

Deutsche Telekom AG
Financial Statements as of
December 31, 2000



Contents

Supervisory Board.....	4
Board of Management.....	6
Statement of income.....	8
Balance sheet.....	9
Noncurrent assets	10
Statement of cash flows.....	12
Statement of shareholders' equity.....	13
Exchange rates used.....	14
Notes.....	15
Auditors' report.....	41

Deutsche Telekom AG's management report and the management report of the Group have been combined and are published in our 2000 annual report.

The annual financial statements and the Deutsche Telekom AG management report and the management report of the Group for the 2000 financial year are published in the Federal Gazette and are filed with the Commercial Registry of the Bonn District Court, HRB 6794.

Supervisory Board of Deutsche Telekom AG

Dr. Hans-Dietrich Winkhaus

since May 27, 1999
Chairman of the Supervisory Board of Deutsche Telekom AG
since May 25, 2000
Member of the Shareholders' Committee of Henkel KGaA

- ERGO-Versicherungen, Düsseldorf (since 5/1998)
- Degussa-Hüls AG, Frankfurt (since 3/1999)
- Deutsche Lufthansa AG, Cologne (since 6/1998)
- Schwarz-Pharma AG, Monheim (since 6/1998), Chairman of the Supervisory Board (since 5/2000)
- BMW AG, Munich (since 5/1999)

Rüdiger Schulze

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

- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 3/1999)

Reinhard Ahrensmeier

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

- DeTeImmobilien GmbH, Münster (from 6/1996 to 2/2000)

Gert Becker

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

- ALCAN Deutschland GmbH, Eschborn (since 9/1996)
- Bankhaus Metzler KGaA, Frankfurt/Main, Chairman of the Supervisory Board (since 1/1997)
- Bilfinger + Berger Bau AG, Mannheim, Chairman of the Supervisory Board (since 7/1983)
- Degussa-Hüls AG, Frankfurt/Main (from 3/1996 to 5/2001)

Michel Bon

from June 4, 1998 to March 31, 2000
President, France Télécom S.A.

- Sprint Corporation, Kansas City (since 6/1996)
- France Télécom S.A., Paris (since 9/1995)
- Lafarge S.A., Paris (since 5/1993)
- Air Liquide S.A., Paris (since 5/1997)
- Grand Vision S.A., Paris la Défense (since 12/1996)
- Editions du Cerf S.A., Paris Cedex 07 (since 5/1993)
- Bull S.A., Louveciennes (since 12/1995)
- Sonepar Distribution S.A., Paris (since 6/1993)

Josef Falbisoner

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

- PSD-Bank, Munich, Augsburg office (since 6/1994)

Dr. Hubertus von Grünberg

since May 25, 2000
Member of the Supervisory Board of Continental AG and other organizations

- Allianz-Versicherungs AG, Munich (since 5/1998)
- Continental AG, Hanover (since 6/1999)
- MAN Aktiengesellschaft, Munich (since 2/2000)

Supervisory board seats in companies abroad:

- Schindler Holding AG, Hergiswil (Switzerland), Board of Directors (since 5/1999)

Dr. sc. techn. Dieter Hundt

since January 1, 1995
Managing Shareholder of Allgaier Werke GmbH
President of the National Union of German Employer Associations

- EvoBus GmbH, Stuttgart (since 5/1995)
- Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board (since 1/1999)
- Stuttgarter Hofbräu AG, Stuttgart (since 4/1993)
- Stuttgarter Hofbräu Immobilien Verwaltungs-AG, Stuttgart, Chairman of the Supervisory Board (since 5/1999)
- Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1/1999)

Franz-Josef Klare

from January 1, 1995 to April 15, 2000
Chairman of Deutsche Postgewerkschaft trade union, District of Münster

- Vereinigte Postversicherung VVaG, Stuttgart (since 6/1990)

Rainer Koch

since April 12, 2000
Chairman of the Central Works Council at DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster

- DeTeImmobilien GmbH, Münster (since 6/1996)

Dr. h.c. André Leysen

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

- Agfa-Gevaert AG, Leverkusen, Chairman (since 1987)
- Bayer AG, Leverkusen (since 1987)
- E-On AG, Düsseldorf (since 1993)
- Philipp Holzmann AG, Frankfurt/Main (from 3/1999 to 5/2000)
- Schenker AG, Essen (since 1972)

Supervisory board seats in companies in Belgium:

- Agfa-Gevaert N.V. Mortsel, Antwerp, Chairman (since 1978)
- Cobepa N.V., Brussels (from 1988 to 4/2000)
- GIB Group, Brussels (since 1983)
- Tessenderlo Chemie N.V., Tessenderlo (since 1983)
- Vlaamse Uitgeversmaatschappij N.V., Groot-Bijgaarden (since 1976)

Waltraud Litzenberger

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

- PSD-Bank e.G., Koblenz (since 9/1998)

Michael Löffler

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

– no other seats –

Hans-W. Reich

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

- ALSTOM GmbH, Frankfurt/Main (since 8/1999)
- Frachtcontor Junge & Co. GmbH, Hamburg (from 7/1995 to 4/2001)
- Haftpflcht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg (since 7/2000)
- HUK-COBURG Holding GmbH, Coburg (since 7/2000)
- HUK-COBURG-Allgemeine-Versicherungs-Aktiengesellschaft, Coburg (since 7/2000)
- IKB Deutsche Industriebank AG, Düsseldorf (since 9/1999)
- Krankenversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Krankenversicherung), Coburg (since 7/2000)
- Lebensversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Leben), Coburg (since 7/2000)
- Preussag Noell GmbH, Würzburg (from 10/1995 to 4/2000)
- RAG AG, Essen (since 11/2000)
- RAG Trading GmbH, Essen, Advisory Board (from 11/1999 to 10/2000)
- Thyssen Krupp Steel AG, Duisburg (since 5/1999)
- Thyssen Werften GmbH, Emden (from 6/1996 to 3/2001)

Rainer Röhl

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

– no other seats –

Wolfgang Schmitt

since October 2, 1997
Head of Deutsche Telekom AG's Regional Directorate, South-Western District

Prof. Dr. Helmut Sihler

since July 1, 1996
Chairman of the Supervisory Board of Deutsche Telekom AG until May 25, 2000
Vice Chairman of the Board of Directors of Novartis AG, Basel

- Novartis AG, Basel, Vice Chairman of the Board of Directors (since 1996)
- Dr. Ing. h.c. F. Porsche AG, Stuttgart, Chairman of the Supervisory Board (since 3/1993)

Supervisory board seats in companies abroad:

- max.mobil. Telekommunikations Service GmbH, Vienna (since 1/2001)

Michael Sommer

since April 15, 2000
Vice Chairman of Deutsche Postgewerkschaft trade union

- Postbank, Bonn, Vice Chairman of the Supervisory Board (since 11/1997)
- BHW Bausparkasse, Hameln (since 1/1999)

Ursula Steinke

since January 1, 1995
Chairwoman of the Works Council at DeTeCSM's Northern District Service and Computer Center

– no other seats –

Prof. Dr. h.c. Dieter Stolte

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

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

Bernhard Walter

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

- Bilfinger und Berger Bau AG, Mannheim (since 7/1998)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Degussa-Hüls AG, Frankfurt/Main (since 2/1998)
- Deutsche Lufthansa AG, Cologne (from 6/1998 to 12/2000)
- Deutsche Hyp Deutsche Hypothekbank Frankfurt-Hamburg AG, Frankfurt/Main (Chairman of the Supervisory Board, group mandate from 6/1990 to 5/2000 and from 9/2000)
- Heidelberger Zement AG, Heidelberg (since 6/1998)
- Henkel KGaA, Düsseldorf (since 5/1998)
- mg technologies ag, Frankfurt/Main (since 3/1993)
- Staatliche Porzellan-Manufaktur Meissen GmbH, Meissen (from 7/1998 to 8/2000 and from 1/2001)
- Thyssen Krupp AG, Düsseldorf (since 3/1997)
- Wintershall AG, Kassel (since 2/2001)

Supervisory seats in companies abroad:

