

New ways. New ideas. Making tomorrow happen.

The 2004 Human Resources and Sustainability Report.



Deutsche
Telekom

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About this report.

Reporting period.

The 2004 Human Resources and Sustainability Report is a continuation of the previous year's report. It covers the reporting period from September 2003 to September 2004.

Topics and objectives.

The content and weighting of the report are based on international standards, such as the guidelines of the Global Reporting Initiative (GRI index, www.globalreporting.org) and the criteria of the ratings agencies. Additionally, we have also addressed a number of stakeholders suggestions derived from surveys.

Accuracy and reliability.

This report will endeavor to provide a transparent and comprehensive overview of our activities and plans in the areas of human resources and sustainability. Details of selected areas, such as the environmental data from some of our Group shareholdings, are still outstanding, partly because suitable recording systems are still being prepared. However, we are continuously working to expand and complete the logging of environmentally relevant data throughout the entire Group. All the data supplied, be it economic, social or ecological, has been correctly reported.

References and terminology.

We have decided not to include a graphical and editorial representation of the subject of hazardous goods/hazardous substances, as there have been no significant changes in this area since the 2003 Human Resources and Sustainability Report.

Forward-looking statements and measures.

This Human Resources and Sustainability Report contains forward-looking statements that reflect the current views of the Deutsche Telekom management with respect to future events. The words "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "should" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom's actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom does not intend or assume any obligation to update these forward-looking statements.

This Human Resources and Sustainability Report contains a number of non-GAAP figures, such as EBITDA and EBITDA adjusted for special factors, free cash flow before dividend payment and sustainability indicators. These non-GAAP figures should not be viewed as a substitute for Deutsche Telekom's GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. To interpret the non-GAAP measures, please refer to the chapter "Reconciliation to pro forma figures" in the 2003 Annual Report, which is also posted on Deutsche Telekom's Investor relations link under www.telekom.de.

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Dear Readers,

The central theme of this year's Deutsche Telekom Human Resources and Sustainability Report is "Living sustainability – in every respect". This theme is one of the key inspirational forces behind all of Deutsche Telekom's dealings and actions. We are convinced that our commitment to sustainability directly benefits the environment, the economy and society as a whole. We also feel that a proactive stance in this area greatly strengthens our competitive positioning, motivates our employees and helps to raise general standards in the company.

A company that lives the value of sustainability is sending out an important message. By mapping out the long-term roadmap of its strategies, it is laying the foundation for the future viability of its business and social activities. Deutsche Telekom is firmly established as a key driving force for innovation in the telecommunications industry. Again and again, our products and services shape the evolution of telecom applications and solutions. To ensure we maintain our lead in this area, we



turn to our employees. No one is more aware than Deutsche Telekom that we rely on our employees to turn innovative ideas into innovative products and business processes. Which is why we actively foster a spirit of innovation among our employees. For us, innovativeness and sustainability are inextricably linked.

All of our business activities are centered around our customers' needs. We deliver value to our customers by offering IT and telecommunications products and services that make their lives easier and leave them better positioned to capitalize on change. Which is why, for example, we are driving broadband communications. With T-DSL, we have brought the benefits of broadband access to a massive customer base, opening up a whole new world of telecom opportunities at work and in the home. Our

services and solutions are designed to help our customers improve their competitiveness and ensure their long-term success. Residential customers turn to us to explore new ways of using the Internet and reap the benefits of mobile communications.

Our telecom services support sustainable development in various areas of society. We promote new working models that allow employees to better harmonize their professional lives with their family commitments. In addition, we look at ways of enhancing education through the latest information and communication technologies. Telecommunications can be an important enabler for the elderly, the sick and the disabled, empowering them to participate more fully in society. Our customized solutions streamline operations among government bodies, at the same time bringing municipal services closer to the citizen. Videoconferencing not only saves costs, it also reduces the environmental burden of business travel.

Our innovative spirit also extends to our human resources strategy. We have set ground-breaking standards with our Employment Alliance. By introducing a shorter working week with partial wage compensation, we have created around 9,800 new job opportunities. This means we can share the work between more employees, at the same time cutting HR costs. This initiative was a key milestone in ensuring the Group's sustainability and long-term competitiveness.

Always looking to the future, we are determined to give ourselves as much headroom as possible to ensure we are ideally positioned to master change and capitalize on new market opportunities. This includes continuing to reduce our debt and realigning the Group to focus on strategic growth fields, namely broadband/fixed network, mobile communications and business customers, which is planned for 2005.

The telecommunications industry offers vast possibilities and growth potential both now and in the future. Our vision is as follows: "As the leading services company in the telecommunications and information technology industry, we network society for a better future. With top quality, efficiency and innovation, to the benefit of our customers. In every respect." We are striving for sustainable success – for our customers, our society, the environment – and for our Group and its people.

Kai-Uwe Ricke
Chairman of the Board of Management

Dr. Heinz Klinkhammer
Board Member Responsible for Human Resources

Deutsche Telekom.

Integrated services for the information society.

- T-Com: successful broadband initiative
- T-Mobile: growth on the global mobile market
- T-Systems: individual solutions for key accounts
- T-Online: attractive Internet offering

Information and communication technology (ICT) is increasingly shaping both our private and professional lives. Many of us couldn't imagine life without the Web or a cellphone, for instance. ICT solutions are viewed as strategic success factors by companies from just about all branches of trade and industry. To remain agile, competitive and successful, modern businesses often depend on a seamless, rapid flow of information across the enterprise.

One-stop shopping with the Deutsche Telekom Group.

As one of the world's leading ICT service providers, Deutsche Telekom sets ground-breaking standards with global reach. Our core areas of business focus on fixed network, mobile communications, online communications and systems solutions. An extensive range of innovative products and services means we have all the building blocks needed to create seamlessly integrated, single-source solutions that align perfectly with our residential and business customers' needs. With a payroll of around 248,000, we have offices in 65 countries around the world (as per June 30, 2004).

Group revenue for the 2003 financial year amounted to € 55.8 billion – an increase of four percent compared with 2002. Group net income totaled € 1.3 billion. We also succeeded in reducing our net debt to € 46.6 billion in 2003. This means that we have knocked a total of € 17.7 billion off our debt since our strategic review in the third quarter of 2002. We remain on the profitable growth path that we successfully marked out during the 2003 financial year. This course aligns with the targets of our sustainability strategy by giving us greater financial and strategic headroom. At € 28.4 billion, revenue for the first half of 2004 was up 4.4 percent on the corresponding figure for last year. Group net

income came to € 1.8 billion as per June 30, 2004 – an increase of 65.4 percent compared with the first half of 2003.

Deutsche Telekom's four Group units T-Com, T-Mobile, T-Systems and T-Online all occupy leading positions in key telecommunications growth segments. We drive major innovations in these dynamic markets, always channeling this momentum into ways of improving service for our customers and strengthening our market position. At the same time, we are firmly committed to the principle of sustainability. In all our business dealings, we factor in the economic, social and ecological impact of our actions.



Further information:

- www.telekom.de
- www.t-com.de
- www.t-mobile.de
- www.t-systems.de
- www.t-online.de

**“Companies with a resolute
sustainability strategy
enjoy sustained**

Strong position for T-Com in European fixed-network business. T-Com handles the fixed-network business within the Group. With over 55 million narrowband connections (including ISDN channels) in Germany, Hungary, Croatia, Slovakia and Macedonia by 2003 year-end, T-Com is positioned as one of the largest fixed-network providers in Europe. T-Com has also captured a significant share of the broadband Internet market. By June 30, 2004, 4.7 million T-Com customers in Germany were enjoying high-speed access to the Web thanks to T-DSL. Through its shareholdings in the Hungarian Matáv, the Croatian Hrvatske telekomunikacije and the Slovakian Slovak Telecom, T-Com is also capitalizing on the rapid rise in demand for broadband services in Eastern European countries.

All of T-Com's products and services are built around its powerful network, one of the most modern infrastructures in the world. Other Group units also leverage T-Com's network. By the close of 2003, it stretched along almost 1.5 million kilometers of copper cable and 195,000 kilometers of fiber optic cable. T-Com also operates one of the most powerful IP (Internet Protocol) networks worldwide to support its Web communication offering.

T-Com delivers fixed-network products, services and solutions to residential customers as well as small and medium-sized business customers. Leveraging T-Com's powerful fixed network, this offering ranges from telephone and broadband connections through customer-focused tariffs and terminals to customized applications for small and medium-sized enterprises. T-Com has been particularly successful in developing its broadband business base. In the 2003 financial year alone, the number of T-DSL connections in use rose by 40 percent. T-Com is now stepping up its broadband initiative by pushing W-LAN technology and building public radio networks enabling wireless, broadband access to the Internet.

T-Mobile ranks among global mobile leaders. We have bundled the main mobile activities of the Deutsche Telekom Group in our subsidiary T-Mobile International. T-Mobile has national companies in key European countries and in the U.S.. It is positioned as one of the leading mobile brands in all of these markets. The T-Mobile Group's global customer base had reached 65.6 million by the end of the first half of 2004.

T-Mobile is also active in Great Britain, Austria, the Czech Republic and the Netherlands. All majority shareholdings trade under the T-Mobile brand. Even the Hungarian Westel switched over to the T-Mobile brand and is now trading as T-Mobile Hungary. Westel is the mobile communications arm of Matáv, in which Deutsche Telekom has a majority shareholding. Thanks to the "one company" strategy and a uniform Group-wide name, T-Mobile has built a powerful global brand with high market awareness. Customers identify strongly with the T-Mobile brand.

T-Mobile is expanding its customer base in numerous markets. Our U.S. company in particular is experiencing dynamic growth. In 2003, the number of T-Mobile USA customers increased by more than 32 percent to over 13 million. By the end of June 2004, this figure had risen to 15.4 million.

Members of the T-Mobile Group offer a broad range of mobile voice and data services. In recent years, mobile telephony has tended to dominate business. This is changing, however, as mobile data services grow in popularity. Thanks to its focused mobile multimedia strategy, T-Mobile is greatly raising the profile and popularity of information and entertainment services accessed over high-speed wireless networks. These services include news flashes and the latest music hits (which can be downloaded to a cellphone).

T-Mobile leverages various mobile broadband technologies to increase the appeal of wireless data communications. In Germany, for example, high-speed data services based on GPRS (General Packet Radio Service) are available more or less nationwide. T-Mobile is also steadily extending the reach of third-generation mobile technology, UMTS (Uni-

success."



versal Mobile Telecommunications System), bringing the benefits of even faster broadband connections to more and more cities and regions. In addition, T-Mobile has teamed up with T-Com to set up local HotSpots based on W-LAN technology. These HotSpots give users broadband access to the Internet from mobile computing devices and handhelds.

T-Systems excels in customized solutions for enterprise customers. Within the Deutsche Telekom Group, T-Systems looks after the key accounts. Customers include multinational corporations and groups as well as institutions and organizations with particularly exacting ICT demands.

T-Systems' offering extends along the entire ICT value chain, from infrastructure building blocks through individualized solutions to business process management.

Leveraging deep industry insights and the very latest technologies, T-Systems helps customers to optimize their business processes, cut costs and improve profitability. T-Systems covers the entire service spectrum, including the integration of new ICT solutions in existing landscapes; the planning, installation and operation of workstations, data centers and networks; and services for international network operators, broadcasting and media solutions.

T-Systems is one of the leading ICT service providers in Europe, employing around 41,000 people in more than 20 countries. Customers are mainly concentrated in the telecommunications, services and finance industries, the public and healthcare sector and manufacturing. T-Systems delivers on its "Managed business flexibility" promise by giving customers the freedom and flexibility to focus on their core business, at the same time optimizing costs and aligning their offering with individual needs.

T-Systems has successfully completed numerous innovative projects that bear clear testimony to its in-depth expertise and skills.

- The Vorwerk Group, a provider of high-end household appliances, has contracted T-Systems to operate its data

centers, networks and applications worldwide as well as its international help desk.

- For the automotive group DaimlerChrysler, T-Systems operates the mainframe computers and workstations and supports the data networks.
- The European aircraft manufacturer Airbus relies on T-Systems to operate all its mainframe systems in the UK, France and Germany. T-Systems also supports some 42,000 PC workstations for Airbus.
- The world's largest tour operator, TUI AG, has outsourced its entire network to T-Systems. This project includes integrating the individual networks in place at around 2,600 TUI locations worldwide into a single network.

T-Online leads the European online market. With well over 13 million registered customers (June 30, 2004), T-Online International AG is one of Europe's biggest Internet players. Building on its standard access services, it is evolving into a sophisticated Internet media network. T-Online has subsidiaries in France, Spain, Austria and Switzerland.

T-Online offers a wealth of Internet products and services targeted at residential and business customers. To ensure high-quality, captivating digital content across a broad range of topics, the company combines its in-house editorial talent with external content partners – from the media industry, for example. Strategic content partners include the Axel Springer publishing house as well as the "Bunte" lifestyle magazine. To round off its media network offering, T-Online also cooperates with some 400 digital content providers. T-Online's Website www.t-online.de reaches more than half of all German Internet users. On average, around 15 million users visit the T-Online portal each month (unique audience based on the NielsenNetRatings).

Each T-Online customer spends on average more than 3,000 minutes each month using our online services. One reason for the growing popularity of T-Online services is the increasing number of customers with broadband access.



“Deutsche Telekom’s employees
are its most valuable
resource.”

High-speed access means customers can quickly and easily call up multimedia features. At the same time, T-Online uses filter technology to protect children and young people against unsuitable content (see also page 69).

T-Online also leads the field when it comes to creating new business models and developing new, chargeable content for the Internet. Innovative projects in this area include the broadband portal T-Online Vision, which can be used, for instance, to download films and music videos over the Internet.

Through its MusicLoad platform, T-Online allows users to legally download digital music in return for a fee. T-Online adds to the appeal of its highly diverse offering with a broad portfolio of user-friendly rates for Internet communication.

Positive outlook. Deutsche Telekom plans to position itself as Europe's fastest-growing, integrated company. To achieve this, we will align our activities to focus on the growth areas of the future – broadband/fixed network, mobile communications and business customers. These areas will open up new revenue and profitability opportunities.

From January 2005 onwards, this means that the Deutsche Telekom Group will be organized into five reporting units aligned to our strategic business units: Broadband/fixed network with T-Com and T-Online, Mobile communications with T-Mobile, and Business customers with T-Systems Business Services for medium-sized and large corporate customers and T-Systems Enterprise Services for multinational customers.

Looking beyond our business goals, however, we will be attaching great importance to sustainability. CSC (Corporate Sustainability & Citizenship) carries Group-wide responsibility for sustainability issues. In addition, the Group units have set up their own sustainability organizations, the largest of which are based in T-Com and T-Mobile. As a result, T-Com headquarters has its own department for environmental protection and sustainable development. The environmental managers in the T-Com branch offices report to this central department. T-Mobile has established a board of "eco-managers" in companies at home and abroad.



Looking for new perspectives.

Our values shape the world of tomorrow.





Vision and values.

T-Spirit: helping us to become the leading services company in our industry.

- Putting our vision into practice: communicating, embedding, living and measuring our values
- T-Spirit Check: measuring the success

With our "T-Spirit" corporate vision and values, we have built the foundations for a new corporate culture. The vision highlights the goal that we want to reach in the medium and long

Our vision:

"As the leading services company in the telecommunications and information technology industry, we network society for a better future. With top quality, efficiency and innovation, to the benefit of our customers. In every respect."

term. Six corporate values provide a framework for orientation. They are systematically implemented in four stages: communicating the values, embedding the values, living the values and measuring them. The year 2004 is very much focused on firmly anchoring the corporate vision and

values in the Group. The T-Spirit Check, which measures the success of our efforts, is also a key component of this process.

Communicating the values. In July 2003, top management came to an understanding on a corporate vision and six core values for the Deutsche Telekom Group as a top-down initiative following a thorough analysis of all stakeholders' interests and needs. Feedback from employees given in the employee survey also played a key role. T-Spirit was presented to around 350 of the Group's top managers by the Group Board of Management at a large kick-off event, also in July 2003, which was followed by an information campaign involving all the relevant internal print and online media at central level and in the Group units to communicate background information and details about T-Spirit. In video statements, the Board members of the Deutsche Telekom Group were specifically questioned about how they were planning to implement the values. The communication process was rounded off by chats with the Board of Management and discussion rounds.

Embedding and living the values: managers as role models.

The key to embedding T-Spirit in the company is its integration into human resources processes. T-Spirit has been systematically incorporated into induction programs, vocational and further training courses and all management training programs. HR development tools like annual career reviews, but also ranking reviews and the underlying competency model for senior executives and executives of the Group were adapted to T-Spirit. Managers are a strong role model for embodying corporate culture. Parallel to the communication campaign, leadership workshops took place particularly on managers as role models in order to prepare them for the rounds of talks with their staff.

Measuring the values: the T-Spirit Check. Following the introduction of the corporate vision and values, a Group-wide online survey, the T-Spirit Check, was conducted for the first time to find out how the values are being put into practice and how our employees are experiencing these values in their everyday work. The result: At present – 1 year on from the first T-Spirit communication – implementation is going according to plan. Aside from clear strengths in individual areas, for example, respecting each other and actively meeting new challenges, the survey has shown that embodying the values in day-to-day work as well as cooperation, particularly beyond the bounds of one's own team, can still be improved. This tends to be the case in most companies of this size that undergo a culture change. As a result, measures were specifically drawn up across the Group to tackle these areas. For only if we actively encourage our people to live these values will we succeed in shaping the culture change in such a way that the vision of making Deutsche Telekom the leading services company in our industry can come true.

“I welcome the chance
to keep broadening my

horizons.”

Group, Human Resources and Sustainability Strategies interlinked.

- Strategies in dynamic equilibrium
- T-Spirit: the foundation of corporate development

Our development into the highest-grossing integrated telecommunications company in Europe is seen as an evolutionary process, with people at its heart – as employees, as customers, and as the very fabric of the society in which our Group is embedded. This process is supported and guided by the strategies we have set out for the Deutsche Telekom Group.

Deutsche Telekom's strategies in dynamic equilibrium.

Based on our T-Spirit vision and values, we are forging ahead with the strategic development of our company, guided by our Group, human resources and sustainability strategies that are interwoven with one another:

- **From the Group strategy**, targets and measures are developed that bring our vision to life and create added value for customers, shareholders and employees. The vision aims to combine profitable growth with quality, innovation and efficiency.
- **Our human resources strategy** formulates a productivity-oriented system of personnel cost management which encourages profitable growth. This ensures motivated, qualified employees – the key to success for our service-oriented company.
- **Our sustainability strategy** explains what sustainability means to us in concrete terms: We firmly believe in giving balanced consideration to the economic, social and ecological aspects of production at every stage of the value chain, and are conscious that this dynamic equilibrium must be carefully preserved. Short-term shifts in favor of one particular aspect to allow for changing situations may be expedient at times, but the balance must always be redressed.

Changing roles, constant values: T-Spirit as a point of reference. The dynamic relationship between these three strategies enables Deutsche Telekom to perform its various roles satisfactorily, clearly and conclusively: Firstly as a service and shareholder-oriented company; secondly as an employer with a social responsibility; and thirdly as part of a society which is increasingly focused on sustainability.

In the face of all this vital flexibility, T-Spirit and its Group-wide values offer clear points of reference, ensuring that our actions remain consistent at all times:

- The development and implementation of a Group-wide corporate vision and set of values are key components of our human resources strategy.
- The sustainability strategy puts the corporate vision in concrete terms and makes repeated reference to the T-Spirit values.
- Successful implementation of the Group strategy is dependent upon T-Spirit and the corporate values, since they provide the foundations for our corporate actions.

The six corporate values

| | | | | | |
|----------------|---------------------------|------------|----------|-----------|----------------|
| S | P | I | R | I | T |
| Superior value | Passion for our customers | Innovation | Respect | Integrity | Top Excellence |



Group Strategy.

Focus on customer requirements.

- Agenda 2004: coordinated approach across the Group
- Human resources initiative 2004: employment alliance, Vivento, motivation and skills drive
- Balanced Scorecards: interlinking strategy and operative business

Deutsche Telekom's strategic aim is to become the leading services company in the information and communication technology industry in Europe. Using the "T-Spirit" corporate vision and values as the basis, we are pursuing a long-term Group strategy that opts for innovation and growth and creates added value for customers, shareholders and employees alike.

Agenda 2004: six-point program for profitable growth.

Against the background of an ever-changing telecommunications market, we aim to ensure profitable growth across the entire Group. With Agenda 2004, we have adopted a Group-wide coordinated approach in order to implement this strategy. Agenda 2004 supplements the milestone programs of the Group units with six initiatives:

- **Broadband:** pivotal for a successful development in fixed and mobile communications and key growth area across all Group units.
- **Personnel:** highlighting the three key topics employment alliance, Vivento, and a motivation and skills drive.
- **Innovation:** bundling projects that ensure future growth – through new products and services.
- **Quality:** increasing customer satisfaction and strengthening customer loyalty to the "T" brand through optimized quality of service.
- **Efficiency:** improvements in seven areas – working capital, fixed and current assets, possible sale of non-strategic assets, the Group's purchasing power, synergies from Group-wide network and IT platforms as well as savings through standardization in the IT infrastructure;

- further optimization of operating costs and investments.
- **Business customers:** bundling the strengths of T-Systems and T-Com in this important and fast-growing segment. Focusing on the needs of medium-sized and large business customers through optimized sales management.

Three strategic business areas: the future alignment of Deutsche Telekom. As of January 1, 2005, Deutsche Telekom will be implementing its new strategic alignment. It represents an evolutionary development from the four-division structure into three strategic business areas with five business units:

- **Broadband/fixed network with the T-Com and T-Online business units**
- **Mobile communications with the T-Mobile business unit and**
- **Business customers with the T-Systems Business Services and T-Systems Enterprise Services business units.**

The consistent realignment to the growth areas of our industry, clear business responsibility and the removal of structural barriers should further accelerate our Group's development into the fastest-growing integrated telecommunications company in Europe.

Human resources initiative 2004: optimized personnel cost structure to get us in good shape for growth. With our human resources initiative we aim to improve the personnel cost/revenue ratio and at the same time get ourselves in good shape for growth by motivating and developing the skills of our people.

The employment alliance, which Deutsche Telekom AG concluded with the labor representatives in March 2004, forms the nucleus of this initiative. It centers on reducing the weekly working time from 38 to 34 hours with partial pay compensation. As of July 1, 2004, the reduction in weekly working hours was implemented within Deutsche Telekom AG with retroactive effect from March 1 for non-civil servants and April 1 for civil servants.



“It's the right

The second main plank of our human resources initiative is Vivento, our internal service provider for personnel and business. Vivento manages the employees assigned to it efficiently and finds new jobs for them both outside and inside the Group, mainly by developing separate business areas. Large-scale contracts, e.g. with the Federal Employment Agency, also help to give new prospects to several thousand employees. To develop more new business ideas, Vivento launched the 'Business Finder' competition: all employees can take part – the best business ideas will then be implemented by Vivento.

