

# Management report of the Group

In the 1996 financial year, Deutsche Telekom's successful initial public offering started a new chapter in the company's history, while at the same time setting new standards on the financial markets. The DM 20.1 billion received as proceeds of the issue served to increase the capital resources available to the company beyond the level envisaged.

In global terms, there has only been one other flotation of this magnitude. In European terms, it was the largest initial public offering ever seen. Even after the tranche of shares to be issued was increased shortly before the closing date to meet the high demand, the offering was oversubscribed five times. This equates to a total demand of approximately DM 100 billion.

Interest among private investors in Germany exceeded all expectations. It was possible to attract people who had never invested in shares before, giving new impetus to the entire share-owning culture in Germany. With a fair and balanced allocation of shares, Deutsche Telekom laid the foundation for a stable and long-term shareholder structure.

Following the public offering, the Federal Republic of Germany's holding in Deutsche Telekom was reduced to approximately 74 percent. Taken together with the exercise of the underwriters' over-allotment option and the employee share purchase plan, the offering placed approximately 714 million shares in the hands of new shareholders. The shares of Deutsche Telekom are quoted on all the stock exchanges in Germany as well as on the largest international stock exchanges in New York and Tokyo.

**New telecommunications legislation and competition**  
The new German Telecommunications Act, which came into force on August 1, 1996, ended Deutsche Telekom's monopoly on networks with immediate effect and set January 1, 1998 as the date for the termination of Deutsche Telekom's monopoly on fixed-network voice telephony services. Moreover, the act established the regulatory framework for competition in the German telecommunications market. Its purpose is to provide for a competitive environment with equal opportunities for all competitors, as well as to ensure the availability of telecommunications services throughout the country. Particular attention was paid to ensuring free access to the market for new competitors.

Alongside general provisions regarding commercial activities in this market, the new legislation includes features that only apply to dominant vendors. Due to its leading position in the telecommunications market, Deutsche Telekom will be subject to close monitoring by the regulatory authorities, whose functions are currently performed by the German Federal Ministry of Posts and Telecommunications (BMPT). Supplementary ordinances govern important matters such as network access and interconnection, regulation of charges and universal service. Deutsche Telekom views the Telecommunications Act and the ordinances already enacted as an objective foundation on which to develop its future commercial activities in a liberalized telecommunications market. Within the new legal framework the company intends to pursue its business strategy with consistency and determination.

**Market and customer orientation**  
The company's business activities were reorganized during 1996 to better prepare it for open competition in a fully liberalized telecommunications market.

Eight business units now concentrate on homogeneous market segments with a view to tapping their full potential. Designed to take responsibility for their individual markets both domestically and internationally, these units have been assigned the task of comprehensive product marketing and management for the market segments they serve across all customer groups. To exploit potential for synergies group service centers have been placed alongside the business units as internal service units providing them with support.

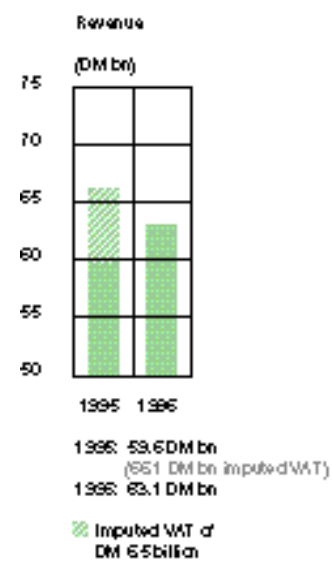
**Development of business in 1996**  
During the 1996 financial year, Deutsche Telekom generated consolidated revenues totaling DM 63.1 billion. Results from ordinary business activities amounted to DM 6.6 billion, while the company reported net income of DM 1.8 billion. Earnings per share (return per share weighted over the period in which the share is held) totaled DM 0.83.

**Revenue**  
The telecommunications market continued to grow steadily during 1996. Despite more intense competition, Deutsche Telekom was able to benefit from the 12 percent volume growth in the domestic market thanks to the proactive pricing and strategic policy decisions it implemented. The structured pricing policy pursued by the company was well received by customers over the course of the year, a development which served to strengthen Deutsche Telekom's competitive position for the long term. As a result, the expected loss of market share within Germany could be limited to 2 percent, leaving Deutsche Telekom with a total market share of 84 percent.



