

T-Share. Unsatisfactory performance.

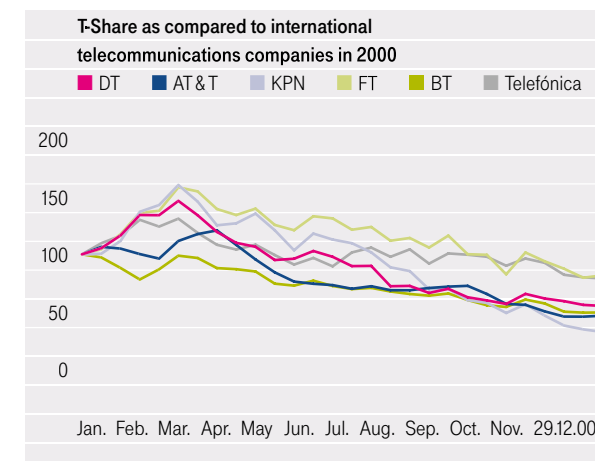
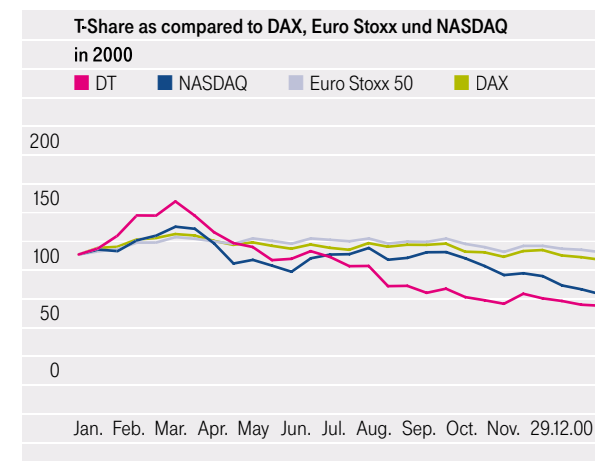
In the year 2000, telecommunications issues felt the repercussions of two strong counteractive trends on the world's stock markets: the massive upward trend witnessed for over two years that persisted into March 2000, followed by a powerful downward trend that has continued into the early months of the current year. The T-Share was unable to avoid the clear downward trend that began in the spring of 2000 and primarily affected listed "TMT issues", i.e., shares in the telecommunications, media and technology sectors. It was about 55 percent down on its previous year-end quotation, recording an extremely dissatisfactory performance. By contrast, Germany's top-30 blue chip stock index (DAX 30) lost just about 7.5 percent, with the European market posting a 3.9 percent drop benchmarked against the Euro STOXX 50 index.

T-Share performance. The T-Share closed the 1999 calendar year with a quotation of EUR 71.00, having peaked at an all-time high of EUR 103.50 on March 6, 2000 on Xetra, Germany's electronic stock exchange. In its aftermath, this development brought with it a severe downward trend that saw our share plummet to EUR 32.10 at year-end.

The T-Share's performance basically mirrored that of the Nasdaq, the reference stock market for the world's tech and growth issues. Since TMT issues are also classified under this group of shares, the Nasdaq Composite is increasingly used as a benchmark for growth stocks in the telecommunications sector as well. The index wound up with a loss of about 39 percent year-end to year-end. Following its record high of 5,049 points on March 10, the index closed at 2,470 points after opening at 4,069 at the beginning of the year.

There are several reasons for the TMT issues' high volatility, and they didn't leave the T-Share untouched, either. First of all, most analysts concurred that the sharp rise in stock valuations that lasted until spring 2000 and the strong decline were both exaggerated. Over the course of the year, UMTS auctions for third-generation wireless licenses had a special impact on telecoms issues in Europe and above all Great Britain, diverting the attention of external observers away from the industry's long-term growth prospects and almost exclusively toward the high costs involved in financing the licenses and building networks. Moreover, in 2000, the telecommunications industry was characterized by a strong trend toward consolidation. Again, analysts initially made strong reference to the costs associated with mergers as well as many telecom groups' higher liabilities. Such publicly voiced opinions had an effect on Deutsche Telekom's planned acquisition of US-based VoiceStream Wireless and Powertel for which new T-Shares are to be used as purchasing currency. On the announcement of these plans, market players anticipated a rise in the number of T-Shares, which caused our share price to drop as a result of the dilutive effect.

Earnings warnings issued for a large number of growth issues from the summer of 2000 onwards led to a marked decline of stocks listed on the Nasdaq, accelerated by fears of recession in the US in the fall. Furthermore, European issues were adversely affected first and foremost by the weakness of the euro vis-à-vis the dollar. In sum, these factors were relatively equally responsible for markedly reduced telecom share prices worldwide.