In addition to motivation-boosting competitions like this one, the motivation drive focuses on embedding T-Spirit in HR tools, for instance the employee survey. The T-Spirit values were unveiled last year. The T-Spirit Check, an online survey, has now shown the progress made, and potential for improvement has been derived from this. A further focal point involves developing employee skills. Against the background of the general recruitment stop, the speed of innovation in the IT/TC industry and our strategic goals, systematic skills development is of particular importance and a major aspect of the motivation and skills campaign.

Targets and achieving them: Balanced Scorecards for the Group and its units. Balanced Scorecards ensure that our long-term Group strategy is linked with the short-term management of operative business. The Group's target for 2004 is "profitable growth". This has also been anchored in the goals of Group units in the form of EBITDA and operating free cash flow. EBITDA refers to earnings before interest, tax, amortization and depreciation. The operating free cash flow specifies the net income generated in operative business. Over and above these two financial targets, each Group unit has formulated a third specific goal:

- **T-Com:** continue the broadband initiative – target achievement is measured by the number of T-DSL connections sold.
- **T-Mobile:** improve customer satisfaction – this increases customer loyalty and is therefore critical to success.

• **T-Systems:** "Focus Solutions" portfolio – this program, measured by incoming orders, helps T-Systems customers react more flexibly and efficiently to their competitive environment.

• **T-Online:** broadband access and innovative applications on the Internet – to be measured by the number of customers with broadband Internet access.

Further indicators in the Balanced Scorecards are defined individually by the Group and its units in line with the six agenda initiatives and the "Profitable growth" objective.

Further information:

- www.telekom.de ■ Company ■ Company profile ■ Corporate Values

strategy

that decides whether
the photo is merely good or perfect."



Group HR strategy.

Motivated staff means happy customers.

- Strategic goals: reducing costs and increasing efficiency
- HR development: for the benefit of the company, employees and customers

Deutsche Telekom's HR strategy is closely linked to the Group strategy. Despite the reduction in personnel costs due to fierce competition and the need to increase efficiency, we will continue to pursue a sustainable Group HR strategy. This means deploying the right people at the right time in the right job. After all, motivated and skilled employees are a key guarantor of success for a forward-looking services company like Deutsche Telekom.

HR strategy: structuring work to benefit the company, employees and customers alike. The knowledge, experience and commitment of our employees ensure efficient business processes and satisfied customers. Based on our T-Spirit corporate vision and values, we create a corporate culture that encourages and rewards diversity, innovation and enjoyment of one's own work. This means organizing work in such a way that

- the company, its employees and society as a whole benefit from the value added and
- the competitive requirements are brought into line with the needs of our employees: increasing efficiency and improving competitiveness on the one hand, and fostering motivation, skills and satisfaction on the other.

With a host of measures, we ensure that we are in continuous dialog with all employees, e.g. via the annual career review, employee survey and personnel round tables. This helps us to introduce targeted skills development measures, supports people's motivation at work and increases the sense of belonging to the Group on the whole.

HR strategy goals: lowering costs, increasing efficiency. We have geared our HR strategy to five overriding topics and drawn up measurable targets:

- **Managing Diversity & Leadership** – implementing the corporate values and improving social performance.
- **Personnel Cost Management** – geared toward productivity. Promoting employability and job placement.
- **Total Compensation** – optimizing the pay-and-benefits systems and harmonizing the conditions for civil servants and non-civil servants.
- **Managing Skills & Competencies** – internal recruitment of executive staff. Sustainable, outstanding competency level.
- **HR Efficiency & Quality** – reducing HR costs and increasing HR service quality.

All five focal subjects put emphasis on reducing costs and increasing efficiency.

In addition to the Group-wide HR measures, the Group units set their own priorities in line with their specific needs. The Group's central HR guidelines have also been adopted by our international affiliates in order to create a management culture that respects individuality and pluralism while taking full advantage of the potential of diversity.

Further information:

- www.telekom.de ■ Company ■ Human resources



“Demanding

Group Sustainability Strategy. Guidelines for ensuring future competitiveness.

- Today: the main challenges ahead
- Tomorrow: working for long-term success

Deutsche Telekom is committed to sustainable development. We aim "to become a sustainable company in a sustainable society." Our Group sustainability strategy represents a key step toward attaining this target. It is based on the new corporate vision and values "T-Spirit", which embody our vision of networking society for a better future.

The sustainability triangle: future / people / environment. To be successful in the long term and accepted by its social environment, a company must be sustainable. For an industrial company, this means that financial targets such as higher sales and earnings must be achieved in a manner which

- ensures the long-term conservation of natural resources,
- promotes the capabilities and skills of employees and uses them as a crucial resource for success.

Our knowledge, technology, products and services help to shape our society. As a corporate citizen, we want to be a good neighbor and a competent, fair partner, and to "do our bit" for a better future. Sustainable production methods are also an expression of corporate responsibility toward our stakeholders (such as employees, customers, shareholders, authorities and NGOs).

Sustainability strategy: for dynamic, lasting equilibrium. Our sustainability strategy is valid for all Group units worldwide. It outlines Deutsche Telekom's contributions to "...a better future", and spells out what sustainability means for us in concrete terms.

The strategic guidelines depicted in the following chart help to keep us on track with sustainable corporate management. During the course of developing this strategy, the Group units

The strategic guidelines

Our basic aim:

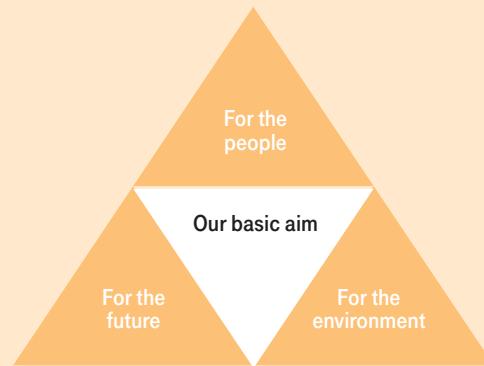
To do business successfully and efficiently both in the short term and the long term whilst increasing our credibility in the eyes of our customers, investors, financial markets and other stakeholders by demonstrating honesty and integrity.

To systematically anticipate the social consequences of our activities and incorporate these into our decision-making.

For the people:

To put into practice internationally recognized human rights, working standards and environmental protection throughout the company, as required by the U.N.'s Global Compact.

To respect the diversity of people and cultures and to actively encourage their exchange.



For the future:

To increase the development of sustainable services and set an example through our application.

To actively help shape the continued development of the working world and a society of knowledge both internally and externally whilst contributing to the overcoming of the digital divide.

For the environment:

To increase the efficiency of the ecological resources within society and contribute to the protection of the global climate.

To systematically reduce our own environmental impacts.

and headquarters have formulated their own specific priorities for the next few years.

Further information:

- www.telekom.de ■ Company ■ Sustainability

targets
are often the most
rewarding."



Corporate governance and the Social Charter. Openness and transparency in our activities.

- Corporate governance: responsible management
- Codes of practice and guidelines for good governance
- Social Charter: minimum Group-wide standards

The international Deutsche Telekom Group has pledged to uphold a special responsibility to ensure a viable system of corporate management in the future with an open information policy and clearly defined control mechanisms.

Corporate governance: being open, honest and responsible. We subscribe to the German code of practice on corporate governance, which summarizes key statutory

"We fulfill the requirements of the German Code of Corporate Governance."

provisions governing the management and monitoring of listed German companies. Each year, the Board of Management and the Supervisory Board of

Deutsche Telekom AG publish a declaration of compliance. We will also meet the requirements imposed under the Sarbanes Oxley Act, a U.S. law.

We guarantee a regular exchange of information with our shareholders, via the T-Share Forum and our homepage, as well as via other platforms. Our annual general meetings also allow shareholders to vote via the Internet, by post or by fax. Deutsche Telekom AG holds five supervisory board meetings each year, more than is required by law.

Good governance. The Global Compact (see page 62) comprises ten principles on human rights, employment, social and environmental standards, and combating corruption, which we have integrated into our corporate policy. In the light of the Sarbanes Oxley Act, Deutsche Telekom has also adopted a code of ethics applicable to the Chairman of the Board of Management and Senior Financial Officers. It underscores our commitment to a corporate policy that is driven by the maxims of responsible, ethical management. The "Privacy Code of Conduct" aims to ensure equally high standards of data protection throughout the entire Group. Within their own fields, our employees must remain

vigilant to preclude even the slightest hint of corruption or corruptibility. In a similar vein, we also expect employees to set aside any private interests which could potentially have an adverse impact. Our Guidelines on Insider Trading explain the statutory provisions and provide employees with rules of conduct for dealing with insider information. Group Guidelines on Private Financial Investments came into force in November 2001.

The Social Charter: greater transparency. When it comes to specifying the conditions under which products and services may be produced or offered, only a global response will do. This has prompted us to adopt a binding Group-wide Social Charter. It prescribes compliance with internationally recognized social standards along the entire value chain – also at supplier level. As well as reflecting the values of the Global Compact, the charter is also based on the standards and guidelines of the International Labor Organization (ILO) and the OECD.

Further information:

- www.telekom.de = Company = Sustainability
- www.telekom.de = Investor Relations = Corporate Governance
- www.telekom.de/sm-service



Management systems.

Managing quality, efficiency and environmental protection.

- Risk management: established and proven throughout the Group
- Integrating quality and environmental management systems: DIN ISO standards and ecological audit
- T-Systems: case study of integration

Deutsche Telekom has established effective management systems in order to put its strategic and operative goals into practice. They contribute to quality, efficiency and environmental protection – and help avoid unnecessary risks.

Risk management: tried-and-tested system for identifying and controlling risks throughout the Group. An integrated risk management system ensures that risks and opportunities are dealt with in a responsible way. It is a key component of management processes for the Board of Management and Supervisory Board, ensuring conformity with the German law on control and transparency in business. Risk management provides high-quality information on risks and opportunities for management decisions:

- It examines whether budget or expected values should be adjusted on the basis of this risk information.
- The main individual risks and their correlations are summarized and assessed at Group level.
- Thanks to independent risk reporting, management is informed each quarter and on an ad hoc basis about the current risk situation.

We also communicate risk topics to the capital market openly and comprehensively, for example in our Annual Report or the Form 20-F Annual Report. Risk management is a part of all relevant processes and is developed continually. The risk management system itself is regularly checked by the auditor and Internal Auditing.

We attach particular importance in our Group to managing risks arising from financial positions. The principle of risk minimization holds good for all our treasury activities – particularly the use of derivatives (swaps, futures, options). Derivatives are used to hedge interest rate and currency exposures which could have an effect on cash flow. We record all financial transactions and risk items in a central treasury system. Top management is regularly informed about these issues. From all the risks identified for the Group, Deutsche Telekom considers the following to be significant (detailed and legally binding version of the risk assessment: see Annual Report 2003, p. 50 onwards):

- Economic and industry developments: uncertain long-term upturn in investment and consumption
- Regulation and competition: extensive powers of government agencies to intervene in the definition of products and pricing that are difficult to gauge
- Products and services: partial substitution of old and new technologies due to short innovation cycles (like W-LAN and Voice over IP)
- Personnel: progress in the planned further reduction of surplus staff, avoiding compulsory layoffs
- Health and environment: in the area of (mobile) networks, their electromagnetic compatibility with the environment has caused concerns and is the subject of public debate
- IT/TC infrastructure: temporary and local disruptions in internal processes or services for customers that cannot be entirely ruled out
- Litigation: court and out-of-court proceedings with government agencies, competitors and other parties are pending, in particular prospect liability proceedings in Germany and the U.S. as well as arbitration proceedings on the Federal Republic of Germany's demands for compensation for lost toll revenues and for contractual penalties as a result of the delay in setting up a system for the recording and collection of toll charges for the use of German autobahns by commercial vehicles with a permissible total weight of more than 12 tonnes

“We have established management systems that help avoid unnecessary risks.”

“Cultural diversity adds spice to life.”

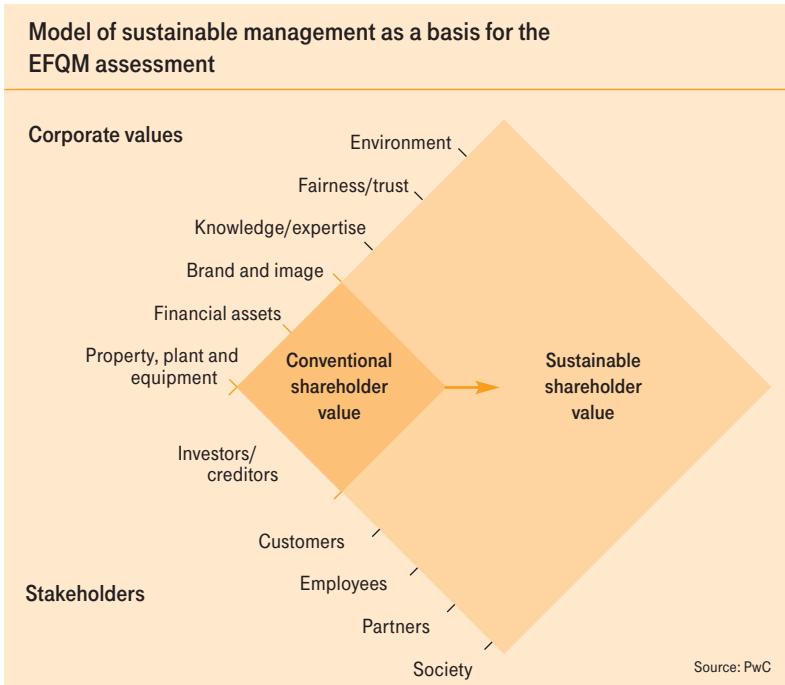
- Changes in currency and interest rate: resulting from Deutsche Telekom's international outlook
- Sales of shares: temporary strain on the market price due to alleged or actual sales by the federal government and Kreditanstalt für Wiederaufbau (KfW)

Management systems: integrating quality and environmental protection. Quality management systems based on DIN ISO 9001 have been established for many years at almost all of Deutsche Telekom's locations in Germany. Accordingly, all locations in Germany with a high environmental relevance – such as the network infrastructure sites – are DIN ISO 14001 certified. In these cases, we have combined environmental and quality management in integrated management systems. Many of our foreign subsidiaries are also certified to the international standard DIN ISO 14001. In addition, the Bonn headquarters of T-Mobile has been validated under the EU Eco-Management and Audit Scheme (EMAS).

Deutsche Telekom has not introduced an overall integrated management system to cover the entire Group. This is due to low environmental relevance in various areas and related cost-benefit considerations. However, in many Group units, self-assessment is carried out each year based on the criteria of the European Foundation for Quality Management (EFQM). Our targets are high, for the evaluation focuses not just on excellent performance for our customers, but also for our employees and society. Seeing that EFQM has recently added sustainability aspects to its model, this will make sure that management pays heed to societal and environmental topics.

T-Systems: Standards & Principles for Excellence.

T-Systems has developed an efficient basis for an integration of management processes. Its Standards & Principles for Excellence combine the Best Practice approach from the EFQM model with the demands of international standards such as DIN ISO 9001. Under this aegis, other international standards like DIN ISO 14001 Environmental Management or BS 7799/Security Management can be integrated. An online reporting system for top management provides all relevant, up-to-date quality indicators from T-Systems. In the future, a special sustainability index will be included in the report.



Further information:

- www.sustainable-excellence.de

“Fairness
and
openness make cooperation smoother.”

Competitive practices. Reliable, fair, self-assured.

- Representation of political interests:
to win understanding and support
- Regulation and competition: for a
sustainable balance

Our competitive alignment is straightforward: we are a reliable partner for our customers and have established clear rules for ourselves with respect to fair and transparent behavior on the market and in the regulatory environment.

Representation of political interests: trusting cooperation and openness. For Deutsche Telekom, it is important that interests are effectively represented in the regulatory arena. Our political communication aims to

- Create openness and trust in political and regulatory cooperation,
- Lend our Group more weight in the discussion on economic policy at national and international level and
- Solicit understanding and support for our concerns.

Our Government Relations and Regulatory Strategy department coordinates the regulatory and political interests of our company and represents them in politics, vis-à-vis government agencies and in industrial associations. Our external contacts and target groups are the political, economic and scientific actors and associations at the national, European and global levels.

Regulation and competition: finding a healthy balance for sustainable development. Deutsche Telekom is not only subject to sector regulation in Germany (unlike its competitors) but also sometimes abroad through its subsidiaries. In the fixed network segment, this concerns in particular Hungary, Slovakia and Croatia. In the mobile phone segment, our business in Great Britain, the Netherlands, Czech Republic, Slovakia, Hungary, Croatia, Austria and the U.S. is affected by regulation in different ways. In some

cases, government agencies have extensive powers to intervene in product design and pricing. Their impact on the Group is difficult to gauge. In order to successfully and sustainably develop the company, we will continue to actively represent our interests in the regulatory arena and exert our influence among opinion leaders.

Fairness and responsibility: complying with ethics, the principles of competition law and other legal provisions. A Group-wide information process ensures that the Group Board of Management and the Supervisory Board are kept informed of any cases of corruption and can initiate additional measures to prevent corruption or, in specific cases, limit any damage done.

At the time this report was being drafted, there were no known administrative fines or administrative offence proceedings for violations of any environmental laws or occupational safety and health provisions. The supervisory authorities state requirements and make recommendations as part of the consultation process. We regularly check compliance with legal norms and provisions.

Further information:

- www.regtp.de



Procurement.

Sustainable, efficient, partnership-based.

- Global Procurement Policies: Group-wide guidelines
- GeSI and supply chain management: working with suppliers

Our Group units and central departments each formulate their own guidelines tailored to their specific business activities, based on the corporate vision and values and general strategies, such as T-Spirit, the Group sustainability strategy and the Social Charter. This year, for example, our Corporate Procurement implemented the Global Procurement Policies.

Global Procurement Policies: working in partnership.

The Global Procurement Policies define the roles, values (significance of T-Spirit for Procurement), responsibilities and principles of conduct for Deutsche Telekom's Corporate Procurement as well as for purchasing, supplier management and contract management as a whole. With its Global Procurement Policies, our Corporate Procurement is committed to the following principles of partnership-based cooperation:

- **Fairness:** We believe in fair cooperation with our suppliers on the basis of partnership, to the benefit of both parties.
- **Competition:** Non-discriminatory, fair, global competition is our guiding principle.
- **Confidentiality:** We expect our suppliers to protect confidential information. Conversely, sensitive information from suppliers is treated in strict confidence.

Supply chain management: setting a good example at every stage of the supply chain. Our procurement policy and the principle of partnership-based cooperation dictate that Deutsche Telekom's quality, social and environmental standards must be observed at every stage of the supply chain. In 2003, 99 percent of our purchasing volume (16.5 billion euros in total) was procured from suppliers in OECD (Organization for Economic Cooperation and Development)

countries committed to sustainable corporate conduct. Only a minimal percentage (less than 0.1 percent) of our procurement volume originates from countries with authoritarian regimes which violate human rights, as identified by the civil rights organization Freedom House. For the Group's top 25 suppliers, the product managers and procurement departments monitor environmental management, recycling facilities and the materials used, with the help of lists of environmentally compatible substances and undesirable materials. Deutsche Telekom has reached an agreement with the main office supply companies in Germany on the labeling of ecological materials, and this is referred to in our purchasing lists and catalogues. We also negotiate agreements with manufacturers to accept the return of waste.

GeSI: global sustainability standards. Our Corporate Procurement exerts its influence on suppliers – and indirectly, our suppliers' suppliers – and will be redoubling its efforts to promote minimum social and ecological standards in the future. We collaborate with the ICT industry's "Global e-Sustainability Initiative" (GeSi) for the evaluation of suppliers. To this end, the Supply Chain Working Group (SCWG) has drafted a list of questions on social and sustainability issues, which is completed online by the suppliers and archived. Companies from the IT and telecommunications industries wishing to establish or maintain business relations with these suppliers are given authorization to access the information.

Further information:

- www.telekom.de ■ Company
- www.gesi.org

“Above all else,

innovation requires



Stakeholder dialog. For sustainable, socially recognized development of Deutsche Telekom.

- Reporting: keeping all stakeholders fully informed
- Sustainability Days: a direct exchange with stakeholders

Deutsche Telekom is keen to discuss mutual interests with our stakeholders as a basis for our company's sustainable development, which is dependent upon the consensus of all social groups. With this in mind, we consistently seek out opportunities to intensify dialog and improve ongoing measures.

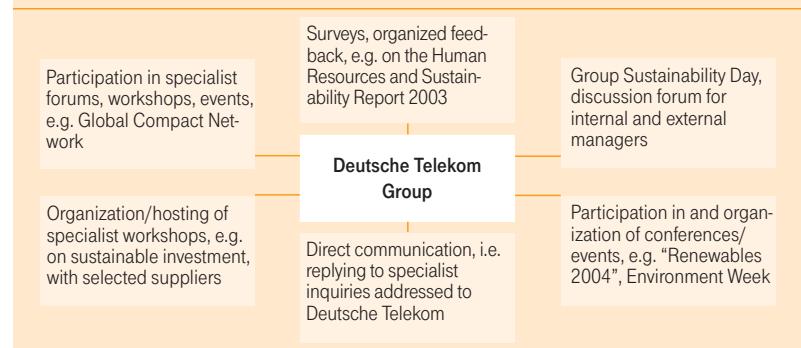
Human Resources and Sustainability Report: analyzing stakeholder interests. The Human Resources and Sustainability Report aims to keep all relevant stakeholders fully informed. To optimize the information provided, it was important to obtain feedback from stakeholders and external groups on last year's Report. We commissioned a study at Freiburg University, to survey a representative sample of stakeholders including customers, employees, rating agencies and company representatives. The respondents attributed a high level of credibility to Deutsche Telekom overall, and confirmed that sustainability reporting was appropriate for the intended target group, but also highlighted a number of potential areas for improvement. For example, the excessive size of the report was criticized. We are acting on most of the suggestions for optimization.

Sustainability Days: incorporating stakeholder requirements into management and strategy. In 2003, guests at the Group Sustainability Day included numerous representatives of companies, NGOs, environmental organizations, academia and politics. The cornerstones of our newly unveiled sustainability strategy were discussed at length with those present, and the feedback obtained was incorporated into the final version of our Group sustainability strategy. The main item on the agenda at the 2004 Group Sustainability Day was how we can best face the challenges of sustainability together.

Internal dialog: The Group units also use the Sustainability Days as an ideal forum to participate in forward-thinking dialog for their company. All other employees are invited to voice their opinions in various forums and discussions on topical issues, including sustainability within the context of internal chats.