„I consider the T-Aktie  
to be a share with  
outstanding future  
potential.“

Axel Jeschner, securities dealer with  
 Dresdner Kleinwort Benson, Frankfurt/Main



The 1996 tariff reform had a major impact on the development of revenues and business. This new tariff concept, introduced by Deutsche Telekom at the beginning of the year, laid the foundation for a new market- and customer-oriented pricing policy. The subsidization of local and extended local calls which resulted from Deutsche Telekom's past as a government agency was curtailed to allow for market-oriented rates set at internationally comparable levels. Moreover, the second half of 1996 saw additional price cuts and the introduction of attractive discount schemes.

The tariff reform went hand in hand with a pricing-policy decision taken by the company to absorb the imposition of value-added tax (VAT) on monopoly services which came into effect on January 1, 1996, rather than charging the VAT to customers through higher tariffs. For customers entitled to deduct VAT, this represented a clear cut in the price of telephone as well as cable transmission and broadcasting services, while other customers were not affected by price rises when the liability for VAT came into force. In a direct comparison of the 1996 and 1995 financial years, these measures had a greater impact on revenues than all other influences. To provide for greater clarity, an imputed VAT amount has been subtracted from 1995 financial year revenue figures shown below.

Adjusted for VAT, consolidated revenues rose by 5.9 percent from DM 59.6 billion in 1995 to DM 63.1 billion, of which DM 1.9 billion resulted from the initial full consolidation of MATAV, a Hungarian telecommunications company. This level of growth was in line with the company's expectations.

Revenue from telephony services totaled DM 44.5 billion, approximately the same as the figure recorded for the prior year, adjusted for VAT. The introduction of the new tariff structure at the beginning of the year caused short-term uncertainty for customers, resulting in a temporary decrease in revenue. Active public relations work played a major role in increasing awareness of the advantages of the new structure to the customers and so restoring telephone traffic. The growth in telephone channels by an annualized average of 5.1 percent also helped to increase income. The promotion of ISDN was a major factor in this rise; the number of ISDN channels installed grew by 89.7 percent to reach 5.2 million by year-end.

The revenues booked by the cable transmission and broadcasting segment decreased slightly in the context of the introduction of VAT. It was possible to partially compensate for the cut in the average price level by further growth in the number of households connected.

Mobile communications services recorded a year-on-year income growth of 19.4 percent. The number of subscribers to the principal product in this segment, the mobile phone service, rose by 0.6 million to reach 2.7 million by year-end. The rise in revenue to DM 3.7 billion can be attributed to the dynamic increase in the number of subscribers to the digital D1 network.

The text and data communications segment recorded a 15.4 percent increase in sales revenue to DM 3.2 billion. Active marketing of "Telekom Designed Networks" served to increase income considerably in this segment. The success story of T-Online, the biggest on-line service in Germany, continued through the 1996 financial year, with revenue up 48.3 percent. By year-end, a total of 1.4 million T-Online subscribers had signed up.

International activities, representing the business of MATAV, a Hungarian telecommunications company, generated sales revenue amounting to DM 1.9 billion.

**Net income**  
During 1996, Deutsche Telekom generated net income totaling DM 1.8 billion (1995: DM 5.3 billion, not deducting imputed VAT). This change can be attributed to the pricing-policy decision taken by the company that VAT levied on monopoly services beginning January 1, 1996 would be paid out of its own proceeds. The introduction of innovative products and services coupled with the systemic exploitation of growth potential in the market limited the loss of earnings entailed by this decision.

Results from ordinary business activities exceeded DM 6.6 billion (1995: DM 10.3 billion, not deducting imputed VAT) in 1996.

The cost of goods and services purchased rose primarily due to a higher level of purchases coupled with an increase in the number of interconnections with networks run by other operators.

Excluding the effect of MATAV's first consolidation in 1996, personnel costs fell slightly below the prior year level. Downsizing at Deutsche Telekom AG resulted in lower personnel costs at the parent company, while personnel costs rose in rapidly expanding subsidiaries.

Other operating expenses – adjusted for deductible VAT – grew due to intensified sales promotion programs and the public relations work related to the tariff reform.

