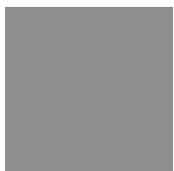
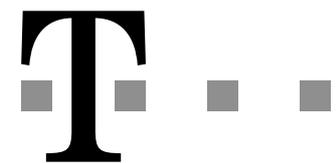
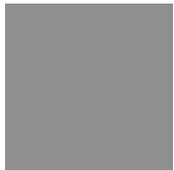


Deutsche Telekom  
Group Report  
January 1 to June 30, 1999



# Highlights

- Successful completion of largest capital increase ever
- Acquisition of 100 % of UK mobile communications operator One 2 One
- Public offering of mobile communications and online activities under consideration
- T-Aktie significantly outperforms market
- Group net income € 951 million compared with € 996 million in first half of 1998
- Price cuts lead to considerable decrease in revenue, return on sales and cash flow in telephone network communications
- Conclusion of first contracts for majority sale of cable network expected in second half of the year

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about the first six months of 1999.

The Deutsche Telekom share, the T-Aktie, achieved a significant performance in the period under review. The share price rose by 43.9 % (June 30, 1999: € 40.50) compared with the last price quoted in 1998 (Xetra closing price: € 28.15);

including the cash dividend the performance amounted to 46.2 %. The DAX 30 rose by 7.4 % over the same period. Following the capital increase and including the Greenshoe, the number of dividend-bearing shares is 3,024.6 million, which represents an increase of 10 % compared with the number before the capital increase.

## Business developments

Deutsche Telekom's revenue overall, including the Austrian mobile communications operator max.mobil., fully consolidated for the first time, and excluding the amounts billed for other network operators, amounted to € 16.8 billion, 4.0 % lower than in the first half of 1998.

The revenue trend in the first half of the year was, as in the first quarter, marked by considerable price reductions, particularly in the long-distance sector. The number of call minutes rose by 1 % over the number recorded in the first half of 1998 to 94 billion. Lower numbers of call minutes from long-distance and international calls were offset by increases in other services (in particular T-Online), in fixed to mobile

traffic and in the City zone. Deutsche Telekom's considerable price reductions introduced on March 1, 1998, at the beginning of this year and on April 1, 1999 reduced revenue.

This trend was not compensated by the continuing boom in mobile communications, ISDN access lines and online business. Deutsche Telekom has gained 600,000 new T-Online customers and 1.3 million new T-D1 subscribers and has installed 1.6 million new ISDN channels since the beginning of 1999 alone. With 11.7 million ISDN channels, Deutsche Telekom has an ISDN penetration rate of approximately 25 % of all telephone lines, which is unique in comparison with its international competitors.

Numbers of customers in selected services	June 30, 1999	Dec. 31, 1998	Change	June 30, 1998
	millions	millions	in %	millions
Telephone lines (incl. ISDN channels)	47.2	46.5	1.5	45.8
of which: ISDN channels	11.7	10.1	15.8	8.7
of which: residential customers	5.0	3.9	28.2	3.1
of which: business customers	6.7	6.2	8.1	5.6
T-Online customers	3.3	2.7	22.2	2.3
Mobile phone subscribers (T-D1 and T-C-Tel)	7.1	5.8	22.4	4.6
of which: T-D1 subscribers	6.8	5.5	23.6	4.1

Income before taxes, net revenue and return on sales in accordance with SFAS 131 <sup>1)</sup>	Income before taxes	Income before taxes	Net revenue	Net revenue <sup>2)</sup>	Return on sales	Return on sales
	First half year 1999 millions of €	Total 1998 millions of €	First half year 1999 millions of €	Total 1998 millions of €	First half year 1999 in %	Total 1998 in %
Telephone						
network communications	1,321	4,796	8,479	20,531	15.6	23.4
Mobile						
communications	393	672	1,736	3,061	22.6	22.0
Broadband cable/						
Broadcasting	(132)	(325)	924	1,804	-14.3	-18.0
Terminal equipment	(1)	(114)	601	1,382	-0.2	-8.2
Special value-added services	(19)	(181)	935	2,051	-2.0	-8.8
International activities <sup>3)</sup>	110	267	999	1,322	11.0	20.2
Other segments	204	(40)	3,049	4,972	6.7	-0.8
Reconciliation <sup>4)</sup>	(14)	25	35	74	-	-
<b>Total</b>	<b>1,862</b>	<b>5,100</b>	<b>16,758</b>	<b>35,197</b>	<b>11.1</b>	<b>14.5</b>

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No. 131 for segment reporting.

