

In 1998, Deutsche Telekom's share of losses from investments in companies accounted for using the equity method, including risk provisions for write-downs of equity book values and related goodwill amortization, decreased by EUR 396 million. In 1998, Deutsche Telekom's share of loss related to Atlas (through which Deutsche Telekom and France Telecom held their interests in Global One) amounted to EUR 221 million, EUR 33 million more than in 1997. The combined effect of this increased loss and the absence of further write-downs of Atlas' equity book value increased losses by EUR 23 million. In 1998, Deutsche Telekom's Asian ventures, particularly TRI, Asiacom and Satelindo, generated losses from financial activities of EUR 171 million, a decrease of EUR 295 million from the 1997 level. The 1998 decrease in loss from financial activities includes principally a EUR 44 million decrease in nonscheduled goodwill amortization, a EUR 37 million decline in risk provisions (net) for the write-down of equity book values and a EUR 145 million decrease in proportionate losses. By reducing the equity book value of these ventures to EUR 143 million by year-end 1998, Deutsche Telekom had reduced its risk exposure with respect to its Asian ventures significantly. Outside of Asia, risk provisions of EUR 30 million which Deutsche Telekom made in previous years with respect to its investments in DETECON Deutsche Telepost Consulting GmbH and EUCOM Gesellschaft für Telekommunikations-Mehrwertdienste mbH were reversed in 1998 and no further losses were incurred. The combined positive effect on results related to companies accounted for under the equity method amounted to EUR 71 million.

#### Taxes

The following table presents information concerning income taxes and other taxes.

	Year ended December 31		
	1999	1998	1997
Income taxes.....	1,380	2,477	1,512
Other taxes.....	40	177	332
<b>Taxes.....</b>	<b>1,420</b>	<b>2,654</b>	<b>1,844</b>

Income taxes decreased in 1999 but increased in 1998. In each year, changes in income taxes correlated with changes in income before taxes. Furthermore, income taxes reflect differences in accounting and valuation between the statements for financial reporting purposes and the statements for tax purposes. The decrease in other taxes in 1999 resulted primarily from a refund of wage taxes withheld in a prior period and a reversal of an accrual for value-added tax, which were partially offset by the establishment of an accrual for withholding tax on wages. The decrease in other taxes in 1998 resulted principally from the fact that the trade capital tax was no longer imposed in 1998.

Deutsche Telekom's effective income tax rate (income taxes as a percentage of pre-tax income) was approximately 48 percent in 1999, 50 percent in 1998 and 45 percent in 1997. The statutory income tax rate for Deutsche Telekom was approximately 52 percent in 1999 and 57 percent in 1998 and 1997, including corporate income taxes (assuming that earnings are not distributed), trade income taxes (using a German national average rate) and the solidarity surcharge on corporate income tax (*Solidaritätszuschlag*). The differences between the statutory rate and the effective rate relate primarily to the lower income tax rate of 30 percent on the proposed dividend of EUR 1.9 billion for 1999 and the dividend of EUR 1.7 billion for each of 1998 and 1997, differentials of tax rates on income taxable outside of Germany, temporary differences and losses for which deferred taxes are not recorded under German GAAP, and, in 1997, tax effects resulting from the restructuring of companies.

#### Liquidity and Capital Resources

The following table provides information concerning Deutsche Telekom's cash flows.

	<u>Year ended</u> <u>December 31,</u>		
	1999	1998	1997
	(millions of euro)		
Net cash provided by operating activities .....	9,588	13,491	11,576
Net cash used for investing activities .....	(18,684)	(7,511)	(5,404)
Net cash provided by (used for) financing activities .....	7,965	(6,797)	(7,035)
Effect of foreign exchange rate changes on cash and cash equivalents .....	(55)	6	(3)
<b>Net decrease in cash and cash equivalents (1) .....</b>	<b><u>(1,186)</u></b>	<b><u>(811)</u></b>	<b><u>(866)</u></b>
Cash and cash equivalents, at beginning of year .....	2,064	2,875	3,741
Cash and cash equivalents, at end of year .....	878	2,064	2,875

(1) Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

#### Liquidity

**Net Cash Provided by Operating Activities.** Deutsche Telekom's primary source of liquidity is cash generated from operations. Net cash provided by operating activities decreased by EUR 3.9 billion in 1999 primarily as a result of a decline in net income, which was particularly driven by the decline in revenues from fixed line telephone communications. In addition, net cash from operating activities has been negatively affected by a change in working capital, increased tax payments in excess of taxes recognized in the statement of income and expenditures relating to Deutsche Telekom's second public offering of shares in 1999. The change in working capital was particularly influenced by an increase in receivables, which was partially offset by an increase in liabilities.

In 1998, net cash provided by operating activities increased by EUR 1.9 billion as compared to the prior year. The increase was in part attributable to a higher inflow of cash from net revenues. Net cash provided by operating activities was also favorably influenced by the change in the ratio of non-cash expenses for income taxes and income tax payments. With other non-cash items decreasing to a greater extent than net income increased, net cash provided by operating activities benefited from declines in accounts receivable and increases in accounts payable. In addition, reduced cash outflows for interest payments coupled with higher cash inflows from interest earnings contributed to the increase in net cash provided by operating activities.

**Net Cash Used For Investing Activities.** Cash used for investing activities consists of net changes in temporary cash investments (i.e., securities with a maturity of over three months) and other cash used for investing activities such as capital expenditures, acquisitions and proceeds from sales of assets.

	<u>Year ended December 31,</u>		
	1999	1998	1997
	(millions of euro)		
Net change in short-term investments .....	2,328	(701)	1,729
Other cash used for investing activities .....	(21,012)	(6,810)	(7,133)
<b>Net cash used for investing activities .....</b>	<b><u>(18,684)</u></b>	<b><u>(7,511)</u></b>	<b><u>(5,404)</u></b>

In 1999, a net amount of EUR 2.3 billion of short-term investments was redeemed, resulting in a net cash inflow from short-term investments. In 1998, Deutsche Telekom dedicated a net amount of EUR 0.7 billion of cash to short-term investments.

