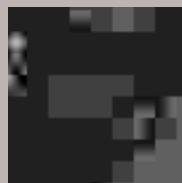


## Who we are.

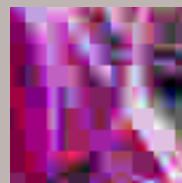
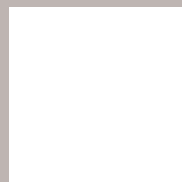
Deutsche Telekom is Europe's largest telecommunications provider and the third largest worldwide. Following market liberalization, we will certainly continue to be the leading provider in Germany. We offer the full range of telecommunications services. We invest internationally in order to be able to provide our customers with a global product portfolio. Our representative offices, affiliated companies and joint ventures serve customers in over 65 countries around the world.

We have invested around DM 150 billion since 1990 because we are convinced that telecommunications has a great future: as a problem solver for industry and as a technology that brings people closer together.

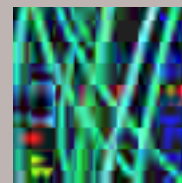
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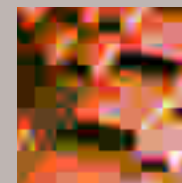
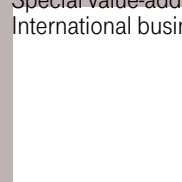
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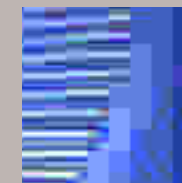
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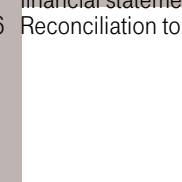
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*Dear Reader,*

Following our initial public offering in 1996, one of Deutsche Telekom AG's primary goals in the 1997 financial year was to continue to confirm the confidence our shareholders placed in us.

To achieve this, the focus of all our corporate activities was on realizing the potential for increasing the value of our company to ensure that our shareholders would obtain an appropriate return and to establish our share, the "T-Aktie", as a sound investment in the long term.

The figures for the year under review demonstrate that Deutsche Telekom has continued to develop favorably.

We were able, for example, to participate in the strong growth of the telecommunications market, with our revenue having increased by more than seven percent to DM 67.6 bn as of the end of the financial year.

Consolidated net income grew to DM 3.3 bn, which represents an 88 percent increase over the previous year. Results from ordinary business activities were recorded at DM 7.2 bn in the year under review (DM 6.6 bn in the previous year). Deutsche Telekom was able to further improve its financial structure by reducing debt by DM 12 bn. The reduction in staff levels continued according to plan.

Deutsche Telekom AG's results, a decisive factor for the dividends distributed to the shareholders, allow the Board of Management and the Supervisory Board to propose the announced dividend of DM 1.20 per share at the shareholders' meeting.

In the 1997 financial year, Deutsche Telekom focused on preparing for the opening up of the telecommunications market.

We have completed our digitization project, creating one of the most modern, nationwide networks in the world. This infrastructure provides the basis for our dual strategy to convince our customers of our ability to perform efficiently and effectively in the new competitive environment: attractive prices for innovative products and services offering substantial benefits for our customers.

In order to stand out in a competitive environment, we prepared a spectacular array of projects and innovative products in 1997. Many of these were recently presented to the public. For example, T-Mart, a new range of products for making commercial use of the Internet. Or ADSL, a technology with which we want to open up the mass market for online multimedia services, as well as for new products combining the fixed and mobile networks; and much more.

The new prices that we introduced on March 1, 1998, marked the beginning of a broad, aggressive campaign that focuses both on prices and products. And even though there will certainly be further price cuts, we intend to position ourselves on the market, not with cheap services, but with intelligent concepts for products offering good value for money.

We are thus vigorously continuing the well-founded tradition of successfully marketing innovative products such as ISDN, T-Online or digital mobile telephony, which developed exceptionally well during the 1997 financial year. Here are just a few key figures: ISDN channels: growth in excess of 40 percent. T-Online customers: up 40 percent. Mobile communications customers: up 30 percent.

We also scored major successes in increasing the quality of our customer service in the 1997 financial year. We have substantially improved our customer support in all major areas, such as installation, fault clearance, and our availability, ranking high in an international comparison.

We have continued to expand our position on global markets over the past year. For example, we intensified our partnership with France Telecom in a joint venture with which we will participate in developments on the lively Italian telecommunications market. Global One, our international joint venture with France Telecom and Sprint, is a strong and stable alliance on the global telecommunications market and – despite start-up losses – is clearly on the right path.

Developments in Southeast Asia are of considerable importance to Deutsche Telekom owing to its investments in the up-and-coming telecommunications markets of Malaysia, Indonesia and the Philippines. Since investments in the companies concerned were largely financed in dollars, this had a negative impact on results. Moreover, revenue expectations were not met as a result of the general economic development. In addition to the pro rata share of loss reported for the year, this was reflected in the amortization of goodwill.

