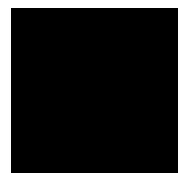
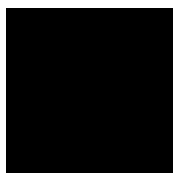
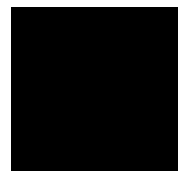
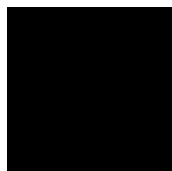
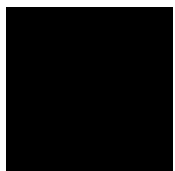
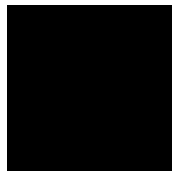
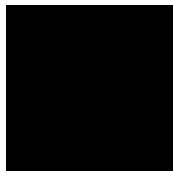


Deutsche Telekom  
Group Half-Year Report  
January 1 to June 30, 1998



# Highlights

- Growth in revenue and income
- Decrease in losses from cable TV, terminal equipment and special value-added services
- Marked improvement of cash flow
- Open regulatory decisions as a considerable source of uncertainty
- Losses at Global One and provision for risks for Southeast Asia
- Increase in goods and services purchased

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about activities and results of the first half of 1998.

The Deutsche Telekom share recorded a rise of 46 % (DAX 30: 39 %) in the first half of the calendar year, which is in line with a generally upward trend on the capital market. The performance of the Deutsche Telekom share (price gain plus the cash dividend) amounted to approximately 50 %.

## Business developments

Deutsche Telekom achieved a 4.5 % increase in revenue in the first half of 1998. Whereas growth was recorded at 6 % in the first quarter, it declined to 3 % in the second quarter in the wake of our tariff cuts that went into effect on March 1 and growing competition.

Call minutes in Deutsche Telekom's network increased by 7.2 % to 93.1 billion minutes compared to the first half of 1997. The greatest increase was accounted for by local

calls, but growth was also achieved for long-distance and international calls. As anticipated, Deutsche Telekom lost market shares to its competitors, primarily in the areas of long-distance and international calls.

### Numbers of customers in selected services

	June 30, 1998 millions	Dec. 31, 1997 millions	Change in %
Telephone lines (incl. ISDN channels)	45.8	45.2	1.3
of which: ISDN channels	8.7	7.3	19.2
T-Online customers	2.3	1.9	21.1
Mobile phone customers (T-D1 and T-C-Tel)	4.6	3.8	21.1
Paging and other mobile communications customers	0.9	1.1	-18.2
Cable connections	17.5	17.3	1.2

**Income before taxes and return on sales<sup>1)</sup>**

	<b>Income</b> <b>First half year of 1998</b> <b>billions of DM</b>	<b>Income</b> <b>1997</b> <b>billions of DM</b>	<b>Return on Sales</b> <b>First half year of 1998</b> <b>in %</b>	<b>Return on Sales</b> <b>1997<sup>2)</sup></b> <b>in %</b>
Fixed-network communications	5.55	10.1	23	21
Mobile-network communications	0.50	1.1	18	22
<b>Subtotal – Network communications</b>	<b>6.05</b>	<b>11.2</b>	<b>22</b>	<b>21</b>
Cable TV/Broadcasting	-0.55	-1.3	-32	-42
Terminal equipment	-0.10	-0.5	-7	-16
Special value-added services (directory inquiries, public telephones, etc.)	-0.10	-1.0	-5	-26
Other services (T-Online, etc.)	0.00	0.2	0	20
International activities (in particular MATAV)	0.30	0.5	21	21
Subsidiaries and related companies (unconsolidated)	-0.60	-1.9	-	-
<b>Subtotal</b>	<b>-1.05</b>	<b>-4.0</b>	<b>-14</b>	<b>-29</b>
	<b>5.00</b>	<b>7.2</b>	<b>15</b>	<b>11</b>

<sup>1)</sup> As of December 31, 1998, Deutsche Telekom will for the first time adopt the new U.S. Statement SFAS 131. This Statement covers segment reporting.

