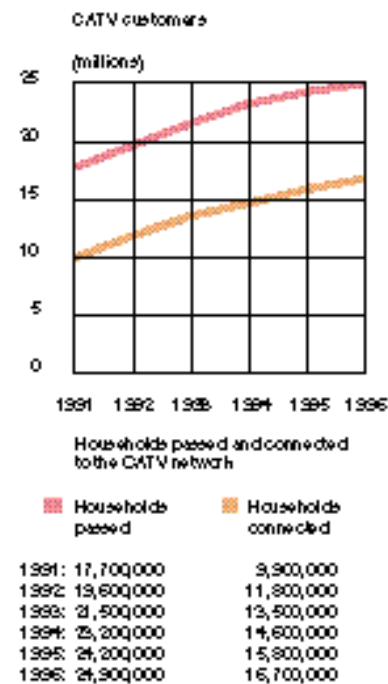


## Residential customers: More value for the same money.



Deutsche Telekom AG's Residential Customers Division serves over 35 million residential customers and 1.6 million smaller business customers.

Modern telecommunications at attractive prices  
With its 1996 Tariff Concept, Deutsche Telekom has introduced new distance and time zones, reduced the duration of the unit interval, and at the same time cut the prices per charge unit. Following initial reservations, customers have since recognized and accepted the advantages of the new tariffs. Although the new tariff structure involved price cuts for most residential customers, average bills have still remained largely constant, since new services have proved very popular. Greater emphasis on costs has contributed to making the corporation more competitive, and the customers are benefiting from fairer charges and new optional tariffs such as "CityPlus" and "City Weekend". VAT, charged for the first time since January 1, 1996, has not been passed on to the customers in the form of higher prices. This meant a 13 percent de-facto price cut for all customers entitled to prior-tax deduction.

The T-Net: a new dimension  
The number of telephone lines installed for residential and business customers rose in the year under review to 44.1 million. Above-average growth was recorded in ISDN access lines, with demand from residential customers becoming ever stronger. At the end of the year under review, approximately 600,000 residential customers had an ISDN access – nine times more than in the previous year. The digital T-Net forms the basis for the nationwide provision of ISDN services. It also offers a whole range of special features for analog telephone users such as call waiting, consultation hold/alternation between lines and call forwarding.

New, and now monthly: the detailed statement  
The new standard invoice also helped improve customer satisfaction in 1996. Charges are broken down according to tariff zones, network gateways and calls to special service numbers. This makes it easier to check the invoice. Queries and objections are declining as a result. If they wish, customers can also request an itemized bill, which lists the date, time and duration of each call, as well as the charge.

The special directory inquiry service  
Since November 1, 1996, Deutsche Telekom has been offering a new directory inquiry service, which can be reached by dialing 01189. Its most important characteristics are personalized, individual service and the broad range of information available. Callers can obtain not only telephone numbers, but also addresses and information on companies from the "Yellow Pages", emergency services, the weather, environment, sports events and cinema programs. More than 50,000 calls a day were recorded in November and

December, suggesting that this new service has been extremely well accepted.

Broadband network continues its growth  
In 1996, the number of households receiving their radio and television programs via Deutsche Telekom's cable network rose from 15.8 to 16.7 million. The number of households passed by cable went up to almost 25 million. In 1996, Deutsche Telekom also forged ahead with the digitization of the broadband cable network, a process that turns the cable network infrastructure into a platform for multimedia communications. By the end of the year, over 90 percent of Deutsche Telekom's own broadband cable network had been converted to digital technology.

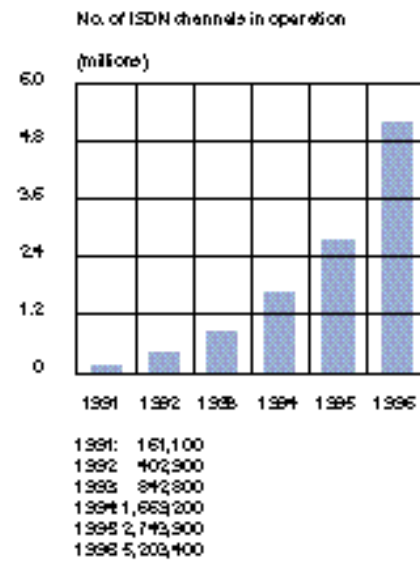
Terminal equipment – a trademark  
Sales of terminal equipment for residential and business customers were in excess of DM4.1 billion in 1996. There was also an improvement in the cost structure. Customers expect Deutsche Telekom's products to have an attractive design and be user-friendly, reliable and compatible at a fair price. For the corporation, terminal equipment represents a key factor in maintaining customer loyalty, since it provides the customers with the visible and tangible access to the network.

