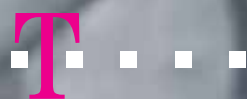


# Leading change. Deutsche Telekom.

The 2006 Human Resources and Sustainability Report



Deutsche  
Telekom



# About this report.

## Reporting period.

The 2006 Human Resources and Sustainability Report is a continuation of the previous year's report. It covers the reporting period from September 2005 to August 2006.

## 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](http://www.globalreporting.org)) and the criteria of the ratings agencies. Additionally, we have also addressed a number of stakeholders' suggestions derived from surveys. Challenges, value drivers and business cases for Deutsche Telekom that were detailed in the latest Annual Report are not dealt with again in this report.

Stakeholder requirements have particularly influenced the focus of this year's Human Resources and Sustainability Report. The report no longer covers all issues of sustainability. Rather, it focuses on four main topics. They represent the central challenges in sustainability currently faced by Deutsche Telekom. A facts and figures section – containing comments for the first time – supports transparency and the statements made in this report. The introductory chapter provides a comprehensive description of the strategic guidelines that form the basis of the Group's actions in the four areas of emphasis.

## 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

## 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. They are generally identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim," "goal," "plan," "will," "seek," "outlook" or similar expressions. Forward-looking statements are based on current plans, estimates, and projections, and 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 can offer no assurance that its expectations or targets will be achieved. Deutsche Telekom does not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise. Deutsche Telekom does not reconcile its adjusted EBITDA guidance to a GAAP measure because it would require

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.

## Sustainability online.

More in-depth information about this report and about the challenges posed by sustainability can be found on the online platform [www.telekom.com/sustainability](http://www.telekom.com/sustainability).

## About the cover picture.

The photo shows Gesche Joost, Deutsche Telekom Laboratories, at the Berlin Lapidarium, a converted water-pumping station which now houses monuments worthy of preservation, primarily from the Tiergarten Park. You can find more about Gesche Joost, customer-centered innovation, and ways of safeguarding the Company's future in Chapter 1, starting on page 6 of this report.

## Climate neutrality.

Deutsche Telekom produced and delivered this Human Resources and Sustainability Report in a climate-neutral way. The greenhouse gas emissions of CO<sub>2</sub> equivalents generated were completely offset by corresponding climate protection measures.

unreasonable effort to do so. As a general matter, Deutsche Telekom does not predict the net effect of future special factors because of their uncertainty. Special factors and interest, taxes, depreciation and amortization (including impairment losses) can be significant to the company's results. Among the adjustments to be made in determining adjusted EBITDA in 2006 and 2007 will be the costs of the Group's staff-related measures, which Deutsche Telekom estimates will result in costs and charges of approximately EUR 3.3 billion between 2005 and 2007. This Human Resources and Sustainability Report contains a number of so-called non-GAAP measures, such as sustainability indicators. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For information relevant to the interpretation of these terms, please refer to the "Development of business in 2005" chapter of the 2005 Annual Report, which is also posted on Deutsche Telekom's Investor Relations link under [www.telekom.de](http://www.telekom.de).

# Responsibility for the future.

Deutsche Telekom is committed to good citizenship.

As one of the world's leading companies in the telecommunications and IT sector, our actions have far-reaching effects on society. Competitiveness and social responsibility thus go hand in hand at Deutsche Telekom – for us, responsible action is the basis for long-term business success.

Deutsche Telekom sees itself as a good corporate citizen, as one that helps shape society and makes a contribution to the common good. We do this through our own actions and with our products and services, which promote the efficiency of our modern society in many areas and shape the way in which we communicate and interact with each other.

We contribute to the positive development of our society in numerous projects and campaigns which we initiate or promote alone or jointly with partners – at the regional, national and international level.

Our social contribution is as multifaceted as the Group itself. We are involved in all key areas of public life. The Group-wide Corporate Reputation Strategy defines this involvement in six subject areas:

- Business and society
- Social and regional issues
- Health and environment
- Sports and culture
- Youth and education
- Research and innovation

In all of these areas we provide momentum for a present and a future worth living.

**The 2006 Human Resources and Sustainability Report**

- 2 Foreword.
- 4 Deutsche Telekom. Leading change, delighting customers.

**Vision, strategies and strategic business areas**

- 8 Trust and growth through sustainable corporate governance.
- 11 Corporate governance. Group-wide Code of Conduct established.
- 12 Management. Sustainability anchored Group-wide.
- 13 Stakeholder dialog. Open, constructive, based in partnership.

**Staff restructuring**

- 16 Safeguarding the Company's future in an industry in upheaval.

**HR development**

- 28 The power to achieve in the face of fierce competition.

**Supply chain management**

- 36 Taking responsibility worldwide across the entire value chain.

**Climate protection**

- 46 Responsible actions, efficient deployment of resources.

**Data and targets**

- 53 Roadmap.
- 54 Sustainability indicators.
- 55 Selected data.
- 62 Publishing information.
- C3 Index according to GRI (Global Reporting Initiative).
- C5 Employees worldwide.

## Dear Readers,

"Hello Future" - that is the motto of Deutsche Telekom's current image campaign. The catchy slogan is our way of showing what drives our Company in the face of increasingly fierce competition, on both the national and the global level. We help to shape the future actively and sustainably, to the benefit of our customers, our employees, our shareholders and our partners – in short, for the good of society as a whole.

Deutsche Telekom is one of the world's leading telecommunications companies. We are aware that the technological and corporate decisions that we make will have far-reaching effects. Telecommunications is a key technology for practically every industry. In many segments of society, the use of IT and telecommunications is bringing about profound changes. With this in mind, we accept responsibility for the world of today and tomorrow and are working systematically at smoothing the way toward this new tomorrow. It is necessary – particularly during difficult times, when the Deutsche Telekom Group is faced with ever tougher challenges – to be especially responsible, deliberate, credible and transparent in all of our actions, so as to retain the confidence of customers and investors.

Naturally, our focus is trained on the products and solutions that we implement for our customers. Whether this means broadband connections for a multimedia Internet experience, high-performance mobile communications networks for total freedom of communication on the go, or sophisticated turnkey IT and telecommunications solutions for our corporate customers – "We network society for a better future." Deutsche Telekom is clearly committed to its social mission. From it we derive our pledge and our obligation: to fulfill our responsibility towards the world in which our Group is active.

This responsibility extends to our role as employer. Deutsche Telekom employs more than 240,000 employees in 65 countries, 170,000 of whom are in Germany. The international telecommunications industry is currently undergoing a far-reaching process of transformation, from a technology-centered business to one oriented towards service and towards the customer. We are reacting to the profound changes in economic structures and business models that result with a comprehensive workforce restructuring and a broad range of staff development measures. Our aim is to shape the skills of our employees in an ongoing process in such a way that the future of our company is secure even in an intensely competitive market. We also have another task before us: that of aligning our Group's organizational structures with the changing needs of our customers and the market, thereby redefining the focus of our business activities. The merger of T-Com and T-Online, for example, has led us to combine forces in the important market of broadband technology. We at Deutsche Telekom are developing a process of thoroughgoing change – a process that should help us become the leading service provider in our industry.

In our work, we are involved in social and economic change for the sake of a better future – and we are driving Deutsche Telekom's transformation into a customer-centered Group that offers ICT services of the highest caliber. "Leading change" is thus the logical title of our Company's 2006 Human Resources and Sustainability Report.

■ Foreword

- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

Through the structure and content of this report, we demonstrate that even during the transformation phase that our market is currently undergoing, we will continue to fill our role as one of innovation leader. Our innovative products and services impress our customers. Just as our innovative instruments and measures drive change at Deutsche Telekom.

The changes in the telecommunications industry pose huge challenges for us. It is our firm conviction that successful change can only be brought about if it is in line with tried-and-true constants. The corporate vision and values of our Group – T-Spirit – form the basis of our action. To translate this model into concrete terms, we have adopted a Code of Conduct that acts as a binding framework of values for personal and corporate involvement. This Code of Conduct signals our commitment to sustainability, fairness and respect in all of our actions. For the sake of our customers, shareholders, business partners and employees, we draw both on the Code of Conduct and on our innovative spirit and creativity to shape the development of the information and knowledge society.

Another important point of departure for change in our international Group is a clear commitment to sustainable corporate development. Throughout the Deutsche Telekom Group, we put the principles of sustainability into daily action. These principles shape our work within Deutsche Telekom, for example by using resources with care or developing our staff. And these principles extend to our performance in the marketplace and to our social engagement.

Companies are not just participants in the economic life of the market, they are part of society. It is this conviction that drives Deutsche Telekom's commitment to the environment and to fulfilling our social responsibility. We owe it to those who follow us.

Kai-Uwe Ricke  
Chairman of the Board of Management

Dr. Heinz Klinkhammer  
Board Member Responsible for Human Resources



## Deutsche Telekom. Leading change, delighting customers.

The information society is about to undergo a radical transformation: ICT technologies and ever-faster data transmission speeds are changing the way we organize our work and leisure time, for a more flexible lifestyle. The general, flexible availability of broadband entertainment and information content is one of the main growth levers for the telecommunications industry.

**Deutsche Telekom: shaping the future in a responsible fashion.** As one of the leading providers in the international telecommunications market, Deutsche Telekom is a key driving force of the information society. Our products and services help to create the powerful infrastructure needed for "tomorrow's society," giving broad sections of the population access to modern communication media. In our three strategic business areas - Broadband/Fixed Network, Mobile Communications and Business Customers - Deutsche Telekom focuses consistently on the varying needs of its customers and maximizes new growth potential. Our business activities are driven by our commitment to sustainability, which gives equal consideration to economic, social and ecological criteria. Our "Excellence Program" designed to implement the Group strategy and the supporting Group HR and Group sustainability strategies provides a framework for profitable, sustainable growth.

Total Group revenue for the 2005 financial year amounted to EUR 59.6 billion, an increase of 3.9 percent against the

previous year. Adjusted EBITDA was up 5.7 percent over the same period, to EUR 20.7 billion. Net profit increased from around EUR 2 billion to just under EUR 6 billion. At the same time, the Group reduced its net debt by 3.2 percent to EUR 38.6 billion. Deutsche Telekom has continued on this growth course during the first half of 2006 - a four percent downturn in domestic revenue in the face of ever-tougher competition was more than offset by a 13.5 percent increase in international revenue. As at June 30, 2006, total revenue had risen to EUR 30 billion, a 3.2 percent increase against the first half of 2005, while net income stood at around EUR 2 billion. As of June 30, 2006, the Deutsche Telekom Group employed a total of 249,991 men and women.

**Broadband/Fixed Network: setting the pace for the information society.** As pioneers of the broadband market, in recent years we have been key players in helping to shape the information society in Germany and Europe. The DSL service from T-Com is attracting growing numbers of customers. In Germany alone, the number of T-DSL lines increased to 8.96 million as at June 30, 2006. This growth in the Broadband/Fixed Network business area has been driven by T-Com and T-Online. These two business units are opening up new dimensions of broadband communications by consistently expanding the network infrastructure, and by developing and refining the portfolio of broadband services such as IP telephony and IP-TV (TV via Internet).





- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

The merger of T-Online International AG into Deutsche Telekom AG, which became effective as of June 6, 2006, enables the Broad-band/Fixed Network business area to offer integrated products and services from a single source. The new high-speed fiber optic network provides the basis for our future broadband portfolio comprising telephony, Internet and television products. With data transmission speeds of up to 50 megabits per second, the "Net revolution" is opening up brand new opportunities for the information society, and paving the way for innovative applications.

In Germany and in other European countries, we are spearheading the development of the broadband market. At the subsidiaries in Hungary, Croatia and Slovakia managed by T-Com, the number of DSL lines had risen to half a million by the end of 2005. And T-Online leads the field in the development of future broadband products, particularly in France and Spain, being the first company to offer a package which combines the DSL line with a host of communication and entertainment services.

#### **Mobile Communications: mobility transcends borders.**

The Mobile Communications business area reports constant customer growth. T-Mobile, the umbrella brand for all the Group's mobile communications activities, represented throughout all the main European markets as well as in the U.S., numbered 90.2 million customers as at June 30, 2006, up 11.5 percent against the first half of 2005. The driving forces behind this constant growth include growing network performance, coupled with calling plans which have been tailored to meet customers' demands for transparency and convenience. As part of its mobile broadband network, T-Mobile operates the world's largest W-LAN network in partnership with T-Com, comprising some 17,000 hotspots for mobile data communication. By the end of the first half of 2006, around 6.5 million mobile phone custo-

mers throughout Europe had signed up for one of our voice packages with inclusive minutes and no basic monthly charge. T-Mobile's "web'n'walk" offer has proven equally popular among customers. With mobile access to the free Internet, T-Mobile has pushed the boundaries of mobile communication, and was proud to be one of the first mobile providers to offer access to all Web pages.

#### **Business Customers: solutions for successful business.**

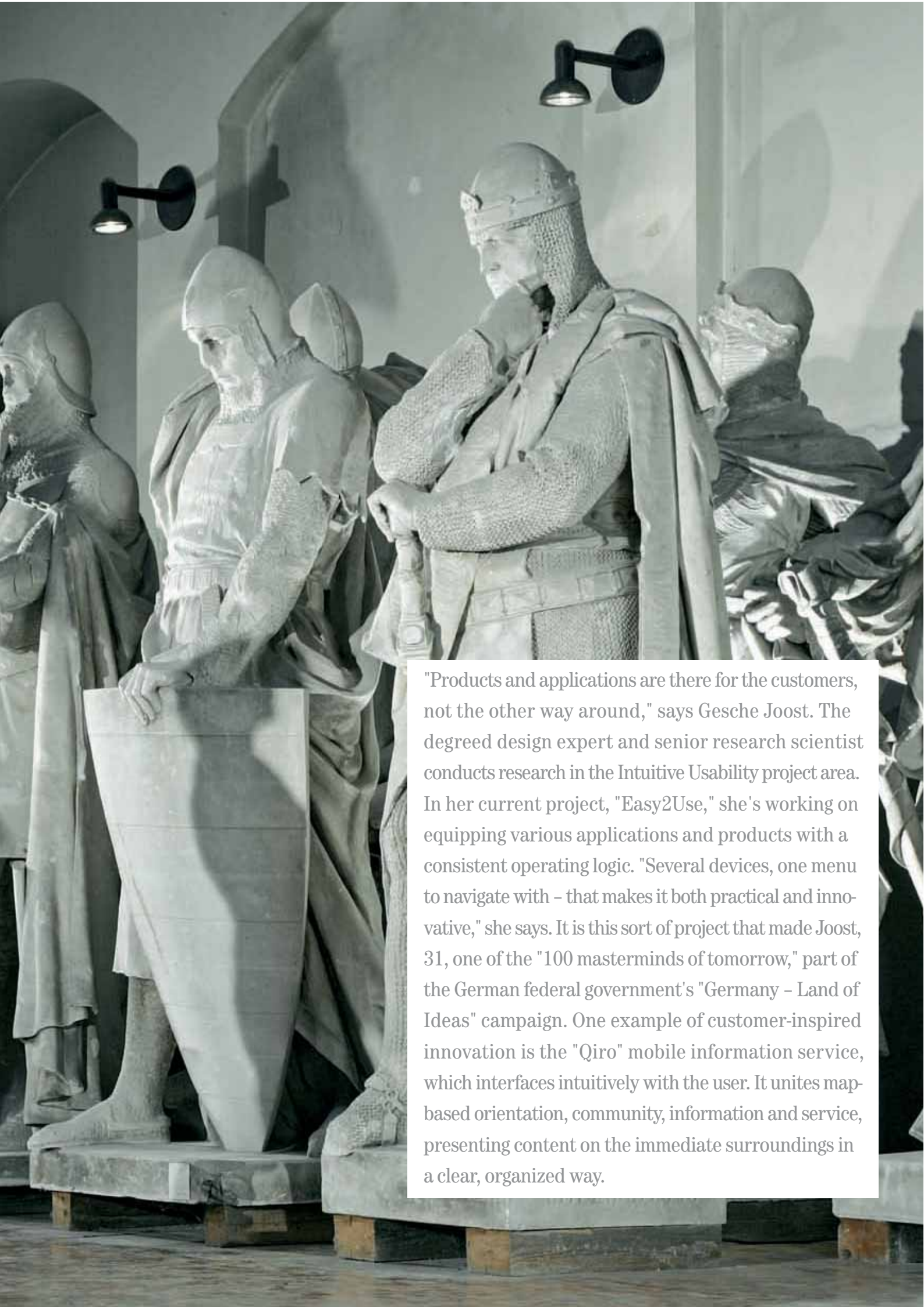
In this strategic business area, T-Systems provides comprehensive support to Deutsche Telekom's business customers. T-Systems Enterprise Services develops and implements ICT solutions for some 60 multinational corporations and large public-sector institutions, while T-Systems Business Services provides the same spectrum of services to the Group's 160,000 or so large and medium-sized business customers. As a leading provider of IT services in the business customer market, T-Systems offers a full spectrum of ICT solutions, allowing customers to structure their corporate activities more flexibly, cut costs, and permanently improve their competitive position.



"Innovation points the way from  
the past to the future."

Gesche Joost, Deutsche Telekom Laboratories





"Products and applications are there for the customers, not the other way around," says Gesche Joost. The degreed design expert and senior research scientist conducts research in the Intuitive Usability project area. In her current project, "Easy2Use," she's working on equipping various applications and products with a consistent operating logic. "Several devices, one menu to navigate with – that makes it both practical and innovative," she says. It is this sort of project that made Joost, 31, one of the "100 masterminds of tomorrow," part of the German federal government's "Germany – Land of Ideas" campaign. One example of customer-inspired innovation is the "Qiro" mobile information service, which interfaces intuitively with the user. It unites map-based orientation, community, information and service, presenting content on the immediate surroundings in a clear, organized way.



## Vision, strategies, areas of action.

Ensuring long-term financial success through "Telekom 2010." The 7-point program and "Telekom 2010" take Deutsche Telekom into a new phase in its corporate strategy. Implementation is supported by the HR and sustainability strategy.

Deutsche Telekom's vision and values, T-Spirit, form the basis on which we aim to shape the information and telecommunications industry – as Europe's largest integrated telecommunications provider and leading services company in the industry. In keeping with this objective, the new "Telekom 2010" program determines the Group strategy that will guide Deutsche Telekom safely through the consolidation of the ICT industry, taking over from our previous Excellence Program. The focus of "Telekom 2010" is a 7-point program concerned with stabilizing revenue at home and growth abroad, with innovation, service orientation and sustainable enhancements to efficiency. The HR and sustainability strategy play an important role in realizing the Group's overall strategy. They are part and parcel both of the former Excellence Program and of "Telekom 2010," a program that is both future-oriented and lasting in its nature.

