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Management report of the Deutsche Telekom Group and Deutsche Telekom AG for the 2000 financial year.

- Net revenue rises by 15.4 percent to EUR 40.9 billion
- Net income reaches EUR 5.9 billion due to special influences
- Strong growth of subscriber base in mobile telephony and online segments
- Successful T-DSL rollout in 2000
- debis Systemhaus consolidated in the fourth quarter
- A dividend of 62 cents (EUR 0.62) per individual no par value share is proposed to the shareholders' meeting

A combined management report has been produced for the Deutsche Telekom Group and Deutsche Telekom AG.

The 2000 financial year was marked by a strong rise in net revenue and a revenue shift from fixed-network to mobile communications. Mobile communications' share of the Group's net revenue rose from 15 percent in 1999 to 23 percent in 2000. One-off effects, such as the sale of shareholdings and sections of the cable network, had a positive impact on our financial position. Our investments in the expansion of our subscriber base in 2000 were very successful once again. The number of mobile communications subscribers was doubled, and in the online segment we achieved growth of 68 percent. The T-DSL roll-out was launched successfully in 2000 with 0.6 billion T-DSL lines sold.

Key figures for Deutsche Telekom (Group)					
(billions of €)	2000	1999	1998	1997	1996
Net revenue	40.9	35.5	35.1	34.5	32.3
Net income	5.9	1.3	2.2	1.7	0.9
Balance sheet total	124.2	94.6	79.3	83.2	89.1
Investments	43.1	22.9	7.5	7.9	11.6
Employees at year-end	227,015	195,788	195,876	209,295	220,667

Subscriber and customer figures					
(millions)	Dec. 31, 2000	Dec. 31, 1999	Change	in %	
Mobile communications					
Total (consolidated)	31.2	15.8	15.4	98	
of which: T-D1	19.1	9.2 ⁴	10.0	110	
of which: One 2 One	8.3	4.2	4.1	98	
of which: max.mobil.	2.1	1.5	0.6	38	
of which: Westel ¹	1.7	0.9	0.8	89	
Total incl. not fully consolidated investments in related companies (pro rata)					
	35.4	17.8	17.6	99	
Online					
T-Online ²	7.9	4.2	3.7	91	
Telephone lines					
Total (national)	49.4	47.8	1.6	3	
of which: AktivPlus rate option	4.5	0.8	3.7	463	
of which: ISDN channels	17.3	13.3	4.0	30	
- Residential customers ³	8.8	6.0	2.8	47	
- Business customers ³	8.5	7.3	1.2	16	
Total (international)	5.4	2.7	2.7	103	
Total (national and international)	54.8	50.5	4.3	9	
T-DSL (marketed)	0.6	0.0	0.6	n.a.	
¹ held directly and indirectly by MATÁV					
² including Club Internet, Ya.com and T-Online.at (pro forma for 1999)					
³ Small and medium-sized enterprises (SMEs) were regrouped to the Business Customers division in 2000					
⁴ in 1999, incl. T-C-Tel subscribers					

The 2000 financial year – an overview.

- Flotation of T-Online International
- First tranche of shares of the Federal Republic of Germany placed on the stock market
- Strengthening international activities
- Launch of group restructuring on the basis of four strategic pillars
- T@School - a success story

Flotation of T-Online

Flotation of T-Online International AG. Since April 17, 2000, our subsidiary T-Online International AG has been listed on the Neuer Markt stock exchange in Frankfurt. This flotation enabled Deutsche Telekom to expand through acquisitions in the online sector in addition to its organic growth. Our acquisition currency – the T-Online share – proved to be a catalyst for this growth. The flotation was followed by the acquisition of shareholdings in comdirect bank AG and the purchase of Club-Internet, Ya.com and others, all of which were concluded via stock swaps.

3rd share offering

Placement of state-held shares in June. On June 19, 2000, the Federal Republic of Germany sold Deutsche Telekom shares from its portfolio for the first time. This was the third placement of Deutsche Telekom shares and a further step in the Company's privatization. The proceeds were returned to the Federal Republic's budget. With demand peaking at 700 million shares, the issue was over-subscribed 3.5 times. A total of 200 million shares were sold on the capital markets.

International revenue

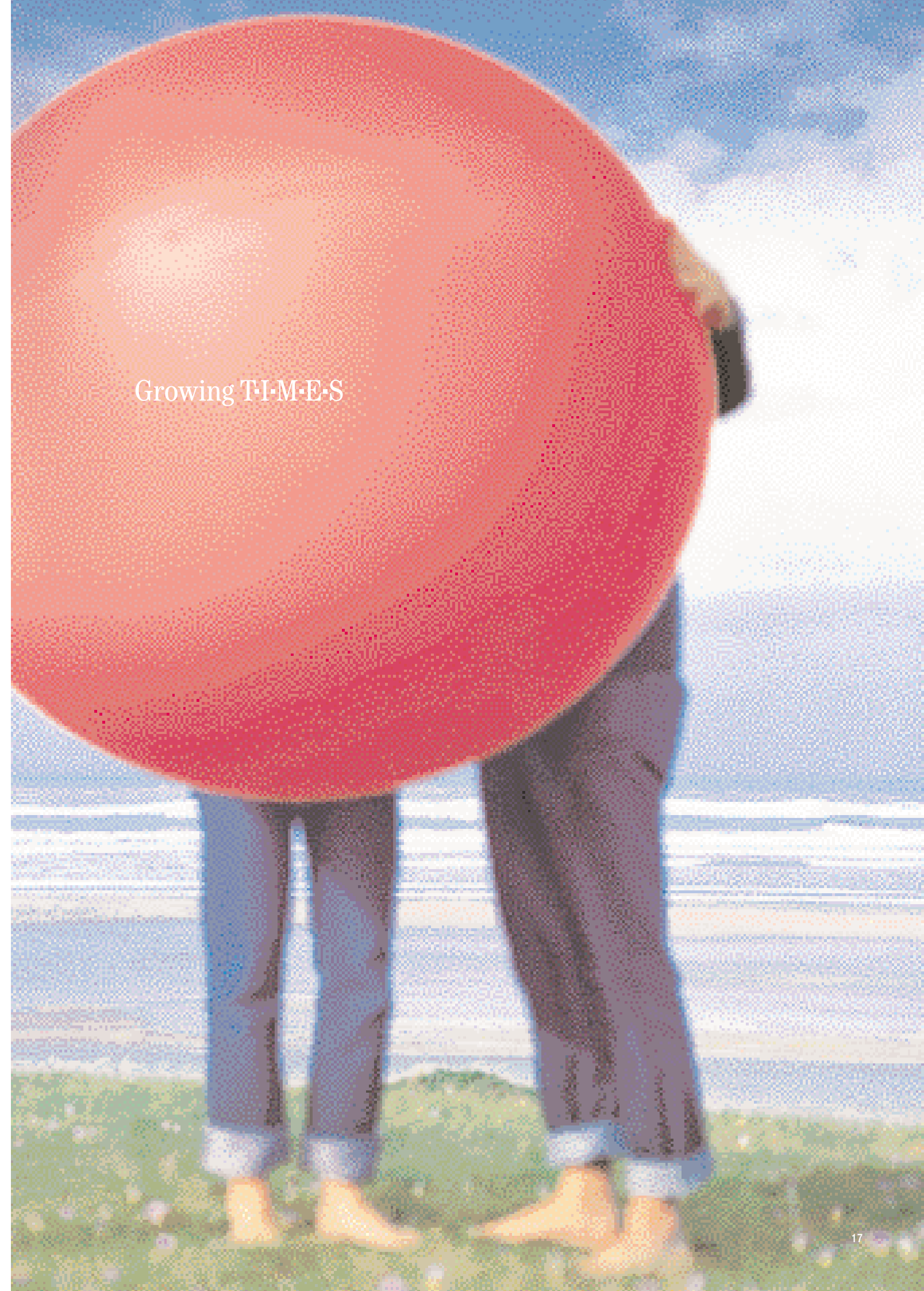
Growing internationalization. Together with its subsidiaries and the majority shareholdings which it acquired in other companies in 2000, Deutsche Telekom has established a strong position in the target markets of many countries and is steadily expanding its international reach. During the financial year under review, international activities accounted for 19.0 percent of net revenue compared with 11.4 percent in 1999. The purchase of a 50.1 percent shareholding in debis Systemhaus further strengthened our global presence, making Deutsche Telekom the second largest provider of systems solutions in Europe.

Four pillars

Launch of group restructuring on the basis of four strategic pillars. Based on the four-pillar strategy, a fundamental restructuring of the Group, comprising a process-oriented and organizational transformation, was launched. With T-Com, T-Mobile, T-Online and T-Systems, Deutsche Telekom's four-pillar strategy is increasingly taking organizational shape. With the creation of the T-Online International AG and T-Mobile International AG sub-groups, the first pillars have now been given a corporate structure. With its strategic focus on these four central lines of business, Deutsche Telekom is seeking to achieve its goal to become a leading T.I.M.E.S. provider in the global arena.

T@School

T@School – a success story. In order to foster young people's Internet skills, Deutsche Telekom launched its T@School campaign in February 2000. Its goal is ambitious: to ensure that all state and state-accredited schools in Germany have Internet access by the end of 2001. Today, in spring 2001 – just one year after the launch – the project is close to completion. By December 21, 2000, almost 30,000 schools had been provided with permanent no-cost Internet access, and more than 6,000 PCs had been supplied to schools. More than 8,000 staff have given their support to the initiative, either as part of their work or on a voluntary basis. With T@School, Deutsche Telekom has created a success story which is a model for future-oriented cooperation between business and politics.



The economic environment.

- Strong upturn worldwide
- Record growth in Germany
- Telecommunications market grows by 11 percent
- Continued tight regulation of the telecommunications market in Germany

Global economy

Strong global growth. The upturn in the global economy predicted for 2000 began strongly in the first half of the year. The strongest growth in years was recorded for the global economy. As the year continued, however, this economic growth slowed down, particularly in the USA, where a restrictive monetary policy and a high exchange rate placed an increasing strain on US companies' competitiveness. Nonetheless, according to EU Commission estimates, the USA's gross domestic product (GDP)* still grew by a good 5.1 percent. The economies of the EU Member States also showed strong growth – albeit slightly less than the USA – with a 3.4 percent rise in GDP. Japan experienced weaker growth compared with international levels, with an estimated rise in GDP of just 1.4 percent.

GDP

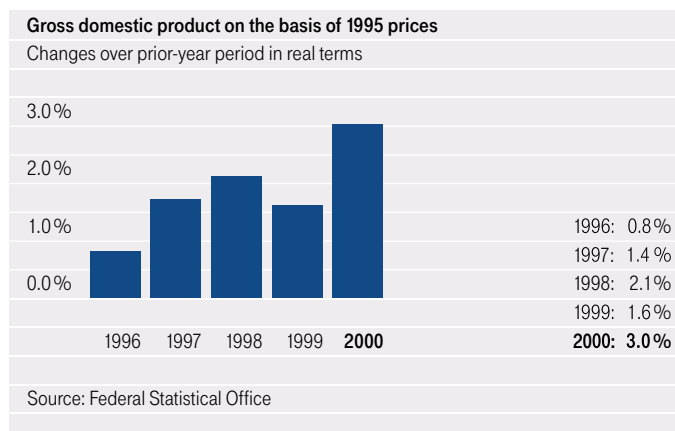
* GDP is an important indicator of the economic situation, since it represents the value of all products and services produced within the country.

