

Deutsche Telekom  
Group Report  
January 1 to March 31, 1999



# Highlights

- Planned business combination with Telecom Italia
- Capital increase of up to 286 million shares, probably in June 1999
- Considerable tariff cuts for long-distance traffic
- Uninterrupted growth in ISDN, T-D1 and T-Online
- Costs reduced further
- Income at same level as last year
- Decrease in revenue from telephone network communications
- Broadband cable business established as wholly-owned subsidiary

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about business developments in the first three months of 1999. For the first time, figures are reported in euros.

The development of the Deutsche Telekom share, the T-Aktie, was exceptionally good in the period under review. The share price rose by approximately 35 % compared with the last price quoted in 1998 and, on March 31, 1999, was € 37.75. The Dax 30 fell by approximately 3 % over the same period.

## Business developments

Deutsche Telekom's revenue decreased by 6.7 % in the first three months of 1999 compared with the same period last year, to € 8,263 million. This decrease was attributable to a large decrease in revenue from telephone network communications, which in turn was due to the significant tariff reductions for long-distance calls. The revenue losses in telephone network communications were not completely compensated by growth in other business areas.

The number of call minutes increased slightly by 1.1 % to 48.4 billion. The number of call minutes from long-distance and international calls continued to fall; aggressive tariff measures in these areas are, however, starting to bear fruit. Both T-D1 and T-Online continued their strong growth. Also, the Hungarian telecommunications company MATÁV once again made a positive contribution to the results.

| Numbers of customers in selected services | March 31, 1999 | Dec. 31, 1998 | Change | March 31, 1998 |
|---|----------------|---------------|--------|----------------|
|   | millions       | millions      | in %   | millions       |
| Telephone lines (incl. ISDN channels)     | 46.9           | 46.5          | 0.9    | 45.4           |
| of which: ISDN channels                   | 10.9           | 10.1          | 7.9    | 8.0            |
| of which: private customers               | 4.5            | 3.9           | 15.4   | 2.8            |
| of which: business customers              | 6.4            | 6.2           | 3.2    | 5.2            |
| T-Online customers                        | 3.0            | 2.7           | 11.1   | 2.1            |
| Mobile phone customers (T-D1 and T-C-Tel) | 6.4            | 5.8           | 10.3   | 4.1            |
| of which: T-D1 customers                  | 6.0            | 5.5           | 9.1    | 3.6            |

| Income before taxes, net revenue and return on sales in accordance with SFAS 131 <sup>1)</sup> | Income before taxes               | Income before taxes         | Net revenue                       | Net revenue <sup>2)</sup>   | Return on sales          | Return on sales    |
|--|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|--------------------------|--------------------|
|  | 1st quarter 1999<br>millions of € | Total 1998<br>millions of € | 1st quarter 1999<br>millions of € | Total 1998<br>millions of € | 1st quarter 1999<br>in % | Total 1998<br>in % |
| Telephone network communications   | 892                               | 4,796                       | 4,355                             | 20,533                      | 20.5                     | 23.4               |
| Mobile communications  | 235                               | 672                         | 849                               | 3,061                       | 27.7                     | 22.0               |
| Broadband cable/Broadcasting   | (75)                              | (325)                       | 472                               | 1,804                       | -15.9                    | -18.0              |
| Terminal equipment   | 8                                 | (114)                       | 309                               | 1,382                       | 2.6                      | -8.2               |
| Special value-added services   | 90                                | (181)                       | 476                               | 2,051                       | 18.9                     | -8.8               |
| International activities   | 67                                | 267                         | 347                               | 1,322                       | 19.3                     | 20.2               |
| Other segments   | (21)                              | (40)                        | 1,443                             | 4,970                       | -1.5                     | -0.8               |
| Reconciliation <sup>3)</sup>   | (13)                              | 25                          | 12                                | 74                          | -                        | -                  |
| <b>Total</b>   | <b>1,183</b>                      | <b>5,100</b>                | <b>8,263</b>                      | <b>35,197</b>               | <b>14.3</b>              | <b>14.5</b>        |

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No. 131 for segment reporting.

