113,000,000 Ordinary Shares
(nominal value DM 5 per Share)
in the form of Shares or American Depositary Shares

Deutsche Telekom AG, a stock corporation organized under the laws of the Federal Republic of Germany, is offering hereby, through the several International Underwriters, 113 million Ordinary Shares, nominal value DM 5 each, of the Company. The International Offering comprises an offering of (i) 30 million Shares in the Asia-Pacific/Rest of the World Offering, (ii) 33 million Shares in the Rest of Europe Offering and (iii) 50 million Shares in the U.K. Offering, in each case in the form of Shares or American Depositary Shares. Each ADS represents one Share and ADSs will be evidenced by American Depositary Receipts. In addition to the Shares being offered in the International Offering, the Global Offering includes an offering of 402 million Shares in the German Offering and 85 million Shares in the Americas Offering. In addition to the Global Offering, the Company has reserved 23.7 million Shares for issuance to employees of Deutsche Telekom. The Company will offer certain incentives to retail investors in the German Offering and to employees within Germany. See ''The Global Offering.''

Upon completion of the Global Offering and the Employee Offering, the Federal Republic of Germany will own 2.03 billion Shares, representing approximately 76.5% of the share capital of the Company (assuming no exercise of the Underwriters' over-allotment option).

Prior to the Global Offering there has been no public market for the Shares or the ADSs. The Shares have been approved for listing on the Frankfurt Stock Exchange as well as the other German stock exchanges under the symbol ''DTE''. The ADSs have been approved for listing, subject to official notice of issuance, on the New York Stock Exchange under the symbol ''DT''. Application has also been made to list the Shares on the Tokyo Stock Exchange. In addition, it is expected that the Shares and the ADSs will be eligible for quotation and trading through SEAQ International. See ''The Global Offering.''

The initial public offering price is DM 28.50 per Share and $18.89 per ADS, based upon an exchange rate of DM 1.5085 per U.S. Dollar.

Global Coordinators

Deutsche Bank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Goldman, Sachs & Co.

The Shares and the ADSs offered hereby are offered severally by the International Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Shares will be delivered in book-entry form through the facilities of the Deutscher Kassenverein AG and the ADRs evidencing the ADSs will be ready for delivery through the facilities of The Depository Trust Company on or about November 20, 1996, against payment therefor in immediately available funds.

Regional Lead Managers

Asia-Pacific/Rest of World Offering

Daiwa Europe Limited

Rest of Europe Offering

Paribas Capital Markets

U.K. Offering

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

The date of this Prospectus is November 17, 1996.

Global Coordinators

Deutsche Bank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Goldman, Sachs & Co.

Asia Pacific/Rest of World Offering

Daiwa Europe Limited

Nomura International | **Lehman Brothers** | **Deutsche Morgan Grenfell**

ABN AMRO Rothschild | **CS First Boston** | **Dresdner Kleinwort Benson**

Goldman Sachs (Asia) L.L.C. | **HSBC Investment Banking**

Indosuez Capital | **Nikko Europe Plc**

WestLB Securities Pacific Ltd. | **Yamaichi International (Europe) Limited**

The Development Bank of Singapore Ltd | **Rashid Hussain Securities SDN BHD**

Securities One, S-ONE | **Ssangyong Investment & Securities Co. Ltd.** | **JB Were & Son**

Rest of Europe Offering

Paribas Capital Markets

Union Bank of Switzerland | **Dresdner Kleinwort Benson**

ABN AMRO Rothschild | **Banque Nationale de Paris** | **CS First Boston**

Deutsche Morgan Grenfell | **Goldman Sachs International**

Banque Générale du Luxembourg S.A. | **Bayerische Vereinsbank** Aktiengesellschaft | **BBV Interactivos, SVB**

Commerzbank AKTIENGESELLSCHAFT | **Creditanstalt Investment Bank** | **Den Danske Bank**

Enskilda Securities Skandinaviska Enskilda Banken | **KB-Securities**

Mediobanca-Banca di Credito Finanziario S.p.A. | **Société Générale**

U.K. Offering

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

Dresdner Kleinwort Benson | **NatWest Securities Limited** | **Deutsche Morgan Grenfell**

ABN AMRO Rothschild | **CS First Boston**

Robert Fleming & Co. Limited | **Goldman Sachs International**

Bayerische Landesbank Girozentrale | **Cazenove & Co.** | **Schroders**

Financial Advisors

To the Company
N M Rothschild & Sons Limited

To the Federal Republic
CS First Boston

IN CONNECTION WITH THE GLOBAL OFFERING, THE GLOBAL COORDINATORS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SHARES AND THE AMERICAN DEPOSITARY SHARES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, THE FRANKFURT STOCK EXCHANGE, THE OTHER GERMAN STOCK EXCHANGES, SEAQ INTERNATIONAL, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THE GLOBAL OFFERING, CERTAIN PERSONS INCLUDING CERTAIN PERSONS AFFILIATED WITH PERSONS PARTICIPATING IN THE DISTRIBUTION MAY ENGAGE IN TRANSACTIONS FOR THEIR OWN ACCOUNTS OR FOR THE ACCOUNTS OF OTHERS IN THE SHARES OR THE AMERICAN DEPOSITARY SHARES PURSUANT TO EXEMPTIONS FROM RULES 10b-6, 10b-7 AND 10b-8 UNDER THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SEE ''UNDERWRITING.''

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell of the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

This Prospectus is intended for use only in connection with offers and sales of the Shares and ADSs outside the United States, Canada and Latin America and is not to be sent or given to any person within the United States, Canada or Latin America. The Shares and ADSs offered hereby are not being registered under the U.S. Securities Act of 1933 for the purpose of sales outside the United States. No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares or ADSs or possession or distribution of this document or any other offering or publicity material relating to the Shares or ADSs, in any country or jurisdiction where action for that purpose is required other than Germany, the United States, Canada and Japan.

The distribution of this Prospectus and the offering and sale of the Shares and ADSs in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restriction. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Shares or ADSs in any jurisdiction in which such offer or solicitation is unlawful.

Through and including December 12, 1996 (the 25th day after the date of this Prospectus) all dealers effecting transactions in the Shares or ADSs in the United States, whether or not participating in this distribution, may be required to deliver the Americas Prospectus.

This document has not been approved as an investment advertisement pursuant to Section 57 of the Financial Services Act 1986 and may not be issued or passed on in the United Kingdom except to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996.

As used in this Prospectus, the ''Company'' and ''Deutsche Telekom'' refer to Deutsche Telekom AG and its consolidated subsidiaries unless the context otherwise requires. Prior to January 1, 1995, the Company operated as a division of the Deutsche Bundespost, the German state postal, telephone and telegraph authority. As used in this Prospectus, the ''Company'' and ''Deutsche Telekom'' also refer to Deutsche Telekom AG's predecessor entities and ''Deutsche Post'' and ''Deutsche Postbank'' refer to Deutsche Post AG and Deutsche Postbank AG, respectively, and their respective predecessors, unless the context otherwise requires.

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Deutsche Telekom will furnish the Depositary referred to under "Description of American Depositary Receipts" with annual reports in English, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with generally accepted accounting principles in Germany ("German GAAP"), together with a reconciliation of net income and total shareholders' equity to generally accepted accounting principles in the United States ("U.S. GAAP"). Deutsche Telekom will also furnish the Depositary with semi-annual reports in English, which will include unaudited interim financial information prepared in conformity with German GAAP. Upon receipt thereof, the Depositary will promptly mail such reports to all record holders of American Depositary Receipts ("ADRs") evidencing American Depositary Shares ("ADSs"), each representing one Ordinary Share, nominal value DM 5 each (a "Share"), of the Company. Deutsche Telekom will also furnish to the Depositary in English all notices of shareholders' meetings and other reports and communications that are generally made available to shareholders of the Company. The Depositary will make such notices, reports and communications available to holders of ADRs and will mail to all record holders of ADRs a notice containing a summary of the information contained in any notice of a shareholders' meeting received by the Depositary. See "Description of American Depositary Receipts."

The Company publishes its consolidated financial statements in Deutsche Mark. As used in this Prospectus, "Deutsche Mark" or "DM" means the lawful currency of the Federal Republic of Germany, "U.S. Dollar" or "$" means the lawful currency of the United States of America, "ECU" means the European Currency Unit, "HUF" means the lawful currency of Hungary and "Rp." means the lawful currency of Indonesia. For the convenience of the reader, this Prospectus contains translations of certain Deutsche Mark amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at those rates. Unless otherwise stated, the translations of Deutsche Mark into U.S. Dollars have been made at the rate of DM 1.5210 = $1.00, the rate for Deutsche Mark, expressed in Deutsche Mark per U.S. Dollar, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies (the "Noon Buying Rate") on June 28, 1996. This rate may differ from the rates used in the preparation of the Company's financial statements included in this Prospectus. See "Exchange Rate Information" for information concerning the Noon Buying Rate for the year ended December 31, 1991 through November 15, 1996.

Unless otherwise indicated, all information relating to Share amounts assumes no exercise of the Underwriters' over-allotment option. Subscriber and traffic data and percentages that appear in this Prospectus have been calculated using actual amounts derived from the Company's financial statements or its books and records and not the rounded amounts that may otherwise appear in this Prospectus.

The Company's registered address is Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, and the telephone number is 00-49-228 181 0.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements (including the notes thereto) included elsewhere in this Prospectus. A glossary of selected terms used in this Prospectus appears at the end of this Prospectus.

Deutsche Telekom

Deutsche Telekom is Europe's largest, and the world's third largest, telecommunications services provider in terms of revenues. At present, the Company is the sole provider of public fixed-link voice telephony in Germany, with over 43 million telephone access lines installed. Deutsche Telekom is also Germany's largest mobile telecommunications provider, with approximately 2.4 million mobile telephone subscribers, and operates Germany's largest cable network, transmitting television and radio programming to more than 16.2 million households. In addition, the Company provides leased lines, text and data services, corporate networks and on-line services, supplies telecommunications equipment and publishes telephone directories. Deutsche Telekom's consolidated net revenues were over DM 66 billion in 1995 and over DM 30 billion in the first half of 1996. Approximately 71% of the Company's revenues for the first six months of 1996 were derived from its core telephony services, consisting of domestic and international public fixed-link voice telephony.

Deutsche Telekom has invested heavily in its telecommunications and cable networks, providing Germany with one of the most technologically advanced networks in the world. Digitalization of the entire network, including the local networks, is expected to be completed by late 1997 or early 1998, resulting in greater network capacity, efficiency and flexibility. Deutsche Telekom currently provides the largest number of ISDN access lines in the world. The Company believes there will be increasing demand in the future for new technologies, particularly multi-media and telematics services, and believes that its state-of-the-art telecommunications network provides a significant advantage in developing and introducing new products.

Internationally, Deutsche Telekom has taken a number of steps to take advantage of the growing liberalization and globalization of telecommunications markets. The Company recently entered into the Global One joint venture with France Télécom and Sprint Corporation to offer seamless international telecommunications services. Global One, launched in February 1996, currently serves over 30,000 customers and operates in over 60 countries. In connection with Global One, the Company acquired a 10% stake in Sprint Corporation. Deutsche Telekom also holds, together with Ameritech Corporation, a controlling stake in Magyar Távközlési Rt. (''Matáv''), Hungary's principal telecommunications services provider, and holds a 25% interest in P.T. Satelit Palapa Indonesia (''Satelindo''), the largest GSM operator in Indonesia.

The telecommunications sector in Germany has been progressively liberalized in recent years and, under the recently-enacted German Telecommunications Act *(Telekommunikationsgesetz)* (''TKG'') and as required by the European Union (''EU''), will be fully liberalized effective January 1, 1998. Historically, the provision of public telecommunications services in Germany was a state monopoly and the operations of Deutsche Telekom were an integral and undifferentiated part of the activities of the Deutsche Bundespost, Germany's state postal, telephone and telegraph authority. Beginning in 1989, a series of telecommunications reforms was adopted in Germany pursuant to which the operations of Deutsche Telekom were separated from the other activities of the Deutsche Bundespost, and, with effect from January 1, 1995, Deutsche Telekom was transformed into a private law stock corporation, Deutsche Telekom AG. Over the same period, competition was gradually introduced in a number of markets in which Deutsche Telekom operates, including text and data transmission services, the supply of telecommunications equipment, mobile telecommunications services and voice telephony for closed-user groups. Under the TKG, the operation of networks for all telecommunications services other than public fixed-link voice telephony became open to competition as of August 1, 1996, and Deutsche Telekom's most significant services—domestic and international public fixed-link voice telephony—will be open to full competition from January 1, 1998.

As part of its transformation from an essentially governmental entity to a market- and profit-oriented enterprise, Deutsche Telekom has taken a number of measures to reduce costs, with particular emphasis on personnel and interest expense. The Company has commenced a program to reduce its workforce to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995), representing a reduction of 60,000 employees from the 1994 year-end level. To reduce interest expense, Deutsche Telekom has significantly reduced its indebtedness over the last two years. The Company plans to reduce its indebtedness from DM 106 billion (excluding indebtedness of Matáv) at June 30, 1996 to DM 65 billion or less by the end of the year 2000 (excluding indebtedness of subsidiaries first consolidated after June 30, 1996).

To prepare for competition in its core telephony business, Deutsche Telekom commenced in January 1996 a far-reaching reform of its tariffs to align them more closely with underlying costs and usage patterns. Significant adjustments have included rebalancing local, domestic long distance and international long distance rates. In addition, effective January 1, 1996, the Company reduced several of its tariffs in response to the imposition of value-added tax (''VAT'') on the Company's monopoly services. These tariff adjustments had an adverse impact on first-half 1996 revenues, in part due to a decline in telephone usage as a consequence of consumer uncertainty regarding the new tariff structure. The Company does not believe, however, that this reflects a change in medium-term trends, as telephone usage began to return to normal levels toward the end of the first half of 1996. The Company has also developed optional tariff packages targeted to different customer groups. Deutsche Telekom's tariffs for public fixed-link voice telephony services are to become subject to a price-cap regime beginning January 1, 1998.

Deutsche Telekom's objectives for the coming years are to enhance its position as the leading provider of telecommunications services in Germany; to increase its international presence; to achieve growth in revenues, cash flow and earnings; to improve the structure of its balance sheet; and to generate attractive returns for its shareholders. With the liberalization of the German telecommunications market and continuing rapid changes in telecommunications and information technology, Deutsche Telekom expects to face a number of competitive challenges. To meet these challenges and to achieve its objectives, Deutsche Telekom plans to: (i) increase customer satisfaction and loyalty, (ii) reduce costs and increase productivity, (iii) introduce new services using its state-of-the-art network and (iv) expand selectively in the global telecommunications market.

See ''Relationship with the Federal Republic'', ''Management's Discussion and Analysis of Financial Condition and Results of Operations'', ''Business'' and ''Regulation.''

Relationship with the Federal Republic

Currently, the Federal Republic of Germany (the ''Federal Republic'') is the sole shareholder of Deutsche Telekom. It is anticipated that upon completion of the Global Offering and the Employee Offering the Federal Republic's stake in Deutsche Telekom will be reduced to approximately 76.5% (assuming no exercise of the Underwriters' over-allotment option).

As long as the Federal Republic owns a majority of the Shares, it will, like any majority shareholder in a German stock corporation, have the power to control most decisions taken at shareholders' meetings, including the appointment of all the members of the Supervisory Board elected by shareholders and approval of proposed dividend payments. In addition, as long as the Federal Republic owns 75% of the Shares, it will be able to pass resolutions requiring a qualified majority.

The Federal Republic administers its shareholding and exercises its rights as a shareholder of Deutsche Telekom through a public law entity, the Federal Institute for Postal Affairs and Telecommunication Deutsche Bundespost *(Bundesanstalt für Post und Telekommunikation Deutsche Bundespost)* (the "Federal Institute"). In its capacity as shareholder, the Federal Republic may exercise only those rights that it has under the German Stock Corporation Act *(Aktiengesetz)* and Deutsche Telekom's Articles of Association *(Satzung)*. The Federal Republic does, however, have certain coordination and administrative responsibilities.

The Federal Institute is subject to the supervision of the Federal Ministry for Postal Affairs and Telecommunication *(Bundesministerium für Post und Telekommunikation)* (the "Post Ministry"). The Post Ministry also at present acts as the federal telecommunications regulatory authority, the principal regulator of Deutsche Telekom's operations. The Federal Republic's role as regulator is independent and distinct from its role as shareholder.

See "Relationship with the Federal Republic" and "Regulation."

Regulation

The TKG, which became effective on August 1, 1996, completely transformed the legal framework for the regulation of the telecommunications sector in Germany. Under the TKG, Deutsche Telekom will retain an essentially exclusive right to provide domestic and international public fixed-link telephony services within Germany through December 31, 1997. With effect from August 1, 1996, the operation of networks for all public telecommunications services other than fixed-link voice telephony became fully open to competition.

The TKG establishes the overall regulatory framework for the telecommunications sector in Germany and, with the entry into effect of ordinances concerning tariffs (including tariffs for public fixed-link voice telephony services commencing January 1, 1998) and interconnection, and the pending adoption of an ordinance concerning universal services, key aspects of the regulatory structure have been established. Nevertheless, it will be some time before certain important aspects of the regulatory regime are clarified.

The TKG provides Germany with a pro-competitive regulatory structure. Pro-competitive features of the new law (not all of which are effective immediately) include provisions for (i) the issuance of telecommunications licenses basically without limitation as to number, (ii) number portability, (iii) pre-selection of carriers and carrier override on a call-by-call basis, (iv) price regulation limited to market-dominating providers, (v) wide-ranging access to the networks of market-dominating operators at prices based on the costs of efficient service provision and (vi) access on a non-discriminatory basis to essential services and facilities used by market-dominating providers internally. Deutsche Telekom expects that for some time to come it will be viewed by the relevant regulatory authorities as a market-dominating provider in markets for public fixed-link voice telephony as well as in other markets, including those in which it held monopoly rights through July 31, 1996.

See "Regulation."

The Global Offering

Global Offering	The Global Offering consists of 600 million Shares issued by Deutsche Telekom pursuant to a capital increase effected on November 15, 1996. The Global Offering comprises five regional offerings. See "The Global Offering."
Over-allotment option	The Company has granted the Underwriters an option, exercisable by the Global Coordinators on their behalf, from November 18 to December 31, 1996, to purchase up to an additional 90 million Shares. See "Underwriting."
The German Offering	402 million Shares offered in Germany.
The Americas Offering	85 million Shares, in the form of ADSs or Shares, offered in the United States, Canada and Latin America.
The Asia-Pacific/Rest of World Offering	30 million Shares, in the form of ADSs or Shares, offered in Japan and in the rest of the world, excluding the Americas and Europe.
The Rest of Europe Offering	33 million Shares, in the form of ADSs or Shares, offered in Europe, excluding Germany, the United Kingdom, Ireland and the Channel Islands.
The U.K. Offering	50 million Shares, in the form of ADSs or Shares, offered in the United Kingdom, Ireland and the Channel Islands.
Employee Offering	In addition to the Global Offering, the Company has issued 23.7 million Shares for sale to employees of Deutsche Telekom and its German subsidiaries.
Shares Outstanding	2,653,700,000 Shares upon completion of the Global Offering and the Employee Offering (up to 2,743,700,000 Shares if the Underwriters' over-allotment option is exercised in full).
Initial Offering Price	DM 28.50 per Share and $18.89 per ADS, based on an exchange rate of DM 1.5085 per U.S. Dollar.
Retail Incentives	Retail investors in Germany are eligible to receive certain discounts and to receive one bonus Share for every 10 Shares purchased in the German Offering and held until September 30, 1999, up to a maximum of 30 bonus Shares. The bonus Shares will be allocated from the shareholding of the Federal Republic. See "The Global Offering."
Company Lock-up	Except for Shares issued and sold in the Global Offering (including any additional Shares sold pursuant to the Underwriters' over-allotment option) and the Employee Offering, for a period of 12 months from the date of the Global Underwriting Agreement, the Company has agreed, subject to certain exceptions, not to issue, sell or dispose of any Shares out of authorized capital *(genehmigtes Kapital)* or any securities convertible into or exchangeable for such Shares or to initiate a capital increase, except with the prior written consent of the Global Coordinators. For a further description of the Company lock-up and its exceptions, see "Underwriting."
Restrictions on Future Sales of Shares by the Federal Republic	Postreform II contains certain provisions which restrict the ability of the Federal Republic to sell its Shares in the public capital markets through December 31, 1999. There is no contractual agreement

	pursuant to which the Federal Republic is restricted from selling its Shares. See "Relationship with the Federal Republic—Shareholding" and "Underwriting."
Listing	A total of one billion Shares have been approved for listing on the Frankfurt Stock Exchange as well as the stock exchanges of Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart. The ADSs have been approved for listing, subject to official notice of issuance, on the New York Stock Exchange ("NYSE"). Application has also been made to list the Shares on the Tokyo Stock Exchange. In addition, it is expected that the Shares and ADSs will be eligible for quotation and trading through the Stock Exchange Automated Quotation System of the London Stock Exchange ("SEAQ International").
NYSE Symbol	DT.
Frankfurt Stock Exchange Symbol	DTE.
Voting Rights	Holders of Shares are entitled to attend and vote at shareholders' meetings on the basis of one vote for each Share held. See "Description of Shares—Voting Rights and Shareholders' Meetings." Holders of ADRs are entitled to instruct the Depositary to vote or cause to be voted the Shares represented by ADSs on the basis of one vote per ADS. See "Description of American Depositary Receipts—Voting of Deposited Securities."
Use of Proceeds	The Company will receive all of the proceeds from the Global Offering. Deutsche Telekom intends to use the net proceeds of the Global Offering and the Employee Offering, which are estimated to be approximately DM 16.9 billion (approximately DM 19.4 billion assuming the Underwriters' over-allotment option is exercised in full), primarily for the repayment of indebtedness and, to a lesser extent, for general corporate purposes. See "Use of Proceeds."
Dividend Policy	The Shares and ADSs sold in the Global Offering will be entitled to the same dividend rights as outstanding Shares with respect to any dividends declared. The Company currently expects to recommend to shareholders that approximately DM 1.6 billion be approved as an aggregate dividend payment in 1997 in respect of 1996. However, the payment of dividends will depend upon the Company's earnings, financial condition, prospects and other factors and is subject to the German Stock Corporation Act. See "Dividend Policy."
Settlement	On November 15, 1996, global share certificates representing the Shares were deposited with the Deutscher Kassenverein AG ("DKV") as Share depositary. The Shares have been accepted for clearance through DKV, the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel"). The Shares may be credited at the option of investors either to the account of a German bank with DKV for the account of such investor or to the accounts of participants with Euroclear or Cedel. The ADSs will be eligible for clearance through the facilities of The Depository Trust Company ("DTC"). See "The Global Offering—Form and Settlement."

Summary Consolidated Financial and Statistical Information

The summary consolidated financial data presented below should be read in conjunction with the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements, including in each case the Notes thereto, of Deutsche Telekom included elsewhere in this Prospectus. German GAAP differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom, see Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements.

	Year ended December 31,				Six months ended June 30,		
	1993	1994	1995	1995(1)	1995	1996(2)	1996(1)(2)
	DM	DM	DM	$	DM	DM (unaudited)	$
	(in millions except per Share/ADS amounts)						
Consolidated Income Statement Data:							
Amounts in accordance with German GAAP							
Net revenues	60,071	63,814	66,135	43,481	32,557 (3)	30,637 (3)	20,143 (3)
Total operating costs and expenses	(48,914)	(50,299)	(53,070)	(34,892)	(24,896)	(27,660)(4)	(18,185)(4)
Financial income (expense), net	(7,652)	(7,927)	(8,211)	(5,398)	(4,178)	(3,892)	(2,559)
Results from ordinary business activities	9,870	11,213	10,312	6,780	5,437	2,715	1,786
Extraordinary losses(5)	—	(357)	(1,264)	(831)	(285)	(1,841)	(1,211)
Net income	2,084	3,595	5,272	3,466	3,513	129	85
Earnings per Share/ADS(6)	1.03	1.77	2.60	1.71	1.73	0.06	0.04
Amounts in accordance with U.S. GAAP							
Net income(7)	—	7,954	5,563	3,657	3,631	521	344
Earnings per Share/ADS(6)(7)(8)	—	3.92	2.74	1.80	1.79	0.26	0.17
Consolidated Cash Flow Data:							
Net cash provided by operating activities	14,212	24,114	23,687	15,574	12,575	12,381	8,139
Capital expenditures	21,869	19,253	14,574	9,582	5,597	6,596	4,336

	At December 31,				At June 30,	
	1993	1994	1995	1995(1)	1996(2)	1996(1)(2)
	DM (unaudited)	DM	DM	$	DM	$ (unaudited)
	(in millions)					
Consolidated Balance Sheet Data:						
Amounts in accordance with German GAAP						
Fixed assets	132,916	139,216	139,215	91,529	143,015	94,027
Total assets	148,480	168,066	160,247	105,356	163,557	107,532
Debt	108,477	125,459	110,387	72,575	107,124	70,430
Total liabilities (including accruals and deferred income)	133,321	148,734	135,515	89,096	137,489	90,393
Shareholders' equity	15,159	19,332	24,732	16,260	26,068	17,139
Amounts in accordance with U.S. GAAP						
Shareholders' equity(7)	—	24,103	29,475	19,379	30,019	19,737

	Year ended December 31,			Six months ended June 30,
	1993	1994	1995	1996(2)
Statistical Data:				
Average number (in millions, unless otherwise indicated)				
Standard telephone access lines	35.9	37.3	38.7	39.2
ISDN channels	0.6	1.3	2.2	3.3
Mobile telephone subscribers	1.0	1.4	1.8	2.2
Cable subscribers(9)	12.7	14.1	15.2	16.0
Average number of full-time equivalent employees (thousands)	234	231	220	211
Access lines in service per employee	156	167	186	201

Notes to Summary Consolidated Financial and Statistical Information

(1) Translated into U.S. Dollars at the Noon Buying Rate on June 28, 1996 of DM 1.5210 to $1.00.
(2) Includes full consolidation of Matáv, except for statistical data.
(3) Commencing January 1, 1996, VAT was imposed on the Company's monopoly services (principally domestic telephone services, outgoing international services, leased lines and cable services) in response to which the Company reduced tariffs for all such services except leased lines. If the Company's revenues in the affected business areas in the first half of 1995 were adjusted for this VAT-related tariff change, revenues in the first half of 1996 (excluding Matáv) would have increased by 1.4% compared to the first half of 1995. In addition, in January 1996 the Company introduced a far-reaching tariff reform. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Revenues" and "—Results of Operations—Net Revenues."
(4) Of the DM 2.8 billion increase in total operating costs and expenses in the first six months of 1996, DM 775 million is attributable to the consolidation of Matáv and DM 200 million to incremental VAT expense. Adjusting for the combined effect of these items, other operating costs and expenses would have increased by approximately 7.2% in the first half of 1996 compared to the first half of 1995. Of the remaining DM 1.8 billion increase, a significant portion represents expenses that the Company believes were high compared to what it expects to incur on an ongoing basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses."
(5) Substantially all of the extraordinary losses consist of personnel restructuring charges, which include the total expected costs of the Company's workforce reduction program. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Extraordinary Losses." Under U.S. GAAP, only a portion of these restructuring charges have been recognized in these periods. See Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements.
(6) Pro forma for 1993 and 1994. Earnings per Share/ADS has been calculated based on 2.03 billion Shares and a ratio of one Share to one ADS. Giving effect to the issuance of 623.7 million Shares in the Global Offering and the Employee Offering, pro forma earnings per Share/ADS would be DM 1.99 and $1.31 for 1995 and DM 0.05 and $0.03 for the first six months of 1996 (without giving effect to the application of the proceeds of the Global Offering and the Employee Offering).
(7) U.S. GAAP amounts for 1993 are not available.
(8) After extraordinary losses.
(9) Includes households connected through private cable operators. See "Business—Cable Transmission and Broadcasting—Cable Services—Penetration and Coverage."

THE GLOBAL OFFERING

General

The Shares being offered by this Prospectus are being offered as part of a global offering of 600 million Shares (the "Global Offering") comprising the following regional offerings:

(i) The German Offering:

a public offering in Germany of 402 million Shares (the "German Offering");

(ii) The Americas Offering:

a public offering in the United States and Canada and an offering to institutional investors in Latin America of 85 million Shares (together, the "Americas Offering");

(iii) The Asia-Pacific/Rest of World Offering:

a public offering in Japan and an offering to institutional investors in the rest of the world, excluding the Americas and Europe, of 30 million Shares (together, the "Asia-Pacific/Rest of World Offering");

(iv) The Rest of Europe Offering:

an offering to institutional investors in Europe, excluding Germany, the United Kingdom, the Republic of Ireland and the Channel Islands, of 33 million Shares (the "Rest of Europe Offering"); and

(v) The U.K. Offering:

an offering to institutional investors in the United Kingdom, the Republic of Ireland and the Channel Islands of 50 million Shares (together, the "U.K. Offering", and, together with the Asia-Pacific/Rest of World Offering and the Rest of Europe Offering, the "International Offering").

The Underwriters, other than in the German Offering, may elect to receive all or a portion of their Shares in the form of ADSs. No fractional Shares will be sold in the Global Offering or the Employee Offering (as described below). Except in the case of certain sales of Shares to retail investors in the German Offering and as part of the Employee Offering, Shares and ADSs sold in the Global Offering and Shares sold in the Employee Offering will be sold at the Offer Price per Share or the Offer Price per ADS, as the case may be, set forth on the cover page of this Prospectus (hereafter, the "Offer Price per Share" and the "Offer Price per ADS," respectively).

Pursuant to the Agreement Among Underwriters, Shares or ADSs offered in the Global Offering may be reallocated among the various regional offerings. See "Underwriting."

The 600 million Shares being offered in the Global Offering represent approximately 22.6% of the Shares expected to be outstanding upon completion of the Global Offering and the Employee Offering. If the Underwriters' over-allotment option is exercised in full, the aggregate number of Shares offered in the Global Offering will represent approximately 25.2% of the Shares expected to be outstanding upon completion of the Global Offering and the Employee Offering. Upon completion of the Global Offering and the Employee Offering, the Federal Republic will beneficially own approximately 76.5% (approximately 74.0% if the Underwriters' over-allotment option is exercised in full) of the share capital of Deutsche Telekom.

In contemplation of the Global Offering, pursuant to the authority granted by the Company's Articles of Association, the Management Board resolved on November 14, 1996 to increase the share capital of the Company by the issuance of up to 720 million Shares. The Company allocated 600 million of such Shares to the Global Offering, up to 90 million of such Shares to the Underwriters' over-allotment option and up to 30 million of such Shares to the Employee Offering, of which 23.7 million have been issued. The Federal Republic has waived its preemptive rights with respect to the newly-issued Shares and will not receive any proceeds from the sale of Shares in the Global Offering and the Employee Offering. See "Description of Shares—Share Capital."

The Shares being sold in the Global Offering are being underwritten severally but not jointly by the Underwriters pursuant to the Global Underwriting Agreement. See ''Underwriting.'' The Underwriters (directly or through qualified affiliates) have been designated as members of regional syndicates established for each of the German Offering, the Americas Offering, the Asia-Pacific/Rest of World Offering, the Rest of Europe Offering and the U.K. Offering.

Retail Purchases in Germany

The Company will offer incentives to retail investors who purchase Shares through a bank account maintained with one of the German Underwriters or another bank participating in the German Offering. Retail investors purchasing Shares are subject to a minimum purchase requirement of 100 Shares. This minimum will not apply if Shares are purchased pursuant to the Law of Capital Formation *(Fünftes Vermögensbildungsgesetz),* which provides incentives and subsidies for small investors. Allocations will be made to investors based solely on the level of investment interest. German retail investors participating in the Company-sponsored Share Information Forum *(Aktien Informations-Forum)* who registered with a participating Share Information Center by October 11, 1996 and who placed purchase orders for Shares by November 6, 1996 qualify for a preferential allocation of Shares.

Retail investors in the German Offering will be offered Shares at the Offer Price per Share less a discount of DM 0.50 per Share (the ''German Discounted Offer Price'') up to a maximum of 300 Shares per investor. Of the Shares sold in the German Offering, there is no limitation on the aggregate number of Shares that may be sold at the German Discounted Offer Price to retail investors. Retail investors who have been allotted Shares at a discount and continuously hold such Shares through September 30, 1999 will be awarded one bonus Share for every 10 Shares so held, up to a maximum of 30 bonus Shares per investor. The bonus Shares will be allocated from the shareholding of the Federal Republic in an aggregate amount not exceeding 30 million bonus Shares. No fractional bonus Shares will be awarded. Each investor is entitled to these incentives only once.

Price Waterhouse GmbH Wirtschaftsprüfungsgesellschaft has been appointed by the Company as independent trustee to monitor and review the rules and procedures in place with respect to the discounts and incentives offered in the retail portion of the German Offering.

In addition, employees of Deutsche Post AG are entitled to a preferential allocation of up to 200 Shares at the German Discounted Offer Price.

The Employee Offering

To encourage employee ownership of Shares, in addition to the Global Offering, the Company has issued 23.7 million Shares for sale to employees of Deutsche Telekom and its German subsidiaries and to a special purpose entity on behalf of such employees (the ''Employee Offering''). Under a program developed by the Company (the ''Employee Share Program'') employees are offered various incentives to purchase Shares. Such incentives are in addition to the retail incentives described above. DG BANK Deutsche Genossenschaftsbank is underwriting the Shares to be sold in the Employee Offering.

Employees may purchase Shares at the German Discounted Offer Price less a further discount of 40% up to an aggregate discount per employee of DM 300.

In addition, each employee of Deutsche Telekom is entitled to preferential allocation of up to 200 Shares at the German Discounted Offer Price.

Employees may also participate in a financed purchase program that will fund Share purchases in an amount of up to five times the initial investment of participating employees of DM 300 each. Under this program, Shares will be purchased (at the German Discounted Offer Price) and held on behalf of the participants through December 31, 2001 by a special purpose entity. The financing required for these Share purchases is expected to be obtained through a credit arrangement with a third party which will be entitled to all dividends and other distributions (other than distributions of Shares and rights to acquire Shares) relating to the Shares held by the special purpose entity. In addition, the lender would have broad discretion to deal in the Shares, including engaging in hedging transactions. However, investors will be entitled to exercise their voting rights with respect to Shares held on their behalf by the special purpose entity. Deutsche Telekom will subsidize the expenses of the financed purchase program of approximately DM 300 per participating employee. On December 31, 2001 the special purpose entity will be dissolved and the third-party financing will be repaid. Under the contemplated structure, each investor is to receive the amount of his initial investment plus his proportional share of any excess of the liquidation proceeds over the sum of the financing and the initial investments. Each investor may elect to receive this distribution in cash or in Shares. Alternatively, each investor may elect to repay his portion of the financing and receive the corresponding number of Shares held by the special purpose entity on his behalf.

Listings

A total of one billion Shares (the Shares to be sold in the Global Offering and the Employee Offering plus a number of Shares held by the Federal Republic such that the aggregate nominal value of the listed Shares will equal DM 5 billion) have been approved for listing on the Frankfurt Stock Exchange as well as the stock exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart. The Shares will trade on the German stock exchanges under the symbol ''DTE''. The ADSs have been approved for listing, subject to official notice of issuance, on the NYSE under the symbol ''DT''. Application has also been made to list the Shares on the Tokyo Stock Exchange. In addition, it is expected that the Shares and ADSs will be eligible for quotation and trading through SEAQ International.

Form and Settlement

The Shares offered in the Global Offering and the Employee Offering will initially be represented by global share certificates with global dividend coupons attached (the ''Global Shares''). On November 15, 1996, the Global Shares were deposited with the DKV as Share depositary. The Shares purchased in the Global Offering may be credited at the option of investors either to the account of a German bank with the DKV for the account of such investor or to the accounts of participants with Euroclear or Cedel. Shares held by the Depositary referred to under ''Description of American Depositary Receipts'' will be credited to the DKV account of the custodian for the Depositary. The ADSs have been accepted for clearance through the facilities of DTC.

The German Securities Code *(Wertpapier-Kenn-Nummer)* (WKN) for the Shares is 555 700. The International Securities Identification Code (ISIN) for the Shares is DE 000 555 700 3 and the Common Code is 6990142. The CUSIP number for the ADSs is 251566105.

USE OF PROCEEDS

Excluding the effect of the retail incentives and employee incentives, the net proceeds of the Global Offering and the Employee Offering are estimated to be approximately DM 16.9 billion (approximately DM 19.4 billion assuming the Underwriters' over-allotment option is exercised in full). The estimated expenses of the Global Offering (assuming no exercise of the Underwriters' over-allotment option) and the Employee Offering are DM 900 million, of which approximately DM 450 million is expected to be paid to the Underwriters. The purpose of the Global Offering is to strengthen the financial position and capital ratios of the Company. The net proceeds of the Global Offering and the Employee Offering will initially be either deposited with banks or invested in short-term, high quality debt obligations and will thereafter be used primarily for the repayment of indebtedness and, to a lesser extent, for general corporate purposes. The Company is pursuing a debt reduction program and plans to reduce total indebtedness from DM 107 billion at June 30, 1996 to DM 65 billion or less by the end of the year 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook." In the 15-month period from October 1, 1996 to December 31, 1997, approximately DM 15.7 billion of the Company's outstanding indebtedness matures (DM 3.3 billion in the three-month period from October 1 to December 31, 1996 and DM 12.4 billion in 1997). The weighted average interest rate of the indebtedness maturing during this 15-month period is 6.6%. See Note 26 to the Consolidated Financial Statements. In addition to the scheduled repayment of debt, the Company will consider pre-paying outstanding indebtedness where it can negotiate acceptable terms.

DIVIDEND POLICY

The Shares and ADSs offered hereby will have the same dividend rights as the outstanding Shares.

The declaration, amount and timing of dividends in respect of each fiscal year are determined by the shareholders at the annual general shareholder's meeting in the following year, upon the joint recommendation of the Management Board and the Supervisory Board. As long as the Federal Republic owns a majority of the Company's voting share capital it will have the power to control most decisions taken at shareholders' meetings, including the approval of proposed dividend payments. See "Relationship with the Federal Republic." Dividends may be declared and paid only from unappropriated net income *(Bilanzgewinn),* as adjusted to reflect losses or gains carried over from prior years as well as transfers to or from retained earnings, included in the Company's annual financial statements as adopted and approved by resolutions of the Management Board and the Supervisory Board. Certain reserves *(Rücklagen)* must be made and deducted in calculating unappropriated net income available for distribution as dividends. See "Description of Shares—Dividends and Claims Upon Liquidation."

For 1995, Deutsche Telekom paid an aggregate cash dividend of DM 1.2 billion, equal to DM 0.60 ($0.39) per Share. This was the first period for which Deutsche Telekom paid a dividend. Such dividend may not be indicative of future dividends.

The payment of future dividends will be dependent upon the Company's earnings, its financial condition and other factors, including cash requirements, the future prospects of the Company, tax, regulatory and other legal considerations. Although the Company expects to pay annual dividends on its Shares, there can be no assurance that any dividend will actually be paid, nor can there be any assurance as to the amount which will be paid in any given year. Subject to these constraints and in the absence of unforeseen developments, the Management Board expects to recommend to shareholders that approximately DM 1.6 billion, or DM 0.60 per Share (assuming 2.65 billion Shares outstanding), be approved as a dividend payment in 1997 in respect of 1996. In addition, the Management Board currently expects to recommend a dividend allocation for 1997, which would be payable in 1998, of approximately DM 3.2 billion, or DM 1.20 per Share (assuming 2.65 billion Shares outstanding). Thereafter, the Management Board expects to pursue dividend growth in line with future results. To the extent necessary to implement the Company's dividend policy, Deutsche Telekom will consider drawing upon its retained earnings, in particular in connection with the dividend in respect of 1996.

Dividends paid will be subject to German withholding tax. See "Taxation—German Taxation—Dividends" and "Taxation—United States Taxation—Refund Procedures."

EXCHANGE RATE INFORMATION

The Deutsche Mark is part of the European Monetary System ("EMS") exchange rate mechanism. Within the EMS, exchange rates may fluctuate within permitted margins, fixed by central bank intervention. Against currencies outside the EMS, the Deutsche Mark has, in theory, free floating exchange rates, although central banks sometimes try to confine short-term exchange rate fluctuations by intervening in foreign exchange markets.

The following table sets forth high, low, period-average and period-end Noon Buying Rates for Deutsche Mark expressed in Deutsche Mark per $1.00. No representation is made that the Deutsche Mark or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Deutsche Mark, as the case may be, at any particular rate or at all.

Year	High	Low	Period Average(1)	Period End
1991	1.8350	1.4450	1.6622	1.5200
1992	1.6777	1.3907	1.5606	1.6197
1993	1.7405	1.5675	1.6610	1.7395
1994	1.7627	1.4920	1.6119	1.5495
1995	1.5612	1.3565	1.4261	1.4345
1996 (through November 15)	1.5477	1.4354	1.5008	1.5085

(1) The average of the Noon Buying Rate on the last business day of each full month during the relevant period.

Fluctuations in the exchange rate between the Deutsche Mark and the U.S. Dollar will affect the U.S. Dollar equivalent of the Deutsche Mark price of the Shares on the German stock exchanges and, as a result, are likely to affect the market price of the ADSs on the NYSE. The Company will declare any cash dividends in Deutsche Mark and exchange rate fluctuations will affect the U.S. Dollar amounts received by holders of ADSs on conversion of cash dividends on the Shares represented by the ADSs. See "Description of American Depositary Receipts."

MARKET INFORMATION

General

Prior to the Global Offering, there was no public market for the ADSs or the Shares. The Shares have been approved for listing on the Frankfurt Stock Exchange as well as on the Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart stock exchanges. The ADSs have been approved for listing, subject to official notice of issuance, on the NYSE. Application has also been made to list the Shares on the Tokyo Stock Exchange, and to have the Shares and the ADSs quoted and traded through SEAQ International. It is expected that the Frankfurt Stock Exchange will be the principal trading market for the Shares. Shares having an aggregate nominal value of DM 5 billion will, on the day following commencement of trading on the Frankfurt Stock Exchange, become part of the DAX *(Deutscher Aktienindex)*, a weighted performance index of the shares of thirty large German corporations.

Trading on the Frankfurt Stock Exchange

The Frankfurt Stock Exchange, which is operated by the Deutsche Börse AG (the ''Deutsche Börse''), is the most significant of the eight German stock exchanges and accounted for approximately 75% of the turnover in exchange-traded shares in Germany in 1995. The aggregate annual turnover of the Frankfurt Stock Exchange, for both equity and debt instruments, was in excess of DM 6,000 billion in 1995 (based on the Frankfurt Stock Exchange's practice of recording separately the sale and purchase components involved in each trade). As of June 30, 1996, the equity securities of 773 corporations, including 342 foreign corporations, were traded on the Frankfurt Stock Exchange.

Trading on the floor of the Frankfurt Stock Exchange begins every business day at 10:30 a.m. and ends at 1:30 p.m., Central European Time. Securities listed on the Frankfurt Stock Exchange are generally traded in the auction market, but such securities also change hands in interbank dealer markets. Prices, which are determined by out-cry, are noted by publicly commissioned stock brokers who are members of the Exchange, but who are not permitted to deal with the public. The prices of actively traded securities, including the shares of large corporations, are continuously quoted during trading hours. For all securities, a fixed price is established around midday on each day on which the Frankfurt Stock Exchange is open for business.

On behalf of the Frankfurt Stock Exchange, the Association of Members of the Frankfurt Stock Exchange *(Kursmaklerkammer Frankfurt am Main)* publishes an official daily list of quotations *(Amtliches Kursblatt)* containing the fixed prices *(Einheitskurse)* as well as the yearly high and low prices for all traded securities.

In 1991, to complement floor trading, a computerized trading system known as IBIS *(Integriertes Börsenhandels- und Informations-System)* was launched by the Deutsche Börse. Only the most actively traded German shares, warrants and bonds can be traded through the IBIS system. Trading may be conducted only by banks and securities dealers who have been admitted to trading on at least one German stock exchange. Trading through the IBIS system takes place from 8:30 a.m. to 5:00 p.m., Central European Time, on each business day. The Shares will be traded through the IBIS system.

Transactions on the Frankfurt Stock Exchange (including transactions through the IBIS system) are settled on the second business day following the trade. Transactions off the Frankfurt Stock Exchange (which may be the case for large trades or if one of the parties is foreign) are generally also settled on the second business day following the trade, although a different period may be agreed to by the parties. Following a recent amendment of the German banks' standard terms and conditions for securities transactions, customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

A quotation can be suspended by the Frankfurt Stock Exchange if orderly trading is temporarily endangered or if a suspension is deemed to be necessary in order to protect the public.

Trading activities on the German stock exchanges are monitored by the Federal Supervisory Authority for Securities Trading *(Bundesaufsichtsamt für den Wertpapierhandel).*

RELATIONSHIP WITH THE FEDERAL REPUBLIC

Shareholding

Historically, Deutsche Telekom formed an integral and undifferentiated part of Deutsche Bundespost, a state-owned special asset *(Sondervermögen des Bundes)* of the Federal Republic. In 1989, the first postal reform law *(Gesetz zur Neustrukturierung des Post- und Fernmeldewesens)* ("Postreform I") was enacted in order to transform Deutsche Bundespost, including the operations that were later to form Deutsche Telekom, into a market-oriented business. Pursuant to Postreform I, Deutsche Bundespost was divided into three distinct entities—Deutsche Bundespost TELEKOM, Deutsche Bundespost POSTBANK and Deutsche Bundespost POSTDIENST—which continued, however, to be public law entities. In 1994, the second postal reform law *(Gesetz zur Neuordnung des Postwesens und der Telekommunikation)* ("Postreform II") was enacted, pursuant to which these three entities were transformed, with effect from January 1, 1995, into private law stock corporations: Deutsche Telekom AG, Deutsche Postbank AG and Deutsche Post AG, respectively.

Currently, the Federal Republic is the sole shareholder of Deutsche Telekom. The Federal Republic has waived its preemptive rights with respect to the Shares being offered in the Global Offering (including any additional Shares sold pursuant to the Underwriters' over-allotment option) and the Employee Offering. It is anticipated that, upon completion of the Global Offering and the Employee Offering, the Federal Republic's stake in Deutsche Telekom will be reduced to approximately 76.5% (assuming no exercise of the Underwriters' over-allotment option). As long as the Federal Republic owns a majority of the Shares it will, like any majority shareholder in a German stock corporation, have the power to control most decisions taken at shareholders' meetings, including the appointment of all of the members of the Supervisory Board elected by the shareholders and approval of proposed dividend payments. In addition, as long as the Federal Republic owns 75% of the Shares it will be able to pass resolutions requiring a qualified majority. See "Description of Shares—Voting Rights and Shareholders' Meetings" and "Dividend Policy."

Postreform II provides that, through December 31, 1999, the introduction of Deutsche Telekom in the capital markets shall be effected exclusively through the issuance of new shares *(Kapitalerhöhung gegen Einlage).*

There is no contractual agreement pursuant to which the Federal Republic is restricted from selling its Shares. As part of the legislative process relating to the enactment of Postreform II, the legislator (the Committee for Post and Telecommunication *(Bundestagsausschuß für Post und Telekommunikation)*) in its statement of legislative intent stated that the Federal Republic would *de facto* retain a majority shareholding in Deutsche Telekom for a number of years because the sale of Shares by the Federal Republic is, in principle, prohibited through December 31, 1999 and the issuance of new Shares to increase the Company's equity is granted priority. The priority granted to Deutsche Telekom by Postreform II is intended to permit Deutsche Telekom for a five-year period to access the public capital markets to raise new capital before the Federal Republic accesses the public capital markets to sell Shares. The Committee stated further that, in view of the possible sale of Shares by the Federal Republic to strategic investors, sales of Shares by the Federal Republic otherwise than in the public capital markets are to be made only with the consent of Deutsche Telekom's Management Board. Deutsche Telekom has stated that such consent will only be given if the transferee of such Shares is subject to the same restrictions to which the Federal Republic is subject.

The Federal Republic administers its shareholding and exercises its rights as a shareholder of Deutsche Telekom through the Federal Institute, which was established pursuant to Postreform II. The Federal Institute also administers the Federal Republic's holdings in Deutsche Postbank and Deutsche Post. Pursuant to Postreform II, the Federal Institute is subject to the supervision of the Post Ministry. Except as described below, in its capacity as shareholder the Federal Republic may exercise only those rights that it has under the German Stock Corporation Act and Deutsche Telekom's Articles of Association. See "Description of Shares."

For as long as the Federal Republic is the majority shareholder of Deutsche Telekom, it is entitled, under the Law on Budgetary Principles *(Haushaltsgrundsätzegesetz)*, to require Deutsche Telekom to instruct its independent auditors to extend the scope of their audit of Deutsche Telekom and its subsidiaries to cover their management and certain other matters. The Federal Republic is entitled to receive copies of audit reports upon request. In addition, the Federal Audit Office *(Bundesrechnungshof)* reviews the activities of the Federal Republic regarding enterprises in which it holds interests. For as long as the Federal Republic is the majority shareholder of Deutsche Telekom, pursuant to the Law on Budgetary Principles and Deutsche Telekom's Articles of Association, the Federal Audit Office has the right to investigate questions arising from such review, including by inspecting Deutsche Telekom's operations and books and accounts. Similar rights apply with respect to those subsidiaries of the Company that so provide in their articles of association. In making reports to the Federal Republic, Supervisory Board members who are elected on the initiative of the Federal Republic are not generally subject to the usual secrecy obligations applicable to supervisory board members; the Federal Republic must, however, maintain the secrecy of confidential information contained in such reports.

Furthermore, as is generally the case with other German corporations with a controlling shareholder, for as long as the Federal Republic is a shareholder with controlling influence *(beherrschender Einfluß)*, Deutsche Telekom's Management Board is required to produce a report *(Abhängigkeitsbericht)* setting forth the relationships and the transactions entered into between the Company, on the one hand, and the Federal Republic or its affiliated enterprises, on the other hand. Such related-party report, which is intended to protect minority shareholders and creditors, must include a declaration by the Management Board as to the fairness of transactions and dealings with the Federal Republic. The Company's independent auditors are required to confirm the accuracy of this report. The Supervisory Board is then required to review the related-party report and the auditor's findings thereon and to inform the shareholders as to both.

Pursuant to the Articles of Association of two of Deutsche Telekom's subsidiaries, DeTeMobil Deutsche Telekom MobilNet GmbH ("T-Mobil") and DeTeSystem Deutsche Telekom Systemlösungen GmbH ("DeTeSystem"), the Post Ministry has the right to nominate one member to the Supervisory Boards of each these subsidiaries. In addition, any amendments to the Articles of Association of DeTeSystem require the consent of the Post Ministry.

Coordination and Administrative Responsibilities of the Federal Institute

Pursuant to Postreform II, the Federal Institute provides certain services to, and has certain rights and responsibilities with respect to the administration of the common affairs of, Deutsche Telekom, Deutsche Postbank and Deutsche Post. For example, the Federal Institute is responsible for concluding on behalf of these entities general collective bargaining agreements *(Manteltarifverträge)* with employees relating only to certain non-wage benefits, rules of conduct and other general terms of employment. Such agreements only become effective with the consent of the affected entity. The Federal Institute's right to conclude such agreements does not affect Deutsche Telekom's right to negotiate particular terms of employment, including wages, salaries and conditions of employment, on its own behalf. The Federal Institute also administers the health insurance fund for civil servants *(Postbeamtenkrankenkasse),* the pension fund for non-civil servants *(Versorgungsanstalt der Deutschen Bundespost)* ("VAP") and, until January 3, 1999, the health insurance fund for non-civil servants *(Bundespost-Betriebskrankenkasse),* employed by Deutsche Telekom, Deutsche Postbank and Deutsche Post. The Federal Institute has certain additional responsibilities with respect to civil servants employed by Deutsche Telekom, Deutsche Post and Deutsche Postbank. The Federal Institute has the right to coordinate by providing advice with respect to the activities of Deutsche Telekom, Deutsche Postbank and Deutsche Post, including, in particular, with respect to their public image, issues that may arise if the business plans of these entities conflict and, upon request, provide advice with respect to certain personnel issues. See "Management and Employees—Employees."

Services provided by the Federal Institute pursuant to Postreform II are rendered on the basis of service agreements between Deutsche Telekom, Deutsche Postbank and Deutsche Post, on the one hand, and the Federal Institute on the other. Since Postreform II provides that each of Deutsche Telekom, Deutsche Postbank and Deutsche Post shall enter into a service agreement with the Federal Institute covering the services described above, Deutsche Telekom did not consider entering into arrangements with third parties for the provision of such services. Costs of the Federal Institute incurred in connection with the rendering of these services are financed out of the fees agreed with Deutsche Telekom, Deutsche Post and Deutsche Postbank. Deutsche Telekom incurred costs of DM 240 million for such services in 1995 and expects to incur costs of approximately DM 245 million in 1996.

The total costs of the Federal Institute, consisting mainly of personnel costs for its approximately 3,200 employees, are divided among the three companies on the basis of a schedule agreed in 1994, reflecting the respective number of employees of each of the companies. This schedule is expected to be replaced in 1997 by a new distribution plan, which will be developed by the Federal Institute on the basis of actual expenses incurred using a new cost attribution system. The Federal Institute and its agencies are statutorily required to observe the principles of economic efficiency and expense minimization. The Federal Institute drafts budgets on an annual basis and presents them to its administrative board *(Verwaltungsrat)* for approval. The administrative board of the Federal Institute consists of representatives of the German Government, of Deutsche Post, Deutsche Postbank and Deutsche Telekom and of the employees of each of these entities. In addition, the Federal Institute prepares an annual report which is audited by its independent auditors and, after adoption by the supervisory board, submitted to the Post Ministry for approval. The subject matter of the independent auditors' review includes review of the orderly management and significant economic relationships of the Federal Institute. The fiscal and budgetary management of the Federal Institute is subject to continuous supervision by the Federal Audit Office pursuant to the German Budget Ordinance *(Bundeshaushaltsordnung)*.

In the 1995 related-party report described in the preceding section, Deutsche Telekom's Management Board declared that transactions between the Company and the Federal Republic and its affiliated enterprises, including the Federal Institute, conformed to statutory provisions and that the Company received fair consideration in all these transactions. In light of the requirements of Postreform II, the duties legally established by it and the cost structure of the Federal Institute, Deutsche Telekom believes that the terms of its service agreement are fair and appropriate and comply with corporate and tax law requirements.

Deutsche Telekom's independent auditors issued an unqualified certification for the Company's 1995 related-party report regarding relationships between the Company and its controlling shareholder.

Government as Regulator

Pursuant to Postreform II, the Federal Institute is subject to supervision by the Post Ministry, which also at present acts as the Federal telecommunications regulatory authority, the principal regulator of Deutsche Telekom's operations. See "Regulation." The Federal Republic's role as regulator is independent and distinct from its role as shareholder.

