

# The financial year 1999

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The 1999  
financial year

# Management report of the Deutsche Telekom Group and Deutsche Telekom AG for the 1999 financial year.

Deutsche Telekom ended the 1999 financial year successfully and once again held its own in competition. Net revenue increased to EUR 35.5 billion. Net income was EUR 1.3 billion. A proposal will be submitted to the shareholders' meeting for a dividend of 62 cents per individual no par value share.

The management report for Deutsche Telekom AG has been combined with the management report for the Deutsche Telekom Group.

Deutsche Telekom (Group) (billions of EUR)	1999	1998	1997	1996	1995
Net revenue <sup>1</sup>	35.5	35.1	34.5	32.3	30.5
Net income	1.3	2.2	1.7	0.9	2.7
Balance sheet total	94.6	79.3	83.2	89.1	81.9
Investments	22.9 <sup>2</sup>	7.5	7.9	11.6	9.1
Employees at year-end <sup>3</sup>	195,788	195,876	209,295	220,667	213,467

<sup>1</sup> 1995 figure adjusted for value-added tax

<sup>2</sup> in intangible assets EUR 14.0 bn

<sup>3</sup> including changes in the composition of the Deutsche Telekom Group

## Overall economic development.

**Slower growth in Germany.** The upward trend in the German economy slowed in 1999, as measured by the real change in the gross domestic product (GDP). GDP is an important indicator of the economic situation, since it represents the value of all products and services produced within the country. According to data of the Federal Statistical Office, in 1999, GDP only rose by about 1.4 percent in real terms, compared to 2.2 per-

**Jan. 5, 1999** With its "Security first" product, Deutsche Telekom is the first company to enable anyone to use a digital signature for Internet messages.

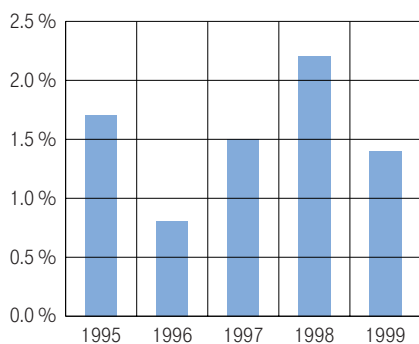
**Jan. 29, 1999** Detlev Buchal, Board Member responsible for Product Marketing, reflects on the development of the Internet at the "Virtual Worlds, Real Markets - Business on the Net" Multimedia Symposium in Frankfurt.

**Feb. 19, 1999** Deutsche Telekom increases its stake in the mobile telephony network provider max.mobil. to 81 percent in a move aimed at stepping up its investment in the Austrian market. By the end of the 1999 financial year the share will rise to 91 percent.

max.mobil.'s Managing Director, Dr. Georg Pölzl, and Deutsche Telekom CEO, Dr. Ron Sommer, are interviewed by journalists at the press conference in Vienna.



**Gross domestic product, 1999**  
Changes over prior-year period in real terms



1995: 1.7 %  
1996: 0.8 %  
1997: 1.5 %  
1998: 2.2 %  
1999: 1.4 %

Source: Federal Statistical Office  
In 1999, the Federal Statistical Office changed its calculation method and adopted the 1995 European System of National Accounting. The comparative figures from earlier years have been adjusted.

\*The figures are based on the current EITO 2000 report. To ensure the comparability of data, the prior-year figures in this study are also shown.

cent in 1998. The main engines of economic growth in 1999 were financing, letting and leasing, and corporate services, whose value added increased in 1999 by 3.8 percent in real terms. Public and private service providers only recorded a small rise of 0.1 percent in 1999.

According to estimates of the OECD, economic growth in Germany in 1999 seems rather modest by international comparison. The increase in Germany's GDP lagged behind the world economy's growth rate of 3 percent; it was well below the USA's economic growth rate of 4 percent and was even lower than the EU average of 2 percent.

National income – the sum of employee remuneration, company earnings and income from investments – also rose according to data of the Federal Statistical Office by only 1.4 percent in 1999 – i. e., the same rate as GDP. This was the weakest rise since 1994 and amounted to a per-capita national income of EUR 17,800. The increase in private consumption expenditure (2.0 percent) was also lower than in 1998 (2.3 percent). Although the increase in capital expenditure on plant and equipment, at 5.1 percent, was lower than in 1998 (9.2 percent), it was still up on the 1997 figure of 3.4 percent. These developments are very important for Deutsche Telekom, since most of its business activities are concentrated in Germany.

Consumer prices rose – also as a result of the cuts in telephone rates – by an annual average of only 0.6 percent in 1999, compared to a 1.0 percent increase in 1998. At this level of price stability, inflation continues to pose no threat to the German economy.

**Growing signs of world economic recovery.** The world economy recovered in the course of 1999 – following a period of weakness in 1998. Despite concern early in the year following turbulence on the international financial markets, there was no world recession. The economic situation in Asia calmed further in 1999. Moreover, production in the Asian region expanded strongly in some countries, e. g. in South Korea. Aggregate output actually rose again in Japan, although this was at least partly due to fiscal stimuli.

**Development of the telecommunications sector.**

**Growth and liberalization.** The German telecommunications market which is relevant for Deutsche Telekom grew by about 10 percent in 1999 (approximately 9 percent in the previous year) to approximately EUR 53.4 billion (1998: approximately EUR 48.6 billion) according to EITO 2000\*. By contrast, Deutsche Telekom's domestic revenue fell in 1999 by about 4 percent compared to 1998. Excluding international activities (in particular MATÁV, max.mobil. and Deutsche Telekom Mobile Holdings Ltd. (One 2 One)) and the revenue from competitors' billing services, revenue amounted to approximately EUR 32.5 billion in 1999. With a computed market share of about 61 percent in 1999 (1998: approximately 70 percent), Deutsche Telekom's share of the relevant domestic telecommunications market decreased by approximately 9 percent.



**Feb. 25, 1999** New features and extras coupled with further price cuts make T-Net even more attractive.

**March 10, 1999** In memory of the 100th birthday of German author Erich Kästner a new phone card is issued. 500,000 of these Erich Kästner cards are produced.

**March 15, 1999** Poland, the Czech Republic and Hungary join NATO. Deutsche Telekom hosts the ceremony which is attended by the ambassadors of the 16 member states.



## The 1999 financial year

The ambassadors, here Frantisek Cerny from the Czech Republic, walk through the NATO door to symbolize their newly sealed membership in the alliance.

The ceremony is held at Deutsche Telekom's headquarters in Bonn.

Since the liberalization of the market, Germany has been one of the most open telecommunications markets with the fiercest competition in the world. The market dynamics unleashed over the last few years has led to a development of competition, the speed and intensity of which is unique worldwide. With reasonable interconnection rates, unbundled access to subscriber lines, call-by-call selection, number portability, and having issued such a large number of licenses, Germany has taken a leading role in European telecommunications liberalization; intense competition has developed very quickly as a result. By the end of 1999, a total of 262 licenses for voice telephony services had been awarded to operators with their own networks; 365 licenses for transmission lines had been issued. These 627 licenses are held by a total of 252 different companies. Numerous additional license applications have been submitted to the Regulatory Authority for Telecommunications and Posts (Reg TP) for approval. The total number of companies providing telecommunications services in Germany has meanwhile grown to more than 1,700.

The number of call minutes in Deutsche Telekom's telephone network again increased by about 2 percent in 1999. Major tariff adjustments caused by keen competition led to an average fall in prices of approximately 26 percent in 1999. As a result, revenue from calls in Deutsche Telekom's telephone network was almost 25 percent down on the previous year at approximately EUR 12 billion. The reduction of rates and the resulting drop in revenue had an impact on the long-distance and international zones in particular. On the other hand, Deutsche Telekom recorded large increases in revenue compared to the previous year in calls from the fixed to the mobile network and in the services segment.

The mobile telephony services segment made a major contribution to the growth of the overall domestic market. According to the Regulatory Authority's figures, the four digital mobile communications networks achieved the market's largest growth in their history, expanding to 23.2 million subscribers in 1999. The main factor was the attractive price structure, particularly for private users. Deutsche Telekom's mobile communications subsidiary T-Mobil attracted about 3.6 million new customers, bringing its total to 9.1 million T-D1 subscribers. This was partly due to innovative tariffs such as package prices. Competition has also intensified in this segment, leading to marked price cuts.

The development of the market for Internet and online services is marked by a very fast increase in the number of subscribers. According to the Regulatory Authority's figures, the three largest online services reached a total of almost 5.5 million subscribers at the end of 1999. Deutsche Telekom's Internet subsidiary succeeded in further expanding its market share with a 54 percent increase in its subscriber figures; T-Online is the largest Internet access provider in Germany with 4.2 million subscribers. The overall number of Internet users in Germany rose above 12 million at the end of 1999, according to the Regulatory Authority's figures; this number includes users accessing the Internet in offices and schools, as well as other providers' facilities.



**Regulation of the telecommunications market.**

**Complete liberalization.** The Telecommunications Act provides the legal framework for the telecommunications market in Germany. As the market is completely liberalized, this act prescribes sector-specific supervision of telecommunications competition. Germany thus complies with the regulations of the European Commission which called for telecommunications liberalization in most EU Member States by January 1, 1998.

Deutsche Telekom's major tariff decisions, and certain services the Company offers to competitors, are subject to approval under the existing regulatory framework. The Regulatory Authority for Telecommunications and Posts as well as other government bodies continued to take numerous important regulatory measures in 1999. In chronological order these are in particular:

- Fixing the price for the provision of a Deutsche Telekom subscriber line for competitors at DM 25.40 per month.
- Rejection of a Deutsche Telekom request for price reductions for end customers in the City zone.
- According to the Regulatory Authority, different network operators and telecommunications providers can be subject to different interconnection rates - if evidence of additional costs is provided. Deutsche Telekom filed a request asserting such additional costs. This was rejected by the Regulatory Authority.
- On the basis of a newly issued Number Fees Ordinance, Deutsche Telekom is required by the Regulatory Authority to pay charges for the use of the old numbers in the local network.
- In a communication of the federal government to the EU Commission it was stated that no mobile communications operator in Germany has a dominant position on the interconnection market. T-Mobil therefore remains unregulated in this market.
- In the Regulatory Authority's view, Deutsche Telekom no longer holds a dominating position in the preservices market for international calls.