Capital spending on the network infrastructure in eastern Germany coupled with accelerated digitization in western Germany served to increase depreciation

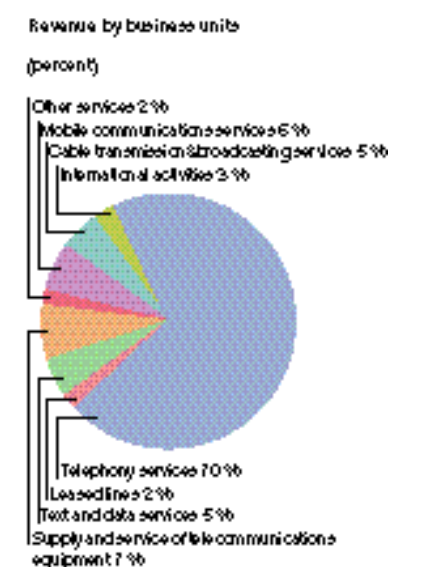
and amortization by DM 0.6 billion as expected. The residual rise of DM 1.3 billion in this item relates to the amortization of capitalized VAT accruing to the parent company for the first time in 1996. This figure is offset by VAT refunds totaling DM 1.5 billion shown under other operating income. The expansion of the consolidated group resulted in a further increase in depreciation and amortization.

Net financial income improved by around DM 0.5 billion year-on-year primarily due to debt reduction measures.

All the costs anticipated at this stage from the reduction in the workforce to 170,000 are reflected in the present consolidated financial statements. The cost of the public offering reduced net income by approximately DM 0.7 billion.

**Group financial position:**  
increase of balance sheet total and shareholders' equity  
The balance sheet total for Deutsche Telekom grew by DM 14 billion to reach DM 174 billion during the 1996 financial year. The inflow of funds totaling DM 20.1 billion from the IPO served to substantially increase the company's financial strength. At December 31, 1996, shareholders' equity amounted to DM 46.6 billion (1995: DM 24.7 billion), with the equity ratio rising to 25.8 percent compared with 14.7 percent at the prior balance sheet date, excluding proposed dividend payments, which were accounted for as short-term debt.

The Group's financial structure was also enhanced by the systematic reduction in debt of approximately DM 12 billion (of which DM 1.2 billion was repaid ahead of schedule). Reduction of current financial liabilities to DM 65 billion by the year 2000 will continue to be vigorously pursued in the future.



#### Strong cash flow

Despite the DM 3.3 billion reduction of net income attributable to VAT, net cash provided by operating activities fell by only DM 1.4 billion to DM 22.3 billion (1995: DM 23.7 billion). It was once a gain possible to fully finance investment activities (which totaled DM 22.1 billion) – involving property, plant and equipment, and financial assets – out of net cash provided by operating activities.

Net cash provided by financing activities in 1996 was primarily influenced by the inflow of funds from the DM 20.1 billion capital increase, partially offset by the repayment of financial liabilities totaling DM 12 billion and a dividend payment of DM 1.2 billion in respect of the 1995 financial year.

#### Shaping the future

At DM 22.6 billion (1995: DM 17.7 billion), capital spending, aimed at securing the Company's long-term strength, was far higher than in the prior year. Besides changes in the consolidated group and increased spending on property, plant and equipment, the main reason for this is the internationalization and globalization strategy implemented by the Group.

During the 1996 financial year, the responsibility for managing and marketing land and buildings was assigned to a company within the Group, DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH. Simultaneously, Online Pro Dienste GmbH & Co. KG was formed to better market the T-Online service with a view to strengthening the Group's position in the future-oriented multimedia market.

#### Capital spending focuses again on digitization

During 1996, capital spending on property, plant and equipment again focused on the digitization of transmission and switching equipment, with the project of digitization scheduled for completion by year-end 1997 or early 1998. The level of digitization of local exchanges has now reached approximately 75 percent (December 31, 1995: over 60 percent) in western Germany and almost 100 percent (December 31, 1995: 90 percent) in eastern Germany. The digitization of the fifty largest local networks in Germany was completed as scheduled during 1996.

Increasing internationalization and globalization of the Group Through the strategy of systematically boosting its international activities, Deutsche Telekom is exploiting the opportunities arising from an increasingly liberalized and globalized telecommunications market. The goal is to offer the full range of worldwide telecommunications services on the expanding international markets, with select acquisitions serving to increase Deutsche Telekom's presence in strategic marketplaces outside of Germany.

Global One, the global alliance linking Deutsche Telekom, France Telecom and Sprint Corporation, forms the core of this strategy. As agreed, both Deutsche Telekom and France Telecom acquired 10 percent stakes in Sprint Corporation, the third largest long-distance carrier in the United States, for DM 2.6 billion during 1996. This move again underscores the strategic importance of Global One.

In addition, Deutsche Telekom's presence in international growth markets was increased in 1996 through further investments in selected telecommunications markets in both Europe and Asia. Deutsche Telekom is convinced that this investment policy will enable

it to exploit its technical competence and hence to make the most of new opportunities for growth.

