

# FY 2006. Highlights.

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In addition to figures prepared in accordance with IFRS, Deutsche Telekom presents non-GAAP financial performance measures, including EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net profit, free cash flow, gross debt and net debt. 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 financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Deutsche Telekom's Investor Relations website at [www.deutsche-telekom.com](http://www.deutsche-telekom.com).

## 2006 Highlights.

Free cash flow target exceeded.

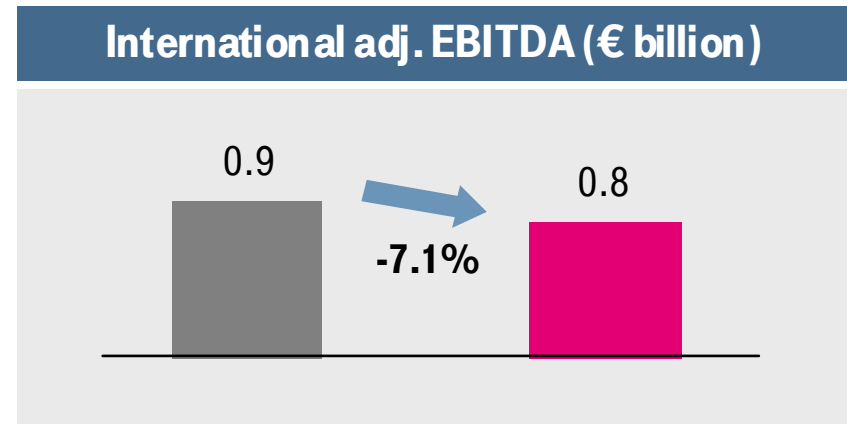
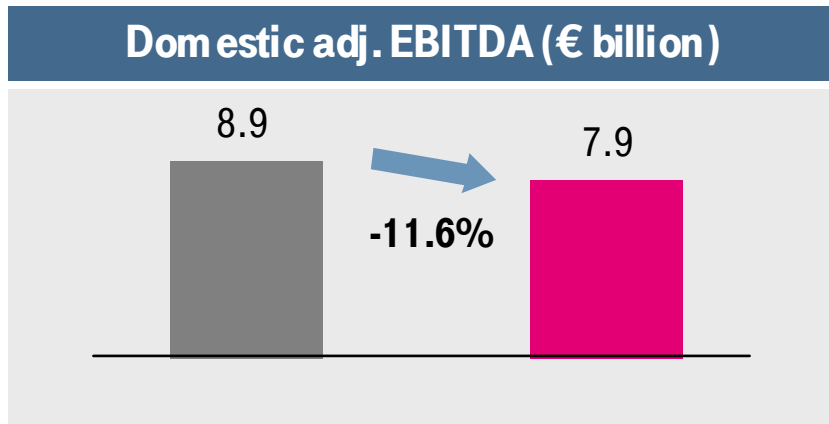
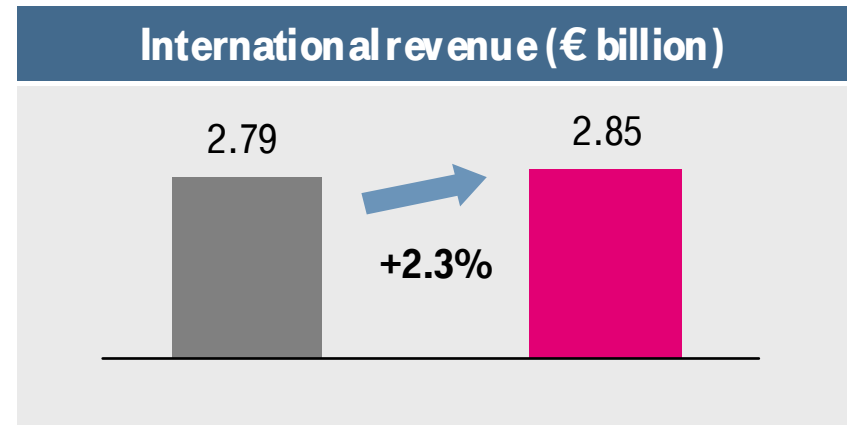
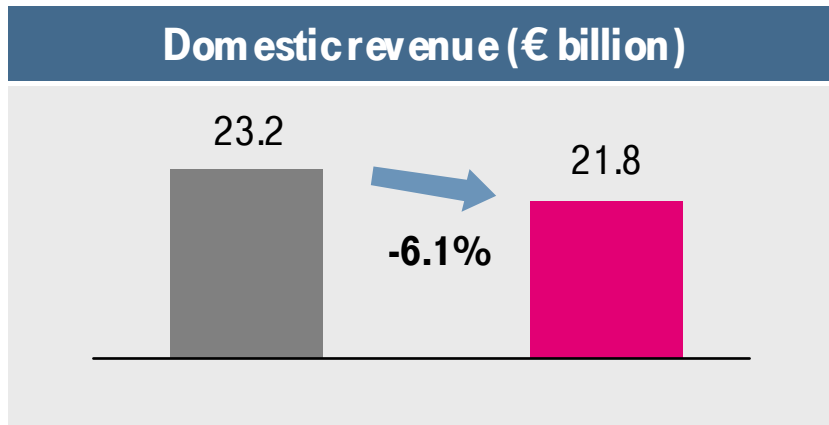
- Revenue up 2.9% to €61.3 billion
- Adj. EBITDA at €19.4 billion
- Reported net income at €3.2 billion (adjusted at €3.9 billion)
- Free Cash Flow before spectrum capex at €5.7 billion
- 2006 dividend of €0.72 per share proposed
  
- 9.3 million mobile net adds<sup>1</sup>
- Strong domestic DSL net adds in Q4:
  - 563k branded retail
  - 878k including resale

<sup>1</sup> Proforma incl. PTC and tele.ring for entire 2006.

# FY 2006. Financials.

# Broadband/Fixed Network.

Challenging domestic environment.



■ 2005      ■ 2006

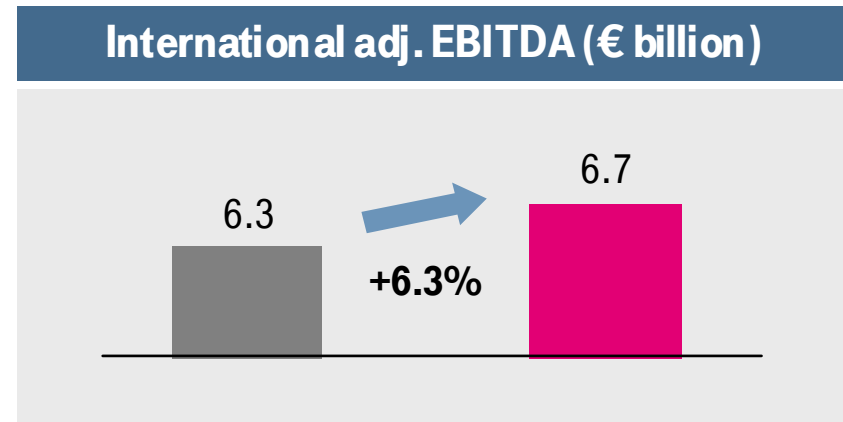
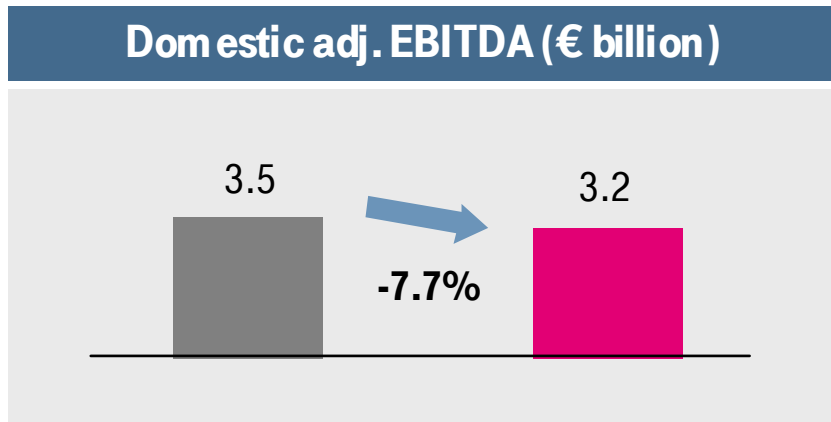
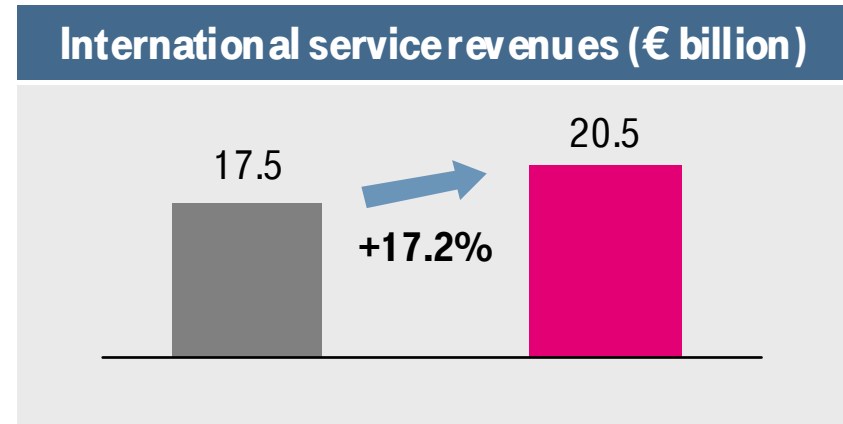
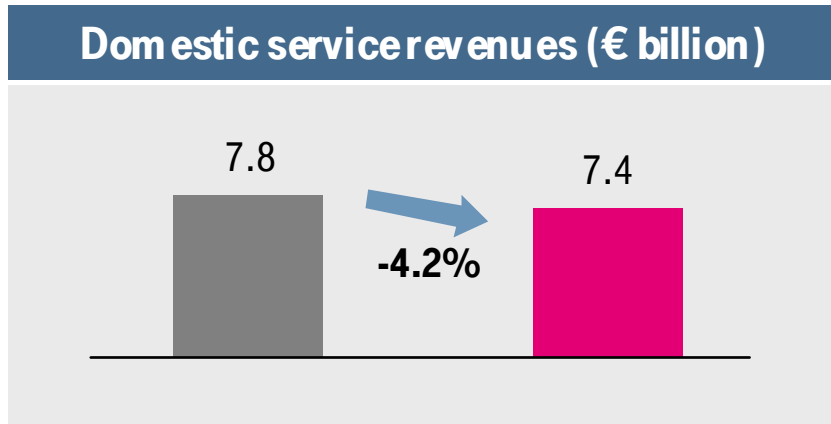
## Broadband/Fixed Network - domestic.

Revenue trends continue.

Revenues in € million	2006	2005	Delta
Total	21,835	23,249	- 6.1%
Network communications	11,240	12,349	- 9.0%
thereof narrowband access	7,803	7,882	- 1.0%
thereof calling revenues	3,424	4,465	- 23.3%
Value added services	945	1,069	- 11.6%
Terminal equipment	333	425	- 21.6%
Data communications	1,258	1,226	2.6%
Wholesale services	4,302	4,357	- 1.3%
IP/Internet	3,000	2,994	0.2%
Others (e.g. Multimedia and Broadcasting)	757	829	- 8.7%

# Mobile.

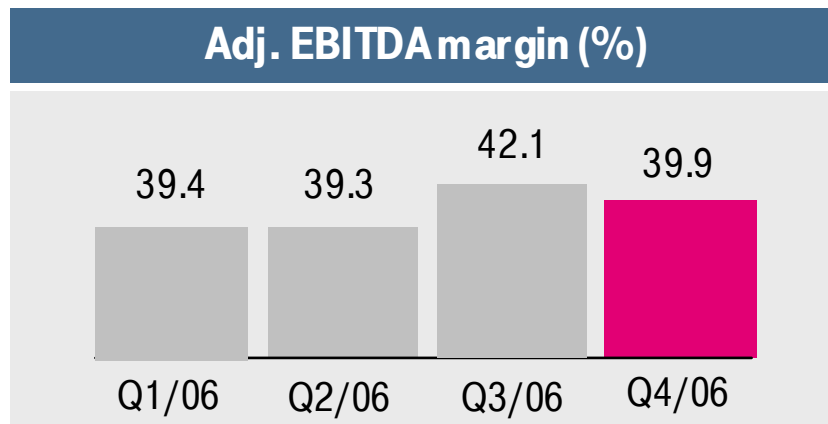
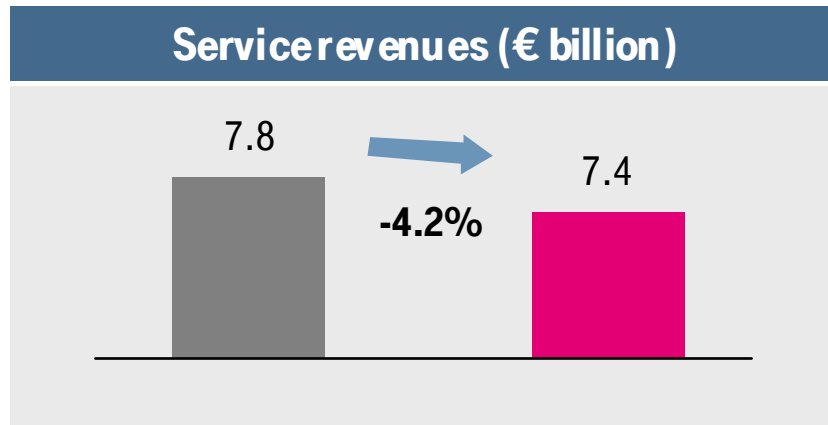
Strong international growth.



■ 2005  
■ 2006

# T-Mobile.

Germany: revenue under pressure – margin holding up.



■ 2005      ■ 2006

■ Main drivers of service revenue decline:

- Lower calling revenues due to price cuts
- Increased price competition in business customer segment
- Termination rate cuts in November
- Lower roaming tariffs

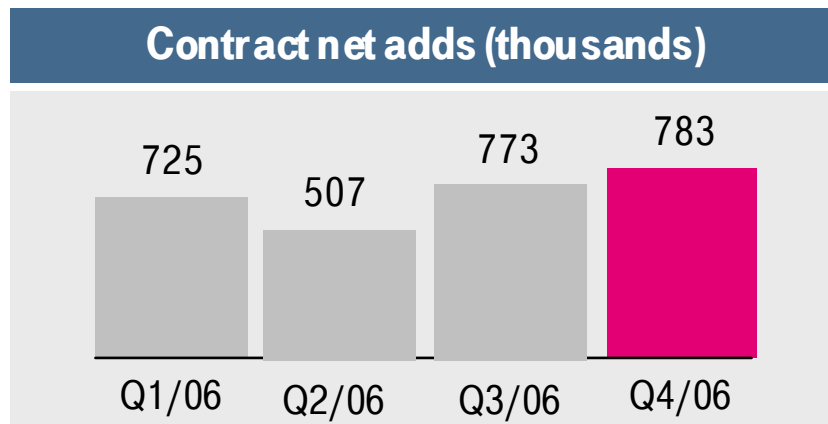
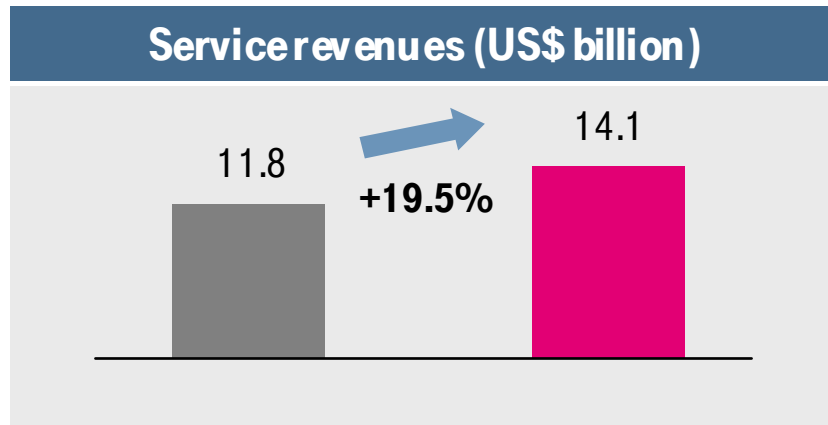
■ Increased monthly recurring revenues from Relax and MAX tariffs

■ 1.4 million net adds – 56% contract



# T-Mobile.

USA: Consistently strong metrics – solid contract growth.

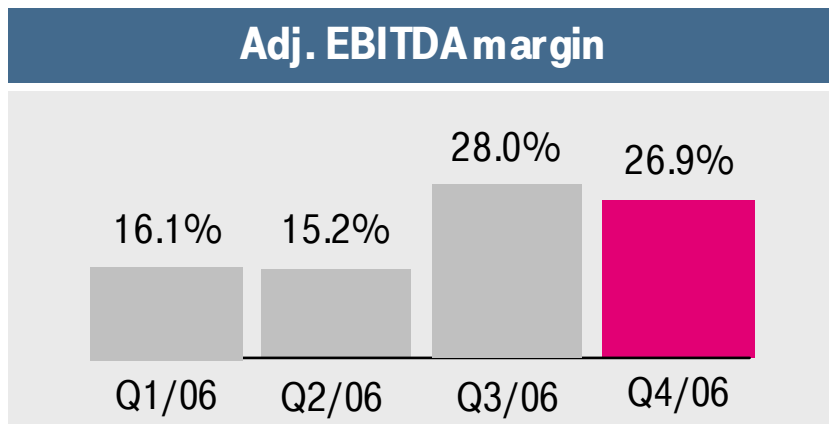
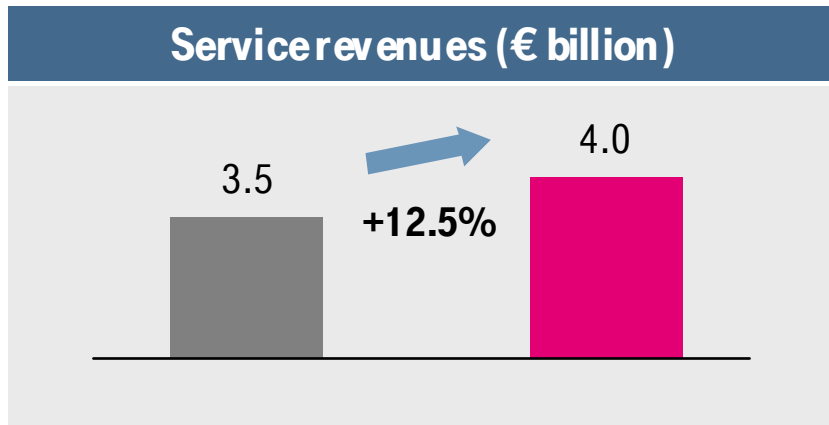


■ 2005      ■ 2006

- Total revenue (US\$) growth +16.1%
- Adj. EBITDA: \$4.7 billion, up 15.6%
- Contract ARPU: \$56 (up from \$55 in 2005)
- Non-voice ARPU: \$6.50 in Q4, up 36% yoy
- 3.4 million net adds – 83% contract
- >200k net increase in contract converged device users (BlackBerry & Sidekick) in Q4

# T-Mobile.

UK: Strong service revenue growth and margin recovery.