As a result, the representation selected here may therefore deviate from that for the end of the 1998 financial year.

The above information has not been audited by an external auditor and is based on internal figures.

<sup>2)</sup> According to the revenue reporting structure of 1998.

It has been possible to increase income before taxes by 40% in the first half year to approximately DM 5 billion. The net income of the Group grew by 18% to DM 1.95 billion. The increase in the average tax rate is mainly a result of differences in valuation between the balance sheets for financial reporting purposes and for tax reporting purposes.

Based on income before taxes, the return on sales improved in the first half of 1998 compared with the 1997 financial year, both in network communications and other activities.

Return on sales in fixed-network communications increased to 23%, whilst the intense competition for market shares in mobile-network communications resulted in a decreasing return on sales.

The tariff increase in cable TV resulted in a slight improvement of the loss-making situation. In terminal equipment, with revenues decreasing, product streamlining led to a reduction of the loss for the first half of 1998 from DM 0.5 billion for the whole of 1997 to DM 0.1 billion. The largest improvement was recorded in special value-added services.

This was attributable to the tariff increases at the end of 1997, which were received well by the customers, in particular with regard to the directory inquiries service, due to the vastly improved service level. Our investment in the Hungarian telephone company MATAV continues to develop most satisfactorily, where growth in income matched the increase in revenue.

It should be noted that unconsolidated subsidiaries and related companies were not affected by the effects of the crisis in Asia until the second half of 1997. In the current financial year, further write-downs were made on our investments in Southeast Asia in the first half of the year and in the first quarter in particular. With regard to Global One, the increased payments to compensate for losses are attributable to the expansion of the Global One backbone network and the restructuring measures which have been introduced.

Overall, losses outside network communications were reduced considerably. We are confident that we will be able to achieve our target of reducing losses in these areas by half in 1998.

# Regulation

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With regard to the regulatory environment, a decision is expected on November 30, 1998, on charges for access to our end customer lines ("unbundled local loop"). In order to give all concerned more time to clarify the basis and effects of this decision, Deutsche Telekom has withdrawn its original rates proposal in agreement with the Regulatory Authority for Telecommunications and Posts (Regulatory Authority). At the same time, the provisionally approved charges were extended to November 30, 1998.

At June 30, 1998, Deutsche Telekom had signed so-called "interconnection agreements" with 39 competitors. A decision on the treatment of so-called "subscriber network operators", "long-distance operators" and "resellers" is expected in October 1998. The Regulatory Authority has initiated a process of public consultation to clarify this issue.

Cable technology now makes it possible for subscribers to receive up to 123 digital program channels. We plan to feed more foreign language programs into the cable network

from the fall of this year. In addition, the cable business is being spun off and is being prepared for partners to join at a later stage.

In the first half of the year, Deutsche Telekom did not make any provision for risks for its cable TV business which would have had a direct effect on results. Whether a provision is to be made by the end of the year depends largely on whether the Regulatory Authority amends its notification of April 30, 1998. This notification states that it will be possible to waive the order to reverse two thirds of the cable TV tariff increase on January 1, 1999, if new events occur. From today's perspective, the ongoing discussions with the Regulatory Authority on this matter are progressing encouragingly.

## Outlook

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For the second half of 1998, we expect the growth of the German telecommunications market to continue unabated and that competition will intensify further.

Deutsche Telekom will launch its offer of T-DSL in eight German cities in the second half of this year. T-DSL allows data transmission rates of up to 8 Mbit per second via a normal copper access line. T-DSL complements our existing services offered via ISDN.

In the mobile phone business, a local tariff is being introduced and business customer tariffs are to be reduced considerably from August 31, 1998. We expect from this a marked increase in subscriber growth for our T-D1 network and also a marked increase in price competition.

France Telecom and Deutsche Telekom intend to acquire 2% of each other's share capital. Both companies intend to further expand their cooperation, particularly on the European markets.

We expect further losses from Global One due to the restructuring measures being undertaken and from the costs of expanding the backbone network. The effects of the crisis in Asia will have less impact on the results in the second half year than in the second half of 1997.

