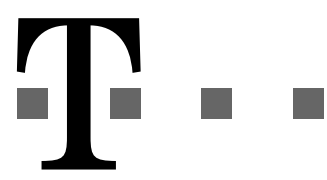


Deutsche Telekom  
Group Report  
January 1 to March 31, 2001



# Summary of the most important Group figures

Most important figures	1 <sup>st</sup> quarter 2001 millions of €	1 <sup>st</sup> quarter 2000 millions of €	Change in %	Total 2000 millions of €
Total revenue	11,082	9,539	16.2	40,939
Domestic	8,793	7,911	11.2	33,178
International	2,289	1,628	40.6	7,761
Net income/(loss)	(358)	1,960	n.m.	5,926
Net cash provided by operating activities	1,650	1,028	60.5	10,000
Investments in property, plant and equipment	1,593	1,308	21.8	7,563
Net financial liabilities	56,837	39,113	53.1	56,521
Employees <sup>1</sup>	229,735	196,000	17.2	227,015
Number of shares at balance sheet date (in millions)	3,030	3,030	0.0	3,030

<sup>1</sup> Number of employees at end of period.

Numbers of customers in selected services	March 31, 2001 millions	Dec. 31, 2000 millions	Change March 31, 2001 to Dec. 31, 2000 in %	March 31, 2000 millions	Change March 31, 2001 to March 31, 2000 in %
Mobil phone subscribers					
Majority-owned subsidiaries <sup>1</sup>	33.8	31.2	8.3	18.6	81.7
of which: T-D1	20.8	19.1	8.9	10.9	90.8
of which: One 2 One	9.0	8.3	8.4	5.0	80.0
of which: max.mobil.	2.1	2.1	0.0	1.6	31.3
of which: Westel <sup>2</sup>	1.9	1.7	11.8	1.1	72.7
Proportionate number of subscribers <sup>3</sup>	37.9	34.8	8.9	20.3	86.7
Total subscribers <sup>4</sup>	46.0	42.1	9.3	24.3	89.3
Telephone lines (incl. ISDN channels)	49.9	49.4	1.0	48.2	3.5
AktivPlus customers	5.8	4.5	28.9	1.5	286.7
T-DSL contracts	0.85	0.6	41.6	0.0	n.m.
ISDN channels	18.6	17.3	7.5	14.4	29.2
of which residential customers	9.7	8.8	10.2	6.8	42.6
of which business customers	8.9	8.5	4.7	7.5	18.7
T-Online-subscribers <sup>5</sup>	8.7	7.9	10.1	5.7	52.6
of which: T-Online	7.1	6.5	9.2	4.9	44.9
of which: Club-Internet	0.7	0.6	16.7	0.5	40.0
of which: Ya.com	0.8	0.7	14.3	0.3	166.7
of which: others	0.2	0.1	100.0	0.1	n.m.

<sup>1</sup> Number of subscribers of the consolidated mobile communications companies.

<sup>2</sup> Held directly and indirectly via MATÁV.

<sup>3</sup> Proportion of subscribers of all associated mobile communications companies pro rata to shareholding.

<sup>4</sup> Total number of subscribers of the consolidated mobile communications companies and total number of subscribers of other associated mobile communications companies.

<sup>5</sup> Club-Internet and Ya.com were not consolidated in the first quarter of 2000, but are shown here pro forma to facilitate comparison.

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about the first three months of the 2001 financial year and recent developments.

In line with the consistent focusing of the Group organization on the growth areas of mobile communications, online, systems

business and the fixed network, reporting is now structured based on the new Group pillars T-Mobile, T-Online, T-Systems and T-Com. Our highlights in the first quarter of 2001 are as follows:

- Continued customer growth and marked increase in revenue in all four pillars
- Group revenue increased by 16.2 percent to EUR 11.1 billion
- Group EBITDA EUR 3.6 billion
- All regulatory approvals for the acquisition of VoiceStream and Powertel have been given
- Registration of sale of Sprint FON shares on track with the SEC
- Stake in Czech RadioMobil increased to 60.8 percent at April 1, 2001
- Acquisition of 51 percent majority stake in Macedonian Telekom via MATÁV
- Deutsche Telekom signs letter of intent with the Klesch-Liberty Media consortium for the sale of the remaining cable regions
- Board of Management restructured

# Summary

## **Increase in revenue by 16.2 percent to EUR 11.1 billion**

The increase in revenue of the Deutsche Telekom Group by approximately 16.2 percent to EUR 11.1 billion (first quarter 2000: EUR 9.5 billion) in the first three months of this year confirms the growth target set of over 15 percent for the 2001 financial year. Excluding the newly consolidated companies, revenue increased by approximately 7 percent. T-Com contributed 44.8 percent of Group revenue, T-Systems 24.9 percent, T-Mobile International 20.9 percent and T-Online 3.2 percent and other segments 6.2 percent.

T-Com increased its total revenue by almost 2 percent compared with the first quarter of 2000 to EUR 6.7 billion. The strategy of continuously upgrading telephone lines continues to be successful. This is demonstrated clearly with 850,000 T-DSL lines marketed (and over 50 percent connected), the unabated growth in ISDN to 18.6 million channels and 5.8 million Aktiv Plus customers. In comparison with the first quarter of 2000, revenue from lines increased faster than the total number of lines. Overall, approximately 98 percent of line revenue is attributable to T-Com and 2 percent to T-Systems.

T-Systems increased its revenue by over 52 percent compared with the first quarter of 2000 to EUR 3.3 billion. The revenue increase in the T-Systems pillar is mainly attributable to the inclusion of debis Systemhaus and the increase in revenue at DeTeSystem.

