

Deutsche Telekom AG
Financial statements as of
December 31, 2001



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Deutsche Telekom AG's management report and the management report of the Deutsche Telekom Group have been combined and are published in our 2001 annual report.

The annual financial statements and the combined Deutsche Telekom Group and Deutsche Telekom AG management report for the 2001 financial year are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

Supervisory Board of Deutsche Telekom AG

Dr. Hans-Dietrich Winkhaus

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

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

Rüdiger Schulze

since March 29, 1999
Vice Chairman of the Supervisory
Board of Deutsche Telekom AG
ver.di trade union, Head of Federal
Department 9, Berlin

- T-Mobile Deutschland GmbH, Bonn
(formerly DeTeMobil Deutsche Telekom
MobilNet GmbH, Bonn), Vice Chair-
man of the Supervisory Board
(since 3/1999)

Gert Becker

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

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

Josef Falbisoner

since October 2, 1997
ver.di trade union, Head of ver.di
District of Bavaria

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

Dr. Hubertus von Grünberg

since May 25, 2000
Member of the Supervisory Board
at Continental Aktiengesellschaft,
Hannover, et al.

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

Supervisory board seats in companies
abroad:

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

Dr. sc. techn. Dieter Hundt

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

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

Rainer Koch

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

- GMG Generalmietgesellschaft mbH,
Münster (formerly DeTeImmobilien,
Deutsche Immobilien und Service
GmbH, Münster) (since 6/1996)

Dr. h.c. André Leysen

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

- Agfa-Gevaert AG, Leverkusen,
Chairman (since 1984)
- Bayer AG, Leverkusen (since 1987)
- E.On AG, Düsseldorf (since 1993)
- Schenker AG, Essen (since 1972)

Supervisory board seats in companies
in Belgium:

- Agfa-Gevaert N.V. Mortsel/Antwerp,
Chairman (since 1979)
- GIB Group, Brussels
(from 1983 to 6/2001)
- Tessenderlo Chemie N.V., Tessenderlo
(from 1983 to 6/2001)
- Vlaamse Uitgeversmaatschappij N.V.,
Groot-Bijgaarden
(from 1976 to 5/2001)

Waltraud Litzenberger

since June 1, 1999
Member of the Works Council at
Deutsche Telekom AG's Eschborn
Networks Branch Office

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

Michael Löffler

since January 1, 1995
Member of the Works Council at
Deutsche Telekom AG's Dresden
Networks Branch Office

– no other seats –

Hans-W. Reich

since May 27, 1999
Chairman of the Board of Managing
Directors, Kreditanstalt für Wiederauf-
bau (KfW), Frankfurt am Main

- ALSTOM GmbH, Frankfurt am Main
(since 8/1999)
- DePfa Deutsche Pfandbrief Bank AG,
Wiesbaden (since 6/2001)
- Deutsche Energie-Agentur GmbH,
Berlin (since 4/2001)
- Frachtkontor Junge & Co. GmbH,
Hamburg (from 7/1995 to 4/2001)
- Haftpflicht-Unterstützungs-Kasse
krauffahrender Beamter Deutschlands
a.G., Coburg (since 7/2000)
- HUK-COBURG Holding GmbH,
Coburg (since 7/2000)

- HUK-COBURG-Allgemeine-Versicherungs-Aktiengesellschaft, Coburg (since 7/2000)
- IKB Deutsche Industriebank AG, Düsseldorf (since 9/1999)
- Krankenversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Krankenversicherung), Coburg (since 7/2000)
- Lebensversicherungs-Aktiengesellschaft der HUK-COBURG (HUK-COBURG-Leben), Coburg (since 7/2000)
- RAG AG, Essen (since 11/2000)
- Thyssen Krupp Steel AG, Duisburg (since 7/2000)
- Thyssen Werften GmbH, Emden (from 6/1996 to 3/2001)

Rainer Röhl

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

– no other seats –

Wolfgang Schmitt

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

- PSD-Bank, Stuttgart-Freiburg e. G. (since 1993)

Prof. Dr. Helmut Sihler

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

- Dr. Ing. h.c. F. Porsche AG, Stuttgart, Chairman of the Supervisory Board (since 1/1993)

Supervisory board seats in companies abroad:

- max.mobil. Telekommunikations Service GmbH, Vienna (since 1/2001)
- Novartis AG, Basle, Vice Chairman of the Board of Directors (since 4/1996)

Michael Sommer

since April 15, 2000
Vice Chairman of ver.di trade union, Berlin

- Postbank, Bonn, Vice Chairman of the Supervisory Board (since 11/1997)
- BHW Bausparkasse, Hameln (since 1/1999)
- T-Systems International GmbH, Bonn, Vice Chairman of the Supervisory Board (since 1/2001)

Ursula Steinke

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

– no other seats –

Prof. Dr. h.c. Dieter Stolte

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

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

Bernhard Walter

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

- Bilfinger und Berger Bau AG, Mannheim (since 7/1998)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Degussa-Hüls AG, Frankfurt am Main (from 2/1998 to 2/2001)
- Deutsche Hyp Deutsche Hypothekbank Frankfurt-Hamburg AG, Frankfurt am Main (from 9/1990 to 3/2001)
- Heidelberger Zement AG, Heidelberg (from 6/1998 to 6/2001)
- Henkel KGaA, Düsseldorf (since 5/1998)

- mg technologies ag, Frankfurt am Main (since 3/1993)
- Staatliche Porzellan-Manufaktur Meissen GmbH, Meissen (since 1/2001)
- Thyssen Krupp AG, Düsseldorf (since 3/1997)
- Wintershall AG, Kassel (since 2/2001)

Wilhelm Wegner

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

- VPV Allgemeine Versicherungs-AG, Cologne (since 8/1995)
- VPV Holding AG, Stuttgart (since 1/2002)
- Vereinigte Postversicherung VVaG, Stuttgart (since 7/1998)
- PSD Bank Düsseldorf e.G., Düsseldorf (since 8/2000)

Prof. Dr. Heribert Zitzelsberger

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

– no other seats –

Board of Management of Deutsche Telekom AG

Dr. Ron Sommer

Chairman of the Deutsche Telekom Board of Management responsible for Group Communications, Government Relations, Competition Policy, Regulatory Affairs.

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

- T-Mobile International AG, Bonn, Chairman of the Supervisory Board (since 3/2000)
- T-Online International AG, Darmstadt, Chairman of the Supervisory Board (since 2/2000)

Member of the supervisory boards of other companies or institutions:

- Münchener Rückversicherungs-Gesellschaft AG, Munich (since 11/1998)

Josef Brauner

Member of the Deutsche Telekom Board of Management responsible for T-Com, T-Systems.

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

- Detecon GmbH, Bonn, (formerly Detecon Deutsche Telepost Consulting GmbH, Bonn) Chairman of the Supervisory Board (since 5/1999)
- Detecon Consulting GmbH, Frankfurt am Main, Chairman of the Supervisory Board (since 8/2001)
- T-Mobile Deutschland GmbH, Bonn (formerly DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn) (since 3/2000)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main, Chairman of the Supervisory Board (from 1999 to 3/2001)
- T-Systems CSM GmbH, Darmstadt (formerly Deutsche Telekom Computer Service Management GmbH (DeTeCSM), Darmstadt) (from 1999 to 4/2001)
- TEGARON Telematics GmbH, Bonn, Member of the Advisory Board (since 9/2001)
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems International GmbH, Frankfurt am Main, Chairman of the Supervisory Board (since 3/2001)
- T-Systems ITS GmbH, Leinfelden-Echterdingen, (formerly debis Systemhaus GmbH, Leinfelden-Echterdingen), Chairman of the Supervisory Board (since 12/2000)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (from 1998 to 2001)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (from 1998 to 2001)

- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (from 1999 to 2001)

Detlev Buchal

Member of the Deutsche Telekom Board of Management responsible for Product Marketing until April 30, 2001.

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

- DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt am Main, Chairman of the Supervisory Board (since 6/1996)
- T-Mobile Deutschland GmbH, Bonn (formerly DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn) (from 1996 to 8/2001)
- MATAV Hungarian Telecommunications Co. Ltd., Budapest/Hungary (since 10/2000)
- TEGARON Telematics GmbH, Bonn, Chairman of the Advisory Board (from 9/1999 to 9/2001)
- T-Online International AG, Darmstadt (from 1998 to 10/2001)
- T-Motion plc., London (United Kingdom), Board of Directors (from 2000 to 1/2001)
- T-Systems Nova GmbH, Bonn (formerly T-Nova Deutsche Telekom Innovationsgesellschaft mbH, Bonn) (from 6/1999 to 4/2001)
- T-Systems SIRIS S.A.S., Paris (formerly SIRIS S.A.S., Paris) (from 2000 to 4/2001)
- T-Systems International GmbH, Frankfurt am Main (from 2001 to 9/2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (from 2000 to 7/2001)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 1/2000)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 1/2000)

Dr. Karl-Gerhard Eick

Member of the Deutsche Telekom Board of Management responsible for Finance and Controlling.

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

- GMG Generalmietgesellschaft mbH, Münster (formerly DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster) (since 1/2000)
- Sireo Real Estate Asset Management GmbH, Frankfurt am Main (formerly MCT Immobilien Management GmbH, Frankfurt am Main), Chairman of the Supervisory Board (since 5/2001)
- T-Mobile International AG, Bonn (since 3/2000)

- T-Online International AG, Darmstadt (since 2/2000)
- TRI Technology Resources Industries Berhad, Kuala Lumpur (Malaysia) (from 2000 to 11/2001)
- T-Systems International GmbH, Frankfurt am Main (since 1/2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 1/2000)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 1/2000)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 1/2000)
- VoiceStream Wireless Corporation, Bellevue (USA), Board of Directors (since 5/2001)

Member of the supervisory boards of other companies or institutions:

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

Jeffrey A. Hedberg

Member of the Deutsche Telekom Board of Management responsible for International Affairs.