<sup>2)</sup> Net revenue shown under 1998 has been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

<sup>3)</sup> max.mobil., fully consolidated for the first time, is shown under international activities. Revenue in this segment increased by € 282 million as a result; income before taxes declined by € 37 million.

<sup>4)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom Group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

The price cuts introduced to improve Deutsche Telekom's competitive position in the long term led to decreases in revenue and in return on sales from the main revenue driver, telephone network communications. This was not offset in the short term by the rapidly growing mobile communications segment, by the improvements in other segments, nor by special measures. The return on sales in the first half of 1999 decreased overall from 14.5 % in the first six months of 1998 to 11.1 %, having been at 14.3 % in the first quarter of 1999. The fall in the return on sales from international activities was mainly attributable to the first full consolidation of the Austrian company max.mobil., which contributed € 282 million to revenue but has not yet generated income.

As expected, it was also not possible to offset the decrease in revenue in the short term by reductions in costs. The extension of depreciation periods in the outside plant network,

relating to copper cables and cable chambers, had a positive effect amounting to approximately € 0.4 billion or 2.4 % of revenue, as did the reduction of interest expense by ca. € 0.2 billion. This improvement was offset, however, by increases in goods and services purchased and in other operating expenses, only part of which is attributable to the first full consolidation of max.mobil.

Results from ordinary business activities remained € 495 million below the figure for the first half of 1998. In addition, the expenses incurred in the course of the capital increase, amounting to € 198 million, were also included in the figures for the first six months of 1999. One significant reason why the net income of the Group was stable at € 951 million was that tax expense decreased considerably by € 665 million.

## Outlook

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Deutsche Telekom completed the largest capital increase in international business history and the first pan-European share offering for retail investors, generating approximately € 10.6 billion (including a cash injection of approximately € 1 billion from the exercising of the Greenshoe, which will not be posted until the third quarter of 1999). At June 30, 1999, the shareholders' equity was therefore increased to approximately € 34 billion or 38.5 % of the balance sheet total. Deutsche Telekom will use the funds generated by this capital increase to push ahead with its internationalization strategy in particular. As such, the 100 % acquisition of the British mobile communications operator One 2 One was announced on August 6, 1999. This represents a decisive strategic step towards the goal of offering a pan-European product in this sector. With One 2 One's 2.65 million mobile communications subscribers in Britain, the third-largest mobile communications market in Europe, and over 11 million subscribers of companies in which Deutsche Telekom holds a majority shareholding, Deutsche Telekom is one of the top European mobile communications operators. The purchase price is £ 6.7 billion, together with £ 200 million of shareholder loans and around £ 1.5 billion of non-recourse debt. The purchase price is thus well below the expectations originally circulated by the sellers. Along with start-up costs and financing costs of the purchase price, the goodwill will be amortized at a rate of € 750 million per annum over 15 years. The acquisition is subject to approval by Deutsche Telekom's Supervisory Board and the appropriate EU authorities.

Besides mobile communications, Deutsche Telekom also plans to expand internationally in other strategic growth areas – online business, data communications/systems solutions and network access. A separate public offering of mobile communications and online activities is currently being considered as a means to achieve this further expansion, primarily on the basis of acquisitions and mergers, in order to create an appropriate "acquisition currency" through share swaps. A further goal is to create a global T-brand and to make the value of these areas more transparent for investors.

