

Ready for take-off.
Deutsche Telekom
about to go public.
The 1995 financial year.

4	Report by the Supervisory Board
6	Report by the Board of Management
8	Supervisory Board and Board of Management

	The 1995 financial year
12	Management report
18	The key events in 1995
20	Alliances and participating interests
24	Finance
26	Tariff Concept 96

	The customer divisions
30	Residential customers
32	Business customers
34	Named accounts
36	Mobile communications

Contents

	Forum
38	From the global village to the telecommunity

	From the company
48	Employees
50	Network technology
51	Research and development
52	Environmental protection
53	Organization

	Annual financial statement
56	Consolidated balance sheets
57	Consolidated statements of income
60	Consolidated statements of cash flows
61	Notes to consolidated financial statements

Imprint



*Ron Sommer
und Herren,*

1995 was Deutsche Telekom's first year as a stock corporation. As a result, we placed central importance on using the instruments that this form of business organization affords, in order to equip Deutsche Telekom for the increasing competition and to prepare the stock market flotation scheduled for November 1996.

Last year, the Supervisory Board gave top priority to making the Board of Management complete. On 16 May 1995, Dr. Ron Sommer became the new Chairman of the Board of Management. On 1 September 1995, Dr. Herbert May became Head of the Division for Business Customers; on 1 February 1996, Mr. Detlev Buchal assumed the position of Head of the Division for Residential Customers. On 1 April 1996, Dr. Heinz Klinkhammer and Mr. Erik Jan Nederkoorn were appointed to the Board of Management as Head of the Personnel Division and Head of the International Division, respectively. As a result, all positions on the Board of Management have once again been filled since 1 April 1996.

The Supervisory Board wishes to express its gratitude to Mr. Horst Gellert, former Head of the Business Customers Division, who left on 31 March 1995 to become the Chairman of the Board of Management of DETECON, an affiliated company of Deutsche Telekom. The Supervisory Board is especially grateful to Dr. Wilhelm Pällmann, who served as provisional Management Board Chairman following the departure of Mr. Helmut Ricke and until Dr. Ron Sommer was appointed. Dr. Pällmann retired on 31 July 1995. The Supervisory Board is also grateful to Mr. Carl-Friedrich Meißner, former Head of the company's International Division. Mr. Meißner left the Board of Management on 31 January 1996. Finally, the Supervisory Board thanks Mr. Frerich Görts, former Head of the Personnel Division, who became Chairman of the Board of Management of the company's DeTe Immobilien subsidiary on 1 April 1996.

Decisions made in the past year in favor of important international partnerships and participating interests strengthened the company's position in the global telecommunications market. A key strategic step in this connection was taken in May 1995, when Deutsche Telekom, France Telecom and Sprint agreed to establish the joint venture Global One. In December 1995, Deutsche Telekom AG and the U.S. telecommunications company Ameritech jointly acquired a majority interest in Matáv, the Hungarian telecommunications company. This move underscores Deutsche Telekom's strong commitment to Central and Eastern Europe.

Expansion of the telecommunications infrastructure in eastern Germany and Berlin continued successfully over the past year. A million new telephone lines were added to that area's telephone network, which is now one of the world's most modern, bringing the total number of subscribers there to seven million.

The central focus in 1996 is on our further preparation for the full liberalization of the telecommunications market that is to occur on 1 January 1998. We expect the new Telecommunications Act, which is to be passed by summer 1996, to give all market players complete freedom of action. This Act will provide a solid foundation for Deutsche Telekom's further development, and that of its competitors, and create the basis for a new, extremely dynamic market in the Federal Republic of Germany.

As this competition unfolds, Deutsche Telekom will seek to continue in its role as the leading full-services provider of innovative telecommunications services in Germany. And it expects its global leadership to grow. This is why the new Telecommunications Act is a crucial part of the economic policy shaping Germany's future.

In November 1996, the largest initial public offering ever seen in Europe will take place. The planned international listing of our shares will give a new meaning to "made in Germany" in the global investment world. This stock market flotation is significant not only for our company, but for the entire German financial market. And it is expected to enliven overall interest in Germany in buying shares. The decision to issue 5 DM shares is intended to encourage large numbers of private investors to contribute to the company's active capital. To promote employee ownership in this effort, we have established an attractive employees stock-ownership plan. We wish to convince many of our customers and our employees to own a part of one of the world's most important telecommunications companies.

Upon the conclusion of the 1994 financial year and the establishment of the stock corporation on 1 January 1995, the Supervisory Board took over full responsibility for the supervision of the company from the government authorities. As a result, Deutsche Telekom AG is now just as free from political influence as other stock corporations in Germany. The Supervisory Board has been closely monitoring the company's business development, supported by continuous reports from the Board of Management. Last year, the Board met eight times for this purpose.

Deutsche Telekom will intensify its efforts to be a friendly and innovative company – for residential customers and business customers alike – in order to ensure that its value remains attractive and stable in the interest of its shareholders.

The Supervisory Board wishes to extend special thanks to our customers and business partners for their trust in the company. And the Supervisory Board thanks the Board of Management, as well as all of the men and women who work for Deutsche Telekom, for their strong commitment in 1995.

Bonn, 22 May 1996
The Supervisory Board



Rolf-Dieter Leister
Chairman

*John G. Sweeney
and Hannu,*

For Deutsche Telekom, the 1995 financial year marked a turning point, as the company evolved from a public enterprise into a stock corporation. In this first year of the new stock corporation, we have continued preparing intensively for the coming competition and the stock market flotation. The strategic course is set, and Deutsche Telekom is now ready to go public and have a successful entry into the stock market in November 1996.

In the past year, our revenue grew by roughly four percent, to DM 66 billion. This means that our revenue has grown by 73 percent since the Postal Reform I of 1989. We also were able to decrease our total indebtedness, for the first time, in 1995; the decrease amounted to 10 percent. By the end of the year, our workforce had shrunk by more than 16,000 people, to a total of 213,500. We are aiming to reduce the workforce further, in a socially compatible manner, to a level of 170,000 by the year 2000.

1995 was shaped by a number of fundamental decisions and developments, on both the national and global levels, that had considerable impact on the German telecommunications market – and, thus, on Deutsche Telekom. The most important of these on the national level were the draft of Germany's new telecommunications law and the decision to move up the liberalization of the market for alternative networks to 1 July 1996.

Development of Infobahns, the basis for multimedia and new services, has long been an integral part of our policy. In future technologies such as ISDN, cable TV, optical fiber, GSM and online services, we are among the world's leaders. Our Datex M and ATM information highways are already being used intensively by industry and commerce to work faster, more effectively and more creatively – i.e., more competitively. In addition to expanding existing services, we are developing future markets such as telemedicine, telecooperation, telelearning and traffic telematics, and we are creating new applications and services.

Since 1990, we have invested a total of DM 120 billion to create the infrastructure needed by the information society in Germany. Deutsche Telekom's investment power has been helping significantly to strengthen the German economy and to stabilize the employment market. And this effect is a sine qua non for enabling the people of this country to profit not only from technological development, but also from the economic progress tied to this development. We are making major investments in R&D to develop the technologies and markets of the future. Our company's direct expenditures for research and development amounted to DM 1.3 billion in the 1995 financial year.

For us, entering international markets is a significant way of assuring lasting revenue growth. We are entering attractive international markets, thus ensuring our company's growth in the long term. In 1995, we made considerable progress in our internationalization efforts. Our Global Alliance with France Telecom, and our two companies' joint interest in the Sprint Corporation, cleared all the major hurdles in 1995. Global One is a cornerstone of our internationalization strategy, and it represents a milestone on our path toward becoming a global telecommunications company.

In 1995, we also launched additional successful joint ventures in the area of mobile communications – in Indonesia and Austria. In Hungary, we joined forces with our partner Ameritech to acquire a majority interest in Matáv, the national network operator, thereby strengthening our position as a hub for telecommunications traffic to Central and South-eastern Europe.



At the core of our transformation into a customer-oriented company is the strategic reorganization of the Deutsche Telekom Group and its business units. We have made the Group a market-oriented and customer-oriented organization, and we will continue to refine our management processes and adapt them to market requirements. We are aiming to further enhance productivity, accelerate innovation, achieve lasting growth in new markets and continue developing our company's corporate culture along customer-oriented lines.

Our Tariff Concept 96 provided a new basis for a first-class price-performance ratio; this will help significantly to assure our future competitiveness. As shown not only by our systematic evaluations, but also by representative surveys taken of our customers, the Tariff Concept 96, in spite of initial criticism, has proven to be a right and successful move. Our customers have enjoyed billions of DM in actual savings. The new tariff concept is fair, since it is based on actual usage and helps eliminate internal subsidies.

On behalf of the Board of Management, I would like to thank the staff for their achievements and commitment. Special mention should also be made of the good cooperation with the Works Council despite the difficult tasks involved.

In early 1996, our Board of Management became complete, and we are now looking forward very confidently to our flotation on international stock markets in November 1996. One thing will not change through our going public: we will not lose sight of our main long-term goal of becoming the world's leading information and telecommunications services company.

Bonn, May 1996
The Board of Management

A handwritten signature in blue ink, appearing to be 'R. Sommer', written in a cursive style.

Dr. Ron Sommer
Chairman

Supervisory Board and Board of Management

The 1995 Supervisory Board

Rolf-Dieter Leister
Chairman

Veronika Altmeyer
Vice-Chairwoman

Representatives of the Shareholders

Gert Becker
Chairman of the Board of Management
of Degussa AG

Rainer Funke
Member of the German Bundestag
Parliamentary State Secretary
Federal Ministry of Justice

Prof. Dr. Peter Glotz
Member of the German Bundestag
Member of the SPD Executive
Committee

Gerhard O. Pfeffermann¹⁾
State Secretary in the Federal Ministry
of Posts and Telecommunications

Dr. jur. Klaus Götte²⁾
Chairman of the Board of Management
of MAN AG

Dr. Gert Haller
Former State Secretary
Managing Director
of Wüstenrot Holding GmbH

Dr. sc. techn. Dieter Hundt
Unlimited Partner of
Allgaier-Werke GmbH & Co KG

Dr.-Ing. Paul Krüger
Member of the German Bundestag
Former Federal Minister

Rolf-Dieter Leister
Economic Adviser, Berlin

Dr. h.c. André Leysen
Chairman of the Supervisory Board
of AGFA-GEVAERT

Prof. Dr. h.c. Dieter Stolte
Director General of the ZDF
broadcasting organisation

Representatives of the Personnel:

Veronika Altmeyer
Member of the Central Executive
Committee of the Deutsche
Postgewerkschaft trade union

Paul Burkhart
Head of Stuttgart Regional Directorate
of Deutsche Telekom

Hans Girnstein
Chairman of the Central Works Council
at Deutsche Telekom AG

Lothar Holzwarth
Member of the Works Council
at the Stuttgart Branch Office 2
of Deutsche Telekom

Franz-Josef Klare
Member of the Central Committee
of the Deutsche Postgewerkschaft
trade union

Michael Löffler
Vice-Chairman of the Works Council
at the Leipzig Branch Office of
Deutsche Telekom

Maud Pagel
Vice-Chairwoman of the Central Works
Council at Deutschen Telekom AG

Klaus Pleines
Member of the Works Council at
the Bad Kreuznach Branch Office
of Deutsche Telekom, Head of the
Koblenz/Trier district of the Deutsche
Postgewerkschaft trade union³⁾

Willi Russ
Chairman of the
Deutscher Postverband trade union

Ursula Steinke
Member of the Works Council at the
Strategic Computer Center, Northern
District

¹⁾ Member of the Supervisory Board until
5 March 1995

²⁾ Member of the Supervisory Board since
24 March 1995

³⁾ Since 1 July 1995



**The 1995 Board
of Management**

Dr. Ron Sommer
Chairman
Corporate Policy, Strategy,
Communication, Group Auditing
from 16 May 1995

Dr.-Ing. Wilhelm Pällmann
Residential Customers
until 31 July 1995
Acting Chairman of the
Board of Management
1 January to 15 May 1995

Horst Gellert
Business Customers
until 31 March 1995

Frerich Görts
Personnel and Legal Affairs

Dr. Hagen Hultzsch
Technology and Services

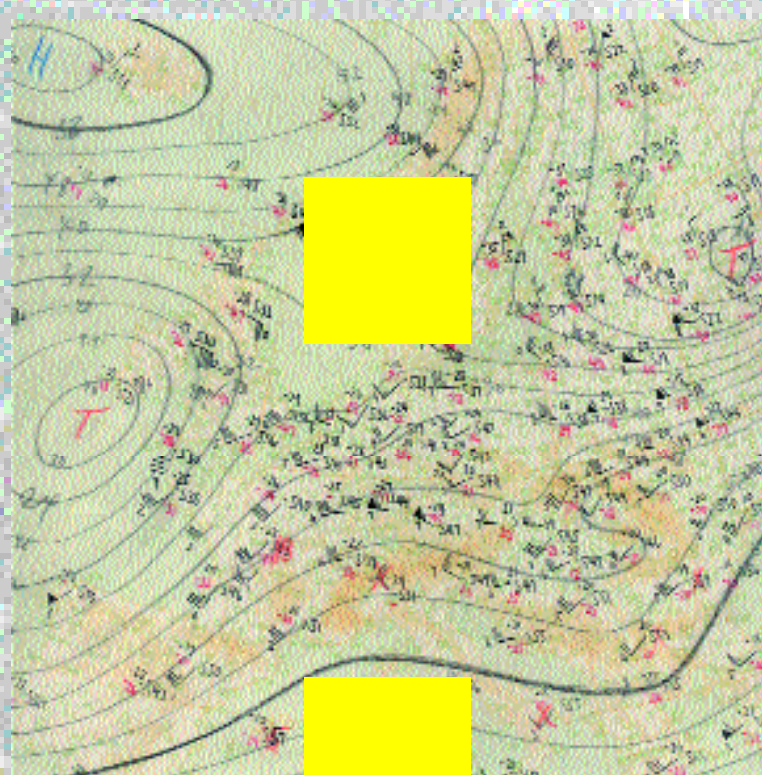
Dr. Joachim Kröske
Finance, Controlling, Purchasing,
Building Construction

Dr. Herbert May
Business Customers
from 1 September 1995

Carl-Friedrich Meißner
Named Accounts and International
until 28 September 1995
International
from 29 September 1995

Dipl.-Ing. Gerd Tenzer
Networks

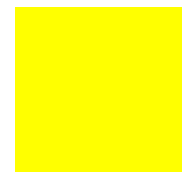
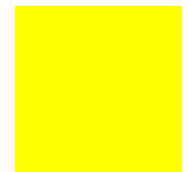
Members of the
Board of Manage-
ment of Deutsche
Telekom AG in
February 1996. From
left to right:
Dr. Herbert May,
Mr. Gerd Tenzer
Dr. Ron Sommer,
Mr. Frerich Görts,
Dr. Joachim Kröske,
Dr. Hagen Hultzsch,
Mr. Detlev Buchal



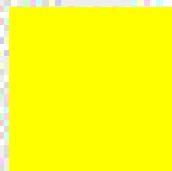
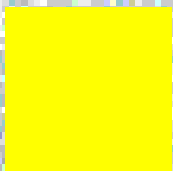
Weather maps are meteorological pictures of the earth. They represent an extensive series of measurements on air pressure, temperature and wind conditions.

The 1995 financial year

Deutsche Telekom bolsters its position in national and international competition.



Today, it is possible to watch weather conditions as they develop using „Terravision“: The system simulates a flight over selected regions of the earth, during which current measurements on the weather and environment from around the world are processed in real time.



Management report

On 1 January 1995, five years after the telecommunications services in Germany had been separated from the Post Office under Postal Reform I, the Telekom part of the Deutsche Bundespost special fund was transformed into a stock corporation under the Posts and Telecommunications Reorganization Act. This step, known as Postal Reform II, represents one of the final stages in the process of turning a technology-based, national telecommunications monopoly into a customer-oriented, international group operating in a competitive environment.

During 1995, Deutsche Telekom continued on the road to becoming successful in both domestic and international markets, passing a number of important milestones on schedule. In line with the general economic situation, the telecommunications market in Germany developed less rapidly than in recent years. At the same time, the international telecommunications market continued to enjoy uninterrupted growth.

The ongoing liberalization of the market since 1989 has led to more intense competition in nearly every segment of Germany's telecommunications industry.

For some time now, various customer groups have benefited from competition in the fields of cellular systems, paging services, mobile data communications, satellite communications, cable TV, multimedia and value-added services. Business customers now have the possibility of using quasi-public telephone services in corporate networks and closed user groups.

This process will be completed when the monopoly on networks is terminated as planned in July 1996 and the market is fully liberalized on 1 January 1998. Against this background, Deutsche Telekom has undertaken a series of strategic measures, concentrating on the following areas in 1995:

- reorganization and internationalization of the corporate group,
- capital investments aimed at optimizing the network infrastructure,
- expansion of innovative services and products, and introduction of multimedia services,
- development of new technologies.

Reorganization of Deutsche Telekom

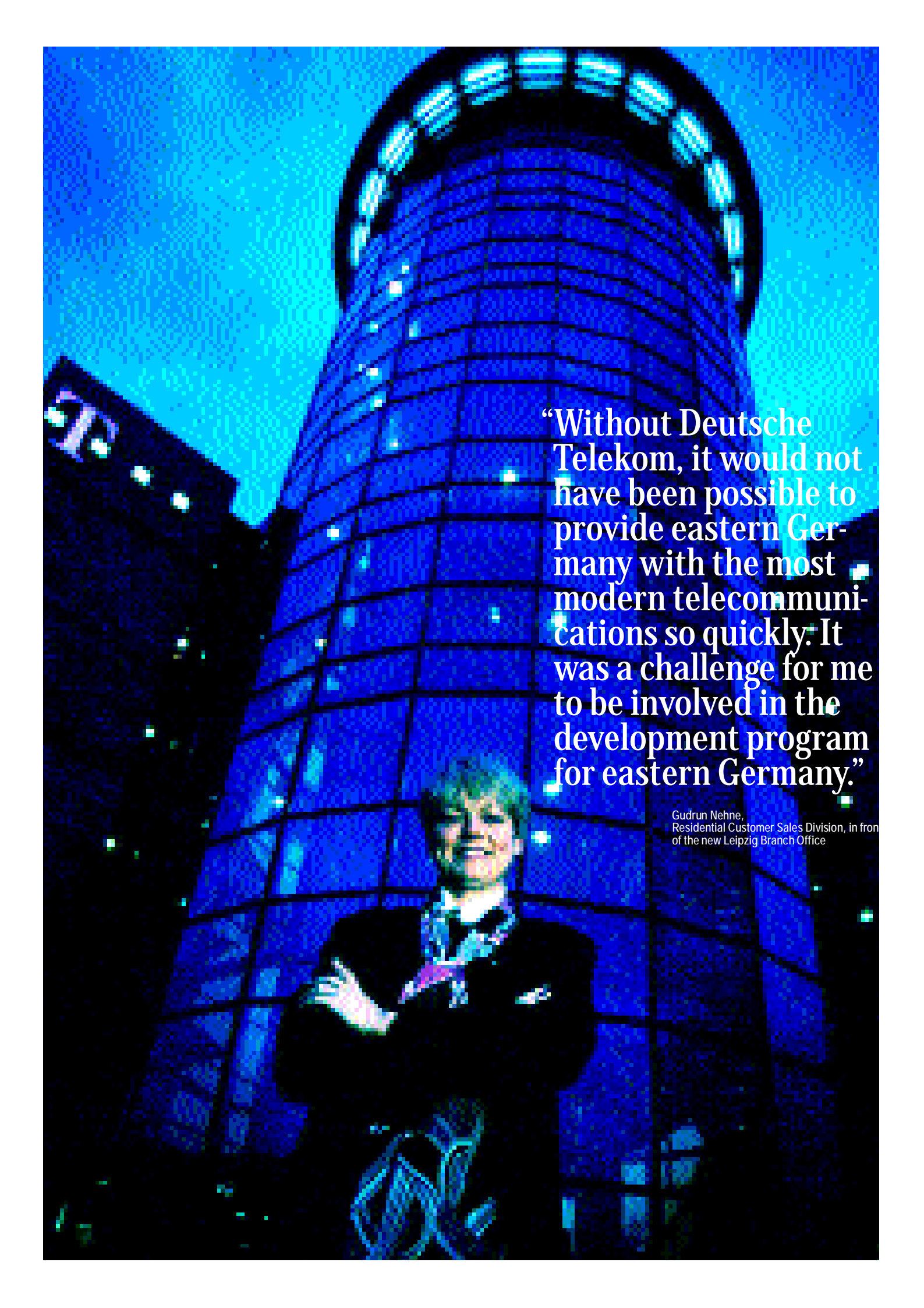
Deutsche Telekom has reorganized its business activities to accommodate the varied needs of its different customer groups. Telecommunications offices have been transformed into specialized branch offices that concentrate on business customers, residential customers or networks respectively, and have been assigned to the corresponding divisions: Residential Customers, Business Customers and Networks.

The introduction of group business units and group service centers gives the company the additional flexibility it needs to optimize its business processes in response to customer requirements. The Technology and Services division, the engine for innovation in new technologies, has six software and six strategic computer centers. In addition to basic research, its functions include developing marketable products and services.

The division under the Chairman of the Board of Management, together with the divisions for Personnel and Legal Affairs, and for Finance and Controlling are all designed to serve as centralized staff functions. The International division was set up in 1995 to rapidly expand business activities outside Germany.

Increasing globalization

Two cornerstones have been laid to build up our international presence. The first is our partnership with France Telecom in the Atlas joint venture. The projected alliance is expected to be approved by the EU Commission on 1 July 1996. Also, as of the beginning of 1996, we have established Global One, a strategic alliance with France Telecom and Sprint Corporation, an American network operator. As a result, Deutsche Telekom can now offer its customers telecommunications services throughout the world from a single source. In addition, the organization was able to make acquisitions in regions of strategic importance, such as Central and Eastern Europe and South-east Asia.

