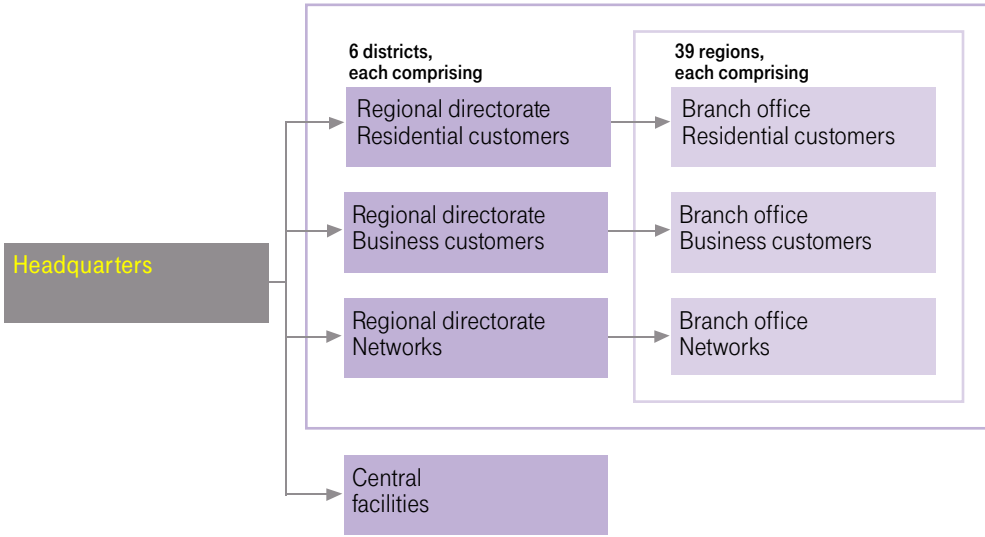


Organization:

# Focus on business.

## Organizational structure of Deutsche Telekom AG



Deutsche Telekom gears its organizational structure towards the dynamics of the telecommunications market, with two central goals being to increase shareholder value and to focus on customers.

**Board divisions newly structured**  
The Company's management processes and systems support the independence of the business units. Integrated data processing systems improve administrative efficiency and allow for group-wide financial reporting and controls. The Finance Division is responsible for all financial review and reporting functions as well as the financial analysis of investments.

The parent company headquarters is divided into eight divisions. On November 13, 1997, the Supervisory Board approved a new organizational structure for the Company, which took effect on January 1, 1998 (see "Corporate group structure" in the front foldout).

**Customer care pulled together**  
In the new structure, Deutsche Telekom has grouped its marketing and distribution servicing activities for residential and business customers together under the Sales and Distribution Division so as to be able to serve all customer segments more efficiently using uniform systems. Measures were already taken in early 1997 to strengthen the strategic units of sales and service and to give them the authority to establish comprehensive business plans for the various customer segments. Each business area within Deutsche Telekom is individually responsible for achieving commercial success in the relevant product market.

To expand our position in global systems business and in the dynamic markets for multimedia communications, we established a Global Systems Division at the beginning of 1998. This division encompasses the business areas system solutions, data communications and multimedia communications as well as the management of Global One.

The Network Division now also includes the business area licensed service providers/carriers, which primarily provides network-related services to competitors, and broadband cable and broadcasting.

The International Division was restructured in the second half of 1997. Three regional units – America, Asia/Pacific and Europe – were created to respond more effectively to the demands of the international markets. They are responsible for the development and expansion of the international business operations together with the oversight of Deutsche Telekom's subsidiaries and associated companies in these regions (see "Subsidiaries and associated companies" in the rear foldout).

**Decentralized responsibility strengthened**  
Moreover, in 1997 we redesigned core processes crucial to commercial success, such as product management, management processes and customer segment management.

Deutsche Telekom's subsidiaries and branch offices are managed as independent companies responsible for their own financial results.

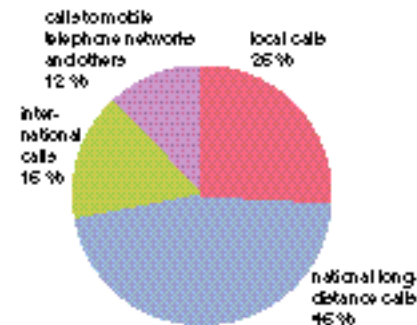
In 1998, we plan to continue our process of decentralizing responsibility for financial results in addition to streamlining our centralized administrative functions.

Telephone network communications:

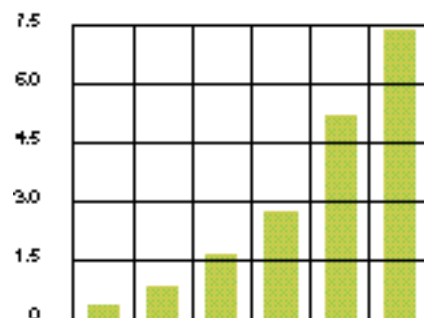
## Attractive telephone services for a competitive market.

Telephone calls

(by revenue, percent)

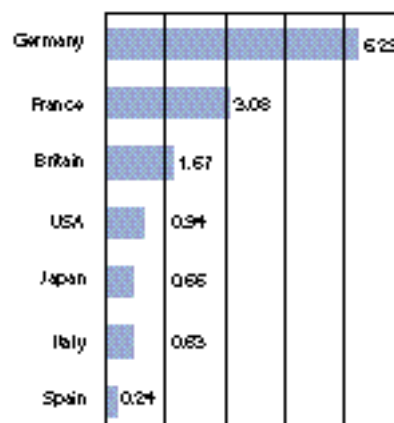


ISDN channels in operation (millions)



1992: 0.4  
1993: 0.8  
1994: 1.7  
1995: 2.7  
1996: 5.2  
1997: 7.3

ISDN compared internationally



Number of ISDN channels per 1,000 inhabitants as of 1996; Source: ITU

In 1997, Deutsche Telekom generated approximately DM 43.5 bn of revenue from telephone network communications services, DM 31.5 bn of which was earned from call charges. Of this total revenue, approximately 38.1 percent was generated from business customers and 61.9 percent from residential customers. Approximately 16 percent of the revenue came from international calls, 46 percent came from domestic long-distance calls and 26 percent came from local calls and 12 percent from mobile telephone calls. Revenue from telephone network communications contributed 64.4 percent to total consolidated revenue.

### Innovative products for better service and performance

To strengthen our customer relationships, we have molded our Company strategy to market conditions. We plan to impress our customers with our know-how and service. Accordingly, we tailor our products, services and tariffs to the different needs of the various customer submarkets.

### Network Services - calling becomes even more convenient

In 1997, we completed the digitization of the local networks in Germany. Through the digital T-Net, we are now able to offer special features, such as call waiting, alternation between lines, three-party conferences and call forwarding on a nationwide basis. In 1998, we plan to offer users of analog telephones extra features that until now have been available only to ISDN customers. The call number display and automatic call back functions were already introduced on January 15.

### ISDN - gateway to the information highway

At December 31, 1997, we had almost 2.9 million ISDN access lines, with more than 7.3 million channels, making up the world's largest ISDN network. Demand for ISDN access lines remained strong in 1997, largely due to advertising and attractive package offers, such as packages combining ISDN terminal equipment and T-Online. On the whole, we enjoyed growth of over 40 percent in ISDN channels in 1997.

### T-Net-Box successfully introduced

The T-Net-Box, our digital network-based answering machine, was launched in early August 1997 and has quickly become a winner: by mid-March 1998, over 250,000 customers had opted for this new service.

### Trendsetter in Internet telephony

With its T-Net-Call, Deutsche Telekom has become one of the first global network operators to support telephony on the basis of the Internet protocol (IP). An Internet telephony pilot project involving 1,000 selected customers was carried out in the second half of 1997.

In January 1998, Deutsche Telekom acquired a 21.1 percent stake in the Israeli Company VocalTec Communications Ltd. Our stake in VocalTec reflects our intention to make full use of the growth potential for Internet communications.

Our cooperation with VocalTec, one of the market leaders for IP telephony software, brings us new national and international business opportunities.

### Combined products integrating mobile and fixed networks

Customer interest in products that integrate mobile communications and fixed networks, so-called Personal Communication Systems (PCS), is growing. In cooperation with its mobile telephone subsidiary T-Mobil, Deutsche Telekom is developing such products for residential customers and small business customers. Such integrated products mean more user-friendly communications and considerable simplification for the customer: only one invoice, one contract and one contact person for both sales and service matters as well as one price list for product features that integrate both networks. We plan to market the first products of this type this year.

"To be able to help the sick and needy, we have to coordinate all our staff's movements. Unthinkable without a telephone."

Grit Busch, Social welfare worker, Göppingen



Ergonomical: With its large buttons, the "Ergotel" telephone is particularly easy to operate. It contains many features which add to the pleasure of phoning: onhook dialing, hands-free operation, mute function, handset volume amplification. Frequently dialed numbers, such as those of family members, can be stored on speed dialing buttons.

**Continuous growth in the number of lines and volume of traffic**

At the end of 1997, Deutsche Telekom had approximately 45 million telephone access lines installed, producing a penetration rate of about 551 lines per 1,000 inhabitants (as adjusted for ISDN multiple channels). Residential customers accounted for about 81 percent of the total and 19 percent were business customers. The total number of installed ISDN channels, as a percentage of total lines, was 12 percent in 1996 and by the end of 1997 had reached 16 percent.

With the completion of the build-out of the network, the penetration rate in eastern Germany has now risen to the European level.