- Banque Nationale de Paris S.A. (from 1/1999 to 4/2000)

Wilhelm Wegner

since July 1, 1996
Chairman of the Central Works Council at Deutsche Telekom AG

- VPV Allgemeine Versicherungs-AG, Cologne (since 8/1995)
- Vereinigte Postversicherung VVaG, Stuttgart (since 7/1998)
- PSD Bank Düsseldorf e.G., Düsseldorf (since 8/2000)

Prof. Dr. Heribert Zitzelsberger

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

– no other seats –

Board of Management of Deutsche Telekom AG

Dr. Ron Sommer

As Chairman of the Board of Management, Dr. Sommer is responsible for Group Strategy and Communications, Auditing and Organization, Government Relations, Competition Policy, Regulatory Affairs, Top Management Staff.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn, Chairman of the Supervisory Board (from 1995 to 4/2000)
- France Télécom S.A., Paris (France) (from 1998 to 4/2000)
- Sprint Corporation, Kansas City (USA) (from 1996 to 5/2000)
- T-Mobile International AG, Bonn, Chairman of the Supervisory Board (since 3/2000)
- T-Online International AG, Darmstadt, Chairman of the Supervisory Board (since 2/2000)

Member of the supervisory boards of other companies:

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

Josef Brauner

Responsible for the Sales and Customer Care Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- debis Systemhaus GmbH, Leinfelden-Echterdingen, Chairman of the Supervisory Board (since 2000)
- Detecon Deutsche Telepost Consulting GmbH, Bonn, Chairman of the Supervisory Board (since 1999)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1999)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 2000)
- Deutsche Telekom Computer Service Management GmbH (DeTeCSM), Darmstadt (since 1999)
- T-Online International AG, Darmstadt (since 2000)
- T-Systems International GmbH, Frankfurt/Main (since 2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 1998)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 1998)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 1999)

Detlev Buchal

Responsible for the Product Marketing Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin, Chairman of the Supervisory Board (from 1999 to 5/2000)
- DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1996)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1996)
- MATÁV Hungarian Telecommunications Co. Ltd., Budapest (Hungary) (since 2000)
- max.mobil. Telekommunikation Service GmbH, Vienna (Austria), Chairman of the Supervisory Board (from 1999 to 9/2000; Member of the Supervisory Board since 10/2000)
- SIRIS S.A.S., Paris (France) (since 2000)
- T-Online International AG, Darmstadt (since 1998, suspended membership since 8/2000)
- T-Motion plc., London (UK) (from 2000 to 1/2001)
- T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn (since 1999)
- T-Systems International GmbH, Frankfurt/Main (since 2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 2000)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 2000)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 2000)

Dr. Karl-Gerhard Eick

Responsible for the Finance and Controlling Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTeImmobilien Deutsche Telekom Immobilien und Service GmbH, Münster (since 2000)
- T-Mobile International AG, Bonn (since 2000)
- T-Online International AG, Darmstadt (since 2000)
- TRI Technology Resources Industries Berhad, Kuala Lumpur (Malaysia) (since 2000)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 2000)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 2000)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 2000)
- Visay-Tech Inc., Manila (Philippines) (since 2000)
- T-Systems International GmbH, Frankfurt/Main (since 2001)

Member of the supervisory boards of other companies:

- Dresdner Bank Luxembourg S.A., Board of Directors (since 1/2001)

Jeffrey A. Hedberg

Responsible for the International Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Detecon Deutsche Telepost Consulting GmbH, Bonn (from 1999 to 2000)
- Deutsche Telekom Asia Pte. Ltd., Singapore (since 2000)
- Deutsche Telekom Inc., New York (USA) Chairman of the Supervisory Board (since 2000)
- One 2 One Personal Communications Ltd., Borehamwood, Hertfordshire (UK) (since 1999)
- SIRIS S.A.S., Paris (France) (from 2000 to 4/2000)
- T-Mobile International AG, Bonn (since 2000)
- T-Online International AG, Darmstadt (since 2000)
- TRI Technology Resources Industries Berhad, Kuala Lumpur (Malaysia) (since 1999)
- T-Systems International GmbH, Frankfurt/Main (since 2001)

Member of the supervisory boards of other companies:

- Continuum Advisory Ltd., London (UK) (since 2001)

Dr. Hagen Hultzsich

Responsible for the Technology and Services Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Bonn-Innova GmbH & Co. Venture Beteiligungs KG (BIVB), Bonn, Chairman of the Supervisory Board (since 1998)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main (since 1997)
- Deutsche Telekom Berkomm Gesellschaft für Forschung und Entwicklung von Anwendungen in der Telekommunikation mbH, Berlin, Chairman of the Supervisory Board (from 1995 to 5/2000)
- DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt, Chairman of the Supervisory Board (since 1996)
- T-Nova Deutsche Telekom Innovationsgesellschaft mbH (T-Nova), Bonn, Chairman of the Supervisory Board (since 1999)
- T-Systems International GmbH, Frankfurt/Main (since 2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn, Chairman of the Supervisory Board (since 1997)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVb), Bonn, Chairman of the Supervisory Board (since 1997)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVb), Bonn, Chairman of the Supervisory Board (since 1999)

Member of the supervisory boards of other companies:

- Forschungszentrum Jülich GmbH, Jülich (since 1997)
- Foundation Council of CAESAR Foundation, Bonn (since 1998)
- University Supervisory Board of Goethe-Universität, Frankfurt/Main (since 11/2000)

Dr. Heinz Klinkhammer

Responsible for the Human Resources and Legal Affairs Division.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- debis Systemhaus GmbH, Leinfelden-Echterdingen (since 2000)
- DeTeImmobilien Deutsche Telekom Immobilien und Service GmbH, Münster, Chairman of the Supervisory Board (since 1996)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (since 1998)
- T-Systems International GmbH, Frankfurt/Main (since 2001)

Member of the supervisory boards of other companies:

- Federal Posts and Telecommunications Agency, Administrative Board, Bonn (since 2000)
- PSD-Bank e.G., Düsseldorf (from 1999 to 2000)
- Vereinigte Postversicherung VVaG, Stuttgart (since 1996)

Gerd Tenzer

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

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTeImmobilien Deutsche Telekom Immobilien und Service GmbH, Münster (since 1996)
- DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (from 1993 to 4/2000)
- Kabel Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 1999)
- MSG MediaServices GmbH, München, Chairman of the Supervisory Board (since 1999)
- Partner für Berlin Gesellschaft für Hauptstadtmarketing mbH, Berlin (since 1995)
- Société Européenne des Satellites S.A., Betzdorf (Luxembourg) (since 1999)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Systems International GmbH, Frankfurt/Main (since 2001)

Member of the supervisory boards of other companies:

- VDE Association, Frankfurt/Main (since 8/2000)

Statement of income

	Note	2000 millions of €	1999 millions of €	1998 millions of €
Net revenue	(1)	27,951	27,945	30,879
Increase in inventories and other own capitalized costs	(2)	533	575	587
Total operating income		28,484	28,520	31,466
Other operating income	(3)	6,762	11,866	3,955
Goods and services purchased	(4)	(7,346)	(5,887)	(4,780)
Personnel costs	(5)	(6,654)	(7,405)	(7,832)
Depreciation and amortization	(6)	(8,622)	(6,185)	(7,662)
Other operating expenses	(7)	(9,735)	(8,643)	(8,174)
Financial income (expense), net	(8)	(6,010)	(817)	(2,634)
Results from ordinary business activities		(3,121)	11,449	4,339
Extraordinary income (losses)		-	(240)	-
Taxes	(9)	(212)	(1,480)	(2,649)
Income (loss) after taxes		(3,333)	9,729	1,690
Unappropriated net income carried forward from previous year		45	13	6
Transfer from treasury shares		7	-	-
Transfer from retained earnings		5,266	13	-
Transfer to treasury shares		-	(13)	-
Transfer to retained earnings		(7)	(4,857)	-
Unappropriated net income		1,978	4,885	1,696

