Consolidated financial statements as of December 31, 1998.

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Deutsche Telekom is right on course. In the first year of competition on the German telecommunications market, one of the most liberal in the world, Deutsche Telekom again increased its revenue and recorded a substantial increase in income after taxes. Our T-Aktie rose approximately 60 percent in 1998, making it clearly one of the top performers in the DAX.

Consolidated statement of income

	Note	1998 millions of DM	1997 millions of DM	1996 millions of DM
Net revenue	(1)	**69,861**	67,552	63,075
Changes in inventories and other own capitalized costs	(2)	1,938	2,960	3,454
Total operating performance		**71,799**	70,512	66,529
Other operating income	(3)	4,046	3,746	3,905
Goods and services purchased	(4)	(13,296)	(12,137)	(10,224)
Personnel costs	(5)	(17,934)	(18,340)	(18,777)
Depreciation and amortization	(6)	(17,674)	(18,597)	(17,653)
Other operating expenses	(7)	(10,532)	(10,161)	(9,455)
Financial income (expense), net	(8)	(6,433)	(7,827)	(7,714)
Results from ordinary business activities		**9,976**	7,196	6,611
Extraordinary income (losses)	(9)	–	–	(2,475)
Taxes	(10)	(5,191)	(3,608)	(2,215)
Income after taxes		**4,785**	3,588	1,921
(Income) losses applicable to minority shareholders	(11)	(397)	(285)	(163)
Net income	(12)	**4,388**	3,303	1,758
Unappropriated net income carried forward from previous year		12	1	91
Transfer to retained earnings		(1,082)	–	(202)
Unappropriated net income (unappropriated net income of Deutsche Telekom AG)		**3,318**	3,304	1,647
Earnings per share in DM		**1.60**	1.20	0.83

Consolidated balance sheet

Assets	Note	Dec. 31,1998 millions of DM	Dec. 31,1997 millions of DM
Noncurrent assets			
Intangible assets	(13)	2,114	1,676
Property, plant and equipment	(14)	116,945	127,861
Financial assets	(15)	11,042	7,480
		130,101	137,017
Current assets			
Inventories, materials and supplies	(16)	1,163	1,281
Receivables	(17)	8,053	8,231
Other assets	(18)	1,419	1,497
Marketable securities	(19)	2,680	3,590
Liquid assets	(20)	9,948	9,258
		23,263	23,857
Prepaid expenses, deferred charges and deferred taxation	(21)	**1,716**	1,944
		155,080	162,818

Shareholders' equity and liabilities	Note	Dec. 31,1998 millions of DM	Dec. 31,1997 millions of DM
Shareholders' equity	(22)		
Capital stock	(23)	13,719	13,719
Additional paid-in capital	(24)	27,869	27,869
Retained earnings (deficit)	(25)	2,619	1,802
Unappropriated net income		3,318	3,304
Minority interest	(26)	1,496	1,450
		49,021	48,144
Accruals			
Pensions and similar obligations	(27)	6,122	6,052
Other accruals	(28)	10,216	8,942
		16,338	14,994
Liabilities	(29)		
Debt		78,102	87,891
Other		10,850	10,741
		88,952	98,632
Deferred income		**769**	1,048
		155,080	162,818

Consolidated noncurrent assets

	Acquisition or production cost						
millions of DM	Jan. 1, 1998	Translation adjustment	Changes in the composition of the Deutsche Telekom group	Additions	Disposals	Reclassi-fications	Dec. 31, 1998
Intangible assets							
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	2,497	(24)	(2)	835	230	334	3,410
Goodwill							
from individual company financial statements	2	0	0	0	0	0	2
arising from consolidation	530	(52)	0	26	0	0	504
Advance payments	99	0	0	173	3	(36)	233
	3,128	**(76)**	**(2)**	**1,034**	**233**	**298**	**4,149**
Property, plant and equipment							
Land and equivalent rights, and buildings including buildings on land owned by third parties	38,819	(59)	0	436	271	214	39,139
Technical equipment and machinery	125,851	(435)	(11)	5,159	2,623	2 717	130,658
Other equipment, plant and office equipment	8,502	(58)	0	1,138	340	(815)	8,427
Advance payments and construction in progress	3,034	(31)	0	1,600	70	(2,414)	2,119
	176,206	**(583)**	**(11)**	**8,333**	**3,304**	**(298)**	**180,343**
Financial assets							
Investments in unconsolidated subsidiaries	18	0	7	25	0	1	51
Loans to unconsolidated subsidiaries	30	0	24	5	9	0	50
Investments in associated companies	1,758	(331)	0	531	518	(4)	1,436
Other investments in related companies	3,672	0	0	3,232	188	3	6,719
Long-term loans to associated and related companies	360	0	0	344	208	0	496
Other investments in noncurrent securities	1,211	0	0	1,208	362	0	2,057
Other long-term loans	1,119	0	0	9	13	0	1,115
	8,168	**(331)**	**31**	**5,354**	**1,298**	**0**	**11,924**
	187,502	**(990)**	**18**	**14,721**	**4,835**	**0**	**196,416**

	Depreciation, amortization and write-downs							Net carrying amount	
	Jan. 1, 1998	Translation adjustment	Changes in the composition of the Deutsche Telekom group	Additions	Disposals	Reclassi-fications	Dec. 31, 1998	**Dec. 31, 1998**	Dec. 31, 1997
	1,267	(9)	(2)	758	196	1	1,819	1,591	1,230
	1	0	0	0	0	0	1	1	1
	184	(17)	0	48	0	0	215	289	346
	0	0	0	0	0	0	0	233	99
	1,452	**(26)**	**(2)**	**806**	**196**	**1**	**2,035**	**2,114**	**1,676**
	3,315	(6)	0	1,320	24	(1)	4,604	34,535	35,504
	41,211	(109)	(13)	14,055	1,348	394	54,190	76,468	84,640
	3,819	(22)	(1)	1,459	291	(394)	4,570	3,857	4,683
	0	0	0	34	0	0	34	2,085	3,034
	48,345	**(137)**	**(14)**	**16,868**	**1,663**	**(1)**	**63,398**	**116,945**	**127,861**
	12	0	0	7	0	0	19	32	6
	0	0	0	44	1	0	43	7	30
	598	(167)	0	333	2	0	762	674	1,160
	76	0	0	23	43	0	56	6,663	3,596
	1	0	0	20	20	0	1	495	359
	0	0	0	0	0	0	0	2,057	1,211
	1	0	0	0	0	0	1	1,114	1,118
	688	**(167)**	**0**	**427**	**66**	**0**	**882**	**11,042**	**7,480**
	50,485	**(330)**	**(16)**	**18,101**	**1,925**	**0**	**66,315**	**130,101**	**137,017**

Consolidated statement of cash flows

	Note	1998 millions of DM	1997 millions of DM	1996 millions of DM
Net income		4,388	3,303	1,758
Income applicable to minority shareholders		397	285	163
Income after taxes		**4,785**	**3,588**	**1,921**
Depreciation and amortization		17,674	18,597	17,653
Income tax expense		4,844	2,958	1,385
Net interest expense		5,794	6,368	7,270
Net losses from the disposition of noncurrent assets		1,010	1,165	1,026
Personnel restructuring accruals		–	–	1,388
Increase/(decrease) in pension accruals		70	(241)	264
Results from associated companies		748	1,520	556
Other noncash income		(101)	(79)	(422)
(Increase)/decrease in trade accounts receivable		10	(421)	(298)
(Increase)/decrease in inventories		112	243	283
Increase/(decrease) in trade accounts payable		482	(758)	(164)
Changes in other current assets and liabilities		412	(140)	1,544
Income taxes paid		(3,936)	(3,574)	(2,166)
Dividends received		216	173	152
Cash generated from operations		**32,120**	**29,399**	**30,392**
Interest paid		(6,656)	(7,344)	(8,773)
Interest received		923	586	640
Net cash provided by operating activities	(30)	**26,387**	**22,641**	**22,259**
Capital expenditures		(9,371)	(13,282)	(16,885)
Purchase of subsidiaries, associated and related companies, net of cash acquired		(5,345)	(1,567)	(5,221)
Proceeds from sale of noncurrent assets		1,399	643	656
Net change in short-term investments and marketable securities		(1,371)	3,383	(4,037)
Other		(1)	254	162
Net cash used for investing activities	(31)	**(14,689)**	**(10,569)**	**(25,325)**
Change in short-term borrowing		(9,349)	(10,781)	(10,770)
Issuance of medium and long-term debt		3,120	266	101
Repayments of medium and long-term debt		(3,580)	(1,598)	(1,393)
Dividends		(3,450)	(1,646)	(1,210)
Changes in minority interests		(36)	–	–
Proceeds from share offering		–	–	20,146
Net cash (used for) provided by financing activities	(32)	**(13,295)**	**(13,759)**	**6,874**
Effect of foreign exchange rate changes on cash and cash equivalents		11	(6)	–
Net increase (decrease) in cash and cash equivalents		**(1,586)**	**(1,693)**	**3,808**
Cash and cash equivalents, at beginning of year		**5,623**	**7,316**	**3,508**
Cash and cash equivalents, at end of year		**4,037**	**5,623**	**7,316**
Liquid assets as shown in the balance sheet				
Cash and cash equivalents, Dec. 31,		4,037	5,623	7,316
Temporary cash investments, Dec. 31,		5,911	3,635	10,536
Total		**9,948**	**9,258**	**17,852**

