Consolidated financial statements 2000

Consolidated statement of income.

	Note	2000 millions of €	1999 millions of €	1998 millions of €
Net revenue	(1)	**40,939**	**35,470**	**35,144**
Changes in investories and other own capitalized costs	(2)	864	947	990
Total operating performance		**41,803**	**36,417**	**36,134**
Other operating income	(3)	11,002	1,871	2,069
Goods and services purchased	(4)	(11,950)	(7,667)	(5,540)
Personnel costs	(5)	(9,718)	(9,210)	(9,170)
Depreciation and amortization	(6)	(12,991)	(8,466)	(9,037)
Other operating expenses	(7)	(10,424)	(6,872)	(6,068)
Financial income (expense), net	(8)	(1,230)	(2,889)	(3,288)
Results from ordinary business activities		**6,492**	**3,184**	**5,100**
Extraordinary income (losses)	(9)	(159)	(240)	–
Taxes	(10)	(318)	(1,420)	(2,654)
Income after taxes		**6,015**	**1,524**	**2,446**
(Income) losses applicable to minority shareholders	(11)	(89)	(271)	(203)
Net income		**5,926**	**1,253**	**2,243**
Earnings per share in €		1.96	0.43	0.82

Consolidated balance sheet.

Assets	Note	**Dec. 31, 200 millions of €**	Dec. 31, 1999 millions of €
Noncurrent assets			
Intangible assets	(12)	35,754	15,002
Property, plant and equipment	(13)	54,137	59,036
Financial assets	(14)	16,715	7,945
		106,606	**81,983**
Current assets			
Inventories, materials and supplies	(15)	1,587	1,046
Receivables	(16)	7,159	5,666
Other assets	(17)	3,671	2,069
Marketable securities	(18)	2,370	1,770
Liquid assets	(19)	1,893	1,172
		16,680	**11,723**
Prepaid expenses, deferred charges and deferred taxation	(20)	**956**	**931**
		124,242	**94,637**
Shareholders' equity and liabilities			
Shareholders' equity	(21)		
Capital stock	(22)	7,756	7,756
Additional paid-in capital	(23)	24,290	24,121
Retained earnings (deficit)	(24)	398	1,558
Unappropriated net income carried forward from previous year		44	13
Net income		5,926	1,253
Minority interest	(25)	4,302	988
		42,716	**35,689**
Accruals			
Pensions and similar obligations	(27)	3,330	3,109
Other accruals	(28)	8,055	6,181
		11,385	**9,290**
Liabilities	(29)		
Debt		60,357	42,337
Other		9,130	6,593
		69,487	**48,930**
Deferred income		**654**	**728**
		124,242	**94,637**

Consolidated noncurrent assets.

millions of €	Acquisition or production cost: Jan. 1, 2000	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Dec. 31, 2000	Depreciation, amortization and write-downs: Jan. 1, 2000	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Reinstated depreciation	Dec. 31, 2000	Net carrying amount: Dec. 31, 2000	Dec. 31, 1999
Intangible assets																	
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	2,904	(157)	202	15,894	167	115	18,791	1,403	(7)	137	986	137	3	0	2,385	16,406	1,501
Goodwill statements																	
from individual company financial statements	9	0	(1)	0	0	0	8	8	0	0	0	0	0	0	8	0	1
arising from consolidation	13,850	(87)	57	7,143	14	0	20,949	423	(23)	41	1 247	2	0	0	1,686	19,263	13,427
Advance payments	73	0	1	86	2	(73)	85	0	0	0	0	0	0	0	0	85	73
	16,836	**(244)**	**259**	**23,123**	**183**	**42**	**39,833**	**1,834**	**(30)**	**178**	**2,233**	**139**	**3**	**0**	**4,079**	**35,754**	**15,002**
Property, plant and equipment																	
Land and equivalent rights, and buildings including buildings on land owned by third parties	20,163	(2)	177	263	754	63	19,910	2,926	(1)	46	2,683	169	9	0	5,494	14,416	17,237
Technical equipment and machinery	72,056	(33)	1,719	3,858	5,884	1,597	73,313	33,879	(35)	1,084	7,092	4,249	13	8	37,792	35,521	38,177
Other equipment, plant and office equipment	5,168	(22)	242	1,049	1,032	129	5,534	3,077	(11)	145	970	754	(25)	0	3,402	2,132	2,091
Advance payments and construction in progress	1,542	(14)	2	2,393	19	(1,831)	2,073	11	0	(19)	13	0	0	0	5	2,068	1,531
	98,929	**(71)**	**2,140**	**7,563**	**7,689**	**(42)**	**100,830**	**39,893**	**(47)**	**1,256**	**10,758**	**5,172**	**(3)**	**8**	**46,693**	**54,137**	**59,036**
Financial assets																	
Investments in unconsolidated subsidiaries	86	0	11	67	3	10	171	20	0	1	0	3	0	0	18	153	66
Loans to unconsolidated subsidiaries	72	0	0	6	21	0	57	13	0	0	0	13	0	0	0	57	59
Investments in associated companies	1,737	135	1	5,376	333	425	7,341	491	23	0	178	14	0	0	678	6,663	1,246
Other investments in related companies	3,790	0	1	5,897	1,733	(415)	7,540	137	0	0	71	124	0	0	84	7,456	3,653
Long-term loans to associated and related companies	264	1	23	573	38	(20)	803	36	0	11	73	35	0	0	85	718	228
Other investments in noncurrent securities	2,046	1	17	431	1,365	0	1,130	13	0	0	18	7	0	0	24	1,106	2,033
Other long-term loans	660	0	1	32	130	0	563	0	0	0	1	0	0	0	1	562	660
	8,655	**137**	**54**	**12,382**	**3,623**	**0**	**17,605**	**710**	**23**	**12**	**341**	**196**	**0**	**0**	**890**	**16,715**	**7,945**
	124,420	**(178)**	**2,453**	**43,068**	**11,495**	**0**	**158,268**	**42,437**	**(54)**	**1,446**	**13,332**	**5,507**	**0**	**8**	**51,662**	**106,606**	**81,983**

Consolidated statement of cash flows.

	Note	2000 millions of €	1999 millions of €	1998 millions of €
Net income		5,926	1,253	2,243
Income applicable to minority shareholders		89	271	203
Income after taxes		**6,015**	**1,524**	**2,446**
Depreciation and amortization		12,991	8,466	9,037
Income tax expense		194	1,380	2,477
Net interest expense		3,097	2,546	2,962
Net losses from the disposition of noncurrent assets		(4,796)	540	516
Results from associated companies		(1,890)	265	382
Other noncash income		(2,661)	28	(50)
(Increase)/decrease in capitalized working capital [1]		(1,791)	(1,399)	403
(Increase)/decrease in accruals		1,078	478	151
(Increase)/decrease in other working capital carried as a liability [2]		1,391	243	–
Income taxes paid		(871)	(2,040)	(2,012)
Dividends received		189	172	110
Cash generated from operations		**12,946**	**12,203**	**16,422**
Interest paid		(3,873)	(3,100)	(3,403)
Interest received		927	485	472
Net cash provided by operating activities	(30)	**10,000**	**9,588**	**13,491**
Cash outflows from investments in				
– intangible assets		(15,980)	(881)	(528)
– property, plant and equipment		(7,556)	(5,093)	(4,263)
– financial assets		(8,487)	(3,480)	(2,733)
– consolidated companies		(4,343)	(12,633)	–
Cash inflows from disposition of				
– intangible assets		10	14	8
– property, plant and equipment		655	171	183
– financial assets		4,474	888	524
– shareholdings in consolidated companies and business units		3,114	2	–
Net change in short-term investments				
and marketable securities		401	2,328	(701)
Other		6	–	(1)
Net cash used for investing activities	(31)	**(27,706)**	**(18,684)**	**(7,511)**
Issuance of short-term debt		34,959	4,682	80
Repayments of short-term debt		(35,739)	(5,759)	(4,860)
Issuance of medium and long-term debt		19,708	1,833	1,595
Repayments of medium and long-term debt		(2,408)	(1,687)	(1,830)
Dividends		(1,914)	(1,718)	(1,764)
Proceeds from share offering		3 255	10 613	–
Changes in minority interests		2	1	(18)
Net cash provided by (used for) financing activities	(32)	**17,863**	**7,965**	**(6,797)**
Effect of foreign exchange rate changes				
on cash and cash equivalents		(29)	(55)	6
Net increase (decrease) in cash and cash equivalents		**128**	**(1,186)**	**(811)**
Cash and cash equivalents, at beginning of year		**878**	**2,064**	**2,875**
Cash and cash equivalents, at end of year		**1,006**	**878**	**2,064**

[1] Change in liabilities, other assets, inventories, materials and supplies and prepaid expenses and deferred charges.
[2] Change in other liabilities (which do not relate to financing activities) and deferred income.

Consolidated statement of shareholders' equity.

millions of €	Shares issued and outstanding (in thousands)	Capital stock nominal value	Additional paid-in capital	Retained earnings: Difference from currency translation	Retained earnings: Treasury stock	Retained earnings: Other retained earnings (deficit)	Retained earnings: Total	Unappropriated net income carried forward from previous year	Net income	Minority interest	Total
Balance at Jan. 1, 1998	**2,743,700**	**7,014**	**14,250**	**(368)**	**1**	**1,288**	**921**	**1**	**689**	**741**	**24,616**
Changes in the											
composition of the											
Deutsche Telekom Group										(17)	**(17)**
Dividends for 1997									(1,684)	(73)	**(1,757)**
Unappropriated net income											
carried forward fom											
previous year								5	(5)		**–**
Net income									2,243	203	**2,446**
Difference from											
currency translation				(135)			(135)			(89)	**(224)**
Balance at Dec. 31, 1998	**2,743,700**	**7,014**	**14,250**	**(503)**	**1**	**1,288**	**786**	**6**	**2,243**	**765**	**25,064**
Changes in the											
composition of the											
Deutsche Telekom Group										(1)	**(1)**
Dividends for 1998									(1,683)	(41)	**(1,724)**
Unappropriated net income											
carried forward from											
previous year								7	(7)		**–**
Transfer to retained earnings						553	553		(553)		**–**
Increase in nominal											
value of capital stock		10	(10)								**–**
Proceeds from											
share offering	285,904	732	9,881								**10,613**
Transfer to reserve											
for treasury stock					13	(13)	–				**–**
Net income									1,253	271	**1,524**
Difference from											
currency translation				219			219			(6)	**213**
Balance at Dec. 31, 1999	**3,029,604**	**7,756**	**24,121**	**(284)**	**14**	**1,828**	**1,558**	**13**	**1,253**	**988**	**35,689**
Changes in the											
composition of the											
Deutsche Telekom Group						(31)	**(31)**			3,259	**3,228**
Dividends for 1999						(621)	**(621)**		(1,253)	(25)	**(1,899)**
Unappropriated net income											
carried forward from											
previous year						(31)	**(31)**	31			**–**
Increase in nominal											
value of capital stock			169								**169**
Transfer from reserve											
for treasury stock					(7)	7					
Net income									5,926	89	**6,015**
Difference from											
currency translation				(477)			**(477)**			(9)	**(486)**
Balance at Dec. 31, 2000	**3,029,604**	**7,756**	**24,290**	**(761)**	**7**	**1,152**	**398**	**44**	**5,926**	**4,302**	**42,716**

Notes to the consolidated financial statements.
Summary of accounting policies.

Description of business and relationship with the Federal Republic of Germany.
The Deutsche Telekom Group (Deutsche Telekom) is a full-service telecommunications provider whose major lines of business include providing network communications, mobile communications, data communications and carrier services, broadcasting and broadband cable services for television and radio stations, value-added and multimedia services as well as international business. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

Deutsche Telekom's principal business is providing telecommunications services, comprising more than 90 % of total operating revenues, operating profits and identifiable assets. Deutsche Telekom's business is conducted predominantly in Germany and is, therefore, within a single geographic area for reporting purposes.

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

The number of Deutsche Telekom shareholders increased considerably once again as a result of the sale of further shares from the holdings of a federal corporation, the Kreditanstalt für Wiederaufbau (KfW), which sold 200 million of the shares it held. On December 15, 2000, the KfW took over 55 million Deutsche Telekom shares previously held by France Telecom. Overall, the KfW's shareholding in Deutsche Telekom was reduced to 16.8 % as a result of these transactions. Thus, the Federal Republic's total direct and indirect shareholding in Deutsche Telekom as of December 31, 2000 amounts to approximately 59.64 %, and the direct shareholding to 42.83 %. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

In accordance with § 21 paragraph 1 of the Security Trading Act (WpHG), the Federal Agency informed Deutsche Telekom in its letter of December 11, 1998 that its share of the voting rights in Deutsche Telekom had fallen below the 50 % threshold on December 10, 1998 to 49.35 %. According to a letter of January 29, 2001, the Federal Agency held 1,297,859,655 shares in Deutsche Telekom as at December 31, 2000, a shareholding of 42.83 %. In accordance with § 21 paragraph 1 of the WpHG, the KfW informed Deutsche Telekom in its letter of December 22, 1997 that its share of the voting rights in Deutsche Telekom had exceeded the 10 % threshold to 13.47 %. As reported in a letter of January 26, 2001, the KfW held 509,164,599 shares in Deutsche Telekom as at December 31, 2000, a shareholding of 16.81 %.

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

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

Summary of significant accounting principles.
The annual financial statements and the management report of the Deutsche Telekom Group have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and German Stock Corporation Law (Aktiengesetz – AktG).

In addition to Frankfurt and other German stock exchanges, Deutsche Telekom shares are also traded in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE). As a result of special reporting requirements, in particular to the U.S. Securities and Exchange Commission (SEC), the Company uses, to a considerable extent, accounting and valuation principles in line with those of U.S. GAAP (generally accepted accounting principles – GAAP) applicable at the balance sheet date. Deviations between the accounting principles in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP which contradict those of U.S. GAAP. As far as possible, Deutsche Telekom's aim is to publish its financial statements in accordance with the principles of both German and U.S. GAAP so that the reconciliation positions included in the notes to the financial statements are kept to a minimum.

These consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the disclosure and classification requirements of the HGB cannot be conformed to U.S. GAAP. Differences in accounting and valuation principles applied in Deutsche Telekom's financial statements and those of U.S. GAAP are shown in a separate reconciliation.

Whereas the HGB requires only one year of comparative figures for the statement of income, the SEC requires the two previous years. The SEC also requires three years of cash flow statements and statements of shareholders' equity.

The consolidated balance sheet and the consolidated statement of income are prepared in accordance with the classification requirements of § 298 HGB, in combination with § 266 and § 275 HGB. The income statement is prepared using the total cost method. All amounts shown, except per share amounts, are in millions of euros (€/EUR). The consolidated financial statements have been restated from DM into euros using the official fixed conversion rate of EUR 1 = DM 1.95583. Certain items have been combined in order to enhance the informative value and understanding of the consolidated financial statements. These items are shown separately in the notes. In case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with § 297 paragraph 1 sentence 2 HGB, the consolidated accounts also include a consolidated statement of cash flows and a segment report; in addition, the consolidated accounts also include a consolidated statement of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the consolidated financial statements.

The consolidated financial statements are prepared in accordance with uniform accounting and valuation principles. The accounting policies used in the consolidated financial statements differ from those used in the unconsolidated financial statements of the parent company. Such differences, mostly applied to conform with U.S. GAAP, include the following:

- Property, plant and equipment leased under contracts for which the risks and rewards of ownership have been assumed are capitalized. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments are included as liabilities.

- Interest incurred while items included in property, plant and equipment were under construction has been added to construction costs.

- Direct pension obligations are measured in accordance with SFAS No. 87, using valuation methods consistent with those used for indirect pension obligations in the unconsolidated financial statements of Deutsche Telekom AG. The increase in the average life expectancy is taken into account in the measurement of all pension obligations in the consolidated financial statements.

- In the measurement of the compensation obligations to the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the additional accruals required according to the new 1998 life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998") were recorded in the 1998 financial year, thus fully affecting net income. In contrast to the unconsolidated financial statements of Deutsche Telekom AG, where the accruals are spread over 4 financial years, this accrual was made in full in the consolidated financial statements.

- Accruals for the internal costs of preparing the annual financial statements are not recorded.

- Investment grants received are recorded as reductions of the acquisition costs of assets.

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

Consolidated group.
The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG and its subsidiaries.

The subsidiaries, associated companies and other related companies have been included in the consolidated financial statements in accordance with the following criteria:

- Subsidiaries are companies in which Deutsche Telekom directly or indirectly has majority voting rights or management control.
- Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20 % and 50 % of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.
- Companies in which Deutsche Telekom holds less than 20 % of the voting rights are carried in the consolidated financial statements at the lower of acquisition cost or market value and classified as other investments in related companies.