In the second half of this year, Deutsche Telekom also expects to conclude the first contracts for the sale of majority shareholdings in the regional companies formed in the spin-off of the broadband cable network. These companies should benefit from international valuations for cable companies. Deutsche Telekom therefore expects this to have a positive effect on results in the second half of this year.

With regard to its operational business, Deutsche Telekom expects the aggressive competition in Germany to continue, particularly in the fixed network; the dynamism of the developments in market shares will, however, not be left in the hands of the competitors alone. It will not be possible to compensate for the decrease in margins in the long-distance sector of telephone network communications with cost reductions in 1999. The legal actions against Deutsche Telekom initiated independently of one another by France Telecom, Enel and Wind in connection with the breaches of cooperation agreements alleged by these companies are still pending. The same applies to the possible restructuring of the Global One joint venture.

# Preparations for the year 2000

The conversion and adjustment measures in preparation for the year 2000 were continued as planned in the first half of 1999. All systems of critical importance for business have now been checked for year-2000 compliance and conversion work has been carried out where necessary. Year-2000 tests have been carried out on Deutsche Telekom's products and services, which were either found to contain no faults or the faults which were identified have been rectified. Our network infrastructure has successfully been subjected to many tests for year-2000 compliance, i.e., all systems which influence the operation of our networks have been identified and,

by means of changing the time settings, have undergone practical tests for year-2000 compliance or a technical evaluation.

We have carried out two large-scale joint tests with our partners, the result of which is that interoperability with their systems is ensured. Deutsche Telekom's established business recovery processes have been checked for year-2000 compliance and adjusted where necessary. This is to ensure that appropriate action can be taken immediately if faults do occur.

## Summary of the consolidated financial statements as at June 30, 1999

The financial statements of the Deutsche Telekom Group for the first half year 1999 have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Law (Aktiengesetz – AktG).

The Company provides uniform financial reporting to the extent possible by using accounting and valuation principles in line with those of U.S. GAAP (generally accepted account-

ing principles – GAAP) applicable at the balance sheet date, provided options exist under German GAAP (principally as laid down in the HGB) to permit such an approach. The contents of these consolidated 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 1999 millions of €	First half year 1998 <sup>1)</sup> millions of €	Change in %	Total 1998 <sup>1)</sup> millions of €
<b>Net revenue</b>	<b>16,758</b>	<b>17,465</b>	<b>-4.0</b>	<b>35,197</b>
Changes in inventories and other own capitalized costs	454	434	4.6	990
<b>Total operating performance</b>	<b>17,212</b>	<b>17,899</b>	<b>-3.8</b>	<b>36,187</b>
Other operating income	864	935	-7.6	2,069
Goods and services purchased	(3,338)	(2,991)	11.6	(6,276)
Personnel costs	(4,603)	(4,658)	-1.2	(9,170)
Depreciation and amortization	(3,959)	(4,360)	-9.2	(9,037)
Other operating expenses	(2,650)	(2,420)	9.5	(5,385)
Financial income (expense), net	(1,466)	(1,850)	-20.8	(3,288)
of which: net interest expense	(1,308)	(1,553)	-15.8	(2,962)
<b>Results from ordinary business activities</b>	<b>2,060</b>	<b>2,555</b>	<b>-19.4</b>	<b>5,100</b>
Extraordinary income (losses)	(198)	-	-	-
Taxes	(790)	(1,455)	-45.7	(2,654)
<b>Income after taxes</b>	<b>1,072</b>	<b>1,100</b>	<b>-2.5</b>	<b>2,446</b>
(Income) losses applicable to minority shareholders	(121)	(104)	16.3	(203)
<b>Net income</b>	<b>951</b>	<b>996</b>	<b>-4.5</b>	<b>2,243</b>

<sup>1)</sup> Revenue and goods and services purchased shown under 1998 have been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue and goods and services purchased.