Consolidated statement of shareholders' equity

millions of DM	Shares issued and outstanding (in thousands)	Capital stock nominal value	Additional paid-in capital	Retained earnings: Difference from currency translation	Retained earnings: Treasury stock	Retained earnings: Other retained earnings (deficit)	Retained earnings: Total	Unappro-priated net income	Minority interest	**Total**
Balance at Jan. 1, 1996	**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	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**	**1,193**	**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**	**1,450**	**48,144**
Changes in the composition										
of the Deutsche Telekom group									(34)	**(34)**
Dividends for 1997								(3,292)	(142)	**(3,434)**
Net income						1,082	1,082	3,306	397	**4,785**
Difference from currency										
translation				(265)			(265)		(175)	**(440)**
Balance at Dec. 31, 1998	**2,743,700**	**13,719**	**27,869**	**(984)**	**2**	**3,601**	**2,619**	**3,318**	**1,496**	**49,021**

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 telephone network communications, mobile 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.

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 and November 1998, the Federal Republic transferred a 24.6 % 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 December 31, 1998 amounts to approximately 49.4 %. 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 (BMW), 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 regulates 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.

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 (generally accepted accounting principles – 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. In case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with the recent change of § 297 paragraph 1 sentence 2 HGB, the consolidated accounts also include a consolidated statement of cash flows and a segment report; in addition, the consolidated accounts also include a 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, mostly 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. The increase in the average life expectancy is taken into account in the measurement of all pension obligations in the consolidated financial statements.

- In the measurement of the compensation obligations to the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the additional accruals required according to the new 1998 life expectancy tables by Prof. Klaus Heubeck ("Richttafeln 1998") were recorded in the 1998 financial year, thus fully affecting net income. In contrast to the unconsolidated financial statements of Deutsche Telekom AG, where the accruals are spread over 4 financial years, this accrual was made in full in the 1998 consolidated financial statements.

- 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, Bonn, Investor Relations.

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 1998 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
Jan. 1, 1998	34	35	**69**
Additions	2	4	**6**
Disposals	3	8	**11**
Reclassifications	(1)	(2)	**(3)**
Dec. 31, 1998	32	29	**61**
Associated companies included at equity			
Jan. 1, 1998	37	18	**55**
Disposals	8	1	**9**
Reclassifications	(10)	(1)	**(11)**
Dec. 31, 1998	19	16	**35**
Other unconsolidated subsidiaries and other investments in related companies (greater than 20 %)			
Jan. 1, 1998	17	20	**37**
Additions	19	7	**26**
Disposals	–	6	**6**
Reclassifications	11	3	**14**
Dec. 31, 1998	47	24	**71**
Total			
Jan. 1, 1998	88	73	**161**
Additions	21	11	**32**
Disposals	11	15	**26**
Reclassifications	–	–	**–**
Dec. 31, 1998	**98**	**69**	**167**

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 32 (Dec. 31, 1997: 34) domestic and 29 (Dec. 31, 1997: 35) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest. In contrast to the previous year (Dec. 31, 1997: 9 subsidiaries), no subsidiaries are included in the group financial statements using the equity method in the 1998 financial year.

The changes in the composition of the Deutsche Telekom group have not had a material effect on the 1998 group financial statements.

Thirty-six (Dec. 31, 1997: 21) 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, 35 (Dec. 31, 1997: 46) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method.

Thirty-five (Dec. 31, 1997: 16) 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). It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

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, 1998 (%)	Shareholders' equity Dec. 31, 1998 millions of DM	Revenue 1998 millions of DM	Income after taxes 1998 millions of DM	Employees 1998 (Annual average)
Subsidiaries					
DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	300	7,684	173	10,529
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100.00	2,830	7,504	554	5,613
MATÁV Magyar Távközlési Rt., Budapest, Hungary [1,2]	59.58	2,084	2,609	566	17,535
DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main	100.00	100	3,358	65	1,577
T-Data Gesellschaft für Datenkommunikation mbH, Bonn	100.00	972	900	134	571
DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main	100.00	52	687	151	310
Deutsche Telekom Online Service GmbH, Darmstadt	100.00	70	632	25	516
DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin	100.00	53	425	5	725
DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt	100.00	475	1,592	156	2,543
DeTeKabelService Deutsche Telekom Kabel Service Gesellschaft mbH, Bonn[1]	99.78	137	264	29	334
Associated companies					
Atlas Telecommunications S.A., Brussels, Belgium[1]	50.00	265	1,598	(864)	2,705
Technology Resources Industries Berhad, Kuala Lumpur, Malaysia[1]	20.99	441	791	(9)	4,958
PT Satelit Palapa Indonesia Satelindo, Jakarta, Indonesia	25.00	(71)	354	(240)	1,680
Isla Communications Co., Inc., Makati City, Manila, Philippines[3]	10.42	144	42	(107)	1,329
Asiacom Philippines, Inc., Makati City, Manila, Philippines	49.88	94	0	(60)	–
Other companies					
Sprint Corporation, Westwood, Kansas, USA[1]	10.00	20,826	30,143	729	64,900
France Telecom S. A., Paris, France[1,4]	2.00	27,943	46,751	4,433	165,042

[1] Consolidated subgroup financial statements
[2] Held through MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 50 %)
[3] Held directly by Deutsche Telekom AG, additional indirect holding through Asiacom (share: 28.87 %)
[4] 1997 financial year

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.

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 intercompany profits and losses with associated companies, as they were insignificant.

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

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 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, in retained earnings (deficit).

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

The exchange rates of certain significant currencies are as follows:

	Average annual rate			Rate at balance sheet date	
	1998 DM	1997 DM	1996 DM	Dec. 31, 1998 DM	Dec. 31, 1997 DM
100 Belgian Francs (BEF)	4.8476	4.8464	4.8592	4.8483	4.8478
100 Swiss Francs (CHF)	121.4138	119.5045	121.8850	122.2000	123.2500
1 ECU (XEU)	1.9727	1.9585	1.8837	1.9620	1.9790
100 French Francs (FRF)	29.8291	29.7049	29.4070	29.8180	29.8830
1 Pound Sterling (GBP)	2.9142	2.8412	2.3478	2.7980	2.9820
100 Hungarian Forints (HUF)	0.8202	0.9301	0.9862	0.7738	0.8795
100 Indonesian Rupiah (IDR)	0.0181	0.0631	0.0646	0.0209	0.0319
100 Japanese Yen (JPY)	1.3482	1.4379	1.3838	1.4505	1.3838
100 Singapore Dollars (SGD)	105.1300	117.0160	106.7900	100.8440	106.9950
100 Malaysian Ringgit (MYR)	44.9550	62.7530	59.5745	44.0230	46.4110
100 Philippine Pesos (PHP)	4.2820	5.9559	5.7384	4.2723	4.4305
1 U.S. Dollar (US$)	1.7592	1.7348	1.5037	1.6730	1.7921

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, and are shown in accordance with SFAS No. 132. 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 1997 realignment of the company pension plan on net income had to 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, No. 88 and No. 132, 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 1996 was ascertained after giving effect to 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), and are shown in accordance with SFAS No. 132.

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 from 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 revenue[1]

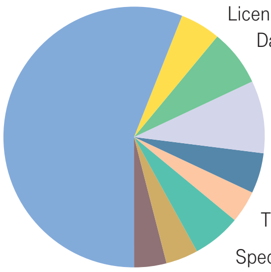
	1998 millions of DM	1997 millions of DM	1996 millions of DM
Telephone network communications	40,160	41,935	39,958
Licensed service providers/Carriers	3,152	2,403	2,210
Data communications/Systems solutions	4,903	4,549	4,183
Mobile communications	5,986	5,033	4,181
Broadband cable/Broadcasting	3,529	3,124	2,998
Terminal equipment	2,938	3,219	3,397
Special value-added services	4,011	3,913	3,329
Other services	2,452	1,019	893
International activities	2,730	2,357	1,926
	69,861	**67,552**	**63,075**

[1] Since the beginning of the 1998 financial year, revenues have been reported in line with the new organizational structure of group business areas of the Deutsche Telekom group. The prior year figures have been restated to reflect the new structure.

