



Deutsche Telekom International Finance B.V.

Amsterdam, The Netherlands

€ 977,416,237.61
5¼% Bonds of 1998/2008
(the "Bonds")

unconditionally and irrevocably guaranteed by

Deutsche Telekom AG

Bonn, Federal Republic of Germany

Issue Price: 107.00% plus accrued interest for the period from May 20, 1998 (inclusive) to January 12, 1999 (exclusive)

Application will be made to list the Bonds on the Frankfurt and Luxembourg Stock Exchanges.

The Conditions of Issue of the Bonds are identical with those of the DM 2,000,000,000 5¼% Bonds of 1998/2008 issued on May 20, 1998 (the "Original Issue"). As of January 1, 1999 the DM 2,000,000,000 5¼% Bonds of 1998/2008 have been redenominated in euro. As of January 12, 1999, the Bonds will be consolidated and form a single issue with the Original Issue.

Deutsche Bank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

ABN AMRO Bank N.V.

Bankgesellschaft Berlin
Aktiengesellschaft

**Bayerische Hypo-
und Vereinsbank AG**

CDC Marchés

Commerzbank
Aktiengesellschaft

DG BANK
Deutsche Genossenschaftsbank AG

Goldman Sachs International

Merrill Lynch International

Paribas

Warburg Dillon Read AG

Westdeutsche Landesbank
Girozentrale

No person is authorised to give any information or to make any representation in connection with this Offering Circular, and any information or representation not contained herein must not be relied upon as having been authorised by "Deutsche Telekom International Finance B.V." (hereinafter also referred to as "Finance" or the "Issuer") or Deutsche Telekom AG (hereinafter also referred to as "Deutsche Telekom" or the "Guarantor" and together with its consolidated subsidiaries the "Deutsche Telekom Group").

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined under "Subscription and Sale" below) to subscribe for or purchase any of the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, and include Bonds in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons.

In this Offering Circular all references to "€" or "euro" are to the single currency which was introduced as of January 1, 1999 with the start of the third stage of European Economic and Monetary Union by which date the euro became the legal currency in eleven member states of the European Union. References to "DM", "DEM" or "Deutsche Mark" and to "NLG" or "Dutch Guilders" are to the non-decimal denominations of the euro as defined by the conversion rate irrevocably fixed in accordance with Article 109 I (4) sentence 1 of the EC Treaty.

In connection with this issue, Deutsche Bank Aktiengesellschaft may overallot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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Subject of this Offering Circular

Subject of this Offering Circular are the € 977,416,237.61 5¼% Bonds of 1998/2008 issued by Finance and unconditionally and irrevocably guaranteed by Deutsche Telekom. The issuance of the Bonds was authorised by a resolution of the Board of Management of the Issuer on November 30, 1998 with the approval of the Supervisory Board of the Issuer on December 4, 1998. The issuance of the guarantee was authorised by a resolution of the Board of Management of the Guarantor on November 23, 1998. As of January 12, 1999, the Bonds will be consolidated and form a single issue with the Original Issue.

General Information

Responsibility

The Issuer and the Guarantor have taken all reasonable care to ensure that the facts stated in this document are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein, whether of fact or opinion.

Except as may be set forth in this Offering Circular, in the judgement of the management of the Issuer and the Guarantor, there has been no material adverse change in the financial position or prospects of the Issuer, the Guarantor or any of the Guarantor's consolidated subsidiaries since December 31, 1997.

Availability of Documents

The documents mentioned in this Offering Circular may be inspected during usual business hours on any working day from the date hereof and so long as any of the Bonds remain outstanding at the offices of Citibank AG, Neue Mainzer Strasse 75, D-60311 Frankfurt am Main and at the offices of Banque Générale du Luxembourg S.A., 50, avenue J.F. Kennedy, L-2951 Luxembourg. Copies of the most recent Audit Report of the Issuer, the most recent Annual Report of the Guarantor containing its consolidated financial statements, as well as the non-consolidated financial statements of the Guarantor may be obtained from Deutsche Telekom AG, Postfach 2000, D-53105 Bonn, from Banque Générale du Luxembourg S.A. under the above-mentioned address and from Citibank AG under the above mentioned address.

Subscription and Sale

An international syndicate of banks and financial institutions as shown on the cover page (the "Managers") headed by Deutsche Bank Aktiengesellschaft and Dresdner Bank Aktiengesellschaft as Joint Lead Managers has purchased the Bonds to which this Offering Circular pertains. The Bonds will be offered for sale free of charges, subject to availability, at the price of 107.00% plus accrued interest for the period from May 20, 1998 (inclusive) to January 12, 1999 (exclusive). Settlement date for the Bonds is January 12, 1999.

For the subscribers of the Bonds the yield is 4.321% per annum (*) calculated on the basis of the issue price of 107.00%.

(*) The yield was calculated in accordance with the following formula by using an iterative method for solving the equation for the variable (i) (internal rate of return or yield):

$$CF_0 = \frac{CF_1}{(1+i)} + \frac{CF_2}{(1+i)^2} + \dots + \frac{CF_n}{(1+i)^n}$$

CF₀ = means the amount of capital input for the subscription of the Bonds.

CF₁ to CF_n = means the cash inflow as of May 20 of each year until maturity of the Bonds (interest payments and repayment of principal amount).

n = means the life of the issue in years.

Selling Restrictions

Each Manager has acknowledged that the Bonds are offered pursuant to the Euro-Securities Exemption set out in Article 6 of the Netherlands' Exemption Regulation of the Securities Markets Supervision Act of 1995 ("Vrijstellingsregeling Wet toezicht effectenverkeer 1995"). Each Manager has represented and agreed that it has not conducted and will not conduct any general advertising or soliciting campaign with respect to the Bonds.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") and may not be offered or sold within the United States of America (the "United States") or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager has represented and agreed that it has offered and sold, and will offer and sell, the Bonds (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, only in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Accordingly, each Manager has confirmed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, under U.S. Treas. Reg. § 1.163-5(c)(2)(i)(C) (the "C Rules"), bonds in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, Bonds within the United States or its possessions in connection with their original issuance.

Further, in connection with the original issuance of Bonds, it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either of them is within the United States or its possessions or otherwise involve its U.S. office in the offer and sale of the Bonds. Terms used in this subparagraph have the meaning given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each Manager has represented and agreed that

- it has not offered or sold and, prior to the expiry of the period of six months from the Settlement Date, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds to a person who is of a kind described in Article 11 (3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

In addition to the specific restrictions set out above, each Manager has agreed that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer or sell the Bonds or distribute any offering material.

Delivery of the Bonds

The Bonds will be in bearer form and represented by one permanent global certificate without interest coupons which will be kept in custody by Deutsche Börse Clearing Aktiengesellschaft, Frankfurt

am Main, until all obligations of the Issuer under the Bonds have been satisfied. Definitive certificates representing individual Bonds and interest coupons will not be issued. The Bonds are transferable as co-ownership shares in the permanent global certificate.

Taxation in the Federal Republic of Germany

In the Federal Republic of Germany, interest payments in respect of Bonds held in custody by a bank in Germany to persons who are tax residents of Germany (or non-residents provided that the interest income falls in a category of income from German sources, such as income effectively connected with a German trade or business; income from the letting and leasing of German property, etc.) are subject to an advanced interest income tax of 30% (Zinsabschlagsteuer), and an additional 5.5% solidarity-surcharge tax on the income tax (Solidaritatzuschlag), so that the total rate is 31.65%. The tax withheld may later be credited as a prepayment for purposes of income tax assessment.

Accrued interest for the time of ownership is also subject to this advanced interest income tax and solidarity-surcharge tax.

The above summary describes the principal applications of German advanced interest income tax and solidarity-surcharge tax. Investors should obtain individual tax advice regarding their particular circumstances.

Litigation

Deutsche Telekom and its subsidiaries are involved in a number of legal proceedings in the ordinary course of their business. In addition, proceedings involving alleged abuse of a market-dominating position by Deutsche Telekom and alleged antitrust violations are pending before competition and regulatory authorities. Except for the proceedings described below, neither Deutsche Telekom nor any of its subsidiaries is or has been during the last two fiscal years a party to any legal or arbitration proceedings and no such proceedings are known by Deutsche Telekom to be contemplated by governmental authorities or third parties, which, if adversely determined, could have a material adverse effect on Deutsche Telekom's business or financial position taken as a whole.

In 1997, German municipalities challenged in the Federal Constitutional Court (*Bundesverfassungsgericht*) a provision of the German Telecommunications Act (*Telekommunikationsgesetz*) ("TKG") which transfers the Federal Republic's rights of way over public property free of charge to licensed operators of transmission lines. Deutsche Telekom believes that such a challenge is unlikely to succeed in light of the jurisprudence of the Federal Constitutional Court to date and prevailing opinion in legal literature. However, if the Federal Constitutional Court were to declare the rights of way provisions of the TKG unconstitutional, municipalities might be entitled to levy fees against all licensed operators of transmission lines, including Deutsche Telekom, for the use of public rights of way, and it is possible that any such ruling could be given retroactive effect to August 1, 1996.

After the introduction of Deutsche Telekom's new tariff structure in January 1996, 32 private customers separately commenced legal proceedings against Deutsche Telekom, claiming, among other things, that tariffs were not effectively agreed to between Deutsche Telekom and its customers, and that certain tariffs, in particular tariffs for local calls, violate German public policy because Deutsche Telekom abused its market monopoly (*Sittenwidrigkeit*) in setting them. On July 2, 1998 the Federal Supreme Court ruled in favor of Deutsche Telekom ending the respective cases.

The Consumer Association of Berlin has filed a complaint against 12 clauses Deutsche Telekom uses in its General Terms and Conditions. The District Court has declared two, the Higher Regional Court four of these clauses for void. Both parties have appealed to the Federal Supreme Court. A final decision is not to be expected before the end of 1999.

The Consumer Association of Berlin has filed a further complaint against a clause Deutsche Telekom uses in its General Terms and Conditions for TV-Cable service on which Deutsche Telekom based its price increase as of January 1, 1997. A decision of the District Court in favor of Deutsche Telekom is expected on January 20, 1999.

There have been no recent developments with respect to the Datex-P complaint filed to the European Commission, or with respect to the labour law proceedings in the New Federal States.

In response to a complaint filed by certain competitors of Deutsche Telekom under Articles 90 and 86 of the Treaty of Rome, at the beginning of 1996, the European Commission instituted proceedings with respect to Deutsche Telekom's plan to offer certain optional tariffs on telephone services to its business customers. In June 1996, the European Commission informed Deutsche Telekom that the proceedings would not be pursued in the short term and would be permanently discontinued upon fulfillment by Deutsche Telekom and the Post Ministry of certain conditions. Among those conditions were (i) the introduction of the optional tariffs for business customers only after October 31, 1996, (ii) the offer of certain optional tariffs to private customers and (iii) the initiation of negotiations with operators of telecommunication networks for closed-user groups concerning alternative options for "break-in/break-out" traffic. A further condition to the permanent discontinuation of proceedings was that the Post Ministry grant at least two licenses for the operation of transmission lines for liberalised telecommunications services before the introduction of Deutsche Telekom's tariff options for business customers. To date, the Post Ministry has granted two nationwide licenses and several regional licenses. The optional tariffs for private customers called for by the European Commission have received German regulatory approval, as have the optional tariffs for business customers. Further, Deutsche Telekom conducted negotiations with providers of closed-user group networks. Although these negotiations were inconclusive, Deutsche Telekom submitted a proposed tariff schedule to the Post Ministry for break-in/break-out traffic for corporate networks. On October 4, 1996, the Post Ministry accepted the proposed interconnection tariffs. The European Commission did not act to block the implementation on November 1, 1996 of the optional tariffs for business customers. It required, however, that Deutsche Telekom conclude special network access agreements with its competitors and that the Post Ministry grant to such competitors special network access numbers upon request. In addition, Deutsche Telekom's competitors are to be offered new special tariffs billed in one-second segments. The arrangements called for by these conditions are to be given retroactive effect to November 1, 1996. Accordingly, Deutsche Telekom entered into negotiations with providers of closed-user group networks. Based on these negotiations, Deutsche Telekom prepared an offer taking into consideration all elements set forth above. However, the majority of the complainants were not satisfied with the offer and returned the matter to the European Commission. One complainant, WorldCom, has accepted the offer and entered into an agreement with Deutsche Telekom.

The European Commission requested a certified public accounting firm to analyse Deutsche Telekom's offer, taking into consideration all elements required by the European Commission for such special network access agreements in light of the business customer tariffs implemented as of November 1, 1996. In February 1998, the European Commission issued to the complainants a preliminary assessment of the current stage of the proceedings, which indicates that, as regards the level of the tariffs offered by Deutsche Telekom, abuse of a market-dominant position cannot be determined with sufficient certainty based on the analysis commissioned by the European Commission. Accordingly, the European Commission is presuming that the level of the tariffs offered by Deutsche Telekom for special network access does not constitute an abuse within the meaning of Article 86 of the Treaty. As a result, the European Commission has come to the preliminary opinion that the continuation of the investigation can no longer be justified as being in the public interest. Deutsche Telekom is continuing its negotiations of contracts with other competitors on the basis of a European Commission previous pronouncement.

In October 1996, British Telecommunications plc ("BT") and VIAG Interkom GmbH & Co. KG ("VIAG") filed a complaint with the District Court in Düsseldorf (*Landgericht Düsseldorf*) seeking a permanent injunction and damages on the basis that Deutsche Telekom and Atlas Germany had commenced offering and selling Global One telecommunications services before a condition to the entry into effect of the competition law exemptions granted to Atlas and Global One by the European Com-

mission had been fully satisfied (specifically, that two or more licenses for the build-out, ownership and/or control of alternative transmission lines for liberalised telecommunications services be in effect in each of Germany and France). The complaint also sought certain information from Deutsche Telekom. The claim for a permanent injunction was declared settled by BT and VIAG after the European Commission in February 1997 published a notice stating that the requisite licenses had been granted in both Germany and France and that, as a result, the exemption granted to Atlas and Global One was effective as of December 1, 1996. With regard to the other claims, on April 16, 1997, the District Court in Düsseldorf rendered a declaratory judgement on the claim for damages in favour of British Telecom and VIAG. The court also ruled that Deutsche Telekom and Atlas Germany must provide certain information to the plaintiffs for use in the next phase of the trial (concerning the amount of damages to be awarded), and that Deutsche Telekom and Atlas Germany must pay the litigation costs of all parties and the court. The Higher Regional Court (*Oberlandesgericht Düsseldorf*) has confirmed this judgement on June 16, 1998 with some restraints. Both parties have filed appeals to the Federal Supreme Court.

In response to complaints of prospective competitors of Deutsche Telekom in connection with the offering of voice telephony services, in July 1997, the Post Ministry required Deutsche Telekom to allow the complainants unbundled access to end customer lines (dark copper) within Deutsche Telekom's network for purposes of connecting their own customers. A motion for an injunction against this order was rejected by the Cologne Administrative Court (*Verwaltungsgericht Köln*). In a hearing before the Appellate Court in Münster (*Oberverwaltungsgericht Münster*) in September 1997, an agreement was reached, substantially on the basis of the Post Ministry's requirements, pursuant to which Deutsche Telekom will now offer such unbundled access to competitors. The Cologne Administrative Court has dismissed the respective complaint. An appeal is being considered.

In Autumn 1997, the Post Ministry issued four orders which will expire on December 31, 1999. Under these orders, Deutsche Telekom is obligated to provide certain voice telephony interconnection services to competitors on the basis of a tariff table prescribed by the Post Ministry. Furthermore, the Post Ministry rejected Deutsche Telekom's application for interconnection tariffs in September 1997. In the opinion of the Post Ministry certain costs included by Deutsche Telekom in its price calculation in connection with the application were not completely allowable or the legally required proof of such costs was not presented. Deutsche Telekom has filed a complaint against these five orders because, in Deutsche Telekom's opinion, the tariffs prescribed by the Post Ministry are weighted in favour of its competitors. Further Deutsche Telekom has a number of legal proceedings concerning decisions by the Regulatory Authority concerning the duty to obtain an approval for the remuneration for regulated services. Deutsche Telekom is in discussion with the Regulatory Authority concerning the minimum conditions of a network operator (*Netzbetreiber ohne Netz*) to be fulfilled by competitors to qualify as an interconnection party. Deutsche Telekom has filed a complaint against five orders by the Regulatory Authority in this context.

The Regulatory Authority, which now performs the regulatory functions since the dissolution of the Post Ministry at the end of 1997, issued an order on March 9, 1998 rejecting in part an application by Deutsche Telekom for the approval of charges for access to the local loop. The Regulatory Authority rejected Deutsche Telekom's cost calculations based on a purported lack of transparency in the calculations and the evaluation of the cost factors and prescribed lower charges than those applied for. Deutsche Telekom has filed a legal challenge to this order with the Cologne Administrative Court.

The Carrier of the Dutch Antilles, Antelecom B.V. has successfully filed a motion for reopening subscriber trunk dialling. Deutsche Telekom has filed an appeal against the respective decision by the Higher Regional Court Cologne which concerns the reopening only. Antelecom B.V. in the meantime has increased their action for damages filed with the District Court in Bonn to DM 87 million.

Use of Proceeds

The net proceeds of the Bonds amounting to approximately € 1.043 billion will be used for general financing purposes of the Deutsche Telekom Group companies.

Rating

Outstanding long-term bond indebtedness by Deutsche Telekom is rated Aa2⁽¹⁾ by Moody's Investors Service ("Moody's") and AA-⁽²⁾ by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P").

Additional Listing Requirements of the Luxembourg Stock Exchange

Listing Information

Prior to the listing, a legal notice containing information regarding the issue of the Bonds, the Articles of Association and other facts regarding the Issuer will be registered and deposited with the Greffe du Tribunal d'Arrondissement de et à Luxembourg, where copies thereof may be inspected and obtained.

In addition to the most recent Annual Reports of the Guarantor also its most recent Interim Reports, which are issued quarterly each year, may be obtained without charge at the head office of the paying agent in the City of Luxembourg, Banque Générale du Luxembourg S.A., 50, avenue J.F. Kennedy, L-2951 Luxembourg, as long as the Bonds are listed on the Luxembourg Stock Exchange. The Issuer does not publish Interim Reports.

The Articles of Association of the Guarantor as well as copies of the Principal Paying Agency Agreement dated January 11, 1999, may also be inspected at the aforementioned address.

Paying Agents

The Paying Agents for the Bonds are Citibank, N.A., 5, Carmelite Street, London EC4Y 0PA (Principal Paying Agent), Citibank AG, Neue Mainzer Strasse 75, D-60311 Frankfurt am Main and Banque Générale du Luxembourg S.A., 50, avenue J.F. Kennedy, L-2951 Luxembourg.

The Issuer has undertaken to ensure service of the Bonds through a credit institution located in Luxembourg as long as any Bonds remain outstanding and are listed on the Luxembourg Stock Exchange.

Stock Index Numbers

German Security Code: 231 780

Common Code: 873 804 1

ISIN Code: DE 000 231 7807

⁽¹⁾ Definition by Moody's:

"Aa: Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities.

Note: Moody's applies numerical modifiers 1, 2 and 3 in each rating classification: the modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category."

⁽²⁾ Definition by S&P:

"AA: An obligation rated 'AA' differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligation is still strong.

Plus (+) or minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories."

The German wording of the Conditions of Issue is legally binding; the English text is a non-binding translation.

Emissionsbedingungen

§ 1

Form und Nennbetrag

(1) Die Anleihe der Deutsche Telekom International Finance B.V., Amsterdam, Niederlande, (die „Emittentin“) im Gesamtnennbetrag von € 977.416.237,61 (neunhundert-siebenundsiebzig Millionen vierhundertsechzehntausend-zweihundertsiebenunddreißig 61/100 Euro) ist eingeteilt in auf den Inhaber lautende und untereinander gleichberechtigte Schuldverschreibungen (die „Schuldverschreibungen“). Handelbarer Nennbetrag ist Euro 0,01 und jedes Vielfache davon.

(2) Die Schuldverschreibungen samt Zinsansprüchen sind in einer Inhaber-Sammelschuldverschreibung (die „Globalurkunde“) verbrieft, die am Tag der Begebung bei der Deutsche Börse Clearing Aktiengesellschaft, Frankfurt am Main, („DBC“) hinterlegt wird. Effektive Schuldverschreibungen oder Zinsscheine werden nicht ausgegeben. Die Schuldverschreibungen sind als Miteigentumsanteile an der Globalurkunde übertragbar. Die Globalurkunde trägt die eigenhändige Unterschrift von zwei vertretungsberechtigten Personen der Emittentin und eines Kontrolleurs.

§ 2

Status

Die Schuldverschreibungen begründen nicht besicherte und nicht nachrangige Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig sind.

§ 3

Negativverpflichtung der Emittentin, Garantie und Negativverpflichtung der Garantin

(1) *Negativverpflichtung.* Die Emittentin verpflichtet sich, solange Schuldverschreibungen ausstehen, jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen der Hauptzahlstelle zur Verfügung gestellt worden sind, weder ihr gegenwärtiges noch ihr zukünftiges Vermögen ganz oder teilweise in irgendeiner Weise zur Besicherung einer gegenwärtigen oder zukünftigen Kapitalmarktverbindlichkeit, die von der Emittentin oder einer anderen Person eingegangen oder gewährleistet ist, zu belasten oder eine solche Belastung zu diesem Zweck bestehen zu lassen, ohne gleichzeitig die Gläubiger an derselben Sicherheit im gleichen Rang und gleichen Verhältnis teilnehmen zu lassen. „Kapitalmarktverbindlichkeit“ ist jede Verbindlichkeit zur Zahlung aufgenommener Gelder, die durch Schuldscheine verbrieft, verkörpert oder dokumentiert ist oder durch Schuldverschreibungen oder sonstige Wertpapiere, die an einer Börse oder an einem anderen anerkannten Wertpapiermarkt notiert oder gehandelt werden oder werden können. Um etwaige Zweifel bezüglich von *asset-backed financings* der Emittentin zu vermeiden, schließen die in diesem § 3 benutzten Worte „Vermögen“ und „Verbindlichkeiten zur Zahlung aufgenommener Gelder“ nicht solche Vermögensgegenstände und Verbindlichkeiten der Emittentin ein, die im Einklang mit den Gesetzen und den in den Niederlanden anerkannten Regeln der Bilanzierung und Buchführung nicht

Conditions of Issue

§ 1

Form and Denomination

(1) The Issue of Deutsche Telekom International Finance B.V., Amsterdam, The Netherlands, (the “Issuer”) in the aggregate principal amount of € 977,416,237.61 (euro nine hundred seventy-seven million four hundred sixteen thousand two hundred thirty seven and sixty-one cent) is divided into bonds payable to bearer, ranking *pari passu* with each other (the “Bonds”). Tradeable amounts will be 0.01 euro or any multiple thereof.

(2) The Bonds, including the right to demand payment of interest shall be represented by a Global Bearer Bond (the “Global Bond”) which has been deposited with Deutsche Börse Clearing Aktiengesellschaft, Frankfurt am Main, (“DBC”) on the issue date. No definitive Bonds or interest coupons will be issued. The Bonds are transferable as co-ownership participations in the Global Bond. The Global Bond bears the handwritten signatures of two authorised officers of the Issuer and of a control officer.

§ 2

Status

The Bonds constitute unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer.

§ 3

Negative Pledge of the Issuer, Guarantee and Negative Pledge of the Guarantor

(1) *Negative Pledge.* So long as any of the Bonds remains outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Principal Paying Agent, the Issuer undertakes not to grant or permit to subsist any encumbrance over any or all of its present or future assets, as security for any present or future Capital Market Indebtedness issued or guaranteed by the Issuer or by any other person, without at the same time having the Holders share equally and rateably in such security. “Capital Market Indebtedness” means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which are, or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognized securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by the Issuer, the expressions “assets” and “obligations for the payment of borrowed money” as used in this § 3 do not include assets and obligations of the Issuer which, pursuant to the requirements of law and accounting principles generally accepted in The Netherlands, need not, and are not, reflected in the Issuer’s balance sheet.

in der Bilanz der Emittentin ausgewiesen werden müssen und darin auch nicht ausgewiesen werden.

(2) *Garantie und Negativverpflichtung der Garantin.* Die Deutsche Telekom AG, Bonn, („Deutsche Telekom“ oder die „Garantin“) hat die unbedingte und unwiderrufliche Garantie (die „Garantie“) für die ordnungsgemäße und pünktliche Zahlung von Kapital und Zinsen und sonstiger auf die Schuldverschreibungen zahlbarer Beträge übernommen. Die Garantin hat sich außerdem in einer Negativverpflichtung (die „Negativverpflichtung“) verpflichtet, solange Schuldverschreibungen ausstehen, jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen der Hauptzahlstelle zur Verfügung gestellt worden sind, weder ihr gegenwärtiges noch ihr zukünftiges Vermögen ganz oder teilweise in irgendeiner Weise zur Besicherung einer gegenwärtigen oder zukünftigen Kapitalmarktverbindlichkeit (wie vorstehend definiert), die von der Garantin oder einer anderen Person eingegangen oder gewährleistet ist, zu belasten oder eine solche Belastung zu diesem Zweck bestehen zu lassen, ohne gleichzeitig die Gläubiger an derselben Sicherheit im gleichen Rang und gleichem Verhältnis teilnehmen zu lassen. Die Garantie und die Negativverpflichtung stellen einen Vertrag zugunsten jedes Gläubigers als begünstigtem Dritten gemäß § 328 BGB dar, welcher das Recht jedes Gläubigers begründet, Erfüllung aus der Garantie und der Negativverpflichtung unmittelbar von der Garantin zu verlangen und die Garantie und die Negativverpflichtung unmittelbar gegen die Garantin durchzusetzen. Um etwaige Zweifel bezüglich von asset-backed financings der Garantin zu vermeiden, schließen die in diesem § 3 benutzten Worte „Vermögen“ und „Verbindlichkeiten zur Zahlung aufgenommener Gelder“ nicht solche Vermögensgegenstände und Verbindlichkeiten der Garantin ein, die im Einklang mit den Gesetzen und den in Deutschland anerkannten Regeln der Bilanzierung und Buchführung nicht in der Bilanz der Garantin ausgewiesen werden müssen und darin auch nicht ausgewiesen werden. Kopien der Garantie und Negativverpflichtung werden bei den bezeichneten Geschäftsstellen der Zahlstellen zur kostenlosen Ausgabe bereit gehalten.

§ 4 Zinsen

(1) *Zinssatz und Zinszahlungstage.* Die Schuldverschreibungen werden in Höhe ihres Nennbetrages verzinst, und zwar vom 20. Mai 1998 (einschließlich) bis zum Fälligkeitstag (ausschließlich) mit jährlich 5¼%. Die Zinsen sind nachträglich am 20. Mai eines jeden Jahres zahlbar (jeweils ein „Zinszahlungstag“). Die erste Zinszahlung erfolgt am 20. Mai 1999.

(2) *Auflaufende Zinsen.* Falls die Emittentin die Schuldverschreibungen bei Fälligkeit nicht einlöst, endet die Verzinsung der Schuldverschreibungen nicht am Tag der Fälligkeit, sondern erst mit der tatsächlichen Rückzahlung der Schuldverschreibungen, spätestens jedoch mit Ablauf des vierzehnten Tages nach der Bekanntmachung durch die Hauptzahlstelle gemäß § 13, daß ihr die für die Rückzahlung der Schuldverschreibungen erforderlichen Mittel zur Verfügung gestellt worden sind.

(3) *Berechnung der Zinsen für gebrochene Zeiträume.* Zinsen, die auf einen Zeitraum von weniger als einem Jahr zu berechnen sind, werden auf Basis der tatsächlich verstrichenen Tage, geteilt durch die Anzahl der Tage (365 bzw. 366) im jeweiligen Zinsjahr, berechnet.