Federal Republic as Customer

The Federal Republic is Deutsche Telekom's largest customer and purchases services on an arm's-length basis. Deutsche Telekom deals with the various departments and agencies of the German Government as separate customers, and the provision of services to any one department or agency does not constitute a material part of Deutsche Telekom's revenues.

Federal Republic Guarantees

Pursuant to Postreform II, all liabilities of Deutsche Telekom outstanding as of January 2, 1995, the date of the Company's registration in the Commercial Register *(Handelsregister)*, are guaranteed by the Federal Republic. This guarantee replaced the Federal Republic's obligations with respect to Deutsche Telekom's liabilities when it was a state-owned special asset. Liabilities incurred after January 2, 1995 are not guaranteed by the Federal Republic. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources.''

Pension Contributions for Civil Servants

Civil servants *(Beamte)* employed by Deutsche Telekom are entitled to pension benefits provided by the Federal Republic. Pursuant to Postreform II, Deutsche Telekom is required to make annual contributions to a special pension fund *(Unterstützungskasse)* established to fund such pension obligations. See ''Management and Employees—Employees—Pensions—Pension Arrangements for Civil Servants.''

CAPITALIZATION

The following table sets forth the cash and other liquid assets, current debt, long-term debt, shareholders' equity and capitalization of Deutsche Telekom in accordance with German GAAP at June 30, 1996 and as adjusted to reflect the issuance of the Shares in the Global Offering and the Employee Offering and application of the estimated net proceeds thereof, estimated at DM 16.9 billion, assuming no exercise of the Underwriters' over-allotment option and excluding the effect of the retail incentives and employee incentives. See "Use of Proceeds."

This table should be read in conjunction with the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements, including in each case the Notes thereto, included elsewhere in this Prospectus.

	At June 30, 1996			
	Actual		As Adjusted	
	DM	$(1)	DM	$(1)
	(in millions)			
Liquid assets	**7,878**	**5,180**	**24,778**	**16,291**
Current debt(2)	**11,452**	**7,529**	**11,452**	**7,529**
Long-term debt:				
Bonds and debentures	84,031	55,248	84,031	55,248
Liabilities to banks	11,641	7,653	11,641	7,653
Total long-term debt	**95,672**	**62,901**	**95,672**	**62,901**
Shareholders' equity:				
Capital stock(3)	10,000	6,575	13,119	8,625
Additional paid-in capital(3)	11,292	7,424	25,073	16,485
Retained earnings	2,167	1,425	2,167	1,425
Unappropriated net income(4)	1,420	934	1,420	934
Minority interest	1,189	781	1,189	781
Total shareholders' equity	**26,068**	**17,139**	**42,968**	**28,250**
Total capitalization	**121,740**	**80,040**	**138,640**	**91,151**

(1) Translated into U.S. Dollars at the Noon Buying Rate on June 28, 1996 of DM 1.5210 to $1.00.
(2) Includes current portion of long-term debt.
(3) Effective July 31, 1996, 30 million additional Shares were issued, for no consideration, to the Federal Republic, as the sole shareholder, from additional paid-in capital. The purpose of this increase was to facilitate the future delivery of bonus Shares as described in "The Global Offering—Retail Purchases in Germany." Solely for the purpose of presentation, the discounts and commissions paid to the Underwriters and the expenses of the Global Offering have been deducted from Additional paid-in capital.
(4) In July 1996, the Company declared an aggregate dividend of DM 1.2 billion in respect of 1995, which has been paid.

DILUTION

At June 30, 1996, the Company had a net tangible book value, defined as total shareholders' equity less minority interest and intangible assets, under German GAAP of DM 23.5 billion or DM 11.57 per Share ($7.61 per ADS at the Noon Buying Rate on June 28, 1996). These amounts are based on 2.03 billion Shares outstanding, which includes 30 million Shares issued to the Federal Republic on July 31, 1996. At an Offer Price per Share of DM 28.50 and an assumed price per ADS of $18.74 (the Offer Price per Share translated into U.S. Dollars at the Noon Buying Rate on June 28, 1996), the net tangible book value, after giving effect to the Global Offering and the Employee Offering (excluding the effect of the retail incentives and employee incentives), would be DM 15.22 per Share and $10.01 per ADS. The immediate dilution to purchasers of the Shares and the ADSs in the Global Offering would be DM 13.28 per Share and $8.73 per ADS. Dilution, for this purpose, represents the difference between the Offer Price per Share and Offer Price per ADS and the net tangible book value per Share and per ADS at June 30, 1996, adjusted for the Global Offering and the Employee Offering.

SELECTED FINANCIAL AND STATISTICAL DATA

The selected financial data presented below should be read in conjunction with the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements, including in each case the Notes thereto, of Deutsche Telekom included elsewhere in this Prospectus. The selected financial data at December 31, 1995 and December 31, 1994 and for each of the years in the three-year period ended December 31, 1995 has been derived from, and is qualified by reference to, the consolidated financial statements for such years that have been reported on by C&L TREUARBEIT DEUTSCHE REVISION AG, independent public accountants. Unaudited selected balance sheet data at December 31, 1993 has been included for comparative purposes only. The selected financial data at June 30, 1996 and 1995 and for the six-month periods then ended has been derived from, and is qualified by reference to, the unaudited consolidated financial statements for such periods. Results for interim periods are not necessarily indicative of results for the full year.

Upon the transformation of Deutsche Bundespost TELEKOM into a private law stock corporation, Deutsche Telekom changed certain of its accounting policies. For purposes of the Global Offering the Company applied these accounting policies with retroactive effect beginning January 1, 1993. See Note 3 to the Consolidated Financial Statements, ''Summary of Significant Accounting Policies—Basis of Presentation.''

German GAAP differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom, see Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements. In addition, the revaluation of certain property, plant and equipment described in Note 3(j) to the Consolidated Financial Statements represents a departure from U.S. GAAP that has not been quantified in the reconciliation to U.S. GAAP or reflected in the U.S. GAAP amounts shown below because prior to January 1, 1993 the Company's predecessor did not maintain sufficiently detailed historical cost records.

Consolidated Income Statement Data: *Amounts in accordance with German GAAP*	Year ended December 31, 1993 DM	1994 DM	1995 DM	1995(1) $	Six months ended June 30, 1995 DM	1996(2) DM (unaudited)	1996(1)(2) $
	(in millions, except per Share/ADS amounts)						
Net revenues	**60,071**	**63,814**	**66,135**	**43,481**	**32,557(3)**	**30,637(3)**	**20,143(3)**
Increase in inventories and other own capitalized costs	4,593	3,704	3,320	2,183	1,393	1,496	984
Other operating income	1,772	1,921	2,138	1,406	561(4)	2,134(4)	1,403(4)
Goods and services purchased	(10,612)	(9,285)	(9,506)	(6,250)	(4,365)	(4,823)	(3,171)
Personnel costs	(17,755)	(18,157)	(18,502)	(12,164)	(9,495)	(9,422)	(6,195)
Depreciation	(12,970)	(14,589)	(15,377)	(10,110)	(7,257)(4)	(8,649)(4)	(5,686)(4)
Other operating expenses	(7,577)	(8,268)	(9,685)	(6,368)	(3,779)	(4,766)	(3,133)
Total operating costs and expenses(5)	**(48,914)**	**(50,299)**	**(53,070)**	**(34,892)**	**(24,896)**	**(27,660)**	**(18,185)**
Financial income (expense), net	(7,652)	(7,927)	(8,211)	(5,398)	(4,178)	(3,892)	(2,559)
Results from ordinary business activities	**9,870**	**11,213**	**10,312**	**6,780**	**5,437**	**2,715**	**1,786**
Extraordinary losses(6)	—	(357)	(1,264)	(831)	(285)	(1,841)	(1,211)
Special charge relating to other Post entities(7)	(2,445)	(2,320)	—	—	—	—	—
Results before levy and taxes	**7,425**	**8,536**	**9,048**	**5,949**	**5,152**	**874**	**575**
Levy to the Federal Republic of Germany(8)	(5,164)	(5,164)	(3,098)	(2,037)	(1,549)	—	—
Taxes(9)	(187)	219	(680)	(447)	(91)	(670)	(441)
Net income before amounts applicable to minority shareholders	**2,074**	**3,591**	**5,270**	**3,465**	**3,512**	**204**	**134**
(Income) losses applicable to minority shareholders	10	4	2	1	1	(75)	(49)
Net income	**2,084**	**3,595**	**5,272**	**3,466**	**3,513**	**129**	**85**
Earnings per Share/ADS(10)	1.03	1.77	2.60	1.71	1.73	0.06	0.04
Amounts in accordance with U.S. GAAP							
Net income(11)	**—**	**7,954**	**5,563**	**3,657**	**3,631**	**521**	**344**
Earnings per Share/ADS(10)(11)(12)	—	3.92	2.74	1.80	1.79	0.26	0.17

Consolidated Balance Sheet Data: *Amounts in accordance with German GAAP*	At December 31, 1993 DM (unaudited)	1994 DM	1995 DM	1995(1) $	At June 30, 1996(2) DM (unaudited)	1996(1)(2) $ (unaudited)
				(in millions)		
Assets:						
Fixed assets	132,916	139,216	139,215	91,529	143,015	94,027
Current assets and prepaid expenses and deferred charges	15,564	28,850	21,032	13,827	20,542	13,505
Total assets	**148,480**	**168,066**	**160,247**	**105,356**	**163,557**	**107,532**
Shareholders' equity and liabilities:						
Shareholders' equity	15,159	19,332	24,732	16,260	26,068	17,139
Accruals	11,176	11,374	12,993	8,543	16,285	10,707
Debt	108,477	125,459	110,387	72,575	107,124	70,430
Other liabilities and deferred income	13,668	11,901	12,135	7,978	14,080	9,256
Total shareholders' equity and liabilities	**148,480**	**168,066**	**160,247**	**105,356**	**163,557**	**107,532**
Amounts in accordance with U.S. GAAP						
Total assets(11)	—	172,243	164,905	108,418	167,764	110,299
Total long-term liabilities(11)	—	123,028	110,502	72,650	107,881	70,927
Shareholders' equity(11)	—	24,103	29,475	19,379	30,019	19,737

	Year ended December 31,				Six months ended June 30,		
	1993	1994	1995	1995(1)	1995	1996(2)	1996(1)(2)
	DM	DM	DM	$	DM	DM (unaudited)	$
Consolidated Cash Flow Data:				(in millions)			
Net cash provided by operating activities	14,212	24,114	23,687	15,574	12,575	12,381	8,139
Net cash used for investing activities	(22,731)	(28,945)	(13,321)	(8,758)	(12,934)	(6,497)	(4,271)
Net cash provided by (used for) financing activities	9,903	11,067	(15,234)	(10,016)	(4,127)	(4,440)	(2,919)
Net increase (decrease) in cash and cash equivalents	1,384	6,236	(4,957)	(3,259)	(4,415)	1,444	949
Capital expenditures	21,869	19,253	14,574	9,582	5,597	6,596	4,336

	Year ended December 31,			Six months ended June 30,
	1993	1994	1995	1996(2)
Statistical Data:				
Average number (in millions, unless otherwise indicated)				
Standard telephone access lines	35.9	37.3	38.7	39.2
ISDN channels	0.6	1.3	2.2	3.3
Total number of access lines	**36.5**	**38.6**	**40.9**	**42.5**
Public telephones	0.2	0.2	0.2	0.2
Mobile telephone subscribers	1.0	1.4	1.8	2.2
Paging subscribers	0.4	0.5	0.7	0.9
Cable subscribers(13)	12.7	14.1	15.2	16.0
T-Online subscribers	0.4	0.6	0.8	1.0
Domestic calls (billions)	49.2	51.0	52.5	24.3
Outgoing international traffic (millions of minutes)	4,502	4,942	5,238	2,256(14)
Incoming international traffic (millions of minutes)	3,619	3,984	4,036	2,087(14)
Average number of full-time equivalent employees (thousands)	234	231	220	211
Net revenue per employee (DM in thousands)	257	276	301	141
Access lines in service per employee	156	167	186	201

Notes to Selected Financial and Statistical Data

(1) Translated into U.S. Dollars at the Noon Buying Rate on June 28, 1996 of DM 1.5210 to $1.00.

(2) Includes full consolidation of Matáv, except for statistical data.

(3) Commencing January 1, 1996, VAT was imposed on the Company's monopoly services (principally domestic telephone services, international services, leased lines and cable services) in response to which the Company reduced tariffs for all such services except leased lines. If the Company's revenues in the affected business areas in the first half of 1995 were adjusted for this VAT-related tariff change, revenues in the first half of 1996 (excluding Matáv) would have increased by 1.4% compared to the first half of 1995. In addition, in January 1996 the Company introduced a far-reaching tariff reform. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Revenues" and "—Results of Operations—Net Revenues."

(4) Prior to January 1, 1996, when Deutsche Telekom's services became fully subject to VAT, the Company was unable to credit a substantial portion of the VAT paid with respect to goods and services purchased by it. Since January 1, 1996, the Company has been able to offset substantially all VAT paid with respect to goods and services purchased by it. In addition, in the first six months of 1996, the Company received VAT refunds totalling DM 1.5 billion. The increase in depreciation expense in the first six months of 1996 compared to the first six months of 1995 includes amortization of VAT capitalized prior to January 1, 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Other Operating Income" and "—Total Operating Costs and Expenses—Depreciation."

(5) Of the DM 2.8 billion increase in total operating costs and expenses in the first six months of 1996, DM 775 million is attributable to the consolidation of Matáv and DM 200 million to incremental VAT expense. Adjusting for the combined effect of these items, other operating costs and expenses would have increased by approximately 7.2% in the first half of 1996 compared to the first half of 1995. Of the remaining DM 1.8 billion increase, a significant portion represents expenses that the Company believes were high compared to what it expects to incur on an ongoing basis. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses.''

(6) Substantially all of the extraordinary losses consist of personnel restructuring charges, which include the total expected costs of the Company's workforce reduction program intended to result in a reduction of employees by approximately 60,000 full-time equivalent employees (excluding employees of subsidiaries first consolidated after January 1, 1995) by the end of the year 2000 compared with 1994 year-end levels. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Extraordinary Losses.'' Under U.S. GAAP only a portion of these restructuring charges have been recognized in these periods. See Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements.

(7) With effect from January 1, 1995, Deutsche Telekom is no longer required to incur special charges to cover losses sustained by the other successor entities to the Deutsche Bundespost. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Costs'' and Note 12 to the Consolidated Financial Statements.

(8) As part of its transformation into a private law stock corporation subject to normal taxation, the Company is no longer required to pay a levy to the Federal Republic on its revenues. In 1995 the Company paid a final levy in the amount of DM 3.1 billion. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Costs'', Note 13 to the Consolidated Financial Statements and Note 9 to the Unaudited Interim Consolidated Financial Statements.

(9) Beginning January 1, 1995, Deutsche Telekom became subject to the normal tax laws applicable to all German stock corporations, although it benefited from an essentially complete exemption from tax in 1995. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Taxes'' and ''Unaudited Pro Forma Effects of Changes in Legal and Tax Status.''

(10) Pro forma for 1993 and 1994. Earnings per Share/ADS has been calculated based on 2.03 billion Shares and a ratio of one Share to one ADS. Giving effect to the issuance of 623.7 million Shares in the Global Offering and the Employee Offering, pro forma earnings per Share/ADS would be DM 1.99 and $1.31 for 1995 and DM 0.05 and $0.03 for the first six months of 1996 (without giving effect to the application of the proceeds of the Global Offering and the Employee Offering).

(11) U.S. GAAP amounts for 1993 are not available.

(12) After extraordinary losses.

(13) Includes households connected through private cable operators. See ''Business—Cable Transmission and Broadcasting—Cable Services—Penetration and Coverage.''

(14) Estimated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements, including in each case the Notes thereto, included elsewhere in this Prospectus. Such financial statements have been prepared in accordance with German GAAP, which differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom and a reconciliation of net income and total shareholders' equity to U.S. GAAP, see "—German GAAP Compared to U.S. GAAP", Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements.

Overview and Outlook

Deutsche Telekom's recent history and its medium-term prospects are characterized by rapid and fundamental changes affecting virtually all of its operations.

- Numerous markets in which the Company operates have been liberalized in recent years and the Company's most significant services—domestic and international public fixed-link voice telephony—will both be open to full competition commencing January 1, 1998. The Company expects to face competition from a variety of new entrants.
- The regulatory environment in which Deutsche Telekom operates continues to be reshaped by the adoption and implementation of new laws and regulations at both the German and the EU levels.
- Rapid technological changes in telecommunications and information technology, including the development of multi-media and telematics services, are redefining the markets in which Deutsche Telekom operates and the products and services it offers. In addition, technological advances have led to the rise of a number of alternatives to fixed-link transmission, including multiple forms of mobile telecommunications, wireless local loops and microwave long-distance transmission, increasing the sources of competition faced by the Company.
- Deutsche Telekom has been transformed from an integral and undifferentiated part of the Deutsche Bundespost, the German state postal, telephone and telegraph authority, into a private law stock corporation, and is positioning itself as a customer- and profit-oriented, market-driven enterprise ready to compete in a liberalized market.
- German reunification in 1990 significantly expanded Deutsche Telekom's domestic market by adding a region with approximately 16 million inhabitants without modern and efficient telecommunication services.
- Increasing globalization of the telecommunications industry and the liberalization of other telecommunications markets have created new opportunities for Deutsche Telekom to expand further outside Germany.

These and other developments have had and will continue to have profound effects on Deutsche Telekom's financial condition and results of operations and make difficult both historical comparisons of financial performance from year to year and predictions of future performance.

Among the most significant recent developments affecting Deutsche Telekom is the enactment of the TKG, which became effective on August 1, 1996. The TKG establishes the overall regulatory framework for the telecommunications sector in Germany and, with the entry into effect of ordinances concerning tariffs (including tariffs for public fixed-link voice telephony services commencing January 1, 1998) and interconnection, and the pending adoption of an ordinance concerning universal services, key aspects of the regulatory structure have been established. Nevertheless, it will be some time before certain important aspects of the regulatory regime are clarified. The TKG sets forth special requirements applicable to market-dominating providers. Deutsche Telekom expects that for some time to come it will be viewed by the relevant regulatory authorities as a market-dominating provider in markets for public fixed-linked voice telephony as well as in other markets, including those in which it held monopoly rights through July 31, 1996.

Although the TKG contains a number of pro-competitive features, Deutsche Telekom believes that the new legislation represents a reasonable compromise of competing business and social interests and is basically consistent with Deutsche Telekom's business strategy and objectives.

Revenues

The development of Deutsche Telekom's revenues must be understood in the context of numerous influences and trends that arise out of the above-described factors, particularly with respect to traffic, tariffs and development of competition:

- ***Traffic.*** Domestic telephony traffic has been positively influenced by the growth of the service sector in Germany, a trend toward decentralization of businesses and greater geographic mobility in the German population. International telephony traffic has benefited from the globalization of trade and the increasing integration of European markets, as well as greater mobility. In recent years, Deutsche Telekom has benefited from the expansion of its domestic market as a result of German reunification and the increase in telephony traffic following the build-out of the network infrastructure and the rise in per capita income in the Federal States comprising the former German Democratic Republic (the ''New Federal States''). Traffic has been positively affected by the overall growth in access lines, including the increase in the number of ISDN access lines and secondary access lines for use with facsimile machines and personal computers, and for data transmission, multi-media and other non-voice services. Telephony traffic has also increased as the portfolio of products and services offered by Deutsche Telekom has expanded and demand for such services has grown. Demand for mobile telephony services has grown significantly as consumers have become increasingly familiar with mobile phones and as equipment has become more compact and affordable.

  During the first six months of 1996, telephony traffic declined as a result of the introduction of the Company's new tariff structure. The Company does not believe, however, that this reflects a change in medium-term trends as telephone usage began to return to normal levels toward the end of the first half of 1996. The Company expects that public fixed-link telephony traffic will continue to grow in the second half of 1996 and thereafter as a result of the underlying trends described above.

- ***Tariffs.*** To prepare for competition in its core telephony business, Deutsche Telekom commenced in January 1996 a far-reaching reform of its tariffs to align them more closely with underlying usage patterns and costs and with internationally prevailing tariff levels. The introduction of the new tariff structure—including the Company's decision to reduce tariffs for certain of its services in response to the imposition of VAT beginning in 1996—contributed to lower revenues for the first six months of 1996 compared to the corresponding period in 1995. Although revenues for the full year will also be negatively affected by the tariff reform, the Company expects revenues for the second half of 1996 to exceed those for the first half. Deutsche Telekom believes that a differentiated and flexible tariff structure, including optional tariff programs, is important to its ability to compete effectively and will stimulate telephone usage. The Company has announced that it will begin offering discount packages to business and private customers starting in late 1996. Subject to applicable regulatory limitations, Deutsche Telekom intends to continue adjusting its tariffs to align them more closely with underlying costs and the preferences of its customer groups. The Company does not, however, intend to make any broad-scale tariff reductions prior to 1998. Effective January 1, 1998, tariffs for the Company's public fixed-link voice telephony services are to become subject to a price-cap regime. The Company expects that the price-cap regime generally will allow it to achieve its tariff rebalancing objectives, although tariffs for certain local calls will not be increased in the first two years. See "Business—Domestic Telephone Services—Tariffs" and "Regulation—The TKG—Pricing."

- ***Competition.*** Prior to the TKG coming into effect on August 1, 1996, Deutsche Telekom already faced competition in a number of its business areas. In the first half of 1996, approximately 25% of Deutsche Telekom's revenues were derived from areas in which the Company faced competition. Pursuant to the TKG, the German telecommunications market will be fully liberalized effective January 1, 1998. See "Regulation." In areas in which Deutsche Telekom has operated as a monopoly service provider, it will necessarily lose market share as competition develops. Deutsche Telekom's ability to achieve revenue growth over the years ahead will depend on the development of its tariffs and its ability to maintain customer loyalty and minimize loss of market share. Deutsche Telekom believes that its broad product range, state-of-the-art network and customer focus position it to compete effectively in a fully liberalized German telecommunications market. See "Business—Strategy."

Costs

The level and structure of Deutsche Telekom's cost base reflect its past status as part of the German state postal, telephone and telegraph authority. Its staffing levels, the substantial capital investment in rebuilding the telecommunications network in the New Federal States and the nature and size of certain of its pension and other obligations are part of its legacy as successor to a state enterprise. The substantial majority of Deutsche Telekom's costs consist of personnel, depreciation and interest expense. The Company is taking measures to reduce costs over the medium term, with a special emphasis on personnel and interest expense.

- ***Personnel***. The Company has determined that its staffing levels are in excess of those needed to operate in a competitive environment and has announced its intention to reduce its workforce to 170,000 full-time equivalent employees by the end of the year 2000, excluding employees of subsidiaries first consolidated after January 1, 1995. This represents a reduction of 60,000 full-time equivalent employees from the 1994 year-end level. As of June 30, 1996, the Company had reduced its workforce (excluding Matáv employees) to approximately 207,000 full-time equivalent employees through a combination of normal attrition, early retirement of civil servants and other programs. Excluding costs attributable to Matáv, personnel costs declined by 2.6% in the first half of 1996 compared to the first half of 1995. As the Company continues to implement workforce reductions, personnel costs will continue to decline. To cover anticipated total costs related to its workforce reduction program, the Company made provisions totaling DM 3.0 billion in the second half of 1995 and the first half of 1996. See "—Results of Operations—Total Operating Costs and Expenses—Personnel Costs" and "Management and Employees—Employees—Workforce Reduction Program."
- ***Interest Expense.*** At June 30, 1996, the Company had reduced its outstanding indebtedness (excluding indebtedness of Matáv) to DM 106 billion from DM 125 billion at December 31, 1994, through scheduled and early repayment of indebtedness. The continued reductions in indebtedness resulted in a reduction in net interest expense (excluding indebtedness of Matáv) of DM 370 million in the first six months of 1996 compared with the first six months of 1995. The Company is continuing to reduce indebtedness and, based on current conditions and absent unforeseen developments, expects to reduce total indebtedness to DM 65 billion or less by year-end 2000 (excluding indebtedness of subsidiaries first consolidated after June 30, 1996). This reduction in indebtedness will permit the Company to reduce interest expense and strengthen its capital structure significantly. Repayment of scheduled indebtedness during the second half of 1996 and during 1997 (assuming no additional debt is incurred) would reduce interest expense by approximately DM 480 million in 1997. See "—Liquidity and Capital Resources—Capital Resources."

- ***Depreciation.*** Depreciation increased in 1994 and 1995 and in the first six months of 1996, and is expected to continue to increase in the second half of 1996 and in 1997. These increases are primarily a consequence of the accelerated digitalization of the Company's exchanges in the Federal States comprising the former West Germany (the "Old Federal States") and the corresponding shortening of the useful lives of the Company's analog exchanges and transmission equipment, together with substantial investments in the Company's network, particularly in connection with the build-out in the New Federal States. The accelerated digitalization and substantial investments are expected to be completed by late 1997 or early 1998. The Company expects that the full depreciation of its analog exchanges and transmission equipment will result in a reduction of approximately DM 1.5 billion in depreciation relating to those items in 1998, and that total depreciation will decline in 1998. In addition, the Company's current capital expenditure plans call for declining investment in the network beginning in 1998.

The following cost items associated with the Company's past as a state enterprise will no longer affect its cost structure:

- ***Government Levy.*** In the past, Deutsche Telekom AG and its predecessors were required to pay a levy to the Federal Republic on its revenues and were substantially exempt from taxation. As part of its transformation into a private law stock corporation, the Company is no longer required to pay this levy and, beginning January 1, 1995, became subject to normal corporate taxation (although it benefited from an essentially complete exemption from tax in 1995). In 1995, the Company paid a final levy of DM 3.1 billion. See "—Results of Operations —Taxes" and "Unaudited Pro Forma Effects of Changes in Legal and Tax Status."
- ***Special Charges.*** The Company formerly was required to pay special charges to cover the losses incurred by the predecessor entities to the Deutsche Post and Deutsche Postbank. With effect from January 1, 1995, the Company ceased incurring such charges. In 1994, the special charge amounted to DM 2.3 billion. See "Relationship with the Federal Republic."
- ***VAT.*** Prior to January 1, 1996, when Deutsche Telekom's services became fully subject to VAT, the Company was unable to credit a substantial portion of the VAT paid with respect to goods and services purchased by it. In 1995, the amount of VAT for which there was no offset was DM 972 million. Since January 1, 1996, the Company has been able to offset substantially all VAT paid with respect to goods and services purchased by it. See "—Results of Operations—Total Operating Costs and Expenses—Other Operating Expenses."

Business Area Profitability

Deutsche Telekom accounts for its business as a single segment. The following discussion therefore analyzes revenue information for each of Deutsche Telekom's business areas, but does not provide separate segment information on operating profits or net assets. Deutsche Telekom's total fixed-link telephony business accounted for 86% of its net revenues in the first half of 1996. Outside fixed-link telephony, the importance of the Company's mobile telecommunications and cable businesses to overall results has grown in recent years.

Within the Company's core telephony business, international and domestic long distance services have historically been more profitable than domestic regional and local services. As part of its tariff reform introduced in January 1996, Deutsche Telekom began rebalancing tariffs for these services to align them more closely with underlying costs and usage patterns and with tariff levels prevailing internationally.

Mobile telecommunications services, which are provided by T-Mobil, a wholly-owned subsidiary of Deutsche Telekom, have been a growing source of revenues and profits for Deutsche Telekom. T-Mobil separately reports financial information on an unconsolidated basis. Upon consolidation, amortization of goodwill by T-Mobil with respect to its analog network (C-Tel), which it purchased from Deutsche Telekom, is eliminated. As a result of this in particular, the consolidated operating profits of the

Company's mobile operations exceed T-Mobil's published unconsolidated operating profits. See "Business—Mobile Telecommunications Services" and Note 2 to the Consolidated Financial Statements.

Historically, Deutsche Telekom's cable business has not generated revenues sufficient to cover depreciation and operating costs. The Company's capital expenditures on the cable network have been substantial and depreciation charges are high, amounting to DM 998 million in 1995 and DM 505 million in the first half of 1996. The Company estimates that operating losses in this business area have been substantial in relation to cable revenues and to consolidated operating profit in recent years and particularly in the first half of 1996. To improve operating performance in this business area, the Company is seeking to attract more subscribers and expand the range of services it offers. See "Business—Cable Transmission and Broadcasting—Cable Services—Competition and Outlook."

Real Estate

Due to the consolidation of various operations, the conversion to digital switches and ongoing staff reductions, Deutsche Telekom anticipates that a substantial portion of its owned and leased properties will not be required in its core business in the future. This will allow the Company to reduce its net real estate occupancy costs by reducing the amount of property leased from third parties (for which the Company paid rents in excess of DM 800 million in 1995) upon termination of existing leases and relocating operations from high cost urban centers to outlying areas. In addition, the Company intends to pursue leasing surplus owned properties, including properties with pre-installed telecommunications systems, to business customers and other third parties. The Company may also consider the sale of such properties on a case by case basis. See "Business—Properties." The Company's real estate was revalued at January 1, 1995 at fair market value as described in Note 3(j) to the Consolidated Financial Statements. Upon any sales of real estate, losses and gains will be realized accordingly.

Expected 1996 Results

Historically, the Company's second-half revenues have tended to exceed first-half revenues. For the full year 1996, the Company expects that, based on current conditions and in the absence of unforeseen developments, it will achieve net revenues in excess of DM 60 billion and results from ordinary business activities in excess of DM 6 billion.

Financial Statements and Reporting

In connection with its transformation into a private law stock corporation, Deutsche Telekom has implemented new management information systems and has improved its internal and external reporting procedures. See "Business—Organization."

Upon its transformation into a private law stock corporation, Deutsche Telekom changed certain of its accounting policies. For purposes of the Global Offering the Company applied these accounting policies with retroactive effect at January 1, 1993. See Note 3 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies—Basis of Presentation."

In the first six months of 1996, Matáv was fully consolidated for the first time. Matáv's revenues in consolidation were DM 932 million in the first six months of 1996 and its assets were DM 4.3 billion at June 30, 1996. To permit comparisons with prior periods, in this discussion reference is frequently made to Deutsche Telekom's first-half 1996 results "adjusted for Matáv," *i.e.*, adjusted to remove the effect of the consolidation of Matáv.

Since January 1, 1995, the Company has operated under new service arrangements with Deutsche Post and Deutsche Postbank, which were negotiated on an arm's-length basis. Payments to and from these entities are no longer recorded in the income statement as separate line items and have been reclassified and recorded in the income statement by type. As a result, cost breakdowns in 1995 and succeeding periods are not directly comparable to those for prior years.

Results of Operations

Net Revenues

Deutsche Telekom's consolidated net revenues are derived principally from basic telephone services, which consist of domestic and international public fixed-link voice telephony services. The Company also derives revenues from the provision of leased lines, text and data services, the supply and service of telecommunications equipment, other ancillary services, mobile telecommunications services, cable transmission and broadcasting services and international investments.

The Company's revenues for the first six months of 1996 must be understood in the context of the imposition of VAT on its monopoly services (principally domestic telephone services, outgoing international telephone services, leased lines and cable services) commencing January 1, 1996. In response to the imposition of VAT, the Company reduced its tariffs for these services other than leased lines. See ''Business—Domestic Telephone Services—Tariffs,'' ''Business—International Telephone Services—Tariffs'' and ''Business—Cable Transmission and Broadcasting—Cable Services—Subscriber Fees and Tariffs.'' In certain parts of this discussion of net revenues, comparison of first-half 1996 revenues with first-half 1995 revenues have also been made assuming that first-half 1995 revenues were 13% lower than reported (*i.e.*, assuming that commencing January 1, 1995 VAT at a rate of 15% had been applicable to, and a corresponding reduction had been made in, the relevant tariffs). The affected revenue items are: (i) initial connection fees, monthly rental charges and traffic charges for domestic telephone services; (ii) outgoing international services; and (iii) cable transmission and broadcasting services. This comparison is necessarily imperfect, since it is likely that telephone usage in the first half of 1995 would have been affected if VAT had been applicable and tariffs had been reduced by a corresponding percentage during this period (for example, because business customers, who are able to credit VAT paid against VAT charged their own customers, would have realized an effective price reduction). Nevertheless, the Company believes that this comparison, which in this discussion is referred to as ''adjusting first-half 1995 revenues for the VAT-related tariff change'', facilitates comparison of first-half 1996 and first-half 1995 revenues. Adjusting first-half 1995 revenues for the VAT-related tariff change, revenues in the first half of 1996 (adjusted for Matáv) would have increased 1.4% compared to the first half of 1995.

The following table sets forth Deutsche Telekom's net revenues broken down by major business areas and as a percentage of net revenues:

	Year ended December 31,						Six months ended June 30,			
	1993		1994		1995		1995		1996	
	(DM in millions, except as noted)									
Domestic telephone services	36,209	60.3%	39,308	61.6%	41,930	63.3%	20,663	63.5%	18,676	61.0%
International telephone services	8,527	14.1	8,604	13.5	8,513	12.9	4,171	12.8	3,081	10.0
Total core telephony business	**44,736**	**74.4**	**47,912**	**75.1**	**50,443**	**76.2**	**24,834**	**76.3**	**21,757**	**71.0**
Leased lines	1,260	2.1	1,232	1.9	1,305	2.0	622	1.9	698	2.3
Text and data services	3,580	6.0	3,389	5.3	2,807	4.2	1,277	3.9	1,414	4.6
Supply and service of telecommunications equipment	3,650	6.1	4,071	6.4	4,007	6.1	1,976	6.1	1,941	6.3
Other services	1,149	1.9	742	1.2	827	1.3	353	1.1	543	1.8
Total fixed-link telephony business	**54,375**	**90.5**	**57,346**	**89.9**	**59,389**	**89.8**	**29,062**	**89.3**	**26,353**	**86.0**
Mobile telecommunications services	2,360	3.9	2,765	4.3	3,115	4.7	1,478	4.5	1,731	5.7
Cable transmission and broadcasting services	3,336	5.6	3,703	5.8	3,631	5.5	2,017	6.2	1,621	5.3
International investments (Matáv)	—	—	—	—	—	—	—	—	932	3.0
Net revenues	**60,071**	**100.0%**	**63,814**	**100.0%**	**66,135**	**100.0%**	**32,557**	**100.0%**	**30,637**	**100.0%**

Domestic Telephone Services. Revenues from domestic telephone services consist of revenues from initial connection fees, monthly rental charges, traffic charges for local, regional and domestic long distance calls, revenues generated by public telephones, whether from domestic or international traffic, and other charges, including fees for toll-free and premium charge lines and interconnection charges.

The following table sets forth information concerning revenues from domestic telephone services:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Initial connection fees and monthly rental charges	10,903	11,612	12,121	5,981	5,589	6.5	4.4	(6.6)
Traffic charges	23,255	25,680	27,759	13,660	12,042	10.4	8.1	(11.8)
Public telephones	1,782	1,758	1,515	760	729	(1.4)	(13.8)	(4.1)
Other charges	269	258	535	262	316	(4.1)	107.4	20.5
Total domestic telephone services	**36,209**	**39,308**	**41,930**	**20,663**	**18,676**	**8.6**	**6.7**	**(9.6)**

Connection Fees and Monthly Rental Charges. Revenues from initial connection fees and monthly rental charges are a function of the number and mix of standard and ISDN access lines and the corresponding initial connection fees and monthly rental charges.

The following table sets forth information concerning the average number of access lines (as adjusted to reflect ISDN channels):

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996
	(in millions)				
Average access lines	36.5	38.6	40.9	40.3	42.5

The increase in access lines throughout the period reflects the build-out of the network in the New Federal States and growth in secondary connections and ISDN access lines, which in part substituted for standard access lines. In the first six months of 1996, the increase in access lines was largely a consequence of the growth in the number of basic ISDN access lines resulting principally from a promotional program. See "Business—Domestic Telephone Services" for detailed information on penetration rates. Deutsche Telekom believes that the number of access lines in service will continue to grow.

Until 1996, initial connection fees and monthly rental charges for ISDN access lines were significantly higher than those for standard access lines. In January 1996, as part of the tariff reform, the Company increased initial connection fees for standard access lines and reduced connection fees for ISDN access lines. In addition, monthly rental charges for both standard and ISDN access lines were reduced in response to the imposition of VAT. Monthly rental charges for ISDN access lines were further reduced in July 1996. See "Business—Domestic Telephone Services—Tariffs."

In the first six months of 1996, the decrease in revenues from initial connection fees and monthly rental charges is primarily attributable to the VAT-related tariff change, which was only partially offset by the increase in the number of access lines. Adjusting first half 1995 revenues for the VAT-related tariff change, revenues for the first half of 1996 would have increased by 7.5%.

In both 1995 and 1994, revenues from initial connection fees and monthly rental charges increased as a result of growth in the number of access lines and the relative number of ISDN lines which carried significantly higher initial connection fees and monthly rental charges.

Traffic Charges. Revenues from traffic charges are a function of tariffs, the total number of telephone calls, average call duration and the mix between relatively more expensive regional and domestic long distance calls and less expensive local calls. Growth in domestic traffic is influenced by the factors set forth above in "—Overview and Outlook—Revenues—Traffic."

Tariffs for domestic telephone traffic remained constant in the period 1993 to 1995. In January 1996, in addition to reducing tariffs in response to the imposition of VAT, the Company rebalanced tariffs, generally increasing the price of longer local calls, decreasing the price of most long distance calls and reducing price differentials between distance zones. Further tariff reductions for domestic long distance and certain regional calls came into effect on July 1, 1996. See "Business—Domestic Telephone Services—Tariffs."

The following table sets forth information regarding domestic telephony traffic:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
							(% change)	
Domestic calls (in billions)	49.2	51.0	52.5	26.1	24.3	3.7	2.9	(6.9)
Average revenue per call (in DM)	0.47	0.50	0.53	0.52	0.50	6.5	5.0	(5.3)
Average monthly revenue from traffic per access line (in DM)(1)	53.16	55.39	56.54	56.44	47.28	4.2	2.1	(16.2)
Average number of domestic calls per access line(1)	1,350	1,320	1,283	647	572	(2.2)	(2.8)	(11.5)

(1) Including ISDN channels.

Revenues from traffic charges in the first six months of 1996 declined in part due to the VAT-related tariff change. Adjusting first-half 1995 revenues for the VAT-related tariff change, revenues for the first half of 1996 would have increased by 1.4%. Telephone usage per subscriber also declined significantly in the first six months of 1996 as a consequence of consumer uncertainty and negative publicity regarding the new tariff regime which took effect on January 1, 1996. As subscribers have become more familiar with the new tariff regime, in part as a consequence of the Company's publicity campaign, telephone usage has begun to return to normal levels. The Company believes that other telecommunications operators that have implemented far-reaching tariff reforms have also experienced temporary declines in usage. The negative effect of the tariff reform on revenues in the first half of 1996 was partially offset by the general increase in number of access lines during this period.

Although tariffs remained constant between 1993 and 1995, average revenue per call increased by 5.0% in 1995 and by 6.5% in 1994, principally as a result of increases in the average duration of calls and shifts in the overall mix of calls toward a greater proportion of more expensive regional and domestic long distance calls. Deutsche Telekom believes that the decline in the average number of domestic calls per access line in 1995 and 1994 was attributable primarily to the effect of lower average usage per access line in the New Federal States, lower average usage per access line in the case of secondary lines and lower average per channel usage in the case of multiplex ISDN access lines.

Public Telephones. Revenues from public telephones decreased in the first six months of 1996 and in each of 1995 and 1994 principally due to declining use of public telephones, in part because of growth in the use of mobile telephones.

Other Charges. Other charges include fees for toll-free and premium charge lines as well as interconnection charges. Revenues from other charges increased significantly as a result of increased usage of toll-free and premium charge lines and the increased traffic carried by the Company's fixed-link network originating from other domestic mobile operators. The Company expects revenues from interconnection charges to increase with the liberalization of the telecommunications market in Germany.

International Telephone Services

Outgoing Services. Revenues from outgoing international services are a function of tariffs and the number, duration and mix of calls to destinations outside Germany placed by callers within Germany. Growth in traffic from international services is influenced by the factors set forth above in "—Overview and Outlook—Revenues—Traffic." International tariffs began declining in 1994 and 1995 and were generally reduced as part of the Company's overall tariff reform in January 1996. Effective July 1, 1996, certain additional reductions came into effect. See "Business—International Telephone Services—Tariffs."

The following table sets forth information concerning outgoing international traffic:

	Year ended December 31,			Six months ended June 30,		Year Ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
							(% change)	
Revenues (DM in millions)	6,044	6,759	6,811	3,352	2,324	11.8	0.8	(30.7)
Outgoing international traffic (millions of minutes)	4,502	4,942	5,238	2,582	2,256(1)	9.8	6.0	(12.6)

(1) Estimated.

The decline in revenues from outgoing services in the first six months of 1996 was attributable primarily to the VAT-related tariff change, additional price reductions with respect to Europe Zones 1 and 2 and United States/Canada (the latter of which took effect in the second half of 1995), and a change in accounting treatment. In 1993, 1994 and 1995, revenues and minutes for outgoing international traffic reflected certain traffic attributable to carrier-to-carrier and mobile interconnections. Accordingly, in those years, revenues and minutes for international outgoing services were overstated and domestic telephone services revenues were understated. From January 1, 1996, these amounts are no longer included in international outgoing services. This accounting change reduced outgoing international traffic in the first half of 1996 by approximately 300 million minutes.

Although there was a 6.0% growth in the total number of outgoing international minutes in 1995, revenues increased only slightly due to the effect of tariff reductions in 1994 and 1995. These included the full effect of the volume discount to business customers introduced in the second half of 1994 which was further increased in 1995, and a reduction in tariffs to United States/Canada in the second half of 1995 in response to competition from call-back and by-pass services. The marked growth in 1994 revenues was largely a result of a 9.8% increase in the total number of international outgoing minutes, as well as an unusually high number of calls to dial-in information lines outside Germany located in a relatively expensive tariff zone. Revenues from outgoing international services in the years 1993 to 1995 were also adversely affected by competition from by-pass and call-back services, particularly with respect to traffic to the United States and Canada.

Incoming Services. Revenues from incoming international services consist of amounts paid by foreign carriers for use of Deutsche Telekom's network to carry calls placed by the customers of such foreign carriers. The following table sets forth information concerning incoming international traffic:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
							(% change)	
Revenues (DM in millions)	2,483	1,845	1,702	819	757	(25.7)	(7.8)	(7.6)
Incoming international traffic (millions of minutes)	3,619	3,984	4,036	2,146(1)	2,087(1)	10.1	1.3	(2.8)

(1) Estimated.

Revenues from incoming international services decreased in the first six months of 1996 compared to the first six months of 1995 as a result of continuing decreases in international settlement rates and a 2.8% decrease in the volume of international incoming traffic. The Company treats revenues from incoming international services as exempt from VAT in accordance with the Melbourne Agreement (the "Melbourne Agreement") reached under the general auspices of the International Telecommunications Union ("ITU"). See "—Total Operating Costs and Expenses—Other Operating Expenses."

Revenues declined in each of 1995 and 1994 largely as a result of decreases in international settlement rates. In 1995, the effect of the decrease in international settlement rates was mitigated by a 1.3% increase in volume. The Company believes that the slow-down in growth in incoming international traffic in 1995 was in part a consequence of the reduction in U.S. armed forces personnel in Germany. Exchange rate movements also had a negative effect on revenues in 1995. In 1994, the decrease in international settlement rates was partially mitigated by a 10.1% increase in the volume of incoming international traffic.

Leased Lines. Leased line revenues are generated from initial connection fees and monthly rental charges for domestic leased lines. The following table sets forth information concerning revenues from leased lines:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)						(% change)	
Revenues	1,260	1,232	1,305	622	698	(2.2)	5.9	12.1

Revenues from leased lines increased in the first six months of 1996 compared to the first half of 1995 as a result of an increase in the number of digital leased lines, particularly high capacity digital leased lines. The effect of this increase was partially offset by the effects of tariff reductions for digital leased lines and a decrease in the number of analog leased lines. Although leased lines became subject to VAT on January 1, 1996, the Company did not reduce its leased line tariffs specifically in response to the imposition of VAT.

In 1995, an increase in digital leased lines and a shift to more expensive high capacity leased lines more than offset the impact of the decline in the number of analog leased lines and tariff reductions in that year. In 1994, revenues were adversely affected by tariff reductions and a decrease in the number of analog leased lines in that year. For a description of the trend towards high capacity digital leased lines and price reductions, see "Business—Leased Lines."

Text and Data Services. Text and data services revenues are generated by subscription fees and, in certain cases, usage fees paid by customers, including customers of on-line services. The following table sets forth information concerning revenues from text and data services:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Revenues	3,580	3,389	2,807	1,277	1,414	(5.3)	(17.2)	10.7

Text and data services revenues also include amounts paid by customers for network management services. The market for text and data services has been characterized by a high level of competition since the liberalization of the resale of leased line capacity for data transmission in 1989. The most significant contributors to text and data services revenues are network management services, managed leased lines and Datex-P. In recent years, revenues from network management services have surpassed revenues from managed leased lines and Datex-P, which have been declining as customers have migrated to system solutions and to ISDN-based services. Overall revenues from text and data services have been adversely affected in recent years due to price reductions on a number of services. The increase in revenues in the first six months of 1996 resulted primarily from increased sales of network management services as a result of active marketing. The effect of this increase was partially offset by a decrease in managed leased lines, which declined due to the substitution of such lines for Deutsche Telekom's network management services and increased external competition.

Revenues from T-Online, Deutsche Telekom's on-line service provider, represent a small but growing portion of text and data services revenues. Revenues from T-Online increased by 70.2% in the first six months of 1996, 17.1% in 1995 and 27.3% in 1994, principally as a result of subscriber growth. Telephony traffic revenues generated by T-Online are not included in text and data services revenues, rather in revenues from domestic telephone services.

Supply and Service of Telecommunications Equipment. Revenues from the supply and service of telecommunications equipment consist of revenues from the sale and lease of telecommunications equipment and from the service of such equipment. The following table sets forth information concerning revenues from the supply and service of telecommunications equipment:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Sales revenues	649	941	1,088	516	635	45.0	15.6	23.0
Leasing revenues	2,129	2,178	1,992	1,004	901	2.3	(8.5)	(10.2)
Service revenues	872	952	927	456	405	9.2	(2.6)	(11.2)
Total	**3,650**	**4,071**	**4,007**	**1,976**	**1,941**	**11.5**	**(1.6)**	**(1.8)**

In the first six months of 1996, the increase in sales revenues reflected increased sales of cordless telephones, small PBXs and ISDN end-user equipment, which more than offset a decline in revenues from sales of mobile handsets resulting from increased purchase incentives. Declines in leasing and service revenues more than offset the increased sales revenues. Leasing revenues declined for all major categories of equipment other than ISDN end-user equipment. Revenues from the supply and service of telecommunications equipment decreased slightly in 1995 and increased in 1994, affected particularly by increases in sales of mobile handsets. The changes in revenues reflect a general shift away from the lease of telecommunications equipment to purchase as prices, particularly for equipment targeted at residential and small business users, have continued to fall.

Other Services. Revenues from services ancillary to Deutsche Telekom's basic telephone services, such as telephone directory publishing, and certain other Deutsche Telekom activities, such as advertising, increased by 53.8% in the first six months of 1996 compared to the first six months of 1995. Revenues from other services increased by 11.4% in 1995 and fell by 35.4% in 1994. These shifts in revenues principally reflect the changing mix of the underlying services included in this item.

Mobile Telecommunications Services. Revenues from mobile telecommunications services are generated from initial connection fees, monthly rental charges and traffic charges paid by direct subscribers and fees from independent service providers. The following table sets forth information concerning mobile telecommunications services:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	**1994**	**1995**	**1995**	**1996**	**1994/1993**	**1995/1994**	**1996/1995**
	(DM in millions, except as noted)						**(% change)**	
Revenues:								
D1 (1)	409	1,146	1,794	796	1,203	180.1	56.6	51.2
C-Tel	1,769	1,394	1,096	582	459	(21.2)	(21.4)	(21.1)
Paging and other services	182	225	225	100	69	23.2	0.1	(31.2)
Total	**2,360**	**2,765**	**3,115**	**1,478**	**1,731**	**17.1**	**12.7**	**17.1**
Average number of subscribers (in thousands)								
D1	224	686	1,153	994	1,583	206.7	68.0	59.2
C-Tel	798	755	687	704	619	(5.3)	(9.0)	(12.1)
Average monthly revenue per subscriber (DM)								
D1 (1)	152	139	130	133	127	(8.7)	(6.8)	(5.0)
C-Tel	185	154	133	138	124	(16.7)	(13.6)	(10.2)

(1) Does not include premiums or surcharges paid by subscribers to independent service providers. See "Business—Mobile Telecommunications Services—Digital Services—D1—Distribution."

Revenues increased in the first six months of 1996 compared to the first half of 1995 primarily as a result of continued growth in D1 subscribers. The average number of D1 subscribers rose by 59.2% in the first half of 1996, in part in response to the introduction of the private customer oriented Telly-D1 package on May 1, 1996. The effect of the increase in D1 subscribers was partially offset by a decline in traffic, in terms of minutes, per D1 subscriber, as lower-volume users accounted for a greater percentage of D1's subscriber base. Revenues were also adversely affected by continued declines in the number of C-Tel subscribers and in traffic per C-Tel subscriber.

The increase in revenues in 1995 and 1994 resulted primarily from a rapid growth in the D1 subscriber base. The average number of D1 subscribers grew by 68.0% in 1995 and more than tripled in 1994. The positive effect on revenues of the increase in the average number of D1 subscribers in 1995 and 1994 was partially offset by declines in the average number of C-Tel subscribers, many of which migrated to digital mobile systems, and by reductions in both D1 and C-Tel tariffs. See "Business—Mobile Telecommunications Services."

Cable Transmission and Broadcasting Services. Cable transmission revenues are generated from one-time connection fees and monthly subscription charges paid by cable television subscribers served by Deutsche Telekom directly and by private cable operators, principally local cable companies, wholly- or majority-owned by Deutsche Telekom; transmission fees paid by other private cable operators, including owners of buildings, real estate management companies and other local cable companies; and cable transmission fees paid by television and radio stations. Broadcasting services revenues are generated from fees paid by television and radio stations. The following table sets forth information concerning cable and broadcasting services:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	**1994**	**1995**	**1995**	**1996**	**1994/1993**	**1995/1994**	**1996/1995**
	(DM in millions, except as noted)						**(% change)**	
Cable	2,199	2,425	2,461	1,480	1,068	10.3	1.5	(27.8)
Broadcasting	1,137	1,278	1,170	537	553	12.4	(8.5)	3.0
Total	**3,336**	**3,703**	**3,631**	**2,017**	**1,621**	**11.0**	**(1.9)**	**(19.6)**
Average number of cable subscribers (in millions)(1)	12.7	14.1	15.2	15.0	16.0	11.1	8.2	7.0

(1) Includes households connected through private cable operators. See "Business—Cable Transmission and Broadcasting—Cable Services—Penetration and Coverage."

The substantial decrease in cable revenues in the first six months of 1996 reflected in part the VAT-related tariff change. In addition, Deutsche Telekom changed its method of accounting for prepayments to refine the allocation of revenues from prepayments to the appropriate periods. Based on the refined allocation policy, revenues in the first half of 1995 would have been reduced by DM 224 million. The increase in the average number of cable television subscribers partially offset these effects.

Cable revenues rose in 1995 and in 1994, primarily as a result of increases in the average number of cable television subscribers in those years. In 1995, cable revenues were negatively affected by a reclassification of certain revenues that had been recorded as cable revenues in 1993 and 1994. In 1995, broadcasting revenues fell as a consequence of renegotiations of major long-term contracts with German broadcasting companies. In 1994, broadcasting revenues grew principally as a result of an accounting reclassification.

International Investments. Revenues from international investments in the first half of 1996 reflect the full consolidation of Matáv, which contributed DM 932 million to consolidated revenues for that period. Prior to January 1, 1996, the Company's investment in Matáv was accounted for by the equity method.

Increase (Decrease) in Inventories and Other Own Capitalized Costs

Deutsche Telekom's income statement is prepared on the total-cost basis typically used in Germany. Costs to be capitalized and expensed in future periods, such as increases or decreases in inventories and interest and other costs capitalized on construction projects, are classified in the income statement as revenues and a corresponding amount is included in expenses such that the net effect is zero.

The change in inventories and other own capitalized costs increased by 7.4% in the first six months of 1996 compared to the first six months of 1995. This increase was principally due to an increased level of investment during the first six months of 1996 in connection with the digitalization of the network.

The change in inventories and other own capitalized costs decreased by 10.4% in 1995 and by 19.4% in 1994. The decreases in 1995 and 1994 reflected generally declining average levels of construction work in progress. In 1994, the decrease was also due to lower amounts of interest capitalized.

Other Operating Income

Other operating income consists of tax refunds, amounts received for services provided to Deutsche Post and Deutsche Postbank, reversals of allowances and accruals, and miscellaneous items such as rent, insurance recoveries and gains from sales of assets. Effective January 1, 1995, the Company's agreements with Deutsche Postbank and Deutsche Post for telephony services and rentals were renegotiated on an arm's-length basis and the underlying services were recorded in the appropriate income statement items and not under other operating income.

Other operating income more than doubled in the first six months of 1996 compared to the first six months of 1995. The increase in other operating income during the first half of 1996 resulted primarily from the recognition of two VAT refunds totalling DM 1.5 billion pursuant to the Value-Added Tax Act *(Umsatzsteuergesetz)*. The Company is entitled to recover a portion of the VAT incurred on assets purchased and placed into service prior to January 1, 1996. Deutsche Telekom expects to reclaim approximately DM 5.2 billion over 10 years, of which DM 750 million was reclaimed during the first half of 1996. See "—Depreciation" for a discussion of VAT capitalized prior to January 1, 1996. In addition, the Company recognized a one-time refund of VAT incurred on assets purchased prior to January 1, 1996 and placed into service in 1996. Such refund amounted to DM 736 million. As a result of an agreement reached with the German tax authorities as to recognition of VAT, VAT paid on construction in progress and inventory purchased prior to January 1, 1996 was booked as expense in the year paid. Since January 1, 1996, the date when the Company became fully subject to VAT, VAT paid with respect to such assets has been booked as operating income at the time of first use of such assets.