A woman with short blonde hair, wearing a dark suit and a patterned scarf, stands with her arms crossed in front of a large, curved, illuminated architectural structure at night. The structure is composed of many small, glowing rectangular panels, creating a grid-like pattern. The background is dark, with some lights visible on the left side.

“Without Deutsche Telekom, it would not have been possible to provide eastern Germany with the most modern telecommunications so quickly. It was a challenge for me to be involved in the development program for eastern Germany.”

Gudrun Nehne,
Residential Customer Sales Division, in front
of the new Leipzig Branch Office

Socially compatible downsizing of the work force

Our past as a public law enterprise and the dynamic pace of technological change in telecommunications have left us with extremely high staffing levels compared with our international competitors. In response to this situation, Deutsche Telekom hopes to boost efficiency by reducing the number of people it employs within Germany from what was originally around 230,000 to approximately 170,000 by the year 2000.

The downsizing process will be carried out in a socially responsible manner. Firstly, we will take advantage of normal attrition and the early retirement scheme for civil servants, which entails no additional financial burdens for Deutsche Telekom. Beyond that, the cutbacks will largely involve severance pay schemes and early retirement settlements for other employees. The 1995 consolidated financial statements already include considerable expenses relating to work force downsizing.

During the year under review, the number of employees fell by around 11,500 (excluding trainees, with figures adjusted to reflect full-time jobs) to an annual average of 220,000. Deutsche Telekom AG had 213,500 employees at the end of the year, some 15,500 fewer than twelve months earlier. This development allowed the company to significantly increase productivity.

Capital spending

Total capital spending of the consolidated group was reduced to DM 17.7 (1994: DM 20.5) billion as planned. The reduction in expenditure on fixed assets is primarily attributable to the completion of major modernization projects aimed at optimizing the network infrastructure, coupled with ongoing cuts in the price of sourced goods and services. Overall, Deutsche Telekom invested around DM 15.4 (1994: DM 19.4) billion in property, plant and equipment and DM 0.3 billion in software during the year under review. Investments in financial assets totaled around DM 2.0 billion, mainly due to the acquisition of interests in associated companies (Satelindo in Indonesia and Matáv in Hungary).

Focus on digitization program

Digitization of the long-distance network was completed in 1994. Over the last two years, the level of digitization at local exchanges has more than doubled, from 30% to over 60% in the western German states. In the former East Germany, the equivalent figure has already reached an impressive 90%. Digitization of the fifty largest networks in Germany, representing roughly 17.5 million lines, has reached approximately 70%, with work scheduled for completion in 1996. The overall goal of digitizing the entire network is expected to be achieved by year end 1997 or early in 1998.

Development program for eastern Germany pursued

As of 31 December 1995, Deutsche Telekom had provided businesses and consumers in eastern Germany (including Berlin) with about 7.0 million digital and analog lines. This represents more than 4 million additional lines installed under the "Telekom 2000" development program since reunification. Approximately 1.2 million households are hooked up directly to fiber optic cables.

Further growth in revenue

While the telecommunications market in Germany expanded dynamically in the financial year just ended, it did not quite fulfill original projections. Overall, revenue growth failed to meet Deutsche Telekom's expectations in a number of areas. The new liberalization policy adopted by regulatory bodies in the field of corporate networks, along with the rise in the use of call-back services, resulted in increased competition. Our market share in these segments dropped as a consequence. In response to this challenge, Deutsche Telekom considerably reduced its prices in order to boost competitiveness. While the market recorded 11% growth, prices fell by an average 6%. Despite fiercer competition, consolidated revenue rose to DM 66.1 billion, up 3.6% from DM 63.8 billion a year earlier. This enabled Deutsche Telekom to reinforce its position as Europe's leading telecommunications company in terms of sales.

Revenue from telephone services in Germany (including monopoly transmission paths and international outgoing calls) grew by an above-average 5.8 %, bringing their share of total revenue to 75%. ISDN sales continued their rapid rise in 1995. With more than 3 million ISDN channels sold, Deutsche Telekom possesses the largest ISDN network in the world. Growth of about 70% was recorded in this field in the year under review. Looking ahead, new services like T-Online are shaping up as significant potential sources of additional revenue.

The mobile communications segment increased its sales revenue by 12.6% in 1995, taking its total to DM 3.1 billion. The 800,000 new customers it signed up during the year enabled DeTeMobil to report over 3 million subscribers, up 31% over the prior year. Price cuts in text and data services caused revenue in this segment to fall by 17.2% to DM 2.8 billion. Price cuts also affected international telephone services, broadcasting/TV/audiovisual services and terminal equipment.

Strong earnings

In the 1995 financial year, Deutsche Telekom earned income from continuing operations of DM 10.3 (1994: DM 11.2) billion, representing 15.6% (1994: 17.6%) of total revenue. The drop is due mainly to special nonrecurring items related to the new legal status of the company, as well as to new expenses of DM 0.9 billion. For 1995, Deutsche Telekom reported a net income of DM 5.27 (1994: DM 3.59) billion, or DM 2.63 per share (compared with theoretical per-share earnings of DM 1.79 in 1994).

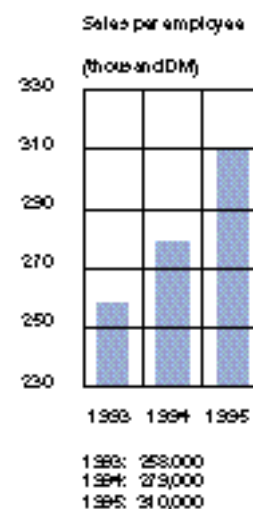
Stable cost development

The cost of continuing operations amounted to 84.4% of revenue (1994: 82.4%). Including other operating income and excluding special effects, the figure is below the comparable figure for the prior year.

At 14.4% of revenue (1994: 14.6%), the cost of goods and services purchased remained at almost the same level. As a result of downsizing measures, the share of personnel costs dropped to 28.0% of revenue (1994: 28.5%), as expected. Sales per employee grew roughly by 9% over the previous year.

Depreciation and amortization, and interest affected net income by approximately DM 23.6 (1994: DM 22.4) billion, with the former accounting for DM 15.4 (1994: DM 14.6) billion. The increase is largely attributable to a reduction in the useful life of analog technology. The growth in net interest expense is partly due to early repayment premiums relating to borrowings that were retired ahead of schedule.

Special items of approximately DM 0.9 billion need to be deducted from other operating expenses of DM 9.7 (1994: DM 8.3) billion to make them comparable. These items primarily include initial consulting and other services purchased from the Deutsche Bundespost Federal Posts and Telecommunications Agency (Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), as well as initial provisions for the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse) and book losses on the disposition of assets.



When adjusted for these effects, other operating expenses grew by DM 0.5 billion over the previous year, representing a largely stable development in terms of revenue, at 13.3% compared with 13.0% a year earlier.

Net income was negatively affected by a charge of DM 1.3 (1994: DM 0.4) billion for personnel restructuring measures. After deducting taxes and levy payable to the Federal Republic of Germany (which was based on revenue, not income) amounting to DM 3.8 (1994: DM 4.9) billion, the company reported net income of DM 5.3 (1994: DM 3.6) billion.

Strong cash flow from operations

Despite tariff-rate cuts and more intense competition, Deutsche Telekom was able to improve its cash flow from operations to DM 31.6 billion, up from DM 31.1 billion a year earlier. Total capital spending in 1995 was fully funded internally. Moreover, the additional cash flow enabled us to complete both scheduled and early repayment of debt.

Balance sheet structure

The balance sheet total recorded for 1995 decreased by DM 7.8 billion to DM 160.2 billion, due mainly to a reduction in borrowings. Shareholders' equity rose by 27.9% to DM 24.7 billion, resulting in an equity ratio of 15.4% (1 January 1995: 11.5%).

First dividend payment

Deutsche Telekom AG had a net income of DM 5.791 billion in 1995.

At our Shareholders' Meeting on 1 July 1996, we will propose that, after transfer of DM 4.5 billion to other retained earnings as mandated by the Articles of Incorporation, a dividend of DM 1.1 billion be paid from unappropriated net income of DM 1.291 billion, and the rest be carried forward. This would put retained earnings at around 80% of net income.

Internationally accepted accounting policies

On 1 January 1993, Deutsche Telekom replaced governmental accounting and subjected its external accounting system to the requirements of the German Commercial Code (HGB). We view our external accounts as a key instrument in communicating with investors and analysts in both Germany and abroad.

Significant voluntary additional information increases the transparency of our accounts. Moreover, the principles of accounting and valuation used in the present consolidated financial statements are in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP), to the extent permissible under German commercial law. This approach facilitates both compliance with the relevant sections of the International Accounting Standards (IAS) and reconciliation of net income and shareholders' equity to U.S. GAAP, which is a prerequisite for listing on the New York Stock Exchange (NYSE).

Consolidated statements of cash flows (summary) (billions of DM)

	1995	1994
Cash flow from operations	31.6	31.1
Net interest expense	(8.0)	(7.0)
Cash provided by operating activities	23.6	24.1
Cash used for investing activities	(13.3)	(28.9)
Cash (used for) provided by financing activities	(15.2)	11.0
Net change in cash and cash equivalents	(4.9)	6.2

Research and development

Corporate research and development activities were given a major boost on 1 December 1995, when a technology center was officially opened at the dual locations of Berlin and Darmstadt, supported by facilities at a further 17 sites. This new structure provides an important foundation that will strengthen long-term customer loyalty to Deutsche Telekom, and help it acquire new business.

Maintaining the relatively high level of prior years, approximately 2% of revenue was spent on research and development in 1995. Research activities are application-oriented and tailored to the needs of the customer.

The company's widespread use of ATM technology and its involvement in pan-European ATM pilot projects underline a prime objective: to maintain a leading edge in building a future-oriented network infrastructure.

Key events after 31 December 1995 and outlook

An agreement giving us a 10% equity interest in Sprint Corporation was signed on 31 January 1996. At the same time, our partners France Telecom and Sprint contributed financial assets as well as property, plant and equipment to the Global One joint venture. The new company began operations in February 1996.

The increase in our equity interest in Matáv, the Hungarian telecommunications company, took effect in January 1996. Deutsche Telekom AG has been fully liable to tax since 1 January 1996. With the introduction of the new tariff concept on 1 January 1996, Deutsche Telekom took a major step toward implementing its new price structure. The new tariff concept takes account of customer requirements, competition and cost.

Responding to the German government's decision to charge 15% VAT on services provided as a monopoly after 1 January 1996, Deutsche Telekom has implemented its own revamped price policy. This policy calls for a general reduction in charges by 13% in this sector, representing an actual price cut of 13% for all our customers entitled to deduct input tax. For other clients, the drop in prices will be offset by the taxes payable to the state.

As a result of this decision in favor of the customer, Deutsche Telekom's revenue will suffer a nonrecurring decline of about 10% in the current year; both revenue and net income are thus projected to decrease in 1996.

In addition, the scheduled measures related to the overall strategic downsizing of staff should result in another extraordinary charge, as in 1995.

The new tariff structure and consequent adjustment difficulties led to a temporary customer dissatisfaction. Customers are nevertheless making increasingly use of the new price structure by switching to times when rates are lower. Further price reductions are scheduled for mid-1996.

Overall, the result of the policy decisions on tariffs and VAT has been to bring our tariffs more in line with comparable international rates. Due to the weakness of the domestic economy, Deutsche Telekom projects only limited growth in volume in Germany in 1996 – growth which is unlikely to offset the effect of price cuts. Looking further ahead, the company expects the strategically important price reductions to provide satisfactory growth in both revenue and net income.

The key events in 1995: The first year as a stock corporation.

Deutsche Telekom has been a stock corporation since 1 January 1995. Its aim: to act as a listed company and a successful global player in the soon to be liberalized telecommunications market. In the meantime, the pressure from competition further intensified in 1995. The focus was, for example, on the discussion on the liberalization of the so-called "alternative networks" market by the EU Commission.

Dr. Sommer appointed Chairman of the Board of Management

The year was marked by decisive changes in the management. The most important of these: on 29 March the Supervisory Board of Deutsche Telekom unanimously appointed Dr. Ron Sommer as the new Chairman of the Board of Management. He has been heading the Group since mid-May.

Other changes in the Board of Management

The Member of the Board of Management in charge of Business Customers, Horst Gellert, moves to DETECON, a subsidiary of Deutsche Telekom, on 1 April as Chairman of the Board of Management.

On 1 September, Dr. Herbert May takes up his office as Member of the Board of Management of Deutsche Telekom in charge of Business Customers. Dr. May was formerly Chairman of the Board of Management for the subsidiary DeTeSystem.

"Father of the Development Program for eastern Germany" retires

In July, Dr. Wilhelm Pällmann retires. The "father of the Development Program for eastern Germany" has been in charge of setting up telecommunications in eastern Germany since 1991. For some time, he managed the Residential Customers Division and after the departure of Helmut Ricke, stood in as Chairman of the Board of Management.

Globalization through acquisition of new stakes

In April the mobile communications subsidiary DeTeMobil buys a 25% stake in Satelindo, the Indonesian telecommunications company. This, Deutsche Telekom's second largest foreign commitment so far, means that Deutsche Telekom is present in the future market of South East Asia. In December, DeTeMobil and its consortium partners



are granted a licence for setting up a digital mobile communications network in Austria.

Deutsche Telekom can also strengthen its position in Central Europe. On 20 December, together with the US company Ameritech, it acquires a majority stake in the Hungarian telephone company Matáv. The consortium intends to turn Matáv into a leading telecommunications service provider in Eastern Europe.



In 1995, the major obstacles to the worldwide alliance between France Telecom, Deutsche Telekom and Sprint were overcome, enabling the heads of the three carriers (Mr. Michel Bon, Dr. Ron Sommer, Mr. William T. Esrey) to launch "Global One" in January 1996.



“Deutsche Telekom knows its customers. In the Directory Enquiry Service we make every effort to fulfill their needs quicker and better.”

Ute Bartzsch,
Head of Unit at the Directory Enquiry
Service in Cologne

Global alliance sealed

On 22 June, the Chairmen of Deutsche Telekom, France Telecom and Sprint Corp. sign the contracts for their global alliance. Deutsche Telekom and France Telecom thus seal the terms of their joint 20 percent stake in the U.S. carrier Sprint. The alliance is a significant milestone in the internationalization of Deutsche Telekom. It will provide business and residential customers, as well as other carriers worldwide, with innovative, low-cost telecommunications services. In January 1996 the joint venture will start up under the name “Global One”.

Tariffs lowered

Following its reduction in prices for Datex M in March, Deutsche Telekom cuts the tariffs for telephone calls in its digital mobile communications network by about 40% in May. In early August, the charges for telephone calls in the fixed network to North America and Scandinavia are lowered by up to 33%.

Reorganization of Branch Offices

A new structure for the Branch Offices is adopted in July. Subsequently the Branch Offices specialize internally in the divisions for residential customers, business customers and networks, but continue to be a point of contact for all customers. They have greater freedom to be more entrepreneurial and customer-friendly.

Launch of T-Online and DAB

At the International Radio Exhibition (IFA), T-Online is launched – Deutsche Telekom’s new on-line service with a multimedia user interface as well as an Internet access. The IFA also heralds the era of Digital Audio Broadcasting (DAB). This not only allows audio programs to be received in CD quality, but also enables program-associated data and value-added data services to be terrestrially transmitted.

New Group Headquarters inaugurated

Deutsche Telekom’s new Headquarters in Bonn is inaugurated on 18 September. Federal Chancellor Kohl holds the ceremonial speech.

MMBG agreed upon

In August, Deutsche Telekom, ARD, ZDF, RTL and other program providers agree to establish a multimedia operating company called Multimedia Betriebsgesellschaft (MMBG). The core of the agreement is the creation of a uniform decoder infrastructure for digital television.

Necessary to cut jobs

In light of the market situation and competitive conditions in the future, it will be necessary to take further steps to cut staff at Deutsche Telekom. The number of employees in the Group is to be reduced to 170,000 by the year 2000.

The “Schools to the Network” project founded

The Ministry of Education and Deutsche Telekom announce the project “Schools to the Network”, which offers numerous German schools the possibility to use telelearning with access to online services and the Internet.

Alliances and participating interests:

Important steps on the road to becoming a global player.

The telecommunications industry is currently undergoing a dynamic evolutionary process. The globalization of telecommunications, which until just a few years ago was dominated by national monopolies, is proceeding at great speed. More and more telecommunications companies are expanding internationally, thereby tapping new business opportunities in liberalized foreign markets. At the same time, telecommunications service providers are keeping pace with the growing requirements of globally operating corporate customers, which are increasingly demanding international telecommunications services from one source. Another force driving change in telecommunications is the convergence of telecommunications, information technology and the media business, which is producing one global multimedia industry.

Early strategic orientation

Deutsche Telekom oriented its business strategy to the changing telecommunications market at an early stage. Over the past year, the company moved forward energetically with its internationalization strategy. With a number of alliances and participating interests, Deutsche Telekom took further decisive steps to safeguard its current business and expand it in the future. The company expanded its activities in growing areas of the telecommunications and multimedia market, while orienting the Group's structure to the requirements a modern stock corporation must meet in international competition.

Global Player

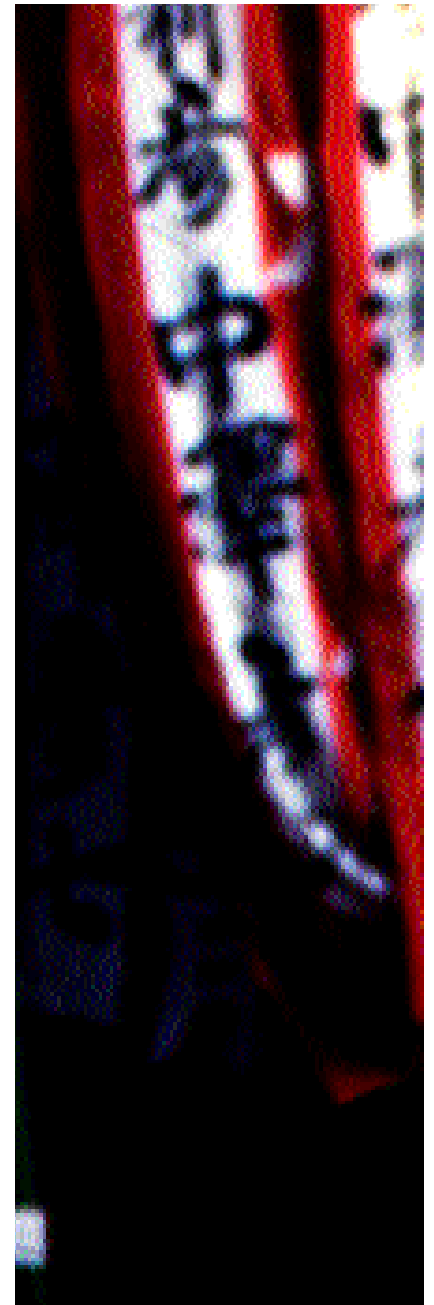
In 1995, Deutsche Telekom continued its push to develop the Group into a Global Player in telecommunications. The cornerstones of Deutsche Telekom's internationalization strategy are its partnership with France Telecom and its alliance, built on this partnership, with the U.S. carrier Sprint Corporation.

Atlas: Agreement with the European Commission

The agreements for the establishment of the Franco-German Atlas joint venture were submitted to the European Commission for notification purposes in December 1994. In October 1995, Deutsche Telekom, France Telecom and the EU Commission reached agreement on the terms for approval of Atlas. This paved the way for the official start of the business activities of the joint venture, which offers pan-European telecommunications services.

The "Global One" trilateral alliance

The two European network operators and the EU Commission also agreed on the prerequisites for approval of the alliance between Deutsche Telekom, France Telecom and Sprint. In connection with this alliance, the following significant decision was taken in the year under review: On 22 June 1995, the management board chairmen of the three companies signed the agreements for a new global partnership. Among the provisions set forth by these agreements is that Deutsche Telekom and France Telecom will jointly acquire 20 percent of the U.S. carrier's shares. In July 1995, the conditions for approval of the joint venture were negotiated with the Department of Justice, the U.S. cartel authority. On 15 December 1995, the US regulatory



authority, the Federal Communications Commission (FCC), granted approval for the two companies' stake in Sprint. This provided the necessary basis for the trilateral global telecommunications alliance. The product portfolio of the joint venture, which began operations in early 1996 under the name "Global One", comprises telecommunications services for business and residential customers, as well as a broad spectrum of services for other network operators.



“Also in Japan, Deutsche Telekom is known for its high technological standards. I develop this image of quality and support Deutsche Telekom’s activities in my country.”

Akiko Kusama,
Advertising Manager in Tokyo, in front
of flags of the Hie shrine in Tokyo

Commitment in Hungary increased

Apart from its cooperation with France Telecom and Sprint, Deutsche Telekom continued to expand its international business in promising markets, together with other partners. An important emphasis of its international activities is on the young Eastern European markets. Deutsche Telekom has established a backbone network that will enable it to function as a hub for traffic to and from Eastern Europe. Its most important commitments include the establishment of a modern telecommunications infrastructure in Hungary. In December 1993, Deutsche Telekom acted through MagyarCom, a joint venture founded together with the U.S. company Ameritech, to acquire about 30 percent of the shares of Matáv, the leading Hungarian telecommunications company. Matáv has a nationwide telephone concession that will last 25 years. In December 1995,

an increase of MagyarCom's share in Matáv to over 67 percent was agreed for January 1996. With its plans for this increase, Deutsche Telekom underscored its intent to make Matáv the leading provider of telecommunications services in Eastern Europe. In 1995, nearly 340,000 new telephone lines were installed in the 39 Matáv local network regions; this figure considerably exceeded the number of new lines agreed in the concession documents. As of the end of 1995, Matáv had increased the number of telephone lines for Hungarian customers by more than half, to a total of 1.9 million, in comparison with 1993.