Economic upswing in Germany. Parallel to global development, the German economy began to slow down in the second half of the year. Overall, however, a 3.0 percent rise in GDP was achieved over the year – the strongest growth rate since 1991. This economic upturn was accompanied by rising net wages and salaries. Disposable income – i.e. private households' purchasing power – increased by 3.1 percent (compared with 2.6 percent in 1999). On average, every person had EUR 15,850 to purchase goods and services or to put in savings.

Purchasing power

Inflation

Consumer prices rose by an annual average of 1.9 percent in 2000, compared with 0.6 percent in 1999. This more substantial increase was mainly prompted by the higher price of oil and other fuels. Without this effect, the increase would have amounted to just 1.0 percent. These trends are very significant for Deutsche Telekom, which – despite its increasing focus on foreign business – still operates primarily in the German market.



Telecommunications market grew by 11 percent. According to the European Information Technology Observatory "EITO 2001", the telecommunications market in Germany – Deutsche Telekom's core market – grew by around 11 percent in 2000 (compared with around 10 percent in 1999), to approximately EUR 59.4 billion (1999: EUR 53.5 billion). In 2000, Deutsche Telekom's revenue from domestic operations rose by just under 6 percent over 1999, to a total of EUR 33.2 billion. With an imputed market share of about 56 percent in 2000 (1999: approximately 59 percent), Deutsche Telekom's share of the relevant domestic telecommunications market decreased by approximately 3 percent (compared with 9 percent in 1999).

Market share

Three years after liberalization, the German telecommunications market is still one of the most liberal and fiercely competitive markets in the world. Its dynamic growth – unique in the world – continues unabated, and its new and innovative products and services continue to result in significant increases in clients and sales. With its portfolio of reasonable interconnection rates, unbundled local loop, call-by-call selection, number portability, and the large number of licenses issued, Germany has reaffirmed its leading role in European telecommunications liberalization; as a result, the solid competition that has meanwhile developed intensified considerably in 2000.

3rd year of liberalization

By the end of 2000, a total of 362 licenses for voice communications had been awarded to operators with their own networks. At the start of 2001, these included 180 companies which provide voice telephony services and just over 90 providers with their own long-distance or subscriber-line networks, while the rest operate as resellers. The number of telecommunication services providers has now risen to a total of more than 1,900 companies.

Licenses

The mobile communications segment made a major contribution to the growth of the overall domestic market. According to the Regulatory Authority's figures, in the year under review, the four digital mobile communications networks (D1, D2, E1, and E2) actually exceeded the strong growth achieved in 1999. In 2000, the number of subscribers rose from 23.2 million to 48.1 million – an increase of almost 105 percent. The major factor was the attractive price structure, especially for private users. Deutsche Telekom's national mobile communications subsidiary, T-Mobil, attracted millions of new customers, raising its total T-D1 subscriber base by approximately 10 million, to a total of 19.1 million. This was partly due to innovative charge rates such as package prices. Competition also intensified in this segment, leading to considerable price cuts.

Mobile communications segment

The development of the market for Internet and online services in Germany was marked by a substantial increase in the number of subscribers. According to the Regulatory Authority, the three largest German online services had a total of almost 9.3 million subscribers at the end of 2000. Deutsche Telekom's Internet subsidiary, T-Online International, succeeded in further expanding its market share with an increase of approximately 70 percent in subscriber figures. With 6.5 million subscribers, T-Online International is the largest Internet access provider in Germany. The overall number of Internet users in Germany rose to around 24 million at the end of 2000, according to data provided by the Regulatory Authority; this number includes users accessing the Internet in offices and schools, and via other providers' facilities. Germany continues to lead the field in Europe in this area.

Internet and online services segment

Need for regulation

Strong competition in the telecommunications market. Since the liberalization of the telecommunications market on January 1, 1998, competition in Germany has intensified on an unprecedented scale. Pursuant to the Telecommunications Act (Telekommunikationsgesetz - TKG), the need for regulation must be constantly reviewed in light of the current market situation. Due to the positive development of competition, the Federal Ministry of Economics, in its policy paper of April 2000, has already raised the possibility of exempting Deutsche Telekom from sector-specific regulation in certain markets.

At European Union (EU) level, a reform of the legal framework for operations in the telecommunications markets was launched. Five new EU Directives have been under discussion since July 2000. In December 2000, the EU Regulation on unbundled access to the local loop was adopted. This obliges the former monopolies in all EU Member States to switch completely to unbundled access to the local loop, which had been obligatory for Deutsche Telekom under German legislation since early 1998. The Regulation also imposes an obligation to provide line sharing.

The regulator's decisions

Deutsche Telekom's major rate decisions and core services offered to competitors and end users are still subject to approval under the existing regulatory framework. The Regulatory Authority for Posts and Telecommunications and various other government bodies continued to take numerous important regulatory decisions in 2000. In chronological order, these are in particular:

- Deutsche Telekom was obliged to continue to provide invoicing and collection services on behalf of long-distance carriers for call-by-call services.
- Suspension of number portability in mobile networks was extended - for the last time - until January 31, 2002.
- Introduction of the telephone rate option T-ISDN xxl as a trial was approved and the approval was later extended.
- The Regulatory Authority decided on the amount and structure of future interconnection rates, with rate reductions amounting to an average of 23 percent.
- Approval of attractive international call rates as optional services.
- Operators were obliged to stop granting volume discounts for online access lines and - associated with this - were required to introduce a flat rate in the wholesale segment, which Deutsche Telekom has been offering since December 15, 2000.

Deutsche Telekom and/or its competitors have lodged appeals against many of the rulings referred to above. In August 2000, the Federal Government, in its statement on the Monopoly Commission's special report, concluded that the need for ongoing regulation of Deutsche Telekom in certain markets must be reviewed. By the end of the year, the Regulatory Authority had yet to adopt a decision on a number of requests submitted by Deutsche Telekom to establish a lack of market dominance in certain markets.



Inspiring **T·I·M·E·S**

Development of business in 2000.

- Revenue increases to EUR 40.9 billion
- High level of net income due to special influences
- High investments again in 2000
- Debt rises due to license purchases

Net revenue

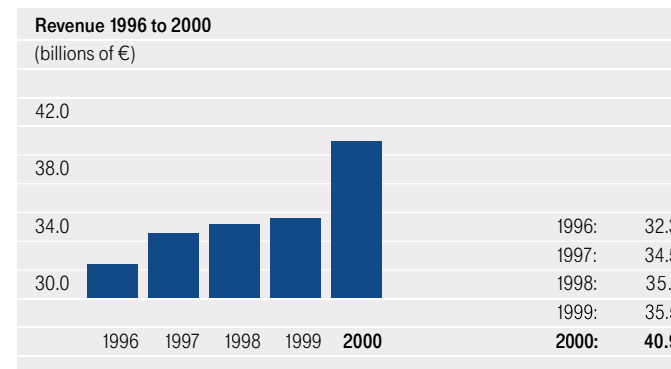
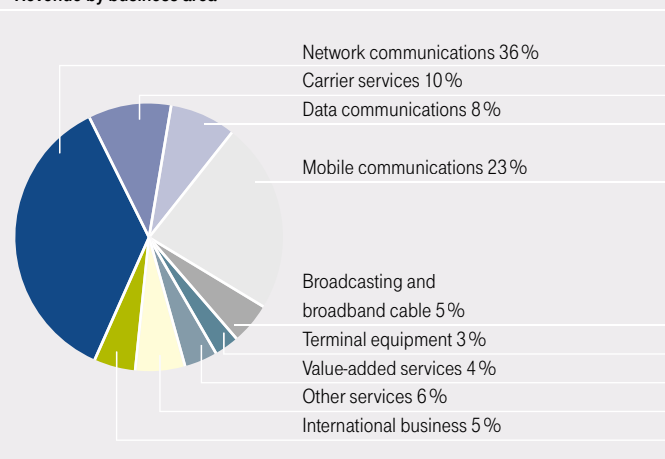
Further increase in revenue. During the 2000 financial year, Deutsche Telekom generated net revenue totaling EUR 40.9 billion. This represents a very strong increase of 15.4 percent compared with the previous year.

Deutsche Telekom (Group) revenue ¹				
(billions of €)	2000	1999	Change ²	1998
Network communications	15.1	16.7	-10.1 %	20.5
Carrier services	4.0	2.9	38.1 %	1.6
Data communications	3.3	2.8	18.5 %	2.5
Mobile communications	9.2	5.3	75.4 %	3.1
Broadcasting and broadband cable	1.9	1.9	-2.9 %	1.8
Terminal equipment	1.0	1.2	-14.2 %	1.4
Value-added services	1.8	1.9	-5.3 %	2.0
Other services	2.4	1.2	116.2 %	0.8
International business	2.2	1.6	36.1 %	1.4
Total	40.9	35.5	15.4 %	35.1

¹ Beginning with the 2000 financial year, the revenues of subsidiaries max.mobil. and One 2 One are no longer shown under international business but under mobile communications. For the 1999 financial year, EUR 1.4 billion has been reposted.

² Changes in percent based on more precise million figures.

Revenue by business area

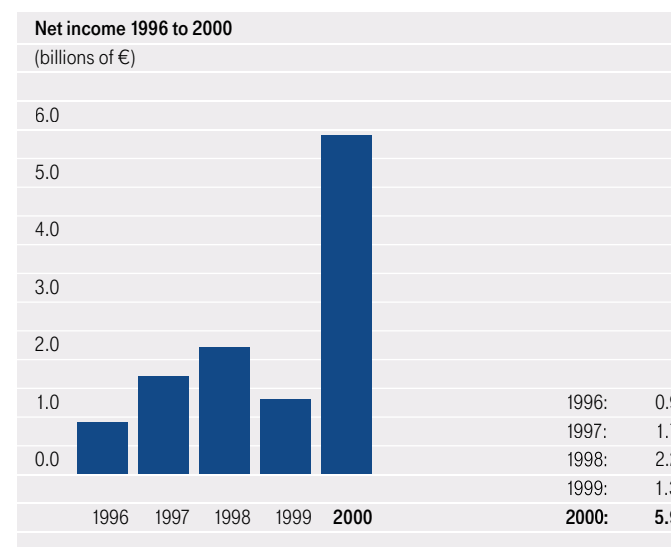


Increase in net revenue

The overall growth in net revenue is mainly attributable to Deutsche Telekom's successful internationalization strategy and the positive developments in mobile communications. The increase of EUR 5.4 billion compared with the previous year is primarily due to the substantial increase in the number of mobile communications subscribers, as well as to the consolidation of new subsidiaries. Despite further growth of approximately 33 percent in the number of ISDN subscriber lines, net revenue from network communications continued to decrease significantly, falling by 10.1 percent to EUR 15.1 billion as a result of strong competition and price reductions. Revenue from data communications and carrier services developed positively, however. It was thus possible to compensate for the drop in net revenue in network communications. The rise in revenue from other services is due primarily to the strong growth in revenue from multimedia services (including T-Online International). In this area, revenue more than doubled, reaching a total of EUR 2.4 billion.

High level of earnings due to special influences. Deutsche Telekom's net income for the 2000 financial year amounted to EUR 5.9 billion, an almost five-fold increase compared with 1999. The result was influenced by a series of positive factors, especially the tax-free sale of shareholdings in Global One, proceeds from the flotation of T-Online International and other associated companies recognized as income, the tax-free sale of shareholdings in the Italian telecom company WIND, and the sale of shares in the North-Rhine Westphalia and Hesse cable companies.

