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Performance.

We're aiming higher.

Management report of the Deutsche Telekom Group and Deutsche Telekom AG for the 2001 financial year.

- Successful completion of the VoiceStream and Powertel acquisitions
- Net revenue increases by 18 percent to EUR 48.3 billion
- Net cash provided by operating activities increases by 19 percent to EUR 11.9 billion
- T-DSL becomes a mass market product with 2.2 million lines sold
- T-D1 market leader in Germany
- T-Online exceeds the 10-million customer mark

A combined management report has been produced for the Deutsche Telekom Group and Deutsche Telekom AG.

The 2001 financial year was characterized by strong growth rates: Net revenue increased to around EUR 48.3 billion compared with the previous year (EUR 40.9 billion), with the proportion of international revenue rising to over 27 percent. In terms of customer development, Deutsche Telekom further expanded its position as one of the world's leading mobile communications operators with a total of 48.9 million subscribers in mobile telephony. The online segment recorded an increase in subscriber numbers of over 35 percent compared to the previous year. The Group's results are negative mainly due to the increased amortization (especially of goodwill and UMTS licenses) and interest expenses (especially from the financing of UMTS licenses). This largely results from the Group's internationalization efforts and the acquisition of new business segments.

Key figures for Deutsche Telekom (Group)					
(billions of €)	2001	2000	1999	1998	1997
Net revenue	48.3	40.9	35.5	35.1	34.5
of which: revenue from					
international activities	13.2	7.8	4.1	2.4	2.3
Net income/(loss)	(3.5)	5.9	1.3	2.2	1.7
Investments	37.7	43.1	22.9	7.5	7.9
Net cash provided					
by operating activities	11.9	10.0	9.6	13.5	11.6
Cash generated from operations	16.3	12.9	12.2	16.4	15.0
Number of employees					
at year-end	257,058	227,015	195,788	195,876	209,295

Subscriber and customer figures				
(millions)	Dec. 31, 2001	Dec. 31, 2000	Change	%
Mobile communications				
Majority shareholdings	48.9	31.2	17.7	56
of which: T-Mobile Deutschland ^a	23.1	19.1	4.0	21
of which: One 2 One	10.4	8.3	2.1	25
of which: VoiceStream ^b	7.0	–	–	–
of which: max.mobil.	2.1	2.1	0.0	0
of which: Westel	2.5	1.7	0.8	52
of which: RadioMobil ^b	2.9	–	–	–
Number of subscribers (pro rata)^c	51.2	34.8	16.4	47
Total number of subscribers^d	66.9	42.1	24.8	59
Online business				
T-Online subscribers ^e	10.7	7.9	2.8	35
Telephone lines^f				
Lines including ISDN channels (national)	50.7	49.4	1.3	3
of which: standard analog lines	30.3	32.1	(1.8)	(6)
of which: ISDN channels ^g	20.4	17.3	3.1	18
Subscribers to AktivPlus calling plan	8.4	4.3	4.1	95
T-DSL lines (sold)	2.2	0.6	1.6	249
Lines including ISDN channels (international)	6.2	5.4	0.8	14
Total (national and international)	56.9	54.8	2.1	4
Key figures for T-Systems (services)				
Number of e-business marketplaces	6	2	–	–
Capacity of MIPS processors	79,122	59,992	19,130	32

^a Includes T-C-Tel in 2000 (ceased 2000).

^b Not fully consolidated in 2000.

^c Proportion of subscribers of all associated mobile communications companies pro-rata to shareholding.

^d Subscribers of fully consolidated mobile communications companies and other mobile communications shareholdings.

^e Including T-Online France (Club Internet), Ya.com, T-Online.at and T-Online.ch.

^f Standard lines (analog) including public telephones and ISDN channels in operation.

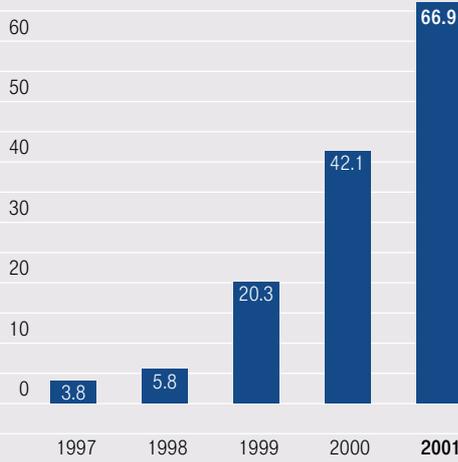
^g Two ISDN channels for each basic-rate access, 30 ISDN channels for each primary-rate access.

The 2001 financial year – an overview.

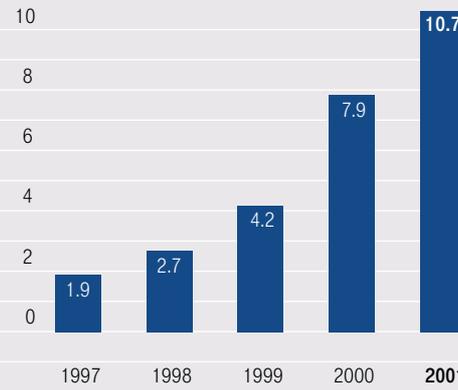
- International presence and market leadership in the mobile communications sector
- Strong subscriber growth and new content at T-Online
- Market success of T-DSL
- Consistent implementation of the new company structure

Acquisition of VoiceStream/ Powertel	Developing international presence and market leadership in the mobile communications sector. The acquisitions of the US mobile telephone companies VoiceStream and Powertel were completed in June 2001, thereby creating the first-ever transatlantic GSM mobile communications provider. In April 2001, we acquired the majority shareholding in RadioMobil, the second largest mobile communications operator in the Czech Republic. In the second quarter of 2001, our subsidiary T-Mobile won back market leadership in the German mobile telecommunications industry, achieving a market share of more than 41 percent by the end of the year. In order to establish the T-Mobile name as a global brand for mobile communications, a brand migration process of the majority shareholdings operating in the mobile communications sector was initiated in 2001.
T-Mobile	
T-Online	Strong subscriber growth and new content. By the end of the year, the number of T-Online customers had risen to around 10.7 million, a subscriber growth of more than 35 percent compared to the previous year. T-Online thus expanded its position as one of Europe's largest Internet service providers in terms of subscriber base and revenue. The expansion of the portal business was continued in 2001 with the presentation of new portals in such areas as news, travel, information and automobiles. The broadband T-Online Vision portal, which was launched in the summer of 2001, has been providing an attractive and high quality range of services along with innovative interactive opportunities since the first quarter of 2002.
Market success of T-DSL	Broadband technology for fast Internet access. With around 2.2 million, the number of T-DSL lines sold more than trebled by the end of 2001 compared to the previous year. Deutsche Telekom was therefore successful in its strategy of further expanding this business area, which has a very promising future. The number of customers using T-ISDN channels increased by 17 percent over the previous year, which was primarily due to bundling the service with T-DSL.
T-ISDN	
T-Systems	Consistent implementation of the new company structure. February 2001 saw the operational launch of T-Systems, Europe's second largest system solutions provider. T-Systems is represented in more than 20 countries and offers classical IT and telecommunications services from a single source to key accounts throughout the world, as well as providing integrated solutions from the IT and telecommunications convergence area. The restructuring of the Group's Board of Management in May 2001 primarily resulted in management responsibility for the four divisions being concentrated into two Board of Management departments: "CS" (for T-Com and T-Systems) and "MO" (for T-Mobile and T-Online). This clearly defines management responsibility for business operations within the Group's Board of Management and ensures cross-divisional cooperation within the Group.
Restructuring of Group Board of Management	

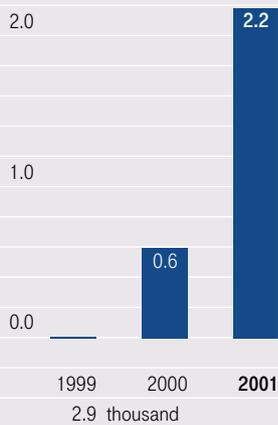
Total subscribers consolidated mobile communications subsidiaries and total subscribers of other mobile communications subsidiaries
(millions)



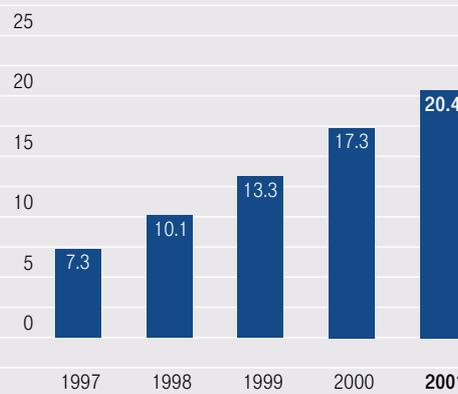
T-Online subscribers
(millions)



Number of T-DSL contracts sold
(millions)



Number of T-ISDN channels in operation
(millions)



The economic environment.

- Sluggish global economic activity
- Growth slowdown in Germany
- Telecommunications market grows by 4.7 percent
- German telecommunications market subject to extensive regulation

Global economy

Restrained global growth. The global economy continued to grow slightly in 2001, the formerly robust growth coming to a virtual halt in the course of the year. The weakness of the economy was particularly marked in the Asian region due to the fall in demand for IT. Rising oil prices, the livestock epidemics in Europe and the terrorist attacks of September 11, 2001 in the USA also had a negative impact on the economy. The USA is in recession after years of strong growth, while the economies of Central and Eastern Europe are showing more positive development in comparison and China is even reporting robust growth.

GDP

According to OECD information, the USA's gross domestic product (GDP)* grew by a mere 1.1 percent in 2001. With a growth in GDP of 1.6 percent, the economies of the EU member states experienced stronger growth than the USA – albeit much weaker than in the previous year. Both regions suffered from major economic slumps.

Economic slowdown in Germany. Parallel to global development, economic activity has also come to a virtual standstill in Germany. Following 3.0 percent growth in 2000, GDP increased by a mere 0.6 percent in 2001, one of the weakest growth rates since German unification. Investment activity slumped due to a crisis in investor confidence, triggering a recessive trend in Germany.

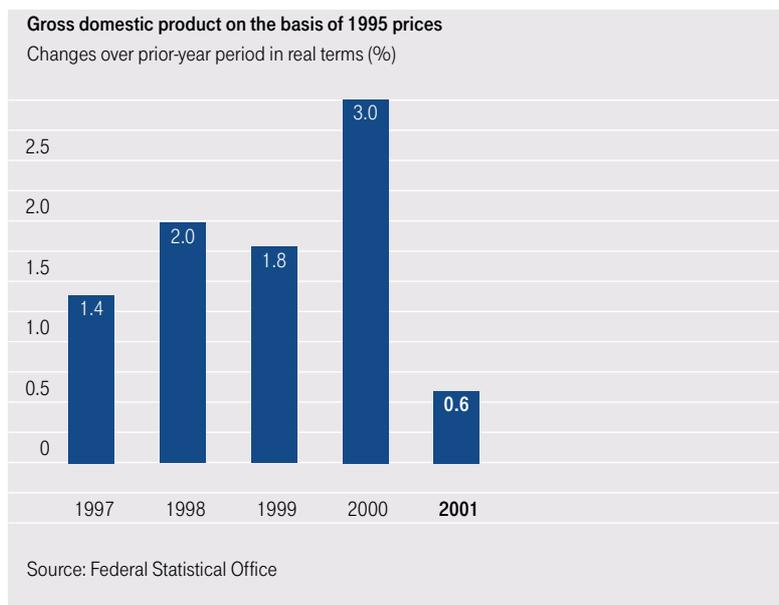
Purchasing power

The economic downturn was accompanied by increases in net wages and salaries. Disposable income – i.e., private households' purchasing power – increased by 3.6 percent (compared with 2.8 percent in 2000). At the same time, private consumer spending increased by 3.2 percent in 2001, i.e. at a lower level than disposable income. Consequently, the savings-income ratio of private households increased for the first time in 10 years.