Environment Week: promoting global dialog. As always, representatives of Deutsche Telekom will continue to be widely involved in external events and projects, both as organizers and as participants. In 2004, for example, we contributed a number of papers on the sustainable development of companies and society to the "Environment Week" staged by former German President Johannes Rau. We also welcome the opportunity to exchange knowledge and experiences with other companies at regular meetings – such as the econsense Forum for Sustainable Development of German Business.

External stakeholder dialog



creativity."



“The world is wide open for us.”

Éva Kisgyörgy loves to learn about other people and cultures – and that enriches her work in Matáv's financial department.

The first time she “headed west” Éva Kisgyörgy had a 30-day train pass and 50 dollars in her purse. She also had a lot of addresses of friends to stay with on a trip that would take her through England, France and Spain. That was in 1987, and the Iron Curtain was still in place. That meant that anyone who lived in Hungary was permitted to leave



the country for no more than 30 days, and to exchange no more than 50 dollars worth of Hungarian currency. Éva Kisgyörgy didn't let those limitations discourage her. “I wanted to see the world, meet other people and experience other cultures,” explains Kisgyörgy, who now works as a manager in the finance department of Matáv, the Hungarian telecommunications company.

And seen the world she has. Thus far, she has visited 63 countries and been to all five continents. She has been in Tibetan monasteries, hiked on Inca trails in Peru, rafted down the Zambezi river and visited tribes in remote parts of Vietnam and Mali. Her most recent trip took her to the great Mongolian steppes. “I'm just very curious about how other people live and about the things they think and feel,” she explains.

She captures her trips in photographs, many of which she displays on her own Website: www.eva.hungary.org. “This way, I'm able to share my experiences with many other people, and many people e-mail me interesting reports about their own travels,” she says. And her travel photos have also been attracting attention outside of her Website. Many of Éva Kisgyörgy's travel photos have appeared in books and magazines, and her work has been shown at exhibitions.

“I got my first camera when I was ten,” she recounts. “And I got hooked right away; I knew I wanted to take pictures that would show the world as I experience it.” All of her pictures – whether fascinating landscape studies from New Zealand, sensitive portraits of Japanese geishas or snaps of Cuban children – highlight her interest in looking across boundaries, in opening up new horizons for herself and for others.

She brings a similar attitude to her work in Matáv's finance department. Deutsche Telekom has held a stake in Matáv, Hungary's largest telecommunications company, since 1993, and a majority stake since 2000. Éva Kisgyörgy began working for Matáv in 1997, ten months before the company's initial public offering. “That was a very exciting time; I worked intensively with colleagues at Deutsche Telekom and at Ameritech, a U.S. firm that also held a stake in Matáv then,” she recalls. In 1998, her duties took her to Chicago

“I look forward to taking the

for three months, to work with Ameritech experts on developing suitable financial-reporting methods for the New York stock exchange. Today, she is head of department and also responsible for Matáv's quarterly reports for the Budapest stock exchange and for the company's annual 20F, a detailed company report that the NYSE requires from each listed company.

Éva Kisgyörgy considers it part of her daily work to try new approaches, discover new aspects of life and learn more about the world: "In the past, we lived behind an almost impenetrable border, and now the world is wide open for us." The opportunities arising from this new freedom fuel both her interest in travel and her commitment to her work: "In today's liberalized market, Matáv has to compete for customers. That means that all the people who work for this company have to keep looking, day in and day out, for new ways of being even better for our customers – and that, of course, often entails leaving tried and true ways behind."

There won't be much of the old routine in Éva

Kisgyörgy's future: "Routine? I have too much fun experiencing new things – life and the world have too much to offer." The way she sees it, the same principle holds for a company such as Matáv: "Our customers are very demanding – and we have to apply all of our resources, including each person's skills and the entire company's creativity, to meeting these demands."



opportunities available to me."

Shaping the future with imagination.

We develop innovative Human Resources concepts.



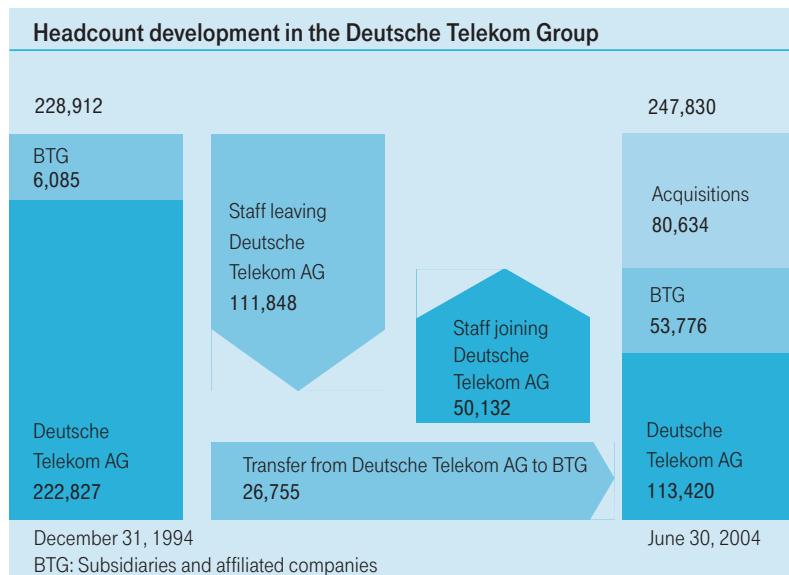


Managing diversity & leadership.

Encouraging diversity as a source of innovation.

- Individual employee advancement: professional and corporate perspectives
- Work and life balance: maintaining harmony between professional and private life
- Social responsibilities: integration is a priority

Some 248,000 people worldwide work for Deutsche Telekom. Their different cultures, religions, languages and personal strengths and skills lead to a high level of diversity



within the company. We not only recognize this diversity, but are also eager to systematically encourage and manage it as a means to achieving our corporate objectives. We are aware that the variety of knowledge and skills is the source of vital innovations for our company.

A successful company needs successful people. We are determined to give our employees every opportunity for

professional and personal growth. To this end, we have taken various measures including, for example, the "3D dialog". T-Systems launched this employee development scheme throughout Germany and the 23 international companies in 2003. 3D stands for "dialog", "development" and "difference". Taking their lead from the 3D guidelines, at least once a year, managers and employees meet to discuss the employee's prospects and advancement potential in a 2-hour personal discussion: strengths and potential for improvement, personal ambitions, areas where training is required, and development goals. This meeting is not the right place to discuss salary-related issues. The outcome of the meeting is recorded in the "personal development plan" and documented in the personnel file.

From development programs for top talents to mentoring for female managers. The main aim of management development at Deutsche Telekom is to ensure that vacancies, particularly those in the Business Leader Team (BLT), are filled by the best candidates, ideally from within our own ranks. This is the purpose of the Group-wide development program T-Success, which develops top performers and high potentials below the BLT level as BLT succession candidates. A similar program, Corporate Talents, was launched this year for the next lower management level. The strategic competency model, which centers around T-Spirit, provides a basis for assessing performance, skills and potential, and also offers a foundation for subsequent development. This creates clear development options for top performers and high potentials, right through to top management level.

Our "Mentoring for Female Managers" program brings together mentees and mentors from different units of our Group, with the aim of making the wealth of opportunities available within Deutsche Telekom more transparent. The program also offers mentees the chance to build up new networks and form and extend contacts throughout the entire Group. Another option is our cross-mentoring program, where the mentee and mentor work for different companies in German industry to give participants an insight into different corporate worlds. "Women in T-Systems



"The impact

– FiT", an international mentoring pilot scheme, aims to promote networking and encourage cultural sensitization across national borders.

Work and life balance: models for reducing working hours.

Given the challenges Deutsche Telekom is facing in the human resources area and mindful of employee satisfaction, one of our prime objectives is to offer even more flexible worktime models and help our employees improve their work-life balance. However, the use of such models still falls short of our expectations, although almost half of all employees would like to reduce their working hours. This was revealed by a German survey on "Work and Life Balance". The potential reduction in hours depends on the individual employee's income and family situation. Many are discouraged, however, by social prejudice against part-time employees. In order to speed up the integration of more flexible worktime models and increase acceptance of part-time work, our company took part in an EU project on the practical implementation of a work-life balance, initiates workshops and forums and is currently preparing a Group-wide list of measures and arguments.

Day-care facilities at T-Mobile. The "Little Rascals" day-care center at the T-Mobile campus in Bonn is designed to make it easier for employees to combine work with their parental responsibilities. It has long opening hours to accommodate the individual needs of parents. The day-care center is a pioneer in its field. Only a handful of companies in Germany fund comparable in-house childcare facilities themselves.

Health and Advice Center. Some 370 medical staff, counselors and industrial safety experts are on hand to field employees' queries on all aspects of health and work. A hotline number is also provided for those who prefer to remain anonymous.

Disabled employees. With 6.3 percent, we clearly exceed the minimum statutory employment quota (5 percent). People with disabilities are accepted as valued members of the team. The 8,700 or so registered employees with

disabilities receive targeted support and further training. Over 600 of our workstations have additional equipment specifically designed to accommodate a range of disabilities.

Social funds. We have also set up a special fund for employees who find themselves in financial difficulties through no fault of their own. The fund provides a one-off payment to help them get back on their feet.

Recreation scheme. Since April 2003, all Group employees within Germany have been able to take advantage of the attractive vacations offered by our recreation scheme. Last year, some 19,000 staff enjoyed cut-price holidays in one of the scheme's 13 holiday villages, apartment complexes and hotels in Germany and abroad. The recreation scheme is a voluntary social benefit offered by Deutsche Telekom which sets us apart from all our competitors.

Further information:

- www.telekom.de ■ Company ■ Human resources

of a picture lies in the
interplay of its colors."



Personnel cost management.

Reconciling a reduction in personnel costs and job security.

- Landmark employment alliance for employer and employees
- Success stories from Vivento, our personnel and business service provider
- Number of openings for trainees consistently at high level

Operating efficiently and economically in the market environment also means further improving the ratio between personnel costs and revenue. At the same time, we safeguard our employees' jobs – we have a social responsibility which we take very seriously indeed. This is why we are trying to reconcile both aims in the interests of sustainable human resources management.

Employment alliance: milestone in collective bargaining. The innovative employment alliance that we concluded for Deutsche Telekom AG (DTAG) with the trade union ver.di in March is at the heart of our human resources initiative. One of its cornerstones is a reduction in weekly working hours to 34 hours with partial pay compensation. The collective agreement has been in force since March 1 for non-civil servants and since April 1 for civil servants. As a result, we are able to have more people share the work, safeguarding employment for around 9,800 employees. The employment alliance also rules out compulsory lay offs until December 31, 2008. The reduction in weekly working hours is barely noticeable in the monthly pay of employees. To keep monthly pay close to the previous level, the vacation bonus and annual allowance (so-called Christmas bonus) are included in the monthly pay on a pro rata basis. If this is not sufficient, a partial payment will be made on the variable (performance-related) pay. The jobs created by the reduction in weekly working hours were filled on July 1, 2004. The majority were used to keep employees from having to be moved to Vivento at all. Around 2,000 employees were able to return from Vivento to the Group to take up permanent employment.

Deutsche Telekom employment alliance for civil servants as well. Deutsche Telekom and the employee representatives agreed that civil servants should also participate in the employment alliance, and the new Deutsche Telekom Working Time Regulation needed as a legal basis entered into force on April 1, 2004. As a result, our civil servants also made a decisive contribution to the safeguarding of jobs.

Vivento: essential for the success of the human resources initiative. Vivento is our exclusive point of contact for services in the areas of surplus staff, placement and capacity management. Vivento's overriding aim is to find new permanent jobs for our employees transferred to Vivento: mainly outside, but also within the Group. To open up new opportunities,

- Vivento creates employment alternatives by developing new business ideas in its business lines,
- Vivento takes on skills development in line with requirements to facilitate job placement, placing individuals in jobs outside and inside the Group,
- Vivento arranges temporary placements.

As part of collective negotiations, new terms and conditions that stimulate employment were also agreed for staff moved to Vivento. The pay of employees who do not have a job is being reduced to 85 percent of the previous target salary. On the other hand, bonuses of up to 15 percent of their annual reference salary is paid to employees who take on a new job, giving them a clear incentive to accept employment opportunities.

Business lines and business finders. Thanks to Vivento's strategic repositioning, numerous employees have been able to find new jobs. Since summer 2003, whole units have been transferred in addition to individuals being placed. This has led to separate business lines being set up:

- **Vivento Customer Services GmbH & Co. KG** (VCS), the Vivento subsidiary for innovative and fully integrated customer services, now employs around 1,000 permanent employees in call centers in 14 locations, with 600 more in temporary work.
- **Vivento Technical Services GmbH & Co. KG** (VTS)



commenced business operations on July 1, 2004. Its range of network infrastructure services offered on the external and internal market includes installation services such as switching and work on underground lines as well as upstream and downstream services like planning and documentation. VTS should provide around 500 Vivento employees and approx. 400 employees from the Communication Networks department with a new job by the end of 2004. Further staff increases are planned.

Vivento has likewise analyzed the employment potential in the area of security and reception services and set up the **“Security” project** – pilot projects were launched in summer 2004.

Together with our people, we strive to set up long-term businesses that will open up new career prospects for large numbers of employees. The Business Finder competition, whose motto is “Turning ideas into jobs”, invites employees to develop innovative business plans. The best suggestions will be given an award and put into practice. Imaginative “ideas people” have the chance to realize a business idea without taking any risks themselves. Participants will be supported by professional coaching.

Better opportunities for our civil servants at government agencies. We have reached an agreement with the Federal Ministry of Finance in order to facilitate the placement of Deutsche Telekom civil servants in jobs with government agencies. Deutsche Telekom is informed about relevant jobs via a central portal. We then find suitable civil servants and inform interested agencies. As a result, the applications of our employees carry more weight. This agreement is a further building block in the effort to ensure permanent employment. Initially, the agreement will apply to around 2,000 new jobs nationwide with customs.

Supporting the Federal Employment Agency. Around 3,000 of our civil servants support the regional offices of the Federal Employment Agency, a corporation under public law. They are temporarily assigned to the Federal Agency on the basis of the Federal Civil Service Act. The

reason behind this is that from next year, unemployment aid and state welfare assistance will be combined and paid in the form of long-term unemployment benefits as part of the Hartz IV set of employment market reforms decided by government and opposition. To pay out these benefits on time, around three million unemployed persons need to be examined and applications processed. Without the support of Deutsche Telekom civil servants the volume of work could not be managed, according to the Federal Employment Agency.

Helping overcome the lack of apprenticeships in Germany. In September 2004, another 4,000 young people will start their training at Deutsche Telekom. At present, the total number of apprentices is around 11,500. With numbers like these, our Group continues to be one of the most important employers providing training to young people in Germany, making an active contribution toward increasing the number of apprenticeship openings. However, this large number of openings, which far exceeds our requirements, can only be financed if the apprentices also make a supportive contribution. Like other employees, they will have to forgo a vacation bonus and annual allowance. We will be able to offer the best 10 percent of each trainee intake permanent positions in the future.

| Vivento | | June 30, 2004 |
|-------------------------------|--|----------------|
| Transfer to Vivento | | 26,400 |
| Departure from Vivento | | 7,300 |
| Of which: left Group | | 4,200 |
| Employees at Vivento | | approx. 19,200 |
| Employment at Vivento | | June 30, 2004 |
| Call center services | | 3,200 |
| Temporary placements/projects | | 6,400 |
| Training | | 2,000 |
| Still at Vivento | | 7,500 |

“I am excited about
the new **prospects**
opening up for me.”

| Trainees and training occupations | | | | |
|--|---------------|--------------------|---------------------|--------------------|
| (total for all three training years) | | | | |
| Occupations | 2003 | Of which female | 2004* | Of which female |
| | | | October 01, 2004 | |
| IT occupations | | | | |
| IT systems electronics technician | 2,778 | 131 | 3,025 | 145 |
| IT technician/applications development | 229 | 37 | 273 | 36 |
| IT technician/system integration | 1,669 | 145 | 1,702 | 121 |
| IT systems business administrator | 2,042 | 717 | 2,118 | 665 |
| | 6,718 | 1,030 | 7,118 | 967 |
| Industrial/technical occupations | | | | |
| Energy electronics technician and gas/water fitter** | 165 | 9 | 53 | 5 |
| Communications technician** | 131 | 3 | – | – |
| Electronics technician for building and infrastructure installations | 10 | 0 | 52 | 2 |
| | 306 | 12 | 105 | 7 |
| Commercial occupations | | | | |
| Office communications administrator + Office communications administrator with supplementary qualification as foreign language correspondent (Eng.) | 3,700 | 2,988 | 3,740 | 2,919 |
| Industrial business administrator | 229 | 144 | 245 | 151 |
| Administrator for building and housing management | 74 | 41 | 83 | 47 |
| | 4,001 | 3,173 | 4,068 | 3,117 |
| Special training with integr. degree course | | | | |
| (being phased out: recruitment only to courses with integrated practical phases since 2003) | | | | |
| IT technician/application development with comm. and info. technology degree | 28 | 9 | 14 | 3 |
| IT technician/system integration with comm. and info. technology degree | 28 | 5 | 15 | 1 |
| Industrial business administrator with business management degree** | 12 | 9 | – | – |
| | 68 | 23 | 29 | 4 |
| Degree courses with integr. pract. phases | | | | |
| Incl. universities of applied science in Paderborn, Leipzig, Bergisch Gladbach, Darmstadt | 139 | 53 | 244 | 66 |
| | 139 | 53 | 244 | 66 |
| Total number of trainees | 11,232 | 4,291 | 11,564 | 4,161 |

* Figures were projected for 2004

** Redundant/redundant in the future as training discontinued

Enhancing corporate culture and developing skills.

Having concentrated on concluding the employment alliance in the first few months of 2004, the focus is now on a motivation and skills drive in the second half of the year as well as in 2005. This includes a further education benchmark as well as budget planning for 2005, management development schemes (for example the "Corporate Talents" project) and an increase in the internal recruitment ratio for management positions.

Our T-Spirit vision and values, translated into a corporate culture that supports our strategy, creates an identity and encourages performance, help increase productivity in the entire Group. Specific measures to achieve these goals will be derived from Group-wide employee surveys that will be carried out by the end of 2004.

Further information:

- www.telekom.de = Careers

“To be successful you need courage
and imagination.”

Total Compensation.

Optimizing pay and benefits conditions.

- Harmonization of employment conditions for civil servants
- New incentive plan for senior executives
- New car policy in the Deutsche Telekom Group

Performance-related and market-oriented pay-and-benefits conditions for our people are a key success factor in implementing our corporate vision and values and the business strategy.

Our active HR management strives to optimize cash payment systems and fringe benefits – by ensuring competitive pay and benefits conditions in line with the market on the one hand, and on the other by harmonizing the compensation systems within our Group. We also need to align the employment conditions of civil servants and non-civil servants as much as possible as civil servants are subject to more restrictive conditions than their counterparts due to civil service law.

Amendment to the Staff Legal Provisions Act. As a general principle, Deutsche Telekom's civil servants fall under the scope of the civil service law with its regulations geared to public administration. In a competitive environment, this situation poses considerable disadvantages. We plan to eliminate these disadvantages through an amendment to the Staff Legal Provisions Act, which is now ten years old and is no longer in line with the current situation. We require more scope and effective instruments in order to be able to make our human resources policies and our pay-and-benefits conditions competitive and flexible within constitutional limits.

Owing to the change in the Deutsche Telekom Working Time Regulation, civil servants and non-civil servants participating in the employment alliance now only work 34

hours a week. The civil servants therefore enjoy more leisure time than other federal civil servants, and the existing work can be shared out between more people. This reduction in working hours is being financed by cutting the vacation bonus and reducing the special allowance on the basis of the Federal Law on Special Allowances. Complete elimination of the special allowance as part of the amended version of the Staff Legal Provisions Act seems likely. As soon as the funds freed up through the cut in special allowances are no longer needed to safeguard employment, they should be used for performance-related variable remuneration of civil servants similar to non-civil servants. This will contribute to further harmonizing the conditions of employment.

Mid-Term Incentive Plan (MTIP) introduced. The Mid-Term Incentive Plan represents a new global tool with which to ensure fair remuneration for senior management in the entire Deutsche Telekom Group. MTIP 2004, which was launched on January 1, 2004, replaces the 2001 Stock Option Plan throughout the Group as part of the total compensation package. It has a term of three years, and is set to be relaunched each year over the course of five years. The MTIP offers senior executives the chance of attractive incentives that are ultimately linked to the corporate success of Deutsche Telekom. The two listed Group subsidiaries T-Online and Matav are pursuing their own similar plans and will not be taking part in MTIP.

MTIP bound by two equally weighted success parameters. The T-Share's absolute performance and whether its total return outperforms the DJ EURO STOXX Total Return Index decide whether targets have been achieved. At the end of the term – i.e. three years after the start of the tranche – the T-Share price must have risen by at least 30 percent. In addition, the T-Share's total return must perform better than the capital markets, with the DJ EURO STOXX Total Return Index being taken as the benchmark.

The target is therefore achieved if the T-Share's total return – which results from the price performance and other elements such as dividends – performs better than the above-



mentioned index during the term of the tranche. Only when both targets have been met is the full incentive amount (bonus) paid out. If just one of the parameters is achieved, only 50 percent of the amount offered will be distributed. There is no payment if none of the targets are met.

Car policy: company car now more of an incentive. The total compensation approach places greater emphasis on the company car as an incentive and part of remuneration. The uniform application of the Group's car policy at the national level in Germany is now creating Group-wide transparency. The new car policy entered into force on July 1, 2004. It deals with the share to be paid for by employees for private use of the company car, its useful life and the introduction of a budget model. The useful life of the company car has been reduced from four to two years. In addition, the previous reference car model has been replaced by a budget model. In the future, each employee entitled to a company car will have a fixed budget at his/her disposal in the relevant category determining the full service leasing amount to be paid by the employer. The employee is free to choose the type of car and can even order extra features when opting for an economical vehicle (e.g. natural gas car).

Deutsche Telekom pension fund: provisions for a secure future. In 2002, we were the first company in Germany to

launch its own corporate pension fund (TPF). Over 24,500 employees now make use of the option of supplementing their pension with the deferred compensation scheme offered by the TPF. This makes the TPF the market leader amongst company pension schemes.

The benefits of the TPF for employees are obvious: participants can save on taxes and - until at least 2008 – on social security payments and/or receive allowances from the government. Most employees choose the option of gross deferred compensation, leaving a relatively low proportion of participants in the net deferred compensation scheme. The total TPF investment volume was € 67.9 million as of June 30, 2004. Capital investment is low-risk: 20 percent is currently invested in shares and share-like certificates, the rest in fixed-interest bonds. TPF shares have increased by 7.7 percent before expenses since their issue in October 2002.

| Company pension scheme at Deutsche Telekom AG | | | |
|---|---------------|---------------|---------------|
| Number of contracts | | | |
| Type of pension scheme | 2002 | 2003 | June 30, 2004 |
| Gross deferred compensation | 14,700 | 20,300 | 22,900 |
| Net deferred compensation | 2,300 | 2,700 | 2,800 |
| Total | 17,000 | 23,000 | 25,700 |
| Fund capital in € million | 33.8 | 54.9 | 67.9 |
| Capital account obligations | – | 128,000 | 130,000 |



“I can put my
skills to good use

Managing skills & competencies. Success through training and development.

