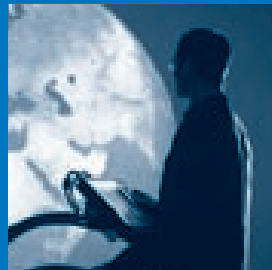


Services.

33

The acceleration of all processes, particularly in industry, constantly calls for newer and faster communications solutions. Deutsche Telekom offers a comprehensive range of products, systems and services to fulfil the toughest requirements any time, anywhere. With its combined expertise, Deutsche Telekom guarantees its customers the all-important competitive edge.



Organization.

Closer to the customer.

Deutsche Telekom has systematically organized itself in accordance with a central principle: focusing on the customer. The company has strengthened its operating units, thereby further enhancing its performance and earning power in the competitive environment. All of Deutsche Telekom's facilities and resources, both central and distributed, have been integrated within the company's customer focus. The company is creating customer-oriented and market-oriented value.

Deutsche Telekom's management processes and systems support the autonomy of the company's business units; integrated IT systems boost their administrative efficiency. All Group units are linked within a common network; all employees can communicate securely throughout the Group, worldwide, to exchange information and stay abreast of product and market trends. State-of-the-art monitoring systems watch operations constantly for Group-wide controlling.

Central functions reorganized

The Group's headquarters are currently being reorganized to enhance the company's overall business and customer focus and to support a system of internal markets. The reorganization, which the Board of Management approved in August 1998, is designed to push Deutsche Telekom's strategic concept of change, thus protecting jobs in the long run and promoting flexibility and competitiveness. Following the reorganization, headquarters will focus exclusively on strategic management of the Group and its units. All market operations and internal services will be organized within profit-responsible units of Deutsche Telekom that will have greater autonomy under the new structure.

The Board of Management also decided to reorganize and strategically realign the company's 79 customer branch offices. This move is designed to improve the effectiveness and autonomy of the company's field organization, primarily by combining and strengthening sales and service units. As part of the reorganization, the branch offices in each region, for business customers and for residential customers, will be placed under a common regional management. This is expected to further improve the branch offices' customer service and overall operations and to enhance their mobility in the market.



Nordoostpolder (Holland), January 14, 1999: The 1:10 model of a turbine for the planned Airbus A340 is being attached to the wing for a test run in the German-Dutch wind tunnel.



The tests are to generate important data on the aerodynamic behavior of the wing when the turbine is running.



The developments made in the course of the "Spock" project, being run with Deutsche Telekom's help, enable Airbus engineers in different locations in Europe to work online with the data from Holland immediately.



Bremen: January 14, 1999: The engineers of DaimlerChrysler Aerospace Airbus are using the data from the wind tunnel to revise the external shape of the wing.

“Spock” is a development project being carried out together with the Airbus consortium, which makes the complex processes in the construction of air-planes easier. Deutsche Telekom’s ATM technology allows engineers throughout Europe to work on the development of the Airbus A340 all at the same time. Parts manufactured at various locations can be processed online and then fitted together.



The revised model is reattached to the turbines in the wind tunnel.

Thanks to ATM links, the construction engineers throughout Europe can network their computers and work with the data in real-time.

New division structure in Board of Management

On September 16, 1998, Deutsche Telekom's Supervisory Board approved a new division structure within the Board of Management. The new structure which took effect on October 1, 1998 (see: Corporate group structure, p. III) reflects the company's emphasis on further optimizing customer care efforts. Product management has been separated out of the former Sales and Distribution Division and placed in a new Product Marketing Division. With this move, the Board of Management is responding to increasing product complexity and to the need to maximize management efficiency in sales and at the branch offices. The Product Marketing Division is responsible for product design, product management and definition of strategic marketing criteria. The new Sales and Customer Care Division is responsible for business planning for the various customer segments and for operational implementation of marketing products. It provides sales feedback to the Product Marketing Division, along with input for product design. The Sales and Customer Care Division controls all national sales and service units; the Product Marketing Division comprises the Group business areas for telephone network communications, special value-added services, terminal equipment, data communications, multimedia communications and systems solutions.

The reorganization has also eliminated the Global Systems Division and divided its activities between the Product Marketing and International divisions. The International Division now houses responsibility for control of Global One and other international joint ventures, for management of our foreign subsidiaries and offices abroad, and for identification of international potential markets (see "Principal subsidiaries and associated companies", p. V).

In 1999, Deutsche Telekom plans to continue the reorientation process introduced by the 1998 reorganization. The company will strive to intensify its customer focus still further and foster additional customer loyalty, thereby further improving its long-term position in the competitive environment. We plan to accelerate our pace of innovation and step up new business development – to be an even better full-service telecommunications provider for our customers.

Telephone network communications.

Attractive telephone services for our customers.

Complete liberalization of the German telecommunications market has generated intense competition in voice telephony services. For its part, Deutsche Telekom is competing with innovative and customized telephone and telephone-related services. We have entered the next phase of competition with extensive price adjustments and new products.

Intense competition in core business

Accounting for 57.5 percent of consolidated revenue, telephone network communications, i.e. telephone services in the fixed network, is Deutsche Telekom's core business. In 1998, we generated revenues of DM 40.2 billion and net income before taxes of DM 9.4 billion with telephone network communications services. Call charges accounted for a total of DM 28.2 billion of this revenue. 62.9 percent of call revenue came from residential customers; 37.1 percent was generated with business customers. The great majority of call revenue was generated by "City" calls (29.7 percent) and long-distance calls (44.3 percent). A total of DM 4.1 billion, or 14.5 percent, of call revenue was generated by international calls. Calls to mobile communications networks accounted for 11.5 percent of call revenue. One particularly positive trend was the growth in calls to online services and to mobile phone numbers: Revenue from calls to mobile numbers rose 11 percent over the previous year's figure. As of the end of 1998, a total of 46.4 million telephone connections (including ISDN channels) were in operation.

Competition in telephone network communications has intensified as more and more providers of telecommunications services have entered the German telecommunications market, which was completely liberalized on January 1, 1998. By the end of 1998, the Regulatory Authority had issued over 150 regional and nationwide licenses for voice telephony service. The licensees include providers of subscriber lines and local services (subscriber network operators) and providers of long-distance and international services (long-distance carriers).

Fixed terms for interconnection, which particularly favor competitors that have not invested in infrastructure, have enabled providers to profit from our investments, at low prices, and to exploit them in designing their own products and services. Telephone customers are free to choose providers, either through preselection – selecting one long-distance carrier to handle all their calls – or through call-by-call selection – selecting a carrier every time they make a call, by dialing the carrier's prefix before the telephone number. Customers who change over to another carrier without changing location can keep their existing number. Deutsche Telekom, like any other local network operator, provides number portability in its network.

The main focus of competition in 1998 was on long-distance and international calls. In this battle, which was waged almost exclusively on the basis of price in 1998, Deutsche Telekom's competitors were able to gain significant market share. We are meeting this challenge vigorously with attractive prices and innovative, customer-oriented and reliable products and services.

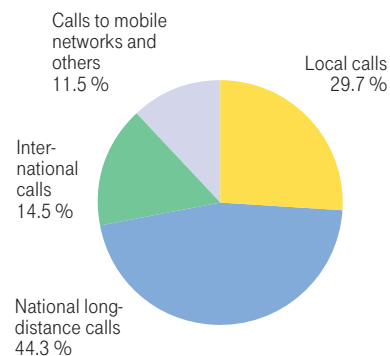
Telephone lines provide more and better services

In the first year following complete digitization of its T-Net, Deutsche Telekom introduced additional enhanced features for analog telephone lines, such as display of the telephone number of a calling subscriber (caller ID) and automatic callback on busy signal. We also began offering T-Net 200, a new package of services at an attractive complete price. The package includes an analog T-Net telephone line and special features such as callback on busy signal and caller ID. We plan to offer additional packages of services, aimed at specific market segments, in 1999.

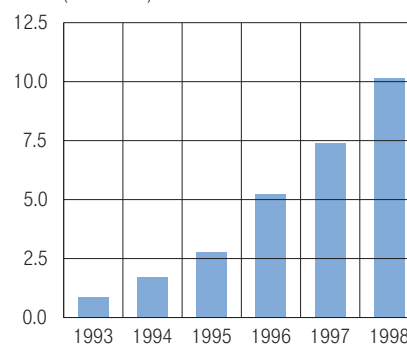
The T-ISDN boom continues

The T-ISDN success story of the past few years continued last year. As of the end of 1998, Deutsche Telekom subscribers had some four million T-ISDN lines, with a total of more than ten million channels, representing ISDN channel growth of 37.5 percent as compared to year-end 1997. This overall growth, which we have strongly supported with extensive advertising campaigns, has further solidified Deutsche Telekom's position as the worldwide leader in ISDN communications.

Telephone calls
(revenue, in %)



ISDN channels in operation
(in millions)



1993:	0.8
1994:	1.7
1995:	2.7
1996:	5.2
1997:	7.3
1998:	10.1

International traffic by geographical regions

	1998 ¹	1997	1996	1995	1994
Western/Central Europe and Mediterranean countries	3,932	4,102	4,096	4,459	4,110
USA/Canada	337	306	312	321	314
Others	442	405	353	458	518

Total 4,711 4,813 4,761 5,238 4,942

Outgoing traffic, in millions of minutes

¹ estimate

At the beginning of 1999, we introduced additional T-ISDN features such as remotely controlled call forwarding. With further features we intend to enhance the attractiveness of telephone lines in our digital telecommunications network.

T-NetBox – strong demand for call manager

In 1998, growing numbers of subscribers chose Deutsche Telekom's T-NetBox, the network-based digital answering machine. By the end of the year, we reported about 470,000 T-NetBox customers – an increase of 243,000 as compared to year-end 1997. And we expanded the portfolio of T-NetBox services, with specific customer segments in mind, by introducing the FamilyBox and FaxBox.

With T-NetCall, we are a global trendsetter in Internet telephony

The international telecommunications industry expects Internet telephony to be a growing market in the coming years. In 1998, Deutsche Telekom further strengthened its position as an innovator in this market segment. In January of the year under review, we acquired a 20.15 percent stake in the Israeli company VocalTec Communications Ltd., a market leader in IP-telephony software. Following the successful completion of technical tests, we launched commercial pilot tests of T-NetCall, our Internet telephony service, in various countries, including the U.S., Canada, Czech Republic, Poland and Hungary. The pilot tests cover both conventional phone-to-phone telephony and new applications such as "GSM to phone" (involving cellular phones) and "PC to phone", all via the Internet. The PC-to-phone service has also been undergoing testing in our home national market via T-Online since the turn of the year.

Convergence of fixed-network and mobile communications

In cooperation with T-Mobil, its mobile communications subsidiary, Deutsche Telekom AG has developed PCS (Personal Communication Services), a combination product that integrates the fixed network with mobile communications. PCS, which is aimed at residential customers and small business customers, provides great calling convenience as well as additional advantages such as a single invoice for all services and one contact person to whom the customer can turn with any questions. PCS subscribers can be reached under the same fixed network number in both the fixed and mobile communications networks, and are provided with an integrated answering machine (PCS-Box). An intelligent PCS call manager routes the subscriber's calls, in keeping with his or her wishes, to the subscriber's fixed network telephone, cellular phone or integrated answering machine. The commercial pilot test for PCS started in October 1998. Since CeBIT 1999 PCS has been available nationwide.