Balance sheet

	Note	2000 millions of €	1999 millions of €
Assets			
Noncurrent assets			
Intangible assets	(10)	884	857
Property, plant and equipment	(11)	39,654	46,347
Financial assets	(12)	63,193	37,006
		103,731	84,210
Current assets			
Inventories, materials and supplies	(13)	483	345
Receivables	(14)	4,595	4,912
Other assets	(15)	2,774	1,805
Marketable securities	(16)	725	1,755
Liquid assets	(17)	155	916
		8,732	9,733
Prepaid expenses, deferred charges and deferred taxation	(18)	586	534
		113,049	94,477
Shareholders' equity and liabilities			
Shareholders' equity			
Capital stock	(20)	7,756	7,756
- contingent capital € 64 million			
Additional paid-in capital	(21)	24,290	24,121
Retained earnings	(22)	4,855	7,155
Unappropriated net income		1,978	4,885
		38,879	43,917
Accruals			
Pensions and similar obligations	(24)	2,928	2,953
Other accruals	(25)	4,666	4,331
		7,594	7,284
Liabilities			
Debt	(26)	30,409	35,105
Other		36,065	8,066
		66,474	43,171
Deferred income		102	105
		113,049	94,477

Noncurrent assets

	Acquisition or production cost				Dec. 31, 2000
	Jan. 1, 2000	Additions	Disposals	Reclassifications	
millions of €					
Intangible assets					
Concessions, industrial and similar rights and assets, and licences in such					
rights and assets	1,529	287	(121)	94	1,789
Advance payments	52	76	-	(56)	72
	1,581	363	(121)	38	1,861
Property, plant and equipment					
Land and equivalent rights, and buildings including buildings on land owned by third parties					
	18,950	188	(740)	2	18,400
Technical equipment and machinery	55,000	2,004 ¹⁾	(3,909)	346	53,441
Other equipment, plant and office equipment	3,434	411	(967)	12	2,890
Advance payments and construction in progress	482	564	(5)	(398)	643
	77,866	3,167	(5,621)	(38)	75,374
Financial assets					
Investments in subsidiaries	30,225	18,557	(13,175)	13	35,620
Loans to subsidiaries	2,252	24,304	(1,605)	14	24,965
Investments in associated and related companies	3,702	5,835	(838)	(11)	8,688
Long-term loans to associated and related companies	31	7	(4)	(16)	18
Other investments in noncurrent securities	1,229	429	(1,282)	-	376
Other long-term loans	452	2	(103)	-	351
	37,891	49,134	(17,007)	-	70,018
Total noncurrent assets	117,338	52,664	(22,749)	-	147,253

¹⁾ Additions to property, plant and equipment relate to depreciation taken over from subsidiaries.

Jan. 1, 2000	Depreciation, amortization and write-downs				Net carrying amount		
	Additions	Disposals	Reclassifications	Additions	Dec. 31, 2000	Dec. 31, 2000	Dec. 31, 1999
724	366	(116)	3	-	977	812	805
-	-	-	-	-	-	72	52
724	366	(116)	3	-	977	884	857
2,676	2,603	(159)	9	-	5,129	13,271	16,274
26,689	5,107 ¹⁾	(3,206)	10	8	28,608	24,833	28,311
2,154	546	(695)	(22)	-	1,983	907	1,280
-	-	-	-	-	-	643	482
31,519	8,256	(4,060)	(3)	8	35,720	39,654	46,347
33	6,714	-	-	(5)	6,742	28,878	30,192
4	-	-	-	(4)	-	24,965	2,248
848	12	(777)	-	-	83	8,605	2,854
-	-	-	-	-	-	18	31
-	-	-	-	-	-	376	1,229
-	-	-	-	-	-	351	452
885	6,726	(777)	-	(9)	6,825	63,193	37,006
33,128	15,348	(4,953)	-	(1)	43,522	103,731	84,210

Statement of cash flows

	Note	2000 millions of €	1999 millions of €	1998 millions of €
Income (loss) after taxes		(3,333)	9,729	1,690
Depreciation and amortization		8,630	6,185	7,662
Income tax expense		128	1,464	2,489
Net interest expense		2,491	2,456	2,802
Net (gains)/losses from disposition of noncurrent assets		(1,702)	(7,740)	519
Results from associated companies		-	-	-
Increase/(decrease) in inventories, receivables, other assets, prepaid expenses and deferred charges		(31)	(1,821)	507
Increase/(decrease) in accruals		206	163	(158)
Other noncash (income) and expense		3,473	(1,660)	(176)
Increase/(decrease) in payables and deferred income		884	1,536	204
Changes in other current assets and liabilities		-	-	-
Income taxes paid		(784)	(1,986)	(1,910)
Dividends received		3,207	2,010	576
Cash generated from operations		13,169	10,336	14,205
Interest paid		(4,438)	(3,019)	(3,283)
Interest received		2,055	485	518
Net cash provided by operating activities	(27)	10,786	7,802	11,440
Cash outflows from investments in intangible assets		(363)	(457)	(333)
Cash outflows from investments in property, plant and equipment		(3,166)	(2,873)	(2,959)
Cash outflows from investments in financial assets		(35,076)	(15,458)	(2,672)
Cash inflows from disposition of intangible assets		4	38	56
Cash inflows from disposition of property, plant and equipment		615	190	66
Cash inflows from disposition of financial assets		4,801	1,258	537
Net change in short-term investments		1,308	2,329	(730)
Net cash used for investing activities	(28)	(31,877)	(14,973)	(6,035)
Issuance of short-term debt		41,514	3,385	-
Repayment of short-term debt		(35,291)	(5,448)	(4,318)
Issuance of medium and long-term debt		16,115	1,008	1,051
Repayment of medium and long-term debt		-	(1,935)	(1,232)
Dividends paid		(1,874)	(1,684)	(1,684)
Proceeds from share offering		169	10,614	-
Net cash provided by (used for) financing activities	(29)	20,633	5,940	(6,183)
Changes in value of cash and cash equivalents due to exchange rate fluctuations		(25)	(56)	8
Net increase (decrease) in cash and cash equivalents		(483)	(1,287)	(770)
Cash and cash equivalents, at beginning of year		613	1,900	2,670
Cash and cash equivalents, at end of year		130	613	1,900
Net increase (decrease) in cash and cash equivalents		(483)	(1,287)	(770)

Statement of shareholders' equity

	Capital stock nominal value		Additional paid-in capital	Retained earnings		Unappropriated net income (loss)	Total
	Shares issued and outstanding (in thousands)	millions of €		Treasury stock	Other retained earnings (deficit)		
		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 1998	2,743,700	7,014	14,250	1	2,297	1,690	25,252
Dividends for 1997						(1,684)	(1,684)
Income after taxes						1,690	1,690
Balance at December 31, 1998	2,743,700	7,014	14,250	1	2,297	1,696	25,258
Dividends for 1998						(1,683)	(1,683)
Increase in nominal value of capital stock		10	(10)				-
Proceeds from share offering	285,904	732	9,881				10,613
Transfer to reserve for treasury stock				13	(13)		-
Income after taxes						9,729	9,729
Transfer to retained earnings					4,857	(4,857)	
Balance at December 31, 1999	3,029,604	7,756	24,121	14	7,141	4,885	43,917
Dividends for 1999						(1,874)	(1,874)
Increase in nominal value of capital stock							-
Proceeds from share offering		-	169				169
Transfer from reserve for treasury stock				(7)	7		-
Loss after taxes						(3,333)	(3,333)
Transfer to retained earnings					2,966	(2,966)	-
Transfer from retained earnings					(5,266)	5,266	-
Balance at December 31, 2000	3,029,604	7,756	24,290	7	4,848	1,978	38,879