- In its decision on the second price cap period for voice telephony services, the Regulatory Authority decided to keep the present composition of the basket of goods for which specific price reduction rules are applicable.
- At the end of 1999, the Regulatory Authority did not fully approve Deutsche Telekom's request for new interconnection rates from January 1, 2000; as a result, the existing rates were reduced by an average of about 24 percent.

Deutsche Telekom and/or competitors have appealed against many of the rulings referred to above. In December 1999, the Regulatory Authority and the Monopoly Commission came to the conclusion that regulation remains necessary in all areas of the telecommunications market. In Deutsche Telekom's view, this result does not sufficiently take the dynamic competitive developments in the telecommunications sector into account. The federal government's statement is still awaited.

**Development of business in 1999.**

**Slight increase in revenue.** During the 1999 financial year, Deutsche Telekom generated net revenue totaling EUR 35.5 billion. This represents an increase of almost one percent over the previous year.

Deutsche Telekom (Group) revenue <sup>1</sup> (billions of EUR)	1999	1998	Change <sup>2</sup>	1997
Network communications	16.7	20.5	-18.5 %	21.5
Carrier services	2.9	1.6	79.0 %	1.2
Data communications	2.8	2.5	11.5 %	2.3
Mobile communications	3.9	3.1	28.0 %	2.6
Broadcasting and broadband cable	1.9	1.8	6.3 %	1.6
Terminal equipment	1.2	1.4	-12.7 %	1.5
Value-added services	1.9	2.0	-7.2 %	2.0
Other services	1.2	0.8	45.3 %	0.6
International business	3.0	1.4	111.5 %	1.2
<b>Total</b>	<b>35.5</b>	<b>35.1</b>	<b>0.9 %</b>	<b>34.5</b>

<sup>1</sup> Revenue reporting is based on the group business area structure in 1999. The previous year's figures are shown in accordance with the new structure less the revenue which resulted from the take-over and billing of services of other network operators totaling EUR 0.5 billion, which were posted under other services in 1998.

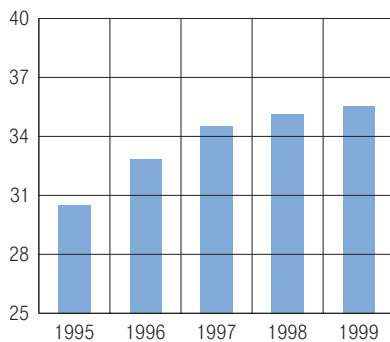
<sup>2</sup> Changes in percent based on more precise million figures.

The increase in net revenue is mainly attributable to Deutsche Telekom's successful internationalization strategy and to the positive developments in mobile communications. Deutsche Telekom's largest revenue driver, network communications (previously referred to as telephone network communications), reported a drop in revenue by 18.5 percent to EUR 16.7 billion due to loss of market share and price cuts, above all in long-distance and international calls. This was only partly compensated by a continued increase in the number of ISDN lines by 32 percent.



The 1999 financial year

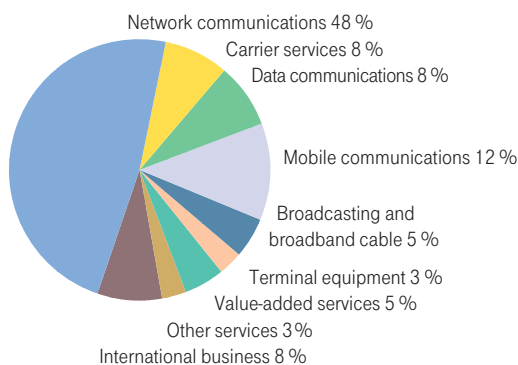
Development of revenue (billions of EUR)



1995: 30.5\*  
 1996: 32.3  
 1997: 34.5  
 1998: 35.1  
 1999: 35.5

\* 1995 figure adjusted for value-added tax

Revenue by business area



Very positive developments were recorded for revenue from data communications and carrier services (formerly referred to as licensed service providers/carriers). The increase in other services can largely be attributed to the positive development of T-Online. All in all, it was thus possible to compensate for the drop in revenue in network communications.

In 1999, mobile communications recorded substantial year-on-year revenue growth of 28.0 percent. This can be attributed above all to the extremely dynamic development in the number of customers. Following growth in the number of T-D1 customers by 66.7 percent in 1998, this figure grew by another approximately 66 percent in 1999, with the result that some 9.1 million subscribers were making calls in the T-D1 network at the end of 1999. At the same time, the revenue reported for the analog T-C-Tel network fell as planned, with a continuing drop in the number of customers.

Revenue in the broadcasting and broadband cable group business area improved by 6.3 percent to EUR 1.9 billion due to growth in the number of customers, while the terminal equipment business area saw its revenue fall by 12.7 percent to EUR 1.2 billion as a result of the streamlining of our product portfolio. Revenue in the value-added services group business area (previously known as special value-added services) was 7.2 percent below that of the previous year at EUR 1.9 billion, due to the drop in revenue from public telephone booths and directory inquiry service.

The success of T-Online as the largest online service in Europe is reflected in further increases in revenue in other services to EUR 1.2 billion, EUR 0.4 billion of which are accounted for by T-Online. The number of T-Online customers grew by 54 percent to 4.2 million in 1999.

In the international business area (formerly known as international activities), revenue amounting to EUR 3.0 billion was generated by the Hungarian telecommunications operator MATÁV, whose share of net revenue was 14.1 percent up on the previous year, and primarily by revenue from the international companies which were fully consolidated for the first time in the 1999 financial year: max.mobil. with EUR 0.8 billion and One 2 One with EUR 0.6 billion for the last three months of 1999.

**Drop in net income.** During the year under review, Deutsche Telekom generated net income totaling EUR 1.3 billion, as a result of declining margins in network communications and amortization of goodwill from acquisitions in 1999. This represents a decrease of 44 percent compared with the previous year. Results from ordinary business activities amounted to EUR 3.2 billion (1998: EUR 5.1 billion).

**March 18 – 24, 1999 CeBIT 99**  
 “Our Innovations. Your Success”  
 is Deutsche Telekom’s motto at  
 CeBIT 99 where it presents its  
 products on 10,000m<sup>2</sup>.

In addition to a host of other new  
 technological products, T-Online  
 offers improved euro-compliant on-  
 line banking software that also sup-  
 ports Internet banking. In the field  
 of e-commerce, Deutsche Telekom  
 sets new market standards. E-com-  
 merce home pages for the Internet,  
 security on and payment via the Net  
 and powerful Internet commerce  
 platforms take center stage.

Dr. Ron Sommer, Gerd Tenzer, Dr.  
 Hagen Hultsch and Detlev Buchal,  
 from Deutsche Telekom’s Board of  
 Management, are the first to test the  
 virtual world in the T-Online tube.



The decrease in revenue from network communications could not be compensated by reductions on the costs side. Compared with 1998, goods and services purchased rose by 35.0 percent to EUR 8.4 billion, in particular due to the greater use of goods and a rise in charges for network access; a share of EUR 0.8 billion results from the integration of One 2 One and max.mobil..

Deutsche Telekom continued its socially-compatible workforce reduction program in 1999. Employee figures (prior to changes in the composition of the Deutsche Telekom Group) totaled an average of 175,160 for the year, 5.7 percent (10,580 employees) down on the annual average for 1998. Personnel costs, however, remained practically unchanged at EUR 9.2 billion. Despite the expansion of the consolidated group (e.g. through the inclusion for the first time of One 2 One and max.mobil.) personnel costs remained almost unchanged at the level of EUR 9.2 billion. The increase in wages and salaries under collective bargaining agreements valid as of April 1, 1999 – a one-time payment for the first quarter and remuneration adjustments related to the eastern German collective bargaining agreements – counteracted the reduction in personnel costs as a result of the staff downsizing measures. In addition, the age-related salary increases and the review of salaries in some areas to bring them in line with market conditions and to promote performance resulted in a structural increase in personnel costs.

Depreciation and amortization fell by 6.3 percent or EUR 0.6 billion to EUR 8.5 billion in 1999 in comparison with the previous year. An extension of depreciation periods in the area of the telecommunications outside plant network was responsible for a drop of EUR 0.8 billion. This adjustment was the result of a new estimation of the useful technical and economic life of equipment. It was offset by the first full consolidation of the international subsidiaries One 2 One and max.mobil. with an increase in depreciation by EUR 0.4 billion compared with the same period in the previous financial year. During the year under review, nonscheduled write-downs amounting to EUR 15 million were effected.

Other operating expenses increased by 13.9 percent, largely due to the increased cost of marketing, postage costs and exchange losses, to EUR 6.1 billion. The integration of One 2 One and max.mobil. had a considerable impact on these figures, in the amount of EUR 0.5 billion.

Financial expense was reduced in 1999 by a total of EUR 0.4 billion (12.1 percent) to EUR 2.9 billion. The loss related to subsidiaries, associated and related companies showed a pleasing development, improving from EUR 0.3 billion to EUR 0.1 billion.

Tax expenses were almost halved as a result of the lower results before taxes, which amounted to EUR 1.4 billion in 1999 compared with EUR 2.6 billion in 1998. The effective corporate income tax rate, representing 97.2 percent of tax expenses in 1999, amounted to 47.5 percent in this financial year.

<b>Group/DVFA earnings per share (millions of EUR)</b>	<b>1999</b>	<b>1998</b>
Net income	1,253	2,243
DVFA/SG earnings <sup>1</sup>	1,477	2,544
Cash earnings		
acc. to DVFA/SG <sup>1</sup>	10,400	11,731
Number of		
common shares <sup>2</sup>	2,884,006,655	2,743,240,100
DVFA/SG earnings		
per share in EUR	0.51	0.93
Cash earnings		
per share in EUR	3.61	4.28

<sup>1</sup> Calculated in accordance with the currently applicable method.

<sup>2</sup> Time-weighted average of total number of shares outstanding during the period.



**March 18 – 24, 1999 CeBIT 99**

In the forum, live performances and shows related to Deutsche Telekom's newest products entertain guests and provide them with information.

CeBIT 99's "star guest", Federal Chancellor Gerhard Schröder, learns first-hand about Deutsche Telekom's performance.

At the top-level evening, the Commissioner General and Managing Director of EXPO 2000, Birgit Breuel, informs the guests about the progress of the world exhibition. The picture also shows Professor Helmut Sihler, Chairman of Deutsche Telekom's Supervisory Board and Sepp Heckmann, Managing Director of EXPO 2000.

CEO Dr. Ron Sommer views the fair and meets with Dr. Hans-Olaf Henkel, Director of the Federation of German Industries (BDI) and Hubert Lange, Board Member of the Deutsche Messe AG.