§ 5 Zahlungen

(1) *Zahlungen von Kapital.* Zahlungen von Kapital in bezug auf die durch eine Globalurkunde verbrieften Schuldver-

(2) *Guarantee and Negative Pledge of the Guarantor.* Deutsche Telekom AG, Bonn, (the “Guarantor”) has given its unconditional and irrevocable guarantee (the “Guarantee”) for the due and punctual payment of principal of, and interest on, and any other amounts payable under any Bonds. The Guarantor has further undertaken in a negative pledge (the “Negative Pledge”), so long as any of the Bonds remains outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Principal Paying Agent, not to grant or permit to subsist any encumbrance over any or all of its present or future assets, as security for any present or future Capital Market Indebtedness (as defined above) issued or guaranteed by the Guarantor or by any other person, without at the same time having the Holders share equally and rateably in such security. The Guarantee and Negative Pledge constitute a contract for the benefit of the Holders from time to time as third party beneficiaries in accordance with § 328 of the German Civil Code, giving rise to the right of each Holder to require performance of the Guarantee and the Negative Pledge directly from the Guarantor and to enforce the Guarantee and the Negative Pledge directly against the Guarantor. For the purposes of avoiding any doubt in respect of asset-backed financings originated by the Guarantor, the expressions “assets” and “obligations for the payment of borrowed money” as used in this § 3 do not include assets and obligations of the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in Germany, need not, and are not, reflected in the Guarantor’s balance sheet. Copies of the Guarantee and Negative Pledge may be obtained free of charge at the specified offices of each of the Paying Agents.

§ 4 Interest

(1) *Rate of Interest and Interest Payment Dates.* The Bonds bear interest on their principal amount at the rate of 5¼ per cent. per annum from (and including) May 20, 1998 to (but excluding) the Maturity Date. Interest shall be payable in arrears on May 20 in each year (each such date, an “Interest Payment Date”). The first payment of interest shall be made on May 20, 1999.

(2) *Accrual of Interest.* If the Issuer shall fail to redeem the Bonds when due, interest shall continue to accrue beyond the due date until the actual redemption of the Bonds, but not beyond the fourteenth day after notice has been given by the Principal Paying Agent in accordance with § 13 that the funds required for redemption have been provided to the Principal Paying Agent.

(3) *Calculation of Interest for Partial Periods.* If interest is required to be calculated for a period of less than a full year, such interest shall be calculated on the basis of the actual number of days (365 or 366) in the respective annual interest period.

§ 5 Payments

(1) *Payment of Principal.* Payment of principal in respect of the Bonds represented by a Global Bond shall be made to

schreibungen erfolgen an DBC oder deren Order zur Gutschrift auf die Konten der betreffenden DBC-Kontoinhaber gegen Vorlage und (Teilzahlungen ausgenommen) Einreichung der entsprechenden Schuldverschreibung bei der bezeichneten Geschäftsstelle einer der Zahlstellen außerhalb der Vereinigten Staaten.

(2) *Zahlung von Zinsen.* Die Zahlung von Zinsen auf die Schuldverschreibungen erfolgt an DBC oder deren Order zur Gutschrift auf die Konten der betreffenden DBC-Kontoinhaber, gegen Vorlage der Globalurkunde bei der bezeichneten Geschäftsstelle einer der Zahlstellen außerhalb der Vereinigten Staaten.

(3) *Erfüllung der Zahlungspflicht.* Die Emittentin bzw. die Garantin wird durch Leistung der Zahlung an DBC oder deren Order von ihrer Zahlungspflicht befreit.

(4) *Zahltag.* Fällt der Fälligkeitstag einer Zahlung in bezug auf die Schuldverschreibungen auf einen Tag, der kein Zahltag ist, dann hat der Gläubiger keinen Anspruch auf Zahlung vor dem nächsten Zahltag am jeweiligen Geschäftsort. Der Gläubiger ist nicht berechtigt, weitere Zinsen oder sonstige Zahlungen aufgrund dieser Verspätung zu verlangen.

Für diese Zwecke bezeichnet „Zahltag“ einen Tag, der sowohl (i) ein Tag (außer einem Samstag oder Sonntag) ist, an dem Geschäftsbanken und Devisenmärkte Zahlungen am jeweiligen Ort der Vorlage abwickeln, und (ii) ein Tag (außer einem Samstag oder Sonntag) ist, an dem Geschäftsbanken und Devisenmärkte Zahlungen in Frankfurt am Main abwickeln.

(5) *Bezugnahmen auf Zahlungen von Kapital und Zinsen.* Bezugnahmen in diesen Emissionsbedingungen auf Kapital der Schuldverschreibungen sollen, soweit anwendbar, die folgenden Beträge beinhalten: (i) den Rückzahlungsbetrag der Schuldverschreibungen; (ii) jeden Aufschlag sowie sonstige auf oder in bezug auf die Schuldverschreibungen zahlbare Beträge.

Bezugnahmen in diesen Emissionsbedingungen auf Zinszahlungen auf Schuldverschreibungen sollen, soweit anwendbar, sämtliche gemäß § 8 zahlbaren zusätzlichen Beträge einschließen.

(6) *Hinterlegung von Kapital und Zinsen.* Die Emittentin ist berechtigt, beim Amtsgericht Frankfurt am Main Zins- oder Kapitalbeträge zu hinterlegen, die von den Gläubigern nicht innerhalb von zwölf Monaten nach dem Fälligkeitstag beansprucht worden sind, auch wenn die Gläubiger sich nicht in Annahmeverzug befinden. Soweit eine solche Hinterlegung erfolgt, und auf das Recht der Rücknahme verzichtet wird, erlöschen die Ansprüche der Gläubiger gegen die Emittentin.

§ 6 Rückzahlung, Ankauf

(1) *Rückzahlung bei Endfälligkeit.* Soweit nicht zuvor bereits ganz oder teilweise zurückgezahlt oder angekauft und entwertet, werden die Schuldverschreibungen zu ihrem Rückzahlungsbetrag am 20. Mai 2008 zurückgezahlt. Der Rückzahlungsbetrag in bezug auf jede Schuldverschreibung entspricht dem Nennbetrag.

(2) *Ankauf.* Die Emittentin ist jederzeit berechtigt, Schuldverschreibungen im Markt oder anderweitig zu jedem beliebigen Preis zu kaufen. Die von der Emittentin erworbenen Schuldverschreibungen können nach ihrer Wahl von ihr gehalten, weiterverkauft oder bei einer Zahlstelle zwecks Entwertung eingereicht werden. Sofern diese Käufe durch öffentliches Angebot erfolgen, muß dieses Angebot allen Gläubigern gemacht werden.

DBC or to its order for credit to the accounts of the relevant account holders of DBC upon presentation and (except in the case of partial payment) surrender of the Global Bond at the specified office of any Paying Agent outside the United States.

(2) *Payment of Interest.* Payment of interest on Bonds represented by a Global Bond shall be made to DBC or to its order for credit to the relevant account holders of DBC against presentation of the Global Bond, at the specified office of any Paying Agent outside the United States.

(3) *Discharge.* The Issuer or, as the case may be, the Guarantor, shall be discharged by payment to, or to the order of, DBC.

(4) *Payment Business Day.* If the date for payment of any amount in respect of any Bonds is not a Payment Business Day then the Holder shall not be entitled to payment until the next such day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "Payment Business Day" means any day which is both (i) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the relevant place of presentation, and (ii) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in Frankfurt am Main.

(5) *References to Principal and Interest.* Reference in these Conditions of Issue to principal in respect of the Bonds shall be deemed to include, as applicable: (i) the Final Redemption Amount of the Bonds; (ii) any premium and any other amounts which may be payable under or in respect of the Bonds.

Reference in these Conditions of Issue to interest in respect of the Bonds shall be deemed to include, as applicable, any Additional Amounts which may be payable under § 8.

(6) *Deposit of Principal and Interest.* The Issuer may deposit with the Amtsgericht in Frankfurt am Main principal or interest not claimed by Holders within twelve months after the Maturity Date, even though such Holders may not be in default of acceptance. If and to the extent that the deposit is effected and the right of withdrawal is waived, the respective claims of such Holders against the Issuer shall cease.

§ 6 Redemption, Purchases

(1) *Redemption at Maturity.* Unless previously redeemed in whole or in part or purchased and cancelled, the Bonds shall be redeemed at their Final Redemption Amount on May 20, 2008. The Final Redemption Amount in respect of each Bond shall be the principal amount.

(2) *Purchases.* The Issuer may at any time purchase Bonds in the open market or otherwise and at any price. Bonds purchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to any Paying Agent for cancellation. If purchases are made by tender, tenders for such Bonds must be made available to all Holders alike.

(3) *Vorzeitige Rückzahlung aus Steuergründen.* Die Schuldverschreibungen können insgesamt, jedoch nicht teilweise, nach Wahl der Emittentin mit einer Kündigungsfrist von nicht weniger als 30 und nicht mehr als 60 Tagen gegenüber der Hauptzahlstelle und gemäß § 13 gegenüber den Gläubigern vorzeitig gekündigt und zu ihrem vorzeitigen Rückzahlungsbetrag (wie nachstehend definiert) zuzüglich bis zum für die Rückzahlung festgesetzten Tag aufgelaufener Zinsen zurückgezahlt werden, falls die Emittentin oder die Garantin, die aus von ihr nicht zu verantwortenden Gründen die Leistung der Zahlung durch die Emittentin nicht bewirken kann, als Folge einer Änderung oder Ergänzung der Steuer- oder Abgabengesetze und -vorschriften der Niederlande oder der Bundesrepublik Deutschland oder deren politischen Untergliederungen oder Steuerbehörden oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt diese Änderung oder Ergänzung wird am oder nach dem 20. Mai 1998 wirksam) zur Zahlung von zusätzlichen Beträgen (wie in § 8 dieser Bedingungen bzw. in der Garantie definiert) verpflichtet sein wird und diese Verpflichtung nicht durch das Ergreifen der Emittentin oder der Garantin zur Verfügung stehender und ihr zumutbarer Maßnahmen vermieden werden kann.

Eine solche Kündigung darf allerdings nicht (i) früher als 90 Tage vor dem frühestmöglichen Termin erfolgen, an dem die Emittentin oder die Garantin verpflichtet wäre, solche zusätzlichen Beträge zu zahlen, und (ii) zu dem Zeitpunkt, zu dem die Kündigung erfolgt, muß die Verpflichtung zur Zahlung von zusätzlichen Beträgen noch wirksam sein.

Vor der Veröffentlichung einer Kündigung gemäß dieser Bestimmung muß die Emittentin der Hauptzahlstelle eine Bescheinigung vorlegen, die von einem Vorstandsmitglied der Garantin unterschrieben ist und welche darlegt, daß die Voraussetzungen dieses Kündigungsrechts vorliegen und außerdem eine Stellungnahme eines unabhängigen und anerkannten Rechtsberaters enthält, in der festgestellt wird, daß die Emittentin oder die Garantin verpflichtet ist oder sein wird, solche zusätzlichen Beträge aufgrund einer solchen Rechts- oder Auslegungsänderung zu zahlen.

Eine solche Kündigung hat gemäß § 13 zu erfolgen. Sie ist unwiderruflich, muß den für die Rückzahlung festgelegten Termin nennen und eine zusammenfassende Erklärung enthalten, welche die Umstände darlegt, die das Rückzahlungsrecht der Emittentin begründen.

(4) *Vorzeitiger Rückzahlungsbetrag.* Für die Zwecke des § 6 Absatz 1 und 3 und § 10 entspricht der vorzeitige Rückzahlungsbetrag einer Schuldverschreibung ihrem Rückzahlungsbetrag.

§ 7 Zahlstellen

(1) *Ernennung; bezeichnete Geschäftsstellen.* Die anfänglich bestellte Hauptzahlstelle und die anfänglich bestellten Zahlstellen (zusammen die „Zahlstellen“) und deren bezeichnete Geschäftsstellen lauten wie folgt:

Hauptzahlstelle: Citibank, N.A.
5, Carmelite Street
London EC4Y 0PA
England

Zahlstellen: Citibank AG
Neue Mainzer Strasse 75
D-60311 Frankfurt am Main

(3) *Early Redemption for Reasons of Taxation.* If as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Federal Republic of Germany or any political subdivision or taxing authority thereof or therein affecting taxation or the obligation to pay duties of any kind, or any change in, or amendment to, an official interpretation or application of such laws or regulations, which amendment or change is effective on or after May 20, 1998, the Issuer or the Guarantor being unable for reasons outside its control to procure payment by the Issuer, will become obligated to pay Additional Amounts (as defined in § 8 herein and in the Guarantee, respectively) and this obligation cannot be avoided by the use of measures reasonably available to the Issuer or the Guarantor, the Bonds may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Principal Paying Agent and, in accordance with § 13 to the Holders, at their Early Redemption Amount (as defined below), together with interest accrued to the date fixed for redemption.

No such notice of redemption may be given (i) earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obligated to pay such Additional Amounts, or (ii) if at the time such notice is given, such obligation to pay such Additional Amounts does not remain in effect.

Prior to the publication of any notice of redemption pursuant to this subparagraph (3), the Issuer shall deliver to the Principal Paying Agent a certificate signed by a director of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

Any such notice of redemption shall be given in accordance with § 13. It shall be irrevocable, must specify the date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer so to redeem.

(4) *Early Redemption Amount.* For purposes of subparagraphs (1) and (3) of this § 6 and § 10, the Early Redemption Amount of a Bond shall be its Final Redemption Amount.

§ 7 Paying Agents

(1) *Appointment; Specified Offices.* The initial Principal Paying Agent and paying agents (together the "Paying Agents") and their respective initial specified offices are:

Principal Paying Agent: Citibank, N.A.
5, Carmelite Street
London EC4Y 0PA
England

Other Paying Agents: Citibank AG
Neue Mainzer Strasse 75
D-60311 Frankfurt am Main

Banque Générale du
Luxembourg S.A.
50, avenue J. F. Kennedy
L-2951 Luxembourg
Luxemburg

Banque Générale du
Luxembourg S.A.
50, avenue J. F. Kennedy
L-2951 Luxembourg
Luxemburg

Die Zahlstellen behalten sich das Recht vor, jederzeit ihre jeweiligen bezeichneten Geschäftsstellen durch andere bezeichnete Geschäftsstellen in derselben Stadt zu ersetzen.

The Paying Agents reserve the right at any time to change their respective specified offices to some other specified office in the same city.

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung einer Zahlstelle zu ändern oder zu beenden oder zusätzliche oder andere Zahlstellen zu bestellen. Die Emittentin wird jedoch zu jedem Zeitpunkt (i) eine Hauptzahlstelle unterhalten und (ii) zusätzlich zu der Hauptzahlstelle eine Zahlstelle mit einer bezeichneten Geschäftsstelle in einer kontinentaleuropäischen Stadt außerhalb der Bundesrepublik Deutschland und (iii) solange die Schuldverschreibungen an der Frankfurter Wertpapierbörse und an der Luxemburger Börse notiert sind, eine Zahlstelle (die die Hauptzahlstelle sein kann) mit bezeichneter Geschäftsstelle in Frankfurt am Main und in Luxemburg und/oder an einem anderen gemäß den Vorschriften dieser Börsen hierfür vorgeschriebenen Ort ernannt halten. Eine Änderung, Abberufung, Bestellung oder ein sonstiger Wechsel wird (außer im Insolvenzfall, wo eine solche Änderung sofort wirksam wird) nur wirksam, sofern die Gläubiger hierüber gemäß § 13 vorab unter Einhaltung einer Frist von mindestens 30 und höchstens 45 Tagen informiert wurden.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent or any Paying Agent and to appoint another Principal Paying Agent or additional or other Paying Agents. The Issuer shall at all times maintain (i) a Principal Paying Agent and (ii) a Paying Agent in addition to the Principal Paying Agent with a specified office in a continental European city and outside Germany and (iii) so long as the Bonds are listed on the Frankfurt and Luxembourg Stock Exchanges, a Paying Agent (which may be the Principal Paying Agent) with a specified office in Frankfurt am Main and Luxembourg and/or in such other place as may be required by the rules of such stock exchanges. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with § 13.

(3) *Beauftragte der Emittentin.* Die Zahlstellen handeln ausschließlich als Beauftragte der Emittentin und es besteht kein Auftrags- oder Treuhandverhältnis zwischen ihnen und den Gläubigern.

(3) *Agents of the Issuer.* The Paying Agents act solely as agents of the Issuer and do not have any relationship of agency or trust to any Holder.

§ 8 Steuern

Sämtliche auf die Schuldverschreibungen zahlbaren Beträge an Kapital oder Zinsen sind ohne Einbehalt oder Abzug von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in den Niederlanden oder von oder in der Bundesrepublik Deutschland auferlegt oder erhoben werden, es sei denn, dieser Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In diesem Fall wird die Emittentin diejenigen zusätzlichen Beträge (die „zusätzlichen Beträge“) zahlen, die erforderlich sind, damit die den Gläubigern zufließenden Nettobeträge nach diesem Einbehalt oder Abzug jeweils den Beträgen an Kapital und Zinsen entsprechen, die ohne einen solchen Abzug oder Einbehalt zahlbar wären. Die Verpflichtung zur Zahlung solcher zusätzlichen Beträge besteht jedoch nicht im Hinblick auf Steuern und Abgaben, die:

- (a) auf andere Weise als durch Abzug oder Einbehalt von Zahlungen von Kapital oder Zinsen zu entrichten sind; oder
- (b) wegen gegenwärtiger oder früherer persönlicher oder geschäftlicher Beziehungen des Gläubigers zu den Niederlanden oder zur Bundesrepublik Deutschland zu zahlen sind, die über die bloße Inhaberschaft hinsichtlich der Schuldverschreibungen hinausgehen; oder
- (c) aufgrund einer Rechtsänderung zahlbar sind, die später als 30 Tage nach Fälligkeit der betreffenden Zahlung von Kapital oder Zinsen oder, wenn dies später erfolgt, ordnungsgemäßer Bereitstellung aller fälligen Beträge und einer diesbezüglichen Bekanntmachung gemäß § 13 wirksam wird.

§ 8 Taxation

All payments of principal and interest in respect of the Bonds shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or in The Netherlands or the Federal Republic of Germany unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts (the "Additional Amounts") as shall be necessary in order that the net amounts received by the Holders, after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in the absence of such withholding or deduction. No such Additional Amounts shall be payable on account of any taxes or duties which:

- (a) are payable otherwise than by deduction or withholding from payments of principal or interest, or
- (b) are payable by reason of the Holder having, or having had, some personal or business connection with The Netherlands or the Federal Republic of Germany other than the mere holding of such Bonds, or
- (c) are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment of principal or interest becomes due, or is duly provided for and notice thereof is published in accordance with § 13, whichever occurs later.

§ 9
Vorlegungsfrist

Die in § 801 Absatz 1 Satz 1 BGB bestimmte Vorlegungsfrist wird für die Schuldverschreibungen auf zehn Jahre abgekürzt.

§ 10
Kündigung

(1) *Kündigungsrecht.* Jeder Gläubiger ist berechtigt, seine Schuldverschreibungen zu kündigen und deren sofortige Tilgung zu ihrem vorzeitigen Rückzahlungsbetrag (wie in § 6 Absatz 4 beschrieben), zuzüglich etwaiger bis zum Tage der Rückzahlung aufgelaufener Zinsen zu verlangen, falls einer der folgenden Kündigungsgründe („Kündigungsgründe“) vorliegt:

- (a) die Emittentin zahlt Kapital oder Zinsen nicht innerhalb von 30 Tagen nach dem betreffenden Fälligkeitstag; oder
- (b) die Emittentin unterläßt die ordnungsgemäße Erfüllung irgendeiner anderen Verpflichtung aus den Schuldverschreibungen oder die Garantin unterläßt die Erfüllung einer Verpflichtung aus der Garantie, auf die in § 3 Bezug genommen wird, und diese Unterlassung, falls sie geheilt werden kann, länger als 60 Tage fort dauert, nachdem die Hauptzahlstelle hierüber eine Benachrichtigung von einem Gläubiger erhalten hat; oder
- (c) eine Kapitalmarktverbindlichkeit (wie in § 3 Absatz 1 definiert) der Emittentin oder der Garantin vorzeitig zahlbar wird aufgrund einer Nicht- oder Schlechterfüllung des dieser Kapitalmarktverbindlichkeit zugrundeliegenden Vertrages, oder die Emittentin oder die Garantin einer Zahlungsverpflichtung in Höhe oder im Gegenwert von mehr als € 25.000.000 aus einer Kapitalmarktverbindlichkeit oder aufgrund einer Bürgschaft oder Garantie, die für eine Kapitalmarktverbindlichkeit Dritter gegeben wurde, nicht innerhalb von 30 Tagen nach ihrer Fälligkeit bzw. im Falle einer Bürgschaft oder Garantie nicht innerhalb von 30 Tagen nach Inanspruchnahme aus dieser Bürgschaft oder Garantie nachkommt, es sei denn, die Emittentin oder die Garantin bestreitet in gutem Glauben, daß diese Zahlungsverpflichtung besteht oder fällig ist bzw. diese Bürgschaft oder Garantie berechtigterweise geltend gemacht wird, oder falls eine für solche Verbindlichkeiten bestellte Sicherheit für die oder von den daraus berechtigten Gläubiger(n) in Anspruch genommen wird, oder
- (d) die Emittentin oder die Garantin ihre Zahlungsfähigkeit bekanntgibt oder ihre Zahlungen einstellt, oder
- (e) ein Gericht ein Konkurs- oder sonstiges Insolvenzverfahren gegen die Emittentin oder die Garantin eröffnet, oder die Emittentin oder die Garantin ein solches Verfahren einleitet oder beantragt, oder eine allgemeine Schuldenregelung zugunsten ihrer Gläubiger anbietet oder trifft, oder die Emittentin ein „surséance van betaling“ (Schuldenmoratorium im Sinne des niederländischen Insolvenzrechts) beantragt, oder
- (f) die Emittentin oder die Garantin in Liquidation tritt, es sei denn, dies geschieht im Zusammenhang mit einer Verschmelzung oder einer anderen Form des Zusammenschlusses mit einer anderen Gesellschaft und diese Gesellschaft übernimmt alle Verpflichtungen, die die Emittentin oder die Garantin im Zusammenhang mit diesen Schuldverschreibungen eingegangen ist, oder
- (g) in den Niederlanden oder in der Bundesrepublik Deutschland irgendein Gesetz, eine Verordnung oder

§ 9
Presentation Period

The presentation period provided in § 801 paragraph 1, sentence 1 BGB (German Civil Code) is reduced to ten years for the Bonds.

§ 10
Acceleration

(1) *Right of Acceleration.* Each Holder shall be entitled to declare his Bonds due and demand immediate redemption thereof at the Early Redemption Amount (as described in § 6 (4)), together with accrued interest (if any) to the date of repayment, in the event that any of the following events (each, an “Acceleration Event”) occurs:

- (a) the Issuer fails to pay principal or interest within 30 days from the relevant due date, or
- (b) the Issuer fails duly to perform any other obligation arising from the Bonds or the Guarantor fails to perform any obligation arising from the Guarantee referred to in § 3 which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 60 days after the Principal Paying Agent has received notice thereof from a Holder, or
- (c) any Capital Market Indebtedness (as defined in § 3 (1)) of the Issuer or the Guarantor becomes prematurely repayable as a result of a default in respect of the terms thereof, or the Issuer or the Guarantor fails to fulfil any payment obligation in excess of € 25,000,000 or the equivalent thereof under any Capital Market Indebtedness or under any guarantee or suretyship given for any Capital Market Indebtedness of others within 30 days from its due date or, in the case of a guarantee or suretyship, within 30 days after the guarantee or suretyship has been invoked, unless the Issuer or the Guarantor shall contest in good faith that such payment obligation exists or is due or that such guarantee or suretyship has been validly invoked, or if a security granted therefor is enforced on behalf of or by the creditor(s) entitled thereto, or
- (d) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments, or
- (e) a court opens bankruptcy or other insolvency proceedings against the Issuer or the Guarantor, or the Issuer or the Guarantor applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or the Issuer applies for a “surséance van betaling” (within the meaning of the Statute of Bankruptcy of The Netherlands), or
- (f) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer or the Guarantor, as the case may be, in connection with this Issue, or
- (g) any governmental order, decree or enactment shall be made in or by The Netherlands or the Federal Republic

behördliche Anordnung erlassen wird oder ergeht, aufgrund derer die Emittentin oder die Garantin daran gehindert wird, die von ihr gemäß diesen Emissionsbedingungen bzw. der Garantie übernommenen Verpflichtungen in vollem Umfang zu beachten und zu erfüllen und diese Lage nicht binnen 90 Tagen beheben ist, oder

(h) die Garantie aus irgendeinem Grund nicht mehr gilt.

Das Kündigungsrecht erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

(2) In den Fällen des § 10 Absatz 1 (b) oder 1 (c) wird eine Kündigung, sofern nicht bei deren Eingang zugleich einer der in § 10 Absatz 1 (a), 1 (d), 1 (e), 1 (f), 1 (g) oder 1 (h) bezeichneten Kündigungsgründe vorliegt, erst wirksam, wenn bei der Hauptzahlstelle Kündigungserklärungen von Gläubigern von Schuldverschreibungen im Nennbetrag von mindestens 1/10 der dann ausstehenden Schuldverschreibungen eingegangen sind.

(3) *Form der Erklärung.* Eine Benachrichtigung, einschließlich einer Kündigung der Schuldverschreibungen gemäß vorstehendem Absatz 1 ist schriftlich gegenüber der Hauptzahlstelle zu erklären und persönlich oder per Einschreiben an dessen bezeichnete Geschäftsstelle zu übermitteln.

§ 11

Ersetzung der Emittentin

(1) *Ersetzung.* Die Emittentin ist jederzeit berechtigt, sofern sie sich nicht mit einer Zahlung von Kapital oder Zinsen auf die Schuldverschreibungen in Verzug befindet, ohne Zustimmung der Gläubiger, entweder die Garantin oder eine Tochtergesellschaft (wie nachstehend definiert) der Garantin an ihrer Stelle als Hauptschuldnerin (die „Nachfolgeschuldnerin“) für alle Verpflichtungen aus und im Zusammenhang mit dieser Emission einzusetzen, vorausgesetzt, daß:

- (a) die Nachfolgeschuldnerin alle Verpflichtungen der Emittentin in bezug auf die Schuldverschreibungen übernimmt;
- (b) die Nachfolgeschuldnerin alle erforderlichen Genehmigungen erhalten hat und berechtigt ist, an die Hauptzahlstelle die zur Erfüllung ihrer Zahlungsverpflichtungen aus den Schuldverschreibungen zahlbaren Beträge in Deutscher Mark zu zahlen, ohne verpflichtet zu sein, in dem Land, in dem die Nachfolgeschuldnerin ihren Sitz oder Steuersitz hat, erhobene Steuern oder sonstige Abgaben jeder Art, abzuziehen oder einzubehalten;
- (c) die Garantin, sofern sie nicht selbst die Nachfolgeschuldnerin ist, unwiderruflich und unbedingt gegenüber den Gläubigern die Zahlung aller von der Nachfolgeschuldnerin auf die Schuldverschreibungen zahlbaren Beträge garantiert, wobei diese Garantie im wesentlichen die Form der „Garantie“ hat und diese Garantie eine Verpflichtung der Garantin gemäß den Bestimmungen des § 3 enthält;
- (d) der Hauptzahlstelle ein oder mehrere Rechtsgutachten von anerkannten Rechtsanwälten vorgelegt wurden, die bestätigen, daß die Bestimmungen in vorstehenden Unterabsätzen (a), (b) und (c) erfüllt wurden.

Im Sinne dieser Emissionsbedingungen bedeutet „Tochtergesellschaft“ eine Kapital- oder Personengesellschaft, an der die Garantin direkt oder indirekt insgesamt nicht

of Germany whereby the Issuer or the Guarantor is prevented from observing and performing in full its obligations as set forth in these Conditions of Issue and in the Guarantee, respectively, and this situation is not cured within 90 days, or

(h) the Guarantee ceases to be valid and legally binding for any reason whatsoever.

The right to declare Bonds due shall terminate if the situation giving rise to it has been cured before the right is exercised.

(2) In the events specified in § 10 subparagraph (1) (b) or subparagraph (1) (c), any notice declaring Bonds due shall, unless at the time such notice is received any of the events specified in § 10 subparagraph (1) (a), (1) (d), (1) (e), (1) (f) or (1) (g) or (1) (h) entitling Holders to declare their Bonds due has occurred, become effective only when the Principal Paying Agent has received such notices from the Holders of at least one-tenth in principal amount of Bonds then outstanding.