<sup>2)</sup> Net revenue shown under 1998 has been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

<sup>3)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

While group revenue decreased, the Group's return on sales, compared with 1998, remained stable at approximately 14 % in the first quarter of 1999. The decrease in the return on sales from telephone network communications was offset by an increased return on sales from the other areas. The return on sales from mobile communications, for example, increased from 22.0 % to 27.7 %. The losses in broadband cable/broadcasting were reduced further. The return on sales from this area improved from -18.0 % to -15.9 %. Terminal equipment as well as special value-added services achieved positive results for the first time. The return on sales amounted to 2.6 % and 18.9 % for terminal equipment and special value-added services, respectively. The return on sales from international activities changed only slightly to 19.3 %. In telephone network communications, the return on sales decreased from 23.4 % to 20.5 %, as a result of the drastically reduced margins on long-distance and international calls.

Overall, revenue decreased by € 0.6 billion compared with the same period last year. This was mainly attributable to the decrease in call charges for long-distance and international calls. The decrease in revenue is offset by reductions in costs of approximately € 0.4 billion. Personnel costs decreased slightly once again as a result of the continued workforce reduction program. The reduction of financial liabilities led to a scheduled decrease of interest expense of approximately € 0.1 billion. Depreciation and amortization decreased further by approximately € 0.2 billion. This decrease is mainly attributable to the extension of depreciation periods. In total, the Group's results from ordinary business activities decreased slightly by 1.9 % to € 1,183 million. As a result of the decrease in the effective tax rate, net income was € 535 million and thus slightly higher than in the first quarter of 1998.

# Outlook

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Deutsche Telekom and Telecom Italia announced on April 21, 1999 that they intend to form a business combination. With such a business combination, we would further strengthen our position as the largest telecommunications provider in Europe. The strategic objectives of this business combination are to expand upon our leading position in fixed-network and mobile communications in Europe, to achieve European market leadership in online services, to take a leading position in global IP data business and to be the European market leader for telecommunications services for multinationals as well as for small and medium-sized companies. Deutsche Telekom's strengths in the fixed network (ISDN, T-DSL), online services, the USA, Eastern Europe and Asia and the strengths of Telecom Italia in mobile communications, the Mediterranean region and in Latin America complement each other.

Besides a series of regulatory approvals, this business combination is also subject to the agreement of the shareholders and governments and the approval of the planned share exchange by a qualified majority of the shareholders. Once these conditions are fulfilled, Deutsche Telekom does not expect the business combination to go ahead before the fourth quarter of 1999. There is currently a take-over bid for Telecom Italia from Olivetti.

Deutsche Telekom has announced that it intends to launch a capital increase – probably in June of this year – up to the volume laid down in the company's Articles of Incorporation. The maximum volume is 286.3 million shares. Deutsche Telekom intends to launch an employee share purchase plan, a worldwide offer and, for the first time, a uniform offer for retail investors in all Euroland countries. Existing shareholders will be granted preemptive rights. The capital increase will allow further innovation drives, the transition to become a telematics provider and the set-up of a pan-European carrier, as well as strengthening Deutsche Telekom's global position. As such, Deutsche Telekom intends to expand its position in systems solutions, European mobile communications and in the global IP data business with specific acquisitions. The German federal government has informed Deutsche Telekom's Board of Management that it will not sell any of the Deutsche Telekom shares it holds (or those held by the Kreditanstalt für Wiederaufbau (KfW)) via the capital market before June 2000 and that it will not exercise its preemptive rights in the course of Deutsche Telekom's capital increase.

At the beginning of this year, Deutsche Telekom established its broadband cable business as a wholly-owned subsidiary and thus met regulatory requirements in full. The intention is to split the broadband cable business into separate companies for certain regions and to offer shares in these regional companies to third parties in order to increase the capacity utilization of the network by multimedia applications and pay TV. Deutsche Telekom is expecting a positive contribution to its results from future sales.

At the beginning of the year, Deutsche Telekom increased its stake in the Austrian mobile communications provider max.mobil, and thus now holds the majority interest. Max.mobil. also holds a fixed-network license for Austria. Correspondingly, Deutsche Telekom will consolidate max.mobil. fully as part of the Group.

By fully consolidating further acquisitions, Deutsche Telekom expects to compensate revenue losses in Germany with European revenues. Despite the increase in the number of shares, the future earnings per share are to at least remain stable in the near future as a result of special measures such as the extension of depreciation periods and the income from the sale of shares in the broadband cable network.

Therefore, the capital increase is of particular importance for Deutsche Telekom's further development.