T-VPN – customized network solutions

In financial year 1998, Deutsche Telekom provided virtual private network solutions (T-VPN) for some 200 business customers and named accounts. A new feature called Centrex enables us, within T-VPN, to implement functions in our networks which are typical features of PABXs (Private Automatic Branch Exchange). In 1998, this software functionality was used to integrate teleworking stations within the virtual private networks solution of a number of insurance companies. In 1999, we plan to integrate mobile communications and a range of additional value-added services into our virtual private network offer. This will place us in an even better position to meet our customers' demand for comprehensive telecommunications solutions.

New applications for a range of different customer segments

We are using new applications to develop additional markets and increase traffic in our network. For example, in 1998 we introduced Music on Demand, an innovative service for the entertainment market. Music on Demand enables T-ISDN and T-Online customers to download current music titles from the Internet and listen to them.

Over 100 music companies and more than 7,000 customers have taken part in a market test launched at CeBIT 98. A total of 26,000 music selections were available in December 1998 under Music on Demand.

Market-oriented tariff packages

In March 1998, we built on our comprehensive tariff reform of 1996 by reducing rates still further. This new tariff campaign included components such as reductions in long-distance rates and longer unit intervals for weekend rates, which brought savings of up to 28 percent, particularly for our residential customers. We also restructured prices for international calls, under a program known as GlobalCall. This program features, for example, rate reductions of up to 45 percent for calls to the U.S. and Canada.

The new "10plus" tariff is especially attractive for those who tend to make long telephone calls. With 10plus, the subscriber automatically saves 10 percent (with a T-Net line) or 30 percent (with a T-ISDN line), after the tenth minute of a call, in the RegioCall, GermanCall and GlobalCall calling zones and on calls to our mobile networks. The price reductions that we implemented in March 1998 have also made calls to Deutsche Telekom's mobile networks up to 28 percent less expensive.

Along with these price cuts, a number of existing customer-specific optional calling plans were further optimized, in keeping with market requirements – for example, our CityPlus calling plan was further improved in May 1998. In October 1998, we introduced the new optional calling plan Select 5plus, which gives customers discounts on selected telephone numbers. Select 5plus is an ideal complement to the local rates for T-D1 lines, because it enables subscribers to include T-D1 or T-C-Tel numbers in their discounted destinations.

After having modified the Dial & Benefit program for our business customers, we developed two new special rate offers for this market segment in the second half of 1998. The BusinessCall 500 tariff, aimed at small and medium-sized businesses, permits calling charges to be calculated to the nearest second (in addition to other features). BusinessCall 700 is intended to be an attractive program for large business customers with one or more company locations. Both programs were introduced in early 1999.

1999 price campaign

In November 1998, Deutsche Telekom decided to implement further rate reductions as of January 1, 1999, thereby countering the price wars unleashed by our competitors. After receiving the approval of the Regulatory Authority, rates for calls within the Regional (formerly RegioCall) and Deutschland (formerly GermanCall) tariff zones were considerably reduced. This enables our customers to save up to 62 percent over the previous rates. And we have made rates particularly attractive for our T-ISDN customers, in order to boost our T-ISDN business still further.

In a price campaign launched at the beginning of 1999, Deutsche Telekom introduced an array of attractive per-minute prices and considerably simplified its tariff structure. For T-ISDN lines, T-Net 200 lines and T-Net lines with a T-NetBox, the charge for national long-distance calls outside the City zone is based on a simple formula:

- 24 pfennigs/minute during the day (from 9 a.m. to 6 p.m.),
- 12 pfennigs/minute at the leisure-time rate (from 6 p.m. to 9 p.m. and from 6 a.m. to 9 a.m. and
- as of April 1, 1999, 6 pfennigs/minute at the evening rate (9 p.m. to 6 a.m.)

For all other T-Net lines, the only difference in price is for long-distance "Deutschland" calls placed between 9 a.m. and 6 p.m., when 36 pfennigs/minute is charged. On weekends, a uniform price of 12 pfennigs/minute applies to all lines for all national calls outside the City zone, even during the day. The 10plus tariff with a discount of 10 percent (for T-Net calls) or 30 percent (for ISDN calls) after the tenth minute is in effect for all long-distance calls daily between 6 a.m. and 9 p.m.

We expect that competition will result in further price campaigns in 1999, as well as other initiatives.

Data communications.

High-capacity networks for rapid data transmissions.

Data communications is one of the fastest growing areas of telecommunications. As a result of booming Internet usage and the rise of multi-location companies interconnected via intranets, the growth of data traffic exceeds the growth of telephone traffic in global telecommunications networks. Deutsche Telekom is responding to steadily increasing data communications requirements with a broad portfolio of products and services and with customized solutions – and it plans to develop new markets in this growth sector.

Still on the up

Deutsche Telekom benefits from the growing market volume in the area of data communications which has been open to competition for several years now. In 1998, we continued a vigorous expansion of our range of products and services in the Group's data communications business area. With 1998 revenue of DM 2.0 billion in this business area we maintained last year's level despite high price pressure. The services of the data communications Group business area are increasingly incorporated into the integrated services of the Group's other business areas (such as system solutions and multimedia). The data communications area contributed 2.9 percent to total Group revenue in 1998.

Increase in marketed digital fixed connections

Deutsche Telekom markets fixed data connections under the product name "LeasedLink". This product includes standard leased lines, leased lines for data communications and international leased lines. Increasingly, our customers have been using digital leased lines, which provide much higher transmission capacity than analog connections.

The LeasedLink area has seen a clear trend toward broadband transmission rates. In 1998, the bandwidth Deutsche Telekom marketed in leased lines for data communications grew by 21 percent.

Following its major rate cuts of past years, in 1998 Deutsche Telekom improved its position in the international data communications market by further reducing its rates. The rate reduction for leased lines for data communications equalled 12 percent in 1998; the rate cuts for digital standard leased lines amounted to 14 percent.

Datex-P – customer-oriented product optimization

Many companies rely on Deutsche Telekom's Datex-P service – a packet-switched data transmission service based on the X.25 standard – as a centerpiece of their data communications systems. As of the end of 1998, our customers were using some 85,700 Datex-P lines and 50,900 access authorizations. In 1998, we introduced a new rate structure for Datex-P and bundled the service with many of our other products and networks. In addition, we stepped up marketing of a service that permits customers to use Datex-P via ISDN-D channels. For 1999, we are planning to cooperate with marketing partners in order to give this Datex-P service an even better market position.

FrameLink Plus – the basis for customized applications

Deutsche Telekom's FrameLink Plus service – which is based on frame relay technology – is especially designed to handle data communications that include high-volume bursts. FrameLink Plus is suitable both for linking LANs (Local Area Networks) and for building corporate networks. In 1998, we further simplified FrameLink Plus rate structures for our customers and implemented price reductions of up to 30 percent. We also introduced additional FrameLink Plus services, such as the integration of voice transmission (voice over data) and a gateway to Datex-P.



It's the deciding stage of the Tour de France, but Stefan Piroge will miss the start, because he has to make it to the station. No problem – thanks to Deutsche Telekom, the race is also being shown on the train.



Only one thing on his mind: Stefan Piroge has to find a seat near the screen quickly so that he can follow Jan Ullrich on the move.



Thanks to Deutsche Telekom's Mobil-TV, the television program can be transmitted directly to the train while it's traveling.

Keeping up-to-date on the move. The T-Media-Broadcast service "Mobil-TV" lets you keep up with important events and still make it to an important appointment. Deutsche Telekom makes sure the digital signals from the transmission center reach the train in real-time, meaning the passengers can enjoy the program without interruption.



On the move and didn't miss a thing. Stefan Piroge sits and enjoys the race.

We used FrameLink Plus to implement a number of cutting-edge telecommunications solutions for customers, including solutions for a German health-insurance company, Deutsche Angestellten Krankenkasse and Dekra, a technical consultancy.

City-Netz – systematic expansion of regional high-speed networks

In financial year 1998, we inaugurated an additional eight “City-Netz” networks, thereby increasing the total to 36. City-Netz is a high-speed regional infrastructure built with fiber optic lines. Our customers normally use it as a basis for comprehensive telecommunications solutions. In many cases, customers use these broadband regional networks as access platforms for services such as T-Net ATM or T-InterConnect.

T-Net ATM – a top-of-the-line product for broadband communications

Deutsche Telekom’s T-Net ATM, which is now accessible nationwide throughout Germany at 42 locations, is one of the world’s most modern telecommunications structures. Deutsche Telekom is the market leader in Germany in the use of ATM (Asynchronous Transfer Mode) technology that permits voice, text, data and video communications over one line, and supports extremely flexible and cost-effective use of bandwidth resources. In October 1998, we introduced switched connections via T-Net ATM, thereby considerably expanding the possibilities for ATM communications. In December 1998, Deutsche Telekom, in cooperation with its partner Global One, launched its Global ATM service, which provides broadband telecommunications links to an initial 13 countries. We plan to expand this service in 1999.

In 1998, we implemented state-of-the-art T-Net ATM projects for numerous customers. For example, for Hamburger Sparkasse – the largest savings bank in Germany – we installed a very efficient corporate network for high-volume transmissions on the basis of ATM technology.

T-InterConnect – the platform for professional Internet applications

Deutsche Telekom has created a high-performance IP-based network platform for Internet communications applications, T-InterConnect. The network comprises 74 national network nodes that are redundantly connected via 155 Mbit/s links in the core network. T-InterConnect, which can be accessed nationwide at “City” (local) rates, features access bandwidth ranging from 64 kbit/s to 34 Mbit/s for our customers’ Internet and intranet solutions.

In 1998, Deutsche Telekom established itself as one of Germany’s largest Internet service providers for business customers. Content providers such as the ProSieben TV broadcasting company now use broadband links to T-InterConnect to deliver information and entertainment content to the Internet.

Intranet Solution – tailor-made customer networks

Using the T-InterConnect and FrameLink Plus platforms, we provide customers with customized solutions, under the general brand name “Intranet Solution,” which feature dial-in access via ISDN and even via our T-D1 mobile communications network and the Datex-P service. T-InterConnect-based intranet solutions are currently being realized for a number of automobile and insurance companies. We also plan to offer Intranet Solution on the basis of T-Net ATM in 1999.

T-DSL – broadband data connections over telephone lines

ADSL technology (Asymmetrical Digital Subscriber Line) allows broadband data connections to be run through the regular copper wire pairs found in telephone lines. In 1998, we began systematically developing the potential of ADSL-based broadband communications for our customers, under the general brand name “T-DSL”. In June 1998, we launched a pilot project in North Rhine-Westphalia that tested various applications for fast ADSL connections. In addition to broadband Internet access for private households, the pilot project included ADSL-based access to our T-InterConnect platform and to T-Net ATM. With ADSL, we aim to bring the benefits of fast Internet communications to even small and medium-sized companies.

Deutsche Telekom will be expanding its ADSL services in Germany in 1999. Initially, T-DSL accesses will be available in ten metropolitan areas. In the course of the year, we plan to extend ADSL service to an additional 33 major local networks.

Systems solutions.

Customized telecommunications applications provide a competitive edge.

In today's tough competitive environment, companies are relying ever more strongly on telecommunications and information technology in their operations and their dealings with customers. And increasingly, companies and organizations are seeing customized telecommunications and IT applications as the key to process optimization. Deutsche Telekom produces such applications, in a procedure that includes comprehensive process analysis, solution design and development and expert implementation, in the Group's systems solutions business area.