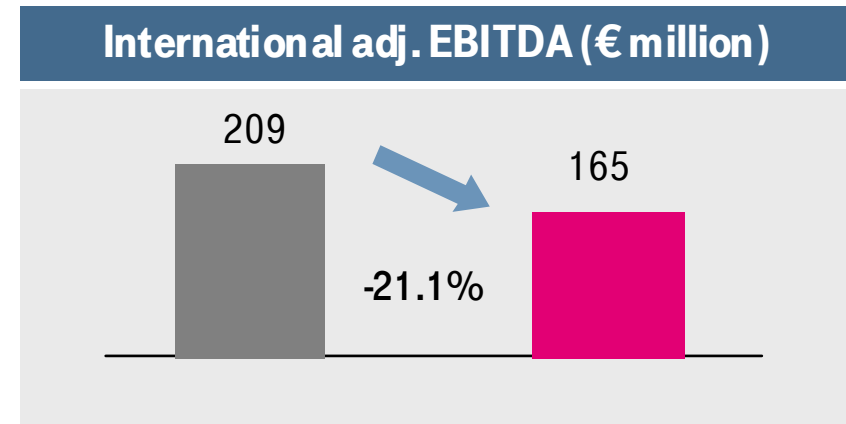
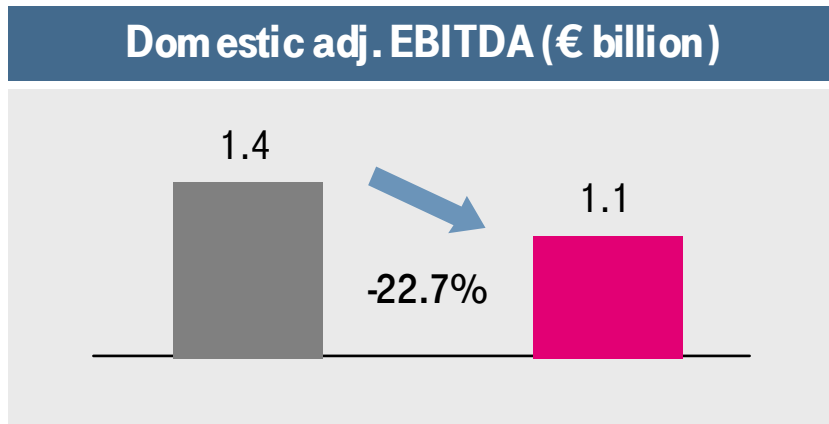
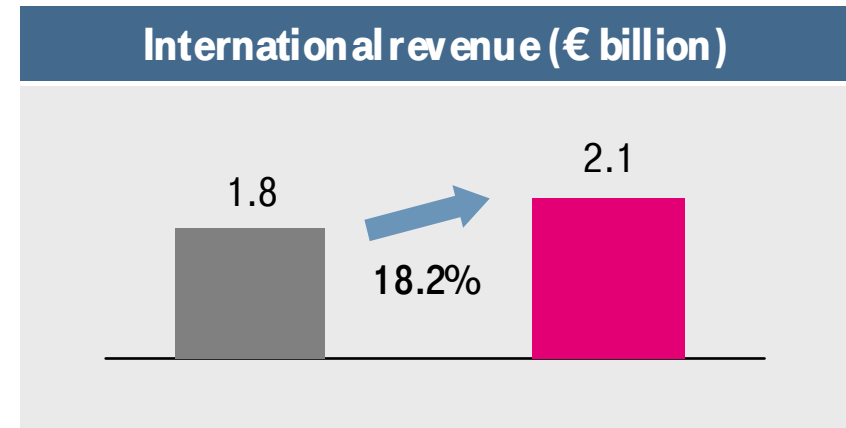
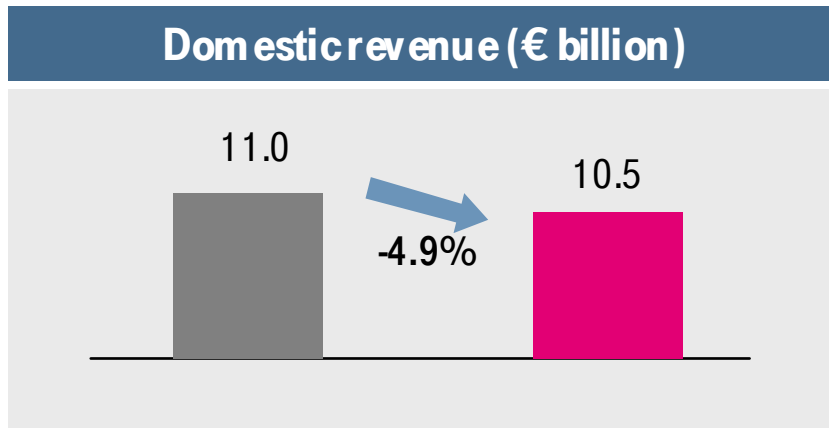


■ 2005      ■ 2006

- Total revenue growth +8.2%
- Contract ARPU at €66 (from restated €65 in 2005)
- Adj. EBITDA in Q4: €316 million, up 3.6% yoy
- 923k net adds – 79% contract

# Business Customers.

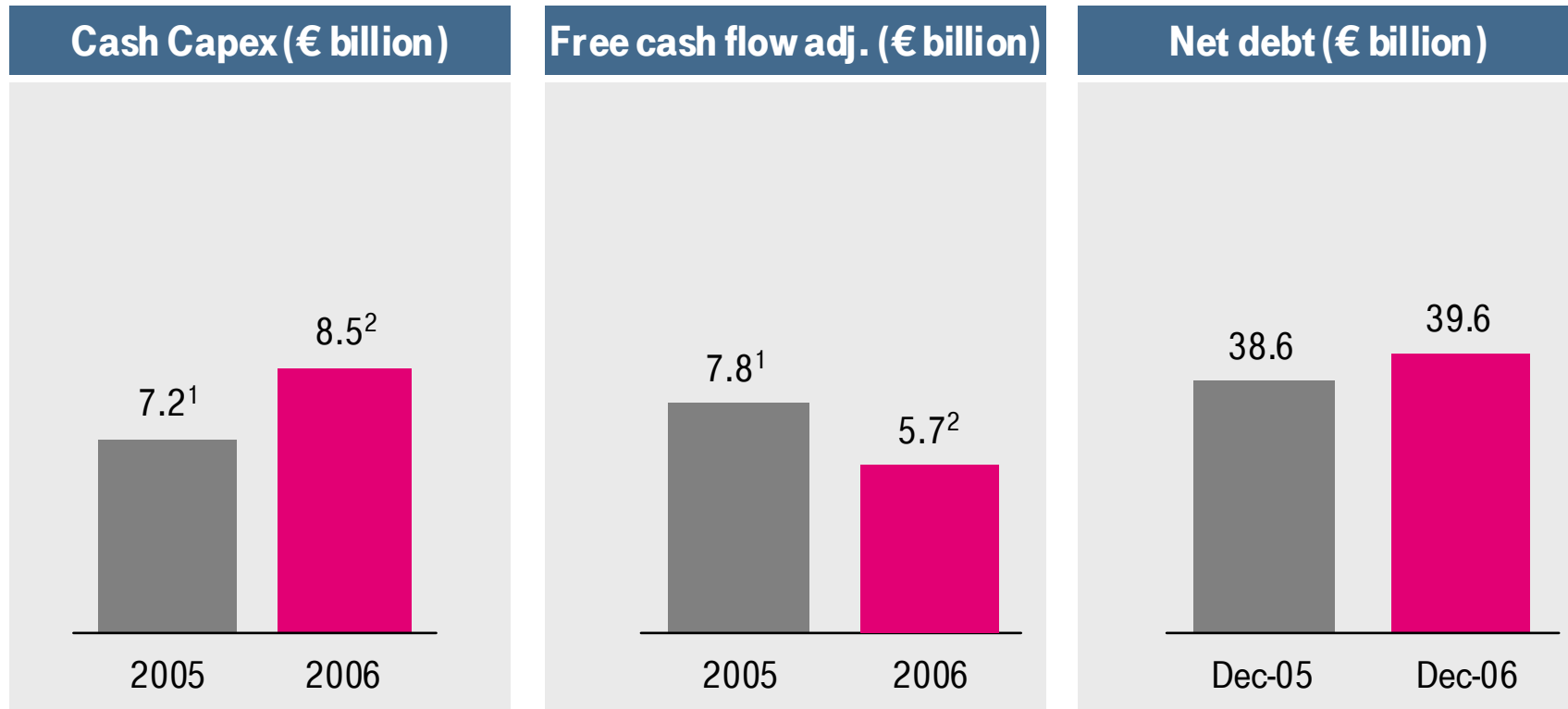
Strong international revenue growth.



■ 2005  
■ 2006

# Capex, FCF, and net debt.

€5.7 billion free cash flow in 2006.



<sup>1</sup> Before € 21 billion for network assets and licenses in the US.

<sup>2</sup> Before € 3.3 billion spectrum capex in the US.

## 2006 – Free Cash Flow.

Free cash flow target exceeded.

€ billion	2006	2005
Cash Flow	16.0	19.8
Change in working capital and accruals	2.2	- 0.7
Taxes and dividends	- 1.2	- 1.1
Cash generated from operations	17.0	17.9
Net interest payment	- 2.8	- 2.9
Net cash provided by operating activities	14.2	15.0
Investments in PP&E and intangible assets	- 11.8	- 9.3
Free Cash Flow	2.4	5.7
Free Cash Flow adjusted <sup>1</sup>	5.7	7.8

<sup>1</sup> 2005 excl. € 2.1 billion for network assets and licenses in the US. 2006 excl. € 3.3 billion for spectrum capex in the US.  
Rounded figures.

## 2006 – Net income.

Adjusted net income of € 3.9 billion in 2006.

€ billion	2006	2005	Adj. 2006	Adj. 2005
EBITDA	16.3	20.1	19.4	20.7
Depreciation and amortization	- 11.0	- 12.5	- 11.0	- 10.6
Net financial expense	- 2.7	- 1.4	- 2.9	- 2.5
- of which net interest expense	- 2.5	- 2.4	- 2.5	- 2.4
EBT	2.6	6.2	5.6	7.7
Income taxes	1.0	- 0.2	- 1.3	- 2.6
Earnings after taxes	3.6	6.0	4.3	5.1
Minorities	- 0.4	- 0.4	- 0.4	- 0.5
Net income	3.2	5.6	3.9	4.7

Rounded figures.

## Efficiency.

32,000 job reduction program well on track.

- 12,200 employees have left the group as of year-end 2006
  - Of which 8,700 early and partial retirement and severance programs
  - Of which 600 sale of Vivento business units
  - Of which 2,900 turnover and regular retirement
  
- Total restructuring expenses<sup>1</sup> for 32,000 job reduction program of €3.4 billion<sup>2,3</sup>:
  - € 0.9 billion<sup>2</sup> in 2005
  - € 2.4 billion<sup>2</sup> in 2006
  - € 0.1 billion in connection with sale of Vivento business units in 2006

<sup>1</sup> Booked as special factors.

<sup>2</sup> Net of partial retirement and international operations (not included in 32,000 job reduction program).

<sup>3</sup> Thereof €3.0 billion additions to provisions.

## Balance sheet.

Balance sheet continues to be in excellent shape.

€ billion	31.12.2006	31.12.2005
Balance sheet total	130.2	128.5
Shareholders' equity	49.7	48.6
Net debt	39.6	38.6
Net debt/adj. EBITDA	2.04x	1.86x
Gearing	0.8x	0.8x
Equity ratio	38.2%	37.8%



## Dividend.

2006 dividend of € 0.72 per share proposed.

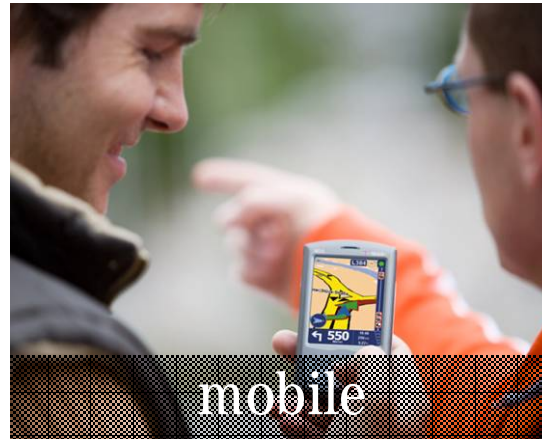
	Amount (€ billion)	Payout ratio
Dividend	3.1	
Reported net income	3.2	99%
Adjusted net income	3.9	81%
FCF before spectrum capex	5.7	55%

FY 2006.

Corporate Strategy.

“Focus, fix and grow”.

# We mobilize personal and social networking.



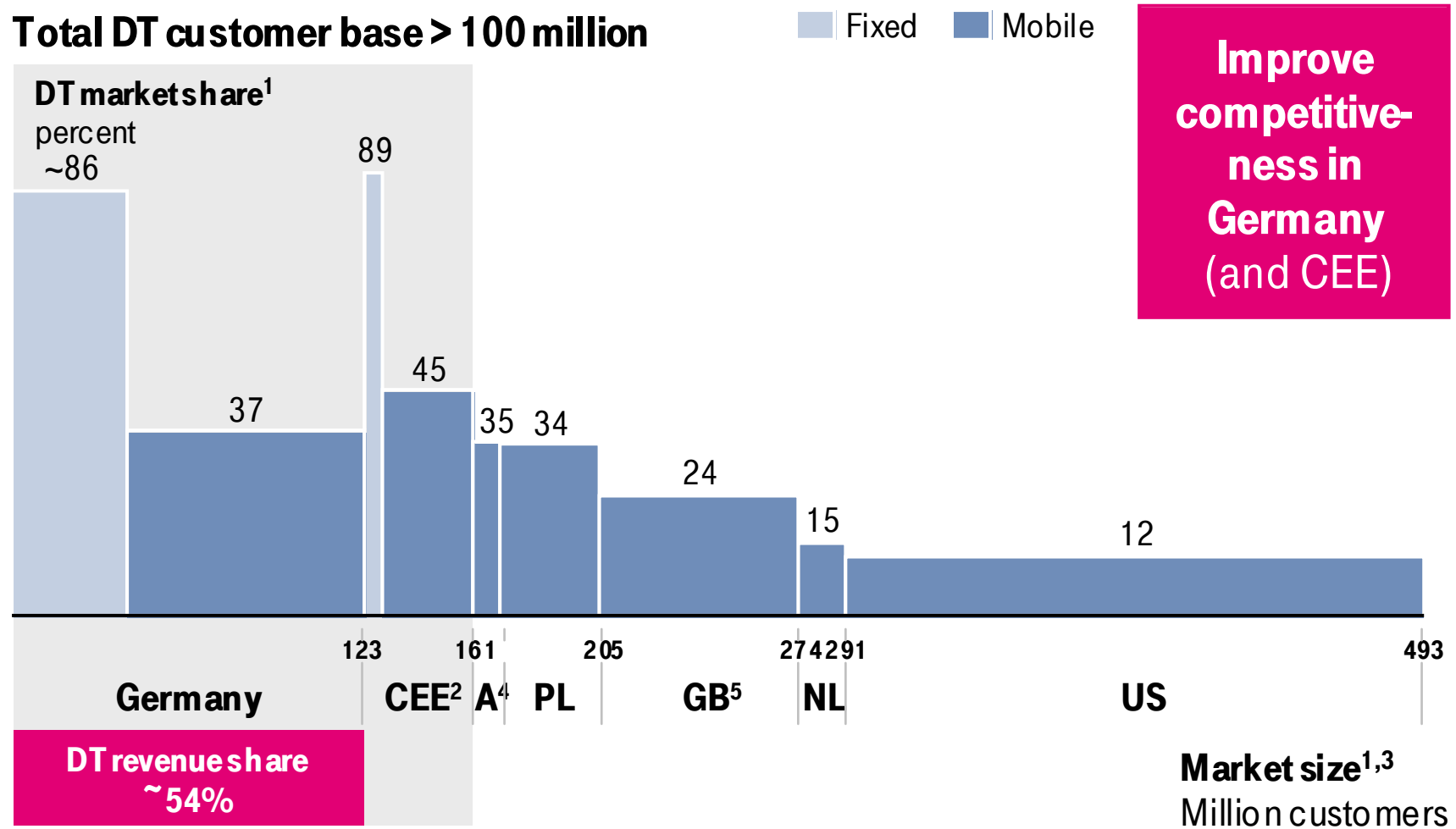
# Global trends in Telecommunications.

- **Personal communication in social networks**  
complementary to traditional voice and messaging usage
- **Mobile internet** as mega trend
- **Internet services incl. IPTV independent of access**  
("multi-access")
- **Devices and user interface** as potential differentiator
- **Broadband everywhere**

**Mobilize  
internet and  
Web 2.0 trend**

# DT portfolio - Consumer.

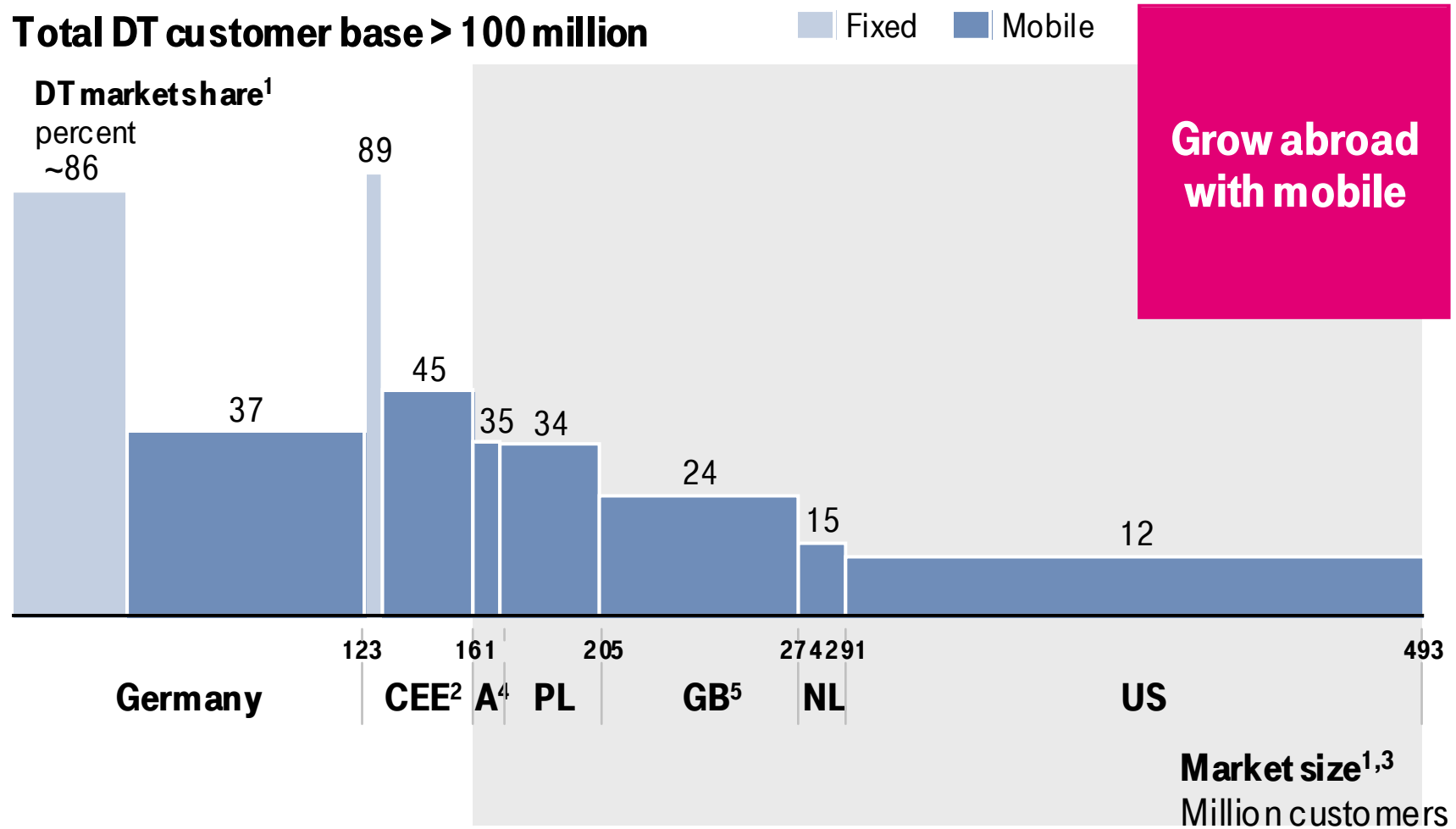
Total DT customer base > 100 million



Improve competitiveness in Germany (and CEE)

# DT portfolio - Consumer.

Total DT customer base > 100 million



<sup>1</sup>Market size and market shares Q3 2006. Number of fixed line customers set equal to number of lines. DSL customers not additive, but assumed to be 100% overlapping with fixed line customers. <sup>2</sup>Fixed lines business in integrated countries (Hungary, Slovakia and Croatia); Fixed lines assumed to be equal to SB connections. Includes HU, HR, SK, MK, CG. <sup>3</sup>Fixed and mobile, not mutually exclusive; 4) incl. Tel. Ring effect an organic (2006); 5) Incl. Virgin. Source: T-Com Controlling, TMO Controlling, iPF 2006, annual report

We mobilize  
personal and social networking.

