

The Initial Public Offering of Deutsche Telekom¹

"Germans spend DM 7 per month on bananas but only DM 1.22 per month on shares, but it looks like they are finally entering the equity era," thought Eric Dobkin, head of equity capital markets at Goldman Sachs on November 17, 1996, as he inspected the order books for Deutsche Telekom's mammoth IPO.² Goldman Sachs was "joint global coordinator" for the issue. Thanks to amazing retail demand in Germany, spurred by a massive DM 100 million advertising campaign and a generous tax-advantaged dividend for German retail investors, and strong worldwide institutional demand, the issue was six times oversubscribed. Over 3 million German private investors had registered for the minimum purchase of 100 shares. Eventually, almost 2 million of them would become shareholders, an astounding number in a country where only 5% of individuals own stock, compared to 20% in the US or the UK.³

Deutsche Telekom ("DT") was the third largest telecom company in the world. It was a monopoly in Europe's largest economy. It had a huge cash flow and technological resources. It was very strong in mobile telephones, owned the world's biggest cable television network, and it had a promising joint venture with France Télécom and Sprint to exploit the market for business traffic between the U.S. and Europe. On the other hand, the Company had about \$70 billion of debt, undertaken mainly to rewire Eastern Germany, making it the biggest corporate borrower in the world. Service on the debt consumed most of the Company's cash flow. The Company was also highly bureaucratic, despite some important changes in top management (including the CEO). Half of its employees were civil servants with jobs for life, others were union members with almost equally strong job security. The government would remain the controlling shareholder until the end of the year 2000. See Exhibits 1-4 for more information about DT and other major companies in the telecom business.

Dobkin also breathed a quiet sigh of relief as DT agreed with its managers to launch the IPO at a price of DM 28.5 per share, within the range he had recommended, but not as high as the Company had wanted. The pricing had involved a significant struggle. Mr. Joachim Kroeske, finance director, had publicly stated two years before that

¹This case was prepared by Prof. Roy C. Smith with the assistance of Allen Adler, Isabelle Caillat, Ellen Caldwell, Kyung-Cheol Cho and Kenji Nakanishi at the Stern School of Business, New York University, for classroom purposes only. April 1997.

²Figures from *Der Spiegel*, No. 47, November 18, 1996, p. 35.

³James O. Jackson, *Time*, European Edition, December 2, 1996, p. 47.

the offering price should be DM 30, and he was unable to see, in view of the strong demand in Germany, why this price should not stand. Whereas the local demand was very strong, the international demand was less so, especially at the beginning of the book-building period. Yet at least 33% of the issue was to be distributed outside Germany to institutional investors whose more price-conscious attitudes also had to be considered. It took many hours for the Company and the underwriters to reach agreement on the final offering price.

The next day, Europe's largest telecommunications company went public in one of the largest stock offerings ever. Six hundred and ninety million shares were offered to the public, and an additional 23.7 million were offered to DT employees (at a reduced price), resulting in a massive offering of DM 20 billion (\$13.3 billion) in total.⁴ The shares were listed for trading on the Frankfurt, New York and Tokyo Exchanges. The offering, which represented 26% of DT's equity capital, was the first of several issues which would follow the initial offering until the German government had sold all of its shares. This partial sale represented the largest IPO in European history and the second largest IPO ever after \$15.6 billion sale of Nippon Telegraph and Telephone shares in Japan in 1987.

Business and Valuation Issues

Deutsche Telekom entered its new private company era with certain strengths. Germany's reunification, which took place in 1990, has given a huge additional market to the Company, a market where it spent a lot of money to renovate the infrastructure. DT also made a number of investments in emerging countries, including in wireless communications, a fast growing market. In 1996, DT entered into a partnership with France Télécom and Sprint Corp. in a new service called "Global One" —as recently as 1994, DT was prohibited by law from any foreign investment.

Ron Sommer, DT's CEO, a former chairman of SONY Europe, had three key tasks at DT: reduce the corporate debt; prepare DT for intense, global competition in voice lines, ISDN, internet access and mobile cellular phones; and perhaps most important, to streamline and motivate a rigid and bureaucratic workforce so these other goals could be accomplished.

As part of the privatization road shows, Sommer promised to reduce DT's payroll by 60,000 jobs by the year 2000; however, he is forbidden by the Company's contract with the union to lay off workers. He can only count on early-retirement incentives or attrition, practices for which the Company has already incurred \$2.25 billion in provisions since 1994 alone.⁵ Sommer also committed himself to reduce DT's debt load from DM 107 billion to DM 65 billion by 2001, using the cash generated by the IPO and

⁴ Tombstone, *The Wall Street Journal*, January 16, 1997, p. C26.

⁵ Prospectus, p. 30.

other internally generated funds.⁶ However, DT is committed to pay out dividends of DM 1.20 by 1998 to its new shareholders, resulting in a cash drain of DM 860 million, just when competition starts eating away at its revenues.⁷ DT's competition in Germany consists of newly-formed consortia, which include: the German electrical power utilities RWE and Veba with Britain's Cable and Wireless; the German railroad system and a Bavarian electrical company. By 1998, however, DT will be competing with all major, global telecommunication players.⁸

Meanwhile, DT customer service is far from ideal: new clients must still wait approximately ten days to obtain a telephone line. In January 1996, DT introduced a new phone service pricing system that failed so spectacularly that the whole IPO process was put into question.⁹

Having intensely promoted the sale of DT shares to the retail public in Germany, Sommer then managed to convince some institutional investors to buy the stock "on the back of non-price sensitive retail demand" at DM 30 per share. At this level, however, the issue appeared to many analysts to be overvalued, and some larger institutions, especially outside Germany, backed away. Indeed, a number of portfolio managers and institutional investors remained skeptical of the high valuation that DT was aiming for. Some argued that the high amount of debt on the balance sheet should have led to lower valuations.¹⁰ Others pointed out that DT's (expensive) overseas growth could prove to be "value-reductive over the medium-term."¹¹

American institutional investors, notably, expressed more price-sensitivity. In a comment representative of some US investors' opinions, the head of international equity investments at Dreyfus Corp., a unit of Mellon Bank, said: "Deutsche Telekom is trying to force its view on the U.S. stock market rather than take its signals from the market on what it's worth here. They consider the company a prime piece of the German business establishment,"¹² and therefore think that it ought to sell at a premium price. Astute investors, however, would compare the Company's financial ratios with those of other companies in the same industry to derive a stock value. In addition to the financial data, they would look at growth trends and further share sales by the government over the next few years to select what the correct issuing price should be. Investors want to know "why buy this company in the industry instead of another one."

⁶ Nicholas Denton, *Financial Times*, October 29, 1996.

⁷ Prospectus, p. 16.

⁸ Edmund L. Andrews, *The New York Times*, November 10, 1996, p. 5.

⁹ *Der Spiegel*, p. 35.

¹⁰ Richard Lewis of WorldInvest, quoted in Bloomberg Business News, September 17, 1996.

¹¹ BZW quoted in the *Financial Times*, October 26, 1996.

¹² Ron Chapman quoted by E.S. Browning and Susan Pulliam in the "Heard on the Street" section of *The Wall Street Journal*, November 6, 1996.

Once the marketing period started, however, some of the institutional investors' skepticism abated. Indeed, many investors started buying DT because they perceived the stock as a play on the bullish German stock market.

