencies, securing universal service and subjecting enterprises having dominant positions in particular telecommunications markets (so-called “market-dominant providers”) to a special regulatory framework.

### **Regulatory Supervision**

Since January 1, 1998, regulatory functions under the Telecommunications Act have been carried out by the Regulatory Authority for Telecommunications and Posts (*Regulierungsbehörde für Telekommunikation und Post*) (the “Regulatory Authority”), a new supervisory body established within the Federal Economics Ministry (*Bundesministerium für Wirtschaft und Technologie*) (the “Economics Ministry”). The Regulatory Authority has various powers under the Telecommunications Act, including the authority to grant and revoke licenses, control network access and interconnection, and approve or review the tariffs and tariff-related general business terms and conditions of market-dominant providers. It also has the authority to assign and supervise frequencies and to impose universal service obligations.

The Regulatory Authority is supported by an Advisory Council (*Beirat*) consisting of nine representatives of each of the two houses of the German Parliament, but the matters with respect to which the Advisory Council must be consulted are very limited. The Advisory Council is involved in, among other things, decisions concerning license auctions regarding scarce frequencies and decisions obligating a licensee to provide universal service. The Advisory Council need not, however, be consulted with regard to tariff decisions. The Regulatory Authority is headed by a president and two vice-presidents who are nominated by the German Government upon the proposal of the Advisory Council.

### **Licensing and Notification Requirements; Allocation of Frequencies**

The Telecommunications Act establishes licensing requirements for the following activities:

- the operation of transmission lines for mobile telecommunication services for the public (Class 1 licenses),
- the operation of transmission lines for satellite services for the public (Class 2 licenses),
- the operation of transmission lines for public telecommunications services (Class 3 licenses), and
- the provision of voice telephony services to the public on the basis of self-operated telecommunication networks (Class 4 licenses).

Generally, except in the case of scarce telecommunications frequencies, the number of licenses is not limited, and each applicant satisfying basic qualification requirements is entitled to receive a license. In applying for a license, an applicant is required to specify the geographic scope and the type of activity subject to license. Conditions and obligations may at any time be attached to a license to promote the achievement of the objectives of the Telecommunications Act.

A number of telecommunications services, such as text and data transmission services over leased lines, voice services for corporate networks and closed user groups, and the simple resale of voice telephony services, are not subject to licensing requirements. However, any person providing telecommunication services has to notify the Regulatory Authority of its operations.

By law, frequencies are to be allocated upon request on a non-discriminatory basis according to objective and verifiable criteria. Licenses may be awarded by auction or competitive bidding if the Regulatory Authority determines that frequencies are not available in sufficient quantity for all applicants or if multiple applications are submitted for the same frequency. The Regulatory Authority may exclude a company from taking part in an auction or competitive bid for licenses or frequencies if the success of that company in an auction or bid would endanger competition based on principles of equal opportunity. The Regulatory Authority may also deny approval of an application to transfer a license on the same basis, regardless of whether scarce frequencies are involved.

Payment of an initial license fee or frequency fee is required of parties to whom licenses or frequencies have been granted or allocated. In addition, parties to whom frequencies have been assigned are required to make annual contributions to cover the costs incurred by the Regulatory Authority in planning and administering efficient and interference-free frequency usage.

The level of licensing fees raised pursuant to the Licensing Fees Ordinance is subject to court proceedings, which are expected to lead to lower licensing fees. On the other hand, a new fee ordinance is currently under discussion that would establish additional fees which depend on the revenues of the regulated company, to cover the costs of regulation. The details of this new fee ordinance still remain open. See “—European Union.”

In applying for a license under the Telecommunications Act, the applicant generally has considerable flexibility in choosing the scope and geographical range of the products and services it wishes to offer. Even if a licensee is granted a license covering all of Germany, it generally may choose to provide only those service and geographic combinations that offer the best business opportunities. This flexibility is limited, however, to the extent that the applicant is required to provide universal services, as described below under the heading “—Universal Services”.

## **Special Requirements Applicable to Market-Dominant Providers**

### ***General***

Market-dominant providers and their affiliates are subject to special rules and obligations, including most importantly:

- the prior approval or retrospective review of tariffs and related business terms and conditions by the Regulatory Authority, insofar as such tariffs relate to a market in which the provider is dominant. See “—Pricing”.
- the obligation to offer competitors, on the basis of unbundling, special network access (including interconnection) as well as access to essential services and facilities used by the market dominant provider internally on a non-discriminatory basis. See “—Special Network Access and Interconnection”.
- potentially, the obligation to provide universal services in a market. See “—Universal Services”.
- the possible inclusion of restrictive conditions in licenses, such as, in the case of scarce frequencies, a condition not to combine with another provider in the same market or the rejection of bids for licenses and frequencies in case of scarce frequency capacity to the extent that equal competition on the relevant market is endangered.

In addition, market-dominant providers must maintain segregated accounting systems to allow for transparency in dealings among their various licensed telecommunications services, and between such services and license-free services, in order to prevent, among other things, the cross-subsidization of services. In this regard, the Regulatory Authority may specify the structure of internal accounting for particular telecommunications services subject to license. Furthermore, under general competition law principles, market-dominant enterprises as a rule are required to refrain from abuses of their dominant positions. See “—Competition Law”.

Market dominance under the Telecommunications Act is determined by reference to the German Act Against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschränkungen*). This Act provides, among other things, that a company is refutably presumed to have a dominant position if its share equals or exceeds one-third of a relevant market. For information regarding a proceeding on the European Union level relating to this issue, see “—The European Union”. The definition of the relevant product and geographic market and the determination that a company is market-dominant under the Telecommunications Act are made by the Regulatory Authority in agreement with the German Federal Cartel Office.

Deutsche Telekom believes that for some time to come the Regulatory Authority is likely to view Deutsche Telekom as holding a dominant position in the German market for public voice telephony services in the fixed network and in other markets, including most of those in which it had monopoly rights in the past. As a result, Deutsche Telekom expects that the provisions of the Telecommunications Act relating to the regulation of market-dominant providers will be applied to Deutsche Telekom’s activities in those markets. Considering that in many markets competitors of Deutsche Telekom are unlikely to reach dominant positions in the near

future, Deutsche Telekom expects that for some period of time it will have to compete in significant markets with providers not subject to the requirements applicable to market-dominant providers. These competitors may therefore have more flexibility than Deutsche Telekom in terms of the selection of services offered and customers served, pricing and the grant of access to their networks. The definition of a market in which dominance exists requires a number of judgments, and is subject to change as competitive conditions further develop.

Deutsche Telekom has actively initiated proceedings with the Regulatory Authority relating to the reevaluation of markets in which Deutsche Telekom is no longer dominant. On February 20, 2001, the Regulatory Authority decided that Deutsche Telekom would no longer be regarded as a dominant provider in the market for the termination of calls between Germany and Turkey for end-customers. Going forward, therefore, Deutsche Telekom's activities in this market will not be subject to the special regulations applicable to market-dominant providers. In particular, the prices charged by Deutsche Telekom for this service are no longer subject to prior regulatory approval or retrospective review. The Regulatory Authority continued to assume a dominant position of Deutsche Telekom in the markets for the termination of calls between Germany and the USA as well as Denmark (for business customers). Also on February 20, 2001 the Regulatory Authority published for comment a draft outline relating to the definition of relevant product and service markets and the determination of market dominance. According to the Regulatory Authority, the results of the ongoing public discussion process are to serve as a basis for future decisions regarding the definition of relevant markets and the determination of market dominance.

In August 2000, the Federal Government published a statement on short- and medium-term telecommunications policy. This statement indicates that there is functioning competition in some markets. In its statement, the German government foresees a decrease in regulation in important areas, although a reorganization of the regulatory framework itself is contemplated only in the medium term. At the end of 2001, the Regulatory Authority and the Monopoly Commission (*Monopolkommission*) will for the second time report to the German federal legislature on the development of competition in the German telecommunications market. In the first reports, submitted at the end of 1999, both the Regulatory Authority and the Monopoly Commission had concluded that effective competition in the telecommunications sector generally does not yet exist and that promotion of competition through regulatory intervention continues to be necessary.

### ***Pricing***

Under the Telecommunications Act, tariffs and tariff-related business terms and conditions for the telecommunications services of market-dominant providers and their affiliates are subject to special regulatory oversight and control insofar as they relate to a market in which such dominance is determined to exist. Other tariffs are essentially unregulated under the Telecommunications Act. The tariffs of all providers in Germany are, however, subject to European and German law of general application, including competition and consumer protection laws and ordinances. In addition, tariffs for universal services must be set at an "affordable price". See "—Universal Services".

The Telecommunications Act distinguishes between tariffs which require prior regulatory approval and tariffs which do not require prior approval, but which are subject to retrospective review. Prior approval is required for the tariffs of a market-dominant provider in the areas of public voice telephony services, the operation of transmission lines for telecommunications services to the public, and access and interconnection services. All other tariffs including tariffs in respect of mobile telephony, subscription fees for cable transmission services and fees for satellite services may be put into effect without prior approval. However, in markets in which a provider is considered to have a market dominant position, such tariffs are subject to retrospective review to the extent that facts become known that indicate that the tariffs are inconsistent with the Telecommunications Act.

### ***Prior Approval of Tariffs***

The Telecommunications Act provides for two basic approaches to prior approvals of tariffs: a price-cap approach and an approach involving individual approvals based on an assessment of the costs of providing a particular service (the "cost-based approach"). The Tariff Regulation Ordinance (*Telekommunikations-Entgeltregulierungsverordnung*) provides that priority is to be given to the price-cap approach. The cost-based approach applies to tariffs for services which under the regulation may not be, or are not, combined in a "basket" together with other services in accordance with the price-cap approach.

Tariffs may not be approved if they (1) contain surcharges which prevail solely as a result of the applicant's market-dominant position, (2) include discounts which prejudice the competitive opportunities of other companies in a telecommunications market or (3) discriminate among customers for the same or similar services in a telecommunications market, unless such surcharges, discounts or discriminatory features are objectively justified.

*Price Cap Approach.* Under the price-cap approach, the Regulatory Authority establishes baskets of services, lays down an initial price benchmark for each basket and limits tariffs for the blend of services within that basket through the use of a price cap formula. This formula allows for price increases or requires price decreases from the initial benchmark level based on the general inflation rate, reduced by an amount which reflects expected productivity improvements. In establishing the price cap formula, the Regulatory Authority is required to consider a range of factors, including the relationship of the initial tariff levels to the costs of efficient service provision and the productivity improvements being achieved by other enterprises in similar markets. The price-cap formula has the effect of requiring the affected company to reduce, or limiting the extent to which it can increase, the aggregate tariffs for services within a basket.

The price-cap approach to tariff regulation has been applied, most notably, to voice telephony services. Both for the period from January 1, 1998 to December 31, 1999 and for the period from January 1, 2000 to December 31, 2001, the price-cap formula required tariff reductions that reflected expected productivity improvement of 6 percent minus an estimate of consumer price inflation. The current price-cap regime expires on December 31, 2001.

*Cost-based Approach.* Tariffs requiring prior approval which are not dealt with under a price cap are based on the costs of efficient provision of the relevant service. The Regulatory Authority bases its determination of the costs of efficient service provision on the long-run incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation as to its costs and the methods and parameters on which its determination of costs is based in respect of the service in question. The Regulatory Authority in general has broad discretion, however, in deciding whether to accept an applicant's attribution of costs to a particular service. In recent years, in determining tariffs under the cost-based approach, the Regulatory Authority has declined to take into account costs that Deutsche Telekom believes were properly attributed to the service in question. Discussions continue concerning the appropriate methodology to be used in the calculation of the long-run incremental cost of the services subject to cost-based pricing.

#### *Retrospective Review of Tariffs*

All tariffs of market-dominant providers in markets in which such dominance occurs are subject to retrospective regulatory examination, even if the tariffs were initially subject to prior approval. The Regulatory Authority must initiate examination proceedings if it becomes aware of facts indicating that tariffs that were initially subject to prior approval contain discounts or discriminatory features that are not objectively justified and may ultimately object to such tariffs and declare them to be invalid. In addition, with tariffs not subject to prior approval, the Regulatory Authority may initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain surcharges, discounts or discriminatory features that are not objectively justified. The Regulatory Authority may object to such tariffs and declare them invalid. For example, the Regulatory Authority has initiated retrospective reviews of increases in broadband cable tariffs.

### **Special Network Access and Interconnection**

The Telecommunications Act imposes specific obligations concerning access to networks and interconnection. The Network Access Ordinance (*Netzzugangsverordnung*) under the Telecommunications Act provides details concerning these obligations and specifies the manner in which special network access (including interconnection) is to be effected.

#### *General Principles and Practice*

Every operator of a public telecommunications network, irrespective of the operator's market position, is obligated, upon request, to make an offer to other network operators for interconnection to its network. If the parties cannot reach an agreement on such interconnection, the Regulatory Authority will order the



interconnection upon application of one of the parties. To date, numerous interconnection orders have been issued. The contents of all agreements on special network access must comply with certain requirements of the Network Access Ordinance.

#### ***Provisions Applicable to Market-Dominant Providers***

A network operator that offers telecommunications services to the public and is a market-dominant provider in a particular market must allow every user access to its network or parts thereof. Such access may be granted via connections provided for all users (general network access) or via special connections (special network access), which includes the interconnection of networks. Limitations on access may be based only on the “essential requirements” set forth in the Open Network Provision Directive of the EU, which include preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data.

A provider dominant in a market for telecommunications services to the public must also grant to competitors active in the same market access to essential services it uses internally for the provision of such services upon the same conditions it applies to itself, unless the offer of different conditions can be objectively justified.

A market-dominant provider generally is required to unbundle its services for special network access, and must therefore offer its internally used essential services, including transmission, switching and operational interfaces, in such a way that other users need not purchase services they do not want. In addition, a market-dominant provider generally is obligated to allow other network operators to use transmission, switching and operational interfaces to its network on its premises on the same conditions it applies to itself.

Agreements on special network access (including interconnection) must be provided to the Regulatory Authority immediately following their execution. Conditions in such agreements must be based on objective criteria, be comprehensible and guarantee equal access.

#### ***Fixed-Fixed Interconnection***

As of December 31, 2000, Deutsche Telekom had concluded about 120 interconnection agreements with competitors offering long distance and international calling services over the fixed-line network.

The current level of interconnection pricing was approved by the Regulatory Authority in December 1999. The rate structure is based on the distance which traffic travels between the point of interconnection with Deutsche Telekom’s network and the point of termination. The average interconnection rate has been reduced by approximately 24 percent compared with the average interconnection rate that was in effect from January 1, 1998 to December 31, 1999. The current interconnection rates are effective until May 31, 2001.

On September 8, 2000, the Regulatory Authority announced a decision that allows Deutsche Telekom to base its interconnection charges to other carriers on a network element-based pricing system rather than on the distance-based pricing system currently in effect. The decision, however, leads to significantly lower interconnection prices, i.e., a further reduction of an average of 23 percent compared to the current rates in effect. A reduction in interconnection prices generally allows Deutsche Telekom’s competitors to improve their profit margins or reduce their fixed-line calling services prices to their customers, or both. Price reductions for fixed-line services introduced by competitors could lead to a decline in Deutsche Telekom’s market share or require Deutsche Telekom to reduce the prices it charges to customers for basic calling services, or both. Although these new interconnection rates were planned to come into effect on June 1, 2001, they are currently suspended, because Deutsche Telekom has successfully applied for a preliminary injunction against the implementation of the decision of the Regulatory Authority. For further information on this legal action, see “Item 8. Financial Information—Litigation”. In March 2001, Deutsche Telekom submitted a new application for approval of interconnection rates. This application, which is again based on network-element pricing, proposes an average reduction of the interconnection rates of approximately 10 percent compared to the interconnection prices currently in effect.

In the past, in making decisions regarding interconnection rates, the Regulatory Authority has declined to take into account costs that Deutsche Telekom believed should be taken into account. The Regulatory Authority generally has broad discretion in this regard.

The use of Deutsche Telekom's network by other carriers that have made limited investments in their own infrastructure can, in Deutsche Telekom's view, generate atypical traffic patterns that result in inefficient use of Deutsche Telekom's network. In 1999, the Regulatory Authority issued a decision that permits Deutsche Telekom to deny access to other carriers whose investments in their own networks do not meet a minimum standard set by the Regulatory Authority. The European Union has, however, criticized this decision of the Regulatory Authority.

### ***Mobile-Fixed Interconnection***

Although Deutsche Telekom takes the position that it is not a market-dominant provider in the national market for termination of traffic from mobile networks, it has in the past submitted its mobile-fixed interconnection tariffs to the Regulatory Authority for approval as a precaution. Since January 2000, Deutsche Telekom's mobile-fixed interconnection rates match its fixed-fixed interconnection rates. Like the fixed-fixed interconnection rates, these mobile-fixed interconnection rates will be valid until the end of May 2001. See also "—Fixed-Fixed Interconnection". For a discussion of developments at the EU-level, see "—Competition Law".

### ***Fixed-Mobile Interconnection***

In December 1999, Deutsche Telekom reached an agreement with T-Mobil to reduce T-Mobil's fixed-mobile interconnection rates as of February 1, 2000. As a result, Deutsche Telekom has paid lower interconnection fees to terminate calls in the digital mobile network of T-Mobil since February 1, 2000. In February and March 2000, Deutsche Telekom also reached similar agreements with VIAG Interkom, E-Plus and Mannesmann Mobilfunk regarding the reduction of fixed-mobile interconnection rates. As a result, the rates paid by end customers of Deutsche Telekom for the termination of calls have been reduced.

### ***Local Loop Access***

As indicated above with regard to special network access, market-dominant providers are obligated to unbundle their service offerings to the extent demanded by their competitors in a public telecommunications market unless the market-dominant provider can demonstrate that unbundling is not objectively justified under the particular circumstances. In light of this obligation, various competitors have asked Deutsche Telekom to provide unbundled access to Deutsche Telekom's subscriber lines (i.e., the local loop). By allowing competitors to connect to customer access lines in local networks, unbundling of the local loop allows competitors to gain direct access to subscribers without having to build local networks of their own. In this way, competitors are able to use Deutsche Telekom's customer access lines to offer a wide range of local services directly to the customer.

In February 1999, the Regulatory Authority approved a monthly rate of DM 25.40 (EUR 12.99) for access to a two-wire copper line. At the same time, the Regulatory Authority approved one-time installation fees and a fee for terminating a lease of two-wire copper line of DM 107.70 (EUR 55.07). These rates were considerably lower than the rates requested by Deutsche Telekom, since the Regulatory Authority did not take into account a number of costs that Deutsche Telekom believed should have been taken into account. Both Deutsche Telekom and its competitors have challenged aspects of this decision in court. For further information about this legal challenge, see "Item 8. Financial Information—Litigation". The outcome of this legal challenge is uncertain.

On March 31, 2001, the rates that Deutsche Telekom was permitted to charge for unbundled access to the local loop expired. In a decision of March 30, 2001, the Regulatory Authority reduced the monthly line rental charge of DM 25.40 (EUR 12.99) for the unbundled copper pair to DM 24.40 (EUR 12.48) as of April 1, 2001. This new price will be valid until March 31, 2003. In addition, a decrease in charges was also ordered for one-time installation charges as well as charges paid for cancellation of phone service. Decisions made on these charges will expire on March 31, 2002. Deutsche Telekom had applied for a monthly line rental charge of EUR 17.40 (DM 34.03), as Deutsche Telekom believes that actual costs incurred are higher than the costs recognized by the Regulatory Authority.

In addition to decisions relating to the appropriate level of network access pricing, the Regulatory Authority has also made determinations relating to the technical point in the network at which network access must be provided. In one such decision, the Regulatory Authority took the position that Deutsche Telekom must provide unbundling in accordance with the demands of competitors to the extent technically feasible. In another decision, the Regulatory Authority decided that Deutsche Telekom has to grant unbundled access to the part of

subscriber access lines located within customers' premises. Deutsche Telekom has filed suits challenging these decisions. For further information relating to these suits, see "Item 8. Financial Information—Litigation". In December 1999, without recognizing a legal obligation to do so, Deutsche Telekom submitted to the Regulatory Authority a request for approval of the one-time connection fee and the monthly rental charges that Deutsche Telekom proposed to charge third parties for direct access to the part of subscriber access lines located within customers' premises. In February 2000, the Regulatory Authority approved the one-time connection fee proposed by Deutsche Telekom but denied approval for the proposed monthly rental charge. In addition, competitors have submitted requests to the Regulatory Authority for further unbundling of local loop access. Deutsche Telekom has submitted comments on these requests to the Regulatory Authority.

A European Union regulation mandating shared access to the local loop as well as full unbundling of the local loop took effect in January 2001, see "—The European Union". On November 20, 2000, upon application of two other carriers, the Regulatory Authority introduced an abuse of dominant position proceeding against Deutsche Telekom relating to shared access to the local loop. No timetable has been established yet for the conduct of this proceeding, and Deutsche Telekom can not predict what the outcome will be.

In February 2001, the Regulatory Authority opened a formal proceeding relating to potential anti-competitive discounts involved in Deutsche Telekom's offer of T-DSL (digital subscriber line) service, i.e., broad band internet access for end customers. On March 30, 2001, the Regulatory Authority discontinued this formal proceeding.

Due to sharply increased demand of other telecommunications carriers for local loop access, a backlog has developed in Deutsche Telekom's filing of orders for collocation space for local loop access. Deutsche Telekom has been ordered by the Regulatory Authority to make offers of local loop access to other carriers that include, among other things, a commitment to faster provision of local loop access.

On March 30, 2001, in response to complaints by two competitors, the Regulatory Authority obliged Deutsche Telekom to make an offer for line sharing to these competitors by the end of May 2001. Line sharing is meant to be a wholesale product offering competitors unbundled access to the high frequency spectrum of the copper paired wire, such that an end-customer who has a connection to Deutsche Telekom for narrow bandwidth services such as voice telephony could, at the same time and over the same copper paired wire, obtain high-bandwidth services such as Internet access through a competitor. Deutsche Telekom had already publicly declared that it will make line sharing product offerings beginning in November 2001, following the establishment of unified standards for line sharing products as required by the European Commission in a recent regulation relating to unbundled local loop access. For information regarding this regulation of the European Union, see "—The European Union".

### ***Resale***

The Regulatory Authority decided on March 30, 2001 that Deutsche Telekom has an obligation to offer subscriber network services (i.e., subscriber line, local calls and city calls) to one particular service provider for purposes of resale. According to this decision, Deutsche Telekom is obligated to make this offer within a period of three months. In the decision, the Regulatory Authority did not fix a specific price for the offer or resale products, but stated that in general the price has to be lower than the corresponding price for the end-customer product. The Regulatory Authority also stated that resale offers may not prejudice the competitive opportunities of other telecommunications companies. The obligation to offer resale products may have a material adverse effect on the business of Deutsche Telekom. Deutsche Telekom is likely to apply for a preliminary injunction against the implementation of this decision.

In two decisions published in September and November 1999, the Regulatory Authority had decided that regulatory approval is required for Deutsche Telekom's offers of services to service providers that purchase services for purposes of resale. This position relates to offers of local, domestic, and international long-distance calls as well as local access services. Deutsche Telekom has successfully applied for a preliminary injunction against the implementation of these decisions; the decision in the main legal proceeding is still pending. For further information on these legal actions, see "Item 8. Financial Information—Litigation".

### ***Internet Access***

In January 1999, T-Online introduced a change in the pricing of its Internet access products, combining the telephone "dial-in" connection to the Internet with the Internet platform services into one product. In connection with this bundled product, Deutsche Telekom offered access to its telephone network on a wholesale basis. In April 1999, several competitors of T-Online lodged a complaint with the Regulatory Authority alleging

that, in introducing this bundled product, Deutsche Telekom and T-Online had abused their market dominant position. In June 1999, the Regulatory Authority ruled that Deutsche Telekom could no longer offer a special volume discount to T-Online but otherwise rejected the complaints. After two price reductions in 2000 and complaints by competitors, the Regulatory Authority ruled in November 2000 that Deutsche Telekom could no longer offer any volume discounts relating to the wholesale Internet access product. For further information on these proceedings, see “Item 8. Financial Information—Litigation”.

On December 15, 2000, Deutsche Telekom began offering access to its public switched telephone network to Internet platform providers at flat (“unmetered”) rates in response to a decision of the Regulatory Authority of November 15, 2000 requiring Deutsche Telekom to offer such a flat rate product. This offer includes a number of provisions designed to limit network congestion problems that could otherwise be caused by Internet platform providers taking advantage of Deutsche Telekom’s flat rate offer. In March 2001, Deutsche Telekom successfully applied for a preliminary injunction against the obligation to offer a flat rate to Internet platform providers, with the effect that Deutsche Telekom is currently not obliged to offer such a flat rate product. Nevertheless, Deutsche Telekom is still offering unmetered access to its public switched telephone network to Internet platform providers. The Regulatory Authority may, however, require Deutsche Telekom to modify the terms of the offer or to reduce the price at which it offers unmetered access to its public switched telephone network, and either of these requirements could lead to network congestion problems or require additional investments in Deutsche Telekom’s public switched telephone network, or both.

For further information regarding the status of these administrative and legal proceedings, see “Item 8. Financial Information—Litigation”.

In June 1999, the Regulatory Authority ruled that the Internet access charges of T-Online are not subject to price regulation because the dominant feature of online services is not telecommunications, but so-called “tele-services” (*Teledienste*). There are indications, however, that the Regulatory Authority may change its legal approach to regulation of prices for online services in the future.

### **Numbering, Number Portability and Carrier Selection**

Under the Telecommunications Act, the Regulatory Authority is assigned responsibility for developing and administering a national telephone numbering system. Upon application, each telecommunications network operator and service provider is to receive assigned ranges of telephone numbers for use by its customers. The ranges assigned are within existing area codes. Applicants are assessed fees in accordance with the Telecommunications Numbers Fees Ordinance (*Telekommunikationsnummerngebührenverordnung*), which was promulgated in August 1999, but with retroactive effect to August 1, 1996.

Since January 1, 1998, Deutsche Telekom and other telecommunications network operators have been required to allow their customers to pre-select the network operator that is to transmit their calls. In addition, customers are able to override their pre-selected carrier each time they place a call by entering another operator’s numeric prefix before dialing the telephone number they wish to call. Also, since January 1, 1998, Deutsche Telekom and other telecommunications network operators have generally been required to provide number portability. This permits customers to keep their assigned telephone numbers when they choose to change their network operator as long as they do not also change the physical location from which they access the network. Number portability and the provisions on carrier selection allow customers to switch easily among competing carriers.

In February 2001, the Regulatory Authority set the fees Deutsche Telekom is permitted to charge to a customer for carrier-preselection for a second time at a level lower than sought by Deutsche Telekom. According to another decision of the Regulatory Authority, Deutsche Telekom currently is not permitted to charge any fee for implementing number portability requirements. Deutsche Telekom has appealed these decisions.

Under the Telecommunications Act, the Regulatory Authority is authorized to suspend the obligation to provide number portability as long as and insofar as the absence of number portability does not significantly impair competition in individual markets or adversely affect consumers. The Regulatory Authority may also suspend this obligation as long as and in so far as this is justified on technical grounds. The Regulatory Authority decided in April 2000 that the suspension of number portability for mobile network operators would be extended, for the last time, until the end of January 2002. Mobile network operators are required to deliver a

quarterly report to the Regulatory Authority regarding their progress in implementing the technical measures necessary to permit number portability. T-Mobil and D2 Vodafone filed requests for injunctions against this decision of the Regulatory Authority with the Administrative Court in Cologne in May 2000. T-Mobil's request for an injunction against the decision was rejected by the Cologne Administrative Court on April 3, 2001. T-Mobil will appeal against this court decision. For further information, see "Item 8. Financial Information—Litigation". It is uncertain whether or not it will be possible to introduce mobile number portability by the prescribed deadline.

With regard to the obligation to provide carrier selection, the Regulatory Authority takes the view that T-Mobil is not obligated to provide carrier selection for calls within the T-D1 network. In principle, however, this obligation does apply to calls made from the T-D1 network to other networks. The manner in which this obligation is to be implemented remains open.

### **Universal Services**

The Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (referred to as "universal services") throughout Germany. Additional details concerning universal service requirements are provided in the Universal Service Ordinance (*Telekommunikations-Universaldienstleistungsverordnung*) and in the Telecommunications Customer Protection Ordinance (*Telekommunikations-Kundenschutzverordnung*). See "—Customer Protection Ordinance".

The Universal Service Ordinance defines "universal services" to include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at a price determined by the Regulatory Authority to be an "affordable price".

Under the Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4 percent of the product market for such service or a dominant position in the relevant product and geographic market can be required to contribute through payments to the cost of providing such universal service. Contributions are required if the provider of a universal service proves that the long-term additional costs of providing the service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues from providing that service at an "affordable price". Details concerning the manner in which this compensatory system will function remain to be determined.

Under the Universal Service Ordinance, which entered into effect at the beginning of 1998, market dominant providers in the relevant markets may be required to provide universal services. Deutsche Telekom provides customers voice telephony and other universal services within the framework of the law and Deutsche Telekom's General Terms and Conditions. Deutsche Telekom currently provides the universal services specified by the Universal Service Ordinance without compensation. If Deutsche Telekom decides to stop providing any of the services referred to in the Universal Service Ordinance, it must give at least one year's advance notice. Deutsche Telekom expects that it will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services. Accordingly, it may prove difficult for Deutsche Telekom to cease providing universal services in some markets, although Deutsche Telekom may be able to claim special compensation.

If Deutsche Telekom becomes required to offer a universal service, and if the revenues from providing that service are insufficient to cover its additional costs, the compensation granted under the Telecommunications Act may be insufficient to cover the full costs to Deutsche Telekom of providing that service. This results from the fact that Deutsche Telekom, like other licensees, is required to contribute to the cost of providing these services in proportion to its market share.

### **Customer Protection Ordinance**

The Telecommunications Customer Protection Ordinance ("Customer Protection Ordinance"), as currently in effect, covers the special rights and obligations between providers of telecommunications services to the public and their customers, who may be either end customers or competitors to the extent that they have concluded a contract or intend to conclude a contract with the respective telecommunications provider. As a result, nearly all Deutsche Telekom products and services, with only a few exceptions, such as the marketing of telephones, are subject to the provisions of the Customer Protection Ordinance.

Under the provisions of the Customer Protection Ordinance, market-dominant providers must make their services available to everyone on the same terms. Exceptions must be objectively justified. Further, although telecommunications providers generally have some flexibility in determining whether to offer services in “bundles”, the dominant company is required to offer individual services on an unbundled basis when there is a “general demand” for those individual services in the market. This requirement applies to the description of individual services and the relevant service specifications, as well as the billing for such services. Offering individually listed services as a package is, however, still allowed.

In addition, the market-dominant provider must, upon request, eliminate or repair any malfunction immediately, including at night or on Sundays or holidays. Customers can request a free itemized statement of their calls, which must be detailed enough to allow them to check and monitor the accuracy of their bills. In the event that a customer has made no other arrangements with another provider, the customer will receive a combined bill from his local carrier. In such cases, the charges for all calls which the customer has made via other providers must be listed separately. Finally, starting January 1, 2001, telecommunications service providers must ensure that any customer who has set a ceiling for his calling charges does not exceed it. The Customer Protection Ordinance also allows for certain limitations on the liability of telecommunication service providers.

In October 1999, Deutsche Telekom announced that, starting on April 1, 2000, it would no longer provide billing and collection services to its competitors other than services that are mandatory under the Customer Protection Ordinance. In Deutsche Telekom’s view, these mandatory services include billing for competitors and forwarding to competitors any payments made by customers to Deutsche Telekom for calls made via those competitors, but not collection of bills on behalf of competitors. In response to a complaint submitted by a competitor, however, the Regulatory Authority instituted proceedings against Deutsche Telekom in October 1999 alleging that the implementation of Deutsche Telekom’s plans to discontinue the provision of billing and collection services for competitors would constitute an abusive practice. On February 21, 2000, the Regulatory Authority ruled that Deutsche Telekom must continue to offer billing and collection services for dial-up voice telephony, directory inquiry, value-added services and dial-up Internet-by-Call until December 31, 2000 on the same terms and conditions as had previously prevailed. For the period thereafter, new conditions may be agreed upon. The Regulatory Authority also ruled that, not later than June 30, 2000, Deutsche Telekom would be obligated to submit for regulatory approval proposed terms and conditions for the provision of these services after December 31, 2001. Deutsche Telekom has appealed these rulings of the Regulatory Authority to the administrative courts. According to these rulings, however, Deutsche Telekom will no longer be obligated to manage customer complaints, send late payment warnings or enforce late payments on behalf of competitors after January 1, 2001.

### **Billing and Collection**

In August 2000, Deutsche Telekom started to negotiate with competitors on a new contractual basis for the provision of billing and collection services. The negotiations led to an agreement on essential service elements, but they did not lead to an agreement on prices for such services until the Regulatory Authority agreed to mediate the negotiations. The Regulatory Authority announced the mediation results on February 28, 2001, which thereafter were accepted by all parties. The new prices (28 DM for each 1000 delivered data sets and 9 Pfennig for each bill) came into effect on March 1, 2001. The new service offer began to be tested in pilot operations on April 1, 2001 and will be followed by the introduction of standard operations as of July 1, 2001.

### **Use of Public Rights of Way**

Under the pre-Telecommunications Act laws, Deutsche Telekom was entitled to utilize the Federal Republic’s rights of way over public property free of charge. Pursuant to the Telecommunications Act, the Federal Republic’s right to use such rights of way free of charge has been transferred to licensed operators of transmission lines for public telecommunications services. Deutsche Telekom’s right to utilize such rights of way has been carried over under its license. The Telecommunications Act requires that operators of transmission lines obtain the consent of the authority responsible for the maintenance of the relevant public ways before laying new transmission lines or modifying existing transmission lines. Deutsche Telekom has agreed on a cost-saving and delay-avoiding procedure with the federal association of municipal authorities to simplify the process of obtaining the required consent.

Under the Telecommunications Act, if the establishment of new transmission lines by an operator through the use of public rights of way is not feasible or the cost is disproportionately high, an operator of an existing transmission line using those public rights of way may be obligated to grant to the operator of those new transmission lines the joint use of its installations, such as ducts and antenna posts, for adequate compensation, provided no major construction work is required and such joint use is economically feasible.

## **The European Union**

Germany is a Member State of the EU. As such, it is required to enact EU legislation in its domestic law and to take EU legislation into account in applying its domestic law. EU legislation can take a number of forms. Regulations have general application, and are binding in their entirety and directly applicable in all Member States. Directives are binding, but national authorities may choose the form and method of implementation.

The European Commission used its powers under Article 86(3) of the Treaty of Rome to open telecommunications markets in the Member States by issuing directives providing for liberalization, i.e., abolishing monopoly rights of the state-owned telecommunications operators. One of the most important of these directives was the full competition directive issued in March 1996, under which public voice telephony services were liberalized in the majority of the Member States, including Germany, with effect from January 1, 1998. On June 23, 1999, the European Commission adopted a directive (the "Cable Directive") amending Directive 90/388/EEC (the "Services Directive") which deals with the regulation of broadband cable networks. The amendment to the Services Directive requires that the telecommunications activities and broadband cable activities of market-dominant operators be structurally separated, i.e., dominant operators are required at least to set up a separate subsidiary for their broadband cable networks (see "—Description of Business Segments— Broadcasting and Broadband Cable"). The amendment provides for a review after the required structural separation has been accomplished, in any event not later than December 31, 2002. The amendment further provides for a procedure whereby national regulatory authorities may request that the European Commission perform such a review. This review could lead to additional measures by the European Commission, including imposition of divestiture obligations, if it finds that European competition rules are infringed.

The EU has also adopted a number of directives and recommendations regarding open and efficient access to and use of public telecommunications networks and public telecommunications services. These directives and recommendations deal with what is referred to as the ONP (Open Network Provision) requirements, which are intended to harmonize technical interfaces, usage conditions and tariff principles throughout the EU and to ensure objectivity, transparency and non-discrimination in access to and use of public telecommunications networks and public telecommunications services. In January 1999, the European Parliament and Council published a decision on the harmonized introduction of UMTS, the third generation of mobile systems, throughout the European Community. This decision contains provisions for roaming, licensing and frequencies and sets January 1, 2002 as the target date for effective provision of UMTS networks and services.

In July 2000, the European Commission adopted proposals for five directives on the harmonisation of the legal framework as well as a proposal for a regulation on unbundled access to the local loop.

The directives are still under discussion in the co-decision procedure of the European Council and the European Parliament. Deutsche Telekom expects that the European Union will adopt the directives during 2001. Compared to the existing regulatory framework, these new directives could intensify regulation, for example in the mobile communications market, or could extend regulation to the Internet. The adoption of these directives in their current form could, therefore, increase the regulatory burden on Deutsche Telekom.

The regulation on unbundled access to the local loop entered into force in January 2001, containing the new obligations to provide full unbundled access to the copper paired wire and at the same time unbundled access to the high frequency spectrum (line sharing). Deutsche Telekom believes that this regulation leads to over-regulation to the disadvantage of those European Union member states, such as Germany, whose domestic laws already mandate full unbundled access to the local loop.

With regard to the implementation of European legislation, in April and in July 1999, the European Commission alleged in an official notice to the Federal Republic, which represents a first step toward an official infringement proceeding, that the Federal Republic had not sufficiently implemented some aspects of the interconnection directive and the voice telephony directive. With respect to the interconnection directive, the official infringement proceeding was then initiated in November 1999. With respect to the voice telephony directive, no official infringement proceeding has been commenced to date. In both cases, the Commission alleged in particular that the Federal Republic had not sufficiently ensured the use of appropriate cost calculation systems by market-dominant providers. In response, the Regulatory Authority has published guidelines relating to appropriate cost calculation systems. In the proceeding concerning the interconnection directive, the European Union has also alleged that the Federal Republic has not fully implemented a European Union directive requiring that any telecommunications company that has a market share of over 25 percent in a relevant market be considered as having significant market power in that market.

In a further infringement procedure initiated in January 2000, the Commission criticized the level of licensing fees in Germany.

In April 2000, the European Commission alleged in an official notice to the Federal Republic that the Federal Republic had not fully implemented the European Union full competition-directive and the ONP voice telephony directive. This notice alleges that existing tariff approval procedures do not sufficiently ensure cost-based tariffs. In particular, the notice alleges inadequate implementation of re-balancing provisions. Re-balancing means a restructuring of monthly subscriber fees and call tariffs so as to avoid cross-subsidization. To the extent that the Commission finds a violation against European Union law, there is a possibility that the access fee charged to end customers would have to be raised or that fees charged to competitors for local loop access would have to be reduced.

On October 30, 2000, the European Commission commenced against the Federal Republic an infringement proceeding alleging that the Federal Republic has failed to fully implement the European Union interconnection directive with regard to local carrier selection. This could lead the Federal Republic to enact legislation, or could lead the Regulatory Authority to implement regulations, that would expressly mandate carrier pre-selection and call-by-call selection for local calls. If any such legislation or regulation is enacted or implemented, it could have an adverse effect on the business of Deutsche Telekom. In any case the German Economics Ministry has stated to the European Commission that the technical implementation of local carrier selection would require two to three years.

Further directives, recommendations, communications and measures of the EU to harmonize the telecommunications sector in European Union member states are to be expected in future.

### **International Obligations**

Over 70 member countries of the World Trade Organization (“WTO”) representing over 90 percent of the world’s basic telecommunications revenues, including European Union member states and the United States, have entered into the Basic Telecommunications Agreement (“BTA”) to provide market access to some or all of their basic telecommunications services. This agreement took effect on February 5, 1998. The BTA is part of the General Agreement on Trade in Services, which is administered by the WTO. Under the BTA, signatories have made commitments to provide “market access”, under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to provide “national treatment”, under which they are to avoid treating foreign telecommunications service suppliers differently than national service suppliers. In addition, a number of signatories have agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and scarce resources. In complaints filed by one U.S. carrier in February 1999, by two industry groups in January 2000, and by a few carriers as well as an industry group in January 2001, the U.S. Trade Representative has been asked to determine whether certain aspects of the telecommunications regulatory framework in Germany comply with Germany’s obligations under the BTA. On April 2, 2001, the U.S. Trade Representative decided to further monitor main aspects of the interconnection regime, unbundled access to the local loop, flat rate tariffs, licensing fees and transparency of German administrative procedures as stated in its report. The U.S. Trade Representative stated that progress has been made in Germany’s addressing many of the issues focused on in the report.



## **Competition Law**

Deutsche Telekom is subject to German competition law, the competition rules of the EU and the competition laws of the various jurisdictions in which it conducts its business.

The German Act Against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschränkungen*) prohibits the abuse of a market-dominant position as well as the distortion of competition through horizontal agreements or collusive behavior by market participants. Agreements or behavior that impose vertical restraints on competition are generally permitted, but may be prohibited by the cartel authorities if they pose a threat of significant distortion to the relevant market. They are prohibited if they constitute price fixing.

Mergers, including the creation of joint ventures, must be notified to the Federal Cartel Office before they can be executed if the concerned undertakings' turnover reaches a certain threshold but remains below the threshold above which proposed mergers must be notified to the European Commission. The Federal Cartel Office will prohibit mergers if they create or strengthen a market-dominant position. The German cartel authorities are empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action against abuses of a market-dominant position in the telecommunication sector, the Federal Cartel Office must consult with the Regulatory Authority. Market participants damaged by abusive practices on the part of a market-dominant provider may sue for compensation under the Telecommunications Act as well as under the German Act Against Restraints on Competition.

The EU competition rules have the force of law in the Member States and are therefore applicable to Deutsche Telekom's operations in the telecommunications market. The main principles of the EU competition rules are set forth in Articles 81 and 82 of the Treaty of Rome (which were Articles 85 and 86 of that treaty prior to March 7, 1999) and in the European Merger Control Regulation.

Article 81 I of the Treaty of Rome prohibits concerted practices or other agreements between competitors which may affect trade between Member States and which restrict, or are intended to restrict, competition within the EU. Article 82 prohibits any abuse of a market-dominant position within a substantial part of the EU that may affect trade between Member States. These rules are enforced by the European Commission in cooperation with the national competition authorities (i.e., in Germany, the Federal Cartel Office). The Federal Cartel Office may also directly enforce the competition rules of the Treaty of Rome. In addition, the national courts have jurisdiction over alleged violations of EU competition law.

In 1999 and prior years, Deutsche Telekom received numerous requests for information from the European Commission. Through inquiries of this kind, the European Commission monitors the development of competition in the telecommunication markets in all Member States of the European Union. Further investigations and other measures of the European Commission aimed at promoting competition in the European telecommunications sector may be expected. Deutsche Telekom and other telecommunications providers currently are subject to sector-specific inquiries in the fields of local loop unbundling, leased lines and roaming.

The European Merger Control Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting a certain turnover threshold be submitted to the European Commission for review, rather than to national authorities. Concentrations are prohibited if they pose the risk of creating or strengthening a dominant position on a relevant market.

## **Other Regulatory Regimes**

Deutsche Telekom also is subject to the regulatory regimes of other countries where it or its subsidiaries or affiliates are active. To the extent that Deutsche Telekom continues its international expansion, these other regulatory regimes will grow in significance. In some of these countries, the general legal framework and the regulatory framework relating to telecommunications are less well developed than in Western Europe, leading to legal and regulatory uncertainty that could have an impact on the operations of the Deutsche Telekom group in those countries.

Deutsche Telekom so far has acquired UMTS licenses in Great Britain, Germany, Austria and the Netherlands. In each country, different rights and obligations for license holders are recorded in the license conditions. This lack of uniformity is relevant particularly with regard to issues such as roaming, coverage obligations and possibilities for infrastructure sharing. The European Commission recently stated that for each

national regulatory authority it is necessary to take these differences into consideration in order to avoid undue regulatory burdens in different member states. Although Deutsche Telekom expects to be able to comply with all UMTS license conditions, non-compliance could result in additional costs to Deutsche Telekom or in the revocation of licenses.

## DESCRIPTION OF PROPERTY

As of December 31, 2000, Deutsche Telekom's property, plant and equipment had a total book value of EUR 54.1 billion. See note 13 to the consolidated financial statements of Deutsche Telekom.

Approximately 92 percent of the real estate portfolio of the Deutsche Telekom group relates to Deutsche Telekom AG. The real estate portfolio of Deutsche Telekom AG consists on an unconsolidated basis of about 12,000 properties with an aggregate book value at December 31, 2000 of EUR 13.3 billion. The total area of these properties amounts to approximately 58.2 million square meters, of which approximately 48.1 million square meters are developed and approximately 10.1 million square meters are undeveloped. Substantially all of these properties are used for telecommunications installations, research centers, service outlets, computer centers and offices.

Deutsche Telekom AG's real estate portfolio is managed by its wholly owned subsidiary, Deutsche Telekom Immobilien und Service GmbH (DeTeImmobilien). In December 2000, as part of a broader initiative, Deutsche Telekom announced plans to form a joint venture with Corpus Immobiliengruppe and Morgan Stanley Dean Witter to aid in marketing Deutsche Telekom's real estate portfolio.

Due primarily to technological advances, Deutsche Telekom expects that a portion of its owned and leased properties currently used in its business will no longer be required in the future. Over time, this should allow Deutsche Telekom to terminate some existing real property leases and to relocate operations from high-cost urban centers to outlying areas. In view both of this trend and of the desire to monetize non-core assets to support investment in core growth areas and reduce net indebtedness, Deutsche Telekom set course in 2000 on a strategy to accelerate dispositions of its real property. Such dispositions may consist of sales of and terminations of leases for properties no longer needed in the business, or sale-leasebacks or other transactions with respect to properties that continue to be used. The pace and manner of the implementation of this strategy will depend on a number of factors, including prevailing market conditions within Germany, the demand for the types of property Deutsche Telekom has available and the development of the needs within Deutsche Telekom for real property. Deutsche Telekom cannot be certain that the strategy will succeed. In keeping with this strategy, Deutsche Telekom is having a property-by-property valuation of its real property portfolio conducted. Deutsche Telekom expects that this review will not be completed before the fall of 2001.

For a discussion of a special writedown of EUR 2.0 billion in the book value of Deutsche Telekom's real estate portfolio recorded in respect of the fourth quarter of 2000, please refer to "Item 5. Operating and Financial Review and Prospects—Factors Affecting Deutsche Telekom's Business—Real Estate" and to notes 6 and 37 to the consolidated financial statements of Deutsche Telekom.

The headquarters of Deutsche Telekom is located in a leased building in Bonn. Deutsche Telekom also leases a number of other buildings.

In addition to its real estate portfolio, Deutsche Telekom owns numerous telecommunications installations throughout Germany, including exchanges of various sizes, transmission equipment, computer installations, cable networks, base stations for cellular networks and equipment for television and radio broadcasting. The aggregate book value of the Deutsche Telekom group's technical equipment and machinery at December 31, 2000 was EUR 35.5 billion.

The Bonn public prosecutor is conducting an investigation that relates to Deutsche Telekom's real property valuations. Please refer to "Item 8. Financial Information—Litigation" for information on this investigation and related subjects.

## **ITEM 5. Operating and Financial Review and Prospects**

You should read the following discussion in conjunction with the annual consolidated financial statements, including the notes to those financial statements. Those financial statements have been prepared in accordance with the requirements of the German Commercial Code (HGB—German GAAP), which differ in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom and a reconciliation of net income and total shareholders' equity to U.S. GAAP, see “—German GAAP Compared to U.S. GAAP” and note 37 to the consolidated financial statements.

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

### **Introduction**

Revenues increased by EUR 5.5 billion, or 15.4 percent, from 1999 to 2000. Deutsche Telekom's recent domestic and international acquisitions contributed EUR 3.4 billion to the overall increase in revenues. Revenue growth—excluding acquisitions—in mobile communications, carrier services and data communications, which was partially offset by a further decline in network communication revenues, also contributed to overall revenue growth.

Earnings before taxes increased by EUR 3.4 billion, or 115.1 percent, from 1999 to 2000. The sale of non-core assets resulted in gains from sales of assets of EUR 11.0 billion, relating to the sale of shares in Global One, in Wind, the Italian mobile joint venture, the income related effects of public offerings of shares in subsidiaries and related companies and the sale of majority interests in two German regional cable companies. These positive factors were partially offset by a non-scheduled writedown of EUR 2 billion relating to Deutsche Telekom's real estate portfolio, by significantly increased customer acquisition costs (principally mobile handset subsidies and advertising and commissions costs) incurred for rapid expansion of the mobile subscriber base and by losses relating to newly acquired companies. In addition, new transmission technology for the fiber optic network installed during 2000 led to a non-scheduled writedown of EUR 971 million of the old copper-based long-distance cable network.

Deutsche Telekom's cash position increased during 2000 by EUR 128 million. In 2000, Deutsche Telekom's cash used for investing activities reflects increased investments in subsidiaries and other financial assets as well as increased investments in Deutsche Telekom's growth areas, particularly mobile communications. This increase in investing activity was financed principally by cash flows from financing activities, which were derived from an increase in Deutsche Telekom's net debt position and from the initial public offering of T-Online International, and by operating cash flows.

### **Outlook for 2001**

Deutsche Telekom expects that the German economy will grow further in 2001. In the sectors of the German telecommunications market that are relevant for Deutsche Telekom, Deutsche Telekom anticipates a continuation of past trends that involved sustained volume growth and falling price levels. On a sector-by-sector basis, Deutsche Telekom expects that further dynamic growth will take place in 2001 in the markets for mobile telephony and IP/data and online services, while little growth is expected in the market for fixed-line voice telephony services. Deutsche Telekom also expects growth in the market for systems solutions for global customers, particularly with respect to integrated network-based solutions that combine information technology and telecommunications.

The strategies and expectations referred to in this outlook discussion may be strongly influenced or changed by shifts in market conditions, new initiatives undertaken by Deutsche Telekom and other factors. Please refer to “Forward-Looking Statements” for a description of some of the factors relevant to this

discussion and other forward-looking statements in this report. Deutsche Telekom cannot guarantee that the strategies and expectations referred to in this discussion will come to fruition.

### ***Revenues***

In the mobile communications segment, Deutsche Telekom anticipates a high level of revenue in 2001 as a result of the investments in the subscriber base undertaken in 2000 and the launch of new services, principally GPRS services.

In the area of fixed-network voice telephony, Deutsche Telekom expects further declining revenues from call charges in 2001. Deutsche Telekom expects an increase in revenues from access charges, however, due to further growth in ISDN and T-DSL as well as from the development of mobile/fixed convergence products, in particular for residential customers.

In the area of data communications and systems solutions, Deutsche Telekom expects an increase in revenue due to the acquisition of debis Systemhaus, which is expected to lead to opportunities resulting from the convergence of the markets for information technology consulting and telecommunications systems solutions for corporate customers.

Following the sale of the remaining regional cable companies, revenues of these companies will cease to be consolidated in Deutsche Telekom's financial statements.

Overall, Deutsche Telekom expects that, due to the impact of these developments, net revenue in 2001 will be higher than in 2000, despite the loss of cable revenue. Price-related revenue decreases in fixed-network voice telephony in Germany should be more than offset by increases in revenues in the areas of mobile communications, data communications and systems solutions and consumer Internet services, and by international expansion.

### ***Costs***

Deutsche Telekom expects that lower growth rates in the mobile communications market will lead to a reduction in subscriber acquisition costs in its European mobile operations, which will tend to reduce goods and services purchased and commission expenses. The planned acquisition of Voice Stream and Powertel would tend to increase subscriber acquisition costs, however, and goods and services purchased are expected to increase overall.

Personnel costs are expected to increase in 2001 compared with 2000, as a result of the consolidation of newly acquired companies in 2000 and 2001.

Depreciation and amortization for UMTS licenses will be higher in 2001 than 2000, since these costs affected only a part of 2000. Shareholdings acquired in 2000 and the planned acquisition of VoiceStream also will contribute to a substantial increase in depreciation and amortization from 2000 to 2001. Interest expense will also increase due to financing UMTS of licenses acquired in 2000 and of companies acquired in 2000 and 2001. These factors will have a significant negative effect on net income for 2001. In addition, net income for 2001 is expected to be negatively affected by operating losses of VoiceStream and Powertel and may be affected by start-up losses of the German regional cable companies, which will be accounted for at equity to the extent that majority interests are sold.

### ***Other Factors***

Deutsche Telekom expects that the planned sale of Sprint shares and of majority interest in regional cable companies will have a positive effect on net income in 2001. The sale of real estate may contribute positively to cash flows in 2001 and beyond, although the impact on net income of any such sales will depend on the specific properties that are sold. It is not certain, however, that income from these positive factors will suffice to generate net income for 2001 that is at or above the level of net income for 2000.

### **Factors Affecting Deutsche Telekom's Business**

Deutsche Telekom's business has been affected in recent years by a number of important trends. Telephony and data traffic in Germany have been positively influenced by societal and macro-economic factors, such as the globalization of trade and the increasing integration of European markets, a trend toward the decentralization of businesses, the growth of the service sector in Germany and the greater mobility of the

population. The rapidly expanding market for mobile and Internet communications, steady growth in data transmissions and the advent of new technologies are reshaping the business of telecommunications.

### *Network Communications*

One of the most important trends that has affected Deutsche Telekom since the introduction of full competition in January 1998 has been the decline in the percentage of Deutsche Telekom's revenues accounted for by the traditional fixed-network voice telephony business. That business accounted for 36.8 percent of Deutsche Telekom's external revenues in 2000, as compared to 47.2 percent in 1999. This decrease has resulted both from competition within the fixed-network voice telephony business in Germany and from the increasing popularity of mobile telephones.

Competition within the fixed-network voice telephony business, which has been significantly influenced by decisions of the Regulatory Authority, has resulted in loss of market share for Deutsche Telekom. According to an estimate of the Regulatory Authority, Deutsche Telekom had an 77.6 percent share of the overall German telecommunications market in 2000, as measured in terms of minute volume. As a result of declining market share, the number of minutes of traffic carried on Deutsche Telekom's fixed network that gave rise to revenues shown under network communications increased only slightly from 1999 to 2000, despite a higher rate of growth in the overall market.

Deutsche Telekom as yet has not lost significant market share in the local voice telephony market. Deutsche Telekom is required, however, to provide competitors with unbundled access to its subscriber access lines, and the Regulatory Authority has set a monthly tariff for this unbundled access that is substantially lower than Deutsche Telekom had sought in its tariff application. In addition, as described in "Item 4. Information on the Company—Regulation", the European Union and the Regulatory Authority have instituted requirements for further unbundling of the local loop, and the Regulatory Authority has publicly stated that it will focus on promoting greater competition in the local loop. Due to these and other regulatory developments, Deutsche Telekom expects that it will face increasing competition on the local network level in the future.

Competition within the German fixed-line voice telephony market has also led to sharply declining tariffs. During the past three years, Deutsche Telekom has introduced several tariff reductions to address competitive challenges and, in some instances, to meet regulatory requirements imposed by the price cap regime applicable to the tariffs for Deutsche Telekom's public fixed-line voice telephony services.

Deutsche Telekom's competitors in this area include international telecommunications carriers and start-up domestic companies, as well as industrial conglomerates, utility companies and municipal enterprises that have diversified into telecommunications. As in 1999, in 2000, Deutsche Telekom's competitors continued to place particular emphasis on price competition in the area of long-distance and international calls. On the basis of interconnection rates fixed by the Regulatory Authority, numerous competitors are able to compete with Deutsche Telekom with minimal or modest investments in network infrastructure and with prices that often undercut Deutsche Telekom's pricing. The decision by the Regulatory Authority to further reduce interconnection rates for 2000 led to intensified competition in this area. For further information concerning interconnection rates, see "Item 4. Information on the Company—Regulation—Special Network Access and Interconnection".

Due to declining tariffs for mobile voice telephony services in Germany, which have both resulted from and contributed to increased demand for mobile telephony services, mobile phones increasingly compete with Deutsche Telekom's traditional fixed-network voice telephony business, particularly in the market for local calls.

### *Regulation*

Deutsche Telekom's business has been and continues to be strongly influenced by the regulatory regime applicable to telecommunications service providers in Germany. Deutsche Telekom is viewed by the Regulatory Authority as dominant in markets that form a significant part of Deutsche Telekom's business, including the market for voice telephony services. As such, Deutsche Telekom is subject to regulation requirements in various aspects of its business that include the obligation to submit tariffs charged for various services to the Regulatory Authority for approval and universal service obligations in some areas. For a full description of the regulatory regime to which Deutsche Telekom is subject, see "Item 4. Information on the Company—Regulation."

### ***Internationalization / Acquisitions***

To an increasing extent, competition in the telecommunications industry is taking place on an international level rather than on a national level as in the past. This is true in particular with respect to the data communications, mobile communications and online business areas. As a result, Deutsche Telekom has aggressively expanded its international presence and may continue to do so selectively. For further information on the expansion of Deutsche Telekom's international business, see "Item 4. Information on the Company—International" and the information incorporated by reference into "Item 3. Key Information."

### ***Technology***

In the longer term, rapid technological changes in telecommunications and information technology will continue to have a profound effect on the way Deutsche Telekom does business and give rise to new competitive challenges since the traditional businesses of telecommunications, information technology, media, entertainment and security are increasingly converging. Technological advances have increased the capacity and bandwidth of telecommunications networks and led to the rise of a number of alternatives to fixed network transmission. Multiple forms of mobile communications, broadband cable and wireless transmission and Internet technology and their declining costs are increasing the sources of competition faced by Deutsche Telekom's traditional business, although they also open new opportunities arising from the convergence of information and communications technologies.

