

In an official publication issued in March 1999, the Regulatory Authority confirmed certain principles that are to govern competitors' entitlement to interconnection with Deutsche Telekom's network. Under these principles, carrier network operators are required to have at least one switch and at least three transmission paths to qualify for the interconnection rates established by the Regulatory Authority's interconnection decisions. Deutsche Telekom is also entitled in principle to demand surcharges from carriers that generate atypical traffic flows if those traffic flows result in additional network costs for Deutsche Telekom. Nevertheless, the Regulatory Authority denied approval in May 1999 for a set of surcharges of this type that had been submitted by Deutsche Telekom for regulatory approval in May 1999.

Mobile-Fixed Interconnection

In April 1998, the Regulatory Authority opened an inquiry into mobile-fixed interconnection rates in order to determine whether the rates are based on the costs of efficient service provision. In the meantime, Deutsche Telekom agreed with mobile carriers on a plan for gradually reducing mobile-fixed interconnection rates to the level of fixed-fixed interconnection rates, with parity to be achieved by January 1, 2000. Implementing this agreement, Deutsche Telekom reduced mobile-fixed interconnection rates effective January 1, 1999. Although Deutsche Telekom takes the position that it is not a market-dominant provider in the national market for termination of traffic from mobile networks, Deutsche Telekom agreed to submit the new tariffs for approval in an application to the Regulatory Authority. In a decision of March 29, 1999, the Regulatory Authority approved the reduction in mobile-fixed interconnection rates until June 30, 1999, and obligated Deutsche Telekom to then further reduce these rates to the level of fixed-fixed interconnection rates. Deutsche Telekom has decided not to appeal this decision and has complied with the terms of the decision. Deutsche Telekom's mobile-fixed interconnection rates match the reduced fixed-fixed interconnection rates in effect starting January 1, 2000. Like the fixed-fixed interconnection rates, these mobile-fixed interconnection rates will be valid until the end of January 2001. For a discussion of developments at the EU-level, see "—Competition Law".

Fixed-Mobile Interconnection

In December 1999, Deutsche Telekom reached an agreement with T-Mobil to reduce T-Mobil's fixed-mobile interconnection rates as of February 1, 2000. As a result, Deutsche Telekom has reduced the standard rates it pays to terminate calls in the digital mobile network of T-Mobil as of February 1, 2000. In February and March 2000, Deutsche Telekom also reached agreements with VIAG Interkom, E-Plus and Mannesmann Mobilfunk regarding the reduction of fixed-mobile interconnection rates.

Local Loop Access

As indicated above with regard to special network access, market-dominant providers are obligated to unbundle their service offerings to the extent demanded by their competitors in a public telecommunications market unless the market-dominant provider can demonstrate that unbundling is not objectively justified under the particular circumstances. In light of this obligation, various competitors have asked Deutsche Telekom to provide unbundled access to Deutsche Telekom's subscriber lines (i.e., the local loop). By allowing competitors to connect to customer access lines in local networks, unbundling of the local loop allows competitors to gain direct access to subscribers without having to build local networks of their own. In this way, competitors are able to use Deutsche Telekom's customer access lines to offer a wide range of local services directly to the customer, who is generally unaware that the subscriber line running into his premises is rented from Deutsche Telekom, and Deutsche Telekom only receives a flat monthly fee rather than usage-based revenues.

In December 1997, Deutsche Telekom began concluding agreements with a number of competitors regarding unbundled access to the local loop. In connection with these agreements, Deutsche Telekom submitted proposed tariffs for the provision of unbundled access to the local loop to the Regulatory Authority for approval. This application was rejected in March 1998, and a temporary monthly rate of DM 20.65 (EUR 10.56) for access to the two-wire copper line, the product variety most important to the competitors of Deutsche Telekom, was imposed. In its decision, the Regulatory Authority took issue with elements of Deutsche Telekom's cost statements, claiming that its estimated cost of capital was too high, the useful life of depreciated assets too short, and that inadequate evidence had been submitted concerning an operating cost surcharge and overhead rates.

Deutsche Telekom did not believe that the imposed tariff covered its relevant costs, and a period of intensive judicial and regulatory proceedings began. Deutsche Telekom filed a suit challenging the decision of the Regulatory Authority with the appropriate administrative court, and simultaneously pursued further negotiations with the Regulatory Authority. Two further tariff applications were submitted in 1998, both of which were withdrawn in agreement with the Regulatory Authority in order to permit more time for the evaluation of cost data and underlying economic concepts. Deutsche Telekom then made a new tariff filing with the Regulatory Authority in January 1999, in which it applied for approval of a monthly tariff of DM 37.30 (EUR 19.07) for access to a two-wire copper line. In part on the basis of the analytical cost model described in "—Pricing" above, the Regulatory Authority gave approval to a price of DM 25.40 (EUR 12.99) effective February 8, 1999, and thereby raised the provisional monthly tariff set at DM 20.65 (EUR 10.56) for two-wire copper in March 1998. In addition, the Regulatory Authority set one-time installation fees ranging from DM 191.64 (EUR 97.98) to DM 337.13 (EUR 172.37) and a fee for terminating access to two-wire copper line of DM 107.70 (EUR 55.07), each of which was lower than the fees requested in Deutsche Telekom's application. These new fees, including the monthly tariff, are to apply until March 31, 2001. While the Regulatory Authority again took issue with aspects of Deutsche Telekom's cost calculation, the decision appears to recognize for the first time that Deutsche Telekom is entitled to recoup through access prices a portion of its historical costs. Both Deutsche Telekom and its competitors have challenged aspects of this latest decision in court. For further information about this legal challenge, see "Legal Proceedings". The outcome of this legal challenge is uncertain.

In addition to decisions relating to the appropriate level of interconnection pricing, the Regulatory Authority has also made determinations relating to the technical point at which interconnection must be provided. In one such decision, the Regulatory Authority took the position that Deutsche Telekom must provide unbundling in accordance with the demands of competitors to the extent technically feasible. In another decision, the Regulatory Authority decided that Deutsche Telekom has to grant unbundled access to the part of subscriber access lines located within customers' premises. Deutsche Telekom has filed suits challenging these decisions. For further information relating to these suits, see "Legal Proceedings". In December 1999, without recognizing a legal obligation to do so, Deutsche Telekom submitted to the Regulatory Authority a request for approval of the one-time connection fee and the monthly rental charges that Deutsche Telekom proposed to charge third parties for direct access to the part of subscriber access lines located within customers' premises. In February 2000, the Regulatory Authority approved the one-time connection fee proposed by Deutsche Telekom but denied approval for the proposed monthly rental charge. In addition, competitors have submitted requests to the Regulatory Authority for further unbundling of local loop access. Deutsche Telekom has submitted comments on these requests to the Regulatory Authority.

On February 9, 2000, the European Commission published a working document relating to unbundled local loop access. For further information on this matter, see "—The European Union".

Internet Access

In January 1999, T-Online introduced a change in the pricing of its Internet access products, combining or bundling the telephone "dial-in" connection to the Internet with the Internet platform services into one product. In connection with this bundled product, Deutsche Telekom offered telephone connection capacity to T-Online on a wholesale basis. In April 1999, several competitors of T-Online lodged a complaint with the Regulatory Authority alleging that, in introducing this bundled product, Deutsche Telekom and T-Online had abused their market dominant positions in the relevant markets. In June 1999, the Regulatory Authority ruled that Deutsche Telekom did not engage in illegal anti-competitive practices or abuse a market-dominant position, but that Deutsche Telekom could no longer offer a special volume discount for the telephone connection capacity. One competitor has also instituted proceedings against Deutsche Telekom before the European Commission in connection with bundled Internet access products. For further information on these proceedings, see "Legal Proceedings". Several competitors of Deutsche Telekom have filed administrative lawsuits seeking to compel the Regulatory Authority to reopen its proceedings relating to the prices that Deutsche Telekom charges for access to its Internet platform.

For further information regarding the status of these administrative and legal proceedings, see "Legal Proceedings".

Numbering, Number Portability and Carrier Selection

Under the Telecommunications Act, the Regulatory Authority is assigned responsibility for developing and administering a national telephone numbering system. Upon application, each telecommunications network operator and service provider is to receive assigned ranges of telephone numbers for use by its customers. The ranges assigned are within existing area codes. Applicants are assessed fees in accordance with the Telecommunications Numbers Fees Ordinance (*Telekommunikationsnummerngebührenverordnung*), which was promulgated in August 1999, but with retroactive effect to August 1, 1996. In modifying the structure and configuration of telephone number ranges subject to assignment, the Regulatory Authority is required to consider the interests of the parties concerned, focusing in particular on conversion costs that would be incurred by licensees, other telecommunications services providers, and customers.

In connection with the fees to be paid by operators for the assignment of number ranges, the Regulatory Authority issued a decision in October 1999 that requires Deutsche Telekom to pay a fee for numbers (other than service numbers) allocated before the liberalization of the German telecommunication market. The amount of these fees imposes a considerable financial burden on Deutsche Telekom. Deutsche Telekom believes that the imposition of these fees is not authorized under existing law and therefore has appealed this decision of the Regulatory Authority to the administrative courts. For further information on this appeal, see "*—Legal Proceedings*".

Since January 1, 1998, Deutsche Telekom and other telecommunications network operators have been required to allow their customers to pre-select the network operator that is to transmit their calls. In addition, customers are able to override their pre-selected carrier each time they place a call by entering another operator's numeric prefix before dialing the telephone number they wish to call. Also, since January 1, 1998, Deutsche Telekom and other telecommunications network operators have generally been required to provide number portability. This permits customers to keep their assigned telephone numbers when they choose to change their network operator as long as they do not also change the physical location from which they access the network. Number portability and the provisions on carrier selection allow customers to switch easily among competing carriers.

Under the Telecommunications Act, the Regulatory Authority is authorized to suspend the obligation to provide number portability and carrier selection where the provision of such service is not technically feasible. The Regulatory Authority has provisionally suspended the obligations for operators of mobile communications networks to ensure pre-selection and call-by-call selection. The obligation to provide number portability can also be suspended to the extent that such suspension does not significantly impair competition or harm customers. In December 1999, the Regulatory Authority issued a decision extending the suspension of number portability in the mobile market until the end of April 2000 and started a consultative process with market participants regarding future regulatory policy in this area.

In January 1998, Deutsche Telekom filed an application with the Regulatory Authority for the approval of a one-time charge of DM 49 (EUR 25.05) for number portability. In addition, Deutsche Telekom filed applications for approval of charges for carrier pre-selection of DM 49 (EUR 25.05) for 1998, DM 35 (EUR 17.90) for 1999 and DM 20 (EUR 10.23) for 2000. With regard to pre-selection charges, the Regulatory Authority decided in June 1998 that Deutsche Telekom will be allowed to charge DM 27 (EUR 13.80) in 1998, DM 20 (EUR 10.23) in 1999 and DM 10 (EUR 5.11) in 2000. The application for approval of a charge for number portability was rejected on April 7, 1998, on the grounds that portability does not involve the rendering of any service to the customer, and that furthermore the law does not allow such a charge to be levied. Deutsche Telekom has appealed this decision. A subsequent application for approval of a one-time charge for number portability was also rejected by the Regulatory Authority. Deutsche Telekom has filed a legal suit challenging this decision.

