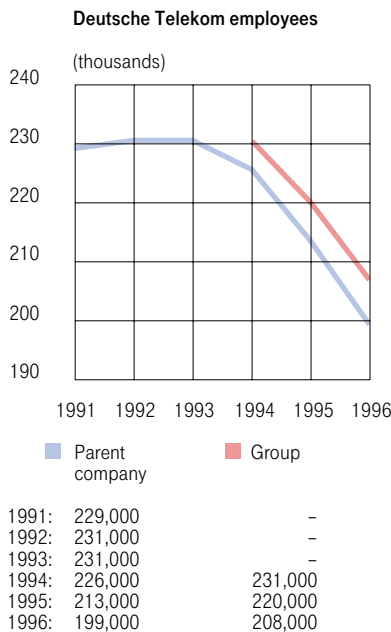


Employees: Modern human resources management increases motivation.



Annual average number of employees (without MATAV, without junior staff in training), converted to full-time staff

Qualified and committed employees are crucial to Deutsche Telekom's success. The advancement of our staff is coordinated throughout the Deutsche Telekom Group by a market and performance-oriented human resources policy. Coordinated human resources management also has a decisive part to play in the creation of an unmistakable group identity and corporate culture.

Training is a top priority

The level of training of our employees will have a decisive influence on the future of the corporation. For this reason, new development programs have been introduced for management personnel, and a broad range of both internal and external further training opportunities aimed at boosting qualifications and motivation is available to all employees in other positions. The more globally oriented the corporation has become, the more we have been specifically promoting the internationalization of our staff. Terms for employees working for a limited period abroad are clearly defined, and foreign assignment opportunities have been expanded.

About a third of Deutsche Telekom's employees are women. It is the corporation's objective not only to ensure equal opportunities for women in all fields, but also to systematically encourage them to take on managerial functions.

Cutting personnel costs - imperative for competition

Deutsche Telekom has a staff overhang, and personnel costs are too high - a legacy from its past as a government agency. The corporation is successfully cutting these costs, however. The collective agreement on pay concluded last year for the period up to the end of 1997 kept wage rises at a very moderate level; this agreement gave employees in the west of



Germany average raises of only one percent in 1996 and 1997. A special regulation applies to eastern Germany. Wages and salaries there have been 88 percent of earnings in western Germany since October 1, 1996. A gradual increase has been agreed to bring incomes up to western levels by October 1999. This policy is in line with expected productivity improvements and has been a boost to staff motivation.

Staff-level adjustment successful

One of Deutsche Telekom's top-priority objectives is the socially compatible downsizing of group staff levels to 170,000 employees by the year 2000. The general aim is to achieve this reduction by natural attrition, early retirement schemes and severance pay settlements; it has been agreed that there will be no redundancies up to the end of 1997. Since February 1996, a new "job-change incentive" scheme has been offered aimed specifically at young civil servants. It provides for a one-off payment to civil servants who wish to change their career. This scheme has also been well-received:



„We believe in Deutsche Telekom, and we want to be part of it as shareholders.“

Jörg Bock and Holger Barth,
Service Technicians with Deutsche Telekom,
Hannover

2,100 employees with civil servant status took up the offer in 1996 and left the corporation. The overriding principle in the implementation of all downsizing measures is that Deutsche Telekom's efficiency must be ensured despite the considerable reduction in staffing levels. Accruals have already been established to cover the planned staff adjustments, so that staff reductions will not burden profits in future financial years.

In 1996, Deutsche Telekom managed to reduce its workforce more quickly than planned – for the second year running. About 12,500 jobs were cut, so that 201,000 people were employed at the end of the year (MATAV not included). The average number of trainees throughout 1996 was approximately 9,000. Five hundred of them were offered full-time jobs after completing their training, and another 1,000 received offers for fixed-period employment contracts.