The number of mobile communications subscribers served by majority-owned Deutsche Telekom subsidiaries increased compared to the end of 2000 by 2.6 million to 33.8 million. The number of T-D1 subscribers increased by 1.7 million in the first quarter of 2001 compared to 3.1 million subscribers in the fourth quarter of 2000. The subscriber growth was also reflected in the 22 percent increase in revenue compared with the same period last year.

Besides T-Online International AG, the T-Online pillar also contains DeTeMedien, which is already in close cooperation with content portals with its telephone directory business and trade information service. Revenue in the segment T-Online increased by over 40 percent from EUR 257 million in the first quarter of 2000 to EUR 361 million. This increase was mainly a result of a 61.2 percent increase in the revenue of T-Online International AG from EUR 174 million to approximately EUR 280 million, whereas the revenue of DeTeMedien remained at the same high level as in the previous year of approximately EUR 80 million. T-Online International AG increased its customer base by more than 50 percent – from 5.7 million subscribers at the end of the first quarter 2000 to 8.7 million at the end of the first quarter 2001. T-Online gained more than approximately 700,000 new subscribers in the first quarter of 2001.

Revenue growth of 9 percent under other segments, which was attributable in part to the positive development of revenue at MATÁV, the new consolidation of Macedonian Telekom (Maktel) in the first quarter of 2001, and the first revenue contribution of Slovakian Telekom in the same period.

## **EBITDA increase almost 7 percent to EUR 3.6 billion**

Group EBITDA amounted to EUR 3.622 billion in the first quarter of 2001 and was thus 36 percent lower than in the same period last year. Adjusted to exclude special influences\*, however, EBITDA increased by EUR 225 million, which represents an increase of 6.6 percent. EBITDA increased by 17 percent compared with the fourth quarter of 2000. EBITDA in the T-Com pillar increased in the first quarter of 2001 by 13 percent in comparison with the first quarter of 2000 from EUR 1,891 million to EUR 2,136 million. This is attributable in part to increased revenues in the first quarter of 2001 and that there were no further losses of market share.

EBITDA in the T-Systems pillar amounted to EUR 187 million compared with EUR 3,273 million in the first quarter of last year. The decrease in EBITDA compared with the same period last year is a result of the sale of Global One (EUR 2,864 million) and increased expenses for goods and services purchased which cannot be assigned to a specific period (EUR 170 million) in the first quarter of 2000. There were higher value adjustments for domestic carriers in the first quarter of 2001 (EUR 77 million).

EBITDA of the T-Mobile pillar developed particularly positively from EUR 350 million to EUR 590 million in the first quarter of 2001. The EBITDA margin of the T-Mobile pillar improved in the first quarter of 2001 to 22 percent compared with 15.9 percent in the first quarter of 2000 as a result of lower subscriber acquisition costs.

DeTeMedien contributed around EUR 30 million to the EBITDA of the T-Online pillar in the first quarter of 2001. As expected and announced in the results for the 2000 financial year, EBITDA of T-Online International in the first quarter of 2001 amounted to EUR -66 million, a slight improvement over the figure of EUR -68 million in the fourth quarter of 2000. T-Online International has, however, created the foundation for increases in segment EBITDA with the introduction of new tariffs on March 1, 2001 and more strict controls on costs at domestic and international subsidiaries.

EBITDA under other segments was EUR 686 million in the first quarter of 2001 compared with EUR 149 million in the same period last year. The figure of EUR 149 million was, however, subject to a one-time negative influence from the disposal of assets amounting to EUR 433 million and transfers to accruals of EUR 180 million.

## **Net income/loss**

Deutsche Telekom's net loss was reduced from EUR -975 million (adjusted value for purposes of comparison) in the fourth quarter of 2000 to EUR -358 million in the first quarter of 2001. This result was burdened by the amortization of goodwill amounting to EUR 408 million and UMTS costs (of which UMTS amortization EUR 180 million and UMTS interest of EUR 266 million). Income before taxes and the amortization of goodwill and UMTS costs amounted to EUR 866 million, 22.7 percent higher than the figure for the same period last year, adjusted to exclude special influences\* (EUR 706 million).

\* See section "New segments – four pillars"

## All regulatory approvals for the acquisition of VoiceStream and Powertel have been given

■ Following the U.S. Department of Justice, the U.S. Federal Communications Commission (FCC) and the Committee on Foreign Investment in the United States (CFIUS) have now approved the acquisition of the two U.S. mobile communications companies VoiceStream and Powertel, meaning that there are no more regulatory hurdles in the way of the transaction. Deutsche Telekom expects the transaction to be closed by the end of May.

■ As the first and only transatlantic provider of mobile communications services on the basis of the world's leading standard – GSM, Deutsche Telekom, VoiceStream and Powertel together will be in a position to offer customers uniform services on the basis of a common platform. This includes being reachable under a single mobile communications number, joint billing, worldwide customer support and, soon to be introduced in the USA as well, access to the Internet via GPRS high-speed technology. Together with VoiceStream and Powertel, the license area in which Deutsche Telekom and its associated companies can provide mobile communications services covers over 430 million potential customers in the United States and Europe.

■ Together with the mobile communications subscribers of the two U.S. companies (approximately 5.4 million), Deutsche Telekom will then become one of the largest mobile communications operators in the world with approximately 43.3 million proportionate subscribers.