### ***Real Estate***

Deutsche Telekom is pursuing a strategy of reducing its holdings of assets that are outside the scope of its core activities. Although Deutsche Telekom makes extensive use of real property in the operation of its business, Deutsche Telekom does not view the ownership and management of real estate as one of its core activities. Accordingly, Deutsche Telekom is moving to reduce its real property holdings. In this regard, Deutsche Telekom is conducting a property-by-property examination and valuation of its real property holdings within Germany, which it expects to complete not earlier than the fall of 2001. Based on presently available information, Deutsche Telekom believes that the level of the special writedown described below and its current provisions for risks related to real estate are appropriate. For additional information concerning Deutsche Telekom's real estate strategies, please refer to "Item 4. Information on the Company—Description of Properties".

Deutsche Telekom recorded in respect of the fourth quarter of 2000 an unscheduled writedown of EUR 2.0 billion in respect of the book value of land in its real estate portfolio, which together with scheduled depreciation gave Deutsche Telekom at December 31, 2000 real estate with an aggregate book value on a consolidated basis of EUR 14.4 billion. The special writedown had the effect on a German GAAP basis of reducing the after tax net income that Deutsche Telekom would otherwise have achieved for the year by EUR 1.5 billion. The special writedown had no effect on U.S. GAAP net income or shareholders' equity for the year. Please refer to notes 6 and 37 to the Consolidated Financial Statements of Deutsche Telekom for further information concerning the special writedown.

Deutsche Telekom's real estate was recorded in the opening balance sheet at January 1, 1995 at fair market value as described in the notes to the Consolidated Financial Statements under "Summary of accounting policies—Accounting and valuation". At December 31, 2000, Deutsche Telekom had established reserves of EUR 508 million for risks related to real estate.

In view of the size of Deutsche Telekom's real estate portfolio and the company's focus on accelerated dispositions, the development of the German real estate market, as influenced by economic growth expectations and prevailing interest rate levels, over the next few years will be among a number of significant factors that may affect the financial position and results of operation of Deutsche Telekom.

### ***Investment in UMTS Licenses***

Deutsche Telekom has made substantial investments in UMTS licenses and expects to make substantial investments in UMTS networks. The economic success of these investments will depend upon the availability of services based on UMTS technology that will be attractive enough to customers to generate sufficient traffic volume and sufficiently high prices. The level of demand for such UMTS services that will prevail in the future is unknown, however, and may not justify the cost of providing UMTS services, which include the costs to Deutsche Telekom of acquiring UMTS licenses and constructing, maintaining and upgrading its UMTS networks.

## Consolidated Results of Operations

The following is a discussion of material developments within the line items that make up Deutsche Telekom's profit and loss statement:

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2000                    | 1999          | 1998          |
|  | (millions of euro)      |               |               |
| Net revenue . . . . .  | 40,939                  | 35,470        | 35,144        |
| Changes in inventories and other own capitalized costs . . . . . | 864                     | 947           | 990           |
| <b>Total operating performance . . . . .</b>                     | <b>41,803</b>           | <b>36,417</b> | <b>36,134</b> |
| Other operating income . . . . .                                 | 11,002                  | 1,871         | 2,069         |
| Goods and services purchased . . . . .                           | (11,950)                | (7,667)       | (5,540)       |
| Personnel costs . . . . .  | (9,718)                 | (9,210)       | (9,170)       |
| Depreciation and amortization . . . . .                          | (12,991)                | (8,466)       | (9,037)       |
| Other operating expenses . . . . .                               | (10,424)                | (6,872)       | (6,068)       |
| Financial income (expense), net . . . . .                        | (1,230)                 | (2,889)       | (3,288)       |
| <b>Results from ordinary business activities . . . . .</b>       | <b>6,492</b>            | <b>3,184</b>  | <b>5,100</b>  |
| Extraordinary income . . . . .                                   | (159)                   | (240)         | —             |
| Taxes . . . . .  | (318)                   | (1,420)       | (2,654)       |
| <b>Income after taxes . . . . .</b>                              | <b>6,015</b>            | <b>1,524</b>  | <b>2,446</b>  |
| (Income) losses applicable to minority shareholders . . . . .    | (89)                    | (271)         | (203)         |
| <b>Net income . . . . .</b>                                      | <b>5,926</b>            | <b>1,253</b>  | <b>2,243</b>  |
| <b>Earnings per share in € . . . . .</b>                         | <b>1.96</b>             | <b>0.43</b>   | <b>0.82</b>   |

### Net Revenues

Net revenues of Deutsche Telekom increased by EUR 5.5 billion (or 15.4 percent) from 1999 to 2000, both through organic growth and due to acquisitions. Acquisitions accounted for 62.6 percent of the increase in revenues. Revenues excluding the impact of these acquisitions increased by EUR 2.0 billion, which represents an increase of 5.7 percent compared to revenues for 1999. Network communications revenues decreased by EUR 1.7 billion from 1999 to 2000, again due to intense competition for regional, long distance and international calls, these being partially offset by higher revenues from ISDN access lines. For the first time since the liberalization of the telecommunications market in Germany, however, revenue increases (excluding acquisitions) in the areas of mobile communications, carrier services, international, data communications and other services significantly offset the reduction in revenues in network communications. For further information in this regard, see “—Segment Analysis”.

Revenues remained essentially constant from 1998 to 1999. 1999 was characterized by intense competition in the fixed telephony business area, principally on the basis of price, for regional, long distance and international calls. Revenues of the network communications business area declined by 18.5 percent from 1998 to 1999, despite growth in access revenues and growth in revenues from calls to mobile networks and other services. However, revenue growth in the areas of data communications, carrier services and mobile network communications including the impact of companies being then newly consolidated, as well as an increasing revenue contribution by T-Online, offset the decline in consolidated revenues from telephone network communications.

### Changes in Inventories and Other Own Capitalized Costs

Deutsche Telekom's statement of income is prepared on the total-cost basis typically used in Germany. Cost line items in Germany typically include all costs incurred during the year. Total costs, however, often include expense items that are capitalized either in inventories (mainly cost of goods purchased, but not yet used) or as part of other assets (mainly personnel cost or interest relating to construction in progress). To reflect this fact and to permit the presentation of an income statement bottom line that does not include capitalized costs, the total-cost approach uses the adjusting line item “Changes in Inventories and Other Own Capitalized Costs”.

Changes in inventories and other own capitalized costs decreased by EUR 83 million, or 8.8 percent, from 1999 to 2000. Inventories of finished products and work in process decreased by EUR 55 million, reflecting a mixture of offsetting effects in various companies of the group. Own capitalized costs decreased EUR 28 million, as the impact of recent acquisitions was offset almost entirely by a decrease in own capitalized cost of other parts of Deutsche Telekom AG's business.

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

### ***Other Operating Income***

Other operating income consists of tax refunds, reversals of allowances and accruals, cost reimbursements, gains from sales of assets, foreign currency gains and other miscellaneous items.

Other operating income is affected by a range of factors that had significant impact on Deutsche Telekom's net income for the year 2000. Other operating income increased by EUR 9.1 billion, or 488.0 percent, from 1999 to 2000. Of this increase, EUR 2.9 billion relate to the sale of Deutsche Telekom's share in Global One in the first quarter of 2000 and EUR 2.7 billion to proceeds from T-Online's initial public offering in April 2000 that were accounted for as a capital gain under German GAAP. A further EUR 230 million is attributable to the income-related effects of the stock market flotations of associated companies, principally MTS and comdirect. The proceeds from the sale of Deutsche Telekom's shareholdings in the regional cable companies in North-Rhine Westphalia and Hesse contributed EUR 3.0 billion to the increase in other operating income. Excluding these effects, other operating income increased EUR 416 million, or 22.2 percent, of which EUR 204 million are due to the effects of the change in the composition of the group. An increase in other operating income from foreign currency gains and other income was offset by reduced value added tax refunds and reduced income from the national roaming agreement between T-Mobil and VIAG Interkom.

Pursuant to the Value-Added Tax Act (*Umsatzsteuergesetz*), Deutsche Telekom is entitled to recover a portion of the VAT incurred on assets purchased and placed into service before January 1, 1996, the date on which Deutsche Telekom became fully subject to VAT. Deutsche Telekom expects to reclaim a total of approximately EUR 2.7 billion over 10 years (from 1996 onwards), including the EUR 2.6 billion reclaimed since 1996. The refund amounted to EUR 169 million in 2000 and EUR 379 million in 1999.

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

### ***Goods and Services Purchased***

The following table presents information concerning goods and services purchased.

|   | Year ended<br>December 31, |              |              | Year ended<br>December 31, |             |
|---|----------------------------|--------------|--------------|----------------------------|-------------|
|   | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998   |
|   | (millions of euro)         |              |              | (% change)                 |             |
| Goods purchased . . . . .                           | 4,075                      | 2,625        | 1,571        | 55.2                       | 67.1        |
| Services purchased                                  |                            |              |              |                            |             |
| Domestic network access charges . . . . .           | 1,985                      | 1,585        | 968          | 25.2                       | 63.7        |
| International network access charges . . . . .      | 2,819                      | 1,626        | 1,408        | 73.4                       | 15.5        |
| Total network access charges . . . . .              | 4,804                      | 3,211        | 2,376        | 49.6                       | 35.1        |
| Other services purchased . . . . .                  | 3,071                      | 1,831        | 1,593        | 67.7                       | 14.9        |
| Total Services purchased . . . . .                  | 7,875                      | 5,042        | 3,969        | 56.2                       | 27.0        |
| <b>Total goods and services purchased . . . . .</b> | <b>11,950</b>              | <b>7,667</b> | <b>5,540</b> | <b>55.9</b>                | <b>38.4</b> |



Goods purchased increased from 1999 to 2000 primarily as a result of the acquisition of new subsidiaries and of increased purchases of mobile handsets for resale. Taken together with One 2 One, which was included in Deutsche Telekom's accounts for four quarters in 2000 but only for one quarter in 1999, Deutsche Telekom's acquisitions of debis Systemhaus and Slovenské Telekomunikácie in 2000 contributed approximately 47 percent to the increase in goods purchased. Excluding the effects of the new acquisitions, the increase in goods purchased resulted primarily from an increase in the number of mobile handsets purchased which were used as part of package offers for new subscribers in Deutsche Telekom's existing mobile businesses. The increase in goods purchased of EUR 1.1 billion from 1998 to 1999 resulted primarily from the consolidation of max.mobil. starting January 1, 1999 and One 2 One starting October 1, 1999 and from increased purchases of mobile handsets for resale.

Domestic network access charges arise from calls that are either initiated by Deutsche Telekom's customers or routed through Deutsche Telekom's network and that are terminated in the networks of other fixed and mobile network operators in Germany. An increase in the volume of these types of calls led to an increase of EUR 400 million, or 25.2 percent, in domestic network access charges from 1999 to 2000 and an increase of 63.7 percent from 1998 to 1999.

International network access charges increased from 1999 to 2000 primarily due to the impact of newly consolidated companies, principally One 2 One and Siris, and the effect of increasing number of minutes of outgoing international traffic from Deutsche Telekom's mobile and fixed networks, which resulted in significantly higher network access charges. These factors were offset, to some degree, by a decline in international settlement rates. The increase of EUR 218 million in international network access charges from 1998 to 1999 was primarily due to increased roaming charges for calls made by mobile phone subscribers of T-Mobil, max.mobil. and MATÁV to foreign telephone network operators.

Other services purchased consist of maintenance expenses for telecommunications hardware and software and for building, other maintenance expenses, energy and utility costs and costs for information services provided. The increase in other services purchased from 1999 to 2000 relates primarily to increased services purchased for value added services, the impact of new acquisitions and services purchased in relation to a real estate development project.

Increased expenses for information services provided accounted for most of the 14.9 percent increase in other services purchased from 1998 to 1999. A corresponding increase in revenues from information services was recorded as revenues of the "value added services" business area. Maintenance expenses also increased from 1998 to 1999 largely due to preparations for year 2000 risks.

### ***Personnel Costs***

The following table presents information concerning Deutsche Telekom's personnel costs.

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |            |
|--|----------------------------|--------------|--------------|----------------------------|------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998  |
|  | (millions of euro)         |              |              | (% change)                 |            |
| Wages and salaries . . . . .           | 7,470                      | 6,520        | 6,477        | 14.6                       | 0.7        |
| Other personnel costs(1) . . . . .     | 2,248                      | 2,690        | 2,693        | (16.4)                     | (0.1)      |
| <b>Total personnel costs . . . . .</b> | <b>9,718</b>               | <b>9,210</b> | <b>9,170</b> | <b>5.5</b>                 | <b>0.4</b> |

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

For several years, Deutsche Telekom has been engaged in a workforce reduction program, which resulted in a decline in the number of employees in each of the last three years. Having reached, in early 2000, the goal of its workforce reduction program announced in 1996, Deutsche Telekom currently does not have a formal program to further reduce the number of employees. In 2000, the average number of full-time equivalent employees increased from 198,006 to 205,032, an increase of 3.5 percent, primarily reflecting the companies that were consolidated for the first time in 2000. Excluding these companies the average number of employees decreased by 4.6 percent due to an ongoing reduction in employee headcount at Deutsche Telekom AG.

The average number of employees in the consolidated Deutsche Telekom group as a whole decreased to 204,360 in 1999 from 209,539 in 1998, largely as a result of the personnel reductions at Deutsche Telekom AG, despite the effect of the first consolidation of max.mobil. and One 2 One.

Personnel cost of Deutsche Telekom increased by 5.5 percent to EUR 9.7 billion from 1999 to 2000, as an increase in wages and salaries was partially offset by a decrease in other personnel cost. The increase in wages and salaries is partly due to the change in the composition of the group and partly due to increases in wages, primarily caused by an increase in wages and salaries under collective bargaining agreements in Germany and a change in the remuneration system. The increase in the number of employees in Deutsche Telekom's subsidiaries T-Mobil and DeTeCSM contributed to the overall increase in personnel costs. The decline in other personnel cost is mainly attributable to a decrease of EUR 588 million in contributions to civil servant pensions, as described below.

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

Under the law governing the privatization of Deutsche Telekom, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund pension obligations to its civil servant employees. Through the end of 1999, Deutsche Telekom's annual contributions amounted to approximately EUR 1.5 billion. Beginning in the year 2000, however, Deutsche Telekom is obligated to make annual contributions equal to 33 percent of the salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave). This led to a reduction of EUR 588 million in contributions to the pension fund from 1999 to 2000. No further significant reductions in contributions to the pension fund are expected in the future. For further information in this regard, see "Item 6. Directors, Senior Management and Employees—Employees—Civil Servants".

### ***Depreciation and Amortization***

The following table presents information concerning depreciation and amortization.

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |              |
|--|----------------------------|--------------|--------------|----------------------------|--------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998    |
|  | (millions of euro)         |              |              | (% change)                 |              |
| UMTS license amortization . . . . .  | 381                        | 0            | 0            | n/a                        | n/a          |
| Goodwill amortization . . . . .  | 1,247                      | 300          | 25           | 315.7                      | 1100.0       |
| Depreciation and amortization on remaining fixed and intangible assets . . . . . | 11,363                     | 8,166        | 9,012        | 39.2                       | (9.4)        |
| <b>Depreciation and amortization . . . . .</b>                                   | <b>12,991</b>              | <b>8,466</b> | <b>9,037</b> | <b>53.4</b>                | <b>(6.3)</b> |

Depreciation and amortization in 2000 was significantly influenced by several major factors. First, UMTS license amortization commenced in 2000 for the first time, relating primarily to licenses in the United Kingdom and Germany. As these licenses were acquired during the year 2000, amortization relating to these licenses will be significantly higher in 2001 than in 2000. Second, Deutsche Telekom's acquisitions during 1999 and 2000 gave rise to considerable goodwill, which contributed EUR 0.9 billion to the increase in goodwill amortization. Goodwill primarily resulted from the acquisitions of One 2 One, max.mobil., debis Systemhaus and from the acquisition of Ameritech's interest in MATÁV. As several of these acquisitions took place in the second half of 2000, goodwill amortization arising from these transactions will be higher in 2001 than in 2000. The third major factor that influenced depreciation and amortization was non-scheduled depreciation of the old network components (EUR 971 million) due to the introduction of advanced fiber optic transmission technology in parts

of Deutsche Telekom's fixed network. In addition, Deutsche Telekom took an unscheduled writedown of EUR 2 billion with respect to its real estate portfolio. For further information in this regard, see notes 6 and 37 to the consolidated financial statements. The remaining increase in depreciation and amortization is primarily related to depreciation and amortization of the assets of newly acquired companies (other than goodwill and UMTS license amortization of those companies). Excluding these factors, depreciation and amortization in 2000 remained relatively constant compared to 1999.

Depreciation and amortization decreased by EUR 571 million from 1998 to 1999, largely due to an extension of the depreciation periods of outside plant network that resulted from a new estimate of the physical and economic useful life of the equipment. This extension gave rise to a decrease in depreciation of EUR 0.8 billion from 1998 to 1999. The effect of this extension was partially offset, however, by the consolidation of max.mobil. and One 2 One for the first time in 1999, which resulted in an increase of EUR 0.4 billion in depreciation and amortization, particularly amortization of goodwill.

Substantial investments in mobile communications networks that are planned for the coming years will tend to increase depreciation. Assuming completion of the VoiceStream and Powertel acquisitions, goodwill amortization relating to these acquisitions will be very substantial. This goodwill will be denominated in U.S. dollars and therefore will be affected by exchange rate movements. One 2 One goodwill amortization is denominated in Pounds Sterling and therefore is affected by exchange rate movements. The implementation of Deutsche Telekom's internationalization strategy could result in further increases in goodwill amortization in 2001 and future years. For further information in this regard, see "Item 4. Information on the Company—International."

### ***Other Operating Expenses***

Other operating expenses consist of expenses occurred in the ordinary course of business that cannot be subsumed in any other line item in the income statement.

Other operating expenses increased by 51.7 percent from 1999 to 2000. The impact of recent acquisitions amounts to EUR 1.4 billion and relates primarily to One 2 One, debis Systemhaus and Slovenské Telekomunikácié. Of the remaining increase in other operating expenses, an increase in marketing and commission costs (other than marketing and commission costs of newly acquired companies) accounts for almost EUR 756 million and is primarily a result of Deutsche Telekom's efforts to increase its mobile communications subscriber base. In addition, other operating expenses in 2000 included factors that had no effect on expenses in 1999. These factors were principally additional losses on disposal of assets (EUR 0.5 billion) of which EUR 0.1 billion relate to the deconsolidation of Eurobell, an increase of EUR 0.4 billion in additions to accruals, relating mainly to real estate and legal proceedings, and increased provisions for doubtful accounts in the amount of EUR 0.2 billion. The remaining increase relates to increased rental and leasing expenses, higher other personnel costs and increased maintenance costs.

Other operating expenses increased by 13.2 percent from 1998 to 1999, primarily as a result of increases in marketing expenses, commissions and legal and consulting fees. These increases can be attributed to marketing expenses of max.mobil. and One 2 One, which were consolidated for the first time in 1999, and to increased costs incurred to promote T-D1 products. Other cost items declined from 1998 to 1999, including losses on the disposition of non-current assets and losses on accounts receivable and provisions for doubtful accounts, largely as a result of unusually high costs in 1998.

Recent press reports indicate that certain fixed-network competitors of Deutsche Telekom that make use of Deutsche Telekom's fixed network have become or may become insolvent. Insolvency of these operators could lead to valuation adjustments relating to receivables from these operators.

### ***Financial Income (Expense), Net***

The following table presents information concerning Deutsche Telekom's net financial expense.

|  | Year ended<br>December 31, |                |                | Year ended<br>December 31, |             |
|--|----------------------------|----------------|----------------|----------------------------|-------------|
|  | 2000                       | 1999           | 1998           | 2000/1999                  | 1999/1998   |
|  | (millions of euro)         |                |                | (% change)                 |             |
| Results related to companies accounted for under the equity method . . . . . | 1,890                      | (265)          | (382)          | n/a                        | 30.6        |
| Other investments . . . . .  | (23)                       | (78)           | 56             | 70.5                       | n/a         |
| Income (loss) from financial activities . . . . .                            | 1,867                      | (343)          | (326)          | n/a                        | (5.2)       |
| Net interest expense . . . . .   | (3,097)                    | (2,546)        | (2,962)        | (21.6)                     | 14.0        |
| <b>Financial income (expense), net . . . . .</b>                             | <b>(1,230)</b>             | <b>(2,889)</b> | <b>(3,288)</b> | <b>57.4</b>                | <b>12.1</b> |

*Net Interest Expense.* Deutsche Telekom's net indebtedness increased during 2000 by EUR 18.0 billion to EUR 60.4 billion at year end 2000 after having increased by EUR 2.4 billion during 1999. This increase in net indebtedness resulted in an increase of EUR 0.6 billion in net interest expense from 1999 to 2000. The increase in interest expense was, to some extent, offset by increased interest income and income from debt securities and long-term loan receivables, primarily due to gains from specialized security funds. Net interest expense decreased from 1998 to 1999, primarily due to a decrease in average net indebtedness. Due to the substantially increased debt level, it is likely that net interest expense in 2001 will be significantly higher than in 2000, as a substantial part of the increase in debt level in 2000 took place in the second half of 2000.

The effective weighted average interest rate applicable to Deutsche Telekom's bonds was 6.5 percent in 2000, 7.5 percent in 1999 and 7.6 percent in 1998. The interest rate on a portion of Deutsche Telekom's financing liabilities will step up in the event of certain ratings downgrades.

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

Results related to companies accounted for under the equity method increased from 1999 to 2000. This is mainly due to the gain from the sale of Deutsche Telekom's shares in the Italian joint venture Wind (EUR 2.3 billion). This effect was offset to some extent by losses of associated companies, relating primarily to Deutsche Telekom's share of the results of the two broadband cable companies in North-Rhine Westphalia and Hesse and to Deutsche Telekom's Asian subsidiaries. Deutsche Telekom started accounting for these two regional cable companies using the at equity method on July 1, 2000.

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

### ***Results from Ordinary Business Activities***

Results from ordinary business activities increased by EUR 3.3 billion from 1999 to 2000. Results from ordinary business activities are influenced by all factors described in the discussion of the line items of the income statement above. The major factors contributing to the change in results from ordinary business activities were the impact on results of losses of newly consolidated companies (EUR 1.8 billion), the positive effects from the sale of shares in Global One, regional cable companies and Wind and the capital gains from the sale of shares in subsidiaries (T-Online and others), the effects on costs of the non-scheduled writedown of the book values of real property, the non-scheduled write down of long-distance cables and other unusual effects described above under "other operating income". The remaining change in results from ordinary business activities results from increased revenues (excluding revenues of newly acquired companies), primarily from mobile communications, carrier services and data communications and higher costs relating primarily to higher customer acquisition costs for Deutsche Telekom's T-D1 service and higher national and international interconnection costs, primarily due to an increase in volume.

Results from ordinary business activities decreased by EUR 1.9 billion from 1998 to 1999. A change in the composition of the consolidated Deutsche Telekom group from 1998 to 1999 (mainly One 2 One and

max.mobil.) contributed EUR 475 million to the decrease in results from ordinary business activities. The remaining decrease of EUR 1.4 billion (excluding the impact of changes in the composition of the group) is due to the factors described above, principally a decrease in revenues, mainly attributable to network communications, an increase in goods and services purchased, mainly attributable to increased domestic interconnection cost and increased mobile handset purchases, a decrease in depreciation, relating primarily to the extension of the depreciable life of certain assets, and a decrease in interest expense, which is due to a decrease in average indebtedness in 1999.

### **Taxes**

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

|                        | Year ended<br>December 31, |                     |                     |
|------------------------|----------------------------|---------------------|---------------------|
|                        | <u>2000</u>                | <u>1999</u>         | <u>1998</u>         |
|                        | (millions of euro)         |                     |                     |
| Income taxes . . . . . | 194                        | 1,380               | 2,477               |
| Other taxes . . . . .  | 124                        | 40                  | 177                 |
| <b>Taxes</b> . . . . . | <b><u>318</u></b>          | <b><u>1,420</u></b> | <b><u>2,654</u></b> |

Income taxes decreased from 1999 to 2000, despite increased income before taxes. This is mainly due to differences in accounting and valuation for financial reporting purposes and for tax purposes. For tax purposes, a substantial part of Deutsche Telekom's income in 2000 consisted of gains that are not taxable, including the proceeds from the sale of Global One, the income related effects of the public offering of shares in T-Online International and the gains from the sale of Deutsche Telekom's stake in Wind. The increase in other taxes is primarily related to a one-time effect in 1999, described below. Deutsche Telekom treated its unscheduled writedown of the book values of real estate in 2000 as a tax deduction in calculating its tax expense for that year. Deutsche Telekom currently is engaged in discussions with the tax authorities regarding the tax treatment of this writedown.

The decrease in income taxes from 1998 to 1999 correlated with the decrease in income before taxes. The decrease in other taxes from 1998 to 1999 resulted primarily from a refund of wage taxes withheld in a prior period and a reversal of an accrual for value-added tax, which were partially offset by the establishment of an accrual for withholding tax on wages.

Deutsche Telekom's effective income tax rate (income taxes as a percentage of pre-tax income) was approximately 3.1 percent in 2000, 47.5 percent in 1999 and 50.3 percent in 1998. The statutory income tax rate for Deutsche Telekom was approximately 52 percent in 2000 and 1999 and 57 percent in 1998 and includes corporate income taxes (assuming that earnings are not distributed), trade income taxes (at a German national average rate) and the solidarity surcharge on corporate income tax (*Solidarit tszuschlag*). Due to a change in income tax law in Germany, which will reduce the group's statutory corporate tax rate to a uniform 25 percent tax rate (for both distributed and non-distributed earnings), Deutsche Telekom's income tax rate for 2001 will be significantly lower than in prior years. The change in the statutory income tax for future years affected the rate used to calculate deferred taxes. This rate has been set at 39 percent for 2000 and 52 percent for 1999. This change in the deferred tax rate resulted in a one-time tax charge of EUR 188 million. The differences between the statutory rate and the effective tax rate in 1999 and in 1998 relate primarily to the lower income tax rate of 30 percent on the proposed dividend of EUR 1.9 billion for 1999 and the dividend of EUR 1.7 billion for 1998, differentials of tax rates on income taxable outside of Germany and temporary differences and losses for which deferred taxes are not recorded under German GAAP.

## Segment Analysis

The following table presents total revenues (the sum of external revenues and revenues between segments) and income before taxes for Deutsche Telekom's segments for the periods indicated.

|                                  | Total Revenues<br>Year ended December 31, |               |               | Income before taxes<br>Year ended December 31, |              |              |
|----------------------------------|---|---------------|---------------|--|--------------|--------------|
|                                  | 2000                                      | 1999          | 1998          | 2000   | 1999         | 1998         |
|                                  | (millions of euro)                        |               |               | (millions of euro)                             |              |              |
| Network communications           | 15,894                                    | 17,606        | 21,618        | 626  | 2,276        | 4,796        |
| Carrier services                 | 5,266                                     | 3,561         | 2,182         | 392  | 440          | 589          |
| Data communication               | 4,385                                     | 3,567         | 3,410         | 269  | 104          | (61)         |
| Mobile communications            | 10,613                                    | 6,475         | 3,995         | (2,329)  | 253          | 137          |
| Broadcasting and broadband cable | 1,895                                     | 2,114         | 1,897         | 2,647  | (85)         | (329)        |
| Terminal equipment               | 1,335                                     | 1,435         | 1,603         | 58   | 19           | (114)        |
| Value-added services             | 2,282                                     | 2,249         | 2,286         | 42   | (152)        | (182)        |
| Other segments                   | 5,026                                     | 3,167         | 1,853         | 6,930  | (277)        | 38           |
| International                    | 2,078                                     | 1,521         | 1,334         | (29)   | 309          | 201          |
| Reconciliation                   | (7,835)                                   | (6,225)       | (5,034)       | (2,273)  | 57           | 25           |
| <b>Total</b>                     | <b>40,939</b>                             | <b>35,470</b> | <b>35,144</b> | <b>6,333</b>                                   | <b>2,944</b> | <b>5,100</b> |

### Network Communications

Domestic and international public fixed network voice telephony, which was opened to full competition on January 1, 1998, continued to be Deutsche Telekom's most significant service in 2000 in terms of contribution to consolidated revenues.

The following table presents financial information concerning the network communications segment.

|                            | Year ended<br>December 31, |               |               | Year ended<br>December 31, |               |
|----------------------------|----------------------------|---------------|---------------|----------------------------|---------------|
|                            | 2000                       | 1999          | 1998          | 2000/1999                  | 1999/1998     |
|                            | (millions of euro)         |               |               | (% change)                 |               |
| External revenues          | 15,051                     | 16,737        | 20,531        | (10.1)                     | (18.5)        |
| Revenues between segments  | 843                        | 869           | 1,087         | (3.0)                      | (20.1)        |
| <b>Total revenues</b>      | <b>15,894</b>              | <b>17,606</b> | <b>21,618</b> | <b>(9.7)</b>               | <b>(18.6)</b> |
| <b>Income before Taxes</b> | <b>626</b>                 | <b>2,276</b>  | <b>4,796</b>  | <b>(72.4)</b>              | <b>(52.5)</b> |

### Revenues

Revenues from network communications consist of revenues from domestic telephone communications and from international telephone communications. Domestic telephone communications revenues include initial connection fees and monthly rental charges as well as call charges. Call charges originate from local, regional and domestic long-distance calls, calls to mobile networks and calls to Internet service providers, other than T-Online. Revenues from calls made to T-Online on or after April 1, 1999 in connection with most tariff packages of T-Online are reflected under "other services." International telephone communications revenues consist of call charges that originate from international long-distance calls.

Revenues between segments result primarily from the provision of services to other segments, in particular from providing to Deutsche Telekom's fixed network subscribers access to online services. These revenues are essentially matched by corresponding costs of providing these services.

The following table presents information concerning external revenues from network communications services.

|  | Year ended<br>December 31, |               |               | Year ended<br>December 31, |               |
|--|----------------------------|---------------|---------------|----------------------------|---------------|
|  | 2000                       | 1999          | 1998          | 2000/1999                  | 1999/1998     |
|  | (millions of euro)         |               |               | (% change)                 |               |
| Initial connection fees, access charges and other network services | 6,499                      | 6,333         | 6,136         | 2.6                        | 3.2           |
| Call charges   |                            |               |               |                            |               |
| Local calls  | 3,494                      | 4,058         | 4,271         | (13.9)                     | (5.0)         |
| Domestic long distance calls                                       | 2,251                      | 2,988         | 6,372         | (24.7)                     | (53.1)        |
| International telephone communications                             | 840                        | 1,405         | 2,083         | (40.2)                     | (32.5)        |
| Connection to mobile and others                                    | 1,967                      | 1,953         | 1,669         | 0.7                        | 17.0          |
| <b>Total network communications</b>                                | <b>15,051</b>              | <b>16,737</b> | <b>20,531</b> | <b>(10.1)</b>              | <b>(18.5)</b> |

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

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

|   | Year ended<br>December 31, |      |      |
|---|----------------------------|------|------|
|   | 2000                       | 1999 | 1998 |
|   | (millions)                 |      |      |
| Average number of access channels . . . . . | 48.4                       | 47.0 | 45.7 |

The increase in revenues from initial connection fees, monthly rental charges and other network services from 1998 to 1999 and from 1999 to 2000 resulted primarily from growth in the number of access channels. From 1998 to 1999 this growth was, however, partially offset by a slight decrease in the average monthly access charge per access channel.

*Domestic Call Charges.* Revenues from call charges are a function of the number of telephone calls, average call duration, the mix of local, regional and long distance calls as well as the time of the call and the applicable tariffs. In general, domestic telephone traffic is influenced by trends in the German telecommunications market and other market developments as described above.

Deutsche Telekom reduced tariffs for calls from fixed-network lines to T-D1 mobile phones in February 2000 and tariffs for calls in the regional and national zones in March 2000. In addition, the number of regional tariff zones were reduced and off-peak periods have been lengthened. These measures resulted in revenues per minute from domestic calls that were on average 15 percent lower than in 1999, as a greater decline in revenues per minute from domestic long-distance calls was offset to some extent by a smaller decline in revenues per minute from local calls and calls to mobile networks. At the same time, minutes leading to revenues from domestic call charges increased 1.3 percent from 1999 to 2000, as a small decline in minutes from domestic long-distance calls and a larger decline in minutes from local calls were offset by increases in minutes from calls to mobile networks and calls to other services.

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

*International Telephone Communications.* Revenues from call charges for international long-distance calls are a function of tariffs and the volume, duration and mix of outgoing international traffic.

On June 1, 1999, Deutsche Telekom significantly reduced its tariffs for calls to many European countries. Deutsche Telekom introduced a further reduction in tariffs for international calls on February 1, 2000, which contributed to the reduction in revenues from international calls from 1999 to 2000. As a consequence of the pronounced tariff reductions in 1999 and 2000, average revenues per minute decreased by 39 percent from 1999 to 2000. In addition, despite the decrease in tariffs, minute volume leading to international network communications revenues was 1.4 percent lower in 2000 than in 1999.

From 1998 to 1999, the volume of Deutsche Telekom's international outgoing traffic decreased by 18.0 percent. This decrease was attributable to intense competition in Germany for international telephony traffic, principally on the basis of price. During 1999, competitors made significant gains in market share. The tariff cuts introduced in June 1999, together with the decrease in minutes from international calls during 1999, resulted in a 32.5 percent decrease in revenues from international calls from 1998 as compared to 1999.

*Income Before Taxes*

Income before taxes from network communications decreased considerably from 1998 to 1999 and from 1999 to 2000. The decrease in income before taxes from 1999 to 2000 is mainly attributable to the decrease in

revenues, while depreciation and amortization and other costs remained essentially stable, despite the slight increase in the number of minutes handled through network communications. The share of the non-scheduled write-down of old network components allocated to network communications placed an upward influence on depreciation and amortization, which, excluding this effect, would have decreased significantly, as a result of a reduction in assets allocated to network communications.

The decrease in income before taxes from 1998 to 1999 resulted principally from declining revenues, although the decrease of EUR 4 billion in total revenues was partially offset by a decrease in depreciation which was mainly due to the extension of the depreciation periods of outside plant network that resulted from a new estimate of the physical and economic useful life of the equipment. In addition, interest expense allocated to the network communications segment decreased significantly, reflecting a decrease in debt allocated to the network communications segment.

### *Carrier Services*

After the full liberalization of the market for voice telephony in 1998, the terms under which Deutsche Telekom offers competitors access to its network generally remain subject to supervision by the Regulatory Authority. In the area of national interconnection services, the Regulatory Authority approved new interconnection tariffs which became effective on January 1, 2000. For further information on regulation of this business area, see “Item 4. Information on the Company—Description of Business Segments—Carrier Services” and “Item 4. Information on the Company—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection.”

### *Revenues*

Revenues from carrier services consist of charges paid by domestic and foreign carriers for access to or routing through Deutsche Telekom’s network to carry calls placed by the customers of those carriers. Domestic interconnection services revenues contain charges paid by other fixed network operators and mobile communications providers for specially tailored leased lines, as well as fees for termination of calls originating in the networks of those operators and fees for access to Deutsche Telekom’s local loop subscriber lines. International interconnection services revenues also include transit traffic carried on Deutsche Telekom’s network.

The following table presents financial information concerning the carrier services segment.

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |               |
|--|----------------------------|--------------|--------------|----------------------------|---------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998     |
|  | (millions of euro)         |              |              | (% change)                 |               |
| Revenues   |                            |              |              |                            |               |
| Domestic interconnection services . . . . .      | 3,026                      | 2,098        | 829          | 44.2                       | 153.1         |
| International interconnection services . . . . . | 957                        | 786          | 782          | 21.8                       | 0.5           |
| External revenues Carrier Services . . . . .     | 3,983                      | 2,884        | 1,611        | 38.1                       | 79.0          |
| Revenues between segments . . . . .              | 1,283                      | 677          | 571          | 89.5                       | 18.6          |
| <b>Total Revenues . . . . .</b>                  | <b>5,266</b>               | <b>3,561</b> | <b>2,182</b> | <b>47.9</b>                | <b>63.2</b>   |
| <b>Income before Taxes . . . . .</b>             | <b>392</b>                 | <b>440</b>   | <b>589</b>   | <b>(10.9)</b>              | <b>(25.3)</b> |

The increase in revenues from domestic interconnection services from 1999 to 2000 resulted from continued growth in the volume of traffic carried on Deutsche Telekom’s network for other carriers. At the beginning of 2000, however, Deutsche Telekom implemented the new lower domestic interconnection rates established by the Regulatory Authority at the end of 1999, which partially offset the effect of increased traffic volume on revenues. For further information on the new domestic interconnection rates, see “Item 4. Information on the Company—Regulation.” The increase in revenues between segments relates primarily to the termination of calls placed by subscribers of Deutsche Telekom’s mobile network T-D1 and reflects the increase in the number of subscribers of T-D1 services and to the growth of international interconnection services offered to other segments for termination of international calls placed by customers of these segments. The increase in traffic from operators of other German mobile networks is reflected under domestic interconnection services. As the number of local loop subscriber access lines competitors lease from Deutsche Telekom



increases, revenue from the provision of these access lines is beginning to generate revenues for the carrier services business area.

While interconnection rates remained essentially constant from 1998 to 1999, the growth in revenues of domestic interconnection services resulted primarily from the large volume increase caused by calls originating from mobile networks as well as fixed networks during that year.

From 1999 to 2000, revenues from international interconnection services increased mainly due to increased revenues per minute. This increase in revenues per minute, which was due to favorable exchange rate movements and higher settlement rates for calls terminating on mobile networks, was partially offset, however, by a decrease in the number of minutes carried on Deutsche Telekom's network. Revenues from international interconnection services remained essentially constant from 1998 to 1999, as growth in traffic and the effect of exchange rate movements offset a decline in settlement rates.

#### *Income Before Taxes*

Income before taxes from carrier services decreased from 1999 to 2000 by 10.9 percent or EUR 48 million. The significant growth in revenues was offset primarily by increased costs relating to the termination of international traffic originating in Germany, as exchange rate movements and the development of international settlement rates increased the effect of increased traffic volume. To a lesser extent, increased costs of terminating traffic in networks of other German network operators and the effect on revenues of regulatory measures contributed to the decline in income before taxes. Depreciation and amortization attributable to carrier services increased from 1999 to 2000, reflecting the usage of assets allocated to this segment and the allocation of depreciation relating to the non-scheduled write-down of old network components.

From 1998 to 1999, income before taxes from carrier services decreased by 25.3 percent. The increase in revenues from 1998 to 1999, which related primarily to volume increases, was offset by increased volume-based costs of terminating calls in networks of national and international carriers. In addition to an increase in depreciation and amortization, which reflects the usage of assets allocated to carrier services, costs of providing the services of Deutsche Telekom's carrier services segment increased, primarily reflecting increased costs for carrier interconnection and increased costs for telecommunications services from other segments.

#### *Data communications*

The following table presents financial information concerning the data communications segment.

|   | Year ended<br>December 31, |              |              | Year ended<br>December 31, |            |
|---|----------------------------|--------------|--------------|----------------------------|------------|
|   | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998  |
|   | (millions of euro)         |              |              | (% change)                 |            |
| Revenues  |                            |              |              |                            |            |
| Managed Networks/ATM/IP (1) . . . . .           | 2,486                      | 1,920        | 1,546        | 29.5                       | 24.2       |
| Frame Relay/X.25 . . . . .                      | 108                        | 108          | 121          | 0.0                        | (10.7)     |
| Leased lines, others . . . . .                  | 758                        | 800          | 869          | (5.3)                      | (7.9)      |
| External revenues Data Communications . . . . . | 3,352                      | 2,828        | 2,536        | 18.5                       | 11.5       |
| Revenues between segments . . . . .             | 1,033                      | 739          | 874          | 39.8                       | (15.4)     |
| <b>Total Revenues . . . . .</b>                 | <b>4,385</b>               | <b>3,567</b> | <b>3,410</b> | <b>22.9</b>                | <b>4.6</b> |
| <b>Income (Loss) before Taxes . . . . .</b>     | <b>269</b>                 | <b>104</b>   | <b>(61)</b>  | <b>158.7</b>               | <b>n/a</b> |

(1) Excluding T-Online.

#### *Revenues*

The market for data communications has been open to competition for several years and has experienced strong growth during that time, particularly in terms of data traffic volume. This growth in traffic volume is reflected in the fact that external revenues and total revenues of Deutsche Telekom's data communications increased by 18.5 percent and by 22.9 percent from 1999 to 2000, despite price competition. The trend toward network services and managed networks continued in 2000.

The main sources of revenue for data communications are the installation and monthly rental charges for domestic and international leased lines (including digital and analog leased lines), charges for data transmission services and charges for managed networks and IT solutions customized to meet specific customer needs.

The decrease in revenues from leased lines is attributable to Deutsche Telekom's customers' need for integrated services, which results in decreased sales of stand-alone products but increased sales in managed networks. Revenues from managed networks increased in 2000 by 29.5 percent due to strong demand of customers for integrated network solutions. The increase in revenues between segments reflects primarily increased revenues from IP and LAN services for other segments.

Data communications revenues increased by 11.5 percent from 1998 to 1999. This growth primarily reflects strong revenue growth in managed networks that resulted from an increase in the number of managed network customers, which was offset to some extent by a decrease in prices induced by competition. A decrease in revenues from X.25 data communications products was largely due to customers' migration to managed networks. ATM- and IP-based services are growing in importance as components of managed networks.

#### *Income (Loss) Before Taxes*

Income before taxes increased by 158.7 percent from 1999 to 2000. This is mainly due to the increase in total revenues. Depreciation and amortization allocated to data communications also increased, although to a lesser extent than revenues. The increase in depreciation and amortization was influenced significantly by depreciation allocated to data communications relating to the non-scheduled write-down of old network components.

The increase in income before taxes from 1998 to 1999 is mainly attributable to a reduction in interest and depreciation and amortization allocated to data communications. The increase in total revenues was not sufficient to compensate the increase in other cost items.

#### *Mobile Communications*

Deutsche Telekom's mobile communications business is reflected in the activities of the subsidiaries of T-Mobile International, principally T-Mobil in Germany, One 2 One in the United Kingdom and max.mobil. in Austria. In prior years, One 2 One and max.mobil were presented as part of the International business area. In reports issued by Deutsche Telekom prior to 2000, the mobile communications segment was represented only by T-Mobil, Deutsche Telekom's German mobile communications subsidiary. The presentation of prior year figures has been adjusted to reflect this change. Accordingly, the figures shown below differ from those reported by Deutsche Telekom prior to 2000. For further information, see "Item 4. Information on the Company—Description of Business Segments—Mobile Communications" and "Item 4. Information on the Company—Description of Business Segments—International".

In 2000 Deutsche Telekom's mobile business exhibited strong growth in terms of the number of subscribers. In Germany, the number of subscribers on Deutsche Telekom's T-D1 network increased by 111 percent to 19.1 million from 1999 to 2000. As most of the new subscribers were attracted by prepaid packages, the share of T-D1's prepaid subscribers increased to 52 percent. In the United Kingdom, One 2 One almost doubled the number of its subscribers to 8.3 million. The increasing popularity of prepaid packages in the United Kingdom increased the share of prepaid subscribers to 74 percent at the end of 2000. In Austria, the market penetration of mobile telephones was already relatively high in previous years, and as a result, the growth in subscriber numbers in Austria was lower than growth rates in other European countries in 2000. The number of subscribers of max.mobil. increased by 0.6 million to 2.1 million. The following table presents the number of subscribers of T-Mobile International's fully consolidated subsidiaries.

|                             | Year ended<br>December 31, |               |              | Year ended<br>December 31, |           |
|-----------------------------|----------------------------|---------------|--------------|----------------------------|-----------|
|                             | 2000                       | 1999          | 1998         | 2000/1999                  | 1999/1998 |
|                             | (thousands)                |               |              | (% change)                 |           |
| T-D1 . . . . .              | 19,141                     | 9,067         | 5,474        | 111.1                      | 65.6      |
| One 2 One . . . . .         | 8,324                      | 4,157         | 0            | 100.2                      | n/a       |
| max.mobil. . . . .          | 2,084                      | 1,508         | 0            | 38.2                       | n/a       |
| Total subscribers . . . . . | <u>29,547</u>              | <u>14,732</u> | <u>5,474</u> | 100.6                      | 169.1     |

The following table presents financial information concerning the mobile communications segment.

|   | Year ended<br>December 31, |              |              | Year ended<br>December 31, |             |
|---|----------------------------|--------------|--------------|----------------------------|-------------|
|   | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998   |
|   | (millions of euro)         |              |              | (% change)                 |             |
| Revenues                                    |                            |              |              |                            |             |
| External Revenues                           |                            |              |              |                            |             |
| Germany . . . . .                           | 5,372                      | 3,919        | 3,061        | 37.1                       | 28.0        |
| United Kingdom . . . . .                    | 2,883                      | 544          | 0            | 430.0                      | n/a         |
| Austria . . . . .                           | 998                        | 811          | 0            | 23.1                       | n/a         |
| Total external revenues . . . . .           | 9,253                      | 5,274        | 3,061        | 75.4                       | 72.3        |
| Revenues between segments . . . . .         | 1,360                      | 1,201        | 934          | 13.2                       | 28.6        |
| <b>Total Revenues . . . . .</b>             | <b>10,613</b>              | <b>6,475</b> | <b>3,995</b> | <b>63.9</b>                | <b>62.1</b> |
| <b>Income (Loss) before Taxes . . . . .</b> | <b>(2,329)</b>             | <b>253</b>   | <b>137</b>   | <b>n/a</b>                 | <b>84.7</b> |

*Revenues*

The mobile communications business area generates revenues from activation fees, monthly access charges and call charges paid by direct subscribers, charges paid by independent service providers, and the sale of handsets. Independent service providers purchase mobile communications services from T-D1 or One 2 One at a discount, resell those services and bill subscribers directly at rates they set independently.

Revenues from mobile communications in Germany increased in all three years under review as a result of continued growth in the number of T-Mobil's T-D1 subscribers. The average number of T-D1 subscribers rose by 96 percent in 2000 and 64 percent in 1999, in part because of the continuing positive response to the private customer oriented tariff options offered by T-Mobil to attract new customer groups. Average revenue per subscriber declined substantially, however, due in part to an increase in the proportion of subscribers that use prepay tariff packages (52.3 percent at year end 2000 compared to 20.4 percent at year end 1999), which generate lower revenues per subscriber than contract subscribers. A decline in tariffs per minute and a decline in minutes per subscriber contributed to the decrease in revenues per subscriber. Revenues from sales of mobile handsets, which are included in other mobile communications services and products, increased further from 1999 to 2000 due to the continued strong demand, triggered by subscriber growth in the mobile communications market. Mobile handsets generally are subsidized in order to create attractive package offers for new customers.

From 1998 to 1999, German mobile revenues were adversely affected both by declining revenues per subscriber and by the expected declines in the number of subscribers to Deutsche Telekom's analog T-C-Tel mobile service, which was discontinued at the end of 2000, and by special terms offered to T-C-Tel customers to encourage migration to the T-D1 service.

The increase in revenues in the United Kingdom relating to One 2 One, which was acquired by Deutsche Telekom effective October 1, 1999, is mainly due to the fact that One 2 One was included in Deutsche Telekom's accounts for a full year in 2000, but only for one quarter in 1999. As in Germany, increases in revenues of One 2 One did not keep up with the increase in subscribers, due to declining revenues per subscriber.

Revenues of max.mobil. increased by 23 percent from 1999 to 2000 due to the increase in its subscriber base. Deutsche Telekom acquired a controlling majority in max.mobil. effective January 1, 1999. Accordingly, max.mobil. was not included in Deutsche Telekom's 1998 accounts.

*Income (Loss) Before Taxes*

Income before taxes from mobile communications decreased from income of EUR 253 million to a loss of EUR 2.3 billion from 1999 to 2000. The decrease of EUR 2.6 billion relates to a range of factors. Among others is the increase in goodwill amortization of EUR 0.6 billion, primarily for One 2 One and max.mobil., the amortization of UMTS licenses in the United Kingdom, Germany and Austria (EUR 0.4 billion), and the increase in interest expense allocated to Deutsche Telekom's mobile business, which reflects funding requirements relating to the acquisition of UMTS licenses. In addition, increased subscriber acquisition costs (principally subsidies on mobile handsets and advertising and commissions costs) contributed to the overall decrease in income before taxes.

Income before taxes from mobile communications increased by EUR 116 million from 1998 to 1999, primarily due to improved results of T-Mobil. This positive development was offset by the impact of the first consolidation of max.mobil., starting as of January 1, 1999, and One 2 One, starting as of October 1, 1999.

Deutsche Telekom expects that net income of the mobile communications segment in the coming years will be significantly impacted by UMTS license amortization, goodwill amortization related to acquired companies and interest expense related to indebtedness incurred to finance UMTS licenses, among other factors.

### ***Broadcasting and Broadband Cable***

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

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |             |
|--|----------------------------|--------------|--------------|----------------------------|-------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998   |
|  | (millions of euro)         |              |              | (% change)                 |             |
| Revenues   |                            |              |              |                            |             |
| Broadband cable . . . . .                                    | 1,390                      | 1,441        | 1,353        | (3.5)                      | 6.5         |
| Broadcasting . . . . .                                       | 471                        | 476          | 451          | (1.1)                      | 5.5         |
| External revenues Broadcasting and Broadband Cable . . . . . | 1,861                      | 1,917        | 1,804        | (2.9)                      | 6.3         |
| Revenues between segments . . . . .                          | 34                         | 197          | 93           | (82.7)                     | 111.8       |
| <b>Total Revenues . . . . .</b>                              | <b>1,895</b>               | <b>2,114</b> | <b>1,897</b> | <b>(10.4)</b>              | <b>11.4</b> |
| <b>Income (Loss) before Taxes . . . . .</b>                  | <b>2,647</b>               | <b>(85)</b>  | <b>(329)</b> | <b>n/a</b>                 | <b>74.2</b> |

### *Revenues*

Revenues from broadband cable decreased from 1999 to 2000. The effect on external revenues of the decrease in the number of subscribers in the broadband cable network of Deutsche Telekom's cable subsidiary Kabel Deutschland which was caused by the sale of shares in two regional cable companies was largely offset by increased external revenues from Deutsche Telekom's other subsidiaries. This increase in external revenues relates to revenues of operating units within the broadband cable business from the two cable companies in which majority interests were sold in 2000; those revenues previously were revenues within the segment.

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

### *Income (Loss) Before Taxes*

Income before taxes from broadcasting and broadband cable increased significantly from 1999 to 2000, as the impact of the sale of the regional cable companies contributed approximately EUR 3.0 billion to income from broadband cable. The impact of decreased depreciation and amortization and interest expense allocated to broadcasting and broadband cable was offset almost entirely by the decrease in overall revenues and a slight increase in other costs. In addition, Deutsche Telekom's share in the operating results of the two regional cable companies, which are accounted for under the equity method with effect from July 1, 2000, contributed to the increase in other costs.

The decrease in losses before taxes from broadcasting and broadband cable from 1998 to 1999 is mainly attributable to the increase in overall revenues and a reduction in depreciation and amortization allocated to broadcasting and broadband cable. A slight increase in other costs was smaller in percentage terms than the increase in revenue from 1998 to 1999.

Deutsche Telekom is currently pursuing the sale of majority interests in the remaining seven out of nine regional companies within Germany that were formed during the year 2000. A contract for the sale of one of the remaining seven regional cable companies (Baden-Württemberg) was signed in the year 2000 and the closing of this transaction is expected to occur in 2001. A letter of intent relating to the sale of the remaining six companies has been signed in 2001. For further information on Deutsche Telekom's sale of interests in the regional cable companies, please refer to "Item 4. Information on the Company—Description of Business Segments—Broadcasting and Broadband Cable—The Separation and Sale of the Cable Business" above. As further majority interests in these businesses are sold, revenues of these regional companies will cease to be consolidated in the financial statements of the Deutsche Telekom group, and these companies will instead be accounted for at equity.

### *Terminal Equipment*

Revenues from terminal equipment consist of revenues from the sale and rental of terminal equipment for the fixed network. The following table presents financial information concerning the terminal equipment segment.

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |               |
|--|----------------------------|--------------|--------------|----------------------------|---------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998     |
|  | (millions of euro)         |              |              | (% change)                 |               |
| Revenues                                       |                            |              |              |                            |               |
| Sales revenues . . . . .                       | 392                        | 458          | 483          | (14.4)                     | (5.2)         |
| Leasing revenues . . . . .                     | 644                        | 749          | 899          | (14.0)                     | (16.7)        |
| External revenues Terminal Equipment . . . . . | 1,036                      | 1,207        | 1,382        | (14.2)                     | (12.7)        |
| Revenues between segments . . . . .            | 299                        | 228          | 221          | 31.1                       | 3.2           |
| <b>Total Revenues . . . . .</b>                | <b>1,335</b>               | <b>1,435</b> | <b>1,603</b> | <b>(7.0)</b>               | <b>(10.5)</b> |
| <b>Income (Loss) before Taxes . . . . .</b>    | <b>58</b>                  | <b>19</b>    | <b>(114)</b> | <b>205.3</b>               | <b>n/a</b>    |

### *Revenues*

Revenues from terminal equipment declined from 1999 to 2000. Despite a strong increase in the number of units of terminal equipment sold, sales revenues declined due to the continuing decline in prices for terminal equipment. In addition, a change in the distribution channel for mobile equipment led to a reduction in external sales revenues and to a lesser extent to an increase in revenues between segments. The decrease in leasing revenues is primarily due to the reduction in the average number of leasing and rental contracts.

Revenues from terminal equipment declined from 1998 to 1999 as a result of a further reduction in the number of leasing contracts. In the terminal equipment sales business, revenues decreased largely due to decreases in prices for terminal equipment, and due to streamlining of the product portfolio. See "Item 4. Information on the Company—Description of Business Segments—Supply and Service of Terminal Equipment".

### *Income (Loss) Before Taxes*

From 1999 to 2000, income before taxes from terminal equipment increased by EUR 39 million. Interest expense and depreciation and amortization allocated to terminal equipment decreased, while the decrease in revenues was offset almost entirely by a reduction in other costs.

Income before taxes from terminal equipment in 1999 was positive and EUR 133 million higher than in 1998. This increase can be attributed to the decreased amortization and depreciation expense allocated to terminal equipment, and decreased interest expense. In addition, other costs declined at a rate that was faster than the decline in revenues primarily due to lower cost of goods purchased.

### *Value-added Services*

Revenues from value-added services include revenues from public telephones, toll free lines, information services, telephone directory publishing, and other directory and operator services. The following table presents financial information concerning the value-added services segment.

|  | Year ended<br>December 31, |              |              | Year ended<br>December 31, |              |
|--|----------------------------|--------------|--------------|----------------------------|--------------|
|  | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998    |
|  | (millions of euro)         |              |              | (% change)                 |              |
| Revenues                               |                            |              |              |                            |              |
| External revenues Value-added Services | 1,802                      | 1,903        | 2,051        | (5.3)                      | (7.2)        |
| Revenues between segments              | 480                        | 346          | 235          | 38.7                       | 47.2         |
| <b>Total Revenues</b>                  | <b>2,282</b>               | <b>2,249</b> | <b>2,286</b> | <b>1.5</b>                 | <b>(1.6)</b> |
| <b>Income (Loss) before Taxes</b>      | <b>42</b>                  | <b>(152)</b> | <b>(182)</b> | <b>n/a</b>                 | <b>n/a</b>   |

### *Revenues*

External revenues of Deutsche Telekom's value-added services business area decreased from 1999 to 2000. This can be attributed to the decline in revenues in the areas of public telephones, operator services and information services. The average number of public telephones declined from 157,000 in 1998 to 138,000 in 1999 and 135,000 in 2000 due to the continuation of Deutsche Telekom's site-optimization program. Competition in the areas of operator and information services contributed to a decline in revenues in these areas. However, increased revenues from the areas value-added communications, premium rate services and card services offset, to some extent, the decreases in other areas. The increase in revenues between segments is related to increased demand for value-added services from other segments and from other network operators, the revenues for which are billed through carrier services.

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

### *Income (Loss) Before Taxes*

Income before taxes increased from a loss of EUR 152 million in 1999 to income of EUR 42 million in 2000. This increase is due to a reduction on overall costs, which largely relate to a reduction in personnel costs that reflects a transfer of employees formerly in operator services to other business units and to a reduction in costs of telecommunications services purchased from other business areas. These effects were offset to some extent by increased cost of outsourcing operator services and a higher volume of services purchased from other segments. Losses before taxes decreased EUR 30 million from 1998 to 1999, as the decrease in revenues was more than offset by a decrease in depreciation and amortization and other costs.

### *Other Segments*

"Other segments" includes the "other services" business area, which consists of consumer internet, multimedia and ancillary activities of Deutsche Telekom. "Other segments" also reflects results from associated and related companies.