	1998	1997	1996
Revenue by geographic area:			
Domestic	65,195	62,982	59,031
International	4,666	4,570	4,044
	69,861	**67,552**	**63,075**

	1998	1997	1996
Breakdown of international revenues:			
European Union (excluding Germany)	1,046	1,071	1,085
Rest of Europe	3,006	2,764	2,267
North America	226	246	243
Latin America	53	62	70
Other	335	427	379
	4,666	**4,570**	**4,044**

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



Other services include revenue from multimedia services and services ancillary to the basic telephone services of Deutsche Telekom, such as rental activities. Other services also include the revenues from taking over and billing services of other carriers in accordance with § 15 of the Telecommunications Customer Protection Ordinance (Telekommunikations-Kundenschutzverordnung – TKV). 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 increase in net revenue in 1998, as compared with 1997, of approximately DM 2.3 billion or 3.4 % is a result of the positive development in mobile communications resulting from large growth in the number of customers in the T-D1 network. Despite renewed growth in the number of ISDN access lines, revenue from telephone network communications fell considerably due to intense competition and price reductions in 1998. On the other hand, revenue developments in data communications/systems solutions and licensed service providers/carriers were positive. In 1998, other services included revenues from taking over and billing services of other carriers, amounting to DM 1 billion, which was offset by a corresponding increase in goods and servi-

(2) Changes in inventories and other own capitalized costs

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Increase/(Decrease) in inventories of finished products and work in process	81	(613)	51
Own capitalized costs	1,857	3,573	3,403
	1,938	**2,960**	**3,454**

Own capitalized costs comprise mainly planning and construction costs. They include interest incurred during the construction period of DM 140 million (1997: DM 371 million, 1996: DM 407 million).

(3) Other operating income

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Refund of value-added tax (§ 15a UStG)	1,281	1,299	1,516
Other value-added tax refunds	–	–	662
Reversal of accruals	797	969	678
Cost reimbursements	556	577	396
Income from the disposition of noncurrent assets (including sale of investments)	469	109	39
Ancillary services	249	154	110
Reversal of valuation adjustments of accounts receivable and doubtful accounts	156	108	25
Insurance compensation	111	122	152
Other income	427	408	327
	4,046	**3,746**	**3,905**

Deutsche Telekom AG received a refund of VAT in accordance with § 15a Umsatzsteuergesetz – UStG (Value-Added Tax Act) of DM 1,281 million in 1998. 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 disposition of noncurrent assets mainly includes income from the sale of shares in SES (SES Société européenne des satellites, Betzdorf), amounting to DM 286 million, which resulted from the restructuring of the share capital and the initial public offering of SES shares.

Of the total amount of other operating income, DM 1,615 million (1997: DM 1,186 million, 1996: DM 703 million) relates to other financial years.

(4) Goods and services purchased

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Goods purchased	**3,072**	**2,950**	**2,317**
Services purchased	**10,224**	**9,187**	**7,907**
of which: domestic network access charges	2,913	1,568	1,019
of which: international network access charges	2,755	3,170	2,730
of which: other services	4,556	4,449	4,158
	13,296	**12,137**	**10,224**

Repairs and maintenance expense amounts to DM 1,186 million (1997: DM 1,022 million, 1996: DM 1,154 million) and is included in other services. Other services mainly include costs relating to the maintenance of telecommunications equipment, other equipment and Deutsche Telekom's fleet of vehicles, as well as expenses for software maintenance and utilization of computer capacity from computer companies. Domestic network access charges include network access charges of DM 1,020 million from taking over and billing services of other carriers in accordance with § 15 of the Telecommunications Customer Protection Ordinance.

(5) Personnel costs/Average number of employees

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Wages and salaries:			
Civil servants	5,435	5,788	6,576
Non-civil servants	7,233	7,167	6,634
	12,668	12,955	13,210
Social security contributions and expenses for pension plans and benefits:			
Social security costs	**1,392**	1,382	1,331
Civil servant pension costs	2,900	2,900	2,900
Non-civil servant pension costs	538	683	693
Pension costs	**3,438**	3,583	3,593
Active civil servant healthcare costs	**399**	400	625
Other employee benefits	**37**	20	18
	5,266	5,385	5,567
	17,934	18,340	18,777

Number of employees (average for the year)	1998 Number	1997 Number	1996 Number
Civil servants	87,573	95,855	110,269
Salaried employees	53,310	51,783	44,884
Wage earners	44,857	49,305	52,616
Deutsche Telekom group[1]	**185,740**	196,943	207,769
Changes in the composition of the Deutsche Telekom group of prior years (in particular MATÁV)	17,634	19,138	20,040
Total Deutsche Telekom group	**203,374**	216,081	227,809
Trainees/student interns	6,165	6,178	9,003

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

Pension cost amounted to DM 3,438 million (1997: DM 3,583 million, 1996: DM 3,593 million). Civil servant pension costs are made in accordance with the provisions of Postreform II. The decrease in personnel costs in 1998 is mainly attributable to the workforce reduction program, which was continued according to plan. This decrease was partly offset by remuneration adjustments as well as by the increase in other employee-related costs, as was also the case in 1997.

(6) Depreciation and amortization

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Amortization of intangible assets	806	632	516
Depreciation of property, plant and equipment	16,868	17,965	17,137
	17,674	**18,597**	**17,653**

The decrease in depreciation and amortization of DM 923 million, as compared with the same period last year, is mainly attributable to reduced investment activity. Depreciation of property, plant and equipment is mainly attributable to depreciation of telecommunications equipment.

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, which is related to nondeductible VAT capitalized prior to 1996, is also included under depreciation and amortization, as was also the case in 1997.

Nonscheduled write-downs of DM 469 million have been recognized for real estate property which is now used for other purposes and also for radio transmission equipment for the T-C-Tel network.

(7) Other operating expenses

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Losses on disposition of noncurrent assets	1,421	1,202	1,066
Marketing expenses	1,391	1,357	1,593
Losses on accounts receivable and provision for doubtful accounts	1,283	796	709
Rental and leasing expenses	1,082	1,048	1,159
Legal and consulting fees	970	726	803
Postal charges	731	686	656
Other employee-related costs	689	604	490
Advertising gifts and commissions	613	454	440
Provisions	582	1,038	425
Administrative expenses	364	366	353
Travel and transport expenses	348	385	448
Foreign currency transaction losses	205	223	182
Postal and banking services	71	186	91
Loan employment and temporary employment expenses	62	94	82
Nondeductible value-added taxes paid	–	–	35
Other expenses	720	996	923
	10,532	**10,161**	**9,455**

The losses on disposition of noncurrent assets are mainly attributable to scrapping of outside plant equipment of DM 606 million. The increase in marketing expenses is mainly due to the increased level of customer canvassing for the T-D1 network and intensified advertising activities for the introduction of Telly Local. The increase in losses on accounts receivable and provision for doubtful accounts is mainly attributable to the increase in the general rate used for calculating bad debt losses from doubtful accounts receivable and the write-downs of receivables as part of the adjustment of accounts receivable from prior years. Losses on accounts receivable and provision for doubtful accounts also include individual valuation adjustments on loans receivable and guarantees related to Southeast Asian companies. Other employee-related costs include approximately DM 174 million for services provided by the Federal Agency as a result of the business contracts for services or works completed in the 1998 year. They also include additions to the Civil Service Health Insurance Fund accrual in accordance with the new life expectancy tables ("Richttafeln 1998") by Prof. Klaus Heubeck.

Of the total amount of other operating expenses, DM 1,574 million relates to other accounting periods.

(8) Financial income (expense), net

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Dividend income from investments	204	156	123
Results related to companies accounted for under the equity method (including amortization of goodwill)	(748)	(1,520)	(556)
Income (loss) related to subsidiaries, associated and related companies	**(544)**	**(1,364)**	**(433)**
Income from debt securities and long-term loan receivables	165	196	122
Interest and similar income	758	686	467
Interest and similar expense	(6,717)	(7,250)	(7,858)
Net interest expense	**(5,794)**	**(6,368)**	**(7,269)**
Write-downs on financial assets and marketable securities	**(95)**	**(95)**	**(12)**
	(6,433)	**(7,827)**	**(7,714)**

The decrease of DM 1.4 billion in financial expense results mainly from the decrease of DM 0.8 billion related to losses from companies accounted for under the equity method to DM 748 million (1997: DM 1,520 million). This decrease in losses is mainly attributable to the significant reduction in the risks related to Southeast Asian investments, as compared with the previous year. More than half of the total 1998 losses shown for companies accounted for under the equity method is from our joint venture “Atlas/Global One”.

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, mainly relate to loans and investments in related companies.

(9) Extraordinary income (losses)

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

(10) Taxes

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Income taxes	4,844	2,958	1,385
Other taxes	347	650	830
	5,191	**3,608**	**2,215**

Income taxes

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Current income taxes	4,941	3,102	2,042
Deferred income taxes	(97)	(144)	(657)
	4,844	**2,958**	**1,385**

The combined statutory income tax rate, currently about 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 (Solidaritätszuschlag). 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.