Special influences



Goods and services purchased

In 2000, goods and services purchased increased by EUR 4.3 billion, or 55.9 percent, compared with 1999. Companies included in the composition of the Deutsche Telekom Group for the first time in 2000 accounted for EUR 1.7 billion of this increase in goods and services purchased. Other reasons for the increase are higher costs for connections to the networks of other telecommunications carriers and, in particular, to the successful "investment" in new mobile subscribers, requiring high customer acquisition cost in the form of higher expenditure on mobile terminal equipment.

Personnel costs

Compared with 1999, the number of staff employed with Deutsche Telekom increased by 7,026 (averaged over the year). Deutsche Telekom thus employed an average of 205,032 people in the 2000 financial year. The average staff number rose by 3.5 percent, largely as a result of the newly consolidated companies with an average of 10,323 employees. These new companies accounted for approximately EUR 0.7 billion of the increase in personnel costs. The increase in wages and salaries under collective bargaining agreements, the remuneration adjustment related to the eastern German collective bargaining agreements which took place in October 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 resulted in further increases in personnel costs. However, reductions in the level of social security contributions and pension costs had a positive impact on personnel costs. All in all, personnel costs grew by EUR 0.5 billion, to a total of EUR 9.7 billion.

New real estate concept

Some of our approximately 12,000 items of land were included in the opening balance sheet in 1995 at values which were calculated using a lumped item-by-item 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 and has decided on a nonscheduled write down in the form of a lumped valuation adjustment on the asset side for real estate amounting to EUR 2.0 billion. The accounting adjustments do not have any effect on the liquidity or the Company's ongoing business activities.

Depreciation and amortization

Depreciation and amortization during the year under review increased by EUR 4.5 billion to a total of EUR 13.0 billion. The main causes of this increase were the unscheduled depreciation of outside plant, amounting to EUR 1.0 billion, and general valuation adjustments of land, amounting to EUR 2.0 billion. Changes in the composition of the Deutsche Telekom Group, particularly the addition of One 2 One and debis Systemhaus, also resulted in a total increase of EUR 1.5 billion as compared to the previous year. This includes goodwill of the above companies amounting to EUR 0.9 billion. Scheduled write-downs on UMTS licenses were effected in the amount of EUR 0.4 billion in 2000.

Other operating expenses

Other operating expenses increased by 51.7 percent to EUR 10.4 billion, largely due to substantially increased cost of marketing, losses on disposition of noncurrent assets (i.e. mainly scrapping of outside plant which accounted for EUR 0.9 billion), advertising gifts and commissions, and allocations to accruals. Changes in the composition of the Deutsche Telekom Group had a considerable impact on these figures, too, in the amount of EUR 1.4 billion.

Financial expense

Financial expense was further reduced in 2000 by a total of EUR 1.7 billion to EUR 1.2 billion. The main reason for this improvement is the income relating to subsidiaries, associated and related companies, which rose from EUR -0.1 billion to EUR 2.0 billion, prompted by the sale of

WIND and the resulting improvement in the income of DT-FT Italian Holding. The tax result worsened due to the Company's increased liabilities. This could be partly offset by proceeds from the sale of special funds.

Key figures for group segments in 2000¹

(billions of €)	Net	Income	Income	Change
	revenue	before taxes	before taxes	
	2000	2000	1999	
Network communications	15.1	0.6	2.3	-1.7
Carrier services	4.0	0.4	0.4	0.0
Data communications	3.3	0.3	0.1	0.2
Mobile communications	9.2	-2.3	0.3	-2.6
Broadcasting and broadband cable	1.9	2.6	-0.1	2.7
Terminal equipment	1.0	0.1	0.0	0.1
Value-added services	1.8	0.0	-0.2	0.2
International business	2.1	0.0	0.3	-0.3
Other segments	2.4	6.9	-0.3	7.2
Reconciliation ²	0.1	-2.3	0.1	-2.4
Total	40.9	6.3	2.9	3.4

¹ Beginning with the 2000 financial year, the subsidiaries max.mobil. and One 2 One are no longer shown under international business but appear under mobile communications. Figures for the 1999 financial year have been adjusted.

² Net revenue from subsidiary companies shown under international business in the consolidated financial statements.

Revenue and income shifts among the segments. With income before taxes of EUR 0.6 billion, the performance of the network communications group segment dropped sharply compared with the previous year. The reasons for this decrease are new rate plans that resulted in lower call charges and the unscheduled write-down of outside plant, which had a particularly strong impact on this group business area. This was partly offset by higher earnings from line charges, largely as a result of a 33 percent increase in the number of ISDN channels in

Network communications

In the carrier services group segment, income before taxes remained virtually unchanged, at EUR 0.4 billion. As a company that dominates segments of the market, Deutsche Telekom is subject to particularly extensive regulation in this area.

Carrier services

In the data communications group business area, income before taxes made extremely positive progress in the year under review with a profit of EUR 0.3 billion, compared with EUR 0.1 billion in the previous year. The market for data communications has been open to competition for several years and represents a highly dynamic area of telecommunications.

Data communications

The development of mobile communications results is mainly attributable to the generally strong demand for mobile communications products, the associated customer acquisition costs, and the purchase of the UMTS licenses. For this reason, and due to the strong increase in depreciation and amortization following the purchase of UMTS licenses (EUR 0.4 billion), the resulting rise in interest expense, and the higher customer acquisition costs, income before taxes dropped to EUR -2.3 billion, i.e., a significantly poorer result than in the previous year (EUR 0.3 billion). Amortization of goodwill in connection with the consolidation of One 2 One, amounting to EUR 0.8 billion, placed an additional burden on the results in the mobile communications segment.

Mobile communications

Broadcasting and broadband cable The result achieved in the broadcasting and broadband cable area in the 2000 financial year amounted to EUR 2.6 billion. The sale of shares in the North-Rhine Westphalia and Hesse cable companies, which yielded a total of EUR 3.0 billion, were crucial in achieving this segment's positive result.

Terminal equipment The terminal equipment segment reported income before taxes of EUR 0.1 billion. The continuing positive development in this sector can be attributed primarily to the consistent streamlining of the product portfolio and stronger market orientation.

Value-added services Value-added services recorded a positive result of EUR 42 million before taxes, after losses in the previous year. The improved result is due to the rise in the amount of traffic volume in the value-added services segment, changes to the directory enquiry and call center business models, and business with new products offered by DeTeMedien and DeTeCard.

International business During the year under review, the international business segment primarily comprised SIRIS S.A.S in France and Slovenské Telekomunikácie, along with MATÁV. This area reported an almost balanced result before taxes. In 2000, the companies One 2 One and max.mobil. were reallocated to the mobile communications segment as T-Mobile International was established.

Annual financial statements of Deutsche Telekom AG. Corporate groups with international activities are increasingly focusing their reporting on the consolidated financial statements. However, in Germany, the dividend paid to shareholders is based on the net income generated by Deutsche Telekom AG. For this reason, the annual financial statements of Deutsche Telekom AG are presented in summarized form below.

Balance sheet total of parent company As a result of the purchase of UMTS licenses and the associated borrowing, the balance sheet total for Deutsche Telekom AG increased significantly by EUR 18.5 billion, to a total of EUR 113.0 billion. At the same time, the equity ratio dropped from 44.5 percent to 32.7 percent. Deutsche Telekom AG's net revenue remained constant at EUR 27.9 billion. In particular, devaluation of the net carrying amount of the investment in NAB Nordamerika Beteiligungs Holding GmbH by EUR 6.7 billion and the precautionary measures adopted as part of our new real estate strategy, amounting to EUR 2.0 billion, contributed to a negative result totaling EUR -3.1 billion before taxes. Following deduction of taxes in the amount of EUR 0.2 billion, the loss generated by Deutsche Telekom AG amounts to EUR 3.3 billion.

Result of Deutsche Telekom AG

Summary of the financial statements of Deutsche Telekom AG		
Statement of income		
(billions of €)	2000	1999
Net revenue	27.9	27.9
Changes in inventories and other		
own capitalized costs	0.5	0.5
Other operating income	6.8	11.9
Goods and services purchased	-7.3	-8.0
Personnel costs	-6.7	-7.4
Depreciation and amortization	-8.6	-6.2
Other operating costs	-9.7	-6.5
Financial income (expense), net	-6.0	-0.8
Extraordinary profit or loss	0.0	-0.2
Income before taxes	-3.1	11.2
Taxes	-0.2	-1.5
Income after taxes	-3.3	9.7

Balance sheet		
(billions of €)	Dec. 31, 2000	Dec. 31, 1999
Property, plant and equipment, and intangible assets	40.5	47.2
Financial assets	63.2	37.0
Noncurrent assets	103.7	84.2
Inventories, materials and supplies	0.5	0.3
Receivables	8.0	8.5
Liquid assets	0.2	0.9
Current assets	8.7	9.7
Deferred taxation	0.2	0.2
Prepaid expenses	0.4	0.4
Total assets	113.0	94.5
Shareholders' equity	38.9	43.9
of which: net income	2.0	4.9
Accruals	7.6	7.3
Liabilities	66.4	43.2
Deferred income	0.1	0.1
Total shareholders' equity and liabilities	113.0	94.5
The annual financial statements of Deutsche Telekom AG which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are published in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Registry of the Bonn District Court. The annual financial statements are available upon request from Deutsche Telekom, Investor Relations, Postfach 2000, D-53105 Bonn, Germany, fax +49 228 181-88009.		

EUR 0.62 dividend per share. The Supervisory Board and Board of Management propose, subject to approval at the shareholders' meeting, to pay a dividend of EUR 0.62 per individual no par value share, on the dividend-bearing capital stock of EUR 7.7 billion. In addition, shareholders who are fully subject to domestic taxes will receive a tax credit of EUR 0.01 (1.7 pfennigs) per individual no par value share. The Board of Management has agreed to draw an amount of EUR 5.3 billion from retained earnings for the payment of the dividend.

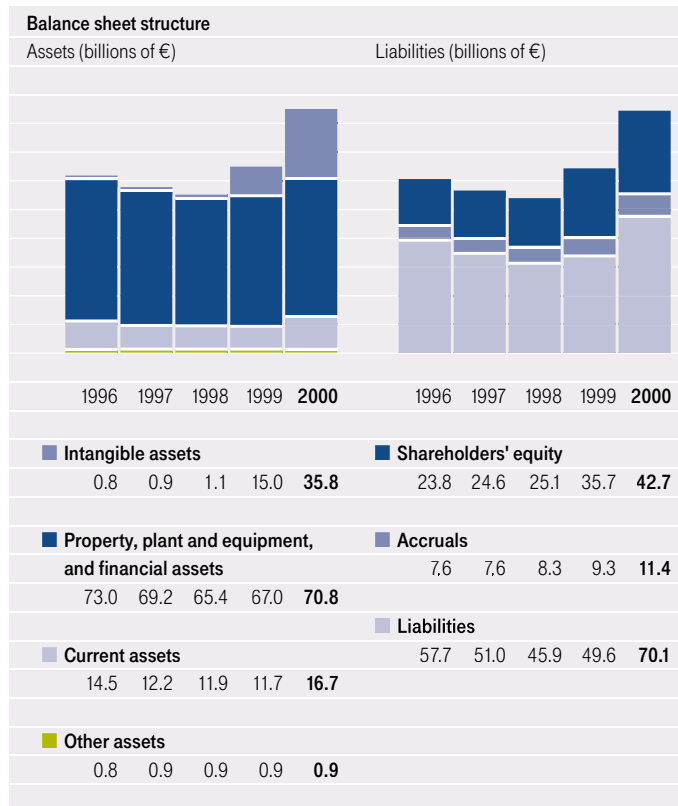
Consolidated balance sheet structure affected by acquisitions and investments. In Deutsche Telekom's consolidated financial statements, the balance sheet total increased by 31.3 percent, i.e., EUR 29.6 billion, to EUR 124.2 billion in the 2000 financial year. The increase in assets is mainly attributable to the integration of intangible assets into the Deutsche Telekom Group, largely the UMTS licenses and goodwill from the acquisition of further shares in MATÁV and other shareholdings totaling EUR 23.1 billion. Shareholders' equity increased, mainly as a result of the strong increase in net income and the flotation of T-Online International, which led to an increase in the shares held by other shareowners in shareholders' equity. Other newly consolidated subsidiaries are debis Systemhaus and additional shareholdings in MATÁV and Slovenské Telekomunikácie. The equity ratio decreased from 35.7 percent at the prior balance sheet date to 32.9 percent, excluding proposed dividend payments.