### *Other Services—Revenues*

Revenues from other services include revenues generated from multimedia communications, especially T-Online, as well as debis Systemhaus, which was consolidated for the first time starting in October 2000. They also include revenues from support services and ancillary activities performed by Deutsche Telekom.

|                                   | Year ended<br>December 31, |              |              | Year ended<br>December 31, |             |
|-----------------------------------|----------------------------|--------------|--------------|----------------------------|-------------|
|                                   | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998   |
|                                   | (millions of euro)         |              |              | (% change)                 |             |
| Revenues                          |                            |              |              |                            |             |
| Multimedia                        | 837                        | 547          | 295          | 53.0                       | 85.4        |
| Other                             | 1,589                      | 575          | 477          | 176.3                      | 20.5        |
| External revenues Other Services  | 2,426                      | 1,122        | 772          | 116.2                      | 45.3        |
| Revenues between segments         | 2,600                      | 2,045        | 1,081        | 27.1                       | 89.2        |
| <b>Total Revenues</b>             | <b>5,026</b>               | <b>3,167</b> | <b>1,853</b> | <b>58.7</b>                | <b>70.9</b> |
| <b>Income (Loss) before Taxes</b> | <b>6,930</b>               | <b>(277)</b> | <b>38</b>    | <b>n/a</b>                 | <b>n/a</b>  |

Total revenues of other services increased from 1999 to 2000 by 58.7 percent. Multimedia revenues increased primarily due to the increase in external revenues of T-Online International, shown as part of the line item "Multimedia", which resulted from growth in T-Online's subscriber base. In 2000, Deutsche Telekom entered into a joint venture agreement with DaimlerChrysler and acquired a majority interest in debis Systemhaus, effective October 1, 2000. Accordingly, Deutsche Telekom has included the fourth quarter revenues of debis Systemhaus in its financial statements for 2000 and debis Systemhaus contributed EUR 922 million to the increase in other external revenues. The increase in revenues between segments is primarily due to the increase in services rendered by some of Deutsche Telekom's subsidiaries to other segments for information technology solutions and research and development.

In both 1999 and 1998, the revenue increase from other services was principally due to continued revenue growth at T-Online, which increased its revenues from EUR 252 million in 1998 to EUR 412 million in 1999. In both 2000 and 1999, revenues from T-Online services principally benefited from growth in the number of subscribers, although this growth was partially offset by price reductions implemented by T-Online. The increase in other revenues in both years is also partially attributable to increased revenues from billing services for competitors, which represents the difference between the amounts collected for and the amounts paid over to competitors in accordance with applicable regulations. A significant increase in revenues from the sale of multimedia applications to business customers also contributed to the increase in other services revenues from 1998 to 1999.

### *Income (Loss) Before Taxes*

Income before taxes of other segments was strongly influenced by gains from the sale of Deutsche Telekom's share in Global One (EUR 2.9 billion), the income related effects of the initial public offering of T-Online International (EUR 2.7 billion) and the sale of Deutsche Telekom's share in Wind (EUR 2.3 billion). These factors were offset to some extent by a decrease in operating profits of T-Online International and costs related to the public offering of T-Online International shares.

From 1998 to 1999 income before taxes of other segments decreased EUR 315 million. This decrease is primarily due to a losses attributable to associated companies and related companies. These losses include income from investments and associated companies as well as writedowns of financial assets and marketable securities.

### *International*

The international segment consists of Deutsche Telekom's foreign subsidiaries that are not shown in any other segment. In addition to MATÁV, the international segment in 2000 primarily consisted of Siris, Eurobell and Slovenské Telekomunikácié, which were included in Deutsche Telekom's financial statements for the first time in 2000. Deutsche Telekom sold its shares in Eurobell in the fourth quarter of 2000. For 1999 and 1998, the segment includes only MATÁV. In Deutsche Telekom's reports issued prior to 2000, One 2 One and max.mobil. were reported as part of the international segment. For the financial year 2000, these companies are part of the mobile communications segment. Accordingly, figures reported in prior reports for the mobile communications and international segments differ from those shown in 2000.

From 1999 to 2000, revenues of Deutsche Telekom's international segment increased by EUR 550 million. Due to the first consolidation in 2000 of the subsidiaries mentioned above, revenues of the international segment increased EUR 361 million. The remaining increase is due to increased sales of MATÁV. From 1998 to 1999 revenues increased due to the increased revenues of MATÁV.

The decrease in income before taxes from 1999 to 2000 is attributable primarily to the inclusion in Deutsche Telekom's financial statements of Siris and Eurobell. Depreciation and amortization increased primarily due to the new subsidiaries and related amortization on goodwill acquired. From 1998 to 1999 income before taxes increased mainly due to both increased revenues and reduced expenses of MATÁV.

### Liquidity and Capital Resources

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

|  | Year ended<br>December 31, |                |              |
|--|----------------------------|----------------|--------------|
|  | 2000                       | 1999           | 1998         |
|  | (millions of euro)         |                |              |
| Net cash provided by operating activities . . . . .                            | 10,000                     | 9,588          | 13,491       |
| Net cash used for investing activities . . . . .                               | (27,706)                   | (18,684)       | (7,511)      |
| Net cash provided by (used for) financing activities . . . . .                 | 17,863                     | 7,965          | (6,797)      |
| Effect of foreign exchange rate changes on cash and cash equivalents . . . . . | (29)                       | (55)           | 6            |
| <b>Net decrease in cash and cash equivalents (1) . . . . .</b>                 | <b>128</b>                 | <b>(1,186)</b> | <b>(811)</b> |
| Cash and cash equivalents, at beginning of year . . . . .                      | 878                        | 2,064          | 2,875        |
| Cash and cash equivalents, at end of year . . . . .                            | 1,006                      | 878            | 2,064        |

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

### Liquidity

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

Net cash provided by operating activities increased in the year 2000 to EUR 10.0 billion from EUR 9.6 billion in 1999. The increase of EUR 4.7 billion in Deutsche Telekom's net income was influenced to a large extent by factors that had no impact on cash-flow from operating activities, principally the income-related effects of the initial public offerings of shares in subsidiaries and the sale of Deutsche Telekom's share in Wind, two regional cable companies and Global One. Major contributors to the increase of EUR 0.4 billion in cash-flows of operating activities were an increase in interest received, a positive change in working capital and increased accruals. These factors were offset, however, by increased interest paid that resulted from higher debt levels and higher tax payments that were in excess of tax expense.

In 1999, cash generated from operations was Deutsche Telekom's primary source of liquidity. Net cash provided by operating activities decreased by EUR 3.9 billion from 1998 to 1999 primarily as a result of a decline in net income, which was particularly driven by the decline in revenues from fixed line telephone communications. In addition, net cash from operating activities was negatively affected by a change in working capital, increased tax payments in excess of taxes recognized in the statement of income and expenditures relating to Deutsche Telekom's second public offering of shares in 1999. The change in working capital was particularly influenced by an increase in receivables, which was partially offset by an increase in liabilities.

#### *Net Cash Used For Investing Activities*

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

|   | Year ended December 31, |                 |                |
|---|-------------------------|-----------------|----------------|
|   | 2000                    | 1999            | 1998           |
|   | (millions of euro)      |                 |                |
| Net change in short-term investments . . . . .          | 401                     | 2,328           | (701)          |
| Other cash used for investing activities . . . . .      | (28,107)                | (21,012)        | (6,810)        |
| <b>Net cash used for investing activities . . . . .</b> | <b>(27,706)</b>         | <b>(18,684)</b> | <b>(7,511)</b> |



In 2000, a net amount of EUR 0.4 billion of short-term investments was redeemed, resulting in a net cash inflow from short-term investments. In 1999, Deutsche Telekom received a net amount of EUR 2.3 billion from reducing its short-term investments.

Other cash used for investing activities increased further from 1999 to 2000, after a substantial increase from 1998 to 1999. The principal uses of cash for investing activities were UMTS licenses (EUR 15.3 billion) and acquisitions of and investments in fully consolidated subsidiaries and other financial assets (EUR 12.8 billion), which relate primarily to the initial investment in VoiceStream, the acquisition of further shares in PTC and the mobile communications joint venture BEN in the Netherlands. An increase in capital expenditures (excluding UMTS licenses) of EUR 2.3 billion from 1999 to 2000 also contributed to the increase in other cash used for investing activities. At the same time, Deutsche Telekom recognized cash inflows from the disposition of shares in consolidated companies and investments (EUR 7.6 billion), which relate to primarily to the sale of shares in Global One and the broadband cable companies in North-Rhine Westphalia and Hesse and to the sale of investments in non-current securities. Deutsche Telekom's acquisition of a majority interest in debis Systemhaus had no net effect on cash used for investing activities, because Deutsche Telekom contributed EUR 4.6 billion in cash to debis Systemhaus in exchange for a 50.1 percent stake in debis Systemhaus. As debis Systemhaus is fully consolidated in Deutsche Telekom's group accounts, no cash outflow has been recognized.

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

#### *Net Cash Provided By (Used For) Financing Activities*

In 2000, net cash provided by financing activities increased to EUR 17.9 billion. To meet its funding requirements, Deutsche Telekom issued a multi-currency global bond in 2000 in an amount equivalent to EUR 15.4 billion. In addition, Deutsche Telekom increased its long-term borrowings under its existing debt issuance program by EUR 6.3 billion. Further funds were provided by the initial public offering of shares of Deutsche Telekom's subsidiary T-Online International (EUR 3.3 billion). EUR 1.9 billion were used for the payment of dividends in 2000.

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

As in 1998, the change in net cash provided by (used for) financing activities in 1999 includes the effect of the cash inflow of EUR 1 billion from bonds issued by Deutsche Telekom from a debut benchmark bond issue.

#### *Capital Resources*

Deutsche Telekom currently has credit facilities with banks totaling EUR 9.8 billion and bearing interest in a range of 5.1 percent to 7.5 percent per annum. Deutsche Telekom expects the facilities to renew annually. As of December 31, 2000, credit lines had been drawn upon in the amount of EUR 5.3 billion. In addition, in October 2000, Deutsche Telekom signed an agreement with an international banking consortium for extensive revolving credit facilities in the amount of EUR 12.0 billion, all of which was available at December 31, 2000. One 2 One has negotiated a similar facility of GBP 3.5 billion, of which GBP 1.5 billion remained available at December 31, 2000.

At December 31, 1999, Deutsche Telekom had committed short-term credit facilities of EUR 8.3 billion. The interest rates for these facilities range from 5.5 percent to 6.0 percent or are set at the daily interbank rate plus 0.25 percent. Deutsche Telekom expects to renew these facilities annually. At December 31, 1999, these credit lines had been drawn upon in the amount of EUR 3.5 billion.

As of December 31, 2000, EUR 28.2 billion of Deutsche Telekom's liabilities were guaranteed by the Federal Republic. Indebtedness incurred by Deutsche Telekom since the beginning of 1995 is no longer guaranteed by the Federal Republic, as described above under the heading "Item 7. Major Shareholders and Related Party Transactions—Relationship with the Federal Republic—Federal Republic Guarantees". For a discussion of funding and treasury policies, see note 29 to the consolidated financial statements and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Deutsche Telekom expects that its principal liquidity requirements for 2001 will include its expected capital expenditures budget, cash to repay indebtedness, funding for the cash component of the planned VoiceStream acquisition and cash to pay a dividend in respect of financial year 2000. Deutsche Telekom plans to fund these liquidity requirements primarily through cash flow from operations and proceeds from the sale of assets, including in particular assets not central to its business strategy, and through refinancing of existing indebtedness, of which EUR 15.2 billion (including liabilities to banks) will reach maturity in 2001. Deutsche Telekom cannot offer assurances that the proceeds of asset dispositions will meet Deutsche Telekom's expectations for 2001. Financing and refinancing conditions will depend principally upon future market conditions, Deutsche Telekom's rating as a debtor and its future prospects. Deutsche Telekom's principal debt rating agencies have indicated that they would consider a further lowering of Deutsche Telekom's rating unless Deutsche Telekom reduces its net indebtedness during 2001, which would have to be factored into any decision by Deutsche Telekom to refinance existing indebtedness. Should Standard & Poors and Moody's lower Deutsche Telekom's debt rating, this would tend to increase interest expense on a part of Deutsche Telekom's currently outstanding indebtedness, since the terms of a part of that indebtedness provide for a step up in the applicable interest rate upon any such downgrade. In addition, any rating downgrade below a single-A category would tend to have the effect of increasing interest expense on future indebtedness of Deutsche Telekom. Certain rating agencies have placed Deutsche Telekom's ratings on review for potential downgrade. A material reduction in Deutsche Telekom's expected capital expenditures could adversely affect its ability take full advantage of opportunities in growth areas, such as mobile telecommunications.

### *Capital Expenditures and Investments*

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

|  | Year ended<br>December 31, |               |              | Year ended<br>December 31, |              |
|--|----------------------------|---------------|--------------|----------------------------|--------------|
|  | 2000                       | 1999          | 1998         | 2000/1999                  | 1999/1998    |
|  | (millions of euro)         |               |              | (% change)                 |              |
| Capital expenditures . . . . .                                     | 23,536                     | 5,974         | 4,791        | 294.0                      | 24.7         |
| Investments . . . . .  | 12,830                     | 16,113        | 2,733        | (20.4)                     | 489.6        |
| Proceeds from sale of non-current assets and investments . . . . . | (8,253)                    | (1,073)       | (715)        | 669.2                      | 50.1         |
| Other . . . . .  | (6)                        | (2)           | 1            | 200.0                      | n/a          |
| <b>Net cash used for investing activities(1) . . . . .</b>         | <b>28,107</b>              | <b>21,012</b> | <b>6,810</b> | <b>33.8</b>                | <b>208.5</b> |

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

### Capital Expenditures

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

|   | Year ended<br>December 31, |              |              | Year ended<br>December 31, |             |
|---|----------------------------|--------------|--------------|----------------------------|-------------|
|   | 2000                       | 1999         | 1998         | 2000/1999                  | 1999/1998   |
|   | (millions of euro)         |              |              | (% change)                 |             |
| Fixed networks(1) . . . . .                 | 2,985                      | 2,373        | 2,348        | 25.8                       | 1.1         |
| Mobile networks(1) . . . . .                | 873                        | 750          | 289          | 16.4                       | 159.5       |
| Buildings . . . . .                         | 263                        | 364          | 223          | (27.7)                     | 63.2        |
| Other capital expenditures . . . . .        | 19,415                     | 2,487        | 1,931        | 680.7                      | 28.8        |
| <b>Total capital expenditures . . . . .</b> | <b>23,536</b>              | <b>5,974</b> | <b>4,791</b> | <b>294.0</b>               | <b>24.7</b> |

(1) Capital expenditures for mobile networks include capital expenditures of T-Mobil, One 2 One and max.mobil. In reports issued prior to 2000, One 2 One and max.mobil. were not part of Deutsche Telekom's mobile segment. Prior year figures have been adjusted.

Capital expenditures increased by EUR 17.6 billion from 1999 to 2000. The major factors in this increase were the acquisition of UMTS licenses in the United Kingdom and Germany (EUR 15.3 billion) and work in progress for mobile networks (EUR 1.2 billion), both of which are shown under "other capital expenditures". The increase in capital expenditures for fixed networks relates primarily to transmission and other telecommunications equipment.

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

### Investments

Investments in subsidiaries, associated companies and other financial assets amounted to EUR 12.8 billion in 2000. Investments in fully consolidated companies, which account for EUR 4.3 billion, related primarily to MATÁV, Westel 900 and Slovenské Telekomunikácié. Investments in associated and related companies and other financial assets, which accounted for EUR 8.5 billion, related primarily to the initial investment in VoiceStream and to PTC in Poland and BEN in the Netherlands.

Investments in subsidiaries, associated companies and other financial assets made in 1999 totaled EUR 16.1 billion. Deutsche Telekom's investments in fully consolidated companies (principally One 2 One, max.mobil. and SIRIS) accounted for EUR 12.6 billion of this total. A further EUR 1.2 billion related to equity investments in HT—Hrvatske telekomunikacije d.d., Croatia, which accounted for EUR 0.8 billion, and in Sprint and Atlas/Global One, each of which accounted for EUR 0.2 billion. A loan of EUR 0.2 billion was granted to DETECON, an associated company. Deutsche Telekom invested a further EUR 1.3 billion in other investment securities, of which EUR 1.0 billion was invested in fixed-income securities issues and EUR 0.3 billion in specialized security funds (mainly fixed funds).

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

and Sprint with EUR 38 million. Deutsche Telekom also granted a loan of EUR 111 million to DETECON, an associated company.

During the last two years Deutsche Telekom has acquired a number of companies, leading to substantial cash investments. In addition, Deutsche Telekom has agreed to acquire all outstanding shares of VoiceStream in a transaction that involves a substantial cash component.

### **Research and development, patents and licenses**

For a description of Deutsche Telekom's research and development activities, see "Item 4. Information on the Company—Innovation Management (Research and Development)".

### **Preparation for the euro and the Year 2000**

#### ***Euro***

The introduction of the euro is an important event for Deutsche Telekom, and Deutsche Telekom has been preparing for this complex task since 1997, when it established a central project team to develop, implement and control all required euro-conversion measures.

In connection with the introduction of the euro, Deutsche Telekom focuses on the individual business requirements and needs of its business partners. The flexible solutions developed for this purpose make use of the entire transition period prescribed by law up to January 1, 2002, in order to enable as many companies as possible to achieve problem-free conversion.

Since January 1, 2000, customers can elect to have their Deutsche Telekom bill issued completely in euros. The final total on the bill is still quoted in DM for information purposes. Deutsche Telekom also quotes most prices in DM and in euros for information purposes, to help customers become accustomed to the new currency.

At the start of 2001, all of Deutsche Telekom's internal processes, such as salary accounting, planning, cost estimates and reports, were converted to euro. The financial accounting systems were also converted to euro as its internal currency at the start of 2001. Deutsche Telekom's financial statements and quarterly reports have been published in euros since the first quarter of 1999. The Group-wide euro market launch is scheduled for completion on January 1, 2002.

Deutsche Telekom expects expenditure on euro conversion to total approximately EUR 140 million for the period from 1997 to 2002. Deutsche Telekom's expenditures on euro conversion in 2000 amounted to EUR 35 million, and expenditures of approximately EUR 30 million are expected for this purpose in 2001.

#### ***Preparing for the Year 2000***

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

### **German GAAP Compared to U.S. GAAP**

Under U.S. GAAP, Deutsche Telekom's net income was EUR 9.2 billion in 2000, EUR 1.5 billion in 1999 and EUR 2.2 billion in 1998, compared to EUR 5.9 billion in 2000, EUR 1.3 billion in 1999 and EUR 2.2 billion in 1998 under German GAAP. Under U.S. GAAP, shareholders' equity was EUR 44.9 billion in 2000 at December 31, 2000 and EUR 37.6 billion at December 31, 1999, compared to EUR 42.7 billion at December 31, 2000 and EUR 35.7 billion at December 31, 1999 under German GAAP. Differences result primarily from the different treatment of Deutsche Telekom's fourth quarter 2000 unscheduled writedown of the book value of its real property and the different treatment of UMTS licenses, the income-related effects of share for share acquisitions at T-Online International, VAT, capitalization of software costs, the employee share purchase plan, personnel restructuring and other accruals, termination of interest rate swaps and financial instruments, income taxes and share offering costs. For further information in this regard, see note 37 to the consolidated financial statements. In addition, shareholders' equity also reflects differences in market value adjustments.

**New Accounting Pronouncements**

Several new accounting standards affecting Deutsche Telekom's financial statements under U.S. GAAP have been adopted. For disclosure on the impact that recently issued accounting standards will have on the results of operations when such standards are adopted, please refer to note 42 to the consolidated financial statements.

## ITEM 6. Directors, Senior Management and Employees

### General

In accordance with the German Stock Corporation Act (*Aktiengesetz*), Deutsche Telekom AG has a Supervisory Board (*Aufsichtsrat*) and a Management Board (*Vorstand*). The two Boards are separate, and according to the German Stock Corporation Act, no individual may simultaneously be a member of both Boards. The Management Board is responsible for managing Deutsche Telekom and representing Deutsche Telekom in its dealings with third parties, while the Supervisory Board appoints and removes the members of the Management Board and oversees the management of Deutsche Telekom but is not permitted to make management decisions. The official auditor is appointed by the shareholders of the company and is engaged by the Supervisory Board.

Both the members of the Management Board and the members of the Supervisory Board owe a duty of loyalty and care to Deutsche Telekom. In carrying out their duties, members of both the Management Board and the Supervisory Board must exercise the standard of care of a prudent and diligent businessman. The interests of Deutsche Telekom are deemed to include the interests of the shareholders, the interests of the work force and, to some extent, the common interest, and both the Management Board and the Supervisory Board must take all these interests into account when taking actions or decisions. Although there is no explicit obligation to act solely in the interests of shareholders, the Management Board is required to respect their rights to equal treatment and equal information.

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Management Board must, among other things, regularly report to the Supervisory Board with regard to current business operations and future business planning. The Supervisory Board is also entitled to request special reports at any time. The Management Board is required to ensure appropriate risk management within Deutsche Telekom and must establish an internal monitoring system.

Pursuant to the Articles of Association of Deutsche Telekom and the By-laws (*Geschäftsordnung*) of the Management Board, the Management Board must obtain the consent of the Supervisory Board for certain actions, including acquisitions or dispositions of real property having a value of more than EUR 25 million, acquisitions or dispositions of equity investments, the appointment of members of the supervisory board or other bodies having supervisory functions of direct or indirect subsidiaries with a share capital of more than EUR 2.5 million or an annual turnover of more than EUR 25 million, and actions concerning the corporate structure or the strategy of Deutsche Telekom. In addition, under the German Stock Corporation Act, the Supervisory Board is authorized to subject other actions of the Management Board to its consent.

Under German law, shareholders, like other persons, are prohibited from using their influence on Deutsche Telekom to cause a member of the Management Board or the Supervisory Board to act in a way that is harmful to Deutsche Telekom. A controlling enterprise may not cause Deutsche Telekom to take measures that are unfavorable to Deutsche Telekom unless any resulting disadvantage is compensated. An individual shareholder or any other person exerting influence on Deutsche Telekom to cause a member of the Management Board or of the Supervisory Board or holders of special proxies (*Prokuristen* or *Handlungsbevollmächtigte*) to act in a way that is unfavorable to Deutsche Telekom or its shareholders is liable for damages to Deutsche Telekom and its shareholders. Board members who have neglected their duties in taking the actions are likewise jointly and severally liable for damages.

As a general rule under German law, a shareholder has no direct recourse against the members of the Management Board or the Supervisory Board in the event that they are believed to have breached a duty to Deutsche Telekom. Only Deutsche Telekom has the right to claim damages from the members of the two boards. Deutsche Telekom may only waive such damages or settle such claims if at least three years have passed and if the shareholders so approve at a shareholders' meeting with a simple majority of the votes, provided that the opposing shareholders do not hold, in the aggregate, one tenth or more of the nominal share capital of Deutsche Telekom and do not formally express their opposition at the shareholders' meeting by having their opposition noted in the minutes of the meeting maintained by a German notary (*Notar*).

The following information is included in respect of all members of Deutsche Telekom AG's Supervisory Board and its Management Board.

### ***Supervisory Board***

In accordance with the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board of Deutsche Telekom consists of twenty members, ten of whom represent the shareholders and ten of whom represent the employees. Members of the Supervisory Board may be elected for a term of up to five years. Re-election is permitted.

The Supervisory Board members representing the shareholders are elected at the General Meeting of the shareholders. The first election of shareholder representatives to the Supervisory Board took place at the shareholders' meeting in July 1996. Since then, further elections have taken place to fill vacancies on the Supervisory Board. In general, the terms of office of the shareholder representatives will expire at the end of the shareholders' meeting at which the shareholders discharge the Supervisory Board members in respect of the fourth financial year following the member's commencement of tenure of office. The financial year in which tenure of office commences is not counted for this purpose. The next general election of all of the shareholders' representatives on the Supervisory Board will take place at the shareholders' meeting in 2001.

Supervisory Board members representing employees were last elected on October 2, 1997 by the employees in accordance with the provisions of the Co-Determination Act of 1976 (*Mitbestimmungsgesetz*). In this election procedure, employees elect ten representatives made up of workers, regular employees, senior management employees and three union representatives. Since October 1997, new employee representatives have been appointed by a local court pursuant to Section 104 of the German Stock Corporation Act. The terms of office of the employee representatives on the Supervisory Board expire in 2002 upon the election of new employee representatives in accordance with the Co-Determination Act. Under the law that governed the conversion of Deutsche Telekom to a stock corporation, civil servants, who are not covered by the Co-Determination Act, are included in these groups of employee representatives according to their occupations for purposes of these elections.

A member of the Supervisory Board elected by the shareholders may be removed by a shareholders' resolution by a majority of the votes cast. A member of the Supervisory Board elected by the employees may be removed by a majority of at least three quarters of the votes cast by the relevant class of employees.

The Supervisory Board must meet at least twice in each half year. To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, such as the appointment of Management Board members and the election of the Chairman and Co-Chairman of the Supervisory Board, the Supervisory Board takes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the chairman of the Supervisory Board can cast a deciding vote.

### ***Members of the Supervisory Board of Deutsche Telekom***

The current members of Deutsche Telekom's Supervisory Board, the year in which they were appointed, the month in which their current term expires (in the case of the shareholder representatives) and their principal occupations are as follows. The term of the employee representatives (designated by an asterisk in the following table) expires on the date of the meeting called for election of new employee representatives, which currently is planned for the fall of 2002 but has not been scheduled yet.

|  |   |   |
|--|---|---|
| Dr. Hans-Dietrich Winkhaus<br>Chairman | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1999<br>May 2001<br>Member of the Shareholders' Committee<br>of Henkel KgaA   |
|  | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"><li>• ERGO-Versicherungen, Düsseldorf</li><li>• Degussa-Hüls AG, Frankfurt am Main</li><li>• Deutsche Lufthansa AG, Köln</li><li>• Schwarz-Pharma AG, Monheim</li><li>Chairman of the Supervisory Board</li><li>• BMW AG, München</li></ul> |

|                                   |   |   |
|-----------------------------------|---|---|
| Rüdiger Schulze*<br>Vice-Chairman | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1999<br>2002<br>Member of the Central Executive<br>Committee of the German Postal Union   |
|                                   | Supervisory Board<br>Memberships/Directorships:                       | DeTeMobil Deutsche Telekom MobilNet<br>GmbH, Bonn   |
| Gert Becker                       | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1995<br>May 2001<br>Former Chairman of the Management<br>Board of Degussa AG  |
|                                   | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• ALCAN Deutschland GmbH,<br/>Eschborn</li> <li>• Bankhaus Metzler KGaA, Frankfurt<br/>am Main, Chairman of the<br/>Supervisory Board</li> <li>• Bilfinger + Berger Bau AG,<br/>Mannheim, Chairman of the<br/>Supervisory Board</li> <li>• Degussa-Hüls AG, Frankfurt am Main<br/>(until 2001)</li> </ul>  |
| Josef Falbisoner*                 | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1997<br>2002<br>Chairman of Deutsche Postgewerkschaft<br>trade union, Bavarian District   |
|                                   | Supervisory Board<br>Memberships/Directorships:                       | PSD-Bank, München, Augsburg office  |
| Dr. Hubertus von Grünberg         | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 2000<br>May 2001<br>Serves as member on several<br>Supervisory Boards   |
|                                   | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• Allianz-Versicherungs AG, München</li> <li>• Continental AG, Hannover</li> <li>• MAN AG, München</li> <li>• Schindler Holding AG,<br/>Hergiswil/Schweiz, Administrative<br/>Board</li> </ul>   |
| Dr. sc. Techn. Dieter Hundt       | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1995<br>May 2001<br>Managing Shareholder of Allgaier Werke<br>GmbH; President of the National Union<br>of German Employers Associations   |
|                                   | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• EvoBus GmbH, Stuttgart</li> <li>• Stauferkreis Beteiligungs-AG,<br/>Göppingen, Chairman of the<br/>Supervisory Board</li> <li>• Stuttgarter Hofbräu AG, Stuttgart</li> <li>• Stuttgarter Hofbräu Immobilien<br/>Verwaltungs-AG, Stuttgart, Chairman<br/>of the Supervisory Board</li> <li>• Landesbank Baden-Württemberg,<br/>Stuttgart, Administrative Board</li> </ul> |



|                        |  |  |
|------------------------|--|--|
| Rainer Koch*           | Member since:                                | 2000   |
|                        | Expiration of Current Term:                  | 2002   |
|                        | Principal Occupation:                        | Chairman of the Central Works Council of DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster   |
|                        | Supervisory Board Memberships/Directorships: | • DeTeImmobilien GmbH, Münster   |
| Dr. h.c. André Leysen  | Member since:                                | 1995   |
|                        | Expiration of Current Term:                  | May 2001   |
|                        | Principal Occupation:                        | Chairman of the Supervisory Board of GEVAERT N.V.  |
|                        | Supervisory Board Memberships/Directorships: | <ul style="list-style-type: none"> <li>• Agfa-Gevaert AG, Leverkusen, Chairman of the Administrative Board</li> <li>• Bayer AG, Leverkusen</li> <li>• E.ON AG, Düsseldorf</li> <li>• Philipp Holzmann AG, Frankfurt am Main (until 2000)</li> <li>• Schenker AG, Essen</li> <li>• Agfa-Gevaert N.V. Mortsel/Antwerpen, Chairman of the Supervisory Board</li> <li>• Cobepa N.V., Brüssel (until 2000)</li> <li>• GIB Group, Brüssel</li> <li>• Tessenderlo Chemie N.V., Tessenderlo</li> <li>• Vlaamse Uitgeversmaatschappij N.V., Groot-Bijgaarden</li> </ul> |
| Waltraud Litzenberger* | Member since:                                | 1999   |
|                        | Expiration of Current Term:                  | 2002   |
|                        | Principal Occupation:                        | Chairwoman of the Works Council of Deutsche Telekom AG, at Bad Kreuznach branch office   |
|                        | Supervisory Board Memberships/Directorships: | PSD-Bank e.G., Koblenz   |
| Michael Löffler*       | Member since:                                | 1995   |
|                        | Expiration of Current Term:                  | 2002   |
|                        | Principal Occupation:                        | Chairman of the Works Council of Deutsche Telekom AG, at Leipzig branch Office   |
|                        | Supervisory Board Memberships/Directorships: | None   |
| Hans-W. Reich          | Member since:                                | 1999   |
|                        | Expiration of Current Term:                  | May 2001   |
|                        | Principal Occupation:                        | Speaker of the Management Board, Kreditanstalt für Wiederaufbau (KfW)  |
|                        | Supervisory Board Memberships/Directorships: | <ul style="list-style-type: none"> <li>• ALSTOM GmbH, Frankfurt am Main</li> <li>• Frachtkontor Junge &amp; Co. GmbH, Hamburg</li> <li>• Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg</li> <li>• HUK-COBURG Holding GmbH, Coburg</li> <li>• HUK-COBURG-Allgemeine-Versicherungs-Aktiengesellschaft, Coburg</li> </ul>   |

|                         |  |  |
|-------------------------|--|--|
|                         |  | <ul style="list-style-type: none"> <li>• IKB Deutsche Industriebank AG, Düsseldorf</li> <li>• Krankenversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Krankenversicherung), Coburg</li> <li>• Lebensversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Leben), Coburg</li> <li>• Preussag Noell GmbH, Würzburg (until 2000)</li> <li>• RAG AG, Essen</li> <li>• RAG Trading GmbH, Essen (until 2000)</li> <li>• Thyssen Krupp Steel AG, Duisburg</li> <li>• Thyssen Werften GmbH, Emden</li> </ul> |
| Rainer Röll*            | <p>Member since: 1998<br/> Expiration of Current Term: 2002<br/> Principal Occupation: Vice-Chairman of the Central Works Council at Deutsche Telekom AG</p> <p>Supervisory Board<br/> Memberships/Directorships: None</p>   |  |
| Wolfgang Schmitt*       | <p>Member since: 1997<br/> Expiration of Current Term: May 2002<br/> Principal Occupation: Head of Deutsche Telekom AG's Regional Directorate, South-Western District</p> <p>Supervisory Board<br/> Memberships/Directorships: PSD-Bank, Stuttgart-Freiburg e.G.</p> |  |
| Prof. Dr. Helmut Sihler | <p>Member since: 1996<br/> Expiration of Current Term: May 2001<br/> Principal Occupation:</p> <p>Supervisory Board<br/> Memberships/Directorships:</p>  | <ul style="list-style-type: none"> <li>• Chairman (until May 2000)</li> <li>• Vice-Chairman of the Administrative Board, Novartis AG</li> <li>• Dr. Ing. h.c. F. Porsche AG, Stuttgart, Vice Chairman of the Board of Directors</li> <li>• max.mobil. Telekommunikations Service GmbH, Vienna/Austria</li> </ul>   |
| Michael Sommer*         | <p>Member since: 2000<br/> Expiration of Current Term: 2002<br/> Principal Occupation: Vice-Chairman of the Deutsche Post Gewerkschaft</p> <p>Supervisory Board<br/> Memberships/Directorships:</p>  | <ul style="list-style-type: none"> <li>• Postbank, Bonn, Vice-Chairman of the Supervisory Board</li> <li>• BHW Bausparkasse, Hameln</li> </ul>   |
| Ursula Steinke*         | <p>Member since: 1995<br/> Expiration of Current Term: 2002<br/> Principal Occupation: Chairwoman of the Works Council at DeTeCSM Northern District Service and Computer Center</p> <p>Supervisory Board<br/> Memberships/Directorships: None</p>                    |  |

|                                  |   |  |
|----------------------------------|---|--|
| Prof. Dr. h.c. Dieter Stolte     | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1995<br>May 2001<br>Director general of Zweites Deutsches Fernsehen (ZDF) TV broadcasting organization   |
|                                  | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• Bavaria Film- und Fernsehstudios GmbH, München/Geiseltal, Chairman of the Supervisory Board</li> <li>• ZDF Enterprises GmbH, Mainz, Chairman of the Supervisory Board</li> <li>• Sportrechte- und Marketing-Agentur GmbH, München, Chairman of the Supervisory Board</li> </ul>   |
| Bernhard Walter                  | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1999<br>May 2001<br>Former Speaker of the Management Board of Dresdner Bank  |
|                                  | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• Bilfinger + Berger Bau AG, Mannheim</li> <li>• DaimlerChrysler AG, Stuttgart</li> <li>• Degussa-Hüls AG, Frankfurt am Main (until 2000)</li> <li>• Deutsche Lufthansa AG, Köln (until 2000)</li> <li>• Deutsche Hypo Deutsche Hypothekbank Frankfurt-Hamburg AG, Frankfurt am Main, Chairman of the Supervisory Board</li> <li>• Heidelberger Zement AG, Heidelberg</li> <li>• Henkel KGaA, Düsseldorf</li> <li>• mg technologies ag, Frankfurt am Main</li> <li>• Staatliche Porzellan-Manufaktur Meissen GmbH, Meissen</li> <li>• Thyssen Krupp AG, Düsseldorf</li> <li>• Wintershall AG, Kassel (since Febr. 2001)</li> <li>• Banque Nationale de Paris S.A., Paris (France) (until 2000)</li> </ul> |
| Wilhelm Wegner*                  | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1996<br>2002<br>Chairman of the Central Works Council at Deutsche Telekom AG   |
|                                  | Supervisory Board<br>Memberships/Directorships:                       | <ul style="list-style-type: none"> <li>• VPV Allgemeine Versicherungs-AG, Köln</li> <li>• Vereinigte Postversicherung VVaG, Stuttgart</li> <li>• PSD Bank Düsseldorf e.G., Düsseldorf</li> </ul>   |
| Prof. Dr. Heribert Zitzelsberger | Member since:<br>Expiration of Current Term:<br>Principal Occupation: | 1999<br>May 2001<br>State Secretary in the Federal Ministry of Finance ( <i>Bundesministerium der Finanzen</i> )   |
|                                  | Supervisory Board<br>Memberships/Directorships:                       | None   |

In the Deutsche Telekom/VoiceStream merger agreement, Deutsche Telekom has agreed to use reasonable efforts after the closing to recommend to the shareholders and organizational bodies of Deutsche Telekom to replace one of the current members of the Supervisory Board with a person nominated by VoiceStream. According to the merger agreement, VoiceStream shall make its nomination in consultation with Deutsche Telekom and shall nominate a person who is reasonably acceptable to Deutsche Telekom.

The Supervisory Board maintains the following committees:

- The *Presiding Committee (Präsidentalausschuß)* is responsible for deciding the terms of the service contracts and other contractual arrangements between Deutsche Telekom AG and the Management Board. In particular, the committee determines salaries and incentive compensation awards for members of the Management Board and establishes goals for performance-based compensation plans. Members of the Presiding Committee are Dr. Hans-Dietrich Winkhaus (Chairman), Dr. Andre Leysen, Rüdiger Schulze and Wilhelm Wegner.
- The *Committee for Special Matters (Ausschuss für besondere Angelegenheiten)* is responsible for reviewing and consulting on complex finance and business matters concerning the company. Those matters are delegated by the Chairman of the Supervisory Board or the Supervisory Board itself. In addition, although the Company does not have an audit committee whose functions are limited to discussions of the Company's financial statements with the Company's independent auditors, the Committee for Special Matters also reviews the annual report during a meeting with the Company's auditors in preparation for the Supervisory Board's annual meeting on the approval of the financial statements in accordance with section 171 of the German Stock Corporation Act. Members of the Committee for Special Matters are Dr. Hans-Dietrich Winkhaus (Chairman), Wolfgang Schmitt, Rüdiger Schulze, Wilhelm Wegner, and Prof. Dr. Heribert Zitzelsberger.

In addition to the two committees mentioned above, the Supervisory Board has formed a mediation committee and a personnel committee.

The committees have an equal number of shareholder representatives and employee representatives. The chairman of the Supervisory Board also serves as chairman of the Presiding Committee. The chairman of the Committee for Special Matters is a representative of the shareholders. The chairman has the deciding vote in case of a tie in both committees. The chairman of the personnel committee is a representative of the employees.

### ***Management Board***

Pursuant to Deutsche Telekom's Articles of Association, the Supervisory Board determines the size of the Management Board, subject to the requirement that the Management Board must have at least two members. The Supervisory Board may appoint a chairman of the Management Board as well as a deputy chairman. The members of the Management Board are appointed by the Supervisory Board for a term of up to five years and they may be re-appointed or have their term extended for one or more terms of up to five years. Under certain circumstances, such as a material breach of duty or a bona fide vote of no confidence by the shareholders, a member of the Management Board may be removed by the Supervisory Board prior to the expiration of the five-year term. A member of the Management Board may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and Deutsche Telekom. The Management Board takes action by simple majority unless otherwise provided by law, as in the case of a vote on the adoption of Rules of Procedure. In the event of a deadlock, the Management Board member in whose area of responsibility the resolution falls has a deciding vote.

### ***Members of the Management Board of Deutsche Telekom***

The name, age, term of office, current position and business experience of the current members of the Management Board are set forth below. The members of the Management Board may be reached at Deutsche Telekom's registered address.

**Dr. Ron Sommer**, age 51, was appointed chairman of the Management Board in May 1995. As such, he is responsible for Group Strategy, Communication, Auditing and Organization, Government Relations, Competition Policy, Regulatory Affairs and top Management. He received a doctorate in mathematics and began his career with the Nixdorf group, first in New York and then in Paderborn and Paris. In 1980, he became managing director of Sony Deutschland and in 1986 became chairman of the Management Board of

Sony Deutschland. In 1990, Dr. Sommer became president and chief operating officer of Sony USA, and in 1993, he took over the management of Sony Europe in the same capacity.

Expiration of current term: May 14, 2005

Other board memberships outside Deutsche Telekom: Münchner Rückversicherungs-Gesellschaft AG, München

**Josef Brauner**, age 50, became head of the Sales and Customer Care Division and a member of the Management Board in October 1998. He joined Deutsche Telekom in June 1997 as head of the Main Department for Sales. He started his sales career with Avery as the U.S. company's branch manager for Germany, Austria and Switzerland. Mr. Brauner next joined Sony Deutschland, where he was appointed head of sales in the investment goods division and afterwards became head of that division. In 1988, Mr. Brauner became a member of the Management Board of Sony Deutschland, and in 1993 was appointed chairman of that board.

Expiration of current term: September 30, 2003

Other board memberships outside Deutsche Telekom: none

**Detlev Buchal**, age 55, was appointed head of the Product Marketing Division in October 1998, having previously acted as head of the Sales and Distribution Division (Business and Residential Customers). After holding various management positions in the banking industry, he joined the Management Board of the GZS Gesellschaft für Zahlungssysteme GmbH of the German Eurocard und eurocheque-Zentrale. In 1992, he became chairman of that board, primarily responsible for strategic planning, marketing and sales. He has been a member of Deutsche Telekom's Management Board since February 1996.

Expiration of current term: January 31, 2006

Other board memberships outside Deutsche Telekom: none

**Dr. Karl-Gerhard Eick**, age 47, was appointed head of the Finance and Controlling Division and a member of the Management Board in January 2000. After studying business administration and earning a doctorate, Dr. Eick worked in various positions for BMW AG between 1982 and 1988. From 1989 to 1991 he acted as head of Controlling at WMF AG in Geislingen. In 1991, he became head of the Controlling, Planning and IT Division for the Carl Zeiss Group. From 1993 to 1999, he held top management positions with the Haniel Group, where he was responsible for the Controlling, Business Administration and IT Division of the strategic management holding company of Franz Haniel & Cie. GmbH.

Expiration of current term: December 31, 2004

Other board memberships outside Deutsche Telekom: Dresdner Bank Luxembourg S.A., Administrative Board

**Jeffrey A. Hedberg**, age 39, was appointed head of Deutsche Telekom's International Division and a member of the Management Board in January 1999. Mr. Hedberg, who is a U.S. citizen, joined the TVM/Matuschka group in Munich in 1985, where he was primarily involved in analyzing venture capital projects for companies with international operations. From 1990 to 1992, he worked in the international division of US West, and then as an associate at Coopers & Lybrand in international projects of the globally active telecommunications group. In 1994, Mr. Hedberg joined Swisscom, where he was in charge of international investments as Executive Vice President and member of the company's senior management.

Expiration of current term: December 31, 2001

Other board memberships outside Deutsche Telekom: none

**Dr. Hagen Hultsch**, age 60, was appointed head of Deutsche Telekom's Technology and Services Division in July 1993. Dr. Hultsch received a doctorate in physics and was Assistant Professor in Mainz before in 1977 becoming head of the Computer Center of the Gesellschaft für Schwerionen Forschung (GSF, Center for Heavy Ion Research) in Darmstadt. In 1985, he became director of the Technical Services Group Germany

at Electronic Data Systems. In 1988, Dr. Hultzsch joined Volkswagen AG as the corporate executive director responsible for Organization and Information Systems. From July 1993 until 1994, he was a member of the Management Board of Deutsche Bundespost TELEKOM, and he has been a member of Deutsche Telekom's Management Board since January 1995.

Expiration of current term: June 30, 2003

Other board memberships outside Deutsche Telekom: Forschungszentrum Jülich GmbH, Jülich; Foundation Council of Stiftung CAESAR, Bonn; University Board of Goethe-Universität, Frankfurt am Main

**Dr. Heinz Klinkhammer**, age 54, was appointed head of Deutsche Telekom's Personnel and Legal Affairs Division and a member of the Management Board in April 1996. Dr. Klinkhammer received a doctorate in law and began his career at the Institute for German and European Labor, Social and Business Law before becoming a Labor Court judge. From 1979 to 1990, he worked at the Ministry of Labor, Health and Social Affairs of the state of North-Rhine/Westphalia. In 1991, he became Labor Director at Hüttenwerke Krupp Mannesmann GmbH and, in 1992, board member of Mannesmannröhren-Werke AG.

Expiration of current term: March 31, 2006

Other board memberships outside Deutsche Telekom: Federal Posts and Telecommunications Agency, Administrative Board, Bonn; PSD-Bank e.G., Düsseldorf (until 2000); Vereinigte Postversicherung VVaG, Stuttgart

**Gerd Tenzer**, age 57, was appointed head of the Networks Division in January 1990 and is now also responsible for Purchasing, Environmental Protection, Carrier Services and Broadcasting and Broadband Cable. As a communications engineer, he worked in the telecommunications research department at AEG-Telefunken from 1968 to 1970. In 1970, he joined what was then the Deutsche Bundespost. In 1975, Mr. Tenzer moved to the Federal Ministry of Posts and Telecommunications, where he became head of the Telecommunications Policy Section in 1980. From 1990 to 1994, he was a member of the Management Board of Deutsche Bundespost TELEKOM. He has been a member of Deutsche Telekom's Management Board since January 1995.

Expiration of current term: December 31, 2004

Other board memberships outside Deutsche Telekom: VDE GmbH, Supervisory Board, Frankfurt; VDE e.V., Chairman of the Board

#### ***Restructuring of Deutsche Telekom's Management Board effective May 1, 2001***

At the meeting of the Deutsche Telekom Supervisory Board on April 11, 2001, the Supervisory Board approved a proposal of the Management Board to restructure the Management Board in line with Deutsche Telekom's four-pillar strategy focusing on mobile communications (T-Mobile), online business (T-Online), system solutions (T-Systems) and the fixed network (T-Com and T-Networks). The new structure will become effective on May 1, 2001.

Responsibility for managing the four pillars will be concentrated on two Management Board members. The first division is made up of T-Com and T-Systems and will be managed by Josef Brauner – formerly responsible for Sales and Customer Care. This division will also coordinate Deutsche Telekom's marketing and sales activities. Kai-Uwe Ricke, formerly the chairman of the Management Board of T-Mobile International, will head the Mobile Online division and thus take over responsibility for the pillars T-Mobile and – following a transitional period – T-Online.

The newly composed Production and Technology Division headed by Gerd Tenzer now consists of Networks, IT, Innovation, Purchasing and Environmental Protection. This division will be responsible, among other things, for the important task of ensuring the Group-wide and cross-pillar coordination of the network infrastructure along with its planning and further development.

Dr. Klinkhammer will continue to be the head of the Human Resources Division, including the top management. The responsibility for Legal Affairs will be transferred to the newly created Corporate Affairs Division.

The new Corporate Affairs Division includes Strategy, Legal Affairs, Internal Auditing as well as Information and Process Organization and will be headed by the new member of the Management Board, Dr. Max Hirschberger, who was formerly in charge of the Group Office.

Dr. Eick and Mr. Hedberg will continue to head the two divisions Finance and International. Dr. Hagen Hultsch and Detlev Buchal will voluntarily leave Deutsche Telekom's Management Board on April 30, 2001 but will continue to serve on Supervisory Boards of subsidiaries in the Deutsche Telekom Group.

**Dr. Max Hirschberger**, age 44, was appointed as a new member of the Management Board on April 11, 2001. Dr. Hirschberger will be responsible for the new Corporate Affairs Division as of May 1, 2001, which will combine Legal Affairs, Strategy, Internal Auditing and Organization. Dr. Hirschberger became head of the newly established Deutsche Telekom Group Office on February 1, 1997. In this capacity, he headed the Support Office of the chairman of the Management Board and was responsible for providing support for bodies such as the Management Boards and Supervisory Boards of Deutsche Telekom AG, T-Mobile AG and T-Online AG. After having studied law in Regensburg and Lausanne and obtaining a Masters degree at the University of Michigan, Dr. Hirschberger joined the Legal Affairs Department at BMW AG in Munich in 1987. He dealt with Board matters during an interim period before returning to the Legal Affairs Department in 1992. In 1994, he became head of the Main Department for Corporate and International Law. As a result, he was involved, among other things, in a number of international cooperation and business development activities. He joined Deutsche Telekom in 1997.

**Kai-Uwe Ricke**, age 39, was appointed as a new member of the Management Board on April 11, 2001. Mr. Ricke will be in charge of the Group's mobile communications and online activities as of May 1, 2001. As a member of the Management Board, he will be responsible for the T-Mobile pillar and — following a transitional period — T-Online. Mr. Ricke became Chairman of the Management Board of T-Mobil (Deutsche Telekom MobilNet GmbH) on January 1, 1998. On February 1, 2000, Mr. Ricke was appointed Chairman of the Management Board of T-Mobile International AG (TMO), which combines the Deutsche Telekom Group's main mobile communications activities. Following bank training and studies at the European Business School at Schloss Reichartshausen, Mr. Ricke started his professional career as assistant to the Management Board chairman of Bertelsmann AG in Gütersloh, and went on to become Head of Sales and Marketing for its subsidiary, Scandinavian Music Club AG, in Malmö, Sweden. From 1990 until June 1995, Mr. Ricke was Managing Director of Talkline Verwaltungsgesellschaft mbH and Talkline PS Phone Service GmbH, both in Elmshorn near Hamburg. From July 1995 to December 1997, Mr. Ricke managed the affairs of Talkline GmbH, Elmshorn, as chairman of the Managing Board.

## **Compensation**

### ***Management Board Compensation***

The remuneration of the Management Board of Deutsche Telekom in respect of financial year 2000 amounted to EUR 9,224,129.46. A portion of the total compensation of the Management Board is paid pursuant to a bonus arrangement. The bonus payment is determined by the Supervisory Board and is based upon three performance targets, each of which is weighted one third in determining the total bonus payment: financial performance, or the earnings of the Company as a whole; individual performance, or a Management Board member's success in meeting particular goals set for his business area; and overall performance, designed to reward intangible aspects of performance such as leadership. Financial performance targets and individual performance targets are set by the Supervisory Board at the beginning of each fiscal year. For the year ended December 31, 2000, 30.3 percent of the total remuneration was paid pursuant to this bonus arrangement. In addition, a proposal to establish a stock option program for the members of the Management Board and key employees was approved at the shareholders' meeting on May 25, 2000. Options in respect of a total of 440,893.19 shares have been granted to members of the Deutsche Telekom Management Board. The options have an exercise price of EUR 62.69 and mature on July 19, 2005. For further information on this program, see "—Share Ownership" below and Notes 26 and 40 to the Consolidated Financial Statements.

Pension accruals totaling EUR 13,867,206.00 have been established in the books of Deutsche Telekom AG for the members of the Management Board as of December 31, 2000. Obligations for such persons for which no reserve has been established amounted to EUR 3,285,382.68 as of December 31, 2000. Payments to former members for the Management Board of Deutsche Telekom or their surviving family members amounted to EUR 868,695.54 in 2000.

None of the members of the Management Board has a service contract with the company or any of its subsidiaries providing for benefits upon termination of employment.

### ***Supervisory Board Compensation***

The Articles of Association as amended by a shareholders resolution on May 25, 2000 provide for an annual compensation at EUR 50,000 for the chairman, EUR 37,500 for the deputy chairman and EUR 25,000 for each remaining member of the Supervisory Board. In addition, members of the Supervisory Board are entitled to reimbursement of actual out-of-pocket expenses and to receive an attendance fee amounting to 200 euros for each meeting of the Supervisory Board or its committees. The value-added tax payable on this compensation will be borne by Deutsche Telekom. These compensation rules applied for the first time for the 1999 financial year. Remuneration for members of the Supervisory Board of Deutsche Telekom for fiscal year 2000 accrued in the amount of EUR 548,733.00 inclusive of meeting expenses and is subject to approval by the shareholders in the annual meeting on May 29, 2001. Remuneration for fiscal year 2000 will be paid out following shareholder approval.

None of the members of the Supervisory Board has a service contract with the company or any of its subsidiaries providing for benefits upon termination of employment.

### **Share Ownership**

The members of Deutsche Telekom's Management Board owned a total of approximately 4,350 Deutsche Telekom shares and options in respect of a total of 440,893.19 of Deutsche Telekom shares as of February 5, 2001. No individual member of the Management Board beneficially owned 1 percent or more of the outstanding shares of Deutsche Telekom as of February 5, 2001.

The members of the Supervisory Board owned a total of approximately 3,000 Deutsche Telekom shares as of February 5, 2001. No individual member of the Supervisory Board beneficially owned 1 percent or more of the outstanding shares of Deutsche Telekom as of February 5, 2001.

At the shareholders' meeting on May 25, 2000, an amendment to the Articles of Association was approved that conditionally increased Deutsche Telekom's registered share capital by up to a nominal amount of EUR 64.0 million by issuance of up to 25.0 million new shares. This conditional share capital may only be used if and to the extent that option rights granted pursuant to Deutsche Telekom's stock option plan described below are exercised and new shares are delivered upon such exercise. Option rights that have not been or may not be exercised prior the expiration of the exercise period will expire. The shares issued from the conditional share capital generally will be entitled to any dividends paid in respect of the year in which they are issued. Shares that are issued after the end of any fiscal year, but before the ordinary general shareholders' meeting at which the activities of the Management Board for that year are approved, will be entitled to any dividends paid in respect of that year.

The amendment authorized Deutsche Telekom's Supervisory Board to grant stock options to the members of its Management Board and authorized the Management Board to grant stock options to all other eligible participants.

The amendment authorized Deutsche Telekom's Supervisory Board to determine the detailed terms for the issuance of shares from the conditional share capital and for the grant of options as well as the other terms of the stock option plan if the Management Board is the beneficiary of the stock option plan. In all other cases, the Management Board is authorized to make these determinations.

These amendments took effect upon entry in the Commercial Register (*Handelsregister*), which occurred in June 2000.

For further information regarding the stock-based compensation plan for the year 2000, please refer to notes 26 and 40 to the consolidated financial statements. Please refer to "Item 8. Financial Information—Litigation" for a description of litigation with respect to the stock option plan.

Deutsche Telekom plans to present to the general shareholders' meeting on May 29, 2001 a proposal for a new stock option plan that, unlike the current plan, would qualify for "fixed plan" accounting treatment under U.S. GAAP.



## Employees and Labor Relations

### Employees

As of December 31, 2000, the companies within the Deutsche Telekom consolidated group employed a workforce of 227,015 people worldwide, excluding trainees and interns, which represented an increase of 15.9 percent from year-end 1999. Of the total number of employees, 179,197 were based in Germany, 16,577 in the European Union outside of Germany, 29,408 in the rest of Europe and 1,833 in the rest of the world.

The following tables set forth the number of group employees in the Deutsche Telekom consolidated group at December 31, 2000, 1999 and 1998, as well as a breakdown of persons at Deutsche Telekom AG employed by category of activity.

### Deutsche Telekom group employees (1)

|                                     | December 31,   |                |                |
|-------------------------------------|----------------|----------------|----------------|
|                                     | 2000           | 1999           | 1998           |
| <b>Deutsche Telekom AG</b> .....    | <b>126,857</b> | <b>136,962</b> | <b>155,381</b> |
| Thereof:                            |                |                |                |
| Civil servants .....                | 59,901         | 71,123         | 83,848         |
| Salaried employees .....            | 37,326         | 32,725         | 34,644         |
| Wage earners .....                  | 29,630         | 33,114         | 36,889         |
| <b>Subsidiaries</b>                 |                |                |                |
| debis Systemhaus .....              | 20,481         | n.a.           | n.a.           |
| T-Mobile International group .....  | 19,186         | 13,976         | 5,947          |
| MATÁV .....                         | 14,351         | 15,365         | 16,595         |
| Slovenske Telecom .....             | 13,298         | n.a.           | n.a.           |
| DeTeImmobilien .....                | 8,399          | 9,404          | 10,012         |
| DeTeCSM .....                       | 6,298          | 5,442          | 2,636          |
| T-Nova (2) .....                    | 4,705          | 4,207          | 382            |
| T-Online International group .....  | 2,678          | 943            | 555            |
| Kabel Deutschland .....             | 2,461          | 2,578          | n.a.           |
| DeTeSystem .....                    | 2,044          | 1,816          | 1,648          |
| DeTeLine .....                      | 1,104          | 956            | 735            |
| T-Data (3) .....                    | 1,157          | 882            | 577            |
| SIRIS .....                         | 527            | 339            | n.a.           |
| Other .....                         | 3,469          | 2,918          | 1,408          |
| <b>Total</b> .....                  | <b>100,158</b> | <b>58,826</b>  | <b>40,495</b>  |
| <b>Deutsche Telekom group</b> ..... | <b>227,015</b> | <b>195,788</b> | <b>195,876</b> |
| Thereof:                            |                |                |                |
| Civil servants .....                | 59,901         | 71,123         | 83,848         |
| Salaried employees .....            | 121,728        | 83,215         | 70,710         |
| Wage earners .....                  | 45,386         | 41,450         | 41,318         |

(1) Employees excluding trainees and interns

(2) DeTeBerkom was merged in 1999 into T-Nova

(3) including DATUS

## Deutsche Telekom AG employees

|   | December 31,   |                |                |
|---|----------------|----------------|----------------|
|   | 2000           | 1999           | 1998           |
| <b>Deutsche Telekom AG</b> .....  | <b>126,857</b> | <b>136,962</b> | <b>155,381</b> |
| Deutsche Telekom AG, headquarters .....   | 422            | 836            | 5,283          |
| Deutsche Telekom AG, Strategy, Communication, Auditing and Organization,<br>Governmental Affairs, Competition Policy, International ..... | 685            | 536            | 201            |
| Deutsche Telekom AG, Sales and Customer Care, Product Marketing (1) .....   | 74,583         | 77,736         | 86,437         |
| Deutsche Telekom AG, Technology and Services, Networks .....  | 46,841         | 53,900         | 61,542         |
| Deutsche Telekom AG, Personnel and Legal Affairs .....  | 2,437          | 2,303          | 1,353          |
| Deutsche Telekom AG, Finance and Controlling .....  | 1,889          | 1,651          | 565            |
| <b>Deutsche Telekom AG</b> .....  | <b>126,857</b> | <b>136,962</b> | <b>155,381</b> |
| Full-time employees .....   | 117,427        | 127,062        | 145,694        |
| Part-time employees .....   | 9,430          | 9,900          | 9,687          |

(1) 1998 figures are comprised of the former residential and business customer section.

During fiscal year 2000, Deutsche Telekom did not employ a significant number of temporary employees.

### *Employee Relations*

Works councils (*Betriebsräte*), whose members are elected by the employees, represent the interests of the employees vis-à-vis the employer in accordance with the Works Council Act of 1972 (*Betriebsverfassungsgesetz*). Works councils are established locally, as well as at the level of Deutsche Telekom AG and at the group level. Works councils must be notified in advance of, and have the right to comment on, proposed employee terminations, relocations and other matters, and have codetermination rights in respect of certain social matters, including work schedules and rules of conduct. The Federal Government has enacted amendments to the Works Council Act that may increase the influence of works councils in some matters.