**A year-by-year comparison of access lines**

	1997	1996	1995	1994	1993
<b>Total number of access lines (millions)</b>	<b>45.2</b>	<b>44.2</b>	<b>42.0</b>	<b>39.9</b>	<b>37.5</b>
Western Germany	36.4	35.9	34.6	33.4	32.2
Eastern Germany *	8.8	8.3	7.4	6.5	5.3
<b>Total penetration rate (lines per 1 000 inhabitants)</b>	<b>551</b>	<b>540</b>	<b>513</b>	<b>490</b>	<b>462</b>
Western Germany	564	559	539	524	507
Eastern Germany *	503	469	418	366	299

For the purposes of this table, each ISDN channel has been counted as equivalent to one access line.

\*includes Berlin

Intense competition is expected in Germany for international calls. Since 1995, we have been competing with providers of call-back services and corporate networks. In 1997, Deutsche Telekom generated revenue of DM 4.9 bn, or 7.3 percent of total revenue, in this area. Most international traffic involves calls to western and central European countries and to Mediterranean countries. In 1997, these destinations alone accounted for about 85 percent of outgoing traffic.

**International traffic by geographical regions**

	1997 <sup>1</sup>	1996	1995	1994	1993
Western/Central Europe and Mediterranean countries	4,102	4,096	4,459	4,110	3,787
U.S./Canada	306	312	321	314	306
Other	405	353	458	518	409
<b>Total</b>	<b>4,813</b>	<b>4,761</b>	<b>5,238</b>	<b>4,942</b>	<b>4,502</b>

Outgoing traffic, millions of minutes

<sup>1</sup> estimate

**Fair prices for the market and the customer**

Deutsche Telekom's first tariff reform, effective as at January 1, 1996, was the Company's first major step away from the old, politically based tariff structure towards competitive prices: the time-based charge units were shortened, the charges per unit were reduced accordingly and differentiated time and distance-based zones were introduced.

For international traffic, for example, we introduced the EuroCity tariffs, which offered price reductions of up to 13 percent for calls to certain major European cities. This first price campaign focused on optional packages for special customer groups. The 1996 tariff reform also included a strategic decision of the Company not to pass on to customers the value-added tax (VAT) levied on monopoly services since January 1, 1996, but rather to absorb this cost itself.

**New price campaign launched in March 1998**

With our second price campaign, which began on March 1, 1998, we are continuing the price policies we introduced in 1996 and are meeting our competitors head on. The price reductions will affect certain tariffs: The reduction of long-distance rates in the Regio 200 zone has created a new tariff zone: "the GermanCall". In future, charges for this zone will be calculated at the rates for the old Regio 200 zone. A lengthening of the charge unit for the weekend tariff will lead to price reductions of up to 28 percent, particularly for residential customers. Differentiated prices by country provide added flexibility for offering targeted attractive prices. New rates for international calls will be introduced within a program entitled "GlobalCall". Prices for calls to the United States and Canada will once again be significantly reduced: up to 42 percent under the standard tariff and up to 45 percent under the economy tariff.

**"Our Call Center can always access current data. And this reduces the response times for our customers."**

Bettina Uteschil, Call Center Team Manager, Datev, Nürnberg



- Those who tend to make long telephone calls will benefit from the new "10Plus" tariff. This tariff will provide reductions of about 10 percent for analog lines, and up to 30 percent for ISDN lines, after the tenth minute of a call. This will apply to the Regio-Call, GermanCall and GlobalCall categories and to calls made into our mobile telephone networks.

- Calls made into Deutsche Telekom's mobile telephone networks will become cheaper.

Our 1998 tariff campaign represents the start of a major product and service campaign. Since prices will not be the only competitive factor we are planning to use a dual strategy. We plan to set new standards with innovative products and services, such as combined products. In addition, we are planning a range of new products oriented to specific target groups.

**Voice telephony liberalized**

The German telecommunications market was completely liberalized on January 1, 1998. As a result, voice telephony services are now open to competition. Most of the first competitors already had experience in the market, for example, in the mobile communications sector. Apart from one national network operator, the new competitors consist for the most part of licensed telecommunications companies without their own network infrastructures. A number of local and regional network operators, such as the city network operators, were also early competitors. They will be joined by others over the course of this year, who plan to offer nationwide telephone services on the basis of their own network infrastructures. Additionally, more and more providers from the U.S. market, especially resellers, are entering the German telecommunications market or are expanding existing activities in this market. Within the framework of the new interconnection regulations, our competitors can rely on our existing network at attractive prices. We are thus expecting competition to continue to intensify for some time to come.

From January 1, 1998, Germany's telephone customers may freely choose among different providers, either through preselection, i.e. the choice of one long-distance operator for all calls made from a telephone, or through call-by-call selection, by dialing the network operator's prefix before each telephone number. Because Deutsche Telekom is entering the competitive marketplace as the market dominating provider, our prices are subject to the approval of the new Regulatory Authority for Posts and Telecommunications. A price-cap mechanism applies to tariffs for our existing telephone services, i.e., the regulator requires that prices be reduced by a certain percentage.

## High-speed links for growing data traffic.

Data communications is increasingly shaping the international telecommunications business. The growth in the number of networked computers and local area networks, or LANs, in decentralized businesses and, above all, the dramatic increase in the sheer volume of data through use of the Internet are producing exponential growth in traffic volumes for data communications. The demand for broadband links in particular is increasing rapidly.

### Maximizing growth potential

Deutsche Telekom recognized this development early on and has significantly expanded its networks and widened its portfolio of data communications services over the past few years. To harness the market's growth potential, we have set up a business area solely for data communications. In the year under review, the data communications division generated DM 2.1 bn in revenues, contributing 3.1 percent to Deutsche Telekom's total revenues. The new services in this business area are in particular being marketed as building blocks for higher-value services in other business areas, especially systems solutions and multimedia.

### Competition since 1993

The German data communications market was opened to competition in 1993, as for example, for data connections in corporate networks. In August 1996, leased lines for data communications were opened to competition as well.

### LeasedLink - strong growth in digital connections

Fixed data connections for Deutsche Telekom customers are marketed under the product name LeasedLink. These include standard leased lines, leased lines for data communications and international leased lines. The number of analog leased lines used by our customers fell from just under 450,000 in 1996 to approximately 415,000 in 1997. This decline was due to the increased use of digital leased lines with their substantially greater transmission capacity. The number of digital customers rose again in 1997 by approximately 30 percent. Deutsche Telekom now offers digital LeasedLinks supporting bandwidths of up to 155 Mbit/s.

On November 1, 1997, we reduced our monthly rental charges for the use of digital leased lines by up to 30 percent, with retroactive effect to January 1, 1997. For the period ending October 1997, our LeasedLink customers were credited with the amount of the price savings. These and earlier price reductions of up to 40 percent have further enhanced the international competitiveness of our leased lines. Even based on the tariffs at July 1, 1997, a study by Ovum, a UK market research company, favorably ranked Deutsche Telekom in the middle of the chart for tariffs throughout Europe.

The number of leased lines for data communications is stagnating, as they are being configured more and more as Telekom Designed Networks. Shifting demand from lower to higher capacity lines is resulting in a decline in the number of international leased lines.

### Datex-P - underpinning business data communications

Deutsche Telekom's Datex-P service - a packet switched data transmission service based on the X.25 standard - continues to be the technical basis for the data communications of many companies. At the end of 1997, our customers used approximately 95,300 lines (1996: 105,200) and 55,500 access authorizations (1996: 39,600). At the beginning of 1998, we relaunched our Datex-P service incorporating, for example, a new tariff structure and bundling Datex-P with other Deutsche Telekom networks and products.

### FrameLink Plus - paving the way for new business opportunities

In March 1997, Deutsche Telekom relaunched its FrameLink service, under the new name FrameLink Plus. Based on frame relay technology, FrameLink Plus is specially designed for data communications with bursts of high transmission volumes. Deutsche Telekom has installed 190 network nodes in Germany for this service. FrameLink Plus is especially suitable for linking LANs, but also as a basis for corporate networks. In addition, we introduced a further option of a connection between FrameLink Plus and T-Net-ATM on January 1, 1998.

Global Frame Relay was launched in August 1997 as an additional international FrameLink Plus option. This service is offered in the international market by Global One, the joint venture between Deutsche Telekom, France Telecom and Sprint Corporation. Global Frame Relay currently delivers links to more than 30 countries worldwide.

### DatexM - High-speed data transmission

Deutsche Telekom's DatexM network provides our customers with high-speed transmission rates from 64 kbit/s up to 34 Mbit/s. This represents an exceptional range of transmission bandwidths. The powerful DatexM platform is intended in particular to be used for connections between computer networks. In 1997, we increased the number of access locations, that is, areas with a uniform tariff structure, to the DatexM network from 42 to 71.

Many professional business customers make use of the possibilities offered by the high-speed DatexM service for data communications. We took on a number of interesting customer projects in 1997. For example, using DatexM, we linked the 550 branches of a major German bank to form a high-speed network.

### City networks in German business centers

Deutsche Telekom is increasingly making use of fiber optic technology to satisfy the increasing needs of our customers in the area of data communications. We have one of the most dense fiber optic networks in the world, with approximately 145,000 kilometers of fiber optic cable installed. Deutsche Telekom's city networks, located in major German business centers, are based on fiber optic technology. We put an additional 15 city networks into operation in 1997, increasing the number of these regional telecommunications pipelines to 28. We plan to further increase the number of city networks in operation in 1998 and to extend our services to other countries, creating, for example, a link between the Frankfurt city network and the financial center of London.

As a rule, Deutsche Telekom's city networks serve as a platform for comprehensive systems solutions for our customers. Another significant trend is the use of the city networks as powerful regional platforms for access to other broadband services offered by Deutsche Telekom such as DatexM and T-Net-ATM.