Systems solutions – an important growth sector

Large companies and institutions with major telecommunications expenditures have become especially sought-after "prizes" in our competitive industry. Deutsche Telekom's systems solutions Group business area is a separate corporate organization designed to provide intensive support for demanding key accounts. We are convinced that with this organization, whose services are marketed under the "T-System" brand, Deutsche Telekom is well-positioned in both national and international systems solutions business. In addition, we cooperate closely with our Global One joint venture in implementing international systems solutions.

In 1998, Deutsche Telekom's systems solutions business area generated revenue of DM 2.9 billion, or 4.1 percent of the Group's total revenue. This is a revenue growth of 15.8 percent over 1997 in systems solutions business.

Telekom Designed Networks – tailor-made services for our customers

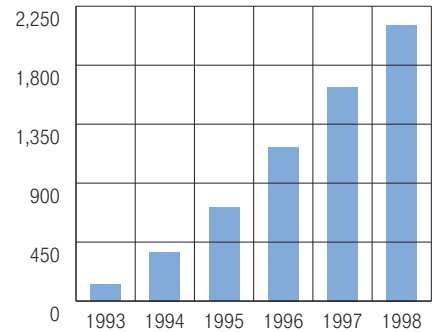
Our Telekom Designed Networks (TDN) are a central component of the services provided by the Group's systems solutions business area. With TDNs, we offer our key and named accounts communications solutions that are tailored in accordance with specific customer requirements. Within the framework of a TDN contract, Deutsche Telekom assumes all responsibility for designing and installing the network and provides comprehensive operational services, including network management and complete ongoing service. The principle of "one face to the customer" takes on special meaning for TDN customers: They are given one contact person to whom they can turn with all their telecommunications needs.

In 1998, the number of key and named accounts with Telekom Designed Networks – and thus with fixed business relationships over several years with Deutsche Telekom – continued to grow. As of the end of 1998, a total of 2,108 TDN contracts had been signed, 473 more than by the end of the previous year.

DeTeSystem – competence in systems solutions

Our subsidiary company Deutsche Telekom Systemlösungen GmbH (DeTeSystem) serves Deutsche Telekom's named accounts. A strong service provider, DeTeSystem benefited especially from general growth in systems solutions business, and its revenue grew considerably in comparison with the 1997 level. The increasing significance of the systems solutions business is also reflected in DeTeSystem's workforce figures: They rose from 1,449 at the end of 1997 to 1,648 at the end of 1998.

Telekom Designed Networks (TDN)
(absolute figures)



1993:	128
1994:	376
1995:	717
1996:	1,178
1997:	1,635
1998:	2,108



Whether the filling station is in Germany...

State-of-the-art applications for customers

Numerous projects for customers highlighted Deutsche Telekom's competence in systems solutions in 1998. Following a Europe-wide competition, the Federal Employment Agency (Bundesanstalt für Arbeit) awarded us a contract to install, by the end of 1999, a total of 60,000 new PCs in all its employment offices throughout the country, to bring 10,000 older PCs up to modern standards and to link all units within a network. This project, which was launched in December 1998, also includes installation of 1,000 servers, 20,000 printers and 8,600 network components by DeTeSystem, supported by other Deutsche Telekom Group companies. DeTeSystem is coordinating the project worth DM 90 million as prime contractor within the Deutsche Telekom Group. Our subsidiary DeTeCSM will configure the PCs, servers and printers and supply all necessary software.

In 1998, we also implemented a customized telecommunications solution for a lift and escalator manufacturer in Germany. This solution allows the company's sales force and its entire service staff to be linked with headquarters' computer systems via remote LAN. Access is possible with notebooks using ISDN telephone lines or even the T-D1 mobile network. Moreover, an interface between the company's intranet and the local networks of the customers allows remote diagnosis and remote maintenance of lifts and escalators.

Henkel, a chemicals company, engaged Deutsche Telekom in 1998 to install a standardized data network spanning several European countries. The project also includes a new voice-data network in the United States. DeTeSystem and Global One are working hand-in-hand to build the Henkel network.

In 1998, we also implemented a Germany-wide call-center solution for Dunlop, a tire manufacturer. Each month, the call center handles some 70,000 incoming and 30,000 outgoing calls. The new solution gives Dunlop an efficient tool for gaining new customers and fostering customer loyalty.

The Association for the Promotion of a German Research Network (DFN Association) entered a new era in 1998 with a systems solution from Deutsche Telekom. In August 1998, we put the world's first 2.34 Gigabit/s, ATM-based infrastructure into operation – for the DFN Association. This "super data infobahn", now linking the University of Erlangen with the universities of Munich and Berlin, supports applications with extremely high bandwidth requirements – such as tele-learning and telemedicine – while providing exquisite transmission quality. In building this network, Deutsche Telekom has become one of the world's first companies to use wavelength division multiplexing (WDM) technology.



...or in Poland.



Whether a customer fills up...



...or buys a bar of chocolate, ...



...places an order online in the Internet café...

DeTeSystem's Telekom Designed Network allows the rapid transfer of data between Aral filling stations around Europe and the oil group's computer center in Bochum. All important transactions can be called up, checked and evaluated straight away. This reduces the amount of logistics work and makes it cheaper.



...and pays by credit card:



The satellite-based Telekom Designed Network being set up for Aral by DeTeSystem, a Deutsche Telekom subsidiary, not only checks credit cards, ...



...but also processes all the filling stations' sales and revenue data. This not only makes more bandwidth available for Aral, it also provides a more cost-effective solution than the current network.

Licensed service providers and carriers.

Our competitors become our customers.

Many new providers entered the completely liberalized German telecommunications market during its first year. Many of our competitors use Deutsche Telekom's carrier-specific range of services as the basis for their own services. These special services are provided by the licensed service providers and carriers business area. This business area of the Deutsche Telekom Group is also responsible for the company's international inter-carrier business. The licensed service providers and carriers business area's total revenue in 1998 was DM 3.15 billion, an increase of 31.2 percent over the previous year.

Deutsche Telekom services – the basis for competition in one of the world's most liberal markets

Many subsectors of the German telecommunications market, which was fully opened to competition on January 1, 1998, have a more liberal framework than any other markets worldwide. In 1998, the Regulatory Authority for Telecommunications and Posts (RegTP) issued 155 licenses for voice telephony service alone. Most competitors use Deutsche Telekom's network and various services as a basis for providing their own services.

By January 1, 1998, right on time as required by law, Deutsche Telekom had established the necessary technical basis for market entry of new competitors. The products and services designed and marketed by our licensed service providers and carriers Group business area consist primarily of interconnection services for operators of fixed networks and mobile communications networks, carrier-specific transmission paths and access to the so-called "unbundled" subscriber line. These services enable us to generate additional business and maintain high usage levels for our network capacities. In the national market, the terms under which we provide our services to competitors are essentially determined by the relevant decisions of the Regulatory Authority.

Growing number of interconnection agreements

Our services make it possible to switch telephone calls between Deutsche Telekom's customers and the customers of other telephone service providers. The interconnection prices, which were set by the Regulatory Authority at very low levels in September 1997, will remain in force until the end of 1999.

The terms for interconnection of our telephone network with networks of other national providers are set forth in bilateral contracts. As of the end of 1998, we had signed 69 such agreements. An additional 170 companies had submitted requests for negotiations.

Transmission paths and subscriber line access

We offer our competitors transmission paths on regulated terms, a service that for years has been requested by the established mobile communications network operators. Request for leased lines for carriers, i.e., transmission paths that are made available to competitors in the fixed-line network, rose sharply in 1998.

Deutsche Telekom is obligated by law to offer competitors so-called "unbundled" access to the subscriber line ("bare wire") as a direct access to the customer. On February 8, 1999, the Regulatory Authority made a decision on the price to be charged for such access for the period between publication of the decision and March 31, 2001.

International business with about 300 companies

In the bilateral international business sector, the Group's licensed service providers and carriers business area offers all international network operators the option of terminating their German voice traffic via Deutsche Telekom. Moreover, in 1998 this Group business area further strengthened its position as a global provider of carriers' carrier services. At the end of 1998, we maintained business relationships with about 300 foreign telephone companies.

Compared to the previous year, we strengthened our position in the international market segment. This was achieved especially through the introduction of innovative products such as pool routing and international backhaul services, which recorded an increase in revenues by 47 percent.

In addition, licensed service providers and carriers purchase termination services from foreign carriers for our outbound international traffic. We were able to reduce the average bilateral termination costs (settlement rates) per minute by 20 percent, in comparison with the previous year.

Inbound traffic

in billions of minutes	1998 ¹	1997
Europe Zone 1	4.166	4.028
Europe Zone 2	0.597	0.581
USA/Canada	0.912	0.834
Others	0.361	0.175

Total **6.036** **5.618**

¹ projection

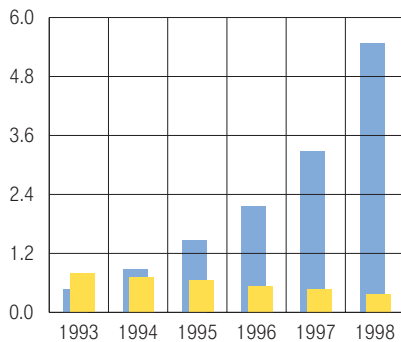


Photographer Stefan Knecht is on his way to a photo session with Deutsche Telekom's Board of Management.

Mobile communications.

Strategic reorientation and digital success story.

Deutsche Telekom's mobile phone customers in the T-C-Tel and T-D1 networks (in millions, at year-end)



	T-C-Tel	T-D1 networks
1993:	794,000	481,000
1994:	724,000	887,000
1995:	648,000	1,482,000
1996:	532,000	2,156,000
1997:	476,000	3,276,000
1998:	366,000	5,474,000

The 1998 financial year will be remembered as a year of strategic reorientation for T-Mobil (DeTe Mobil Deutsche Telekom MobilNet GmbH), Deutsche Telekom's wholly owned subsidiary for mobile communications and all of the Group's related mobile services. T-Mobil is now planning to focus even more strongly on the digital T-D1 network, which again reported record growth in 1998.

Overall, Deutsche Telekom generated revenue of DM 6.0 billion (8.6 percent of the Group revenues) and net income of DM 1.3 billion last year in the Group's mobile network communications business area.

Key figures for T-Mobil

Viewed as a separate company, T-Mobil reported revenue of DM 7.5 billion. The difference between this figure and relevant Group revenue results from use of the T-Mobil network for calls from Deutsche Telekom's fixed network.

In the company's T-D1 core business, return on sales in 1998 remained almost unchanged compared to 1997 at approximately 28 percent in spite of major price reductions on March 1 and September 1, 1998. On the other hand, risk provisioning in particular reduced income for T-C-Tel and again generated large losses for other activities.

Mobile telephone service

With 5.8 million mobile phone customers in our two networks, we had an estimated 42.1 percent share of the German mobile telephony market at the end of the year. The market-share losses of recent years were halted by mid-year, thanks to a broad range of sales, marketing and customer-retention activities for the T-D1 network that were launched during the year under review.

T-D1: digital success story

The importance of digital mobile communications networks in Germany has grown steadily since the T-D1 network went into operation in July 1992. The GSM standard (Global System for Mobile Communications), which Deutsche Telekom played a major role in developing, is now the technical basis for well over 200 digital mobile communications networks around the globe.

At the end of 1998, the T-D1 network had nearly 5.5 million customers, or 2.2 million (67 percent) more than it had in the previous year. Optimization of the product portfolio, in conjunction with foresighted market and rates policies, is expected to maximize the company's share of market growth and enable the company to regain leadership of the digital mobile communications market in the longer term.