**"Telekom 2010" ties in new package of measures.** In the wake of our Company's successful efforts to relieve debt and restructure our Company, Deutsche Telekom has been aligning itself under the auspices of the Excellence Program with the strategic objectives of growth and value enhancement. The growth programs Save for Growth, Focus on Growth and Re-invent have made significant inroads. We are faced now with the challenge of further expanding the core elements of the Excellence Program and making them the focus of the new Group strategy. The redistribution of responsibilities in the Board of Management made public at the end of August 2006 is part of the new Group strategy and ensures that key functions are managed centrally at Deutsche Telekom. These measures are a response to the demands faced by Deutsche Telekom: to better coordinate its German market presence while adjusting its cost structures radically to changing market conditions.

### The cornerstones of the 7-point program:

#### Point 1:

In Germany Deutsche Telekom aims to safeguard its earnings in the long term and thus the future of the Company. Attractive package prices and excellent service will be used to defend market shares.

#### Point 2:

In European markets the target is to expand the revenue market share sustainably by 2010.

#### Point 3:

The revenue market share is to be maximized in the United States and T-Mobile USA is to develop into the largest business unit in the Group's consumer business.

#### Point 4:

The goal on the business customer market is to achieve a market position in the top 3 in all customer segments in Europe.

#### Point 5:

Deutsche Telekom concentrates on the major innovation topics of the industry: IP TV, mobile Internet and ICT services.

#### Point 6:

In the field of "service culture," our goal is to deal with around 80 percent of all customer issues upon first contact. Service will be a core issue in 2007. Existing approaches such as the integrated customer database and the customer relationship management system have to be consistently continued, and service models used by T-Mobile USA will be imported.

#### Point 7:

Deutsche Telekom aims to become the strongest earning company in the European industry by 2010. The measures to achieve that are: IP-based infrastructure, IT architecture and sales and market efficiency.

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<input type="checkbox"/>	Klimaschutz
<input type="checkbox"/>	Daten und Ziele



**HR strategy: contributing to Group strategy.** Deutsche Telekom, like the ICT industry as a whole, is currently in a consolidation stage. The external influences and demands of this stage determine the focuses of the Company's HR strategy and activity. The ever higher quality and service requirements imposed by business customers and consumers constitute the primary and most important determining factor. The rapid pace of technological advances, which are intensifying competition and thus cost pressure both on the national and on the international level, present a further challenge. A third component, in Germany and in part on the European level as well, is a regulatory policy that pursues the objective of redistributing market share in favor of competitors at Deutsche Telekom's cost. This means some serious restrictions for our market presence.

These factors form the backdrop against which the Group's HR strategy was developed in close coordination with the Group strategy. Toward this end, we have set ourselves the following goals in HR:

- Demand-driven staff restructuring in the Group units within Germany
- Reducing the personnel cost ratio
- Focusing on management quality and service orientation

**Staff restructuring: change in line with demand.** We intend to lead change in our HR structure. This involves both targeted staff development and hiring of young staff who will contribute to improving service and advice to customers. On the other hand, support for the staff adjustments needed in our core business and increased staffing in growth areas is called for. On the national level, we will make these staff adjustments – principally affecting the fixed-network arm – in a socially responsible manner and based on voluntary departures. In so doing, Deutsche Telekom AG will adhere to the employment alliance with labor repre-

sentatives to avoid compulsory redundancies until the end of 2008.

**Optimized personnel cost ratio: establishing market-oriented compensation plans.** Staff restructuring will contribute extensively to improving the personnel cost ratio, i.e. the ratio of personnel costs to revenue. We have also initiated further measures for optimizing the personnel cost ratio. The implementation and expansion of compensation structures typical of the market play a major role here.

**Management quality and service orientation: initiatives in Human Resources.** One of the measures for raising the level of management quality is the "STEP up!" program. Through this program we are creating and standardizing Group-wide systems for executive development. Human Resources itself is also cultivating its service orientation. The "Best PS" project is an important step towards this goal. The project helps to position the newly created HR Services Telekom unit on the internal market with high-quality services, while making use of synergies.





**Sustainability strategy: on track for "Sustainability Excellence."** Our new Group sustainability strategy for 2006-2008 incorporates and documents our responsibility towards our customers, employees, investors and society. With this strategy, we continue to pursue our vision: that of Deutsche Telekom as a sustainable company in a sustainable society. Like the Group's HR strategy, the Group sustainability strategy makes a significant contribution to enhancing the corporate value and implementing the "Telekom 2010" pro-

gram. The sustainability strategy improves the positive perception of the Group as a whole by increasing transparency and credibility and revealing long-term prospects. In doing so, it helps to build our credibility among various stakeholders, particularly customers and shareholders but also staff, suppliers and non-governmental organizations (NGOs).

**Clear orientation, concrete roadmap.** With its all-encompassing motto, "Sustainability Excellence – We create trust through sustainable corporate governance," the Group sustainability strategy provides a clear guidance for business actions. It applies globally to the entire Group. Forming the central component are the "Guidelines for sustainable corporate governance"; they describe the main areas of sustainability action for Deutsche Telekom. On this basis, the Group units define objectives and milestones for themselves – collectively known as the "HR and sustainability roadmap" – that illustrate the planned steps leading towards a sustainable business. The HR and sustainability roadmap will be continuously expanded with new milestones and regularly updated (see inside cover, "HR and sustainability roadmap," also online).



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

# Corporate governance. Group-wide Code of Conduct established.

The new Code of Conduct reinforces Group-wide corporate governance. Deutsche Telekom has implemented a values management system to ensure compliance with its Code of Conduct. Tip-offs to misconduct can be entered at a Code of Conduct violations portal.

In April 2006 Deutsche Telekom introduced a Group-wide Code of Conduct. This Code is rooted in the T-Spirit vision and values and is mandatory for all board of management members, executives and employees. The Code of Conduct determines our behavior within the Group as well as in our dealings with customers, business partners, stakeholders and the public – in all countries in which we do business.

**Code of Conduct: acting legally and ethically.** As an internationally operating company, it is crucial that we have an effective management instrument for corporate governance. Our Code of Conduct is the concrete expression of our T-Spirit vision and values. It constitutes a guideline for exemplary ethics and legally compliant corporate conduct for all Deutsche Telekom employees. This conduct is oriented towards the principles of the German Corporate Governance Code and the values of the United Nations' Global Compact. In its commitment to sustainable business practices and the Social Charter valid Group-wide, the Code of Conduct answers the question as to the conditions under which our products and services are produced and offered. This commitment attests to our adherence to internationally recognized minimum standards for human rights, social responsibility and the environment across the entire value chain.

**Maintain integrity, strengthen values.** Maintaining our Company's integrity is a central objective of the Code of Conduct. Avoiding personal conflicts of interest that could adversely affect the Group is part of our employees' ethical conduct. Deliberate misconduct and violations of the Code of Conduct – for example by granting or accepting an undue advantage, or corruption – will not be tolerated and will be systematically penalized. In tandem with the Code of Conduct, we have imposed a values and compliance program. In doing so, we are reinforcing management responsibility and ensuring that legal requirements and internal guidelines are

observed. The principal objective is to preclude pecuniary and reputational loss. Since the beginning of 2006, all employees have had direct access via a Group-wide database to all guidelines affecting their day-to-day work.

A central tip-off procedure has been set up as a key component of the Code of Conduct. The Group-wide portal for tip-offs to misconduct – the Ethics Line ([www.telekom.de/ethikline](http://www.telekom.de/ethikline), [www.telekom.de/bkms](http://www.telekom.de/bkms)) – is open to all employees and to our stakeholders. It protects the anonymity of those providing tip-offs. The newly established Code of Conduct and a values and compliance management system are our latest steps in creating a framework of guiding principles for Group employees, thereby creating the basis for a common corporate culture practiced in their everyday work.







## Management. Sustainability anchored Group-wide.

Efficient management systems for sustainability ensure minimization of risk and encourage innovation at Deutsche Telekom. The measures used include certified environmental and quality management systems.

Towards the end of sustainably enhancing the value of the Group, Deutsche Telekom relies on effective management systems. They assist the Group and the strategic business areas in evaluating and implementing all measures for quality improvement, customer retention, maintaining real value, innovation and efficient use of resources.

**T-Mobile: pioneering role expands further.** Since 1998, T-Mobile Deutschland – as Europe's first network provider – has used an environmental management system that fulfills the requirements of an international standard. DIN EN ISO 14001 certification now encompasses numerous international shareholdings of T-Mobile. As early as 2003, moreover, T-Mobile launched measures to recycle old mobile phones, thereby anticipating the WEEE (Waste of Electrical and Electronic Equipment) Directive of the European Union in effect since March of 2006.

**Quality management: excellence for employees, customers and stakeholders.** Voluntary self-assessment according to the criteria of the European Foundation of Quality Management (EFQM) is a fixture in many Group units, for example in the form of management reviews. Abroad as well, quality management systems according to EFQM have enjoyed long and successful use, for example at the Hungarian holding Magyar Telekom. Moreover, numerous German Group units of the strategic business areas are certified under DIN EN ISO 9001:2000 and/or DIN EN ISO 14001, as are many international affiliates under DIN EN ISO 14001.

**Group-wide HR management.** Deutsche Telekom also secures competitiveness and profitable growth through efficient capacity management and optimum deployment of staff. The Group's HR management focuses on four main topics: demand-driven staff restructuring, reduction of the personnel

cost ratio, management quality and service orientation. You can find more information under "Staff restructuring" starting on page 14 and "HR development" starting on page 26 of this report.

**Risk management.** Efficient risk management, along with transparent and reliable financial reporting, form an essential basis for the trust placed in us as a company that practices sustainable management. (see: 2005 Annual Report, Risk and opportunity management, page 90f).

**Internal audit system of financial reporting.** The 2006 financial year marked the first time Deutsche Telekom had to meet the strict requirements of Section 404 of the Sarbanes-Oxley Act (S-OX404). Deutsche Telekom has since standardized and professionalized the internal audit system of financial reporting worldwide. Its first certification for the 2006 financial year demonstrated the reliability of the Company's financial reporting.

**Customer-oriented innovations.** In view of the dramatic advances in technology, sustainable growth is closely bound up with the innovative capacity of the Group. To this end, the central Innovation unit is pursuing an all-embracing approach centered on customer needs while doing justice to technological aspects. One example of market-driven research and development is the Innovation Development Laboratory, which functions as an interface between the Group's internal development departments and industry partners, as well as scientific institutions. Comprehensive measures and voluntary commitments to protect consumers, data and youth have long formed part of Deutsche Telekom's efforts towards sustainable customer orientation.



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



## Stakeholder dialog. Open, constructive, based in partnership.

The Group's structured dialog with its interest groups ensures comprehensive information and a constructive exchange. The focus of this stakeholder dialog is on minimization of risk, knowledge transfer and customer satisfaction.

The dialog with stakeholders is a key component of our sustainability management. It is concerned not only with avoiding business risks, but also with enhancing the acceptance necessary to our business actions. This allows stakeholder knowledge to influence our Group strategy and to be integrated systematically into the development of new services and products.

**Seeking dialog: standing behind word and deed.** The stakeholder dialog used as a management tool enables Deutsche Telekom to organize the exchange of knowledge with companies, institutions and organizations, and enhances employee and customer satisfaction. By detecting trends early, we hope to secure a competitive edge in the dynamic telecommunications market. It is also important that we canvass and take issue with criticism and suggestions in good time and within the broadest possible cross-section of stakeholders: from employees, customers, business partners, investors, suppliers, public institutions, and consumer and environmental organizations. They help us to detect risks and demands in time to incorporate them into our business processes. In this context, the conclusions that we can draw from our dialog with sustainability rating agencies and their assessments are crucial. Particularly worthy of mention in 2006 are SAM (Sustainable Asset Management), Zurich, and Scoris/SiRi (Sustainable Investment Research International), Hanover.

**Effective instruments for knowledge exchange.** To encourage the trust of stakeholders and actively shape the exchange, we organize this dialog on various levels. They include the annual employee survey, as well as national and international dialog events. The annual Group Sustainability Day, a forum established by Deutsche Telekom for its stakeholders, offers an opportunity to discuss focal issues openly. We put the constructive dialog with major business

customers in the TelekomForum to use in gearing our offerings more closely to practical needs. The business areas also have effective customer forums at their disposal. T-Mobile Company Class provides a forum for top customers and partners interested in an exchange on current issues in mobile communications.

As an internationally operating company, we are indebted to our stakeholders, but not merely to those in Germany. In all countries in which we do business, we document our social and environmental responsibility through our membership in international organizations such as GeSI (Global e-Sustainability Initiative) and through our compliance with international guidelines such as those of the United Nations Global Compact. On July 1, 2006 Deutsche Telekom assumed the chairmanship of GeSI for two years. With this commitment we once again confirm our sustainability agenda. On the national and international level alike, we intend to further intensify the dialog with our stakeholders systematically.





# "A fresh start opened up new prospects for me."

Jutta Vaclahovsky, Telekom Direkt employee

When Jutta Vaclahovsky went on maternity leave twelve years ago, Deutsche Telekom was still Deutsche Bundespost, the national postal system. At that point she worked in the long-distance office. Now, with maternity leave and a good bit of child-rearing behind her, she is an important part of the Telekom Direkt sales team. "Even at home as a parent, I kept close track of the Group's development," says Vaclahovsky, now 45. "That helped me to stay on the ball, and to get oriented to my new professional life quickly too." Jutta Vaclahovsky already has proof positive of her success: in direct sales for the southern district, she visits private customers and small business customers at home or at their offices, and is already one of the most successful members of her team.

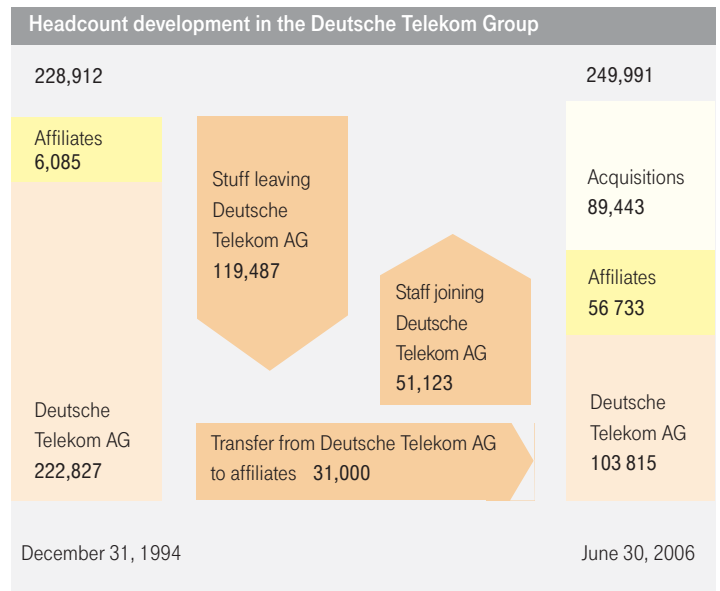




## Staff restructuring: safeguarding the Company's future in an industry in upheaval.

Turmoil in the telecommunications market has compelled the Deutsche Telekom Group to adopt a radical staff restructuring program, comprising a wide range of measures and innovative tools.

Over the past decade, a highly differentiated structure of personnel and employment conditions has evolved at Deutsche Telekom, due to radical downsizing particularly in Germany, coupled with the simultaneous acquisition of companies at home and abroad, in an ongoing process of inorganic growth. Now the global telecommunications market is on the brink of major upheaval once again. While ever more powerful broadband technology is opening up new markets for multimedia services, at the same time, the expansion in Internet technology and increasing automation of process operations have created significant rationalization pressure, particularly among technical sectors. On top of this, competition in the European telecommunications market is exceptionally tough as a result of current regulatory policies. In this situation,



“Deutsche Telekom faces an immensely challenging time ahead if it is to safeguard its medium and long-term competitiveness. Staff restructuring is an inescapable part of this process.”

Kai-Uwe Ricke, Chairman of the Board of Management of Deutsche Telekom AG

Deutsche Telekom is laying the foundations for a successful future as an integrated telecommunications group. The extensive staff restructuring program for the medium-term period 2006 to 2008 announced in November 2005 is one of the key cornerstones of this policy.

### Staff restructuring is unavoidable.

Deutsche Telekom and its business units are players in all key market segments. In this market environment, there is an ongoing challenge to become ever more effective, and adapting Deutsche Telekom's workforce structure in line with market requirements is a pivotal element of this process. To this

end, the Group has adopted a broad-based approach to staff restructuring, comprised of measures to reduce the headcount while avoiding compulsory redundancies, alongside demand-driven skills development and employee advancement programs, as well as the targeted recruitment of junior staff with the relevant know-how. In existing core markets such as the fixed-network arm, the Deutsche Telekom Group



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



is downsizing at international level, while in areas with direct customer contact such as T-Punkt Vertriebsgesellschaft and powerful growth markets such as T-Mobile USA, new jobs are being created.

Under Deutsche Telekom's current plans, a total of 32,000 employees will have left the German arm of the Group by 2008, including around 7,000 employees whose jobs are to be divested from Vivento.

The idea is that parts of the Vivento business lines will join forces with powerful industry partners, and the affected employees will then be employed by companies other than Deutsche Telekom. This will result in some 27,000 jobs being shed from the German arm of the Group - 20,000 at T-Com, 1,500 in the Group's centralized functions, and 5,500 at T-Systems. At the same time, there are plans for around 6,000 new recruitments, so that overall, the total number of jobs will be reduced by 19,000 over the period 2006 to 2008.

Staff levels in the Deutsche Telekom Group  
(in full-time equivalents)

	2005	June 30, 2006
Total employees	243,695	249,991
Of which Deutsche Telekom AG	106,604	103,815
Broadband/Fixed Network	111,267	109,667
Mobile Communications	51,410	53,488
Business Customers	52,041	57,132
Group Headquarters & Shared Services	28,977	29,704
Germany	167,875	167,642
International	75,820	82,349

**Potential for new jobs.** The staff restructuring program at Deutsche Telekom also includes the creation of up to 8,000 new future-safe jobs in the Group's growth areas in Germany, most of which will be filled internally. The high-speed fiber-optic network offers fantastic potential for new jobs, and T-Com has already begun rolling out this technology in selected cities - a huge project which could lead to the creation of up to 5,000 temporary jobs. However, these employment opportunities depend to a large extent on the decisions reached by the regulatory bodies. For example, if regulation of the new market associated with this high-speed infrastructure hampers network development, these additional new jobs will fail to materialize.

Plans to expand the T-Punkt distribution network offer additional employment potential. As new multimedia markets evolve, customer demand for expert technical advice on products and services will grow. The highly trained employees in the T-Punkt stores will be on hand to meet this demand. By the end of 2006, the number of T-Punkt branches will have increased from 500 (as per July 2006) to a total of around 620, and the T-Punkt network will continue to expand in subsequent years. By the end of 2008, up to 3,000 additional skilled jobs could be created in the T-Punkt stores.