Interest in Indonesia

Deutsche Telekom MobilNet GmbH (DeTeMobil) also set milestones in the company's internationalization efforts. In April 1995, Deutsche Telekom's mobile communications subsidiary was chosen to assume 25 percent of the shares in the first private Indonesian telecommunications company, Satelit Palapa Indonesia (Satelindo). With its interest in Satelindo, DeTeMobil has gained access to one of the most attractive growth markets in Asia. The Indonesian company operates a GSM-standard digital mobile communications network. Satelindo also has a license to operate telecommunications and TV satellites, and it has yet another license – to operate the country's only private switching node for direct international telephone calls. As a result, Satelindo is one of Deutsche Telekom's largest international direct investments.

GSM license in Austria

In December 1995, the Austrian Ministry of Transport awarded a license to the Ö Call consortium, led by DeTeMobil, to establish Austria's second digital mobile communications network. This was yet another success for the company in an attractive growth market. Industry experts expect the Austrian mobile communications market to have double-digit growth in the coming years. Ö Call – in which DeTeMobil has a 25 percent interest – plans to gain some 400,000 customers in Austria by the year 2000. The commercial start of the Ö Call network is scheduled for summer 1996.



It is also possible to talk via the screen. The media-tel will become a key tool for modern communication in the office of the future.

Subsidiary for online services

The online-services sector is one of the fastest growing parts of the dynamic telecommunications market. Deutsche Telekom's T-Online has more subscribers in Germany than any other online service. In December 1995, Deutsche Telekom founded Online Pro Dienste GmbH & Co. KG, whose purpose is to support continued growth of T-Online. Online Pro Dienste will market the T-Online service; the technical platform will continue to be provided by Deutsche Telekom. Deutsche Telekom is also planning to cooperate with Bertelsmann AG, Axel Springer AG and America Online Inc. in the area of online services.

Start for multimedia software company

The role of software in multimedia telecommunications applications is constantly increasing. In early 1995, Deutsche Telekom responded to this growing importance by founding Multimedia Software GmbH. This company, which is located in Dresden, develops applications-oriented software for multimedia telecommunications and interactive media use.

Acquisition of additional TKS shares

By acquiring additional shares in TKS – Telepost Kabel-Servicegesellschaft mbH – Deutsche Telekom strengthened its position last year in the growing cable TV sector. TKS markets cable connections, thereby making a significant contribution to the development of this important market. Deutsche Telekom increased its holdings in TKS by 35 percent, to over 97 percent.

Joint venture with SAP

In the year under review, Deutsche Telekom and SAP AG, one of the world's leading companies for standard software, agreed to establish a joint venture. The aim of the joint venture, in which Deutsche Telekom holds a 50 percent share, is the development and maintenance of a telecommunications industry software product based on SAP's R/3 program. This product is expected to significantly optimize processes such as processing of customer orders. The companies also plan to market the R/3 program to telecommunications companies worldwide.

DeTeBau becomes DeTe Immobilien

By founding its DeTe Immobilien subsidiary last year, Deutsche Telekom created the organizational basis for even more efficient management of its land and buildings. DeTe Immobilien's tasks include optimizing property use and marketing the company's unused land and buildings assets.

Deutsche Telekom AG - its major affiliates and participations



Registered office in Germany

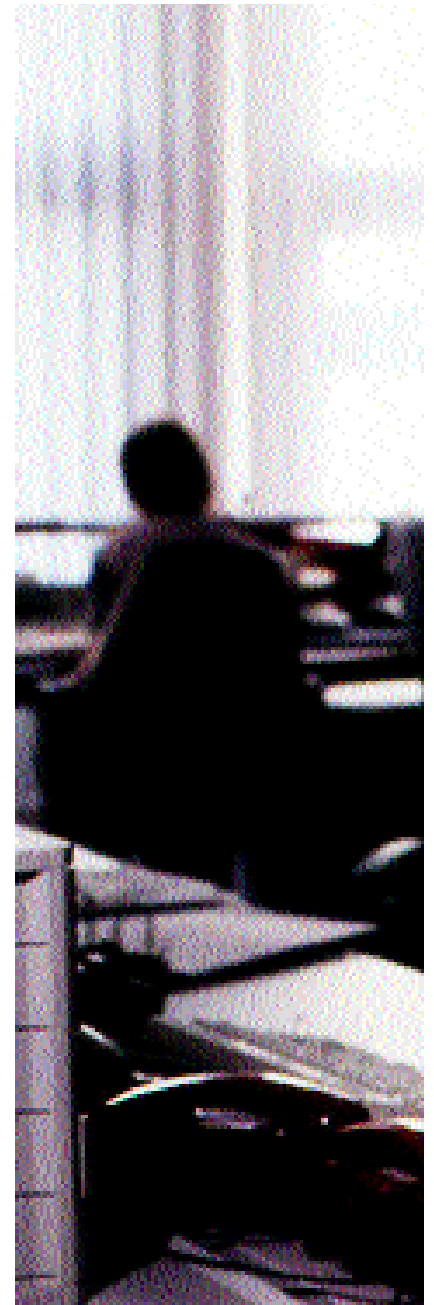
Registered office abroad

Finance: Preparations for the flotation in full swing.

In 1995, the Finance Division focused its efforts on optimizing internal operations in preparation of Deutsche Telekom's upcoming privatization. The division's activities revolved around planning and preparing Deutsche Telekom AG's initial public offering in November 1996. Besides being the largest share issue ever in German economic history, this event of going public will be quite sizable by international standards as well.

Developing new investor groups

The campaign to prepare equity investors for Deutsche Telekom's share issue began in spring 1996. The Aktien Informations-Forum (AIF) – a special information service – provides information for potential investors who have also been targeted by a broad-based campaign since late March 1996. By calling the number 0130-1996, interested retail investors can obtain brochures on share investment plans and Deutsche Telekom's initial public offering. These activities are aimed at generating interest in stock as a form of private investment and motivating new investors to purchase shares of Deutsche Telekom stock. The company thus promotes the practice of investing in the German stock market. Our Investor Relations Section will provide information about Deutsche Telekom to institutional and retail investors as well as equity research analysts even after the initial public offering.



Changes in corporate planning and controlling

Medium-term plans which the Controlling/Business Management Department developed in 1995 for the period 1996–2000 take Deutsche Telekom's reorganization into account for the first time. These plans are augmented by a Shareholder Value Analysis. Affiliated-company controlling was extended and reporting requirements for affiliated companies were substantially expanded and improved.

Group financial management improved

The Group Financial Management Section continued to refine Deutsche Telekom's financial management system last year. The subsidiaries were placed under central financial management, a step which enables us to apply uniform standards when making financial decisions. Deutsche Telekom ceased being linked to Deutsche Postbank at the end of 1994.



“Telecommunications knows no borders. I strive every day to ensure that Deutsche Telekom’s customers can always make international phone calls without any problem.”

Sigrid König,
Employee in the Network Management
Center in Frankfurt

Since then, relations between all Deutsche Telekom Group units and the financial sector have been handled by an integrated bank relationship management system.

The Capital Market Section is in charge of national and international equity financing, active debt management and the development of new investment strategies. Thanks to a treasury database, it was possible to establish a credit management system during the 1995 financial year. Deutsche Telekom’s debt, which Deutsche Postbank administered in the past, was integrated into an active debt management system. A vigorous debt reduction policy could be initiated already in 1995.

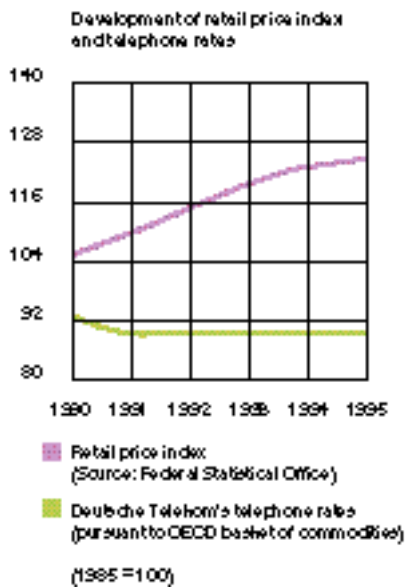
The Group’s interest and foreign exchange risks are managed by the Money Market and Foreign Exchange Section with the goal of using the market’s additional profit potential and limiting financial risks in these areas. A modern treasury system which enables transparent and appropriate management of the Group’s financial resources was set up during the 1995 financial year.

Work in the Share Issues and Investor Relations Section during the course of the 1995 financial year focused on activities for the upcoming initial public offering. Preparations for Deutsche Telekom’s initial public offering entailed certain restrictions which made it necessary to place direct communication with equity investors on temporary hold.

Competition and the procurement factor

Procurement activities at Deutsche Telekom are becoming increasingly important due to the Group’s relatively shallow product depth and growing cost pressure. An extensive – qualitative and quantitative – review of supplier activities was conducted with an eye to increasing the Group’s competitive strength. Its objective: To cut costs as well as bundle our partners’ know-how, shorten development time frames and reduce the risk of undesirable developments. Deutsche Telekom’s procurement volume in 1995 totalled some DM 20 billion.

Tariff Concept 96: Entering competition with market-based prices.



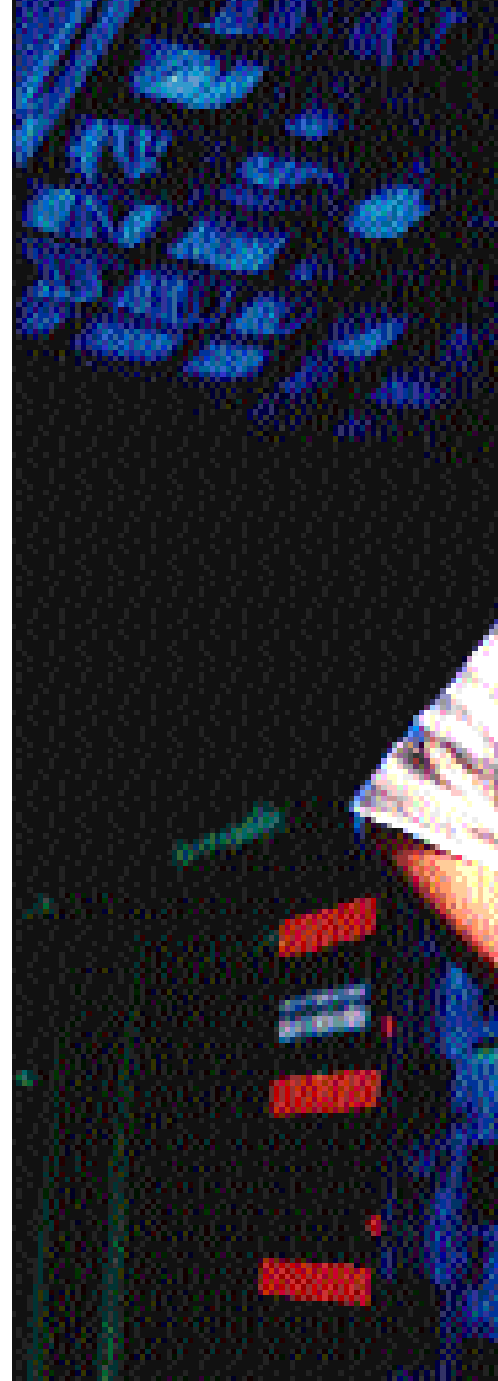
In early 1996, Deutsche Telekom introduced a new system of tariffs that laid the foundation for market-oriented, customer-oriented prices. The Tariff Concept 96 has three pillars:

- A cost/use-linked tariffs structure, which will permit the company to bill more exactly – i.e., more fairly for the customer – and to establish more competitive prices.
- A 5-percent reduction of the tariff level, which – along with the company's decision not to pass its VAT burden on to the customer – will save customers billions of DM.
- Not only is the company retaining the social component that has traditionally been part of its tariff structure – it is enhancing it. In future, the some 1.5 million customers with a "social telephone connection" will pay even less for their telephone service.

The need to reform the tariff structure

The telephone tariffs reform was necessary and overdue; the previous tariff structure was a legacy from the company's past as a government agency. Formerly, there was political pressure to keep prices for certain services artificially low – for example, for local and short-distance calls, telephone connections and telephone directory services. The tariffs in these areas were so low that they did not cover costs. The resulting losses were financed with surpluses from the long-distance and international sectors.

The result was a "distorted" tariff structure – a typical phenomenon in telecommunications under monopoly conditions. But such a system cannot survive in competition. The Tariff Concept 96 has removed the existing imbalance between the tariffs. The result: price reductions in profitable services. At the same time, tariffs have been raised in areas that were previously subsidized.



The new tariff structure

Call charges are composed of three components: the tariff period, the tariff zone and the price per charge unit, in conjunction with the duration of the unit interval. The new charge unit price is DM 0.12; the old price was DM 0.23. The duration of the unit interval has been shortened. In addition, the number of tariff periods for domestic calls has been increased from two to four; the number of tariff zones has been increased from three to four. As a result, the new tariff system provides customers with additional attractive savings – the more differentiated the system, the greater the opportunities to save money through adapted use.



“The digitization of the network has brought more and better connections for Deutsche Telekom’s customers. I see my task as not just providing good connections, but also the best service.”

Uwe Tanz,
Communications Technician, in the
ISDN Installation in Leipzig

And the new system offers yet another advantage: billing is fairer, since shorter unit intervals permit much more precise recording of actual call duration.

Decrease of the tariff level

In addition to redesigning its tariff system, Deutsche Telekom is decreasing the tariff level by a total of 5 percent. The decreases are taking effect in three stages: as of 1 July 1995, 1 January 1996 and 1 July 1996.

These changes will considerably reduce the charges for many long-distance and international calls, such as calls to North America, to EU countries and their neighbors, and to the most important European economic centers – i.e., to regions of the world that are especially significant for German business.

VAT not passed on to customers

Previously, telephone services were exempt from VAT. This exemption has ended. As of 1 January 1996, Deutsche Telekom must pay 15 percent value-added tax. Normally, introduction of value-added tax would increase prices for the consumer. But Deutsche Telekom, as part of its Tariff Concept 96, is not passing this VAT on to its customers. For residential customers, this unusual step means price stability; for customers entitled to deduct VAT, it means real savings of 13 percent.

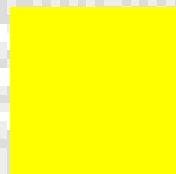
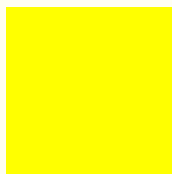
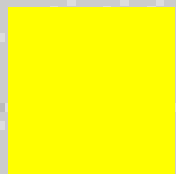
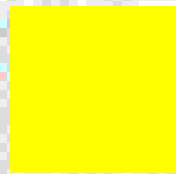
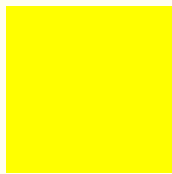
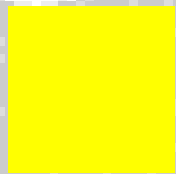
Additional measures planned

Additional price reductions are planned for the near future. The regulatory authority has made its consent to planned discounts for key accounts (in keeping with standard business practice) contingent upon the introduction of discounts for residential customers, which have also been planned. The prerequisite for such discounts is full network digitization, which is expected to be achieved by the end of 1997.

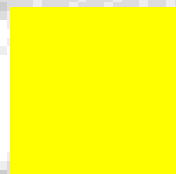
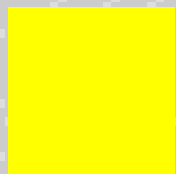
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Telefonbuch-Seite



The telephone directory is almost as old as the telephone itself. But a growing amount of customer data continues to fill up more and more thick books.



— A. Glaser
— Andreas
— Angelika
— Angelika

The customer divisions

Customer-orientation is the key to success in the growing telecommunications market.

Suchabfrage

DeTeMedien
Deutsche Telekom Gruppe

Ort:

Name: Mustermann

Suche im Untereintrag

Vorname:

Straße:

Postleitzahl:

Vorwahl:

Alles löschen Suchen

Gefundene Teilnehmer

Name	Vorname	Ort	Telefonnr.
Mustermann		26340 Zetel	(044)
Mustermann		49610 Quakenbrück	(054)
Mustermann	Achim	49610 Quakenbrück	(054)
Mustermann	Alexander	08412 Werchau	(054)
Mustermann	Kurkhard	49610 Quakenbrück	(054)
Mustermann	Christa	26919 Brake	(044)
Mustermann		26340 Zetel	(044)
Mustermann		49610 Quakenbrück	(054)
Mustermann	Wolfgang	26345 Bockhorn	(044)
Mustermann	Alexander	08412 Werchau	(054)
Mustermann	Ulrike	86154 Augsburg	(089)
Mustermann	Verda	26316 Yarel	(044)
Mustermann	Wolfgang	26316 Yarel	(044)
Mustermann	Wolfgang	26316 Yarel	(044)
Mustermann	H.	80335 München	(089)
Mustermann	Heinrich	49635 Badbergen	(054)
Mustermann	Heinrich	26939 Ovelgönne	(044)
Mustermann	Helga	87569 Mittelberg	(094)
Mustermann	Hermann		(054)
Mustermann	Horst	26340 Zetel	(044)
Mustermann	Klaus	06120 Halle	(034)
Mustermann	Musti	67227 Frankenthal	(063)
Mustermann	Olaf	22089 Hamburg	(040)
Mustermann	Peter	26316 Yarel	(044)
Mustermann	Ralf	49635 Badbergen	(054)

The advantages offered by this digital telephone directory are obvious: Data is constantly being updated, and even telephone numbers in another country can be retrieved at any time.

Residential customers: New services, better support.

The 34 million customers of Deutsche Telekom's Residential Customers Division include private households, freelancers, self-employed people and small businesses. In financial year 1995, this division increased its revenue by roughly six percent. The division's contribution to the Group's revenue was about 55 percent.

More telephones – more convenience

In the year under review, the number of telephone lines in Germany grew by 1.6 million, to 40.4 million. Seven million lines are in place in eastern Germany and Berlin – four million more than in 1990. Increasingly, residential customers are also making use of the opportunities afforded by fast data transmission. As of the end of the year, 100,000 residential customers had an ISDN access. And digitization of exchanges is making analog telephone lines more convenient to use as well. Services such as consultation calls, alternation between lines and call forwarding are now possible.

T-Card: Deutsche Telekom's world card

It's ideal for frequent callers, business travellers and tourists: the T-Card, with which cashless calls and fax transmissions can be made from any telephone and fax machine in Germany, and from over 50 other countries. Over 237,000 customers took advantage of this offer last year. An additional 42,000 customers used the T-Card 25, a prepaid phone card worth 25 DM. Both cards provide a high level of security and a great deal of convenience – such as message transmission via a voice mailbox. And the T-Card with chip can be used for additional services at all public card phones. Some of Deutsche Telekom's co-operation partners, such as Gesellschaft für Zahlungssysteme, are now using the T-Card-Service as a way of making their own card services (in this case, Eurocard) more attractive.

Cable network: the multimedia age has begun

Deutsche Telekom has the world's largest broadband cable network. In 1995, 1.2 million German homes were added to this network; by the end of the year, 15.8 million homes were using a cable connection. The broadband cable network, along with the telephone network, provides an optimal basis for modern multimedia applications. Since February 1995, Deutsche Telekom has been testing the first interactive video services in a Berlin pilot project; five additional projects of an interactive nature are planned.

Last year, intensive preparations were made for the founding of Multimedia Betriebsgesellschaft (MMBG), which is to begin operations in 1996. This company's aim is to promote a single decoder standard for digital TV in Germany, and to develop neutral services to which all program and service providers would have access.

The "new" directory assistance

One of Deutsche Telekom's most important aims is to meet customers' requirements more effectively. In pilot tests under way since November 1995, the long-distance directory assistance service has been offering greater convenience and more complete service. In addition to telephone numbers, the customer can obtain addresses, postal codes and information from the "yellow pages". The test results to date are very promising: in only three months, the new service has received 470,000 calls and provided over one million pieces of information. Nationwide introduction of the added-features directory assistance service is to be completed in 1996.

DECT – a standard is accepted

Deutsche Telekom recognized the importance of the DECT (Digital European Cordless Telecommunications) standard very early on, and it has taken a leading global role in this area. This foresight is paying off, since cordless telephones are now increasingly functioning with digital radio transmission. In 1995, Deutsche Telekom successfully introduced a mature family of cordless DECT telephones.

Sales and service: customer orientation is the most important consideration

For its own sales, Deutsche Telekom is increasingly using its own core medium: the telephone. Customers can call 0 11 14 – anywhere in Germany, free of charge – to reach someone who can answer all their questions about telecommunications. This service is now available around the clock, 365 days of the year.

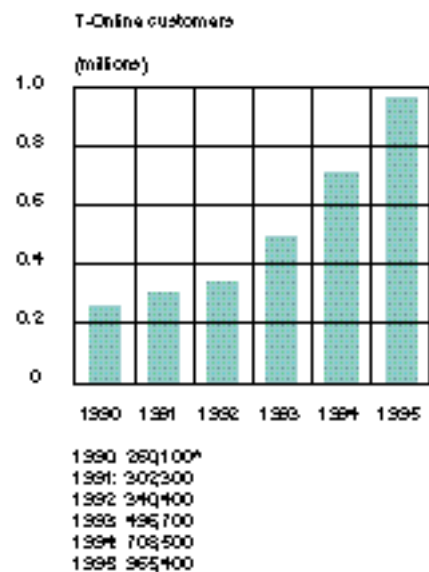
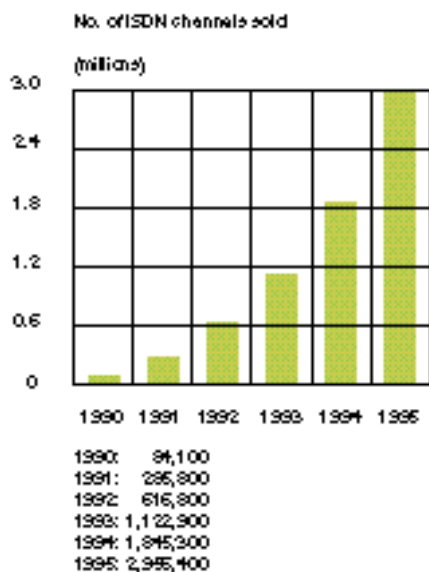
Deutsche Telekom also has sales consultants at 364 T-Punkt outlets. Terminal equipment and accessories can also be conveniently ordered via the T-Versand mail-order service, which further strengthened its market position in the year under review and generated revenue of 100 million DM. For 1996, the Residential Customers Division is planning to enter the home shopping market.