Dividend

Tax credit

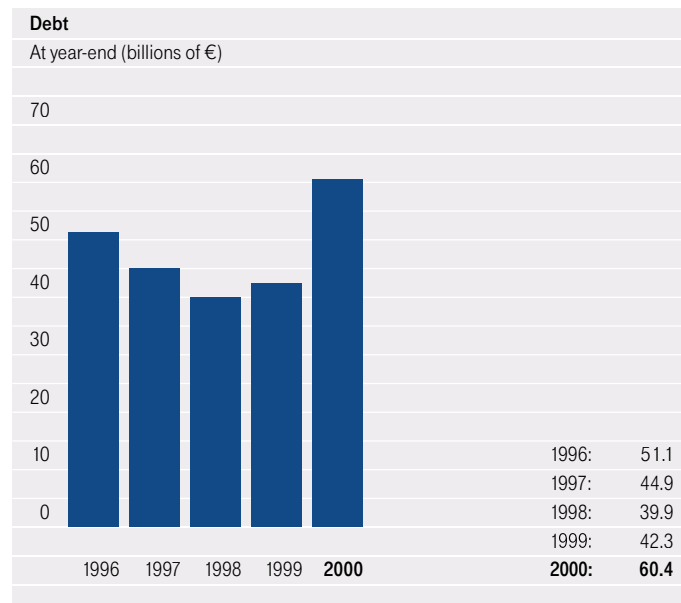
Consolidated balance sheet total

Shareholders' equity



Increased debt due to purchase of licenses. During 2000, financial liabilities rose by 42.6 percent compared with December 31, 1999. This increase is due primarily to the financing of the purchase of UMTS licenses, the investment in VoiceStream, and the acquisition of further shareholdings in MATÁV. These investments were partly financed through a multi-currency loan to the value of EUR 15.4 billion as well as further drawings from existing finance programs.

Financing of UMTS licenses



Again high investments in 2000. In the year under review, Deutsche Telekom invested EUR 43.1 billion, or 88.4 percent more than the 1999 figure of EUR 22.9 billion. Of the EUR 23.1 billion invested in intangible assets, the purchase of UMTS licenses accounted for EUR 15.3 billion. A further EUR 7.1 billion relate to goodwill, primarily in connection with our purchase of further shareholdings in MATÁV and of investments in MediaOne in Hungary, and acquisition of Club-Internet and Slovenské Telekomunikácie. Increases in investment in property, plant and equipment, amounting to EUR 7.6 billion, relate primarily to setting up and expanding the networks of Deutsche Telekom and T-Mobile International. Investments in financial assets, amounting to EUR 12.4 billion, largely relate to the contractually agreed investment in VoiceStream Wireless which has meanwhile been approved by the US Department of Justice (EUR 5.6 billion) and book-entry additions to DT-FT Italian Holding following the sale of our shareholdings in the Italian telecommunications company WIND. EUR 0.4 billion were invested in other investment securities.

Net cash provided by operating activities. Net cash provided by operating activities for 2000 totaled EUR 10.0 billion. This represents an increase of EUR 0.4 billion, compared with an increase of EUR 4.7 billion in net income. This difference is largely attributable to noncash income, such as the sum of around EUR 2.7 billion derived from the acquisition of new shareholders in the course of the flotation of T-Online International, and the income from the sale of the Italian telecommunications company WIND, totaling EUR 2.3 billion, the proceeds of which will not be realized before the first half of 2001. Net cash used for investment activities totaled EUR 27.7 billion during the year under review (as compared to EUR 18.7 billion in 1999). This increase is attributable primarily to the purchase of UMTS licenses in the UK, Germany and Austria. Net cash provided by financing activities totaled EUR 17.8 billion in 2000, compared with EUR 8.0 billion the previous year. This increase is due primarily to the raising of long-term finance, as well as the flotation of T-Online International.

Statement of cash flows (summarized)

(billions of €)	1998	1999	2000
Net cash provided by operating activities	13.5	9.6	10.0
Net cash used for investment activities	-7.5	-18.7	-27.7
Net cash provided by (used for)			
financing activities	-6.8	8.0	17.8
Effect of foreign exchange rate changes	0.0	-0.1	0.0
Net increase (decrease)			
in cash and cash equivalents	-0.8	-1.2	0.1
Cash and cash equivalents (short- and long-term)	5.1	1.2	1.9

Goodwill

Investment in VoiceStream

Net cash provided by operating activities

Net cash used for investment

Net cash provided by financing activities

Purchasing.

- Further rise in purchasing volume
- Logistics contracted out
- e-commerce actively promoted

Volume of purchases

In 2000, the Deutsche Telekom Group's total expenditure for goods and services increased by almost 38 percent, from EUR 10.9 billion to EUR 15.0 billion. The main focus of this increase lay with the subsidiaries. Their purchasing volume rose from EUR 6.0 billion to EUR 9.8 billion, while the purchasing volume of Deutsche Telekom AG generally remained steady at EUR 5.2 billion. The rise in purchasing volume is due primarily to the inclusion of One 2 One and SIRIS in the purchasing volume for the first time, as well as to the first-time consolidation of debis Systemhaus in the 4th quarter of 2000. The ratio of purchasing volume to net revenue increased from 31 percent in 1999 to 37 percent in 2000, mainly due to the integration of the newly consolidated companies and purchases prompted by them.

Focus of purchasing

In 2000, purchasing again focused on the acquisition of telecommunications technology and terminal equipment, hardware and software and the related development and consulting services. A key feature of the procurement situation was the great shortage of components due to the high global demand for IP and transmission technology. Price levels for the purchase of telecommunications infrastructure could be reduced slightly overall, compared with 1999.

Logistics

With effect from September 1, 2000, as part of its cooperation with Deutsche Post AG, Deutsche Telekom AG's logistics activities, including its remaining storage sites and more than 2,000 employees, were outsourced to Danzas Telelog. This has created positive synergies in the marketing of free capacities, and underlines Deutsche Telekom's consistent strategic focus on its core business.

e-BEST

A further important milestone was the nationwide launch of the Intranet order platform e-BEST in August 2000. At the close of the year under review, around 9,000 registered users were able to place electronic orders for products from 5 different online catalogues. When it is fully operational, the system will be available nationwide to more than 20,000 users throughout the Group. e-BEST was the first logical step in Deutsche Telekom's e-commerce strategy. e-commerce has been used successfully in the first online auctions in order to achieve favorable purchase prices. The principle of "maximum competition and low prices through market transparency" is proving very effective.

e-commerce

T-Mart

A further important step in Deutsche Telekom's purchasing activities was the decision to make proactive use of the electronic Telekom marketplace, T-Mart, for the exchange of goods and services with our suppliers. Our goal is to switch a major part of purchase transactions and purchasing volume to these future-oriented marketplace technologies.

The strategic focus of purchasing for 2001 is quality, which means:

- Installing "best practice" processes by consistently exploiting the opportunities afforded by e-commerce;
- Improving efficiency through highly-qualified and motivated staff;
- Making use of synergies through the development of a centrally-managed global purchasing network and Group-wide commodity teams;
- Optimizing supplier management through regular supplier evaluation and the ongoing development of strategic partnerships with innovation leaders.



Moving T-I-M-E-S

Research and development.

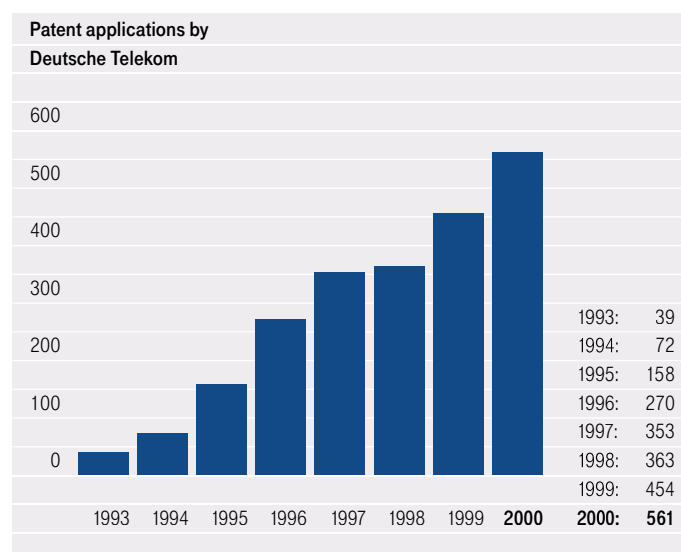
- Innovations being transformed into products
- Launch of new technologies such as GPRS
- T-Nova for convergence of telecommunications and IT
- T-Venture – continued success in 2000

Innovations are being transformed into products. As part of the Company's future-oriented approach, developing and testing new technologies is particularly important. Experts from various Deutsche Telekom units, such as T-Nova Deutsche Telekom Innovationsgesellschaft mbH, collect the latest technological information from business, industry and research for the Company's Innovation Management and translate it into strategies for products, services, networks and market-oriented research and development for the Group. Further potential for raising sales and cutting cost can thus be identified and incorporated into tangible plans. In selected areas, the themes are developed into prototypes in R&D projects before they reach the stage of market preparation and launch. Examples include video transmission via the copper pair with VDSL technology, and the SmartHome solution, where an IT/communications network using a wide range of different systems and components is being tested.

T-Nova

As the knowledge and ideas developed within the Group are steadily translated into property rights, there was a further increase in the number of applications for patents and industrial property rights in 2000. With 561 new applications submitted in the year under review, the total number of industrial property rights owned by Deutsche Telekom has now risen to around 3,600.

Patents



R&D cost

In 2000, we succeeded in holding expenditure on R&D almost steady as compared with the previous year's level, at around EUR 0.7 billion. 5,295 people are employed in the Deutsche Telekom Group's research and development units.

Launch of new technologies such as GPRS. Through its research and development projects, Deutsche Telekom has worked intensively for many years to translate the challenges of a mobile society into new technologies. With their work in the laboratory and the standardization authorities, Deutsche Telekom experts are laying the basis for new services such as GPRS and UMTS. The application of common standards is a prerequisite for the individual elements of all the business processes to work together in the global markets. By contributing our knowledge to the work of the standardization groups and authorities, Deutsche Telekom helps to ensure our products' global market viability. GPRS was launched on February 1, 2001.

Market launch of GPRS

T-Nova for convergence of telecommunications and IT. For T-Nova, integration was the keynote of 2000. As an IT/telecoms systems integrator, The Deutsche Telekom subsidiary offers solutions and services which bundle IT and communications technologies. They range from the development of new network elements, services and applications to the implementation of complex IT and systems solutions. By developing innovative technologies, Deutsche Telekom is able to achieve success in the marketplace with attractive new products and services, or with more cost-effective, higher-quality services. One of the particular highlights of the year was the data transmission record set by T-Nova and the Heinrich Hertz Institute. Working together on behalf of Deutsche Telekom, the experts succeeded in transmitting data worldwide at a bit rate of 160 Gbit/s (160 billion bits per second) on a single carrier wave via a "normal" standard fiber for the first time. At this transmission rate, a commercial PC hard drive (20 gigabytes) would be filled with data in just one second. This transmission rate is equivalent to the simultaneous transmission of around 2.5 million ISDN channels.