Consolidated balance sheet	June 30, 1999 millions of €	Dec. 31, 1998 millions of €	Change in %	June 30, 1998 millions of €
<b>Assets</b>				
Noncurrent assets	67,273	66,520	1.1	67,459
Current assets <sup>1)</sup>	21,257	12,771	66.4	15,812
	<b>88,530</b>	<b>79,291</b>	<b>11.7</b>	<b>83,271</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	34,079	25,064	36.0	23,830
Liabilities <sup>2)</sup>	54,451	54,227	0.4	59,441
	<b>88,530</b>	<b>79,291</b>	<b>11.7</b>	<b>83,271</b>
<sup>1)</sup> Including prepaid expenses, deferred charges and deferred taxation.				
<sup>2)</sup> Including accruals and deferred income.				

Consolidated statement of cash flows	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
<b>Net cash provided by operating activities</b>	<b>4,580</b>	<b>7,127</b>	<b>-35.7</b>	<b>13,491</b>
<b>Net cash used for investing activities</b>	<b>(9,182)</b>	<b>(4,454)</b>	<b>106.2</b>	<b>(7,511)</b>
<b>Net cash provided by (used for) financing activities</b>	<b>6,035</b>	<b>(2,755)</b>	<b>-</b>	<b>(6,797)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(44)	0	-	6
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,389</b>	<b>(82)</b>	<b>-</b>	<b>(811)</b>

Segment information by group business area for the first half year 1999 in accordance with SFAS 131 <sup>1)</sup>	Net revenue	Revenue between segments	Depreciation and amortization	Net interest expense	Income (loss) related to associated and related companies	Income before taxes
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Telephone network						
communications	8,479	358	(2,109)	(585)	0	1,321
Mobile communications	1,736	516	(192)	(82)	0	393
Broadband cable/ Broadcasting	924	80	(439)	(185)	0	(132)
Terminal equipment	601	98	(98)	(27)	0	(1)
Special value- added services	935	137	(110)	(30)	0	(19)
International activities <sup>2)</sup>	999	7	(199)	(84)	0	110
Other segments	3,049	1,369	(803)	(323)	(150)	204
Reconciliation <sup>3)</sup>	35	(2,565)	(9)	8	(8)	(14)
<b>Group</b>	<b>16,758</b>	<b>0</b>	<b>(3,959)</b>	<b>(1,308)</b>	<b>(158)</b>	<b>1,862</b>

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No.131 for segment reporting.

<sup>2)</sup> max.mobil., fully consolidated for the first time, is shown under international activities.

<sup>3)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom Group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

# Changes in the composition of the Deutsche Telekom Group

Deutsche Telekom's subsidiary max.mobil. was consolidated for the first time in the Group financial statements as at June 30, 1999, having been accounted for using the equity method in prior periods. The effects resulting from the acquisition

of the majority shareholding in max.mobil. and the corresponding change in the accounting methods are explained below.

## Effects on the consolidated statement of income

	millions of €
<b>Net revenue</b>	<b>282</b>
Changes in inventories and other own capitalized costs	4
Other operating income	2
Goods and services purchased	(114)
Personnel costs	(22)
Depreciation and amortization	(71)
Other operating expenses	(106)
Financial income (expense), net	(12)
<b>Income after taxes</b>	<b>(37)</b>
(Income) losses applicable to minority shareholders	1
<b>Net income</b>	<b>(36)</b>

## Effects on the consolidated balance sheet

	millions of €	millions of €
<b>Assets</b>		<b>Shareholders' equity and liabilities</b>
Noncurrent assets	1,370	Shareholders' equity (38)
Current assets <sup>1)</sup>	(676)	Liabilities <sup>2)</sup> 732
	<b>694</b>	<b>694</b>

<sup>1)</sup> Including prepaid expenses, deferred charges and deferred taxation. These effects are the result of the take-over of assets and the payment of the purchase price.

<sup>2)</sup> Including accruals and deferred income.