### T-Net-ATM - available across Germany

In February 1997, Deutsche Telekom launched one of the most modern telecommunications networks in the world: the T-Net-ATM. ATM (Asynchronous Transfer Mode) is considered in the international telecommunications industry to be the critical transmission technology of the future. ATM allows transmission of voice, text, data and video communications over one line, allowing our customers to use bandwidths of up to 155 Mbit/s as needed.



"Now, everyone can fill out a lottery coupon by noon on Saturday and be a millionaire in the evening."

Alexandra Missun works for "Toto-Lotto" lottery in Lower Saxony, Hanover

Our corporate customers can experience this cutting-edge technology in our T-Net-ATM, available throughout Germany. We started operation of the network with 20 access locations. This number was expanded to 42 in August 1997, with the result that beginning a few months ago, it is possible to connect all of our customers to the T-Net-ATM network. In addition to the core network, in 1997, we also installed 300 ATM nodes at customer premises as part of various application projects.

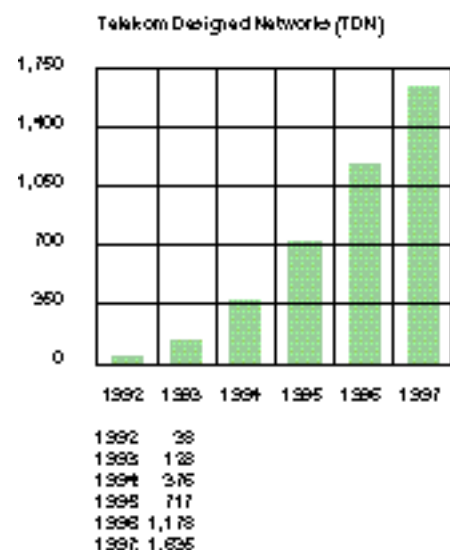
Also in 1997, Deutsche Telekom set up ATM connections to the networks of other countries as needed for specific customer projects. Providing international links for T-Net-ATM is expected to become the norm in 1998.

### Ready to meet the demand for broadband services

Deutsche Telekom believes that it is well-positioned to meet the growing demand for broadband links with the focus of our portfolio of data communications services.

In the course of carrying out customer projects, different services offered by Deutsche Telekom are increasingly being combined to create customized solutions such as FrameLink Plus and T-Net-ATM. This focus on solutions will continue to be promoted within Deutsche Telekom's data communications business area.

# Applications tailored to customers who know what they want.



It is becoming more and more clear that companies are using modern telecommunications as a strategic tool to achieve competitive advantages. A quick and seamless flow of information - and as a result, telecommunications as the medium for delivery of information - is becoming increasingly important, particularly for highly decentralized companies and corporations with global operations. Growing numbers of such companies are demanding customized telecommunications and data processing applications that can be flexibly adapted to changing conditions.

To meet these customer demands, Deutsche Telekom has created a new group business area, Systems Solutions, that focuses especially on business customers. This business area is the leader in the tough competition for large accounts in the German market. We believe that we are also well positioned to compete in the international market. In 1997, Systems Solutions, whose services are marketed under the "T-System" brand, generated revenue of DM 2.5 bn, which corresponds to 3.6 percent of the Group's total revenue. On January 1, 1998, the Global Systems Division was established, underscoring the great significance of named accounts for Deutsche Telekom.

**Telekom Designed Networks - additional growth in customer contracts**  
With Telekom Designed Networks (TDN) we offer our key and named account customers communications solutions that are designed in accordance with specific customer requirements. Deutsche Telekom's services for each TDN include network design and installation, as well as all operational services including network management. Customers are given one contact person to whom they can turn with all their telecommunications needs.

The number of key and named account customers with TDN contracts continued to grow rapidly in 1997. A total of 1,635 TDN contracts had been signed by the end of 1997 - representing growth of more than 35 percent over the previous year. An expanded range of individualized services is making it possible to develop longer-term customer relationships. Contracts normally run for three to five years. This is especially the case for the convergence of telecommunications and information technology (telematics). A successful network quality improvement campaign was implemented in 1997 to further enhance the systems solutions available to our customers.

**Cutting-edge solutions shape our systems business**  
A large number of cutting-edge telecommunications projects were completed for our customers in the Systems Solutions business area in 1997. We installed a nationwide corporate network for one of the major German health insurance companies. Some 50,000 network PCs will eventually be connected to this network, in which about 600 locations were already integrated from the start.

We also completed a comprehensive Telekom Designed Network for British Petroleum (BP). With this TDN solution, which is based on the ISDN digital telecommunications network, all of the Company's 1,200 gas stations in Germany can communicate directly with BP's Hamburg headquarters. The TDN handles all of BP's telephone, fax and data traffic. Credit-card and Euro-check-card payments are also settled via this Telekom Designed Network.

Daimler-Benz AG is using a Deutsche Telekom systems solution to create a network for its eight locations in the Stuttgart metropolitan area. The platform for this project is our City Network in Stuttgart. This fiber optic network provides high-speed communications; our systems solution delivers customized telecommunications services and comprehensive support to Daimler-Benz's clients.

In what is currently our most innovative and largest intranet project, we have integrated BMW AG's 800 trading partners in Germany in a sophisticated on-line ordering system. To protect this system from unauthorized access, high performance firewall concepts, among other things, were implemented.

**Integrated solutions - the fixed and mobile communications networks are converging**  
Currently, we are developing customized voice-oriented integrated solutions for key and named account customers known as corporate communications services. In these solutions, the fixed network and the mobile communications network converge. The first integrated solutions are expected to be marketed this year.

"Data communications helps us provide our customers with whatever they want, big or small - worldwide."

Bernd Montalti, Head of Speech-Data-Integration Europe, IKEA



**Information superhighways:** In response to the growing volume of telecommunications traffic worldwide, Deutsche Telekom is expanding its international networks further. In 1997, the amount of data traffic in the international networks generated by Internet communication exceeded traffic from voice communication for the first time ever.

**DeTeSystem provides customized systems solutions**  
The servicing of named account customers is provided by DeTeSystem Deutsche Telekom Systemlösungen GmbH, a subsidiary of Deutsche Telekom AG. Working in close cooperation with the customer, it functions as a general contractor, implementing customized telecommunications systems solutions on the basis of Deutsche Telekom's standard products and services. The growth in the systems solution business is reflected in the increase in DeTeSystem's workforce, which grew from 1,179 at the end of 1996 to 1,449 at the end of 1997.

**IVBB - the telecommunications solution for the Federal Government**  
In early 1998, we achieved another major success in our systems solution business: the Federal Government engaged us to implement the "Information Network Bonn/Berlin" (IVBB). In this project, we are providing federal ministries and agencies with a high-performance network for comprehensive telecommunications and related services. Its services will include multimedia communications between Berlin, the capital city, and Bonn, the seat of the federal government, to support decentralized administration. The IVBB will link some 100 locations with 30,000 users. The contract for the

project, which is being carried out by DeTeSystem as general contractor, is worth approximately DM 400 million and is scheduled to run for 10 years. It is one of our Company's largest single new contracts.

## Here, our competitors are our customers.

The complete liberalization of the telecommunications sector as of January 1, 1998, within the framework of the European Union directives, created one of the world's most competitive markets in Europe and particularly in Germany.

The providers in the German market include, in addition to large consortia, regional and municipal network operators, and powerful metropolitan area network carriers. While some of the new providers already have their own network infrastructures, others are depending on Deutsche Telekom's proven range of services in order to provide their own services.

The licensed service providers/carriers (LDC) business area was established in 1996 to facilitate the marketing of our network services to other telephone companies and service providers. Most of the products marketed and supported by LDC are either interconnection services for mobile communications and fixed network operators or transmission lines. The services are specially tailored to the needs and demands of competitors. Such cooperation is of great interest to Deutsche Telekom: it taps additional market potential and enhances use of our network capacity.

### Interconnected networks

Our interconnection product management group serves the telecommunications services providers in the German market. It makes it possible to switch telephone calls between Deutsche Telekom's networks and those of other network operators. On the basis of its own products and services, Deutsche Telekom develops demand-oriented services that enable mobile communications and fixed network operators as well as radio paging service providers to provide their own services. The conditions for network interconnection are agreed in individual bilateral contracts that comply with the regulatory authority's specifications.

On January 1, 1998, Deutsche Telekom made available a network platform that has been specially tailored to the requirements of the liberalized market. This platform enabled all companies who wished to offer services in the market to begin operations. We entered the marketplace with 38 initial relevant locations in Germany, having made substantial investments in the past. The number of such locations is expected to be increased to approximately 90 by April 1998, subject to agreement with the other carriers.