Deutsche Telekom believes that its relations with the works council and the unions are good. Constructive relations with its employees and their representatives are of central importance to Deutsche Telekom.

### *Civil Servants*

As of December 31, 2000, approximately 26 percent of the employees of Deutsche Telekom were civil servants. No employees hired after January 1, 1995 have been granted civil servant status. Pursuant to the laws that applied to the conversion of Deutsche Telekom to a stock corporation, Deutsche Telekom's civil servant employees retained their civil servant status when that conversion occurred. As such, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by Deutsche Telekom or by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are permitted to join labor unions. Although Deutsche Telekom is authorized pursuant to the law governing the privatization of Deutsche Telekom to exercise generally the rights and duties of the Federal Republic as the employer of civil servants, the Federal Postal and Telecommunications Agency (*Bundesanstalt für Post und Telekommunikation* or "Federal Agency") has a right of consultation in the implementation of certain aspects of the terms under which Deutsche Telekom employs civil servants.

Civil servants employed by Deutsche Telekom are entitled to pension benefits provided by the Federal Government pursuant to the German Civil Servant Pension Act (*Beamtenversorgungsgesetz*). Pursuant to the law governing the privatization of Deutsche Telekom, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund such pension obligations. The special pension fund was merged in 2000 with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). The BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. All transactions for pension and allowance payments are made for the companies Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG.

In accordance with the provisions of the Post and Telecommunications Reorganization Act (*Gesetz zur Neuordnung des Postwesens und der Telekommunikation*), this pension fund makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. Deutsche Telekom AG is legally obligated as of 2000 to make an annual contribution to the special pension fund of 33 percent of the gross remuneration of active civil servants and the imputed gross remuneration of civil servants on temporary leave entitled to pension payments. These contributions amounted to EUR 895 million in 2000. A fixed annual contribution of EUR 1.5 billion was payable for the years 1995 through 1999.

The Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

### ***Non-Civil Servants***

As of December 31, 2000, approximately 74 percent of Deutsche Telekom's employees were non-civil servants. In addition to being covered by collective bargaining agreements, the non-civil servant employees are in general covered by the German Termination Protection Act (*Kündigungsschutzgesetz*), which imposes various restrictions on the involuntary termination of employment.

The vast majority of Deutsche Telekom's non-civil servant employees are organized in unions, principally the German Postal Workers' Union (*Deutsche Postgewerkschaft*). The terms and conditions of employment and salary increases for these non-civil servant employees are negotiated between Deutsche Telekom and the unions. Pursuant to the law governing the privatization of Deutsche Telekom, the Federal Agency is responsible for concluding collective bargaining agreements relating to certain statutorily defined non-wage benefits, rules of conduct and other general terms of employment. Such agreements only become effective with the consent of Deutsche Telekom. For further information regarding agreements among Deutsche Telekom and the Federal Postal and Telecommunications Agency, see "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions". Collective bargaining agreements between Deutsche Telekom and unions relating to remuneration typically have a term of one year.

Deutsche Telekom and the German Postal Workers' Union concluded a new collective bargaining agreement on May 31, 2000 that contemplates the introduction of a performance related compensation system. The agreement, which came into force with retroactive effect as of April 1, 2000, provides for the introduction of this new system in two steps. In the first step, the parties agreed to an increase in base wages by one percent and a performance-related increase of 2.15 percent. In the second step, which will come into force as of July 1, 2001, additional performance-related and individually negotiated wage increases will be granted in an aggregate amount of up to 2.3 percent of total wages and salaries. An automatic, across-the-board wage increase is not contemplated in this second step. Other results of the collective bargaining round include a shortening of the work week to 38 hours, which took effect as of January 1, 2001, and an agreement by Deutsche Telekom to hire all trainees taking their examination in 2000 into regular employment. For further information on the effects of these collective bargaining agreements on Deutsche Telekom's personnel expenses, see "Item 5. Operating and Financial Review and Prospects—Personnel Costs".

### **Workforce Reduction Program**

The workforce reduction program begun by Deutsche Telekom in 1995 was continued in 2000. In comparison with the workforce level at the end of 1999, the number of employees of Deutsche Telekom—excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995—had decreased by 5,584 to 166,649 by December 31, 2000. The workforce reductions, which are necessary to maintain the company's competitiveness, are taking place by means of normal attrition, severance packages, tide-over allowances, part-time work for older employees, financing assistance for civil servants giving up their status and leaving the company, and early retirement programs. A group-wide redeployment strategy is helping to ensure that the personnel requirements of all regions and specialization areas can be met. Pursuant to an agreement signed with the trade unions in January 2000, there will be no dismissals due to rationalization before the end of the year 2004.

Deutsche Telekom's medium-term goal of reducing its workforce (excluding the workforce of subsidiaries first consolidated after January 1, 1995) to about 170,000 by the end of the year 2000 without involuntary layoffs—a reduction of 60,000 from the 1994 level—was fulfilled at the beginning of the year 2000, earlier than scheduled. Deutsche Telekom expects that, before the effects of acquisitions that may be made in coming years, workforce levels will remain stable in the coming year. Deutsche Telekom currently does not have a formal program to further reduce the number of employees. Additional workforce reduction initiatives could, however, result in restructuring charges or expenses.

## ITEM 7. Major Shareholders and Related Party Transactions

### Major Shareholders

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

The Federal Republic's direct ownership interest in Deutsche Telekom is approximately 43 percent. KfW, a development bank that is 80 percent owned by the Federal Republic and 20 percent owned by the German Federal states, owns 16.81 percent. The Federal Republic is therefore in indirect control of the shares owned by KfW.

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

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

For as long as the Federal Republic holds, directly or indirectly, a majority of Deutsche Telekom's voting share capital, it is entitled, under the Law on Budgetary Principles (*Haushaltsgrundsätze-gesetz*), to require Deutsche Telekom to instruct its independent auditors to extend the scope of their audit of Deutsche Telekom and its subsidiaries to cover their management and certain other matters. The Federal Republic is entitled to receive copies of audit reports upon request. In addition, the Federal Audit Office (*Bundesrechnungshof*) reviews the activities of the Federal Republic regarding enterprises in which it holds interests. For as long as the Federal Republic is, directly or indirectly, the majority shareholder of Deutsche Telekom, the Federal Audit Office has the right to investigate questions arising from its review, including by inspecting Deutsche Telekom's operations as well as books and accounts. Similar rights apply with respect to those subsidiaries of Deutsche Telekom that so provide in their articles of incorporation. In reporting to the Federal Republic, Supervisory Board members who are elected on the initiative of the Federal Republic are not generally subject to the usual secrecy obligations applicable to Supervisory Board members; the Federal Republic must, however, maintain the secrecy of confidential information contained in these reports.

Pursuant to the Articles of Association of DeTeMobil Deutsche Telekom MobilNet GmbH, Deutsche Telekom's mobile communications subsidiary ("T-Mobil"), the Finance Ministry has the right to nominate one member to the Supervisory Board of T-Mobil. At present, the Finance Ministry has not elected to nominate a member to the Supervisory Board of T-Mobil. The Finance Ministry has one representative on the Supervisory Board of each of Deutsche Telekom Systemlösung GmbH ("DeTeSystem"), Deutsche Telekom's systems solutions subsidiary, T-Online International AG and T-Mobile International AG.

### ***Ownership Interest of the Federal Republic in Deutsche Telekom***

The table below sets forth the number of Deutsche Telekom AG ordinary shares held by holders of more than 5 percent of Deutsche Telekom ordinary shares and their percentage ownership, based on information available to Deutsche Telekom.

| <b>Identity of Person or Group</b> | <b>12/31/2000</b>   |                | <b>12/31/1999</b>   |                | <b>12/31/1998</b>   |                |
|------------------------------------|---------------------|----------------|---------------------|----------------|---------------------|----------------|
|                                    | <b>Shares owned</b> | <b>Percent</b> | <b>Shares owned</b> | <b>Percent</b> | <b>Shares owned</b> | <b>Percent</b> |
| Federal Republic of                |                     |                |                     |                |                     |                |
| Germany . . . . .                  | 1,297,485,401       | 42.83%         | 1,307,835,401       | 43.18%         | 1,354,117,121       | 49.35%         |
| Kreditanstalt für Wiederaufbau . . | 509,164,599         | 16.81%         | 654,290,599         | 21.60%         | 621,008,879         | 22.63%         |
|                                    |                     | 59.64%         |                     | 64.78%         |                     | 71.98%         |

Assuming the completion of the Deutsche Telekom/VoiceStream and the Deutsche Telekom/Powertel acquisitions, the aggregate ownership of Deutsche Telekom shares by the Federal Republic and KfW is expected to be diluted to approximately 45 percent. The Federal Republic has publicly stated its intention to reduce substantially its ownership of Deutsche Telekom shares.

### **Related Party Transactions**

#### ***Relationship with the Federal Republic***

As is generally the case with other German corporations with a controlling shareholder, for as long as the Federal Republic is a shareholder with controlling influence (*beherrschender Einfluß*), Deutsche Telekom's Management Board is required to produce a report (*Abhängigkeitsbericht*) setting forth the relationships and the transactions entered into between Deutsche Telekom, on the one hand, and the Federal Republic or its affiliated enterprises, on the other hand. This related-party report, which is intended to protect minority shareholders and creditors, must include a declaration by the Management Board as to the fairness of transactions and dealings with the Federal Republic. Deutsche Telekom's independent auditors are required to confirm the accuracy of this report. The Supervisory Board is then required to review the related-party report and the auditor's findings thereon and to inform the shareholders as to the conclusion of both. In the 2000 related-party report, Deutsche Telekom's Management Board declared that under the circumstances known to the Management Board, at the time of performing the business transactions between Deutsche Telekom and the Federal Republic and its affiliated enterprises, including the Federal Agency, Deutsche Telekom received appropriate remuneration for these transactions, and that Deutsche Telekom did not perform or omit any actions on behalf of or on the instructions of the controlling shareholder, in its capacity as such, or any other affiliated companies. Deutsche Telekom's independent auditors have confirmed the accuracy of the 2000 related-party report regarding relationships between Deutsche Telekom and its controlling shareholder.

#### ***Coordination and Administrative Responsibilities of the Federal Agency***

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

Services provided by the Federal Agency pursuant to applicable law are rendered on the basis of service agreements between Deutsche Telekom, Deutsche Postbank or Deutsche Post, on the one hand, and the Federal Agency, on the other. Since German law currently requires that each of Deutsche Telekom, Deutsche Postbank and Deutsche Post enter into a service agreement with the Federal Agency covering the services described above, Deutsche Telekom has not considered entering into arrangements with third parties for the provision of these services. Costs of the Federal Agency incurred in connection with providing these services are financed out of fees agreed upon with Deutsche Telekom, Deutsche Post and Deutsche Postbank. Deutsche Telekom paid costs of EUR 68.1 million and accrued an additional EUR 10.2 million for these services in 2000 (as compared to EUR 71 million in 1999).

The total costs of the Federal Agency, consisting mainly of personnel costs for its employees, are allocated pursuant to the cost attribution system of the Federal Agency in accordance with actual expenses.

#### ***Federal Republic as Regulator***

The Federal Republic's role as regulator is independent and distinct from its role as shareholder. This regulatory function is exercised by the Regulatory Authority. See "Item 4. Information on the Company—Regulation".

#### ***Federal Republic and Affiliated Entities as Customers***

The Federal Republic is Deutsche Telekom's largest customer and purchases services on an arm's-length basis. Deutsche Telekom deals with the various departments and agencies of the Federal Republic of Germany as separate customers, and the provision of services to any one department or agency does not constitute a material part of Deutsche Telekom's revenues. Deutsche Telekom also entered into contracts to provide telecommunications services to entities affiliated with the Federal Republic, principally Deutsche Post, on an arm's-length basis in the ordinary course of business.

#### ***Arrangement with Deutsche Post***

Deutsche Telekom entered into an agreement with Deutsche Post AG in 2000 that calls for Deutsche Telekom to provide, among other things, information technology and corporate network services to Deutsche Post. In return, Deutsche Post provides distribution and transportation, printing, warehousing and other services. The objective of the arrangement is to allow each company to focus on its core competencies and dispose of peripheral activities. Deutsche Telekom expects that this arrangement will result in a net transfer of around 1,500 Deutsche Telekom employees to Deutsche Post.

#### ***Federal Republic Guarantees***

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

#### ***Pension Contributions for Civil Servants***

Civil servants (*Beamte*) employed by Deutsche Telekom are entitled to pension benefits provided by the Federal Republic. Under German law, Deutsche Telekom is required to make annual contributions to a special pension fund (*Unterstützungskasse*) established to fund these pension obligations. For further information, see "Item 6. Directors, Senior Management and Employees—Employees and Labor Relations" and "Item 5. Operating and Financial Review and Prospects—Results of Operations—Total Operating Costs and Expenses—Personnel Costs."

#### ***Real Estate Investigation***

Deutsche Telekom is advancing funds to cover the legal expenses being incurred by current and former board members in connection with the Bonn public prosecutors investigation of certain real estate valuation-related questions. These funds will be required to be repaid to Deutsche Telekom if there is a final determination that these individuals violated the law.

#### ***DT 3 Offering***

In connection with the global offering by KfW of equity securities of Deutsche Telekom in June 2000, Deutsche Telekom agreed to bear certain offering-related expenses in view of the benefits accruing to Deutsche

Telekom from the offering. Deutsche Telekom, the Federal Republic and KfW agreed to indemnify the underwriters for the offering against certain liabilities, including liabilities under the U.S. Securities Act of 1933, in the manner provided for in the underwriting agreement. The underwriting agreement allocated among Deutsche Telekom, the Federal Republic and KfW indemnification responsibility for different sections of the disclosure materials, with Deutsche Telekom taking responsibility vis-a-vis the underwriters for, among other things, the parts of the disclosure materials concerning its business and financial statements. Additionally, Deutsche Telekom agreed with KfW to assume responsibility for errors, if any, in the translation of some of the prospectuses and for certain supplementary disclosure items that were required under local law in some offering jurisdictions. As issuer of the shares that were offered, Deutsche Telekom became subject to the prospectus liabilities, if any, associated with its registering or listing the securities offered in various jurisdictions. The underwriting agreement provides that its underwriter indemnification provisions are in addition to, and do not affect, any liability that Deutsche Telekom, KfW, the Federal Republic or the underwriters may otherwise have. For a description of pending litigation and an investigation relating to the global offering, see “Item 8. Financial Information—Litigation”.

***Loan from T-Online International AG to Deutsche Telekom AG***

At December 31, 2000 T-Online International AG had loaned to Deutsche Telekom AG on a short-term basis approximately EUR 2.6 billion

Deutsche Telekom provides telecommunications services to numerous companies, mainly throughout Europe, in the ordinary course of business, including firms in which it holds an ownership interest and firms with which certain members of the Supervisory Board are affiliated.



## **ITEM 8. Financial Information**

### **Consolidated Financial Statements**

See “Item 18. Financial Statements”

### **Export Sales**

In 2000, EUR 7.76 billion in revenues, or 19 percent of total revenues, consisted of Deutsche Telekom’s revenue generated with customers located in countries outside of Germany, as compared to EUR 4.06 billion, or 11 percent, in 1999. EUR 5.02 billion of that amount was derived from customers in the European Union (other than Germany), as compared to EUR 1.91 billion in 1999, and EUR 2.27 billion of that amount was derived from countries in the rest of Europe in 2000, as compared to EUR 1.8 billion in 1999.

### **Litigation**

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

#### ***Securities and Corporate Law-Related Proceedings***

Several purported class action lawsuits have been filed in the United States District Courts for the Eastern District of New York and the Southern District of New York by purported purchasers of Deutsche Telekom ADSs issued pursuant to a registration statement on Form F-3 filed with the Securities and Exchange Commission on May 22, 2000 and pursuant to a prospectus dated June 17, 2000. The complaints in these actions, all of which are substantially identical to one another except for the identity of the named plaintiffs, assert claims under U.S. federal securities statutes based on allegations that statements made in the registration statement and prospectus were materially false and misleading because they allegedly failed to disclose adequately information relating to merger negotiations between Deutsche Telekom and VoiceStream Wireless Corporation and increased costs incurred in competing for mobile telephone customers. Deutsche Telekom intends to defend these actions vigorously.

On June 26, 2000, two Deutsche Telekom shareholders filed a suit with the District Court in Bonn (*Landgericht Bonn*) seeking to have declared void the shareholders resolutions authorizing both the stock option plan and a related conditional capital increase. The case was dismissed by the District Court in Bonn (*Landgericht Bonn*) on February 20, 2001. This decision has been appealed.

In July 2000, Deutsche Telekom entered into agreements finally settling all claims and counterclaims asserted in six arbitration proceedings under the Arbitration Rules of the International Chamber of Commerce and one legal proceeding with the District Court (*Landgericht*) in Bonn variously involving France Telecom, Compagnie Générale des Communications S.A., Enel S.p.A, and Wind Telecomunicazioni S.p.A. All of these arbitration proceedings and legal proceedings have been withdrawn. For information on the circumstances that gave rise to these claims, see “Item 4. Information on the Company—Description of Business Segments—International.”

On October 21, 1999, T-Mobil commenced arbitration proceedings in Vienna, Austria, against Elektrim S.A. and certain small shareholders of PTC. T-Mobil’s claim alleges that these companies wrongfully failed to recognize Deutsche Telekom’s rights of first refusal over approximately three percent of PTC, and that this failure was a material breach of the PTC shareholders’ agreement. These companies have denied T-Mobil’s claim, and Elektrim has filed a counterclaim against T-Mobil alleging that T-Mobil materially breached the shareholders’ agreement by, among other things, attempting to purchase PTC shares from several small shareholders and obstructing Elektrim’s purchase of PTC shares. T-Mobil has denied the allegations made in the counterclaim. A finding by the arbitration panel that a party has materially breached the PTC shareholder agreement would give the non-defaulting party the right to acquire the defaulting party’s PTC shares at book value, which would be substantially below their current fair market value. In December 2000, T-Mobil filed a second proceeding against Elektrim claiming that Elektrim breached the terms of the Deed of Foundation of PTC by transferring all but one of its shares in PTC to Telco, a limited liability company under Polish law in which Elektrim has a shareholding of 51 percent and Vivendi S.A. a shareholding of 49 percent. In particular,

T-Mobil claims that (i) the transfer of shares required approval by the Supervisory Board of PTC, (ii) the shareholder agreement permitted only the transfer of a party's entire interest and (iii) the consent of the Ministry of Telecommunications to the transfer was required but not obtained.

Press reports indicate that various private parties in Germany are evaluating measures that might be taken against Deutsche Telekom or its management, or both, on the basis of allegations in the press and elsewhere that the book values recorded by Deutsche Telekom for its real property portfolio have been improperly established and maintained under applicable accounting principles. Deutsche Telekom disputes these allegations. Some shareholders have written to Deutsche Telekom raising claims for damages. Press reports indicate that, to date, one complaint on behalf of two shareholders has been filed with a German court. Deutsche Telekom intends to defend itself vigorously against any claims that may be made against it on the basis of the allegations.

### ***Investigations***

The Bonn public prosecutor is conducting an investigation (*Ermittlungsverfahren*) into allegations in the press and elsewhere asserting that the book values recorded by Deutsche Telekom for its real property portfolio have been improperly established and maintained under applicable accounting principles. As noted above, Deutsche Telekom disputes these allegations. Deutsche Telekom nonetheless has been cooperating fully in the investigation and is interested in seeing it expeditiously resolved. Deutsche Telekom expects, but cannot be sure, that the special EUR 2.0 billion writedown that it has recorded in respect of the book value of its real estate portfolio will be helpful in resolving the investigation. Deutsche Telekom cannot offer assurances, however, as to the timing or outcome of the prosecutor's investigations. Deutsche Telekom believes that the investigation is being conducted with regard to certain individuals and is not directed against Deutsche Telekom itself. The public prosecutor has publicly identified Deutsche Telekom's former Chief Financial Officer, the former Chairman of the company's Supervisory Board and the current Chairman of its Management Board as being among the individuals under investigation. Adverse consequences for Deutsche Telekom could follow if any of the individuals who are the subject of the investigation were found to have violated the law.

The Bonn public prosecutor is conducting an investigation into whether Deutsche Telekom bore certain costs associated with the June 2000 global offering by KfW of Deutsche Telekom shares at a level not reasonably commensurate with the benefits Deutsche Telekom received. Deutsche Telekom is convinced that it acted appropriately, and is cooperating fully in the investigation.

### ***Proceedings against Decisions of the Regulatory Authority***

The Regulatory Authority issued an order in December 1999 that establishes the rates applicable to voice telephony interconnection services provided by Deutsche Telekom between January 1, 2000 and January 31, 2001. For further information on this decision, see "Item 4. Information on the Company—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection." Because the decision of the Regulatory Authority in this matter was based on an international benchmark rather than on the cost information submitted by Deutsche Telekom, Deutsche Telekom filed a complaint against this order with the Cologne Administrative Court (*Verwaltungsgericht Köln*) in January 2000.

In two decisions published in September and November 1999, the Regulatory Authority took the position that regulatory approval is required for Deutsche Telekom's offers of services to service providers that purchase services for purposes of resale. This position relates to offers of both local calls and domestic and international long-distance calls. According to these decisions, these offers to resellers are seen as voice telephony services and Deutsche Telekom is seen as dominant in the market for those services. Deutsche Telekom's application for an injunction against the implementation of these decisions was rejected by the Cologne Administrative Court, but these decisions were reversed by the Appellate Administrative Court in Münster (*Oberverwaltungsgericht Münster*) in August and October 2000 respectively, concluding the injunction proceedings. The proceedings in the main action are still pending.

In September 2000, the Regulatory Authority issued an order establishing a new tariff structure for interconnection, replacing the basically distance-based tariff structure with an element-based tariff structure. Deutsche Telekom has filed a legal challenge against this order as well as an application for an injunction against the implementation of this order with the Cologne Administrative Court in October 2000. In December 2000 the Cologne Administrative Court granted the requested injunction. The Regulatory Authority has applied for permission to appeal. A decision by the Appellate Administrative Court in Münster (*Oberverwaltungsgericht Münster*) on the admissibility of the appeal is still pending.

In response to complaints from prospective voice telephony competitors of Deutsche Telekom, in July 1997, the predecessor of the Regulatory Authority required Deutsche Telekom to allow the complainants unbundled access to end customer lines (the “local loop”) within Deutsche Telekom’s network for purposes of connecting their own customers. See “Item 4. Information on the Company—Regulation—Special Network Access and Interconnection—Local Loop Access”. A motion for a temporary injunction against this order was rejected by the Cologne Administrative Court. In a hearing before the Appellate Administrative Court in Münster in September 1997, an agreement was reached substantially on the basis of the regulator’s requirements, pursuant to which Deutsche Telekom now offers unbundled access to competitors. This agreement remains subject to the outcome of the litigation. Two administrative courts have dismissed Deutsche Telekom’s challenge to this order, and Deutsche Telekom has appealed the issue to the Federal Administrative Court (*Bundesverwaltungsgericht*) in Berlin. In April 2001, the Federal Administrative Court rejected these appeals.

The Regulatory Authority issued an order on March 9, 1998, rejecting in part an application by Deutsche Telekom for the approval of charges for access to the local loop. The Regulatory Authority rejected Deutsche Telekom’s cost calculations based on a purported lack of transparency in the calculations and the evaluation of the cost factors and prescribed lower charges (DM 20.65 plus VAT) than those Deutsche Telekom had sought. See “Item 4. Information on the Company—Regulation—Special Network Access and Interconnection—Local Loop Access”. Deutsche Telekom filed a legal challenge to this order with the Cologne Administrative Court. In two decisions published in February 1999, the Regulatory Authority reset the charge for the monthly rate at DM 25.40 plus VAT for a period ending in March 2001. Deutsche Telekom and certain competitors filed complaints against this order with the Cologne Administrative Court in March 1999. A decision by that court that is adverse to Deutsche Telekom would be likely to have the effect of increasing competition in the local access market.

On April 16, 1999, the Regulatory Authority opened a proceeding to regulate the prices for Internet access via online service. In its decision of June 16, 1999 the Regulatory Authority held that the charges for Internet access via online service did not constitute an abuse of Deutsche Telekom’s alleged dominant position on the telephony market, but that Deutsche Telekom could no longer offer a special volume discount for the telephone connection capacity. The decision was based on a benchmark study, not on cost calculations by Deutsche Telekom. Several competitors of Deutsche Telekom filed complaints against this order with the Cologne Administrative Court. The Cologne Administrative Court issued two interim injunctions in which the Court expressed the view that fees charged by Deutsche Telekom for the use of its Internet platform are subject to price regulation under the Telecommunications Act and obligated the Regulatory Authority to reopen the proceedings in respect to prices for Internet access via online service and to base its decision on Deutsche Telekom’s cost calculations. Deutsche Telekom, the Regulatory Authority and two competitors (media ways GmbH and Interactive Networks GmbH) have appealed this decision. In July 2000, the Appellate Administrative Court in Münster rejected the appeals filed by mediaways and Interactive Networks and admitted the appeals taken by Deutsche Telekom and the Regulatory Authority. The plaintiffs then withdrew their appeals and actions.

On November 15, 2000, the Regulatory Authority ordered Deutsche Telekom to offer internet service providers and to other enterprises which demand Internet access, flat-rate access to its network by February 1, 2001. Additionally, the Regulatory Authority ordered Deutsche Telekom in this context to stop providing quantity discount and to eliminate different charges for peak / offpeak-connections. Deutsche Telekom filed a suit against this decision of the Regulatory Authority and filed a motion for a temporary injunction, claiming that the decision of the Regulatory Authority would not be in accordance with the relevant provisions of the Telecommunications Act. The motion for a temporary injunction against this order was rejected by the Cologne Administrative Court, but in March 2001 this decision was reversed by the Appellate Administrative Court in Münster concluding the injunction proceedings. The proceedings in the main action are still pending.

In May 2000, AOL Deutschland and mediaWays filed with the Administrative Court in Cologne a complaint and a petition seeking suspension of a regulatory approval given with respect to the online component of the tariff “Optionsangebot XXL” (or “T-ISDN XXL”). Deutsche Telekom was joined in this proceeding as third party. In April 2000, the Regulatory Authority had given approval to the scale of charges associated with “Optionsangebot XXL” for a trial run. In June 2000, the Cologne Administrative Court suspended the regulatory approval of that component of the product “Optionsangebot XXL” that consists of free online access on Sundays and on public holidays. The court did not, however, suspend regulatory approval of that component of the product “Optionstarif XXL” that consists of free ISDN connections on Sundays and

public holidays. In June 2000, Deutsche Telekom appealed the decision of the Cologne Administrative Court to the Appellate Administrative Court in Münster. On June 9, 2000, the Appellate Administrative Court reversed the decision of the Cologne Administrative Court.

### ***Proceedings before the European Commission***

On March 17, 1999, Mannesmann Arcor filed a complaint with the European Commission against the Federal Republic and against Deutsche Telekom. The complaint primarily relates to Deutsche Telekom's prices for unbundled access to the local loop, which were set by the Regulatory Authority in early 1999. According to Mannesmann Arcor, Deutsche Telekom's low retail prices for local calls and for subscriber lines combined with its high prices for interconnection and for unbundled access to the local loop do not allow competitors to provide customer services economically. With regard to the Federal Republic, Mannesmann Arcor alleges that the German Economics Ministry exerted undue influence over the decision of the Regulatory Authority regarding local loop access. Furthermore, in Mannesmann Arcor's view, legal protection offered to applicants by German administrative courts, in the form of interim relief, for instance, would not be efficient. Other competitors have jointly filed two further complaints to the European Commission containing similar reproaches. In addition, Telepassport and Viatel have filed complaints alleging that Deutsche Telekom has abused a dominant position by charging long distance off-peak prices that are lower than applicable interconnection tariffs. Deutsche Telekom believes that the complaints are without merit and has submitted replies to the European Commission. T-Online announced a plan to introduce new Internet charges as of April 1, 1999. AOL Bertelsmann filed a complaint concerning the new charges with the European Commission on February 15, 1999. The complaint alleges the abuse by Deutsche Telekom of its dominant position (in particular, the bundling of Deutsche Telekom's local telephone charges with T-Online's Internet access charges and the use by T-Online of Deutsche Telekom's billing systems). AOL Bertelsmann has also filed a complaint with the German Regulatory Authority based on essentially the same allegations.

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

### ***Other Proceedings***

In the first quarter of 2000, AOL Bertelsmann also brought three preliminary injunction proceedings against T-Online and Deutsche Telekom before the Hamburg District Court (*Landgericht Hamburg*) claiming that T-Online had engaged in anti-competitive practices. All these preliminary proceedings have been ended in favor of T-Online / Deutsche Telekom. In the main proceeding in which AOL Bertelsmann argued that T-Online had engaged in an anti-competitive practice by bundling its "By-Call" Internet access charge with Deutsche Telekom's ISDN telephone access, the Hamburg District Court decided in favor of Deutsche Telekom / T-Online. AOL Bertelsmann appealed to the Hamburg Court of Appeals.

On March 15, 2000, AOL Bertelsmann filed a complaint against T-Online with the German Federal Antitrust Authority (*Bundeskartellamt*) claiming that T-Online would engage in an anti-competitive practice by combining its "T-Online by call" tariff option with Deutsche Telekom ISDN access. In a letter dated March 27, 2000, the Federal Antitrust Authority requested T-Online to provide clarification concerning these allegations.

In early 1999, the U.S.-based operator Carrier 1 lodged a formal complaint with the U.S. Trade Representative against the Federal Republic alleging, among other things, that the Regulatory Authority failed to create a regulatory framework that guarantees competitors interconnection without unreasonable technical conditions on a timely basis and at cost-oriented prices. The complaint further alleges anti-competitive practices on the part of Deutsche Telekom (for example, delay in negotiating and implementing interconnection agreements). Deutsche Telekom believes the Carrier 1 complaint should be rejected on the merits. Two industry groups have also complained to U.S. authorities about interconnection in Germany. See "Item 4. Information on the Company—Regulation—International Obligations".

In September 1998, Deutsche Post AG commenced an arbitration proceeding seeking contributions from Deutsche Telekom relating to the cost of employee housing for former Deutsche Bundespost employees,

including a number of Deutsche Telekom employees. In 1995, responsibility for the housing of former employees of Deutsche Bundespost was assigned to Deutsche Post AG. The parties have different views as to the amount Deutsche Telekom is obliged to pay as cost reimbursement for the use of such employee housing for its employees. Deutsche Post AG currently is seeking payment in the amount of EUR 69.4 million from Deutsche Telekom, although Deutsche Telekom expects that Deutsche Post AG may claim further amounts in the event that its initial claim is successful. In March 2000, Deutsche Telekom raised counterclaims in the amount of EUR 62.6 million reclaiming down-payments from 1995 and 1996. The outcome of the arbitration proceeding is uncertain.

In March 1999, a German consumer association filed a complaint with the Cologne Regional Court concerning telephone cards with limited validity sold by Deutsche Telekom since October 1998. The Regional Court upheld the complaint with its ruling of October 27, 1999. The Cologne Higher Regional Court rejected Deutsche Telekom's appeal with its ruling of August 23, 2000. Deutsche Telekom has lodged an appeal with the Federal Court of Justice (*Bundesgerichtshof*).

On or about April 20, 2001, the U.S. company World Access, Inc., which purports to own a substantial minority interest in the German long-distance telecommunications carrier Teldafax, reportedly filed a complaint in the U.S. District Court for the Northern District of Georgia asserting claims for alleged damages in excess of \$600 million relating to, among other things, Deutsche Telekom's decision to cease providing interconnection services to Teldafax for nonpayment of invoices and alleged improper conversion by Deutsche Telekom of customers of Teldafax and World Access. Deutsche Telekom has restored interconnection services to Teldafax in accordance with a German preliminary injunction that also required Teldafax to make certain payments to a trust account and to Deutsche Telekom. Deutsche Telekom intends to oppose the complaint vigorously.

In April 2001, QPSX Europe GmbH filed suit for a permanent injunction with the District Court in Munich (*Landgericht München*) against Deutsche Telekom AG and Siemens AG, alleging that these companies are infringing plaintiff's patent by providing services using Asynchronous Transfer Mode (ATM) Technology. Deutsche Telekom intends to defend this action vigorously.

#### **Dividend Policy**

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

| <u>Year Ended December 31,</u> | <u>Dividend Paid per Ordinary Share</u> |             |                |
|--------------------------------|---|-------------|----------------|
|                                | <u>DM</u>                               | <u>Euro</u> | <u>US\$(1)</u> |
| 1997 .....                     | 1.20                                    | —           | 0.68           |
| 1998 .....                     | 1.20                                    | —           | 0.64           |
| 1999 .....                     | —                                       | 0.62        | 0.58           |

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

Shareholders determine the declaration, amount and timing of dividends based on the year-end unconsolidated stand-alone financial statements of Deutsche Telekom AG in respect of each fiscal year at their annual general meeting in the following year, upon the joint recommendation of the Management Board and the Supervisory Board. The annual general meeting is usually convened during the second quarter of each year.

As long as the Federal Republic and KfW own a majority of Deutsche Telekom's voting share capital, they will have the power to control most decisions taken at shareholders' meetings, including the approval of proposed dividend payments. Assuming completion of the Deutsche Telekom/VoiceStream merger and the Deutsche Telekom/Powertel merger, the Federal Republic and KfW will no longer own a majority of Deutsche Telekom's voting share capital. However, because approval of dividend distributions requires only a majority of votes present at a shareholders' meeting, the Federal Republic and KfW may be able to determine the level of dividends even after their combined interest in Deutsche Telekom falls below 50 percent. Deutsche Telekom may declare and pay dividends only from distributable balance sheet profits (*Bilanzgewinn*) of Deutsche Telekom, as adjusted to reflect losses or gains carried over from prior years as well as transfers to or from retained earnings. Deutsche Telekom AG's retained earnings in its unconsolidated, stand-alone financial statements as of December 31, 2000 were EUR 4.9 billion. Certain reserves (*Rücklagen*) are required by law to be made and deducted in calculating distributable balance sheet profits available for distribution as dividends.

The payment of future dividends depends on Deutsche Telekom's earnings, its financial condition and other factors, including cash requirements, the future prospects of Deutsche Telekom and tax, regulatory and other legal considerations. Although Deutsche Telekom expects to pay annual dividends on its shares, you should not assume that any dividend will actually be paid or make any assumption about the amount that will be paid in any given year. To the extent necessary to implement Deutsche Telekom's dividend policy, Deutsche Telekom will consider drawing upon its retained earnings, as it has done with respect to the proposed dividend for 2000. Deutsche Telekom's ability to pay dividends is determined by reference to the unconsolidated financial statements of Deutsche Telekom, which are prepared in accordance with German GAAP. In financial year 2000, Deutsche Telekom's net income on a consolidated German-GAAP basis was EUR 5.9 billion, while the net loss of Deutsche Telekom AG on an unconsolidated basis in accordance with German GAAP was EUR 3.3 billion. The difference was primarily caused by a write-down on certain assets which had a higher book value in the unconsolidated financial statements than in the consolidated financial statements due to an intra-group sale that took effect in fiscal year 1999.

The Management Board has recommended a dividend allocation in respect of 2000, which would be payable in 2001, of approximately EUR 1.9 billion, or EUR 0.62 per share (assuming about 3.0 billion shares outstanding). Dividends paid will be subject to German withholding tax. For further information on German withholding tax and related United States refund procedures, see "Item 10. Additional Information—Taxation".

**Significant changes**

No significant change has occurred since the date of the annual financial statements included in this Annual Report.

## **ITEM 9. The Offer and Listing**

### **Trading Markets**

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

American Depositary Shares ("ADSs"), each representing one share, are listed on the New York Stock Exchange (NYSE) and trade under the symbol DT. The depositary for the ADSs is Citibank N.A. For information on securities held in the United States see "—Trading on the New York Stock Exchange".

### ***Trading on the Frankfurt Stock Exchange***

Deutsche Börse AG operates the Frankfurt Stock Exchange, which is the most significant of the eight German stock exchanges. The Frankfurt Stock Exchange (including transactions through the Xetra system) accounted for approximately 84 percent of the turnover in exchange-traded shares in Germany in 2000. As of December 31, 2000, the shares of 5,694 companies traded on the official, regulated and unregulated markets and the Neuer Markt Segment of the Frankfurt Stock Exchange. Of these, 905 were German companies and 4,789 were non-German companies.

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

Deutsche Telekom's shares are traded on Xetra (Exchange Electronic Trading) in addition to being traded on the auction market. Xetra is an electronic exchange trading platform operated by rules and regulations. Xetra is available daily between 9:00 a.m. and 8:00 p.m. to brokers and banks that have been admitted to Xetra by the Frankfurt Stock Exchange. Private investors can trade on Xetra through their banks or brokers.

Deutsche Börse publishes a daily list of quotations containing the Xetra prices for all traded securities. The list is available on the Internet at <http://www.exchange.de> under the heading "Market Data—Price Overview".

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

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

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

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

|                                | Price Per Ordinary Share |        | DAX(1)   |          |
|--------------------------------|--------------------------|--------|----------|----------|
|                                | High                     | Low    | High     | Low      |
|                                | Euro (2)                 |        |          |          |
| Yearly highs and lows          |                          |        |          |          |
| 1996                           | 17.123                   | 16.075 | 2,909.91 | 2,284.86 |
| 1997                           | 22.599                   | 15.267 | 4,438.93 | 2,848.77 |
| 1998                           | 28.617                   | 15.947 | 6,171.43 | 3,896.08 |
| 1999                           | 71.00                    | 31.35  | 6,958.14 | 4,678.72 |
| 2000                           | 103.50                   | 31.48  | 8,064.97 | 6,200.71 |
| Quarterly highs and lows       |                          |        |          |          |
| 1999                           |                          |        |          |          |
| First Quarter                  | 43.54                    | 31.35  | 5,443.62 | 4,678.72 |
| Second Quarter                 | 45.14                    | 34.21  | 5,468.67 | 4,914.59 |
| Third Quarter                  | 43.29                    | 37.00  | 5,652.02 | 4,978.45 |
| Fourth Quarter                 | 71.00                    | 38.24  | 6,958.14 | 5,124.55 |
| 2000                           |                          |        |          |          |
| First Quarter                  | 103.50                   | 61.00  | 8,064.97 | 6,474.92 |
| Second Quarter                 | 80.40                    | 55.80  | 7,555.92 | 6,834.88 |
| Third Quarter                  | 61.35                    | 38.40  | 7,480.14 | 6,682.92 |
| Fourth Quarter                 | 45.11                    | 31.48  | 7,136.30 | 6,200.71 |
| Monthly highs and lows         |                          |        |          |          |
| 2000                           |                          |        |          |          |
| July                           | 61.35                    | 47.01  | 7,480.14 | 6,944.36 |
| August                         | 49.60                    | 42.05  | 7,339.22 | 7,016.59 |
| September                      | 49.01                    | 38.40  | 7,445.56 | 6,682.92 |
| October                        | 45.11                    | 35.09  | 7,077.44 | 6,465.26 |
| November                       | 42.49                    | 36.11  | 7,136.30 | 6,372.33 |
| December                       | 40.25                    | 31.48  | 6,782.52 | 6,200.71 |
| 2001                           |                          |        |          |          |
| January                        | 38.75                    | 31.20  | 6,795.14 | 6,289.82 |
| February                       | 35.17                    | 24.55  | 6,704.68 | 6,075.34 |
| March (through March 15, 2001) | 28.71                    | 25.10  | 6,305.64 | 5,794.12 |

- (1) The DAX is a weighted performance index of the shares of thirty large German corporations. The calculation of the DAX did not change upon the introduction of the euro. The composition of the DAX and the weighting of different corporations in the DAX has changed in the period covered by this table and may change in the future.
- (2) Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro as their common currency. From January 4, 1999, all shares on German stock exchanges have traded in euros. For consistency of presentation, Deutsche Telekom has translated amounts in Deutsche Marks for prior periods into euros at the official fixed conversion rate of EUR 1.00 = DM 1.95583. The translation of all Deutsche Mark amounts into euros at the official fixed conversion rate does not affect the trends discussed above. However, the amounts appearing above for dates or periods prior to January 4, 1999 will not be comparable to share prices for other companies to the extent that those prices were denominated in a currency other than the Deutsche Mark.

On March 15, 2001, the closing sales price per share on the Frankfurt Stock Exchange was EUR 26.70, equivalent to US\$ 24.15 per share, translated at the Noon Buying Rate for March 15, 2001.



### *Trading on the New York Stock Exchange*

American Depositary Shares (ADSs), each representing one Deutsche Telekom ordinary share, are listed on the New York Stock Exchange and trade under the symbol "DT". The depository for the ADSs is Citibank N.A.

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

|  | Price per ADS  |                                 |
|--|--|---------------------------------|
|  | High   | Low                             |
|  | US\$   |                                 |
| Yearly highs and lows                    |  |                                 |
| 1996 . . . . .                           | 21 <sup>5</sup> / <sub>8</sub>                               | 20 <sup>1</sup> / <sub>4</sub>  |
| 1997 . . . . .                           | 24 <sup>7</sup> / <sub>8</sub>                               | 16 <sup>3</sup> / <sub>8</sub>  |
| 1998 . . . . .                           | 33 <sup>1</sup> / <sub>2</sub>                               | 17 <sup>1</sup> / <sub>16</sub> |
| 1999 . . . . .                           | 71   | 36 <sup>1</sup> / <sub>16</sub> |
| 2000 . . . . .                           | 98 <sup>5</sup> / <sub>8</sub>                               | 29 <sup>1</sup> / <sub>4</sub>  |
| Quarterly highs and lows                 |  |                                 |
| 1999                                     |  |                                 |
| First Quarter . . . . .                  | 47 <sup>1</sup> / <sub>8</sub>                               | 36 <sup>1</sup> / <sub>16</sub> |
| Second Quarter . . . . .                 | 45 <sup>7</sup> / <sub>8</sub>                               | 36 <sup>1</sup> / <sub>4</sub>  |
| Third Quarter . . . . .                  | 45 <sup>7</sup> / <sub>16</sub>                              | 38 <sup>5</sup> / <sub>8</sub>  |
| Fourth Quarter . . . . .                 | 71   | 40 <sup>3</sup> / <sub>4</sub>  |
| 2000                                     |  |                                 |
| First Quarter . . . . .                  | 98 <sup>5</sup> / <sub>8</sub>                               | 63 <sup>1</sup> / <sub>16</sub> |
| Second Quarter . . . . .                 | 76 <sup>1</sup> / <sub>4</sub>                               | 49 <sup>3</sup> / <sub>16</sub> |
| Third Quarter . . . . .                  | 58 <sup>11</sup> / <sub>5</sub> <sup>2</sup> / <sub>56</sub> | 33 <sup>2</sup> / <sub>64</sub> |
| Fourth Quarter . . . . .                 | 38 <sup>3</sup> / <sub>16</sub>                              | 29 <sup>1</sup> / <sub>4</sub>  |
| Monthly highs and lows                   |  |                                 |
| 2000                                     |  |                                 |
| July . . . . .                           | 58 <sup>11</sup> / <sub>5</sub> <sup>2</sup> / <sub>56</sub> | 42 <sup>5</sup> / <sub>8</sub>  |
| August . . . . .                         | 44 <sup>15</sup> / <sub>16</sub>                             | 37 <sup>3</sup> / <sub>8</sub>  |
| September . . . . .                      | 41 <sup>9</sup> / <sub>16</sub>                              | 33 <sup>2</sup> / <sub>64</sub> |
| October . . . . .                        | 38 <sup>3</sup> / <sub>16</sub>                              | 30 <sup>3</sup> / <sub>8</sub>  |
| November . . . . .                       | 36 <sup>1</sup> / <sub>4</sub>                               | 31 <sup>5</sup> / <sub>16</sub> |
| December . . . . .                       | 34 <sup>3</sup> / <sub>4</sub>                               | 29 <sup>1</sup> / <sub>4</sub>  |
| 2001                                     |  |                                 |
| January . . . . .                        | 36.5625  | 29.50                           |
| February . . . . .                       | 33.25  | 22.45                           |
| March (through March 15, 2001) . . . . . | 26.71  | 22.95                           |

On March 15, 2001, the closing sales price per ADS on the NYSE was US\$ 23.38.

Based on the share register, as of March 15, 2001, Deutsche Telekom AG had approximately 2,816,967 registered holders of Deutsche Telekom ordinary shares, including 2,798 holders of record of Deutsche Telekom ordinary shares with addresses in the U.S.

As of March 15, 2001, there were 43,824,884 Deutsche Telekom ADSs outstanding, with 449 holders of record of Deutsche Telekom ADSs with addresses in the United States and 107 holders of record of ADSs with addresses outside the United States.

## **ITEM 10. Additional Information**

### **Articles of Association**

This section provides information about Deutsche Telekom's Articles of Association and about German law as these relate to the rights of holders of the shares of Deutsche Telekom. Set forth below is a summary of certain information relating to Deutsche Telekom's share capital and of certain provisions of Deutsche Telekom's Articles of Association and German law. This summary is not complete and is qualified by reference to Deutsche Telekom's Articles of Association and German law as in effect at the date of this filing. Copies of the Articles of Association are publicly available at the Commercial Register in Bonn, and an English translation has been filed as an exhibit to this Annual Report on form 20-F.

#### ***Organization and Register***

Deutsche Telekom AG is a stock corporation organized in the Federal Republic of Germany under the Stock Corporation Law (*Aktiengesetz*). Deutsche Telekom AG is registered in the Commercial Register (*Handelsregister*) maintained by the local court in Bonn, Germany, under the entry number "HRB 6794".

#### ***Purpose and Object of Deutsche Telekom***

According to the Articles of Association, the object of the Company is activity in all areas of telecommunications and in related areas in Germany and abroad. The Company is entitled to enter into all other transactions and take all other measures deemed appropriate to serve the object of the enterprise. It may also set up, acquire and participate in other undertakings of the same or similar kind in Germany and abroad, as well as run such undertakings or confine itself to the administration of its participations. It may spin off its operations wholly or partly to affiliated undertakings.

#### ***Information relating to Supervisory Board and Management Board Members***

A Supervisory Board member may not receive a loan from Deutsche Telekom AG unless approved by the Supervisory Board. A Management Board Member may only receive a loan from Deutsche Telekom AG upon prior approval by the Supervisory Board. For further information with respect to the Supervisory Board and the Management Board, see also "Item 6. Directors, Senior Management and Employees".

#### ***Class of Stock***

The capital stock of Deutsche Telekom consists of ordinary shares in registered form with no par value (*Stückaktien*). The individual shares do not have a par value as such, but they do have a notional par value that can be determined by dividing the share capital amount by the number of shares.

#### ***Voting Rights and Shareholders' Meetings***

Each share entitles its holder to one vote at Deutsche Telekom's general meeting of the shareholders. Shareholders may pass resolutions at a general meeting by a majority of the votes cast, unless a higher vote is required by law or by Deutsche Telekom's Articles of Association. Neither the German Stock Corporation Act nor the Articles of Association provide for minimum quorum requirements for shareholders' meetings. The German Stock Corporation Act and the Articles of Association require that significant resolutions be passed by a majority of the votes cast and with at least three-quarters of the share capital represented at a meeting.

These significant resolutions include:

- capital increases which provide for an exclusion of preemptive rights;
- capital decreases;
- the creation of authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*);
- dissolution of Deutsche Telekom;
- merger of Deutsche Telekom into or consolidation of Deutsche Telekom with another corporation;
- split-or spin-off; transfer of all Deutsche Telekom's assets;
- conclusion of intercompany agreements (*Unternehmensverträge*), including, in particular, direct control and profit and loss pooling agreements;

- amendments to the corporate purpose of Deutsche Telekom; and
- a change in Deutsche Telekom's corporate form.

A general meeting of the shareholders of Deutsche Telekom may be called by the Management Board, the Supervisory Board or by shareholders holding in the aggregate at least 5 percent of Deutsche Telekom's issued share capital. The annual general meeting must take place within the first eight months of the fiscal year and is called by the Management Board upon the receipt of the Supervisory Board's report on the annual financial statements. Under the Articles of Association, the right to participate in and to vote at a shareholders' meeting will only be given to those shareholders who have timely registered for the shareholders' meeting in writing or by fax with the Management Board at the seat of the company and who are included in the share register when their registration for the shareholders' meeting is received. There must be at least two days between receipt of the registration and the date of the shareholders' meeting. Deutsche Telekom must publish notice of shareholders' meetings in the Federal Gazette (*Bundesanzeiger*) at least one month prior to the date by which shareholders have to register for the shareholders' meeting. The day of publication and the last date by which shareholders have to register for the shareholders' meeting are not counted for this purpose. In addition, Deutsche Telekom must publish a notice in a national authorized stock exchange journal.

Holders of shares (but not holders of ADSs) are required to provide to Deutsche Telekom their names, addresses and occupations (or, in the case of business entities, their names, business addresses and registered seats) as well as the number of shares held, so that they can be entered into the share register maintained by Deutsche Telekom. ADEUS Aktienregister- Service- GmbH (a joint venture of Dresdner Bank AG, Allianz AG, Münchner Rückversicherungs- Gesellschaft AG in München and CSC Ploenzke AG) is the transfer agent and registrar of the registered shares in Germany. Those shareholders who have given timely notice to Deutsche Telekom in writing or by fax and who are registered in the share register at the time of this notice may participate in and vote in the general shareholders' meeting. This notice must be given early enough so that there are at least two days between the day when the notice is given and the day of the general shareholders' meeting. Following receipt of a notice of this type, Deutsche Telekom will not enter a transfer of the related shares in the share register until after the conclusion of the general shareholders' meeting.

### ***Dividends And Other Distributions***

Deutsche Telekom may pay dividends immediately following the resolution by the general meeting of shareholders on the distribution of profits. Shareholders participate in profit distributions in proportion to the notional value of their shares.

Under German law, Deutsche Telekom may declare and pay dividends only from balance sheet profits as shown in the unconsolidated annual financial statements of Deutsche Telekom. In determining the distributable balance sheet profits, the Deutsche Telekom Management Board and the Deutsche Telekom Supervisory Board may allocate to profit reserves (*andere Gewinnrücklagen*), either in whole or in part, the annual surplus (*Jahresüberschuss*) that remains after allocation to statutory reserves and losses carried forward. Under the Deutsche Telekom Articles of Association, transferring more than one-half of the annual surplus is not permissible if, following the transfer, the accumulated reserves out of surplus would exceed one-half of Deutsche Telekom's share capital. The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

Dividends approved at a shareholders' meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the shareholders' meeting. Details regarding paying agents are published in the Federal Gazette (*Bundesanzeiger*). Shareholders holding ordinary shares through Clearstream Banking AG will receive dividends by credit to their respective accounts.

### ***Record Dates***

In accordance with the German Stock Corporation Act, the record date for determining which holders of Deutsche Telekom ordinary shares are entitled to the payment of dividends or other distributions, whether in cash, stock or property, will be the date of the general meeting of shareholders at which such dividends or other distributions are declared. The record date for determining which holders of Deutsche Telekom ordinary shares are entitled to vote at a general meeting will be the date of such general meeting, provided that holders of Deutsche Telekom ordinary shares who are registered in the share register (*Aktienbuch*) on the date of the

meeting will be entitled to attend and vote at the meeting only if such holders have given Deutsche Telekom notice of their desire to attend early enough that there are at least two days between the day the notice is given and the day of the shareholders' meeting.

### ***Requirement to Disclose Shareholdings***

The German Securities Trading Act (*Wertpapierhandelsgesetz*) requires each person whose shareholding reaches, exceeds or, after exceeding, falls below the 5%, 10%, 25%, 50% or 75% voting rights thresholds of a listed company to notify the company and the Federal Supervisory Authority for Securities Trading in writing within seven calendar days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold. Such holders cannot exercise any rights, including voting rights and the rights to receive dividends from those shares, until they have satisfied this disclosure requirement. Failure to notify may also trigger a penalty provided for by law. In addition, the German Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the exercise of the voting rights attached to those shares.

### ***Repurchase of Shares***

Under the German Stock Corporation Act, Deutsche Telekom may not purchase its own shares, subject to certain limited exceptions.

The general shareholders' meeting on May 25, 2000 approved a resolution that authorizes Deutsche Telekom pursuant to Section 71(1) no. 8 of the German Stock Corporation Act to purchase its own shares in an amount representing up to ten percent of its registered share capital of EUR 7.76 billion through November 15, 2001. The purchase price for the shares (excluding purchasing costs) must not exceed or fall below the market price by more than five percent, in the case of a purchase on the stock exchange, or twenty percent, in the case of an offer to purchase made to all shareholders. The relevant market price for this purpose would be the opening auction price in the Xetra system of the Frankfurt Stock Exchange on the day of the purchase, in the case of a purchase on the stock exchange, or the closing price in the Xetra system on the day prior to the publication of the offer, in the case of an offer to purchase made to all shareholders.

Pursuant to the resolution, Deutsche Telekom's Management Board is authorized, with the approval of the Supervisory Board, to:

- (1) list the acquired shares on foreign stock exchanges on which they are not listed;
- (2) offer the acquired shares to third parties in the context of mergers with and acquisitions of other companies and acquisition of interests in other companies; and
- (3) to cancel the acquired shares without further shareholder approval. This cancellation option can be exercised in whole or in part.

Shareholders' preemptive rights are excluded for the purposes listed in clauses (1) and (2) above. The price for any sale on a stock exchange or use in a merger or acquisition transaction would not be permitted to fall more than five percent below the opening auction price of Deutsche Telekom's shares in the Xetra system of the Frankfurt Stock Exchange on the day of the sale on the stock exchange or the definitive agreement with a third party, as applicable.

### ***Preemptive Rights***

Under the German Stock Corporation Act, every shareholder generally has preemptive rights with respect to an issuance of new shares (including securities convertible into shares, securities with warrants to purchase shares, profit-sharing certificates and securities with a profit participation). Preemptive rights are freely transferable and may be traded on the German stock exchanges for a limited number of days prior to the final date for the exercise of the rights. Shareholders may exclude preemptive rights through a resolution passed by a majority of votes cast and a majority of at least three quarters of the share capital represented in the shareholders' meeting. In addition, an exclusion of preemptive rights requires a report by the Management Board, which must justify the exclusion by establishing that Deutsche Telekom's interest in the exclusion outweighs the shareholders' interest in exercising their preemptive rights. Preemptive rights related to the issuance of new shares may be excluded without justification if:

- Deutsche Telekom increases share capital for cash contributions;
- the amount of the increase does not exceed 10 percent of the issued share capital; and
- the shares are sold at a price not substantially lower than the current quoted share price.

### ***Rights upon Liquidation***

In accordance with the German Stock Corporation Act, upon a liquidation of Deutsche Telekom, shareholders will receive, in proportion to the ordinary shares held, any liquidation proceeds remaining after paying off all of Deutsche Telekom's liabilities.

### **Material Contracts**

#### ***Deutsche Telekom/Voicestream Merger***

In the summer of 2000, Deutsche Telekom entered into an agreement pursuant to which it will acquire all of the outstanding equity securities of VoiceStream, subject to the satisfaction of certain conditions.

The board of directors and the shareholders of VoiceStream have approved the merger of their company with a wholly-owned subsidiary of Deutsche Telekom AG, in which VoiceStream will become a wholly-owned subsidiary of Deutsche Telekom. VoiceStream stockholders approved this transaction on March 13, 2001.

This agreement, and the transactions contemplated thereby, are subject to various conditions, including regulatory clearances in the United States. For further information on this acquisition, see "Item 4. Information on the Company—Description of Business Segments—Mobile Communications—Pending Aquisitions".

### **Exchange Controls**

At present, the Federal Republic of Germany does not restrict the movement of capital between Germany and other countries, except investments in Iraq, in and with certain persons in Myanmar, with Slobodan Milosevic and related persons in Serbia, with institutions of the Taliban party in Afghanistan and the UNITA party in Angola. This is to comply with the applicable resolutions adopted by the United Nations and the European Union.

For statistical purposes, with certain exceptions, every corporation or individual residing in Germany is obligated to report any payment received from or made to a non-resident corporation or individual to the German Central Bank (*Deutsche Bundesbank*) if the payment exceeds EUR 12,500 or the equivalent in a foreign currency. Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against or liabilities payable to a non-resident corporation or individual exceeding an aggregate of DM 3.0 million or EUR 1.5 million or the equivalent in a foreign currency at the end of any calendar month.

Neither German law nor the Articles of Association restricts the right of non-resident or foreign owners of the ordinary shares to hold or vote the ordinary shares.

### **Taxation**

#### ***German Taxation***

The following is a brief summary of material German tax consequences for beneficial owners of shares and/or ADSs that are not residents for German income tax purposes, do not hold shares or ADSs as part of a permanent establishment or a fixed base in Germany and hold less than 10 percent of the company's voting stock ("German Nonresident Holders"). This summary is based upon German law and upon tax and other treaties concluded between Germany and other countries in effect as of the date hereof. The following is not meant to be a comprehensive discussion of all of the German tax consequences that may be relevant to a particular German Nonresident Holder. Investors should consult their tax advisers regarding the German tax consequences of the purchase, ownership and disposition of shares.

New German tax rules that entered into force on January 1, 2001 (the "Tax Reduction Act") have made extensive changes in the German tax treatment of dividend income. These new rules are discussed below under the heading "German Tax Reform Legislation".

The prior German tax rules will continue to apply to dividends paid by Deutsche Telekom AG on or before December 31, 2001, provided that the underlying earnings were generated by the end of the calendar year 2000.

