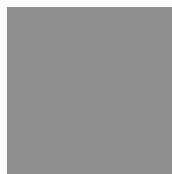
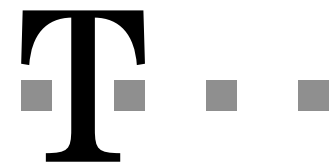


Deutsche Telekom AG  
Financial Statements as of  
December 31, 1999



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Deutsche Telekom AG's management report and the management report of the Group have been combined and are published in our 1999 annual report.

The annual financial statements and the Deutsche Telekom AG management report and the management report of the Group for the 1999 financial year are published in the Federal Gazette and are filed with the Commercial Registry of the Bonn District Court, HRB 6794.

# Supervisory Board of Deutsche Telekom AG

## **Prof. Dr. Helmut Sihler**

Chairman of the Supervisory Board of Deutsche Telekom AG since July 1, 1996  
Member of the Shareholders' Committee of Henkel KGaA

Member of other Supervisory Boards:  
• Novartis AG, Basel, Vice President of the Administrative Board (since 1996)  
• Dr. Ing. h.c. F. Porsche AG, Stuttgart, Chairman of the Supervisory Board (since 1993)

## **Veronika Altmeyer**

Vice-Chairwoman of the Supervisory Board of Deutsche Telekom AG from January 1, 1995 to March 28, 1999 until March 16, 1999  
Member of the Central Executive Committee of the Deutsche Postgewerkschaft trade union, since March 17, 1999  
Managing Director of T-Nova

Member of other Supervisory Boards:  
• DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (1994–1999)  
• Vereinigte Postversicherung VVaG, Stuttgart (since 1997)

## **Rüdiger Schulze**

Vice-Chairman of the Supervisory Board of Deutsche Telekom AG since March 29, 1999  
Member of the Central Executive Committee of the Deutsche Postgewerkschaft trade union

Member of other Supervisory Boards:  
• DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1999)

## **Reinhard Ahrensmeier**

from August 27, 1997 to February 29, 2000  
Chairman of the Central Works Council and Works Council at the Head Office of Deutsche Telekom Immobilien und Service GmbH

Member of other Supervisory Boards:  
• DeTeImmobilien GmbH, Münster (1996–2000)

## **Gert Becker**

since January 1, 1995  
Former Chairman of the Board of Management of Degussa AG

Member of other Supervisory Boards:  
• ALCAN Deutschland GmbH, Eschborn (since 1996)

• Bankhaus Metzler KGaA, Frankfurt am Main, Chairman of the Supervisory Board (since 1997)  
• Bilfinger + Berger Bau AG, Mannheim, Chairman of the Supervisory Board (since 1983)  
• Degussa-Hüls AG, Frankfurt am Main (since 1996)  
• Heidelberger Zement AG, Heidelberg (1981–1999)

## **Michel Bon**

since June 4, 1998  
President of France Telecom S.A.

Member of other Supervisory Boards:  
• Sprint Corporation, Kansas (since 1996)  
• France Telecom S.A., Paris (since 1995)  
• Lafarge S.A., Paris (since 1993)  
• Air Liquide S.A., Paris (since 1997)  
• Grand Vision S.A., Paris la Défense (since 1996)  
• Editions du Cerf S.A., Paris Cedex 07 (since 1993)  
• Bull S.A., Louveciennes (since 1995)  
• Sonepar Distribution S.A., Paris (since 1993)

## **Josef Falbisoner**

since October 2, 1997  
Chairman of the Deutsche Postgewerkschaft trade union, Bavarian District

Member of other Supervisory Boards:  
• PSD-Bank e. G., Munich, Augsburg office (since 1994)

## **Rainer Funke**

from January 1, 1995 to May 27, 1999  
Member of the German Bundestag, Attorney at Law

– not a member of any other Supervisory Boards –

## **Prof. Dr. Peter Glotz**

from January 1, 1995 to May 27, 1999  
Professor and Director at the Institute for Media Communications Management of St. Gallen University

Member of other Supervisory Boards:  
• Alcatel Holding, Stuttgart (1997–1999)  
• Dialog Software und Telekommunikations AG, Düsseldorf (since 1998)

## **Dr. sc. techn. Dieter Hundt**

since January 1, 1995  
Managing Shareholder of Allgaier Werke GmbH

President of the National Union of German Employer Associations

Member of other Supervisory Boards:  
• EvoBus GmbH, Stuttgart (since 1995)  
• Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board (since 1999)  
• Stuttgarter Hofbräu AG, Stuttgart (since 1993)  
• Stuttgarter Hofbräu Immobilien Verwaltungs-AG, Stuttgart, Chairman of the Supervisory Board (since 1999)  
• Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1999)

## **Franz-Josef Klare**

since January 1, 1995  
Chairman of the Deutsche Postgewerkschaft trade union, Münster District

Member of other Supervisory Boards:  
• Vereinigte Postversicherung VVaG, Stuttgart (since 1990)

## **Dr.-Ing. Paul Krüger**

from January 1, 1995 to May 27, 1999  
Member of the German Bundestag, Federal Minister retd.

Member of other Supervisory Boards:  
• RST Rostock, Raumfahrt und Umweltschutz GmbH, Warnemünde (since 1995)

## **Dr. h.c. André Leysen**

since January 1, 1995  
Chairman of the Supervisory Board of Gevaert N.V., Mortsel/Antwerp

Member of other Supervisory Boards:  
• Agfa-Gevaert AG, Leverkusen  
Chairman of the Supervisory Board (since 1987)  
• Veba AG, Düsseldorf (since 1993)  
• Schenker-Rhenus, Dortmund (since 1972)  
• Philipp Holzmann AG, Frankfurt am Main (since 1999)

Member of the Supervisory Boards of the following companies in Belgium:  
• Agfa-Gevaert N.V. Mortsel/Antwerp (since 1978)  
• GIB Group, Brussels (since 1983)  
• Tessenderlo Chemie N.V., Tessenderlo (since 1983)  
• Cobepa N.V., Brussels (since 1988)  
• Vlaamse Uitgeversmaatschappij N.V., Groot-Bijgaarden (since 1976)

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**Waltraud Litzenberger**

since June 1, 1999  
Chairwoman of the Works Council at Deutsche Telekom, Branch Office Bad Kreuznach

Member of other Supervisory Boards:  
• PSD-Bank e.G., Koblenz (since 1998)

**Michael Löffler**

since January 1, 1995  
Chairman of the Works Council at Deutsche Telekom, Branch Office 1 Leipzig

– not a member of any other Supervisory Boards –

**Dr. Claus Noé**

from January 13, 1999  
to May 27, 1999  
State Secretary retd., Federal Ministry of Finance

– not a member of any other Supervisory Boards –

**Maud Pagel**

from January 1, 1995  
to May 31, 1999  
Equal Opportunities Commissioner, Deutsche Telekom AG

– not a member of any other Supervisory Boards –

**Hans-W. Reich**

since May 27, 1999  
Chairman of the Managing Board, Kreditanstalt für Wiederaufbau (KfW)

Member of other Supervisory Boards:  
• Alstom LHB GmbH, Salzgitter (1997 – 2000)  
• Alstom GmbH, Frankfurt am Main (since 1999)  
• Europäische Investitionsfonds, Luxembourg (1997–1999)  
• Frachtcontor Junge&Co., Hamburg (since 1995)  
• IKB Deutsche Industriebank AG, Düsseldorf (since 1999)  
• Preussag Noell GmbH, Würzburg (since 1995)  
• RAG Trading GmbH, Essen (since 1999)  
• Thyssen Krupp Stahl AG, Duisburg (since 1999)  
• Thyssen Werften GmbH, Emden (since 1996)

**Rainer Röhl**

since November 6, 1998  
Vice-Chairman of the Central Works Council at Deutsche Telekom AG

– not a member of any other Supervisory Boards –

**Wolfgang Schmitt**

since October 2, 1997  
Head of Deutsche Telekom AG's Regional Directorate in Freiburg i. B.

Member of other Supervisory Boards:  
• Regionale Kabel-Service-Gesellschaft Südwest, Mannheim (since 1995)  
• PSD-Bank e. G., Freiburg i. B., Chairman of the Supervisory Board (since 1993)

**Ursula Steinke**

since January 1, 1995  
Chairwoman of the Works Council at DeTeCSM, Service- und Computer-Zentrum Nord

– not a member of any other Supervisory Boards –

**Prof. Dr. h. c. Dieter Stolte**

since January 1, 1995  
Director General of the Zweites Deutsches Fernsehen (ZDF) broadcasting organization

Member of other Supervisory Boards:  
• Bavaria Film- und Fernsehstudios GmbH, Munich/Geiseltal, Chairman of the Supervisory Board (since 1997)  
• ZDF Enterprises GmbH, Mainz, Chairman of the Supervisory Board (since 1992)  
• Sportrechte- und Marketing-Agentur GmbH, Munich, Chairman of the Supervisory Board (since 1998)

**Bernhard Walter**

since May 27, 1999  
Chairman of the Managing Board of Dresdner Bank AG

Member of other Supervisory Boards:  
• Bilfinger und Berger Bau AG, Mannheim (since 1998)  
• DaimlerChrysler AG, Stuttgart (since 1998)  
• Degussa-Hüls AG, Frankfurt am Main (since 1998)  
• Deutsche Hyp Deutsche Hypothekbank Frankfurt–Hamburg AG, Frankfurt am Main, Chairman of the Supervisory Board (since 1990)

• Deutsche Lufthansa AG, Cologne (since 1998)  
• Heidelberger Zement AG, Heidelberg (since 1998)  
• Henkel KGaA, Düsseldorf (since 1998)  
• Metallgesellschaft AG, Frankfurt am Main (since 1993)  
• Staatliche Porzellan-Manufaktur Meissen GmbH, Meissen (since 1998)  
• Thyssen Krupp AG, Düsseldorf (since 1997)

Member of the Supervisory Boards of the following companies in France:  
• Banque Nationale de Paris S.A. (since 1999)

**Wilhelm Wegner**

since 1. Juli 1996  
Chairman of the Central Works Council at Deutsche Telekom AG

Member of other Supervisory Boards:  
• VPV Allgemeine Versicherungs-AG, Cologne (since 1995)  
• Vereinigte Postversicherung VVaG, Stuttgart (since 1998)

**Dr. Hans Dietrich Winkhaus**

since May 27, 1999  
Chairman of the Managing Board of Henkel KGaA

Member of other Supervisory Boards:  
• ERGO-Versicherungen, Düsseldorf (since 1998)  
• Degussa-Hüls AG, Frankfurt (since 1999)  
• Deutsche Lufthansa AG, Cologne (since 1998)  
• Schwarz-Pharma AG, Monheim (since 1998)  
• BMW AG, Munich (since 1999)

**Prof. Dr. Heribert Zitzelsberger**

since May 27, 1999  
State Secretary, Federal Ministry of Finance

– not a member of any other Supervisory Boards –

# Board of Management of Deutsche Telekom AG

## **Dr. Ron Sommer**

Responsible for the Division of the Chairman of the Board of Management (Corporate Group Strategy, Communication, Auditing and Organization, Regulatory and Competition Policy, Top Management).