**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

**Mobilize  
internet and  
Web 2.0 trend**

**Business  
customers**

**T =**

**Leading broadband provider**  
through combination of efficient technologies

## We mobilize personal and social networking.

**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

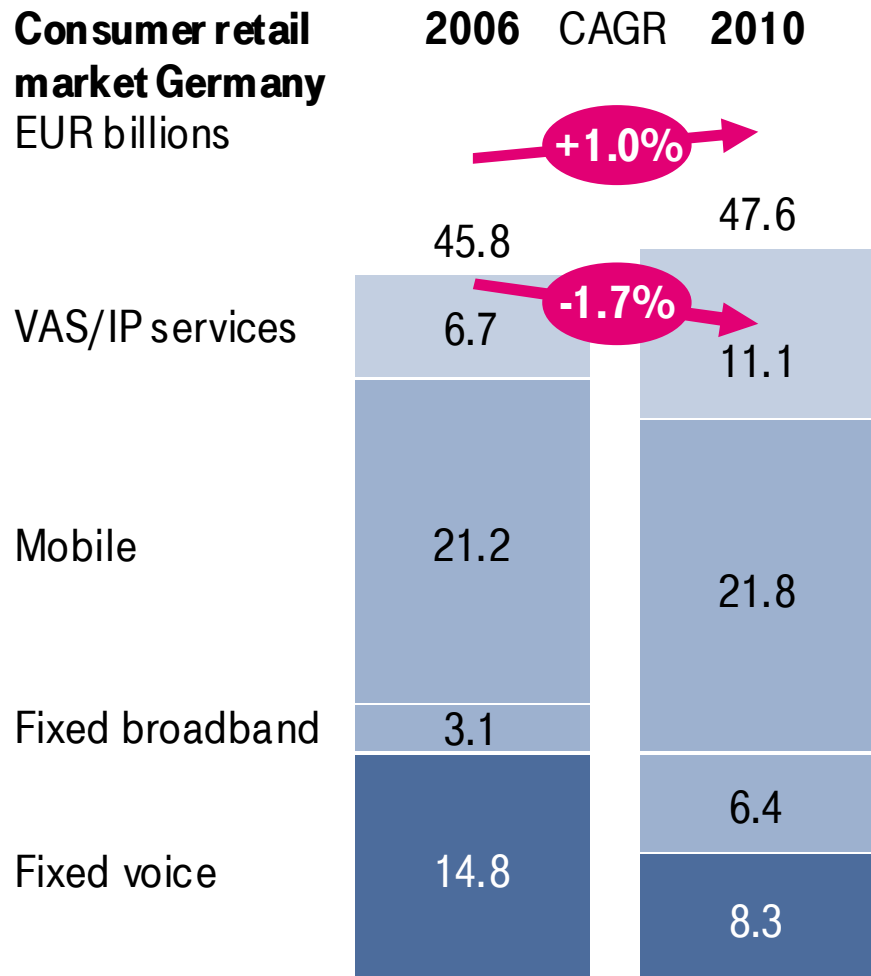
**Mobilize  
internet and  
Web 2.0 trend**

**Business  
customers**

- Market and customer situation
- Products and Innovation
- Sales, Service, and Marketing
- Brand architecture
- “Save for Service”



# Market situation in Germany.



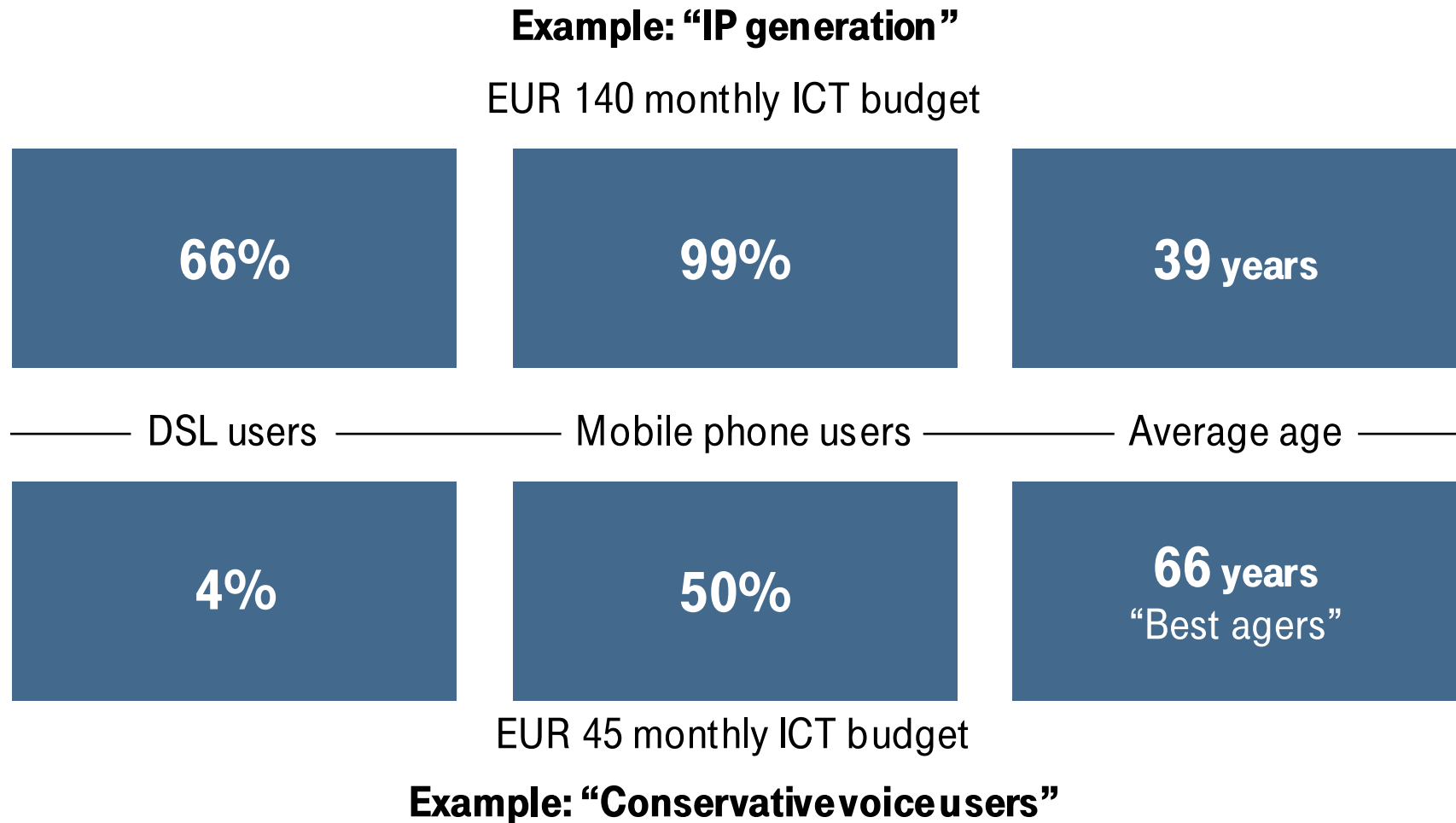
**Drive major innovation through IPTV and mobile internet**

**Maximize value share in the core business**

- Stabilize mobile share
- Push broadband
- Reduce PSTN line losses

**Improve our cost position significantly**

## Different customers ...



... require differentiated offers and innovations.



**Standard offers**

- Standard products with full options suite (e.g., “Euro flat”, “Mobile flat”)

**Innovative service features**

- Voice-operated functionality
- Visual, non-serial, multi-access voicemail

**Stabilization and later reduction of PSTN line losses**



- ISP fees included in DSL access
- Hotspots included

- Remote configuration and troubleshooting
- New UI: Easy access to messaging, PIM, search, storage/load

**40% - 45% retail DSL share of broadband net adds from 2007**



- IPTV nationwide via ADSL2+ (750 cities) and VDSL (50 cities)
- New pricing model

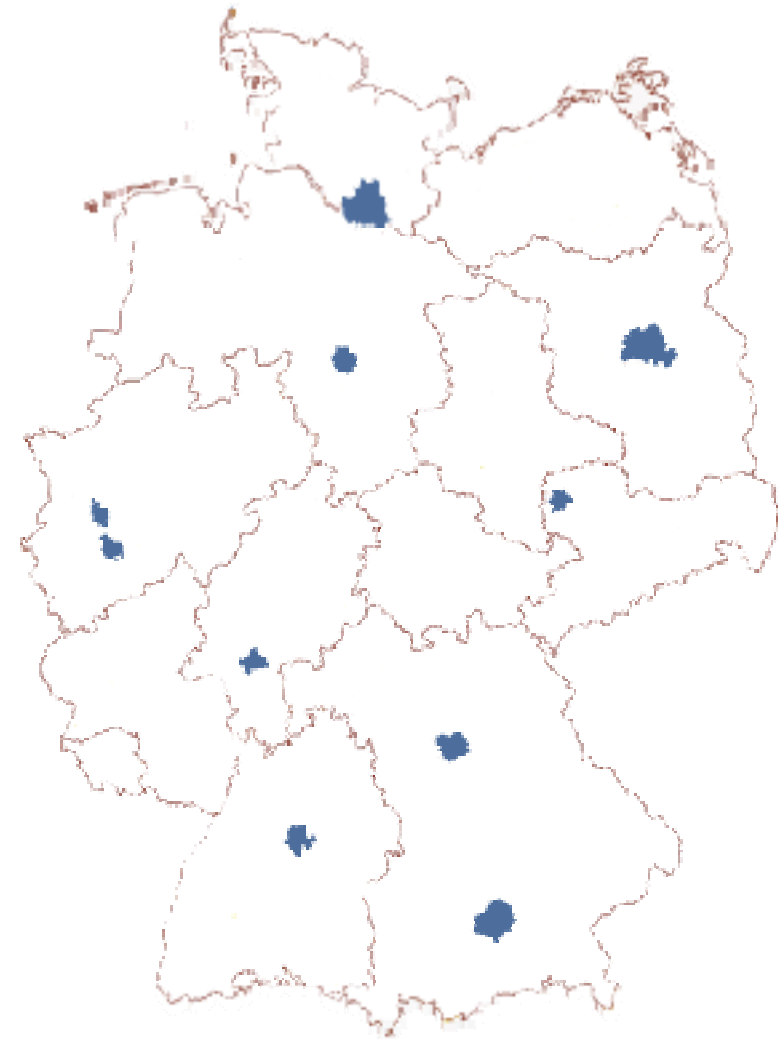
- Hybrid box also for DVB
- In-house cabling alternatives
- Interactive TV applications

**~ 1.5 million IPTV users in 2010**

# IPTV end of 2006.

**10 cities**

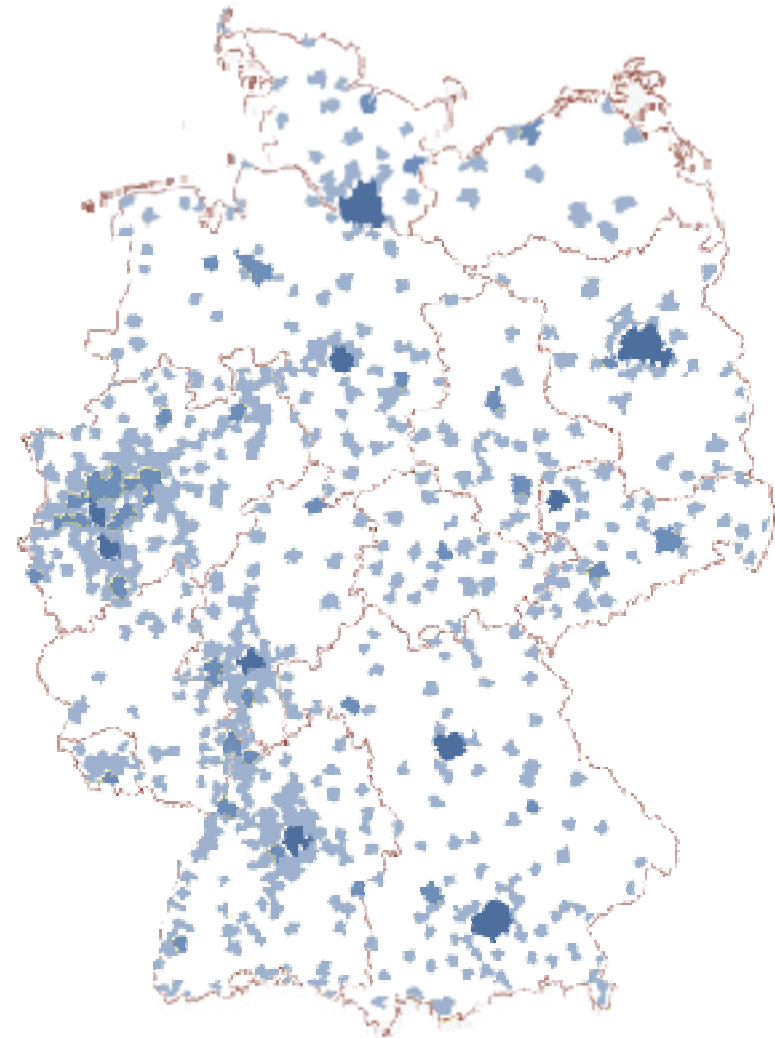
VDSL, end of 2006



IPTV will be widely available.

## 750 cities

- ADSL2+ 2007
- 50 cities VDSL 2008



... also in mobile: innovative products and devices.