(3) *Form of Notice.* Any notice, including any notice declaring Bonds due, in accordance with subparagraph (1) shall be made by means of a written declaration delivered by hand or registered mail to the specified office of the Principal Paying Agent.

§ 11

Substitution

(1) *Substitution.* The Issuer may, without the consent of the Holders, if no payment of principal or interest on any of the Bonds is in default, at any time substitute for the Issuer either the Guarantor or any Subsidiary (as defined below) of the Guarantor as principal debtor in respect of all obligations arising from or in connection with this Issue (the “Substituted Debtor”) provided that:

- (a) the Substituted Debtor assumes all obligations of the Issuer in respect of the Bonds;
- (b) the Substituted Debtor has obtained all necessary authorisations and may transfer to the Principal Paying Agent in Deutsche Mark and without being obligated to deduct or withhold any taxes or other duties of whatever nature levied by the country in which the Substituted Debtor has its domicile or tax residence, all amounts required for the fulfillment of the payment obligations arising under the Bonds;
- (c) the Guarantor if it is not itself the Substituted Debtor irrevocably and unconditionally guarantees in favour of each Holder the payment of all sums payable by the Substituted Debtor in respect of the Bonds, such guarantee being substantially in the form of the Guarantee and such guarantee contains a covenant by the Guarantor corresponding to the provisions in § 3.
- (d) there shall have been delivered to the Principal Paying Agent an opinion or opinions of lawyers of recognised standing to the effect that paragraphs (a), (b) and (c) above have been satisfied.

For purposes of these Conditions of Issue “Subsidiary” shall mean any corporation or partnership in which the Guarantor directly or indirectly in the aggregate holds not

weniger als 90% des Kapitals jeder Klasse oder der Stimmrechte hält.

(2) Jede solche Ersetzung wird gemäß § 13 bekanntgegeben.

(3) Im Falle einer solchen Ersetzung gilt jede Bezugnahme in diesen Emissionsbedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgeschuldnerin, und jede Bezugnahme auf das Land, in dem die Emittentin ihren Sitz oder Steuersitz hat, ab diesem Zeitpunkt als Bezugnahme auf das Land, in dem die Nachfolgeschuldnerin ihren Sitz oder Steuersitz hat.

§ 12

Begebung weiterer Schuldverschreibungen

Die Emittentin behält sich vor, jederzeit ohne Zustimmung der Gläubiger weitere Schuldverschreibungen mit gleicher Ausstattung (gegebenenfalls mit Ausnahme des Ausgabetermins, des Verzinsungsbeginns und/oder des Ausgabepreises) in der Weise zu begeben, daß sie mit diesen Schuldverschreibungen eine einheitliche Serie bilden.

§ 13

Mitteilungen

Bekanntmachung. Alle die Schuldverschreibungen betreffenden Mitteilungen sind in je einer führenden Tageszeitung mit allgemeiner Verbreitung in Deutschland und Luxemburg, voraussichtlich der Börsen-Zeitung und dem Luxemburger Wort zu veröffentlichen. Jede derartige Mitteilung gilt mit dem Tag der Veröffentlichung (oder bei mehreren Veröffentlichungen mit dem Tag, der ersten solchen Veröffentlichung) als wirksam erfolgt.

§ 14

Anwendbares Recht, Erfüllungsort, Gerichtsstand und gerichtliche Geltendmachung

(1) *Anwendbares Recht.* Form und Inhalt der Schuldverschreibungen sowie die Rechte und Pflichten der Gläubiger und der Emittentin bestimmen sich in jeder Hinsicht nach deutschem Recht.

(2) *Erfüllungsort.* Erfüllungsort ist Frankfurt am Main.

(3) *Gerichtsstand.* Gerichtsstand für alle Rechtsstreitigkeiten aus oder im Zusammenhang mit den Schuldverschreibungen ist Frankfurt am Main. Die Gläubiger können ihre Ansprüche jedoch auch vor anderen zuständigen Gerichten geltend machen. Die deutschen Gerichte sind ausschließlich zuständig für die Kraftloserklärung abhandlungsfähiger oder vernichteter Schuldverschreibungen. Die Emittentin unterwirft sich hiermit der Gerichtsbarkeit der nach diesem Absatz zuständigen Gerichte.

(4) *Ernennung von Zustellungsbevollmächtigten.* Für etwaige Rechtsstreitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die Deutsche Telekom AG, Bonn, zu ihrem Zustellungsbevollmächtigten in Deutschland.

(5) *Gerichtliche Geltendmachung.* Jeder Gläubiger von Schuldverschreibungen, darf in jedem Rechtsstreit gegen die Emittentin oder in jedem Rechtsstreit, in dem der Gläubiger und die Emittentin Partei sind, seine Rechte aus diesen Schuldverschreibungen im eigenen Namen auf der folgenden Grundlage geltend machen: Er bringt eine Bescheinigung der Depotbank bei, bei der er für die Schuldverschreibungen ein Wertpapierdepot unterhält, welche (a) den vollständigen Namen und die vollständige Adresse des Gläubigers enthält, (b) den Gesamtnennbetrag der Schuldverschreibungen bezeichnet, die unter dem Datum der Bestätigung auf dem Wertpapierdepot verbucht

less than 90% of the capital of any class or of the voting rights.

(2) Any notice of such substitution shall be published in accordance with § 13.

(3) In the event of such substitution, any reference in these Conditions of Issue to the Issuer shall from then on be deemed to refer to the Substituted Debtor and any reference to the country in which the Issuer is domiciled or resident for taxation purposes shall from then on be deemed to refer to the country of domicile or residence for taxation purposes of the Substituted Debtor.

§ 12

Further Issues

The Issuer may from time to time, without the consent of the Holders, issue further Bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, interest commencement date and/or issue price) so as to form a single series with the Bonds.

§ 13

Notices

Publication. All notices concerning the Bonds shall be published in a leading daily newspaper having general circulation in Germany and Luxembourg, which is expected to be the Börsen-Zeitung and the Luxemburger Wort. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of the first such publication).

§ 14

Applicable Law, Place of Performance, Place of Jurisdiction and Enforcement

(1) *Applicable Law.* The Bonds as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by German law.

(2) *Place of Performance.* Place of performance shall be Frankfurt am Main.

(3) *Submission to Jurisdiction.* The place of jurisdiction for all legal proceedings arising out of or in connection with the Bonds shall be Frankfurt am Main. Each Holder, however, may pursue his claims also before any other court of competent jurisdiction. The German courts shall have exclusive jurisdiction over the annulment of lost or destroyed Bonds. The Issuer hereby submits to the jurisdiction of the courts referred to in this subparagraph.

(4) *Appointment of Authorized Agent.* For any legal disputes or other proceedings before German courts, the Issuer appoints Deutsche Telekom AG, Bonn, as its authorized agent for service of process in Germany.

(5) *Enforcement.* Any Holder of Bonds may in any proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in his own name his rights arising under such Bonds on the basis of a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Bonds (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of Bonds credited to such securities account on the date of such statement, and (c) confirming that the Custodian has given written notice to DBC containing the information pursuant to (a) and (b). For purposes of the foregoing,

sind und (c) bestätigt, daß die Depotbank gegenüber DBC eine schriftliche Erklärung abgegeben hat, die die vorstehend unter (a) und (b) bezeichneten Informationen enthält. Im Vorstehenden bezeichnet „Depotbank“ jede Bank oder ein sonstiges anerkanntes Kreditinstitut, das berechtigt ist, das Wertpapierverwahrgeschäft zu betreiben und bei dem der Gläubiger ein Wertpapierdepot für die Schuldverschreibungen unterhält, einschließlich DBC.

**§ 15
Sprache**

Diese Emissionsbedingungen sind in deutscher Sprache abgefaßt und mit einer Übersetzung in die englische Sprache versehen. Der deutsche Text ist bindend und maßgeblich. Die englische Übersetzung ist unverbindlich.

“Custodian” means any bank or other financial institution of recognized standing authorized to engage in securities custody business with which the Holder maintains a securities account in respect of the Bonds and includes the DBC.

**§ 15
Language**

The Conditions of Issue are written in the German language and provided with an English language translation. The German text shall be controlling and binding. The English language translation is provided for convenience only.

Non-binding translation of the Guarantee and the Negative Pledge:

Garantie	Guarantee
und	and
Negativverpflichtung	Negative Pledge
der	of
DEUTSCHE TELEKOM AG Bonn, Bundesrepublik Deutschland, (die „Garantin“),	DEUTSCHE TELEKOM AG Bonn, Federal Republic of Germany, (the “Guarantor”)
zugunsten der Gläubiger von Schuldverschreibungen (die „Schuldverschreibungen“), der € 977.416.237,61 5¼% Anleihe von 1998/2008 (die „Anleihe“)	for the benefit of the Holders of Bonds (the “Bonds”) of the € 977,416,237.61 5¼% Bonds of 1998/2008 (the “Issue”)
der	issued by
DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (einer mit beschränkter Haftung in den Niederlanden errichteten Gesellschaft) (die „Emittentin“)	DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (incorporated with limited liability in The Netherlands) (the “Issuer”)
(1) (a) Die Garantin übernimmt gegenüber jedem Gläubiger („Gläubiger“) der Schuldverschreibungen die unbedingte und unwiderrufliche Garantie für die ordnungsgemäße und pünktliche Zahlung von Kapital und Zinsen auf die Schuldverschreibungen sowie von allen sonstigen Beträgen, die gemäß den Emissionsbedingungen auf Schuldverschreibungen zahlbar sind, bei deren Fälligkeit gemäß den Emissionsbedingungen.	(1) (a) The Guarantor unconditionally and irrevocably guarantees to the holder of each Bond (each a “Holder”), the due and punctual payment of the principal of, and interest on, the Bonds and any other amounts which may be expressed to be payable under any Bond, in accordance with the Conditions of Issue, as and when the same shall become due in accordance with the Conditions of Issue.
(b) Diese Garantie begründet eine unbedingte, unbesicherte und nicht nachrangige Verbindlichkeit der Garantin, die mit allen anderen jeweils bestehenden, nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig ist.	(b) This Guarantee constitutes an unconditional, unsecured and unsubordinated obligation of the Guarantor and ranks pari passu with all other unsecured and unsubordinated obligations of the Guarantor from time to time outstanding.
(c) Sämtliche Zahlungen aufgrund dieser Garantie sind ohne Einbehalt oder Abzug von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in der Bundesrepublik Deutschland auferlegt oder erhoben werden, es sei denn, der Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In diesem Fall hat die Ga-	(c) All payments under this Guarantee shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or in the Federal Republic of Germany, unless such withholding or deduction is required by law. In such event, the Guarantor shall pay such additional amounts as shall be necessary

rantin diejenigen zusätzlichen Beträge zu zahlen, die erforderlich sind, damit die den Gläubigern aufgrund dieser Garantie zufließenden Nettobeträge nach diesem Einbehalt oder Abzug jeweils den Beträgen an Kapital und Zinsen entsprechen, die ohne einen solchen Abzug oder Einbehalt zahlbar wären. Die Verpflichtung zur Zahlung solcher zusätzlichen Beträge besteht jedoch nicht für solche Steuern und Abgaben, die:

- (i) auf andere Weise als durch Abzug oder Einbehalt von Zahlungen von Kapital oder Zinsen zu entrichten sind; oder
- (ii) wegen gegenwärtiger oder früherer persönlicher oder geschäftlicher Beziehungen des Gläubigers zur Bundesrepublik Deutschland zu zahlen sind, die über die bloße Inhaberschaft der Schuldverschreibungen hinausgehen; oder
- (iii) aufgrund einer Rechtsänderung zahlbar sind, die später als 30 Tage nach Fälligkeit der betreffenden Zahlung von Kapital oder Zinsen oder, wenn dies später erfolgt, ordnungsgemäßer Bereitstellung aller fälligen Beträge und einer diesbezüglichen Bekanntmachung gemäß § 13 der Emissionsbedingungen wirksam wird.

(d) Die Verpflichtungen der Garantin aus dieser Garantie (i) sind selbständig und unabhängig von den Verpflichtungen der Emittentin aus den Schuldverschreibungen, (ii) bestehen unabhängig von der Rechtmäßigkeit, Gültigkeit, Verbindlichkeit und Durchsetzbarkeit der Schuldverschreibungen und (iii) werden nicht durch Ereignisse, Bedingungen oder Umstände tatsächlicher oder rechtlicher Art berührt, außer durch die vollständige, endgültige und unwiderrufliche Erfüllung sämtlicher in den Schuldverschreibungen eingegangenen Zahlungsverpflichtungen.

(e) Die Verpflichtungen der Garantin aus dieser Garantie erstrecken sich, ohne daß eine weitere Handlung vorgenommen wird oder ein weiterer Umstand eintreten muß, auf die Verpflichtungen einer nicht mit der Garantin identischen Nachfolgeschuldnerin, die infolge einer Schuldnerersetzung gemäß den Emissionsbedin-

in order that the net amounts received by the Holders pursuant to this Guarantee, after such withholding or deduction, shall equal the respective amounts of principal and interest which would otherwise have been receivable in the absence of such withholding or deduction. No such additional amounts shall be payable on account of any taxes or duties which:

- (i) are payable otherwise than by deduction or withholding from payments of principal or interest, or
- (ii) are payable by reason of the Holder having, or having had, some personal or business connection with the Federal Republic of Germany other than the mere holding of such Bonds, or
- (iii) are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment of principal or interest becomes due, or is duly provided for and notice thereof is published in accordance with § 13 of the Conditions of Issue, whichever occurs later.

(d) The obligations of the Guarantor under this Guarantee (i) shall be separate and independent from the obligations of the Issuer under the Bonds, (ii) shall exist irrespective of the legality, validity and binding effect or enforceability of the Bonds, and (iii) shall not be affected by any event, condition or circumstance of whatever nature, whether factual or legal, save the full, definitive and irrevocable satisfaction of any and all payment obligations expressed to be assumed under the Bonds.

(e) The obligations of the Guarantor under this Guarantee shall, without any further act or thing being required to be done or to occur, extend to the obligations of any Substituted Debtor which is not the Guarantor arising in respect of any Bond by virtue of a substitution pursuant to the Conditions of Issue.

gungen in bezug auf die Schuldverschreibungen entstehen.

- (2) Die Garantin verpflichtet sich gegenüber jedem Gläubiger, solange Schuldverschreibungen ausstehen, jedoch nur bis zu dem Zeitpunkt, an dem alle Beträge an Kapital und Zinsen der Hauptzahlstelle zur Verfügung gestellt worden sind, weder ihr gegenwärtiges noch ihr zukünftiges Vermögen ganz oder teilweise in irgendeiner Weise zur Besicherung einer gegenwärtigen oder zukünftigen Kapitalmarktverbindlichkeit, die von der Garantin oder einer anderen Person eingegangen oder gewährleistet ist, zu belasten oder eine solche Belastung zu diesem Zweck bestehen zu lassen, ohne gleichzeitig die Gläubiger an derselben Sicherheit im gleichen Rang und gleichem Verhältnis teilnehmen zu lassen. „Kapitalmarktverbindlichkeit“ ist jede Verbindlichkeit zur Zahlung aufgenommener Gelder, die durch Schuldscheine verbrieft, verkörpert oder dokumentiert ist oder durch Schuldverschreibungen oder sonstige Wertpapiere, die an einer Börse oder an einem anderen anerkannten Wertpapiermarkt notiert oder gehandelt werden oder werden können. Um etwaige Zweifel bezüglich von *asset-backed financings* der Garantin zu vermeiden, schließen die in diesem Absatz (2) benutzten Worte „Vermögen“ und „Verbindlichkeiten zur Zahlung aufgenommener Gelder“ nicht solche Vermögensgegenstände und Verbindlichkeiten der Garantin ein, die im Einklang mit den Gesetzen und den in Deutschland anerkannten Regeln der Bilanzierung und Buchführung nicht in der Bilanz der Garantin ausgewiesen werden müssen und darin nicht ausgewiesen werden.
- (3) Dieser Vertrag und alle darin enthaltenen Vereinbarungen stellen einen Vertrag zugunsten der Gläubiger als begünstigte Dritte gemäß § 328 Absatz 1 BGB dar. Sie begründen das Recht eines jeden Gläubigers, die Erfüllung der hierin eingegangenen Verpflichtungen unmittelbar von der Garantin zu fordern und diese Verpflichtungen unmittelbar gegenüber der Garantin durchzusetzen.
- (4) Die Deutsche Bank Aktiengesellschaft handelt nicht als Treuhänder oder in einer ähnlichen Eigenschaft für die Gläubiger.
- (5) Die in diesem Vertrag verwendeten und darin nicht anders definierten Begriffe haben
- (2) The Guarantor undertakes towards each Holder, so long as any of the Bonds remains outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Principal Paying Agent, not to grant or permit to subsist any encumbrance over any or all of its present or future assets, as security of any present or future Capital Market Indebtedness issued or guaranteed by the Guarantor or by any other person, without at the same time having the Holders share equally and rateably in such security. “Capital Market Indebtedness” means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which are, or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognised securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by the Guarantor, the expressions “assets” and “obligations for the payment of borrowed money” as used in this subparagraph (2) do not include assets and obligations of the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in Germany, need not, and are not, reflected in the Guarantor’s balance sheet.
- (3) This Agreement and all undertakings herein contained constitute a contract for the benefit of the Holders from time to time as third party beneficiaries pursuant to § 328 (1) of the German Civil Code. They give rise to the right of each such Holder to require performance of the obligations undertaken herein directly from the Guarantor and to enforce such obligations directly against the Guarantor.
- (4) Deutsche Bank Aktiengesellschaft does not act as fiduciary or in any similar capacity for the Holders.
- (5) Terms used in this Agreement and not otherwise defined herein shall have the meanings

die ihnen in den Emissionsbedingungen zugewiesene Bedeutung.

- (6) Dieser Vertrag unterliegt deutschem Recht.
- (7) Dieser Vertrag ist in deutscher Sprache abgefaßt und ihm ist eine unverbindliche Übersetzung in die englische Sprache beigelegt.
- (8) Das Original dieses Vertrages wird der Deutsche Bank Aktiengesellschaft ausgehändigt und von dieser verwahrt.
- (9) Gerichtsstand für alle Rechtsstreitigkeiten aus oder im Zusammenhang mit diesem Vertrag ist Frankfurt am Main. Jeder Gläubiger kann seine Ansprüche jedoch auch vor jedem anderen zuständigen Gericht geltend machen.
- (10) Jeder Gläubiger kann in jedem Rechtsstreit gegen die Garantin und in jedem Rechtsstreit, in dem er und die Garantin Partei sind, seine Rechte aus diesem Vertrag auf der Grundlage einer von einer vertretungsberechtigten Person der Deutsche Bank Aktiengesellschaft beglaubigten Kopie dieses Vertrages ohne Vorlage des Originals im eigenen Namen wahrnehmen und durchsetzen.

Bonn, den 11. Januar 1999

DEUTSCHE TELEKOM AG

Wir nehmen die Bedingungen der vorstehenden Garantie ohne Obligo, Gewährleistung oder Haftung an.

11. Januar 1999

DEUTSCHE BANK AKTIENGESELLSCHAFT

attributed to them in the Conditions of Issue.

- (6) This Agreement shall be governed by, and construed in accordance with, German law.
- (7) This Agreement is written in the German language and attached hereto is a non-binding English language translation.
- (8) The original version of this Agreement shall be delivered to, and kept by, Deutsche Bank Aktiengesellschaft.
- (9) The place of jurisdiction for all legal proceedings arising out of or in connection with this Agreement shall be Frankfurt am Main. Each Holder, however, may pursue his claims also before any other court of competent jurisdiction.
- (10) Each Holder may in any legal proceedings against the Guarantor or to which such Holder and the Guarantor are parties protect and enforce in his own name his rights arising under this Agreement on the basis of a copy of this Agreement certified as being a true copy by a duly authorised officer of Deutsche Bank Aktiengesellschaft, without the need for production in such proceedings of this Guarantee.

Bonn, January 11, 1999

DEUTSCHE TELEKOM AG

We accept the terms of the above Guarantee without recourse, warranty or liability.

January 11, 1999

DEUTSCHE BANK AKTIENGESELLSCHAFT

Deutsche Telekom International Finance B.V.

– The Issuer –

Incorporation, Seat and Objects

Finance was incorporated on October 30, 1995 under the laws of The Netherlands as a private company with limited liability for an unlimited duration. Finance is a 100% subsidiary of Deutsche Telekom. The company has its corporate seat in Amsterdam and is registered with the Trade Register in Amsterdam under number 33274743. Its address is World Trade Center, Strawinskylaan 1243, NL-1077 XX Amsterdam, The Netherlands.

According to the Articles of Association of Finance the objects of the company are:

1. (a) The issue and acquisition of debt instruments issued by the company or of debt instruments issued by a limited partnership or a general partnership of which the company is the general partner with full liability;
 - (b) to participate in, to establish and to administer and/or manage, to finance and to render services to companies, firms and enterprises;
 - (c) to lend and/or borrow moneys, to provide guarantees, and to commit itself with respect to the commitments of third parties.
2. To do anything which is connected with the provisions of paragraph 1 of this article or which may be promotive thereof, all this in the broadest sense.

Share Capital

The authorised share capital of Finance amounts to NLG 5,000,000 and is divided into 5,000 ordinary shares with a nominal value of NLG 1,000 each, of which NLG 1,000,000 were issued and fully paid in.

Capitalisation

The following table shows the unaudited capitalisation of Finance as at September 30, 1998:

	September 30, 1998
	– in NLG –
Debt	
DM 5.25% Bond of 1998/08 issued May 20, 1998	2,234,830,580
Total	2,234,830,580
Shareholders' equity	1,741,063
Total capitalisation	2,236,571,643
Contingent liabilities	0

Save as disclosed herein, there has been no material change in the capitalisation and the contingent liabilities of Finance since September 30, 1998.

Supervisory Board

The members of the Supervisory Board of Finance are at present as follows:

Edgar Romberg
Senior Vice President Accounting, Taxes and Shareholdings, Deutsche Telekom AG

Helmut Reuschenbach
Senior Vice President Finance, Deutsche Telekom AG

Reinhard Krieger
Director Shareholdings and Partnerships, Deutsche Telekom AG

Jürgen Roeder
Director Money Markets, Deutsche Telekom AG

Board of Management

The members of the Board of Management of Finance are at present as follows:

Yorck von Reuter
Roland Buss

The business address of the members of the Supervisory Board and the Board of Management is that of Finance.

General Meeting of Shareholders

The ordinary general meeting shall be held annually not later than six months after the end of the financial year.

Independent Auditors

The independent auditors of Finance are PricewaterhouseCoopers N.V. (formerly Coopers & Lybrand N.V.), Marten Meesweg 25, NL-3068 AV Rotterdam, The Netherlands. They have audited the financial statements of Finance for the years 1996 and 1997 and have issued their unqualified opinion in each case.

Fiscal Year

The fiscal year of Finance is the calendar year.

Financial Statements

Balance sheet as at December 31, 1997

	December 31, 1997	December 31, 1996
– NLG –		
ASSETS		
Current assets		
Receivables from affiliated companies.....	900,584	470,409
Other assets	11,890	0
	912,474	470,409
Cash at banks	11,777	523,336
Prepaid expenses	5,256	0
	929,507	993,745
 EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	1,000,000	1,000,000
Accumulated deficit	(118,767)	(22,105)
	881,233	977,895
Accrued liabilities	31,052	15,500
Liabilities to affiliated companies	0	350
Other liabilities	17,222	0
	929,507	993,745

Profit and loss account for the year ended December 31, 1997

	1997	1996
– NLG –		
Personnel costs.....	(57,104)	0
Other operating expenses.....	(71,306)	(40,382)
Financial income and expenses.....	31,748	34,359
Result from ordinary operations	(96,662)	(6,023)
Corporate income tax	0	0
Net loss	(96,662)	(6,023)

General notes

Format of financial statements

The financial statements are presented in accordance with Part 9, Book 2 of the Netherlands Civil Code. The reporting currency of the financial statements is the NLG.

Consolidation

Deutsche Telekom International Finance B.V. is a 100% subsidiary of Deutsche Telekom AG. The company's financial statements are taken up in the consolidated financial statements of Deutsche Telekom AG.

Activities

The principal activity of the company consists of intercompany lending.

Accounting principles and determination of result

Comparison with prior year

The accounting principles used are unchanged compared to prior year.

General

The accompanying financial statements have been prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles in the Netherlands. Unless indicated otherwise, assets and liabilities are stated at nominal value.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Dutch guilders at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies have been translated at the rates of exchange prevailing at the date of the transactions. Exchange results are reflected in the profit and loss account.

The following rate has been applied as at December 31, 1997:
100 German Marks (DEM) = NLG 112.7050 (1996: NLG 112.2350).

Recognition of income

Revenues and expenses are accounted for in the period to which these items relate.

Notes to the balance sheet

Receivables from affiliated companies

This item concerns a short-term loan granted to Deutsche Telekom Holding B.V. with an interest rate of 1 month AIBOR.

Share capital paid in and called up

The authorised share capital of the company consists of 5,000 shares of common stock with a par value of NLG 1,000 each:

	<u>1997</u>	<u>1996</u>
	NLG	
Authorised share capital	5,000,000	5,000,000
Shares in portfolio	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Issued and fully paid in	<u>1,000,000</u>	<u>1,000,000</u>

Accumulated deficit

	<u>1997</u>	<u>1996</u>
	NLG	
Balance as at January 1	(22,105)	(16,082)
Loss for the year	<u>(96,662)</u>	<u>(6,023)</u>
Balance as at December 31	<u>(118,767)</u>	<u>(22,105)</u>

Other notes

Directors

During the year three members of the Board of Management ceased their work on the Board of Management. As at December 31, 1997 the Board of Management consists of two members. The aggregate remuneration paid to the members of the Board of Management in the year 1997 amounted to NLG 64,154 (1996: NLG 14,100).

Employees

The company employed one person during the financial year.

Amsterdam, February 24, 1998

The Board of Management:

Mr L. Stärk

Mr R. Buss

The Supervisory Board:

Mr E. Romberg

Mr H. Reuschenbach

Mr R.A. Krieger

Mr Y. von Reuter

Mr S. Boele

Auditors' report

Introduction

We have audited the 1997 financial statements of Deutsche Telekom International Finance B.V., Amsterdam. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 1997 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Rotterdam, February 24, 1998

Coopers & Lybrand N.V.

Recent Developments

Balance sheet as at June 30, 1998

	June 30, 1998	December 31, 1997
– NLG –		
ASSETS		
Fixed assets	42,000	0
Financial fixed assets	2,233,334,610	0
Current assets		
Receivables from affiliated companies	18,000	900,584
Other assets	14,274,280	11,890
	14,292,280	912,474
Cash at banks	809,448	11,777
Prepaid expenses	18,300	5,256
	2,248,496,638	929,507
 EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	1,000,000	1,000,000
Retained earnings	8,343	(118,767)
	1,008,343	881,233
Provision for income tax	91,339	0
Bond	2,233,334,610	0
Accrued liabilities	375,850	31,052
Liabilities to affiliated companies	55,000	0
Other liabilities	13,631,496	17,222
	2,248,496,638	929,507

Profit and loss account for the year ended June 30, 1998

	June 30, 1998	1997
– NLG –		
Personnel costs	(126,220)	(57,104)
Other operating expenses	(205,116)	(71,306)
Financial income and expenses	549,785	31,748
Result from ordinary operations	218,449	(96,662)
Corporate income tax	(91,339)	0
Net profit	127,110	(96,662)

General notes

Format of financial statements

The financial statements are presented in accordance with Part 9, Book 2 of the Netherlands Civil Code. The reporting currency of the financial statements is the NLG.

Consolidation

Deutsche Telekom International Finance B.V. is a 100% subsidiary of Deutsche Telekom AG. The company's financial statements are taken up in the consolidated financial statements of Deutsche Telekom AG.

Activities

The principal activity of the company consists of intercompany lending.

Accounting principles and determination of result

Comparison with prior year

The accounting principles used are unchanged compared to the prior year.