March 18-24, 1999

**The 1999 financial year**

**Key figures for group segments in 1999**

	Net revenue	Income before taxes	Income before taxes	Change
(billions of EUR)	1999	1999	1999	
Network communications	16.7	2.3	4.8	-2.5
Carrier services	2.9	0.4	0.6	-0.2
Data communications	2.8	0.1	-0.1	0.2
Mobile communications	3.9	1.0	0.6	0.4
Broadcasting and broadband cable <sup>1</sup>	1.9	-0.1	-0.3	0.2
Terminal equipment	1.2	0.0	-0.1	0.1
Value-added services	1.9	-0.2	-0.2	0.0
International business	2.9	-0.3	0.2	-0.5
Other segments	1.2	-0.4	-0.4	-0.0
Reconciliation <sup>2</sup>	0.1	0.1	0.0	0.1
<b>Total</b>	<b>35.5</b>	<b>2.9</b>	<b>5.1</b>	<b>-2.2</b>

<sup>1</sup> The broadband cable business achieved a break-even result before taxes.

<sup>2</sup> Net revenue from subsidiary companies shown under international business in the consolidated financial statements.

**Results of the individual segments in accordance with SFAS 131.** With income before taxes of EUR 2.3 billion, network communications is again the decisive segment contributing to the Group's results, as was the case in the previous year. This was influenced by the decline in call charges, which was partly offset by higher earnings from line charges largely as a result of a 32 percent increase in the number of ISDN channels.

In the carrier services group segment, income before taxes amounted to EUR 0.4 billion. As a company that dominates segments of the market, Deutsche Telekom is subject to particularly extensive regulation in this area.

In the data communications group business area, the income before taxes made extremely positive progress in the year under review with a profit of EUR 0.1 billion compared with a loss in the previous year. The market for data communications has been open to competition for several years and represents a highly dynamic area of telecommunications.

The development of results from mobile communications is mainly attributable to the generally strong demand for mobile communications products. Consequently, income before taxes amounting to EUR 1.0 billion was generated in 1999 despite price cuts in the course of the year and the greater use of goods resulting from the considerably increased number of subscribers in the T-D1 network.





The result in the broadcasting and broadband cable area improved, partly as a consequence of an increase in the number of cable connections during the year under review as well as of an increase in charges at the end of 1997, which did not take effect until 1999 partly due to advance payments made prior to that date. As a result, loss before taxes in the segment could be limited to EUR 0.2 billion in the year under review. Broadband cable activities achieved a break-even result before taxes.

The terminal equipment area reported a positive income before taxes of EUR 19 million, following a loss before taxes in the previous year. This change can largely be attributed to a the consistent streamlining of the product portfolio and the strong market orientation.

Value-added services recorded a lower loss before taxes amounting to EUR 0.2 billion in 1999. Continued optimization of the locations for public telephones contributed to the improvement in these results in the value-added services group business area.

Since 1999, the companies One 2 One and max.mobil. have belonged to the international business segment along with MATÁV. This area reported negative income before taxes amounting to EUR 0.3 billion, especially due to the amortization of goodwill (mainly One 2 One and max.mobil.).



The 1999 financial year

**Summary of the financial statements of Deutsche Telekom AG.**

Statement of income (billions of EUR)	1999	1998
Net revenue	27.9	30.9
Changes in inventories and other own capitalized costs	0.5	0.6
Other operating income	11.9	4.0
Goods and services purchased	-8.0	-6.3
Personnel costs	-7.4	-7.8
Depreciation and amortization	-6.2	-7.7
Other operating expenses	-6.5	-6.6
Financial income (expense), net	-0.8	-2.7
Extraordinary profit or loss	-0.2	0.0
<b>Income before taxes</b>	<b>11.2</b>	<b>4.4</b>
Taxes	-1.5	-2.7
<b>Income after taxes</b>	<b>9.7</b>	<b>1.7</b>

Balance sheet (billions of EUR)	Dec. 31, 1999	Dec. 31, 1998
Property, plant and equipment and intangible assets	47.2	50.9
Financial assets	37.0	14.6
<b>Noncurrent assets</b>	<b>84.2</b>	<b>65.5</b>
Inventories, materials and supplies	0.3	0.4
Receivables	8.5	5.3
Liquid assets	0.9	4.9
<b>Current assets</b>	<b>9.7</b>	<b>10.6</b>
Deferred taxation	0.2	0.3
Prepaid expenses	0.4	0.5
<b>Total assets</b>	<b>94.5</b>	<b>76.9</b>
Shareholders' equity	43.9	25.3
of which: net income	4.9	1.7
Accruals	7.3	6.9
Liabilities	43.2	44.4
Deferred income	0.1	0.3
<b>Total shareholders' equity and liabilities</b>	<b>94.5</b>	<b>76.9</b>

The annual financial statements of Deutsche Telekom AG which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are published in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Registry of the Bonn District Court. The annual financial statements are available upon request from Deutsche Telekom, Investor Relations, Postfach 2000, D-53105 Bonn, Germany, fax +49 228 181-88009.

**Annual financial statements of Deutsche Telekom AG.** Corporate groups with international activities are increasingly focusing their reporting on the consolidated financial statements. However, in Germany, the dividend paid to the shareholders is based on the net income generated by Deutsche Telekom AG. For this reason, the annual financial statements of Deutsche Telekom AG are presented in summarized form below.

As a result of the capital increase in 1999, the balance sheet total for Deutsche Telekom AG increased significantly by EUR 17.6 billion to EUR 94.5 billion. At the same time, the equity ratio rose from 30.7 percent to 44.6 percent. Deutsche Telekom AG recorded a 9.7 decrease in net revenue to EUR 27.9 billion. The transfer of interests held in the Sprint Corp., Kansas within the Group resulted in income totaling EUR 8.2 billion. This increased the income before taxes to EUR 11.2 billion. Following deduction of taxes amounting to EUR 1.5 billion, Deutsche Telekom AG's income after taxes totals EUR 9.7 billion. In compliance with its articles of association, Deutsche Telekom AG assigns half of its income after taxes to retained earnings.

**EUR 0.62 dividend per share.** The Supervisory Board and Board of Management propose, subject to approval at the shareholders' meeting, to use part of the net income of EUR 4.9 billion to pay a dividend of EUR 0.62 per individual no par value share, on the dividend-bearing capital stock of EUR 7.7 billion. In addition, shareholders who are fully subject to domestic taxes will receive a tax credit of EUR 0.18 per individual no par value share. In addition, the proposal will be made to the shareholders' meeting to approve allocations to retained earnings according to the articles of incorporation as well as further allocations totaling EUR 3.0 billion.



**March 25, 1999** Former Minister President of Hesse Hans Eichel and CEO Dr. Ron Sommer announce that Dieburg Engineering College is to be handed over to the regional state of Hesse on March 1, 2000. Since 1968 more than 6,000 telecommunications specialists have been trained in Dieburg.

**March 31, 1999** Deutsche Telekom cuts its rates and guarantees for the future dialog and close interpersonal relations. One of the ads reads, "Right across Germany - for 6 pfennigs".

**April 1, 1999** T-Online already has over three million customers. The German advertising campaign is launched with the motto "Germany goes T-Online. With the Internet Turbo T-ISDN. Come with us."

**April 14, 1999** Now Deutsche Telekom's customers can have a number for life! With the 0700 service, they can be contacted on one number all over the world at any time and without being dependent on any lines.

**May 3, 1999** At the IT Forum in Berlin Dr. Hagen Hultsch, Board Member responsible for Technology and Services, explains to Federal President Dr. Roman Herzog, Deutsche Telekom's "Lifelong Learning" project, which is part of the Federal President's "Fit for the Information Age" campaign. With this project, Deutsche Telekom is seeking to benefit society and support people, including young people without training positions who want to improve their skills by using computers, online media and the Internet.

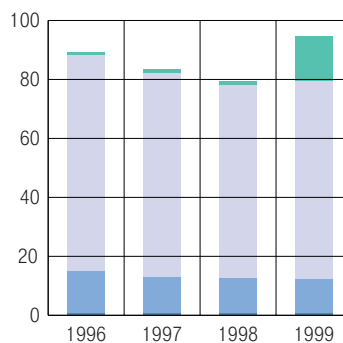


**Balance sheet structure: equity ratio increased to 35.7.** In Deutsche Telekom's consolidated financial statements the balance sheet total increased by 19.4 percent or EUR 15.3 billion to EUR 94.6 billion in the 1999 financial year. This increase in assets is mainly attributable to the integration of intangible assets into the Deutsche Telekom Group, largely as a result of goodwill from the acquisition of One 2 One and max.mobil, totaling EUR 12.9 billion. Current assets declined only slightly by EUR 0.2 billion to EUR 11.7 billion. The increase in receivables and other assets (mainly receivables from taxes) was largely offset by a decline in liquid funds by EUR 3.9 billion due to acquisitions made in 1999. Shareholders' equity increased from EUR 25.1 billion to EUR 35.7 billion, mainly as a result of the capital increase which was effected in 1999. The equity ratio improved from 29.5 percent at the prior balance sheet date to 35.7 percent, excluding proposed dividend payments.

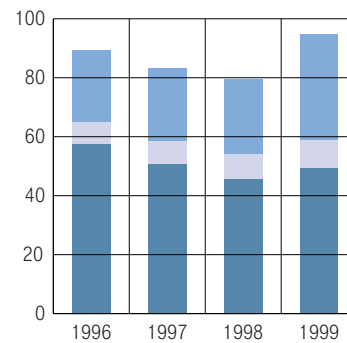
#### Balance sheet structure

(billions of EUR)

Assets



Liabilities



■ Other assets	■ Current assets	■ Liabilities	■ Shareholders' equity
1996: 0.8	1996: 14.5	1996: 57.7	1996: 23.8
1997: 1.0	1997: 12.2	1997: 51.0	1997: 24.6
1998: 0.9	1998: 11.9	1998: 45.9	1998: 25.1
1999: 0.9	1999: 11.7	1999: 49.7	1999: 35.7
■ Property, plant and equipment and financial assets	■ Intangible assets	■ Accruals	
1996: 73.0	1996: 0.7	1996: 7.6	
1997: 69.2	1997: 0.9	1997: 7.7	
1998: 65.4	1998: 1.1	1998: 8.4	
1999: 67.0	1999: 15.0	1999: 9.3	



**May 3, 1999** Deutsche Telekom backs Germany's long-established rowing eight, which is presented at the headquarters in Bonn. The squad's jerseys and oars are in dazzling magenta.