Differences between actual tax expense of DM 4,844 million and DM 2,958 million for 1998 and 1997, respectively, and the expected corporate income tax expense (computed using 45 %, the statutory corporate income tax rate for undistributed earnings) are as follows:

	1998 millions of DM	1997 millions of DM
Expected corporate income tax at the tax rate applicable for retained earnings	4,333	2,946
Increase (decrease) in corporate income tax due to:		
Nondeductible items	(215)	(68)
Trade taxes	1,108	879
Taxation on foreign operations	(229)	(349)
Utilization of net operating loss carryforwards	(211)	(33)
Tax credit on dividends	(705)	(526)
Tax expenses related to prior years	560	–
Tax effects due to restructuring of companies	–	402
Temporary differences and loss carryforwards for which deferred taxes are not recorded	369	(196)
Other	(166)	(97)
Income taxes	**4,844**	**2,958**
Effective income tax rate	50.3 %	45.2 %

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) that is – based on § 7 paragraph 1 EStG – amortized over a period of 15 years. In line with the principle of prudence, as in 1997, goodwill amortization has not been recognized for accounting purposes in the year under review until this approach has been fully approved.

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

At December 31, 1998, Deutsche Telekom had corporate income tax net operating loss carryforwards and similar net operating loss carryforwards amounting to approximately DM 229 million (1997: DM 543 million). Deutsche Telekom also had trade tax net operating loss carryforwards amounting to DM 55 million (1997: DM 85 million). Substantially all of the net operating loss carryforwards have an unlimited carry forward period under German tax law.

(11) (Income) losses applicable to minority shareholders

The income applicable to minority shareholders includes DM 400 million (1997: DM 290 million, 1996: DM 173 million) in gains and DM 3 million (1997: DM 5 million, 1996: DM 10 million) in losses. The gains in 1998 relate, as was also the case in previous years, mainly to MATÁV.

(12) Net income

The consolidated net income of DM 4,388 million was generated primarily by Deutsche Telekom AG.

(13) Intangible assets

	Dec. 31, 1998 Net carrying amount millions of DM	Dec. 31, 1997 Net carrying amount millions of DM
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,591	1,230
Goodwill		
from individual company financial statements	1	1
arising from capital consolidation	289	346
Advance payments	233	99
	2,114	**1,676**

The increase in concessions, industrial and similar rights and assets, and licenses in such rights and assets is mainly attributable, as was also the case in 1997, 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, 1998 Net carrying amount millions of DM	Dec. 31, 1997 Net carrying amount millions of DM
Land and equivalent rights, and buildings including buildings on land owned by third parties	34,535	35,504
Technical equipment and machinery	76,468	84,640
Other equipment, plant and office equipment	3,857	4,683
Advance payments and construction in progress	2,085	3,034
	116,945	**127,861**

Additions to property, plant and equipment amount to DM 8,333 million in 1998 and relate mainly to Deutsche Telekom AG. Capital expenditure in 1998 relates primarily to switching and transmission equipment as well as the outside plant network. The decrease in advance payments and construction in progress is mainly attributable to the completion of the digitization of switching equipment in 1997.

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 1.3 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, 1998 are shown below (millions of DM):

Year	Capital leases	Operating leases
1999	97	1,064
2000	91	903
2001	92	809
2002	90	733
2003	94	618
After 2003	1,577	1,977
Total minimum lease payments	**2,041**	**6,104**
Imputed interest	**(958)**	
Present value of net minimum lease payments	**1,083**	

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

(15) Financial assets

	Dec. 31, 1998 Net carrying amount millions of DM	Dec. 31, 1997 Net carrying amount millions of DM
Investments in unconsolidated subsidiaries	32	6
Loans to unconsolidated subsidiaries	7	30
Investments in associated companies	674	1,160
Other investments in related companies	6,663	3,596
Long-term loans to associated and related companies	495	359
Other investments in noncurrent securities	2,057	1,211
Other long-term loans	1,114	1,118
	11,042	**7,480**

The decrease of DM 486 million in the net carrying amount of investments in associated companies resulted from foreign currency effects not affecting net income of DM 164 million, due largely to the exchange rate fluctuations in Southeast Asia, which in return affected the investments in this region, and amortization of goodwill totaling DM 333 million, as well as the net losses related to associated companies. This decrease was offset by additions of DM 531 million, of which DM 470 million is mainly attributable to capital contributions as a result of the realignment of loans and cash capital increases at Atlas Telecommunications S.A., Brussels.

The increase in other investments in related companies of DM 3,067 million relates primarily to the purchase of a 2 % share, or DM 2,383 million, in France Telecom S.A., Paris, which was made as part of the cross shareholding and the further expansion of the partnership between Deutsche Telekom and France Telecom. Under the provisions of the purchase contract of December 1, 1998, the objective of which is to further extend cooperation between the two companies, Deutsche Telekom has agreed not to sell its 2 % share in France Telecom before December 31, 2001. Furthermore, additions of DM 651 million were recorded in respect of investments in Sprint Corporation, Kansas City, SES Société européenne des satellites, Betzdorf, VocalTec Communications Ltd., Herzeliya and Wind Telecommunicazioni S.p.A., Rome.

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

Long-term loans mainly include ten loans to associated and related companies. The loan to Detecon Deutsche Telepost Consulting GmbH, Bonn, was increased by DM 218 million in 1998. This was the largest increase in 1998.

Other investments in noncurrent securities mainly include specialized security funds; in addition, they include debt securities and bonds. Of the major additions in 1998, DM 1,207 million relate to further investments in the specialized security funds of Deutsche Telekom AG and reinvestments in existing specialized security funds, 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. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

	Dec. 31, 1998			Dec. 31, 1997		
Name	Deutsche Telekom share (in %)	Net carrying amount millions of DM	of which: Net difference between carrying value and equity in net assets millions of DM	Deutsche Telekom share (in %)	Net carrying amount millions of DM	of which: Net difference between carrying value and equity in net assets millions of DM
Satelindo	25.00	–	–	25.00	248	248
TRI	20.99	230	139	20.99	385	285
Atlas S.A.	50.00	60	–	50.00	74	–
Asiacom	49.88	45	–	49.88	78	–
Islacom	10.42	5	–	10.42	17	–
Other		334	87		358	124
		674	**226**		**1,160**	**657**

(16) Inventories, materials and supplies

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Raw materials and supplies	354	429
Work in process	172	166
Finished goods and merchandise	618	659
Advance payments	19	27
	1,163	**1,281**

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 telecommunications network; this has also reduced the requirement of raw materials and supplies.

Work in process is mainly related to customer orders for the installation of private automatic branch exchanges (PABXs).

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 made for terminal equipment.

(17) Receivables

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Trade accounts receivable	7,731	7,801
Receivables from unconsolidated subsidiaries	28	10
Receivables from associated and related companies	294	420
	8,053	**8,231**

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

All receivables, with the exception of DM 5 million, are due within one year.

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

	1998 millions of DM	1997 millions of DM	1996 millions of DM
January 1,	644	1,238	989
Charged to costs and expenses	258	357	319
Amounts written off/released	(177)	(951)	(70)
December 31,	**725**	**644**	**1,238**

The Company directly wrote off accounts receivable balances of DM 1,025 million in 1998 (Dec. 31, 1997: DM 439 million).

(18) Other assets

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Tax receivables	465	399
Accrued interest	387	385
Receivables from employees	127	120
Receivables from reimbursements and loans receivable	59	97
Miscellaneous	381	496
	1,419	**1,497**

Other assets amounting to DM 1,400 million are due within one year. Of the balance at December 31, 1998, DM 454 million became legally due only after the balance sheet date and relate to accrued interest and nonchargeable VAT.

(19) Marketable securities

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Treasury shares	2	2
Other marketable securities	2,678	3,588
	2,680	**3,590**

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; no change occurred in 1998. Additional paid-in capital was adjusted in 1997 for the amount received on the issuance of shares in excess of nominal value, taking the discounts granted into consideration. The 459,900 shares remaining since December 31, 1997 are included in marketable securities and valued at DM 2.3 million. 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 1,845 million) to maintain favorable trading conditions, bearer bonds (DM 600 million), and Portuguese government bonds (DM 197 million). With effect from 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, 1998 millions of DM	Dec. 31, 1997 millions of DM
Checks	7	3
Petty cash and deposits at the Bundesbank	15	18
Cash in banks (including deposits at Deutsche Postbank AG)	9,926	9,237
	9,948	**9,258**

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Cash and cash equivalents (original maturity less than 3 months)	4,037	5,623
Temporary cash investments (original maturity longer than 3 months)	5,911	3,635
	9,948	**9,258**

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.

(21) Prepaid expenses, deferred charges and deferred taxation

Prepaid expenses and deferred charges of DM 1,716 million (Dec. 31, 1997: DM 1,944 million) primarily relate to prepaid personnel costs of DM 678 million (Dec. 31, 1997: DM 1,023 million) at Deutsche Telekom AG. Also included are discounts on loans of DM 160 million (Dec. 31, 1997: DM 181 million) which are amortized on a straight-line basis over the terms of the related liabilities. In addition, a deferred tax asset of DM 790 million (Dec. 31, 1997: DM 693 million) has been included.