- A broad spectrum: Group-wide skills development programs
- Telekom Business Academy and Telekom Training: skills development for technical and managerial staff
- Training is a key issue: prospects for young people
- Deutsche Telekom University of Applied Sciences in Leipzig: academic courses with a practical bias

For Deutsche Telekom, innovation leadership is essential in the dynamic telecoms market, and is therefore one of our strategic objectives. One prerequisite for attaining this target is a high level of qualification among our workforce. We provide a host of training and development measures to continuously develop know-how at every level of the organization – from trainees through to top managers. The skills development drive is a key component of our human resources initiative. In particular, this enables us to hold on to our top performers and high potentials by offering them attractive prospects.

Human resources and management development: cornerstones of a successful corporate future. Group-wide schemes such as T-Success and the programs Top Performers, Management Program and Junior Management Program within the various Group units enable our employees to systematically build on their skills and form networks beyond national and unit boundaries. The advancement schemes are geared to the employee's various development stages, and merge seamlessly into one another. As well as

the general training programs, we also offer targeted development schemes for managers. By practicing systematic skills development among our workforce, we can often fill vacancies with our own, highly qualified employees instead of using external recruitment.

The courses offered by the Telekom Business Academy (TBA) have a strong international bias. As a result, they foster a common understanding of the corporate objectives and encourage the formation of transboundary networks. The TBA concentrates on the advancement of senior management and junior managerial staff within the Group, as well as academic trainees in general. One of its outstanding features is a degree course at Germany's only company-maintained university (the Deutsche Telekom University of Applied Sciences in Leipzig). The TBA is also involved in the formulation of Group-wide learning strategies, which must be tailored to current business requirements and the corporate values. The introduction of a Group-wide learning management system aims to further this objective. For executives and junior managerial staff within the Group, the Telekom Business Academy offers an extensive Website with numerous electronically-assisted learning programs and assessments.

Workforce internationalization establishes Deutsche Telekom as a global player. An international human resources team comprising representatives from all our international companies has been set up for the purpose of organizing international assignments. Exceptionally skilled and committed employees from all levels are invited to participate in the Job Rotation Program, which also includes international assignments. Both Deutsche Telekom and the employee benefit in equal measure from an assignment abroad: the employee in terms of his or her professional development, and the Group in terms of its international orientation.

Telekom Training (TT): One of the largest providers of vocational training in Germany, with over 11,500 trainees. Telekom Training is a leading supplier of training for technical and managerial staff in the ICT industry, as well as

in my new job."



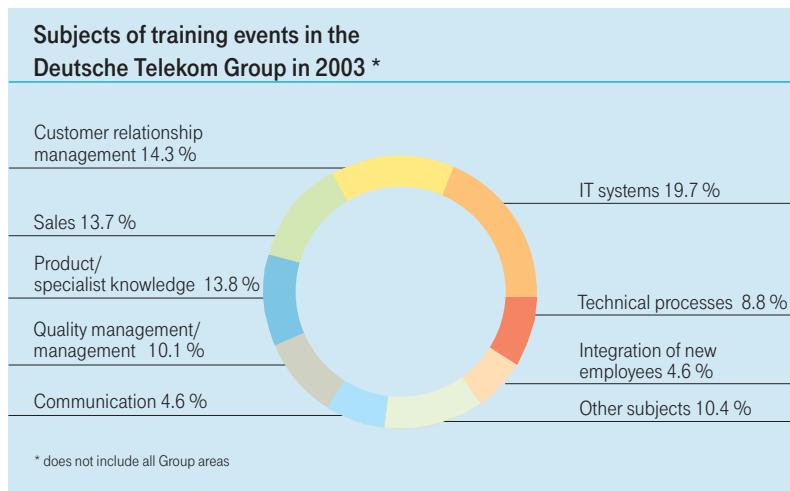
of courses for personal development. As a Group-wide partner for education and training, TT is represented throughout Germany with 39 vocational training units, 240 workshops and 13 training venues, including nine conference hotels.

Telekom Training provides young people with an entry into nine recognized training occupations, including four in the IT industry, four in the commercial sector and one in the

| Training measures at Telekom Training ¹ | | | | |
|--|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 |
| Seminars | 9,871 | 11,580 | 12,021 | 9,476 |
| Attendees | 102,192 | 121,701 | 111,168 | 110,620 |
| Days attended | 305,201 | 348,892 | 342,157 | 258,202 |
| GLOBAL TEACH ² access | 124,341 | 152,298 | 175,373 | 239,248 |

¹Primarily without specific measures for managers

²Global Teach is an internal eLearning platform



technical/industrial sector. The curriculum also includes dual courses linking practical work experience with an academic course at a university of applied sciences or a university of cooperative education. As part of the 2004 employ-

ment alliance, in September the company will again be offering 4,000 young people the opportunity of a qualified entry into working life.

Academic courses with a practical bias. The Deutsche Telekom University of Applied Sciences in Leipzig has 28 professors and lecturers, as well as eleven laboratory engineers, and educates some 450 students a year in communication and information technology and communication engineering. In 2005 we will be launching our own integrated Masters degree course with a special emphasis on applied research and development. 70 percent of students work on topics from the Deutsche Telekom Group units, and one-third of them complete a practical semester at one of our business units. This enables us to forge contacts with particularly gifted students early on in their careers. Almost 2,000 students each year acquire practical experience with us as interns, student trainees, or while writing their diploma theses. The introduction of the "job exchange" in 2002 was followed shortly afterwards by the foundation of the StudentClub. This helps maintain close contact to good students, e.g. following completion of their internship, with regular newsletters and events at the TBA.

Blended learning: the optimum learning mix. Increasingly, physical attendance at seminars is complemented by a range of eLearning components, Web-based training and virtual classroom and conference solutions. Web-TV enables us to accommodate employees' requests for short, up-to-the-minute training sequences. We aim to achieve an optimum mix of eLearning applications and face-to-face training. One of the many advantages of blended learning is that learning becomes more efficient and flexible, because it is not tied to specific dates and locations. What is more, the learning tools are available directly at the workplace, which cuts down on times of absence as well as minimizing traveling times and expenses.

Further information:

- www.telekom.de ■ Careers



“Quality

Human resources efficiency & quality. Efficiency and quality drive in Human Resources Management.

- Successfully completed: the PRISMA project and 24@t-mobile
- Opportunities for improvement: the employee survey on HR service quality
- Sustainable travel management

Deutsche Telekom is also breaking new ground in Human Resources Management. Comparisons with other companies made it clear that we could still tap into considerable potential for savings and improvements in this area. That is why we launched the nationwide PRISMA project to realize innovations and refocus human resources functions for management and staff. Having completed the project in summer 2004, we have created crucial prerequisites for lowering costs, increasing efficiency and at the same time further enhancing the service quality of Human Resources.

PRISMA has analyzed and optimized our entire HR work. The aim of the PRISMA project was and is a future-minded approach in Human Resources. Benchmarks were established, compared with other companies and recommendations for action derived. Eight working groups have developed detailed concepts for the Personnel Service Centers (PSC), our internal service units for all personnel matters. The working groups looked into a new basic functional structure for the HR processes based on clustering and specialization of tasks and support through IT applications.

New distribution of functions within Human Resources.

In the past, there were overlaps in responsibilities within Human Resources at Deutsche Telekom. The new distribution of functions is better suited to the needs of our employees and also our company's requirements.

- The product owners are the strategic partners of top management. They are responsible for the entire life cycle of HR products.

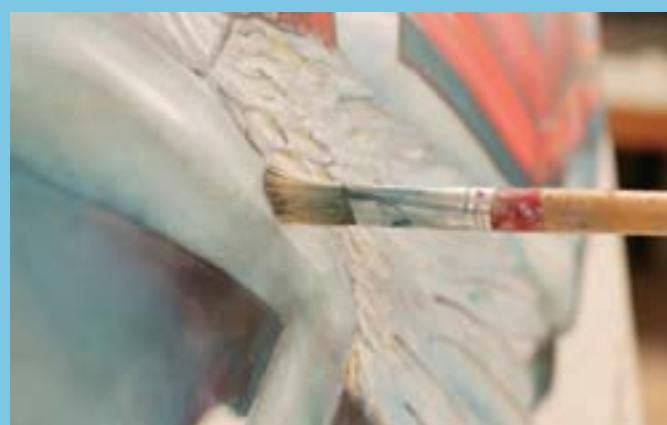
- HR Management is the management partner of all organizational units. It supports their managers in all HR-related functions.
- As central service units, the Personnel Service Centers are responsible for providing and managing all administrative personnel services.

Innovative HR work. In the future, employees will submit their requests – for example for changes in child benefit payments – directly via the Personnel Service Line, the gateway to the Personnel Service Center in the Deutsche Telekom intranet. Via the WebService, they can view their current requests. For efficient and standardized processing of all customer orders, the work processes for all sub-products were described in detail by the PSC. Clear assignment to processes allows us to act consistently when creating, implementing and using all products. As the organization and needs of T-Com and Group Headquarters and Shared Services (GHS) differ, we had to set up two separate Personnel Service Centers. T-Com's PSC takes over the support for

New distribution of functions in Human Resources

| Strategic partner of top management | Strategic partner of unit management | Service provider |
|---|--|---|
| Product owner | HR management | Personnel Service Center |
| End-to-end responsibility for a product from planning through to product exit | Focus on customer-specific HR problems between managers and the Personnel Service Center (PSC) | Focus on processing administrative orders |
| Integration of all interfaces | Maintenance of contacts with employee representatives | Standardized and transparent service provision |
| Ensure applicability, availability and viability of targets | Responsibility for implementing and monitoring HR products | Compliance with quality standards and indicators |
| | | Handling of all personal issues of employees and managers |
| | | Ensure efficient cooperation with product owners |

is important to me –
in my job and my paintings.”



employees as an independent nationwide unit. Since the number of people employed in the individual GHS units varies greatly, large units perform HR management functions themselves, while GHS's Personnel Service Center assumes these for smaller units.

Customer satisfaction survey carried out by Human Resources. This is the first time that we are asking employees from all Group units as well as from GHS about how satisfied they are with the work of the HR department. The survey focuses on questions about services and quality of advice. The content and structure of the survey is adapted to the specific requirements in the Group units. However, all employees are being asked five core questions, which will be used to derive a Group result and draw up a satisfaction index. The survey will take place for the first time from this fall and on a regular basis in the coming years.

T-Mobile: example of tailored, optimized HR services. "Simplicity" is the motto of the 24@t-mobile service available to all employees for all personnel issues. According to the professed goal, employees will receive final answers to their questions sent by e-mail within 24 hours. The new service based on virtual expert teams was implemented at all national companies by April 2004.

24@t-mobile creates an additional, fast and easy to use HR service: in the first three months following its inception, more than 1,200 questions were sent to 24@t-mobile. From the very beginning, more than 55 percent of the queries were conclusively answered in less than six hours and more than 85 percent within the 24-hour time limit.

Eco-friendly choice of transport. In a Group of our size and with an international outlook, there is a considerable need for mobility. The new Group Travel Policy specifically refers to environmental protection as a criterion when choosing a means of transport. Considerable progress has been made: the number of flights made by Deutsche Telekom AG was approx. 17 percent less than the previous year's total; those made by the Group as a whole, with a higher proportion of international trips, was still nine per-

cent lower. Car rental fell by a third. Railway usage remained almost constant. This signals a shift in thinking about travel – a move away from means of transport with high levels of CO₂ emissions toward the more environmentally friendly railway (see page 50).

Electronic travel expenses workflow. The pilot for the OLGA project (online-based settlement of travel expenses) was a resounding success for the environment and also increased efficiency. Almost 50,000 travel expense claims were processed electronically from December 2003 to March 2004 – 100,000 pieces of paper no longer needed to be sent. Further savings were made in the area of travel process management: forms are available on the intranet, and credit card applications can be made online. The company is working on an overall concept for electronic approval of business trips and booking through to archiving travel expense accounting by means of electronic workflow. As a result, approval forms for more than half a million business trips as well as some two million pieces of paper should be saved.



“I can combine
social
commitment

Cooperation with employees' representatives. Positive relations.

- European Works Council established
- Codetermination as matter of principle
- Employees' right to organize

Good relations with our employees' representatives are the prerequisite for Deutsche Telekom's success on the market. For years it has proved worthwhile to include the elected employees' representatives in important organizational processes. The forward-looking collective negotiations recently concluded have shown just how constructive cooperation can be with employees' representatives, even in a difficult climate. At the European level, we have been taking part in the so-called social dialog for years as a member of the European Telecommunications Network Operators' Association (ETNO). The association is represented among other things in the "EU Social Dialogue Committee (Information Society)". The EU Committee deals with the developments in communications technology and the consequences for employment, social structures and the emerging information society.

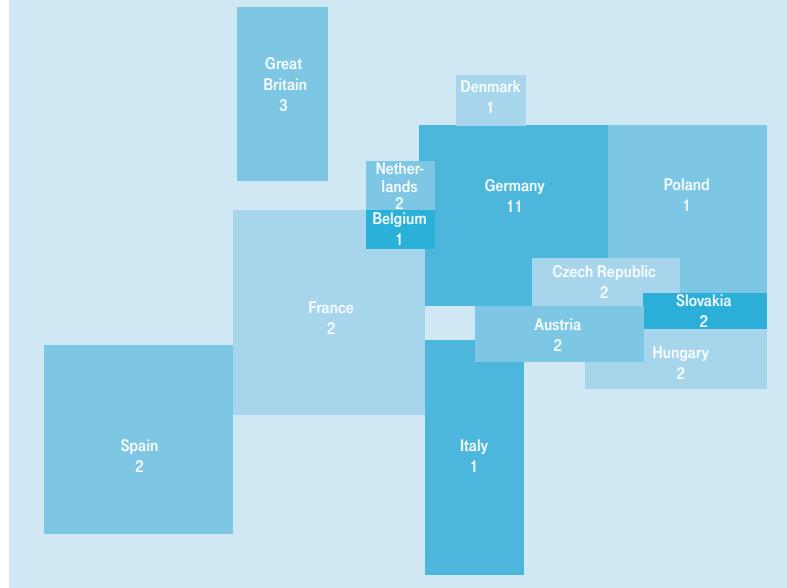
European Works Council established: an international and intercultural approach. Two years after the first workshop on this issue, an agreement on the formation of a European Works Council by the Deutsche Telekom Group was signed on April 21, 2004. The constituent meeting took place in June in Bad Honnef near Bonn. Wilhelm Wegner, chairman of the Group and central works council, was likewise elected unanimously as chairman of the European Works Council. Kai-Uwe Riecke, Chairman of the Deutsche Telekom Board of Management, Dr. Heinz Klinkhammer, member of the Board of Management responsible for Human Resources, and Wilhelm Wegner all underlined the important role of the European Works Council for a social dialog that transcends borders. From Chairman Riecke's point of view, it is vitally important to bring together the separate cultures and create a new common culture in the Deutsche Telekom Group. The European Works Council has an important role to play in this context. Wegner emphasized that it is particularly important for employees abroad that their

concerns are not only heard by German management, but also lead to successful consultation processes. "The European Works Council is being created as a basis for transparent communication throughout Europe and as a suitable structure for taking international employee interests into account", underlined Dr. Heinz Klinkhammer.

Composition of the European Works Council. The creation of the European Works Council adds an international aspect to codetermination and gives employees' representatives at home as well as abroad a more international and intercultural approach. The European Works Council will comprise 32 members from 13 EU Member States: Austria, Belgium, Czech Republic, Denmark, France, Germany, Great Britain, Hungary, Italy, the Netherlands, Poland, Slovakia and Spain.

If measures affect at least two countries, the European Works Council is entitled to information and consultation on cross-

Countries and allocation of seats in EWC of Deutsche Telekom
Total: 13 countries, 32 seats



well with my personal interests."



border matters relating to specified topics. Aside from the structure of the Group, these topics include the economic and financial situation, development of business as well as the employment situation. The same applies to investments, the introduction of new work procedures, mergers, relocation or closure of business units as well as mass redundancies. However, the European Works Council is not entitled to codetermination rights as stipulated by the German works constitution law. Together with the chairmen, three members form an EWC board that runs the day-to-day business and is

“For Deutsche Telekom it has always been important to maintain good relations with employees’ representatives.”

the point of contact for Group management. The establishment of the European Works Council means that Deutsche Telekom has completely implemented the EU directive that, upon application by the works council, obligates companies to set up a cross-

border works council if they have 1,000 employees in total and at least 150 of them are employed in at least two EU Member States.

European Works Council activities. European Works Council meetings will take place twice a year. The first meeting is scheduled for mid-October 2004. Prior to this, a workshop will address topics such as the structure of industrial relations, objectives, focal subjects, overcoming language and cultural barriers as well as different forms of employees’ representatives in the individual countries.

Group works council – our partner for collective bargaining. Thanks to its constructive approach, Deutsche Telekom’s Group works council made a major contribution toward ensuring that the 2004 collective negotiations were successfully concluded. The Group works council comprises 23 members who are elected and appointed from Group units and Headquarters in delegation meetings. At present, T-Com holds eight seats, T-Systems five, T-Mobile and Group Headquarters four each and T-Online two. The number of seats depends on the respective number of employees. The composition of the Group works council is reviewed every two years, with the next review in 2005.

In September 2003, the Economic Committee took up its work at Group level. Its establishment has already proven its worth, for the Economic Committee ensures that the works councils receive full and up-to-date information on the current economic situation and future orientation of the company. The Economic Committee discusses economic topics with Group management and informs the Group works council. Numerous issues that significantly affect the interests of the Group’s employees, like the amendment to the Telecommunications Act, were discussed here.

Further information:

- www.europa.eu.int



“I like pictures
that arouse

Executive Staff Representation Committees. Tools for partnership-based corporate policy.

- Committee role: information, consultation, communication
- Executives' Committee Act: the basis for agreed guidelines

Executive employees have a particular importance, in view of the corporate and social changes they are required to tackle during the course of their managerial duties. They are "employed entrepreneurs" who help to drive the corporate policy forward, yet in legal terms they are employees like any other, and individually, it is often difficult for them to assert their interests. The Executives' Committee Act passed in 1989 allows this group of employees to assert their interests collectively.

Collaboration with executives' committees within the Group. A good, trusting relationship and cooperation between the Group management and the executives' committees established since 1995 is a tried-and-trusted component of a corporate culture founded on consensus. Under the Executives' Committee Act these committees have information and consultation rights. They must be promptly and comprehensively informed in order to give them an opportunity to contribute their arguments to the decision-making processes early on. In addition, the executives' committees provide practical feedback and play an important role in information and communication processes. In this way, they aid integration within the Group. As such, the duties of the executives' committees go far beyond the mere collective representation of interests.

Cornerstone of the committees' involvement: guidelines based on § 28 of the Executives' Committee Act.

The fact that employment conditions remained largely unchanged in the wake of organizational changes is to some extent the result of the committees' activities. For example, guidelines were adopted with the Executive Staff Representation Committee of Deutsche Telekom AG agreeing and

setting out the consequences of organizational measures. This committee represents some 1,200 people, the largest executive staff body within the Group. The committee has seven members and is chaired by Werner Adloff.

Exchange of experiences, networking, collaboration: the Corporate Group Executive Staff Representation Committee. This committee was founded on August 26, 1999 for several major purposes: collaboration within the Group, which is indispensable to a successful market presence, the creation of a network among executive staff and the exchange of experience across company borders. Thanks to this Corporate Group Executives' Committee, executive employees are involved in key decisions affecting the entire Group or several Group companies. Members of the committee include representatives of the executives' committees of Deutsche Telekom AG, T-Mobile Deutschland, T-Systems Nova GmbH, T-Systems International GmbH, DeTelimmobilien and T-Online AG. Werner Adloff was unanimously elected Chairman. The Corporate Group Executives' Committee meets four times a year; the Board Member responsible for Human Resources, Dr. Heinz Klinkhammer, attends all meetings.

"Executive employees are employees in the role of an employer."

emotions."

“I’ve found the right job for myself.”

Klaus Schreder works in the HR department of our Group Headquarters and Shared Services. Vivento, the Personnel and Business Services Agency, smoothed the way to his new area of responsibility.

The announcement did not come as that much of a surprise to Klaus Schreder: “Because of the information about reorganization in the Group, I knew that I was in an area of responsibility that would be eliminated during restructuring.” At any rate, he feared that his existing job was in danger. When he then received the information that his job would indeed be cut and he would be transferred to Vivento, it still came as a big disappointment. “You ask yourself: why me of all people?” says Schreder.



Klaus Schreder, who is 40 years old and lives in Mainz, has been working for Deutsche Telekom for many years. In 1980, he began his training to become a telecommunications mechanic with the former Deutsche Bundespost. After several training and further education courses and different career moves in the Deutsche Telekom Group, Schreder, who became a civil servant in 1992, moved into project management with T-Com in 2002. There he dealt with support activities such as schedule management and the organization of project work. The decision to scrap his job was made in November 2003. “It was quite a blow to me after all those years,” Schreder says. The predominating feeling was “having lost my job and no longer being part of the company. It was particularly hard for me to see any prospects at first with the move to Vivento.”

His personal adviser at Vivento tried to help him improve these prospects. As a result, Schreder’s active search and preparation for a new job started immediately after the move to Vivento. He also looked for job offers within the Deutsche Telekom Group as well as on the external labor market on his own initiative without Vivento’s help. At the same time, Schreder took part in training courses in order to qualify for jobs outside the Group. These included special job application sessions in order to increase the chances of a successful application. “Even though I looked for jobs on the external market right from the start, I must admit that the prospect of having to leave Deutsche Telekom demotivated me quite a bit at first. I’d hoped to find a new position within the company where I’d feel at home professionally,” explains Schreder. While his personal Vivento adviser found him temporary project work several times, “unfortunately these assignments did not fit my actual qualifications,” says Schreder.