Other net cash used for investing activities increased by 209 percent from 1998 to 1999. An increase of EUR 13.4 million in investments in subsidiaries, associated companies and related companies, principally due to the acquisition of interests in max.mobil. and One 2 One, together with an increase in capital expenditures from EUR 4.8 billion in 1998 to EUR 6.0 billion in 1999, accounted for a substantial majority of the increase in other net cash used for investing activities in 1999. The increase in capital expenditures resulted primarily from increased expenditures of T-Mobil for mobile network equipment and from the inclusion of capital expenditures of max.mobil. and One 2 One in Deutsche Telekom's consolidated financial statements for the first time in 1999. For further information in this regard, see "—Capital Expenditures and Investments."

Other cash used for investing activities declined from 1997 to 1998, primarily as a result of a decrease in capital expenditures that was due to the completion of the digitization of Deutsche Telekom's network at the

end of 1997. In 1997 and 1998, cash was used for investments in noncurrent securities and investments in joint ventures and third party telecommunications companies.

*Net Cash Provided By (Used For) Financing Activities.* Net cash provided by financing activities increased to EUR 8.0 billion in 1999, which represents a cash inflow of EUR 10.6 billion from Deutsche Telekom's 1999 public offering of shares, EUR 1.7 billion used for payment of dividends relating to the 1998 financial year and a net amount of EUR 0.9 billion used for retirement of indebtedness. EUR 0.9 billion of indebtedness was retired prior to maturity in 1999. Although a net cash outflow relating to retirement of indebtedness occurred in 1999, net indebtedness in the balance sheet increased by EUR 2.4 billion during 1999 due to the assumption of indebtedness in connection with acquisitions made in that year, which did not have an impact on cash flows from financing activities.

In 1998, Deutsche Telekom reduced its outstanding debt by EUR 5.0 billion. In addition, Deutsche Telekom paid dividends in an aggregate amount of EUR 1.8 billion in 1998 relating to the 1997 financial year, which for the first time included dividends paid by MATÁV.

As in 1998, the change in net cash provided by (used for) financing activities in 1999 includes the effect of the cash inflow of EUR 1 billion from bonds issued by Deutsche Telekom from a debut benchmark bond issue.

#### *Capital Resources*

At December 31, 1999, Deutsche Telekom had committed short-term credit facilities of EUR 8.3 billion. The interest rates for these facilities range from 5.5 percent to 6.0 percent or are set at the daily interbank rate plus 0.25 percent. Deutsche Telekom expects to renew these facilities annually. At December 31, 1999, these credit lines had been drawn upon in the amount of EUR 3.5 billion. At December 31, 1999, medium term notes in the amount of EUR 358 million were outstanding, of which EUR 51 million expire in 2000 and the remaining EUR 307 million have maturities ranging from 2001 to 2009. At December 31, 1999, these medium term notes bore interest at an average effective rate 6.5 percent.

As of December 31, 1999, EUR 31.8 billion of Deutsche Telekom's liabilities were guaranteed by the Federal Republic. Indebtedness incurred by Deutsche Telekom since the beginning 1995 is no longer guaranteed by the Federal Republic, as described above under the heading "Relationship with the Federal Republic—Federal Republic Guarantees".

Deutsche Telekom believes that its bank facilities, together with its liquid assets, are sufficient to meet its present working capital needs. Deutsche Telekom may incur additional indebtedness in connection with the implementation of its internationalization strategy. In addition, Deutsche Telekom may incur new debt to refinance existing debt. Financing and refinancing conditions will depend principally upon future market conditions, Deutsche Telekom's rating as a debtor and its future prospects. See "—"Quantitative and Qualitative Disclosures About Market Risk" for a presentation of scheduled maturities of Deutsche Telekom's indebtedness as of December 31, 1999. Debt of EUR 8.9 billion (including liabilities to banks) will reach maturity in 2000. For the longer term, Deutsche Telekom is seeking to establish a capital structure consisting of approximately 40 percent equity, 40 percent debt and 20 percent accruals. Deutsche Telekom may face increased cash requirements, which exceed internal cash flow, to support its growth in the global markets and its evolution toward being a telematics services provider, and may consider capital-raising measures in this regard.

#### **Capital Expenditures and Investments**

The following table provides information concerning capital expenditures and investments in subsidiaries, associated companies and related companies as well as proceeds from sale of non-current assets:

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Capital expenditures.....	5,974	4,791	6,791	24.7	(29.4)
Investments.....	16,113	2,733	801	489.6	241.1
Proceeds from sale of non-current assets.....	(1,073)	(715)	(329)	50.1	117.3
Other.....	(2)	1	(130)	(300.0)	(100.8)
<b>Net cash used for investing activities(1).....</b>	<b>21,012</b>	<b>6,810</b>	<b>7,133</b>	<b>208.5</b>	<b>(4.5)</b>

(1) Excluding net change in short-term investments.

#### Capital Expenditures

The following table provides information concerning Deutsche Telekom's capital expenditures and percentage changes in them. Other capital expenditures include intangible assets, other equipment, plant and office equipment as well as advance payments and construction in progress.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Fixed networks.....	2,576	2,348	4,268	9.7	(45.0)
Mobile networks.....	547	289	203	88.9	42.4
Buildings.....	364	223	313	63.2	(28.8)
Other capital expenditures.....	2,487	1,931	2,007	28.8	(3.8)
<b>Total capital expenditures.....</b>	<b>5,974</b>	<b>4,791</b>	<b>6,791</b>	<b>24.7</b>	<b>(29.5)</b>

In 1999, the increase in capital expenditures for fixed networks was due to intensified capital expenditures on switching and transmission equipment. Capital expenditures on mobile networks reflect the increased number of subscribers of T-Mobil, resulting in additions to transmission equipment. The newly acquired companies 2 One 2 One and max.mobil. contributed significantly to capital expenditures on mobile networks. Other capital expenditures increased primarily due to the fee that the Regulatory Authority required Deutsche Telekom to pay in October 1999 for telephone number blocks allocated to Deutsche Telekom prior to January 1, 1998.