Universal Services

The Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (referred to as "universal services") throughout Germany. Additional details concerning universal service requirements are provided in the Universal Service Ordinance (*Telekommunikations-Universaldienstleistungsverordnung*) and in the Telecommunications Customer Protection Ordinance (*Telekommunikations-Kundenschutzverordnung*). See "*—Customer Protection Ordinance*".

The Universal Service Ordinance defines "universal services" to include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at an affordable price. According to the Universal Service Ordinance, the price for public voice telephony is considered affordable if it does not exceed the average price in real terms on December 31, 1997 of voice telephony service for private households located outside cities with more than 100,000 inhabitants. This provision is intended to prevent telecommunications providers from subsidizing price reductions in highly competitive urban areas by charging higher prices in suburban and rural markets. Prices for directory services, telephone books, public pay phones and the specified transmission lines are considered affordable if they are based on the costs of efficient service provision.

Under the Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4 percent of the product market for such service or a dominant position in the relevant product and geographic market can be required to contribute to the provision of such universal service.

In any such case, as an initial step, the Regulatory Authority will issue a public call requesting the voluntary provision of the particular universal service. If within one month after such call, no provider has offered to provide such service without special compensation, the Regulatory Authority may oblige any licensee that is a market-dominant provider in the relevant product and geographic markets to provide such service. If a provider that has been assigned such an obligation furnishes evidence that the provider will be entitled to claim compensation under the Telecommunications Act for providing such service, the Regulatory Authority may, in lieu of requiring the obligated provider or providers to provide the universal service, solicit bids for the provision of the universal service, with a view to assigning the obligation to the bidder requiring the least compensation.

A provider required by the Regulatory Authority to provide a universal service is entitled to receive compensation under the Telecommunications Act if the provider proves that the long-term additional costs of providing the universal service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues therefrom, calculated on the basis of affordable prices. Where compensation is granted for the provision of the universal service, each licensee with a share of at least 4 percent of the product market must contribute to such compensation by means of a universal service levy. Significant details concerning the way in which this compensatory system will function remain to be determined.

Under the Universal Service Ordinance, which entered into effect at the beginning of 1998, market dominant providers in the relevant markets may be required to provide universal services. For the time being, Deutsche Telekom is required to provide customers voice telephony and other universal services within the framework of the law and Deutsche Telekom's General Terms and Conditions. Deutsche Telekom currently provides the universal services specified by the Universal Service Ordinance without compensation, and expects that in a competitive market these services will continue to be available universally due to sufficient offerings by all market participants. Deutsche Telekom expects that it will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services. Accordingly, it may prove difficult for Deutsche Telekom to cease providing universal services in some markets, although Deutsche Telekom may be able to claim special compensation. If Deutsche Telekom decides to stop providing any of the services referred to in the Universal Service Ordinance, it must give at least one year's advance notice.

If Deutsche Telekom becomes required to offer a universal service, and if the revenues from providing that service are insufficient to cover its additional costs, the compensation granted under the Telecommunications Act may be insufficient to cover the full costs to Deutsche Telekom of providing that service because it will not receive compensation in an amount that corresponds to its market share. Furthermore, in the event that other operators are assigned universal service obligations, Deutsche Telekom may be required to contribute to their compensation.

Every licensee that offers voice telephony services to the public is required to provide its subscriber data to other operators of directory services and publishers of telephone books, for the specific purposes of such services. A fee may be charged for the provision of such data based on the costs of efficient service provision. Subscriber data must be provided to other third parties against payment of an appropriate fee. Deutsche

Telekom complies with this obligation and provides its subscriber data, taking data-protection requirements into account, to other operators of directory services and publishers of telephone books. In 1998, the rates charged by Deutsche Telekom for such provision were reviewed by the Federal Cartel Office, after competitors claimed that the prices were abusively high. By decision of January 13, 1999, the Federal Cartel Office suspended these proceedings. As part of its abusive-practices investigation, the Federal Cartel Office determined Deutsche Telekom's costs for efficient provision of subscriber data and concluded that these costs must be shared by all users of the data on a use-dependent basis. Deutsche Telekom has undertaken to charge cost-based prices for provision of subscriber data to operators entitled thereto on this basis.

Customer Protection Ordinance

The Telecommunications Customer Protection Ordinance ("Customer Protection Ordinance"), as currently in effect, covers the special rights and obligations between providers of telecommunications services to the public and their customers, who may be either end customers or competitors to the extent that they have concluded a contract with the respective telecommunications provider. As a result, nearly all Deutsche Telekom products and services, with only a few exceptions, such as the marketing of telephones, are subject to the provisions of the Customer Protection Ordinance.

Under the provisions of the Customer Protection Ordinance, market-dominant providers must make their services available to everyone on the same terms. Exceptions must be objectively justified. Further, although telecommunications providers generally have some flexibility in determining whether to offer services in "bundles", the dominant company is required to offer individual services on an unbundled basis when there is a "general demand" for those individual services in the market. This requirement applies to the description of individual services and the relevant service specifications, as well as the billing for such services. Offering individually listed services as a package is, however, still allowed.

In addition, the market-dominant provider must, upon request, eliminate or repair any malfunction immediately, including at night, on Sundays or public holidays. Customers can request a free itemized statement of their calls, which must be detailed enough to allow them to check and monitor the accuracy of their bills. In the event that a customer has made no other arrangements with another provider, the customer will receive a combined bill from his local carrier. In such cases, the charges for all calls which the customer has made via other providers must be listed separately. Finally, starting January 1, 2001, telecommunications service providers must ensure that any customer who has set a ceiling for his calling charges does not exceed it. The Customer Protection Ordinance also allows for certain limitations on the liability of telecommunication service providers.

In October 1999, Deutsche Telekom announced that, starting on April 1, 2000, it would no longer collect receivables for competitors and generally would not provide services to competitors other than services that are mandatory under the Customer Protection Ordinance. In Deutsche Telekom's view, these mandatory services include billing for competitors and forwarding to competitors any payments made by customers to Deutsche Telekom for calls made via those competitors. In response to a complaint submitted by a competitor, however, the Regulatory Authority instituted proceedings against Deutsche Telekom in October 1999 alleging that the implementation of Deutsche Telekom's plans to discontinue collecting receivables for competitors would constitute an abusive practice. In February 2000, the Regulatory Authority ruled that Deutsche Telekom would be required to continue to collect receivables for competitors until December 31, 2000 on the same terms and conditions as prevailed in 1999, and that not later than June 30, 2000 Deutsche Telekom would be obligated to submit for regulatory approval proposed terms and conditions for the provision of these services after December 31, 2000. Deutsche Telekom has appealed these rulings of the Regulatory Authority to the administrative courts. According to these rulings, however, Deutsche Telekom will no longer be obligated to manage customer complaints, send late payment warnings or enforce late payments on behalf of competitors after January 1, 2001.

Use of Public Rights of Way

Under the pre-Telecommunications Act laws, Deutsche Telekom was entitled to utilize the Federal Republic's rights of way over public property free of charge. Pursuant to the Telecommunications Act, the Federal Republic's right to use such rights of way free of charge has been transferred to licensed operators of transmission lines for public telecommunications services. Deutsche Telekom's right to utilize such rights of way has been carried over under its license. The Telecommunications Act requires that operators of

transmission lines obtain the consent of the authority responsible for the maintenance of the relevant public ways before laying new transmission lines or modifying existing transmission lines. Deutsche Telekom has agreed on a cost-saving and delay-avoiding procedure with the federal association of municipal authorities to simplify the process of obtaining the required consent.

Under the Telecommunications Act, if the establishment of new transmission lines by an operator through the use of public rights of way is not feasible or the cost is disproportionately high, an operator of an existing transmission line using those public rights of way may be obligated to grant to the operator of those new transmission lines the joint use of its installations, such as ducts and antenna posts, for adequate compensation, provided no major construction work is required and such joint use is economically feasible.

The European Union

Germany is a Member State of the EU. As such, it is required to enact EU legislation in its domestic law and to take EU legislation into account in applying its domestic law. EU legislation can take a number of forms. Regulations have general application, and are binding in their entirety and directly applicable in all Member States. Directives are binding, but national authorities may choose the form and method of implementation.

The European Commission used its powers under Article 86 (3) of the Treaty of Rome to open telecommunications markets in the Member States by issuing directives providing for liberalization, i.e., abolishing monopoly rights of the state-owned telecommunications operators. One of the most important of these directives was the full competition directive issued in March 1996, under which public voice telephony services were liberalized in the majority of the Member States, including Germany, with effect from January 1, 1998. On June 23, 1999 the European Commission adopted a directive amending Directive 90/388/EEC (the "Cable Directive"), which deals with the regulation of broadband cable networks. The amendment to the Cable Directive requires that the telecommunications activities and broadband cable activities of market-dominant operators be structurally separated, i.e. dominant operators are required at least to set up a separate subsidiary for their broadband cable networks (See "—Competition—Broadband Cable and Broadcasting"). The amendment provides for a review after the required structural separation has been accomplished, in any event not later than December 31, 2002. The amendment further provides for a procedure whereby national regulatory authorities may request that the European Commission perform such a review. This review could lead to additional measures by the European Commission, including imposition of divestiture obligations, if it finds that European competition rules are infringed.

The EU has also adopted a number of directives and recommendations regarding open and efficient access to and use of public telecommunications networks and public telecommunications services. These directives and recommendations deal with what are referred to as the ONP (Open Network Provision) requirements, which are intended to harmonize technical interfaces, usage conditions and tariff principles throughout the EU and to ensure objectivity, transparency and non-discrimination in access to and use of public telecommunications networks and public telecommunications services. In January 1999, the European Commission issued a decision on the harmonized introduction of the third generation of mobile systems (Universal Mobile Telecommunications Systems or "UMTS") throughout the European Community. This decision contains provisions for roaming, licensing and frequencies and sets January 1, 2002 as the target date for effective provision of UMTS networks and services. At the end of 1999, the European Commission published a review of European Union telecommunications regulations titled "Toward a New Framework for Electronic Communications Infrastructure and Associated Services." This review outlines the existing European telecommunications regulatory framework and a proposal for a new regulatory framework that would take into account the development of competition in the European telecommunications sector. The European Commission is expected to consider comments regarding this review that are submitted by market participants in the first half of 2000 and to propose further actions thereafter, which may include the amendment of existing directives in the telecommunications area.

On February 9, 2000, the European Commission published a draft for recommendation relating to unbundled local loop access. This document describes three complementary options for granting access to the local loop: unbundled access to the copper paired wire, unbundled access to the high frequency spectrum and high speed bit stream access. Deutsche Telekom believes that if these proposals were enacted in their current form, they would lead to duplicative regulation to the disadvantage of those European Union member states, such as Germany, whose domestic laws already mandate unbundled access to the local loop.

Among the proceedings that the European Union has initiated in the area of telecommunications is a proceeding against the Federal Republic alleging that the Federal Republic has not fully implemented a European Union directive requiring a presumption of market dominance in the case of any telecommunications company that has a market share of at least 25 percent in a relevant market.