# Summary of the consolidated financial statements as at March 31, 1999

The financial statements of the Deutsche Telekom group for the first three months of 1999 have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Law (Aktiengesetz – AktG).

The Company provides uniform financial reporting to the extent possible by using accounting and valuation principles in line with those of U.S. GAAP (generally accepted account-

ing principles – GAAP) applicable at the balance sheet date, provided options exist under German GAAP (principally as laid down in the HGB) to permit such an approach. The contents of these consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the requirements of the HGB cannot be conformed to U.S. GAAP. These differences between German GAAP and U.S. GAAP are shown in a separate reconciliation.

| Consolidated statement of income                       | 1st quarter 1999<br>millions of € | 1st quarter 1998 <sup>1)</sup><br>millions of € | Change<br>in % | Total 1998 <sup>1)</sup><br>millions of € |
|--|-----------------------------------|---|----------------|---|
| <b>Net revenue</b>                                     | <b>8,263</b>                      | <b>8,852</b>                                    | <b>-6.7</b>    | <b>35,197</b>                             |
| Changes in inventories and other own capitalized costs | 284                               | 189   | 50.3           | 990                                       |
| <b>Total operating performance</b>                     | <b>8,547</b>                      | <b>9,041</b>                                    | <b>-5.5</b>    | <b>36,187</b>                             |
| Other operating income                                 | 372                               | 322   | 15.5           | 2,069                                     |
| Goods and services purchased                           | (1,523)                           | (1,506)   | 1.1            | (6,276)                                   |
| Personnel costs  | (2,295)                           | (2,309)   | -0.6           | (9,170)                                   |
| Depreciation and amortization                          | (1,909)                           | (2,127)   | -10.2          | (9,037)                                   |
| Other operating expenses                               | (1,225)                           | (1,258)   | -2.6           | (5,385)                                   |
| Financial income (expense), net                        | (784)                             | (957)   | -18.1          | (3,288)                                   |
| of which: net interest expense                         | (681)                             | (795)   | -14.3          | (2,962)                                   |
| <b>Results from ordinary business activities</b>       | <b>1,183</b>                      | <b>1,206</b>                                    | <b>-1.9</b>    | <b>5,100</b>                              |
| Taxes  | (594)                             | (626)   | -5.1           | (2,654)                                   |
| <b>Income after taxes</b>                              | <b>589</b>                        | <b>580</b>                                      | <b>1.6</b>     | <b>2,446</b>                              |
| (Income) losses applicable to minority shareholders    | (54)                              | (49)  | 10.2           | (203)                                     |
| <b>Net income</b>                                      | <b>535</b>                        | <b>531</b>                                      | <b>0.8</b>     | <b>2,243</b>                              |

<sup>1)</sup> Revenue and goods and services purchased shown under 1998 have been adjusted to reflect the 1999 method of reporting.

As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue and goods and services purchased.

| Consolidated balance sheet                  | March 31, 1999<br>millions of € | Dec. 31, 1998<br>millions of € | Change<br>in % | March 31, 1998<br>millions of € |
|---|---------------------------------|--------------------------------|----------------|---------------------------------|
| <b>Assets</b>                               |                                 |                                |                |                                 |
| Noncurrent assets                           | 65,855                          | 66,520                         | -1.0           | 68,788                          |
| Current assets <sup>1)</sup>                | 14,001                          | 12,771                         | 9.6            | 15,006                          |
|   | <b>79,856</b>                   | <b>79,291</b>                  | <b>0.7</b>     | <b>83,794</b>                   |
| <b>Shareholders' equity and liabilities</b> |                                 |                                |                |                                 |
| Shareholders' equity                        | 25,642                          | 25,064                         | 2.3            | 25,162                          |
| Liabilities <sup>2)</sup>                   | 54,214                          | 54,227                         | 0.0            | 58,632                          |
|   | <b>79,856</b>                   | <b>79,291</b>                  | <b>0.7</b>     | <b>83,794</b>                   |

<sup>1)</sup>Including prepaid expenses, deferred charges and deferred taxation.  
<sup>2)</sup>Including accruals and deferred income.