Equity Markets in Germany

In 1985, stock market capitalization in Germany was worth only 25% of GDP. The number was exactly the same in 1995—unlike other G-7 countries, where this percentage had significantly increased in the intervening 10 years of market deregulation, institutionalization and globalization.¹³ Traditionally, Germans have invested their savings in low-risk instruments like passbook accounts, short-term time deposits or government bonds. In part, they have done so because bond returns have been similar to equity returns thanks to an environment of relatively low inflation. In part, investors have shunned the high fees that German banks charge for trading and custody of shares.¹⁴ In addition, the German government provided until January 1997 tax incentives favoring interest income from cash and bonds rather than dividends.¹⁵ Finally, German pension funds still cannot invest more than 15% of their total portfolio in equities and their equity investments must conform to rigid standards of financial leverage.¹⁶

Both the supply of equity financing to German companies and the demand for such funds have been low. German capital markets have had a secondary role in the financing of companies: many German companies have grown thanks to internally generated cash flows. When external funds were needed, Germany's large universal banks financed Germany's industrial and commercial development by providing loans or by purchasing shares directly from firms. Companies became dependent on their relations with their "hausbank" to provide virtually all their financial requirements, to sit on their supervisory boards, and to vote often considerable numbers of shares held in custody for corporate and individual accounts. As a result, German financial reporting standards, notoriously limited in disclosure and conservative in measurement, focused on the needs of creditors rather than those of the rare retail investors.¹⁷ German legislators have also left retail investors exposed to market manipulations: until 1994, there were no insider trading laws, no SEC-like agency in charge of overseeing financial markets, nor mandates on the establishment of "Chinese Walls" in banks.

Changes, however, have been occurring since the Single European Act was passed by the European Union in 1986. Capital market reforms were adopted, technology has improved, and competition was introduced into the markets for securities and derivatives. Foreign investment has poured into German companies, and increasingly

¹³ *The Economist*, September 14, 1996, p. 105 (MSCI numbers).

¹⁴ *Financial Times*, "Equities in Europe," January 18, 1997.

¹⁵ *Financial Times*, "Taxing Bonn," January 27, 1997.

¹⁶ Haskins, Ferris, Selling, *International Financial Reporting and Analysis*, p. 489.

¹⁷ Haskins, Ferris, Selling, *International Financial Reporting and Analysis*, pp. 487-488.

German companies have resorted to use their own and the international capital markets. Indeed, in 1996, the Deutsche Bundesbank, a central bank known as a bastion of conservatism, was calling for greater German investments in equity.¹⁸ Some investors, fearing the demise of their beloved DM after the introduction of the "Euro" and afraid of the inflationary pressures that a European central bank will inevitably unleash, shifted some of their investments to equities.¹⁹ Even the German government is changing its tax laws—allowing share buy-backs and reducing corporate tax rates—thereby making equity investments more attractive.

It was clear that the DT issue would have an enormous effect on the German stock market. It would greatly encourage trading in the secondary markets, which according to Chairman Werner Seifert of the Deutsche Boerse could increase five-fold. Trading in DT shares on the exchanges and on Germany's electronic trading system known as IBIS, and in the futures markets, would continue until 7 p.m. during the first week following the offering, and trading in the 30 shares making up the DAX index would trade until 3 p.m., instead of the usual 1:30 p.m. DT would become one of the DAX 30, with a market weight of nearly 5%.

Privatizations in Germany

The first successful privatizations that the German government conducted took place in the 1950s and 1960s when part of its stakes in VW, Veba and Preussag were sold. The government launched a second wave of privatizations in the 1980s, reducing its stake in Lufthansa and banking sector companies, and completely eliminating its remaining participation in VW, Veba and VIAG as well as other major industrial holdings.²⁰

The next wave of privatizations took place after Germany's reunification in 1990 as the German government created the Treuhandstalt privatization agency to auction off more than 40,000 businesses and operating units. Though the process was far from easy, the Treuhand nevertheless succeeded in creating the foundations of a market economy in East Germany.²¹

Ironically, while privatizations took place at a rapid pace in East Germany, little was happening in the Western part of the country. Privatizations that were started in the 1980s were not completed: in the telecommunications field, many firms that benefited from the status quo lobbied against changes in the laws, arguing that opening the German telephone market to Americans was tantamount to being colonized.²² By the end of the

¹⁸ *Financial Times*, January 17, 1997, "German equities: Bundesbank calls for increased investment," by Andrew Fisher.

¹⁹ *Financial Times*, January 18, 1997.

²⁰ *Federal Government News Bulletin*, Special No. 4467, September 17, 1996.

²¹ *Federal Government News Bulletin*, Special No. 4467, September 17, 1996.

²² *Der Spiegel*, p. 38.

1980s, however, the German government came under pressure from the European Commission and American authorities who demanded that the telecommunications monopoly be abolished.²³ It took five years of discussion in the German parliament to finally change the rules in the telecom arena.

The first step in the telecom reform took place in 1989 when the German legislature divided the Bundespost, a public entity that provided telecom, banking and postal services into three different entities: the Bundespost Bank (Post Office Bank), the Bundespost (Post Office) and Deutsche Telekom (telecom services). The second stage, in 1995, transformed all three entities into corporations—though still under government ownership. The final stage should occur in the next few years when the German legislature sets a timetable for the partial or full privatizations of those firms.²⁴ Not only would a successful issue by DT encourage an acceleration of the privatization of remaining German government owned companies, such as Lufthansa, DG Bank, the national railway, and various military properties,²⁵ it was also generally thought that the issue would lead the way for a tidal wave of approximately \$70 billion of telecom issues from other countries, including France, Italy, Australia, Japan, the Netherlands, South Korea and Taiwan, just during the next two years.²⁶

Privatizations and the European Monetary Union

In preparation for Economic Monetary Union set to occur by January 1, 1998, the 15 members of the European Union were trying to meet the demands imposed by the Maastricht Treaty. To assist in doing this, most governments relied upon privatization, deregulation, and consolidation as major forces to shape their efforts.

Because the Maastricht Treaty sets a total government debt limit of 60% of GDP for entry into the common European currency, European governments use privatizations as a policy tool. Proceeds from the sale of the state-owned companies, the generation of future tax revenues, and the reduction of direct subsidies help governments reduce their debt. Privatization programs are seen as a way to raise large cash amounts to reduce debt prior to 1998, so those wishing to enter the single currency would not be prevented from doing so by failing to comply with the requirements.

In addition to the positive impact of privatization on state coffers, there are competitive forces which are promoting the surge in stock offerings. The 15 European Union members have agreed to open their telephone markets to full competition by January 1, 1998, thereby forcing telecom companies to become more competitive, a difficult thing to achieve under the shackles of government control and regulations.

²³ *Der Spiegel*, p. 38.

²⁴ *Der Spiegel*, p. 35.

²⁵ *The Wall Street Journal*, November 18, 1996, p. A9; *Der Spiegel*, No. 47, November 18, 1996, p.36.

²⁶ *The Wall Street Journal*, November 15, 1996.

The European Union's new policy, which will be enforced its antitrust powers in Brussels, will abolish monopolies in both local and long-distance service in one swoop. As protective telecommunications boundaries are dissolved, any company with global ambitions must be prepared to fight in a fiercely competitive arena. The new era will nevertheless bring new opportunities as firms cut costs, consolidate operations and forge alliances throughout the world.