A total of more than DM 5 billion was invested in international operations during 1996. In Asia, the Group acquired stakes in companies such as TRI Bhd., the leading supplier in the mobile communications market in Malaysia, and Isla Communications Co. Inc., a Philippine telecommunications company.

#### Research and development

As it transforms itself from a telecommunications service provider to a telematics service provider, Deutsche Telekom's future success depends to a large extent on its ability to develop competitive, innovative products with a minimum time-to-market. The Company's research and development activities center on application-optimized products and services offering top customer benefits together with considerable potential for adding value on the basis of advanced technologies. The guiding principle for all the Company's research and development work is to generate sustained growth in shareholder value.

Deutsche Telekom places great importance on boosting the efficiency of the research and development process. The objective of reorganizing the Company's research division by founding technology centers in Darmstadt and Berlin was to increase the market and application orientation of development work and to shorten project development periods. During 1996, Deutsche Telekom's ATM network started commercial operations, while further research activities are currently under way in the form of "Intelligent Networks" and "Telecommunication Management Networks". The rise in the level of innovation at Deutsche Telekom was reflected in the increase in the number of patent applications filed.

In the 1996 financial year, the Company's research and development expenditures amounted to approximately 2 percent of revenues, about the same level as in 1995. The level of such expenditures in the future will be determined by the prime objective of market and customer orientation.

#### Personnel

To strengthen its competitiveness and to enhance long-term job security, the Company aims to downsize the Group workforce to a total of 170,000 by the year 2000, based on the structure of the Group had at the beginning of 1995.

The Group continued to reduce employee numbers during the 1996 financial year. Early retirement plans, involving no extra financial burden in the case of civil servants, severance agreements and regular staff turnover all helped to reduce the workforce by a total of 12,500. The year-end figure of 201,000 staff employed by the Group means that Deutsche Telekom has succeeded in implementing almost half of the planned reductions in just two years.

Training employees specifically to deal with the new commercial realities represents an integral part of the process transforming Deutsche Telekom into a customer-oriented service provider. During the 1996 financial year, more than DM 250 million was spent internally and DM 100 million externally on further training.

Approximately 156,000 employees became shareholders in the company in connection with Deutsche Telekom's initial public offering. Besides tax advantages related to the purchase of shares by employees, Deutsche Telekom created an innovative arrangement to enable its employees to acquire additional shares at extremely attractive conditions through an associated company established specifically for this purpose. In addition, the company offered preferential alloca-

Employees (at the balance sheet date)	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1994
Civil servants	105,419	114,430	121,566
Salaried employees	44,235	43,672	46,752
Wage earners	51,406	55,365	61,156
Deutsche Telekom <sup>1)</sup>	201,060	213,467	229,474
Changes in the composition of the Deutsche Telekom group			
(MATAV and others)	19,607	–	–
Trainees/student interns	8,923	11,718	15,399
	229,590	225,185	244,873

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

tion of up to two hundred shares for each employee at the normal offering conditions. The cost of the employee share purchase plan, which is without precedent in Germany, was approximately DM 44 million during 1996.

#### Outlook

At this stage, Deutsche Telekom expects the positive business trend to continue throughout 1997. This trend has been confirmed by the revenue figures recorded during the first three months of the current financial year. The capital-spending programs, workforce reduction strategies and debt-reduction measures are all progressing as planned. Year-on-year income growth is expected on the basis of business recorded so far this year.

## Key events of 1996: The year of the stock market flotation.

A software error occurs at the beginning of the year affecting some of Deutsche Telekom's exchanges. Deutsche Telekom apologizes and compensates its customers generously.

"Global One" launches operations "Global One", the global alliance between Deutsche Telekom, France Telecom and the American Sprint Corporation, commences business operations in January.

Board of Management at full strength again  
Deutsche Telekom AG's Board of Management returns to full strength: On February 1, Detlev Buchal takes over the Residential Customers Division. From April 1, Dr. Heinz Klinkhammer is in charge of the Personnel and Legal Affairs Division, and Erik Jan Nederkoorn heads the International Division.

IPO information campaign  
Deutsche Telekom's information campaign to advertise its initial public offering is launched in March.

The "Schools go online" initiative – sponsored by Deutsche Telekom and the Federal Ministry of Education – starts work in April with the aim of equipping schools with modern communications technology within the next three years.

In New York the "Deutsche Telekom Galleries" opens at the Guggenheim Museum SoHo in June. It will focus on the presentation of multimedia art.