On the way from Cologne to Bonn, his agency calls him on his mobile telephone to tell him that the Board meeting has been brought forward by half an hour...



...and the members of the Board will be ready for the photo session at 5.00 p.m., not at the airport, but at the company's headquarters. Using the speakerphone installed in the car, he talks to his agency and is given the exact address.



Tegaron automatically contacts the traffic information center. Time is running short for Stefan Knecht in the rush hour traffic.



The dynamic navigator in the Auto Pilot System solves the problem.

Heavy traffic, jams and diversions are a pain for motorists, particularly when they have an appointment. The Auto Pilot System connected to Tegarom, which is included in various Mercedes models, helps out. The system automatically contacts the Tegarom Telematics traffic information center, which transmits the relevant traffic data to the vehicle via the mobile communications network. The driver reaches the intended destination by the quickest route.

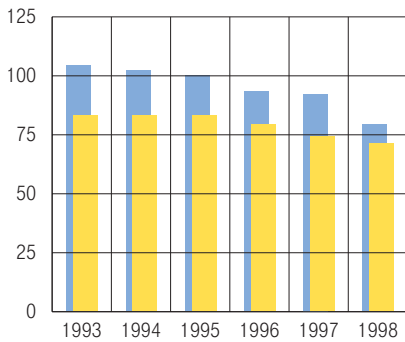


It steers him past all the building sites and traffic jams, showing him the quickest route to Deutsche Telekom's headquarters in Bonn.

He arrives on time...

...and has enough time to set his lights up and prepare for the photo session.

Call minutes in the T-C-Tel and T-D1 networks
(in minutes per month)



	T-C-Tel	T-D1 networks*
1993:	104	83
1994:	102	83
1995:	100	83
1996:	93	79
1997:	92	74
1998:	79	71

On average (per subscriber),
outgoing traffic only
*without roaming

T-Mobile pushed the development of the German GSM market last year with a series of price campaigns. In summer 1998, the company became the first network operator in Germany to introduce "Local" rates, giving each customer a daytime rate of 68 pfennigs per minute to a local area code of his or her choice within the German fixed network. In mid-November, customers were offered the option of adding a second local area code. Another major step toward the mobile communications mass market came in early December, when peak-time "TellyLocal" calling rates for residential customers were reduced by 31 percent, from DM 1.89 to DM 1.29. Additional rate cuts are planned for 1999.

XtraCard, which in March 1998 succeeded the XtraPaket service, is aimed especially at young mobile phone users and new customers. XtraCard is a prepaid card; the customer charges it with credit and can then call to his or her heart's content without having to worry that charges are getting out of hand. And XtraCard customers can still be reached by phone for up to one year after they have used up all their card credit.

The T-D1 network's global coverage was expanded in 1998; new roaming agreements were concluded with numerous GSM operators. Among these agreements are contracts with several operators of local digital mobile communications networks in the U.S. – for example, in New York, Miami and Denver – and in Canada.

A roaming agreement with the satellite service operator Iridium now enables T-Mobile customers to make mobile phone calls from nearly every point on the globe.

The necessary mobile phones for these services are available directly from T-Mobile.

In addition to low rates, mobile communications customers demand network and service quality. This is why T-Mobile carried out a major network expansion program last year: From the end of 1997 to the end of 1998, the number of base stations in the T-D1 network increased from about 8,000 to about 13,500. The relevant investments amounted to about DM 1 billion. T-Mobile plans to push ahead with expansion in the coming year and invest significantly more than DM 1 billion in the T-D1-network. The network is expected to comprise a total of 22,000 base stations by the end of the millennium.

Market orientation

T-Mobile is adapting to market changes engendered by the growth in digital mobile communications. For example, it was decided to make no further investments in T-C-Tel's network infrastructure and IT systems. In addition, the company has taken steps to enhance profitability in the area of special mobile communications services and radio paging. These measures include strict separation of existing business and new-customer business.

T-C-Tel

In spite of the great success of GSM networks, some 366,000 customers are still using T-C-Tel, T-Mobile's analog network. As a result of the company's strategic reorientation, T-C-Tel will no longer be actively marketed in future. Existing T-C-Tel customers will receive attractive offers for transfer to the T-D1 platform. The service itself will be continued, however.

Radio paging

The German radio paging market is undergoing a difficult period. Both of T-Mobile's competitors have drastically reduced their activities in this segment. T-Mobile's Cityruf, Scall and Skyper services failed to fulfill expectations for the past year; nonetheless, all three are being continued without any reduction in scope. T-Mobile's current situation in this segment differs markedly from that of its competitors. The company has large numbers of Cityruf and Skyper customers who pay for the service on a monthly basis. As of December 31, 1998, T-Mobile had about 700,000 radio paging customers.

Chekker

Chekker, T-Mobile's mobile trunked radio service, was sold to a third party at the end of the year; the service is being continued with T-Mobile's support.

Modacom

Modacom, T-Mobile's mobile data communications service, is being continued in unchanged form, while preparing for conversion to a new platform (General Packet Radio Service, GPRS) in the near future.

New technologies, new standards – UMTS and GPRS

Future mobile communications will be even less "voice-heavy" than today's mobile services and will routinely support video and data transmission. Today's GSM networks offer maximum transmission rates of 9,600 bits per second. GPRS (General Packet Radio Service) technology, which is to become available soon, will provide much higher transmission rates. T-Mobile also plans to take a leading role in introduction of UMTS (Universal Mobile Telecommunications System), the next-generation mobile communications standard.

Modern traffic telematics – Tegaron

T-Mobile has been working for some time, in cooperation with DaimlerChrysler Services (debis), to develop modern traffic telematics concepts. In early 1999, the company began marketing Tegaron Traffic, a navigation service that also guides drivers around traffic jams and disruptions.

Multimedia.

T-Online and T-Mart: two strong brands for Internet business.

Deutsche Telekom is positioning itself in Germany as the leading provider of Internet-based applications and services. Our strategy for developing the emerging Internet and multimedia markets hinges on two brands: T-Online and T-Mart.

With our T-Online service, we offer consumers low-cost, high-performance Internet access. We plan to tailor T-Online to the needs of small and medium-sized businesses as well – for example, by offering such customers reasonably priced Web presences. Under the general T-Mart brand, which was introduced in spring 1998, we already provide business customers with a comprehensive range of services for commercial Internet use. T-Mart stands for multimedia applications and services with all relevant support: comprehensive service, consultation, implementation, training and operation.

T-Online: the market leader stays innovative

With 2.7 million customers at year-end 1998, the T-Online service, which is operated, developed and marketed by our wholly owned subsidiary DeTeOnline Service GmbH, is Europe's leading online-service and Internet-service provider.

Use of T-Online has also continued to grow by leaps and bounds. In 1998, subscribers connected to the service a total of some 840 million times, or 70 percent more often than in the previous year. According to our calculations, T-Online has about a 60 percent share of the German market.

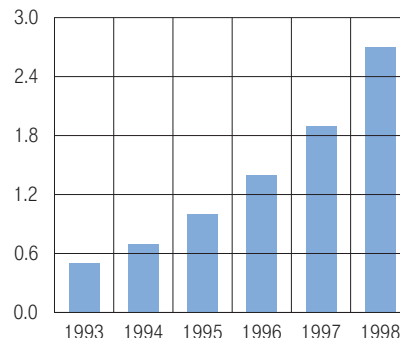
In addition to Internet connectivity, T-Online offers customers access to some 6,000 exclusive online services. The available applications cover a spectrum that includes database research, information and entertainment, and online banking. As of the end of 1998, over 4 million bank accounts, representing some 1,500 different banks, were being managed via T-Online.

Product campaign

We plan to attract still more T-Online subscribers by means of innovative services. Since late 1998, T-Online, complete with Web access and exclusive services such as online banking, has been available in some 150 countries. A new service, Web Mail, is also being offered. This service enables T-Online customers to access their e-mail accounts from any PC with Internet access, even if the PC does not have a mail program. All e-mail messages are easily and securely sent and received via a special, dedicated Website. Transmissions are encrypted in both directions.

T-Online customers

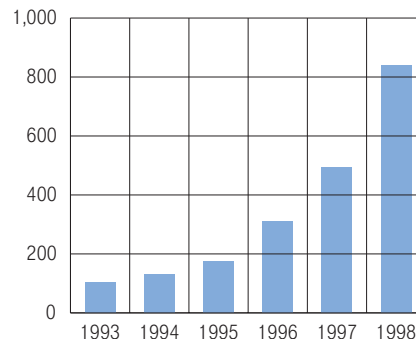
(in millions, at year-end)



1993: 0.5
1994: 0.7
1995: 1.0
1996: 1.4
1997: 1.9
1998: 2.7

T-Online sessions

(in millions)



1993: 104
1994: 129
1995: 174
1996: 310
1997: 492
1998: 838

The T-Online "Business Homepage" provides additional T-Online services for corporate customers. The Business Homepage offers low-cost Webhosting that enables small businesses of all kinds to get started in electronic commerce. T-Online provides all the necessary tools, online, for designing and managing Business Homepage content.

Expansion of portal site business

We plan to add portal site functions to the T-Online home page in order to capitalize on its role as a high-profile point of entry into the Internet. Improved search functions will be included. A portal site that supports intelligent and personalized Internet navigation helps generate customer loyalty and regular, frequent use. High usage frequency makes a portal site an attractive advertising medium. As a result, the portal site <http://www.t-online.de> is already gaining importance as an additional revenue source. With its some 2.7 million registered customers, T-Online offers advertisers an unparalleled Internet advertising reach in Germany. In spring 1998, a contract for online advertising was announced that was unprecedented in Germany: The U.S. software company Microsoft paid a fee in the tens of millions for the right to place a permanent button on the T-Online home page for one year.

In a move to expand its portal business, T-Online has joined with the publisher Axel Springer Verlag, the Georg von Holtzbrinck publishing group and Infoseek Corporation to form the joint venture WSI Webseek Infoservice GmbH & Co. KG, Hamburg. This company, in which all partners hold equal stakes, will develop and market a German version of the American search engine Infoseek. In September 1998, the joint venture was approved by the European Union's cartel authority; market entry is now planned for the first half of 1999 at the Internet address <http://www.infoseek.de>.

T-Mart: comprehensive service for business customers

Under the T-Mart brand name, we offer a comprehensive range of multimedia applications and services for business customers. T-Mart enables customers to take full advantage of the Internet's commercial potential and to optimize their communications processes, both internal and external. Introduction of the general T-Mart brand in spring 1998 marked a realignment of our activities in this field. The new brand covers the Internet value-added services, originally introduced in 1997 under the T-Intra brand name, as well as applications and services for electronic business and electronic commerce, and intranet and extranet solutions.

Advising, systems integration and service for Internet-based applications all play a decisive role in development of multimedia markets. For this reason, we will continue to optimize our sales training and support and intensify our cooperation with sales partners. Deutsche Telekom is positioning itself as a one-stop-shopping provider where the customer receives all services from one source, including advising, design, development, installation, access provision and server operation.

Security is the key to success

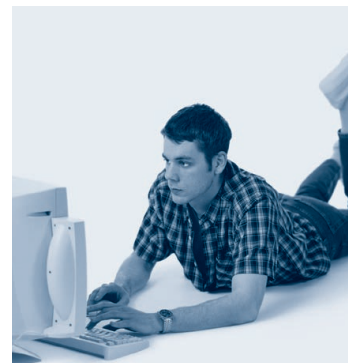
The commercial success of the Internet depends decisively on one key factor: network security. Our aim as an independent service provider is therefore to quickly offer convenient solutions that provide a maximum of security for payment transactions and sensitive data transmissions in the Internet.