Further directives, recommendations, communications and measures of the EU to harmonize the telecommunications sector in European Union member states are to be expected.

International Obligations

Over 70 member countries of the World Trade Organization ("WTO") representing over 90 percent of the world's basic telecommunications revenues, including European Union member states and the United States, have entered into the Basic Telecommunications Agreement ("BTA") to provide market access to some or all of their basic telecommunications services. This agreement took effect on February 5, 1998. The BTA is part of the General Agreement on Trade in Services, which is administered by the WTO. Under the BTA, signatories have made commitments to provide "market access", under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to provide "national treatment", under which they are to avoid treating foreign telecommunications service suppliers differently than national service suppliers. In addition, a number of signatories have agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and scarce resources. In complaints filed by one U.S. carrier in February 1999 and by two industry groups January 2000, the U.S. Trade Representative has been asked to determine whether certain aspects of the telecommunications regulatory framework in Germany comply with Germany's obligations under the BTA. The U.S. Trade Representative has announced that, until June 15, 2000, it will further review aspects of the interconnection regime, licensing fees, transparency of cost data in connection with price regulation and billing and collection procedures for new entrants.

Competition Law

Deutsche Telekom is subject to German competition law, the competition rules of the EU and the competition laws of the various jurisdictions in which it conducts its business.

The German Act Against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschränkungen*) prohibits the abuse of market-dominant position as well as the distortion of competition through horizontal agreements or collusive behavior by market participants. Agreements or behavior that impose vertical restraints on competition are generally permitted, but may be prohibited by the cartel authorities if they pose a threat of significant distortion to the relevant market. They are prohibited if they constitute price fixing.

Mergers, including the creation of joint ventures, must be notified to the Federal Cartel Office before they can be executed if the concerned undertakings' turnover reaches a certain threshold but remains below the threshold above which proposed mergers must be notified to the European Commission. The Federal Cartel Office will prohibit mergers if they create or strengthen a market-dominant position. The German cartel authorities are empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action against abuses of a market-dominant position in the telecommunication sector, the Federal Cartel Office must consult with the Regulatory Authority. Market participants damaged by abusive practices on the part of a market-dominant provider may sue for compensation under the Telecommunications Act as well as under the German Act Against Restraints on Competition.

The EU competition rules have the force of law in the Member States and are therefore applicable to Deutsche Telekom's operations in the telecommunications market. The main principles of the EU competition rules are stipulated in Articles 81 and 82 of the Treaty of Rome (which were Articles 85 and 86 of that treaty prior to March 7, 1999) and in the European Merger Control Regulation.

Article 81 I of the Treaty of Rome prohibits collusive behavior between competitors which may affect trade between Member States and which restricts, or is intended to restrict, competition within the EU. Article 82 prohibits any abuse of a market-dominant position within a substantial part of the EU that may affect trade between Member States. These rules are enforced by the European Commission in cooperation with the

national competition authorities (i.e., in Germany, the Federal Cartel Office). In addition, the national courts have jurisdiction over alleged violations of EU competition law.

In early 1999, a complaint was filed with the EU Commission alleging that Deutsche Telekom would abuse its market-dominant position in telephone network communication by combining charges for Internet access and local calls in a single low-cost package. See "Legal Proceedings".

In 1999 and prior years, Deutsche Telekom received numerous requests for information from the European Commission. Through inquiries of this kind, the European Commission monitors the development of competition in the telecommunication markets in all Member States of the European Union. For example, the European Commission is investigating the level of mobile communications prices in all Member States and in this context is inquiring into whether the interconnection rates between fixed and mobile communication networks and the amounts Deutsche Telekom retains on calls to mobile networks are too high. The Commission has announced that it will stay its proceedings while the national regulatory authorities pursue their own investigations. See "—Special Network Access and Interconnection—Mobile-Fixed Interconnection". Further investigations and other measures of the European Commission aimed at promoting competition in the European telecommunications sector may be expected. Deutsche Telekom and other telecommunications providers currently are subject to sector-specific inquiries in the fields of leased lines and roaming.

The parties to a cooperation agreement may voluntarily ask the European Commission for a clearance that their cooperation does not violate the prohibition on collusive practices established by the Treaty of Rome. Furthermore, the European Commission may grant an exemption to the prohibition if the parties show that the benefits of the cooperation for the consumer or for research and development outweigh the supposed distortion of competition.

The European Merger Control Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting a certain turnover threshold be submitted to the European Commission for review, rather than to national authorities. Concentrations are prohibited if they pose the risk of creating or strengthening a dominant position on a relevant market.

Employees

Civil Servants

As of December 31, 1999, approximately 41.3 percent of the employees of Deutsche Telekom (excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995) were civil servants. No employees hired after January 1, 1995 have been granted civil servant status. Pursuant to the laws that applied to the conversion of Deutsche Telekom to a stock corporation, Deutsche Telekom's civil servant employees retained their civil servant status when that conversion occurred. As such, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by Deutsche Telekom or by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are permitted to join labor unions. Although Deutsche Telekom is authorized pursuant to the law governing the privatization of Deutsche Telekom to exercise generally the rights and duties of the Federal Republic as the employer of civil servants, the Federal Agency has a right of consultation in the implementation of certain aspects of the terms under which Deutsche Telekom employs civil servants.

Civil servants employed by Deutsche Telekom are entitled to pension benefits provided by the German Government pursuant to the German Civil Servant Pension Act (*Beamtenversorgungsgesetz*). Pursuant to the law governing the privatization of Deutsche Telekom, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund such pension obligations. From 1995 through 1999, Deutsche Telekom was obligated to make annual contributions of EUR 1.5 billion to this fund. Beginning in 2000, Deutsche Telekom is obligated to make annual contributions equal to 33 percent of the gross salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave), which are expected to be significantly lower than the annual contribution that was required from 1995

through 1999. Any shortfalls in the funding of the civil servant pension obligations must be borne by the Federal Republic.

Non-Civil Servants

As of December 31, 1999, approximately 58.7 percent of Deutsche Telekom's employees (excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995) were non-civil servants. In addition to being covered by collective bargaining agreements, the non-civil servant employees are in general covered by the German Termination Protection Act (*Kündigungsschutzgesetz*), which imposes various restrictions on the involuntary termination of employment.

The vast majority of Deutsche Telekom's non-civil servant employees are organized in unions, principally the German Postal Workers' Union (*Deutsche Postgewerkschaft*). The terms and conditions of employment and salary increases for these non-civil servant employees are negotiated between Deutsche Telekom and the unions. Pursuant to the law governing the privatization of Deutsche Telekom, the Federal Agency is responsible for concluding collective bargaining agreements relating to certain statutorily defined non-wage benefits, rules of conduct and other general terms of employment. Such agreements only become effective with the consent of Deutsche Telekom. See "Control of Registrant—Coordination and Administrative Responsibilities of the Federal Agency". Collective bargaining agreements between Deutsche Telekom and unions relating to remuneration typically have a term of one year.

The collective bargaining agreement currently in effect had a term of fifteen months, running through March 31, 2000. Negotiations for a new collective bargaining agreement began on March 31, 2000, and the previous collective bargaining agreement remains effective until a new agreement has been reached. According to the currently effective collective bargaining agreement, the salaries for non-civil servants were raised by 3.1 percent starting April 1, 1999. For the period from January 1, 1999 to March 31, 1999, the non-civil servants received a one-time payment of EUR 153.00. The collective bargaining agreement for 1998 had a term of one year, running from January 1, 1998 until December 31, 1998. This agreement provided for a raise of 1.5 percent for salaries of non-civil servants. For further information on the effects of these collective bargaining agreements on Deutsche Telekom's personnel expenses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs".

Employee Relations

Works councils (*Betriebsräte*), whose members are elected by the employees, represent the interests of the employees vis-à-vis the employer in accordance with the Works Council Act of 1972 (*Betriebsverfassungsgesetz*). Works councils are established locally, as well as at the level of Deutsche Telekom AG and at the group level. Works councils must be notified in advance of, and have the right to comment on, proposed employee terminations, relocations and other matters, and have codetermination rights in respect of certain social matters, including work schedules and rules of conduct.

Deutsche Telekom believes that its relations with the works council and the unions are good. Constructive relations with its employees and their representatives are of central importance to Deutsche Telekom.

Workforce Reduction Program

The workforce reduction program begun by Deutsche Telekom in 1995 was continued in 1999. In comparison with the workforce level at the end of 1998, the number of employees of Deutsche Telekom – excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995 – had decreased by some 6,900 by December 31, 1999. The workforce reductions, which are necessary to maintain the company's competitiveness, are taking place by means of normal attrition, severance packages, tide-over allowances, part-time work for older employees, financing assistance for civil servants giving up their status and leaving the company, and early retirement programs. A group-wide redeployment strategy is helping to ensure that the personnel requirements of all regions and specialization areas can be met. Pursuant to an agreement signed with the trade unions in January 2000, there will be no dismissals due to rationalization before the end of the year 2004.

Deutsche Telekom's medium-term goal of reducing its workforce (excluding the workforce of subsidiaries first consolidated after January 1, 1995) to about 170,000 by the end of the year 2000 without involuntary layoffs – a reduction of 60,000 from the 1994 level – will be fulfilled on schedule. Deutsche Telekom expects that, before the effects of acquisitions that may be made in coming years, workforce levels will continue to decline in the coming years. Additional workforce reduction initiatives could result in restructuring charges or expenses.

Workforce productivity measured in terms of revenue per employee, improved in 1999. The workforce reductions have cut Deutsche Telekom's personnel costs. In 1999, these costs amounted to EUR 9.2 billion, which represented an increase of 0.4 percent compared to 1998. Revenue per employee – based on the 1995 composition of the consolidated group – increased by 2.2 percent to EUR 186,156 per employee in 1999.

Recent Developments: Debis Transaction

On March 27, 2000, Deutsche Telekom and DaimlerChrysler Services AG announced an agreement to form a strategic joint venture in the systems solutions field through the proposed acquisition by Deutsche Telekom of a 50.1% interest in debis Systemhaus GmbH by means of a capital increase. Under the arrangements, Deutsche Telekom is to invest approximately EUR 5.3 billion in debis Systemhaus for the new shares, and is to assume day-to-day management control over debis Systemhaus. Deutsche Telekom has agreed that there will be a minimum annual dividend rising to up to EUR 70 million paid on the DaimlerChrysler Services AG interest in debis Systemhaus in respect of each financial year through 2004. The transaction is subject to a number of conditions, including approval by DaimlerChrysler Services AG's supervisory board and requisite antitrust clearances. Accordingly, Deutsche Telekom cannot guarantee that it will be consummated.

debis Systemhaus is one of Europe's largest systems solutions companies. It produces software for corporate communications systems and develops the infrastructure needed for communications among computers. The strategic engagement is expected to strengthen Deutsche Telekom's systems solutions business—which is one of the four pillars of its growth strategy—and provide Deutsche Telekom with access to debis Systemhaus' global data network. According to public statements made by DaimlerChrysler, for 1999, debis Systemhaus had revenues of approximately EUR 2.9 billion.