The "Joint Global Coordinators"

While the German government was preparing for the second stage of telecom reforms in 1994, several investment banks including Deutsche Morgan Grenfell (DMG), a wholly-owned investment banking subsidiary of the Deutsche Bank, were aggressively lobbying to get an underwriting position for the DT privatization. At stake were: underwriting fees of up to DM 500 million, increased prestige as evidenced in "league tables," and if all went well, a better chance to do additional privatizations in Germany and elsewhere in Europe at a time when such initial public offerings were taking off throughout Europe.²⁷

The process was very competitive: investment banks had to enter a "beauty contest" in front of the German government and DT top managers. Investment banks had to document their credentials and prepare various documents to present themselves to the government and the DT managers. The government then proceeded to select the firms that would become the global coordinators for the offering as well as those that would belong to the various underwriting syndicates.

Thanks to their large distribution network in Germany and to their strong position among the German establishment banks, DMG and Dresdner Bank won a global coordinator position. Finally, supposedly at the insistence of Chancellor Kohl, Goldman Sachs also joined the two German banks, in order to provide the IPO with the requisite experience in managing large global offerings as well as with access to the US market.²⁸

The IPO was divided into five geographic tranches: Germany, the Americas, the UK, the rest of Europe, and Asia/rest of the world. Once the global coordinators were selected, "regional book-runners" or lead managers had to be chosen for each tranche. Those heads, Dresdner Bank for Germany, Goldman Sachs for the Americas, SBC Warburg for the UK, Paribas for the rest of Europe, and Daiwa for Asia/rest of the world, were responsible for running their syndicate, coordinating the marketing and book-building activities and recording the allocation of shares in their tranche.²⁹ Lead

²⁷ Laura Covill, *Euromoney*, "Telekom Rules OK", December 1996.

²⁸ Ibid.

²⁹ Goldman Sachs, *Updated Sales memorandum*, pp. 9-10.

managers were compensated thanks to underwriting fees, management fees and selling commissions for the tranches they manage.

Global coordinators played a crucial role in this IPO process, for which they received a "praecipium" fee, or an extra share of the management fee in the issue and a large underwriting position. They structured the offering; ran and coordinated the syndicate; and controlled the marketing and book-building process. In addition to their traditional tasks, the unprecedented size of the IPO forced them to become project managers as well so that hundreds of employees marketing and selling the IPO could work together, follow guidelines and specified schedules. As global coordinator, Goldman Sachs was also responsible for preparing the IPO documentation, for identifying and targeting, on a worldwide basis, investors who would be committed shareholders, and of course for pricing the IPO and recommending an ideal range to DT.³⁰

Deutsche Telekom managers were very exacting: they wanted to make sure that all banks in the syndicate obeyed the numerous rules prepared by them. Among other things, DT wanted to prevent any "unofficial" contacts with journalists.

Despite its size and complexity, the DT IPO was so successful that the German Government decided to use the American book-building method of going public for future privatizations and IPOs in Germany.

□ Deutsche Telekom: Sales and Earnings Estimates

(DM millions)	1995A	1996E	1997E	1998E
Net Revenues	66,135	62,636	65,952	68,771
EBITDA	33,900	30,781	34,816	36,687
EBIT	18,523	13,470	16,644	19,580
Net Income	5,272	1,234	4,775	5,784
EPS (2,553.7m shs)*	2.64A	0.48	1.87	2.26
EPS (2,743.7m shs)**		0.45	1.74	2.11

A: Actual numbers

*: Estimates for a 500m shares offering.

**: Estimates for a 690m shares offering.

□ Dividend Yield Analysis

	Dividend Per Share	Scenarios (Yield)			Issuance DM28.5	GermanMKT Yield
		DM25	DM27.5	DM30		
1996E	DM0.60	2.4%	2.2%	2.0%	2.1%	2.2%
1997E	DM1.20	4.8%	4.4%	4.0%	4.2%	2.5%
1998E	DM1.40	5.6%	5.1%	4.7%	4.9%	2.8%

³⁰ Laura Covill, *Euromoney*, "Telekom rules OK", December 1996, p. 5 of 12.

□ P/E Ratios Analysis (for 690 million Shares)

	DM25		DM27.5		DM30		German MKT P/E
	EPS	P/E	EPS	P/E	EPS	P/E	
1996E	DM0.45	55.6x	DM0.45	61.1x	DM0.45	66.7x	17.4x
1997E	DM1.74	14.4x	DM1.74	11.8x	DM1.74	17.2x	14.3x
1998E	DM2.11	11.8x	DM2.11	13.0x	DM2.11	14.2x	13.0x

Source: Goldman, Sachs & Co.

□ Comparable P/E Ratios

	Unit	Price	1995	1996	Yield	1997 (E)	1998(E)
BT	£	3.12	x11.6	x10.9	5.7%	x10.2	
Netherland Tel	NLG	60.7	x12.0	x11.3	4.7%	x10.3	
Italia T	LIT	3429	x19.0	x15.2	3.9%	x13.2	
Denmark T	DK	292	x10.4	x12.4	5.8%	x10.9	
AT & T	\$	39.88		x11.5	3.3%	x10.8	
Bell Atlantic	\$	60.25		x14.2	4.8%	x13.1	x12.2
US Tel Average				x14.0	4.6%	x13.2	x12.4
DT				x63.3	2.1%	x16.4	x13.5
German market				x17.4	2.2%	x14.3	x13.0

As of October 18, 1996 except for DT (issuance price and 690 million shares issued).

Source: Goldman, Sachs & Co.

□ Table of Interest Rate Benchmarks (October 31, 1996)

US Treasury Long Bond (30 years)	6.660%
German Government Long Bond (30 years)	6.592%
UK Government Long Bond (30 years)	7.878%
Japanese Government Long Bond (20 years)	3.009%

The After-Market

The IPO was particularly successful in Germany. More than 462 million shares were placed with German retail and institutional investors, while underwriters had originally expected to place between 310 and 335 million shares. While still firmly in control, the German government interest in DT was reduced to 74% (2.03bn. shares) of the outstanding shares instead of the 80% that was predicted.³¹ The other 26% can be divided as follows:

DT Post-IPO Share Ownership excluding the German Government (millions)

Share held in:	Germany	462.30	64.8%
	US	97.75	13.7%
	UK	57.50	8.1%
	Other Europe	37.95	5.3%
	Asia/Rest of World	34.50	4.8%
	DT employees	23.70	3.3%
	TOTAL	713.7	100%

While some American investors "flipped" the stock, i.e. sold it back into the market, because they saw the price rise in Germany in the after-market and sold there to obtain a higher return than they had expected in the U.S, American investors were net buyers of DT stock. Overall, the after-market was particularly successful, as DT quickly rose from DM 28.50 to DM 33, a 15% premium over the issue price. While there was some profit-taking after a few weeks, the stock started rising again in March as Deutsche Telekom announced better than expected earnings results for 1996.

Subsequent Events

Meanwhile, the first months of 1997 have been eventful ones for DT.³²

- January 14: Global One (an alliance between DT, France Télécom and Sprint) wins a \$566 million contract with Crédit Lyonnais.
- January 14: a group backed by DT won one of six mobile telephone licenses awarded by Taiwan.
- January 20: Tandem corporation announces the installation at DT of a new operational data store to improve customer service: the Tandem 6.5 Terabyte

³¹ Tombstone, *The Wall Street Journal*, January 16, 1997, p. C26.

³² Bloomberg News

operational data store will enable the 40 million telephone customers in Germany to access their record in less than 2 seconds.