Exchange rates used

in €	Average annual rate			Rate at balance sheet date	
	2000	1999	1998	Dec. 31, 2000	Dec. 31, 1999
100 Belgian Francs (BEF)	2.47894	2.47894	2.47856	2.47894	2.47894
100 Swiss Francs (CHF)	64.27010	62.53170	62.07789	65.68590	62.31700
100 Czech Korunas (CZK)	2.80113	2.71335	2.79570	2.85470	2.77113
100 French Francs (FRF)	15.24490	15.24490	15.25139	15.24490	15.24490
1 Pound Sterling (GBP)	1.64233	1.51807	1.49002	1.60438	1.61240
100 Hungarian Forints (HUF)	0.38494	0.39581	0.41935	0.37749	0.39269
100 Indonesian Rupiah (IDR)	0.01298	0.01213	0.00926	0.01110	0.01410
100 Japanese Yen (JPY)	1.00501	0.82918	0.68934	0.93607	0.97552
100 Malaysian Ringgit (MYR)	28.58820	24.75940	22,98513	28.29070	26.24250
100 Philippine Pesos (PHP)	2.45850	2.40489	2.18936	2.15210	2.47451
100 Polish Zloty (PLN)	24.95950	23.70130	25.74303	25.98760	24.05240
100 Russian Roubles (RUB)	3.86032	3.77812	10.48660	3.75773	3.61836
100 Singapore Dollars (SGD)	62.99660	55.48660	53.75212	66.07210	59.92960
100 Slovak Korunas (SKK)	2.12815	n.a	n.a.	2.27728	2.35527
1 U.S. Dollar (USD)	1.08631	0.93879	0.89947	1.07505	0.99722

Summary of accounting policies

Description of business and relationship with the Federal Republic of Germany

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

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

The number of Deutsche Telekom shareholders increased considerably once again as a result of the sale of further shares from the holdings of a federal corporation, the Kreditanstalt für Wiederaufbau (KfW), which sold 200 million of the shares it held. On December 15, 2000, the KfW took over 55 million Deutsche Telekom shares previously held by France Telecom. Overall, the KfW's shareholding in Deutsche Telekom was reduced to 16.81 % as a result of these transactions. Thus, the Federal Republic's total direct and indirect shareholding in Deutsche Telekom as of December 31, 2000 amounts to approximately 59.64 %, and the direct shareholding to 42.83 %. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

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

In accordance with § 21 paragraph 1 of the WpHG the KfW informed Deutsche Telekom in its letter of December 22, 1997 that its share of the voting rights in Deutsche Telekom had exceeded the 10 % threshold to 13.47 %. As reported in a letter of January 26, 2001, the KfW held 509,164,599 shares in Deutsche Telekom as at December 31, 2000, a shareholding of 16.81 %.

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

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

Summary of significant accounting principles

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

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 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 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 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. The accounts also include

a statement of cash flows; in addition, the accounts also include a 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 financial statements.

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

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

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

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

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

Advertising costs are charged to expenses as incurred.

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

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

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom on January 1, 1995, was recorded in the opening balance sheet of Deutsche Telekom 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 and an appropriate allocation of material and production overhead. 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 was depreciated over a period of four years, starting in 1996 and for the last time in 1999.

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

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

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

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

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

Maintenance and repairs are charged to expenses when incurred.

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

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

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 depre-

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

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

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

Deferred tax assets are calculated on the basis of the differences between the commercial balance sheet and the tax balance sheet caused by the fiscal non-recognition of certain accruals. They are reported separately on the asset side under prepaid expenses, deferred charges and deferred taxation. They are calculated on the basis of a tax rate amounting to 39 % (1999: 52 %).

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.

In accordance with the principles set out in § 6a of the German Income Tax Act (EStG), accruals for direct **pension obligations (excluding VAP)** are stated at the current actuarial value subject to an assumed rate of interest of 6 %. The accruals for indirect pension commitments and the direct pension obligations from parallel VAP commitments have been created compliant with the relevant commercial legislation with regard to group accounting practices by applying the appropriate U.S. accounting regulations (SFAS No. 87 and No. 88) with an assumed rate of interest of 6.25 % (1999: 6.25 %) and incorporating future pay and pension rises. The life expectancy tables published in 1998 were included in part in the calculation (cf. note (24), Accruals for pensions and similar obligations).

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

Cost accruals are only made 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.

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

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

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 financial statements 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 statement of income

(1) Net revenue

Revenue by business area:

	2000 millions of €	1999 ¹⁾ millions of €	1998 ¹⁾ millions of €
Network communications	15,212	16,732	20,540
Carrier services	4,766	3,484	2,091
Data communications	3,196	2,935	2,577
Value-added services	1,577	1,586	1,830
Terminal equipment	1,153	1,273	1,278
Broadcasting and broadband cable	928	959	1,762
Mobile communications	344	259	168
Other services	775	717	633
	27,951	27,945	30,879

¹⁾ Prior-year figures have been adjusted to reflect the new assignment of product groups.

Revenue by geographic area:

	2000 millions of €	1999 millions of €	1998 millions of €
Domestic	26,909	27,062	30,011
International	1,042	883	868
	27,951	27,945	30,879

Breakdown of international revenues:

	2000 millions of €	1999 millions of €	1998 millions of €
European Union (excluding Germany)	457	359	411
Rest of Europe	247	231	179
North America	193	145	102
Latin America	13	17	27
Other	132	131	149
	1,042	883	868

(2) Increase in inventories and other own capitalized costs

	2000 millions of €	1999 millions of €	1998 millions of €
Increase in inventories of work in process	63	30	28
Own capitalized costs	470	545	559
	533	575	587

Own capitalized costs relate to planning and construction services.

(3) Other operating income

	2000 millions of €	1999 millions of €	1998 millions of €
Income from disposal of noncurrent assets	2,878	8,312	193
Rentals and leases	1,798	1,775	1,759
Cost reimbursements	538	357	187
Foreign currency transaction gains	425	135	117
Reversal of accruals	257	393	401
Refund of value-added tax (§ 15a UStG)	169	379	655
Income from reversal of valuation adjustments	93	100	67
Ancillary services	45	54	63
Insurance compensation	41	49	51
Income from write-ups of financial assets	9	-	3
Other income	509	312	459
	6,762	11,866	3,955

The income from the disposal of noncurrent assets consists mainly of the proceeds from the sale of Deutsche Telekom's shareholding in ATLAS TELECOMMUNICATIONS S. A. to France Télécom (EUR 2,850 million).

Rental and leasing income was received mainly from DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (DeTe Immobilien).

Foreign currency transaction gains include EUR 209 million from derivatives and EUR 116 million from fixed-term bank deposits.

The value-added tax refunds of EUR 169 million included in other operating income resulted from the adjustment of input tax paid in previous years. Deutsche Telekom's monopoly services were not subject to value-added tax before January 1, 1996. As such, the Company was not able as usual to deduct the full amount of value-added tax paid on goods and services purchased. Only 20 % was deductible as input tax. When Deutsche Telekom became fully liable to value-added tax in 1996, the non-deductible input tax on capitalized amounts was capitalized separately, as far as an input tax adjustment in accordance with § 15a of the value-added tax law was possible, and amortized on a straight-line basis over 4 years.

Of the total amount of other operating income, EUR 3,325 million related to other accounting periods (1999: 8,883 million).

(4) Goods and services purchased

	2000 millions of €	1999 millions of €	1998 millions of €
Raw materials and supplies as well as goods purchased	1,225	1,019	897
of which: raw materials and supplies	337	338	264
of which: goods purchased	888	681	633
Services purchased	6,121	4,868	3,883
of which: domestic network access charges	3,905	3,335	2,451
of which: international network access charges	1,472	1,070	1,053
of which: other services	744	463 ¹⁾	379 ¹⁾
	7,346	5,887	4,780

¹⁾ Adjusted figures as a result of the reclassification of expenses for IT support (December 31, 1999: EUR 1,029 million), maintenance (December 31, 1999: EUR 730 million), research and development (December 31, 1999: EUR 342 million) and miscellaneous services (December 31, 1999: EUR 22 million): Reduction of other services amounting to EUR 2,123 million, increase in other operating expenses of EUR 2,123 million.

The level of goods purchased increased due to the growth in the amount of goods purchased within the Group from DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn (DeTeMobil).

The increase in domestic and international network access charges resulted from the increased utilization of mobile communications services and Service 0190 by customers and their utilization of third-party fixed networks.