The changes in the composition of the Deutsche Telekom Group in 2000 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 2000	38	61	**99**
Additions	34	75	**109**
Disposals	4	15	**19**
Reclassifications	12	8	**20**
December 31, 2000	80	129	**209**
Associated companies included at equity			
January 1, 2000	15	22	**37**
Additions	5	8	**13**
Disposals	0	3	**3**
Reclassifications	4	1	**5**
December 31, 2000	24	28	**52**
Other unconsolidated subsidiaries and other investments in related companies (greater than 5 %)			
January 1, 2000	79	33	**112**
Additions	32	36	**68**
Disposals	5	6	**11**
Reclassifications	(16)	(9)	**(25)**
December 31, 2000	90	54	**144**
Total			
January 1, 2000	132	116	248
Additions	71	119	190
Disposals	9	24	33
Reclassifications	–	–	–
December 31, 2000	**194**	**211**	**405**

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 80 (Dec. 31, 1999: 38) domestic and 129 (Dec. 31, 1999: 61) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

The most significant subsidiary consolidated for the first time in 2000 is debis Systemhaus including its subgroup financial statements.

The changes in the composition of the Deutsche Telekom Group have had the following effects on the consolidated financial statements:

Effects on the consolidated statement of income (in millions of €):	
Revenue	3,425
Goods and services purchased	(1,655)
Personnel costs	(661)
Depreciation and amortization	(1,508)
Other income/(expenses)	(1,309)
Income after taxes	**(1,708)**

Effects on the consolidated balance sheet (in millions of €):	
Assets	
Noncurrent assets	9,218
Current assets, prepaid expenses, deferred charges and deferred taxation	1,299
	10,517
Shareholders' equity and liabilities	
Shareholders' equity	2,347
Accruals, liabilities and deferred income	8,170
	10,517

In the first quarter of 2000, as a result of the acquisition of the Netherlands-based Media One holding company, increases in shareholdings consisted of 49 % of the shares in the Hungarian mobile communications company Westel 900 and a further 22.5 % of the shares in the Polish mobile communications company Polska Telefonia Cyfrowa (PTC) for a total purchase price of EUR 2.1 billion. The resulting goodwill amounts to EUR 0.9 billion for Westel 900 and EUR 1.1 billion for PTC, which will be amortized over a period of 15 years. At the same time, MATÁV was granted an option to acquire the remaining 49 % in Westel 900.

In April 2000, the subsidiary T-Online International AG acquired as part of a capital increase against noncash contributions 99.9 % of the shares in the French Internet service provider Grolier Interactive Europe Online Groupe S.A. (renamed T-Online France SAS) from the Lagardère group. This resulted in goodwill in Deutsche Telekom's consolidated financial statements of EUR 0.5 billion, which will be amortized over a period of 7 years. T-Online France was consolidated for the first time in the second quarter of 2000.

Ameritech exercised its right effective June 30, 2000 to offer and transfer its 50 % stake in MagyarCom to Deutsche Telekom. Consequently, Deutsche Telekom is now the sole shareholder in the holding company. The purchase price was EUR 2.3 billion; this resulted in further goodwill of EUR 1.9 billion, which will be amortized over a period of 15 years. MagyarCom only holds shares (59.49 %) in the publicly traded company MATÁV.

In October 2000, Deutsche Telekom acquired a shareholding through T-Systems GmbH of 50.1 % in debis Systemhaus GmbH, including its subsidiaries, for a cash contribution of EUR 4.6 billion. The group operates in the field of information technology. The consolidation of debis Systemhaus in the fourth quarter of 2000 generated goodwill of EUR 2.6 billion, for scheduled amortization over a period of between 3 and 12 years. Deutsche Telekom AG has granted DaimlerChrysler Services AG, Berlin, an option valid until January 1, 2005, under which DaimlerChrysler Services AG has the right to sell its shares in debis Systemhaus GmbH (49.9 %) to Deutsche Telekom AG. In addition, Deutsche Telekom AG has an option valid from January 1, 2002 to January 1, 2005 to acquire debis Systemhaus in full.

At the end of the third quarter 2000, Deutsche Telekom AG acquired a total of 51 % of the shares in the Slovakian telecommunications company Slovenské Telekomunikácie for EUR 1.0 billion through the purchase and take over of the shares from the subsequent capital increase. The resulting goodwill of EUR 0.5 billion will be amortized over a period of 15 years. The company was consolidated for the first time on September 30, 2000.

The following pro forma calculation shows Deutsche Telekom's most important financial data, including the major subsidiaries acquired in 1999 and 2000, as if they had been consolidated at January 1, 1999.

Unaudited pro forma information	**2000**	1999
Net revenue (billions of €)		
Shown	40.9	35.5
Pro forma (in accordance with APB 16)	43.5	40.0
Net income under German GAAP (billions of €)		
Shown	5.9	1.3
Pro forma (in accordance with APB 16)	5.4	(0.9)
Earnings per share under German GAAP (in €)		
Shown	1.96	0.43
Pro forma (in accordance with APB 16)	1.78	(0.32)

Eighty-four (Dec. 31, 1999: 60) subsidiaries were not included because they were not material to the net worth, financial position and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1 % of consolidated revenue, results and balance sheet total of the Deutsche Telekom Group.

In accordance with § 311 paragraph 1 HGB, 52 (Dec. 31, 1999: 37) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method.

Sixty (Dec. 31, 1999: 52) associated companies which have little or no effect on the net worth, financial position and results of the Deutsche Telekom Group were classified as other investments in related companies at acquisition cost less applicable write-downs.

The full list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794). It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries which exercise the disclosure simplification option in accordance with § 264 paragraph 3 HGB.

Principal subsidiaries and associated companies.
The principal subsidiaries and associated companies whose revenues and results, together with Deutsche Telekom AG, account for more than 90 % of the Group are shown in the table below (shareholders' equity, revenue and income before taxes are calculated in accordance with the accounting regulations applicable in the respective country):

Name and registered office	**Deutsche Telekom share** Dec. 31, 2000 %	**Shareholders' equity** Dec. 31, 2000 millions of €	**Revenue** 2000 millions of €	**Income after taxes** 2000 millions of €	**Employees** 2000 annual average
Subsidiaries					
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn [5]	100.00	1,823	6,483	5,151	8,534
Deutsche Telekom Mobile Holdings Ltd., London, United Kingdom[1,5]	100.00	12,055	2,883	(1,784)	5,456
max.mobil. Telekommunikation Service GmbH, Vienna, Austria[1,5]	100.00	66	1,019	(55)	2,731
T-Online International AG, Darmstadt [1]	81.71	6,596	797	(406)	1,436
debis Systemhaus GmbH, Leinfelden-Echterdingen [1,2,6]	50.10	3,933	965	42	20,481
DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt	100.00	243	1,604	126	5,926
T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn	100.00	70	751	31	4,476
SIRIS S.A.S., Paris, France	100.00	86	167	(107)	468
DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	153	3,680	(175)	9,032
T-Data Gesellschaft für Datenkommunikation mbH, Bonn [1]	100.00	510	537	31	1,047
Kabel Deutschland GmbH, Bonn [1]	100.00	3,829	1,165	2,822	2,665
MATÁV Magyar, Távközlési Rt., Budapest, Hungary[1,4]	59.49	1,461	1,717	330	14,690
Slovenské Telekomunikácie a.s., Bratislava, Slovakia[2]	51.00	940	128	(4)	13,298
Associated companies					
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia	35.00	1,120	763	120	10,712
MTS, OJSC Mobile TeleSystems Moscow, Russia[3,5]	36.20	356	338	88	841
Other companies					
VoiceStream Wireless Corporation, Bellevue, Washington, USA [1,3]	1.69	7	446	(427)	5,740
France Télécom S.A., Paris, France[1,3]	1.78	18,903	27,233	2,768	174,262
Investments in current assets					
Sprint Corporation, Westwood, Kansas, USA [1,3]	FON 10.85 PCS 8.5	13,522	18,708	(878)	77,600

[1] Consolidated subgroup financial statements
[2] Revenue and net income since being included in the Deutsche Telekom Group
[3] 1999 financial year
[4] Held through MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 100 %)
[5] Indirect shareholding through T-Mobile International AG, Bonn (Deutsche Telekom share: 100 %)
[6] Indirect shareholding through T-Systems International GmbH, Bonn (Deutsche Telekom share: 100 %)

Consolidation principles.
Capital consolidation is performed following the book value method under German GAAP. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Negative goodwill from capital consolidation is included under other accruals.

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings (deficit); furthermore, they include the effects of consolidation and the net income of subsidiaries.

If, in the course of capital increases of subsidiaries and associated and related companies, shares are issued to third-party shareholders, without the involvement of Deutsche Telekom, the resulting added value for Deutsche Telekom is shown, in cases of cash capital increases, as income in the income statement; in cases of capital increases for noncash contributions, it is only shown as such if the added value exceeds a given level of goodwill acquired by the subsidiary or associated or related company in the course of the capital increase.

Revenue, income and expenses as well as receivables and liabilities between the consolidated companies are eliminated. **Intercompany profits and losses** and income effects from the **consolidation of intercompany debt** are eliminated in the consolidated financial statements.

The consolidated balance sheets include deferred taxes resulting from the effects of consolidation, provided the tax expense is expected to reverse in later years except where the effects of consolidation relate to the parent company during the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the book value method by applying Deutsche Telekom's uniform principles of valuation. This method is similar to the method described above for consolidated subsidiaries. The principles used for full consolidation are also applied in treating the differences resulting from the initial consolidation.

Joint ventures are included in the consolidated financial statements using the equity method.

Foreign currency translation.
In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are translated at the exchange rate applicable on the transaction date. Unrealized foreign currency losses due to exchange rate fluctuations through the balance sheet date are recognized in the income statement while unrealized foreign currency gains are not recognized. Where foreign currency items have been hedged by forward exchange contracts, they are valued at the corresponding hedge rate.

Currency translation of foreign subsidiaries is made in accordance with the functional currency method. Thus, the functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure as reported in this currency should be reflected in the group accounts. Generally, the functional currency of dependent subsidiaries is identical with that of the parent company. Dependent subsidiaries are translated according to the temporal method. On the other hand, the functional currency of independent subsidiaries is the local currency. Currently all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company, therefore currency translation is performed according to the modified current rate method. Therefore, in the consolidated financial statements, the translation of all items shown in balance sheets of foreign subsidiaries from foreign currencies into euros is performed using middle rates on the balance sheet date and, for Member States of the European Monetary Union, the official euro conversion rates. The resulting amounts in euros are then converted into DM. Gains and losses resulting from translation are recorded, without affecting net income, in retained earnings (deficit).

The income statements of foreign subsidiaries are translated at the average annual exchange rates.

The exchange rates of certain significant currencies are as follows:

	Average annual rate				Rate at balance sheet date	
	2000	1999	1999	1998	Dec. 31, 2000	Dec. 31, 1999
	€	€	DM	DM	€	€
100 Belgian Francs (BEF)	2.4789	2.4789	4.8484	4.8476	2.4789	2.4789
100 Swiss Francs (CHF)	64.2701	62.5317	122.3014	121.4138	65.6859	62.3170
100 French Francs (FRF)	15.2449	15.2449	29.8164	29.8291	15.2449	15.2449
1 Pound Sterling (GBP)	1.6423	1.5181	2.9691	2.9142	1.6044	1.6124
100 Hungarian Forints (HUF)	0.3850	0.3958	0.7741	0.8202	0.3775	0.3927
100 Indonesian Rupiah (IDR)	0.0130	0.0121	0.0237	0.0181	0.0111	0.0141
100 Japanese Yen (JPY)	1.0050	0.8292	1.6217	1.3482	0.9361	0.9755
100 Malaysian Ringgit (MYR)	28.5882	24.7594	48.4252	44.9550	28.2907	26.2425
100 Philippine Pesos (PHP)	2.4585	2.4049	4.7036	4.2820	2.1521	2.4745
100 Polish Zloty (PLN)	24.9595	23.7013	46.3557	50.3490	25.9876	24.0524
1 Russian Ruble (RUB)	0.0386	0.0378	0.0739	0.2051	0.0376	0.0362
100 Singapore Dollars (SGD)	62.9966	55.4866	108.5224	105.1300	66.0721	59.9296
1 U.S. Dollar (USD)	1.0863	0.9388	1.8361	1.7592	1.0750	0.9972

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

Research and development costs are expensed as incurred.

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

Pension costs include current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service costs. The pension costs are accrued in the balance sheet in accordance with SFAS No. 87 and No. 132, whereby the accrual is increased by the expense recognized and decreased by payments made during the year.

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

Advertising costs are charged to expenses as incurred.

Income tax expense includes current payable taxes on income as well as deferred income taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future. Such differences may arise at the individual taxable entity level as well as in consolidation. Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996 as Deutsche Telekom AG was not taxable prior to January 1, 1996 and benefited from an essentially complete exemption from tax in 1995.

Earnings per share for each period are calculated by dividing net income by the weighted average number of ordinary bearer shares outstanding during that period. The weighted average number of ordinary bearer shares in 1999 was ascertained after giving effect to the issuance of shares by way of a capital increase resulting from the second share offering. This capital increase was completed upon the start of trading with the new shares on June 28, 1999 in Frankfurt am Main and on June 29, 1999 in Tokyo.

Purchased **intangible assets** are valued at acquisition cost and are amortized on a straight-line basis over their estimated useful lives, UMTS licenses over the terms of the licenses. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life.

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

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

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

Nonscheduled write-downs are provided when an impairment in the value of assets occurs. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the individual company financial statements for tax purposes has not been recognized in the consolidated financial statements.

Depreciation of noncurrent assets is carried out using the straight-line method over the following useful lives:

	Years
Intangible assets	3 to 22
Goodwill	3 to 20
Buildings	
Office and residential buildings	50
Telecommunications buildings and towers	25 to 30
Workshop buildings, outdoor installations and facilities	10
Shop improvements and window displays	7
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	4 to 10
Broadband distribution networks, outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities and other	3 to 10
Other equipment, plant and office equipment	3 to 20

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

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

Maintenance and repairs are charged to expenses when incurred.

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

Financial assets are valued at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are recorded at net present value. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, production cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

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

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

Stock options issued in the course of a contingent capital increase are shown in the balance sheet at the date the options are exercised, not at the date they are granted. At the time the options are exercised, the amount received by the company is recorded at the value of the corresponding nominal capital increase in the capital stock and at the value of an additional amount in additional paid-in capital, in accordance with § 272 paragraph 2 No. 1 HGB.

Pension obligations are calculated using actuarial methods in accordance with the internationally accepted Projected Unit Credit Method, which is consistent with U.S. GAAP (SFAS No. 87), and are shown in accordance with SFAS No. 132.

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

Deferred taxes are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom used the German income tax rate for undistributed earnings for domestic companies until and including 1999 – and from 2000 the uniform corporate income tax rate – and the respective local tax rate for foreign companies.

Cost accruals are only made by Deutsche Telekom when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 paragraph 1 HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year. As required by German GAAP, these accruals have been accrued at each period end, which is different from U.S. GAAP requirements.

Accruals, with the exception of pensions and similar obligations as well as Civil Service Health Insurance Fund accruals for future shortfalls, are not discounted.

Liabilities are recorded at their repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and recognized as an adjustment to interest expense over the term of the liability.

Unrealized losses relating to **derivative financial instruments** which do not qualify for hedge accounting are recognized when incurred whereas unrealized gains are deferred until realized.

The preparation of consolidated financial statements in accordance with German GAAP requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Notes to the consolidated statement of income.

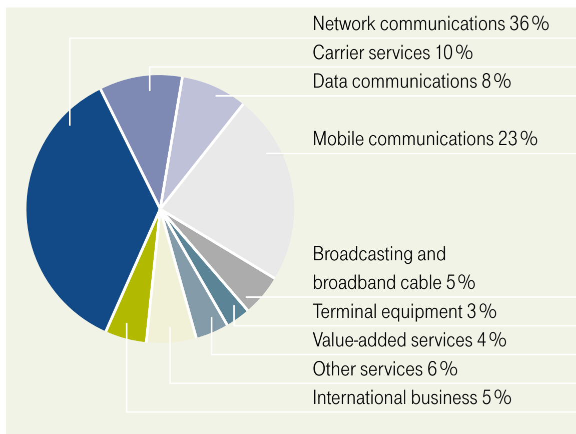
(1) Net revenue[1]

	2000 millions of €	1999 millions of €	1998 millions of €
Network communications	15,051	16,737	20,531
Carrier services	3,983	2,884	1,611
Data communications	3,352	2,828	2,536
Mobile communications	9,253	5,274	3,061
Broadcasting and broadband cable	1,861	1,917	1,804
Terminal equipment	1,036	1,207	1,382
Value-added services	1,802	1,903	2,051
Other services	2,426	1,122	772
International	2,175	1,598	1,396
	40,939	**35,470**	**35,144**

[1] Since the beginning of the 2000 financial year, revenues from the subsidiaries max.mobil. and One 2 One have been reported under mobile communications, rather than under international. A total of EUR 1,355 million has been reclassified for the 1999 financial year.

