

Report by the Board of Management



Dear Reader,

Deutsche Telekom AG opened a new chapter in its history in 1996 with its stock exchange flotation. 26 percent of Deutsche Telekom belongs to new shareholders, and more than 156,000 of our employees are now also coowners of the corporation.

The issue was oversubscribed five times – even after the tranche had been raised. This amounted to a worldwide demand worth approximately DM 100 billion: proof enough, we feel, of our corporation's attractiveness to investors. Never before in Germany have private investors subscribed to such a large total volume of issues. As a result, Deutsche Telekom now has more shareholders than any other German corporation.

Our initial public offering thus made a major contribution toward improving the overall image of stocks in our country and has strengthened Germany as a financial center.

Our going public so successfully indicates that Deutsche Telekom AG has been on the right track and has succeeded in convincing its new shareholders worldwide that its strategic orientation holds excellent prospects for the future.

We are determined to meet the expectations of our shareholders by ensuring that our company is managed with a view to shareholder value. Our central objective is to achieve a continuous and sustained increase in the value of Deutsche Telekom, in other words to make our share, the "T-Aktie", strong. We are already systematically tapping new sources of value and will continue to do so in the future, in order to ensure that the T-Aktie remains a share with great growth potential.

Our shareholders will not be the only people to benefit from value-oriented management: everyone connected with the corporation – the people we call our "stakeholders" – will also benefit. And satisfying the expectations of the shareholders requires satisfied customers, motivated staff and efficient partners and suppliers.

We succeeded in considerably boosting the value of the corporation in former years, and continued our successful business development in the 1996 financial year. Group revenue rose to more than DM 63 billion. Taking into account the effect of the imposition of value-added tax, this corresponds to an increase of about six percent over the previous year. Results from ordinary business activities rose even more than revenue – by approximately 74 percent: the VAT-adjusted figure was up from DM 3.8 billion in 1995 to more than DM 6.6 billion in 1996. Hence, we can propose to the shareholders' meeting that a dividend of DM 0.60 per share be paid out as planned.

At the same time, we vigorously continued the process of paying off debts, cutting them by DM 12 billion. This means that in its first two years as a stock corporation, the corporation has cut its total level of indebtedness by DM 27 billion (without MATAV). Thanks to the inflow of funds from the successful share issue, and the continuing high level of cash flow from operations, not only has the financing of necessary investment been covered, but, parallel to this, net indebtedness has been markedly reduced. It amounted to about DM 82 billion at the end of 1996.

At the end of the year, the Group (without MATAV) employed approximately 201,000 staff. Hence, in the last two years the number of people working for the corporation has been reduced, with no redundancies being required, to such an extent that half of the downsizing target planned for the year 2000 – from 230,000 to 170,000 – has already been met.

We also recorded exceptionally good growth in products and services. To give you just a few examples: Our subsidiary T-Mobil gained 800,000 new customers in the past year. Growth rates for ISDN channels were also impressive, and we are now even witnessing a growing demand among residential customers. In 1996 the number of residential ISDN customers increased ninefold. Also enjoying continued growth is our broadband cable network – the number of households connected rose from 15.8 million to 16.7 million in the year under review.

We continued to move ahead at a fast pace with our digitization program in 1996. Full digitization, which we plan to achieve by the end of 1997, will open up new opportunities for enhanced services, cost reductions and higher revenue.

Thanks to the ever growing level of digitization, the broadband cable network is fast becoming a platform for multimedia communications. We also further expanded our international activities in the year under review – the growth markets of Southeast Asia being particular highlights.

We expect the positive sales trend to continue in the current financial year and anticipate seeing our earnings grow. We have been preparing so intensively for the opening of the market in 1998 that we are confident our successful business development will continue unabated after that date. We have, after all, completed the transformation from an old-style telephone company into an application-oriented high-tech group. "Customer Focus" is our core strategy for weathering the forces of competition. We are determined to fight for every customer – with more and more new and innovative products, applications and services, with powerful and dynamic marketing, and a much-improved quality of service and support.

We are working at full stretch to further raise our satisfaction rating among our customers, and we shall convince them that Deutsche Telekom – the industry's most experienced and innovative corporation in Germany – will continue to be the right partner to have at their side in the long term.

We regard the confidence our customers and investors place in us as an obligation. We shall be doing everything in our power to ensure that our stakeholders' links with Deutsche Telekom AG will prove to be promising and profitable.

Bonn, April 1997 The Board of Management
Der Vorstand

Dr. Ron Sommer
Chairman