#### *Taxation before Tax Reduction Act*

##### *Taxation of the Company*

For earnings generated by December 31, 2000, a German corporation was subject to corporate income tax at a rate of 40 percent on undistributed profits and of 30 percent on distributed profits. Since January 1, 1998, the corporate income tax liability has been subject to a 5.5 percent solidarity surcharge (*Solidaritätszuschlag*). This resulted in an effective aggregate corporate income tax charge of 31.94 percent on distributed profits. In addition, Deutsche Telekom AG is subject to profit-related trade tax which is levied on Deutsche Telekom AG's income for trade tax purposes. The exact rate of the profit-related trade tax depends on the municipalities where the corporation maintains a permanent establishment and generally ranges from 15 percent to 21 percent. In computing the corporate income tax of a corporation, the trade tax on income is deductible as a business expense.

##### *Taxation of the Shareholders*

*Pre-Tax Reduction Act Dividends.* German resident taxpayers (including foreign investors that hold shares or ADSs as part of a permanent establishment or a fixed base in Germany) are in principle entitled to a refundable tax credit in the amount of three-sevenths of the gross amount of the dividends distributed (before dividend withholding tax). The creditable corporate income tax increases the taxable income of the shareholder. The tax credit reduces the basis for the 5.5 percent surcharge on the German taxpayer's income tax liability. To the extent profits are distributed which were tax exempt for the corporation due to a double tax treaty or according to German tax law, e.g., certain dividends from foreign corporations, or profits which are treated as capital repayments for tax purposes, there is no imputed tax credit. A German Nonresident Holder is not eligible for a (refundable) corporate income tax imputation credit.

In addition, a 25 percent withholding tax (plus a 5.5 percent solidarity surcharge—effectively 1.375 percent of the dividend before taxes) is generally imposed on dividend distributions by a German corporation. This does not apply to distributions which are treated as capital repayments for tax purposes. This withholding tax rate is still applicable for dividends distributed in 2001 with respect to earnings generated by the end of 2000. With respect to a German Nonresident Holder, this rate may be eligible for reduction under a tax treaty applicable to such German Nonresident Holder. Under most tax treaties concluded by Germany, the withholding tax rate is reduced to 15 percent. Upon application to the German tax authorities (Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany) the treaty rate is applied by way of a refund of the difference between the amount of dividend withholding tax withheld at the statutory rate of 25 percent plus the solidarity surcharge and the applicable treaty rate. A special refund procedure applies to certain claims for benefits under the income tax treaty between the United States and Germany (the "Treaty") as described below under the heading "—United States Taxation—Refund Procedures".

Under the Treaty, as long as the corporate income tax imputation system continues to apply to individuals under German law, qualifying U.S. shareholders are entitled to an additional reduction in German dividend withholding tax equal to 5 percent of the gross amount of the dividend, which is also refundable, as discussed in the preceding paragraph. Pursuant to transition rules, this additional reduction is available for dividends distributed in 2001 with respect to earnings generated by December 31, 2000. Special U.S. tax rules applicable with respect to this additional German dividend withholding tax refund are discussed below under "—United States Taxation—Shares and ADSs—Dividends".

*Pre-Tax Reduction Act Capital Gains.* Under German tax law, gain realized by a German Nonresident Holder on the sale or other disposition of shares or ADSs is not subject to tax in Germany provided the German Nonresident Holder has not held, directly or indirectly, 10 percent or more of the shares at any time during the 5-year period immediately preceding the disposition. Most tax treaties concluded by Germany with other countries (including the Treaty), if applicable, will deny Germany the right to tax capital gains from the sale of shares or ADSs regardless of a participation threshold.

## *German Tax Reform Legislation*

### *Taxation of the Company*

On January 1, 2001, the Tax Reduction Act became effective. Under the Tax Reduction Act, as of January 1, 2001, the Company's income is generally subject to German corporate income tax at a flat rate of 25 percent, regardless of whether such income is distributed or not. A solidarity surcharge of 5.5 percent is imposed on the corporate income tax liability, resulting in an aggregate effective German corporate income tax charge of 26.375 percent (i.e., not including German local trade tax). Generally, dividends and capital gains from the sale of shares received by Deutsche Telekom AG will be tax-free beginning in 2002.

*Dividends.* In addition, the Company is subject to profit-related trade tax, which is levied on the Company's income for trade tax purposes. The exact rate of the profit-related trade tax depends on the municipalities where the corporation maintains a permanent establishment and generally ranges from 15 percent to 21 percent. In computing the corporate income tax of a corporation, the trade tax on income is deductible as a business expense.

### *Taxation of the Shareholders*

*Post-Tax Reduction Act Dividends.* Under the Tax Reduction Act, the full amount of a dividend distributed by the Company to a German Nonresident Holder on or after January 1, 2002 will be subject to German withholding tax at the domestic rate of 20 percent (plus a solidarity surcharge of 5.5 percent—effectively 1.1 percent of the dividend before taxes, resulting in an aggregate rate of withholding of 21.1 percent).

This withholding tax rate may be lowered under an applicable income tax treaty. The reduction is granted by way of a refund from the German tax authorities in an amount equal to the difference between the amount withheld at the German domestic dividend withholding rate (plus solidarity surcharge) and the amount computed under the applicable treaty rate. A German Nonresident Holder who is entitled to the benefits under the Treaty is entitled to a reduction of the German domestic withholding tax rate to 15 percent with respect to such dividends. As a result of the changes in the German tax treatment of dividend income received by a German domestic taxpayer, the previously granted further reduction of the German withholding tax rate to 10 percent will no longer be available. As mentioned above, this further reduction will be granted only for dividends distributed in 2001 from earnings generated by December 31, 2000.

*Post-Tax Reduction Act Capital Gains.* Under the Tax Reduction Act, the participation threshold for capital gains has been lowered from formerly 10 percent to 1 percent with respect to a sale or other disposition of shares or ADSs, occurring after December 31, 2001.

As a result, a non-corporate German Nonresident Holder who sells shares or ADSs on or after January 1, 2002 will generally be subject to German income taxation with respect to any capital gain realized, if the shareholder holds at the time of such sale, or has held at any time during the five-year testing period preceding such sale, 1 percent or more of the share capital of the Company. However, half of such capital gain will be exempted from German taxation under the new provisions of the Tax Reduction Act. Correspondingly, only half of the expenses related to the sale or other disposition will be deductible.

In addition, under the Tax Reduction Act, a German Nonresident Holder that is a corporation will generally be entirely exempted from German taxation with respect to its capital gain realized on the sale or other disposition of shares or ADSs occurring on or after January 1, 2002. Correspondingly, no expenses related to the sale or other disposition will be deductible,

Most tax treaties concluded by Germany with other countries (including the Treaty), if applicable, will deny Germany the right to tax capital gains from the sale of shares or ADSs regardless of a participation threshold.

### *Special Rules for Banks, Financial Services Institutions and Financial Institutions*

The above-mentioned partial or full tax-exemption of capital gains under the Tax Reduction Act will not apply to banks and certain financial services institutions if the shares or ADSs form part of their operating assets. The same applies if the shares were acquired by a financial institution in order to realize a short-term trading gain.

### *Inheritance and Gift Tax*

The transfer of shares or ADSs to other persons by way of inheritance or gift is generally subject to German inheritance and gift tax based on the market price at the time of the transfer, if at the time of the transfer of the assets (1) the testator (donor) or the heir (donee or any other beneficiary) had his domicile or residence in Germany or has not been living abroad as a German citizen for more than five years without having a domicile in Germany; (2) the testator's or donor's shares belonged to a domestic operating asset attributable to a permanent establishment or a permanent representative of the testator or donor in Germany; or (3) the testator or donor either alone or with other closely related persons held directly or indirectly at least 10 percent of the share capital of the Company.

### *Other Taxes*

No German transfer, stamp or other similar taxes apply to the purchase, sale or other disposition of shares or ADSs by a German Nonresident Holder.

### *Taxation of Bonus Shares*

According to a notice of the Federal Ministry of Finance dated December 10, 1999, the bonus shares which will be granted in 2001 with respect to shares purchased in the third public offering in 2000 will be taxed as taxable dividend income to the shareholders although no withholding tax is to be retained. **A German Nonresident Holder must file a tax return and report this income to the German tax authorities.**

In the case of a German Nonresident Holder's sale or other disposition of the bonus shares or ADSs representing such bonus shares, the rules described above under the heading "Capital Gains" apply.

### *United States Taxation*

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of shares or ADSs by a holder that is a resident of the United States for purposes of the income tax convention between the United States and Germany (the "Treaty") and is fully eligible for benefits under the Treaty (a "U.S. holder"). A holder generally will be entitled to Treaty benefits in respect of shares or ADSs if it is (1) the beneficial owner of the shares or ADSs (and the dividends paid with respect thereto); (2) an individual resident of the United States, a U.S. corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; (3) not also a resident of Germany for German tax purposes; and (4) not subject to an anti-treaty shopping article that applies under limited circumstances. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not discuss tax considerations that arise from rules of general application or that are generally assumed to be known by investors. In particular, the summary does not deal with U.S. holders that do not hold shares or ADSs as capital assets, and does not address the tax treatment of holders that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, persons that elect mark-to-market treatment, persons holding shares or ADSs as a position in a synthetic security, straddle or conversion transaction, persons that own, directly or indirectly, 10 percent or more of Deutsche Telekom AG's voting stock and persons whose "functional currency" is not the U.S. dollar. The summary is based on laws, treaties, regulatory interpretations and judicial decisions in effect on the date hereof, all of which are subject to change.

Treaty benefits discussed below generally are not available to U.S. taxpayers who hold shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Germany. This summary does not discuss the treatment of such holders.

Holders should consult their own advisers regarding the tax consequences of the ownership and disposition of shares or ADSs in light of their particular circumstances, including the effect of any state, local, or other national laws.



In general, for U.S. federal income tax purposes and for purposes of the Treaty, beneficial owners of ADSs will be treated as the beneficial owners of the shares represented by those ADSs.

### *Dividends*

As discussed in more detail under “—German Taxation”, new German tax rules that entered into force on January 1, 2001 have made significant changes in the German tax treatment of dividend income. Dividends subject to the new rules are referred to below as “post-2001 dividends”. Prior law continues to apply to dividends distributed during 2001 out of profits earned in 2000 and prior years (“2001 dividends”).

2001 dividends are subject to German withholding tax at an aggregate rate of 26.375 percent (consisting of a 25 percent withholding tax and a 1.375 percent solidarity surcharge).

Under the Treaty, a U.S. holder will be entitled to receive a payment from the German tax authorities equal to 16.375 percent of the dividend. A portion of this payment (i.e., 11.375 percent of the dividend) will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15 percent, and the remainder (i.e., 5 percent of the dividend) will be treated as the net amount (after imposition of a 15 percent German withholding tax) of an additional dividend equal to 5.88 percent of the declared dividend. Accordingly, if Deutsche Telekom AG declares a 2001 dividend of 100, a U.S. holder initially will receive a cash payment of 73.625 (100 minus the 26.375 percent withholding tax). The holder then can claim a refund from the German tax authorities of 16.375 and thereby will receive total cash payments of 90 (i.e., 90 percent of the actual dividend). For U.S. tax purposes, the holder will be deemed to have received a dividend of 105.88 (consisting of the actual dividend of 100 and the deemed additional dividend of 5.88 described above), and to have paid German withholding tax of 15.88.

Post-2001 dividends are subject to German withholding tax at an aggregate rate of 21.1 percent (consisting of a 20 percent withholding tax and a 1.1 percent solidarity surcharge). Under the Treaty, a U.S. holder will be entitled to claim a refund to the extent the amount withheld exceeds the 15 percent rate provided under the Treaty, but will not be entitled to the additional payment associated with 2001 dividends. Accordingly, a U.S. holder who complies with procedures for claiming Treaty benefits will receive total cash payments of 85 in respect of a dividend of 100, and will incur a net German withholding tax cost of 15. For U.S. tax purposes, the U.S. holder will be deemed to have received dividend income of 100.

The gross amount of dividends that a U.S. holder receives (prior to the deduction of German withholding tax, and including the additional deemed dividends in respect of 2001 dividends) generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15 percent rate provided under the Treaty will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against a U.S. holder’s U.S. federal income tax liability or, at the holder’s election, may be deducted in computing taxable income. A U.S. holder will not be able to claim credits for German taxes that would have been refunded if the holder had filed a claim for a refund. For foreign tax credit purposes, dividends paid by Deutsche Telekom AG will be foreign source “passive income” or, in the case of certain U.S. holders, “financial services income”. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder’s expected economic profit, after non-U.S. taxes, is insubstantial. U.S. holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Dividends paid in Deutsche Marks or Euros will be included in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder or, in the case of ADSs, by the Depository, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may be required to recognize foreign currency gain or loss on the receipt of a refund in respect of German withholding tax (but not with respect to the portion of a Treaty refund in respect of a 2001 dividend that is treated as an additional dividend) to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

### *Bonus shares*

Certain holders who acquired shares or ADSs at the time they were first offered to the public will be entitled to receive bonus shares if they continue to hold their shares or ADSs on a specified date. The receipt of bonus shares will be treated differently for U.S. and German tax purposes. From a U.S. tax perspective, the receipt of bonus shares should be treated as a purchase price adjustment. Accordingly, a U.S. holder would not include any amount in income upon the receipt of bonus shares, and instead should reallocate its tax basis between its prior shareholding and the bonus shares. As discussed under “—German Taxation”, from a German tax perspective, the receipt of bonus shares will be treated as a taxable dividend. Although the delivery of bonus shares will not be subject to German withholding tax, a recipient who is a U.S. holder would in principle still be liable for German tax at the 15 percent rate applicable to dividend income under the Treaty. For purposes of the U.S. foreign tax credit limitation, it is possible that any German taxes paid with respect to bonus shares may be allocated to general limitation income. In that event, a U.S. holder that does not receive sufficient foreign-source general limitation income from other sources may not be able to derive effective foreign tax credit benefits in respect of those German taxes.

### *Refund Procedures*

Pursuant to administrative procedures introduced on a trial basis (and which therefore could be amended or revoked at any time), a simplified refund procedure currently is available to certain U.S. holders of ADSs that are held through brokers participating in DTC. Under these procedures, DTC will prepare and file a combined claim for refund with the German tax authorities on behalf of those holders whose brokers are eligible and elect to participate. This combined claim need not include evidence of a U.S. holder's entitlement to Treaty benefits. The German tax authorities will issue refunds to DTC, which in turn will issue corresponding refund checks to the participating brokers. Under audit procedures that apply for up to 4 years, the German tax authorities may require brokers to provide evidence regarding the entitlement of their clients to Treaty benefits. In the event of such an audit, brokers must submit to the German tax authorities a list containing names and addresses of the relevant holders of ADSs, and official certifications on IRS Form 6166 of the last filed United States federal income tax return of such holders (discussed below). Brokers participating in the DTC arrangements may require that holders provide documentation establishing their eligibility for Treaty benefits.

Claims for Treaty refunds by U.S. holders of ADSs who do not participate in the DTC procedures discussed above may be submitted to German tax authorities by the Depositary on behalf of those holders. Holders who are entitled to refunds in excess of DM 300 for the calendar year normally must file their refund claim on an individual basis; however, the Depositary may be in a position to make a refund claim on behalf of such holders. Details of the refund procedures for holders of ADSs can be obtained from the Depositary.

If a U.S. holder does not submit a claim for a Treaty refund pursuant to the collective refund procedures described above, then it must submit a claim for refund on an individual basis on a special German form which must be filed with the German tax authorities at the following address: Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at that address, from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998 or from the Office of International Operations, Internal Revenue Service, 1325 K Street, N.W., Washington, D.C. 20225, Attention: Taxpayer Service Division, Room 900.

As part of the individual refund claim, a U.S. holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed U.S. federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must be in writing and must include the U.S. holder's name, Social Security number or employer identification number and tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. holder, which then must submit the certification with its claim for refund. A certification is valid for three years.

All claims for refund must be filed within four years of the end of the calendar year in which the dividend was received.

Refunds under the Treaty are not available in respect of shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

#### *Capital Gains*

Under the Treaty, a U.S. holder will not be subject to German income tax on capital gains in respect of a sale or other disposition of shares or ADSs, so long as the shares or ADSs were not held as part of a permanent establishment or fixed base in Germany.

For U.S. federal income tax purposes, gain or loss realized by a U.S. holder on the sale or disposition of shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the shares or ADSs were held for more than one year. The net amount of long-term capital gain recognized by an individual holder generally is subject to taxation at a maximum rate of 20 percent. A U.S. holder's ability to offset capital losses against income is subject to limitations. Deposits and withdrawals of shares in exchange for ADSs will not result in the recognition of gain or loss for U.S. federal income tax purposes.

#### *Inheritance and Gift Tax*

Under the estate, inheritance and gift tax treaty between the United States and Germany ("the Estate Tax Treaty"), a transfer of shares or ADSs generally will not be subject to German gift or inheritance tax so long as neither the donor or decedent, nor heir, donee or other beneficiary, was domiciled in Germany for purposes of the Estate Tax Treaty at the time of the transfer, and the shares or ADSs were not held as part of a permanent establishment or fixed base in Germany.

The Estate Tax Treaty provides a credit against U.S. federal gift and estate tax liability for the German inheritance and gift tax paid subject to certain limitations.

#### *Non-U.S. Holders*

A beneficial owner of shares or ADSs that is, with respect to the United States, a foreign corporation or a non-resident alien individual generally will not be subject to U.S. federal income or withholding tax on

(1) dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the beneficial owner of a trade or business in the United States;

and (2) gain realized on the sale of shares or ADSs, unless (A) such gain is effectively connected with the conduct by the beneficial owner of a trade or business in the United States or (B) in the case of gain realized by an individual beneficial owner, the beneficial owner is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

#### *Information Reporting and Backup Withholding*

Dividends on shares or ADSs, and payments of the proceeds of a sale of shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31 percent rate unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

#### **Documents on Display**

Deutsche Telekom is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, Deutsche Telekom files Annual Reports on Form 20-F and furnishes periodic reports on Form 6-K with the Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 7 World Trade Center, New York, New York 10048. Copies of the materials may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W. Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at <http://www.sec.gov> that contains reports and proxy information regarding registrants that file electronically with the Commission. In addition, material filed by Deutsche Telekom can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

## **ITEM 11. Quantitative and Qualitative Disclosures About Market Risk**

The following discussion should be read in conjunction with “Summary of Accounting Principles” in the notes to the consolidated financial statements and in conjunction with note 33 to the consolidated financial statements, which provides a summarized comparison of the nominal amounts, book values and market values of financial instruments and other information relating to those instruments.

### **Risk Identification and Analysis**

The activities of the Deutsche Telekom Central Treasury are subject to policies approved by the Management Board and are monitored by the Supervisory Board. The Central Treasury’s policies address the use of derivative financial instruments, including the approval of counterparties and the investment of excess liquidity. These policies are intended to minimize financial risk and to generate financial advantages for the entire group such as central management of cash resources and needs, cost reduction, and the improvement of results from financial transactions. The Management Board is regularly informed by the Central Treasury of the level and value of current market risk exposures. Certain transactions require prior approval by the Management Board. Deutsche Telekom does not purchase or sell derivative financial instruments for trading purposes or speculative purposes. Deutsche Telekom regards effective market risk systems as an important element of its treasury function. Value-at-risk simulations are carried out using market scenarios that are based on historical data. The Central Treasury, operating as a service center, supplies financial services to Group companies appropriate to their requirements and local circumstances.

As with any risk management system, the results are based on individual assessments that may be subject to error. There is no guarantee that this system will consistently identify all of the important risks or provide an adequate assessment of their precise impact.

### **Disclosures about Market Risk**

Deutsche Telekom is exposed to market risks primarily from changes in foreign exchange rates, interest rates and equity prices associated with underlying assets, liabilities and anticipated transactions which may affect its operating results and financial condition. Deutsche Telekom seeks to minimize market risk through its regular operating and financing activities and, following the evaluation of these positions, selectively enters into financial instruments for hedging purposes in order to manage the related risk exposures. These contracts are entered into with major financial institutions with AA credit rating, thereby minimizing the risk of credit loss.

The following discussion and tables, which constitute forward-looking statements that involve risk and uncertainties, summarize Deutsche Telekom’s market-sensitive financial instruments including fair value, maturity and contract terms.

### **Foreign Exchange Rate Risk**

Deutsche Telekom conducts most of its business in Germany and in countries that have adopted the euro as their currency (the “Eurozone”). Therefore, most of its cash flows have been denominated in euros. Deutsche Telekom is, however, exposed to foreign exchange rate risk related to foreign currency denominated liabilities, international participations (investments in foreign companies) and anticipated foreign exchange payments. Due to investments in the United Kingdom, in countries in Eastern Europe and planned acquisitions in the United States, currencies other than the euro are becoming increasingly important for Deutsche Telekom.

Foreign currency denominated liabilities consist primarily of Deutsche Telekom’s multi-currency global bonds which were issued in July 2000, the Japanese yen bonds issued in February 2001, medium term notes, commercial paper and a GBP loan facility entered into by One2One. Deutsche Telekom uses cross-currency interest rate swaps in order to convert these foreign currency obligations into euro and GBP denominated payables and to convert fixed interest rates into variable interest rates. These transactions are entered into to generate Deutsche Telekom’s primary operating currencies, the Euro and GBP, and to adjust the interest rates to maturities that match Deutsche Telekom’s interest and currency mix goals. For further information, see “—Interest Rate Risk”.

Anticipated foreign exchange payments relate primarily to capital expenditures and expense payments, principally to international third party telecommunications carriers. Transaction risk from Deutsche Telekom’s ongoing operations, where revenues or expenses are denominated in a currency other than the currency in which expenses or revenues are generated, is considered low. Only a relatively small amount of total revenues

or expenses involves international inbound or outbound call terminations. Based on Deutsche Telekom's estimate of future foreign exchange rates, it enters into foreign currency forward exchange contracts or foreign currency option contracts to reduce fluctuations in foreign currency cash flows related to these anticipated payments. There can be no assurance that actual payments will conform to Deutsche Telekom's expectations or to historical payment patterns.

Derivative instruments relating to investments in foreign companies consist primarily of US-Dollar Call / EUR put options to hedge part of the cash payment related to the anticipated purchase of VoiceStream. Furthermore, Deutsche Telekom entered into US-Dollar forward sales contracts to hedge an initial investment in VoiceStream. Hedging transactions on investments are the exception and are made with prior approval of the Management Board.

The table below provides information about foreign currency derivative instruments. The on balance sheet foreign currency positions are indicated in the interest rate tables below.

### December 31, 2000

#### Derivative instruments subject to foreign exchange risk

|   | Maturities         |      |      |      |       |            | Total              | Fair Value |
|---|--------------------|------|------|------|-------|------------|--------------------|------------|
|   | 2001               | 2002 | 2003 | 2004 | 2005  | Thereafter |                    |            |
|   | (Euro in millions) |      |      |      |       |            | (Euro in millions) |            |
| <b>Foreign currency forward contracts</b>   |                    |      |      |      |       |            |                    |            |
| Buy USD/ sell EUR                           | 602                | —    | —    | —    | —     | —          | 602                | (26)       |
| Average contractual exchange rate (EUR/USD) | 0.89               |      |      |      |       |            | 0.89               |            |
| Buy JPY/ sell EUR                           | 116                | —    | —    | —    | —     | —          | 116                | (14)       |
| Average contractual exchange rate (EUR/JPY) | 93.84              |      |      |      |       |            | 93.84              |            |
| Buy CHF/ sell EUR                           | 36                 | —    | —    | —    | —     | —          | 36                 | 0          |
| Average contractual exchange rate (EUR/CHF) | 1.51               |      |      |      |       |            | 1.51               |            |
| Sell USD/ buy EUR                           | 6,380              | 27   | 29   | —    | —     | —          | 6,434              | 159        |
| Average contractual exchange rate (EUR/USD) | 0.91               | 1.16 | 1.16 |      |       |            | 0.91               |            |
| Sell GBP/ buy EUR                           | 1,362              | —    | 326  | —    | —     | —          | 1,688              | 42         |
| Average contractual exchange rate (EUR/GBP) | 0.61               |      | 0.61 |      |       |            | 0.61               |            |
| Sell CHF/ buy EUR                           | 269                | —    | —    | —    | —     | —          | 269                | 0          |
| Average contractual exchange rate (EUR/CHF) | 1.52               |      |      |      |       |            | 1.52               |            |
| Sell HUF/ buy EUR                           | 43                 | —    | —    | —    | —     | —          | 43                 | 2          |
| Average contractual exchange rate (EUR/HUF) | 268.69             |      |      |      |       |            | 268.69             |            |
| <b>Foreign Currency Options</b>             |                    |      |      |      |       |            |                    |            |
| Buy USD-Call / EUR-Put                      | 4,838              | —    | —    | —    | —     | —          | 4,838              | 17         |
| Average strike rate (EUR/USD)               | 0.80               |      |      |      |       |            | 0.80               |            |
| Buy USD-Put / EUR-Call                      | 7                  | —    | —    | —    | —     | —          | 7                  | 0          |
| Average strike rate (EUR/USD)               | 0.91               |      |      |      |       |            | 0.91               |            |
| <b>Cross currency interest rate swaps</b>   |                    |      |      |      |       |            |                    |            |
| Receive variable USD, pay variable GBP (2)  | —                  | —    | —    | —    | 2,400 | 3,850      | 6,250              | 94         |
| Average pay rate %(1)                       |                    |      |      |      | 5.98  | 5.98       | 5.98               |            |
| Average receive rate %(1)                   |                    |      |      |      | 6.46  | 6.47       | 6.47               |            |
| Receive fixed JPY, pay variable EUR (2)     | 4,355              | 597  | —    | —    | —     | —          | 4,952              | (443)      |
| Average pay rate %(1)                       | 5.15               | 5.03 |      |      |       |            | 5.13               |            |
| Average receive rate %(1)                   | 0.41               | 0.58 |      |      |       |            | 0.43               |            |
| Receive variable USD, pay variable EUR (2)  | —                  | —    | —    | —    | 785   | 3,069      | 3,854              | 20         |
| Average pay rate %(1)                       |                    |      |      |      | 4.96  | 4.99       | 4.98               |            |
| Average receive rate %(1)                   |                    |      |      |      | 6.46  | 6.47       | 6.47               |            |
| Receive variable JPY, pay variable EUR (2)  | —                  | —    | —    | —    | 892   | —          | 892                | (58)       |
| Average pay rate %(1)                       |                    |      |      |      | 4.96  |            | 4.96               |            |
| Average receive rate %(1)                   |                    |      |      |      | 0.55  |            | 0.55               |            |
| Receive fixed USD, pay variable EUR (2)     | 139                | —    | —    | —    | —     | 20         | 159                | 9          |
| Average pay rate %(1)                       | 4.89               |      |      |      |       | 5.62       | 4.98               |            |
| Average receive rate %(1)                   | 7.01               |      |      |      |       | 7.05       | 7.02               |            |
| Receive variable CZK, pay variable EUR (2)  | 113                | —    | —    | —    | —     | —          | 113                | 2          |
| Average pay rate %(1)                       | 5.11               |      |      |      |       |            | 5.11               |            |
| Average receive rate %(1)                   | 5.37               |      |      |      |       |            | 5.37               |            |
| Receive fixed USD, pay fixed EUR (2)        | —                  | —    | —    | —    | —     | 23         | 23                 | 3          |
| Average pay rate %(1)                       |                    |      |      |      |       | 5.17       | 5.17               |            |
| Average receive rate %(1)                   |                    |      |      |      |       | 6.56       | 6.56               |            |

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

(2) Represents notional amounts.

## Interest Rate Risk

Deutsche Telekom is exposed to market risk arising from changing interest rates, primarily in the European Union. A decrease in interest rates increases the fair value of debt instruments issued by Deutsche Telekom, which are primarily of a fixed interest nature. Deutsche Telekom uses interest rate swaps to diversify funding, reduce interest rate volatility on certain debt issues and investments and manage its interest expense by achieving a balanced mixture of floating and fixed rate debt in accordance with established goals which are reviewed regularly by the Management Board. The general policies regarding interest rate management for major currencies are reviewed by the Management Board at least once a year.

Under interest rate swaps, Deutsche Telekom agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount. Interest rate caps entitle Deutsche Telekom to receive, the excess of an agreed upon rate over a reference interest rate.

The following tables summarize the nominal and fair values, maturity and contract terms of the interest rate sensitive financial instruments that were held by Deutsche Telekom at December 31, 2000.

### December 31, 2000

#### Assets and related derivative instruments subject to interest rate risk

|  | Maturities         |      |      |      |      |            | Total | Fair Value |
|--|--------------------|------|------|------|------|------------|-------|------------|
|  | 2001               | 2002 | 2003 | 2004 | 2005 | Thereafter |       |            |
|  | (Euro in millions) |      |      |      |      |            |       |            |
| <b>ASSETS</b>  |                    |      |      |      |      |            |       |            |
| <b>Other long-term loans</b>                         |                    |      |      |      |      |            |       |            |
| Fixed rate, EUR . . . . .                            | 90                 | 102  | 132  | 2    | 2    | 5          | 333   | 328        |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 8.3                | 6.9  | 6.9  | 6.9  | 6.9  | 6.9        | 7.3   |            |
| Variable rate, USD . . . . .                         | 229                | —    | —    | —    | —    | —          | 229   | 234        |
| Average interest rate (%) <sup>(1)</sup> . . . . .   | 5.6                |      |      |      |      |            | 5.6   |            |
| <b>Other investments in non-current securities</b>   |                    |      |      |      |      |            |       |            |
| Fixed rate, EUR . . . . .                            | 283                | 341  | 108  | 2    | —    | —          | 734   | 722        |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 5.4                | 5.4  | 4.8  | 5.0  |      |            | 5.3   |            |
| Fixed rate, GBP . . . . .                            | —                  | —    | 372  | —    | —    | —          | 372   | 372        |
| Average interest rate (%) <sup>(2)</sup> . . . . .   |                    |      | 5.0  |      |      |            | 5.0   |            |
| <b>Other investments in marketable securities</b>    |                    |      |      |      |      |            |       |            |
| Fixed rate . . . . .                                 | 266                | 173  | 85   | 260  |      | 1          | 779   | 785        |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 6.7                | 5.8  | 9.2  | 5.5  |      | 4.4        | 6.4   |            |
| Variable rate . . . . .                              |                    |      |      | 3    | 5    |            | 8     | 8          |
| Average interest rate (%) <sup>(2)</sup> . . . . .   |                    |      |      | 5.6  | 5.6  |            | 5.6   |            |
| <b>LIQUID ASSETS</b>                                 |                    |      |      |      |      |            |       |            |
| Fixed rate EUR . . . . .                             | 1,618              | —    | —    | —    | —    | —          | 1,618 | 1,618      |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 4.3                |      |      |      |      |            | 4.3   |            |
| Fixed rate, SKK . . . . .                            | 178                | 12   | 7    | 4    | —    | 201        | 201   |            |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 8.9                | 10.2 | 9.9  |      | 9.7  |            | 9.5   |            |
| Fixed rate, GBP . . . . .                            | 74                 | —    | —    | —    | —    | —          | 74    | 74         |
| Average interest rate (%) <sup>(2)</sup> . . . . .   | 5.0                |      |      |      |      |            | 5.0   |            |
| <b>EUR interest rate swaps</b>                       |                    |      |      |      |      |            |       |            |
| Receive fixed, pay variable <sup>(4)</sup> . . . . . | —                  | 500  | —    | —    | —    | —          | 500   | 3          |
| Average pay rate (%) <sup>(3)</sup> . . . . .        |                    | 4.85 |      |      |      |            | 4.85  |            |
| Average receive rate (%) <sup>(3)</sup> . . . . .    |                    | 3.79 |      |      |      |            | 3.79  |            |

- (1) The interest rate terms for 6 months LIBOR plus 0.5.
- (2) Weighted average rates of the portfolio at the period end.
- (3) Weighted average settlement rates applicable to the current settlement period.
- (4) Represents notional amounts.

December 31, 2000

Liabilities and related derivative instruments subject to interest rate risk

|   | Maturities         |       |       |       |       |            | Total  | Fair Value |
|---|--------------------|-------|-------|-------|-------|------------|--------|------------|
|   | 2001               | 2002  | 2003  | 2004  | 2005  | Thereafter |        |            |
|   | (Euro in millions) |       |       |       |       |            |        |            |
| <b>LIABILITIES</b>                                |                    |       |       |       |       |            |        |            |
| <b>Bonds and debentures, EUR</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 6,921              | 7,874 | 2,633 | 9,280 | 2,229 | 3,456      | 32,393 | 33,693     |
| Average interest rate (%) (1)                     | 6.8                | 7.9   | 7.0   | 7.4   | 6.4   | 7.3        | 7.1    |            |
| Variable rate                                     | 1,200              | —     | —     | —     | —     | —          | 1,200  | 1,200      |
| Average interest rate (%) (1)                     | 5.1                | —     | —     | —     | —     | —          | 5.1    |            |
| <b>Bonds and debentures, GBP</b>                  | —                  | —     | —     | —     | 1,000 | 480        | 1,480  | 1,523      |
| <b>Fixed rate</b>                                 |                    |       |       |       |       |            |        |            |
| Average interest rate (%) (1)                     | —                  | —     | —     | —     | 7.1   | 7.1        | 7.1    |            |
| <b>Bonds and debentures, USD</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 190                | —     | —     | —     | 3,215 | 6,965      | 10,370 | 10,302     |
| Average interest rate (%) (1)                     | 7.0                | —     | —     | —     | 7.8   | 8.1        | 8.1    |            |
| <b>Bonds and debentures, CZK</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 107                | —     | —     | —     | —     | —          | 107    | 107        |
| Average interest rate (%) (1)                     | 5.4                | —     | —     | —     | —     | —          | 5.4    |            |
| <b>Bonds and debentures, JPY</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 4,356              | 597   | —     | —     | 841   | —          | 5,794  | 5,378      |
| Average interest rate (%) (1)                     | 0.4                | 0.6   | —     | —     | 1.5   | —          | 0.6    |            |
| <b>Liabilities to banks, EUR</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 1,334              | 338   | 472   | 273   | 143   | 919        | 3,479  | 3,479      |
| Average interest rate (%) (1)                     | 4.8                | 7.2   | 6.9   | 6.7   | 6.8   | 7.0        | 5.9    |            |
| Variable rate (4)                                 | 804                | —     | —     | —     | —     | —          | 804    | 804        |
| Average interest rate (%) (1)                     | 5.7                | —     | —     | —     | —     | —          | 5.7    |            |
| <b>Liabilities to banks, HUF</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 12                 | 12    | 12    | 12    | 12    | 49         | 109    | 109        |
| Average interest rate (%) (1)                     | 6.5                | 6.5   | 6.5   | 6.5   | 6.5   | 6.5        | 6.5    |            |
| Variable rate (4)                                 | 283                | 70    | 73    | 67    | 23    | 5          | 521    | 521        |
| Average interest rate (%) (1)                     | 12.0               | 12.0  | 12.1  | 11.2  | 12.1  | 11.9       |        |            |
| <b>Liabilities to banks, GBP</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | —                  | —     | —     | —     | 241   | 481        | 722    | 722        |
| Average interest rate (%) (1)                     | —                  | —     | —     | —     | 6.8   | 6.8        | 6.8    |            |
| Variable rate (4)                                 | —                  | —     | —     | —     | —     | 3,313      | 3,313  | 3,313      |
| Average interest rate (%) (1)                     | —                  | —     | —     | —     | —     | 6.6        | 6.6    |            |
| <b>Liabilities to banks, USD</b>                  |                    |       |       |       |       |            |        |            |
| Fixed rate  | 1                  | 1     | 2     | 2     | 2     | 11         | 19     | 19         |
| Average interest rate (%) (1)                     | 5.8                | 5.8   | 5.8   | 5.8   | 5.8   | 5.8        | 5.8    |            |
| Variable rate (4)                                 | 2                  | 4     | 4     | 4     | 5     | 25         | 44     | 44         |
| Average interest rate (%) (1)                     | —                  | —     | —     | —     | —     | —          | —      | —          |
| <b>Liabilities to banks, YEN</b>                  |                    |       |       |       |       |            |        |            |
| Variable rate (4)                                 | 2                  | —     | —     | —     | —     | —          | 2      | 2          |
| Average interest rate (%) (1)                     | 0.8                | —     | —     | —     | —     | —          | 0.8    |            |
| <b>EUR interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive variable, pay fixed (2)                   | —                  | 0     | —     | —     | 1,492 | 1,662      | 3,154  | (167)      |
| Average pay rate (%) (1)                          | —                  | —     | 4.94  | —     | 5.65  | 5.88       | 5.77   |            |
| Average receive rate (%) (1)                      | —                  | —     | 5.19  | —     | 4.96  | 5.00       | 4.98   |            |
| <b>EUR interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive fixed, pay variable (2)                   | 1,334              | 716   | —     | —     | —     | 562        | 2,612  | 15         |
| Average pay rate (%) (1)                          | 5.03               | 4.90  | —     | —     | —     | 5.09       | 5.00   |            |
| Average receive rate (%) (1)                      | 4.13               | 4.71  | —     | —     | —     | 5.00       | 4.48   |            |
| <b>GBP interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive variable, pay fixed (2)                   | —                  | 80    | 1,043 | 88    | 2,407 | 3,851      | 7,469  | (458)      |
| Average pay rate (%) (1)                          | —                  | 6.85  | 6.59  | 5.18  | 6.69  | 6.40       | 6.51   |            |
| Average receive rate (%) (1)                      | —                  | 6.27  | 6.27  | 6.27  | 5.97  | 5.97       | 6.02   |            |
| <b>Forward GBP interest rate swaps</b>            |                    |       |       |       |       |            |        |            |
| Receive variable, pay fixed (2)                   | —                  | —     | —     | 321   | 2,727 | —          | 3,048  | (9)        |
| Average pay rate (%) (1)                          | —                  | —     | —     | 6.02  | 5.99  | —          | 5.99   |            |
| Average receive rate (%) (1)                      | —                  | —     | —     | —     | —     | —          | —      |            |
| <b>JPY interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive fixed, pay variable (2)                   | —                  | —     | —     | —     | 842   | —          | 842    | 12         |
| Average pay rate (%) (1)                          | —                  | —     | —     | —     | 0.79  | —          | 0.79   |            |
| Average receive rate (%) (1)                      | —                  | —     | —     | —     | 1.50  | —          | 1.50   |            |
| <b>USD interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive fixed, pay variable (2)                   | —                  | 54    | 54    | —     | 3,306 | 7,256      | 10,670 | 907        |
| Average pay rate (%) (1)                          | —                  | 6.50  | 6.89  | —     | 6.93  | 7.29       | 7.17   |            |
| Average receive rate (%) (1)                      | —                  | 5.90  | 5.80  | —     | 7.70  | 8.05       | 7.92   |            |
| <b>USD interest rate swaps</b>                    |                    |       |       |       |       |            |        |            |
| Receive variable, pay fixed (2)                   | —                  | 54    | 54    | —     | 81    | 268        | 457    | (4)        |
| Average pay rate (%) (1)                          | —                  | 6.13  | 5.83  | —     | 5.92  | 6.23       | 6.11   |            |
| Average receive rate (%) (1)                      | —                  | 6.50  | 6.89  | —     | 6.78  | 6.67       | 6.70   |            |
| <b>EUR interest rate caps purchased</b>           |                    |       |       |       |       |            |        |            |
| Contract amount                                   | —                  | 153   | —     | —     | —     | —          | 153    | 3          |
| Premium paid                                      | —                  | 9     | —     | —     | —     | —          | 9      |            |
| Average strike rate (%)                           | —                  | 3.83  | —     | —     | —     | —          | 3.83   |            |
| <b>GBP interest rate caps (collars) purchased</b> |                    |       |       |       |       |            |        |            |
| Contract amount                                   | —                  | 201   | 80    | —     | —     | —          | 281    | (2)        |
| Average cap strike rate (%)                       | —                  | 8.50  | 7.50  | —     | —     | —          | 8.21   |            |

- (1) The interest rate terms for 6 months LIBOR plus 0.5.
- (2) Weighted average rates of the portfolio at the period end.
- (3) Weighted average settlement rates applicable to the current settlement period.
- (4) Represents notional amounts.

The fair value of other investments in noncurrent securities and in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amount of other investments in marketable securities is adjusted to market value where market value is less than cost. The net carrying amounts of receivables and liquid assets approximate their fair values, due to the short period to maturity.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper (reported under bonds and debentures), liabilities to banks, and other liabilities approximate their fair values.

The fair value of derivative financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The fair values of derivatives will vary substantially with future changes in interest rates or fluctuations in foreign exchange rates. These changes in fair values should not be viewed in isolation, but rather in relation to the adverse changes in the fair values of the hedged transactions.

### Equity Price Risk

Deutsche Telekom continuously evaluates investment opportunities in order to meet its business and strategic goals. With limited exceptions, it is Deutsche Telekom's intention not to hedge investments in foreign companies. The table below presents the cost and fair value of those marketable equity securities comprising investments in start-up companies as well as other participations held by Deutsche Telekom at December 31, 2000 which are sensitive to changes in equity prices. The securities are carried at cost.

|  | <u>December 31, 2000</u>                   |                   |
|--|--|-------------------|
|  | <u>Assets subject to equity price risk</u> |                   |
|  | <u>Cost</u>                                | <u>Fair Value</u> |
|  | <u>(in millions of euro)</u>               |                   |
| Investments in equity securities . . . . . | 2,031                                      | 4,691             |

### Changes in market risk exposure in 2000 compared to 1999

A reduction in Deutsche Telekom's liabilities under fixed rate bonds, relating primarily to bonds issued by the Deutsche Bundespost prior to 1995 and assumed by Deutsche Telekom, by approximately 18 percent from EUR 32.7 billion at December 31, 1999 to EUR 26.7 billion at December 31, 2000 resulted in a reduction in the fair value risk resulting from potential changes in interest rates.

The issuance of medium-term notes in the amount of EUR 6.2 billion and long-term multi-currency global bonds in the amount of EUR 15.4 billion increased Deutsche Telekom's foreign exchange risk exposure compared to 1999. The currencies received from the global bonds and medium-term notes were transformed through cross-currency interest rate swaps into Deutsche Telekom's principal currencies, the euro and the British Pound. These liabilities were fully hedged and thereby reduced the Company's market risk exposure. These liabilities derive primarily from Deutsche Telekom's growth in the mobile communications sector and its international expansion.

Deutsche Telekom's investment in Sprint FON shares was marked-to-market in the financial statements for the first time in 2000, since this investment became recently unrestricted. At the end of 2000, the Sprint investment contributed a difference between book value and fair market value of EUR 1.5 billion to the total difference of EUR 2.7 billion. The initial investment in Convertible Voting Preferred Stock of VoiceStream will become convertible into shares of VoiceStream common stock in the event that the VoiceStream merger is terminated resulting in increased future equity price risk. Other equity price risk decreased due to the sale of investments in mixed and equity funds during fiscal year 2000.



**ITEM 12. Description of Securities Other than Equities**

Not applicable.

**PART II**

**ITEM 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**ITEM 15. [Reserved]**

**ITEM 16. [Reserved]**

**PART III**

**ITEM 17. Financial Statements**

Not applicable.

**ITEM 18. Financial Statements**

See pages F-i and F-1 through F-61.

**ITEM 19. Exhibits**

Documents filed as exhibits to this Annual Report.

- 1.1 Memorandum and Articles of Association (*Satzung*) of Deutsche Telekom AG as amended to date (English translation included).
- 2.1 Indenture dated as of July 6, 2000 relating to debt securities of Deutsche Telekom International Finance B.V. (incorporated by reference to Deutsche Telekom's Registration Statement on Form F-3, File No. 333-12096).
- 2.2 Except as noted above, the total amount of long-term debt securities of Deutsche Telekom AG authorized under any instrument does not exceed 10 percent of the total assets of the Group on a consolidated basis. Deutsche Telekom AG hereby agrees to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Deutsche Telekom AG or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
- 4.1 Amended and Restated Agreement and Plan of Merger Agreement dated as of September 28, 2000 between Deutsche Telekom AG and VoiceStream Wireless Corporation and Bega, Inc. (incorporated by reference to Deutsche Telekom's registration statement on Form F-4, File No. 333-47306, as amended through February 9, 2001).
- 8.1 Significant subsidiaries as of the end of the year covered by this report.
- 10.1 Pages 25-28 of Deutsche Telekom's registration statement on Form F-4, File No. 333-47306 (incorporated by reference to Deutsche Telekom's registration statement on Form F-4, File No. 333-47306, as amended through February 9, 2001).
- 10.2 Pages 38-40 of the 2000 Annual Report (incorporated by reference to Deutsche Telekom's Report on Form 6-K dated April 24, 2001).

**DEUTSCHE TELEKOM**  
**INDEX TO FINANCIAL STATEMENTS**

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## REPORT OF INDEPENDENT ACCOUNTANTS

### To the Board of Management and Shareholders of Deutsche Telekom AG:

We have audited the accompanying consolidated balance sheets of Deutsche Telekom AG and its subsidiaries as of December 31, 2000 and 1999, and the related statements of income, of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Deutsche Telekom AG and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in Germany.

Accounting principles generally accepted in Germany vary in certain important respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income expressed in Euros for each of the three years in the period ended December 31, 2000 and the determination of consolidated shareholders' equity and consolidated financial position also expressed in Euros at December 31, 2000 and 1999 to the extent summarized in Note 37 to the consolidated financial statements.

Frankfurt am Main, March 26, 2001, except for Notes 37, 38 and 39 as to which the date is April 27, 2001.

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dickmann  
Wirtschaftsprüfer

Laue  
Wirtschaftsprüfer

## CONSOLIDATED STATEMENT OF INCOME

|  | <u>Note</u> | <u>2000</u>   | <u>1999</u>   | <u>1998</u>   |
|--|-------------|---------------|---------------|---------------|
|  |             | millions of € | millions of € | millions of € |
| <b>Net revenue</b> . . . . .                                     | (1)         | <b>40,939</b> | <b>35,470</b> | <b>35,144</b> |
| Changes in inventories and other own capitalized costs . . . . . | (2)         | 864           | 947           | 990           |
| <b>Total operating performance</b> . . . . .                     |             | <b>41,803</b> | <b>36,417</b> | <b>36,134</b> |
| Other operating income . . . . .                                 | (3)         | 11,002        | 1,871         | 2,069         |
| Goods and services purchased . . . . .                           | (4)         | (11,950)      | (7,667)       | (5,540)       |
| Personnel costs . . . . .  | (5)         | (9,718)       | (9,210)       | (9,170)       |
| Depreciation and amortization . . . . .                          | (6)         | (12,991)      | (8,466)       | (9,037)       |
| Other operating expenses . . . . .                               | (7)         | (10,424)      | (6,872)       | (6,068)       |
| Financial income (expense), net . . . . .                        | (8)         | (1,230)       | (2,889)       | (3,288)       |
| <b>Results from ordinary business activities</b> . . . . .       |             | <b>6,492</b>  | <b>3,184</b>  | <b>5,100</b>  |
| Extraordinary income (losses) . . . . .                          | (9)         | (159)         | (240)         | —             |
| Taxes . . . . .  | (10)        | (318)         | (1,420)       | (2,654)       |
| <b>Income after taxes</b> . . . . .                              |             | <b>6,015</b>  | <b>1,524</b>  | <b>2,446</b>  |
| (Income) losses applicable to minority shareholders . . . . .    | (11)        | (89)          | (271)         | (203)         |
| <b>Net income</b> . . . . .                                      |             | <b>5,926</b>  | <b>1,253</b>  | <b>2,243</b>  |
| <b>Earnings per share in €</b> . . . . .                         |             | <b>1.96</b>   | <b>0.43</b>   | <b>0.82</b>   |

The accompanying notes are an integral part of the consolidated financial statements.  
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

## CONSOLIDATED BALANCE SHEET

|   | Note | Dec. 31, 2000<br>millions of € | Dec. 31, 1999<br>millions of € |
|---|------|--------------------------------|--------------------------------|
| <b>Assets</b>   |      |                                |                                |
| <b>Noncurrent assets</b>  |      |                                |                                |
| Intangible assets . . . . .   | (12) | 35,754                         | 15,002                         |
| Property, plant and equipment . . . . .                                   | (13) | 54,137                         | 59,036                         |
| Financial assets . . . . .  | (14) | 16,715                         | 7,945                          |
|   |      | <b>106,606</b>                 | <b>81,983</b>                  |
| <b>Current assets</b>   |      |                                |                                |
| Inventories, materials and supplies . . . . .                             | (15) | 1,587                          | 1,046                          |
| Receivables . . . . .   | (16) | 7,159                          | 5,666                          |
| Other assets . . . . .  | (17) | 3,671                          | 2,069                          |
| Marketable securities . . . . .   | (18) | 2,370                          | 1,770                          |
| Liquid assets . . . . .   | (19) | 1,893                          | 1,172                          |
|   |      | <b>16,680</b>                  | <b>11,723</b>                  |
| <b>Prepaid expenses, deferred charges and deferred taxation . . . . .</b> | (20) | <b>956</b>                     | <b>931</b>                     |
|   |      | <b>124,242</b>                 | <b>94,637</b>                  |
| <b>Shareholders' equity and liabilities</b>                               |      |                                |                                |
| <b>Shareholders' equity . . . . .</b>                                     |      |                                |                                |
| Capital stock . . . . .   | (22) | 7,756                          | 7,756                          |
| Additional paid-in capital . . . . .                                      | (23) | 24,290                         | 24,121                         |
| Retained earnings (deficit) . . . . .                                     | (24) | 398                            | 1,558                          |
| Unappropriated net income carried forward from previous year . . . . .    |      | 44                             | 13                             |
| Net income . . . . .  |      | 5,926                          | 1,253                          |
| Minority interest . . . . .   | (25) | 4,302                          | 988                            |
|   |      | <b>42,716</b>                  | <b>35,689</b>                  |
| <b>Accruals</b>   |      |                                |                                |
| Pensions and similar obligations . . . . .                                | (27) | 3,330                          | 3,109                          |
| Other accruals . . . . .  | (28) | 8,055                          | 6,181                          |
|   |      | <b>11,385</b>                  | <b>9,290</b>                   |
| <b>Liabilities . . . . .</b>  |      |                                |                                |
| Debt . . . . .  | (29) | 60,357                         | 42,337                         |
| Other . . . . .   |      | 9,130                          | 6,593                          |
|   |      | <b>69,487</b>                  | <b>48,930</b>                  |
| <b>Deferred income . . . . .</b>  |      | <b>654</b>                     | <b>728</b>                     |
|   |      | <b>124,242</b>                 | <b>94,637</b>                  |

The accompanying notes are an integral part of the consolidated financial statements.  
The amounts contained herein have been converted into euro at the official rate of 1.95583 DM per euro.

## CONSOLIDATED NONCURRENT ASSETS

|   | Acquisition or production cost |                        |  |               |               |                   | Depreciation, amortization and write-downs |               |                        |  |               |              |                   | Net carrying amount     |               |                |               |
|---|--------------------------------|------------------------|--|---------------|---------------|-------------------|--|---------------|------------------------|--|---------------|--------------|-------------------|-------------------------|---------------|----------------|---------------|
|   | Jan. 1, 2000                   | Translation adjustment | Changes in the composition of the Deutsche | Additions     | Disposals     | Reclassifications | Dec. 31, 2000                              | Jan. 1, 2000  | Translation adjustment | Changes in the composition of the Deutsche | Additions     | Disposals    | Reclassifications | Reinstated depreciation | Dec. 31, 2000 | Dec. 31, 2000  | Dec. 31, 1999 |
|   |                                |                        |  |               |               |                   |  |               |                        |  |               |              |                   |                         |               |                |               |
| <b>Intangible assets</b>  |                                |                        |  |               |               |                   |  |               |                        |  |               |              |                   |                         |               |                |               |
| Concessions, industrial and similar rights and assets, and licenses in such rights and assets | 2,904                          | (157)                  | 202  | 15,894        | 167           | 115               | 18,791                                     | 1,403         | (7)                    | 137  | 986           | 137          | 3                 | 0                       | 2,385         | 16,406         | 1,501         |
| Goodwill from individual company financial statements arising from consolidation              | 9                              | 0                      | (1)  | 0             | 0             | 0                 | 8  | 8             | 0                      | 0  | 0             | 0            | 0                 | 0                       | 8             | 0              | 1             |
| Advance payments  | 13,850                         | (87)                   | 57   | 7,143         | 14            | 0                 | 20,949                                     | 423           | (23)                   | 41   | 1,247         | 2            | 0                 | 0                       | 1,686         | 19,263         | 13,427        |
|   | 73                             | 0                      | 1  | 86            | 2             | (73)              | 85   | 0             | 0                      | 0  | 0             | 0            | 0                 | 0                       | 85            | 73             |               |
|   | <u>16,836</u>                  | <u>(244)</u>           | <u>259</u>                                 | <u>23,123</u> | <u>183</u>    | <u>42</u>         | <u>39,833</u>                              | <u>1,834</u>  | <u>(30)</u>            | <u>178</u>                                 | <u>2,233</u>  | <u>139</u>   | <u>3</u>          | <u>0</u>                | <u>4,079</u>  | <u>35,754</u>  | <u>15,002</u> |
| <b>Property, plant and equipment</b>  |                                |                        |  |               |               |                   |  |               |                        |  |               |              |                   |                         |               |                |               |
| Land and equivalent rights, and buildings including buildings on land owned by third parties  | 20,163                         | (2)                    | 177  | 263           | 754           | 63                | 19,910                                     | 2,926         | (1)                    | 46   | 2,683         | 169          | 9                 | 0                       | 5,494         | 14,416         | 17,237        |
| Technical equipment and machinery   | 72,056                         | (33)                   | 1,719                                      | 3,858         | 5,884         | 1,597             | 73,313                                     | 33,879        | (35)                   | 1,084                                      | 7,092         | 4,249        | 13                | 8                       | 37,792        | 35,521         | 38,177        |
| Other equipment, plant and office equipment   | 5,168                          | (22)                   | 242  | 1,049         | 1,032         | 129               | 5,534                                      | 3,077         | (11)                   | 145  | 970           | 754          | (25)              | 0                       | 3,402         | 2,132          | 2,091         |
| Advance payments and construction in progress   | 1,542                          | (14)                   | 2  | 2,393         | 19            | (1,831)           | 2,073                                      | 11            | 0                      | (19)                                       | 13            | 0            | 0                 | 0                       | 5             | 2,068          | 1,531         |
|   | <u>98,929</u>                  | <u>(71)</u>            | <u>2,140</u>                               | <u>7,563</u>  | <u>7,689</u>  | <u>(42)</u>       | <u>100,830</u>                             | <u>39,893</u> | <u>(47)</u>            | <u>1,256</u>                               | <u>10,758</u> | <u>5,172</u> | <u>(3)</u>        | <u>8</u>                | <u>46,693</u> | <u>54,137</u>  | <u>59,036</u> |
| <b>Financial assets</b>   |                                |                        |  |               |               |                   |  |               |                        |  |               |              |                   |                         |               |                |               |
| Investments in unconsolidated subsidiaries  | 86                             | 0                      | 11   | 67            | 3             | 10                | 171  | 20            | 0                      | 1  | 0             | 3            | 0                 | 0                       | 18            | 153            | 66            |
| Loans to unconsolidated subsidiaries  | 72                             | 0                      | 0  | 6             | 21            | 0                 | 57   | 13            | 0                      | 0  | 0             | 13           | 0                 | 0                       | 0             | 57             | 59            |
| Investments in associated companies   | 1,737                          | 135                    | 1  | 5,376         | 333           | 425               | 7,341                                      | 491           | 23                     | 0  | 178           | 14           | 0                 | 0                       | 678           | 6,663          | 1,246         |
| Other investments in related companies  | 3,790                          | 0                      | 1  | 5,897         | 1,733         | (415)             | 7,540                                      | 137           | 0                      | 0  | 71            | 124          | 0                 | 0                       | 84            | 7,456          | 3,653         |
| Long-term loans to associated and related companies   | 264                            | 1                      | 23   | 573           | 38            | (20)              | 803  | 36            | 0                      | 11   | 73            | 35           | 0                 | 0                       | 85            | 718            | 228           |
| Other investments in noncurrent securities  | 2,046                          | 1                      | 17   | 431           | 1,365         | 0                 | 1,130                                      | 13            | 0                      | 0  | 18            | 7            | 0                 | 0                       | 24            | 1,106          | 2,033         |
| Other long-term loans   | 660                            | 0                      | 1  | 32            | 130           | 0                 | 563  | 0             | 0                      | 0  | 1             | 0            | 0                 | 0                       | 1             | 562            | 660           |
|   | <u>8,655</u>                   | <u>137</u>             | <u>54</u>                                  | <u>12,382</u> | <u>3,623</u>  | <u>0</u>          | <u>17,605</u>                              | <u>710</u>    | <u>23</u>              | <u>12</u>                                  | <u>341</u>    | <u>196</u>   | <u>0</u>          | <u>0</u>                | <u>890</u>    | <u>16,715</u>  | <u>7,945</u>  |
|   | <u>124,420</u>                 | <u>(178)</u>           | <u>2,453</u>                               | <u>43,068</u> | <u>11,495</u> | <u>0</u>          | <u>158,268</u>                             | <u>42,437</u> | <u>(54)</u>            | <u>1,446</u>                               | <u>13,332</u> | <u>5,507</u> | <u>0</u>          | <u>8</u>                | <u>51,662</u> | <u>106,606</u> | <u>81,983</u> |

The accompanying notes are an integral part of the consolidated financial statements.

The amounts contained herein have been converted into euro at the official rate of 1.95583 DM per euro.