In 1998, the decrease in capital expenditures reflects the completion of the digitization of switching and transmission equipment. Capital expenditures on technical assets and equipment for the fixed and mobile networks accounted for approximately 55 percent of total capital expenditures in 1998, with investments in telephone network and switching equipment both accounting for approximately 12 percent. Investments in assets other than technical assets and equipment accounted for the remaining 45 percent. These included capital expenditures for intangible assets of EUR 0.5 billion, which related primarily to software.

In 2000, Deutsche Telekom plans to dedicate EUR 1.5 billion to its fixed telephone network. Within this amount, capital expenditures of EUR 400 million relate to the expansion of the number of ISDN channels in the national network, EUR 500 million is to be devoted to improvements of the international and national network and EUR 500 million is planned for the expansion of its Internet platform. Additionally, Deutsche Telekom plans to dedicate capital expenditures of approximately EUR 800 million to the expansion of the capacity of its mobile network. In the event that Deutsche Telekom is successful in bidding for UMTS licenses, significant further investments will be necessary over the next years.

#### Investments

Investments in subsidiaries, associated companies and related companies made in 1999 totaled EUR 16.1 billion. Deutsche Telekom's investments in fully consolidated companies (principally One 2 One, max.mobil. and SIRIS) account for EUR 12.6 billion of this total. A further EUR 1.2 billion relate to equity investments in HT - Hrvatske telekomunikacije d.d., Croatia, which accounted for EUR 0.8 billion, and in Sprint and Atlas/Global One, each of which accounted for EUR 0.2 billion. A loan of EUR 0.2 billion was granted to DETECON, an associated company. Deutsche Telekom invested a further EUR 1.3 billion in other investment securities, of which EUR 1.0 billion was invested in fixed-income securities issues and EUR 0.3 billion in specialized security funds (mainly fixed funds).

Investments in subsidiaries, associated companies and related companies made in 1998 totaled EUR 2.7 billion. Deutsche Telekom AG invested an additional EUR 0.6 billion in fixed-income securities (annuity funds), mixed funds and equity investment funds, with the object of enhancing income from medium- and long-term reserves. A total of EUR 1.9 billion was invested in associated and related companies. Among the equity investments made was the purchase of a 2 percent interest in France Telecom for EUR 1.2 billion. Other companies in which Deutsche Telekom made equity investments were Atlas/Global One with EUR 240 million, the joint venture Wind S.p.A. Italy, with EUR 77 million, the Israeli company VocalTec Communications Ltd. with EUR 46 million, the satellite company SES Société Européenne des Satellites S.A. with EUR 174 million and Sprint with EUR 38 million. Deutsche Telekom also granted a loan of EUR 111 million to DETECON, an associated company.

Expenditures for further selective expansion into international markets are expected to constitute a greater share of total investment activity over the next few years. In line with its strategy for growth, Deutsche Telekom continuously evaluates potential acquisitions and business opportunities and will make investments on a selective basis where they match Deutsche Telekom's strategic plans. Going forward, Deutsche Telekom intends to emphasize acquisitions which allow it to exercise a degree of control over the companies in which it invests, and which are within its four strategic growth areas: mobile telecommunications, data communications, consumer Internet and network access.

### **Preparation for the euro and the Year 2000**

#### *Euro*

The euro was introduced in the Federal Republic on January 1, 1999. To meet customer expectations and comply with legal requirements, Deutsche Telekom in 1997 initiated a project aimed at making its processes, support systems and applications compatible with the euro on a timely and efficient basis. The euro project group coordinates and controls the transition process for the Deutsche Telekom group. It supports the different departments in identifying the processes and systems to be modified and in planning appropriate measures. The euro project group also sets the framework within which Deutsche Telekom's subsidiaries proceed with their transition to the euro.

Deutsche Telekom plans to use the euro as its general billing currency and to modify its general terms and conditions for doing business accordingly starting in January 2002. Until then, Deutsche Telekom will issue its invoices denominated in DM or euro with convenience translations into the other currency, depending on the preference of the customer. The implementation of the euro for all of Deutsche Telekom's internal and external accounting systems is scheduled to be completed by 2001.

Deutsche Telekom estimates total expenditures of EUR 140 million for its euro compliance program. Modification costs for system adjustments will be expensed as incurred. In 1999, Deutsche Telekom spent approximately EUR 35 million on its euro compliance activities. For 2000, Deutsche Telekom expects further costs of approximately EUR 40 million.

#### *Preparing for the Year 2000*

Deutsche Telekom successfully completed its Year 2000 readiness work and passed through the January 1, 2000 and leap year rollover event while encountering no material outages or business interruptions that affected customers. From the inception of Deutsche Telekom's Year 2000 readiness program in 1997 through December 31, 1999, Deutsche Telekom incurred costs of approximately EUR 134 million of costs associated with the program. Deutsche Telekom expects to spend a further EUR 5 million for completion of the project.