Focus on performance

Despite staff reductions, the corporation cannot entirely do without hiring new employees. This applies above all in cases where special skills are needed. Hirings are made exclusively on the basis of private-law contracts of employment. Executive personnel are recruited on the labor market or within the Group – and exclusively on the basis of up-to-date screening techniques. Corporation-wide performance appraisal plans and incentive systems are continuously being perfected. Performance-related payment schemes are already being practised at the upper echelon of management. The introduction of performance-related remuneration for all employees as from 1998 is currently being prepared.

In favor of the “Alliance for Jobs”

As one of the biggest German employers, Deutsche Telekom accepts its responsibilities to society and declares its full support for the national “Alliance for Jobs”. It is providing 2,000 places for apprentices in 1997, 500 more than originally planned. A new

regulation has also been introduced on overtime: Since July 1, 1996, staff have only been entitled to compensatory time; overtime pay has been abolished.

Environmental protection: More recycling and less energy consumption.



„The communications industry is booming world-wide – and so is Deutsche Telekom. To me that spells high returns on the T-Aktie.“

Stefan Lütge Entrup,
Farmer, Münster

Deutsche Telekom is a progressive corporation and as such it is involved in foresighted environmental protection. Its environmental policy is outlined in nine guidelines. A center has been established for the technical support and overall coordination of all of Deutsche Telekom's environmental activities.

The many facets of preventive environmental protection

Not only are we developing and expanding telecommunications services that help reduce or even avoid pollution; we are also using a modern envi-

ronmental management system to optimize our own tools, materials and production processes. This type of preventive environmental protection has many facets. One of them is called waste avoidance. In order to identify areas where Deutsche Telekom can avoid waste and cut disposal costs, we have developed an information system that pinpoints waste volume and cost.

Rather than simply throwing away terminal equipment, cables and telephone cards that are no longer in use, Deutsche Telekom recycles as much as possible – turning used materials into new telephones and telephone cards, for example. The leading partner for recycling discarded equipment during the last several years has been Electrocyling, a joint venture between Deutsche Telekom, Alcatel/SEL, Siemens and Noell. Electrocyling's plant in Goslar – the product of an initiative launched by Deutsche Telekom – can recycle 80 percent of the 3,000 tons of used telephones that accrue in the course of a year.

Reduced energy consumption also plays a major role in environmental protection. In order to cut energy costs, "electricity teams" were set up last year in all of Deutsche Telekom's branch offices with the help of the energy managers at DeTe Immobilien and Deutsche Telekom's regional environmental protection offices.

Joint Environmental Charter signed

The European telecommunications industry wants to foster sustainable economic management in the future by deploying innovative technologies and pursuing an environmentally friendly procurement policy. This goal was agreed upon by the 21 telecommunications network operators attending the first European conference on "Telecommunications and the Environment" sponsored by Deutsche Telekom in November 1996. By signing the resulting Environmental Charter, these network operators have committed themselves to establishing environmental protection as a corporate task, developing joint environmental standards for their products and services, and collaborating in areas such as research and development, purchasing, and product and waste management.

Research and development: A new application for our customers almost every day.

New multimedia products and services offer great development potential for Deutsche Telekom. Innovative applications are being developed almost every day in fields such as telemedicine, telecommuting or telelearning. Deutsche Telekom also played a vital role in the development and introduction of Euro-ISDN and of the European mobile communications standard GSM, which have conquered national and international markets extremely quickly.

ATM network available nationwide

The next milestone in the evolution of the network is the expansion of the ATM network. At the beginning of 1996, Deutsche Telekom opened up its pilot network to commercial operations and expanded it nationwide. Six months later, subscriber dialing was introduced, making it one of the most advanced networks world-wide. In the meantime, a whole series of services have become available (e.g. Frame Relay via ATM, 2 Mbit/s emulation).

The introduction of xDSL systems in the access networks is aimed at making transmission capacities of several megabits per second available to all interested customers in the next few years. An initial step was made in this direction with the launch of a pilot project for interactive video services in Nuremberg in early December 1996. The underlying technology enables customers to make phone calls and at the same time interactively retrieve information and watch films on their television screens over the telephone network.