**PEPP - Transparency for the internal labor market.** Within the context of staff restructuring, Deutsche Telekom is keen to plan and control the required measures using a range of innovative tools. "Potential-oriented Effective Personnel Planning" (PEPP) has helped to create complete transparency in the internal labor market. By introducing a detailed, standardized, comprehensive system of headcount planning on the basis of qualification clusters and by comparing these clusters with the planning scenarios of the business units and identifiable market developments, the German arm of the Deutsche Telekom Group has succeeded in optimizing its HR planning.







**Radical downsizing in the fixed-network arm.** The need for rationalization affects many areas of Deutsche Telekom, and surplus staff are being shed at a broad level across the Group. The fixed-network arm has traditionally been the most severely affected area, both at national and inter-

its telephone hotlines into a total of 60 sites. This is merely a relocation; no actual jobs have been lost.

**Making T-Systems more competitive.** The strategic business unit T-Systems is a player in a fiercely contested market segment. Cost pressure is high, particularly in the business customer market. T-Systems must respond with improved efficiency and an optimized cost structure. By the year 2008, staff numbers in this strategic business area will be reduced by around 5,500. Most of the downsizing will be concentrated in T-Systems Enterprise Services.

**“In order to maximize customer service while reducing administration and bureaucracy, T-Com needs fast decision-making paths and shallow hierarchies. The new organizational structure of the T-Com Head Office represents an important step in the right direction.”** Walter Raizner, Member of

the Deutsche Telekom Board of Management responsible for Broadband/Fixed Network

national level, since it has the largest staff surpluses. At T-Com in Germany, for example, 3,680 jobs were withdrawn on April 1, 2006 in phase one of the Re-invent program. More than half of these jobs were in the technical customer service segment. The cuts also affected sales and marketing, as well as the technical infrastructure unit. The reorganization of the T-Com Head Office and the associated concentration of tasks also mean that the new head office of this strategic business unit was reduced in size. Around 1,500 jobs disappeared during the course of this reorganization process.

In a second phase, several thousand positions became redundant with effect from September 1, 2006. The call centers are a focal point of staff restructuring at T-Com. In the past, call centers were spread over 96 sites throughout Germany, some of them with small teams of less than ten employees. In order to ensure a permanent improvement in both the efficiency of call center organization and the quality of customer telephone support, T-Com has concentrated

**T-Mobile – Savings potential already tapped.** The strategic business unit T-Mobile – which is responsible for all mobile phone business at Deutsche Telekom – is involved in the staff restructuring process, but there are no plans for any further job cuts. As part of the “Save for Growth” efficiency drive, T-Mobile in Germany has already shed several hundred jobs and reached its set targets. The current situation in the mobile communications market means that no further staff adjustments are required for the time being.

**Boosting efficiency at Group Headquarters.** One of the key tasks of staff restructuring and the associated improvements to operational processes is to improve the efficiency of the Group units. Through the “AURIGA” project, Deutsche Telekom is aiming to improve efficiency at Group Headquarters by at least 15 percent by the year 2008. During the course of this project, the headcount among centralized functions is to be reduced by around 900. AURIGA will also tap into further downsizing potential by

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



improving the core functions of the Deutsche Telekom Group with intelligent integration.

Substantial efficiency gains will also be achieved by merging HR Services at T-Com and Group Headquarters & Shared Services (GHS) into the newly created HR Services Telekom (PST). PST provides support to more than 135,000 Group employees across Germany on all personnel-related issues.

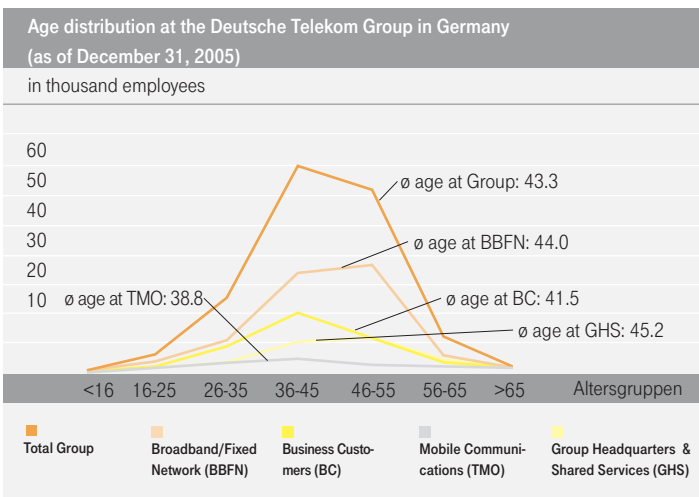
**A diverse range of staff cut mechanisms.** Staff restructuring in the Deutsche Telekom Group embraces a raft of innovative mechanisms. All packages are aimed at reducing the headcount while avoiding compulsory redundancies. Deutsche Telekom has set aside some EUR 3.3 billion in total for the staff restructuring program between now and 2008.

One key element of the restructuring package designed to reduce the existing staff surpluses was a special severance payment program, which was offered to Deutsche Telekom AG employees aged between 40 and 55 for a limited period only from March 1 to August 31, 2006. The package offered an increased severance payment, up to a possible maximum of EUR 225,000. As well as shedding staff, the special severance program also

aimed to bring down the high average age of the workforce, particularly at T-Com.

**Other downsizing tools.** For employees approaching retirement age within the next two years, Deutsche Telekom offers the “pension minus 2” model, whereby the company compensates for 50 % of any shortfalls in the employee’s pension insurance associated with early retirement with a special credit, paid into the company pension scheme. Another attractive option for employees and civil servants approaching retirement is the part-time employment scheme. As well as the measures aimed at employees covered by the collective bargaining system, Deutsche Telekom also offers voluntary severance packages to those outside of the collective bargaining system and senior executives.

**Strategic business areas adopt their own provisions.** The need for rationalization also applies to the strategic business unit T-Systems. The company has launched its own range of measures to encourage downsizing, particularly at T-Systems Enterprise Services. These include customized severance packages tailored to the needs of the unit, as well as provisions on part-time employment for employees approaching retirement age and on early retirement. T-Systems Enterprise Services is offering employees three times the standard severance payment until the end of July, and two times this amount until the end of 2006. Similar offers have also been made to employees at T-Systems Business Services. DeTelmmobilien is likewise participating in the staff restructuring process, and offers the same severance packages as Deutsche Telekom AG.



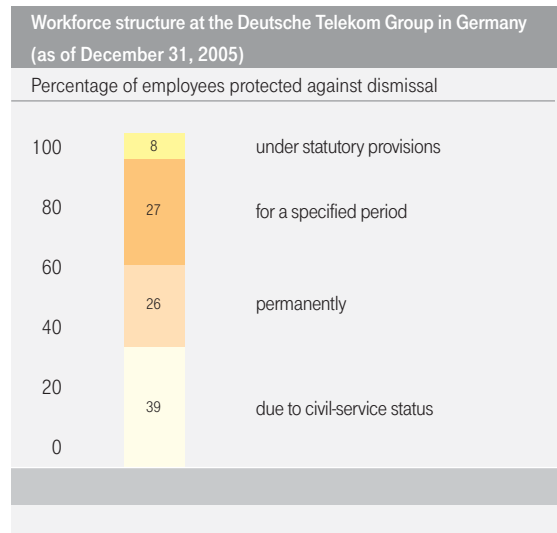


There has been a good response to these offers, which have been designed to avoid compulsory redundancies. By the end of H1, some 5,100 employees in the national Group had either opted for severance pay or had applied for part-time employment in the case of those approaching retirement age.

**Civil servants are also included in the staff restructuring process.** On May 31, 2006, the Federal Cabinet adopted a "Draft Second Bill to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost" and introduced it into the legislative process. Among other aims, the Act is intended to help correct the negative consequences of a structural feature of the successor companies to Deutsche Bundespost. These companies employ a high proportion of civil servants in Western Germany, while staff covered by collective agreements make up the majority of the workforce in Eastern Germany.

If this Act enters into force in the fourth quarter of 2006 as expected, Deutsche Telekom will be able to include its civil servants in staff restructuring measures. The planned Act will not impact the Federal budget. According to this draft legislation, civil servants of all service grades who are working in areas where there is a surplus of staff and for whom employment in another area is not possible or cannot reasonably be expected in line with civil service legislation, will be able to apply for early retirement from the age of 55.

**An end to the practice of temporary leave.** In the past, Deutsche Telekom AG granted employees temporary leave to work for its subsidiaries to allow in-house knowledge to be shared with the rest of the national Group. The employment relationship with Deutsche Telekom AG was deemed



dormant for the duration of the employee's work for the subsidiary. For around 7,000 employees, this period of temporary leave expired at the end of 2005 and has not been renewed, in view of the fact that the Group affiliates are now well-established on the market. As far as the affected employees are concerned, nothing has changed. They have continued to be employed at the same pay-and-benefits conditions. This move has helped to improve the transparency of the in-house labor market at Deutsche Telekom. The project to merge all facility management services at DeTelmmobilien was another measure aimed at the same objective. Some 1,000 employees previously employed by the national Group in these areas, such as Internal Service, have now been relocated to DeTelmmobilien.

**New employment potential in growth areas.** A key component of staff restructuring at Deutsche Telekom is the creation of new employment opportunities in promising



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



market segments, such as the marketing of products and services, and intensive customer support in the T-Punkt stores. T-Punkt Vertriebsgesellschaft will take control of the sales outlets. It has refocused the T-Punkt organization and put it on track for a successful future. The number of T-Punkt stores will increase further over the next few years to reinforce Deutsche Telekom's clear customer orientation and strengthen customer loyalty. By 2008, we aim to have around 1,000 T-Punkt stores serving customers nationwide. New jobs will be created as the T-Punkt organization expands. 1,000 new jobs will be created in the T-Punkt stores in 2006, and a further 2,000 could be added in the medium term.

#### **Vivento – A key driving force behind staff restructuring.**

Vivento, the in-house service provider responsible for staff surplus and placement management, plays a key role in helping to actively shape the staff restructuring program and supporting the in-Group labor market. Over the past year, Vivento has continued its successful work and currently numbers some 14,800 employees – around 700 core staff and management, 7,600 employees in the Vivento Business Lines, and 6,500 transfer staff, 3,900 of whom were on loan and temporary assignments as per the date of reporting. Around 1,900 employees left Vivento in the first half of 2006. Since Vivento's foundation in 2002, a total of 20,800 employees have departed for pastures new outside of Vivento. At the end of June 2006 the proportion of staff in training or employment was 83 percent.

In a ruling dated June 22, 2006 the Federal Administrative Court clarified the legal situation regarding the transfer of civil servants to Vivento, declaring the transfer as not legally permissible. Deutsche Telekom will be examining

the reasons behind the ruling as soon as they become available, and will decide its next move on the basis of this analysis. Until that date, all transfers of civil servants to Vivento have been suspended. The situation for the civil servants already transferred will remain unchanged – they will stay at Vivento and will continue to be given temporary employment or a new permanent position inside or outside the Group. The transfers made to Vivento to date are legally valid because the transfer process is completed. The ruling will not affect essential staff restructuring, which will continue as before. In the meantime, in the case of civil servants who are affected by the rationalization plans but cannot be transferred to Vivento in the light of the Federal Administrative Court's ruling, Deutsche Telekom will avoid non-employment by offering these individuals support and placement services at their original organizational unit, while drawing on Vivento's expertise.

**“Vivento successfully performs its role as a hub of the labor market by bringing together supply and demand, i.e. jobs and job seekers. This offers a wealth of opportunities for Vivento – and for every individual employee.”** Dietmar Welslau, Chairman of the Vivento Managing Board







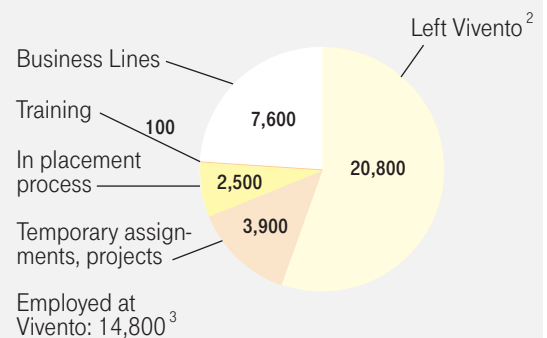
**Pioneering Vivento projects.** Vivento plays a decisive role in helping to shape staff restructuring at the Deutsche Telekom Group with a series of future-oriented projects. In the second quarter of 2006, Vivento created "Vivento Interim Services GmbH." The newly formed company is staffed by junior Deutsche Telekom employees on fixed-term contracts who have passed their final exams but have yet to find a follow-up position and can thus gain further professional experience through Vivento Interim Services. Vivento Interim Services aims to fill temporary employment gaps caused by workforce restructuring where no other suitable employees are available within Vivento for placement. Telekom Direkt (Deutsche Telekom Direktvertrieb und Beratung) is a new direct marketing channel for Deutsche Telekom created by Vivento in 2005. In the spring of 2006, Telekom Direkt was integrated into the T-Com business unit to allow a consolidation of sales structures. As at June 30, 2006 Telekom Direkt had around 300 employees.

**Round tables as a key HR planning tool.** The central and regional round tables play an important role in the workforce restructuring process. Active capacity management is crucial for optimum downsizing. Capacity management ensures an ongoing comparison between staff surpluses and vacancies within the Group. This is the task of the round table committees, whose members include HR experts from the strategic business areas as well as experts from Group Headquarters and from Vivento. By regularly exchanging information about staff cuts and employment potential, the



#### Vivento, status June 30, 2006<sup>1</sup>

Staff transferred to Vivento: 35,600



<sup>1</sup> Figures rounded, including Vivento Management

<sup>2</sup> Of whom approximately 11,500 employees have left Deutsche Telekom AG since 2002.

<sup>3</sup> Including approximately 700 full-time employees at Vivento Management.

round tables make a significant contribution to the efficient placement of employees within the Group and the implementation of individual employee transfers. The round tables play a valuable role in encouraging employees to embrace change and the associated need for mobility and flexibility.



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



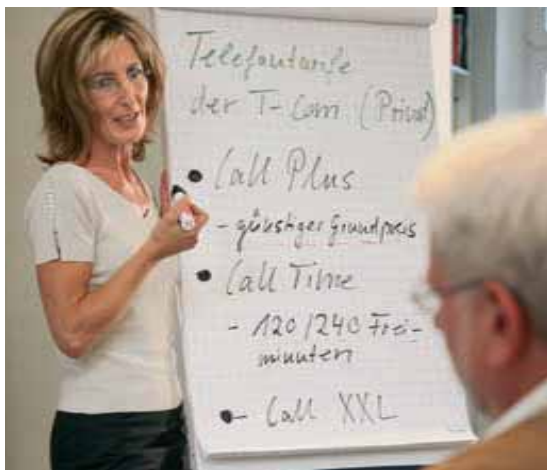
**Comprehensive information on vacancies.** In order to promote staff restructuring, employees at various levels regularly receive information on vacancies within the Group. The digital job exchange on the intranet is supplemented by events to highlight the various employment opportunities available. Job forums were held at the T-Com Head Office to publicize vacancies at T-Com, T-Systems, T-Mobile and T-Punkt Vertriebsgesellschaft, and explain the conditions of transfer. The "Jobs on Tour" campaign at T-Systems informed employees about the opportunities available both within and outside of the Group. We have had a very positive response from employees to the job forums and "Jobs on Tour." T-Mobile Deutschland has also appointed a specialist placement team to provide an advisory service to employees.

**Enhanced productivity.** The aim of staff restructuring is to boost Deutsche Telekom's efficiency and productivity, and safeguard the Group's long-term strength in the face of tough competition. The collective bargaining agreement negotiated with employee representatives has helped to boost productivity. For employees covered by collective agreements, the agreement provides for a one-time payment of EUR 350, no pay increases until October 2006, and a 3-percent increase in pay-scale salaries starting November 2006. The collective wage agreement will run for 16 months until July 31, 2007. Separate provisions have been agreed for civil servants, including a one-time payment of up to EUR 735 depending on the respective salary grade. To improve productivity and thus enhance competitiveness, paid breaks for staff using workstation monitors were reduced and the paid recuperation times were abolished in some areas. This has helped to cushion the impact of the salary increases on Deutsche Telekom, and also creates potential to reduce outsourcing in the areas of services and installation in the future.

In close collaboration with the employee representatives, T-Mobile Deutschland has implemented a "Quality Leadership Package" containing a raft of measures designed to optimize in-house customer service as part of its Save for Growth program. As well as introducing "business performance management" for customer support staff, which allows their customer conversations and screen activities to be recorded and evaluated for coaching purposes, paid screen breaks were also reduced with the aim of boosting productivity. As part of the package, T-Mobile Deutschland has promised to retain all customer service sites and to refrain from compulsory redundancies until at least the end of May 2009. At the same time, these agreements will allow us far greater flexibility in the way we structure our customer service work and improve the quality of service offered to customers.







**Dialog with the employee representatives – a challenge in times of workforce rebalancing.** We are determined that the restructuring process should avoid compulsory redundancies wherever possible. In order to ensure a united approach, Deutsche Telekom conducted intensive negotiations with the employee representatives and devised a package of measures including various provisions to accompany the staff restructuring process and tools to support downsizing while avoiding compulsory redundancies. Although we failed to reach a final agreement with the service industry union ver.di on workforce rebalancing, we did achieve a reconciliation of interests with the Central Works Council of Deutsche Telekom AG and were able to agree on a redundancy plan for workforce restructuring in 2006.

**Workforce restructuring and HR development.** The downsizing process is designed to refocus the Deutsche Telekom Group in line with future market structures and customer requirements. Alongside workforce rebalancing, Deutsche Telekom is also committed to sustainable HR development and the formation of a customer-centric service structure. Staff restructuring and HR development should work in tandem to ensure that we have the right employees in the right places with the right qualifications. Our service culture places the customer at the center of all our activities.

#### Approaches taken by employee representatives

**The Group Works Council and Central Works Councils – Actively shaping the Group's future development from a social perspective.** The Works Councils are actively involved in the Group's future-safe development, as well as a valuable source of constructive criticism. Their purpose is to protect employee interests by safeguarding existing jobs and creating new, future-safe employment opportunities. The minimum dividend already promised to shareholders for the next few years and our own capital and return targets should not be achieved solely from a cost perspective, but should also be reflected in the consistent achievement of our revenue targets. Essential and unavoidable rationalization measures initiated by the employer will be achieved without redundancies via the centralized reconciliation of interests.