Inflation

In January 2002, consumer prices rose by 2.1 percent compared with the level in January 2001. This was attributable to the seasonal upsurge in food prices and the tax increases at the beginning of the year. Without these factors, inflation in January would have continued to drop, at 1.6 percent. In contrast, telecommunications charges declined by 5.8 percent, mainly due to intense competition in mobile communications. In January 2002, using a mobile telephone was 9.0 percent cheaper than one year ago.

* GDP is an important indicator of the economic situation, since it represents the value of products and services produced within the country.



Telecommunications market grows by 4.7 percent. According to information from the European Information Technology Observatory ("EITO 2002"), the German telecommunications market - Deutsche Telekom's core market - grew by around 4.7 percent to around EUR 64.7 billion. The size of the market in the previous year was adjusted to EUR 61.8 billion in 2001. Deutsche Telekom's domestic revenue rose to EUR 35.1 billion in 2001, an increase of 5.8 percent compared to 2000. With an imputed market share of 54.3 percent in 2001, Deutsche Telekom's share of the relevant domestic telecommunications market increased slightly compared to the level of 53.7 percent recorded in 2000. This is largely attributable to robust growth in the mobile communications and online segments.

Market share

In the fourth year since the liberalization of the German telecommunications markets, competition continues to increase. Despite the consolidation apparent in the German telecommunications markets during the second half of 2001, the growth in subscriber bases and traffic volumes and the increasing number of companies and employees in this sector all underscore the vital role of the German telecommunications market, both in Europe and worldwide.

4th year of
liberalization

By the end of 2001, a total of 431 licenses for voice communications had been awarded to operators with their own networks. At the end of 2001, these included 240 companies that provide voice telephony services and just over 90 providers with their own long-distance or subscriber-line networks, while the rest operate as resellers. The number of telecommunications services providers has now risen to a total of more than 2,000 companies.

Licenses

Mobile telephony
segment

Declining subscriber growth in the mobile communications sector. According to information provided by the German Regulatory Authority for Telecommunications and Posts (Regulatory Authority), the increase in domestic subscriber figures in 2001 was less marked than in previous years. The increase in 2001 amounted to about 8 million subscribers with a total of 56.3 million using the four German mobile communications networks D1, D2, E1 and E2 at the end of the year. T-Mobile Deutschland GmbH closed the 2001 financial year as the market leader, with a market share of more than 41 percent in terms of customer figures. We are steadily nearing market saturation in mobile telecommunications in Germany, with a penetration rate of 68.6 percent (58.8 percent in the previous year). The stagnating subscriber growth can be attributed to the reduction in the subsidies for handsets in the prepay area among other reasons. In comparison with other Western European countries, however, Germany was top of the list in 2001 in terms of subscriber growth, followed by Italy, the UK and France. Germany's penetration rate is now coming into line with that of leading western European countries in this area, such as Italy.

Internet and online
services segment

WWW's continuing popularity. According to information provided by the Regulatory Authority, almost half of the over-14 age group in Germany use the Internet (47 percent or 30 million people). Besides Internet use at home, other areas from which the Internet is accessed include the workplace and schools. Of those people accessing the Internet for purely private use from their own homes, 31 percent used the World Wide Web. Five percent of households already use a broadband Internet connection such as T-DSL to enable faster access to the Internet.

IT/TC convergence
market

Convergence of information and telecommunications services. Globalization and convergence are currently changing the information technology markets. These developments are being driven by the increasing number of global alliances, partnerships and company mergers and the growing integration of economic regions. The fundamental restructuring of traditional business processes into networked value-added structures is leading to increasing convergence of information technology (IT) and telecommunications (TC) activities. The key to the success of T-Systems is therefore the fact that it has positioned itself in the IT/TC convergence and e-business markets. The convergence business has the potential to become one of the major growth engines in the IT/TC markets, with exceptional rates of growth.

Established competition in the German telecommunications market. Competition in Germany has continued to increase in the fourth year since the liberalization of the telecommunications markets. In February 2001, at a request submitted by Deutsche Telekom, the market for telephone calls from Germany to Turkey became the first end-user market to be exempted from regulation by the Regulatory Authority. The Regulatory Authority addressed the ongoing discussion on the deregulation of further market segments in its April 2001 policy paper on the subjects of market demarcation and dominance. In August 2001, during continuing discussions on this paper, the Regulatory Authority also raised the possibility of exempting Deutsche Telekom from regulation in the long-distance voice telephony market.

The European Union (EU) has developed a new legal framework for operating in the communications markets. It is anticipated that the new directives will be formally adopted at the beginning of 2002 and incorporated into national law in the member states by May 2003. In the future, the new EU regulatory framework will be applied to all communications markets, with regulatory intervention being limited to the extent required to maintain effective competition. The new regulatory framework also grants powers to the EU Commission in respect to national regulatory procedures including, in particular, the right to make the final decision with respect to the determination of market dominance.

New EU directives

Deutsche Telekom's major rate decisions and the core services offered to competitors and end users are still subject to approval. The Regulatory Authority and various other government bodies continued to take numerous important regulatory decisions in 2001. In chronological order, these are, in particular:

The regulator's
decisions

- The cessation and temporary re-introduction of the formal procedure for reviewing the charges for T-DSL, Deutsche Telekom's fast Internet service;
- The obligation to make local network capacity available to resellers and network operators under the so-called resale offer;
- The decision to introduce so-called element-based charging for calculating interconnection rates;
- The obligation to obtain approval for charges for a part of the business customer range of services for closed user groups (Telekom Virtual Private Network), which has been on the market since 1995;
- The establishment of a new price cap model to regulate all standard rates for lines and call services for end users.

Deutsche Telekom and/or its competitors have lodged appeals against several of these rulings. In December 2001, the Monopoly Commission presented its special report, published every two years, on the status of competition in the telecommunications markets (in accordance with § 81 (3) of the German Telecommunications Act (Telekommunikationsgesetz – TKG). Despite established competition, the Monopoly Commission used the market consolidation apparent in the German telecommunications markets since the second half of 2001 as an opportunity to again make no proposals for reducing the high degree of regulation. At the upstream services level, workable competition in the areas of traffic terminating in foreign networks and leased lines in the long-distance sector has been established by the Monopoly Commission.

Development of business in 2001.

- Revenue increases to EUR 48.3 billion
- Proportion of international revenue rises to 27 percent
- Consolidated balance sheet structure affected by acquisitions
- Net cash provided by operating activities increases by 19 percent to EUR 11.9 billion

Net revenue

Strong increase in revenue. During the 2001 financial year, Deutsche Telekom generated net revenue totaling EUR 48.3 billion. This represents an increase of 18 percent compared with the previous year. The level of revenue from international business in relation to net revenue in the Group rose from about 19 percent to over 27 percent. VoiceStream/Powertel contributed to this increase, at EUR 2.8 billion.

Net revenue by division¹

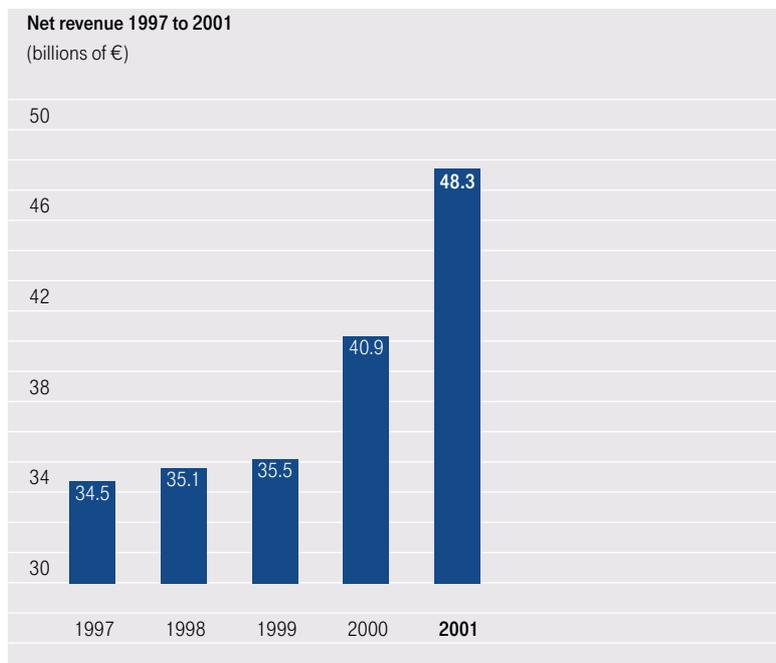
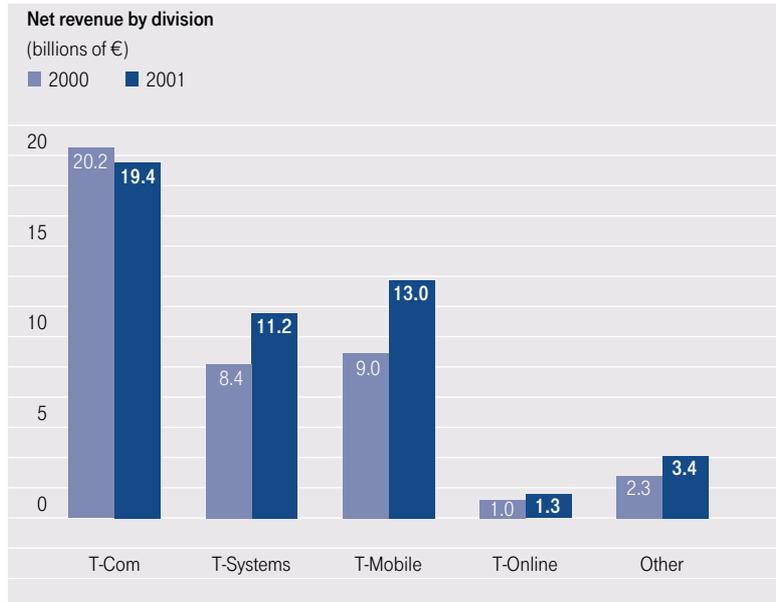
(billions of €)

	2001	2000	Change ²	1999
T-Com	19.4	20.2	-4.0%	21.6
T-Systems	11.2	8.4	32.5%	6.0
T-Mobile	13.0	9.0	44.5%	5.2
T-Online	1.3	1.0	28.9%	0.8
Other ³	3.4	2.3	49.5%	1.9
Total	48.3	40.9	18.0%	35.5

¹ In the 2001 financial year Deutsche Telekom reorganized its business activities according to the 4-pillar strategy and has since run its business in four strategic divisions. Figures for previous years have been adjusted accordingly.

² Changes in percent based on more precise million figures.

³ "Other" contains not only Group headquarters and central service areas, but also some foreign subsidiaries (in particular MATÁV, Slovenské Telekomunikácie, HT-Hrvatske telekomunikacije).



