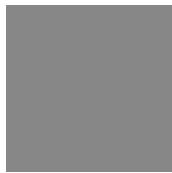


Deutsche Telekom
Group Half-Year Report from
January 1 to June 30, 1997



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Ladies and Gentlemen, Dear Shareholders,

The countdown is running – there are only a few weeks left until all sectors of the German telecommunications market are open to competition. Deutsche Telekom meets this challenge with optimism, knowing that the Company is ready for this.

To achieve this state, we have invested extensively in our technical platform over the past few years – digitalization in particular is an indispensable foundation for the development of new products, services and applications. The digitalization of the telephone network, which is nearing completion, means greater performance and convenience for our customers. For our company, this represents new potential for increasing revenue and reducing costs. These new services are being marketed successfully, as the growth rates of ISDN, T-Online or the new features in the telephone service demonstrate clearly, to name just a few examples. The digitalization of the broadband cable network will also open up further growth markets.

Deutsche Telekom's strength is also evidenced by receipt of a number of large and demanding contracts, despite stiff national and/or international competition. These include the networking of 800 Labor Offices in Germany – one of the largest contracts in the history of telecommunications – or the World Exhibition, Expo 2000 in Hanover, where we will install and operate a call center, as well as the contract for complex system solutions for the international airports in Munich and Frankfurt. These projects are just a few exam-

ples of the many customers who carefully surveyed the market before opting for us. Our qualitative service has encouraged several companies to cancel contracts with our competitors, return to Deutsche Telekom and continue their business relationship beyond January 1, 1998.

The report on our activities during the first half of 1997 shows the positive signs of our ongoing consolidation and restructuring efforts. This can be directly attributed to the restructuring of the group business units, which was completed last year. These measures have lead to a much improved, satisfactory result from ordinary business activities of DM 3,568 million and a half-year net income of DM 1,649 million (first half year 1996: DM 129 million).

The key factor in the improvement was an increase in revenue of 7.3 %. This increase was achieved in spite of the fact that call charges were reduced in the telephone network communications business unit. The reduction in the workforce was as planned; however, personnel costs could not be decreased to the same extent. The costs for domestic and international interconnection services have also increased, as have the costs of terminal equipment. Earnings in mobile communications have been negatively affected, primarily due to start-up losses in our foreign investments.

We have reduced our debts according to plan. Net financial liabilities decreased from DM 82 billion to approx. DM 80 billion in the period under review.

Summary of first half-year results of the Deutsche Telekom Group

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 – BörsZuV) as well as the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Law (Aktiengesetz – AktG).

The listing of its shares on the New York Stock Exchange and the related requirement for Deutsche Telekom to file financial reports with the U.S. Securities and Exchange Commission (SEC), have led the Company to prepare its consolidated financial statements in conformity with interna-

tional financial reporting norms. 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 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 1997 millions of DM	First half year 1996 millions of DM	1996 millions of DM
Net revenue	32,871	30,637	63,075
Increase in inventories and other own capitalized costs	1,528	1,496	3,454
Total operating performance	34,399	32,133	66,529
Other operating income	1,544	2,134	3,905
Goods and services purchased	(5,577)	(4,823)	(10,224)
Personnel costs	(9,228)	(9,422)	(18,777)
Depreciation and amortization	(9,039)	(8,649)	(17,653)
Other operating expenses	(5,005)	(4,766)	(9,455)
Financial income (expense) net	(3,526)	(3,892)	(7,714)
Results from ordinary business activities	3,568	2,715	6,611
Extraordinary income (losses)	–	(1,841)	(2,475)
Other taxes	(379)	(395)	(830)
Income taxes	(1,404)	(275)	(1,385)
Income after taxes	1,785	204	1,921
Income (losses) applicable to minority shareholders	(136)	(75)	(163)
Net income	1,649	129	1,758

Consolidated balance sheet	June 30, 1997 millions of DM	June 30, 1996 millions of DM	Dec. 31, 1996 millions of DM
Assets			
Noncurrent assets	141,875	143,015	144,299
Current assets ¹⁾	31,238	20,542	30,026
	173,113	163,557	174,325
Shareholders' equity and liabilities			
Shareholders' equity	46,957	26,068	46,599
Liabilities ¹⁾	126,156	137,489	127,726
	173,113	163,557	174,325

¹⁾ Current assets include prepaid expenses, deferred charges and deferred taxation. Liabilities include deferred income.

As at June 30, 1997, Shareholders' equity in accordance with U.S. GAAP amounted to DM 50,405 million.