- January 20: "DT will in this respect exceed its previously announced estimates for the full year" declared Ron Sommer. In preliminary estimates, 1996 sales are up 6% to DM 63 billion and operating profits are higher than expected at DM 6 billion.
- January 29: The global telecommunications services industry, excluding sales of telecommunications equipment, is worth \$550 billion to \$600 billion per year and is growing at 10% a year, according to Neil McMillan, chairman of the WTO's telecommunications committee
- January 30: N-TV reports that Global One will lose 50% more than the expected DM 400 million loss.
- February 11: DT has set a milestone in chip card technology by designing the telecom card operating system according to the highest security level ever granted to a smart card. These smart cards, licensed to Siemens, are used for access control, digital signature, encryption, physical access, flexi-time, electronic ticketing, on-line security and electronic purse.
- February 24: some of DT's foreign competitors argue that German regulations effectively bar them from the market.
- March 11: DT announces that its 1996 sales are up 5.9% and its operating profit is up 50%.

List of Exhibits

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Exhibit 1
Deutsche Telekom Operating Statistics

	As of December 31,			Six Months ended June 30,
	1993	1994	1995	1996
Average number (in millions), unless otherwise indicated:				
Standard telephone access lines (millions)	35.8	37.3	38.7	39.2
Average IDN Channels	00.6	01.3	02.2	03.3
Total average number of access lines (millions)	36.4	38.6	40.9	42.5
Public telephones	00.2	00.2	00.2	00.2
Mobile telephone subscribers	01.0	01.4	01.8	02.2
Paging subscribers	00.4	00.5	00.7	00.9
Cable television subscribers (a)	12.7	14.1	15.2	16.0
T-Online subscribers	00.4	00.6	00.8	01.0
Domestic calls (billions)	49.2	51.0	52.5	24.3
Outgoing international traffic (millions of minutes) (b)	4,502	4,942	5,238	2,256
Incoming international traffic (millions of minutes) (b)	3,619	3,984	4,036	2,087
Average number of full-time equivalent employees (ths.)	234	231	220	211
Net revenue per employee (DM in thousands)	257	276	301	141
Access lines in service per employee	156	167	186	201

(a) Includes households connected through service intermediaries.
(b) Amounts for 1996 are estimated

Source: Goldman, Sachs & Co.-- Sales Memorandum

Exhibit 2
Calendar of Events for the Initial Public Offering and Syndicate Structure

Date	Event
Mon, 21 Oct.	<ul style="list-style-type: none"> • Filing of "Red Herring" • press conference to announce price range and ranges for tranche sizes and underwriting commitments
Tue, 22 Oct.	<ul style="list-style-type: none"> • Distribution of "Red Herring" • Start of roadshow in Germany • Start of bookbuilding
Fri, 25 Oct	<ul style="list-style-type: none"> • End of German roadshow • Start of international roadshow (ex US)
Mon, 4 Nov.	<ul style="list-style-type: none"> • End of international roadshow (ex US)
Tue, 5 Nov.	<ul style="list-style-type: none"> • Start of US roadshow • Dry run with US salesforce (43rd Auditorium), 4.30 p.m. EST
Wed, 6 Nov.	<ul style="list-style-type: none"> • End of early order period for AIF registered retail investors
Wed, 13 Nov.	<ul style="list-style-type: none"> • End of US roadshow
Thu, 14 Nov.	<ul style="list-style-type: none"> • End of book building period • Close of books: <ul style="list-style-type: none"> ◆ Germany: 2.00 p.m. (Frankfurt time) ◆ RoE: 2.00 p.m. (Frankfurt time) ◆ UK: 11.00 a.m. (New York time) ◆ RoW: 9.00 p.m. (Hong Kong time)
Sun, 17 Nov.	<ul style="list-style-type: none"> • Announcement of offer price • Setting of final tranche sizes and underwriting commitments • Release of allocations • Completion of allocations (US)
Mon, 18 Nov.	<ul style="list-style-type: none"> • Completion of allocations (outside US) • Trade date for offering • Start of trading <ul style="list-style-type: none"> ◆ Frankfurt: 12.00 noon ◆ New York: 9.30 a.m.
Tue, 19 Nov.	<ul style="list-style-type: none"> • Start of trading in Tokyo
Wed, 20 Nov.	<ul style="list-style-type: none"> • Settlement and closing
Fri, 10 Jan.	<ul style="list-style-type: none"> • End of global black-out period

Exhibit 2 (cont'd)
Complete Syndicate Structure

Germany

Lead Manager	Dresdner Bank	Deutsche Bank
Co-Lead Manager	DG Bank Bayerische Landesbank Bayerische Hypobank Landesbank Hessen-Thüringen Norddeutsche Landesbank	Westdeutsche Landesbank Commerzbank Bayerische Vereinsbank Bankgesellschaft Berlin Südwestdeutsche Landesbank
Junior Co-Lead Managers	Baden-Württembergische Bank CS First Boston Sal. Oppenheim jr. & Cie.	BHF Bank Goldman, Sachs & Co. oHG M.M. Warburg & Co.
Co-Managers	Berenberg Bank Delbrück & Co. Hamburgische Landesbank IKB Deutsche Industriebank Landesbank Rheinland-Pfalz Landesbank Sachsen Landesgirokasse Stuttgart Schmidt Bank	BFG Bank Bankhaus Max Fiessa & Co. Georg Hauck & Sohn Sankhaus Hermann Lampe Landesbank Saar Landesbank Schleswig-Holstein B. Metzler see. Sohn & Co. Schröder, Münchmeyer, Hengst & Co.
Selling Group	Citibank Privatkunden Genossenschaftliche Zentralbank Metallbank	Degussa Bank Merck, Fink & Co. SGZ-Bank
		Trinkaus & Burkhardt WGZ-Bank

Americas

Lead Manager	Goldman, Sachs & Co.	Deutsche Morgan Grenfell	Merrill Lynch
Co-Managers	Morgan Stanley		Salomon Brothers
Junior Co-Lead Manager	ABN AMRO Rothschild	CSFB	Dresdner Kleinworth Benson
Major Bracket Underwriters:	Bear, Stearn & Co. Dean Witter Reynolds A.G. Edwards J.P. Morgan Prudential Securities Scotia McLeod	Smith Barney	Alex. Brown & Sons Donaldson, Lufkin & Jenrette EVEREN Securities PaineWebber RBC Dominion TD Securities
Minor Bracket Underwriters:	Advest Robert W. Baird & Co. Dain Bosworth Incorporated Mason Wood Walker Principal Financial Securities Sutro & Co. Incorporated		Arnold and S. Bleichroeder Sanford C. Bernstein & Co. Edward D. Jones & Co. McDonald & Co. Securities Stifel, Nicolaus & Company Wheat, First Butcher Singer
Canadian Selling Group:	Goldman Sachs Deutsche Morgan Grenfell RBC Dominion		TD Securities Merrill Lynch Scotia McLeod Salomon Brothers

Exhibit 2 (cont'd)
Complete Syndicate Structure

United Kingdom

Lead Manager	SBC Warburg		
Co-Lead Manager	Dresdner Kleinwort Benson	NatWest Securities	Deutsche Morgan Grenfell
Junior Co-Lead Manager	ABN Amro Rothschild Robert Fleming & Co.		CS First Boston Goldman Sachs International
Co-Manager	Bayerische Landesbank	Cazenove & Co.	Schroders