The increase in net revenue resulted mainly from growth in the T-Mobile and T-Systems divisions. T-Mobile's net revenue rose by EUR 4.0 billion in the year under review, driven by the continuous increase in mobile subscriber numbers and the consolidation of VoiceStream/Powertel and RadioMobil. As for T-Systems, the major contributors to revenue growth were the first full-year consolidation of T-Systems ITS (formerly: debis Systemhaus) and the positive development of the business conducted with national carriers. T-Online also recorded a strong increase in revenue largely as a result of continuing growth of its subscriber base, increased usage across all tariffs and extensive expansion of its portal business. In the T-Com division, the sale of the North-Rhine Westphalia, Hesse and Baden Württemberg cable companies, the fact that mobile calling is replacing fixed-network calling (especially in the "City" zone) and competitive influences contributed to a fall in revenue. The revenue growth in the segment "Other" is primarily attributable to

Increase in
net revenue

increased revenues at MATÁV (particularly in the mobile communications segment), the effects of consolidating Slovenské Telekomunikácie and the Macedonian Maktel for the first full year and the full consolidation of HT-Hrvatske telekomunikacije in the fourth quarter of 2001.

Result after taxes amounts to EUR -3.5 billion. Deutsche Telekom reports a net loss of EUR 3.5 billion for the 2001 financial year, compared with a previous year net profit of EUR 5.9 billion. These changes are attributable to the increase of EUR 2.2 billion on the previous year in amortization (especially of goodwill and UMTS licenses) and net financial expenses of EUR 5.3 billion, which in 2000 (EUR 1.2 billion) had been boosted by the sale of WIND shares (EUR 2.3 billion). Furthermore, the previous year's result was influenced significantly by several one-time contributions to revenue (in particular, the tax-free sale of shareholdings in Global One, proceeds recognized as income from the flotation of T-Online International and other associated companies, and the sale of shares in the North-Rhine Westphalia and Hesse cable companies). In the period under review, positive contributions came mostly from the sale of shares in Sprint and the Baden Württemberg cable company (including other additional regional cable companies) and could not match the comparably high figures of last year's contributions. The consolidation of the newly acquired VoiceStream/Powertel companies had the effect of reducing earnings by EUR 2.8 billion (including EUR 0.9 billion for amortization of goodwill).

Goods and services purchased

Goods and services purchased increased by EUR 1.5 billion to EUR 13.5 billion compared to the previous year, which is primarily attributable to changes in the composition of the Deutsche Telekom Group. It was partially offset by the lower level of terminal equipment purchased in Germany and the drop in the network access charges in the international carrier sector. The number of employees increased by

Personnel costs

36,628 (averaged over the year) compared to the previous year. Deutsche Telekom thus employed an average of 241,660 people in the 2001 financial year. This increase was largely the result of the changes in the composition of the Deutsche Telekom Group that occurred during the period under review (in particular VoiceStream/Powertel) along with the first full-year consolidation of the previous year's acquisitions (primarily T-Systems ITS, formerly: debis Systemhaus and Slovenské Telekomunikácie). These changes, together with collectively agreed wage and salary adjustments (adoption of a performance-promoting and market-based pay structure) largely contributed to the increase in personnel costs by EUR 2.4 billion.

Real estate revaluation completed. Work to review the value of land belonging to Deutsche Telekom AG was completed during the 2001 financial year. The new valuation approach was the result of the new disposal-oriented real estate strategy adopted at the end of 2000. Along with almost 500 Deutsche Telekom staff, external accounting and real estate experts reviewed more than 11,000 plots of land comprising around 30,000 lots and subjected these to a critical value assessment. The assessment led to a replacement value for the whole portfolio of around EUR 5.5 billion, which necessitated a write-down for the 2001 financial year of EUR 0.5 billion compared to the net carrying amounts. This is on top of valuation adjustment totaling approximately EUR 2.0 billion implemented in previous years. The new net carrying amount of the real estate portfolio, totaling around EUR 4.1 billion, does not reflect hidden reserves, i.e., the upward valuation of a considerable number of real estate items – as established in the revaluation process – compared to the balance sheet carrying amount. At the end of the revaluation project, these hidden reserves (i.e., individual cases where today's replacement value exceeds the net carrying amount) total approximately EUR 1.4 billion. These may, however, not be recognized for balance sheet purposes in accordance with German GAAP.

Real estate

Compared to 2000, overall depreciation and amortization increased by EUR 2.2 billion to a total of EUR 15.2 billion, with depreciation of intangible assets increasing by EUR 3.5 billion to a total of EUR 5.7 billion during the year under review. This increase is on the one hand attributable to amortization of licenses, mainly due to the amortization of mobile communications licenses held by VoiceStream/Powertel (EUR 0.7 billion) and by the first full-year amortization of UMTS licenses. On the other hand, amortization of goodwill increased by EUR 2.4 billion to a total of EUR 3.7 billion. This includes the amortization of VoiceStream/Powertel goodwill (EUR 0.9 billion), as well as approximately EUR 1.0 billion in respect of the nonscheduled write-downs on goodwill of DT Mobile Holdings Ltd./One 2 One and max.mobil. following the decision taken in 2001 to initiate a brand migration strategy in the mobile telephony subsidiaries. Depreciation of property, plant and equipment declined overall in the year under review (2001: EUR 9.5 billion; 2000: EUR 10.8 billion), which in 2000 included the nonscheduled write-down on real estate in the form of a valuation adjustment (EUR 2.0 billion). Conclusion of the real estate revaluation resulted in a write-down of EUR 0.5 billion for 2001. Depreciation of property, plant and equipment increased largely due to the expansion of the Deutsche Telekom Group during the period under review, as well as to the depreciation from companies in their first full year of consolidation.

Depreciation and
amortization

Other operating expenses increased by around 17 percent, largely as a result of higher costs for advertising gifts/commissions and increased rental and leasing expenses due to changes in the Group's composition (particularly VoiceStream/Powertel). This increase was also brought about by greater losses on accounts receivable and provisions for doubtful accounts (primarily bad debt losses in respect of carriers) together with higher costs for maintenance and repairs. This was offset mainly by lower levels of loss from the disposition of noncurrent assets, the major contributors last year being the costs for scrapping outside plant equipment and the sale of Eurobell (Holdings) Plc.

Other operating
expenses

Financial income (expense), net	<p>Net financial expense in 2001 was EUR 5.3 billion, compared with EUR 1.2 billion in the previous year. A major cause of this increase in expenses is the significant reduction in the income related to the associated company DT-FT Italian Holding, which included proceeds from the sale of the WIND shares (EUR 2.3 billion) in the previous year. Another reason is the increase in net interest expense due to the increase in financial liabilities in 2001 and the financing of the UMTS licenses. On the other hand, the interest income from debt securities and long-term loans declined following the sale of special security funds in 2000. Furthermore, increased write-downs on financial assets (including write-downs on the net carrying amounts of shareholdings in France Telecom of EUR 0.3 billion) also contributed to the negative financial results.</p>
T-Com	<p>Income shifts among the segments. Before tax, income of the T-Com segment totaled EUR 3.2 billion, a EUR 1.2 billion decrease compared to the previous year. This is largely the result of the one-time proceeds from the sale of the North-Rhine Westphalia and Hesse cable companies in the previous year (EUR 3.0 billion) with similar income in the period under review only amounting to EUR 1.0 billion in respect of the sale of the Baden Württemberg cable company and other regional cable services companies. The decrease in depreciation and amortization had a positive effect on the results of this segment in 2001, as depreciation in the previous year had been impacted by a nonscheduled write-down on outside plant equipment (EUR 1.0 billion). The improvement in net interest expense also had a positive effect on the results. In contrast, the deterioration in the income relating to subsidiaries, associated and related companies (particularly due to write-downs on financial assets and declining income from shareholdings), price-related measures and competitive influences had a negative impact on the results of the segment.</p>
T-Systems	<p>The development of results from the T-Systems segment were largely influenced by the proceeds from the previous year's sale of shares in Global One (EUR 2.9 billion) for which there was no corresponding amount in the period under review. Increased depreciation and amortization resulted from the effects of consolidating T-Systems ITS (formerly: debis Systemhaus) for the first full year. This was partially offset by improved net interest expense and increased contributions from operating results.</p>
T-Mobile	<p>The drop in income before taxes at T-Mobile stemmed primarily from the sharp increase in depreciation and amortization, along with a higher level of net interest expense. These influences were particularly associated with the acquisition and consolidation of VoiceStream/Powertel. Furthermore, the first full-year amortization of UMTS licenses and the nonscheduled write-downs on goodwill within the brand migration process had a negative impact on depreciation and amortization. This was partially offset by a marked improvement in earnings before interest, tax, depreciation and amortization (EBITDA), which was largely attributable to the sustained growth in the mobile communications subscriber base.</p>
T-Online	<p>In 2000, income before taxes in the T-Online segment was above all influenced by the proceeds from the T-Online International AG flotation, there being no similar income in 2001. If this special influence is taken out of consideration, the results from this segment are approximately the same as in the previous year.</p>

In 2001, as in 2000, the results in the "Other" segment have been affected by several special influences. For 2001, these include in particular the proceeds from the sale of the Sprint shareholdings and write-downs on financial assets. The special influences in the previous year comprised the proceeds from the sale of the WIND shareholdings, losses from the disposition of noncurrent assets and the increased additions to accruals. At the end of the period under review, income before taxes had risen by EUR 0.4 billion to EUR 1.6 billion. An improved level of income before taxes at MATÁV, the first full year consolidation of Slovenské Telekomunikácie, and the full consolidation of HT-Hrvatske telekomunikacije (from November 2001) also contributed to this result.

Other

Key figures for group segments in 2001 ¹					
(billions of €)					
	Net revenue ²	Income before taxes	Income before taxes	Change	Employees ³
	2001	2001	2000		2001
T-Com	26.1	3.2	4.4	-1.2	117,655
T-Systems	13.8	-0.3	2.5	-2.8	41,528
T-Mobile	14.6	-6.4	-2.4	-4.0	30,124
T-Online	1.4	-0.2	2.6	-2.8	3,008
Other ⁴	8.0	1.6	1.2	0.4	49,345
Reconciliation ⁵	-15.6	-0.4	-2.0	1.6	-
Total	48.3	-2.5	6.3	-8.8	241,660

¹ In the 2001 financial year Deutsche Telekom reorganized its business activities according to the 4-pillar strategy and has since run its business in four strategic divisions. Figures for previous years have been adjusted accordingly.

² Net revenue plus revenue from business with other sectors.

³ Average figures for the year.

⁴ "Other" contains not only Group headquarters and central service areas, but also some foreign subsidiaries (in particular MATÁV, Slovenské Telekomunikácie, HT-Hrvatske telekomunikacije).

⁵ Items to be reconciled mainly relate to consolidation measures and nonscheduled write-downs on real estate (2001: EUR -0.5 billion; 2000: EUR -2.0 billion).

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 shareholders is based on the annual financial statements of Deutsche Telekom AG. For this reason, the annual financial statements of Deutsche Telekom AG are presented in summarized form below.

Deutsche Telekom AG's balance sheet total increased significantly by EUR 15.5 billion to EUR 128.5 billion, largely as a result of the acquisition of the US mobile communications company VoiceStream/Powertel (EUR 2.9 billion) and the increase in receivables from subsidiaries (EUR 8.6 billion). The equity ratio also rose from approximately 33 percent to approximately 35 percent. Deutsche Telekom's net revenue decreased slightly by EUR 0.6 billion, but improved income relating to subsidiaries, associated and related companies from the dividends of T-Mobile International AG, Bonn and DT-FT Italian Holding GmbH, Bonn meant that income before taxes was positive. Following deduction of taxes of EUR 0.7 billion, net income amounts to EUR 6.6 billion.