The agreements relating to the joint venture confer on Deutsche Telekom the right to acquire from DaimlerChrysler Services AG, and on DaimlerChrysler Services AG the right to sell to Deutsche Telekom, the entire 49.9% interest of DaimlerChrysler Services AG in debis Systemhaus. The right in favor of Deutsche Telekom is exercisable from January 1, 2002 through January 1, 2005, with the commencement of the exercise period subject to a delay of up to two years at the option of DaimlerChrysler Services AG. The right in favor of DaimlerChrysler Services AG is exercisable from the joint venture closing through January 1, 2005. The price for the purchase for the 49.9% interest would be between approximately EUR 5.4 billion and EUR 5.7 billion, depending on when the option is exercised, and is subject to upward or downward adjustment on the basis of number of factors. The exercise of either option would give Deutsche Telekom full ownership of debis Systemhaus at the option exercise price, including full ownership of the then value in debis Systemhaus derived from Deutsche Telekom's initial approximate EUR 5.3 billion investment.

Competition

The service which contributes a majority of Deutsche Telekom's consolidated revenues – domestic and international public fixed-line voice telephony – was opened to full competition on January 1, 1998. This market opening was the final step in a multi-step liberalization process that formally commenced in 1989. The size and affluence of the German telecommunications market and a decidedly pro-competitive telecommunications regulatory environment have combined to make Germany one of the world's most open and competitive telecommunications markets.

Network Communications

Until January 1, 1998, Deutsche Telekom had a legal monopoly on the provision of domestic and international public fixed-line voice telephony service in Germany. Even before 1998, however, Deutsche Telekom faced a limited measure of indirect competition in its domestic fixed-line voice telephony business from providers of voice services through corporate networks and closed-user groups, resellers and mobile service providers. In its international public fixed-line voice telephony business, Deutsche Telekom faced a significant amount of indirect competition from calling cards and call back services, particularly with respect to traffic to the United

States and Canada. Deutsche Telekom also faced competition in this area from private networks connected through leased lines to public telephone networks outside Germany.

An important feature of the German telecommunications regulatory structure is that it essentially allows for an unlimited number of market entrants. During 1998 and 1999, many competitors crowded into Germany's fully liberalized fixed-line market. By the end of 1999, the Regulatory Authority had issued over 250 regional and nationwide licenses for voice telephony service. The licensees include providers of subscriber lines and local services (subscriber network operators) and providers of long-distance and international services (long-distance carriers). Competition in the markets for calls to mobile networks and regional calls is also intensifying.

The focus of competition in the fixed-line market was on long-distance and international calls. In this battle, which has been waged almost exclusively on the basis of price, Deutsche Telekom's competitors have been able to gain significant market share.

Telephone customers are free to choose service providers. They can do so either through call-by-call selection, which means selecting a carrier every time they make a long distance or international call, by dialing the carrier's prefix before the telephone number, or through preselection, which means selecting one long-distance carrier to handle all their long distance and international calls. Fixed terms for interconnection, which particularly favor competitors that have not invested in infrastructure, have enabled providers to profit from Deutsche Telekom's investments, at low prices, and to exploit them in designing their own products and services. In December 1999, the Regulatory Authority mandated reductions of up to 24 percent in interconnection rates, which are to be effective until January 31, 2000. As a result, Deutsche Telekom expects further price competition in the long-distance and international markets.

Among the international carriers holding a license for voice telephony services in Germany are MCI WorldCom and ACC. Some larger international carriers such as British Telecom have entered into joint ventures with German companies. Among the larger domestic competitors are Mannesmann Arcor and VIAG Interkom. Mannesmann Arcor is a consortium led by Mannesmann, which owns the Mannesmann Mobilfunk (D2) mobile telephony provider and has agreed to be acquired by Vodafone Airtouch. Mannesmann Arcor is investing in creating direct fixed-line access to customers and has its own backbone network (the former network of the German railway) and international holdings. In 1999, Mannesmann Arcor acquired the fixed-line network business of o.tel.o., which resulted in a considerable increase in the fixed-line network capacity and customer-base of Mannesmann Arcor. VIAG Interkom is a joint venture among VIAG, British Telecom and Telenor. It offers fixed-network services to business and residential customers. Through its E2 business area, which commenced operations at the end of 1998, it participates in the mobile telephony market.

The consolidation of telecommunications carriers, such as the proposed acquisition of Sprint Corporation by MCI WorldCom and the proposed acquisition of Mannesmann by Vodafone Airtouch, and the creation of new alliances, such as the new joint venture between AT&T and British Telecom, captured widespread public attention in 1999 and will likely have a noticeable effect on the competitive environment. Size alone was not determinative of success in 1999, however, as some aggressive smaller carriers, such as Mobilcom and TelDaFax, succeeded in capturing market shares in Germany greatly disproportionate to the relative sizes of their balance sheets. Some smaller German carriers, such as NetCologne, focused on building urban or regional networks from which to offer both local and long distance services. At present, local network operators, including NetCologne, compete against Deutsche Telekom in more than 24 major cities in Germany. Deutsche Telekom expects the voice telephony market in Germany to undergo consolidation in the medium term, but also expects that in the short term there will continue to be new entrants in the market.

Although Deutsche Telekom did not face significant competition in the access and local calling markets in 1999, competition in those markets is expected to increase. Various competitors have announced plans for offering local call service using unbundled local loop access, wireless local loop access and access via powerlines. The Regulatory Authority auctioned licenses for wireless local loop services in the summer of 1999. In addition, regulatory inquiries regarding the possibility of requiring further unbundling of local loop access to the local loop are in progress at the European Union level. For further information on these developments, see "Regulation—Special Network Access and Interconnection—Local Loop Access". As a result of these developments, Deutsche Telekom expects that substantial competition in the local loop will develop.

Deutsche Telekom's decision to divide its broadband cable business into nine regional companies and to seek investors to assume majority control and operating control over those companies may in time lead to additional competition from parties seeking to provide telecommunications services, including access services, and multimedia services through a broadband cable network. See "Business—Broadband Cable/Broadcasting".

Deutsche Telekom believes that its technologically advanced network, broad and sophisticated product and service line, nationwide reach and commitment to customer service, taken together with its new tariff structures, position it well to compete effectively in the fixed-line telecommunications market. Competition is expected to continue to be intense, however.

Data Communications and Information and Communications Systems

The field of data communications and information and communications systems has been open to competition in Germany since the beginning of 1990. Competition in the business, based on price, quality and service, is rigorous and pricing pressures are intense. Among Deutsche Telekom's major competitors in the data telecommunications business are Mannesman Arcor, WorldCom, Colt and VIAG Interkom. Businesses that have built local networks, such as NetCologne, are also increasingly competitive in data communications. In systems solutions, competitors of Deutsche Telekom include EDS, IBM and debis.

Mobile Communications

There are four mobile network operators in Germany. The two largest, T-Mobil (T-D1/T-C-Tel) and Mannesmann Mobilfunk (D2) have been locked in a battle for market leadership over the past several years, with D2 currently having a modest edge. Between them, T-Mobil and Mannesmann Mobilfunk command approximately 79.9 percent of the digital mobile telecommunications market in Germany, based on management estimates, with T-Mobil having an estimated share of 39 percent of this market as of December 31, 1999. E-Plus, the third mobile network operator, entered the market using the GSM 1800 standard in 1994, two years after T-D1 and D2 commenced operations, and held an estimated 16.3 percent of the market at year-end 1999. E2, the fourth network operator, commenced operations in late 1998 using the GSM 1800 standard and currently has an estimated market share of 3.9 percent.

In the retail market, in addition to competition from other network operators, T-Mobil faces significant competition from resellers. Competition in the German retail market for mobile telecommunications services has generally been conducted on the basis of price, subscription options offered, offers of subsidized handsets, coverage and the quality of service. This competition has been intense. In the wholesale market, T-Mobil competes with other network operators to retain mobile traffic on its network.

T-Mobil signed a contract with VIAG Interkom in 1999 that allows calls from VIAG Interkom's E2 mobile service to be seamlessly transferred to the T-D1 mobile network. The contract has been approved by the Regulatory Authority.

Licenses for UMTS (Universal Mobile Telecommunications Systems), the next generation of mobile telecommunication, are to be auctioned by the beginning of 2000. Deutsche Telekom expects that mobile networks will carry an increasing share of data communications and intends to participate in these auctions when the proposed terms of the licenses are publicly announced. Deutsche Telekom's ability to keep up with developments in the European mobile telephony business may depend substantially on acquiring a license for UMTS. There is no guarantee that T-Mobil will be awarded a license for UMTS, although it intends to pursue one vigorously.

Broadband Cable/Broadcasting

Although Deutsche Telekom operates by far the largest cable network in Germany, it is subject to competition from a number of smaller cable companies and, more significantly, from the use of private satellite dishes. Increasing competition from digital terrestrial radio systems will also be possible. Under the Telecommunications Act, since 1996, competitors of Deutsche Telekom have been permitted to operate cable transmission lines in Germany. Deutsche Telekom has transferred the bulk of its cable business to a separate subsidiary and made plans to further divide the business into nine regional companies by July 1, 2000, and Deutsche Telekom is negotiating with investors for the business on a regional level, as described above under

the heading "Business— Broadcasting/Broadband Cable." Deutsche Telekom intends to retain a minority interest in those regional companies for which investors are obtained.

Terminal Equipment

The telecommunications equipment sector in Germany has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. Deutsche Telekom does not manufacture telecommunications equipment, but rather resells and leases equipment manufactured by other companies under the Deutsche Telekom brand name. As a result, Deutsche Telekom often competes in the market against the products of its equipment suppliers.

Value-Added Services

Deutsche Telekom encounters competition from a variety of sources in the area of value-added services. There is significant substitution effect in the public telephone market as mobile telephony becomes more popular. Further, Deutsche Telekom faces competition from new coin and card-operated public phones supplied by other operators. In the area of toll-free and other service numbers, competitors such as Mannesmann Arcor and Talkline have been gaining market share. Directory assistance service has become very competitive, with Telegate, Talkline, Mannesmann Arcor, o.tel.o and DTV pursuing business, and Deutsche Telekom has lost market share as a result of this competition.

T-Online

T-Online encounters competition from numerous market entrants, including units of its largest German voice telephony competitors and the world's largest online services provider, AOL/CompuServe. Competition is conducted primarily on the basis of quality (content), service and price. For information on a recent judicial proceeding relating to the prices charged by T-Online, see "Business—Legal Proceedings". T-Online has begun to extend its reach internationally, where it will face a broad group of competitors.

International

Deutsche Telekom and its subsidiaries and affiliates compete with major international telecommunications companies and numerous local competitors in markets outside Germany.

With its sale of its interest in Global One, Deutsche Telekom plans to build up its own international services to meet the needs of multinational corporations using cross-border telecommunications services. This plan may be pursued through direct investment, acquisitions or cooperative arrangements with other carriers. For a transitional period, Deutsche Telekom may continue to offer Global One services. Competition for the business of multinationals is intense, with resultant pressures on pricing.