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn, Chairman of the Supervisory Board (1995–2000)
- T-Mobile International AG, Bonn, Chairman of the Supervisory Board (since 2000)
- T-Online International AG, Darmstadt, Chairman of the Supervisory Board (since 2000)
- Sprint Corporation, Kansas City/USA (since 1996–2000)
- France Télécom S. A., Paris/France (1998–2000)

Member of other Supervisory Boards:

- Münchner Rückversicherungs-Gesellschaft AG, Munich (since 1999)

## **Josef Brauner**

Responsible for the Sales and Customer Care Division.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main, Chairman of the Supervisory Board (since 1999)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 2000)
- T-Online International AG, Darmstadt (since 2000)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 1998)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 1998)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 1999)
- Deutsche Telekom Computer Service Management GmbH (DeTeCSM), Darmstadt (since 1999)
- Detecon Deutsche Telepost Consulting GmbH, Bonn, Chairman of the Supervisory Board (since 1999)

## **Detlev Buchal**

Responsible for the Product Marketing Division.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt am Main, Chairman of the Supervisory Board (since 1996)
- Deutsche Telekom Online Service GmbH, Darmstadt, Chairman of the Supervisory Board (since 1998), changed to T-Online International AG, Darmstadt
- DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin, Chairman of the Supervisory Board (since 1999)
- max.mobil. Telekommunikation Service GmbH, Vienna/Austria, Chairman of the Supervisory Board (since 1999)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1996)
- T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn (since 1999)
- SIRIS S.A.S., Paris/France (since 2000)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main (1998–1999)

## **Dr. Karl-Gerhard Eick**

Responsible for the Finance and Controlling Division since January 1, 2000

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- T-Mobile International AG, Bonn (since 2000)
- T-Online International AG, Darmstadt (since 2000)
- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster (since 2000).
- Visay-Tech Inc., Manila/Philippines (since 2000)
- TRI Technology Resources Industries Berhad, Kuala Lumpur/Malaysia (since 2000)
- T-Telematik Venture Holding GmbH (T-Venture), (since 2000)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1.T-TVB), Bonn (since 2000)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2.T-TVB), Bonn (since 2000)

## **Jeffrey A. Hedberg**

Responsible for the International Division.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- T-Mobile International AG, Bonn (since 2000)
- T-Online International AG, Darmstadt (since 2000)
- Detecon Deutsche Telepost Consulting GmbH, Bonn (since 1999)
- TRI Technology Resources Industries Berhad, Kuala Lumpur/Malaysia (since 1999)
- Deutsche TELEKOM Asia Pte. Ltd., Singapore/Singapore (since 1999)
- Deutsche Telekom Inc., New York/USA, Chairman of the Supervisory Board (since 2000)
- One 2 One Personal Communications Ltd., Borehamwood, Hertfordshire/ Great Britain (since 1999)
- SIRIS S.A.S., Paris/France (since 2000)

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**Dr. Hagen Hultzs**

Responsible for the Technology and Services Division.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- Deutsche Telekom Berkom Gesellschaft für Forschung und Entwicklung von Anwendungen in der Telekommunikation mbH, Berlin, Chairman of the Supervisory Board (since 1995)
- DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt, Chairman of the Supervisory Board (since 1996)
- T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (since 1999) (Chairman of the Supervisory Board)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn, Chairman of the Supervisory Board (since 1997)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn, Chairman of the Supervisory Board (since 1997)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn, Chairman of the Supervisory Board (since 1999)
- Bonn-Innova GmbH & Co. Venture Beteiligungsgesellschaft KG (BIVB), Bonn, Chairman of the Supervisory Board (since 1998)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main (since 1997)

Member of other Supervisory Boards:

- Forschungszentrum Jülich GmbH, Jülich (since 1997)
- Stiftung CAESAR, Stiftungsrat, Bonn (since 1998)

**Dr. Heinz Klinkhammer**

Responsible for the Human Resources and Legal Affairs Division.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster (since 1996), Chairman of the Supervisory Board (since 2000)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1998)

Member of other Supervisory Boards:

- Vereinigte Postversicherung VVaG, Stuttgart (since 1996)
- PSD-Bank e. G., Düsseldorf (since 1999)

**Dr. Joachim Kröske**

Responsible for the Finance and Controlling Division until December 31, 1999

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1993–1999)
- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster, Chairman of the Supervisory Board (1996–1999)
- Atlas Telecommunications S.A., Brussels/Belgium (1996–1999)
- Global One, RoE (Rest of Europe), Hoofddorp/Netherlands (1996–1999)
- Global One, RoW (Rest of World), Wilmington/USA (1996–1999)
- Société Européenne des Satellites (SES), Betzdorf/Luxembourg (since 1994)
- Deutsche Telekom Holding B. V. Amsterdam/Netherlands, Chairman of the Supervisory Board (1996–1999)
- Visay-Tech Inc., Manila/Philippines (1996–1999)
- TRI Technology Resources Industries Berhad, Kuala Lumpur/Malaysia (1996–1999)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (1997–1999)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 1997)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 1999)

**Gerd Tenzer**

Responsible for the Division for Networks, Purchasing, Environmental Protection, Carrier Services, and Broadcasting and Broadband Cable.

Member of the Supervisory Boards of the following subsidiaries, associated and related companies:

- Kabel Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 1999)
- MSG MediaServices GmbH, Munich, Chairman of the Supervisory Board (since 1999)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (1993–2000)
- T-Mobile International AG, Bonn (since 2000)
- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster (since 1996)
- Partner für Berlin Gesellschaft für Hauptstadtmarketing mbH, Berlin (since 1995)
- Société Européenne des Satellites S.A., Betzdorf/Luxembourg (since 1999)
- Atlas Telecommunications S.A., Brussels/Belgium (1996–1999)
- DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin (1990–1999)

# Statement of income

	Note	1999 millions of €	1998 millions of €	1997 millions of €
<b>Net revenue</b>	(1)	<b>27,945</b>	<b>30,879</b>	<b>30,887</b>
Increase in inventories and other own capitalized costs	(2)	575	587	1,017
<b>Total operating performance</b>		<b>28,520</b>	<b>31,466</b>	<b>31,904</b>
Other operating income	(3)	11,866	3,955	4,307
Goods and services purchased	(4)	(8,010)	(6,349)	(5,867)
Personnel costs	(5)	(7,405)	(7,832)	(8,104)
Depreciation and amortization	(6)	(6,185)	(7,662)	(8,614)
Other operating expenses	(7)	(6,520)	(6,605)	(6,777)
Financial income (expense) net	(8)	(817)	(2,634)	(3,307)
<b>Results from ordinary business activities</b>		<b>11,449</b>	<b>4,339</b>	<b>3,542</b>
Extraordinary income (losses)	(9)	(240)	-	-
Taxes	(10)	(1,480)	(2,649)	(1,853)
<b>Income after taxes</b>		<b>9,729</b>	<b>1,690</b>	<b>1,689</b>
Unappropriated net income carried forward from previous year		13	6	1
Transfer to retained earnings		4,857	-	-
<b>Net income</b>		<b>4,885</b>	<b>1,696</b>	<b>1,690</b>

# Balance sheet

	Note	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
<b>Assets</b>			
<b>Noncurrent assets</b>			
Intangible assets	(11)	857	658
Property, plant and equipment	(12)	46,347	50,282
Financial assets	(13)	37,006	14,592
		<b>84,210</b>	<b>65,532</b>
<b>Current assets</b>			
Inventories, materials and supplies	(14)	345	361
Receivables	(15)	4,912	3,394
Other assets	(16)	1,805	561
Marketable securities	(17)	1,755	1,365
Liquid assets	(18)	916	4,922
		<b>9,733</b>	<b>10,603</b>
<b>Prepaid expenses, deferred charges and deferred taxation</b>	(19)	<b>534</b>	<b>731</b>
		<b>94,477</b>	<b>76,866</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Capital stock	(20)	7,756	7,014
Additional paid-in capital	(22)	24,121	14,250
Retained earnings (deficit)	(23)	7,155	2,298
Net income		4,885	1,696
		<b>43,917</b>	<b>25,258</b>
<b>Accruals</b>			
Pensions and similar obligations	(24)	2,953	2,982
Other accruals	(25)	4,331	3,974
		<b>7,284</b>	<b>6,956</b>
<b>Liabilities</b>			
Debt	(26)	35,105	38,049
Other		8,066	6,334
		<b>43,171</b>	<b>44,383</b>
<b>Deferred income</b>		<b>105</b>	<b>269</b>
		<b>94,477</b>	<b>76,866</b>