New Chairman of the Supervisory Board  
The Supervisory Board of Deutsche Telekom AG elects Prof. Dr. Helmut Sihler as its new chairman during its constituent meeting on July 1.

In a sensational double victory, the "Deutsche Telekom Team" takes first and second place in the Tour de France – and wins the green jersey for the best sprinter.

Online Pro Dienste company launched  
Online Pro Dienste GmbH & Co. KG commences operations at the beginning of September. In line with group strategy, Deutsche Telekom transfers responsibility for the operation and marketing of its T-Online service to its new subsidiary.

Equity holdings in Southeast Asia  
Deutsche Telekom acquires 21 percent of the shares in the Malaysian technology holding TRI in the framework of a strategic partnership. The corporation also buys shares in the Philippine network operator ISLACOM.

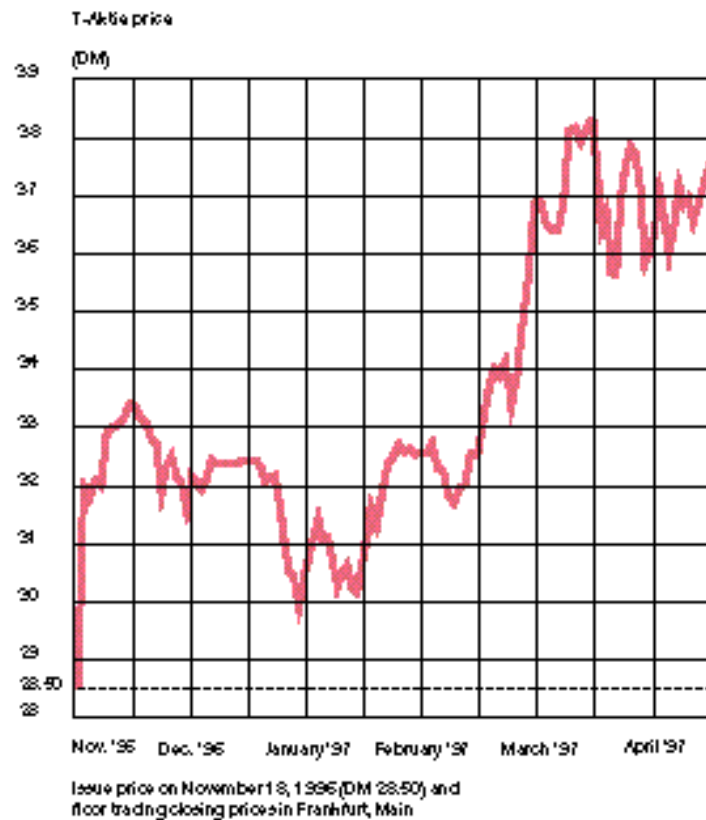
Over 3 million AIF participants  
Overwhelming interest in Deutsche Telekom's flotation: 3.1 million Germans register for the "AIF" Share Information Forum. Owing to the strong demand, the number of shares to be issued is raised by 20 percent to 600 million, plus the over-allotment option (Greenshoe). Nevertheless, the issue is still oversubscribed fivefold. The issue price for the "T-Aktie" is fixed at DM 28.50 on November 17. The opening price on the first day of trading is DM 33.20 in Frankfurt, \$22 in New York and ¥2,500 in Tokyo.

It is announced in December that the syndicate members have made full use of the Greenshoe. World-wide, a total of 713 million shares are placed for more than DM 20 billion.

Left: On March 20, Ron Sommer, Chairman of the Board of Management (second from left), Dr. J. Kröske, Head of the Financial Division (on the right), and the Federal Ministers Dr. W. Bötsch und Dr. Theo Waigel (on the left) start the countdown for going public. Right: Frankfurt Stock Exchange, where the T-Aktie was listed on November 18.



## The T-Aktie: Successful launch on the stock exchange.



Corporate activities at Deutsche Telekom revolved around the T-Aktie share in 1996. The cornerstone for Deutsche Telekom's successful initial public offering on November 18, 1996 was laid by all corporate divisions in a team effort. Preparations to increase the company's capital by trading its stock on the world's leading capital markets had started two years earlier.

March 1996 – Starting flag for the AIF  
The Share Information Forum (AIF) was launched eight months prior to Deutsche Telekom's flotation. The AIF – a service that is unique in German history – was at the heart of a large-

scale information campaign that placed special emphasis on German retail investors. As a result, a dialogue with potential investors developed at an early stage. Statistics revealed back then that only some five percent of all Germans owned stock at that time. This situation posed a special challenge: Getting the greatest possible number of potential first-time shareholders interested in stock as a form of investment. More than three million people registered with the AIF prior to October 11 and were sent regular information about Deutsche Telekom, its initial public offering and the T-Aktie share.