Data transmission record

Another success last year was "KINTOP". The aim of this project is to produce end-to-end voice and data transmission for the operational command of the German army's crisis response forces. By introducing voice over IP applications (speech transmission via the Internet), the project helps the army to enhance transmission security and reduce telecommunications costs.

Voice over IP

With its "Voice Commerce" project, completed by T-Nova during the year under review, Deutsche Telekom achieved speech access to a Web-based content system for the first time in Germany and Europe. The information available via this route is not only accessible around the clock from a PC, but can also be accessed via a mobile or fixed-network telephone.

Voice Commerce project

T-Venture – continued success in 2000. Our subsidiary T-Venture (T-Telematik Venture Holding GmbH, Bonn) operates as an entrepreneurial partner making equity investments in innovative, high-tech companies with growth potential in the T.I.M.E.S. markets. In this way, we are making an important contribution towards strengthening young telematics companies. At the same time, Deutsche Telekom gains an insight into the innovation behavior, technological skills and development processes of young companies. In 2000, T-Venture increased its portfolio of active shareholdings to over DM 1 billion for the first time. This substantial increase was largely due to the successful issue of four T-Venture affiliates on the stock market, the expansion of T-Venture activities in the US market, and first investments in the Asian market. Overall, 25 new shareholding projects were undertaken in the year under review, with investment totaling approximately EUR 72.9 billion. As part of its international investment policy, T-Venture is also investing in other venture capital funds and is thus establishing a strategic network of venture capital experts and partners. T-Venture has succeeded in using its national and international network of experts not only for a lively exchange of information but also for co-investments. T-Venture thus remains a driving force in a dynamically developing industry.

High-tech companies

Network of experts

Employees.

- Sharp rise in number of employees in the Deutsche Telekom Group
- New jobs with subsidiaries
- Performance pays off
- Our training sets standards in the IT sector
- Further training and retraining ensures higher value added and employability

Intermeshing of group and human resources strategies. The intermeshing of the overall group strategy and the human resources strategy has already set new standards for human resources management at Deutsche Telekom. Today, the Human Resources division makes a significant contribution to the Group's value added, and, through the strategic focus of its personnel activities, promotes the Group's future-oriented development. The success of this strategy is reflected in the rapid implementation of the Group-wide staff restructuring program, which is important in both qualitative and quantitative terms, and also in greater staff productivity. The reforms in the field of employment terms and conditions, such as introduction of a market-oriented, performance-promoting pay scheme and an employee stock-ownership plan, are designed to safeguard the workforce's long-term contribution to the Group's value added.

In the context of Deutsche Telekom's continued development as an internationally expanding and organizationally ever more diverse company, the common strategic focus of its human resources policy, especially in integration management, is particularly important as a cohesive and value-enhancing factor.

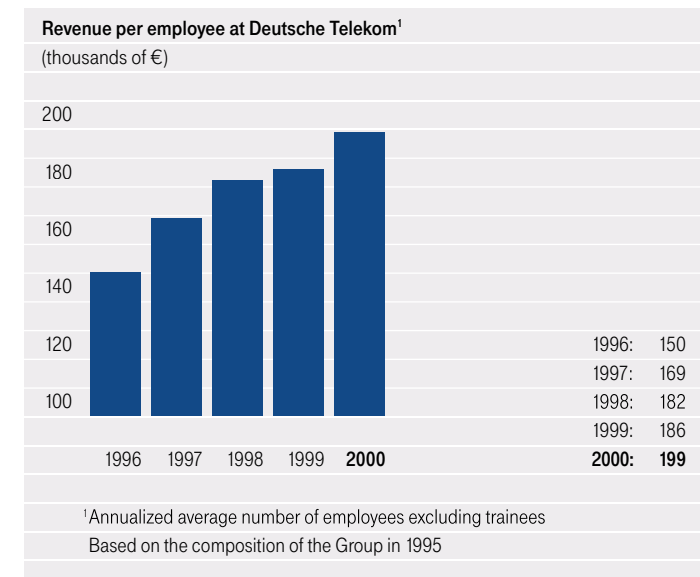
Sharp rise in the number of employees in the Deutsche Telekom Group. Including the changes in the composition of the Group in 2000 (particularly debis Systemhaus and Slovenské Telekomunikácie), the total number of employees at the end of the year under review was 227,015 people – 26 percent of them civil servants and 74 percent salaried employees and wage earners. Based on the composition of the Group in 1995, Deutsche Telekom employed 166,649 staff at December 31, 2000. The staff level thus decreased by 5,584 as compared with December 31, 1999. Deutsche Telekom's mid-term goal of reducing the number of employees in the Group to around 170,000 by the end of 2000 (based on the group structure of 1995) was achieved ahead of expectations, at the start of 2000.

Terms and conditions of employment

Number of employees

Deutsche Telekom employees						
As at balance sheet date ¹	2000	1999	1998	1997	1996	1995
Civil servants	59,901	71,123	83,848	91,542	105,419	114,430
Salaried employees	72,683	63,590	54,008	51,681	44,235	43,672
Wage earners	33,355	37,520	41,313	47,811	51,406	55,365
Deutsche Telekom²	165,949	172,233	179,169	191,034	201,060	213,467
Changes in the composition of the Deutsche Telekom Group since 1995						
Telekom Group	60,366	23,555	16,707	18,261	19,607	-
Total Deutsche Telekom Group						
	227,015	195,788	195,876	209,295	220,667	213,467
Trainees/student interns						
	8,327	7,480	6,932	6,711	8,923	11,718

¹ Adjusted to reflect full-time jobs.
² Before changes in the composition of the Group since 1995.



New jobs with subsidiaries. During the financial year under review, Deutsche Telekom pushed forward the reorganization of the Group into four core lines of business – Internet, mobile communications, IP data communications/systems solutions, and fixed networks in the mass market. Around 7,000 new jobs were created in these strongly expanding areas. A great deal of these new posts (around 2,000) in the subsidiaries were filled by Deutsche Telekom AG employees many of whom were retrained and qualified for higher-grade tasks in this context. On the other hand, around 10,000 jobs were cut at Deutsche Telekom AG in 2000. These job cuts were however not realized on the basis of dismissals due to rationalization, but primarily by outsourcing our logistics activities (around 2,000 employees) to Deutsche Post AG. In response, Deutsche Post AG's IT infrastructure, with around 500 employees, was integrated into the expanding systems business of our IT subsidiary, DeTeCSM. This helped us to further concentrate on our core business.

New jobs

Outsourcing of logistics

German posts and telecommunications trade union

Active social partnership. Good relations between management and employee representatives in the relevant bodies and a human resources policy based on mutual trust facilitated the continuation of staff restructuring in 2000. It proved possible to implement most of the key elements agreement concluded with the German posts and telecommunications trade union (DPG) in autumn 1999. A range of tasks focusing on the Group's further development were tackled jointly with the trade unions: the extended Site Committee and the Joint Advisory Committee with the labor representatives proved their worth as instruments for work-force restructuring. Around 7,100 jobs could be compensated for through transfers to new posts at the same site, and around 2,400 new posts were established.

Individual performance

Performance pays off. In the 2000 collective bargaining round, basic wages and salaries were increased by a moderate 1 percent. Performance-related pay was introduced for all persons employed on the collectively agreed wage scale. In accordance with a works agreement, payment for individual performance also applies to civil servants. As a result, all staff now have a variable income component. The creation of a new, market- and demand-oriented pay scheme geared to individual performance is now near to completion. Its launch is scheduled for July 1, 2001. As well as developing modern remuneration models oriented to shareholder value, we are also restructuring our total compensation scheme, supplementing it with new elements of employee stock-ownership and pension plans.

Internal employers' association set up. Deutsche Telekom is itself a party to collective agreements and concludes company-specific collective agreements. To ensure harmonized conditions within the Group, particularly with regard to pay systems and other collective schemes, a Group-wide employers' association has been set up. Besides being responsible for collective bargaining, this body coordinates company-specific affairs and promotes the exchange of information and experience.

e-fellows network

Human resources marketing and recruitment online. The financial year under review witnessed the establishment of e-fellows.net, in which Deutsche Telekom, as a founding member, has a one-third shareholding. e-fellows.net is a communications platform which brings together the best students at every stage of training, from first semester to doctoral level, with top European companies. By the end of 2000, more than 36,000 registered students had benefited from the e-fellows network. 3,600 students had been awarded an online scholarship for the first time. In this way, we are able to tie highly qualified young trainees to Deutsche Telekom before a specific appointment is made, thus safeguarding the long-term future of the Company.

Training capacities

Our training sets standards in the IT sector. With the introduction of new IT careers, Deutsche Telekom has responded to the rapid changes taking place in the information and telecommunications sector in particular, and has adapted its training plans to these new framework conditions as well. With our training capacities, we have sent out a clear signal. In the years 2000 to 2002, an additional 1,000 jobs will be available for junior staff in training at Deutsche Telekom every year. This represents a further substantial increase on the 450 new training positions pledged as part of the nationwide alliance for jobs, training and competitiveness in 1999. Young people are able to train for a total of 13 different professions within the Deutsche Telekom Group. The range of training positions extends from jobs in the IT professions to commercial occupations; dual training schemes with integrated studies leading to a college degree are also available. In total, 8,327 trainees have taken advantage of this range of opportunities so far. All those who completed their training in 2000 were afterwards employed with Deutsche Telekom.

IT professions

Further training and retraining ensures higher value added and employability. Deutsche Telekom has proved its market leadership in the field of IT and multimedia applications with respect to advanced training as well. The IT/IP training initiative launched in 1999 continued to pursue its targeted objectives in 2000. During the year under review, a total of 130,472 employees participated in training measures to enhance their skills. These focused primarily on strengthening the Company's innovation abilities, improving customer relations, and performance quality. e-learning is increasingly being used in advanced training. The value of these training measures, i.e., without taking participants' costs into account, amounted to approximately EUR 100 million. Our staff restructuring program was also supported by a number of targeted retraining measures in 2000. Compared with previous years, there was a greater focus on providing training to enhance staff employability. Moreover, Deutsche Telekom's training departments focused very successfully on providing support for broad-based activities such as T@School, Schools go online, and similar initiatives for women, young people and senior citizens - projects that pursue training policy goals and are designed to improve access to the world of the Internet.

Training initiative

Employability

T@School

Telekom Business Academy - international top management development. In the 2000 financial year, the conditions were created for the establishment of a Deutsche Telekom corporate university. Since January 1, 2001, the new Telekom Business Academy (TBA), in cooperation with renowned universities and top managers of the Deutsche Telekom Group, have been providing a platform for preparing employees for strategic tasks in international teams, and for leadership and cross-cultural activities in a knowledge-based company. At the same time, the TBA program promotes management networking and the Company's development as an international corporation.

Telekom Business Academy

2000 Personnel Report. Our annual Personnel Report was published in September 2000. In this report, we provide information, on a voluntary basis, for the public and our employees on the Company's human resources strategy, which is committed to our corporate success and the principle of safeguarding sustainable employment.