Overall, German and European markets displayed tendencies similar to that of the T-Share, albeit markedly more restrained. The DAX 30 advanced from its 6,751 point level on January 3 to its March 7 year-high of 8,065 before following a strong downward trend that had it wind up with 6,201 points on December 21, 2000. Closing the year with 6,434 points, the index fell some 7.5 percent year-on-year. After 4,899 points on its first day of trading, the Euro STOXX 50 recorded a year-low 4,500 points on January 6. This was followed by a period of significant fluctuation which saw the index rise to a 5,464-point high on the year on March 6, subsequent to which there was downward movement that had the Euro STOXX 50 close at 4,772 points on December 29.

Deutsche Telekom's market capitalization slacked off significantly, hand in hand with the Company's dissatisfactory share performance. As of the end of 1999, it totaled some EUR 215 billion, compared with about EUR 97 billion at the end of the reporting period. The number of T-Shares issued maintained a constant level of approximately 3,030 billion over the course of the year. The 200 million shares issued at EUR 66.50 a piece and EUR 63.50 for retail investors in connection with the June 2000 T-Share flotation merely represented a replacement of already existing shares since they had been held by the Kreditanstalt für Wiederaufbau (KfW). With a volume in excess of EUR 12 billion, which went directly to the state coffers and the state-owned KfW, the floated shares met with global demand of about EUR 45 billion and were thus more than 3.5 times oversubscribed. Some 3 million retail investors signed up for T-Shares during the placement period that for the first time included incentive-bearing shares offered to retail investors worldwide.

As of July 2000, an average of 25 million T-Shares were traded daily the world over. As a result of the offer for the acquisition of US-based VoiceStream and Powertel, the trading volume recorded a sharp upward tick to some 38 million per diem. Averaged over the year as a whole, the trading volume amounted to 30 million shares a day.

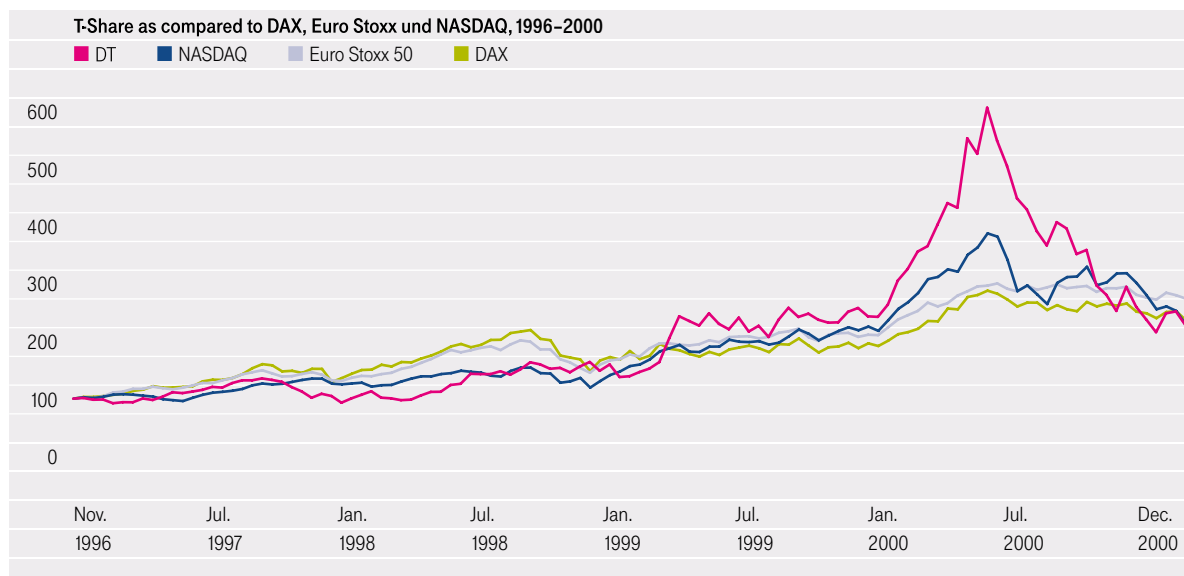
T-Share as investment vehicle. Despite the negative performance put in by the T-Share last year, retail investors with long-term goals who participated in the company's IPO in 1996 saw their investment yield returns surpassing those of the DAX based on the quotation at the end of the 2000 calendar year. Taking full advantage of the T-Shares offered retail investors at preferential prices in November 1996, which would amount to 300 T-Shares carrying entitlements to loy-

alty shares at a reduced subscription price equivalent to EUR 14.32 a piece, an original investment of EUR 4,295 would have had a value of about EUR 11,200 at the end of 2000. This corresponds to an appreciation of approximately 160 percent, including the reinvestment of dividends received in T-Shares as well as the value of the 30 loyalty shares received in September of 1999. An equal investment in a DAX securities deposit account would have yielded 133 percent growth, raising the investment's value to a mere EUR 10,000.