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

- Deutsche Telekom Asia Pte. Ltd., Singapore (since 1/2000)
- Deutsche Telekom Inc., New York (USA), Chairman of the Board of Directors (since 11/2001)
- One 2 One Personal Communications Ltd., Borehamwood, Hertfordshire (United Kingdom), Board of Directors (since 10/1999)
- One 2 One Partnership, Borehamwood, Hertfordshire (United Kingdom), Board of Directors (since 10/1999)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Online International AG, Darmstadt (since 2/2000)
- TRI Technology Resources Industries Berhad, Kuala Lumpur (Malaysia) (from 1999 to 11/2001)
- T-Systems International GmbH, Frankfurt am Main (since 1/2001)
- T-Systems USA Inc., New York (USA), (formerly Deutsche Telekom Inc., New York (USA)) Chairman of the Board of Directors (since 2/2000)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 9/2001)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (since 10/2001)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (since 10/2001)
- VoiceStream Wireless Corporation, Bellevue (USA), Board of Directors (since 5/2001)

Dr. Max Hirschberger

Member of the Deutsche Telekom Board of Management since May 1, 2001; responsible for Corporate Affairs (Corporate Strategy, Auditing, Information and Process Organization, Legal Affairs, and Shareholdings, Partnerships).

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

- T-Mobile Deutschland GmbH, Bonn (formerly DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn) (since 9/2001)
- Deutsche Telekom Holding B.V., Amsterdam (Netherlands) (from 1/2000 to 7/2001)
- Deutsche Telekom International Finance B.V., Amsterdam (Netherlands) (from 1/2000 to 7/2001)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Motion plc, London (United Kingdom), Board of Directors (since 5/2000)
- T-Systems International GmbH, Frankfurt am Main (since 9/2001)
- VoiceStream Wireless Corporation, Bellevue (USA), Board of Directors (since 5/2001)

Dr. Hagen Hultzsich

Member of the Deutsche Telekom Board of Management responsible for Technology and Services until April 30, 2001.

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

- Bonn-Innova GmbH & Co. Venture Beteiligungs KG (BIVB), Bonn, Chairman of the Supervisory Board (since 1998)
- DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main (from 1997 to 3/2001)
- T-Systems CSM GmbH, Darmstadt (formerly Deutsche Telekom Computer Service Management GmbH (DeTeCSM), Darmstadt), Chairman of the Supervisory Board (from 1996 to 3/2001)
- T-Systems Nova GmbH, Bonn (formerly T-Nova Deutsche Telekom Innovationsgesellschaft mbH (T-Nova), Bonn), Chairman of the Supervisory Board (from 1999 to 4/2001)
- T-Systems International GmbH, Frankfurt am Main (from 2001 to 9/2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn, Chairman of the Supervisory Board (from 1997 to 12/2001)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVb), Bonn, Chairman of the Supervisory Board (from 1997 to 12/2001)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVb), Bonn, Chairman of the Supervisory Board (from 1997 to 12/2001)

- debis Systemhaus Solutions for Research GmbH, Weßling, Chairman of the Supervisory Board (since 4/2001)

Member of the supervisory boards of other companies or institutions:

- Forschungszentrum Jülich GmbH, Jülich (from 1997 to 11/2001)
- University Supervisory Board of Goethe-Universität, Frankfurt am Main (since 11/2000)
- Foundation Council of CAESAR Foundation, Bonn (since 1998)
- Bonn University Clinics (since 2/2001)

Dr. Heinz Klinkhammer

Member of the Deutsche Telekom Board of Management responsible for Human Resources and Legal Affairs.

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

- T-Mobile Deutschland GmbH, Bonn (formerly DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn) (since 5/1998)
- GMG Generalmietgesellschaft mbH Münster (formerly DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster), (Member of the Supervisory Board since 6/1996), Chairman of the Supervisory Board (since 1/2000)
- Sireo Real Estate Asset Management mbH, Frankfurt am Main (formerly MCT Immobilien Management GmbH, Frankfurt am Main) (since 5/2001)
- T-Systems International GmbH, Frankfurt am Main (since 1/2001)
- T-Systems ITS GmbH, Leinfelden-Echterdingen (formerly debis Systemhaus GmbH, Leinfelden-Echterdingen) (since 11/2000)

Member of the supervisory boards of other companies or institutions:

- Federal Posts and Telecommunications Agency, Administrative Board (since 2000)
- Vereinigte Postversicherung VVaG, Stuttgart (from 1996 to 2001)

Kai-Uwe Ricke

Member of the Deutsche Telekom Board of Management responsible for T-Mobile, T-Online since May 1, 2001.

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

- BEN Nederland Holdings B.V., Amsterdam/Netherlands, Board of Directors (from 2000 to 10/2001)
- T-Mobile Deutschland GmbH, Bonn (formerly DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn), Chairman of the Supervisory Board (since 3/2000)

- One 2 One Personal Communications Limited, Borehamwood, Hertfordshire (United Kingdom), Board of Directors (since 10/1999)

- One 2 One Partnership, Borehamwood, Hertfordshire (United Kingdom), Board of Directors (since 10/1999)

- T-Motion plc., London (United Kingdom), Chairman of the Board of Directors (since 3/2000)

- T-Online International AG, Darmstadt (since 10/2001)

- max.mobil. Telekommunikation Service GmbH, Vienna, Austria (Member of the Supervisory Board since 1998), Chairman of the Supervisory Board (since 2000)

- VoiceStream Wireless Corporation, Bellevue (USA), Board of Directors (since 5/2001)

Gerd Tenzer

Member of the Deutsche Telekom Board of Management responsible for Networks, IT, Innovation, Purchasing, and Environmental Protection.

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

- GMG Generalmietgesellschaft mbH, Münster (formerly DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster) (since 6/1996)
- Kabel Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 4/1999)
- MSG MediaServices GmbH, Munich, Chairman of the Supervisory Board (since 4/1999)
- Partner für Berlin Gesellschaft für Hauptstadtmarketing mbH, Berlin (since 1995)
- Société Européenne des Satellites S.A., Betzdorf (Luxembourg), Board of Directors (from 4/1999 to 11/2001)
- SES – Global S.A., Betzdorf (Luxembourg), Board of Directors (since 11/2001)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Systems International GmbH, Frankfurt am Main (since 2001)
- T-Telematik Venture Holding GmbH (T-Venture), Bonn (since 7/2001)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVb), Bonn (since 7/2001)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVb), Bonn (since 7/2001)

Member of the supervisory boards of other companies or institutions:

- VDE GmbH, Frankfurt (since 2000)

Statement of income for the period from January 1 to December 31, 2001

	Note	2001 millions of €	2000 millions of €	1999 millions of €
Net revenue	(1)	27,331	27,951	27,945
Changes in inventories and other own capitalized costs	(2)	505	533	575
Total operating performance		27,836	28,484	28,520
Other operating income	(3)	5,346	6,762	11,866
Goods and services purchased	(4)	(7,210)	(7,346)	(5,887)
Personnel costs	(5)	(6,764)	(6,654)	(7,405)
Depreciation and amortization	(6)	(6,040)	(8,622)	(6,185)
Other operating expenses	(7)	(9,606)	(9,735)	(8,643)
Financial income (expense), net	(8)	3,730	(6,010)	(817)
Results from ordinary business activities		7,292	(3,121)	11,449
Extraordinary income (losses)		-	-	(240)
Taxes	(9)	(660)	(212)	(1,480)
Net income/(loss)		6,632	(3,333)	9,729
Unappropriated net income carried forward from previous year		101	45	13
Transfer from treasury stock		-	7	-
Transfer from retained earnings			5,266	13
Transfer to treasury stock		-	-	(13)
Transfer to retained earnings		(3,300)	(7)	(4,857)
Unappropriated net income		3,433	1,978	4,885

Balance sheet as at December 31, 2001

	Note	2001 millions of €	2000 millions of €
ASSETS			
Noncurrent assets			
Intangible assets	(10)	767	884
Property, plant and equipment	(11)	37,605	39,654
Financial assets	(12)	73,468	63,193
		111,840	103,731
Current assets			
Inventories, materials and supplies	(13)	573	483
Receivables	(14)	11,216	4,590
Other assets	(15)	2,582	2,761
Marketable securities	(16)	661	725
Liquid assets	(17)	1,314	155
		16,346	8,714
Prepaid expenses, deferred charges and deferred taxation	(18)	382	586
		128,568	113,031
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity (19)			
Capital stock	(20)	10,746	7,756
- contingent capital of € 810 million			
Additional paid-in capital	(21)	24,304	24,290
Retained earnings	(22)	8,155	4,855
Unappropriated net income		3,433	1,978
		46,638	38,879
Accruals			
Pensions and similar obligations	(24)	3,150	2,928
Other accruals	(25)	5,576	4,666
		8,726	7,594
Liabilities (26)			
Debt		27,822	30,391
Other		45,281	36,065
		73,103	66,456
Deferred income		101	102
		128,568	113,031

Statement of noncurrent assets

	Acquisition or production cost				Dec. 31, 2001
	Jan. 1, 2001	Additions	Disposals	Reclassifications	
millions of €					
Intangible assets					
Concessions, industrial and similar rights and assets, and licences in such					
rights and assets	1,789	159	(660)	105	1,393
Advance payments	72	171	(1)	(77)	165
	1,861	330	(661)	28	1,558
Property, plant and equipment					
Land and equivalent rights, and buildings including buildings on land owned by third parties					
	18,400	90	(759)	2	17,733
Technical equipment and machinery	53,441	2,801	(541)	476	56,177
Other equipment, plant and office equipment					
	2,890	523	(290)	10	3,133
Advance payments and construction in progress	643	1,128	(3)	(516)	1,252
	75,374	4,542	(1,593)	(28)	78,295
Financial assets					
Investments in subsidiaries	35,620	19,022	(3,772)	26,419	77,289
Loans to subsidiaries	24,965	3,799	(2,978)	(25,137)	649
Investments in associated and related companies					
	8,688	789	(6,586)	(1,282)	1,609
Long-term loans to associated and related companies					
	18	-	-	-	18
Other investments in noncurrent securities	376	74	(1)	-	449
Other long-term loans	351	16	(103)	-	264
	70,018	23,700	(13,440)	-	80,278
Total noncurrent assets	147,253	28,572	(15,694)	-	160,131