(5) Personnel costs/Average number of employees

	2000 millions of €	1999 millions of €	1998 millions of of €
Wages and salaries	4,880	4,996	5,381
Social security contributions and expenses for pension plans and benefits:			
Payments to pension fund	895	1,483	1,483
Social security contributions	458	475	516
Expenses for pension plans for non-civil servants	258	258	245
Health care expenses	163	193	207
	1,774	2,409	2,451
	6,654	7,405	7,832

Expenses for pension plans in 2000 amounted to EUR 1,153 million (1999: 1,741 million; 1998: 1,727 million).

Number of employees (average for the year)	2000 Number	1999 Number	1998 Number
Civil servants	65,217	76,223	87,573
Salaried employees	35,246	34,276	34,180
Wage earners	31,485	34,839	40,242
	131,948	145,338	161,995
Trainees/student interns	6,439	6,116	6,066

The average number of employees decreased by 9.2 % compared with the figure for 1999 as a result of personnel restructuring measures and spin-offs within the Group. Wages and salaries decreased by 2.3 % in 2000 in absolute terms.

Social security contributions and expenses for pension plans and benefits decreased by 26.3 %. This reduction is attributable to the change in the calculation basis for the contributions to the Deutsche Telekom Pensions-Service e. V., Bonn (TPS) and to the Bundes-Pensions-Service für Post und Telekommunikation e. V. Until and including 1999, Deutsche Telekom paid an annual fixed amount; since January 1, 2000, in accordance with § 16 of the Law concerning the Legal

Provisions for the Former Deutsche Bundespost Staff (Post-PersRG), Deutsche Telekom has paid 33 % of the gross remuneration of active civil servants and the fictitious gross remuneration of civil servants on temporary leave entitled to pension payments.

Personnel costs per employee remained almost constant compared with the previous year.

Overall, Deutsche Telekom's personnel costs decreased in the year under review by EUR 751 million to EUR 6,654 million. This equates to a decrease of 10.1 % from the figure for 1999.

(6) Depreciation and amortization

	2000 millions of €	1999 millions of €	1998 millions of €
Scheduled depreciation and amortization			
Amortization of intangible assets	366	315	227
Depreciation of property, plant and equipment	5,265	5,869	7,344
	5,631	6,184	7,571
Nonscheduled write-downs in			
accordance with § 253 paragraph 2 sentence 3 HGB	2,991	1	91
	8,622	6,185	7,662

Amortization of intangible assets increased by EUR 51 million.

Scheduled depreciation of property, plant and equipment decreased by EUR 604 million as a result of the discontinuation of the amortization of capitalized input tax of EUR 667 million (10.3 %).

Some of the approximately 12,000 items of land were included in the opening balance sheet in 1995 at values which were calculated using a lumped item-by-item valuation process developed by widely respected real estate experts. In view of usage of the real estate to date, it was assumed that the market value of the real estate was not lower than the net carrying value. In the course of implementing its new, disposal-oriented real estate concept, Deutsche Telekom is reviewing the values of its real estate portfolio and has decided on a nonscheduled write-down in the form of a lumped valuation adjustment on the asset side for real estate amounting to EUR 2,018 million. The accounting adjustments do not have any effect on the liquidity or the ongoing business activities of the Company.

Other nonscheduled write-downs of EUR 971 million relate to local and long-distance cables. Traffic via the copper cables subject to a partial write-down was migrated to fiber-optic cable in the year under review. A write-down to the pro memoria figure was effected in accordance with § 253 paragraph 2 sentence 3 HGB.

(7) Other operating expenses

	2000 millions of €	1999 millions of €	1998 millions of €
Rental and leasing expenses	2,425	2,885	3,032
Losses on disposition of noncurrent assets	1,176	573	713
IT support	1,050	1,029 ¹⁾	776 ¹⁾
Maintenance and repair	690	731 ¹⁾	643 ¹⁾
Marketing expenses	671	594	554
Research and development	537	341 ¹⁾	129 ¹⁾
Losses on written-off receivables	465	402	564
Transfers to accruals	446	203	221
Postal and freight charges	414	392	341
Foreign currency transaction losses	344	232	42
Legal and consulting fees	339	330	335
Other employee-related costs	313	292	185
Other expenses	865	639 ¹⁾	639 ¹⁾
	9,735	8,643	8,174

¹⁾ Adjusted figures as a result of the reclassification of expenses for IT support (December 31, 1999: EUR 1,029 million), maintenance (December 31, 1999: EUR 730 million), research and development (December 31, 1999: EUR 342 million) and miscellaneous services (December 31, 1999: EUR 22 million): Reduction of other services amounting to EUR 2,123 million, increase in other operating expenses of EUR 2,123 million.

Of the rental and leasing expenses, EUR 2,347 million relates to the renting back of real estate and buildings from DeTe Immobilien. The reduction of these expenses is a result of the adjustment of the level of rent to market-oriented conditions, which accounts for EUR 465 million.

Of the losses on disposition of noncurrent assets, EUR 967 million relate to the disposition of property, plant and equipment and EUR 209 million to the disposition of financial assets. EUR 659 million of the losses on disposition of property, plant and equipment relate to the discontinued use of buildings, technical machinery and operational facilities which are no longer required.

The losses on disposition of financial assets relate almost exclusively (EUR 199 million) to the sale of EUROBELL (Holdings) PLC, Crawley, to Telewest Communications PLC, Surrey.

The increase in research and development expenses was caused by the outsourcing of software maintenance to the subsidiary T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn, established on July 1, 1999.

The increase in additions to accruals is mainly attributable to additions to accruals for vacancy risks (EUR 143 million) and investment risks (EUR 102 million).

Other expenses increased mainly as a result of the increased expenses for temporary employment (EUR 73 million), book losses from marketable securities (EUR 41 million) and incidental expenses of monetary transactions (EUR 48 million).

Other operating expenses include EUR 1,232 million (1999: 613 million) related to other accounting periods.

(8) Financial income (expense) net

	2000 millions of €	1999 millions of €	1998 millions of €
Income from investments			
of which from subsidiaries: € 25 million (1999: € 12 million, 1998: € 42 million)	143	137	142
Income from profit transfer agreements			
of which from tax allocations: € 122 million (1999: € 323 million, 1998: € 93 million)	3,282	1,881	434
Expenses arising from loss transfers	(218)	(8)	-
Income (loss) related to subsidiaries, associated and related companies	3,207	2,010	576
Income from debt securities and long-term loan receivables			
of which from subsidiaries: € 120 million (1999: €30 million, 1998: €60 million)	517	112	144
Other interest and similar income			
of which from subsidiaries: € 282 million (1999: 13 million, 1998: 4 million)	1,564	364	374
Interest and similar expense			
of which from subsidiaries: € 1,012 million (1999: 164 million, 1998: 73 million)	(4,571)	(2,932)	(3,320)
Net interest income (expense)	(2,490)	(2,456)	(2,802)
Write-downs on financial assets and marketable securities	(6,727)	(371)	(408)
	(6,010)	(817)	(2,634)

Most of the income related to subsidiaries, associated and related companies arises from profit and loss transfers of Kabel Deutschland GmbH, Bonn (Kabel Deutschland) (EUR 2,857 million), DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt (DeTeCSM) (EUR 159 million) and DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt am Main (EUR 112 million). The income of Kabel Deutschland relates mainly to the sales of the regional companies in North-Rhine Westphalia and Hesse.

The income from long-term loan receivables consisted primarily of income from specialized security funds as well as interest on receivables from subsidiaries and Deutsche Post AG.

The net interest income (expense) was negatively affected by the interest expense Deutsche Telekom had to pay for the global bond issued by Deutsche Telekom International Finance B.V. (DT Finance), Amsterdam, to finance the UMTS licenses and planned shareholding acquisitions. The scheduled re-

duction of debt, the sale of special security funds and increased income from loans to subsidiaries had a positive effect.

Write-downs on financial assets and marketable securities include write-downs of EUR 6,653 million on the net carrying amount of investments of NAB Nordamerika Beteiligungs Holding GmbH, Bonn (NAB Holding). As a result of the planned take-over of Sprint Corporation, Kansas City, (Sprint) by MCI WorldCom, all shares Deutsche Telekom held in Sprint were transferred to NAB Holding on December 29, 1999. The shares were valued at stock-market price on the day of the transfer taking the existing swap offer for MCI WorldCom shares against the existing Sprint shares into consideration. The swap offer became void after the take-over was prohibited by the U.S. antitrust authorities and NAB Holding wrote the Sprint shares down to the closing price on December 31, 2000. Deutsche Telekom carried out a corresponding write-down on the net carrying amount of investments of NAB Holding.