**May 5, 1999** In the run-up to the second public offering, Deutsche Telekom launches a marketing campaign to provide information on the pan-European share offer. Private investors in all euro states will enjoy the same conditions with regard to the purchase price, purchase incentives and allocation.



The 1999 financial year

**May 25, 1999** The "TÜV Rheinland" (technical inspection service) renews the "Y2K certificate", thus confirming that Deutsche Telekom is completely prepared for the turn of the millennium.

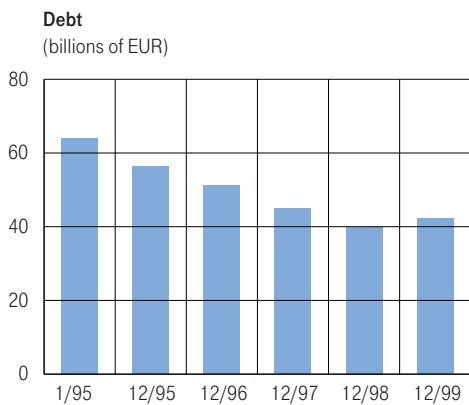
**May 27, 1999** At the third shareholders' meeting in Cologne's "Kölnarena", Deutsche Telekom reports to its shareholders on the so far most successful year for the Deutsche Telekom share.

**Acquisitions raise debt.** Deutsche Telekom continued to reduce its debt in the first nine months of the year as planned. However, as a result of its internationalization strategy and the acquisitions this involved, the Company was unable to reduce financial liabilities within the Deutsche Telekom Group. Despite a nonscheduled payment of EUR 0.9 billion, debt increased by EUR 2.4 billion (6.0 percent) to EUR 42.3 billion. Without the changes in the composition of the Deutsche Telekom Group (primarily One 2 One and max.mobil.), debt would have been reduced by EUR 2.0 billion to EUR 37.9 billion. In order to broaden its sources of funding Deutsche Telekom had floated a bond issue with a volume of EUR 1.1 billion (DM 2.0 billion) in May 1998 through its finance subsidiary Deutsche Telekom International Finance B.V. This bond was increased to EUR 2.0 billion in January 1999.

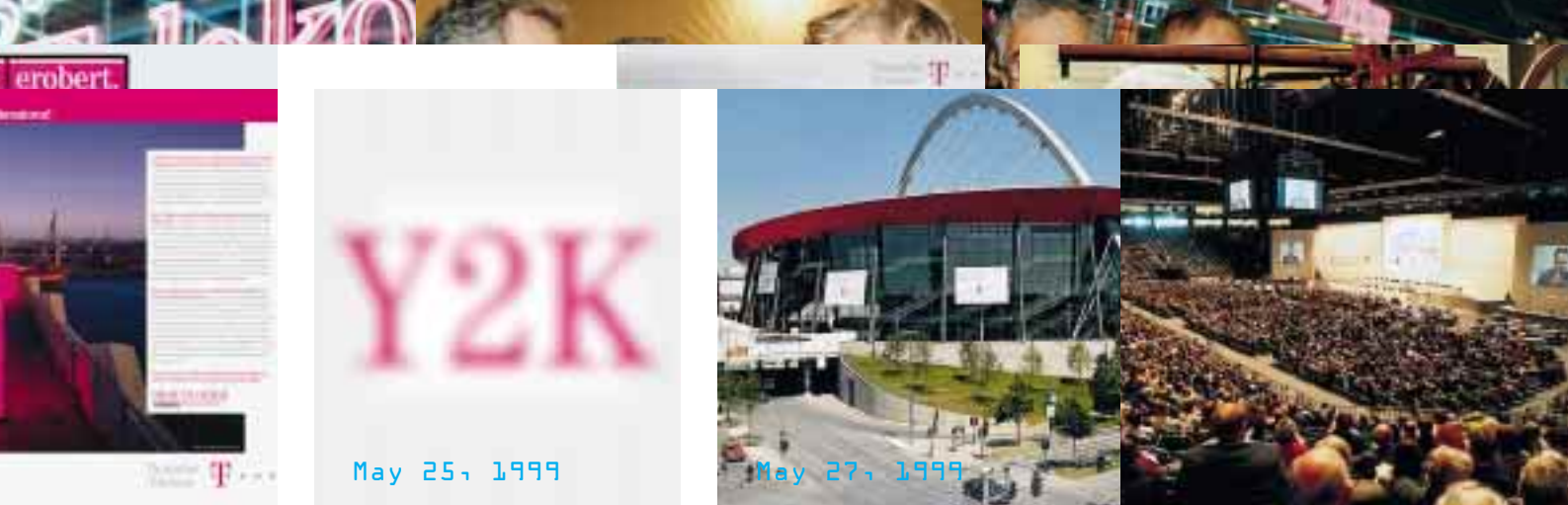
**Sharp rise in investments.** During the 1999 financial year, Deutsche Telekom invested a total of EUR 22.9 billion, EUR 15.4 billion more than in 1998. This distinct increase in investments is largely attributable to goodwill in connection with our acquisition of companies (principally One 2 One, max.mobil. and SIRIS). In addition to licenses and software, acquisitions made in 1999 resulted in investments in intangible assets amounting to EUR 14.0 billion.

Investments in property, plant and equipment increased by EUR 0.8 billion in 1999 and totaled EUR 5.1 billion. The main investments were made in Deutsche Telekom AG, T-Mobil and MATÁV. Following completion of conversion from analog to digital transmission and switching equipment and completion of the development program for eastern Germany, both at the end of 1997, investment volumes in property, plant and equipment have remained at a low level, as planned. The strong growth in subscribers to the T-D1 network in 1999 made it necessary to invest more money to expand the T-D1 network.

Investments in financial assets totaled EUR 3.7 billion. Of this total, EUR 1.7 billion was accounted for by the inclusion of shareholdings in related companies, holdings in associated companies, primarily the purchase of a shareholding in Hrvatske Telekomunikacije d.d. for EUR 0.8 billion and other subsidiaries and associated companies. Deutsche Telekom invested a further EUR 1.3 billion in other investment securities, of which EUR 1.0 billion was invested in fixed-income security issues and EUR 0.3 billion in specialized security funds (mainly mixed funds).



Jan. 1, 1995:	64.1
Dec. 12, 1995:	56.4
Dec. 12, 1996:	51.1
Dec. 12, 1997:	44.9
Dec. 12, 1998:	39.9
Dec. 12, 1999:	42.3



**Decrease in cash generated from operations.**

Net cash provided by operating activities declined by EUR 3.9 billion to EUR 9.6 billion, while net cash used for investment activities totaled EUR 18.7 billion in the year under review (1998: EUR 7.5 billion). This is largely accounted for by acquisition of investments. In the 1999 financial year, Deutsche Telekom paid EUR 12.6 billion to acquire companies that could be fully consolidated. Cash provided by financing activities totaled EUR 8.0 billion in 1999 compared with EUR 6.8 billion in 1998. This is principally the result of the capital increase in 1999, in which the Company received proceeds totaling EUR 10.6 billion.

Statement of cash flows (summarized) (billions of EUR)	1999	1998	1997
Net cash provided by operating activities	9.6	13.5	11.6
Net cash used for investing activities	-18.7	-7.5	-5.4
Net cash provided by (used for) financing activities	8.0	-6.8	-7.0
Effect of foreign exchange rate changes	-0.1	0.0	0.0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.8</b>
<b>Cash and cash equivalents (short- and long-term)</b>	<b>1.2</b>	<b>5.1</b>	<b>4.7</b>

**Purchasing.**

**Rise in purchasing volume through subsidiaries.** In 1999, the Group's total expenditure for goods and services increased by EUR 1.0 billion to EUR 10.9 billion (excluding One 2 One and SIRIS). A decrease in the purchasing volume of Deutsche Telekom AG from EUR 5.4 billion to below EUR 5.0 billion was offset by an increase in the purchasing volume of the subsidiaries from EUR 4.6 to 6.0 billion. T-Mobil alone spent approximately EUR 2.3 billion in 1999 and thus over EUR 0.8 billion more on goods and services than in the previous year. The ratio of purchasing volume to revenue increased within the Group to 31 percent.

In 1999, purchasing again focused on the acquisition of telecommunications equipment, IT hardware and software and the related consulting services. The shifts in purchasing volume from the parent company to its strong growth subsidiaries reflect the rigorous alignment of the Deutsche Telekom to the innovation markets of the future.

With the creation of a central Purchasing unit within the framework of realignment at group headquarters, Purchasing assumed central responsibility for the entire demand chain throughout the Group during the year under review. The objective of the central unit is to optimize the exploitation of existing synergy potential in purchasing at Deutsche Telekom. This optimization is supported in particular by the introduction of an e-commerce system which was piloted in December 1999. The system creates the basis for highly efficient purchase order processing at the local level, handling the entire procurement process electronically over the intranet.

Within the framework of our internationalization strategy, additional staff joined our expanding International Purchasing Offices in Singapore and New York. In addition, preparations are being made for external services marketing by the International Purchasing Office Asia via an Internet platform. The acquisition of shareholdings in companies abroad will further promote the internationalization of Purchasing.



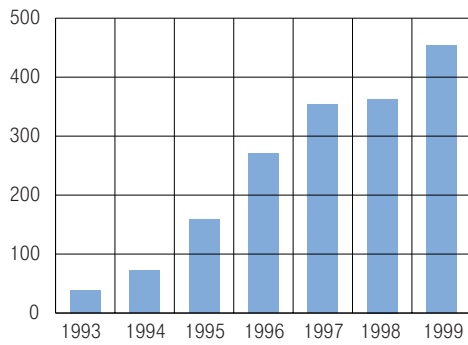
June 2, 1999

June 3-6, 1999

June 6, 1999

The 1999 financial year

Patent applications by Deutsche Telekom



1993:	39
1994:	72
1995:	158
1996:	270
1997:	353
1998:	363
1999:	454

Furthermore, the strategic focus of Purchasing in the year 2000 will be on sustained value orientation in procurement. This means in particular a reduction in the total cost of ownership along with the optimization of purchasing prices, at the same time taking into account the costs of operation and disposal and thus also aspects relating to the environment. It also means an increase in speed and flexibility and streamlines the processes of demand coverage within the Group even further.