Over the past year, we have been engaged in a wealth of activities to lay the foundation that will ensure that our company will continue to develop successfully on the German market even in an environment marked by new competition.

I would like to express my gratitude to the men and women who work for Deutsche Telekom for their dedicated contribution to this achievement.

Deutsche Telekom thus has every reason to be confident and optimistic as it takes up the challenges that lie ahead in the first year after the opening of the market. We are wholeheartedly committed to further strengthening our leading position both on the market and in the development of innovative products – to the benefit of our customers and shareholders and to the benefit of the people and companies in Germany.

Bonn, March 30, 1998  
The Board of Management

Dr. Ron Sommer  
Chairman

# The Board of Management of Deutsche Telekom AG in 1997/98

## Detlev Buchal

Until late 1997, responsible for the Residential Customer Division and since early 1998, for the Sales and Distribution Division (Business and Residential Customers).

Born in 1945. Law degree. After having held various management positions in the banking industry, he joined the Board of the GZS Gesellschaft für Zahlungssysteme mbH of the German Eurocard- und eurocheque-Zentrale. In 1992, he became Chairman of the Board, primarily responsible for strategic planning, marketing and sales. Since February 1996, he has been a Member of Deutsche Telekom's Board of Management.

## Dr. Hagen Hultzsch

Responsible for the Technology and Services Division.

Born in 1940. He received a doctorate in physics and was Assistant Professor in Mainz before heading the Computer Center at the Gesellschaft für Schwerionenforschung (GSI, Center for Heavy Ion Research) in Darmstadt from 1977 to 1985. In 1988, Dr. Hultzsch joined Volkswagen AG as Director responsible for Organization and Information Systems. From July 1993 until 1994, he was a Member of the Board of Management of Deutsche Bundespost Telekom, and since January 1995, he has been a Member of the Board of Management of Deutsche Telekom.

## Dr. Heinz Klinkhammer

Responsible for the Personnel and Legal Affairs Division.

Born in 1946. He received a doctorate in law and began his career at the Institute for German and European Labor, Social and Business Law before becoming a Labor Court judge. From 1979 to 1990, he worked at the Ministry of Labor, Health and Social Affairs of the state of North-Rhine/Westphalia. In 1991, he became Labor Director at Hüttenwerke Krupp Mannesmann GmbH and in 1992, Board Member of Mannesmannröhren-Werke AG. Since April 1996, he has been a Member of Deutsche Telekom's Board of Management.

## Dr. Joachim Kröske

Responsible for the Finance and Controlling Division, since February 1998 also the International Division (temporary).

Born in 1944. After earning a degree in business administration and attaining a doctorate he held various management positions at Philips from 1972 to 1986 (inter alia, Head of Central Business Management of Philips Deutschland and Head of Accounting Management of the company divisions for car radios and electronic components). In 1986, he became Accounting Manager of Dräger Werke in Lübeck. From 1990 to 1994, he was Member of the Board of Management of Deutsche Bundespost Telekom and since January 1995, he has been a Member of Deutsche Telekom's Board of Management.

## Dr. Herbert May

Until late 1997, responsible for the Business Customers Division and since early 1998 for the Global Systems Division.

Born in 1949. He received a doctorate in communications engineering and he joined SEL in 1981 where he became Head of the Office Communications Division at Alcatel SEL. From February 1994 to August 1995, he was appointed Managing Director and Chairman of DeTeSystem Deutsche Telekom Systemlösungen GmbH, a subsidiary of Deutsche Telekom in Frankfurt am Main. Since September 1995, he has been a Member of Deutsche Telekom's Board of Management.

## Erik Jan Nederkoorn

Until January 31, 1998, responsible for the International Division.

Born in 1943. As an auditor, he joined the Board of Management of the Fokker group in 1987, where he was responsible for finance and marketing and in 1991, became Chairman of the Management Board. In 1994, he became Chairman of the Management Board of ARKE N.V. From April 1996 to January 1998, he was a Member of Deutsche Telekom's Board of Management.

## Dr. Ron Sommer

As Chairman of the Board of Management, Dr. Sommer is responsible for the Corporate Group Strategy, Communication, Auditing and Organization Division.

Born in 1949. He received a doctorate in mathematics and began his career with the Nixdorf group, first in New York and then in Paderborn and Paris. In 1986, he became Chairman of the Board of Management of Sony Deutschland. In 1990, Dr. Sommer became President and Chief Operating Officer of Sony USA, and in 1993, he took over the management of Sony Europe in the same function. Since May 16, 1995, he has been Chairman of the Board of Management of Deutsche Telekom.

## Gerd Tenzer

Responsible for the Networks, Purchasing and Environmental Protection Division.