We are meeting this challenge by introducing digital signature functions and developing electronic payment systems. Our "Public Key Services", from our TeleSec product center, give us a range of products that fulfill all of the German Digital Signature Act's requirements for legally binding exchange of electronic documents.

The digital signature provides the basis for secure exchange of data between computers and over the Internet. It is thus possible for the first time, in data transports over public telecommunications networks, to determine from whom a given document originates and whether the document was manipulated during transmission. The areas of potential application for this technology include electronic tax returns, online banking, telemedicine, data archiving, transmissions of contracts and communications between government agencies. We are the leader in this area: In January 1999, we became the first company to issue digital chip cards that comply with the German Digital Signature Act.

Electronic payment systems represent a key technology in commercial Internet use, and we are supporting Internet business through our cooperation with GTE Internetworking. We plan to offer a certification service, based on GTE's technology, that will enhance Internet payment security. The necessary electronic keys will be issued on behalf of banks, Internet mall operators and shop owners, and Internet providers.

In the financial statements, multimedia revenue is listed under "Other services".



Ulli Frank is producing his latest CD in London. On the Internet, he discovers the home page of the time managers from Zeit & Plan. He orders an electronic agenda which he pays for directly by credit card.

Commercial use of the Internet is becoming more and more important and, thanks to Deutsche Telekom, simpler and simpler. The company Zeit & Plan, for example, benefits in its e-commerce activities from the broad range of opportunities offered by T-Mart. Using this service, Managing Director Friedemann E. Konzelmann has generated a profitable new sales channel for his business and can monitor up-to-date sales figures at any time.



Trudi Schneider from Meiringen sees a Zeit & Plan advertisement in the newspaper and calls the number given.



She is put through to Bettina Rärerich in the Albstadt call center who takes her order on the telephone. The order is passed on to the mail order warehouse by intranet.



At the warehouse, the orders are received by Jürg Schmied, who checks them via the intranet and fetches the goods. He passes the packages on to the postal service, which sends them to their destinations around the world.



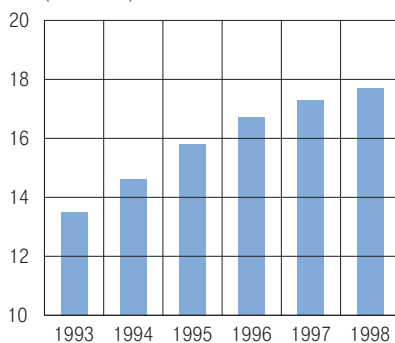
Zeit & Plan sends Deutsche Telekom photos of 30 new articles. A Deutsche Telekom employee puts them on the "virtual shelves" via the intranet, where shoppers can see them.

Broadband cable and broadcasting.

Important decisions for the future of digital media.

Homes in Germany connected to the
broadband cable network

(in millions)



1993: 13.5

1994: 14.6

1995: 15.8

1996: 16.7

1997: 17.3

1998: 17.7

Deutsche Telekom's broadband cable network is a powerful platform for transmission of analog and digital TV and radio programs and of premium pay services. A range of measures were taken in the year under review that reduced cable business losses, and significant decisions were made regarding Deutsche Telekom's future role as a service provider in the media market. Central among them was the decision to spin off the broadband cable business area into a separate company.

Improved result in broadband cable business

Deutsche Telekom's broadband cable business is affected significantly by the German media- and regulatory-policy framework conditions. The authorities that supervise broadcasters at the level of regional states have traditionally regulated cable programming, on the basis of their own regional media laws. For quite some time, Deutsche Telekom has been seeking greater latitude in this sector, especially with regard to allocation of digital channels.

In November 1997, we acted to improve the performance of the deficit-ridden broadband cable business by increasing cable access rates by an average of 15 percent. The rate increase, in conjunction with additional cost-cutting measures, reduced Deutsche Telekom's losses in the broadband cable and broadcasting area in 1998. The number of households receiving TV and radio programs via Deutsche Telekom's cable network grew by some 400,000 to a total of 17.7 million in 1998. It is worth noting that this was possible despite higher rates and fierce competition from direct satellite broadcasting.

Broadband cable business spun off

Plans for spinning off the broadband cable business area in order to give it a new economic and regulatory basis were approved in the year under review. The core of the broadband cable area, along with its noncurrent assets, was transferred to Kabel Deutschland GmbH at the turn of the year. This new company has been charged with operating the cable business and with the task of establishing regional cable companies, together with investors, in Germany. These new companies will be autonomous with respect to their business operations, network-expansion strategies and services portfolios.

Independent service company with digital program package

In addition to Kabel Deutschland GmbH, Deutsche Telekom established a separate service company on February 1, 1999 that as a wholly-owned subsidiary under the name of MediaServices GmbH is to provide services to the cable companies and to other cable-network operators and program providers. This service company is responsible for marketing, customer management and distribution of a package of digital channels offered by a number of providers.

The establishment of these new subsidiaries heralds a new age in cable business. They are to increase the cable system's competitiveness and augment its market value. The restructuring of the cable business is an important step towards more flexibility and economic efficiency in future activities. Along with the removal of unfavorable framework conditions inherited from the past, these measures are aimed at attracting new investors to the cable business and achieving a stronger orientation towards regional business potential.

An attractive range of programs

In 1998, the TV channels of ARD, DF1, Premiere and ZDF began to feed digital program packages into our broadband cable. Households with a cable TV connection can receive these programs via a decoder. In October 1998, in a move designed to enhance the popularity of cable service and to promote digital TV broadcasting, we enlarged the digital TV programming spectrum with a package of seven new foreign-language channels. We also backed the new channels with the appropriate marketing efforts. The package of new digital TV programs, which is available nationwide on cable, includes channels in Turkish (2), Polish (1), Portuguese (1), Greek (1) and Chinese (1), as well as a channel from an Indian provider. Additional freely accessible and pay TV channels from other countries will follow.

First play out center in Berlin

Provision of regional digital programs requires use of so-called "play out centers". In November 1998, Deutsche Telekom opened the first play out center, out of a planned 6 to 8, in Berlin. We also began preparing expansion of our Berlin cable network to 862 MHz, thereby creating the transmission resources for numerous additional broadcasting channels and innovative multimedia services. The first of the upgraded Berlin subnetworks is expected to go on the air in time for the International Radio Exhibition, IFA, in fall 1999.

Joint projects for digital broadcasting

Broadcasting is another area in which Deutsche Telekom is focusing strongly on digital technology – fully in keeping with the German Federal Government's objectives for digitization of broadcast transmissions. In May 1998, we joined with Bayerischer Rundfunk and Bayerische Medientechnik GmbH to establish a new company, Bayern Digital Radio GmbH. This company has applied in Bavaria for a license to set up and operate a Digital Audio Broadcast (DAB) network. Deutsche Telekom is seeking to cooperate similarly with other broadcasting companies to drive DAB expansion in other regional states in Germany, in order to exploit the advantages of digital technology – lower costs, more efficient use of frequencies, better reception – in the broadcasting sector. Digital platforms can support a great variety of new services, such as telematics and multimedia services. In February 1999, Deutsche Telekom was assigned frequencies for DAB in the regional states of Saxony-Anhalt, Thuringia, Saxony and Brandenburg. These are thus the first regions in Germany where DAB can be introduced on a commercial basis.

Customers' broadcasting networks becoming multimedia-capable

Considerable effort has been invested in further development of broadcasting networks. Using state-of-the-art transmission technology and equipment, we have created an ultra-modern, multimedia-capable network that meets all of the broadcasting sector's special requirements.

This broadcasting network also has international gateways, meaning that it permits broadcast transmissions from any location on the globe, at any time. And this network is now being given the full power of ATM technology, to help ensure that it will be ready for tomorrow's requirements.

Terminal equipment.

The full communications spectrum from a single source.

Deutsche Telekom is the only company in the German telecommunications market that sells a comprehensive range of products, covering everything from telephones and fax machines to private automatic branch exchanges and complete network solutions, under a common brand. We have years of experience as a complete provider of network services and terminal equipment.

Internal cost reductions, along with a streamlined product portfolio – reflecting exits from unattractive market segments and development of innovative terminal equipment – has significantly improved this area's financial results. Losses in the terminal equipment Group business area in 1998 were down to DM 200 million, on revenue of DM 2.9 billion.

Last year, we purchased approximately 89 percent of our terminal equipment, including accessories, from our ten most important national and international suppliers. The total value of all orders was DM 1.22 billion. Siemens AG, with a share of approximately 50 percent of all orders, is both our most important supplier and our largest competitor in the terminal equipment market.

T-Easy and T-Concept

The terminal equipment market is extremely competitive, and Deutsche Telekom plans to protect its position by means of innovation. For example, the new product lines T-Concept and T-Easy have a special function key, the "T-key", that provides easy access to important Deutsche Telekom service numbers, such as numbers for placing service orders, obtaining after-sales support and contacting customer representatives.

The T-Easy and T-Concept lines include cordless and normal telephones and fax machines for residential and business customers. Another innovative aspect of T-Concept devices is that they support use of T-Net and T-ISDN added features such as call waiting, consultation call/alternation between lines, three-party conference, callback on busy signal and call forwarding.

T-View 100PC

In December 1998, we introduced the T-View 100PC. Developed by Deutsche Telekom's Berlin research subsidiary T-Berkom, the T-View 100PC is a PC-based virtual videophone. On his or her PC, the T-View 100PC customer sees a photo-realistic user interface for picture telephony including fax, answering machine functions and remote query – and of course regular telephony with all of the added features of T-ISDN.

By introducing the T-View 100PC and the T-View 100 videophone, Deutsche Telekom has become the only provider in Germany to offer a line of picture-telephony products for use across different platforms.

Innovation leasing

With most of our terminal equipment, customers have the choice of purchasing or leasing devices. In addition to the existing standard leasing contracts with a fixed three-year or five-year term, we successfully introduced the so-called innovation leasing option in 1998. Due to shorter contract terms, customers who chose to lease their devices now also have the chance to update their telecommunications equipment to keep up with technological progress and are thus able to use convenient new services as they appear on the market.

Our terminal devices are ergonomically designed and have user-friendly operating interfaces. They support the new network features and are very easy to integrate into customized solutions, thus strengthening Deutsche Telekom's role as a full-services provider.



T-View makes it possible for the deaf to communicate via telephone. Christoph uses sign language to arrange to meet his girlfriend Diana at the weekend.



As Christoph has a T-View and Diana has a computer, telephone calls are no problem anymore.



Christoph and Diana soon agree and decide to travel to the Zugspitze at the weekend. Diana checks what is on offer at Garmisch-Partenkirchen and books a double room.

Video telephony makes communication easier, everyday life simpler and leisure livelier for the deaf in particular. T-View is more than just video telephony. With the T-View 100PC videophone software, information can also be accessed via the Internet and T-Online.



The next morning, Garmisch-Partenkirchen is surrounded in fog. Sitting in the hotel, they use the T-View 100PC to direct the live camera installed at the Zugspitze and see that the weather is fine up there: time to move!

Special value-added services.

The telephone: also a tool for providing service.

Companies are finding that well-planned dialogue marketing using telecommunications is a more and more important means of acquiring new customers and fostering customer loyalty. In Deutsche Telekom's special value-added services business area, we provide customers with comprehensive solutions for telecommunications-based dialogue marketing. With these services, Deutsche Telekom creates added value in addition to standard telephone communications. In 1998, this business area generated revenue of DM 4.0 billion, which represents an increase of 2.5 percent in comparison with the previous year.