### **German GAAP Compared to U.S. GAAP**

Under U.S. GAAP, Deutsche Telekom's net income was EUR 1.5 billion in 1999, EUR 2.2 billion in 1998 and EUR 1.3 billion in 1997, compared to EUR 1.3 billion in 1999, EUR 2.2 billion in 1998, and EUR 1.7 billion in 1997 under German GAAP. Under U.S. GAAP, shareholders' equity was EUR 37.6 billion at December 31, 1999 and EUR 26.9 billion at December 31, 1998, compared to EUR 35.7 billion at December 31, 1999 and EUR 25.1 billion at December 31, 1998 under German GAAP. Differences result primarily from the different treatment of VAT, capitalization of software costs, the employee share purchase plan, personnel restructuring and other accruals, termination of interest rate swaps and financial instruments, income taxes and share

offering costs. See note 36 to the consolidated financial statements. In addition, shareholders' equity also reflects differences in market value adjustments.

#### **New Accounting Pronouncements**

Various new accounting standards affecting Deutsche Telekom's financial statements under U.S. GAAP have been adopted, as described in note 40 to the consolidated financial statements.

### **ITEM 9A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Disclosures about Market Risk**

Deutsche Telekom is exposed to interest rate, foreign exchange rate and equity price risk associated with underlying assets, liabilities and anticipated transactions. Following the evaluation of these positions, Deutsche Telekom selectively enters into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. The activities of the Deutsche Telekom central treasury are subject to policies approved by senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Deutsche Telekom's policy is to hold or issue derivative financial instruments for purposes other than trading.

Deutsche Telekom regards effective market risk systems as an important element of its treasury function and is currently enhancing its systems. The risk analysis, which is based on the market middle price, follows the recommendations of the Basel committee bank supervisory boards. The central treasury function, operating as a service center, also supplies financial services to Group companies appropriate to their requirements and local circumstances.

The following discussion and tables, which constitute forward-looking statements that involve risk and uncertainties, summarize Deutsche Telekom's market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which Deutsche Telekom faces in the normal course of business, including country risk, credit risk and legal risk.

#### *Interest Rate Risk*

Deutsche Telekom's major market risk exposure arises from changing interest rates, primarily in the European Union. An increase in interest rates reduces the fair value of Deutsche Telekom's debt portfolio, which is primarily of a fixed interest nature. Deutsche Telekom uses interest rate swaps, forward rate agreements, swaptions and futures contracts to diversify funding, reduce interest rate volatility on certain debt issues and investments, and manage its interest expense by achieving a balanced mixture of floating and fixed rate debt. Under interest rate swaps, Deutsche Telekom agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount. Swaptions entitle the purchaser to require the counterparty to enter an interest rate swap at specified terms. Deutsche Telekom restrictively sells swaptions to improve interest income. Interest rate caps require Deutsche Telekom to pay, or entitle Deutsche Telekom to receive, the excess of an agreed upon rate over a reference interest rate. Futures contracts require Deutsche Telekom to pay or to receive losses or gains arising on movements in the quoted contract price during the period before delivery.

The following tables summarize the nominal and fair values, maturity and contract terms of the interest rate sensitive financial instruments that were held by Deutsche Telekom at December 31, 1999.

December 31, 1999  
Assets and related derivative instruments subject to interest rate risk

	Maturities						TOTAL	FAIR VALUE
	2000	2001	2002	2003	2004	Thereafter		
	(in millions of euro)							
<b>ASSETS</b>								
Other long-term loans								
Fixed rate.....	102	102	102	133	2	6	447	447
Average interest rate (%).....	6.95	6.95	6.95	6.95	6.95	6.95	6.95	
Variable rate.....	-	180	-	-	-	-	180	180
Average interest rate (%) <sup>(1)</sup> .....								
Other investments in non-current securities								
Interest instrument investment portfolio.....	1,358	274	291	104	-	-	2,027	2,294
Note (5).....		5.35	5.03	4.50	-	-		
Other investments in marketable securities								
Fixed rate.....	72	266	257	113	401	616	1,725	1,725
Average interest rate (%) <sup>(2)</sup> .....	9.82	6.75	6.53	8.59	5.55	4.15		
Liquid assets								
Fixed rate DM, EUR, EMS								
Fixed rate.....	317	-	-	-	-	-	317	317
Average interest rate (%) <sup>(2)</sup> .....	3.17	-	-	-	-	-	3.17	
Fixed rate US\$								
Fixed rate.....	109	-	-	-	-	-	109	109
Average interest rate (%) <sup>(2)</sup> .....	5.47	-	-	-	-	-	5.47	
Fixed rate GBP								
Fixed rate.....	296	-	-	-	-	-	296	296
Average interest rate (%) <sup>(2)</sup> .....	5.30	-	-	-	-	-	5.30	
Variable rate DM, EUR, EMS								
Variable rate.....	3	-	-	-	-	-	3	3
Average interest rate (%).....	2.76	-	-	-	-	-	2.75	
Variable rate US\$								
Variable rate.....	179	-	-	-	-	-	179	179
Average interest rate (%).....	3.74	-	-	-	-	-	3.74	
Variable rate GBP								
Variable rate.....	3	-	-	-	-	-	3	3
Average interest rate (%).....	4.15	-	-	-	-	-	4.15	
EUR interest rate swaps								
Receive fixed, pay variable <sup>(4)</sup>								
Contract amount.....	-	-	500	-	-	-	500	(10)
Average receive rate (%) <sup>(3)</sup> .....	-	-	3.79	-	-	-	3.79	
EUR FRAs sold								
Contract amount								
Contract amount.....	1,000	-	-	-	-	-	1,000	(4)
Average rate (%).....	3.21	-	-	-	-	-	3.21	
Interest rate futures bought								
505 contracts with EUR 100,000 nominal value								
Future price DM.....	51	-	-	-	-	-	51	0
Future price DM.....	104.15	-	-	-	-	-	104.15	

- (1) The interest rate terms for 6 months LIBOR plus 0.5.
- (2) Weighted average rates of the portfolio at the period end.
- (3) Weighted average settlement rates applicable to the current settlement period.
- (4) Represents notional amounts.
- (5) The interest rate terms for these investments (mainly investment funds and mixed funds) are not available.