Balance sheet total
of parent companyResult of Deutsche
Telekom AG

Summary of the financial statements of Deutsche Telekom AG
Statement of income

(billions of €)

	2001	2000
Net revenue	27.3	27.9
Changes in inventories and other own capitalized costs	0.5	0.5
Other operating income	5.4	6.8
Goods and services purchased	-7.2	-7.3
Personnel costs	-6.8	-6.7
Depreciation and amortization	-6.0	-8.6
Other operating costs	-9.6	-9.7
Financial income (expense), net	3.7	-6.0
Income before taxes	7.3	-3.1
Taxes	-0.7	-0.2
Income after taxes	6.6	-3.3

Balance sheet

(billions of €)

	Dec. 31, 2001	Dec 31, 2000
Property, plant and equipment, and intangible assets	38.4	40.5
Financial assets	73.4	63.2
Noncurrent assets	111.8	103.7
Inventories, materials and supplies	0.6	0.5
Receivables and other assets	14.4	8.0
Liquid assets	1.3	0.2
Current assets	16.3	8.7
Deferred taxation	0.0	0.2
Prepaid expenses	0.4	0.4
Total assets	128.5	113.0
Shareholders' equity	46.6	38.9
of which: unappropriated net income	3.4	2.0
Accruals	8.7	7.6
Liabilities	73.1	66.4
Deferred income	0.1	0.1
Total shareholders' equity and liabilities	128.5	113.0

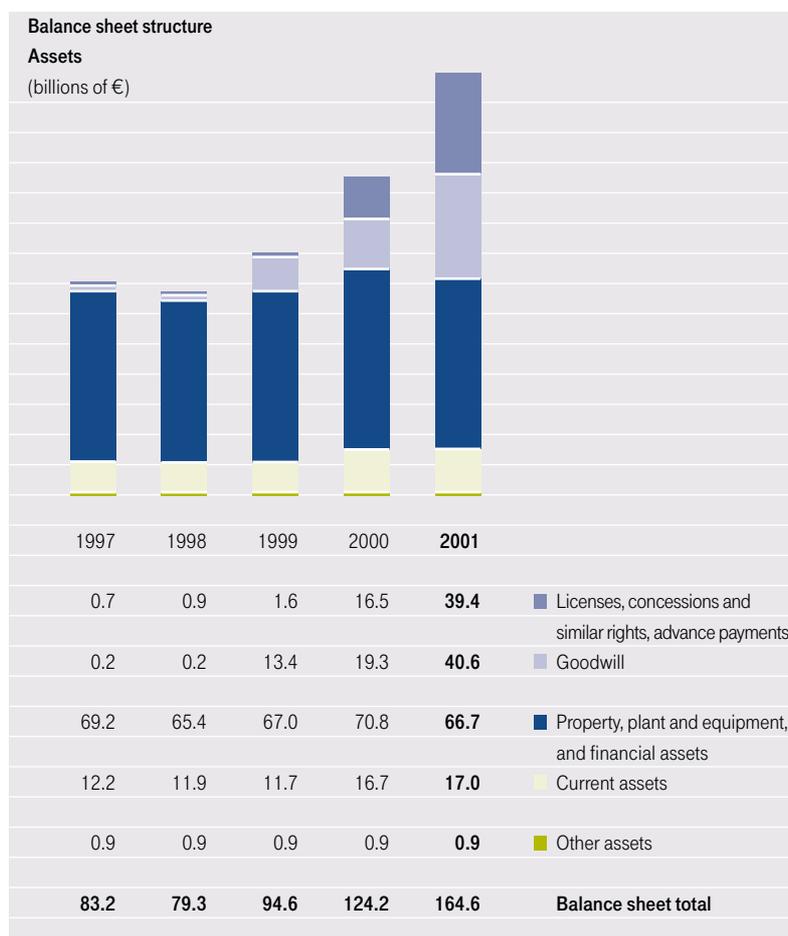
The annual financial statements of Deutsche Telekom AG which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftsprüfungsgesellschaft are published in the Federal Gazette (Bundesanzeiger) 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 1 81-8 80 09.

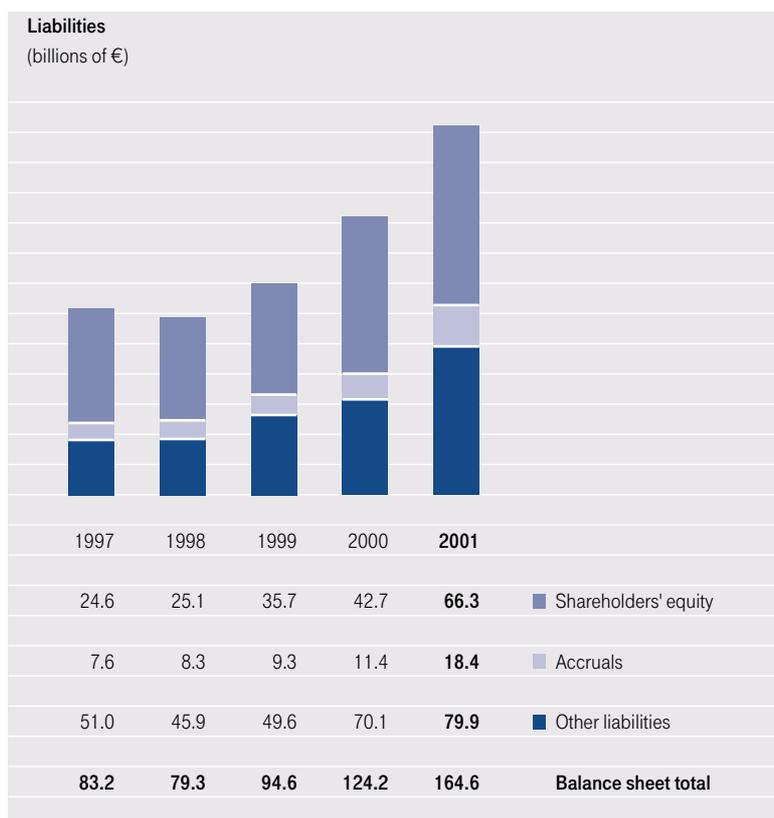
EUR 0.37 dividend per share. The Supervisory Board and Board of Management propose, subject to approval at the shareholders' meeting, to pay a dividend of EUR 0.37 per individual no par value share on the dividend-bearing capital stock. The so-called Halbeinkünfteverfahren, the procedure in Germany whereby the income derived from share-based investment funds is halved for tax purposes pursuant to the German Law on Tax Reductions, is to be applied to Deutsche Telekom AG shares from 2002 onwards. Accordingly, in contrast to previous years, shareholders who are fully subject to domestic taxes are no longer entitled to imputation credits.

Dividend

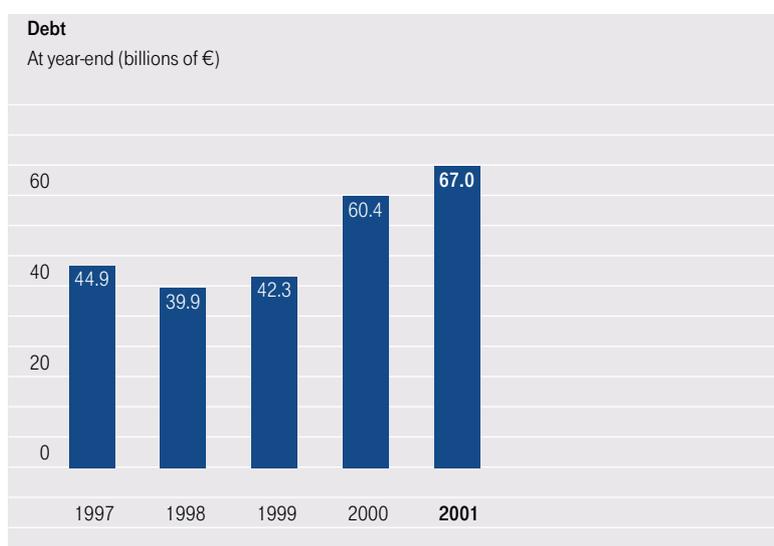
Consolidated balance sheet structure affected by acquisitions and investments.

In Deutsche Telekom's consolidated financial statements, the balance sheet total increased by 32.5 percent, i.e., EUR 40.4 billion, to EUR 164.6 billion in the 2001 financial year. The increase in the Group's assets stems almost exclusively from changes in noncurrent assets (in particular, increases in intangible assets) and the acquisition and full consolidation of VoiceStream/Powertel. This is also the main reason for the increase in equity by EUR 23.6 billion, to a total of EUR 66.3 billion. The equity ratio increased from approximately 33 percent at the prior balance sheet date to approximately 39 percent, excluding proposed dividend payments.

Consolidated
balance sheet totalShareholders'
equity



Debt level at EUR 67.0 billion. During 2001, financial liabilities rose by 11.1 per cent on their position at December 31, 2000. This increase was largely the result of the financing for the acquisition of VoiceStream/Powertel and the first full-year consolidation of this holding during the period under review. The financial liabilities are partially offset on the assets side by liquid funds, noncurrent and marketable securities, and interest rate and cross currency swaps (reported under other assets) amounting to a total of EUR 4.9 billion.



High investments in 2001 due to acquisitions. In 2001, Deutsche Telekom invested EUR 37.7 billion, which is EUR 5.4 billion less than in the previous year. Additions related to goodwill, totaling EUR 24.7 billion, were almost exclusively due to the new consolidation of VoiceStream/Powertel and accounted for the major part of such investments. Increases in investment in property, plant and equipment, amounting to EUR 9.9 billion (2000: EUR 7.6 billion), relate primarily to setting up and expanding the networks of T-Com and T-Mobile. Additions to financial assets in the amount of EUR 1.8 billion were well under the level of the previous year (EUR 12.4 billion), the latter comprising, in particular, the initial EUR 5.6 billion investment in VoiceStream and the book-entry additions to DT-FT Italian Holding in connection with the sale of the shareholdings in WIND.

Goodwill

Investment in
VoiceStream

Substantial rise in net cash provided by operating activities. Cash-flow from operating activities increased in 2001 by EUR 1.9 billion to EUR 11.9 billion. Taking into consideration the increase in net interest payments of EUR 1.5 billion, cash generated from operations rose by EUR 3.4 billion to EUR 16.3 billion. This positive development was achieved mainly by means of normal operating activities, and was supported in the fourth quarter of 2001 by a tax rebate. The increased operating result more than met the increased financing costs, and investments in property, plant and equipment could be covered in full. The difference in the development as compared to the Group's results, which dropped EUR 9.4 billion from the prior year, is principally due to high positive income effects during 2000, which resulted from financing activities (proceeds from the flotation of T-Online) and investment activities (sale of shareholdings in Global One and the North-Rhine Westphalia and Hesse cable companies), or which had not yet had any effect on cash flows (sale of WIND stock). Net cash used for investing activities in 2001 shows a level of EUR 22.3 billion below the previous year's level. This is due primarily to the purchase of the UMTS licenses in the previous year and the cash inflows in 2001 from the sale of the Sprint shareholdings, the disposition of the Baden Württemberg cable company and the sale of receivables (asset backed securities transaction). Net cash used for financing activities totaled EUR 4.8 billion in 2001. Along with the payments of dividends, the major cause of this is the reduction of debt in 2001. During the previous year, net cash provided by financing activities amounted to EUR 17.9 billion, primarily resulting from the wide-ranging long-term finance activities (including financing for acquisition of UMTS licenses) and the inflow of liquid funds from the flotation of T-Online International AG.