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



Information and consultation processes with the Company are consolidated by the European Works Council (EWC). The EWC was extensively consulted and informed on implementation of the Excellence Program at T-Systems. The EWC was also informed about the new focus of T-Systems' international strategy, which will significantly affect employees in some countries. Another issue for debate was the integration of the IT company gedas into the national affiliates of T-Systems. The EWC also discussed the Company's sustainability activities and diversity policy. There was also extensive consultation on the Code of Conduct. The Company already has a well-established practice of providing information on the economic situation and HR development at home and abroad.

Involvement of the Corporate Group Executive Staff Representation Committee. Senior executives are involved in the Group's strategic and organizational reorientation via the Corporate Group Executive Staff Representation Committee and the company executives' committees of Deutsche Telekom AG, T-Mobile Deutschland, T-Systems, DeTeImmobilien and Vivento Technical Services. In their role as multipliers, senior executives play a crucial part in all change processes by ensuring the acceptance and implementation of essential restructuring measures. They also have a formative influence on the 2006 staff adjustments in dialog with their employees.

In June 2006, the company executive committee of Deutsche Telekom AG accompanied the essential rebalancing measures by adopting new guidelines in accordance with Article 28 of the Executives' Committee Act. Following an initiative by the Corporate Group Executive Staff Representation Committee, the Group held its first ever assembly of all senior executives in the summer of 2006, which was attended by around 1,300 participants. The senior executives were called upon to act as ambassadors for the strategic reorientation and as catalysts of value-oriented business excellence. The Committee was a key component of the constructive communication process between the Board and the management team.

STEP up! was also a key focal point of the executive committees' work. This all-embracing management development program has been designed to promote a Group-wide performance culture. The Corporate Group Executive Staff Representation Committee is actively involved in the implementation committee for STEP up!

"Trying new paths is worthwhile –  
in every respect."

Hans-Georg Apostel, teacher and former project manager at DeTeImmobilien







After 25 years as a career engineer, Hans-Georg Apostel has set himself a new goal in life. Since the beginning of the 2006 school year, Apostel, 53, has been a teacher at the Hulda Pankok Comprehensive School in Düsseldorf. After a six-month trial period, during which the former project manager at DeTeImmobilien became intimately familiar with the day-to-day challenges of a school, he knew one thing for sure: "I want to pass on my experience to young people." Full of enthusiasm, he ventured a fresh start in life with the "Teacher" project at Deutsche Telekom – a challenge with plenty of prospects.



## HR development: the power to achieve in the face of fierce competition.

The radical changes currently sweeping through the ICT markets are placing unprecedented demands on HR development at Deutsche Telekom. In an altered market environment, employees must continually acquire new skills and use these to optimum effect in the transformed Group structures.

The latest developments in the international telecommunications market are radically transforming market structures, yet Deutsche Telekom has been no stranger to dynamic change in the telecommunications business in recent years. The Group's HR development has responded flexibly to change, as clearly illustrated by the shifting employment focus over the past ten years. In 1994, around 70 percent of the workforce was employed in technical areas, whereas by 2005 this figure had dropped to 40 percent. While in 1994, around 30 percent of employees were engaged in service-related tasks such as marketing and sales, by 2005 this figure had almost doubled to just under 60 percent. This so-called skills shift has been achieved primarily with existing staff or with personnel recruited via inorganic growth, i.e. the acquisition of companies at home and abroad.

**From technology company to service-oriented enterprise.** The figures indicate that Deutsche Telekom's transformation from technology company to service enterprise is well underway, and the Group is consistently driving this transformation forward. As well as the important role played by workforce restructuring (see chapter 2), strategy- and demand-driven HR development is also a decisive factor. Via targeted training programs and other HR development measures, employees acquire the skills they need for their vocational and personal development in the Deutsche Telekom Group. The high level of qualifications of its workforce enables Deutsche Telekom to face up to the challenges of an extremely competitive telecommunications market.

**Telekom Training – Skills development is our core business.** Telekom Training is responsible for vital skills development within the Deutsche Telekom Group. This in-house provider of training and development programs trains professionals and managers in information and telecommunications technology, as well as helping them to hone their personal skills. The curriculum includes in-class seminars as well as a range of sophisticated e-learning courses based on the learning platform Global Teach. Despite fierce competitive pressure and the need for improved efficiency, Deutsche Telekom is investing on a large scale in its HR development, as indicated by the escalating number of participant days at Telekom Training seminars.

The various units within the Group submit their training requirements to Telekom Training. Even with major projects – such as seminars on the development of the new VDSL high-speed network – training is tailored to individual requirements. Telekom Training plays a valuable role in staff restructuring. As well as providing requirement-based HR

Skills development at Telekom Training

	2004	2005	June 30, 2006
Seminars	13,001	122,826	7,205
Participants	116,837	122,379	71,892
Participant days	332,588	403,178	181,919
Access to			
Global Teach <sup>1</sup>	744,299	555,696	346,986

<sup>1</sup> Global Teach is an in-house e-learning platform. In 2005, the platform was accessed from approximately 40,870 workstation PCs.





- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

development, strategic skills-building plans are also drawn up, e.g. by skills development circles at T-Systems or by the so-called Central Forum, where experts from the areas of human resources, Group strategy and employee representatives discuss training requirements within the context of future plans for a given business area.

**Managers as promoters of HR development.** Managers are an important target group for HR development within the Deutsche Telekom Group. On the one hand, it is their role to explain the Company's transformation and associated workforce restructuring to their staff, while on the other, they also need to develop their own skills in order to help actively shape the change process at Deutsche Telekom. With this in mind, various Group units offer a range of measures aimed at enhancing the skills of managers.

#### Encouraging dialog at T-Com.

Through the "Speak your mind" campaign to promote dialog, T-Com has encouraged managers in this strategic business unit to focus on the future and embrace change. A total of 29 conferences were attended by some 5,400 managers, who welcomed the opportunity to meet with top management and discuss future strategies and challenges in the face of radical market changes. A second round of "Speak your mind" conferences has already been initiated.

**Broad-based strategy dialog at T-Systems.** The "Leading in Change" workshops at T-Systems provide an organizational framework for management dialog on the transformation and repositioning of the Group's business customer unit under the Mobilize initiative 2006. More than 50 national workshops were held in 2005 and attended by some 5,000

participants. A further 50 or so "Leading in Change" events are scheduled for 2006. These decentralized events will discuss the direction and implementation of the business area strategy with all T-Systems managers, both national and international.

**Story Box at T-Mobile.** The T-Mobile Story Box was developed as a convenient interactive tool to help managers to explain the corporate culture and strategy to their employees. The Story Box takes these relatively abstract themes and converts them into concrete scenarios with relevance for everyday life. The tool is divided into a number of separate chapters

**"Particularly against the current backdrop of staff restructuring, we need to know what skills are available within the Group. We must ensure that we have the right people in the right places."** Dr. Heinz Klinkhammer, Member

of the Deutsche Telekom Board of Management responsible for Human Resources

and exercises, giving all national companies the flexibility to use this tool in the way which best suits their needs.

**Skills databases show profiles at a glance.** Employee abilities and job requirements are generally reviewed jointly by the manager and employee at least once a year as part of the employee-oriented process. However, it is important for managers to retain an overview of the skills available in their organizational unit at all times. This has prompted the creation of skills databases, which are used to store information on employee skills. A minimum standard was drawn up for these types of systems in 2003. For example, the Procurement unit at the T-Com Head Office acquired its first experience of skills management using the "skills navigator," which logs details of employees' skills and the requirements of their





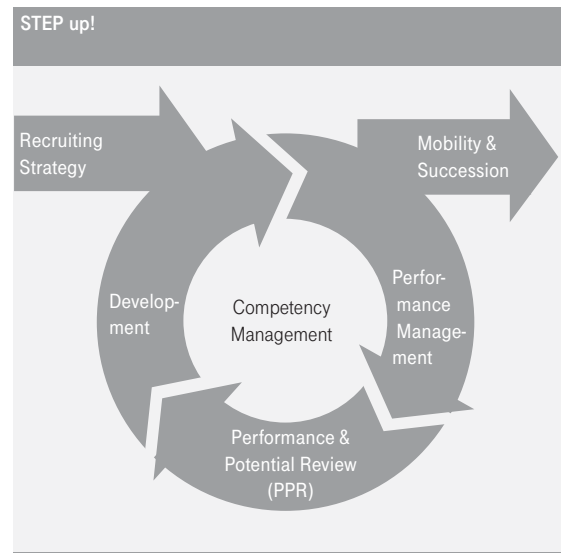


positions. Careful comparison of this information makes it possible to pinpoint professional development requirements. In the future, it is hoped that similar information systems will be used by a growing number of organizational units in the Deutsche Telekom Group to support targeted, individual HR development.

**Optimized executive development with STEP up!**

Deutsche Telekom offers a wide range of HR development programs catering to all levels. The STEP up! program (Systematic & Transparent Executive Development Program) was introduced with the aim of systematizing and standardizing the development of executives. STEP up! supports the targeted advancement of highly qualified managers and high potentials. The program offers a host of additional development tools and opportunities, as well as setting out Group-wide standards and processes for executive development. The components of STEP up! include models for the transparent and comparable evaluation of managers, as well as an integrated system defining the skills requirements and development paths for all Deutsche Telekom executives. STEP up! is not only established in the German Group units, but is also being extended to the international shareholdings.

STEP up! also includes two international programs, the Senior Executive Program (SEP) and the Executive Program (EP), which focus on the advancement of high potentials. SEP and EP include both theoretical knowledge, such as an



understanding of the International Financial Reporting Standard, as well as hands-on practice.

STEP up! additionally comprises a new recruiting strategy designed to raise Deutsche Telekom's profile as an attractive employer for future employees, interns and trainees. The national "Best Brains Award" pursues the same objective. Under the motto, "The link between us – Deutsche Telekom and soccer," the award invited teams of applicants – mostly students – to devise and stage an appealing event.



**Advancement for experts with GO AHEAD!** Deutsche Telekom recognizes the importance of advancement for experts as a way of meeting changing market requirements while offering interesting career prospects to valued employees. In GO AHEAD! the Group has collaborated closely with employee representatives to devise a special framework

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



model. T-Systems' previous experiences with the "CAREER@T-Systems" model have been incorporated into this new model, which takes tried-and-trusted HR development tools and refines them for the targeted development of expert careers. GO AHEAD!, with its systematic, Group-wide career architecture, could be termed a blueprint for expert careers within the Deutsche Telekom Group. It clearly demonstrates how much Deutsche Telekom values the abilities and skills of its professional employees, and proves that it is keen to offer them the same degree of development opportunities as managers.

**Development programs at T-Systems:** T-Systems has also introduced a separate program to monitor the targeted development of its employees' skills. CAMPUS gives all employees the opportunity to continually advance their development and boost customer satisfaction by improving their performance. The advanced courses train employees in key areas such as sales, project and service management, and IT and consulting. 2005 saw the creation of the IT University to facilitate targeted employee development in selected areas. It helps students to hone their skills in all customer segments. In 2006, this program alone was attended by some 3,100 employees.

#### Cultural development – Creating a climate for success.

As well as encouraging each individual employee with a variety of HR development measures, Deutsche Telekom also focuses on the ongoing formulation of a future-oriented corporate culture. The Group believes that such a culture is pivotal to corporate success as well as to the personal development of the workforce. Apart from implementing the T-Spirit corporate vision and values

and introducing the Code of Conduct (see chapter 1), it has also devised a host of other tools to benefit employees. One such cultural development tool is the 360° feedback system for managers at Deutsche Telekom AG, who receive online praise and criticism of their leadership and management conduct from their employees, superiors, colleagues and clients. This feedback is then compared against the managers' own self-assessment, creating an "all-round view" of their own conduct, and giving them an opportunity to change or develop in line with the management culture.

**Diversity@Deutsche Telekom.** In 2004, Deutsche Telekom adopted a Diversity Policy to enable it to benefit from the diversity that exists both within and outside of the Group. Deutsche Telekom is pursuing a clear diversity strategy based on this policy. In November 2005, a Diversity Congress was attended by some 150 Deutsche Telekom managers, who came together to discuss the diversity aspects of a whole range of topics such as customer strategy, employment structure and workforce restructuring. In the area of HR development, the Group employs a wide range of development tools and measures in order to accommodate the diversity of its workforce.

"Within the context of corporate governance, equal opportunities for men and women means moving away from the idea that the advancement of women is a separate, delimited task. Women offer incredible potential – let's use it to maximize Deutsche Telekom's success."

Maud Pagel, Head of Diversity at Deutsche Telekom





Women at Deutsche Telekom AG (Germany)			
in percent			
	2004	2005	June 30, 2006
Percentage of overall workforce	33.8	32.4	31.6
Percentage in senior management	10.2*	11.3*	11.4
Percentage in senior and middle management	17.3*	19.2*	15.2
*Figures as of June 30			

Telework jobs at the Deutsche Telekom Group (Germany)		
	2005*	June 30, 2006
Number	3,554	3,269
*Figures as of June 30		

**Family fund and day care centers - Accepting social responsibility.** As one of the largest employers in Germany, Deutsche Telekom actively addresses its social responsibility with a large number of projects. In early 2006 the Group set up a special family fund to which all Group units contribute annually depending on the size of their workforce. This fund is earmarked primarily for measures in conjunction with the "Local Family Alliances." Deutsche Telekom has also opened new day care centers at its two busiest sites, Bonn and Darmstadt. The vocational training unit in Essen and the Consumer Branch Office for the Northern District were both proud to be awarded certificates for their family-friendly human resources

policies by berufundfamilie GmbH, which is affiliated to the charitable Hertie Foundation.

**Vocational training - Preparing for the future.** Deutsche Telekom demonstrates its responsibility to young people by continuing to offer high numbers of openings for trainees. Despite the difficult employment situation and financial constraints, in the fall of 2006 some 4,300 trainees will join the Company to begin training in a total of twelve vocations, plus various degree courses with integrated practical phases. In November 2005, Deutsche Telekom was awarded the German Employers' Education Award in recognition of its commitment to training and training quality.

In any given year, Deutsche Telekom has more than 12,000 trainees in total, making it one of the largest training providers in Germany. Against the background of workforce restructuring, Deutsche Telekom is no longer able to offer jobs to all these trainees once they have finished their training. Under the terms of the employment alliance, we have agreed to take on the top ten percent of trainees from each examination year. Additionally, in 2006 Deutsche Telekom took on around 600 junior staff, some of them on fixed-term contracts. Upon completion of their training, the remaining trainees can apply to Vivento Interim Services to acquire further vocational experience within the context of a fixed-term employment relationship at Deutsche Telekom.



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



**Age management – Grooming older employees for the future.** The age management program launched in 2005 will take a further step forward at the end of 2006, when it is piloted in two T-Com units. Apart from preventive healthcare measures and assessing the suitability of the work environment for older employees, an electronic midlife assessment is also available on a voluntary, anonymous basis to determine the employee's current situation. This may be followed up by a personal consultation. The aggregate results may be used by the unit when determining skills-building measures, for example.

Trainees and training occupations				
(total of all three training years)				
Occupations	2005	of which f	June 30, 2006	of which f
<b>IT occupations</b>				
Systems electronics technican	2,990	149	2,439	127
IT technican/applications development	271	32	194	20
IT technican/system integration	1,539	103	1,137	66
Systems business administrator	2,029	604	1,538	455
Mathematical technical assistant	-	-	5	-
<b>Industrial/technical occupations</b>				
Energy electronics technican				
spezializing in systems operation	-	-	1	-
Electronics technican for building and infrastructure installations	114	7	77	4
<b>Commercial occupations</b>				
Office communications administrator	3,360	2,634	2,410	1,895
with supplementary qualification as				
foreign language correspondent (Eng.)	0	0	40	32
Retail sales assistant	489	248	476	275
Industrial business administrator	260	159	214	127
Administrator for building and housing management	73	48	49	35
advertising administrator	-	-	2	2
<b>Degree courses with integrated practical phases</b>				
Incl. universities of applied science in Paderborn				
Leipzig, Bergisch Gladbach, Darmstadt	300	88	293	88
<b>Total number of trainees</b>	<b>11,425</b>	<b>4,108</b>	<b>8,875</b>	<b>3,126</b>



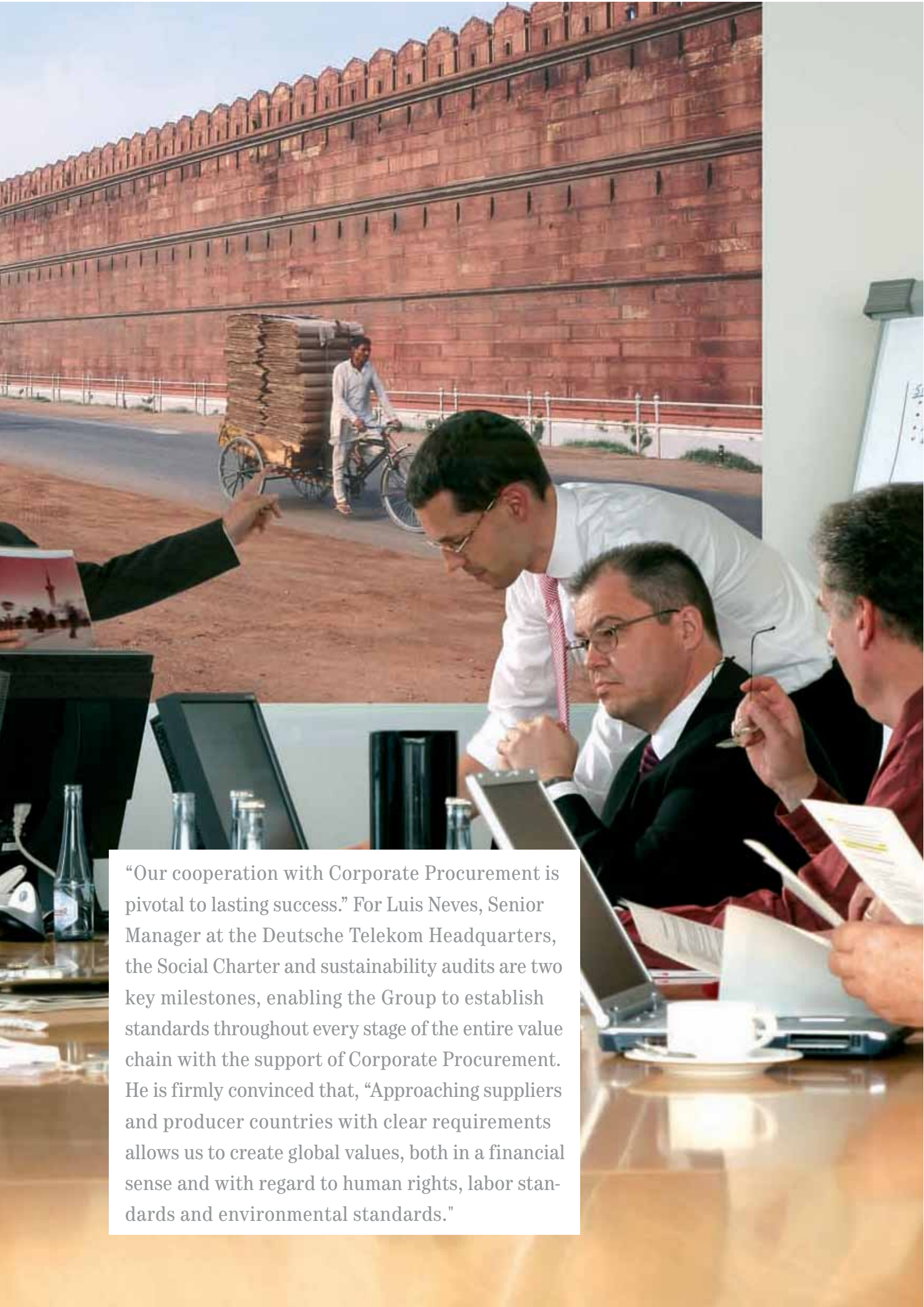


“Accepting responsibility  
and adding value together.”