**December 31, 1999**  
**Liabilities and related derivative instruments subject to interest rate risk**

	<u>Maturities</u>						<u>TOTAL</u>	<u>FAIR VALUE</u>
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Thereafter</u>		
	(in millions of euro)							
<b>LIABILITIES</b>								
<b>Bonds and debentures</b>								
Fixed rate.....	3,984	5,326	7,874	2,557	9,280	2,726	31,747	33,674
Average interest rate (%)(1).....	8.87	7.97	7.92	6.25	7.35	5.57	7.54	
Variable rate.....	950	-	-	39	-	51	1,040	1,038
Average interest rate (%)(1).....	5.25	-	-	14.62	-	5.00	5.59	
<b>Liabilities to banks</b>								
Fixed rate.....	3,559	257	329	475	325	784	5,729	5,729
Average interest rate (%)(1).....	3.74	7.98	7.20	6.82	7.53	4.69	4.73	
Variable rate(4).....	430	1,602	74	48	20	1,647	3,821	3,821
Average interest rate (%)(1).....	4.39	6.50	14.84	14.62	14.71	5.84	6.29	
<b>EUR Forward forward deposit</b>								
Contract amount.....	600	-	-	-	-	-	600	(1)
Average rate (%)......	3.88	-	-	-	-	-	3.88	
<b>EUR interest rate swaps</b>								
Receive variable, pay fixed.....	-	-	153	153	52	1,534	1,892	(42)
Average pay rate (%)(2).....	-	-	5.20	4.82	5.45	5.63	5.52	
Average receive rate (%)(2).....	-	-	3.49	2.93	3.11	3.40	3.36	
EUR interest rate swaps								
Receive fixed, pay variable(3).....	13	1,227	716	-	-	562	2,518	30
Average pay rate (%)(2).....	2.9	3.3	3.07	-	-	3.43	3.26	
Average receive rate (%)(2).....	6.3	4.5	4.71	-	-	5.00	4.68	
<b>GBP interest rate swap</b>								
Receive variable, pay fixed.....	-	-	121	1,008	88	-	1,217	20
Average pay rate (%)(2).....	-	-	6.92	6.57	5.18	-	6.53	
Average receive rate (%)(2).....	-	-	7.04	7.04	7.04	-		
<b>EUR interest rate caps purchased</b>								
Contract amount.....	-	-	153	-	-	-	153	4
Average strike rate (%)......	-	-	3.83	-	-	-	3.83	
<b>GBP interest rate caps (collars) purchased</b>								
Contract amount.....	-	-	202	80	-	-	282	0
Average cap strike rate (%)......	-	-	8.5	7.5	-	-	8.2	
<b>US\$ interest rate swaps</b>								
Receive variable, pay fixed(3).....	-	-	50	50	-	324	424	17
Average pay rate (%)(2).....	-	-	6.13	5.83	-	6.15	6.11	
Average receive rate (%)(2).....	-	-	6.14	5.58	-	6.05	6.01	
US\$ interest rate swaps								
Receive fixed, pay variable(3).....	-	-	50	50	-	325	425	(22)
Average pay rate (%)(2).....	-	-	6.14	5.58	-	6.05	6.01	
Average receive rate (%)(2).....	-	-	5.9	5.8	-	5.92	5.90	
<b>Cross currency interest rate swaps</b>								
Receive fixed GRD, pay variable DM.....	-	30	18	28	-	-	76	11
Average pay rate (%)(2).....	-	3.12	3.12	3.11	-	-	3.12	
Average receive rate (%)(2).....	-	9.70	9.03	8.11	-	-	8.96	
Receive fixed USD, pay variable EUR								
Average pay rate (%)(2).....	-	-	-	-	-	49	49	2
Average receive rate (%)(2).....	-	-	-	-	-	6.81	6.81	
						4.65	4.65	

- (1) Weighted average rates of the portfolio at the period end.  
(2) Weighted average settlement rates applicable to the current settlement period.  
(3) Represents notional amounts.  
(4) Consists mainly of debt denominated in GBP.

### Foreign Exchange Rate Risk

Deutsche Telekom conducts its business primarily in Germany and, therefore, its cash flows have been primarily denominated in euros. Deutsche Telekom is exposed to foreign exchange risk related to foreign currency denominated liabilities, international participations and anticipated foreign exchange payments. These liabilities relate primarily to foreign currency denominated debt of group companies. Anticipated foreign exchange payments, representing a substantial sum, relate primarily to expense payments, principally to international third party telecommunications carriers, and capital expenditures. Based on Deutsche Telekom's estimate of future foreign exchange rates, it enters into foreign currency forward exchange contracts to reduce fluctuations in foreign currency cash flows related to these anticipated payments. There can be no assurance that actual payments will conform to Deutsche Telekom's expectations or to historical payment patterns.

The table below provides information about foreign currency derivative instruments. The on balance sheet foreign currency positions are indicated in the interest rate tables. Deutsche Telekom has entered into derivative instruments in connection with anticipated settlement payments to international third party carriers. In addition, in connection with the purchase and financing of One 2 One, Deutsche Telekom has entered into forward sales of GBP (see below) in order to hedge in part the foreign exchange risk.