**Strategic direction**

- Inner circle bonding – leverage personal social networks

**Product example**

- Community tariff
- Mobile Instant Messaging



- Strengthen category leadership in “real time” internet with worry free pricing

- Easy mobile email
- New “worry-free” data tariffs
- Web’n’walk 3.0

**Devices**

- Compelling and differentiated devices

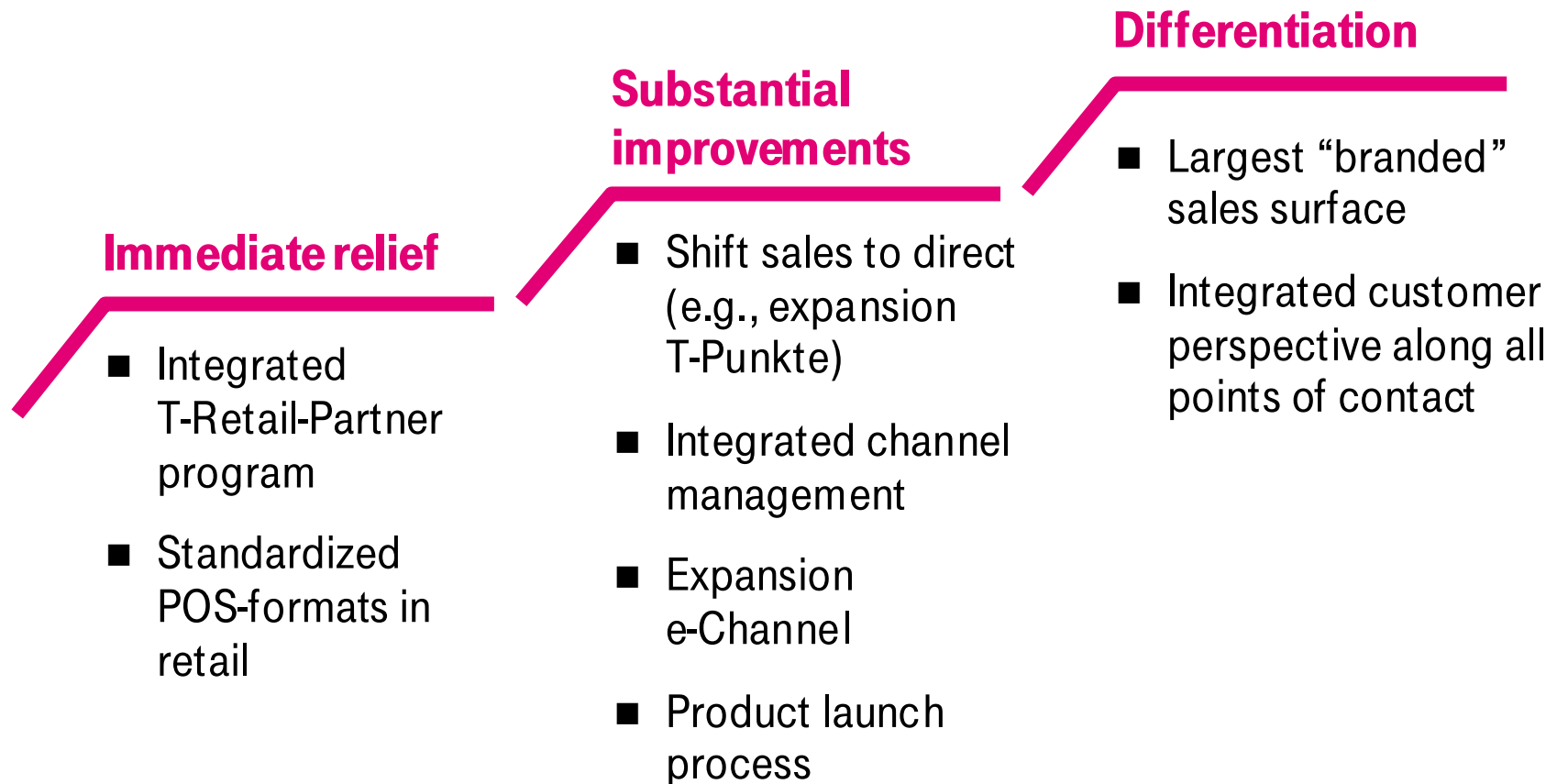
- Next generation MDA: Ameo



Stabilize mobile market share



# Develop sales further ...



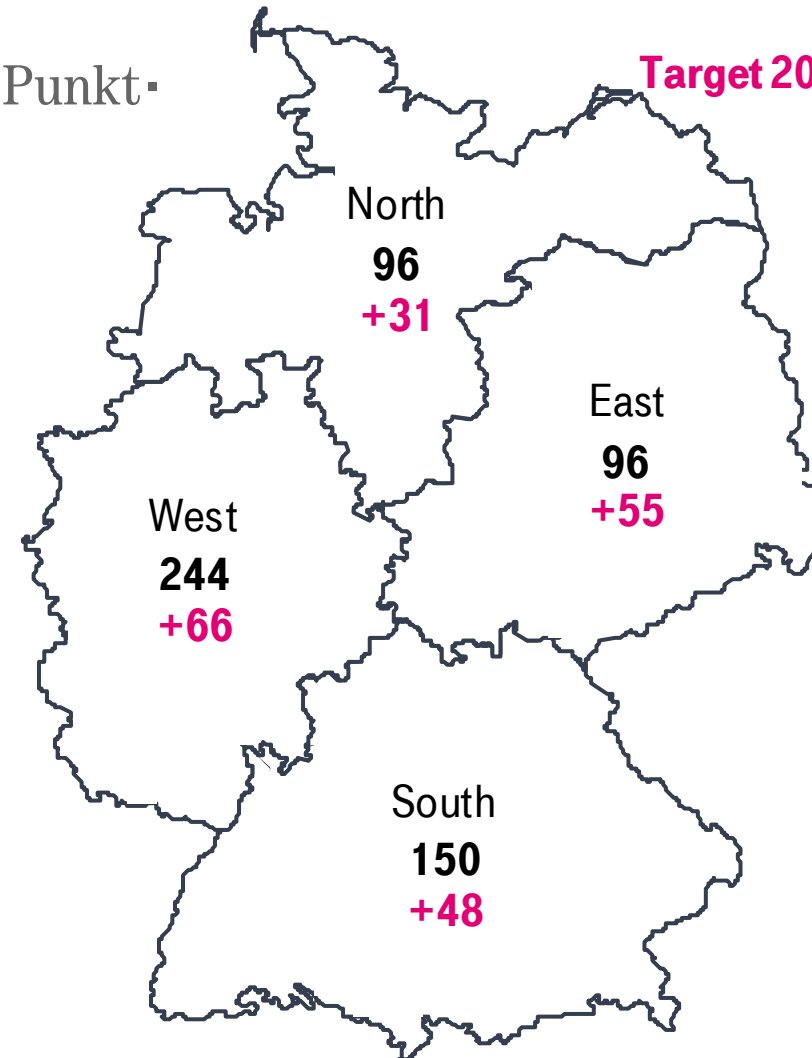
... especially direct sales.

### Substantial improvements

- 786 T-Punkte
- Approx. 1,000 T-Partner
- e-Channel share >15%<sup>1</sup>
- Approx. 1,500 new jobs

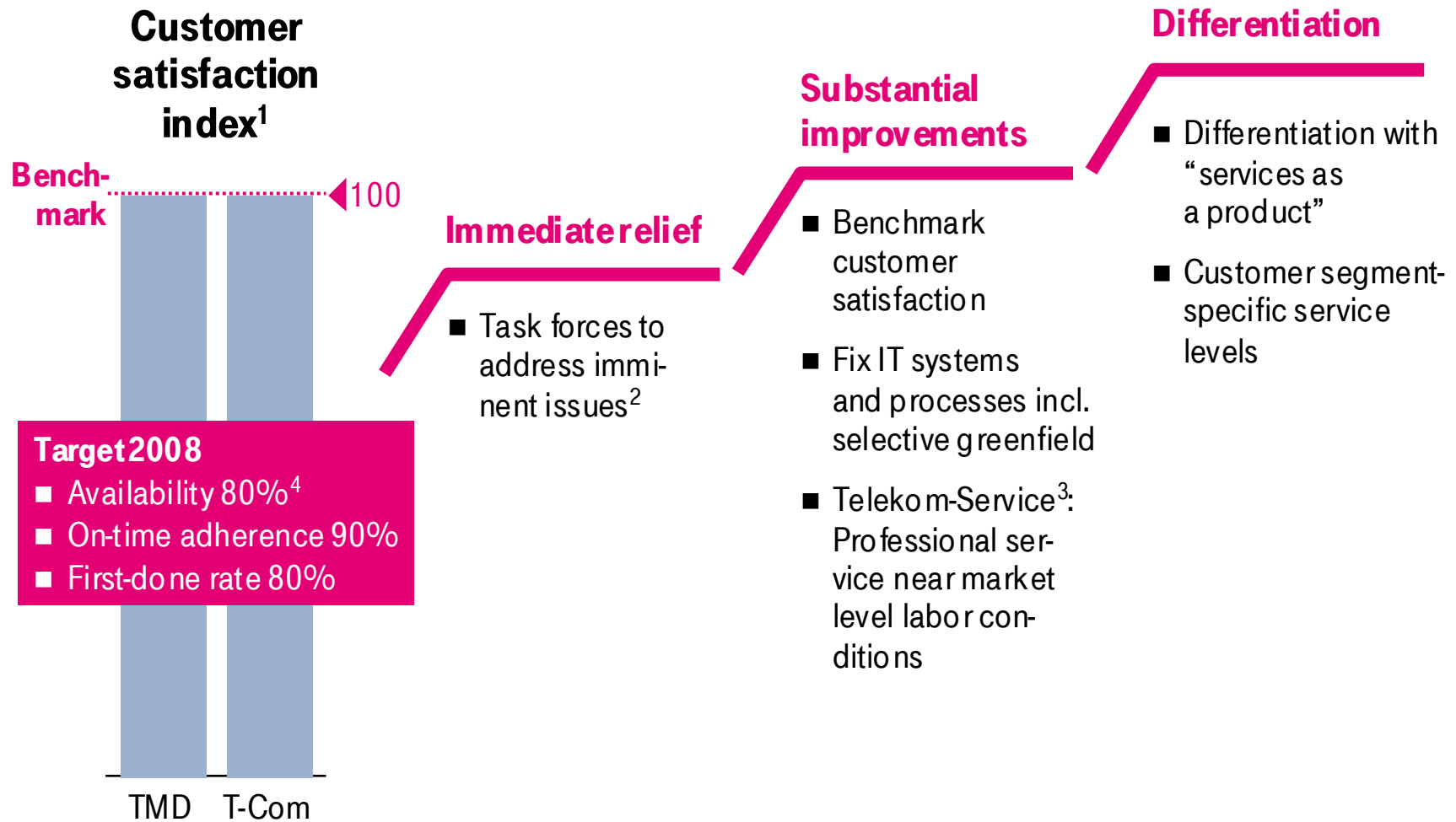
T-Punkt

Target 2007/08





# Professional service.



# Marketing: segment-specific bundles.

## EXAMPLES

### Customer segments

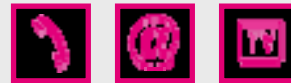


### Standard offers<sup>1</sup>

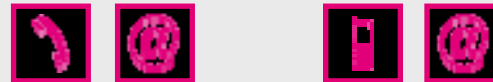
#### Community bundle



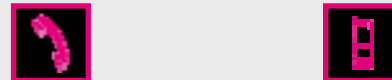
#### Triple play bundle



#### Double play bundles



#### Single play offers



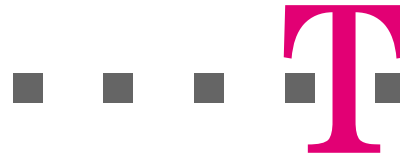
#### Targets 2007

- > 10 million MAX06 bundles
- > 1 million T-Vorteil

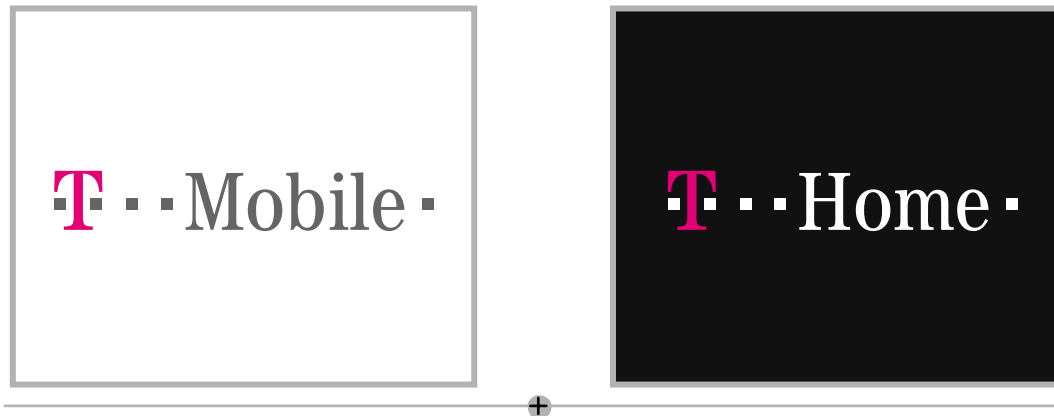
# Today's brand situation.



# Future branding architecture - Consumer.



as institutional sender

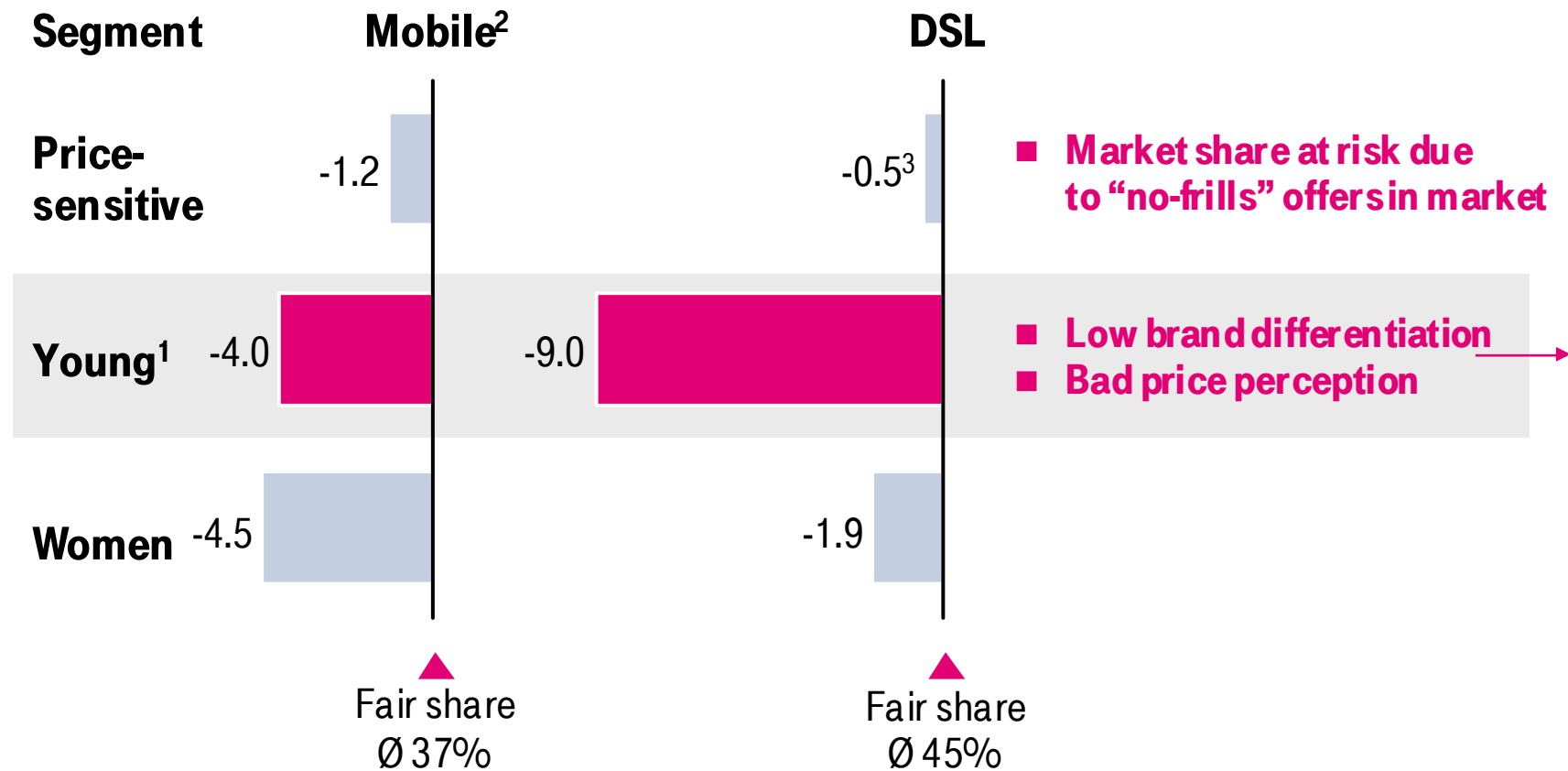


**Differentiating offerings “on the move”  
and “at home” in integrated markets**

**International  
consumer brand**

# Branding architecture: potential in young segment.

Δ to fair market share, percent



<sup>1</sup> For TM mobile "Young" market share is based on segment 14-25 years old, for DSL market share is calculated for 20-29 years old

<sup>2</sup> Postpaid example, prepaid similar values except for price sensitive

<sup>3</sup> Estimate

**Branding architecture:**  
gain share in the young/price sensitive segment.

## Second brand as a new category in the market

Introduction:  
**Summer season**

Positioning:  
**Simple and value for money**

Approach:  
**“Grass roots” marketing**

- Fun
- Trendy
- Simple product portfolio (mobile, DSL, bundles)
- Good value for money
- Primarily online and call center

- **~ 1.0 EUR billion revenue in 2010**
- **Moderate investment**

# “Save for Service”.

## EXAMPLES

### Cost savings measures

- All-IP network (“NGF”)**
  - Migration to IP factory by 2012
  - Capex/opex reduction, savings reinvested for IP migration
- Telekom-Service**
  - Separate technical, infrastructure, technical service, and call center units to increase productivity approaching near market-level labor cost while securing jobs
- IT efficiency**
  - Consolidate IT infrastructure and operations across business units

...

### Targets

- EUR 2.0 billion savings in 2007
- EUR 4.2 – 4.7 billion savings by 2010
- Both personnel and material costs
- All units and hierarchy levels contribute

# “Next Generation Factory”.

	<b>From ...</b>	<b>... to</b>
<b>Technology</b>	<ul style="list-style-type: none"><li>■ Circuit-switched</li><li>■ Copper</li><li>■ High complexity - diversity and technologies</li></ul>	<ul style="list-style-type: none"><li>■ IP-based</li><li>■ Optical<sup>1</sup></li><li>■ Reduced complexity - few platforms</li></ul>
<b>Architecture</b>	<ul style="list-style-type: none"><li>■ Vertical “silos”</li><li>■ Redundancy per silo</li></ul>	<ul style="list-style-type: none"><li>■ Horizontal “layers”</li><li>■ Simplified architecture</li></ul>
<b>Integration</b>	<ul style="list-style-type: none"><li>■ Multiple production platforms</li></ul>	<ul style="list-style-type: none"><li>■ Shared production elements</li></ul>
<b>Services</b>	<ul style="list-style-type: none"><li>■ Centered around voice services</li></ul>	<ul style="list-style-type: none"><li>■ Flexibility for new services</li><li>■ Common service capabilities</li></ul>

**Significant reduction of production costs**  
(EUR 1.2 bn. in 2010)

**Improvement of performance and customer service level**

**Increased flexibility**  
(innovation rate, time-to-market of new products/services)



**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

**Mobilize  
internet and  
Web 2.0 trend**

**Business  
customers**

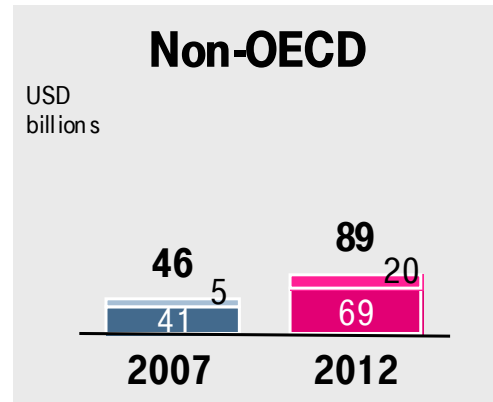
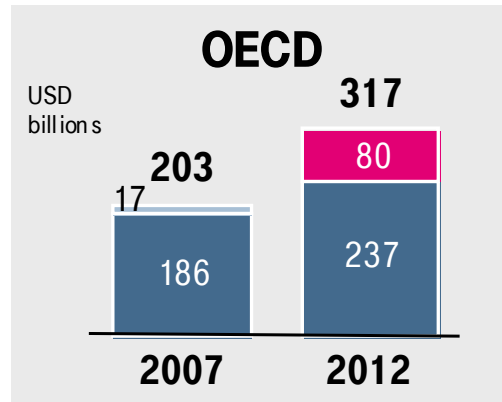
## “Core beliefs” international growth.