Total Operating Costs and Expenses

The following table sets forth Deutsche Telekom's total operating costs and expenses broken down by major components and expressed as a percentage of consolidated net revenues:

	Year ended December 31,						Six months ended June 30,			
	1993		1994		1995		1995		1996	
	(DM in millions, except as noted)									
Goods and services purchased	10,612	17.7%	9,285	14.5%	9,506	14.4%	4,365	13.4%	4,823	15.7%
Personnel costs	17,755	29.6	18,157	28.4	18,502	28.0	9,495	29.2	9,422	30.8
Depreciation	12,970	21.6	14,589	22.9	15,377	23.2	7,257	22.3	8,649	28.2
Other operating expenses	7,577	12.6	8,268	13.0	9,685	14.6	3,779	11.6	4,766	15.6
Total operating costs and expenses	**48,914**	**81.5%**	**50,299**	**78.8%**	**53,070**	**80.2%**	**24,896**	**76.5%**	**27,660**	**90.3%**

Total operating costs and expenses increased by DM 2.8 billion or 11.1% in the first six months of 1996 compared to the first six months of 1995. Of this increase, DM 775 million is attributable to the consolidation of Matáv and DM 200 million to incremental VAT expense. In the first half of 1995, the Company incurred expenses of DM 452 million attributable to nondeductible VAT whereas in the first half of 1996 it incurred DM 652 million of depreciation expense relating to capitalized VAT for which it received a VAT-related refund. See "—Other Operating Income" and "—Depreciation." Adjusting for the combined effect of these items, DM 975 million, other operating costs and expenses would have increased by approximately 7.2% in the first six months of 1996 compared to the first six months of 1995.

Of the remaining increase in total operating costs and expenses of DM 1.8 billion during the first six months of 1996, a significant portion is attributable to expenses that the Company believes were high compared to what it expects to incur on an ongoing basis. These include: expenses relating to preparations for the Global Offering (which will increase in the second half of 1996 but will not affect 1997 results); end-user equipment incentives granted as part of an ISDN marketing program (which ended in July 1996); the image campaign following tariff rebalancing and a billing error in January 1996; above-average write-offs of accounts receivable primarily in the New Federal States; and higher than usual losses on dispositions of noncurrent assets.

The Company's two core cost components are personnel costs and depreciation. Personnel costs (adjusted for Matáv) decreased as a result of the workforce reduction program and depreciation increased as a result of increased capital expenditures relating primarily to the digitalization of Deutsche Telekom's network.

Goods and Services Purchased. The following table sets forth goods and services purchased by major components and the percentage changes therein:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Goods purchased	2,128	1,845	1,883	949	1,057	(13.3)	2.1	11.4
Services purchased:								
International network access charges	3,400	3,216	2,766	1,327	1,288	(5.4)	(14.0)	(2.9)
Domestic network access charges	165	299	581	319	426	81.2	94.2	33.5
Total network access charges	**3,565**	**3,515**	**3,347**	**1,646**	**1,714**	**(1.4)**	**(4.8)**	**4.1**
Other services	4,919	3,925	4,276	1,770	2,052	(20.2)	8.9	15.9
Total	**10,612**	**9,285**	**9,506**	**4,365**	**4,823**	**(12.5)**	**2.4**	**10.5**

In the first six months of 1996, of the DM 108 million increase in goods purchased, DM 52 million was attributable to the consolidation of Matáv. The balance included costs associated with increased purchases of mobile handsets for resale. Between 1993 and 1995 there was a small decline in the cost of goods purchased, reflecting a general decline in the cost of telecommunications equipment purchased by the Company for distribution as well as the effects of the introduction of centralized purchasing and new procurement policies, such as exclusive purchase contracts and global sourcing.

The decline in international network access charges in the first six months of 1996 was attributable to continuing declines in international settlement rates. In the first six months of 1996, the reduction in international network access charges of DM 149 million was partly offset by the consolidation of expenses of Matáv of DM 110 million. Decreases in international network access charges in 1995 and 1994 were also due largely to declines in international settlement rates. These declines more than offset the effects of increases in the volume of international outgoing traffic of 6.0% in 1995 and 9.8% in 1994.

Domestic network access charges rose in the first half of 1996, and in 1995 and 1994 largely as a result of an increasing number of calls placed from the Company's fixed network to customers of other German mobile telecommunications operators.

Other services purchased consist of the costs of telecommunications hardware, buildings and other maintenance costs, as well as energy and utility costs. The consolidation of Matáv in 1996 accounted for DM 38 million of the increase in the first half of 1996. The increase in other services purchased in 1995 reflects the costs of certain services provided by Deutsche Postbank and Deutsche Post, including repair, maintenance, payroll and marketing services, that were previously classified as other operating expenses. The increase in these costs more than offset the savings generated by the cost containment policies introduced by the Company.

Personnel Costs. The following table sets forth Deutsche Telekom's personnel costs and the percentage changes therein for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	**1994**	**1995**	**1995**	**1996**	**1994/1993**	**1995/1994**	**1996/1995**
	(DM in millions)					**(% change)**		
Wages and salaries	12,897	13,099	13,197	6,664	6,673	1.6	0.7	0.1
Other personnel costs (1)	4,858	5,058	5,305	2,831	2,749	4.1	4.9	(2.9)
Total personnel costs	**17,755**	**18,157**	**18,502**	**9,495**	**9,422**	**2.3**	**1.9**	**(0.8)**

(1) Other personnel costs consist primarily of social security costs, which are fixed by law generally as a percentage of wages and salaries, and of pension costs, principally for the Company's civil servant employees.

In the first six months of 1996, Deutsche Telekom continued its staff reduction program, reducing the average number of full-time employees (excluding employees of Matáv) by 14,180 to 210,696, compared with 224,876 full-time employees on average in the first half of 1995. Savings resulting from these reductions were offset in part due to a 3.2% increase in the salaries of both civil servants and non-civil servants which took effect on May 2, 1995. Other personnel costs decreased slightly in the first half of 1996. The consolidation of Matáv increased total personnel costs by DM 170 million in the first half of 1996, of which DM 67 million represented social and pension costs. Adjusted for Matáv, total personnel costs declined 2.6% in the first half of 1996 compared to the first half of 1995. The Company expects personnel costs for the full year 1996 and for 1997 to continue to decline on a comparable basis as the staff reduction program continues. On January 1, 1997, a 1% wage increase will take effect for both civil servants and non-civil servants.

Wages and salaries increased in absolute terms in 1995 and in 1994 principally due to wage increases in those years, which more than offset the cost savings resulting from staff reductions. Wages increased due to the 3.2% increase which took effect on May 1, 1995 and a 2.0% increase which took effect on January 1, 1994 for both civil servants and non-civil servants under collective bargaining agreements. Pursuant to agreements with the trade unions, the differential between salaries in the Old Federal States and the New Federal States is to be gradually reduced until parity is reached in 2000. The cost of eliminating this differential, which relates to less than 20% of Deutsche Telekom's workforce, is expected to be less than DM 120 million per year until 2000. See ''—Overview and Outlook—Costs—Personnel'' and ''Management and Employees—Employees—Workforce Reduction Program.'' In 1995 and 1994, other personnel costs increased due to higher pension costs, principally as a result of increased civil servant pension costs. Pension costs in 1995 were also higher due to the establishment of a pension plan for employees in the New Federal States. Other personnel costs also rose in both 1995 and 1994 due to increases in wages and salaries and to increases in the average rates of social security contributions, notwithstanding staff reductions in those years.

Pursuant to Postreform II, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund pension obligations to its civil servant employees. From 1995 through 1999, Deutsche Telekom is obligated to make annual contributions of DM 2.9 billion. Beginning in 2000, the Company is obligated to make annual contributions equal to 33% of the salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave). Based on anticipated reductions in the size of its work force, the Company expects that its pension costs will decline significantly beginning in the year 2000. See ''Management and Employees—Employees—Pensions—Pension Arrangements for Civil Servants.''

Depreciation. The following table sets forth depreciation and the percentage changes therein:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Depreciation	12,970	14,589	15,377	7,257	8,649	12.5	5.4	19.2

Of the DM 1.4 billion increase in depreciation in the first half of 1996, DM 652 million related to the amortization of VAT capitalized before January 1, 1996. Prior to that date, VAT paid on assets acquired could not be reclaimed currently; rather it was capitalized to the extent permissible under German tax law. With effect from January 1, 1996, Deutsche Telekom's full range of services became subject to tax and the Company is now entitled to reclaim a portion of the VAT paid on assets acquired prior to the fiscal year 1996. See "—Other Operating Income" for a discussion of the related VAT refunds. An additional DM 184 million of the increase in depreciation is attributable to the consolidation of Matáv in 1996. The remaining increase was attributable principally to increased investment by Deutsche Telekom. See "—Overview and Outlook."

The increase in depreciation in both 1995 and 1994 was primarily attributable to an increase in depreciable assets in those years resulting from continued investment in the network in the New Federal States and modernization of the network in the Old Federal States. Depreciation of analog network assets was accelerated during 1995 in anticipation of their full replacement by digital technology by late 1997 or early 1998. The increase in depreciation in 1994 was particularly pronounced because an unusually high level of network assets was placed into service during the first half of that year. See "—Overview and Outlook—Costs—Depreciation" and "—Capital Expenditures and Investments—Capital Expenditures."

Other Operating Expenses. Other operating expenses increased significantly during the first six months of 1996 and in 1995 and 1994. Advertising, consulting and travel expenses and losses on dispositions of non-current assets rose substantially. Large one-time items and reclassifications affect the comparability of expenses over these periods. The following table sets forth other operating expenses broken down by major components and the percentage changes therein:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Advertising, consulting and travel	1,177	1,340	1,980	747	1,284	13.8	47.8	71.9
Losses on dispositions of noncurrent assets	284	964	1,390	303	569	239.4	44.2	87.8
Litigation and other risk provisions	20	51	637	68	105	155.0	—	54.4
Nondeductible value added taxes	861	665	972	452	—	(22.8)	46.2	—
Other employee-related costs	296	261	726	240	288	(11.8)	178.2	20.0
Reimbursement of expenses payable to Deutsche Post and Deutsche Postbank	1,394	1,103	100	46	43	(20.9)	(90.9)	(6.5)
Other expenses	3,545	3,884	3,880	1,923	2,477	9.6	(0.1)	28.8
Total other operating expenses	**7,577**	**8,268**	**9,685**	**3,779**	**4,766**	**9.1**	**17.1**	**26.1**

Of the DM 537 million increase in advertising, consulting and travel expenses in the first half of 1996, DM 351 million related to higher advertising expenses. Advertising expenses increased in connection with the Global Offering and the introduction of the new tariff structure in January 1996, and included a DM 130 million end-user incentive program to promote ISDN connections. A further DM 100 million of the increase in advertising, consulting and travel expenses was attributable to legal, consultancy and audit expenses in connection with the Global Offering. The Company expects advertising, consultancy and travel expenses to remain high in the second half of 1996 and to decline somewhat in 1997. The increase in advertising, consulting and travel expenses in 1995 and 1994, which included the costs of consumer incentive programs, reflects the increasingly competitive markets in which Deutsche Telekom operates, its transformation into a stock corporation and its international expansion. See Note 9 to the Consolidated Financial Statements.

Because of the Company's large fixed asset base and the rapidly changing technological environment in which it operates, a portion of its fixed asset base becomes obsolete each year in the ordinary course of business. Losses on dispositions of noncurrent assets increased in the first six months of 1996 due to the continuing digitalization of Deutsche Telekom's network, and included dispositions of analog switches and public telecommunications equipment.

The increase in litigation and other risk provisions in 1995 reflects the increased level of risks relating to employment issues in the New Federal States and the Company's transformation into a taxable stock corporation.

As described above, with effect from January 1, 1996, the full range of Deutsche Telekom's services became subject to VAT. From that date, Deutsche Telekom also became entitled to reclaim VAT paid by it, so that no further expenses in relation to nondeductible VAT are anticipated.

The increase in other employee-related costs in 1995 included a one-time adjustment of DM 108 million to the Company's accrual for healthcare benefits. In 1995, for the first time other employee-related costs included DM 240 million for services rendered by the Federal Institute, certain of which services were previously provided by Deutsche Post. The costs related to such services provided by Deutsche Post in 1994 and 1993 were recorded under reimbursement of expenses payable to Deutsche Post and Deutsche Postbank. This reclassification, together with the reallocation of other cost items following the renegotiation of service agreements with Deutsche Post and Deutsche Postbank, were the most significant reasons for the decrease in the amount of reimbursement of expenses payable to Deutsche Post and Deutsche Postbank in 1995 compared to 1994 and 1993.

Of the DM 554 million increase in other expenses in the first six months of 1996, DM 123 million was attributable to an increase in allowances and write-offs of receivables (the Company's receivables increased from DM 6.1 billion at June 30, 1995 to DM 7 billion at June 30, 1996). In addition, Deutsche Telekom created a provision with respect to its treatment of revenues from incoming international services as VAT-exempt in accordance with the Melbourne Agreement. This treatment is inconsistent with the German tax authorities' interpretation of the VAT Act. Deutsche Telekom believes, however, that the VAT Act will be amended to make it consistent with the Melbourne Agreement. The consolidation of Matáv accounted for DM 32 million of the increase in other expenses. Premium payments by T-Mobil to service providers and mobile telephone outlets increased by DM 72 million as the volume of T-Mobil's business increased.

Financial Income (Expense), Net

The following table sets forth the components of financial expense and percentage changes therein:

	Year ended December 31,			Six months ended June 30,		Year ended December 31,		Six months ended June 30,
	1993	1994	1995	1995	1996	1994/1993	1995/1994	1996/1995
	(DM in millions)					(% change)		
Net interest expense	(7,695)	(7,847)	(8,067)	(4,099)	(3,796)	2.0	2.8	(7.4)
Investments accounted for using the equity method	(2)	(121)	(190)	(92)	(149)	—	57.0	62.0
Other investments	45	41	46	13	53	(8.9)	12.2	—
Income (loss) from financial activities	43	(80)	(144)	(79)	(96)	—	80.0	21.5
Financial income (expense), net	**(7,652)**	**(7,927)**	**(8,211)**	**(4,178)**	**(3,892)**	**3.6**	**3.6**	**(6.9)**

Net Interest Expense. Deutsche Telekom successfully continued its debt reduction program in the first half of 1996, reducing debt by DM 4.5 billion before consolidation of Matáv, of which DM 1.2 billion was retired prior to maturity. Deutsche Telekom incurred charges of DM 44 million in the first six months of 1996 as a result of debt prepayment penalties. The outstanding debt of Matáv at June 30, 1996 amounted to DM 1.3 billion. Due to the predominantly fixed-rate nature of the Company's indebtedness, the average interest rate in the first half of 1996 remained 7.3%. The Company intends to reduce its debt by approximately 10% in 1996 from the level at December 31, 1995 and expects a corresponding reduction in interest expense.

Although net indebtedness at December 31, 1995 decreased by approximately DM 15.1 billion or 12% as compared to December 31, 1994, the average level of indebtedness in 1995 was higher than in 1994 resulting in a higher level of interest expense for that year. Deutsche Telekom also incurred charges of DM 159 million in 1995 as a result of debt prepayment penalties. The increase in net interest expense in 1994 is primarily attributable to the increase in the average level of indebtedness in that year. The average rate of interest borne by Deutsche Telekom's interest-bearing liabilities was 7.3% in 1995 as compared to 7.5% in each of 1994 and 1993.

Income (Loss) From Financial Activities. Income (loss) from financial activities includes Deutsche Telekom's share of the income or losses on investments accounted for using the equity method. In addition, it includes the amount of annual amortization of the difference between the original purchase price of these investments and Deutsche Telekom's share of the shareholders' equity. Income from other investments consists primarily of dividends received from the Company's investments in various satellite service providers and, beginning in 1996, from Sprint Corporation ("Sprint").

In the first six months of 1996, loss from financial activities was attributable primarily to a DM 106 million loss reflecting the Company's share of the losses of Atlas Telecommunications S.A. ("Atlas"), through which the Company holds its interest in Global One, which was included in the Company's results for the first time by the equity method. Continued amortization of the goodwill relating to Satelindo accounted for an additional DM 42 million of the loss from financial activities.

The principal reason for the net losses from financial activities in 1995 and 1994 was the amortization of goodwill generated in respect of the acquisition of Satelindo in 1995 and MagyarCom in 1993. This amortization amounted to DM 108 million in 1995 and DM 33 million in 1994. Matáv and Satelindo did not generate significant earnings in 1995.

Extraordinary Losses

Substantially all of the extraordinary losses incurred by the Company consist of personnel restructuring charges. The Company has announced its intention to reduce its workforce by the end of the year 2000 by approximately 60,000 full-time equivalent employees (excluding employees of subsidiaries first consolidated after January 1, 1995) from 1994 year-end levels. See ''—Overview and Outlook—Costs—Personnel'' and ''Management and Employees—Employees—Workforce Reduction Program.''

The total incurred and expected costs of these staff reduction measures of DM 3.4 billion were recognized as an expense in the years ended December 31, 1994 and 1995 and in the six months ended June 30, 1996. The table below sets forth a breakdown of these costs for the year ended December 31, 1995 and the six months ended June 30, 1996:

	Year ended December 31, 1995	Six months ended June 30, 1996
	(DM in millions)	
Provision, beginning of period	349	857
Additional provision	1,264	1,758
Payments made	(756)	(172)
Provision, end of period	**857**	**2,443**

The Company's provisions for restructuring costs cover employees that leave under voluntary separation agreements. Through June 30, 1996, a total of 23,000 full-time equivalent positions were eliminated, of which 15,200 were eliminated pursuant to voluntary separation agreements. Of the total planned reduction of 60,000 employees, the Company has assumed that 38,300 will result from voluntary separation agreements and the remainder from early retirement of civil servants and normal attrition.

Special Charge Relating to Other Post Entities

In accordance with the Deutsche Bundespost Constitution Act *(Postverfassungsgesetz)*, Deutsche Telekom incurred through December 31, 1994 certain special charges to cover certain losses sustained by the other successor entities to the Deutsche Bundespost. These charges amounted to DM 2.3 billion in 1994 and DM 2.4 billion in 1993. With effect from January 1, 1995, Deutsche Telekom has not been required to incur any further charges under these arrangements.

Levy to the Federal Republic of Germany

Prior to January 1, 1996, Deutsche Telekom was required to pay a levy to the Federal Republic on revenues earned from monopoly services, the amount of which was calculated in accordance with the Deutsche Bundespost Constitution Act. The Company paid a final levy of DM 3.1 billion in 1995 after payments of DM 5.2 billion in each of 1994 and 1993.

Taxes

Income taxes in the first half of 1996 were DM 275 million (reflecting a rate of approximately 57%, the combined German income tax rate for undistributed earnings). Other taxes (primarily trade capital taxes) amounted to DM 395 million.

Although Deutsche Telekom AG became subject to the normal tax laws applicable to all German stock corporations on January 1, 1995, it benefited from an essentially complete exemption from tax in 1995. In 1995, Deutsche Telekom accrued DM 524 million for the possible income tax effects of the proposed dividend of DM 1.1 billion from 1995 earnings. Future dividend distributions may result in similar income tax effects to the extent such dividends are paid out of previously untaxed retained earnings.

Prior to its corporatization, Deutsche Telekom AG was not subject to income or net asset taxes. The Company was also exempt from real estate taxes through 1995. Income taxes incurred during 1994 and 1993 relate to the earnings of Deutsche Telekom's subsidiaries that were not exempt from income tax. The taxes incurred during the three years ending December 31, 1995 are not indicative of future income tax expense. See "Unaudited Pro Forma Effects of Changes in Legal and Tax Status."

Liquidity and Capital Resources

The following table sets forth the Company's cash flows:

	Year ended December 31,			Six months ended June 30,	
	1993	**1994**	**1995**	**1995**	**1996**
		(DM in millions)			
Net cash provided by operating activities	14,212	24,114	23,687	12,575	12,381
Net cash used for investing activities	(22,731)	(28,945)	(13,321)	(12,934)	(6,497)
Net cash provided by (used for) financing activities	9,903	11,067	(15,234)	(4,127)	(4,440)
Effect of exchange rate changes on cash and cash equivalents	—	—	(89)	71	—
Net increase (decrease) in cash and cash equivalents(1)	**1,384**	**6,236**	**(4,957)**	**(4,415)**	**1,444**
Cash and cash equivalents at the beginning of the period	845	2,229	8,465	8,465	3,508
Cash and cash equivalents at the end of the period	2,229	8,465	3,508	4,050	4,952

(1) Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Liquidity

Net Cash Provided by Operating Activities. Deutsche Telekom's primary source of liquidity is cash generated from operations.

Net cash provided by operating activities decreased by DM 194 million in the first six months of 1996 compared to the first six months of 1995. Despite a DM 3.4 billion decrease in net income in this period, net cash provided by operating activities decreased by only 1.5% mainly as a result of higher depreciation charges and accruals for personnel restructuring costs. In addition, beginning in 1996 the Company was no longer required to pay the levy to the Federal Republic. The Company paid DM 391 million in respect of the levy in the first six months of 1995 whereas it paid DM 292 million in income taxes in the first six months of 1996.

Net cash provided by operating activities declined by DM 427 million in 1995, although net income was DM 1.7 billion higher in 1995 than in 1994. In 1994, net income was reduced by a special charge of DM 2.3 billion for the account of Deutsche Post and Deutsche Postbank, which did not affect cash provided by operating activities. Such special charge was not incurred by Deutsche Telekom in 1995. In addition, the Company's accounts receivable increased in 1995, reducing its cash flow from operating activities. Net cash provided by operating activities increased significantly in 1994 compared to 1993 because of improved net income, reduced accounts receivable and increased depreciation. Net cash provided by operating activities was adversely affected in 1993 by a prepayment of DM 2.0 billion of a portion of the levy due to the Federal Republic for 1995 and 1994.

Net Cash Used For Investing Activities. Cash used for investing activities consists of net changes in temporary cash investments (*i.e.*, securities with a maturity of over three months) and other cash used for investing activities such as capital expenditures, acquisitions and proceeds from sales of assets.

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996
	(DM in millions)				
Net change in temporary cash investments	—	(9,342)	2,843	(6,263)	3,574
Other cash used for investing activities	(22,731)	(19,603)	(16,164)	(6,671)	(10,071)
Net cash used for investing activities	**(22,731)**	**(28,945)**	**(13,321)**	**(12,934)**	**(6,497)**

In 1995 and the first six months of 1996, the Company reduced its temporary cash investments and used the cash for capital expenditures and debt repayment. In 1994, Deutsche Telekom purchased temporary cash investments of DM 9.3 billion from the proceeds of the issuance of debt securities in 1994.

Other cash used for investing activities increased in the first six months of 1996 due to the investments in Sprint, Atlas/Global One and a GSM licensee in the Czech Republic and the acceleration of the network digitalization program. Other net cash used for investing activities declined in 1995 and 1994. The primary use of such cash was for capital expenditures which totaled DM 14.6 billion in 1995, DM 19.2 billion in 1994 and DM 21.9 billion in 1993. See "—Capital Expenditures and Investments—Capital Expenditures."

Net Cash Provided By (Used For) Financing Activities. In the first six months of 1996 Deutsche Telekom repaid DM 4.4 billion of indebtedness, including DM 1.2 billion of indebtedness that was repaid prior to maturity.

In 1995, Deutsche Telekom repaid DM 15.2 billion of indebtedness, including DM 3.6 billion of indebtedness that was repaid ahead of schedule. In 1994, the Company increased its indebtedness by DM 11.1 billion. This debt was partly issued for anticipated financing requirements for certain acquisitions. In addition, 1994 was the last year in which the Company was able to take advantage of favorable terms on borrowings as a result of the guarantee by the Federal Republic of its liabilities. See "Relationship with the Federal Republic—Federal Republic Guarantees." In 1993, Deutsche Telekom increased its indebtedness by DM 9.9 billion to finance capital expenditures during that year.

Capital Resources

At June 30, 1996, the Company had undrawn committed short-term credit facilities of DM 7.0 billion, of which DM 1 billion are of an unlimited duration and the remainder will expire during the course of 1997. Deutsche Telekom expects to renew these facilities annually. The commercial paper outstanding on January 1, 1995 was repaid during that year and no further commercial paper programs are planned. At June 30, 1996, medium term notes in the amount of DM 850 million were outstanding with maturities ranging from 1999 and 2009.

As of June 30, 1996, DM 102 billion of Deutsche Telekom's liabilities were guaranteed by the Federal Republic. See "Relationship with the Federal Republic—Federal Republic Guarantees."

Deutsche Telekom believes that its bank facilities, together with its liquid assets, are sufficient to meet its present working capital needs. The Company does not plan any significant new arrangements or long-term debt increases.

The Company's objective is to strengthen its capital structure by reducing its indebtedness from DM 106 billion (excluding indebtedness of Matáv) as at June 30, 1996 to DM 65 billion or less by the end of the year 2000 (excluding indebtedness of subsidiaries first consolidated after June 30, 1996).

Deutsche Telekom expects that cash generated by operations, the proceeds of the Global Offering and the Employee Offering and any subsequent capital increase, will be sufficient to finance the Company's planned repayments of indebtedness as well as acquisitions and capital expenditures. Depending on the development of its business and on market conditions, the Company will consider a further capital increase in late 1998 or thereafter within the limits of its authorized capital. See "Description of Shares —Share Capital."

Capital Expenditures and Investments

The table sets forth capital expenditures and investments in subsidiaries, associated companies and related companies.

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996
	(DM in millions)				
Capital expenditures	21,869	19,253	14,574	5,597	6,596
Investments	908	771	1,980	1,131	3,867
Other	(46)	(421)	(390)	(57)	(392)
Net cash used for investing activities(1)	**22,731**	**19,603**	**16,164**	**6,671**	**10,071**

(1) Excluding net change in temporary cash investments.

Capital Expenditures

In the first half of 1996, capital expenditures increased by 17.8% compared to the first half of 1995. The increase reflects additional capital expenditures for the digitalization of switching and transmission equipment.

Capital expenditures fell by 24.4% in 1995 and 11.9% in 1994. Capital expenditures on technical assets and equipment accounted for approximately 62% of total capital expenditures in 1995, with investments in telephone network and switching equipment accounting for approximately 19% and 17%, respectively. Investments in assets other than technical assets and equipment accounted for the remaining 38%. The downward trend in capital expenditures reflects the substantial completion of the Company's investment in the telecommunications infrastructure in the New Federal States and the significant progress made in the modernization of the network in the Old Federal States.

The Company estimates that total capital expenditures will be approximately DM 15.7 billion in each of 1996 and 1997. The Company expects that following completion of the digitalization of its network and the modernization of the network infrastructure in the New Federal States capital expenditures will decline.

Investments

In the first half of 1996, Deutsche Telekom invested a total of approximately DM 689 million in the Atlas and Global One joint ventures. In addition, in connection with the formation of Global One, Deutsche Telekom purchased a 10% interest in its joint venture partner, Sprint, for an aggregate purchase price of DM 2.6 billion.

During 1995, Deutsche Telekom acquired, through T-Mobil, 25% of Satelindo for DM 1.0 billion and invested an additional DM 646 million in its joint venture MagyarCom, which in turn increased its stake in Matáv to 67% from 30%.

During 1994, Deutsche Telekom acquired 16.7% of Société européenne des satellites for DM 450 million. In 1993, the Company made its initial investment of DM 749 million in MagyarCom.

Expenditures for further expansion into international markets are expected to constitute a greater share of total investment activity over the next few years. In line with its strategy for growth, the Company continuously evaluates potential acquisitions and business opportunities and will make investments where they match the Company's strategic plans and offer attractive potential for return on investment.

See "Business—International Investments and Joint Ventures."

German GAAP Compared to U.S. GAAP

Under U.S. GAAP, net income was DM 0.5 billion in the first six months of 1996 and DM 3.6 billion in the first six months of 1995, compared to DM 0.1 billion in the first six months of 1996 and DM 3.5 billion in the first six months of 1995 under German GAAP. Under U.S. GAAP, shareholders' equity was DM 30.0 billion at June 30, 1996 compared to DM 26.1 billion under German GAAP. Differences result from the different treatment of the retained portion of the levy, personnel restructuring and other accruals, financial instruments and income taxes. See Note 13 to the Unaudited Interim Consolidated Financial Statements.

Under U.S. GAAP, net income was DM 5.6 billion in 1995 and DM 8.0 billion in 1994, compared to DM 5.3 billion in 1995 and DM 3.6 billion in 1994 under German GAAP. Under U.S. GAAP, shareholders' equity was DM 29.5 billion at December 31, 1995 and DM 24.1 billion at December 31, 1994, compared to DM 24.7 billion at December 31, 1995 and DM 19.3 billion at December 31, 1994 under German GAAP. Differences result from the different treatment of the retained portion of the levy, personnel restructuring and other accruals, financial instruments and income taxes. See Note 30 to the Consolidated Financial Statements.

UNAUDITED PRO FORMA EFFECTS OF CHANGES IN LEGAL AND TAX STATUS

The unaudited pro forma information is presented as if Deutsche Telekom had been subject to the conventional tax system, with the exception of VAT, in Germany for the period 1993 to 1995. This unaudited pro forma information is not necessarily indicative of the actual after-tax results that would have occurred had Deutsche Telekom been subject to conventional taxes for those periods or of Deutsche Telekom's after-tax results of operations for any future periods. The adjustments to the historical financial statement information have been made based on available information and certain assumptions the Company believes are reasonable. The pro forma financial information should be read in conjunction with the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Prospectus.

Basis of Presentation

Prior to its incorporation effective as of January 1, 1995 Deutsche Telekom was not subject to most taxes. As part of its transformation into a private law stock corporation, Deutsche Telekom became subject to normal corporate taxation in Germany (although it benefited from an essentially complete exemption from tax in 1995). This resulted in Deutsche Telekom AG becoming subject to corporate income tax *(Körperschaftsteuer* including *Solidaritätszuschlag),* trade income tax *(Gewerbeertragsteuer)* and taxes other than tax on income *(Gewerbekapitalsteuer, Grundsteuer* and *Vermögensteuer).* Deutsche Telekom's subsidiaries were subject to the conventional German tax system prior to the change in Deutsche Telekom's tax status. Accordingly, the taxes incurred by them have been recognized in the Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements.

Unaudited Pro Forma Effects of Changes in Legal and Tax Status

The following table presents net income of Deutsche Telekom on a pro forma basis, as if all of the changes in legal and tax status noted above were effective on January 1, 1993.

		Year ended December 31,						Six months ended June 30, 1995	
		1993		1994		1995			
	Note	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma
		(DM in millions, except per Share amounts)							
Amounts in accordance with German GAAP									
Results from ordinary business activities		9,870	9,870	11,213	11,213	10,312	10,312	5,437	5,437
Extraordinary losses		—	—	(357)	(357)	(1,264)	(1,264)	(285)	(285)
Special charges	(a)	(2,445)	—	(2,320)	—	—	—	—	—
Results before levy and taxes		**7,425**	**9,870**	**8,536**	**10,856**	**9,048**	**9,048**	**5,152**	**5,152**
Levy to the Federal Republic	(b)	(5,164)	—	(5,164)	—	(3,098)	—	(1,549)	—
Income taxes	(c)	(117)	(6,362)	(64)	(6,073)	(614)	(5,320)	(60)	(3,058)
Taxes other than income taxes	(d)	(70)	(307)	283	(293)	(66)	(367)	(31)	(181)
Net income before minority interests		**2,074**	**3,201**	**3,591**	**4,490**	**5,270**	**3,361**	**3,512**	**1,913**
Loss applicable to minority shareholders		10	10	4	4	2	2	1	1
Net income		**2,084**	**3,211**	**3,595**	**4,494**	**5,272**	**3,363**	**3,513**	**1,914**
Earnings per Share (1)		**1.03**	**1.58**	**1.77**	**2.21**	**2.60**	**1.66**	**1.73**	**0.94**

	Note	Year ended December 31, 1994 As Reported	1994 Pro forma	1995 As Reported	1995 Pro forma	Six months ended June 30, 1995 As Reported	Six months ended June 30, 1995 Pro forma
		(DM in millions, except per Share amounts)					
Amounts in accordance with U.S. GAAP							
Results from ordinary business activities	(e)	11,036	11,036	9,493	9,493	5,095	5,095
Special charges	(a)	(2,320)	—	—	—	—	—
Levy to the Federal Republic	(f)	(4,448)	—	(2,782)	—	(1,391)	—
Results before income taxes		**4,268**	**11,036**	**6,711**	**9,493**	**3,704**	**5,095**
Income taxes	(c)(g)	(101)	(6,073)	(991)	(5,133)	(74)	(3,154)
Deferred income taxes recognized as a result of change in tax status	(g)	3,783	—	—	—	—	—
Income before extraordinary losses and minority interests		**7,950**	**4,963**	**5,720**	**4,360**	**3,630**	**1,941**
Extraordinary losses		—	—	(159)	(159)	—	—
Loss applicable to minority shareholders		4	4	2	2	1	1
Net income		**7,954**	**4,967**	**5,563**	**4,203**	**3,631**	**1,942**
Earnings per Share(1)		**3.92**	**2.45**	**2.74**	**2.07**	**1.79**	**0.96**

(1) Based on 2.03 billion Shares outstanding.

Pro Forma Adjustments to Amounts Determined in Accordance with German GAAP

(a) Special charges relating to other Post entities

These charges were no longer required to be incurred by Deutsche Telekom after it became a stock corporation. Therefore, they have been excluded from the determination of pro forma net income.

(b) Levy to the Federal Republic

The levy was no longer required to paid by Deutsche Telekom after it became subject to the conventional tax system in Germany. Therefore, it has been excluded from the determination of pro forma net income.

(c) Income taxes

The pro forma income tax expense was determined by performing a tax calculation in accordance with the tax laws applicable during each of the periods assuming that no dividends were paid. The tax effects of special investment incentives and tax credits available during the periods, particularly in the New Federal States, have not been considered. Deferred taxes have also been provided for temporary differences in accordance with the Company's accounting policies.

The corporate income tax rate for retained income was 45% in 1995 and 1994 and 50% in 1993. The statutory tax rate used in the following table combines the corporate income tax rate with trade income tax at an average rate for Germany. The effects of the income tax surcharge of 7.5% of the corporate income tax *(Solidaritätszuschlag)* which took effect on January 1, 1995, have been reported as separate items in the following table. The change in the statutory tax rates for the periods indicated results from the change in the corporate income tax rate effective January 1, 1994. The following table shows the differences between pro forma income taxes computed at the statutory rates, combined corporate and trade taxes, and pro forma income tax expense.

	Year ended December 31, 1993	1994	1995	June 30, 1995
Amounts in accordance with German GAAP	(DM in millions, except as noted)			
Pro forma income before income taxes(1)	9,563	10,563	8,681	4,971
Statutory tax rate	58.3%	54.2%	54.2%	54.2%
Theoretical pro forma income taxes	5,575	5,725	4,705	2,694
Effect of nondeductible interest expense	286	329	325	162
Income tax surcharge	—	—	246	127
Net operating losses not recognized	489	—	14	—
Use of net operating loss carryforwards	—	(2)	(75)	(23)
Effects from equity subsidiaries	1	66	103	50
Other effects (net)	11	(45)	2	48
Pro forma income taxes	**6,362**	**6,073**	**5,320**	**3,058**
Pro forma effective income tax rate	66.5%	57.5%	61.3%	61.5%

(1) Pro forma income before income taxes is determined as the results from ordinary business activities less pro forma taxes other than income taxes.

The calculation of income taxes has been made assuming that no dividends were declared or paid during the three year period. Under the German tax system, income taxes are partially refunded upon distribution of income as dividends. The income tax rates on distributed income were 30% in 1995 and 1994 and 36% in 1993. If all income was assumed to be distributed in each year, income tax expense, net income and earnings per share, all determined in accordance with German GAAP, would have been as follows:

	For the year ended, 1993	1994	1995
	(DM in millions, except per Share amounts and as noted)		
Pro forma income before income taxes	9,563	10,563	8,681
Pro forma income taxes	5,023	4,573	4,197
Pro forma net income	4,550	5,994	4,486
Pro forma earnings per Share	2.24	2.95	2.21
Pro forma effective income tax rate	52.5%	43.3%	48.3%

If the dividend of DM 1.2 billion from 1995 earnings had been reflected in the calculation of 1995 pro forma income taxes, such income taxes would have been DM 5.0 billion.

(d) Taxes other than income taxes

Taxes other than income taxes, principally asset based taxes, were calculated by applying the relevant tax laws and tax rates for the respective years to the appropriate asset bases. An accrual for asset based taxes was reversed in the 1994 income statement resulting in a positive income effect. The income effects of this reversal have been eliminated in the determination of pro forma net income.

Pro Forma Adjustments to Amounts Determined in Accordance with U.S. GAAP

(e) Results from ordinary business activities

The differences between the results before levy and taxes determined in accordance with German GAAP and U.S. GAAP are described in Note 30 to the Consolidated Financial Statements.

(f) Levy to the Federal Republic

Under U.S. GAAP that portion of the levy payable to the Federal Republic relating to revenues from monopoly services from the New Federal States would not have been recognized as expense in the income statement in each year. Therefore, the net amount of the levy paid has been excluded from the determination of pro forma net income in accordance with U.S. GAAP.

(g) Income taxes

Deferred taxes under U.S. GAAP have been provided for temporary differences and net operating loss carryforwards in accordance with the full liability method. Under U.S. GAAP the effects of the changes in tax status that result from a change in the tax law are recognized on the enactment date. This effect does not arise in the determination of pro forma net income because it has been assumed that Deutsche Telekom was subject to taxes throughout the period.

BUSINESS

Introduction

Deutsche Telekom is Europe's largest, and the world's third largest, telecommunications service provider in terms of revenues. Deutsche Telekom currently provides over 43 million access lines to subscribers in Germany and its consolidated net revenues were over DM 66 billion in 1995 and over DM 30 billion in the first half of 1996.

Deutsche Telekom is a full-service telecommunications provider. At present, the Company is the sole provider of public fixed-link voice telephony in Germany and is the country's largest mobile telecommunications provider, with approximately 2.4 million mobile telephone subscribers. Deutsche Telekom operates Germany's largest cable network, transmitting television and radio programming to more than 16.2 million households. In addition, the Company provides leased lines, text and data services, corporate networks and on-line services, supplies telecommunications equipment and publishes telephone directories.

Internationally, Deutsche Telekom recently entered into the Global One joint venture with France Télécom and Sprint to offer seamless international telecommunications services. The Company has also made strategic investments in telecommunications enterprises outside Germany in order to take advantage of opportunities in other telecommunications markets.

The telecommunications sector in Germany has been progressively liberalized in recent years and will be fully liberalized effective January 1, 1998. Under the TKG, Deutsche Telekom will retain its essentially exclusive right to provide domestic and international public fixed-link voice telephony services within Germany through the end of 1997. However, with effect from August 1, 1996, the operation of networks (including comprehensive cable networks) for all telecommunications services other than public fixed-link voice telephony was fully opened to competition.

Prior to the TKG coming into force, Deutsche Telekom already faced competition in a number of areas. The supply of telecommunications terminal equipment has been open to full competition since 1990. Mobile telecommunications services have been offered competitively in Germany since the introduction of digital services in 1992. Text and data transmission services (using lines leased from Deutsche Telekom) have been liberalized since 1989 and the provision of voice telephony for corporate networks and closed-user groups has been open to competition since 1993. In recent years, Deutsche Telekom has faced competition in the provision of international voice telephony from by-pass and call-back services. See "Regulation—Overview."

Historical Background

Historically, the provision of public telecommunications services in Germany was a state monopoly as provided by the German constitution. Until 1989, the provision of telecommunications services and infrastructure was an integral and undifferentiated part of the activities of Deutsche Bundespost, Germany's state postal, telephone and telegraph authority.

With the enactment of Postreform I in 1989, the Federal Republic began to transform the services administered by the Deutsche Bundespost into market-oriented businesses and divided the Deutsche Bundespost into three distinct entities along lines of business, including Deutsche Bundespost TELEKOM. Postreform I also commenced the progressive liberalization of the German telecommunications market. See "Relationship with the Federal Republic."

Upon the reunification of Germany in October 1990, Deutsche Bundespost TELEKOM was made responsible for telecommunications services and infrastructure in the New Federal States. At that time, the New Federal States had an essentially obsolete telecommunications infrastructure and a total of 1.9 million access lines, representing a penetration rate of approximately 100 lines per 1000 inhabitants, which was significantly below the penetration rate in the Old Federal States. The Company therefore began a long-term project to expand and modernize the telecommunications network in the New Federal States, which is expected to be substantially completed in 1997. See "—Network and Technology."

Pursuant to Postreform II, Deutsche Bundespost TELEKOM was transformed into a private law stock corporation, Deutsche Telekom AG, with effect from January 1, 1995. Postreform II also provided the framework for the privatization of the Company.

Strategy

Deutsche Telekom's objectives for the coming years are to enhance its position as the leading full-service provider of telecommunications services in Germany; to increase its international presence; to achieve growth in revenues, cash flow and earnings; to improve the structure of its balance sheet; and to generate attractive returns for its shareholders. To achieve these objectives, Deutsche Telekom plans to:

- increase customer satisfaction and loyalty;
- reduce costs and increase productivity;
- introduce new services, including multi-media services, using its state-of-the-art network; and
- expand selectively in the global telecommunications market.

Customer Satisfaction and Loyalty. Deutsche Telekom has fundamentally reshaped its organizational structure in order to increase customer satisfaction and loyalty. The Company has established separate customer service divisions tailored to its different customer groups to orient its products, services and tariff options more closely to varying customer needs. In order to respond effectively to its customers' needs and to make its products and services more accessible, Deutsche Telekom operates an extensive distribution and customer service network with over 600 outlets for private customers and a dedicated sales force for business customers.

Cost Reduction and Increased Productivity. A key element of Deutsche Telekom's strategy for the coming years is to reduce its overall cost level and improve productivity. The Company has made significant progress toward achieving these goals since its transformation into a private law stock corporation. The primary focuses of Deutsche Telekom's cost reduction efforts are personnel and interest costs. At June 30, 1996, Deutsche Telekom already had significantly reduced its workforce (excluding employees of Matáv which was first consolidated in 1996) from 1994 year-end levels and plans to make further significant reductions. At June 30, 1996, the Company had reduced indebtedness by DM 19.7 billion (adjusted for Matáv) from the level at December 31, 1994, resulting in substantial interest expense savings. The Company anticipates making further reductions in indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Costs." Deutsche Telekom has taken measures to streamline its business processes and to improve the productivity of its employees through training projects focusing on quality and efficiency.

New Services Using State-of-the-Art Network. Deutsche Telekom has one of the most technologically advanced networks in the world, which permits it to offer customized network solutions and introduce new services quickly and efficiently in response to customer needs. Digitalization of the entire network, including the local networks, is expected to be completed by late 1997 or early 1998, resulting in greater network capacity, efficiency and flexibility. Deutsche Telekom believes that there will be increasing demand in the future for new technologies and applications, particularly multi-media and telematics applications, and has committed resources to the development of commercial applications, such as tele-marketing, tele-medicine and tele-learning. The Company plans to offer such services through its Internet backbone network, which it is currently establishing. See "—Network and Technology—Fixed-Link Telecommunications Network—Internet Backbone Network."

International Expansion. Deutsche Telekom recognizes that customers increasingly expect their international telecommunications needs to be satisfied from a single source. To meet this demand, Deutsche Telekom has entered into the Global One joint venture with France Télécom and Sprint to offer seamless international voice, data and video services. In addition, Deutsche Telekom has made investments in telecommunications enterprises in the United States, Europe and Asia. Deutsche Telekom believes that its technical expertise and experience in the build-out of the network infrastructure in the New Federal States is particularly advantageous in its investments in emerging markets. In the future, the Company intends to make international investments and acquisitions on a selective basis.

Organization

As part of its transformation from an essentially governmental entity to a market- and profit-oriented enterprise, Deutsche Telekom began a process of fundamentally reshaping its organizational structure at the time of Postreform I in 1989. The Company's goals in carrying out this restructuring are to strengthen customer and profit orientation, increase accountability and decentralize decision making.

Deutsche Telekom has established four specifically tailored customer service divisions which correspond to its principal customer groups: the private customers division; the business customers division; the international customers division; and the carriers division. In addition, Deutsche Telekom has established seven business units along product lines to provide products and services to these customer divisions. The business units and customer divisions are supported by infrastructure and service units. In addition, Deutsche Telekom has formed separate subsidiaries responsible for specific parts of its business.

Contemporaneously with the restructuring of its business operations, Deutsche Telekom reorganized a range of management systems and processes and introduced certain others, particularly affecting the marketing, sales and finance areas. The Company reorganized data processing, increased data processing support, and integrated its management systems, leading to lower costs and increased competitiveness. Using integrated accounting systems based on SAP software, together with corresponding cost and profit calculation systems, Deutsche Telekom is able to monitor continually its business activities with reference to the prior year and to budget, permitting it to implement corrective measures on a timely basis. Financial reporting is conducted by the finance department independently of operations management. The finance department also independently analyzes investments and projects, particularly international investments, taking into account shareholder value and their potential impact on earnings.

Marketing and Distribution

Deutsche Telekom devotes significant resources to the marketing and distribution of its products and services. At June 30, 1996, over 20,000 employees were engaged in marketing and distribution activities. Deutsche Telekom believes that its active marketing programs and its extensive distribution network increase customer awareness of the range of the Company's products and services and the Company's responsiveness to customer needs, providing a significant competitive advantage.

Deutsche Telekom targets its marketing and distribution activities to particular customer groups. The Company divides its telephony customers into two principal groups: private customers, consisting of residential and small business customers with relatively standard telecommunications needs and relatively lower usage, and business customers, consisting of customers with more specialized telecommunications needs and relatively higher usage. Deutsche Telekom offers these two customer groups specially tailored products and services through distinct distribution channels. The Company has also developed optional tariff programs specifically designed for these customer groups.

Private Customers. Deutsche Telekom has over 35 million private customers, including approximately 1.6 million small businesses. Deutsche Telekom distributes its products and services to private customers primarily through over 400 ''T-Punkt'' stores, which are high-street retail outlets designed to increase recognition of the Deutsche Telekom brand and to stimulate demand for the Company's products and services. Customers may also place orders at over 200 smaller customer service centers (many of which are being upgraded to T-Punkt stores), at post offices and by mail. Order placement by telephone is growing rapidly in popularity and customers can order Deutsche Telekom products by calling a twenty-four hour toll-free number. The Company also targets private customers through direct mailings and has established a pilot tele-marketing program with two outbound call centers with 300 operators.

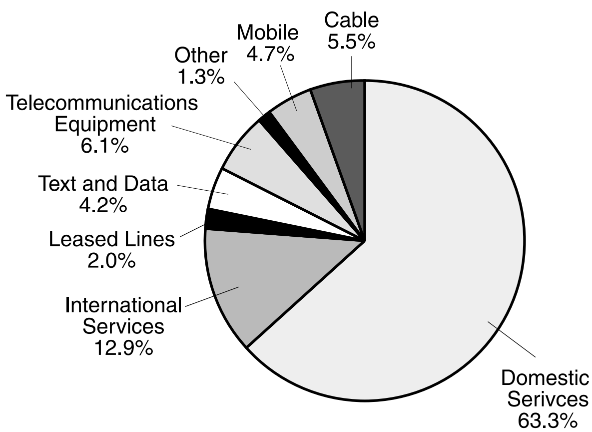
Business Customers. Deutsche Telekom has approximately two million business customers ranging from small companies to large multinational corporations. The Company organizes its marketing and distribution to these customers according to the complexity of their telecommunications needs. The Company's overriding marketing priority with respect to these customers, particularly large business customers with complex telecommunications needs, is to establish ''one face to the customer'', offering comprehensive services from a single source.

Customers requiring complete telecommunications solutions integrating voice, data and text services (''systems customers''), generally the Company's largest customers, are served by DeTeSystem, a wholly-owned subsidiary. Each systems customer (of which there were over 200 at June 30, 1996) has a personal account manager. See ''—Text and Data Services.'' Approximately 4,500 large corporate customers are served by dedicated account managers, each of whom is responsible for no more than 10 accounts. The Company plans to organize these account managers by industry group in the future. Approximately 60,000 mid-sized companies are assigned account managers on the basis of geographic location with no more than 100 companies per account manager. The balance of business customers is served by 24-hour call centers which permit the Company to register customer requests in a timely manner and respond efficiently.

International and Carrier Customers. Deutsche Telekom also has dedicated customer services divisions for customers of international services including Global One's services and for customers—generally other telecommunications service providers—requiring transit and interconnection services.

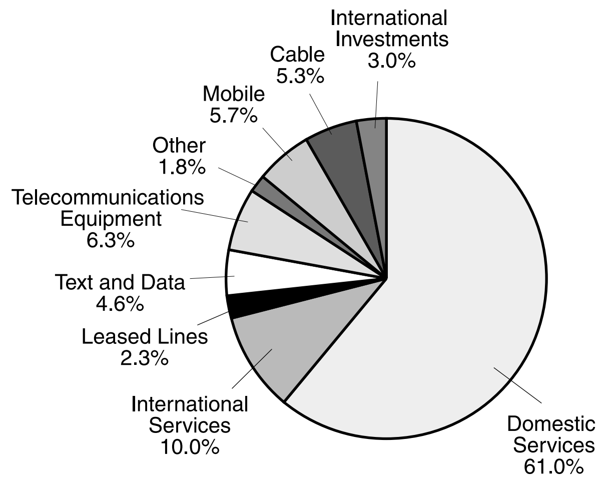
Overview of Deutsche Telekom's Revenues By Business Area

Year Ended December 31, 1995



DM 66.1 billion

Six Months Ended June 30, 1996



DM 30.6 billion

Domestic Telephone Services

Domestic fixed-link voice telephony is Deutsche Telekom's principal business activity and, in the first half of 1996, generated revenues of approximately DM 18.7 billion (61% of Deutsche Telekom's net revenues). Private customers accounted for approximately 68% and business customers accounted for approximately 32% of these revenues.

As of June 30, 1996, Deutsche Telekom had installed over 39 million standard access lines, of which 89% were connected to private customers and 11% were connected to business customers. In addition to these standard access lines, as of June 30, 1996, Deutsche Telekom had installed over 1.3 million ISDN access lines, representing a total of 3.8 million channels. Standard access lines are connected to Deutsche Telekom's network through digital or, to a lesser extent, analog exchanges. Each standard access line provides a single telecommunications channel. Deutsche Telekom offers both basic ISDN access lines with two channels and multiplex ISDN access lines with thirty channels. ISDN allows a single access line to be used for a number of purposes simultaneously including voice, videotelephony, data and facsimile transmission. ISDN also provides higher quality connections with faster transmission of signals and increases the capacity of the network. Deutsche Telekom offers ISDN access lines nationwide and has the largest ISDN network in the world measured in terms of access lines.

Products and Services

Private Customers. Deutsche Telekom offers its private customers a variety of products and services in addition to basic voice telephony. The Company offers complementary services such as call waiting, call forwarding and conference calling nationwide and plans to introduce voice messaging services by the end of 1996. Private customers are also offered on-line services. To promote ISDN usage by private customers, the Company has introduced special ISDN packages for home computer connections and multiple extension family connections. Deutsche Telekom also offers its customers a calling card, the T-Card.

Business Customers. The Company offers its business customers an extensive range of products and services tailored to meet their specific telecommunications needs. In addition to standard voice telephony services, Deutsche Telekom offers premium-charge and toll-free lines, leased lines, on-line services and a wide variety of text and data services based on a broad spectrum of technologies. Deutsche Telekom also designs and implements customized telecommunications systems integrating voice, data and text services and provides network management services. See "—Text and Data Services." The Company is actively developing business multimedia applications and plans to introduce ISDN-based video telephony, targeted at business customers, in the near future.

Customer Service. Deutsche Telekom has taken a number of measures to improve the quality of its customer services. The percentage of new telephone connections completed within ten days of the customer's order rose to 78% in 1995 from 38% in 1993 and the percentage of repairs completed within three days improved to 93% in 1995 from 81% in 1993. Commencing July 1, 1996, on business days, customers are guaranteed repair within 24 hours of repair requests. For a small fee, the Company guarantees repair within six hours.

Subscribers

As of June 30, 1996, Deutsche Telekom provided over 43 million access lines, representing a penetration rate of approximately 530 access lines per 1,000 inhabitants (as adjusted to reflect the multiple channels provided by ISDN access lines and including both public telephones and backlog). The German penetration rate is lower than the penetration rate in many Western European countries, principally as a result of German reunification and the historically lower penetration rate in the New Federal States as compared to the Old Federal States. Since reunification, the penetration rate in the New Federal States has risen rapidly with the build-out of the telecommunications network. The overall penetration rate in Germany has benefited from the rapid growth in ISDN access lines, which were introduced in 1989 and have been actively promoted to business and, more recently, private customers.

The following table sets forth certain information regarding total access lines and penetration rates in Germany:

	At December 31,					At June 30,
	1991	1992	1993	1994	1995	1996
Total access lines (millions)(1)	**33.8**	**35.9**	**37.8**	**40.2**	**42.4**	**43.6**
New Federal States (millions)(2)	2.8	3.2	4.2	5.4	6.0	6.5
Old Federal States (millions)	31.0	32.7	33.6	34.8	36.4	37.1
ISDN channels (thousands)	286	617	1,123	1,845	2,956	4,255
Total penetration rate (lines per 1,000 inhabitants)	**422**	**446**	**465**	**492**	**516**	**530**
New Federal States(2)	179	201	272	349	389	419
Old Federal States	481	505	511	526	546	555
ISDN channels	4	8	14	23	36	52

(1) For purposes of this table, each ISDN channel has been counted as equivalent to one access line. The amounts indicated also include lines ordered but not connected and public telephones.
(2) Excluding West Berlin.

The Federal Republic is Deutsche Telekom's largest customer. See "Relationship with the Federal Republic."

Traffic

In the first half of 1996, approximately 64.5% of domestic telephony revenues were derived from traffic charges. Business customers accounted for approximately 40% and private customers for approximately 60% of these traffic revenues. Approximately 69% of the Company's domestic traffic is derived from domestic long distance traffic (including Region 50, Region 200 and Domestic Long Distance) and the remaining 31% is derived from local traffic. Information on the total number of domestic telephone calls, the average number of calls per access line and average revenue per access line is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Domestic Telephone Services."

Tariffs

Tariffs charged by Deutsche Telekom for its domestic fixed-link voice telephony services are subject to regulatory approval. Under the TKG, Deutsche Telekom will continue to be subject to prior approval of its tariffs for public fixed-link voice telephony so long as it is considered to be a market-dominating provider of such services in a particular market. Effective January 1, 1998, tariffs for the Company's public fixed-link voice telephony services are to become subject to a price-cap regime. See "Regulation."

Telephone subscribers are charged an initial connection fee, monthly rental charges and traffic charges. Traffic charges are based on a charging unit, currently DM 0.12 including VAT. The duration of a unit varies according to the distance called, the time of day and whether the day is a business day or a weekend or public holiday. Deutsche Telekom does not differentiate in the standard tariffs that it charges its private and business customers for the same service or in traffic charges for ISDN customers and standard telephone customers.