Born in 1943. As a communications engineer he worked in the telecommunications research department at AEG-Telefunken from 1968 to 1970. In 1970, he joined what was then the Deutsche Bundespost. In 1975, Mr. Tenzer moved to the Federal Ministry of Posts and Telecommunications, where he became Head of the Telecommunications Policy Section in 1980. From 1990 to 1994, he was a Member of the Board of Management of Deutsche Bundespost Telekom, and since January 1995, he has been a Member of Deutsche Telekom's Board of Management.



Dr. Joachim Kröske  
Finance, Accounting,  
Controlling, temporary:  
International

Dr. Hagen Hultzsch  
Technology and Services

Dipl.-Ing. Gerd Tenzer  
Networks, Purchasing,  
Environmental Protection

Dr. Herbert May  
1997: Business Customers  
since Jan. 1, 1998:  
Global Systems

Detlev Buchal  
1997: Residential Customers,  
since Jan. 1, 1998:  
Sales and Distribution

Dr. Ron Sommer  
Chairman  
Corporate Group Strategy,  
Communication,  
Auditing and Organization

Dr. Heinz Klinkhammer  
Personnel, Legal Affairs

(March 1998)

# Supervisory Board's report to the shareholders' meeting

In 1997, Deutsche Telekom focused on preparing for the complete opening up of the telecommunications market.

The Supervisory Board was actively involved in this process. It supported the Board of Management in matters concerning regulation and its consequences. In the five meetings it held, the Supervisory Board followed the Group's business development in a constructive dialogue on the basis of reports provided by the Board of Management.

In addition to regulation, the focus of discussions was on improving our competitiveness, stepping up our international commitment and strengthening our innovative portfolio. First and foremost, mention should be made of the resolutions on our involvement in Italy, MATAV's initial public offering and Internet telephony.

The work of the Supervisory Board was supplemented by the nine meetings held by its three supporting committees: the General Committee, the Staff Committee and the Special Matters Committee. The Special Matters Committee, in particular, closely followed the economic development of Deutsche Telekom.

There were no personnel changes on the Board of Management in 1997. In January 1998, Mr. Erik Jan Nederkoorn left the Board of Management with the Supervisory Board's consent.

There were the following personnel changes on the Supervisory Board:  
Mr. Klaus Pleines was fatally injured in an accident on January 15, 1997. Our thoughts are with him and the members of his family. Mr. Reinhard Ahrensmeier, Chairman of the Central Works Council and of the Works Council at the Head Office of Deutsche Telekom Immobilien und Service GmbH, took over his position on the Supervisory Board by judicial appointment on August 27.

The employees' representatives on the Supervisory Board were newly elected by the assembly of delegates on October 2, 1997. Mr. Josef Falbisoner, Chairman of the Deutsche Postgewerkschaft trade union, Southern Bavaria District, and Mr. Wolfgang Schmitt, head of the Freiburg im Breisgau Regional Directorate, joined the Supervisory Board as new members. Mr. Wolfgang Schmitt is the member elected by the executive managers. Mr. Paul Burkhardt, former

Head of the Stuttgart Regional Directorate, and Mr. Willi Russ, Chairman of the Deutscher Postverband trade union, left the Supervisory Board. We wish to extend our thanks to all outgoing members of the Supervisory Board for their strong commitment and loyalty to the interests of Deutsche Telekom.

Ms. Veronika Altmeyer, who is a member of the Central Executive Committee of the Deutsche Postgewerkschaft trade union, was confirmed as Vice-Chairwoman of the Supervisory Board following the election of the employees' representative.

The Supervisory Board satisfied itself that the Board of Management had allowed the Federal Audit Office to inspect the operations, books and documents of the company in accordance with §23 of Deutsche Telekom's Articles of Incorporation and §54 of the Law on Budgetary Principles.

In compliance with statutory provisions, the Supervisory Board was informed about the annual financial statements and management report and the consolidated financial statements and Group management report, which were prepared and duly submitted by the Board of Management of Deutsche Telekom AG, and about the related auditor's reports.

The accountancy firm, C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements of Deutsche Telekom AG, the consolidated financial statements and the combined management report of the parent company and the Group as of December 31, 1997, including the accounting records, in accordance with statutory provisions and issued an unrestricted audit certificate. The auditor reported on this personally at the Supervisory Board meeting held on April 23, 1998, and at the preparatory meeting of the relevant committee.

At the same meeting, the Supervisory Board, to whom the annual financial statements of Deutsche Telekom AG, the consolidated financial statements and the combined management report of the parent company and the Group as well as the auditors' report had been duly submitted, noted with approval the results of the audit. In compliance with §171 of the German Stock Corporation Law, the Supervisory Board examined the annual financial statements and

the management report of Deutsche Telekom as well as the proposal submitted by the Board of Management on the appropriation of profits and following the final results of its examination, raises no objections. It gives its consent to the 1997 annual financial statements, which is thereby approved, and agrees to the proposal on the appropriation of net income.