# Grow abroad with mobile.

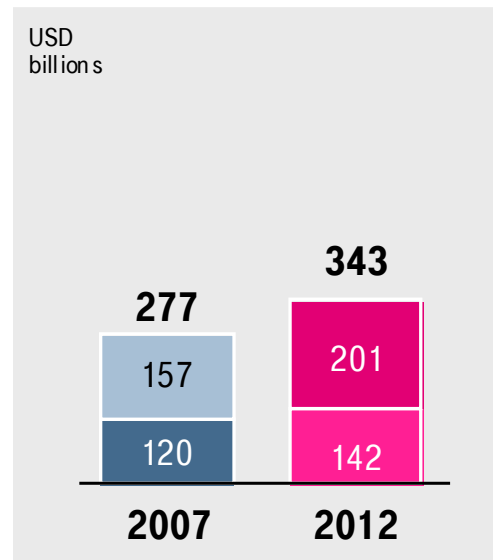
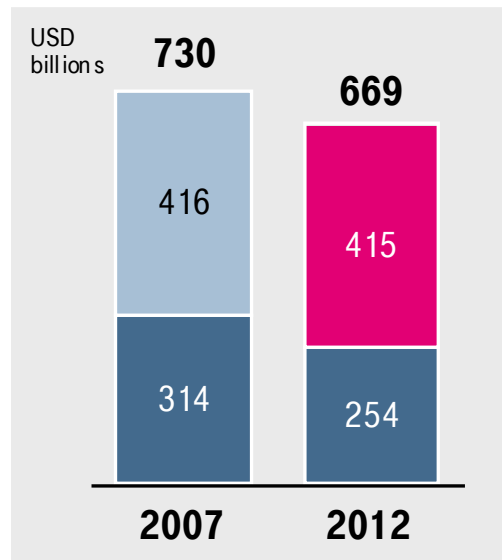
USD billions

**Data/  
internet  
market**



■ Mobile  
■ Fixed  
■ Focus

**Voice/  
messaging  
market**



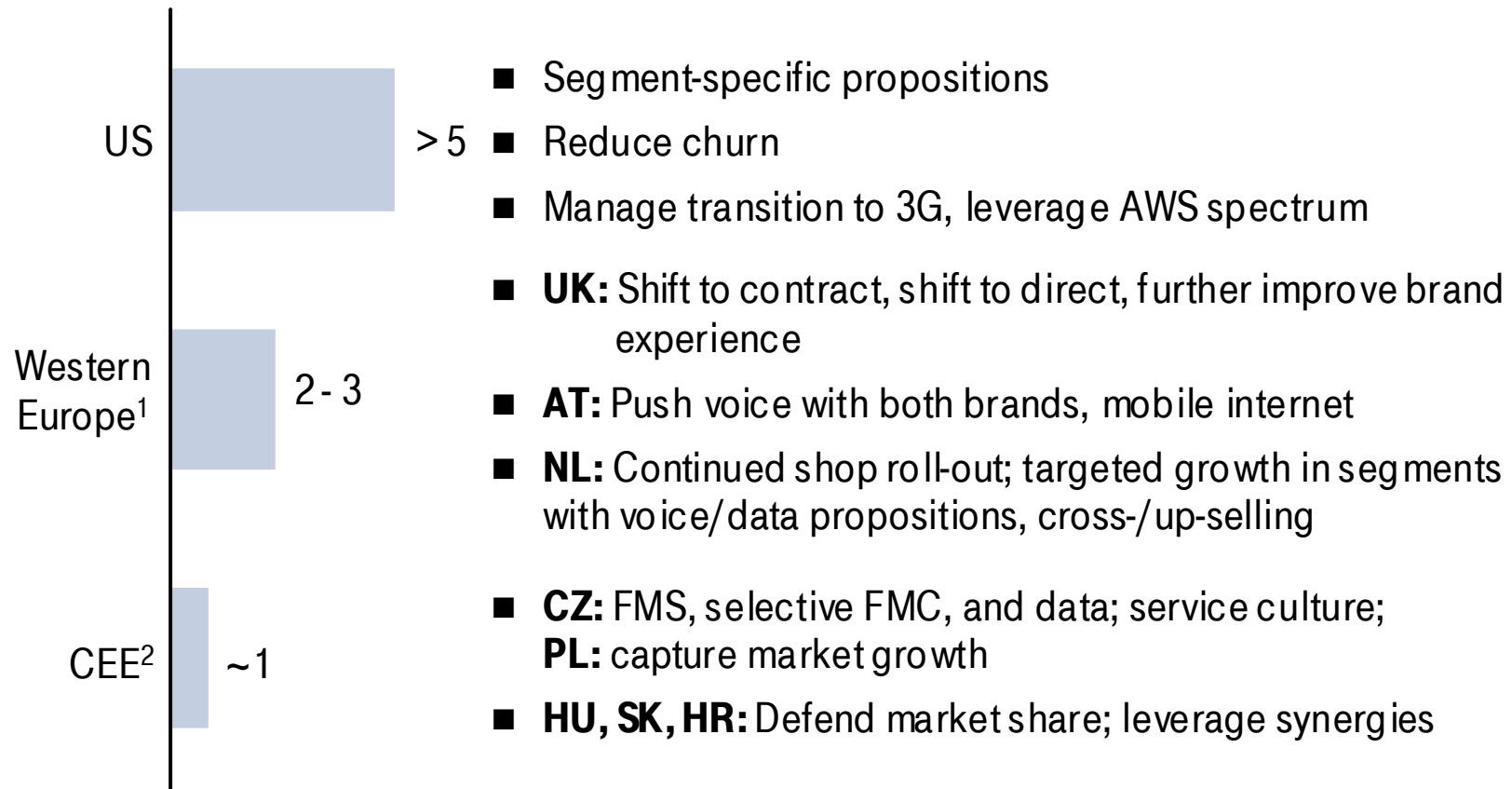
**Invest  
in growth,  
potentially  
also inorganic  
additions**

**Potentially  
inorganic  
growth/leverage  
efficient  
technologies**

# Grow in existing footprint.

## Subscriber additions in 2007/08 for key TMO NatCos abroad

Million SIMs



<sup>1</sup> W. Europe excl. Germany, UK incl. Virgin Mobile, AT incl. Tele.Ring effect inorganic

<sup>2</sup> Poland, Czech Republic, Hungary, Croatia, Slovakia and subsidiaries

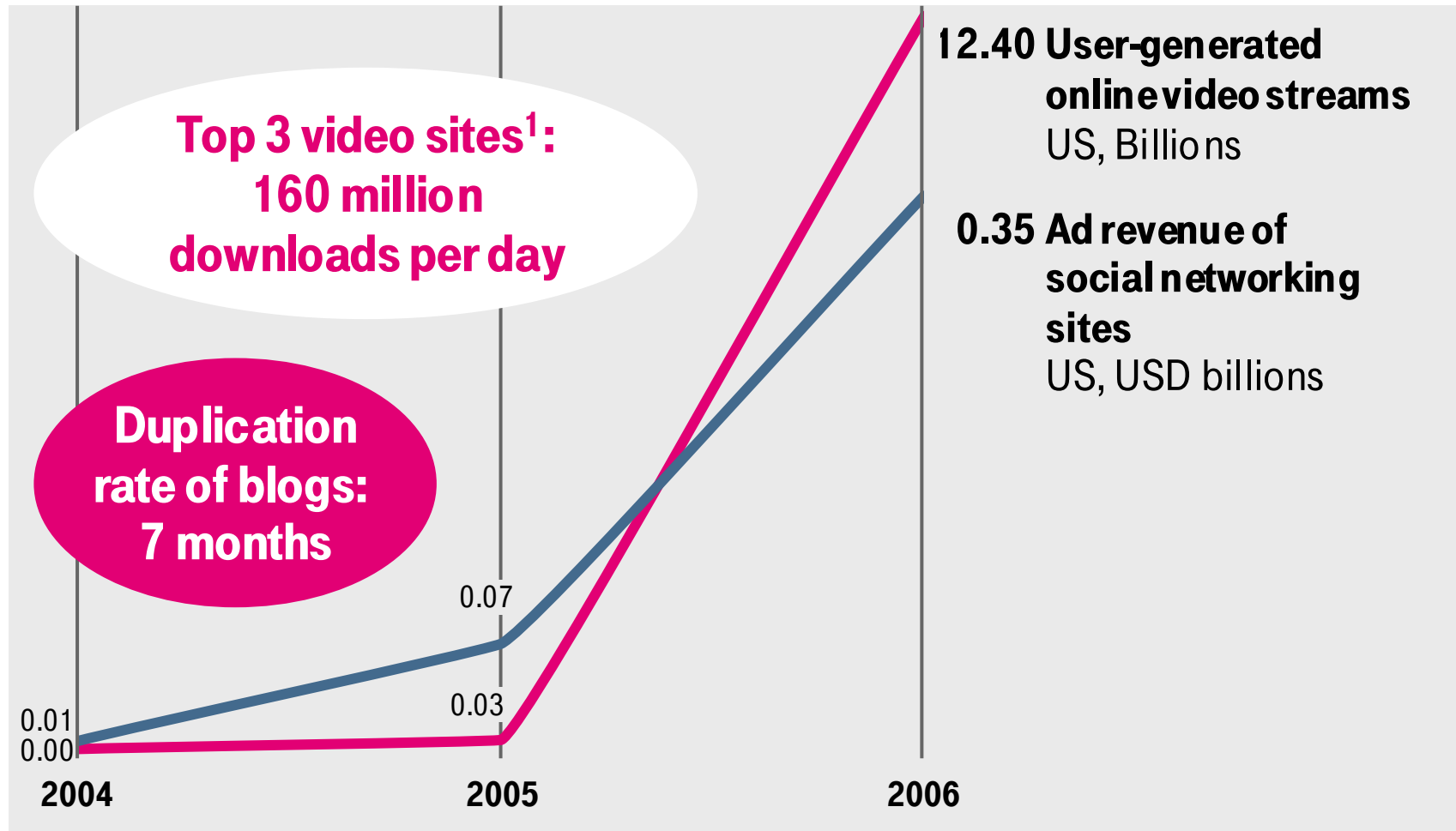
**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

**Mobilize  
internet and  
Web 2.0 trend**

**Business  
customers**

# Mobilize internet and Web 2.0 trend.



The need ...



# Support human need to network.

**Personal**  
for me



- Select buddies
- Fit with personal interests
- Customize user interface (UI)
- Utilize location information





# Support human need to network.

Personal  
for me



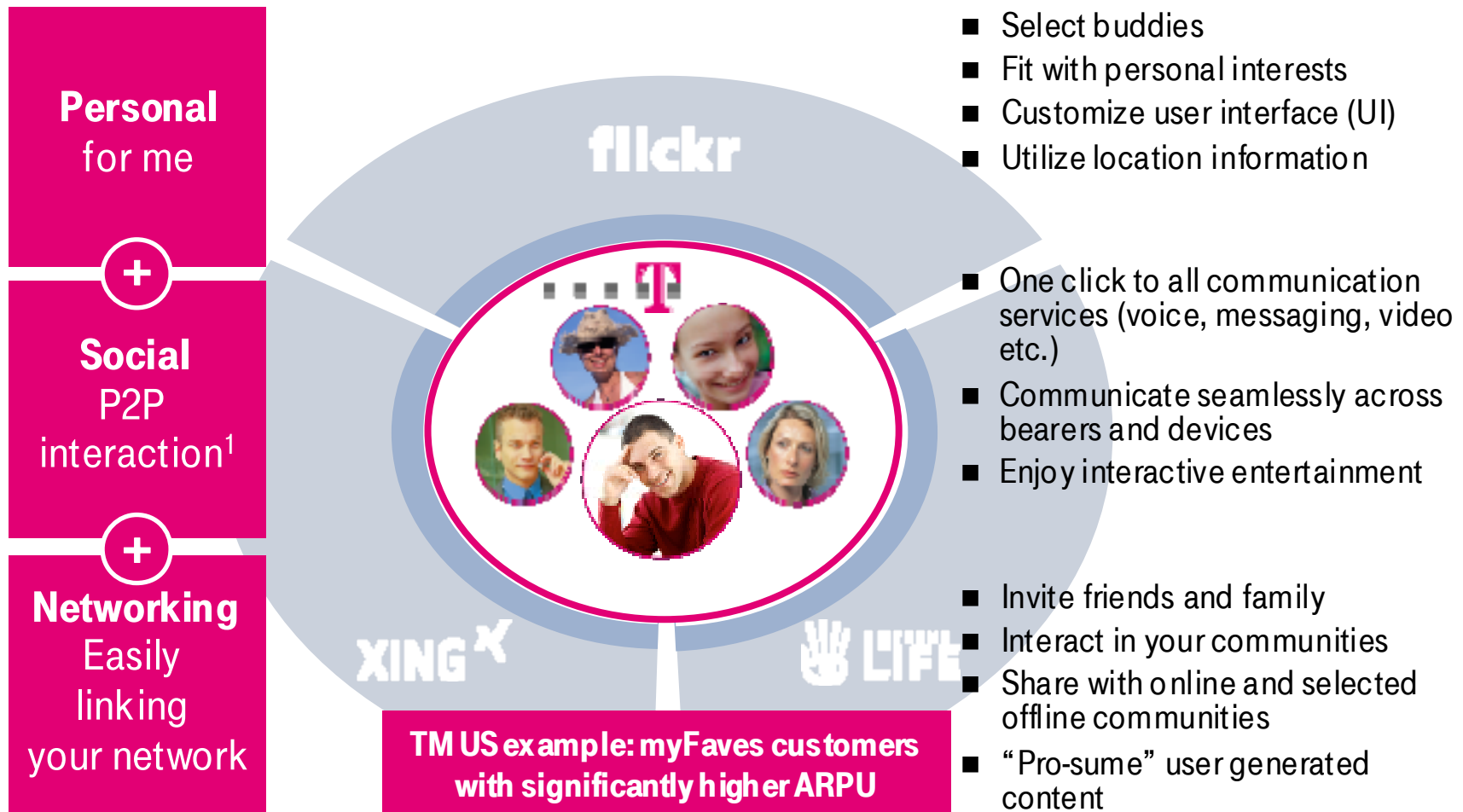
Social  
P2P  
interaction<sup>1</sup>

- Select buddies
- Fit with personal interests
- Customize user interface (UI)
- Utilize location information
  
- One click to all communication services (voice, messaging, video etc.)
- Communicate seamlessly across bearers and devices
- Enjoy interactive entertainment



# Support human need to network.

## EXAMPLES



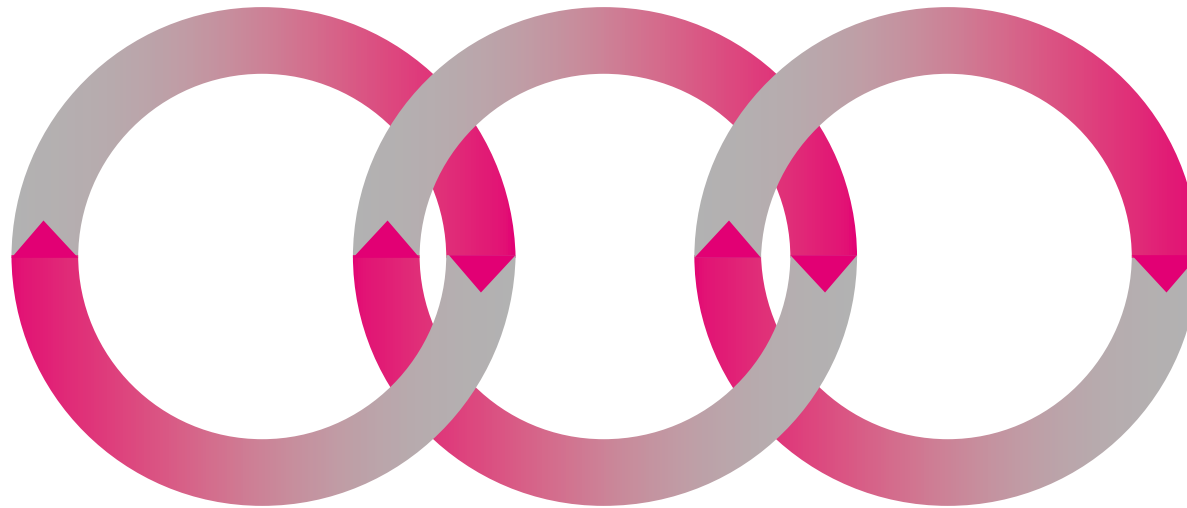
<sup>1</sup> On-to-one and on-to-many communication

# Partner, make, venture.

**Partner management**  
(manage “co-opetition”)

**Own development**

**Venturing**



**Partner with leading players** to integrate the most popular internet services

**Internal development efforts** leveraging the existing T-Online know-how

**Invest in new Web x.0 ventures** through “entrepreneurial investment management”

**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

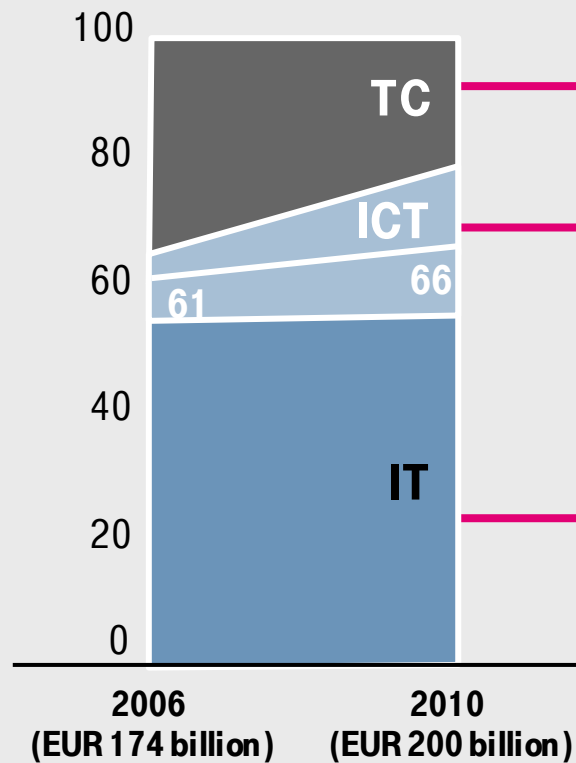
**Mobilize  
internet and  
Web 2.0 trend**

**Build the ICT  
business**  
With a partner

# Growing ICT market.

## TC/IT revenue distribution Western Europe<sup>1</sup>

Percent



## Major trends

**TC market stagnating/declining** with shrinking margins (up to -20% p.a.)

**New growth market ICT** – IT and TC world are technically converging

**Still growing IT market** (~6% CAGR) with **attractive margins** (esp BPO)

# Existing strengths in TC and IT.

## Today

### TC

✓	Trusted partner for security services	▶
✓	Ongoing IP service migration	▶
✓	Unique German transport and access network infrastructure	▶

### IT

▶	Top 3 position (globally) in automotive IT services	(✓)
▶	Over 1,550,000 SAP users	✓
▶	Biggest European main-frame operations	✓

## Existing strengths in ICT.

### TC + IT = ICT

End-to-end management of ICT enabled processes

**E.g., Toll Collect** (✓)

New platforms and solutions

**E.g., dynamic computing** ✓

Integrated infrastructure services

**E.g., double WAN connection** ✓

Ensure success of ICT business by evaluating our options, in particular partnerships.