On January 1, 1996, Deutsche Telekom commenced a far-reaching three-part tariff reform. Historically, Deutsche Telekom's tariffs were relatively unbalanced with cheap local calls subsidized by expensive domestic long distance and international calls. As a first part of this tariff reform, the Company began rebalancing tariffs to align them more closely with underlying costs and usage patterns. To achieve greater precision in traffic charges, the Company shortened the duration of the basic charging unit and reduced the price of a unit from DM 0.23 to DM 0.12. In addition, the Company reduced differences in the duration of a unit for different tariff zones, added a new tariff zone and increased differentiation according to the time of day. This tariff rebalancing generally increased the price of local calls longer than 90 seconds and decreased the price of most long distance calls. Under the new tariff regime there are, in general, four domestic tariff zones and five tariff times.

As a second part of the tariff reform, the Company reduced tariffs in order to offset, from the perspective of the customer, the effect of the VAT imposed on the Company's monopoly services and products as of January 1, 1996. Business customers, who are able to credit the VAT imposed on the services they receive from Deutsche Telekom against VAT they charge their own customers, realized an effective 13% price reduction as a result of the new tariffs. Private customers, who are not able to credit the VAT imposed on Deutsche Telekom's services, did not realize a price reduction.

As a third part of the tariff reform, on July 1, 1996, the Company further reduced tariffs for Region 200 and Domestic Long Distance calls (generally all calls over a distance of 50 kilometers) by approximately 5%. In addition, monthly rental charges for ISDN lines were reduced by approximately 28%.

The following table sets forth the development since 1992 of initial connection fees, monthly rental charges and the cost of a three-minute peak rate call for different distance zones:

	1992-1995	January through June 1996(1)	July 1996(1)
		(DM)	
Standard connection fee	65.00	100.00 (86.96)	100.00 (86.96)
Standard monthly rental charges	24.60	24.60 (21.39)	24.60 (21.39)
Basic ISDN connection fee	130.00	100.00 (86.96)	100.00 (86.96)
Basic ISDN monthly rental charges	64.00	64.00 (55.65)	46.00 (40.00)
Three-minute call:			
Local	0.23	0.24 (0.21)	0.24 (0.21)
Region 50	0.69	0.84 (0.73)	0.84 (0.73)
Region 200(2)	—	1.80 (1.57)	1.68 (1.46)
Domestic Long Distance(2)	2.07	1.92 (1.67)	1.80 (1.57)

(1) Amounts in parentheses are exclusive of VAT.

(2) Effective January 1, 1996, the prior Domestic Long Distance zone was divided into two zones: Region 200 and Domestic Long Distance.

Although the cost of a three-minute peak rate local call increased only slightly under the new tariff regime, the cost of a six-minute peak rate local call increased from DM 0.23 to DM 0.48. For six-minute local calls, evening tariffs are 25% lower and night-time tariffs are 50% lower than peak tariffs.

On November 1, 1996, Deutsche Telekom introduced an optional tariff package for business customers, Dial & Benefit, which provides multi-tier discounts based on the type and volume of traffic generated by a customer. At the same time, Deutsche Telekom introduced a specially tailored optional tariff package for providers of voice services for corporate networks and closed-user groups (Dial & Benefit CN). Certain competitors of Deutsche Telekom have initiated proceedings challenging the implementation of these optional tariffs. See "—Legal Proceedings." The Company also plans to introduce two optional tariff packages for private customers. City Weekend, scheduled for introduction by December 1996, will permit customers, for a monthly fee, to make local calls on weekends and public holidays at off-peak rates. City Plus, scheduled for introduction by January 1997, will permit customers, for a monthly fee, to utilize 400 units for local calls to five specified numbers at any time.

Subject to applicable regulatory limits, Deutsche Telekom intends to continue adjusting its tariffs to align its charges more closely with underlying costs and the preferences of its customer groups. See "Regulation—The TKG—Pricing."

Public Telephones

As of June 30, 1996, Deutsche Telekom operated over 160,000 public telephones, representing a penetration rate of two public telephones for every 1,000 inhabitants. Approximately 53% of these telephones were card-operated and 47% were coin-operated. Deutsche Telekom expects to continue to phase out its coin-operated public telephones and to replace them with card-operated public telephones.

Competition

Currently, Deutsche Telekom has an essentially exclusive right to provide public fixed-link voice telephony in Germany. However, pursuant to the TKG, the provision of these services will be liberalized in Germany commencing January 1, 1998. See "Regulation."

As with other European operators, the Company is already subject to a limited measure of indirect competition in its domestic voice telephony business from providers of voice services to corporate networks and closed-user groups, resellers and mobile telecommunications providers. Deutsche Telekom expects that, following full liberalization of the German telecommunications market in 1998, competition in the provision of public voice telephony services will arise from a variety of new market entrants that will be able to provide public voice telephony services either by interconnecting with Deutsche Telekom's network or through their own transmission infrastructure. Existing and potential service providers include operators of existing alternative networks, such as public utilities, railways and mobile telephone operators and global alliances of international telecommunications providers. The identity of the new entrants, the scope of increased competition, and the extent of the impact on the Company's market share and results will depend on a variety of factors that are difficult to assess at present. The Company expects, however, that among these new entrants will be consortia including Deutsche Bahn AG, Mannesmann AG, RWE AG, VEBA AG and VIAG AG.

International Telephone Services

International telephone services consist of incoming and outgoing international telephone traffic, including both voice and data traffic and switched transit traffic through Germany. In the first half of 1996, outgoing international telephone traffic generated revenues of DM 2.3 billion and incoming international telephone traffic generated revenues of DM 0.8 billion (7.6% and 2.5% of Deutsche Telekom's net revenues, respectively).

Traffic

The following table sets forth outgoing and incoming international traffic broken down by geographic regions:

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996(1)
Outgoing traffic:	(millions of minutes)				
Europe Zone 1	2,942	3,193	3,458	1,724	1,517
Europe Zone 2	845	917	1,001	489	424
United States/Canada	306	314	321	155	149
Other	409	518	458	214	166
Total outgoing traffic	**4,502**	**4,942**	**5,238**	**2,582**	**2,256**
Incoming traffic:					
Europe Zone 1	2,660	2,548	2,575	1,383	1,275
Europe Zone 2	524	553	601	296	302
United States/Canada	211	646	604	337	381
Other	224	237	256	130	129
Total incoming traffic	**3,619**	**3,984**	**4,036**	**2,146**	**2,087**

(1) Estimated.

International traffic is concentrated in Europe Zone 1, which consists of the European Union, Norway, Switzerland, Poland, the Czech Republic and Slovakia, and Europe Zone 2, which consists of the remainder of Europe, North Africa, Israel, Lebanon and Turkey. Europe Zones 1 and 2 together accounted for approximately 86% of outgoing traffic in the first half of 1996. Most significant was growth in traffic to Turkey, Italy and the Netherlands. The Company believes that, except in the case of Turkey, a substantial majority of international calls are made by business customers rather than private customers.

Tariffs

Deutsche Telekom's international traffic charges are based on the same tariff unit used for domestic telephony charges. At present, there are seven international tariff zones. Deutsche Telekom's international tariffs are subject to the same regulatory regime as its domestic tariffs. See "—Domestic Telephone Services—Tariffs" and "Regulation."

Deutsche Telekom's international tariffs have historically been among the most expensive in Western Europe. In recent years Deutsche Telekom has faced increasing pressure on its international tariffs, particularly with respect to the United States and Canada, due to the proliferation of by-pass and call-back services, which offer international connections at significantly lower rates. In response to this competition, Deutsche Telekom has taken a number of measures to reduce its international tariffs. In 1994, Deutsche Telekom introduced discounts of up to 36% for high volume customers and increased these to up to 43% in 1995. These discounts have been superseded by the Dial & Benefit program, which was introduced November 1, 1996 and covers both domestic and international calls. See "—Domestic Telephone Services—Tariffs." In the second half of 1995, the Company reduced standard tariffs for calls to the United States and Canada by approximately 27% and for calls to Norway, Sweden, Finland and Iceland by approximately 20%.

The tariff reform commenced by the Company in January 1996 also included a three-part reform of Deutsche Telekom's international tariffs. First, as with domestic tariffs, international tariffs were rebalanced to align them more closely with underlying costs and usage patterns and differentiation according to time of day was increased. Second, international tariffs were reduced in order to offset the effect of the newly-imposed VAT on the Company's monopoly products and services. Third, effective July 1, 1996, the Company further reduced Europe Zone 1 tariffs by approximately 4% and introduced Euro-City tariffs, which provide for a discount of approximately 13% for calls to certain major European cities, including Amsterdam, Brussels, London, Luxembourg, Milan, Paris, Vienna and Zurich.

The following table shows the development since 1992 in the cost of a one-minute peak-time call to selected destinations.

	1992-1994	1995	January through June 1996(1)		July 1996(1)	
			(DM)			
Europe Zone 1	1.15	1.15	1.00	(0.87)	0.96	(0.83)
Europe Zone 2	1.38	1.38	1.28	(1.11)	1.28	(1.11)
United States/Canada	1.97	1.44	1.44	(1.25)	1.44	(1.25)

(1) Amounts in parentheses are exclusive of VAT.

Settlement Arrangements

Deutsche Telekom pays for the use of networks of other carriers for outgoing international calls and receives payments from other carriers for the use of its network for incoming international calls pursuant to settlement arrangements under the general auspices of the ITU. Deutsche Telekom has historically been a net debtor under these arrangements (*i.e.*, outgoing international traffic has exceeded incoming international traffic) and, consequently, has benefited from the lowering of settlement rates in recent years. Deutsche Telekom expects further reductions in the settlement rates, particularly between Germany and other members of the EU. Settlement payments are calculated using a currency basket in which U.S. Dollars have the greatest weight and settlement payments themselves are generally denominated in U.S. Dollars.

Competition

Currently, Deutsche Telekom has an essentially exclusive right to provide international public fixed-link voice telephone services in Germany. However, pursuant to the TKG these activities will be liberalized in Germany commencing January 1, 1998. Deutsche Telekom is already subject to significant indirect competition in the provision of international voice telephony services from by-pass and call back services, particularly with respect to traffic to the United States and Canada. The Company also faces competition from private networks connected through leased lines to public telephone networks outside Germany and companies which lease lines for international data transmission. The Company expects increased competition in the provision of international telephone services and further pressure on its international tariffs, particularly with the full liberalization of public fixed-link voice telephony in 1998. See ''—Domestic Telephone Services—Competition'' and ''Regulation.''

Leased Lines

Revenues from leased lines totaled DM 0.7 billion in the first half of 1996 (2.3% of Deutsche Telekom's net revenues). The leased line service involves making a permanent point-to-point connection for the transmission of voice and data traffic between two geographically separate points. The leased line service does not include the provision of international leased lines or managed leased lines, which are offered as part of text and data services. Deutsche Telekom's customers lease lines both for their own use and for use in providing telecommunications services (other than public fixed-link voice telephony) to third parties.

Deutsche Telekom is currently the principal provider of leased lines in Germany. As of June 30, 1996, Deutsche Telekom leased approximately 480,000 lines, of which approximately 95% were analog lines and approximately 5% were digital lines. Deutsche Telekom offers a broad variety of digital and analog lines for lease, including digital lines with capacities from 64 kbps to 140/155 Mbps. The total number of lines leased has declined in recent years as customers have switched from lower capacity analog lines to digital lines with greater capacity.

Deutsche Telekom's leased line customers pay initial connection fees based on the type of line leased and monthly rental charges based on the type of line leased, the length of the line and the duration of the lease. Under the TKG, Deutsche Telekom's tariffs for leased lines will continue to be subject to regulatory approval and review so long as Deutsche Telekom is considered to be a market-dominating provider of such services in a relevant market. See ''Regulation—The TKG—Special Requirements Applicable to Market-Dominating Providers.'' Since 1994, Deutsche Telekom has been reducing its leased line tariffs to bring them in line with international standards and to comply with EU directives on leased line pricing. Tariffs for digital leased lines declined on average by 40% in 1995 and by 13% in the first half of 1996, and tariffs for analog leased lines declined on average by 20% in 1995 and by 2% in the first half of 1996.

Prior to the entry into effect of the TKG, Deutsche Telekom had in general an exclusive right to provide leased lines, although the Company faced competition as a result of the resale of capacity leased from it. Since August 1, 1996, proprietary networks may be used to offer leased lines for all purposes other than public fixed-link voice telephony. See ''Regulation—Overview.'' As a result, the Company expects to lose market share in this business area, but believes that its well-developed network and broad geographic coverage provide significant competitive advantages.

Text and Data Services

Revenues from text and data services totaled DM 1.4 billion in the first half of 1996 (4.6% of Deutsche Telekom's net revenues). Text and data services consist primarily of data transmission and network services for business customers as well as on-line services for business and private customers.

Data Transmission

Deutsche Telekom provides a broad range of data transmission services, some of which integrate voice elements, based upon a wide spectrum of technological platforms.

ATM and Datex M. Deutsche Telekom is currently introducing a new generation of high speed transmission technology, asynchronous transfer mode (ATM). ATM permits data, text, video and voice signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps. Deutsche Telekom has established one of the world's largest ATM-based high speed networks connecting German universities and scientific institutions. Since 1993, Deutsche Telekom has offered Datex M, a switched multimegabit data service, over a network that has been expanded to connect over 40 cities.

FrameLink. Since April 1995, the Company has offered standardized frame relay services under the name "FrameLink". These services are designed to accommodate customers who transmit data in bursts, such as in LAN to LAN connections.

City-Netze. Deutsche Telekom also offers "City-Netze" services based on a fiber optic platform for customized high speed network solutions. These services include CityLAN (for use in connecting local area networks), CityVoice (for voice transmission) and CityATM (for multi-media applications). Nine German cities are currently serviced by City-Netze services.

Managed Leased Lines. Deutsche Telekom provides domestic leased lines with managed back-up systems that are dedicated to transmitting data and international leased lines that may be used for both voice and data transmission. Rates for managed and international leased lines have been reduced significantly in recent years.

Datex-P. Historically, Datex-P, a packet-switched data transmission service based on the X.25 protocol, has been Deutsche Telekom's most significant data transmission service. Datex-P sales have declined in recent years and are expected to continue to decline as customers migrate to systems solutions and other services, including FrameLink and ISDN-based services. Deutsche Telekom's domestic Datex-P operations, which in the first half of 1996 generated revenues of DM 224 million, are envisaged to be transferred to the Atlas joint venture as of January 1, 1998. See "—International Investments and Joint Ventures—Atlas."

Tariffs and Competition. Deutsche Telekom has reduced its tariffs for data transmission services in recent years in response to competition and to bring them into line with international standards. Following price reductions of up to 10% on many services in 1994, the Company again reduced prices by up to 30% in 1995. These price reductions have had a negative effect on revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Text and Data Services."

The market for data transmission services was initially opened to competition with the liberalization of the resale of leased line capacity for data transmission in 1989 and was further liberalized in 1993 with the availability of corporate networks. With the liberalization of the operation of alternative networks in August 1996, Deutsche Telekom faces increased competition in this business area, but believes that its state-of-the-art network will contribute to its competitiveness in the future.

Network Services

Deutsche Telekom designs and manages complete customized telecommunications networks to satisfy the telecommunications needs of business customers, including voice, text, video and data transmission. These networks combine leased lines, data transmission services and other Deutsche Telekom services. At June 30, 1996, Deutsche Telekom had 1,036 customized networks (Telekom

Designed Networks) under contract, generally with terms of three to five years. The Company believes that providing customized services that integrate multiple telecommunications elements contributes to customer loyalty and increases customer awareness of available services.

On-Line Services

In 1995, Deutsche Telekom launched T-Online, a nationwide computer-based communications network which can be used for, among other things, on-line data retrieval, Internet access (with a German language interface) and on-line banking. T-Online is the successor to Deutsche Telekom's earlier generation on-line services, Btx and Datex-J. Currently, over 2,800 content providers disseminate over 970,000 pages of information through T-Online. In addition, over 1,200 bank branches provide on-line banking services through T-Online. In June 1996, T-Online subscribers initiated 23.9 million on-line sessions, 12% of which were for Internet access.

T-Online is Germany's largest on-line service and, as of June 30, 1996, had over 1.1 million business and private subscribers. T-Online's subscriber base has grown rapidly, rising by 17% in the first six months of 1996. Deutsche Telekom expects the T-Online subscriber base to grow further as the use of personal computers and on-line services in Germany increases.

To improve its competitive position, the Company has reduced prices for T-Online. Currently, T-Online subscribers are charged an initial connection fee of DM 50 and monthly rental charges of DM 8 as well as usage charges of DM 0.06 per minute during peak hours and DM 0.02 per minute during off-peak hours. Deutsche Telekom bills and accounts for local telephony traffic generated by T-Online users under domestic telephone services.

On-line services are marketed through a dedicated subsidiary of Deutsche Telekom, Online Pro Dienste GmbH & Co. KG. T-Online is also marketed through the Company's specialized distribution network and by independent distributors, including financial institutions that provide on-line banking. T-Online's most significant competitors are the German arms of America On-Line, CompuServe and Microsoft, each of which, however, has significantly fewer subscribers in Germany than T-Online.

Supply and Service of Telecommunications Equipment

In the first half of 1996, the supply and service of telecommunications equipment generated revenues of DM 1.9 billion (6.3% of Deutsche Telekom's net revenues). Deutsche Telekom does not manufacture telecommunications equipment, rather it resells and leases equipment manufactured by other companies under the Deutsche Telekom brand name.

The telecommunications equipment sector has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. Deutsche Telekom believes, however, that the supply and service of telecommunications equipment is an integral part of being a full service telecommunications provider and contributes to customer loyalty. In addition, this permits Deutsche Telekom to ensure that equipment required for new services is available in the market. For example, Deutsche Telekom played a leading role in the introduction of ISDN-compatible telephones in Germany.

Deutsche Telekom distributes an extensive range of telecommunications equipment, ranging from individual telephone sets, mobile handsets and facsimile machines targeted at private customers to more complex telephone and facsimile terminals, private branch exchanges (PBXs) and complete network systems targeted at business customers. Deutsche Telekom also provides installation and repair services.

To obtain favorable terms, the Company purchases telecommunications equipment in large volumes from a limited number of suppliers. In the first six months of 1996, Deutsche Telekom purchased approximately 86% of its total telecommunications equipment for resale or lease from 10 suppliers. Approximately 28% of such equipment was purchased from Siemens AG, which is also the Company's most significant competitor in the telecommunications equipment sector.

Other Services

Deutsche Telekom provides a number of services ancillary to its basic telephony services, including telephone directory publishing and dial-in information lines. In the first half of 1996, such services generated revenues of approximately DM 0.5 billion (1.8% of Deutsche Telekom's net revenues).

Mobile Telecommunications Services

In the first half of 1996, Deutsche Telekom's mobile telecommunications and paging services generated revenues of DM 1.7 billion (5.7% of Deutsche Telekom's net revenues). These services are provided by T-Mobil, a wholly-owned subsidiary of Deutsche Telekom. At June 30, 1996, T-Mobil's two mobile telecommunications networks, one digital and the other analog, accounted for an estimated 52% of the total German mobile telephony market in terms of subscribers.

Digital Services—D1

Deutsche Telekom's GSM network ("D1") commenced operations in August 1992. In the first half of 1996 approximately 3.9% of Deutsche Telekom's net revenues were attributable to D1. As of June 30, 1996, D1 had over 1.7 million subscribers.

D1 offers basic GSM voice telephony services and a number of complementary services, such as voice-mail, call forwarding and call waiting. D1 also provides GSM-based data and facsimile transmission services. GSM offers high quality digital transmission and is the dominant digital mobile telecommunications standard in Europe.

T-Mobil has made significant investments in its GSM network to provide nationwide service. As of June 30, 1996, the D1 network covered 97% of the population with a geographic coverage of over 90%. See "—Network and Technology—Mobile Telecommunications Networks." In addition, T-Mobil has concluded roaming agreements with operators in over 35 countries, allowing D1 subscribers to make and receive calls while abroad on the same mobile phone. In July 1996, D1 became the first GSM operator to provide roaming services in the United States (where AMPS is the dominant mobile standard) by entering into a cooperation arrangement with GTE Corporation. Under this arrangement, D1 customers who rent an AMPS handset while in the United States are able to make and receive calls under their D1 numbers that are billed to their D1 accounts.

Subscribers. The number of D1 subscribers has grown significantly over the past two and a half years. The table below sets forth the numbers of subscribers to the D1 network:

	At December 31,			At June 30,
	1993	1994	1995	1996
		(in thousands)		
D1 subscribers	484	887	1,482	1,767

The rapid increase in the number of D1 subscribers since 1994 is attributable to a number of factors, including reductions in handset prices and traffic tariffs, incentive programs, such as handset subsidies, and active marketing to both business and private customers.

Traffic. Through June 30, 1996, average outgoing traffic per D1 subscriber remained constant, despite the increase in private customers, particularly in the first half of 1996. The following table sets forth average outgoing traffic per D1 subscriber:

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996
Average minutes per month	83	83	83	83	83

The Company expects that as private customers continue to make up a larger percentage of D1's subscriber base, average outgoing traffic per subscriber will decline over the next few years.

Tariffs. Subscribers serviced directly by T-Mobil are charged an initial connection fee, monthly rental charges and traffic charges for outgoing calls. Independent service providers reselling D1 services purchase capacity in volume from T-Mobil at a discount and bill subscribers directly at rates they set independently. During the first half of 1996, traffic charges (including those paid by independent service providers) accounted for approximately 70% and monthly rental charges and initial connection fees together accounted for approximately 30%, of net revenues generated by D1.

Tariffs for subscribers serviced directly by T-Mobil are set by T-Mobil, although they are subject to regulatory review insofar as T-Mobil is deemed to have a dominant position in certain relevant markets. See "Regulation —The TKG." To address different patterns in consumer demand, D1 currently offers two distinct pricing systems, one targeting higher-volume users, principally business customers (ProTel-D1) and the other targeting lower-volume users, principally private customers (Telly-D1). D1 also offers certain additional volume discounts. In response to competitive pressures, T-Mobil has reduced its tariffs in recent years. In November 1996, T-Mobil introduced substantially lower tariffs for customers who forego handset discounts that are otherwise available to new customers.

Distribution. D1 is marketed by independent service providers, independent retailers and through Deutsche Telekom's proprietary distribution channels. Eight independent service providers currently purchase and resell D1 capacity as part of their own branded services pursuant to non-exclusive cooperation agreements with T-Mobil. Each independent service provider separately negotiates tariffs for capacity purchased from T-Mobil. Independent retailers, predominantly electronics stores, receive commissions for sales of D1 services. These accounts are managed and billed by T-Mobil.

Competition. The digital mobile telecommunications market in Germany is highly competitive and characterized by relatively high customer turnover and price competition. D1 currently operates in competition with two other digital operators licensed in Germany, Mannesmann Mobilfunk GmbH ("D2"), which is the other GSM service provider, and E-Plus Mobilfunk GmbH ("E-Plus"), which operates on the DCS 1800 standard. Both competitors are owned by consortia consisting of German and international telecommunications companies. It is anticipated that a second DCS 1800 standard license will be granted in 1997. None of D1, D2, E-Plus nor any of their respective affiliates, individually or as a member of another consortium, will be permitted to bid for this license.

D1's principal competitor is D2. Management estimates that D1 and D2 together account for more than 90% of the German digital mobile telecommunications market, divided roughly equally between them, although at June 30, 1996 D2 had a slightly greater market share. Both D1 and D2 have significantly broader geographic coverage within Germany than E-Plus, which commenced operations in 1994. This gap in coverage is rapidly decreasing, however, and E-Plus is likely to gain market share.

T-Mobil has taken a number of steps in order to meet the challenge posed by D2 and the potential for an increased E-Plus challenge, including reducing its tariffs and offering incentive, discount and customer care programs to attract and retain customers. See "—Tariffs."

Analog Services—C-Tel

T-Mobil currently operates the sole analog mobile telecommunications network ("C-Tel") in Germany. The C-Tel service has been in operation since 1985 and is based on the C-450 standard which predates GSM. As of June 30, 1996, C-Tel had over 590,000 subscribers and in the first half of 1996, approximately 1.5% of Deutsche Telekom's net revenues were attributable to C-Tel.

Unlike D1, D2 and E-Plus, C-Tel does not provide roaming services and handsets for use with C-Tel are fairly bulky, both of which limit its attractiveness to customers. The C-Tel network has, however, the highest degree of coverage of any mobile telecommunications system in Germany, covering nearly 100% of the population with a geographic coverage of over 95%. Based on its superior domestic coverage, the high quality of the transmission and attractive pricing, C-Tel is particularly suited for use with car phones (which accounts for approximately 90% of C-Tel use) and by customers who do not require roaming services outside Germany.

Subscribers. The table below sets forth the number of subscribers to the C-Tel network:

	At December 31,			At June 30,
	1993	1994	1995	1996
	(in thousands)			
C-Tel subscribers	794	724	648	592

The number of C-Tel subscribers has declined steadily over recent years as a result of the migration of customers to digital services, particularly D1. The Company expects that the number of C-Tel subscribers will continue to decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Mobile Services."

Traffic. The following table sets forth average traffic per C-Tel subscriber.

	Year ended December 31,			Six months ended June 30,	
	1993	1994	1995	1995	1996
Average minutes per month	104	102	100	100	90

In recent years, C-Tel has experienced a steady decline in average traffic per subscriber as a consequence of the migration of high-volume users to digital systems.

Tariffs. C-Tel subscribers are charged an initial connection fee, monthly rental charges and traffic charges for calls. In the first half of 1996, traffic charges accounted for approximately 70% and monthly rental charges and initial connection fees accounted for approximately 30% of the total revenues generated by C-Tel.

Distribution. C-Tel is marketed primarily through independent retailers with additional sales through Deutsche Telekom's proprietary distribution channels. Independent retailers, predominantly electronics stores, receive commissions for sales of C-Tel services. These accounts are serviced by T-Mobil.

Competition. To slow declines in subscribers and average traffic per subscriber resulting from migration of customers to digital services, in 1995 the Company reduced C-Tel tariffs and launched an active marketing program. Management believes that, despite competition from digital service providers, C-Tel will be able to maintain a portion of its analog subscriber base for some years, based upon its lower tariffs, its coverage of certain remote locations in Germany and the investment existing customers have already made in analog equipment, as well as historical experience in other countries.

Paging and Other Services

T-Mobil provides a variety of paging services: Cityruf, Eurosignal and Scall. As of June 30, 1996, T-Mobil had nearly one million paging subscribers. Scall, the newest of these services, was introduced in 1994 and has since reached a customer base of more than 450,000.

T-Mobil also provides a number of specialized mobile voice and data transmission services. T-Mobil's "Chekker" mobile trunked radio service, intended primarily for intra-company voice transmission, had approximately 85,000 customers at June 30, 1996. T-Mobil's "Modacom" specialized mobile data transmission service had approximately 11,000 subscribers at the same date. T-Mobil offers satellite-based global voice and data communication to its customers through its participation in the Inmarsat satellite system. T-Mobil has recently introduced a terrestrial flight telephone system based upon an ETSI standard, allowing airlines to offer passengers inflight voice, fax and data communications. T-Mobil is currently developing telematics technology for applications such as traffic management and routing.

Cable Transmission and Broadcasting

In the first half of 1996, Deutsche Telekom's cable transmission and broadcasting services generated revenues of DM 1.6 billion (5.3% of Deutsche Telekom's net revenues). Approximately two-thirds of the revenues in this business area is generated from cable services while the remaining one-third is generated from the provision of broadcasting services. Revenues in this business area are generated by:

- one-time connection fees and monthly charges paid by cable television subscribers serviced by Deutsche Telekom directly or by private cable operators wholly- or majority-owned by Deutsche Telekom;
- fees paid by other private cable operators, including owners of buildings, real estate management companies and local cable companies, which fees are based on the number of subscribers;
- cable transmission fees paid by television and radio stations; and
- broadcasting fees paid by television and radio stations.

Cable Services

Prior to the entry into effect of the TKG, Deutsche Telekom had the exclusive right, subject to certain exceptions, to operate cable transmission lines in Germany. As a result, Deutsche Telekom currently owns a substantial majority of the cable network infrastructure in the country. With the entry into effect of the TKG, competitors of Deutsche Telekom became eligible to apply to operate cable transmission lines in Germany. Unlike cable operators in a number of other countries, Deutsche Telekom's cable business is at present purely a transmission business. Deutsche Telekom does not provide programming.

Penetration and Coverage. Pursuant to a 1983 agreement entered into between Deutsche Bundespost and local small business associations *(Gemeinsame Erklärung von Bundespost und Handwerk)*, Deutsche Telekom generally agreed to limit its ownership and operation of cable transmission infrastructure to public property. As a result, cable infrastructure on private property is generally owned and operated by Deutsche Telekom's direct subscribers or by private cable operators, including local cable companies, owners of buildings and real estate management companies. Deutsche Telekom has equity interests in many local cable companies.

In areas where Deutsche Telekom owns and operates a cable transmission network, cable subscribers are served either directly by Deutsche Telekom or by a private cable operator which provides the connection from the end of Deutsche Telekom's transmission line into the customer's home and bills and manages the customer's account. In areas in which Deutsche Telekom does not own and operate cable infrastructure, local cable companies have been licensed to establish and operate complete cable systems from signal reception to the customer.

As of June 30, 1996, 16.2 million households, or approximately 43% of the total number of German households, received cable television from Deutsche Telekom's network. At June 30, 1996, Deutsche Telekom's cable network passed 24.6 million households, or approximately 66% of the total number of German households. The following table sets forth the total number of households connected to and passed by Deutsche Telekom's cable network:

	At December 31,			At June 30,
	1993	1994	1995	1996
	(in millions, except percentages)			
Connected households(1)	13.5	14.6	15.8	16.2
Households passed	21.5	23.2	24.2	24.6
Total households	36.5	36.9	37.1	37.4
Penetration(2)	37%	40%	43%	43%
Coverage(3)	59%	63%	65%	66%

(1) Includes households connected through private cable operators.
(2) Households connected expressed as a percentage of total households.
(3) Households passed expressed as a percentage of total households.

The following table sets forth the distribution of customer relationships among households connected to Deutsche Telekom's cable network as of June 30, 1996:

	Millions of households	Percentage of total
Direct relationship with Deutsche Telekom	5.0	31.0%
Subscription to local cable company wholly- or majority-owned by Deutsche Telekom	1.2	7.5
Subscription to other private cable operator, including real estate management company, owner of building or local cable company in which Deutsche Telekom holds a minority or no interest	10.0	61.5
Total connected households	**16.2**	**100.0%**

Subscriber Fees and Tariffs. Deutsche Telekom offers all customers in a particular region a uniform programming package. Direct subscribers to Deutsche Telekom's network and subscribers to local cable companies wholly- or majority-owned by Deutsche Telekom pay a one-time connection fee and monthly rental charges. Deutsche Telekom offers discounts to customers who prepay their monthly rental fees. On January 1, 1996, Deutsche Telekom reduced its cable television tariffs by approximately 13% in response to the imposition of VAT on these services. Private cable operators, including local cable companies in which Deutsche Telekom has a minority interest or no interest, pay Deutsche Telekom a per subscriber fee for access to Deutsche Telekom's network. To the extent Deutsche Telekom is regarded as dominant in a relevant market, its tariffs will be subject to regulatory review. See "Regulation—The TKG—Special Requirements Applicable to Market-Dominating Providers" and "—Pricing".

Content Provider Fees. Deutsche Telekom's cable network transmits programming provided by both terrestrial and satellite broadcasters. Up to 31 analog channels are currently available to Deutsche Telekom's cable customers. The availability of programming varies from region to region, and the particular mix of channels carried in any region is subject to the approval of the relevant state regulatory authority *(Landesmedienanstalt)* for that region. At present, Deutsche Telekom is not licensed to provide programming. To the extent Deutsche Telekom is viewed to be a market-dominating provider, its tariffs for cable transmission will be subject to regulatory review.

Deutsche Telekom carries locally available terrestrial channels free of charge to the broadcaster. Fees paid by satellite broadcasters for transmission through Deutsche Telekom's network are set by Deutsche Telekom and depend on the range of services being provided. Deutsche Telekom currently charges an annual transmission fee of approximately DM 1.1 million per unscrambled satellite channel for access to the whole network. At present, there is only one scrambled channel (Premiere) for which Deutsche Telekom charges a per subscriber fee. Radio stations that are not locally available terrestial channels are charged an annual transmission fee of approximately DM 0.7 million per channel. In the first half of 1996, cable transmission fees received from television and radio stations accounted for approximately 5% of Deutsche Telekom's cable transmission and broadcasting revenues.

Competition and Outlook. Although Deutsche Telekom operates by far the largest cable network in Germany, it is subject to competition from a number of smaller cable companies and, more significantly, from the increasing use of private satellite dishes. Unlike cable subscribers, users of private satellite dishes do not pay monthly fees and may receive a greater variety of programming. Pursuant to the TKG, since August 1996, competitors of Deutsche Telekom have been permitted to obtain licenses to operate cable transmission lines in Germany. In addition, the TKG requires Deutsche Telekom to provide interconnection services to other cable operators wishing to provide cable services through Deutsche Telekom's cable network. See "Regulation."

As a result of the significant depreciation charges resulting from the Company's capital expenditures on the cable network, Deutsche Telekom has sustained substantial operating losses in its cable operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Outlook—Business Area Profitability." To improve operating performance in this area, the Company is seeking to attract more subscribers and expand the range of services it offers. The Company recently added a high frequency band which allows it to offer three additional analog channels. By the end of 1996, the Company will have substantially completed the digitalization of its cable network, which will permit it to use this expanded band-width to offer up to 150 digital channels in addition to these three analog channels.

Deutsche Telekom is also considering increasing the number of premium channels it carries and introducing new services such as home shopping channels, pay-per-view and near video-on-demand. To offer these new services, the Company is reviewing alternative systems for conditional access and subscriber management. Deutsche Telekom is also exploring the use of its cable network to offer multi-media services. Since the cable network cannot presently be used for two-way traffic, a back-channel using the fixed-link telecommunications network would be required to provide multi-media services. The Company is reviewing alternative technologies for such purpose.

Broadcasting Services

Deutsche Telekom operates over 7,000 terrestrial broadcasting stations which provide broadcasting services for state and private television and radio stations. In addition, the Company transmits programming between television studios and broadcasting stations. Deutsche Telekom's contracts with broadcasters are generally of 10 years duration, and a significant portion of current contracts continue through 2004.

International Investments and Joint Ventures

To take advantage of the increasing liberalization and globalization of telecommunications markets, Deutsche Telekom is pursuing a strategy of progressively internationalizing its operations.

Deutsche Telekom's international strategy has two goals: to capture a share of the growing market for international voice, data, video, value-added and transit services; and to increase its international presence by selectively investing in strategic regional markets outside of Germany. In pursuit of the first goal, Deutsche Telekom has entered into the Global One joint venture, a strategic alliance with France Télécom and Sprint, to provide seamless international telecommunications services to multinational corporations, international travelers and other telecommunications companies. In furtherance of the second goal, Deutsche Telekom has made selective investments in regional telecommunications concerns in Europe and Asia and, in connection with Global One, has acquired a 10% interest in Sprint, the third largest long distance operator in the United States. Deutsche Telekom believes its technical expertise and experience in the network build-out in the New Federal States is particularly advantageous for investments in emerging markets.

Since 1993, Deutsche Telekom has invested a total of DM 6.7 billion in international investments and joint ventures. Deutsche Telekom continuously evaluates further international investment opportunities in light of strategic objectives and the potential for a return on its investment and expects that it may make significant additional investments in coming years. Although the impact of these investments on Deutsche Telekom's financial results has been limited to date, Deutsche Telekom believes that their contribution to the Company's results will increase as these investments and operations mature. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—International Investments" and "—Financial Income (Expense) Net."

Global One

In January 1996, Deutsche Telekom, France Télécom and Sprint formed Global One. Global One commenced operations in February 1996 following contribution by the partners of certain existing businesses, technology, know-how and capital. Upon formation, Deutsche Telekom invested a total of ECU 366 million (DM 689 million) in Global One. Deutsche Telekom and France Télécom hold their interests in Global One through Atlas, a 50/50 joint venture of the two companies. See "—Atlas."

Global One offers seamless international telecommunications services to its customers. Its principal products and services are: international voice, data and video services for multinational companies ("corporate services"); telecommunications services for international travelers consisting primarily of international calling cards ("consumer services"); and transit and hubbing services for other international carriers ("carrier services"). At June 30, 1996 Global One had over 30,000 customers, 3,000 employees and 1,200 points of presence in more than 60 countries. For the first five months of operations ended June 30, 1996, Global One had consolidated revenues of $271 million (DM 405 million). Global One principally competes with Concert and Uniworld, other alliances of international telecommunications companies.

Operating Structure and Governance. Global One's operational activities are divided into two primary groups in which the partners hold different equity stakes: (i) Global One Europe, which covers Europe excluding Germany, France and Russia, and (ii) Global One World, which covers countries outside Europe and the United States (but including Russia). In addition, Global One plans to establish an integrated backbone network to facilitate the provision of its services. Atlas holds a 66⅔% equity interest in Global One Europe and a 50% equity interest in each of Global One World and the backbone network. The remaining equity interests in each group are held by Sprint.

Under the Global One joint venture agreement, almost all significant decisions with respect to Global One, including, in particular, decisions as to the budget, financial contributions and overall business strategy, are to be made unanimously by the three partners. In addition, under joint venture agreements, Deutsche Telekom and France Télécom must devote sufficient resources to Atlas to enable it to comply with its obligations to Global One. If a party defaults in its obligations under the

Global One joint venture agreement, the other parties have the right to purchase such party's interest in Global One, generally at below fair market value.

Distribution and Supply Arrangements. Global One has its own sales force to market and distribute its products and services outside Germany, France and the United States. Each of the Global One partners markets and distributes Global One products and services in its respective home market. In addition, each of the Global One partners provides services to and purchases services from Global One, generally on a most favored customer basis. Subject to certain exceptions, the Global One partners are prohibited from providing services internationally that compete with those offered by Global One.

Atlas

In addition to its role as shareholder in Global One, Atlas provides sales support to Deutsche Telekom and France Télécom through its subsidiaries in France and Germany and offers customized network and outsourcing services. Upon full liberalization of the telecommunications markets in France and Germany in January 1998, the domestic X.25 data transmission businesses of Deutsche Telekom and France Télécom are envisaged to be contributed to Atlas.

Investment in Sprint Corporation

In connection with the formation of Global One, Deutsche Telekom and France Télécom each invested approximately $1.8 billion (DM 2.6 billion) in shares of Sprint Class A Common Stock representing approximately 10% of Sprint's outstanding voting stock and 20% in the aggregate. This acquisition was approved on November 14, 1996 by Deutsche Telekom's shareholders' meeting and is expected to be registered in the Commercial Register in Bonn by the end of November 1996. In addition to strengthening the joint venture, this investment established a presence for Deutsche Telekom in the United States, the world's single largest telecommunications market. For the year ended December 31, 1995, Sprint reported net operating revenues of $12.8 billion (DM 18.4 billion) and net income of $395 million (DM 568 million) and, for the six months ended June 30, 1996, reported net operating revenues of $6.9 billion (DM 10.3 billion) and net income of $626 million (DM 937 million).

The Class A Common Stock has the same rights as Sprint's common stock except for certain special rights. For instance, the holders of the Class A Common Stock generally have the right to proportional representation on Sprint's board of directors and are generally entitled to elect a minimum of two directors as long as they hold in the aggregate not less than 10% of Sprint's voting power. Holders of Class A Common Stock also have certain anti-dilution protections. In addition, for a period of two years after the initial purchase date, holders of the Class A Common Stock have certain veto rights with respect to certain proposed actions by Sprint, including major asset purchases and sales, extraordinary dividends and certain mergers following which Sprint is not the survivor.

Deutsche Telekom and France Télécom have agreed not to dispose of their interests in Sprint for five years following the initial purchase. Thereafter, transfers are subject to certain restrictions, including rights of first offer and refusal in favor of Sprint. In addition, Deutsche Telekom and France Télécom are subject to a standstill agreement, which generally limits their combined interests to 20% of Sprint's voting power for 15 years and 30% thereafter. Deutsche Telekom and France Télécom are also prohibited from participating in acquisition transactions involving Sprint without Sprint's consent.

In the event of a change in control of Sprint (*i.e.*, if Sprint decides not to oppose a third-party purchase offer for more than 35% of its voting power or otherwise decides to sell control of itself, or there is a change in the composition of the majority of Sprint's board of directors as a result of a proxy contest or the election of directors by the holders of preferred shares), Deutsche Telekom and France Télécom will obtain greater board representation and voting control over the companies comprising the Global One joint venture. Upon the occurrence of a change in control as described above, Sprint may also offer to sell all its Global One interests to Deutsche Telekom and France Télécom at their appraised values, which shall be determined promptly after such offer by an investment bank of international standing jointly selected by the parties (the "Appraised Value"). If Deutsche Telekom and

France Télécom decline to accept such offer, their greater representation and control of Global One will cease. Further, five years after such change of control, Sprint may for a two-year period require Deutsche Telekom and France Télécom to purchase its Global One interests at their Appraised Value.

Regulatory Approvals

The Antitrust Division of the U.S. Department of Justice entered into a consent decree with Sprint and Global One which, subject to certain restrictions and conditions, removed any U.S. antitrust impediment to the formation of the Global One joint venture and the Company's investment in Sprint. The U.S. Federal Communications Commission issued a declaratory ruling and order that, based on the current and planned liberalization of the German and French telecommunications markets, including, among other things, a fair and transparent interconnection regime, and subject to certain terms and conditions, effectively approved Global One and the Company's investment in Sprint by finding them in the public interest. The European Commission granted Atlas and Global One individual exemptions pursuant to Article 85 of the Treaty of Rome and Article 53 of the European Economic Area Agreement. The exemptions granted by the European Commission are limited to an initial period of five years for Atlas and seven years for Global One measured from the date at which two or more licenses to build, own and control alternative networks to provide liberalized telecommunications services in France and Germany have been approved. They are also subject to certain terms and conditions designed to promote competition in the relevant markets. The German Federal Cartel Office *(Bundeskartellamt)* approved the Atlas and Global One joint ventures on the basis of the decision of the European Commission. Legal proceedings have been brought challenging the admissability of the offer and the sale of Global One telecommunications services by Deutsche Telekom and Atlas Deutschland Telekommunikationsdienste GmbH (''Atlas Germany'') in Germany. See ''—Legal Proceedings.''

Other International Investments and Joint Ventures

In addition to Global One and its investment in Sprint, Deutsche Telekom has made significant investments in selected full-service telecommunications providers, long distance operators and mobile telephone operators outside Germany. The principal markets in which Deutsche Telekom has invested to date are Central and Eastern Europe and Asia, although the Company regularly reviews opportunities for investment in other markets.

Europe. Currently, Deutsche Telekom's principal investment in Central and Eastern Europe is in Matáv, Hungary's principal telecommunications service provider. Numerous other investments complement the Company's presence in the region.

Matáv. Deutsche Telekom and Ameritech Corporation (''Ameritech'') jointly hold a 67% equity interest in Matáv. Under a concession granted on December 23, 1993, Matáv holds (subject to achieving specified coverage requirements) a 25-year license, exclusive for eight years, to (i) provide international telephone service to and from Hungary, (ii) provide domestic long distance telephone service within Hungary, and (iii) operate public telephones in Hungary. In addition, Matáv is Hungary's principal provider of local telephone service and controls a national GSM and a national analog mobile telephone service provider. For the six months ended June 30, 1996 and the year ended December 31, 1995, Matáv had net revenues of HUF 92 billion (DM 944 million) and HUF 143.3 billion (DM 1.6 billion), respectively, and net income of HUF 14.3 billion (DM 147 million) and HUF 5.8 billion (DM 67 million), respectively.

As of December 31, 1995, Matáv operated 1.9 million direct access lines and provided long-distance services to 0.2 million access lines operated by other Hungarian service providers. Access lines operated by Matáv have increased significantly since 1993 with the build-out of the telecommunications network in Hungary. Matáv's productivity has also increased significantly as the number of lines per employee rose from 78 in 1993 to 107 in 1995. It is expected that Matáv's network will continue to be expanded and upgraded in order to meet demand and comply with the terms of its concession.

Matáv's long-term strategy includes positioning itself as a communications hub for Central and Eastern Europe to capitalize on its geographic location and network infrastructure. In addition to expanding and improving its domestic infrastructure, Matáv has built an international telecommunications center with access to a satellite earth station and fiber optic connections to Hungary's neighbors.

Deutsche Telekom and Ameritech acquired their interests in Matáv from the Hungarian Government through MagyarCom, a holding company in which Deutsche Telekom and Ameritech each hold 50%. The acquisition by MagyarCom was made in two tranches: a 30.1% stake in Matáv was acquired in 1993 for $875 million (DM 1,498 million) (including payment of a concession fee) and an additional 37.2% stake was acquired for $852 million (DM 1,291 million) in 1995. Matáv currently has 10,372,816 common shares outstanding and a single golden share held by the Hungarian Government.

In connection with the 1995 acquisition of Matáv shares, Deutsche Telekom granted Ameritech an option to put to Deutsche Telekom up to 100% of the MagyarCom shares acquired by Ameritech in the second tranche. Exercise of this option in full would increase Deutsche Telekom's effective interest in Matáv from 33.7% to 52.3%. The exercise price of the put option is the fair market value of the corresponding Matáv shares plus a $60 million control premium; provided that, until March 31, 1998, the exercise price is subject to a floor equal to $210 per share plus the $60 million control premium, plus accrued interest from the date of the shares' original purchase. The minimum range of total payments required under the put option would be between $270 million and $465 million plus interest. See Note 27 to the Consolidated Financial Statements.

Deutsche Telekom and Ameritech manage and operate MagyarCom jointly. In the event of disagreement, Deutsche Telekom has a deciding vote (except with respect to certain fundamental matters). Although MagyarCom has the power to appoint a majority of Matáv's board of directors, the Government of Hungary, which holds a 27.7% stake in Matáv, retains significant influence over its activities and is required to approve certain management decisions. The MagyarCom shares held by Deutsche Telekom and Ameritech and the Matáv shares held by MagyarCom are subject to substantial transfer restrictions. Deutsche Telekom has agreed to participate in an initial public offering of Matáv stock subject to certain specified conditions.

Other European Investments. Deutsche Telekom has made a number of investments in European mobile telecommuncations operators seeking to capitalize on its experience in establishing and operating D1. Deutsche Telekom has interests in GSM licensees in Austria, the Czech Republic, Hungary, Poland, the Ukraine and Russia.

Asia. The rapid growth of the telecommunications markets in Asia, particularly in Southeast Asia, have made this region a focus for investment for Deutsche Telekom. Set forth below are the Company's principal investments in Asia. In addition, Deutsche Telekom has secured an opportunity to make an investment in Kazaktelecom, Kazakhstan; however, a decision whether or not to proceed with such an investment will be made after further review and negotiations.

Satelindo. In March 1995, Deutsche Telekom acquired, through T-Mobil, a 25% stake in Satelindo, an Indonesian mobile and international telecommunications operator, for a total consideration of $676 million (DM 1,026 million). With 140,000 subscribers, Satelindo is the largest GSM operator in Indonesia. In addition, Satelindo provides international telephony services and currently operates two satellites. For the six months ended June 30, 1996 and the year ended December 31, 1995, Satelindo had net revenues of Rp. 253.1 billion (DM 162 million) and Rp. 136.2 billion (DM 87 million), respectively, and income after taxes of Rp. 35.7 billion (DM 23 million) and Rp. 14.4 billion (DM 9 million), respectively. Satelindo competes with PT Indosat, the Indonesian state telecommunications company, in the provision of international telephony services. Satelindo's GSM operations accounted for approximately 60% of its revenues in the first half of 1996.

The other interests in Satelindo are held by a private investor group (45%), the state-owned domestic operator PT Telekomunikasi (22.5%) and PT Indosat (7.5%). Deutsche Telekom has the right to appoint three of the nine members of the board of directors of Satelindo. Certain decisions, including capital increases or a transfer of shares by Satelindo's shareholders, require the affirmative vote of 85% of the voting shares. An initial public offering and a listing of the shares of Satelindo on the Jakarta Stock Exchange are planned to occur by March 21, 1999. Until that date, or until the date of such initial public offering, if earlier, Deutsche Telekom may not sell its shares in Satelindo.

TRI. In October 1996, the Company purchased an approximate 21% interest in the Malaysian telecommunications provider Technology Resources Industries Bhd. ("TRI"). Deutsche Telekom purchased slightly more than half of its interest from existing shareholders and the remaining portion pursuant to a capital increase. The total purchase price was approximately 1.5 billion ringgit (DM 898 million at the date of purchase).

TRI is the market leader in Malaysian mobile telecommunications, with a market share of approximately 70%. TRI principally provides analog mobile telecommunications services and also operates a GSM network. In addition, TRI holds licenses to build and operate a fixed-link network and to provide international gateway services. It is expected that the proceeds of Deutsche Telekom's investment in newly-issued shares will be invested in TRI's fixed-link network.

Islacom. In September 1996, Deutsche Telekom agreed to acquire a 10% direct interest in Isla Communications Co., Inc. ("Islacom"), a Philippines telecommunications company, and a 40% interest in Asiacom Philippines, Inc., the majority shareholder of Islacom, for an aggregate purchase price of approximately $243 million (DM 371 million). Payment of the purchase price will be made in installments over a three-year period; the first installment was paid in October 1996. Islacom holds a license to build and operate a fixed-link network in the Visayas region. Islacom also operates one of two GSM mobile communications networks in the Philippines and offers cellular and paging services country-wide. It is expected that, through Islacom capital increases, the proceeds of Deutsche Telekom's investment will be used primarily to support the development of Islacom's services and to extend its network.

Network and Technology

Deutsche Telekom has invested over DM 136 billion in its telecommunications and cable networks since 1990 and has created one of the most technologically advanced fixed-link networks in the world. With digitalization, reorganization and increased productivity, the number of employees in branch offices engaged in network infrastructure development, maintenance and operation had decreased to less than 67,000 in 1995 from over 100,000 in 1992.

Fixed-Link Telecommunications Network

Domestic Fixed-Link Telecommunications Network. Deutsche Telekom's domestic fixed-link telecommunications network consists of numerous local networks interconnected by a long-distance network. The long-distance network is fully digitalized in terms of both switching and transmission. Deutsche Telekom has taken a number of measures to increase the capacity, flexibility and efficiency of the network, including improved network management. At the switching level, Deutsche Telekom has simplified the multi-tier system of exchanges, eliminating one hierarchical level. Commencing in 1992, the Company began selectively installing synchronous digital hierarchy (SDH) transmission systems. In addition to cost advantages, SDH systems provide an extremely flexible transmission infrastructure with an automatic and rapid configuration of transmission paths.

The Company has also substantially modernized, rationalized and streamlined its local networks. Currently there are approximately 5,200 local networks ranging from a few hundred access lines in rural areas to approximately three million access lines in Berlin. The Company has accelerated digitalization of its local networks, which is now planned to be completed by late 1997 or early 1998. At June 30, 1996, approximately 65% of Deutsche Telekom's telephone subscribers were connected to digital exchanges, as compared to 56% at December 31, 1995 and 43% at December 31, 1994. Digitalization permits a broader range of services to be offered, increases capacity and generates cost savings. Digitalization is also a prerequisite to the provision of ISDN services. Deutsche Telekom is currently able to provide ISDN-based services nationwide by bridging gaps in its digitalization through remote access to digital exchanges.

Deutsche Telekom uses fiber optic cables extensively, and has laid over 120,000 kilometers of fiber optic cable to date. Deutsche Telekom operates overlay fiber optic networks in 90 cities.

Deutsche Telekom was one of the companies involved in the development of the new ATM technology, which allows for the transfer of information combining voice, data, video and other services, including multi-media services, over public and private networks both domestically and internationally. Deutsche Telekom has established a nationwide ATM network. See "—Text and Data Services—Data Transmission."

Internet Backbone Network. Deutsche Telekom is establishing an Internet backbone network which currently connects over 40 cities and started operations in 1996. The network is based on new router transmission technology which allows high-speed transmission particularly tailored to on-line services.

International Network. Deutsche Telekom's international network consists of eight exchanges, which act as interfaces between Deutsche Telekom's domestic network and the global international network. These exchanges are fully digitalized, as are substantially all transmission paths to Germany's neighbors.

Deutsche Telekom has proprietary interests in both satellite and cable systems for the international transmission of voice and data. The Company primarily uses cables for international transmission due to cost advantages, and owns interests in more than 80 international land and sea cables, including over 60 new generation fiber optic cables. In addition, Deutsche Telekom holds interests in the INTELSAT, EUTELSAT, INMARSAT and INTERSPUTNIK telecommunications satellite systems.

Modernization in the New Federal States. Deutsche Telekom has invested heavily in the rapid build-out and upgrade of the telecommunications network in the New Federal States. With total capital expenditures of approximately DM 41 billion through December 31, 1995, the essentially obsolete telecommunications network of the New Federal States has been substantially rebuilt. The Company expects to make additional investments of approximately DM 5 billion to complete the build-out. Deutsche Telekom has installed state-of-the-art digital exchanges and digital transmission and line equipment. In addition, Deutsche Telekom has used technologies such as wireless local loop for rapidly linking business customers and has used fiber optic cables to a significant extent in the local access network. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures and Investments—Capital Expenditures."

Mobile Telecommunications Networks

Deutsche Telekom has made substantial investments in its mobile telecommunications networks, rapidly building up both the D1 and C-Tel networks to provide nationwide coverage. See "—Mobile Telecommunications Services." The D1 network consists of 5,162 base stations, 403 base station controllers and 36 switches. The C-Tel network consists of 2,039 base stations and 34 switches (analog networks do not require base station controllers). The D1 network operates in the frequency bands ranging from 890 to 915 and 935 to 960 Mhz, while the C-Tel network operates in the frequency bands ranging from 450 to 456 and 460 to 466 Mhz.

Cable Network

Deutsche Telekom's cable network is a dedicated coaxial cable based broadband network currently used solely for the transmission of television and radio signals. The cable network is made up of 1,200 local networks. Signals are fed into the network primarily from satellite and terrestrial transmitters and, to a very limited extent, through cable access lines to content providers. The Company has expanded the band width of its cable network which allows it to offer three additional analog channels. By the end of 1996, the Company will have substantially completed the digitalization of its cable network, which will permit it to offer up to 150 digital channels in addition to these three analog channels.

Information Technology

In 1992, Deutsche Telekom began centralizing its data processing, network management and related administrative systems to enhance efficiency, flexibility and capacity. Upon completion of this initiative, anticipated at the end of 1996, Deutsche Telekom will have six strategic computer centers. These six strategic computer centers, located across Germany, are designed to allow automatic high speed transfer of data from one to the others in the event of a disaster and have combined operational processing capacities of more than 11,000 MIPS (millions of instructions per second) and a storage capacity of 42 TeraBytes. The centralization of Deutsche Telekom's information processing activities is intended to take advantage of synergies and economies of scale, enhance coordination within the Company and facilitate streamlining of business processes. Concurrently with establishing these strategic computer centers, Deutsche Telekom developed a unified high performance network for the transfer of data within the Company.