	2000	1999	1998
Revenue by geographic area:			
Domestic	33,178	31,411	32,758
International	7,761	4,059	2,386
	40,939	**35,470**	**35,144**
Breakdown of international revenues:			
European Union (excluding Germany)	5,023	1,906	535
Rest of Europe	2,266	1,817	1,537
North America	231	161	116
Latin America	43	17	27
Other	198	158	171
	7,761	**4,059**	**2,386**

The percentage of the individual revenue segments in relation to net revenue is as follows:



Net revenue increased by EUR 5,469 million or 15.4 % over the previous year.

This increase was primarily attributable to the strong growth in the number of mobile communications subscribers. Furthermore, the segments data communications and carrier services made particular contributions to the increase in revenue. In contrast, revenues from network communications decreased further as a result of considerable price reductions, despite the continued growth in ISDN.

The revenue growth from other services, which consist mainly of multimedia services and information technology, was a result of the strong level of revenue growth from multimedia services (mainly T-Online) and the inclusion for the first time of debis Systemhaus.

Overall, the changes in the composition of the Deutsche Telekom Group resulted in a revenue increase of EUR 3,425 million.

International revenue is derived from fixed-network international incoming telephone traffic and internationally generated revenues from other business areas.

(2) Changes in inventories and other own capitalized costs.

	2000 millions of €	1999 millions of €	1998 millions of €
Increase in inventories of finished products and work in process	161	216	41
Own capitalized costs	703	731	949
	864	**947**	**990**

Own capitalized costs comprise mainly planning and construction costs. They include interest incurred during the construction period of EUR 64 million (1999: EUR 63 million, 1998: EUR 72 million).

(3) Other operating income.

	2000 millions of €	1999 millions of €	1998 millions of €
Income from the disposition of noncurrent assets (including sale of investments)	5,928	89	240
Income from capital increases of subsidiaries and associated companies	2,887	–	–
Reversal of accruals	386	506	408
Foreign currency transaction gains	309	89	37
Cost reimbursements	305	248	284
Refund of value-added tax (§ 15a UStG)	169	379	655
Reversal of valuation adjustments of accounts receivable and doubtful accounts	125	106	80
Income from the national roaming agreement	95	154	–
Insurance compensation	51	55	57
Other income	747	245	308
	11,002	**1,871**	**2,069**

Income from the disposition of noncurrent assets amounted to EUR 5,928 million. Of this, EUR 2,864 million relates to the proceeds from the sale of Deutsche Telekom's shares in Global One and EUR 2,964 million from the sale of shareholdings in the regional cable companies in North-Rhine Westphalia and Hesse.

A further EUR 2,887 million relates to the acquisition of new shareholders in the course of cash capital increases of subsidiaries and associated companies in which Deutsche Telekom did not participate. Of this amount, EUR 2,657 million relates to the initial public offering of T-Online.

The refund of VAT in accordance with § 15a Umsatzsteuergesetz – UStG (Value-Added Tax Act) of EUR 169 million is a result of the correction of VAT paid in prior years.

Income from the national roaming agreement relates to income from a basic agreement between DeTeMobil Deutsche Telekom MobilNet GmbH (T-Mobil) and VIAG Interkom under the terms of which VIAG Interkom customers have been able, since July 1999, to use the T-D1 network in areas of Germany where they are not covered by the E2 network.

Miscellaneous other operating income includes income from the elimination of liabilities, the recycling of materials, rental and lease agreements and from other ancillary services.

Of the total amount of other operating income, EUR 611 million (1999: EUR 701 million, 1998: EUR 826 million) relates to other financial years.

(4) Goods and services purchased[1]

	2000 millions of €	1999 millions of €	1998 millions of €
Goods purchased	4,075	2,625	1,571
Services purchased	7,875	5,042	3,969
of which: domestic network access charges	1,985	1,585	968
of which: international network access charges	2,819	1,626	1,408
of which: other services	3,071	1,831	1,593
	11,950	**7,667**	**5,540**

[1] Since the beginning of the 2000 financial year, certain expenses (mainly relating to maintenance) have been shown as other operating expenses, rather than other services purchased. EUR 737 million was reclassified for the 1999 financial year and EUR 683 million for 1998.

The level of goods and services purchased increased by EUR 4,283 million compared to 1999. Of this increase, EUR 1,655 million is attributable to changes in the composition of the Deutsche Telekom Group. The increase in goods and services purchased is further attributable to both the increased use of goods for terminal equipment and the increased expenditure for network access charges, which is a result of intensified competition.

Other services mainly include costs relating to services of other providers, the maintenance of telecommunications equipment and other equipment, as well as expenses for software maintenance and utilization of computer capacity from computer companies.

(5) Personnel costs/Average number of employees.

	2000 millions of €	1999 millions of €	1998 millions of €
Wages and salaries:			
Civil servants	2,287	2,535	2,779
Non-civil servants	5,183	3,985	3,698
	7,470	**6,520**	**6,477**
Social security contributions and expenses for pension plans and benefits:			
Social security costs	**861**	**730**	**712**
Civil servant pension costs	895	1,483	1,483
Non-civil servant pension costs	310	265	275
Pension costs	**1,205**	**1,748**	**1,758**
Active civil servant healthcare costs	**164**	**193**	**204**
Other employee benefits	**18**	**19**	**19**
	2,248	**2,690**	**2,693**
	9,718	**9,210**	**9,170**

Number of employees (average for the year)	2000 Number	1999 Number	1998 Number
Civil servants	65,217	76,223	87,573
Salaried employees	97,436	77,991	65,153
Wage earners	42,379	43,792	50,648
Total Deutsche Telekom Group	**205,032**	**198,006**	**203,374**
Trainees/student interns	6,826	6,354	6,165

Personnel costs increased by EUR 508 million or 5.5 % in the year under review. This figure includes personnel costs of EUR 661 million of the newly consolidated companies. This increase is also attributable to collectively agreed wage and salary increases, the effects of remuneration adjustments related to the eastern German collective bargaining agreements from 1999, age-related salary increases and the review of salaries in some areas to bring them in line with market conditions and to promote performance. Social security contributions and expenses for pension plans and benefits, on the other hand, decreased in particular as a result of the change in the contributions to civil servant pensions. The average number of employees increased by 3.5 % to 205,032 and is mainly attributable to the newly consolidated companies with an average of 16,189 employees.

(6) Depreciation and amortization.

	2000 millions of €	1999 millions of €	1998 millions of €
Amortization of intangible assets	2,233	801	412
Depreciation of property, plant and equipment	10,758	7,665	8,625
	12,991	**8,466**	**9,037**

Depreciation and amortization increased by EUR 4,525 million or 53.4 % to EUR 12,991 million in the year under review. Of this, EUR 1,508 million relates to subsidiaries included in the consolidated group for the first time; this amount includes amortization of goodwill of EUR 919 million.

Amortization of EUR 381 million for UMTS licenses at One 2 One, T-Mobil and max.mobil. is also included for the first time.

Some of Deutsche Telekom's approximately 12,000 items of land were included in the opening balance sheet in 1995 at values which were calculated using average prices per square meter for groups of properties to determine individual fair values as part of a valuation process developed by widely respected real estate experts. In view of usage of the real estate to date, it was assumed that the market value of the real estate was not lower than the net carrying value. In the course of implementing its new, disposal-oriented real estate concept, Deutsche Telekom is reviewing the values of its real estate portfolio to determine individual fair values and has decided on a nonscheduled write-down in the form of a valuation adjustment on the asset side for real estate amounting to EUR 2.018 billion. The accounting adjustments do not have any effect on the liquidity or the ongoing business activities of the Deutsche Telekom Group.

Other nonscheduled write-downs relate to Deutsche Telekom AG's outside plant (EUR 971 million).

(7) Other operating expenses.

	2000 millions of €	1999 [1] millions of €	1998 [1] millions of €
Marketing expenses	1,967	1,148	711
Losses on disposition of noncurrent assets (including sale of investments)	1,132	629	727
Maintenance, repairs and damage reparation	843	730	694
Advertising gifts and commissions	794	381	313
Rental and leasing expenses	766	513	553
Losses on accounts receivable and provision for doubtful accounts	723	514	656
Provisions	611	238	298
Legal and consulting fees	591	499	496
Other employee-related costs	493	349	352
Postal charges	481	438	374
Foreign currency transaction losses	241	275	105
Travel and transport expenses	241	192	178
Administrative expenses	217	184	186
Loan employment and temporary employment expenses	122	50	32
License and concession expenses	116	85	76
Losses on disposition of marketable securities	76	58	10
Other expenses	1,010	589	307
	10,424	**6,872**	**6,068**

[1] Prior-year figures have been adjusted to reflect the changed reporting structure in the 2000 financial year. Various expenses (mainly relating to maintenance) were shown under goods and services purchased until 1999. EUR 737 million was reclassified for the 1999 financial year and EUR 683 million for 1998.

Of the increase in other operating expenses, EUR 1,350 million is attributable to the changes in the composition of the Deutsche Telekom Group.

The increase in advertising gifts and commissions is in particular a result of the increased level of customer canvassing for the T-D1 network. The losses on disposition of noncurrent assets are mainly attributable to scrapping of outside plant equipment and the sale of Eurobell (Holdings) Plc, Crawley. Provisions consist mainly of provisions for risks related to real estate and litigation risks.

Of the total amount of other operating expenses, EUR 1,208 million relates to other accounting periods.

(8) Financial income (expense), net.

	2000 millions of €	1999 millions of €	1998 millions of €
Dividend income from investments	147	16	105
Results related to companies accounted for under the equity method (including amortization of goodwill)	1,890	(265)	(382)
Income (loss) related to subsidiaries, associated and related companies	**2,037**	**(99)**	**(277)**
Income from debt securities and long-term loan receivables	487	83	84
Interest and similar income	511	420	388
Interest and similar expense	(4,095)	(3,049)	(3,434)
Net interest expense	**(3,097)**	**(2,546)**	**(2,962)**
Write-downs on financial assets and marketable securities	**(170)**	**(244)**	**(49)**
	(1,230)	**(2,889)**	**(3,288)**

The reduction of the net financial expense in the 2000 financial year is a consequence of offsetting effects. On the one hand, the income (loss) related to subsidiaries, associated and related companies improved considerably by EUR 2,136 million to EUR 2,037 million, most of which relates to the results of the associated company DT-FT-Italian Holding – in connection with the proceeds from the sale of Wind – amounting to EUR 2,358 million.

On the other hand, the net interest expense increased as a result of the increase in debts.
The increase in income from debt securities and long-term loan receivables, which consists of income from specialized security funds and interest on receivables from Deutsche Post AG, partially compensated the net interest expense.

(9) Extraordinary income (losses).
In 2000, this item represents expenses relating to the initial public offering of T-Online International AG and the planned initial public offering of T-Mobile International AG.

(10) Taxes.

	2000 millions of €	1999 millions of €	1998 millions of €
Income taxes	194	1,380	2,477
Other taxes	124	40	177
	318	**1,420**	**2,654**

Income taxes.

	2000 millions of €	1999 millions of €	1998 millions of €
Current income taxes	242	1,505	2,526
Deferred income taxes	(48)	(125)	(49)
	194	**1,380**	**2,477**

The combined statutory income tax rate, currently approximately 52 %, includes corporate income taxes at a rate of 40 % for undistributed earnings, trade taxes at an average German national rate, and the solidarity surcharge of 5.5 % on corporate income tax (Solidaritätszuschlag). When earnings are distributed, the corporate income tax imposed on such earnings is reduced to 30 %. The change in the taxation of corporations to a uniform corporate income tax rate of 25 %, effective as of 2001 as specified in the Tax Reduction Law, has already been included for purposes of calculating deferred taxes. Correspondingly, the rate used for calculating deferred taxes was reduced from 52 % to 39 % in 2000. This resulted in a one-time tax expense of EUR 188 million.

Taxable income was earned primarily in Germany. Corporate income tax refunds resulting from dividends are reflected in the period for which the dividend is paid.

Tax expense decreased considerably compared with 1999 by EUR 1,102 million despite the increase in income before taxes. This is attributable in particular to the fact that the proceeds from the sale of Deutsche Telekom's shareholdings in Global One and Wind and the proceeds from the acquisition of new shareholders at T-Online are tax-free or not taxable.

Differences between actual tax expense of EUR 194 million and EUR 1,380 million for 2000 and 1999, respectively, and the expected corporate income tax expense (computed using 40 % for 2000 and 1999, the statutory corporate income tax rate for undistributed earnings) are as follows:

	2000 millions of €	1999 millions of €
Expected corporate income tax at the tax rate applicable for retained earnings	2,484	1,162
Increase (decrease) in corporate income tax due to:		
Non-taxable items	(2,271)	160
Trade taxes	0	445
Taxation on foreign operations	(113)	(118)
Inclusion of losses	674	78
Tax credit on dividends	(62)	(305)
Temporary differences for which deferred taxes are not recorded	(500)	24
Other	(18)	(66)
Income taxes	**194**	**1,380**
Effective income tax rate	3.1 %	47.5 %

In its tax return Deutsche Telekom AG has recognized a goodwill (residual difference between the market value of the Company and the fair value of the individual assets) that is – based on § 7 paragraph 1 EStG – amortized over a period of 15 years. In line with the principle of prudence, as in previous years, goodwill amortization has not been recognized for accounting purposes in the year under review until this approach has been fully approved.

Deferred tax assets result primarily from temporary differences between income determined under German GAAP and under applicable tax law; these tax assets were offset in the year under review by deferred taxation expenses as a result of the lower deferred tax asset due to the changes in statutory tax rates.

At December 31, 2000, Deutsche Telekom had net operating loss carryforwards and similar net operating loss carryforwards affecting corporate income tax amounting to approximately EUR 547 million (1999: EUR 134 million).

Deutsche Telekom also had trade tax net operating loss carryforwards amounting to EUR 753 million (1999: EUR 4 million, 1998: EUR 2 million). Substantially all of the net operating loss carryforwards have an unlimited carry forward period under German and local tax law.

(11) (Income) losses applicable to minority shareholders.
The income applicable to minority shareholders includes EUR 189 million (1999: EUR 274 million; 1998: EUR 205 million) in gains and EUR 100 million (1999: EUR 3 million) in losses. The gains in 2000 relate, as was also the case in previous years, mainly to MATÁV. The losses relate almost entirely to T-Online International AG.

Notes to the consolidated balance sheet.

(12) Intangible assets.

	Dec. 31, 2000 Net carrying amount millions of €	Dec. 31, 1999 Net carrying amount millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	16,406	1,501
Goodwill from individual company financial statements	0	1
arising from capital consolidation	19,263	13,427
Advance payments	85	73
	35,754	**15,002**

Besides the changes in the composition of the Deutsche Telekom Group, the main factors in the increase in concessions, industrial and similar rights and assets, and licenses in such rights and assets is the purchase of UMTS licenses in Germany, the United Kingdom and Austria. The increase in goodwill arising from capital consolidation is attributable in particular to the acquisition of majority shareholdings in debis Systemhaus, Slovenské Telekomunikácie, Club Internet and Ya.com, as well as the increase in the shareholdings in MATÁV and Westel 900.

The development of intangible assets is shown in the table of consolidated noncurrent assets.

(13) Property, plant and equipment.

	Dec. 31, 2000 Net carrying amount millions of €	Dec. 31, 1999 Net carrying amount millions of €
Land and equivalent rights, and buildings including buildings on land owned by third parties	14,416	17,237
Technical equipment and machinery	35,521	38,177
Other equipment, plant and office equipment	2,132	2,091
Advance payments and construction in progress	2,068	1,531
	54,137	**59,036**

4,899 million is the result of offsetting effects. On the one hand, investments were made amounting to EUR 7,563 million which relate mainly to technical equipment and machinery at Deutsche Telekom AG and T-Mobil. Furthermore, the net carrying amounts of property, plant and equipment increased by EUR 884 million as a result of changes in the composition of the Deutsche Telekom Group – in particular the inclusion of debis Systemhaus and Slovenské Telekomunikácie.

On the other hand, the increase in depreciation of property, plant and equipment to EUR 10,758 million had an effect. This figure includes nonscheduled write-downs on real estate (EUR 2,018 million) and outside plant (EUR 971 million).

Disposals of property, plant and equipment totaled EUR 2,517 million, of which EUR 872 million relates to the sale of broadband distribution networks as a result of the sale of cable activities in North-Rhine Westphalia and Hesse.

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

Leasing:
Minimum lease payments under leases expiring subsequent to December 31, 2000 are shown below (millions of €):

Year	Capital leases millions of €	Operating leases millions of €
2001	60	1,020
2002	58	746
2003	55	625
2004	51	527
2005	51	834
After 2005	717	1,855
Total minimum lease payments	**992**	**5,607**
Imputed interest	**(425)**	
Present value of net minimum lease payments	**567**	

Capital leases are primarily for office buildings and have terms of up to 25 years.

(14) Financial assets.