Workforce and debt reduction continued in the half year under review in line with our targets announced during our IPO. We have been able to greatly improve our cash flow. Depreciation and amortization and investments in property, plant and equipment are at a much lower level than in 1997. We expect this trend to continue for the whole of the financial year.

Based on the current development of group results, the Board of Management believes it will be possible to pay a dividend for the 1998 financial year of the same amount as for 1997, provided the decisions of the Regulatory Authority are in line with our expectations and no unforeseen events occur.

# Summary of first half-year results of the Deutsche Telekom group

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The half-year financial statements of the Deutsche Telekom group have been prepared in accordance with the Stock Exchange Act (Börsengesetz - BörsG), the Stock Exchange Admissions Regulation (Börsenzulassungs-Verordnung - BörsZulV) as well as the requirements of the German Commercial Code (Handelsgesetzbuch - HGB) and the German Stock Corporation Law (Aktiengesetz - AktG).

At the relevant balance sheet date, the Company provides uniform financial reporting to the extent possible by using accounting policies where options exist under German GAAP (principally as laid down in the HGB) to conform to U.S. GAAP.

The contents of these consolidated half-year financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the requirements of the HGB cannot be conformed to U.S. GAAP. These differences between German GAAP and U.S. GAAP are shown in a separate reconciliation.

Consolidated statement of income	First half year 1998	First half year 1997	Change	1997
	millions of DM	millions of DM	in %	millions of DM
<b>Net revenue</b>	34,365	<b>32,871</b>	<b>4.5</b>	67,552
Changes in inventories and other own capitalized costs	849	1,528	-44.4	2,960
<b>Total operating performance</b>	<b>35,214</b>	<b>34,399</b>	<b>2.4</b>	<b>70,512</b>
Other operating income	1,829	1,544	18.5	3,746
Goods and services purchased	(6,056)	(5,577)	8.6	(12,137)
Personnel costs	(9,110)	(9,228)	-1.3	(18,340)
Depreciation and amortization	(8,528)	(9,039)	-5.7	(18,597)
Other operating expenses	(4,733)	(5,005)	-5.4	(10,161)
Financial income (expense) net of which: net interest expense	(3,618) (3,038)	(3,526) (3,281)	2.6 -7.4	(7,827) (6,368)
<b>Results from ordinary business activities</b>	<b>4,998</b>	<b>3,568</b>	<b>40.1</b>	<b>7,196</b>
Other taxes	(85)	(379)	-77.6	(650)
Income taxes	(2,761)	(1,404)	96.7	(2,958)
<b>Income after taxes</b>	<b>2,152</b>	<b>1,785</b>	<b>20.6</b>	<b>3,588</b>
(Income) losses applicable to minority shareholders	(204)	(136)	50.0	(285)
<b>Net income</b>	<b>1,948</b>	<b>1,649</b>	<b>18.1</b>	<b>3,303</b>

Consolidated balance sheet	June 30, 1998	Dec. 31, 1997	Change	June 30, 1997
	millions of DM	millions of DM	in %	millions of DM
<b>Assets</b>				
Noncurrent assets	131,938	137,017	-3.7	141,875
Current assets <sup>1)</sup>	30,926	25,801	19.9	31,238
	162,864	<b>162,818</b>	0.0	<b>173,113</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	46,607	48,144	-3.2	46,957
Liabilities <sup>1), 2)</sup>	116,257	114,674	1.4	126,156
	<b>162,864</b>	<b>162,818</b>	<b>0.0</b>	<b>173,113</b>
<sup>1)</sup> Current assets include prepaid expenses, deferred charges and deferred taxation. Liabilities include deferred income. <sup>2)</sup> Including accruals				

As at June 30, 1998, shareholders' equity in accordance with U.S. GAAP amounted to DM 49,622 million.