Rest of Europe

Lead Manager	Paribas Capital Markets		
Co-Lead Managers	Dresdner Kleinwort Benson		UBS Limited
Junior Co-Lead Managers	ABN AMRO Rothschild CS First Boston	Goldman Sachs International	Banque Nationale de Paris Deutsche Morgan Grenfell
Co-Managers	Banco Bilbao Vizcaya Banque Générale de Luxembourg Commerzbank Enskilda Securities Mediobanca		Bayerische Vereinsbank Creditanstalt-Bankverein Den Danske Bank Kredietbank International Group Société Générale

Asia Pacific/Rest of World

Lead Manager	Daiwa Securities		
Co-Lead Managers	Nomura Securities	Lehman Brothers	Deutsche Morgan Grenfell
Junior Co-Lead Managers	ABN AMRO Dresdner Kleinwort Benson	HSBC Investment Bank	CS First Boston Goldman, Sachs (Asia)
Co-Managers	Banque Indosuez Westdeutsche Landesbank Development Bank of Singapore Securities One	Ssangyong Investment & Securities	Nikko Securities Yamaichi Securities Rashid Hussein Securities JB Were
Japanese Junior Co-Managers:	Kankaku Securities New Japan Securities	Universal Securities	Kokusai Securities Wako Securities
Japanese Sub-Underwriters:	Century Securities Hinode Securities Taiheiyo Securities	Cosmo Securities Okasan Securities Tokyo Securities	Dai-Ichi Securities Sanyo Securities Yamatane Securities

Exhibit 3
Summary Consolidated Financial and Statistical Information

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

	Year ended December 31,				Six months ended June 30		
	1993 DM	1994 DM	1995 DM	1995(1) S	1995 DM	1996(2) DM (unaudited)	1996(1)(2) S
(in millions except per share/ADS amounts)							
Consolidated Income Statement Data:							
<i>Amounts in accordance with German GAAP</i>							
Net revenues	60,071	63,814	66,135	43,481	32,557 (3)	30,637 (3)	20,143 (3)
Total operating costs and expenses	(48,914)	(50,299)	(53,070)	(34,892)	(24,896)	(27,660) (4)	(18,185)(4)
Financial income (expenses), net	(7,652)	(7,927)	(8,211)	(5,398)	(4,178)	(3,892)	(2,559)
Results from ordinary business activities	9,870	(11,213)	10,312	6,780	5,437	2,715	1,786
Extraordinary losses(5)	-	(357)	(1,264)	(831)	(285)	(1,841)	(1,211)
Net income	2,084	3,595	5,272	3,466	3,513	129	85
Earnings per Share/ADS(6)	1.03	1.77	2.60	1.71	1.73	0.06	0.04
<i>Amounts in accordance with U.S. GAAP</i>							
Net income(7)	--	7,954	6,460	4,246	3,631	521	344
Earnings per Share/ADS(6)(7)(8)	--	3.92	3.18	2.09	1.79	0.26	0.17
Consolidated Cash Flow Data:							
Net cash provided by operating activities	14,212	24,114	23,687	15,574	12,575	12,381	8,139
Capital expenditures	21,869	19,253	14,574	9,582	5,597	6,596	4,336

	At December 31,				At June 30	
	1993 DM (unaudited)	1994 DM	1995 DM	1995(1) S	1996(2) DM (unaudited)	1996(1)(2) S
(in millions except per share/ADS amounts)						
Consolidated Balance Sheet Data:						
<i>Amounts in accordance with German GAAP</i>						
Fixed assets	132,916	139,216	139,215	91,529	143,015	94,027
Total assets	148,480	168,066	160,247	105,356	163,557	107,532
Debt	108,477	125,459	110,387	72,575	107,124	70,430
Total liabilities (including accruals and deferred income)	133,321	148,734	135,515	89,096	137,489	90,393
Shareholders' equity	15,159	19,332	24,732	16,260	26,068	17,139
<i>Amounts in accordance with U.S. GAAP</i>						
Shareholders' equity(7)	-	24,013	30,372	19,968	30,916	20,326

Statistical Data:

Average number (in millions, unless otherwise indicated)

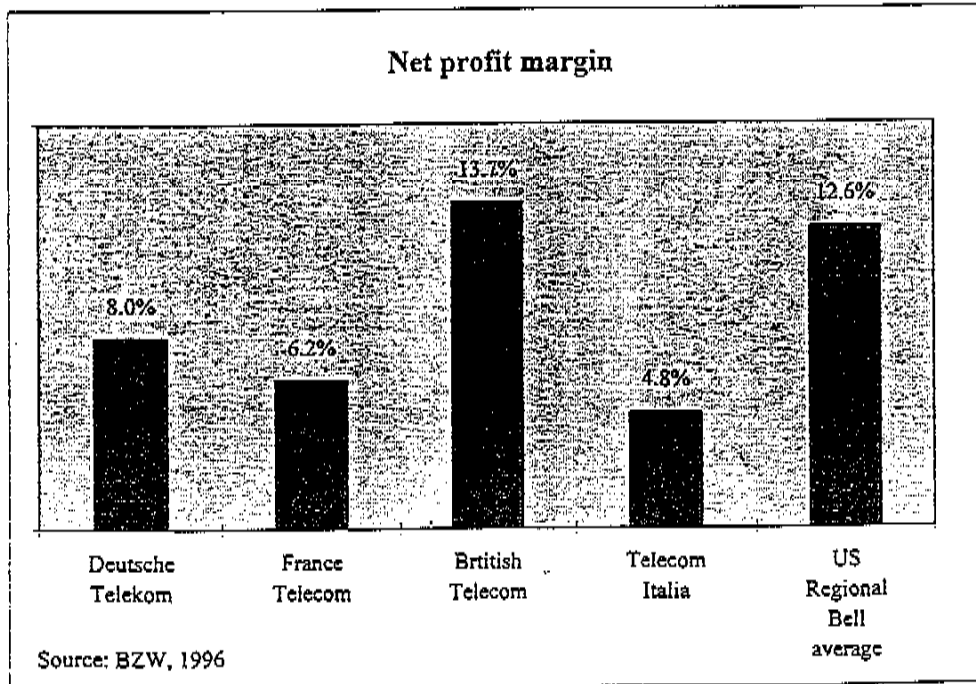
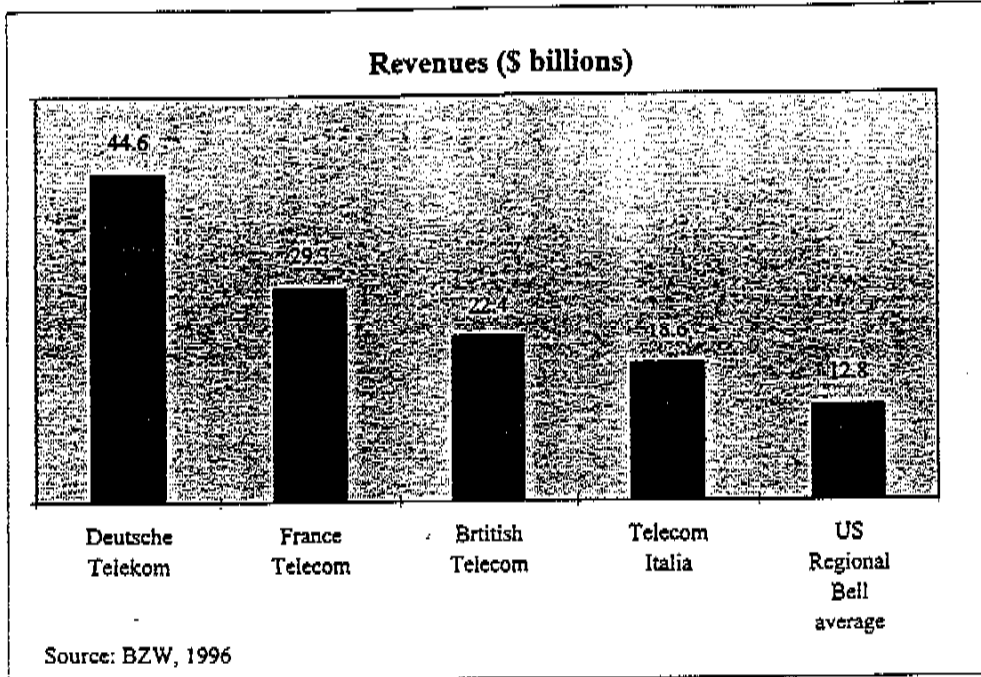
	Year ended December 31,			
	1993	1994	1995	1996(2)
Standard telephone access lines	35.9	37.3	38.7	39.2
ISDN channels	0.6	1.3	2.2	3.3
	1.0	1.4	1.8	2.2