# Noncurrent assets

millions of €	Acquisition cost				Dec. 31, 1999
	Jan. 1, 1999	Additions	Disposals	Reclassifications	
<b>Intangible assets</b>					
Concessions, industrial and similar rights and assets, and licences					
in such rights and assets	1,059	402	(140)	208	1,529
Advance payments	113	54	(13)	(102)	52
	<b>1,172</b>	<b>456</b>	<b>(153)</b>	<b>106</b>	<b>1,581</b>
<b>Property, plant and equipment</b>					
Land and equivalent rights, and buildings including buildings on land owned by third parties					
	18,895	284	(242)	13	18,950
Technical equipment and machinery	54,232	1,833	(1,287)	222	55,000
Other equipment, plant and office equipment					
	3,423	368	(389)	32	3,434
Advance payments and construction in progress					
	490	388	(23)	(373)	482
	<b>77,040</b>	<b>2,873</b>	<b>(1,941)</b>	<b>(106)</b>	<b>77,866</b>
<b>Financial assets</b>					
Investments in subsidiaries	8,369	21,803	(12)	65	30,225
Loans to subsidiaries	976	1,667	(376)	(15)	2,252
Investments in related companies	5,013	1,507 <sup>1)</sup>	(2,768)	(50)	3,702
Long-term loans to associated and related companies					
	247	215	(431)	-	31
Other investments in noncurrent securities					
	1,052	332	(155)	-	1,229
Other long-term loans	555	4	(107)	-	452
	<b>16,212</b>	<b>25,528</b>	<b>(3,849)</b>	<b>-</b>	<b>37,891</b>
<b>Total noncurrent assets</b>	<b>94,424</b>	<b>28,857</b>	<b>(5,943)</b>	<b>-</b>	<b>117,388</b>

<sup>1)</sup> This amount includes EUR 31 million relating to historical cost and accumulated write-downs in connection with the transfer of TEGARON Telematics GmbH from DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn, to Deutsche Telekom AG.

Depreciation, amortization and write-downs						Net carrying amount	
January 1, 1999	Additions	Disposals	Reclassifications	Write-ups	Dec. 31, 1999	Dec. 31, 1999	Dec. 31, 1998
514	315	(115)	10	-	724	805	545
-	-	-	-	-	-	52	113
<b>514</b>	<b>315</b>	<b>(115)</b>	<b>10</b>	<b>-</b>	<b>724</b>	<b>857</b>	<b>658</b>
2,166	539	(28)	(1)	-	2,676	16,274	16,729
22,679	4,797	(778)	(9)	-	26,689	28,311	31,553
1,913	534	(293)	-	-	2,154	1,280	1,510
-	-	-	-	-	-	482	490
<b>26,758</b>	<b>5,870</b>	<b>(1,099)</b>	<b>(10)</b>	<b>-</b>	<b>31,519</b>	<b>46,347</b>	<b>50,282</b>
17	16	-	-	-	33	30,192	8,352
6	13	(15)	-	-	4	2,248	970
1,596	296 <sup>1)</sup>	(1,044)	-	-	848	2,854	3,417
1	-	(1)	-	-	-	31	246
-	-	-	-	-	-	1,229	1,052
-	-	-	-	-	-	452	555
<b>1,620</b>	<b>325</b>	<b>(1,060)</b>	<b>-</b>	<b>-</b>	<b>885</b>	<b>37,006</b>	<b>14,592</b>
<b>28,892</b>	<b>6,510</b>	<b>(2,274)</b>	<b>-</b>	<b>-</b>	<b>33,128</b>	<b>84,210</b>	<b>65,532</b>

# Statement of cash flows

	Note	1999 millions of €	1998 millions of €	1997 millions of €
Income after taxes		9,729	1,690	1,689
Depreciation and amortization		6,185	7,662	8,539
Income tax expense		1,464	2,489	1,502
Net interest expense		2,456	2,802	3,022
Net (gains)/losses from disposition of noncurrent assets		(7,740)	519	72
Increase/(decrease) in pension accruals		(29)	4	(231)
Other noncash (income) and expense		(1,660)	(176)	240
(Increase)/decrease in trade accounts receivable		(119)	88	(163)
(Increase)/decrease in inventories		16	63	77
Increase/(decrease) in trade accounts payable		49	(61)	(428)
Changes in other current assets and liabilities		(39)	459	486
Income taxes paid		(1,986)	(1,910)	(1,793)
Dividends received		2,010	576	392
<b>Cash generated from operations</b>		<b>10,336</b>	<b>14,205</b>	<b>13,404</b>
Interest paid		(3,019)	(3,283)	(3,580)
Interest received		485	518	342
<b>Net cash provided by operating activities</b>	(27)	<b>7,802</b>	<b>11,440</b>	<b>10,166</b>
Capital expenditures		(3,330)	(3,292)	(5,574)
Purchase of subsidiaries, associated and related companies, net of cash acquired		(15,458)	(2,672)	(1,376)
Proceeds from sale of noncurrent assets		1,486	659	397
Net change in short-term investments		2,329	(730)	1,730
<b>Net cash used for investing activities</b>	(28)	<b>(14,973)</b>	<b>(6,035)</b>	<b>(4,823)</b>
Issuance of short-term debt		3,385	-	19
Repayment of short-term debt		(5,448)	(4,318)	(5,464)
Issuance of long-term debt		1,008	1,051	27
Repayment of long-term debt		(1,935)	(1,232)	(26)
Dividends paid		(1,683)	(1,684)	(841)
Proceeds from share offering		10,613	-	-
<b>Net cash provided by (used for) financing activities</b>	(29)	<b>5,940</b>	<b>(6,183)</b>	<b>(6,285)</b>
Changes in value of cash and cash equivalents due to exchange rate fluctuations		(56)	8	13
<b>Net increase in cash and cash equivalents</b>		<b>(1,287)</b>	<b>(770)</b>	<b>(929)</b>
Cash and cash equivalents, at beginning of year		1,900	2,670	3,599
Cash and cash equivalents, at end of year		613	1,900	2,670

# Statement of shareholders' equity

	Capital Stock		Additional paid-in capital	Retained earnings			Unappro- priated net income	Total
	Number of shares in thousands	millions of €		Reserve for treasury stock	Other retained earnings (deficit)	Special pur- pose reserve pursuant to §17 (4) DMBiG		
<b>Balance at January 1, 1997</b>	<b>2,743,700</b>	<b>7,014</b>	<b>14,250</b>	<b>1</b>	<b>2,223</b>	<b>74</b>	<b>842</b>	<b>24,404</b>
Dividends for 1996							(841)	(841)
Change in special purpose reserve					74	(74)		
Net income							1,689	1,689
<b>Balance at December 31, 1997</b>	<b>2,743,700</b>	<b>7,014</b>	<b>14,250</b>	<b>1</b>	<b>2,297</b>	<b>-</b>	<b>1,690</b>	<b>25,252</b>
Dividends for 1997							(1,684)	(1,684)
Net income							1,690	1,690
<b>Balance at December 31, 1998</b>	<b>2,743,700</b>	<b>7,014</b>	<b>14,250</b>	<b>1</b>	<b>2,297</b>	<b>-</b>	<b>1,696</b>	<b>25,258</b>
Dividends for 1998							(1,683)	(1,683)
Increase in nominal value of capital stock		10	(10)					
Proceeds from share offering	285,904	732	9,881					10,613
Change in special purpose reserve				13	(13)			-
Net income							9,729	9,729
Transfer to retained earnings/(deficit)						4,857	(4,857)	
<b>Balance at December 31, 1999</b>	<b>3,029,604</b>	<b>7,756</b>	<b>24,121</b>	<b>14</b>	<b>7,141</b>	<b>-</b>	<b>4,885</b>	<b>43,917</b>

# Summary of accounting policies

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## Description of business and relationship with the Federal Republic of Germany

Deutsche Telekom AG (referred to as Deutsche Telekom below) is a full-service telecommunications provider whose major lines of business include providing network communications, mobile communications, data communications and carrier services, broadcasting and broadband cable services for television and radio stations, value-added services as well as international business. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

Deutsche Telekom was registered with the Commercial Registry of the Bonn District Court (Amtsgericht - HRB 6794) under the name Deutsche Telekom AG on January 2, 1995.

The Federal Republic of Germany (the Federal Republic) remains Deutsche Telekom's largest shareholder, even after the two capital increases. Its direct shareholding was 43.18 % as at December 31, 1999. A federal corporation, the Kreditanstalt für Wiederaufbau (KfW), holds another 21.6 %. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on

December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF). The Federal Agency also carries out tasks concerning not only Deutsche Telekom but also Deutsche Post AG and Deutsche Postbank AG. These are essentially social, coordinating and consulting tasks.

As part of its sovereign activities, the Federal Republic set up the Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics (BMW), has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

The Federal Republic and various government departments and agencies are collectively Deutsche Telekom's largest customer. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

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## Summary of significant accounting principles

The annual financial statements and the management report of Deutsche Telekom have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch, HGB) and the German Stock Corporation Act (Aktiengesetz, AktG).

The statement of income is prepared in accordance with the total cost method. All amounts shown, except per-share amounts, are in millions of euros. Certain items have been combined in order to enhance the informative value and understanding of the balance sheet and the statement of income. These items are shown separately in the notes. In cases where individual items in the balance sheet or the statement of income are shown under different positions for the year under review than for the previous year, the figures for the previous year have been adjusted accordingly in order to facilitate comparisons. A statement of cashflows and a statement

of shareholders' equity have been added to the annual financial statements. In line with international practice, the financial statements begin with the statement of income. The statement of cashflows and statement of shareholders' equity precede the notes to the financial statements.

The financial statements of Deutsche Telekom AG as well as the financial statements of the Deutsche Telekom Group, which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the New York Stock Exchange, are available upon request from Deutsche Telekom AG.

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### **Accounting and valuation**

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of VAT and sales-related reductions. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

Net revenues no longer include the revenues from handling the billing of services for other network operators in accordance with § 15 of the Telecommunications Customer Protection Ordinance (Telekommunikations-Kundenschutzverordnung, TKV). In line with international accounting principles, gross amounts – i.e., revenue amounts and corresponding amounts for goods and services purchased – are no longer shown.

Research and development costs are expensed as incurred.