Luis Neves, Corporate Sustainability & Citizenship, Deutsche Telekom AG







“Our cooperation with Corporate Procurement is pivotal to lasting success.” For Luis Neves, Senior Manager at the Deutsche Telekom Headquarters, the Social Charter and sustainability audits are two key milestones, enabling the Group to establish standards throughout every stage of the entire value chain with the support of Corporate Procurement. He is firmly convinced that, “Approaching suppliers and producer countries with clear requirements allows us to create global values, both in a financial sense and with regard to human rights, labor standards and environmental standards.”

## Supply chain management. Taking responsibility worldwide across the entire value chain.

The Group's supply chain management is an instrument for controlling the social, environmental and economic consequences of our entrepreneurial activity.

As an internationally active company, Deutsche Telekom's responsibility extends across the globe. The clear objective of the Group's supply chain management is to institute social, ethical and ecological standards in the worldwide value chains in such a way as to promote respect for human rights and adherence to environmental standards. An important key to its success are suppliers who offer innovative, competitive solutions and products on the basis of common responsibility for humanity and the environment. Deutsche Telekom strives to achieve partnership in its business relationships with suppliers – a partnership that is based on honesty, trust and commitment. A constructive dialog, close cooperation with suppliers and NGOs and partnerships and participations in additional projects lay a solid foundation for the Company's activities.

mental impacts in these countries are among the aims of the Company. Internal measures to achieve these aims are mirrored by the Group's steps to enter externally into cooperative agreements and fulfill voluntary commitments.

**Internal corporate values as a solid basis.** The Group's T-Spirit vision and values and the institution of the Code of Conduct form the basis for Deutsche Telekom's business dealings, helping it to meet its responsibility worldwide. The conditions under which products and services are manufactured and offered are particularly important for our supply chain management. As early as 2003, we codified the need for compliance with minimum ecological and social standards by employees and suppliers of Deutsche Telekom in the Social Charter. Across the entire Group, these standards

are as transparent as they are binding. This voluntary commitment is based not only on the values of the Global Compact but also the internationally recognized conventions, guidelines and standards of the International Labor Organization (ILO) and the Organization for Economic Cooperation and Development (OECD).

"As a telecommunications company, we provide the technology that forms the central nervous system of the global economy. We can only fulfill this special responsibility if we make dedicated use of this role to incorporate our ideas on sustainability and gain acceptance for them."

Dr. Ignacio Campino, Head of Corporate Sustainability & Citizenship at Deutsche Telekom

**Entrepreneurial responsibility.** Deutsche Telekom sees itself as a good corporate citizen that works actively to instill an orientation towards sustainability in the ICT industry and in its entire value chain worldwide. In keeping with its corporate social responsibility (CSR), Deutsche Telekom is well aware of the need to ensure that social standards, human rights and environmental standards are respected. This also means consciously helping to lead change in developing countries. Ensuring better working conditions and mitigating environ-

All Group-wide guidelines demand responsible and ethically correct behavior – within the Group and outside it.



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<input type="checkbox"/>	Deutsche Telekom
<input type="checkbox"/>	Vision, strategies
<input type="checkbox"/>	Staff restructuring
<input type="checkbox"/>	HR development
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<input type="checkbox"/>	Climate protection
<input type="checkbox"/>	Data and targets

**International cooperation and voluntary commitment to human rights.** Deutsche Telekom relies on cooperative agreements and voluntary commitments on the international level to promote respect for social standards and human rights. Among the Group's areas of involvement are:

- **GeSI (Global e-Sustainability Initiative)**

As part of the Global e-Sustainability Initiative (GeSI), we are embracing global sustainability guidelines for the ICT sector that also extend into the supply chain. This initiative, which was founded under UNEP's auspices in 2001, is aimed at promoting development of sustainable technologies for the telecommunications industry. A co-founder of the initiative, Deutsche Telekom is involved within GeSI in the Supply Chain Working Group. The ideas developed as part of this involvement inform the Group's supply management (see page 39).

- **United Nations Global Compact**

In September of 2000 the United Nations formulated a declaration aimed at safeguarding the global future. The "Millennium Development Goals" are slated for implementation by 2015. We are committed to these ten principles of the UN's "Global Compact" initiative and believe they should be the standard for global business. By signing the Global Compact, Deutsche Telekom committed itself to upholding certain social and ecological minimum standards.

- **ETNO (European Telecommunications Network Operators' Association)**

On the European level, Deutsche Telekom is a member of the ETNO Executive Board and the "Sustainability" working group, among others. In 2004 the Group was the first of 25 companies to sign the ETNO Sustainability Charter. The ETNO "Sustainability" working group has become an important point of contact for the European Commission and for

other EU decision-making bodies on the issue of sustainability in our industry.

- **OECD (Organization for Economic Cooperation and Development)**

One of the objectives of the OECD is to contribute to optimum economic development and a rising standard of living in its member states. Deutsche Telekom voluntarily aligns itself with the principles of the organization, whose guidelines are not binding.

- **UNEP (United Nations Environment Programme)**

Deutsche Telekom supports the United Nations Environment Programme as a partner. We support related projects such as the GeSI "Coltan Report" (see "Problematic Raw Materials" below) and the "Sustainability Sector Reporting Guidelines for Telecommunications" of the Global Reporting Initiative (GRI).

- **GRI (Global Reporting Initiative).**

Deutsche Telekom supports the GRI actively in collaboration with other international stakeholders. Our aim is to create a system for standardized, voluntary reporting of economic, social and environmental impacts on the operational and organizational level.

- **BLIHR (Business Leaders Initiative on Human Rights)**

Deutsche Telekom regularly attends events organized by BLIHR. The companies involved are concerned with finding ways to better integrate human rights issues into entrepreneurial decision-making processes and reinforce existing initiatives.





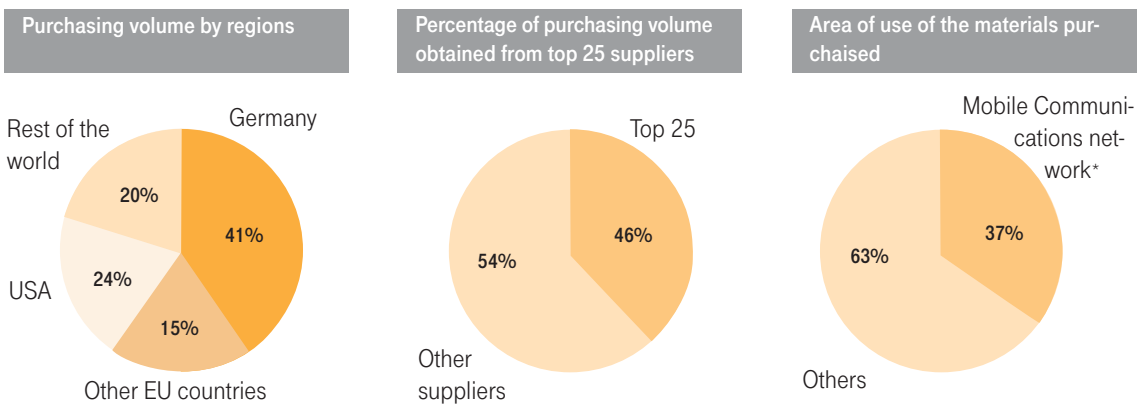


**Joint Responsibility.** Within the Group, collaboration between Corporate Procurement and Corporate Sustainability & Citizenship (CSC) is extremely constructive and high-profile. This close collaboration between the two business areas supports our efforts to fulfill the Company's responsibility and ensure compliance with minimum ecological and social standards across the entire supply chain. The work of Deutsche Telekom's Corporate Procurement is governed by the Global Procurement Policies, which define the role, values, responsibilities and principles of conduct for purchasing and the standards of procurement, supplier management and contract management.

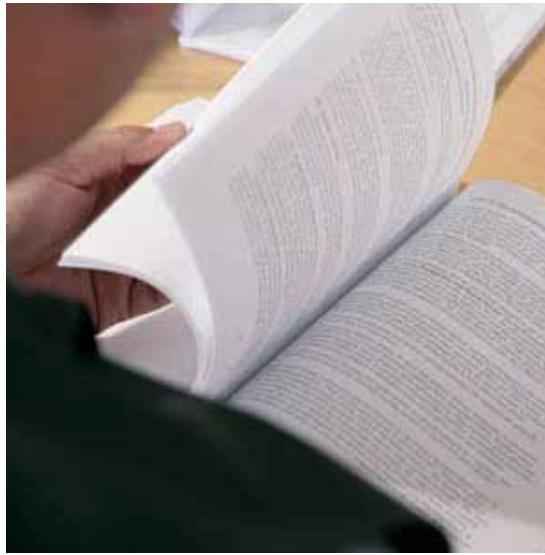
**Problematic raw materials.** One example of the way we act on our responsibilities is our handling of the raw material Coltan. Coltan contains tantalum, a metal used to produce electronic components. Rebel groups in the Democratic Republic of the Congo, which is affected by civil war, are reportedly financed by illegal mining of coltan ore, among other things. They are causing irreversible and unacceptable damage to humans and nature in this region. Deutsche Telekom is committed to minimizing and in the long term preventing entirely all damage caused to people and to the

environment by coltan ore mining. As a result, the Coltan Statement, which applies universally to the Company, is mandatory for all of Deutsche Telekom's purchasing activities. Moreover, all top 25 suppliers are questioned about their specific coltan regulations.

**Global sourcing.** The Deutsche Telekom Group is represented in more than 50 countries worldwide. Corporate Procurement obtains quality products worldwide for the entire Group and helps it to benefit from cooperation with innovative suppliers in relevant markets. Targeted measures to increase efficiency help us, together with the suppliers, to achieve significant cost reductions. We assist our suppliers in improving their competitiveness through analysis of cost structures and ongoing optimization measures. But the opportunities of worldwide procurement also involve several risks such as sacrifices in quality and risks to supply and reputation. To counteract such risks, the Group has established a sustainable supplier management system that simplifies logistics processes and, through exacting inspection procedures, ensures the quality of products and materials purchased. This system also guarantees compliance with environmental, security, ethical and social standards.



\* Mobile phones and accessories, mobile network infrastructure, network capacities and transmission equipment



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain Management
- Climate protection
- Data and targets

**Procurement policy.** In 2005, Deutsche Telekom procured approximately EUR 20 billion in goods and services. Supplies break down into 30 product groups. Of these, 15 product groups can be assigned to direct requirements and the other 15 groups to indirect requirements. As part of the process, Deutsche Telekom uses the United Nations Standard Products and Service Code (UNSPSC) to ensure transparency of data.

**Supplier management and value-optimized procurement.** We see our suppliers as a strategic success factor. Through their innovative and competitive products and solutions, they contribute to the satisfaction of our customers and to the success of the Company. This collaboration takes different forms and may even reach the level of a strategic partnership or joint development and marketing of innovative products and solutions. Evaluation of supplier performance, strategic assessment of potential and the product group and supplier strategy are all criteria for supplier development. Development targets and concrete measures are defined together with suppliers and agreed under binding terms. Our Corporate Procurement favors suppliers who work with us to find ways of streamlining value chains across the Company while preserving shared values. We need partners for efficiency, quality and innovation, in every respect. The ideal of voluntary action, as opposed to reaction to imposed standards and regulation, is one that we also pursue in our dealings with the Group's suppliers. Deutsche Telekom's supplier management system contributes significantly to the sustainable actions of the Group. Sustainability audits, established throughout the Group, constitute an important tool.

#### Overview of supplier management processes, using sustainability audits as an example:

- Risk assessment
- Supplier questionnaires (self-assessment by the suppliers)
- Evaluation by Deutsche Telekom (internal)
- Personal contact with suppliers/partners to promote constructive dialog
- Audits, including audit validation. Intensive audits are carried out to settle possible problems or inconsistencies. A final audit validation with specific and binding resolution agreements for the suppliers is a fixed component of the supplier management system.

In the past year, Deutsche Telekom has carried out numerous supplier audits. During the audits, each lasting one week, interviews were conducted with involved parties and working conditions were investigated. Deutsche Telekom will continue these audits – and gradually increase their number. Over the next few years we plan to audit those of our suppliers who together supply roughly 60 percent of our purchasing volume. The ultimate aim is to ensure that suppliers establish Deutsche Telekom's standards within their companies, join us in supporting them, and guarantee that they are upheld.



Every audit report that is issued is forwarded by Corporate Sustainability & Citizenship to Corporate Procurement – forming the basis for efficient and effective processes. This in turn guarantees quality assurance, reductions in delivery traffic and fair and timely payment. Even so, residual risks remain, which the Group is working to counteract (for detailed information on risk management, see the 2005 Annual Report, page 90). Supplier workshops and an ongoing constructive and open dialog are an important measure for reducing social risk within the comprehensive supplier management system.

The Group-wide policy database is an internal strategic system for eliminating weak points throughout the procurement process. Its key aim is to create transparency and thereby preclude financial and reputational losses. Since January 2006, this internal database has given all employees throughout the Group easy access to all of the rules and provisions of the Group. In this way as well – i.e. by ensuring the correct and consistent conduct of our employees in dealing with our customers and partners – Deutsche Telekom is striving to achieve sustainable excellence.

#### **Working together – constructive teamwork.**

Deutsche Telekom has established a dialog process to promote "best practices" in every link of the value chain. Various aspects dealing with the issue of the supply chain are discussed in open dialog with top suppliers.

For example, during the year under review, several events took place with our partner company Motorola. One focus of this collaboration was to present the guidelines for supplier management and socially responsible conduct anchored in our Group's Social Charter across the entire value chain and to align them with the corporate standards of Motorola.

As part of a one-day workshop that formed the core of the constructive exchange of ideas and experience, Deutsche Telekom and Motorola developed common standards for future collaboration. The corporate partner also invited several of its own suppliers and conducted workshops together with Deutsche Telekom.





- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain Management
- Climate protection
- Data and targets



### A supplier's statement

"Collaboration with our customer Deutsche Telekom is extremely important to Motorola from a business point of view. But even beyond this, the two companies are linked by strategic and cooperative partnerships. This includes the important topic of sustainability as an expression of corporate responsibility. Motorola's involvement in environmental issues is a key component of our corporate culture. Motorola was the first technology company in the European mobile phone industry to have its own research center with an environmental lab set up specifically to develop environment-friendly products.

It is important to us that our customers and partner companies incorporate the aspects of sustainability into their business activities. Ultimately, Deutsche Telekom's deep commitment to sustainability benefits our company too - particularly through the constructive exchange of knowledge and experience. The partner workshops, which focus on constructive dialog, constitute an initial component of our intensive collaboration. We develop ideas and optimize existing processes jointly.

It is on this basis that we hope to continue expanding the cooperation between Motorola and Deutsche Telekom - and develop progressive and future-proof strategies for sustainable business. This includes, among other things, setting up a joint, standardized evaluation system and training opportunities for existing and future suppliers, towards the end of establishing uniform standards for every link of the value chain."

Dr. Siegfried Pongratz, Director PRRC-Europe, Motorola GmbH



**Transparency and competitiveness.** Products that we use to provide our services and then sell to our customers are increasingly being manufactured in Asia, South America and other countries outside Europe. In large sections of these regions, compliance with internationally valid social and ecological minimum standards is not always to be taken for granted. The Group is aware of its responsibility in this area and has increased its efforts to monitor compliance with these standards across the entire value chain. Our conduct as a transparent company, and active information policy and openness in our dealings with stakeholders and shareholders (see page 13) are key to the ongoing development and implementation of relevant agreements and rules.

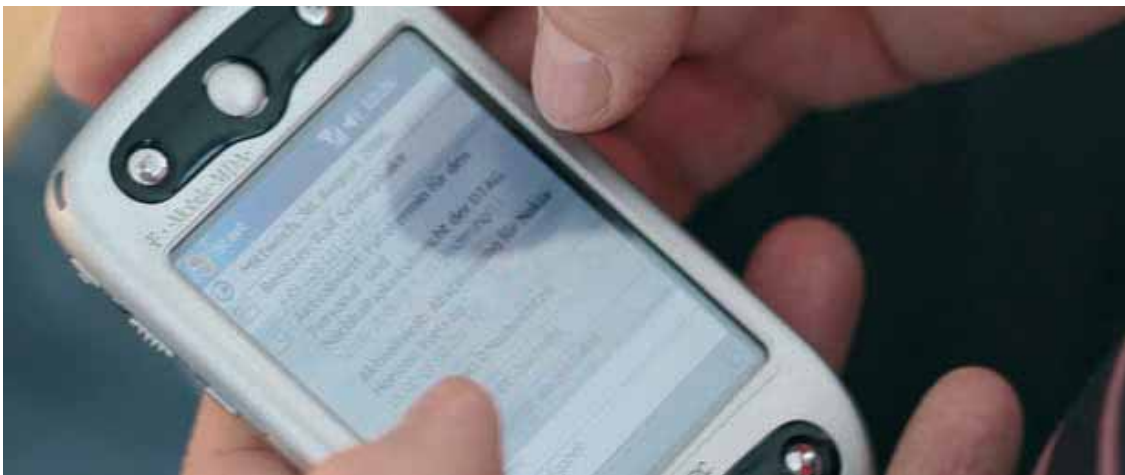
**Accepting challenges.** Customers and partners judge companies not only by their services and prices, but also by their ethical, ecological and social conduct. Because of this, we see it as our challenge for the future to meet these different expectations – and in so doing, to operate in both a financially efficient and socially and ethically correct manner along the entire value chain. Deutsche Telekom strives to practice sustainability, fairness and integrity in

all of its actions. This constantly poses new tasks for us. In order for environmental and social minimum standards to be observed – at every link of the entire value chain – proven projects and programs will be continued while new, optimized measures will be introduced.