## Sale of Sprint FON shares has been registered with the SEC<sup>1)</sup>

■ Deutsche Telekom has taken further steps as part of its strategy of moving away from non-core activities. Deutsche Telekom will offer 76.2 million of its Sprint FON shares for sale and grant the consortium banks an overallotment option for the remaining 11.4 million shares held.

■ The U.S. telecommunications company Sprint has filed a registration statement with the U.S. Securities and Exchange Commission (SEC) for the public offer of all the Sprint FON shares held by Deutsche Telekom and France Télécom.

## Consolidation of RadioMobil in the second quarter of 2001

■ Cmobil, a subsidiary of T-Mobile International, has increased its stake held in RadioMobil a.s. from 49 percent to 60.8 percent. The purchase price was EUR 0.6 billion. RadioMobil was consolidated on April 1, 2001.

<sup>1)</sup> A registration statement relating to these securities has been filed with the SEC but has not yet become effective. These securities may not be sold nor may offers to buy be accepted, prior to the time the registration statement becomes effective. This report shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state or jurisdiction.

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

## MATÁV acquires majority stake in Macedonian Telekom

■ MATÁV has acquired a stake of 51 percent in Macedonian Telekom, consolidated in the first quarter of 2001.

## Deutsche Telekom signs letter of intent with the Klesch-Liberty Media consortium for the sale of the remaining cable regions.

■ Deutsche Telekom AG has signed a letter of intent with the investment consortium Klesch-Liberty Media for the sale of the majority stake in the remaining cable regions. Under the terms of the letter, Klesch and Company (London) and Liberty Media (Colorado, USA) intend to acquire the majority stake of 55 percent with an option for a further 20 percent minus one vote in each of the six regions Bavaria, Berlin/Brandenburg, Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, Lower Saxony/Bremen, Rheinland-Palatinate/Saarland and Saxony/Saxony-Anhalt/Thuringia. The deal is expected to be closed in mid-2001.

## Board of Management restructured

■ Having focused the organization of the Group on the 4-pillar strategy of mobile communications, online, systems and fixed network, Deutsche Telekom has restructured the Group Board of Management. The new structure came into effect on May 1, 2001 after approval by the Supervisory Board.

## Revenue and income expectations for 2001<sup>2)</sup>

■ Deutsche Telekom has set itself the target of achieving revenue growth of over 15 percent for the full 2001 financial year. Deutsche Telekom intends to increase its revenue generated abroad from 19 percent in the 2000 financial year to approximately 23 percent in 2001 with the planned acquisition of VoiceStream and Powertel.

■ Deutsche Telekom intends to increase its Group EBITDA by up to EUR 2 billion. Deutsche Telekom is aiming for an EBITDA margin, adjusted to exclude special influences, of approximately 30 percent for the 2001 financial year.

■ We expect a strong increase in EBITDA from mobile communications. We are aiming to double our EBITDA for the European mobile communications sector.

## Development of the share price

■ The general trend on the stock markets in the first quarter of this year was marked by a lack of direction and uncertainty concerning the future development of the world economy. The main indices such as the Dow Jones (-7 percent), DAX (-7 percent) and Euro Stoxx Telecommunication (-8 percent) were considerably weaker throughout this period. The uncertainty concerning the economic development in the USA and Europe was the main contributor to this situation. The trend line for the telecommunications and technology-heavy indices such as the NASDAQ (-20 percent) or the NEMAX50 (-40 percent) was even more negative. Deutsche Telekom's share was not able to pull away from this trend and fell in the first quarter from EUR 31.20 to EUR 26.75 (-14 percent). The highest price was EUR 38.75 on January 19, the lowest EUR 24.15 on March 22, 2001.

<sup>2)</sup> The occurrence of expectations and the achievement of targets depend on a range of factors which are described in the section "Forward-Looking Statements", in our most recent annual report on Form 20-F and in other documents filed with the SEC.

# New segments – four pillars

Since January 1, 2001 Deutsche Telekom has been operating its business in the four pillars announced last year: T-Com, T-Systems, T-Mobile and T-Online. There will also continue to be an "Other" segment in future. Besides the new segments T-Mobile and T-Online which are focused on product markets, the remainder of Deutsche Telekom's business has been re-assigned according to customer relationships. While T-Com concentrates on residential customer business and small and medium-sized enterprises, T-Systems will specialize on domestic and international key account customers. The following tables show Telekom's business in the new four pillars. In addition, in order to simplify the comparison with 2000 figures, the first quarter of 2000 and the 2000 financial year are shown in the new structure.

## T-Com

In the new four-pillar structure, T-Com takes over the management and support of 41 million residential customers and approximately 350,000 small and medium-sized enterprises. T-Com continues to manage the entire international interconnection business, the remaining broadband cable business, most of the value-added services and all of the terminal equipment business operated via T-Com Sales. As part of the provision of services between the segments, T-Com provides its network platform for the other pillars at market-oriented prices.

	1st quarter 2001	1st quarter 2000	Total 2000
T-Com	millions of €	millions of €	millions of €
Total revenue	6,719	6,592	27,611
Depreciation and amortization	(1,112)	(1,620)	(6,036)
Net interest expense	(75)	(190)	(737)
Income (loss) related to associated and related companies	(2)	0	(239)
Income before taxes	947	81	4,373
Employees	117,839	123,803	117,505

T-Com's business mainly consists of the largest parts of the former segment network communications. In addition, the former sub-segment broadband cable, the international part of carrier services and the majority of value-added services are also assigned to T-Com. A small part of the former segment data communications and the segment terminal equipment also belong to T-Com.

