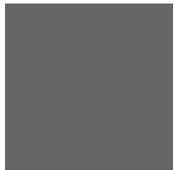
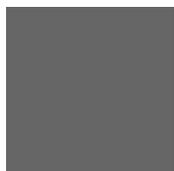
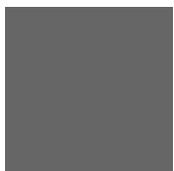


Deutsche Telekom
Group Report
January 1 to September 30, 1998



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Highlights

- Increase in revenue in line with expectations
- Positive trends continue in amortization and depreciation, interest expense and loss-making activities
- Innovative tariff models boost growth in number of T-Mobil customers
- Continued growth in ISDN and T-Online
- Stagnation of revenue due to market share losses in domestic long-distance calls
- Application submitted for aggressive tariff measures
- Decision taken on further cost-cutting measures
- Qualified statement on outlook for the future only possible after decisions from the Regulatory Authority

Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about business developments in the first nine months of 1998.

Despite turbulent developments on the stock markets, the Deutsche Telekom share continued its upward trend on the capital market in the third quarter. In the nine months between

the beginning of the year and September 30, the DAX 30 rose by approximately 5 %; the Deutsche Telekom share by approximately 53 %. The performance of the Deutsche Telekom share (price gain plus the cash dividend) amounted to approximately 57 %.

Business developments

In the nine months between January and September 1998, Deutsche Telekom's revenue grew by 3.4 % compared with the same period last year, from DM 49.6 billion to DM 51.3 billion. If the billing of competitors' revenues amounting to approximately DM 490 million, an activity in which Deutsche Telekom engaged for the first time this year, is not taken into account, the revenue growth in the first nine months of 1998 amounts to 2.4 %, and dropped in the third quarter by 0.5 % compared with last year.

Although the total number of call minutes in Deutsche Telekom's network in the first nine months grew by 5.8 %

over the same period last year to 137.4 billion, there was a downward trend in the number of domestic long-distance and international calls. This trend was particularly felt in the third quarter of the period under review as competition became increasingly intense. In response to losses of market share for domestic long-distance calls in particular, Deutsche Telekom will bring the aggressive tariff reduction measures it has been planning forward to the beginning of 1999. This tariff model, described later in greater detail under "Outlook", has already been submitted to the Regulatory Authority for Telecommunications and Posts but has yet to be approved.

Numbers of customers in selected services

	Sept. 30, 1998 millions	Dec. 31, 1997 millions	Change in %
Telephone lines (incl. ISDN channels)	46.1	45.2	2.0
of which: ISDN channels	9.3	7.3	27.4
T-Online customers	2.4	1.9	26.3
Mobile phone customers (T-D1 and T-C-Tel)	5.2	3.8	36.8
Paging and other mobile communications customers	0.9	1.1	-18.2
Cable connections	17.6	17.3	1.7

Income before taxes and return on sales ¹⁾	Income	Income	Return on sales	Return on sales
	1st-3rd quarter 1998 billions of DM	Total 1997 billions of DM	1st-3rd quarter 1998 in %	Total 1997 ²⁾ in %
Fixed-network communications	8.06	10.1	23	21
Mobile-network communications	0.65	1.1	15	22
Subtotal - Network communications	8.71	11.2	22	21
Cable TV / Broadcasting	(0.80)	(1.3)	-30	-42
Terminal equipment	(0.15)	(0.5)	-7	-16
Special value-added services (directory inquiries, public telephones, etc.)	(0.15)	(1.0)	-5	-26
Other services (T-Online, billing for ICP's etc.)	0.05	0.2	4	20
International activities (in particular MATAV)	0.45	0.5	22	21
Subsidiaries and related companies (unconsolidated)	(0.75)	(1.9)	-	-
Subtotal	(1.35)	(4.0)	-12	-29
Total	7.36	7.2	14	11

¹⁾ As of December 31, 1998, Deutsche Telekom will for the first time adopt the new U.S. Statement FAS 131. This Statement covers segment reporting. As a result, the representation selected here may deviate from that for the end of the 1998 financial year.