Exhibit 3 (cont'd)

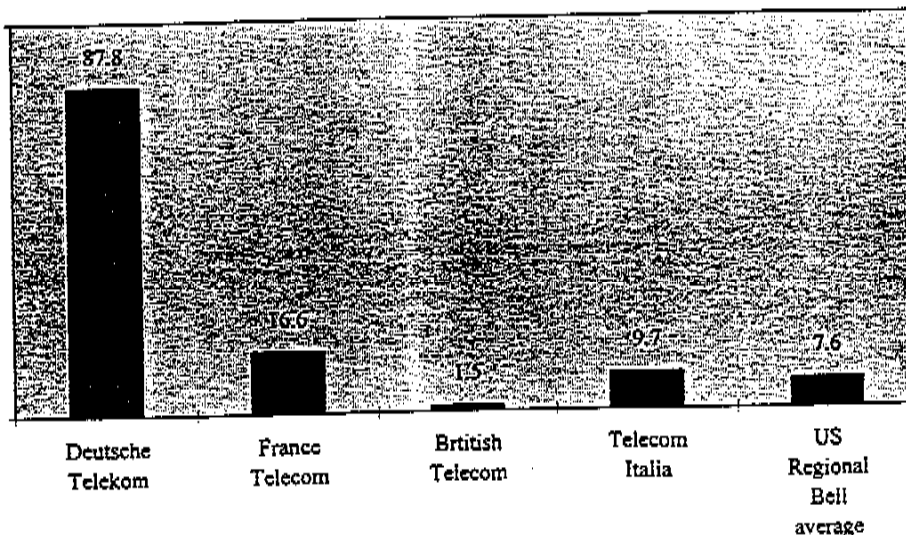
Notes to Summary Consolidated Financial and Statistical Information

- (1) Translated into U.S. Dollars at the Noon Buying Rate on June 28, 1996 of DM 1.5210 to \$1.00.
- (2) Includes full consolidation of Matáv, except for statistical data.
- (3) Commencing January 1, 1996, VAT was imposed on the Company's monopoly services (principally domestic telephone services, outgoing international services, leased lines and cable services) in response to which the Company reduced tariffs for all such services except leased lines. If the Company's revenues in the affected business areas in the first half of 1995 were adjusted for this VAT-related tariff change, revenues in the first half of 1996 (excluding Matáv) would have increased by 1.4% compared to the first half of 1995. In addition, in January 1996 the Company introduced a far-reaching tariff reform. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview and Outlook-Revenues" and "-Results of Operations-Net Revenues."
- (4) Of the DM 2.8 billion increase in total operating costs and expenses in the first six months of 1996, DM 775 million is attributable to the consolidation of Matáv and DM 200 million to incremental VAT expense. Adjusting for the combined effect of these items, other operating costs and expenses would have increased by approximately 7.2% in the first half of 1996 compared to the first half of 1995. Of the remaining DM 1.8 billion increase, a significant portion represents expenses that the Company believes were high compared to what it expects to incur on an ongoing basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations-Total Operating Costs and Expenses."
- (5) Substantially all of the extraordinary losses consist of personnel restructuring charges, which include the total expected costs of the Company's workforce reduction program. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations-Extraordinary Losses." Under U.S. GAAP, only a portion of these restructuring charges have been recognized in these periods. See Note 30 to the Consolidated Financial Statements and Note 13 to the Unaudited Interim Consolidated Financial Statements.
- (6) Pro forma for 1993 and 1994. Earnings per Share/ADS has been calculated based on 2.03 billion Shares and a ratio of one Share to one ADS. Giving effect to the issuance of 520 million Shares in the Global Offering and the Employee Offering, pro forma earnings per Share/ADS would be DM 2.07 and \$1.36 for 1995 and DM 0.05 and \$0.03 for the first six months of 1996 (without giving effect to the application of the proceeds of the Global Offering and the Employee Offering).
- (7) U.S. GAAP amounts for 1993 are not available.
- (8) After extraordinary losses.
- (9) Includes households connected through private cable operators. See "Business-Cable Transmission and Broadcasting-Cable Services-Penetration and Coverage."

Exhibit 4: Comparative financials and statistics of telecommunications companies

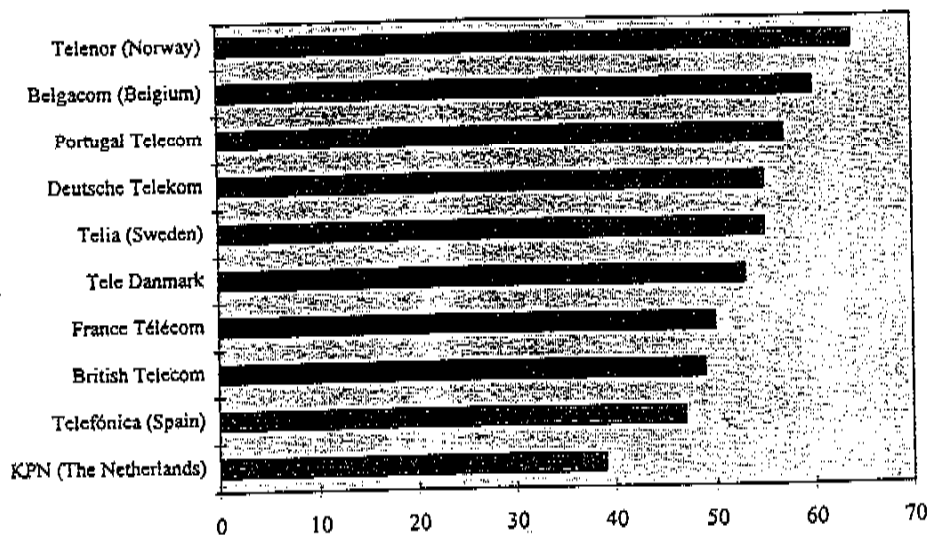


Net debt (\$ billions)



Source: BZW, 1996

Employees per 10,000 connections



Source: Kleinwort, Benson, 1996 data.