T-Com's revenue increased by 1.9 percent in the first quarter of 2001 compared with the same period last year. In the area of fixed network communication, revenue from access charges increased again. Revenue from call charges decreased, however. Increases in volume were more than compensated by the price measures taken during the business year. Growth was also recorded in the area of IP transport services, card services and international interconnection. Revenue from broadband cable business decreased as a result of the sale of two regional cable companies in 2000.

EBITDA as derived from the segment results for T-Com amounted to EUR 2,136 million for the first quarter of 2001 and EUR 1,891 million for the same period last year. T-Com generated EBITDA of EUR 11,385 million for the entire 2000 financial year.

Special influences had a considerable impact on T-Com's EBITDA and income before taxes in the 2000 financial year. These factors include proceeds from the sale of the cable companies in North-Rhine Westphalia and Hesse in the third quarter of 2000 (EUR 2,968 million), increased expenses relating primarily to losses on accounts receivable and provision for doubtful accounts (EUR 111 million) and to nonscheduled write-downs on parts of the copper cable long-distance net-

work (EUR 971 million). At the end of the first quarter of 2000 EBITDA was not affected by special influences, but there were write-downs which had already been made on certain parts of this network amounting to EUR 383 million.

## T-Systems

T-Systems takes over the management and support of our domestic and international key account customers, offering comprehensive services in the convergence field of information technology and telecommunications. With debis Systemhaus, Deutsche Telekom has become the second largest systems house in Europe and is in a position to offer its customers not only information technology and telecommunications solutions, but also e-business systems solutions from a single source.

	1st quarter 2001	1st quarter 2000	Total 2000
T-Systems	millions of €	millions of €	millions of €
Total revenue	3,300	2,165	10,686
Depreciation and amortization	(313)	(129)	(754)
Net interest expense	(1)	(15)	(114)
Income (loss) related to associated and related companies	(5)	3	15
Income before taxes	(132)	3,132	2,498
Employees	40,473	17,425	39,794

Besides debis Systemhaus and DeTeSystem, T-Systems includes the majority of data communications and the former subsegment broadcasting. The French company SIRIS, which concentrates on supporting businesses and key account customers in France, is also assigned to T-Systems. In addition, as a systems provider, T-Systems is the address in the domestic interconnection business with competitors.

T-Systems increased its revenue by 52.4 percent in the first three months of this year compared with the first quarter of 2000. This increase is mainly attributable to the consolidation for the first time of debis Systemhaus on October 1, 2000. debis Systemhaus generated revenues in the first quarter of 2001 of EUR 753 million. Furthermore, increased revenue was generated in the field of IT solutions for key account customers. T-Systems, which concentrates on serving the needs of global key account customers, also increased its revenues from the domestic interconnection business and networks solutions.

EBITDA as derived from the results for T-Systems amounted to EUR 187 million for the first quarter of 2001 and EUR 3,273 million for the same period last year. T-Systems generated EBITDA of EUR 3,351 million for the entire 2000 financial year.

The results of T-Systems were also affected by special influences in the 2000 financial year. Besides the proceeds from the sale Global One in the first quarter of 2000 (EUR 2,864 million), the results were also affected by additional losses on accounts receivable and provision for doubtful accounts in the fourth quarter (EUR 33 million).

## T-Mobile

T-Mobile is Deutsche Telekom's mobile communications pillar, combining the company's main mobile communications activities. Via its subsidiaries, T-Mobile currently provides mobile communications services in Germany, Austria and the United Kingdom and has shareholdings in mobile communications companies in Poland, the Netherlands, the Czech Republic and Russia. T-Mobile will be able to provide the new mobile communications standard UMTS in many countries via its subsidiaries.

	1st quarter 2001	1st quarter 2000	Total 2000
T-Mobile	millions of €	millions of €	millions of €
Total revenue	2,681	2,203	10,356
Depreciation and amortization	(689)	(450)	(2,337)
Net interest expense	(510)	(177)	(1,370)
Income (loss) related to associated and related companies	(53)	12	(127)
Income before taxes	(662)	(291)	(2,350)
Employees	19,429	15,067	19,186

T-Mobile's business includes all the activities of the T-Mobile International group. Besides T-Mobil, max.mobil. and One 2 One, this also includes T-Motion. In contrast to the old segment structure, business with mobile communications terminal equipment generated by T-Com's sales channels is no longer shown under T-Mobile.

The strong growth in the number of subscribers of the mobile communications companies in the 2000 financial year led to a considerable increase in T-Mobile's revenue in the first quarter of 2001. Mobile communications services in Germany and the United Kingdom made a particular contribution to this development. The high level of market saturation in Austria meant that max.mobil. no longer reported the high revenue growth in subscriber numbers that T-Mobil and One 2 One showed.

T-Mobile's EBITDA amounted to EUR 590 million for the first quarter of 2001 and EUR 350 million for the same period last year. T-Mobile generated EBITDA of EUR 1,497 million for the entire 2000 financial year.

T-Mobile was only affected by special influences to a lesser extent in the 2000 financial year (total of EUR 91 million). These relate partly to proceeds from the initial public offering of the associated company MTS in the third quarter of 2000.

### T-Online

T-Online is the business area for the Internet mass market. With its online offers in Germany, France, Spain, Portugal and Austria, Deutsche Telekom is Europe's largest online service provider. T-Online concentrates on the growth areas of access and portals (advertising/e-commerce). For this reason, Deutsche Telekom not only records the business of T-Online under the T-Online pillar, but also that of DeTeMedien, which is already working closely together with T-Online subsidiaries such as t-info.

T-Online's revenue increased by 40.5 percent in the first quarter of 2001 compared with the same period last year. This development is predominantly attributable to the strong increase in revenue of the T-Online International group. Access business developed particularly positively.