	Dec. 31, 2000 Net carrying amount millions of €	Dec. 31, 1999 Net carrying amount millions of €
Investments in unconsolidated subsidiaries	153	66
Loans to unconsolidated subsidiaries	57	59
Investments in associated companies	6,663	1,246
Other investments in related companies	7,456	3,653
Long-term loans to associated and related companies	718	228
Other investments in noncurrent securities	1,106	2,033
Other long-term loans	562	660
	16,715	**7,945**

The increase of EUR 5,417 million in the net carrying amount of investments in associated companies resulted, in addition to foreign currency effects not affecting net income of EUR 112 million, primarily from the inclusion at equity for the first time of DT-FT Italian Holding, Bonn, in the amount of EUR 2,358 million (in association with the sale of Wind), Ben Nederland Holding (Ben), The Hague, in the amount of EUR 1,071 million and the increase in the net carrying amount of the investment in PTC amounting to EUR 1,122 million, which is mainly attributable to the purchase of an additional 22.5 % stake in PTC.

These additions were offset in 2000 by amortization of goodwill amounting to EUR 178 million and net losses related to associated companies totaling EUR 448 million.

The increase in other investments in related companies of EUR 3,803 million relates primarily to the acquisition of a 1.69 % tranche of shares in the U.S. mobile communications company VoiceStream Wireless Corporation, Bellevue, for EUR 5,590 million. This was offset by decreases which mainly relate to the reclassification of the shares held in Sprint Corporation amounting to EUR 1,576 million under current assets. Nonscheduled write-downs were made on other investments in related companies in 2000 totaling EUR 71 million, relating mainly to New ICO Global Communication (Holding) Ltd., Washington and VocalTec Communications Ltd., Herzeliya.

Long-term loans primarily include loans to associated and related companies. The largest increases in 2000 were for the loan to Callahan Nordrhein-Westfalen GmbH, Bonn, EUR 264 million, and to eKabel Holdings GmbH, Bad Vilbel, EUR 157 million.

Other investments in noncurrent securities mainly include fixed-interest securities. The decrease is attributable to the sale of all of Deutsche Telekom AG's specialized security funds. This is offset by the acquisition of additional fixed-interest securities by Deutsche Telekom AG for EUR 372 million.

Other long-term loans include a loan to Deutsche Post AG, loans for construction of buildings and hostels as well as loans to employees.

The development of financial assets is shown in the table of consolidated noncurrent assets.

The full list of investment holdings is filed under HRB 6794 with the Commercial Registry of the Bonn District Court. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

	Dec. 31, 2000			Dec. 31, 1999		
Name	Deutsche Telekom share in %	Net carrying amount millions of €	of which: Net difference between carrying value and equity in net assets millions of €	Deutsche Telekom share in %	Net carrying amount millions of €	of which: Net difference between carrying value and equity in net assets millions of €
DT-FT Italian Holding	50.00	2,745	–	–	–	–
PTC	45.00	1,165	1,088	22.50	10	–
Ben[1]	50.00	1,036	638	–	–	–
HT-Hrvatske	35.00	771	378	35.00	755	390
MTS	36.20	327	17	44.14	156	9
Other		619	196		325	71
		6,663	**2,317**		**1,246**	**470**

[1] Shareholding: 50 % minus 1 share

(15) Inventories, materials and supplies.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Raw materials and supplies	201	184
Work in process	612	279
Finished goods and merchandise	763	580
Advance payments	11	3
	1,587	**1,046**

Inventories, materials and supplies increased compared with 1999 by EUR 541 million or 52 %. This is primarily the result of the consolidation for the first time of debis Systemhaus and the increase in inventories, materials and supplies at Deutsche Telekom AG and T-Mobil.

Raw materials and supplies include spare parts for data communications equipment, transmission equipment and other telecommunications spare parts, components and cable.

Work in process is mainly related to projects which have not yet been completed, such as the installation of private automatic branch exchanges (PABXs) and the implementation of IT systems solutions.

Inventories of terminal equipment held both for resale and leasing are included under finished goods and merchandise. Besides the changes in the composition of the Deutsche Telekom Group, the main factor in the increase in finished goods and merchandise is the positive revenue development in the GSM market, which made increased stocks of terminal equipment necessary.

Advance payments are comprised mainly of payments which have been made for terminal equipment.

(16) Receivables.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Trade accounts receivable	6,852	5,342
Receivables from unconsolidated subsidiaries	149	47
Receivables from associated and related companies	158	277
	7,159	**5,666**

Trade accounts receivable relate primarily to the billing of telecommunications services. The increase is attributable to the expansion of the Deutsche Telekom Group and to revenue-related increases.

All receivables, with the exception of EUR 139 million, are due within one year.

The allowance for doubtful accounts and changes therein are in millions of euros as follows:

	2000 millions of €	1999 millions of €	1998 millions of €
January 1,	493	371	329
Charged to costs and expenses	379	173	132
Amounts written off/released	(82)	(51)	(90)
December 31,	**790**	**493**	**371**

The Company directly wrote off accounts receivable balances of EUR 344 million in 2000 (Dec. 31, 1999: EUR 341 million).

(17) Other assets.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Tax receivables	2,262	1,441
Accrued interest	289	214
Receivables from employees	56	56
Receivables from reimbursements and loans receivable	286	73
Miscellaneous	778	285
	3,671	**2,069**

Tax receivables mainly relate to income tax. The increase compared with 1999 is a consequence of reimbursement claims for income taxes paid. Other tax receivables mainly consist of trade tax reimbursements from previous years resulting from the retroactive changes in the allocation of trade tax. The increase in receivables from reimbursements and loans receivable is attributable in particular to two loan notes amounting to EUR 172 million. The increase in miscellaneous assets is predominantly attributable to the expansion of the Deutsche Telekom Group.

Other assets include EUR 1 million in outstanding investments in T-Online held by third parties.

(18) Marketable securities.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Treasury shares	7	14
Other marketable securities	2,363	1,756
	2,370	**1,770**

The level of treasury shares at the balance sheet date, 2,670,828, is made up as follows:

Beginning balance	5,645,178
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Shares acquired from the KfW, not yet issued	14,630
	2,670,828

The shares are recorded in the balance sheet at acquisition cost of EUR 2.56 per share. Shares were issued to Deutsche Telekom employees abroad as part of the global issue by the KfW from which Deutsche Telekom received 37,950 shares from the KfW at acquisition cost, totaling EUR 2.4 million. The shares not purchased by employees (14,630) were initially recorded in the balance sheet at acquisition cost and written down to the lower market trading price applicable at the balance sheet date. The proportion of these shares to the capital stock is 0.09 %.

Other marketable securities primarily relate to shares in Sprint Corporation, Kansas City, which have been transferred from noncurrent to current assets due to their planned sale next year.

Marketable securities also include own bonds held (EUR 294 million) to maintain favorable trading conditions, callable step-up bonds (EUR 317 million), a Portuguese government bond (EUR 57 million) and a Russian government bond (EUR 47 million).

(19) Liquid assets.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Checks	12	2
Petty cash and deposits at the Bundesbank	41	13
Cash in banks (including deposits at Deutsche Postbank AG)	1,840	1,157
	1,893	**1,172**

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Cash and cash equivalents (original maturity less than 3 months)	1,006	878
Temporary cash investments (original maturity longer than 3 months)	887	294
	1,893	**1,172**

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, checking account balances, deposits at the Bundesbank and Deutsche Postbank AG and petty cash. Temporary cash investments consist of fixed-term bank deposits. The increase in liquid assets is mainly attributable to the initial public offering of T-Online.

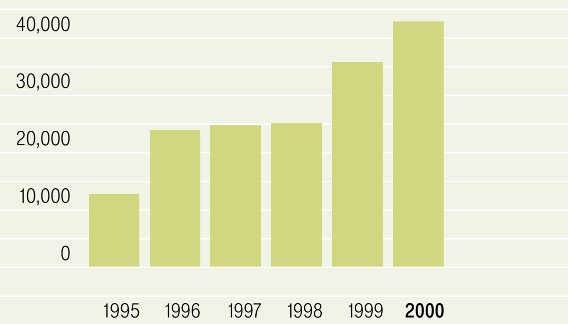
(20) Prepaid expenses, deferred charges and deferred taxation.

Prepaid expenses and deferred charges of EUR 956 million (Dec. 31, 1999: EUR 931 million) primarily relate to prepaid personnel costs of EUR 157 million (Dec. 31, 1999: EUR 164 million) at Deutsche Telekom AG. Also included are discounts on loans of EUR 59 million (Dec. 31, 1999: EUR 59 million) which are amortized on a straight-line basis over the terms of the related liabilities. In addition, a deferred tax asset of EUR 475 million (Dec. 31, 1999: EUR 524 million) has been included.

(21) Shareholders' equity.

A detailed account of the development of the consolidated shareholders' equity for the years 1998, 1999 and 2000 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 2000 is as follows (millions of €):



Dec. 31, 1995: 12,646
Dec. 31, 1996: 23,826
Dec. 31, 1997: 24,616
Dec. 31, 1998: 25,064
Dec. 31, 1999: 35,689
Dec. 31, 2000: 42,716

(22) Capital stock.

The capital stock of the consolidated group represents the capital stock of Deutsche Telekom AG.

In accordance with Article 5 paragraph 1 of the Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 7,756 million at December 31, 2000, representing 3,029.6 million registered ordinary no par value shares. Each share entitles the holder to one vote. After deduction of treasury shares, capital stock with a dividend entitlement for the 2000 financial year amounted to EUR 7,749 million (3,026.9 million shares).

In the year under review, the KfW sold 200 million shares from the capital stock. This transaction reduced the KfW's shareholding to 16.81 %. The Federal Republic of Germany's direct shareholding in Deutsche Telekom was 42.83 % at December 31, 2000. At December 31, 2000, the Federal Republic held a total of 1,298 million individual no par value shares in Deutsche Telekom (EUR 3,321 million) and the KfW held 509 million (EUR 1,303 million). The remaining shares are widely held.

The shareholders' meeting on May 25, 2000 passed the following resolutions:

1. The Board of Management was authorized to increase the capital stock (share capital) with the approval of the Supervisory Board by up to a nominal € 3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares for noncash contributions in the period up to May 25, 2005. The authorization may be used for partial amounts. The subscription rights of shareholders was precluded. The Articles of Incorporation were amended accordingly and this amendment was entered into the Commercial Register on June 6, 2000.

2. The Board of Management was further empowered to increase the share capital one time or several times by up to € 12,800,000 with the approval of the Supervisory Board in the context of the Deutsche Telekom Stock Option Plan by May 25, 2005, by issuing up to 5,000,000 new individual no par value registered shares for cash or noncash contributions. The subscription right of shareholders was precluded.

3. The Company's capital stock was increased on a contingent basis by up to a nominal € 64,000,000 by issuing new shares. The contingent capital increase serves the purpose of issuing up to 25,000,000 new registered no par value shares for which subscription rights are to be granted as part of Deutsche Telekom's Stock Option Plan. The Articles of Incorporation were amended accordingly.

4. Deutsche Telekom was empowered to purchase shares of the Company up to a maximum of 10 percent of the share capital, i.e., a total of no more than 302,960,403 shares. This may be done in order to introduce shares of the Company to foreign stock exchanges, to be able to offer shares to third parties in the context of mergers or acquisitions or acquiring interests therein, or to withdraw shares. The authorization may be exercised as a whole or in partial amounts and applies until November 15, 2001.

(23) Additional paid-in capital.

The additional paid-in capital of the consolidated group represents the additional paid-in capital of Deutsche Telekom AG.

The additional paid-in capital of EUR 5,774 million results from Deutsche Telekom AG's opening balance sheet from January 1, 1995. Furthermore, in accordance with § 272 paragraph 2 No. 1 HGB, the proceeds from the 1996 and 1999 share issues in excess of capital stock totaling EUR 8,476 million and EUR 9,881 million were recorded in 1996 and 1999, respectively, as additional paid-in capital. Additional paid-in capital increased by EUR 169 million in the year under review as a result of the amount generated by the Employee Stock Purchase Plan over and above the nominal amount. 2,988,980 shares were issued within this plan.

(24) Retained earnings (deficit).

In addition to the transfers made from Deutsche Telekom AG's net income from prior years, retained earnings (deficit) include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were generated by such subsidiaries since being included in the consolidated group, as well as a reserve for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB. This item also includes the cumulative effects of consolidation entries from prior years. Translation adjustments are recorded in a separate component of retained earnings.

The reserve for treasury shares held by the Company decreased by EUR 7 million in the year under review as these shares were used for issuing employee shares.

(25) Minority interest.

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to debis Systemhaus, T-Online, MATÁV and Slovenské Telekomunikácie.

(26) Stock-based compensation.
Deutsche Telekom AG.
In 2000, Deutsche Telekom AG, for the first time, granted stock options to certain employees. On July 19, 2000, Deutsche Telekom AG used its authority under shareholders' resolutions adopted in May 2000 to issue 1,023,920.54 options in respect of 1,023,920.54 shares of its stock to participants in its stock option plan at an exercise price of EUR 62.69. The quoted fair market value of Deutsche Telekom's common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 60.40 per share. The options have an expiration date of July 20, 2005.

The option rights may not be exercised before the end of the qualifying period on July 19, 2002. The options may only be exercised when and if both the absolute and the relative performance target are each exceeded at least once in the period from July 20, 2002 to July 19, 2005. The absolute performance target is deemed achieved when the moving thirty-day average closing Frankfurt Xetra share price exceeds the exercise price by more than 20 %.

The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx 50© Total Return index. The options may only be exercised if, following expiration of the two-year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceed the performance of the Euro Stoxx 50© Total Return index measured on a moving thirty-day average basis.

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – SAR) instead of issuing new shares. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. There were no SARs outstanding under the plans at December 31, 2000.

The options are not transferable. At December 31, 2000 a total of 25 million shares were reserved for future issuance under the plan. The weighted average remaining contractual life as of December 31, 2000 was 4.5 years.

A summary of the activity related to Deutsche Telekom's Stock Options is as follows:

	2000	
	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	n/a	n/a
Granted	1,024	62.69
Exercised	0	–
Forfeited	2	62.69
Outstanding at end of year	1,022	62.69
Exercisable at year-end	**0**	**–**

In 1999 and 1998 Deutsche Telekom had no stock option plans in effect.

T-Online International AG.
In 2000, T-Online, for the first time, granted stock options to certain employees. On July 6, 2000, T-Online has used its authority under shareholders' resolutions adopted in March 2000 to issue 214,472.52 options in respect of 214,472.52 shares of its stock to participants in its stock option plan at an exercise price of EUR 37.65. The options have an expiration date of July 6, 2005.

The option rights may not be exercised before the end of the qualifying period on July 6, 2002. The options may only be exercised when and if both the absolute and the relative performance target are each exceeded at least once in the period from July 7, 2002 to July 6, 2005. The absolute performance target is deemed achieved when the moving thirty-day average closing Frankfurt Xetra share price exceeds the exercise price by more than 40 %.

The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx Telecom© index. The options may only be exercised if, following expiration of the two year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceed the performance of the Euro Stoxx Telecom© index by more than 20 % measured on a moving thirty-day average basis.

At December 31, 2000 a total of 20 million shares were reserved for future issuance under the plan. The weighted average remaining contractual life as of December 31, 2000 was 4.5 years. 31,455 stock options were issued to the Members of the T-Online AG Board of Management in the year under review.

A summary of the activity related to T-Online's Stock Options issued to management is as follows:

	2000	
	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	n/a	n/a
Granted	214	37.65
Granted in conjunction with the Ya.com acquisition[1]	1,864	
Exercised	0	–
Forfeited	37	37.65
Outstanding at end of year	2,041	3.27
Exercisable at year-end	**280**	**0.00**

[1] In addition to the shares to be issued in connection with the purchase business combination of Ya.com Internet Factory, S.A. ("Ya.com"), T-Online has agreed to issue an additional 1,863,886 T-Online options to Ya.com employees. Under the terms of the purchase agreement, 15 % vest immediately on closing. An additional 41.1 % vest ratably over a three-year period from the closing date (1/3 at each anniversary date). The remaining 42.8 % vest in the event that certain performance obligations have been met. In the event any employees leave Ya.com they will forfeit all unvested options.

In 1999 and 1998 T-Online had no stock option plans in effect.

For further information regarding stock-based compensation, see (40).

(27) Pensions and similar obligations.
Non-civil servant pension plans.
The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the Versorgungsanstalt der Deutschen Bundespost (VAP) and the Deutsche Telekom Betriebsrenten-Service e.V. (DTBS) as well as obligations under Article 131 of the Basic Law (Grundgesetz - GG).

The VAP provides pension services for pensioners who were employed by Deutsche Telekom. The obligations of the VAP, less the cash assets, results in an underfunding which is shown in Deutsche Telekom's balance sheet as indirect pension obligations under pension accruals. It was not possible to offset this against tax in prior years.

A new regulation was made by collective agreement in the year 2000 without affecting obligations. Under this regulation, the group of people concerned no longer receives its pension payments directly from the VAP as the provider of pension services, but, as of November 2000, directly and with a legal claim from Deutsche Telekom. The obligations of the VAP are thus suspended (parallel obligation). The VAP provides pension services for and on behalf of Deutsche Telekom. Pension accruals are made in the balance sheet for financial reporting purposes for the now direct pension obligations in accordance with FAS 87. Due to the parallel obligation, these pension accruals must also be shown in the balance sheet for tax reporting purposes, valued according to § 6a of the Income Tax Act.