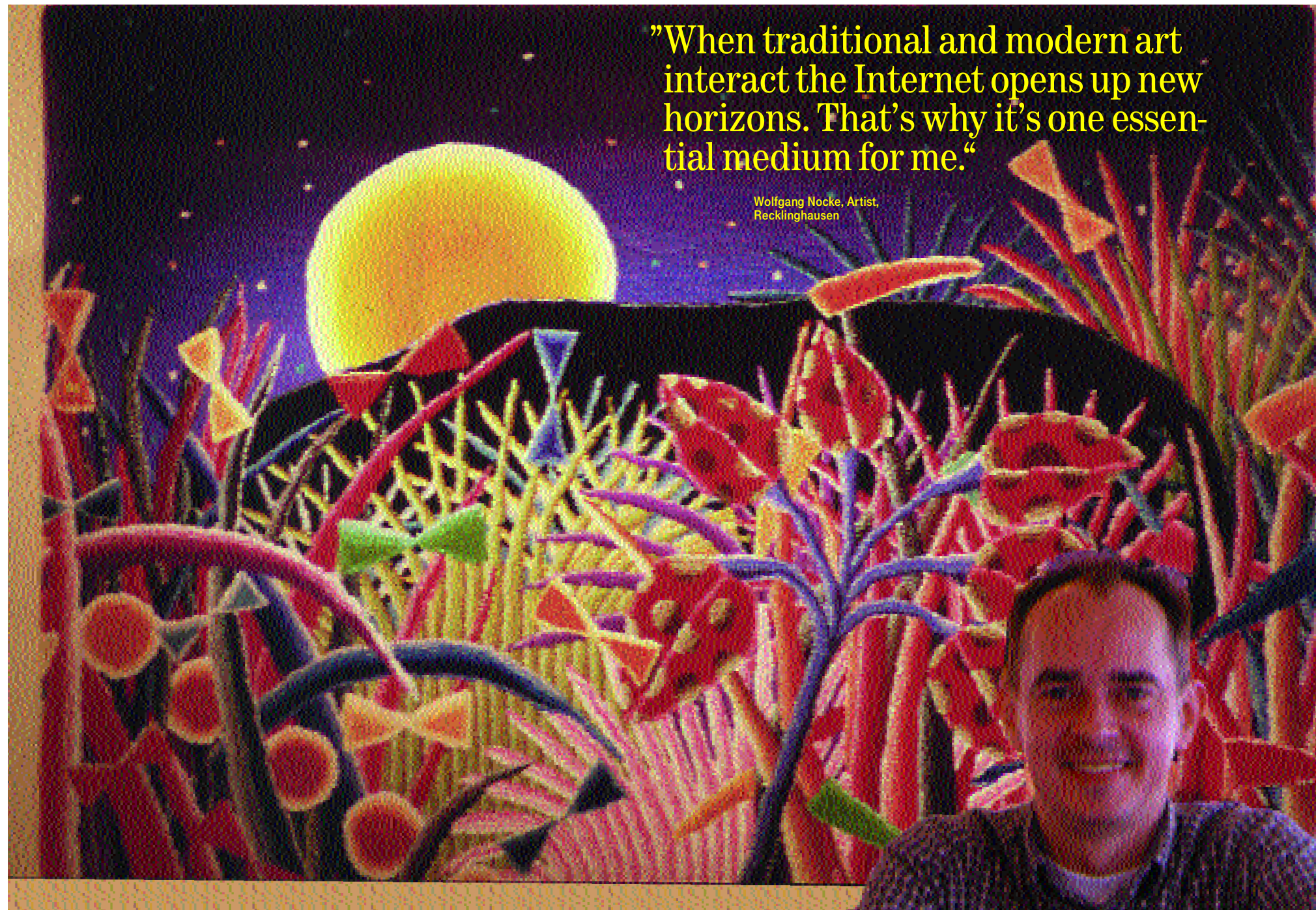
At the end of 1997, network interconnection contracts had been signed with 24 fixed-network providers, of which 19 began operations in January 1998. By the end of January 1998, requests for negotiations had been received from 51 additional companies. We expect additional contracts to be signed in the first half of this year.

In its decision of September 1997, the regulatory authority established interconnection rates at levels we consider very low.

### Interconnection rates

	9 a.m. - 9 p.m.	9 p.m. - 9 a.m.
Tariff zone I (City)	0.0197 DM/min.	0.0124 DM/min.
Tariff zone II (Regio 50)	0.0336 DM/min.	0.0202 DM/min.
Tariff zone III (Regio 200)	0.0425 DM/min.	0.0235 DM/min.
Tariff zone IV (long distance)	0.0514 DM/min.	0.0316 DM/min.

These prices are fixed until the end of 1999 and are considerably lower than our actual costs. Consequently, we have filed a suit with the Cologne administrative court against the regulatory authority's decision.



"When traditional and modern art interact the Internet opens up new horizons. That's why it's one essential medium for me."

Wolfgang Nocke, Artist, Recklinghausen

### Transmission lines for other providers

We offer transmission lines to network operators on fixed terms. In our established business with mobile communications network operators, the transmission lines carry up to 155 Mbit/s.

Business with the national fixed network operators is a new area for us. These customers can now lease our transmission lines and access lines in order to offer their services in the liberalized market.

We are obligated by law to offer our competitors so-called debundled access to the subscriber access line, that is, direct access to the customer. Accordingly, we have offered interested providers services with a range of 19 different product variations. As at the end of 1997, three contracts had already been signed. As is the case for

interconnection, the tariffs for direct access are also subject to approval by the regulatory authority.

### International business with about 300 companies

In the bilateral international business sector, LDC manages the outbound calls from Germany that are booked within the telephone-network communications business area. In addition, it manages and markets inbound calls to Germany and transit connections. At the end of 1997, Deutsche Telekom maintained business relationships with approximately 300 foreign telephone companies.

Some 80 percent of all inbound calls in 1997 were made from the Euro 1 and Euro 2 zones. The Euro 1 zone includes the EU countries, Switzerland, Poland, the Czech Republic and Slovakia. Euro 2 is made up of the remaining European countries, as well as North Africa, Israel, Lebanon and Turkey.

### Inbound traffic

(billions of minutes)	1997 <sup>1</sup>	1996
Europe Zone 1	3.732	3.186
Europe Zone 2	0.539	0.513
U.S./Canada	0.773	0.710
Other	0.162	0.261

**Total** 5.206 4.670

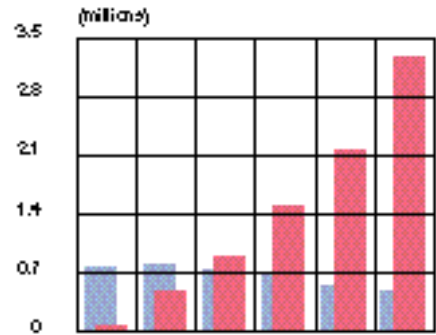
<sup>1</sup> Projection

In 1997, in spite of decreasing settlement rates, revenues from inbound calls increased to about DM 1.7 bn from DM 1.6 bn in 1996. In the area of fixed transit traffic, Deutsche Telekom experienced growth in revenue of over 20 percent to DM 98 million. Revenue from switched transit traffic amounted to DM 37 million.

The total revenue of Deutsche Telekom's LDC business area in 1997, the first year after it was established, was DM 2.4 bn.

# Change of course to boost business.

Deutsche Telekom's mobile telephone customers (T-D1 and T-C-Tel) (December 31, 1997)  
(millions)



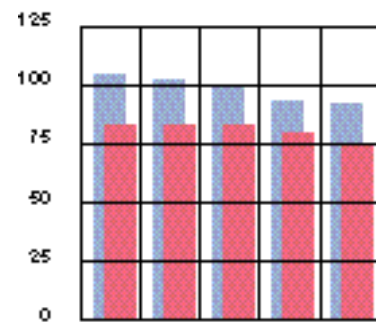
1992 1993 1994 1995 1996 1997

■ T-C-Tel (thousands) ■ T-D1 (millions)

1992:	772,000	0.059
1993:	794,000	0.461
1994:	724,000	0.887
1995:	818,000	1.462
1996:	822,000	2.156
1997:	475,000	3.276*

\* incl. Duo-Cards

Telephone minutes per month



1993 1994 1995 1996 1997

■ T-C-Tel ■ T-D1

1993:	104	28
1994:	102	28
1995:	100	28
1996:	93	73
1997:	92	74

(On average, outgoing traffic only)

Deutsche Telekom's mobile telephone and paging services are provided by its wholly-owned subsidiary T-Mobil (DeTeMobil Deutsche Telekom Mobil-Net GmbH). Mobile telephone and paging services accounted for revenue of approximately DM 5 bn (7.4 percent of the revenue generated by the Deutsche Telekom Group) in 1997. Viewed as an independent Company, T-Mobil generated revenue of DM 6.6 bn. The difference as compared with the revenue generated by the Group results from the use of the T-Mobil network for calls from Deutsche Telekom's long-distance network.