| Consolidated statements of cash flows                                | 1st quarter 1999<br>millions of € | 1st quarter 1998<br>millions of € | Change<br>in % | Total 1998<br>millions of € |
|--|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| Net cash provided by operating activities                            | 1,626                             | 2,945                             | -44.8          | 13,491                      |
| Net cash used for investing activities                               | (877)                             | (1,650)                           | -46.8          | (7,511)                     |
| Net cash (used for) provided by financing activities                 | (933)                             | (788)                             | 18.4           | (6,797)                     |
| Effect of foreign exchange rate changes on cash and cash equivalents | 2                                 | 0                                 | -              | 6                           |
| Net increase (decrease) in cash and cash equivalents                 | (182)                             | 507                               | -              | (811)                       |

| Segment information by group business area for the 1st quarter 1999 in accordance with SFAS 131 <sup>1)</sup> | Net revenue   | Revenue between segments | Depreciation and amortization | Net interest expense | Income (loss) related to associated and related companies | Income before taxes |
|---|---------------|--------------------------|-------------------------------|----------------------|---|---------------------|
|   | millions of € | millions of €            | millions of €                 | millions of €        | millions of €   | millions of €       |
| Telephone network communications  | 4,355         | 198                      | (1,043)                       | (323)                | -   | 892                 |
| Mobile communications   | 849           | 221                      | (87)                          | (37)                 | -   | 235                 |
| Broadband cable/Broadcasting  | 472           | 30                       | (219)                         | (96)                 | -   | (75)                |
| Terminal equipment  | 309           | 46                       | (38)                          | (14)                 | -   | 8                   |
| Special value-added services  | 476           | 70                       | (51)                          | (15)                 | -   | 90                  |
| International activities  | 347           | 3                        | (62)                          | (33)                 | -   | 67                  |
| Other segments  | 1,443         | 657                      | (406)                         | (166)                | (105)   | (21)                |
| Reconciliation <sup>2)</sup>  | 12            | (1,225)                  | (3)                           | 3                    | 2   | (13)                |
| <b>Group</b>  | <b>8,263</b>  | <b>0</b>                 | <b>(1,909)</b>                | <b>(681)</b>         | <b>(103)</b>  | <b>1,183</b>        |

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No.131 for segment reporting.

<sup>2)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

# Revenue

|                                     | 1st quarter 1999<br>millions of € | 1st quarter 1998 <sup>1)</sup><br>millions of € | Change<br>in % | Total 1998 <sup>1)</sup><br>millions of € |
|-------------------------------------|-----------------------------------|---|----------------|---|
| Telephone network communications    | 4,355                             | 5,451   | -20.1          | 20,533                                    |
| Licensed service providers/Carriers | 568                               | 315   | 80.3           | 1,611                                     |
| Data communications <sup>2)</sup>   | 623                               | 619   | 0.6            | 2,507                                     |
| Mobile communications               | 849                               | 681   | 24.7           | 3,061                                     |
| Broadband cable/Broadcasting        | 472                               | 432   | 9.3            | 1,804                                     |
| Terminal equipment <sup>3)</sup>    | 309                               | 355   | -13.0          | 1,382                                     |
| Special value-added services        | 476                               | 476   | 0.0            | 2,051                                     |
| Other services <sup>4)</sup>        | 252                               | 197   | 27.9           | 852                                       |
| International activities            | 359                               | 326   | 10.1           | 1,396                                     |
| <b>Total</b>                        | <b>8,263</b>                      | <b>8,852</b>                                    | <b>-6.7</b>    | <b>35,197</b>                             |

<sup>1)</sup> Revenues in 1998 have been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

<sup>2)</sup> Including revenue from systems solutions which, since January 1, 1999, has been part of the group business area data communications. The revenue shown for the first quarter of 1998 had to be adjusted due to a reclassification in the group business area data communications as of January 1, 1999. Revenue amounting to € 7 million was reclassified from data communications to telephone network communications.

<sup>3)</sup> In the organizational structure of the group business areas of the 1999 financial year, certain revenues from support services for terminal equipment are no longer shown under terminal equipment, but under other services. The figures for the 1998 financial year have therefore been adjusted accordingly. The entries for revenue from support services totaling € 120 million for the entire 1998 financial year and revenue of € 29 million for the first quarter of 1998 have been reclassified.

<sup>4)</sup> Revenue from the billing of services of other network operators is no longer included in other services for 1998, as this revenue is no longer shown under net revenue as of January 1, 1999. The adjusted figures are € 6 million for the first quarter of 1998 and € 522 million for the entire 1998 financial year.