- **Although attractive assets existing, T-Systems needs to overcome structural challenges, e.g.**
  - Lack of relevant international footprint
  - Portfolio mix with high portion of declining business (TC legacy, captive)
  - Lack of scale
- **Current performance shows need to act**

- **We are determined to further develop the ICT business**
- **To execute we examine our options, in particular the possibility of strategic partnerships**



## Our strategy – summary.

**Improve competitiveness  
in Germany  
(and CEE)**

**Grow abroad  
with mobile**

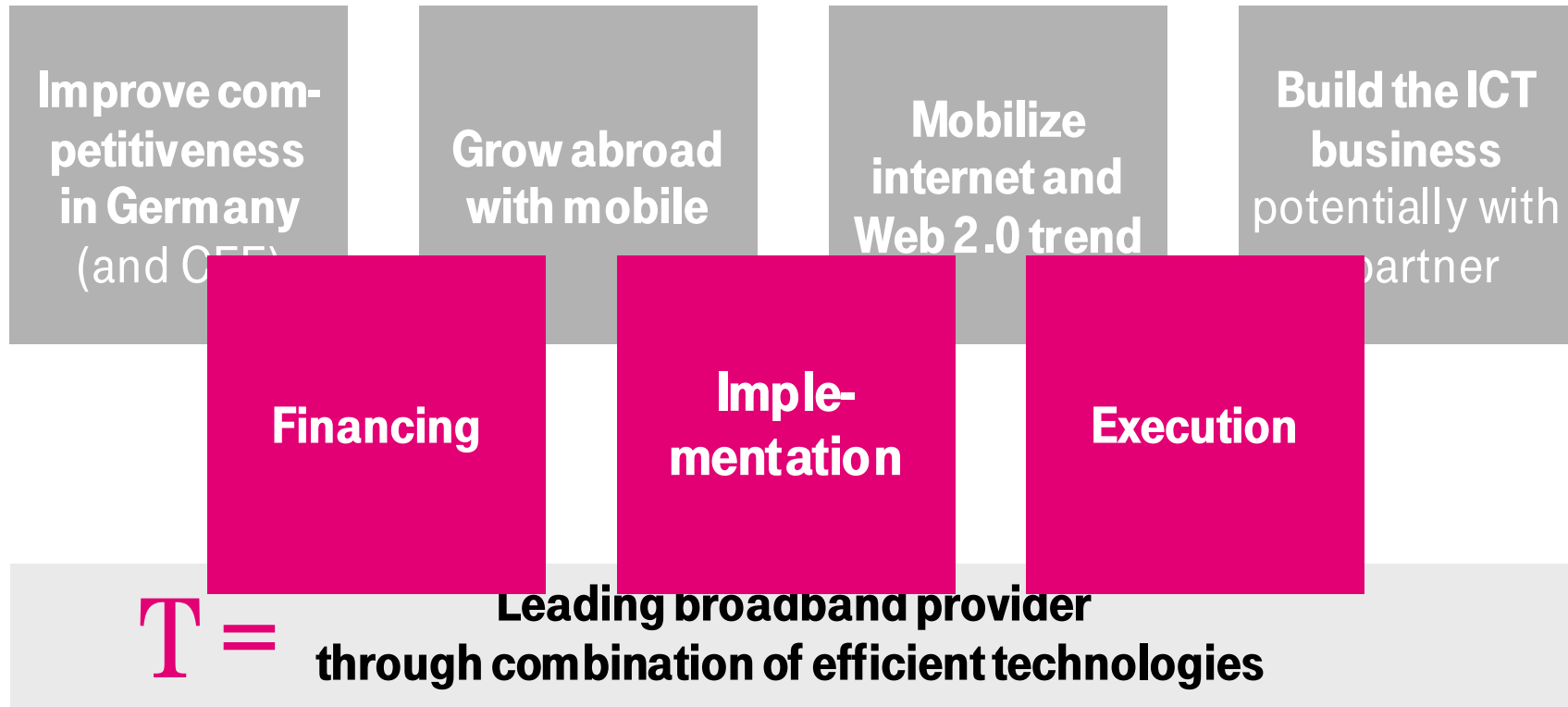
**Mobilize  
internet and  
Web 2.0 trend**

**Build the ICT  
business  
potentially with  
a partner**

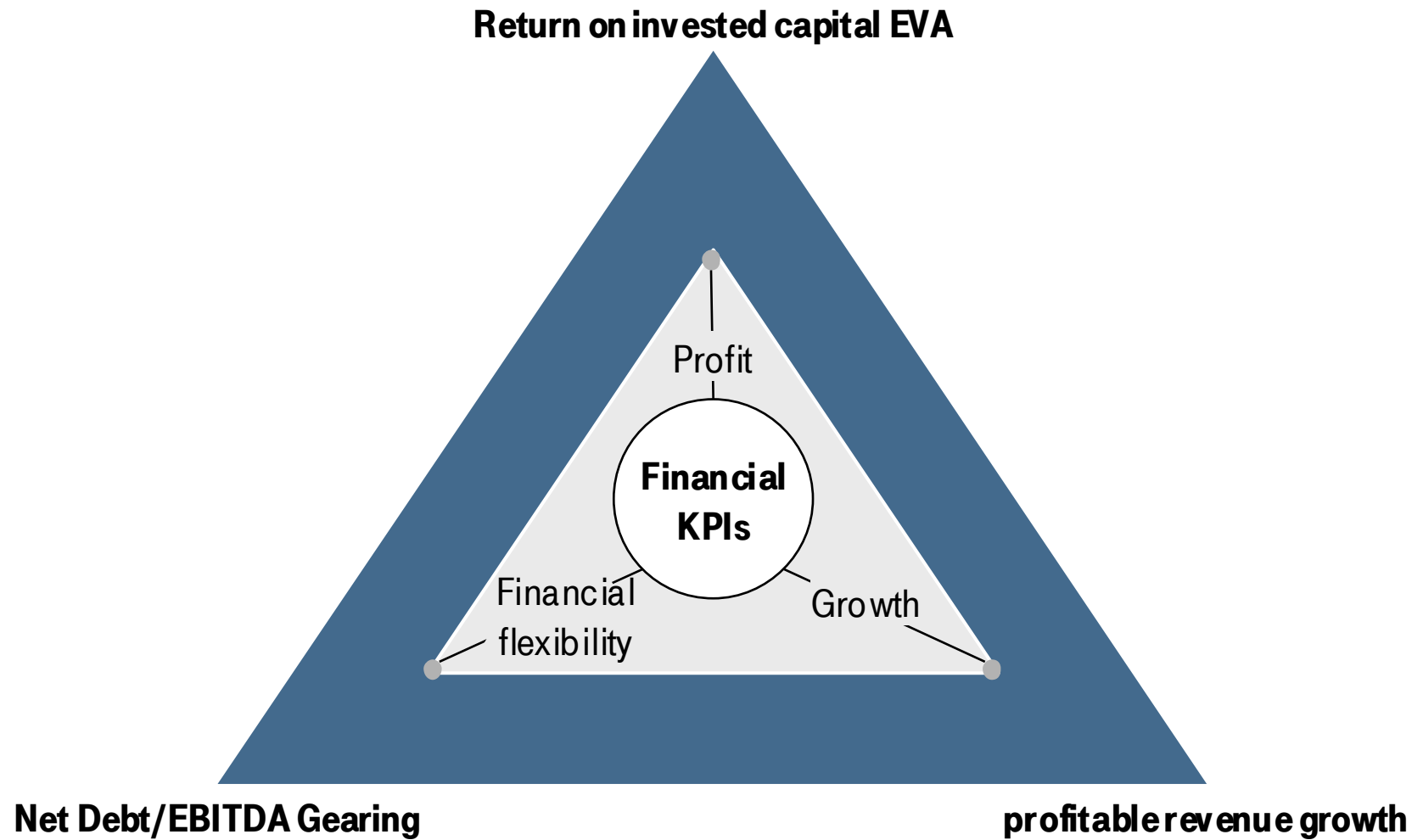
**T =**

**Leading broadband provider  
through combination of efficient technologies**

We mobilize  
personal and social networking.

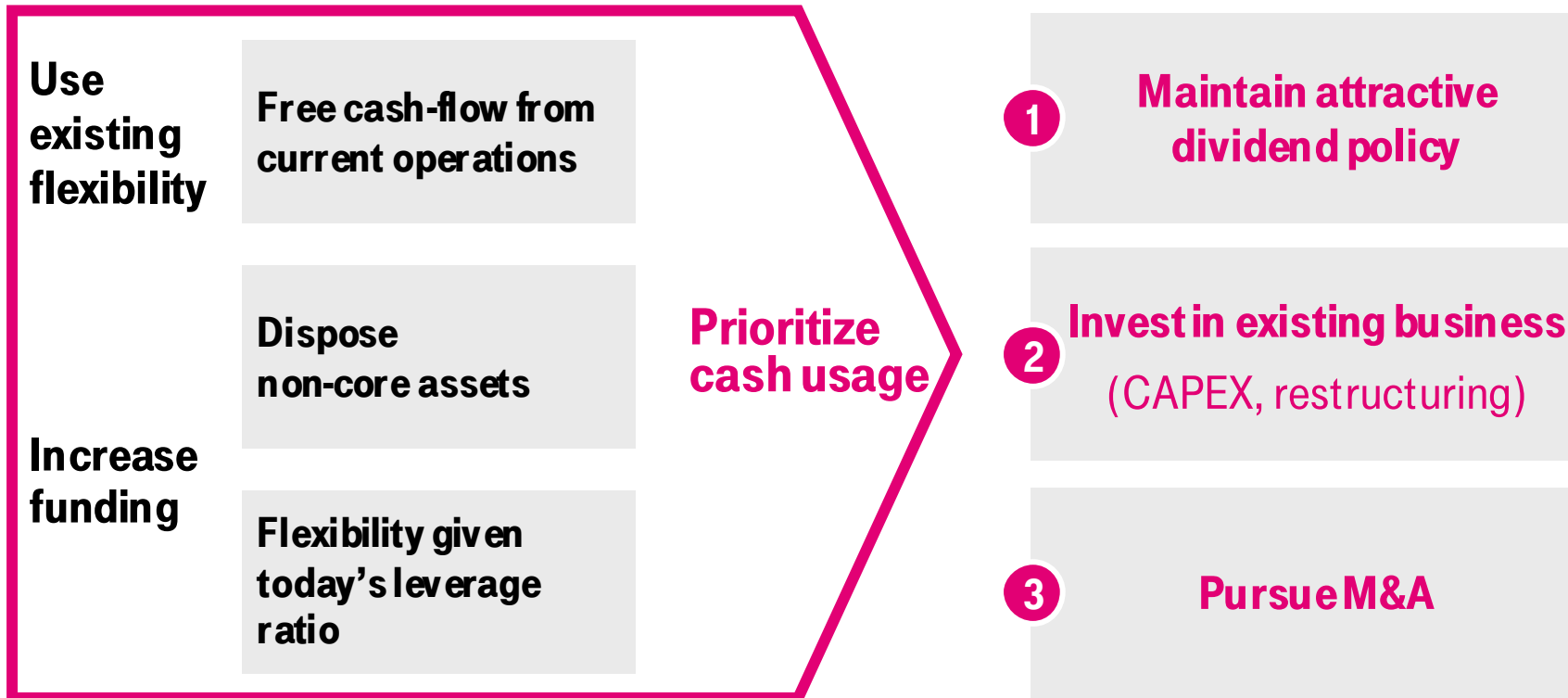


# Strategic financial KPIs.



# Prioritize sources and uses of funds.

## Funding options



## Assets for potential divestiture under scrutiny.

- **DFMG**
- **US Towers**
- **Club Internet**
- **Ya.com**
- **Media & Broadcast**
- **DeTeImmobilien**
- **Sireo** (remaining stake)
- **Real estate portfolio**

## Execution has begun.

Measures	Implemented	Started
■ New management structure – “One company” Sales & service, Products & Innovation, Network, Administration	✓	
■ Service Task-Forces initiated	✓	
■ T-Punkt roll-out		✓
■ Simplified branding architecture		✓
■ Second-brand		✓
■ ADSL2+ for IPTV		✓
■ Development of community services and tariffs		✓
■ Development of new product road map		✓
■ “Save-for-Service”		✓
■ “Telekom-Service” preparation	✓	
■ Divestiture of non-core assets		✓
■ Adjusted budget 2007	✓	
■ New target system for executives	✓	

We mobilize  
personal and social networking.

FY 2006.

Broadband/Fixed Network.



## Our goals 2007.

### Secure competitiveness of T-Com.

<b>Development of broadband market leadership</b>	<ul style="list-style-type: none"> <li>■ 40-45% DSL retail market share in 2007</li> <li>■ 2.1 million DSL net adds</li> <li>■ PSTN line losses at level of 2006</li> </ul>
<b>T-Home for the mass market</b>	<ul style="list-style-type: none"> <li>■ 100,000 – 200,000 IPTV-Customers in 2007</li> </ul>
<b>Largest sales footprint</b>	<ul style="list-style-type: none"> <li>■ 786 T-Punkte (+ 200 shops)</li> <li>■ 1,000 partners</li> </ul>
<b>Fulfill customer expectations</b>	<ul style="list-style-type: none"> <li>■ Increase availability: 65%</li> <li>■ Increase punctuality: 80%</li> </ul>
<b>Save for service</b>	<ul style="list-style-type: none"> <li>■ Cost savings of €1.2 billion</li> </ul>
<b>Winning culture</b>	<ul style="list-style-type: none"> <li>■ One company</li> <li>■ Telekom Service</li> </ul>

# Where are we today in Germany?

## **We will face challenges going forward**

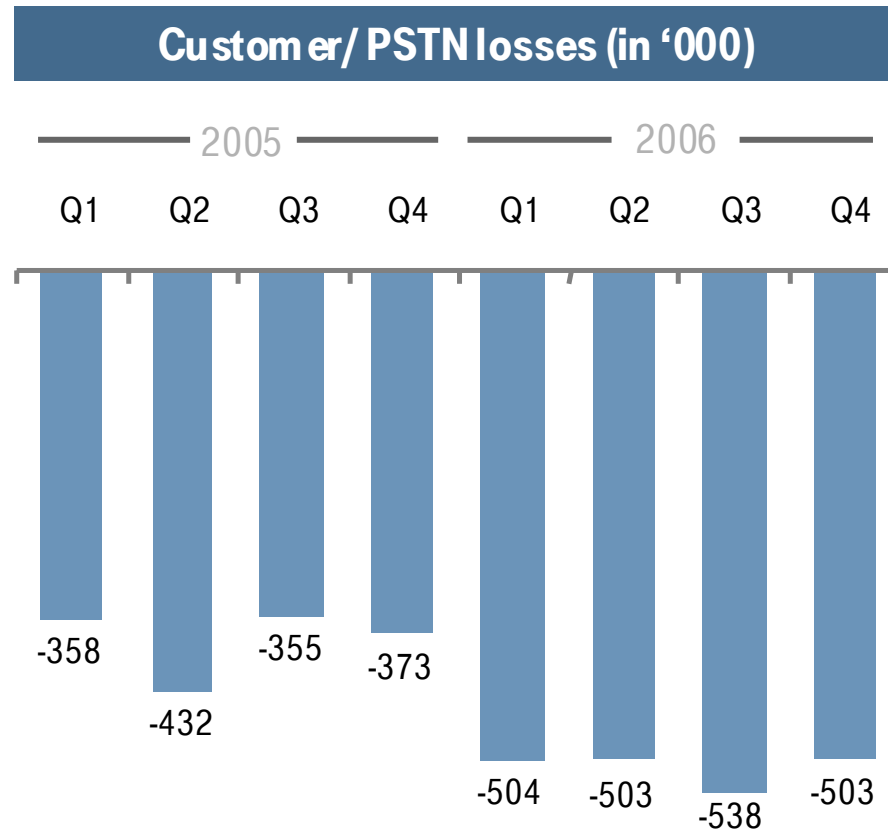
- 2 million customer loss in fixed in 2006
- Innovative products clearly failed their targets (T-Home, T-One)
- Strong competition and price pressure in fixed and mobile
- Improve customer satisfaction and service quality, e.g. availability and punctuality
- Increase efficiency of T-Com
- Strong competition from alternative carriers (cable, ULL >65% pop coverage)

## **Nevertheless – clear strengths**

- Domestic market leaders (T-Com: 87% PSTN/ T-Mobile Germany: 37% SIMs)
- Best-in-class networks (VDSL, HSDPA) and innovative and competitive products (Double play offers, Web&Walk)
- DSL-growth market in Germany (T-Com grew faster than the market in Q4/06)

## Customer losses in Germany.

89%<sup>1</sup> of the losses choose DSL after migration from T-Com.



### Reasons for customer losses<sup>1</sup>

- Aggressive pricing from competitors
- Customer dissatisfaction with weak service

### Drivers of customer losses<sup>1</sup>

- Migration to DSL offers from infrastructure based network operators and cable
- Fixed mobile substitution

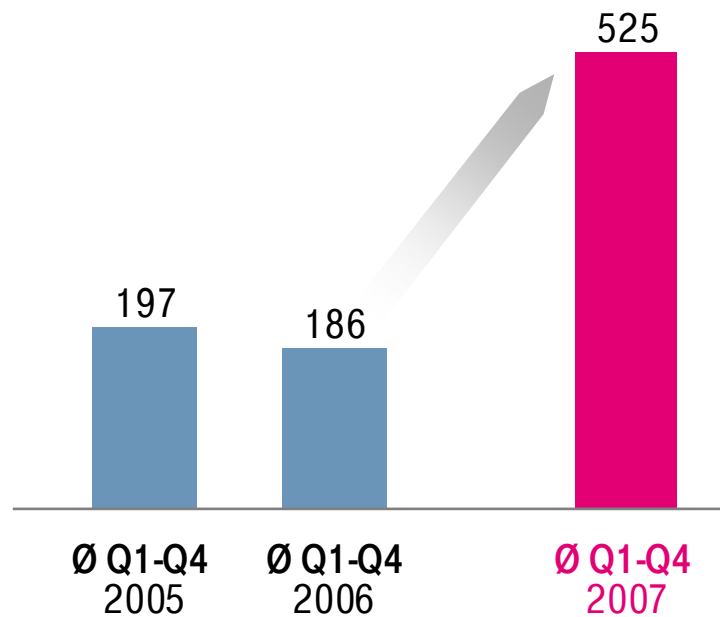
High DSL retail share to reduce customer losses is necessary

<sup>1</sup> Based on customer survey from T-Com.

# Broadband/DSL.

DSL push to fight customer losses.

**DSL retail net adds (in '000)**









Retail share <sup>1</sup> DSL net adds	2005	2006	2007 Target
	21%	19%	40-45%

<sup>1</sup> Based on broadband subscribers from retail, resale, cable and via ULL.

- Development in Q4/06
  - T-Com and resale: 878,000 DSL net adds  
➔ best quarter ever!
  - T-Com: 563,000 DSL net adds  
➔ best quarter ever!
- Broadband market expected to grow by 10 million to 25 million lines in Germany by 2010
- Increase share of retail net adds through attractive pricing and value added services

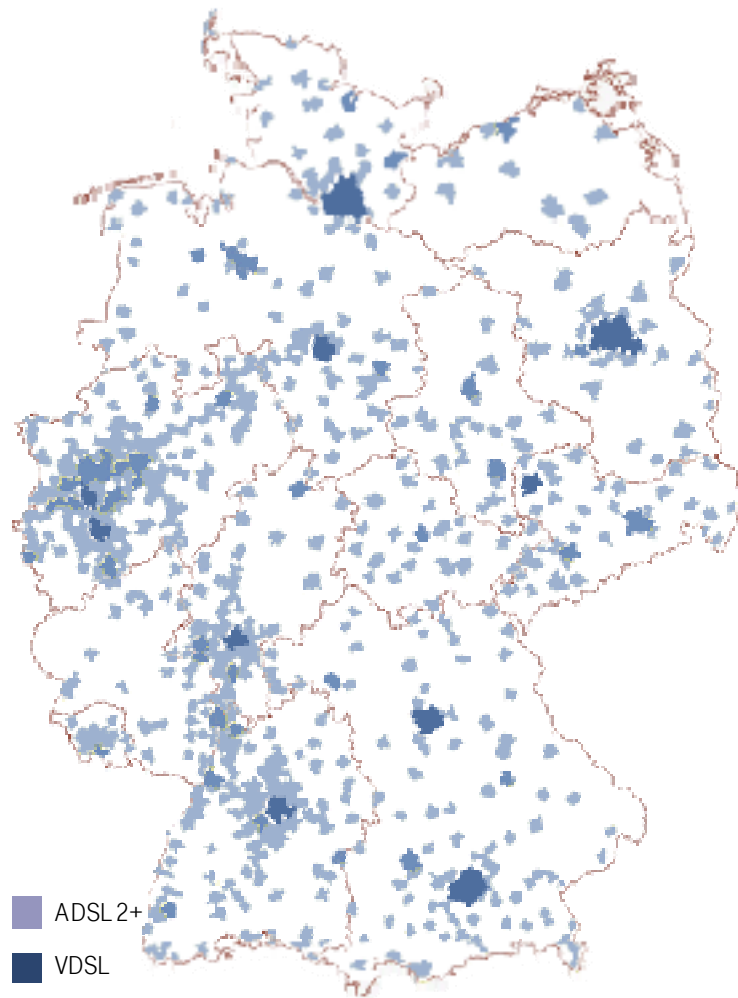
# Development of market leadership in broadband.