Personnel

Consolidated statement of cash flows	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Net cash provided by operating activities	11,310	12,381	22,259
Net cash used for investing activities	(7,844)	(6,497)	(25,325)
Net cash provided by (used for) financing activities	(5,169)	(4,440)	6,874
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	-	-
Net increase (decrease) in cash and cash equivalents	(1,704)	1,444	3,808

Net revenue

Revenue by business unit ¹⁾	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Telephone network and interconnection services	22,446	21,036	43,185
Data communications/systems solutions	2,148	1,941	4,183
Multimedia communications	1,753	1,726	3,042
Terminal equipment	1,858	1,822	3,823
Special value-added services	1,127	1,138	2,311
Other services	284	295	849
Mobile communications	2,111	1,742	3,756
International activities	1,144	937	1,926
32,871	30,637	63,075	

¹⁾Since the beginning of the 1997 financial year, revenues have been reported in line with the new organization structure of the group business units.
The prior year figures have been restated to reflect the new structure.

Revenue by geographic area	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Domestic	30,645	28,696	59,031
International	2,226	1,941	4,044
32,871	30,637	63,075	

Breakdown of international revenues	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
European Union (excluding Germany)	509	516	1,085
Rest of Europe	1,347	1,082	2,267
North America	125	118	243
Latin America	31	39	70
Other	214	186	379

Net revenue of the Deutsche Telekom Group totaled DM 32,871 million for the first half year of 1997. This represents an increase of DM 2,234 million or 7.3 % as compared with the same period last year. Hence, the positive revenue development has continued within the Deutsche Telekom Group. Significant increases have been achieved in the telephone network and interconnection services, mobile communications as well as the data communications/system solutions group business units. The telephone network and intercon-

nexion services group business unit contributed DM 1.4 billion to the increase in net revenue. In the mobile communications group business unit, revenue increased by DM 369 million or 21 % as compared with the same period last year. Here the increases in revenue were mainly achieved within the D1 network. The increase in the average number of new customers of D1 has more than compensated the price reductions, which were introduced in November 1996 for the new D1 service packages.

Personnel costs

	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Wages and salaries	6,506	6,673	13,210
Social security contributions and expenses for pension plan and benefits	2,722	2,749	5,567
of which: pension costs	1,820	1,744	3,593
Total Deutsche Telekom Group	9,228	9,422	18,777

Average number of employees

	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Civil servants	98,300	112,417	110,269
Salaried employees	50,614	44,358	44,884
Wage earners	50,047	53,921	52,616
Deutsche Telekom¹⁾	198,961	210,696	207,769
Changes in the composition of the Deutsche Telekom Group compared with the prior year (in particular MATAV)	19,516	20,635	20,040
Trainees/student interns	6,132	9,928	9,003
Total Deutsche Telekom Group	224,609	241,259	236,812

¹⁾Before changes in the composition of the Deutsche Telekom Group

In the period under review, personnel costs of the Deutsche Telekom Group decreased by DM 194 million (2.1 %) to DM 9,228 million as compared with the first half of 1996. In the same period, the average number of employees of the Deutsche Telekom Group dropped by 16,650 or 6.9 % to 224,609 employees. The decrease in personnel costs, due to a decline in the workforce, was partly offset by wage and salary increases under collective agreements of approx. 1.3 % as from Jan. 1, 1997, increases in personnel costs of the rapidly growing subsidiaries, a remuneration adjustment related to the east German collective agreements of 4 percentage points and an increase in social security con-

tributions. All the aforementioned factors resulted in a less than satisfactory reduction of personnel costs for the Group.

Without taking the changes in the composition of the Deutsche Telekom Group into consideration, the average number of employees (without trainees/student interns) was decreased by applying a socially acceptable workforce reduction program by 11,735 or 5.6 % to 198,961 employees as compared with the same period last year.

In the first half of 1997, the average number of employees at Deutsche Telekom AG was 184,298.

Depreciation and amortization

	First half year 1997	First half year 1996	1996
	millions of DM	millions of DM	millions of DM
Amortization of intangible assets	276	239	516
Depreciation on property, plant and equipment	8,763	8,410	17,137
9,039	8,649	17,653	

The increase in depreciation and amortization by DM 390 million is mainly attributable to the ongoing investment activity associated with the digitalization of the networks.

During the first half of 1997, nonscheduled depreciation of DM 17 million has been recognized.

Net income

It has been possible to increase income before taxes by DM 2,710 million to DM 3,189 million. This growth was mainly due to the increase in revenue of DM 2,234 million, a financial income improvement of DM 366 million as well as the elimination of last year's extraordinary losses. However, the increase in goods and services purchased negatively affected the result in the first half of 1997. This is primarily due to the increased use of interconnection services as well as the exchange rate related price increases for these services.