## Effects on the consolidated statement of cash flows

	millions of €
Net cash provided by operating activities	113
Net cash used for investing activities	(924)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(811)</b>

## Revenue

	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
Telephone network communications	8,479	10,500	-19.2	20,531
Licensed service providers/Carriers	1,267	677	87.1	1,611
Data communications	1,311	1,240	5.7	2,536
Mobile communications	1,736	1,436	20.9	3,061
Broadband cable/Broadcasting	924	895	3.2	1,804
Terminal equipment <sup>1)2)</sup>	601	686	-12.4	1,382
Special value-added services	935	1,021	-8.4	2,051
Other services <sup>1)2)</sup>	471	320	47.2	825
International activities	1,034	690	49.9	1,396
<b>Total</b>	<b>16,758</b>	<b>17,465</b>	<b>-4.0</b>	<b>35,197</b>
Billing of services of other network operators <sup>3)</sup>	-	106	-	522
<b>Total including billing of services of other network operators<sup>3)</sup></b>	<b>-</b>	<b>17,571</b>	<b>-</b>	<b>35,719</b>

<sup>1)</sup> One of the main changes in the organizational structure of the group business areas of the 1999 financial year is that certain revenues from support services for terminal equipment are no longer shown under terminal equipment, but under other services. The figures for the 1998 financial year have therefore been adjusted accordingly. Revenue from support services totaling € 120 million for the entire 1998 financial year and revenue of € 52 million for the first half of 1998 have been reclassified.

<sup>2)</sup> A further important change in the organizational structure of the group business areas of the 1999 financial year is that revenues generated by one subsidiary are no longer shown under other services but under data communications. Revenues amounting to € 27 million for the entire 1998 financial year and € 12 million for the first half of 1998 have therefore been reclassified accordingly.

<sup>3)</sup> As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

Net revenue of the Deutsche Telekom Group excluding the amounts billed for other network operators totaled € 16,758 million in the first half of 1999. Compared with the revenue of € 17,571 million generated in the first half of 1998, which included the amounts billed for other network operators, this represents a decrease in revenue of 5 %. If the amounts billed for other network operators are excluded from the figures for the first half of 1998, the decrease in revenue compared to the same period last year is 4 %. Net revenue of the Deutsche Telekom Group includes € 282 million shown under international activities which was generated by max.mobil., fully consolidated for the first time as at June 30, 1999. Without the inclusion of max.mobil., net revenue of the Deutsche Telekom Group would have decreased by 5.7 % compared with the first half of 1998.

Deutsche Telekom's largest source of revenue, telephone network communications, generated revenue of € 8,479 million in the first half of 1999. This drop in revenue was mainly attributable to the price cuts which came into effect on January 1, 1999 and to the influence of competition in this area, the main effect of which has only been felt more intensely since the second quarter of 1998. This affected domestic and international long-distance calls in particular. The further growth in the number of ISDN access lines had a positive effect on the revenue generated in telephone network communications. With a total of 11.7 million ISDN channels as at June 30, 1999, Deutsche Telekom has recorded growth of 15.8 % in the 1999 financial year to date. Overall, however, revenue from telephone network communications fell by 19.2 % in the first half of 1999. The decrease in telephone network communications was compensated in part by increased revenue from data communications (including revenue from systems solutions) and, in particular, by significant growth in the revenue from interconnection services.

Revenue from mobile communications increased by 20.9 % in the first half of 1999 over the same period in 1998. Significant revenue growth was recorded by the T-D1 services. This was attributable to the dynamic development in the number of subscribers, which grew by 23.6 % to 6.8 million at June 30, 1999. On the other hand, revenue from the analog T-C-Tel service fell according to plan as the number of subscribers continued to decrease.

Revenue in the group business area broadband cable/broadcasting increased by 3.2 % to € 924 million as a result of the increase in the number of customers, whereas revenue in the terminal equipment group business area decreased by 12.4 % compared to the first half of 1998 to € 601 million as a result of streamlining the product portfolio. Revenue from the group business area special value-added services decreased by 8.4 % compared with the first half of 1998 to € 935 million. This reduction was attributable to a drop in revenue from public telephones and directory inquiries.