**Planning measures, achieving objectives.** In 2006, Corporate Sustainability & Citizenship and Corporate Procurement conducted workshops, in the course of which long-term objectives and timelines were agreed upon and forward-looking strategies were developed. A detailed description of them can be found on the Group's website at [www.telekom.com/sustainability](http://www.telekom.com/sustainability).



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain Management
- Climate protection
- Data and targets



"If we enter into a discussion of the future of the globalized world without the values on which the world market is based, like democracy and human rights, we can only lose."

Klaus Töpfer, former Executive Director of the United Nations Environmental Programme, at Deutsche Telekom's Group Sustainability Day in Bonn on May 18, 2006





"Modern IT facilitates proactive coastal protection."

Dr. Walter Hürster, Principal Consultant for T-Systems





The world's coastal regions are under threat – both from a rising sea level caused by atmospheric change and from serious shipping accidents. Dr. Walter Hürster has designed a central data and information platform that is able to monitor shipping traffic, air space near the coastline, and marine pollution. The “Integrated coastal protection system” combines the most up-to-date IT and communications technology, securing maritime traffic and guaranteeing efficient emergency management. The IT specialist is convinced: “Our early warning system can mitigate the consequences of a threat for coastal regions and help to prevent accidental disasters.”

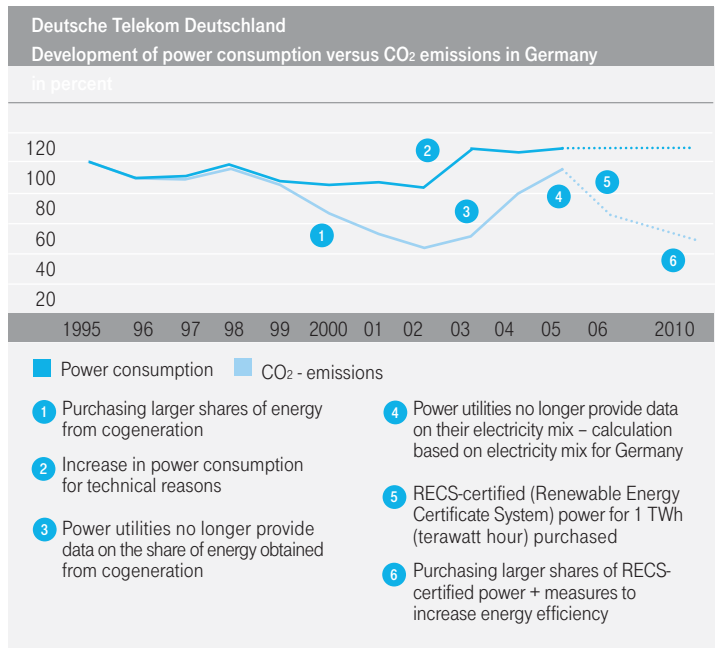
# Climate protection: responsible actions, efficient deployment of resources.

Deutsche Telekom is convinced that climate protection is one of the vital concerns of our day, and that it will serve not only the interests of future generations but also its own business interests. The Company has installed a far-reaching strategy and activities package with the objective of achieving efficient and sustainable use of resources in the long term.

**Deutsche Telekom and climate protection.** The preliminary report issued by the Intergovernmental Panel of Climate Change in June 2006 presents a clear conclusion: the pace of climate change on earth is accelerating. Deutsche Telekom has already acknowledged the importance of protecting the environment for many years and is committed to implementation of the Kyoto Protocol, whose goal is to reduce the emission of greenhouse gases. The Company wants to play an active role in our society's vital move toward energy-efficient product solutions and climate-friendly service provision and, at the same time, to drive its own sustainable development.

**Targets and how to achieve them.** Deutsche Telekom has already launched various activities to reduce CO<sub>2</sub> emissions generated by its business operations, a strategy that it will consistently pursue in the future. Its goal is, with the aid of RECS certificates, to halve CO<sub>2</sub> emissions resulting from power consumption in Germany by the year 2010 compared with 1995. With its broad range of energy optimization activities, the T-Com business unit alone saved 75.63 gigawatt hours (GWh) in 2005, which is equivalent to the annual energy consumption of around 4 000 households. The energy that

As a corporate Group operating on an international scale, Deutsche Telekom is in a responsible position. In the interests of sustainability, it has to tap the entire climate protection potential within the Company as well as among customers and suppliers, and also to commit itself to climate protection throughout society as a whole. As far as its own use of resources is concerned, the Deutsche Telekom Group has issued clear climate protection principles, which reflect its own active stance on environmental policy. The main objective is to sever the link between power consumption and CO<sub>2</sub> emissions. This naturally includes lowering climate-relevant emissions of greenhouse gases against the background of expanding parallel network infrastructures and the increased energy consumption this involves.





- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



was saved spelled 129,500 fewer tonnes of CO<sub>2</sub> emissions in the environment between 2001 and 2005. With its environmental and sustainability program, T-Com also aims to further reduce CO<sub>2</sub> pollution in the 2006 financial year. Its ultimate goal is to save 44 GWh of energy each year.

**Modernizing the network infrastructure.** In order to offer customers using telecommunications solutions and new broadband communication applications prime convenience, Deutsche Telekom operates one of the world's most modern and most powerful infrastructures for fast and secure information exchange. The Group plans to tap all the available savings potential by rigorously modernizing its network structures. Between the years 2003 and 2005 alone, T-Com technicians decommissioned or deactivated more than 182,000 digital switching modules that had reached the end of their useful service lives. T-Mobile began equipping all its 10,000 mobile network sites with cutting-edge GSM network technology (Global System for Mobile Communications) at the start of 2005. This step will not only improve network quality but also result in major energy savings: the power consumed in the converted transmitting stations drops by around thirty percent.

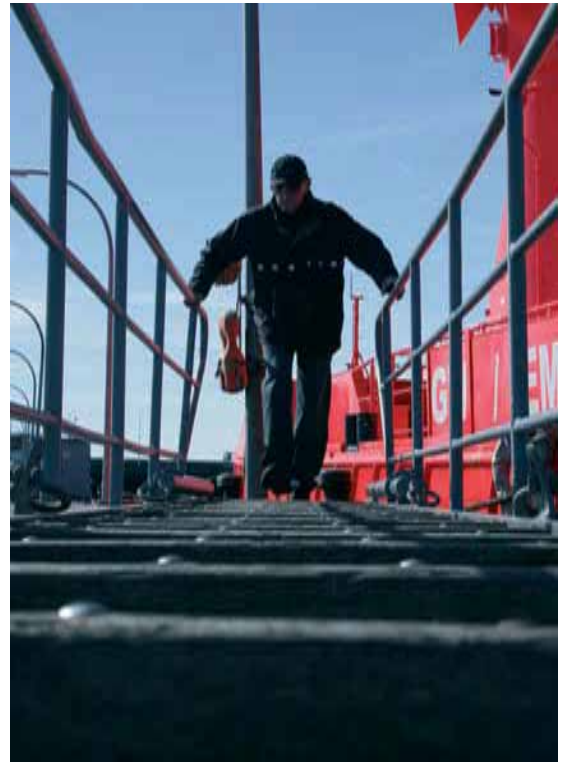
**Use of regenerative energies.** Increasingly, Deutsche Telekom opts to deploy regenerative energies. Several photovoltaic installations with a total peak performance of 159,000 W<sub>peak</sub> (unit of measurement for the capacity of a solar cell module) supply the technical systems with power and feed environmentally-friendly energy into the public electricity network. The Power and Air Condition Solution Management GmbH & Co. KG (PASM) subsidiary, which has been responsible for secure power supply, energy procurement, portfolio and energy management in the Deutsche Telekom Group since 2005, has already taken various measures to improve energy efficiency. In the year 2005, for example, a EUR 166 million investment program, which was launched to optimize the system portfolio, reported a saving of 48.5 GWh. PASM also continues to promote the use of fuel cells: the first big fuel cell in Munich has been generating electricity and heat in permanent operations since 2002. PASM plans to set up another big fuel cell running on biogas to supply power to a Munich data center. In North-Rhine Westphalia, plans are afoot to use fuel cells to supply energy at seven separate locations.

Deutsche Telekom's power consumption compared to CO <sub>2</sub> emissions in Germany				
	1995	2003	2004	2005
Power consumption in GWh	2,744	3,063	2,973	2,957
	100%	112%	108%	108%
CO <sub>2</sub> emissions in millions of tonnes (t)	1.99	1.05	1.58	1.90
	100%	53%	79%	96%



**Environmental friendliness on the road.** Alongside the network infrastructure, the services that Deutsche Telekom staff provide for customers on site represent another of the Group's key success factors. Efficient mobility management therefore makes it possible to generate major savings potential. DeTeFleetServices, the mobility services provider in the Deutsche Telekom Group, backs alternative drive technologies, and plays a crucial role in Deutsche Telekom's sustainability activities. In order to further reduce the emissions produced by over 43,000 fleet vehicles, the company plans to raise the number of vehicles that run on alternative power to 2,500 by the year 2009. In 2006, DeTeFleetServices is expanding its fleet within the framework of a natural gas initiative by adding around 600 new natural gas-powered vehicles and 10,000 new diesel vehicles with particle filters. This means that, by the end of 2006, one third of the vehicle fleet will already be fitted with particle filters or will run on natural gas. Over 15,000 members of the Group's workforce in Germany use the subsidized season ticket, an environmentally friendly and attractively priced option for daily journeys to and from work. In doing so, they are actively helping to reduce emissions.

**Energy-optimized buildings.** In addition to the resources-optimized network infrastructure and mobility management, Deutsche Telekom also actively supports climate protection with a broad range of activities aimed at saving energy in its technical and office buildings. DeTelImmobilien, Deutsche Telekom's facility management arm, continued to pursue the activities it had launched in 2004 to optimize the energy consumed in the buildings that house its network technology. Optimization activities for the 1,318 buildings with technical equipment were completed in 2005, reducing energy consumption by another 15.9 GWh. The new program designed to optimize more of the Company's technical buildings got under way in May 2006. The first results will be available in 2007.



**Milestones in climate protection.** Over the last ten years, Deutsche Telekom has successfully embarked on various new ways of protecting the climate. Some of the milestones:

- 2002: T-Com launches special eco-driving courses for drivers of company vehicles.
- September 2002: The first fuel cell for power generation goes into service.
- April 2003: Final report on the Hesse Tender. Active participation in trials for an ecologically effective and economically efficient emissions trading system, run on market economy terms.
- Mid 2004: Start of joint trials for hydrogen-powered fuel cell vehicles with Daimler-Chrysler.
- Fall 2004: Launch of T-Com's E-Fit program for energy-efficient conduct at the workplace.
- 2005: All the new diesel vehicles purchased by DeTeFleet Services are equipped with a particle filter.
- March 2005: Adoption of the climate protection principles as an extension to the environmental policy guidelines.
- November 2005: PASM buys RECS certificates for 1 TWh, and thereby ensures that a third of the Group's total energy needs in Germany will come from renewable energy sources in 2006.



<input type="checkbox"/>	Foreword
<input type="checkbox"/>	Deutsche Telekom
<input type="checkbox"/>	Vision, strategies
<input type="checkbox"/>	Staff restructuring
<input type="checkbox"/>	HR development
<input type="checkbox"/>	Supply chain management
<input checked="" type="checkbox"/>	Climate protection
<input type="checkbox"/>	Data and targets



**Customers and solutions.** Deutsche Telekom's responsibility for protecting the climate does not end inside the Company. It also subjects the production and operation of the devices it markets to a critical climate protection analysis.

Deutsche Telekom has made key efforts to promote climate protection by providing its customers with energy-efficient products and climate-friendly solutions. T-Systems, for example, offers public agencies modular e-government solutions, which include an electronic document management component that is conducive to a sparing use of resources. Other examples are the virtual answering machine T-NetBox, telephone and videoconferences, and also online billing. This year, T-Com brought its first climate-neutral phone card made of recycled plastic to market. Deutsche Telekom purchased emission certificates for the 100 tonnes of CO<sub>2</sub> generated in manufacturing the phone card and for the calls billed to it. The money for the certificates will go to two climate protection projects in South Africa.

**Role of telecommunications.** Deutsche Telekom sees not only the promising opportunities but also the risks and constraints involved for the climate within the development of innovative ICT products and solutions. The dilemma sets major savings potential against a potential increase in energy consumption, which is likely to result from the increased energy needed to run parallel network infrastructures during the transition phase to the next generation network (NGN). This also applies analogously to savings potential on the customer side: options such as teleworking and videoconferencing mean fewer journeys to the workplace but, at the same time, higher energy needs through increased use of the terminal equipment. In the mid term, Deutsche Telekom expects to achieve a positive energy balance sheet as a result of the increasing use of universal network platforms. It will take any chances that present themselves to inter-

vene in order to avoid pollution by encouraging customers to buy energy-saving devices and using highly energy efficient components for network access.

**Dialog and research.** As a leading international player, Deutsche Telekom will use its influence to support and implement climate protection agreements. In doing so, the Company is not only acting alone but is committed to an intensive exchange at social, scientific and corporate level. It maintains the discussion on sustainability goals, for instance, and supports the development of new technologies in the ICT sector.

The Climate Change Working Group, which was established at GeSI 2005, has set itself the target of publicizing the ICT industry's climate protection potential worldwide and of improving collaboration on the further development and introduction of environmentally-friendly technologies among the individual members (see also page 37).

Deutsche Telekom has worked for many years in different international organizations and on committees dedicated to promoting climate protection in business and society. These include

- the European Business Council for Sustainable Energy in Bad Vilbel,
- the Pew Center in Washington,
- the Curatorium at the Potsdam Institute for Climate Impact Research and
- the Global Roundtable on Climate Change, The Earth Institute, Columbia University, New York.







#### Statement by an external stakeholder

“Security and ROI are classic criteria for investment. These criteria are increasingly causing investors – even large institutional investors – to investigate the effects of climate change on their investments. After all, they decide on investments that are expected to bring them long-term financial success. This means that any investor – and company – that takes climate change into consideration is no longer acting “merely” for reasons of social commitment. He is acting for economic reasons, on the basis of hard facts and documented information that allow a realistic assessment of the risks involved. The rapidly rising number of investors who stand behind the annual report of the Carbon Disclosure Project (CDP) is a clear indication of an ever-accelerating shift in the thinking of our economic decision-makers. More and more investors are incorporating the findings from the CDP into their investment decisions.

For companies like Deutsche Telekom, disclosing information for this report – such as their own carbon dioxide emissions and climate risk, as well as strategies to protect the climate and mitigate emissions – builds confidence, making the companies more attractive to institutional investors. Important particularly for the ICT industry and Deutsche Telekom is the fact that they can show society a way into the future. This is because they are able to provide the infrastructure, the services and the products that our society and our world need to change and to bring about a new way of living and working – and one that has as little impact on the climate and is as free of carbons as possible.”

James Cameron, Carbon Disclosure Project (CDP), Project Team and Advisory Board Chairman, London

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets



**About the Carbon Disclosure Project.** The Carbon Disclosure Project (CDP) was founded in London in December 2000 as an initiative signed initially by 35 institutional investors who saw global warming as a risk to their investments. The CDP is a platform that surveys the CO<sub>2</sub> emissions – and the measures taken to mitigate them – of approximately 1,500 of the world's largest companies. The results are published on the Internet. Today, 211 institutional investors – encompassing a volume of USD 31 trillion in investment capital – stand behind the initiative.

**Social commitment to climate protection.** Deutsche Telekom has acknowledged its social responsibility for a good many years, and actively promotes discussion on climate protection and its acceptance. The Company supports numerous initiatives and projects.

One example is Deutsche Telekom's Future Camp, which in 2006 is dedicated to the topic of climate protection. For the first time, 100 school students from the whole of Europe are attending the conference. The goal of the Future Camp is to draw up joint recommendations that will set an example for environmental and climate-friendly conduct among children. The children's conference is an official project in the UN Decade "Education for Sustainable Development."

**Green Goal: climate-neutral soccer.** The 2006 World Cup also saw Deutsche Telekom live up to expectations as a business that promotes environmental awareness. In order to offset the pollution resulting from increased traffic and additional energy needs during the World Cup, T-Com took part in the United Nations backed Green Goal project. By procuring emission certificates for 20,000 tonnes of CO<sub>2</sub>, Deutsche Telekom succeeded in neutralizing the climate impact of 13 of the 64 World Cup matches. The money for the certificates is going to two climate protection projects in

South Africa. The projects focus on renewable energies and comply with the ambitious WWF Gold standard, i.e. they combine development aid with climate protection.





**International collaboration.** Networking with other European communications companies is another key element of effectively reducing energy consumption. For example, within ETNO (European Public Telecommunications Network Operators Association), Deutsche Telekom is involved in a project to identify potential energy savings in digital switching technology. Together with the system vendors, Deutsche Telekom plans to create binding criteria for procurement of resources-efficient technologies that require minimal power input, and can be recycled or disposed of without polluting the environment.

**Commitment to science and research.** During the 2006 World Cup, T-Com ran a pilot with new telestations that are powered solely by a mobile fuel cell. The LEDs that illuminate the telestation use 50 percent less energy than conventional energy-saving lamps in providing the same light intensity. For the long term, T-Com plans to convert all telestations to energy-saving LED technology. PASM has also launched a series of further innovative projects: for example, a feasibility study analyzed the combined generation of heat, cold and electricity on the basis of geothermal power. PASM is currently planning a concrete pilot project based on the results. In order to optimize the power supply to a data center, a combined heat and power (CHP) system with an absorption cooling machine utilizes the dissipated heat for the first time. Beside this, PASM is testing the possibility of using a completely innovative power supply system with water-cooled racks to increase energy efficiency and cut costs.

Further details about the Deutsche Telekom Group's main climate protection and environmental targets and about the concrete goals and activities planned by individual Group units are available on the Internet.



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

## Deutsche Telekom - "HR and sustainability roadmap"



**Note on roadmap structure:** The structure of the roadmap is guided by our thinking in processes and cycles. Targets and measures are based on our principles and the strategies developed from them. In doing so, we ensure that the principles and strategies feed into management decisions so that their implementation is anchored in the business processes. The added value generated is reflected in proven results and measures that are put into action. This process is accompanied and complemented by regular reporting on our achievements. The insights gathered in dialog with our stakeholders are consistently incorporated in the review of our strategies.

**HR and sustainability roadmap.** All Deutsche Telekom business units have formulated their own areas of action based on the Group sustainability strategy and subsequently set a wide array of sustainability targets, although not yet systematically for each unit. The Group HR strategy has been developed in close coordination with the Group strategy. The HR targets and measures derived, along with Deutsche Telekom's sustainability program, are based on the roadmap, shown in simplified form on the fold-out page. This roadmap sees continuous updating and is an internal medium to ensure that the Group's HR and sustainability strategy develops transparently. It finds its complement and concrete form in the specific objectives of the business units, such as environmental targets. A sample of the specific environmental targets generated by business units – including relevant target achievement in 2005 – can be found on our website.