Dependent company report. Due to the Federation's majority shareholding, Deutsche Telekom is a dependent company of the Federal Republic of Germany. No controlling agreement or profit-and-loss transfer agreement exists. Pursuant to § 312 of the German Stock Company Law (AktG), the Board of Management of Deutsche Telekom AG has therefore prepared a Dependent Company Report describing relations between the controlling body and affiliated companies. The Board of Management has included the following statement at the end of this report: "The Board of Management hereby states that, under the circumstances known to the Board of Management at the time of performing the business transactions, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of or on the instructions of the controlling company or any affiliated companies."

Dependent company report

Risk management.

- Risk Management supports the Company's success
- Group-wide risk management system in place
- Systematic, early identification and valuation of all relevant risks

Business activity is invariably associated with opportunities and risks. This applies especially to highly dynamic and innovative markets such as the T.I.M.E.S. markets.

Risk management is therefore an essential part of our daily business. Apart from the legal requirements described in detail in the Law on Control and Transparency in Business (KonTraG), Deutsche Telekom regards risk management primarily as a competitive necessity and a business challenge.

For Deutsche Telekom, risk management (RM) means systematically identifying and assessing all relevant risks at an early stage, and selecting and implementing appropriate measures to respond to risks and make use of opportunities.

The risk management system encompasses all areas of the Company. It comprises a series of different but intermeshing planning, information and control processes and procedures which are regularly adapted in response to changing conditions. It includes, for example, a single strategy and planning process, a value-oriented system of key figures, and controlling reports. In addition to other reporting systems, Corporate Risk Management (CRM) submits a risk report to the Board of Management on a quarterly basis or ad hoc to provide information about all the major risks within the Group. This report is also the basis on which information is supplied to relevant bodies and institutions.

We have identified the following major risk areas for our business activities:

Regulatory risks. Deutsche Telekom is regarded as the market-dominant company in many sectors of the telecommunications industry and is therefore subject to strict asymmetrical regulation in these areas. Many business decisions and strategies are influenced by the regulatory and cartel authorities.

Future "shareholder value" will therefore be determined to a significant degree by further regulatory developments and the changes in the telecommunications market resulting from relevant decisions both at national and international level.

Market and competition risks. Key features of the telecommunications industry are strong global growth and dynamic technological progress. As a result, there is a risk that technologies will be superseded by alternative processes in the telecommunications sector.

Following the purchase of the UMTS licenses, preparations for the launch of the new mobile communications standard are now well under way. An essential factor in this context – aside from the successful development of demand-driven services – is an appropriate infrastructure. The amortization of these investments depends on the increased use of wireless services, especially mobile data communications. For the supply and development of the UMTS infrastructure, in particular, we are reliant on third parties. The risk of delay, e.g. through supply bottlenecks, cannot be ruled out. These risks are minimized, among other things, by the adoption of appropriate contractual provisions, and close cooperation with our suppliers over the long term.

We believe that a strong customer base in the mobile communications segment is essential to ensure our success in the future-oriented UMTS market. A key factor for the success of UMTS services is whether UMTS applications are developed for which there is a genuine user demand, and whether the customer is prepared to pay more for mobile communications. Deutsche Telekom has already secured this strong customer base, for example through attractive "prepay" options. Here, the client is not bound to the Company for a specific period, and unlike subscribers who sign a contract, does not pay a basic monthly charge. Although there is a risk that the costs of these services will not pay for themselves, we are reducing this risk with various measures such as target-group-specific customer loyalty schemes.

For Deutsche Telekom, the safety of all our products, especially the (radiocommunications) networks, is an essential element of our business activity. As part of our efforts to provide state-of-the-art technologies, we also give funding to scientific studies which aim to detect possible side-effects at an early stage. We regard compliance with legal threshold values and an open information policy as fundamental to our activities.

Infrastructure risks. Deutsche Telekom can rely on a high-performance network infrastructure as the basis for innovative telecommunications services. We have established a sophisticated system of safety measures – including fire precautions, standby systems, and local contingency plans – to respond to potential risks caused by network failures or faults.

Risks associated with cooperation and shareholdings. To enhance our strategy as a globally-oriented T.I.M.E.S. provider, we undertake targeted acquisitions and make investments on a worldwide basis. Their operational implementation – such as the integration of personnel, technologies and processes – presents a fundamental challenge for all parties concerned. Stringent project management and the establishment of risk cycles and steering bodies help to ensure that negative developments can be identified and dealt with at an early stage.

As part of Deutsche Telekom's ongoing internationalization, we are also responding to numerous country-specific risks.

Real estate risks. As a result of technological progress, the amount of floor space needed in Deutsche Telekom's business activities is decreasing. The development of the value of Deutsche Telekom's real estate holdings not required for operational purposes will be dependent upon, among other things, the development of the real estate market, and is thus exposed to market risk. The new strategic orientation of our real estate management is focused on the accelerated disposition of a substantial portion of our real estate portfolio. Associated with this new strategy is a change to an individual property-by-property valuation methodology. On the basis of information gathered, Deutsche Telekom recorded for the 2000 financial year an adjustment in the book value of its real estate holdings. As announced earlier, the Bonn Public Prosecutor is conducting an investigation into whether the book values recorded by Deutsche Telekom for its real property portfolio have been improperly established and maintained under German accounting principles.

Financial risks. Within our Group-wide risk management system, we attach particular importance to the management of risks related to our financial situation. All our treasury activities – in particular the use of derivative financial instruments – are subject to the primary principle of risk minimization.

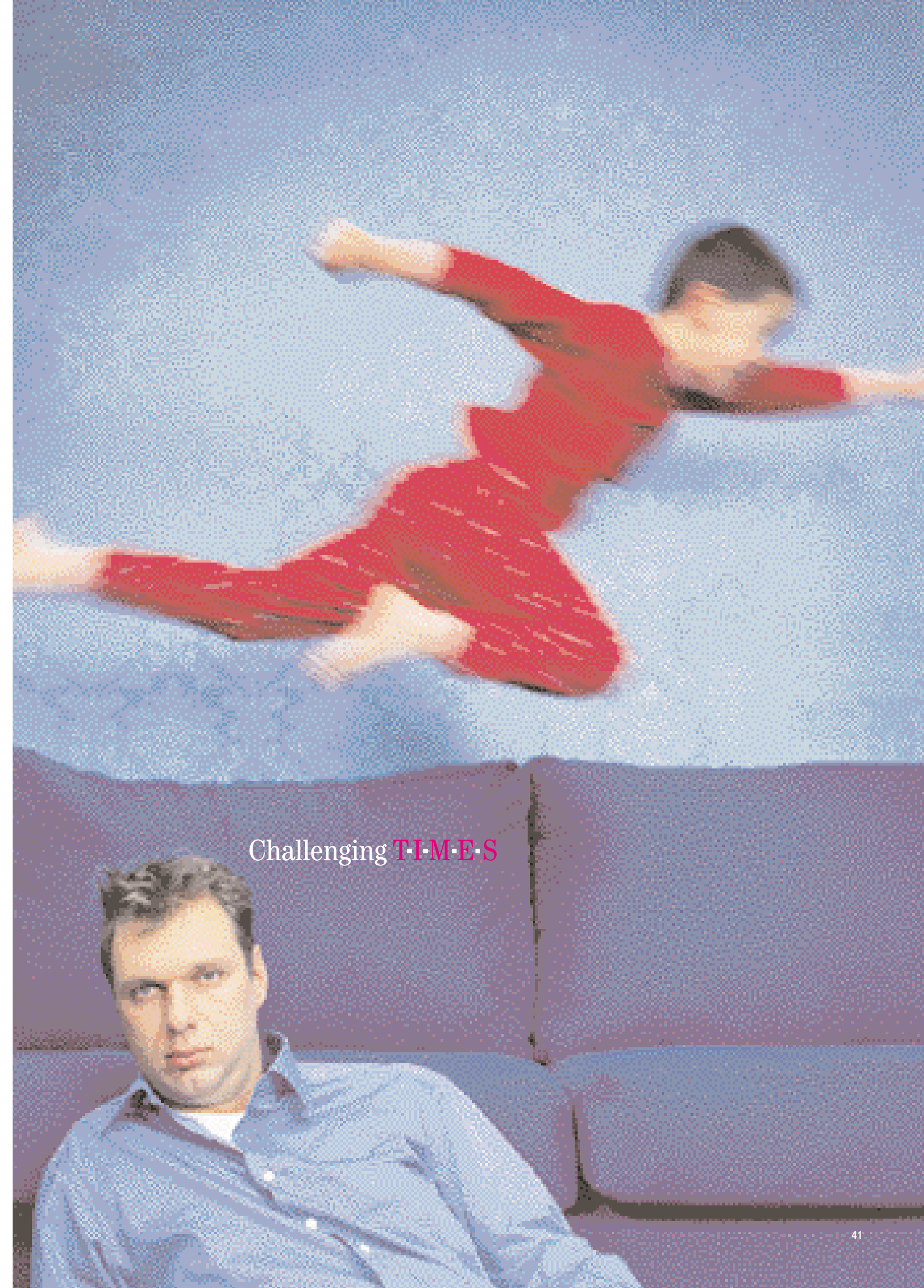
Derivative financial instruments are used to limit the risks associated with currencies and changes in interest rates. All financial transactions and risks are recorded in a central treasury system. The market values of the derivative instruments are determined daily on the basis of mean market prices. Regular simulations are carried out using market scenarios. Management is informed regularly on the level and market value of all financial transactions. Risk evaluation is carried out according to the recommendations of the Basel Committee on Banking Supervision.

Counterparty risk is limited on the one hand by the fact that Deutsche Telekom only transacts commercial business with counterparties with impeccable credit standing, and on the other hand by a creditworthiness management system within the central treasury system which aggregates and limits the risks encountered per counterparty.

Organizational risks are countered through the separation of the commercial and control operations at both the development and operational stages, as well as through clearly defined trading entitlements and regulations on representation, and a well-established procedure for the use of new financial instruments.

Personnel risks. For the development of new technologies and the exploitation of the enormous potential offered by the continuing convergence of telecommunications, IT and media, there is a tremendous need for specialists. In the IT segment in particular, there is already intense competition for highly qualified specialists and managers.

One of the key factors which will determine our future success is therefore our ability to attract suitable staff and secure their loyalty in the long term.



Challenging T·I·M·E·S

Introduction of the euro.

- Since January 1, 2000, invoices issued in euro at customer's request
- Scheduled conversion of internal systems by January 1, 2001
- Group-wide euro launch scheduled for completion at start of 2002

Core project

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

As far as the introduction of the euro is concerned, 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.