Support and sales optimized  
At Deutsche Telekom, the time required to install telephones for residential customers was further reduced in 1996. While in the 1st quarter of 1996, 80 percent of the orders in western Germany were processed within 10 workdays, in the 4th quarter 95 percent were processed within 8 days. Since customer satisfaction is of top priority, the company's toll-free service numbers ensure total availability for pre- and after-sales support and customer care.

„We're confident that our T-Aktie shares will grow over time, just like our kids.“

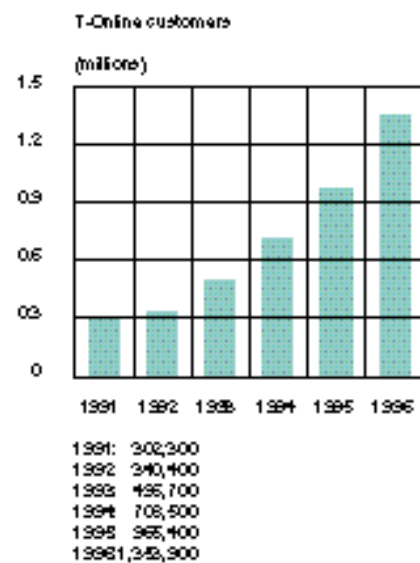
The Schanz family, Herrendorf

## Business customers and named accounts: Tailor-made services, products and tariffs.



Business processes are becoming increasingly global. In such a context, the speed at which information is gathered, processed and passed on becomes a key factor of a company's competitive success, whatever sector it operates in. World-wide development, production and marketing processes thus require as complete an exchange of information as possible. As a result, telecommunications is becoming a central competitive factor in international – and increasingly national and regional – competition between companies.

Deutsche Telekom is fully equipped to meet the growing demands of professional users with its comprehensive range of high-performance, application-oriented telecommunications services based on its well-developed, extensive network infrastructure. The corporation provides tailor-made corporate telecommunications solutions for almost two million business customers. The volume of Deutsche Telekom AG's sales to business customers totaled DM 24.7 billion in 1996. Revenue in this field declined compared to the previous financial year as a result of the value-added tax being imposed on the telephone network service from January 1, 1996, which Deutsche Telekom did not pass on to its customers.



Dynamic ISDN upswing ISDN, the digital telecommunications network available throughout Germany, is becoming a platform for individual corporate solutions for more and more firms. In 1996, Deutsche Telekom resolutely marketed ISDN as a kind of access road to the infobahn. One major element of the campaign was a special promotion program offering financial incentives for potential ISDN basic access customers. Sales of these basic accesses promptly grew by more than 1 million to 1.9 mil-

lion in the course of the year – a growth rate of 130 percent.

The number of ISDN primary rate multiplex accesses, which link large PABXs to the digital network, rose in 1996 from 35,000 to around 45,600. Overall, Deutsche Telekom succeeded in increasing the number of ISDN channels installed by about 90 percent to 5.2 million.

T-Online: a success story continues Deutsche Telekom achieved a similarly dynamic development with T-Online. The number of T-Online customers grew by almost 400,000 to 1.35 million during 1996. The average monthly rate of increase in the number of customers was hence almost doubled compared to 1995. The corporation thus succeeded in consolidating its position as the market leader in the European online market.

The growth in the number of T-Online sessions was even faster. While log-ins to the online service averaged 14.5 million calls a month in 1995, the number of calls made in November 1996 was over 32 million. It was even higher in December: more than 33.5 million. Almost every other T-Online subscriber used the fast ISDN network to access the online service.

The breathtaking growth in popularity documents just how attractive T-Online's expanding range of information products has become. This also works the other way, of course, with the growing number of customers attracting more suppliers of information content. One of T-Online's cooperation partners is the Karstadt group, which gave the go-ahead in late October 1996 for an "online department store" using the T-Online platform. Deutsche Telekom also signed a cooperation agreement with the television station SAT.1 in the year under review covering online access to information on the

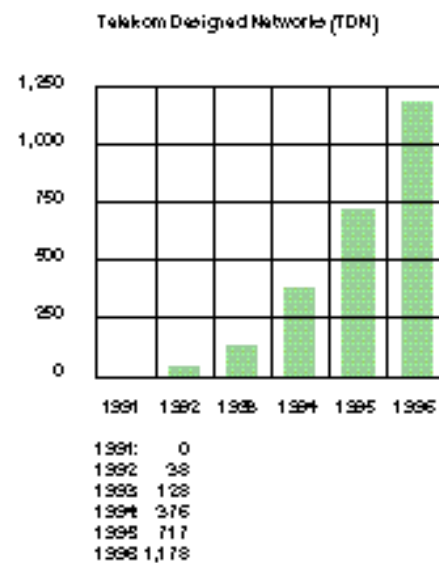
successful SAT.1 football program, "ran".