Net cash provided
by operating
activitiesNet cash used
for investing
activitiesNet cash used
for financing
activities

Statement of cash flows (summarized)			
(billions of €)			
	2001	2000	1999
Cash generated from operations	16.3	12.9	12.2
Net cash provided by operating activities	11.9	10.0	9.6
Net cash used for investing activities	-5.4	-27.7	-18.7
Net cash provided by/used for financing activities	-4.8	17.8	8.0
Effects of foreign exchange rate changes	-0.0	-0.0	-0.1
Net increase/decrease in cash and cash equivalents	1.7	0.1	-1.2
Cash and cash equivalents (short- and long-term)	2.9	1.9	1.2

Purchasing.

- Reorganization of the global purchasing system
- Successful implementation of online auctions
- Internationalization of purchasing

Purchase volume

The consistent exploitation of potentials for increasing efficiency and reducing costs in the area of Deutsche Telekom's global purchasing is an important factor in improving the competitiveness and increasing the market value of the Company. Total expenditure for goods and services amounted to EUR 20.2 billion in 2001. This is an increase of 35 percent compared to the previous year and is mainly attributable to a higher volume of the Company's purchases along with purchases by the subsidiaries and associated companies newly acquired in 2001. The level of purchasing volume in relation to net revenue in the Group increased from 37 percent to 42 percent. In 2001, the divisions T-Mobile and T-Com accounted for the highest volume of purchases, more than half of the total purchase volume. The total purchase volume also includes GMG Generalmietgesellschaft (formerly: DeTe Immobilien) with expenditure of almost EUR 1 billion in respect of construction work, buildings maintenance and services. Significant savings were achieved through a number of targeted cost reduction measures carried out in conjunction with our suppliers. In doing this, we also supported our suppliers by analyzing cost structures and assisting them in their ongoing optimization measures to improve their competitiveness in the global market.

Integrated purchasing organization

Organizational changes in the purchasing units also became necessary last year after the Company was restructured based on divisions. The objective here was to strategically re-focus the global purchasing organization in order to integrate decentralized purchasing responsibilities, with centralized responsibility for purchasing synergies. This new, "integrated" purchasing organization now uses a global product-group and supplier management approach, in which one division takes global purchasing responsibility for a specific product group. This lead-buyer concept makes it possible to achieve group-wide bundling effects, technical standardization and the optimization of purchasing processes.

eBest

This cross-divisional cooperation is based on group-wide purchasing tools, such as the e-procurement system, eBest, which has already been used by more than 13,000 clients within the Company for more than 100,000 electronic orders. Initial calculations for the profitability of this technology have been exceeded. A further step will be the complete electronic integration of strategic suppliers into the system (from ordering and delivery to invoicing). Along with cost and knowledge management, B2B is therefore a further factor in the ongoing development of the group-wide purchasing strategy and serves to safeguard and improve Deutsche Telekom's global competitiveness.

In line with the 4-pillar strategy, T-Com's purchasing activities have become increasingly international with the aim of creating further synergies. Cross-divisional projects and joint projects of T-Com companies have enabled the Deutsche Telekom Group to make significant savings. The newly created lead-buyer structure means that, in addition to the purchase of network technology and network components, the new division T-Com is also responsible for supplying the entire Group with non-production materials. The continued implementation of the eBest electronic procurement system on a group-wide basis throughout 2001 also resulted in clear bundling advantages in this purchasing sector. Furthermore, more than 20 online auctions for appropriate product groups have led to further improvements in processes and cost reductions. T-Com will continue to expand its international procurement network next year and will step up the use of e-procurement on an international basis.

T-Com

The commercial preparations for the introduction of third generation mobile communications (UMTS) have been carried out in close coordination with the companies within the T-Mobile Group. This can also be seen in the international purchasing structure implemented within T-Mobile International, which supported the T-Mobile Group with regard to the cooperation activities between all its affiliates and joint ventures, and also helped to integrate new acquisitions. The main focus here was on analyzing, identifying and implementing the available potential for synergies in order to create added value for the T-Mobile Group in terms of proceeds and to recognize the potential for cost reduction within the Group. Synergies were achieved, particularly in the areas of purchasing activity coordination regarding the 2nd and 3rd generation mobile communications system-platform harmonization, IT software, SIM cards and value-added services. Increased automation efforts at transport and storage service providers also helped to reduce considerably logistics costs in the year under review.

T-Mobile

The main aims in the creation of T-Systems International were to integrate T-Systems ITS (formerly: debis Systemhaus) and to realize the anticipated synergy benefits resulting from this integration. The purchasing system was also reorganized in line with this restructuring exercise. In addition to the procurement of goods and services for T-Systems International, the purchasing department is also responsible for bundling and satisfying the IT requirements of the entire Group in terms of hardware, software and services. The creation of 12 company-wide teams to deal with the main IT suppliers has already resulted in significant savings.

T-Systems

The procurement process within T-Online has been restructured with a completely international focus. The fact that T-Online International AG belongs to the Deutsche Telekom Group means that it can share in the benefits resulting from the large volumes purchased by Deutsche Telekom from external suppliers and take advantage of the existing agreements between suppliers and the Deutsche Telekom Group.

T-Online

Research and development.

- Innovation network and innovation management
- Innovation strategy – Mega-themes – Processes
- T-Systems – individually tailored, innovative solutions
- T-Venture as an engine of innovation for Deutsche Telekom's divisions

The new strategic focus of the Deutsche Telekom Group has also been consistently implemented in the area of innovation management. Research and Development has been developed into a network of innovation units within the strategic divisions and at Group headquarters. This development was operationally backed by T-Systems, working in conjunction with companies, research institutes and universities. The innovation process was run by the central Innovation Management department at Group headquarters and by the product innovation departments in each of Deutsche Telekom's four divisions. The main components of the innovation process included the following:

Innovation strategy	– The innovation strategy, by means of scenarios, indicates the challenges and opportunities that exist between new technologies and emerging markets and at the same time shows the business potential available for the Deutsche Telekom Group in the period 2005 to 2010. This cross-divisional, long-term approach allows synergy potentials to be identified at an early stage;
Mega-themes	– The Mega-themes, on the basis of the innovation strategy, place more detailed attention on selected areas relevant to the Company's business. The requirements of future services were reviewed and developed into prototypes. Finally, each mega-theme was implemented by means of a pilot project. The main topics included "Global Mobility" (mobile, broadband access to the Internet using hybrid radio communications networks; an internal pilot project in operation since the end of 2001) and "Global Seamless Network" (a seamless, fully optical transportation network with flexible broadband access and automatic network configuration). In addition to the mega-themes, new and interesting technologies (such as "active networks") are tested for their suitability for deployment in so-called "future projects";
Global Mobility	
Global Seamless Networks	
Product lifecycle management	– Product lifecycle management promotes the value-oriented management of the product portfolio, enables new products to be created in an optimum manner in terms of costs and time, and also provides the process chain with consistent product information. The basis for this is an IT-based product management system.
R&D cost	The Company's 7,497 employees working in Research and Development have developed an innovation network that interlinks the Group's innovative strengths. Expenditure in 2001 of around EUR 0.9 billion created the conditions for successful, innovative product development activities within the Company's divisions. For example, in cooperation with partners such as the Heinrich-Hertz Institute, the German Research Network (Deutsches Forschungsnetz), Siemens, Alcatel and others, we demonstrated that data transmission at a rate of 1.28 terabits per second via an installed optical fiber cable can be achieved. This speed permits the content of

200 CDs to be transmitted within one second. This was not only a new record for transmission speed, but also an important milestone in the development of broadband networks for new services.

479 patent applications were submitted in order to protect ideas and project results. The use of a copyright management system as required following the liberalization of the telecommunications markets was therefore continued in a consistent manner. By the end of 2001, the number of industrial rights owned and strategically implemented by Deutsche Telekom amounted to around 4,200.

Patents

T-Systems – individually tailored, innovative solutions. T-Systems developed numerous innovative convergence solutions during 2001. Voice Commerce, for example, enables information and service providers to make their Internet-based products and services also accessible to mobile phone and telephone users. The first application of this kind – “C@ll*Find”, which was developed in conjunction with DeTeMedien and Immobilien-Scout-24 – went online at the beginning of October 2001. With the streaming media application, audio and video content is transmitted in real time from a central computer to a computer at the workplace and may even be viewed throughout the download process. A continuous flow of information (“stream”) is created. Many companies are taking advantage of this kind of service to impart information to their staff.

Convergence
solutions

T-Venture as an engine of innovation. T-Venture (T-Telematik Venture Holding GmbH, Bonn), a fully-owned subsidiary of Deutsche Telekom, invests equity in high-tech companies with innovative products and an above-average level of growth potential in the T.I.M.E.S. markets. Contrary to the general trend in the venture capital market, T-Venture continues to commit itself to innovation and growth by establishing funds in Deutsche Telekom’s strategic divisions. In the period under review, a total of EUR 65 million was invested. The portfolio grew to include 58 direct shareholdings in companies and 9 indirect shareholdings in venture capital funds in North America, Europe, Asia and Israel. In conjunction with the T-Venture branches, these fund partnerships form a global network which affords Deutsche Telekom early access to innovative technologies and business models in the T.I.M.E.S. markets.

Developing
the shareholding
portfolio

In 2001 new funds were established in order to create targeted synergies with the four divisions of Deutsche Telekom. The investment focus of these funds is tailored to the specific business segments of the divisions. Pioneering technologies can thus be integrated into the strategy of the business unit at an early stage. The affiliates in turn benefit from license and cooperation agreements with the Deutsche Telekom divisions and may take advantage of the company’s image and marketing strengths. Initially, two funds were launched with a fund volume of EUR 100 million each: the T-Mobile Venture Fund (TMVF) and the T-Online Venture Fund (TOVF). In 2001, TMVF concluded four direct investments and TOVF completed two.

Synergy effects

Employees.

- Almost a third of all the Group's employees work at our international subsidiaries
- The new job evaluation and pay system marks the end of the line for the public services pay scheme
- A new strategic focus for Human Resources
- As one of the largest vocational training providers in Germany, Deutsche Telekom is a forerunner in IT training

2001 was a year of new departures and a new strategic focus. The Group's conversion to an internationally successful telematics service provider has, in recent years, been accompanied by an intensive restructuring process in terms of human resources, which has advanced considerably since the end of 1995. By the end of 2001, the number of personnel, based on the group structure of 1995, had been reduced by a total of 79,168. These job cuts were realized in a socially acceptable manner, and not on the basis of redundancy as a result of rationalization. In the same period, innovative site management and re-training has enabled 22,746 employees to be transferred from Deutsche Telekom AG to expanding subsidiaries, associated and related companies. In addition, more than 30,980 new staff have since been recruited.

Shaping the change. There have been marked structural changes in the composition of the Group's workforce as a result of the varying market trends in the individual business sectors, the strategic restructuring of the Company into four divisions and its consistent internationalization. This can most clearly be seen in the development of employee figures.