The C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft accountancy firm also audited the report disclosing relations to affiliated companies ("Dependent Company Report") that was drawn up by the Board of Management in compliance with §312 of the German Stock Corporation Law. The auditors reported on the results of their audit and issued the following audit certificate:

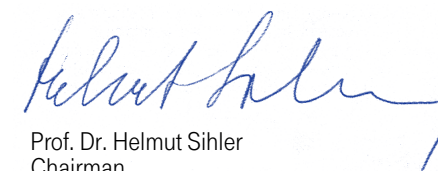
"Based on the results of our statutory audit and our judgment we confirm that  
1. the actual information included in the report is correct,  
2. the company's compensation with respect to the transactions listed in the report was not inappropriately high."

The Supervisory Board examined the Board of Management's report disclosing relations to affiliated companies. It did not raise any objections to the Board of Management's final statement contained in the report or to the results of the audit conducted by the accountancy firm C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main.

The Supervisory Board would like to thank all the men and women who work for Deutsche Telekom and the Board of Management for their commitment to our corporation, its customers and its shareholders.

Bonn, April 23, 1998

The Supervisory Board



Prof. Dr. Helmut Sihler  
Chairman



# The Supervisory Board of Deutsche Telekom AG in 1997

**Prof. Dr. Helmut Sihler**  
Chairman

**Veronika Altmeyer**  
Vice-Chairwoman

Reinhard Ahrensmeier  
since August 27, 1997  
Chairman of the Central Works  
Council and Works Council at the  
Head Office of DeTeSystem and  
Deutsche Telekom  
Immobilien und Service GmbH

Veronika Altmeyer  
since January 1, 1995  
Member of the Central Executive  
Committee of the Deutsche  
Postgewerkschaft trade union

Gert Becker  
since January 1, 1995  
Former Chairman of the Board  
of Management of Degussa AG

Paul Burkhart  
until October 2, 1997  
Head of Deutsche Telekom AG's  
Regional Directorate in Stuttgart

Helmut Dettmer  
since July 1, 1996  
Vice-Chairman of the Central Works  
Council at Deutsche Telekom AG

Josef Falbisoner  
since October 2, 1997  
Chairman of the Deutsche Postge-  
werkschaft trade union, Southern  
Bavaria District

Rainer Funke  
since January 1, 1995  
Member of the German Bundestag,  
Parliamentary State Secretary  
Federal Ministry of Justice

Prof. Dr. Peter Glotz  
since January 1, 1995  
President of Erfurt University

Dr. Dr. h.c. Klaus Götte  
since March 24, 1995  
Chairman of the Supervisory Board  
of MAN AG

Dr. sc. techn. Dieter Hundt  
since January 1, 1995  
Managing Partner of  
Allgaier Werke GmbH & Co. KG,  
President of the National Union of  
German Employer Associations

Franz-Josef Klare  
since January 1, 1995  
Chairman of the Deutsche Postgewerk-  
schaft trade union, Münster District

Dr.-Ing. Paul Krüger  
since January 1, 1995  
Member of the German Bundestag,  
Vice-Chairman of the CDU/CSU  
parliamentary group

Dr. h.c. André Leysen  
since January 1, 1995  
Chairman of the Supervisory Board  
of AGFA-GEVAERT N.V.

Michael Löffler  
since January 1, 1995  
Chairman of the Works Council  
at Deutsche Telekom AG's  
Branch Office in Leipzig

Maud Pagel  
since January 1, 1995  
Member of the Central Works  
Council at Deutsche Telekom AG

Klaus Pleines †  
until January 15, 1997  
Head of Koblenz/Trier district  
of the Deutsche Postgewerkschaft  
trade union

Willi Russ  
until Oct. 2, 1997  
Chairman of the Deutscher  
Postverband trade union

Wolfgang Schmitt  
since Oct. 2, 1997  
Head of Deutsche Telekom AG's  
Regional Directorate in Freiburg i.B.

Prof. Dr. Helmut Sihler  
since July 1, 1996  
Member of the Shareholders'  
Committee of Henkel KGaA

Dr. Jürgen Stark  
since July 1, 1996  
State Secretary  
Federal Ministry of Finance

Ursula Steinke  
since January 1, 1995  
Chairwoman of the Works Council at  
Deutsche Telekom's Northern District  
Strategic Computer Center

Prof. Dr. h.c. Dieter Stolte  
since January 1, 1995  
Director General of the  
Zweites Deutsches Fernsehen  
broadcasting organization

Wilhelm Wegner  
since July 1, 1996  
Chairman of the Central Works  
Council at Deutsche Telekom AG

# The 1997 financial year