Furthermore, the pension obligations resulting from the acquisition of debis Systemhaus in the year 2000 (EUR 224 million) are included in the consolidated financial statements for the first time.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Pension obligations:		
– Direct	2,497	284
– Indirect	820	2,810
Obligations under Article 131 GG	13	15
	3,330	**3,109**

These pension obligations are fully accrued net of the plan assets at fair value.

The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP SFAS No. 87 and using the assumptions at the respective balance sheet dates as shown in the following table:

	2000	1999	1998
Discount rate	6.25 %	6.25 %	6.0 %
Projected salary increase	2.75 %–3.5 %	2.75 %–3.5 %	2.5 %
Expected return on assets	6.0 %–6.5 %	4.5 %–6.0 %	5.5 %
Projected pension increase	1.5 %	1.5 %	1.5 %

The corresponding pension accruals measured in accordance with § 6a of the Income Tax Act (Einkommensteuergesetz - EStG) are EUR 3,119 million (Dec. 31, 1999: EUR 3,061 million).

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer (cash balance plan).

Deutsche Telekom credits further amounts to this account; when the insured event occurs, the account balance will be paid out in full, in installments or converted into a pension. If the relevant employees have not reached the age of 35 and have been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations. Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service; the benefit obligations are usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Actuarial present value of benefits:		
Vested	3,227	2,913
Nonvested	415	398
Accumulated benefit obligation	**3,642**	**3,311**
Effect of projected future salary increases	122	78
Projected benefit obligation	**3,764**	**3,389**
Plan assets at fair value	(379)	(320)
Projected benefit obligation in excess of plan assets	**3,385**	**3,069**
Unrecognized net (losses) gains	(55)	40
Accrual for pensions	**3,330**	**3,109**

Development of the projected benefit obligation:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Projected benefit obligation, beginning of year	**3,389**	**3,371**
Service cost	119	83
Interest cost	208	194
Change in obligations (operational transferals, inclusion of debis Systemhaus	179	0
Actuarial (gains)/losses	87	(61)
Total benefits actually paid	(218)	(198)
Projected benefit obligation, end of year	**3,764**	**3,389**

Development of plan assets at fair value:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Plan assets at fair value, beginning of year	**320**	**214**
Actual return on plan assets	9	11
Contributions by employer	232	289
Benefits actually paid through pension funds	(182)	(194)
Plan assets at fair value, end of year	**379**	**320**

Net periodic pension cost is summarized as follows:

	2000 millions of €	1999 millions of €	1998 millions of €
Service cost	119	83	82
Interest cost	208	194	202
Expected return on plan assets	(17)	(12)	(9)
Net periodic pension cost	**310**	**265**	**275**

The change in the service cost in comparison with the previous year is attributable in particular to the deferred compensation plan within which Deutsche Telekom AG employees can convert ongoing claims to compensation into equal-value claims for contributions to the company pension plan.

Civil servant retirement arrangements.
Until the year under review, Deutsche Telekom AG maintained a special pension fund (Unterstützungskasse) for its active and former civil servants, which was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG by notarized agreement on December 7, 2000 to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). The fund was entered in the Register of Associations on January 11, 2001, backdated to July 1, 2000. The BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. All transactions for pension and allowance payments are made for the companies Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (PTNeuOG), this pension fund makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the Law concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG). Deutsche Telekom AG is legally obligated as of 2000 to make an annual contribution to the special pension fund of 33 % of the gross remuneration of active civil servants and the fictitious gross remuneration of civil servants on temporary leave entitled to pension payments. These contributions amounted to EUR 895 million in the year under review. A fixed annual contribution of EUR 1.5 billion was payable for the years 1995 through 1999.

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

(28) Other accruals.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Taxes	**1,470**	**1,265**
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,028	982
Personnel restructuring	149	247
Other obligations	803	464
	1,980	**1,693**
Outstanding invoices	1,855	1,276
Risks related to real estate	508	396
Unused telephone units on phone cards sold	363	48
Investment risks	355	101
Litigation risks	293	205
Restoration commitments	239	181
Refunds to be granted	131	123
Deferred maintenance	49	44
Other	812	849
	6,585	**4,916**
	8,055	**6,181**

Approximately 30 %, i.e., EUR 497 million, of the increase in accruals is a result of changes to the composition of the Deutsche Telekom Group, in particular the inclusion for the first time of debis Systemhaus.

The increase in provisions for taxes is primarily attributable to the back-dated change in the allocation rates for trade tax related to prior years. The income tax effect of the proposed dividend of Deutsche Telekom AG of EUR 1,877 million has been provided for in the calculation of corporate income tax.

When Postreform II came into effect, the Civil Service Health Insurance Fund was closed to new members. Due to the aging of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit, taking the new 1998 life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998") into account, which primarily reflect the increase in average life expectancy.

Deutsche Telekom had, in response to competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement and other programs. The planned reductions included an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements.

In 2000, as was the case in prior years, civil servants as well as non-civil servants accepted the Company's offer for early retirement and severance. The early retirement program for civil servants and natural attrition do not result in incremental costs for Deutsche Telekom AG. In 2000, unpaid restructuring costs amounting to EUR 149 million are included in accruals and EUR 1 million are included in other accounts payable. The table below sets forth the payments made and the related accruals/payables for future payments in respect of these staff reduction measures for the years 2000 and 1999:

	2000 millions of €	1999 millions of €
Accruals/payables, beginning of year	**261**	**470**
Payments made (including payments made against accruals/payables)	**(111)**	**(209)**
Accruals/payables, end of year	**150**	**261**

Accruals for risks related to real estate include environmental remediation (for site and real estate clean-up costs). The accruals for unused telephone units on phone cards sold reflect the growth in the pre-paid card business of the mobile communications subsidiaries (in particular T-Mobil, One 2 One and max.mobil.). These accruals are made for charges for telephone services as yet not performed which have already been recognized as income. These accruals increased by EUR 315 million compared with the previous year to EUR 363 million.

Other accruals for 2000 mainly consist of loss contingencies for financial derivatives, accruals for risks relating to the purchase of inventories, materials and supplies and for warranties.

(29) Liabilities.

millions of €	Dec. 31, 2000 Total	of which due within one year	of which due in one to five years	of which due after five years	Dec. 31, 1999 Total	of which due within one year	of which due in one to five years	of which due after five years
Debt								
Bonds and debentures	**51,344**	12,774	27,669	10,901	**32,787**	4,934	25,076	2,777
Liabilities to banks	**9,013**	2,438	1,772	4,803	**9,550**	3,989	3,130	2,431
	60,357	**15,212**	**29,441**	**15,704**	**42,337**	**8,923**	**28,206**	**5,208**
Other								
Advances received	**297**	297	–	–	**59**	59	–	–
Trade accounts payable	**4,029**	3,936	93	–	**2,853**	2,848	3	2
Liabilities on bills accepted and drawn	**1**	1	–	–	**1**	1	–	–
Payables to unconsolidated subsidiaries	**24**	24	–	–	**15**	15	–	–
Liabilities to other companies in which an equity interest is held	**74**	65	–	9	**55**	55	–	–
Other liabilities	**4,705**	3,642	199	864	**3,610**	2,490	177	943
of which: from taxes	**(679)**	(679)	–	–	**(341)**	(341)	–	–
of which: from social security	**(109)**	(109)	–	–	**(76)**	(76)	–	–
	9,130	**7,965**	**292**	**873**	**6,593**	**5,468**	**180**	**945**
Total liabilities	**69,487**	**23,177**	**29,733**	**16,577**	**48,930**	**14,391**	**28,386**	**6,153**

The main items under bonds and debentures are old bonds issued by Deutsche Bundespost amounting to EUR 26.7 billion and a global bond issued in the second half of 2000. This bond, issued by Deutsche Telekom International Finance B.V. Amsterdam (DT Finance), amounting to EUR 15.4 billion, is structured as follows:

Tranche	Nominal amount in currency	Interest rate	Maturity
EUR	2,250,000,000	6.125 %	2005
EUR	750,000,000	6.625 %	2010
GBP	625,000,000	7.125 %	2005
GBP	300,000,000	7.125 %	2030
USD	3,000,000,000	7.750 %	2005
USD	3,000,000,000	8.000 %	2010
USD	3,500,000,000	8.250 %	2030
JPY	90,000,000,000	1.500 %	2005

Additionally, DT Finance issued EUR 6.2 billion in medium-term notes (MTN) as part of the debt issuance program. DT Finance still has the debut emission of 1998/1999 to the amount of EUR 2 billion.

Breakdown of bonds and debentures are in millions of euros as follows:

Effective interest rate / Due in	up to 6 %	up to 7 %	up to 8 %	up to 9 %	over 9 %	Total
2001	8,358	–	138	3,707	571	**12,774**
2002	597	–	2,761	5,113	–	**8,471**
2003	–	2,556	–	–	77	**2,633**
2004	–	3,068	6,212	–	–	**9,280**
2005	838	2,239	4,208	–	–	**7,285**
after 2005	2,056	951	4,166	–	3,728	**10,901**
	11,849	**8,814**	**17,485**	**8,820**	**4,376**	**51,344**

Liabilities to banks (mainly loan notes and short-term loans) due in the next 5 years and thereafter are in millions of euros as follows:

Due in	Beträge
2001	**2,438**
2002	**425**
2003	**563**
2004	**358**
2005	**426**
after 2005	**4,803**
	9,013

The average effective interest rate of total debt is for:

Bonds and debentures 6.50 % p.a. (1999: 7.50 % p.a.)
Liabilities to banks 6.70 % p.a. (1999: 7.10 % p.a.)

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on short-term credit facilities up to EUR 9.8 billion. At December 31, 2000, these credit facilities had been drawn upon to the amount of EUR 5.3 billion.

The credit facilities of EUR 9.8 billion relate mainly to Deutsche Telekom AG and max.mobil. at interest rates of between 5.1 % and 7.5 %.

The development of debt from January 1, 1995 to December 31, 2000 is shown in millions of euros as follows:

Jan. 1, 1995:	64,146	Dec. 31, 1998:	39,933
Dec. 31, 1995:	56,440	Dec. 31, 1999:	42,337
Dec. 31, 1996:	51,072	**Dec. 31, 2000:**	**60,357**
Dec. 31, 1997:	44,938		

The Company's original debt was raised principally to finance the development of the communications networks in eastern Germany. The reasons for the increase in debt in 2000 include the payment for UMTS licenses, the initial investment in VoiceStream, the increase in the shareholding in MATÁV and the acquisition of Slovenské Telekomunikácie and debis Systemhaus.

Other liabilities.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Interest	1,558	1,335
Rental and leasing obligations	451	561
Loan notes	658	556
Liabilities to employees	183	131
Other	1,855	1,027
	4,705	**3,610**

Other liabilities include taxes of EUR 679 million (Dec. 31, 1999: EUR 341 million) and social security liabilities of EUR 109 million (Dec. 31, 1999: EUR 76 million).

Liabilities include borrowings of EUR 13,818 million (Dec. 31, 1999: EUR 4,248 million) in foreign currencies. Borrowings in euros and euro-member currencies are not shown as borrowings in foreign currencies.

Liabilities in the amount of EUR 28 million (Dec. 31, 1999: EUR 63 million) payable by subsidiary companies to banks and third parties are collateralized.

Deutsche Telekom AG has provided no collateral against its liabilities. In accordance with Postreform II (§ 2 paragraph 4 of the Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995.

Notes to the consolidated statement of cash flows.

The consolidated statement of cash flows has been prepared in conformity with International Accounting Standard (IAS) No. 7, Cash Flow Statements. Besides IAS 7, German Accounting Standard (DRS) No. 2, cash flow, as approved by the German Standardization Council (DSR), is used for the first time in drawing up the consolidated statement of cash flows. The minimum breakdown requirements of DRS 2 are more extensive than those of the breakdown previously applied. As a result, the breakdown has been extended. Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents in drawing up the consolidated statement of cash flows. These cash and cash equivalents increased by EUR 128 million in 2000 to EUR 1,006 million at December 31, 2000.

(30) Net cash provided by operating activities.
Net cash provided by operating activities amounted to EUR 10,000 million in 2000. This represents an increase in cash inflow of EUR 412 million compared with 1999, while net income increased by EUR 4,673 million. This is mainly attributable, however, to transactions which are shown under

- investment activities (sale of Global One for EUR 2.9 billion, sale of shares in the cable companies for EUR 3.0 billion) or
- financing activities (proceeds of approximately EUR 2.7 billion from the acquisition of new shareholders in the course of the initial public offering of T-Online) or which
- have not yet had any effect on cash flows (proceeds from the sale of WIND for EUR 2.3 billion).

On the other hand, the Group's results were burdened by considerably increased levels of depreciation and amortization and additions to accruals which also have no effect on liquid assets. The expenses for the initial public offering of T-Online and for the planned initial public offering of T-Mobile International AG shown under extraordinary expenses (EUR 159 million) reduced the level of net cash provided by operating activities.

(31) Net cash used for investing activities.
Net cash used for investing activities increased considerably by EUR 9,022 million to EUR 27,706 million in 2000. A total of EUR 15,288 million was invested in UMTS licenses alone in the United Kingdom (EUR 6,576 million), Germany (EUR 8,541 million) and Austria (EUR 171 million). Furthermore, the increase is attributable to acquisitions and increased shareholdings. Deutsche Telekom invested a total of EUR 4,343 million in the following consolidated companies in 2000:

millions of €	Purchase price	Acquired liquid assets	Net outflow
Magyar Com	2,343		2,343
Media One	1,002		1,002
Slovenské Telekomunikácie	1,010	(469)	541
max.mobil.	128		128
Pocket Phone Shop	118		118
Ya.com	100	(2)	98
Other	117	(4)	113
			4,343

The purchase prices were mainly financed through short-term and long-term borrowings.

Further, investments in property, plant and equipment, such as technical equipment and machinery and construction in progress, as well as for the acquisition of additional shares in companies which are shown in the cash flows under cash outflows for financial assets, had an effect on cash flow. The main factors here were the acquisitions of stakes in VoiceStream (EUR 5,590 million), PTC (EUR 1,114 million) and Ben (EUR 1,071 million). Positive effects included the cash inflows from the sale of Global One and the sale of shares in the cable companies in North-Rhine Westphalia and Hesse. The Group also received liquid assets from the sale of property, plant and equipment (EUR 655 million) and the decrease in financial investments having a maturity of longer than three months (EUR 401 million).

In the year under review, T-Online International AG acquired shares in the companies comdirect bank, T-Online France and Ya.com, issuing a total of 109.8 million shares (EUR 2.9 billion) for the shareholdings, each acquired in the form of a share swap.

(32) Net cash provided by (used for) financing activities.
Net cash provided by financing activities amounted to EUR 17,863 million in 2000 compared with EUR 7,965 million in 1999. This increase is attributable in particular to new short-term and medium-term borrowings and the proceeds of the initial public offering of T-Online (EUR 3,080 million). The payment of dividends had an offsetting effect (EUR 1,914 million).

Other information.

(33) Guarantees and commitments, and other financial obligations.

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Liabilities arising from warranty agreements	81	59
Collateral granted against third party liabilities	49	128
Guarantees	35	9
	165	**196**

Guarantees and commitments of Deutsche Telekom mainly serve day-to-day business activities and securement of loans.

Other financial obligations.

millions of €	Dec. 31, 2000 Total	of which due in the following financial year	of which due after the balance sheet date	Dec. 31, 1999 Total	of which due in the following financial year	of which due after the balance sheet date
Present value of payments to special pension fund	9,935	912	9,023	10,635	1,028	9,607
Purchase commitments for interests in other companies	8,345	1,144	7,201	2,464	163	2,301
Obligations under rental and lease agreements	5,607	1,020	4,587	3,073	498	2,575
Purchase commitments for capital projects in progress including obligations arising from future expenditure	3,911	2,017	1,894	3,778	1,757	2,021
Commitments arising from transactions not yet settled	473	192	281	1,615	1,182	433
Total other financial obligations	**28,271**	**5,285**	**22,986**	**21,565**	**4,628**	**16,937**

The present value of payments required to be made by Deutsche Telekom AG on the basis of the life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998"), in accordance with Postreform II, to the company's special pension fund for civil servants or its successor amounted to EUR 9,935 million at December 31, 2000, of which EUR 4.5 billion relates to the future service of civil servants still in active service. The reduction in the present value by EUR 700 million was due in part to the reducing effect of the 2000 payment to the special pension fund amounting to EUR 895 million, which is offset by an increase in the value from the increasing effect of compounding future contributions.

Purchase commitments for interests in other companies relate mainly to the option held by DaimlerChrysler Services AG, Berlin, which is entitled until the year 2005 to sell the remaining shareholding of 49.9 % in debis Systemhaus GmbH, Leinfelden-Echterdingen, to Deutsche Telekom AG. The maximum payment obligation is EUR 4,921 million plus a possible additional amount as dividend compensation. A further EUR 629 million relate to the obligation to take back 50.1 % of the shares in Beta Research Gesellschaft für Entwicklung und Vermarktung digitaler Infrastrukturen GmbH, Munich.