Jan. 1, 2001	Depreciation, amortization and write-downs				Dec. 31, 2001	Net carrying amount	
	Additions	Disposals	Reclassifications	Reinstated depreciation		Dec. 31, 2001	Dec. 31, 2000
977	301	(487)	-	-	791	602	812
-	-	-	-	-	-	165	72
977	301	(487)	-	-	791	767	884
5,129	1,352	(156)	-	-	6,325	11,408	13,271
28,608	3,855	(341)	3	-	32,125	24,052	24,833
1,983	532	(272)	(3)	-	2,240	893	907
-	-	-	-	-	-	1,252	643
35,720	5,739	(769)	-	-	40,690	37,605	39,654
6,742	12	(78)	-	(280)	6,396	70,893	28,878
-	-	-	-	-	-	649	24,965
83	338	(7)	-	-	414	1,195	8,605
-	-	-	-	-	-	18	18
-	-	-	-	-	-	449	376
-	-	-	-	-	-	264	351
6,825	350	(85)	-	(280)	6,810	73,468	63,193
43,522	6,390	(1,341)	-	(280)	48,291	111,840	103,731

Statement of cash flows

	Note	2001 millions of €	2000 millions of €	1999 millions of €
Net income/(loss)		6,632	(3,333)	9,729
Depreciation and amortization		6,040	8,630	6,185
Income tax expense		713	128	1,464
Net interest expense		3,271	2,491	2,456
Net (gains)/losses from				
disposition of noncurrent assets		(517)	(1,702)	(7,740)
Results from associated companies		-	-	-
(Increase)/decrease in inventories, receivables, other assets				
prepaid expenses and deferred charges		(10,676)	(31)	(1,821)
Change in accruals		604	206	163
Other noncash (income) and expense		(7,254)	3,473	(1,660)
(Increase)/decrease in payables and deferred income		6,747	884	1,536
Changes in other current assets and liabilities		-	-	-
Income taxes paid		331	(784)	(1,986)
Dividends received		7,412	3,207	2,010
Cash generated from operations		13,303	13,169	10,336
Interest paid		(5,793)	(4,438)	(3,019)
Interest received		1,862	2,055	485
Net cash provided by operating activities	(27)	9,372	10,786	7,802
Cash outflows from investments in intangible assets		(330)	(363)	(457)
Cash outflows from investments in property, plant and equipment		(4,542)	(3,166)	(2,873)
Cash outflows from investments in financial assets		(8,301)	(35,076)	(15,458)
Cash inflows from disposition of intangible assets		198	4	38
Cash inflows from disposition of property, plant and equipment		706	615	190
Cash inflows from disposition of financial assets		1,801	4,801	1,258
Net change in short-term investments		87	1,308	2,329
Other cash inflows		1,384	-	-
Net cash used for investing activities	(28)	(8,997)	(31,877)	(14,973)
Issuance of short-term debt		70,807	41,514	3,385
Repayment of short-term debt		(79,566)	(35,291)	(5,448)
Issuance of medium and long-term debt		13,699	16,115	1,008
Repayment of medium and long-term debt		(2,253)	-	(1,935)
Dividends paid		(1,877)	(1,874)	(1,684)
Proceeds from share offerings		-	169	10,614
Net cash provided by (used for) financing activities	(29)	810	20,633	5,940
Changes in value of cash and cash equivalents		(1)	(25)	(56)
due to exchange rate fluctuations				
Net increase/(decrease) in cash and cash equivalents		1,184	(483)	(1,287)
Cash and cash equivalents, at beginning of year		130	613	1,900
Cash and cash equivalents, at end of year		1,314	130	613
Change in cash and cash equivalents		1,184	(483)	(1,287)

Statement of shareholders' equity

	Capital stock nominal value		Additional paid-in capital	Retained earnings		Unappropriated net income (loss)	Total
	Shares issued and outstanding (in thousands)	millions of €		Treasury stock	Other retained earnings (deficit)		
Balance at January 1, 1999	2,743,700	7,014	14,250	1	2,297	1,696	25,258
Dividends for 1998						(1,683)	(1,683)
Increase in nominal value of capital stock		10	(10)				-
Proceeds from share offerings	285,904	732	9,881				10,613
Transfer to reserve for treasury stock				13	(13)		
Income after taxes						9,729	9,729
Transfer to retained earnings					4,857	(4,857)	
Balance at December 31, 1999	3,029,604	7,756	24,121	14	7,141	4,885	43,917
Dividends for 1999						(1,874)	(1,874)
Increase in nominal value of capital stock							
Proceeds from share offerings	-		169				169
Transfer from reserve for treasury stock				(7)	7		
Loss after taxes						(3,333)	(3,333)
Transfer to retained earnings					2,966	(2,966)	-
Transfer from retained earnings					(5,266)	(5,266)	-
Balance at December 31, 2000	3,029,604	7,756	24,290	7	4,848	1,978	38,879
Dividends for 2000						(1,877)	(1,877)
Capital increase from options granted	1,168,148	2,990	14				3,004
Transfer from reserve for treasury stock							-
Income after taxes						6,632	6,632
Transfer to retained earnings					3,300	(3,300)	-
Balance at December 31, 2001	4,197,752	10,746	24,304	7	8,148	3,433	46,638

Exchange rates used

Rate at balance sheet date in €	Average annual rate			Rate at balance sheet date	
	2001	2000	1999	Dec. 31, 2001	Dec. 31, 2000
100 Belgian Francs (BEF)	2.47894	2.47894	2.47894	2.47894	2.47894
100 Swiss Francs (CHF)	66.2063	64.27010	62.53170	67.54940	65.68590
100 Czech Korunas (CZK)	2.90920	2.80113	2.71335	3.13088	2.85470
100 French Francs (FRF)	15.24490	15.24490	15.24490	15.24490	15.24490
1 Pound Sterling (GBP)	1.60761	1.64233	1.51807	1.64178	1.60438
100 Hungarian Forints (HUF)	0.390971	0.38494	0.39581	0.40795	0.37749
100 Indonesian Rupiah (IDR)	0.0109342	0.01298	0.01213	0.01089	0.01110
100 Japanese Yen (JPY)	0.916991	1.00501	0.82918	0.86438	0.93607
100 Malaysian Ringgit (MYR)	29.39340	28.58820	24.75940	29.8263	28.29070
100 Philippine Pesos (PHP)	2.19127	2.45850	2.40489	2.19727	2.15210
100 Polish Zloty (PLN)	27.22010	24.95950	23.70130	28.60500	25.98760
100 Russian Rubles (RUB)	3.82700	3.86032	3.77812	3.71671	3.75773
100 Singapore Dollars (SGD)	62.55940	62.99660	55.48660	61.21450	66.07210
100 Slovak Korunas (SKK)	2.30987	2.12815	n.a.	2.33768	2.27728
1 U.S. Dollar (USD)	1.11683	1.08631	0.93879	1.13341	1.07505

Notes to the financial statements

Summary of accounting policies

Description of business and relationship with the Federal Republic of Germany

Deutsche Telekom AG (hereinafter referred to as Deutsche Telekom) is a full-service telecommunications provider. Its key areas of activity include network communications, data communications, carrier services, broadcasting and broadband cable services for TV and radio stations and value added services. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

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

The Federal Republic's direct and indirect shareholding in Deutsche Telekom as of December 31, 2001 amounts to 43.05 %. The direct shareholding amounts to 30.92 %; a further 12.13 % of the shares are held by a federal corporation, the Kreditanstalt für Wiederaufbau (KfW). The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

In accordance with § 21 paragraph 1 of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG), the Federal Agency informed Deutsche Telekom in its letter of June 5, 2001 that its share of the voting rights in Deutsche Telekom had fallen below the 50% threshold and amounted to 43.05 %. According to a letter dated February 13, 2002, the Federal Agency held 1,297,896,644 shares in Deutsche Telekom as of December 31, 2001; this corresponds to a shareholding of 30.92 %.

The KfW informed Deutsche Telekom in its letter of December 22, 1997 in accordance with § 21 paragraph 1 of the WpHG that its share of the voting rights in Deutsche Telekom had exceeded the 10 % threshold to 13.47 %. As stated in a letter of Jan. 22, 2002, the KfW held 509,164,599 shares in Deutsche Telekom as at December 31, 2001, a shareholding of 12.13 %.

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

The Federal Republic of Germany is Telekom's largest customer; it sources services from the Company at market conditions. Telekom maintains direct business relationships with individual authorities and other state agencies as independent individual customers; services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

Summary of significant accounting principles

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

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 266 and § 275 HGB. The income statement is prepared using the total cost method. All amounts shown are in millions of euros (€/EUR). Certain items have been combined in order to enhance the informative value and understanding of the financial statements. These items are shown separately in the notes. In case of changes in presentation, prior-year amounts are reclassified to conform to the current-year presentation. The accounts also include a statement of cash flows;

in addition, the accounts also include a statement of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the financial statements.

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

Accounting and valuation

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of VAT and sales-related reductions and recorded in accordance with the realization principle in the period in which they occur. Revenues due

from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

Research and development costs are expensed as incurred.

Pension costs for defined benefit plans are actuarially computed and shown using the Projected Unit Credit Method, which is consistent with SFAS No. 87. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz - EStG) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (cf. note (24) accruals for pensions and similar obligations).

Pension costs include current service cost, interest cost and return on plan assets.

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

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

Advertising costs are charged to expenses as incurred.

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

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

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom on January 1, 1995, was recorded in the opening balance sheet of Deutsche Telekom at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 was valued at its remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other property, plant and equipment is valued at acquisition or construction cost, less scheduled depreciation. Construction costs include directly allocable costs and an appropriate allocation of material and production overhead. General administration expenses are not capitalized.

Property, plant and equipment includes nondeductible capitalized VAT amounts at the level of expected refunds from VAT adjustments pursuant to § 15a of the German Value-Added Tax Act (Umsatzsteuergesetz – UStG) resulting from Deutsche Telekom’s full liability for VAT as of 1996. Capitalized VAT was depreciated over a period of four years, starting in 1996 and for the last time in 1999.

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

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

	Years
Buildings	25 to 50
Shop improvements and window displays	8
Telephone facilities and terminal equipment	3 to 10
Data communication equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment	4 to 10
Outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities	10
Other equipment, plant and office equipment	3 to 20

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

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

Maintenance and repairs are charged to expenses when incurred.