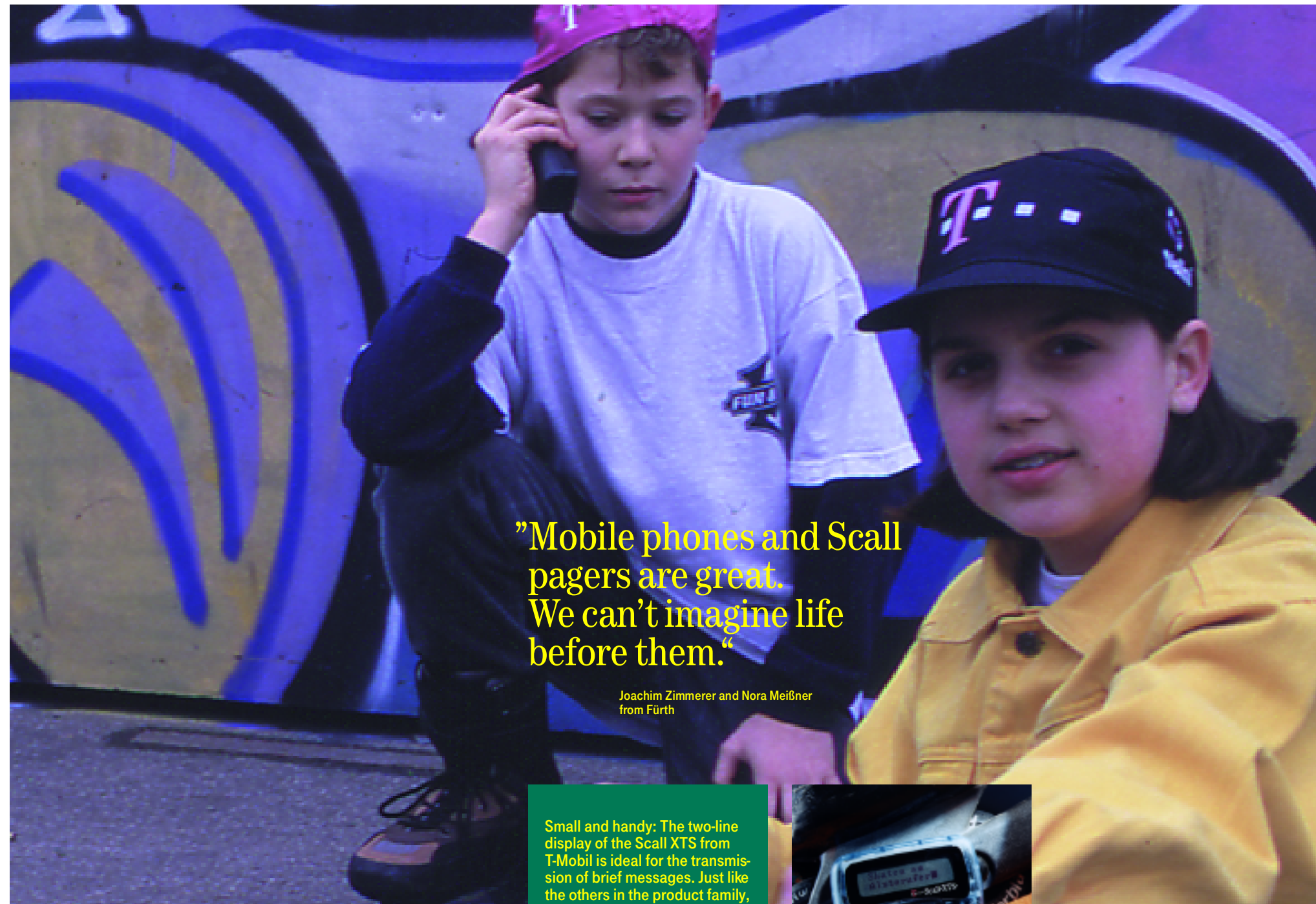
On December 31, 1997, the market share of the mobile telephone networks T-D1 and T-C-Tel together accounted for approximately 45 percent of the German mobile communications market measured by the number of subscribers. T-Mobil's loss of market share is mainly attributable to the market entry of a new mobile telephone network operator.

## T-D1 The digital mobile communications network

The T-D1 network was put into operation in August 1992. It is based on the GSM standard (Global System for Mobile Communications), which Deutsche Telekom played a major role in developing. More than 200 network operators in over 100 countries have already put GSM networks into operation. At the end of 1997, approximately 3.3 million subscribers were using the T-D1 network (1996: 2.2 million).

T-Mobil invested some DM 448 million in its GSM network in 1997 in order to expand the geographic coverage further, to provide improved service inside buildings and to serve the growing number of subscribers. On December 31, 1997, 98 percent of the population in more than 90 percent of Germany had access to the T-D1 network.

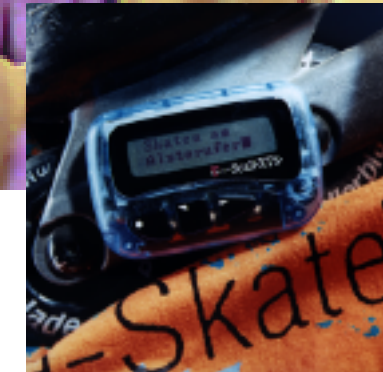
Thanks to GSM, T-D1 customers can make calls to and receive calls from western, eastern and central Europe as well as Asia, Australia, North America and Africa. By the end of 1997, T-Mobil had signed International Roaming Agreements with GSM partners in almost 70 countries. By providing the GlobalRoam service, we are also able to establish a link to other mobile com-



"Mobile phones and Scall pagers are great. We can't imagine life before them."

Joachim Zimmerer and Nora Meißner  
from Fürth

Small and handy: The two-line display of the Scall XTS from T-Mobil is ideal for the transmission of brief messages. Just like the others in the product family, Scall Two, Swatch the Beep, Scall XS and Scall XT, this handy text pager can also receive numerical messages, whether telephone numbers or codes.



munications standards. Since July 1996, T-D1 customers have, for instance, been able to use their own personal telephone number for mobile communications in any of the 50 U.S. states, and since mid-1997, also in Japan. The necessary AMPS or PDC mobile phones can be rented directly from T-Mobil.

The number of T-D1 customers has increased dramatically in the past five years and now totals over three million. In 1997, mobile communications became a mass market product in Germany. The introduction of the eco-tariffs and attractive prices for terminal equipment have had a decisive impact on this trend.

We anticipate that the average volume of outgoing traffic per subscriber will continue to decrease in the future as the number of subscribers increases. One factor contributing to this development is the growing number of residential customers.

## New tariffs give new impetus

By introducing the "eco" tariff, T-Mobil gave an important impetus to the German mobile telephone market in 1997. In particular, T-Mobil made 24-month contracts a standard in the industry, thus reducing the risk of customer fluctuation in the medium term. The customers we serve directly are billed a one-time installation charge, monthly rental charges and call charges for outgoing traffic. Independent service providers purchase large amounts of T-D1 capacity from us at discounted rates and then bill their customers for services directly in their

own name based on their own prices. In 1997, total revenue generated from call charges (including charges paid by service providers) accounted for 64 percent of the consolidated revenue generated by T-D1 while revenue generated from monthly rental charges and installation charges together accounted for 36 percent.

# On the road to becoming a complete multimedia provider.

With the introduction of T-D1's Xtra in February 1997, T-Mobil was the first network operator in Germany to offer a pre-paid product. The Xtra package consists of a mobile phone, a T-D1 card and a DM 50 credit for call charges. No installation charge is collected. By the end of 1997, approximately 166,000 T-D1 customers had chosen the Xtra package.

### Strong competition

The digital mobile communications market in Germany is marked by stiff competition, relatively high customer fluctuation and strong downward pressure on prices. Currently, two other licensed operators are providing digital mobile telephone services in Germany apart from T-Mobil. In mid-1998, a fourth competitor, which was granted the second DCS 1800 license in 1997, is expected to enter the market.

According to our research, T-D1 and its main competitor had over 85 percent of the digital mobile communications market in Germany at the end of 1997.

### T-C-Tel

#### The dependable analog mobile telephone network

T-Mobil operates the only analog mobile communications network (T-C-Tel) in Germany. The T-C-Tel service has been in operation since 1985 and is based on the C-450 standard. As at December 31, 1997, T-C-Tel had about 476,000 customers.

The analog mobile communications network has the highest geographic coverage of any other mobile communications network in Germany. T-C-Tel reaches almost 100 percent of the population with a geographic coverage of over 98 percent. Because of this geographic coverage, high transmission quality and attractive prices, T-C-Tel is particularly suited for car phones and for customers who do not need to use roaming services outside Germany.

T-C-Tel customers can choose between three attractive tariff packages which vary according to the different needs of certain target groups. T-C-Tel faces stiff competition from digital mobile communications services in Germany. Due to the low call charges and the almost 100 percent nationwide coverage, it is our objective to maintain T-C-Tel as an important element in the mobile communications market.

### More services

#### Paging, mobile data, traffic telematics and other services

T-Mobil also offers a number of paging services: Cityruf, Eurosignal, Scall and Skyper. At the end of December 1997, T-Mobil had approximately 1 million customers using paging services. The Eurosignal paging service was discontinued at the end of March 1998.

Furthermore, a number of specialized mobile voice and data transmission services supplement our portfolio:

- The mobile trunked radio service Chekker had 116,000 customers as at the end of the year under review. Chekker was primarily designed for intra-Company voice transmission.
- The mobile data transmission service "Modacom" provides for the efficient integration of mobile data into a company's flow of information. By the end of 1997, Modacom had approximately 23,800 customers.
- Our investment in the Inmarsat satellite system also enables us to offer our customers satellite-based global voice and data communications services.

The field of traffic telematics was spun off from the Company in 1997. In a joint venture with debis (Daimler Benz InterServices AG), T-Mobil set up the Company TEGARON Telematics GmbH in mid-1997, whose first service "Tegaron-Info" is already being marketed.

### Portfolio to be further improved in 1998

The positive development in the number of T-D1 subscribers continued in early 1998. Against this backdrop, T-Mobil is planning to launch a number of marketing measures which will focus on new customer groups. Special attention will also be paid to the development of combined products and services on the basis of fixed and mobile communications networks.

The strategic focal points for 1998 are tailored specifically for each product and service segment: further development of the residential customer market in the T-D1 digital mobile telephone network, customer retention measures to maintain the customer base in the analog T-C-Tel network and efficient allocation of resources with regard to paging and special mobile telephone services. The overall goal for 1998 is to enhance the product and service portfolio as well as intensify cooperation in the areas of marketing and distribution within the Deutsche Telekom Group as a whole.

To develop the cutting-edge markets of the Internet and multimedia, we have launched the segment brand name "T-Media". The overall range of services offered is grouped under the following system brand names:

- T-Online (our online service)
- T-MediaPro (multimedia services for business customers)
- T-Mart (applications and solutions)
- T-MediaNet (services based on the broadband cable network).

Revenues from multimedia are generally included in the annual financial statements in Other services, although T-MediaNet is included in Broadband cable and broadcasting services.

### T-Online

#### Germany's largest online service

T-Online finished the 1997 financial year with a record growth of more than 550,000 new subscribers. This brought our online service to a total of approximately 1.92 million customers, giving it the highest subscriber base of any online service in Germany. According to our estimates, T-Online's market share within Germany is approximately 60 percent. Use of the T-Online service also developed at a rapid pace. In 1997, the number of connections reached a total of approximately half a billion, approximately 60 percent higher than the previous year.