	1st quarter 2001	1st quarter 2000	Total 2000
T-Online	millions of €	millions of €	millions of €
Total revenue	361	257	1,128
Depreciation and amortization	(37)	(4)	(93)
Net interest expense	48	3	127
Income (loss) related to associated and related companies	(11)	0	(237)
Income before taxes	(27)	17	2,400
Employees	2,987	1,494	2,894

EBITDA for the segment T-Online amounted to EUR 39 million in the first quarter of 2000. T-Online International AG reported EBITDA of EUR -66 million for the first quarter of 2001 in its consolidated financial statements. Together with DeTeMedien, which is assigned to the segment T-Online, the consolidated EBITDA for the segment T-Online was EUR -27 million for the first quarter of 2001. T-Online generated EBITDA of EUR 2,749 million for the full 2000 financial year. The results for the 2000 financial year were strongly affected by gains at Group level in the second and third quarters of 2000 relating to the stock market flotations of T-Online International and its associated companies (EUR 2,772 million). Income before taxes for the 2000 financial year also includes extraordinary expenses relating to the costs of the stock market flotation, amounting to EUR 146 million. Of this sum, EUR 21 million was already incurred in the first quarter of 2000.

### Other

The segment "Other" combines a variety of Group units whose activities cannot be assigned directly to an individual pillar. These include Deutsche Telekom's headquarters, competence centers, such as customer billing and real estate. Foreign subsidiaries which cannot clearly be assigned to a specific segment due to their activities or their customer structure are also shown under "Other". This mainly relates to MATÁV and Slovakian Telekom.

The 9.0 percent revenue increase in the segment "Other" is mainly attributable to increased revenue at MATÁV and the revenue contributions of Maktel and Slovenské telekomunikácie which were not consolidated in the first quarter of 2000.

	1st quarter 2001	1st quarter 2000	Total 2000
Other	millions of €	millions of €	millions of €
Total revenue	1,811	1,662	7,111
Depreciation and amortization	(431)	(349)	(1,758)
Net interest expense	(417)	(324)	1,074
Income (loss) related to associated and related companies	49	(46)	2,462
Income before taxes	(113)	(570)	1,403
Employees	49,007	38,211	47,636

EBITDA as derived from the segment results for the segment "Other" amounted to EUR 686 million for the first quarter of 2001 and EUR 149 million for the same period last year. The segment "Other" generated EBITDA of EUR 1,773 million for the entire 2000 financial year.

The income before taxes of the "Other" segment was affected by special influences to a considerable extent in the 2000 financial year. The most important of these factors are the gains from the sale of the shareholding in Wind in the third quarter of 2000 (EUR 2,328 million), the losses from the disposal of non-current assets and other additional centrally recorded accruals for risks (totaling EUR 780 million for the full 2000 financial year; at the end of the first quarter of 2000 this figure was EUR 613 million).

# Summary of the consolidated financial statements as at March 31, 2001

Consolidated statement of income	1st quarter 2001 millions of €	1st quarter 2000 millions of €	Change in %	Total 2000 millions of €
<b>Net revenue</b>	<b>11,082</b>	<b>9,539</b>	<b>16.2</b>	<b>40,939</b>
Changes in inventories and other own capitalized costs	157	232	(32.3)	864
<b>Total operating performance</b>	<b>11,239</b>	<b>9,771</b>	<b>15.0</b>	<b>41,803</b>
Other operating income	699	3,338	79.1	11,002
Goods and services purchased	(2,992)	(2,588)	15.6	(11,950)
Personnel costs	(2,779)	(2,346)	18.5	(9,718)
Depreciation and amortization	(2,581)	(2,551)	1.2	(12,991)
Other operating expenses	(2,545)	(2,527)	0.7	(10,424)
Financial income (expense), net	(1,029)	(761)	35.2	(1,230)
of which: net interest expense	(977)	(713)	37.0	(3,097)
<b>Results from ordinary business activities</b>	<b>12</b>	<b>2,336</b>	<b>(99.5)</b>	<b>6,492</b>
Extraordinary income (losses)	(0)	(47)	n.a.	(159)
Taxes	(341)	(265)	28.7	(318)
<b>Income (loss) after taxes</b>	<b>(329)</b>	<b>2,024</b>	<b>(116.3)</b>	<b>6,015</b>
(Income) losses applicable to minority shareholders	(29)	(64)	(54.7)	(89)
<b>Net income (loss)</b>	<b>(358)</b>	<b>1,960</b>	<b>(118.3)</b>	<b>5,926</b>

Consolidated balance sheet	March 31, 2001 millions of €	Dec. 31, 2000 millions of €	Change in %	March 31, 2000 millions of €
<b>Assets</b>				
Noncurrent assets	105,779	106,606	(0.8)	83,336
Current assets <sup>1</sup>	20,464	17,636	16.0	18,141
	<b>126,243</b>	<b>124,242</b>	<b>1.6</b>	<b>101,477</b>
Shareholders' equity	42,692	42,716	(0.1)	37,709
Liabilities <sup>2</sup>	83,551	81,526	2.5	63,768
	<b>126,243</b>	<b>124,242</b>	<b>1.6</b>	<b>101,477</b>

<sup>1</sup> Including prepaid expenses, deferred charges and deferred taxation.

<sup>2</sup> Including accruals and deferred income.