Annual spending in phone calls per country (DM)

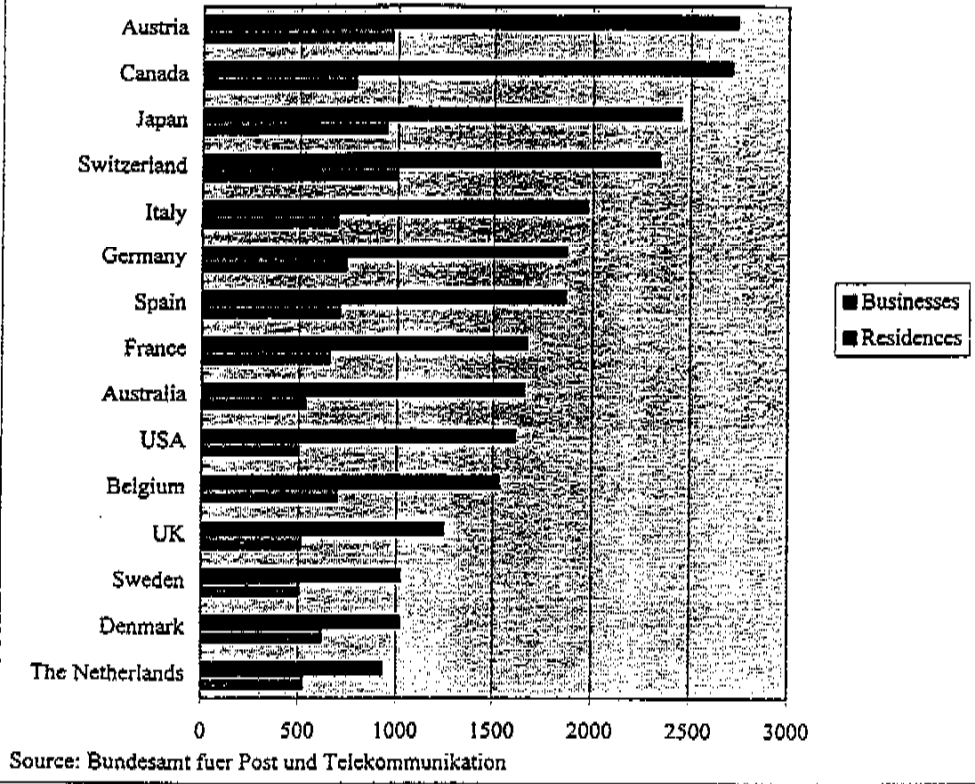


Exhibit 5
(Wall Street Journal, January 16, 1997)

This advertisement appears as a matter of record only. All shares have been sold.

January 1997



Deutsche Telekom AG, Bonn, Germany
Global Initial Public Offering of 690,000,000 Ordinary Shares
in the Form of Shares and American Depositary Shares
at DM 28.50 per Share and at US\$ 18.89 per ADS

Global Coordinators

Deutsche Bank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Goldman, Sachs & Co.

The Shares were offered in the following regions

Germany - 462,300,000 Shares

<p>CG BANK Deutsche Girobank AG</p> <p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Hypotheken- und Wechsel-Bank Aktiengesellschaft</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p>	<p>Westdeutsche Landesbank Girozentrale</p> <p>Metzler Landesbank für den Rhein- und Moselraum</p> <p>Landesbank Rheinland-Phos -Girozentrale</p> <p>B. Metzler soest. Sohn & Co. Kommersialgesellschaft AG</p>	<p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Landesbank Girozentrale</p> <p>Bayrische Landesbank Girozentrale</p>	<p>Commerzbank Aktiengesellschaft</p> <p>Commerzbank Aktiengesellschaft</p> <p>Commerzbank Aktiengesellschaft</p> <p>Commerzbank Aktiengesellschaft</p> <p>Commerzbank Aktiengesellschaft</p>	<p>Bayrische Hypotheken- und Wechsel-Bank Aktiengesellschaft</p> <p>Norddeutsche Landesbank Girozentrale</p> <p>Süd-WLB</p> <p>Süd-WLB</p> <p>Süd-WLB</p>	<p>Bayrische Vereinsbank Aktiengesellschaft</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p>
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United Kingdom - 57,500,000 Shares

<p>Dresdner Kleinwort Benson</p> <p>ABN AMRO Rothschild</p> <p>Bayrische Landesbank Girozentrale</p>	<p>SBC Warburg A DIVISION OF SBCS BANK CORPORATION</p> <p>CS First Boston</p> <p>Goldman Sachs International</p> <p>Cabrera & Co.</p>	<p>Deutsche Morgan Grenfell</p> <p>Robert Fleming & Co. Limited</p> <p>Schwabedissen</p>
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Rest of Europe - 37,950,000 Shares

<p>Paribas Capital Markets</p> <p>UBS Limited</p> <p>ABN AMRO Rothschild</p> <p>Deutsche Morgan Grenfell</p> <p>BBV Interactivos, S.V.B.</p> <p>Commerzbank Aktiengesellschaft</p> <p>KB-Securities</p>	<p>Dresdner Kleinwort Benson</p> <p>Banking Nationale de Paris</p> <p>Goldman Sachs International</p> <p>Bayrische Vereinsbank Aktiengesellschaft</p> <p>Commerzbank Aktiengesellschaft</p> <p>Mediocredito - Banca di Credito Friulano SpA</p>	<p>Deutsche Morgan Grenfell</p> <p>Goldman Sachs International</p> <p>Banking Generale du Luxembourg S.A.</p> <p>Den Danske Bank</p> <p>Société Générale</p>
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Americas - 97,750,000 Shares

<p>Goldman, Sachs & Co.</p> <p>Morgan Stanley & Co. Incorporated</p> <p>ABN AMRO Rothschild A Division of ABN AMRO Securities ABN N.V.</p> <p>Bank, Stearns & Co. Inc.</p> <p>Deutsche Morgan Grenfell</p> <p>Merill Lynch & Co.</p>	<p>Salomon Brothers Inc.</p> <p>CS First Boston</p> <p>Alex. Brown & Sons Incorporated</p> <p>A.G. Edwards & Sons, Inc.</p> <p>Prudential Securities Incorporated</p> <p>Smith Barney Inc.</p> <p>Arnold and S. Blechroeder, Inc.</p> <p>Dan Baughn Incorporated</p> <p>McDonald & Company Securities, Inc.</p> <p>Smith, Nichols & Company Incorporated</p>	<p>Dean Witter Reynolds Inc.</p> <p>J.P. Morgan & Co.</p> <p>RBC Dominion Securities Government</p> <p>Toronto Dominion Securities</p> <p>Robert W. Baird & Co. Incorporated</p> <p>Edward G. Jones & Co., L.P.</p> <p>Prudential Financial Securities, Inc.</p> <p>Quinn & Co. Incorporated</p>
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Asia-Pacific/Rest of World - 34,500,000 Shares

<p>Daiwa Europe Limited</p> <p>Nomura International</p> <p>ABN AMRO Rothschild</p> <p>Indosat CAPITAL</p> <p>Yamaichi International (Europe) Limited</p> <p>Rainie Huijsten Securities Son Bhd</p> <p>Saibang Investment & Securities Co. Ltd.</p> <p>Kankaku (Europe) Limited</p> <p>Universal (E.K.) Limited</p>	<p>Leifman Brothers</p> <p>CS First Boston</p> <p>Goldman Sachs (Asia) LLC</p> <p>HSBC Investment Banking</p> <p>Wells Securities Pacific Ltd.</p> <p>The Development Bank of Singapore Ltd</p> <p>Securities One</p> <p>J B Wren & Son</p> <p>New Japan Securities Europe Limited</p> <p>Wain International (Europe) Limited</p>	<p>Deutsche Morgan Grenfell</p> <p>Dresdner Kleinwort Benson</p> <p>Wells Securities Pacific Ltd.</p> <p>Securities One</p> <p>J B Wren & Son</p> <p>New Japan Securities Europe Limited</p> <p>Wain International (Europe) Limited</p>
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Employee Share Ownership Programme of 23,700,000 Shares