**Research and development.**

**Trendsetting innovations.** Deutsche Telekom's development into a leading global telematics service provider involves great challenges, particularly in the field of innovation. New technologies have to be transformed into products and services more and more quickly, and practical results from the convergence between communications and information technologies are needed in order to ensure the Company's long-term competitiveness. Our market orientation is reflected not only in our product developments but also in our medium to long-term projects, such as speech processing and transmission technology. Our development activities are directed at the growth fields relevant for Deutsche Telekom. For example, we are pushing forward the definition of the standards for the new, future universal mobile telecommunication system (UMTS). We are developing portals for specific customer groups (e.g. a telematics portal) for our online services. In the networks field we are introducing new technologies (e.g. T-DSL) which allow better access to information and services. And by integrating the results of various projects we are helping to create comprehensive solutions.

By the consistent development of existing technologies, we can tap cost-cutting potential in many fields. For example, we have substantially increased the capacity of existing network elements – such as copper cables or optical fiber routes – by introducing new technologies. Overall, despite increased demands, we succeeded in holding expenditure on research and development steady at the previous year's level of around EUR 0.7 billion (without MATAV, One 2 One and max.mobil.). About 40 percent of these funds were devoted to software development. As in the previous year, in 1999 about 4,400 members of staff worked in our research and development units – i.e., T-Nova, Multimedia Software GmbH Dresden, the central Innovation Management unit including an Information and Innovation Management department, and the development division of our mobile communications subsidiary T-Mobil. 454 patent applications in 1999 confirmed and continued the encouraging upward trend of the last few years in this field. The number of industrial property rights owned by Deutsche Telekom worldwide rose to about 3,400 in the year under review.



June 18-20, 1999

**June 2, 1999** Deutsche Telekom celebrates a new record in the optical fiber network: a transmission speed of 40 gigabytes per second over a distance of 186 km is possible on a single optical fiber without electronic signal processing. This transmission capacity is equivalent to 625,000 simultaneous telephone calls.

**June 3-6, 1999 and June 18-20, 1999** A high-performance infrastructure for the World Economic Summit and the EU summit in Cologne: in order to cover the estimated required capacity of 60,000 international telephone calls per hour, Deutsche Telekom adds another 70 km of optical fiber and copper cable to the Cologne network. 70 new radio cells for the T-D1 network are also set up in Cologne city so that the expected 12,000 journalists and 1,500 delegates can communicate without any problems.

**June 6, 1999** 1,500 Deutsche Telekom employees display team spirit at the staff party in Hanover. On the car park of the "Telemax" television tower, they form what is probably the largest living Deutsche Telekom "T".

**June 16, 1999** Josef Brauner, Board Member responsible for Sales and Service, launches T-DSL-based solutions for small and medium-sized businesses simultaneously in six towns by means of "tele-presence".



June 16, 1999

### **T Nova – market-oriented development concentrated under one roof.**

Deutsche Telekom's innovation subsidiary T-Nova Deutsche Telekom Innovationsgesellschaft mbH commenced business operations in July 1999. We set up this new subsidiary to bring together our Technology Center, our five Development Centers and the business activities of Berkom under one roof, and also put it in charge of Multimedia Software GmbH Dresden. This will have decisive effects: with T-Nova we will bundle our strengths in the development of innovative products, telecommunications solutions and organization software, and will lay the groundwork for making the most of the Deutsche Telekom Group's synergy and innovation potential.

T-Nova offers the whole range of intragroup innovations and solutions from a single source: research; product, service, network and software development; and support with market introduction and operation. A vital part of T-Nova's work is the integrative development of the relevant information systems for supporting and handling business processes throughout the entire Group. T-Nova bundles the specific skills of the individual development units: while T-Berkom concentrates mainly on the development of future-oriented telecommunications applications, the Technology Center focuses on research and development in the field of networks and network-related services; Multimedia Software GmbH Dresden develops software for multimedia, Internet and intranet applications. Each of T-Nova's five Development Centers concentrates on a different field: e.g. the development of security or billing systems, software solutions for marketing and sales, or computer programs for network management. The decisive point is that by bringing our research and development units together, T-Nova can speed up know-how transfer and act as a supraregional communications and action management center for projects.

**Preparing the way for new products and services.** By consistently focusing our research and development activities on promising application areas, we again prepared the ground for new Deutsche Telekom products and services in 1999. For example, in the year under review T-Nova took over central tasks in the implementation of strategic development projects. These included a whole range of activities in connection with the development and introduction of Deutsche Telekom's T-DSL services for broadband Internet access; this is based on the ADSL technology. T-Nova assumed responsibility for technical analysis, design and piloting, and was in charge of the technical development of our T-DSL services.

In the development and introduction of the SMILE system (German acronym for "Service, Assembly, Information and Management"), which aims to optimize processes in Deutsche Telekom's residential and business customer care, T-Nova took charge of the development of important software modules as well as technical system integration in the year under review. The SMILE application was designed and implemented to provide universal and uniform support in order processing. The volume of data to be processed or stored by SMILE includes about 45 million customer data records, ten million service orders per year and seven million installation jobs per year.



**June 21, 1999** Twelve national winners of Deutsche Telekom's sixth drawing competition receive their awards in Bonn. 25,000 children and young people took part in the competition.

**June 27, 1999** The issue price for the second Deutsche Telekom share tranche is fixed at 39.50 EUR. Investors who have exercised their stock right and private investors are given a discount of 2 EUR on this price. These figures were announced by Dr. Ron Sommer and Dr. Joachim Kröske, CFO, to the press in Frankfurt. The issue comprises 250 million shares plus a 25-million-share greenshoe and around 5.8 million employee shares. The proceeds from the issue thus come to approximately 11 billion EUR.

**June 28, 1999** The twice oversubscribed T-Aktie share starts its first day of trading in Frankfurt and closes at 40.30 EUR. Throughout euro land around 1.7 million private investors subscribed to 250 million T-Aktie shares on the same conditions, thus making the share the first true "euro share".

72 magenta digits lined the path to the trading room.



## The 1999 financial year

In the year under review we developed and started implementing SmartHome, a comprehensive concept for the consistent use of telematics in private homes. By linking terminal devices to an in-house network and connecting them to Deutsche Telekom's networks, e.g. via T-ISDN, a basis will be created for providing a wide range of services – from the remote maintenance of all kinds of household appliances to the remote control of internal technical installations – e.g., by mobile phone or via the Internet. The first products based on the SmartHome concept are planned for the year 2000.

### **T-Venture – well respected in the international venture capital scene.**

Our subsidiary T-Venture operates as an entrepreneurial partner making equity investments in innovative, high-tech companies with growth potential operating on the telecommunications and information technology markets. In this way we are making an important contribution towards strengthening young telematics companies; at the same time, Deutsche Telekom gains an insight into the innovation behavior, technological skills and development processes of young companies. This enables us to generate synergy effects and make an interesting return on capital through venture capital models. In 1999, T-Venture invested approximately EUR 72.0 million in a number of existing and 22 new shareholdings. Intershop, a T-Venture investment, has already been quoted on the stock exchange since 1998. Since then, three more associated companies have carried out very successful initial public offerings, including two on the Neuer Markt in Frankfurt (The Fantastic Corporation and GFT Technologies). E-Stamp was the first company from the US portfolio to make its successful debut on the NASDAQ.

In April 1999, we topped up T-Venture's finance volume by EUR 102 million to a total of EUR 153 million, thus visibly intensifying our successful commitment to the venture capital market. T-Venture made a substantial profit from partial sales of shares (e.g. in Intershop). These profits are to be spent on new investments within the overall scope of the financing volume. The value of our total portfolio has developed very positively since T-Venture came into existence.

In October 1999, T-Venture expanded its venture capital activities in the US IT market with T-Venture of America Inc. In the context of its international investment policy, T-Venture also invests in other venture capital funds and in this way is building up a strategic network of venture capital experts and partners.

In 1999, T-Venture again succeeded in using this national and international network of experts not only for a lively exchange of information but also for co-investments. The window on technology has thus opened further. T-Venture has set new standards in the field of corporate venture capital in Germany and has thus become a driving force in a dynamically developing industry.





## Employees.

### Group-wide personnel strategy developed.

Deutsche Telekom's staff, with their innovative strength, flexibility and motivation, are the key to our business success. In order to secure this success in the longer term, in the year under review an obligatory group-wide human resources strategy was developed and adopted by the Board of Management. Its priorities include the continuation of staff restructuring within the Group, the further development of performance-promoting remuneration systems, and the further optimization of working-hours systems and work forms. In this context, future-oriented and demand-oriented human resources development for all staff is still at the center of our personnel work.

### Staff level declines further – staff productivity improves further.

As at December 31, 1999, Deutsche Telekom employed 172,233 people – 41.3 percent of them are civil servants and 58.7 percent salaried employees and wage earners. These figures are based on the composition of the Deutsche Telekom Group of 1995. Including the changes in the composition of the Deutsche Telekom Group (especially MATÁV, One 2 One and max.mobil.), the number of employees was 195,788 at the end of the year under review. At the end of 1999, about 7,500 young people were at Deutsche Telekom, preparing for their professional careers.

### Deutsche Telekom employees as at balance sheet date<sup>1</sup>

	Dec. 31, 99	Dec. 31, 98	Dec. 31, 97	Dec. 31, 96	Dec. 31, 95
Civil servants	71,123	83,848	91,542	105,419	114,430
Salaried employees	63,590	54,008	51,681	44,235	43,672
Wage earners	37,520	41,313	47,811	51,406	55,365
<b>Deutsche Telekom<sup>2</sup></b>	<b>172,233</b>	<b>179,169</b>	<b>191,034</b>	<b>201,060</b>	<b>213,467</b>
Changes in the composition of the Deutsche Telekom					
Group since 1995	23,555	16,707	18,261	19,607	-
<b>Total Deutsche Telekom Group</b>					
	<b>195,788</b>	<b>195,876</b>	<b>209,295</b>	<b>220,667</b>	<b>213,467</b>
Trainees/					
students interns	7,480	6,932	6,711	8,923	11,718

<sup>1</sup> Adjusted to reflect full-time jobs.

<sup>2</sup> Before changes in the composition of the Deutsche Telekom Group since 1995.

Compared to the end of 1998, the number of employees in the composition of the Deutsche Telekom Group of 1995 fell by 6,936. The medium-term target of reducing the number of people working for the Group (in the consolidated group of 1995) by 60,000 to approximately 170,000 by the end of 2000 as compared to 1994 will thus be achieved ahead of schedule.