Research and Development

Deutsche Telekom views research and development as an important tool for competing effectively in a liberalized telecommunications market and has committed significant resources to research and development activities. The Company focuses its research and development activity on the development of market applications for new technologies. As of June 30, 1996, Deutsche Telekom had over 3,200 employees dedicated to research and development activities.

Deutsche Telekom has been a key member of consortia that have developed technologies and applications that serve as industry-wide standards, including GSM, ISDN, ERMES, and ATM. Current research and development projects include development of intelligent networks and network management, transmission technology (including ATM technology), end connection technology (such as DECT, WLL and optical fiber connections) and multi-media services (including interactive video for business, educational and medical applications).

In 1995, Deutsche Telekom restructured its research and development activities to increase focus on applications and reduce development time. The Company established two principal research facilities: one at Darmstadt, which focuses on network technology, and the other at Berlin, which focuses on services and applications. Deutsche Telekom also made DeTeBerkom GmbH responsible for coordinating the development of multi-media products and applications and formed Multimedia Software GmbH, which develops software for interactive and multi-media products and services. An additional five software development centers were established for other software needs. In addition, research and product development continues to be carried out by several business divisions.

The Company has a variety of patents and licenses. No single patent or license is material to its business. Deutsche Telekom centralized management of its patents and licenses in 1994 and introduced a computerized record keeping system for patents and licenses in 1996.

Legal Proceedings

Deutsche Telekom and its subsidiaries are involved in a number of legal proceedings in the ordinary course of their business. In addition, proceedings involving alleged abuse of a market-dominating position by Deutsche Telekom and alleged antitrust violations are pending before competition and regulatory authorities. Except for the proceedings described below, neither the Company nor any of its subsidiaries is a party to any legal or arbitration proceedings and no such proceedings are known by the Company to be contemplated by governmental authorities or third parties, which, if adversely determined, could have a significant adverse effect on the Company's business or financial position taken as a whole.

German municipalities have announced their intention to challenge in the Federal Constitutional Court *(Bundesverfassungsgericht)* provisions of the TKG which will transfer the Federal Republic's rights of way over public property free of charge to licensed operators of transmission lines. In the legislative debate concerning the TKG, municipalities had strongly favored requiring network operators to pay charges for rights to use public ways. Deutsche Telekom believes that such a challenge would be unlikely to succeed in light of the jurisprudence of the Federal Constitutional Court to date and prevailing opinion in legal literature. However, if the Federal Constitutional Court were to declare the rights of way provisions of the TKG unconstitutional, municipalities might be entitled to levy fees against all licensed operators of transmission lines, including Deutsche Telekom, for the use of public rights of way and it is possible that any such ruling could be given retroactive effect to August 1, 1996.

As of August 1996, over 30 private customers had commenced legal proceedings against Deutsche Telekom claiming, among other things, that tariffs introduced by Deutsche Telekom in January 1996 were not effectively agreed to between the Company and its customers, and that certain tariffs, in particular tariffs for local calls, violate German public policy *(Sittenwidrigkeit)* because Deutsche Telekom abused its market monopoly in setting them. Deutsche Telekom believes that these claims are without merit. However, if these claims ultimately were to prevail in the German courts, Deutsche Telekom could be required to amend its tariff system and to refund a portion of past payments to customers. The first two cases to come to judgement have been decided by the courts of first instance in favor of Deutsche Telekom. These decisions may be appealed.

Beginning in 1993, the Post Ministry, with the assistance of the German Federal Cartel Office, and later the European Commission, initiated investigations into the tariffs charged by Deutsche Telekom for the provision of packet switched data transmission (Datex-P) services (a liberalized business segment since 1989). Based on a report of the Federal Cartel Office, the Post Ministry has alleged that from 1989 through 1993 Deutsche Telekom's tariffs for Datex-P services did not cover costs and were hence indirectly subsidized by business segments that were (and at present are) not yet liberalized. In a letter to Deutsche Telekom dated March 12, 1996, the Post Ministry asserted that the amount of such subsidy was at least DM 855 million and requested Deutsche Telekom to cause such amount to be transferred to non-liberalized business areas. Such request, which is still under discussion between Deutsche Telekom and the Post Ministry, would negatively affect the financial position of the Datex-P business segment; however, the financial position of Deutsche Telekom on a consolidated basis would not be affected. Any decision or administrative order of the Post Ministry could be appealed by Deutsche Telekom in an administrative court. If the European Commission concluded that the alleged cross-subsidization violated Article 86 of the Treaty of Rome, the European Commission could impose fines of up to ECU 1 million or an amount up to 10% of the revenues in the last business year of the enterprise participating in the violation. However, the Company believes that it is very unlikely that a fine in the order of 10% of its revenues would be imposed in this case. Any such European Commission decision could be appealed before the European courts.

In response to a complaint filed by certain competitors of Deutsche Telekom under Articles 90 and 86 of the Treaty of Rome, at the beginning of 1996, the European Commission instituted proceedings with respect to Deutsche Telekom's plan to offer certain optional tariffs on telephone services to its business customers. In June 1996, the European Commission informed Deutsche Telekom that the proceedings would not be pursued in the short term and would be permanently discontinued upon fulfillment by the Company and the Post Ministry of certain conditions. Among those conditions were (i) the introduction of the optional tariffs for business customers only after October 31, 1996, (ii) the offer of certain optional tariffs to private customers and (iii) the initiation of negotiations with operators of telecommunication networks for closed-user groups concerning alternative options for ''break-in/break-out'' traffic. A further condition to the permanent discontinuation of proceedings was that the Post Ministry must grant at least two licenses for the operation of transmission lines for liberalized telecommunications services before the introduction of Deutsche Telekom's tariff options for business customers. To date, the Post Ministry has granted two nationwide licenses and several regional licenses. The optional tariffs for private customers called for by the European Commission have received German regulatory approval, as have the optional tariffs for business customers. Further, Deutsche Telekom has conducted negotiations with providers of closed-user group networks. Although these negotiations were inconclusive, Deutsche Telekom submitted a proposed tariff schedule to the Post Ministry for break-in/break-out traffic for corporate networks. On October 4, 1996, the Post Ministry accepted the proposed interconnection tariffs. The European Commission did not act to block the implementation on November 1, 1996 of the optional tariffs for business customers. It required, however, that Deutsche Telekom conclude special network access agreements with its competitors and that the Post Ministry grant to such competitors special network access numbers upon request. In addition, Deutsche Telekom's competitors are to be offered new special tariffs billed in one-second segments. The arrangements called for by these conditions are to be given retroactive effect to November 1, 1996. Deutsche Telekom is seeking to keep to a minimum the loss of revenues and costs associated with these measures. It cannot be excluded, however, that fulfillment of these conditions might be delayed and proceedings reinstituted by the European Commission.

British Telecommunications plc (''British Telecom'') and VIAG Interkom GmbH & Co. KG (''VIAG'') filed a motion with the State Court in Düsseldorf *(Landgericht Düsseldorf)* seeking a preliminary injunction enjoining Deutsche Telekom and Atlas Germany from offering and selling Global One telecommunications services until such time as there are two or more licenses for the build-out, ownership and/or control of alternative transmission lines for liberalized telecommunications services in effect in each of Germany and France. The basis of the motion was the claim that such licenses have not been granted in Germany and France. A hearing before the court was held on October 16, 1996. In a decision issued on October 30, 1996, the court dismissed the motion for a preliminary injunction based on the failure to establish immediate harm and therefore did not decide on the merits of the underlying claim. British Telecom and VIAG have also filed a complaint based on the same cause of action seeking a permanent injunction and damages. They have also sought in such complaint certain information from the Company. In the event that a permanent injunction were granted, Deutsche Telekom and Atlas Germany would not be permitted to offer, sell or distribute Global One services and would therefore have to offer their customers alternative solutions. Any such decision could be appealed.

On November 13, 1996, Deutsche Telekom received information that a third party has asserted to the European Commission that the conditions to the entry into effect of the competition law exemption granted to Atlas and Global One by the European Commission have not yet been fulfilled and that measures should therefore be taken. Deutsche Telekom has not yet received written communication from the European Commission concerning this assertion.

The Company is a party to pending labor law proceedings concerning wages and other terms of employment for employees in the New Federal States. The Company believes that it has established adequate provisions in connection with these proceedings.

Properties

As of June 30, 1996, Deutsche Telekom's fixed assets, including property, plant and equipment, had a total book value of DM 135.9 billion. See Note 3 to the Consolidated Financial Statements.

Deutsche Telekom has one of the largest real estate portfolios in Germany, consisting of over 12,000 properties with an aggregate book value at June 30, 1996 of DM 37.2 billion. The total area of these properties amounts to approximately 64 million square meters, of which approximately 48 million square meters are developed and approximately 16 million square meters are undeveloped. Substantially all of these properties are used for telecommunications installations, computer installations, research centers, service outlets and offices.

Due to the consolidation of various operations, the conversion to digital switches and ongoing staff reductions, Deutsche Telekom anticipates that a substantial portion of its owned and leased properties will not be required in its core business in the future. This will allow the Company to reduce its net real estate occupancy costs by reducing the amount of property leased from third parties upon termination of existing leases and relocating operations from high-cost urban centers to outlying areas. The Company intends to pursue leasing surplus owned properties, including properties with pre-installed telecommunications systems, and may consider the sale of such properties on a case by case basis. In 1995, Deutsche Telekom formed DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH to professionally manage its real estate portfolio.

In addition to its real estate portfolio, Deutsche Telekom owns numerous telecommunications installations throughout Germany, including exchanges of various sizes, transmission equipment, computer installations, cable networks, base stations for cellular networks and equipment for television and radio broadcasting. The aggregate book value of Deutsche Telekom's plant and equipment at June 30, 1996 was DM 89.2 billion.

The headquarters of Deutsche Telekom are located in a leased building in Bonn. Deutsche Telekom leases a number of other buildings.

REGULATION

Overview

The legal framework for regulation of the telecommunications sector in Germany was completely transformed with the entry into effect on August 1, 1996 of the TKG. The TKG requires the full liberalization of the German telecommunications sector as of January 1, 1998 and provides for the establishment of a new telecommunications regulatory authority for Germany. Under the TKG, Deutsche Telekom maintains an essentially exclusive right to provide domestic and international public fixed-link voice telephony services within Germany through the end of 1997. However, with effect from August 1, 1996, the operation of networks for all telecommunications services other than public fixed-link voice telephony was fully opened to competition, subject to the licensing requirements applicable to the providers of such services to the public. Accordingly, subject to applicable licensing requirements, existing private networks may now be used to provide all telecommunications services other than public fixed-link voice telephony, and competitors of Deutsche Telekom may apply to build and operate telecommunications transmission lines, including cable transmission lines, throughout Germany on both the national and regional levels.

Telecommunications liberalization in Germany has been progressing since 1989, resulting in part from the telecommunications liberalization initiatives of the EU. See ''Relationship with the Federal Republic—Shareholding'' and ''Business—Historical Background.'' Pursuant to EU directives, liberalization of the telecommunications markets of most of the EU Member States, including Germany, is required to be completed by January 1, 1998. See ''—The European Union''. The reforms implemented through the TKG were influenced in particular by the desire of the Federal Republic to strengthen Germany's position as a commercial center with an efficient telecommunications infrastructure. Accordingly, the TKG provides Germany with a pro-competitive regulatory structure.

Before 1989, the operation of telecommunications networks and the provision of telecommunications services were the subject of a state monopoly operated by Deutsche Bundespost, the Federal Republic's state postal, telephone and telegraph authority. Certain exceptions existed, most significantly for networks used by the German national railway and public utility companies for their own internal purposes and network installations on private premises. In 1989, with the inauguration of liberalization, the provision of text and data transmission services (using lines leased from Deutsche Telekom) was opened to competition. The supply of telecommunications terminal equipment became open to full competition in 1990. Mobile telecommunications services have been offered competitively in Germany since the introduction of digital services in 1992. The provision of voice telephony for closed-user groups and corporate networks using Deutsche Telekom's leased lines has been open to competition since 1993. In its cable television transmission business, Deutsche Telekom has long encountered competition from satellite television services and certain local cable television companies. In recent years, Deutsche Telekom has faced competition in the provision of international voice telephony from by-pass and call-back services and from resellers in general. Thus, even before the enactment of the TKG, Deutsche Telekom operated in a regulatory environment which exposed it to competition in several areas.

The TKG

The principal objectives of the TKG are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The TKG is intended to achieve these objectives principally by requiring licenses for the conduct of certain telecommunications activities, allocating frequencies, securing universal service and subjecting enterprises having dominant positions in particular telecommunications markets (''market-dominating providers'') to a special regulatory framework.

In a number of areas, the TKG sets forth general regulatory principles and calls for the promulgation of regulations *(Rechtsverordnungen)* ("Ordinances") by the German Government to establish more detailed rules and procedures. Three ordinances of particular importance to Deutsche Telekom and its competitors are the Tariff Regulation Ordinance *(Telekommunikations Entgeltregulierungsverordnung)*, the Network Access Ordinance *(Verordnung über besondere Netzzugänge)* and the Universal Service Ordinance *(Telekommunikations-Universaldienstleistungs-Verordnung)*. Two of these Ordinances have entered into effect. The Tariff Regulation Ordinance, with the exception of the provisions relating to voice telephony, took effect as of October 10, 1996. The remaining provisions will become effective on January 1, 1998. The Network Access Ordinance took effect as of November 1, 1996. The discussion herein is based on the Tariff Regulation Ordinance and the Network Access Ordinance as entered into effect and the version of the Universal Service Ordinance consented to by the upper house of the German Parliament *(Bundesrat)* on November 8, 1996, which requires renewed approval by the German Government and the consent of the lower house of the German Parliament. In addition, drafts of a Telecommunications Licensing and Frequency Fees Ordinance *(Telekommunikations-Lizenz- und Frequenzgebührenverordnung)* (the "Licensing Fees Ordinance") and a Telecommunications Frequency Usage Fees Ordinance *(Telekommunikations-Frequenznutzungsbeitragsverordnung)* have been released. Upon adoption, these Ordinances should be given retroactive effect to August 1, 1996.

The TKG establishes the overall regulatory framework for the telecommunications sector in Germany and, with the entry into effect of the Tariff Regulation Ordinance and the Network Access Ordinance and the pending adoption of the Universal Service Ordinance, key aspects of the regulatory structure have been established. Nevertheless, certain important aspects of the regulatory regime will require some time to clarify. As has occurred in other countries which have experienced major statutory reforms of the telecommunications sector, legal challenges concerning the application and further implementation of the TKG may arise.

Under the TKG, licenses are required for the provision of voice telephony services to the public, although the provision of services under such licenses may only commence from January 1, 1998. Since the entry into effect of the TKG on August 1, 1996, licenses are required for the operation of transmission lines extending beyond the limits of a property and used to provide telecommunications services to the public. Licenses are not required under the TKG for the provision of other services. These services include the provision of text and data transmission services over leased lines and voice services for corporate networks and closed user groups. The provision of cable television programming is not subject to a license under the TKG but is regulated under the radio and television laws of the various Federal States; Deutsche Telekom has not applied for approval under such laws to provide programming content.

In general, except as described herein, the regulatory approach under the TKG does not differ according to lines of business and subjects the operation of conventional fixed-link transmission lines, cable transmission lines, mobile telephone links and satellite links to the same regulatory regime.

Regulatory Supervision

Regulatory functions under the TKG are to be carried out by a new supervisory body, the Regulatory Authority for Telecommunication and Post *(Regulierungsbehörde für Telekommunikation und Post)* (the "Regulatory Authority"), which is to be established within the Federal Economics Ministry *(Bundesministerium für Wirtschaft)*. The Regulatory Authority has various powers under the TKG, including the authority to grant and revoke licenses, assign and supervise frequencies, impose universal service obligations, control network access and interconnection and approve or review the tariffs and tariff-related general business terms and conditions of providers insofar as they relate to telecommunications markets in which they hold a dominant position. Beginning in January 1998, decisions regarding tariffs and such terms, the granting of licenses in cases involving scarce frequencies, the imposition of universal service obligations, arrangements for special network access, and interconnection of public telecommunications networks will be made by three-member decision panels *(Beschlusskammern)* formed within the Regulatory Authority and composed of persons qualified to be senior civil servants.

The Regulatory Authority will be supported by an Advisory Council *(Beirat)* consisting of nine representatives of each of the two houses of the German Parliament, but the matters with respect to which the Advisory Council must be consulted will be very limited. The Advisory Council will be involved in, among other things, decisions concerning license auctions regarding scarce frequencies and decisions obligating a licensee to provide universal service. The Advisory Council need not, however, be consulted with regard to tariff decisions. The Regulatory Authority will be headed by a president and two vice-presidents who will be nominated by the German Government upon the proposal of the Advisory Council. The Regulatory Authority will not be established until January 1, 1998. Until then, its authority will be exercised by the Post Ministry. Until the formation of the Advisory Council in October 1997, the functions of the Advisory Council will be performed by the Regulatory Council *(Regulierungsrat)*, which is composed of elected members of the lower house of the German Parliament and representatives of the German Federal States. Through December 31, 1997, regulatory authority over tariffs for the provision of public fixed-link voice telephony services will be exercised by the Post Ministry and the Regulatory Council in consultation with the Federal Economics Minister, applying rules and procedures developed under the pre-TKG regime.

Special Requirements Applicable to Market-Dominating Providers

A basic principle of the regulatory structure established by the TKG is the distinction drawn between market-dominating providers and other companies operating in a market. Market-dominating providers and their affiliates are subject to special rules and obligations, including most importantly:

- The prior approval or retrospective review of tariffs and related business terms and conditions by the Regulatory Authority, insofar as such tariffs relate to a market in which the provider is dominant. See "—Pricing."
- The obligation to offer competitors, on the basis of unbundling, special network access (including collocation) to essential services and facilities used by it internally on a non-discriminatory basis. See "—Special Network Access and Interconnection."
- Potentially, the obligation to provide universal services in a market or to contribute to the compensation of the provider of such services. See "—Universal Services."
- The possible inclusion of restrictive conditions in licenses, such as, in the case of scarce frequencies, a condition not to combine with another provider in the same market.

In addition, market-dominating providers must maintain segregated accounting systems to allow for transparency in dealings among their various licensed telecommunications services, and between such services and license-free services, in order to prevent, among other things, cross-subsidization. In this regard, the Regulatory Authority may prescribe the structure of internal accounting for particular telecommunications services subject to license. Furthermore, under general competition law principles, market-dominating enterprises as a rule are required to refrain from abuses of their dominant positions. See "—Competition Law."

Market dominance under the TKG is determined by reference to the German Act Against Restraints on Competition *(Gesetz gegen Wettbewerbsbeschränkungen)*, which provides, among other things, that a company is rebuttably presumed to have a dominant position if its share equals or exceeds one-third of a relevant market. The definition of the relevant product and geographic market and the determination by the Regulatory Authority that a company is market-dominant under the TKG are to be made by the Regulatory Authority in agreement with the German Federal Cartel Office.

The Company expects that for some time to come it will be viewed by the regulatory authorities as having a dominant position in markets for public fixed-link voice telephony, for which it will have a monopoly until December 31, 1997, as well as other markets, including those in which it held monopoly rights until July 31, 1996. As a result, the Company expects that the provisions of the TKG relating to the regulation of market-dominating providers will be applied to Deutsche Telekom's activities in such markets. Considering that in many markets competitors of Deutsche Telekom are unlikely to reach dominant positions in the near future, the Company expects that for some period of time it will have to compete with providers not subject to the market-dominating provider requirements. Such competitors may therefore have more flexibility than Deutsche Telekom in terms of the selection of services offered and customers served, pricing and the grant of access to their networks. Determinations of product and geographic markets in which dominant positions prevail will be published by the Regulatory Authority on an annual basis. The definition of a market in which dominance exists requires a number of judgments, and is subject to change as competitive conditions further develop. Deutsche Telekom intends to pursue actively the reevaluation of markets in which it is regarded as dominant as competition unfolds and the basis for unfavorable regulatory determinations diminishes.

Every two years, the Monopoly Commission *(Monopolkommission)*—an independent body that regularly issues reports on competitive conditions in Germany—is required to determine whether equal and effective competition has been achieved in the relevant telecommunications markets, such that, in its view, special regulatory measures regarding market-dominating enterprises, particularly with regard to tariffs, are no longer necessary. Based on this determination, the Monopoly Commission may make non-binding recommendations for legislative action as to which the German Government is required to state a position.

Licensing and Allocation of Frequencies

Under the TKG, since August 1, 1996, competitors of Deutsche Telekom may be granted licenses for the operation of transmission lines for the provision of all public telecommunications services other than public fixed-link voice telephony. This includes licenses for the operation of cable television transmission lines. Effective January 1, 1998, competitors of Deutsche Telekom that hold licenses for the provision of public voice telephony services will be able to offer such services as well. Before January 1, 1998, the Post Ministry is permitted to grant licenses of limited scope in this area for projects having an innovative character.

Generally, the number of licenses is not limited and each applicant satisfying basic qualification requirements is entitled to receive a license. In applying for a license, the applicant is entitled to specify the geographic scope and the type of activity subject to license. Conditions and obligations may at any time be attached to a license to promote the achievement of the objectives of the TKG.

The Post Ministry recently granted to competitors of Deutsche Telekom the first licenses for the operation of transmission lines for the provision of all public telecommunications services other than public fixed-link voice telephony, including two national licenses and several regional licenses.

The use of a frequency requires the prior assignment of such frequency to the user by the Regulatory Authority. Frequencies are to be allocated upon request on a non-discriminatory basis according to objective and verifiable criteria.

The Regulatory Authority is required to develop a frequency usage plan which is to form the basis for frequency allocation. If, on the basis of such plan, frequencies are not available in sufficient quantity for licensing, the number of licenses within certain areas may be restricted, in which case the Regulatory Authority will award licenses by auction or competitive bidding. If there are multiple applications submitted for the allocation of a particular frequency, the Regulatory Authority may require that frequency allocation also be determined by auction or competitive bidding. The Regulatory Authority may exclude a company from taking part in auctions or competitive bids for licenses or frequencies if the success of such company in an auction or bid would endanger competition based on principles of equal opportunity as was the case with respect to Deutsche Telekom and its competitors in connection with the auction for the fourth German digital mobile telecommunications license. The Regulatory Authority also may deny approval of an application to transfer a license on the same basis, regardless of whether scarce frequencies are involved. The TKG provides, however, that the justifiable interests of a company in the application of new technologies must be considered when making decisions concerning whether to exclude that company from an auction or competitive bidding process or to deny approval of a proposed transfer.

Deutsche Telekom has been issued a combined license for the operation of transmission lines that cross property lines and for the provision of satellite links and other telecommunications services to the public. The combined license allows Deutsche Telekom to continue without limitation its present operations (excluding public fixed-link voice telephony services, which it provides on the basis of its monopoly service rights through the end of 1997). The combined license does not cover the operation of transmission lines for the provision of mobile telecommunication services to the public. Such licenses were granted to Deutsche Telekom's subsidiary, T-Mobil, under pre-TKG regulations. The licenses granted to T-Mobil and its competitors under such legislation remain valid, although the activities permitted by such licenses are subject to regulation under the TKG.

Licenses and frequency allocations under the TKG are subject to fees, which must be determined by reference to, among other things, administrative costs and the economic value of the rights assigned. The Licensing Fees Ordinance, in which the fees for licenses under the TKG will be established, has not yet been adopted. Parties which have been assigned frequencies will be required to make annual contributions for reimbursement of the costs incurred by the Regulatory Authority in planning and administering efficient and interference-free frequency usage.

In applying for a license under the TKG, the applicant has considerable flexibility in choosing the scope and geographical range of the products and services it wishes to offer, except to the extent that the applicant is required to provide universal services. See "—Universal Services." Even if a licensee is granted a license covering all of Germany, it may choose to provide only those service and geographic combinations that offer the best business opportunities. Thus, competitors of Deutsche Telekom not subject to universal service requirements are free to pursue opportunities in attractive markets, such as high density urban areas, to the exclusion of less attractive markets. This feature of the TKG is expected to result in substantially increased competition in lucrative markets within Germany.

In July 1996, a draft EU directive on a common framework for telecommunications licenses was released. If this directive is adopted, the Federal Republic may be obligated to issue licenses on substantially the same conditions as licenses issued in other EU Member States, harmonize the conditions for the granting of licenses and adjust licenses in force to the requirements of the directive.

Pricing

Under the TKG, tariffs (including tariff-related business terms and conditions) for the telecommunications services of market-dominating providers and their affiliates are, insofar as they relate to a market in which such dominance is determined to exist, subject to special regulatory oversight and control. Other tariffs are essentially unregulated under the TKG. The tariffs of all providers in Germany are, however, subject to European and German law of general application, including competition and consumer protection laws and ordinances, and tariffs for universal services must be set at an "affordable price." See "—Universal Services."

The TKG distinguishes between tariffs which require prior regulatory approval and tariffs which do not require prior approval but which are subject to retrospective review. Prior approval is required for the tariffs of a market-dominating provider in the areas of public voice telephony services, the operation of transmission lines for telecommunications services to the public and access and interconnection services. All other tariffs (including subscription fees for cable television services and fees for satellite services) of market-dominating providers which apply to a market in which the provider is considered to have a dominant position may be put into effect without prior approval. However, such tariffs are subject to retrospective review insofar as a provider has a dominant position in a particular market. Prior to the effectiveness of the TKG, T-Mobil's tariffs for mobile telecommunications services were subject to a limited retrospective review. Going forward, regulation of such tariffs will depend upon, among other things, the definition of the relevant market and the determination of whether T-Mobil is dominant therein.

For some time to come, the tariffs (and tariff-related general business terms and conditions) offered by Deutsche Telekom in a substantial portion of its business may be expected to be subject to regulatory approval or review under the TKG. See ''—Special Requirements Applicable to Market-Dominating Providers.''

Until December 31, 1997, Deutsche Telekom's tariffs for public fixed-link voice telephony services are subject to prior regulatory approval under the Post and Telecommunications Regulation Act *(Gesetz über die Regulierung der Telekommunikation und des Postwesens)* (''PTRegG''), rather than under the TKG. Under the PTRegG, tariffs must, among other things, ensure a modern and inexpensive supply of telecommunications services throughout Germany. Tariffs approved and basic guidelines *(Vorgaben)* issued under the PTRegG system remain valid until no later than December 31, 2002, unless they have been superseded by other tariffs approved under the new TKG system. Under PTRegG procedures, tariffs are submitted to the Regulatory Council for confirmation.

The TKG provides for two basic approaches to prior approvals of tariffs: a price-cap approach and an approach involving individual approvals based on an assessment of the costs of providing a particular service (the ''cost-based approach''). The Tariff Regulation Ordinance provides that priority is to be given to the price-cap approach. The cost-based approach applies to tariffs for services which cannot, or have not been allowed to, be combined in ''baskets'' together with other services under the price-cap approach.

Under the price-cap approach, the Regulatory Authority establishes baskets of services and limits tariffs for the blend of services within those baskets through the use of a formula. The formula has the effect of requiring the affected company to reduce, or limiting the extent to which it can increase, the aggregate tariffs of services within a basket. Under the TKG and the Tariff Regulation Ordinance, tariffs for voice telephony services and tariffs for transmission lines may not be combined in a single basket. Services may be combined within a basket only if the degree of competition with respect to those services does not substantially vary. Generally, through December 31, 1999, special access services (including interconnection) may not be placed in baskets, and are expected to be dealt with under the cost-based approach. At no time may tariffs for special access services be combined in a basket with other services.

The Regulatory Authority is to establish an initial price benchmark for a basket by ascertaining the tariff level for each service in the basket. The price-cap formula imposed with respect to the basket is to allow for price increases or require price decreases from the initial benchmark level based on the general inflation rate, reduced by an amount which reflects expected productivity improvements. Under the Tariff Regulation Ordinance, the Regulatory Authority is required to consider a variety of factors when establishing the price-cap formula, including the relationship of the initial tariff levels to the costs of efficient service provision and the productivity improvements being achieved by other enterprises in similar markets. When making a determination of price-cap benchmarks, the Regulatory Authority may require a company to submit detailed cost information. Under the TKG, a company must submit individual tariffs for approval, and must submit in connection therewith certain information. If a tariff proposal is within the range allowed by the price-cap formula and all required documents have been submitted, the Regulatory Authority may be expected, under ordinary circumstances, to approve the proposal within two weeks of submission.

In response to an inquiry from Deutsche Telekom, the Post Minister has in a letter expressed his view that a price cap for public fixed-link voice telephony services having the elements listed below is to become applicable beginning in 1998:

- The price cap will apply to two reference periods of two years each (1998/1999 and 2000/2001).
- For the first period, there will be two separate baskets: one for private customers and one for business customers. Both baskets will be subject to the same price-cap formula. The Regulatory Authority will decide on the composition of baskets for the second period by January 1, 2000.
- The price-cap formula will be based on the consumer price index ("CPI"). For each basket, the average increase in prices for the services within the basket in respect of each two-year price-cap period (1998/1999 and 2000/2001) cannot exceed the increase in the CPI over the twelve months ended June 30 in the year preceding the price-cap period minus 6%. If the CPI percentage increase at a relevant date is less than 6%, the Company will be required to lower its prices accordingly.
- Local call and extended local call charges will not be increased during the first reference period (1998/1999).

Deutsche Telekom expects these elements to be the basis for the price-cap regime for public fixed-link voice telephony services in the periods referred to in the Post Minister's letter. Deutsche Telekom anticipates that it will implement the price changes called for by the price cap within the period of several months preceding or following the start of each price-cap period. Within these and other applicable parameters established by the regulatory regime, Deutsche Telekom intends to continue adjusting its tariffs to align them more closely with the underlying costs of providing services and to address the preferences of individual customer groups. The German Government has indicated in the non-binding statement of regulatory intent to the Tariff Regulation Ordinance that it does not intend for the regulatory process to impede the efforts of telecommunications providers to rebalance rates. The Company believes that its ability to develop flexible and differentiated pricing structures will be important to its competitive position.

Tariffs requiring prior approval which are not dealt with under a price cap are to be based on the calculation of the costs of efficient provision of the relevant service. The costs of efficient service provision are to be based on the long-term incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation as to its costs and the methods and parameters on which its determination of costs is based in respect of the service in question. The documentation is to reflect costs both directly and indirectly attributable to the service in question. The applicant must explain the basis on which indirect costs are attributed to the service, and the attribution must comply with relevant EU directives. Under the TKG, applications for cost-based approvals must be approved or rejected within a maximum of 10 weeks of submission.

Under the cost-based approach, costs and expenses not based on the costs of efficient service provision may not be taken into consideration unless there is a legal requirement or some other objective justification for their inclusion. Due to the history of its business as an integral and undifferentiated part of Deutsche Bundespost operating a state monopoly, Deutsche Telekom has costs which it believes would not be incurred by efficient private sector enterprises. Deutsche Telekom believes such costs are incurred due to legal requirements, or are objectively justified for a transitional period (as supported by informal statements of Post Ministry officials), and therefore is of the view that such costs should be recoverable. However, since the TKG and the Tariff Regulation Ordinance do not prescribe in detail whether specific costs of Deutsche Telekom will be considered objectively justified and because the new regime has not yet been tested, it cannot presently be assumed that the Regulatory Authority will allow the Company to recover the entire amount of such costs.

Tariffs may not be approved if they (i) contain surcharges which prevail solely as a result of the applicant's dominant market position, (ii) include discounts which prejudice the competitive opportunities of other companies in a telecommunications market or (iii) discriminate among customers for the same or similar services in a telecommunications market, unless such surcharges, discounts or discriminatory features are objectively justified.

All tariffs of market-dominating providers in markets in which such dominance occurs are subject to regulatory examination, even if the tariffs were initially subject to prior approval. The Regulatory Authority must initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain discounts or discriminatory features that are not objectively justified and may ultimately object to such tariffs and declare them to be invalid. In addition, with tariffs not subject to prior approval, the Regulatory Authority may initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain surcharges, discounts or discriminatory features, as described above. The Regulatory Authority may object to such surcharges and declare them invalid.

Special Network Access and Interconnection

The TKG imposes specific obligations concerning access to networks and interconnection. The Network Access Ordinance provides details concerning these obligations and specifies the manner in which special network access (including interconnection) is to be effected.

General Principles. Every operator of a public telecommunications network, irrespective of the operator's market position, is obligated, upon request, to make to other operators an offer for interconnection to its network. If the respective parties cannot reach an agreement on such interconnection, the Regulatory Authority will order the interconnection on such terms as it may determine. The contents of all agreements on special network access must comply with certain requirements of the Network Access Ordinance.

Provisions Applicable to Market-Dominating Providers. A network operator that offers telecommunications services to the public and is a market-dominating provider in a particular market must allow every user access to its network or parts thereof. Such access may be granted via connections provided for all users (general network access) or via special connections (special network access), which includes interconnection of networks. Limitations on access may be based only on the preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data.

A provider dominant in a market for telecommunications services to the public must also grant to competitors active in the same market access to essential services it uses internally for the provision of such services upon the same conditions it applies to itself, unless the offer of different conditions can be objectively justified.

A market-dominating provider is required to unbundle its services for special network access, and must therefore offer its internally used essential services (including transmission, switching and operational interfaces), in a manner such that other users need not purchase services they do not want. The market-dominating provider is not, however, required to unbundle its services to the extent the provider can demonstrate that the requirement is not objectively justified in the particular circumstances.

In addition, a market-dominating provider is obligated to allow other network operators to use transmission, switching and operational interfaces to its network on its premises on the same conditions it applies to itself ("physical collocation"). However, if the market-dominating provider demonstrates that physical collocation is not objectively justified, it must instead offer network access by "virtual collocation", *i.e.*, on terms equivalent to physical collocation in terms of economic, technical and operational conditions.

A market-dominating provider must adhere to the harmonized technical standards for interfaces and service features made binding by the EU with regard to open network provision.

Agreements on special network access (including interconnection) must be reported to the Regulatory Authority immediately following their execution. Conditions in such agreements must be based on objective criteria, be comprehensible and guarantee equal access.

The Regulatory Authority publishes in its official journal the time and place at which such agreements may be inspected. The Regulatory Authority also publishes the terms and conditions of such agreements if they can be expected to be included in a number of special network access agreements. Such terms and conditions will then constitute a "basic offer" which must be included in the general business terms and conditions of a market-dominating operator.

As indicated above with regard to special network access, market-dominating providers are obligated to unbundle their service offerings to the extent demanded by their competitors in a public telecommunications market unless the market-dominating provider can demonstrate that unbundling is not objectively justified in the particular circumstances. Consequently, Deutsche Telekom may have to grant such competitors access to its fixed local loop and parts thereof (including customer access lines).

The conditions upon which special network access is offered will be of great significance to the development of the German telecommunications market. The cost of interconnection to Deutsche Telekom's networks may be expected to be a significant part of the operating costs of competing network operators, and, as competition grows, increasingly important to Deutsche Telekom. The Company expects that future regulatory determinations will play a major role in shaping the conditions upon which special network access is offered. See "—Pricing."

Universal Services

The TKG includes provisions to ensure the availability of certain basic telecommunications services (referred to as "universal services") throughout Germany. Additional details concerning universal service requirements are provided in the Universal Service Ordinance.

The Universal Service Ordinance defines "universal services" to include public fixed-link voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at an affordable price. According to the Universal Service Ordinance, the price for public voice telephony is considered affordable if it does not exceed the average price in real terms on December 31, 1997 of voice telephony service for private households located on the periphery of cities with more than 100,000 inhabitants. This provision is intended to prevent telecommunications providers from subsidizing price reductions in highly competitive urban areas by charging higher prices in suburban and rural markets. Prices for directory services, telephone books, public pay phones and the specified transmission lines are considered affordable if they are based on the costs of efficient service provision.

Under the TKG, if a universal service in a particular product and geographic market is not being appropriately and adequately provided or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4% of the product market for such service or a dominant position in the relevant product and geographic market can be required to contribute to the provision of such universal service.

In such case, as an initial step, the Regulatory Authority will issue a public call requesting the voluntary provision of the particular universal service. If within one month after such call no provider has offered to provide such service without special compensation, the Regulatory Authority may oblige any licensee that is a market-dominating provider in the relevant product and geographic markets to provide such service. If a provider that has been assigned such obligation furnishes evidence that it will be entitled to claim compensation under the TKG for providing such service, the Regulatory Authority may, in lieu of requiring the obligated provider or providers to provide the universal service, solicit bids for the provisioning of the universal service, with a view to assigning the obligation to the bidder requiring the least compensation.

A provider required by the Regulatory Authority to provide a universal service is entitled to receive compensation under the TKG if the provider proves that the long-term additional costs of providing the universal service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues therefrom, calculated on the basis of affordable prices. Where compensation is granted for the provision of the universal service, each licensee with a share of at least 4% of the product market or having a market-dominating position in such market must contribute to such compensation by means of a universal service levy. Significant details concerning how this compensatory system will function remain to be determined.

Until the end of 1997, Deutsche Telekom will be required under the pre-TKG Ordinance on Mandatory Services *(Pflichtleistungsverordnung)* to provide directory services, telephone books, public pay telephones (including toll-free emergency call service), and telex and telegram services on a universal basis within Germany. Public fixed-link telephony services are required to be provided on a universal basis as part of Deutsche Telekom's monopoly service. At the end of 1997, the Ordinance on Mandatory Services will be superseded by the Universal Service Ordinance, which initially will enter into effect only with respect to the operation of transmission lines. The Universal Service Ordinance does not require providers to offer telex or telegram services.

The Company currently provides the universal services specified by the Universal Service Ordinance, and expects that in a competitive market these services will continue to be available universally due to sufficient offerings by all market participants. Because the Company expects that it will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services, it may prove difficult for Deutsche Telekom to cease providing universal services in some markets, although Deutsche Telekom will be able to claim special compensation if it is entitled thereto. If Deutsche Telekom decides to stop providing any of the services referred to in the Universal Service Ordinance, it must give at least one year's advance notice.

If Deutsche Telekom becomes required to offer a universal service, and if the revenues therefrom are insufficient to cover its additional costs, the compensation granted under the TKG may not cover the Company's full costs of providing these services. Furthermore, in the event other operators are assigned universal service obligations, Deutsche Telekom may be required to contribute to their compensation.

Use of Public Rights of Way

Under the pre-TKG laws, Deutsche Telekom was entitled to utilize the Federal Republic's rights of way over public property free of charge. Pursuant to the TKG, the Federal Republic's right to use such rights of way free of charge will be transferred to licensed operators of transmission lines for public telecommunications services. See "Business—Legal Proceedings." Deutsche Telekom's right to utilize such rights of way has been carried over under its license.

Under the TKG, if the establishment of new transmission lines by an operator through public rights of way is not feasible or the cost of doing so is disproportionately high, an operator of an existing transmission line using such public rights of way may be obligated to grant such operator the joint use of its installations, such as ducts and antenna posts, for adequate compensation, provided no major construction work is required and such joint use is economically feasible.

Numbering

Under the TKG, the Regulatory Authority is assigned responsibility for developing and administering a national telephone numbering system. Upon application, each telecommunications network operator and service provider is to receive assigned ranges of telephone numbers for use by its customers. The assignment may come with conditions. The ranges assigned will be within existing area codes. Applicants will be assessed fees, the details of which are to be defined in an Ordinance to be promulgated in the future. In modifying the structure and configuration of telephone number ranges subject to assignment, the Regulatory Authority is to consider the interests of the parties concerned, focusing in particular on conversion costs that would be incurred by licensees, other telecommunications services providers, and customers.

Effective January 1, 1998, Deutsche Telekom and other telecommunications network operators will be required to allow their customers to pre-select the network operator that is to transmit their calls. In addition, customers will be able to override their pre-selected carrier each time they place a call by entering another operator's numeric prefix before dialing the telephone number they wish to call. Also effective January 1, 1998, Deutsche Telekom and other telecommunications network operators in principle will be required to provide number portability. This permits customers to keep their assigned telephone numbers when they choose to change their network operator as long as they do not also change the physical location from which they access the network. Number portability and the provisions on carrier selection will allow customers to switch easily among competing carriers.

The Regulatory Authority may suspend the obligations to provide number portability and carrier selection due to technical infeasibility. The obligation to provide number portability can also be suspended to the extent that such suspension does not significantly impair competition nor harm customers.

With respect to the costs resulting from these obligations, the TKG allows for a direct charge covering the one-time cost associated with the individual change of a customer from one network operator to another. Other costs will have to be attributed to the overall costs of an operator's network. Deutsche Telekom believes that a portion of these other costs will be borne by other network operators, but that it will have to absorb the balance in its overall network costs. The specific allocation of these other costs is currently under negotiation.

The European Union

Germany is a Member State of the EU. As such, it is required to enact EU legislation in its domestic law and to take EU legislation into account in applying its domestic law. EU legislation can take a number of forms. Regulations have general application, and are binding in their entirety and directly applicable in all Member States. Directives are binding, but national authorities may choose the form and method of implementation.

The European Commission used its powers under Article 90 (3) of the Treaty of Rome to open telecommunications markets in the Member States by issuing directives providing for liberalization, *i.e.*, abolishing monopoly rights of the state-owned telecommunications operators. The latest of these directives, the full competition directive issued in March 1996, provides for full liberalization of the telecommunications markets in most Member States by January 1, 1998. Under that directive, with effect from January 1, 1998, public voice telephony services must be liberalized in the majority of the Member States, while network infrastructure for the provision of liberalized services was required to be liberalized by July 1, 1996.

The EU has also adopted a number of directives and recommendations regarding open and efficient access to and use of public telecommunications networks and public telecommunications services. These directives and recommendations deal with what are referred to as the Open Network Provision ("ONP") requirements, which are intended to harmonize technical interfaces, usage conditions and tariff principles throughout the EU and to ensure objectivity, transparency and non-discrimination in access to and use of public telecommunications networks and public telecommunications services. In March 1996, the European Commission submitted a new proposal for a directive on interconnection in telecommunications, and, in June 1996, the European Council agreed on a common position. If adopted, the directive may require Germany to harmonize parts of its interconnection regime with the EU regime. The European Council has released a proposal concerning an adjustment to the EU directives on ONP and a proposal concerning a directive on universal service and the application of ONP to voice telephony. The proposals indicate they are expected to be transformed into Member State domestic law by January 1, 1998. Further directives, recommendations, communications and measures of the EU to harmonize the telecommunications sector in Member States are to be expected.

Competition Law

Deutsche Telekom is subject to German competition law, the competition rules of the EU and the competition laws of the various jurisdictions in which it conducts its business.

The German Act Against Restraints on Competition prohibits the abuse of market-dominating positions as well as the distortion of competition through horizontal agreements or collusive behavior by market participants. Agreements or behavior that impose vertical restraints on competition are generally permitted, but may be prohibited by the cartel authorities if they pose a threat of significant distortion to the market and are prohibited if they constitute price fixing. Mergers that would create or strengthen a market-dominating position are prohibited. The Federal Cartel Office as well as the cartel offices of the Federal States are empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action to stem abuses of a market-dominating position in the telecommunications sector, the Federal Cartel Office must consult with the Regulatory Authority. Market participants damaged by abusive practices on the part of a market-dominating provider may sue for compensation under the TKG as well as under the German Act Against Restraints on Competition.

The EU competition rules have the force of law in the Member States and are therefore applicable to Deutsche Telekom's operations in the telecommunications market. The main principles of the EU competition rules are stipulated in Articles 85 and 86 of the Treaty of Rome. Article 85 prohibits collusive behavior between competitors which may effect trade between Member States and which restricts, or is intended to restrict, competition within the EU. Article 86 prohibits any abuse of a market-dominating position within a substantial part of the EU that may affect trade between Member States. These rules are enforced by the European Commission in cooperation with the national competition authorities (*i.e.,* in Germany, the Federal Cartel Office). In addition, the national courts have jurisdiction to litigate violations of EU competition law.

For so long as the majority of Deutsche Telekom's shares are owned by the Federal Republic, the European Commission will have the authority to address individual decisions to the Federal

Republic to ensure Deutsche Telekom's compliance with EU competition rules. In this regard, the European Commission will be able to initiate proceedings against Deutsche Telekom directly under Article 86 of the Treaty or against the Federal Republic under Article 90(3), or both (*e.g.*, for tariff arrangements alleged to constitute an abuse of dominant market position). As a result, Deutsche Telekom, unlike companies not having a Member State as majority owner, may have to face two different proceedings, one of which it cannot directly influence and in which it is not a party.

Further measures of the EU aimed at establishing and protecting competition in the telecommunications sector are to be expected. The European Commission recently launched a study to assess the anti-competitive effect on the telecommunications market stemming from the activities of network operators who own both telecommunications and cable television networks. One alternative that the study is to explore is mandatory divestiture of cable television networks by operators of telecommunications networks who dominate their home market. Since the study has not yet been completed, Deutsche Telekom cannot predict what impact, if any, the conclusions and findings may have on future measures taken by the European Commission in this area.

MANAGEMENT AND EMPLOYEES

Management

General

As required by the German Stock Corporation Act, Deutsche Telekom has a two tier board system consisting of a Management Board and a Supervisory Board. The Management Board is responsible for managing the Company and representing the Company in its dealings with third parties, while the Supervisory Board appoints and removes the members of the Management Board and oversees the management of the Company. Under the German Stock Corporation Act, the Supervisory Board is not permitted to make management decisions. Pursuant to the Articles of Association of the Company and the By-laws *(Geschäftsordnung)* of the Management Board, the Management Board must obtain the consent of the Supervisory Board for certain actions, including acquisitions or dispositions of real property having a value of more than DM 50 million, acquisitions or dispositions of equity investments, the appointment of members of the supervisory board or other bodies having supervisory functions of direct or indirect subsidiaries with a share capital of more than DM 5 million or an annual turnover of more than DM 50 million, and actions concerning the corporate structure or the strategy of Deutsche Telekom. In addition, under the German Stock Corporation Act, the Supervisory Board is authorized to subject other actions of the Management Board to its consent.

The Management Board must submit regular reports on the operations of the Company to the Supervisory Board, and the Supervisory Board is also entitled to request special reports at any time. The German Stock Corporation Act prohibits simultaneous membership on the management board and the supervisory board of a company. Both the members of the Management Board and the members of the Supervisory Board owe a duty of loyalty and care to the Company.

In carrying out their duties members of both the Management Board and the Supervisory Board must exercise the standard of care of a prudent and diligent businessman. The interests of the Company are deemed to include the interests of the shareholders, the interests of the work force and, to some extent, the common interest, and both the Management Board and the Supervisory Board must take all these interests into account when taking actions or decisions. Although there is no explicit obligation to act solely in the interests of shareholders, the Management Board is required to respect their rights to equal treatment and equal information.

Under German law, shareholders, like other persons, are prohibited from using their influence on the company to cause a member of the Management Board or the Supervisory Board to act in a way that is harmful to the Company. A controlling enterprise may not cause the Company to take measures that are unfavorable to the Company unless any resulting disadvantage is compensated. An individual shareholder or any other person exerting influence on the Company to cause a member of the Management Board or of the Supervisory Board or holders of special proxies *(Prokuristen* or *Handlungsbevollmächtigte)* to act in a way that is unfavorable to the Company or its shareholders is liable for damages to the Company and its shareholders. Board members who have neglected their duties in taking the actions are likewise jointly and severally liable for damages.

As a general rule under German law, a shareholder has no direct recourse against the members of the Management Board or the Supervisory Board in the event that they are believed to have breached a duty to the Company. Only the Company has the right to claim damages from the members of the two Boards. The Company may only waive such damages or settle such claims if at least three years have passed and if the shareholders so approve at a shareholders' meeting with a simple majority of the votes; provided that the opposing shareholders do not hold, in the aggregate, one-tenth or more of the nominal share capital of the Company and do not formally express their opposition at the shareholders meeting by having their opposition noted in the minutes of the meeting maintained by a German notary *(Notar).*

Management Board

Pursuant to the Company's Articles of Association, the Supervisory Board determines the size of the Management Board, subject to the requirement that the Management Board must have at least two members. The Supervisory Board may appoint a Chairman of the Management Board as well as a Deputy Chairman.

The members of the Management Board are appointed by the Supervisory Board for a term of up to five years. They may be re-appointed or have their term extended for one or more terms of up to five years. Under certain circumstances, such as a material breach of duty or a bona fide vote of no confidence by the shareholders, a member of the Management Board may be removed by the Supervisory Board prior to the expiration of such term. A member of the Management Board may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and the Company.

The Management Board takes action by simple majority unless otherwise provided by law. In the event of a deadlock the Management Board member in whose area of responsibility the resolution falls has a deciding vote.

The current members of the Management Board, their ages and responsibilities, dates of appointment and experience are set forth below. The members of the Management Board may be reached at the Company's registered address.

Dr. Ron Sommer (47 years) was appointed Chairman of the Management Board in May 1995. He began his professional career with the Nixdorf group, first in New York, then in Paderborn and Paris. In 1980, Dr. Sommer became Managing Director of Sony Deutschland and in 1986 he became Chairman of the Management Board of Sony Deutschland. In 1990, Dr. Sommer became President and Chief Operating Officer of Sony Corporation of America, and assumed the same function for Sony Europe in 1993. Dr. Sommer holds a doctorate in mathematics from the University of Vienna.

Detlev Buchal (51 years) was appointed head of the Private Customer Division in February 1996. He began his professional career in 1973 in the legal department of the German Association of Savings and Loan Banks and later became General Counsel of the Schleswig-Holstein Landesbank in Kiel. In 1984, Mr. Buchal returned to the German Association of Savings and Loan Banks as Director of Operations. In 1988, he joined the board of German Eurocard and Eurocheque, GZS Gesellschaft für Zahlungssysteme mbH, and served as its Chairman from 1992 to 1996. Mr. Buchal holds a degree in law.

Dr. Hagen Hultzsch (55 years) was appointed head of the Technology and Services Division in July 1993. In 1977 Dr. Hultzsch became the head of the Computer Center at the Center for Heavy Ion Research in Darmstadt and Director in charge of the Technical Services Group of Electronic Data Systems in Germany in 1985. In 1988, Dr. Hultzsch was appointed Corporate Executive Director responsible for Organization and Information Systems at Volkswagen AG. Dr. Hultzsch studied physics and nuclear physics and received a doctorate in physics from the Johannes Gutenberg University in Mainz.

Dr. Heinz Klinkhammer (50 years) was appointed head of the Personnel and Legal Division in February 1996. He also serves as Director for Personnel and Social Relations *(Arbeitsdirektor)*. Dr. Klinkhammer began his career at the Institute for German and European Labor, Social and Economic Law in Berlin, and later was a judge at the labor courts in Krefeld and Oberhausen. From 1979 to 1990, Dr. Klinkhammer held a number of leading positions at the North-Rhine-Westphalia Ministry of Labor, Health and Social Affairs. He was appointed Director for Personnel and Social Relations at the Krupp

Mannesmann GmbH Iron and Steel Works in 1991, and assumed the same position on the Management Board of Mannesmann-Röhren-Werke AG in 1992. Dr. Klinkhammer studied law and business administration, receiving a doctorate in law from the Free University in Berlin.

Dr. Joachim Kröske (52 years) was appointed head of Finance, Accounting, Controlling and Real Estate in January 1990. He began his career in 1972 at Philips Deutschland. From 1975 onwards he was the Chief Financial Officer of various national and international businesses and companies (Philips Car Radio, Philips Electronic Components, Dräger Electronic Medical Equipment, Bosch Broadcasting Equipment). Dr. Kröske holds a graduate degree in business administration and a doctorate in economics.

Dr. Herbert May (47 years) was appointed head of the Business Customers Division in September 1995. He began his professional career at Standard Elektrik Lorenz AG as department manager for terminal equipment development. He subsequently held various management positions at Alcatel SEL, including head of the Office Communications Division in Stuttgart. In 1994, he was appointed CEO of the newly founded subsidiary DeTeSystem in Frankfurt. Dr. May holds a doctorate in electrical engineering from Stuttgart University.

Erik Jan Nederkoorn (53 years) was appointed head of the International Division in February 1996. He served as financial director of Playtex Corporation in Brussels and Amsterdam, and joined OCE van der Grinten N.V. in 1972 as marketing director. From 1980 to 1987, he served on the Management Board of the Transol International Group. Mr. Nederkoorn then joined the Fokker group in Amsterdam as Chief Financial and Marketing Officer and assumed the position of Chairman of the Management Board in 1991. In 1994, he became Chairman of the Management Board of ARKE N.V. Mr. Nederkoorn holds a degree in accounting from the University of Amsterdam.

Gerd Tenzer (53 years) was appointed head of the Networks, Purchasing and Environmental Protection Division in January 1990. From 1968 to 1970 he worked in telecommunications at the AEG Telefunken Research Institute in Ulm, and joined Deutsche Bundespost in 1970. He transferred to the Post Ministry in 1975, and became head of the Ministry's Telecommunications Policy Section in 1980. Mr. Tenzer holds a degree in communications engineering from the Technical University in Aachen.

Other Senior Officers (T-Mobil)

Dr. Lothar Hunsel (44 years) was appointed Chief Operating Officer of T-Mobil, the Company's largest subsidiary, in April 1994. He began his career as cost analysis manager at Procter & Gamble GmbH and later became a management consultant at McKinsey & Company, Inc. He joined Bertelsmann AG in 1984, where he became a member of the Management Board of the Electronic Media Division in 1988. In 1990, he became Managing Director of Premiere GmbH & Co. KG. Dr. Hunsel holds a doctorate in economics from the University of Münster.

Supervisory Board

In accordance with the Company's Articles of Association, the Supervisory Board of Deutsche Telekom consists of twenty members, ten of whom represent the shareholders and ten of whom represent the employees. Members of the Supervisory Board may be elected for a term of up to five years. The Supervisory Board members representing the shareholders are elected at a general meeting of the shareholders. The current Supervisory Board members representing employees were appointed by the Commercial Registry of the local court in Bonn; in the future such members will be elected by the employees pursuant to the provisions of the Co-Determination Act of 1976 *(Mitbestimmungsgesetz)*. In this election procedure, each class of employees (workers, regular employees and senior management employees) elects its representatives. Pursuant to Postreform II, civil servants, who are not covered by the Co-Determination Act, are included in these groups according to their occupations for purposes of these elections. In addition, all employees elect the union representatives.

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of the votes cast at a general meeting of shareholders. A member of the Supervisory Board elected by the employees may be removed by a majority of at least three-quarters of the votes cast by the relevant class of employees.

The Supervisory Board elects a Chairman and a Deputy Chairman from among its members; in the event that a majority of two-thirds of the members of the Supervisory Board is not achieved, the shareholder representatives elect the Chairman and the employee representatives elect the Deputy Chairman.

To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, the Supervisory Board takes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the Chairman of the Supervisory Board can cast a deciding vote.