Pension costs for defined benefit plans are actuarially computed using the Projected Unit Credit Method, which is consistent with SFAS No. 87 and No. 88, and are shown in accordance with SFAS No. 132. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz, EStG) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (cf. note (24)).

Pension costs include current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service costs.

The pension costs are accrued in the balance sheet in accordance with SFAS No. 87 and No. 88, whereby the accrual is increased by the expense recognized and decreased by payments made during the year.

Deutsche Telekom is required to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II, which came into force in 1995, rather than by annual actuarial valuations. The amounts currently due in each period are recognized as an expense in that period.

Advertising costs are charged to expenses as incurred.

Income tax expense includes current payable taxes on income as well as deferred income taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future. Deferred taxes on temporary differences were not included in the financial statements for periods prior to January 1, 1996.

Purchased intangible assets are valued at acquisition cost and amortized on a straight-line basis over their estimated useful lives.

As permitted by Postreform II, property, plant and equipment transferred to Deutsche Telekom on January 1, 1995, was recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 was valued at its remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet were carried forward as the acquisition costs.

Other property, plant and equipment is valued at acquisition or construction cost, less scheduled depreciation. Construction costs include directly allocable costs and an appropriate allocation of material and production overhead. Interest accruing during construction and general administration expenses are not capitalized.

Property, plant and equipment includes nondeductible capitalized VAT amounts at the level of expected refunds from VAT adjustments pursuant to § 15a of the German Value-Added Tax Act (Umsatzsteuergesetz, UStG) resulting from Deutsche Telekom's full liability for VAT as of 1996. Capitalized VAT is depreciated over a period of four years (1996–1999).

Nonscheduled write-downs to the lower of cost or market value are provided if impairment of assets is assumed to be permanent.

Scheduled depreciation is taken using the straight-line method. The underlying normal useful lives are based on the official depreciation tables (AfA). The following specific useful lives are applied to straight-line depreciation:

	Years
Buildings	25 to 50
Shop improvements and window displays	7
Telephone facilities and terminal equipment	3 to 10
Data communication equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment	4 to 10
Outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities	10
Other equipment, plant and office equipment	3 to 20

In contrast to the previous year, the useful life of copper cables was extended from 15 to 20 years and that of cable ducts/conduits from 15 to 35 years, in order to adjust it to the periods used by the Regulatory Authority in tariff-approval procedures.

Additions to real estate property are depreciated beginning in the month the building is placed into service. For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and, for those assets acquired in the second half of the year, a half year of depreciation is provided.

Items with a low acquisition cost are expensed in the year of purchase.

Maintenance and repairs are charged to expenses when incurred.

Upon sale or disposal of noncurrent assets, the related cost and accumulated depreciation are removed from the balance sheet, and a gain or loss is recognized for the difference between the proceeds from the sale and the net carrying amount of the assets.

Financial assets are valued at the lower of cost or market value. Loan receivables correspond to the loan amounts less repayments and – if applicable – less any write-downs in order to reflect such lower amount. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Inventories are valued at the lower of acquisition cost or market value, and work in process at production cost. To the extent that inventory values are impaired, obsolescence provisions are made.

Receivables, other assets and liquid assets are shown at their nominal value. Known individual risks are accounted for through appropriate individual valuation adjustments, and general credit risks through general valuation adjustments of receivables. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

Foreign currency receivables and fixed-term deposits shown under liquid assets are translated at the lower of the exchange rate applicable on the transaction date or the buying rate applicable at the balance sheet date.

Marketable securities are stated at the lower of cost or market value at the balance sheet date.

Deferred tax assets are calculated to take account of the differences between the commercial balance sheet and the tax balance sheet caused by the fiscal non-recognition of certain accruals. They are reported separately on the asset side under prepaid expenses, deferred charges and deferred taxation. They are calculated on the basis of the German income tax rate for undistributed earnings.

In accordance with the principles set out in § 6a of the German Income Tax Act (EStG), accruals for direct pension obligations are stated at the current actuarial value subject to an assumed rate of interest of 6%. The accruals for indirect pension commitments have been created compliant with the relevant commercial legislation with regard to group accounting practices by applying the appropriate U.S. accounting regulations (SFAS No. 87 and No. 88) with an assumed rate of interest of 6.25% (1997: 6.0%) and incorporating future pay and pension rises. The life expectancy tables published in 1998 were included in part in the calculation (cf. note (24), Accruals for pensions and similar obligations).

Provisions for taxes and other accruals, including those for loss contingencies and environmental liabilities are recorded using best estimates. Sufficient allowance was made for all perceivable risks when assessing these provisions and accruals.

Accruals, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, are not discounted.

Liabilities are recorded at the higher of nominal value or repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and distributed over the term of the liability. Foreign currency liabilities are stated at the higher of the exchange rate applicable on the transaction date or the selling rate applicable at the balance sheet date.

# Notes to the statement of income

## (1) Net revenue

Revenue by business area<sup>1)</sup>:

	1999 millions of €	1998 millions of €	1997 millions of €
Network communications	16,737	20,543	21,445
Carrier services	3,484	2,091	1,698
Data communications	2,935	2,577	2,439
Value-added services	1,579	1,827	1,683
Terminal equipment	1,274	1,444 <sup>1)</sup>	1,569 <sup>1)</sup>
Broadcasting and broadband cable	958	1,762	1,556
Mobile communications	259	168	93
Other services	719	467 <sup>1)2)</sup>	404 <sup>1)</sup>
	<b>27,945</b>	<b>30,879</b>	<b>30,887</b>

<sup>1)</sup> Adjusted figures as a result of the re-classification of services in the terminal equipment business area from other services (1998: EUR 120 million; 1997: EUR 129 million).

<sup>2)</sup> Adjusted figures as a result of the re-classification of revenues from handling the billing of services for other network operators: revenue was reduced by EUR 521 million; domestic network access charges were reduced by EUR 521 million.

Revenue by geographic area:

	1999 millions of €	1998 millions of €	1997 millions of €
Domestic	27,062	30,011	29,899
International	883	868	988
	<b>27,945</b>	<b>30,879</b>	<b>30,887</b>

Breakdown of international revenues:

	1999 millions of €	1998 millions of €	1997 millions of €
European Union (excluding Germany)	359	411	456
Rest of Europe	231	179	179
North America	145	102	120
Latin America	17	27	32
Other	131	149	201
	<b>883</b>	<b>868</b>	<b>988</b>

## (2) Increase in inventories and other own capitalized costs

	1999 millions of €	1998 millions of €	1997 millions of €
Increase in inventories of work in process	30	28	2
Own capitalized costs	545	559	1,015
	<b>575</b>	<b>587</b>	<b>1,017</b>

Own capitalized costs relate to planning and construction services.



### (3) Other operating income

	1999 millions of €	1998 millions of €	1997 millions of €
Income from disposal of noncurrent assets	8,312	193	508
Rentals and leases	1,775	1,759	1,814
Reversal of accruals	393	401	479
Refund of value-added tax	379	655	664
Cost reimbursements	357	187	253
Income from reversal of valuation adjustments	100	67	53
Foreign currency transaction gains	72	26	3
Insurance compensation	49	51	57
Income from write-ups of financial assets	-	3	10
Income from investment grants	-	-	6
Other income	429	613	460
	<b>11,866</b>	<b>3,955</b>	<b>4,307</b>

As a result of MCI Worldcom's planned takeover of Sprint Corporation, Kansas City (Sprint), Deutsche Telekom intends to dispose of its shares in the business areas Sprint FON and Sprint PCS and has transferred all the shares to NAB Nord Amerika Beteiligungs-Holding, Bonn (NAB Holding). This led to tax-free income from disposals of noncurrent assets amounting to EUR 8,239 million.

Rental and leasing income was received mostly from DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (DeTe Immobilien). The value-added tax refunds of EUR 379 million resulted from the adjustment of input tax paid in previous years in accordance with § 15a of the Value-Added Tax Act (UStG). The Company recognized depreciation of EUR 667 million on capitalized input tax (cf. note (12), Property, plant and equipment).

### (4) Goods and services purchased

	1999 millions of €	1998 millions of €	1997 millions of €
<b>Goods purchased</b>	<b>1,019</b>	<b>897</b>	<b>838</b>
<b>Services purchased</b>	<b>6,991</b>	<b>5,452</b>	<b>5,029</b>
of which: domestic network access charges	3,335	2,451	2,279 <sup>1)</sup>
of which: international network access charges	1,070	1,053	1,341
of which: other services	2,586	1,948	1,409
	<b>8,010</b>	<b>6,349</b>	<b>5,867</b>

<sup>1)</sup> Adjusted figures as a result of the re-classification of revenues from handling the billing of services for other network operators: revenue was reduced by EUR 521 million; domestic network access charges were reduced by EUR 521 million.

The increase in domestic network access charges resulted from the increased utilization of mobile communications services and Service 0190 by our customers and, for the first time, from the minor utilization of third-party fixed networks.

The increase in other services was a result of the transfer of IT support services to DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt (DeTeCSM) as at January 1, 1999 and of the transfer of software maintenance to T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn, which was spun off as at July 1, 1999.

## (5) Personnel costs/Average number of employees

	1999 millions of €	1998 millions of €	1997 millions of €
<b>Wages and salaries</b>	<b>4,996</b>	<b>5,381</b>	<b>5,600<sup>1)</sup></b>
Social security contributions and expenses for pension plans and benefits			
Payments to pension fund	1,483	1,483	1,483
Social security contributions	475	516	532
Expenses for pension plans for non-civil servants	258	245	281
Healthcare expenses	193	207	208
	<b>2,409</b>	<b>2,451</b>	<b>2,504</b>
	<b>7,405</b>	<b>7,832</b>	<b>8,104</b>

<sup>1)</sup> Adjusted amounts due to reclassification of taxes on wages and salaries: Decrease of personnel costs by EUR 3 million; increase of tax expense by EUR 3 million.

Expenses for pension plans in 1999 amounted to EUR 1,741 million (1998: EUR 1,727 million, 1997: EUR 1,764 million).