The above information is based on internal figures and has not been audited.

²⁾ According to the revenue reporting structure of 1998.

Income before taxes rose by 36 % in the first nine months of 1998 to DM 7.36 billion as compared with the same period last year and has thus already exceeded the level for the entire 1997 financial year. The net income of the Group increased by 24 % to approximately DM 3.04 billion. The increased 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 amounts to 14 %. On the whole, the trends recorded in the first half of 1998 have continued.

Whereas the return on sales in fixed-network communications was stable at 23 %, the return on mobile-network communications has fallen as expected as a result of the price reductions effective since August 31, 1998. The new tariffs, however, will strengthen T-Mobil's position with regard to the further development of mobile telephony as a mass market.

The improvement of the loss-making situation in the cable sector attributable to the tariff adjustment effective since November 1, 1997 has continued. Losses from terminal equipment, as a result of streamlining the product portfolio, have been reduced in line with expectations, despite the drop in revenues this entails. The most marked improvement was recorded in special value-added services, with a loss of

DM 0.15 billion in the first nine months of 1998, compared with a loss of DM 1.0 billion for the entire 1997 financial year. The reasons for this improvement include the tariff adjustment and quality improvement in the directory inquiries service as well as the fact that the concept concerning the location of public telephones has been refined.

We are pushing ahead with the restructuring measures we have introduced. Our investment in the Hungarian telephone company MATAV continues to develop positively. There was a considerable improvement in the first nine months of 1998 in the area of unconsolidated subsidiaries and related companies compared with the 1997 financial year. The risks from the continuation of the crisis in Asia were taken into account to a large extent in the first two quarters of 1998. With regard to Global One, the expansion of the Global One backbone network and the restructuring measures which have been introduced have resulted in further payments to compensate for losses. We expect these payments, however, to be slightly lower in the second half of this year than in the first.

Overall, Deutsche Telekom continues to proceed according to plan towards its target of reducing losses outside network communications by half in 1998 compared to 1997 levels.

Outlook

The slightly reduced revenue in the third quarter (without taking into account revenues from billing services for competitors) is attributable to losses of market share for domestic long-distance and international calls. These market share losses are a direct consequence of the asymmetrical regulatory practice and the resulting one-sided preferential treatment of competitors. Deutsche Telekom will therefore bring forward the tariff reduction measures that had originally been planned for introduction later, to January 1, 1999.

Deutsche Telekom has submitted an application to the Regulatory Authority for Telecommunications and Posts for approval of new tariffs for calls in the fixed network. The planned new tariff system applies to calls in the tariff zone GermanCall (domestic long-distance calls) and RegioCall (domestic calls within a radius of less than 50 kilometers). The application is for considerable price reductions and a streamlining of the system of tariff time bands from the beginning of 1999.

In future, different tariffs on weekdays will only apply in the two time periods from 9.00 a.m. to 6.00 p.m. (peak time) and from 6.00 p.m. to 9.00 a.m. (off-peak time).

Deutsche Telekom customers will be billed for their calls according to a simple formula: 24/12 pfennigs per minute (peak/off-peak) for domestic long-distance and regional calls via ISDN and 36/12 pfennigs per minute (peak/off-peak) for domestic long-distance calls on an analog telephone line. Regional calls from an analog line made between 9.00 a.m. and 6.00 p.m. will be charged at 24 pfennigs per minute. The even cheaper tariff of 6 pfennigs per minute for calls made between 2.00 a.m. and 5.00 a.m. will remain. On weekends and national holidays, all regional and domestic

long-distance calls will be charged at a uniform price of 12 pfennigs per minute. The conditions of our 10plus offer for customers (discount for calls that are longer than 10 minutes) will remain valid in their current form.

Deutsche Telekom plans to be able to compensate the drop in revenue resulting from these tariff measures mainly through a strengthened competitive position and related growth in volume in the area of fixed-network communications as well as improvements in other business areas. We are expecting the positive trend in amortization and depreciation, interest expenses and personnel costs to continue next year. Furthermore, the Board of Management has approved far-reaching cost cutting measures, particularly regarding the cost of materials as well as other operating expenses.