The Supervisory Board has formed several committees including a mediation committee, a personnel committee, a committee for extraordinary matters and a presiding committee. All committees have an equal number of shareholder representatives and employee representatives. The Chairman of the Supervisory Board is the chairman of the mediation committee and the presiding committee where he has the deciding vote in case of a tie. In the other committees, the chairman does not have the deciding vote in case of a tie. The chairman of the personnel committee is a representative of the employees.

The current members of Deutsche Telekom's Supervisory Board, the years of their appointment and their principal occupations are as follows:

Name	Member since	Principal Occupation
Prof. Dr. Helmut Sihler, Chairman (1)	1996	Member of the Shareholder Committee of Henkel KGaA, Düsseldorf
Veronika Altmeyer, Deputy Chairman (2)	1995	Member of the Executive Management Board of the German Postal Workers' Union, Frankfurt/Main
Gert Becker (1)	1995	Former Chairman of the Management Board of Degussa AG, Frankfurt/Main
Paul Burkhart (2)	1995	Head of Stuttgart Branch, Deutsche Telekom AG
Helmut Dettmer (2)	1996	Deputy Chairman of the Company Works Council, Deutsche Telekom AG, Bonn
Rainer Funke (1)	1995	Parliamentary State Secretary in the Federal Ministry of Justice, Bonn
Prof. Dr. Peter Glotz (1)	1995	Professor of Communications, Munich; Member of German Parliament

Name	Member since	Principal Occupation
Dr. Klaus Götte (1)	1995	Chairman of the Management Board of MAN AG, Munich
Dr. Dieter Hundt (1)	1995	Managing Partner, Allgaier-Werke GmbH & Co. KG, Uhingen
Franz-Josef Klare (2)	1995	Member of the Management Board of the German Postal Workers' Union, Münster
Dr. Paul Krüger (1)	1995	Member of German Parliament
Dr. h.c. André Leysen (1)	1995	Chairman of the Supervisory Board of Agfa Gevaert N.V., Mortsel, Belgium
Michael Löffler (2)	1995	Chairman of the Works Council, Deutsche Telekom AG, Leipzig Branch
Maud Pagel (2)	1995	Member of the Company Works Council, Deutsche Telekom AG, Bonn
Klaus Pleines (2)	1995	Member of the Works Council, Deutsche Telekom AG, Bad Kreuznach Branch
Willi Russ (2)	1995	Chairman of the German Postal Association, Bonn
Dr. Jürgen Stark (1)	1996	State Secretary in the Federal Ministry of Finance, Bonn
Ursula Steinke (2)	1995	Member of the Works Council, Deutsche Telekom AG, Strategic Computer Center North, Kiel Branch
Prof. Dr. h.c. Dieter Stolte (1)	1995	Director of ZDF Zweites Deutsches Fernsehen, Mainz
Wilhelm Wegner (2)	1996	Chairman of the Company Works Council, Deutsche Telekom AG, Bonn

(1) Shareholder representative
(2) Employee representative

The last election of shareholder representatives to the Supervisory Board took place at the general meeting of shareholders in July 1996. Their terms of office will expire at the end of the general meeting of shareholders at which the shareholders decide to discharge the Supervisory Board members for the fiscal year 2000. The term of office of the employee representatives on the Supervisory Board expires upon the election of new employee representatives in accordance with the Co-Determination Act.

Compensation of the Members of the Management Board and Supervisory Board

In addition to reimbursement of out-of-pocket expenses, members of the Supervisory Board receive a fee of DM 250 as compensation for out-of-pocket expenses and an annual payment, the amount of which is determined by the shareholders' meeting. The annual compensation for the years 1995 and 1996 was set at DM 48,000 for the Chairman, DM 36,000 for the Deputy Chairman and at DM 24,000 for each remaining member of the Supervisory Board.

For the year ended December 31, 1995, the compensation of the Management Board amounted to DM 6.3 million, of which DM 0.2 million was paid by Deutsche Telekom's subsidiaries. Payments made to former members of the Management Board and their heirs in 1995 amounted to DM 0.8 million. At December 31, 1995, the aggregate pension reserve for members of the Management Board amounted to DM 5.5 million and obligations to such persons for which no reserve has been established amounted to DM 3.1 million.

Employees

Deutsche Telekom is one of the largest employers in Germany. The following table sets forth the aggregate number of the Company's employees on a full-time equivalent basis and the numbers of civil servant and non-civil servant employees.

	At December 31, 1993	At December 31, 1994	At December 31, 1995	At June 30, 1996
Full-time equivalent employees	232,964	228,912	213,467	207,126
of which civil servants (percentage)	52.8	53.1	53.6	53.5
non-civil servants (percentage)	47.2	46.9	46.4	46.5

Civil Servants

As of June 30, 1996, approximately 53.5% of Deutsche Telekom's employees were civil servants. No employees hired after January 1, 1995 have been granted civil servant status. Pursuant to Postreform II, upon conversion of Deutsche Telekom to a stock corporation, Deutsche Telekom's civil servant employees retained their civil servant status. As such, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by the Company nor by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are not prohibited from union membership. Although Deutsche Telekom is authorized pursuant to Postreform II to generally exercise the rights and duties of the Federal Republic as the employer of civil servants, the Federal Institute and the Post Ministry have a right of consultation in the implementation of certain aspects of the terms under which Deutsche Telekom employs civil servants.

Non-Civil Servants

As of June 30, 1996, approximately 46.5% of Deutsche Telekom's employees were non-civil servants. In addition to being covered by collective bargaining agreements, such employees are in general covered by the German Termination Protection Act *(Kündigungsschutzgesetz)*, which imposes various restrictions on the involuntary termination of employment.

The vast majority of Deutsche Telekom's non-civil servant employees are organized in unions, principally the German Postal Workers' Union *(Deutsche Postgewerkschaft)*. The terms and conditions of employment and salary increases for these non-civil servant employees are negotiated between the Company and the unions. Pursuant to Postreform II, the Federal Institute is responsible for concluding collective bargaining agreements relating to certain statutorily defined non-wage benefits, rules of conduct and other general terms of employment. Such agreements only become effective with the consent of Deutsche Telekom. See "Relationship with the Federal Republic—Coordination and Administrative Responsibilities of the Federal Institute." Collective bargaining agreements between the Company and unions relating to remuneration typically have a term of one year. The current collective bargaining agreement has a term of one and a half years, running through December 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs."

Employee Relations

Works councils *(Betriebsräte)*, whose members are elected by the employees, represent the interests of the employees vis-à-vis the employer in accordance with the Works Council Act of 1972 *(Betriebsverfassungsgesetz)*. Works councils are established locally, as well as at the level of Deutsche Telekom AG and at the group level. Works councils must be notified in advance of, and have the right to comment on, proposed employee terminations, relocations and other matters, and have codetermination rights in respect of certain social matters, including work schedules and rules of conduct.

The Company believes that its relations with the works council and the unions are good. Constructive relations with its employees and their representatives are of central importance to Deutsche Telekom.

Workforce Reduction Program

The Company has announced that by the end of the year 2000 it intends to reduce the number of its employees to 170,000 (excluding employees of subsidiaries first consolidated after January 1, 1995), which represents a reduction of approximately 60,000 employees from the 1994 year-end level. Deutsche Telekom plans to effect this reduction largely through natural attrition, early retirement for civil servants and other programs. Deutsche Telekom has agreed pursuant to its collective bargaining agreements with the unions that, prior to December 31, 1997, it will not unilaterally terminate employees due to business reasons. Collective bargaining agreements also prevent Deutsche Telekom from terminating employees who have a specified number of years of service with the Company. As of June 30, 1996, Deutsche Telekom had reduced its workforce (excluding employees of Matáv) by over 25,000 employees, which represents a reduction of 11% from the 1994 year-end level. The total incurred and expected costs of this workforce reduction program, amounting to DM 3.4 billion, were recognized as an expense in 1994, 1995 and in the first half of 1996. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs'' and ''—Extraordinary Losses.''

Pensions

Substantially all active and retired employees are entitled to pension benefits.

Pension Arrangements for Civil Servants. Civil servants employed by Deutsche Telekom are entitled to pension benefits provided by the German Government pursuant to the German Civil Servant Pension Act *(Beamtenversorgungsgesetz)*. Pursuant to Postreform II, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund such pension obligations. From 1995 through 1999 Deutsche Telekom is obligated to make annual contributions of DM 2.9 billion to this fund. Beginning in 2000, the Company is obligated to make annual contributions equal to 33% of the gross salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave), which is expected to be significantly lower than the current annual contribution. Any shortfalls in the funding of the civil servant pension obligations must be borne by the Federal Republic.

Pension Arrangements for Non-civil Servants. The benefits provided to non-civil servants are supplementary in nature: the beneficiary receives a pension benefit in addition to the normal social security payment. Deutsche Telekom provides pension benefits to substantially all non-civil servant employees located in the Old Federal States through the VAP. The VAP is administered by the Federal Institute. The VAP provides an overall benefit level, taking into account receipt of governmental social security, determined on the basis of earnings level, length of service and family status.

Most employees in the New Federal States are covered by a pension scheme established in 1996 pursuant to a collective bargaining agreement between Deutsche Telekom and the unions. This pension plan provides for retirement accounts set up by the Company which are credited each year with an amount based on the employee's age and a percentage of the employee's gross annual salary. Upon retirement the employee receives the balance of his account either in a lump sum or in installments.

Employees not covered by the arrangements described above (mainly non-civil servants not covered by collective bargaining agreements) generally receive pension benefits under individual employment contracts.

The Employee Offering

To increase employee identification with Deutsche Telekom, the Company has established a program to encourage employee share ownership in connection with the Global Offering. See ''The Global Offering.''

DESCRIPTION OF SHARES

Set forth below is a summary of certain information relating to Deutsche Telekom's share capital and of certain provisions of Deutsche Telekom's Articles of Association and German law. This summary does not purport to be complete and is qualified by reference to the Company's Articles of Association and German law as in effect at the date of this Prospectus.

Share Capital

Deutsche Telekom's share capital amounts to DM 13,268,500,000 divided into 2,653,700,000 Shares with a nominal value of DM 5 each.

Upon registration of the Company in the Commercial Register on January 2, 1995, the Company's share capital was DM 10 billion divided into 200,000,000 bearer ordinary shares, nominal value DM 50 each. In November 1995, a ten-for-one stock split was effected, with the result that the Company had two billion Shares, nominal value DM 5 each, outstanding at year-end 1995. As a result of a capital increase out of retained earnings entered into the Commercial Register on July 31, 1996, the Company's share capital was increased by DM 150,000,000, increasing the total share capital to DM 10.15 billion. The purpose of this increase was to facilitate a later issue of bonus Shares. See "The Global Offering—Retail Purchases in Germany."

Pursuant to Deutsche Telekom's Articles of Association, the Management Board is authorized, until January 2, 2000, to increase the Company's share capital from time to time by issuing new Shares having an aggregate nominal value of DM 5 billion against in-kind or cash contributions. In general, the shareholders of the Company will enjoy preemptive rights with respect to any such increases. By letters dated November 22, 1995, September 26, 1996 and November 11, 1996 the Federal Institute, on behalf of the Federal Republic, waived its preemptive rights with respect to Shares to be issued in the Global Offering, the Employee Offering and pursuant to the Underwriters' over-allotment option.

The Management Board resolved on November 14, 1996 to increase the share capital through the issue of 600 million Shares for a subscription price equal to the nominal value of DM 5 per Share, up to 90 million Shares for a subscription price equal to the nominal value of DM 5 per Share and up to 30 million Shares for the Employee Offering for a subscription price equal to the nominal value of DM 5 per Share, all such Shares having full dividend rights. This capital increase was approved by the Supervisory Board on November 14, 1996. A capital increase of DM 3,118,500,000 divided into 623,700,000 Shares was entered into the Commercial Register on November 15, 1996. The Shares offered in the Global Offering and the Employee Offering were issued pursuant to this authorization.

Preemptive Rights

Pursuant to the German Stock Corporation Act, every shareholder generally has preemptive rights with respect to an issuance of new shares (as well as securities convertible into shares, securities with warrants to purchase shares, profit-sharing certificates and securities with a profit participation). Preemptive rights may be excluded by a resolution passed by a majority of the votes cast and at least three-quarters of the share capital represented at a shareholders' meeting. In addition, an exclusion of preemptive rights requires a material justification as to which the Management Board must report to the shareholders in writing; the Company's interest in the exclusion of preemptive rights must outweigh the shareholders' interest in exercising their preemptive rights. Preemptive rights with respect to the issuance of new shares may be excluded without such justification if the share capital is increased for cash contributions, the amount of the increase does not exceed 10% of the issued share capital, and the shares are sold at a price which is not substantially lower than the current quoted share price. Pursuant to the Post Entities Transformation Act *(Postumwandlungsgesetz)* and the Articles of Association, the Management Board may, with the approval of the Supervisory Board, exclude preemptive rights in connection with the issuance of Shares to employees of Deutsche Telekom.

Preemptive rights are freely transferable and may be traded on the German stock exchanges for a limited number of days prior to the final date for the exercise of the rights.

Voting Rights and Shareholders' Meetings

Each Share entitles the holder thereof to one vote at the general meeting of the shareholders of the Company. Resolutions are passed at a general meeting by a majority of the votes cast, unless a higher vote is required by law or the Company's Articles of Association. Neither the German Stock Corporation Act nor the Articles of Association provide for minimum quorum requirements for such meetings. The German Stock Corporation Act and the Articles of Association require that significant resolutions be passed by a majority of the votes cast and at least three-quarters of the share capital represented at a meeting, including capital increases with an exclusion of preemptive rights; capital decreases; the creation of authorized capital *(genehmigtes Kapital)* or conditional capital *(bedingtes Kapital)*; dissolution of the Company; merger of the Company into or consolidation of the Company with another stock corporation; a split- or spin-off; transfer of all the Company's assets; conclusion of intercompany agreements *(Unternehmensverträge)*, including, in particular, direct control and profit and loss pooling agreements; and a change in the Company's corporate form.

A general meeting of the shareholders of the Company may be called by the Management Board, the Supervisory Board or by shareholders holding in the aggregate at least 5% of the Company's issued share capital. The annual general meeting must take place within the first eight months of the fiscal year and is called by the Management Board upon the receipt of the Supervisory Board's report on the annual financial statements. Pursuant to the Articles of Association, the right to attend and to vote at a shareholders' meeting will only be accorded to those shareholders who, for the duration of the meeting, deposit their Shares with the Company, a German notary, a bank serving as a depositary for such securities or any other place of deposit specified in the notice of the general meeting. Shareholders must deposit their Shares not later than the seventh day prior to the date of the general meeting. Following such deposit of Shares, a shareholder may still sell or otherwise dispose of his Shares; provided, however, that any voting instructions such shareholder may have given with respect to such Shares will be invalidated. Notice of shareholders' meetings must be published in the Federal Gazette *(Bundesanzeiger)* at least one month prior to the last day on which the Shares must be deposited. In addition, such notices must also be published in a national authorized stock exchange journal.

Dividends and Claims upon Liquidation

Dividends are paid immediately following the resolution by the general meeting of shareholders on the distribution of profits. Shareholders participate in profit distributions in proportion to the nominal value of their Shares.

Under German law, dividends may be declared and paid only from balance sheet profits as shown in the annual financial statements. The annual financial statements are adopted and approved by resolutions of the Management Board and the Supervisory Board. In determining the distributable balance sheet profits, the Management Board and the Supervisory Board are permitted to allocate to profit reserves *(andere Gewinnrücklagen)*, either in whole or in part, the annual surplus *(Jahresüberschuß)* that remains after the deduction of the amounts to be allocated to the statutory reserves and losses carried forward. Pursuant to the Articles of Association, transferring more than one-half of the annual surplus is not permissible if, following such a transfer, the accumulated reserves out of surplus would exceed one-half of the Company's share capital. The shareholders, in determining the distribution of profits, are entitled to allocate additional amounts to the profit reserves and to carry forward profits in part or in full.

Dividends approved at a shareholders' meeting are payable on the first stock exchange trading day after such meeting (unless otherwise decided at the shareholders' meeting). In the case of shareholders holding physical certificates, dividends will be paid in full by the paying agents appointed by the Company against presentation of the appropriate dividend coupon. Details regarding paying agents are published in the Federal Gazette. Shareholders holding Shares through the DKV will receive dividends by credit to their respective accounts.

In accordance with the German Stock Corporation Act, upon a liquidation of the Company, any liquidation proceeds remaining after paying off all the Company's liabilities will be distributed among shareholders in proportion to their holdings of Shares.

Notification Requirements

Under the German Stock Corporation Act, an enterprise *(Unternehmen)* owning Shares in the Company must notify the Company in writing without undue delay if, *inter alia*, the aggregate number of Shares held by, or attributable to, it exceeds or, having exceeded such threshold, falls below 25% or 50% of the share capital of the Company. Failure to notify the Company will, for so long as such failure continues, disqualify the shareholder from exercising any rights attaching to his Shares (*e.g.*, voting rights, subscription rights and dividends).

In addition, under the Securities Trading Act *(Wertpapierhandelsgesetz)*, any person whose direct or indirect voting interest reaches, exceeds or, after reaching, falls below 5%, 10%, 25%, 50% or 75% of the voting rights in the Company, whether through acquisition or disposition of Shares or otherwise, must, without undue delay, but in any event within seven calendar days, inform the Company and the Federal Supervisory Authority for Securities Trading in writing (i) that he has reached, exceeded or fallen below the aforesaid thresholds and (ii) the extent of his voting rights. Failure to notify the Company or the Federal Securities Supervisory Office will, for so long as such failure continues, disqualify the shareholder from exercising the voting rights attached to his Shares.

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

The following is a summary of certain provisions of the deposit agreement (''Deposit Agreement'') among Deutsche Telekom, Citibank, N.A., as depositary (the ''Depositary'') and the holders and beneficial owners from time to time of ADRs issued thereunder. This summary does not purport to be complete and is subject to and qualified by reference to the Deposit Agreement. Terms used in this summary and not otherwise defined in this document have the meanings set forth in the Deposit Agreement. Copies of the Deposit Agreement will be available for inspection at the Depositary's Office (the ''Corporate Trust Office''), currently located at 111 Wall Street, New York, New York 10043, and at the Frankfurt office of Citibank AG, as the custodial agent of the Depositary (the ''Custodian''), currently located at Neue Mainzer Str. 75, Frankfurt am Main, Germany. The Depositary's principal executive office is located at 111 Wall Street, New York, New York 10043.

American Depositary Receipts

ADRs evidencing ADSs will be issuable by the Depositary pursuant to the Deposit Agreement. Each ADR will evidence a specified number of ADSs and each ADS represents one Share, or evidence of the right to receive one Share. The Shares represented by the ADSs will be held in the account of the Custodian within the DKV and are, together with any additional Shares at any time deposited or deemed deposited under the Deposit Agreement and any and all other securities, cash and/or property received by the Depositary or the Custodian in respect or in lieu of such Shares, hereinafter referred to as ''Deposited Securities''. Only persons in whose names ADRs are registered on the register of the Depositary will be treated by the Depositary and Deutsche Telekom as owners of such ADRs.

Deposit, Transfer and Withdrawal

Subsequent to the initial deposit of Shares by the Company, subject to the terms and conditions of the Deposit Agreement, the Depositary has agreed to issue ADRs for delivery at the Corporate Trust Office of the Depositary against delivery or transfer to the Custodian of: (i) Shares by credit to the account of the Custodian with the DKV or (ii) subject to certain limitations, rights to receive Shares. The Depositary will, upon payment of the fees, charges and taxes as provided in the Deposit Agreement, execute and deliver at its Corporate Trust Office to, or upon the written order of, the person or persons named in the notice of the Custodian delivered to the Depositary or requested by the person depositing such Shares with the Depositary, an ADR or ADRs, registered in the name or names of such person or persons, and evidencing any authorized number of ADSs requested by such person or persons. ADRs shall be issued only in denominations of whole numbers of ADSs. At the request, risk and expense of the person depositing Shares or rights to receive Shares, the Depositary may deliver ADRs at a place other than the Corporate Trust Office.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws.

Upon surrender at the Corporate Trust Office of the Depositary of an ADR for the purpose of withdrawal of the Deposited Securities represented by the ADSs evidenced by such ADR, and upon payment of the fees, governmental charges and taxes as provided in the Deposit Agreement, and subject to the terms and conditions of the Deposit Agreement, the Holder of such ADR will be entitled to delivery, (i) in the case of Deposited Securities that are eligible for deposit with the DKV, to the account specified with the DKV, of the Shares at the time represented by the ADS or ADSs evidenced by such ADR and (ii) in the case of Deposited Securities that are not eligible for deposit with the DKV, at the office of the Custodian, in each case of the whole number of Shares and other Deposited Securities at the time represented by such ADS or ADSs. The forwarding of share certificates, other securities, property, cash and other documents of title for such delivery will be at the risk and expense of the Holder or Beneficial Owner.

Neither the Depositary nor the Custodian shall deliver in any manner Shares or otherwise permit such Shares to be withdrawn from the facilities created by the Deposit Agreement, except upon the receipt and cancellation of ADRs. Subject to the terms and conditions of the Deposit Agreement and any limitations established by the Depositary, the Depositary may, however, deliver ADRs prior to the receipt of Shares and deliver Shares prior to the receipt and cancellation of corresponding ADRs (each, a ''Pre-Release''), and may receive ADRs in lieu of Shares or Shares in lieu of ADRs in satisfaction of a Pre-Release. Each Pre-Release shall be (a) accompanied by or subject to a written agreement from the person to whom the ADRs are to be issued or delivered (the ''Applicant'') that the Applicant or its customer (i) owns the Shares or ADRs to be remitted, as the case may be, (ii) agrees to indicate the Depositary as owner of such Shares or ADRs in its records and to hold such Shares or ADRs in trust for the Depositary until such Shares or ADRs are delivered to the Depositary or the Custodian, (iii) unconditionally guarantees to deliver to the Depositary or the Custodian, as applicable, such Shares or ADRs and (iv) agrees to any additional restrictions or requirements that the Depositary deems appropriate, (b) at all times fully collateralized (marked to market daily) with cash, U.S. Government securities, or such other collateral of comparable safety and liquidity as the Depositary deems appropriate (such collateral shall not constitute Deposited Securities), (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary will also limit the number of ADRs involved in such Pre-Release transactions so that Shares not deposited but represented by ADSs outstanding at any time as a result of Pre-Releases will not normally exceed 30% of the Shares deposited under the Deposit Agreement, but the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate and may, after consultation with Deutsche Telekom, change such limit from time to time for purposes of general application. The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral provided by the Applicant.

Dividends, Other Distributions and Rights

Subject to any restrictions imposed by German law, regulations or applicable permits, the Depositary is required, as promptly as practicable, to convert or cause to be converted into U.S. Dollars, to the extent that in its judgment it can do so on a reasonable basis and can transfer the resulting U.S. Dollars to the United States, all cash dividends and other cash distributions denominated in a currency other than U.S. Dollars (''Foreign Currency'') that it receives in respect of the Deposited Securities, and, as promptly as practicable, to distribute the resulting U.S. Dollar amount to the Owners entitled thereto, in proportion to the number (including any fractional number) of ADSs representing such Deposited Securities evidenced by ADRs held by them respectively. Such distribution may be made upon an averaged or other practicable basis. The amount distributed will be reduced by any expenses of conversion into U.S. Dollars incurred by the Depositary, any applicable fees due to the Depositary as provided in the Deposit Agreement, and any amount on account of taxes to be withheld by the Company or the Depositary. The Company may elect to, but is not obligated to, convert any foreign currency distribution into U.S. Dollars and make payment of such distribution to the Depositary on behalf of the Holders in U.S. Dollars.

If the Depositary determines that in its reasonable judgment any Foreign Currency received by it is not convertible, in whole or in part, on a practicable basis into U.S. Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period or at a reasonable cost as determined by the Depositary, the Depositary may distribute all or part of the Foreign Currency (or the appropriate document evidencing the right to receive such Foreign Currency) received by it to, or in its discretion may hold such Foreign Currency uninvested and without liability for interest thereon for the respective accounts of, the Holders entitled to receive the same. All expenses of any such conversion (and of obtaining any applicable approvals or licenses) shall be deducted from the proceeds thereof.

If the Company declares a dividend in, or free distribution of, Shares, the Depositary will distribute, as promptly as practicable, to the Holders of outstanding ADRs entitled thereto, in proportion to the number of ADSs evidenced by the ADRs held by them respectively, additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of ADSs evidenced by ADRs, including the withholding of any tax or other governmental charge and the payment of the fees and expenses of the Depositary. The Depositary may also make appropriate adjustments for U.S. Dollars available to it resulting from the net proceeds of sales of Share received in a Share distribution, which Shares would give rise to fractional ADSs if additional ADRs were issued therefor, as in the case of cash. With prior written consent of the Company, the Depositary may change the ratio of ADSs to Shares to reflect the additional Shares so distributed and deposited. The Depositary may withhold any such distribution of ADRs if it has not received satisfactory assurances from the Company that such distribution does not require registration under the U.S. Securities Act of 1933, as amended, (the "U.S. Securities Act") or is exempt from registration under the provisions of the U.S. Securities Act.

If the Company instructs and timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute warrants or other instruments representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities, the Depositary, after consultation with the Company, will have discretion as to the procedure to be followed in making such rights available to any Holders or in disposing of such rights for the benefit of any Holders and making the net proceeds available in U.S. Dollars to such Holders. If by the terms of such rights offering or for any other reason, the Depositary may neither make such rights available to any Holders nor dispose of such rights and make the net proceeds available to such Holders, then the Depositary shall allow the rights to lapse; provided, however, if at the time of the offering of any rights the Depositary determines that it is lawful and feasible to make such rights available to Holders, the Depositary may, and if requested by the Company will, distribute to each Holder to whom it determines the distribution to be lawful and feasible, in proportion to the number of ADSs held by such Holder, warrants or other instruments therefor in such form as it deems appropriate. If the Depositary determines that it is not lawful and feasible to make such rights available to all or certain Holders, it may, upon determination that the sales of such rights are practicable and after consultation with the Company, sell as promptly as practicable such rights, warrants or other instruments in proportion to the number of ADSs held by the Holders to whom it has determined it may not lawfully or feasibly make such rights available, and distribute to each Holder entitled thereto on the record date set by the Depositary therefor in proportion to the number of ADSs (including any fractional number) held by such Holder.

Whenever the Depositary shall receive any distribution other than cash, Share distributions or rights in respect of the Deposited Securities, the Depositary will as promptly as practicable cause the securities or property received by it to be distributed to the Holders entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary, by any means that the Depositary may deem after consultation with the Company lawful and practicable; provided, however, that if in the opinion of the Depositary such distribution for any reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed) cannot be made in a lawful, equitable and practicable manner, the Depositary may, after consultation with the Company to the extent practicable, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, and the net proceeds of any such sale will be distributed by the Depositary to the Holders entitled thereto as in the case of a distribution received in cash.

In connection with any distribution on the Deposited Securities, each of the Company, the Depositary, and the Custodian shall remit to the appropriate governmental authority such amounts (if any) as it may be required by law to withhold and pay to such authority. The Depositary shall forward to the Company in a timely manner such information from its records as the Company may reasonably request to enable the Company to file necessary reports with governmental authorities.

The Depositary shall make reasonable efforts to establish and maintain arrangements that assist Holders in claiming any tax refunds, credits or other benefits (pursuant to treaty or otherwise) relating to distributions on ADSs. The Depositary shall provide copies of any filing that it makes in conjunction with any such arrangements to the Company. The Company shall provide such cooperation in establishing and maintaining any such arrangements as the Depositary may reasonably request.

Record Dates

Whenever any distribution is made on or in respect of Deposited Securities, the Depositary shall receive notice of any meeting or solicitation of consents or proxies of holders of Deposited Securities, or any other notice is to be received or actions to be taken by Holders, the Depositary will fix a record date (which date shall, subject to the respective requirements of the NYSE and applicable law, (x) in the case of a distribution unless otherwise agreed by Deutsche Telekom, be the same date as the distribution date fixed by Deutsche Telekom and (y) in all other circumstances, be fixed after consultation with Deutsche Telekom to the extent practicable) (a) for the determination of the Holders who shall be entitled (i) to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or (ii) to give instructions for the exercise of voting rights at any such meeting, or (b) on or after which each ADS will represent the changed number of Shares, all subject to the provisions of the Deposit Agreement.

Voting of Deposited Securities

Upon receipt of notice of any meeting of Holders of Shares or other Deposited Securities, the Depositary will, subject to applicable law and Deutsche Telekom's Articles of Association, as soon as practicable thereafter, mail to all Holders (for forwarding to the Beneficial Owners) a notice (a) containing such information as is contained in the notice or solicitation sent by Deutsche Telekom to the Depositary, (b) stating that each Holder on the record date set by the Depositary therefor will be entitled to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the whole number of Deposited Securities underlying such Holder's ADRs, and (c) specifying how and when such instructions may be given. Upon receipt of instructions of a Holder on such record date in the manner and on or before the date established by the Depositary for such purpose, the Depositary will endeavor, insofar as practicable and permitted under applicable law, Deutsche Telekom's Articles of Association and the provisions of or governing Deposited Securities, to vote or cause to be voted the Deposited Securities underlying such Holder's ADRs in accordance with such instructions. Upon the request of a Holder who has not previously given instructions as to the exercise of voting rights pertaining to the Deposited Securities underlying such Holder's ADRs, and subject to compliance with any reasonable regulations the Depositary may establish (which may include the deposit or blocking of transfers of such ADRs), the Depositary will endeavor to provide such Holder the documentation necessary to attend and vote at a meeting of holders of Deposited Securities. There can be no assurance that the Holders generally or any Holder in particular will receive the notice described in this paragraph sufficiently prior to the date established by the Depositary for the receipt of instructions to ensure that the Depositary will in fact receive such instructions on or before such date. If no instructions are received from the Depositary from any Holder with respect to any of the Deposited Securities represented by such Holder's ADRs on or before the date established by the Depositary for such purpose, the Depositary shall not vote or cause to be voted such Deposited Securities at the relevant meeting.

Disclosure of Interests in Deposited Securities

The Depositary, each Holder and each Beneficial Owner will agree to comply with all applicable provisions of German law and Deutsche Telekom's Articles of Association regarding the notification of such person's interest in Shares. To the extent that provisions of or governing any Deposited Securities (including Deutsche Telekom's by-laws or applicable law) require the disclosure of beneficial or other ownership of the Deposited Securities or limit such ownership, the Depositary shall use reasonable efforts to comply with Company instructions in respect of any such disclosure requirements. Holders and Beneficial Owners will be required to comply with all such disclosure requirements and ownership limits and acknowledge that failure to provide on a timely basis any required notification of an interest in Shares may result in withholding of certain rights, including voting and dividend rights, in respect of the Shares in which such Holder or Beneficial Owner has an interest.

Reports and Other Communications

The Depositary will make available for inspection by Holders at its Corporate Trust Office and at the principal office of the Custodian copies of the Deposit Agreement, Deutsche Telekom's Articles of Association and notices, reports and communications, including any proxy soliciting materials, received from Deutsche Telekom, which are both (a) received by the Depositary or the Custodian or the nominee of either as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by Deutsche Telekom. The Depositary will also send to the Holders copies of such notices, reports and communications when furnished by Deutsche Telekom to the Depositary pursuant to the Deposit Agreement. Any such reports and communications, including any proxy soliciting material, furnished to the Depositary by Deutsche Telekom will be furnished in English to the extent, if any, required by the rules and regulations of the U.S. Securities and Exchange Commission (the ''Commission''), of the NYSE or any other securities exchange or market upon which the ADSs may be listed or traded.

Amendment and Termination of the Deposit Agreement

The ADRs and the Deposit Agreement may be amended by Deutsche Telekom and the Depositary without the consent of the Holders or Beneficial Owners; provided, that any amendment that imposes or increases any fees or charges (other than taxes and other governmental charges, registration, exchange or transfer fees, cable, telex, and facsimile transmission expenses, or delivery charges and expenses incurred in the conversion of foreign currency), or which otherwise prejudices any substantial existing right of Holders or Beneficial Owners, will become effective 60 days after notice of such amendment shall have been given to the Holders. Every Holder and Beneficial Owner, at the time any amendment so becomes effective, will be deemed, by continuing to hold an ADR or ADRs, to consent and agree to such amendment and to be bound by the ADRs and the Deposit Agreement as amended thereby. The Deposit Agreement provides that in no event shall any amendment impair the right of any Holder of any ADR to surrender such ADR and receive therefor the Deposited Securities represented thereby except in order to comply with mandatory provisions of applicable law.

The Depositary shall, at the written direction of Deutsche Telekom, terminate the Deposit Agreement and the ADRs by mailing notice of such termination to the Holders of ADRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement, after mailing notice of such termination to all Holders of ADRs at any time 45 days or more after the Depositary shall have delivered to Deutsche Telekom its written resignation or after Deutsche Telekom shall have removed the Depositary, provided that no successor depositary shall have been appointed and accepted its appointment, in accordance with the terms of the Deposit Agreement. On and after the date of termination, the Holder of an ADR will upon surrender of such ADR at the Corporate Trust Office of the Depositary and payment of the fees, governmental charges and taxes as provided in the Deposit Agreement be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the ADSs evidenced by such ADR. After the date of termination of the Deposit Agreement, the Depositary will be required to perform no further acts under the Deposit Agreement or the ADRs, except to advise Holders of such termination, receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn together with any distributions on Deposited Securities, in accordance with the terms of the Deposit Agreement. As soon as practicable after the expiration of one year from the date of termination of the Deposit Agreement, the Depositary will sell the Deposited Securities then held thereunder and hold the net proceeds of such sale together with any other cash then held by it under the Deposit Agreement, without liability for interest, for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary will be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreement and any applicable taxes or other governmental charges) and its indemnification obligations to Deutsche Telekom. After the date of termination, Deutsche Telekom also will be discharged from all obligations under the Depositary Agreement except for its indemnification and payment obligations to the Depositary.

Charges of the Depositary

The Depositary may charge to the extent permitted by applicable law and the rules of any securities exchange on which the ADRs are listed for trading each person depositing or withdrawing Shares or surrendering ADRs or to whom ADRs are issued or Holder where applicable: (1) a fee not in excess of $5.00 per 100 ADSs (or portion thereof) for the execution and delivery or surrender of ADRs pursuant to the Deposit Agreement; (2) taxes and other governmental charges; (3) such fees as may from time to time be in effect for the registration, exchange or transfer of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals; (4) such cable, telex and facsimile transmission expenses and delivery charges as are expressly provided in the Deposit Agreement to be at the expense of persons depositing Shares or Holders; and (5) such expenses as are incurred by the Depositary in the conversion of Foreign Currency pursuant to the Deposit Agreement.

Liability of Holders for Taxes

The Holders and Beneficial Owners may be required from time to time to file such proof of taxpayer status or residence, including executing certifications thereof, or to provide any information that the Depositary, Custodian or Company may request with respect to such status. If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to any ADR, any ADSs evidenced by any ADR, any Deposited Securities underlying any ADR, or any distribution in respect of any of the foregoing, such tax or other governmental charge will be payable by the Holder of such ADR to the Depositary. The Depositary may refuse to effect delivery of ADSs, registration of any ADR, distribution of cash or other property or any withdrawal of the underlying Deposited Securities until proof of such payment is available to the Depositary. The Depositary may also deduct from any distributions on Deposited Securities, or may sell by public or private sale for the account of the Holder of ADRs all or any part of such Deposited Securities (after attempting by reasonable means to notify the Holder of ADRs prior to such sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge. The Holder of such ADR shall remain liable for any deficiency.

In the event that the Depositary undertakes to assist the Holders in obtaining a refund of withholding tax pursuant to the tax treaty between the United States and Germany or the tax treaty between Canada and the Federal Republic of Germany, the Holders will indemnify and hold harmless the Depositary, its officers, employees, agents and affiliated companies against all taxes, interest, penalties, and/or additions to tax arising out of claims filed by the Depositary on behalf of the Holders seeking a refund of taxes withheld or any other tax benefit obtained by the Depositary, Custodian or Company for the Holders. See ''Taxation—United States Taxation—Refund Procedures.''

General Limitations

Neither the Depositary nor Deutsche Telekom nor any of their respective directors, employees, agents or affiliates will (a) be liable to any Holder or Beneficial Owner, (i) if law, regulation, the provisions of or governing any Deposited Security, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act that the Agreement or the ADRs provide shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or the ADR; (b) assume any obligation or be subject to any liability under the Deposit Agreement to Holders or Beneficial Owners, except that they agree to perform their respective obligations specifically set forth under the Deposit Agreement without negligence or bad faith; (c) have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or the ADRs, absent adequate indemnification; (d) be liable for any action or inaction in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, Beneficial Owner or any other person in each case believed in good faith to be competent to give such advice or information; or (e) incur any liability for the creditworthiness of any third party. In the event that Deutsche Telekom makes a distribution (of whatever nature) and, by virtue of applicable law or for any other reason, such distribution cannot be made available to Holders and the Depositary is unable to dispose of such distribution on behalf of, and to make the net proceeds of such disposal available to, such Holders, then the Depositary shall not make such distribution, in accordance with the terms of the Deposit Agreement, and shall, where such distribution comprises rights, allow such rights to lapse.

The Depositary will keep, at its office in the City of New York (currently at 111 Wall Street, New York, New York 10043), (a) a register for the registration, registration of transfer, combination and split-up of ADRs, which at all reasonable times will be open for inspection by the Holders of ADRs solely for the purpose of communicating with Holders in the interest of the business of Deutsche Telekom or a matter related to the Deposit Agreement and (b) facilities for the delivery and receipt of ADRs.

The Depositary may, with the written consent of Deutsche Telekom, perform its obligations under the Deposit Agreement through any agent appointed by it including, but not limited to, a co-registrar to register ADRs and transfers, combinations and split-ups of ADRs and to countersign ADRs and/or a co-transfer agent for the purpose of effecting transfers, combinations or split-ups of ADRs at designated offices in addition to the Corporate Trust Office of the Depositary. The Depositary shall remain responsible for the performance of its obligations under the Deposit Agreement as if no agent were appointed. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Holders or persons entitled to ADRs and will be entitled to protection and indemnity to the same extent as the Depositary.

Governing Law

The Deposit Agreement and the ADRs will be governed by and construed in accordance with the laws of the State of New York.

TAXATION

German Taxation

The following is a brief summary of certain German tax consequences for beneficial owners of Shares or ADSs that are not German residents for German income tax purposes and do not hold Shares or ADSs as part of a permanent establishment or a fixed base in Germany (''Non-German Holders''). This summary is based upon German law and typical tax and other treaties between Germany and other countries in effect as of the date hereof and is subject to changes in German law or such treaties. The following is not meant to be a comprehensive discussion of all of the German tax consequences which may be relevant for Non-German Holders. Prospective purchasers should consult their tax advisors regarding the German federal, state and local tax consequences of the purchase, ownership and disposition of Shares and the procedures for the refund of German taxes withheld from dividends.

Dividends

In general, German corporations are subject to corporate income tax at a rate of 45% on non-distributed profits and of 30% on distributed profits. Since January 1, 1995, the corporate income tax liability has been subject to a 7.5% surcharge. Because the German corporate tax imputation system does not extend to the surcharge, the corporate income tax and surcharge result in an effective aggregate charge of 32.92% instead of 32.25% (30% plus 7.5% thereof) on distributed profits. While German taxpayers (including foreign investors that hold Shares or ADSs as part of a permanent establishment or a fixed base in Germany) are entitled to a refundable tax credit in the amount of three-sevenths of the gross amount (before dividend withholding tax) of profits distributed, which credit also reduces the basis for the 7.5% surcharge on the German taxpayer's income tax liability, that credit or refund is not available to Non-German Holders.

In addition, a 25% withholding tax is imposed on gross dividend distributions by a German corporation. With respect to a Non-German Holder, this rate may be reduced by a tax treaty applicable to such Non-German Holder. Under most tax treaties the withholding tax rate is reduced to 15%. The reduction is granted by way of a refund of the difference between the tax withheld at the statutory rate of 25% and the applicable treaty rate upon application to the German tax authorities (Bundesamt für Finanzen, Friedhofstraße 1, 53221 Bonn, Germany). For Non-German Holders of ADSs entitled to the benefits of the income tax treaty between the United States and Germany (the ''Treaty'') a special refund procedure may apply (see ''United States Taxation—Refund Procedures'').

Under the Treaty, provided the corporate tax imputation system continues to apply to individuals under German law, qualifying U.S. shareholders are entitled to an additional reduction in German tax equal to 5% of the gross amount of the dividend, which is refundable together with the general treaty refund discussed in the preceding paragraph. Special U.S. tax rules applicable to this additional refund are discussed below under ''United States Taxation—Dividends.''

The above-mentioned 7.5% surcharge also applies to the German withholding tax. This surcharge equals 1.875% (7.5% (surcharge) $\times$ 25% (statutory rate)) of the gross distribution. Non-German Holders that are entitled to a reduction of the rate of withholding under a tax treaty are entitled to a refund of the difference between the total amount actually withheld, including the surcharge, and the applicable treaty rate.

Capital Gains

Under German domestic tax law, gain which Non-German Holders derive from the sale or other disposition of Shares or ADSs is not subject to tax in Germany, provided the Non-German Holder has not held, directly or indirectly, more than 25% of the Shares at any time during the 5-year period immediately preceding the disposition. Most German tax treaties (including the Treaty) provide that Non-German Holders are not subject to German income or trade tax on such capital gains.

Net Asset Taxes

Under German domestic law, a Non-German Holder is subject to German net asset taxation with respect to the Shares or ADSs only if such Holder holds, directly or indirectly, 10% or more of the German corporation's shares. Under most German tax treaties (including the Treaty), Non-German Holders who are residents of the other contracting state for purposes of the treaty are exempt from the German net asset tax.

Inheritance and Gift Tax

Under German law, German gift or inheritance tax will be imposed on transfers of Shares or ADSs by gift or at death of a Non-German Holder only if (i) the donor or transferor, or the heir, donee or other beneficiary, was domiciled in Germany at the time of the transfer or, with respect to German citizens who are not domiciled in Germany, if such donor, transferor or beneficiary has not been continuously outside of Germany for a period of more than 5 years, or (ii) the Shares or ADSs subject to such transfer consist or form part of a portfolio of 10% or more of such Shares or ADSs held directly or indirectly by the donor or transferor himself or together with a related person. The few German estate tax treaties currently in force (*e.g.*, the treaty with the United States) usually provide that German gift or inheritance tax may only be imposed if condition (i) above is met.

Other Taxes

No German transfer, stamp or other similar taxes apply to the purchase, sale or other disposition of Shares or ADSs by Non-German Holders.

United States Taxation

The following is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of Shares or ADSs by a holder that is a resident of the United States for purposes of the Treaty and is fully eligible for benefits under the Treaty (a ''U.S. Holder''). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase Shares or ADSs. In particular, this summary deals only with U.S. Holders that will hold Shares or ADSs as capital assets, and does not address the tax treatment of U.S. Holders that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, securities dealers, investors liable for alternative minimum tax, persons that hold Shares or ADSs as part of an integrated investment (including a ''straddle'') comprised of a Share or ADS and one or more other positions, and holders whose ''functional currency'' is not the U.S. Dollar. The summary is based on the Treaty and the tax laws of the United States and Germany in effect on the date hereof, which are subject to change. Prospective purchasers should consult their own advisers as to the tax consequences of the purchase, ownership and disposition of ADSs or Shares in light of their particular circumstances, including the effect of any state, local or other national laws.

A holder generally will be entitled to Treaty benefits (and therefore will be a U.S. Holder, as defined above) if the holder is (i) an individual U.S. resident, a U.S. corporation, or a partnership, estate, or trust to the extent its income is subject to taxation in the United States as the income of a U.S. resident, either in its hands or in the hands of its partners or beneficiaries; (ii) not also a resident of Germany for German tax purposes; and (iii) not subject to an anti-treaty shopping article that applies in limited circumstances. The Treaty benefits discussed below generally are not available to U.S. Holders who hold Shares or ADSs in connection with the conduct of business in Germany through a permanent establishment or the performance of personal services in Germany through a fixed base. This summary does not discuss the treatment of such holders.

In general, for U.S. federal income tax purposes and for purposes of the Treaty, beneficial owners of ADRs evidencing ADSs will be treated as the beneficial owners of the Shares represented by those ADSs.

Dividends

Dividends paid by German corporations generally are subject to German withholding tax at an aggregate rate of 26.875% (consisting of a 25% withholding tax and a 1.875% surcharge).

U.S. Holders are entitled to claim a refund of a portion of these withholding taxes, and will be treated as receiving additional dividend income from the Company, under the mechanism described below. Under the Treaty, a U.S. Holder will be entitled to receive a payment from the German tax authorities equal to 16.875% of the declared dividend. The Treaty provides that a portion of this payment (*i.e.*, 11.875% of the declared dividend) will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15%, and the remainder of the payment (*i.e.*, 5% of the declared dividend) will be treated as the net amount of an additional dividend of 5.88% of the declared dividend that has been subject to a 15% German withholding tax. Accordingly, if the Company declares a dividend of 100, a U.S. Holder initially will receive 73.125 (100 minus the 26.875% withholding tax). The U.S. Holder then can claim a refund from the German authorities of 16.875, and thereby will receive total cash payments of 90 (*i.e.*, 90% of the declared dividend). For U.S. tax purposes, the holder will be deemed to have received total dividends of 105.88, consisting of the declared dividend of 100, plus the deemed additional dividend of 5.88 that is associated with the Treaty refund.

Distributions paid out of the Company's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to Shares or ADSs (including the additional dividend associated with the Treaty refund and amounts withheld in respect of German withholding tax) generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15% rate provided under the Treaty will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against a Holder's U.S. federal income tax liability. Thus, in the example above, in respect of an aggregate dividend of 105.88 a U.S. holder would be deemed to have paid German taxes of 15.88.

Dividends paid in Deutsche Mark will be includible in the income of a U.S. Holder in a U.S. Dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder or, in the case of ADSs, by the Depository regardless of whether the payment is in fact converted into U.S. Dollars. If dividends paid in Deutsche Mark are converted into U.S. Dollars on the date of receipt, holders generally should not be required to recognize foreign currency gain or loss (which is treated as ordinary income or loss) in respect of the dividend income. A U.S. Holder may be required to recognize domestic source foreign currency gain or loss on the receipt of a refund in respect of German withholding tax to the extent the U.S. Dollar value of the refund differs from the U.S. Dollar equivalent of that amount on the date of receipt of the underlying dividend.

Distributions to U.S. Holders of additional Shares that are made as part of a *pro rata* distribution to all shareholders of the Company generally will not be subject to U.S. federal income tax.

Refund Procedures

Pursuant to administrative procedures recently introduced on a trial basis, claims for refunds payable under the Treaty to certain U.S. Holders must be submitted to the German tax authorities by the Depositary collectively on behalf of all such U.S. Holders. This procedure is not available for U.S. Holders entitled to refunds in excess of DM 300 for the calendar year; such holders must file separate claims. Claims must be filed within four years of the end of the calendar year in which the dividend was received.

Details of the collective refund procedure will be available from the Depositary. Individual claims for refund are made on a special German form, which must be filed with the German tax authorities: Bundesamt für Finanzen, Friedhofstraße 1, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address, or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998, or from the Office of the Assistant Commissioner (International), Internal Revenue Service, 950 L'Enfant Plaza South, S.W., Washington, D.C. 20024, Attention: Taxpayer Service Division.

As part of the individual refund claim, a U.S. Holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the holder's name, Social Security number or Employer Identification number, tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. Holder, which then must submit the certification with its claim for refund.

Refunds under the Treaty are not available in respect of Shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

Capital Gains

Under the Treaty, a U.S. Holder will not be subject to German capital gains tax in respect of a sale or other disposition of Shares or ADSs unless the Shares or ADSs are held in connection with a permanent establishment or fixed base in Germany.

Gain realized by a U.S. Holder on the sale or other disposition of Shares or ADSs generally will be subject to U.S. federal income taxation as capital gains and will be long-term capital gain if the ADSs or Shares were held for more than one year. Deposits and withdrawals of Shares in exchange for ADSs will not result in realization of gain or loss for U.S. federal income tax purposes.

Inheritance and Gift Tax

Under the current estate, inheritance and gift tax treaty between the United States and Germany (the ''Estate Tax Treaty''), a transfer of Shares or ADSs by gift or by reason of the death of a U.S. Holder generally will not be subject to German gift or inheritance tax unless the donor or transferor, or the heir, donee or other beneficiary, is domiciled in Germany for purposes of the Estate Tax Treaty at the time the gift was made, or at the time of the donor's or transferor's death, or the Shares or ADSs were held in connection with a permanent establishment or fixed base in Germany.

The Estate Tax Treaty provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where Shares or ADSs are subject to German inheritance or gift tax and United States federal estate or gift tax.

Information Reporting and Backup Withholding

Dividends on Shares or ADSs, and payments of the proceeds of a sale of Shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31% rate unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

UNDERWRITING

Under the terms and subject to the conditions contained in the Global Underwriting Agreement entered into on November 15, 1996 among the Company, the Global Coordinators and the other Underwriters named therein (the "Global Underwriting Agreement"), the Company has agreed to sell to each of the International Underwriters named below (the "International Underwriters"), and each of the International Underwriters has severally but not jointly agreed to purchase from the Company, the respective number of Shares (all or a portion of which the International Underwriters may elect to receive in the form of ADSs) set forth opposite its name below:

Asia-Pacific/Rest of World Underwriters	Number of Shares
Daiwa Europe Limited	8,250,000
Nomura International plc	2,100,000
Lehman Brothers International (Europe)	2,100,000
Deutsche Morgan Grenfell Hong Kong Limited	3,000,000
ABN AMRO Rothschild	1,500,000
CS First Boston Limited	1,500,000
Dresdner Kleinwort Benson (Asia) Limited	2,550,000
Goldman Sachs (Asia) L.L.C.	2,550,000
HSBC Investment Bank plc	1,500,000
Indosuez Capital	600,000
Nikko Europe Plc	600,000
WestLB Securities Pacific Ltd.	858,000
Yamaichi International (Europe) Limited	858,000
The Development Bank of Singapore Ltd	186,000
Rashid Hussain Securities SDN BHD	186,000
Securities One Public Company Limited	186,000
Ssangyong Investment & Securities Co. Ltd.	186,000
JB Were & Son	225,000
Kankaku (Europe) Limited	210,000
KOKUSAI Europe Limited	210,000
New Japan Securities Europe Limited	210,000
Universal (U.K.) Limited	225,000
Wako International (Europe) Limited	210,000
Total	30,000,000

Rest of Europe Underwriters	Number of Shares
Banque Paribas	8,613,000
UBS Limited	3,333,000
Dresdner Bank Aktiengesellschaft	3,168,000
ABN AMRO Rothschild	2,739,000
Banque Nationale de Paris	2,112,000
CS First Boston Limited	2,772,000
Deutsche Bank Aktiengesellschaft	2,574,000
Goldman Sachs International	2,838,000
Banque Générale du Luxembourg Société Anonyme	528,000
Bayerische Vereinsbank Aktiengesellschaft	495,000
BBV Interactivos, SVB, SA	495,000
Commerzbank Aktiengesellschaft	561,000
Creditanstalt Investment Bank AG	429,000
Den Danske Bank Aktieselskab	528,000
Enskilda, Skandinaviska Enskilda Banken (publ)	594,000
KB-Securities N.V.	330,000
Mediobanca—Banca di Credito Finanziario S.p.A.	561,000
Société Générale	330,000
Total	33,000,000

U.K. Underwriters	Number of Shares
Swiss Bank Corporation, acting through its division SBC Warburg	13,750,000
Kleinwort Benson Limited	4,750,000
NatWest Securities Limited	5,250,000
Deutsche Bank Aktiengesellschaft	4,500,000
ABN AMRO Rothschild	4,500,000
CS First Boston Limited	3,750,000
Robert Fleming & Co. Limited	3,000,000
Goldman Sachs International	5,000,000
Bayerische Landesbank Girozentrale	1,500,000
Cazenove & Co.	2,250,000
J. Henry Schroder & Co. Limited	1,750,000
Total	50,000,000

In addition, under the terms and subject to the conditions of the Global Underwriting Agreement, the Underwriters, excluding the International Underwriters, have agreed severally but not jointly to purchase (a) an aggregate of 402 million Shares to be sold in the German Offering, and (b) an aggregate of 85 million Shares to be sold in the Americas Offering. See ''The Global Offering.'' The Underwriters, including the International Underwriters, are obligated to purchase all of the Shares offered in the Global Offering (other than those Shares covered by the over-allotment option described below) (the ''Firm Shares'') if any are purchased. The Offer Price per Share (other than Shares sold at the German Discounted Offer Price) and the Offer Price per ADS, the aggregate underwriting commissions and selling concessions per Share and per ADS, and concessions and discounts to dealers in each of the German Offering, the Americas Offering and the International Offering will be identical.

The Global Offering is being coordinated by Deutsche Bank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Goldman, Sachs & Co. (the ''Global Coordinators''), with Deutsche Bank Aktiengesellschaft as the Global Bookrunner. Dresdner Bank Aktiengesellschaft and Deutsche Bank Aktiengesellschaft are the Regional Lead Managers for the German Offering, with Dresdner Bank Aktiengesellschaft as the Regional Bookrunner. Goldman, Sachs & Co. is the Regional Bookrunner for the Americas Offering. Daiwa Europe Limited is the Regional Bookrunner for the Asia-Pacific/Rest of World Offering. Paribas Capital Markets is the Regional Bookrunner for the Rest of Europe Offering. SBC Warburg, a division of Swiss Bank Corporation, is the Regional Bookrunner for the U.K. Offering.

The underwriting discounts and commissions to the International Underwriters are DM 0.713 per Share and $0.472 per ADS. Expenses allocable to the International Offering estimated at $17 million are being paid by the Company.

An aggregate of 23.7 million additional Shares of the Company have been purchased by DG BANK Deutsche Genossenschaftsbank for sale to employees of the Company and its German subsidiaries in the Employee Offering. See ''The Global Offering — The Employee Offering.''

The Firm Shares were subscribed for by the Global Coordinators at a subscription price equal to their nominal value. The Shares will be purchased by the Underwriters (including the Global Coordinators), including the International Underwriters, at the Offer Price per Share or the German Discounted Offer Price per Share, as the case may be; *provided, however,* that the subscription price will be credited against the amount due from the Underwriters at Closing. The Federal Republic has waived its preemptive rights in respect of such Shares. See ''Description of Shares.''