	1999 Number	1998 Number	1997 Number
<b>Number of employees (average for the year)</b>			
Civil servants	76,223	87,573	95,855
Salaried employees	34,276	34,180	35,272
Wage earners	34,839	40,242	44,539
	<b>145,338</b>	<b>161,995</b>	<b>175,666</b>
Trainees and student interns	<b>6,116</b>	<b>6,066</b>	<b>6,111</b>

Deutsche Telekom's personnel costs decreased by EUR 427 million to EUR 7,405 million in 1999. This represents a decline of 5.5 % compared with 1998. At the same time, the average number of employees decreased by 16,657 or 10.3 %. The reasons for the increased personnel costs per employee include the increase in wages, salaries and remuneration due to the collectively agreed wage and salary increase of 3.1 % (1998: 1.5 %); the remuneration adjustment related to the eastern German collective bargaining agreement which came into force on January 1, 1999; the effect of age-related salary increases; the fixed contributions to the pension fund to

finance civil servants' pensions (Telekom Pensions Service e.V.); the rise in the income threshold for membership of the state social insurance plan; and the adjustment of salaries for certain functions to generally accepted market structures.

Wages and salaries decreased by 7.2 % in 1999 in absolute terms.

Social security contributions and expenses for pension plans and benefits decreased by 1.7 %.

## (6) Depreciation and amortization

	1999 millions of €	1998 millions of €	1997 millions of €
Amortization of intangible assets	315	227	196
Depreciation of property, plant and equipment	5,870	7,435	8,343
	<b>6,185</b>	<b>7,662</b>	<b>8,539</b>
Write-down on special loss account arising from creation of accruals	-	-	75
	<b>6,185</b>	<b>7,662</b>	<b>8,614</b>

Depreciation and amortization decreased by EUR 1,477 million.

The increase of EUR 88 million in the amortization of intangible assets was primarily attributable to the first-time amortization of rights of use of telephone-number blocks, and to increased investments in software products for invoicing and customer administration.

EUR 826 million of the EUR 1,565 million decrease in depreciation of property, plant and equipment was attributable to the changes in service life on which the periods of depreciation in some of the outside plant equipment were based; EUR 501 million was attributable to the spinning off of broadband distribution networks to Kabel Deutschland GmbH, Bonn (KDG), effective at the 1998/1999 turn of the year.

Depreciation and amortization included nonscheduled write-downs of EUR 1 million for real estate property which is now used for other purposes.

## (7) Other operating expenses

	1999 millions of €	1998 millions of €	1997 millions of €
Rental and leasing expenses	2,885	3,032	3,274
Marketing expenses	594	554	522
Losses on disposal of noncurrent assets	573	713	580
Postal and freight charges	392	341	325
Losses on written-off receivables	336	510	220
Legal and consulting fees	330	335	249
Other employee-related costs	292	185	260
Transfers to accruals	203	221	477
Travel expenses	128	137	140
Reimbursements	84	87	96
Allocations to individual and general valuation adjustments	66	53	96
Other expenses	637	437	538
	<b>6,520</b>	<b>6,605</b>	<b>6,777</b>

The losses on the disposal of noncurrent assets were mainly attributable to the scrapping of outside plant equipment.

The increase in other employee-related costs was essentially attributable to the higher addition to the accruals for the future deficit of the Civil Service Health Insurance Fund. In addition, the other employee-related costs included approximately

EUR 75 million (1998: EUR 89 million) for services provided by the Federal Agency as part of the business contract for services or work concluded in 1999.

Other operating expenses include EUR 598 million (1998: EUR 751 million) related to other accounting periods.

## (8) Financial income (expense) net

	1999 millions of €	1998 millions of €	1997 millions of €
Income from investments	137	142	233
of which from subsidiaries: € 12 million (1998: € 42 million; 1997: € 151 million)			
Income from profit transfer agreements	1,881	434	174
of which from tax allocations for the first time: € 323 million (1998: € 93 million; 1997: € 49 million)			
Expenses arising from loss transfers	(8)	0	(15)
<b>Income (loss) related to subsidiaries, associated and related companies</b>	<b>2,010</b>	<b>576</b>	<b>392</b>
Income from debt securities and long-term loan receivables	112	144	158
of which from subsidiaries: € 30 million (1998: € 60 million; 1997: € 60 million)			
Other interest and similar income	364	374	310
of which from subsidiaries: € 13 million (1998: € 4 million; 1997: € 2 million)			
Interest and similar expense	(2,932)	(3,320)	(3,502)
of which payable to subsidiaries: € 164 million (1998: € 73 million; 1997: € 14 million)			
<b>Net interest income (expense)</b>	<b>(2,456)</b>	<b>(2,802)</b>	<b>(3,034)</b>
<b>Write-downs on financial assets and marketable securities</b>	<b>(371)</b>	<b>(408)</b>	<b>(665)</b>
	<b>(817)</b>	<b>(2,634)</b>	<b>(3,307)</b>

Most of the income related to subsidiaries, associated and related companies came from profit and loss transfers of DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (DeTeMobil) (EUR 1,071 million), DeTeImmobilien (EUR 165 million), DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt am Main (EUR 161 million) and DeTeCSM (EUR 161 million).

The income from long-term loan receivables consisted primarily of interest on receivables from subsidiaries and Deutsche Post AG.

The improved net interest income almost entirely resulted from a reduction in interest expenses caused by the further scheduled reduction in borrowing.

The write-downs on financial assets and marketable securities mainly affected ATLAS TELECOMMUNICATIONS S.A., Brussels (Atlas) (EUR 225 million), TRI Technology Resources Industries Bhd., Kuala Lumpur (TRI) (EUR 29 million), and marketable securities (EUR 78 million).

## (9) Extraordinary income (losses)

	1999 millions of €	1998 millions of €	1997 millions of €
Extraordinary losses	(240)	-	-
	<b>(240)</b>	-	-

Extraordinary losses represents the expenses incurred in the course of the capital increase in June 1999.

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**(10) Taxes**

	1999 millions of €	1998 millions of €	1997 millions of €
<b>Income taxes</b>			
Current income taxes	1,430	2,441	1,571
Income from tax allocations	(14)	(60)	(25)
Deferred taxes	48	108	(44)
	<b>1,464</b>	<b>2,489</b>	<b>1,502</b>
<b>Other taxes</b>			
Taxes	16	160	360 <sup>1)</sup>
Income from tax allocations	0	0	(9)
	16	160	351
	<b>1,480</b>	<b>2,649</b>	<b>1,853</b>

<sup>1)</sup> Adjusted amounts due to reclassification of taxes on wages and salaries:  
Decrease of personnel costs by EUR 3 million; increase of tax expense by EUR 3 million.

Income taxes decreased by EUR 1,169 million. This was attributable to the lower income before taxes after deduction of tax-free income and the lower corporate income tax rate.

EUR 24.4 million of deferred taxes was a result of the 5% change in the tax rate used for calculation. Due to this change, future tax breaks are expected to be accordingly lower.

Other taxes included expenditure of EUR 117 million attributable to the current financial year. Of the EUR 101 million in income, EUR 22 million was related to the change in the trade tax allocation and EUR 79 million to a reversal of accruals as a result of a special value-added tax audit.

# Notes to the balance sheet

## (11) Intangible assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	805	545
Advance payments	52	113
	<b>857</b>	<b>658</b>

The increase in intangible assets of EUR 199 million was mainly due to the purchase of rights of use of telephone-number blocks required by the Regulatory Authority.

## (12) Property, plant and equipment

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Land and equivalent rights, and buildings including buildings on land owned by third parties	16,274	16,729
Technical equipment and machinery	28,311	31,553
Other equipment, plant and office equipment	1,280	1,510
Advance payments and construction in progress	482	490
	<b>46,347</b>	<b>50,282</b>

Capital expenditure related primarily to switching and transmission equipment, with additions of EUR 979 million, and to the outside plant network, with additions of EUR 528.

Prior to January 1, 1996, Deutsche Telekom's monopoly services were not subject to VAT. Accordingly, the Company was not able to reclaim, in the normal manner, the full amount of VAT paid on goods and services purchased. Instead, the Company was allowed to immediately reclaim 20 % of the VAT paid on goods and services purchased. The VAT paid on capitalized items was capitalized separately to the extent recoverable under German tax law (§ 15a UStG) beginning on January 1, 1996. After deduction of scheduled depreciation of EUR 667 million, capitalized VAT was completely written off in 1999. In addition to the depreciation, other operating income includes EUR 379 million refunds of VAT (cf. item (3), Other operating income).

The development of intangible assets and property, plant and equipment is shown in the table of noncurrent assets.

### (13) Financial assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Investments in subsidiaries	30,192	8,352
Loans to subsidiaries	2,248	970
Investments in associated companies	1,056	261
Other investments in related companies	1,798	3,156
Long-term loans to associated and related companies	31	246
Other investments in noncurrent securities	1,229	1,052
Other long-term loans	452	555
	<b>37,006</b>	<b>14,592</b>

Changes in investments in subsidiaries related mainly to the additional investment (EUR 10,882 million) in Deutsche Telekom Mobile Holdings Limited, London, by means of which the British mobile communications company One 2 One Personal Communications Limited, Borehamwood (One 2 One) was acquired, and to the additional investment (EUR 9,815 million) in NAB Holding in the context of the transfer of shares of the Sprint business areas FON and PCS. Further major additions included acquisitions of stakes in SIRIS S.A.S., Paris (EUR 732 million), and Eurobell (Holdings) PLC, Crawley (Eurobell) (EUR 121 million).

The increase in loans to subsidiaries comprised mainly loans of EUR 999 million to DeTeMobil. The purpose of the loans was to finance the successive increase in our stake in max. mobil. Telekommunikation Service GmbH, Vienna. DeTeMobil repaid other loans amounting to EUR 358 million. There were further major loans to Eurobell amounting to EUR 277 million, to DeTeAsia Holding GmbH, Bonn (DeTeAsia), amounting to EUR 181 million, and to DeTeCSM amounting to EUR 107 million.