## CONSOLIDATED STATEMENT OF CASH FLOWS

|  | 2000                 | 1999             | 1998             |
|--|----------------------|------------------|------------------|
| Note   | millions<br>of €     | millions<br>of € | millions<br>of € |
| Net income   | 5,926                | 1,253            | 2,243            |
| Income applicable to minority shareholders                           | 89                   | 271              | 203              |
| <b>Income after taxes</b>  | <b>6,015</b>         | <b>1,524</b>     | <b>2,446</b>     |
| Depreciation and amortization  | 12,991               | 8,466            | 9,037            |
| Income tax expense   | 194                  | 1,380            | 2,477            |
| Net interest expense   | 3,097                | 2,546            | 2,962            |
| Net losses from the disposition of noncurrent assets                 | (4,796)              | 540              | 516              |
| Results from associated companies                                    | (1,890)              | 265              | 382              |
| Other noncash income   | (2,661)              | 28               | (50)             |
| Change in capitalized working capital *                              | (1,791)              | (1,399)          | 403              |
| Change in accruals   | 1,078                | 478              | 151              |
| Change in other working capital carried as a liability **            | 1,391                | 243              | 0                |
| Income taxes paid  | (871)                | (2,040)          | (2,012)          |
| Dividends received   | 189                  | 172              | 110              |
| <b>Cash generated from operation</b>                                 | <b>12,946</b>        | <b>12,203</b>    | <b>16,422</b>    |
| Interest paid  | (3,873)              | (3,100)          | (3,403)          |
| Interest received  | 927                  | 485              | 472              |
| <b>Net cash provided by operating activities</b>                     | <b>(30) 10,000</b>   | <b>9,588</b>     | <b>13,491</b>    |
| Cash outflows from investments in                                    |                      |                  |                  |
| —intangible assets   | (15,980)             | (881)            | (528)            |
| —property, plant and equipment                                       | (7,556)              | (5,093)          | (4,263)          |
| —financial assets  | (8,487)              | (3,480)          | (2,733)          |
| —consolidated companies  | (4,343)              | (12,633)         | 0                |
| Cash inflows from disposition of                                     |                      |                  |                  |
| —intangible assets   | 10                   | 14               | 8                |
| —property, plant and equipment                                       | 655                  | 171              | 183              |
| —financial assets  | 4,474                | 888              | 524              |
| —shareholdings in consolidated companies and business units          | 3,114                | 2                | 0                |
| Net change in short-term investments and marketable securities       | 401                  | 2,328            | (701)            |
| Other  | 6                    |                  | (1)              |
| <b>Net cash used for investing activities</b>                        | <b>(31) (27,706)</b> | <b>(18,684)</b>  | <b>(7,511)</b>   |
| Issuance of short-term debt  | 34,959               | 4,682            | 80               |
| Repayments of short-term debt  | (35,739)             | (5,759)          | (4,860)          |
| Issuance of medium and long-term debt                                | 19,708               | 1,833            | 1,595            |
| Repayments of medium and long-term debt                              | (2,408)              | (1,687)          | (1,830)          |
| Dividends  | (1,914)              | (1,718)          | (1,764)          |
| Proceeds from share offering   | 3,255                | 10,613           | 0                |
| Changes in minority interests  | 2                    | 1                | (18)             |
| <b>Net cash provided by (used for) financing activities</b>          | <b>(32) 17,863</b>   | <b>7,965</b>     | <b>(6,797)</b>   |
| Effect of foreign exchange rate changes on cash and cash equivalents | (29)                 | (55)             | 6                |
| <b>Net increase (decrease) in cash and cash equivalents</b>          | <b>128</b>           | <b>(1,186)</b>   | <b>(811)</b>     |
| <b>Cash and cash equivalents, at beginning of year</b>               | <b>878</b>           | <b>2,064</b>     | <b>2,875</b>     |
| <b>Cash and cash equivalents, at end of year</b>                     | <b>1,006</b>         | <b>878</b>       | <b>2,064</b>     |

\* Change in liabilities, other assets, inventories, materials and supplies and prepaid expenses and deferred charges

\*\* Change in other liabilities (which do not relate to financing activities) and deferred income

The accompanying notes are an integral part of the consolidated financial statements.  
The amounts contained herein have been converted into euro at the official rate of 1.95583 DM per euro.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

|  | Shares issued<br>and<br>outstanding<br>(in thousands) | Capital<br>stock<br>nominal<br>value | Additional<br>paid-in<br>capital | Retained earnings                             |                   |  | Unappropriated<br>net income<br>carried forward<br>from previous<br>year | Net<br>income | Minority<br>interest | Total        |               |
|--|---|--------------------------------------|----------------------------------|---|-------------------|--|--|---------------|----------------------|--------------|---------------|
|  |   |                                      |                                  | Difference<br>from<br>currency<br>translation | Treasury<br>stock | Other<br>retained<br>earnings<br>(deficit) |  |               |                      |              | Total         |
|  | millions of €   |                                      |                                  |   |                   |  |  |               |                      |              |               |
| <b>Balance at Jan. 1, 1998</b> . . . .                                       | <b>2,743,700</b>                                      | <b>7,014</b>                         | <b>14,250</b>                    | <b>(368)</b>                                  | <b>1</b>          | <b>1,288</b>                               | <b>921</b>   | <b>1</b>      | <b>1,689</b>         | <b>741</b>   | <b>24,616</b> |
| Changes in the composition of<br>the Deutsche Telekom<br>Group . . . . .     |   |                                      |                                  |   |                   |  |  |               |                      | (17)         | (17)          |
| Dividends for 1997 . . . . .   |   |                                      |                                  |   |                   |  |  |               | (1,684)              | (73)         | (1,757)       |
| Unappropriated net income<br>carried forward from<br>previous year . . . . . |   |                                      |                                  |   |                   |  |  | 5             | (5)                  |              |               |
| Net income . . . . .   |   |                                      |                                  |   |                   |  |  |               | 2,243                | 203          | 2,446         |
| Difference from currency<br>translation . . . . .                            |   |                                      |                                  | (135)   |                   |  | (135)  |               |                      | (89)         | (224)         |
| <b>Balance at Dec. 31, 1998</b> . . .  | <b>2,743,700</b>                                      | <b>7,014</b>                         | <b>14,250</b>                    | <b>(503)</b>                                  | <b>1</b>          | <b>1,288</b>                               | <b>786</b>   | <b>6</b>      | <b>2,243</b>         | <b>765</b>   | <b>25,064</b> |
| Changes in the composition of<br>the Deutsche Telekom<br>Group . . . . .     |   |                                      |                                  |   |                   |  |  |               |                      | (1)          | (1)           |
| Dividends for 1998 . . . . .   |   |                                      |                                  |   |                   |  |  |               | (1,683)              | (41)         | (1,724)       |
| Unappropriated net income<br>carried forward from<br>previous year . . . . . |   |                                      |                                  |   |                   |  |  | 7             | (7)                  |              |               |
| Transfer to retained earnings . .  |   |                                      |                                  |   |                   | 553  | 553  |               | (553)                |              |               |
| Increase in nominal value of<br>capital stock . . . . .                      |   | 10                                   | (10)                             |   |                   |  |  |               |                      |              |               |
| Proceeds from share<br>offering . . . . .                                    | 285,904   | 732                                  | 9,881                            |   |                   |  |  |               |                      |              | 10,613        |
| Transfer to reserve for<br>treasury stock . . . . .                          |   |                                      |                                  |   | 13                | (13)                                       |  |               |                      |              |               |
| Net income . . . . .   |   |                                      |                                  |   |                   |  |  |               | 1,253                | 271          | 1,524         |
| Difference from currency<br>translation . . . . .                            |   |                                      |                                  | 219   |                   |  | 219  |               |                      | (6)          | 213           |
| <b>Balance at Dec. 31, 1999</b> . . .  | <b>3,029,604</b>                                      | <b>7,756</b>                         | <b>24,121</b>                    | <b>(284)</b>                                  | <b>14</b>         | <b>1,828</b>                               | <b>1,558</b>   | <b>13</b>     | <b>1,253</b>         | <b>988</b>   | <b>35,689</b> |
| Changes in the composition of<br>the Deutsche Telekom<br>Group . . . . .     |   |                                      |                                  |   |                   | (31)                                       | (31)   |               |                      | 3,259        | 3,228         |
| Dividends for 1999 . . . . .   |   |                                      |                                  |   |                   | (621)                                      | (621)  |               | (1,253)              | (25)         | (1,899)       |
| Unappropriated net income<br>carried forward from<br>previous year . . . . . |   |                                      |                                  |   |                   | (31)                                       | (31)   | 31            |                      |              |               |
| Increase in nominal value of<br>capital stock . . . . .                      |   |                                      | 169                              |   |                   |  |  |               |                      |              | 169           |
| Transfer from reserve for<br>treasury stock . . . . .                        |   |                                      |                                  |   | (7)               | 7  |  |               |                      |              |               |
| Net income . . . . .   |   |                                      |                                  |   |                   |  |  |               | 5,926                | 89           | 6,015         |
| Difference from currency<br>translation . . . . .                            |   |                                      |                                  | (477)   |                   |  | (477)  |               |                      | (9)          | (486)         |
| <b>Balance at Dec. 31, 2000</b> . . .  | <b>3,029,604</b>                                      | <b>7,756</b>                         | <b>24,290</b>                    | <b>(761)</b>                                  | <b>7</b>          | <b>1,152</b>                               | <b>398</b>   | <b>44</b>     | <b>5,926</b>         | <b>4,302</b> | <b>42,716</b> |

The accompanying notes are an integral part of the consolidated financial statements.  
The amounts contained herein have been converted into euro at the official rate of 1.95583 DM per euro.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SUMMARY OF ACCOUNTING POLICIES**

### **Description of business and relationship with the Federal Republic of Germany**

The Deutsche Telekom Group (Deutsche Telekom) is a full-service telecommunications provider whose major lines of business include providing network communications, mobile communications, data communications and carrier services, broadcasting and broadband cable services for television and radio stations, value-added and multimedia services as well as international business. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

Deutsche Telekom's principal business is providing telecommunications services, comprising more than 90 % of total operating revenues, operating profits and identifiable assets. Deutsche Telekom's business is conducted predominantly in Germany and is, therefore, within a single geographic area for reporting purposes.

The Company, Deutsche Telekom AG, was registered with the Commercial Registry of the Bonn District Court (Amtsgericht—HRB 6794) on January 2, 1995.

The number of Deutsche Telekom shareholders increased considerably once again as a result of the sale of further shares from the holdings of a federal corporation, the Kreditanstalt für Wiederaufbau (KfW), which sold 200 million of the shares it held. On December 15, 2000, the KfW took over 55 million Deutsche Telekom shares previously held by France Telecom. Overall, the KfW's shareholding in Deutsche Telekom was reduced to 16.81 % as a result of these transactions. Thus, the Federal Republic's total direct and indirect shareholding in Deutsche Telekom as of December 31, 2000 amounts to approximately 59.64 %, and the direct shareholding to 42.83 %. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

In accordance with § 21 paragraph 1 of the Security Trading Act (WpHG), the Federal Agency informed Deutsche Telekom in its letter of December 11, 1998 that its share of the voting rights in Deutsche Telekom had fallen below the 50 % threshold on December 10, 1998 to 49.35 %. According to a letter of January 29, 2001, the Federal Agency held 1,297,859,655 shares in Deutsche Telekom as at December 31, 2000, a shareholding of 42.83 %. In accordance with § 21 paragraph 1 of the WpHG, the KfW informed Deutsche Telekom in its letter of December 22, 1997 that its share of the voting rights in Deutsche Telekom had exceeded the 10 % threshold to 13.47 %. As reported in a letter of January 26, 2001, the KfW held 509,164,599 shares in Deutsche Telekom as at December 31, 2000, a shareholding of 16.81 %.

The Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics (BMW), has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

The Federal Republic and various government departments and agencies are collectively Deutsche Telekom's largest customer. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

### **Summary of significant accounting principles**

The annual financial statements and the management report of the Deutsche Telekom Group have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch—HGB) and German Stock Corporation Law (Aktiengesetz—AktG).

In addition to Frankfurt and other German stock exchanges, Deutsche Telekom shares are also traded in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE). As a result of special reporting requirements, in particular to the U.S. Securities and Exchange Commission (SEC), the Company uses, to a considerable extent, accounting and valuation principles in line with those of U.S. GAAP (generally accepted accounting principles—GAAP) applicable at the balance sheet date. Deviations between the

accounting principles in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP which contradict those of U.S. GAAP. As far as possible, Deutsche Telekom's aim is to publish its financial statements in accordance with the principles of both German and U.S. GAAP so that the reconciliation positions included in the notes to the financial statements are kept to a minimum.

These consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the disclosure and classification requirements of the HGB cannot be conformed to U.S. GAAP. Differences in accounting and valuation principles applied in Deutsche Telekom's financial statements and those of U.S. GAAP are shown in a separate reconciliation.

Whereas the HGB requires only one year of comparative figures for the statement of income, the SEC requires the two previous years. The SEC also requires three years of cash flow statements and statements of shareholders' equity.

The consolidated balance sheet and the consolidated statement of income are prepared in accordance with the classification requirements of § 298 HGB, in combination with § 266 and § 275 HGB. The income statement is prepared using the total cost method. All amounts shown, except per share amounts, are in millions of euros (€ / EUR). The consolidated financial statements have been restated from DM into euros using the official fixed conversion rate of EUR 1 = DM 1.95583. Certain items have been combined in order to enhance the informative value and understanding of the consolidated financial statements. These items are shown separately in the notes. In case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with § 297 paragraph 1 sentence 2 HGB, the consolidated accounts also include a consolidated statement of cash flows and a segment report; in addition, the consolidated accounts also include a consolidated statement of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the consolidated financial statements.

The consolidated financial statements are prepared in accordance with uniform accounting and valuation principles. The accounting policies used in the consolidated financial statements differ from those used in the unconsolidated financial statements of the parent company. Such differences, mostly applied to conform with U.S. GAAP, include the following:

- Property, plant and equipment leased under contracts for which the risks and rewards of ownership have been assumed are capitalized. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments are included as liabilities.
- Interest incurred while items included in property, plant and equipment were under construction has been added to construction costs.
- Direct pension obligations are measured in accordance with SFAS No. 87, using valuation methods consistent with those used for indirect pension obligations in the unconsolidated financial statements of Deutsche Telekom AG. The increase in the average life expectancy is taken into account in the measurement of all pension obligations in the consolidated financial statements.
- In the measurement of the compensation obligations to the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the additional accruals required according to the new 1998 life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998") were recorded in the 1998 financial year, thus fully affecting net income. In contrast to the unconsolidated financial statements of Deutsche Telekom AG, where the accruals are spread over 4 financial years, this accrual was made in full in the consolidated financial statements.
- Accruals for the internal costs of preparing the annual financial statements are not recorded.
- Investment grants received are recorded as reductions of the acquisition costs of assets.

The financial statements of Deutsche Telekom AG as well as the financial statements of the Deutsche Telekom Group, which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

## Consolidated group

The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG and its subsidiaries.

The subsidiaries, associated companies and other related companies have been included in the consolidated financial statements in accordance with the following criteria:

- Subsidiaries are companies in which Deutsche Telekom directly or indirectly has majority voting rights or management control.
- Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20 % and 50 % of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.
- Companies in which Deutsche Telekom holds less than 20 % of the voting rights are carried in the consolidated financial statements at the lower of acquisition cost or market value and classified as other investments in related companies.

The changes in the composition of the Deutsche Telekom Group in 2000 are presented in the following table:

|  | <u>Domestic</u>   | <u>International</u> | <u>Total</u>      |
|--|-------------------|----------------------|-------------------|
| <b>Consolidated subsidiaries</b>   |                   |                      |                   |
| January 1, 2000 . . . . .  | 38                | 61                   | 99                |
| Additions . . . . .  | 34                | 75                   | 109               |
| Disposals . . . . .  | 4                 | 15                   | 19                |
| Reclassifications . . . . .  | <u>12</u>         | <u>8</u>             | <u>20</u>         |
| December 31, 2000 . . . . .  | <u>80</u>         | <u>129</u>           | <u>209</u>        |
| <b>Associated companies included at equity</b>   |                   |                      |                   |
| January 1, 2000 . . . . .  | 15                | 22                   | 37                |
| Additions . . . . .  | 5                 | 8                    | 13                |
| Disposals . . . . .  | 0                 | 3                    | 3                 |
| Reclassifications . . . . .  | <u>4</u>          | <u>1</u>             | <u>5</u>          |
| December 31, 2000 . . . . .  | <u>24</u>         | <u>28</u>            | <u>52</u>         |
| <b>Other unconsolidated subsidiaries and other investments in related companies (greater than 5 %)</b> |                   |                      |                   |
| January 1, 2000 . . . . .  | 79                | 33                   | 112               |
| Additions . . . . .  | 32                | 36                   | 68                |
| Disposals . . . . .  | 5                 | 6                    | 11                |
| Reclassifications . . . . .  | <u>(16)</u>       | <u>(9)</u>           | <u>(25)</u>       |
| December 31, 2000 . . . . .  | <u>90</u>         | <u>54</u>            | <u>144</u>        |
| <b>Total</b>   |                   |                      |                   |
| January 1, 2000 . . . . .  | 132               | 116                  | 248               |
| Additions . . . . .  | 71                | 119                  | 190               |
| Disposals . . . . .  | 9                 | 24                   | 33                |
| Reclassifications . . . . .  | <u>—</u>          | <u>—</u>             | <u>—</u>          |
| <b>December 31, 2000 . . . . .</b>   | <b><u>194</u></b> | <b><u>211</u></b>    | <b><u>405</u></b> |

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 80 (Dec. 31, 1999: 38) domestic and 129 (Dec. 31, 1999: 61) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

The most significant subsidiary consolidated for the first time in 2000 is debis Systemhaus including its subgroup financial statements.

The changes in the composition of the Deutsche Telekom Group have had the following effects on the consolidated financial statements:

Effects on the consolidated statement of income (in millions of €):

|                               |                       |
|-------------------------------|-----------------------|
| Revenue                       | 3,425                 |
| Goods and services purchased  | (1,655)               |
| Personnel costs               | (661)                 |
| Depreciation and amortization | (1,508)               |
| Other income/(expenses)       | (1,309)               |
| <b>Income after taxes</b>     | <b><u>(1,708)</u></b> |

Effects on the consolidated balance sheet (in millions of €):

|  |                      |   |                      |
|--|----------------------|---|----------------------|
| Assets   |                      | Shareholders' equity and liabilities      |                      |
| Noncurrent assets  | 9,218                | Shareholders' equity                      | 2,347                |
| Current assets, prepaid expenses, deferred charges and deferred taxation | 1,299                | Accruals, liabilities and deferred income | 8,170                |
|  | <b><u>10,517</u></b> |   | <b><u>10,517</u></b> |

In the first quarter of 2000, as a result of the acquisition of the Netherlands-based Media One holding company increases in shareholdings consisted of 49 % of the shares in the Hungarian mobile communications company Westel 900 and a further 22.5 % of the shares in the Polish mobile communications company Polska Telefonia Cyfrowa (PTC) for a total purchase price of EUR 2.1 billion. The resulting goodwill amounts to EUR 0.9 billion for Westel 900 and EUR 1.1 billion for PTC, which will be amortized over a period of 15 years. At the same time, MATÁV was granted an option to acquire the remaining 49 % in Westel 900.

In April 2000, the subsidiary T-Online International AG acquired as part of a capital increase against noncash contributions 99.9 % of the shares in the French Internet service provider Grolier Interactive Europe Online Groupe S.A. (renamed T-Online France SAS) from the Lagadère group. This resulted in goodwill in Deutsche Telekom's consolidated financial statements of EUR 0.5 billion, which will be amortized over a period of 7 years. T-Online France was consolidated for the first time in the second quarter of 2000.

Ameritech exercised its right effective June 30, 2000 to offer and transfer its 50 % stake in MagyarCom to Deutsche Telekom. Consequently, Deutsche Telekom is now the sole shareholder in the holding company. The purchase price was EUR 2.3 billion; this resulted in further goodwill of EUR 1.9 billion, which will be amortized over a period of 15 years. MagyarCom only holds shares (59.49 %) in the publicly traded company MATÁV.

In October 2000, Deutsche Telekom acquired a shareholding through T-Systems GmbH of 50.1 % in debis Systemhaus GmbH, including its subsidiaries, for a cash contribution of EUR 4.6 billion. The group operates in the field of information technology. The consolidation of debis Systemhaus in the third quarter of 2000 generated goodwill of EUR 2.6 billion, for scheduled amortization over a period of between 3 and 12 years. Deutsche Telekom AG has granted DaimlerChrysler Services AG, Berlin, an option valid until January 1, 2005, under which DaimlerChrysler Services AG has the right to sell its shares in debis Systemhaus GmbH (49.9 %) to Deutsche Telekom AG. In addition, Deutsche Telekom AG has an option valid from January 1, 2002 to January 1, 2005 to acquire debis Systemhaus in full.

At the end of the third quarter 2000, Deutsche Telekom AG acquired a total of 51 % of the shares in the Slovakian telecommunications company Slovenské Telekomunikácie for EUR 1.0 billion through the purchase and take over of the shares from the subsequent capital increase. The resulting goodwill of EUR 0.5 billion will be amortized over a period of 15 years. The company was consolidated for the first time on September 30, 2000.

The following pro forma calculation shows Deutsche Telekom's most important financial data, including the major subsidiaries acquired in 1999 and 2000, as if they had been consolidated at January 1, 1999.

Unaudited pro forma information

|   | <u>2000</u> | <u>1999</u>   |
|---|-------------|---------------|
| <b>Net revenue (billions of €)</b>                  |             |               |
| Shown .....   | 40.9        | 35.5          |
| Pro forma (in accordance with APB 16).....          | <u>43.5</u> | <u>40.0</u>   |
| <b>Net income under German GAAP (millions of €)</b> |             |               |
| Shown .....   | 5.9         | 1.3           |
| Pro forma (in accordance with APB 16).....          | <u>5.4</u>  | <u>(0.9)</u>  |
| <b>Earnings per share under German GAAP (in €)</b>  |             |               |
| Shown .....   | 1.96        | 0.43          |
| Pro forma (in accordance with APB 16).....          | <u>1.78</u> | <u>(0.32)</u> |

Eighty-four (Dec. 31, 1999: 60) subsidiaries were not included because they were not material to the net worth, financial position and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1 % of consolidated revenue, results and balance sheet total of the Deutsche Telekom Group.

In accordance with § 311 paragraph 1 HGB, 52 (Dec. 31, 1999: 37) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method.

Sixty (Dec. 31, 1999: 52) associated companies which have little or no effect on the net worth, financial position and results of the Deutsche Telekom Group were classified as other investments in related companies at acquisition cost less applicable write-downs.

The full list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794). It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries which exercise the disclosure simplification option in accordance with § 264 paragraph 3 HGB.

## Principal subsidiaries and associated companies

The principal subsidiaries and associated companies whose revenues and results, together with Deutsche Telekom AG, account for more than 90 % of the Group are shown in the table below (shareholders' equity, revenue and income before taxes are calculated in accordance with the accounting regulations applicable in the respective country):

| <u>Name and registered office</u>  | <u>Deutsche Telekom share Dec. 31, 2000</u><br>% | <u>Shareholders' equity Dec. 31, 2000</u><br>millions of € | <u>Revenue 2000</u><br>millions of € | <u>Income after taxes 2000</u><br>millions of € | <u>Employees 2000 annual average</u> |
|--|--|--|--------------------------------------|---|--------------------------------------|
| <b>Subsidiaries</b>  |  |  |                                      |   |                                      |
| <b>DeTeMobil</b> Deutsche Telekom MobilNet GmbH, Bonn (5) . . . . .                      | 100.00   | 1,823  | 6,483                                | 5,151   | 8,534                                |
| <b>Deutsche Telekom Mobile Holdings Ltd.</b> , London (1)(5) . . . . .                   | 100.00   | 12,055   | 2,883                                | (1,784)   | 5,456                                |
| <b>max.mobil. Telekommunikation Service GmbH</b> , Vienna (1)(5) . . . . .               | 100.00   | 66   | 1,019                                | (55)  | 2,731                                |
| <b>T-Online International AG</b> , Darmstadt (1) . . . . .                               | 81.71  | 6,596  | 797                                  | (406)   | 1,436                                |
| <b>debis Systemhaus GmbH</b> , Leinfelden-Echterdingen (1)(2)(6) . . . . .               | 50.10  | 3,933  | 965                                  | 42  | 20,481                               |
| <b>DeTeCSM</b> Deutsche Telekom Computer Service Management GmbH, Darmstadt . . . . .    | 100.00   | 243  | 1,604                                | 126   | 5,926                                |
| <b>T-Nova</b> Deutsche Telekom Innovationsgesellschaft mbH, Bonn . . . . .               | 100.00   | 70   | 751                                  | 31  | 4,476                                |
| <b>SIRIS S.A.S.</b> , Paris . . . . .  | 100.00   | 86   | 167                                  | (107)   | 468                                  |
| <b>DeTe Immobilien</b> , Deutsche Telekom Immobilien und Service GmbH, Münster . . . . . | 100.00   | 153  | 3,680                                | (175)   | 9,032                                |
| <b>T-Data</b> Gesellschaft für Datenkommunikation mbH, Bonn (1) . . . . .                | 100.00   | 510  | 537                                  | 31  | 1,047                                |
| <b>Kabel Deutschland GmbH</b> , Bonn (1) . . . . .                                       | 100.00   | 3,829  | 1,165                                | 2,822   | 2,665                                |
| <b>MATÁV Magyar Távközlési Rt.</b> , Budapest, Hungary (1)(4) . . . . .                  | 59.49  | 1,461  | 1,717                                | 330   | 14,690                               |
| <b>Slovenské Telekomunikácie, a.s.</b> , Bratislava (2) . . . . .                        | 51.00  | 940  | 128                                  | (4)   | 13,298                               |
| <b>Associated companies</b>  |  |  |                                      |   |                                      |
| <b>HT-Hrvatske telekomunikacije d.d.</b> , Zagreb . . . . .                              | 35.00  | 1,120  | 763                                  | 120   | 10,712                               |
| <b>MTS, OJSC Mobile TeleSystems</b> , Moscow (3) . . . . .                               | 36.20  | 356  | 338                                  | 88  | 841                                  |
| <b>Other companies</b>   |  |  |                                      |   |                                      |
| <b>VoiceStream</b> Wireless Corporation, Bellevue, USA (3) . . . . .                     | 1.69   | 7  | 446                                  | (427)   | 5,740                                |
| <b>France Télécom S.A.</b> , Paris, France (1)(3) . . . . .                              | 17.78  | 18,903   | 27,233                               | 2,768   | 174,262                              |
| <b>Investments in current assets</b>   |  |  |                                      |   |                                      |
| <b>Sprint Corporation</b> , Westwood, Kansas, USA (1)(3) . . . . .                       | FON 10.85<br>PCS 8.5                             | 13,522   | 18,708                               | (878)   | 77,600                               |

- (1) Consolidated subgroup financial statements
- (2) Revenue and net income since being included in the Deutsche Telekom Group
- (3) 1999 financial year
- (4) Held through MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 100 %)
- (5) Indirect shareholding through T-Mobile International AG, Bonn (Deutsche Telekom share: 100 %)
- (6) Indirect shareholding through T-Systems International GmbH, Bonn (Deutsche Telekom share: 100 %)

## Consolidation principles

**Capital consolidation** is performed following the book value method under German GAAP. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Negative goodwill from capital consolidation is included under other accruals.

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings (deficit); furthermore, they include the effects of consolidation and the net income of subsidiaries.

If, in the course of capital increases of subsidiaries and associated and related companies, shares are issued to third-party shareholders, without the involvement of Deutsche Telekom, the resulting added value for Deutsche Telekom is shown, in cases of cash capital increases, as income in the income statement; in cases of capital increases for noncash contributions, it is only shown as such if the added value exceeds a given level of goodwill acquired by the subsidiary or associated or related company in the course of the capital increase.

Revenue, income and expenses as well as receivables and liabilities between the consolidated companies are eliminated. **Intercompany profits and losses** and income effects from the **consolidation of intercompany debt** are eliminated in the consolidated financial statements.

The consolidated balance sheets include deferred taxes resulting from the effects of consolidation, provided the tax expense is expected to reverse in later years except where the effects of consolidation relate to the parent company during the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the book value method by applying Deutsche Telekom's uniform principles of valuation. This method is similar to the method described above for consolidated subsidiaries. The principles used for full consolidation are also applied in treating the differences resulting from the initial consolidation.

**Joint ventures** are included in the consolidated financial statements using the equity method.

## Foreign currency translation

In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are translated at the exchange rate applicable on the transaction date. Unrealized foreign currency losses due to exchange rate fluctuations through the balance sheet date are recognized in the income statement while unrealized foreign currency gains are not recognized. Where foreign currency items have been hedged by forward exchange contracts, they are valued at the corresponding hedge rate.

Currency translation of foreign subsidiaries is made in accordance with the functional currency method. Thus, the functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure as reported in this currency should be reflected in the group accounts. Generally, the functional currency of dependent subsidiaries is identical with that of the parent company. Dependent subsidiaries are translated according to the temporal method. On the other hand, the functional currency of independent subsidiaries is the local currency. Currently all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company, therefore currency translation is performed according to the modified current rate method. Therefore, in the consolidated financial statements, the translation of all items shown in balance sheets of foreign subsidiaries from foreign currencies into euros is performed using middle rates on the balance sheet date and, for Member States of the European Monetary Union, the official euro conversion rates. The resulting amounts in euros are then converted into DM. Gains and losses resulting from translation are recorded, without affecting net income, in retained earnings (deficit).

The income statements of foreign subsidiaries are translated at the average annual exchange rates. The exchange rates of certain significant currencies are as follows:

|                                       | Average annual rate |         |          |          | Rate at balance sheet date |            |
|---------------------------------------|---------------------|---------|----------|----------|----------------------------|------------|
|                                       | 2000                | 1999    | 1999     | 1998     | 31.12.2000                 | 31.12.1999 |
|                                       | €                   | €       | DM       | DM       | €                          | €          |
| 100 Belgian Francs (BEF) . . . . .    | 2.4789              | 2.4789  | 4.8484   | 4.8476   | 2.4789                     | 2.4789     |
| 100 Swiss Francs (CHF) . . . . .      | 64.2701             | 62.5317 | 122.3014 | 121.4138 | 65.6859                    | 62.3170    |
| 100 French Francs (FRF) . . . . .     | 15.2449             | 15.2449 | 29.8164  | 29.8291  | 15.2449                    | 15.2449    |
| 1 Pound Sterling (GBP) . . . . .      | 1.6423              | 1.5181  | 2.9691   | 2.9142   | 1.6044                     | 1.6124     |
| 100 Hungarian Forints (HUF) . . . . . | 0.3850              | 0.3958  | 0.7741   | 0.8202   | 0.3775                     | 0.3927     |
| 100 Indonesian Rupiah (IDR) . . . . . | 0.0130              | 0.0121  | 0.0237   | 0.0181   | 0.0111                     | 0.0141     |
| 100 Japanese Yen (JPY) . . . . .      | 1.0050              | 0.8292  | 1.6217   | 1.3482   | 0.9361                     | 0.9755     |
| 100 Malaysian Ringgit (MYR) . . . . . | 28.5882             | 24.7594 | 48.4252  | 44.9550  | 28.2907                    | 26.2425    |
| 100 Philippine Pesos (PHP) . . . . .  | 2.4585              | 2.4049  | 4.7036   | 4.2820   | 2.1521                     | 2.4745     |
| 100 Polish Zloty (PLN) . . . . .      | 24.9595             | 23.7013 | 46.3557  | 50.3490  | 25.9876                    | 24.0524    |
| 1 Russian Rubel (RUB) . . . . .       | 0.0386              | 0.0378  | 0.0739   | 0.2051   | 0.0376                     | 0.0362     |
| 100 Singapore Dollars (SGD) . . . . . | 62.9966             | 55.4866 | 108.5224 | 105.1300 | 66.0721                    | 59.9296    |
| 1 U.S. Dollar (US\$) . . . . .        | 1.0863              | 0.9388  | 1.8361   | 1.7592   | 1.0750                     | 0.9972     |

### Accounting and valuation

**Net revenues** consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of VAT and sales-related reductions. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

**Research and development costs** are expensed as incurred.

**Pension costs** for defined benefit plans are actuarially computed using the Projected Unit Credit Method, which is consistent with SFAS No. 87, and are shown in accordance with SFAS No. 132. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and in retirement benefits into account.

Pension costs include current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service costs. The pension costs are accrued in the balance sheet in accordance with SFAS No. 87 and No. 132, whereby the accrual is increased by the expense recognized and decreased by payments made during the year.

The Company is required to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II, which came into force in 1995, rather than by annual actuarial valuations. The amounts currently due in each period are recognized as an expense in that period.

**Advertising costs** are charged to expenses as incurred.

**Income tax expense** includes current payable taxes on income as well as deferred income taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future. Such differences may arise at the individual taxable entity level as well as in consolidation. Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996 as Deutsche Telekom AG was not taxable prior to January 1, 1996 and benefited from an essentially complete exemption from tax in 1995.



**Earnings per share** for each period are calculated by dividing net income by the weighted average number of ordinary bearer shares outstanding during that period. The weighted average number of ordinary bearer shares in 1999 was ascertained after giving effect to the issuance of shares by way of a capital increase resulting from the second share offering. This capital increase was completed upon the start of trading with the new shares on June 28, 1999 in Frankfurt am Main and on June 29, 1999 in Tokyo.

Purchased **intangible assets** are valued at acquisition cost and are amortized on a straight-line basis over their estimated useful lives, UMTS licenses over the terms of the licenses. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom AG on January 1, 1995 was recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 was valued at its remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other property, plant and equipment is valued at acquisition or construction cost, less scheduled depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during construction. However, general administration expenses are not capitalized.

Property, plant and equipment includes nondeductible capitalized VAT amounts at the level of expected refunds from VAT adjustments pursuant to § 15a of the German Value-Added Tax Act (Umsatzsteuergesetz - UStG) resulting from Deutsche Telekom's full liability for VAT as of 1996. Capitalized VAT is depreciated over a period of four years, starting in 1996 and for the last time in 1999.

Nonscheduled write-downs are provided when an impairment in the value of assets occurs. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the individual company financial statements for tax purposes has not been recognized in the consolidated financial statements.

Depreciation of noncurrent assets is carried out using the straight-line method over the following useful lives:

|   | <u>Years</u> |
|---|--------------|
| Intangible assets . . . . .   | 3 to 22      |
| Goodwill . . . . .  | 3 to 20      |
| Buildings   |              |
| Office and residential buildings . . . . .  | 50           |
| Telecommunications buildings and towers . . . . .   | 25 to 30     |
| Workshop buildings, outdoor installations and facilities . . . . .  | 10           |
| Shop improvements and window displays . . . . .   | 7            |
| Telephone facilities and terminal equipment . . . . .   | 3 to 10      |
| Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks . . . . . | 4 to 10      |
| Broadband distribution networks, outside plant networks and cable conduit lines . . . . .   | 15 to 35     |
| Telecommunications power facilities and other . . . . .   | 3 to 10      |
| Other equipment, plant and office equipment . . . . .   | 3 to 20      |

Additions to real estate property are depreciated beginning in the month the building is placed into service. For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and, for those assets acquired in the second half of the year, a half year of depreciation is provided.

Items with a low acquisition cost are expensed in the year of purchase.

Maintenance and repairs are charged to expenses when incurred.

Upon sale or disposal of noncurrent assets, the related cost and accumulated depreciation are removed from the balance sheet, and a gain or loss is recognized for the difference between the proceeds from the sale and the net carrying amount of the assets.

**Financial assets** are valued at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are recorded at net present value. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

**Raw materials and supplies**, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, production cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

**Receivables and other assets** are shown at their nominal value. Known individual risks are accounted for through appropriate individual valuation adjustments, and general credit risks through general valuation adjustments of receivables. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

**Marketable securities** are stated at the lower of cost or market value at the balance sheet date.

**Stock options** issued in the course of a contingent capital increase are shown in the balance sheet at the date the options are exercised, not at the date they are granted. At the time the options are exercised, the amount received by the company is recorded at the value of the corresponding nominal capital increase in the capital stock and at the value of an additional amount in additional paid-in capital, in accordance with § 272 paragraph 2 No. 1 HGB.

**Pension obligations** are calculated using actuarial methods in accordance with the internationally accepted Projected Unit Credit Method, which is consistent with U.S. GAAP (SFAS No. 87), and are shown in accordance with SFAS No. 132.

**Provisions for taxes and other accruals** including those for loss contingencies and environmental liabilities are recorded using best estimates. Sufficient allowance is made for all possible risks when assessing these provisions and accruals.

**Deferred taxes** are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom used the German income tax rate for undistributed earnings for domestic companies until and including 1999—and from 2000 the uniform corporate income tax rate—and the respective local tax rate for foreign companies.

**Cost accruals** are only made by Deutsche Telekom when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 paragraph 1 HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year. As required by German GAAP, these accruals have been accrued at each period end, which is different from U.S. GAAP requirements.

Accruals, with the exception of pensions and similar obligations as well as Civil Service Health Insurance Fund accruals for future shortfalls, are not discounted.

**Liabilities** are recorded at their repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and recognized as an adjustment to interest expense over the term of the liability.

Unrealized losses relating to **derivative financial instruments** which do not qualify for hedge accounting are recognized when incurred whereas unrealized gains are deferred until realized.

The preparation of consolidated financial statements in accordance with German GAAP requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

## NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### (1) Net revenue<sup>(1)</sup>

|  | <u>2000</u>          | <u>1999</u>          | <u>1998</u>          |
|--|----------------------|----------------------|----------------------|
|  | millions of<br>€     | millions of<br>€     | millions of<br>€     |
| Network communications . . . . .           | 15,051               | 16,737               | 20,531               |
| Carrier services . . . . .                 | 3,983                | 2,884                | 1,611                |
| Data communications . . . . .              | 3,352                | 2,828                | 2,536                |
| Mobile communications . . . . .            | 9,253                | 5,274                | 3,061                |
| Broadcasting and broadband cable . . . . . | 1,861                | 1,917                | 1,804                |
| Terminal equipment . . . . .               | 1,036                | 1,207                | 1,382                |
| Value-added services . . . . .             | 1,802                | 1,903                | 2,051                |
| Other services . . . . .                   | 2,426                | 1,122                | 772                  |
| International . . . . .                    | 2,175                | 1,598                | 1,396                |
|  | <u><b>40,939</b></u> | <u><b>35,470</b></u> | <u><b>35,144</b></u> |

<sup>(1)</sup> Since the beginning of the 2000 financial year, revenues from the subsidiaries max.mobil. and One 2 One have been reported under mobile communications, rather than under international. A total of EUR 1,355 million has been reclassified for the 1999 financial year.

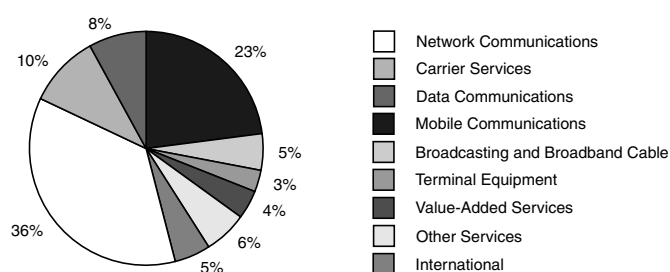
Revenue by geographic area:

|                         | <u>2000</u>          | <u>1999</u>          | <u>1998</u>          |
|-------------------------|----------------------|----------------------|----------------------|
|                         | millions of<br>€     | millions of<br>€     | millions of<br>€     |
| Domestic . . . . .      | 33,178               | 31,411               | 32,758               |
| International . . . . . | 7,761                | 4,059                | 2,386                |
|                         | <u><b>40,939</b></u> | <u><b>35,470</b></u> | <u><b>35,144</b></u> |

Breakdown of international revenues:

|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| European Union (excluding Germany) . . . . . | 5,023               | 1,906               | 535                 |
| Rest of Europe . . . . .                     | 2,266               | 1,817               | 1,537               |
| North America . . . . .                      | 231                 | 161                 | 116                 |
| Latin America . . . . .                      | 43                  | 17                  | 27                  |
| Other . . . . .                              | 198                 | 158                 | 171                 |
|  | <u><b>7,761</b></u> | <u><b>4,059</b></u> | <u><b>2,386</b></u> |

The percentage of the individual revenue segments in relation to net revenue is as follows:



Net revenue increased by EUR 5,469 million or 15.4 % over the previous year.

This increase was primarily attributable to the strong growth in the number of mobile communications subscribers. Furthermore, the segments data communications and carrier services made particular contributions

to the increase in revenue. In contrast, revenues from network communications decreased further as a result of considerable price reductions, despite the continued growth in ISDN.

The revenue growth from other services, which consist mainly of multimedia services and information technology, was a result of the strong level of revenue growth from multimedia services (mainly T-Online) and the inclusion for the first time of debis Systemhaus.

Overall, the changes in the composition of the Deutsche Telekom Group resulted in a revenue increase of EUR 3,425 million.

International revenue is derived from fixed-network international incoming telephone traffic and internationally generated revenues from other business areas.

## (2) Changes in inventories and other own capitalized costs

|  | <u>2000</u><br>millions of € | <u>1999</u><br>millions of € | <u>1998</u><br>millions of € |
|--|------------------------------|------------------------------|------------------------------|
| Increase in inventories of finished products and work in process . . . | 161                          | 216                          | 41                           |
| Own capitalized costs . . . . .  | <u>703</u>                   | <u>731</u>                   | <u>949</u>                   |
|  | <u><b>864</b></u>            | <u><b>947</b></u>            | <u><b>990</b></u>            |

Own capitalized costs comprise mainly planning and construction costs. They include interest incurred during the construction period of EUR 64 million (1999: EUR 63 million, 1998: EUR 72 million).

## (3) Other operating income

|  | <u>2000</u><br>millions of € | <u>1999</u><br>millions of € | <u>1998</u><br>millions of € |
|--|------------------------------|------------------------------|------------------------------|
| Income from the disposition of noncurrent assets (including sale of investments) . . . . . | 5,928                        | 89                           | 240                          |
| Income from capital increases of subsidiaries and associated companies . . . . .           | 2,887                        | —                            | —                            |
| Reversal of accruals . . . . .   | 386                          | 506                          | 408                          |
| Foreign currency transaction gains . . . . .   | 309                          | 89                           | 37                           |
| Cost reimbursements . . . . .  | 305                          | 248                          | 284                          |
| Refund of value-added tax (§ 15a UStG) . . . . .   | 169                          | 379                          | 655                          |
| Reversal of valuation adjustments of accounts receivable and doubtful accounts . . . . .   | 125                          | 106                          | 80                           |
| Income from the national roaming agreement . . . . .                                       | 95                           | 154                          | —                            |
| Insurance compensation . . . . .   | 51                           | 55                           | 57                           |
| Other income . . . . .   | <u>747</u>                   | <u>245</u>                   | <u>308</u>                   |
|  | <u><b>11,002</b></u>         | <u><b>1,871</b></u>          | <u><b>2,069</b></u>          |

Income from the disposition of noncurrent assets amounted to EUR 5,928 million. Of this, EUR 2,864 million relates to the proceeds from the sale of Deutsche Telekom's shares in Global One and EUR 2,964 million from the sale of shareholdings in the regional cable companies in North-Rhine Westphalia and Hesse.

A further EUR 2,887 million relates to the acquisition of new shareholders in the course of cash capital increases of subsidiaries and associated companies in which Deutsche Telekom did not participate. Of this amount, EUR 2,657 million relates to the initial public offering of T-Online.

The refund of VAT in accordance with § 15a Umsatzsteuergesetz – UStG (Value-Added Tax Act) of EUR 169 million is a result of the correction of VAT paid in prior years.

Income from the national roaming agreement relates to income from a basic agreement between DeTeMobil Deutsche Telekom MobilNet GmbH (T-Mobil) and VIAG Interkom under the terms of which VIAG Interkom customers have been able, since July 1999, to use the T-D1 network in areas of Germany where they are not covered by the E2 network.

Miscellaneous other operating income includes income from the elimination of liabilities, the recycling of materials, rental and lease agreements and from other ancillary services.

Of the total amount of other operating income, EUR 611 million (1999: EUR 701 million, 1998: EUR 826 million) relates to other financial years.

#### (4) Goods and services purchased (1)

|  | <u>2000</u>   | <u>1999</u>   | <u>1998</u>   |
|--|---------------|---------------|---------------|
|  | millions of € | millions of € | millions of € |
| Goods purchased . . . . .                                | 4,075         | 2,625         | 1,571         |
| Services purchased . . . . .                             | 7,875         | 5,042         | 3,969         |
| of which: domestic network access charges . . . . .      | 1,985         | 1,585         | 968           |
| of which: international network access charges . . . . . | 2,819         | 1,626         | 1,408         |
| of which: other services . . . . .                       | 3,071         | 1,831         | 1,593         |
|  | <u>11,950</u> | <u>7,667</u>  | <u>5,540</u>  |

(1) Since the beginning of the 2000 financial year, certain expenses (mainly relating to maintenance) have been shown as other operating expenses, rather than other services purchased. EUR 737 million was reclassified for the 1999 financial year and EUR 683 million for 1998.

The level of goods and services purchased increased by EUR 4,283 million compared to 1999. Of this increase, EUR 1,655 million is attributable to changes in the composition of the Deutsche Telekom Group. The increase in goods and services purchased is further attributable to both the increased use of goods for terminal equipment and the increased expenditure for network access charges, which is a result of intensified competition.

Other services mainly include costs relating to services of other providers, the maintenance of telecommunications equipment and other equipment, as well as expenses for software maintenance and utilization of computer capacity from computer companies.

#### (5) Personnel costs/Average number of employees

|  | <u>2000</u>   | <u>1999</u>   | <u>1998</u>   |
|--|---------------|---------------|---------------|
|  | millions of € | millions of € | millions of € |
| Wages and salaries:  |               |               |               |
| Civil servants . . . . .   | 2,287         | 2,535         | 2,779         |
| Non-civil servants . . . . .   | 5,183         | 3,985         | 3,698         |
|  | <u>7,470</u>  | <u>6,520</u>  | <u>6,477</u>  |
| Social security contributions and expenses for pension plans and benefits: |               |               |               |
| Social security costs . . . . .  | 861           | 730           | 712           |
| Civil servant pension costs . . . . .                                      | 895           | 1,483         | 1,483         |
| Non-civil servant pension costs . . . . .                                  | 310           | 265           | 275           |
| Pension costs . . . . .  | 1,205         | 1,748         | 1,758         |
| Active civil servant healthcare costs . . . . .                            | 164           | 193           | 204           |
| Other employee benefits . . . . .  | 18            | 19            | 19            |
|  | <u>2,248</u>  | <u>2,690</u>  | <u>2,693</u>  |
|  | <u>9,718</u>  | <u>9,210</u>  | <u>9,170</u>  |

#### Number of employees (average for the year)

|   | <u>2000</u>    | <u>1999</u>    | <u>1998</u>    |
|---|----------------|----------------|----------------|
|   | Number         | Number         | Number         |
| Civil servants . . . . .                      | 65,217         | 76,223         | 87,573         |
| Salaried employees . . . . .                  | 97,436         | 77,991         | 65,153         |
| Wage earners . . . . .                        | 42,379         | 43,792         | 50,648         |
| <b>Total Deutsche Telekom Group . . . . .</b> | <u>205,032</u> | <u>198,006</u> | <u>203,374</u> |
| Trainees/student interns . . . . .            | 6,826          | 6,354          | 6,165          |

Personnel costs increased by EUR 508 million or 5.5 % in the year under review. This figure includes personnel costs of EUR 661 million of the newly consolidated companies. This increase is also attributable to collectively agreed wage and salary increases, the effects of remuneration adjustments related to the eastern German collective bargaining agreements from 1999, age-related salary increases and the review of salaries in some areas to bring them in line with market conditions and to promote performance. Social security contributions and expenses for pension plans and benefits, on the other hand, decreased in particular as a result of the change in the contributions to civil servant pensions.

The average number of employees increased by 3.5 % to 205,032 and is mainly attributable to the newly consolidated companies with an average of 16,189 employees.

#### (6) Depreciation and amortization

|   | <u>2000</u>          | <u>1999</u>         | <u>1998</u>         |
|---|----------------------|---------------------|---------------------|
|   | millions<br>of €     | millions<br>of €    | millions<br>of €    |
| Amortization of intangible assets . . . . .             | 2,233                | 801                 | 412                 |
| Depreciation of property, plant and equipment . . . . . | 10,758               | 7,665               | 8,625               |
|   | <u><b>12,991</b></u> | <u><b>8,466</b></u> | <u><b>9,037</b></u> |

Depreciation and amortization increased by EUR 4,525 million or 53.4 % to EUR 12,991 million in the year under review. Of this, EUR 1,508 million relates to subsidiaries included in the consolidated group for the first time; this amount includes amortization of goodwill of EUR 919 million.

Amortization of EUR 381 million for UMTS licenses at One 2 One, T-Mobil and max.mobil. is also included for the first time.

Some of Deutsche Telekom's approximately 12,000 items of land were included in the opening balance sheet in 1995 at values which were calculated using average prices per square meter for groups of properties to determine individual fair values as part of a valuation process developed by widely respected real estate experts. In view of usage of the real estate to date, it was assumed that the market value of the real estate was not lower than the net carrying value. In the course of implementing its new, disposal-oriented real estate concept, Deutsche Telekom is reviewing the values of its real estate portfolio to determine individual fair values and has decided on a nonscheduled write down in the form of a valuation adjustment on the asset side for real estate amounting to EUR 2,018 million. The accounting adjustments do not have any effect on the liquidity or the ongoing business activities of the Deutsche Telekom Group.

Other nonscheduled write downs relate to Deutsche Telekom AG's outside plant (EUR 971 million).

## (7) Other operating expenses

|  | <u>2000</u>      | <u>1999<sup>(1)</sup></u> | <u>1998<sup>(1)</sup></u> |
|--|------------------|---------------------------|---------------------------|
|  | millions<br>of € | millions<br>of €          | millions<br>of €          |
| Marketing expenses . . . . .   | 1,967            | 1,148                     | 711                       |
| Losses on disposition of noncurrent assets (including sale of investments) . . | 1,132            | 629                       | 727                       |
| Maintenance, repairs and damage reparation . . . . .                           | 843              | 730                       | 694                       |
| Advertising gifts and commissions . . . . .                                    | 794              | 381                       | 313                       |
| Rental and leasing expenses . . . . .  | 766              | 513                       | 553                       |
| Losses on accounts receivable and provision for doubtful accounts . . . . .    | 723              | 514                       | 656                       |
| Provisions . . . . .   | 611              | 238                       | 298                       |
| Legal and consulting fees . . . . .  | 591              | 499                       | 496                       |
| Other employee-related costs . . . . .   | 493              | 349                       | 352                       |
| Postal charges . . . . .   | 481              | 438                       | 374                       |
| Foreign currency transaction losses . . . . .                                  | 241              | 275                       | 105                       |
| Travel and transport expenses . . . . .  | 241              | 192                       | 178                       |
| Administrative expenses . . . . .  | 217              | 184                       | 186                       |
| Loan employment and temporary employment expenses . . . . .                    | 122              | 50                        | 32                        |
| License and concession expenses . . . . .                                      | 116              | 85                        | 76                        |
| Losses on disposition of marketable securities . . . . .                       | 76               | 58                        | 10                        |
| Other expenses . . . . .   | 1,010            | 589                       | 307                       |
|  | <u>10,424</u>    | <u>6,872</u>              | <u>6,068</u>              |

<sup>(1)</sup> Prior-year figures have been adjusted to reflect the changed reporting structure in the 2000 financial year. Various expenses (mainly relating to maintenance) were shown under goods and services purchased until 1999. EUR 737 million was reclassified for the 1999 financial year and EUR 683 million for 1998.

Of the increase in other operating expenses, EUR 1,350 million is attributable to the changes in the composition of the Deutsche Telekom Group.

The increase in advertising gifts and commissions is in particular a result of the increased level of customer canvassing for the T-D1 network. The losses on disposition of noncurrent assets are mainly attributable to scrapping of outside plant equipment and the sale of Eurobell (Holdings) Plc, Crawley. Provisions consist mainly of provisions for risks related to real estate and litigation risks.

Of the total amount of other operating expenses, EUR 1,208 million relates to other accounting periods.

## (8) Financial income (expense), net

|  | <u>2000</u>      | <u>1999</u>      | <u>1998</u>      |
|--|------------------|------------------|------------------|
|  | millions<br>of € | millions<br>of € | millions<br>of € |
| Dividend income from investments . . . . .   | 147              | 166              | 105              |
| Results related to companies accounted for under the equity method<br>(including amortization of goodwill) . . . . . | 1,890            | (265)            | (382)            |
| <b>Income (loss) related to subsidiaries, associated and related companies . .</b>                                   | <u>2,037</u>     | <u>(99)</u>      | <u>(277)</u>     |
| Income from debt securities and long-term loan receivables . . . . .   | 487              | 83               | 84               |
| Interest and similar income . . . . .  | 511              | 420              | 388              |
| Interest and similar expense . . . . .   | (4,095)          | (3,049)          | (3,434)          |
| <b>Net interest expense . . . . .</b>  | <u>(3,097)</u>   | <u>(2,546)</u>   | <u>(2,962)</u>   |
| <b>Write-downs on financial assets and marketable securities . . . . .</b>   | <u>(170)</u>     | <u>(244)</u>     | <u>(49)</u>      |
|  | <u>(1,230)</u>   | <u>(2,889)</u>   | <u>(3,288)</u>   |

The reduction of the net financial expense in the 2000 financial year is a consequence of offsetting effects. On the one hand, the income (loss) related to subsidiaries, associated and related companies improved considerably by EUR 2,136 million to EUR 2,037 million, most of which relates to the results of the associated company DT-FT-Italian Holding—in connection with the proceeds from the sale of WIND—amounting to EUR 2,358 million.



On the other hand, the net interest expense increased as a result of the increase in debts. The increase in income from debt securities and long-term loan receivables, which consists of income from specialized security funds and interest on receivables from Deutsche Post AG, partially compensated the net interest expense.

**(9) Extraordinary income (losses)**

In 2000, this item represents expenses relating to the initial public offering of T-Online International AG and the planned initial public offering of T-Mobile International AG.

**(10) Taxes**

|                        | <u>2000</u>      | <u>1999</u>      | <u>1998</u>      |
|------------------------|------------------|------------------|------------------|
|                        | millions<br>of € | millions<br>of € | millions<br>of € |
| Income taxes . . . . . | 194              | 1,380            | 2,477            |
| Other taxes . . . . .  | <u>124</u>       | <u>40</u>        | <u>177</u>       |
|                        | <u>318</u>       | <u>1,420</u>     | <u>2,654</u>     |

**Income taxes**

|                                 | <u>2000</u>      | <u>1999</u>      | <u>1998</u>      |
|---------------------------------|------------------|------------------|------------------|
|                                 | millions<br>of € | millions<br>of € | millions<br>of € |
| Current income taxes . . . . .  | 242              | 1,505            | 2,526            |
| Deferred income taxes . . . . . | <u>(48)</u>      | <u>(125)</u>     | <u>(49)</u>      |
|                                 | <u>194</u>       | <u>1,380</u>     | <u>2,477</u>     |

The combined statutory income tax rate, currently approximately 52 %, includes corporate income taxes at a rate of 40 % for undistributed earnings, trade taxes at an average German national rate, and the solidarity surcharge of 5.5 % on corporate income tax (Solidaritatzuschlag). When earnings are distributed, the corporate income tax imposed on such earnings is reduced to 30 %. The change in the taxation of corporations to a uniform corporate income tax rate of 25 %, effective as of 2001 as specified in the Tax Relief Law, has already been included for purposes of calculating deferred taxes. Correspondingly, the rate used for calculating deferred taxes was reduced from 52 % to 39 % in 2000. This resulted in a one-time tax expense of EUR 188 million.

Taxable income was earned primarily in Germany. Corporate income tax refunds resulting from dividends are reflected in the period for which the dividend is paid.

Tax expense decreased considerably compared with 1999 by EUR 1,102 million despite the increase in income before taxes. This is attributable in particular to the fact that the proceeds from the sale of Deutsche Telekom’s shareholdings in Global One and WIND and the proceeds from the acquisition of new shareholders at T-Online are tax-free or not taxable.

Differences between actual tax expense of EUR 194 million and EUR 1,380 million for 2000 and 1999, respectively, and the expected corporate income tax expense (computed using 40 % for 2000 and 1999, the statutory corporate income tax rate for undistributed earnings) are as follows:

|  | <u>2000</u>      | <u>1999</u>      |
|--|------------------|------------------|
|  | millions<br>of € | millions<br>of € |
| Expected corporate income tax at the tax rate applicable for retained earnings . . . . . | 2,484            | 1,162            |
| Increase (decrease) in corporate income tax due to:                                      |                  |                  |
| Non-taxable items . . . . .  | (2,271)          | 160              |
| Trade taxes . . . . .  | 0                | 445              |
| Taxation on foreign operations . . . . .   | (113)            | (118)            |
| Inclusion of losses . . . . .  | 674              | 78               |
| Tax credit on dividends . . . . .  | (62)             | (305)            |
| Temporary differences for which deferred taxes are not recorded . . . . .                | (500)            | 24               |
| Other . . . . .  | <u>(18)</u>      | <u>(66)</u>      |
| Income taxes . . . . .   | <u>194</u>       | <u>1,380</u>     |
| Effective income tax rate . . . . .  | 3.1%             | 47.5%            |

In its tax return Deutsche Telekom AG has recognized a goodwill (residual difference between the market value of the Company and the fair value of the individual assets) that is—based on § 7 paragraph 1 EStG—amortized over a period of 15 years. In line with the principle of prudence, as in previous years, goodwill amortization has not been recognized for accounting purposes in the year under review until this approach has been fully approved.