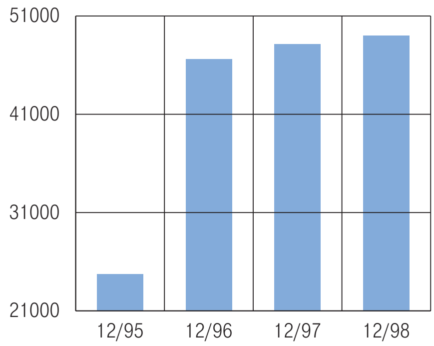
(22) Shareholders' equity

At the shareholders' meeting on June 4, 1998, the decision was taken to convert all shares with a par value of DM 5 into individual no par value shares. This amendment to the Articles of Incorporation was registered with the Commercial Registry in Bonn on July 13, 1998. The stock market listing was amended on August 10, 1998.

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 for cash or noncash consideration through the end of 1999.

A detailed account of the development of the consolidated shareholders' equity for the years 1996, 1997 and 1998 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 1998 is as follows (millions of DM):



Dec. 31, 1995: 24,732
Dec. 31, 1996: 46,599
Dec. 31, 1997: 48,144
Dec. 31, 1998: 49,021

(23) Capital stock

The capital stock of the consolidated group represents the capital stock of Deutsche Telekom AG.

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, 1998, representing 2,743.7 million individual no par value bearer shares. Each share entitles the bearer to one vote and to receive payment for a full dividend for the 1998 financial year. After deducting treasury shares held by the Company, capital stock with a dividend entitlement amounted to DM 13,716 million.

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 representing 286.3 million individual no par value shares through the end of 1999.

On July 1, 1996, a capital increase was approved by the shareholders' meeting. This involved the issue of 30 million shares to the Federal Republic as the sole shareholder. Through the initial public offering of Deutsche Telekom AG shares, an additional 713.7 million new shares were issued. The Federal Republic forewent its pre-emptive rights and did not participate in this capital increase. In the course of the 1998 financial year, the Federal Republic issued 24.6 % to the federal corporation Kreditanstalt für Wiederaufbau (KfW), thus reducing the Federal Republic's direct holding to approximately 49.4 % as at December 31, 1998. At December 31, 1998, the Federal Republic held a total of approximately 1,354 million individual no par value shares in Deutsche Telekom AG (DM 6,771 million) and the Kreditanstalt für Wiederaufbau held approximately 621 million (DM 3,105 million). In addition, the Kreditanstalt für Wiederaufbau sold 2 %, or approximately 55 million, of Deutsche Telekom AG's individual no par value shares to France Telecom S.A., Paris (approximately DM 274 million). The remaining shares are widely held.

(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 1997.

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.

(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 MATÁV.

(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, 1998 millions of DM	Dec. 31, 1997 millions of DM
Pension obligations:		
- Direct	419	322
- Indirect	5,674	5,695
Obligations under Article 131 GG	29	35
	6,122	**6,052**

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:

	1998	1997	1996
Discount rate	6.0 %	6.5 %	6.5 %
Projected salary increase	2.5 %	3.0 %	3.0 %
Expected return on assets	5.5 %	6.4 %	6.4 %
Projected pension increase	1.5 %	2.0 %	2.0 %

The corresponding pension accruals measured in accordance with § 6a of the Income Tax Act (Einkommensteuergesetz – EStG) are DM 5,764 million (Dec. 31, 1997: DM 5,240 million).

In 1997, Deutsche Telekom fundamentally changed the structure of the company pension plans. Previously, the pension benefits were mainly provided by the 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 as well as the assets of the VAP were individually allocated to the companies. A minor amount of the obligations remained with the VAP. To enable the VAP to meet these obligations, it was funded with the premium reserve required in accordance with its business plan. The result of this reorganization was that 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 were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits further amounts to this account; 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 had not reached the age of 35 and had 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; the benefit obligations are usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Actuarial present value of benefits:		
Vested	5,553	5,342
Nonvested	875	728
Accumulated benefit obligation	**6,428**	**6,070**
Effect of projected future salary increases	166	266
Projected benefit obligation	**6,594**	**6,336**
Plan assets at fair value	(420)	(266)
Projected benefit obligation in excess of plan assets	**6,174**	**6,070**
Unrecognized net gains (losses)	(52)	(18)
Accrual for pensions	**6,122**	**6,052**

Development of the projected benefit obligation:

	1998 millions of DM	1997 millions of DM
Projected benefit obligation, beginning of year	**6,336**	**7,468**
Service cost	160	173
Interest cost	395	469
Actuarial (gains)/losses	76	18
Total benefits actually paid	(373)	(403)
Reduction due to VAP rearrangement	–	(1,389)
Projected benefit obligation, end of year	**6,594**	**6,336**

Development of plan assets at fair value:

	1998 millions of DM	1997 millions of DM
Plan assets at fair value, beginning of year	**266**	**669**
Actual return on plan assets	61	(30)
Contributions by employer	454	484
Benefits actually paid through pension funds	(361)	(400)
Settlement due to new VAP arrangement	–	(457)
Plan assets at fair value, end of year	**420**	**266**

Net periodic pension cost is summarized as follows:

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Service cost	160	173	214
Interest cost	395	469	464
Expected return on plan assets	(17)	41	15
Periodic pension cost	**538**	**683**	**693**
Effect of VAP rearrangement (pursuant to SFAS No. 88)	–	(426)	–
Net periodic pension cost	**538**	**257**	**693**

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, 1998 millions of DM	Dec. 31, 1997 millions of DM
Taxes	**1,944**	637
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,724	1,489
Personnel restructuring	878	1,451
Other obligations	897	805
	3,499	3,745
Outstanding invoices	1,153	882
Litigation risks	524	717
Risks related to real estate	400	400
Investment risks	400	239
Environmental remediation	377	411
Restoration commitments	207	163
Deferred maintenance	72	59
Unused telephone units on phone cards sold	34	243
Other	1,606	1,446
	8,272	8,305
	10,216	8,942

The increase in provisions for taxes is primarily due to corporate income tax and trade tax expenses related to prior years, as well as provisions for value-added tax risks, also related to 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, taking the new 1998 life expectancy tables by Prof. Klaus Heubeck ("Richttafeln 1998") into account, which primarily reflect the increase in average life expectancy.

Deutsche Telekom has, in response to 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 1998, approximately 1,300 (1997: 2,100) civil servants and 3,200 (1997: 2,600) 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 1998, unpaid restructuring costs amounting to DM 878 million are included in accruals and DM 42 million are included in other accounts payable.

The table below sets forth the payments made and the related accruals/payables for future payments in respect of these staff reduction measures for the years 1998 and 1997:

	1998 millions of DM	1997 millions of DM
Accruals/payables, beginning of year	**1,514**	2,091
Payments made[1]	(594)	(577)
Accruals/payables, end of year	**920**	1,514

[1] This includes payments against accruals/payables in 1998: DM 594 million, 1997: DM 577 million

Accruals for environmental remediation of DM 377 million (Dec. 31, 1997: DM 411 million) were established for site clean-up costs and asbestos removal costs. There are no further foreseeable material contingencies. Deutsche Telekom expects to incur these costs over the next 1 to 3 years.

The difference of DM 7 million arising from the capital consolidation and included under other accruals in the 1997 financial year was recognized as income in the 1998 financial year.

(29) Liabilities

millions of DM	Dec. 31, 1998 Total	of which due within one year	in one to five years	after five years	Dec. 31, 1997 Total	of which due within one year	in one to five years	after five years
Debt								
Bonds and debentures	**70,607**	10,507	38,684	21,416	77,619	7,199	46,059	24,361
Liabilities to banks	**7,495**	617	3,786	3,092	10,272	2,550	3,172	4,550
	78,102	**11,124**	**42,470**	**24,508**	87,891	9,749	49,231	28,911
Other								
Advances received	**110**	81	29	–	124	111	13	–
Trade accounts payable	**4,018**	3,998	20	–	3,570	3,535	35	–
Liabilities on bills accepted and drawn	**–**	–	–	–	2	2	–	–
Payables to unconsolidated subsidiaries	**20**	20	–	–	4	4	–	–
Liabilities to other companies in which an equity interest is held	**107**	107	–	–	122	122	–	–
Other liabilities	**6,595**	4,413	157	2,025	6,919	4,792	40	2,087
of which: from taxes	**(420)**	(420)	–	–	(736)	(736)	–	–
of which: from social security	**(118)**	(118)	–	–	(123)	(123)	–	–
	10,850	**8,619**	**206**	**2,025**	10,741	8,566	88	2,087
Total liabilities	**88,952**	**19,743**	**42,676**	**26,533**	98,632	18,315	49,319	30,998

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						
1999	151	3,500	6,802	–	54	**10,507**
2000	100	–	637	637	6,420	**7,794**
2001	2,050	–	–	7,250	1,116	**10,416**
2002	–	–	5,397	10,000	–	**15,397**
2003	–	5 ,000	–	–	77	**5,077**
after 2003	2,026	6,400	12,990	–	–	**21,416**
	4,327	**14,900**	**25,826**	**17,887**	**7,667**	**70,607**

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

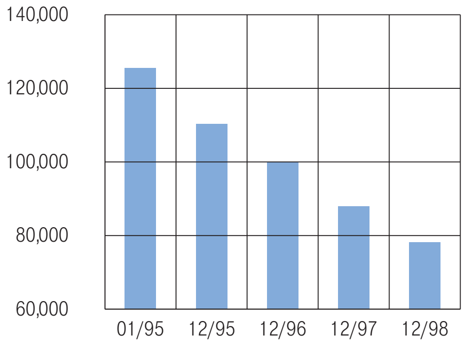
Due in	**Amounts**
1999	617
2000	470
2001	788
2002	1,052
2003	1,476
after 2003	3,092
	7,495

The average effective interest rate of total debt is for:

Bonds and debentures	7.64 % p.a. (1997: 7.57 % p.a.)
Liabilities to banks	7.52 % p.a. (1997: 7.53 % 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 10 billion at interest rates ranging from 5.5 % to 6.0 % or at the daily interbank rate plus 0.25 %. At December 31, 1998, these credit lines had been drawn upon to only a limited extent.