Through functional upgrading of the "intelligent network", new features were added to the 0130, 0180 and 0190 value-added services in 1996. Moreover, pilot projects were launched for the "call answering in the network" and "international freephone" services. In the mobile network, the pilot operation of the "Virtual Private Network" service (VPN) was also successful.



„I want to profit from telecommunications innovations as a private investor.“

Prof. Dr. Ulrike Stopka,
Institute for Business and Transportation,
Dresden Technical University

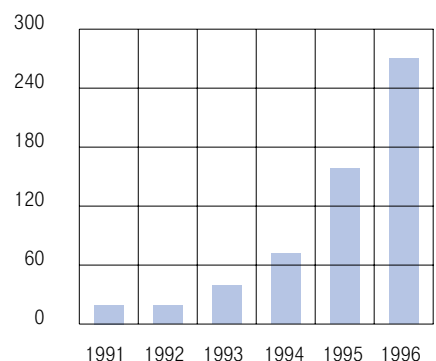
Product development accelerated

Deutsche Telekom is speeding up its product development to meet the dynamic requirements of the telematics market. One example of this is "Speech AB", the voice-controlled terminal device featuring speech-recognition algorithms developed at Deutsche Telekom's Research Center.

In the field of telemedicine, a user-friendly data communications system for the health-care sector is being developed which meets high security requirements. Deutsche Telekom's Multimedia Software GmbH subsidiary is setting new trends in the field of individual multimedia communications.

The number of patent applications was up again in 1996. Applications were filed for 270 patents throughout the corporate group as a whole. This means that since 1991, the annual number of applications has risen considerably – proof of Deutsche Telekom's innovative power.

Patent applications filed
by Deutsche Telekom



1991: 16
1992: 19
1993: 39
1994: 72
1995: 158
1996: 270

Network technology: The right infrastructure for all requirements.



„I invested in the T-Aktie
because I have confi-
dence in Deutsche
Telekom as a company.“

Doris Wiesmann,
Deutsche Telekom Net Management
Center, Bamberg

With its T-Net Deutsche Telekom owns a modern, fully integrated network infrastructure consisting of approximately 1.5 million kilometers of copper cable and about 125,000 kilometers of optical-fiber cable. In 1996, the corporation stepped up efforts to expand the "intelligent networks", accelerated the establishment of an optical-fiber infrastructure in the loop, and made transmission systems more flexible.

Deutsche Telekom is one of the world leaders in the field of high-speed data communications and in the use of ATM technology. Work on establishing and extending the Internet backbone – with routes as fast as 34 Mbit/s – has been continuing at a fast pace. Furthermore, a 45 Mbit/s Internet link with the USA started operations at the end of the year.

Digitization a high priority

By the end of 1996, the 50 largest local networks had been digitized. The aim is to complete the digitization of all local networks by the end of 1997/ beginning of 1998. The digitization of local exchanges in the telephone network/ISDN makes it possible to speed up product innovation and introduce more flexible tariff schemes – both areas with the potential to boost sales. At the same time, digitization can lead to considerable cuts in operating costs and thus helps to spread ISDN even faster. Moreover, new lines can be installed more quickly in a fully digital network.

With nationwide ISDN availability and more than 5.2 million ISDN channels, Deutsche Telekom is the leading provider world-wide in this field.

Multiple customer access

Deutsche Telekom can participate in the development of digital multimedia TV via the corporation's broadband distribution network, which links about 17 million customers. With its integrated data network, Deutsche Telekom has a production platform for a wide range of data services, and the mobile communications networks of its subsidiary T-Mobil make the corporation the biggest provider of mobile services in Europe.

With its networks, the Group is well positioned to meet the growing needs of both business and residential customers, across the whole range of products. After all, the access networks can reach almost every place of work and almost every home in Germany. And Deutsche Telekom guarantees the highest security standards in all its networks. Furthermore, this network platform offers economies of scale and scope that make it possible to keep production costs low, providing a sound basis for an innovative range of international products.