The Asia-Pacific/Rest of World Underwriters propose to offer the Shares, in part, directly to the public in Japan and to institutional investors in the rest of the world, excluding the Americas and Europe; the Rest of Europe Underwriters propose to offer the Shares, in part, to institutional investors in Europe, excluding Germany, the United Kingdom, the Republic of Ireland and the Channel Islands; and the U.K. Underwriters propose to offer the Shares to institutional investors in the United Kingdom, the Republic of Ireland and the Channel Islands in each case in the form of Shares at the Offer Price per Share or in the form of ADSs at the Offer Price per ADS. In addition, the International Underwriters propose to offer the Shares in part to certain dealers in the form of Shares at the Offer Price per Share less a concession of DM 0.427 per Share or in the form of ADSs at the Offer Price per ADS less a concession of $0.284 per ADS. Pursuant to the Agreement Among Underwriters (as defined below), after the Shares are released for sale to the public, the offering price and other selling terms may from time to time be varied by the mutual agreement of the Global Coordinators.

The Company has granted the Underwriters an option, exercisable by the Global Coordinators on their behalf, from November 18, 1996 to December 31, 1996, to purchase up to an aggregate of 90 million additional Shares (all or a portion of which the Underwriters may elect to receive in the form of ADSs) (''Optional Shares''), at the Offer Price per Share, solely to cover over-allotments, if any. To the extent such option is exercised, the International Underwriters have severally agreed, subject to certain conditions, to purchase the same percentage of Optional Shares as the number of Firm Shares set forth opposite such International Underwriter's name in the preceding table bears to the aggregate number of Firm Shares offered by all the Underwriters, subject to adjustment to eliminate fractional Shares.

The Global Underwriting Agreement provides that the obligations of the Underwriters to purchase Shares may be terminated under certain circumstances, including the occurrence of certain *force majeure* events or the default of one or more Underwriters whose combined commitment exceeds a certain percentage of the regional underwriting commitment as well as a certain percentage of the global underwriting commitment.

The Global Coordinators have also entered into a share lending agreement (the ''Share Lending Agreement'') with the Federal Republic pursuant to which the Global Coordinators may borrow Shares up to an amount equal to the maximum number of Optional Shares plus additional Shares, fully fungible with the Shares and listed on the stock exchanges in Germany, solely to satisfy delivery obligations in respect of syndicate short positions created in connection with the distribution of the Shares until such short positions are covered either through the exercise of the Underwriters' over-allotment option or through open market purchases. Under the Share Lending Agreement, borrowed Shares up to an amount equal to the maximum number of Optional Shares must be returned to the Federal Republic by December 31, 1996 at the latest. Any additional borrowed Shares may be returned to the Federal Republic after December 31, 1996.

Prior to the Global Offering, there has been no public market for the Shares or the ADSs. The Offer Price per Share was negotiated between the Company, the Federal Republic and the Global Coordinators. Among the factors considered in determining the Offer Price per Share, in addition to prevailing market conditions, were the Company's historical performance, estimates of the business potential and earnings prospects of the Company, the comparable market valuation of publicly traded common stock of comparable companies, demand for similar securities of comparable companies, an evaluation of the Company's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

A total of one billion Shares (the Shares to be sold in the Global Offering and the Employee Offering plus a number of Shares held by the Federal Republic such that the aggregate nominal value of the listed Shares will equal DM 5 billion) have been approved for listing on the Frankfurt Stock Exchange, as well as the stock exchanges of Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart. The Shares will trade on the German stock exchanges under the symbol ''DTE''. It is expected that dealings will commence on November 18, 1996. The ADSs have been approved for listing, subject to official notice of issuance, on the NYSE under the symbol ''DT''. In order to meet one of the requirements for listing on the NYSE, the Americas Underwriters have undertaken to sell lots of

100 or more ADSs to a minimum of 2,000 beneficial holders in the United States. Application has also been made to list the Shares on the Tokyo Stock Exchange. It is also expected that the Shares and the ADSs will be eligible for quotation and trading through SEAQ International.

The representatives of the Americas Underwriters have informed the Company that they do not expect discretionary sales by the Americas Underwriters in the United States to exceed 5% of the number of Shares being offered in the U.S. portion of the Americas Offering.

Except for Shares issued and sold in the Global Offering (including any additional Shares sold pursuant to the Underwriters' over-allotment option) and the Employee Offering, for a period of 12 months from the date of the Global Underwriting Agreement, the Company has agreed not to, directly or indirectly, issue, sell, offer, contract to sell, otherwise dispose of or announce the offering of any ordinary shares or preference shares of the Company out of authorized capital *(genehmigtes Kapital)* or any other securities which are convertible into or exchangeable for or which carry the right to acquire any such ordinary shares or preference shares of the Company, or to initiate a capital increase other than for the purposes of issuing (i) ordinary shares to directors or employees of the Company or any of its subsidiaries, (ii) ordinary shares as stock dividends *(Kapitalerhöhung aus Gesellschaftsmitteln)*, or (iii) subject to certain conditions and restrictions, ordinary shares in connection with an acquisition or joint venture to another party to such or joint venture, and the Company has agreed not to enter into any transaction (including a derivatives transaction) having an economic effect similar to that of a sale of ordinary shares or preference shares of the Company, except in each case with the prior written consent of the Global Coordinators. Depending on the development of its business and on market conditions, the Company will consider a further capital increase in late 1998 or thereafter within the limits of its authorized capital. See "Description of Shares—Share Capital."

Postreform II contains certain provisions which restrict the ability of the Federal Republic to sell its Shares in the public capital markets through December 31, 1999. There is no contractual agreement pursuant to which the Federal Republic is restricted from selling its Shares. See "Relationship with the Federal Republic—Shareholding."

To provide for the coordination of their activities, the Underwriters have entered into an agreement among Underwriters (the "Agreement Among Underwriters"). The Agreement Among Underwriters provides, among other things, that sales may be made among the several regional syndicates of such number of Shares as may be agreed with the Global Coordinators. As part of the distribution of the Shares and subject to certain exceptions, sales will be made by each Underwriter only in the regional offering in which such Underwriter participates.

The Underwriters may request certain exemptions from the Commission from the application outside the United States of Rules 10b-6 and 10b-7 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). If such exemptions were requested, and if the Commission were to grant such request, certain of the Underwriters and their affiliates ("Affiliates") would be permitted to engage in the transactions and other activities described below in Germany and elsewhere outside the United States in respect of the Shares, securities of the same class and series as the Shares, and securities convertible into, exchangeable for, or giving a right to acquire, the foregoing securities, and derivatives thereof (collectively, the "Relevant Securities") during the distribution period. Any exemptions would be subject to certain exceptions, limitations and conditions, which would be set out in an exemptive order of the Commission, including compliance with German law. The activities referred to above are (a) buying and selling Relevant Securities for the accounts of such Underwriters or their Affiliates, whether for purposes of risk management in connection with the Global Offering, arbitrage or otherwise, (b) buying and selling Relevant Securities on behalf of customers, (c) advising customers as to the purchase or sale of Relevant Securities, including publication of specific company and industry research reports, (d) engaging in securities lending transactions in Relevant Securities and (e) stabilizing the market (as described below).

It is general market practice in Germany for underwriters to maintain an orderly market in existing shares and rights to acquire shares, and it is expected that the Underwriters will take measures to avoid extreme price fluctuations in the Shares and rights to acquire Shares during the distribution period and thereafter. As a result of these activities, the Underwriters may at any time have a significant short or long position with respect to the Relevant Securities in accordance with the terms of the Agreement Among Underwriters. The Agreement Among Underwriters provides that the Global Coordinators may, on behalf of the Underwriters, incur a long position of up to 20% of the Firm Shares or a short position of up to 20% of the Firm Shares in addition to any short position covered by the Underwriters' over-allotment option. To the extent that the Underwriters incur a short position in the Relevant Securities, such short position may be covered by the Optional Shares or by open market purchases by the Underwriters. To the extent that the Underwriters incur a long position in the Relevant Securities, such long position may be liquidated at any time.

The activities referred to above may result in the market prices of the Relevant Securities being different from those that might otherwise have prevailed in the open market if Rules 10b-6 and 10b-7 had applied in Germany and elsewhere outside the United States.

Prior to the expiry of the period of six months from the date of the purchase of the Shares by the Underwriters no Shares may be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the ''Regulations''). All applicable provisions of the Regulations and the Financial Services Act 1986 must be complied with in respect of anything done in relation to any Shares in, from or otherwise involving the United Kingdom. No document issued in connection with the issue of any Shares may be issued or passed on in the United Kingdom to a person, unless the person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on. The Company has not authorized any offer of Shares to the public in the United Kingdom within the meaning of the Regulations. The Shares may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

In The Netherlands, the Shares may only be offered, transferred, delivered or sold to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which include banks, brokers, dealers, insurance companies, pension funds and other institutional investors, and commercial enterprises which regularly, as an ancillary activity, invest in securities.

The Company has agreed to indemnify the Underwriters against certain liabilities, including civil liabilities under the Securities Act, in connection with the Global Offering, or to contribute to payments that the Underwriters may be required to make in respect thereof. In addition, expenses of approximately DM 25 million incurred by the Underwriters are being reimbursed by the Company.

Certain of the Underwriters have from time to time performed services for the Company and have normal banking relationships with the Company in the ordinary course of their business.

VALIDITY OF THE SHARES AND THE AMERICAN DEPOSITARY SHARES

The validity of the Shares will be passed upon for Deutsche Telekom by Pünder, Volhard, Weber & Axster, German counsel to the Company, and for the Underwriters by Hengeler Mueller Weitzel Wirtz, German counsel to the Underwriters. The validity of the ADSs will be passed upon for Deutsche Telekom by Cleary, Gottlieb, Steen & Hamilton and for the Underwriters by Sullivan & Cromwell. Cleary, Gottlieb, Steen & Hamilton and Sullivan & Cromwell may rely, without independent verification, on Pünder, Volhard, Weber & Axster and Hengeler Mueller Weitzel Wirtz, respectively, regarding certain German legal matters.

INDEPENDENT PUBLIC ACCOUNTANTS

The consolidated financial statements of Deutsche Telekom at December 31, 1994 and 1995 and for each of the three years in the period ended December 31, 1995 included in this Prospectus have been audited by C&L TREUARBEIT DEUTSCHE REVISION AG, Olof-Palme-Straße 35, 60439 Frankfurt am Main, Germany, independent public accountants, as stated in their report, which includes an explanatory paragraph regarding changes in accounting policies appearing therein.

With respect to the unaudited interim consolidated financial information of the Company at June 30, 1996 and for the six-month periods ended June 30, 1995 and 1996 included in the Unaudited Interim Consolidated Financial Statements, C&L TREUARBEIT DEUTSCHE REVISION AG have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein states that they did not audit and they do not express an opinion on such unaudited interim consolidated financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Prospectus.

AMPS (Advanced Mobile Phone Service): an analog cellular telephone service standard utilizing the 850 MHz band, in use in North America, Australia and various other areas.

ATM (Asynchronous Transfer Mode): a high-speed transmission technique utilizing packet switching.

Backbone network: global telecommunications net configuration connecting LANs.

Call center: service center providing operator supported voice telephony services such as telemarketing and customer hotlines.

Coaxial cable: a transmission medium particularly suited to high volume uses, such a high speed and cable television transmission. Coaxial cables consist of one or more central wire conductors, surrounded by a dielectric insulator and encased in either wire mesh or extruded metal sheathing.

Corporate network: telecommunications network for a defined number of users providing communication services tailored to the needs of a particular enterprise or affiliated group of enterprises.

C-Tel: the analog cellular telephone service of T-Mobil, utilizing the C-450 standard, C-Tel's geographic coverage includes nearly 100% of the population of Germany and over 95% of the country's territory.

D1: the digital cellular telephone service of T-Mobil utilizing the GSM standard. D1's geographic coverage includes 97% of the population of Germany and over 90% of the country's territory.

Datex M (Data exchange Multimegabits): managed high volume transmission service of Deutsche Telekom for computer centers and local data networks (LANs) with transmission rates of up to 155 Mbps.

Datex-P (Data Exchange-Packet): a Deutsche Telekom packet switched data transfer service utilizing the X.25 standard set by the International Telecommunications Union (an organization established by the United Nations).

DCS 1800 (Digital Cellular System): a standard established by ETSI for digital cellular telecommunications operating in the 1800 MHz band.

DECT (Digital European Cordless Telecommunications): European standard for limited range wireless transmission in connection with the operation of cordless telephones, wireless PBX systems and cordless LANs.

ERMES (European Radio Message System): an ETSI standard for paging services; unlike traditional standards, ERMES is also suited to applications such as process monitoring, telemetry and alarm systems.

ETSI (European Telecommunications Standards Institute): an organization made up of national representatives from CEPT Countries, the composition of which can include public and private telecoms providers, research institutions and equipment manufacturers and users, subject to national determination.

Fiber optic cable: a transmission medium made from extremely pure and consistent glass. Digital signals are transmitted across fiber optic cable as pulses of light. While signals transmitted over fiber optic cable travel at the same speed as those transmitted over traditional copper cable, fiber optic cable benefits from greater transmission capacity and lower distortion of signals transmitted.

FrameLink: a Deutsche Telekom packet-switched data transfer service utilizing frame relay technology.

Frame relay: a data transmission service using fast protocols based on direct use of transmission lines.

GSM (Global System for Mobile Communications): a set of ETSI digital cellular telephone service standards in use throughout Europe, in Japan and in various other countries.

ISDN (Integrated Services Digital Network): a transmission system with the capacity to transmit more than one stream of information (voice, text, data or graphics) simultaneously on a single telephone line, based upon end-to-end digitalization and standardized out-of-band signaling.

LAN (Local Area Network): a short distance data transmission network, usually with decentralized communication management.

Multimedia: computer technology with integration (generally using digital technology) of at least three media, such as text, video, voice, graphics, or animation in a single tool.

ONP (Open Network Provision): principles and conditions laid down by the European Union for access to and usage of public telecommunications networks and services.

Overlay network: a discrete transmission network with essentially similar geographic coverage as a pre-existing telecommunications network, operating independently.

Packet-switched services: data services based on parceling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of a single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

PBX (Private Branch Exchange): a private switching office functionally treated by the central network as an item of terminal equipment.

SDH (Synchronous Digital Hierarchy): a transmission standard for synchronous transmission networks, allowing direct access to particular band spectra, even when these are included in a comparatively high level of the organizational hierarchy.

Telekom Designed Network: name for Deutsche Telekom's customized network solutions, including consulting, system management, provision of leased lines and equipment housing.

Telematics: non-voice services, especially those based upon integration of computing and telecommunications technologies.

T-Online: Deutsche Telekom's nationwide computer-based communications network, which offers on-line data retrieval, Internet access (with a German language interface) and on-line banking. T-Online is Germany's largest on-line service, with over 1.1 million subscribers as of June 30, 1996.

T-Punkt stores: specialized stores owned by Deutsche Telekom and marketing its products, primarily to private customers.

WLL: Wireless Local Loop. Systems within which transmission at the local loop level is by radio signal rather than through cable, such as systems employing DECT.

X.25: a protocol for packet-switched data transfer.

DEUTSCHE TELEKOM

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Management and Shareholders of Deutsche Telekom AG

We have audited the consolidated balance sheets of Deutsche Telekom AG (and its predecessor, Deutsche Bundespost TELEKOM) as of December 31, 1994 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Germany, which are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Deutsche Telekom AG (and its predecessor, Deutsche Bundespost TELEKOM) as of December 31, 1994 and 1995, and the consolidated results of its operations, shareholders' equity and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles in Germany.

Upon the transformation of Deutsche Bundespost TELEKOM into a private law stock corporation, Deutsche Telekom AG changed certain of its accounting policies, in part as required by the Post and Telecommunication Reorganization Act *(Postneuordnungsgesetz)* and in part as a result of decisions made by Deutsche Telekom AG. For purposes of the initial public offering the Company applied these accounting policies with retroactive effect at January 1, 1993. See Note 3 "Summary of Significant Accounting Policies —Basis of Presentation." The presentation of the consolidated financial statements in this Prospectus differs from that in the previously issued and audited consolidated financial statements appearing in the Company's annual report for the year 1995. The consolidated statements of cash flows have been prepared in accordance with IAS 7, Cash Flow Statements.

Application of accounting principles generally accepted in the United States would have affected shareholders' equity as of December 31, 1994 and 1995 and net income for each of the years in the two year period ended December 31, 1995 to the extent summarized in Note 30 to the consolidated financial statements. However, as described in Notes 3(j) and 30, certain property, plant and equipment has been recognized at fair values in accordance with the Post and Telecommunication Reorganization Act *(Postneuordnungsgesetz)* rather than at historical cost that is required by generally accepted accounting principles in the United States.

Frankfurt am Main,

May 2, 1996, except Note 31, Subsequent Events, as to which the date is July 31, 1996.

C&L TREUARBEIT
DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Dickmann)
Wirtschaftsprüfer

(Dr. Kutzenberger)
Wirtschaftsprüfer

DEUTSCHE TELEKOM

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year Ended December 31, 1993	1994	1995	1995
		DM	DM	DM	$
		(in millions, except per share amounts)			
Net revenue	(4)	**60,071**	**63,814**	**66,135**	**43,481**
Increase in inventories and other own capitalized costs	(5)	4,593	3,704	3,320	2,183
		64,664	**67,518**	**69,455**	**45,664**
Other operating income	(6)	1,772	1,921	2,138	1,406
Goods and services purchased	(7)	(10,612)	(9,285)	(9,506)	(6,250)
Personnel costs	(8)	(17,755)	(18,157)	(18,502)	(12,164)
Depreciation and amortization		(12,970)	(14,589)	(15,377)	(10,110)
Other operating expenses	(9)	(7,577)	(8,268)	(9,685)	(6,368)
Financial income (expense), net	(10)	(7,652)	(7,927)	(8,211)	(5,398)
Results from ordinary business activities		**9,870**	**11,213**	**10,312**	**6,780**
Extraordinary losses	(11)	—	(357)	(1,264)	(831)
Special charge relating to other Post entities	(12)	(2,445)	(2,320)	—	—
Levy to the Federal Republic of Germany and taxes	(13)	(5,351)	(4,945)	(3,778)	(2,484)
Income after taxes		**2,074**	**3,591**	**5,270**	**3,465**
(Income) losses applicable to minority shareholders		10	4	2	1
Net income		**2,084**	**3,595**	**5,272**	**3,466**
Unappropriated net income, beginning of period		—	—	—	—
Transfer to retained earnings		—	—	(3,981)	(2,617)
Unappropriated net income, end of period		—	—	1,291	849
Pro forma earnings per share	(3(i))	**1.03**	**1.77**	—	—
Earnings per share	(3(i))	—	—	**2.60**	**1.71**

The accompanying notes are an integral part of the consolidated financial statements

DEUTSCHE TELEKOM

CONSOLIDATED BALANCE SHEETS

	Note	At December 31, 1994 DM	1995 DM	1995 $
		(in millions)		
ASSETS				
Noncurrent assets:				
Intangible assets	(14)	628	796	523
Property, plant and equipment	(15)	135,205	133,755	87,940
Financial assets	(17)	3,383	4,664	3,066
Total noncurrent assets		**139,216**	**139,215**	**91,529**
Current assets:				
Inventories, materials and supplies	(18)	2,539	2,305	1,515
Trade accounts receivable	(19)	6,022	6,852	4,505
Other assets	(20)	1,485	853	561
Liquid assets	(21)	17,808	10,008	6,580
Total current assets		**27,854**	**20,018**	**13,161**
Prepaid expenses and deferred charges	(22)	996	1,014	666
Total assets		**168,066**	**160,247**	**105,356**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity:				
Capital		19,332	—	—
Capital stock (2 billion bearer shares, nominal value DM 5 each)		—	10,000	6,575
Additional paid-in capital		—	11,292	7,424
Retained earnings (deficit)		—	2,144	1,409
Unappropriated net income		—	1,291	849
Minority interest		—	5	3
Total shareholders' equity	(23)	**19,332**	**24,732**	**16,260**
Accruals:				
Pensions and similar obligations	(24)	5,844	6,029	3,964
Other	(25)	5,530	6,964	4,579
Total accruals		**11,374**	**12,993**	**8,543**
Liabilities:				
Debt	(26)	125,459	110,387	72,575
Other	(26)	11,396	11,646	7,657
Total liabilities		**136,855**	**122,033**	**80,232**
Deferred income		505	489	321
Total shareholders' equity and liabilities		**168,066**	**160,247**	**105,356**

Commitments and contingencies (see Note 27)

The accompanying notes are an integral part of the consolidated financial statements

DEUTSCHE TELEKOM

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,			
	1993	1994	1995	1995
	DM	DM	DM	$
	(in millions)			
Cash flows from operating activities:				
Net income	2,084	3,595	5,272	3,466
Adjustments for:				
Depreciation and amortization	12,970	14,589	15,377	10,110
Income tax expense	118	64	614	404
Net interest expense	7,695	7,848	8,197	5,389
Net losses on disposition of noncurrent assets	283	940	1,337	879
Accruals for extraordinary losses	—	349	785	516
Special charge relating to other Post entities	2,445	2,320	—	—
Other noncash income and expense	(797)	597	390	256
Change in current assets ((increase) decrease) and liabilities ((decrease) increase):				
Trade accounts receivable	(969)	404	(815)	(536)
Inventories, materials and supplies	183	126	234	154
Trade accounts payable	(47)	(826)	(351)	(230)
Other current assets and liabilities	(2,522)	1,142	627	412
Income taxes paid	(115)	(58)	(32)	(21)
Dividends received	—	—	8	5
Cash generated from operations	**21,328**	**31,090**	**31,643**	**20,804**
Interest paid	(7,502)	(7,509)	(8,804)	(5,788)
Interest received	386	533	848	558
Net cash provided by operating activities	**14,212**	**24,114**	**23,687**	**15,574**
Cash flows from investing activities:				
Capital expenditures	(21,869)	(19,253)	(14,574)	(9,582)
Purchases of subsidiaries and affiliates, net of cash acquired	(908)	(771)	(1,980)	(1,302)
Proceeds from sale of fixed assets	46	421	390	257
Net change in short-term investments	—	(9,342)	2,843	1,869
Other	—	—	—	—
Net cash used for investing activities	**(22,731)**	**(28,945)**	**(13,321)**	**(8,758)**
Cash flows from financing activities:				
Change in short-term borrowing	(856)	471	(954)	(627)
Proceeds from long-term debt	16,335	17,275	—	—
Repayments of long-term debt	(5,576)	(6,679)	(14,280)	(9,389)
Net cash provided by (used for) financing activities	**9,903**	**11,067**	**(15,234)**	**(10,016)**
Effect of foreign exchange rate changes on cash	—	—	(89)	(59)
Net increase (decrease) in cash and cash equivalents	**1,384**	**6,236**	**(4,957)**	**(3,259)**
Cash and cash equivalents, at beginning of year	845	2,229	8,465	5,565
Cash and cash equivalents, at end of year	2,229	8,465	3,508	2,306

The accompanying notes are an integral part of the consolidated financial statements

DEUTSCHE TELEKOM

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Total	Capital(2)	Capital stock nominal value	Additional paid-in capital	Retained earnings: Cumulative currency translation adjustment	Retained earnings: Other retained earnings (deficit)	Retained earnings: Total	Unappropriated net income	Minority interest
					(DM in millions)				
Balance at January 1, 1993	**12,372**	**12,372**							
Net income	2,084	2,084							
Losses applicable to minority shareholders	(10)	(10)							
Other (See Note 13)	713	713							
Balance at December 31, 1993	**15,159**	**15,159**							
Net income	3,595	3,595							
Losses applicable to minority shareholders	(4)	(4)							
Difference from currency translation	(134)	(134)							
Other (See Note 13)	716	716							
Balance at December 31, 1994	**19,332**	**19,332**							
Transformation into stock corporation (1)	—	(19,332)	10,000	10,976	(134)	(1,512)	(1,646)	—	2
Balance after transformation into stock corporation	**19,332**	**—**	**10,000**	**10,976**	**(134)**	**(1,512)**	**(1,646)**	**—**	**2**
Net income	5,272	—	—	—	—	3,981	3,981	1,291	—
Losses applicable to minority shareholders	(2)	—	—	—	—	—	—	—	(2)
Difference from currency translation	(191)	—	—	—	(191)	—	(191)	—	—
Other (See Note 13)	316	—	—	316	—	—	—	—	—
Capital contributions	5	—	—	—	—	—	—	—	5
Balance at December 31, 1995	**24,732**	**—**	**10,000**	**11,292**	**(325)**	**2,469**	**2,144**	**1,291**	**5**

(1) Issuance of 2 billion shares, nominal value of DM 5 per share and a premium of DM 5.488 per share credited as additional paid-in capital after adjustment for a ten-for-one stock split in November 1995 (see Note 23).

(2) Because Deutsche Telekom AG was formed as of January 1, 1995, a breakdown of shareholders' equity into its components prior to that date is not possible.

The accompanying notes are an integral part of the consolidated financial statements

DEUTSCHE TELEKOM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Relationship with the Federal Republic

Deutsche Telekom is a full-service telecommunications company whose major lines of business include providing, primarily to the German market, public fixed-link voice telephony, mobile telecommunications services, cable television services, leased lines, text and data services, on-line services, corporate network design and supply and network management services. In addition, Deutsche Telekom provides broadcasting services for television and radio stations, supplies and services telecommunications equipment and publishes telephone directories.

Historically, the provision of public telecommunications in Germany was a state monopoly protected under the constitution of the Federal Republic of Germany. These services were administered by the Deutsche Bundespost, Germany's postal, telephone and telegraph authority. The provision of telecommunications services and telecommunications infrastructure were an integral and undifferentiated part of Deutsche Bundespost until 1989.

In 1989 Postreform I was enacted in order to transform Deutsche Bundespost, including the operations that were later to form Deutsche Telekom, into three public enterprises, including Deutsche Bundespost TELEKOM. Pursuant to Postreform II, effective as of January 1, 1995, Deutsche Bundespost TELEKOM was transformed into a private law stock corporation, Deutsche Telekom AG, which was registered with the Commercial Registry of the Bonn District Court (HRB 6794).

Relationship with the Federal Republic

The Federal Republic, Deutsche Telekom AG's sole shareholder, administers its shareholding and exercises its rights as a shareholder through a public law entity, the Federal Institute, which was established pursuant to Postreform II. The Federal Institute is subject to the supervision of the Post Ministry, which also at present acts as the Federal telecommunications regulatory authority overseeing Deutsche Telekom's operations.

Monopoly Rights

Deutsche Telekom essentially has the exclusive right to provide public fixed-link voice telephony services in Germany until January 1, 1998. On that date, the provision of these services will be fully liberalized in accordance with EU regulations and the TKG, and the Company will face competition in this area. Since August 1, 1996, competitors of Deutsche Telekom have been able to freely obtain licenses to build and operate telecommunications transmission lines including cable transmission lines in Germany, which may be used to provide public telecommunications services other than public fixed-link voice telephony. Previously Deutsche Telekom had an exclusive right to build and operate such networks, subject to certain exceptions. The Company has been subject to competition for several years in a number of areas, primarily mobile telecommunications services, data transmission and equipment supply.

Income Taxes and Levy

For each of the years 1993 through 1995, Deutsche Telekom AG was required to pay a levy to the Federal Republic based on revenues. See Note 13. In addition, the Company was required to incur special charges to cover the losses of the other successor entities to Deutsche Bundespost through the end of 1994. Commencing January 1, 1995, Deutsche Telekom AG became subject to normal corporate taxation in Germany, although it benefited from an essentially complete exemption from tax in 1995.

Services Provided to the Federal Republic

The Federal Republic and various government departments and agencies are customers of Deutsche Telekom. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one governmental department or agency do not represent a significant component of Deutsche Telekom's net revenues.

2. Consolidated Group

The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG, including its predecessor Deutsche Bundespost TELEKOM, and its subsidiaries as of and for each of the years ended December 31, 1993, 1994 and 1995, respectively.

These financial statements include references to affiliated, associated and related companies as follows:

- Affiliated companies include entities in which Deutsche Telekom has majority voting rights or effective control.
- Associated companies include entities in which Deutsche Telekom has between 20% and 50% of the voting rights and are generally accounted for using the equity method.
- Related companies include entities in which Deutsche Telekom owns less than 20% and are accounted for at lower of cost or market value.

All significant subsidiaries in which Deutsche Telekom has legal or effective control are fully consolidated. In addition to Deutsche Telekom AG as the parent company, the consolidated financial statements include 46 and 38 domestic subsidiaries at December 31, 1995 and 1994, respectively, and 11 and 7 foreign subsidiaries at December 31, 1995 and 1994, respectively, in which Deutsche Telekom AG had a direct or indirect controlling interest.

Multimedia Software GmbH, Dresden, and Online Pro Dienste GmbH & Co. KG, Bonn, were incorporated and consolidated for the first time in 1995. This change in the consolidated group was not material to the consolidated financial statements. At December 31, 1995, 5 subsidiaries (two subsidiaries at year-end 1994) were not consolidated because they were not material to Deutsche Telekom's consolidated financial statements. These subsidiaries, which are carried at acquisition cost in the consolidated balance sheet, generated in aggregate less than 1% of consolidated revenue, and did not have a material effect on the financial statements.

In accordance with §311(1) of the German Commercial Code *(Handelsgesetzbuch)*, 33 companies (30 companies at year-end 1994) over which Deutsche Telekom exercises a significant influence have been classified as associated companies at December 31, 1995 and are accounted for using the equity method. Eleven additional associated companies at December 31, 1995 (7 companies at year-end 1994), which had little or no effect on Deutsche Telekom's financial position, results of operations and cash flows were classified 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).

The principal subsidiaries and associated companies of Deutsche Telekom include:

Name and registered office	Deutsche Telekom share December 31, 1995	Shareholders' equity December 31, 1995	Revenue 1995	Income after taxes 1995	Employees 1995
	%	(DM in millions)			(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 mbH, 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(3)	870	87	9	534

(1) Consolidated subgroup financial statements.
(2) Held through MagyarCom, Cayman Islands (Deutsche Telekom AG share: 50%). During 1995, MagyarCom invested an additional amount in Matáv. However, the increase of MagyarCom's share in Matáv to 67.3% was first legally effective in 1996.
(3) Held through DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn.

3. Summary of Significant Accounting Policies

Basis of Presentation

Although not legally required to do so, Deutsche Telekom AG's predecessor, Deutsche Bundespost TELEKOM, voluntarily prepared consolidated financial statements for 1993 and 1994. Such consolidated financial statements were not published, but were prepared on the basis of regulations for consolidated financial statements under the German Commercial Code and received unqualified audit opinions under the German Commercial Code. The applicable provisions of Postreform I also affected to some extent the preparation of Deutsche Bundespost TELEKOM's individual financial statements and consequently the consolidated financial statements.

Upon the transformation of Deutsche Bundespost TELEKOM into a private law stock corporation at the beginning of 1995, Deutsche Telekom was legally required to prepare and publish consolidated financial statements in accordance with the regulations under the German Commercial Code which, together with the Stock Corporation Act *(Aktiengesetz)*, establish accounting principles generally accepted in Germany ("German GAAP") for stock corporations. In contrast to 1993 and 1994, certain provisions of Postreform II (which came into effect on January 1, 1995) affected the preparation of Deutsche Telekom AG's individual financial statements and consequently the consolidated financial statements.

As a result of the applicable accounting regulations and related elective provisions of Postreform II, together with certain changes in accounting policies effected in 1995, the opening balance sheet on a non-consolidated basis of Deutsche Telekom AG did not fully carry forward the book values of Deutsche Bundespost TELEKOM's financial statements. Accordingly, and due to the significance of Deutsche Telekom AG in relation to the consolidated group, the consolidated financial statements of Deutsche Telekom for 1995 are not comparable to the financial statements of Deutsche Bundespost TELEKOM prepared for 1994 and 1993.

For purposes of the Global Offering, consolidated financial statements for 1993 and 1994 comparable to Deutsche Telekom's consolidated financial statements for the year 1995 were derived from the audited consolidated financial statements for 1993 and 1994 of the former Deutsche Bundespost TELEKOM. In connection therewith, the relevant provisions of Postreform II effective January 1, 1995 and the new accounting policies adopted by the Company as of that date were applied. Key items include:

- Revaluation of fixed assets (see Note 3(j));
- Recognition of special charges to other Post entities (see Note 12);
- Accrual for indirect pensions (see Note 24);
- Accrual for Civil Service Health Insurance Fund (see Note 25);
- Capitalization of interest during the construction period for property, plant and equipment (see Note 5);
- Capitalization of leased assets (see Notes 3(j) and 16); and
- Deferred taxes (see Note 13).

The consolidated financial statements are shown in millions of Deutsche Mark. For the convenience of the reader, unaudited consolidated financial statements for the year 1995 are presented in millions of U.S. Dollars translated at a rate of DM 1.5210 to $1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on June 28, 1996. Certain financial statement items specified by German GAAP have been combined in the consolidated statements of income and the consolidated balance sheets to enhance the informative value and presentation of the consolidated financial statements. These items are shown separately in these notes.

The allocation of assets, liabilities and operations to Deutsche Bundespost TELEKOM and the subsequent transfer as of January 1, 1995 to Deutsche Telekom AG were accounted for as transfers between entities under common control using the "as if" pooling method. In exchange for the transfer of assets and liabilities, the Federal Republic received 200 million bearer shares with a par value of DM 50. See Note 23 regarding the subsequent stock split. The net assets of Deutsche Telekom AG at incorporation were DM 20,976 million, of which DM 10,000 million was credited as capital stock and DM 10,976 million was credited as additional paid-in capital. The consolidated net asset value was reduced by DM 1,646 million, primarily due to the elimination of intercompany profits resulting from the transfer of mobile phone services from the parent company to a subsidiary. This amount was charged directly against retained earnings; DM 134 million was recorded as a cumulative loss in the foreign currency translation account and DM 1,512 million was recorded as a deficit in the other retained earnings account. See "Consolidated Statements of Shareholders' Equity."

The preparation of consolidated financial statements in accordance with German GAAP requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

The accounting policies for the consolidated financial statements vary from those for the parent company's unconsolidated financial statements as follows: assets leased under contracts for which the risks and rewards of ownership have been assumed are capitalized and depreciated and the related obligations are recorded as liabilities; interest incurred during the construction period for constructed assets has been capitalized; accruals for direct pension obligations are recorded at amounts actuarially computed using the projected unit credit method consistent with SFAS No. 87; and accruals for the internal costs of preparing the consolidated financial statements are not recorded.

(a) Consolidation Principles

Capital consolidation is performed following the book value method under German GAAP. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of the net assets acquired is capitalized as goodwill and amortized over its estimated useful life not exceeding 12 years. Negative goodwill from capital consolidation is included under other accruals. In consolidation, the purchase consideration of investments in subsidiaries is offset against the amounts these investments represent in the equity of the subsidiaries at the time of acquisition.

Revenues, income and expenses, and receivables and liabilities between the consolidated companies are eliminated. Intercompany profits and losses and intercompany debt are eliminated in the consolidated financial statements. Profits or losses generated by subsidiaries during their period of affiliation with the consolidated group are included in retained earnings (deficit).

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 method is similar to the method described above for consolidated subsidiaries. The principles used for full consolidation are also applied in treating the differences resulting from initial consolidation. It was not necessary to eliminate intercompany profits and losses with associated companies, as they were insignificant. Joint ventures have been included in the consolidated financial statements using the equity method.

(b) Total Cost Method

The consolidated statements of income have been presented in the total-cost (or type-of-expenditure) format commonly used in Germany. Production costs and all other expenses incurred during the period are classified by type of expense, and the costs deferred through increases in inventories and own capitalized costs for the period are classified in the income statements as separate items rather than as a reduction of the relevant expense items.

(c) Foreign Currencies

Foreign currency receivables and payables are recorded at historical rates unless the use of the exchange rate on the balance sheet date would result in a lower receivable or higher payable balance. This results in unrealized losses being recognized currently and unrealized gains not being recognized. Where foreign currency items are hedged by forward exchange contracts, they are valued at the corresponding hedge rate.

The balance sheets of foreign subsidiaries have been translated at year end to Deutsche Mark using exchange rates at the balance sheet date. Adjustments from the balance sheet translation have been recorded as a separate component of equity. The income statements of foreign subsidiaries have been translated at the weighted average exchange rates for the year.

(d) Revenue Recognition

Net revenues consist of goods and services sold during the year after deduction of related value added tax and sales-related reductions. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

(e) Research and Development

Research and development costs are expensed as incurred.

(f) Pension Costs

Pension costs for defined benefit plans are actuarially computed using the projected unit credit method which is consistent with SFAS No. 87, "Employers' Accounting for Pensions," and include current service cost, interest cost and amortization of prior service costs. Prior service cost is amortized over the future service period of employees active at the date of the plan amendment. Unrecognized gains and losses exceeding 10% of the greater of the projected benefit obligation or the market-related value of the plan assets are amortized over the average expected service period of active employees expected to receive benefits under the plan.

The Company is required to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II. The amounts currently due in each period are recognized as an expense in that period.

(g) Advertising Costs

Advertising costs are charged to expense as incurred.

(h) Income Taxes

Income tax expense includes taxes currently payable and deferred income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the balance sheets prepared for financial reporting purposes and those prepared for tax reporting purposes using the partial liability method. Such differences may arise at the individual taxable entity level as well as in consolidation. Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements through December 31, 1995, as the Company was not taxable prior to January 1, 1995 and benefited from an essentially complete exemption from tax in 1995.

(i) Earnings Per Share

Earnings per share for each period are calculated by dividing net income by the weighted average number of ordinary bearer shares outstanding during that period after giving retroactive effect to the ten-for-one stock split (see Note 23) and issuance of shares on July 31, 1996 (see Note 31). Pro forma earnings per share are presented for 1993 and 1994 based on the assumption that all shares issued upon Deutsche Telekom's incorporation, as adjusted for the stock split, were outstanding during all periods presented.

(j) Noncurrent Assets

Purchased computer software, patents, goodwill, licenses and other rights are considered intangible assets. These assets are valued at acquisition cost and are amortized on a straight line basis over their estimated useful lives.

As permitted by Postreform II, property, plant and equipment owned by Deutsche Telekom AG at January 1, 1995 were valued at fair market value at that date. For this purpose, due to the short period of time between the acquisition date and January 1, 1995 and the immaterial impact on the valuation, property, plant and equipment acquired during 1993 and 1994 were valued at their remaining book value. Property, plant and equipment owned by Deutsche Bundespost TELEKOM at December 31, 1992 were valued at fair market value, determined using appraisals and other valuation methods, derived from the fair market values on January 1, 1995. These fair market values have been carried forward as the acquisition costs. The remaining useful lives and depreciation methods applicable to these assets were not changed.

Property, plant and equipment acquired by Deutsche Telekom subsequent to December 31, 1994 or by its subsidiaries are valued at acquisition or construction cost.

Assets are depreciated over the following estimated useful lives using the straight-line method:

	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 facilities and terminal equipment	4 to 10
Data communication equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment, and technical equipment for broadband distribution networks	8 to 10
Broadband distribution networks, outside plant networks and cable conduit lines	15 to 20
Telecommunications equipment, telecommunications supplies and other	3 to 10
Other equipment, plant and office equipment	3 to 20

For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and for those assets acquired in the second half of the year, a half year of depreciation is provided. Depreciation on buildings begins in the month in which the building is placed into service. Items with a low acquisition cost are expensed in the year of their purchase. Maintenance and repairs are charged to expense when incurred. Non scheduled depreciation is provided as a result of an impairment of the value of the assets.

Property, plant and equipment leased by Deutsche Telekom as the lessee are classified as either finance leases or as operating leases. Deutsche Telekom's rights to use assets, principally buildings, under finance leases are recognized in the balance sheet with a corresponding liability representing the present value of future lease payments. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The liability is amortized and results in the recognition of an interest charge for the cost of finance over the term of the lease. Rental payments due under operating leases are recognized as an expense over the period of the lease.

Upon sale or disposal of noncurrent assets, the related cost and accumulated depreciation are removed from the balance sheet, and a gain or loss is recognized for the difference between the proceeds from sale and the net carrying amount of the asset.

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

(k) Financial Instruments

Unrealized losses relating to derivative financial instruments, including swaps, forward contracts and options, are recognized when incurred whereas unrealized gains are deferred until realized.

(l) Inventories, Materials and Supplies

Inventories, materials and supplies purchased and held for resale are stated at acquisition cost determined on an average cost basis. Work in process and finished products are stated at production cost (directly allocable costs plus an appropriate allocation of material and production overhead). The carrying amount of inventories at the balance sheet date is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

(m) Receivables

Receivables are stated at nominal value and provisions are made for doubtful accounts. Low-interest and non-interest bearing receivables with more than one year to maturity are discounted.

(n) Marketable Securities

Marketable securities, which are included in liquid assets, are stated at the lower of cost or market value at the balance sheet date.

(o) Cash and Temporary Cash Investments and Consolidated Statements of Cash Flows

The consolidated statements of cash flows have been prepared in conformity with International Accounting Standards No. 7, *Cash Flow Statements*. Short-term highly liquid investments with original maturities of three months or less at the date of purchase are considered cash equivalents for cash flow reporting purposes.

(p) Liabilities and Accruals

Liabilities are recorded at their repayment amount. Discounts on issuances of debt are recorded as assets and recognized as adjustments to interest expense over the term of the liability. Accruals, including those for loss contingencies and environmental liabilities, are based on best estimates.

4. Net Revenue

Revenue was generated in the following areas of business:

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Fixed-link telephony services (including leased lines)	45,996	49,144	51,748
Text and data services	3,580	3,389	2,807
Supply and service of telecommunications equipment	3,650	4,071	4,007
Other services	1,149	742	827
Mobile telecommunications services	2,360	2,765	3,115
Cable transmission and broadcasting services	3,336	3,703	3,631
	60,071	**63,814**	**66,135**

	Year Ended December 31, 1994	1995
	(DM in millions)	
Consolidated revenues by geographic area:		
Domestic	61,613	64,043
International	2,201	2,092
	63,814	**66,135**
Breakdown of international revenues:		
European Union countries (excluding Germany)	877	901
Rest of Europe	341	430
North America	512	271
Latin America	86	71
Other	385	419

Fixed-link telephony services includes revenues from domestic as well as international outgoing traffic and fees for leased lines. Other services includes revenues from services ancillary to Deutsche Telekom's basic telephone services, such as telephone directory publishing of DM 500 million in 1995 and DM 418 million in 1994. Other services also include other activities such as advertising. International revenue is derived from fixed-link international incoming traffic and internationally generated revenues from other business areas.

5. Increase in Inventories and Other Own Capitalized Costs

	Year Ended December 31, 1993	1994	1995
	(DM in millions)		
Increase in inventories of finished products and work in process	294	225	45
Own capitalized costs	4,299	3,479	3,275
	4,593	**3,704**	**3,320**

Own capitalized costs are comprised mainly of construction costs, which include interest incurred during the construction period of DM 509 million, DM 378 million and DM 1,646 million in 1995, 1994 and 1993, respectively.

6. Other Operating Income

Other operating income includes the following:

	Year Ended December 31, 1993	1994	1995
	(DM in millions)		
Reversals of accruals	269	212	907
Services provided to Deutsche Post and Deutsche Postbank	382	611	247
Rental and leasing income	43	53	143
Insurance compensation	160	139	126
Foreign currency transaction gains	—	37	84
Other	918	869	631
	1,772	**1,921**	**2,138**

Amounts recognized as services provided to Deutsche Post and Deutsche Postbank represent amounts received primarily for telephone services provided and from rental arrangements. These service arrangements, which were billed on an aggregate basis prior to 1995, were renegotiated effective January 1, 1995 and are now billed individually.

Reversals of accruals are required to be recognized as other operating income under German GAAP. In 1995 and 1994, DM 933 million and DM 771 million, respectively, of other operating income related to estimates made in other financial years.

7. Goods and Services Purchased

Goods and services purchased include the following:

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Goods purchased	**2,128**	**1,845**	**1,883**
Services purchased:			
International network access charges	3,400	3,216	2,766
Domestic network access charges	165	299	581
Other services	4,919	3,925	4,276
Total services purchased	**8,484**	**7,440**	**7,623**
	10,612	**9,285**	**9,506**

Repairs and maintenance expense, amounting to DM 1,363 million, DM 1,368 million and DM 1,515 million in 1995, 1994 and 1993, respectively, is included in other services. In 1995 other services purchased also include costs relating to the maintenance of Deutsche Telekom's fleet of vehicles and other machinery and equipment, payroll processing and miscellaneous sales services performed by Deutsche Post. In 1994 and 1993, such services were invoiced under cost reimbursement agreements and classified as other operating expenses.

8. Personnel Costs

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Wages and salaries:			
Civil servants	6,756	6,760	6,872
Non-civil servants	6,141	6,339	6,325
Total wages and salaries	**12,897**	**13,099**	**13,197**
Employee benefits:			
Social security costs	1,116	1,188	1,255
Civil servant pension and retiree healthcare costs	2,412	2,539	2,900
Non-civil servant pension costs	559	550	609
Pension and retiree healthcare costs	2,971	3,089	3,509
Active civil servant healthcare costs	668	673	518
Other employee benefits	103	108	23
Total employee benefits	**4,858**	**5,058**	**5,305**
	17,755	**18,157**	**18,502**
Number of employees (average for the year):			
Civil servants	120,379	119,311	117,138
Salaried employees	48,855	49,624	45,246
Wage earners	64,621	62,359	57,368
	233,855	**231,294**	**219,752**
Trainees, student interns	18,400	16,420	11,968
	252,255	**247,714**	**231,720**

Pension costs amounted to DM 3,509 million and DM 2,806 million in 1995 and 1994, respectively. Civil servant pension and retiree healthcare costs in 1993 and 1994 relate to amounts paid directly to retired civil servants under the pension arrangements applicable at that time. The civil servant retirement arrangements in place from January 1, 1995 are described in Note 24.

9. Other Operating Expenses

Other operating expenses include the following:

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Losses on disposition of noncurrent assets	284	964	1,390
Rental and leasing expenses	1,011	1,062	1,252
Nondeductible value added taxes paid	861	665	972
Advertising expenses	530	539	935
Other employee-related costs	296	261	726
Litigation and other risk provisions	20	51	637
Legal and consulting fees	336	410	630
Losses on accounts receivable and provision for doubtful accounts	461	669	593
Travel expenses	311	391	415
Reimbursement of expenses to Deutsche Post and Deutsche Postbank	1,394	1,103	100
Other expenses	2,073	2,153	2,035
	7,577	**8,268**	**9,685**

The expenses relating to nondeductible value-added tax (VAT) will not be incurred to any significant extent after 1995. Prior to Deutsche Telekom's services becoming fully subject to VAT in 1996, Deutsche Telekom paid VAT to its suppliers that was not fully recoverable. Other employee-related costs include DM 240 million for services provided by the Federal Institute, including administration of the non-civil servant pension fund (VAP) and health insurance funds, and assistance in the collective bargaining process. Deutsche Telekom also incurred charges from Deutsche Post for postal delivery and from Deutsche Postbank for banking services. These amounts are included in other expenses in each of the three years.

10. Financial Income (Expense), Net

	Year Ended December 31,		
	1993	**1994**	**1995**
	(DM in millions)		
Dividend income from investments	45	44	49
Loss related to companies accounted for under the equity method (including amortization of goodwill)	(2)	(121)	(190)
Income (loss) related to affiliated, associated and related companies	**43**	**(77)**	**(141)**
Income from debt securities and long-term loan receivables	1	1	130
Interest and similar income	386	533	988
Interest and similar expense	(8,082)	(8,381)	(9,185)
Net interest expense	**(7,695)**	**(7,847)**	**(8,067)**
Write-downs on financial assets	—	(3)	(3)
Financial income (expense), net	**(7,652)**	**(7,927)**	**(8,211)**

Income from debt securities and long-term loan receivables consists primarily of interest on receivables from Deutsche Post. Write-downs on financial assets, which were non scheduled, relate to loans to associated and related companies.

11. Extraordinary Losses

This item represents personnel restructuring measures of DM 1,264 million in 1995 and DM 357 million in 1994.

12. Special Charge Relating to Other Post Entities

In accordance with Article 1 of Postreform I *(Postverfassungsgesetz)*, specifically, §37 paragraph 3, Deutsche Bundespost TELEKOM was obligated through December 31, 1994 to incur special charges to Deutsche Postbank and Deutsche Post to cover the losses of those entities. These charges amounted to DM 2,320 million and DM 2,445 million in 1994 and 1993, respectively. As of January 1, 1995, pursuant to Postreform II, Deutsche Telekom was not required to incur any further charges under these arrangements.

13. Levy to the Federal Republic of Germany and Taxes

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Levy to the Federal Republic of Germany	5,164	5,164	3,098
Income taxes	117	64	614
Other taxes	70	(283)	66
	5,351	**4,945**	**3,778**

Levy to the Federal Republic of Germany

The levy to the Federal Republic of Germany, which, pursuant to Postreform II, was payable for the last time in 1995, resulted from §63 (1)-(4) of Article 1 of Postreform I and regulations under the German Budget Acts *(Haushaltsgesetze)*. The components of the levy due as a result of revenues earned in the New Federal States have been retained and have been recorded as required by each annual German Budget Act as an increase in contributed capital of DM 713 million, DM 716 million and DM 316 million in 1993, 1994 and 1995, respectively.

Income taxes

Substantially all pre-tax income was earned in Germany, and income taxes included the following:

	Year Ended December 31,		
	1993	1994	1995
	(DM in millions)		
Current income taxes	116	65	582
Deferred income taxes	1	(1)	32
	117	**64**	**614**

Income taxes recognized in the income statement differ from the amount calculated by multiplying the German corporate income tax rate with income before income taxes. The differences between the effective income tax rate and the German corporate income tax rate are primarily attributable to the income earned by Deutsche Telekom AG, which was essentially exempt from income taxes prior to 1996. Income taxes in 1995 included DM 524 million of taxes resulting from the proposed dividend of DM 1.1 billion from 1995 earnings.

Under the current German corporate income tax system, income is taxed initially at a rate of 45%. Upon distribution of earnings, the income tax imposed on such earnings is reduced to 30% through a credit. For financial reporting purposes, income tax has been calculated using a rate of 50% in 1993 and 45% in 1994 and 1995. During 1995 income taxes also included a surcharge *(Solidaritätszuschlag)* amounting to 7.5% of the corporate income taxes. Income tax refunds resulting from dividends are reflected in the tax return for the year for which the dividend is paid. See "Unaudited Pro Forma Effects of Changes in Legal and Tax Status."

Deferred taxes resulted from the elimination of profits on the intercompany sale of land and buildings, the use of special tax depreciation and miscellaneous other differences.

	Year Ended December 31, 1994	Year Ended December 31, 1995
	(DM in millions)	
Deferred tax assets	10	23
Deferred tax liabilities	(88)	(131)
Net deferred liability	**(78)**	**(108)**

At December 31, 1995, Deutsche Telekom had corporate income tax net operating loss carryforwards (NOLs) amounting to approximately DM 1,041 million. Deutsche Telekom also had trade income tax NOLs amounting to DM 702 million at December 31, 1995. Substantially all of the NOLs have an unlimited carryforward period under German tax law.

14. Intangible Assets

	Intellectual property and similar rights(3)	Purchased goodwill	Advance payments	Total
	(DM in millions)			
Acquisition Costs:				
Balance at January 1, 1995(1)	728	49	32	809
Currency translation	—	—	—	—
Additions(1)	290	43	1	334
Reclassifications(2)	309	—	(27)	282
Disposals	99	1	—	100
Balance at December 31, 1995	**1,228**	**91**	**6**	**1,325**
Accumulated Amortization:				
Balance at January 1, 1995(1)	138	43	—	181
Currency translation	—	—	—	—
Additions	343	6	—	349
Reclassifications(2)	—	—	—	—
Disposals	1	—	—	1
Balance at December 31, 1995	**480**	**49**	**—**	**529**
Net carrying amount at December 31, 1994	590	6	32	628
Net carrying amount at December 31, 1995	748	42	6	796

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

(2) Reclassifications represent the transfer of certain assets which, when initially purchased, were recorded as property, plant and equipment—advance payments and construction in progress, but were ultimately placed into service as intangible assets.

(3) Franchises, operating licenses, intellectual property and similar rights and assets, and licenses under such rights and assets.

Non scheduled amortization of intangible assets during 1995 was DM 1 million.

15. Property, Plant and Equipment

	Land, equivalent rights to real property including buildings on land owned by others	Technical equipment and machinery	Other equipment, plant and office equipment	Advance payments and construction in progress	Total
		(DM in millions)			
Acquisition Costs:					
Balance at January 1, 1995(1)	35,675	90,756	3,273	6,483	136,187
Currency translation	—	—	(1)	—	(1)
Additions(1)	1,932	9,030	1,101	3,320	15,383
Reclassifications(2)	624	3,547	273	(4,726)	(282)
Disposals	219	1,397	244	309	2,169
Balance at December 31, 1995	**38,012**	**101,936**	**4,402**	**4,768**	**149,118**
Accumulated Depreciation:					
Balance at January 1, 1995(1)	36	813	133	—	982
Additions	1,267	12,642	1,119	—	15,028
Write-ups	—	1	—	—	1
Reclassifications(2)	—	3	(3)	—	—
Disposals	5	473	168	—	646
Balance at December 31, 1995	**1,298**	**12,984**	**1,081**	—	**15,363**
Net carrying amount at December 31, 1994	35,639	89,943	3,140	6,483	135,205
Net carrying amount at December 31, 1995	36,714	88,952	3,321	4,768	133,755

(1) Including balances carried forward from companies consolidated for the first time.
(2) Reclassifications represent the transfer of certain assets which, when initially purchased, were recorded as property, plant and equipment—advance payments and construction in progress, but were ultimately placed into service as intangible assets.

Non scheduled depreciation on fixed assets during 1995 was DM 1 million.

Capital expenditures in 1995 related mainly to the digitalization of the switching and transmission equipment and programs to modernize the network.

Of the acquisition costs for land and buildings, DM 13,704 million and DM 13,645 million related to land at December 31, 1995 and 1994, respectively.

Prior to January 1, 1996, Deutsche Telekom's monopoly services were not subject to VAT. Accordingly, the Company was not able to reclaim, in the normal manner, the full amount of VAT paid on goods and services purchased. Instead, the Company was allowed to immediately reclaim 20% of the VAT paid on goods and services purchased. The remaining 80% was attributed to VAT paid for items which were immediately expensed and those which were capitalized. The VAT paid on the former was recognized as expense in the year of payment and is included in other operating expenses. The VAT paid on capitalized items has been capitalized to the extent recoverable under German tax law *(§15a Umsatzsteuergesetz).*

16. Leasing

Minimum lease payments under leases expiring subsequent to December 31, 1995 are as shown below.

Year	Capital Leases	Operating Leases
	(DM in millions)	
1996	60	908
1997	64	603
1998	64	485
1999	66	394
2000	67	307
Thereafter	1,478	1,501
Total minimum lease payments	**1,799**	**4,198**
Imputed interest	(971)	
Present value of net minimum lease payments	828	

Capital leases are primarily for office buildings and have terms of up to 25 years.