The Regulatory Authority informed Deutsche Telekom of its decision in a letter dated November 11, 1998, that Deutsche Telekom will be allowed to implement as planned the charge adjustment for cable TV effective since November 1, 1997. It is therefore not necessary to make any provision for risks for cable TV business which would have had a direct effect on results.

Still of particular importance for future developments is the approval of the tariff measures we plan to take and other decisions by the Regulatory Authority still pending, especially with regard to the local loop and the classification of competitors as local carriers, long-distance carriers or resellers and the resulting differences in interconnection charges. Only after these decisions have been taken will it be possible to give a qualified assessment of Deutsche Telekom's prospects for the future.

Summary on the consolidated financial statements as at September 30, 1998

The financial statements of the Deutsche Telekom group for the first nine months of 1998 have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch - HGB) and the German Stock Corporation Law (Aktengesetz - 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 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.

The financial statements on the first nine months of 1998 and the first nine months of 1997 have not been audited.

Consolidated statement of income	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
Net revenue	51,321	49,635	3.4	67,552
Changes in inventories and other own capitalized costs	1,433	2,302	-37.7	2,960
Total operating performance	52,754	51,937	1.6	70,512
Other operating income	2,853	2,146	32.9	3,746
Goods and services purchased	(9,193)	(8,687)	5.8	(12,137)
Personnel costs	(13,449)	(13,742)	-2.1	(18,340)
Depreciation and amortization	(12,845)	(13,664)	-6.0	(18,597)
Other operating expenses	(7,655)	(7,285)	5.1	(10,161)
Financial income (expense) net	(5,107)	(5,298)	-3.6	(7,827)
of which: net interest expense	(4,498)	(4,909)	-8.4	(6,368)
Results from ordinary business activities	7,358	5,407	36.1	7,196
Other taxes	(153)	(537)	-71.5	(650)
Income taxes	(3,861)	(2,204)	75.2	(2,958)
Income after taxes	3,344	2,666	25.4	3,588
(Income) losses applicable to minority shareholders	(305)	(215)	41.9	(285)
Net income	3,039	2,451	24.0	3,303

Consolidated balance sheet	Sept. 30, 1998 millions of DM	Dec. 31, 1997 millions of DM	Change in %	Sept. 30, 1997 millions of DM
Assets				
Noncurrent assets	130,000	137,017	-5.1	139,764
Current assets ¹⁾	33,510	25,801	29.9	29,987
	163,510	162,818	0.4	169,751
Shareholders' equity and liabilities				
Shareholders' equity	47,588	48,144	-1.2	47,286
Liabilities ²⁾	115,922	114,674	1.1	122,465
	163,510	162,818	0.4	169,751

¹⁾ Including prepaid expenses, deferred charges and deferred taxation.

²⁾ Including accruals and deferred income.

As at September 30, 1998, shareholders' equity in accordance with U.S. GAAP amounted to DM 50,586 million (Dec. 31, 1997: DM 51,119 million).

Consolidated statement of cash flows	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
Net cash provided by operating activities	20,175	18,668	8.1	22,641
Net cash used for investing activities	(15,235)	(11,832)	28.8	(10,569)
Net cash provided by (used for) financing activities	(5,182)	(8,803)	-41.1	(13,759)
Effect of foreign exchange rate changes on cash and cash equivalents	(2)	0	-	(6)
Net increase (decrease) in cash and cash equivalents	(244)	(1,967)	-	(1,693)

Net revenue

Revenue by business area ¹⁾	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 ²⁾ millions of DM
Fixed-network communications	35,791	35,941	-0.4	48,887
Mobile-network communications	4,443	3,746	18.6	5,132
Subtotal - Network communications	40,234	39,687	1.4	54,019
Cable TV / Broadcasting	2,657	2,299	15.6	3,124
Terminal equipment	2,172	2,371	-8.4	3,219
Special value-added services (directory inquiries, public telephones, etc.)	2,984	2,853	4.6	3,913
Other services (T-Online, etc.)	1,244	678	83.5	920
International activities (in particular MATAV)	2,030	1,747	16.2	2,357
Subtotal	11,087	9,948	11.4	13,533
	51,321	49,635	3.4	67,552

¹⁾ 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.