Number of employees

At the end of 1995, the total number of employees throughout the Group amounted to 213,467. Of these, only 6,862 worked for subsidiary and associated companies and Deutsche Telekom AG had by far the greatest proportion of staff, with 206,605 employees. In the meantime, the number of employees throughout the entire Group rose to 257,058 by the end of 2001. This corresponded with a decline in the number of employees at Deutsche Telekom AG to 124,328 and an increase in those at the mainly domestic subsidiaries and associated companies to 40,951. By the end of 2001, international acquisitions (above all VoiceStream Wireless/Powertel, MATÁV, Slovenské Telekomunikácie) and increases in shareholdings (e.g. in the Croatian company HT-Hrvatske telekomunikacije) added a total of 91,779 employees to the Deutsche Telekom Group. Of the 257,058 employees, 78,722 worked abroad. This means that almost one-third of the Group's employees work for our international subsidiaries. Considerable integration tasks have been, and still are, necessary in this respect.

International workforce

Employees in the Group ¹			
	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
Deutsche Telekom Group	257,058	227,015	195,788
T-Com	116,557	117,504	124,742
T-Systems	42,931	40,253	19,316
T-Mobile	38,025	19,186	13,976
T-Online	2,960	3,010	1,236
Other	56,585	47,062	36,518

¹ Number of employees at balance sheet date.

New strategic focus. Deutsche Telekom's Human Resources units were reorganized in terms of strategy and structure in 2001. HR has become a business partner for the Group's strategic divisions, and has now started on a qualitatively new, future-oriented phase of personnel activities. The Deutsche Telekom Group focuses its personnel activities on five strategic areas:

- Managing diversity
- Recruitment, rightsizing & retention
- Total compensation
- Managing skills & competencies
- Quality & eHRM

The aim of Human Resources is to develop differentiated personnel strategies and tools – ones specific to the different business areas – in conjunction with the four divisions. It is also important to enable a variety of international cultures to come together under one roof and to safeguard our global presence in a responsible manner through good corporate citizenship.

We act in line with our philosophy that “skilled and committed employees, who are able to act according to entrepreneurial standards, are our most important success factor”. We are convinced that investments in, for example, professional training, systematic human resource development and targeted recruitment will pay off in the long term. This may be seen in the success of our employees in increasing productivity. Per capita revenue has risen by over 24 percent since the end of 1997, and stood at EUR 199,000 at the end of the 2001 financial year.

Philosophy

Revenue per employee at Deutsche Telekom (Development of productivity)					
	2001	2000	1999	1998	1997
(thousands of €)	199	201	183	173	159

Suggestions for improvement

Clever people are our strength. 5,729 suggestions for improvement were submitted in the 2001 financial year, an increase of more than 30 percent over the previous year. Our employees' wealth of ideas brought us savings of EUR 119 million in 2001 and the number of German, European and international applications for patents was maintained at a high level.

Innovations					
	2001	2000	1999	1998	1997
Number of suggestions for improvement	5,729	4,327	5,798	6,230	5,164
Savings made by suggestions (millions of €)	119	169	345	103	32
Number of patent applications	479	561	454	363	353

New job evaluation and pay system

Shape and share in our success. The successful conclusion of the 2000 collective bargaining round had already created the foundation for all employees to receive performance-related pay and for performance assessments to be introduced. The introduction of the new job evaluation and pay system in mid-2001 for those employed under the collectively agreed wage scale (69,713 employees at Deutsche Telekom AG) sent out a clear signal in respect of a new collective bargaining policy. We have drawn a line under the public sector pay scheme, and our new evaluation and payment systems are more market- and performance-oriented, fairer in terms of pay, and more flexible. Factors such as family status, age or length of service in the Company no longer have any influence on pay. The only factor that counts is the function actually performed. The new system will play an extremely important role in ensuring the loyalty of our staff in the future and recruiting new, qualified and motivated employees. Furthermore, the new job evaluation and pay system is also important for business management purposes due to the transparency afforded in terms of personnel costs.

Total compensation

Our total compensation approach signifies a large step forward into a completely new dimension in terms of remuneration. Remuneration for work performed not only comprises basic pay. We also provide the option of deferred compensation within the scope of the company pension scheme, for example, which facilitates tax-optimized pension contributions from gross earnings. Other attractive remunerative components include individual direct and life insurance schemes or tax- and contribution-optimized pension funds. Stock options have also been introduced as a value-oriented compensation tool to attract and retain experts and top management executives.

Training programs

We develop people and markets. The continuous development in the markets and the dynamic environment within the sector means that our employees must be open to life-long learning. Among other things, Deutsche Telekom AG's existing collective bargaining agreement on in-house education ensures that the necessary conditions are in place with respect to continuing education. Deutsche Telekom's multi-faceted training program affords it flexibility in adapting to the constantly changing business environment. Our aim is not only to train our employees for higher-grade tasks, but also to impart social and cultural skills. In 2001, expenditure for centrally-organized training measures alone amounted to around EUR 100 million, which did not include the associated costs incurred with respect to personnel absences and travel. Around EUR 3.6 million was spent in 2001 solely on training initiatives to support the Group-wide staff restructuring program.

Training means investments in the future ¹		
	2001	2000
Seminars	11,580	9,871
Participants	121,701	102,192
Number of training days	348,892	305,201
Global Teach sessions ²	152,298	124,341

¹ Generally excludes specific initiatives for managerial staff.
² Global Teach is an internal e-learning platform.

Deutsche Telekom is playing a decisive role in developing a nationwide concept for a new continuing education structure for IT careers that will lead to recognized, certified qualifications. The German Federal Institute for Vocational Training (Bundesinstitut für Berufsbildung – BiBB) awarded its 2001 prize for innovation in continuing education to Deutsche Telekom for its initiative “Training for the position of network administrator”.

We seek and develop the best. Specific management development programs have been set up for top managers occupying key positions with entrepreneurial responsibility, as well as for the other management levels. Deutsche Telekom is working with the world’s best business schools in this area.

The future belongs to the young. Deutsche Telekom employed 9,851 trainees and student interns at December 31, 2001. Around 3,450 of these joined the Group in 2001, which means a total of 1,000 new trainees over the previous year. 4,000 training positions will be offered in 2002, enabling the Company to provide qualified training to a total of 11,000 young people. Deutsche Telekom is thus one of the largest providers of vocational training in Germany. Those trainees successfully completing their vocational training will be subsequently offered regular employment by the Group. This demonstrates the Group’s future-oriented personnel policy.

Trainees

In light of the developments in demography and in accordance with the growing technical requirements of the Company, Deutsche Telekom is making particular efforts in the area of IT training to counter the shortage of specialized staff. The proportion of IT trainees in relation to the total number of trainees increased from 12 percent in 1997 to 51 percent in 2001. In 2001, Deutsche Telekom set an example by introducing new regulations under the collective bargaining agreement in respect of co-determination for trainees.

We document our responsibility. Deutsche Telekom publishes an annual Human Resources Report. This report provides information on the key figures relating to the Company’s human resources management and also gives details of the strategies and measures that form part of our personnel policy. We also provide information on our contribution to increasing our Company’s value on a sustainable basis and at the same time demonstrate our responsibility towards our employees and society.

HR Report

Dependent company
report

Dependent company report. In the period under review, the Federal Republic of Germany held a majority shareholding in Deutsche Telekom AG pursuant to § 16 (1) of the German Stock Corporation Act (Aktiengesetz – AktG) until May 31, 2001. Following the capital increase implemented on May 31, 2001 for the purpose of acquiring VoiceStream Wireless Corporation, Bellevue, USA, and Powertel, Inc., Bellevue, USA, the Federal Republic of Germany's overall shareholding in Deutsche Telekom AG was reduced to 43.05 percent. As such, Deutsche Telekom AG is no longer a dependent company of the Federal Republic of Germany pursuant to § 16 (1) of the German Stock Corporation Act. Despite its minority shareholding, the Federal Republic represents a solid majority of the average attendance at the shareholders' meeting. Thus, Deutsche Telekom is considered a dependent company of the Federal Republic according to § 17 (1). No controlling agreement or profit-and-loss transfer agreement exists. Pursuant to § 312 of the German Stock Corporation Act, 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."

Risk management.

- Risk management system geared towards the four-pillar structure
- Acquisitions successfully integrated into the risk management system
- Risk situation reflects dynamic growth situation

Deutsche Telekom is active as an integrated T.I.M.E.S. provider in markets that are characterized by highly dynamic growth, innovation and a high level of convergence. Exploiting the enormous opportunities resulting from this inevitably involves some risk. We regard risk management as an important instrument for making these risks calculable and controllable.

Risk management is therefore an essential part of our daily business. Apart from the legal requirements described in detail in the Law on Control and Transparency in Business (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG), Deutsche Telekom regards risk management primarily as a competitive necessity and a business challenge.

It is the business policy of Deutsche Telekom to consistently seize existing opportunities. Controlled risks are taken, if this leads to the creation of a corresponding added value. In line with defined principles, all relevant risks are systematically identified and assessed at an early stage, and appropriate measures are selected and implemented to respond to risks and to exploit opportunities.

The risk management system consists of a series of different but interrelated planning, information and control systems and procedures. These cover all areas of the Company and are adapted in response to changes in the framework conditions as they occur.

The system includes, among other elements, an integrated planning and management process, a value-oriented system of key figures, and controlling reports. In addition to the other reporting systems, Corporate Risk Management submits a risk report to the Board of Management on a quarterly or ad hoc basis informing them of all the major risks within the Group. With the reorganization of the Group into four strategic pillars, this reporting system has been supplemented by a division-specific reporting system. A regular exchange of information regarding risk-relevant findings takes place between the Group's internal auditors and the Corporate Risk Management department. Moreover, as a process-independent authority, the Group's internal auditors review all the components of the risk management system at appropriate intervals, thus making an important contribution to process optimization and quality management.

Risk areas. In our business activities, we are exposed to very different risks that could affect the development of our business and our financial and profit situation to varying degrees. From today's viewpoint, we consider some of these risks to be insignificant. Knowing that the risks which we regard as insignificant may nevertheless have an impact on our goals, we show in the following presentation only those risk areas, which we deem to be material.

Regulatory risks. Regulation of the telecommunications markets is still determined by national law and therefore shows very different forms, both within Europe and worldwide. Unlike our competitors, Deutsche Telekom is subject to strictly asymmetrical regulation in Germany, combined with very extensive official powers of intervention, for example, in the determination of prices and products. This is due to the fact that, on the basis of the German Telecommunications Act, Deutsche Telekom is regarded, to a large extent, as a "market dominant" company.

Development in the future will be significantly influenced by regulatory decisions at both the national and international levels. As a result, in the course of the continuing integration of the European Union, the legal framework of the EU and the decisions taken by the EU Commission will acquire even greater importance in the development of the T.I.M.E.S. markets in the individual EU countries.

In this context we should also mention the future possibility that regulation in the European telecommunications market will be extended to cover all electronic communications networks and services. An extended regulation policy of this kind would not only lead to an additional strain, for example on the development of the Internet and UMTS, the third generation of mobile communications, but would also have a negative effect on global competitiveness.

Market and competition risks. With products and services in the areas of fixed-network telephony, mobile communications, Internet and system solutions, we regard ourselves as a driver of innovation. As a result of rapid technological progress and the trend towards convergence, there is a latent danger that current technologies will be superseded by alternative and/or new processes in the telecommunications sector.

Following the acquisition of VoiceStream and Powertel, T-Mobile became the world's first transatlantic GSM mobile communications provider. The dynamic market growth in the USA and the forthcoming consolidation that is also evident in this market will set the basic conditions for the further development of T-Mobile.

In Europe, the acquisition of UMTS licenses has created the basis for the introduction of the third generation of mobile communications. The amortization of these investments – which total approximately EUR 15 billion in Germany and the UK – depends on the increased use of wireless services, especially mobile data communications. We generate the corresponding services and applications both on our own and in collaboration with third parties (content providers).