General

The accompanying financial statements have been prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles in the Netherlands. Unless indicated otherwise, assets and liabilities are stated at nominal value.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Dutch guilders at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies have been translated at the rates of exchange prevailing at the date of the transactions. Exchange results are reflected in the profit and loss account.

The following rate has been applied as at June 30, 1998:

100 German Marks (DEM) = NLG 112.7231 (December 31, 1997: NLG 112.7050).

Recognition of income

Revenues and expenses are accounted for in the period to which these items relate.

Notes to the balance sheet

Share capital paid in and called up

The authorised share capital of the company consists of 5,000 shares of common stock with a par value of NLG 1,000 each:

	June 30, 1998	1997
	- NLG -	
Authorised share capital	5,000,000	5,000,000
Shares in portfolio	(4,000,000)	(4,000,000)
Issued and fully paid in	<u>1,000,000</u>	<u>1,000,000</u>

Retained earnings

	June 30, 1998	1997
	- NLG -	
Balance as at January 1	(118,767)	(22,105)
Result for the period and year respectively	127,110	(96,662)
Balance at end of period	<u>8,343</u>	<u>(118,767)</u>

Other notes

Directors

During the year one member of the Board of Management ceased his work on the Board of Management and another member has been appointed. As at June 30, 1998 the Board of Management consists of two members. The aggregate remuneration paid to the members of the Board of Management in the period January 1 – June 30, 1998 amounted to NLG 65,158 (1997: NLG 64,154).

Employees

The company employed one person during the period January 1 – June 30, 1998.

Amsterdam, July 20, 1998

The Board of Management:

Mr R. Buss

Mr Y. von Reuter

The Supervisory Board:

Mr E. Romberg

Mr H. Reuschenbach

Mr R. A. Krieger

Mr J. Roeder

Auditors' opinion

Introduction

In accordance with your instructions(*), we have reviewed the June 30, 1998 financial statements of Deutsche Telekom International Finance B.V., Amsterdam. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

Scope

We conducted our review in accordance with generally accepted standards for review engagements in the Netherlands. These standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view in accordance with accounting principles generally accepted in the Netherlands and the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code.

Rotterdam, July 20, 1998

PricewaterhouseCoopers N.V.

(*) Author's note: "Your instructions" means the instructions of the company's management.

Deutsche Telekom AG

- The Guarantor -

Incorporation, Seat and Objects

Until 1989, the provision of telecommunications services and infrastructure in the Federal Republic of Germany was an integral and undifferentiated part of the activities of Deutsche Bundespost, Germany's state postal, telephone and telegraph authority.

With the enactment of the first postal reform law ("Gesetz zur Neustrukturierung des Post- und Fernmeldewesens") in 1989, the Federal Republic of Germany transformed the services administered by the Deutsche Bundespost into market-oriented business units and divided the Deutsche Bundespost into three distinct entities along lines of business, including Deutsche Bundespost TELEKOM. They continued, however, to be public law entities.

Upon the reunification of Germany in October 1990, Deutsche Bundespost TELEKOM was made responsible for telecommunications services and infrastructure in that part of Germany which formerly constituted the German Democratic Republic.

Pursuant to the second postal reform law ("Gesetz zur Neuordnung des Postwesens und der Telekommunikation"), Deutsche Bundespost TELEKOM was transformed into a private law stock corporation, Deutsche Telekom AG, with effect from January 1, 1995. Deutsche Telekom is registered in the Commercial Register of Bonn under No. HRB 6794. The second postal reform law also provided the framework for the privatisation of the company. In November 1996, Deutsche Telekom's capital was increased and the new shares were offered internationally to the general public. Now approximately 26% of the current share capital are held by institutional and private investors.

Deutsche Telekom is the parent company of Deutsche Telekom group which is a full-service telecommunications group whose major lines of business include providing public fixed-network voice telephony, mobile communications services, cable transmission services, leased lines, text and data services, on-line services, corporate network design and supply, and network management services within the German market and in certain international markets.

Its registered office is at Friedrich-Ebert-Allee 140, D-53113 Bonn, Federal Republic of Germany.

According to its Articles of Incorporation the object of Deutsche Telekom is activity in all areas of telecommunications and in related areas in Germany and abroad.

In addition, the company shall be entitled to enter into all other transactions and take all other measures deemed appropriate to serve the above object. It may also set up, acquire and participate in other undertakings of the same or similar kind in Germany and abroad, as well as run such undertakings or confine itself to the administration of its participation. It may spin off its operations wholly or partly to affiliated undertakings.

Share Capital

Deutsche Telekom's share capital amounts to DM 13,718,500,000 divided into 2,743,700,000 ordinary no par value shares.

The Federal Republic of Germany directly holds 49.35% of the share capital of Deutsche Telekom, 22.62% of the share capital are held by the Kreditanstalt für Wiederaufbau ("KfW"). (The Federal Republic of Germany holds 80% of the capital of KfW and the German federal states 20%). Another 2% of the share capital of Deutsche Telekom are held by France Telecom.

Capitalisation

The following table shows the unaudited consolidated capitalisation of Deutsche Telekom as at September 30, 1998:

	September 30, 1998
	(DM in millions)
Debt	
Bonds and debentures.....	77,791
Liabilities to banks.....	8,357
Loan notes (Schuldscheindarlehen).....	1,088
Total (1).....	<u>87,236</u>
Shareholders' equity	
Capital stock.....	13,719
Additional paid-in capital.....	27,869
Retained earnings (deficit).....	1,560
Unappropriated net income.....	3,051
Minority interest.....	1,389
Total.....	<u>47,588</u>
Total capitalisation.....	<u>134,824</u>
Contingent liabilities (2).....	<u>34,374</u>

(1) Nominal DM 82,564 million of this indebtedness is originally pertaining to the Deutsche Bundespost Special Fund which in accordance with § 2 subpara. (2) and (4) of the Post Transformation Act (*Postumwandlungsgesetz*) is guaranteed by the Federal Republic of Germany.

(2) As of December 31, 1997.

With the exception of the activities described below there has been no material change in the consolidated capitalisation and the contingent liabilities of Deutsche Telekom since September 30, 1998 and December 31, 1997, respectively.

In the last quarter of 1998, Deutsche Telekom redeemed indebtedness guaranteed by the Federal Republic of Germany by nominal DM 7.274 billion (thereof DM 7.2 billion bonds and debentures).

Supervisory Board

The members of the Supervisory Board of Deutsche Telekom are at present as follows:

Representatives of the shareholders:

Prof. Dr. Helmut Sihler
Chairman Member of the Shareholders'
Committee of Henkel KGaA

Gert Becker
Former Chairman of the Board of Management
of Degussa AG

Michel Bon
President France Telecom S.A.

Representatives of the personnel:

Veronika Altmeyer
Vice-Chairwoman
Member of the Central Executive Committee
of the Deutsche Postgewerkschaft trade union

Reinhard Ahrensmeier
Chairman of the Works
Council at DeTe Immobilien

Josef Falbisoner
District Chairman
of Deutsche Postgewerkschaft trade union

Rainer Funke
Member of German Parliament

Franz-Josef Klare
Member of the Central Committee
of the Deutsche Postgewerkschaft trade union

Prof. Dr. Peter Glotz
President of Erfurt University

Michael Löffler
Chairman of the Works Council
at Deutsche Telekom's Leipzig Branch Office

Dr. sc. techn. Dieter Hundt
Managing Partner of
Allgaier-Werke GmbH & Co. KG

Maud Pagel
Member of the Central Works
Council at Deutsche Telekom AG

Dr.-Ing. Paul Krüger
Member of the German Bundestag,
Former Federal Minister

Rainer Röhl
Vice-Chairman of the Central Works
Council at Deutsche Telekom AG

Dr. h.c. André Leysen
Chairman of the Supervisory Board
of Agfa-Gevaert N.V.

Wolfgang Schmitt
Head of Freiburg
Regional Director

Prof. Dr. h.c. Dieter Stolte
Director General
of the Zweites Deutsches Fernsehen
broadcasting organisation

Ursula Steinke
Member of the Works Council
at Deutsche Telekom's Northern District
Strategic Computer Center

Wilhelm Wegner
Chairman of the Central Works Council
at Deutsche Telekom AG

Board of Management

The members of the Board of Management of Deutsche Telekom are at present as follows:

Dr. Ron Sommer, Chairman
Detlev Buchal
Josef Brauner
Jeffrey A. Hedberg
Dr. Hagen Hultzsch
Dr. Heinz Klinkhammer
Dr. Joachim Kröske
Dr. Dipl.-Ing. Gerd Tenzer

The business address of the members of the Supervisory Board and the Board of Management is that of Deutsche Telekom.

General Meeting of Shareholders

The ordinary shareholders' meeting shall take place within the first eight months of each financial year at the head quarters of Deutsche Telekom, or at the location of a German stock exchange or in a German city with over 500,000 inhabitants.

Independent Auditors

The independent auditors of Deutsche Telekom are PwC DEUTSCHE REVISION Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft (formerly C&L DEUTSCHE REVISION Aktiengesellschaft Wirtschafts-

prüfungsgesellschaft), Olof-Palme-Strasse 35, D-60439 Frankfurt am Main, Federal Republic of Germany. They have audited the consolidated financial statements of Deutsche Telekom for the years 1995, 1996 and 1997 and have issued their unqualified opinion in each case.

Fiscal Year

The fiscal year of Deutsche Telekom is the calendar year.

Management report of the Deutsche Telekom group and Deutsche Telekom AG.

In 1997, Deutsche Telekom had a successful year in its core business activities, reporting growth in both net revenue and net income. As previously announced, a dividend payment of DM 1.20 per share will be recommended to the shareholders' meeting. Shareholders' equity will not be increased by retaining earnings.

Deutsche Telekom (group) key figures

billions of DM	1997	1996	1995
Net revenue *	67.6	63.1	59.6
Net income	3.3	1.8	5.3
Balance sheet total	162.8	174.3	160.2
Investments	15.5	22.6	17.7

Employees at year-end **	216,006	229,590	225,185
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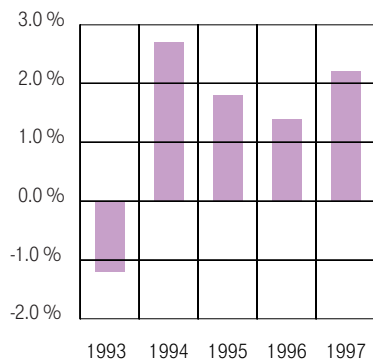
*1995 figure adjusted for value-added tax

** from 1996 includes approx. 20,000 MATAV employees

The management report for Deutsche Telekom AG has been combined with the management report for the Deutsche Telekom group.

GDP 1997, real

Changes over prior year



1993: -1.2 %
 1994: 2.7 %
 1995: 1.8 %
 1996: 1.4 %
 1997: 2.2 %

General economic situation Restrained economic development in Germany

The vast majority of Deutsche Telekom's business activities take place in Germany.

The general economic situation in Germany improved somewhat during 1997, with gross domestic product (GDP) increasing by 2.2 percent in real terms, while capital expenditure on plant and equipment grew 3.9 percent. At the same time, demand for German goods abroad increased by 10.7 percent.

GDP 1997, real

(unadjusted figures)

Changes over prior-year period

1st quarter	2nd quarter	3rd quarter	4th quarter
1.0 %	3.0 %	2.4 %	2.4 %

Year as a whole 2.2 %

The domestic labor market remains a cause for concern, with the number of people employed falling by 487,000 in 1997. Unemployment reached a level of 4.82 million people in December, the highest figure ever recorded.

Labor productivity across the economy as a whole (GDP per employee) rose 3.7 percent in 1997, while at the same time unit labor costs (defined as the ratio of gross income from dependent employment to labor productivity) fell 1.8 percent.

At the present time, inflation does not appear to present a danger to the German economy. The Bundesbank does not expect any inflationary or deflationary pressures in the foreseeable future.

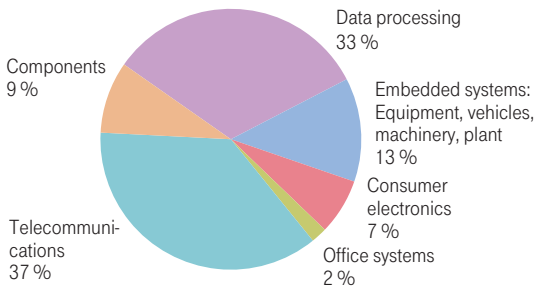
With the economy expanding at a relatively slow rate, the telecommunications market in Germany failed to expand beyond expected levels, with no real signs of any special stimulus for growth at Deutsche Telekom.

Deutsche Telekom feels aftershocks from Asian crisis

Developments on the global currency markets have been affected by the financial crisis in Southeast Asia.

The adjustment process under way throughout East Asia since late 1997 has been accompanied by massive devaluations of the respective local currencies. The International Monetary Fund (IMF) has agreed on assistance packages and related economic and structural reforms with South Korea, Thailand, Malaysia, Indonesia and the Philippines, with implementation of the individual packages at different stages in the various countries involved. Developments in Southeast Asia have a strong impact on Deutsche Telekom's strategic interests in the expanding telecommunications markets in Malaysia, Indonesia and the Philippines.

Total market for information and communications technologies 1997
Total volume DM 253 billion



Source: Diebold

Development of the telecommunications industry Growth and liberalization

The telecommunications industry is characterized by increasing globalization and a worldwide opening of markets. For Deutsche Telekom, these changes mean not only tougher competition in its home market, but also opportunities for growth in expanding international markets, which the Company takes advantage of.

Diebold, a market-research organization, has estimated the total volume of the German market for information and telecommunications technology to be DM 253 bn for 1997, with telecommunications making up DM 93 bn (37 percent) of this market.

The opening of the German market on January 1, 1998, created the most liberalized telecommunications market in the world. 1997 was characterized by preparations for unrestricted competition. By year-end, 112 licenses had been granted, of which 67 involved class 3 licenses for transmission lines, while the remaining 45 were for class 4 licenses for voice telephony.

Deutsche Telekom is the market leader in Europe and the third largest telecommunications company in the world. Over the next few years, the Company is likely to lose market share within Germany as a result of more competition and regulatory requirements. However, by focusing on new technologies, enhanced service and customer orientation, and increased efficiency, Deutsche Telekom is well prepared for the new market conditions.

New providers take position

During 1997, most carriers and resellers concentrated their efforts on developing an entry strategy for the German market, dealing with market segmentation and defining their product portfolios. Business customers represented the main group initially targeted by competitors; residential customers will not become the focus of attention of these alternative providers until some time later in 1998.

The number of providers – nationwide, regional and local carriers and resellers – preparing to enter the competitive marketplace in 1997 is expected to drop over the coming years as consolidation occurs through takeovers and alliances. The alternative network operators continued to expand their own infrastructures during 1997, while many of the Company's competitors also leased lines from Deutsche Telekom to transmit their voice and data traffic.

The regulatory framework Telecommunications Act comes into effect

The statutory framework regulating the telecommunications sector in Germany was completely redefined by the German Telecommunications Act (TKG), which came into force on August 1, 1996. The new legislation called for the German telecommunications market to be fully liberalized as of January 1, 1998.

The Act is supplemented by numerous ordinances governing important issues such as rates regulation, network access and network interconnection, and universal service details. In December 1997, the Telecommunications Customer Protection Ordinance was also revised and modified to keep pace with the rapidly changing market environment.

New regulatory authority replaces BMPT

On January 1, 1998, the Federal Ministry of Posts and Telecommunications (BMPT) was replaced by the new Regulatory Authority for Telecommunications and Posts, which assumed responsibility for supervising the telecommunications market in Germany.

Consistent with the existing regulatory provisions, important rates-related decisions and significant offers made by Deutsche Telekom to its competitors were subject to regulatory approval. For example, Deutsche Telekom concluded network interconnection agreements with a number of network operators in 1997. These agreements, in accordance with the new legal framework, were submitted for approval to the BMPT, which still functioned as the regulatory authority in 1997. In contrast to Deutsche Telekom's proposals, the BMPT set interconnection rates of between 1.24 and 5.14 pfennigs per minute, with the average rate across all tariff zones being 2.7 pfennigs per minute. With this decision, the BMPT rejected Deutsche Telekom's move to

offset the access deficit calculated into the price of providing access lines. To protect its legal position, Deutsche Telekom has appealed the decision made by the BMPT, although no final decision has yet been reached.

Development of business in 1997

During the 1997 financial year, Deutsche Telekom generated consolidated net revenue totaling DM 67.6 bn. Results from ordinary business activities amounted to DM 7.2 bn, while the Company reported net income of DM 3.3 bn. Earnings per share totaled DM 1.20.

Considerable revenue growth

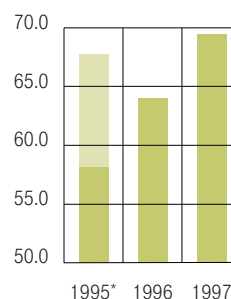
Deutsche Telekom was able to benefit from the steady growth of the telecommunications market, ending the financial year with a considerable increase in revenues.

Deutsche Telekom (group) revenue

billions of DM	1997	1996	Change
Fixed-network communications	50.5	47.4	6.6%
Mobile-network communications	5.0	4.2	19.0%
Network communications	55.5	51.6	7.6%
Cable TV/broadcasting	3.1	3.0	3.3%
Terminal equipment	3.2	3.4	-5.9%
Special value-added services	2.3	2.3	0.0%
Other services	1.1	0.9	22.2%
International activities	2.4	1.9	26.3%
	12.1	11.5	5.2%
Total revenues	67.6	63.1	7.1%

Revenue from fixed-network communications rose 6.6 percent to reach DM 50.5 bn. The key factor for this was the telephone network service, where the number of ISDN access lines increased considerably and traffic volume also showed strong growth. The number of ISDN channels grew 41.1 percent to 7.3 million by year-end 1997. With revenues rising 8.7 percent, activities involving data communications and systems solutions experienced a healthy rate of growth. Thanks to active marketing of the Telekom Designed Networks/Solutions concept, it again proved possible to increase revenues in this sector.

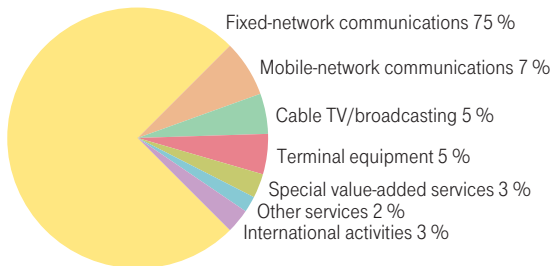
Development of revenues
billions of DM



1995: 66.1 (59.6*)
1996: 63.1
1997: 67.6

* 1995 figure adjusted for VAT

Revenue by business area



In 1997, mobile-network communications recorded year-on-year income growth of 19.0 percent. The T-D1 service experienced a sharp rise in revenues as the result of the dynamic development in the number of customers, which grew 51.9 percent to reach 3.3 million. At the same time, the revenues reported for T-C-Tel fell as the number of customers dropped and the lower tariffs introduced at the beginning of the period under review took effect.

The success of T-Online, the largest on-line service in the German market, was maintained throughout 1997, with revenue rising 90.7 percent. In excess of 1.9 million T-Online customers were registered by year-end.

In international activities, revenue amounting to DM 2.4 bn was primarily generated by the telecommunications operator MATAV. This represents a rise of 22.4 percent in 1997 that can be attributed to an increase in the number of lines operated by this Hungarian company in its fixed and mobile network.

Net income up

During the year under review, Deutsche Telekom generated net income totaling DM 3.3 bn, representing a year-on-year increase of 88 percent. Results from ordinary business activities in 1997 amounted to DM 7.2 bn (1996: DM 6.6 bn).

This change can be attributed to a number of offsetting factors. The 7 percent growth in net revenue was offset by a disappointing 19 percent increase in the expenses for goods and services purchased, which reached

DM 12.1 bn (1996: DM 10.2 bn). This increase can for the most part be attributed to the higher level of purchases of terminal equipment coupled with an increase in the number of interconnections with networks run by other operators, primarily in the field of mobile communications.

Personnel costs fell 2.3 percent to DM 18.3 bn (1996: DM 18.8 bn), generally tracking the 5 percent reduction in the workforce.

As expected, depreciation and amortization rose 5 percent to DM 18.6 bn (1996: DM 17.7 bn) following the complete digitization of Deutsche Telekom's networks.

Other operating expenses rose by a total of DM 0.7 bn to DM 10.2 bn, with cost savings being offset by the increased cost of risk provisions.

At DM 7.8 bn (1996: DM 7.7 bn), net financial expense remained fairly constant. Of this total, net interest expense decreased DM 0.9 bn to DM 6.4 bn, as expected, due to the scheduled reduction of debt. At the same time, losses related to subsidiary, associated and related companies grew sharply, reaching DM 1.4 bn (1996: DM 0.4 bn),

mostly as a result of considerable losses in investments in Southeast Asia as well as additional start-up losses at Atlas/Global One. By year-end, local currencies in the Asian countries affected had lost more than one third of their value against the dollar compared with prior-year levels. As the capital investments made by the companies concerned were financed to a large extent in US dollars, this resulted in considerable losses; in addition, revenue predictions have had to be lowered to take into account the general economic situation in the region. These difficulties are reflected in amortization of goodwill totaling DM 0.5 bn in addition to proportionate losses of DM 0.4 bn.

While the transfer of shares in MagyarCom Grand Cayman, Cayman Islands, to MagyarCom Holding GmbH, Bonn, contributed DM 1.0 bn to the income reported by Deutsche Telekom AG, the transaction had no impact on income within the Group due to the effects of consolidation.

With the initial public offering now over and the costs of the personnel restructuring measures being fully accounted for in previous years, there were no extraordinary losses to be reported in the year under review. The DM 1.4 bn rise in tax expenses to DM 3.6 bn reflects the increase in income before taxes.

Group/DVFA earnings per share

billions of DM	1997	1996
Consolidated net income	3.303	1.758
Amortization of goodwill	0.617	0.284
Other additions*	0.0	1.064
Other deductions	0.0	0.0
DVFA/SG earnings	3.920	3.106
<hr/>		
Number of common shares	2,743,240,100	
<hr/>		
DVFA/SG earnings per share (DM)	1.43	1.13
<hr/>		
* Extraordinary losses for personnel restructuring measures and share offering costs, net of tax effects		

Summary of the annual financial statements of Deutsche Telekom AG

Statement of income

billions of DM	1997	1996
Net revenue	60.4	57.5
Increase in inventories and other own capitalized costs	2.0	2.0
Other operating income	8.4	7.7
Goods and services purchased	(11.6)	(9.6)
Personnel costs	(15.9)	(16.6)
Depreciation and amortization	(16.9)	(16.0)
Other operating expenses	(13.2)	(12.6)
Financial income (expense), net	(6.4)	(6.3)
Extraordinary income (losses)	-	(2.5)
Income before taxes	6.8	3.6
Taxes	(3.5)	(2.1)
Net income	3.3	1.5

Balance sheet

billions of DM	Dec. 31, 1997	Dec. 31, 1996
Property, plant and equipment, and intangible assets	118.0	125.1
Financial assets	16.6	14.8
Noncurrent assets	134.6	139.9
Inventories, materials and supplies	0.8	1.0
Receivables	8.2	7.6
Liquid assets	12.4	17.6
Current assets	21.4	26.2
Deferred tax receivables	0.8	0.7
Prepaid expenses	1.2	1.0
Special loss account arising from creation of accruals	-	0.1
Total assets	158.0	167.9
Shareholders' equity	49.4	47.7
- of which: net income	3.3	1.6
Accruals	13.0	14.1
Liabilities	94.9	105.7
Deferred income	0.7	0.4
Total shareholders' equity and liabilities	158.0	167.9

The annual financial statements of Deutsche Telekom AG which have an unqualified audit opinion from C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are published in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Registry of the Bonn District Court. The annual financial statements are available upon request from Deutsche Telekom, Investor Relations, Postfach 20 00, D-53105 Bonn, Germany, fax +49 228 181-8405.

Annual financial statements of Deutsche Telekom AG

Reporting of corporate groups with international activities is increasingly focusing on the consolidated financial statements. However, the key factor behind the dividend payable to the shareholders is the net income generated by Deutsche Telekom AG. For this reason, the annual financial statements of Deutsche Telekom AG are presented in summarized form below.

The balance sheet total for Deutsche Telekom AG decreased by DM 9.9 bn due to the reduction in debt, while the increase in net income caused shareholders' equity to increase to DM 49.4 bn. The equity ratio climbed 1.7 percent to 29.2 percent. Deutsche Telekom AG recorded a 5 percent increase in net revenue, taking the total to DM 60.4 bn. With income before taxes totaling DM 6.8 bn, Deutsche Telekom AG succeeded in exceeding the equivalent figure for 1996 by 88 percent. The currency crisis in Southeast Asia resulted in an unexpectedly high level of financial expense. Net income amounted to DM 3.3 bn after deduction of taxes totaling DM 3.5 bn. The proposal for the appropriation of net income calls for almost 100 percent of this amount to be distributed to the shareholders.

DM 1.20 dividend per share

The Supervisory Board and the Board of Management propose, subject to approval at the shareholders' meeting, to use the unappropriated net income of DM 3.3 bn to pay a dividend of DM 1.20 per share with nominal value of DM 5, on the dividend-bearing capital stock of DM 13.7 bn. In addition, shareholders who are fully subject to domestic taxes will receive a tax credit of DM 0.47 per share with nominal value of DM 5.

Balance sheet structure: Equity ratio enhanced

The balance sheet total for Deutsche Telekom declined DM 11.5 bn to DM 162.8 bn during the 1997 financial year. On the assets side, the reduction can be attributed mainly to the fall in noncurrent assets of more than DM 7 bn, with depreciation and disposals of property, plant and equipment being only partially offset by a lower level of capital investment. Current assets declined by DM 4.6 bn, primarily due to the use of liquid assets to reduce debt and to invest in securities. At December 31, 1997, shareholders' equity amounted to DM 48.1 bn (1996: DM 46.6 bn), with the equity ratio rising to 27.5 percent compared with 25.8 percent at the prior balance sheet date, excluding proposed dividend payments, which, for purposes of this calculation, were treated as short-term debt.

Further reduction in debt

Deutsche Telekom has enhanced its financial structure by systematically reducing its debt by a further DM 12 bn (12 percent) to DM 87.9 bn. As a result, of the amount originally scheduled for repayment (around DM 60 bn in the old consolidated group), a total of DM 39 bn in debt has already been repaid since 1995; the reduction of debt to DM 65 bn by the year 2000 will continue to be a goal vigorously pursued in the future.

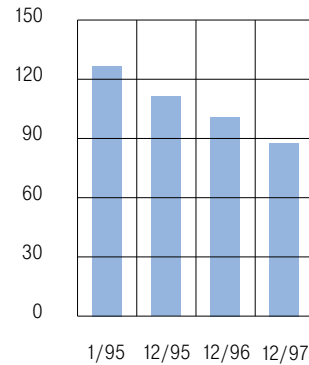
During the year under review, Deutsche Telekom set up a debt issuance program for a maximum of ecu 3 bn (just under DM 6 bn) with a view to further optimizing its financing costs at the same time as enhancing the maturity pattern of its debt. This program represents a framework agreement under which the company can raise funds on the international financial markets outside the United States in the future. Among other benefits, it also allows Deutsche Telekom to issue commercial paper in the form of publicly issued bonds and to make private placements in all major offering currencies and maturities.

High level of investments

During the 1997 financial year, investments at Deutsche Telekom totaled DM 15.5 bn (1996: DM 22.6 bn), of which DM 13.9 bn (1996: DM 17.0 bn) was invested in property, plant and equipment, and intangible assets, and a further DM 1.6 bn (1996: DM 5.6 bn) in financial assets. Investments in property, plant and equipment focused primarily on switching equipment, the telecommunications line network and transmission equipment. These investments in 1997 meant that work on digitizing the network could be completed. A total of DM 1.4 bn was spent on other plant and office equipment.