²⁾ 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 51,321 million in the first nine months of 1998. This represents an increase of DM 1,686 million or 3.4 % as compared with the same period in 1997.

With a total of DM 35,791 million, the largest source of revenue, fixed-network communications, generated slightly less than in the same period last year. Tariff cuts and competition, which has been more pronounced since the second quarter of the year, led to a slight drop in revenues from domestic long-distance and international calls. Growth in local calls, inter-connection services and the areas of data communications and systems solutions did not fully compensate for this drop. Revenues in the area of terminal equipment fell considerably compared to the first nine months of 1997 as a result of product streamlining.

There was considerable growth, however, in mobile-network communications. The group business area mobile-network communications grew once again in the third quarter, and revenue increased by DM 697 million or 18.6 % 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 adjustments effective from November 1, 1997. The positive development in revenue from international activities (in particular MATAV) continued in the first nine months of 1998.

The revenue growth in other services is primarily due to the fact that T-Online developed positively and that in 1998 Deutsche Telekom took over and billed services of other fixed-network operators for the first time. Revenues from these services were, however, offset by a corresponding increase in goods and services purchased.

Personnel

Personnel costs	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
Wages and salaries	9,499	9,691	-2.0	12,955
Social security contributions and expenses for pension plans and benefits	3,950	4,051	-2.5	5,385
	13,449	13,742	-2.1	18,340

As a result of the fact that Deutsche Telekom's workforce reduction program was continued according to plan, the personnel costs of the Deutsche Telekom group decreased and amounted to DM 13,449 million in the first nine months of 1998, which corresponds to a decrease of 2.1 % or DM 293 million compared with the same period last year. However, personnel costs per employee increased by 4.1 %. Besides the 1.5 % increase in wages and salaries under collective bargaining agreements effective from January 1, 1998 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 in some areas to bring them in line with market conditions. Furthermore, annual contributions to civil servant pensions of DM 2,900 million, which are as yet still not linked to the number of employees, also led to a nominal increase in the personnel costs per employee because the number of employees in the Group has decreased.

Average number of employees	1st-3rd quarter 1998 Number	1st-3rd quarter 1997 Number	Change in %	Total 1997 Number
Deutsche Telekom group ¹⁾	186,817	198,378	-5.8	196,943
Changes in the composition of the Deutsche Telekom group of prior years (in particular MATAV)	17,839	19,317	-7.7	19,138
Deutsche Telekom group	204,656	217,695	-6.0	216,081
Trainees/student interns	5,900	5,971	-1.2	6,178

¹⁾ Before changes in the composition of the Deutsche Telekom group of prior years

Number of employees at balance sheet date	Sept. 30, 1998 Number	Dec. 31, 1997 Number	Change in %	Sept. 30, 1997 Number
Deutsche Telekom group ¹⁾	184,127	191,034	-3.6	195,303
Changes in the composition of the Deutsche Telekom group of prior years (in particular MATAV)	17,298	18,261	-5.3	18,827
Deutsche Telekom group	201,425	209,295	-3.8	214,130
Trainees/student interns	6,846	6,711	2.0	6,701

¹⁾ Before changes in the composition of the Deutsche Telekom group of prior years

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 6,907 to 184,127 in the course of the first nine months of 1998.

Depreciation and amortization

	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
	12,845	13,664	-6.0	18,597

In the period under review, depreciation and amortization fell as planned to DM 12,845 million, a drop of 6.0 % compared with the first nine months of 1997. Depreciation and amortization is mostly attributable to depreciation of

technical equipment and machinery, which accounted for approximately DM 10.4 billion or 81%. Nonscheduled write-downs amounting to DM 54 million were recognized in the first nine months of 1998.

Changes in net income

It has been possible to increase income before income taxes by DM 2,335 million to DM 7,205 million as compared with the first nine months of 1997. 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, negatively affected the result in the first nine months of 1998.