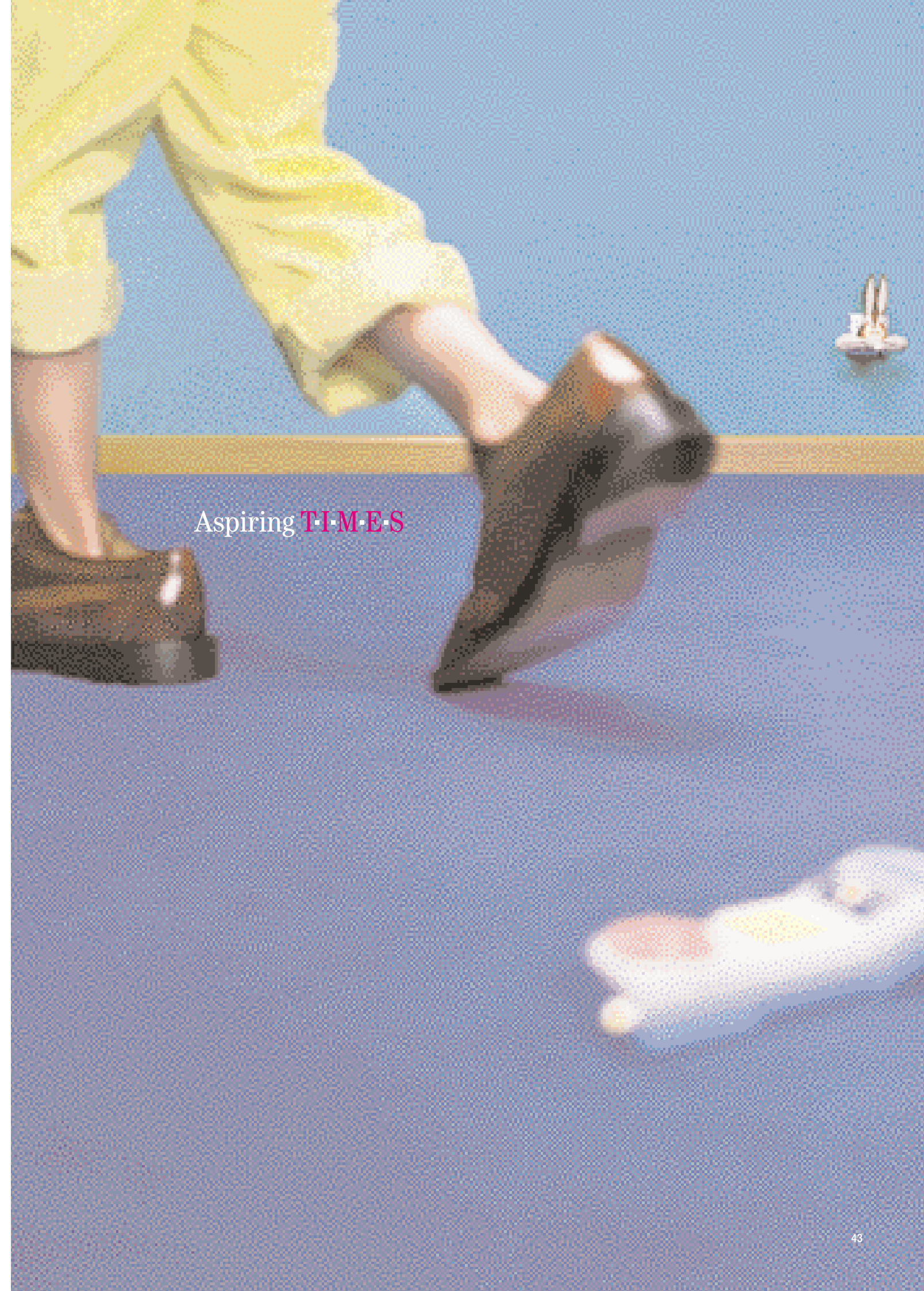
Telephone bills in euros

Since January 1, 2000, customers can have their Deutsche Telekom bill issued completely in euros if they wish to. The final total on the bill is still quoted in DM for information purposes. In order to ensure complete euro orientation it is, of course, also possible to provide cost estimates in euros. We also quote most prices in DM and in euros for information purposes, to help people become accustomed to the new currency.

Conversion of internal systems

At the start of 2001, all 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 the Group's 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. The Group's 2000 expenditure on euro conversion amounted to EUR 35 million. Expenditure of approximately EUR 30 million is expected for 2001.



Environmental protection.

- Environmental protection – a core element of successful corporate management
- Deutsche Telekom is worldwide “sustainability leader” again
- Deutsche Telekom steadily improves its environmental performance
- Gerd Tenzer, Member of the Board of Management responsible for Networks, Purchasing and Environmental Protection, is voted Eco-Manager 2000
- Telephoning for the environment

Sustainability

Environmental protection – a core element of successful corporate management. The protection of natural resources is increasingly becoming a core element of successful corporate management. The telecommunications industry has a particular role to play in this context. It can help to resolve the environmental problems which are increasing on a worldwide basis. In this context, Deutsche Telekom is steadily reducing the environmental impact of its activities and helping to improve the efficient use of resources. Our model of sustainability offers a future-oriented framework for action. Our goal, in the long term, is to become a sustainable company within a sustainable society. For us, sustainability means operating in an economically efficient way while taking equal account of economic, social and ecological factors, the need to safeguard future generations’ natural bases of life, and poorer countries’ legitimate demands for prosperity.

DJSGI

Deutsche Telekom is worldwide “sustainability leader” again. Deutsche Telekom topped the telecommunications sector in the Dow Jones Sustainability Group Index (DJSGI) for the second time in a row this year. This index classifies corporations on the basis of social, economic and ecological criteria. Investors are increasingly making their decisions contingent on environment-friendly production and working processes. The DJSGI covers around 240 companies from 61 sectors and 27 countries. The indexed companies represent the leading 10 per cent of sustainability-oriented firms worldwide. Deutsche Telekom came out top in other ratings too, such as by oekom research AG (Munich) and Innovest Value Advisors (USA).

Ratings

Deutsche Telekom steadily improves its environmental performance. In its corporate principles, Deutsche Telekom has committed itself to environmental responsibility. This is reflected in the global objectives of environmental protection: the reduction of carbon dioxide emissions from the consumption of energy and materials, the conservation of natural resources, and the reduction of emissions from toxic materials into the environment. Deutsche Telekom has broken down these global objectives into six specific programs at the corporate level which were implemented by the end of the year under review.

The vehicle fleet is a case in point. We maintain one of the largest private vehicle fleets in Europe. The “Telekom Vehicle Fleet Initiative” – which was launched in 1992 and focuses, among other things, on reducing the number of vehicles, optimizing vehicle sizes and routings, and utilizing diesel engines – has proved very effective. It has reduced harmful emissions by 25 percent, and costs by EUR 6.6 million.

Vehicle fleet

We will continue to intensify our efforts. As part of this process, the Group adopted its new environmental program in autumn, which will be in force during the 2001-2004 reporting period. The aim is to achieve a further reduction in carbon dioxide emissions, increase recycling rates, and promote dialogue with the public over this four-year period. An environmental impact assessment of all relevant products and services will also be carried out.

Recycling rates

Gerd Tenzer, Member of the Board of Management responsible for Networks, Purchasing and Environmental Protection, is voted Eco-Manager 2000. Gerd Tenzer, Member of the Board of Management with responsibility for Networks, Purchasing and Environmental Protection, was awarded the coveted “Eco-Manager 2000” environmental prize by the editors of “Capital” economic magazine and the German branch of the World Wide Fund for Nature (WWF). The jury, which included leading environmental figures, assessed various aspects of Deutsche Telekom’s activities, including its ecologically-oriented product development and key environmental data on energy consumption, emission levels etc. At the award ceremony, Mr. Tenzer made it clear that he was accepting the prize on behalf of all Deutsche Telekom employees.

World Wide Fund

Telephoning for the environment. This was the slogan used by our subsidiary T-Mobil GmbH to announce its future cooperation with Deutsche Umwelthilfe (DUH), a German environmental protection association, during EXPO 2000. With annual core funding of EUR 100,000, an environmental fund will be established to support national and international nature conservation projects. The first project selected for 2000 was the “Living Lakes” initiative developed by the Global Nature Fund (GNF). Over the last three years, GNF has established a network of around 13 lakes around the world which will be developed into model Agenda 21 regions. With DUH’s support, T-Mobil intends to expand its environmental market leadership. For example, T-Mobil launched the 3G-Green Book Initiative, which now includes more than 20 mobile communications network operators worldwide. The plan is to draw up a catalogue of environmental criteria for UMTS, the third generation of mobile phones. The aim of the Green Book is to commit suppliers in the telecoms sector to offer environmentally-friendly services wherever economically viable. And as a network operator, T-Mobil includes itself in this commitment to environmentally-compatible network expansion as well.

“Living Lakes”

Environmental protection in mobile communications

Key events after December 31, 2000.

Launch of
T-Systems

T-Systems International GmbH has been launched as Europe's second largest systems house for information technology (IT) and telecommunications. Deutsche Telekom's new line of business offers key accounts in more than 20 countries classical IT and telecommunications services from a single source and solutions from the convergence area of both markets. The business strategy of the new Frankfurt-based service enterprise is focused on the convergence of IT/telecommunications technologies, products, services and networks and the e-business solutions evolving from this process. The new company T-Systems was launched in February 2001.

Regulation

With a judgment by Cologne Administrative Court that became final and conclusive in January 2001, a decision on charges against Deutsche Telekom amounting to DM 386 million was reversed. In its judgment, the Court noted that the company is not obliged to make an application for the allocation of certain blocks of telephone numbers. In February 2001, the Regulatory Authority fixed a gross price of DM 10 for a further two years for the service known as "permanent preselection of a third-party network operator". Also in February 2001, the Regulatory Authority initiated a process for retrospective price regulation in respect of T-DSL. In response to applications by Deutsche Telekom, the regulator also held that the company is no longer market-dominant in the supply of telephone connections to end consumers from Germany to Turkey, and that the price regulation in this market can therefore be dropped. Similar applications concerning the call markets in the USA and Denmark (business customers) were rejected. On March 15, 2001, the Münster Higher Administrative Court revoked, in a non-final judgement, a decision by the Regulatory Authority of November 2000 under which Deutsche Telekom was obliged to introduce a wholesale flat rate for online services. In March, Deutsche Telekom and its competitors accepted the arbitration proposal of the Regulatory Authority regarding so-called collection charges for call-by-call services. Under the terms of this proposal, the competitors pay, backdated to March 1, 2001, the sum of DM 28 per 1,000 sets of data records (instances of communication) and nine pfennigs per invoice. These charges will be reduced to DM 25 and eight pfennigs from March 2003.

Wholesale flat rate

Sale of
broadband cable

In February 2001, Deutsche Telekom AG signed a Letter of Intent to sell the remaining broadband cable assets of Deutsche Telekom in Germany to the Klesch-Liberty Media investment partnership. The London based equity firm Klesch & Company Limited and Liberty Media Corporation, Colorado (USA) intend to acquire 55 percent of the outstanding equity interests in each of the regional cable networks in Bavaria, Berlin/Brandenburg, Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, Lower Saxony/Bremen, Rhineland-Palatinate/Saarland and Saxony/Saxony-Anhalt/Thuringia, together with an option for an additional 20 percent of the equity interests minus one vote in these regions. The total number of homes connected in these regions amounts to over 10 million. The acquisition is expected to close

in mid 2001. The partnership also intends to acquire Deutsche Telekom's interests in MediaServices GmbH (MSG) and the shares of Deutsche Telekom Kabel Service GmbH (DeTeKS) in the regional platforms. In the Deutsche Telekom / BetaResearch merger proceedings, the Federal Cartel Office has extended the deadline for review under the merger control regulations until July 25, 2001. The Federal Cartel Office has thus taken account of Deutsche Telekom's announcement of its plans to sell off the remaining 6 regional broadband cable companies.

Deutsche Telekom expects to offer 76.2 million of its Sprint FON shares on the market and grant the underwriters for the offering an over-allotment option for the remaining 11.4 million shares. The offering is expected to be made in the first quarter of 2001 through lead managers Goldman, Sachs & Co., Morgan Stanley Dean Witter and UBS Warburg LLC. The US telecommunications company Sprint has filed a registration statement with the US Securities and Exchange Commission (SEC) covering the public offering by Deutsche Telekom and France Telecom of all of the Sprint FON shares owned by both companies.*

Deutsche Telekom AG is contributing its 40 percent stake in Isla Communications Co Inc. (Islacom) in the Philippines to the leading GSM mobile communications provider Globe Telecom Inc. in the form of a stock swap. Agreements to this effect were signed in March 2001 in Manila by Ayala Corporation, Globe Telecom Inc., Singapore Telecom International Pte Ltd, and DeTeAsia Holding GmbH, which manages Deutsche Telekom's shareholdings in South-East Asia. After the integration of Islacom into Globe Telecom, the latter will be market leader in the Philippines with 2.5 million mobile communications subscribers and a 44 percent market share. Globe Telecom also offers fixed-network communications in various parts of the Philippines.