In the United Kingdom, Deutsche Telekom's One 2 One subsidiary is the fourth largest mobile telephony service provider and encounters strong competition. Similarly, in Austria, where max.mobil is the second largest mobile service provider, competition is rigorous.

In Hungary, MATÁV faces competition in a number of its business activities, including its mobile operations. In its largest activity, fixed-line voice telephony services, MATÁV has a monopoly on long-distance and international calls until December 2001. MATÁV has, however, publicly indicated that it would be prepared to relinquish its monopoly rights ahead of schedule if the new Hungarian regulatory framework is ready.

ITEM 2—DESCRIPTION OF PROPERTY

As of December 31, 1999, Deutsche Telekom's property, plant and equipment had a total book value of EUR 59.0 billion. See note 13 to the consolidated financial statements.

Approximately 95 percent of the real estate portfolio of the Deutsche Telekom group relates to Deutsche Telekom AG. The real estate portfolio of Deutsche Telekom AG consists on an unconsolidated basis of about 12,000 properties with an aggregate book value at December 31, 1999 of EUR 16.3 billion. The total area of these properties amounts to approximately 64.1 million square meters, of which approximately 54.7 million square meters are developed and approximately 9.4 million square meters are undeveloped. Substantially all of

these properties are used for telecommunications installations, research centers, service outlets, computer centers and offices. In 1995, Deutsche Telekom AG formed DeTe Immobilien (Deutsche Telekom Immobilien und Service GmbH) to manage its real estate portfolio professionally.

Due to the consolidation of various operations, the conversion to digital exchanges completed in December 1997 and ongoing staff reductions, Deutsche Telekom AG anticipates that a portion of its owned and leased properties will not be required in its core business in the future. Starting in 1997, Deutsche Telekom AG began identifying surplus properties and began to sell or rent these properties. For a further discussion of Deutsche Telekom's real estate portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Dynamics Affecting Deutsche Telekom's Business—Real Estate".

The headquarters of Deutsche Telekom is located in a leased building in Bonn. Deutsche Telekom also leases a number of other buildings.

In addition to its real estate portfolio, Deutsche Telekom owns numerous telecommunications installations throughout Germany, including exchanges of various sizes, transmission equipment, computer installations, cable networks, base stations for cellular networks and equipment for television and radio broadcasting. The aggregate book value of Deutsche Telekom's technical equipment and machinery at December 31, 1999 was EUR 38.2 billion.

ITEM 3—LEGAL PROCEEDINGS

Deutsche Telekom and its subsidiaries are involved in a number of legal proceedings in the ordinary course of their business. In addition, proceedings involving alleged abuse of a market-dominating position by Deutsche Telekom and alleged antitrust violations are pending before competition and regulatory authorities.

On May 17, 1999, France Telecom commenced three arbitration proceedings with the International Court of Arbitration of the International Chamber of Commerce alleging that, by negotiating and entering into the combination agreement with Telecom Italia, Deutsche Telekom breached the cooperation agreement and the two cross-shareholding agreements between Deutsche Telekom and France Telecom. France Telecom is seeking to terminate these agreements and to recover damages from Deutsche Telekom, based on France Telecom's 1996 withdrawal from the German market and on missed opportunity costs, including the savings that allegedly would have resulted from the cooperation between Deutsche Telekom and France Telecom. In documents filed in the arbitration proceedings, France Telecom estimates that these damages amount to between EUR 3.5 billion and EUR 19 billion. Deutsche Telekom has denied the claims of France Telecom and filed substantial counterclaims for damages that currently are not fully specified but that are estimated by Deutsche Telekom at not less than EUR 6 billion. Deutsche Telekom estimates that these proceedings will last for approximately 12 months.

In addition, Enel S.p.A, France Telecom and Wind Telecomunicazioni S.p.A commenced arbitration proceedings during 1999 under the Rules of Arbitration of the International Chamber of Commerce based upon Deutsche Telekom's merger discussions with Telecom Italia. Enel is seeking damages in an amount not fully specified but estimated by Enel to be at least EUR 900 million, while Wind is seeking damages in an amount not fully specified but estimated by Wind at approximately EUR 265 million. Enel is also seeking a determination that it is entitled to exercise a call option on the shares in Wind that are held by DT-FT Italian Holding GmbH, a 50/50 joint venture of Deutsche Telekom and France Telecom, at a price equal to 90 percent of their fair market value. Deutsche Telekom has denied these claims and has filed substantial counterclaims against France Telecom, Enel and Wind. Deutsche Telekom anticipates that these arbitral proceedings will last for approximately two years.

Compagnie Générale des Communications S.A., a wholly-owned subsidiary of France Telecom, has filed a complaint against Deutsche Telekom with the District Court (*Landgericht*) in Bonn, seeking to require Deutsche Telekom to sell its interest in DT-FT Italian Holding GmbH for a price equal to the fair value of the shares. Deutsche Telekom currently expects that a decision in this matter will not be reached for four to five years.

On October 21, 1999, T-Mobil commenced arbitration proceedings in Vienna, Austria, against Elektrim S.A. and certain small shareholders of PTC. T-Mobil's claim alleges that these companies wrongfully failed to recognize Deutsche Telekom's rights of first refusal over approximately three percent of PTC, and that this

failure was a material breach of the PTC shareholders' agreement. These companies have denied T-Mobil's claim, and Elektrim has filed a counterclaim against T-Mobil alleging that T-Mobil materially breached the shareholders' agreement by, among other things, attempting to purchase PTC shares from several small shareholders and obstructing Elektrim's purchase of PTC shares. T-Mobil intends to deny the allegations made in the counterclaim. A finding by the arbitration panel that a party has materially breached the PTC shareholder agreement would give the non-defaulting party the right to acquire the defaulting party's PTC shares at book value, which would be substantially below their current fair market value. Deutsche Telekom estimates that these proceedings will last for around 12 to 18 months.

The Regulatory Authority issued an order in December 1999 that establishes the rates that will apply to voice telephony interconnection services provided by Deutsche Telekom between January 1, 2000 and January 31, 2001. For further information on this decision, see "Description of Business—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection." Because the decision of the Regulatory Authority in this matter was based on an international benchmark rather than on the cost information submitted by Deutsche Telekom, Deutsche Telekom filed a complaint against this order with the Cologne Administrative Court in January 2000.

In response to complaints from prospective voice telephony competitors of Deutsche Telekom, in July 1997, the Post Ministry required Deutsche Telekom to allow the complainants unbundled access to end customer lines (the "local loop") within Deutsche Telekom's network for purposes of connecting their own customers. See "Regulation—Special Network Access and Interconnection—Local Loop Access". A motion for an injunction against this order was rejected by the Cologne Administrative Court (*Verwaltungsgericht Köln*). In a hearing before the Appellate Administrative Court in Münster (*Oberverwaltungsgericht Münster*) in September 1997, an agreement was reached substantially on the basis of the Post Ministry's requirements, pursuant to which Deutsche Telekom now offers unbundled access to competitors. This agreement remains subject to the outcome of the litigation. Two administrative courts have dismissed Deutsche Telekom's challenge to this order, and Deutsche Telekom has appealed the issue to the Federal Administrative Court in Berlin.

The Regulatory Authority issued an order on March 9, 1998, rejecting in part an application by Deutsche Telekom for the approval of charges for access to the local loop. The Regulatory Authority rejected Deutsche Telekom's cost calculations based on a purported lack of transparency in the calculations and the evaluation of the cost factors and prescribed lower charges (DM 20.65 plus VAT) than those Deutsche Telekom had sought. See "Description of Business—Regulation—Special Network Access and Interconnection—Local Loop Access". Deutsche Telekom filed a legal challenge to this order with the Cologne Administrative Court. The Regulatory Authority recently reset the charge for the monthly rate at DM 25.40 plus VAT. Deutsche Telekom and certain competitors filed complaints against this order with the Cologne Administrative Court in March 1999. A decision by that court that is adverse to Deutsche Telekom would be likely to have the effect of increasing competition in the local access market. Deutsche Telekom also has appealed to the administrative courts decisions of the Regulatory Authority regarding the technical point in Deutsche Telekom's network at which competitors must be allowed access to the local loop.

The Regulatory Authority issued an order on October 27, 1999 requiring Deutsche Telekom to pay fees of approximately DM 386 million for the use of telephone numbers that were assigned to Deutsche Telekom prior to the liberalization of the market for public fixed-network voice telephony services on January 1, 1998. The order is based on the Telecommunications Numbers Fees Ordinance. The amount that Deutsche Telekom was required to pay was calculated on an estimate by the Regulatory Authority that is subject to revision when Deutsche Telekom supplies the Regulatory Authority with required information regarding the telephone numbers assigned to Deutsche Telekom prior to January 1, 1998. Deutsche Telekom has paid the required fee but filed a complaint against the order of the Regulatory Authority with the Cologne Administrative Court in November 1999.

On March 17, 1999, Mannesmann Arcor filed a complaint with the European Commission against the Federal Republic of Germany and against Deutsche Telekom. The complaint primarily relates to Deutsche Telekom's prices for unbundled access to the local loop, which were set by the Regulatory Authority in early 1999. According to Mannesmann Arcor, Deutsche Telekom's low retail prices for local calls and for subscriber lines combined with its high prices for interconnection and for unbundled access to the local loop do not allow competitors to provide customer services economically. With regard to the Federal Republic of Germany, Mannesmann Arcor alleges that the German Economics Ministry exerted undue influence over the decision of the Regulatory Authority regarding local loop access. Furthermore, in Mannesmann Arcor's view, legal

protection offered to applicants by German administrative courts, in the form of interim relief, for instance, would not be efficient. Other competitors have jointly filed two further complaints to the European Commission containing similar reproaches. In addition, Telepassport and Viatel have filed complaints alleging that Deutsche Telekom has abused a dominant position by charging long distance off-peak prices that are lower than applicable interconnection tariffs. Deutsche Telekom believes that the complaints are without merit and has submitted replies to the European Commission.

T-Online announced a plan to introduce new Internet charges as of April 1, 1999. AOL Bertelsmann filed a complaint concerning the new charges with the European Commission on February 15, 1999. The complaint alleges the abuse by Deutsche Telekom of its dominant position on the telephony market with regard to the Internet business (in particular, the bundling of Deutsche Telekom's local telephone charges with T-Online's Internet access charges and the use by T-Online of Deutsche Telekom's billing systems). AOL Bertelsmann has also filed a complaint with the German Regulatory Authority based on essentially the same allegations. On April 16, 1999, the Regulatory Authority opened a proceeding to regulate the prices for Internet access via online service. In its decision of August 16, 1999 the Regulatory Authority held that the prices for Internet access via online service to be non-abusive concerning Deutsche Telekom's alleged dominant position on the telephony market. The decision was based on a benchmark study, not on cost calculations by Deutsche Telekom. Several competitors of Deutsche Telekom filed complaints against this order with the Cologne Administrative Court. The Cologne Administrative Court issued two interim injunctions, obligating the Regulatory Authority to reopen the proceedings in respect to prices for Internet access via online service and to base its decision on Deutsche Telekom's cost calculations. Deutsche Telekom, the Regulatory Authority and two competitors (media ways GmbH and Interactive Networks GmbH) have appealed this decision. A decision by the Appellate Administrative Court in Münster on the admissibility of the appeals against the interim injunctions is pending. Deutsche Telekom believes that this appeal is likely to be admitted.

