

Deutsche Telekom.

Who we are.

Deutsche Telekom is a corporate group, with comprehensive expertise throughout the entire telecommunications spectrum. We are the number one address for telecommunications in Germany and, in the first year of the fully liberalized market, have demonstrated our already well known expertise in providing systems solutions. The innovative Deutsche Telekom Group is developing the markets of the future, concentrating on the convergence of fixed and mobile telephony, as well as Internet and online applications. With our future-oriented strategy, we are setting standards in the development of new products and services and are investing in Germany's economic future. We are a global player and serve our customers with our representative offices, affiliated companies and joint ventures in over 65 countries around the world.



The 1998 financial year
Competitive edge
through technical
expertise and com-
petent service and
support.

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Services

A winning team, an intelligent network, an all-round service portfolio.



Consolidated financial statements

Well equipped for the challenges of the future.

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Dear Reader,



On January 1, 1998, a new era began for our company and the German telecommunications market which, as of that date, was open to competition in all sectors. The German telecommunications market is one of the world's most liberalized; nowhere else has competition developed so quickly. Deutsche Telekom has taken all the financial and technical steps necessary to ensure that new providers have easy access to the market. By making major network investments and providing the "unbundled" subscriber line, interconnection, preselection, call-by-call selection, number portability and, for competitors, billing services, Deutsche Telekom has contributed significantly to the rapid development of competition in the interest of customers. For example, we have signed well over 60 interconnection agreements with competitors since 1997.

Our business results at the end of the first year of competition clearly demonstrate that Deutsche Telekom was in top form right from the start. Although we did lose some market share – that is an unavoidable and a natural consequence of such extensive market liberalization – we by no means saw a drop in revenue. In spite of the strong competition, we were able to increase our revenue by 1.5 percent in real terms over the previous year. Our income after taxes grew much more dramatically – by 33 percent. These results show that Deutsche Telekom has more than held its own in competition and has implemented the right internal measures to strengthen its earning power.

The decisions made by the Regulatory Authority have a decisive influence on Deutsche Telekom's position in the competitive environment. Predominantly one-sided regulation has forced Deutsche Telekom to subsidize its competitors' discount rates with very low interconnection charges; indeed, such forced subsidies are what made the low rates possible in the first place. As a result, competition in German telecommunications developed into a price war during 1998. Personally, I have reservations about this development: As we move toward the information society of the 21st century, Germany needs creative, innovator-driven, investor-driven competition; and there have been few signs of this so far. We will continue to seek solutions in a constructive dialogue with the regulator in order to achieve well-functioning competition.

Deutsche Telekom responded to the price war with attractive rate reductions on January 1 and April 1, 1999. Nonetheless, we will continue to pursue our strategy of providing cutting-edge products and services for customer-oriented telecommunications solutions with rates tailored to customers' needs and with comprehensive service. Here again, our 1998 business results show us that we are on the right path. While long-distance rates have plummeted, our growth leaders such as ISDN, T-D1 and T-Online have continued to show very positive trends – in some cases, even explosive growth. We will continue to market these services aggressively in the future.

We plan to continue driving market growth with innovation and to keep providing the impetus that will benefit telecommunications customers in Germany and spur on our own development as a company. Here are just a few of the most important trends: convergence of fixed and mobile networks to allow integrated services; further development of multi-media markets and online services. One of our goals is to make Germany the leading "online country".

It is generally anticipated that the market will settle down more and more in the second year of competition. Price alone has already lost most of its impact as a differentiating feature; quality is becoming increasingly important.

Deutsche Telekom is extremely well positioned to capitalize on this situation. We set ourselves apart with our special competence in providing solutions, a competence that is demonstrated by the many reference solutions we have installed for our customers. And we have established an excellent market presence thanks to our strong, nationwide sales and distribution organization.

All in all, Deutsche Telekom has definitely benefited from the new competitive environment in the German telecommunications sector. Our image is better than ever. Both our own studies and those of independent institutes show that now, where customers have an opportunity to make direct comparisons, Deutsche Telekom is seen in a considerably more positive light than before with regard to service, quality and reliability, for example.

The men and women at Deutsche Telekom have contributed significantly to the success of our company in the 1998 financial year with their tremendous dedication – and I am sure that they will continue to do so in the future. I would like to thank them all for their commitment and their outstanding work.

Deutsche Telekom's development in the new competitive environment was closely watched – and appropriately honored – on the stock markets. Their attention was all the more keen because the company has had to deal with asymmetrical regulation.