T-Mobile International AG has committed itself in the form of a shareholder agreement, for the term of the agreement, to take over the shares in Ben, held by Belgacom N.V./S.A., Belgium, and TeleDanmark A/S, Denmark, should these companies exercise their option to sell their shares. The exercise price is defined as the higher of the market value of the shares or EUR 1.6 billion. Furthermore, T-Mobil has committed itself to acquiring the majority shareholding in RadioMobil a.s., Czech Republic (EUR 580 million), and MATÁV, Hungary, to acquire Emitel, Hungary (EUR 343 million) and 51 % of Maktel, Macedonia (EUR 50 million).

The increase in obligations under rental and lease agreements relates mainly to new contractual obligations of DT Mobile Holdings (One 2 One), United Kingdom.

The decrease in commitments arising from transactions not yet settled is mainly attributable to the decrease in purchase commitments, particularly at T-Mobile International.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses.

The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom Group.

(34) Financial instruments.

Fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following is a summary of the estimated fair value of Deutsche Telekom's financial instruments:

millions of €	Dec. 31,2000 Fair value	Dec. 31,2000 Net carrying amount	Dec. 31, 1999 Fair value	Dec. 31, 1999 Net carrying amount
Assets				
Other investments in related companies	8,325	7,456	4,603	3 653
Other long-term loans	562	562	660	660
Other investments in noncurrent securities	1,094	1,106	2,321	2 033
Receivables	7,159	7,159	5,666	5 666
Liquid assets	1,893	1,893	1,172	1,172
Other investments in marketable securities	3,963	2,370	1,774	1,770
Liabilities				
Bonds and debentures	52,203	51,344	34,712	32,787
Liabilities to banks	9,013	9,013	9,550	9,550
Other	9,130	9,130	6,593	6,593
Derivative financial instruments [1]				
Interest rate swaps	296	(46)	(7)	(6)
Interest rate caps purchased	1	1	4	4
Forward rate agreements	0	0	(4)	(4)
Forward forward deposit	0	0	0	0
Interest rate future	0	0	0	0
Cross currency interest rate swaps sold	(373)	44	13	5
Foreign currency forward contracts	163	(4)	(258)	(203)
Foreign currency options contracts	17	138	0	0

[1] Non-bracketed amounts represent assets, bracketed amounts represent liabilities.

Fair values were determined as follows:
The fair value of other investments in noncurrent securities and in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amounts of trade accounts receivable approximate their fair values, due to the short period to maturity. The net carrying amounts of liquid assets also reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of other investments in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amount is adjusted to market value where market value is less than the original investment.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks, and other liabilities approximate their fair values.

The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in the Company's exposure to adverse fluctuations in interest and foreign exchange rates.

The fair values of investments in associated and related companies, which have carrying values of EUR 8,231 million and EUR 3,940 million at December 31, 2000 and 1999, respectively, were not practicably determinable, except for the investments in SES, VocalTec and Secunet, because they are not publicly traded or cannot be sold due to contractual restrictions at this point in time. SES, VocalTec and Secunet are valued at their market values based on share prices.

Derivative financial instruments.
The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. In general the Company's policy is to hold or issue financial instruments for other than trading purposes. Derivative financial instruments are subject to internal controls.

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

The Company uses interest rate swaps in particular to reduce its exposure to interest rate and market value volatility on certain debt issues and deposit instruments and manage its interest expense by setting an optimal mix of floating and fixed rate debt and deposit instruments. Interest rate swaps are designated as hedging instruments for specific liabilities or groups of similar liabilities.

Gains or losses related to changes in the value of interest rate swaps are generally not recognized. Interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Interest rate swaps which are not designated as hedging instruments for balance sheet assets and liabilities (which are mainly hedges of planned future transactions) are assigned to the interest instrument valuation portfolio. Unrealized gains and losses from changes in market value are netted currency for currency and resultant net losses are recognized as a component of net interest expense.

The interest differential to be paid or received on interest rate swaps is recognized in the statement of income, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps terminated prior to their maturity are recognized currently as a decrease or increase in net interest expense.

The Company uses foreign currency forward contracts and foreign currency options purchased as well as cross currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities, for example the global bonds issued in the year under review. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not valued at the balance sheet date. The investment in the purchased entity is booked using the foreign exchange rate fixed by the foreign currency forward contract. Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities.

Gains and losses resulting from foreign currency forward contracts, cross currency interest rate swaps and foreign currency financing which relate to the net investments in foreign entities are recorded in the cumulative translation adjustment account.

The Company purchases options to hedge investments in foreign entities. An option purchased to hedge a firm commitment to invest in a foreign entity is included in other assets and valued at purchase cost. Upon exercise of the option the premium is included in the purchase cost of the asset. An option purchased which hedges a planned transaction is included in foreign currency portfolios referred to above. Upon exercise the option premium is included in the underlying transaction. Options expiring unexercised are recognized currently and assigned to other operating costs or revenues.

The following is a summary of the contract or notional principal amounts outstanding at December 31, 2000 and 1999:

	Dec. 31, 2000		Dec. 31, 1999	
millions of €	**Maturity**	**Notional Amount**	Maturity	Notional Amount
Interest rate swaps (EUR)				
Receive fixed/pay variable	2001–2008	3,112	2000–2008	3,018
Receive variable/pay fixed	2005–2010	3,154	2000–2008	1,892
Interest rate swaps (GBP)				
Receive variable/pay fixed	2002–2030	10,517	2002–2004	1,217
Interest rate swaps (JPY)				
Receive fixed/pay variable	2005	842	–	–
Receive variable/pay fixed				
Interest rate swaps (USD)				
Receive fixed/pay variable	2002–2030	10,670	2000–2008	424
Receive variable/pay fixed	2002–2008	457	2000–2008	424
Interest rate cap purchased	2002–2003	434	2002–2003	436
Forward rate agreements	–	–	2000–2001	1,000
Forward forward deposit	–	–	2000	600
Future contracts	–	–	2000	51
Cross currency interest rate swaps	2001–2030	16,243	2001–2011	125
Foreign currency forward contracts				
Forward purchases	2001	754	2000	5
Forward sales	2001–2003	8,434	2000	8,250
Currency options	2001–2002	4,845	–	–

The terms of the EUR-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average 4.2 % per annum) and pay interest at variable rates (generally based on the six-month Euribor rate). The terms of the EUR-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month Euribor rate) and pay interest at fixed rates (weighted average of 5.2 % per annum).

The terms of the GBP-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month LIBOR rate) and pay interest at fixed rates (weighted average of 6.4 % per annum).

The terms of the JPY-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 1.5 % per annum which are swapped for variable rates (generally based on the six-month JPY-LIBOR rate).

The terms of the USD-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 7.9 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate). The terms of the USD-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 6.1 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate).

All cross currency interest rate swaps are basic swaps whereby the respective three-month or six-month interest rate in CZK, GBP, JPY, SKK or USD is swapped for the corresponding variable interest rate in EUR or GBP.

Amounts received and paid under all these interest rate swaps, which are dependent on the notional amounts and the contractual interest rates, are settled annually, semi-annually or quarter-annually.

The interest rate caps purchased have two to three-year terms and provide for Deutsche Telekom to receive excesses over a specified reference interest rate. For some of the caps, option contracts were written in order to reduce the premium (purchase of interest rate collars).

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in EUR for a contractually fixed amount of foreign currency forward contracts and currency options.

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

(35) Information on the Board of Management and the Supervisory Board of Deutsche Telekom AG.

The Supervisory Board has received no Supervisory Board remuneration or meeting attendance fees so far for the 2000 financial year. After the shareholders' meeting on May 29, 2001, Supervisory Board remuneration and meeting attendance fees amounting to EUR 548,733.00 will be paid for the 2000 financial year.

Provided that the 2000 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom AG will amount to EUR 9,224,129.46. Deutsche Telekom granted 440,893 stock options to the members of the Board of Management in the 2000 financial year. The remuneration to be paid to former members of the Board of Management of Deutsche Telekom AG and their surviving dependents amounts to EUR 868,695.54. Pension accruals totaling EUR 8,560,122.30 have been established for this group of persons at December 31, 2000. Pension obligations to such persons for which no reserve had to be established amounted to EUR 3,285,382.68 at that date.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

(36) Proposal for appropriation of net income of Deutsche Telekom AG.

The income statement of Deutsche Telekom AG reflects net loss of EUR 3,333,558,248.92. The Board of Management has decided to take the sum of EUR 5,266,306,376.32 from retained earnings. Following inclusion of the unappropriated net income of EUR 44,476,448.26 carried forward from 1999, this gives rise to cumulative unappropriated net income of EUR 1,977,224,575.69.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of EUR 1,876,698,587.72. This represents a dividend of EUR 0.62 per individual no par value share on the capital stock of EUR 7,748,949,007.36. The remaining balance of EUR 100,525,987.97 will be included in unappropriated net income carried forward from the previous year.

Reconciliation to U.S. GAAP.

Due to its listing on the New York Stock Exchange, Deutsche Telekom AG is required to submit, in addition to its local financial statements, annual financial statements in the format of Form 20-F to the SEC. This procedure is in accordance with the foreign integrated disclosure system for foreign companies listed on the stock exchange. In addition to the adjustments which have already been made in the consolidated balance sheet and statement of income in order to comply with U.S. GAAP, further adjustments are required in order to meet the requirements of U.S. GAAP and Form 20-F. These adjustments mostly refer to cases where binding rules of German GAAP which contradict those of U.S. GAAP exist. The reconciliation to U.S. GAAP explains how the corresponding values of the German consolidated financial statements after U.S. GAAP adjustments comply with U.S. reporting requirements.

(37) Significant differences between German and United States generally accepted accounting principles.

Certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost less depreciation, which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance sheet of Deutsche Telekom AG at January 1, 1995 have been carried forward as the acquisition or construction costs.

(a) Valuation adjustment of real estate.

Under German GAAP, the Company recorded a special write-down for land as a charge to currrent year earnings. This charge was made in connection with the new disposal oriented real estate concept in which management has developed a strategy of reducing its holdings of assets that are outside the scope of its core activities. This plan provided sufficient justification under German GAAP to allow the Company to perform a preliminary evaluation of the current market value of land. Based on this preliminary evaluation, the Company concluded that a write-down of EUR 2.018 billion was appropriate. Under U.S. GAAP, the Company's plan did not have the characteristics as described in Staff Accounting Bulletin 100 to consider the land to be in the category of “Assets to Be Disposed Of” under SFAS 121. Accordingly, under U.S. GAAP, these assets would be considered “Assets to Be Held and Used”. Using the criteria for “Assets to Be Held and Used” under SFAS 121, the assets were not impaired. Accordingly, this write-down has been reversed under U.S. GAAP.

The Bonn Public Prosecutor is currently conducting an investigation into the values that were ascribed to land at the time the Company was in the process of privatisation. The Company believes that the values assigned to land were correct.

(b) Mobile communications licenses.

In the consolidated financial statements under German GAAP, the acquisition costs of the UMTS licenses purchased in the United Kingdom, Germany and Austria in the 2000 financial year are amortized as scheduled from the time of acquisition over the terms of the licenses. The interest on borrowings made to finance the licenses is recognized immediately as an expense. Under U.S. GAAP, amortization is from the beginning of economic use of the licenses – the start of operation of the UMTS networks – over the expected period of usage. As such, the interest accumulated on borrowings until the start of operation of the UMTS network represents part of the acquisition costs under U.S. GAAP.

(c) Capitalization of software costs.

Deutsche Telekom has been applying the Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use since the 1999 financial year. In accordance with SOP 98-1, in contrast to German GAAP, certain internal and external expenses incurred during the internal project development stage of computer software for internal use are to be capitalized and amortized over its expected useful life.

(d) T-Online International capital increase against noncash contributions.

Deutsche Telekom has treated the additional value from the T-Online capital increase against noncash contributions as not affecting income. Under U.S. GAAP, these proceeds – the same as the additional value from cash contributions of other shareholders – are to be recognized as income.

(e) Goodwill differences.

The goodwill differences between German GAAP and U.S. GAAP are mainly attributable to the differing times of purchase price calculation and differing equity values in the companies acquired based on the differing accounting and valuation approaches in German GAAP and U.S. GAAP.

(f) Fair value adjustment of securities and investments.

Under German GAAP, marketable debt and equity securities (including certain securities classified as other investments) are generally carried at historical cost. Under U.S. GAAP, marketable debt and equity securities other than investments accounted for by the equity method are categorized as either trading, available for sale, or held to maturity. Securities classified as trading or available for sale are reported at fair value at the balance sheet date and held to maturity securities are reported at historical cost. Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders' equity.

(g) Value-added tax.

The nondeductible capitalized VAT (capitalized prior to 1996) recorded as property, plant and equipment was fully depreciated in the annual financial statements according to German GAAP. In 2000, value-added tax refunds of EUR 169 million are shown under other operating income. German GAAP requires the capitalized VAT to be depreciated and the VAT recoveries to be recorded as other operating income. Under U.S. GAAP, the capitalized VAT is treated as a long-term receivable rather than property, plant and equipment. Therefore, neither depreciation nor other operating income are recognized.

(h) Derivatives.

According to the SEC, the foreign currency forward contracts and options used to hedge against foreign currency risks from the forthcoming acquisition of a shareholding may not be shown in the balance sheet as hedges. The profits and losses from U.S. dollar forward contracts and options used by Deutsche Telekom in the year under review therefore have to be recorded as having a full effect on income under U.S. GAAP. Under German GAAP, these profits and losses have no effect on income and are included in the acquisition costs of the shareholding.

(i) Personnel restructuring.

Under German GAAP, the estimated costs of employee separations have been accrued on the basis of the Company's announced intention to reduce its workforce. Under U.S. GAAP, these costs are accrued in the period that the employee accepts the offer of termination. The Company has agreed pursuant to its collective bargaining agreements with the unions that it will not unilaterally terminate the employment of its non-civil servant employees due to business reasons before the end of the year 2004. Civil servants may not be involuntarily terminated under the terms of their conditions of employment.

(j) Deferred income

During the fourth quarter of 2000, the Company implemented SEC Staff Accounting Bulletin No. 101 (SAB 101) which establishes guidelines with respect to certain revenue recognition reporting practices. As required by SAB 101, the Company retroactively adopted this accounting change effective January 1, 2000. As a result of the implementation of SAB 101, Deutsche Telekom has deferred activation fees and certain other one-time charges and is amortizing them over the average life of the related service. This is in contrast to German GAAP, under which the revenue is recognized immediately. Related direct incremental costs, up to the amount of revenues, are also deferred and subsequently amortized. All other direct costs associated with customer activation are expensed as incurred. Furthermore, and in contrast to German GAAP, under which income from a basic agreement between T-Mobil and VIAG Interkom is to be recognized in accordance with the economic useful life, this income is to be distributed over the duration of the agreement under U.S. GAAP.

(k) Share offering costs.

Under German GAAP, the costs incurred in connection with share offerings are recorded as extraordinary expenses in the income statement. Under U.S. GAAP, specific incremental costs directly attributable to an offering are charged against the proceeds of the offering.

(l) Other differences.

Other differences consist of the different accounting and valuation approaches between German GAAP and U.S. GAAP that are not individually significant, including the treatment of unrealized gains on foreign currency receivables and payables that have a full effect on income under U.S. GAAP, the inclusion in the balance sheet of accruals for maintenance accruals and the valuation of trade accounts receivable. Under German GAAP, accruals have to be made for maintenance that is carried out within 3 months after the balance sheet date. Under U.S. GAAP, maintenance expenditures must only be shown in the period in which they are incurred. The valuation differences for receivables are a result of the application of the percentage of completion method, as opposed to the completed contract method under German GAAP.

(m) Income taxes.
The determination of income tax expense under German GAAP differs from U.S. GAAP as follows:

– Under U.S. GAAP, in contrast to German GAAP, deferred tax assets are recognized for the estimated future tax effects attributable to tax loss carryforwards.

– Under German GAAP, deferred taxes are not recorded for temporary differences which arose during tax free periods. Under U.S. GAAP, the estimated future tax effects related to those temporary differences are recognized.

– Under German GAAP, deferred taxes have not been recognized for those temporary differences which are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes are generally recognized for all temporary differences.

Deferred taxes are also provided for the income tax effects of valuation differences between U.S. GAAP and German GAAP. Deferred tax assets are measured based on enacted tax law and reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The following table shows the differences between income tax expense determined in accordance with U.S. GAAP and German GAAP:

	2000 millions of €	1999 millions of €	1998 millions of €
Deferred taxes from the application of U.S. GAAP	(561)	(14)	73
Deferred taxes on U.S. GAAP/German GAAP differences	(12)	(230)	130
	(573)	**(244)**	**203**

(n) Minority interest.
Under U.S. GAAP, minority interest is not included in shareholders' equity.