(9) Taxes

	2000	1999	1998
	millions	millions	millions
	of €	of €	of €
Income taxes			
Current income taxes	122	1,430	2,441
Income from tax allocations	(46)	(14)	(60)
Deferred taxes	52	48	108
	128	1,464	2,489
Other taxes			
Taxes	84	16	160
	212	1,480	2,649

Tax expense decreased by EUR 756 million as a result of the change of pension commitments (cf. note (24) accruals for pensions and similar obligations).

Of the income taxes, EUR 128 million relate to expenses from the current year and EUR 6 million to income from previous years.

Of the expense from deferred taxes, expenses of EUR 57 million relate to the reduction of the tax rate used for the calculation from 52 % to 39 % and income amounting to EUR 5 million relate to accruals required by German GAAP, which cannot yet be included under taxation law.

Other taxes included expenditure of EUR 9 million not attributable to the current financial year.

Notes to the balance sheet

(10) Intangible assets

	Dec. 31, 2000	Dec. 31, 1999
	Net carrying amounts	Net carrying amounts
	millions of €	millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	812	805
Advance payments	72	52
	884	857

(11) Property, plant and equipment

	Dec. 31, 2000	Dec. 31, 1999
	Net carrying amounts	Net carrying amounts
	millions of €	millions of €
Land and equivalent rights, and buildings including buildings on land owned by third parties	13,271	16,274
Technical equipment and machinery	24,833	28,311
Other equipment, plant and office equipment	907	1,280
Advance payments and construction in progress	643	482
	39,654	46,347

Deutsche Telekom carried out a nonscheduled write-down amounting to EUR 2,018 million on its real estate portfolio (cf. note (6) depreciation and amortization).

In 2000, the additions to property, plant and equipment amounted to EUR 3,167 million (1999: EUR 2,873 million).

Capital expenditure related primarily to switching and transmission equipment, with additions of EUR 1,312 million, and to the outside plant network, with additions of EUR 470 million.

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

(12) Financial assets

	Dec. 31, 2000	Dec. 31, 1999
	Net carrying amounts	Net carrying amounts
	millions of €	millions of €
Investments in subsidiaries	28,878	30,192
Loans to subsidiaries	24,965	2,248
Investments in associated companies	1,192	1,056
Other investments in related companies	7,413	1,798
Long-term loans to associated and related companies	18	31
Other investments in noncurrent securities	376	1,229
Other long-term loans	351	452
	63,193	37,006

The increase in financial assets is mainly attributable to the restructuring of the mobile communications segment.

Deutsche Telekom carried out an increase in the capital stock of T-Mobile International AG, Bonn (T-Mobile International) to EUR 4,000 million against mixed noncash contributions through the issue of new shares. Deutsche Telekom's shares in DeTeMobil (EUR 2,165 million) and in Deutsche Telekom Mobile Holdings Ltd., London (DTMH) (EUR 10,882 million) were transferred to T-Mobile International, against the transfer of these shares, at their net carrying amount at December 31, 1999.

A capital increase of EUR 3,259 million was carried out at T-Mobile International as part of the financing of the UMTS licenses in the United Kingdom; this led to an increase in the net carrying amount of Deutsche Telekom's investment to EUR 7,259 million.

The shares held in T-Systems International GmbH, Bonn (T-Systems International) increased by EUR 4,586 million, mainly in the form of transfers to additional paid-in capital for the company's acquisition of debis Systemhaus GmbH, Leinfelden-Echterdingen.

The shareholding in MagyarCom Holding GmbH, Bonn, (MagyarCom) was increased to 100 % (EUR 2,343 million) in the period under review, while a 100 % shareholding was acquired in MediaOne International B.V., Eindhoven, (MediaOne) for EUR 2,087 million and a 51 % shareholding in Slovenské Telekomunikácie, a.s., Bratislava, for EUR 1,010 million. Furthermore, a capital increase of EUR 970 million was carried out at T-Online International AG, Darmstadt, (T-Online International) in preparation for its initial public offering.

The net carrying amount of the investment in NAB Holding was adjusted to the value of EUR 6,653 million as a result of the development of the trading price of the Sprint shares held by this company.

Loans to subsidiaries consist mainly of several loans to T-Mobile International totaling EUR 23,653 million. These loans were granted to T-Mobile International in order to compensate the differential amount (EUR 9,047 million) from the above-mentioned transfer of DTMH and DeTe Mobil to T-Mobile International and to finance the acquisition of UMTS licenses in the United Kingdom, Germany and the Netherlands. The loans have been interest-free since October 1, 2000.

The most significant increase in other investments in related companies is the investment of EUR 5,590 million in shares in VoiceStream Wireless Corporation, Bellevue (VoiceStream). The purpose of the company is the planning, construction and operation of a nationwide mobile communications network in the USA.

The main increases in other investments in noncurrent securities relate to Telewest bonds amounting to EUR 372 million acquired during the EUROBELL commitment. The closing of all special security funds in the first half of the year resulted in decreases of EUR 1,282 million.

Other long-term loans decreased as loans were repaid.

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

(13) Inventories, materials and supplies

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Raw materials and supplies	122	120
Work in process	141	78
Finished goods and merchandise	214	146
Advance payments	6	1
	483	345

Raw materials and supplies mostly include data communications equipment and telecommunications cable as well as spare parts and components which are intended for capital investments.

Work in process is mainly related to customer orders for the installation of private automatic branch exchanges (PABXs), orders for the establishment of collocation rooms for competitors and the construction of the international section of the T-Globe-Net (without submarine cables) with WDM and ADM technology.

The following are included under finished goods and merchandise: inventories of terminal equipment held both for resale and leasing (EUR 109 million) as well as existing Indefeasible Right of Use (IRU) for submarine cables (EUR 105 million).

Advance payments relate mainly to orders for terminal equipment.

(14) Receivables

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Trade accounts receivable	3,586	3,329
Receivables from unconsolidated subsidiaries	846	1,347
Receivables from associated and related companies	163	236
	4,595	4,912

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

millions of €	1998	1999	2000
January 1,	181	151	181
Charged to costs and expenses	84	70	144
Released and written off	(114)	(40)	(22)
December 31,	151	181	303

(15) Other assets

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Tax receivables	1,979	1,330
Interest receivables	219	218
Loan receivables	172	–
Receivables from option premiums	141	5
Receivables from reimbursements	105	72
Receivables from employees	35	38
Miscellaneous	123	142
	2,774	1,805

Tax receivables relate to income tax receivables of EUR 1,698 million and other tax receivables of EUR 281 million. Income tax receivables include trade income tax receivables of EUR

652 million, corporate income tax receivables of EUR 994 million and receivables from the solidarity surcharge of EUR 52 million. EUR 1,111 million relates to the current financial year and EUR 587 million to previous years. Of the amount relating to previous years, EUR 454 million is the result of trade tax receivables due to the retroactive changes in the allocation of trade tax. Other tax receivables (EUR 281 million) include trade capital tax receivables of EUR 156 million which is also attributable to the changes in allocation.

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

The other assets are due in full within one year, except for EUR 1 million. They include accrued interest receivables and nonchargeable input tax totaling EUR 222 million (1999: 201 million).

(16) Marketable securities

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Treasury shares	7	14
Other marketable securities	718	1,741
	725	1,755

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

1996 Employee Stock Purchase Plan	459,900
1999 Employee Stock Purchase Plan	5,185,278
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. 23,320 shares were acquired by employees, who paid a total of EUR 1.5 million. The shares not purchased by employees (14,630) were initially entered in the balance sheet at acquisition cost of EUR 0.9 million and written down to the lower market trading price applicable at the balance sheet date. The total proportion of treasury shares in capital stock is 0.09%.