After six months with Vivento, the decisive opportunity then presented itself to Klaus Schreder. Human Resources Management (CCPM), part of Deutsche Telekom’s Group Headquarters and Shared Services, was looking for an expert to manage several online media as well as other complex tasks. Aside from knowledge of information technology, the job required above all well-developed analytical and communication skills. The job requirements matched

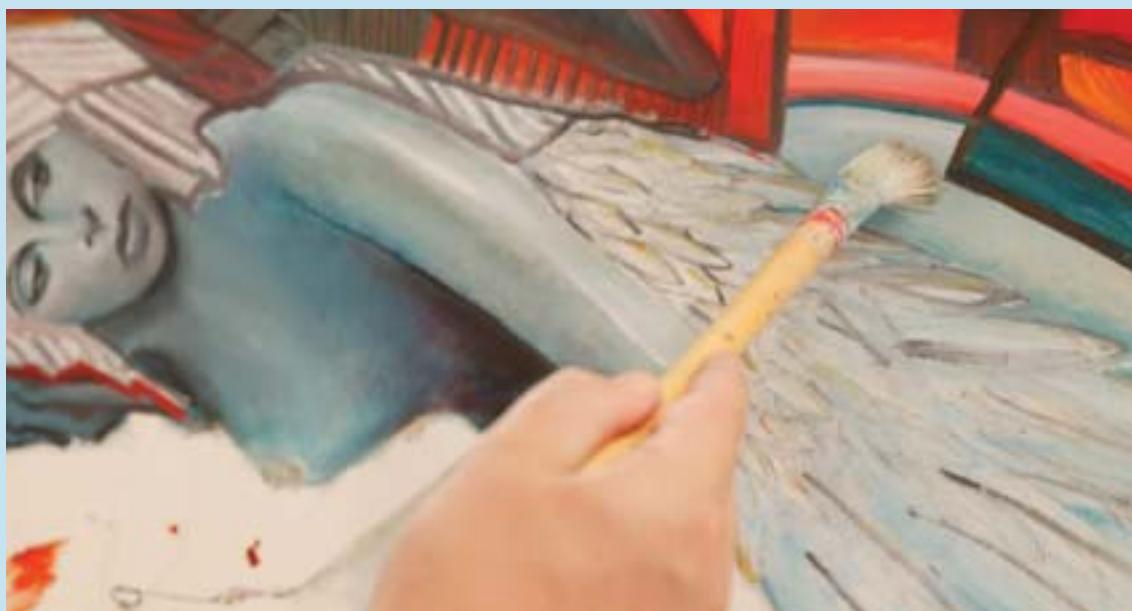
“Vivento has helped me take on a new

Schreder's profile exactly: "That was just the type of job that I was looking for," he says with conviction. Those responsible at HR Management were also clearly of the same opinion. In April 2004, Schreder took up his new job.

It soon became apparent that he had scored a bull's eye with the new position: "Compared with my previous job in project management, there are now much better development opportunities open to me." Schreder not only looks after a wealth of information pages on the Deutsche Telekom intranet as well as the Group's Internet site. He also carries out analyses for HR Management on the satisfaction of internal customers, evaluates these using special software tools and prepares relevant statistics as a planning basis for his managers. All these tasks are challenges for him in the best sense of the word. "It's the right job for me – and I believe that I'm the right man for this job," he says self-confidently. Another positive aspect of it all is the excellent equipment in the workplace and the positive work environment – "everything's just right," says Schreder.

Klaus Schreder spends some of his leisure time on painting. His philosophy: "The impact of a picture lies in

the interplay of its colors." From the very first stroke, you have to have a mental picture of the overall finished product with every detail and check whether the picture develops in the way you want it to. That requires creativity, imagination and also courage – demands which, in his opinion, have a lot in common with the career change that he underwent. He also gave up at first after losing his previous job, but then he started to regain his courage, seeing Vivento as the chance to find new approaches and perspectives – and to take his future career development into his own hands again. According to Schreder: "And now I'm of course very pleased that it worked out so well."



challenge."

Together we can win.

We are optimizing our impact on the environment.





Energy management. Optimum use of resources equals sustainability.

- Energy consumption: higher consumption figures due to more comprehensive data base, despite improved efficiency
- Energy mix: cogeneration over fossil fuels and nuclear power
- CO₂ emissions: active climate protection by severing the link between consumption and emissions

Through the consistent energy management practices of its subsidiary DeTelimmobilien and the Group units, Deutsche Telekom is striving to optimize energy use in all areas. A host of individual energy management measures generated total net savings of 26.9 Gigawatt hours (GWh) for the Group in 2003. This is the equivalent of energy use in around 10,000 one-family houses. Despite this, our energy consumption has increased.

The overall consumption figure of approximately 4,520 GWh for the Group as a whole is attributable to

- the consolidation of Group units that could not previously be included in Germany for technical reasons
- the first-time inclusion of large international shareholdings of Deutsche Telekom and
- the inclusion of amounts carried forward from previous years for technical reasons.

As well as using energy more efficiently, we get almost 50 percent of our electricity from cogeneration plants. This figure is more than twice that of the average German energy mix. Around six percent comes from regenerative energy sources. This puts our annual CO₂ emissions 975,000 tonnes lower than the average German energy mix.

Thanks to a clearly defined electricity purchasing concept, we have managed to sever the link between our CO₂ emis-

sions and energy consumption over the past three years. Deutsche Telekom has remained well on track with its eco-friendly growth course. In 2003, CO₂ emissions were around 57 percent of the total produced in 1995, when our first environmental program was launched. The amount saved each year is roughly equivalent to five times the annual CO₂ emissions of our building heating systems.

Energy management: optimizing consumption in every situation. A Group-wide energy management policy and its systematic implementation throughout the Group is a top priority for Deutsche Telekom's environmental program. Our energy efficiency is constantly improving, thanks to state-of-the-art building services management, the use of waste process heat for heating purposes and the use of network components with as low energy consumption as possible, to give three examples. In 2003, T-Com disconnected existing line units with higher energy consumption, leading to savings of approximately 6.6 GWh per annum.

Energy consumption: less is more. Around 88 percent of all energy consumed by the Group for electricity, heating, and other needs is used in Germany. In 2003, the Group in Germany and the currently included international companies accounted for 77 percent (3,490 GWh) of Deutsche Telekom's total energy consumption. The rest was primarily used for heating buildings. This drives us to consistently exploit every avenue for minimizing energy consumption. Since 2001, T-Com – the Group unit with the highest energy consumption – has set itself the target of carrying out measures over four years to save 33.15 GWh of energy per year. In 2003, T-Com again significantly outperformed its own target with a saving of just under 43.6 GWh. This has avoided some 28,000 tonnes of carbon dioxide which would otherwise have been released into the environment. This is the same as CO₂ emissions from the energy consumption of 17,500 one-family houses and helped us to save 6.6 million euros in costs.

Energy mix: the sources we draw on. Wherever possible, we prefer to obtain our electricity from cogeneration and fuel cells rather than conventional power plants powered by



fossil fuels and nuclear energy. In the interests of sustainability, we want to use energy as efficiently as possible and obtain it in the most environmentally compatible manner available. A new concept for standby power systems to ensure the uninterrupted operation of telecommunications networks is one such example. These systems are currently powered by diesel aggregates. Exchanging one of the aggregates for a fuel cell makes the generation of power and heat especially efficient and environmentally sound, even in continuous operation.

Use of regenerative energies: drawing on nature's resources. Wind, water, sun: we systematically explore new ways of approaching zero emissions through the use of regenerative energy forms. We are members of the European Business Council for Sustainable Energy (e⁵); this European-wide network is committed to climate protection and promotes alternative energies and energy efficiency. For a number of years, our Group has been using photovoltaic installations all over Germany. With a total output of 156,000 kWp, these installations supply energy to the technical systems in our networks and feed eco-friendly electricity into the public grid.

Renewables 2004: conference on renewable energies. The International Conference on Renewable Energies (Renewables 2004) was staged in Bonn in June 2004. The Federal Government hoped that this conference would promote the global use of renewable energies. Deutsche Telekom supported the event in several ways, including a year-long cooperation in the International Steering Committee, and making contributions to the conference on energy efficiency and use of renewable energies in practice.

Supporting initiatives to reduce CO₂ emissions: sustainable production for a better climate. Deutsche Telekom searches relentlessly for ways of further improving the Group's environmental performance and raising society's awareness of how its resources are used. For years, we have been campaigning for the resolute implementation of the Kyoto Protocol, an international agreement on the reduction of CO₂ emissions. We believe that emissions trading offers a

Deutsche Telekom's energy consumption compared to CO₂ trends in Germany

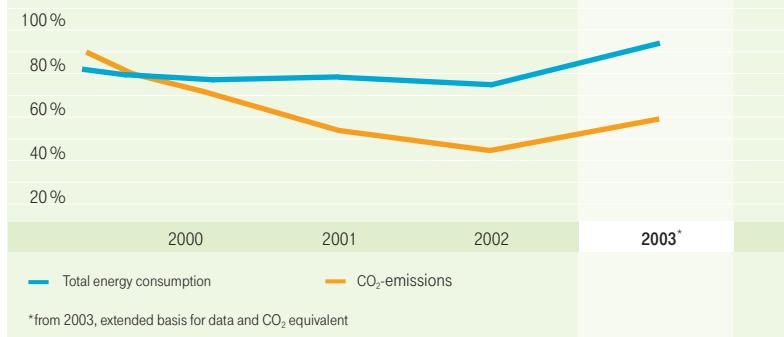
Based on 1995, CO₂ emissions in millions of tonnes (t), energy consumption in GWh

| | 1995 | 2000 | 2001 | 2002 | 2003 |
|----------------------------|-------|-------|-------|-------|-------|
| Total energy consumption* | 4,232 | 3,322 | 3,419 | 3,149 | 3,884 |
| | 100 % | 78 % | 81 % | 74 % | 92 % |
| CO ₂ emissions* | 2.15 | 1.59 | 1.24 | 0.96 | 1.22 |
| | 100 % | 74 % | 58 % | 45 % | 57 % |

*from 2003, extended basis for data and CO₂ equivalent

Deutsche Telekom's energy consumption compared to CO₂ trends in Germany

Based on 1995, CO₂ emissions in percent, energy consumption in percent



*from 2003, extended basis for data and CO₂ equivalent

significant opportunity for reducing CO₂ emissions, and we were actively involved in the "Hesse Tender" pilot project in 2003, which was designed to test trading of CO₂ emissions in Germany under real market conditions.

Further information:

- www.deteimmobilien.de
- www.emissions.de

“Using resources efficiently is particularly important to me.”

Waste management.

Avoid – reuse – recycle.

- Total waste volume: potential for reduction largely exhausted
- Return and recycling of waste: a tried-and-proven system in Germany
- WEEE Directive: preparations running at full tilt

In the interest of sustainable production, Deutsche Telekom practices comprehensive waste management, beginning with the purchase of new products and extending right through to high-quality ecological recycling.

Total waste volume: further reduction achieved in 2003. 2003 saw a continuation of the positive trend of recent years. Although the 20 percent reduction in total waste volume may sound substantial, closer analysis reveals that it is primarily attributable to the fact that the dismantling of old technology, which had created large volumes of waste in previous years, is now largely complete. Overall, it can be said that the potential for further major reductions in waste volume has almost been exhausted.

Recovery and recycling of waste materials: relying on both proven and innovative systems. In our German Group units, the various categories of waste, such as packaging materials, paper and biowaste, are collected and re-

cycled separately. Technical waste such as office communications equipment, cables, switching and transmission equipment is recycled in close collaboration with certified waste disposal specialists. On a Group-wide basis we achieved a recycling quota of approximately 86 percent in 2003. We in Germany benefit from decades of experience with the return of end-of-life equipment. For many years, our affiliate "Electrocycling Goslar GmbH" has been responsible for processing used terminal equipment and preparing it either for reuse or expert recycling – the latter with a recovery ratio of 95 percent. In 2003, some one million handsets were returned by consumers to our T-Punkt shops.

Throughout all European T-Mobile companies, accepting the free return of used mobile phones from consumers has evolved into a key environmental issue. Here too, we consistently adopt the principle of "reuse over recycling". We were the first mobile phone network operator in Germany to accept used handsets as part payment, subject to compliance with certain conditions, in collaboration with our logistical partner Greener Solutions GmbH. By the end of 2004, some 22,700 handsets had been accepted for return, around 39.6 percent of which were reused. The handsets are inspected, repaired and reused, or the materials recovered and recycled. For every mobile phone handset that is returned without the customer receiving compensation, T-Mobile Deutschland additionally donates five euros to the environmental charity Deutsche Umwelthilfe.

European Directive on waste electrical and electronic equipment (WEEE). With effect from August 2005, all manufacturers will be obligated by law to accept the return of waste equipment. This will be collected by the public waste disposal agencies at no charge to the consumer. Our European companies are systematically preparing for the implementation of WEEE.



“Volleyball lets everyone contribute
their own particular

Mobility and facilities management. Making a difference on a large scale.

- Vehicle fleet: falling fuel consumption, pressing ahead with eco-friendly technology
- Facilities management: minimal land consumption and resource-conserving energy use

Our mobility and facilities management has adopted a wide range of measures to optimize the use of resources throughout the Group.

Vehicle fleet: getting ahead with innovative ideas.

DeTeFleetServices GmbH, the mobility services provider for Deutsche Telekom, operates the second-largest corporate fleet in Germany, with some 40,000 vehicles, and makes energy-saving measures a priority. Take T-Com, for example. With around 28,000 vehicles, T-Com is the largest fleet user in the Group. Eco-driving courses have helped it to achieve substantial fuel savings since 2002. In 2003, training employees in fuel-conserving driving practices helped to reduce fuel consumption by 328,000 liters and carbon dioxide emissions by 860 tonnes.

The option of converting the vehicle fleet to innovative technology also offers major potential. Since mid-2004 T-Com has been involved in DaimlerChrysler's long-term trials of fuel cell-powered vehicles, which run on emission-free hydrogen over short distances. As part of its commitment to becoming an ecological fleet, DeTeFleetServices wholeheartedly supports the use of soot particle filters in diesel vehicles. For this reason, from 2004 onwards all diesel vehicles purchased will be equipped with soot particle filters provided that this is offered by the manufacturer. In addition, a further 300 natural gas powered vehicles are to be added to the 100 or more already in use by mid-2005. We are also investigating the option of using alternative drives

and fuels. Since the early nineties, our employees have been able to purchase subsidized season tickets for use on public transport. Several thousand employees throughout Germany have taken advantage of this offer. The subsidized season ticket, coupled with the growing popularity of car pools, is helping to reduce emissions from road traffic and the demand for parking spaces, which would otherwise contribute to land sealing at our sites.

Facilities management: innovative concepts. As part of our successful efforts to reduce Deutsche Telekom's debt, we have consistently improved building and facility management within the Group over the past two years. Our space requirements have been optimized, and any real estate vacated has either been rented out externally or sold. At the same time, our real estate strategy helps to reduce building space requirements.

The resource-conserving supply of heat and energy to buildings is the second pillar of our sustainable facilities management strategy. One topical example is the T-Mobile Campus in Bonn, where around 4,800 employees work. The energy concept is based on a gas-powered district heating power station combined with an absorption refrigeration plant and groundwater cooling. With more than 90 percent efficiency, the cogeneration plant cuts carbon dioxide emissions by 5,570 tonnes per annum and nitrous oxide emissions by 4,580 tonnes per annum. This is the equivalent of 2.2 million liters of fuel oil.

Further information:

- www.t-mobile.de
- www.detefleetservices.de

skills.”



Electromagnetic fields. Reconciling consumer protection with pioneering technology.

- Promoting scientific research in Germany and the UK: sums in the double-figure millions
- Electromagnetic fields policy: high standards at T-Mobile for information and dialog on mobile communications and health

Mobile communications and health is a top priority for Deutsche Telekom and its subsidiary T-Mobile. We take the general public's concerns about the potential health impacts of electromagnetic fields (EMF) very seriously, and are engaged in a dialog with the government and society, as well as promoting research into the potential risks.

“Despite residual uncertainty, the WHO now believes it unlikely that EMF poses a serious health risk.”

(WHO) as well as the British, Dutch and German radiation protection and health agencies among others, is that there are no known health risks, provided the limits are not exceeded. Despite residual uncertainty, the WHO now believes it unlikely that EMF poses a health risk.

Research promotion: technology constantly under scrutiny. In order to ensure that we remain at the cutting edge of research and technology, T-Mobile funds a range of research work, including studies to investigate the potential impacts on man and the environment of modern radio technologies such as UMTS. In addition, we actively seek dialog with recognized independent researchers and institutes, including the German Research Association for Radio Appli-

cations (FGF) and the Darmstadt Institute for Applied Ecology, which is known for its critical stance on mobile communications.

We have joined forces with other network operators in Germany and made a voluntary commitment to provide € 8.5 million between 2002 and 2005. This is supplemented by € 8.5 million from the German government and € 4 million from the German Research Association for Radio Applications to which network operators in Germany also contribute. In the UK, we have joined with other network operators to provide € 11 million between 2002 and 2006 for independent research programs lasting several years. In addition, we also donate € 1.5 million toward extensive emission measurements in Germany.

Health & electromagnetic fields policy: encouraging intensive dialog with all parties. Last year, a common strategy and minimum standards were developed at T-Mobile for addressing mobile communications and health-related issues together with the corporate areas concerned. In March 2004, the Board of Management of T-Mobile International AG & Co. KG introduced this EMF policy as binding for the T-Mobile Group in Europe, and implementation is currently under way.

We have voluntarily promised to uphold the ten recommendations contained in the policy (see page 49). Key points include transparency of the company, information for all affected parties, cooperation with the local authorities and the promotion of research. The policy ensures that T-Mobile observes high standards for dealing effectively and efficiently with EMF issues throughout Europe, despite the varying statutory and social requirements of individual countries. We far exceed the statutory requirements stipulated by national law.

In the interest of integrity, which is part of our corporate vision and values “T-Spirit” and our Group sustainability strategy, the EMF policy helps to raise acceptance of mobile communications and its infrastructure and encourages an open dialog with all parties involved – users, local



“Clarification is the quickest

residents in the neighborhood of base stations, scientists and decision-makers. Many of the voluntary national agreements on EMF already concluded by T-Mobile even go one step further than the EMF policy and help to put it into practice.

Wording of the ten recommendations of the EMF policy:

Transparency

1. T-Mobile has established internal responsibilities and workflows for the management of complaints and enquiries about technology and health and related issues.

2. T-Mobile is aware of the public interest in mobile communications. For full transparency, T-Mobile supports the idea of national databases of base stations including all other sources of EMF emissions.

3. All of T-Mobile's base stations comply with the national exposure guidelines as well as with the guidelines of the International Commission on Non-Ionizing Radiation Protection. In order to improve transparency, T-Mobile provides for each base station a declaration of compliance.

Information

4. To address the general public, T-Mobile pursues a proactive communications strategy and is striving for cooperation with all stakeholders. Also, T-Mobile encourages public authorities on all levels to cooperate with the mobile industry and to set up their own programs in order to inform the public.

5. T-Mobile provides its customers the manufacturers' information on SAR values of the handsets on sale, both on its Web sites and in T-Mobile's points of sale.

Participation

6. T-Mobile cooperates with local authorities in dealing with enquiries from their citizens in relation to network development and base station siting. In order to assist local authorities, T-Mobile offers all relevant information of our networks.

7. T-Mobile aspires to a cooperative relationship with local authorities. It is our objective to find agreement with local authorities on siting of base stations wherever possible.

8. T-Mobile aims to minimize the visual impact of base stations and the impact of the whole network on landscape and townscape.

Promotion of science

9. T-Mobile fully supports the improvement of scientific knowledge on public health impacts through EMF and is contributing to independent research programs.

10. T-Mobile strongly believes limit values for EMF exposure should be based on substantiated research and kept under constant review. Furthermore, T-Mobile undertakes its own evaluation of the most recent scientific findings.

Further information:

- www.t-mobile.net/corporate-responsibility
- www.regtp.de
- www.senderkataster.at
- www.sitefinder.radio.gov.uk
- www.euro.who.int

way to allay fears.”



Dematerialization.

Great prospects for sustainability.

- Telecommunications: alternatives to travel
- Travel management: conserving resources
- Sustainable services: T-NetBox and online billing

The more efficient our society as a whole and Deutsche Telekom use resources, the more we will be able to sustain our future. We contribute to this with a host of internal measures as well as the ever-increasing variety of uses of our products and services.

Telecommunications: offering resource- and energy-efficient alternatives. Telephone or videoconferences instead of business trips, electronic documents instead of paper forms, teleworking instead of commuting to work, online training courses instead of trips to the training center, applications via the Internet instead of visits to authorities: the possibilities of modern telecommunications help

reduce traffic and ecologically harmful CO₂ emissions. Remaining flows of traffic can be managed through intelligent parking guidance and navigation systems that save time and fuel provided that they do not

lead to increased demand from the user in other ways.

“Dematerialization is based on a powerful network infrastructure.”

Travel management: fewer business trips, lower paper consumption. Thanks to travel management in our Group, the number of business trips at Deutsche Telekom fell by around nine percent in 2003. Many trips were replaced by videoconferences. In addition, more and more electronic handling of workflows in travel management lowers paper consumption – 100,000 sheets were saved from December 2003 to March 2004 alone. The next step will see us implement an intranet-based concept for approval and booking of trips through to archiving travel expense accounting. The aim is to save on approval forms for more than half a million business trips as well as around two million pieces of paper for archiving via electronic workflow (see page 36).

T-Net Box and online billing: services that conserve resources. The T-NetBox is an example of how our services increase the efficiency of resources: as a virtual storage unit, the box replaces the ubiquitous answering machine, stores – as an option – incoming fax messages and together with the Unified Messaging Service becomes the communications hub for e-mails, calls, faxes and text messages. A report by the Freiburg Institute for Applied Ecology confirms that the T-NetBox shows clear benefits in an ecological comparison with a separate answering machine.

This also goes for online billing. It offers T-Com and T-Mobile customers not only numerous premium features, but also a crucial advantage in resource usage: billing data arrive electronically instead of on paper. At present, around 3 million T-Com customers use the online bill. This is approximately 7.5 percent of all customers and is to be increased to 10 million customers by 2010. This paperless alternative to the conventional telephone bill saves 618 tonnes of paper each year, provided that customers do not print their bills themselves.

Further information:

- www.t-com.de
- www.oeko.de



“Recycling and

The relevance of sustainability. Looking to the future.

- The Sustainability Compass: a tool for testing products and services
- Climate impact research project: the prospective benefits of telecommunications for sustainability
- T-Mobile: 3G Greenbook Initiative for global codes of development and conduct

Deutsche Telekom strives to develop products and services that help to permanently reduce resource consumption. A range of targeted measures has already been taken, and a number of initiatives launched.

Sustainability Compass: catalog of questions on sustainability. The Sustainability Compass (SC), a PC-based tool, enables us to gauge how sustainable our products and services are for the environment and society. This primarily applies to applications – such as telemedicine, videoconferencing and Internet portals – and the associated product modules, such as T-Net, T-DSL and mobile communications. The SC tool helps us to pinpoint which elements strengthen or weaken our potential contribution to sustainability and can thus be used to improve existing products and services. Following the principle that prevention is better than cure, we will, in the future, always assess the potential impact of new products, services and business models being developed.