Marketing of toll-free numbers stepped up

More and more professional customers are discovering that Deutsche Telekom's toll-free numbers are a "bridge" to their own customers. Last year, we took two important steps to increase use of the premium service 0180 and of telephone numbers with prefixes 0130/0800 that are toll-free for callers: introduction of new products – such as freecall 0800 Regio for small and medium-sized businesses – and intensified marketing. The result: In 1998, the number of calls made to service numbers increased by 28 percent. In October 1998, we began introducing vanity numbers (dialing by letters). We are expecting that coordinated advertising of the vanity-number service will continue to generate significant sales and revenue increases in the coming year.

Call-center competence

Deutsche Telekom is Germany's largest call-center operator; we have over 9,000 operators at a total of 100 locations. State-of-the-art call centers are being set up at which we can provide our customers with comprehensive inbound/outbound, front office/back office and letter-shop services. Our dense network of call centers can quickly increase capacity during unexpected peak demand. These centers are staffed almost exclusively with well-trained permanent employees with a high degree of professionalism.

Deutsche Telekom's call center team is able to handle and evaluate up to 100,000 calls per hour. This level of performance is possible thanks to long-term experience with call centers and state-of-the-art ACD (Automatic Call Distribution) technology, in combination with Deutsche Telekom's intelligent network.

DeTeMedien: partner for innovative applications in customer communications

Within our special value-added services business area, our subsidiary DeTeMedien is responsible for marketing data-based products and complex communications solutions. DeTeMedien edits and publishes Deutsche Telekom's telecommunications directories. In fall 1998, DeTeMedien published a directory on CD-ROM, "Telefonbuch für Deutschland Map & Route", with the telephone numbers of more than 33 million telephone subscribers, a digital map of Germany and special routing functions.

Our intelligent network enables us to conduct mass calling campaigns, with full-scale processing of enormous numbers of calls, within very short periods of time – for example, in connection with "call in and win" contests for TV viewers. Deutsche Telekom's mass calling services were launched in April 1998.

Telephone cards play an important role in dialogue marketing. Deutsche Telekom celebrated a special milestone in the telephone-card field in 1998: In early November, it produced its 500 millionth telephone card. To keep pace with ever-faster generation changes in chip development, Deutsche Telekom has limited the validity of its telephone cards to three years.

Directory assistance: repositioned in the competitive environment

Directory assistance has become a highly competitive sector, and last year we completely repositioned Deutsche Telekom's telephone directory assistance service. We conducted a broad-based advertising campaign to make subscribers aware of the service's new telephone numbers – especially the number 11 8 33. In the wake of increasing competition and price adjustments

for the service, the number of calls to the service decreased from 568 million in 1997 to 406 million in 1998.

Deutsche Telekom's directory assistance service handles up to 1.5 million calls daily, more than any other directory assistance services provider in Germany.

Innovation and consolidation in public telecommunications

In 1998, we continued our consolidation in the unprofitable area of pay-phones and other public communications, with measures such as specially targeted innovations. For example, Deutsche Telekom introduced the first of a new generation of card telephones. These phones have added "intelligence" that both enhances convenience for our customers and lowers our operational costs. We also launched a field test in 1998 to test new multi-functional telecommunications terminals that support telephony, fax and data communications, picture telephony and Internet access.

Another important element in our consolidation strategy has been to optimize placement of public telephones, in order to ensure that the public phone system both remains cost-effective and provides nationwide coverage. We plan to continue our site-optimization program in 1999.



On December 23, 1998, ZDF broadcasts the charity benefit program "Children of our world".

Call Center is a Deutsche Telekom service which supports initiatives such as the ZDF charity benefit program for underprivileged and disadvantaged children. Thousands of calls can be taken and registered in a very short time. Somewhere in the world, another child will be able to go to school and escape child labor.



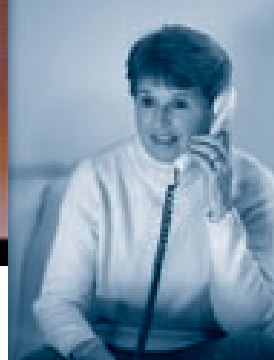
The flood of calls to the 0137/44 66 88 is enormous. The call center set up by Deutsche Telekom takes up to 100,000 calls per hour.



Celebrities and professionally trained employees take the calls at 80 locations throughout Germany.



People at the call center are working flat out – for a good cause. By the end of the program, donations totaling over DM 3 million have been made.



The charity benefit program was a success. Thanks to the donors, many "children of our world" now have new prospects in life.

International business.

Deutsche Telekom on course for further internationalization.

Market liberalization in global telecommunications is creating great opportunities for innovative and competitive companies. In 1998, Deutsche Telekom continued to take advantage of these opportunities by means of a systematic internationalization strategy. The primary objectives of our international investments are to increase shareholder value and expand Deutsche Telekom's presence in promising markets.

Alliance with France Telecom expanded

Close cooperation with France Telecom is a cornerstone of Deutsche Telekom's internationalization strategy. In 1998, we continued to expand our alliance with our French partner by means of a cross shareholding arrangement under which each company has acquired two percent of the other partner's share capital. European markets are a central focus of this Franco-German telecommunications alliance's activities. France Telecom and Deutsche Telekom are already active – either separately or jointly – in 20 European countries. For example, in October 1998, our Multilink joint venture launched operations in Switzerland. This company now provides low-cost telecommunications services – including domestic and international phone service – to Swiss business and residential customers. France Telecom and Deutsche Telekom plan to further strengthen their joint European presence.

Global One – a core element of our global operations

In early 1996, we joined with France Telecom and the U.S. carrier Sprint Corporation, to establish the Global One joint venture. This joint venture has been an integral component of Deutsche Telekom's worldwide activities since then. Global One offers customers in the international market – such as companies and operators of other telecommunications networks and services – a comprehensive portfolio of telecommunications services. One such service is Global ATM. Global One uses this service, which was introduced in October 1998, to implement international broadband communications solutions for its customers. The company now operates over 1,400 nodes, in over 65 countries. At the end of the year under review, Global One had over 3,800 employees.

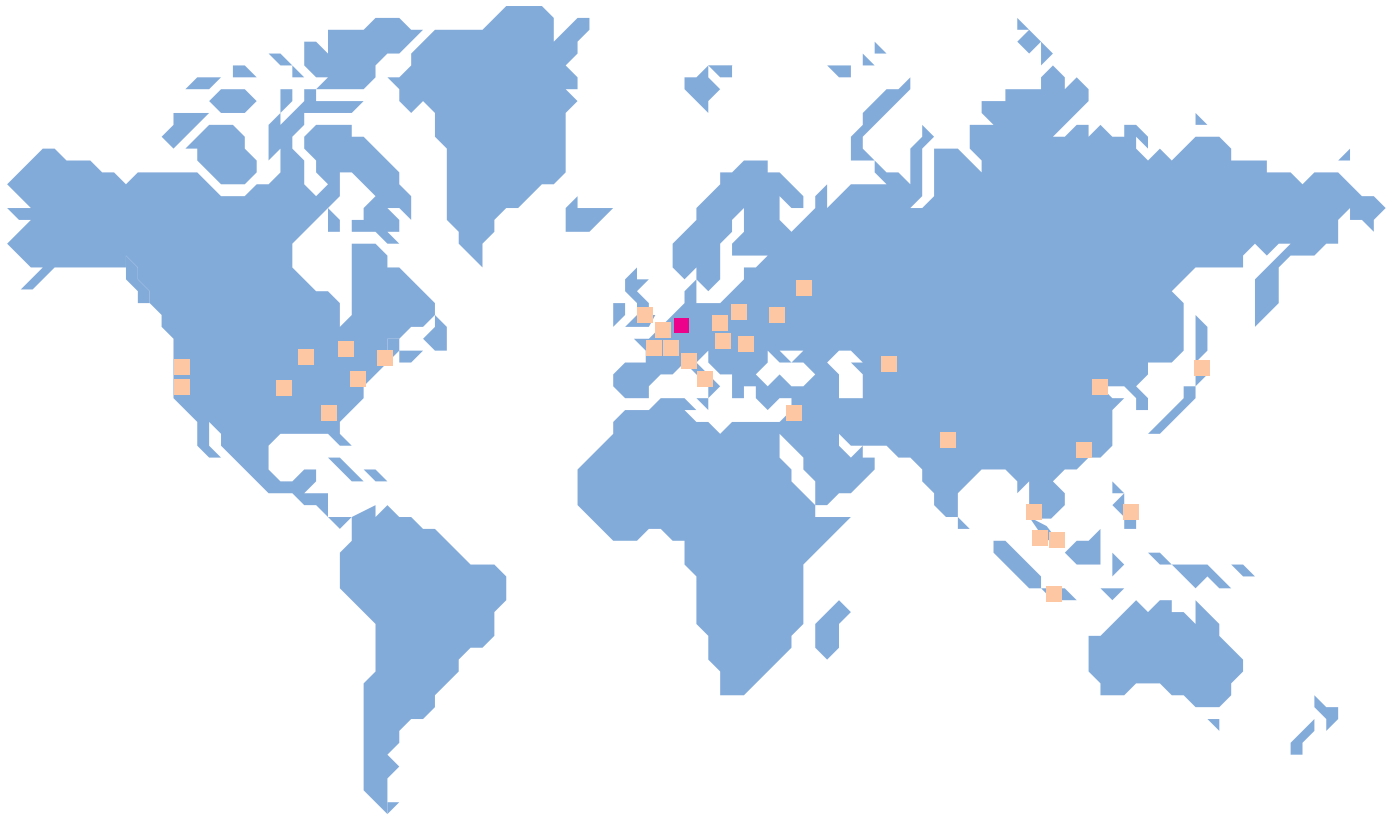
In its third year of operations, Global One continued to solidify its market position in global business and generated revenue of approximately US\$ 1.2 billion. As a result of incurred losses, in 1998 the partners initiated a program to refocus and streamline the processes in the company, in order to improve its profitability in the coming years.

Since Global One was founded in 1996, Deutsche Telekom and France Telecom have each held a 10 percent stake in Sprint. This investment has continued to develop positively in 1998. Sprint's market capitalization increased to US\$ 41.2 billion (incl. Sprint PCS) at year-end 1998, compared to a level of US\$ 25.2 billion at the beginning of the same year.

MATÁV – a Hungarian success story continues

Together with the U.S. telecommunications company Ameritech, we hold a 59.6 percent stake – via the MagyarCom joint venture – in MATÁV, Hungary's largest telecommunications provider. Our engagement in MATÁV is one of our most successful international investments. In 1998, the company's revenue grew to the equivalent of DM 2.6 billion (or HUF 318.1 billion).

In the year under review, MATÁV continued to expand and modernize Hungary's telecommunications infrastructure. The company increased the number of telephone lines by 11.1 percent, over the 1997 level, to 2.7 million. While at the end of 1997, 70 percent of MATÁV's network had been digitized, the digitization level had reached 75.7 percent by the end of 1998. MATÁV's mobile communications business also had another successful year. Westel 900, a fully consolidated subsidiary of MATÁV, achieved a 58 percent share of the GSM market, with a total of 547,000 customers.