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

As has been explained in the summary (cf. Notes to the 1996 financial statements), accounting and disclosure differences between German and U.S. GAAP exist where

	millions of DM
Increase in revenue	2,234
Increase in goods and services purchased	(754)
Decrease in personnel costs	194
Increase in financial income	366
Change in other income and expense items	670
	2,710

In spite of a rise in tax expense, the net income for the Group has significantly improved and increased to DM 1,649 million.

application of U.S. GAAP is not permissible under German GAAP. The following reconciliation to U.S. GAAP explains how the corresponding values of the German consolidated financial statements after U.S. GAAP adjustments, comply with U.S. reporting requirements.

	First half year 1997 millions of DM	First half year 1996 millions of DM	1996 millions of DM
Net income as reported in the consolidated financial statements under German GAAP	1,649	129	1,758
Personnel restructuring expenses	(187)	1,272	960
Value-added tax	28	(97)	(211)
Other differences	25	56	326
Income taxes	(450)	(839)	(259)
Net income in accordance with U.S. GAAP	1,065	521	2,574

Investments

	First half year 1997 millions of DM	First half year 1996 millions of DM	1996 millions of DM
Intangible assets	150	154	453
Property, plant and equipment	6,358	6,941	16,582
Financial assets	1,105	3,886	5,570
	7,613	10,981	22,605

Investments in property, plant and equipment, which relate mainly to Deutsche Telekom AG, amounted to DM 6,358 million in the first half of 1997.

As was the case last year, capital expenditure relates primarily to the conversion of analog switching and transmission equipment to digital systems. This process will be com-

pleted by the beginning of 1998. Investments in financial assets totaled DM 1,105 million at June 30, 1997. Of this, DM 701 million relate to fixed-income securities (mixed and annuity funds) which are intended to optimize income from medium and long-term liquid reserves. Additionally, investments totaling approx. DM 306 million were also made in associated and related companies.

Financial liabilities

Financial liabilities are being repaid according to plan. Total debt amounted to approx. DM 96.4 billion at June 30, 1997 as compared with DM 99.9 billion at December 31, 1996.

Net financial liabilities amounted to DM 80.2 billion at June 30, 1997. Future repayment of debt will continue as planned.

Cash flows

Net cash provided by operating activities

Net cash provided by operating activities decreased by DM 1,071 million. This is primarily attributable to decreases in trade accounts payable.

Net cash used for investing activities

Net cash used for investing activities increased by DM 1,347 million as compared with the same period last year. This is a result of an increase in the purchase of marketable securities. As in previous years, it was possible to fully finance

capital expenditure, totaling DM 7,613 million, from cash provided by operating activities.

Net cash used for financing activities

Cash used for financing activities amounting to DM 5,169 million resulted from a dividend payment of DM 1,646 million for the 1996 financial year, as well as the continued planned repayment of debt. This repayment has been fully financed by cash provided by operating activities.

Outlook

Deutsche Telekom expects the domestic economic situation to pick up during the second half of 1997. As in previous years, a further increase in revenue in the group business units is expected, especially in the mobile communications business unit. The projected course of the Group's business underscores Deutsche Telekom's target, set at the time of the IPO, to recommend a dividend payment of DM 1.20 per share for the 1997 financial year.

Deutsche Telekom sees scope for further optimization in the future. Steps have already been taken to sustain improvements to the cost structure with a view to increasing the Company's profitability.

We are expecting a positive growth in our earnings due to the directory inquiries rate-adjustment, which comes into effect on October, 1.

Additionally in October, we will begin to feed digital programs into the cable network throughout the country. The necessary agreements have already been made with the first content providers. With this step, Deutsche Telekom has

ensured its position as a neutral service provider in the new digital television market.

At the end of August, we bought a 21 % share in the Israeli company, VocalTec, and have therefore strengthened our leading position in the rapidly growing Internet telephony market.

Deutsche Telekom has invested in three major submarine cabling projects designed to enhance international communications and data services in the future. The largest project, "SEA-ME-WE 3", connects Europe with the Middle East, Far East, Australia and Japan. A cable with the project name "Atlantis-2" will also be linked to connect Europe with southwestern Africa and South America. A new high-performance optical-fiber cable is also being laid to the United Kingdom.

These projects will team up with a further expansion of our international commitments and a range of joint ventures in the various areas of telematics to reinforce the competitiveness of Deutsche Telekom even further.

Bonn, September 1997
Deutsche Telekom AG

Board of Management

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This half-year report and up-to-date information on Deutsche Telekom can also be accessed via T-Online and the Internet:
T-Online *telekom#
Internet <http://www.dtag.de>

Extra copies can be ordered by Fax:
+49 9 21 18-1029.

This is a translation of the original German report. In cases of differing interpretations, the German original shall prevail over the translation.

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

Shareholders' meeting 1998:
June 4, 1998

K-Nr. 642 100 053