Consolidated statement of cash flows	First half year 1998	First half year 1997	Change	1997
	millions of DM	millions of DM	in %	millions of DM
<b>Net cash provided by operating activities</b>	<b>13,940</b>	<b>11,310</b>	<b>23.3</b>	<b>22,641</b>
<b>Net cash used for investing activities</b>	<b>(8,711)</b>	<b>(7,844)</b>	<b>11.1</b>	<b>(10,569)</b>
<b>Net cash provided by (used for) financing activities</b>	<b>(5,389)</b>	<b>(5,169)</b>	<b>4.3</b>	<b>(13,759)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	0	(1)	-	(6)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(160)</b>	<b>(1,704)</b>	<b>-</b>	<b>(1,693)</b>

# Net revenue

Revenue by business area <sup>1)</sup>	First half year 1998 millions of DM	First half year 1997 <sup>2)</sup> millions of DM	Change in %	1997 <sup>3)</sup> millions of DM
Fixed-network communications	24,264	23,838	1.8	48,887
Mobile-network communications	2,809	2,385	17.8	5,132
<b>Subtotal – Network communications</b>	<b>27,073</b>	<b>26,223</b>	<b>3.2</b>	<b>54,019</b>
Cable TV/Broadcasting	1,750	1,529	14.5	3,124
Terminal equipment	1,442	1,585	-9.0	3,219
Special value-added services (directory inquiries, public telephones, etc.)	1,996	1,886	5.8	3,913
Other services (T-Online, etc.)	754	504	49.6	920
International activities (in particular MATAV)	1,350	1,144	18.0	2,357
<b>Subtotal</b>	<b>7,292</b>	<b>6,648</b>	<b>9.7</b>	<b>13,533</b>
	<b>34,365</b>	<b>32,871</b>	<b>4.5</b>	<b>67,552</b>

<sup>1)</sup> Revenues are reported in line with the organizational structure of the group business areas of the 1998 financial year.

The prior year figures have been restated to reflect the new structure.

<sup>2)</sup> The main changes from the half-year report of June 30, 1997, are that the call charges for the directory inquiries service and value-added services of approximately DM 760 million are now included in the group business area special value-added services, instead of fixed-network communications, as previously was the case. Under the 1998 group business area structure, mobile-network communications also include revenues of approximately DM 270 million generated from sale of mobile terminal equipment. Revenues from cable TV/broadcasting are shown separately in the 1998 group business area structure. Revenues of approximately DM 220 million from multimedia communications are recorded under other services.

<sup>3)</sup> The main changes from the annual report of December 31, 1997, are that the call charges for the directory inquiries service and value-added services of approximately DM 1,600 million are now included in the group business area special value-added services, instead of fixed-network communications, as previously was the case. Under the 1998 group business area structure, mobile-network communications include the revenues of approximately DM 160 million generated from direct sales of terminal equipment for the business area mobile-network communications. Under the 1997 structure, these revenues were recorded under other services.

Net revenue of the Deutsche Telekom group totaled DM 34,365 million for the first half year of 1998. This represents an increase of DM 1,494 million or 4.5% as compared with the same period last year.

Significant increases have been achieved in the areas fixed-network communications and mobile-network communications. Fixed-network communications contributed DM 426 million to the increase in net revenue. Competition, particularly in the second quarter, resulted in a trend of fewer international calls. The resulting drop in revenue was more than compensated through increases in the revenue from local calls as well as growth in interconnection services and, in particular, from revenue in data communications and system solutions. The development of the group business area mobile-network communications was positive and resulted

in an increase in revenue of DM 424 million or 17.8% as compared with the same period last year.

The improved revenue situation was particularly marked in the group business areas cable TV/broadcasting and special value-added services as a result of the price increase at the end of the 1997 financial year. The pleasing development in revenue from international activities (in particular MATAV) continued in the first half of 1998. Terminal equipment, on the other hand, recorded a significant drop in revenue compared with the same period last year. The revenue growth in other services is primarily due to the fact that T-Online developed positively and that, for the first time, Deutsche Telekom took over and billed services of other fixed-network operators. Revenues from these services were, however, offset by a corresponding increase in goods and services purchased.