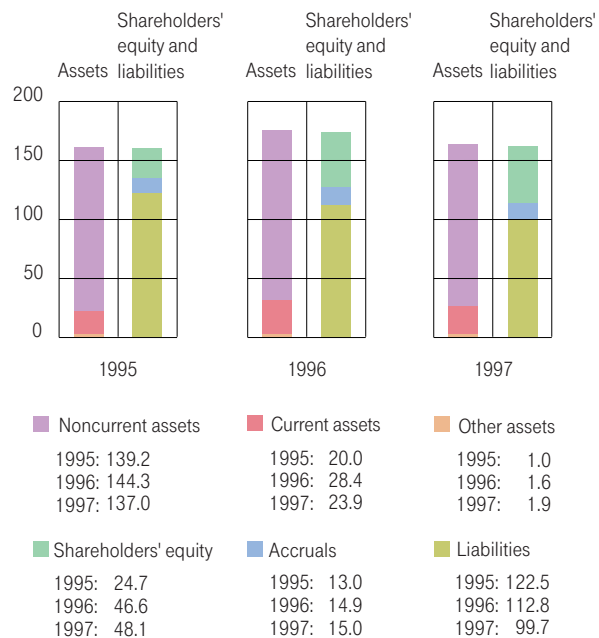
Of the DM 1.6 bn invested in financial assets, DM 0.9 bn was placed in fixed-income security issues (bond funds), mixed funds and equity funds launched by Deutsche Telekom AG with a view to optimizing returns on excess liquidity available for the medium and long-term. A further DM 0.3 bn was invested in associated companies; this mainly relates to payments of the second tranche of the investment to the Philippine companies, Isla Communications Company Inc. and Asiacom Philippines Inc., both in Manila.

Debt
(billions of DM)



Jan. 1, 1995: 125.5
Dec. 31, 1995: 110.4
Dec. 31, 1996: 99.9
Dec. 31, 1997: 87.9

Balance sheet structure
(billions of DM)



Statement of cash flows (summarized)

billions of DM	1997	1996
Net cash provided		
by operating activities	22.6	22.3
Net cash used for		
investing activities	(10.5)	(25.3)
Net cash provided by (used for)		
financing activities	(13.8)	6.8
Net increase (decrease) in cash and cash equivalents	(1.7)	3.8
Liquid assets (short-term and long-term)	9.3	17.9

Cash generated from operations remains strong

Net cash provided by operating activities rose to DM 22.6 bn, while net cash used for investing activities declined to DM 10.5 bn during the year under review, mainly reflecting the lower level of investments in property, plant and equipment, and financial assets. The decrease in cash provided by (used for) financing activities of DM 20.6 bn to DM (13.8) bn in 1997 is primarily attributable to the comparison effects of the proceeds from Deutsche Telekom AG's global offering in 1996.

Financial derivatives hedge exposure

Derivative financial instruments are used to hedge exposure to interest rate and currency risk. These contracts are used solely for hedging purposes and not for speculation.

The notional amount of derivative interest rate contracts outstanding at December 31, 1997, was DM 9.8 bn, while forward exchange contracts outstanding totaled DM 0.4 bn. The derivative financial instruments were used to hedge and, to a minor extent, to optimize interest income.

The clear separation of duties in the organizational structure and the functional organization ensures that different people are responsible for trading and monitoring activities. To determine and control the risks associated with trading in derivatives, the transactions, once concluded, are immediately entered in a central treasury system, thus ensuring that the current transaction status can be monitored at all times.

Efficient purchasing**Investments in digitization completed**

The total volume of goods and services purchased by the Group amounted to around DM 23 bn in 1997. This high volume was marked by the accelerated completion of network digitization. Nevertheless, the investment in property, plant and equipment was reduced considerably. This decrease related largely to prices, primarily reflecting developments in the market and advances in procurement logistics, with further price reductions being achieved in certain major areas of purchasing.

During the year under review, purchasing related principally to capital expenditure for telecommunications equipment and computer hardware and software (including related consultancy services).

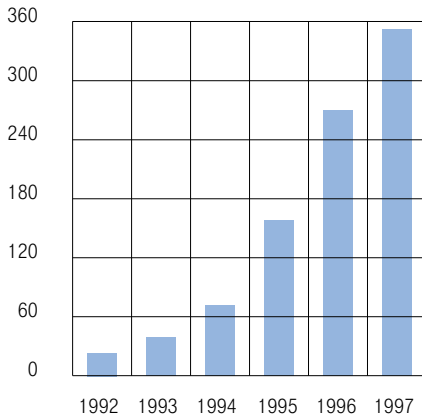
Purchasing and logistics improved

By merging the purchasing and logistics functions to create the Purchasing and Logistics Group Service Center and forming the Logistics Center, Deutsche Telekom has succeeded in strengthening its supply management.

Over the last two years, the purchasing function has consistently worked towards more intensive collaboration with selected suppliers, with the main objective of reducing time-to-market by involving suppliers early on to utilize their expertise, signing Group-wide general contracts and cutting process costs. In this regard, Deutsche Telekom introduced purchasing by means of electronic data interchange in some areas during 1997 with a view to expanding the system in the future.

The policy of putting purchasing on a more international basis is being consistently expanded by using Deutsche Telekom's offices abroad. The aim of this strategy is to be able to react quickly in the significant technology markets in North America and South-east Asia.

Patent applications
of Deutsche Telekom



1992: 19
1993: 39
1994: 72
1995: 158
1996: 270
1997: 353

Research and development Customer-oriented and innovative

As an innovative enterprise on its way to becoming a telematics full-service provider, Deutsche Telekom views the development of new, customer-oriented products and services as one of our primary tasks. It's our goal to offer customers attractive, innovative and user-friendly products.

More than 4,000 trained staff members were involved in research and development as at the end of 1997, a little more than half of them at our software development centers and Multimedia Software GmbH in Dresden. Research and development work on new Deutsche Telekom products and services and on ways to raise efficiency and quality levels in our network infrastructure is conducted at our Darmstadt Technology Center and at T-Berkom in Berlin. Our development efforts focus on a variety of areas including telesecurity, user-friendly interfaces, voice processing, intelligent networks based on object-oriented architecture and applications such as teleworking, teleoffices and telelearning.

Together with leading international software houses, we have developed products that will open the door to the multimedia age for our customers.

Deutsche Telekom Advanced Solutions was established in Silicon Valley on June 1, 1997 to enable the early identification of international trends in the Internet and multimedia growth markets. This group pursues research, development and market monitoring tasks.

Venture capital enterprise established

In September 1997, we founded T-Venture (T-Telematik Venture Holding GmbH), a corporate venture capital enterprise that acquires stakes in young, innovative technology firms in the telematics field – that is, the field resulting from the convergence of telecommunications and information technology. T-Venture provides capital and entrepreneurial know-how to these companies. By doing so, we want to help translate innovation into marketable and profitable products.

Deutsche Telekom's innovative strength is evidenced by the marked increase in patent applications, which totaled 343 for the entire Group in 1997. No single patent is material for US securities law reporting purposes.

Many developments completed

The development of T-Intra, a multimedia value-added service, the T-Net-Box, a network digital answering machine, and the new service features in the digital T-Net network were among the projects completed in 1997. After carrying out extensive pilot projects, we launched an ATM (Asynchronous Transfer Mode) service that is being marketed throughout Germany. Our T-View 100 ISDN videophone is another example of a product brought to market in the year under review.

Together with the Berlin-based Heinrich Hertz Institute and the Technical University of Berlin, our Darmstadt research division succeeded in setting a "world record in transmission speed" last spring. For the first time ever, 40 Gbit/s were transmitted via conventional monomode optical fibers – like those used in our T-Net – over a 150-kilometer distance without the help of an intermediate repeater.

Access network enables broadband applications

In 1997, extensive tests were completed successfully so that a "broadband services" pilot project in North-Rhine/Westphalia will be conducted in the first half of 1998.

ADSL technology (Asymmetric Digital Subscriber Line) makes high-speed applications possible using copper cable in the local loop.

Deutsche Telekom's direct expenditures on research and development in 1997 totaled some DM 1.2 billion, 40 percent of which was spent on software development. By further improving our processes, we want to improve the quality and time-to-market of our products, services and networks in the coming years using the same resources.

Employees as of balance sheet date¹	Dec. 31, 1997	Dec. 31, 1996	Dec. 31, 1995
Civil servants	91,542	105,419	114,430
Salaried employees	51,681	44,235	43,672
Wage earners	47,811	51,406	55,365
Deutsche Telekom group²	191,034	201,060	213,467
Changes in the composition of the Deutsche Telekom group			
of prior years (in particular MATAV)	18,261	19,607	-
Trainees/student interns	6,711	8,923	11,718
Total Deutsche Telekom group	216,006	229,590	225,185

¹ adjusted to reflect full-time jobs

² before changes in the composition of the Deutsche Telekom group of prior years

Employees Staff level down to 191,000

With approximately 191,000 employees at the end of 1997 – 47.9 % of them civil servants and 52.1 % non-civil servants – Deutsche Telekom is one of Germany's largest employers. These figures are based on the make-up of the 1995 consolidated group. Based on the consolidated group as at year-end 1997 – i. e. including the Hungarian company MATAV – the Company has approximately 209,000 employees.

More than one third of our employees are women. One of Deutsche Telekom's declared aims is to promote equal opportunities for women in all areas, including at the management level. In June 1997, Deutsche Telekom was awarded the "Total E-Quality" certificate for its comprehensive and successful efforts to promote equal opportunities.

Staff downsizing successful

In order to ensure Deutsche Telekom's ability to compete – and thus protect jobs in the long term – the Group's workforce is to be reduced, by socially acceptable measures, to approximately 170,000 employees by the year 2000. This goal corresponds to a workforce reduction of approximately 60,000 employees from the 1994 level, and does not include the employees of companies that were consolidated after 1995 (in particular MATAV). The staff reductions are being accomplished largely through natural attrition, early retirement programs and severance packages. Pursuant to a collective bargaining agreement with the unions, there will be no dismissals due to rationalization before the end of the year 2000. In turn, the same collective bargaining agreement provides for measures that will enhance flexibility and mobility of the workforce in terms of work areas and locations.

Workforce productivity considerably improved

As in the two previous years, the personnel reductions proceeded faster than planned: 10,000 positions were eliminated in 1997, meaning that the workforce decreased 5 % in comparison with the previous year. By the end

of the year, Deutsche Telekom had about 191,000 employees – as adjusted to reflect full-time jobs (comparative figure, thus it does not include MATAV). Previous accruals for the costs of the staff downsizing were recognized in the financial statements from 1994 to 1996 and did not affect the results of the year under review. Staff productivity increased by 12.5 percent in 1997, to DM 331,000 of revenue per employee (based on the composition of the 1995 consolidated group; the 1996 figure was DM 294,000).

Performance-based salaries

In response to the changed market conditions, Deutsche Telekom is gradually introducing a uniform compensation plan based on the individual employee's performance, which also takes into account the company's financial results. Similar performance-based and results-oriented compensation plans have already been introduced in the collective bargaining agreements for the employees of Deutsche Telekom's subsidiaries T-Mobil, DeTeCSM and DeTeSystem. Such a model for all other employees is currently being negotiated.

Pension plan restructured

During the year under review, Deutsche Telekom completely restructured its company pension plan. For each of its active employees, the Company makes annual payments into a capital account; when an employee becomes eligible for retirement, the account balance is either paid out as a lump sum or converted into an annuity.

In the past, payment obligations resulting from pension claims of former employees of Deutsche Bundespost were divided, in accordance with a set formula, among its successor companies. In the year under review, each beneficiary of a pension claim was assigned to a specific successor company. This arrangement contributes to the reduction of our pension expenses.

The pensions for civil servants continue to comply with the provisions laid down in the Second Posts and Telecommunications Reform.

Market-oriented career development

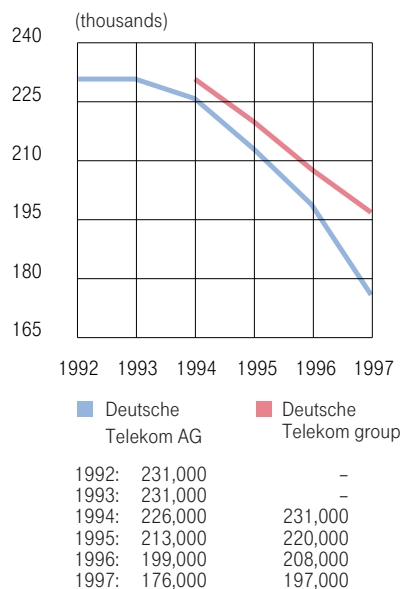
The commitment, motivation and know-how of our employees play a substantial role in the Group's success. Consequently, developing the skills and qualifications of the Group's employees is one of the primary tasks of our market- and performance-oriented personnel policy. Within the framework of the strategic plan for personnel, measures to promote career development such as annual discussions with employees, coaching and counseling groups, and the "High Potential" project for junior managers have been introduced. Comprehensive continuing education programs for employees help develop their qualifications – especially for the new demands that arise from the Company's evolution into a customer-oriented services company operating within an environment of open competition. Training expenditures for the 1997 financial year amounted to about DM 0.7 million.

New job profiles

In the year under review, the number of trainees in the Group averaged 6,200. A total of 400 trainees received open-end contracts upon completing their training, and 2,400 received fixed-term contracts.

To be able to continue offering young men and women training geared towards the future, the Group has defined new job profiles in the information and telecommunications technology sectors. These programs were started in the summer of 1997. In 1998, Deutsche Telekom will provide training for a total of 2,070 trainees – again, an increase over the previous year.

Number of Deutsche Telekom employees, average for the year



Number of employees, average for the year, adjusted to reflect full-time jobs (before changes in the composition of the Group of prior years, without trainees)

Broad sales coverage

Deutsche Telekom has 118 branch offices in Germany. It also maintains branch offices and representative offices at selected sites abroad.

Deutsche Telekom does not maintain any branches within the meaning of § 13 of the German Commercial Code (HGB).

Dependent company report

Due to the majority shareholding, Deutsche Telekom AG is a dependent company of the Federal Republic of Germany. No controlling agreement or profit-and-loss transfer agreement exists. Pursuant to § 312 of the German Stock Corporation Law (AktG), the Board of Management of Deutsche Telekom AG has therefore prepared a Dependent Company Report describing relations between the controlling body and affiliated companies. The Board of Management has included the following statement at the end of this report: "The Board of Management hereby states that, under the circumstances known to the Board of Management at the time of performing the business transactions, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of or on the instructions of the controlling company or any other affiliated companies."

Key events after December 31, 1997

Since the new German Telecommunications Act came into effect, Deutsche Telekom has submitted a large number of proposed tariff changes for approval by the Regulatory Authority. Of particular note at the beginning of 1998 are the new rates for voice telephony services at March 1, 1998, which were revised as part of the price-cap procedure prescribed by the Federal Ministry of Posts and Telecommunications pursuant to § 27 paragraph 1 (2) of the Telecommunications Act. The price changes, as approved in a letter dated January 30, 1998, are projected to result in savings for Deutsche Telekom customers amounting to around DM 2 bn.

An application made by Deutsche Telekom regarding the rates for providing subscriber access lines for competitors' services was not approved. In a letter dated March 9, 1998, the Regulatory Authority set the tariff for this service at DM 20.65 for a simple twin copper wire, while at the same time requiring a revised tariff proposal with lower rates to be submitted by May 22, 1998.

Outlook

Telecommunications – the market of the future

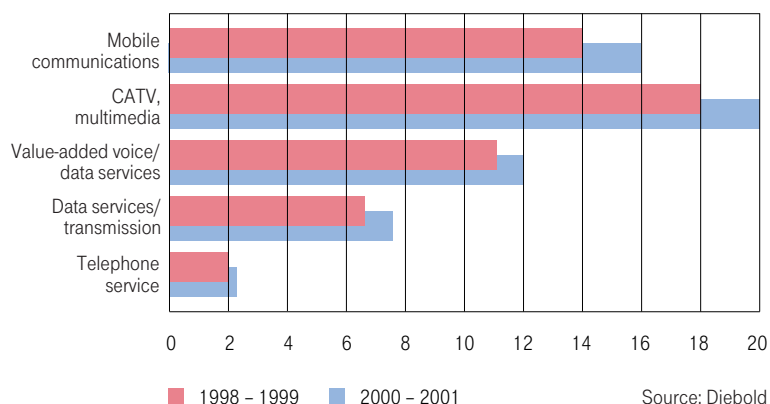
According to figures released by the OECD, the German economy is set to expand further in 1998, with above-average growth predicted for the telecommunications sector. Much is expected of the telecommunications market, but the potential is simultaneously accompanied by risks. Experts are predicting that telecommunications might well displace the automotive sector from its position as the key market over the next five years.

Consequently, potential for considerable growth is seen in mobile and data communications. Classical voice telephony, on the other hand, is expected to play more of a background role in revenue growth.

The volume of mobile communications services is said to expand in the wake of expected price cuts and the implementation of new technologies. A whole host of innovations are driving the growth of cable TV and Internet-based multimedia applications. As a result of the variety of services offered and the absence of applicable regulation, Internet service providers (ISPs) will increasingly compete directly with phone companies. It is estimated that 16 million people will use the Internet in the year 2000 compared with five million in 1997.

Telecommunications: a growth market

German market
% annual growth rate



The future course of business at Deutsche Telekom

As the former monopoly supplier, Deutsche Telekom will lose market share in the parts of the market that were recently liberalized. The switch of traffic volume from the Company's own telephone network service to interconnection services will have an adverse impact on gross profits due to the level of interconnection rates.

Thanks to our customer orientation coupled with our comprehensive range of services and our state-of-the-art T-Net, we consider ourselves to be well prepared to take up the challenge of competition in the fully liberalized German telecommunications market. On the international front as well, the Company will systematically exploit the chances offered by the opening of the markets around the world.

Deutsche Telekom has set itself the following goals for the coming years:

- to increase its shareholder value and to offer its shareholders attractive returns,
- to expand its position as the leading supplier of complete telecommunications services in Germany,
- to offer its customers one-stop shopping worldwide, and
- to stimulate the demand for telecommunications services in the markets it serves, thus increasing revenues, cash flow and earnings strength, and improving its balance sheet structure.

Deutsche Telekom intends to use the following means to achieve these objectives.

Increasing customer satisfaction and strengthening customer loyalty

Deutsche Telekom has completed the process of turning itself into a customer- and earnings-oriented enterprise. In this respect, the range of products, services and tariffs offered by the Company is directed towards the various needs of its customers. To ensure that its products and services are always accessible and readily available, the Company maintains a dense network of sales and service outlets for the various customer groups it serves. Deutsche Telekom is convinced that the high quality of its services will play a decisive role in increasing customer satisfaction and strengthening customer loyalty, and therefore intends to pay close attention to further enhancing its sales and service activities.

New products and services based on the digital T-Net

Deutsche Telekom possesses one of the most modern networks in the world, which permits it to develop and market new products, services and customized solutions quickly. Moreover, the Company possesses the technology platforms and the know-how needed to meet the rising demand for more complex services and new applications like telematics and multimedia. One of the Company's objectives is to increase network utilization by offering open platforms and relocating intelligence from applications into the network.

Main investments in 1998

With the completion of the digitization of the network and the development program for eastern Germany in 1997, the Company expects the volume of investments and purchasing

to drop sharply in 1998. Despite this, Deutsche Telekom plans to invest more than DM 9 bn in property, plant and equipment during the year.

Over DM 4 bn will be spent on further expanding the T-Net in 1998.

One major focus is the long-distance network, where a total well in excess of DM 2 bn is slated for investment. Major projects include new features in the telephone network service and the acquisition of worldwide submarine cable transmission rights, notably to cope with the rapid growth in Internet traffic. Being able to provide bandwidth is the decisive factor at the long-distance level: investments in an ATM platform and a new Internet platform will give Deutsche Telekom a strong position in these cutting-edge markets.

A second area highlighted for special attention is the access network, where more than DM 1 bn is to be invested during 1998, mostly on the installment of new lines to connect newly built-up areas and to make extensions to the existing network. In addition, investments in the access network give Deutsche Telekom's customers broadband access for multimedia applications and reflect the heavy demand for ISDN products.

Further spending is planned to achieve the targeted savings in personnel costs by improving organizational flows and optimizing or installing new computer systems.

Medium-term investments

Through massive forward-looking spending, Deutsche Telekom is fostering the integration of the fixed network and the mobile communications network.

Almost DM 1 bn will be invested in the new product "broadband lines" in the medium term. Building on ADSL technology, these lines inexpensively provide high speeds for video transmissions and Internet usage, thus helping to turn multimedia applications into a mass market.

Worldwide service for the customer

In its international operations, Deutsche Telekom is pursuing the strategy outlined below. On the one hand, the Company's customers increasingly expect to obtain their international telecommunications services in the fields of voice, video and data communications from a single source. With this in mind, Deutsche Telekom formed the Atlas/Global One joint venture with Sprint and France Telecom and further developed this Alliance. A strategic reorientation of Atlas/Global One is intended to sharply reduce the start-up losses run up by the venture.

At the same time, Deutsche Telekom is becoming involved in rapidly expanding national telecommunications markets. Besides committing capital, the Company is making full use of the technical know-how and management experience gained in the successful modernization of the telecommunications networks in eastern Germany and, in connection with the Company's stake in MATAV, in Hungary. Deutsche Telekom is continuing to pursue this strategy, planning to make selected

international commitments with a view to safeguarding its position in strategic markets and increasing shareholder value. Despite the current risks relating to the uncertain economic and political climate, Deutsche Telekom considers the markets in Southeast Asia to hold tremendous potential for the future and therefore does not intend to divest its local holdings in the region.

Increasing productivity and cutting costs

Reducing costs and improving productivity are of vital significance for Deutsche Telekom. The main factors involved here are personnel reduction measures without layoffs and the reduction of debt and the related interest expense. Further measures aimed at optimizing business processes and increasing productivity and efficiency have also been initiated.

Now that all the analog switching and transmission equipment has been fully depreciated, certain charges will not be incurred in the future, meaning that the level of depreciation and amortization will fall overall in the 1998 financial year.

Restructurings and selective price adjustments, such as those in the cable business and for directory services, will similarly help to improve the financial situation, while the locations of public telephones will be optimized.

A critical study will take a close look at the sale of terminal equipment with the aim of reaching a profitable solution in the near future.

Financing the future

The high level of cash generated from operations coupled with the potential for raising funds efficiently through the debt issuance program and the possibility of increasing the Company's equity capital nominally by up to an additional DM 1.4 bn by January 2, 2000, create the solid foundation necessary to finance the investments needed to secure the Company's future flexibly and inexpensively.

Revenue expected to continue growing

Despite tougher competition, Deutsche Telekom expects to gain from the continued expansion of the telecommunications market, and aims to pass on an appropriate share of the Company's profits to its shareholders.

Preparations for the Euro and the new millennium

To prepare the way for the introduction of the single European currency and the date change, Deutsche Telekom has initiated projects aimed at ensuring that its computer systems and applications are compatible with both.

With the introduction of the Euro in mind, Deutsche Telekom will propose to the shareholders' meeting the conversion of the common bearer shares currently with a nominal value of DM 5 each to no par shares at a ratio of one-to-one.

Auditors' report

The consolidated financial statements, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles, the consolidated financial statements give a true and fair view of the net worth, financial position and results of the Group. The combined management report for Deutsche Telekom AG and the Group is consistent with the consolidated financial statements.

Frankfurt am Main, March 31, 1998

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dickmann
Wirtschaftsprüfer

Dr. Kutzenberger
Wirtschaftsprüfer

Consolidated statement of income

	Note	1997 millions of DM	1996 millions of DM	1995 millions of DM
Net revenue	(1)	67,552	63,075	66,135
Changes in inventories and other own capitalized costs	(2)	2,960	3,454	3,320
Total operating performance		70,512	66,529	69,455
Other operating income	(3)	3,746	3,905	2,138
Goods and services purchased	(4)	(12,137)	(10,224)	(9,506)
Personnel costs	(5)	(18,340)	(18,777)	(18,502)
Depreciation and amortization	(6)	(18,597)	(17,653)	(15,377)
Other operating expenses	(7)	(10,161)	(9,455)	(9,685)
Financial income (expense) net	(8)	(7,827)	(7,714)	(8,211)
Results from ordinary business activities		7,196	6,611	10,312
Extraordinary income (losses)	(9)	-	(2,475)	(1,264)
Taxes, Levy to the Federal Republic of Germany	(10)	(3,608)	(2,215)	(3,778)
Income after taxes		3,588	1,921	5,270
(Income) losses applicable to minority shareholders	(11)	(285)	(163)	2
Net income	(12)	3,303	1,758	5,272
Unappropriated net income carried forward from previous year		1	91	-
Transfer to retained earnings		-	(202)	(3,981)
Unappropriated net income (unappropriated net income of Deutsche Telekom AG)		3,304	1,647	1,291
Earnings per share in DM		1.20	0.83	2.60

Consolidated balance sheet

Assets	Note	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Noncurrent assets			
Intangible assets	(13)	1,676	1,429
Property, plant and equipment	(14)	127,861	134,588
Financial assets	(15)	7,480	8,282
		137,017	144,299
Current assets			
Inventories, materials and supplies	(16)	1,281	2,098
Receivables	(17)	8,231	7,465
Other assets	(18)	1,497	1,018
Marketable securities	(19)	3,590	4
Liquid assets	(20)	9,258	17,852
		23,857	28,437
Prepaid expenses, deferred charges and deferred taxation	(21)	1,944	1,589
		162,818	174,325
Shareholders' equity and liabilities			
Shareholders' equity			
Capital stock	(22)		
	(23)	13,719	13,719
Additional paid-in capital	(24)	27,869	27,869
Retained earnings (deficit)	(25)	1,802	2,171
Unappropriated net income		3,304	1,647
Minority interest	(26)	1,450	1,193
		48,144	46,599
Accruals			
Pensions and similar obligations	(27)	6,052	6,293
Other accruals	(28)	8,942	8,637
		14,994	14,930
Liabilities			
Debt	(29)	87,891	99,888
Other		10,741	12,115
		98,632	112,003
Deferred income		1,048	793
		162,818	174,325

Consolidated noncurrent assets

Consolidated noncurrent assets

	Acquisition or production cost					Dec. 31, 1997
	Jan. 1, 1997	Translation adjustment	Additions	Disposals	Reclassi- fications	
millions of DM						
Intangible assets						
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,823	(11)	475	332	542	2,497
Goodwill						
from individual company financial statements	1	0	1	0	0	2
arising from consolidation	606	(6)	11	81	0	530
Advance payments	88	0	98	1	(86)	99
	2,518	(17)	585	414	456	3,128
Property, plant and equipment						
Land and equivalent rights, and buildings including buildings on land owned by third parties	39,566	(33)	612	234	(1,092)	38,819
Technical equipment and machinery	115,037	(231)	8,744	2,348	4,649	125,851
Other equipment, plant and office equipment	5,779	(26)	1,369	356	1,736	8,502
Advance payments and construction in progress	6,291	(17)	2,575	66	(5,749)	3,034
	166,673	(307)	13,300	3,004	(456)	176,206
Financial assets						
Investments in unconsolidated subsidiaries	12	0	6	0	0	18
Loans to unconsolidated subsidiaries	0	0	22	0	8	30
Investments in associated companies	2,981	(666)	288	845	0	1,758
Other investments in related companies	3,617	0	122	67	0	3,672
Long-term loans to associated and related companies	149	0	235	11	(13)	360
Other investments in noncurrent securities	337	0	877	3	0	1,211
Other long-term loans	1,525	0	30	441	5	1,119
	8,621	(666)	1,580	1,367	0	8,168
	177,812	(990)	15,465	4,785	0	187,502

Depreciation, amortization and write-downs						Net carrying amount	
Jan. 1, 1997	Translation adjustment	Additions	Disposals	Reclassi- fications	Dec. 31, 1997	Dec. 31, 1997	Dec. 31, 1996
939	(4)	573	255	14	1,267	1,230	884
0	0	1	0	0	1	1	1
150	(6)	58	18	0	184	346	456
0	0	0	0	0	0	99	88
1,089	(10)	632	273	14	1,452	1,676	1,429
2,626	(3)	1,115	51	(372)	3,315	35,504	36,940
27,307	(54)	15,249	1,247	(44)	41,211	84,640	87,730
2,152	(9)	1,601	327	402	3,819	4,683	3,627
0	0	0	0	0	0	3,034	6,291
32,085	(66)	17,965	1,625	(14)	48,345	127,861	134,588
12	0	0	0	0	12	6	0
0	0	0	0	0	0	30	0
325	(286)	559	0	0	598	1,160	2,656
0	0	76	0	0	76	3,596	3,617
1	0	0	0	0	1	359	148
0	0	0	0	0	0	1,211	337
1	0	1	1	0	1	1,118	1,524
339	(286)	636	1	0	688	7,480	8,282
33,513	(362)	19,233	1,899	0	50,485	137,017	144,299