Shareholder structure. Our shareholder structure changed owing to the summer 2000 flotation of 200 million T-Shares previously held by the state-owned KfW. Including the KfW shareholdings, the Federal Republic's share declined from 65 percent to 58 percent, only to rise to about 60 percent at year-end due to the transfer of shares previously held by France Telecom to KfW. Accordingly, at the end of the year, Deutsche Telekom's widely held shares accounted for some 40 percent of the Company's share capital, of which approximately 60 percent and 40 percent were in the hands of institutional and retail investors, respectively. Geographically, the distribution of widely held shares was as follows: 48 percent in Germany, 13 percent in the United Kingdom, 18 percent in the rest of Europe, 18 percent in North America and 3 percent in Asia.

Loyalty shares. Once again, loyalty shares were issued to retail investors – this time based on the shareholder status prevalent on August 30, 2000 for those who participated in the 1999 capital increase and following a holding period of approximately 14 months. The issuance was conducted at a ratio of one loyalty share for every ten shares acquired in June 1999 at conditions applicable to retail investors. A total of about 10 million loyalty shares were issued in all participating euro-zone countries, corresponding to EUR 400 million in value growth at the time.

Direct dialogue with investors. A number of capital-related measures have caused the T-Shareholders' need for information to rise. Most notably, they included the T-Online IPO, the flotation of the KfW shareholding, and the largest bond issue ever launched by a company, with a volume of US \$ 14.8 billion. Accompanying these events were the announced acquisition of Voice Stream/Powertel and the purchase of UMTS licenses.



We held analysts' meetings for institutional investors and analysts on the occasion of our mid-year and year-end reports as well as at CeBIT in Hanover. Conference calls were hosted for all quarterly reports. Dialogue was maintained with institutional investors and bond holders on eight road shows by two to three teams in Germany, Europe, the USA and Japan. Furthermore, Deutsche Telekom attended several investor conferences in Europe and the United States and kept institutional investors and analysts abreast of business development and corporate strategy nearly every day from company headquarters. Some 560,000 of our nearly 3 million shareholders have registered with the T-Share forum (Forum T-Aktie or FTA in short) and receive our „Direct“ newsletter four times a year. Our FTA call center fields over 150 inquiries placed by retail investors day-in, day-out.

In addition to the direct discourse with our shareowners, we have further extended the scope of information we provide on the Web. Above all, this affords retail investors the opportunity to receive the same quality of information as our institutional investors and analysts. Historical and current information on the T-Share, presentation material used at analysts' meetings and conference calls, annual reports and stock market prospectuses can be called up on the Internet. With a view to ensuring equality of information for all investors, the meetings call held between management and professional investors for the third quarter was broadcast on the Web, allowing the public at large to listen in for the first time ever. Shareholders who are unable to attend the annual shareholders' meeting can log in via the Internet and follow the event online as it unfolds.

| Highest and lowest prices of T-Share in 2000 | | |
|---|-------------------|----------------|
| (Xetra closing prices) | High | Low |
| 1st quarter 2000 | € 103.50 | € 61.00 |
| 2nd quarter 2000 | € 80.40 | € 55.80 |
| 3rd quarter 2000 | € 61.35 | € 38.40 |
| 4th quarter 2000 | € 45.11 | € 31.48 |
| Index weightings – as at April 5, 2001 | | |
| DAX 30 | | 10.5% |
| DJ Euro STOXX 50® | | 1.9% |
| T-Share figures for 2000 | | |
| Net cash provided by operating activities | € 3.30 per share | |
| Earnings per share (German GAAP) | € 1.96 per share | |
| Earnings per share (U.S. GAAP) | € 3.05 per share | |
| Dividend proposal | € 0.62 per share | |
| Shareholders' equity | € 14.10 per share | |
| No. of T-Shares issued (millions) | | 3,030 |
| Market cap. at Dec. 30, 2000 | | € 97 bn |
| Stock exchange listings | | |
| Germany (all stock exchanges) | | |
| New York (NYSE) | | |
| Tokyo (TSE) | | |