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

	Note	2000 millions of €	1999 millions of €	1998 millions of €
Net income as reported in the consolidated financial statements under German GAAP		**5,926**	**1,253**	**2,243**
Valuation adjustment of real estate	(a)	2,018	–	–
UMTS licenses	(b)	865	–	–
Internally developed software	(c)	95	163	4
T-Online capital increase against noncash contributions	(d)	1,911	–	–
Goodwill differences	(e)	(147)	5	–
Value-added tax	(g)	(169)	288	13
Derivatives	(h)	68	68	18
Accruals for personnel restructuring	(i)	(125)	(97)	(286)
Deferred income	(j)	98	(129)	2
Implementation of SAB 101, cumulative to Dec. 31,1999	(j)	(869)	–	–
Share offering costs	(k)	120	238	–
Other differences	(l)	29	(32)	28
Differing effects of income tax	(m)	(573)	(244)	203
Net income in accordance with U.S. GAAP		**9,247**	**1,513**	**2,225**

Reconciliation of shareholders' equity from German GAAP to U.S. GAAP:

	Note	Dec. 31, 2000 millions of €	Dec. 31,1999 millions of €
Shareholders' equity in accordance with German GAAP		**42,716**	**35,689**
Reconciliation to U.S. GAAP			
Valuation adjustment of real estate	(a)	2,018	–
UMTS licenses	(b)	865	–
Software costs	(c)	272	168
T-Online capital increase against noncash contributions	(d)	1,911	–
Goodwill differences	(e)	38	(54)
Unrealized gains on marketable securities	(f)	2,660	1,242
Value-added tax	(g)	27	196
Derivatives	(h)	60	(8)
Personnel restructuring accrual	(i)	12	136
Deferred income	(j)	(38)	(144)
Implementation of SAB 101, cumulative to Dec. 31, 1999	(j)	(869)	–
Other differences	(l)	97	54
Income taxes	(m)	579	1,320
Minority interest	(n)	(4,302)	(988)
Shareholders' equity in accordance with U.S. GAAP		**46,046**	**37,611**

Changes in shareholders' equity in accordance with U.S. GAAP:

	2000 millions of €	1999 millions of €
Shareholders' equity, beginning of year	**37,611**	**26,857**
Net income in accordance with U.S. GAAP	9,247	1,513
Other comprehensive income		
Net change in unrealized gains on marketable securities, net of deferred taxes	1,418	232
Currency translation	(480)	177
	938	**409**
Proceeds from share offering (less share offering costs after tax, plus employee discount)	124	10,515
Dividends for 1999 and 1998, respectively	(1,874)	(1,683)
Shareholders' equity, end of year	**46,046**	**37,611**

(38) Deferred taxes in accordance with U.S. GAAP:

Deferred tax assets and liabilities arising from temporary differences and net operating losses are as follows:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Deferred tax assets in accordance with U.S. GAAP		
Current deferred tax assets		
Net operating loss carryforwards	50	3
Accruals for loss contingencies	68	68
Other	49	–
Noncurrent deferred tax assets		
Net operating loss carryforwards	1,550	193
Personnel restructuring accrual	29	41
Pension accruals	364	1,433
Civil servant health insurance accrual	401	473
Accruals for risk related to real estate	167	118
Other accruals	228	196
Deffered income	341	73
Other	1	47
Deferred tax assets in accordance with U.S. GAAP	**3,248**	**2,645**
Deferred tax liabilities in accordance with U.S. GAAP		
Current deferred tax liabilities		
Derivatives	(24)	–
Accruals	(76)	(36)
Noncurrent deferred tax liabilities		
Intangible assets	(222)	–
Property, plant and equipment	(1,051)	–
Unrealized gains on marketable securities	(2)	(646)
Other	–	(1)
Deferred tax liabilities in accordance with U.S.GAAP	**(1,375)**	**(683)**
Net current deferred tax asset (liability)	67	35
Net noncurrent deferred tax asset	1,806	1,928
Valuation allowance	(820)	(119)
Net deferred tax asset under U.S. GAAP	**1,053**	**1,844**

The following table shows the development of deferred taxes from German GAAP to U.S. GAAP:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Net deferred taxes under German GAAP	475	524
U.S. GAAP adjustments		
Application of U.S. GAAP	1,670	2,184
U.S./German GAAP differences	(1,092)	(864)
Net deferred taxes under U.S. GAAP	**1,053**	**1,844**

(39) Additional information on the financial statements in accordance with U.S. GAAP.

Consolidated statement of income.

Certain items in the total cost income statement would be classified differently under U.S. GAAP. These items include, in particular, reversals of accruals and allowances for doubtful accounts that would generally be recorded as reductions to the original expense lines under U.S. GAAP rather than separately as income.

	2000 millions of €	1999 millions of €	1998 millions of €
Results from ordinary business activities/Income before income taxes	**10,969**	**3,409**	**4,719**
Income taxes	(1,197)	(1,624)	(2,274)
Income before (income) losses applicable to minority shareholders	9,772	1,785	2,445
(Income) losses applicable to minority shareholders	(88)	(272)	(220)
Net income in accordance with U.S. GAAP before cumulative effect of prior years from implementation of SAB 101	**9,684**	**1,513**	**2,225**
Cumulative effect from prior years from application of SAB 101 after taxes	(437)	–	–
Net income in accordance with U.S.GAAP	**9,247**	**1,513**	**2,225**
Earnings per share/ADS in accordance with U.S. GAAP (in €):			
Earnings per share before implementation of SAB 101	3.20	0.53	0.81
Cumulative effect of prior years from implementation of SAB 101	(0.15)	–	–
Total earnings per share in accordance with U.S. GAAP	3.05	0.53	0.81
Weighted average shares outstanding (in millions)	3,030	2,884	2,743
Pro forma information: backdated implementation of SAB 101			
Pro forma net income in accordance with U.S. GAAP		1,481	2,197
Pro forma earnings per share in accordance with U.S. GAAP (in €)		0.51	0.80

Consolidated statement of comprehensive income.

In addition to the contents of the financial statements which must be disclosed in accordance with German GAAP, comprehensive income must be disclosed under U.S. GAAP. Other comprehensive income covers certain changes to the shareholders' equity not affecting net income and not related to capital payments, dividend payments or similar transactions with the shareholders.

	2000 millions of €	1999 millions of €	1998 millions of €
Net income in accordance with U.S. GAAP	**9,247**	**1,513**	**2,225**
Other Comprehensive Income			
Currency translation	(480)	177	(135)
Unrealized gains on marketable securities (net of taxes in 1999: € 196 million and 1998: €416 million)	1,418	232	314
Other Comprehensive Income	**1,938**	**409**	**179**
Total income/Comprehensive Income	**10,185**	**1,922**	**2,404**

Development of other comprehensive income.

	Currency translation millions of €	Unrealized gains on marketable securities millions of €	Other comprehensive income millions of €
January 1,1998	**(406)**	**31**	**(375)**
Changes	(135)	314	179
December 31, 1998	**(541)**	**345**	**(196)**
Changes	177	232	409
December 31, 1999	**(364)**	**577**	**213**
Changes	(480)	1,418	1,938
December 31, 2000	**(844)**	**1,995**	**1,151**

Balance sheet presentation under U.S. GAAP.

German GAAP does not require presentation of a classified balance sheet. Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year are classified as noncurrent. Summarized balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Assets		
Current assets		
Cash and cash equivalents	1,014	880
Other current assets	16,326	11,428
	17,340	**12,308**
Noncurrent assets	**115,375**	**85,168**
	132,715	**97,476**
Shareholders' equity and liabilities		
Current liabilities		
Short-term debt	15,213	8,914
Other liabilities	9,038	6,254
Accruals	6,275	4,315
	30,526	**19,483**
Long-term liabilities		
Long-term debt	45,092	33,363
Other noncurrent liabilities	6,688	6,047
	51,780	**39,410**
Minority interest	**4,363**	**972**
Shareholders' equity		
Capital stock	7,756	7,756
Additional paid-in capital	24,006	23,881
Retained earnings, unappropriated net income		
carried forward from previous year and net income	13,140	5,775
Total other comprehensive income	1,151	213
Treasury shares	(7)	(14)
	46,046	**37,611**
	132,715	**97,476**

(40) Stock-based compensation.

The company has elected to account for employee stock options under US-GAAP in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations and to furnish the pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation".

APB 25 requires recognition of compensation expense for variable award plans (Deutsche Telekom and T-Online) over the vesting period of such plans, based upon the then-current market values of the underlying stock. In contrast, SFAS 123 requires recognition of compensation expense for grants of stock options over the vesting period of such grants, based on the estimated grant-date fair values of those grants.

Under APB 25, because the exercise price of Deutsche Telekom AG's and T-Online International AG's employee stock options was higher than the market price of the underlying stock at the end of the year, no compensation expense was recognized in 2000. Another one of Deutsche Telekom's subsidiaries has a stock-based compensation program which is not disclosed since it was deemed immaterial to the Company's financial statements.

Pro forma fair value disclosures.

SFAS 123 requires presentation of pro forma information as if the company had accounted for its employee stock based compensation under the fair value method of that statement. The fair value of the Deutsche Telekom (T-Online International AG) stock options issued in conjunction with the 2000 stock option plan was calculated at the grant date based on a Monte-Carlo option pricing model and was calculated in accordance with the terms of the issuance. The model simulates multiple paths for the stock and the index between Year 2 and Year 5 (3.5) given their initial levels and takes the expected value of the payoff.

At the grant date, the underlying assumptions and the resulting fair value per option of the respective companies were as follows:

Deutsche Telekom AG	**2000**
Expected dividend yield	1 %
Expected stock volatility	44.0 %
Risk-free interest rate	5.73 %
Expected lives (in years)	5.0
Employee stock options fair value	€ 25.08

T-Online International AG	**2000**
Expected dividend yield	0 %
Expected stock volatility	60 %
Risk-free interest rate	5.475 %
Expected lives (in years)	3.5
Employee stock options fair value	€ 13.10

For purposes of pro forma disclosure, the estimated fair value of the options at the date of grant is amortized to expense over the vesting period. Under the fair value method, the company's net income (loss) and earnings (loss) per share would have been as follows (in millions of euro, except per share amount):

	2000	1999	1998
Net income (loss) (millions of €)			
As reported under U.S. GAAP	9,247	1,513	2,225
Pro forma under SFAS No. 123	9,244	– [1]	– [1]
Basic earnings (loss) per share (€)			
As reported under U.S. GAAP	3.05	0.53	0.81
Pro forma under SFAS No. 123	3.05	– [1]	– [1]
Diluted earnings (loss) per share (€)			
As reported under U.S. GAAP	n/a	– [1]	– [1]
Pro forma under SFAS No. 123	n/a	– [1]	– [1]

[1] There were no stock-based compensation systems in the Deutsche Telekom Group in 1999 and 1998.

(41) Segment information by group business area. Deutsche Telekom applies Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) and the German Accounting Standard No. 3 "Segment Reporting" (DRS 3) for the calculation of segment information. In accordance with the aforementioned, companies must disclose information on their operational segments in accordance with their internal reporting structures. Under SFAS No. 131 and DRS 3, Deutsche Telekom has the following operational segments for which reporting is required: network communications, carrier services, data communications, mobile communications, broadcasting and broadband cable, terminal equipment, value-added services and international. The segments for which reporting is required are strategic group business areas which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

The valuation methods used for the group segment reporting correspond mainly to those used in the German consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on their income before taxes including extraordinary income (loss). Extraordinary income (loss) of EUR -159 million relates exclusively to expenses in connection with the initial public offering of T-Online International AG and the planned initial public offering of T-Mobile International AG in the year under review; in 1999, the costs of Deutsche Telekom AG's second share offering (EUR 240 million) made up the extraordinary income (loss).

Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Other expense and income items are in principle assigned to the segments by allocation procedure. Income taxes and taxes chargeable as expense are not assigned to individual segments. With the exception of depreciation and amortization, there are no major noncash items assigned to the segments. The income (loss) related to associated and related companies relates to income from investments and associated companies, as well as write-downs of financial assets and marketable securities. In the 2000 financial year, the income (loss) related to associated and related companies attributable to individual segments is shown under the relevant segments for the first time. Figures for prior-year periods have been adjusted accordingly.

As a rule, segments assets and segment investments are assigned to the segments on the basis of a usage-dependent allocation procedure. As a result of the application of DRS 3, the previous scope of the segments assets and the segment investments, consisting of property, plant and equipment, and capital expenditure on property, plant and equipment, has been extended to include the items intangible assets and financial assets; the figures for 1999 have been adjusted accordingly. In addition, the segment assets and segment investments are shown by geographical regions; assignment to the individual regions is generally by the location of the asset. Please refer to (1) in the notes to the consolidated financial statements for the presentation of revenue by regions. In accordance with DRS 3, liabilities are now assigned to the segments for the first time. As part of Group segment reporting, these include debt and other liabilities, excluding tax liabilities.

millions of €		Net revenue	Revenue between segments	Depreciation and amortization	Net interest income (expense)	Income (loss) related to associated and related companies	Income (loss) before taxes	Segment assets	Segment investments	Segment liabilities
Network communications	**2000**	**15,051**	**843**	**(4,187)**	**(924)**	**–**	**626**	**29,979**	**2,780**	**18,185**
	1999	16,737	869	(4,236)	(986)	–	2,276	33,588	2,438	21,038
	1998	20,531	1,087	(5,103)	(1,654)	–	4,796			
Carrier services	**2000**	**3,983**	**1,283**	**(1,050)**	**(173)**	**–**	**392**	**4,680**	**423**	**3,681**
	1999	2,884	677	(577)	(124)	–	440	4,701	336	2,882
	1998	1,611	571	(356)	(119)	–	589			
Data communications	**2000**	**3,352**	**1,033**	**(968)**	**(187)**	**–**	**269**	**4,592**	**488**	**3,582**
	1999	2,828	739	(815)	(196)	–	104	6 285	516	4 435
	1998	2,536	874	(966)	(315)	–	(61)			
Mobile communications[1]	**2000**	**9,253**	**1,360**	**(2,342)**	**(1,391)**	**(112)**	**(2,329)**	**40,247**	**25,503**	**31,622**
	1999	5,274	1,201	(844)	(430)	(137)	253	17,301	14,144	6,306
	1998	3,061	934	(580)	(172)	(423)	137			
Broadcasting and broadband cable	**2000**	**1,861**	**34**	**(753)**	**(223)**	**(240)**	**2,647**	**4,494**	**875**	**3,968**
	1999	1,917	197	(911)	(355)	1	(85)	6,753	271	5,935
	1998	1,804	93	(977)	(359)	0	(329)			
Terminal equipment	**2000**	**1,036**	**299**	**(163)**	**(36)**	**–**	**58**	**538**	**68**	**914**
	1999	1,207	228	(196)	(48)	–	19	957	108	1,114
	1998	1,382	221	(275)	(70)	–	(114)			
Value-added services	**2000**	**1,802**	**480**	**(201)**	**(34)**	**–**	**42**	**833**	**100**	**1,361**
	1999	1,903	346	(222)	(54)	–	(152)	1,383	122	1,658
	1998	2,051	235	(222)	(68)	–	(182)			
International[1]	**2000**	**2,058**	**20**	**(527)**	**(304)**	**7**	**(29)**	**7,429**	**4,280**	**1,346**
	1999	1,508	13	(260)	(145)	5	309	3,390	1,273	1,391
	1998	1,322	12	(243)	(134)	1	201			
Other segments	**2000**	**2,426**	**2,600**	**(712)**	**97**	**2,465**	**6,930**	**13,814**	**8,551**	**8,224**
	1999	1,122	2,045	(348)	(236)	(205)	(277)	7,625	3,652	6,781
	1998	772	1,081	(356)	(68)	99	38			
Reconciliation	**2000**	**117**	**(7,952)**	**(2,088)**	**78**	**(253)**	**(2,273)**	**–**	**–**	**(4,075)**
	1999	90	(6,315)	(57)	28	(7)	57	–	–	(2,951)
	1998	74	(5,108)	41	(3)	(3)	25			
Group	**2000**	**40,939**	**0**	**(12,991)**	**(3,097)**	**1,867**	**6,333**	**106,606**	**43,068**	**68,808**
	1999	35,470	0	(8,466)	(2,546)	(343)	2,944	81,983	22,860	48,589
	1998	35,144	0	(9,037)	(2,962)	(326)	5,100			

[1] The subsidiaries max.mobil. and One 2 One have not been shown under international since the 2000 financial year, but under mobile communications. The figures for 1999 have been adjusted accordingly.

Segments by geographic area.

millions of €	Segment assets		Segment investments	
	Dec. 31, 2000	Dec. 31, 1999	**Dec. 31,2000**	Dec. 31, 1999
Germany	59,021	56,857	16,404	5,518
European Union (excl. Germany)	31,962	19,432	15,402	15,331
Rest of Europe	9,188	3,348	5,458	1,472
North America	5,668	1,646	5,618	231
Other	767	700	186	308
Group	**106,606**	81,983	**43,068**	22,860

Network communications.
The group business area network communications provides voice telephony and associated services in the fixed network for a broad range of customers. The services are provided mainly within the domestic market and are, in many areas, subject to regulation by the Regulatory Authority for Telecommunications and Posts (RegTP).