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

(17) Liquid assets

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Checks	1	1
Petty cash and deposits at the Bundesbank	3	5
Cash in banks (including deposits at Deutsche Postbank AG)	151	910
	155	916

The total maturity of liquid assets was as follows:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Cash and cash equivalents		
(original maturity less than 3 months)	130	613
Temporary cash investments		
(original maturity longer than 3 months)	25	303
	155	916

(18) Prepaid expenses, deferred charges and deferred taxation

Prepaid expenses and deferred charges of EUR 409 million (December 31, 1999: EUR 305 million) primarily relate to pre-paid personnel costs of EUR 157 million (December 31, 1999: EUR 164 million) and deferred interest of EUR 67 million (December 31, 1999: EUR 76 million). Also included are discounts on loans of EUR 163 million (December 31, 1999: EUR 59 million) which are amortized on a straight-line basis over the terms of the related liabilities.

Deferred tax assets pursuant to § 274 paragraph 2 HGB amounting to EUR 177 million (1999: EUR 229 million) are attributable in full to accruals not recognized under tax law. The change compared with the previous year (EUR 52 million) is mainly attributable to the change in the tax rate used, which was required due to the 2000 Tax Reduction Law. As a result of the change in the rate of taxation, future tax reductions are expected to be accordingly lower.

(19) 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.

(20) Capital stock

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 approximately 1,298 million individual no par value shares in Deutsche Telekom (EUR 3,321 million) and the KfW held approximately 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 EUR 3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares for non-cash 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 EUR 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 non-cash contributions (authorized capital). The subscription right of shareholders was precluded.

3. The Company's capital stock was increased on a contingent basis by up to a nominal EUR 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 (contingent capital). 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.

(21) 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.

(22) Retained earnings (deficit)

In accordance with the resolution passed by the shareholders' meeting on May 25, 2000, EUR 2,966 million of the unappropriated net income from 1999 was transferred to retained earnings. The Board of Management has decided to take EUR 5,266 million from retained earnings.

Deutsche Telekom has established a reserve, using funds from retained earnings, for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB to the amount shown on the assets side of the balance sheet for treasury shares held by the Company. 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.

(23) Stock-based compensation

In 2000, Deutsche Telekom, for the first time, granted stock options to certain employees. On July 19, 2000, Deutsche Telekom 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. 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 (options in thousands):

	2000	
	Stock options	Weighted-average exercise price
Outstanding at beginning of year	n/a	n/a
Granted	1,024	62.69
Exercisable	0	0.00
Forfeited	2	0.00
Outstanding at the end of year	1,022	62.69
Exercisable at year-end	0	0.00

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

(24) Accruals for pensions and similar obligations

Civil servant pension plans

Until the year under review, Deutsche Telekom AG maintained a special pension fund (TPS) 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, with its office being in Bonn. 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'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 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 (cf. note (30) Guarantees and commitments, and other financial obligations).

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 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 for amounts paid by it to the special fund.

Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the 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 SFAS 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. These accruals have been actuarially audited.

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

Direct obligations (excl. VAP)	Minimum accrual in accordance with § 6a EStG "Heubeck new"
Special pension fund VAP and parallel obligation	SFAS 87 "Heubeck new" SFAS 87 "average (Heubeck new / Heubeck old)"

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

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

	2000	1999
Discount rate	6.25	6.25 %
Projected		
salary increase	2.75	2.75 %
Expected return		
on assets	6.5 % (DTBS) / 6 % (VAP)	4.5 % (DTBS) / 6 % (VAP)
Projected		
pension increase	1.5	1.5 %

On the basis of these assumptions, pension obligations as at Dec. 31, 2000 were accounted for as follows:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Direct pension obligation	2,200	243
- of which parallel obligation:		
€ 1,899 million		
Indirect pension obligation	715	2,694
	2,915	2,937
Obligations under		
Article 131 of the Basic Law (GG)	13	16
	2,928	2,953

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

The amount of the accrual for direct and indirect pension obligations determined in accordance with § 6a of the EStG was EUR 3,037 million (Dec. 31, 1999: EUR 2,863 million) on the basis of the new life expectancy tables.

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

Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer. Deutsche Telekom will credit further amounts to this account in the future; when the insured event occurs, the account balance will be paid out in full or in installments or alternatively 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 remaining obligations are processed by the DTBS.

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

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Actuarial present value of benefits:		
Vested	2,930	2,784
Non-vested	263	304
Accumulated benefit obligation	3,193	3,088
Effect of projected future salary increases	59	66
Projected benefit obligation	3,252	3,154
Plan assets at fair value	(329)	(289)
Projected benefit obligation in excess of plan assets	2,923	2,865
Unrecognized net gains (losses)	(57)	33
Accrual for pensions	2,866	2,898

Net periodic pension cost is summarized as follows:

	2000 millions of €	1999 millions of €	1998 millions of €
Service cost	76	68	67
Interest cost	191	186	193
Return on plan assets	(15)	(12)	(9)
Net periodic pension cost	252	242	251

(25) Other accruals

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Taxes		
Trade tax	582	571
Corporate income tax	344	188
Other taxes	275	300
	1,201	1,059
Other accruals		
Employee benefits		
Civil Service Health Insurance Fund	1,028	910
Personnel restructuring	149	247
Other obligations	345	278
Outstanding invoices	668	659
Risks related to real estate	508	396
Investment risks	108	83
Litigation risks	272	140
Restoration commitments	11	1
Deferred maintenance	15	15
Other	361	543
	3,465	3,272
	4,666	4,331

The utilization of the personnel restructuring accrual, established in 1996, continued according to plan in 2000. The measures to which this accrual relates were mainly completed at June 30, 2000; the remaining amounts are for future payments for ongoing, longer-term measures, such as bridging allowances, old-age part-time work and employee moves to third party companies.

A new accrual was established from June 30, 2000 in line with an actuarial calculation for old-age part-time work contracts.

(26) Liabilities

	Dec. 31, 2000 millions of €				Dec. 31, 1999 millions of €			
	Total	within one year	of which due in one to 5 years	over 5 years	Total	within one year	of which due in one to 5 years	over 5 years
Debt								
Bonds and debentures	27,501	7,081	19,710	710	29,698	3,985	25,037	676
Liabilities to banks	2,908	1,243	1,074	591	5,407	3,509	1,179	719
	30,409	8,324	20,784	1,301	35,105	7,494	26,216	1,395
Other liabilities								
Advances received on orders	7	7	-	-	25	25	-	-
Trade accounts payable	1,842	1,842	-	-	1,413	1,410	1	2
Liabilities to subsidiaries	31,432	14,372	7,519	9,541	4,169	3,192	-	977
Liabilities to other companies								
in which an equity interest is held	53	53	-	-	46	46	-	-
Other liabilities	2,731	2,146	109	476	2,413	1,841	97	475
of which: from taxes	(375)	(375)	(-)	(-)	(279)	(279)	(-)	(-)
of which: from social security	(33)	(33)	(-)	(-)	(37)	(37)	(-)	(-)
	36,065	18,420	7,628	10,017	8,066	6,514	98	1,454
Total liabilities	66,474	26,744	28,412	11,318	43,171	14,008	26,314	2,849

Bonds and debentures relate primarily to the bonds and debentures of Deutsche Bundespost. Bonds and debentures are as follows (in millions of EUR):

Effective interest rate	up to 6%	up to 7%	up to 8%	up to 9%	over 9%	Total
Due in						
2001	2,803			3,707	571	7,081
2002			2,761	5,113		7,874
2003		2,556				2,556
2004		3,068	6,212			9,280
2005						
after 2005	12	205	493			710
Total	2,815	5,829	9,466	8,820	571	27,501

Liabilities to subsidiaries:

The largest item under liabilities to subsidiaries is the liability to DT Finance (EUR 22,419 million). The largest proportion of this liability is the global bond issued by DT Finance which was passed on to Deutsche Telekom as an intragroup loan in its original structure with an interest markup of 9 basis points. This bond, issued by 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

The currencies passed on to Deutsche Telekom were then transformed into the appropriate interest and currency structure after completion of interest rate swaps and cross currency interest rate swaps. This allowed existing borrowings amounting to GBP 3,305 million from the acquisition of One 2 One PLC, United Kingdom (One 2 One) and EUR 1,999 million from the acquisition of UMTS licenses in the United Kingdom to be repaid and the financing of the UMTS licenses in Germany to be safeguarded. Other debt relates to the Debt Issuance Program.