AOL Bertelsmann also brought three preliminary injunction proceedings against T-Online and Deutsche Telekom before the Hamburg District Court (*Landgericht Hamburg*) claiming that T-Online had engaged in anti-competitive practices.

In the first proceeding, AOL Bertelsmann requested that the court prohibit T-Online from offering solely "bundled" products (i.e., products that offer a single rate that includes telephone access rates and Internet access rates). Although Hamburg District Court ruled in favor of AOL Bertelsmann, the Hamburg Court of Appeals (*Oberlandesgericht Hamburg*) reversed the decision on appeal by T-Online. However, because this decision only relates to the preliminary injunction proceedings, it can not be predicted whether AOL will be able to initiate a regular proceeding against bundled products. In addition, the preliminary injunction proceeding against Deutsche Telekom is still pending.

In the second proceeding, AOL Bertelsmann argued that T-Online and Deutsche Telekom engaged in an anticompetitive practice by offering bundled products that included telephone connection rates that were lower than those available to AOL Bertelsmann's customers at that time. The Hamburg District Court dismissed AOL Bertelsmann's claim in this regard, and this decision was upheld on appeal. Again, because this decision only relates to the preliminary injunction proceedings, it can not be predicted whether AOL will be able to initiate a regular proceeding in this matter.

In the third proceeding, AOL Bertelsmann again argued that T-Online engaged in an anti-competitive practice by bundling its "By-Call" Internet access charge with Deutsche Telekom's ISDN telephone access. The Hamburg District Court decided this claim in favor of AOL Bertelsmann, and T-Online appealed this decision. The proceeding is still pending. Since T-Online now also offers "By-Call" access together with analog telephone lines, T-Online's current operations are not likely to be significantly affected even if AOL Bertelsmann prevailed in this proceeding. In addition, AOL Bertelsmann has commenced principal proceedings in this matter.

On March 15, 2000, AOL Bertelsmann filed a complaint against T-Online with the German Federal Antitrust Authority (*Bundeskartellamt*) claiming that T-Online would engage in an anti-competitive practice by combining its "T-Online by call" tariff option with Deutsche Telekom ISDN access. In a letter dated March 27, 2000, the Federal Antitrust Authority requested T-Online to provide clarification concerning these allegations. Due to the fact this proceeding is at an incipient stage, the outcome can not be predicted.

On May 5, 1999, Mannesmann Mobilfunk filed a complaint with the European Commission alleging abuse by Deutsche Telekom of a dominant position on the fixed telephony retail market and on the market for termination services. According to the complaint, the alleged abuse consists of Deutsche Telekom's refusal to provide network services necessary for the implementation of Personal Communications Services similar to Deutsche Telekom's PCS. Deutsche Telekom believes that the complaint is without merit and has submitted a reply to the European Commission.

In early 1999, the U.S.-based operator Carrier 1 lodged a formal complaint with the U.S. Trade Representative against the Federal Republic alleging, among other things, that the Regulatory Authority failed to create a regulatory framework that guarantees competitors interconnection without unreasonable technical conditions on a timely basis and at cost-oriented prices. The complaint further alleges anti-competitive practices on the part of Deutsche Telekom (for example, delay in negotiating and implementing interconnection agreements). Deutsche Telekom believes the Carrier 1 complaint should be rejected on the merits. Deutsche Telekom believes that other carriers have also complained to U.S. authorities about interconnection in Germany on an informal basis. See "Description of Business—Regulation—International Obligations".

In September 1998, Deutsche Post AG commenced an arbitration proceeding seeking contributions from Deutsche Telekom relating to the cost of employee housing for former Deutsche Bundespost employees, including a number of Deutsche Telekom employees. In 1995, responsibility for the housing of former employees of Deutsche Bundespost was assigned to Deutsche Post AG. The parties have different views as to the amount Deutsche Telekom is obliged to pay as cost reimbursement for the use of such employee housing for its employees. Deutsche Post AG currently is seeking payment in the amount of EUR 45.3 million from Deutsche Telekom, although Deutsche Telekom expects that Deutsche Post AG may claim further amounts in the event that its initial claim is successful. As of December 31, 1999, Deutsche Telekom reserved EUR 45.8 million in connection with this arbitration proceeding. To date, only an initial hearing has taken place. The outcome of the arbitration proceeding is uncertain.

German tax authorities have denied Deutsche Telekom's request for permission to recognize goodwill in its opening balance sheet of January 1, 1995 in the amount of EUR 13.1 billion and to depreciate that goodwill for tax purposes. In February 1999, Deutsche Telekom filed a complaint against this decision of the German tax authorities with the fiscal court of Cologne (*Finanzgericht Köln*). A judgment of this court of first instance is expected in 2000 - 2001. A decision adverse to Deutsche Telekom would not have an adverse impact on the financial position of Deutsche Telekom, since Deutsche Telekom has chosen not to recognize or depreciate this goodwill for tax purposes until it receives approval from the tax authorities or the courts. A decision favorable to Deutsche Telekom, however, would result in tax refunds for Deutsche Telekom.

In October 1996, British Telecommunications plc ("BT") and VIAG Interkom GmbH & Co. KG ("VIAG") filed a complaint with the District Court in Düsseldorf (*Landgericht Düsseldorf*) seeking a permanent injunction and damages on the basis that Deutsche Telekom and Atlas Germany had commenced offering and selling Global One telecommunications services before a condition to the entry into effect of the competition law exemptions granted to Atlas and Global One by the European Commission had been fully satisfied (specifically, the condition that two or more licenses for the build-out, ownership and/or control of alternative transmission lines for liberalized telecommunications services be in effect in each of Germany and France). The complaint also sought certain information from Deutsche Telekom. Although the request for a permanent injunction was settled in 1997, the parties appealed decisions of the lower courts regarding the claim for damages to the Federal Supreme Court in 1998. In August 1999, however, the plaintiffs withdrew their complaint.

In April 1998, a German consumer association filed a complaint with the District Court in Cologne (*Landgericht Köln*) challenging a clause used by Deutsche Telekom in its General Terms and Conditions for TV-cable service. Deutsche Telekom based its November 1997 price increase on the challenged clause. The case was dismissed by the court by judgement dated October 27, 1999.

ITEM 4—CONTROL OF REGISTRANT

Shareholding

The capital stock of Deutsche Telekom consists of ordinary shares with no par value. Prior to January 24, 2000, these shares were issued only in bearer form. On January 24, 2000, the shares were converted from bearer form to registered form.

Historically, Deutsche Telekom formed an integral and undifferentiated part of Deutsche Bundespost, a state-owned special asset (*Sondervermögen des Bundes*). In 1989, Deutsche Bundespost was divided into three distinct entities – Deutsche Bundespost TELEKOM, Deutsche Bundespost POSTBANK and Deutsche Bundespost POSTDIENST. Deutsche Bundespost TELEKOM was transformed, with effect from January 1, 1995, into Deutsche Telekom AG, a private law stock corporation, which continued to be wholly owned by the Federal Republic.

The Federal Republic's direct ownership interest in Deutsche Telekom is approximately 43 percent. KfW, a government-sponsored development bank that is 80 percent owned by the Federal Republic and 20 percent owned by German state governments, owns approximately 22 percent. The Federal Republic is therefore in indirect control of the shares owned by KfW.

As long as the Federal Republic directly or indirectly controls the majority of Deutsche Telekom's shares, it will, like any majority shareholder in a German stock corporation, have the power to control most decisions taken at shareholders' meetings, including the appointment of all of the members of the Supervisory Board elected by the shareholders and the approval of proposed dividend payments.

Provisions of German law that inhibited the ability of the Federal Republic and KfW to sell shares of Deutsche Telekom ceased to apply as of January 1, 2000. The Federal Republic and KfW have agreed with Deutsche Telekom not to sell their shares before June 2000. KfW has indicated that it plans to dispose of a portion of its Deutsche Telekom shares in the capital markets. Deutsche Telekom intends, if requested, to consent to this disposition.

The Federal Republic administers its shareholding and exercises its rights as a shareholder of Deutsche Telekom through the Federal Agency for Postal Affairs and Telecommunications Deutsche Bundespost (the "Federal Agency"), which is subject to the supervision of the Finance Ministry. Except as described below, in its capacity as shareholder, the Federal Republic may exercise only those rights that it has under the German Stock Corporation Act and Deutsche Telekom's Articles of Incorporation.

For as long as the Federal Republic holds, directly or indirectly, a majority of Deutsche Telekom's voting share capital, it is entitled, under the Law on Budgetary Principles (*Haushaltsgrundsatzgesetz*), to require Deutsche Telekom to instruct its independent auditors to extend the scope of their audit of Deutsche Telekom and its subsidiaries to cover their management and certain other matters. The Federal Republic is entitled to receive copies of audit reports upon request. In addition, the Federal Audit Office (*Bundesrechnungshof*) reviews the activities of the Federal Republic regarding enterprises in which it holds interests. For as long as the Federal Republic is, directly or indirectly, the majority shareholder of Deutsche Telekom, the Federal Audit Office has the right to investigate questions arising from its review, including by inspecting Deutsche Telekom's operations as well as books and accounts. Similar rights apply with respect to those subsidiaries of Deutsche Telekom that so provide in their articles of incorporation. In reporting to the Federal Republic, Supervisory Board members who are elected on the initiative of the Federal Republic are not generally subject to usual secrecy obligations applicable to Supervisory Board members; the Federal Republic must, however, maintain the secrecy of confidential information contained in these reports.

Furthermore, as is generally the case with other German corporations with a controlling shareholder, for as long as the Federal Republic is a shareholder with controlling influence (*beherrschender Einfluß*), Deutsche Telekom's Board of Management is required to produce a report (*Abhängigkeitsbericht*) setting forth the relationships and the transactions entered into between Deutsche Telekom, on the one hand, and the Federal Republic or its affiliated enterprises, on the other hand. This related-party report, which is intended to protect minority shareholders and creditors, must include a declaration by the Board of Management as to the fairness of transactions and dealings with the Federal Republic. Deutsche Telekom's independent auditors are required to confirm the accuracy of this report. The Supervisory Board is then required to review the related-party

report and the auditor's findings thereon and to inform the shareholders as to the conclusion of both. In the 1999 related-party report, Deutsche Telekom's Board of Management declared that under the circumstances known to the Board of Management, at the time of performing the business transactions between Deutsche Telekom and the Federal Republic and its affiliated enterprises, including the Federal Agency, Deutsche Telekom received appropriate remuneration for these transactions, and that Deutsche Telekom did not perform or omit any actions on behalf of or on the instructions of the controlling shareholder, in its capacity as such, or any other affiliated companies. Deutsche Telekom's independent auditors have confirmed the accuracy of the 1999 related-party report regarding relationships between Deutsche Telekom and its controlling shareholder.