Potsdam Institute for Climate Impact Research: the opportunities and limits of telecommunications. One of telecommunications' main contributions to a sustainable society is its ability to replace the real transport of merchandise and other business transactions with the direct ex-

change of information, or to coordinate such transactions more effectively with a view to resource conservation. In 2003, in partnership with the Potsdam Institute for Climate Impact Research, we examined the potential CO₂ savings that could be achieved through the use of videoconferencing in companies. We are currently expecting an emission savings potential of approx. 10 percent for business trips.

T-Mobile: 3G Greenbook Initiative encourages joint efforts by mobile network operators. In collaboration with the Fraunhofer Institute for Reliability and Microintegration and the GSM Association, T-Mobile was a coinitiator of the 3G Greenbook Initiative, designed to exploit untapped potential in the mobile communications segment. The idea is that mobile communications companies should agree on uniform, strategically binding codes of development and conduct for the entire mobile communications system. The installation, operation and decommissioning of all equipment in such systems is to be organized in the most environmentally friendly way possible. Other solutions currently being drafted as part of the 3G Greenbook Initiative include the protection of minors, transparency of rates, protection from undesirable content and additional access opportunities for marginalized groups.

“The possibilities offered by modern technology can help reduce traffic and environmentally harmful CO₂ emissions.”

Further information:

- www.globalnature.org
- www.european-climate-forum.net

sorting waste are also important in my private life.”

“No man is an island.”

Susanne Scharnagl takes responsibility for herself and for others – in her private life, in her voluntary work and in her job in Business Management at T-Com.



Scharnagl is not one to sit back and do nothing. Or as she puts it, “I don’t subscribe to the ‘couldn’t-care-less’ attitude.” Scharnagl, a “naturalized Bavarian,” has a special compassion for the weakest members of society. For years, the 43-year-old, who specializes in marketing, sales, business management and planning at the T-Com Headquarters, has given up her free time to care for the elderly and disabled. “This commitment not only gives great personal satisfaction to the volunteers themselves,” explains the mother of two grown-up children, “but is also becoming ever more vital in society, because government resources for this type of care are dwindling.”

Even as a teenager, Scharnagl was driven by the need to “do something”. At the age of 16, she started putting other children through their paces as a trainer in various sports clubs (she herself has played sport in a club since the age of six). “I realized early on that I enjoy doing things for other people, helping to shape their development and passing on my own positive experiences – the knowledge, the tolerance, the ability to deal with people.”

Married since 1981, Scharnagl was a sports delegate at the municipal, district and regional levels in Bayreuth, the town where she embarked upon her professional career at Deutsche Bundespost in 1979. As well as working for what was then the local telecommunications office in Bayreuth, she also passed the entrance exam to the civil service, graduated with a degree in business management, and attended a number of advanced training courses in the areas of quality and environmental management.

In 1996, her office underwent restructuring to become the Bayreuth Networks Branch Office. In 1997, this was selected as a pilot branch office and to act as a nationwide model for the integration of environmental and quality management. As Environmental Officer for the Bayreuth/Weiden/Regensburg district, Scharnagl played a key role in implementing the new structures.

“As a team, we developed our knowledge and passed it on,” recalls Scharnagl. This was achieved initially via audits, train-

“I derive



ing courses and documentation for colleagues in the branch office, and later at branch offices nationwide in the form of environmental and EFQM reports as well as training courses, so that all colleagues were able to benefit from the team's certification-related experiences wherever possible.

"If we all pull together, we can achieve something," is Scharnagl's personal conviction. Her professional experience from that era also extends to her private life: "Being environmentally aware about what I buy, cutting gas consumption when I drive, avoiding waste and disposing of it correctly – I have learned a great deal about all of those things, and have passed this knowledge on to my children. Ultimately, sustainability is all about role models, particularly within the family."

In this respect her private life, job and voluntary work have long been closely intertwined. For example, when she visited Japan for the first time in 1998 as a representative of the German Sports Federation's youth organization, she recalls: "Although development was still in its infancy, there was a keen interest in environmental issues in Japan. The obvious thing was to arrange an exchange visit to Bayreuth incorporating a visit to the Networks Branch Office." The Japanese delegation made their return visit one year later.

Since early 2000, Scharnagl has been working at the Bonn headquarters of Deutsche Telekom, where she currently provides support to the Management Board member for Marketing and Sales at T-Com on issues of strategic positioning and operative business management as well as coordi-

nation and validation of business-relevant information and processes. This new career challenge does have its downside, however, in the form of a weekly commute between her job in Bonn and her family in Bayreuth. "The commuting can be quite tiring, and leaves little spare time for other activities." Despite the many demands on her time, however, she is determined not to give up her voluntary work. "I get so much out of it – not just gratitude from the people I help, but also a surge of energy for my own development." When she really wants to relax, she prefers to be outdoors, either in her own garden or hiking in the mountains. "I love the simple life and I delight in nature, especially as a counterbalance to the rest of my life." However, while she may seek peace and quiet away from the office, the tangents are inescapable: "By communing with nature, I am reminded that each and every one of us is responsible for ensuring that the earth is carefully preserved for ourselves and our children to enjoy."

Every Monday morning, Susanne Scharnagl returns to work in Bonn with this awareness fresh in her mind, coupled with a keen ability to see the "bigger picture". "A major part of my job involves collating and coordinating information." Operative business management entails coordinating cross-sectoral processes. "My work is a reflection of everything I consciously practice in my private life: combining things to the best of my ability."

pleasure

from helping others."



Giving inspiration for new ideas.

We promote progress in society.



Products for the future. Services for a better quality of life.

- eGovernment: efficient administrative processes, enhanced service quality
- eHealth: bundled information, better treatments, lower costs
- Mobility and flexibility: professional and personal solutions
- Outlook: services and products for a better future

With innovative, sustainable products and services, we want to contribute to a sustainable society: for a better quality of human life without side effects for the environment and society. Our broadband initiative and the integration of networks – for example T-Mobile Multimedia (TM3) – will enable new products and services in the future. We are also keeping a close eye on demographic developments in society, as these will affect the design of our products and services.

eGovernment for people-friendly and efficient administrative processes. T-Systems, which is taking care of our key accounts and systems customers, is one of the leading providers of solutions for electronic government. T-Systems has realized a wealth of landmark projects at the

national and regional levels, and they all had the same objectives: to reduce the costs of administrative processes and give public budgets new scope for future action, while at the same time improving services for citizens and companies. To this end, T-Systems initiated a pioneering

project together with the state of Baden-Württemberg that achieved a crucial milestone in 2004: the 1,200-odd authorities in this state are now all connected to an SAP-based budget management system. Processes from the private enterprise sector, the so-called "New control instruments", have been integrated into the administrative work as an

important prerequisite for optimizing services for people and increasing efficiency. Since October 2003 it has been possible to contact local authorities at the joint citizens' portal (www.service-bw.de).

Another example of much improved administrative processes is the Municipal Data Network (KDN) which Deutsche Telekom has set up for the state of Saxony. The Saxon eGovernment platform ensures fast exchange of digital information between authorities and speeds up processes. The multiple collection of data is now a thing of the past, cooperation between authorities has improved and the quality of services for people, commerce and industry is on the increase.

eHealth for cost savings in an ageing society. Health care needs to be improved further and at the same time, costs must be reduced: against the background of the demographic trend in Germany, health-related products and services are gaining importance. A seamless information flow – for instance diagnostic data between physicians treating patients – avoids expensive multiple examinations and is the prerequisite for increasing the quality of care and lowering costs.

Innovative eHealth applications by Deutsche Telekom: with the "Emergency Medical Pad" developed by T-Systems, emergency doctors can transfer vital patient data while on the move and thus put emergency care on a whole new footing. Older, disabled or ill people also benefit from our services: our fast Internet connections enable access to important information and make contact with the outside world easier. For the chronically ill, T-Com and T-Systems are currently developing the Disease Management Program (eDMP).

Learning, living and working: solutions for greater convenience and flexibility. Deutsche Telekom has been using eLearning applications since 1985 for in-company training and skills development. Training via the PC is a convenient, economical and environmentally friendly alternative to conventional education forms and methods.



"Pulling in the same direction

is the secret behind a successful

We are also making our know-how in this area available to our customers. Consistent use of modern telecommunications instead of passenger transport: this environmentally friendly development is reflected not only in the growing number of eLearning solutions or the increasing use of videoconferences in everyday work. Teleconferences – whether instead of business trips or privately – also ensure direct personal exchange and reduce the drain on resources: They save unnecessary journeys and reduce energy needs.

Innovations in the area of telecommunications shape our daily lives more and more: networked learning has now become part of everyday life in many German schools, not least thanks to Deutsche Telekom's far-reaching commitment. In the city of Bremerhaven, for instance, all 40 schools are networked via a central education platform with the help of T-Com. This platform enables students to easily access teaching material both at school and at home.

For a better future: prospects for future products and developments. User friendliness and a seamless data flow are two aspects to be considered when improving existing products and services and developing new ones with a view to increasing sustainability. Such products and services will also be used more and more in the private domain, for example for technical building installations: via telecommunications, users will be able to control heating systems in private homes to optimize the use of energy.

T-Com is planning to build a show house in Berlin in order to demonstrate how tomorrow's world might look.

We are also keeping an eye on pathbreaking technology visions, for example "pervasive communication". Microelectronics, network and mobile phone technology equipped with sensors merge to form "smart objects" – intelligent, addressable everyday objects (clothing, consumer goods, cars) that are able to communicate across platforms and adapt to their environment perfectly: "Everything talks." However, technology visions can also entail risks. It is our job to identify and analyze these at an early stage. New

services allowing greater mobility are becoming a reality in the health-care area. Infotainment while on the move, improved product information and the measurement of environmental data for logistics processes (for example in a cooling chain) are now all conceivable. A future challenge will be to discuss with society where and how this type of communication between devices and machines is to take shape.

"We have been using eLearning applications since 1985 for in-company training and skills development."

Further information:

- www.service-bw.de
- www.competence-site.de

project."



Innovation.

The driving force behind a sustainable economy and society.

- Innovation fields: four customer-centered strategic areas
- Research and development: more than € 900 million invested in the products of the future
- Partnerships: university link-ups for the knowledge of tomorrow
- Knowledge management: cutting-edge expertise and exchange of ideas

Innovation creates growth for Deutsche Telekom: it gives rise to new business areas, products and services. At the same time, innovation improves existing products and services – also in terms of sustainability.

Innovation initiative: part of Agenda 2004. To drive forward and manage our innovation campaign efficiently, we have established suitable forms of organization, tools and programs. These are geared to optimum customer benefits and centered around four strategic fields of innovation ("4i"):

- **Intuitive usability:** enhanced usability of terminals, services and network functions
- **Intelligent access:** network-driven interoperability between services and terminals
- **Integrated communication:** linking the physical with the digital world
- **Infrastructure development:** cutting-edge technology for our infrastructure

The innovation initiative is being coordinated by our central Innovation unit as part of "Agenda 2004".

Research and development: more than 400 new patents. In 2003, we invested approx. € 900 million in re-

search and development (R&D). In the Group, around 6,400 employees work on developing and designing new products and services. We received 402 new patents in 2003, expanding our portfolio of industrial property to a total of 5,282 by the end of 2003. The broadband fixed network is one focal point of our R&D activities as it offers considerable growth prospects.

Research link-ups and knowledge management: supporting technical and social developments. We maintain contact with numerous national and international universities. We dovetail scientific work and entrepreneurial commitment by clustering a significant part of our research and development activities in a cooperation with the Technical University of Berlin and its partner universities. We are setting up our own institute, the Deutsche Telekom Innovation Center, on the university's campus. It is part of both Deutsche Telekom's innovation work and the scientific research at Berlin Technical University. Around 25 top researchers from Deutsche Telekom are working at the institute on projects from our four innovation fields in close cooperation with around 50 scientists from leading universities around the world. In addition, we are the only German company to have its own state-recognized university, the Deutsche Telekom University of Applied Sciences in Leipzig, with a focus on communication engineering.

One aim of our sustainable-driven innovation is to assess the impact of our actions in good time and evaluate new products and services at the earliest possible stages of development. That is why we are also cooperating with renowned scientific institutions like the Fraunhofer Institute for Reliability and Microintegration and the Potsdam Institute for Climate Impact Research (see page 51).

Further information:

- www.fh-telekom-leipzig.de
- www.telekom.de ■ Company ■ Corporate profile



Customer orientation. The yardstick of our corporate success.

- Products and services: a customized portfolio
- Quality and service: dialog with the customer
- Data protection and privacy: initiatives for high company-wide standards

In addition to "hard" criteria such as EBITDA and operating free cash flow, "soft" factors like quality and the extent of customer orientation are also important yardsticks of corporate success. These are the distinguishing features of our products and services, and set us apart from our competitors. In our on-going efforts to optimize our customer orientation, we have created Group-wide quality projects as part of our "Agenda 2004".

Outstanding products and services: user-friendly, efficient, customer-centered. Our products and services should offer the maximum possible useful value for our customers, as well as being easy to use. Our innovations strategy ("4i", see page 58) and sustainable product development are geared to these principles. T-Mobile has set out to become the "market leader of simplicity" in its market segment. In 2004, T-Systems received the Billing Award for the "Best billing implementation in the telecommunications industry". Its "IP Services" billing system smoothly processes some 40 million invoices from a total of well over 20,000 different products and prices. Meanwhile, T-Com has received the "red dot design award", one of the world's most respected design prizes, for its business customer Internet portal.

CeBIT and the launch of our business customer initiative: fostering customer proximity. As a Group, we actively seek contact with our business and residential customers. We use CeBIT as a barometer of what customers want. Visitors to the 2004 trade fair were particularly interested in the new

products offered as part of our broadband campaign. Under the motto "help shape the future through dialog", the "TelekomForum" – our user association of large corporations – has its say in the design and development of the products and services offered by Deutsche Telekom. In order to maximize the benefits for our business customers, we have decided to combine the strengths of T-Com and T-Systems. As part of "Agenda 2004", joint sales activities will mark the launch of our business customer initiative.

Quality and service: improved performance through better customer contact. When it comes to service, we are firm believers in close customer contact. As part of the quality project "Perform+", T-Com has taken steps to shorten the waiting times for new telephone connections and improve its complaints management processes. T-Mobile has received a host of awards for its service quality. For example, the consumer organization Stiftung Warentest rated T-Mobile's mobile phone repair service as "very good" in June 2004.

"Stable customer relationships are indispensable for sustainable business development and economic success."

Data protection and privacy: high consumer protection standards. Deutsche Telekom is extensively involved in measures aimed at better protection for young people, for example – with the pre-paid card – from getting into debt or from questionable Internet content. These include membership of the Voluntary Self-Control for Multimedia Service Providers and Value-Added Telephone Services and compliance with the ICRA standard for Internet content. Our "Privacy Code of Conduct" aims to ensure high levels of data protection throughout the Group, even outside of the European Union, on a par with German standards.

Further information:

- www.telekomforum.de

"Sustainability for us means being
passionate
about our customers."

Corporate Citizenship. Cooperation, community spirit, dialog.

- Sponsoring; commitment to social issues, culture and sport
- Corporate volunteering: personal involvement of our staff
- Deutsche Telekom Foundation: creating a climate of innovation and encouraging performance
- Sports sponsoring: for the teams of today and the talent of tomorrow

Deutsche Telekom feels committed to the community. We understand and practice corporate social responsibility as a part of sustainability. It is our voluntary contribution to the social and ecological make-up of our society in the interests of all our stakeholders. This contribution that we and our staff make as part of society can be described as Corporate Citizenship, which we understand to include cooperation, community spirit, dialog and encouraging involvement. The way we see ourselves is reflected in numerous activities: in social, cultural and sports sponsoring, in donations and a wealth of initiatives, for example to bridge the digital divide.

Sponsoring: responsibility and support. We support initiatives, contribute to projects and assume sponsorships. Here are a few examples of our involvement:

- **T@School (approx. € 120 million since its inception).** More than 35,000 schools in Germany are equipped with free Internet access, with around 25,000 of them boasting a broadband T-DSL connection. Around 46,000 teachers have already been taught how to use the Internet and more than 20,000 PCs set up. What is more, Deutsche Telekom is developing innovative services and sustainable concepts with the Federal Ministry for Education and Research for using the Internet at school as part of the "Schools Online" project.

- Subsidized rates (approx. € 78 million a year). Around 1.2 million low-income or disabled persons currently use our telecommunications services at reduced rates, an offer which is unique throughout Germany.
- **Crisis counseling helpline (approx. € 2.6 million a year).** Deutsche Telekom can look back on a long-standing partnership with Christian churches. We pay the entire call costs for free telephone counseling. Our employees run the hotline on a voluntary basis.
- **"Children for a better World".** T-Online sponsors one of the organization's projects, a youth club in Cologne.
- **Communication museums.** The Museum Foundation for Posts and Telecommunications financed by Deutsche Telekom and Deutsche Post runs Communication Museums in Berlin, Frankfurt, Hamburg and Nuremberg as well as the Philately Archive in Bonn.
- **Matáv** supports individuals and institutions in Hungary through donations, subsidized/free services and sponsorships. It has been honored for its charitable activities for the second time this year, receiving the "2003 Corporate Donor of the Year Award".

Corporate volunteering: personal involvement of our employees. Voluntary work has now become an important way of actively shaping the working world, squaring professional reorientation with social duties.

Deutsche Telekom has a long tradition of volunteering. One example of our corporate volunteering is our helpline for children and young people. We donate around € 2 million a year and have been supporting the project since 1991.

In 2001, all of our employees were called upon for the first time to volunteer as helpers on this helpline. Around 270 employees answered this appeal. A further appeal for counseling via e-mail was launched this year on our corporate intranet: after one month, 170 interested employees had already signed up.

"Communication is the key
to successful

teamwork."

Deutsche Telekom Foundation: improving the social climate for technology, research and education.

The Deutsche Telekom Foundation, newly founded in February 2004, aims to promote education, research and technology in Germany as a means of encouraging European integration and to help shape the development of a networked knowledge and information society at the national and international levels. The Foundation encourages technological development in Germany and makes a significant contribution to fostering a climate of innovation. In order to continue creating innovative products and services in the future, Germany is reliant on a high standard of education and well-trained people. The Foundation's project work therefore focuses on improving mathematical, scientific and technical education in nurseries, pre-schools and elementary schools through to secondary schools, colleges and universities in order to lay a broad foundation for continuous excellence. At the school level, the emphasis is placed on gaining students' interest and enthusiasm for science and technology. At the university level, the Deutsche Telekom Foundation is committed to cultivating excellence with the active support of professors endowed by the Deutsche Telekom Foundation.

Commitment to sports: long-term and continuous support of up-and-coming talent.

We feel sports sponsoring to be much more than just a part of corporate communications. It is a dynamic process that safeguards the future of a sport and with it one's own commitment through the continuous support of up-and-coming talent. All of our sponsoring commitments have one important thing in common: they are designed for the long term and support team sports. Together, employees and athletes form Team Telekom. Our sponsorships include:

- Main sponsor of the German soccer club FC Bayern Munich since 2002
- Official partner of FIFA World Cup Germany 2006
- Main sponsor of the Team Telekom cycling team (since 1991) – T-Mobile Team since the start of 2004
- Main sponsor of the Telekom Baskets basketball team based in Bonn since 1993

- Main sponsor of the Team Telekom rowing team with the German eight, men's four, women's eight, women's two and U23 eight since 2002
- Main sponsor of Team T-Mobile Mountainbike since 2001
- Main sponsor of German Sailing Association since 2004

Further information:

- www.telekom.de ■ Company ■ Sponsoring



Memberships.

Facing up to our responsibilities as a corporate citizen.

- GeSI: sustainability along the entire production chain
- ETNO: telecommunications companies in a European dialog
- Global Compact: shared global principles

Deutsche Telekom is actively involved in more than 50 national and international initiatives. As corporate citizens, we initiate public/private partnerships designed to accelerate Germany's transformation to an information and knowledge society. Our social commitment is an expression of our responsibility for promoting the sustainable development of society.

"We are committed to the ten Global Compact principles."

Global e-Sustainability Initiative (GeSI): sustainable standards extending to the supply chain. This initiative, founded in 2001, is on a mission to improve the global environmental situation and promote the development of sustainable technologies in the communications sector. Some of the world's leading IT and telecommunications companies, including Deutsche Telekom, are involved in GeSI. As part of our work with GeSI, we plan to evaluate all our suppliers and ensure sustainability effects at every stage of the production process, including the supply chain. This sustainable supply chain management is guided by the Social Charter and the Group Sustainability Strategy of Deutsche Telekom, and dictates our purchasing conduct.

European Telecommunication Network Operators Association (ETNO): sustainability in the European ICT industry. Deutsche Telekom is a member of the ETNO Executive Board and the Working Group "Sustainability" (formerly Environment). We were recently involved in a strategy team set up by this Working Group to upgrade the ETNO Environmental Charter into a Sustainability Charter. Thanks to its extensive activities and accumulated expertise, the Sustainability Working Group is a key point of contact for

the EU Commission and other EU decision-making bodies involved in sustainability-related issues in our industry.

Global Compact: standing up for human rights, social and environmental standards. "Global Compact", the initiative by UN Secretary-General Kofi Annan for a "Global Pact", aims to support and strengthen cooperation between the United Nations, industry and other social groups. It sets out ten principles relating to human rights, employment, social and environmental standards, and the fight against corruption, and calls on companies to incorporate these into their corporate policies. Deutsche Telekom upholds these principles and translates them into suitable projects. This includes recognizing that we have a special responsibility for our employees, as enshrined by our Social Charter adopted in 2003.

Other initiatives and associations we support or are actively involved in include UNESCO's international decade of "Education for Sustainable Development", the "European Business Council for Sustainable Energy" (e⁵), the Local Agenda 21, TOTAL-E-QUALITY Deutschland e. V. (which champions equal opportunities), the industry association BITKOM (German Association for Information Technology, Telecommunications and New Media) and MINT e.V. (which promotes centers of excellence in schools for mathematics and natural sciences).

Further information:

- www.unglobalcompact.org
- www.gesi.org
- www.baumev.de
- www.e5.org
- www.econsense.de
- www.bitkom.org
- www.mint-ec.de



“Social

The digital divide.

Access to information for growth, education and life-long learning.

- Initiative D21: developing Germany into a broadband nation
- “Internet access for all”: communication, information, education

Free access to modern information technology is regarded as a crucial factor for the economic development of a country. Yet despite a growing number of connections worldwide, “Internet access for all” is still a pipe dream in many places: 90 percent of all Internet users live in industrialized nations. One of the big challenges facing Deutsche Telekom in the future is to bridge this so-called digital divide between well served and less developed regions in Germany and Europe, between industrial and developing countries, and also between generations.