### Faster and cheaper access to the Internet

T-Online was developed out of its predecessors BTX and DatexJ. The applications offered range from online database access and data retrieval to online banking, which is now offered by over 1,500 bank branches. More than 3.2 million electronic bank accounts were supported by the end of 1997. Business customers use the service mainly to communicate within closed user groups. This has given us a wide range of experience in the design of intranets and extranets.

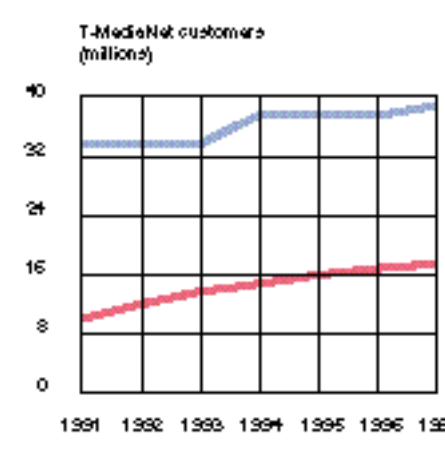
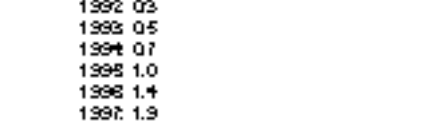
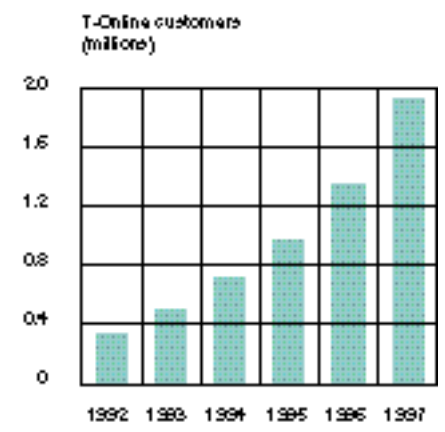
With the 2.0 version of our T-Online software, which was launched in July 1997, we have strengthened the integration of Internet technology with T-Online. Users of this new software can access the Internet faster and more cheaply as there is no additional charge for the Internet access. Instead, a standard price per minute applies for the use of both T-Online and the Internet. This can save Internet customers up to 30 percent compared to what they were previously paying. T-Online can be accessed throughout Germany using both analog and ISDN telephone lines at the City tariff.

In the future, T-Online intends to broaden its mass-market offers and become internationally active. One of these value-added services will be the introduction of payment settlement procedures for Internet providers. This will make it possible for information and service providers to sell their products via the Internet without having to deal with credit cards, automatic debit-transfer systems or invoicing.

### T-MediaPro

#### Multimedia for business customers

We provide platforms and services for business customers under the system brand name T-MediaPro. To meet the rapidly growing demand for Internet services, we have set up our own network platform. This service, which is based on the IP protocol, has been marketed since April 1997 under the name "T-InterConnect". It consists of Internet access coupled with the installation of complete intranets and extranets of up to 155 Mbit/s in the backbone (core network) and 220 access locations. The T-Intra product family adds to these services by offering new value-added services ensuring safe and reliable business processes. Whereas the introduction of T-Intra experienced delays in 1997, this product family has been part of the regular range of products offered since the beginning of 1998.





### T-Mart complete solutions for education and employment

T-InterConnect and T-Intra are also the building blocks for complete solutions for specific industry sectors developed by our Multimedia System House. In 1997, we concentrated primarily on the fields of education and employment. Together with the Federal Ministry of Education, Science, Research and Technology, we connected 6,500 schools to the Internet by the end of 1997 as part of the "Schools go online" initiative. This initiative is to be continued until the year 2001. We have also launched another initiative – again in collaboration with the same ministry – to promote telecommuting in small and medium-sized businesses.

With T-MediaPro, we are progressing beyond the classical business of an Internet service provider and are positioning ourselves as a complete provider of multimedia services.

### T-MediaNet:

#### Our cable connection

We offer our customers a broad range of analog television and radio programs on our broadband cable network. In the last quarter of 1997, we also added digital programs in nine federal states on the basis of provisional media regulations. This expanded range of services is being marketed under a new name: T-MediaNet.

With T-MediaNet, Deutsche Telekom acts as a neutral provider of analog and digital transmission services for television and radio programs.

The broadband cable network was originally installed for political reasons, with one of the main objectives being to permit access to the cable network throughout the country. For public policy reasons, Deutsche Telekom was only allowed to install its cables up to the interconnection point, usually located in the cellars of connected buildings, rather than right into the consumer's living room. This is why Deutsche Telekom only serves about a

third of all end users; the other two-thirds are supplied by housing associations and local network operators, among others. Deutsche Telekom has investments in several local cable companies. Since August 1996, other providers have also been allowed to install and operate broadband cable distribution networks in Germany.

T-MediaNet faces tough competition from private satellite dishes and terrestrial broadcasting stations. In Germany, about 10 million households were receiving their programs direct via satellite at the end of 1997. Our aim is therefore to achieve our desired market share for T-MediaNet by offering attractive programs and emphasizing our high quality standards. We connected over 600,000 additional households in 1997, so that by the end of the year, 17.3 million households already had access to the cable network. The network will be further expanded to the extent certain profitability criteria are met.

One important underlying factor for the operation of the cable network is the contribution of the federal states to the shaping of media policy. State regulatory agencies are responsible for deciding which programs are fed into the network and as a result, the programs available vary from region to region. In the context of the amendment of the Broadcasting Agreement, Deutsche Telekom is lobbying for greater freedom in the distribution of digital channels.

#### Provisional media regulations for digital TV

Our customers currently have a choice of up to 33 PAL TV programs and 36 FM radio programs. The introduction of digital television in Germany on the basis of provisional media regulations has created new business opportunities. Extending the so-called hyperband makes it possible to offer the customer up to 130 additional digital programs as well as the freedom to subscribe to different program packages, depending on his or her individual tastes.

To open up the market for digital programs and services as quickly as possible, we have been lobbying for the introduction of a standard decoder technology that is open to all providers. In summer 1997, Deutsche Telekom

reached agreements with CLT/ UFA and the Kirch Group on benchmarks for the opening of the digital television market. The agreements are currently being reviewed by the European Union. Our goal is to permit customers to receive all available programs using a single decoder.

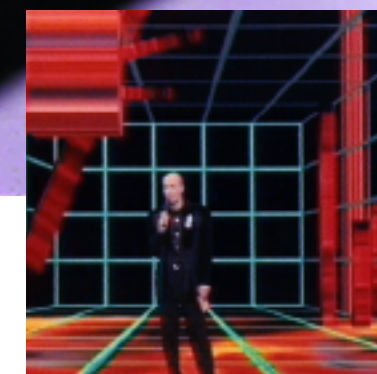
In addition to a one-time installation charge, we charge a monthly subscription fee for T-MediaNet. Having kept prices stable for five years and not having passed on the 15% value-added tax levied starting at the beginning of 1996, we raised the prices for cable services in November 1997 by an average of 15%. The monthly charge for individual users, for example, rose from DM 22.50 to DM 25.90. We expect that this adjustment of our charges to reflect the improved range of services provided by our cable network will contribute toward an improvement in the currently negative position of the broadband cable business area. We also plan to spin off the cable business into a separate Company and restructure it as well as explore entering into strategic partnerships.

Deutsche Telekom has more than 7,000 terrestrial broadcasting stations providing broadcasting services for public and private television and radio stations. This makes us one of the largest providers of broadcasting services in Europe. We also design and install individually tailored networks for radio and television stations. By the end of 1997, we completed the digitization of the approximately 103,000 kilometers of lines forming the network for the public broadcasters.



**"Exciting stuff – the Internet. There's always something new to discover. And its fun."**

Elementary school student from Ottenbach near Göppingen.



Multimedia worlds: Deutsche Telekom and its partners in the "Schools go online" project had connected around 6,500 schools to the Internet by the end of 1997. "Global Learning", the telelearning service in T-Online, allows students to set their own timetables to study individually at home and exchange interactively with teachers and tutors.

“With the quick turnover of our products, we need mobile data and ISDN to be able to manage the logistics.”

Marita Hansen, branch in Mölln, Kloppenburg GmbH, Kiel



Tested and approved: Terminals marketed under the Deutsche Telekom brand name are subject to tough testing in our laboratories as can be seen here (right) with the "keypad" test. Demand grew last year for ISDN equipment and cordless telephones in particular.



Terminal equipment:

## Terminal equipment business strengthens customer loyalty.

As a full-service provider in the German telecommunications market, Deutsche Telekom offers a variety of terminal devices having to do with telecommunications services. They range from individual telephones and fax machines to private branch exchanges (PBX's) and comprehensive network solutions. In our product portfolio, we attach special importance to attractive design, user-friendliness, reliability and compatibility at fair market prices.

Deutsche Telekom's reputation for quality, our range of innovative and customized solutions and our reliable service all strengthen the loyalty of our customers in the long term.

### Terminal equipment:

#### the Deutsche Telekom brand

Our terminal equipment, which we do not manufacture but generally sell and rent exclusively under the brand name Deutsche Telekom, were much acclaimed in 1997. In an environment of falling prices and intense competition, revenue in the terminal equipment business area decreased from DM 3.4 bn in 1996 to 3.2 DM bn in 1997. The profitability of the terminal equipment business was unsatisfactory in the year under review.