Pursuant to the Articles of Association (*Satzung*) of DeTeMobil, Deutsche Telekom's mobile communications subsidiary ("T-Mobil"), and of DeTeSystem, Deutsche Telekom's systems solutions subsidiary, the Finance Ministry has the right to nominate one member to the supervisory board of each of these subsidiaries. In addition, any amendments to the Articles of Association of DeTeSystem require the consent of the Finance Ministry.

Coordination and Administrative Responsibilities of the Federal Agency

Pursuant to applicable law, the Federal Agency provides certain services to Deutsche Telekom, Deutsche Postbank and Deutsche Post and has certain rights and responsibilities with respect to the administration of the common affairs of these companies. For example, the Federal Agency is responsible for concluding on behalf of these entities general collective bargaining agreements (*Manteltarifverträge*) with employees relating only to certain non-wage benefits, rules of conduct and other general terms of employment. These agreements only become effective with the consent of the affected entity. The Federal Agency's right to conclude these agreements does not affect Deutsche Telekom's right to negotiate particular terms of employment, including wages, salaries and conditions of employment, on its own behalf. The Federal Agency also administers the health insurance fund for civil servants (*Postbeamtenkrankenkasse*), the pension fund for non-civil servants (VAP) and the health insurance fund for non-civil servants (*Bundespost-Betriebskrankenkasse*), employed by Deutsche Telekom, Deutsche Postbank and Deutsche Post. The Federal Agency has certain additional responsibilities with respect to civil servants employed by Deutsche Telekom, Deutsche Post and Deutsche Postbank. The Federal Agency has the right to provide advice concerning the coordination of the activities of Deutsche Telekom, Deutsche Postbank and Deutsche Post, particularly, with respect to their public image, issues that may arise if the business plans of these entities conflict and, upon request, with respect to certain personnel issues.

Services provided by the Federal Agency pursuant to applicable law are rendered on the basis of service agreements between Deutsche Telekom, Deutsche Postbank and Deutsche Post, on the one hand, and the Federal Agency, on the other. Since applicable law currently requires that each of Deutsche Telekom, Deutsche Postbank and Deutsche Post enter into a service agreement with the Federal Agency covering the services described above, Deutsche Telekom has not considered entering into arrangements with third parties for the provision of these services. Costs of the Federal Agency incurred in connection with providing these services are financed out of fees agreed upon with Deutsche Telekom, Deutsche Post and Deutsche Postbank. Deutsche Telekom incurred costs of EUR 75 million for these services in 1999 (as compared to EUR 89 million in 1998).

Until 1997, the total costs of the Federal Agency, consisting mainly of personnel costs for its approximately 3,100 employees, had been divided among the three companies on a basis reflecting the number of employees of each of the companies. In 1997, this approach was replaced by a new distribution plan, which is based on actual expenses incurred using a new cost attribution system. The Federal Agency is statutorily required to observe the principles of economic efficiency and expense minimization. The Federal Agency drafts budgets on an annual basis and prepares an annual report which is audited by its independent auditors. The independent auditors' review includes a review of the orderly management and significant economic relationships of the Federal Agency. The budget and the annual report are subject to adoption by an administrative board (*Verwaltungsrat*), which consists of representatives of the German Government, of Deutsche Post, Deutsche Postbank and Deutsche Telekom and of the employees of each of these entities. After adoption by the administrative board, the budget and the annual report are submitted to the Finance Ministry for approval. The fiscal and budgetary management of the Federal Agency is subject to continuous supervision by the Federal Audit Office pursuant to the German Budget Ordinance (*Bundshaushaltsordnung*).

Federal Republic as Regulator

The Federal Republic's role as regulator is independent and distinct from its role as shareholder. Until December 31, 1997, this regulatory function was exercised by the Post Ministry. Thereafter, the new Regulatory Authority, which is under the general supervision of the German Economics Ministry, took over this function. See "Description of Business—Regulation".

Federal Republic as Customer

The Federal Republic is Deutsche Telekom's largest customer and purchases services on an arm's-length basis. Deutsche Telekom deals with the various departments and agencies of the German Government as separate customers, and the provision of services to any one department or agency does not constitute a material part of Deutsche Telekom's revenues.

New Arrangement with Deutsche Post

Deutsche Telekom announced plans in 1999 to negotiate and enter into a definitive agreement with Deutsche Post AG that will call for Deutsche Telekom to provide, among other things, information technology and corporate network services to Deutsche Post. In return, Deutsche Post will provide distribution and transportation, printing, warehousing and other services. The objective of the arrangement is to allow each company to focus on its core competencies and dispose of peripheral activities. Deutsche Telekom expects that this arrangement will result in a net transfer of around 2,000 Deutsche Telekom employees to Deutsche Post.

Federal Republic Guarantees

Pursuant to applicable law, all liabilities of Deutsche Telekom outstanding as of January 2, 1995, the date of Deutsche Telekom's registration in the Commercial Register (*Handelsregister*), became guaranteed by the Federal Republic. This guarantee replaced the Federal Republic's obligations with respect to Deutsche Telekom's liabilities when it was a state-owned special asset. Liabilities incurred after January 2, 1995 are not guaranteed by the Federal Republic.

Pension Contributions for Civil Servants

Civil servants (*Beamte*) employed by Deutsche Telekom are entitled to pension benefits provided by the Federal Republic. Pursuant to applicable law, Deutsche Telekom is required to make annual contributions to a special pension fund (*Unterstützungskasse*) established to fund these pension obligations. See "Management and Employees—Employees—Civil Servants" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs."

ITEM 5—NATURE OF TRADING MARKET

General

The principal trading market for Deutsche Telekom's shares is the Frankfurt Stock Exchange. The shares also trade on the other German stock exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart and on the Tokyo Stock Exchange. The shares are eligible for quotation and trading through the Stock Exchange Automated Quotation System of the London Stock Exchange. Options on the shares trade on the German options exchange (*Eurex Deutschland*) and other exchanges. Originally, Deutsche Telekom issued all its shares in bearer form. With effect from January 24, 2000, the shares were converted from bearer form to registered form.

American Depositary Shares (ADSs), each representing one Share, are listed on the New York Stock Exchange and trade under the symbol "DT". The depository for the ADSs is Citibank N.A. As of December 31, 1999, there were 24,443,834 ADSs outstanding, with 296 holders of record of ADSs with addresses in the United States and 38 holders of record of ADSs with addresses outside the United States. Approximately 8,978 ADSs were held of record by holders with non-U.S. addresses. Since Deutsche Telekom's shares were in bearer form in 1999, Deutsche Telekom does not have precise information regarding the percentage of its shares held by U.S. holders as of December 31, 1999. As of April 4, 2000, however, there were 1,707 holders of record of shares with addresses in the U.S., and Deutsche Telekom estimates that around 10 percent of its shares not

represented by ADSs (excluding shares held by the Federal Republic and KfW) were held by investors in the United States on that date.

Trading on the New York Stock Exchange

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the NYSE:

	Price per ADS	
	High	Low
	US \$	
1998		
First Quarter	22 ⁷ / ₈	17 ¹ / ₁₆
Second Quarter	28 ⁵ / ₁₆	21 ¹ / ₂
Third Quarter	32	24
Fourth Quarter	33 ¹ / ₂	26 ¹ / ₄
1999		
First Quarter	47 ¹ / ₈	36 ¹ / ₁₆
Second Quarter	45 ⁷ / ₈	36 ¹ / ₄
Third Quarter	45 ⁷ / ₁₆	39 ⁵ / ₈
Fourth Quarter	71	40 ³ / ₄
2000		
First Quarter	98 ⁵ / ₈	63 ¹ / ₁₆

On March 31, 2000, the closing sales price per ADS on the NYSE was US\$ 80 ¹/₄.

Trading on the Frankfurt Stock Exchange

Deutsche Börse AG operates the Frankfurt Stock Exchange, which is the most significant of the eight German stock exchanges. The Frankfurt Stock Exchange (including transactions through the Xetra system) accounted for approximately 80 percent of the turnover in exchange-traded shares in Germany in 1999. As of December 31, 1999, the shares of 3,265 companies traded on the official regulated and unregulated markets and the Neuer Markt Segment of the Frankfurt Stock Exchange. Of these, 711 were German companies and 2,554 were foreign companies.

Trading on the floor of the Frankfurt Stock Exchange begins every business day at 9:00 a.m. and ends at 5:30 p.m. (as of June 2, 2000: 8:00 p.m.), Central European Time. Securities listed on the Frankfurt Stock Exchange generally trade in the auction market, but also change hands in interbank dealer markets. Publicly commissioned stock brokers who are members of the Frankfurt Stock Exchange, but who do not as a rule deal with the public, note prices, which are determined by out-cry. The prices of actively traded securities, including the shares of large corporations, are continuously quoted during trading hours. For all securities, a fixed price (*Einheitspreis*) is established at approximately midday on each day the Frankfurt Stock Exchange is open for business.

On behalf of the Frankfurt Stock Exchange, the Chamber of Official Exchange Brokers of the Frankfurt Stock Exchange (*Kursmaklerkammer Frankfurt am Main*) publishes an official daily list of quotations (*Ämliches Kursblatt*) containing the fixed prices (*Einheitskurse*) as well as the yearly high and low prices for all traded securities.

In November 1997, to improve the market quality of trading, Deutsche Börse replaced the IBIS trading system (*Integriertes Börsenhandels- und Informations-System*) with Xetra (*Exchange Electronic Trading*). The Xetra market model was developed in collaboration with market participants and essentially comprises rules for price determination, prioritization of orders and the provision of information for market participants.

Transactions on the Frankfurt Stock Exchange (including transactions through the Xetra system) settle on the second business day following the trade. Transactions off the Frankfurt Stock Exchange (such as, for example, large trades or transactions in which one of the parties is foreign) generally also settle on the second business

day following the trade, although a different period may be agreed to by the parties. Under standard terms and conditions for securities transactions employed by German banks, customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

The Frankfurt Stock Exchange can suspend a quotation if orderly trading is temporarily endangered or if a suspension is deemed to be necessary to protect the public.

The Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) monitors trading activities on the German stock exchanges.

From January 4, 1999, all shares on German stock exchanges have traded in euro.

The table below sets forth, for the periods indicated, the high and low closing sales prices for the shares of Deutsche Telekom on the Frankfurt Stock Exchange, as reported by the Frankfurt Stock Exchange IBIS / Xetra trading systems, together with the highs and lows of the DAX (*Deutscher Aktien-Index*).

	<u>Price Per Ordinary Share</u>		<u>Price Per Ordinary Share</u>		<u>DAX(1)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	Euro		DM			
1998						
First Quarter.....	-	-	41.65	31.19	5,114.13	4,134.64
Second Quarter.....	-	-	50.14	39.70	5,915.13	5,018.67
Third Quarter.....	-	-	55.61	44.90	6,171.43	4,433.87
Fourth Quarter.....	-	-	55.97	43.40	5,121.48	3,896.08
1999						
First Quarter.....	43.45	31.35	-	-	5,443.62	4,678.72
Second Quarter.....	44.55	34.23	-	-	5,468.67	4,914.59
Third Quarter.....	43.15	36.90	-	-	5,652.02	4,978.45
Fourth Quarter.....	71.50	38.11	-	-	6,958.14	5,124.55
2000						
First Quarter.....	103.50	61.00	-	-	8,064.97	6,474.92

(i) The DAX is a weighted performance index of the shares of thirty large German corporations. The calculation of the DAX did not change upon the introduction of the euro.