D21: promoting the knowledge society and Germany's economic future. We have been supporting the D21 project in Germany since 1999. The initiative launched by the Federal Government and the German economy aims to safeguard Germany's economic sustainability and future competitiveness. Fast Internet communication based on broadband technology plays a decisive role in this. With the broadband T-DSL connection, we make high-speed Internet communication available to large customer groups: around 4.7 million customers were using T-DSL in Germany by mid-2004. From a technical viewpoint, connections can in principle be provided to around 90 percent of all T-Com fixed network customers.

Going online: worldwide, irrespective of age and gender. The Internet is being used by ever broader strata of society in Germany. We support this process and, together with several partners, offer a host of Internet seminars nationwide for children, women, parents and senior citizens. We have also launched comparable projects in other countries, for example in Hungary and Slovakia: as part of the initiative “eSlovakia” and the associated project “PCs

for Schools”, we plan to provide free Internet accesses and the necessary hardware for Internet use to all 3,300 schools in the country by the year 2005.

Many of our foreign subsidiaries are located in eastern Europe. We feel particularly obliged to contribute to an economically viable extension of the infrastructure, access for as many social strata as possible and the transfer of knowledge

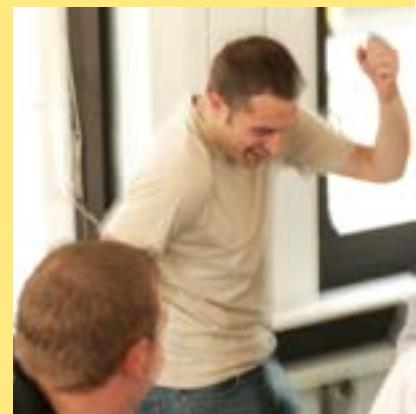
“Giving people access to modern information technology is the greatest challenge of our time.”

on how to use modern telecommunications technology.

Further information:

- www.initiatived21.de
- www.gendermainstreaming-it.de
- www.equal-de.de
- www.50plus.ans.netz.de
- www.frauen.ans.netz.de
- www.schulen.ans.netz.de

commitment
is an important responsibility
for companies.”



“We strive to increase quality of life for disabled people.”

HITS is a project in which Deutsche Telekom trainees have developed a communication center that overcomes barriers and promotes the integration of disabled persons in society.



One click of the computer mouse is all it takes – and Sascha is already connected to the Internet. Sascha lives in the Franz-Sales-Haus in Essen, a home for disabled persons. He has a favorite stamping-ground on the Internet: he's particularly enthralled by the pages of manufacturers of agricultural machinery. Sascha sometimes works on a farm; he regularly finds out about farm machinery via the Internet. For Sascha, Internet communication has become an important part of his everyday life: “The Internet has given me many new opportunities to get in touch with other people.”

A project run by Deutsche Telekom trainees smoothes the way to the Web for those living in the Franz-Sales-Haus. To prepare our trainees effectively for future tasks, the training concepts are firmly geared to practical professional life. The focus is on teaching key competencies such as project work and teamwork as well as the ability to organize autonomous, self-managed learning. One thing was certain for the team of 14 trainees and that was “that we wanted to do a project with a social significance,” says Theodor Wagner, the deputy project manager. During the search for a cooperation partner, our trainees came upon the Franz-Sales-Haus – the HITS project was born.

HITS – an acronym for “IT Systems for Disabled People”. Wagner: “We wanted to make the most of the opportunities offered by the Internet to support the integration of disabled persons in society.” The trainees built a high-performance network in the Franz-Sales-Haus and installed the computers necessary for Internet communication, not forgetting the important aspect of developing documents to train “their” customers. “Aside from introductory courses on how to use the Internet, we also taught the inhabitants the rudiments of computer programs like Word and PowerPoint,” says Maren Nowak-Schumacher, who had taken on the role of training manager in the project.

The disabled students' response to the dedicated work of our trainees was extremely positive. According to Nowak-Schumacher, “the disabled people were simply wonderful. They were so enthusiastic about our idea that we were motivated each day to work with and for them.” Besides

“Knowing that your work helps other people is the best



surfing the Net, e-mail communication is very important to the disabled persons. Electronic messages help them come into contact with other people quickly despite their disability. Setting up their own e-mail addresses and practical tests involving the sending and receiving of digital messages were therefore part of the training program devised by our trainees.

The success of the HITS project gives credence to the concept developed by these committed young people: the Internet café is now a permanent fixture at the Franz-Sales-Haus – exchanging e-mails and searching on the Internet are a regular feature in the lives of many disabled persons living there. And the Deutsche Telekom trainees also gained a lot from the project in many different ways: "Working with disabled people was certainly a big challenge for us, but these people have given us a lot in return with their open and appreciative manner," says Theodor Wagner. The 14 trainees received the Junior Team Award, a Deutsche Telekom internal award for excellent project teamwork during training, for their creativity as well as innovativeness and committed work in the HITS project.

Sustainability formed an important basis in the HITS project from the very beginning. Since the members of the founding team completed their training, a new group has now assumed responsibility for the project. The new

project manager Kai-Uwe Neumann and his fellow trainees are pursuing another innovative plan based on previous experience. In close cooperation with Deutsche Telekom's vocational training centers, the trainees are doing a unique project nationwide called "Joining forces". A high-performance Internet platform is planned to aid communication and information exchange as well as the mutual support of disabled and non-disabled persons. Centers and homes for the disabled can join together via the platform for an intensive information transfer to the benefit of the disabled. Kai-Uwe Neumann sums up the clear aim of the initiative: "We want to help people with disabilities and make sure that they feel a part of society."

motivation of all."



Staying on course.

We've got our eye on our target.



Performance indicators.

Benchmarks of sustainable production.

- Measuring sustainability: developing suitable indicators
- Sustainability ratings: good-to-excellent rankings
- Reporting: improving transparency every step of the way

Deutsche Telekom is committed to the transparent disclosure of its sustainability achievements. Our Group develops its own yardsticks to enable us to measure and compare target achievement levels.

Measuring sustainability: how did we do? All units in the Deutsche Telekom Group have applied the Group-wide sustainability strategy to their own business activities. Parallel to this, we have also drawn up sustainability indicators (see page 70) in order to

- review and benchmark our sustainability achievements on an ongoing basis and
- monitor implementation of our sustainability strategy.

Assessments: good scores in sustainability ratings.

Deutsche Telekom's environmental and social performance is ambitious and widely recognized, as verified by our good-to-excellent rankings in international sustainability ratings. Our Group's main strengths lie in climate protection, collaboration with stakeholders, and analyzing the sustainability

relevance of our products and services. Areas with potential for optimization include the comprehensive, Group-wide representation of social and ecological data, and scrutinizing our suppliers' social standards.

Our Group has consistently ranked among the top three telecommunications companies in the SAM (Sustainable Asset Management, Zurich) sustainability rating for many years. Compared to the previous year, Deutsche Telekom has moved up from third to second place. This puts us firmly in the super-league of telecommunications companies. We have also been listed six times consecutively in the Dow Jones Sustainability Index (DJSI) since its launch in 1999. In the sustainability ranking of Bank Sarasin (Basle) Deutsche Telekom was placed in the "sustainability leaders" category.

In a joint study on sustainable investments carried out by oekom research in Munich and Morgan Stanley in New York, Deutsche Telekom came in first in the telecommunications industry and T-Online in the Internet and software industry in November 2003. The T-Share has also become the most popular German share for sustainable European investment in numerous sustainability indices.

Reporting and dialog: cornerstones of our credibility.

As in previous years, we contacted stakeholders and asked for their feedback on the 2003 Human Resources and Sustainability Report. This has enabled us to give greater consideration to their requirements and improve our reporting in a targeted way (see page 21).

| Sustainability indicators |
|--|
| Economic indicators: 5 key indicators |
| Ecological indicators: 3 key indicators |
| Social indicators: 9 key indicators |
| Integrated indicators: 5 key indicators |



“A successful sportsman has to focus completely on his

Target achievement. Taking action to improve sustainability.

- T-Com: environmental and sustainability guidelines introduced
- T-Online: tools for responsible Internet use

All units at Deutsche Telekom have derived their own individual agendas from the Group-wide sustainability strategy. These are implemented autonomously and comprise a host of different measures and projects, which combine to form a binding sustainability program. Some of these are already complete, while others are still under development. Further measures will follow as part of the Group-wide change process. Due to the diversity and complexity of the program, we are not including a detailed specification of the measures and targets in this report. Instead, we will publish on the Internet brief descriptions of key measures that will push forward our development to a sustainable company.

T-Com: defining sustainable requirements. T-Com has developed environmental and sustainability guidelines which culminate in three core missions: Social innovation, ecological innovation and living corporate values. In its environmental and sustainability program, T-Com has specified a host of central and regional objectives and measures designed to accomplish these three missions. As well as taking steps aimed at resource efficiency and climate protection, T-Com is also planning to communicate the ecological and social benefits of its products and services more effectively to customers. In this way it hopes to promote the sustainable development of the knowledge and information society.

T-Online: accepting social responsibility. T-Online has formulated six focal points for implementing our Group Sustainability Strategy. These include promoting responsible handling of the Internet and actively shaping the development of eCommerce with our own business models as an opportunity for resource conservation.

Protecting young people: Ensuring selective access to suitable content. T-Online has implemented a host of measures designed to protect young people:

- Appointment of a youth protection officer to ensure that young people's interests are protected.
- Classification of all T-Online pages under the ICRA (Internet Content Rating Association) standard. This allows users to restrict access to content considered potentially harmful to young people (in conjunction with the freely available ICRA software or MS Internet Explorer).
- Protection from potentially harmful Web pages using child protection software offered as part of the special T-Online family package. The software provides access to more than 2 million Web pages that have been vetted by educationalists and deemed suitable for children aged 6 to 12, and also allows parents to set their own surf times and budgets.
- Development and introduction of an age verification system: The main user can apply individual age restrictions to each other user for selected T-Online content. This ensures that young people are only able to view content appropriate to their age and development status.

Resource conservation: Developing digital commodities. Trade via the Internet offers opportunities for more resource-efficient transactions. In the long term, the emerging market for digital commodities may help to sever the link between the consumption of goods and the depletion of resources. In this connection, T-Online launched platforms for the distribution of videos and music in 2003.

Further information:

- www.jugendschutzprogramm.de
- www.t-online.de/kids

goal."



Sustainability indicators.

| Economic indicators | |
|--|--|
| EBITDA (adjusted for special factors) | € 18.3 bill. |
| Free cash flow (before dividend payment) | € 8.3 bill. |
| Net income/(loss) | € 1.3 bill. |
| Net revenue | € 55.8 bill. |
| Number of sustainability indices/funds in which company shares are listed ^{5,6} | <p>T-Share: - 10 indices - 44 funds</p> <p>T-Online share: - 6 indices - 8 funds</p> |

| Ecological indicators | |
|---|-----------|
| Annual CO ₂ emissions relative to energy consumption ^{1,3} | 325 g/kWh |
| Annual Fleet Service CO ₂ emissions relative to mileage ¹ | 168 g/km |
| Percentage of waste recycled ⁵ | 86 % |

| Social indicators | |
|---|-----------------------|
| Employee commitment ^{2,7} | 7.0 |
| Percentage of women in managerial positions ^{2,4} | 8.6 % |
| Percentage of female employees ^{2,4} | 33.8 % |
| Percentage of disabled persons ^{2,4} | 6.3 % |
| Percentage of 25 largest suppliers that fulfill social criteria ^{5,9} | 100.0 % ¹⁰ |
| Trainee ratio ^{1,4} | 7.2 % |
| In-company further training expenses relative to total personnel costs ⁸ | 1.5 % |
| Percentage of part-time employees ^{2,4} | 12.4 % |
| Health rate ² | 93.8 % |

| Integrated indicators | |
|--|--------|
| Number of services identified with potential to contribute to sustainability ⁵ | 39 |
| Number of measures implemented to promote Global Compact ⁵ | 7 |
| Number of telework jobs ^{2,5,11} | 2,300 |
| Internal online training programs ² - registered users of Global Teach training platform | 40,974 |
| - participants in online training programs via the virtual classroom | 35,000 |
| Participants in "x online" schemes to overcome the digital divide ¹ | 47,978 |

Notes: figures are 2003 annual values for the Group – unless otherwise stated

1 ... for the Group throughout Germany

2 ... for Deutsche Telekom AG throughout Germany

3 ... for facilities managed by DeTelImmobilien

4 figures as per December 31, 2003

5 figures as per June 30, 2004

6 Indices and funds in German-speaking countries

7 TRI*M index on a scale of 2 to 10

8 Excluding travel expenses and working days lost

9 Basis: information provided by suppliers

10 With a 50% share in overall purchasing volume

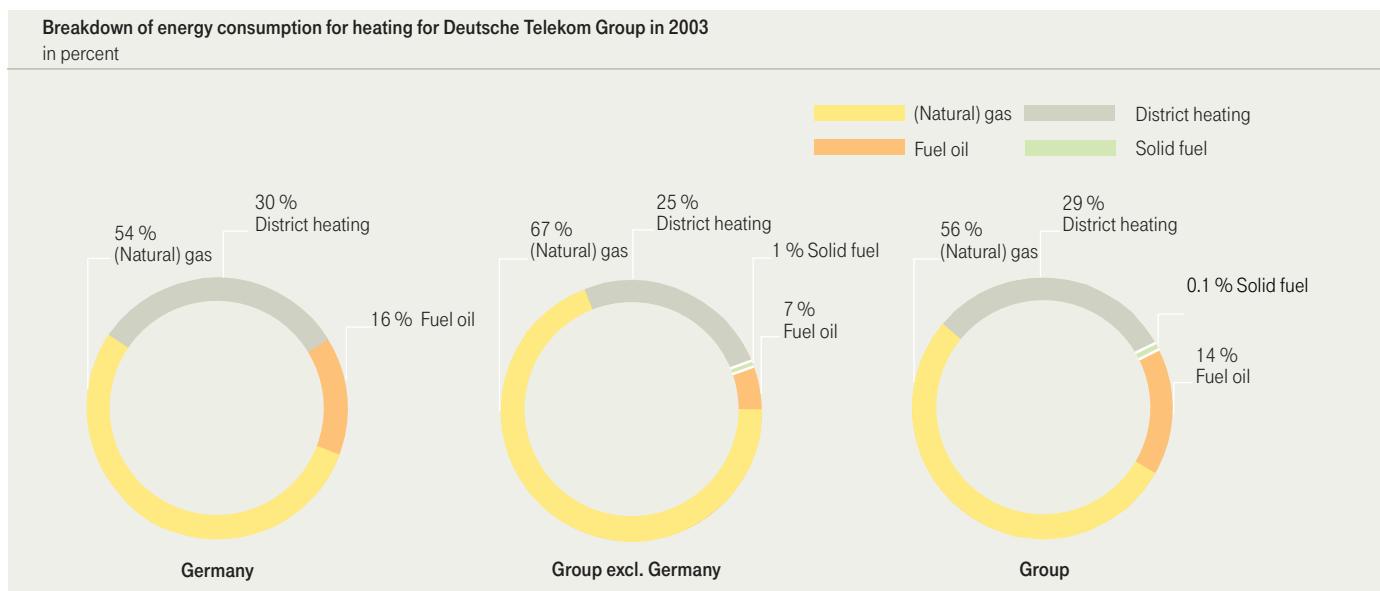
11 Alternating telework jobs, projection on the basis of incomplete figures



“I get a buzz from the combination of practical environmental protection and technical

Selected environmental data of the Deutsche Telekom Group.

| Energy consumption of Deutsche Telekom Group in 2003 in millions of kWh | | | |
|--|--------------------------|-------------------------|---------------------|
| | Total energy consumption | Electricity consumption | Heating consumption |
| Germany | 3,884 | 3,063 | 821 |
| Group excl. Germany | 640 | 426 | 214 |
| Entire Group | 4,524 | 3,489 | 1,035 |



| Energy consumption of Deutsche Telekom in Germany in millions of kWh | | | | |
|---|-------|-------|-------|-------|
| | 2000 | 2001 | 2002 | 2003 |
| Total energy consumption | 3,322 | 3,419 | 3,149 | 3,884 |
| Fossil energy consumption | 974 | 1,034 | 820 | 821* |
| Electricity consumption | 2,348 | 2,385 | 2,329 | 3,063 |
| Total energy consumption in % relative to 1995 | 78 | 81 | 74 | 91 |

* only heating

progress."



Selected environmental data of the Deutsche Telekom Group.

CO₂ equivalents from energy consumption of Deutsche Telekom in Germany*

in 1,000 tonnes (t)

| | 2000 | 2001 | 2002 | 2003 |
|----------------------------------|-------|-------|-------|-------|
| Total energy volume | 1,788 | 1,469 | 1,148 | 1,224 |
| of which | | | | |
| from electricity consumption | 1,487 | 1,148 | 894 | 1,008 |
| from direct fossil consumption** | 301 | 321 | 254 | 215 |

* DeTelImmobilien figures ** Heating, standby power systems, liquid gas

CO₂ equivalents from energy consumption of Deutsche Telekom in 2003 in Europe

in 1,000 tonnes (t)

| Region | Total energy consumption | Electricity consumption | Heating consumption |
|----------------------|--------------------------|-------------------------|---------------------|
| Germany | 1,224 | 1,008 | 203 |
| Whole of Europe | 1,652 | 1,369 | 262 |
| Europe excl. Germany | 428 | 361 | 59 |

Energy consumption of Deutsche Telekom Group (excl. Germany)

in 1,000 kWh

| Region | Electricity consumption | | Heating consumption |
|--------------|-------------------------|----------------|---------------------|
| | 2002 | 2003 | |
| Croatia | 71,800 | 93,416 | 31,191 |
| Netherlands | 3,312 | 7,100 | 2,985 |
| Austria | 7,637 | 7,264 | n.a. |
| Slovakia | 67,178 | 104,184 | 80,636 |
| Hungary | 136,702 | 213,760 | 98,879 |
| Total | 286,629 | 425,725 | 213,691 |

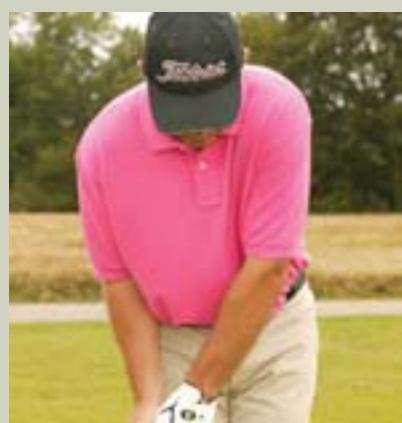
n.a. = not available

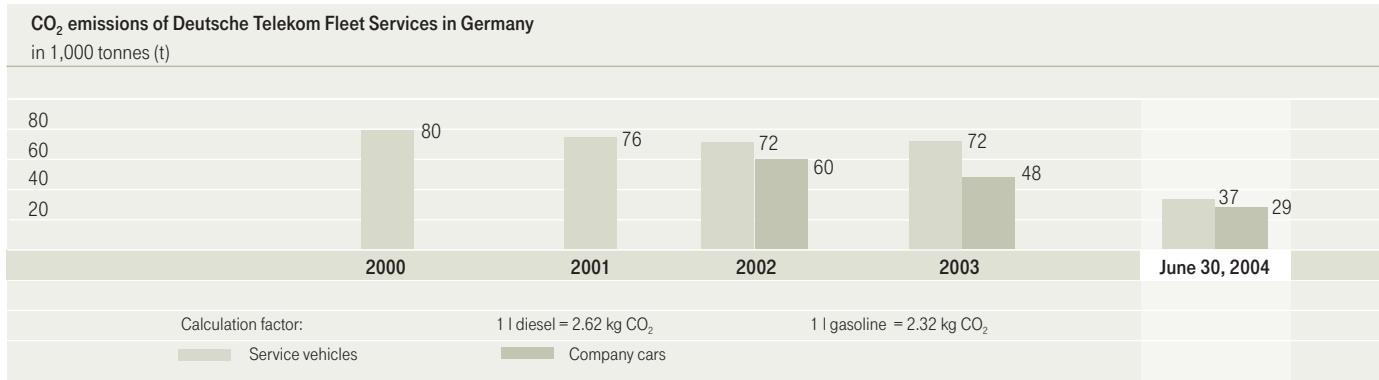
Division of energy consumption for heating of Deutsche Telekom Group (excl. Germany)

in 1,000 kWh

| Region | Natural gas consumption | Fuel oil consumption | Solid fuel consumption | District heating consumption |
|-------------|-------------------------|----------------------|------------------------|------------------------------|
| | 2003 | 2003 | 2003 | 2003 |
| Croatia | 11,573 | 13,427 | n.a. | 6,191 |
| Netherlands | 2,985 | n.a. | n.a. | n.a. |
| Austria | n.a. | n.a. | n.a. | n.a. |
| Slovakia | 47,953 | 2,319 | 1,759 | 28,606 |
| Hungary | 81,263 | n.a. | n.a. | 17,616 |

n.a. = not available





Fleet Services, consumption and mobility at Deutsche Telekom in Germany
Number of vehicles, liters (l) in million, kilometers (km) in million

| | 2000 | 2001 | 2002 | 2003 | June 30, 2004 |
|---------------------------|--------|--------|--------|--------|---------------|
| Service vehicles | 35,435 | 33,673 | 30,430 | 30,846 | 31,036 |
| Company cars | n.a. | n.a. | 7,934 | 7,363 | 8,619 |
| Mileage | 394.4 | 383.2 | 647.9 | 719.8 | 372.8 |
| of which service vehicles | n.a. | n.a. | 361.1 | 389.6 | 205.8 |
| company cars | n.a. | n.a. | 286.8 | 330.2 | 167.0 |
| Consumption | 30.5 | 29.0 | 53.4 | 47.8 | 26.2 |
| of which service vehicles | n.a. | n.a. | 27.5 | 27.8 | 14.2 |
| company cars | n.a. | n.a. | 25.9 | 20.0 | 12.0 |

n.a. = not available

Number of vehicles and mileage of Deutsche Telekom in Europe in 2003

| Region | Number of vehicles | Percentage Gasoline engine | Percentage Diesel engine | Annual mileage in million kilometers (km) | Fuel consumption in million liters (l) | |
|-------------|--------------------|-------------------------------|-----------------------------|---|--|--------|
| | | | | | Gasoline | Diesel |
| GB | 1,028 | n.a. | n.a. | n.a. | n.a. | n.a. |
| Croatia | 1,704 | 24 % | 76 % | 30.3 | 0.6 | 2.5 |
| Netherlands | 341 | 34 % | 66 % | n.a. | 0.2 | 0.5 |
| Austria | 296 | 13 % | 87 % | 10.0 | n.a. | n.a. |
| Slovakia | 2,133 | 71 % | 29 % | 34.6 | 1.8 | 1.2 |
| Hungary | 4,438 | 45 % | 55 % | 81.2 | 3.0 | 3.6 |

n.a. = not available

“I enjoy fresh

air.