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

Financial assets are valued at the lower of cost or market value. In the case of financial assets acquired in foreign currency, the exchange rate at the transaction date is used to determine the acquisition cost; in the case of hedges, the hedging rate for the purchased foreign currency is used. Loan receivables correspond to the loan amounts less repayments and – if applicable – less any write-downs in order to reflect such lower amount. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, production cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

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

Foreign currency receivables are stated with the exchange rate applicable on the transaction date or the buying rate applicable at the balance sheet date, if this is lower, as are foreign currency fixed-term deposits included under liquid assets.

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

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

Stock options issued in the course of a contingent capital increase are shown in the balance sheet at the date the options are exercised, not at the date they are granted. At the time the options are exercised, the amount received by the Company is recorded at the value of the corresponding nominal capital increase in the capital stock and at the value of an additional amount in additional paid-in capital, in accordance with § 272 paragraph 2 sentence 1 HGB.

In accordance with the principles set out in § 6 of the German Income Tax Act (EStG), accruals for direct **pension obligations without parallel obligations made directly through the Versorgungsanstalt der Deutschen Bundespost (VAP)** are stated at the current actuarial value subject to an assumed rate of interest of 6 %. The accruals for indirect pension commitments and the direct pension obligations from parallel VAP commitments have been created compliant with the relevant commercial legislation with regard to group accounting practices by applying the appropriate U.S. accounting regulations (SFAS No. 87) with an assumed rate of interest of 6.00 % (2000: 6.25 %) and incorporating future pay and pension rises. The life expectancy tables published by Prof. Klaus Heubeck in 1998 were included in part in the calculation (cf. note (24), Accruals for pensions and similar obligations).

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

Cost accruals are only made when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 paragraph 1 HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year.

Accruals, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, are not discounted.

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

Unrealized losses relating to **derivative financial instruments** which do not qualify for hedge accounting are recognized when incurred whereas unrealized gains are deferred until realized.

The preparation of financial statements requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Notes to the statement of income

(1) Net revenue

Revenue by division:

	2001 millions of €	2000 millions of €	1999 millions of €
T-Com	21,505	22,278	23,022
T-Systems	5,623	5,429	4,676
Other	203	244	247
	27,331	27,951	27,945

Since the 2001 financial year, reporting of revenue has been based on the changed management structure within the Deutsche Telekom Group. Prior-year figures have been reclassified in line with the new structure.

Revenue by geographic area:

	2001 millions of €	2000 millions of €	1999 millions of €
Domestic	26,495	26,909	27,062
International	836	1,042	883
	27,331	27,951	27,945

Breakdown of international revenues:

	2001 millions of €	2000 millions of €	1999 millions of €
European Union (excluding Germany)	364	457	359
Rest of Europe	201	247	231
North America	148	193	145
Latin America	10	13	17
Other	113	132	131
	836	1 042	883

(2) Increase in inventories and other own capitalized costs

	2001 millions of €	2000 millions of €	1999 millions of €
Increase/decrease in inventories of work in process	(23)	63	30
Own capitalized costs	528	470	545
	505	533	575

Own capitalized costs relate to planning and construction services.

(3) Other operating income

	2001 millions of €	2000 millions of €	1999 millions of €
Rentals and leases	1,792	1,798	1,775
Income from the disposal of noncurrent assets	967	2,878	8,312
Reversal of accruals	824	257	393
Cost reimbursements	373	538	357
Foreign currency transaction gains	353	425	135
Income from write-ups of financial assets	280	7	-
Income from reversal of valuation adjustments	254	93	100
Refund of value-added tax (§ 15a UStG)	85	169	379
Ancillary services	51	45	54
Insurance compensation	35	41	49
Other income	332	511	312
	5,346	6,762	11,866

The rentals and leases are mainly derived from GMG Generalmietgesellschaft mbH, Münster (GMG), previously DeTeImmobilien Deutsche Telekom Immobilien und Service GmbH, Münster (DeTeImmobilien).

EUR 33 million of the income from the disposal of noncurrent assets relates to the disposal of intangible assets, EUR 261 million to income from the disposal of property, plant and equipment and EUR 673 million to income from the disposal of financial assets.

Foreign currency transaction gains include EUR 45 million from derivatives and EUR 95 million from the repayment of a syndicated loan.

Income from write-ups of financial assets results from the write-up of the carrying value of the interest in NAB Nordamerika Beteiligungs Holding GmbH, Bonn (NAB). The write-up corresponds to the profit made by NAB on the disposal of its shares in Sprint Corporation, Kansas City.

The reversal of valuation adjustments of accounts receivable and doubtful accounts contains EUR 93 million from the sale of specific trade receivables as part of an asset-backed securitization (ABS) program. The associated default risk was passed irrevocably to the purchaser, so that the accruals set up for this purpose were reversed.

The value-added tax refunds of EUR 85 million included in other operating income resulted from the adjustment of input tax paid in previous years. Deutsche Telekom's monopoly services were not subject to value-added tax before January 1, 1996. As such, the Company was not able as usual to deduct the full amount of value-added tax paid on goods and services purchased. Only 20% was deductible as input tax. When Deutsche Telekom became fully liable to value-added tax in 1996, the non-deductible input tax on capitalized amounts was capitalized separately, as far as an input tax adjustment in accordance with § 15a of the value-added tax law was possible, and amortized on a straight-line basis over 4 years.

Of the total amount of other operating income, EUR 2,065 million (2000: EUR 3,325 million) related to other accounting periods.

(4) Goods and services purchased

	2001 millions of €	2000 millions of €	1999 millions of €
Goods purchased	1,044	1,225	1,019
of which: raw materials and supplies	368	337	338
of which: goods purchased	676	888	681
Services purchased	6,166	6,121	4,868
of which: domestic network access charges	4,066	3,905	3,335
of which: international network access charges	1,100	1,472	1,070
of which: other services	1,000	744	463 ¹⁾
	7,210	7,346	5,887

¹⁾ Adjusted figures as a result of the reclassification of expenses for IT support (1999: EUR 1,029 million), maintenance and repair (1999: EUR 730 million), research and development (1999: EUR 342 million) and miscellaneous services purchased (1999: EUR 22 million); reduction in other services in the amount of EUR 2,123 million, increase in other operating expenses of EUR 2,123 million.

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

EUR 216 million (2000: EUR 71 million) of the increase in other services is due to expenditure on inventory logistics of

DANZAS TeleLog GmbH, Frankfurt am Main; EUR 302 million (2000: EUR 188 million) is due to installation work, in particular relating to the establishment of T-GlobeNet.

International network access charges declined due to the sharp drop in prices in the international carrier sector.

(5) Personnel costs/Average number of employees

	2001 millions of €	2000 millions of €	1999 millions of €
Wages and salaries	4,817	4,880	4,996
Social security contributions and expenses for pension plans and benefits:			
Payments to BPS-PT (formerly TPS)	845	895	1,483
Social security contributions	481	458	475
Expenses for pension plans for non-civil servants	470	258	258
Health care expenses	151	163	193
	1,947	1,774	2,409
	6,764	6,654	7,405

Expenses for pension plans and benefits in 2001 amounted to EUR 1,315 million (2000: EUR 1,153 million, 1999: EUR 1,741 million).

	2001	2000	1999
	Number	Number	Number
Employees			
Civil servants	56,707	65,217	76,223
Salaried employees and wage earners	69,129	66,731	69,115
	125,836	131,948	145,338
Trainees/student interns	7,683	6,439	6,116

The average number of employees declined by 3.5 % compared with the figure for 2000 as a result of personnel restructuring measures. Wages and salaries decreased by 1.3 % in 2001 in absolute terms.

Social security contributions and expenses for pension plans and benefits increased by 9.7 %. This increase was mainly due to transfers to accruals for pensions and similar obligations. The calculation of pension obligations under SFAS 87 resulted in a requirement for recording additional minimum liability at December 31, 2001 which, in contrast to the provisions of U.S. GAAP, had a full effect on income under Ger-

man GAAP. The resulting increased burden to the Company in 2001 amounted to EUR 201 million. The increase in expenses for pension plans and benefits was partly offset by the reduction in expenses for the Bundes-Pensions-Service für Post und Telekommunikation e.V.

Personnel costs per employee rose by 6.4 % compared with the previous year.

Due to the above-mentioned factors, personnel costs rose by 1.6 % in comparison to the previous year.

(6) Depreciation and amortization

	2001	2000	1999
	millions	millions	millions
	of €	of €	of €
Scheduled depreciation and amortization			
Amortization of intangible assets	301	366	315
Depreciation of property, plant and equipment	4,897	5,265	5,869
	5,198	5,631	6,184
Nonscheduled write-downs in			
accordance with § 253 paragraph 2 sentence 3 HGB	842	2,991	1
	6,040	8,622	6,185

Scheduled depreciation of property, plant and equipment declined in the year under review by EUR 368 million due to the change in overall investment levels.

The nonscheduled write-downs for real estate in the form of a valuation adjustment amounting to EUR 2,018 million made in the previous year were allocated to individual items of real estate, based on a detailed survey, as part of Deutsche Telekom's changed real estate strategy. This survey also resulted in additional nonscheduled write-downs totaling EUR 466 million, EUR 428 million of which was directly assigned to specific real estate items. The remaining amount of EUR 38 million was allocated to a general valuation adjustment. Allocations to individual items of real estate will be made in the financial year 2002. A nonscheduled write-down was made in the form of a general valuation adjustment amounting to EUR 350 million for buildings for which business use is no longer planned. This write-down corresponds to the proceeds from the reversal of accruals for vacancy risks.

The adjustments do not have any effect on the liquidity or the Company's continuing business activities.

(7) Other operating expenses

	2001 millions of €	2000 millions of €	1999 millions of €
Rental and leasing expenses	2,489	2,425	2,885
IT support	1,187	1,050	1,029 ¹⁾
Maintenance and repair	911	690	731 ¹⁾
Losses on accounts receivable and provision for doubtful accounts	715	465	402
Marketing expenses	628	671	594
Research and development	539	537	341 ¹⁾
Losses on disposition of noncurrent assets	450	1,176	573
Foreign currency transaction losses	394	344	232
Postal and freight charges	393	414	392
Legal and consulting fees	278	339	330
Other employee-related costs	253	313	292
Transfers to accruals	243	446	203
Reimbursements	176	117	85
Travel expenses	118	120 ²⁾	128 ²⁾
Other expenses	832	628 ²⁾	426 ²⁾
	9,606	9,735	8,643

¹⁾ Adjusted figures as a result of the reclassification of expenses for IT support (1999: EUR 1,029 million), maintenance and repair (1999: EUR 730 million), research and development (1999: EUR 342 million) and miscellaneous services purchased (1999: EUR 22 million); reduction in other services in the amount of EUR 2,123 million, increase in other operating expenses of EUR 2,123 million.