Net revenue of the Deutsche Telekom group totaled € 8,263 million in the first quarter of 1999. This represents a decrease of 6.7 % compared with the same period in 1998.

Deutsche Telekom's largest source of revenue, telephone network communications, generated revenue of € 4,355 million in the first quarter of 1999. This drop in revenue was mainly attributable to the tariff cuts which came into effect on March 1, 1998 and January 1, 1999 and to the influence of competition in this area, the main effect of which was only felt after the first quarter of 1998 and which then became more intense in the course of the year. This affected domestic and international long-distance calls in particular. The further growth in the number of ISDN access lines by 7.9 % to 10.9 million as at March 31, 1999 had a positive effect on the revenue generated in telephone network communications. Overall, however, revenue from telephone network communications fell by 20.1 % in the first quarter of 1999. The decrease in telephone network communications was compensated in part by revenue from data communications (including revenue from systems solutions), which remained at the same level as in the first quarter of 1998, and, in particular, by significant growth in the revenue from interconnection services.

Revenue from mobile communications increased by 24.7 % in the first quarter of 1999 over the same period in 1998. Significant revenue growth was recorded by the T-D1 services. This was attributable to the dynamic development in the number of subscribers, which grew by 9.1 % to 6.0 million at March 31, 1999. On the other hand, revenue from the analog T-C-Tel service fell as the number of subscribers continued to decrease.

Revenue in the group business area broadband cable/broadcasting increased by 9.3 % to € 472 million, whereas revenue in the terminal equipment group business area decreased by 13.0 % compared to the first quarter of 1998 to € 309 million as a result of streamlining the product portfolio. Revenue totaling € 476 million from the group business area special value-added services was at the same level as in the first quarter of 1998.

The success of T-Online as Europe's largest online service is reflected, for example, in the continued revenue growth in other services to € 252 million. The number of T-Online customers rose by 11.1 % to 3.0 million at March 31, 1999.

Revenue of € 359 million from international activities in the first quarter of 1999, which represents an increase of 10.1 % over the same period in 1998, is mainly accounted for by the Hungarian telecommunications company MATÁV.



# Personnel

| Personnel costs  | 1st quarter 1999<br>millions of € | 1st quarter 1998<br>millions of € | Change<br>in % | Total 1998<br>millions of € |
|--|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| Wages and salaries   | 1,625                             | 1,626                             | -0.1           | 6,477                       |
| Social security contributions and expenses for<br>pension plans and benefits | 670                               | 683                               | -1.9           | 2,693                       |
| <b>Total</b>   | <b>2,295</b>                      | <b>2,309</b>                      | <b>-0.6</b>    | <b>9,170</b>                |

Despite the fact that Deutsche Telekom's workforce reduction program was continued according to plan, the personnel costs of the Deutsche Telekom group in the first three months of 1999 amounted to € 2,295 million, which represents a decrease of only 0.6% or € 14 million compared with the same period in 1998. Besides the collectively agreed one-time payment for the first quarter of 1999, this was attributable to a remuneration adjustment related to the eastern German collective bargaining agreements from 92% to 96% of the

western German remuneration level, age-related salary increases and the review of salaries in some areas to bring them in line with market conditions. Furthermore, the annual contribution to civil servant pensions of DM 2,900 million, which, this year for the last time, is not linked to the number of employees, also led to a nominal increase in the personnel costs per employee because the number of employees in the Group has decreased.

| Average number<br>of employees   | 1st quarter 1999<br>Number | 1st quarter 1998<br>Number | Change<br>in % | Total 1998<br>Number |
|--|----------------------------|----------------------------|----------------|----------------------|
| Civil servants   | 81,537                     | 89,697                     | -9.1           | 87,573               |
| Salaried employees   | 55,956                     | 52,261                     | 7.1            | 53,310               |
| Wage earners   | 40,337                     | 46,807                     | -13.8          | 44,857               |
| <b>Deutsche Telekom group<sup>1)</sup></b>   | <b>177,830</b>             | <b>188,765</b>             | <b>-5.8</b>    | <b>185,740</b>       |
| Changes in the composition of the Deutsche Telekom group<br>of prior years (in particular MATÁV) | 16,725                     | 17,991                     | -7.0           | 17,634               |
| <b>Deutsche Telekom group</b>  | <b>194,555</b>             | <b>206,756</b>             | <b>-5.9</b>    | <b>203,374</b>       |
| Trainees/student interns   | 6,022                      | 6,087                      | -1.1           | 6,165                |