“Deutsche Telekom offers you an innovative range of products. And we in the T-Punkt sales outlets offer you the best service, so that you can find the right offer for you.”

Dr.-Ing. Sabine Schulz,
Sales manager for T-Punkt outlets, in Bonn

Business customers: Locational advantages in a dynamic market.



* only western Germany

More and more companies are relying on telecommunications for their operational processes. Modern telecommunications, therefore, is becoming a key competitive tool. With its high-performance network, Deutsche Telekom AG provides telecommunications services to some 1.7 million business customers. In the year under review, the revenue generated from business customers and corporate network services amounted to DM 26.1 billion.

The ISDN boom continues

Last year, the ISDN access – an access to Deutsche Telekom's digital telecommunications network – became the de facto standard telecommunications access for business customers. By the end of the year, a total of 924,700 ISDN basic accesses and 36,900 primary rate multiplex accesses had been sold. Those numbers are equivalent to almost three million ISDN channels – or an increase of 60 percent over 1994. With its great number of ISDN subscribers, Deutsche Telekom has become far and away the world's leading ISDN service provider.

T-Online: bigger and bigger

In 1995, Deutsche Telekom also experienced excellent growth in its online-services business. T-Online, which was presented at the International Radio Exhibition in August 1995, and which had previously been marketed under the name "Datex J", has been given a new concept that includes attractive multimedia presentation. In the year under review, T-Online added 257,000 customers. This growth, with which the number of T-Online subscribers in-

creased by over 36 percent over the previous year, brought the total number of T-Online users to more than 965,000. The number of T-Online calls per month grew in 1995 to about 14.5 million; this was an increase by almost 35 percent over 1994.

To assure continued success in the dynamic market for interactive online services, Deutsche Telekom decided last year to move its T-Online services into a subsidiary company, Online Pro Dienste GmbH & Co. KG. In addition, the company aims for a strategic partnership with Bertelsmann AG, Axel Springer AG and America Online Inc. in the area of online services.

Ausland Spezial: Strong demand for this attractive tariff offer

As business has become globalized, telecommunications has become the key link in international business relationships. Deutsche Telekom has been responding to this trend with applications-oriented products for worldwide communications. With its "Ausland Spezial" ("International Special") tariffs, Deutsche Telekom gives companies the opportunity to save an average of up to 36 percent on international calls. Business customers have responded extremely positively to these tariffs. Last year, the number of contracts for use of the Ausland Spezial services grew to 1,300 – from 300 in 1994.

High-speed networks for economic centers

In November 1995, Deutsche Telekom inaugurated its first three high-speed infrastructures for economic centers: its City networks in Frankfurt, Berlin and Hamburg. More City networks, which are based on optical fiber to meet the most demanding business telecommunications requirements, will be added.



“Machinery failures can be rectified online via ISDN, enabling our business customers to reduce downtimes substantially.”

Günter Leidel, Key Account Manager, in a machine room in Augsburg equipped with an MAN Colorman printing machine

Not only are City networks proof of Deutsche Telekom's international leadership in optical fiber communications, they are also evidence of the company's ability to respond quickly to competitive challenges. Deutsche Telekom was able to design and implement the very complex City networks in only half a year.

Strong emphasis on applications orientation

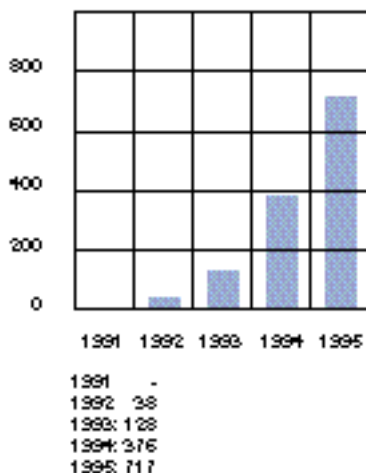
In 1995, Deutsche Telekom moved ahead powerfully with development and implementation of applications-oriented telecommunications solutions for business customers. For example, it presented "DOXX", an ISDN-based communications system for the health-care sector. DOXX uses digital telecommunications to optimize data communications between doctors, hospitals, laboratories and invoicing centers.

ITAM: further improvements in customer services

In the year under review, Deutsche Telekom took additional measures to improve services for business customers. For example, the ITAM (Integrated Telekom Account Management) organizational project was launched. ITAM creates Account Teams that provide individual support to key accounts. The main purpose of ITAM is to bring together the technical and organizational strengths of Deutsche Telekom's individual sales networks, in the interest of customers.

Named accounts: Top-quality service package from a single source.

Number of Telekom Designed Networks (TDN)



In the year under review, the Telekom Named Accounts Division provided service to some 200 businesses, Deutsche Telekom's biggest customers. Telecommunications is of paramount importance to this group of customers. Due to their decentralized corporate structures, a large number of named accounts are reliant on the constant availability of highly efficient national, and to a growing extent also international, telecommunications networks and services. For this reason, they expect the providers of telecommunications services to offer high-quality telecommunications solutions. Apart from demanding individual network and application concepts, Telekom named accounts ask for advisory services and customer care designed to meet their individual needs.

DeTeSystem:

One face to the customer

Deutsche Telekom meets these high demands with an organizational structure that is tailored to providing individual customer care. Thus, Deutsche Telekom Systemlösungen GmbH (DeTeSystem) is responsible for providing Telekom named accounts with telecommunications solutions. The Deutsche Telekom subsidiary uses the products and services of the parent organization when implementing individual telecommunications solutions for its named accounts. These products are upgraded to become customized complete solutions as they comprise additional services and components from the market. As such, the decisive principle of customer care is to present one face to the customer. DeTeSystem allocates one member of the customer care team to each named account whom the customer can consult with any questions he may have concerning telecommunications.



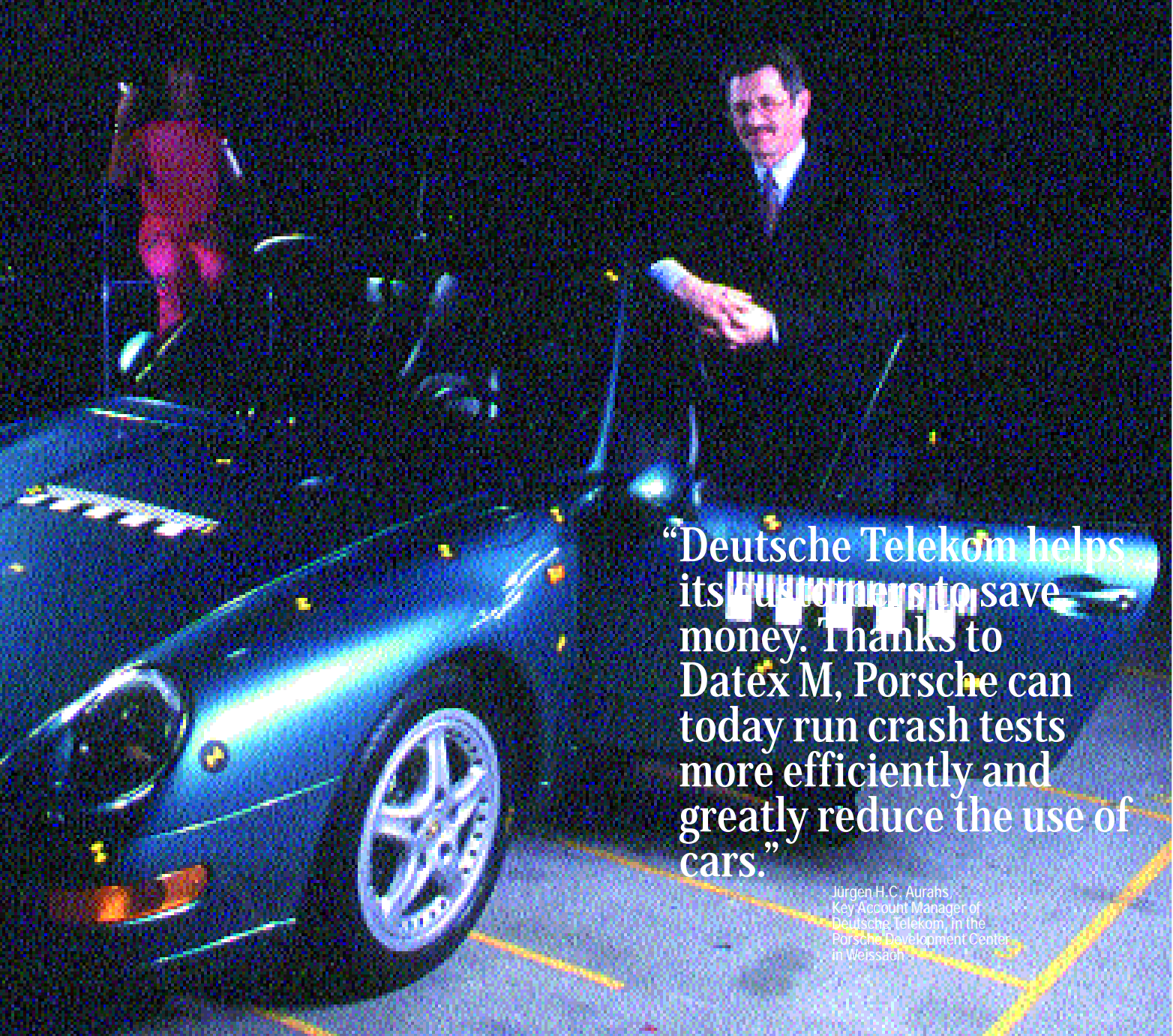
Systematic improvement

The positive business developments achieved by DeTeSystem last year show that it is on the road to success with its customer care concept. Sales generated by the company grew from DM 1.1 billion in 1994 to DM 1.3 billion in the year under review. This accounts for a growth in sales of over 18 percent.

The success which DeTeSystem is having on the market is also reflected in the development of its staff figures. Whereas the Deutsche Telekom subsidiary employed approximately 600 people in 1994, 250 new jobs were created last year.

High-speed network for the academic field

Last year, DeTeSystem concluded a number of important contracts with customers. One of the most eminent projects was the agreement reached with the Association for the Promotion of a German Research Network (DFN-



“Deutsche Telekom helps its customers to save money. Thanks to Datex M, Porsche can today run crash tests more efficiently and greatly reduce the use of cars.”

Jürgen H.C. Aurahs
Key Account Manager of
Deutsche Telekom in the
Porsche Development Center
in Weissach

Verein) in September 1995 concerning the establishment, operation and management of the high-speed network B-WiN. DeTeSystem is expanding the already existing X.25 science and research network into a broadband telecommunications infrastructure which will facilitate multimedia communication in addition to high-speed data transmission between universities, higher technical colleges, and research institutions.

Customer care is the name of the game

DeTeSystem oriented its activities in 1995 even more closely to the needs of its customers. A new business unit was created, for instance, with the Consulting unit. One of the most important targets is to ensure that Telekom named accounts are informed at an early stage about new developments in telecommunications and about the resulting opportunities they may have of further optimizing their telecommunications solutions.

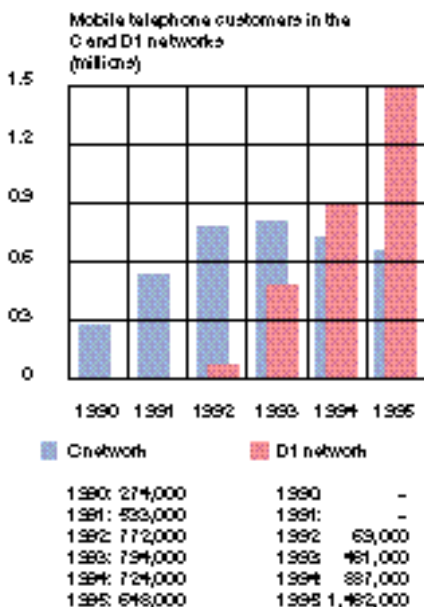
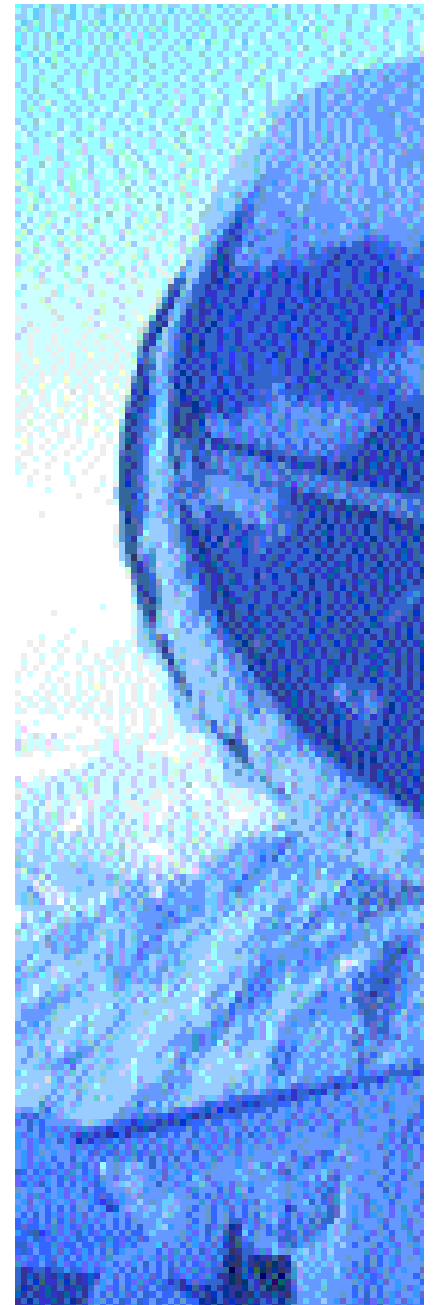
International customer care for Telekom named accounts improved
Deutsche Telekom named accounts include a large number of German companies which operate in the international arena. By setting up the Global Account Management unit in 1995, international customer care for German companies could be further improved. This measure was focussed on giving the foreign subsidiaries of Deutsche Telekom a greater role to play in customer care. Last year, the initial pilot applications of the Global Account Management were launched.

Telekom Designed Network: Successful despite harsh competition
Deutsche Telekom provides customized network solutions not only to its named accounts. Such network services are also available to major business customers. In the year under review, Deutsche Telekom was able to continue along the road to success in a fiercely competitive market, with

the product Telekom Designed Network (TDN) – a network solution which is tailored to the specific needs of each customer. The number of TDN contracts concluded increased to 717 in 1995. Measured against the previous financial year, this represents a growth of 90 percent.

Business Customers and Named Accounts Divisions amalgamated
Due to the ever closer links between the processes of providing customer care to its major corporate customers, Deutsche Telekom combined the two divisions Business Customers and Named Accounts at the end of 1995. Being an important element within the Business Customers Division, DeTeSystem will continue operations as a Deutsche Telekom subsidiary.

Mobile communications: DeTeMobil continues to grow.



With its more than three million customers (about 800,000 more than in the previous year), Deutsche Telekom MobilNet GmbH (DeTeMobil) has become the mobile communications market leader in Germany – as well as the only “full-service provider” with comprehensive service for mobile communications.

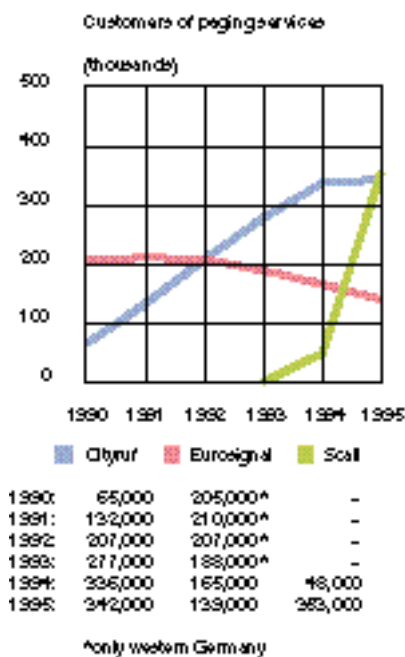
In the 1995 financial year, this wholly owned subsidiary of Deutsche Telekom AG had growth in all areas. Above all, mobile communications is booming: Last November, DeTeMobil added its two-millionth mobile communications customer. In the year under review, external sales increased 12.7 percent from DM 2.8 billion to DM 3.1 billion.

D1 still growing

As of the end of 1995, the D1 digital mobile communications network had about 1.5 million subscribers. This figure represents growth of over 60 percent in comparison with the previous year. Strong growth impetus was given by the introduction of the “Telly-D1” special tariffs for residential customers in May 1995. Business customers, on the other hand, have responded especially strongly to “ProTel-D1”, which enables them to call particularly reasonably during business hours. And “roaming” is becoming more and more popular. Roaming refers to use of the D1 card and a cellular phone in one of the many other countries that also have digital GSM-standard (“Global System for Mobile Communications”) mobile communications networks. As of the end of 1995, DeTeMobil had signed relevant agreements with 49 GSM partners in 34 countries.

C-Tel: an attractive alternative

With a share of about 17 percent in the German mobile communications market, C-Tel has been able to maintain a strong position, in spite of intense competition. The very reasonably tariffed C-Tel network is an attractive alternative for frequent callers, especially as a car phone.



Paging: living the modern lifestyle

The “Scall” radiopaging service, which was inaugurated in December 1994, has been an extremely successful new product. By the end of the last financial year, DeTeMobil had acquired over 350,000 customers for its paging service, which is tailored for the residential customers market. As of the end of 1995, DeTeMobil had more than 830,000 radiopaging customers – including customers for its Cityruf and Eurosignal services – and was thus Europe’s largest paging-services provider.

Special mobile communications services: great growth potential

The company’s special mobile communications services were also successful in the intensifying competition. “Chekker”, the mobile trunked radio service for professional voice communications, had some 75,000 customers as of the end of 1995. At year’s end, DeTeMobil combined all its perti-



“Deutsche Telekom ensures a nationwide communications structure. I make sure that this service is guaranteed even under extreme conditions.”

Klaus Rothballer,
Microwave Radio Station on the Zugspitze

ment activities within one powerful business unit, in order to improve customer service for Chekker. About 3,000 customers use the “Inmarsat” worldwide satellite service to make telephone calls, and to transmit data and TV broadcasts. Some 10,000 subscribers use “Modacom”, a special mobile communications network for fast, cost-effective data transmission.

Going global

Last year, DeTeMobil made important progress in its internationalization. In April, DeTeMobil acquired a 25-percent share in “Satelindo”, the Indonesian network operator, which has licenses in the areas of GSM mobile communications, satellite communications and international direct dialing. In December, the “Ö Call” consortium, under the operational leadership of DeTeMobil (25 percent), was awarded the second GSM license in Austria. At

the end of the year, “Call Max”, the Dutch paging services provider (DeTeMobil interest: 40 percent) and the Swiss company Modacom AG (61 percent owned by DeTeMobil) also began commercial services. “Ukrainian Mobile Communications”, in which Deutsche Telekom AG has a 16.3 percent interest (DeTeMobil has responsibility for operations management), successfully expanded its mobile communications business. “Mobile Tele Systems” in Moscow (DeTeMobil: 39 percent) has also added to its subscribers base. And last year preparations were completed for a successful GSM license application in Poland. That license was awarded in early February 1996 to the “Polska Telefonii Cyfrowa” consortium, in which DeTeMobil has a 22.5 percent interest.

Additional potential for growth

The mobile communications market will continue to grow very dynamically. Technical progress will bring price reductions and new services, both of which will stimulate the market. Over the next decade, the number of mobile communications customers in Germany is expected to increase from the current figure of about four million to 20 million. The paging market is expected to expand from today's level of nearly one million subscribers to several million by the year 2000. DeTeMobil is ready for the future: it has the necessary know-how relative to new technologies and standards, such as “DECT”, “DCS 1800”, and “Erasmus”, and it has new business units such as traffic telematics. New marketing and sales concepts will help the company strengthen its market leadership – in spite of the intensifying competition.

We are facing revolutionary changes as we approach the 21st century. Telecommunications companies, television chains, publishing companies and the suppliers of software and hardware which used to operate as separate entities are now joining forces. This convergence of technologies and contents is laying the basis for the emergence of a global "telecommunity". In "Forum", critics and supporters will voice their opinions on this development.

A Deutsche Telekom dialog.

From the global village to the telecommunity

In 1995, U.S. companies such as Time Warner, Walt Disney, Microsoft and MCI hit the headlines by effecting spectacular mergers. Deutsche Telekom underlined the leading role it is playing on the way towards the information society by forming an alliance with Sprint and France Telecom and with its activities to set up a multimedia operating company to be called Multimedia-Betriebsgesellschaft together with Bertelsmann AG and various program providers. This operating company is to implement a uniform decoder standard for digital television in German-speaking countries.

The alliances formed caused a stir, and not just because of the size of the companies involved. When network operators, entertainment providers and software specialists join forces to introduce new media and technologies, it is more than likely that this will change the everyday life and leisure time of people in the 21st century.

The telecommunity will create new dimensions not only in the world of business and politics, but also in cultural and social life. In order to take the importance of this trend into account and to demonstrate the responsibility it is assuming for the future, Deutsche Telekom has chosen "Telecommunity" as the topic for the Forum in its 1995 annual report.