²⁾ Adjusted figures as a result of the reclassification of other expenses.

Of the rental and leasing expenses, EUR 2,398 million relates to the leaseback of real estate and buildings from GMG.

Of the losses on the disposal of noncurrent assets, EUR 9 million related to the disposal of intangible assets, EUR 380 million to the disposal of property, plant and equipment and EUR 61 million to the disposal of financial assets. The losses from the disposal of financial assets relate almost entirely (EUR 53 million) to the sale of T-Systems MultiLink S.A., Vernier, to T-Systems-International GmbH, Frankfurt am Main (T-Systems)

Losses on accounts receivable and provision for doubtful accounts include the discount for credit risks from the ABS transaction (cf. note (3), Other operating income) in the amount of EUR 104 million.

Additions to accruals declined compared with the previous year; they mainly comprise environmental (EUR 101 million) and legal (EUR 92 million) risks.

Other expenses rose, mainly as the result of a compensatory payment of EUR 237 million made to Mediaone International B.V., Eindhoven, (Mediaone) in relation to the intragroup sale of the interest in Westel Rádiotelefon Kft., Budapest, and a payment of EUR 71 million for services rendered under the shopping portal agreement and website agreement to T-Online International AG, Darmstadt (T-Online International).

Of the other operating income, EUR 451 million (2000: EUR 1,232 million) related to other accounting periods.

(8) Financial income (expense), net

	2001 millions of €	2000 millions of €	1999 millions of €
Dividend income from investments of which from subsidiaries: € 4,136 million (2000: € 25 million, 1999: € 12 million)	6,609	143	137
Income from profit transfer agreements of which from tax allocations: € 109 million (2000: € 122 million, 1999: € 323 million)	803	3,282	1,881
Expenses arising from loss transfers	(61)	(218)	(8)
Income related to subsidiaries, associated and related companies	7,351	3,207	2,010
Income from debt securities and long-term loan receivables of which from subsidiaries: € 1,075 million (2000: € 120 million, 1999: € 30 million)	1,123	517	112
Other interest and similar income of which from subsidiaries: € 616 million (2000: € 282 million, 1999: € 13 million)	770	1,564	364
Interest and similar expense of which to subsidiaries: € 2,297 million (2000: € 1,012 million, 1999: € 164 million)	(5,164)	(4,571)	(2,932)
Net interest income (expense)	(3,271)	(2,490)	(2,456)
Write-downs on financial assets and marketable securities	(350)	(6,727)	(371)
	3,730	(6,010)	(817)

Income related to subsidiaries, associated and related companies mainly refers to dividends from T-Mobile International AG, Bonn, (T-Mobile International) (EUR 4,040 million) and DT-FT Italian Holding GmbH, Bonn (EUR 2,385 million), as well as from profit transfers by Kabel Deutschland GmbH, Bonn (Kabel Deutschland) (EUR 551 million), DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt am Main (EUR 114 million), and T-Systems (EUR 69 million).

The income from long-term loan receivables primarily consists of income from interest on loans to subsidiaries and Deutsche Post AG, Bonn.

The net interest income (expense) was negatively affected by the interest expense Telekom had to pay for the global bond issued by Deutsche Telekom International Finance B. V., Amsterdam, (DT Finance), to finance the UMTS licenses and planned shareholding acquisitions. Increased income from loans to subsidiaries had a positive effect.

EUR 312 million of the write-downs on financial assets and marketable securities related to the net carrying amount of the Company's interest in France Télécom S.A., Paris, whose share price fell in the year under review as a result of the general stock market slump.

(9) Taxes

	2001	2000	1999
	millions	millions	millions
	of €	of €	of €
Income taxes			
Current income taxes	555	122	1,430
Income from tax allocations	(19)	(46)	(14)
Deferred income taxes	177	52	48
	713	128	1,464
Other taxes			
Taxes	(53)	84	16
	660	212	1,480

Deferred tax expenses were the result of the reversal of deferred tax assets due to changes in the treatment under German commercial law and for tax purposes of the accruals concerned.

Other taxes included expenditure of EUR 2 million not attributable to the current financial year.

Notes to the balance sheet

(10) Intangible assets

	Dec. 31, 2001	Dec. 31, 2000
	Net carrying amounts	Net carrying amounts
	millions of €	millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	602	812
Advance payments	165	72
	767	884

(11) Property, plant and equipment

	Dec. 31, 2001	Dec. 31, 2000
	Net carrying amounts	Net carrying amounts
	millions of €	millions of €
Land and equivalent rights and buildings, including buildings on land owned by third parties	11,408	13,271
Technical equipment and machinery	24,052	24,833
Other equipment, plant and office equipment	893	907
Advance payments and construction in progress	1,252	643
	37,605	39,654

Deutsche Telekom performed a nonscheduled write-down amounting to EUR 827 million on its real estate portfolio (cf. note (6), Depreciation and amortization).

Additions to property, plant and equipment in 2001 amounted to EUR 4,542 million (2000: EUR 3,167 million).

Capital expenditure related primarily to switching and transmission equipment, with additions totaling EUR 1,994 million, and to the outside plant network, with additions of EUR 438 million.

The development of intangible assets and property, plant and equipment is shown in the table of noncurrent assets, which is presented before these notes.

(12) Financial assets

	Dec. 31, 2000	Dec. 31, 2000
	millions of €	millions of €
Investments in subsidiaries	70,893	28,878
Loans to subsidiaries	649	24,965
Investments in associated companies	31	1,192
Other investments in related companies	1,164	7,413
Long-term loans to associated and related companies	18	18
Other investments in noncurrent securities	449	376
Other long-term loans	264	351
	73,468	63,193

The increase in **investments in subsidiaries** was due in particular to the conversion of loans to T-Mobile International previously classified as current and noncurrent assets and of interest receivables from T-Mobile International into shareholders' equity; the total amount involved is EUR 38,000 million. Furthermore, the contributions of VoiceStream Wireless Corporation and Powertel Inc., both based in Bellevue, to T-Mobile International led to increases totaling EUR 2,990 million. As a result of the contribution of Mediaone, the net carrying amount of T-Mobile International increased by an additional EUR 2,087 million.

One key disposal (EUR 1,036 million) was the sale of SIRIS S.A.S., Paris, to T-Systems.

The following companies were contributed to T-Systems as part of the restructuring of the Group into divisions, without changing the overall net carrying amount of the investments in subsidiaries: T-System CSM GmbH, Darmstadt, (EUR 242 million), DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt am Main, (EUR 51 million), T-Systems Nova GmbH, Bonn (EUR 70 million), Infonet Network Services Deutschland GmbH, Frankfurt am Main, (EUR 5 million) and TELECASH Kommunikations-Service GmbH, Stuttgart, (EUR 50 million).

Loans to subsidiaries decreased in particular as a result of the conversion of loans totaling EUR 24,858 million into equity at T-Mobile International. The loan to DeTeAsia Holding GmbH, Bonn, amounting to EUR 278 million was also converted into shareholders' equity in the company.

In October, the investment in HT-Hrvatske telekomunikacije d.d., Zagreb, was increased by 16% to 51% by way of the purchase of a further interest costing EUR 500 million. Its resulting reclassification as a subsidiary led to a reduction of EUR 1,266 million in the **investments in associated companies**. The reserves of DT-FT Italian Holding GmbH, Bonn, declined by EUR 387 million in the year under review.

In the case of the other **investments in related companies**, the main disposal (EUR 5,623 million) related to the invest-

ment in VoiceStream Wireless Corporation, Bellevue (VoiceStream), which was contributed to T-Mobile International in the course of the restructuring of the Group according to divisions.

Key additions to **other investments in noncurrent securities** related to additional bonds of Telewest Communication PLC, London acquired in the course of the sale of EURO-BELL (Holdings) PLC, Crawley, plus the related capitalized interest payments.

Other long-term loans decreased as loans were repaid.

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

(13) Inventories, materials and supplies

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Raw materials and supplies	331	122
Work in process	119	141
Finished goods and merchandise	120	214
Advance payments	3	6
	573	483

Raw materials and supplies mostly include data communications equipment and telecommunications cables, spare parts and components for telecommunications equipment that are intended for capital investments.

Work in process is mainly related to customer orders for the installation of private automatic branch exchanges, orders for the establishment of collocation rooms for competitors and the outfitting of the international activities of T-GlobeNet (not including submarine cables) with WDM and ADM technology.

The merchandise item refers to inventories of terminal equipment held both for resale and leasing (EUR 106 million) as well as existing Indefeasible Rights of Use (IRUs) for submarine cables (EUR 14 million).

Advance payments relate to orders for terminal equipment.

(14) Receivables

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Trade accounts receivable	1,730	3,581 ¹⁾
Receivables from subsidiaries	9,413	846
Receivables from associated and related companies	73	163
	11,216	4,590

¹⁾ Adjusted figures as a result of the reclassification of trade accounts payable (EUR 5 million).

In December 2001 Deutsche Telekom AG sold certain trade accounts receivable to a special purpose vehicle in a global assignment of debts as part of its asset-backed securitization. This explains to a great extent the decrease in trade accounts receivable compared with the previous year. The contract explicitly rules out the retransfer of the receivables sold. The credit risks taken by the purchaser are compensated by a corresponding "discount 1". The remaining moral risk for Deutsche Telekom was agreed in a further "discount 2". The contract provides for an interest bonus for both discounts if

the risks covered by the discounts are ultimately not realized to the detriment of the purchaser. The receivables sold are still collected by Deutsche Telekom on behalf of the purchaser.

The largest single items within the receivables from subsidiaries are from VoiceStream (EUR 4,550 million), T-Mobile International (EUR 2,295 million), Global Satelliten-Beteiligung (EUR 939 million) and One 2 One Partnership, Hertfordshire (One 2 One) (EUR 727 million).