# Changes in the composition of the Deutsche Telekom Group

Deutsche Telekom acquired shareholdings in various German and foreign companies last year and this year which were not included in the consolidated financial statements as at March 31, 2000. The most important of these are debis Systemhaus, Slovenské telekomunikacie, Club-Internet and Maktel. In

order to allow a more accurate comparison with the financial statements as at March 31, 2000, the following shows the effects of the new acquisitions on the individual items of the consolidated statement of income and the segment reporting for the first three months of 2001.

Effects of new acquisitions made after March 31, 2000 on the consolidated statement of income in the first three months of 2001	T-Systems	T-Online	Other	Total
	millions of €	millions of €	millions of €	millions of €
<b>Net revenue</b>	<b>723</b>	<b>24</b>	<b>153</b>	<b>900</b>
Changes in inventories and other own capitalized costs	43	0	8	51
Other operating income	29	1	16	46
Goods and services purchased	(234)	(22)	(38)	(294)
Personnel costs	(350)	(10)	(26)	(386)
Depreciation and amortization	(146)	(34)	(93)	(273)
Other operating expenses	(150)	(23)	(24)	(197)
Financial income (expenses), net	47	0	(12)	35
<b>Results from ordinary business activities</b>	<b>(38)</b>	<b>(64)</b>	<b>(16)</b>	<b>(118)</b>
Taxes	(25)	0	(17)	(42)
<b>Income (loss) after taxes</b>	<b>(63)</b>	<b>(64)</b>	<b>(33)</b>	<b>(160)</b>
(Income) losses applicable to minority shareholders	(13)	9	16	12
<b>Net income (loss)</b>	<b>(76)</b>	<b>(55)</b>	<b>(17)</b>	<b>(148)</b>

## Other operating income

Other operating income	1 <sup>st</sup> quarter 2001	1 <sup>st</sup> quarter 2000	Change	Total 2000
	millions of €	millions of €	in %	millions of €
<b>Other operating income</b>	<b>699</b>	<b>3,338</b>	<b>(79.1)</b>	<b>11,002</b>

Other operating income in the first quarter of 2001 was 79.1 percent lower than in the same period last year. This decrease is mainly attributable to the considerably increased other operating income in the first quarter of 2000, which was mainly a result of the sale of the shareholding in Global One

(EUR 2,864 million). The companies which were consolidated after March 31, 2000 contributed EUR 46 million to other operating income. The remainder of the change in other operating income is mainly attributable to the proceeds from the reversal of accruals and increased foreign currency gains.

## Goods and services purchased

Goods and services purchased	1 <sup>st</sup> quarter 2001	1 <sup>st</sup> quarter 2000	Change	Total 2000
	millions of €	millions of €	in %	millions of €
<b>Goods and services purchased</b>	<b>(2,992)</b>	<b>(2,588)</b>	<b>15.6</b>	<b>(11,950)</b>

Goods and services purchased increased by EUR 404 million in the first quarter of 2001 compared with the same period last year. This is attributable in part to the additional goods and services purchased relating to the newly consolidated companies (EUR 294 million). The remaining increase in

goods and services purchased is mainly a result of the increased expense relating to the outsourcing of logistics. At the same time, both domestic and international interconnection expenses decreased slightly.

# Personnel

Personnel costs	1st quarter 2001 millions of €	1st quarter 2000 millions of €	Change in %	Total 2000 millions of €
<b>Personnel costs</b>	<b>(2,779)</b>	<b>(2,346)</b>	<b>18.5</b>	<b>(9,718)</b>

Personnel costs increased by EUR 433 million or 18.5 percent in the first quarter of 2001 compared with the same period last year. With an average of 33,442 employees in the first three months of 2001, Slovenské telekomunikácie and debis Systemhaus, consolidated in the Deutsche Telekom Group for the first time at the end of 2000, were the main factor in this increase. The reductions in personnel costs in other areas were slightly overcompensated by continued increases in staff numbers in the growth areas of mobile communications, online and the companies of T-Systems.

The number of employees at March 31, 2001 remained relatively constant compared with the end of 2000 at 229,735, a slight increase of 1.2 percent. The increase in the number of employees as a result of companies newly consolidated at January 1, 2001 was almost compensated by reductions in other areas (Deutsche Telekom AG, DeTelmmobilien). This reduction is also responsible for the higher average figures compared with those at the balance sheet date.

The reduction of 882 or 10.6 percent in the number of trainees at the balance sheet date is attributable to an acceptance date on March 1, 2001. Compared with the first three months of 2000, the number of trainees and student interns increased by 18.3 percent.

Average number of employees	1st quarter 2001 number	1st quarter 2000 number	Change in %	Total 2000 number
Civil servants	58,500	69,031	(15.3)	65,217
Salaried employees	126,124	85,772	47.0	97,436
Wage earners	45,833	41,083	11.7	42,379
<b>Deutsche Telekom Group</b>	<b>230,457</b>	<b>195,841</b>	<b>17.7</b>	<b>205,032</b>
Trainees/student interns	7,544	6,540	15.4	6,826

Number of employees at balance sheet date	March 31, 2001 number	Dec. 31, 2000 number	Change in %	March 31, 2000 number
Civil servants	58,143	59,901	(2.9)	68,380
Salaried employees	126,218	121,728	3.7	86,719
Wage earners	45,374	45,386	0.0	40,901
<b>Deutsche Telekom Group</b>	<b>229,735</b>	<b>227,015</b>	<b>1.2</b>	<b>196,000</b>
Trainees/student interns	7,445	8,327	(10.6)	6,292

# Depreciation and amortization

Depreciation amortization	1st quarter 2001 millions of €	1st quarter 2000 millions of €	Change in %	Total 2000 millions of €
UMTS amortization	180	0	n.a.	381
Amortization of Goodwill	408	238	71.4	1,247
Other depreciation and amortization	1,993	2,313	(13.8)	11,363
<b>Total depreciation and amortization</b>	<b>2,581</b>	<b>2,551</b>	<b>1.2</b>	<b>12,991</b>

With an increase of EUR 30 million or 1.2 percent, depreciation and amortization remained relatively constant compared with the first quarter of 2000. Including the nonscheduled write-downs on parts of the copper cable television network in the first quarter of 2000 amounting to EUR 383 million and the increase in depreciation and amortization from the newly

consolidated companies (EUR 273 million), depreciation and amortization increased slightly compared with the same period last year. This is attributable to the UMTS amortization and the amortization of goodwill, which more than offset the reduction in other depreciation and amortization.