Ron Sommer
Chairman of the Board of Management

Keeping informed

In the future, there will no longer be a TV news broadcast at a certain time of day for the general public. Instead, news will be broadcast a la carte, with news items being selected individually. Information will be both global in nature and at the same time more individual.



Informing

Peter Arnett
Baghdad, Iraq

CNN
LIVE

Peter Glotz, Communications Scientist: “I trust in people’s ability to decide for themselves what information services they want to use and what services they wish to ignore.”



Mr. Peter Glotz has been a member of the parliamentary group of the SPD in the German Bundestag since 1983 and is also a communications expert. He studied journalism, philosophy, German language and literature, and sociology. Mr. Glotz is currently a lecturer at Munich University and is chief editor of the “Neue Gesellschaft/Frankfurter Hefte” magazine. Mr. Glotz was the party manager of the SPD between 1981 and 1987. He is a member of the Supervisory Board of Deutsche Telekom AG.

The main reason why mergers are carried out between the large information providers is to create a capital basis for new investment and new know-how. Time will tell whether these alliances are here to stay.

Unlike the USA, no alliances are being formed in Germany between carriers, which are in effect network operators, and media companies. Such alliances would only support the trend towards the development of a global mass culture, which is marked by a very specific point of view, namely the American one. However, this trend is giving rise to counter-movements. I think that the re-emergence of nationalism, among other things, can perhaps be seen as a reaction to this global mass culture.

In line with this, however, new communities are forming, such as the community of Internet users, who can be connected to the Internet whether they live in Zagreb, Berlin or New York. Globally overlapping agglomeration processes are emerging because people who live in the vicinity of San Francisco actually have more to do with someone who lives in the outskirts of Munich than with a farmer who lives in Texas. Some countries

will try to seal themselves off from this development. However, efforts to do so are bound to fail. Even a rigorous dictatorship like the one they have in China was unable to prevent students from transmitting their messages by notebook during the revolution on Tiananmen Square to Berkeley where they were published.

However, not everybody will use the possibilities available as a result of the convergence of the various information technologies. And they will cope with life nonetheless. Such distinctions are, of course, nothing new. There are people who read Goethe and Jean Paul, and there are people who do not read at all. They know just as much about Goethe as somebody else might know about a computer. Millions of people who knew nothing about Goethe have led happy lives, and millions of people who have never used a computer will also lead happy lives.

Technical developments cannot be halted and I consider the censorship measures which are supposed to be taken for the Internet to be totally ineffective. I trust in people’s ability to decide for themselves what information services they want to use and what services they wish to ignore. We must focus less on banning things and rely more on people’s communicative abilities.



Thomas Middelhoff, Bertelsmann Management Board Member: “If we are not careful, US competitors will be the winners on the new markets.”



Dr. Thomas Middelhoff studied business management and obtained the doctorate degree of Dr. rer. oec. in 1986. After holding management positions with several printing companies, he was appointed a member of the division management for the print and industrial facilities of Bertelsmann AG in 1990. Since 1994, he has been a member of the management board of Bertelsmann AG, where he is, inter alia, the coordinator of the entire multimedia business sector.

In the past few months, strategic alliances have been formed at national and international level which have brought rather unexpected partners together. The reason for this growing willingness to join forces with other companies in order to develop markets is the realization that these new markets can only be formed in the first place if diverse abilities and experiences are combined. No company can provide the total range of know-how required on its own; rather, the competencies of information providers must be combined with those of network operators and terminal manufacturers.

We became familiar with the dynamics of market developments in this sector from the partnership we formed with America Online (AOL) when we were developing our European online business. We want to continue developing this potential by launching other joint ventures, for instance with Deutsche Telekom. The company wants to participate in the highly experience-oriented online AOL service, whereas we intend to participate in the more benefit-oriented T-Online service provided by Deutsche Telekom.

Despite the highly dynamic character of the multimedia business, which online services form an integral part of, we consider the future of the traditional print markets to be indisputably positive. We are therefore investing substantial sums in these markets too and are thus making sure that the publishing companies of our books and magazines and the technical manufacturing plants are able to meet the challenges of the future. However, we must invest first and foremost in the electronic future, for Bertelsmann will have sold DM 2 billion worth of multimedia products alone by the turn of the century. Our analysts say that four years later, 30 percent of our growth will be generated by such products.

In order to ensure that this does not remain a vision but becomes economic reality, we need reliable general conditions which give the young multimedia industry scope for development. In this respect, I sometimes have my doubts as to whether this fact is recognized and appreciated by all politicians. If we are not careful, US competitors will be the winners on these new markets. The USA still has a head start of three to five years over us.

Unfortunately, there are still enough people around who are sceptical about the new multimedia worlds of experience and who follow developments with a critical eye. I would like these people to imagine the following scene: the first scene consists of a typical German family, sitting passively in front of the television; the second scene shows a group of young, open-minded people using databases, sending each other E-mail messages, communicating with each other and discovering interactive relations anew. If I had to make a choice which scene I prefer, there is no doubt in my mind which one I would choose.

Entertainment

Entertainment will be given an entirely new dimension in the multimedia age. Cultural highlights - wherever they take place - can be enjoyed in the quiet of your home. Entertainment will become a personal experience in the virtual and real world.



Francis Fukuyama, Social Scientist: “The technology allows a new and more rigorous civil society.”

Francis Fukuyama became widely known with his provocative best seller “The End of History and the Last Man”. He has been senior social scientist at the Rand Corporation and is currently Hirst Professor of Public Policy at George Mason University. A fellow of the John Hopkins School for Advanced International Studies Foreign Policy Institute, he is working on a book on the impact of the information revolution on international relations.



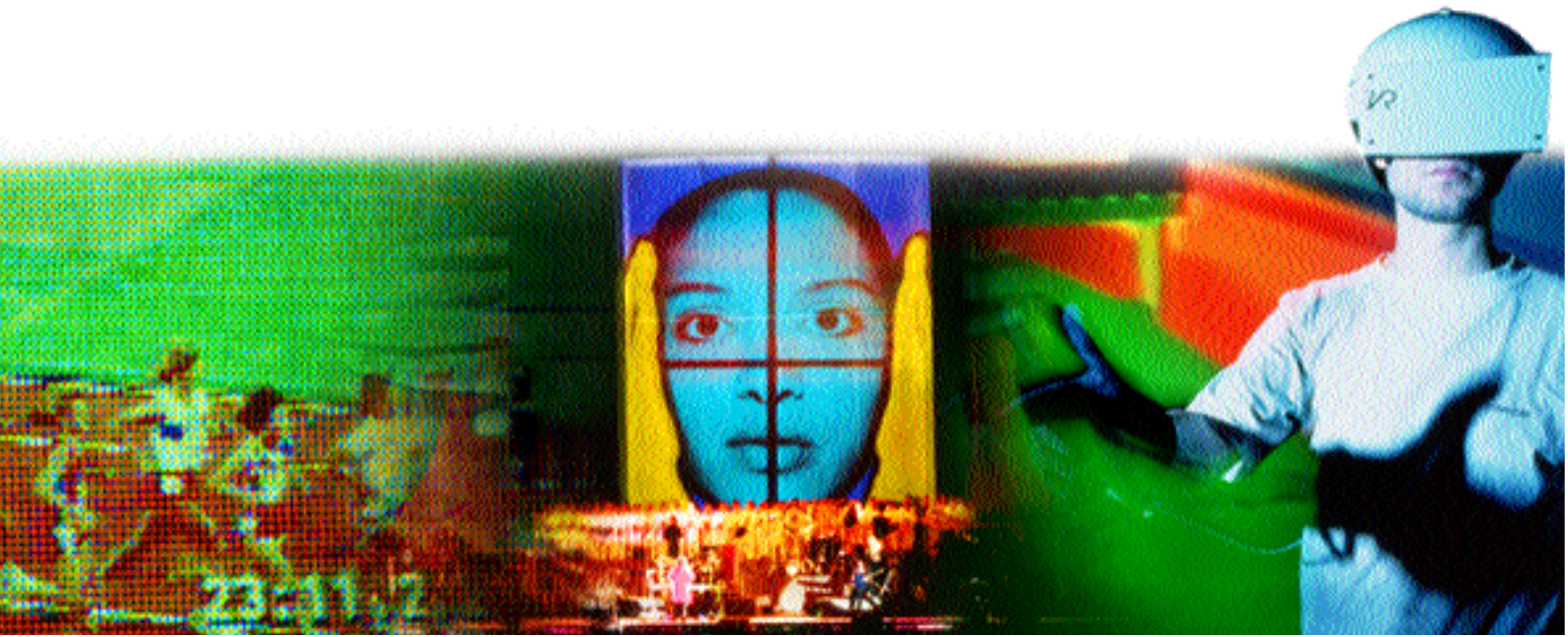
One of the most important changes resulting from the convergence of computer and telecommunication technologies is its many-to-many communication capability. Groups can talk to groups as groups. The technology allows a new and more vigorous civil society within which people are not bound by the constraints of geography but can share interests, collaborations or passions, internationally with overlapping sets of communities.

This interaction among groups will have a direct impact on our democracy. While the technology could be misused, democracy is not just a matter of simple registering voter preferences. It has a legislative and deliberative function for which a representational layer is important. Granted a representative democracy, the technology can be used to increase the communication between representatives and their constituents.

National sovereignty, in certain respects, may be eroded. It can't control the images seen by citizens. The traditional media in a large geographically dispersed democracy like the U.S. created a sense of national identity. They provided a common set of experiences such as Life magazine, the Apollo moon mission or the little girl running away from the napalm attack during the Vietnam war. Now, broadcasting is multi- or narrowcasting. Instead of three major channels, there emerge 500 very selected ones. While having better conversations, they are within smaller groups and on less of a national scale.

A nation also can't control its money supply. And, as the global economy becomes more integrated, fiscal policy gets out of the range and control of the national legislatures. Yet, the state continues to have a number of functions which only it can perform. For example, the protection of intellectual property rights, crucially important to the information industry, can be enforced only by a nation state. Similarly, there are possibilities for crime or terrorism that are created by the growth of these technologies.

Technology goes hand-in-hand with globalization. There is no global economy without the availability of information and the technologies that support the movement of that kind of information. A player in the global economy has to be connected to all the information sources on which the global economy operates. In the short run a smart, relatively self-confident authoritarian regime might take measures, not to cut themselves off, but to slow down the impact of all these external cultural and political influences. But in the end it is a losing game.



Louis V. Gerstner, CEO, IBM:

“Networks will become a major
conduit of commercial transactions.”



Louis V. Gerstner Jr. was named chairman and CEO of IBM in 1993. Prior to that he served four years as chairman and CEO of RJR Nabisco Inc. This was preceded by an 11-year term at American Express where he was President of the parent company and chairman and CEO of American Express Travel Related Services Company. Before that, Mr. Gerstner was a director with McKinsey & Co.

The information technology industry is entering its next major phase with the emergence of very powerful global networks. This transformation has profound implications for enterprises and organizations of all kinds. It is changing things as basic as our definitions of competition, value, and the very nature of the commercial transaction.

It would be easy to focus on technology as the principle force behind this shift, but any change this fundamental is never driven by raw technology. The Internet has been around, after all, for a quarter century. The pre-eminent force driving the rise of network computing's the priorities of customers in enterprises of all sizes.

Customers are not preoccupied with network bandwidth or new digital switching technologies. They spend their time on strategies to reduce cycle time, flatten their organizations, improve customer service or enter new markets. All of these priorities place a premium on horizontal communication across organizations and beyond organizations, to link suppliers, distributors, and of course, customers.

Network computing is very clearly changing how computing is used. The very fact that tens and hundreds of millions of people are interconnected by the Internet tells us that computer networks are becoming communications networks. And as networks become faster and more powerful, they will be capable of transmitting very rich content – full motion video, music and high-resolution images such as X-rays and magnetic resonance imaging (MRI) scans. As this happens, networks will become a major conduit of commercial transactions, of government services, health care, education and entertainment.

The networked world is also changing where computing takes place. As networking technology improves, providing faster and more powerful connections, much of the data and processing, and many of the applications, will migrate from the end-user's computer to the network itself.

Users will increasingly subscribe to applications instead of having to develop software themselves. They will also be able to upgrade and update their software and hardware capability through the network.

All of this is creating tremendous new opportunities for our customers to work more effectively and efficiently. But as with all significant changes, the shift to network computing will create major dislocations. It will create winners and losers – and that will be true in all industries.

Computing

The computer will become a key tool of communication. It will be able to take over functions in the future that still require the use of different kinds of terminal equipment today. Tailor-made software and hardware will replace programs allowing only very little scope for individual creativity.

Computing



Hagen Hultzsch, Member of the Board of Management of Deutsche Telekom: “The passive ‘couch potato’ is becoming an active ‘couch commander’.”

Dr. Hagen Hultzsch studied physics and nuclear physics at Johannes Gutenberg University in Mainz. He obtained his doctorate degree in 1970 and last taught information technology to physicists as an assistant professor. In 1988, he started working for Volkswagen, where he was Head of Management Organisation and Information Systems. Since 1 July 1993, Dr. Hultzsch has been in charge of the Technology and Services Division at Deutsche Telekom.



The convergence process, which is the key topic in the business sections of today's newspapers, involves much more than the convergence of telecommunications and information technology. The perspective reaches much further: a whole new industry is emerging.

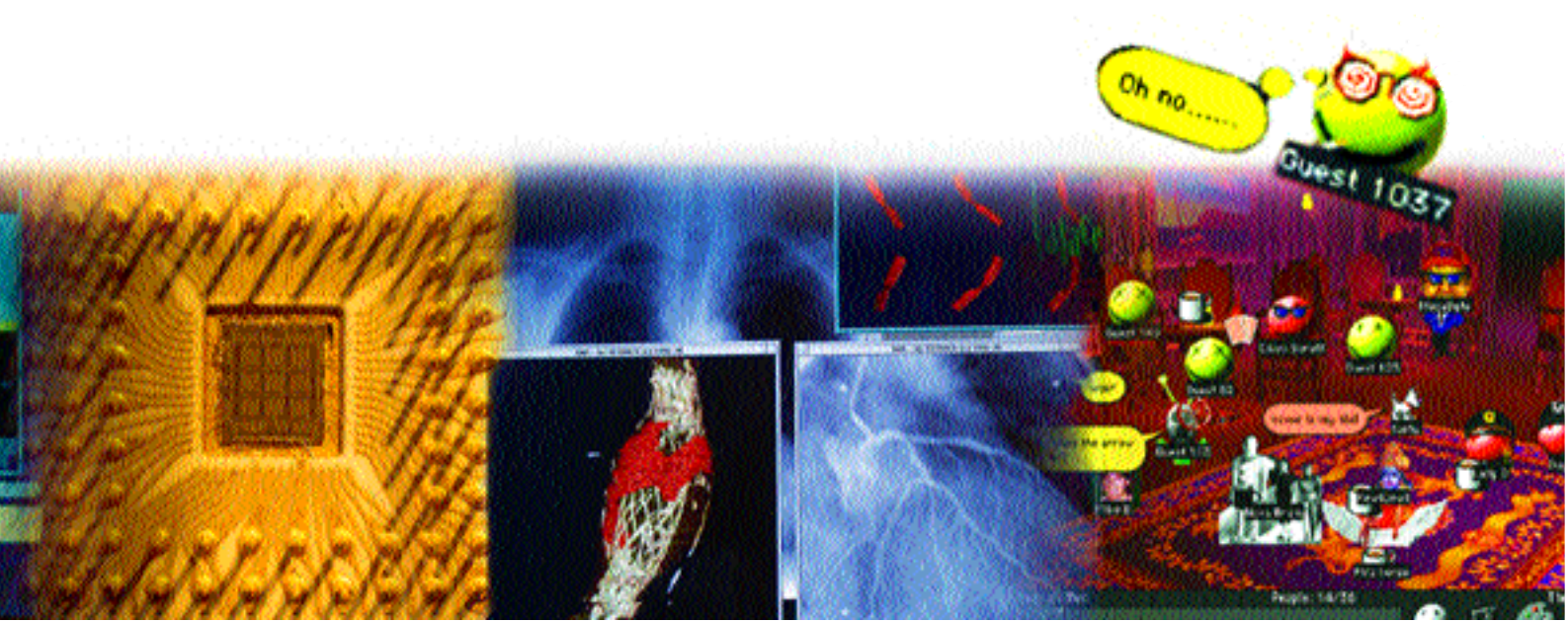
The step towards the telecommunity is creating new products which have already become everyday figures of speech and are considered to be synonymous with booming markets: multimedia and the information highway, telelearning or telemedicine.

Who would have imagined in the early 1950s what revenue the accessories industry would achieve when it became caught up in the boom of the automobile industry? The same thing will happen in the newly converging industry. Not only will dominating monopolies emerge, masses of niches which we have not even dreamt of today will present opportunities to small and medium-scale suppliers. It is, for instance, conceivable that cultural experts might conduct tours around the museums of the world, whereas somebody else might offer a course in mountaineering.

What we are witnessing even today is a reduction in pure television consumption, a trend that can be observed particularly among young people and the well-educated. Nowadays, I would spend no more than ten minutes watching TV. I spend a lot more time at my computer, which is being penetrated by the media topic through T-Online and the Internet. The passive “couch potato” is becoming an active “couch commander”. It will not be long before each household will have several interactive terminals, which will allow them to focus on a large range of very different activities.

The global telecommunity will present us with possibilities which we have not even dreamt of today. However, I do not think that this will balance out cultural and national differences or that an “information mis-culture” will emerge.

However, it is important to ensure that industry has sufficient venture capital at its disposal so that it will be able to meet the challenges of the information society. What is more, an entrepreneur who once had a good idea but was unable to make a success of it, should not be branded as a bankrupt failure for the rest of his life. What we are lacking in Central Europe is an understanding of the fact that people who are determined to find a niche in the market and who are equipping themselves to meet the demands of future markets take high risks and sometimes fail. We should look to the USA as a role model in this respect.



John H. Gibbons, Security Advisor to the Clinton Administration: “Authoritarian govern- ments will no longer be able to control their citi- zens by controlling the information they see.”



The Honorable Dr. John H. Gibbons is Assistant to the President for Science & Technology and Director of the White House Office of Science and Technology Policy. Before joining the Clinton Administration, Dr. Gibbons served for 14 years as the Director of the U.S. Congress' Office of Technology Assessment.

In this new Digital Age, government will continue to protect the public safety, to maintain national security and foster peace, to assure a robust market, to create a fair and stable regulatory and monetary framework for both domestic and international commerce, and to make sure that everyone has equal access to information technologies.

Citizens will continue to rely on government for information. One of its major role is to collect, create, process, and distribute information – whether economic statistics that business people need to plan, that governments need for economic and business research, or intelligence to protect citizens against foreign threats.

The information revolution enables governments to be much more efficient and responsive to their citizens. To cite one small example, since the White House was connected to the World Wide Web, millions of people have used the Internet to get free government information – everything from Presidential speeches, reports related to commerce, health, and the environment; to applications for Federal assistance; to satellite pictures of Mars: There are now more than 106,000 Web pages and over 250,000 documents available from agencies throughout the US government. This gives citizens vastly greater access to information than ever before in our history.

While the Digital Revolution will make it easier for governments to provide citizens with the information, it also will make it almost impossible to control the information they get from other sources. This is a good thing. Thanks to direct broadcast satellites, the Internet, and wireless technologies, borders are increasingly permeable to information. As a result, authoritarian governments will no longer be able to control their citizens by controlling the information they see without completely isolating themselves from global commerce.

As competition drives down the costs and difficulty of telecommunications, it will be increasingly easy for countries to collaborate at all levels. Informal, almost daily conversations and E-mail between counterparts in different governments will reduce the need for formal structured international negotiations. One result will be much faster resolution of international disputes and the chance for much closer cooperation in a wide area such as environmental problems, sustainable development or health research.

Esther Dyson, Journalist: “The reality of the Internet is changing our vision of the society to come.”



Ms. Esther Dyson completed her studies of economics at Harvard in 1972. After pursuing a career as a reporter with the Forbes business magazine, she worked as a securities analyst. Today she is the manager of EDventure Holdings, which specializes on issues concerning information technology. Ms. Dyson, who speaks fluent Russian, is playing a key role in the development of telecommunications in Eastern Europe.

Communication
Modern communication means getting in touch with many other people around the world at the same time. In the telecommunity, what is decisive for exchanging messages is not so much national identities as common interests.

One of the most interesting facts of this decade or even beyond is the Internet and what it means. It is changing the way we think about distance and time. In a more fundamental way it is changing the balance of power between little and big. The value of information does not necessarily depend on the size of the source or the country it comes from, nor the distance it traveled.

The reality of the Internet is also changing our vision of the society to come. The earlier idea of a “global village” clearly doesn't work, the future will bring a great and diverse number of communities that are tight in terms of their culture and their interests, but global in terms of their geographic extension. What happened is that suddenly boundaries of countries or even to

some extent legal organizations matter much less. Nevertheless the boundaries of cultures, interests and language still do.

In such a structure, regulation of the Internet by a single terrestrial government does not make sense because the Net extends beyond any national boundaries. Regulation should take place within the Internet communities themselves. Such regulations have a much greater moral authority. Its members have joined the community voluntarily and so have given moral consent and agreed to obey the respective rules.



Communicating

Lester Thurow, Economy Analyst: “Communications will revolutionize how business is organized.”

The Financial Times calls him “one of the sharpest intelligences currently dissecting U.S. economic policy.” Lester Thurow is Professor of Management and Economics at the Massachusetts Institute of Technology as well as a successful author (*The Future of Capitalism*, *Head-to-Head* etc.). He served as staff economist for President Johnson and advised several Democratic presidential candidates.



The concept conveyed with the idea of Telecommunity implies three major changes worldwide. First it creates a genuine world economy. Anybody can really produce anything anywhere and sell it everywhere else on the face of the earth because the process can be managed electronically around the world.

Second it has a huge impact on migration. With a TV set in the remotest area of this world people learn about the standard of living in the western world. Why stay in poor conditions if paradise is transmitted every evening.