In investments in associated companies, the most significant addition was the purchase of a stake worth EUR 759 million in HT-Hrvatske telekomunikacije d.d., Zagreb. In addition, there were investments in ATLAS (EUR 213 million) and DT-FT Italian Holding GmbH, Bonn (EUR 146 million), and acquisitions of new holdings in secunet Security Networks AG, Essen (EUR 17 million), and Estate Net Internet Marketing GmbH, Hamburg (EUR 8 million).

Disposals of historical costs resulted from the transfer of TRI (EUR 460 million) to DeTeAsia as well as the sale of shares in the following South-East Asian companies to DeTeAsia: Satelindo PT Satelit Palapa Indonesia, Jakarta (EUR 525 million), Asiacom Philippines, Inc., Makati City, Manila (EUR 120 million), Isla Communications Company, Inc., Cebu City (EUR 25 million), and Visay-Tech, Inc., Makati City, Manila (EUR 0.3 million).

The most significant addition to other investments in related companies was the purchase of further shares worth EUR 214 million of the Sprint business areas FON and PCS. The entire shareholding worth EUR 1,577 million was transferred to NAB Holding in December.

Furthermore, additions and disposals in respect of the three international satellite organizations INTELSAT, EUTELSAT and INMARSAT resulted from the fact that interests in the capital of the satellite companies are re-defined annually in accordance with use.

Valuation adjustments were made to the following investments: Atlas (EUR 225 million), TRI (EUR 29 million), DeTeSat Deutsche Telekom Gesellschaft für Satellitenkommunikation mbH, Bonn (EUR 10 million), VocalTec Communications Ltd., Herzeliya (EUR 10 million), Deutsche TELEKOM K.K., Tokyo (EUR 5.6 million), and EXPO Beteiligungsgesellschaft der Deutschen Wirtschaft mbH & Co. Verwaltungs-KG, Hanover (EUR 0.7 million).

Loans to associated and related companies were made up of long-term loans to six companies. The largest addition concerned an increase by EUR 180 million of a loan to Detecon Deutsche Telepost Consulting GmbH, Bonn. Later, this loan was completely repaid (EUR 359 million) in the context of the purchase of Eurobell.

Significant changes in other investments in noncurrent securities concerned additional specialized security funds and reinvestments in existing specialized security funds amounting to EUR 330 million. Specialized security funds amounting to EUR 154 million were sold. The current market value of all noncurrent securities on December 31, 1999, was EUR 287 million more than the net carrying amounts at the balance sheet date.

The main item under other long-term loans was a loan to Deutsche Post AG, Bonn (EUR 430 million). In addition, there were loans for the construction of hostels and other buildings as well as loans to employees.

The full list of financial assets is shown in the table of noncurrent assets. The full list of investment holdings is filed with the Commercial Registry of the Bonn District Court.

#### (14) Inventories, materials and supplies

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Raw materials and supplies	120	129
Work in process	78	48
Finished goods	146	183
Advance payments	1	1
	<b>345</b>	<b>361</b>

Raw materials and supplies included data communication equipment and telecommunications cable as well as spare parts and components which were intended for capital improvements.

The inventories of work in process mainly reflected customer orders for the installation of PABXs and construction services provided for KDG.

Inventories of terminal equipment held both for resale and leasing were included under finished goods.

Advance payments related mainly to orders for terminal equipment.

#### (15) Receivables

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Trade accounts receivable	3,329	3,210
Receivables from subsidiaries	1,347	65
Receivables from associated and related companies	236	119
	<b>4,912</b>	<b>3,394</b>

Receivables from subsidiaries increased by EUR 1,282 million as a result of spin-offs and the increase in intra-Group transactions.

The allowance for doubtful accounts and changes therein are as follows:

	1998	1999
January 1,	181	151
Charged to costs and expenses	84	70
Released and written off	(114)	(40)
December 31,	151	181

The changes in the 1999 financial year essentially affected the receivables due from customers and relating to telecommunications services.

#### (16) Other assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Tax receivables	1,360	195
Accrued interest	188	197
Receivables from reimbursements	72	30
Receivables from employees	38	54
Receivables from option premiums	5	8
Miscellaneous	142	77
	<b>1,805</b>	<b>561</b>

Tax receivables consisted mainly of prepaid income taxes, which accounted for EUR 1,045 million; EUR 597 million related to the current financial year and EUR 448 million to previous years. The amounts relating to previous years resulted from the retroactive changes in the allocation of trade tax. Most of the remaining tax receivables consisted of trade tax on capital relating to previous years (EUR 216 million), which also resulted from the retroactive change in the trade tax allocation.

Miscellaneous receivables included mainly payments into agency accounts in connection with planned acquisitions as well as advance payments on current assets.

The other assets were due in full within one year, except for EUR 1 million. They contained accrued interest receivables and nonchargeable input tax totaling EUR 201 (1998: EUR 232 million) which did not become legally due until after the balance sheet date.



### (17) Marketable securities

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Treasury shares	14	1
Other marketable securities	1,741	1,364
	<b>1,755</b>	<b>1,365</b>

459,900 of the remaining 5,645,178 shares on the balance sheet date resulted from the Employee Stock Purchase Plan introduced in connection with the Company's initial public

offering (IPO) in November 1996, and 5,185,278 shares from the capital increase in June 1999. These shares were carried in the balance sheet at their acquisition cost of EUR 2.56 each, totaling EUR 14.5 million. They represented 0.2 % of the capital stock.

The other marketable securities were mainly fixed-interest German securities (EUR 615 million), own bonds (EUR 565 million) held to maintain favorable trading conditions, callable step-up bonds (EUR 415 million) and Portuguese government bonds (EUR 80 million).

### (18) Liquid assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Checks	1	1
Petty cash and deposits at the Bundesbank	5	7
Cash in banks including deposits at Deutsche Postbank AG	910	4,914
	<b>916</b>	<b>4,922</b>

The liquid assets had the following overall maturities:

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
<b>Cash and cash equivalents</b>		
Original maturity less than 3 months	613	1,900
Original maturity longer than 3 months	303	3,022
	<b>916</b>	<b>4,922</b>

The decrease in liquid assets was mainly due to the purchase of One 2 One in October 1999.

### (19) Prepaid expenses, deferred charges, and deferred taxation

Prepaid expenses and deferred charges of EUR 305 million (Dec. 31, 1998: EUR 453 million) primarily related to prepaid personnel costs of EUR 164 million (Dec. 31, 1998: EUR 347 million) and deferred interest amounting to EUR 76 million (Dec. 31, 1998: EUR 15 million). Also included were discounts on loans of EUR 59 million (Dec. 31, 1998: EUR 81 million) which are amortized on a straight-line basis over the terms of the related liabilities.

Deferred tax assets pursuant to § 274 paragraph 2 of the German Commercial Code amounting to EUR 229 million (1998: EUR 278 million) were attributable in full to accruals not recognized under tax law. Half of the change compared with the previous year (EUR 49 million) was caused by a change in the tax rate used for calculation and half by a change in the underlying accruals. As a result of the change in the rate of taxation, future tax reductions are expected to be accordingly lower.

### (20) Shareholders' equity

At the Deutsche Telekom shareholders' meeting on May 27, 1999, the decision was taken to convert the capital stock, the approved capital and other amounts denominated in Deutsche Marks (DM) in the Articles of Incorporation into euros at the official conversion rate of EUR 1 = DM 1.95583.

As a result of the conversion of the capital stock into euros, the pro-rata amount per share was rounded up to EUR 2.56, the next highest amount in full cents. In order to achieve a round figure, a resolution was passed to increase the capital stock by EUR 9,714 million from Company funds without issuing new shares by converting part of additional paid-in capital.

This amendment to the Articles of Incorporation was entered in the Commercial Registry in Bonn on May 28, 1999.

A detailed account of the development of consolidated shareholders' equity for the years 1997, 1998 and 1999 is presented in a separate table before the notes to the consolidated financial statements.

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**(21) Capital stock**

In accordance with Deutsche Telekom's Articles of Incorporation, the Board of Management was entitled to increase the Company's capital stock by issuing new shares against contributions in kind or in cash by up to EUR 2,556 million by the end of 1999. EUR 1,824 million had already been used up in 1996.

With the agreement of the Supervisory Board, on June 3, 1999, the Deutsche Telekom Board of Management decided – on the basis of this authorization and in conformity with the Articles of Incorporation – to increase the capital stock by issuing up to 279,969,388 new individual no-par-value bearer shares worth a pro-rata amount of capital stock of EUR 2.56. The Board of Management also decided to exercise the right granted to it (by Article 5 paragraph 2 of the Articles of Incorporation) to create employee shares by issuing up to 5,934,646 new individual no-par-value bearer shares with an accounting par value of EUR 2.56.

In accordance with Article 5 paragraph 1 of the Articles of Incorporation, Deutsche Telekom's capital stock totaled EUR 7,756 million at December 31, 1999, representing 3,029.6 mil-

lion individual no-par-value shares. Each share entitles the bearer to one vote and to receive payment for a full dividend for the 1999 financial year. After deducting treasury shares held by the Company, capital stock with a dividend entitlement amounted to EUR 7,742.5 million (3,023.9 million shares).

In the course of the 1999 financial year, the Federal Republic sold a further 33 million shares to the federal corporation Kreditanstalt für Wiederaufbau (KfW), and issued 13 million loyalty shares to shareholders of the IPO. In the course of the capital increase, the Federal Republic and the KfW waived their stock subscription right, so that the Federal Republic's direct holding has now been reduced to approximately 43.18 % as at December 31, 1999. On December 31, 1999, therefore, the Federal Republic held a total of 1,308 million individual no-par-value shares (EUR 3,381 million) and the KfW 654 million (EUR 1,675 million). The remaining shares are widely held.

The Federal Republic, represented by the Federal Agency, has fulfilled its notification duties in accordance with § 21, paragraph 1 of the Security Trading Act.