Prospectus and roadshows  
In addition to German retail investors, Deutsche Telekom presented the T-Aktie to institutional investors throughout the world. Deutsche Telekom's Board of Management met and talked with investors during roadshows staged at major financial centers in Europe, North America and Asia. Multiplier events were held to provide investment consultants at domestic banks with information about the T-Aktie and Deutsche Telekom's initial public offering. The offering prospectus, which was used as the T-Aktie's sales brochure, laid the foundation for the stock flotation. The offering prospectus documented Deutsche Telekom's financial situation, its activities on domestic and international markets, and the legal and regulatory situation.

The T-Aktie: a new product  
Deutsche Telekom's flotation was probably the first time that a stock has ever been successfully launched using a brand name – T-Aktie. Close cooperation between all partners involved contributed to the success of Deutsche Telekom's initial public offering. The T-Aktie was sold in five regional tranches throughout the world: in Germany, the United Kingdom, the rest of Europe, the area of the USA, Canada and South America, and the Asian-



„Deutsche Telekom's position on the market will make it a very strong competitor.“

Hans Jürgen Schäfer, Portfolio Management, Deutsche Asset Management GmbH, Frankfurt/Main

Pacific region together with Japan and the rest of the world. German investors who met certain requirements were granted a DM 0.50 discount on each share they subscribed to. The bonus program also foresees the issue of one "loyalty" share for every ten shares that an investor holds until September 30, 1999, up to a maximum of 300 shares. People who registered with the AIF received an additional incentive in the form of preferential allocation. An attractive employee share program was also developed for Deutsche Telekom employees.

IPO – a worldwide success  
The volume of the global offering was raised in response to strong demand throughout the world and ultimately reached 600 million shares plus the "Greenshoe," an over-allotment option of 90 million shares. Counting the some 23 million shares for Deutsche Telekom employees, a total of 713 million shares were sold. Trade in Deutsche Telekom stock began on the

same day in both Frankfurt and New York and on November 19 at the Tokyo Stock Exchange as well. Calculating an issue price of DM 28.50 (\$18.89 and 2140 Yen, respectively), the flotation and the sale of the Greenshoe reserve generated approximately DM 20 billion, making it the largest initial public offering in European history and the second largest in the world.

The T-Aktie Forum:  
our dialogue with retail investors Deutsche Telekom entered into a new phase following the T-Aktie's placement: maintaining an on-going dialogue with new shareholders. A new T-Aktie Forum will carry on this communication with retail investors. By setting up the T-Aktie Forum, Deutsche Telekom has underlined the front-runner role it plays in investor relations with this group of persons, without neglecting the interests of other capital market operators.

Deutsche Telekom considers investor relations to be essential for aligning itself with shareholder goals and the shareholder value idea in particular. It is accordingly committed to value-oriented corporate governance.

DVFA earnings  
In the interest of the shareholders the company publishes a result according to DVFA/SG (Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbach-Gesellschaft; German Association for Financial Analysis and Investment Consultancy/Schmalenbach-Gesellschaft). This result is the net income for the year adjusted for special influences. Major adjustment items are the personnel restructuring charges and the cost of the IPO in the financial year under review. The 1996 DVFA/SG earnings are DM 1.13 per share.

## Alliances and partnerships: Expanding into promising markets.

Thanks to its dynamic growth and the liberalization of former monopoly industries throughout the world, the telecommunications market offers an enormous potential for developing new business segments at home and abroad. Deutsche Telekom continued to sound out this potential during 1996 and pushed the corporation's national and international expansion ahead with alliances and partnerships.

During this process, focus has been laid on ensuring quality growth. Both national and international activities were carefully evaluated to determine whether they were suited to enhancing shareholder value and to being included in Deutsche Telekom's overall strategy. Using this evaluation as a compass, the Group continued its expansion into promising markets in 1996.

**Alliance with France Telecom and Sprint**  
Deutsche Telekom's alliance with France Telecom, its stake in the US telephone company Sprint Corporation, its Global One joint venture with France Telecom and Sprint, and other interests in Central and Eastern Europe and in Asia provide the cornerstones for Deutsche Telekom's internationalization strategy.