Consolidated statement of cash flows

	Note	1997 millions of DM	1996 millions of DM	1995 millions of DM
Net income		3,303	1,758	5,272
Income (losses) applicable to minority shareholders		285	163	(2)
Income after taxes		3,588	1,921	5,270
Depreciation and amortization		18,597	17,653	15,377
Income tax expense		2,958	1,385	614
Net interest expense		6,368	7,270	8,197
Net losses from the disposition of noncurrent assets		1,165	1,026	1,337
Accruals for personnel restructuring measures		-	1,388	785
Increase/(decrease) in pension accruals		(241)	264	185
Results from associated companies		1,520	556	190
Other noncash income and expense		(79)	(422)	17
(Increase)/decrease in trade accounts receivable		(421)	(298)	(815)
(Increase)/decrease in inventories		243	283	234
Increase/(decrease) in trade accounts payable		(758)	(164)	(351)
Changes in other current assets and liabilities		(140)	1,544	627
Income taxes paid		(3,574)	(2,166)	(32)
Dividends received		173	152	8
Cash generated from operations		29,399	30,392	31,643
Interest paid		(7,344)	(8,773)	(8,804)
Interest received		586	640	848
Net cash provided by operating activities	(30)	22,641	22,259	23,687
Capital expenditures		(13,282)	(16,885)	(14,574)
Purchase of subsidiaries, associated and related companies, net of cash acquired		(1,567)	(5,221)	(1,980)
Proceeds from sale of noncurrent assets		643	656	390
Net change in short-term investments and marketable securities		3,383	(4,037)	2,843
Other		254	162	-
Net cash used for investing activities	(31)	(10,569)	(25,325)	(13,321)
Change in short-term borrowing		(2,445)	(128)	(954)
Issuance in long-term debt		266	101	-
Repayments of medium and long-term debt		(9,934)	(12,035)	(14,280)
Dividends		(1,646)	(1,210)	-
Proceeds from share offering		-	20,146	-
Net cash provided by (used for) financing activities	(32)	(13,759)	6,874	(15,234)
Effect of foreign exchange rate changes on cash and cash equivalents		(6)	-	(89)
Net increase (decrease) in cash and cash equivalents		(1,693)	3,808	(4,957)
Cash and cash equivalents, at beginning of year		7,316	3,508	8,465
Cash and cash equivalents, at end of year		5,623	7,316	3,508
Liquid assets as shown in the balance sheet				
Cash and cash equivalents, Dec. 31		5,623	7,316	3,508
Temporary cash investments, Dec. 31		3,635	10,536	6,500
Total		9,258	17,852	10,008

Consolidated statement of shareholders' equity

millions of DM	Shares issued and outstanding (in thousands)	Capital stock nominal value	Additional paid-in capital	Retained earnings		Total	Unappro- priated net income	Minority interest	Total
				Difference from currency translation	Treasury stock				
Balance at Jan. 1, 1995	2,000,000	10,000	10,976	(134)	(1,512)	(1,646)		2	19,332
Retained levy			316						316
Net income						3,981	1,291	(2)	5,270
Difference from									
currency translation				(191)		(191)			(191)
Capital contributions								5	5
Balance at Dec. 31, 1995	2,000,000	10,000	11,292	(325)	2,469	2,144	1,291	5	24,732
Changes in the composition of the Deutsche Telekom group								1,144	1,144
Dividends for 1995							(1,200)	(10)	(1,210)
Shares issued from									
retained earnings	30,000	150				(150)	(150)		-
Proceeds from share offering	713,700	3,569	16,577						20,146
Transfer to reserve for treasury stock					2	(2)	-		-
Net income						202	1,556	163	1,921
Difference from									
currency translation				(25)		(25)		(109)	(134)
Balance at Dec. 31, 1996	2,743,700	13,719	27,869	(350)	2	2,519	2,171	1,647	46,599
Changes in the composition of the Deutsche Telekom group				74		74		68	142
Dividends for 1996							(1,646)		(1,646)
Net income							3,303	285	3,588
Difference from									
currency translation				(443)		(443)		(96)	(539)
Balance at Dec. 31, 1997	2,743,700	13,719	27,869	(719)	2	2,519	1,802	3,304	48,144

Notes to the consolidated financial statements

Summary of accounting policies

Description of business and relationship with the Federal Republic of Germany

The Deutsche Telekom group (Deutsche Telekom) is a full-service telecommunications provider whose major lines of business include providing fixed-network communications, mobile-network communications, broadband cable and broadcasting services for television and radio stations, special value-added services as well as international activities. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

Deutsche Telekom's principal business is providing telecommunications services, comprising more than 90 % of total operating revenues, operating profits and identifiable assets. Deutsche Telekom's business is conducted predominantly in Germany and is, therefore, within a single geographic area for reporting purposes. None of Deutsche Telekom's customers account for 10 % or more of total consolidated operating revenues. For these reasons, no segment reporting section according to Statement of Financial Accounting Standards (SFAS) 14 has been included.

As part of Postreform II (second reform of German posts and telecommunications), Deutsche Bundespost TELEKOM, which operated as a public enterprise until the end of 1994, was transformed into a stock corporation at the beginning of 1995. The new company, Deutsche Telekom AG, was registered with the Commercial Registry of the Bonn District Court (Amtsgericht - HRB 6794) on January 2, 1995. In November 1996, Deutsche Telekom AG made an initial public offering increasing both the number of shares issued and outstanding as well as the number of shareholders.

The Federal Republic of Germany (the Federal Republic), formerly the sole shareholder of Deutsche Telekom AG, did not participate in the capital increase, and its shareholding fell to approximately 74 % of the shares. In January 1998, the Federal Republic transferred a 13.5 % shareholding in Deutsche Telekom AG to a federal corporation, the Kreditanstalt für Wiederaufbau (KfW). As a result, the Federal Republic's direct shareholding as of 1998 amounts to approximately 60.5 %. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF). The Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics, has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity will regulate the business activities of Deutsche Telekom.

The Federal Republic and various government departments and agencies are collectively Deutsche Telekom's largest customer. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

Competitive situation

Deutsche Telekom has been subject to competition in a number of areas for several years, primarily satellite and mobile communications services, data transmission and the sale of terminal equipment. Since August 1, 1996, the Company's competitors have also been able to freely obtain licenses to build and operate telecommunications transmission lines (including broadband cable transmission lines) in Germany, for the purpose of providing public telecommunications services other than public fixed-network voice telephony.

Deutsche Telekom essentially had the exclusive right to provide public fixed-network voice telephony services in Germany until December 31, 1997. Since January 1, 1998, the provision of these services has been fully liberalized in accordance with EU regulations and the German Telecommunications Act (TKG), which came into force on August 1, 1996. Thus, the final stage in the process of liberalizing the German telecommunications market, which began in 1989, has now been completed, and Deutsche Telekom is now subject to full competition in all lines of business as of January 1998.

Summary of significant accounting principles

The annual financial statements and the management report of the Deutsche Telekom group have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch - HGB) and German Stock Corporation Law (Aktiengesetz - AktG).

The listing of its shares on the New York Stock Exchange in November 1996 and the related requirement for Deutsche Telekom to file financial statements with the U.S. Securities and Exchange Commission (SEC), have led the Company to prepare its consolidated financial statements in conformity with international financial reporting norms. Accordingly, the Company uses accounting and valuation principles in line with those of U.S. GAAP applicable at the balance sheet date, provided options exist under German GAAP to permit such an approach. This also serves to minimize differences between results reported in the reconciliation of German GAAP 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 accounting and disclosure 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.

Whereas the HGB requires only one year of comparative figures for the statement of income, the SEC requires the two previous years. The SEC also requires three years of cash flow statements and statements of shareholders' equity.

The consolidated balance sheet and the consolidated statement of income are prepared in accordance with the classification requirements of § 298 HGB, in combination with § 266 and § 275 HGB. The income statement is prepared using the total cost method. All amounts shown, except per share amounts, are in millions of Deutsche Marks (DM). Certain items have been combined in order to enhance the informative value and understanding of the consolidated financial statements. These items are shown separately in the notes. The consolidated accounts also include a consolidated statement of cash flows and consolidated statement

of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the consolidated financial statements.

The consolidated financial statements are prepared in accordance with uniform accounting and valuation principles. The accounting policies used in the consolidated financial statements differ from those used in the parent company's unconsolidated financial statements. Such differences, applied to conform with U.S. GAAP, include the following:

- Property, plant and equipment leased under contracts for which the risks and rewards of ownership have been assumed are capitalized. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments are included as liabilities.
- Interest incurred while items included in property, plant and equipment were under construction has been added to construction costs.
- Direct pension obligations are measured in accordance with SFAS No. 87 and No. 88, using valuation methods consistent with those used for indirect pension obligations in the unconsolidated financial statements of Deutsche Telekom AG.
- Accruals for the internal costs of preparing annual financial statements are not recorded.
- Investment grants received are recorded as reductions of the acquisition costs of assets.

The financial statements of Deutsche Telekom AG as well as the financial statements of the Deutsche Telekom group, which have an unqualified audit opinion from C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG.

Consolidated group

The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG and its subsidiaries.

The subsidiaries, associated companies and other related companies have been included in the consolidated financial statements in accordance with the following criteria:

- Subsidiaries are companies in which Deutsche Telekom directly or indirectly has majority voting rights or management control.

- Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20 % and 50 % of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.

- Companies in which Deutsche Telekom holds less than 20 % of the voting rights are carried in the consolidated financial statements at the lower of acquisition cost or market value and classified as other investments in related companies.

The changes in the composition of the Deutsche Telekom group in 1997 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
Jan. 1, 1997	42	40	82
Additions	-	1	1
Disposals	8	7	15
Reclassifications	-	1	1
Dec. 31, 1997	34	35	69
Associated companies included at equity			
Jan. 1, 1997	27	19	46
Additions	11	2	13
Disposals	2	2	4
Reclassifications	1	(1)	-
Dec. 31, 1997	37	18	55
Other unconsolidated subsidiaries and other investments in related companies (greater than 20 %)			
Jan. 1, 1997	16	16	32
Additions	2	6	8
Disposals	-	2	2
Reclassifications	(1)	-	(1)
Dec. 31, 1997	17	20	37
Total			
Jan. 1, 1997	85	75	160
Additions	13	9	22
Disposals	10	11	21
Reclassifications	-	-	-
Dec. 31, 1997	88	73	161

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 34 (Dec. 31, 1996: 42) domestic and 35 (Dec. 31, 1996: 40) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest. Nine (Dec. 31, 1996: -) subsidiaries are included in the group financial statements using the equity method.

The changes in the composition of the Deutsche Telekom group have not had a material effect on the 1997 group financial statements.

Twenty-one (Dec. 31, 1996: 19) subsidiaries were not included because they were not material to the net worth, financial position and results of the Deutsche Telekom group. These subsidiaries accounted for less than 1% of consolidated revenue, results and balance sheet total of the Deutsche Telekom group.

In accordance with § 311 paragraph 1 HGB, 46 (Dec. 31, 1996: 46) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method.

Sixteen (Dec. 31, 1996: 13) associated companies which have little or no effect on the net worth, financial position and results of the Deutsche Telekom group were classified as other investments in related companies at acquisition cost less applicable write-downs.

The full list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794).

Principal subsidiaries and associated companies

The principal subsidiaries and associated companies whose revenues and results, together with Deutsche Telekom AG, account for more than 90 % of the Group are shown in the table below:

Name and registered office	Deutsche Telekom share Dec. 31, 1997 (%)	Shareholders' equity Dec. 31, 1997 millions of DM	Revenue 1997 millions of DM	Income after taxes 1997 millions of DM	Employees 1997 (Annual average)
Subsidiaries					
DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	300	7,816	68	10,821
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100.00	2,276	6,600	5	5,244
MATAV Magyar Távközlési Rt, Budapest, Hungary ^{1,2}	59.58	1,986	2,360	406	19,094
De.Te.System Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main	100.00	81	2,017	61	1,348
T-Data Gesellschaft für Datenkommunikation mbH, Bonn	100.00	1,048	993	76	670
DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt/Main	100.00	51	714	94	389
Online Pro Dienste GmbH & Co. KG, Darmstadt	100.00	210	472	16	412
DeTeLine Deutsche Telekom Telekommunikationsnetze GmbH, Berlin	100.00	50	385	(30)	665
De.Te.CSM Deutsche Telekom ComputerService Magdeburg GmbH Magdeburg	100.00	225	313	71	500
DeTeKabel Service Deutsche Telekom Kabel Service Gesellschaft mbH, Bonn ¹	99.78	108	227	25	349
Associated companies					
ATLAS TELECOMMUNICATIONS S.A. Brussels, Belgium ¹	50.00	95	1,652	(786)	3,690
Technology Resources Industries Bhd. Kuala Lumpur, Malaysia ¹	20.99	654	1,288	(401)	4,726
PT Satelit Palapa Indonesia Satelindo, Jakarta, Indonesia ³	25.00	306	747	(263)	1,860
Isla Communications Co., Inc., Makati City Manila, Philippines ⁴	10.42	260	40	(65)	1,327
Asiacom Philippines, Inc. Makati City Manila, Philippines	49.88	159	1	(37)	-
Other companies					
Sprint Corporation, Westwood, Kansas, USA ¹	10.00	16,174	25,803	1,652	51,000

¹ Consolidated subgroup financial statements

² Held through MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 50 %)

³ Held through DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn

⁴ Held directly by Deutsche Telekom AG, additional indirect holding through Asiacom (share: 28.87 %)

Consolidation principles

Capital consolidation is performed following the book value method under German GAAP. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Negative goodwill from capital consolidation is included under other accruals.

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings (deficit). The unappropriated net income reported in the consolidated financial statements represents the unappropriated net income of Deutsche Telekom AG. Accordingly, the effects of consolidation and the net income of subsidiaries are included in retained earnings (deficit).

Revenue, income and expenses as well as receivables and liabilities between the consolidated companies are eliminated. **Intercompany profits and losses** and income effects from the **consolidation of intercompany debt** are eliminated in the consolidated financial statements.

Foreign currency translation

In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are translated at the exchange rate applicable on the transaction date. Unrealized foreign currency losses due to exchange rate fluctuations through the balance sheet date are recognized in the income statement while unrealized foreign currency gains are not recognized. Where foreign currency items have been hedged by forward exchange contracts, they are valued at the corresponding hedge rate.

Currency translation of foreign subsidiaries is made in accordance with the functional currency method. Thus, the functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure as reported in this currency should be reflected in the group accounts. Generally, the functional currency of dependent subsidiaries is identical with that of the parent company. Dependent subsidiaries are translated

The consolidated balance sheets include deferred taxes resulting from the effects of consolidation, provided the tax expense is expected to reverse in later years except where the effects of consolidation relate to the parent company during the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the book value method by applying Deutsche Telekom's uniform principles of valuation. This method is similar to the method described above for consolidated subsidiaries. The principles used for full consolidation are also applied in treating the differences resulting from the initial consolidation. It was not necessary to eliminate inter-company profits and losses with associated companies, as they were insignificant.

Joint ventures are included in the consolidated financial statements using the equity method.

according to the temporal method. On the other hand, the functional currency of independent subsidiaries is the local currency. Currently all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company, therefore currency translation is performed according to the modified current rate method.

Therefore, in the consolidated financial statements, the translation of all items shown in balance sheets of foreign subsidiaries from foreign currencies into DM is performed using middle rates on the balance sheet date. Gains and losses resulting from translation are recorded, without affecting net income, directly to retained earnings (deficit).

The income statements of foreign subsidiaries are translated at the average annual exchange rate.

The exchange rates of certain significant currencies are as follows:

	Average annual rate			Rate at balance sheet date	
	1997 DM	1996 DM	1995 DM	Dec. 31, 1997 DM	Dec. 31, 1996 DM
100 Belgian Francs (BEF)	4.8464	4.8592	4.8605	4.8478	4.8540
100 Swiss Francs (CHF)	119.5045	121.8850	121.2550	123.2500	115.0000
1 ECU (XEU)	1.9585	1.8837	1.8669	1.9790	1.9270
100 French Francs (FRF)	29.7049	29.4070	29.7130	29.8830	29.6380
1 Pound Sterling (GBP)	2.8412	2.3478	2.2610	2.9820	2.6267
100 Hungarian Forints (HUF)	0.9301	0.9862	1.1481	0.8795	0.9419
100 Indonesian Rupiah (IDR)	0.0631	0.0646	0.0638	0.0319	0.0658
100 Japanese Yen (JPY)	1.4379	1.3838	1.5309	1.3838	1.3408
100 Singapore Dollars (SGD)	117.0160	106.7900	100.8800	106.9950	110.1700
100 Malaysian Ringgit (MYR)	62.7530	59.5745	59.1960	46.4110	61.5762
100 Philippine Pesos (PHP)	5.9559	5.7384	5.5780	4.4305	5.9118
1 U.S. Dollar (US\$)	1.7348	1.5037	1.4261	1.7921	1.5548

Accounting and valuation

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of VAT and sales-related reductions. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

Research and development costs are expensed as incurred.

Pension costs for defined benefit plans are actuarially computed using the Projected Unit Credit Method which is consistent with SFAS No. 87 and No. 88. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and in retirement benefits into account.

Pension costs include current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service costs. In addition, the impact of the realignment of the company pension plan on net income must be taken into consideration in accordance with SFAS No. 88. The pension costs are accrued in the balance sheet in accordance with SFAS No. 87 and No. 88, whereby the accrual is increased by the expense recognized and decreased by payments made during the year.

The Company is required to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II, which came into force in 1995, rather than by annual actuarial valuations. The amounts currently due in each period are recognized as an expense in that period.

Advertising costs are charged to expenses as incurred.

Income tax expense includes current payable taxes on income as well as deferred income taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future. Such differences may arise at the individual taxable entity level as well as in consolidation.

Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996 as Deutsche Telekom AG was not taxable prior to January 1, 1995 and benefited from an essentially complete exemption from tax in 1995.

Earnings per share for each period are calculated by dividing net income by the weighted average number of ordinary bearer shares outstanding during that period. The weighted average number of ordinary bearer shares in 1995 and 1996 was ascertained after giving retroactive effect to the ten-for-one stock split and the issuance of shares by way of an increase in capital stock from retained earnings on July 31, 1996.

Purchased **intangible assets** are valued at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom AG on January 1, 1995 was recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 was valued at its remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other property, plant and equipment is valued at acquisition or construction cost, less scheduled depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during construction. However, general administration expenses are not capitalized.

Property, plant and equipment includes nondeductible capitalized VAT amounts at the level of expected refunds from VAT adjustments pursuant to § 15a of the German Value-Added Tax Act (Umsatzsteuergesetz - UStG) resulting from Deutsche Telekom's full liability for VAT as of 1996. Capitalized VAT is depreciated over a period of four years, starting in 1996.

Nonscheduled write-downs are provided when an impairment in the value of assets occurs. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the individual company financial statements for tax purposes has not been recognized in the consolidated financial statements.

Depreciation of noncurrent assets is carried out using the straight-line method over the following useful lives:

	Years
Intangible assets	3 to 4
Goodwill	5 to 12
Buildings	
Office and residential buildings	50
Telecommunications buildings and towers	25 to 30
Workshop buildings, outdoor installations and facilities	10
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment	
for broadband distribution networks	5 to 20
Broadband distribution networks,	
outside plant networks and cable conduit lines	15 to 20
Telecommunications power facilities and other	3 to 10
Other equipment, plant and office equipment	3 to 20

Additions to real estate property are depreciated beginning in the month the building is placed into service. For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and, for those assets acquired in the second half of the year, a half year of depreciation is provided.

Items with a low acquisition cost are expensed in the year of purchase.

Maintenance and repairs are charged to expenses when incurred.

Upon sale or disposal of noncurrent assets, the related cost and accumulated depreciation are removed from the balance sheet, and a gain or loss is recognized for the difference between the proceeds from the sale and the net carrying amount of the assets.

Financial assets are valued at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are recorded at net present value. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, production cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

Receivables and other assets are shown at their nominal value. Known individual risks are accounted for through appropriate individual valuation adjustments, and general credit risks through general valuation adjustments of receivables. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

Marketable securities are stated at the lower of cost or market value at the balance sheet date.

Pension obligations are calculated using actuarial methods in accordance with the internationally accepted Projected Unit Credit Method, which is consistent with U.S. GAAP (SFAS No. 87 and No. 88).

Provisions for taxes and other **accruals** including those for loss contingencies and environmental liabilities are recorded using best estimates. Sufficient allowance was made for all possible risks when assessing these provisions and accruals.

Deferred taxes are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom uses the German income tax rate for undistributed earnings for domestic companies and the respective local tax rate for foreign companies.

Cost accruals are only made by Deutsche Telekom when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 paragraph 1 HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year. As required by German GAAP, these accruals have been accrued at each period end, which is different to U.S. GAAP requirements.

Accruals, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, are not discounted.

Liabilities are recorded at their repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and recognized as an adjustment to interest expense over the term of the liability.

Unrealized losses relating to derivative financial instruments which do not qualify for hedge accounting are recognized when incurred whereas unrealized gains are deferred until realized.

The preparation of consolidated financial statements in accordance with German GAAP requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Notes to the consolidated statement of income

(1) Net revenue¹

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Fixed-network communications	50,493	47,368	52,800
Mobile-network communications	4,975	4,181	3,450
Network communications	55,468	51,549	56,250
Cable TV / Broadcasting	3,124	2,998	3,463
Terminal equipment	3,219	3,397	3,419
Special value-added services	2,302	2,311	2,325
Other services	1,082	894	671
International activities	2,357	1,926	7
	67,552	63,075	66,135

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

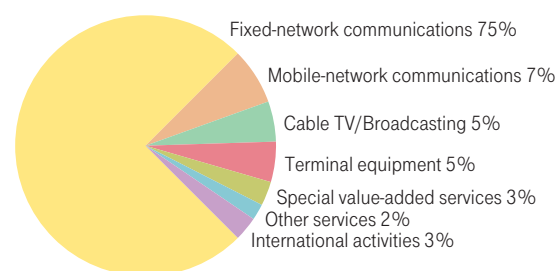
Revenue by geographic area:

	1997	1996	1995
Domestic	62,982	59,031	64,043
International	4,570	4,044	2,092
	67,552	63,075	66,135

Breakdown of international revenues:

	1997	1996	1995
European Union (excluding Germany)	1,071	1,085	901
Rest of Europe	2,764	2,267	430
North America	246	243	271
Latin America	62	70	71
Other	427	379	419
	4,570	4,044	2,092

The percentage of the individual revenue segments in relation to net revenue is as follows:



Network communications includes revenues from domestic and international traffic, from network interconnections, and from data communications and systems solutions. Other services include revenue from multimedia services and services ancillary to the basic telephone services of Deutsche Telekom, such as rental activities. Special value-added services include public telephone and operator services as well as telephone directory publishing.

International revenue is derived from fixed-network international incoming telephone traffic and internationally generated revenues from other business areas.

The significant increase in net revenue in 1997, as compared with 1996, of approximately DM 4.5 billion or 7.1 % is a result of the positive development in network communications. The key factor for this in fixed-network communications was the telephone network service, where the number of ISDN access lines increased considerably and traffic volume also showed strong growth.

The increase in the mobile-networks communications group business area is mainly attributable to large increases in revenue within the T-D1 network.

(2) Changes in inventories and other own capitalized costs

	1997 millions of DM	1996 millions of DM	1995 millions of DM
(Decrease)/Increase in inventories of			
finished products and work in process	(613)	51	45
Own capitalized costs	3,573	3,403	3,275
	2,960	3,454	3,320

Own capitalized costs comprise mainly planning and construction costs. They include interest incurred during the construction period of DM 371 million (1996: DM 407 million, 1995: DM 509 million).

(3) Other operating income

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Refund of value-added tax (§ 15a UStG)	1,299	1,516	-
Other value-added tax refunds	-	662	-
Reversal of accruals	969	678	907
Cost reimbursements	577	396	295
Ancillary services	154	110	216
Insurance compensation	122	152	126
Income from the disposition of noncurrent assets (including sale of investments)	109	39	53
Reversal of valuation adjustments of accounts receivable and doubtful accounts	108	25	25
Other income	408	327	516
	3,746	3,905	2,138

Deutsche Telekom AG received a refund of VAT in accordance with § 15a Umsatzsteuergesetz- UStG (Value-Added Tax Act) of DM 1,299 million in 1997. The Company recognized depreciation of DM 1,305 million on nondeductible VAT capitalized during tax-free periods prior to 1996.

In 1996 the Company recognized a one-time VAT refund of DM 662 million, which relates to assets purchased before

January 1, 1996 and placed into service during 1996. Income from the reversal of accruals includes a one-time reversal of pension provisions due to the new VAP structure in accordance with SFAS No. 88.

Of the total amount of other operating income, DM 1,186 million (1996: DM 703 million, 1995: DM 933 million) relate to changes in estimates made in other financial years.

(4) Goods and services purchased

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Goods purchased	2,950	2,317	1,883
Services purchased	9,187	7,907	7,623
of which: domestic network access charges	1,568	1,019	581
of which: international network access charges	3,170	2,730	2,766
of which: other services	4,449	4,158	4,276
	12,137	10,224	9,506

Repairs and maintenance expense amounts to DM 1,022 million (1996: DM 1,154 million, 1995: DM 1,363 million) and is included in other services. Other services also include costs relating to the maintenance of Deutsche

Telekom's fleet of vehicles, other machinery and equipment, as well as expenses for software maintenance and utilization of computer power from computer companies.

(5) Personnel costs/Average number of employees

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Wages and salaries:			
Civil servants	5,788	6,576	6,872
Non-civil servants	7,167	6,634	6,325
	12,955	13,210	13,197
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,382	1,331	1,255
Civil servant pension costs	2,900	2,900	2,900
Non-civil servant pension costs	683	693	609
Pension costs	3,583	3,593	3,509
Active civil servant healthcare costs	400	625	518
Other employee benefits	20	18	23
	5,385	5,567	5,305
	18,340	18,777	18,502
Number of employees (average for the year)			
	1997 Number	1996 Number	1995 Number
Civil servants	95,855	110,269	117,138
Salaried employees	51,783	44,884	45,246
Wage earners	49,305	52,616	57,368
Deutsche Telekom group¹	196,943	207,769	219,752
Changes in the composition of the Deutsche Telekom group			
of prior years (in particular MATAV)	19,138	20,040	-
Trainees/student interns	6,178	9,003	11,968
Total Deutsche Telekom group	222,259	236,812	231,720

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

Pension cost amounts to DM 3,583 million (1996: DM 3,593 million, 1995: DM 3,509 million). Civil servant pension costs are made in accordance with the provisions of Postreform II. The decrease in personnel costs in 1997 is mainly attributable

to the planned reduction of the workforce. This decrease was partly offset by remuneration adjustments as well as by the increase in other employee-related costs.

(6) Depreciation and amortization

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Amortization of intangible assets	632	516	349
Depreciation of property, plant and equipment	17,965	17,137	15,028
	18,597	17,653	15,377

The increase of depreciation and amortization of DM 944 million is mainly attributable to the investment activity associated with the digitization of the networks, which was completed in 1997. As a result of digitization, depreciation of switching equipment and transmission equipment has increased. The increase in the amortization of intangible assets is primarily attributable to investments made by Deutsche Telekom AG in software products for invoicing and customer

administration. Depreciation of DM 1,305 million, as was also the case in 1996, which is related to nondeductible VAT capitalized prior to 1996, is also included under depreciation and amortization.

Nonscheduled write-downs of DM 40 million have been recognized for a mobile data network as well as for telex, switching and transmission equipment.