Third communications is going to make a real difference in the business world where it hasn't shown up yet. Communications will revolutionize how business is organized. There exist already companies where you enter the building and walk into the first empty office. Having your own personal telephone number, you call up your computer codes, press a button on the flat screen TV set on the wall coming up with your family picture and that's your office for as long as you're there.

Beyond these impacts a new industry is emerging somewhere at the intersection of telecommunications, media and computers. Its nature is still unknown and so is the way to capture and organize it. At this moment anything goes. There are mergers, such as telephone and cable companies getting together. But there are also companies breaking up like AT&T or Sony shedding its US television and movie activities.

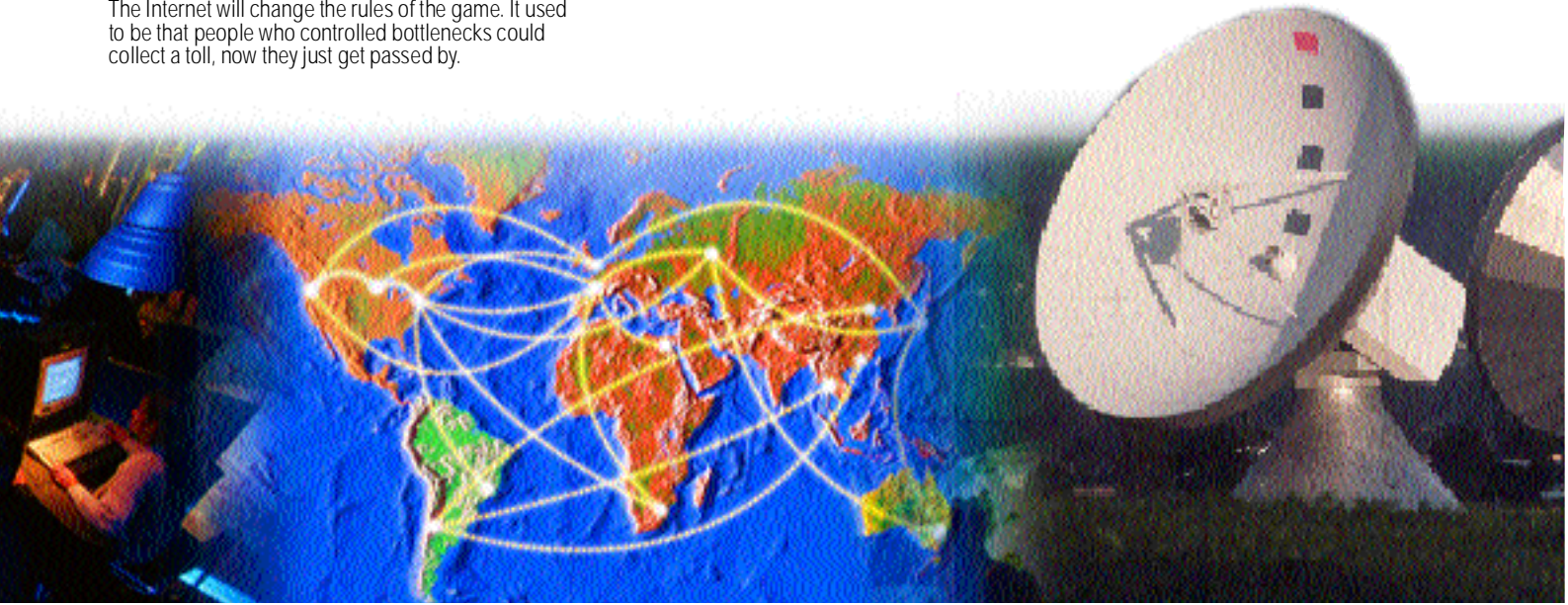
From the customer perspective acceptance is a key issue. One should always remember that besides the rational transaction, such as electronic shopping, people also want to buy a social experience. The balance between the rational and the emotional dimension varies with age, with culture, education or current situation.

From the governmental view, certainly a loss of national control is evident. The enforcement of government rules and regulations will become much more difficult if there is just one country in the world that does not enforce the same ones or has even different rules. The respective activities are shifted electronically to that place. It is sort of the ultimate in Swiss banking. In fact the legislative process will be influenced on a global level.

In contrast, the unregulated parts of the Internet will become so filled with crime, filth and spurious information that most users will abandon them. Of course, crimes on earth such as abuse of children or fraud should remain crimes on the Internet.

The real challenge for society is getting people educated so that they can take their place in and contribute to the on-line community. The ability to use information is a personal power, a power to make one's own way in society, the power not to become a have-not. The Internet is a tool to, it is not a gift. Thus the issue is not about access but rather about education, about schools, about parents being involved in their kid's education.

The Internet will change the rules of the game. It used to be that people who controlled bottlenecks could collect a toll, now they just get passed by.



N° 11.

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Name: Hans Meier

Monat: Nov 1994

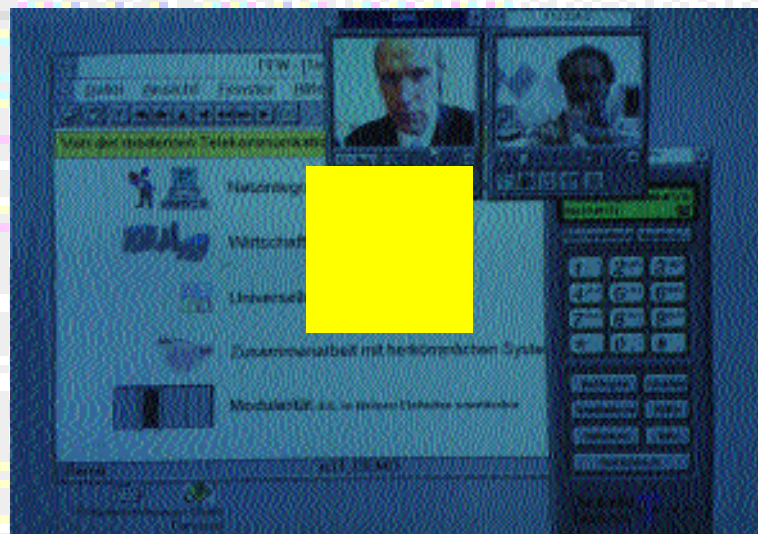
	Kommt	Geht		Kommt	Geht	
1TU	7.75	12.00				4.25
2ME	7.50	12.00				4.50
3TH	7.00	11.50	13.00	14.75	15.75	7.50
4FR	8.00	12.50	13.70	18.50		3.30
7MC	7.60	11.90	13.70	17.80		4.10
9ME	7.60	12.00	12.95	17.70		4.30
10TH	8.00	12.10	13.50	17.90		4.50
11FR	7.95	12.05	13.55	17.90		4.45
14MO	7.55	12.05				4.50
15TU	8.00	12.10				4.10

Stunden	ite 1	80.25
Stunden	ite 2	93.50
Ferien	9.11.94	8.50
Krank	14.11.94	4.70
Überstunden		
Gesamtstunden		186.35
Saldo Vormonat	+	2.00
Sollstunden		187
Soldovortrag Folgemonat	+	

A timecard was usually used in the past to keep track of the time worked – but the time stamped on the card only recorded the employee's presence and not the efficiency on the job.

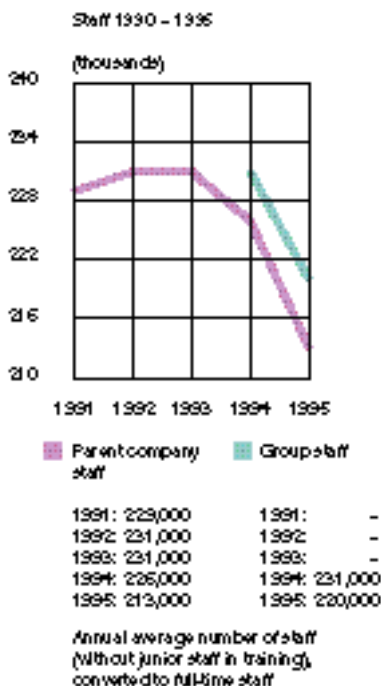
From the company

A young corporate group prepares itself for the risks and opportunities of liberalized telecommunications markets.



Teleworking:
Thanks to extensive internetworking, it is possible to work much more efficiently in the virtual office – and the workstation can be at home or anywhere else when you are on the go.

Employees: Competition opens up new prospects.



Qualified and motivated employees are an important resource that strongly influences a company's success. Deutsche Telekom practices modern personnel management in order to develop this resource systematically. Such management is the basis for enhancing productivity and competitiveness.

Continuity in spite of comprehensive changes

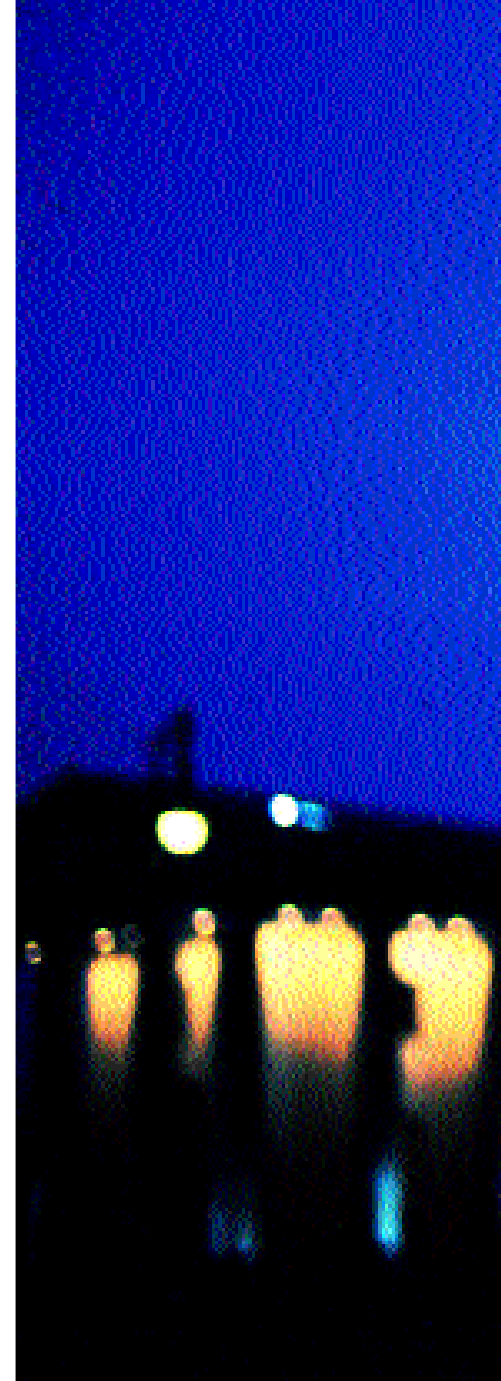
On 1 January 1995, the employees of Deutsche Bundespost Telekom became employees of Deutsche Telekom AG. This transition brought changes – and yet continuity is being preserved. Applicable civil-service law, as well as collective agreements that are applicable to employees without civil-service status and were concluded before the transition date, have retained their validity.

The company's transformation into a stock corporation (AG) paved the way for introduction of market and performance-oriented personnel policies. This has enabled the company to act more flexibly in personnel issues. For example, in 1995 the legal basis for greater personnel mobility was created. Deutsche Telekom also concluded the nation's first collective agreement for teleworking last year.

One of Germany's largest employers

At the end of 1995, the Group had about 213,500 employees (figure converted to full-time employees; does not include trainees). This represents a workforce reduction of about seven percent over the previous year.

Deutsche Telekom is a young company: 37 percent of its employees are younger than 35 years old. In 1995, it had about 11,400 trainees.



New personnel policy

To enhance its competitiveness, Deutsche Telekom has had to increase its overall productivity. This has meant increasing revenue and lowering costs – the latter also through workforce reductions. The company's history as a public company, and technical progress, are the reasons why its workforce is currently still larger than necessary. This especially applies to technical personnel. Retraining is providing new prospects for such employees in commercial and customer-service areas, which are growing in importance very rapidly.



“The ‘Metropole Berlin’ project is Deutsche Telekom’s contribution to the development of the capital city. We are totally committed to making the vision of the city of the future a reality.”

Dieter Getzin,
Project Manager of ‘Metropole Berlin’,
in front of the Brandenburg Gate

**Personnel adjustments:
two paths to the goal**

The company plans to decrease its Group workforce to 170,000 by the year 2000. The necessary personnel adjustments are being made in the course of staff turnover and, wherever possible, in a socially compatible manner. Older employees, civil servants, workers and salaried employees alike all have the option of taking advantage of special early retirement plans. To younger employees who are willing to leave the company, Deutsche Telekom offers appropriate severance pay.

With these and other measures, Deutsche Telekom was able to reduce its workforce by about 16,000 people in the year under review. Some 4,600 employees took early retirement, and about 10,400 accepted severance pay to leave the company. Since workforce reductions are currently taking place on a voluntary basis, personnel short-

ages occurred in some regions and technical areas; such understaffing was compensated for through personnel moves.

As of Spring 1996, a new option has been added to the status quo: civil servants can take leaves of absence and continue their employment as regular salaried employees (not civil servants). A termination contract can then be concluded, subject to mutual agreement between the employee and the employer.

Motivation is all-important

Employee qualification and support are important motivational factors – factors that play a central role in the company. Deutsche Telekom sees a strong link between development of younger managers and its own competitiveness and success. Such managers receive direct, efficient support, as part of individual career planning.

In addition, the company is strongly emphasizing well-functioning internal communications during the restructuring process. A wide range of media and events provide direct information and foster ongoing employee dialog.

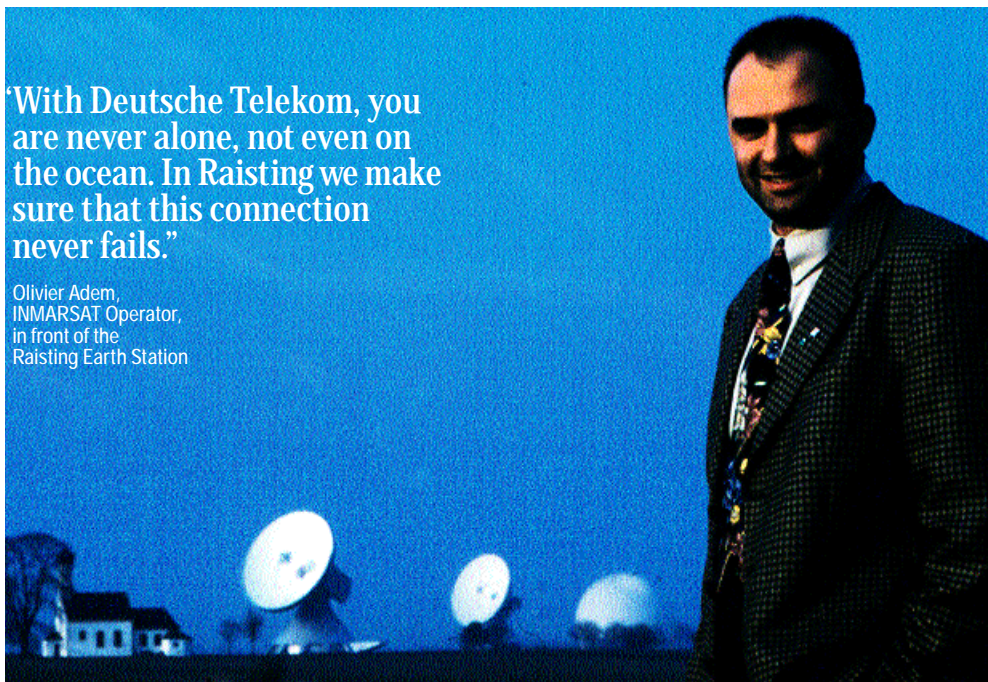
Internationalization in the personnel sector

Deutsche Telekom maintains a database with information about over 5,000 employees who are interested in work abroad. As part of the global orientation, special development and support programs have been established to promote personnel internationalization.

Network technology: Faster, easier and better communications on the Infobahn.

“With Deutsche Telekom, you are never alone, not even on the ocean. In Raisting we make sure that this connection never fails.”

Olivier Adem,
INMARSAT Operator,
in front of the
Raisting Earth Station



prising more than 105,000 kilometers of laid optical fiber cable, was one of the world's largest. Deutsche Telekom is also one of the world's leading operators of broadband cable networks; over 15.8 million homes are connected to its network.

By the end of 1995, a total of 5.9 million ISDN channels were in place in Western Europe, and 9.3 million had been installed worldwide; by the same time, Deutsche Telekom alone had sold nearly three million ISDN channels.

Intelligence in the network

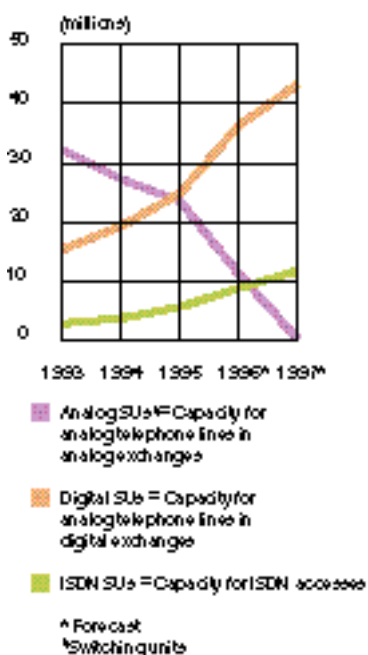
Deutsche Telekom has continued to refine its “intelligent network” systematically. In this network concept, a central computer provides the necessary functions for implementing intelligent services. This effort is making it possible to introduce value-added services quickly and at reasonable cost.

By using synchronous transmission technology in conjunction with a modern network management system, Deutsche Telekom has become the world's first network operator to be able to centrally control broadband transmission paths, analyze network faults and provide immediate back-up routing. This has all been made possible by the “Protos-E” network management center. “Protos-E” is the traffic-control system for the German Infobahns.

Technology of the future: ATM

Deutsche Telekom successfully completed a pan-European pilot project that tested ATM, a technology of the future. A number of follow-on projects have built on this success. One of these was an extensive national-level ATM pilot project that went into full-scale operation at the end of 1995. The aim of the network-evolution programs, which have long-term time frames, is the development of a universal network platform offering all services on an ATM basis.

Digitization
Development so far and forecast



Germany has one of the world's most modern telecommunications networks. And Deutsche Telekom is continuing to push ahead the evolution of an innovative and flexible network platform, to ensure that all its customers have access to the Infobahns – i.e., the communications resources of tomorrow – in Deutsche Telekom's T-Net.

Digitization accelerated

A key role in this connection is played by network digitization. Digitization makes it possible to offer customers a wider range of features, and it is supporting further improvements in network security. An ambitious program is being carried out that will complete digitization by the end of 1997. In 1995 alone, nearly seven million digital switching units were put into operation.

Along with digitization, installation of optical fiber – including fiber in the loop – is continuing at a fast pace. As of the end of 1995, Deutsche Telekom's optical fiber network, com-

Research and development: Networks, applications and services of tomorrow.

As a telematics services provider, Deutsche Telekom sees enormous growth potential in the new multimedia services and products. New markets are available to be opened up and developed.

In 1995, Deutsche Telekom reoriented its research and development strategy to keep pace with the very rapid development in this area. On 1 December, as part of this effort, it founded its Technology Center, with main locations in Darmstadt and Berlin and 17 additional locations. Research and development at the new Technology Center in Darmstadt is concentrated on networks. In this context, a Network Security Center was established, also in Darmstadt.

At its Technology Center's Berlin location, Deutsche Telekom's main focus is on services and applications. Its DeTeBerkom subsidiary, whose main activities are applications research and projects, fits ideally within this new concept.

Increasingly, the company is leaving its basic research up to universities and public research establishments. Deutsche Telekom cooperates extensively with such institutions.

Software development increasingly important

The importance of software in telecommunications – and, thus, the importance of software for Deutsche Telekom – is continuously increasing. The Software Development Centers in Berlin, Darmstadt, Bremen, Essen and Saarbrücken develop software to enhance internal performance and to support applications related to services and products.



“Deutsche Telekom is paving the way for the information society. My aim is to prepare the coming generation for the new challenges.”

Christine Seidel,
Project Manager of
DeTeBerkom Berlin
in the Schiller
Secondary School
(Oberschule)

On 15 September 1995, Multimedia Software GmbH, a wholly owned subsidiary located in Dresden, began operations. It focuses intensively on software development for multimedia services, especially interactive services for distributive and individual multimedia communications. As part of this work, Multimedia Software is supporting an interactive TV pilot project launched in Berlin in 1995.

Multimedia via ATM

In June, the first multimedia connection between Germany and the USA, via interconnected ATM networks, was implemented. ATM transmission has become also routine procedure for the ZDF TV network. Under the project name MAY (Multimedia Application on Intercontinental Highways), telematics services such as telecooperation, telemedicine and teleworking are being implemented via networks of Deutsche Telekom and the U.S. based Sprint Corporation.

At the International Radio Exhibition in Berlin, Deutsche Telekom demonstrated the world's first transmissions of live TV broadcasts over its ATM Infobahn, rather than over conventional analog transmission paths. At the end of the year, the company, in cooperation with the Federal Ministry for Research and Technology, announced the “Schools to the Network” project.

In the last fiscal year, the company's direct R&D expenditures amounted to about 1.3 billion DM, or about two percent of the Group's revenue.

Environmental protection: Combining our strengths to use resources optimally.

“Deutsche Telekom connects people – at any time and in any location. And the company also thinks about the environment and economical energy use.”

Michael Dänel,
Service Expert, Dresden,
in front of a solar and
wind powered telephone
booth. In his hand he
holds keys for the
telephones in his area



In early 1995, Deutsche Telekom AG established a central office for environmental protection to coordinate all its activities in this field. In this way, the company wants to meet the growing operational and legal requirements of environmental protection and make it possible to look at environmental protection in the company as a whole. The central office is located in Darmstadt and has branch and regional offices throughout the country.