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom group of prior years.

| Number of<br>employees at<br>balance sheet<br>date   | March 31, 1999<br>Number | Dec. 31, 1998<br>Number | Change<br>in % | March 31, 1998<br>Number |
|--|--------------------------|-------------------------|----------------|--------------------------|
| Civil servants   | 80,727                   | 83,848                  | -3.7           | 89,280                   |
| Salaried employees   | 56,288                   | 54,008                  | 4.2            | 52,372                   |
| Wage earners   | 40,074                   | 41,313                  | -3.0           | 46,590                   |
| <b>Deutsche Telekom group<sup>1)</sup></b>   | <b>177,089</b>           | <b>179,169</b>          | <b>-1.2</b>    | <b>188,242</b>           |
| Changes in the composition of the Deutsche Telekom group<br>of prior years (in particular MATÁV) | 16,563                   | 16,707                  | -0.9           | 17,801                   |
| <b>Deutsche Telekom group</b>  | <b>193,652</b>           | <b>195,876</b>          | <b>-1.1</b>    | <b>206,043</b>           |
| Trainees/student interns   | 5,941                    | 6,932                   | -14.3          | 5,922                    |

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom group of prior years.

The number of employees (before changes in the composition of the Deutsche Telekom group) was decreased through the Group's workforce reduction program of avoiding compulsory redundancies by 2,080 to 177,089 in the course of

the first three months of 1999. As the situation currently stands, Deutsche Telekom's goal of reducing its workforce to about 170,000 (before changes in the composition of the Deutsche Telekom group) by the year 2000 will be fulfilled ahead of time.

# Depreciation and amortization

|                               | 1st quarter 1999<br>millions of € | 1st quarter 1998<br>millions of € | Change<br>in % | Total 1998<br>millions of € |
|-------------------------------|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| Depreciation and amortization | 1,909                             | 2,127                             | -10.2          | 9,037                       |

In the period under review, depreciation and amortization fell by 10.2 % or € 218 million compared to the first quarter of 1998 to € 1,909 million. Of this decrease, approximately € 0.2 billion is attributable to the extension of depreciation periods for the outside plant network. This adjustment followed a reevaluation of the physical and economic useful life of the

equipment. Approximately 80 % or € 1.5 billion of the depreciation and amortization in the Deutsche Telekom group is attributable to depreciation of technical equipment and machinery. Nonscheduled write-downs amounting to € 4 million were recognized in the first quarter of 1999.

## Changes in net income

The Group's results from ordinary business activities amounted to € 1,183 million in the first quarter of 1999, thus slightly lower than in the same period last year. This is the result of the following developments: As a consequence of the price reductions on March 1, 1998 and January 1, 1999, revenue in the first quarter of 1999 fell by € 589 million compared to the first quarter of 1998. This decrease in revenue is offset by reductions in costs. Although the level of goods and services purchased increased by € 17 million, personnel costs were reduced by a further € 14 million as a result of the con-

tinuing workforce reduction program and despite collectively agreed salary increases. Depreciation and amortization decreased by € 218 million compared with the same period last year. This is mainly attributable to the extension of depreciation periods on certain items of property, plant and equipment. Financial expense was reduced by a total of € 173 million, both as a result of the scheduled decrease in interest expense and the further decrease in losses related to associated and related companies.

|   | millions of € |
|---|---------------|
| Decrease in revenue                       | (589)         |
| Changes in goods and services purchased   | (17)          |
| Decrease in personnel costs               | 14            |
| Decrease in depreciation and amortization | 218           |
| Changes in financial income (expense)     | 173           |
| of which: changes in net interest expense | 114           |
| Changes in other income and expense items | 178           |
| <b>Total</b>                              | <b>(23)</b>   |

The decrease in tax expense by a total of € 32 million in the first quarter of 1999 compared with the same period last year is mainly attributable to tax refunds. Thus, net income of the

Group amounted to € 535 million, slightly higher than in the first quarter of 1998.