Shareholders of the US mobile companies VoiceStream Wireless Corporation and Powertel Inc. approved and agreed the proposed mergers with Deutsche Telekom AG on March 13, 2001.

In March 2001, Deutsche Telekom launched its first Samurai bond in Tokyo. The effective date was March 12. The issue consists of four tranches with terms between 3, 5 and 7 years. The final value of the issue, after hedging in euro, amounts to around EUR 1.5 billion. Samurai bonds are bonds placed by foreign issuers on the Japanese market. Deutsche Telekom is the first major foreign telecommunications company to place this type of bond successfully. The total volume of the issue is Yen 160 billion, making it the second largest Samurai issue ever launched by a company.

*A registration statement relating to these securities has been filed with the SEC but has not yet become effective. These securities may not be sold nor may offers to buy be accepted, prior to the time the registration statement becomes effective. This statement shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

When available, copies of the preliminary prospectus relating to the offering may be obtained from Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, attn: prospectus dept.; Morgan Stanley Dean Witter, 1585 Broadway, New York, New York 10036, attn: prospectus dept.; or UBS Warburg LLC, 299 Park Avenue, New York, New York 10171, attn: prospectus dept.

Outlook.

- Sound economic environment expected to continue
- Consistent focus on four-pillar strategy
- Investments in the future
- Focus on integration of acquisitions
- Further revenue growth anticipated

Global economic growth

Sound economic environment expected to continue. For 2001, we are assuming – in common with the International Monetary Fund (IMF) – that Germany will achieve a growth rate of around 2.2 percent. This will ensure continued stable growth at a high level, although it will fall slightly short of the global economy's growth rate, which the IMF predicts to be 3.4 percent in 2001. There is currently no risk of inflation in the euro zone; indeed, according to the European Central Bank (ECB), a decrease in inflation is more likely.

In the German telecommunications market which is relevant for Deutsche Telekom, we are anticipating sustained volume growth and thus a further growth in value, with falling price levels. On a sector-by-sector basis, we are assuming – like EITO – that there will be a sideways movement in the voice telephony segment, and we also anticipate further dynamic growth in mobile telephony and IP/data and online services in 2001.

T.I.M.E.S.

Deutsche Telekom Group focuses on growth sectors of the T.I.M.E.S. markets. Deutsche Telekom is Europe's largest telecommunications company, and, with its products and services, is a market leader in many sectors both in Germany and abroad. As technologies and markets increasingly converge, our aim is to make Deutsche Telekom a leading, internationally operating T.I.M.E.S. provider. **T.I.M.E.S.** stands for **T**elecommunications, **I**nformation technology, **M**ultimedia, **E**ntertainment, and **E**lectronic **S**ecurity services. The strategy pursued by Deutsche Telekom is therefore to concentrate on the key growth sectors of the market while achieving synergies within the Group.

Deutsche Telekom sees the dynamic growth in mobile telephony, online/Internet and broadband access in fixed networks as the main driving forces in the mass market, while in the segment of systems solutions for global customers, the highest growth rates are currently being achieved in integrated network-based solutions which combine information technology and telecommunications.

Consistent focus on four-pillar strategy. When planning new market roll-outs, Deutsche Telekom consistently bases its activities on the global growth trends identified above.

Broadband connections

Starting from the strongest ISDN penetration worldwide, the Company launched an unprecedented broadband campaign with DSL. This enabled T-Com to become a trend-setter for broadband access, so that new business models can be developed on this basis. T-Com also utilizes its customer base to market services in the fixed/mobile convergence sector, and bundles the Group's potential synergies to tap the SME market.

Mobile communications

In Europe, T-Mobile International is well-established in the leading group of mobile communications companies. Based on the strong increase in the number of subscribers in 2000, we began to develop new business models in the fields of mobile data/mobile commerce at an early stage with our T-Motion joint venture between by T-Mobile International and T-Online International. The goal is to continue to increase profitability and steadily expand our competitive international position.

Online

The further increase in the number of Internet users is the driving force behind the growth of T-Online International. The development of the DSL market also plays an increasingly important role here. Through the expansion of portal business, the focus of T-Online International's revenue is increasingly shifting away from access towards advertising, e-commerce and content. In this context, the acquisition currency created through the flotation of T-Online International will be utilized systematically for internationalization.

IP data/systems solutions

In the global systems solutions segment, T-Systems is the prototype of a network-based provider of e-business solutions in the IT/telecoms convergence sector. Following the merger of the competencies of debis Systemhaus and relevant segments of Deutsche Telekom, T-Systems offers a comprehensive portfolio of products and services. Through the bundling of IT and telecoms competencies, we not only intend to exploit the opportunities arising from market convergence; we also want to play an active role in shaping the market. We will continue the targeted expansion of our international position through the merger of the two companies.

Investments in the future. In 2001, we therefore intend to focus our investments on the growth segments identified. This includes the development of data transmission capacities in mobile communications with GPRS and UMTS, the creation of the necessary network infrastructure for global data transfer, and investment in the subscriber-line network in order to promote the expansion of T-DSL.

To ensure that we can respond to the soaring growth in Internet traffic and our customers' requirements for broadband telecommunications solutions, more than EUR 3.0 billion have been earmarked for investments in the further expansion of network infrastructure and for quality assurance measures at national and international level.

Network infrastructure

Investment in the continued expansion of Deutsche Telekom's networks will focus primarily on massive efforts to make the local loop suitable for broadband access to the information superhighway using T-DSL technology (around EUR 1.0 billion) and on the adaptation and development of our national transport network in response to the increasing volume of traffic (EUR 0.6 billion). Other investments will focus on the subscriber-line network (including ISDN and establishment of new lines in newly developed areas), amounting to more than EUR 0.5 billion, the upgrading of our ultra-high-performance Internet platform (EUR 0.2 billion) and the further development of our global network architecture.

Mobile network

In the mobile communications segment, our investments will focus on the expansion of base stations and network elements following the continued strong increase in traffic volume and the significant rise in the number of subscribers in the last few years. This will enable further quality improvements to be achieved, and will also enhance network security. Further investment will be allocated to the development of GPRS network elements, as well as to initial measures to introduce UMTS mobile communications technology.

IT infrastructure Investments in T-Online International will also be increased in order to respond to the growing volume of traffic. Other investments are planned to improve the quality and security of the Group's IT infrastructure, and to support the growth of our foreign subsidiaries, such as MATÁV or Slovenské Telekomunikácie.

VoiceStream In July and August 2000, Deutsche Telekom signed contracts with VoiceStream Wireless Corp., Bellevue/Washington and Powertel Inc., West Point/Georgia, paving the way for a complete takeover of shares in both companies by Deutsche Telekom. After numerous authorization procedures, we expect these deals to be closed by the end of May 2001. With VoiceStream and Powertel, we will be the only supplier in the US wireless market and the only European supplier which is able to offer mobile services in almost all the US states on the basis of the GSM mobile telephony standard which is being used successfully in Europe. At the end of 2000, VoiceStream and Powertel had a total of more than 4.8 million mobile communications subscribers. In light of the underdeveloped US mobile telephony market, compared with Europe, and our unique market position following our alliance with VoiceStream and Powertel, we are expecting substantial growth in the number of mobile subscribers in the North American market in the coming years. To achieve this goal, the rapid expansion of the local network infrastructure, and therefore appropriate investments, are required. The closing of the deal in 2001 will result in substantial goodwill.

Synergies **Focus on integration of acquisitions.** After an active period of purchases, including the planned merger with VoiceStream in 2001, Deutsche Telekom will focus on integrating its new shareholdings and partnerships during the current financial year. With the successful integration of our acquisitions, our goal is to create synergies and growth, and thus further expand our international market position. At the same time we will continue to scrutinize future M & A activities on the basis of our internationalization strategy and the market situation, and take appropriate action if necessary.

Further growth in revenue. Based on our expectations of the markets of relevance to us, we will continue our efforts in 2001 to achieve an above-average level of market growth and consistently to exploit the market opportunities available.

Mobile services In the mobile communications segment, we anticipate a high level of revenue in 2001 as a result of the investments in the subscriber base undertaken in 2000. There is also additional revenue potential here due to the launch of new T-Motion and GPRS services.

T-DSL We also expect an increase in charges from telephone lines due to further growth in ISDN, and T-DSL in particular. Deutsche Telekom will devote all its available energies to satisfying the high demand for T-DSL. Future efforts to promote converged mobile/fixed-network products should also result in revenue increases. The development of convergence products for residential customers in particular offers Deutsche Telekom ideal opportunities to combine fixed-network telephony with mobile communications and online services and bring these new products to market.

In the data communications and systems solutions business, we are expecting an above-average increase in revenue due to the strength added to this segment by debis Systemhaus. This enables us to press ahead with Deutsche Telekom's development as a leading international provider of systems solutions. We want to be a major player in the convergence of the markets for IT consulting and telecommunications systems solutions for corporate customers.

Deutsche Telekom is also planning to offer its clients high-quality transmission services within and between key countries from one source, based on its investments in transmission technology. This is also likely to result in an increase in the share of international revenue in the Group's net revenue. This share will also increase substantially in 2001 after the completion of the merger with VoiceStream, the acquisitions of 2000, and further growth in the existing shareholdings abroad, especially in the mobile communications segment.

Overall, we expect that due to the impact of these developments, and despite the loss of cable revenue, net revenue in 2001 will be substantially higher than the 2000 level. Price-related revenue decreases in Germany should be more than offset by increases in revenue in the Internet, mobile, IP data communications/systems solutions segments, and through stronger international expansion.

Results for the 2001 financial year. To safeguard an appropriate level of profitability, we will again focus primarily on cost development with regard to our expected revenue development in 2001. Our objective is to achieve a lower-than-average increase in expenditure on goods and services purchased, compared with the revenue level, by improving purchasing efficiency and utilizing own resources more effectively. We also expect to achieve an increase in profits in the mobile sector through the penetration of the subscriber base acquired in 2000. 2001 is expected to see a decrease in customer acquisition costs due to lower market growth in the mobile communications segment. Our overall aim is to achieve a significant increase in operative EBITDA at Group level compared with the previous year, as well as improvements in the EBITDA margin.

Personnel costs are expected to increase in 2001 compared with 2000, as a result of the consolidation of the newly acquired companies in 2001. Depreciation and amortization for UMTS licenses will impact fully in 2001, compared with the previous year. This will exert significant downward pressure on net income, which will also be affected by the depreciation and amortization for goodwill in respect of the shareholdings agreed in 2000 and the planned merger with VoiceStream. Interest costs will also increase due to the purchase of the UMTS licenses in 2000 and the financing of company acquisitions, which have a negative impact on the Group's 2001 results.

For 2001, we are planning to further concentrate our core activities on our four lines of business. This includes the planned sales of Sprint shares and further sections of the cable network, which will improve our results through special influences; the same applies to the sale of real estate.

Despite strong competition, we expect to benefit from the further growth in the national and international telecommunications markets. Our objective is to ensure that our shareholders participate appropriately in our Company's success.

Data communications and systems solutions

Net revenue from international activities

Profitability

EBITDA

Personnel costs

Depreciation and amortization

Interest costs

Special influences