In 1997, we requested from our international and domestic suppliers delivery of terminal equipment and accessories such as software in a total amount of DM 1.52 bn. Deutsche Telekom purchased approximately 78 percent of its terminal equipment from ten suppliers in 1997. Around 40 percent of this equipment was bought from Siemens AG, which is also our biggest competitor in the terminal equipment market.

### ISDN: an engine of growth

Demand for innovative products such as ISDN telephones increased significantly during the 1997 financial year, resulting in sales three times the level of the previous year. Similarly, sales of both cordless telephones and ISDN PBXs demonstrated clear growth tendencies during the course of 1997. New products strengthen our position as a technology leader and continue to satisfy our customers' needs.

### T-View: low-priced ISDN videophone

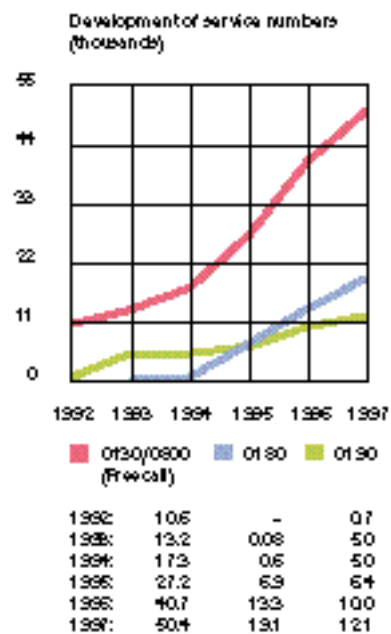
One example is our inexpensive ISDN videophone T-View 100, which made its debut, in the third quarter of 1997, at the Internationale Funkausstellung (International Consumer Electronics Fair) in Berlin. The videophone offers much more than just "face-to-face communication". In the first month following its market launch on November 29, 1997, around 2,600 of these devices were sold.

### We aim to improve results

With a view to improving its financial results, this business area will be critically analyzed in 1998. We intend to examine and possibly streamline our product portfolio, renegotiate prices with our suppliers and make greater use of purchasing synergies within the Deutsche Telekom group. Furthermore, two new product lines are expected to be introduced in 1998. We plan to offer easy-to-operate terminal equipment in our low-end price range under the brand name T-Easy. With T-Concept, we also intend to offer a line of terminal equipment with a uniform and user-friendly operating interface that should gradually replace existing products.

We also introduced new purchase and rental plans at the end of 1997. In addition to our already familiar 3-year and 5-year rentals, we implemented a plan for rental of innovative products as well as installment payment and credit purchase plans.

# Customized solutions for modern dialog marketing.



Deutsche Telekom made two decisive moves in 1997 to open up service market for dialog marketing further. First, at the beginning of 1997, we began offering our business customers call center services. Second, at the end of 1997, we decided to consolidate the service numbers division (0130 / 0800, 0180 and 0190) in one group business area along with our call centers, card applications and DeTeMedien activities. This group business area, called special value-added services, is thus in a position to offer our business customers customized dialog marketing services. This business area also encompasses the public telephones division. As in 1996, this business area generated DM 2.3 bn in revenue in the year under review.

### Expo 2000 - our first major call center contract

In mid-1997, our call center division was able to record its first major order with the award of the contract from Expo 2000 GmbH. Visitors will be able to order their entrance tickets by phone, fax or e-mail via the Expo 2000 call center. It is expected that the call center will also be a channel for sales of merchandising articles and provision of information on Expo 2000. The call center will be accessible starting June 1998 until the end of the international exposition. A deciding factor for being awarded the contract was the wealth of experience Deutsche Telekom has as a call center operator. We are in fact the largest call center operator in Germany today, having more than 9,000 operators at approximately 100 locations. This dense network of call centers enables capacity to be increased flexibly whenever demand is unexpectedly high. Furthermore, our call center employees are virtually all well-trained permanent staff who ensure a high degree of professionalism.

### Growing demand for the toll-free service

Indicative of the good prospects for dialog marketing is the growth in the number of toll-free numbers: the number of connections rose in 1997 by approximately 20 percent. Overall, the development of sales was highly positive. As this development shows, business customers are making increasing use of these services, although compared to the U.S. market, they are still relatively cautious in their use of toll-free services. To tap market potential further, we increased our marketing initiatives, and introduced the "freecall" logo in 1997. Further potential exists in the shape of the so-called vanity numbers, that have been permitted to be offered in Germany since the beginning of 1998.

### Reorganization of directory assistance

Deutsche Telekom's directory assistance has faced competition from other providers since December 1, 1996. In connection with this new competitive environment,

- the Ministry allocated directory assistance numbers by lottery,
- we have substantially broadened our directory assistance services, and
- we increased prices effective October 1, 1997.

We have given our directory assistance teams intensive training to prepare for competition in this segment of the market. To counteract any fall in demand as a result of the new higher prices, we have been carrying out widescale advertising for this service since October 1997.

### Card-operated phones on the increase

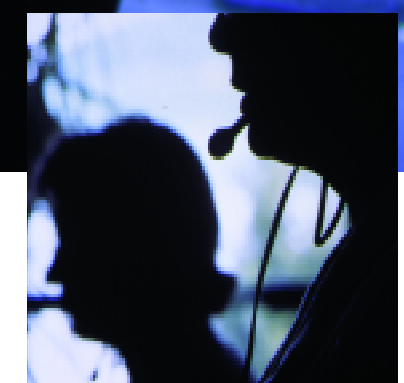
At the end of 1997, Deutsche Telekom had 160,800 coin- and card-operated public telephones in operation. This is equivalent to a density of two public telephones per 1,000 inhabitants. Some 60 percent (in 1996, 56 percent) of these are card-operated, while 40 percent are coin-operated (in 1996, 44 percent). We plan to continue the process of replacing coin-operated telephones with card-operated telephones.



**"As the systems unit of a global group, telecommunications plays a more and more important role in our work. That's why we work together with Deutsche Telekom."**

Ulrike Klietz, Project Management, Dräger Synematic GmbH, Lübeck

**Faster service in the Call Center: Call Centers are playing an ever increasing role in the service society. Deutsche Telekom has thus improved the Call Centers for its own customers, e.g. in directory inquiries, order acceptance or marketing. Since the start of 1997, Deutsche Telekom has also been marketing the services of its Call Centers externally, to business customers.**



The financial results of the public telephone division are unsatisfactory, with more than half of the public telephone locations incurring losses. This has resulted in a program focusing particularly on the question of the locations and consequently reductions in the number of public telephones. The current debate among the local authorities about charging a levy for the use of the locations has lent the issue particular urgency. New tariffs, new product and target group strategies are in preparation.

## Global activities continued.

The telecommunications industry has always been shaped by the international market forces. The worldwide liberalization of former monopolies has played a major role in boosting the globalization of the industry, which produced the potential for developing new business areas in the international markets. In the year under review, Deutsche Telekom continued pursuing its international strategy. We reaped the benefit from our international activities with the sale of part of our stake in MATAV and at the same time consolidated our international portfolio.

The main criteria for our international investments are an increase in shareholder value and the strengthening of Deutsche Telekom's presence in strategically important markets. We see our strategic alliance with France Telecom as the basis for expanding our international activities. After the large amounts invested in companies such as Sprint and MATAV in past years, 1997 saw a marked reduction in the size of our new international investments.

### Global One - A core element of our internationalization strategy

The Global One joint venture is one of the core elements of our internationalization strategy. We established this venture together with France Telecom and Sprint Corporation at the beginning of 1996. Our stake in Global One is held by Atlas, a European joint venture in which we and our strategic partner France Telecom each have a 50 percent interest.

In the international market, Global One offers a comprehensive portfolio of telecommunications services for businesses and operators of other telecommunications networks and services. Its customized solutions include the product "Global Intranet", which enables multinational companies to make use of Internet technology for their own internal global communications. In the year under review, Global One increased its global presence to more than 1,400 nodes in over 65 countries and increased its workforce to over 3,600.

A large number of customer contracts in 1997 enabled Global One to strengthen its position in the international market for customized telecommunications solutions. Global One increased its revenue from approximately US\$ 0.7 bn in 1996 (DM 1.1 bn) to US\$ 1.1 bn in 1997 (DM 1.9 bn).

Since the founding of Global One in 1996, Deutsche Telekom and France Telecom have each held a ten percent stake in Sprint.

### MATAV - A Hungarian success story

MagyarCom is a fully consolidated Hungarian subsidiary, jointly held by Deutsche Telekom and Ameritech, a US telecommunications Company. MagyarCom holds 59.58 percent of the shares in MATAV, Hungary's largest telecommunications provider. In 1997, our investment in MATAV again proved very successful. The Company's revenues increased from the equivalent of DM 1.9 bn to approximately DM 2.4 bn (HUF 253.8 bn). Compared with 1996, this amounted to a growth in revenue of 22 percent.