Deutsche Telekom's targets and measures - "HR and sustainability roadmap"

	2006	
	Human Resources	Sustainability
<b>Principles, strategies</b>	Code of Conduct has been adopted and defines the rules of play for the entire Group worldwide	Sustainability strategy focusing on customers and financial markets adopted. Service promises added to customer promises <sup>1</sup>
<b>Embedding, implementation in processes and amongst employees</b>	HR development program STEP up! for top management is implemented throughout the Group Midlife assessments and preventative healthcare programs are introduced as part of age management <sup>2</sup> Diversity Congress and Diversity Award promote implementation of the Diversity Policy	Customer satisfaction is directly linked to company targets <sup>1</sup> Specific sustainability targets are in place for all relevant Group units
<b>Implementation, results</b>	Staff restructuring program is implemented in the Group without compulsory redundancies; <sup>1</sup> Expansion of Telekom Vertriebsgesellschaft (TPG) creates 3,000 jobs within the Group, 1,000 of which in 2006; T-Home Speed creates around 5,000 jobs in the Group; approx. 6,000 external employees can be recruited until 2008 Collective agreement for TMD Customer Service safeguards 9 sites and protects against compulsory redundancies there until May 31, 2009 <sup>9</sup> Collective agreement for DTAG ensures increase in productivity and quality in service and installation area <sup>2</sup> Regulation to improve the workforce structures of the successor companies of the former Deutsche Bundespost is to enter into force and enable Deutsche Telekom's civil servants to go into early retirement, thus taking part in the staff restructuring program (East-West structure not a burden) <sup>1</sup> Collective agreements on part-time work for employees approaching retirement age are offered to employees throughout almost the entire Group in Germany <sup>1,10</sup> Changes in job requirements are met with targeted training measures <sup>10</sup> 4,300 trainees are recruited in 2006 <sup>1,10</sup> Trainees are offered permanent positions or given the chance to gain practical professional experience at the new "Vivento Interim Services" for a limited period <sup>1,10</sup> Two company day care centers opened <sup>1,10</sup> Family fund set up for projects promoting the work-life balance. Best Brains Award launched for students <sup>1,10</sup>	CO <sub>2</sub> compensation introduced as a value-added service <sup>3</sup> Proactive and transparent approach to tackle spam based on the GSMA Mobile Spam Code of Practice implemented in all TMO companies <sup>4</sup> Sustainability potential of individual ICT solutions presented to business customers in monetary terms <sup>5</sup> Electricity-related CO <sub>2</sub> emissions limited to 2.3 m tonnes of CO <sub>2</sub> per annum Confirmation that our 25 top suppliers observe environmental and social standards
<b>Stakeholder dialog, external reporting</b>		Two workshops held on the development of supplier relationships <sup>1</sup> Global Compact Project "With Internet for Equal Opportunity" launched in Hungary <sup>6</sup> Slovak Telekom: Publication of its own sustainability report <sup>7</sup>

Legend:

No number: Applies to the Group worldwide  
<sup>1</sup> Applies to the Group in Germany

<sup>2</sup> Applies to Deutsche Telekom AG

<sup>3</sup> Applies to Broadband/Fixed Network SBA in Germany

<sup>4</sup> Applies to Mobile Communications SBA worldwide

<sup>5</sup> Applies to Business Customers SBA in Germany

2007		2008	
Human Resources	Sustainability	Human Resources	Sustainability
	Policy drafted on the sustainable design of products, services and solutions <sup>1</sup>		
<p>Implementation of HR development program GO AHEAD!</p> <p>Further internal measures implemented to raise employee awareness of the Code of Conduct</p> <p>Introduction of e-Diversity training tool</p> <p>"Employees as Group Ambassadors" training program launched <sup>1</sup></p>	<p>Environmental management systems implemented and certified in 80 % of T-Systems units <sup>5</sup></p> <p>Environmental management systems implemented in all TMO companies <sup>4</sup></p> <p>Procedure implemented for the sustainable design of ICT solutions <sup>5</sup></p> <p>Sustainability criteria integrated in the product development process <sup>6</sup></p>		Majority of employees will be able to use subsidized season ticket <sup>1</sup>
<p>Eight Group units audited to assess the work-life balance <sup>1</sup></p> <p>Group-wide Diversity Councils set up</p>	<p>CSR features and sustainability potential of ICT services and solutions are included in advertising, marketing and customer information <sup>1</sup></p> <p>Campaign launched to raise awareness of the climate-relieving potential of ICT services <sup>1</sup></p> <p>Customer relationship management revised from a sustainability point of view <sup>6</sup></p> <p>Individual environmental targets linked to sales targets at T-Systems Enterprise Services <sup>5</sup></p> <p>Share of readily available T-Shares on the market in sustainability funds will be 1.6% according to a study by the Sustainable Business Institute<sup>1</sup></p> <p>TC service introduced to improve the energy efficiency of buildings <sup>3</sup></p> <p>Ensuring the implementation of global sustainable disposal standards for ICT</p> <p>CO<sub>2</sub> emissions due to electricity usage remain constant despite higher energy consumption<sup>1</sup></p> <p>CO<sub>2</sub> emissions caused by business trips reduced by 10 %<sup>1</sup></p>		<p>Reduction in stand-by energy: all terminal equipment sold has a switching power supply <sup>3</sup></p> <p>T-HT: - Ozone-depleting substances in air-conditioning systems replaced completely - All new electricity generators run on bio-diesel <sup>8</sup></p> <p>CO<sub>2</sub> emissions from the vehicle fleet cut by 20 % compared with 2005 levels <sup>7</sup></p> <p>50 % of electricity demand obtained from regenerative or CO<sub>2</sub>-neutral energies<sup>1</sup></p> <p>Alternative drives/fuels used in 5 % of the vehicle fleet <sup>1</sup></p>
	<p>The general public and customers are provided with up-to-date information based on the 2007 statement by the WHO and associated organizations on EMF and potential health effects, to further ensure the safety of both mobile handsets and infrastructure <sup>4</sup></p> <p>T-HT: Publication of specific sustainability information for its market <sup>8</sup></p>	Experiences made in implementing the Code of Conduct communicated externally	<p>Deutsche Telekom reports jointly with suppliers /customers on the supply chain of relevant products</p> <p>External verification of environmental and social data <sup>1</sup></p>

<sup>6</sup> Applies to Magyar Telekom  
<sup>7</sup> Applies to Slovak Telekom

<sup>8</sup> Applies to T-Hrvatski Telekom (T-HT, Croatia)  
<sup>9</sup> Applies to T-Mobile Deutschland

<sup>10</sup> Implementation ongoing until 2008



## Sustainability indicators.

**Sustainability indicators.** One of the key tasks of this report is to give a transparent picture of a corporate governance that is committed to the principles of sustainability. To date, Deutsche Telekom has used a number of sustainability indicators to document sustainability trends within the Company. With the new Sustainability Excellence Key Performance Indicators (SE KPIs), Deutsche Telekom is seeking to create still greater transparency on general developments within the Group's sustainability activities. These indicators reflect a summarized assessment of sustainability at Deutsche Telekom by external organizations. From now on, they will be published on a regular basis in the HR and Sustainability Report. Most of the sustainability indicators that were used up to now will continue to be communicated – but no longer in the form of a fixed set of indicators.

### Customer perception and sustainability performance.

The SE KPIs depict the trends and success of the Company's sustainability activities. The first indicator is based on customer perception of the Group's responsibility toward society. The figure is gleaned by an external market research institute from 1,000 consumers and 600 business customers. In 2005, it was shown to be 6.4 on a scale of 2 to 10. Another SE KPI that we consider important comprises the useful results from the sustainability rating process (see table). It shows Deutsche Telekom's sustainability performance through the eyes of individual raters. These two SE KPIs are based on external, independent evaluations by customers and non-customers as well as on assessments by experts. The changes in the indicators provide a meaningful picture of the progress made in the area of sustainability within the Deutsche Telekom Group compared with the reference year 2005.

Results of the 2005 sustainability ratings with useful feedback				
Rating institute	Ratings	Deutsche Telekom's 2005 ratings	Additional information	Rating focus
oekom	A+ to D-	B	Basis for sustainable investment in Europe	Socio-cultural performance and environmental protection
SAM	in percent	72 %	Basis for Dow Jones Sustainability Index	All aspects of sustainability
Sarasin	in percent	61 %	Swiss bank, pioneer of sustainable investment	Creation of environmental and social profile
Dr. Höller	5 levels in 6 criteria	On average second best rating	Zurich asset management, research for the Ethics fund "Prime value"	Employees, environment, customers, public, suppliers, investors
Scoris (SiRi)	in percent	74 %	SiRi database, basis for investment decisions by numerous investors	Business Ethics, community, corporate governance, customers, employees, environment
Zürcher Kantonalbank	in percent	77.5 %	Basis for stock investmentfund Swissca Green Invest, promoted by Swissca and WWF	Corporate policy, management processes, production, products, employees, stakeholders
Equinet	in percent	88 %	Frankfurter Investmentbank, analysis of DAX companies	Socio-societal, economic and environmental aspects
SNS	in percent	76 %	Netherlands bank, focused on institutional investments	Socio-societal, economic and environmental aspects, assessed according to positive and negative criteria

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

## Selected Human Resources data.

Employee satisfaction		
	2004	2005
Employee commitment	7.0 <sup>1</sup>	7.2 <sup>2</sup>
<small><sup>1</sup> For Deutsche Telekom AG (Germany)  <sup>2</sup> For the entire Deutsche Telekom Group (overall DTAG rating: 7.1)</small>		

The employee commitment rating is the result of the annual employee survey, and reflects the average response to 5 commitment issues. Answers are given on a scale of 2 to 10. The employee survey was conducted online throughout the Group for the first time in 2005. The survey is always held in the third quarter of the year.

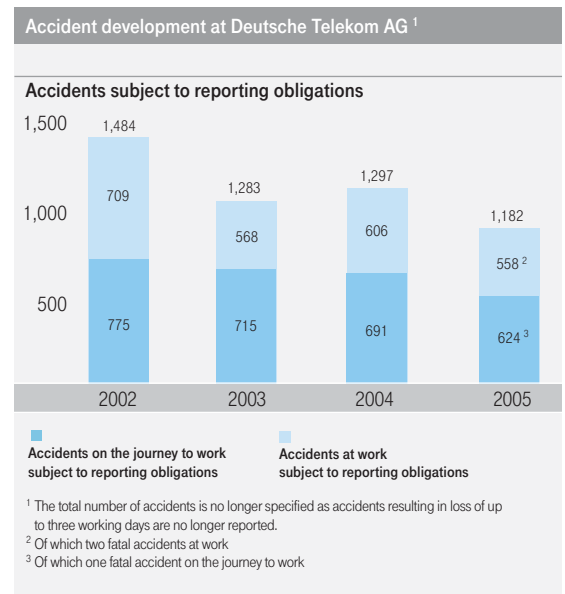
Health rate at the Deutsche Telekom Group (Germany)			
in percent			
	2004	2005	June 30, 2006
T-Com, T-Online	94.4	94.4	93.9
T-Systems	97.5	96.7	96.0
T-Mobile	95.5	94.8	94.8
Shared Services	92.9	91.2	91.3
Total	94.7	94.6	94.2

In-house health management activities are already showing a positive impact. Despite the competition-driven staff restructuring measures, the health rate within the Group remained at its high level.

Pension scheme in the Deutsche Telekom Group (Germany)			
	2004	2005	June 30, 2006
Contract base	29,900	33,600	34,100
Fund assets (in million)	53.5	120.1	139.2
Capital account obligations	125,626	126,143	n.a.

Company pension schemes, and especially the Deutsche Telekom Pension Fund (TPF), reported the same positive trend as in previous years. Together with an increase in employees participating, fund developments have also exceeded expectations.

The number of accidents that need reporting shows a constant downward trend. The ways in which the Deutsche Telekom Group supports this development include focused preventive actions and safety advice provided through the regional health and safety service.



The number of suggestions for improvement that were submitted and the savings achieved as a result remain at their previous high level. The KOI IT tool (Group-wide ideas management), which was introduced in 2005, has greatly simplified all ideas management and transfer processes.

**Ideas management**

	2004	2005	June 30, 2006
Suggestions for improvement	7,737	7,821	4,626
Saving in EUR million	87	98	43
Patent applications	374	412	n.a.
Property rights	5,991	6,686	n.a.



- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

## Selected environmental data

Energy consumption of Deutsche Telekom Group				
in 1,000 kWh				
Region	Power consumption		Heating consumption	
	2004	2005	2004	2005
Germany	2,973,000	2,956,769	745,000	717,143
Great Britain	325,993 <sup>1</sup>	242,843	144,302 <sup>1</sup>	8,609
Croatia	92,343	101,928	35,078	42,500
Macedonia	n.a.	3,626	n.a.	50
Netherlands	24,000	46,287	2,670	2,670
Austria	6,902	9,002	n.a.	4,618
Slovakia	95,350	100,515	82,352	77,973
Czech Republic	88,932	88,827	11,432	n.a.
Hungary	221,855	233,115	121,544	112,026
USA	560,785	748,856	n.a.	75,423
Total excl. Germany	1,416,160	1,575,000	397,378	323,870
Entire Group	4,389,160	4,531,769	1,142,378	1,041,012

n.a. = not available  
<sup>1</sup> estimate

Emissions generated by the Deutsche Telekom Group				
in tonnes of CO <sub>2</sub> eq.				
Region	From power consumption		From heating consumption	
	2004	2005	2004	2005
Germany	1,577,924	1,896,162	184,282	179,228
Great Britain	180,772	134,663	36,688	2,202
Croatia	81,234	89,666	10,294	12,317
Macedonia	n.a.	3,190	n.a.	19
Netherlands	1,200	5,769	679	677
Austria	1,672	2,181	n.a.	934
Slovakia	83,878	88,423	21,980	20,767
Czech Republic	78,233	78,141	2,608	n.a.
Hungary	195,164	205,070	35,184	32,012
USA	415,797	555,244	n.a.	19,127
Total excl. Germany	1,037,950	1,162,344	107,432	88,055
Entire Group	2,615,875	3,058,506	291,714	267,283

n.a. = not available

The total worldwide power consumption has risen slightly on the year 2004. In Germany, however, it was possible to avoid the anticipated increase in power consumption by installing measures to save energy and increase energy efficiency.

The increases had been expected as a result of technology developments (broadband lines and services) and the establishment of parallel network structures. Between 2004 and 2005, the pollutant indirect CO<sub>2</sub> emissions from electricity generation, for which Deutsche Telekom acknowledges shared responsibility, have increased in numerical terms. The reason for this effect is that the power utilities do not provide adequate information on the energy mix they supply. This forces us to base our electricity supplies on Germany's energy mix, which is less favorable than the electricity mix that Deutsche Telekom has purchased to date.

To counteract this trend, Deutsche Telekom purchased certificates for electricity from renewable sources (from the Renewable Energy Certificate System) for 2006 in the year 2005 – a step that it plans to repeat in coming years. This means that 33% of Deutsche Telekom's total power consumption in Germany is based on RECS in 2006. Added to this are the 10% of renewable energies contained in Germany's electricity mix.

The Group's mobility needs in Germany have continued to increase over the past few years. This is due to the Group's strategic realignment, which will lead to major organizational changes in the Group units in the mid term.

#### Fleet services, consumption and mobility at Deutsche Telekom (Germany)

	2004	2005	June 30, 2006
<b>Vehicles (total)</b>	40,342	41,978	42,333
Service vehicles <sup>1</sup>	31,166	31,148	30,380
Company cars <sup>2</sup>	9,176	10,830	11,953
<b>Mileage (in million km) <sup>3</sup></b>	730.5	803.1	437.5
of which service vehicles	396.3	425.4	220.8
company cars	334.2	377.7	216.7
<b>Consumption (in million liters) <sup>3</sup></b>	56.2	62.0	33.7
of which service vehicles	29.6	31.6	16.8
company cars	26.6	30.4	16.9

<sup>1</sup> incl. pool vehicles

<sup>2</sup> incl. service vehicles with private use permitted

<sup>3</sup> incl. vehicles replaced during the year

Greater customer proximity and improved customer care can only be achieved with high mobility. This is reflected in the growing vehicle fleet and increase in annual mileages.

#### Average annual mileages at Deutsche Telekom (Germany)

in km/a	2004	2005	June 30, 2006
Service vehicles <sup>1</sup>	12,716	13,657	7,269
Company cars <sup>2</sup>	36,423	34,873	18,132
<b>Total</b>	<b>18,109</b>	<b>19,131</b>	<b>10,336</b>

<sup>1</sup> incl. pool vehicles

<sup>2</sup> incl. service vehicles with private use permitted

The growth in the vehicle fleet and mileages is set against falling average fuel consumption by fleet vehicles. The reduction has been achieved through various activities, e.g., driver training sessions.

#### Average fuel consumption by vehicle fleet at Deutsche Telekom (Germany)

in l/100 km	2004	2005	June 30, 2006
Service vehicles <sup>1</sup>	7.46	7.44	7.54
Company cars <sup>2</sup>	7.97	8.04	7.79
<b>Total</b>	<b>7.70</b>	<b>7.72</b>	<b>7.66</b>

<sup>1</sup> incl. pool vehicles

<sup>2</sup> incl. service vehicles with private use permitted

- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

CO <sub>2</sub> emissions in Deutsche Telekom's vehicle fleet (Germany)			
in tonnes			
	2004	2005	June 30, 2006
Service vehicles <sup>1</sup>	76,900	82,100	43,600
Company cars <sup>2</sup>	66,200	77,400	43,600
<b>Total</b>	<b>143,100</b>	<b>159,500</b>	<b>87,200</b>

<sup>1</sup> incl. pool vehicles  
<sup>2</sup> incl. service vehicles with private use permitted

CO<sub>2</sub> emissions have risen hand in hand with higher mobility needs and the higher fuel consumption this involves. In the future, we plan to lower pollutant emissions by increasing the use of alternative fuels and drive systems.

Number of vehicles and mileage in the Deutsche Telekom Group (international)						
(as of December 31, 2005)						
Region	No. of vehicles	Percentage		Annual mileage <sup>1</sup>	Fuel consumption <sup>2</sup>	
		Gasoline engine	Diesel engine		Gasoline	Diesel
Great Britain	1,033	39%	61%	8.5	n.a.	n.a.
Croatia	1,709	22%	78%	36.0	491.2	2,294.8
Macedonia	68	7%	93%	1.4	11.3	116.6
Netherlands	338	34%	66%	n.a.	187.6	414.2
Austria	271	6%	94%	10.1	n.a.	n.a.
Slovakia	2,109	72%	28%	36.8	2 094.7	1,329.7
Czech Republic	582	74%	26%	18.7	1 087.2	373.8
Hungary	3,734	39%	61%	70.5	2 857.6	3 056.2
United States	1,725	100%	0%	44.7	7 666.4	0

<sup>1</sup> in million kilometers (km)  
<sup>2</sup> in thousand liters (l)

This is the first time that our HR and Sustainability Report has reported on vehicle fleets in our international Group units in such detail. We plan to further expand the pool of data and make it even more meaningful in the future.