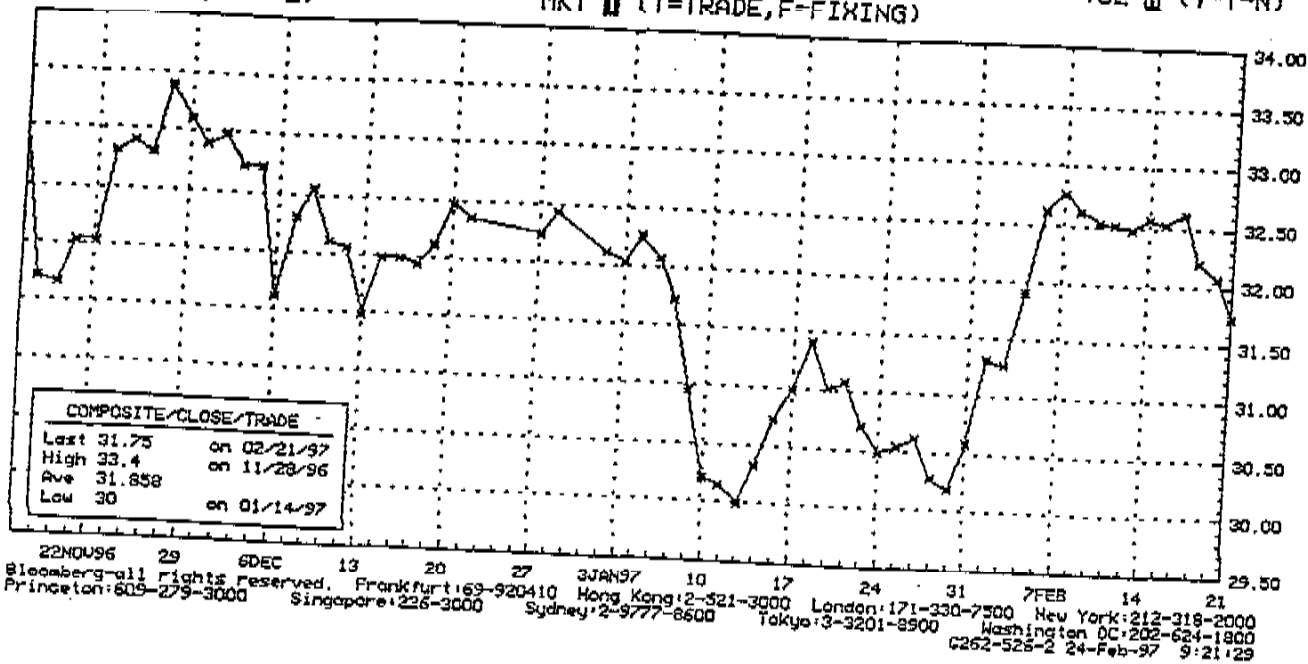
<p>UBS Schweizerische Eidgenossenschaft</p> <p>Verband der Post-, Spar- und Dienstleistungs AG</p>	<p>CG BANK Deutsche Girobank AG</p> <p>Verband der Post-, Spar- und Dienstleistungs AG</p>
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Advisors to the Company
Nul Rothschild & Sons

Advisors to the Government of the Federal Republic of Germany
CS First Boston
Wain International (Europe) Limited

Exhibit 6
Stock Price Graphs
Deutsche Telekom Shares
(Deutsche Marks)

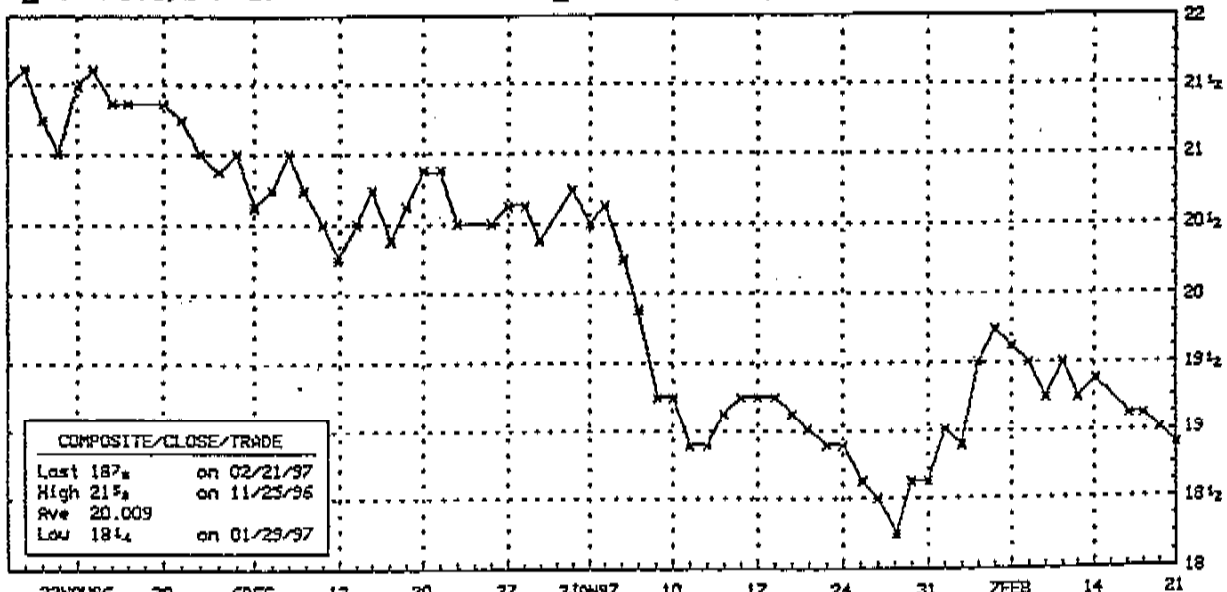
2
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 PRICE GRAPH for DTE GR DM
 RANGE 11/18/96 TO 2/21/97 PERIOD 0 (D-W-M-Q-Y) VOL 0 (Y-T-N)
 1 (1=PRICE, 2=P/E) MKT 1 (T=TRADE, F=FIXING)



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 Princeton:609-279-3000 Singapore:226-3000 Sydney:2-9777-8600 Tokyo:3-3201-8900 Washington DC:202-624-1800
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Exhibit 6 (cont'd)
Stock Price Graphs
Deutsche Telekom ADS
(US Dollars)

2 DG28 Equity GP
 Enter all values and hit <GO> or #<PAGE> for table (2 Pgs Max).
PRICE GRAPH for DT US \$
 RANGE **11/18/96** TO **2/21/97** PERIOD **D** (D=W-M-Q-Y) VOL **1** (V-T-N)
1 (1=PRICE, 2=P/E) MKT **1** (T=Trd, B=Bid, A=Ask, W=Wa)



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 Princeton:609-279-3000 Singapore:225-3000 Sydney:2-9777-8600 Tokyo:3-3201-8900 Washington DC:202-624-1800
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