In this segment, Deutsche Telekom generated net revenue in the year under review amounting to EUR 15,051 million. Domestic call charges account for approximately 51 % of this revenue, line installation charges, monthly rental charges and other domestic services for approximately 43 % and international call charges for approximately 6 %.

Accounting for approximately 37 % of Deutsche Telekom's entire net revenue, network communications remains the Company's largest revenue driver.

The main causes of the reduction in revenue and income, as was also the case in 1999, are the price cuts introduced, particularly for international and domestic long-distance calls, and the impact of competition; increased revenue as a result of market growth, particularly for calls to the mobile communications network, had an offsetting effect. The price cuts were made as a result of the continuing high pressure on prices and to avoid further losses of market share. The decrease in call charges is offset by higher earnings from line installation and rental charges, which are mainly attributable to the approximately 29 % increase in the number of ISDN channels compared with 1999. The nonscheduled depreciation of outside plant in the course of the year under review placed a further burden on results. This had an impact on the group business area network communications in particular due to the usage-based assignment of a considerable proportion of property, plant and equipment to this area.

Revenue from business with other segments, amounting to EUR 843 million, relates mainly to services provided for the various product packages offered by group business areas other than the group business area network communications, in particular data communications and carrier services.

The net interest expense of EUR 924 million is attributable to the high capitalization ratio in this group business area. The segment liabilities mainly relate to the financing of the noncurrent assets assigned to this area. The depreciation in this segment, as well as the segment assets and the investments, are a result mainly of the assignment of considerable proportions of the Group's property, plant and equipment to this group business area.

Carrier services.
On the carriers' carrier market, Deutsche Telekom's competitors, as customers, are offered comprehensive services by the group business area carrier services. On the domestic market, these are predominantly the provision of interconnection services for fixed and mobile network operators, for carrier-specific transmission path offers and for access to the so-called unbundled local loop. This group business area also covers international inter-carrier business, which includes the termination of incoming international calls.

As a company dominant in sub-markets, Deutsche Telekom is subject to extensive regulation in its group business area carrier services. This is particularly true for services provided on the domestic telecommunications market. The international carrier services business, by contrast, was relieved of regulation to a certain extent in 1999.

Net revenue in the carrier services group business area was determined by the activities of Deutsche Telekom's competitors in the fixed and mobile communications network. In the fixed network, in particular, the number of carriers continues to increase since the full liberalization of the German telecommunications market. Besides corrections and exchange rate effects, considerable increases in international and domestic carrier services business and the boom in mobile telephony led to an increase in net revenue of EUR 1,099 million to EUR 3,983 million.

Income before taxes from carrier services of EUR 392 million was lower than last year. The reasons for this development include increased costs for telecommunications services based on higher purchase prices and exchange rate developments, as well as less favorable cost relationships due to price definitions by the RegTP; the carrier-specific services interconnection, local loop and carrier leased lines in particular are subject to ex ante price regulation.

The revenue between segments of EUR 1,283 million relates mainly to services provided for the group business area mobile communications for calls from the mobile communications network to the fixed network and to competitors' networks, as well as to foreign countries. The strong growth in the number of subscribers using Deutsche Telekom's digital mobile telephone service (T-D1) is therefore a key reason for the doubling of revenue between segments. The depreciation reflects the depreciation on the noncurrent assets assigned to the group business area carrier services. The net interest expense and the segment liabilities relate mainly to the financing of the assigned noncurrent assets.

Data communications.
In the group business area data communications, Deutsche Telekom offers domestic and international customers a broad range of products and services for data communications, based mainly on IP, frame relay and ATM platforms. This includes the provision of leased links and data transmission services. This group business area combines, as full systems solutions, all the network platforms and services necessary for the realization of customer projects, in particular the generation of complex Internet and Intranet solutions as well as LAN and LAN-to-LAN solutions for business customers. The data communications market has been open to competition for some years and is one of the fastest-growing areas of telecommunications.

In this global growth business, Deutsche Telekom increased its net revenue in the data communications segment further by EUR 524 million to EUR 3,352 million. Despite the continued pressure on prices, income before taxes for the segment was considerably higher in the year under review (EUR 269 million) than in the previous year (EUR 104 million). This is mainly a result of increased revenue and cost reduction measures.

The revenue between segments relates mainly to the use of data communications platforms by other group business areas, in particular multimedia, and the corresponding connection services. The increase of EUR 294 million to EUR 1,033 million is therefore mainly attributable to the strong increase in Internet usage. Depreciation in data communications mainly reflects the depreciation on the property, plant and equipment assigned to this group business area. The net interest expense and the liabilities mainly reflect the financing of property, plant and equipment. The segment assets assigned to this group business area are predominantly technical equipment.

Mobile communications.
The group business area mobile communications provides mobile telephone and paging services for a broad range of customers. With Deutsche Telekom's mobile communications activities now bundled within T-Mobile International AG (TMO), the TMO sub-group has, in addition to T-Mobil, included the companies One 2 One, max.mobil. and T-Motion since the beginning of 2000. The TMO sub-group represents the main part of the mobile communications segment. The segment data for prior years were adjusted, as One 2 One and max.mobil. are no longer shown under international, but under mobile communications.

The increase in net revenue of approximately 75 % over the previous year is mainly attributable to the strong growth in the number of new subscribers. The number of subscribers of Deutsche Telekom's German mobile telephone service (T-D1) more than doubled. The number of One 2 One subscribers almost doubled in the United Kingdom. TMO's Austrian mobile communications subsidiary max.mobil. also recorded strong subscriber growth. The enormous growth in the number of subscribers is mainly a result of the booming pre-paid sector. T-Mobil's net revenue increased by approximately 35 %. In total, One 2 One and max.mobil. contribute approximately 42 % to the net revenue of this segment.

Revenue from business with other segments amounting to EUR 1,360 million relates mainly to domestic network interconnection services (so-called mobile-terminated calls) provided by the group business area mobile communications. These services made a considerable contribution to the increase in revenue between segments. The marked increase in depreciation and amortization relates mainly to the amortization of goodwill and the depreciation of property, plant and equipment. The increased net interest expense and the growth in segment liabilities are mainly due to the costs of financing UMTS licenses. Further reasons for the decrease in the results of this segment include higher customer acquisition costs due to the enormous growth in subscriber numbers, particularly in the pre-paid sector, and increases in all expense items due to the considerable expansion of business.

The increase in segment assets and the high level of segment investments are mainly attributable to the acquisition of UMTS licenses in Germany, the United Kingdom and Austria, the acquisition of shares in the mobile communications operator Ben in the Netherlands (50 % minus one share) and in the U.S. mobile communications provider VoiceStream (tranche of 1.69 %) as well as the expansion of the digital mobile networks (mainly in Germany and the United Kingdom) as a result of the growth in the number of subscribers.

Broadcasting and broadband cable.
The group business area broadcasting and broadband cable provides broadcasting services for analog and digital radio and television channels. The services are provided within the domestic market and are subject to the regulations of the regional media supervisory authorities.

The main influence on the figures for this segment in 2000 was the sale of shareholdings in Kabel Deutschland to the North-Rhine Westphalia and Hesse regional companies. The primary consequence of this sale is the reduction in net revenue, depreciation and amortization, net interest expense and the loss related to associated and related companies, the segment assets and segment liabilities. The proceeds from the sale of these shareholdings amounted to EUR 2,964 million and are thus the decisive element in the results for this segment in the period under review.

55 % of the shares in the North-Rhine Westphalia regional company were acquired by a consortium under the leadership of Callahan Associates International LLC, an internationally active development and operating company in the telecommunications sector. 65 % of the shares in the Hesse regional company were acquired by a consortium under the leadership of Klesch & Company Ltd., London. Kabel Deutschland still holds the remaining shares in these companies.

Connection charges and monthly cable charges paid by residential cable users along with the transmission charges paid by local cable companies contribute to 75 % of the net revenue in the broadcasting and broadband cable group business area. Revenues from the provision of transmission capacities for radio and television broadcasters account for the remaining 25 % of the segment's net revenue. Depreciation relates mainly to the cable network. The net interest expense and the segment liabilities relate mainly to the financing of the noncurrent assets of the group business area. The segment assets consist mainly of technical equipment and real estate, most of which relates to broadband cable.

Terminal equipment.
The group business area terminal equipment sells and rents out terminal equipment and private automatic branch exchanges to various target groups. The services are provided mainly within the domestic market. In the sale of terminal equipment, suppliers who produce exclusive terminal equipment for Deutsche Telekom (T-Brand) in some cases operate on the market as competitors with similar products. The market for terminal equipment has been fully open to competition since 1990.

Revenue from business with third parties decreased in the year under review by EUR 171 million to EUR 1,036 million. The main reason for this is the continued streamlining of the product portfolio and the compensation of the external purchase revenue through the increased use of indirect sales channels via T-Mobil. This is also the main reason for the increase in revenue from business with other segments by EUR 71 million to EUR 299 million. Other elements of the revenue between segments are the income from the terminal equipment used by other group business areas and income from logistics and bundling services. The terminal equipment group business area recorded income before taxes of EUR 58 million, thus continuing the positive segment results of the previous year, mainly as a result of the consistent continuation of the streamlining and market orientation of the product portfolio.

Depreciation in the terminal equipment segment relates to the depreciation of noncurrent assets allocated to the group business area. The net interest expense and the liabilities mainly reflect the financing of assets assigned or assignable to the segment. The segment assets relate mainly to the assignment of property, plant and equipment on a proportional basis in line with usage, in particular of real estate and plant and office equipment. Capital expenditure relates mainly to the additions in property, plant and equipment allocated to this group business area.

Value-added services.
The group business area value-added services provides various services for a broad range of customers. These include public telecommunications, directory inquiries, call centers and freecall and shared-cost numbers. The publication of telephone directories is also included in this group business area. The products and services are provided mainly within the domestic market and are subject to competition.

The decrease in net revenue by EUR 101 million to EUR 1,802 is mainly attributable to the substitution effects for coin and card-operated public telephones due to the strong growth in mobile communications and further losses of market share for operator services (in particular domestic directory inquiries). Offsetting effects included increased revenue as a result of greater demand for T-Vote-Call and Premium Rate as well as business with new products of DeTeMedien (such as Compages and online directories) and of DeTeCard (mainly the Xtra-Cash card).

Revenue from business with other segments amounting to EUR 480 million relates mainly to services provided by this group business area for other group business areas, in particular carrier services, mobile communications and multimedia. Depreciation in the value-added services segment relates mainly to the noncurrent assets assigned to the group business area. The net interest expense and the liabilities mainly relate to the financing of the assets assigned or assignable to the segment. Despite a decrease in net revenue, the group business area value-added services recorded income before taxes of EUR 42 million in the year under review, after posting a loss of EUR 152 million in the previous year. This development is predominantly attributable to the growth in traffic volume for telephone value-added services, the change in the business model for directory inquiries and call centers and the business with new products of DeTeMedien and DeTeCard.

International.
In the 1999 financial year, the segment international related to Deutsche Telekom's shareholding in MATÁV, which operates on the Hungarian telecommunications market as a full-service provider of telephone services, and the two mobile communications operators One 2 One in the United Kingdom and max.mobil. in Austria. As part of the bundling of mobile communications activities within TMO, the two companies One 2 One and max.mobil. have belonged to the mobile communications segment since the beginning of 2000. Figures for prior-years have been adjusted accordingly.

The shareholdings in the fixed network operators SIRIS S.A.S. in France and Eurobell Ltd. in the United Kingdom, consolidated for the first time as at December 31, 1999, have belonged to the segment international since the beginning of 2000. The shares in Eurobell were sold in the fourth quarter of 2000 and the Slovakian telecommunications company Slovenské Telekomunikácie a.s. was consolidated for the first time in the fourth quarter of 2000. The increase in net revenue, depreciation and amortization and the development of the segment's results are therefore mainly attributable to the first-time consolidation of SIRIS, Eurobell and Slovenské Telekomunikácie in the 2000 financial year.

The Hungarian company MATÁV also contributed to the increase in net revenue. MATÁV's net revenue, driven in particular by mobile communications, was well above the level of the previous year. One main reason for the increased level of MATÁV's depreciation and amortization is the considerable investment in network expansion. MATÁV's contribution to the results of this segment remains positive despite restructuring expenses and increased customer acquisition costs in mobile communications compared with 1999. The increase in the segment assets and segment investments is mainly attributable to MATÁV and the first-time consolidation of Slovenské Telekomunikácie.

Other segments.
Other segments include those operational segments which, in accordance with the requirements of SFAS 131 and DRS 3, need not be shown individually, and other activities and shareholdings which are not assigned to specific operational segments.

The increase in net revenue is primarily a result of the first-time consolidation of debis Systemhaus (dSH) in the fourth quarter of 2000. The inclusion of dSH also had a positive effect on net interest income and income before taxes. Together with DeTeSystem and other group units (including parts of the group business area data communications), dSH, as one of the largest providers of systems solutions in Europe, is being integrated in the Telekom growth pillar T-Systems. A further contribution to the increase in net revenue for this segment, apart from dSH, was T-Online International AG, which recorded a higher level of net revenue as a result of the almost doubled number of subscribers. The reduction of the net interest income for other segments is mainly attributable to the interest income from T-Online from the inflow of capital as a result of the company's initial public offering.

The increased level of revenue between segments, EUR 555 million higher than in 1999, reflect the increased demand from other segments for the products and services of DeTeCSM and T-Nova. The decisive factor in the income related to associated and related companies in the period under review was the sale of the shares in Wind (EUR 2,328 million). Extraordinary expenses relating to the initial public offering of T-Online had a negative effect totaling EUR 146 million on the segment's results. Together with the income related to associated and related companies, the proceeds from the sale of the shares in Atlas/Global One (EUR 2,864 million) and from the initial public offering of T-Online International AG (EUR 2,657 million) are the main elements of the income before taxes.

The segment assets, investments and liabilities assigned to this segment are made up of the relevant amounts from subsidiaries which are not directly assigned to a segment. The segment assets of this segment also include corporate headquarters.

Reconciliation.
The items to be reconciled relate mainly to consolidation measures and differences in the composition of the Deutsche Telekom Group taken as the basis for management reporting and that used for the consolidated financial statements under German GAAP. The net revenues shown in the reconciliation relate to subsidiaries shown in the consolidated financial statements under the international segment. The income (loss) related to associated and related companies consists mainly of the income (loss) related to associated and related companies of holding companies.

As part of its strategy to separate itself more quickly from a considerable proportion of its real estate portfolio, Deutsche Telekom has made a nonscheduled write-down in the form of a valuation adjustment on the asset side for real estate using average prices per square meter for groups of properties to determine individual fair values amounting to EUR 2,018 million for the 2000 financial year. This valuation adjustment, which does not affect the operational segments, has no effect on the internal operation of the segments and is therefore almost exclusively an element of the depreciation and amortization shown in the reconciliation to U.S. GAAP.

(42) Other matters.
In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which should be adopted from the financial year 2000. Under the provisions of SFAS No. 133, derivatives are rights and obligations which meet the definition of assets or liabilities and should be reported in financial statements. They should, as a rule, be valued at market value or fair value with their full effect on income. Alternative treatment is only permissible if it can be shown that this is attributable to hedging, which satisfies the requirements of the statement with regard to documentation and monitoring of efficiency. In its decision of June 1999, the FASB postponed the entry into force of SFAS 133 by a year. The statement is thus binding only for financial years commencing after June 15, 2000 (SFAS 137). SFAS 133 was amended in parts (SFAS 138) in June 2000.

Deutsche Telekom applies the provisions of SFAS 133 within the reconciliation to U.S. GAAP from the 2000 financial year. The analysis of Deutsche Telekom's hedging strategies has shown that the preconditions for recording hedging activities within the meaning of SFAS 133 have not always been fulfilled. Accordingly, an effect must be expected in the statement of income from the recording of these hedging activities. At December 31, 2000, this cumulative effect amounted to approximately EUR 360 million and in the first quarter of 2001, in accordance with SFAS 133, is shown in a transition adjustment from the first application of SFAS 133. The effects of the recording of hedging activities on other comprehensive income, classified as cash flow hedges under SFAS 133, are minimal.

Bonn, April 27, 2001

Deutsche Telekom AG
Board of Management

Dr. Ron Sommer	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 consolidated financial statements, consisting of the statement of income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of shareholders' equity and the notes to consolidated financial statements including the segment reporting, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the financial year from January 1 to December 31, 2000. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

We are issuing our auditor's report based on our statutory audit and based on the subsequent audit of the changes in the Reconciliation to U.S. GAAP in the Group accounts, footnotes 37 through 39 (reversal of the valuation adjustment of real estate).

Frankfurt am Main, March 26, 2001/April 27, 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dickmann) (Laue)
Wirtschaftsprüfer Wirtschaftsprüfer