(7) Other operating expenses

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Marketing expenses	1,357	1,593	935
Losses on disposition of noncurrent assets	1,202	1,066	1,390
Rental and leasing expenses	1,048	1,159	1,252
Provisions	1,038	425	637
Losses on accounts receivable and provision for doubtful accounts	796	709	593
Legal and consulting fees	726	803	630
Postal charges	686	656	665
Other employee-related costs	604	490	726
Advertising gifts and commissions	454	440	333
Travel and transport expenses	385	448	426
Administrative expenses	366	353	295
Foreign currency transaction losses	223	182	115
Postal and banking services	186	91	100
Loan employment and temporary employment expenses	94	82	29
Nondeductible value-added taxes paid	-	35	972
Other expenses	996	923	587
	10,161	9,455	9,685

The decrease in marketing expenses is mainly due to the completion of the ISDN promotion program as well as the elimination of marketing and public relations costs related to the initial public offering of Deutsche Telekom AG in 1996.

The losses on disposition of noncurrent assets are mainly due to the completed digitization of Deutsche Telekom's network and relate to scrapping of long-distance cable and analog switching systems. The increase in provisions comprise

mainly provisions for risks arising from inherited burdens, legal proceedings and construction projects. Other employee-related costs include approximately DM 206 million for services provided by the Federal Agency as a result of the business contracts for services or works completed for the 1997 year.

Of the total amount of other operating expenses, DM 1,405 million relates to other accounting periods.

(8) Financial income (expense) net

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Dividend income from investments	156	123	49
Results related to companies accounted for under the equity method (including amortization of goodwill)	(1,520)	(556)	(190)
Income (loss) related to subsidiaries, associated and related companies	(1,364)	(433)	(141)
Income from debt securities and long-term loan receivables	196	122	130
Interest and similar income	686	467	988
Interest and similar expense	(7,250)	(7,858)	(9,185)
Net interest expense	(6,368)	(7,269)	(8,067)
Write-downs on financial assets and marketable securities	(95)	(12)	(3)
	(7,827)	(7,714)	(8,211)

The increase of approximately DM 1 billion to DM 1,520 million in losses from companies accounted for under the equity method results mainly from the joint venture Atlas/Global One where the proportionate loss of DM 367 million was due to startup costs and necessary structural measures. The negative economic development and the currency decline in Southeast Asia also led to considerable losses in the investments in this region, of which DM 408 million negatively affected the results and financial position of Deutsche Tele-

kom. In addition, scheduled goodwill amortization of DM 242 million as well as nonscheduled amortization of 317 million have been made in order to cover these risks.

Income from debt securities and long-term loan receivables consists primarily of interest on receivables from Deutsche Post AG. The write-downs on financial assets, which were nonscheduled, relate to loans made to related companies.

(9) Extraordinary (losses)

This item represents personnel restructuring measures of DM 1,758 million in 1996 and DM 1,264 million in 1995 as well as share offering costs of DM 717 million for 1996.

(10) Taxes, Levy to the Federal Republic of Germany

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Income taxes	2,958	1,385	614
Other taxes	650	830	66
Levy to the Federal Republic of Germany	-	-	3,098
	3,608	2,215	3,778

Income taxes

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Current income taxes	3,102	2,042	582
Deferred income taxes	(144)	(657)	32
	2,958	1,385	614

Commencing January 1, 1995, the Company became subject to normal corporate taxation in Germany, although it benefited from an essentially complete exemption from tax in 1995. The combined statutory income tax rate, currently just under 57 %, includes corporate income taxes at a rate of 45 % for undistributed earnings, trade taxes at an average German national rate, and the solidarity surcharge of 5.5 % on corporate income tax (Solidaritatszuschlag). When earnings are distributed, the corporate income tax imposed on such earnings is reduced to 30 %. Taxable income was earned primarily in Germany. Corporate income tax refunds resulting from dividends are reflected in the period for which the dividend is paid.

Significant differences between actual tax expense of DM 2,958 million and DM 1,385 million for 1997 and 1996 respectively, and the expected corporate income tax expense (computed using 45 %, the statutory corporate income tax rate for undistributed earnings) are as follows:

	1997 millions of DM	1996 millions of DM
Expected corporate income tax at the tax rate applicable for retained earnings	2,946	1,487
Increase (decrease) in corporate income tax due to:		
Nondeductible items	(68)	(45)
Trade income taxes	879	676
Taxation on foreign operations	(349)	(120)
Utilization of net operating loss carryforwards	(33)	(31)
Tax credit on dividends	(526)	(315)
Tax effects due to restructuring of companies	402	-
Temporary differences and loss carryforwards for which deferred taxes are not recorded	(196)	(190)
Other	(97)	(77)
Income taxes	2,958	1,385
Effective income tax rate	45.2 %	42.0 %

In its tax return Deutsche Telekom AG has recognized a goodwill (residual difference between the market value of the Company and the fair value of the individual assets as valued as of January 1, 1996) that is - based on § 7 paragraph 1 EStG - amortized over a period of 15 years.

Assuming the fiscal administration approves this approach, a lower tax expense would be realized in future years. In line with the principle of prudence, goodwill amortization has not been recognized for accounting purposes in the year under review.

Deferred tax assets and liabilities result primarily from temporary differences between income determined under German GAAP and under applicable tax law.

At December 31, 1997 Deutsche Telekom had corporate income tax net operating loss carryforwards amounting to approximately DM 543 million (1996: DM 1,003 million). Deutsche Telekom also had trade tax net operating loss carryforwards amounting to DM 85 million (1996: DM 494

million). Substantially all of the net operating loss carryforwards have an unlimited carry forward period under German tax law.

Levy to the Federal Republic of Germany

The levy to the Federal Republic of Germany which, pursuant to Postreform II, was payable for the last time in 1995, resulted from § 63 paragraphs 1 to 4 of Article 1 of Postreform I and regulations under the German Budget Acts (Haushaltsgesetze). The components of the levy due as a result of revenues earned in eastern Germany have been retained and have been recorded, as required by each annual German Budget Act, as an increase in additional paid-in capital of DM 316 million in 1995.

(11) (Income) losses applicable to minority shareholders

The income applicable to minority shareholders includes DM 290.9 million (1996: DM 173.3 million, 1995: DM 0.5 million) in gains and DM 5.4 million (1996: DM 10.5 million, 1995: DM 2.2 million) in losses. The gains in 1997 relate, as was also the case in 1996, mainly to MATAV.

(12) Net income

The consolidated net income of DM 3,303 million was generated primarily by Deutsche Telekom AG.

Notes to the consolidated balance sheet

(13) Intangible assets

	Dec. 31, 1997 Net carrying amount millions of DM	Dec. 31, 1996 Net carrying amount millions of DM
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,230	884
Goodwill		
from individual company		
financial statements	1	1
arising from capital consolidation	346	456
Advance payments	99	88
	1,676	1,429

The increase in concessions, industrial and similar rights and assets and licenses in such rights and assets is mainly attributable to the capitalization of network control and administration software, as well as customer administration and invoicing software.

The development of intangible assets is shown in the table of consolidated noncurrent assets.

(14) Property, plant and equipment

	Dec. 31, 1997 Net carrying amount millions of DM	Dec. 31, 1996 Net carrying amount millions of DM
Land and equivalent rights, and buildings including buildings on land owned by third parties	35,504	36,940
Technical equipment and machinery	84,640	87,730
Other equipment, plant and office equipment	4,683	3,627
Advance payments and construction in progress	3,034	6,291
	127,861	134,588

Additions in property, plant and equipment amount to DM 13,300 million in 1997. The increase relates mainly to Deutsche Telekom AG. Capital expenditure in 1997 and 1996 relates primarily to the digitization of the switching and transmission equipment, which was completed in 1997. The decrease in advance payments and construction in progress can be attributed to the digitization of switching equipment being completed.

Prior to January 1, 1996, Deutsche Telekom's monopoly services were not subject to VAT. Accordingly, the Company was not able to reclaim, in the normal manner, the full amount of VAT paid on goods and services purchased. Instead, the Company was allowed to immediately reclaim 20 % of the VAT paid on goods and services purchased. The VAT paid on capitalized items has been capitalized to the extent recoverable under German tax law (§ 15a UStG) beginning January 1, 1996. At the balance sheet date capitalized VAT,

after reduction of scheduled depreciation of DM 1.3 billion, amounted to DM 2.6 billion. Other operating income includes the DM 1.3 billion refunds of VAT.

The development of property, plant and equipment is shown in the table of consolidated noncurrent assets.

Leasing

Minimum lease payments under leases expiring subsequent to December 31, 1997 are shown below (millions of DM):

Year	Capital leases	Operating leases
1998	83	1,048
1999	86	866
2000	86	743
2001	90	673
2002	90	584
after 2002	1,689	2,634
Total minimum lease payments	2,124	6,548
Imputed interest	(1,030)	
Present value of net minimum lease payments	1,094	

Capital leases are primarily for office buildings and have terms of up to 25 years.

(15) Financial assets

	Dec. 31, 1997 Net carrying amount millions of DM	Dec. 31, 1996 Net carrying amount millions of DM
Investments in		
unconsolidated subsidiaries	6	-
Loans to unconsolidated		
subsidiaries	30	-
Investments in		
associated companies	1,160	2,656
Other investments in		
related companies	3,596	3,617
Long-term loans to associated		
and related companies	359	148
Other investments in		
noncurrent securities	1,211	337
Other long-term loans	1,118	1,524
	7,480	8,282

Additions to investments in associated companies of DM 288 million mainly relate to payments for the second tranche of the investment in the Philippine companies, Isla Communications Company Inc. and Asiacom Philippines Inc., both in Manila, totaling DM 164 million. Additional shares totaling DM 12 million were acquired in DETECON Deutsche Telepost Consulting GmbH, Bonn.

The decrease of DM 1,496 million in the net carrying amount of investments in associated companies results from foreign currency effects not affecting net income of DM 380 million, due largely to the exchange rate fluctuations in Southeast Asia, which in return affected the investments in this region, and nonscheduled amortization of goodwill totaling DM 317 million, as well as the net losses related to associated companies.

The increase in other investments in related companies of DM 122 million relates primarily to the acquisition of DIAL The Israeli Company for International Communications Services Ltd., Tel Aviv, ESMF European Satellite Multimedia Services Finance S.A., Betzdorf, TEGARON Telematics GmbH, Bonn and DDG Gesellschaft für Verkehrsdaten mbH, Düsseldorf. Furthermore, additions were recorded in respect of three international satellite organizations.

Significant reductions in other investments in related companies result from the fact that Deutsche Telekom's investments in the capital of the satellite companies EUTELSAT and INTELSAT are re-valued annually in accordance with utilization.

Long-term loans mainly include twelve loans to associated and related companies.

Other investments in noncurrent securities mainly include federal bonds, other debt securities, bonds of Deutsche Bundespost and bonds of Deutsche Bundesbahn. In 1997, Deutsche Telekom AG increased its investment in fixed-income securities (annuity funds) and mixed funds, as well as share-based investment funds of DM 874 million, which are intended to optimize income from medium and long-term liquid reserves.

Other long-term loans include a loan to Deutsche Post AG, loans for construction of hostels and other buildings as well as loans to employees.

The development of financial assets is shown in the table of consolidated noncurrent assets.

The full list of investment holdings is filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

Significant investments in associated companies are shown below:

Name	Dec. 31, 1997			Dec. 31, 1996		
	Deutsche Telekom share (%)	Net carrying amount millions of DM	of which: Net difference between carrying value and equity in net assets millions of DM	Deutsche Telekom share (%)	Net carrying amount millions of DM	of which: Net difference between carrying value and equity in net assets millions of DM
Satelindo	25.00	248	248	25.00	904	684
TRI	20.99	385	285	20.99	811	595
Atlas S. A.	50.00	74	0	50.00	420	18
Asiacom	49.88	78	0	49.88	88	39
Islacom	10.42	17	0	10.42	22	6
Other		358	124		411	143
		1,160	657		2,656	1,485

(16) Inventories, materials and supplies

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Raw materials and supplies	429	648
Work in process	166	892
Finished goods and merchandise	659	527
Advance payments	27	31
	1,281	2,098

Raw materials and supplies include data communications equipment, spare parts for transmission equipment, telecommunications cable as well as spare parts and components for other telecommunications equipment. The decrease

in raw materials and supplies is mainly attributable to the completion of the modernization of the telephone network in eastern Germany; this has also reduced the requirement of raw materials and supplies.

The decrease in work in process is mainly related to capitalization of DM 639 million in 1997, which is shown in the item construction in progress.

Inventories of terminal equipment held both for resale and leasing are included under finished goods and merchandise.

Advance payments are comprised mainly of payments which have been received for terminal equipment.

(17) Receivables

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Trade accounts receivable	7,801	7,368
Receivables from		
unconsolidated subsidiaries	10	5
Receivables from associated		
and related companies	420	92
	8,231	7,465

Trade accounts receivable relate primarily to the billing of telecommunications services.

All receivables, with the exception of DM 2 million, are due within one year.

The allowance for doubtful accounts and changes therein are in millions of DM as follows:

	1997	1996	1995
January 1,	1,238	989	858
Charged to costs			
and expenses	357	319	157
Amounts written			
off/released	(951)	(70)	(26)
December 31,	644	1,238	989

The Company directly wrote off accounts receivable balances of DM 439 million in 1997 (Dec. 31, 1996: DM 390 million).

(18) Other assets

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Tax receivables	399	356
Accrued interest	385	90
Receivables from employees	120	122
Receivables from reimbursements		
and loans receivable	97	63
Miscellaneous	496	387
	1,497	1,018

Other assets amounting to DM 1,475 million are due within one year. Of the balance at December 31, 1997, DM 463 million became legally due only after the balance sheet date and relate to accrued interest and nonchargeable VAT.

(19) Marketable securities

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Treasury shares	2	2
Other marketable securities	3,588	2
	3,590	4

In connection with the Company's global offering in 1996, Deutsche Telekom also introduced an Employee Stock Purchase Plan. In 1997, the Company bought back 252 shares with a nominal value of DM 5 per share and issued 1,120 shares at a corresponding issue price of DM 28 and DM 28.50, respectively. Additional paid-in capital has, as was the case in 1996, been adjusted for the amount received on the issuance of share in excess of nominal value, taking the

discounts granted into consideration. The remaining 459,900 shares on the balance sheet date have been included in marketable securities and valued at their acquisition cost of DM 2.3 million (DM 5 per share). These shares represent 0.02 % of capital stock. Any balance remaining thereafter is to be used for a new employee stock purchase plan.

Other marketable securities relate to own bonds held (DM 1,988 million) to maintain favorable trading conditions as well as securities primarily secured by loans within the scope of a direct investment portfolio (DM 1,529 million). On August 1, 1997, Deutsche Telekom AG took over the price maintenance activities for bonds and treasury notes of the former Deutsche Bundespost. For this purpose, a separate intervention securities account was set up for price maintenance of Telekom bonds at the Deutsche Bundesbank.

(20) Liquid assets

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Checks	3	2
Petty cash and deposits at the Bundesbank	18	24
Deposits at Deutsche Postbank AG	9	2,899
Cash in banks	9,228	14,927
	9,258	17,852

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, checking account balances, deposits at the Bundesbank and Deutsche Postbank AG and petty cash. Temporary cash investments consist of fixed-term bank deposits.

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Cash and cash equivalents (original maturity less than 3 months)	5,623	7,316
Temporary cash investments (original maturity longer than 3 months)	3,635	10,536
	9,258	17,852

(21) Prepaid expenses, deferred charges and deferred taxation

Prepaid expenses and deferred charges of DM 1,944 million (Dec. 31, 1996: DM 1,589 million) primarily relate to prepaid personnel costs of DM 1,023 million (Dec. 31, 1996: DM 776 million) at Deutsche Telekom AG. Also included are discounts on loans of DM 181 million (Dec. 31, 1996: DM

228 million) which are amortized on a straight-line basis over the terms of the related liabilities. In addition, a deferred tax asset of DM 693 million (Dec. 31, 1996: DM 549 million) has been included.

(22) Shareholders' equity

Prior to January 1, 1995, the total capital represented the investment of the Federal Republic in the net assets of Deutsche Bundespost TELEKOM. It was only possible to prepare a schedule reflecting the development of the consolidated shareholders' equity of Deutsche Telekom AG in accordance with commercial and stock corporation law from the date of incorporation of Deutsche Telekom. Deutsche Telekom AG was formed on January 1, 1995, the date on which Deutsche Bundespost TELEKOM was transformed into a corporation under German Law.

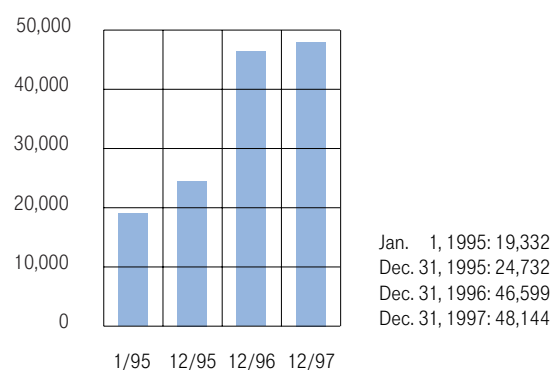
The allocation of assets, liabilities and operations to Deutsche Bundespost TELEKOM and the subsequent transfer as of January 1, 1995 to Deutsche Telekom AG were accounted for as transfers between entities under common control using the "as if" pooling method. The net assets of Deutsche Telekom AG at incorporation were DM 20,976 million, of which DM 10,000 million was credited as capital stock in accordance with Article 5 paragraph 1 of the Articles of Incorporation and DM 10,976 million was credited as additional paid-in capital pursuant to § 272 paragraph 2 No. 1 HGB. The consolidated net asset value was reduced by DM 1,646 million, primarily due to the elimination of intercompany profits resulting from the transfer of mobile phone services from the parent company to a subsidiary. This amount was charged directly against retained earnings; DM 134 million was recorded as a cumulative loss in the foreign currency translation account and DM 1,512 million was recorded as a deficit in the other retained earnings account. In exchange for the transfer of assets and liabilities, the Federal Republic received 200 million bearer shares with a par value of DM 50; this reflected capital stock of DM 10,000 million.

On November 9, 1995, at a special shareholders' meeting, a ten-for-one stock split was declared with the effect that Deutsche Telekom had 2 billion bearer shares, par value

of DM 5 per share outstanding at December 31, 1995. All applicable share and per share data has been adjusted for the stock split. Under the Articles of Incorporation, the Board of Management is authorized to increase the capital stock of the Company by a further DM 5 billion, to a maximum of DM 15 billion, by issuing new shares with a par value of DM 5 per share for cash or noncash consideration through January 2, 2000.

A detailed account of the development of the consolidated shareholders' equity for the years 1995, 1996 and 1997 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from January 1, 1995 to December 31, 1997 is as follows (millions of DM):



(23) Capital stock

The capital stock of the consolidated group represents the capital stock of Deutsche Telekom AG. Deutsche Telekom AG is authorized by its Articles of Incorporation to increase the capital stock by up to DM 5,000 million. Following its initial public offering, the Company can increase its capital stock by a further DM 1,431.5 million through January 2, 2000.

In accordance with Article 5 paragraph 1 of the Articles of Incorporation, Deutsche Telekom AG's capital stock was unchanged and totaled DM 13,719 million at December 31, 1997, representing 2,743.7 million bearer shares with a nominal value of DM 5 per share. Each DM 5 share entitles the bearer to one vote and to receive payment for a full dividend for the 1997 financial year. After deducting treasury shares held by the Company, capital stock with a dividend entitlement amounted to DM 13,716 million.

On July 1, 1996, a capital increase was approved by the shareholders' meeting. This involved the issue of 30 million bearer shares to the Federal Republic as the sole shareholder, at a par value of DM 5 per share. In 1996, through the initial public offering of Deutsche Telekom AG shares, an additional 713.7 million new shares, each with a par value of DM 5 per share, were issued. The Federal Republic forewent its preemptive rights and did not participate in this capital increase. At December 31, 1997, the Federal Republic held a total of 2,030 million Deutsche Telekom AG shares each with a nominal value of DM 5 per share (DM 10,150 million). The remaining shares are widely held.

The Federal Agency informed Deutsche Telekom AG in a letter dated July 10, 1995, making specific reference to § 20 paragraph 4 AktG, that the Federal Republic holds a majority interest in Deutsche Telekom AG pursuant to § 16 paragraph 1 AktG.

(24) Additional paid-in capital

The additional paid-in capital of the consolidated group represents the additional paid-in capital of Deutsche Telekom AG.

Changes in the number of treasury shares held led to a slight increase in additional paid-in capital of DM 20,546.40.

In accordance with § 272 paragraph 2 No. 1 HGB, the proceeds from the share issue in excess of capital stock totaling DM 16,577 million was recorded in 1996 as additional paid-in capital.

In 1995, DM 316 million was transferred to the additional paid-in capital of Deutsche Telekom AG pursuant to § 272 paragraph 2 No. 4 HGB. This transfer was made in accordance with § 32 paragraph 1 of the Haushaltsgesetz 1995 (German Budget Act), which required Deutsche Telekom AG to use the levy payable to the Federal Republic arising from operating revenue generated in eastern Germany to increase shareholders' equity.

(25) Retained earnings (deficit)

In addition to the transfers made from Deutsche Telekom AG's net income in previous years, retained earnings (deficit) include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were generated by such subsidiaries since being included in the consolidated group, as well as a reserve for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB.

This item also includes the cumulative effects of consolidation entries, while translation adjustments are recorded in a separate component of retained earnings.

In 1996, retained earnings (deficit) were reduced by DM 150 million as a result of the shares issued from Company reserves.

(26) Minority interest

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to MATAV.

(27) Pensions and similar obligations

Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the VAP (Versorgungsanstalt der Deutschen Bundespost) and the DTBS (Deutsche Telekom Betriebsrenten-Service) as well as obligations under Article 131 of the Basic Law (Grundgesetz - GG) as shown in the following table:

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Pension obligations:		
- Direct	322	208
- Indirect	5,695	6,045
Obligations under Article 131 GG	35	40
	6,052	6,293

These pension obligations are fully accrued net of the plan assets at fair value.

The amount of the accrual was determined using actuarial principles that are consistent with U.S. GAAP (SFAS No. 87 and No. 88) and using the assumptions shown in the following table:

	1997	1996	1995
Discount rate	6.5 %	6.5 %	7.0 %
Projected salary increase	3.0 %	3.0 %	3.0 %
Expected return on assets	6.4 %	6.4 %	7.0 %
Projected pension increase	2.0 %	2.0 %	2.5 %

The corresponding pension accruals measured in accordance with § 6a of the Income Tax Law (Einkommensteuergesetz - EStG) are DM 5,240 million (Dec. 31, 1996: DM 5,532 million).

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Actuarial present value of benefits:		
Vested	5,342	6,189
Nonvested	728	766
Accumulated benefit obligation	6,070	6,955
Effect of projected future salary increases	266	513
Projected benefit obligation	6,336	7,468
Plan assets at fair value	(266)	(669)
Projected benefit obligation in excess of plan assets	6,070	6,799
Unrecognized net gains (losses)	(18)	(506)
Accrual for pensions	6,052	6,293

In 1997, Deutsche Telekom fundamentally changed the structure of the company pension plans. Previously, the pension benefits were mainly provided by VAP, which was jointly financed by the successor companies of Deutsche Bundespost and other related entities. In a segmentation agreement concluded on December 19, 1997, the current and future benefit recipients were individually allocated to the companies. The assets of VAP, which consist primarily of fixed-interest bonds and cash in banks, were also distributed under this agreement. As a result, the actuarial losses reported in previous years were largely eliminated.

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions have agreed on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations will be converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer. Deutsche Telekom will credit further amounts to this account in the future; when the insured event occurs, the account balance will be paid out in full, in installments or converted into a pension. If the relevant employees have not reached the age of 35 or have been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. In 1997, the DTBS was founded for processing the remaining obligations.

Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service.

Net periodic pension cost is summarized as follows:

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Service cost	173	214	217
Interest cost on projected benefit obligation	469	464	448
Actual return on plan assets	41	15	(56)
Periodic pension cost	683	693	609
Actual return on plan assets (new VAP arrangement pursuant to SFAS No. 88)	(426)	-	-
Net periodic pension cost	257	693	609

Civil servant retirement arrangements

Deutsche Telekom AG maintains a special pension fund (Unterstützungskasse) for its civil servants. Deutsche Telekom AG is required to assist in funding the German Government's pension and healthcare obligations to Deutsche Telekom AG's current and former civil servant staff and their surviving dependents. Deutsche Telekom AG is legally obligated to make annual contributions to a special pension fund of DM 2.9 billion for the years 1995 through 1999, and in subsequent years, annual contributions equal to 33 % of

the gross salaries of active civil servants (including civil servants on unpaid leave). Under Postreform II, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

(28) Other accruals

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Taxes		
Current taxes	637	971
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,489	1,356
Personnel restructuring	1,451	1,977
Other obligations	805	768
	3,745	4,101
Outstanding invoices	882	737
Litigation risks	717	767
Environmental remediation	411	413
Risks related to real estate	400	-
Unused telephone units		
on phone cards sold	243	459
Investment risks	239	86
Restoration commitments	163	72
Deferred maintenance	59	98
Other	1,446	933
	8,305	7,666
	8,942	8,637

The decrease in provisions for taxes is primarily due to the utilization and reversal of corporate income tax and trade tax provisions accrued for in prior years. The income tax effect of the proposed dividend of Deutsche Telekom AG of DM 3,292 million has been provided for in the calculation of corporate income tax.

When Postreform II came into effect, the Civil Service Health Insurance Fund was closed to new members. Due to the ageing of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit.

Deutsche Telekom has, in anticipation of future competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement and other programs. The planned reductions include an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements. In 1997, approximately 2,100 (1996: 3,000) civil servants and 2,600 (1996: 3,800) non-civil servants accepted the Company's offer for early retirement and severance. The

early retirement program for civil servants and natural attrition do not result in incremental costs for Deutsche Telekom AG. In 1997, unpaid restructuring costs amounting to DM 1,451 million are included in accruals and DM 63 million are included in other accounts payable.

The table below sets forth the expense recognized, payments made, and the related accruals/payables for future payments in respect of these staff reduction measures for the years 1997 and 1996:

	1997 millions of DM	1996 millions of DM
Accruals/payables, beginning of period	2,091	857
Expense recognized ¹	-	1,758
Payments made ²	(577)	(524)
Accruals/payables, end of period	1,514	2,091

¹ This includes additions to accruals/payables in 1997: -, 1996: DM 1,403 million

² This includes payments against accruals/payables in 1997: DM 577 million, 1996: DM 169 million

Accruals for environmental remediation of DM 411 million (Dec. 31, 1996: DM 413 million) were established for site clean-up costs and asbestos removal costs. There are no material contingencies as a result of these risks.

Deutsche Telekom expects to incur these costs over the next 1 to 4 years.

Other accruals include a difference of DM 7 million (Dec. 31, 1996: DM 8 million) arising from the capital consolidation.

(29) Liabilities

millions of DM	Dec. 31, 1997				Dec. 31, 1996			
	Total	of which due			Total	of which due		
		within one year	in one to five years	after five years		within one year	in one to five years	after five years
Debt								
Bonds and debentures	77,619	7,199	46,059	24,361	87,089	9,526	37,862	39,701
Commercial paper	-	-	-	-	2	2	-	-
Liabilities to banks	10,272	2,550	3,172	4,550	12,797	3,223	4,343	5,231
	87,891	9,749	49,231	28,911	99,888	12,751	42,205	44,932
Other								
Advances received	124	111	13	-	178	176	2	-
Trade accounts payable	3,570	3,535	35	-	4,460	4,175	285	-
Liabilities on bills accepted and drawn	2	2	-	-	4	3	1	-
Payables to unconsolidated subsidiaries	4	4	-	-	15	15	-	-
Liabilities to other companies in which an equity interest is held	122	122	-	-	368	368	-	-
Other liabilities	6,919	4,792	40	2,087	7,090	4,672	291	2,127
of which: from taxes	(736)	(736)	-	-	(839)	(839)	-	-
of which: from social security	(123)	(123)	-	-	(129)	(129)	-	-
	10,741	8,566	88	2,087	12,115	9,409	579	2,127
Total liabilities	98,632	18,315	49,319	30,998	112,003	22,160	42,784	47,059

Bonds and debentures consist primarily of bonds issued by Deutsche Bundespost.