Furthermore, Deutsche Telekom also has liabilities to debis (EUR 3,889 million) and T-Online (EUR 2,605 million).

The following table shows the composition of other liabilities:

	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Interest	1,245	1,274
Loan notes	556	556
Tax liabilities	375	279
Payroll	62	68
Social insurance contributions	33	37
Severance payments	1	14
Other	459	185
	2,731	2,413

Notes to the statement of cash flows

Specifically, cash was provided and used as follows:

(27) Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 10,786 million. This represents an increase of EUR 2,984 million over the previous year. A decrease of EUR 13,062 was offset by noncash write-downs on the net carrying amount

of the investment in NAB Holding (EUR 6,653 million), non-scheduled write-downs on real estate (EUR 2,018 million) and the decreased book gain from the sale of noncurrent assets (EUR 6,038 million).

(28) Net cash used for investing activities

Net cash used for investing activities increased by EUR 16,904 million in the year under review. A total of EUR 35,076 million was paid for investments in financial assets. This represents an increase of EUR 19,618 million compared with 1999. Investments which had an effect on cash flow include EUR 3,259 million in the

subsidiary T-Mobile International, EUR 13,608 million in loans

to T-Mobile International for the acquisition of UMTS licenses, EUR 5,590 million in shares in VoiceStream, EUR 4,586 million in T-Systems International for the acquisition of the shareholding in debis, EUR 2,343 million in MagyarCom and EUR 2,087 million in MediaOne.

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

Within net cash provided by (used for) financing activities amounting to EUR 20,633 million, the cash inflows from new medium-term and long-term borrowings of EUR 16,115 million, new short-term borrowings of EUR 41,514 million and the increase in shareholders' equity of EUR 169 million are offset by cash outflows from the repayment of debt amounting to EUR 35,291 million and the payment of the dividend, EUR 1,874 million.

In comparison with the previous year, net cash provided by (used for) financing activities increased by EUR 14,693 million. This increase is mainly attributable to the borrowings from the global bond and the Debt Issuance Program, which were offset by the increase in shareholders' equity in 1999.

Other information

(30) Guarantees and commitments, and other financial obligations

Guarantees and commitments	Dec. 31, 2000 millions of €	Dec. 31, 1999 millions of €
Guarantees	48	27
Legal liability arising from collateral furnished for third parties	-	45
Liabilities arising from warranty agreements	11,275	2,252 ¹⁾
	11,323	2,324

¹⁾ of which to subsidiaries: EUR 11,275 million; 1999: EUR 2,229 million.

Guarantees included litigation, rental and bank guarantees.

Liabilities arising from warranty agreements relate mainly to DeTeMobil amounting to EUR 3,886 million, DT Finance, EUR 2,249 million and T-Mobile International to a maximum

of EUR 1,610 million. Furthermore, guaranties and counter-guaranties amounting to EUR 3,264 million were given on behalf of T-Mobile International in connection with the UMTS license acquisition by One 2 One in the United Kingdom.

Deutsche Telekom has taken over a guaranty on behalf of DT Finance amounting to a maximum of EUR 10,000 million towards the creditors of the warranty agreements made within the Debt Issuance Program (as amended). The debt shown under liabilities arising from warranty agreements totals EUR 2,249 million.

Deutsche Telekom has concluded a foreign exchange swap (sale) and two foreign exchange swaps (purchase) with J. Aaron and Company. T-Mobile International has taken over these transactions in accordance with a contract take-over agreement. Deutsche Telekom issued a collateralization guarantee on June 26, 2000 undertaking to collateralize the payment obligations of T-Mobile International. The volume of the guarantee totals EUR 1,610 million.

Other financial obligations

	Dec. 31, 2000 millions of €			Dec. 31, 1999 millions of €		
	Total	of which due		Total	of which due	
		in the coming financial year	in the following financial year		in the coming financial year	in the following financial year
Present value of payments to special pension fund	9,936	912	9,024	10,635	1,028	9,607
Obligations under rental and lease agreements	14,194	2,833	11,361	13,807	2,698	11,109
of which to subsidiaries: € 13 383 million (1999: € 13 156 million)						
Purchase commitments for capital projects in progress, including obligations arising from future expenditure	3,778	1,917	1,861	3,498	1,492	2,006
of which to subsidiaries: € 2,737 million (1999: € 2,686 million)						
Purchase commitments for interests in other companies	5,550	4,921	629	2,298		2,298
Commitments arising from transactions not yet settled	4		4	1		1
of which to subsidiaries: € 2 million (1999: € 15 million)						
Total other financial obligations	33,462	10,583	22 879	30,239	5,218	25,021

The present value of payments required to be made by Deutsche Telekom 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 9.9 billion 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 699 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.

Obligations under rental and lease agreements are over a period of 5 years. They include rental obligations amounting to EUR 13,383 million to DeTe Immobilien. The decrease in rental obligations are due to the reduction in rental charges by DeTe Immobilien.

Purchase commitments for capital projects in progress relates mainly to commitments for investment projects amounting to EUR 1,680 million (of which DeTe Immobilien: 1,411 million) and commitments to DeTe Immobilien amounting to EUR 1,184 million for non-investment projects.

Deutsche Telekom 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. The exercise price is made up of a graduated basic price after the time at which the option is exercised and various additional amounts which may increase or decrease this basic price. If the option is exercised, the maximum payment obligation will be EUR 4,921 million plus a possible additional amount to compensate the dividend. A further EUR 629 million of the purchase commitments for interests in other companies relates to the commitment to acquire 51.0% of the shares in Beta Research Gesellschaft für Entwicklung und Vermarktung digitaler Infrastrukturen GmbH, Munich.

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 company.

(31) Derivative financial instruments

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

	Nominal amounts					Fair values ¹⁾			
	Remaining term			Total	Hedged	Remaining term			Total
	within one year	1-5 years	> 5 years			within one year	1-5 years	> 5 years	
millions of €									
Interest-rate-based instruments									
Interest rate options	-	307	-	307	307	-	-	-	-
Interest rate swaps	2,029	9,559	14,623	26,211	23,149	(4)	-	(52)	(56)
Interest rate/ exchange rate swaps	112	3,842	7,155	11,109	11,109	-	-	-	-
Subtotal	2,141	13,708	21,778	37,627	34,565	(4)	-	(52)	(56)
Foreign-exchange-based instruments									
Future exchange transactions short	7,587	366	-	7,953	6,518	18	(9)	-	9
Future exchange transactions long	1,569	40	-	1,609	207	(24)	9	-	(15)
Currency options	4,838	-	-	4,838	4,838	-	-	-	-
Subtotal	13,994	406	-	14,400	11,563	(6)	-	-	(6)
Total	16,135	14,114	21,778	52,027	46,128	(10)	-	(52)	(62)

¹⁾ Derivative instruments which qualify for hedge are not shown here.

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 divided into micro interest rate swaps (individual financial instruments) and macro interest rate swaps (a portfolio of financial instruments).

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

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

The Company uses foreign currency forward contracts and cross currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and payments to and from international carriers outside the Deutsche Telekom Group and financial institutions, for example as part of the issue of the global bond. 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 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 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).

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).

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-year terms and provide for Deutsche Telekom to receive excesses over a specified reference interest rate.

The notional amounts of the derivative financial instruments do not 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.

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

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 will amount to EUR 8,970,291.16. 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 721,625.38. 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.

(33) Proposal for appropriation of net income

The income statement 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 carried forward as part of unappropriated net income.

Bonn, March 26, 2001

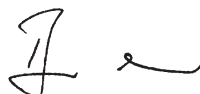
**Deutsche Telekom AG
Board of Management**



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 annual financial statements, together with the bookkeeping system, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the business year from January 1, to December 31, 2000. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, March 26, 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dickmann)
Wirtschaftsprüfer

(Laue)
Wirtschaftsprüfer

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