Deutsche Telekom's "T-Aktie" share, which rose almost 60 percent in 1998, was one of the top performers in the DAX system, which grew by only about 15 percent over the course of the year. The T-Aktie also proved to be considerably less volatile than many other stocks during the year and was able to resist market fluctuations. We see this development as another confirmation of our strategy pursued during our initial public offering of giving our company a very wide ownership base. We are very pleased for our shareholders that the T-Aktie has so far proved to be a worthwhile investment, and we wish to thank them for their confidence. As of early 1999, Deutsche Telekom had achieved a market capitalization of over DM 200 billion (EUR 100 billion). In terms of capitalization, therefore, it is now the most valuable company in Germany.

Without a doubt, Deutsche Telekom is the number one address for telecommunications in Germany. At the same time, we are strengthening both our leadership claim in Europe and our position in the rapidly changing global telecommunications market. On the path to becoming a global player, we will tap additional potential for growth. We will add to our international shareholdings that have a potential for increasing in value and will continue to expand our mainstays of growth at home and especially abroad. Deutsche Telekom is currently reviewing its future capital requirements with a view to the possible need for a secondary public offering. For this purpose, Deutsche Telekom still has 286.3 million shares of authorized capital which it has the option of selling by the end of 1999.

Once again, in the 1999 financial year, we will be confronting major, multi-faceted challenges, and will do so with confidence. We will focus on developing our strengths and will take advantage of all opportunities and potential for advancing our company in the future – to the benefit of our customers and shareholders and in the interest of our employees.

Bonn, March 26, 1999
The Board of Management



Dr. Ron Sommer
Chairman

The Board of Management of Deutsche Telekom AG in 1998 / 1999

Dr. Ron Sommer

As Chairman of the Board of Management, Dr. Sommer is responsible for the Corporate Group Strategy, Communication, Auditing and Organization Division.

Born in 1949. He received a doctorate in mathematics and began his career with the Nixdorf group, first in New York and then in Paderborn and Paris. In 1986, he became Chairman of the Board of Management of Sony Deutschland. In 1990, Dr. Sommer became President and Chief Operating Officer of Sony USA, and in 1993, he took over the management of Sony Europe in the same function. Since May 16, 1995, he has been Chairman of the Board of Management of Deutsche Telekom.

Josef Brauner

Responsible for the Sales and Customer Care Division since October 1, 1998.

Born in 1950. After having started his sales career with Avery as the American company's branch manager for Germany, Austria and Switzerland, Mr. Brauner joined Sony, where he was first appointed head of sales in the investment goods division and afterwards head of the division. In 1988, Mr. Brauner became a member of the board and in 1993, was appointed chairman of the Sony managing board. In June 1997, he joined Deutsche Telekom as Head of the Main Department for Sales.

Detlev Buchal

Responsible for the Sales and Distribution Division (Business and Residential Customers) until the end of September 1998, and for the Product Marketing Division since October 1, 1998.

Born in 1945. Law degree. After having held various management positions in the banking industry, he joined the Board of the GZS Gesellschaft für Zahlungssysteme mbH of the German Eurocard- und eurocheque-Zentrale. In 1992, he became Chairman of the Board, primarily responsible for strategic planning, marketing and sales. Since February 1996, he has been a member of Deutsche Telekom's Board of Management.

Jeffrey A. Hedberg

Responsible for the International Division since January 1, 1999.

Born in 1961. Mr. Hedberg, a native American, joined the TVM/Matuschka group in Munich, where he was primarily involved in analyzing venture capital projects for companies with international operations. Later, he worked in the International division of US West, the US carrier, and then as an associate for Coopers & Lybrand, where he provided support for international projects of globally operating telecommunications groups. In 1994, Mr. Hedberg joined Swisscom, where he was last in charge of the Swiss company's international investments as Executive Vice President and member of the company's senior management.

Dr. Hagen Hultzsich

Responsible for the Technology and Services Division.

Born in 1940. He received a doctorate in physics and was Assistant Professor in Mainz before heading the Computer Center at the Gesellschaft für Schwerionenforschung (GSI, Center for Heavy Ion Research) in Darmstadt from 1977 to 1985. In 1988, Dr. Hultzsich joined Volkswagen AG as Director responsible for Organization and Information Systems. From July 1993 until 1994, he was a member of the Board of Management of Deutsche Bundespost Telekom, and since January 1995, he has been a member of Deutsche Telekom's Board of Management.

Dr. Heinz Klinkhammer

Responsible for the Personnel and Legal Affairs Division.

Born in 1946. He received a doctorate in law and began his career at the Institute for German and European Labor, Social and Business Law before becoming a Labor Court judge. From 1979 to 1990, he worked at the Ministry of Labor, Health and Social Affairs of the state of North-Rhine/Westphalia. In 1991, he became Labor Director at Hüttenwerke Krupp Mannesmann GmbH and in 1992, Board Member of Mannesmannröhren-Werke AG. He has been a member of Deutsche Telekom's Board of Management since April 1996.

Dr. Joachim Kröske

Responsible for the Finance and Controlling Division and, from February 1998 to December 1998, also for the International Division.