We rely on third parties to supply and build the UMTS infrastructure, and appropriate terminal equipment. The risk of delay, e.g. through supply bottlenecks, cannot be ruled out. These risks are minimized, for example, by the adoption of appropriate contractual provisions and close cooperation with our suppliers over the long term. Within the framework of the predefined license provisions, we will also cooperate with other UMTS providers.

For Deutsche Telekom, the safety of all our products, especially the networks, is an essential element of our business activity. As part of our efforts to provide state-of-the-art technologies, we also give funding to scientific studies that aim to detect possible side-effects at an early stage. This applies in special measure to the subject of "electromagnetic compatibility". We have introduced a wide range of measures in this area in order to reinforce the base of verified scientific findings regarding possible risks and to reduce existing uncertainties by means of an objective and transparent information policy. We regard compliance with legal threshold values as fundamental to our activities.

We aim to consistently pursue our four-pillar strategy by selling the remaining cable TV assets, at the same time reducing our liabilities from the proceeds of the sale. After the Federal Cartel Office vetoed the sale to Liberty Media of the cable TV regions of Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, Bremen/Lower Saxony, Rhineland-Palatinate/Saarland, Berlin/Brandenburg, Saxony/Saxony-Anhalt/Thuringia and Bavaria, the complete sale process will have to be rolled out once more. From today's viewpoint, any possible inflows from the sale of these assets are therefore associated with risk both in terms of the amount and timing.

Infrastructure risks. Deutsche Telekom relies on a modern, high-performance network infrastructure as the basis for innovative telecommunications services. The associated production processes show a high organizational and technical complexity. We have established a sophisticated system of safety measures – including fire precautions, standby systems, and local contingency plans – to respond to potential risks caused by network failures or faults.

Risks associated with cooperation and shareholdings. Deutsche Telekom has completed a phase of very rapid and strong growth in terms of acquisitions. Their rapid integration will be crucial for the success of these acquisitions and for the realization of the growth and synergy potentials underlying these investment decisions. We have already created the organizational prerequisites for this integration with our four-pillar structure.

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 of 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.

Liquidity is being safeguarded on the one hand through rolling liquidity and financial planning, and, on the other, by securing facilities such as committed bilateral bank lines and syndicated loans. These facilities may be drawn at short notice, thus guaranteeing the solvency of Deutsche Telekom at all times. The existing financial reserves of Deutsche Telekom also cover the financing requirements of the Group even if no further non-core assets will be sold in 2002 and/or if the listing of T-Mobile International will not take place. However, in these cases we run the risk of our rating being downgraded.

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 that aggregates and limits the risks encountered per counterparty.

Organizational risks are countered through the separation of the commercial and control operations at both the development and operational stages, as well as through clearly defined trading entitlements and regulations on representation, and a well-established procedure for the use of new financial instruments.

Personnel risks. Last but not least, our future business success depends on the dedication, skills and the motivation of our employees. We are therefore making great efforts to attract suitable employees and to ensure their long-term loyalty to the Company. This also includes the range of internal training opportunities and attractive remuneration systems. We also took an important step towards an increased recognition of performance and employee satisfaction in 2001 with the introduction of our new job evaluation and pay system.

Introduction of the euro.

- Group-wide conversion to the euro successfully completed on January 1, 2002
- All transactions now carried out exclusively in euros
- No hidden price increases during the euro conversion process

On January 1, 2002, Deutsche Telekom and its subsidiaries successfully completed their conversion to the euro according to plan. All contractual relationships with business partners and suppliers were converted to the euro with effect from that date. Invoices, orders and tenders/offers are now issued in euros, as are prices, which are shown in euros in all the Company's catalogs and printed media. Invoices and T-Punkt outlets continued to quote prices in both D-Mark and euro until February 28, 2002 and all prices were converted on an exact basis during the euro conversion process, with no hidden price increases.

Group-wide euro
launch

Around 110,000 card and coin telephones have been converted to the euro since the beginning of 2002. Valid D-Mark telephone cards may continue to be used in card telephones and Deutsche Telekom's T-Punkt outlets will exchange telephone cards that became invalid at the end of 2001.

The step-by-step conversion to the euro in the Deutsche Telekom Group meant that project risks were significantly reduced. At the start of 2001, all Deutsche Telekom's internal processes, such as salary accounting, planning, cost estimates and reports, were converted to the euro. The financial accounting systems were also affected by the conversion of the Company's standard currency to the euro, and our auditors verified that this was carried out in accordance with regulations throughout the entire Group. All in all, around 200 complex computer systems had to be converted to the euro. Since the first quarter of 1999, all annual and interim reports have been published in euros and the removal of the D-Mark and other basket currencies that are no longer valid is nearing completion.

Conversion of
internal systems

Deutsche Telekom's expenditure for the euro conversion totaled EUR 140 million, EUR 30 million of which was incurred in 2001.

Budget

Environmental protection.

- Deutsche Telekom makes a significant contribution to climate protection
- Worldwide activities require us to think about global and sustainability issues
- Deutsche Telekom continues in its aim to optimize the use of energy
- T-NetBox as an example of innovation and environmental protection

Deutsche Telekom makes a significant contribution to climate protection. For years now, internationally renowned climatologists have been warning of the certainty of climatic change with incalculable consequences. This is primarily being caused by carbon dioxide emissions (CO₂ emissions) from the burning of fossil fuels.

“e-mission 55 –
Business for
Climate”

As a member of the European Business Council for a Sustainable Energy Future (e⁵), Deutsche Telekom has been taking part in the United Nations Framework Convention on Climate Change since 2000. The highlight of Deutsche Telekom’s activities in 2001 was the formation of the international “e-mission 55 – Business for Climate” initiative, for which Deutsche Telekom was one of the main instigators. Today, more than 150 companies throughout the world belong to this initiative which is supported by the WWF, Germanwatch and e⁵. On July 17, 2001 Deutsche Telekom hosted a reception at its headquarters offices for the delegates and participants of the Conference of Parties of the UN Framework Convention for Climate Change held in Bonn. In the presence of the German Federal Minister for the Environment, Jürgen Trittin, representatives of Deutsche Telekom and other member companies of the initiative underlined the importance of climate protection for future-oriented business activities.

Reduction of CO₂ emissions. Deutsche Telekom is committed to this global challenge and wishes to use its services, among other things, to make a contribution towards climate protection. For two years now, we have been systematically investigating how physical traffic in various services can be replaced by appropriate telematics services. The results show clear potential for our society to increase energy efficiency and, accordingly, reduce CO₂ emissions, for example by means of video conferencing, teleworking and e-commerce. The growing use of these services would not only reduce CO₂ emissions but could also open up new business opportunities for our Company.

Worldwide activities require us to think about global and sustainability issues.

Deutsche Telekom has joined "Global Compact", which was initiated by the Secretary-General of the United Nations and Nobel Peace Prize Winner, Kofi Annan. Deutsche Telekom has entered into an agreement with the United Nations in which it commits itself to comply with the basic principles of a sustainable society and to take an active part in maintenance and promotion of such a society. The nine basic principles of this commitment relate to human rights, labor law and sustainable environmental protection. Deutsche Telekom made its first contribution in this respect in June 2001, when it helped to initiate and found the "Global e-Sustainability Initiative" (GeSI) under the auspices of the UNEP (United Nations Environmental Program). The Company launched this initiative in conjunction with eight globally active network operators and, for the first time, international manufacturers.

Global Compact

Global e-Sustainability
Initiative (GeSI)

Sustainable development. As well as committing itself to fulfill the basic principles for a sustainable company, Deutsche Telekom will also make its expertise in this area available to less-industrialized countries and, if desired, take part in their sustainable development in a supporting or advisory capacity.

Deutsche Telekom continues on its way towards optimizing energy utilization.

Now as then, the most energy-intensive area of Deutsche Telekom's activities is the construction and operation of telecommunications networks, and the main efforts to optimize energy exploitation in 2001 were again concentrated here. Energy optimization teams were set up in all our 13 networks branch offices, who, along the lines of the Group's environmental program, have the task of identifying and implementing numerous energy-saving initiatives by 2004. These teams have contributed to the realization of more than 100 concrete measures during 2001, which have led to energy savings totaling 15.9 million kilowatt hours.

Energy optimization
teams

T-NetBox as an example of innovation and environmental protection. Technical innovation and environmental protection are closely related at Deutsche Telekom. This is particularly demonstrated by the T-NetBox, the virtual answering machine in the Deutsche Telekom network. Although its performance capacity goes far beyond that of a conventional answering machine, the T-NetBox fares much better from an environmental perspective. In a study by the independent Institute for Applied Ecology (Öko-Institut) in Freiburg, it was stated that around 27 times less energy was required to produce and operate the T-NetBox, even with poor utilization, and that 66 times less waste was generated compared to a modern answering machine. Increasing numbers of T-NetBox users are further improving the energy-saving potential. Around 15 million T-NetBoxes are currently in use.

T-NetBox

These factors were the main reason why the T-NetBox was named as an EcoTopTen Product in the Freiburg Institute of Applied Ecology's campaign of the same name. This large-scale project, promoted by the German Federal Ministry for Education and Research, is aimed at strengthening the position of more innovative, high quality, affordable and, of course, environmentally-sound products in the mass market. EcoTopTen is the first nationwide campaign for end users that covers all products, and was initially conceived for a period of five years. It will be extended into an EU-wide campaign within two years.

T-NetBox as
an EcoTopTen
Product

The T-NetBox was praised by the jury of the German Legacy for the Future Foundation (Stiftung Zukunftserbe) during its first "sustainable products" prize ceremony. This form of prize, which is unique in Germany, is only awarded to products that combine environmental criteria with high quality and benefit for the customer, are offered at a reasonable price and also take social aspects into account.

Key events after December 31, 2001.

At the instigation of one of our competitors, the Regulatory Authority is currently carrying out initial investigations against Deutsche Telekom. The subject of these investigations is a contract concluded with this competitor in relation to the common use of local loops (line-sharing). An application regarding the rates proposal for this was submitted to the Regulatory Authority at the beginning of January and a decision is expected in the second half of March. Also in January, the Regulatory Authority closed the investigation into the retrospective review of the charges for T-DSL, Deutsche Telekom's broadband Internet service. In February, the Regulatory Authority initiated abuse proceedings in respect of one of Deutsche Telekom's new contract offers regarding competitors' access to the local loop. Also in February, the Regulatory Authority instigated abuse proceedings in respect of the conditions under which competitors may access Deutsche Telekom's leased lines. The European Union (EU) formally adopted new legal framework conditions for operations in the communications markets in mid-February. In mid-March, the Regulatory Authority decreed new rates for the shared use of local loops, to remain effective until June 30, 2003.

Deutsche Telekom AG and DaimlerChrysler Services AG have concluded the complete sale of debis Systemhaus to Deutsche Telekom. According to the agreement, Deutsche Telekom AG took over the remaining share of 49.9 percent in T-Systems ITS (formerly: debis Systemhaus GmbH) from DaimlerChrysler Services AG, following the DaimlerChrysler subsidiary's exercising of a contractually agreed sale option at January 1, 2002. The sale of the holding was completed in March 2002. After conclusion of the transaction, the company will belong fully to T-Systems, Deutsche Telekom's system solutions provider. Deutsche Telekom AG has held a 50.1 percent share in T-Systems ITS GmbH since October 2000.