Declaration of environmental policy principles

The central office for environmental protection is developing an environmental management system, which is intended to reduce Deutsche Telekom's impact on the environment. To this end, it is elaborating a declaration of environmental policy principles, an environmental program with concrete aims and a catalog of measures based on these aims. The latter envisages purchasing as far as possible products and materials less damaging to the environment and optimizing the use of resources. This means above all: lowering energy consumption, greater use of recycled material and generating less waste.

Pilot project for alternative energies

Telephone booths operated using wind and solar energy are currently being tested in a pilot project for the use of alternative energies. Sun and wind can be made use of in a way that makes both economic and ecological sense.

In order to promote the use of recycled plastic, a number of the company's technical terms of delivery stipulate that the use of recycled materials should be given priority, eg, in the case of external plant and terminal equipment. For instance, new telephone booths and semi-open telephone booths as well as cable distribution box housing are being manufactured using 25% recycled material. In addition, Deutsche Telekom is also continuing to provide telephone cards and telephone casing made using a high proportion of recycled material.

Early fulfillment of statutory environmental requirements

In order to identify potential for generating less waste and reducing disposal costs, Deutsche Telekom AG has set up an information system that shows the amount and cost of the waste it generates. This means that the company is already able to meet the statutory requirements of the German Closed Substance Cycle and Waste Management Act, which comes into force in October 1996.

In its very first year of existence, the central office began to provide information within the company about its activities. In order to implement the first measures, it is currently training about 100 experts to advise Deutsche Telekom's branch offices on all environmental matters.



The small windmill next to the telephone booth ensures that there is an independent supply of power, even in remote areas.

Organization: A group with a high profile.



Today, Deutsche Telekom is much more than just a single company. Over the past year, it has become an integrated high-tech group that comprises a large number of national and international subsidiaries and associated companies (cf. p. 23). Deutsche Telekom is the parent company at the center of this powerful network. It sets strategic goals to guide its affiliated companies, which are largely autonomous in their own operations, but which are oriented to the Group's overarching aims and policies.

Our motto: customer orientation

The Group's organizational principle is to achieve the best possible availability to the customer. This goal is being attained by the Group's specialized subsidiaries and affiliated companies, and

by the Group's complete network of branch offices. The branch offices have extensive decision-making competency, in keeping with principles of decentralized management.

In 1995, the process of building the Group was continued through the founding of additional subsidiaries and acquisitions of interests in new companies. Preparations were made for transfer of administration and marketing responsibility for all of the Group's buildings and properties to DeTe Immobilien, and for the spin-off of T-Online to become a subsidiary, Online Pro Dienste GmbH.

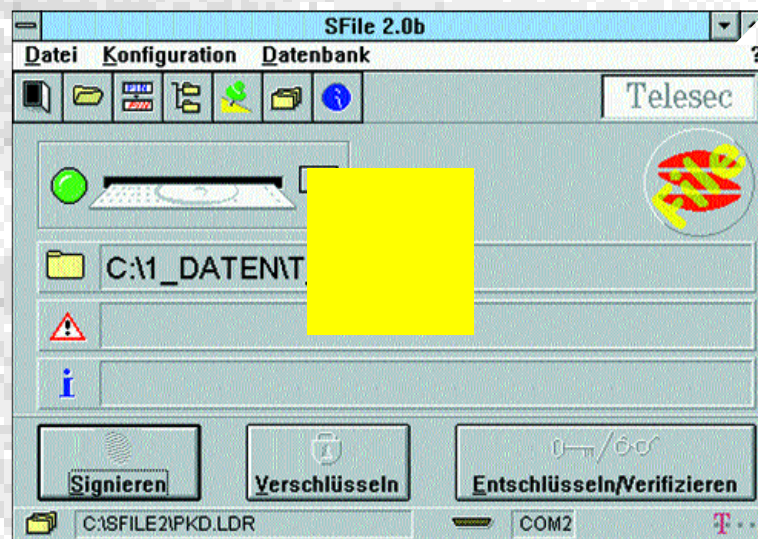
High priority for internationalization

The organizational guideline for 1995 and the coming year is: internationalization has top priority. A major step in this direction has been taken with the establishment of the new International Division.

In 1995, Deutsche Telekom's structural reorientation, part of the "Telekom Kontakt" project, was completed as each branch office was given an internal specialization in one of the following three divisions: residential customers, business customers or networks.

Plans for 1996 call for further adaptation of the organization to the rapidly changing environment. The organizational streamlining is being rapidly continued, so that the Group will be even better prepared for the changed market and competitive conditions. A special emphasis is being placed on designing efficient and customer-friendly business procedures.

Annual financial statement of Deutsche Telekom at 31 December 1995



Telesec stands for „Telecommunication security“. This electronic form of identification ensures that confidential electronic data can only be read by the right recipients.

Consolidated balance sheets

Assets	Note	31 Dec 1995 (millions of DM)	1 Jan 1995 (millions of DM)
Noncurrent assets			
Intangible assets	(B1)	796	628
Property, plant and equipment	(B2)	133,755	135,205
Financial assets	(B3)	4,664	3,383
		139,215	139,216
Current assets			
Inventories	(B4)	2,305	2,539
Receivables	(B5)	6,852	6,022
Other assets	(B6)	853	1,485
Liquid assets	(B7)	10,008	17,808
		20,018	27,854
Prepaid expenses and deferred charges	(B8)	1,014	996
		160,247	168,066
Shareholders' equity and liabilities			
Shareholders' equity			
Capital stock	(B9)	10,000	10,000
Additional paid-in capital	(B10)	11,292	10,976
Retained earnings (deficit)	(B11)	2,144	(1,646)
Unappropriated net income		1,291	-
Minority interest	(B12)	5	2
		24,732	19,332
Accruals			
Pensions and similar obligations	(B13)	6,029	5,844
Other accruals	(B14)	6,964	5,530
		12,993	11,374
Liabilities			
Debt	(B15)	110,387	125,459
Other liabilities		11,646	11,396
		122,033	136,855
Deferred income		489	505
		160,247	168,066

Consolidated statements of income

	Note	1995 (millions of DM)	1994 (millions of DM)
Revenue	(11)	66,135	63,814
Increase in inventories and other own capitalized costs	(12)	3,320	3,704
Total operating performance		69,455	67,518
Other operating income	(13)	2,138	1,921
Goods and services purchased	(14)	(9,506)	(9,285)
Personnel costs	(15)	(18,502)	(18,157)
Depreciation and amortization	(16)	(15,377)	(14,589)
Other operating expenses	(17)	(9,685)	(8,268)
Financial income (expense), net	(18)	(8,211)	(7,927)
Income from continuing operations		10,312	11,213
Extraordinary loss	(19)	(1,264)	(357)
Special charge relating to other Post entities	(110)	-	(2,320)
Levy to the Fed. Rep. of Germany, taxes	(111)	(3,778)	(4,945)
Income after taxes		5,270	3,591
Loss applicable to minority shareholders	(112)	2	4
Net income	(113)	5,272	3,595
Transfer to retained earnings		(3,981)	
Unappropriated net income (unappropriated net income of Deutsche Telekom AG)		1,291	

Consolidated noncurrent assets

(millions of DM)	Acquisition or production cost					31 Dec 1995
	1 Jan 1995 ¹	Translation adjustment	Additions ¹	Reclassifications	Disposals	
Intangible assets						
Franchises, operating licenses, intellectual property and similar rights and assets, and licenses under such rights and assets	728	–	290	309	99	1,228
Goodwill						
from separate financial statements	1	–	–	–	–	1
arising from capital consolidation	48	–	43	–	1	90
Advance payments relating to intangible assets	32	–	1	(27)	–	6
	809	–	334	282	100	1,325
Property, plant and equipment						
Land, equivalent rights to real property, and buildings, including buildings on land owned by others	35,675	–	1,932	624	219	38,012
Technical equipment and machinery	90,756	–	9,030	3,547	1,397	101,936
Other equipment, plant and office equipment	3,273	(1)	1,101	273	244	4,402
Advance payments relating to property, plant and equipment and construction in progress	6,483	–	3,320	(4,726)	309	4,768
	136,187	(1)	15,383	(282)	2,169	149,118
Financial assets						
Investments in affiliated companies	0	–	–	–	–	0
Long-term loans to affiliated companies	1	–	–	–	–	1
Investments in associated companies	688	(191)	1,713	(6)	92	2,112
Other investments in related companies	747	–	142	(16)	71	802
Long-term loans to associated and related companies	38	–	67	22	10	117
Other investments in noncurrent securities	1	–	11	–	–	12
Other long-term loans	1,920	–	20	–	222	1,718
	3,395	(191)	1,953	–	395	4,762
	140,391	(192)	17,670	–	2,664	155,205

¹ Including balances carried forward from companies consolidated for the first time.

1 Jan 1995 ¹	Depreciation, amortization and write-downs					31 Dec 1995	Net book	Net book
	Translation adjustment	Additions	Write-ups	Reclassifications	Disposals		value 31 Dec 1995	value 1 Jan 1995
138	-	343	-	-	1	480	748	590
-	-	-	-	-	-	-	1	1
43	-	6	-	-	-	49	41	5
-	-	-	-	-	-	-	6	32
181	-	349	-	-	1	529	796	628
36	-	1,267	-	-	5	1,298	36,714	35,639
813	-	12,642	1	3	473	12,984	88,952	89,943
133	-	1,119	-	(3)	168	1,081	3,321	3,140
-	-	-	-	-	-	-	4,768	6,483
982	-	15,028	1	-	646	15,363	133,755	135,205
0	-	-	-	-	0	0	0	0
-	-	-	-	-	-	-	1	1
9	(1)	84	-	-	-	92	2,020	679
3	-	-	-	-	-	3	799	744
-	-	3	-	-	-	3	114	38
-	-	-	-	-	-	-	12	1
-	-	-	-	-	-	-	1,718	1,920
12	(1)	87	-	-	-	98	4,664	3,383
1,175	(1)	15,464	1	-	647	15,990	139,215	139,216

Consolidated statements of cash flows

	1995 (millions of DM)	1994 (millions of DM)
Net income	5,272	3,595
Depreciation and amortization	15,377	14,589
Income tax expense	614	64
Net interest expense	8,197	7,848
Net losses on disposition of noncurrent assets	1,337	940
Accruals for personnel restructuring measures	785	349
Special charge relating to other Post entities	-	2,320
Other noncash income, net	390	597
Increase/decrease in receivables	(815)	404
Increase/decrease in inventories	234	126
Decrease in trade accounts payable	(351)	(826)
Other changes	627	1,142
Income taxes paid	(32)	(58)
Dividends received	8	-
Cash flow from operations	31,643	31,090
Interest paid	(8,804)	(7,509)
Interest received	848	533
Cash provided by operating activities	23,687	24,114
Purchases of intangible assets and property, plant and equipment	(14,574)	(19,253)
Purchases of financial assets	(1,980)	(771)
Proceeds from disposals of noncurrent assets	390	421
Changes in temporary cash investments and marketable securities	2,843	(9,342)
Cash used for investing activities	(13,321)	(28,945)
Changes in short-term borrowings	(954)	471
Issuance of long-term debt	-	17,275
Repayment of long-term debt	(14,278)	(6,679)
Lease payments by lessee (financial leases)	(2)	-
Cash (used for) provided by financing activities	(15,234)	11,067
Effect of exchange rate movements on cash and cash equivalents	(89)	-
Net change in cash and cash equivalents	(4,957)	6,236
Cash and cash equivalents at beginning of year	8,465	2,229
Cash and cash equivalents at end of year	3,508	8,465

Notes to consolidated financial statements

Summary of accounting policies

As part of the Postal Reform II in Germany, Deutsche Bundespost Telekom, which had been operated as a public enterprise until year-end 1994, was transformed into a stock corporation under German law at the beginning of 1995. The new company, Deutsche Telekom AG, was registered with the Commercial Registry of the Bonn District Court (HRB 6794) on 2 January 1995. The sole shareholder is the Federal Republic of Germany, represented by the Deutsche Bundespost Federal Posts and Telecommunications Agency (Bundesanstalt für Post und Telekommunikation Deutsche Bundespost).

As a stock corporation, Deutsche Telekom AG was required, for the first time at 31 December 1995, to prepare consolidated financial statements and a management report in compliance with the requirements of the German Commercial Code (HGB) and the German Corporation Act (AktG).

Both the consolidated balance sheets and the consolidated statements of income comply with the legal requirements for financial statements classification as set forth in §298 in conjunction with §266 and §275 of the German Commercial Code, with the statement of income being prepared according to the total cost method. All amounts shown are in millions of German marks (DM). Certain items in the balance sheet and in the statement of income have been combined to enhance the informative value and presentation of the consolidated financial statements. These items are shown separately in the Notes. As allowed under German law, consolidated statements of cash flows have also been provided.

The comparative figures shown in the consolidated balance sheets at 1 January 1995 are based on Deutsche Telekom AG's opening balance sheet at 1 January 1995. For the consolidated statements of income, prior-year figures have been prepared on a comparable basis although there is no legal requirement to publish these prior-year financial statements.

In conjunction with the internationalization of Deutsche Telekom AG's accounting policies, consolidated financial statements were also prepared in accordance with the U.S. Generally Accepted Accounting Principles (U.S. GAAP) to the extent permissible under German commercial law, in order to minimize the differences to be reported in the reconciliation of net income and shareholders' equity to U.S. GAAP, which is required for a listing on the New York Stock Exchange (NYSE).

While providing telecommunications services continues to be Deutsche Telekom's major field of activity, the remaining segments served by the company account for less than ten percent of total revenue, net income or assets. The majority of its business volume is generated in Germany, with no single customer accounting for more than ten percent of consolidated revenue. For this reason, no segment reporting section has been included.

Accounting and valuation

The annual financial statements included in the consolidated financial statements are prepared according to uniform principles of accounting and valuation. The following deviations from the accounting principles employed in the separate unconsolidated financial statements of Deutsche Telekom AG were adopted to conform with U.S. GAAP:

- Leased property, plant and equipment which is to be classified as purchased assets involving long-term financing (financial leases) are stated at the acquisition cost that would have accrued had the asset been purchased, in accordance with Statement of Financial Accounting Standards (SFAS) No. 13 (Accounting for Leases). Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease, whichever is the shorter. The payment obligations resulting from future lease payments are included as liabilities.
- Interest relating to construction is capitalized in the production cost of property, plant and equipment.
- Direct pension obligations are valued in accordance with SFAS No. 87, using a similar valuation method as that applied to indirect pension obligations in the separate financial statements of Deutsche Telekom AG.
- Accruals for the in-house cost of annual financial statements are not recorded.

The following individual accounting and valuation methods have been applied.

Intangible assets purchased for consideration are valued at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life. Research and development expenses are not capitalized.

As permitted by the Stock Corporation Transformation Act (Postumwandlungsgesetz), property, plant and equipment transferred to Deutsche Telekom AG on 1 January 1995 were recorded in the opening balance sheet of Deutsche Telekom AG at fair market values except for assets acquired since 1 January 1993, which are recorded at historical acquisition or production cost. The remaining useful lives and the depreciation method applicable to these assets were not changed.

Generally, property, plant and equipment is valued at acquisition or production cost, less scheduled depreciation. In addition to directly allocable costs, production costs of company-produced plant and equipment includes an appropriate allocation of material and production overhead as well as interest accruing during construction. However, general administration expenses are not capitalized.

Extraordinary depreciation is provided as a result of an anticipated impairment of the value of assets. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the separate financial statements to increase tax-deductible expenses has not been recognized in the consolidated financial statements.

Depreciation is generally provided on a straight-line basis over the following useful lives:

	Years
Intangible assets	3 to 4
Goodwill	5 to 12
Buildings	
Office and residential buildings	50
Factory buildings, telecommunications towers	25 to 30
Workshop buildings, outdoor installations and facilities	10
Telephone equipment and terminals	4 to 10
Data communication equipment, telephone network and ISDN switching equipment, transmission equipment, radio equipment, technical equipment for broadband distribution networks	8 to 10
Broadband distribution networks, outside plant networks, cable conduit lines	15 to 20
Telecommunications equipment, telecommunications supplies and other	3 to 10
Other equipment, plant and office equipment	3 to 20

Additions to real estate property are depreciated pro rata temporis. Depreciation on additions to movable assets during the first and second half of the year is calculated using full or half-yearly rates respectively, as allowed on the basis of the tax simplification rule.

Minor fixed assets are written off in the year of acquisition, with disposal being recorded in the same year.

Investments and other financial assets are valued at the lower of cost or market. Low-interest or non-interest-bearing loans are recorded at the net present value.

Raw materials and supplies and merchandise for resale are valued at acquisition cost, while work in process and finished products are stated at production cost (directly allocable costs plus an appropriate allocation of material and production overhead). The values applicable at the balance sheet date are recorded if they are lower. A reasonable and sufficient allowance is made for declines in value due to slow-moving items, technical obsolescence and reductions in fair value.

Receivables and other assets are shown at their nominal value. Allowances for doubtful accounts are set up for known individual risks and general credit risks. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

Pensions and annuity obligations are calculated in accordance with the internationally accepted Projected Unit Credit Method, compliant with SFAS No. 87.

Provisions for taxes and other accruals have been recorded using best estimates.

Deferred taxes are calculated for the temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences resulting from consolidation entries. The resulting balance is shown separately under other accruals. Deferred taxes on differences affecting Deutsche Telekom AG have not been included in the present consolidated financial statements as it was tax exempt through 31 December 1995. As required by the German Commercial Code, accruals for maintenance, deferred during the financial year but performed within the three months following the year end, have been included under liabilities. Such cost would not be accrued under the U.S. GAAP.

Liabilities are recorded at their repayment amount, while pension obligations are stated at their present value. In instances where the repayment amount of a liability is greater than the principal amount, the difference is capitalized and recognized over the maturity period of the liability.

Consolidated group

In addition to Deutsche Telekom AG as the parent company, the consolidated financial statements include 46 (1 January 1995: 38) domestic and 11 (1 January 1995: seven) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

Notable subsidiaries consolidated for the first time include Multimedia Software GmbH Dresden, Dresden and Online Pro Dienste GmbH & Co. KG, Bonn. The changes in the number of consolidated companies, amounting to less than 1% of consolidated revenue, did not have a material effect on the consolidated financial statements.

Five (1 January 1995: two) subsidiaries were not included because they have little or no significance for the presentation of Deutsche Telekom's financial position, results of operation and cash flows. These subsidiaries provide less than 1% of consolidated revenue.

In accordance with §311 (1) of the German Commercial Code, 33 (1 January 1995: 30) companies over which Deutsche Telekom exercises a significant influence have been classified as associated companies and accounted for under the equity method.

The remaining 11 (1 January 1995: seven) associated companies have little or no significance for Deutsche Telekom's financial position, results of operations and cash flows and are included as other investments in related companies at acquisition cost, less applicable write-downs.

The full list of investment holdings, which is available upon request, is filed with the Commercial Registry of the Bonn District Court (HRB 6794).

**Principal subsidiaries
and associated companies**

Name and registered office	Deutsche Telekom share 31 Dec 1995 (%)	Shareholders' equity 31 Dec 1995 (millions of DM)	Revenue (1995) (millions of DM)	Income after taxes (1995) (millions of DM)	Employees (1995) (annual average)
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100	2,250	4,371	138	4,600
DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster	100	101	1,094	0	465
DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt/Main	100	94	664	45	399
DeTeLine Deutsche Telekom Telekommunikationsnetze GmbH, Berlin, Rastatt	100	8	130	1	544
DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main	100	19	1,307	(25)	742
TKS Telepost Kabel-Servicegesellschaft GmbH, Bonn ¹	97.56	60	214	13	320
Matáv Magyar Távközlési Rt., Budapest, Hungary ¹	30.14 ²	1,612	1,624	67	19,936
Satelindo PT Satelit Palapa Indonesia, Jakarta, Indonesia	25	870	87	9	534

¹ Preconsolidated subgroup financial statements

² Held through MagyarCom, Cayman Islands (Deutsche Telekom AG share: 50%).

<p>Foreign currency translation</p>	<p>In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are translated at the exchange rate existing on the transaction date. Losses due to exchange rate fluctuations are recognized currently in the income statement, while unrealized gains are deferred until they are realized. Where foreign currency items have been hedged by forward exchange transactions, they are valued at the corresponding hedge rate.</p>	<p>In the consolidated financial statements, the translation of all balance sheets of foreign subsidiaries from the applicable foreign currency into German marks is performed using the middle rates on the balance sheet date. The gains and losses resulting from translation are recorded directly in retained earnings (deficit).</p> <p>Revenue and expense accounts as well as net income or losses are translated using average exchange rates during the year.</p>
<p>Principles of consolidation</p>	<p>Capital consolidation is accomplished using the book value method. Under this method, the purchase price of investments in subsidiaries is offset against the amounts which these investments represent in the equity of the subsidiaries at the time of acquisition. Any resulting excess of purchase consideration over the net assets acquired is capitalized as goodwill. Negative goodwill from capital consolidation is recorded under other accruals.</p> <p>Profits or losses generated by subsidiaries during their period of affiliation with the consolidated group are included in retained earnings (deficit). The unappropriated net income reported in the financial statements represents the net income of Deutsche Telekom AG. Accordingly, the effects of consolidation and the net income of subsidiaries are included in retained earnings (deficit).</p> <p>Revenue, expenses and income, and receivables and liabilities between the consolidated companies have been eliminated. The elimination of all intercompany profits and losses as well as the differences resulting from elimination of intercompany debt are reflected in the consolidated financial statements.</p>	<p>The consolidated balance sheets include deferred taxes from the effects of consolidation where the tax expense is expected to be eliminated in later financial years, except where the effects of consolidation relate to the parent company which was tax-exempt through 1995.</p> <p>The investments in associated companies included at equity are accounted for using the book value method by applying Deutsche Telekom's uniform principles of valuation. The principles used for full consolidation are also applied in treating the difference resulting from initial consolidation. It was not necessary to eliminate intercompany profits and losses as they are of little or no significance.</p> <p>Joint ventures have been included in the consolidated financial statements using the equity method.</p>

Notes to the consolidated balance sheets

(B1) Intangible assets	Intangible assets of DM 796 million include purchased computer software, patents, goodwill included in the separate financial statements and capital consolidation and, to a lesser extent, advance payments.	The increase of DM 168 million over the prior year is related primarily to purchases of standard software. The year under review included non-scheduled amortization of intangible assets amounting to DM 1 million.
(B2) Property, plant and equipment	The decrease in property, plant and equipment by DM 1,450 million to DM 133,755 million is a result of DM 15,028 million in depreciation expense, DM 1,523 million in disposals at net book value, and DM (282) million in reclassifications and DM (1) million in translation adjustments, offset by DM 15,383 million in additions and DM 1 million in write-ups.	Nonscheduled depreciation amounted to DM 1 million. Capital expenditures made during 1995 relate mainly to the changeover from analog to digital switching and transmission technology as well as programs to modernize the outside plant network.
(B3) Financial assets	Financial assets primarily include investments in associated companies of DM 2,020 million (1 January 1995: DM 679 million), other long-term loans of DM 1,718 million (1 January 1995: DM 1,920 million) and other investments in related companies of DM 799 million (1 January 1995: DM 744 million). DM 1,026 million of the additions to investments in associated companies is related to Satelindo, while a further DM 646 million concerns Matáv.	This figure includes acquired goodwill of DM 823 million. Nonscheduled depreciation on loans to associated and related companies totaling DM 3 million was recorded. The write-downs on investments in associated companies relate to scheduled amortization of goodwill.