The decrease in debt from January 1, 1995 to December 31, 1998 is as follows (in millions of DM):



Jan. 1, 1995: 125,459
Dec. 31, 1995: 110,387
Dec. 31, 1996: 99,888
Dec. 31, 1997: 87,891
Dec. 31, 1998: 78,102

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

Other liabilities

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Interest	2,751	2,714
Rental and leasing obligations	1,102	1,141
Loan notes	1,088	1,188
Liabilities to employees	235	297
Other	1,419	1,579
	6,595	**6,919**

Other liabilities include taxes of DM 420 million (Dec. 31, 1997: DM 736 million) and social security liabilities of DM 118 million (Dec. 31, 1997: DM 123 million).

Liabilities include borrowings of DM 823 million in foreign currencies.

Liabilities in the amount of DM 136 million (Dec. 31, 1997: DM 219 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 of the Stock Corporation Transformation Act – Postumwandlungsgesetz), 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 1,586 million in 1998 to DM 4,037 million at December 31, 1998.

This is a result of the following developments:

(30) Net cash provided by operating activities
Net cash provided by operating activities increased in 1998 to DM 26,387 million. The increase of approximately DM 3.7 billion is mainly attributable to an increase in net income, in the level of income taxes not affecting liquidity and in trade accounts payable. This is offset in particular by a decrease in depreciation of property, plant and equipment and a minor loss related to associated companies.

(31) Net cash used for investing activities
Net cash used for investing activities increased to DM 14,689 million in 1998. This is a result of the outflow of short-term investments and of the considerable increase in investments in financial assets (attributable, in particular, to the acquisition of shares in France Telecom). This is offset by a reduction, compared with the previous year, in investments in property, plant and equipment to DM 9.4 billion. As in previous years, it was possible to finance such investments, totaling approximately DM 15 billion, from cash provided by operating activities.

(32) Net cash (used for) provided by financing activities
The decrease in cash (used for) provided by financing activities in 1998 to DM (13,295) million is attributable to an offsetting effect. Cash decreases due to higher dividend payments and the continued repayment of debts according to plan are offset by cash increases resulting from the issuance of new debts, in particular from the issue of a debut benchmark bond with a volume of DM 2 billion in May 1998.

(33) Guarantees and commitments, and other financial obligations

Guarantees and commitments

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Guarantees	352	446
Collateral granted against third party liabilities	191	89
Liabilities arising from warranty agreements	57	64
	600	599

Other financial obligations

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Present value of payments to special pension fund	22,400	23,600
Obligations under rental and lease agreements	6,104	6,548
Purchase commitments for interests in other companies	3,230	3,054
Purchase commitments for capital projects in progress including obligations arising from future expenditures	2,779	3,422
Commitments arising from transactions not yet settled	80	203
Contingent obligations arising from Public Law	–	2
	34,593	36,829

Guarantees and commitments of Deutsche Telekom mainly serve day-to-day business activities and securement 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 22.4 billion at December 31, 1998. 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 1.2 billion resulted from the payment of DM 2.9 billion in 1998 to the special pension fund and from the increasing effect of compounding future contributions.

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 DM 3,183 million plus interest.

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, 1998		Dec. 31, 1997	
millions of DM	Fair value	Net carrying amount	Fair value	Net carrying amount
Assets				
Other investments in related companies	8,016	6,663	3,596	3,596
Other long-term loans	1,114	1,114	1,118	1,118
Other investments in noncurrent securities	2,243	2,057	1,349	1,211
Receivables	8,053	8,053	8,231	8,231
Liquid assets	9,948	9,948	9,258	9,258
Other investments in marketable securities	2,704	2,680	3,627	3,590
Liabilities				
Bonds and debentures	78,898	70,607	84,793	77,619
Liabilities to banks	7,495	7,495	10,272	10,272
Other	10,850	10,850	10,741	10,741
Derivative financial instruments[1]				
Interest rate swaps	(121)	(139)	76	62
Interest rate caps purchased	3	3	15	18
Futures contracts	0	0	0	1
Forward rate agreements	5	0	–	–
Swaptions written	0	(2)	(1)	(2)
Cross currency interest rate swaps sold	17	7	–	–
Foreign currency forward exchange contracts	1	0	56	–

[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 7,165 million and DM 3,985 million at December 31, 1998 and 1997, respectively, were not practicably determinable, except for the investments in SES and VocalTec, because they are not publicly traded or cannot be sold due to contractual restrictions at this point in time. SES and VocalTec are valued at their market values based on share prices. 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. In general 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 (which are mainly hedges of planned future transactions) are assigned to the interest instrument valuation portfolio. Unrealized gains and 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 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, unrealized gains are not recorded. 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 uses futures contracts associated with 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, 1998 and 1997:

	Dec. 31, 1998		Dec. 31, 1997	
	Maturity	Notional amount millions of DM	Maturity	Notional amount millions of DM
Interest rate swaps (DM)				
Pay variable/receive fixed (receiver)	1999-2008	7,325	1998-2002	5,750
Pay fixed/receive variable (payer)	2002-2007	3,700	2002-2007	2,200
Forward interest rate swaps (payer)	–	–	2008	500
Interest rate swaps (US$)				
Variable to fixed (receiver)	2002-2008	713	–	–
Fixed to variable (payer)	2002-2008	713	2002-2007	448
Interest rate cap purchased	2002	300	2002	300
Future contracts	1999	75	1998	331
Forward rate agreements	1999	1,900	–	–
Swaptions sold	1999	400	1998	300
Cross currency interest rate swaps	2001-2003	150	–	–
Foreign currency forward exchange contracts				
Forward purchases	1999	441	1998	446
Forward sales	1999	461	–	–

The terms of the receiver interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average 4.6 % at December 31, 1998 and 1997, 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, 1998 provide for Deutsche Telekom to pay interest at fixed rates (weighted average of 5.5 %) 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 interest rate caps purchased have five-year terms and provide for Deutsche Telekom to receive excesses over a specified reference interest rate.

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 forward rate agreements with a term of six to eighteen months, which are mainly sold, provide an average interest rate of 3.8 % based on an interest term of three to six months.

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

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 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 1998. The Supervisory Board only received meeting attendance fees amounting to DM 36,000. Subject to the approval of the shareholders' meeting, Supervisory Board remuneration for the 1998 financial year is to amount to DM 492,000.

Provided that the 1998 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 9,174,787.46. The remuneration to be paid to former members of the Board of Management of Deutsche Telekom AG and their surviving dependents amounts to DM 7,636,079.97.

Pension accruals totaling DM 7,912,363 have been established for this group of persons at December 31, 1998. Pension obligations to such persons for which no reserve had to be established amounted to DM 5,204,870 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 3,305,825,731.33. Following inclusion of the unappropriated net income of DM 12,428,796.85 carried forward from 1997, this gives rise to total unappropriated net income of DM 3,318,254,528.18.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of DM 3,291,888,120.00. This represents a dividend of DM 1.20 per individual no par value share on the capital stock of DM 13,716,200,500.00. The remaining balance of DM 26,366,408.18 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 or construction 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) 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.

(d) Value-added tax

As of December 31, 1998 Deutsche Telekom had nondeductible capitalized VAT amounting to DM 1,305 million, net of depreciation in 1998 of DM 1,305 million, recorded as property, plant and equipment. In addition, in 1998 Deutsche Telekom recovered DM 1,281 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.

(e) Deferred income including interest rate swaps

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.

(f) 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.

(g) Unrealized gains on marketable securities
Under German GAAP, marketable debt and equity securities (including certain securities classified as other investments) 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.

(h) 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 related to the 1997 financial year also include the different treatment under German GAAP of foreign currency effects not affecting net income arising from the deconsolidation of subsidiaries.

(i) 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 valuation differences between U.S. GAAP and German GAAP. Deferred tax assets 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:

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Current income taxes	–	–	(524)
Deferred taxes from the application of U.S. GAAP	143	(691)	580
Deferred taxes on U.S. GAAP/ German GAAP differences	254	267	(315)
	397	**(424)**	**(259)**

(j) Minority interest
Under U.S. GAAP, minority interest is not included in shareholders' equity.