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

	January 1 millions of €	Charged to costs and expenses millions of €	Amounts written off/ released millions of €	December 31 millions of €
1999	151	70	(40)	181
2000	181	144	(22)	303
2001	309 ¹⁾	263	(150)	422

¹⁾ including the assumption of the receivable relating to the unsold investment in DeTeSat (EUR 6 million).

(15) Other assets

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Tax receivables	1,959	1,979
Interest receivables	249	219
Loan receivables	14	172
Receivables from option premiums	2	141
Receivables from reimbursements	189	105
Receivables from employees	8	35
Advance payments on current assets	29	14
Miscellaneous other assets	132	96 ¹⁾
	2,582	2,761

¹⁾ Adjusted figures as a result of the reclassification of other assets (EUR 13 million).

Tax receivables relate to income tax receivables of EUR 1,426 million and other tax receivables of EUR 533 million.

Income tax receivables include trade income tax receivables of EUR 443 million, corporate income tax receivables of EUR 895 million and receivables from the solidarity surcharge of EUR 88 million. EUR 888 million relates to the current financial year and EUR 538 million to previous years. Of the amount relating to previous years, EUR 295 million is the result of trade tax receivables caused by the retroactive changes in the allocation of trade tax. Other tax receivables (EUR 533 million) include trade capital tax receivables of EUR 154 million which is also attributable to the changes in allocation.

The other assets are due in full within one year, except for EUR 1 million. They include interest receivables legally accruing after the balance sheet date and claims for non-allowable input tax at the balance sheet date totaling EUR 242 million (2000: EUR 222 million).

(16) Marketable securities

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Treasury shares	7	7
Other marketable securities	654	718
	661	725

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

1996 Employee Stock Purchase Plan	459,900
1999 Employee Stock Purchase Plan	5,185,278
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Shares acquired from the KfW and not issued	14,630
	2,670,828

The shares are recorded in the balance sheet at acquisition cost of EUR 2.56 per share. The shares not purchased by employees in the previous year (14,630) were initially shown in the balance sheet at acquisition cost of EUR 0.9 million and written down to the lower market trading price applicable at the balance sheet date. Treasury shares account for 0.07 % of the capital stock.

Other marketable securities primarily relate to own bonds held to maintain favorable trading conditions (EUR 275 million), callable step-up bonds (EUR 322 million), and Portuguese government bonds (EUR 55 million).

(17) Liquid assets

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Checks	0	1
Petty cash and deposits at the Bundesbank	3	3
Cash in banks (including deposits at Deutsche Postbank AG)	1,311	151
	1,314	155

The liquid assets had the following overall maturities:

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Cash and cash equivalents		
(original maturity less than 3 months)	1,314	130
Temporary cash investments		
(original maturity longer than 3 months)	0	25
	1,314	155

(18) Prepaid expenses, deferred charges and deferred taxation

Prepaid expenses and deferred charges of EUR 382 million (2000: EUR 409 million) mainly consist of prepaid personnel costs of EUR 150 million (2000: EUR 157 million). Also included are discounts on loans of EUR 185 million (2000: EUR 163 million), which are amortized on a straight-line basis over the terms of the related liabilities.

Deferred tax assets pursuant to § 274 paragraph 2 HGB were reversed in their full amount of EUR 177 million due to the changes in prevailing conditions.

(19) Shareholders' equity

A detailed account of the development of shareholders' equity for the years 1999, 2000 and 2001 is presented in a separate table before the notes to the financial statements.

(20) Capital stock

In accordance with Article 5 paragraph 1 of its Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 10,746 million at December 31, 2001, representing 4,197.8 million registered ordinary no par value shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom, represented by the Federal Agency, was 30.92 % at December 31, 2001; the KfW's shareholding was 12.13 % at December 31, 2001. 1,298 million individual no-par value shares (EUR 3,321 million) of the capital stock were therefore held by the Federal Republic at December 31, 2001 and 509 million (EUR 1,303 million) by the KfW. The remaining shares are widely held.

In the course of the acquisition of VoiceStream/Powertel, Telekom issued preemptive rights on Deutsche Telekom shares in exchange for the warrants in circulation between Deutsche Telekom and VoiceStream/Powertel at the time of the acquisition. The number of still outstanding preemptive rights granted to VoiceStream/Powertel employees amounted to 24,593,297 at December 31, 2001.

The Board of Management is authorized to increase the capital stock (share capital) with the approval of the Supervisory Board by up to a nominal EUR 3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares for non-cash contributions in the period up to May 25, 2005. The authorization may be used for partial amounts. The subscription right of shareholders is precluded. The Board of Management is authorized to determine the future content of share rights and the conditions for issuing shares with the approval of the Supervisory Board.

The shareholders' meeting on May 29, 2001 passed the following resolutions:

1. The contingent capital increase of up to EUR 64,000,000 approved by the Shareholders' Meeting on May 25, 2000, for the purpose of issuing up to 25,000,000 new individual no par value registered shares was cancelled with respect to the nominal amount of EUR 61,378,762.24 and therefore continues to apply to the nominal amount of EUR 2,621,237.76. This contingent capital increase exclusively serves the purpose of issuing up to 1,023,921 new individual no-par value registered shares to which subscription rights were granted within the context of the Deutsche Telekom Stock Option Plan 2000 during the financial year ended.
2. The Board of Management was authorized to conditionally increase the capital stock by up to EUR 500,000,000, divided into up to 195,312,500 shares (contingent capital). The contingent capital increase shall be implemented only to the extent that the holders and creditors of conversion rights or warrants exercise their conversion or option rights or holders or creditors obligated to convert the convertible bonds fulfill their conversion obligation.
3. The capital stock (share capital) of the company is conditionally increased by up to EUR 307,200,000 by issuing up to 120,000,000 new individual no par value registered shares to enable the granting of stock options as part of the SOP 2001. The contingent capital increase exclusively serves the purpose of granting up to 120,000,000 subscription rights in the context of the Deutsche Telekom Stock Option Plan 2001 to members of the Board of Management and other executives of the Company and second- and lower-tier affiliated companies.
4. Deutsche Telekom was empowered to purchase shares of the Company up to a maximum of 10 % of the share capital, i.e., a total of no more than 302,960,403 shares. This may be done in order to introduce shares of the Company to foreign stock exchanges, to be able to offer shares to third parties in the context of mergers or acquisitions or acquiring interests therein, or to withdraw shares. The authorization may be exercised as a whole or in partial amounts and applies until November 19, 2002.

(21) Additional paid-in capital

As a result of the VoiceStream stock options exercised, the additional paid-in capital increased in 2001 by EUR 14 mil-

lion, the amount in excess of the nominal amount received via the Employee Stock Purchase Plan.

(22) Retained earnings (deficit)

Deutsche Telekom has established a reserve, using funds from retained earnings, for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB to the

amount shown on the assets side of the balance sheet for treasury shares held by the Company.

(23) Stock-based compensation

Deutsche Telekom granted stock options to certain employees in 2000 for the first time. On July 19, 2000, Deutsche Telekom used its authority under shareholders' resolutions adopted in May 2000 to issue 1,023,920.54 options in respect of 1,023,920.54 shares of its stock to participants in its stock option plan at an exercise price of EUR 62.69. The quoted fair market value of Deutsche Telekom's common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 60.40 per share. The options have an expiration date of July 20, 2005.

The option rights may not be exercised before the end of the qualifying period on July 19, 2002. The options may only be exercised when and if both the absolute and the relative performance target are each exceeded at least once in the period from July 20, 2002 to July 18, 2005.

The absolute performance target is deemed achieved when the moving thirty-day average closing Frankfurt Xetra share price exceeds the exercise price by more than 20 %.

The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx 50[®] Total Return index. The options may only be exercised if, following expiration of the two-year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceed the performance of the Euro Stoxx 50[®] Total Return index measured on a moving thirty-day average basis.

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights - SAR) instead of issuing new shares. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. No conversion decision to this effect was taken at December 31, 2001.

In 2001, Deutsche Telekom granted additional stock options to certain employees. On August 13, 2001, Deutsche Telekom used its authority under the shareholders' resolutions adopted in May 2001 to issue 8,220,803.00 further options in respect of 8,220,803.00 shares of its stock to participants in its stock option plan at an exercise price of EUR 30.00. The quoted fair market value of Deutsche Telekom's common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 19.10 per share. The options have an expiration date of August 12, 2011.

50 % of the preemptive rights granted may only be exercised after a period of two years - calculated from the day the preemptive rights are issued. The remaining 50 % of the preemptive rights granted may only be exercised after a period of three years after the day the preemptive rights are issued.

The exercise price is payable upon exercise of the preemptive rights. The exercise price per share is 120 % of the reference price. The reference price corresponds to the non-weighted average of the closing prices of the T-Share in Xetra trading on the Deutsche Börse AG stock exchange in Frankfurt am Main (or a subsequent system in place of the Xetra system) over the last 30 trading days before issue of the preemptive rights. If the average closing price calculated by this method is lower than the closing price of the T-Share in Xetra trading on the Deutsche Börse AG (or a subsequent system in place of the Xetra system) on the day of issue of the preemptive rights, then this closing price shall be taken as the reference price. The exercise price may not be lower than the lowest proportionate share in the capital stock per share. The reference price is the performance target.

The options are not transferable. A total of 120 million shares were reserved for future issuance under the plan. The weighted average remaining contractual life as of December 31, 2001 is 3.5 years for the 2000 Stock Option Plan and 9.5 years for the 2001 Stock Option Plan.

The activities relating to the share options issued by Deutsche Telekom (in thousands) are as follows:

	Stock Option Plan 2000			
	2001		2000	
	Stock options (in thousands)	Weighted average- exercise price (€)	Stock options (in thousands)	Weighted average exercise price (€)
Outstanding at beginning of year	1,022	62.69	n/a	n/a
Granted	0	-	1,024	62.69
Exercised		-	0	-
Forfeited	21	62.69	2	62.69
Outstanding at end of year	1,001	62.69	1,022	62.69
Exercisable at year-end	0	-	0	0.00

	Stock Option Plan 2001	
	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year under review	n/a	n/a
Granted	8,221	30.00
Exercised	0	0.00
Forfeited	2	0.00
Outstanding at end of year	8,219	30.00
Exercisable at year-end	0	0.00

1,743,908.00 stock options were issued to the members of the Telekom Board of Management under the Stock Option Plan 2001.