Deferred tax assets result primarily from temporary differences between income determined under German GAAP and under applicable tax law; these tax assets were offset in the year under review by deferred taxation expenses as a result of the lower deferred tax asset due to the changes in statutory tax rates.

At December 31, 2000, Deutsche Telekom had net operating loss carryforwards and similar net operating loss carryforwards affecting corporate income tax amounting to approximately EUR 547 million (1999: EUR 134 million). Deutsche Telekom also had trade tax net operating loss carryforwards amounting to EUR 753 million (1999: EUR 4 million). Substantially all of the net operating loss carryforwards have an unlimited carry forward period under German and local tax law.

**(11) (Income) losses applicable to minority shareholders**

The income applicable to minority shareholders includes EUR 189 million (1999: EUR 274 million; 1998: EUR 205 million) in gains and EUR 100 million (1999: EUR 3 million; 1998: EUR 2 million) in losses. The gains in 2000 relate, as was also the case in previous years, mainly to MATÁV. The losses relate almost entirely to T-Online International AG.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### (12) Intangible assets

|   | <b>Dec. 31, 2000</b><br><b>Net carrying</b><br><b>amount</b> | <b>Dec. 31, 1999</b><br><b>Net carrying</b><br><b>amount</b> |
|---|--|--|
|   | <u>millions of €</u>   | <u>millions of €</u>   |
| Concessions, industrial and similar rights and assets, and licenses in such rights and assets . . . . . | 16,406   | 1,501  |
| Goodwill  |  |  |
| from individual company financial statements . . . . .  | 0  | 1  |
| arising from capital consolidation . . . . .  | 19,263   | 13,427   |
| Advance payments . . . . .  | 85   | 73   |
|   | <u><b>35,754</b></u>   | <u><b>15,002</b></u>   |

Besides the changes in the composition of the Deutsche Telekom Group, the main factors in the increase in concessions, industrial and similar rights and assets, and licenses in such rights and assets is the purchase of UMTS licenses in Germany, the United Kingdom and Austria. The increase in goodwill arising from capital consolidation is attributable in particular to the acquisition of majority shareholdings in debis Systemhaus, Slovenské Telekomunikácie, Club Internet and Ya.com, as well as the increase in the shareholdings in MATÁV and Westel 900.

The development of intangible assets is shown in the table of consolidated noncurrent assets.

### (13) Property, plant and equipment

|  | <b>Dec. 31, 2000</b><br><b>Net carrying</b><br><b>amount</b> | <b>Dec. 31, 1999</b><br><b>Net carrying</b><br><b>amount</b> |
|--|--|--|
|  | <u>millions of €</u>   | <u>millions of €</u>   |
| Land and equivalent rights, and buildings including buildings on land owned by third parties . . . . . | 14,416   | 17,237   |
| Technical equipment and machinery . . . . .  | 35,521   | 38,177   |
| Other equipment, plant and office equipment . . . . .  | 2,132  | 2,091  |
| Advance payments and construction in progress . . . . .  | 2,068  | 1,531  |
|  | <u><b>54,137</b></u>   | <u><b>59,036</b></u>   |

The decrease in property, plant and equipment by EUR 4,899 million is the result of offsetting effects. On the one hand, investments were made amounting to EUR 7,563 million which relate mainly to technical equipment and machinery at Deutsche Telekom AG and T-Mobil. Furthermore, the net carrying amounts of property, plant and equipment increased by EUR 884 million as a result of changes in the composition of the Deutsche Telekom Group—in particular the inclusion of debis Systemhaus and Slovenské Telekomunikácie.

On the other hand, the increase in depreciation of property, plant and equipment to EUR 10,758 million had an effect. This figure includes nonscheduled write-downs on real estate (EUR 2,018 million) and outside plant (EUR 971 million).

Disposals of property, plant and equipment totaled EUR 2,517 million, of which EUR 872 million relates to the sale of broadband distribution networks as a result of the sale of cable activities in North-Rhine Westphalia and Hesse.

The development of property, plant and equipment is shown in the table of consolidated noncurrent assets.

## Leasing

Minimum lease payments under leases expiring subsequent to December 31, 2000 are shown below (millions of €):

| <u>Year</u>                                       | <u>Capital Leases</u> | <u>Operating Leases</u> |
|---|-----------------------|-------------------------|
| 2001 .....  | 60                    | 1,020                   |
| 2002 .....  | 58                    | 746                     |
| 2003 .....  | 55                    | 625                     |
| 2004 .....  | 51                    | 527                     |
| 2005 .....  | 51                    | 834                     |
| After 2005 .....                                  | 717                   | 1,855                   |
| Total minimum lease payments .....                | <u>992</u>            | <u>5,607</u>            |
| Imputed interest .....                            | <u>(425)</u>          |                         |
| Present value of net minimum lease payments ..... | <u>567</u>            |                         |

Capital leases are primarily for office buildings and have terms of up to 25 years.

## (14) Financial assets

|   | <u>Dec. 31, 2000</u>       | <u>Dec. 31, 1999</u>       |
|---|----------------------------|----------------------------|
|   | <u>Net carrying amount</u> | <u>Net carrying amount</u> |
|   | millions of €              | millions of €              |
| Investments in unconsolidated subsidiaries .....          | 153                        | 66                         |
| Loans to unconsolidated subsidiaries .....                | 57                         | 59                         |
| Investments in associated companies .....                 | 6,663                      | 1,246                      |
| Other investments in related companies .....              | 7,456                      | 3,653                      |
| Long-term loans to associated and related companies ..... | 718                        | 228                        |
| Other investments in noncurrent securities .....          | 1,106                      | 2,033                      |
| Other long-term loans .....                               | 562                        | 660                        |
|   | <u>16,715</u>              | <u>7,945</u>               |

The increase of EUR 5,417 million in the net carrying amount of investments in associated companies resulted, in addition to foreign currency effects not affecting net income of EUR 112 million, primarily from the inclusion at equity for the first time of DT-FT Italian Holding, Bonn, in the amount of EUR 2,358 million (in association with the sale of WIND), Ben Nederland Holding (Ben), The Hague, in the amount of EUR 1,071 million and the increase in the net carrying amount of the investment in PTC amounting to EUR 1,122 million, which is mainly attributable to the purchase of an additional 22.5 % stake in PTC.

These additions were offset in 2000 by amortization of goodwill amounting to EUR 178 million and net losses related to associated companies totaling EUR 448 million.

The increase in other investments in related companies of EUR 3,803 million relates primarily to the acquisition of a 1.69 % tranche of shares in the U.S. mobile communications company VoiceStream Wireless Corporation, Bellevue, for EUR 5,590 million. This was offset by decreases which mainly relate to the reclassification of the shares held in Sprint Corporation amounting to EUR 1,576 million under current assets. Nonscheduled write-downs were made on other investments in related companies in 2000 totaling EUR 71 million, relating mainly to New ICO Global Communication (Holding) Ltd., Washington and VocalTec Communications Ltd., Herzeliya.

Long-term loans primarily include loans to associated and related companies. The largest increases in 2000 were for the loan to Callahan Nordrhein-Westfalen GmbH, Bonn, EUR 264 million, and to eKabel Holdings GmbH, Bad Vilbel, EUR 157 million.

Other investments in noncurrent securities mainly include fixed-interest securities. The decrease is attributable to the sale of all of Deutsche Telekom AG's specialized security funds. This is offset by the acquisition of additional fixed-interest securities by Deutsche Telekom AG for EUR 372 million.

Other long-term loans include a loan to Deutsche Post AG, loans for construction of buildings and hostels as well as loans to employees.

The development of financial assets is shown in the table of consolidated noncurrent assets.

The full list of investment holdings is filed under HRB 6794 with the Commercial Registry of the Bonn District Court. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

| Name                            | Dec. 31, 2000          |                     |  | Dec. 31, 1999          |                     |  |
|---------------------------------|------------------------|---------------------|--|------------------------|---------------------|--|
|                                 | Deutsche Telekom share | Net carrying amount | of which: Net difference between carrying value and equity in net assets | Deutsche Telekom share | Net carrying amount | of which: Net difference between carrying value and equity in net assets |
|                                 | (in %)                 | millions of €       | millions of €  | (in %)                 | millions of €       | millions of €  |
| DT-FT Italian Holding . . . . . | 50.00                  | 2,745               | —  | —                      | —                   | —  |
| PTC . . . . .                   | 45.00                  | 1,165               | 1,088  | 22.50                  | 10                  | —  |
| Ben <sup>1</sup> . . . . .      | 50.00                  | 1,036               | 638  | —                      | —                   | —  |
| HT-Hrvatske . . . . .           | 35.00                  | 771                 | 378  | 35.00                  | 755                 | 390  |
| MTS . . . . .                   | 36.20                  | 327                 | 17   | 44.14                  | 156                 | 9  |
| Other . . . . .                 |                        | 619                 | 196  |                        | 325                 | 71   |
|                                 |                        | <u>6,663</u>        | <u>2,317</u>   |                        | <u>1,246</u>        | <u>470</u>   |

<sup>(1)</sup> Shareholding: 50 % minus 1 share

#### (15) Inventories, materials and supplies

|  | Dec. 31, 2000 | Dec. 31, 1999 |
|--|---------------|---------------|
|  | millions of € | millions of € |
| Raw materials and supplies . . . . .     | 201           | 184           |
| Work in process . . . . .                | 612           | 279           |
| Finished goods and merchandise . . . . . | 763           | 580           |
| Advance payments . . . . .               | 11            | 3             |
|  | <u>1,587</u>  | <u>1,046</u>  |

Inventories, materials and supplies increased compared with 1999 by EUR 541 million or 52 %. This is primarily the result of the consolidation for the first time of debis Systemhaus and the increase in inventories, materials and supplies at Deutsche Telekom AG and T-Mobil.

Raw materials and supplies include spare parts for data communications equipment, transmission equipment and other telecommunications spare parts, components and cable.

Work in process is mainly related to projects which have not yet been completed, such as the installation of private automatic branch exchanges (PABXs) and the implementation of IT systems solutions.

Inventories of terminal equipment held both for resale and leasing are included under finished goods and merchandise. Besides the changes in the composition of the Deutsche Telekom Group, the main factor in the increase in finished goods and merchandise is the positive revenue development in the GSM market, which made increased stocks of terminal equipment necessary.

Advance payments are comprised mainly of payments which have been made for terminal equipment.

## (16) Receivables

|   | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|---|----------------------|----------------------|
|   | millions of €        | millions of €        |
| Trade accounts receivable . . . . .                         | 6,852                | 5,342                |
| Receivables from unconsolidated subsidiaries . . . . .      | 149                  | 47                   |
| Receivables from associated and related companies . . . . . | 158                  | 277                  |
|   | <u>7,159</u>         | <u>5,666</u>         |

Trade accounts receivable relate primarily to the billing of telecommunications services. The increase is attributable to the expansion of the Deutsche Telekom Group and to revenue-related increases.

All receivables, with the exception of EUR 139 million, are due within one year.

The allowance for doubtful accounts and changes therein are in millions of euros as follows:

|   | <u>2000</u>   | <u>1999</u>   | <u>1998</u>   |
|---|---------------|---------------|---------------|
|   | millions of € | millions of € | millions of € |
| January 1, . . . . .                    | 493           | 371           | 329           |
| Charged to costs and expenses . . . . . | 379           | 173           | 132           |
| Amounts written off/released . . . . .  | (82)          | (51)          | (90)          |
| December 31, . . . . .                  | <u>790</u>    | <u>493</u>    | <u>371</u>    |

The Company directly wrote off accounts receivable balances of EUR 344 million in 2000 (Dec. 31, 1999: EUR 341 million).

## (17) Other assets

|  | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|--|----------------------|----------------------|
|  | millions of €        | millions of €        |
| Tax receivables . . . . .                                      | 2,262                | 1,441                |
| Accrued interest . . . . .                                     | 289                  | 214                  |
| Receivables from employees . . . . .                           | 56                   | 56                   |
| Receivables from reimbursements and loans receivable . . . . . | 286                  | 73                   |
| Miscellaneous . . . . .  | 778                  | 285                  |
|  | <u>3,671</u>         | <u>2,069</u>         |

Tax receivables mainly relate to income tax. The increase compared with 1999 is a consequence of reimbursement claims for income taxes paid. Other tax receivables mainly consist of trade tax reimbursements from previous years resulting from the retroactive changes in the allocation of trade tax. The increase in receivables from reimbursements and loans receivable is attributable in particular to two loan notes amounting to EUR 172 million. The increase in miscellaneous assets is predominantly attributable to the expansion of the Deutsche Telekom Group.

Other assets include EUR 1 million in outstanding investments in T-Online held by third parties.

## (18) Marketable securities

|                                       | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|---------------------------------------|----------------------|----------------------|
|                                       | millions of €        | millions of €        |
| Treasury shares . . . . .             | 7                    | 14                   |
| Other marketable securities . . . . . | 2,363                | 1,756                |
|                                       | <u>2,370</u>         | <u>1,770</u>         |

The level of treasury shares at the balance sheet date, 2,670,828, is made up as follows:

|   |                    |
|---|--------------------|
| Beginning balance . . . . .   | 5,645,178          |
| Decrease as a result of the 2000 Employee Stock Purchase Plan . . . . . | (2,988,980)        |
| Shares acquired from the KfW, not yet issued . . . . .                  | 14,630             |
|   | <u>(2,670,828)</u> |

The shares are recorded in the balance sheet at acquisition cost of EUR 2.56 per share. Shares were issued to Deutsche Telekom employees abroad as part of the global issue by the KfW from which Deutsche Telekom received 37,950 shares from the KfW at acquisition cost, totaling EUR 2.4 million. The shares not purchased by employees (14,630) were initially recorded in the balance sheet at acquisition cost and written down to the lower market trading price applicable at the balance sheet date. The proportion of these shares to the capital stock is 0.09 %.

Other marketable securities primarily relate to shares in Sprint Corporation, Kansas City, which have been transferred from noncurrent to current assets due to their planned sale next year.

Marketable securities also include own bonds held (EUR 294 million) to maintain favorable trading conditions, callable step-up bonds (EUR 317 million), a Portuguese government bond (EUR 57 million) and a Russian government bond (EUR 47 million).

**(19) Liquid assets**

|   | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|---|----------------------|----------------------|
|   | <u>millions of €</u> | <u>millions of €</u> |
| Checks . . . . .  | 12                   | 2                    |
| Petty cash and deposits at the Bundesbank . . . . .                           | 41                   | 13                   |
| Cash in banks (including deposits at Deutsche Postbank AG) . . . . .          | <u>1,840</u>         | <u>1,157</u>         |
|   | <u><b>1,893</b></u>  | <u><b>1,172</b></u>  |
|   | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|   | <u>millions of €</u> | <u>millions of €</u> |
| Cash and cash equivalents (original maturity less than 3 months) . . . . .    | 1,006                | 878                  |
| Temporary cash investments (original maturity longer than 3 months) . . . . . | <u>887</u>           | <u>294</u>           |
|   | <u><b>1,893</b></u>  | <u><b>1,172</b></u>  |

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, checking account balances, deposits at the Bundesbank and Deutsche Postbank AG and petty cash. Temporary cash investments consist of fixed-term bank deposits.

The increase in liquid assets is mainly attributable to the initial public offering of T-Online.

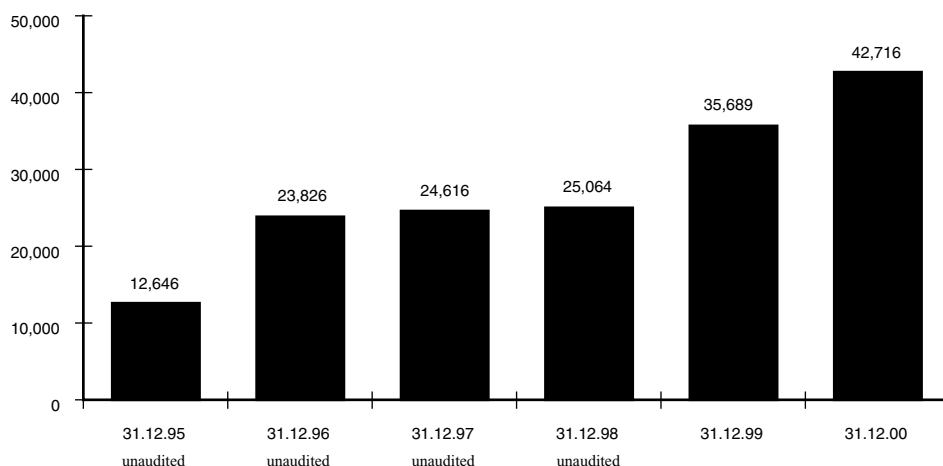
**(20) Prepaid expenses, deferred charges and deferred taxation**

Prepaid expenses and deferred charges of EUR 956 million (Dec. 31, 1999: EUR 931 million) primarily relate to prepaid personnel costs of EUR 157 million (Dec. 31, 1999: EUR 164 million) at Deutsche Telekom AG. Also included are discounts on loans of EUR 59 million (Dec. 31, 1999: EUR 59 million) which are amortized on a straight-line basis over the terms of the related liabilities. In addition, a deferred tax asset of EUR 475 million (Dec. 31, 1999: EUR 524 million) has been included.

## (21) Shareholders' equity

A detailed account of the development of the consolidated shareholders' equity for the years 1998, 1999 and 2000 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 2000 is as follows (millions of €):



## (22) Capital stock

The capital stock of the consolidated group represents the capital stock of Deutsche Telekom AG.

In accordance with Article 5 paragraph 1 of the Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 7,756 million at December 31, 2000, representing 3,029.6 million registered ordinary no par value shares. Each share entitles the holder to one vote. After deduction of treasury shares, capital stock with a dividend entitlement for the 2000 financial year amounted to EUR 7,749 million (3,026.9 million shares).

In the year under review, the KfW sold 200 million shares from the capital stock. This transaction reduced the KfW's shareholding to 16.81 %. The Federal Republic of Germany's direct shareholding in Deutsche Telekom was 42.83 % at December 31, 2000. At December 31, 2000, the Federal Republic held a total of 1,298 million individual no par value shares in Deutsche Telekom (EUR 3,321 million) and the KfW held 509 million (EUR 1,303 million). The remaining shares are widely held.

The shareholders' meeting on May 25, 2000 passed the following resolutions:

1. The Board of Management was authorized to increase the capital stock (share capital) with the approval of the Supervisory Board by up to a nominal €3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares for noncash contributions in the period up to May 25, 2005. The authorization may be used for partial amounts. The subscription rights of shareholders was precluded. The Articles of Incorporation were amended accordingly and this amendment was entered into the Commercial Register on June 6, 2000.
2. The Board of Management was further empowered to increase the share capital one time or several times by up to €12,800,000 with the approval of the Supervisory Board in the context of the Deutsche Telekom Stock Option Plan by May 25, 2005, by issuing up to 5,000,000 new individual no par value registered shares for cash or noncash contributions. The subscription right of shareholders was precluded.
3. The Company's capital stock was increased on a contingent basis by up to a nominal €64,000,000 by issuing new shares. The contingent capital increase serves the purpose of issuing up to 25,000,000 new registered no par value shares for which subscription rights are to be granted as part of Deutsche Telekom's Stock Option Plan. The Articles of Incorporation were amended accordingly.
4. Deutsche Telekom was empowered to purchase shares of the Company up to a maximum of 10 percent of the share capital, i.e., a total of no more than 302,960,403 shares. This may be done in order to introduce



shares of the company to foreign stock exchanges, to be able to offer shares to third parties in the context of mergers or acquisitions or acquiring interests therein, or to withdraw shares. The authorization may be exercised as a whole or in partial amounts and applies until November 15, 2001.

### **(23) Additional paid-in capital**

The additional paid-in capital of the consolidated group represents the additional paid-in capital of Deutsche Telekom AG.

The additional paid-in capital of EUR 5,774 million results from Deutsche Telekom AG's opening balance sheet from January 1, 1995. Furthermore, in accordance with § 272 paragraph 2 No. 1 HGB, the proceeds from the 1996 and 1999 share issues in excess of capital stock totaling EUR 8,476 million and EUR 9,881 million were recorded in 1996 and 1999, respectively, as additional paid-in capital. Additional paid-in capital increased by EUR 169 million in the year under review as a result of the amount generated by the Employee Stock Purchase Plan over and above the nominal amount. 2,988,980 shares were issued within this plan.

### **(24) Retained earnings (deficit)**

In addition to the transfers made from Deutsche Telekom AG's net income from prior years, retained earnings (deficit) include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were generated by such subsidiaries since being included in the consolidated group, as well as a reserve for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB. This item also includes the cumulative effects of consolidation entries from prior years. Translation adjustments are recorded in a separate component of retained earnings.

The reserve for treasury shares held by the Company decreased by EUR 7 million in the year under review as these shares were used for issuing employee shares.

### **(25) Minority interest**

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to debis Systemhaus, T-Online, MATÁV and Slovenské Telekomunikácie.

### **(26) Stock-based compensation**

#### **Deutsche Telekom AG**

In 2000, Deutsche Telekom AG, for the first time, granted stock options to certain employees. On July 19, 2000, Deutsche Telekom AG used its authority under shareholders' resolutions adopted in May 2000 to issue 1,023,920.54 options in respect of 1,023,920.54 shares of its stock to participants in its stock option plan at an exercise price of EUR 62.69. The quoted fair market value of Deutsche Telekom's common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 60.40 per share. The options have an expiration date of July 20, 2005.

The option rights may not be exercised before the end of the qualifying period on July 19, 2002. The options may only be exercised when and if both the absolute and the relative performance target are each exceeded at least once in the period from July 20, 2002 to July 19, 2005. The absolute performance target is deemed achieved when the moving thirty-day average closing Frankfurt Xetra share price exceeds the exercise price by more than 20 %.

The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx 50<sup>®</sup> Total Return index. The options may only be exercised if, following expiration of the two-year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceed the performance of the Euro Stoxx 50<sup>®</sup> Total Return index measured on a moving thirty-day average basis.

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights—SAR) instead of issuing new shares. The exercise of an SAR cancels the

related option and the exercise of an option cancels the related SAR. There were no SARs outstanding under the plans at December 31, 2000.

The options are not transferable. At December 31, 2000 a total of 25 million shares were reserved for future issuance under the plan. The weighted average remaining contractual life as of December 31, 2000 was 4.5 years.

A summary of the activity related to Deutsche Telekom's Stock Options is as follows

|  | <b>2000</b>           |                              |
|--|-----------------------|------------------------------|
|  | <b>Stock options</b>  | <b>Weighted-<br/>average</b> |
|  | <b>(in thousands)</b> | <b>exercise price</b>        |
|  |                       | <b>(€)</b>                   |
| Outstanding at beginning of year . . . . . | n/a                   | n/a                          |
| Granted . . . . .                          | 1,024                 | 62.69                        |
| Exercised . . . . .                        | 0                     | —                            |
| Forfeited . . . . .                        | 2                     | 62.69                        |
| Outstanding at end of year . . . . .       | <u>1,022</u>          | <u>62.69</u>                 |
| Exercisable at year-end . . . . .          | <u>0</u>              |                              |

In 1999 and 1998 Deutsche Telekom had no stock option plans in effect.

#### **T-Online International AG**

In 2000, T-Online, for the first time, granted stock options to certain employees. On July 6, 2000, T-Online has used its authority under shareholders' resolutions adopted in March 2000 to issue 214,472.52 options in respect of 214,472.52 shares of its stock to participants in its stock option plan at an exercise price of EUR 37.65. The options have an expiration date of July 6, 2005.

The option rights may not be exercised before the end of the qualifying period on July 6, 2002. The options may only be exercised when and if both the absolute and the relative performance target are each exceeded at least once in the period from July 7, 2002 to July 6, 2005. The absolute performance target is deemed achieved when the moving thirty-day average closing Frankfurt Xetra share price exceeds the exercise price by more than 40%.

The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx Telecom<sup>®</sup> index. The options may only be exercised if, following expiration of the two year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceed the performance of the Euro Stoxx Telecom<sup>®</sup> index by more than 20% measured on a moving thirty-day average basis.

At December 31, 2000 a total of 20 million shares were reserved for future issuance under the plan. The weighted average remaining contractual life as of December 31, 2000 was 4.5 years. 31,455 stock options were issued to the Members of the T-Online AG Board of Management in the year under review.

A summary of the activity related to T-Online's Stock Options issued to management is as follows (options in thousands, exercise price in EUR):

|   | 2000                            |   |
|---|---------------------------------|---|
|   | Stock options<br>(in thousands) | Weighted-<br>average<br>exercise price<br>(€) |
| Outstanding at beginning of year . . . . .                    | n/a                             | n/a   |
| Granted . . . . .   | 214                             | 37.65   |
| Granted in conjunction with the Ya.com acquisition* . . . . . | 1,864                           | —   |
| Exercised . . . . .   | 0                               | —   |
| Forfeited . . . . .   | 37                              | 37.65   |
| Outstanding at end of year . . . . .                          | <u>2,041</u>                    | <u>3.27</u>                                   |
| Exercisable at year-end . . . . .                             | <u>280</u>                      |   |

\* In addition to the shares to be issued in connection with the purchase business combination of Ya.com Internet Factory, S.A. ("Ya.com"), T-Online has agreed to issue an additional 1,863,886 T-Online options to Ya.com employees. Under the terms of the purchase agreement, 15 % vest immediately on closing. An additional 41.1 % vest ratably over a three-year period from the closing date (1/3 at each anniversary date. The remaining 42.8 % vest in the event that certain performance obligations have been met. In the event any employees leave Ya.com they will forfeit all unvested options.

In 1999 and 1998 T-Online had no stock option plans in effect.

For further information regarding stock-based compensation, see (40).

## (27) Pensions and similar obligations

### Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the Versorgungsanstalt der Deutschen Bundespost (VAP) and the Deutsche Telekom Betriebsrenten-Service e.V. (DTBS) as well as obligations under Article 131 of the Basic Law (Grundgesetz—GG).

The VAP provides pension services for pensioners who were employed by Deutsche Telekom. The obligations of the VAP, less the cash assets, results in an underfunding which is shown in Deutsche Telekom's balance sheet as indirect pension obligations under pension accruals. It was not possible to offset this against tax in prior years.

A new regulation was made by collective agreement in the year 2000 without affecting obligations. Under this regulation, the group of people concerned no longer receives its pension payments directly from the VAP as the provider of pension services, but, as of November 2000, directly and with a legal claim from Deutsche Telekom. The obligations of the VAP are thus suspended (parallel obligation). The VAP provides pension services for and on behalf of Deutsche Telekom. Pension accruals are made in the balance sheet for financial reporting purposes for the now direct pension obligations in accordance with FAS 87. Due to the parallel obligation, these pension accruals must also be shown in the balance sheet for tax reporting purposes, valued according to § 6a of the Income Tax Act.

Furthermore, the pension obligations resulting from the acquisition of debis Systemhaus in the year 2000 (EUR 224 million) are included in the consolidated financial statements for the first time.

|  | Dec. 31, 2000<br>millions of € | Dec. 31, 1999<br>millions of € |
|--|--------------------------------|--------------------------------|
| Pension obligations:                       |                                |                                |
| - Direct . . . . .                         | 2,497                          | 284                            |
| - Indirect . . . . .                       | 820                            | 2,810                          |
| Obligations under Article 131 GG . . . . . | 13                             | 15                             |
|  | <u>3,330</u>                   | <u>3,109</u>                   |

These pension obligations are fully accrued net of the plan assets at fair value.

The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP SFAS No. 87 and using the assumptions at the respective balance sheet dates as shown in the following table:

|                                      | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--------------------------------------|-------------|-------------|-------------|
| Discount rate . . . . .              | 6.25%       | 6.25%       | 6.0%        |
| Projected salary increase . . . . .  | 2.75 %—3.5% | 2.75 %—3.5% | 2.5%        |
| Expected return on assets . . . . .  | 6.0 %—6.5%  | 4.5 %—6.0%  | 5.5%        |
| Projected pension increase . . . . . | 1.5%        | 1.5%        | 1.5%        |

The corresponding pension accruals measured in accordance with § 6a of the Income Tax Act (Einkommensteuergesetz—EStG) are EUR 3,119 million (Dec. 31, 1999: EUR 3,061 million).

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer (cash balance plan).

Deutsche Telekom credits further amounts to this account; when the insured event occurs, the account balance will be paid out in full, in installments or converted into a pension. If the relevant employees have not reached the age of 35 and have been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations. Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service; the benefit obligations are usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

|  | <u>Dec. 31, 2000</u><br>millions of € | <u>Dec. 31, 1999</u><br>millions of € |
|--|---------------------------------------|---------------------------------------|
| Actuarial present value of benefits:                                   |                                       |                                       |
| Vested . . . . .   | 3,227                                 | 2,913                                 |
| Nonvested . . . . .  | 415                                   | 398                                   |
| <b>Accumulated benefit obligation</b> . . . . .                        | <b>3,642</b>                          | 3,311                                 |
| Effect of projected future salary increases . . . . .                  | 122                                   | 78                                    |
| <b>Projected benefit obligation</b> . . . . .                          | <b>3,764</b>                          | 3,389                                 |
| Plan assets at fair value . . . . .                                    | (379)                                 | (320)                                 |
| <b>Projected benefit obligation in excess of plan assets</b> . . . . . | <b>3,385</b>                          | 3,069                                 |
| Unrecognized net (losses) gains . . . . .                              | (55)                                  | 40                                    |
| <b>Accrual for pensions</b> . . . . .                                  | <b>3,330</b>                          | 3,109                                 |

Development of the projected benefit obligation:

|   | <u>2000</u><br>millions<br>of € | <u>1999</u><br>millions<br>of € |
|---|---------------------------------|---------------------------------|
| <b>Projected benefit obligation, beginning of year</b> . . . . .                        | <b>3,389</b>                    | 3,371                           |
| Service cost . . . . .  | 119                             | 83                              |
| Interest cost . . . . .   | 208                             | 194                             |
| Change in obligations (operational transferals, inclusion of debis Systemhaus . . . . . | 179                             | 0                               |
| Actuarial (gains)/losses . . . . .  | 87                              | (61)                            |
| Total benefits actually paid . . . . .  | (218)                           | (198)                           |
| <b>Projected benefit obligation, end of year</b> . . . . .                              | <b>3,764</b>                    | 3,389                           |

Development of plan assets at fair value:

|   | <u>2000</u>       | <u>1999</u>       |
|---|-------------------|-------------------|
|   | millions<br>of €  | millions<br>of €  |
| <b>Plan assets at fair value, beginning of year</b> ..... | <b>320</b>        | 214               |
| Actual return on plan assets .....                        | 9                 | 11                |
| Contributions by employer .....                           | 232               | 289               |
| Benefits actually paid through pension funds .....        | (182)             | (194)             |
| <b>Plan assets at fair value, end of year</b> .....       | <b><u>379</u></b> | <b><u>320</u></b> |

Net periodic pension cost is summarized as follows:

|  | <u>2000</u>       | <u>1999</u>       | <u>1998</u>       |
|--|-------------------|-------------------|-------------------|
|  | millions<br>of €  | millions<br>of €  | millions<br>of €  |
| Service cost .....                     | 119               | 83                | 82                |
| Interest cost .....                    | 208               | 194               | 202               |
| Expected return on plan assets .....   | (17)              | (12)              | (9)               |
| <b>Net periodic pension cost</b> ..... | <b><u>310</u></b> | <b><u>265</u></b> | <b><u>275</u></b> |

The change in the service cost in comparison with the previous year is attributable in particular to the deferred compensation plan within which Deutsche Telekom AG employees can convert ongoing claims to compensation into equal-value claims for contributions to the company pension plan.

#### Civil servant retirement arrangements

Until the year under review, Deutsche Telekom AG maintained a special pension fund (Unterstützungskasse) for its active and former civil servants, which was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG by notarized agreement on December 7, 2000 to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). The fund was entered in the Register of Associations on January 11, 2001, backdated to July 1, 2000. The BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. All transactions for pension and allowance payments are made for the companies Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (PTNeuOG), this pension fund makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the Law concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG). Deutsche Telekom AG is legally obligated as of 2000 to make an annual contribution to the special pension fund of 33 % of the gross remuneration of active civil servants and the fictitious gross remuneration of civil servants on temporary leave entitled to pension payments. These contributions amounted to EUR 895 million in the year under review. A fixed annual contribution of EUR 1.5 billion was payable for the years 1995 through 1999.

Under PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

**(28) Other accruals**

|  | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|--|----------------------|----------------------|
|  | millions of €        | millions of €        |
| <b>Taxes</b> .....                               | 1,470                | 1,265                |
| <b>Accruals other than taxes</b>                 |                      |                      |
| Employee benefits                                |                      |                      |
| Civil Service Health Insurance Fund .....        | 1,028                | 982                  |
| Personnel restructuring .....                    | 149                  | 247                  |
| Other obligations .....                          | 803                  | 464                  |
|  | 1,980                | 1,693                |
| Outstanding invoices .....                       | 1,855                | 1,276                |
| Risks related to real estate .....               | 508                  | 396                  |
| Unused telephone units on phone cards sold ..... | 363                  | 48                   |
| Investment risks .....                           | 355                  | 101                  |
| Litigation risks .....                           | 293                  | 205                  |
| Restoration commitments .....                    | 239                  | 181                  |
| Refunds to be granted .....                      | 131                  | 123                  |
| Deferred maintenance .....                       | 49                   | 44                   |
| Other .....                                      | 812                  | 849                  |
|  | <u>6,585</u>         | <u>4,916</u>         |
|  | <u>8,055</u>         | <u>6,181</u>         |

Approximately 30 %, i.e., EUR 497 million, of the increase in accruals is a result of changes to the composition of the Deutsche Telekom Group, in particular the inclusion for the first time of debis Systemhaus.

The increase in provisions for taxes is primarily attributable to the back-dated change in the allocation rates for trade tax related to prior years. The income tax effect of the proposed dividend of Deutsche Telekom AG of EUR 1,877 million has been provided for in the calculation of corporate income tax.

When Postreform II came into effect, the Civil Service Health Insurance Fund was closed to new members. Due to the aging of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit, taking the new 1998 life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998") into account, which primarily reflect the increase in average life expectancy.

Deutsche Telekom had, in response to competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement and other programs. The planned reductions included an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements.

In 2000, as was the case in prior years, civil servants as well as non-civil servants accepted the Company's offer for early retirement and severance. The early retirement program for civil servants and natural attrition do not result in incremental costs for Deutsche Telekom AG. In 2000, unpaid restructuring costs amounting to EUR 149 million are included in accruals and EUR 1 million are included in other accounts payable. The table below sets forth the payments made and the related accruals/payables for future payments in respect of these staff reduction measures for the years 2000 and 1999:

|   | <u>2000</u>       | <u>1999</u>       |
|---|-------------------|-------------------|
|   | millions of €     | millions of €     |
| <b>Accruals/payables, beginning of year</b> .....                       | <b>261</b>        | <b>470</b>        |
| Payments made (including payments made against accruals/payables) ..... | (111)             | (209)             |
| <b>Accruals/payables, end of year,</b> .....                            | <u><b>150</b></u> | <u><b>261</b></u> |

Accruals for risks related to real estate include environmental remediation (for site and real estate clean-up costs). The accruals for unused telephone units on phone cards sold reflect the growth in the pre-paid card business of the mobile communications subsidiaries (in particular T-Mobil, One 2 One and max.mobil.). These

accruals are made for charges for telephone services as yet not performed which have already been recognized as income. These accruals increased by EUR 315 million compared with the previous year to EUR 363 million.

Other accruals for 2000 mainly consist of loss contingencies for financial derivatives, accruals for risks relating to the purchase of inventories, materials and supplies and for warranties.

## (29) Liabilities

|  | Dec. 31, 2000 |                 |                      |                  | Dec. 31, 1999 |                 |                      |                  |
|--|---------------|-----------------|----------------------|------------------|---------------|-----------------|----------------------|------------------|
|  | Total         | of which due    |                      |                  | Total         | of which due    |                      |                  |
|  |               | within one year | in one to five years | after five years |               | within one year | in one to five years | after five years |
|  | millions of € |                 |                      |                  |               |                 |                      |                  |
| <b>Debt</b>  |               |                 |                      |                  |               |                 |                      |                  |
| Bonds and debentures . . . . .   | 51,344        | 12,774          | 27,669               | 10,901           | 32,787        | 4,934           | 25,076               | 2,777            |
| Liabilities to banks . . . . .   | 9,013         | 2,438           | 1,772                | 4,803            | 9,550         | 3,989           | 3,130                | 2,431            |
|  | 60,357        | 15,212          | 29,441               | 15,704           | 42,337        | 8,923           | 28,206               | 5,208            |
| <b>Other</b>   |               |                 |                      |                  |               |                 |                      |                  |
| Advances received . . . . .  | 297           | 297             |                      |                  | 59            | 59              |                      |                  |
| Trade accounts payable . . . . .   | 4,029         | 3,936           | 93                   |                  | 2,853         | 2,848           | 3                    | 2                |
| Liabilities on bills accepted and drawn . . . . .                            | 1             | 1               |                      |                  | 1             | 1               |                      |                  |
| Payables to unconsolidated subsidiaries . . . . .                            | 24            | 24              |                      |                  | 15            | 15              |                      |                  |
| Liabilities to other companies in which an equity interest is held . . . . . | 74            | 65              |                      | 9                | 55            | 55              |                      |                  |
| Other liabilities . . . . .  | 4,705         | 3,642           | 199                  | 864              | 3,610         | 2,490           | 177                  | 943              |
| of which: from taxes . . . . .   | (679)         | (679)           |                      |                  | (341)         | (341)           |                      |                  |
| of which: from social security . . . . .                                     | (109)         | (109)           |                      |                  | (76)          | (76)            |                      |                  |
|  | 9,130         | 7,965           | 292                  | 873              | 6,593         | 5,468           | 180                  | 945              |
| Total liabilities . . . . .  | 69,487        | 23,177          | 29,733               | 16,577           | 48,930        | 14,391          | 28,386               | 6,153            |

The main items under bonds and debentures are old bonds issued by Deutsche Bundespost amounting to EUR 26.7 billion and a global bond issued in the second half of 2000.

This bond, issued by Deutsche Telekom International Finance B.V. Amsterdam (DT Finance), amounting to EUR 15.4 billion, is structured as follows:

| <u>Tranche</u> | <u>Nominal amount in currency</u> | <u>Interest rate</u> | <u>Maturity</u> |
|----------------|-----------------------------------|----------------------|-----------------|
| EUR . . . . .  | 2,250,000,000                     | 6.125%               | 2005            |
| EUR . . . . .  | 750,000,000                       | 6.625%               | 2010            |
| GBP . . . . .  | 625,000,000                       | 7.125%               | 2005            |
| GBP . . . . .  | 300,000,000                       | 7.125%               | 2030            |
| USD . . . . .  | 3,000,000,000                     | 7.750%               | 2005            |
| USD . . . . .  | 3,000,000,000                     | 8.000%               | 2010            |
| USD . . . . .  | 3,500,000,000                     | 8.250%               | 2030            |
| JPY . . . . .  | 90,000,000,000                    | 1.500%               | 2005            |

Additionally, DT Finance issued EUR 6.2 billion in medium-term notes (MTN) as part of the debt issuance program. DT Finance still has the debut emission of 1998/1999 to the amount of EUR 2 billion.

Breakdown of bonds and debentures are in millions of euros as follows:

| <u>Effective interest rate</u> | <u>up to 6%</u> | <u>up to 7%</u> | <u>up to 8%</u> | <u>up to 9%</u> | <u>over 9%</u> | <u>Total</u> |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|--------------|
| Due in                         |                 |                 |                 |                 |                |              |
| 2001 . . . . .                 | 8,358           | —               | 138             | 3,707           | 571            | 12,774       |
| 2002 . . . . .                 | 597             | —               | 2,761           | 5,113           | —              | 8,471        |
| 2003 . . . . .                 | —               | 2,556           | —               | —               | 77             | 2,633        |
| 2004 . . . . .                 | —               | 3,068           | 6,212           | —               | —              | 9,280        |
| 2005 . . . . .                 | 838             | 2,239           | 4,208           | —               | —              | 7,285        |
| after 2005 . . . . .           | 2,056           | 951             | 4,166           | —               | 3,728          | 10,901       |
|                                | 11,849          | 8,814           | 17,485          | 8,820           | 4,376          | 51,344       |

Liabilities to banks (mainly loan notes and short-term loans) due in the next 5 years and thereafter are in millions of euros as follows:

| <u>Due in</u>    | <u>Amounts</u>      |
|------------------|---------------------|
| 2001 .....       | 2,438               |
| 2002 .....       | 425                 |
| 2003 .....       | 563                 |
| 2004 .....       | 358                 |
| 2005 .....       | 426                 |
| after 2005 ..... | 4,803               |
|                  | <u><b>9,013</b></u> |

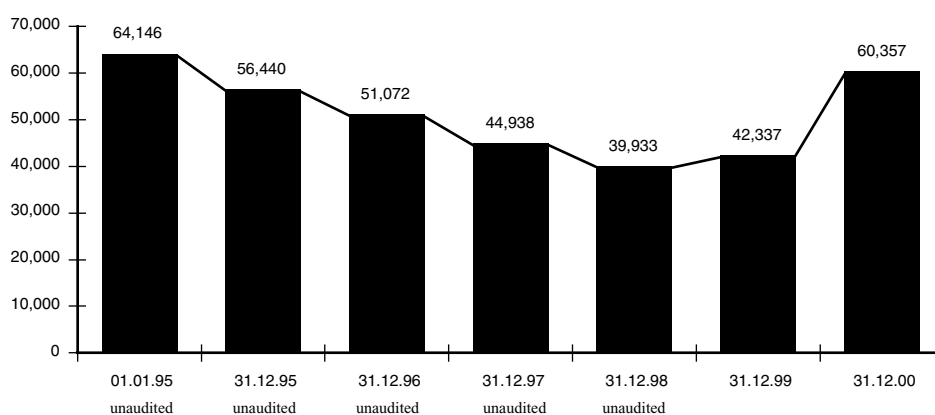
The average effective interest rate of total debt is for:

|                                |                                 |
|--------------------------------|---------------------------------|
| Bonds and debentures . . .     | 6.50 % p.a. (1999: 7.50 % p.a.) |
| Liabilities to banks . . . . . | 6.70 % p.a. (1999: 7.10 % p.a.) |

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on short-term credit facilities up to EUR 9.8 billion. At December 31, 2000, these credit facilities had been drawn upon to the amount of EUR 5.3 billion.

The credit facilities of EUR 9.8 billion relate mainly to Deutsche Telekom AG and max.mobil. at interest rates of between 5.1 % and 7.5 %.

The development of debt from January 1, 1995 to December 31, 2000 is shown in millions of euros as follows:



The Company's original debt was raised principally to finance the development of the communications networks in eastern Germany. The reasons for the increase in debt in 2000 include the payment for UMTS licenses, the initial investment in VoiceStream, the increase in the shareholding in MATÁV and the acquisition of Slovenské Telekomunikácie and debis Systemhaus.

### Other liabilities

|                                      | <u>Dec. 31, 2000</u><br>millions of € | <u>Dec. 31, 1999</u><br>millions of € |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Interest .....                       | 1,558                                 | 1,335                                 |
| Rental and leasing obligations ..... | 451                                   | 561                                   |
| Loan notes .....                     | 658                                   | 556                                   |
| Liabilities to employees .....       | 183                                   | 131                                   |
| Other .....                          | 1,855                                 | 1,027                                 |
|                                      | <u><b>4,705</b></u>                   | <u><b>3,610</b></u>                   |

Other liabilities include taxes of EUR 679 million (Dec. 31, 1999: EUR 341 million) and social security liabilities of EUR 109 million (Dec. 31, 1999: EUR 76 million).



Liabilities include borrowings of EUR 13,818 million (Dec. 31, 1999: EUR 4,248 million) in foreign currencies. Borrowings in euros and euro-member currencies are not shown as borrowings in foreign currencies.

Liabilities in the amount of EUR 28 million (Dec. 31, 1999: EUR 63 million) payable by subsidiary companies to banks and third parties are collateralized. Deutsche Telekom AG has provided no collateral against its liabilities.

In accordance with Postreform II (§ 2 paragraph 4 of the Stock Corporation Transformation Act—Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995.

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows has been prepared in conformity with International Accounting Standard (IAS) No. 7, Cash Flow Statements. Besides IAS 7, German Accounting Standard (DRS) No. 2, cash flow, as approved by the German Standardization Council (DSR), is used for the first time in drawing up the consolidated statement of cash flows. The minimum breakdown requirements of DRS 2 are more extensive than those of the breakdown previously applied. As a result, the breakdown has been extended.

Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents in drawing up the consolidated statement of cash flows. These cash and cash equivalents increased by EUR 128 million in 2000 to EUR 1,006 million at December 31, 2000.

This is a result of the following developments:

### (30) Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 10,000 million in 2000. This represents an increase in cash flow of EUR 412 million compared with 1999, while net income increased by EUR 4,673 million. This is mainly attributable, however, to transactions which are shown under

- investment activities (sale of Global One for EUR 2.9 billion, sale of shares in the cable companies for EUR 3.0 billion) or
- financing activities (proceeds of approximately EUR 2.7 billion from the acquisition of new shareholders in the course of the initial public offering of T-Online) or which
- have not yet had any effect on cash flows (proceeds from the sale of WIND for EUR 2.3 billion).

On the other hand, the Group's results were burdened by considerably increased levels of depreciation and amortization and additions to accruals which also have no effect on liquid assets. The expenses for the initial public offering of T-Online and for the planned initial public offering of T-Mobile International AG shown under extraordinary expenses (EUR 159 million) reduced the level of net cash provided by operating activities.

### (31) Net cash used for investing activities

Net cash used for investing activities increased considerably by EUR 9,022 million to EUR 27,706 million in 2000. A total of EUR 15,288 million was invested in UMTS licenses alone in the United Kingdom (EUR 6,576 million), Germany (EUR 8,541 million) and Austria (EUR 171 million). Furthermore, the increase is attributable to acquisitions and increased shareholdings. Deutsche Telekom invested a total of EUR 4,343 million in the following consolidated companies in 2000:

|                                     | <u>Purchase price</u> | <u>Acquired<br/>liquid assets</u><br>in millions of € | <u>Net outflow</u>  |
|-------------------------------------|-----------------------|---|---------------------|
| Magyar Com . . . . .                | 2,343                 |   | 2,343               |
| Media One . . . . .                 | 1,002                 |   | 1,002               |
| Slovenské Telekomunikácie . . . . . | 1,010                 | (469)   | 541                 |
| max.mobil. . . . .                  | 128                   |   | 128                 |
| Pocket Phone Shop . . . . .         | 118                   |   | 118                 |
| Ya.com . . . . .                    | 100                   | (2)   | 98                  |
| Other . . . . .                     | 117                   | (4)   | 113                 |
|                                     |                       |   | <u><u>4,343</u></u> |

The purchase prices were mainly financed through short-term and long-term borrowings.

Further, investments in property, plant and equipment, such as technical equipment and machinery and construction in progress, as well as for the acquisition of additional shares in companies which are shown in the cash flows under purchase for financial assets, had an effect on cash flow. The main factors here were the acquisitions of stakes in VoiceStream (EUR 5,590 million), PTC (EUR 1,114 million) and Ben (EUR 1,070 million). Positive effects included the cash inflows from the sale of Global One and the sale of shares in the cable companies in North-Rhine Westphalia and Hesse. The Group also received liquid assets from the sale of

property, plant and equipment (EUR 655 million) and the decrease in financial investments having a maturity of longer than three months (EUR 401 million).

In the year under review, T-Online International AG acquired shares in the companies comdirect bank, T-Online France and Ya.com, issuing a total of 109.8 million shares (EUR 2.9 billion) for the shareholdings, each acquired in the form of a share swap.

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

Net cash provided by financing activities amounted to EUR 17,863 million in 2000 compared with EUR 7,965 million in 1999. This increase is attributable in particular to new short-term and medium-term borrowings and the proceeds of the initial public offering of T-Online (EUR 3,080 million). The payment of dividends had an offsetting effect (EUR 1,914 million).

### Other information

### (33) Guarantees and commitments, and other financial obligations

#### Guarantees and commitments

|  | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|--|----------------------|----------------------|
|  | millions of €        | millions of €        |
| Liabilities arising from warranty agreements . . . . .       | 81                   | 59                   |
| Collateral granted against third party liabilities . . . . . | 49                   | 128                  |
| Guarantees . . . . .   | <u>35</u>            | <u>9</u>             |
|  | <u><u>165</u></u>    | <u><u>196</u></u>    |

Guarantees and commitments of Deutsche Telekom mainly serve day-to-day business activities and securement of loans.

#### Other financial obligations

|   | <u>Dec. 31, 2000</u>  |                         |                           | <u>Dec. 31, 1999</u>  |                         |                           |
|---|-----------------------|-------------------------|---------------------------|-----------------------|-------------------------|---------------------------|
|   | <u>Total</u>          | <u>of which due</u>     |                           | <u>Total</u>          | <u>of which due</u>     |                           |
|   |                       | <u>in the following</u> | <u>from the second</u>    |                       | <u>in the following</u> | <u>from the second</u>    |
|   | millions of €         |                         |                           | millions of €         |                         |                           |
|   | <u>financial year</u> | <u>year after the</u>   | <u>balance sheet date</u> | <u>financial year</u> | <u>year after the</u>   | <u>balance sheet date</u> |
| Present value of payments to special pension fund . . . . .   | 9,935                 | 912                     | 9,023                     | 10,635                | 1,028                   | 9,607                     |
| Purchase commitments for interests in other companies . . . . .   | 8,345                 | 1,144                   | 7,201                     | 2,464                 | 163                     | 2,301                     |
| Obligations under rental and lease agreements . . . . .   | 5,607                 | 1,020                   | 4,587                     | 3,073                 | 498                     | 2,575                     |
| Purchase commitments for capital projects in progress including obligations arising from future expenditure . . . . . | 3,911                 | 2,017                   | 1,894                     | 3,778                 | 1,757                   | 2,021                     |
| Commitments arising from transactions not yet settled . . . . .   | <u>473</u>            | <u>192</u>              | <u>281</u>                | <u>1,615</u>          | <u>1,182</u>            | <u>433</u>                |
| Total other financial obligations . . . . .   | <u><u>28,271</u></u>  | <u><u>5,285</u></u>     | <u><u>22,986</u></u>      | <u><u>21,565</u></u>  | <u><u>4,628</u></u>     | <u><u>16,937</u></u>      |

The present value of payments required to be made by Deutsche Telekom AG on the basis of the life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998"), in accordance with Postreform II, to the company's special pension fund for civil servants or its successor amounted to EUR 9,935 million at December 31, 2000, of which EUR 4.5 billion relates to the future service of civil servants still in active service. The reduction in the present value by EUR 700 million was due in part to the reducing effect of the 2000 payment to the special pension fund amounting to EUR 895 million, which is offset by an increase in the value from the increasing effect of compounding future contributions.

Purchase commitments for interests in other companies relate mainly to the option held by DaimlerChrysler Services AG, Berlin, which is entitled until the year 2005 to sell the remaining shareholding of 49.9 % in debis Systemhaus GmbH, Leinfelden-Echterdingen, to Deutsche Telekom AG. The maximum payment obligation is EUR 4,921 million plus a possible additional amount as dividend compensation. A further EUR 629 million relate to the obligation to take back 50.1 % of the shares in Beta Research Gesellschaft für Entwicklung und Vermarktung digitaler Infrastrukturen GmbH, Munich.

T-Mobile International AG has committed itself in the form of a shareholder agreement, for the term of the agreement, to take over the shares in Ben, held by Belgacom N.V./S.A., Belgium, and TeleDanmark A/S, Denmark, should these companies exercise their option to sell their shares. The exercise price is defined as the higher of the market value of the shares or EUR 1.6 billion. Furthermore, T-Mobil has committed itself to acquiring the majority shareholding in RadioMobil a.s., Czech Republic (EUR 580 million), and MATÁV, Hungary, to acquire Emitel, Hungary (EUR 343 million) and 51 % of Maktel, Macedonia (EUR 50 million).

The increase in obligations under rental and lease agreements relates mainly to new contractual obligations of DT Mobile Holdings (One 2 One), United Kingdom.

The decrease in commitments arising from transactions not yet settled is mainly attributable to the decrease in purchase commitments, particularly at T-Mobile International.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses.

The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom Group.

### (34) Financial instruments

#### Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following is a summary of the estimated fair value of Deutsche Telekom's financial instruments:

|   | Dec. 31, 2000 |                     | Dec. 31, 1999 |                     |
|---|---------------|---------------------|---------------|---------------------|
|   | Fair value    | Net carrying amount | Fair value    | Net carrying amount |
|   | millions of € |                     |               |                     |
| <b>Assets</b>   |               |                     |               |                     |
| Other investments in related companies . . . . .      | 8,325         | 7,456               | 4,603         | 3,653               |
| Other long-term loans . . . . .                       | 562           | 562                 | 660           | 660                 |
| Other investments in noncurrent securities . . . . .  | 1,094         | 1,106               | 2,321         | 2,033               |
| Receivables . . . . .                                 | 7,158         | 7,158               | 5,666         | 5,666               |
| Liquid assets . . . . .                               | 1,893         | 1,893               | 1,172         | 1,172               |
| Other investments in marketable securities . . . . .  | 3,963         | 2,370               | 1,774         | 1,770               |
| <b>Liabilities</b>                                    |               |                     |               |                     |
| Bonds and debentures . . . . .                        | 52,203        | 51,344              | 34,712        | 32,787              |
| Liabilities to banks . . . . .                        | 9,013         | 9,013               | 9,550         | 9,550               |
| Other . . . . .                                       | 9,130         | 9,130               | 6,593         | 6,593               |
| <b>Derivative financial instruments<sup>(1)</sup></b> |               |                     |               |                     |
| Interest rate swaps . . . . .                         | 296           | (46)                | (7)           | (6)                 |
| Interest rate caps purchased . . . . .                | 1             | 1                   | 4             | 4                   |
| Forward rate agreements . . . . .                     |               |                     | (4)           | (4)                 |
| Forward forward deposit . . . . .                     |               |                     | 0             | 0                   |
| Interest rate future . . . . .                        |               |                     | 0             | 0                   |
| Cross currency interest rate swaps sold . . . . .     | (373)         | 44                  | 13            | 5                   |
| Foreign currency forward contracts . . . . .          | 163           | (4)                 | (258)         | (203)               |
| Foreign currency options purchased . . . . .          | 17            | 138                 |               |                     |

(1) Non-bracketed amounts represent assets, bracketed amounts represent liabilities.

Fair values were determined as follows:

The fair value of other investments in noncurrent securities and in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amounts of trade accounts receivable approximate their fair values, due to the short period to maturity. The net carrying amounts of liquid assets also reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of other investments in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amount is adjusted to market value where market value is less than the original investment.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks, and other liabilities approximate their fair values.

The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in the Company's exposure to adverse fluctuations in interest and foreign exchange rates.

The fair values of investments in associated and related companies, which have carrying values of EUR 7,456 million and EUR 3,653 million at December 31, 2000 and 1999, respectively, were not practicably determinable, except for the investments in SES, VocalTec and Secunet, because they are not publicly traded or cannot be sold due to contractual restrictions at this point in time. SES, VocalTec and Secunet are valued at their market values based on share prices.

### **Derivative financial instruments**

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. In general the Company's policy is to hold or issue financial instruments for other than trading purposes. Derivative financial instruments are subject to internal controls.

Derivatives classified as other than trading are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rates inherent in the Company's assets, liabilities and positions. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedges. Derivative instruments designated as hedges are accounted for on the same basis as the underlying position.

The Company uses interest rate swaps in particular to reduce its exposure to interest rate and market value volatility on certain debt issues and deposit instruments and manage its interest expense by setting an optimal mix of floating and fixed rate debt and deposit instruments. Interest rate swaps are designated as hedging instruments for specific liabilities or groups of similar liabilities.

Gains or losses related to changes in the value of interest rate swaps are generally not recognized. Interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Interest rate swaps which are not designated as hedging instruments for balance sheet assets and liabilities (which are mainly hedges of planned future transactions) are assigned to the interest instrument valuation portfolio. Unrealized gains and losses from changes in market value are netted currency for currency and resultant net losses are recognized as a component of net interest expense.

The interest differential to be paid or received on interest rate swaps is recognized in the statement of earnings, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps terminated prior to their maturity are recognized currently as a decrease or increase in net interest expense.

The Company uses foreign currency forward contracts and foreign currency options purchased as well as cross currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities, for example the global bonds issued in the year under review. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not valued at the balance sheet date. The investment in the purchased entity is booked using the foreign exchange rate fixed by the foreign currency forward contract. Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities.

Gains and losses resulting from foreign currency forward contracts, cross currency interest rate swaps and foreign currency financing which relate to the net investments in foreign entities are recorded in the cumulative translation adjustment account.

The Company purchases options to hedge investments in foreign entities. An option purchased to hedge a firm commitment to invest in a foreign entity is included in other assets and valued at purchase cost. Upon exercise of the option the premium is included in the purchase cost of the asset. An option purchased which hedges a planned transaction is included in foreign currency portfolios referred to above. Upon exercise the option premium is included in the underlying transaction. Options expiring unexercised are recognized currently and assigned to other operating costs or revenues.