In January, Deutsche Telekom and KarstadtQuelle AG agreed to combine their customer bonus points systems under the brand HappyDigits. An independent operator company has been formed for this purpose, in which Deutsche Telekom holds a 51 percent share and KarstadtQuelle 49 percent. Both Groups will participate in the scheme through their subsidiaries, such as T-Online, T-Mobile Deutschland, Karstadt, Neckermann and Quelle. Deutsche Telekom successfully launched HappyDigits onto the market back in October 2001, and KarstadtQuelle AG will start integrating their existing customer cards in the course of the second quarter of 2002.

On February 6, 2002 Deutsche Telekom and Siemens AG announced the start of the rollout of their German UMTS network. By the end of the year, technology for third generation mobile communications should have been built up in around 20 cities in Germany. All in all, T-Mobile is planning to invest more than EUR 140 million in the preparations for the UMTS sites and the necessary systems technology in 2002.

Also in February, Deutsche Telekom was informed by the Federal Cartel Office in Bonn of its final decision not to grant approval for the announced sale of the regional cable TV companies to Liberty Media Corporation. The planned sale was to cover the regional cable TV companies of Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, Bremen/Lower Saxony, Rhineland-Palatinate/Saarland, Berlin/ Brandenburg, Saxony/Saxony-Anhalt/Thuringia and Bavaria, including the Level 4 operator companies of Deutsche Telekom Kabel-Services GmbH (DeTeKS) in these regions and MediaServices GmbH (MSG). The Federal Cartel Office had already issued a warning of this in its preliminary assessment on January 31, 2002.

Outlook.

- Economy expected to improve
- Convergence within the four divisions
- Investments in the future
- Further revenue growth anticipated
- Improving operating result

Positive economic environment expected to continue. The outlook at the start of the year for the development of the global economy and world trade in 2002 has improved slightly. It is expected that recovery will be tangible over the course of the year. The Federal Government of Germany anticipates an annual growth rate for the global economy between 2 and 2.5 percent. We are also assuming that economic growth in Germany will regain momentum during 2002, particularly in the second half of the year. For 2002, the Federal Government anticipates growth of 0.75 percent. In line with EITO, we expect constant growth for the relevant domestic telecommunications market of at least 5 percent. This estimate is based on the particularly dynamic growth in mobile telephony and online services.

4-pillar strategy

Four divisions in converging markets. The consistent restructuring of Deutsche Telekom by the formation of the T-Com, T-Systems, T-Mobile and T-Online divisions – according to the 4-pillar strategy – has meant that the Company is optimally positioned to perform particularly well in the relevant growth and competitive environments.

Based on the strong ISDN penetration, T-Com has launched a broadband campaign with T-DSL. T-Com has adopted the role of a trendsetter in this respect, and new business models are being developed based on broadband connections. T-Systems has positioned itself in the convergence area of information technology and telecommunications (IT/TC), providing network-based e-business solutions for its global key accounts. We aim to strengthen our position internationally, for example by focusing on systematically expanding the global networks. T-Mobile's most important goals, as a transatlantic GSM mobile communications provider, include developing mobile and broadband Internet services, and consolidating and safeguarding its strong position in all core markets. In addition, we will continue the process of migrating the T-Mobile brand into the mobile communications subsidiaries with the aim of making the T-Mobile name a global brand in mobile communications. T-Online's portals are well positioned as multi-access services, and are opening up the mobile Internet sector in this way. T-Online International is adopting a pioneering role in the areas of paid content and broadband services, and is also progressively developing into an Internet media network.

Four divisions
working together

Taking advantage of convergence and synergy opportunities. Convergence and synergies are the integrating elements of Deutsche Telekom's 4-pillar strategy. The fact that our four core divisions work closely together means that we are able to offer our customers an extensive product portfolio, enabling us to distinguish ourselves from our competitors.

T-Mobile and T-Online will contribute their specific know-how in respect of the future of the broadband mobile Internet, and will market this under the name "T-Mobile-online". T-Online will also further develop premium content services by creating completely new business models both via UMTS and on T-Com's T-DSL platform.

Convergence of
content/media and
telecommunications

Within its wide-ranging offerings, T-Systems will primarily focus on individual hosting solutions and application service provision. These will in turn form the basis for standardized products for T-Com's SME customers (small and medium-sized enterprises). T-Com and T-Mobile will work vigorously on marketing integrated fixed/mobile solutions to serve both the mass and business customer markets.

Convergence of
IT/TC and
fixed/mobile

Potential for large savings from the collaboration between our core divisions.

Deutsche Telekom's four divisions will also work together in order to use opportunities for synergies. As one of the largest European telecommunications companies and the sole transatlantic GSM mobile communications provider, we will have considerable potential for synergies, particularly in the areas of purchasing and procurement, but also in terms of billing and production. In terms of purchasing, this potential will be reinforced by means of the lead-buyer concept by which, for example, T-Systems coordinates the entire IT purchases for the Group.

Synergy areas

Investments in the future. In 2002 investment will primarily focus on introducing and/or developing new products and also on the international subsidiaries, associated and related companies. Following the integration of VoiceStream/Powertel and HT-Hrvatske telekomunikacije, the proportion of the investment in plant, property and equipment abroad will, for the first time, reach the same level as in Germany. At an international level, the expansion of existing mobile communications networks, the extension of the global transport platform and the switch to UMTS will be in the foreground of our activities. The focus of our investment activities in Germany will be in the area of broadband technology. This primarily includes the expansion of T-DSL and T-ISDN in the fixed network and the development of UMTS in mobile communications. Despite our global endeavors to develop and expand networks and products, the volume of investments is anticipated to be below the level of last year.

The massive expansion of T-DSL will continue to be at the center of T-Com's investment in 2002. In order to satisfy the quickly growing customer demand, we need to expand the access network. The same applies to further growth in the T-ISDN segment. The rapid growth of broadband traffic in the supra-regional network demands an increase in capacity that is primarily being achieved by deploying new technologies (e.g. wavelength division multiplexing). The Central and Eastern European affiliates, which are to be assigned to T-Com from 2002 onwards, will also focus their investment activities on further expanding the networks.

T-Com

T-Systems will focus primarily on further expanding its position as one of the leading global providers of convergence solutions. The main areas here will include, for example, IT and computing services along with the expansion of this division's international presence.

T-Systems

In the mobile communications segment, our subsidiaries, associated and related companies will also concentrate their investments on network expansion. In the USA in particular, our investment goal is to expand the regional networks, thus achieving a greater coverage. In respect of the other countries where we provide mobile communications, the focus will be on expanding the UMTS network. Further investment goals for 2002 are to respond to increased traffic demands and improve quality.

T-Mobile

T-Online	<p>T-Online will continue to invest in information technology related to the Internet, with the focus on expanding the billing options and meeting the requirements of B2B. On an international level, investments will be made in Ya.com, Club Internet, T-Online.at and T-Online.ch.</p> <p>Further growth in revenue. Last year's restructuring of the Deutsche Telekom Group created an optimal basis for us to profit from the market segments promising the strongest growth generation. In the years to come, we intend to exploit these advantages as far as possible in order to achieve further growth in revenue.</p>
Mobile communications	<p>The increase in subscriber numbers in 2001 leads us to expect correspondingly high revenues in mobile communications. In addition, net revenue from VoiceStream/Powertel and RadioMobil will also be markedly higher, as both these companies will be consolidated for the first full year in 2002. The launch of new services in the non-voice area will provide additional revenue potential for all the companies.</p>
T-Com	<p>Throughout 2002 Deutsche Telekom will build on the successful T-DSL marketing campaign of the previous year and satisfy the existing demand for broadband Internet access. The Group's focus on the growth areas in the T.I.M.E.S. markets during the last few years will be continued with the expansion of the product range for SMEs.</p> <p>On the basis of our strong market position in the fixed-network sector and due to the increasing ISDN penetration, we will primarily focus on developing convergence products using the synergy potentials available within the Group. Following the successful integration of the Eastern European affiliates into T-Com, which was part of Deutsche Telekom's internationalization strategy, realizing our targets in terms of synergies and growth is now a central activity.</p>
T-Systems	<p>We anticipate a clear increase in revenue in the system solutions business, largely as a result of the expansion of the computing services and systems integration areas. T-Systems is consistently projecting itself as a leading worldwide provider of convergence solutions from the IT/TC areas. The potential for revenue growth in this area is well above average.</p>
T-Online	<p>We also anticipate a marked growth in the Internet business during 2002. Besides the increase in access business, which stems primarily from the fact that the digital subscriber line (DSL) market is progressively being tapped, the portal business in particular is expected to make a contribution to revenue growth. The main areas here include advertising, e-commerce, paid content and paid services.</p>
Revenue from international activities	<p>The proportion of international revenue will increase considerably in 2002, largely as a result of VoiceStream/Powertel and HT-Hrvatske telekomunikacije being fully consolidated for the first full year and also due to the continued strong organic growth of the international subsidiaries, associated and related companies.</p> <p>Overall, due to the impact of these developments, we expect that net revenue in 2002 will be substantially higher than the 2001 level.</p>

Results for the 2002 financial year. In order to increase the Group's profitability, a group-wide value enhancement program was launched in 2001, the core measures of which will form the basis for us to achieve our objectives in terms of growth and results in 2002. These measures should result in an improvement in the operating results of all divisions.

Group-wide value
enhancement
program

In the current financial year, after a high level of expenditure for acquisitions last year, we will concentrate our activities on completing existing projects and integrating our affiliates, particularly those newly acquired in 2001. Our objective here is to exploit synergies and create growth, at the same time expanding our competitive position on an international level.

Acquisitions,
integration

The Group's personnel costs are expected to rise slightly, primarily as a result of the shareholdings acquired. This will be countered by a reduction in personnel numbers, for example by initiatives to increase process efficiency. While amortization of UMTS licenses will remain almost unchanged, amortization of US mobile communications licenses and goodwill will rise, in particular due to the first full-year consolidation of VoiceStream/Powertel, RadioMobil and Hrvatske telekomunikacije in 2002 along with the takeover of the remaining shares in T-Systems ITS (formerly: debis Systemhaus). Due to the high level of investments in network expansion in previous years (caused by sharp increases in subscriber numbers for broadband connections, mobile telephony and online business), depreciation of plant, property and equipment will continue to have a negative impact on the Group's results.

Personnel costs

Amortization
and depreciation

Interest costs from the purchase of UMTS licenses in 2000 and the financing of company acquisitions will also have a negative impact on the Group's 2002 results. During the 2002 financial year, efforts to decrease the Company's debt will continue. This will include a package of measures, such as asset sales (e.g. real estate, streamlining of the shareholdings portfolio) and initiatives to improve cash flow (above all reducing the level of investments, releasing tied-up capital, optimizing cost structures).

Net interest expense

We are also targeting the listing of T-Mobile International AG, provided that the conditions at the stock exchange support such a move. The development of the international capital markets will determine the exact timing of the stock exchange listing.

Listing
of T-Mobile

Overall, we expect a further improvement in the Group's earnings before interest, tax, depreciation and amortization (EBITDA). Contributions to these aims will be made by the expansion of T-Mobile's business and the optimization of cost structures, the improvement of market position and increased efficiency at T-Systems. Further contributions will be made by the T-Com division concentrating on its core business at the same time as improving costs and consolidating its market position. However, negative impacts from the Group's 2001 results (particularly the high levels of depreciation, amortization and interest expense) will also have a marked effect on the Group's 2002 results.

Despite strong competition, we expect to benefit from the further growth in the national and international telecommunications markets. Our objective is to ensure that our shareholders participate appropriately in our Company's success.



System.

We integrate cultures.