■ Bonn (Group headquarters)

Foreign subsidiaries and representative offices

Europe

- Brussels
- London
- Moscow
- Paris
- Kiev

America

- New York – with offices in
 - Atlanta
 - Chicago
 - San Francisco
 - Washington
 - Toronto

Asia

- Tokyo
- Singapore – with offices in
 - Beijing
 - Hong Kong
 - New Delhi

Selected associated companies

Europe

- Brussels Global One
- Paris France Telecom
- Rome Wind Telecomunicazioni S.p.A.
- London MetroHoldings
- Geneva Multilink
- Luxembourg Société Européenne des Satellites S.A.
- Vienna max.mobil. GmbH
- Budapest MATÁV Rt.; DeTeLine Budapest GmbH
- Prague RADIOMOBIL a.s.
- Warsaw P.T.C Polska Telefonía Cyfrowa Sp.z o.o.
- Kiev UMC JV (Ukrainian Mobile Communications), UTEL gAG (Ukrainian Telekom)
- Moscow MTS Mobile Telesystems gAG

America

- Kansas City Sprint Corp.
- Brisbane, CA ThinkOne

Asia

- Tel Aviv VocalTec Communications Ltd., Herzeliya BARAK I.T.C
- Kuala Lumpur TRI/Celcom
- Cebu City ISLACOM Inc.
- Jakarta PT Satelindo
- Chirchik Chirkom

February/March 1999

Continuing success in mobile communications

Deutsche Telekom is well placed in the dynamic European mobile communications market as a result of numerous successful investments. For example, the Austrian mobile communications network operator max.mobil. increased its revenue in 1998 to DM 644 million (or 4.5 billion Austrian schillings); the 1997 figure was DM 158 million (1.1 billion Austrian schillings). By the end of the year, the company had 790,000 customers, representing a market share of 38 percent. Deutsche Telekom is currently increasing its stake in max.mobil. In Poland, Deutsche Telekom's affiliated company Polska Telefonia Cyfrowa (PTC) achieved a share of 44 percent of the GSM mobile communications market, with 780,740 customers. PTC's revenue grew to DM 810 million. Deutsche Telekom has a 22.50 percent stake in PTC. Similar success was reported by the Czech mobile communications network operator RADIOMOBIL, in which Deutsche Telekom has a 41 percent stake. This affiliated company generated revenue of DM 353 million in 1998 and increased its customer base to 373,000 by the end of the year.

Wind – fixed-network and mobile communications services in a fast-growing market

In November 1997, Deutsche Telekom, France Telecom and the Italian power utility company Enel founded the Wind joint venture. Our aim with this company is to serve the highly dynamic Italian market with integrated telecommunications services based on convergence of fixed-network and mobile-communications technologies. In February 1998, Wind received a license for provision of fixed-network telephone services. In June 1998 it was awarded a license for digital mobile communications services. These two licenses provide the basis for offering convergence services of the fixed network and mobile communications.

MetroHoldings – joint venture in the highly competitive British market

In April 1998, Deutsche Telekom, France Telecom and the British telecommunications company Energis established the MetroHoldings joint venture. MetroHoldings is installing high-performance Metropolitan Area Networks (MAN) in major U.K. cities. These networks will enable the three partners and Global One to offer powerful telecommunications services to business customers. In September 1998, MetroHoldings' first three fiber optic rings in London were operational. By the end of 1998, another three rings had been added.

Economic crisis affects Deutsche Telekom's associated companies in Asia

In 1998, economic turbulences in Southeast Asia continued to have a negative impact on Deutsche Telekom's investments in that region. The company made extensive provisions in 1997 and 1998 to guard against the potential risks.

With its 25 percent stake, Deutsche Telekom is a strategic partner in the Indonesian telecommunications company Satelindo. Satelindo, Indonesia's largest GSM network operator, also holds licenses for provision of international telephony services and satellite communications.

We have a 21 percent stake in the Malaysian company Technology Resources Industries Berhad (TRI). This company is Malaysia's leading mobile communications network operator.

The Philippine telecommunications provider Isla Communications (Islacom) holds licenses for provision of fixed-network voice and data services as well as a nationwide mobile communications license for paging services and operation of mobile infrastructures for the local network. We have a 10.42 percent stake in Islacom.

Deutsche Telekom is currently reviewing various alternatives for strategic reorientation of its investments in the region.

Strengthening international business

One of Deutsche Telekom's central strategic objectives for 1999 is to ensure quality growth in its international business. We aim to achieve a leadership position through expanding our partnerships and through international investments in growth sectors such as convergence of fixed-network and mobile communications technologies and global Internet communications.

Sales and service.

Higher quality, better performance, more service.

Over the past year, we have introduced new measures to attract and retain customers, and we have continued our ongoing program to sharpen our customer focus. All of these activities are aimed at optimizing customer service and at fostering long-term customer loyalty in a highly competitive market.

In one important measure, launched in 1998, we are combining our residential-customer and business-customer branch offices. This process-oriented move is enabling us to pool and focus our resources in customer-service and centralized-function areas, thereby becoming faster in a fast-changing telecommunications market.

Proving quality through certification

Our program for certifying our divisions in accordance with the DIN EN ISO 9000 series of industrial quality standards was successfully continued and expanded in 1998. In addition, we carried out self-assessment on the basis of the model established by the European Foundation for Quality Management (EFQM).

Quality assurance by TelekomForum e.V.

We continued and sought to intensify our dialogue with our customers in 1998 – in keeping with our policy of focusing on customers as completely as possible. One of our most efficient resources in this connection is the TelekomForum, a business-customer advisory board founded in 1996. Currently, its members include about 300 of the largest German companies. In the TelekomForum's work groups, customers and product managers develop portfolio requirements for Deutsche Telekom and thus directly influence our development and innovation processes.

Enhancing quality by means of sales experts

We are planning to support our sales staff with special sales experts, to ensure that our representatives are always able to give our customers top-quality, state-of-the-art advice, even regarding very complex telecommunications requirements – including, for example, highly sophisticated products in the areas of mobile communications, data communications and multimedia. In addition, we want to develop strategically important markets as they are just emerging. In 1999, we plan to implement a relevant concept we developed last year: to establish special sales departments, each with its own specific expertise, that will support our sales staff as necessary in difficult technical tasks.

Direct sales in T-Punkt shops

Our 578 "T-Punkt" shops throughout the country (as of the end of 1998) are one of our most important sales channels for serving our residential customers and more and more small business customers. At every T-Punkt, customers can choose from Deutsche Telekom's extensive range of products, including the type of telephone lines and the tariff type, telephones, fax machines and T-Mobil's mobile communications products. We will continue to expand our T-Punkt sales network.

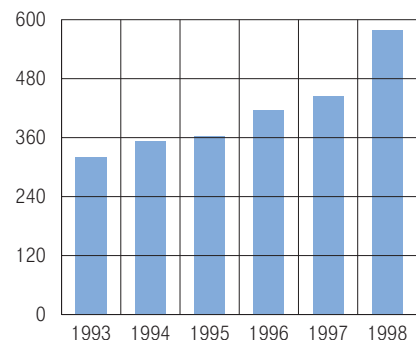
Indirect sales through T-Partners

Deutsche Telekom has a broad range of sales partners under contract with a total of some 9,000 sales outlets. These operate on the market as "T-Partners", or sell either "T-services" or "T-products", in keeping with their own lines of products and services. We plan to enlarge this sales network in 1999 by signing additional sales cooperation agreements with leading retailers.

Telemarketing via the customer hotline

"Telemarketing", one of our newest sales channels, has also continued to develop well. When customers call our hotline, at 0800 33 01000, we want them to be able to reach a customer representative within no more than 20 seconds. While in 1997 we reached this goal 75 percent of the time, we have since then improved to 80 percent, a level of performance that is in line with targets recommended by certain international telecommunications

T-Punkt shops in Germany



1993:	320
1994:	354
1995:	364
1996:	416
1997:	455
1998:	578

industry analysts. Via our hotline, we offer our customers free 24-hour service, every day of the week. The service provides information and accepts orders for virtually all of our products and services.

T-Versand mail-order business by catalogue

Our mail-order business has become an important part of Deutsche Telekom's sales operations. Our "T-Katalog", the mail-order catalogue, appears twice a year, filled with information about our terminal devices, their features and related services. Orders can be placed by fax, over the customer hotline or by mail.

Online sales via Internet

In August 1997, Deutsche Telekom introduced an online sales channel in response to the growing importance of the Internet marketplace. Customers can order our products and services online, around the clock, by simply going to our home page www.telekom.de and checking the heading "Bestellen Sie Online" ("Simply order online"). This sales channel, still run as a pilot project, was expanded in 1998 and has been well-accepted by our customers. It helps accelerate customer service – and it reduces the workload for the company's call centers and back offices.

T-Service – faster response

“T-Service” is one of Germany’s largest service organizations. Its staff of over 25,000 persons assemble, service and repair our customers’ lines and terminal equipment.

As a result of continuous improvements in employee training and in IT systems, we are now able to resolve one out of every three service problems without having to dispatch field-office personnel. Since the beginning of 1997, we have cut the average time for resolving service problems nearly in half – from about 20 hours to 11 hours.

What is more, since early 1998, our reliability in installing new telephone lines when promised has reached a truly world-class level. We now deliver when promised in over 99 percent of all cases.

Our business customers’ satisfaction with our delivery times for high-speed products and services and with the quality of our efforts to resolve service problems has improved considerably. Noteworthy companies, such as TeleCash, now rely on specially customized solutions from our T-Service organization.

Telekom Direkt – integrated complaints management

The ongoing combination of our organizational units for residential customers and business customers makes it possible for us to conduct our “Telekom Direkt” complaints management service more efficiently, by allowing us to handle customer complaints in an integrated manner. Telekom Direkt rapidly analyzes complaints from sales, service and customer-billing areas in order to identify and eliminate problems as quickly as possible. The complaints management units have been serving customers since the end of 1996.

Telecommunications solutions tailored to specific customer groups

A carefully designed marketing concept and our extensive sales network are enabling us to respond promptly to special customer requirements. In 1998, our sales marketing organization once again prepared new combinations of products and services aimed at specific customer groups. These solutions consist of complete systems and packages, rather than single products. And with our expert advice, we help our customers to exploit the competitive advantages that today’s telecommunications products can provide.

Partnership Management

“Partnership Management”, a program presented at Munich’s SYSTEMS exhibition in October 1998, comprises Deutsche Telekom’s information and support services for consultants, engineering offices, telecommunications and IT consultants and systems houses. In addition to personal advice, seminars and workshops, participating consultants have access to a special closed user group in the Internet where they can quickly obtain well-ordered product information. Detailed questions are answered via a telephone hotline, a central e-mailbox and a fax line. The Partnership Management program enables Deutsche Telekom to focus specifically on consulting companies’ needs and to make such companies aware of our capabilities.

ProSolution

ProSolution is a new range of consulting services. For each customer, we develop a telecommunications strategy especially tailored to the customer’s corporate goals. In our consultation, we focus on both technical and non-technical aspects, including the customer’s operational, strategic, organizational and sales-related problems. The result is a complete package of services that fits with the customer’s individual requirements. It might include setting up a call center or providing telecommuting facilities. ProSolution helps companies to become more competitive by integrating telecommunications within their core processes.