The following is a summary of the contract or notional principal amounts outstanding at December 31, 2000 and 1999:

|   | <u>Dec. 31, 2000</u> |                        | <u>Dec. 31, 1999</u> |                        |
|---|----------------------|------------------------|----------------------|------------------------|
|   | <u>Maturity</u>      | <u>Notional Amount</u> | <u>Maturity</u>      | <u>Notional Amount</u> |
|   | millions of €        |                        | millions of €        |                        |
| <b>Interest rate swaps (EUR)</b>          |                      |                        |                      |                        |
| Receive fixed/pay variable                | 2001-2008            | 3,112                  | 2000-2008            | 3,018                  |
| Receive variable/pay fixed                | 2005-2010            | 3,154                  | 2000-2008            | 1,892                  |
| <b>Interest rate swaps (GBP)</b>          |                      |                        |                      |                        |
| Receive variable/pay fixed                | 2002-2030            | 10,517                 | 2002-2004            | 1,217                  |
| <b>Interest rate swaps (JPY)</b>          |                      |                        |                      |                        |
| Receive fixed/pay variable                | 2005                 | 842                    |                      |                        |
| <b>Interest rate swaps (US\$)</b>         |                      |                        |                      |                        |
| Receive fixed/pay variable                | 2002-2030            | 10,670                 | 2002-2008            | 424                    |
| Receive variable/pay fixed                | 2002-2008            | 457                    | 2002-2008            | 424                    |
| <b>Interest rate cap purchased</b>        | 2002-2003            | 434                    | 2002-2003            | 436                    |
| <b>Forward rate agreements</b>            |                      |                        | 2000-2001            | 1,000                  |
| <b>Forward forward deposit</b>            |                      |                        | 2000                 | 600                    |
| <b>Future contracts</b>                   |                      |                        | 2000                 | 51                     |
| <b>Cross currency interest rate swaps</b> | 2001-2030            | 16,243                 | 2001-2011            | 125                    |
| <b>Foreign currency forward contracts</b> |                      |                        |                      |                        |
| Forward purchases                         | 2001                 | 754                    | 2000                 | 5                      |
| Forward sales                             | 2001-2003            | 8,434                  | 2000                 | 8,250                  |
| Currency options                          | 2001-2002            | 4,845                  |                      |                        |

The terms of the EUR-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average 4.2 % per annum) and pay interest at variable rates (generally based on the six-month Euribor rate). The terms of the EUR-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month Euribor rate) and pay interest at fixed rates (weighted average of 5.2 % per annum).

The terms of the GBP-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month LIBOR rate) and pay interest at fixed rates (weighted average of 6.4 % per annum).

The terms of the JPY-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 1.5 % per annum which are swapped for variable rates (generally based on the six-month JPY-LIBOR rate).

The terms of the USD-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 7.9 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate). The terms of the USD-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 6.1 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate).

All cross currency interest rate swaps are basic swaps whereby the respective three-month or six-month interest rate in CZK, GBP, JPY, SKK or USD is swapped for the corresponding variable interest rate in EUR or GBP.

Amounts received and paid under all these interest rate swaps, which are dependent on the notional amounts and the contractual interest rates, are settled annually, semi-annually or quarter-annually.

The interest rate caps purchased have two to three-year terms and provide for Deutsche Telekom to receive excesses over a specified reference interest rate. For some of the caps, option contracts were written in order to reduce the premium (purchase of interest rate collars).

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in EUR for a contractually fixed amount of foreign currency forward contracts and currency options.

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

### **(35) Information on the Board of Management and the Supervisory Board of Deutsche Telekom AG**

The Supervisory Board has received no Supervisory Board remuneration or meeting attendance fees so far for the 2000 financial year. After the shareholders' meeting on May 29, 2001, Supervisory Board remuneration and meeting attendance fees amounting to EUR 548,733.00 will be paid for the 2000 financial year. Provided that the 2000 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom AG will amount to EUR 9,224,129.46. Deutsche Telekom granted 440,893 stock options to the members of the Board of Management in the 2000 financial year. The remuneration to be paid to former members of the Board of Management of Deutsche Telekom AG and their surviving dependents amounts to EUR 868,695.54. Pension accruals totaling EUR 8,560,122.30 have been established for this group of persons at December 31, 2000. Pension obligations to such persons for which no reserve had to be established amounted to EUR 3,285,382.68 at that date.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

### **(36) Proposal for appropriation of net income of Deutsche Telekom AG**

The income statement of Deutsche Telekom AG reflects net loss of EUR 3,333,558,248.92.. The Board of Management has decided to take the sum of EUR 5,266,306,376.32 from retained earnings. Following inclusion of the unappropriated net income of EUR 44,476,448.26 carried forward from 1999, this gives rise to cumulative unappropriated net income of EUR 1,977,224,575.69.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of EUR 1,876,698,587.72. This represents a dividend of EUR 0.62 per individual no par value share on the capital stock of EUR 7,748,949,007.36. The remaining balance of EUR 100,525,987.97 will be included in unappropriated net income carried forward from the previous year.

## **Reconciliation to U.S. GAAP**

Due to its listing on the New York Stock Exchange, Deutsche Telekom AG is required to submit, in addition to its local financial statements, annual financial statements in the format of Form 20-F to the SEC. This procedure is in accordance with the foreign integrated disclosure system for foreign companies listed on the stock exchange. In addition to the adjustments which have already been made in the consolidated balance sheet and statement of income in order to comply with U.S. GAAP, further adjustments are required in order to meet the requirements of U.S. GAAP and Form 20-F. These adjustments mostly refer to cases where binding rules of German GAAP which contradict those of U.S. GAAP exist. The reconciliation to U.S. GAAP explains how the corresponding values of the German consolidated financial statements after U.S. GAAP adjustments comply with U.S. reporting requirements.

### **(37) Significant differences between German and United States generally accepted accounting principles**

Certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost less depreciation, which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance sheet of Deutsche Telekom AG at January 1, 1995 have been carried forward as the acquisition or construction costs.

#### ***(a) Valuation adjustment of real estate***

Under German GAAP, the Company recorded a special write-down for land as a charge to current year earnings. This charge was made in connection with the new disposal oriented real estate concept in which management has developed a strategy of reducing its holdings of assets that are outside the scope of its core activities. This plan provided sufficient justification under German GAAP to allow the Company to perform a preliminary evaluation of the current market value of land. Based on this preliminary evaluation, the Company concluded that a write-down of EUR 2.018 billion was appropriate. Under U.S. GAAP, the Company's plan did not have the characteristics as described in Staff Accounting Bulletin 100 to consider the land to be in the category of "Assets to Be Disposed Of" under SFAS 121. Accordingly, under U.S. GAAP, these assets would be considered "Assets to Be Held and Used". Using the criteria for "Assets to be Held and Used" under SFAS 121, the assets were not impaired. Accordingly, this write down has been reversed under U.S. GAAP.

The Bonn Public Prosecutor is currently conducting an investigation into the values that were ascribed to land at the time the Company was in the process of privatization. The Company believes that the values assigned to land were correct.

#### ***(b) Mobile communications licenses***

In the consolidated financial statements under German GAAP, the acquisition costs of the UMTS licenses purchased in the United Kingdom, Germany and Austria in the 2000 financial year are amortized as scheduled from the time of acquisition over the terms of the licenses. The interest on borrowings made to finance the licenses is recognized immediately as an expense. Under U.S. GAAP, amortization is from the beginning of economic use of the licenses—the start of operation of the UMTS networks—over the expected period of usage. As such, the interest accumulated on borrowings until the start of operation of the UMTS network represents part of the acquisition costs under U.S. GAAP.

#### ***(c) Capitalization of software costs***

Deutsche Telekom has been applying the Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use since the 1999 financial year. In accordance with SOP 98-1, in contrast to German GAAP, certain internal and external expenses incurred during the internal project development stage of computer software for internal use are to be capitalized and amortized over its expected useful life.

#### ***(d) T-Online International capital increase against noncash contributions***

Deutsche Telekom has treated the additional value from the T-Online capital increase against noncash contributions as not affecting income. Under U.S. GAAP, these proceeds—the same as the additional value from cash contributions of other shareholders—are to be recognized as income.



**(e) Goodwill differences**

The goodwill differences between German GAAP and U.S. GAAP are mainly attributable to the differing times of purchase price calculation and differing equity values in the companies acquired based on the differing accounting and valuation approaches in German GAAP and U.S. GAAP.

**(f) Fair value adjustment of securities and investments**

Under German GAAP, marketable debt and equity securities (including certain securities classified as other investments) are generally carried at historical cost. Under U.S. GAAP, marketable debt and equity securities other than investments accounted for by the equity method are categorized as either trading, available for sale, or held to maturity. Securities classified as trading or available for sale are reported at fair value at the balance sheet date and held to maturity securities are reported at historical cost. Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders' equity.

**(g) Value-added tax**

The nondeductible capitalized VAT (capitalized prior to 1996) recorded as property, plant and equipment was fully depreciated in the annual financial statements according to German GAAP. In 2000, value-added tax refunds of EUR 169 million are shown under other operating income. German GAAP requires the capitalized VAT to be depreciated and the VAT recoveries to be recorded as other operating income. Under U.S. GAAP, the capitalized VAT is treated as a long-term receivable rather than property, plant and equipment. Therefore, neither depreciation nor other operating income are recognized.

**(h) Derivatives**

According to the SEC, the foreign currency forward contracts and options used to hedge against foreign currency risks from the forthcoming acquisition of a shareholding may not be shown in the balance sheet as hedges. The profits and losses from U.S. dollar forward contracts and options used by Deutsche Telekom in the year under review therefore have to be recorded as having a full effect on income under U.S. GAAP. Under German GAAP, these profits and losses have no effect on income and are included in the acquisition costs of the shareholding.

**(i) Personnel restructuring**

Under German GAAP, the estimated costs of employee separations have been accrued on the basis of the Company's announced intention to reduce its workforce. Under U.S. GAAP, these costs are accrued in the period that the employee accepts the offer of termination. The Company has agreed pursuant to its collective bargaining agreements with the unions that it will not unilaterally terminate the employment of its non-civil servant employees due to business reasons before the end of the year 2004. Civil servants may not be involuntarily terminated under the terms of their conditions of employment.

**(j) Deferred income**

During the fourth quarter of 2000, the Company implemented SEC Staff Accounting Bulletin No. 101 (SAB 101) which establishes guidelines with respect to certain revenue recognition reporting practices. As required by SAB 101, the Company retroactively adopted this accounting change effective January 1, 2000. As a result of the implementation of SAB 101, Deutsche Telekom has deferred activation fees and certain other one-time charges and is amortizing them over the average life of the related service. This is in contrast to German GAAP, under which the revenue is recognized immediately. Related direct incremental costs, up to the amount of revenues, are also deferred and subsequently amortized. All other direct costs associated with customer activation are expensed as incurred. Furthermore, and in contrast to German GAAP, under which income from a basic agreement between T-Mobil and VIAG Interkom is to be recognized in accordance with the economic useful life, this income is to be distributed over the duration of the agreement under U.S. GAAP.

**(k) Share offering costs**

Under German GAAP, the costs incurred in connection with share offerings are recorded as extraordinary expenses in the income statement. Under U.S. GAAP, specific incremental costs directly attributable to an offering are charged against the proceeds of the offering.

**(l) Other differences**

Other differences consist of the different accounting and valuation approaches between German GAAP and U.S. GAAP that are not individually significant, including the treatment of unrealized gains on foreign currency receivables and payables that have a full effect on income under U.S. GAAP, the inclusion in the balance sheet of accruals for maintenance accruals and the valuation of trade accounts receivable. Under German GAAP, accruals have to be made for maintenance that is carried out within 3 months after the balance sheet date. Under U.S. GAAP, maintenance expenditures must only be shown in the period in which they are incurred. The valuation differences for receivables are a result of the application of the percentage of completion method, as opposed to the completed contract method under German GAAP.

**(m) Income taxes**

The determination of income tax expense under German GAAP differs from U.S. GAAP as follows:

- Under U.S. GAAP, in contrast to German GAAP, deferred tax assets are recognized for the estimated future tax effects attributable to tax loss carryforwards.
- Under German GAAP, deferred taxes are not recorded for temporary differences which arose during tax free periods. Under U.S. GAAP, the estimated future tax effects related to those temporary differences are recognized.
- Under German GAAP, deferred taxes have not been recognized for those temporary differences which are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes are generally recognized for all temporary differences.

Deferred taxes are also provided for the income tax effects of valuation differences between U.S. GAAP and German GAAP. Deferred tax assets are measured based on enacted tax law and reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The following table shows the differences between income tax expense determined in accordance with U.S. GAAP and German GAAP:

|  | <u>2000</u><br>millions of € | <u>1999</u><br>millions of € | <u>1998</u><br>millions of € |
|--|------------------------------|------------------------------|------------------------------|
| Deferred taxes from the application of U.S. GAAP . . . .         | (561)                        | (14)                         | 73                           |
| Deferred taxes on U.S. GAAP/German GAAP<br>differences . . . . . | <u>(12)</u>                  | <u>(230)</u>                 | <u>130</u>                   |
|  | <u>(573)</u>                 | <u>(244)</u>                 | <u>203</u>                   |

**(n) Minority interest**

Under U.S. GAAP, minority interest is not included in shareholders' equity.

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

|  |      | <u>2000</u>         | <u>1999</u>         | <u>1998</u>         |
|--|------|---------------------|---------------------|---------------------|
|  | Note | millions of €       | millions of €       | millions of €       |
| <b>Net income as reported in the consolidated financial statements under German GAAP</b> |      | <b>5,926</b>        | <b>1,253</b>        | <b>2,243</b>        |
| Valuation adjustment of real estate  | (a)  | 2,018               | —                   | —                   |
| UMTS licenses  | (b)  | 865                 | —                   | —                   |
| Internally developed software  | (c)  | 95                  | 163                 | 4                   |
| T-Online capital increase against noncash contributions                                  | (d)  | 1,911               | —                   | —                   |
| Goodwill differences   | (e)  | (147)               | 5                   | —                   |
| Value-added tax  | (g)  | (169)               | 288                 | 13                  |
| Derivatives  | (h)  | 68                  | 68                  | 18                  |
| Accruals for personnel restructuring   | (i)  | (125)               | (97)                | (286)               |
| Deferred income  | (j)  | 98                  | (129)               | 2                   |
| <b>Implementation of SAB 101, cumulative to Dec. 31, 1999</b>                            | (j)  | (869)               | —                   | —                   |
| Share offering costs   | (k)  | 120                 | 238                 | —                   |
| Other differences  | (l)  | 29                  | (32)                | 28                  |
| Differing effects of income tax  | (m)  | (573)               | (244)               | 203                 |
| <b>Net income in accordance with U.S. GAAP</b>   |      | <b><u>9,247</u></b> | <b><u>1,513</u></b> | <b><u>2,225</u></b> |

**Reconciliation of shareholders' equity from German GAAP to U.S. GAAP:**

|   |      | <u>Dec. 31, 2000</u> | <u>Dec. 31, 1999</u> |
|---|------|----------------------|----------------------|
|   | Note | millions of €        | millions of €        |
| <b>Shareholders' equity in accordance with German GAAP</b>    |      | <b>42,716</b>        | <b>35,689</b>        |
| <b>Reconciliation to U.S. GAAP</b>                            |      |                      |                      |
| Valuation adjustment of real estate                           | (a)  | 2,018                | —                    |
| UMTS licenses   | (b)  | 865                  | —                    |
| Software costs  | (c)  | 272                  | 168                  |
| T-Online capital increase against noncash contributions       | (d)  | 1,911                | —                    |
| Goodwill differences  | (e)  | 38                   | (54)                 |
| Unrealized gains on marketable securities                     | (f)  | 2,660                | 1,242                |
| Value-added tax   | (g)  | 27                   | 196                  |
| Derivatives   | (h)  | 60                   | (8)                  |
| Personnel restructuring accrual                               | (i)  | 12                   | 136                  |
| Deferred income   | (j)  | (38)                 | (144)                |
| <b>Implementation of SAB 101, cumulative to Dec. 31, 1999</b> | (k)  | (869)                | —                    |
| Other differences   | (l)  | 97                   | 54                   |
| Income taxes  | (m)  | 579                  | 1,320                |
| Minority interest   | (n)  | (4,302)              | (988)                |
| <b>Shareholders' equity in accordance with U.S. GAAP</b>      |      | <b><u>46,046</u></b> | <b><u>37,611</u></b> |

**Changes in shareholders' equity in accordance with U.S. GAAP:**

|  | <u>2000</u>          | <u>1999</u>          |
|--|----------------------|----------------------|
|  | millions of €        | millions of €        |
| <b>Shareholders' equity, beginning of year</b> . . . . .   | <b>37,611</b>        | <b>26,857</b>        |
| Net income in accordance with U.S. GAAP . . . . .  | <b>9,247</b>         | 1,513                |
| Other comprehensive income   |                      |                      |
| Net change in unrealized gains on marketable securities, net of deferred taxes . . . . .             | 1,418                | 232                  |
| Currency translation . . . . .   | (480)                | 177                  |
|  | <b>938</b>           | 409                  |
| Proceeds from share offering (less share offering costs after tax, plus employee discount) . . . . . | <b>124</b>           | 10,515               |
| Dividends for 1999 and 1998, respectively . . . . .  | (1,874)              | (1,683)              |
| <b>Shareholders' equity, end of year</b> . . . . .   | <b><u>46,046</u></b> | <b><u>37,611</u></b> |

**(38) Deferred taxes in accordance with U.S. GAAP:**

Deferred tax assets and liabilities arising from temporary differences and net operating losses are as follows:

|  | <u>Dec. 31, 2000</u>  | <u>Dec. 31, 1999</u> |
|--|-----------------------|----------------------|
|  | millions of €         | millions of €        |
| Deferred tax assets in accordance with U.S. GAAP                       |                       |                      |
| Current deferred tax assets  |                       |                      |
| Net operating loss carryforwards . . . . .                             | 50                    | 3                    |
| Accruals for loss contingencies . . . . .                              | 68                    | 68                   |
| Other . . . . .  | 49                    | —                    |
| Noncurrent deferred tax assets   |                       |                      |
| Net operating loss carryforwards . . . . .                             | 1,550                 | 193                  |
| Personnel restructuring accrual . . . . .                              | 29                    | 41                   |
| Pension accruals . . . . .   | 364                   | 1,433                |
| Civil servant health insurance accrual . . . . .                       | 401                   | 473                  |
| Accruals for risk related to real estate . . . . .                     | 167                   | 118                  |
| Other accruals . . . . .   | 228                   | 196                  |
| Deferred income . . . . .  | 341                   | 73                   |
| Other . . . . .  | 1                     | 47                   |
| <b>Deferred tax assets in accordance with U.S. GAAP</b> . . . . .      | <b><u>3,248</u></b>   | <b><u>2,645</u></b>  |
| Deferred tax liabilities in accordance with U.S. GAAP                  |                       |                      |
| Current deferred tax liabilities                                       |                       |                      |
| Derivatives . . . . .  | (24)                  | —                    |
| Accruals . . . . .   | (76)                  | (36)                 |
| Noncurrent deferred tax liabilities                                    |                       |                      |
| Intangible assets . . . . .  | (222)                 | —                    |
| Property, plant and equipment . . . . .                                | (1,051)               | —                    |
| Unrealized gains on marketable securities . . . . .                    | (2)                   | (646)                |
| Other . . . . .  | —                     | (1)                  |
| <b>Deferred tax liabilities in accordance with U.S. GAAP</b> . . . . . | <b><u>(1,375)</u></b> | <b><u>(683)</u></b>  |
| Net current deferred tax asset (liability) . . . . .                   | 67                    | 35                   |
| Net noncurrent deferred tax asset . . . . .                            | 1,806                 | 1,928                |
| Valuation allowance . . . . .  | (820)                 | (119)                |
| <b>Net deferred tax asset under U.S. GAAP</b> . . . . .                | <b><u>1,053</u></b>   | <b><u>1,844</u></b>  |

The following table shows the development of deferred taxes from German GAAP to U.S. GAAP:

|   | <u>Dec. 31, 2000</u><br>millions of € | <u>Dec. 31, 1999</u><br>millions of € |
|---|---------------------------------------|---------------------------------------|
| Net deferred taxes under German GAAP . . . . .      | 475                                   | 524                                   |
| U.S. GAAP adjustments                               |                                       |                                       |
| Application of U.S. GAAP . . . . .                  | 1,670                                 | 2,184                                 |
| U.S./German GAAP differences . . . . .              | <u>(1,092)</u>                        | <u>(864)</u>                          |
| <b>Net deferred taxes under U.S. GAAP . . . . .</b> | <b><u>1,053</u></b>                   | <b><u>1,844</u></b>                   |

**(39) Additional information on the financial statements in accordance with U.S. GAAP**

**Consolidated statement of income**

Certain items in the total cost income statement would be classified differently under U.S. GAAP. These items include, in particular, reversals of accruals and allowances for doubtful accounts that would generally be recorded as reductions to the original expense lines under U.S. GAAP rather than separately as income.

|   | <u>2000</u><br>millions of € | <u>1999</u><br>millions of € | <u>1998</u><br>millions of € |
|---|------------------------------|------------------------------|------------------------------|
| Results from ordinary business activities/Income before income taxes . . .  | 10,969                       | 3,409                        | 4,719                        |
| Income taxes . . . . .  | (1,197)                      | (1,624)                      | (2,274)                      |
| Income before (income) losses applicable to minority shareholders . . . . .   | 9,772                        | 1,785                        | 2,445                        |
| (Income) losses applicable to minority shareholders . . . . .   | <u>(88)</u>                  | <u>(272)</u>                 | <u>(220)</u>                 |
| <b>Net income in accordance with U.S. GAAP before cumulative effect<br/>of prior years from implementation of SAB 101 . . . . .</b> | <b>9,684</b>                 | <b>1,513</b>                 | <b>2,225</b>                 |
| Cumulative effect from prior years from application of SAB 101 after<br>taxes . . . . .   | <u>(437)</u>                 | <u>—</u>                     | <u>—</u>                     |
| <b>Net income in accordance with U.S. GAAP . . . . .</b>  | <b><u>9,247</u></b>          | <b><u>1,513</u></b>          | <b><u>2,225</u></b>          |
| <b>Earnings per share/ADS in accordance with U.S. GAAP (in €):</b>  |                              |                              |                              |
| Earnings per share before implementation of SAB 101 . . . . .   | 3.20                         | 0.53                         | 0.81                         |
| Cumulative effect of prior years from implementation of SAB 101 . . . . .   | (0.15)                       | —                            | —                            |
| Total earnings per share in accordance with U.S. GAAP . . . . .   | 3.05                         | 0.53                         | 0.81                         |
| Weighted average shares outstanding (in millions) . . . . .   | 3,030                        | 2,884                        | 2,743                        |
| <b>Pro forma information: backdated implementation of SAB 101</b>   |                              |                              |                              |
| Pro forma net income in accordance with U.S. GAAP . . . . .   |                              | 1,481                        | 2,197                        |
| Pro forma earnings per share in accordance with U.S. GAAP (in €) . . . . .  |                              | 0.51                         | 0.80                         |

**Consolidated statement of comprehensive income**

In addition to the contents of the financial statements which must be disclosed in accordance with German GAAP, comprehensive income must be disclosed under U.S. GAAP. Other comprehensive income covers certain changes to the shareholders' equity not affecting net income and not related to capital payments, dividend payments or similar transactions with the shareholders.

|  | <u>2000</u><br>millions of € | <u>1999</u><br>millions of € | <u>1998</u><br>millions of € |
|--|------------------------------|------------------------------|------------------------------|
| <b>Net income in accordance with U.S. GAAP . . . . .</b>   | <b>9,247</b>                 | <b>1,513</b>                 | <b>2,225</b>                 |
| <b>Other comprehensive income</b>  |                              |                              |                              |
| Currency translation . . . . .   | (480)                        | 177                          | (135)                        |
| Unrealized gains on marketable securities (net of taxes in 1999:<br>€ 196 million and 1998: € 416 million) . . . . . | <u>1,418</u>                 | <u>232</u>                   | <u>314</u>                   |
| Other comprehensive income . . . . .   | <u>1,938</u>                 | <u>409</u>                   | <u>179</u>                   |
| <b>Total income/comprehensive income . . . . .</b>   | <b><u>10,185</u></b>         | <b><u>1,922</u></b>          | <b><u>2,404</u></b>          |

## Development of other comprehensive income

|                                | <u>Currency<br/>translation</u><br>millions of € | <u>Unrealized<br/>gains on<br/>marketable<br/>securities</u><br>millions of € | <u>Other<br/>comprehensive<br/>income</u><br>millions of € |
|--------------------------------|--|---|--|
| <b>January 1, 1998</b> .....   | (406)  | 31  | (375)  |
| Changes .....                  | <u>(135)</u>                                     | <u>314</u>  | <u>179</u>   |
| <b>December 31, 1998</b> ..... | (541)  | 345   | (196)  |
| Changes .....                  | <u>177</u>                                       | <u>232</u>  | <u>409</u>   |
| <b>December 31, 1999</b> ..... | <b>(364)</b>                                     | <b>577</b>  | <b>213</b>   |
| Changes .....                  | <b><u>(480)</u></b>                              | <b><u>1,418</u></b>   | <b><u>1,938</u></b>  |
| <b>December 31, 2000</b> ..... | <b><u>(844)</u></b>                              | <b><u>1,995</u></b>   | <b><u>1,151</u></b>  |

## Balance sheet presentation under U.S. GAAP

German GAAP does not require presentation of a classified balance sheet. Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year are classified as noncurrent. Summarized balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

|   | <u>Dec. 31, 2000</u><br>millions of € | <u>Dec. 31, 1999</u><br>millions of € |
|---|---------------------------------------|---------------------------------------|
| <b>Assets</b>   |                                       |                                       |
| Current assets  |                                       |                                       |
| Cash and cash equivalents .....   | 1,014                                 | 880                                   |
| Other current assets .....  | <u>16,326</u>                         | <u>11,428</u>                         |
|   | <b>17,340</b>                         | 12,308                                |
| Noncurrent assets .....   | <u>115,375</u>                        | <u>85,168</u>                         |
|   | <b><u>132,715</u></b>                 | <b><u>97,476</u></b>                  |
| <b>Shareholders' equity and liabilities</b>   |                                       |                                       |
| Current liabilities   |                                       |                                       |
| Short-term debt .....   | 15,213                                | 8,914                                 |
| Other liabilities .....   | 9,038                                 | 6,254                                 |
| Accruals .....  | <u>6,275</u>                          | <u>4,315</u>                          |
|   | <u>30,526</u>                         | <u>19,483</u>                         |
| Long-term liabilities   |                                       |                                       |
| Long-term debt .....  | 45,092                                | 33,363                                |
| Other noncurrent liabilities .....  | <u>6,688</u>                          | <u>6,047</u>                          |
|   | <b><u>51,780</u></b>                  | <b><u>39,410</u></b>                  |
| Minority interest .....   | <b>4,363</b>                          | 972                                   |
| Shareholders' equity  |                                       |                                       |
| Capital stock .....   | 7,756                                 | 7,756                                 |
| Additional paid-in capital .....  | 24,006                                | 23,881                                |
| Retained earnings, unappropriated net income carried forward from previous<br>year and net income ..... | 13,140                                | 5,775                                 |
| Total other comprehensive income .....  | 1,151                                 | 213                                   |
| Treasury shares .....   | <u>(7)</u>                            | <u>(14)</u>                           |
|   | <b><u>46,046</u></b>                  | <b><u>37,611</u></b>                  |
|   | <b><u>132,715</u></b>                 | <b><u>97,476</u></b>                  |

#### (40) Stock-based compensation

The company has elected to account for employee stock options under US-GAAP in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations and to furnish the pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation.

APB 25 requires recognition of compensation expense for variable award plans (Deutsche Telekom and T-Online) over the vesting period of such plans, based upon the then-current market values of the underlying stock. In contrast, SFAS 123 requires recognition of compensation expense for grants of stock options over the vesting period of such grants, based on the estimated grant-date fair values of those grants.

Under APB 25, because the exercise price of Deutsche Telekom AG's and T-Online International AG's employee stock options was higher than the market price of the underlying stock at the end of the year, no compensation expense was recognized in 2000. Another one of Deutsche Telekom's subsidiaries has a stock-based compensation program which is not disclosed since it was deemed immaterial to the Company's financial statements.

#### Pro forma fair value disclosures

SFAS 123 requires presentation of pro forma information as if the company had accounted for its employee stock based compensation under the fair value method of that statement. The fair value of the Deutsche Telekom (T-Online International AG) stock options issued in conjunction with the 2000 stock option plan was calculated at the grant date based on a Monte-Carlo option pricing model and was calculated in accordance with the terms of the issuance. The model simulates multiple paths for the stock and the index between Year 2 and Year 5 (3.5) given their initial levels and takes the expected value of the payoff.

At the grant date, the underlying assumptions and the resulting fair value per option of the respective companies were as follows:

| <u>Deutsche Telekom AG</u>                  | <u>2000</u> |
|---|-------------|
| Expected dividend yield . . . . .           | 1.00%       |
| Expected stock volatility . . . . .         | 44.0%       |
| Risk-free interest rate . . . . .           | 5.73%       |
| Expected lives (in years) . . . . .         | 5           |
| Employee stock options fair value . . . . . | EUR 25.08   |
| <u>T-Online International AG</u>            | <u>2000</u> |
| Expected dividend yield . . . . .           | 0%          |
| Expected stock volatility . . . . .         | 60.0%       |
| Risk-free interest rate . . . . .           | 5.475%      |
| Expected lives (in years) . . . . .         | 3.5         |
| Employee stock options fair value . . . . . | EUR 13.10   |

For purposes of pro forma disclosure, the estimated fair value of the options at the date of grant is amortized to expense over the vesting period. Under the fair value method, the company's net income (loss) and earnings (loss) per share would have been as follows (in millions of euro, except per share amount):

|  | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|-------------|-------------|-------------|
| <b>Net income (loss) (millions of €)</b>     |             |             |             |
| As reported under US-GAAP . . . . .          | 9,247       | 1,513       | 2,225       |
| Pro forma under SFAS No. 123 . . . . .       | 9,244       | -*          | -*          |
| <b>Basic earnings (loss) per share (€)</b>   |             |             |             |
| As reported under US-GAAP . . . . .          | 3.05        | 0.53        | 0.81        |
| Pro forma under SFAS No. 123 . . . . .       | 3.05        | *           | *           |
| <b>Diluted earnings (loss) per share (€)</b> |             |             |             |
| As reported under US-GAAP . . . . .          | n/a         | *           | *           |
| Pro forma under SFAS No. 123 . . . . .       | n/a         | *           | *           |

\* There were no stock-based compensation systems in the Deutsche Telekom Group in 1999 and 1998.

**(41) Segment information by group business area**

Deutsche Telekom applies Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) and the German Accounting Standard No. 3 "Segment Reporting" (DRS 3) for the calculation of segment information. In accordance with the aforementioned, companies must disclose information on their operational segments in accordance with their internal reporting structures. Under SFAS No. 131 and DRS 3, Deutsche Telekom has the following operational segments for which reporting is required: network communications, carrier services, data communications, mobile communications, broadcasting and broadband cable, terminal equipment, value-added services and international. The segments for which reporting is required are strategic group business areas which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

The valuation methods used for the group segment reporting correspond mainly to those used in the German consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on their income before taxes including extraordinary income (loss). Extraordinary income (loss) of EUR -159 million relates exclusively to expenses in connection with the initial public offering of T-Online International AG and the planned initial public offering of T-Mobile International AG in the year under review; in 1999, the costs of Deutsche Telekom AG's second share offering (EUR 240 million) made up the extraordinary income (loss).

Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Other expense and income items are in principle assigned to the segments by allocation procedure. Income taxes and taxes chargeable as expense are not assigned to individual segments. With the exception of depreciation and amortization, there are no major noncash items assigned to the segments. The income (loss) related to associated and related companies relates to income from investments and associated companies, as well as write-downs of financial assets and marketable securities. In the 2000 financial year, the income (loss) related to associated and related companies attributable to individual segments is shown under the relevant segments for the first time. Figures for prior-year periods have been adjusted accordingly.



As a rule, segments assets and segment investments are assigned to the segments on the basis of a usage-dependent allocation procedure. As a result of the application of DRS 3, the previous scope of the segments assets and the segment investments, consisting of property, plant and equipment, and capital expenditure on property, plant and equipment, has been extended to include the items intangible assets and financial assets; the figures for 1999 have been adjusted accordingly. In addition, the segment assets and segment investments are shown by geographical regions; assignment to the individual regions is generally by the location of the asset. Please refer to (1) in the notes to the consolidated financial statements for the presentation of revenue by regions. In accordance with DRS 3, liabilities are now assigned to the segments for the first time. As part of Group segment reporting, these include debt and other liabilities, excluding tax liabilities.

|   |             | Net revenue   | Revenue between segments | Depreciation and amortization | Net interest income (expense) | Income (loss) related to associated and related companies | Income (loss) before taxes | Segment assets | Segment investments | Segment liabilities |
|---|-------------|---------------|--------------------------|-------------------------------|-------------------------------|---|----------------------------|----------------|---------------------|---------------------|
| millions of €                           |             |               |                          |                               |                               |   |                            |                |                     |                     |
| <b>Network communications</b>           | <b>2000</b> | <b>15,051</b> | <b>843</b>               | <b>(4,187)</b>                | <b>(924)</b>                  | <b>0</b>  | <b>626</b>                 | <b>29,979</b>  | <b>2,780</b>        | <b>18,185</b>       |
|   | 1999        | 16,737        | 869                      | (4,236)                       | (986)                         | 0   | 2,276                      | 33,588         | 2,438               | 21,038              |
|   | 1998        | 20,531        | 1,087                    | (5,103)                       | (1,654)                       | 0   | 4,796                      |                |                     |                     |
| <b>Carrier services</b>                 | <b>2000</b> | <b>3,983</b>  | <b>1,283</b>             | <b>(1,050)</b>                | <b>(173)</b>                  | <b>0</b>  | <b>392</b>                 | <b>4,680</b>   | <b>423</b>          | <b>3,681</b>        |
|   | 1999        | 2,884         | 677                      | (577)                         | (124)                         | 0   | 440                        | 4,701          | 336                 | 2,882               |
|   | 1998        | 1,611         | 571                      | (356)                         | (119)                         | 0   | 589                        |                |                     |                     |
| <b>Data communications</b>              | <b>2000</b> | <b>3,352</b>  | <b>1,033</b>             | <b>(968)</b>                  | <b>(187)</b>                  | <b>0</b>  | <b>269</b>                 | <b>4,592</b>   | <b>488</b>          | <b>3,582</b>        |
|   | 1999        | 2,828         | 739                      | (815)                         | (196)                         | 0   | 104                        | 6,285          | 516                 | 4,435               |
|   | 1998        | 2,536         | 874                      | (966)                         | (315)                         | 0   | (61)                       |                |                     |                     |
| <b>Mobile communications(1)</b>         | <b>2000</b> | <b>9,253</b>  | <b>1,360</b>             | <b>(2,342)</b>                | <b>(1,391)</b>                | <b>(112)</b>  | <b>(2,329)</b>             | <b>40,247</b>  | <b>25,503</b>       | <b>31,622</b>       |
|   | 1999        | 5,274         | 1,201                    | (844)                         | (430)                         | (137)   | 253                        | 17,301         | 14,144              | 6,306               |
|   | 1998        | 3,061         | 934                      | (580)                         | (172)                         | (423)   | 137                        |                |                     |                     |
| <b>Broadcasting and broadband cable</b> | <b>2000</b> | <b>1,861</b>  | <b>34</b>                | <b>(753)</b>                  | <b>(223)</b>                  | <b>(240)</b>  | <b>2,647</b>               | <b>4,494</b>   | <b>875</b>          | <b>3,968</b>        |
|   | 1999        | 1,917         | 197                      | (911)                         | (355)                         | 1   | (85)                       | 6,753          | 271                 | 5,935               |
|   | 1998        | 1,804         | 93                       | (977)                         | (359)                         | 0   | (329)                      |                |                     |                     |
| <b>Terminal equipment</b>               | <b>2000</b> | <b>1,036</b>  | <b>299</b>               | <b>(163)</b>                  | <b>(36)</b>                   | <b>0</b>  | <b>58</b>                  | <b>538</b>     | <b>68</b>           | <b>914</b>          |
|   | 1999        | 1,207         | 228                      | (196)                         | (48)                          | 0   | 19                         | 957            | 108                 | 1,114               |
|   | 1998        | 1,382         | 221                      | (275)                         | (70)                          | 0   | (114)                      |                |                     |                     |
| <b>Value-added services</b>             | <b>2000</b> | <b>1,802</b>  | <b>480</b>               | <b>(201)</b>                  | <b>(34)</b>                   | <b>0</b>  | <b>42</b>                  | <b>833</b>     | <b>100</b>          | <b>1,361</b>        |
|   | 1999        | 1,903         | 346                      | (222)                         | (54)                          | 0   | (152)                      | 1,383          | 122                 | 1,658               |
|   | 1998        | 2,051         | 235                      | (222)                         | (68)                          | 0   | (182)                      |                |                     |                     |
| <b>International(1)</b>                 | <b>2000</b> | <b>2,058</b>  | <b>20</b>                | <b>(527)</b>                  | <b>(304)</b>                  | <b>7</b>  | <b>(29)</b>                | <b>7,429</b>   | <b>4,280</b>        | <b>1,346</b>        |
|   | 1999        | 1,508         | 13                       | (260)                         | (145)                         | 5   | 309                        | 3,390          | 1,273               | 1,391               |
|   | 1998        | 1,322         | 12                       | (243)                         | (134)                         | 1   | 201                        |                |                     |                     |
| <b>Other segments</b>                   | <b>2000</b> | <b>2,426</b>  | <b>2,600</b>             | <b>(712)</b>                  | <b>97</b>                     | <b>2,465</b>  | <b>6,930</b>               | <b>13,814</b>  | <b>8,551</b>        | <b>8,224</b>        |
|   | 1999        | 1,122         | 2,045                    | (348)                         | (236)                         | (205)   | (277)                      | 7,625          | 3,652               | 6,781               |
|   | 1998        | 772           | 1,081                    | (356)                         | (68)                          | 99  | 38                         |                |                     |                     |
| <b>Reconciliation</b>                   | <b>2000</b> | <b>117</b>    | <b>(7,952)</b>           | <b>(2,088)</b>                | <b>78</b>                     | <b>(253)</b>  | <b>(2,273)</b>             |                |                     | <b>(4,075)</b>      |
|   | 1999        | 90            | (6,315)                  | (57)                          | 28                            | (7)   | 57                         |                |                     | (2,951)             |
|   | 1998        | 74            | (5,108)                  | 41                            | (3)                           | (3)   | 25                         |                |                     |                     |
| <b>Group</b>                            | <b>2000</b> | <b>40,939</b> | <b>0</b>                 | <b>(12,991)</b>               | <b>(3,097)</b>                | <b>1,867</b>  | <b>6,333</b>               | <b>106,606</b> | <b>43,068</b>       | <b>68,808</b>       |
|   | 1999        | 35,470        | 0                        | (8,466)                       | (2,546)                       | (343)   | 2,944                      | 81,983         | 22,860              | 48,589              |
|   | 1998        | 35,144        | 0                        | (9,037)                       | (2,962)                       | (326)   | 5,100                      |                |                     |                     |

1) The subsidiaries max.mobil. and One 2 One have not been shown under international since the 2000 financial year, but under mobile communications. The figures for 1999 have been adjusted accordingly.

### Segments by geographic area

|                                | Segment assets |               | Segment investments |               |
|--------------------------------|----------------|---------------|---------------------|---------------|
|                                | Dec. 31, 2000  | Dec. 31, 1999 | Dec. 31, 2000       | Dec. 31, 1999 |
| millions of €                  |                |               |                     |               |
| Germany                        | 59,021         | 56,857        | 16,404              | 5,518         |
| European Union (excl. Germany) | 31,962         | 19,432        | 15,402              | 15,331        |
| Rest of Europe                 | 9,188          | 3,348         | 5,458               | 1,472         |
| North America                  | 5,668          | 1,646         | 5,618               | 231           |
| Other                          | 767            | 700           | 186                 | 308           |
| <b>Group</b>                   | <b>106,606</b> | <b>81,983</b> | <b>43,068</b>       | <b>22,860</b> |

## **Network communications**

The group business area network communications provides voice telephony and associated services in the fixed network for a broad range of customers. The services are provided mainly within the domestic market and are, in many areas, subject to regulation by the Regulatory Authority for Telecommunications and Posts (RegTP).

In this segment, Deutsche Telekom generated net revenue in the year under review amounting to EUR 15,051 million. Domestic call charges account for approximately 51 % of this revenue, line installation charges, monthly rental charges and other domestic services for approximately 43 % and international call charges for approximately 6 %.

Accounting for approximately 37 % of Deutsche Telekom's entire net revenue, network communications remains the Company's largest revenue driver.

The main causes of the reduction in revenue and income, as was also the case in 1999, are the price cuts introduced, particularly for international and domestic long-distance calls, and the impact of competition; increased revenue as a result of market growth, particularly for calls to the mobile communications network, had an offsetting effect. The price cuts were made as a result of the continuing high pressure on prices and to avoid further losses of market share. The decrease in call charges is offset by higher earnings from line installation and rental charges, which are mainly attributable to the approximately 29 % increase in the number of ISDN channels compared with 1999. The nonscheduled depreciation of outside plant in the course of the year under review placed a further burden on results. This had an impact on the group business area network communications in particular due to the usage-based assignment of a considerable proportion of property, plant and equipment to this area.

Revenue from business with other segments, amounting to EUR 843 million, relates mainly to services provided for the various product packages offered by group business areas other than the group business area network communications, in particular data communications and carrier services.

The net interest expense of EUR 924 million is attributable to the high capitalization ratio in this group business area. The segment liabilities mainly relate to the financing of the noncurrent assets assigned to this area. The depreciation in this segment, as well as the segment assets and the investments, are a result mainly of the assignment of considerable proportions of the Group's property, plant and equipment to this group business area.

## **Carrier services**

On the carriers' carrier market, Deutsche Telekom's competitors, as customers, are offered comprehensive services by the group business area carrier services. On the domestic market, these are predominantly the provision of interconnection services for fixed and mobile network operators, for carrier-specific transmission path offers and for access to the so-called unbundled local loop. This group business area also covers international inter-carrier business, which includes the termination of incoming international calls.

As a company dominant in sub-markets, Deutsche Telekom is subject to extensive regulation in its group business area carrier services. This is particularly true for services provided on the domestic telecommunications market. The international carrier services business, by contrast, was relieved of regulation to a certain extent in 1999.

Net revenue in the carrier services group business area was determined by the activities of Deutsche Telekom's competitors in the fixed and mobile communications network. In the fixed network, in particular, the number of carriers continues to increase since the full liberalization of the German telecommunications market. Besides corrections and exchange rate effects, considerable increases in international and domestic carrier services business and the boom in mobile telephony led to an increase in net revenue of EUR 1,099 million to EUR 3,983 million.

Income before taxes from carrier services of EUR 392 million was lower than last year. The reasons for this development include increased costs for telecommunications services based on higher purchase prices and exchange rate developments, as well as less favorable cost relationships due to price definitions by the RegTP; the carrier-specific services interconnection, local loop and carrier leased lines in particular are subject to ex ante price regulation.

The revenue between segments of EUR 1,283 million relates mainly to services provided for the group business area mobile communications for calls from the mobile communications network to the fixed network and to competitors' networks, as well as to foreign countries. The strong growth in the number of subscribers using Deutsche Telekom's digital mobile telephone service (T-D1) is therefore a key reason for the doubling of revenue between segments. The depreciation reflects the depreciation on the noncurrent assets assigned to the group business area carrier services. The net interest expense and the segment liabilities relate mainly to the financing of the assigned noncurrent assets.

### **Data communications**

In the group business area data communications, Deutsche Telekom offers domestic and international customers a broad range of products and services for data communications, based mainly on IP, frame relay and ATM platforms. This includes the provision of leased links and data transmission services. This group business area combines, as full systems solutions, all the network platforms and services necessary for the realization of customer projects, in particular the generation of complex Internet and Intranet solutions as well as LAN and LAN-to-LAN solutions for business customers. The data communications market has been open to competition for some years and is one of the fastest-growing areas of telecommunications.

In this global growth business, Deutsche Telekom increased its net revenue in the data communications segment further by EUR 524 million to EUR 3,352 million. Despite the continued pressure on prices, income before taxes for the segment was considerably higher in the year under review (EUR 269 million) than in the previous year (EUR 104 million). This is mainly a result of increased revenue and cost reduction measures.

The revenue between segments relates mainly to the use of data communications platforms by other group business areas, in particular multimedia, and the corresponding connection services. The increase of EUR 294 million to EUR 1,033 million is therefore mainly attributable to the strong increase in Internet usage. Depreciation in data communications mainly reflects the depreciation on the property, plant and equipment assigned to this group business area. The net interest expense and the liabilities mainly reflect the financing of property, plant and equipment. The segment assets assigned to this group business area are predominantly technical equipment.

### **Mobile communications**

The group business area mobile communications provides mobile telephone and paging services for a broad range of customers. With Deutsche Telekom's mobile communications activities now bundled within T-Mobile International AG (TMO), the TMO sub-group has, in addition to T-Mobil, included the companies One 2 One, max.mobil. and T-Motion since the beginning of 2000. The TMO sub-group represents the main part of the mobile communications segment. The segment data for prior years were adjusted, as One 2 One and max.mobil. are no longer shown under international, but under mobile communications.

The increase in net revenue of approximately 75 % over the previous year is mainly attributable to the strong growth in the number of new subscribers. The number of subscribers of Deutsche Telekom's German mobile telephone service (T-D1) more than doubled. The number of One 2 One subscribers almost doubled in the United Kingdom. TMO's Austrian mobile communications subsidiary max.mobil. also recorded strong subscriber growth. The enormous growth in the number of subscribers is mainly a result of the booming pre-paid sector. T-Mobil's net revenue increased by approximately 35 %. In total, One 2 One and max.mobil. contribute approximately 42 % to the net revenue of this segment.

Revenue from business with other segments amounting to EUR 1,360 million relates mainly to domestic network interconnection services (so-called mobile-terminated calls) provided by the group business area mobile communications. These services made a considerable contribution to the increase in revenue between segments. The marked increase in depreciation and amortization relates mainly to the amortization of goodwill and the depreciation of property, plant and equipment. The increased net interest expense and the growth in segment liabilities are mainly due to the costs of financing UMTS licenses. Further reasons for the decrease in the results of this segment include higher customer acquisition costs due to the enormous growth in subscriber numbers, particularly in the pre-paid sector, and increases in all expense items due to the considerable expansion of business.

The increase in segment assets and the high level of segment investments are mainly attributable to the acquisition of UMTS licenses in Germany, the United Kingdom and Austria, the acquisition of shares in the mobile communications operator Ben in the Netherlands (50 % minus one share) and in the U.S. mobile communications provider VoiceStream (tranche of 1.69 %) as well as the expansion of the digital mobile networks (mainly in Germany and the United Kingdom) as a result of the growth in the number of subscribers.

### **Broadcasting and broadband cable**

The group business area broadcasting and broadband cable provides broadcasting services for analog and digital radio and television channels. The services are provided within the domestic market and are subject to the regulations of the regional media supervisory authorities.

The main influence on the figures for this segment in 2000 was the sale of shareholdings in Kabel Deutschland to the North-Rhine Westphalia and Hesse regional companies. The primary consequence of this sale is the reduction in net revenue, depreciation and amortization, net interest expense and the loss related to associated and related companies, the segment assets and segment liabilities. The proceeds from the sale of these shareholdings amounted to EUR 2,964 million and are thus the decisive element in the results for this segment in the period under review.

55 % of the shares in the North-Rhine Westphalia regional company were acquired by a consortium under the leadership of Callahan Associates International LLC, an internationally active development and operating company in the telecommunications sector. 65 % of the shares in the Hesse regional company were acquired by a consortium under the leadership of Klesch & Company Ltd., London. Kabel Deutschland still holds the remaining shares in these companies.

Connection charges and monthly cable charges paid by residential cable users along with the transmission charges paid by local cable companies contribute to 75 % of the net revenue in the broadcasting and broadband cable group business area. Revenues from the provision of transmission capacities for radio and television broadcasters account for the remaining 25 % of the segment's net revenue. Depreciation relates mainly to the cable network. The net interest expense and the segment liabilities relate mainly to the financing of the noncurrent assets of the group business area. The segment assets consist mainly of technical equipment and real estate, most of which relates to broadband cable.

### **Terminal equipment**

The group business area terminal equipment sells and rents out terminal equipment and private automatic branch exchanges to various target groups. The services are provided mainly within the domestic market. In the sale of terminal equipment, suppliers who produce exclusive terminal equipment for Deutsche Telekom (T-Brand) in some cases operate on the market as competitors with similar products. The market for terminal equipment has been fully open to competition since 1990.

Revenue from business with third parties decreased in the year under review by EUR 171 million to EUR 1,036 million. The main reason for this is the continued streamlining of the product portfolio and the compensation of the external purchase revenue through the increased use of indirect sales channels via T-Mobil. This is also the main reason for the increase in revenue from business with other segments by EUR 71 million to EUR 299 million. Other elements of the revenue between segments are the income from the terminal equipment used by other group business areas and income from logistics and bundling services. The terminal equipment group business area recorded income before taxes of EUR 58 million, thus continuing the positive segment results of the previous year, mainly as a result of the consistent continuation of the streamlining and market orientation of the product portfolio.

Depreciation in the terminal equipment segment relates to the depreciation of noncurrent assets allocated to the group business area. The net interest expense and the liabilities mainly reflect the financing of assets assigned or assignable to the segment. The segment assets relate mainly to the assignment of property, plant and equipment on a proportional basis in line with usage, in particular of real estate and plant and office equipment. Capital expenditure relates mainly to the additions in property, plant and equipment allocated to this group business area.

### **Value-added services**

The group business area value-added services provides various services for a broad range of customers. These include public telecommunications, directory inquiries, call centers and freecall and shared-cost numbers. The publication of telephone directories is also included in this group business area. The products and services are provided mainly within the domestic market and are subject to competition.

The decrease in net revenue by EUR 101 million to EUR 1,802 is mainly attributable to the substitution effects for coin and card-operated public telephones due to the strong growth in mobile communications and further losses of market share for operator services (in particular domestic directory inquiries). Offsetting effects included increased revenue as a result of greater demand for T-Vote-Call and Premium Rate as well as business with new products of DeTeMedien (such as Compages and online directories) and of DeTeCard (mainly the Xtra-Cash card).

Revenue from business with other segments amounting to EUR 480 million relates mainly to services provided by this group business area for other group business areas, in particular carrier services, mobile communications and multimedia. Depreciation in the value-added services segment relates mainly to the noncurrent assets assigned to the group business area. The net interest expense and the liabilities mainly relate to the financing of the assets assigned or assignable to the segment. Despite a decrease in net revenue, the group business area value-added services recorded income before taxes of EUR 42 million in the year under review, after posting a loss of EUR 152 million in the previous year. This development is predominantly attributable to the growth in traffic volume for telephone value-added services, the change in the business model for directory inquiries and call centers and the business with new products of DeTeMedien and DeTeCard.

### **International**

In the 1999 financial year, the segment international related to Deutsche Telekom's shareholding in MATÁV operates on the Hungarian telecommunications market as a full-service provider of telephone services, and the two mobile communications operators One 2 One in the United Kingdom and max.mobil. in Austria. As part of the bundling of mobile communications activities within TMO, the two companies One 2 One and max.mobil. have belonged to the mobile communications segment since the beginning of 2000. Figures for prior-years have been adjusted accordingly.

The shareholdings in the fixed network operators SIRIS S.A.S. in France and Eurobell Ltd. in the United Kingdom, consolidated for the first time as at December 31, 1999, have belonged to the segment international since the beginning of 2000. The shares in Eurobell were sold in the fourth quarter of 2000 and the Slovakian telecommunications company Slovenské Telekomunikácie a.s. was consolidated for the first time in the fourth quarter of 2000. The increase in net revenue, depreciation and amortization and the development of the segment's results are therefore mainly attributable to the first-time consolidation of SIRIS, Eurobell and Slovenské Telekomunikácie in the 2000 financial year.

The Hungarian company MATÁV also contributed to the increase in net revenue. MATÁV's net revenue, driven in particular by mobile communications, was well above the level of the previous year. One main reason for the increased level of MATÁV's depreciation and amortization is the considerable investment in network expansion. MATÁV's contribution to the results of this segment remains positive despite restructuring expenses and increased customer acquisition costs in mobile communications compared with 1999. The increase in the segment assets and segment investments is mainly attributable to MATÁV and the first-time consolidation of Slovenské Telekomunikácie.

### **Other segments**

Other segments include those operational segments which, in accordance with the requirements of SFAS 131 and DRS 3, need not be shown individually, and other activities and shareholdings which are not assigned to specific operational segments.

The increase in net revenue is primarily a result of the first-time consolidation of debis Systemhaus (dSH) in the fourth quarter of 2000. The inclusion of dSH also had a positive effect on net interest income and income before taxes. Together with DeTeSystem and other group units (including parts of the group business area data communications), dSH, as one of the largest providers of systems solutions in Europe, is being integrated in the Telekom growth pillar T-Systems. A further contribution to the increase in net revenue for this segment, apart from dSH, was T-Online International AG, which recorded a higher level of net revenue as a

result of the almost doubled number of subscribers. The reduction of the net interest income for other segments is mainly attributable to the interest income from T-Online from the inflow of capital as a result of the company's initial public offering.

The increased level of revenue between segments, EUR 555 million higher than in 1999, reflect the increased demand from other segments for the products and services of DeTeCSM and T-Nova. The decisive factor in the income related to associated and related companies in the period under review was the sale of the shares in WIND (EUR 2,328 million). Extraordinary expenses relating to the initial public offering of T-Online had a negative effect totaling EUR 146 million on the segment's results. Together with the income related to associated and related companies, the proceeds from the sale of the shares in Atlas / Global One (EUR 2,864 million) and from the initial public offering of T-Online International AG (EUR 2,657 million) are the main elements of the income before taxes.

The segment assets, investments and liabilities assigned to this segment are made up of the relevant amounts from subsidiaries which are not directly assigned to a segment. The segment assets of this segment also include corporate headquarters.

### **Reconciliation**

The items to be reconciled relate mainly to consolidation measures and differences in the composition of the Deutsche Telekom Group taken as the basis for management reporting and that used for the consolidated financial statements under German GAAP. The net revenues shown in the reconciliation relate to subsidiaries shown in the consolidated financial statements under the international segment. The income (loss) related to associated and related companies consists mainly of the income (loss) related to associated and related companies of holding companies.

As part of its strategy to separate itself more quickly from a considerable proportion of its real estate portfolio, Deutsche Telekom has made a nonscheduled write-down in the form of a valuation adjustment on the asset side for real estate using average prices per square meter for groups of properties to determine individual fair values amounting to EUR 2,018 million for the 2000 financial year. This valuation adjustment, which does not affect the operational segments, has no effect on the internal operation of the segments and is therefore almost exclusively an element of the depreciation and amortization shown in the reconciliation to U.S. GAAP.

### **(42) Other matters**

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which should be adopted from the financial year 2000. Under the provisions of SFAS No. 133, derivatives are rights and obligations which meet the definition of assets or liabilities and should be reported in financial statements. They should, as a rule, be valued at market value (fair value) with their full effect on income. Alternative treatment is only permissible if it can be shown that this is attributable to hedging, which satisfies the requirements of the statement with regard to documentation and monitoring of efficiency. In its decision of June 1999, the FASB postponed the entry into force of SFAS 133 by a year. The statement is thus binding only for financial years commencing after June 15, 2000 (SFAS 137). SFAS 133 was amended in parts (SFAS 138) in June 2000.

Deutsche Telekom applies the provisions of SFAS 133 within the reconciliation to U.S. GAAP from the 2000 financial year. The analysis of Deutsche Telekom's hedging strategies has shown that the preconditions for recording hedging activities within the meaning of SFAS 133 have not always been fulfilled. Accordingly, an effect must be expected in the statement of income from the recording of these hedging activities. At December 31, 2000, this cumulative effect amounted to approximately EUR 360 million and in the first quarter of 2001, in accordance with SFAS 133, is shown in a transition adjustment from the first application of SFAS 133. The effects of the recording of hedging activities on other comprehensive income, classified as cash flow hedges under SFAS 133, are minimal.

### **Bonn, April 27, 2001**

#### **Deutsche Telekom AG Board of Management**

Dr. Ron Sommer  
Detlev Buchal  
Jeffrey A. Hedberg  
Dr. Heinz Klinkhammer

Josef Brauner  
Dr. Karl-Gerhard Eick  
Dr. Hagen Hultzsch  
Gerd Tenzer

## Auditor's report

We have audited the consolidated financial statements, consisting of the statement of income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of shareholders' equity and the notes to consolidated financial statements including the segment reporting, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the financial year from January 1 to December 31, 2000. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

We are issuing our auditor's report based on our statutory audit and based on the subsequent audit of the changes in the Reconciliation to U.S. GAAP in the Group accounts, footnotes 37 through 39 (reversal of the valuation adjustment of real estate).

Frankfurt am Main, March 26, 2001, April 27, 2001

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**Cautionary Statement**

Except for the historical statements and discussions contained herein, statements contained in this Annual Report constitute “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21 E of the Securities Exchange Act of 1934, as amended. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside of Deutsche Telekom’s control, that could cause actual results to differ materially from such statements. These factors include, but are not limited to, telecommunications usage levels, competitive forces in liberalized markets, regulatory changes, technological developments, the success of business, operating and financial initiatives and material adverse changes in economic conditions in the markets served by Deutsche Telekom and its affiliates. Readers are cautioned not to put undue reliance on these forward-looking statements.

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