**December 31, 1999**  
Derivative instruments subject to foreign exchange risk

	Maturities						TOTAL	FAIR VALUE
	2000	2001	2002	2003	2004	Thereafter		
	(in millions of euro)						(in millions of euro)	
<b>Foreign currency forward exchange contracts</b>								
Buy US\$/ sell EUR.....	5	-	-	-	-	-	5	1
Average contractual exchange rate (EUR/US\$).....	1.09	-	-	-	-	-	1.09	
Sell US\$/ buy EUR.....	1,039	-	-	-	-	-	1,039	(105)
Average contractual exchange rate (EUR/US\$).....	1.11	-	-	-	-	-	1.11	
Sell GBP/ buy EUR.....	7,066	-	-	-	-	-	7,066	(152)
Average contractual exchange rate (EUR/GBP).....	0.64	-	-	-	-	-	0.64	
Sell HUF/ buy US\$.....	145	-	-	-	-	-	145	(2)
Average contractual exchange rate (HUF/US\$).....	1.57	-	-	-	-	-	1.57	
<b>Cross currency interest rate swaps</b>								
Receive fixed GRD, pay variable DM.....	-	30	18	28	-	-	76	11
Average pay rate (%) <sup>(1)</sup> .....	-	3.12	3.12	3.11	-	-	3.12	
Average receive rate (%) <sup>(1)</sup> .....	-	9.7	9.03	8.11	-	-	8.96	
Receive fixed USD, pay variable EUR.....	-	-	-	-	-	49	49	2
Average pay rate (%) <sup>(1)</sup> .....	-	-	-	-	-	6.81	6.81	
Average receive rate (%) <sup>(1)</sup> .....	-	-	-	-	-	4.65	4.65	

(1) Weighted average settlement rates applicable to the current settlement period.

### Equity Price Risk

Deutsche Telekom continuously evaluates investment opportunities with a view to enhancing its return on excess liquidity, while maintaining a diversified portfolio. The table below presents the cost and fair value of those marketable equity securities comprising mixed and equity funds held by Deutsche Telekom at December 31, 1999 which are sensitive to changes in equity prices. The securities are carried at cost.

	December 31, 1999	
	Assets subject to equity price risk	
	Cost	Fair Value
	(in millions of euro)	
Other investments in non-current securities		
Equity investment portfolio.....	685	888

The fair value of debt and investments which are publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks and other

liabilities approximate their fair values. The net carrying amounts of liquid assets reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of off-balance sheet financial instruments generally reflects the estimated amount Deutsche Telekom would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify Deutsche Telekom's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in Deutsche Telekom's exposure to adverse fluctuations in interest and foreign exchange rates.

#### *Changes in market risk exposure compared to 1998*

The reduction of the fixed rate bonds by approximately 12 percent to EUR 31.7 billion accordingly reduces the fair value risk resulting from potential changes in interest rates. Deutsche Telekom's foreign exchange exposure did not materially change compared to 1998. Deutsche Telekom faces an increased equity price risk related to its investment in mixed and equity funds which increased by EUR 147 million in 1999 to EUR 685 million. For a summarized comparison of the nominal amounts, book values and market values of financial instruments and other information relating to those instruments, see note 33 to the consolidated financial statements.

### **ITEM 10—DIRECTORS AND OFFICERS OF REGISTRANT**

#### *General*

As required by the German Stock Corporation Act, Deutsche Telekom has a two-tier board system consisting of a Board of Management and a Supervisory Board. The Board of Management is responsible for managing Deutsche Telekom and representing Deutsche Telekom in its dealings with third parties, while the Supervisory Board appoints and removes the members of the Board of Management and oversees the management of Deutsche Telekom. Since 1998, the Supervisory Board is required to review not only the annual financial statements of Deutsche Telekom AG but also the consolidated financial statements. The official auditor is engaged by the Supervisory Board.

Under the German Stock Corporation Act, the Supervisory Board is not permitted to make management decisions. Pursuant to the Articles of Association of Deutsche Telekom and the By-laws (*Geschäftsordnung*) of the Board of Management, the Board of Management must obtain the consent of the Supervisory Board for certain actions, including acquisitions or dispositions of real property having a value of more than EUR 25 million, acquisitions or dispositions of equity investments, the appointment of members of the Supervisory Board or other bodies having supervisory functions of direct or indirect subsidiaries with a share capital of more than EUR 2.5 million or an annual turnover of more than EUR 25 million, and actions concerning the corporate structure or the strategy of Deutsche Telekom. In addition, under the German Stock Corporation Act, the Supervisory Board is authorized to subject other actions of the Board of Management to its consent.

The Board of Management is required to ensure that adequate risk management and internal monitoring systems exist in the company. The Board of Management has to submit regular reports on the operations and fundamental planning of Deutsche Telekom to the Supervisory Board. The Supervisory Board is also entitled to request special reports at any time. The German Stock Corporation Act prohibits simultaneous membership on the board of management and the supervisory board of a company.

Both the members of the Board of Management and the members of the Supervisory Board owe a duty of loyalty and care to Deutsche Telekom. In carrying out their duties, members of both the Board of Management and the Supervisory Board must exercise the standard of care of a prudent and diligent businessman. The interests of Deutsche Telekom are deemed to include the interests of the shareholders, the interests of the work force and, to some extent, the common interest, and both the Board of Management and the Supervisory Board must take all these interests into account when taking actions or decisions. Although there is no explicit obligation to act solely in the interests of shareholders, the Board of Management is required to respect their rights to equal treatment and equal information.

Under German law, shareholders, like other persons, are prohibited from using their influence on Deutsche Telekom to cause a member of the Board of Management or the Supervisory Board to act in a way that is

harmful to Deutsche Telekom. A controlling enterprise may not cause Deutsche Telekom to take measures that are unfavorable to Deutsche Telekom unless any resulting disadvantage is compensated. An individual shareholder or any other person exerting influence on Deutsche Telekom to cause a member of the Board of Management or of the Supervisory Board or holders of special proxies (*Prokuristen* or *Handlungsbevollmächtigte*) to act in a way that is unfavorable to Deutsche Telekom or its shareholders is liable for damages to Deutsche Telekom and its shareholders. Board members who have neglected their duties in taking the actions are likewise jointly and severally liable for damages.