Successful staff restructuring within the Group is having positive effects on staff productivity: based on the 1995 composition of the Deutsche Telekom Group, revenue per member of staff rose by 2.2 percent to EUR 186,000. Altogether staff productivity has thus improved by approximately 34 percent over the last five years.



July 1, 1999



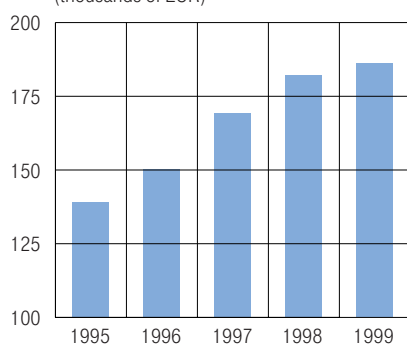
July 19, 1999



July 25, 1999

## The 1999 financial year

Revenue per employee at Deutsche Telekom<sup>1</sup>  
(thousands of EUR)



1995: 139<sup>2</sup>  
1996: 150  
1997: 169  
1998: 182  
1999: 186

<sup>1</sup> Revenue and number of employees prior to changes in the composition of the Deutsche Telekom Group; annualized average number of employees excluding trainees

<sup>2</sup> Based on revenue figures adjusted for value-added tax

### Staff restructuring in a spirit of partnership between management and employee representatives.

In order to successfully continue the level of workforce reduction required to maintain competitiveness in the future, a key elements agreement was concluded with the German posts and telecommunications trade union in October 1999. Apart from a set of measures permitting more efficient personnel planning and more flexible personnel deployment, the agreement contains an undertaking that there will be no dismissals due to rationalization during the period up to 2004. The necessary staff restructuring will therefore be based – as it has been up to now – on consensus between management and employee representatives.

**New jobs with group subsidiaries.** During the last financial year, Deutsche Telekom pushed forward the organizational reorientation of the Group into self-sustaining subsidiaries aligned to specific market segments. At the beginning of the year, IT Service with more than 1,700 members of staff was integrated into DeTeCSM, which is responsible for the expansion and operation of the IT infrastructure and IT applications. In July, the research and development and software development units with approximately 4,300 employees were merged with the newly established subsidiary T-Nova to form an innovation pool. Also in July, DeTeCard Service commenced business operations in Nuremberg with a staff of more than 300. 3,500 employees moved to the new subsidiary Kabel Deutschland GmbH when the cable business was spun off.

A total of about 1,800 new, secure jobs were created in the call centers and back offices of our subsidiaries T-Mobil and T-Online; this was a result of the rapid increase in customers in the growth markets mobile communications and the Internet. Most of these vacancies were filled with staff from other Group companies as part of the personnel redeployment scheme.

**Training for new tasks.** In the year under review, about 116,000 staff took part in a total of 11,000 further training measures, for which a budget of EUR 101.4 million was provided. A large proportion of the training initiatives and further training projects were designed specifically to support staff restructuring. The focus was on ensuring staff employability by offering systematic retraining schemes devised on the basis of business and organizational development needs. In this context, further training became more flexible, with more and more emphasis being placed on modular, media-supported qualifications building concepts; much of the training was decentralized and offered near participants' workplaces. The target of a continuous improvement in customer orientation was supported by the installation of a virtual Customer Care Academy.

**Availability of training positions increased at short notice.** In order to meet our own demand for young, qualified junior staff and to counter training problems in Germany in general, Deutsche Telekom increased at short notice the number of training positions on offer in 1999, supplying a total of 510 additional positions. As a result, 2,510 trainees were hired in the year under review. At the end of 1999, about 7,500 young people were at Deutsche Telekom, preparing for their professional careers.



**July 1, 1999** Deutsche Telekom brings together its group-wide R & D activities in one company – T-Nova. T-Nova works together with MIT to develop a virtual real estate agent, “Cora”, that recognizes not only language but also the gestures of people – just one example of T-Nova’s activities.

**July 19, 1999** Michael Struess, Head of the Bremen regional directorate, presents a check for DM 240,000 to UNICEF Special Ambassador Lionel Richie for aid to Kosovo. The donation is the result of the “We are the World” open air festival of which T-Online was the main sponsor.

**July 25, 1999** Erik Zabel makes cycling history by winning the green jersey of the best sprinter for the fourth time running.

In honor of the cycling team even the “T” is in green!



In addition, management and employee representatives agreed that 1,000 additional training positions would be provided each year in 2000, 2001 and 2002. Deutsche Telekom is thus making a major contribution towards reducing unemployment among young people in the context of the nationwide alliance for jobs, training and competitiveness.

**Good pay for good work.** Further important progress was made in the introduction of a group-wide homogeneous, market-oriented remuneration system oriented towards individual performance. Following the example of our subsidiaries T-Mobil, DeTeCSM and DeTeSystem, modern, performance-oriented remuneration systems were also introduced at DeTeImmobilien and T-Nova in 1999. Uniform group-wide regulations on the terms of employment were defined for persons employed outside the collectively agreed wage scale in a group works agreement taking effect on July 1, 1999.

**Award for best teleworking project.** Following a pilot phase of over two years, in which alternating home/office working was tested as an innovative work form, the collective agreement on telecommuting came into force on January 1, 1999. This laid the foundation for the establishment of teleworking as a regular form of work within the Deutsche Telekom Group. The agreement covers not only alternating home/office working, but also mobile teleworking. 250 alternating home/office jobs and over 1,000 mobile jobs had been implemented by the end of 1999. In October of the year under review, Deutsche Telekom was awarded the prize for the best teleworking project in 1999 by the German Telework Association for this exemplary implementation of telework in a large corporation.

**Future-oriented human resources development.** Human resources development at Deutsche Telekom is in the interest of both the staff and the Company, taking us all further along the road to joint success. The “people-centered process” of human resources development and the measures connected with it – such as annual career reviews with superiors, regular assessments of skill potential (executive level meetings on employee potential) and performance appraisals aim to give personnel a sense of direction, assign them functions that are in line with their abilities, and to mirror their services in a constant, constructive dialog. The “business-oriented process” ensures the direct linkage between human resources development and business activities. Development measures are derived from the strategies of the business units and initiated to ensure that executive staff and employees with the necessary skills can be placed in “key positions” in the Company when they are needed.

**1999 Personnel Report.** In our second Personnel Report published in September 1999, we provided detailed information on the Deutsche Telekom Group’s current strategies and measures in the field of human resources policy.



**Aug. 6, 1999** Deutsche Telekom buys the British mobile telephony company One 2 One, thus continuing its internationalization strategy in the growing mobile telephony sector.

**Aug. 28 – Sept. 5, 1999 IFA 99**  
At IFA 99 in Berlin, the Deutsche Telekom stand is the highlight for multimedia fans. Under the motto, "Team @ Work", Deutsche Telekom's presentation focuses on online activities, the Internet and convergence.

In simulated situations visitors can gain first-hand experience of state-of-the-art technology. The Tegaron traffic routing system, for example, automatically contacts the traffic information center.

Formula 1 World Champion Mika Häkkinen, who advertises T-D1's innovative services, is interviewed at the Deutsche Telekom stand by Wolf-Dieter Poschmann, a sports commentator from Germany's ZDF TV channel.

The 1999 financial year



### Dependent company report.

Due to the majority shareholding, Deutsche Telekom is a dependent company of the Federal Republic of Germany. No controlling agreement or profit-and-loss transfer agreement exists. Pursuant to § 312 of the German Stock Company Law (AktG), the Board of Management of Deutsche Telekom AG has therefore prepared a Dependent Company Report describing relations between the controlling body and affiliated companies. The Board of Management has included the following statement at the end of this report: "The Board of Management hereby states that, under the circumstances known to the Board of Management at the time of performing the business transactions, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of or on the instructions of the controlling company or any affiliated companies."

### Issues concerning the Group.

**Risk management.** Deutsche Telekom's business environment has changed fundamentally in the last few years as a result of technological progress, the liberalization of the national telecommunications market and the increasing convergence of markets and technologies – in a word, growing globalization.

Meeting the resultant challenges calls for the systematic handling not only of opportunities, but also of risks. Against this background, risk management forms a necessary part of our daily business. Quite apart from the legal requirements described in detail in the Law on Control and Transparency in Business (KonTraG), Deutsche Telekom therefore regards risk management primarily as a competitive necessity and a business challenge.

For Deutsche Telekom, risk management (RM) means systematically identifying and assessing relevant risks, as well as selecting and taking appropriate action to deal with risks and make use of opportunities. It covers all areas of risk within the Company.

The aim of risk management is to give sustained support to safeguarding corporate success by a uniform, group-wide risk management system (RMS), to optimize risk costs, and thus to make an important contribution towards value-oriented management. The philosophy is not risk avoidance at any price, but rather the conscious handling of risks. In this way opportunities can be taken with a view to appropriately offsetting the risks involved.

The risk management system covers all the risks – and accordingly also the opportunities – that might affect the Group units' operating results. It is based on existing planning, information and control processes and procedures and consists of the three elements: internal monitoring system, controlling and the early identification of risks.



The system ensures that identified risks are recorded, analyzed and evaluated, and that risk-related information is passed on to the decision-makers according to a systematic procedure. It also covers reactions to the risks that have been identified, analyzed and communicated by the system and thus contributes to the conscious handling of risks and opportunities. Since risks can arise in all areas of the Company, the risk management system covers all Deutsche Telekom's divisions.

The system is based on a risk management process (RMP) which has already been successfully implemented in Deutsche Telekom's existing procedures and systems, like the standards on risk analysis, evaluation and communication.

The principles, procedural instructions, definitions, etc., are documented in a risk management manual which is accessible to all group units.

The business area and function managers are responsible for the risk situation and risk management in their respective fields. They ensure that all risks encountered in the past, and in particular all risks that will be identified in the future, are recorded and either overcome immediately or reported to a specified person if they are not overcome.

Corporate Risk Management (CRM) is the central unit responsible for Group-wide implementation of the risk management system. It supports those responsible for the risk situation and risk management within the individual group units, e. g., by staging regular training courses and workshops. It provides group-wide procedures and tools for opportunity /risk-oriented planning and management systems and for monitoring the Group's overall risk situation, as well as IT tools based on the scenario technique for carrying out risk analyses and assessments. With their assistance the group units check their risk situation regularly every quarter, or more frequently, if necessary. Major risks must be reported to Corporate Risk Management, which analyzes and assesses them from an interdepartmental perspective, checks them for risk accumulation, and condenses them into a portfolio. Corporate Risk Management sends a risk report to the Board of Management on all major risks within the Group and continuously adapts the system to developments in the risk management field and to directives issued by the Board of Management.