Born in 1944. After earning a degree in business administration and attaining a doctorate, he held various management positions at Philips from 1972 to 1986 (inter alia, Head of Central Business Management of Philips Deutschland and Head of Accounting Management of the company divisions for car radios and electronic components). In 1986, he became Accounting Manager of Dräger Werke in Lübeck. From 1990 to 1994, he was member of the Board of Management of Deutsche Bundespost Telekom and since January 1995, he has been a member of Deutsche Telekom's Board of Management.

Dipl.-Ing. Gerd Tenzer

Responsible for the Networks, Purchasing and Environmental Protection Division.

Born in 1943. As a communications engineer, he worked in the telecommunications research department at AEG-Telefunken from 1968 to 1970. In 1970, he joined what was then the Deutsche Bundespost. In 1975, Mr. Tenzer moved to the Federal Ministry of Posts and Telecommunications, where he became Head of the Telecommunications Policy Section in 1980. From 1990 to 1994, he was a member of the Board of Management of Deutsche Bundespost Telekom, and since January 1995, he has been a member of Deutsche Telekom's Board of Management.



Dr. Heinz Klinkhammer
Personnel and Legal Affairs

Dipl.-Ing. Gerd Tenzer
Networks, Purchasing and
Environmental Protection

Dr. Hagen Hultzsch
Technology and Services

Josef Brauner
Sales and Customer Care

Detlev Buchal
Product Marketing

Dr. Ron Sommer
Chairman
Corporate Group Strategy,
Communication,
Auditing and Organization

Jeffrey A. Hedberg
International

Dr. Joachim Kröske
Finance and Controlling

Supervisory Board's report to the shareholders' meeting

Deutsche Telekom's 1998 financial year was characterized by far-reaching changes in the liberalized German telecommunications market and in many international markets.

The Supervisory Board supported and advised the Board of Management in all its important decisions. In its six meetings during the year, having received reports from and in constructive dialogue with the Board of Management, the Supervisory Board discussed the business development of the Group and strategic issues, questions pertaining to personnel, the regulatory situation, decisions regarding changes in the company's investment portfolio and issues concerning financing.

Based on Deutsche Telekom's new vision, the Board of Management worked with the Supervisory Board over the past year as it formulated, and began implementing, the company's Corporate Principles and Management and Action Principles.

An important step towards achieving an organizational structure that truly reflects market requirements, is the Group's new strategic orientation in which the products and sales areas are being realigned.

Deutsche Telekom and its partner France Telecom implemented a cross-shareholding agreement, approved by the Supervisory Board, under which each company acquired two percent of the other's shares. This move has expanded a strategic partnership that has opened up many synergies and, via a joint stake in Sprint Corporation and Global One, is decisively strengthening the global presence of both companies.

In its work, the Supervisory Board was supported by the General Committee which met six times, by the Staff Committee which held two meetings to consider the Corporate Principles and Management and Action Principles, and by the Special Matters Committee, which convened four times to review the economic situation and the company's medium-term planning, in preparation for the Supervisory Board's sessions.

The following changes in the Board of Management have occurred since last year's report:

Dr. Herbert May left the Board of Management on April 30, 1998, with the approval of the Supervisory Board. Josef Brauner was appointed to the Board of Management with effect from October 1, 1998. He took over the company's Sales and Customer Care Division. The Supervisory Board also appointed Jeffrey A. Hedberg to the Board of Management, with effect as of January 1, 1999. He is now head of the company's International Division.

The following personnel changes occurred in the Supervisory Board:

Veronika Altmeyer, Vice-Chairwoman of the Supervisory Board, stepped down from the Board as a result of her transfer, as of March 28, 1999, to the Managing Board of T-Nova GmbH, a new wholly-owned subsidiary. The company thanks Ms. Altmeyer for her years of valuable service.

On June 4, 1998, the shareholders' meeting elected Michel Bon to the shareholders' side of the Supervisory Board, where he succeeds Dr. Klaus Götte. Dr. Jürgen Stark left the Supervisory Board on October 27, 1998 in order to take up a position with Deutsche Bundesbank (the German Federal Bank). The local court appointed Dr. Claus Noé, State Secretary in the Federal Ministry of Finance, as his successor, with effect as of January 13, 1999.

Rainer Röhl was judicially appointed to the employees' representatives side of the Supervisory Board as of November 6, 1998; he succeeds Helmut Dettmer, who left the Board on August 31, 1998. Maud Pagel resigned from the Board as of May 31, 1999.

We thank the Supervisory Board's former members for their committed service.

During the past financial year, the Supervisory Board satisfied itself that the Board of Management had allowed the Federal Audit Office to inspect the operations, books and documents of the company.