The success of T-Online as Europe's largest online service is reflected, for example, in the continued revenue growth in other services to € 471 million, of which € 205 million relate to T-Online. The number of T-Online customers rose by 22.2 % to 3.3 million at June 30, 1999.

Revenue of € 1,034 million from international activities in the first half of 1999 is mainly accounted for by the Hungarian telecommunications company MATÁV, which contributed 8.7 % more to the net revenue of the Deutsche Telekom Group than in the first half of 1998, and by revenue from max.mobil., which was fully consolidated for the first time.

## Personnel

Personnel costs	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
Wages and salaries	3,273	3,310	-1.1	6,477
Social security contributions and expenses for pension plans and benefits	1,330	1,348	-1.3	2,693
<b>Total</b>	<b>4,603</b>	<b>4,658</b>	<b>-1.2</b>	<b>9,170</b>

Due to the fact that Deutsche Telekom's workforce reduction program was continued according to plan, the personnel costs of the Deutsche Telekom Group in the first six months of 1999 amounted to € 4,603 million, which represents a decrease of 1.2 % or € 55 million compared with the same period in 1998. Personnel costs per employee grew, however, by 4.6 %. Besides the collectively agreed one-time payment for the first quarter of 1999 and the collectively agreed wage and salary increase, which came into effect on April 1, 1999,

this was attributable to a remuneration adjustment related to the eastern German collective bargaining agreements from 92 % to 96 % of the western German remuneration level, age-related salary increases and the review of salaries in some areas to bring them in line with market conditions. Personnel costs in 1999 include for the last time annual contributions to civil servant pensions of € 1,483 million (DM 2,900 million) which are not linked to the number of employees.

Average number of employees	First half year 1999 Number	First half year 1998 Number	Change in %	Total 1998 Number
Civil servants	80,348	88,982	-9.7	87,573
Salaried employees	56,491	52,569	7.5	53,310
Wage earners	40,068	46,316	-13.5	44,857
<b>Deutsche Telekom Group<sup>1)</sup></b>	<b>176,907</b>	<b>187,867</b>	<b>-5.8</b>	<b>185,740</b>
Changes in the composition of the Deutsche Telekom Group (in particular MATAV and max.mobil.)	17,421	17,918	-2.8	17,634
<b>Deutsche Telekom Group</b>	<b>194,328</b>	<b>205,785</b>	<b>-5.6</b>	<b>203,374</b>
Trainees/student interns	5,894	5,941	-0.8	6,165

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom Group of prior years and the current financial year.

Number of employees at balance sheet date	June 30, 1999 Number	Dec. 31, 1998 Number	Change in %	June 30, 1998 Number
Civil servants	78,478	83,848	-6.4	87,953
Salaried employees	57,070	54,008	5.7	52,928
Wage earners	39,238	41,313	-5.0	45,338
<b>Deutsche Telekom Group<sup>1)</sup></b>	<b>174,786</b>	<b>179,169</b>	<b>-2.4</b>	<b>186,219</b>
Changes in the composition of the Deutsche Telekom Group (in particular MATAV and max.mobil.)	17,260	16,707	3.3	17,555
<b>Deutsche Telekom Group</b>	<b>192,046</b>	<b>195,876</b>	<b>-2.0</b>	<b>203,774</b>
Trainees/student interns	5,570	6,932	-19.6	5,564

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom Group of prior years and the current financial year.

The number of employees (before changes in the composition of the Deutsche Telekom Group) was decreased through the Group's workforce reduction program of avoiding compulsory redundancies by 4,383 to 174,786 in the course of the first six months of 1999. As the situation currently stands,

Deutsche Telekom's goal of reducing its workforce to about 170,000 (before changes in the composition of the Deutsche Telekom Group) by the year 2000 will be fulfilled ahead of time.