# Other operating expenses

Other operating expenses	1 <sup>st</sup> quarter 2001 millions of €	1 <sup>st</sup> quarter 2000 millions of €	Change in %	Total 2000 millions of €
Other operating expenses	(2,545)	(2,527)	0.7	(10,424)

Other operating expenses increased only slightly by 0.7 percent in the first quarter of 2001 compared with the same period last year. Taking into consideration the special influences in the first quarter of 2000 amounting to EUR 613 million, which relate mainly to increased losses on the disposition of non-current assets, increased transfers to accruals and the effects of the newly consolidated companies (EUR 197 million), other

operating expenses increased further in the first quarter of 2001 compared with the same period last year. This is mainly attributable to increased valuation adjustments and increased marketing expenses and commissions in online and mobile communications. In addition, legal and consulting costs have increased considerably in comparison with the first quarter of 2000.

# Financial income (expense), net

Financial income (expense), net	1 <sup>st</sup> quarter 2001 millions of €	1 <sup>st</sup> quarter 2000 millions of €	Change in %	Total 2000 millions of €
Financial income (expense), net	(1,029)	(761)	35.2	(1,230)
of which, net interest expense	(977)	(713)	37.0	(3,097)

The increase in financial liabilities in the course of last year to finance the acquisition of UMTS licenses and shareholdings

in companies had a negative impact on the financial expense in the first quarter of 2001.

# Taxes

Taxes	1 <sup>st</sup> quarter 2001 millions of €	1 <sup>st</sup> quarter 2000 millions of €	Change in %	Total 2000 millions of €
Taxes	(341)	(265)	28.7	(318)

Tax expense increased by 28.7 percent in the first quarter of 2001 compared with the first quarter of 2000. This increase is mainly attributable to the increased basis of taxation in the first quarter of 2001 compared with the same period last year. Income before taxes in the first quarter of 2000 was consider-

ably higher than in the first three months of 2001, but this consisted mainly of tax-free income. This effect was offset by increased tax expense from the change in the rate of deferred taxation in the first quarter of 2000, which did not take effect in the first quarter of 2001.

# Investments

	1 <sup>st</sup> quarter 2001 millions of €	1 <sup>st</sup> quarter 2000 millions of €	Change in %	Total 2000 millions of €
Intangible assets	283	962	(70.6)	23,123
Property, plant and equipment	1,593	1,308	21.8	7,563
Financial assets	288	1,436	(79.9)	12,382
<b>Total</b>	<b>2,164</b>	<b>3,706</b>	<b>(41.6)</b>	<b>43,068</b>

Deutsche Telekom invested EUR 2,164 million in the first quarter of 2001. Investments in intangible assets relate mainly to goodwill from newly consolidated companies. The increase in property, plant and equipment relates mainly to investments

in the build-up and expansion of networks (including the roll-out of T-DSL) and work in progress of Deutsche Telekom AG and the T-Mobile International group.

# Financial liabilities

	March 31, 2001 millions of €	Dec. 31, 2000 millions of €	Change in %	March 31, 2000 millions of €
Net financial liabilities <sup>1</sup>	56,837	56,521	0.6	37,113

<sup>1</sup> Financial liabilities after deduction of liquid assets, marketable securities and other investments in noncurrent securities and interest rate swaps currency swaps shown under other assets.

Net financial liabilities increased only slightly in the first three months of 2001 from EUR 56.5 billion to EUR 56.8 billion.

# Cash flows

Cash flows	1st quarter 2001 millions of €	1st quarter 2000 millions of €	Total 2000 millions of €
Net cash provided by operating activities	1,650	1,028	10,000
Net cash used for investing activities	(1,974)	(536)	(27,706)
Net cash provided by (used for) financing activities	698	2,778	17,863
Effect of foreignexchange rate changes on cash and cash equivalents	0	1	(29)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>374</b>	<b>3,271</b>	<b>128</b>

## Net cash provided by operating activities

Net cash provided by operating activities in the first quarter of 2001 amounted to EUR 1,650 million, which represents an increase of EUR 622 million compared with the same period last year. Although net income being EUR 2,318 million lower than in the first quarter of the previous year, the prior-year figures were attributable to a considerable extent to the sale of shares in Global One (EUR 2.9 billion) which is shown as part of net cash provided by (used for) financing activities in the first quarter of 2000. The change in working capital, particularly the marked decrease in trade accounts payable and the increase in trade accounts receivable, had a negative impact in 2001. While income tax expense increased, the income tax paid was considerably less than in the same period last year. In addition, the Group received a cash inflow of EUR 342 million from dividends (of which EUR 309 million as a special dividend from DT-FT Holding) compared with EUR 18 million in the same period last year.