Consolidated financial statements

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

	Note	1998 millions of DM	1997 millions of DM	1996 millions of DM
Net income as reported in the consolidated financial statements under German GAAP		**4,388**	3,303	1,758
Personnel restructuring accrual	(a)	(559)	(492)	960
Share offering costs	(b)	–	–	564
Maintenance accruals	(c)	14	(41)	(56)
Value-added tax	(d)	24	6	(211)
Deferred income/Interest rate swaps	(e)	39	9	(116)
Employee share purchase plans	(f)	7	5	(73)
Other differences	(h)	41	90	7
Income taxes	(i)	397	(424)	(259)
Net income in accordance with U.S. GAAP		**4,351**	2,456	2,574

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

	Note	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Shareholders' equity in accordance with German GAAP		**49,021**	48,144
Personnel restructuring accrual	(a)	457	1,016
Maintenance accruals	(c)	67	53
Value-added tax	(d)	(180)	(205)
Deferred income/Interest rate swaps	(e)	(68)	(107)
Employee share purchase plans	(f)	(16)	(23)
Unrealized gains on marketable securities	(g)	1,564	138
Other differences	(h)	87	45
Income taxes	(i)	3,092	3,508
Minority interest	(j)	(1,496)	(1,450)
Shareholders' equity in accordance with U.S. GAAP		**52,528**	51,119

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

	1998 millions of DM	1997 millions of DM
Shareholders' equity, beginning of year	**51,119**	50,701
Net income in accordance with U.S. GAAP	**4,351**	2,456
Other comprehensive income		
Net change in unrealized gains on marketable securities, net of deferred taxes	615	51
Currency translation	(265)	(443)
	350	(392)
Dividends for 1997 and 1996, respectively	**(3,292)**	(1,646)
Shareholders' equity, end of year	**52,528**	51,119

(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, 1998 millions of DM	Dec. 31, 1997 millions of DM
Deferred tax assets in accordance with U.S. GAAP		
Current deferred tax assets		
Net operating loss carryforwards	83	180
Other	80	39
Noncurrent deferred tax assets		
Net operating loss carryforwards	–	64
Personnel restructuring accrual	55	–
Pension accruals	3,187	3,190
Civil servant health insurance accrual	861	849
Other accruals	637	835
Other	138	–
Deferred tax assets in accordance with U.S. GAAP	**5,041**	**5,157**
Deferred tax liabilities in accordance with U.S. GAAP		
Current deferred tax liabilities		
Accruals	(15)	–
Noncurrent deferred tax liabilities		
Property, plant and equipment	(15)	(501)
Personnel restructuring accrual	–	(86)
Unrealized gains on marketable securities	(892)	(79)
Other	–	(283)
Deferred tax liabilities in accordance with U.S. GAAP	**(922)**	**(949)**
Net current deferred tax asset (liability)	148	219
Net noncurrent deferred tax asset	3,971	3,989
Valuation allowance	(237)	(7)
Net deferred tax asset under U.S. GAAP	**3,882**	**4,201**

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

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Net deferred taxes under German GAAP	790	693
U.S. GAAP adjustments:		
Application of U.S. GAAP	4,189	4,047
U.S./German GAAP differences	(1,097)	(539)
Net deferred taxes under U.S. GAAP	**3,882**	**4,201**

(39) Additional information on the financial statements 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 doubtful accounts that would generally be recorded as reductions to the original expense lines under U.S. GAAP rather than separately as income.

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Results from ordinary business activities/Income before income taxes	9,230	6,055	4,429
Income taxes	(4,447)	(3,382)	(1,665)
Income before extraordinary losses and income			
(losses) applicable to minority shareholders	4,783	2,673	2,764
Extraordinary loss (net of income tax of DM 21 million in 1996)	–	–	(27)
(Income) losses applicable to minority shareholders	(432)	(217)	(163)
Net income in accordance with U.S. GAAP	**4,351**	**2,456**	**2,574**
Earnings per share/ADS in accordance with U.S. GAAP (in DM):			
Before extraordinary losses	1.59	0.90	1.23
Extraordinary losses	–	–	(0.01)
Net income	1.59	0.90	1.22
Weighted average shares outstanding (in millions)	2,743	2,743	2,110

Consolidated statement of comprehensive income

In addition to the contents of the financial statements which must be disclosed in accordance with German GAAP, comprehensive income must be disclosed under U.S. GAAP beginning in 1998. Comprehensive income covers certain changes to the shareholders' equity not affecting net income and not related to capital payments, dividend payments or similar transactions with the shareholders.

	1998 millions of DM	1997 millions of DM	1996 millions of DM
Net income in accordance with U.S. GAAP	4,351	2,456	2,574
Other comprehensive income			
Currency translation	(265)	(369)	(25)
Reclassification of realized currency translation differences	–	(74)	–
Unrealized gains on marketable securities			
(net of taxes in 1998: DM 813 million and 1997: DM 68 million)	615	51	8
Other comprehensive income	350	(392)	(17)
Total income/comprehensive income	**4,701**	**2,064**	**2,557**

Development of other comprehensive income

	Currency translation millions of DM	Unrealized gains on marketable securities millions of DM	Other comprehensive income millions of DM
January 1, 1997	**(350)**	**8**	**(342)**
Changes	(443)	51	(392)
December 31, 1997	**(793)**	**59**	**(734)**
Changes	(265)	615	350
December 31, 1998	**(1,058)**	**674**	**(384)**

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

	Dec. 31, 1998 millions of DM	Dec. 31, 1997 millions of DM
Assets		
Current assets		
Cash and cash equivalents	4,037	5,630
Other current assets	21,297	19,505
	25,334	**25,135**
Noncurrent assets	134,100	140,966
	159,434	**166,101**
Shareholders' equity and liabilities		
Current liabilities		
Short-term debt	11,124	9,749
Other liabilities	9,519	9,801
Accruals	7,221	5,459
	27,864	**25,009**
Long-term liabilities		
Long-term debt	66,818	77,961
Other noncurrent liabilities	10,761	10,630
	77,579	**88,591**
Minority interest	**1,463**	**1,382**
Shareholders' equity		
Capital stock	13,719	13,719
Additional paid-in capital	27,593	27,593
Retained earnings and unappropriated net income	11,602	10,543
Total other comprehensive income	(384)	(734)
Treasury shares	(2)	(2)
	52,528	**51,119**
	159,434	**166,101**

(40) Segment information by group business area in accordance with SFAS No. 131

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. This statement, which Deutsche Telekom is obliged to adopt for the first time for the 1998 financial year, requires that companies disclose information on their operational segments in accordance with their internal reporting structures.

According to the definitions in the previously applicable SFAS No. 14, which required segmentation by sector, Deutsche Telekom operated only in the telecommunications sector.

Having adopted SFAS No. 131, Deutsche Telekom has identified the following operational segments for which reporting is required: telephone network communications, mobile communications, broadband cable/broadcasting, terminal equipment, special value-added services and international activities. The segments for which reporting is required are strategic group business areas which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

In the 1996 and 1997 financial years, considerable development in internal reporting and major changes in the structure of the group business areas occurred. Generating comparable segment figures in accordance with SFAS No. 131 for the years before 1998 would be impracticable. Deutsche Telekom has therefore opted not to present such figures.

Deutsche Telekom does not assign income tax and taxes chargeable as expenses to individual segments in its group segment reporting. With the exception of depreciation and amortization, no major noncash items are assigned to segments. The valuation methods used for the group segment reporting correspond mainly to those used in the German consolidated financial statements.

Deutsche Telekom evaluates the segments' performance based on their income before taxes and their extraordinary income. Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Other expense and income items as well as property, plant and equipment and capital expenditure are in principle assigned to the segments by allocation procedure.

1998 (millions of DM)	Net revenue	Revenue between segments	Depreciation and amortization	Net interest expense	Income (loss) related to associated and related companies	**Income before taxes**	Property, plant and equipment	Capital expenditure on property, plant and equipment
Telephone network communications	40,160	2,126	(9,981)	(3,236)	–	**9,380**	72,361	3,729
Mobile communications	5,986	1,827	(1,134)	(118)	–	**1,314**	2,608	960
Broadband cable/Broadcasting	3,529	182	(1,911)	(694)	–	**(635)**	13,793	737
Terminal equipment	2,938	433	(538)	(137)	–	**(223)**	1,983	242
Special value-added services	4,011	459	(435)	(132)	–	**(354)**	2,482	125
International activities	2,585	24	(475)	(131)	–	**523**	3,491	861
Other segments	10,507	6,676	(3,282)	(1,341)	(633)	**(78)**	20,227	1,679
Reconciliation	145	(11,727)	82	(5)	(6)	**49**	0	0
Group	**69,861**	**0**	**(17,674)**	**(5,794)**	**(639)**	**9,976**	**116,945**	**8,333**

Telephone network communications
The group business area telephone network communications provides voice telephony and associated services in the fixed network for a broad range of customers. The services are provided mainly within the domestic market and are, in many areas, subject to regulation by the Regulatory Authority for Telecommunications and Posts.