## Depreciation and amortization

	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
Depreciation and amortization	3,959	4,360	-9.2	9,037

In the period under review, depreciation and amortization fell by 9.2 % or € 401 million compared to the first half of 1998 to € 3,959 million. Of this decrease, approximately € 0.4 billion is attributable to the extension of depreciation periods for the outside plant network. This adjustment followed a reevaluation of the physical and economic useful life of the equipment. The first full consolidation of max.mobil.

resulted in an increase of € 71 million in depreciation and amortization compared with the same period in 1998. In total, approximately 76.7 % or € 3 billion of the depreciation and amortization in the Deutsche Telekom Group is attributable to depreciation of technical equipment and machinery. Nonscheduled write-downs amounting to € 8 million were recognized in the first half of 1999.

# Changes in net income

The Group's results from ordinary business activities in the first half of 1999 amounted to € 2,060 million and were thus € 495 million lower than in the same period last year. This is the result of the following developments: As a consequence of the price reductions on March 1, 1998 and further reductions on January 1, 1999, revenue in the first half of 1999 fell by € 707 million despite the inclusion of revenue from max.mobil. for the first time. This decrease in revenue was not fully offset by reductions in costs. The level of goods and services purchased increased by € 347 million compared to the first half of 1998, of which € 114 million is attributable to the inclusion of max.mobil. Personnel costs were reduced by a further € 55 million as a result of the continuing work-

force reduction program and despite collectively agreed salary increases. Depreciation and amortization decreased by € 401 million compared with the same period last year. This is mainly attributable to the extension of depreciation periods on certain items of property, plant and equipment. Financial expense was reduced by a total of € 384 million, both as a result of the scheduled decrease in interest expense and the further decrease in losses related to associated and related companies.

The first full consolidation of max.mobil. led, overall, to a decrease of € 37 million in the Group's results from ordinary business activities.

	millions of €
Decrease in revenue	(707)
Increase in goods and services purchased	(347)
Decrease in personnel costs	55
Decrease in depreciation and amortization	401
Changes in financial income (expense)	384
of which: changes in net interest expense	245
Changes in other income and expense items	(281)
<b>Total</b>	<b>(495)</b>

The expenses incurred in the course of the capital increase in June 1999 amounting to € 198 million are shown under extraordinary income (losses). These are more than offset by one-time effects amounting to € 275 million which are included in the net income. The decrease in tax expense by a total of € 665 million compared to the first half of 1998 is

mainly attributable to the lower level of income before taxes compared to last year. Furthermore, a tax refund and the reversal of accruals made for other taxes reduced the total level of tax expense. Thus, net income of the Group after extraordinary income (losses) amounted to € 951 million, € 45 million lower than in the first half of 1998.

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

	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
<b>Net income as reported in the consolidated financial statements under German GAAP</b>	<b>951</b>	<b>996</b>	<b>-4.5</b>	<b>2,243</b>
Personnel restructuring accrual	(61)	(164)	-	(286)
Other differences	444	92	-	65
Income taxes	(341)	29	-	203
<b>Net income in accordance with U.S. GAAP</b>	<b>993</b>	<b>953</b>	<b>4.2</b>	<b>2,225</b>

As at June 30, 1999 shareholders' equity in accordance with U.S. GAAP amounted to € 35,828 million (Dec. 31, 1998: € 26,857 million).

# Investments

	First half year 1999 millions of €	First half year 1998 millions of €	Change in %	Total 1998 millions of €
Intangible assets and property, plant and equipment	2,873	1,833	56.7	4,788
Financial assets	2,012	834	141.2	2,738
<b>Total</b>	<b>4,885</b>	<b>2,667</b>	<b>83.2</b>	<b>7,526</b>

Additions to property, plant and equipment, which relate mainly to Deutsche Telekom AG, T-Mobil and MATÁV, amounted to € 1,934 million in the first half of 1999. After the completion at the end of 1997 of the digitization of the network's switching and transmission equipment, as well as of the development program for eastern Germany, capital expenditure on property, plant and equipment remained at a low level as planned. max.mobil., fully consolidated for the first time, invested € 103 million in property, plant and equipment in the period under review. Additions to intangible

assets in the Deutsche Telekom Group amounted to € 939 million, of which € 816 million is attributable to the goodwill from the first full consolidation of max.mobil. Investments in financial assets amounted to € 2,012 million, € 533 million of which are attributable to investments in associated and related companies. Deutsche Telekom invested a further € 1,306 million in noncurrent securities, € 990 million of which were invested in fixed-interest securities and € 316 million in specialized securities funds (mostly U.S. dollar funds).