Water consumption does not result from providing services to customers. The main areas of water consumption are sanitary installations and company gardens. This is the reason why little effort is made to record water consumption figures.

Water consumption in the Deutsche Telekom Group		
in m <sup>3</sup>		
	2004	2005
Germany	3,900,035	3,703,466
Great Britain	484,243	484,243
Croatia	241,000	179,030
Macedonia	k.A.	18,000
Netherlands	k.A.	30,632
Austria	k.A.	11,036
Slovakia	524,870	261,240
Czech Republic	26,863	n.a.
Hungary	629,000	668,000
USA	n.a.	812,032
n.a. = not available		

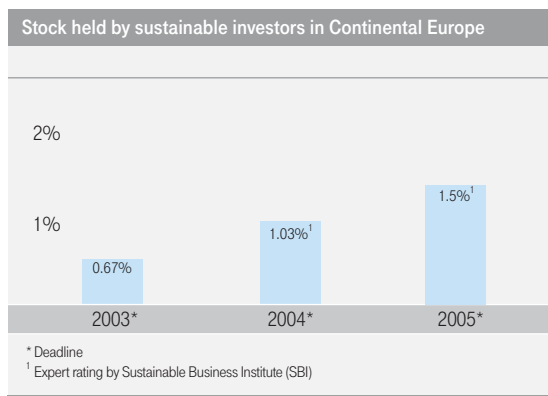
This year, waste data for the international Group units has been entered in greater detail. The volume of waste in Germany has fallen thanks to rigorous waste management, a downward trend that is likely to continue as a result of personnel cutbacks.

Waste volume generated by the Deutsche Telekom Group						
in tonnes (t)						
Region	Total waste		Technical waste		Hazardous waste	
	2004	2005	2004	2005	2004	2005
Group	85,593 <sup>1</sup>	86,572	19,040	30,852	2,438	2,631
Germany	58,322	52,891	12,291	11,841	1,245	1,191
Group excl.						
Germany	27,271 <sup>1</sup>	33,681	6,749	19,011	1,193	1,440
of which GB	n.a.	1,699	n.a.	n.a.	n.a.	n.a.
Croatia	3,753	3,403	2,170	2,973	119	9
Macedonia	n.a.	142	n.a.	29	n.a.	n.a.
Netherlands	n.a.	272	n.a.	n.a.	n.a.	n.a.
Austria	168	135	12	42	1	1
Slovakia	4,712	7,449	2,305	4,650	597	695
Czech Rep.	591	424	29	76	3	35
Hungary	7,947	7,802	2,233	2,098	473	649
USA	10,100 <sup>1</sup>	9,857	n.a.	9,126	n.a.	n.a.
n.a. = not available						
<sup>1</sup> 2005 figure corrected: an error made entering total waste for the USA in the 2005 report resulted in an incorrect total volume						

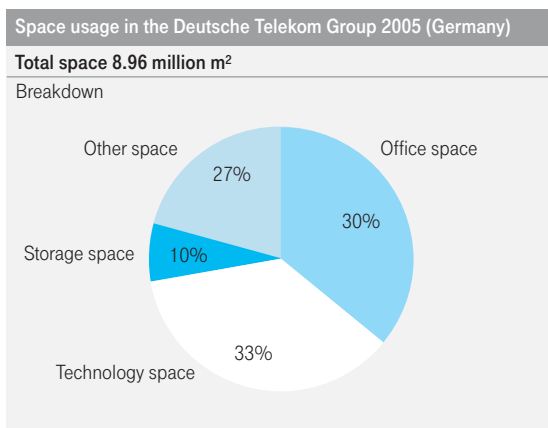


- Foreword
- Deutsche Telekom
- Vision, strategies
- Staff restructuring
- HR development
- Supply chain management
- Climate protection
- Data and targets

## Further selected data



According to the annual reports published by the Sustainable Business Institute, the T-Share continues to be an attractive prospect for sustainable investments. The increase in 2005 was partly due to the addition of the Norwegian Pension Fund to the sustainable investment portfolio.



The trend in space usage is included in Deutsche Telekom's HR and Sustainability Report for the first time this year. On account of the ongoing organizational changes that are taking place within the Group, space usage is also changing.

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The 2006 Human Resources and Sustainability Report is also available in German.  
The German version of this report is legally binding.

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The 2006 Human Resources and Sustainability Report was produced and delivered in a climate-neutral way. The greenhouse gas emissions of 110 tonnes of CO<sub>2</sub> generated were completely offset by corresponding climate protection measures.

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### Photos:

The persons pictured are employees of the Deutsche Telekom Group:  
Gesche Joost (Deutsche Telekom Laboratories), Jutta Vaclahovsky (Telekom Direkt),  
Luis Neves (Corporate Sustainability & Citizenship), Dr. Walter Hürster (T-Systems)  
The following are not employees of the Deutsche Telekom Group:  
Hans-Georg Apostel and the students of Hulda-Pankok-Gesamtschule in Düsseldorf

### Photographer:

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### Internet and download:

[www.telekom.com/sustainability](http://www.telekom.com/sustainability)

KNr. 642 100 127

## Telecommunications sector specific indicators according to GRI.

Deutsche Telekom gears its external reporting to the international guidelines of the Global Reporting Initiative. Among other things, the guidelines of the Global Reporting Initiative (GRI) require companies to issue binding statements on as many indicators as possible – including sector-independent “core indicators” as well as so-called “sector-specific indicators” for the ICT industry. By meeting this requirement to the best of our ability, we want to enable our stakeholders to track and verify the status of our sustainable development from an objective and neutral perspective.

**Two-phase model.** The content and weighting of our reporting should ensure a highly transparent, comprehensive overview of our activities in the areas of human resources and sustainability. Deutsche Telekom currently uses a two-phase model for handling GRI indicators:

**Indicators we currently issue statements on:** This report and the 2005 Annual Report contain a wealth of specific information on these indicators. Further information, particularly on sector-specific indicators, is also available on the Deutsche Telekom website ([www.telekom.com/sustainability](http://www.telekom.com/sustainability)).

**Indicators we do not yet issue (complete) statements on:** There are various reasons for this. For example, we might feel that the data available is not yet sufficiently meaningful, and therefore cannot be used for valid external communication. Our Group endeavors to find practicable solutions which will enable us to give meaningful statements on all indicators. The internal debate is far from over.

This is particularly relevant to the following sector-specific indicators:

Investment: IO2

Infrastructure: IO8

Access to telecommunication products and services: PA1, PA4, PA5, PA6  
Technology applications TA3, TA4

Telecommunications sector specific indicators		
<b>Investment</b>		
IO1	Capital investment in telecommunications network infrastructure	
	broken down by region	see text
IO2	Costs for services in remote regions and description of legal requirements	see text
<b>Health and safety</b>		
IO3	Measures for own employees involved in the installation of infrastructure	see text
IO4	Compliance with ICNIRP standards on exposure to radiofrequency emissions from handsets	see text
IO5	Compliance with ICNIRP standards on exposure to radiofrequency emissions from base stations	see text
IO6	Policies and practices with respect to SAR of handsets	see text
<b>Infrastructure</b>		
IO7	Measures on the siting of masts	see text
IO8	Number of stand-alone and shared sites	see text
<b>Access to telecommunications products and services</b>		
PA1	Policies and practices in remote and low population density areas	see text
PA2	Policies and practices to overcome barriers such as language, poverty, illiteracy, disabilities, and age	see text
PA3	Policies and practices to ensure reliability of products and services	see text
PA4	Coverage areas and market shares of telecommunications products and services	see text
PA5	Use of products and services by low income sectors of the population and measures to support this	see text
PA6	Programs to provide and maintain telecommunications products and services in emergency situations	see text
<b>Access to content</b>		
PA7	Policies and practices to ensure basic rights in terms of access to and content of telecommunications products and services	see text
<b>Customer relations</b>		
PA8	Policies and practices to publicly communicate on EMF related issues	see text
PA9	Funding and programs for EMF research	see text
PA10	Initiatives to ensure clarity of charges and tariffs	see text
PA11	Customer advice to promote responsible use of products	see text
<b>Technology applications</b>		
TA1	Examples of ecologically efficient telecommunications products and services	S.49
TA2	Funding to replace physical products with telecommunications	S.49
TA3	Impact of changes in customer use caused by replacements	see text
TA4	Consequences of measurement of changes in customer use	see text
TA5	Practices relating to intellectual property rights and access to technical facilities	see text

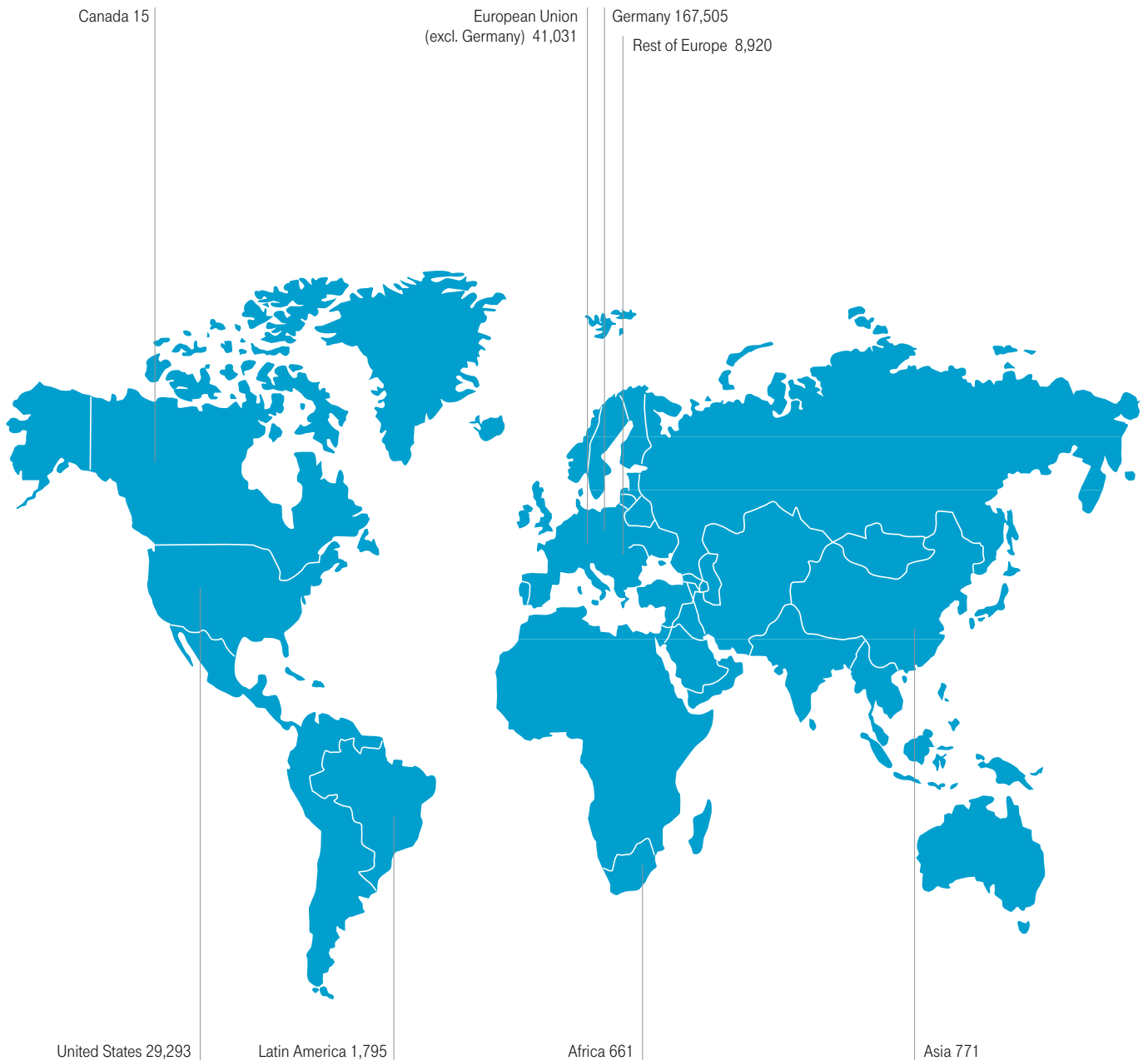
## Index according to GRI (Global Reporting Initiative).

GRI report content (core indicators)		
1.1	Vision and strategy	pp. 8-12
1.2	Statement by the CEO	pp. 2-3
<b>Organizational profile</b>		
2.1	Name of the company	p. 4
2.2	Major products and services	p. 4-5
2.3	Company structure	pp. 4-5, AR C7
2.4	Major business areas	pp. 4-5, AR C7
2.5	Countries in which the company has operations	pp. 4-5, AR C6
2.6	Ownership structure	AR p.56
2.7	Markets served	pp. 4-5, AR C5-C6*
2.8	Scale of the company	p. 4-5
2.9	List of stakeholders	pp. 13, 37, 41
2.10	Contact person for the report	p. 62
2.11	Reporting period	C2
2.12	Date of most recent report	C2
2.13	Boundaries of the report	C2
2.14	Significant changes	none
2.15	Joint ventures, subsidiaries	GB C6
2.16	Restatements of information	C2, p.54
2.17	Decisions not to apply GRI principles	not applicable
2.18	Criteria/definitions for costs and benefits	pp. 8-11, 12, 39
2.19	Changes in measurement methods	p. 54
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	whole document and internet
<b>Governance structure and management system</b>		
3.1	Governance structure, including responsibilities for sustainability	AR p. 13*
3.2	Independence of the Supervisory Board	AR pp. 20-22
3.3	Expertise of the Executive Board in terms of sustainability issues	pp. 8-11, 13*
3.4	Board-level processes for monitoring environmental, economic and social risks and opportunities	p. 11, AR pp. 90-93*
3.5	Linkage between executive compensation and achievement of the company's sustainability goals	AR p. 196*
3.6	Organizational structure for sustainability issues	see internet
3.7	Corporate mission and values	pp. 10-11, 36, 42
3.8	Shareholder recommendations to the Executive Board	AR S. 20*
3.9	Identification of stakeholders	pp. 13, 36-43*
3.10	Consideration of stakeholder interests	C2,11*
3.11	Stakeholder feedback	p. 40*
3.12	Use of feedback from stakeholders	C2, p. 10, 13
3.13	Consideration of the precautionary principle	pp. 4, 10-12, 36, 39, 46-52
3.14	Participation in external initiatives	pp. 37, 49, 51
3.15	Memberships in industry and business associations	p. 52*
3.16	Management of upstream and downstream impacts (e.g. supply chain management)	pp. 11, 36, 38-40
3.17	Management of indirect impacts	p. 38
3.18	Changes involving locations of operations or activities	p.2*
3.19	Sustainability programs and procedures	pp. 8, 10-12, 28, 32, 36
3.20	Certification status pertaining to sustainability management systems	p. 12*
<b>Economic performance indicators</b>		
EC1	Net revenue	p. 4
EC2	Geographic breakdown of markets	pp. 4-5, AR C6-C7

EC3	Costs of all goods, materials and services purchased	p. 39
EC4	Contracts paid in accordance with agreed terms	p. 40*
EC5	Employee compensation (wages, social benefits)	p. 55, AR p. 140*
EC6	Distributions to providers of capital	AR p. 55
EC7	Changes in retained earnings	AR p. 105
EC8	Total sum of all tax payments by country	AR p. 106*
EC9	State subsidies/grants by country	see internet
EC10	Donations to community and civil associations	see internet
<b>Environmental performance indicators</b>		
EN1	Total materials use other than water, by type (no own production))	
EN2	Utilization of waste materials	see internet
EN3	Direct energy use (broken down by primary source)	p. 57-58
EN4	Indirect energy use	see internet
EN5	Water use	p. 60
EN6	Land areas used in biodiversity-rich habitats	none
EN7	Major impacts on biodiversity	none
EN8	Greenhouse gas emissions	pp. 46-47, 57, 59
EN9	Ozone-depleting substances	see internet
EN10	NOx, SOx and other significant air emissions	see internet
EN11	Waste volume by type and method of disposal	p. 60*
EN12	Significant discharges to water by type	none
EN13	Significant spills of chemicals, oils, etc.	none
EN14	Environmental impact of products/services supplied	p. 49*, AR p. 167
EN15	Recycling of products	p. 49*
EN16	Fines for non-compliance with legal regulations on the environment	AR p. 90-93
<b>Social performance indicators: Working conditions</b>		
LA1	Breakdown of workforce by region	C5
LA2	Workforce fluctuation and jobs by region	pp. 17, 22, C5*
LA3	Percentage of employees represented by trade unions or covered by collective bargaining agreements	pp. 24-25*
LA4	Consultation with employees in operational decisions	pp. 24-25*
LA5	Practices on recording and notification of occupational accidents and diseases (ILO code)	pp.55-56*
LA6	Formal committees on health and safety issues	see internet
LA7	Injuries, absentee rates and work-related fatalities	p. 56
LA8	Principles and policies on HIV/AIDS	see internet
LA9	Training hours by employee category	p. 28*
LA10	Principles and policies on equal opportunity	pp. 31-33
LA11	Composition of Senior Management (gender/culture)	AR p. 12-13
<b>Social performance indicators: Human rights</b>		
HR1	Principles and policies on monitoring human rights	pp. 36-37*
HR2	Consideration pertaining to investments/procurement	pp. 38-39*
HR3	Principles/policies in respect of the supply chain	pp.36-39*
HR4	Principles and policies for preventing discrimination	pp. 11, 37*
HR5	Assurance of freedom of association within the company	pp. 11, 37*
HR6	Principles/measures related to the prevention of child labor	pp. 36-37*
HR7	Principles/measures related to the prevention of forced labor	pp. 36-37*
<b>Social performance indicators: Society</b>		
SO1	SO1 Policy on managing impacts on areas affected by activities	pp. 11, 49*
SO2	Principles/measures related to the prevention of corruption	p. 11*
SO3	Principles/measures related to political lobbying and contributions	see internet
<b>Social performance indicators: Responsibility for products and services</b>		
PR1	Health and safety of customers	see internet
PR2	Principles/measures related to product information and labelling	see internet
PR3	Principles/measures related to consumer privacy	see internet



# Employees of the Deutsche Telekom Group worldwide\*.



\*In full-time equivalents; Scout Group from a geographical perspective