The Supervisory Board was informed about the annual financial statements, the consolidated financial statements and the Group management report, which were prepared and duly submitted by the Board of Management, and about the related auditor's reports.

The accountancy firm C&L, Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements of Deutsche Telekom AG, the consolidated financial statements and the combined management report of the parent company and the Group as of December 31, 1998, including the accounting records and in accordance with statutory provisions, and issued an unrestricted audit certificate. The auditor reported on this personally at the Supervisory Board meeting held on April 13, 1999 and at the preparatory meeting of the relevant committee.

At the same meeting, the Supervisory Board was informed about the results of the audit. In compliance with § 171 of the German Stock Corporation Law, the Supervisory Board examined the annual financial statements of the parent company and of the Group, plus the management report of Deutsche Telekom, and approved the annual financial statements of the parent company. The annual financial statements are thereby approved. The Supervisory Board has examined and agrees to the Board of Management's proposal on the appropriation of net income.

C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft also audited the report disclosing relations with affiliated companies ("Dependent Company Report") that was prepared by the Board of Management in compliance with § 312 of the German Stock Corporation Law. The auditors reported on the results of their audit and issued the following audit certificate:

"Based on the results of our statutory audit and our judgment we confirm that

1. the actual information included in the report is correct,
2. the company's compensation with respect to the transactions listed in the report was not inappropriately high."

The Supervisory Board examined the Board of Management's report disclosing relations to affiliated companies. It did not raise any objections to the Board of Management's final statement contained in the report or to the results of the audit conducted by the accountancy firm, C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

The Supervisory Board would like to thank all the men and women who work for Deutsche Telekom and the Board of Management for their successful commitment to the good of the company, its customers and its shareholders.

Bonn, April 13, 1999
The Supervisory Board



Prof. Dr. Helmut Sihler
Chairman



The Supervisory Board of Deutsche Telekom AG in 1998/1999

Prof. Dr. Helmut Sihler

Chairman
since July 1, 1996
Member of the Shareholders'
Committee of Henkel KGaA

Veronika Altmeyer

Vice-Chairwoman
since January 1, 1995
until March 28, 1999
Member of the Central Executive
Committee of Deutsche
Postgewerkschaft trade union

Reinhard Ahrensmeier
since August 27, 1997
Chairman of the Central Works
Council and Head Office Works
Council at Deutsche Telekom
Immobilien and Service GmbH

Gert Becker
since January 1, 1995
Former Chairman of the Board
of Management of Degussa AG

Michel Bon
since June 4, 1998
President France Telecom S.A.

Helmut Dettmer
until August 31, 1998
Vice-Chairman of the Central Works
Council at Deutsche Telekom AG

Josef Falbisoner
since October 2, 1997
Chairman of Deutsche
Postgewerkschaft trade union,
Southern Bavaria District

Rainer Funke
since January 1, 1995
Member of the German Bundestag

Prof. Dr. Peter Glotz
since January 1, 1995
President of Erfurt University

Dr. Dr. h.c. Klaus Götte
until April 30, 1998
Chairman of the Supervisory
Board of MAN AG

Dr. sc. techn. Dieter Hundt
since January 1, 1995
Managing Partner of Allgaier Werke
GmbH & Co. KG; President of the
National Union of German Employers
Associations

Franz-Josef Klare
since January 1, 1995
Chairman of Deutsche
Postgewerkschaft trade union,
Münster District

Dr.-Ing. Paul Krüger
since January 1, 1995
Member of the German Bundestag;
Chairman of the Bundestag
Committee dealing with Issues
in the New Regional States

Dr. h.c. André Leysen
since January 1, 1995
Chairman of the Supervisory
Board of AGFA-GEVAERT N.V.

Michael Löffler
since January 1, 1995
Chairman of the Works Council
at Leipzig Branch Office 1,
Deutsche Telekom AG

Dr. Claus Noé
since January 13, 1999
State Secretary,
Federal Ministry of Finance

Maud Pagel
since January 1, 1995
Equal Opportunities Commissioner,
Deutsche Telekom AG

Rainer Röhl
since November 6, 1998
Vice-Chairman of the Central Works
Council at Deutsche Telekom AG

Wolfgang Schmitt
since October 2, 1997
Head of Freiburg i. B. Regional
Directorate, Deutsche Telekom AG

Dr. Jürgen Stark
until October 27, 1998
Vice-President of Deutsche
Bundesbank

Ursula Steinke
since January 1, 1995
Chairwoman of the Works Council
at Northern District Service and
Computer Center,
Deutsche Telekom AG

Prof. Dr. h.c. Dieter Stolte
since January 1, 1995
Director General of the Zweites
Deutsches Fernsehen (ZDF)
broadcasting organization

Wilhelm Wegner
since July 1, 1996
Chairman of the Central Works
Council at Deutsche Telekom AG