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**(22) Additional paid-in capital**

EUR 5,774 million of the additional paid-in capital comes from the opening balance sheet of Deutsche Telekom on January 1, 1995, EUR 8,476 million from the share issue in 1996, and

EUR 9,881 million from the 1999 share issue. Furthermore, EUR 10 million was taken from the additional paid-in capital for the conversion of denominations from DM to euros.

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**(23) Retained earnings (deficit)**

Pursuant to § 272 paragraph 4 HGB, Deutsche Telekom has set up a reserve for treasury shares held by the Company in the amount corresponding to the amount for treasury shares taken up on the assets side of the balance sheet and charged to other retained earnings (deficit). Within the context of the share issue, this reserve increased in the course of the finan-

cial year by EUR 13 million as a result of the purchase of treasury shares.

Other retained earnings (deficit) remained unchanged in the year under review.

## (24) Accruals for pensions and similar obligations

### Civil servant retirement arrangements

Deutsche Telekom maintains a special pension fund (Unterstützungskasse) for its civil servants. Under the provisions of the German Posts and Telecommunications Reorganization Act (PTNeuOG), this fund is required to make pension and healthcare payments to retired staff and their surviving dependents. The size of the payments to be made to the special pension fund by Deutsche Telekom is governed by § 16 of the German Postal Workers Rights Act (Postpersonalrechtsgesetz). Pursuant to this legal provision, Deutsche Telekom is obligated to make annual contributions to the special pension fund of approximately EUR 1.5 billion for the years 1995 through 1999, and in subsequent years annual contributions equal to 33 % of the gross salaries of its active civil servants, including its civil servants on unpaid leave (cf. note (30), Guarantees and commitments, Other financial obligations). Under the provisions of the PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund on the one hand and amounts received from Deutsche Telekom and returns on assets on the other hand, and guarantees that the special pension fund is always in a position to fulfil the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom for amounts paid by it to the special fund.

### Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the VAP (Versorgungsanstalt der Deutschen Bundespost – Deutsche Bundespost Institution for Supplementary Retirement Pensions for Salaried Employees and Wage Earners) and the DTBS (Deutsche Telekom Betriebsrenten-Service), as well as obligations under Article 131 of the Basic Law (Grundgesetz – GG).

The calculation principles shown below were selected for the respective accounting method in order to reflect the particular conditions applicable to the different groups of future benefit recipients:

Direct obligations	minimum accrual in accordance with § 6a of the EStG “average (Heubeck old / Heubeck new)”
Special pension fund VAP	SFAS 87 “Heubeck new” SFAS 87 “average (Heubeck new / Heubeck old)”

“Heubeck old” and “Heubeck new” refer to the life expectancy tables used in the calculations; they were compiled by Dr. Klaus Heubeck in 1983 and 1998, respectively.

In addition, the assumptions shown in the following table were used:

	1999	1998
Discount rate	6.25 %	6.0 %
Projected salary increase	2.75 %	2.5 %
Expected return on assets	4.5 % (DTBS) / 6 % (VAP)	5.5 %
Projected pension increase	1.5 %	1.5 %

On the basis of these assumptions, pension obligations as at Dec. 31, 1999 were accounted for as follows:

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Direct pension obligation	243	200
Indirect pension obligation	2,694	2,767
	<b>2,937</b>	<b>2,967</b>
Obligations under Article 131 of the Basic Law (GG)	16	15
	<b>2,953</b>	<b>2,982</b>

Taking into consideration the assets transferred to other entities, the pension obligations were recorded in full in the balance sheet.

The amount of the accrual for direct and indirect pension obligations determined in accordance with § 6a of the EStG was EUR 2,700 million (Dec. 31, 1998: EUR 2,634 million) on the basis of the old life expectancy tables.

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefit formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions have agreed on arrangements for the protection of vested VAP benefits.

Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer. Deutsche Telekom will credit further amounts to this account in the future; when the insured event occurs, the account balance will be paid out in full or in installments or converted into a pension. If the relevant employees had not reached the age of 35 and had been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The remaining obligations are processed by the DTBS.

Benefits relating to other direct pension obligations are generally determined on the basis of salary levels and the years of service.

	Dec. 31, 1999 millions of €	Dec.31, 1998 millions of €
Actuarial present value of benefits:		
Vested	2,784	2,773
Non-vested	304	344
<b>Accumulated benefit obligaton</b>	<b>3,088</b>	<b>3,117</b>
Effect of projected future salary increases	66	75
<b>Projected benefit obligation</b>	<b>3,154</b>	<b>3,192</b>
Plan assets at fair value	(289)	(213)
<b>Projected benefit obligation in excess of plan assets</b>	<b>2,865</b>	<b>2,979</b>
Unrecognized net gains (losses)	33	(41)
<b>Accrual for pensions</b>	<b>2,898</b>	<b>2,938</b>

In these financial statements, the direct obligations are measured in accordance with § 6a of the EStG. This is EUR 39 million (Dec. 31, 1998: EUR 29 million) higher than the amount in accordance with SFAS No. 87. Therefore, the total obliga-

tions (excluding special obligations) reported in the balance sheet including actuarial profits or losses is EUR 2,937 million (Dec. 31, 1998: EUR 2,967 million) in accordance with Article 131 of the Basic Law (Grundgesetz - GG).

	Dec. 31, 1999 millions of €	Dec.31, 1998 millions of €
Service cost	68	67
Interest cost	186	193
Actual return on plan assets	(12)	(9)
<b>Net periodic pension cost</b>	<b>242</b>	<b>251</b>

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**(25) Other accruals**

	<b>Dec. 31, 1999</b>	Dec. 31, 1998
	<b>millions of €</b>	millions of €
<b>Taxes</b>		
Trade taxes	571	229
Corporate income tax	188	302
Other taxes	300	230
	<b>1,059</b>	<b>761</b>
<b>Other accruals</b>		
Other personnel accruals	1,031	906
Outstanding invoices	660	347
Personnel restructuring	247	449
Risks in respect of equipment	226	205
Litigation costs	199	265
Environmental remediation	170	193
Anticipated losses related to incomplete contracts	132	98
Residual vacation	112	145
Investment risks	83	81
Refund	78	81
Sickness cost contributions	45	47
Third-party rights of ownership	34	75
Other	255	321
	<b>3,272</b>	<b>3,213</b>
	<b>4,331</b>	<b>3,974</b>

Other personnel accruals consist mainly of accruals for risk settlement payments to the Civil Service Health Insurance Fund.

The utilization of the personnel restructuring accrual continued according to plan in 1999.

## (26) Liabilities

	Dec. 31, 1999 millions of €				Dec. 31, 1998 millions of €			
	Total	of which due			Total	of which due		
		within one year	in one to five years	after five years		within one year	in one to five years	after five years
<b>Debt</b>								
Bonds and debentures	29,698	3,985	25,037	676	35,011	5,343	19,741	9,927
Liabilities to banks	5,407	3,509	1,179	719	3,038	197	1,429	1,412
	<b>35,105</b>	<b>7,494</b>	<b>26,216</b>	<b>1,395</b>	<b>38,049</b>	<b>5,540</b>	<b>21,170</b>	<b>11,339</b>
<b>Other liabilities</b>								
Advances received on orders	25	25	-	-	23	8	15	-
Trade accounts payable	1,413	1,410	1	2	1,364	1,356	8	-
Liabilities to subsidiaries	4,169	3,192	-	977	2,288	1,265	-	1,023
Liabilities to other companies in which an equity interest is held	46	46	-	-	38	38	-	-
Other liabilities	2,413	1,841	97	475	2,621	2,049	21	551
of which: from taxes	(279)	(279)	(-)	(-)	(178)	(178)	(-)	(-)
of which: from social security	(37)	(37)	(-)	(-)	(41)	(41)	(-)	(-)
	<b>8,066</b>	<b>6,514</b>	<b>98</b>	<b>1,454</b>	<b>6,334</b>	<b>4,716</b>	<b>44</b>	<b>1,574</b>
<b>Total liabilities</b>	<b>43,171</b>	<b>14,008</b>	<b>26,314</b>	<b>2,849</b>	<b>44,383</b>	<b>10,256</b>	<b>21,214</b>	<b>12,913</b>

Liabilities to subsidiaries increased by EUR 1,881 million as a result of spin-offs and the increase in intra-Group transactions.

The following table shows the composition of other liabilities:

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Interest	1,274	1,385
Loan notes	556	556
Tax liabilities	279	178
Payroll	68	76
Social insurance contributions	37	41
Severance payments	14	21
Unused telephone units on phone cards sold	-	238
Other	185	126
	<b>2,413</b>	<b>2,621</b>

The liabilities from unused telephone units on phone cards sold were transferred to Deutsche Telekom Card Service GmbH, Nuremberg, in 1999.

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**Notes to the statement of cashflows**

The statement of cashflows has been prepared in conformity with International Accounting Standard No. 7, Cashflow Statements. Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents for cash flow reporting purposes. These cash and cash equivalents decreased by EUR 1,287 million to EUR 613 million.

Specifically, cash was provided and used as follows:

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**(27) Net cash provided by operating activities**

Net cash provided by operating activities decreased by EUR 3,638 million to EUR 7,802 million in 1999. This is mainly due to the following effects: Net income, adjusted by the effects of the noncash transfer of Sprint shares, decreased com-

pared with 1998; the increase in income related to subsidiaries, associated and related companies was offset by a reduction in depreciation and amortization.

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**(28) Net cash used for investing activities**

A total of EUR 18,788 million was used for capital expenditures in networks and financial investments. This was financed from the net cash provided by operating activities and the new

funds generated by the capital increase. The increase compared to the previous year resulted from the purchase of One 2 One.

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**(29) Net cash provided by (used for) financing activities**

Net cash amounting to EUR 5,940 million provided by (used for) financing activities was mainly characterized by the new funds generated by the increase in shareholders' equity of EUR 10,613 million and, in the opposite direction, by a net

repayment of debt amounting to EUR 2,990 million and the EUR 1,683 million dividend payment to shareholders in respect of the 1998 financial year.