Group Auditing is a process-independent unit that regularly checks the operability of the risk management system at appropriate intervals. It therefore has an important role to play in quality assurance. Group Auditing also has essential functions with reference to the Law on Control and Transparency in Business (KonTraG). It monitors the implementation of risk management in the Group and in this context primarily checks the suitability and application of the measures designed to identify and communicate risks. It also checks the effectiveness of, and adherence to, the installed control mechanisms and supervises the monitoring of identified risk fields.

The Controlling unit lays the foundation for the consistent control of the Deutsche Telekom Group's value, performance and assets and is responsible, among other things, for uniform methods and parameters for economic valuation and the corresponding business management systems. Controlling has a vital role to play in the context of risk management: it supplies the group units with business management information in line with their needs. To this end it has a large number of methods and procedures at its disposal, and these contain information relevant to risk. A group-wide, universal system of key figures tailored to Deutsche Telekom's concerns is used to ensure the early identification of unfavorable developments.

**Management of financial risks.** Within our group-wide risk management system, we attach particular importance to the management of risks related to our financial situation. All our treasury activities – in particular the use of derivative financial instruments – are subject to the primary principle of risk minimization.

Derivative financial instruments are used to limit the risks associated with currencies and changes in interest rates. All financial transactions and risks are recorded in a central treasury system. The market values of the derivative instruments are determined daily on the basis of mean market prices. Regular simulations are carried out using market scenarios. Management is informed regularly on the level and market value of all financial transactions. Risk evaluation is carried out according to the recommendations of the Basel Committee on Banking Supervision.

Counterparty risk is limited on the one hand by the fact that Deutsche Telekom only transacts commercial business with counterparties with impeccable credit standing, and on the other hand by a creditworthiness management system within the central treasury system which aggregates and limits the risks encountered per counterparty.



## The 1999 financial year

**Major risks.** We regard the following developments and trends as being significantly relevant to Deutsche Telekom's risk situation:

- regulatory development; any changes in the German telecommunications market caused by regulatory decisions; the effects of these changes on pricing and services;
- the development of new technologies and the related substitution competition for alternative processes in the telecommunications sector;
- the decline in the amount of floor space required for business use as a result of technological progress; the related value development of existing real estate;
- the influence of market and competition developments and specific country risks on our international investments and partnerships.

### Successful preparations for the year 2000.

Deutsche Telekom mastered the transition to the year 2000 without any problems, thanks to our promptly initiated, comprehensive preparations. Our company's customers were able to make their New Year telephone calls in the accustomed quality and without any impairment of telephone traffic. This success was made possible by the enormous efforts which the company had undertaken over the last four years. In the night of December 31 alone, more than 7,600 Deutsche Telekom staff nationwide monitored the technical operability of the telecommunications infrastructure in the Company's approximately 100 situation centers.

Deutsche Telekom was very early in recognizing that the advent of the year 2000 could create major problems in IT and communications systems. As early as 1997, the Board of Management established a central project management team to oversee the Group's year 2000 conversion processes. This central team coordinated and controlled the relevant activities in the Group's various units. The sub-projects basically proceeded along the following lines: inventory, analysis, conversion, test, overall integration test.

Deutsche Telekom completed the conversions and tests, including the overall integration test, successfully and in good time for all critical systems. The interactions between the systems were checked in the context of the overall integration test. The Company worked closely in this area with its suppliers and international partners. Furthermore, contingency plans were drawn up in cooperation with all its year 2000 conversion personnel.

The overall budget for conversion, tests and contingency management connected with the Y2K problem and the leap year in 2000 totals approximately EUR 140 million. We had spent EUR 134 million of this sum by December 31, 1999. Additional expenditure of about EUR 5 million is expected in 2000.

**Introduction of the euro.** The introduction of the euro is an important event for Deutsche Telekom. We have been preparing for this complex task since 1997, when we established a central project team to develop, implement and control all required euro-conversion measures.

As far as the introduction of the euro is concerned, Deutsche Telekom focuses on the individual business requirements and needs of its business partners. The flexible solutions developed for this purpose make use of the entire transition period prescribed by law up to January 1, 2002, in order to enable as many companies as possible problem-free implementation.

On request, customers can have their Deutsche Telekom invoice issued completely in euros from the beginning of 2000. The final total on the invoice will then still be quoted in DM for information purposes. In order to ensure complete euro orientation it will, of course, also be possible to provide cost estimates in euros. We also quote most DM prices in euros for information purposes, to help people become accustomed to the new currency.

The Company's internal and external accounting systems are to be converted to the euro at the beginning of 2001. Deutsche Telekom's financial statements and quarterly reports have been published in euros since the first quarter of 1999.

Deutsche Telekom expects expenditure on euro conversion to total approximately EUR 140 million. The Group's 1999 expenditure on euro conversion amounted to EUR 35 million. Expenditure of approximately EUR 40 million is expected for 2000.

### Key events after December 31, 1999.

In accordance with a decision by the Regulatory Authority (RegTP) of February 21, 2000, Deutsche Telekom is obliged to continue offering factoring and billing services for competitors as before until December 31, 2000 under the terms agreed with the individual competitors. Deutsche Telekom is also obliged to continue offering factoring and billing services for competitors after January 1, 2001, but may negotiate new terms. As of January 1, 2000, Deutsche Telekom is no longer obliged to handle complaint management, reminders and enforced recovery for competitors.

In January 2000, Deutsche Telekom sold its 29.2 percent stake in Global One to France Telecom and generated proceeds totaling 2.8 billion US dollars. In addition, Deutsche Telekom was reimbursed the shareholder loan amounting to 0.2 billion US dollars.



**Aug. 28 – Sept. 5, 1999 IFA 99**

Each day starts off with a "T-Motion Show" with acrobatics and sound and light effects – total action in the stadium. And that goes for the sporting events too, with stars from the worlds of soccer, basketball, cycling and rowing.

Live reports from the stand. Gerd Tenzer, Board Member responsible for Technology Networks, is interviewed by "Länderspiegel".

Berlin's Alexanderplatz turns 30 years old. During IFA 99, it glows in magenta light every evening as a symbol of telecommunications.

**Sept. 9, 1999** At a presentation to American media and investors in New York on "Telekom Day", Deutsche Telekom reports on its performance and its strategy for the future.

Full-page ads with the magenta "T" appear in the "Wall Street Journal" and the "New York Times".



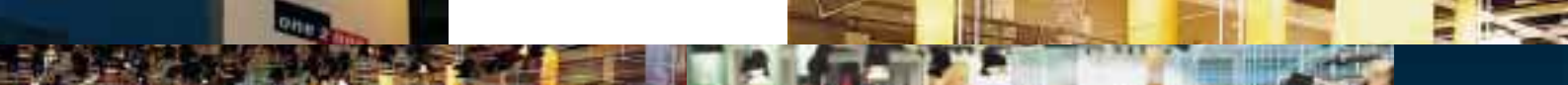
In February 2000, Deutsche Telekom signed the first contract on the partial sale of its cable networks. The new majority shareholder of the North-Rhine/Westphalia regional company is Callahan Associates International LLC, a global communication development and operating company located in Denver, USA and London. The company is to acquire 55 percent of the cable network and 45 percent are to remain with Deutsche Telekom. The second contract on the partial sale of its cable networks was signed by Deutsche Telekom AG in March 2000. Klesch & Company Limited, a European consortium of investors headquartered in London, is to acquire 65 percent of the regional company of Hesse. 35 percent is to remain with Deutsche Telekom. The business hand-over of the stakes, subject to the approval of the relevant authorities, supervisory boards and committees, is to be made on July 1, 2000.

Deutsche Telekom decided in January to go public with its subsidiary T-Online International AG, which was converted into a stock corporation from its predecessor Deutsche Telekom Online Service GmbH. Trading is set to start in mid-April. Approximately 100 million shares in T-Online International AG, to be generated by means of a capital increase, are planned for offering. The shares are to be listed on the Frankfurt Neuer Markt. Deutsche Telekom will continue to hold the clear majority shareholding in the company after the offering.

In February, T-Online International AG agreed close cooperation with Commerzbank AG and its subsidiary comdirect bank AG, Quickborn. This cooperation is to be accompanied by a cross-shareholding. These plans are subject to the approval of the Federal Cartel Office. The intention is for T-Online International – by means of a share swap – to take a stake in the comdirect bank amounting to 25 percent before the share offering. In return, Commerzbank will take a stake in the same absolute value in T-Online.

Deutsche Telekom is expanding its position on the French market. An online partnership was agreed with the Lagardère group in February 2000, with a share swap between its online subsidiary Club Internet and T-Online International AG.

Deutsche Telekom AG and DaimlerChrysler AG are entering into a strategic partnership in the information technology sector. Deutsche Telekom will take over 50.1 percent of debis Systemhaus GmbH from DaimlerChrysler. The sale is subject to the approval of the cartel office and the supervisory bodies.



**Sept. 9, 1999** With "Telekom Day", Deutsche Telekom also launches an image campaign in the United States.

**Sept. 18, 1999** The "Telekom Baskets Bonn" start the new season with the aim of winning the 2000 championship.

**Oct. 1, 1999** Dr. Karl-Gerhard Eick becomes Deutsche Telekom's CFO.

**Oct. 18, 1999** Deutsche Telekom presents tailor-made solutions for business customers at Systems 99.



The 1999 financial year

**Outlook.**

**Our expectations for the telecommunications market.** We are expecting a further modest level of economic growth in Germany in the year 2000 compared with 1999. According to current forecasts, GDP is expected to be slightly higher in 2000 than in 1999. Currently, inflation does not appear to pose any danger. The IMF forecasts an increase in growth of the world economy by 0.5 percent in 2000 to 3.5 percent. This being so, the development of the world economy would be better in the year 2000 than the average for the past ten years.

On the domestic telecommunications market, we expect a period of consolidation in 2000 after price-driven competition in the years of 1998 and 1999. Despite price reductions – especially as a consequence of cuts in interconnection rates in early 2000 – combined with strong growth in volume, we expect slower value growth in the domestic telecommunications market in which Deutsche Telekom operates.

**Future investments.** We plan to invest EUR 1.5 billion in the further expansion of the T-Net this year in response to the rapid growth in the number of ISDN lines, Internet communication and the resulting need to increase transmission capacities, the intelligence and the quality of the networks.