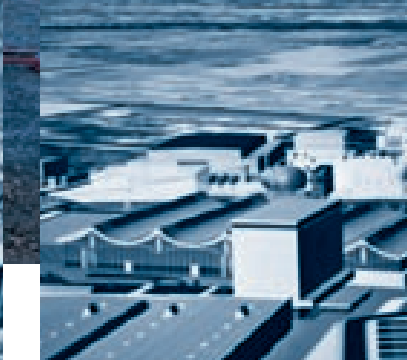
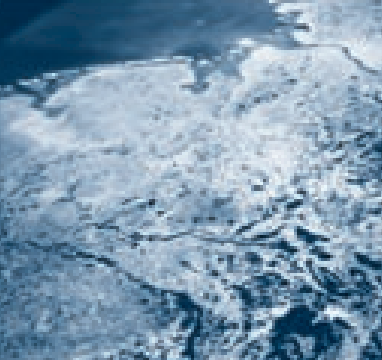
Telekom seminars

Since 1993, we have been offering our business customers seminars designed to help them get the most out of state-of-the-art telecommunications products. Modern telecommunications technologies and services are developing very rapidly, and these seminars have become more and more popular. The number of participants in 1998 was 3,492, an increase of nearly 25 percent as compared to 1997.



Terravision is the digital simulation of a three-dimensional globe. Anywhere on earth can be “visited” within seconds.

Thanks to Terravision, it is now possible to fly around the world sitting at your computer. One of the most interesting places to land is the site of the EXPO 2000. It allows problems with signposting, security measures and the architecture to be identified early on and rectified before construction.



The site of the EXPO 2000, for example.

The best way to see whether the buildings meet the stringent requirements as regards comfort, security and signposting...

...is to take a virtual walk around them.

Even emergency situations, such as extinguishing fire and evacuating large numbers of visitors, can be simulated 1 to 1.

Network infrastructure.

Powerful platforms for customer-oriented services.

Deutsche Telekom's modern network infrastructures are the basis for the innovative telecommunications services that we provide for our customers. To meet growing user demand for transmission capacity, quality and network intelligence, we have created network platforms that are among the most powerful found anywhere in the global telecommunications market. Expansion of the IP (Internet Protocol) network is of particular importance in this respect.

Additional network expansion, at reduced investment levels

In 1998, Deutsche Telekom invested DM 5.2 billion in expanding its network infrastructure. This figure, a 41 percent drop in network investments as compared to 1997, reflects the completion of two cost-intensive programs at the end of 1997: the development program for eastern Germany and digitization of the T-Net.

High Performance Net: ultra-high-quality transmission paths

We put our High Performance Net, a nationwide, flexible transport network with extremely high quality features such as availability of nearly 100 percent, into operation in 1998. The network links Germany's economic centers with optical fiber rings totaling over 12,000 kilometers in length and providing transmission rates of 2.4 Gbit/s. Moreover, we have launched a major quality campaign looking for further possibilities to optimize the availability of our overall network infrastructure and have already started to implement improvements.

Integrated national and international network structure for the most demanding applications

We plan to serve our international customers by seamlessly linking the ITN-D (our transport network for international traffic in Germany), the High Performance Net and our 36 national City-Netz optical fiber networks with a European backbone network. The go-ahead for setting up this European backbone, together with our international partners, was given in 1998. We plan this network to link some 40 points of presence, in 16 countries, over a total length of 20,000 kilometers by late 2000. To provide our customers with access to major international economic centers, we will also link the

European backbone seamlessly with the new City-Netz structures abroad which we are building together with our international partners. The advantage for our customers: This integrated transport network provides seamless, end-to-end service, and is built of highly reliable optical fiber ring structures.

We have also decided, together with our alliance partners, to harmonize the ATM platform technology within the global alliance. This platform is expected to be fully in place by mid-1999. At that point, the global alliance will operate one of the world's largest and most modern ATM networks.

Network expansion to handle growing Internet traffic

The extremely rapid growth of Internet communications has created enormous challenges for the international telecommunications industry. In 1998, Deutsche Telekom continued to expand its telecommunications networks for transport of national and international Internet traffic. From the end of 1997 to the end of 1998, we increased the number of dial-in ports in our national platform, with points of presence in 220 cities, by a total of 160 percent. The transmission rate in the core network was increased from 34 Mbit/s to 155 Mbit/s, which is equivalent to about 10,000 DIN-A4 pages of text per second. As a result, our IP backbone is already one of the world's most powerful Internet platforms.

We also made preparations in 1998 for a further increase in transmission capacity to 622 Mbit/s – and, in core areas, to as much as 2.4 Gbit/s. Both capacity expansions will involve use of state-of-the-art wavelength division multiplexing technology, which was successfully tested in the network in 1998 and has already been introduced for some applications.

In 1998, we added 155 Mbit/s of transmission capacity – almost doubling the previous capacity level – to the U.S., which plays a particularly important role in Internet communications. We accomplished this result using our own capacities in the AC1 submarine cable system. A further 155 Mbit/s expansion is planned in the short term; if necessary, we will add as much as 622 Mbit/s by mid 1999.

Global network expansion being pushed ahead

Fiber optic links are playing a more and more important role in global telecommunications traffic. In September 1998, Deutsche Telekom signed a contract for construction of the TAT-14 trans-Atlantic cable, which is to go into operation by the end of the year 2000. TAT-14 will be 13,500 kilometers long and provide a total of 640 Gbit/s transmission capacity. With its US\$ 120 million investment, Deutsche Telekom is the fourth-largest investor; together with its global alliance partners, France Telecom, Sprint and Global One, it is the largest investor in the US\$ 1.5 billion project.

In October 1998, Deutsche Telekom achieved another milestone in global telecommunications network growth by launching operations over the Trans-Asia-Europe optical fiber cable system (TAE), the first direct optical fiber link between Frankfurt and Shanghai. With 13 countries connected and a total length of 22,000 kilometers at the end of 1998, TAE is one of the world's longest terrestrial cable systems.

ADSL – preparing for a broadband future

Deutsche Telekom embarked on an ambitious ADSL technology (Asymmetrical Digital Subscriber Line) expansion program in 1998 that is aimed at giving all customers broadband access to the global information superhighway. ADSL brings a new dimension of speed to the copper wire pairs found in regular telephone lines: up to 8 Mbit/s from the network to the customer and up to 768 kbit/s from the customer. It is thus a way of providing fast Internet access, for example.

Information processing.

Becoming a telematics services provider.

Information technology (IT) has become a key competitive factor in today's telecommunications market. In 1998, Deutsche Telekom continued to expand its IT systems and consolidate its IT organization. We optimized the IT systems for our internal applications and made significant progress in providing comprehensive telematics services – the combination of telecommunications and IT – for our customers.

DeTeCSM: IT activities merged

In 1998, Deutsche Telekom merged its subsidiary Deutsche Telekom Computer Service Magdeburg GmbH with its five other service and computer centers, and with other IT structures within the Group, to form Deutsche Telekom Computer Service Management GmbH (DeTeCSM). DeTeCSM, which has a staff of about 4,350, provides IT services to the Deutsche Telekom Group and – in cooperation with Deutsche Telekom's sales units, especially DeTeSystem – implements information and telecommunications solutions for German and global customers. Taking into account revenues derived from services provided to other companies within the Deutsche Telekom Group, DeTeCSM is among Germany's top IT service providers in terms of revenues.

Internal IT infrastructure expanded

We continued to expand our internal IT infrastructure in the year under review. As of the end of 1998, some 155,000 PC workstations were connected to Deutsche Telekom's intranet. Our host computer platform has a capacity of nearly 22,000 MIPS and over 55,000 gigabytes of storage capacity. More than 2,800 Unix systems have been integrated within HITNET, Deutsche Telekom's internal IT network.

Optimizing operative processes in the customer's interest

Deutsche Telekom used its high-performance IT infrastructure in 1998 to optimize operational processes in the interest of its customers. For example, DeTeCSM operates a newly designed, high-performance IT application for our customer billing and accounts receivable management processes.

Deutsche Telekom's IT systems provide the basis for innovative customer projects

From telecommunications carrier to telematics provider – in 1998, Deutsche Telekom advanced further along this path. We drew on our sophisticated IT infrastructure to carry out comprehensive telematics projects for a range of customers. These efforts included designing state-of-the-art client/server architectures and establishing service centers for operation of external IT solutions for customers.

Our IT organization has become even stronger

In 1998, we sharpened the IT area's business focus by continuing our reorganization projects. On January 1, 1999, Deutsche Telekom integrated its regional IT service units within DeTeCSM, thereby creating the basis for a homogeneous range of IT services from one source. DeTeCSM now offers its customers an IT network for information services that features high availability, high performance and a high level of nationwide coverage in Germany.

Environmental protection.

Thinking of the future.

As a future-oriented company, Deutsche Telekom is actively committed to protecting the environment. We have been reducing the environmental impact of our business operations by means of integrated concepts, strict specifications, careful monitoring and regular training. And we have been promoting cautious exploitation of natural resources by selling products and services that help protect the environment, either directly or indirectly - for example, services such as telebanking and traffic management.

One outstanding result of our environmental commitment is a special SAP R/3-supported waste-database system we developed ourselves: the Informations System Abfallwirtschaft Telekom (ISAT). This system enables us not only to monitor waste costs and volumes, but also to keep track of the entire waste-management chain and identify any potential for reducing waste. Efficient waste avoidance has reduced our total waste production by about 28 percent compared to 1995 levels.

Energy conservation plays a key role in the reduction of CO₂ emissions. A continuing program for optimizing air conditioning systems used to cool switching equipment reduced our 1998 energy consumption by about 38 million kWh over the previous year. This reduced CO₂ emissions by about 26,000 tons, while yielding energy savings of about DM 7 million.

Reducing the burden on the environment

We took another important step in the use of renewable energy sources by inaugurating a new photovoltaic system on the Inselsberg in Thuringia. The pilot system has 110 modules, with a total collection area of 200 square meters, and generates about 20 kilowatts.

For quite some time, Deutsche Telekom has run a terminal equipment recycling program under which it guarantees that it will take back all telephones, terminal devices and telephone cards sold by the company. The recycling quota for returned devices has reached 75 percent. Deutsche Telekom uses the recycled plastic in a number of ways; one use is in manufacture of telephone cases and telephone cards containing up to 90 percent recycled plastic. For two telephone-card series made of recycled material, we were awarded the "Blauer Engel" (Blue Angel) environmental label.

Environmental collective agreement concluded

In January 1998, a collective bargaining agreement concerning environmental matters that Deutsche Telekom concluded with the German posts and telecommunications trade union entered into effect. The agreement provides for establishment of six regional environmental affairs committees

in addition to the central and regional environmental protection officers already appointed. In each of these committees, three representatives from management and three from the works council, supported by a specially trained environmental protection officer, search for ways to improve environmental protection on the company's branch-office level. These regional environmental affairs committees are another important way of enshrining good environmental practice throughout the entire company and of fostering environmental awareness in all our employees.

Award for environmental commitment

Last year, Deutsche Telekom's preventive and comprehensive environmental protection efforts were rewarded with a special environmental prize for industry: the 1998 "Umweltpreis Wirtschaft" of the Bundesdeutscher Arbeitskreis für Umweltbewußtes Management (B.A.U.M), a non-partisan environmental initiative of business and industry.

In an environmental performance rating carried out by the Munich-based research agency "ökom" with respect to 14 telecommunications companies from 11 countries, Deutsche Telekom was ranked first, together with one other company.

Deutsche Telekom plans to remain actively committed to environmental protection. By the year 2000, the company's Networks Division plans to introduce certifiable, DIN EN ISO 14001-compliant environmental management systems in all of its branch offices and regional directorates and in the company's headquarters. As of the end of 1998, the Networks Division's headquarters departments and regional directorates, as well as four branch offices and one logistics center, had already been certified as compliant.