As a general rule under German law, a shareholder has no direct recourse against the members of the Board of Management or the Supervisory Board in the event that they are believed to have breached a duty to Deutsche Telekom. Only Deutsche Telekom has the right to claim damages from the members of the two Boards. Deutsche Telekom may only waive such damages or settle such claims if at least three years have passed and if the shareholders so approve at a shareholders' meeting with a simple majority of the votes, provided that the opposing shareholders do not hold, in the aggregate, one tenth or more of the nominal share capital of Deutsche Telekom and do not formally express their opposition at the shareholders' meeting by having their opposition noted in the minutes of the meeting maintained by a German notary (*Notar*).

#### *Board of Management*

Pursuant to Deutsche Telekom's Articles of Incorporation, the Supervisory Board determines the size of the Board of Management, subject to the requirement that the Board of Management must have at least two members. The Supervisory Board may appoint a Chairman of the Board of Management as well as a Deputy Chairman.

The members of the Board of Management are appointed by the Supervisory Board for a term of up to five years. They may be re-appointed or have their term extended for one or more terms of up to five years. Under certain circumstances, such as a material breach of duty or a bona fide vote of no confidence by the shareholders, a member of the Board of Management may be removed by the Supervisory Board prior to the expiration of such term. A member of the Board of Management may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and Deutsche Telekom.

The Board of Management takes action by simple majority unless otherwise provided by law. In the event of a deadlock, the Board of Management member in whose area of responsibility the resolution falls has a deciding vote.

For a list of the members of the Board of Management, their ages and their responsibilities, the dates of their appointment and brief biographical information, see the information set forth under the heading "The Board of Management of Deutsche Telekom AG in 1999/2000" on pages 6 and 7 of the 1999 Annual Report, which information is incorporated herein by reference. The members of the Board of Management may be reached at Deutsche Telekom's registered address.

Dr. Joachim Kröske, Chief Financial Officer and Chief Accounting Officer, resigned from the Board of Management of Deutsche Telekom AG. His position was filled by Dr. Karl-Gerhard Eick with effect from January 1, 2000.

The members of Deutsche Telekom's Board of Management owned a total of approximately 4,200 Deutsche Telekom shares as of March 31, 2000.

#### *Supervisory Board*

In accordance with the German Stock Corporation Act, the Supervisory Board of Deutsche Telekom consists of twenty members, ten of whom represent the shareholders and ten of whom represent the employees. Members of the Supervisory Board may be elected for a term of up to five years. The Supervisory Board members representing the shareholders are elected at the annual shareholders' meeting. Most of the current Supervisory Board members representing employees were elected on October 2, 1997 by the employees in accordance with the provisions of the Co-Determination Act of 1976 (*Mitbestimmungsgesetz*). In this election procedure, employees elect ten representatives made up of workers, regular employees, senior management employees and three union representatives. Under Postreform II, civil servants, who are not covered by the Co-Determination Act, are included in these groups according to their occupations for purposes of these elections.

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of the votes cast at the annual shareholders meeting. A member of the Supervisory Board elected by the employees may be removed by a majority of at least three quarters of the votes cast by the relevant class of employees.

If a member of the Supervisory Board resigns ahead of time, it is possible under the Act for a new member to be appointed, in urgent cases, by court.

The Supervisory Board elects a Chairman and a Deputy Chairman from among its members; in the event that a majority of two thirds of the members of the Supervisory Board is not achieved, the shareholder representatives elect the Chairman and the employee representatives elect the Deputy Chairman.

The Supervisory Board must meet at least four times per calendar year. To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, the Supervisory Board takes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the Chairman of the Supervisory Board can cast a deciding vote.

The Supervisory Board has formed several committees including a mediation committee, a personnel committee, a committee for extraordinary matters and a presiding committee. All committees have an equal number of shareholder representatives and employee representatives. The Chairman of the Supervisory Board is the chairman of the mediation committee and the presiding committee where he has the deciding vote in case of a tie. In the other committees, the chairman does not have the deciding vote in case of a tie. The chairman of the personnel committee is a representative of the employees.

The first election of shareholder representatives to the Supervisory Board took place at the shareholders' meeting in July 1996. Since then, further elections have taken place to fill vacancies of the Supervisory Board. The terms of office of the shareholder representatives will expire at the end of the shareholders' meeting at which the shareholders discharge the Supervisory Board members in respect of the financial year 2000, which is expected to occur in 2001. The terms of office of the employee representatives on the Supervisory Board expire in 2002 upon the election of new employee representatives in accordance with the Co-Determination Act.

For a list of the members of the Supervisory Board, the years of their appointment and their principal occupations, see the information set forth under the heading "The Supervisory Board of Deutsche Telekom AG in 1999" on page 10 of the 1999 Annual Report, which information is incorporated herein by reference.

Veronika Altmeyer resigned from the Supervisory Board as of March 28, 1999. Her position was filled by Rüdiger Schulze on the basis of a court order with effect as of March 29, 1999. He was elected as Vice Chairman of the Supervisory Board with effect from April 13, 1999.

At the annual shareholders' meeting of Deutsche Telekom held on May 27, 1999, Rainer Funke, Prof. Dr. Peter Glotz, Dr.-Ing. Paul Krüger and Dr. Claus Noé resigned from their Supervisory Board positions and were replaced by Hans W. Reich, Bernhard Walter, Dr. Hans-Dietrich Winkhaus and Prof. Dr. Heribert Zitzelsberger.

Maud Pagel resigned from the Supervisory Board as of May 31, 1999. Her position was filled by Waltraud Litzenberger with effect from June 1, 1999.

Reinhard Ahrensmeier resigned from the Supervisory Board as of February 29, 2000. His position will be filled by Rainer Koch in April, 2000 on the basis of a court order.