## Net cash used for investing activities

Net cash used for investing activities increased in the first quarter of 2001 by EUR 1,438 million compared with the first quarter of 2000 to EUR 1,974 million. The considerably higher cash outflow in the first quarter of 2000 for investments in financial assets was compensated to a great extent by cash inflows from the sale of Global One. No such offsetting effects for divestitures were recorded in the first quarter of 2001.

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

Net cash provided by financing activities in the first quarter of 2001 amounted to EUR 698 million compared with EUR 2,778 million in the same period last year. A considerably higher level of medium and long-term liabilities was repaid than in the first quarter of 2000.

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

	1st quarter 2001 millions of €	1st quarter 2000 millions of €	Change in %	Total 2000 millions of €
<b>Net income/(loss) as reported in the consolidated financial statements under German GAAP</b>	<b>(358)</b>	<b>1,960</b>	<b>n. a.</b>	<b>5,926</b>
Personnel restructuring accrual	(0)	(18)	n. a.	(125)
Other differences	292	34	758.8	4 019
Income taxes	(168)	143	n. a.	(573)
<b>Net income/(loss) in accordance with U.S. GAAP</b>	<b>(234)</b>	<b>2,119</b>	<b>n. a.</b>	<b>9,247</b>

Shareholders' equity in accordance with U.S. GAAP at March 31, 2001 amounted to EUR 46.0 billion (December 31, 2000: EUR 46.0 billion).

# Accounting

## German GAAP and U.S. GAAP

- Deutsche Telekom prepares its consolidated financial statements in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and German Stock Corporation Law (Aktiengesetz – AktG).
- Deutsche Telekom uses, to a considerable extent, accounting and valuation principles in line with those of U.S. GAAP (generally accepted accounting principles – GAAP) applicable at the balance sheet date. Deviations between the accounting principles in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP which contradict those of U.S. GAAP. As far as possible, Deutsche Telekom's aim is to publish its financial statements in accordance with the principles of both German and U.S. GAAP so that the reconciliation positions included in the notes to the financial statements are kept to a minimum.

## Methods of accounting and valuation

- Deutsche Telekom uses the same methods of accounting and valuation for preparing its quarterly financial statements as for its consolidated financial statements. A detailed description of the methods used can be found in the notes to the consolidated financial statements of December 31, 2000.

## Segment reporting

- The composition and designation of the segments are adjusted in the first quarter of 2001 for the first time to bring them line with the new structure under the reorganization of the Deutsche Telekom Group. The areas of activity of the new segments have already been described. All segment information in this report has been prepared in accordance with U.S. Statement of Financial Accounting Standards (SFAS) 131. The following table provides a reconciliation between the income before taxes of the individual segments and the consolidated income before taxes for the 2000 financial year.

2000 financial year in millions of €	
T-Com	4,373
T-Systems	2,498
T-Mobile	(2,350)
T-Online	2,400
Other	1,403
Reconciliation	(1,991)
Income before taxes	6,333

The reconciliation mainly contains consolidation measures; the nonscheduled write-down for real estate, which did not relate to the operational business activities of the segments and did not have any effect on the internal management of the segments, represents the main element of the reconciliation for the 2000 financial year.

The following table gives an overall summary of the new segments of Deutsche Telekom for the first three months of 2000 and 2001.

## Segment information in accordance with SFAS 131 by Group business areas for the first quarter of 2001

	Net revenue	Revenue between segments	Total revenue	Depreciation between segments	Net interest expense <sup>1</sup>	Income (loss) related to associated and related companies <sup>1</sup>	Income before taxes
	I/2001 I/2000	I/2001 I/2000	I/2001 I/2000	I/2001 I/2000	I/2001 I/2000	I/2001 I/2000	I/2001 I/2000
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
T-Com	4,969 5,192	1,750 1,400	6,719 6,592	(1,112) (1,620)	(75) (190)	(2) 0	947 81
T-Systems	2,755 1,694	545 471	3,300 2,165	(313) (129)	(1) (15)	(5) 3	(132) 3,132
T-Mobile	2,318 1,885	363 318	2,681 2,203	(689) (450)	(510) (177)	(53) 12	(662) (291)
T-Online	356 246	5 11	361 257	(37) (4)	48 3	(11) 0	(27) 17
Other segments	684 522	1,127 1,140	1,811 1,662	(431) (349)	(417) (324)	49 (46)	(113) (570)
Reconciliation	0 0	(3,790) (3,340)	(3,790) (3,340)	1 1	(22) (10)	(30) (17)	(1) (80)
<b>Group</b>	<b>11,082</b> <b>9,539</b>	<b>0</b> <b>0</b>	<b>11,082</b> <b>9,539</b>	<b>(2,581)</b> <b>(2,551)</b>	<b>(977)</b> <b>(713)</b>	<b>(52)</b> <b>(48)</b>	<b>12</b> <b>2,289</b>

<sup>1</sup> Net interest expense was allocated to the segment T-Mobile which is not included in the consolidated financial statements of T-Mobile International.

Bonn, May 2001  
Deutsche Telekom AG

Board of Management

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**Cautionary Statement**

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21 E of the Securities Exchange Act of 1934, as amended. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside of Deutsche Telekom's control, that could cause actual results to differ materially from such statements. These factors include, but are not limited to, telecommunications usage levels, competitive forces in liberalized markets, regulatory changes, technological developments, the success of business, operating and financial initiatives, material adverse changes in economic conditions in the markets served by Deutsche Telekom and its affiliates and other factors identified in Deutsche Telekom's filings with the Securities and Exchange Commission, including its most recent report on Form 20-F. Readers are cautioned not to put undue reliance on these forward-looking statements.