That's one of the reasons I play golf.”

Selected environmental data of the Deutsche Telekom Group.

| Waste volume of Deutsche Telekom Group in 2003 in tonnes (t) | | | |
|---|-------------|-----------------|-----------------|
| Region | Total waste | Technical waste | Hazardous waste |
| Group | 94,211 | 16,380 | 1,159 |
| Germany | 58,683 | 13,061 | 551 |
| Group excl. Germany | 35,528 | 3,319 | 608 |
| of which | | | |
| GB | 13,008 | n.a. | n.a. |
| Croatia | 9,657 | n.a. | n.a. |
| Austria | 375 | n.a. | n.a. |
| Slovakia | 4,007 | n.a. | n.a. |
| Hungary | 8,481 | n.a. | n.a. |
| n.a. = not available | | | |

| Percentage of waste recycled at Deutsche Telekom AG in tonnes (t) | | | |
|--|-------------|--------------------------|---------------------|
| Year | Total waste | Annual volume (recycled) | Percentage recycled |
| 2002 | 73,233 | 61,122 | 83 % |
| 2003 | 58,683 | 50,413 | 86 % |

| Water consumption of Deutsche Telekom* | | | | |
|--|------|------|------|------|
| | 2000 | 2001 | 2002 | 2003 |
| Water consumption | 2.28 | 2.21 | 1.96 | 3.50 |

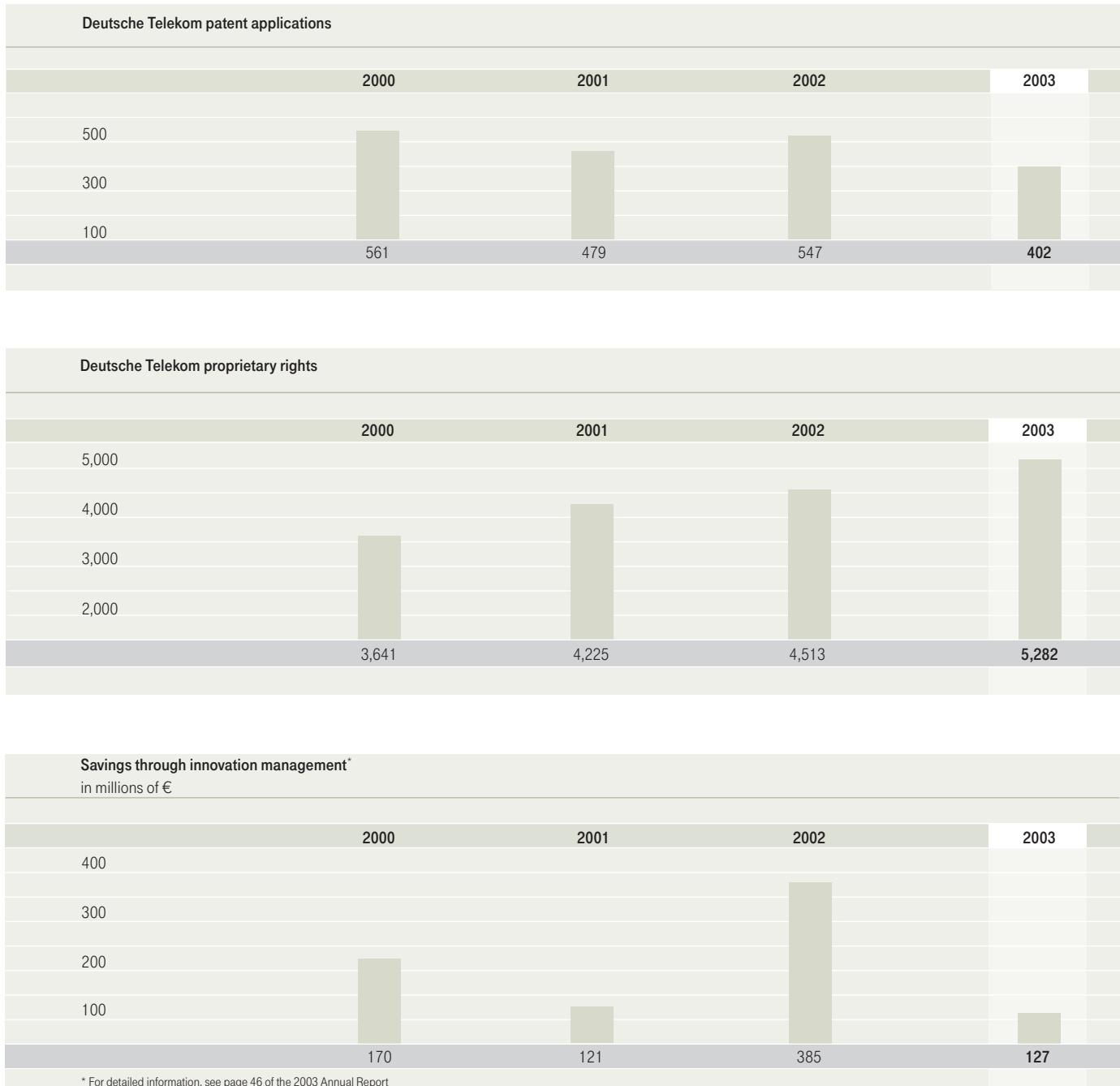
* Consumption billed via DeTelimmobilien

“I try to use

energy

as efficiently as possible – at work and at home.”

Innovation management at Deutsche Telekom.



“We save energy with clever technology.”

Doug Balchin develops energy management concepts at T-Mobile UK – and he has slashed the company's air-conditioning bill.

Doug Balchin is an “old pro” in mobile communications: “I would say I've reached about patriarch status in our young industry,” jokes the 45-year-old (!) T-Mobile UK employee, who has nearly 25 years of experience in his field. The achievements of Balchin, an energy-management expert, are not limited to his work at the British T-Mobile subsidiary – he's also one of his company's top golfers. Doug Balchin regularly swings his clubs with the T-Mobile UK Golf Society. With a handicap of only 10, he's obviously been staying in tune with the course. “Playing golf – either alone or with my colleagues – is a great way to relax from my work in our fast industry,” the T-Mobile manager explains.



What does golf have in common with operation of mobile communications systems and climate-control equipment?

The trick in both is to dose your energy wisely. Balchin: “You don't want to waste any energy. If you hit a golf ball too hard, you're not going to be able to control your swing – and if you throw too much energy at wasteful equipment, you're not going to be able to control your emissions and energy costs.” Balchin, father of two, has the right touch in both his favorite sport and in the development and operation of innovative, energy-efficient systems.

Consider the “free cooling” system that Doug Balchin and his team have developed. “Free cooling uses outdoor air to cool things – for example, the rooms in which our switching equipment is housed. It really saves energy in comparison to our old centralized cooling-water system, which was very wasteful,” he notes. Some background: Like all technical systems, the computers in T-Mobile UK's network nodes generate a great deal of waste heat, and when systems overheat, they can malfunction. If customers are to have reliable network services – “a key goal,” according to Balchin – equipment-housing facilities must be air-conditioned. When the outdoor-air temperature is low enough, the T-Mobile experts turn to “free cooling.” “The technical principle is both simple and effective – and both environmentally sound and cost-effective,” Balchin enthuses.

The new “free cooling” equipment was developed in close cooperation with a specialized manufacturer.

“The units are tailored precisely to our special needs, and they already fulfill the stringent requirements that will arise with next-generation network equipment,” Balchin reports. Free cooling is now being used in 90 percent of T-Mobile UK's 8,000 or so base stations, and the new climate-control systems are paying off in more than just environmental terms. The investment costs for a free cooling unit are only twenty percent of those for a conventional air-conditioning system, while the operating costs are actually less than twenty percent of corresponding conventional costs. “This is practical environmental protection, with lasting effect, perfectly paired with a clear entrepreneurial goal,” Balchin adds. It's not surprising, then, that other mobile network operators are beginning to

“The aim of telecommunications is to create



adopt the new system as well. A leading German automaker has also placed an order.

Golfers need to have patience and a good feeling for their equipment and the course. Doug Balchin, who lives with his family in Ewhurst, south of London, brings such qualities to his work at T-Mobile UK. He is an active member of the T-Mobile UK Carbon Trust Group, which helps companies reduce their CO₂ emissions and which is being supported by the English government. And Balchin and his team are also looking at new, environmentally friendly ways to generate energy. For example, the T-Mobile UK experts are studying the possibilities for using fuel cells to operate base stations. "We're convinced that the hydrogen fuel cell is a key future technology," Balchin stresses, "and we're now seeing this technology enter a phase in which usage concepts are making both economic and ecological sense."

Developing new systems for generating and saving energy is a very long-term project. Some of Doug Balchin's goals have shorter time frames – in fact, some are very much in the here and now. For example, when the local school in

his home town, Ewhurst, needs volunteers to help with a fund drive, Balchin responds. He has a good reason for his commitment: "There's more to life than just mobile communications technology and energy management."

sustainable links."

Our aims: “Employment protection and sustainable corporate development.”

Deutsche Telekom will continue on its path of profitable growth while consistently adapting in line with market and customer requirements. Innovative HR development concepts and a clear sustainability strategy are the key foundations here.

A roundtable discussion with

- **Dr. Heinz Klinkhammer**, Deutsche Telekom Board Member responsible for Human Resources
- **Karl Knoll**, Board Member for Human Resources at T-Com
- **Lothar A. Harings**, Board Member for Human Resources at T-Mobile International
- **Regine Büttner**, Board Member for Human Resources at T-Systems International
- **Veronika Altmeyer**, Board Member for Human Resources and Legal Affairs at T-Online International
- **Dr. Ignacio Campino**, Head of Corporate Sustainability & Citizenship at Deutsche Telekom

Question: There are challenging times ahead for Deutsche Telekom, with tough competition in the dynamic IT and communications market. In this context, how do you see the future human resources strategy in the Group and its units?

Klinkhammer: A path has been staked out for human resources development in the Deutsche Telekom Group in the form of Vivento and the employment alliance. In both cases, we have implemented innovative HR policy concepts, and the success of this approach is now becoming apparent. In my view, it is clear that we must continue to find new ways of safeguarding employment in our Group in the future. Under the terms of the employment alliance, we have promised not to make any compulsory redundancies at Deutsche Telekom until the end of 2008.

Knoll: The same goes for T-Com. A significant part of the surplus staff at T-Com is benefiting from the employment

alliance. The work is shared between more people, safeguarding employment for some 9,800 employees, around 7,800 of whom belong to T-Com. At the same time, Vivento's work gives us the flexibility we urgently need in the face of ever-fiercer competition.

Harings: I couldn't agree more – at T-Mobile in particular, we are used to operating in a fast-paced market with intense competition. After the sharp market growth of recent years, we are now entering a new phase of mobile communications development – the evolution of broadband mobile communications. This makes considerable demands on the innovativeness and commitment of the T-Mobile workforce. Our human resources strategy is designed to continuously enhance the skills and motivation of our people.

Büttner: Employee motivation is a key issue for T-Systems as well. We are currently building on our strong market position with key and systems customers. Here, we rely on a workforce with wide-ranging expertise and exceptional dedication. As such, the objectives of our human resources policy are clearly defined. At the same time, we are also taking on new employees from client companies in outsourcing projects, and face the challenge of integrating them. We also need to resolve the issues arising from a possible merger between customers' IT units and T-Systems, for example. Because outsourcing is gaining importance in many segments of industry, such issues are becoming ever more crucial.

Harings: Here T-Mobile is building on the one-company approach, which focuses on merging the individual national companies into a single enterprise with shared values and objectives.

Altmeyer: Speaking from T-Online's perspective, I would also like to highlight another key aspect of human resources development – the issue of quality. T-Online has undergone an evolutionary process, from Internet provider to Internet media house. For us, the significance of high-quality content and services on the basis of Internet communication continues to grow as broadband communications become ever more widely established. A top priority of our human resources strategy is to improve the quality of our customer services





still further. The quality program launched in early 2004 will be continued with special HR development measures.

Klinkhammer: HR quality is part of the Group's wider quality campaign. It entails skills development for all employees as well as the quality and efficiency of internal HR processes. In this way we can boost our competitive strength. This is decisive for the Group as a whole and in turn helps to safeguard employment.

Question: Next year, Deutsche Telekom's activities will focus on the three strategic business areas of Broadband/Fixed network, Mobile Communications and Business Customers. This includes a restructuring of the Group. What will be the consequences for HR development?

Klinkhammer: Strategic reorientation is based on a clear analysis of developing customer requirements, the technological evolution, and trends in our industry's market and competitive environment. Even more so than before, customers are at the heart of all our activities. This will boost our competitive strength, which in turn will help to secure jobs within the Group in the long term. We have no intention of "undoing" the employment alliance. Where solutions need to be found for individual areas within this context, we will be resuming discussions with the employee representatives.

Question: An even greater emphasis on customer requirements coupled with long-term employment protection – these are typical aspects of sustainable corporate development. Is sustainability gaining importance as an issue for Deutsche Telekom?

Campino: Sustainability already has pivotal importance for us. It is an integral part of our corporate vision of networking society for a better future. Without a doubt, we have already achieved a great deal, and can be proud of our achievements. However, we must not allow this to distract us from the fact that we still have a long way to go on the road to sustainability. Our aim is to become a sustainable company in a sustainable society. There are no generally valid definitions of a sustainable company or a sustainable society, however. As one of the sustainability pioneers, we must find the right path as we go along. We determine the direction of future development based on the development of society, the dialog with our stakeholders, scientific findings, technological developments and our ethical values.

En route, we recognize the need for greater integration of the three dimensions of sustainability and their widespread acceptance throughout the Group. In the future, we must also find better ways of communicating our contribution to the sustainable development of society to our customers.



Contact.

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 HITS team (Telekom Training BBi Essen), Doug Balchin (T-Mobile UK)
 Front cover: HITS team and Deniz Demirci (Telekom Training BBi Essen)
 The following are not employees of the Deutsche Telekom Group:
 beach volleyball players and occupants of the Franz-Sales house
 Photographers: Tomas Rodriguez, Köln / Thomas Ollendorf, Bonn

Internet and Download:
www.telekom.de/nachhaltigkeit

KNr. 642 100 016

Selected Human Resources data of the Deutsche Telekom Group.

| Health rate at Deutsche Telekom AG in percent | | | |
|--|------|------|------|
| | 2001 | 2002 | 2003 |
| Health rate | 93.1 | 93.9 | 93.8 |

| Disabled persons in Germany in percent | | | |
|---|------------|------------|--|
| | 2002 | 2003 | |
| Disabled rate of population | 8.1 | 8.0 | |
| Obligatory employment quota for companies | 5.0 | 5.0 | |
| Average employment rate in companies | 3.8 | 3.8 | |
| Employment rate at Deutsche Telekom AG | 5.7 | 6.3 | |



Index according to GRI (Global Reporting Initiative).

| GRI Report content (core indicators) | | |
|--|-----------------------------------|--|
| 1.1 Vision and strategy | pp. 3, 10-11, 14, 15 | |
| 1.2 Statement by the CEO | pp. 2-3 | |
| Organizational profile | | |
| 2.1 Name of the company | p. 4 | |
| 2.2 Major products and services | pp. 4-7, 56-57 | |
| 2.3 Operational structure | AR C4 | |
| 2.4 Major business areas | pp. 4-7 | |
| 2.5 Countries in which the company has operations | pp. 4-6, AR C5-C6 | |
| 2.6 Ownership structure | AR p. 64 | |
| 2.7 Markets served | pp. 4-6, AR C5-C6 | |
| 2.8 Scale of the company | pp. 4-7 | |
| 2.9 List of stakeholders | pp. 19, 48* | |
| 2.10 Contact person for the report | p. 80 | |
| 2.11 Reporting period | C2 | |
| 2.12 Date of most recent report | C2 | |
| 2.13 Boundaries of the report | C2 | |
| 2.14 Significant changes | no changes | |
| 2.15 Joint ventures, subsidiaries, etc. in the report | none | |
| 2.16 Restatements of information | not applicable | |
| 2.17 Decisions not to apply GRI principles | not applicable | |
| 2.18 Criteria/definitions for costs and benefits | not specified | |
| 2.19 Changes in measurement methods | no changes | |
| 2.20 Accuracy and completeness of the report | C2 | |
| 2.21 Independent assurance of the report | partially through AR | |
| 2.22 Access to additional information | entire document | |
| Governance structure and management system | | |
| 3.1 Governance structure, including responsibilities for sustainability | AR pp. 11, 16* | |
| 3.2 Independence of the Supervisory Board | AR pp. 13-14, 18-20, 185-187 | |
| 3.3 Expertise of the Executive Board in terms of sustainability issues | p. 21* | |
| 3.4 Board-level processes for monitoring environmental, economic and social risks and opportunities | p. 10* | |
| 3.5 Linkage between executive compensation and achievement of the company's sustainability goals | not specified | |
| 3.6 Organizational structure for sustainability issues | p. 7 | |
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| 3.8 Shareholder recommendations to the Executive Board | p. 16 | |
| 3.9 Identification of stakeholders | pp. 19, 48* | |
| 3.10 Consideration of stakeholder interests | pp. 10, 21, 26 | |
| 3.11 Stakeholder feedback | pp. 21, 48-49 | |
| 3.12 Use of feedback from stakeholders | pp. 10, 21 | |
| 3.13 Consideration of the precautionary principle | pp. 10, 18, 48-49 | |
| 3.14 Participation in external initiatives | pp. 20-21, 37, 48-49, 51, 59-60 | |
| 3.15 Memberships in industry and business associations | pp. 21, 37, 60 | |
| 3.16 Management of upstream and downstream impacts** | pp. 20, 60 | |
| 3.17 Management of indirect impacts | p. 18 | |
| 3.18 Changes involving locations of operations or activities | entire document | |
| 3.19 Sustainability programs and procedures | pp. 18, 44-47, 69 | |
| 3.20 Certification status pertaining to sustainability management systems | p. 18* | |
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| EC1 Net revenue | p. 4 | |
| EC2 Geographic breakdown of markets | pp. 4-6 | |
| EC3 Costs of all goods, materials and services purchased | p. 20 | |
| EC4 Contracts paid on-time in percent | not specified | |
| EC5 Employee compensation (wages, social benefits) | pp. 27-28, AR p. 135* | |
| Environmental performance indicators | | |
| EC6 Distributions to providers of capital | AR p. 59 | |
| EC7 Changes in retained earnings | pp. 4, AR pp. 34-35 | |
| EC8 Total sum of all tax payments by country | AR p. 133* | |
| EC9 State subsidies/grants by country | not specified | |
| EC10 Donations to community and civil associations | pp. 62-63 | |
| Environmental performance indicators | | |
| EN1 Total materials use other than water, by type | not applicable, no own production | |
| EN2 Utilization of waste materials | p. 77* | |
| EN3 Direct energy use (broken down by primary source) | pp. 45, 71-73* | |
| EN4 Indirect energy use | p. 47* | |
| EN5 Water use | p. 77* | |
| EN6 Land areas used in biodiversity-rich habitats | not applicable | |
| EN7 Major impacts on biodiversity | not applicable | |
| EN8 Greenhouse gas emissions | p. 73* | |
| EN9 Ozone-depleting substances | not specified | |
| EN10 NOx, SOx and other significant air emissions | p. 47* | |
| EN11 Waste volume by type and method of disposal | pp. 46, 77 | |
| EN12 Significant discharges to water by type | not applicable | |
| EN13 Significant spills of chemicals, oils, etc. | not applicable | |
| EN14 Environmental impact of products/services supplied | pp. 45, 48, 50-51 | |
| EN15 Recycling of products | p. 46* | |
| EN16 Fines for non-compliance with legal regulations on the environment | AR p. 164* | |
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| LA1 Breakdown of workforce by region | AR p. 46 | |
| LA2 Workforce fluctuation and job creation by region | pp. 28-29* | |
| LA3 Percentage of employees represented by trade unions or covered by collective bargaining agreements | pp. 37-38* | |
| LA4 Consultation with employees in operational decisions | pp. 38-39 | |
| LA5 Documentation of occupational accidents and diseases (ILO code) | p. 19* | |
| LA6 Formal committees on health and safety issues | p. 27 | |
| LA7 Injuries, absentee rates and work-related fatalities | p. 70* | |
| LA8 Principles and policies on HIV/AIDS | not specified | |
| LA9 Training hours by employee category | p. 34* | |
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| PR2 Principles/measures related to product information and labelling | p. 69* | |
| PR3 Principles/measures related to consumer privacy | p. 59* | |

AR = Annual Report 2003

* No complete presentation as per GRI criteria or only examples

** E.g. supply chain management

Selected Human Resources data of the Deutsche Telekom Group.

| Group employees (in Full Time Equivalents) | | | | June 30, 2004* |
|--|----------------|----------------|----------------|-------------------|
| | 2001* | 2002* | 2003* | |
| T-Com | 155,342 | 148,900 | 129,644 | 125,824 |
| T-Mobile | 38,025 | 41,597 | 43,427 | 44,461 |
| T-Online | 2,960 | 2,814 | 2,615 | 2,942 |
| T-Systems | 43,449 | 43,292 | 40,833 | 39,765 |
| Group Headquarters and Shared Services | 17,282 | 19,366 | 32,000 | 34,838 |
| Entire Deutsche Telekom Group | 257,058 | 255,969 | 248,519 | 247,830 |
| Employees according to region | | | | |
| Germany | 178,336 | 177,823 | 173,278 | 172,317 |
| Other countries | 78,722 | 78,146 | 75,241 | 75,513 |
| Employees outside Germany | | | | |
| EU countries (excl. Germany) | 16,538 | 17,647 | 16,698 | 41,024 |
| Rest of Europe | 43,343 | 39,601 | 35,336 | 9,971 |
| North America | 16,909 | 19,144 | 21,525 | 23,026 |
| Other countries | 1,932 | 1,754 | 1,682 | 1,492 |

*As per December 31 or June 30, respectively

| Employee structure of Deutsche Telekom AG (in Full Time Equivalents) | | | | June 30, 2004* |
|--|----------------|----------------|----------------|-------------------|
| | 2001* | 2002* | 2003* | |
| Deutsche Telekom AG | 124,328 | 120,009 | 118,669 | 113,420 |
| Civil servants | 54,615 | 50,776 | 49,793 | 47,964 |
| Non-civil servants | 69,714 | 69,234 | 68,876 | 65,456 |
| Full-time employees | 114,670 | 110,310 | 109,117 | 105,524 |
| Part-time employees | 9,658 | 9,699 | 9,552 | 7,896 |
| Men | 85,887 | 82,696 | 81,934 | 79,084 |
| Women | 38,441 | 37,313 | 36,735 | 34,336 |

*As per December 31 or June 30, respectively