# Personnel

Personnel costs	First half year 1998 millions of DM	First half year 1997 millions of DM	Change in %	1997 millions of DM
Wages and salaries	6,473	6,506	-0.5	12,955
Social security contributions and expenses for pension plans and benefits	2,637	2,722	-3.1	5,385
	<b>9,110</b>	<b>9,228</b>	<b>-1.3</b>	<b>18,340</b>

Deutsche Telekom has continued its workforce reduction program as planned in the first half year of 1998. Personnel costs of the Deutsche Telekom group amounted to DM 9,110 million in the first half of 1998, which is a decrease of DM 118 million, or 1.3% compared with the same period last year. However, personnel costs per employee increased by 4.8%. Besides the 1.5% increase in wages and salaries under collective bargaining agreements and a remuneration

adjustment related to the eastern German collective bargaining agreements from 88% to 92% of the western German remuneration level, this growth was attributable to age-related salary increases and the review of salaries to bring them in line with market conditions. Furthermore, contributions to civil servant pensions, which are unrelated to the number of employees, also led to an increase in the personnel costs per employee.

Average number of employees	First half year 1998 Number	First half year 1997 Number	Change in %	1997 Number
<b>Deutsche Telekom group<sup>1)</sup></b>	<b>187,867</b>	<b>198,961</b>	<b>-5.6</b>	<b>196,943</b>
Changes in the composition of the Deutsche Telekom group of prior years (in particular MATAV)	17,918	19,516	-8.2	19,138
<b>Deutsche Telekom group</b>	<b>205,785</b>	<b>218,477</b>	<b>-5.8</b>	<b>216,081</b>
Trainees/student interns	5,941	6,132	-3.1	6,178
<sup>1)</sup> Before changes in the composition of the Deutsche Telekom group of prior years				

Number of employees at balance sheet date	June 30, 1998 Number	Dec. 31, 1997 Number	Change in %	June 30, 1997 Number
<b>Deutsche Telekom group<sup>1)</sup></b>	<b>186,219</b>	<b>191,034</b>	<b>-2.5</b>	<b>197,977</b>
Changes in the composition of the Deutsche Telekom group of prior years (in particular MATAV)	17,555	18,261	-3.9	19,054
<b>Deutsche Telekom group</b>	<b>203,774</b>	<b>209,295</b>	<b>-2.6</b>	<b>217,031</b>
Trainees/student interns	5,564	6,711	-17.1	5,396
<sup>1)</sup> Before changes in the composition of the Deutsche Telekom group of prior years				

The number of employees (excluding MATAV) was decreased through the Group's workforce reduction program of avoiding

compulsory redundancies by 4,815 to 186,219 in the course of the first half year of 1998.

# Depreciation and amortization

	First half year 1998 millions of DM	First half year 1997 millions of DM	Change in %	1997 millions of DM
	<b>8,528</b>	<b>9,039</b>	<b>-5.7</b>	<b>18,597</b>

In the period under review, depreciation and amortization fell in line with expectations to DM 8,528 million, a drop of 5.7% compared with the first half of 1997. Depreciation and amortization is mostly attributable to depreciation of techni-

cal equipment and machinery, which accounted for approximately DM 6.9 billion. Nonscheduled write-downs amounting to DM 48 million were recognized in the first half of 1998.

# Changes in net income

It has been possible to increase income before income taxes by DM 1,724 million to DM 4,913 million. This significant growth was mainly due to the increase in revenue, the reduction in depreciation and amortization and the decrease in personnel costs. The increase in goods and services purchased, primarily due to the increased expenditure on interconnection services of other domestic carriers, which also included the costs of taking over and billing services of

other fixed-network operators, as well as the development of financial income (expense) negatively affected the result in the first half of 1998. The loss related to subsidiaries, associated and related companies primarily includes necessary nonscheduled amortization and provisions for risks made because of the continuing crisis in Asia; in addition, further losses incurred by Atlas/Global One also had to be taken into account.

	millions of DM
Increase in revenue	1,494
Increase in goods and services purchased (incl. charges paid to other carriers)	(479)
of which: from taking over and billing services of other fixed-network operators	(207)
Decrease in personnel costs	118
Decrease in depreciation and amortization	511
Changes in financial income (expense)	(92)
of which: changes in net interest expense	243
Changes in other income and expense items	172
	<b>1,724</b>

The increased tax expense of DM 1,357 million was mainly due to an improved income before taxes. Furthermore, differences in accounting and valuation between the balance sheets for financial reporting purposes and for tax reporting

purposes had an effect, in particular with regard to accruals. In spite of a rise in tax expense, net income of the Group has significantly improved and increased to DM 1,948 million in the first half year of 1998.