At the end of 1996, over a million customers were already using T-Online to access the Internet, and the amount of data traffic passing through T-Online's Internet gateway computer increased ten-fold during the year under review. The corporation, the leading Internet access provider in Europe, thus played a significant part in the Internet boom. In order to ensure a high level of quality for T-Online customers despite the growing data traffic, Deutsche Telekom built its own powerful backbone network for Internet communications traffic in 1996.

In order to sustain high growth rates in the dynamic online services market, Deutsche Telekom spun off the T-Online marketing and product-management divisions to a subsidiary company, Online Pro Dienste GmbH & Co. KG (see also "Alliances and partnerships") on September 1, 1996.

„Our sales and marketing activities gave us a front-row seat as Deutsche Telekom went public. That motivated us to buy T-Aktie shares ourselves.“

Ralf Halbhorn,  
Managing Partner, TelSell Consulting GmbH,  
Frankfurt/Main



**City Networks: building-blocks for the future of telecommunications**  
 In Germany's industrial and commercial centers, Deutsche Telekom's City Networks provide optical-fiber infrastructures that meet the most sophisticated needs of customers. In the year under review, the corporation moved ahead swiftly to build City Networks, commissioning eleven high-speed networks and beginning construction at another nine City Network sites.

**DeTeSystem shows strong growth**  
 The realization of tailor-made telecommunications solutions for Deutsche Telekom's 200 largest business customers, and the provision of comprehensive technical support for these named accounts, is the responsibility of Deutsche Telekom Systemlösungen GmbH (DeTeSystem). This wholly owned subsidiary of Deutsche Telekom uses the parent corporation's products to implement individual telecommunications applications for named accounts.

The positive development at DeTeSystem continued in 1996. The company's sales volume went up by approximately 30 percent from DM 1.3 billion to DM 1.7 billion. DeTeSystem's success was also reflected in the number of long-term customer contracts, which rose from 151 to 185. In order to guarantee optimum support for the named accounts, DeTeSystem in 1996 created an additional 300 jobs for highly qualified personnel. This raised the size of its workforce to about 1,150 by the end of the year.

**Major contract with the Federal Labor Office**  
 The most significant of DeTeSystem's customer projects in the year under review was definitely the creation of a nationwide high-performance network with transmission rates of up to 155 megabits per second for the Federal Labor Office. In only four months, DeTeSystem built a telecommunications infrastructure – including the complete in-house cabling – interconnecting information-processing systems at 846 locations. The contract was worth DM 200 million.

**Customer-oriented application solutions**  
 With the use of telecommunications becoming more widespread, professional users are increasingly calling for the dovetailing of different services to form comprehensive information and telecommunications solutions. Deutsche Telekom has recognized this trend and in 1996 adapted its corporate organization even more closely to the needs of the various business-customer segments.

A new body was set up in 1996 in order to improve the exchange of experience between Deutsche Telekom and its business customers: the TelekomForum, Deutsche Telekom's own business-customer advisory board. Deutsche Telekom welcomes this opportunity to optimize its range of products and services through a dialogue with this user association.

Further efforts were made in 1996 to improve customer orientation in the business-customer sales units. For example, technical support for key accounts and business customers with complex telecommunications needs was focused more closely on the specific needs of different sectors. This marketing approach will enable Deutsche Telekom to acquire a better knowledge of sector-specific processes, and to better serve its customers. Following the "one face to the customer" principle, each key-account sales representative supports a limited number of customers.

T-Service further optimized Deutsche Telekom further improved the service for business customers in the year under review. With the "Profi-Express" fault clearance service introduced in January 1996, T-Service guarantees that it will clear telephone-line faults within six hours. Furthermore, in July 1996 the stand-by service for ISDN customers was extended to seven days a week, 24 hours a day – at no additional cost – guaranteeing fault clearance within twelve hours.