## (30) Guarantees and commitments, other financial obligations

Guarantees and commitments	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Guarantees	27	8
Legal liability arising from collateral furnished for third parties	45	-
Liabilities arising from warranty agreements	2,252	1,309 <sup>1)</sup>
	<b>2,324</b>	<b>1,317</b>

<sup>1)</sup> of which to subsidiaries: EUR 2,229 million; 1998: EUR 1,283 million

Guarantees included litigation, rental and bank guarantees.

The legal liability arising from collateral furnished for third parties includes collateral furnished for a bank credit in connection with Deutsche Telekom's commitment to Visay-Tech, Inc., Manila.

The liabilities arising from warranty agreements were primarily on behalf of Deutsche Telekom Finance B.V., Amsterdam, with EUR 2.0 billion, and DeTeMobil, with EUR 77 million. Deutsche Telekom has taken over a warranty for Deutsche Telekom B.V., Amsterdam for the benefit of creditors of the debt issues of the "DM 2,000,000,000.00 5 % Deutsche Mark bond" from 1998 to 2008, as well as a warranty for the benefit of creditors of debt agreements drawn under the Debt Issuance Program.

The bond was made up of two tranches of EUR 1,022 million and EUR 978 million respectively. The warranty for the bond in the amount of EUR 1,022 million is reported under liabilities arising from warranty agreements. The warranty for the bond in the amount of EUR 978 million is not reported under liabilities arising from warranty agreements, since the funds were passed on from the bond to Deutsche Telekom.

Other financial obligations	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Obligations under rental and lease agreements of which to subsidiaries: € 13,156 million (1998: € 13,466 million)	13,807	14,193
Present value of payments to special pension fund	10,635	11,453
Purchase commitments, of which to subsidiaries: € 2,686 million (1998: € 361 million)	3,498	1,541
Contingent obligations arising from company law of which subsidiaries: € 15 million (1998: € 0 million)	2,299	1,627
<b>Total</b>	<b>30,239</b>	<b>28,814</b>

The obligations under rental and lease agreements related to a period of five years. They included rental obligations to DeTe Immobilien totaling EUR 13,156 million. The decline in obligations under rental and lease agreements was attributable to a reduction in the use of real estate by Deutsche Telekom.

The present value of payments required to be made by Deutsche Telekom, in accordance with the Postneuordnungsgesetz on the basis of Dr. Klaus Heubeck's 1998 life expectancy tables, to the special pension fund for civil servants amounted to EUR 10.7 billion at December 31, 1999, of which EUR 4.7 billion related to future years of service of the active civil servants. The reduction in the present value of EUR 818 million in comparison to the previous year resulted, on the one hand, from the lowering effect of the EUR 1.5 million payment to pension funds in 1999 and, on the other hand, from the increasing effect of compounding future contributions.

Purchase commitments essentially included obligations to accept capital spending projects amounting to EUR 1,906 million (of which DeTe Immobilien: EUR 1,619 million) and a purchase commitment of EUR 961 million to DeTe Immobilien.

As part of the MagyarCom joint venture agreement, Ameritech Corporation has the option during the term of the agreement to sell certain of its shares in the joint venture to Deutsche Telekom. The exercise price of the put option is the fair market value of the corresponding MATAV shares plus a US\$ 60 million control premium. Had the option been exercised, the maximum payment required at the balance sheet date would have been EUR 2,283 million (EUR 1,627 million) plus interest.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals included the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom Group.



### (31) Derivative financial instruments

The volume of transactions outstanding at the balance sheet date is as follows:

millions of €	Notional amounts				Fair values <sup>1)</sup>				
	Remaining term			Total	Hedged	Remaining term			Total
within one year	in 1-5 years	after 5 years	within one year			in 1-5 years	after 5 years		
<b>Interest-rate-based instruments</b>									
Interest rate options	-	307	-	307	307	-	-	-	-
FRAs	900	100	-	1,000	1,000	-	-	-	-
FFDs	600	-	-	600	-	(1)	-	-	(1)
Futures	51	-	-	51	51	-	-	-	-
Interest rate swaps	64	3,000	3,716	6,780	2,456	1	(3)	(36)	(38)
Interest rate/ exchange rate swaps	-	77	-	77	-	-	6	-	6
<b>Subtotal</b>	<b>1,615</b>	<b>3,484</b>	<b>3,716</b>	<b>8,815</b>	<b>3,814</b>	<b>-</b>	<b>3</b>	<b>(36)</b>	<b>(33)</b>
<b>Foreign-exchange-based instruments</b>									
Future exchange transactions short	8,111	-	-	8,111	7,006	(71)	-	-	(71)
Future exchange transactions long	323	-	-	323	-	10	-	-	10
<b>Subtotal</b>	<b>8,434</b>	<b>-</b>	<b>-</b>	<b>8,434</b>	<b>7,006</b>	<b>(61)</b>	<b>-</b>	<b>-</b>	<b>(61)</b>
<b>Total</b>	<b>10,049</b>	<b>3,484</b>	<b>3,716</b>	<b>17,249</b>	<b>10,820</b>	<b>(61)</b>	<b>3</b>	<b>(36)</b>	<b>(94)</b>

<sup>1)</sup> Derivative instruments which qualify for hedge accounting are not shown here.

Derivative financial instruments are always used to manage exposure to currency risk in foreign exchange transactions and to manage fluctuations in interest rates for liquid assets and loans. In general, the Company's policy is to hold or issue financial instruments for other than trading purposes. Derivative financial instruments are subject to internal controls.

Derivatives classified as other than trading are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rates inherent in the Company's assets, liabilities and positions. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedges are accounted for on the same basis as the underlying position.

The Company uses interest rate swaps, forward rate agreements, purchased swaptions and exchanged traded futures to reduce its exposure to interest rate and market value volatility on certain debt issues and deposit instruments and manage its interest expense by setting an optimal mix of floating and fixed rate debt and deposit instruments.

Gains or losses related to the changes in value of interest rate swaps are generally not recognized. Macro interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a com-

ponent of net interest expense; gains are recognized upon realization. Interest rate swaps not related to any underlying asset, liability or position (mainly due to such asset, liability or position having been eliminated) are assigned to the interest instrument valuation portfolio. Unrealized gains and losses from changes in market value are netted and resultant net losses are recognized as a component of net interest expense. The interest differential to be paid or received on interest rate swaps is recognized in the statement of earnings, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps terminated prior to their maturity are recognized currently as a decrease or increase in net interest expense.

The Company enters into Forward Rate Agreements (FRAs) to manage the interest performance of its deposit portfolios. Deposit portfolio FRAs are marked to market and resultant negative values are accrued, unrealized gains are not recorded. The interest differential paid or received is recognized in the statement of earnings, as incurred, as a component of net interest expense.

The Company uses futures contracts associated with fixed interest investments. Unrealized losses on futures contracts are recognized currently. The Company uses foreign currency forward contracts to reduce fluctuations in foreign currency cashflows related to revenue and capital expenditure and payments to international third party telecommunications carriers. Foreign currency forward contracts hedging firm commitments

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to invest in a foreign entity are not valued at the balance sheet date. The investment in the purchased entity is booked using the foreign exchange rate fixed by the foreign currency forward contract. Foreign currency forward exchange contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities.

The Company purchases options to hedge investments in foreign entities. An option purchased to hedge a firm commitment to invest in a foreign entity is included in other assets and valued at purchase cost. Upon exercise of the option, the premium is included in the purchase cost of the asset. An option purchased which hedges a planned transaction is included in foreign currency portfolios referred to above. Upon exercise the option premium is included in the underlying transaction. Options expiring unexercised are recognized currently and assigned to other operating costs or revenues. Foreign currency forward exchange contracts not related to any underlying transaction (mainly due to such transaction having been eliminated) are assigned to a portfolio for each currency. Unrealized gains and losses from changes in market value are netted and resultant net losses are recognized as a component of net interest expense.

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**(32) Remuneration of the Supervisory Board and the Board of Management**

The Supervisory Board received no Supervisory Board remuneration or meeting attendance fees for the 1999 financial year. Subject to the approval of the shareholders' meeting on May 25, 2000, Supervisory Board remuneration and meeting attendance fees for the 1999 financial year is to amount to EUR 554,098.00.

The remuneration to be paid to former members of the Board of Management and their surviving dependents amounts to EUR 476,541.13. Pension accruals totaling EUR 4,431,869.85 have been established for this group of persons. Pension obligations to such persons for which no reserve had to be established amounted to EUR 2,847,686.66.

Provided that the 1999 financial statements of Deutsche Telekom are approved in their current form, the remuneration of the Board of Management will amount to EUR 7,399,841.27.

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**(33) Proposal for appropriation of net income**

The statement of income reflects net income of EUR 9,728,615,958.24. In accordance with § 22 paragraph 3 of the Articles of Incorporation, EUR 4,857,272,871.36 of this net income was transferred to retained earnings. Following inclusion of the unappropriated net income of EUR 13,480,930.44 carried forward from 1998, this gives rise to total unappropriated net income of EUR 4,884,824,017.32.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of EUR 1,874,854,658.12. This represents a dividend of EUR 0.62 per individual no-par-value share on the dividend-bearing capital stock of EUR 7,741,336,299.68. The Supervisory Board and the Board of Management further propose that a sum of EUR 2,965,492,910.94 be transferred to other retained earnings. The remaining balance of EUR 44,476,448.26 will be carried forward as part of unappropriated net income.

**Bonn, March 27, 2000**

**Deutsche Telekom AG  
Board of Management**

Dr. Ron Sommer

Josef Brauner

Detlev Buchal

Dr. Karl-Gerhard Eick

Jeffrey A. Hedberg

Dr. Hagen Hultzsch

Dr. Heinz Klinkhammer

Gerd Tenzer

# Auditor's report

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

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

Our audit has not led to any reservations.

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

Frankfurt am Main, March 27, 2000

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Dickmann)  
Wirtschaftsprüfer

(Laue)  
Wirtschaftsprüfer

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