On March 31, 2000, the closing sales price per Deutsche Telekom share on the Frankfurt Stock Exchange was EUR 84.00, equivalent to DM 164.29 per share, translated at the exchange rate fixed on January 1, 1999, and US\$ 80.42 per share, translated at the Noon Buying Rate for March 31, 2000.

ITEM 6—EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

At present, the Federal Republic does not restrict the movement of capital between Germany and other countries except investments in Iraq and Serbia and with institutions of the Taliban party in Afghanistan. This is to comply with the applicable resolutions adopted by the United Nations and the EU.

For statistical purposes, with certain exceptions, every corporation or individual residing in Germany is obligated to report any payment received from or made to a non-resident corporation or individual to the German Central Bank (*Deutsche Bundesbank*) if the payment exceeds DM 5,000 or EUR 2,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against or liabilities payable to a non-resident corporation or individual exceeding an aggregate of DM 3 million or EUR 1.5 million (or the equivalent in a foreign currency) at the end of any calendar month.

Neither German law nor the Memorandum and Articles of Association (*Satzung*) of Deutsche Telekom restricts the right of non-resident or foreign owners of the shares to hold or vote the shares.

ITEM 7—TAXATION

German Taxation

The following is a brief summary of material German tax consequences for beneficial owners of shares or ADSs that are not German residents for German income tax purposes and do not hold shares or ADSs as part of a permanent establishment or a fixed base in Germany ("Non-German Holders"). This summary is based upon German law and typical tax and other treaties between Germany and other countries in effect as of the date hereof and is subject to changes in German law or such treaties. The following is not meant to be a comprehensive discussion of all of the German tax consequences which may be relevant for Non-German Holders. Prospective purchasers should consult their tax advisers regarding the German federal, state and local tax consequences of the purchase, ownership and disposition of shares and the procedures for the refund of German taxes withheld from dividends.

Dividends

In general, German corporations are subject to corporate income tax at a rate of 40 percent on non-distributed profits and of 30 percent on distributed profits. The corporate income tax liability is subject to a 5.5 percent solidarity surcharge (*Solidaritätszuschlag*). This results in an effective aggregate charge of 31.65 percent on distributed profits. German resident taxpayers (including foreign investors that hold shares or ADSs as part of a permanent establishment or a fixed base in Germany) are entitled to a refundable tax credit in the amount of three-sevenths of the gross amount (before dividend withholding tax) of profits distributed, which credit also reduces the basis for the 5.5 percent surcharge on the German taxpayer's income tax liability. That credit or refund is not available to Non-German Holders.

In addition, a 25 percent withholding tax (plus a solidarity surcharge of 5.5 percent thereon resulting in withholding tax burden of 26.375 percent) is imposed on gross dividend distributions by a German corporation. With respect to a Non-German Holder, this rate may be reduced by a tax treaty applicable to such Non-German Holder. Under most tax treaties the withholding tax rate is reduced to 15 percent. The reduction is granted by way of a refund of the difference between the tax withheld at the statutory rate of 25 percent and the applicable treaty rate upon application to the German tax authorities (Bundesamt für Finanzen, Friedhofstrasse 1, 53225 Bonn, Germany). For Non-German Holders of ADSs entitled to the benefits of the income tax treaty between the United States and Germany (the "Treaty") a special refund procedure may apply, as described below under the heading "—United States Taxation—Refund Procedures".

Under the Treaty, provided the corporate tax imputation system continues to apply to individuals under German law, qualifying U.S. shareholders are entitled to an additional reduction in German tax equal to 5 percent of the gross amount of the dividend, which is refundable together with the general treaty refund discussed in the preceding paragraph. Special U.S. tax rules applicable to this additional refund are discussed below under "United States Taxation—Dividends".

On February 9, 2000 the German Ministry of Finance published a draft tax reform bill. According to such draft bill, corporate income tax cuts would become effective in the year 2001. The German government plans to repeal the corporate tax imputation system which does not provide for a tax credit in favor of Non-German Holders. Instead, profits would be subject to tax separately at corporation and shareholder levels. At the corporation's level the corporate income tax rate would be 25 percent (plus solidarity surcharge and local trade income tax). The German resident shareholder would pay income tax at his personal income tax rate on the amount of 50 percent of the gross distribution. Dividends received by German resident shareholders or Non-German Holders would be subject to withholding tax at a rate of 20 percent (plus solidarity surcharge of 5.5 percent resulting in an overall withholding tax burden of 21.1 percent).

Capital Gains

Under German domestic tax law, gain which Non-German Holders derive from the sale or other disposition of shares or ADSs is not subject to tax in Germany, provided the Non-German Holder has not held, directly or indirectly, 10 percent or more of the shares at any time during the 5-year period immediately preceding the disposition. This participation threshold will be reduced to 1 percent pursuant to the draft tax reform bill mentioned above. Most tax treaties concluded by Germany with other countries provide that Non-German Holders resident in the respective treaty state are not subject to German income tax on such capital gains.

Inheritance and Gift Tax

Under German law, German gift or inheritance tax will be imposed on transfers of shares or ADSs by gift or at death of a Non-German Holder only if (1) the donor or transferor, or the heir, donee or other beneficiary, was domiciled in Germany at the time of the transfer or, with respect to German citizens who are not domiciled in Germany, if such donor, transferor or beneficiary has not been continuously outside of Germany for a period of more than 5 years, or (2) the shares or ADSs subject to such transfer consist or form part of a portfolio of 10 percent or more of such shares or ADSs held directly or indirectly by the donor or transferor himself or together with one or more related persons. The few German estate tax treaties currently in force (e.g., the treaty with the United States) usually provide that German gift or inheritance tax may only be imposed if condition (1) above is met.

Other Taxes

No German transfer, stamp or other similar taxes apply to the purchase, sale or other disposition of shares or ADSs by Non-German Holders.

United States Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of shares and ADSs by a holder that is a resident of the United States for purposes of the income tax convention between the United States and Germany (the "Treaty") and is fully eligible for benefits under the Treaty (a "U.S. holder"). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations, that arise from rules of general application or that are generally assumed to be known by investors. In particular, the summary does not deal with U.S. holders that purchase in the secondary market or holders that do not hold shares or ADSs as capital assets. The summary does not address the tax treatment of holders that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, persons holding property as part of an integrated investment (including a "straddle") that includes one or more other positions, persons that own, directly or indirectly, 10 per cent. or more of Deutsche Telekom's voting stock and holders whose "functional currency" is not the U.S. dollar. The summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change.

Holders should consult their own advisers regarding the tax consequences of the acquisition, ownership and disposition of shares or ADSs in light of their particular circumstances, including the effect of any state, local, or other national laws.

The beneficial owner of a share or ADS generally will be entitled to Treaty benefits, and therefore will be a U.S. holder, if it is (1) an individual resident of the United States, a U.S. corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; (2) not also a resident of Germany for German tax purposes; and (3) not subject to an anti-treaty shopping article that applies in limited circumstances. The Treaty benefits discussed below generally are not available to U.S. taxpayers that hold shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Germany. This summary does not discuss the treatment of such holders.

In general, for U.S. federal income tax purposes and for purposes of the Treaty, beneficial owners of ADSs will be treated as the beneficial owners of the shares represented by those ADSs.

Shares and ADSs

Dividends

Dividends paid by German corporations generally are subject to German withholding tax at an aggregate rate of 26.375 percent (consisting of a 25 percent withholding tax and a 1.375 percent surcharge).

U.S. holders are entitled to claim a refund of a portion of these withholding taxes, and will be treated as receiving additional dividend income from Deutsche Telekom, under the mechanism described below. Under the Treaty, a U.S. holder will be entitled to receive a payment from the German tax authorities equal to 16.375

percent of the declared dividend. The Treaty provides that a portion of this payment (i.e., 11.375 percent of the declared dividend) will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15 percent, and the remainder of the payment (i.e., 5 percent of the declared dividend) will be treated as the net amount of an additional dividend of 5.88 percent of the declared dividend that has been subject to a 15 percent German withholding tax. Accordingly, if Deutsche Telekom declares a dividend of 100, a U.S. holder initially will receive 73.625 (100 minus the 26.375 percent withholding tax). The U.S. holder then can claim a refund from the German authorities of 16.375 and thereby will receive total cash payment of 90 (i.e., 90 percent of the declared dividend). For U.S. tax purposes, the holder will be deemed to have received total dividends of 105.88, consisting of the declared dividend of 100, plus the deemed additional dividend of 5.88 that is associated with the Treaty refund.

If the German draft tax reform bill is enacted in its current form, dividends paid by German corporations will be subject to German withholding tax at an aggregate rate of 21.1 percent (20 percent withholding tax and a 1.1 percent surcharge) and the Treaty benefits discussed above will differ. Under the Treaty, the German withholding tax would still be reduced to 15 percent, but a U.S. holder would no longer be entitled to the deemed additional dividend of 5.88 percent. Accordingly, for a declared dividend of 100, a U.S. holder would initially receive 78.9 and could claim a refund from the German tax authorities of 6.1 and therefore receive a total cash payment of 85. For U.S. tax purposes, a U.S. holder will be deemed to have received total dividends of 100.

The gross amount of dividends received by a U.S. holder (including the additional dividend associated with the Treaty refund and amounts withheld in respect of German withholding tax) generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15 percent rate provided under the Treaty will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against a U.S. holder's U.S. federal income tax liability or, at the holder's election, may be deducted in computing taxable income. Thus, for a declared dividend of 100, under current German law, a U.S. holder would be deemed to have paid German taxes of 15.88, but if the German draft tax reform bill is enacted in its current form, a U.S. holder would be deemed to have paid German taxes of 15. For foreign tax credit purposes, dividends paid by Deutsche Telekom will be foreign source "passive income" or, in the case of certain U.S. holders, "financial services income". Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. U.S. holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Dividends paid in non-U.S. currency will be included in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder or, in the case of ADSs, by the Depository, regardless of whether the payment is in fact converted into U.S. dollars. If dividends paid in foreign currency are converted into U.S. dollars on the date of receipt, holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may be required to recognize domestic-source foreign currency gain or loss on the receipt of a refund in respect of German withholding tax (but not with respect to the portion of the Treaty refund that is treated as an additional dividend) to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Refund Procedures

Pursuant to administrative procedures introduced on a trial basis, claims for refunds payable under the Treaty to U.S. holders must be submitted to the German tax authorities by the Depository collectively on behalf of all such U.S. holders. However, this procedure is not available for U.S. holders entitled to refunds in excess of DM 300 for the calendar year; such holders must file separate claims. Claims must be filed within four years of the end of the calendar year in which the dividend was received.

Details of the collective refund procedure are available from the Depository. Individual claims for refund are made on a special German form, which must be filed with the German tax authorities: Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998.