## Financial liabilities

	June 30, 1999 millions of €	Dec. 31, 1998 millions of €	Change in %	June 30, 1998 millions of €
Debt	38,652	39,933	-3.2	44,015
Debt (excluding MATÁV and max.mobil.)	37,348	39,260	-4.9	43,302
Net financial liabilities <sup>1)</sup>	25,901	33,477	-22.6	35,391

<sup>1)</sup> Financial liabilities after deduction of liquid assets and marketable securities.

In order to broaden its sources of funding, Deutsche Telekom increased the volume of its debut benchmark bond floated in May 1998 by approximately € 1.0 billion to a total of € 2.0 billion on January 12, 1999. Financial liabilities are being repaid according to plan. At the end of June 1999, total debt amounted to approximately € 38.7 billion, as compared with € 39.9 billion at December 31, 1998. Future repayment of debt will continue as planned; the goal is to reduce debt to

approximately € 33 billion by the year 2000. In the event of new acquisitions, the resulting balance sheet structures may require that this figure be adjusted. Net financial liabilities, after taking liquid assets of € 10.5 billion and marketable securities of € 2.3 billion into account, amounted to € 25.9 billion at June 30, 1999. The considerable decrease in net financial liabilities is attributable to the inflow of cash from the capital increase in June 1999.

## Cash flows

### Net cash provided by operating activities

Net cash provided by operating activities amounted to € 4,580 million in the first half of this year. The decrease of € 2,547 million compared with the same period last year is attributable, first, to the decrease in revenue as a consequence of price cuts and, second, to the change in the working capital, which decreased the amount of net cash provided by operating activities. max.mobil. was included in the statement of cash flows for the first time. As a result, net cash provided by operating activities increased by € 113 million.

### Net cash used for investing activities

Net cash used for investing activities increased by € 4,728 million compared with the first half of 1998 to € 9,182 million. This increase is attributable in part to the acquisition of the majority shareholding in max.mobil. and also increased levels of investment in financial assets. Also, temporary

fixed-term bank deposits and marketable securities were increased significantly.

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

The first six months of 1999 saw an inflow of cash provided by financing activities of € 6,035 million compared with an outflow of € 2,755 million in the same period in 1998. This is attributable in particular to Deutsche Telekom's capital increase in June 1999, from which the Deutsche Telekom Group received an inflow of cash amounting to approximately € 9.6 billion. In addition, the volume of the debut benchmark bond was increased in January 1999. This was offset by the considerably higher repayment of short-term debt by the Deutsche Telekom Group than in the same period in 1998. The cash outflow resulting from dividend payments remained unchanged compared with the same period in 1998.

Bonn, August 1999  
Deutsche Telekom AG

Board of Management

**Additional copies of this report are available at:**

Phone +49 921 1 81-0 21  
Fax +49 921 1 81-0 29

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**Investor Relations:**

Deutsche Telekom AG  
Investor Relations  
Postfach 20 00  
D-53105 Bonn  
Telefax +49 228 1 81-84 05

Deutsche Telekom AG  
Investor Relations, New York Office  
280 Park Avenue, 26th Floor  
New York, NY 10017  
Fax +1 212 424 2977

Deutsche Telekom AG is a member of the "Deutscher Investor Relations Kreis e.V. (DIRK)".

**Deutsche Telekom AG**

Postfach 20 00  
D-53105 Bonn  
Phone +49 2 28 1 81-0  
Fax +49 2 28 1 81-88 72