The main areas of investment in the expansion of the T-Net will be the access network and Deutsche Telekom's national and international long-distance network. Over EUR 0.4 billion are earmarked for investment in the access network. These funds are to be invested primarily in the development of areas of new construction and installing new lines, made necessary by the high level of demand for ISDN lines. We plan to invest approximately EUR 0.5 billion in the Deutsche Telekom national and international long-distance network in order to realize new service features in the telephone network service, for example, and to increase transmission capacity.

Transmission capacity in the core section of the long-distance network is to be increased initially to 30 Gbit/s, later to 80 Gbit/s. In parallel with the expansion of the national long-distance network, the international backbone network is also to be expanded and additional worldwide submarine cable transmission rights are to be acquired.

As such, we are laying the foundations to be able to carry the rapidly increasing volume of Internet traffic. In order to be able to handle the continuing boom in the volume of Internet traffic, we also have to considerably increase the already high performance of our Internet platform, for example by integrating terabit routers. Total investment in our Internet platform this year is expected to exceed EUR 0.5 billion.





A further significant proportion of this investment is for creating the basis for future innovative services, on the basis of the intelligent network, for example.

In the access network, the development of broadband accesses based on T-DSL technology, which allows high transmission rates via the copper wire pair, will also be a large-scale undertaking in the medium term. We plan to implement T-DSL technology in 220 local networks this year, covering half of all the households in Germany. In the medium term, approximately 3,400 local networks are to be equipped with T-DSL.

In the mobile communications sector, approximately EUR 0.8 billion are to be invested in the T-D1 network. In response to the growing volume of traffic the number of base stations will be increased from 25,000 to 37,000.

Deutsche Telekom is also investing in improving quality, increasing network security and optimizing processes with the help of newly implemented IT systems.

**Revenue trends in the future.** The price and product campaigns launched by Deutsche Telekom in 1999 will be continued in the year 2000 with innovative products and services, as well as further price cuts. In February 2000, Deutsche Telekom once again introduced major price cuts for international calls to over 50 countries and from the fixed network to the T-D1 network. These were followed on March 1 by reductions in prices for regional and long-distance calls and an extension of the off-peak period.

The aim of these measures is to continue the stabilization of Deutsche Telekom's market share of the domestic market. We expect to be able to cushion the resulting fall in revenue with higher subscriber line revenue, particularly for T-ISDN and T-DSL, as well as a broad range of combinable products and services. As the market has now entered a consolidation phase, after the initial, price-driven phase of competition, we expect that Deutsche Telekom's strengths, such as innovative offers, systems solutions expertise, quality and service, are set to become increasingly important. Furthermore, in response to the continued rapid pace of technological change resulting in product developments, Deutsche Telekom is focusing on four strategic pillars: mobile communications, online, data/IP, including systems solutions, and network access. In view of the worldwide process of concentration, Deutsche Telekom will push ahead with the development of these four areas and grow considerably in size.

Revenue growth is to be increased further in order to compensate for the decrease in revenue from network access. As in 1999, the growth areas of mobile communications and online will be particularly important in this respect. We expect that the enormous growth in these markets will continue in the year 2000 and that Deutsche Telekom will consistently take advantage of this growth. In view of the development of convergence products, which is becoming more and more the focus of attention, Deutsche Telekom is in an ideal position to combine fixed-network telephony with mobile communications and online services.

We also expect above-average revenue from data communications and systems solutions business, areas of strong growth in 1999. We are thus continuing Deutsche Telekom's development towards becoming a leading telematics service provider and a partner for industry and public authorities for outsourcing the entire spectrum of IT services.

The separation of Deutsche Telekom AG's cable business in 1999 laid the foundations for its planned sale. Deutsche Telekom AG has already signed the first contracts for the partial sale of the regional companies North-Rhine/Westphalia (NRW) and Hesse. The business hand-over is to take place on July 1, 2000, so that the companies can no longer be fully consolidated in Deutsche Telekom's financial statements. Deutsche Telekom is moving ahead with plans to sell interests in additional regional companies in 2000 and 2001.



## The 1999 financial year

Deutsche Telekom's international activities in 1999 were clearly oriented towards the four strategic pillars, and primarily through the acquisitions of One 2 One in Great Britain and SIRIS in France, plus the shareholding in Hrvatske Telekomunikacije d. d. in Croatia and the majority shareholding of max.mobil. in Austria. The internationalization strategy is being continued in the year 2000 with a shareholding in Club Internet, for example, the second-largest French Internet service provider. Having sold Global One to France Telecom, Deutsche Telekom has been able to overcome the legal obstacles to its further expansion. We have ensured that Deutsche Telekom's customers will continue to be able to call upon a full range of international services and support.

Overall, if developments are as expected, revenue in the year 2000 will be higher than in 1999, despite the partial loss of revenue from cable activities. Price-driven reductions in revenue in the domestic market are to be compensated by increases in revenue from the areas of mobile communications, online and data/ IP, including systems solutions, as well as by further international expansion.

**Future results.** In view of the expected revenue trends, Deutsche Telekom will focus on cost developments in 2000 in order to ensure a satisfactory level of profitability.

The most notable feature of the cost of goods and services purchased in the year 2000 will be the increase in other services purchased. These will mainly result from expansion in national and international mobile telephony business. Due to falling accounting rates, international network access charges are declining, although this is largely offset by an increase in domestic network access charges. At the same time, as Deutsche Telekom develops from a provider of pure transport services to a telematics services provider, goods and services purchased, for example from software companies and IT providers, will also show a considerable increase. Our objective is to keep the growth in the cost of goods and services purchased below the rate of revenue growth, for example through optimization of purchasing and an increase in the number of our own implementations.

In the year 2000, it will not be possible for Deutsche Telekom AG to continue to reduce staff to the same extent as during the past few years due to acquisitions and a strong build-up of staff in sales and other customer interfaces. However, the conversion of the system for contributions to the special civil servant pension fund is scheduled to take place in 2000 and should enable the Group to maintain personnel costs at the 1999 level.

Depreciation and amortization in 2000 is expected to increase due to the investments which were made in 1999 and the related amortization of goodwill. The lower level of capital expenditure in outside plant in 1999 compared with 1998, and the adjustments to the useful service life will counteract this trend, but will not be able to offset it fully. However, this is likely to be offset in 2000 by a distinctly higher overall investment volume, which will include planned investments in expansion of the international networks and the purchase of UMTS licenses in several countries. Goodwill accounting for the investments made to date and those planned in future shareholdings will also cause depreciation and amortization to increase in the coming years.

In 2000, other operating expenses will be notably higher than in 2000 as a result of increased advertising costs and commission on sales. This is largely the result of expansion in the existing mobile telephony segment and the shareholdings acquired in this area.

Net income (loss) related to subsidiaries, associated and related companies experienced a basic change in 1999 due to realignment of the investment portfolio. In 2000, the absence of losses from Global One will have an extremely positive effect. In addition, if matters progress as anticipated, the share of income resulting from sale of the regional cable companies will also support this trend.

Viewed as a whole, the decline in margins in network communications and initial losses and amortization of goodwill resulting from new international shareholdings will probably not be fully offset by the setup and expansion of the other business areas in 2000. Alongside earnings from the sale of Global One, portfolio realignment has produced revenue potential for 2000 and subsequent years, for example the sale of the 10-percent shareholding in Sprint, dissolution of the 2-percent cross-shareholding with France Telecom and the sale of further regional cable companies and real estate. Planning foresees investing the proceeds from the sale of Global One in internationalization at Deutsche Telekom. In this context, the holding in Sprint which was acquired in 1996 will be optimally realized and internationalization will be driven forward.

We expect to participate in the further growth of the domestic and international telecommunications markets despite the intense competition and we aim to pass this on to our shareholders as part of our company's success.



**Oct. 24, 1999** At the "Super Hits" benefit gala staged by the German TV channel ZDF, Dr. Heinz Klinkhammer presents Dieter-Thomas Heck with a check worth DM 150,000 for German Agro Action.

**Nov. 16, 1999** Deutsche Telekom starts building the "T Digits" for the EXPO 2000 grounds in Hanover. EXPO 2000 Managing Director Sepp Heckmann and Deutsche Telekom Communications Manager Jürgen Kindervater turn the first sod.

**Nov. 17, 1999** Deutsche Telekom takes over 100 percent of the French telecom company SIRIS S.A.S. Jules Delahajje from Unisource and Jeffrey A. Hedberg, Board Member responsible for the International Division, sign the contract in Bonn.



**2000 – our stock market year.** On January 25, 2000, our Board of Management announced that the two subsidiaries, T-Online International AG and T-Mobile International AG, would list their stock in the course of the current year. T-Online will be first to go public with the issue scheduled for April 2000. The plan is to issue some 100 million shares in T-Online International AG, which are the result of a capital increase. In the second half of the year, listing of T-Mobile International AG is planned.

The objective of these measures is to promote resolutely the growth of these companies and, at the same time, the growth of the entire Group. The sales of shares will provide the Group with financial resources, enabling it to enhance its position in national and international competition. The separate listing for its subsidiaries will also create an "acquisition currency" which can serve to expand the Group's competitive position. Acquisitions and shareholdings can often only be financed by the swap of shares, particularly in the high-value Internet and mobile telephony segments.

The two companies, which are the main drivers of growth within the Group, will remain closely integrated as operational units within the Group, even following the separate listing.

The Kreditanstalt für Wiederaufbau (KfG) announced that it intends to place the Deutsche Telekom AG shares that it acquired from the federal government in 1997 on the stock exchange for the first time. Following the lock-up agreement made within Deutsche Telekom AG's last public offering, shares will not be sold on the stock market before June 2000.

**Future equity measures.** Deutsche Telekom AG is a player in global competition. In view of the far-reaching concentration processes now taking place in the telecommunications industry, Deutsche Telekom must be able to take rapid, flexible action in its international and regional markets at any time in the interest of its shareholders. This includes the acquisition of companies or shareholdings in order to improve its competitive position. The latest developments in international business show that ever larger units are affected by company mergers and the acquisitions of companies or shareholdings in companies. In return, a very high price has to be paid. It is therefore now becoming increasingly common for the acquiring company to pay this price in shares.

The creation of authorized capital stock in 2000 is intended to give the Company the necessary scope to acquire large enterprises or shareholdings when the opportunity arises without losing time and in return for Deutsche Telekom AG shares. The Board of Management will therefore present a resolution to create new authorized capital stock at the shareholders' meeting 2000.