Michael Bon resigned from the Supervisory Board as of March 31, 2000. The annual shareholder's meeting held on May 25, 2000 will elect a successor.

Franz-Josef Klare resigned from the Supervisory Board as of April 15, 2000. His position will be filled by Michael Sommer.

Prof. Dr. Herbert Sihler declared that he will leave his position as Chairman of the Supervisory Board with effect of the end of the annual shareholders' meeting held on May 25, 2000. The Supervisory Board will elect a new Chairman of the Supervisory Board in a meeting in May, 2000.

The members of the Supervisory Board owned a total of approximately 2,700 Deutsche Telekom shares as of March 31, 2000.

#### **ITEM 11—COMPENSATION OF DIRECTORS AND OFFICERS**

In addition to reimbursement of actual out-of-pocket expenses, members of the Supervisory Board receive a fee of EUR 200 per meeting in respect of imputed out-of-pocket expenses and an annual payment. The annual compensation for 1999 will be determined by the shareholders' meeting on May 25, 2000. The proposed amount is EUR 50,000 for the Chairman, EUR 37,500 for the Deputy Chairman and EUR 25,000 for each remaining member of the Supervisory Board. In 1999, remuneration was paid to members of the Supervisory Board of Deutsche Telekom AG for 1998 in the amount of EUR 246,442.68 inclusive of meeting expenses of EUR 18,406.51.

Provided the 1999 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom, in respect of financial year 1999, will amount to EUR 7,557,167.33. A portion of the total compensation of the Board of Management is paid pursuant to a bonus arrangement consisting of a guaranteed portion and a variable portion. The variable portion is dependent upon a number of criteria, including the attainment of certain financial performance objectives and the achievement of certain individual performance objectives. For the year ended December 31, 1999, 39.2 percent of the total remuneration was paid pursuant to such bonus arrangement. Subject to the approval of the Supervisory Board and the shareholders' meeting, a stock option program for the members of the Board of Management and key employees will be introduced in the year 2000.

Pension accruals totaling EUR 10,967,012 have been established in the books of Deutsche Telekom AG for the members of the Board of Management as of December 31, 1999.

#### **ITEM 12—OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES**

Not applicable. Deutsche Telekom may, however, introduce a stock option program for members of the management board and key employees in the year 2000. See "Compensation of Directors and Officers".

#### **ITEM 13—INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS**

To the extent disclosed to shareholders or otherwise made public, see "Control of Registrant" for information concerning material transactions with the Federal Republic, which as at December 31, 1999, held an approximate 43 percent direct stake in Deutsche Telekom and an additional indirect stake as a result of the interest held by KfW of approximately 22 percent.

### **PART II**

#### **ITEM 14—DESCRIPTION OF SECURITIES TO BE REGISTERED**

Not applicable.

### **PART III**

#### **ITEM 15—DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 16—CHANGES IN SECURITIES, CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS**

Deutsche Telekom determined during 1999 that, with effect as of January 24, 2000, the ordinary shares of Deutsche Telekom would be converted from bearer form to registered form. This conversion has no substantive impact on the American Depositary Shares, each representing one Share. Although the conversion affects the manner in which shareholders exercise rights attached to the ordinary shares, including voting rights and rights to receive dividends, the conversion does not materially change shareholders' substantive rights.

**PART IV**

**ITEM 17—FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18—FINANCIAL STATEMENTS**

See "Financial Statements and Exhibits Deutsche Telekom" for a list of financial statements filed under Item 18.

**ITEM 19—FINANCIAL STATEMENTS AND EXHIBITS DEUTSCHE TELEKOM**

With the exception of the pages set forth in the list of consolidated financial statements incorporated by reference herein and the items incorporated by reference elsewhere in this report, the 1999 Annual Report is not to be deemed filed as part of this report.

(a) Financial Statements

(1) Incorporated by reference from the 1999 Annual Report contained in the Company's Report on Form 6-K dated April 19, 2000:

1999 Annual Report Pages

Consolidated Statement of Income for the years ended December 31, 1999, 1998 and 1997.....	88
Consolidated Balance Sheet at December 31, 1999 and 1998.....	89
Consolidated Statement of Cash Flows for the years ended December 31, 1999, 1998 and 1997 .....	92
Consolidated Statement of Shareholders' Equity at December 31, 1999 and 1998.....	93
Notes to Consolidated Financial Statements .....	94

(2) Report of Independent Accountants

The consolidated financial statements listed above which are included in the 1999 Annual Report are incorporated herein by reference.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Management and Shareholders of Deutsche Telekom AG

We have audited the consolidated balance sheets of Deutsche Telekom AG as of December 31, 1998 and 1999 and the related consolidated statements of income, shareholders' equity and cash flows of Deutsche Telekom AG for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Germany, which are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Deutsche Telekom AG as of December 31, 1998 and 1999, and the consolidated results of operations, shareholders' equity and cash flows of Deutsche Telekom AG for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles in Germany.

Application of accounting principles generally accepted in the United States would have affected shareholders' equity as of December 31, 1998 and 1999 and net income for each of the years in the three year period ended December 31, 1999 to the extent summarized in Note 36 to the consolidated financial statements.

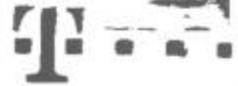
Frankfurt am Main,

March 27, 2000

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dickmann  
Wirtschaftsprüfer

Laue  
Wirtschaftsprüfer



**SIGNATURES**

The registrant hereby certifies that it meets all requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized.

DEUTSCHE TELEKOM AG

By:

Name:  Dr. Ralf Sommer

Title: Chairman and Chief Executive Officer

By:

Name:  Dr. Karl-Gerhard Etck

Title: Chief Financial Officer and Chief Accounting Officer

Date: December 5, 2000