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

|  | 1st quarter 1999<br>millions of € | 1st quarter 1998<br>millions of € | Change<br>in % | Total 1998<br>millions of € |
|--|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| <b>Net income as reported in the consolidated financial statements under German GAAP</b> | <b>535</b>                        | <b>531</b>                        | <b>0.8</b>     | <b>2,243</b>                |
| Personnel restructuring accrual  | (27)                              | (67)                              | -              | (286)                       |
| Other differences  | 87                                | 44                                | -              | 65                          |
| Income taxes   | (185)                             | 2                                 | -              | 203                         |
| <b>Net income in accordance with U.S. GAAP</b>   | <b>410</b>                        | <b>510</b>                        | <b>-19.6</b>   | <b>2,225</b>                |

As at March 31, 1999 shareholders' equity under U.S. GAAP totaled € 27,259 million (Dec. 31, 1998: € 26,857 million).

# Investments

|   | 1st quarter 1999<br>millions of € | 1st quarter 1998<br>millions of € | Change<br>in % | Total 1998<br>millions of € |
|---|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| Intangible assets and property, plant and equipment | 834                               | 744                               | 12.1           | 4,788                       |
| Financial assets                                    | 647                               | 381                               | 69.8           | 2,738                       |
| <b>Total</b>  | <b>1,481</b>                      | <b>1,125</b>                      | <b>31.6</b>    | <b>7,526</b>                |

Additions to property, plant and equipment, which relate mainly to Deutsche Telekom AG, amounted to € 795 million in the first quarter of 1999. After the completion at the end of 1997 of the digitization of the network's switching and transmission equipment, as well as of the development program for eastern Germany, capital expenditure on property, plant

and equipment remained at a low level as planned. Additions to financial assets amounted to € 647 million, € 265 million of which are attributable to investments in associated and related companies. Deutsche Telekom also invested € 275 million in specialized securities funds (in U.S. dollars).

# Financial liabilities

|   | March 31, 1999<br>millions of € | Dec. 31, 1998<br>millions of € | Change<br>in % | March 31, 1998<br>millions of € |
|---|---------------------------------|--------------------------------|----------------|---------------------------------|
| Debt                                    | 39,009                          | 39,933                         | -2.3           | 44,218                          |
| Debt excluding MATÁV                    | 38,309                          | 39,260                         | -2.4           | 43,482                          |
| Net financial liabilities <sup>1)</sup> | 33,231                          | 33,477                         | -0.7           | 36,543                          |

<sup>1)</sup> Financial liabilities after deduction of liquid assets and marketable securities.

In order to broaden its sources of funding, Deutsche Telekom increased the volume of its debut benchmark bond floated in May 1998 by approximately € 1.0 billion to a total of € 2.0 billion on January 12, 1999. Financial liabilities are being repaid according to plan. At the end of March 1999, total debt amounted to approximately € 39.0 billion, as compared with

€ 39.9 billion at December 31, 1998. Future repayment of debt will continue as planned; the goal is to reduce debt to approximately € 33 billion by the year 2000. Net financial liabilities, after taking liquid assets of € 4.0 billion and marketable securities of € 1.8 billion into account, amounted to € 33.2 billion at March 31, 1999.

# Cash flows

## Net cash provided by operating activities

Net cash provided by operating activities amounted to € 1,626 million in the first three months of this year. The decrease of € 1,319 million compared with the same period last year is attributable firstly to revenue losses as a consequence of tariff cuts. Secondly, there was a clear increase in the level of receivables in the first quarter of 1999 as opposed to the decrease recorded in the same period in 1998. Accordingly, the level of cash received by the Group from revenue already generated was temporarily lower. Furthermore, the Group reduced the level of trade accounts payable in the first three months of this year, whereas an increase had been recorded in the first quarter of 1998.

## Net cash used for investing activities

Net cash used for investing activities decreased by € 773 million compared with the first quarter of 1998 to € 877 mil-

lion. With a slight increase in investments in noncurrent assets, attributable in particular to increased levels of investment in financial assets, this decrease in net cash used for investing activities is mainly due to the increase in liquid assets from the reduction of temporary fixed-term bank deposits. As in previous years, it was possible to fully finance capital expenditure from cash provided by operating activities.

## Net cash used for financing activities

In the first three months of 1999, the outflow of cash used for financing activities increased by € 145 million over the same period in 1998 to € 933 million. The increased volume of the debut benchmark bond resulted in a considerably higher inflow of cash, but this was more than offset by higher repayments of short-term debt. As was the case in the same period last year, the dividend payments for the 1998 financial year are not included in the net cash used for financing activities.

Bonn, May 1999  
Deutsche Telekom AG

Board of Management

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