Global One, a global telecommunications joint venture, was established in late January 1996. Deutsche Telekom and France Telecom have since invested approximately \$1.8 billion each – some DM 2.6 billion – in Sprint stock. The two partners' shares in Global One are held by Atlas, a European joint venture which is equally owned by Deutsche Telekom and France Telecom.

In July 1996, the European Commission granted final approval for Global One, giving the green light for this global telecommunications partnership. Germany's Federal Cartel Office subsequently endorsed the Commission's decision. The U.S. Department of Justice and the Federal Communications Commission (the regulatory authority for the telecommunications market in the United States) approved the alliance in the USA.

With its broad range of modern voice and data services, Global One offers tailor-made global telecommunications solutions for businesses, telecommunications network operators, service providers and residential customers. As a result, Global One can support Deutsche Telekom's internationally active (business) customers around the world and provide them with seamless telecommunications services anywhere on earth. The Global One joint venture operates with 3,000 employees in 1,200 cities in more than 60 countries.

Global One generated some \$800 million in revenue and concluded a number of important customer contracts in just its first year of business. The Swedish government agency Statel, for example, commissioned Global One with transmitting all calls made by Sweden's local and national government offices. Global One also signed contracts with France's Louis Vuitton group and the multinational Elf Group oil corporation to set up private worldwide networks for their corporate communications needs. This global telecommunications service provider and its parent companies developed attractive and secure Intranet solutions for their business customers' global data communications needs in 1996.

Joint success in Israel  
Israel issued its first private international telephone license to Deutsche Telekom and its two Global One partners in November 1996. The license

holder is the Barak I.T.C. consortium, which includes Deutsche Telekom and its Global One partners: Clacom Ltd., Israel's leading national provider of value-added services; and MATAV, Israel's second-largest cable television company. Deutsche Telekom holds 10.5 percent of Barak, which plans to provide domestic customers a reasonably priced, competitive communications network for global voice, data and video transmission. The Israeli government's decision to issue a license to Global One attests to the high level of competence and capability offered by Deutsche Telekom's global partnership with France Telecom and Sprint.

Increased involvement in Southeast Asia  
Southeast Asia is one of the fastest growing regions in the world today. Deutsche Telekom stepped up its activities in interesting Southeast Asian markets substantially in 1996, with trend-setting results. It entered into a strategic partnership with Technology Resources Industries Berhad (TRI), a Malaysian technology holding, in early October and also acquired 21 percent of TRI's stock. TRI offers telecommunications services predominantly in Malaysia as well as in other Asian countries through its wholly-owned Cellular Communications Network (Malaysia), Sdn. Bhd. (Celcom) subsidiary. With some 850,000 customers, Celcom is the leading player on the Malaysian mobile communications market today. Celcom also holds a number of other telecommunications licenses for national and international fixed network communication, value-added services and paging services, for example.

October also saw the acquisition of roughly a ten-percent stake in the Philippine telecommunications operator Isla Communications (ISLACOM), and an approximately 49-percent stake in Asiacom Philippines which holds a majority interest in ISLACOM. Besides operating one of the Philippines' two digital mobile telephony networks, ISLACOM offers radio paging services and international telecommunications connections. ISLACOM also has a license to set up and operate a fixed network on Visayas, a part of the Philippines with above-average economic growth.

Deutsche Telekom's stake in Satelindo, the Indonesian telecommunications company, is one of its key investments in Southeast Asia. It acquired its 25-percent interest in PT Satelit Palapa Indonesia (Satelindo), which is being held by T-Mobil, in 1995. Satelindo offers satellite communications, mobile telephony and international telephone connections. For Satelindo, 1996 was

„The T-Aktie gives me the opportunity to invest in a global telecommunications company with great potential for growth.“

Lola N. Grace, Managing Director,  
Sterling Grace Capital Management,  
New York

confirming their intention to establish a long-term partnership and cooperate in the telecommunications field.

**MATAV: telecommunications on the way up in Hungary**  
The countries of Central and Eastern Europe comprise another focal area for Deutsche Telekom's international activities. In conjunction with Ameritech, the American network operator, Deutsche Telekom holds a majority – 67 percent – interest in MATAV, the Hungarian telecommunications company. Deutsche Telekom's involvement in MATAV is aimed at establishing Hungary as the telecommunications hub for Central and Eastern Europe. Various milestones were passed along the way to this goal in 1996: MATAV added 300,000 telephone lines to its network totaling 2,100,000 lines. By the end of the year, 28 percent of Hungary's households had a telephone, compared to 24 percent in 1995. And in the capital city Budapest, 43 percent of all homes had a telephone by the end of 1996. The MATAV Group's revenue rose from DM 1.5 billion to DM 1.9 billion last year.