(B4) Inventories

	31 Dec 1995 millions of DM	1 Jan 1995 millions of DM
Raw materials and supplies	875	1,128
Work in process	841	796
Finished goods	587	609
Advance payments	2	6
	2,305	2,539

The decrease in inventories compared with the prior year is mainly due to

changes at Deutsche Telekom AG.

(B5) Receivables	31 Dec 1995 millions of DM	1 Jan 1995 millions of DM
Trade accounts receivable	6,820	6,005
Receivables from affiliated companies	0	0
Receivables from associated and related companies	32	17
	6,852	6,022

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

All receivables are due within one year.

(B6) Other assets	31 Dec 1995 millions of DM	1 Jan 1995 millions of DM
Tax receivables	147	71
Accrued interest receivables	142	2
Receivables from cost reimbursements	128	85
Receivables from employees	114	130
Miscellaneous	322	1,197
	853	1,485

The decrease in miscellaneous other assets is mainly attributable to the absence of the advance payment recorded in the prior year arising from the obligation to pay levies pursuant to §63 of the Deutsche Bundespost Con-

stitution Act (PostVerfG). This obligation amounted to DM 1,000 million. Other assets are due within one year. Of the total amount, DM 249 million arose after the balance sheet date.

(B7) Liquid assets	31 Dec 1995 millions of DM	1 Jan 1995 millions of DM
Cash and cash equivalents		
(original maturity less than 3 months)	3,508	8,465
Temporary cash investments		
(original maturity longer than 3 months)	6,500	9,342
Marketable securities	-	1
	10,008	17,808

Cash and cash equivalents primarily include fixed-term deposits at banks, but also cash on hand, deposits at the

Bundesbank and Postbank, and checking accounts.

(B8) Prepaid expenses and deferred charges	Prepaid expenses and deferred charges of DM 1,014 million (1 January 1995: DM 996 million) primarily relate to prepaid personnel costs totaling DM 673 million at Deutsche Telekom AG.	Also included are discounts on loans of DM 283 million which are amortized on a straight-line basis over the terms of the related liabilities.
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(B9) Shareholders' equity

Shareholders' equity has developed as follows:

(millions of DM)	Capital stock	Additional paid-in capital	Retained earnings		Total	Unappropriated net income	Minority interest	Total
			Translation adjustment	Other retained earnings				
Balance at January 1, 1995	10,000	10,976	(134)	(1,512)	(1,646)		2	19,332
Net income				3,981	3,981	1,291	(2)	5,270
Other		316						316
Translation adjustment			(191)		(191)			(191)
Capital contributions							5	5
Balance at 31 December 1995	10,000	11,292	(325)	2,469	2,144	1,291	5	24,732

(B10) Capital stock and additional paid-in capital

The capital stock and additional paid-in capital of the consolidated group are equal to the capital stock and additional paid-in capital of Deutsche Telekom AG.

Pursuant to §5 (1) of the Articles of Incorporation, the capital stock of Deutsche Telekom AG amounts to DM 10,000 million, divided into 2 billion common bearer shares, each with a par value of DM 5.

Under the Articles of Incorporation, the Board of Management is authorized to increase the capital stock of the company up to a total amount not exceeding DM 5 billion by issuing new shares against cash and noncash contributions within a period of five years following registration of Deutsche Telekom AG as a stock corporation. In compliance with §272 (2) no. 1 of the German Commercial Code, the noncash contributions of DM 10,976 million in excess of the capital stock of DM 10,000 million was transferred to additional paid-in capital in the open-

ing balance sheet of Deutsche Telekom AG. During 1995, a total of DM 316 million was transferred to the additional paid-in capital of Deutsche Telekom AG pursuant to §272 (2) no. 4 of the German Commercial Code. Such transfer was made under §32 (1) of the German Budget Act (Haushaltsgesetz) of 1995, which required Deutsche Telekom AG to use the levy payable to the Federal Republic of Germany arising from operating revenues generated in eastern Germany to enhance its shareholders' equity.

In a letter dated 10 July 1995, referring to §20 (4) of the German Corporation Act, the Deutsche Bundespost Federal Posts and Telecommunications Agency (Bundesanstalt für Post und Telekommunikation Deutsche Bundespost) informed Deutsche Telekom AG that the Federal Republic of Germany holds a majority interest in Deutsche Telekom AG pursuant to §16 (1) of the German Corporation Act.

(B11) Retained earnings (deficit)	<p>In addition to the transfers from net income for the year of Deutsche Telekom AG, retained earnings (deficit) include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were earned or lost by such subsidiaries since joining the consolidated group. This item also includes the cumulative effects of consolidation entries, while translation adjustments are recorded in a separate component of retained earnings.</p>	<p>The negative retained earnings of DM 1,646 million reported at 1 January 1995, is mainly attributable to the elimination of intercompany losses (DM 2,397 million) resulting from the transfer of mobile phone services from the parent company to a subsidiary. They are offset by the additional paid-in capital of DM 10,976 million recorded at the same date.</p>
(B12) Minority interest	<p>Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated sub-</p>	<p>siidiaries, primarily TKS, Bonn and Infonet, Frankfurt am Main.</p>
(B13) Pensions and similar obligations	<p>In addition to direct pension obligations, pension accruals include the indirect pension commitments made to employees through the Deutsche Bundespost Institution for Supplementary Pensions (Versorgungsanstalt der Deutschen Bundespost, or VAP) as well as obligations under Article 131 of the German Basic Law (GG). The total amount comprises DM 0.2 billion for direct and DM 5.8 billion for indirect pension obligations, respectively.</p> <p>Pension accruals increased to DM 6,029 million (1 January 1995: DM 5,844 million). When the assets of VAP are taken into account, the pension obligations are fully covered. The amount of the accrual was calculated using actuarial principles in accordance with SFAS No. 87, with a long-term capital market interest rate of 7% taken as the basis. Annual salary and pension rises of 3% and 2.5%, respectively, were assumed. The corresponding amount computed pursuant to §6a of the German Income Tax Act (EStG) is DM 5,497 million.</p>	<p>Deutsche Telekom AG operates its own retirement benefit fund for its civil service staff. Under the terms of the Posts and Telecommunications Reorganization Act (PTNeuOG), this fund is to provide pension and sickness allowances to retired staff and their surviving dependents who are entitled to such support as a result of their civil servant status. The size of Deutsche Telekom AG's financial obligations is governed by §16 of the Staff Legal Provisions Act (Postpersonalrechtsgesetz). Under this regulation, Deutsche Telekom AG is required to pay DM 2.9 billion into the company's retirement benefit fund each year from 1995 through 1999, and thereafter 33% of the gross income of civil servants on active duty and on leave of absence (cf. "Other Information", item 2 "Other financial obligations"). Deutsche Telekom AG has no other financial obligations to the retirement benefit fund; any shortfalls in funding will be covered by the Federal Republic of Germany.</p>

(B14) Other accruals

	31 Dec 1995 millions of DM	1 Jan 1995 millions of DM
Employee benefits		
Civil Service Health Insurance Fund	1,483	1,285
Personnel restructuring measures	785	349
Other obligations	627	614
	2,895	2,248
Provisions for taxes	596	44
Deferred taxes	108	78
Outstanding invoices	721	389
Litigation	713	455
Environmental remediation	448	841
Telephone charge units not yet invoiced	352	225
Deferred maintenance	151	332
Other	980	918
	6,964	5,530

When the Posts and Telecommunications Reorganization Act (PTNeuOG) came into force, the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse, PBeaKK) was closed to new members. Due to the aging of the group of people insured, there is an accepted shortfall between the fund's regular income and benefits paid. The present value of this future deficit has been computed in accordance with actuarial principles, with an accrual totaling DM 1,483 million (1 January 1995: DM 1,285 million) being recorded to provide for the share of this amount attributable to Deutsche Telekom AG.

To prepare for the new competitive environment, the company plans to reduce its work force by approximately 60,000 people between 1995 and 2000 by various means. Normal attrition and early retirement of civil servants will not present an additional financial burden for Deutsche Telekom AG. At the same time, accruals of DM 785 million and liabilities of DM 72 million have been included in the financial statements to cover the costs of

those measures aimed at downsizing personnel which had been established by way of collective agreements or individual settlements before the balance sheet was prepared. In addition, cash payments of DM 407 million were made to bring the extraordinary loss in 1995 to DM 1,264 million.

The increase in provisions for taxes was caused primarily by income taxes on Deutsche Telekom AG's dividends in the 1995 financial year. Accruals for deferred taxes are attributable to two factors. Accruals have been created firstly for the tax effects of temporary differences between the values permissible only under the tax laws that have not been incorporated in the consolidated financial statements, and secondly for deferred taxes resulting from the effects of consolidation.

(B15) Liabilities

(millions of DM)	31 December 1995				1 January 1995			
	Total	within one year	due in one to five years	after five years	Total	within one year	due in one to five years	after five years
Debt								
Bonds and debentures	96,386	9,412	36,933	50,041	102,286	5,970	37,469	58,847
Commercial papers	-	-	-	-	954	954	-	-
Liabilities to banks	14,001	1,765	6,215	6,021	22,219	5,506	10,593	6,120
	110,387	11,177	43,148	56,062	125,459	12,430	48,062	64,967
Other liabilities								
Advances received	143	143	-	-	146	145	1	-
Trade accounts payable	4,359	4,325	34	-	4,710	4,686	24	-
Liabilities to other companies in which an equity interest is held	104	104	-	-	40	40	-	-
Other liabilities	7,040	4,825	282	1,933	6,500	4,657	463	1,380
of which: from taxes	(266)	(266)	(-)	(-)	(73)	(73)	(-)	(-)
of which: from social security	(59)	(59)	(-)	(-)	(11)	(11)	(-)	(-)
	11,646	9,397	316	1,933	11,396	9,528	488	1,380
Total liabilities	122,033	20,574	43,464	57,995	136,855	21,958	48,550	66,347

Bonds and debentures relates mainly to bonds issued by Deutsche Bundespost at interest rates ranging from 4.1% and 9% p.a..

The bonds and debentures have the following structure (in millions of DM):

Interest rate	up to 6%	up to 7%	up to 8%	up to 9%	9%	Total
Due						
1996	-	6,162	1,430	1,820	-	9,412
1997	-	8,489	-	-	1,000	9,489
1998	-	2,391	362	4,446	-	7,199
1999	100	4,508	3,550	2,293	-	10,451
2000	-	5,637	2,237	1,920	-	9,794
after 2000	2,047	11,399	18,232	17,247	1,116	50,041
	2,147	38,586	25,811	27,726	2,116	96,386

The average interest rate applicable to debt is as follows:

Bonds and debentures 7.19 % p.a.
Liabilities to banks 7.01 % p.a.

Deutsche Telekom AG has reached agreements with a consortium of banks under which it can draw on short-term revolving credit facilities totaling DM 2.8 billion at the official rate of discount. Financial liabilities with a nominal value of DM 3.6 billion were repaid ahead of schedule in 1995.

A large portion of the debt is attributable to the construction of communication networks in eastern Germany.

Other liabilities relate primarily to deferred interest payment obligations of DM 3,813 million (1 January 1995: DM 3,602 million) arising after the balance sheet date, loan notes of DM 1,589 million (1 January 1995: DM 1,836 million), liabilities from leasing of DM 751 million (1 January 1995: DM 115 million), and DM 371 million (1 January 1995: DM 396 million) of commitments to employees, primarily relating to payroll for December 1995.

Subsidiaries' liabilities to banks are covered by DM 175 million (1 January 1995: DM 186 million) in assignments of receivables and collateral. Deutsche Telekom AG has not been required to provide security for its liabilities; pursuant to §2 (4) of the Stock Corporation Transformation Act (PostUmwG), the Federal Republic of Germany guarantees the discharge of liabilities existing at 1 January 1995.

Notes to the consolidated statements of income

(I 1) Revenue

Revenue is generated in the various areas of business as follows:

	1995 millions of DM	1994 millions of DM
Telephone services	51,748	49,144
Terminal equipment/service & support	4,007	4,071
TV/radio/audiovisual services	3,631	3,703
Mobile services	3,115	2,765
Text and data services	2,807	3,389
Publishing and telephone directories	500	418
Other activities	327	324
	66,135	63,814

Consolidated revenue by geographic areas:

	1995 millions of DM	1994 millions of DM
Domestic	64,043	61,613
International	2,092	2,201
	66,135	63,814

Breakdown of international revenue:

	1995	1994
EU countries (excl. Germany)	901	877
Rest of Europe	430	341
North America	271	512
Latin America	71	86
Other countries	419	385

(I 2) Increase in inventories and other own capitalized costs

	1995 millions of DM	1994 millions of DM
Increase in inventories of		
finished products and work in process	45	225
Own capitalized costs	3,275	3,479
	3,320	3,704

Own capitalized costs relate mainly to construction, including interest accrued during construction of DM 509 million (1994: DM 378 million).

(I 3) Other operating income

	1995 millions of DM	1994 millions of DM
Reversal of accruals	907	212
Cost reimbursements	247	611
Rental and leasing income	143	53
Insurance compensation	126	139
Foreign currency gains on deliveries and transactions	84	37
Other income	631	869
	2,138	1,921

In 1995, DM 933 million (1994: DM 771 million) of other operating

income relates to other financial years.

(I 4) Goods and services purchased	1995 millions of DM	1994 millions of DM
Cost of raw materials and supplies, and of goods purchased from third parties	1,883	1,845
Cost of services purchased from third parties	7,623	7,440
	9,506	9,285

The cost of services purchased from third parties consists primarily of remuneration for services provided by other domestic and international telecommunications companies totaling

DM 3,347 (1994: DM 3,497 million) and maintenance expenses, principally related to telecommunications equipment, totaling DM 1,363 million (1994: DM 1,368 million).

(I 5) Personnel costs/ Number of employees	1995 millions of DM	1994 millions of DM
Wages and salaries	13,197	13,099
Social security contributions and expenses for pension plans and allowances of which: for pension plans: DM 3,509 million (1994: DM 2,806 million)	5,305	5,058
	18,502	18,157

Employees (annual average)	Number	Number
Civil servants	117,138	119,311
Salaried employees	45,246	49,624
Wage earners	57,368	62,359
	219,752	231,294
Trainees, student interns	11,968	16,420
	231,720	247,714

(I 6) Depreciation and amortization	1995 millions of DM	1994 millions of DM
Amortization of intangible assets	349	261
Depreciation on property, plant and equipment	15,028	14,328
	15,377	14,589

(I 7) Other operating expenses	1995 millions of DM	1994 millions of DM
Net losses on disposition of noncurrent assets	1,390	964
Rental and leasing expenses	1,252	1,062
Nondeductible input taxes	972	665
Advertising expenses	935	539
Other personnel costs	726	261
Transfers to accruals	637	51
Legal and consulting fees	630	410
Provision for doubtful accounts	593	669
Travel expenses	415	391
Reimbursement of expenses to Deutsche Post AG and Deutsche Postbank AG	100	1,103
Other expenses	2,035	2,153
	9,685	8,268

(I 8) Financial income (expense), net	1995 millions of DM	1994 millions of DM
Income from investments	49	44
Loss related to companies accounted for under the equity method (including amortization of goodwill)	(190)	(121)
Loss related to affiliated, associated and related companies	(141)	(77)
Income from other debt and equity securities and long-term loans	130	1
Interest and similar income	988	533
Interest and similar expenses	(9,185)	(8,381)
Net interest expense	(8,067)	(7,847)
Write-downs on financial assets	(3)	(3)
Financial loss	(8,211)	(7,927)

(I 9) Extraordinary loss

This item includes charges for personnel restructuring measures of DM 1,264 million (1994: DM 357 million).

(I 10) Special charge relating to other Post entities

The prior year's amount relates to the losses of Deutsche Post AG and Deutsche Postbank AG absorbed for the last time, pursuant to the requirements of the Posts and Telecommunications Reorganization Act (PTNeuOG).

(I 11) Levy to the Federal Republic of Germany, taxes	1995 millions of DM	1994 millions of DM
Levy to the Federal Republic of Germany	3,098	5,164
Income taxes	614	64
Other taxes	66	(283)
	3,778	4,945

The levy to the Federal Republic of Germany, which was payable for the last time in 1995, resulted from the transitional financial provisions under §2 of Article 13 of the Posts and Telecommunications Reorganization Act (PTNeuOG) in conjunction with §63 (1) – (4) of the Deutsche Bundespost

Constitution Act (PostVerfG), as well as the regulation of §32 of the German Budget Act (Haushaltsgesetz) of 1995. The increase in income taxes was caused primarily by expenses relating to Deutsche Telekom AG's dividends in the 1995 financial year.

(I 12) Loss applicable to minority shareholders	The loss applicable to minority shareholders includes DM 0.5 million (1994: DM 0.1 million) in gains and DM 2.2 million (1994: DM 3.7 million) in losses.
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(I 13) Net income	The net income of DM 5,272 million was generated primarily by Deutsche Telekom AG.
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Other information

1. Guarantees and other commitments	31 Dec 1995	1 Jan 1995
	millions of DM	millions of DM
Guarantees	11	-
Liabilities from warranty agreements	4	-
	15	-

2. Other financial obligations	31 Dec 1995
	billions of DM
Present value of payments to retirement benefit fund	29.8
Purchase order commitments for capital investments already started	6.1
Obligations arising from interests in other companies	3.1
Obligations under rental and lease agreements	0.9

At 31 December 1995, the present value of the payments to be made by Deutsche Telekom AG to the retirement benefit fund pursuant to the terms of the Posts and Telecommunications Reorganization Act (PTNeuOG) was DM 29.8 billion, of which DM 12.9 billion relates to future years of service

of active civil service staff. The arrangements under this Act provide that Deutsche Telekom AG's payment obligation to the retirement benefit fund terminates when the last civil servant leaves active service with the company.

3. Derivative financial instruments	Notional amount	Fair value
	31 Dec 1995 millions of DM	31 Dec 1995 millions of DM
Interest rate swaps	2,500	123
Forward exchange contracts	1,404	30
Forward rate agreements (FRA)	500	1
Swaptions	500	2
	4,904	156

Derivative financial instruments, which are subject to internal risk control, are used to hedge the exposure to interest rate and currency risks. They cover part of the interest and repayment obligations resulting from fixed-interest debt securities. In addition, they are used to a minor extent to optimize results from interest rate and currency transactions.

The currency-related instruments include forward exchange contracts and U.S. dollar denominated currency options. The U.S. dollar is the currency in which both acquisitions and foreign purchases are completed. The interest-related instruments include primarily interest rate swaps, forward rate agreements and options on these transactions.

4. Deutsche Telekom AG's Board of Management and Supervisory Board

No remuneration was paid to members of Deutsche Telekom AG's Supervisory Board in the 1995 financial year. Accruals for this purpose total DM 1.3 million.

Provided that the proposed dividend is approved at the Shareholders' Meeting of Deutsche Telekom AG on 1 July 1996, the total amount authorized to be paid by the companies of the consolidated group to the Board of Management of Deutsche Telekom AG will be

DM 6,328,483, of which DM 333,250 relates to prior financial years. The remuneration to be paid to former members of Deutsche Telekom AG's Board of Management and their surviving dependents amounts to DM 770,700.

Pension accruals totaling DM 5,511,610 have been established for this group of persons. Commitments for which no accruals have been set up amount to DM 3,087,844.

Bonn, 30 April 1996

**Deutsche Telekom AG
The Board of Management**

Dr. Ron Sommer

Dr. Hagen Hultzsch

Dr. Joachim Kröske

Erik Jan Nederkoorn

Detlev Buchal

Dr. Heinz Klinkhammer

Dr. Herbert May

Gerd Tenzer

Auditors' report

The consolidated financial statements of the Deutsche Telekom group, which we have audited in accordance with professional standards, comply with the German statutory provisions. Prepared in accordance with the generally accepted accounting principles, they give a true and fair view of the net worth, financial position and earnings of the group. The management report of the Deutsche Telekom group is consistent with the consolidated financial statements of the Deutsche Telekom group.

Frankfurt am Main, 2 May 1996

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DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dickmann
(Certified Public Accountant)

Dr. Kutzenberger
(Certified Public Accountant)

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Phone +49 228 181 4949

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