## Aggressively defend our competitive position.

Churn management	Product portfolio push	High network quality
 <p><b>Der Telekom-Vorteil</b> Wer kombiniert, spart bis zu 150 €!<sup>1)</sup></p> <p><b>DSL, Festnetz und Mobilfunk aus einer Hand!</b></p>	<p><b>Triple-Play</b></p>  <ul style="list-style-type: none"> <li>■ Attractive entry offers</li> <li>■ More features</li> <li>■ IPTV for all (16 MB)</li> </ul> <p><b>Double-Play</b></p>  <ul style="list-style-type: none"> <li>■ Always competitive pricing</li> <li>■ Enhancement through <ul style="list-style-type: none"> <li>■ Higher bandwidths</li> <li>■ Hot Spot Flat</li> </ul> </li> <li>■ Attractive entry offers</li> </ul> <p><b>Single-Play</b></p>  <ul style="list-style-type: none"> <li>■ Strong up-selling</li> <li>■ Pricing in accordance with market development</li> <li>■ Attractive entry offers</li> <li>■ Introduce fixed-to-mobile flat rate</li> <li>■ Expand international flat rate</li> </ul>	 <p>Best mobile network in 2006</p>  <p>Best internet and DSL provider in 2006</p>

## IPTV for the mass market.

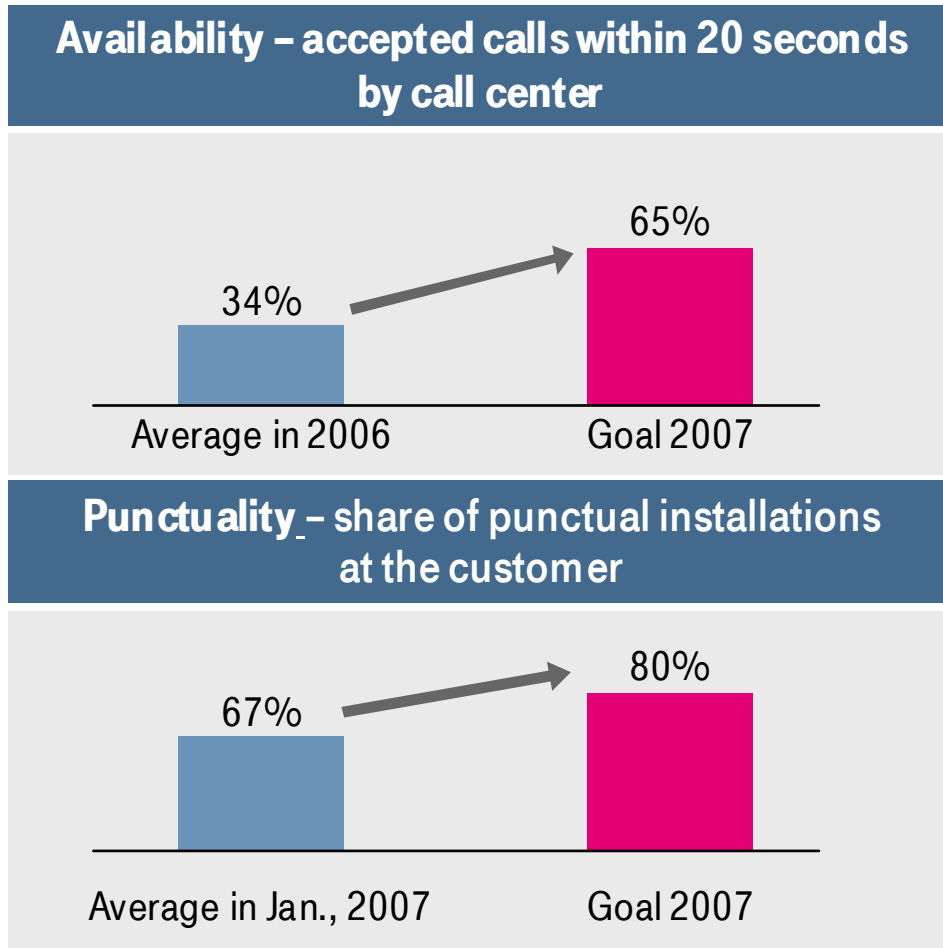
New strategy: tripling IPTV coverage to 17 million homes in 2007.



- Increase of IPTV coverage from 16% to 44%
- Launch of IPTV via ADSL 2+
- VDSL (premium): 8 million homes
  - ⇒ Mid term: VDSL in up to 50 cities
- VDSL/ ADSL2+ (IP TV): 17 million homes
  - ⇒ ADSL2+ in up to 750 cities
- Attractive price offers for IPTV
- Increase stability of IPTV offer
  - New hardware
  - Software integration for DVB-T
  - Content: Bundesliga (soccer), over 150 channels and over 1,200 movies
- HDTV

## Service Germany.

Excellent service is key to secure broadband growth.

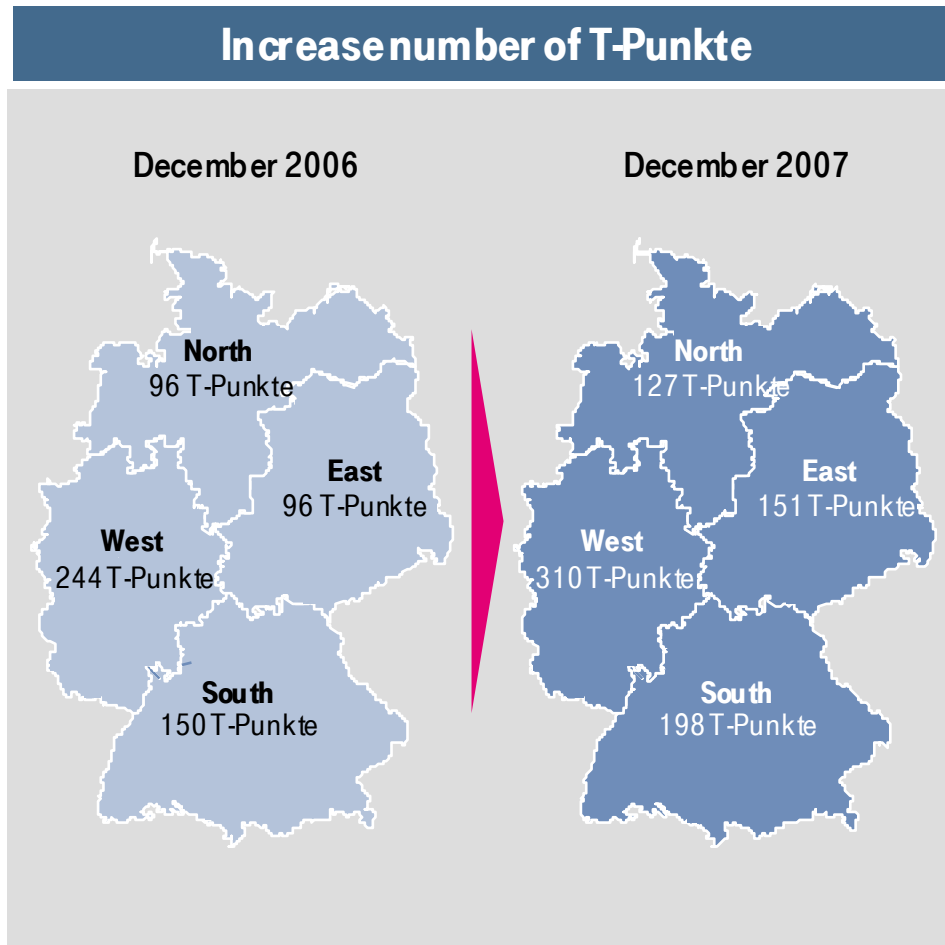


### Key focus

- Availability:
  - Call avoidance
  - Productivity boost
  - Expand internal resources
  - External resources for peak management
- Punctuality:
  - Logistics tracking/quality gate
  - “One package to the customer”
- Improvement of IT stability

## Sales Germany.

Increase number of point of sales in Germany.



### T-Punkte

- Increase number of own shops from 586 to 786 in 2007

### eChannel

- 30 million service transactions in 2006
- Goal: 15 % share of 3x3 product sales in 2007

### Partners

- 1,000 partners in 2007
- Integrated T-Partner program (key account management, bonus system, etc.)

### VSE segment

- Huge up-selling opportunities for VSE sales force

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Investor Relations  
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# T-Com and T-Mobile - stronger together.

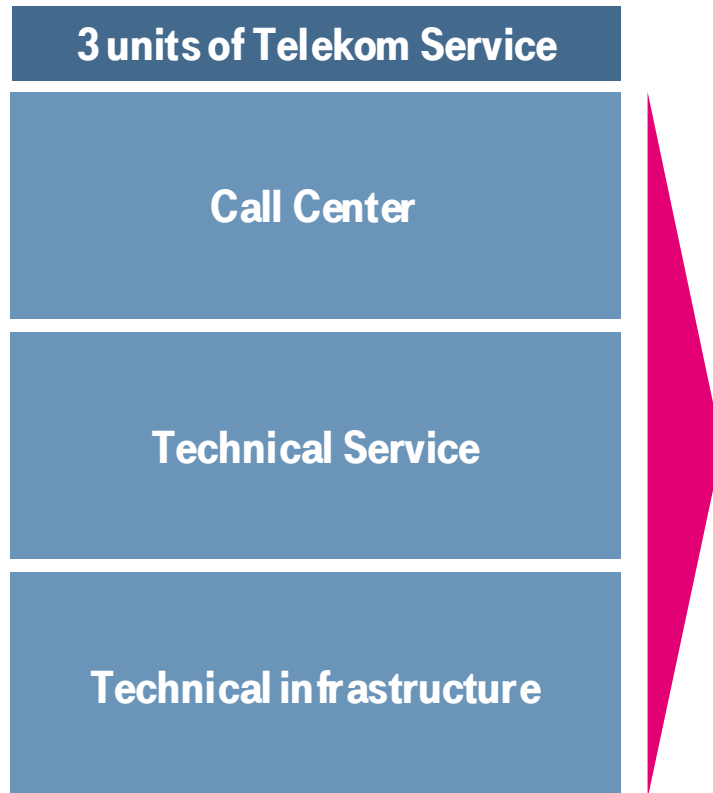
Integrated sales & service team implemented.

Integrated Sales & Service Team Germany		Advantages and benefits	
<b>Sales</b> T-Com/ T-Mobile		<b>Market and Quality Management</b> T-Com/ T-Mobile	
<b>Customer Service</b> T-Com/ T-Mobile			
<b>Technical customer service</b>		<b>T-Punkte</b>	

- More focus on service than ever before
- One management team for sales and service in Germany
- Clear responsibilities for T-Com, T-Mobile Deutschland und T-Punkt shops
- From divisional view to customer view  
⇒ one stop shopping

# Telekom Service.

Secure competitiveness in Germany.



## Service quality

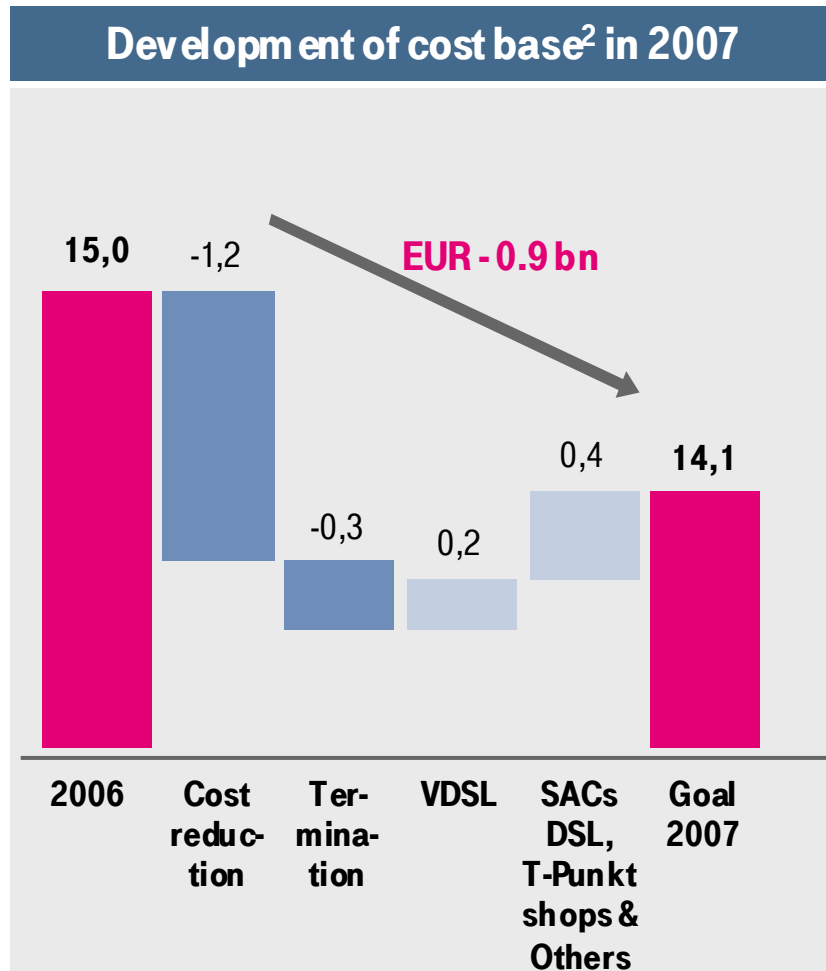
- Integration of customer care
- Concentration of service experts

## Reduction of costs

- Segment specific conditions required
- Increase efficiency (e.g. increase in working hours)

# Save for Service

## Efficiency program of T-Com in Germany.



**Main measures in 2007**

**Save for Service**

- **Marketing** **€ 0.2 bn**
  - Simplification of product portfolio
  - Joint-group wide-campaign management and sourcing
- **Production** **€ 0.5 bn**
  - Automation & centralization of network management functions
  - Reduction of component fault rates
  - Reduction of processing time back office
- **Distribution** **€ 0.4 bn**
  - Extension of eChannel
- **IT & Others** **€ 0.1 bn**
  - Optimization IT / Reduction of complexity
  - Shut down of cost intensive legacy systems
  - Reduction of IT- development costs
- **HR**
  - Improve terms and conditions<sup>1</sup>

<sup>1</sup> Included in the savings shown above. Primarily in production and distribution.

<sup>2</sup> Based on revenue minus other operating income minus EBITDA.

# Roadmap Sales & Service Germany.

Focus on quality and competitiveness.

	Immediate measures (2007)	Fixing the basics (2007/2008)	Differentiation (from 2008)
Sales Germany	<ul style="list-style-type: none"> <li>■ Partner program</li> <li>■ T-Partner</li> </ul>	<ul style="list-style-type: none"> <li>■ Multichannel control</li> <li>■ Increase number of own shops</li> <li>■ Expansion of e-channel</li> </ul>	<ul style="list-style-type: none"> <li>■ Biggest branded sales interface</li> <li>■ Integrated customer view at all customer touchpoints</li> </ul>
Service Germany	<ul style="list-style-type: none"> <li>■ Punctuality</li> <li>■ Availability</li> <li>■ IT stability</li> </ul>	<ul style="list-style-type: none"> <li>■ T-Service</li> <li>■ CRM</li> </ul>	<ul style="list-style-type: none"> <li>■ Segment-specific services</li> <li>■ Services culture</li> <li>■ Integrated customer insight over all customer contact points</li> </ul>
Market position/ competitiveness	<ul style="list-style-type: none"> <li>■ Reduce customer losses</li> <li>■ Push DSL</li> <li>■ Churn management</li> </ul>	<ul style="list-style-type: none"> <li>■ Push T-Home</li> <li>■ Push IPTV via ADSL2+</li> </ul>	<ul style="list-style-type: none"> <li>■ Universal customer base management</li> </ul>

**Performance culture**

# First achievements.

		Fix the basics 2007		
		Planned and decided	implemented	
<b>Management Team</b>	<ul style="list-style-type: none"> <li>■ Integrated Sales &amp; Service Team in Germany</li> </ul>	✓	✓	
<b>Sales Germany</b>	<ul style="list-style-type: none"> <li>■ Expansion T-Punkte</li> </ul>	✓	Q4/07	
	<ul style="list-style-type: none"> <li>■ Integrated T-Partner program</li> </ul>	✓	CeBit	
<b>Service Germany</b>	<ul style="list-style-type: none"> <li>■ Task force Punctuality</li> </ul>	✓	Q4/07	
	<ul style="list-style-type: none"> <li>■ Task force Availability</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>■ Task force IT stability</li> </ul>	✓		
<b>Market position competitiveness</b>	<ul style="list-style-type: none"> <li>■ Push DSL</li> </ul>	✓	Q2/07	
	<ul style="list-style-type: none"> <li>■ Push IPTV via ADSL2+</li> </ul>	✓	2H/07	
	<ul style="list-style-type: none"> <li>■ Churn management</li> </ul>	✓	Q1/07	Q2/07
	<ul style="list-style-type: none"> <li>■ 2nd brand</li> </ul>	✓	✓	2H/07
	<ul style="list-style-type: none"> <li>■ Single Play</li> </ul>	✓	Q1/07	2H/07
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>■ Telekom Service</li> </ul>	✓	2H/07	

**FY 2006.**

Priorities 2007, T-Mobile.