Financial expense was reduced despite the increased loss related to subsidiaries, associated and related companies. This improvement was primarily attributable to the reduction in interest expense. The loss related to subsidiaries, associated and related companies includes nonscheduled amortization and provisions for risks made primarily because of the continuing crisis in Asia; in addition, further losses incurred by Atlas/Global One had to be taken into account.

	millions of DM
Increase in revenue	1,686
Increase in goods and services purchased (incl. charges paid to other carriers)	(506)
of which: from taking over and billing services of other fixed-network operators	(486)
Decrease in personnel costs	293
Decrease in depreciation and amortization	819
Changes in financial income (expense)	191
of which: changes in net interest expense	411
Changes in other income and expense items	(532)
Changes in other taxes	384
	2,335

Compared with the first nine months of 1997, the increased tax expense of DM 1,657 million is mainly due to an improved income before taxes, as was the case in the first half year. 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. Despite a rise in tax expense, net income of the Group has significantly improved and increased to DM 3,039 million in the first nine months of 1998.

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

	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
Net income as reported in the consolidated financial statements under German GAAP	3,039	2,451	24.0	3,303
Personnel restructuring accrual	(455)	(307)	-	(492)
Other differences	144	46	-	69
Income taxes	270	(461)	-	(424)
Net income in accordance with U.S. GAAP	2,998	1,729	73.4	2,456

Investments

	1st-3rd quarter 1998 millions of DM	1st-3rd quarter 1997 millions of DM	Change in %	Total 1997 millions of DM
Intangible assets and property, plant and equipment	5,908	9,820	-39.8	13,885
Financial assets	2,588	1,383	87.1	1,580
	8,496	11,203	-24.2	15,465

Additions to property, plant and equipment, which relate mainly to Deutsche Telekom AG, amounted to DM 5,547 million in the first nine months of 1998. Capital expenditure has, as was planned, 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 2,588 million, DM 1,130

million of which are attributable to investments in associated and related companies, in particular investments in Atlas/Global One, the joint venture Wind, in the Israeli company VocalTec Communications Ltd. as well as in the satellite company SES Société Européenne des Satellites S. A. Deutsche Telekom also invested DM 1,150 million in specialized securities funds.

Financial liabilities

	Sept. 30, 1998 millions of DM	Dec. 31, 1997 millions of DM	Change in %	Sept. 30, 1997 millions of DM
Debt	86,148	87,891	-2.0	92,846
Debt excluding MATAV	84,858	86,435	-1.8	91,419

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; the redemption structure of Deutsche Telekom's indebtedness is such that repayment of debt will total a further DM 7 billion in the fourth quarter of the year. Total debt amounted to approximately DM 86.1 billion at September 30, 1998 as

compared with DM 87.9 billion at December 31, 1997. Future repayment of debt will continue as planned; the goal is to reduce debt to DM 65 billion by the year 2000. Net financial liabilities, after taking liquid assets of DM 17.4 billion and marketable securities of DM 3.1 billion into account, amounted to DM 65.6 billion at September 30, 1998.

Cash flows

Net cash provided by operating activities

Net cash provided by operating activities amounted to DM 20,175 million in the first nine months of 1998, which is an increase of DM 1,507 million compared with the same period in 1997. The increase is mainly attributable to a higher inflow of cash from net revenue. Net cash was also positively influenced by the changes in the ratio of non-cash expenses for income taxes and income tax payments.

Net cash used for investing activities

Net cash used for investing activities increased by DM 3,403 million to DM 15,235 million. The decrease in capital expenditure 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 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

In the first nine months of 1998, the outflow of cash used for financing activities decreased by DM 3,621 million as compared with the same period 1997. This was mainly attributable to comparatively lower repayments of long-term debt in the first nine months of 1998. In addition, the bond issue floated in May 1998 resulted in a cash inflow of DM 2 billion. Dividend payments by Deutsche Telekom AG and MATAV as well as higher repayments of short-term debt had an offsetting effect on cash used for financing activities.

Bonn, November 1998
Deutsche Telekom AG

Board of Management

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