Breakdown of bonds and debentures (millions of DM) is as follows:

Effective interest rate	up to 6%	up to 7%	up to 8%	up to 9%	over 9%	Total
Due in						
1998	3	7,196	-	-	-	7,199
1999	150	3,500	6,800	-	-	10,450
2000	2,100	-	637	637	6,420	9,794
2001	2,050	-	-	7,250	1,116	10,416
2002	-	-	5,399	10,000	-	15,399
after 2002	27	11,400	12,934	-	-	24,361
	4,330	22,096	25,770	17,887	7,536	77,619

Liabilities to banks due in the next 5 years and thereafter are as follows (in millions of DM):

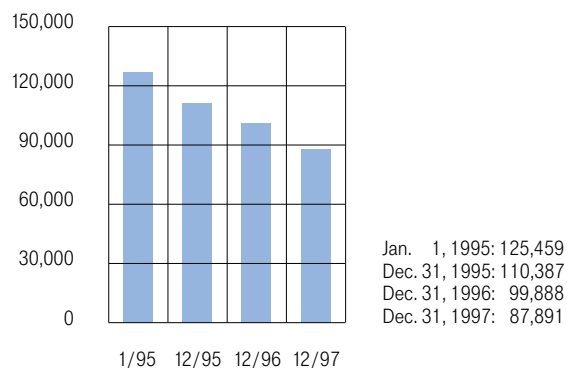
Due in	Amounts
1998	2,550
1999	653
2000	516
2001	1,190
2002	813
after 2002	4,550
	10,272

The average effective interest rate of total debt is for:

Bonds and debentures	7.57 % p.a. (1996: 7.46 % p.a.)
Liabilities to banks	7.53 % p.a. (1996: 7.17 % p.a.)

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on short-term revolving credit facilities up to DM 8.5 billion at interest rates ranging from 5.5 % to 6.0 % or at the daily interbank rate plus 0.25 %. At December 31, 1997, these credit lines had been drawn upon to only a limited extent.

The decrease in debt from January 1, 1995 to December 31, 1997 is as follows (in millions of DM):



The Company's debt was raised principally to finance the development of the communications networks in eastern Germany.

Other liabilities

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Interest	2,714	2,856
Loan notes	1,188	1,357
Rental and leasing obligations	1,141	1,068
Liabilities to employees	297	362
Other	1,579	1,447
	6,919	7,090

Other liabilities include taxes of DM 736 million (Dec. 31, 1996: DM 839 million) and social security liabilities of DM 123 million (Dec. 31, 1996: DM 129 million).

Liabilities include borrowings of DM 833 million in foreign currencies.

Liabilities in the amount of DM 219 million (Dec. 31, 1996: DM 262 million) payable by subsidiary companies to banks and third parties are collateralized. Deutsche Telekom AG has provided no collateral against its liabilities. In accordance with Postreform II (§ 2 paragraph 4 PostUmwG), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995.

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows has been prepared in conformity with International Accounting Standard No. 7, Cash Flow Statements. Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents for cash

flow reporting purposes. These cash and cash equivalents decreased by DM 1,693 million in 1997 to DM 5,623 million at December 31, 1997.

The decrease is a result of the following developments:

(30) Net cash provided by operating activities

Net cash provided by operating activities increased slightly in 1997 to DM 22,641 million. The increase in net income and depreciation was offset by a decrease in trade accounts

payable and the expense for personnel restructuring measures which was accrued in 1996 and 1995.

(31) Net cash used for investing activities

Net cash used for investing activities decreased to DM 10,569 million in 1997 as a result of a decreased level of capital expenditure in network and in financial investments. As in previous years, it was possible to finance such invest-

ments, totaling approximately DM 15 billion, from cash provided by operating activities. The decrease of net DM 3,383 million in short-term investments and marketable securities is due to the partial re-investments in marketable securities.

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

The decrease in cash provided by (used for) financing activities of DM 20,633 million to DM (13,759) million in 1997 is primarily attributable to the proceeds from the Company's global offering amounting to DM 20,146 million which occurred in

1996 as well as the dividend payment of DM 1,646 million, which is an increase of DM 436 million as compared with the previous year.

Other information

(33) Guarantees and commitments, and other financial obligations

Guarantees and commitments

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Guarantees	446	302
Collateral granted against liabilities of nonconsolidated companies	89	27
Liabilities arising from warranty agreements	64	4
	599	333

Other financial obligations

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Present value of payments to special pension fund	23,600	25,300
Obligations under rental and lease agreements	6,548	6,015
Purchase commitments for capital projects in progress	3,422	4,851
Commitments arising from transactions not yet settled including purchase commitments for interests in other companies	203	579
Contingent obligations arising from Public Law	2	7
	33,775	36,752

Guarantees and commitments of Deutsche Telekom mainly serve day-to-day business activities and securing of loans.

The present value of payments required to be made by Deutsche Telekom AG, in accordance with Postreform II, to the special pension fund for civil servants amounted to DM 23.6 billion at December 31, 1997. Upon the withdrawal of the last civil servant from active service, the requirement for Deutsche Telekom to contribute to the civil servant pension fund will expire. The reduction in the present value of DM 1.7 billion resulted from the payment of DM 2.9 billion in 1997 to the special pension fund and from the increasing effect of the years of service extension for civil servants from the retirement age of 62 to 63.

As part of the MagyarCom joint venture agreement, Ameritech, U.S.A., has the option during the term of the agreement to sell certain or all of its shares in the joint venture to Deutsche Telekom. The exercise price of the put option is the fair market value of the corresponding MATAV shares plus a US\$ 60 million control premium. Had the option been exercised, the maximum required at the balance sheet date would have been approximately DM 3,054 million. The possible commitment arising from this option is not included in purchase commitments for interests in other companies. If the possible commitment arising from the aforementioned option were included, then the total amount of other financial obligations would be DM 36,829 million.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom group.

(34) Financial instruments

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or

liquidation sale. The following is a summary of the estimated fair value of Deutsche Telekom's financial instruments:

	Dec. 31, 1997		Dec. 31, 1996	
	Fair value millions of DM	Net carrying amount millions of DM	Fair value millions of DM	Net carrying amount millions of DM
Assets				
Other long-term loans	1,118	1,118	1,524	1,524
Other investments in noncurrent securities	1,349	1,211	356	337
Receivables	8,231	8,231	7,465	7,465
Liquid assets	9,258	9,258	17,852	17,852
Other investments in marketable securities	3,627	3,590	4	4
Liabilities				
Bonds and debentures	84,793	77,619	94,959	87,089
Liabilities to banks	10,272	10,272	12,799	12,799
Other	10,741	10,741	12,115	12,115
Derivative financial instruments¹				
Interest rate swaps	76	62	52	2
Interest rate caps	15	18	-	-
Futures contracts	-	1	-	-
Swaptions	(1)	(2)	-	-
Foreign currency forward exchange contracts	56	-	13	-

¹ Non-bracketed amounts represent assets, bracketed amounts represent liabilities.

Fair values were determined as follows:

The fair value of other investments in noncurrent securities is based on quoted market prices for those instruments or similar instruments. The net carrying amounts of trade accounts receivable approximate their fair values, due to the short period to maturity. The net carrying amounts of liquid assets also reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of other investments in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amount is adjusted to market value where market value is less than the original investment.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks, and other liabilities approximate their fair values.

The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting

date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in the Company's exposure to adverse fluctuations in interest and foreign exchange rates.

The fair values of investments in associated and related companies, which have carrying values of DM 5,145 million and DM 6,421 million at December 31, 1997 and 1996, respectively, were not practicably determinable because they are not publicly traded or cannot be sold due to contractual restrictions at this point in time. Due to the unique nature of the individual other financial guarantees, estimation of their fair values is not practicable. It is not practicable to estimate a fair value for the put option held by Ameritech, U.S.A., because the option provides for the purchase of the shares by Deutsche Telekom at market value plus a US\$ 60 million control premium.

Derivative financial instruments

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. The Company's policy is to hold or issue financial instruments for other than trading purposes. Derivative financial instruments are subject to internal controls. Derivatives classified as other than trading are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rates inherent in the Company's assets, liabilities and positions. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedges. Derivative instruments designated as hedges are accounted for on the same basis as the underlying position.

The Company uses interest rate swaps, forward rate agreements, purchased swaptions and exchange traded futures to reduce its exposure to interest rate and market value volatility on certain debt issues and deposit instruments and manage its interest expense by setting an optimal mix of floating and fixed rate debt and deposit instruments. Interest rate swaps are designated as micro hedges (coupled with individual financial instruments) and macro hedges (coupled with a portfolio of financial instruments).

Gains or losses related to changes in the value of interest rate swaps are generally not recognized. Macro interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Interest rate swaps which are not designated as either micro or macro hedges are assigned to the interest instrument valuation portfolio. Unrealized losses from changes in market value are netted and resultant net losses are recognized as a component of net interest expense.

The interest differential to be paid or received on interest rate swaps is recognized in the statement of earnings, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps terminated prior to their maturity, or on interest rate swaps hedging an underlying asset, liability or position which has been derecognized, are recognized currently as a decrease or increase in net interest expense.

The Company enters into Forward Rate Agreements (FRAs) to manage the interest performance of its deposit portfolios. Deposit portfolio FRAs are marked to market and resultant negative values are accrued. The interest differential paid or received is recognized in the statement of earnings, as incurred, as a component of net interest expense.

Written swaptions are assigned to the interest instrument valuation portfolio. Unrealized gains or losses from changes in market value are netted and resultant net losses are recognized as a component of net interest expense.

The Company acquired futures contracts during the year under review to hedge fixed interest investments. Unrealized losses on futures contracts are recognized currently.

The Company uses foreign currency forward contracts to reduce fluctuations in foreign currency cash flows related to revenue and capital expenditure and payments to international third party telecommunications carriers. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not valued at the balance sheet date. The investment in the purchased entity is booked using the foreign exchange rate fixed by the foreign currency forward contract. Foreign currency forward exchange contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities.

The Company purchases options to hedge investments in foreign entities. An option purchased to hedge a firm commitment to invest in a foreign entity is included in other assets and valued at purchase cost. Upon exercise of the option the premium is included in the purchase cost of the asset. An option purchased which hedges a planned transaction is included in foreign currency portfolios referred to above. Upon exercise the option premium is included in the underlying transaction. Options expiring unexercised are recognized currently and assigned to other operating costs or revenues.

The following is a summary of the contract or notional principal amounts outstanding at December 31, 1997 and 1996:

	Dec. 31, 1997		Dec. 31, 1996	
	Maturity	Notional amount millions of DM	Maturity	Notional amount millions of DM
Interest rate swaps (DM)				
Pay variable / receive fixed (receiver)	1998-2002	5,750	1997-2001	5,850
Fixed to variable (payer)	2002-2007	2,200	-	-
Forward interest rate swaps (DM)				
Fixed to variable (payer)	2008	500	-	-
Interest rate swaps (US\$)				
Fixed to variable (payer)	2002-2007	448	-	-
Interest rate cap purchased	2002	300	-	-
Future contracts	1998	331	-	-
Swaptions sold	1998	300	-	-
Foreign currency forward exchange contracts	1998	446	1997	250

The terms of the receiver interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 4.6 % and 4.3 % at December 31, 1997 and 1996, respectively) and pay interest at variable rates (generally based on the six-month LIBOR rate). The terms of the payer interest rate swaps outstanding at December 31, 1997 provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 5.6 %) and receive interest at variable rates (generally based on the six-month LIBOR rate). The terms of the payer forward interest rate swaps provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 5.8 %) and receive interest at variable rates (generally based on the six-month LIBOR rate). Amounts received and paid under interest rate swaps, which are dependent on the notional amounts and the contractual interest rates, are settled either annually or semi-annually.

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in DM for a contractually fixed amount of foreign currencies, generally US dollars.

The interest rate caps purchased have five-year terms and provide for Deutsche Telekom to pay or receive excesses over a specified reference interest rate.

The swaptions sold all have nine-month terms. The underlying interest rate swaps with a nominal value of DM 200 million have a two-year term and interest rate swaps with a nominal value of DM 100 million have a three-year term.

The terms of the futures contracts require Deutsche Telekom to pay to or receive from the counterparty losses or gains arising on movements in the quoted contract prices at specified intervals.

The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

(35) Information on the Board of Management and the Supervisory Board of Deutsche Telekom AG

No remuneration was paid to members of the Supervisory Board of Deutsche Telekom AG in 1997. The Supervisory Board only received meeting attendance fees amounting to DM 29,000. Subject to the approval of the shareholders' meeting, Supervisory Board remuneration is to amount to DM 478,700.

Provided that the 1997 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom AG will amount to DM 12,753,651. The remuneration to be paid to former members of the Board of Management of

Deutsche Telekom AG and their surviving dependents amounts to DM 688,944.

Pension accruals totaling DM 6,998,197 have been established for this group of persons at December 31, 1997. Pension obligations to such persons for which no reserve had to be established amounted to DM 4,209,231 at that date.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

(36) Proposal for appropriation of net income of Deutsche Telekom AG

The income statement of Deutsche Telekom AG reflects net income of DM 3,302,850,601.29. Following inclusion of the unappropriated net income carried forward from 1996, this gives rise to total unappropriated net income of DM 3,304,316,916.85.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting,

the payment of a dividend of DM 3,291,888,120. This represents a dividend of DM 1.20 per share with nominal value of DM 5 on the capital stock of DM 13,716,200,500. The remaining balance of DM 12,428,796.85 will be carried forward as part of unappropriated net income.

Reconciliation to U.S. GAAP

Due to its listing on the New York Stock Exchange, Deutsche Telekom AG is required to submit, in addition to its local financial statements, annual financial statements in the format of Form 20-F to the SEC. This procedure is in accordance with the foreign integrated disclosure system for foreign companies listed on the stock exchange. In addition to the adjustments which have already been made in the consolidated balance sheet and statement of income in order to

comply with U.S. GAAP, further adjustments are required in order to meet the requirements of U.S. GAAP and Form 20-F. These adjustments refer to those cases where application of U.S. GAAP is not permissible under German GAAP. The 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.

(37) Significant differences between German and United States generally accepted accounting principles

Certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost less depreciation, which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance sheet of Deutsche Telekom AG at January 1, 1995 have been carried forward as the acquisition costs.

(a) Personnel restructuring

Under German GAAP, the estimated costs of employee separations have been accrued on the basis of the Company's announced intention to reduce its workforce. Under U.S. GAAP, these costs are accrued in the period that the employee accepts the offer of termination. The Company has agreed pursuant to its collective bargaining agreements with the unions that, prior to January 1, 2001, it will not unilaterally terminate the employment of its non-civil servant employees due to business reasons. Civil servants may not be involuntarily terminated under the terms of their conditions of employment.

(b) Share offering costs

In 1996, the Company incurred costs in connection with its initial public offering. Such costs are recorded as extraordinary expenses in the income statement in accordance with German GAAP. Under U.S. GAAP, specific incremental costs directly attributable to an offering are charged against the proceeds of the offering.

(c) Levy to the Federal Republic of Germany

In 1995, in accordance with German GAAP, Deutsche Telekom has recorded a direct contribution to additional paid-in capital for the portion of the levy payable to the Federal Republic of Germany relating to revenues from services generated in eastern Germany. Under U.S. GAAP, the amount retained would not be recognized as an expense in the income statement.

(d) Maintenance accruals

As required by German GAAP, the costs of maintenance related to the financial year but only incurred within the first three months of the following year have been accrued at each period end. Under U.S. GAAP, the cost of maintenance is recognized in the periods incurred.

(e) Value-added tax

As of December 31, 1997 Deutsche Telekom had non-deductible capitalized VAT amounting to DM 2,610 million, net of depreciation in 1997 of DM 1,305 million, recorded as property, plant and equipment. In addition, in 1997 Deutsche Telekom recovered DM 1,299 million of VAT previously paid. German GAAP requires the capitalized VAT to be depreciated and the VAT recoveries to be recorded as other operating income. Under U.S. GAAP, the capitalized VAT is treated as a long-term receivable rather than property, plant and equipment. Therefore, neither depreciation nor other operating income are recognized.

(f) Interest rate swaps/Deferred income

Under German GAAP, gains and losses resulting out of the termination of interest rate swaps are recognized in the year of termination. Under U.S. GAAP, gains and losses on interest rate swaps accounted for as hedges are amortized over the remaining outstanding period of the interest rate swap or the remaining life of the hedged position, whichever is shorter. During the course of 1996, interest rate swap contracts with a notional amount of DM 2,450 million and maturities between 1998 and 2000 were terminated resulting in a gain of DM 125 million.

(g) Employee share purchase plans

Employees who participated in an employee share purchase plan bought shares at a discount of approximately 40 %. Under German GAAP, the proceeds of the offering were recorded net of such discounts. Under U.S. GAAP, the discount is treated as compensation expense.

Employees could also participate in a financed share purchase plan. In connection with this plan, Deutsche Telekom agreed to pay a bank for its services on a monthly basis through December 31, 2001. Under German GAAP, the costs of this plan are recognized as they are paid. Under U.S. GAAP, the costs were fully recognized in 1996.

(h) Unrealized gains on marketable securities

Under German GAAP, marketable debt and equity securities are generally carried at historical cost. Under U.S. GAAP, marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as either trading, available for sale, or held to maturity. Securities classified as trading or available for sale are reported at fair value at the balance sheet date and held to maturity securities are reported at historical cost. Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders' equity.

(i) Other differences

Other differences consist primarily of the miscellaneous valuation differences that are not individually significant, including the treatment of other derivative financial instruments and unrealized gains on foreign currency receivables and payables that are not deferred under U.S. GAAP. Other differences also include the different treatment under German GAAP of foreign currency effects not affecting net income arising from the deconsolidation of subsidiaries.

(j) Income taxes

The determination of income tax expense under German GAAP differs from U.S. GAAP as follows:

- Under U.S. GAAP, in contrast to German GAAP, deferred tax assets are recognized for the estimated future tax effects attributable to tax loss carryforwards.
- Under German GAAP, deferred taxes are not recorded for temporary differences which arose during tax free periods. Under U.S. GAAP, the estimated future tax effects related to those temporary differences are recognized.
- Under German GAAP, deferred taxes have not been recognized for those temporary differences which are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes are generally recognized for all temporary differences.

Deferred taxes are also provided for the income tax effects of differences between U.S. GAAP and German GAAP. Deferred taxes are measured based on enacted tax law and reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The following table shows the differences between income tax expense determined in accordance with U.S. GAAP and German GAAP:

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Current income taxes	-	(524)	524
Deferred taxes from the application of U.S. GAAP	(691)	580	(579)
Deferred taxes on U.S. GAAP/German GAAP differences	267	(315)	(322)
	(424)	(259)	(377)

(k) Minority interest

Under U.S. GAAP, minority interest is not included in shareholders' equity.

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

	Note	1997 millions of DM	1996 millions of DM	1995 millions of DM
Net income as reported in the consolidated financial statements under German GAAP				
		3,303	1,758	5,272
Personnel restructuring accrual	(a)	(492)	960	548
Share offering costs	(b)	-	564	-
Levy to the Federal Republic of Germany	(c)	-	-	316
Maintenance accruals	(d)	(41)	(56)	(181)
Value-added tax	(e)	6	(211)	-
Interest rate swaps/Deferred income	(f)	9	(116)	-
Employee share purchase plans	(g)	5	(73)	-
Other differences	(i)	90	7	(15)
Income taxes	(j)	(424)	(259)	(377)
Net income in accordance with U.S. GAAP		2,456	2,574	5,563

Reconciliation of shareholders' equity from German GAAP to U.S. GAAP:

	Note	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Shareholders' equity in accordance with German GAAP		48,144	46,599
Accrual for personnel restructuring measures	(a)	1,016	1,508
Maintenance accruals	(d)	53	94
Value-added tax	(e)	(205)	(211)
Interest rate swaps/Deferred income	(f)	(107)	(116)
Employee share purchase plans	(g)	(23)	(28)
Unrealized gains on marketable securities	(h)	138	19
Other differences	(i)	45	31
Income taxes	(j)	3,508	3,998
Minority interest	(k)	(1,450)	(1,193)
Shareholders' equity in accordance with U.S. GAAP		51,119	50,701

Changes in shareholders' equity in accordance with U.S. GAAP:

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Shareholders' equity, beginning of year	50,701	29,475
Net income in accordance with U.S. GAAP	2,456	2,574
Differences from currency translation	(443)	(25)
Proceeds from share offering (after share offering costs, net of tax)	-	19,869
Dividends for 1996 and 1995 respectively	(1,646)	(1,200)
Net change in unrealized gain on marketable securities, net of deferred taxes	51	8
Shareholders' equity, end of year	51,119	50,701

(38) Deferred taxes in accordance with U.S. GAAP:

Deferred tax assets and liabilities arising from temporary differences and net operating losses are as follows:

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Deferred tax assets in accordance with U.S. GAAP		
Current deferred tax assets		
Net operating loss carryforwards	180	175
Other	49	5
Noncurrent deferred tax assets		
Property, plant and equipment	868	93
Net operating loss carryforwards	64	319
Personnel restructuring accrual	493	-
Pension accruals	3,190	3,455
Civil servant health insurance accrual	849	788
Other accruals	835	694
Other	173	66
Deferred tax assets in accordance with U.S. GAAP	6,701	5,595
Deferred tax liabilities in accordance with U.S. GAAP		
Current deferred tax liabilities		
Accruals	-	(134)
Other	(10)	(46)
Noncurrent deferred tax liabilities		
Property, plant and equipment	(1,369)	-
Personnel restructuring accrual	(579)	(191)
Other	(535)	(463)
Deferred tax liabilities in accordance with U.S. GAAP	(2,493)	(834)
Net current deferred tax asset (liability)	219	-
Net noncurrent deferred tax asset	3,989	4,761
Valuation allowance	(7)	(214)
Net deferred tax asset under U.S. GAAP	4,201	4,547

The following table shows the development of deferred taxes from German GAAP to U.S. GAAP:

	Dec. 31, 1997 millions of DM	Dec. 31, 1996 millions of DM
Net deferred taxes under German GAAP	693	549
U.S. GAAP adjustments:		
Application of U.S. GAAP	4,047	4,737
U.S./German GAAP differences	(539)	(739)
Net deferred asset under U.S. GAAP	4,201	4,547

(39) Additional income statement and balance sheet information in accordance with U.S. GAAP

Consolidated statement of income

Certain items in the total cost income statement would be classified differently under U.S. GAAP. These items include, in particular, reversals of accruals and allowances for doubt-

ful accounts that would generally be recorded as reductions to the original expense lines under U.S. GAAP rather than separately as income.

	1997 millions of DM	1996 millions of DM	1995 millions of DM
Results from ordinary business activities	6,055	4,429	9,493
Levy to the Federal Republic of Germany	-	-	(2,782)
Income before income taxes	6,055	4,429	6,711
Income taxes	(3,382)	(1,665)	(991)
Income before extraordinary losses and income (losses) applicable to minority shareholders	2,673	2,764	5,720
Extraordinary loss (net of income tax of DM 21 million in 1996 and DM - million in 1995)	-	(27)	(159)
(Income) losses applicable to minority shareholders	(217)	(163)	2
Net income in accordance with U.S. GAAP	2,456	2,574	5,563
Earnings per share/ADS in accordance with U.S. GAAP (in DM):			
Before extraordinary losses	0.90	1.23	2.82
Extraordinary losses	-	(0.01)	(0.08)
Net income	0.90	1.22	2.74
Weighted average shares outstanding (in millions)	2,743	2,110	2,030

Balance sheet presentation under U.S. GAAP

German GAAP does not require presentation of a classified balance sheet. Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year are classi-

fied as noncurrent. Summarized balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

	Dec. 31, 1997	Dec. 31, 1996
	millions of DM	millions of DM
Assets:		
Current assets:		
Cash and cash equivalents	5,630	7,316
Other current assets	19,505	20,953
	25,135	28,269
Noncurrent assets	140,966	150,554
	166,101	178,823
Shareholders' equity and liabilities:		
Current liabilities:		
Trade accounts payable	9,801	10,319
Short-term debt and current portion of long-term debt	9,749	12,716
Accruals	5,459	3,553
	25,009	26,588
Long-term liabilities:		
Long-term debt	77,961	86,944
Other noncurrent liabilities	10,630	13,397
	88,591	100,341
Minority interest	1,382	1,193
Shareholders' equity	51,119	50,701
	166,101	178,823

(40) Other matters

In 1996, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share, which specifies the computation, presentation, and disclosure requirements for earnings per share. This standard was effective for the financial year ended on Dec. 31, 1997. Deutsche Telekom adopted this statement for the current financial year. There have been no effects on reported earnings per share as a result of adopting this standard.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, Reporting Comprehensive Income, requiring that components of comprehensive income be reported in a financial statements. The Company intends to adopt this standard for the 1998 financial year.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which specifies the reporting of financial and descriptive information on the basis that is used internally for evaluating segment performance

and deciding how to allocate resources to segments. This standard is required to be adopted in 1998. The Company is currently evaluating the disclosures required by this standard.

In October 1996, the AICPA's Accounting Standards Executive Committee issued Statement of Position No. 96-1, Environmental Remediation Liabilities, which was adopted by the Company on January 1, 1997. The effect on the financial statements of the adoption of this standard was immaterial.

In February 1998, the Financial Accounting Standards Board issued SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. This standard, which is required to be adopted in 1998, does not change the measurement or recognition of costs for pensions or other postretirement benefits but rather standardizes disclosures and eliminates those that are no longer useful. The Company intends to adopt this standard in 1998.

Bonn, March 30, 1998

Deutsche Telekom AG
Board of Management

Dr. Ron Sommer

Detlev Buchal

Dr. Hagen Hultzsch

Dr. Heinz Klinkhammer

Dr. Joachim Kröske

Dr. Herbert May

Gerd Tenzer

Recent Developments and Outlook

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 introduced aggressive tariff reduction measures effective as of the beginning of 1999.

Numbers of customers in selected services	Sept. 30, 1998	Dec. 31, 1997	Change
	millions	millions	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.

Deutsche Telekom is pushing ahead with the restructuring measures we have introduced. Its 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. Deutsche Telekom expects 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.

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 (Aktiengesetz - AktG).

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

The contents of these consolidated 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	1st-3rd quarter 1997	Change in %	Total 1997
	millions of DM	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	Dec. 31, 1997	Change in %	Sept. 30, 1997
	millions of DM	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	1st-3rd quarter 1997	Change in %	Total 1997
	millions of DM	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.

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.

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.

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 therefore has brought forward the tariff reduction measures that had originally been planned for introduction later, to January 1, 1999. These measures have been approved by the Regulatory Authority for Telecommunications and Posts.

The new tariff system applies to calls in the tariff zone Deutschland (domestic long-distance calls) and Regional (domestic calls within a radius of less than 50 kilometers) and will lead to considerable price reductions and a streamlining of the system of tariff time bands starting January 1, 1999.

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. Deutsche Telekom is expecting the positive trend in amortization and depreciation, interest expenses and personnel costs to continue in 1999. 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 are other decisions by the Regulatory Authority still pending, especially with regard to the local loop, the classification of competitors as local carriers, long-distance carriers or resellers and the resulting differences in interconnection charges for the fixed network and the interconnection-rates between fixed and mobile communication networks. Only after these decisions have been taken will it be possible to give a qualified assessment of Deutsche Telekom's prospects for the future.

However, on December 14, 1998, the Regulatory Authority has taken a first decision concerning carrier classification when it – as a result of a public hearing – announced that carrier network operators must have at least one switch and three transmission paths as minimum requirements in order to have a right to be charged the prescribed interconnection rates. There will be no differentiation between carrier networks and access networks. Deutsche Telekom has the right to charge additional costs from carriers generating atypical traffic. Also Deutsche Telekom is given the right to demand from carrier network operators a minimum-contract-duration as well as a minimum-quantity of traffic. Due to this new situation Deutsche Telekom is going to adjust current interconnection agreements and has therefore provisionally terminated a large number of its interconnection-contracts effective December 31, 1999.

Deutsche Telekom and France Telecom have sealed their long-standing partnership. In an agreement signed on December 1, 1998, Deutsche Telekom purchased 2% of the share capital in France Telecom from the French State. In return, France Telecom has acquired 2% of the shares in Deutsche Telekom from the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation KfW).