In addition, 169,695 SARs were issued to employees in those countries in which it was not possible to issue stock

options. Of these, 169,695 SARs were outstanding at December 31, 2001.

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

(24) Accruals for pensions and similar obligations

Civil servant pension plans

Until 2000, Deutsche Telekom AG maintained a special pension fund (TPS) for its active and former civil servants, which was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG by way of a notarized agreement on December 7, 2000 to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). The fund was entered in the Register of Associations on January 11, 2001, backdated to July 1, 2000. The registered office of BPS-PT is Bonn. The BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. All transactions for pension and allowance payments are made for the companies Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (PTNeuOG), this pension fund makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom's payment obligations to its special

pension fund is defined under § 16 of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG). Deutsche Telekom AG is legally obligated as of 2000 to make an annual contribution to the special pension fund of 33 % of the gross remuneration of active civil servants and the fictitious gross remuneration of civil servants on temporary leave entitled to pension payments. These contributions amounted to EUR 845 million in the year under review (2000: EUR 895 million). A fixed annual contribution of roughly EUR 1,483 million was payable for the years 1995 through 1999 (cf. note (30), Guarantees and commitments, and other financial obligations).

Under PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom of additional amounts paid by it to the special fund.

Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are based on a range of defined benefit plans. These include direct pension commitments by Telekom, parallel obligations by Telekom handled directly via the Versorgungsanstalt der Deutschen Bundespost (VAP), indirect obligations handled via Deutsche Telekom Betriebsrenten-Service e.V. (DTBS) and obligations in line with Article 131 of the Basic Law (Grundgesetz – GG).

The VAP provides pension services for pensioners who were employed as salaried workers by Deutsche Telekom. The obligations of the VAP, less the cash assets, results in an underfunding which is shown in Deutsche Telekom's balance sheet as pension obligations under pension accruals. It was not possible to offset this against tax in prior years.

A reorganization was agreed by collective agreement in the year 2000; this does not affect obligations. Under this regulation, the group of people concerned no longer receives pension payments directly from the VAP as the provider of pension services, but, as of November 2000, directly from, and as a result of a legal claim against, Deutsche Telekom. The obligations of the VAP are thus suspended (parallel obligation). The VAP provides pension services in the name and on behalf of Deutsche Telekom. Pension accruals are made in the balance sheet for financial reporting purposes for the now direct pension obligations in accordance with SFAS 87. Due to the parallel obligation, these pension accruals must also be shown in the balance sheet for tax reporting purposes, valued according to § 6a EStG. These accruals have been determined by an actuarial calculation and are audited.

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

Direct obligations (not including VAP)	Minimum accrual in accordance with § 6a EStG Heubeck new"
Special pension fund	SFAS 87 "Heubeck new"
VAP and parallel obligation	SFAS 87 "average (Heubeck new/Heubeck old)"
"Heubeck old" and "Heubeck new" refer to the life expectancy tables used in the calculations; they were compiled by Prof. Klaus Heubeck in 1983 and 1998, respectively.	

A mix of the old and new life expectancy tables was chosen to measure the amounts due to VAP/parallel obligation benefit recipients, since the latter is a closed group of pension recipients to whom the assumptions underlying the forecasts in "Heubeck new" do not apply in full.

In addition, the assumptions shown in the following table were used when calculating the amount under SFAS 87:

in %	2001	2000
Discount rate	6.00	6.25
Projected salary increase	2.75	2.75
Expected return on assets	6.00	6.5% (DTBS)/6.00% (VAP)
Projected pension increase	1.50	1.50

The calculation of pension obligations as of December 31, 2001 in accordance with SFAS 87 resulted in the disclosure of an additional minimum liability (AML) of EUR 201 million.

According to U.S. GAAP, this special item is charged directly to other comprehensive income (OCI). In the financial statements prepared in accordance with German GAAP, this amount has an effect on income due to the lack of a corresponding equity item.

On the basis of these assumptions, pension obligations as of December 31, 2001 were accounted for as follows:

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Direct pension obligations	2,271	2,200
– of which parallel obligation: EUR 1,902 million (Dec. 31, 2000: EUR 1,899 million)		
Indirect pension obligations	867	715
	3,138	2,915
Obligations under Article 131 GG	12	13
	3,150	2,928

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

The amount of the accrual for direct and indirect pension obligations determined in accordance with § 6a EStG on the basis of the new life expectancy tables was EUR 3,217 million (Dec. 31, 2000: EUR 3,037 million).

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements for the protection of vested VAP benefits.

Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits further amounts to this account annually; when the insured event occurs, the account balance will be paid out in full or in installments, or converted into a pension. If the relevant employees have not reached

the age of 35 and have been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The remaining obligations are handled by the DTBS.

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

Coverage of the pension obligations in line with SFAS 87 is as follows:

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Actuarial present value of benefits:		
Vested	2,987	2,746
Nonvested	118	173
Accumulated benefit obligation	3,105	2,919
Effect of projected future salary increases	52	55
Projected benefit obligation	3,157	2,974
Plan assets at fair value	(336)	(328)
Projected benefit obligation in excess of plan assets	2,821	2,646
Unrecognized net gains (losses)	(254)	(32)
Unfunded Accrued Pension Cost	2,567	2,614
Additional minimum liability (AML)	201	0

The net periodic pension cost for the future benefit recipients in line with SFAS 87 is as follows:

	2001 millions of €	2000 millions of €	1999 millions of €
Service cost	30	29	35
Interest cost	180	177	175
Return on plan assets	(21)	(15)	(12)
Net periodic pension cost	189	191	198

(25) Other accruals

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Taxes		
Trade tax	560	582
Corporate income tax	894	344
Other taxes	178	275
	1,632	1,201
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance	1,079	1,028
Fund Personnel restructuring	209	149
Other obligations	274	345
Outstanding invoices	771	668
Risks related to real estate	169	508
Investment risks	4	108
Litigation risks	236	272
Restoration commitments	12	11
Deferred maintenance	15	15
Loss contingencies, derivatives	880	66
Other	295	295
	3,944	3,465
	5,576	4,666

(26) Liabilities

	Total	Dec. 31, 2001 millions of €			Total	Dec. 31, 2000 millions of €		
		within one year	in one to 5 years	over 5 years		within one year	in one to 5 years	over 5 years
Debt								
Bonds and debentures	25,956	11,296	13,822	838	27,501	7,081	19,710	710
Liabilities to banks	1,866	511	764	591	2,890 ¹⁾	1,225	1,074	591
	27,822	11,807	14,586	1,429	30,391	8,306	20,784	1,301
Other								
Advances received	4	4	-	-	7	7	-	-
Trade accounts payable	2,063	2,063	-	-	1,842	1,842	-	-
Liabilities to subsidiaries	40,243	16,016	12,440	11,787	31,432	14,372	7,519	9,541
Liabilities to other companies in which an equity interest is held	45	45	-	-	53	53	-	-
Other liabilities	2,926	2,360	90	476	2,731	2,146	109	476
of which: from taxes	(780)	(780)	-	-	(375)	(375)	-	-
of which: from social security	(50)	(50)	-	-	(33)	(33)	-	-
	45,281	20,488	12,530	12,263	36,065	18,420	7,628	10,017
Total liabilities	73,103	32,295	27,116	13,692	66,456	26,726	28,412	11,318

¹⁾ Adjusted figures as a result of the reclassification of liabilities to banks (EUR 18 million).

Bonds and debentures relate primarily to the bonds and debentures of Deutsche Bundespost (EUR 21 million). Breakdown of bonds and debentures in millions of euros as follows:

Effective interest rate	up to 6 %	up to 7 %	up to 8 %	up to 9 %	over 9 %	Total
Due in						
2002	3,423		5,316	2,557		11,296
2003	407	2,556				2,963
2004	1,157	3,068	6,213			10,438
2005						0
2006	421					421
after 2006	105	205	528			838
Total	5,513	5,829	12,057	2,557	0	25,956

Liabilities to subsidiaries:

The largest item under liabilities to subsidiaries is the liability to Deutsche Telekom Finance B.V., Amsterdam (DT Finance), which amounts to EUR 25,798 million (Dec. 31, 2000: EUR 22,419 million). The largest item within this liability is the global bond issued by DT Finance, which was passed on to Deutsche Telekom as an intragroup loan in its original structure with an interest markup of 9 basis points. The bond issued by Deutsche Telekom Finance B.V. Amsterdam (DT Finance) is structured as follows:

Tranche	Nominal amount in currency	Interest rate	Maturity
EUR	2,250,000,000	6.125 %	2005
EUR	750,000,000	6.625 %	2010
GBP	625,000,000	7.125 %	2005
GBP	300,000,000	7.125 %	2030
USD	3,000,000,000	7.750 %	2005
USD	1,800,000,000	8.000 %	2010
USD	3,500,000,000	8.250 %	2030
JPY	90,000,000,000	1.500 %	2005

In addition, liabilities exist to NAB in the amount of EUR 3,561 million (Dec. 31, 2000: EUR 34 million), to T-Online International in the amount of EUR 3,296 million (Dec. 31, 2000: EUR 2,605 million), to Kabel Deutschland in the amount of EUR 1,999 million (Dec. 31, 2000: EUR 1,275 million), to T-Systems in the amount of EUR 1,977 million and to T-Mobile International in the amount of EUR 1,274 million.

The following table shows the composition of other liabilities:

	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Interest	985	1,245
Loan notes	556	556
Tax liabilities	780	375
Liabilities to employees	13	68
Social insurance contributions	50	33
Other	542	454
	2,926	2,731

Notes to the statement of cash flows

Specifically, cash was provided and used as follows:

(27) Net cash provided by operating activities

Net cash provided by operating activities in the year under review amounted to EUR 9,372 million and thus decreased by EUR 1,414 compared with the previous year. A marked improvement in the result by EUR 9,965 million accompanied

by decreased depreciation and amortization, increased active working capital and noncash income and expenses. This was countered by changes in current liabilities and dividends received.