## Reconciliation of net income from German GAAP to U.S. GAAP

The following reconciliation to U.S. GAAP shows how the corresponding values of the German consolidated financial

statements after U.S. GAAP adjustments comply with U.S. reporting requirements.

	First half year 1998 millions of DM	First half year 1997 millions of DM	Change in %	1997 millions of DM
<b>Net income as reported in the consolidated financial statements under German GAAP</b>	<b>1,948</b>	<b>1,649</b>	<b>18.1</b>	<b>3,303</b>
Personnel restructuring accrual	(321)	(187)	-	(492)
Value-added tax	138	28	-	6
Other differences	41	25	-	63
Income taxes	57	(450)	-	(424)
<b>Net income in accordance with U.S. GAAP</b>	<b>1,863</b>	<b>1,065</b>	<b>74.9</b>	<b>2,456</b>

# Investments

	First half year 1998 millions of DM	First half year 1997 millions of DM	Change in %	1997 millions of DM
Intangible assets and property, plant and equipment	3,586	6,508	-44.9	13,885
Financial assets	1,630	1,105	47.5	1,580
	<b>5,216</b>	<b>7,613</b>	<b>-31.5</b>	<b>15,465</b>

Investments in property, plant and equipment, which relate mainly to Deutsche Telekom AG, amounted to DM 3,360 million in the first half of 1998. Capital expenditure has, as was expected, decreased due to the completion of the digitization of the network's switching and transmission equipment as well as the completion of the development program for eastern Germany at the end of 1997. Additions

to financial assets amounted to DM 1,630 million, DM 764 million of which are attributable to investments in associated and related companies, in particular investments in Global One (via Atlas), the joint venture Wind as well as in the Israeli company VocalTec Communications Ltd. Deutsche Telekom also invested DM 650 million in special funds.

# Financial liabilities

	June 30, 1998 millions of DM	Dec. 31, 1997 millions of DM	Change in %	June 30, 1997 millions of DM
Debt	86,087	87,891	-2.1	96,365
Debt excluding MATAV	84,691	86,435	-2.0	94,941

In order to broaden its sources of funding, Deutsche Telekom floated a bond issue with a volume of DM 2 billion in May 1998. Financial liabilities are being repaid according to plan. Total debt amounted to approximately DM 86.1 billion at June 30, 1998 as compared with DM 87.9 billion at December 31, 1997. Net financial liabilities amounted to

DM 69.2 billion at June 30, 1998. Future repayment of debt will continue as planned; the goal is to reduce debt to DM 65 billion by the year 2000. The redemption structure of Deutsche Telekom's indebtedness is such that repayment of debt is concentrated in the second half of the year.

# Cash flows

## Net cash provided by operating activities

Net cash provided by operating activities increased by DM 2,630 million to DM 13,940 million. This increase resulted from the improved net income. Net cash was also positively influenced by the changes in the ratio of non-cash expenses for income taxes and income tax payments. In contrast to the first half of 1997, working capital changed insignificantly in the period under review.

## Net cash used for investing activities

Net cash used for investing activities increased by DM 867 million to DM 8,711 million. The decrease in capital expenditure was more than offset by temporary cash investments. As in previous years, it was possible to fully finance capital expenditure from cash provided by operating activities.

## Net cash used for financing activities

Cash used for financing activities amounting to DM 5,389 million principally resulted from dividend payments by Deutsche Telekom AG and MATAV of DM 3,362 million. Cash flows from a floated bond issue with a volume of DM 2 billion had a reversed effect on cash used for financing activities.

Bonn, August 1998  
Deutsche Telekom AG

Board of Management

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