In this segment, Deutsche Telekom generated revenue with third parties in the year under review amounting to DM 40,160 million. Domestic call charges account for approximately 60 % of this revenue, connection charges, monthly rental charges and other domestic services for approximately 30 % and international call charges for approximately 10 %. Whereas revenues from call charges fell slightly, those from other services largely remained stable. The decrease in revenues from call charges is attributable to falling prices and the full liberalization of the markets.

Revenue from business with other segments, amounting to DM 2,126 million, relates mainly to services provided for various product packages offered by group business areas other than the group business area telephone network communications, in particular special value-added services. Depreciation in the telephone network communications segment, which accounts for more than half of Deutsche Telekom's total depreciation and amortization, relates to the allocation of large proportions of property, plant and equipment to this segment.

The net interest expense of DM 3,236 million is attributable to the high capitalization ratio in this group business area.

With income before taxes of DM 9,380 million, telephone network communications is the decisive segment contributing to the Group's results. In the year under review, this result was influenced in particular by falling call charges and the losses of market share resulting from the end of Deutsche Telekom's monopoly.

As Deutsche Telekom's main business segment, the group business area telephone network communications accounts for DM 72,361 million, approximately 62 % of the Group's property, plant and equipment. These include, in particular, significant parts of the network infrastructure and of real estate used for the provision of telephone network communications services.

Capital expenditure relates mainly to technical equipment.

Mobile communications
The group business area mobile communications provides mobile telephone and paging services for a broad range of customers. The services are provided mainly within the domestic market. In the most important sector of this market, digital mobile telephony, there are currently four mobile communications operators offering their services.

T-D1, Deutsche Telekom's digital mobile telephone service, generated 78 % of the segment's net revenue. The analog mobile telephone service, T-C-Tel, accounts for 8 % and the other mobile communications services for 14 % of total revenue generated with third parties, which amounted to DM 5,986 million.

Revenue from business with other segments amounting to DM 1,827 million relates mainly to network interconnection services provided by the group business area mobile communications.

Depreciation in the mobile communications segment, which accounts for 6 % of Deutsche Telekom's total depreciation and amortization, relates to property, plant and equipment used for mobile communications.

The net interest expense of DM 118 million is mainly related to the financing of property, plant and equipment.

Along with telephone network communications, mobile communications, with income before taxes of DM 1,314 million, is a major contributor to the Group's results. Despite the price reductions and the subsidization of mobile terminal equipment in the year under review, the result of the mobile communications segment benefited from the growth of the number of customers in Deutsche Telekom's mobile network.

Property, plant and equipment of this group business area consists mainly of network elements and other mobile network equipment as well as buildings.

Capital expenditure relates mainly to the expansion of the digital mobile network.

Broadband cable/broadcasting
The group business area broadband cable/broadcasting provides broadcasting services for analog and digital radio and television channels. The services are provided within the domestic market and are subject to the regulations of the regional media supervisory authorities.

Connection charges and monthly cable charges paid by residential cable users along with the transmission charges paid by local cable companies contribute to 75 % of the segment's net revenue. Revenues from the provision of transmission capacities for radio and television broadcasters account for the remaining 25 % of the segment's net revenue.

Revenue from business with other segments is very low.

Depreciation in the broadband cable/broadcasting segment, which accounts for approximately 11 % of Deutsche Telekom's total depreciation and amortization, relates mainly to the cable network.

The net interest expense of DM 694 million is mainly related to the financing of the segment's property, plant and equipment.

In the 1998 financial year, this group business area recorded losses before taxes of DM 635 million. The increase in cable charges at the end of 1997 contributed to the improvement of this result. The result was influenced negatively, however, by restrictions on the marketing of the cable network.

Property, plant and equipment of this group business area consists mainly of technical equipment and real estate; broadband cable accounts for two thirds of the property, plant and equipment, and broadcasting installations for one third.

Capital expenditure relates mainly to equipment replacements and capital expansion for new connections to the broadband cable network and for the construction of broadcasting installations.

Terminal equipment
The group business area terminal equipment sells and rents out terminal equipment and private automatic branch exchanges to various target groups. The services are provided mainly within the domestic market. In the sale of terminal equipment, Deutsche Telekom, which has no production facilities of its own, is in direct competition with its suppliers. The segment generated net revenues of DM 2,938 million.

Revenue from business with other segments amounting to DM 433 million relates mainly to terminal equipment used by Deutsche Telekom and services provided for the group business area telephone network communications.

Depreciation in the terminal equipment segment relates to the depreciation of property, plant and equipment allocated to this group business area.

The net interest expense of DM 137 million mainly reflects the financing of property, plant and equipment allocated to this group business area.

In the 1998 financial year, this group business area recorded losses before taxes of DM 223 million. The improvement in the results of the group business area terminal equipment is attributable to the streamlining of the product portfolio in 1998 and the initiation of further measures.

Property, plant and equipment is allocated to this group business area on a proportional basis in line with usage, in particular of real estate and plant and office equipment.

Capital expenditure relates mainly to the increase in property, plant and equipment allocated to this group business area.

Special value-added services

The group business area special value-added services provides various services based on the telephone network for a broad range of customers. These include directory inquiries, call centers, freecall and shared-cost numbers and public telephones. The services are provided mainly within the domestic market and are subject to competition.

The biggest contribution to the segment's net revenue, 47 %, is made by freecall and shared-cost numbers. Public telephones generated 32 % of the net revenue and directory inquiries 20 %.

Revenue from business with other segments amounting to DM 459 million relates mainly to services provided for the group business areas telephone network communications and systems solutions.

Depreciation in the special value-added services segment relates to the property, plant and equipment allocated to the group business area.

The net interest expense of DM 132 million is mainly related to the financing of property, plant and equipment. In the 1998 financial year, this group business area recorded losses before taxes of DM 354 million. The improvement in the results of the group business area special value-added services was influenced by the adjustment of charges for individual services and the optimization of the concept for locating public telephones.

Property, plant and equipment is allocated to this group business area on a proportional basis in line with usage.

International activities

For the purposes of segment reporting, the group business area international activities only relates to Deutsche Telekom's shareholding in MATÁV. MATÁV operates on the Hungarian telecommunications market as a full-service provider of telephone services.

The segment's net revenue is mainly attributable to MATÁV's activities in the fixed network and mobile communications business.

Revenue from business with other segments is minimal. Depreciation in the international activities segment relates to depreciation of property, plant and equipment at MATÁV. The net interest item of DM 131 million reflects the company's interest expense.

In the 1998 financial year, this group business area recorded profit before taxes of DM 523 million. Property, plant and equipment of this segment represents that of MATÁV. Capital expenditure relates mainly to the expansion of the telephone networks in Hungary.

Other segments

Other segments include those operational segments which, in accordance with the requirements of SFAS No. 131, need not be shown individually, and other activities and property, plant and equipment which are not allocated to a specific operational segment. The recorded loss reflects the losses attributable to associated and related companies, as well as related administration and interest costs. These losses also include write-downs of financial assets and marketable securities. This was offset by income before taxes from the segments data communications/systems solutions and licensed service providers/carriers. Property, plant and equipment includes the property, plant and equipment of the other group business areas and corporate headquarters.

Reconciliation

The items to be reconciled relate mainly to consolidation measures and differences in the composition of the Deutsche Telekom group taken as the basis for management reporting and that used for the consolidated financial statements under German GAAP. The net revenues shown in the reconciliation relate to subsidiaries shown in the consolidated financial statements under international activities.

(41) Other matters

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, Reporting Comprehensive Income, which covers certain changes to the shareholders' equity not affecting net income and not related to capital payments, dividend payments or similar transactions with the shareholders. Deutsche Telekom adopted this statement for the year under review.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which specifies segment reporting on the basis that is used internally for reporting to management. Deutsche Telekom adopted this statement for the year under review.

In February 1998, the Financial Accounting Standards Board issued SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. This standard 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. Deutsche Telekom adopted this statement for the year under review.

The AICPA issued Statement of Position 98-1 (SOP 98-1) in March 1998, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which has to be adopted for the 1999 financial year. In accordance with SOP 98-1, certain expenses incurred during the project development stage of computer software for internal use are to be capitalized and amortized over its expected useful life. Deutsche Telekom adopted this statement in 1999.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted from the financial year 2000. Under the provisions of SFAS No. 133, derivative instruments are rights and obligations which meet the definition of assets or liabilities and should be reported in financial statements. They should, in principle, be valued at market value (fair value). Alternative treatment is only permissible, if it can be shown that this is attributable to hedging, which satisfies the requirements of the statement with regard to documentation and monitoring of efficiency. Deutsche Telekom is currently evaluating the impact of this statement and will adopt it for the financial year 2000.

Bonn, March 24, 1999

Deutsche Telekom AG
Board of Management

Dr. Ron Sommer	Josef Brauner	Detlev Buchal	Jeffrey A. Hedberg
Dr. Hagen Hultzsch	Dr. Heinz Klinkhammer	Dr. Joachim Kröske	Gerd Tenzer

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 24, 1999

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