(28) Net cash used for investing activities

Net cash used for investing activities decreased as compared with the previous year by EUR 22,880 million to EUR 8,997 million, and was financed entirely from net cash provided by operating activities. Cash outflows from investments in property, plant and equipment amounted to EUR 12,843 million, while cash inflows from disposals of the same items totaled EUR 2,507 million. Further payments of EUR 1,384 million received from the sale of receivables, assigned to net cash

used for investing activities due to the nature as divestments, are shown under other payments received. Cash funds invested related to EUR 5,580 million in T-Mobile International, EUR 1,611 million in long-term loans to T-Mobile International and EUR 504 million in HT-Hrvatske. A further EUR 4.542 million was invested in property, plant and equipment.

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

Of the net cash provided by financing activities amounting to EUR 810 million, cash inflows from new medium-term and long-term borrowings totaled EUR 13,699 million and new short-term borrowings EUR 70,807 million; these were offset

by cash outflows from the repayment of debt (short-term: EUR 79,566 million, medium- and long-term: EUR 2,253 million) and the dividend payment (EUR 1,877 million).

Other disclosures

(30) Guarantees and commitments, and other financial obligations

Guarantees and commitments	Dec. 31, 2001 millions of €	Dec. 31, 2000 millions of €
Guarantees	304	48
Legal liability arising from collateral granted for third parties		
Liabilities from warranty agreements ¹⁾	15,308	11,275
	15,612	11,323

¹⁾ of which to subsidiaries: EUR 15,263 million; 2000: EUR 11,233 million.

Guarantees included litigation, rental and bank guarantees.

Liabilities arising from warranty agreements are mainly in favor of T-Mobile International (EUR 3,886 million), DT Finance (EUR 4,994 million) and T-Systems (EUR 1,474 million). Furthermore, guarantees and counter-guarantees amounting to EUR 4,678 million were given on behalf of T-Mobile International in connection with the UMTS license acquisition by One 2 One in the United Kingdom.

Other financial obligations

	Dec. 31, 2001 millions of €		Dec. 31, 2000 millions of €	
	in the coming financial year	Total of which due in the following financial year	Total in the coming financial year	of which due in the following financial year
Present value of payments to special pension fund	9,372	845	9,936	912
Obligations under rental and lease agreements				
of which to subsidiaries: EUR 11,535 million (2000: EUR 13,383 million)	13,069	2,465	15,303	2,833
Purchase commitments for capital projects in progress including obligations arising from future expenditure				
of which to subsidiaries: EUR 1,970 million (2000: EUR 2,737 million)	4,157	2,994	3,778	1,917
Purchase commitments for interests in other companies	4,718	4,706	5,550	4,921
Commitments arising from transactions not yet settled				
of which to subsidiaries: EUR 1 million (2000: EUR 2 million)	3		4	4
Commitments for contributions not paid up				
of which to subsidiaries: EUR 50 million (2000: EUR 16 million)	50		16	16
Total other financial obligations	31,369	11,010	34,587	10,583
		20,359		24,004

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the Company's special pension fund for civil servants, or its successor, on the basis of the 1998 life expectancy tables prepared by Prof. Klaus Heubeck amounted to EUR 9.4 billion at December 31, 2001, of which EUR 3.9 billion relates to future work by civil servants.

Obligations under rental and lease agreements include EUR 11,535 million to GMG. The decrease in rental obligations is due to the reduction in rental charges by GMG.

Purchase commitments include commitments for capital projects amounting to EUR 1,531 million (of which to GMG: EUR 987 million) and a purchase commitment amounting to EUR 755 million to GMG for non-capital projects.

Deutsche Telekom has granted DaimlerChrysler Services AG, Berlin, an option valid until January 1, 2005, under which DaimlerChrysler Services AG has the right to sell its shares in T-Systems ITS GmbH, Leinfelden-Echterdingen, (formerly debis Systemhaus GmbH) of 49.9 % to Deutsche Telekom AG.

This option was exercised on January 1, 2002. The financial obligation resulting from the purchase in full of the interest, which is to take effect in the first quarter of 2002, amounts to EUR 4,706 million.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Company.

(31) Derivative financial instruments

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

	Nominal amounts					Fair values ¹⁾			
	Remaining term			Total	Hedged	Remaining term			Total
	within one year	1-5 years	> 5 years			within one year	1-5 years	> 5 years	
millions of €									
Interest-related instruments									
Interest rate options	307	-	-	307	307	-	-	-	-
Interest rate swaps	1,284	13,600	14,861	29,745	18,031	-	(102)	(637)	(739)
Interest rate/ currency swaps	2,227	5,856	5,829	13,912	7,508	-	180	106	286
Subtotal	3,818	19,456	20,690	43,964	25,846	-	78	(531)	(453)
Currency instruments									
Future exchange transactions short	11,343	529	21	11,893	11,758	(7)	(9)	-	(16)
Future exchange transactions long	5,829	65	21	5,915	5,778	7	9	-	16
Currency options	18	-	-	18	0	-	-	-	0
Subtotal	17,190	594	42	17,826	17,536	0	0	-	0
Total	21,008	20,050	20,732	61,790	43,382	0	78	(531)	(453)

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

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. The Company's

policy is to hold or issue derivative financial instruments to eliminate risk exposures instead of creating new risk. Derivative financial instruments are subject to internal controls.

Derivatives classified as hedging instruments are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rate inherent in the Company's assets and liabilities. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. Derivative instruments designated as hedges are accounted for on the same basis as the hedged item.

The main interest rate instruments used are interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans and financial assets, in accordance with a mix of fixed and floating rate interest instruments that is laid down once a year. Interest rate swaps are designated as hedging instruments for specific liabilities (micro interest rate swaps) or groups of similar liabilities (macro interest rate swaps).

Gains or losses related to changes in the value of interest rate swaps relating to balance sheet items are not recognized in income. Interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Interest rate swaps not relating to balance sheet items (especially hedging of planned future transactions) are assigned to currency-specific portfolios, gains and losses from changes in their fair value are netted out and net aggregate losses are recognized in income. Payments made and received in relation to the interest rate swaps and gains and losses from interest rates closed out before maturity are recognized in income.

The Company uses foreign currency forward contracts and foreign currency options purchased as well as cross currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not recognized at the balance sheet date. The investment in the purchased entity is capitalized using the foreign exchange rate fixed by the foreign currency forward contract. The Company purchases options to hedge firm commitments to invest in a foreign entity. A purchased option is included in other assets and measured at historical cost. Upon exercise of the option, the premium is included in the purchase cost of the asset.

Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities. Valuation gains and losses are netted portfolio for portfolio. An accrual for loss contingencies is established for each portfolio for the amount of the excess loss. Net gains are not recognized.

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in EUR for a contractually fixed amount of foreign currency forward contracts and currency options.

The terms of the EUR-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average 4.7 % per annum) and pay interest at variable rates (generally based on the six-month Euribor rate). The terms of the EUR-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month Euribor rate) and pay interest at fixed rates (weighted average of 5.7 % per annum).

The terms of the GBP-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month LIBOR rate) and pay interest at fixed rates (weighted average of 6.5 % per annum).

The terms of the JPY-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 1.5 % per annum which are swapped for variable rates (generally based on the six-month JPY-LIBOR rate).

The terms of the USD-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 7.9 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate). The terms of the USD-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 6.1 % per annum) which are swapped for variable rates (generally based on the six-month and the three-month USD-LIBOR rate).

The interest rate/currency swaps are used to transform the funds from the global bond in USD and JPY issued in 2000, as well as those from the Samurai Bond and MTN drawings in JPY in 2001, into Telekom's target currencies, GBP and EUR. Generally, basis swaps are concluded that exchange the relevant 3-month or 6-month interest rates into corresponding variable interest rates in the target currencies, EUR and GBP. Amounts received and paid under all these interest rate swaps, which are dependent on the notional amounts and the contractual interest rates, are settled annually, semi-annually or quarter-annually.

As part of the conversion to shareholders' equity in T-Mobile International of Telekom's shareholder loans as of December 31, 2001, loans extended in GBP were also converted into EUR. The hedging transactions taken out by Telekom are thus no longer necessary and are therefore being reversed or terminated using appropriate countertransactions.

Telekom's interest rate options do not affect interest income, since purchases of caps are terminated by corresponding sales. Developments in the fair value of the transactions offset each other.

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

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

The Supervisory Board has received no Supervisory Board remuneration or meeting attendance fees so far for the 2001 financial year. After the shareholders' meeting on May 29, 2002, Supervisory Board remuneration and meeting fees amounting to EUR 549,500.00 will be paid for the 2001 financial year.

Provided that the 2001 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom will amount to EUR 17,425,106.39. Deutsche Telekom granted 1,743,908 stock options to the members of the Board of Management in the 2001 financial year.

The remuneration to be paid to former members of the Board of Management of Deutsche Telekom AG and their surviving dependents amounts to EUR 805,117.05. Accruals totaling EUR 16,491,490 have been established for current and future pensions of this group of persons at December 31, 2001. Pension obligations to such persons for which no accrual had to be established amounted to EUR 3,393,980.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

(33) Proposal for appropriation of net income

The statement of income reflects a net income of EUR 6,632,002,874.39. Of this net income, EUR 3,300,000,000.00 has been transferred to retained earnings in accordance with § 22 paragraph 3 of the Articles of Incorporation. Following inclusion of the unappropriated net income of EUR 100,525,987.97 carried forward from 2000, this gives rise to cumulative unappropriated net income of EUR 3,432,528,862.36.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of EUR 0.37 per individual no par value share carrying dividend rights. An amount of EUR 1,870,000,000 will be transferred to other retained earnings and the remaining balance will be carried forward as part of unappropriated net income.

Bonn, March 18, 2002

Deutsche Telekom AG
Board of Management

Dr. Ron Sommer

Josef Brauner

Dr. Karl-Gerhard Eick

Jeffrey A. Hedberg

Dr. Max Hirschberger

Dr. Heinz Klinkhammer

Kai-Uwe Ricke

Gerd Tenzer

Report of Independent Auditors

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, the statement of cash flows, the statement of shareholders' equity and the notes to the annual financial statements, together with the bookkeeping system, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the financial year from January 1 to December 31, 2001. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and with the additional rules as laid down in the Company's articles of incorporation are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart/Frankfurt am Main, March 18, 2002

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft
Stuttgart

(Prof. Dr. Pfitzer)
Wirtschaftsprüfer

(Hollweg)
Wirtschaftsprüfer

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
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pretations, the German original shall
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