**Mobile telephony highlights in the Czech Republic and Poland**  
Obtaining licenses for establishing and operating digital mobile telephony networks in the Czech Republic and Poland was an essential part of Deutsche Telekom's internationalization strategy for Central and Eastern Europe in 1996. In the Czech Republic, a consortium headed by T-Mobil was granted a license along with Ceske Radiokomunikace, a Czech firm, in March 1996. The network began providing commercial mobile communications services already by the autumn of 1996. Another consortium led by T-Mobil obtained a license for a nationwide digital mobile telephony network in Poland in February of last year. Deutsche Telekom's plans for

Poland and the Czech Republic are to win at least 500,000 new mobile telephony customers in each country in the coming years.

**A new subsidiary in the dynamic online business**  
With an eye to expanding its market leadership and developing new target groups for online services in the extremely dynamic online market, Deutsche Telekom transferred the operation, marketing and development of its T-Online service to its wholly-owned subsidiary, Online Pro Dienste GmbH & Co. KG, last year. The Düsseldorf-based company began operations in September 1996.

**Marketing alliance with Compaq**  
Deutsche Telekom entered into a marketing alliance with Compaq, the computer company, in July 1996. This collaboration is geared to bringing Deutsche Telekom's expertise in the telecommunications and data communications fields together with Compaq's core competency in computers and networking. It will also include the development of teleworking and telelearning systems.

**Platform for the multimedia future**  
The year also saw an expansion of Deutsche Telekom's activities in the field of multimedia communications with its acquisition of a 23 percent interest in the newly founded Hightech Center (HTC) Babelsberg. Located in Potsdam's Babelsberg suburb with its long tradition as a media center, this new company will establish a service platform for multimedia applications, digital TV and films.



Selected branch and representative offices	Selected associated companies	
<ul style="list-style-type: none"> <li>Europe</li> <li>■ Bonn (Group headquarters)</li> <li>■ Brussels</li> <li>■ London</li> <li>■ Moscow</li> <li>■ Paris</li> <li>● Kiev</li> <li>● St. Petersburg (DeTeCSM)</li> <li>Africa</li> <li>● Johannesburg</li> <li>America</li> <li>■ New York – with offices in <ul style="list-style-type: none"> <li>● Atlanta</li> <li>● Chicago</li> <li>● San Francisco</li> <li>● Washington</li> <li>■ Toronto</li> </ul> </li> <li>Asia</li> <li>■ Tokyo</li> <li>● Peking</li> <li>■ Singapore – with offices in <ul style="list-style-type: none"> <li>● Hong Kong</li> <li>● New Delhi</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Europe</li> <li>▲ Brussels Presence of Global One Communications Holding (via Atlas S. A.) CallMax B.V.</li> <li>▲ Eindhoven, NL max.mobil GmbH</li> <li>▲ Vienna Modacom AG</li> <li>▲ Zurich MATAV Rt. (via MagyarCom Inc.)</li> <li>▲ Budapest RADIOMOBIL a.s. (via CMobil B.V.)</li> <li>▲ Prague P T C Polska Telefonii Cyfrowa Sp.z.o.o.</li> <li>▲ Warsaw UMC JV (Ukrainian Mobile Communications), UTEL AGT (Ukrainian Telecom)</li> <li>▲ Kiev RTK, ZAO Russkaya Telefonnaya Kompaniya, InfoTel A.O.</li> <li>Moscow MTS Mobile Telesystems AGG, DEKATEL Deutsch-Kasachische-Telekommunikations GmbH, TAE-Teleline AGG, Tschirkom Ltd. (Uzbekistan)</li> <li>Almaty</li> <li>Chirchik</li> <li>America</li> <li>▲ Washington, D.C. APC LLC American Personal Communications Sprint Corp.</li> <li>▲ Kansas City Presence of Global One Communications World (via Atlas S. A.)</li> <li>▲ Reston, VA</li> <li>Asia</li> <li>▲ Kuala Lumpur TRI Berhad</li> <li>▲ Manila ISLACOM Inc.</li> <li>▲ Jakarta PT Satelindo</li> </ul>	<ul style="list-style-type: none"> <li>■ Group headquarters</li> <li>■ Branch office</li> <li>● Representative office/group office</li> <li>▲ Seat of an associated company</li> </ul>