17. Financial Assets

	Investments in affiliated companies	Loans to affiliated companies	Investments in associated companies	Other investments in related companies	Long-term loans to associated and related companies	Other investments in noncurrent securities	Other long-term loans	Total
				(DM in millions)				
Acquisition Costs:								
Balance at January 1, 1995(1)	—	1	688	747	38	1	1,920	3,395
Currency translation	—	—	(191)	—	—	—	—	(191)
Additions(1)	—	—	1,713	142	67	11	20	1,953
Reclassifications	—	—	(6)	(16)	22	—	—	0
Disposals	—	—	92	71	10	—	222	395
Balance at December 31, 1995	**—**	**1**	**2,112**	**802**	**117**	**12**	**1,718**	**4,762**
Allowance:								
Balance at January 1, 1995(1)	—	—	9	3	—	—	—	12
Currency translation	—	—	(1)	—	—	—	—	(1)
Additions	—	—	84	—	3	—	—	87
Reclassifications	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—	—
Balance at December 31, 1995	**—**	**—**	**92**	**3**	**3**	**—**	**—**	**98**
Net carrying amount at December 31, 1994	—	1	679	744	38	1	1,920	3,383
Net carrying amount at December 31, 1995	—	1	2,020	799	114	12	1,718	4,664

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

Significant investments in associated companies are shown below:

	December 31, 1994			December 31, 1995		
Name	Percentage owned	Carrying amount	Net difference between carrying value and equity in net assets	Percentage owned	Carrying amount	Net difference between carrying value and equity in net assets
		(DM in millions)			(DM in millions)	
Satelindo	—	—	—	25%	934	732
MagyarCom	50%	578	—	50%	1,024	—
Other	—	101	11	—	62	10
		679	**11**		**2,020**	**742**

Differences between carrying amounts and acquisition costs reflect the impacts of equity method accounting. During 1995 a subsidiary of the Company purchased a 25% stake in Satelindo for DM 1,026 million. In 1995 Deutsche Telekom invested an additional DM 646 million in its joint venture with Ameritech Corporation, MagyarCom, which in turn increased its stake in Matáv to 67%. The carrying value of MagyarCom's investment in Matáv exceeds its equity in Matáv's net assets. Deutsche Telekom's share of this excess amounted to DM 504 million and DM 273 million at December 31, 1995 and 1994, respectively. Pursuant to the MagyarCom joint venture agreement, effective January 2, 1996

Deutsche Telekom obtained control of MagyarCom and will consolidate MagyarCom beginning in 1996. In 1995 and earlier periods, MagyarCom was jointly controlled by Deutsche Telekom and Ameritech and was accounted for under the equity method. The sole asset of MagyarCom is its interest in Matáv.

Other long-term loans at December 31, 1995 include interest bearing loans of DM 1,625 million due from Deutsche Post annually through 2003. The loans receivable are guaranteed by the Federal Republic.

18. Inventories, Materials and Supplies

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Raw materials and supplies	1,128	875
Work in process	796	841
Finished goods	609	587
Advance payments	6	2
	2,539	**2,305**

Materials and supplies include cable and spare parts which are held for use in maintaining the Company's network. Finished goods consists primarily of telephones and related equipment purchased and held for resale to customers.

19. Trade Accounts Receivable

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Trade accounts receivable	6,005	6,820
Receivables from affiliated companies	—	—
Receivables from associated and related companies	17	32
	6,022	**6,852**

Trade accounts receivable relate primarily to the billing of telecommunication services. All receivables are due within one year. The allowance for doubtful accounts and changes therein for 1993, 1994 and 1995 are as follows:

	Year Ended December 31, 1993	1994	1995
		(DM in millions)	
Allowance, beginning of period	582	623	858
Charged to costs and expenses	120	366	157
Amounts written off and released	(79)	(131)	(26)
Allowance, end of period	**623**	**858**	**989**

The Company wrote off directly accounts receivable balances during 1995, 1994 and 1993 in the amounts of DM 436 million, DM 303 million and DM 217 million, respectively.

20. Other Assets

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Prepaid levy	1,000	—
Other	485	853
	1,485	**853**

The "other" category includes tax receivables, accrued interest, receivables for cost reimbursements, receivables from employees and miscellaneous other assets. The entire balance is due within one year. Of the balance at December 31, 1995, DM 249 million first became legally due after the balance sheet date.

21. Liquid Assets and Supplemental Cash Flow Information

Amounts included as liquid assets in the balance sheet are as follows:

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Cash and cash equivalents (original maturity 3 months or less)	8,465	3,508
Temporary cash investments (original maturity greater than 3 months)	9,342	6,500
Marketable securities	1	—
	17,808	**10,008**

Cash and cash equivalents, consisting primarily of fixed-term bank deposits, also include checking account balances, deposits at the Bundesbank and Deutsche Postbank and petty cash. Temporary cash investments consist of fixed-term bank deposits.

The Company capitalized interest costs associated with the construction of capital assets in the amount of DM 509 million, DM 378 million and DM 1,646 million in 1995, 1994 and 1993, respectively. These amounts have been included in cash provided by operating activities as interest paid. Fixed assets acquired under capital lease arrangements totaling DM 634 million and DM 76 million in 1995 and 1994, respectively, have been excluded from the cash flow statement because they are non cash transactions. As payments against the lease obligation are made, they will be included as financing cash flows.

22. Prepaid Expenses and Deferred Charges

This item consists principally of discounts on long-term debt totaling DM 283 million and prepaid personnel costs totalling DM 673 million at Deutsche Telekom AG at December 31, 1995.

23. Shareholders' Equity

Pursuant to §5(1) of its Articles of Association, Deutsche Telekom AG issued 200 million bearer shares, each with a nominal value of DM 50 in connection with its incorporation. On November 9, 1995, at a special shareholder meeting, a ten-for-one stock split was declared with the effect that Deutsche Telekom had 2 billion bearer shares, nominal value DM 5 each, outstanding at year-end

1995. All applicable share and per share data has been adjusted for this stock split. Under the Articles of Association, the Management Board is authorized to increase the capital stock of the Company by a further DM 5 billion by issuing new shares for cash or non cash consideration through January 1, 2000.

Prior to January 1, 1995, the total capital represented the investment of the Federal Republic in the net assets of Deutsche Bundespost TELEKOM. Beginning in 1995, unappropriated net income represents that component of net income which is generally available for dividend distributions.

The net loss applicable to minority shareholders in 1995 includes DM 0.5 million profits and DM 2.2 million losses. In 1994 the net loss applicable to minority shareholders includes DM 0.1 million profits and DM 3.7 million losses.

24. Pensions and similar obligations

Non-civil servant pension plan

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit pension plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the VAP, as well as obligations under Article 131 of the German Constitution *(Grundgesetz)*. The total projected benefit obligations consist of DM 0.2 billion for direct pension obligations and DM 5.8 billion for indirect pension obligations.

The amount of the accrual was determined using actuarial principles that are consistent with U.S. GAAP and using the assumptions shown in the following table:

	1994 and 1995
Discount rate:	
Beginning of year	7%
End of year	7%
Projected salary increase	3%
Expected return on assets	7%
Expected share of retiree accumulated benefit obligation	41%
Projected pension increase	2.5%

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefit formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment, but are limited to the difference between the amount determined by the benefit formula and social security benefits. Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service.

The VAP is funded by Deutsche Telekom, Deutsche Post, Deutsche Postbank and certain other governmental entities that also provide benefits to current and former employees through the VAP. Annual funding for each of the participating enterprises is set at a percentage of the net personnel costs for active employees covered by the plan. The pension benefit obligation and the plan assets relating to retirees have been calculated in total, and allocated using an economically derived index which the Company believes reflects Deutsche Telekom's share of the ultimate obligation for that group of participants. This index is based on Deutsche Telekom's historical share of compensation for the employee group in comparison with the total of such compensation.

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Actuarial present value of benefits:		
Vested	5,818	6,342
Nonvested	180	195
Accumulated benefit obligation	**5,998**	**6,537**
Effect of projected future salary increases	610	595
Projected benefit obligation	**6,608**	**7,132**
Plan assets at fair value	(769)	(793)
Projected benefit obligation in excess of plan assets	**5,839**	**6,339**
Unrecognized net gains (losses)	5	(310)
Accrual for pensions	**5,844**	**6,029**

The VAP plan assets consist principally of fixed interest bonds, valued at the lower of acquisition cost or market value, and funds on deposit.

Net periodic pension cost summarized as follows:

	Year Ended December 31, 1994	Year Ended December 31, 1995
	(DM in millions)	
Service cost	152	217
Interest cost on projected benefit obligation	452	448
Actual return on plan assets	(54)	(56)
Net periodic pension cost	**550**	**609**

Civil servant retirement arrangements

Deutsche Telekom is required to assist in funding the German Government's pension and healthcare obligations to Deutsche Telekom's civil servant staff and their surviving dependents. Deutsche Telekom is legally obligated to make annual contributions to a special pension fund *(Unterstützungskasse)* of DM 2.9 billion for the years 1995 through 1999, and in subsequent years annual contributions equal to 33% of the gross salaries of active civil servants (including civil servant employees on unpaid leave) (see Note 27). Amounts due to the special pension fund but not yet paid at each balance sheet date have been accrued. Under Postreform II, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, on the one hand, and amounts received from Deutsche Telekom and returns on assets, on the other hand, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for any amounts paid by it to the special pension fund.

25. Other Accruals

Other accruals include the following:

	At December 31, 1994	At December 31, 1995
	(DM in millions)	
Employee benefits:		
Civil Service Health Insurance Fund	1,285	1,483
Personnel restructuring	349	785
Other	614	627
Total employee benefits	**2,248**	**2,895**
Provisions for taxes	44	596
Deferred income taxes	78	108
Outstanding invoices	389	721
Litigation risks	455	713
Environmental remediation	841	448
Unearned telephone charge units	225	352
Deferred maintenance	332	151
Other	918	980
	5,530	**6,964**

When Postreform II came into effect, the Civil Service Health Insurance Fund was closed to new members. Due to the aging of the insureds, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom has accrued the actuarially determined present value of this future deficit.

Deutsche Telekom has announced its intention to reduce its workforce to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement for civil servants and other programs. During 1995, approximately 4,200 civil servants and 10,400 non-civil servants accepted the Company's offer for early retirement and severance. While the early retirement program for civil servants does not result in incremental costs, the Company incurred costs relating to these initiatives of DM 1,264 million and DM 357 million in 1995 and 1994, respectively. Of those costs incurred during 1995, DM 407 million has already been paid out. Of the remaining amount, representing the costs of those incentives for which contracts, under either collective or individual agreements, have been signed, DM 72 million and DM 785 million have been included in other liabilities and accruals, respectively.

Accruals for environmental remediation of DM 448 million and DM 841 million at December 31, 1995 and 1994, respectively, were established for site clean up costs and asbestos removal costs. There are no material contingencies as a result of these risks. Deutsche Telekom expects to incur these costs over the next 3 to 5 years. The provision for taxes includes DM 524 million accrued for the possible tax effects of the dividend for 1995.

26. Liabilities

	At December 31, 1994	of which due			At December 31, 1995	of which due		
		within one year	in one to five years	after five years		within one year	in one to five years	after five years
	(DM in millions)							
Debt:								
Bonds and debentures	102,286	5,970	37,469	58,847	96,386	9,412	36,933	50,041
Commercial paper	954	954	—	—	—	—	—	—
Liabilities to banks	22,219	5,506	10,593	6,120	14,001	1,765	6,215	6,021
Total debt	**125,459**	**12,430**	**48,062**	**64,967**	**110,387**	**11,177**	**43,148**	**56,062**
Other liabilities:								
Advances received	146	145	1	—	143	143	—	—
Trade accounts payable	4,710	4,686	24	—	4,359	4,325	34	—
Liabilities to other companies in which an equity interest is held	40	40	—	—	104	104	—	—
Other liabilities	6,500	4,657	463	1,380	7,040	4,825	282	1,933
Total other liabilities	**11,396**	**9,528**	**488**	**1,380**	**11,646**	**9,397**	**316**	**1,933**
Total liabilities	**136,855**	**21,958**	**48,550**	**66,347**	**122,033**	**20,574**	**43,464**	**57,995**

Bonds and debentures consist primarily of bonds issued by Deutsche Bundespost at interest rates ranging from 4.1% to 9.0% annually. At December 31, 1995, bonds and debentures were due as follows:

Interest rate	up to 6%	up to 7%	up to 8%	up to 9%	9%	Total
			(DM in millions)			
Due in:						
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 was 7.19% for bonds and debentures and 7.01% for liabilities to banks. All bonds and debentures and liabilities to banks which existed at January 1, 1995, are guaranteed by the German Government. Such bonds and debentures and liabilities to banks totaled DM 107 billion at December 31, 1995. Subsidiaries' liabilities to banks were collateralized by DM 175 million and DM 186 million, respectively, of assigned receivables and other collateral, at December 31, 1995 and 1994.

Aggregate amounts of liabilities to banks that mature during each of the next five years and thereafter are as follows:

	1996	1997	1998	1999	2000	After 2000	Total
			(DM in millions)				
Liabilities to banks	1,765	2,885	2,004	732	594	6,021	14,001

At June 30, 1996, Deutsche Telekom had reached agreements with a consortium of banks pursuant to which it can draw on short-term revolving credit facilities up to DM 7.0 billion at interest rates ranging from 6.75% to 7.00% or at the daily interbank rate plus 0.25%. At June 30, 1996, no amount had been drawn under these credit lines. Financial liabilities with a nominal value of DM 3.6 billion were repaid ahead of schedule in 1995, resulting in DM 159 million of prepayment penalties.

Deutsche Telekom settled its obligations of DM 6.3 billion arising out of the special charges to Deutsche Post and Deutsche Postbank for years prior to 1995 by assuming debt of Deutsche Post and Deutsche Postbank amounting to DM 8.1 billion. This debt is included in the balance sheet at December 31, 1994. The difference between the obligations and the assumed debt is recorded as a long-term receivable in financial assets—other investments in noncurrent securities (see Note 17).

Other Liabilities

	At December 31,	
	1994	1995
	(DM in millions)	
Interest	3,602	3,813
Loan notes	1,836	1,589
Leasing obligations	115	751
Employees	396	371
Other	551	516
	6,500	7,040

"Other" includes DM 266 million for taxes and DM 59 million for social security in 1995 and DM 73 million for taxes and DM 11 million for social security in 1994, all of which was due within one year.

27. Commitments and Contingencies

At December 31, 1995 the Company had guarantees and liabilities from warranty agreements that were not accrued amounting to DM 11 million and DM 4 million, respectively. Purchase commitments for capital projects in progress totalled DM 6.1 billion while obligations under rental and lease agreements totalled DM 0.9 billion. In addition, at December 31, 1995, purchase commitments for interests in other companies, principally Sprint and Atlas/Global One, amounted to DM 3.1 billion. The present value of the payments to be made for the civil servant pension fund is estimated to be DM 29.8 billion, of which DM 12.9 billion relates to future years of service of the active civil servant staff (see Note 24).

As part of the MagyarCom joint venture agreement, Ameritech Corporation has the option during the term of the agreement to sell certain of its shares in the joint venture to the Company. The exercise price of the put option is the fair market value of the corresponding Matáv shares plus a $60 million control premium; provided that, until March 31, 1998, the exercise price is subject to a floor equal to $210 per share plus the $60 million control premium, plus accrued interest from the date of the shares' original purchase. Should the option be exercised, the minimum range of total payments required would be between $270 million and $465 million plus interest.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under government laws and regulations related to environmental and other matters. Litigation costs have been accrued for the costs of litigation and for any probable losses. The Company does not believe that any additional costs which may be incurred will have a material adverse effect on its financial condition, results of operations or cash flows.

28. Related Party Transactions

Until December 31, 1994, Deutsche Telekom was operated as a part of the Deutsche Bundespost which also included the predecessors to Deutsche Postbank and Deutsche Post. Since January 1, 1995 Deutsche Telekom AG has operated as a stock corporation with the Federal Republic as the sole shareholder. Transactions entered into with Deutsche Postbank and Deutsche Post and the German Government are disclosed elsewhere in these financial statements.

29. Information about Financial Instruments

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of Deutsche Telekom's bonds and debentures, based on quoted market prices, was approximately DM 101,135 million (book value of DM 96,386 million) and DM 101,654 million (book value of DM 102,286 million) at December 31, 1995 and 1994, respectively (see Note 26). The fair values of the following classes of financial instruments approximate their carrying values, and the major methods and assumptions used in estimating the fair value of financial instruments are summarized as follows:

Liquid assets with book values of DM 10,008 million and DM 17,808 million at December 31, 1995 and 1994, respectively, reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments (see Note 21). The book values of trade accounts receivable of DM 6,852 million and DM 6,022 million at December 31, 1995 and 1994, respectively, also approximate their fair values, due to the short period to maturity (see Note 19).

The book values of commercial paper, liabilities to banks, and other liabilities of DM 25,647 million and DM 34,569 million at December 31, 1995 and 1994, respectively, approximate their fair values (see Note 26).

The fair values of investments in associated and related companies of DM 2,934 million and DM 1,462 million at December 31, 1995 and 1994, respectively, were not practicably determinable because they are not publicly traded (see Note 17).

Due to the unique nature of the individual other financial guarantees, estimation of their fair value is not practicable (see Note 27).

Derivative Financial Instruments

In the normal course of its business, Deutsche Telekom is exposed to risks relating to changes in interest rates and foreign exchange rates. To manage its exposure to such risks, the Company uses certain types of derivative financial instruments. Interest rate swaps, forward rate agreements and swaptions were entered into with the aim of synthetically altering the Company's exposure to interest rate risk and to seek to reduce its overall costs of finance. The forward foreign exchange contracts outstanding at December 31, 1995 were principally established as a hedge of the dollar commitment to invest in Sprint Corporation which was consummated in the first half of 1996. The Company does not enter into derivatives for trading purposes.

Amounts paid and received on interest rate swaps and forward rate agreements are accrued and recognized as an adjustment to net interest expense. Gains and losses on forward foreign exchange contracts offset gains and losses resulting from the underlying transactions. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and recognized in the periods in which the transactions are consummated.

The following is a summary of the contract or notional principal amounts, the net carrying amount and fair value outstanding at December 31, 1995 (non bracketed amounts represent assets; bracketed amounts represent liabilities). The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The fair value of these instruments may vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates.

	Maturity	Notional amount	Net carrying amount	Fair value
		(DM in millions)		
Interest rate swaps	1998-2000	2,500	—	123
Forward foreign exchange contracts	1996	1,404	—	30
Forward rate agreements	1996	500	—	1
Swaptions	1996	500	(2)	(2)
		4,904	**(2)**	**152**

The terms of the interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 6.0%) and pay interest at variable rates, generally based on the six-month LIBOR rate. Payments under interest rate swaps are settled either annually or semi-annually. No payments were received or made under these interest rate swaps during 1995. Amounts received and paid are dependent on the notional amounts and the contractual interest rates. The future cash requirements of forward rate agreements generally require the Company to pay (or receive) an amount for the excess (or shortfall) of the difference in the specified interest rate (weighted average rate of 4.1% at December 31, 1995) at the instrument strike date and an agreed-upon reference interest rate. The terms of these instruments vary, but all mature in 1996. The future cash requirements of the sold swaptions depend upon the exercise of these options by the counterparties and the prevailing interest rates at that time. The swaptions sold all have 3 month terms to expiration, with the underlying interest rate swaps all having a 3 year term. The swaptions expired unexercised by the holders in 1996. The future cash requirements related to the forward foreign exchange contracts are fixed according to the terms of each individual contract, which require the future payment of Deutsche Mark in exchange for U.S. Dollars. These contracts all mature in 1996 and have different contracted exchange rates.

30. Significant Differences Between German and United States Generally Accepted Accounting Principles

German GAAP varies in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). Application of U.S. GAAP would have affected shareholders' equity as of December 31, 1994 and 1995 and net income for each of the years in the two year period ended December 31, 1995 to the extent quantified below. However, as described in Note 3(j), certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost, which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993, the Company's predecessor did not maintain sufficiently detailed historical cost records.

(a) Extraordinary Losses—Personnel restructuring

Note 25 describes the Company's plans to reduce its workforce by 60,000 full-time equivalent employees, which includes an estimated 38,300 non-civil servants expected under voluntary separation agreements. Under German GAAP, the estimated costs of employee separations have been accrued on the basis of the Company's announced intention to reduce its workforce. Under U.S. GAAP, these costs are accrued in the period that the employee accepts the Company's offer of termination. The Company has agreed pursuant to its collective bargaining agreements with the unions that, prior to December 31, 1997, it will not unilaterally terminate the employment of its non-civil servant employees due to business reasons. Civil servants may not be involuntarily terminated under the terms of their conditions of employment.

(b) Levy to the Federal Republic of Germany

As discussed in Note 13, under German GAAP, Deutsche Telekom has recorded a direct contribution to capital for the portion of the levy payable to the Federal Republic of Germany relating to revenues from services generated in the New Federal States. Under U.S. GAAP, the amount retained would not be recognized as an expense in the income statement.

(c) Maintenance accruals

As required by German GAAP, the costs of maintenance performed within the 3 months following the year end have been accrued as liabilities at each period end. Under U.S. GAAP, the cost of maintenance is recognized in the periods incurred.

(d) Other differences

Other differences consist primarily of the miscellaneous valuation differences that are not individually significant, including the treatment of derivative financial instruments and unrealized gains on foreign currency receivables and payables that are not deferred under U.S. GAAP.

(e) Current income taxes

On July 1, 1996, the shareholders' meeting declared a dividend distribution out of income earned during 1995. Under German GAAP, the possible income tax effect of this distribution was recorded during 1995. Under U.S. GAAP, the income tax effect of this distribution is recorded when the dividend is declared.

(f) Deferred income taxes

Under German GAAP, deferred tax assets are generally provided for temporary differences using the partial liability method. Deferred taxes are not provided for differences that are not expected to reverse in the foreseeable future, nor are they recognized for the effects of NOLs. Furthermore, deferred taxes have not been provided for temporary differences relating to Deutsche Telekom AG prior to its becoming taxable on January 1, 1996.

Under U.S. GAAP, deferred taxes are provided for all temporary differences between the financial reporting and tax bases of assets and liabilities that will reverse during future taxable periods, including NOLs. Deferred tax assets of DM 645 million and DM 536 million relating to NOLs at certain taxable consolidated subsidiaries at December 31, 1994 and 1995, respectively, have not been recognized under German GAAP. Deferred taxes are also provided for the income tax effects of differences between U.S. GAAP and German GAAP. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities arising from temporary differences and NOLs, are as follows:

	At December 31,	
	1994	1995
	(DM in millions)	
Current deferred tax assets:		
Net operating loss carryforwards	213	104
Noncurrent deferred tax assets:		
Property, plant and equipment	904	1,429
Net operating loss carryforwards	432	432
Pension accrual	3,057	3,333
Civil servant health insurance accrual	732	845
Other	83	83
	5,208	6,122
Current deferred tax liabilities:		
Deferred maintenance accrual	(86)	(86)
Other	(2)	(561)
	(88)	(647)
Noncurrent deferred tax liabilities:		
Capitalized interest	(947)	(1,235)
Other	(63)	(825)
Personnel restructuring accrual	—	(127)
	(1,010)	(2,187)
Net current deferred tax asset (liability)	125	(543)
Net noncurrent deferred tax asset	4,198	3,935
Valuation allowance	—	—
Net deferred tax asset under U.S. GAAP	**4,323**	**3,392**
Net deferred tax liability under German GAAP	(78)	(108)
U.S. GAAP adjustments:		
Application of U.S. GAAP	4,491	3,912
U.S./German GAAP differences	(90)	(412)
Net deferred tax asset under U.S. GAAP	**4,323**	**3,392**

The effects of the change in tax status have been shown separately in the reconciliation to U.S. GAAP. During 1994 legislation was enacted to make Deutsche Telekom AG subject to ordinary corporate taxation from January 1, 1995; however, the Company benefited from an essentially complete exemption from taxation in 1995 and instead was required to pay a final levy to the Federal Republic in the amount of DM 3.1 billion. Under U.S. GAAP, deferred taxes have been recognized during 1994 for those temporary differences that existed when such tax legislation was enacted.

(g) Minority interest

Under U.S. GAAP, minority interests are not included in shareholders' equity.

Reconciliation to U.S. GAAP

The following is a reconciliation of the significant adjustments necessary to reconcile net income in accordance with U.S. GAAP to the amounts determined under German GAAP, for the years ended December 31, 1995 and 1994.

	Note	For the Year Ended December 31, 1994	1995	1995
		DM	DM (in millions)	$
Net income as reported in the consolidated income statements under German GAAP		3,595	5,272	3,466
Personnel restructuring accrual	(a)	—	548	360
Levy to the Federal Republic of Germany	(b)	716	316	208
Maintenance accruals	(c)	(12)	(181)	(120)
Other differences	(d)	(91)	(15)	(9)
Income tax differences resulting from:				
Current income taxes	(e)	—	524	344
Deferred taxes from the application of U.S. GAAP	(f)	(35)	(579)	(380)
Deferred taxes on U.S. GAAP/German GAAP differences	(f)	(2)	(322)	(212)
Net income in accordance with U.S. GAAP before effects of the change in tax status		4,171	5,563	3,657
Deferred income taxes recognized as a result of change in tax status	(f)	3,783	—	—
Net income in accordance with U.S. GAAP		**7,954**	**5,563**	**3,657**

Income Statement Presentation under U.S. GAAP

Certain items in the total cost income statement would be classified differently under U.S. GAAP. These items include reversals of accruals and allowances for doubtful accounts that would generally be recorded as reductions to the original expense line items under U.S. GAAP rather than as income.

The extraordinary losses reported under German GAAP would be classified as an expense charged to income from ordinary business activities under U.S. GAAP. Financial liabilities with a nominal value of DM 3.6 billion were repaid ahead of schedule in 1995, resulting in DM 159 million of prepayment penalties, which would have been classified as extraordinary losses under U.S. GAAP.

The following is a presentation of certain income statement information in accordance with U.S. GAAP:

	For the Year Ended December 31,		
	1994	1995	1995
	DM	DM	$
	(in millions, except per Share/ADS amounts)		
Results from ordinary business activities	11,036	9,493	6,241
Special charge relating to other Post entities	(2,320)	—	—
Levy to the Federal Republic of Germany	(4,448)	(2,782)	(1,829)
Income before income taxes	4,268	6,711	4,412
Income taxes	(101)	(991)	(652)
Deferred income taxes recognized as a result of change in tax status	3,783	—	—
Income before extraordinary losses and losses applicable to minority shareholders	7,950	5,720	3,760
Extraordinary losses	—	(159)	(104)
(Income) losses applicable to minority shareholders	4	2	1
Net income in accordance with U.S. GAAP	**7,954**	**5,563**	**3,657**
Earnings per share/ADS in accordance with U.S. GAAP:			
Before extraordinary losses	3.92	2.82	1.85
Extraordinary losses	—	(0.08)	(0.05)
Net income	3.92	2.74	1.80

The following is a reconciliation of the significant adjustments necessary to reconcile shareholders' equity in accordance with U.S. GAAP to the amounts determined under German GAAP, as of December 31, 1995 and 1994:

	Note	At December 31,		
		1994	1995	1995
		DM	DM	$
		(in millions)		
Shareholders' equity as reported in the consolidated balance sheets under German GAAP		19,332	24,732	16,260
Personnel restructuring accruals	(a)	—	548	360
Maintenance accruals	(c)	332	151	99
Minority interest	(g)	(2)	(5)	(3)
Other differences	(d)	40	25	17
Income taxes resulting from:				
Current income taxes	(e)	—	524	344
Deferred taxes from the application of U.S. GAAP	(f)	4,491	3,912	2,573
Deferred taxes on U.S. GAAP/German GAAP differences	(f)	(90)	(412)	(271)
Shareholders' equity in accordance with U.S. GAAP		**24,103**	**29,475**	**19,379**

The changes in shareholders' equity in accordance with U.S. GAAP are as follows:

	For the Year Ended December 31, 1995
	(DM in millions)
Shareholders' equity, beginning of year	24,103
Net income in accordance with U.S. GAAP	5,563
Difference from currency translation	(191)
Shareholders' equity, end of year	**29,475**

Balance Sheet Presentation under U.S. GAAP

Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year are classified as non-current. Work in progress includes assets under construction, substantially all of which are classified as property, plant and equipment in progress under U.S. GAAP.

German GAAP does not require presentation of a classified balance sheet. Summarized balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

	At December 31,		
	1994	1995	1995
	DM	DM (in millions)	$
ASSETS			
Current assets:			
Cash and cash equivalents	8,465	3,508	2,306
Other current assets	19,585	17,171	11,289
Total current assets	**28,050**	**20,679**	**13,595**
Noncurrent assets	144,193	144,226	94,823
Total assets	**172,243**	**164,905**	**108,418**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	10,032	9,881	6,496
Short term debt and current portion of long-term debt	12,430	11,177	7,348
Accruals	2,648	3,865	2,542
Total current liabilities	**25,110**	**24,923**	**16,386**
Long-term debt	112,687	98,926	65,040
Other noncurrent liabilities	10,341	11,576	7,610
Total long-term liabilities	**123,028**	**110,502**	**72,650**
Minority interest	2	5	3
Shareholders' equity	24,103	29,475	19,379
Total liabilities and shareholders' equity	**172,243**	**164,905**	**108,418**

Other matters

Because readily determinable fair values to investments, which are primarily classified as other financial assets, are not available, the application of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities Investments*, is not required under U.S. GAAP. The cumulative effect of implementing this standard was negligible.

The Company adopted SFAS No. 112, *Employers' Accounting for Post Employment Benefits*, for the year ending December 31, 1994. The cumulative effect of implementing this standard was immaterial.

The Company adopted SFAS No. 87, *Employers' Accounting for Pensions*, effective January 1, 1993 because it was not feasible to apply the statement retroactively to the year ended December 31, 1989, the applicable adoption date specified in the standard.

31. Subsequent Events

Subsequent to December 31, 1995, the Company purchased 10% of Sprint Corporation for approximately DM 2,612 million and invested a total of approximately DM 689 million in the Atlas and Global One joint ventures.

Effective July 31, 1996, as a result of the Company's decision to issue 30 million shares of capital stock with a nominal value of DM 5 each, there were 2,030 million shares of capital stock outstanding with a nominal value of DM 5 each. The capital stock was issued, for no consideration, to the Federal Republic, as the sole shareholder, from additional paid-in capital.

At the shareholders' meeting on July 1, 1996, an aggregate dividend of DM 1.2 billion was declared.

32. Segment Reporting

Deutsche Telekom's principal business is providing telecommunication services, comprising more than 90% of total operating revenues, operating profits and identifiable assets. Deutsche Telekom's business is conducted predominantly in Germany and is, therefore, within a single geographic area for reporting purposes.

None of Deutsche Telekom's customers account for 10% or more of total consolidated operating revenues. For this reason, no segment reporting section has been included.

33. Accounting Changes

In March 1995, the FASB issued SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. This standard requires that assets to be disposed of be valued at the lower of carrying amount or fair value less cost to sell. Furthermore, companies are required to review long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Deutsche Telekom has adopted this standard from January 1, 1996, and the effect on the financial statements as a result of the adoption was not significant.

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

No remuneration was paid to members of Deutsche Telekom AG's Supervisory Board in 1995, although DM 1.3 million was accrued. The total amount expected to be paid by the companies of the consolidated group to the Board of Management of Deutsche Telekom AG is DM 6,328,483, of which DM 333,250 relates to prior 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. Unaccrued commitments in this regard total DM 3,087,844.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Management and Shareholders of Deutsche Telekom AG

We have reviewed the consolidated balance sheet of Deutsche Telekom AG as of June 30, 1996, and the related consolidated statements of income and cash flows for each of the six-month periods ended June 30, 1995 and 1996. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Germany, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in Germany.

Application of accounting principles generally accepted in the United States would have affected shareholders' equity as of June 30, 1996 and net income for each of the six-month periods ended June 30, 1995 and 1996 to the extent summarized in Note 13 to the consolidated interim financial statements. However, as described in Notes 3(j) and 30 to the consolidated financial statements for the year ended December 31, 1995, certain property, plant and equipment has been recognized at fair values in accordance with the Post and Telecommunication Reorganization Act *(Postneuordnungsgesetz)* rather than at historical cost, that is required by generally accepted accounting principles in the United States.

Frankfurt am Main,

September 12, 1996

C&L TREUARBEIT DEUTSCHE REVISION Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft	(Dickmann) Wirtschaftsprüfer	(Dr. Kutzenberger) Wirtschaftsprüfer

DEUTSCHE TELEKOM

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Note	Six Months Ended June 30, 1995	1996	1996
		DM	DM	$
		(in millions, except per share amounts)		
Net revenue	(3)	**32,557**	**30,637**	**20,143**
Increase in inventories and other own capitalized costs		1,393	1,496	984
		33,950	32,133	21,127
Other operating income	(4)	561	2,134	1,403
Goods and services purchased	(5)	(4,365)	(4,823)	(3,171)
Personnel costs	(6)	(9,495)	(9,422)	(6,195)
Depreciation and amortization		(7,257)	(8,649)	(5,686)
Other operating expenses	(7)	(3,779)	(4,766)	(3,133)
Financial income (expense), net		(4,178)	(3,892)	(2,559)
Results from ordinary business activities		**5,437**	**2,715**	**1,786**
Extraordinary losses	(8)	(285)	(1,841)	(1,211)
Special charge relating to other Post entities		—	—	—
Levy to the Federal Republic and taxes	(9)	(1,640)	(670)	(441)
Income after taxes		**3,512**	**204**	**134**
(Income) losses applicable to minority shareholders		1	(75)	(49)
Net income		**3,513**	**129**	**85**
Unappropriated net income, beginning of period		—	1,291	849
Transfer to retained earnings		—	—	—
Unappropriated net income, end of period		3,513	1,420	934
Earnings per share		**1.73**	**0.06**	**0.04**

The accompanying notes are an integral part of the unaudited consolidated financial statements

DEUTSCHE TELEKOM

UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	At June 30, 1996 DM	$
		(in millions)	
ASSETS			
Noncurrent assets:			
Intangible assets		1,389	913
Property, plant and equipment		134,546	88,459
Financial assets		7,080	4,655
Total noncurrent assets		**143,015**	**94,027**
Current assets:			
Inventories, materials and supplies	(10)	2,370	1,558
Trade accounts receivable		7,163	4,709
Other assets		2,009	1,321
Liquid assets	(11)	7,878	5,180
Total current assets		**19,420**	**12,768**
Prepaid expenses and deferred charges		1,122	737
Total assets		**163,557**	**107,532**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Capital		—	—
Capital stock (2 billion bearer shares, nominal value DM 5 each)		10,000	6,575
Additional paid-in capital		11,292	7,424
Retained earnings		2,167	1,425
Unappropriated net income		1,420	934
Minority interest		1,189	781
Total shareholders' equity		**26,068**	**17,139**
Accruals:			
Pensions and similar obligations		6,085	4,001
Other		10,200	6,706
Total accruals		**16,285**	**10,707**
Liabilities:			
Debt		107,124	70,430
Other		13,079	8,598
Total liabilities		**120,203**	**79,028**
Deferred income		1,001	658
Total shareholders' equity and liabilities		**163,557**	**107,532**

Commitments and contingencies (see Note 12)

The accompanying notes are an integral part of the unaudited consolidated financial statements

DEUTSCHE TELEKOM

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,		
	1995	1996	1996
	DM	DM (in millions)	$
Cash flows from operating activities:			
Net income	3,513	129	85
Amounts applicable to minority shareholders	(1)	75	49
Income before amounts applicable to minority shareholders	3,512	204	134
Adjustments for:			
Depreciation and amortization	7,257	8,649	5,686
Income tax expense	60	275	181
Net interest expense	4,099	3,795	2,495
Net losses on disposition of noncurrent assets	296	548	361
Accruals for extraordinary losses	40	1,660	981
Other noncash income and expense	218	43	28
Change in current assets ((increase) decrease) and liabilities ((decrease) increase):			
Trade accounts receivable	(134)	(23)	(15)
Inventories, materials and supplies	(472)	9	6
Trade accounts payable	(867)	(59)	(39)
Other current assets and liabilities	1,030	1,007	707
Income taxes paid	(11)	(292)	(127)
Dividends received	22	75	49
Cash generated from operations	**15,050**	**15,891**	**10,447**
Interest paid	(2,984)	(3,749)	(2,465)
Interest received	509	239	157
Net cash provided by operating activities	**12,575**	**12,381**	**8,139**
Cash flows from investing activities:			
Capital expenditures	(5,597)	(6,596)	(4,336)
Purchases of subsidiaries and affiliates, net of cash acquired	(1,131)	(3,867)	(2,542)
Proceeds from sale of fixed assets	57	241	158
Net change in short-term investments	(6,263)	3,574	2,350
Other	—	151	99
Net cash used for investing activities	**(12,934)**	**(6,497)**	**(4,271)**
Cash flows from financing activities:			
Change in short-term borrowing	(954)	(8)	(5)
Proceeds from long-term debt	—	—	—
Repayments of long-term debt	(3,173)	(4,432)	(2,914)
Net cash provided by (used for) financing activities	**(4,127)**	**(4,440)**	**(2,919)**
Effect of foreign exchange rate changes on cash	71	—	—
Net increase (decrease) in cash and cash equivalents	**(4,415)**	**1,444**	**949**
Cash and cash equivalents, beginning of period	8,465	3,508	2,307
Cash and cash equivalents, end of period	4,050	4,952	3,256

The accompanying notes are an integral part of the unaudited consolidated financial statements

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The interim consolidated balance sheet of Deutsche Telekom and its subsidiaries at June 30, 1996, and the related consolidated statements of income and cash flows for the six months ended June 30, 1996 and 1995 are unaudited. In the opinion of the Company, all adjustments considered necessary, consisting only of normal recurring accruals and the accrual for personnel restructuring measures, to present fairly the consolidated financial position, results of operations and cash flows for such interim periods have been made. In the opinion of management, the unaudited interim consolidated financial statements have been prepared on a basis consistent with the Company's audited consolidated financial statements included in the prospectus.

The interim consolidated financial statements have been prepared in accordance with the requirements of the German Commercial Code which, together with the Stock Corporation Act, establish accounting principles generally accepted in Germany for stock corporations. For the purposes of these interim consolidated financial statements certain information and disclosures normally included in financial statements prepared in accordance with German GAAP have been condensed or omitted. These unaudited statements should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 1995. The results of operations for these interim periods are not necessarily indicative of the operating results for the entire year.

The preparation of financial statements in accordance with German GAAP requires management to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The unaudited consolidated interim financial statements are shown in millions of Deutsche Mark. For the convenience of the reader, the unaudited consolidated interim financial statements as of June 30, 1996 and for the six months then ended are also shown in millions of U.S. dollars translated at a rate of DM 1.5210 to $1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on June 28, 1996. The translation should not be construed as a representation that the amounts shown could be so converted into U.S. dollars at such rate.

2. Consolidated Group

The principal subsidiaries, associated companies and related companies of Deutsche Telekom include:

Name and registered office	Deutsche Telekom share June 30, 1996	Shareholders' equity June 30, 1996	Revenue six months ended June 30, 1996	Income after taxes six months ended June 30, 1996	Employees June 30, 1996
	(%)		(millions of DM)		(six month average)
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100	2,412	2,390	162	4,751
DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster	100	108	3,287	7	508
DeTeMedien Deutsche Telekom Medien GmbH, Frankfurt/Main	100	80	351	29	436
DeTeLine Deutsche Telekom Telekommunikationsnetze GmbH, Berlin/Rastatt	100	8	96	2	546
DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main	100	(6)	692	(25)	896
DeTeKabelService Deutsche Telekom Kabel Service Gesellschaft mbH, Bonn (1)(4)	97.56	66	99	6	319
Matáv Magyar Távközlési Rt, Budapest, Hungary (1)	67.3(2)	1,714	944	147	21,350
Satelindo PT Satelit Palapa Indonesia, Jakarta, Indonesia	25(3)	905	162	23	741
Sprint Corporation, Kansas City, Kansas, U.S.A. (1)(5)	10.02	12,498	10,280	936	—
Atlas S.A., Brussels, Belgium (1)(5)	50	1,152	405	(184)	—

(1) Consolidated subgroup financial statements
(2) Held through MagyarCom, Cayman Islands (Deutsche Telekom AG share: 50%)
(3) Held through DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn
(4) Previously TKS Telepost Kabel-Servicegesellschaft mbH, Bonn
(5) Employee information not available

The results of operations of Matáv were consolidated for the first time during the six months ended June 30, 1996. In 1995, the Company's share in the income of Matáv was accounted for using the equity method. In the first half of 1996, the Company purchased a 10% stake in Sprint and contributed capital to the joint venture Atlas/Global One.

3. Net Revenue

Revenue was generated in the following areas of business:

	Six Months Ended June 30, 1995	Six Months Ended June 30, 1996
	(DM in millions)	
Fixed-link telephony services (including leased lines)	25,456	22,455
Text and data services	1,277	1,414
Supply and service of telecommunications equipment	1,976	1,941
Other services	353	543
Mobile telecommunications services	1,478	1,731
Cable transmission and broadcasting services	2,017	1,621
International activities (Matáv)	—	932
	32,557	**30,637**

	Six Months Ended June 30, 1996
	(DM in millions)
Consolidated revenues by geographic area:	
Domestic	28,696
International	1,941
	30,637
Breakdown of international revenues:	
European Union countries (excluding Germany)	516
Rest of Europe	1,082
North America	118
Latin America	39
Other	186

Fixed-link telephony services includes revenues from domestic as well as international incoming and outgoing traffic and fees for leased lines. Other services includes revenues from services ancillary to Deutsche Telekom's basic telephony services, such as telephone directory publishing of DM 263 million in the first six months of 1996 and DM 248 million in the first six months of 1995. Other services also include other activities such as advertising. International revenue is derived from fixed-link international incoming traffic and internationally generated revenues from other business areas.

4. Other Operating Income

Other operating income includes the following:

	Six Months Ended June 30, 1995	Six Months Ended June 30, 1996
	(DM in millions)	
Recovery of VAT	—	1,486
Reversals of accruals	95	263
Rental and leasing income	51	1
Insurance compensation	44	49
Foreign currency transaction gains	43	23
Other	328	312
	561	**2,134**

In accordance with German tax law *(Umsatzsteuergesetz §15a)* the Company recovered DM 750 million of VAT paid in prior years. In addition, in accordance with German tax law *(Umsatzsteuergesetz §15)*, the Company recognized a one-time refund of DM 736 million representing VAT paid on assets purchased prior to January 1, 1996 and placed in service in 1996.

5. Goods and Services Purchased

Goods and services purchased include the following:

	Six Months Ended June 30, 1995	1996
	(DM in millions)	
Goods purchased	**949**	**1,057**
Services purchased:		
International network access charges	1,327	1,288
Domestic network access charges	319	426
Other services	1,770	2,052
Total services purchased	**3,416**	**3,766**
	4,365	**4,823**

Repair and maintenance expense, amounting to DM 604 million and DM 602 million in the first six months of 1996 and 1995, respectively, is included in other services.

6. Personnel Costs

	Six Months Ended June 30, 1995	1996
	(DM in millions)	
Wages and salaries:		
Civil servants	3,414	3,256
Non-civil servants	3,250	3,417
Total wages and salaries	**6,664**	**6,673**
Employee benefits:		
Social security costs	648	635
Civil servant pension and retiree healthcare costs	1,450	1,450
Non-civil servant pension costs	414	294
Pension and retiree healthcare costs	1,864	1,744
Active civil servant healthcare costs	312	366
Other employee benefits	7	4
Total employee benefits	**2,831**	**2,749**
	9,495	**9,422**
Number of employees (average for the period):		
Civil servants	118,839	112,417
Salaried employees	46,285	44,358
Wage earners	59,752	53,921
Deutsche Telekom (excluding Matáv)	224,876	210,696
Matáv	—	20,635
	224,876	**231,331**
Trainees, student interns (excluding Matáv)	12,452	9,213
Matáv	—	715
	237,328	**241,259**

7. Other Operating Expenses

Other operating expenses include the following:

	Six Months Ended June 30, 1995	Six Months Ended June 30, 1996
	(DM in millions)	
Losses on disposition of noncurrent assets	303	569
Rental and leasing expenses	587	637
Nondeductible value added taxes paid	452	—
Advertising expenses	359	710
Other employee-related costs	240	288
Litigation and other risk provisions	68	105
Legal and consulting fees	195	392
Losses on accounts receivable and provision for doubtful accounts	259	382
Travel expenses	193	182
Reimbursement of expenses to Deutsche Post and Deutsche Postbank	46	43
Other expenses	1,077	1,458
	3,779	**4,766**

The expenses relating to nondeductible VAT were not incurred after 1995 to any significant extent. Prior to Deutsche Telekom's services becoming fully subject to VAT in 1996, Deutsche Telekom paid VAT to its suppliers which was not fully recoverable. Other employee-related costs include amounts for services provided by the Federal Institute, including administration of the non-civil servant pension fund (VAP) and health insurance funds and assistance in the collective bargaining process. Deutsche Telekom also incurred charges from Deutsche Post for postal delivery and from Deutsche Postbank for banking services. These amounts are included in other expenses in each of the periods.

8. Extraordinary Losses

This item includes charges for personnel restructuring measures of DM 1,758 million in the first six months of 1996 and DM 285 million in the first six months of 1995. In addition, the Company incurred DM 83 million of stock issuance costs during the first six months of 1996.

9. Levy to the Federal Republic of Germany and Taxes

	Six Months Ended June 30, 1995	Six Months Ended June 30, 1996
	(DM in millions)	
Levy paid to the Federal Republic of Germany	1,549	—
Income taxes	60	275
Other taxes	31	395
	1,640	**670**

Effective January 1, 1996, Deutsche Telekom AG was no longer required to pay the levy. Commencing January 1, 1995 the Company became subject to normal corporate taxation in Germany, although it benefited from an essentially complete exemption from tax in 1995. The combined statutory income tax rate, currently approximately 57%, includes corporate income taxes at a rate of 45% for undistributed earnings, trade income taxes at an average rate for Germany and the income tax surcharge of 7.5% of the corporate income tax *(Solidaritätszuschlag)*. Income subject to income taxes is determined, in general terms, by deducting extraordinary losses and other taxes from results from ordinary business activities. Deferred tax assets of DM 580 million were recognized in the six months ended June 30, 1996.

10. Inventories, Materials and Supplies

Inventories, materials and supplies consisted of the following at June 30, 1996:

	DM in millions
Raw materials and supplies	775
Work in process	956
Finished goods	632
Advance payments	7
	2,370

11. Liquid Assets and Supplemental Cash Flow Information

Amounts included as liquid assets in the balance sheet at June 30, 1996 are as follows:

	DM in millions
Cash and cash equivalents (original maturity 3 months or less)	4,952
Temporary cash investments (original maturity longer than 3 months)	2,920
Marketable securities	6
	7,878

Cash and cash equivalents, consisting primarily of fixed-term bank deposits, also include checking account balances, deposits at the Bundesbank and Postbank and petty cash. Temporary cash investments consisted of fixed-term bank deposits.

12. Commitments and Contingencies

As part of the MagyarCom joint venture agreement, Ameritech Corporation has the option during the term of the agreement to sell certain of its shares in the joint venture to the Company. The exercise price of the put option is the fair market value of the corresponding Matáv shares plus a $60 million control premium; provided that, until March 31, 1998, the exercise price is subject to a floor equal to $210 per share plus the $60 million control premium, plus accrued interest from the date of the shares' original purchase. Should the option be exercised, the minimum range of total payments required would be between $270 million and $465 million plus interest.

Deutsche Telekom is a party to a number of lawsuits and other legal matters arising out of the general conduct of its business including proceedings under government laws and regulations related to environmental and other matters. Litigation costs have been accrued for the costs of litigation and for any resulting losses which are probable of occurring. Deutsche Telekom does not believe that any additional costs which may be incurred will have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

13. Significant Differences Between German and United States Generally Accepted Accounting Principles

German GAAP varies in certain significant respects from generally accepted accounting principles in the United States (''U.S. GAAP''). Application of U.S. GAAP would have affected shareholders' equity as of June 30, 1996 and net income for each of the six month periods ending June 30, 1996 and June 30, 1995 to the extent quantified below. However, as described in Note 3(j) to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994, certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993 the Company's predecessor did not maintain sufficiently detailed historical cost records.

The adjustments that affect consolidated net income and shareholders' equity are described in Note 30 to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994.

Reconciliation to U.S. GAAP

The following is a reconciliation of the significant adjustments necessary to reconcile net income in accordance with U.S. GAAP to the amount determined under German GAAP, for the six month periods ending June 30, 1996 and 1995 (the adjustments are described in Note 30 to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994):

	Note	For the Six Months Ended June 30,		
		1995	1996	1996
		DM	DM (in millions)	$
Net income as reported in the consolidated income statements under German GAAP		**3,513**	**129**	**85**
Personnel restructuring accrual	(a)	—	1,272	837
Levy to the Federal Republic of Germany	(b)	158	—	—
Maintenance accruals	(c)	—	35	24
Other differences	(d)	(26)	(76)	(51)
Income tax differences resulting from:				
Current income taxes	(e)	—	29	20
Deferred taxes from the application of U.S. GAAP	(f)	(13)	(176)	(116)
Deferred taxes on U.S. GAAP/German GAAP differences	(f)	(1)	(692)	(455)
Net income in accordance with U.S. GAAP		**3,631**	**521**	**344**

Income Statement Presentation under U.S. GAAP

Certain items, in the total cost income statement would be classified differently under U.S. GAAP. These items include changes in inventories and other own capitalized costs and reversals of accruals and allowances for doubtful accounts that would generally be recorded as reductions to the original expense line items under U.S. GAAP rather than as income.

Certain property, plant and equipment owned by Deutsche Telekom at January 1, 1995 has been valued at fair market value (see Note 3(j) to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994). In addition, under German GAAP the Company has capitalized, as part of property, plant and equipment, an amount relating to VAT which the Company expects to recover. Such VAT recoverable amounted to DM 5.2 billion at December 31, 1995 and is recoverable beginning in 1996. This VAT was paid on assets acquired during the periods before 1996 when the Company was unable to immediately recover most of the VAT paid. Under German GAAP, capitalized VAT is depreciated and VAT recovered is recognized as other operating income. Depreciation totaled DM 652 million and tax recoveries totaled DM 750 million during the first six months of 1996. Under U.S. GAAP, the VAT recoverable is treated as a long-term receivable rather than property, plant and equipment. Therefore, neither depreciation nor other operating income are recognized. The net income impact under German GAAP has been included in ''other differences'' in the U.S. GAAP reconciliation.

The extraordinary losses reported under German GAAP would be classified as an expense charged to results from ordinary business activities under U.S. GAAP. Financial liabilities with a nominal value of DM 1.2 billion were repaid ahead of schedule in the first six months of 1996 resulting in DM 44 million of prepayments penalties which would have been classified as extraordinary losses under U.S. GAAP net of the related income tax effect.

The following is a presentation of certain net income statement information in accordance with U.S. GAAP:

	For the Six Months Ended June 30,		
	1995	1996	1996
	DM	DM (in millions)	$
Results from ordinary business activities	5,095	1,753	1,153
Special charge relating to other Post entities	—	—	—
Levy to the Federal Republic of Germany	(1,391)	—	—
Income before income taxes	3,704	1,753	1,153
Income taxes	(74)	(1,139)	(749)
Income before extraordinary losses and losses applicable to minority shareholders	3,630	614	404
Extraordinary losses (net of income tax benefit of DM 26 million)	—	(18)	(11)
(Income) losses applicable to minority shareholders	1	(75)	(49)
Net income in accordance with U.S. GAAP	**3,631**	**521**	**344**
Earnings per share/ADS in accordance with U.S. GAAP:			
Before extraordinary losses	1.79	0.27	0.18
Extraordinary losses	—	(0.01)	(0.01)
Net income	1.79	0.26	0.17

The following is a reconciliation of the significant adjustments which would have been necessary to reconcile shareholders' equity in accordance with U.S. GAAP to the amount determined under German GAAP (the adjustments are described in Note 30 to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994):

	Note	At June 30, 1996 DM	At June 30, 1996 $
		(in millions)	
Shareholders' equity as reported in the consolidated balance sheets under German GAAP		**26,068**	**17,139**
Personnel restructuring accruals	(a)	1,820	1,197
Maintenance accruals	(c)	186	123
Minority interest	(g)	(1,189)	(783)
Other differences	(d)	(51)	(34)
Income taxes resulting from:			
Current income taxes	(e)	553	364
Deferred taxes from the application of U.S. GAAP	(f)	3,736	2,457
Deferred taxes on U.S. GAAP/German GAAP differences	(f)	(1,104)	(726)
Shareholders' equity in accordance with U.S. GAAP		**30,019**	**19,737**

The minority interest relates primarily to the Company's investment in MagyarCom (see Note 17 to the Consolidated Financial Statements as of and for the years ended December 31, 1995 and 1994).

The changes in shareholders' equity for the six months ended June 30, 1996 in accordance with U.S. GAAP are as follows:

	DM in millions
Shareholders' equity, beginning of period	29,475
Net income in accordance with U.S. GAAP	521
Difference from currency translation	23
Shareholders' equity, end of period	**30,019**

Balance Sheet Presentation under U.S. GAAP

Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year would be classified as non-current. Work in progress includes assets under construction, substantially all of which would be classified as property, plant and equipment in progress under U.S. GAAP.

German GAAP does not require presentation of a classified balance sheet. Summary balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

	At June 30, 1996	
	DM	$
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	4,952	3,256
Other current assets	14,563	9,575
Total current assets	**19,515**	**12,831**
Noncurrent assets	148,249	97,468
Total assets	**167,764**	**110,299**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	12,017	7,901
Short-term debt and current portion of long-term debt	11,452	7,529
Accruals	5,206	3,423
Total current liabilities	**28,675**	**18,853**
Long-term debt	95,403	62,724
Other noncurrent liabilities	12,478	8,203
Total long-term liabilities	**107,881**	**70,927**
Minority interest	1,189	782
Shareholders' equity	30,019	19,737
Total liabilities and shareholders' equity	**167,764**	**110,299**

14. Subsequent Events

Effective July 31, 1996, as a result of the Company's decision to issue 30 million shares of capital stock with a nominal value of DM 5 each, there were 2,030 million shares of capital stock outstanding with a nominal value of DM 5 each. The capital stock was issued, for no consideration, to the Federal Republic, as the sole shareholder, from additional paid-in capital.

At the shareholders' meeting on July 1, 1996, an aggregate dividend of DM 1.2 billion was declared.

15. Accounting Changes

In March 1995, the FASB issued SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. This standard requires that assets to be disposed of be valued at the lower of carrying amount or fair value less cost to sell. Furthermore, an entity is required to review long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Deutsche Telekom has adopted this standard from January 1, 1996, and the effect on the financial statements as a result of the adoption was immaterial.

Deutsche Telekom

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