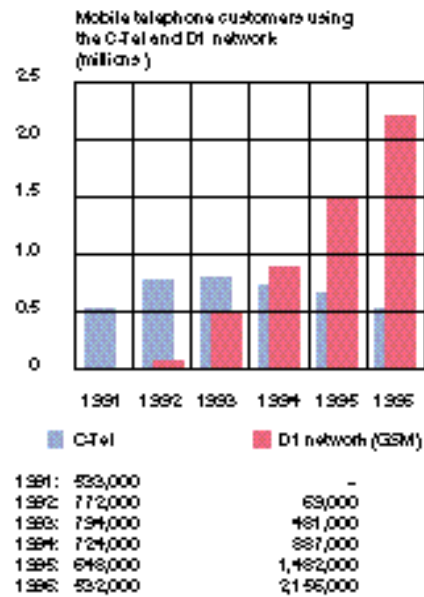
**Competitors as customers**  
 In order to be able to professionally manage the requirements of future competitors, Deutsche Telekom has set up a separate department called "Licensed Service Providers and Carriers". This unit specializes in developing and marketing products that are relevant for competitors.

„I bought T-Aktie shares because I'm confident they'll do just as well as my plants.“

Bertho Müller, Landscaper, Lindau



## Mobile communications: New ideas make T-Mobil even more successful.



Germany's only full-range mobile communications provider, Deutsche Telekom MobilNet GmbH (T-Mobil), was in the fast lane again in 1996 as regards growth rates. At the end of the year, more than 3.8 million customers were using T-Mobil's comprehensive range of mobile communications services – about 800,000 more than in the previous year.

Deutsche Telekom's wholly owned subsidiary managed to expand in all lines of business during the 1996 financial year, with D1 business being the main engine behind this positive development. At the end of 1996, D1 had about 2.16 million customers in its network, an increase of 50 percent. Including the analog C-Tel network, T-Mobil is the German market leader in mobile communications with some 2.7 million subscribers.

Growth in the radiopaging services Scall, Skyper, Cityruf and Eurosignal is also encouraging. T-Mobil is Europe's largest provider in the paging field with a total of over one million subscribers. In the case of the special mobile communications services Chekker, Modacom and Inmarsat, the number of customers rose by 29,000 to 116,000. T-Mobil's total revenue went up 22 percent from DM 4.6 billion in 1995 to DM 5.4 billion in the year under review.

T-Mobil is shaping the mobile communications market. Mobile communications is generally regarded as one of the most dynamic growth markets in telecommunications. There are now about 5.5 million customers using the various mobile telephony networks in Germany alone. Forecasts suggest that up to fifteen million people in Germany will be using a mobile phone by the year 2000.



„Telecommunications is the technology of the future. That's why I bought the T-Aktie.“

Magda Mahmoud, Entrepreneur,  
IRC Textilagentur, Frankfurt/Kairo

The introduction of economy rates – Telly-D1 Eco and ProTel-D1 Eco – brought sustained upward movement to the mobile telephony market in 1996. With this initiative, T-Mobil has succeeded for the first time in putting an end to the subsidy spiral, which is dangerous for market development. This also cleared the ground for further tariff rate cuts. Over 130,000 new D1 customers took up the Eco offer in the course of just a few weeks. As a result, T-Mobil succeeded in further increasing its share of the market towards the end of the year.

Despite increasingly keen competition, C-Tel also managed to hold its position in the German mobile communications market with more than 530,000 subscribers. C-Tel brought new impetus to the market by introducing a special rate for infrequent callers, as well as the innovative "DuoCard", which ensures easy access to the D1 network. And the new "FiftyFifty" tariff rate, introduced at the beginning of 1997, has added a new option to the range of offers for professional frequent callers.

The analog mobile network is becoming increasingly popular among professional customers because of its cost effectiveness and universal accessibility.

Paging: cult products for the younger generation. Within two years, Scall, the first radiopaging service with no monthly rental charge, has become a cult product for the younger generation and a trade mark for paging itself. About 540,000 customers in Germany, mostly young people, had bought a brightly colored Scall "bleeper" by the end of 1996.

Successful internationalization. Deutsche Telekom's mobile communications subsidiary has made a considerable contribution to the internationalization of the Group by winning licenses and acquiring stakes. Key factors in this context were the licenses for the development and operation of digital mobile telephony networks in Poland and the Czech Republic.

Recently, T-Mobil also acquired stakes in China and the USA. Since December 1996, the corporation has had a 16 percent interest in the holding company American Personal Communications (APC) LLC, which operates a digital PCS 1990 network in Washington, D.C. and Baltimore. By acquiring this quite substantial stake, T-Mobil has become the first foreign corporation to succeed in getting established on the American mobile communications market.

Overall, during the 1996 financial year Deutsche Telekom increased its international investments by four to thirteen, thus gaining access to mobile phone markets serving more than 400 million people.

New ideas guarantee growth. With the introduction of new products and the rapid expansion of the still young field of traffic telematics, T-Mobil's aim in the coming year will be to continue shaping the markets, winning market shares, and above all meeting customers' needs.