International product range

To meet its globally operating customers' needs, Deutsche Telekom has a world-wide telecommunications network at its disposal made up of satellites and optical-fiber submarine cables. The Group now has links with more than 260 carriers in 220 countries.

Organization:

Efficiency and customer orientation in the Group.

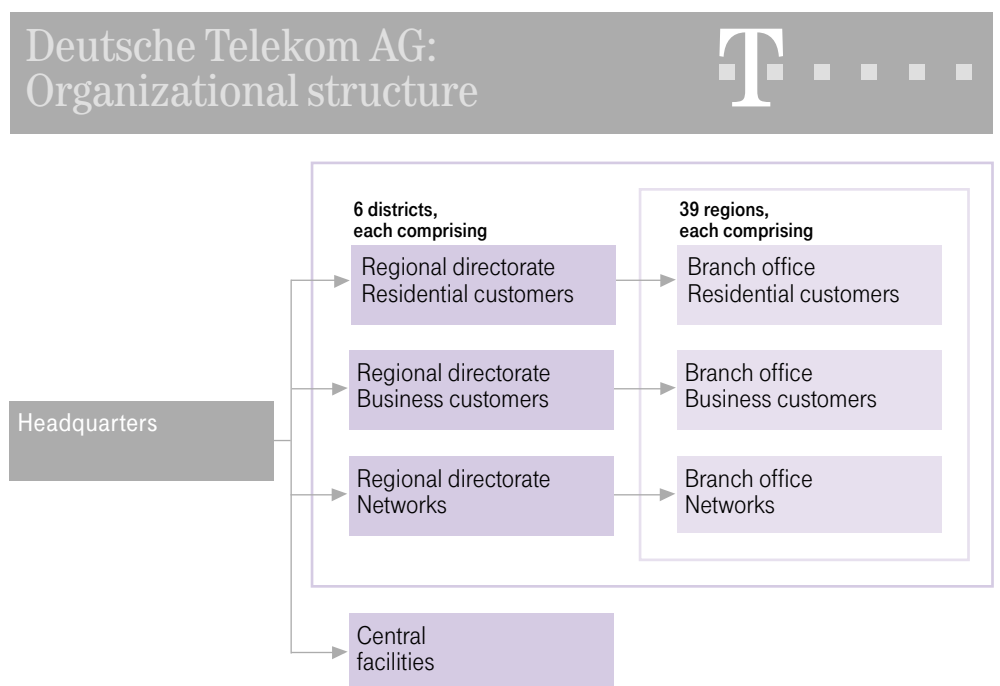
Deutsche Telekom is the largest provider of telecommunications services in Europe, with numerous subsidiary and associated companies in Germany and abroad. Deutsche Telekom AG forms the core of the Group, and accounts for the largest share of the sales volume. It provides reliable strategic guidance for all its associated companies, which in turn are largely autonomous in their own operations.

Reorganization raises competitiveness

Tapping potential in the increasingly liberalized and diverse telecommunications market calls for corporate flexibility. In 1996, therefore, Deutsche Telekom consistently geared its organizational structure to its target markets and in this way created an effective platform for expanding its corporate activities in this dynamically growing sector.

Improved customer orientation

The business units have been reorganized, their number reduced. The different aspects involved in the various lines of business – products and customer segments – have been reflected in group units with distinct roles and business tasks. Each unit bears full responsibility for the operating result in its respective submarket. Special cooperation mechanisms ensure consistency in the market strategy. All the market-oriented group units together fully cover all the Group's target markets.



In order to optimize internal resources, services needed throughout the Group have been concentrated in special group service centers, which in turn bear full responsibility for results in their respective service field.

This structure ensures decisive advantages: tapping of new markets in response to customers' needs, systematic product innovation and use of synergies in internal work procedures.

Deutsche Telekom will further develop its organizational structure, its business procedures and its management systems in 1997. Attention will be focused on the conflicting demands of markets and resources on the one hand, and of central management and the decentralized, autonomous business units and operations on the other.