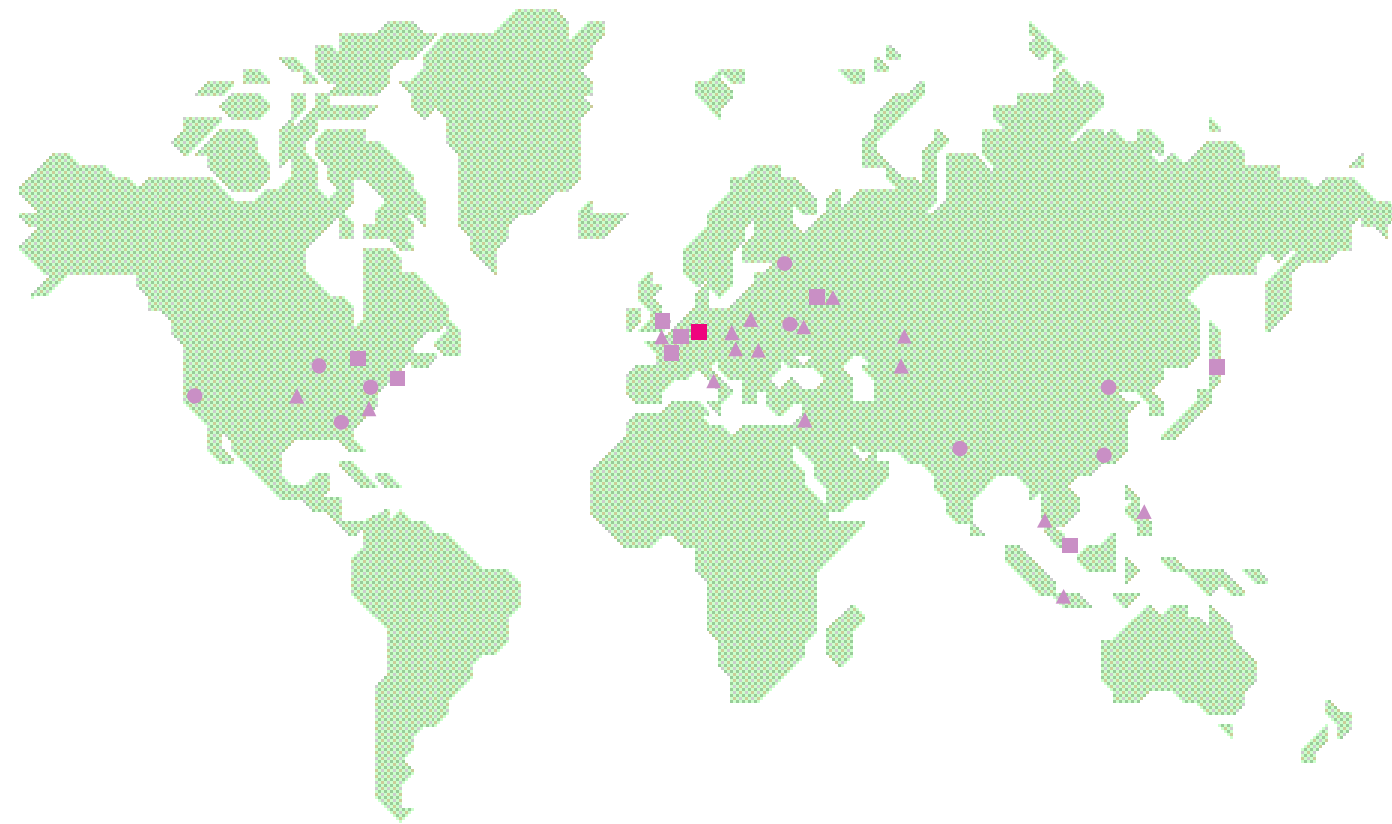
MATAV's initial public offering (IPO) in November 1997, supported by Deutsche Telekom's own experience with its own initial public offering, marked a milestone in MATAV's history. MATAV's offering, in which approximately 27 percent of its stock was sold to retail and institutional investors, was the largest IPO ever undertaken by a company from Eastern Europe. Moreover, MATAV was the first company from this region to be listed on the New York Stock Exchange. As a result of the IPO, the MagyarCom stake in MATAV was reduced from 67.35 to 59.58 percent.

In 1997, MATAV continued its expansion of the Hungarian telecommunications infrastructure, which just a few years ago was quite underdeveloped. MATAV increased the number of its telephone lines by more than ten percent to approximately 2.4 million. Parallel to the network expansion, it also accelerated the modernization of the infrastructure. As a result, approximately 70 percent of MATAV's telecommunications network was digitized by the end of the year under review. In 1997, MATAV gave the go-ahead for the introduction of intelligent network services. MATAV's mobile communications business also had a successful year. In the GSM sector, Westel 900, a fully consolidated subsidiary of MATAV, achieved an approximately 58 percent share of the GSM market at the end of 1997, with a total of approximately 360,000 customers. Furthermore, Westel 450, another fully consolidated MATAV subsidiary, reached a market share of over 15 percent at the end of 1997 with its analog mobile telephone network.

"Thanks to telecommunications, UPS always knows what parcels have been delivered. Our European Frame Relay network was implemented by Global One."

Andreas Matheo, Head of Data Communications, Europa-Region, UPS





Selected branch and representative offices	Selected associated companies	
<b>Europe</b> ■ Bonn (Group headquarters) ■ Brussels ■ London ■ Moscow ■ Paris ● Kiev ● St. Petersburg (DeTeCSM)	<b>Europe</b> ▲ Brussels ▲ Vienna ▲ Rome ▲ Budapest ▲ Prague ▲ Warsaw ▲ Kiev ▲ Moscow	Presence of Global One Communications Holding (via Atlas S. A.) max.mobil. GmbH Wind Telecomunicazioni S.p.A. MATAV Rt. (via MagyarCom Holding GmbH) RADIOMOBIL a.s. (via CMobil B.V.) P T C Polska Telefonii Cyfrowa Sp.z o.o. UMC JV (Ukrainian Mobile Communications), UTEL AGgT (Ukrainian Telekom) RTK, ZAO Russkaya Telefonnaya Kompaniya, InfoTel A.O. MTS Mobile Telesystems AGgT, DeTeSat OOO TAE-Teleline AGgT Chirkom Ltd. (Usbekistan)
<b>America</b> ■ New York – with offices in ● Atlanta ● Chicago ● San Francisco ● Washington ● Toronto	<b>America</b> ▲ Kansas City ▲ Reston, VA	Sprint Corp. Presence of Global One Communications World (via Atlas S. A.)
<b>Asia</b> ■ Tokyo ● Beijing ■ Singapore – with offices in ● Hong Kong ● New Delhi	<b>Asia</b> ▲ Tel Aviv ▲ Kuala Lumpur ▲ Cebu City ▲ Jakarta	VocalTec Communications Ltd., Herzlia TRI Berhad ISLACOM Inc. PT Satelindo

February/March 1998

**Our investment in Asia suffered from the economic instability**  
**Satelindo: The largest GSM operator in Indonesia**

In April 1995, T-Mobil acquired a 25 percent strategic stake in Satelindo, the first private telecommunications provider in Indonesia. Satelindo is the largest GSM network operator in Indonesia, the fourth largest country in the world with a total of 200 million inhabitants. In addition to its digital mobile communications services, Satelindo holds licenses for the provision of international telephony services and satellite communications.

Due to the economic instability in Asia, Satelindo's business did not develop as planned during 1997. Despite this, it succeeded in establishing itself as the leader in Indonesian mobile communications with a market share of 37 percent.

Satelindo also succeeded in expanding its international telephone business. In the year under review, the international gateway handled more than 80 million telephone call minutes. Satelindo's market share in this sector increased to 13 percent.

While revenues rose to over DM 747 million (1,183.4 bn rupiah) - representing a growth rate of over 750 percent within two years, costs also increased dramatically. Deutsche Telekom is considering increasing its stake in Satelindo.

**TRI – Malaysian leader in mobile telephony**

Since October 1996, Deutsche Telekom has held a 21 percent stake in the Malaysian Company Holding Technology Resources Industries Berhad (TRI). TRI offers telecommunications services and is the leading mobile communications provider in Malaysia. The number of TRI customers rose from 850,000 to over 950,000 in 1997. Furthermore, TRI holds additional telecommunications licenses for national and international fixed network communications, value-added services and paging services. As in previous years, TRI recorded a double-digit growth in revenue.

**Islacom: 350,000 new telephone lines**

In addition to licenses for voice and data communications in the fixed network, as well as for paging services and the operation of mobile infrastructures for the local network, Isla Communications (Islacom), the Philippine telecommunications provider, holds one of the national mobile communications licenses granted in the Asian island state, which has a total of 70 million inhabitants. Deutsche Telekom holds a 10.42 percent direct stake in Islacom and is considering increasing its interests. With Deutsche Telekom's technical support, Islacom installed more than 350,000 new fixed network lines in the year under review.

**Europe Mobile communications – Investments in digital mobile telephony**

With investments in Austria's "max.mobil. Telekommunikations Service GmbH", Poland's "Polska Telefonii Cyfrowa (PTC)" and the Czech Republic's mobile communications network operator "RADIOMOBIL", Deutsche Telekom played an active role in the digital mobile communications growth markets in Europe.

Deutsche Telekom plans to withdraw from its mobile telephony interests in Switzerland (Modacom - trunked mobile radio) and the Netherlands (CallMax - paging service), as these no longer fit our strategic objectives. We sold our stake in the U.S. APC (mobile communications) business at the beginning of 1998 for the same reason.

**Wind – Joint venture in the fast-growing Italian market**

Italy is one of the fastest-growing telecommunications markets in Europe, with particularly strong growth in the mobile communications market. In November 1997, Deutsche Telekom, France Telecom and the Italian power utility Company ENEL established the joint venture Wind. The strategic objective of Wind is to provide integrated telecommunications services in Italy based on the convergence between fixed network and mobile communications technology. In February 1998, Wind was granted a license to provide fixed network telephony.

**Focus on quality growth**

In 1998, Deutsche Telekom will continue to pursue its internationalization strategy, focusing on quality growth.

In late March, together with France Telecom and the British telecommunications company Energis plc, we decided to establish companies for the provision of a telecommunications infrastructure and for marketing the telecommunications products offered on this platform.

In line with the Deutsche Telekom group's internationalization strategy, we aim to acquire mobile communications and fixed-network licenses to be able to offer integrated telecommunications services based on the convergence of fixed-network and mobile communications technologies.