## 2006 Review: Continued Growth.

- More than 106 million mobile customers worldwide, up 8.8 percent
  - More than 25 million customers in the US, up 15.4 percent
  - More than 27 million customers in Eastern Europe<sup>1</sup>), up 13.7 percent
- €27.9 billion service revenues, up 10.7 percent
- Mobile data source for growth
  - 1.1 million web'n'walk customers, 60-70 percent of devices web'n'walk enabled
  - Nearly € 1.4 billion data revenues (w/o SMS), more than € 100 million WLAN revenues
  - Networks fully HSDPA enabled
  - New devices of the successful MDA series (T-Mobile Ameo)
  - Mobile data rapidly growing in all markets

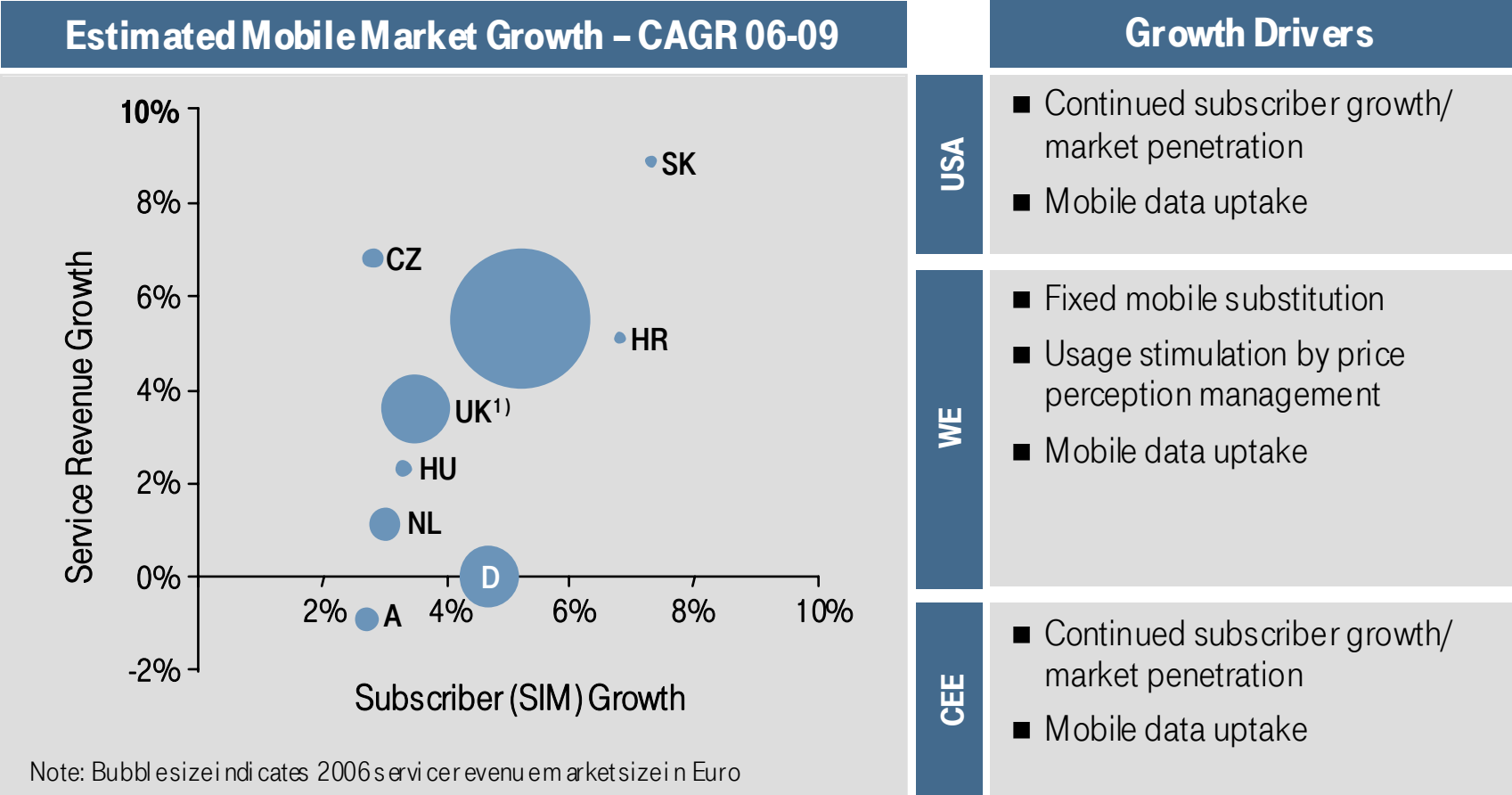


## 2006 Review: Most Highly Regarded Service Company.

- Improved customer touch-points
  - Number 1 in customer service in 2006 in NL, CZ, A, HU, HR and SK
  - Number 1 or 2 in shop customer satisfaction e.g. in UK, A, CZ, NL, HU
  - 286 new shops opened in TMO 5 plus TMH; 99 new shops opened in TMUS
- Improved segment specific propositions
  - 1.1m T-Mobile@home subscribers in Germany
  - 1.3m Flext subscribers in UK
- Improved end-to-end network experience
  - TMD: Winner of “connect” drive test, 7th consecutive “Network of the Year” award
  - Co-lead in A, CZ (2G); TMNL catching up with the leading competition
- Save for Growth completed, target overachieved (beyond € 1.3bn)



# Growth Outlook 2009.

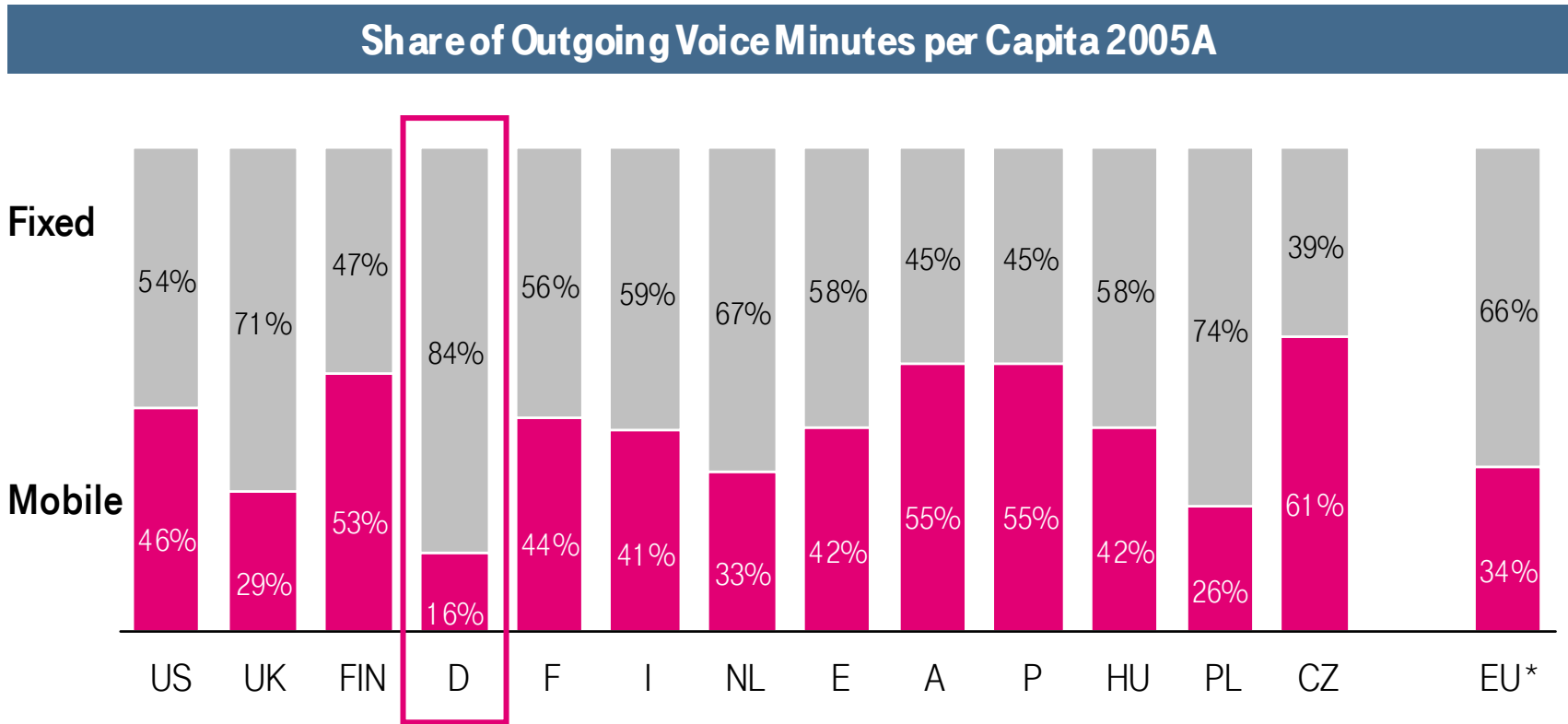


Note: Bubble size indicates 2006 service revenue market size in Euro

1) Mobile operator only view for service revenues  
 Source: TMO Market Models

# T-Mobile Deutschland.

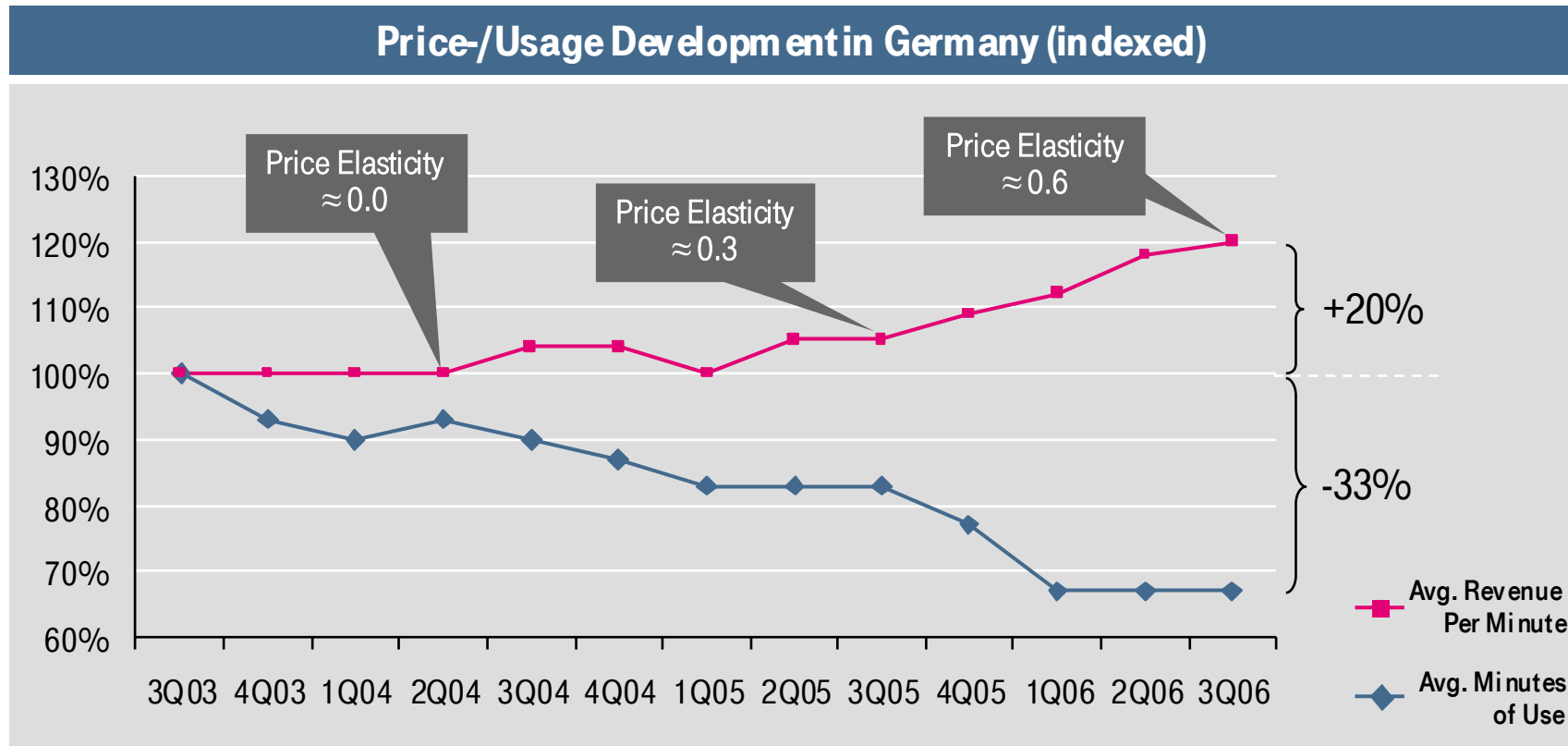
# Fixed-Mobile Substitution.



Source: NRAs, CTIA, Company reports, IPSOS/Eurostat 2004/05, Merrill Lynch 2005; Strategy Analytics 2005; CE1 MCI analysis.

\* EU refers to EU15 (excl. Luxembourg,) plus Switzerland, Norway, Czech Republic, Poland and Hungary

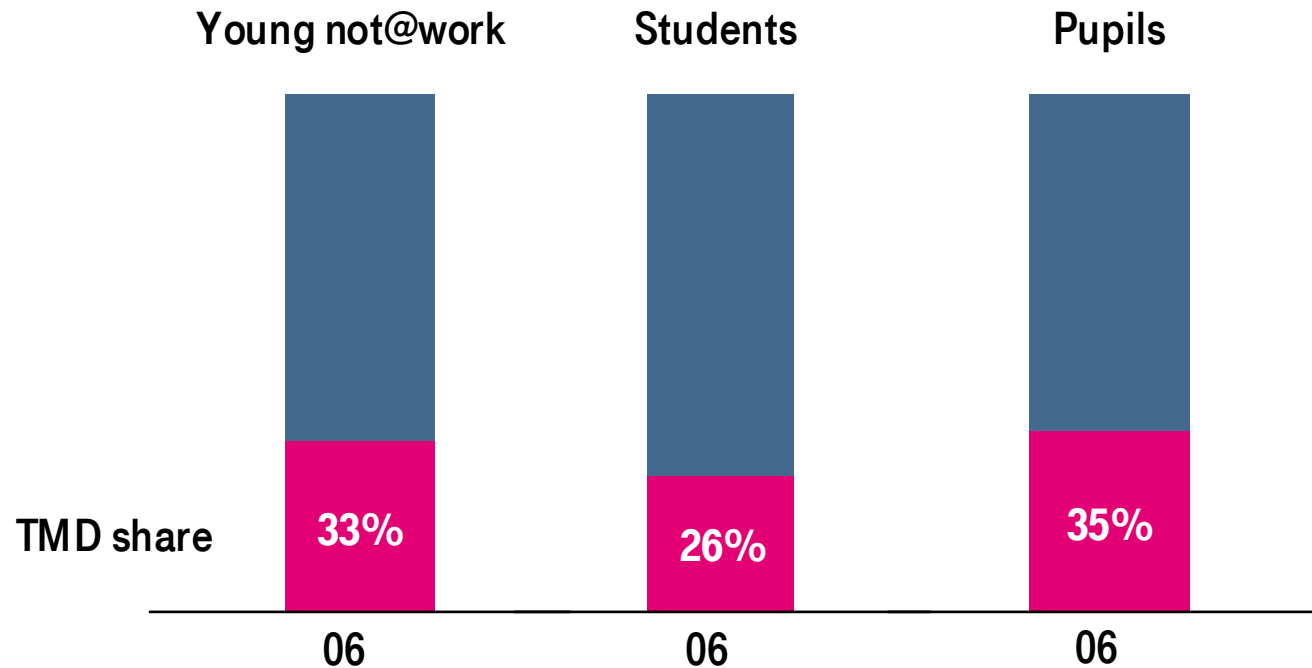
# German Mobile Market: Usage Increase Still not Compensating Price Decline.



- 33 percent price reduction resulted in only 20 percent usage increase (0.6 price elasticity)
- Slight decline of market service revenues in the German market (-0.3 percent compared to 2005)

Source: Merrill Lynch European Wireless Matrix 3Q2006; Note: Elasticity figures only indicative approximations

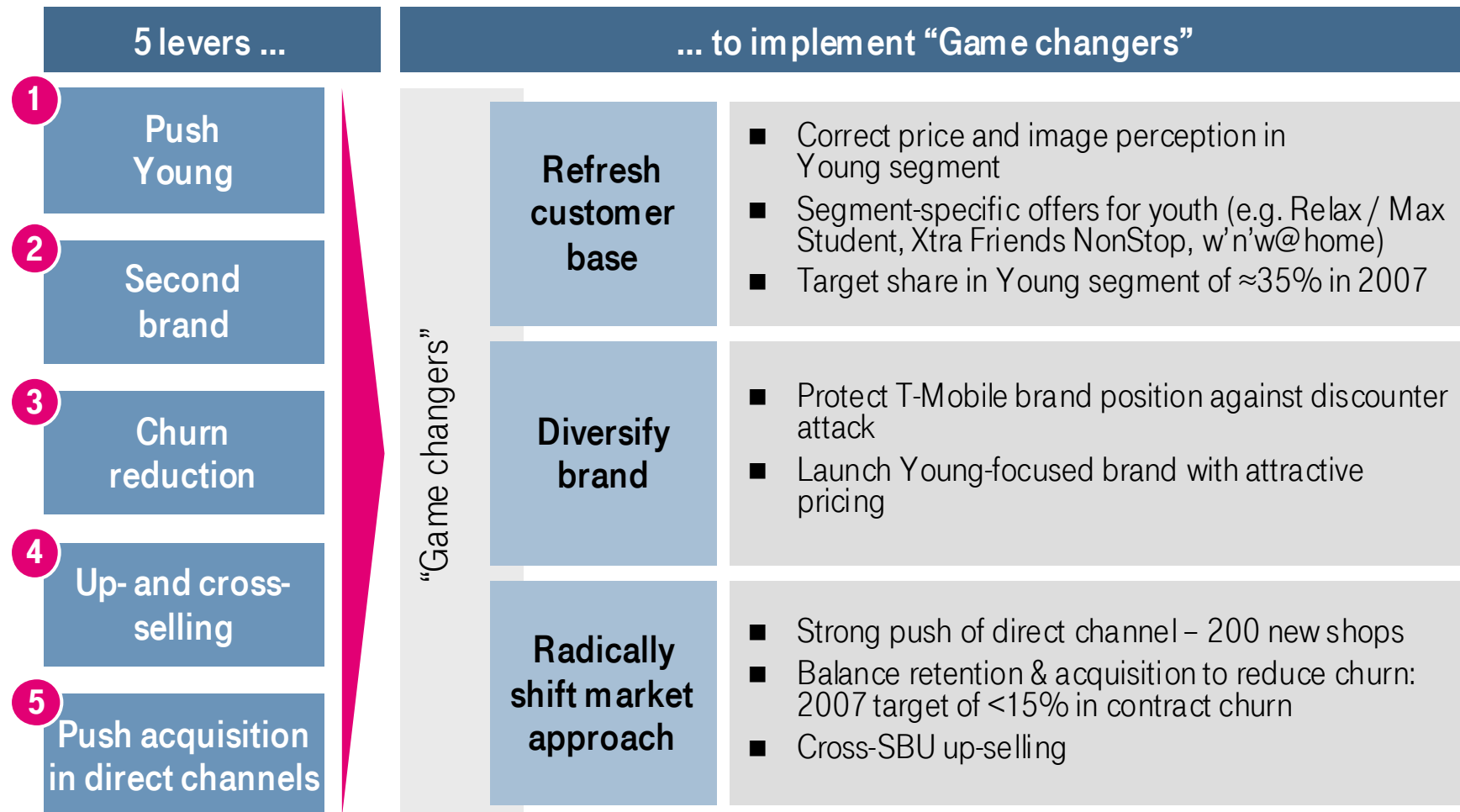
# T-Mobile Brand Not Appealing to Young Segment.



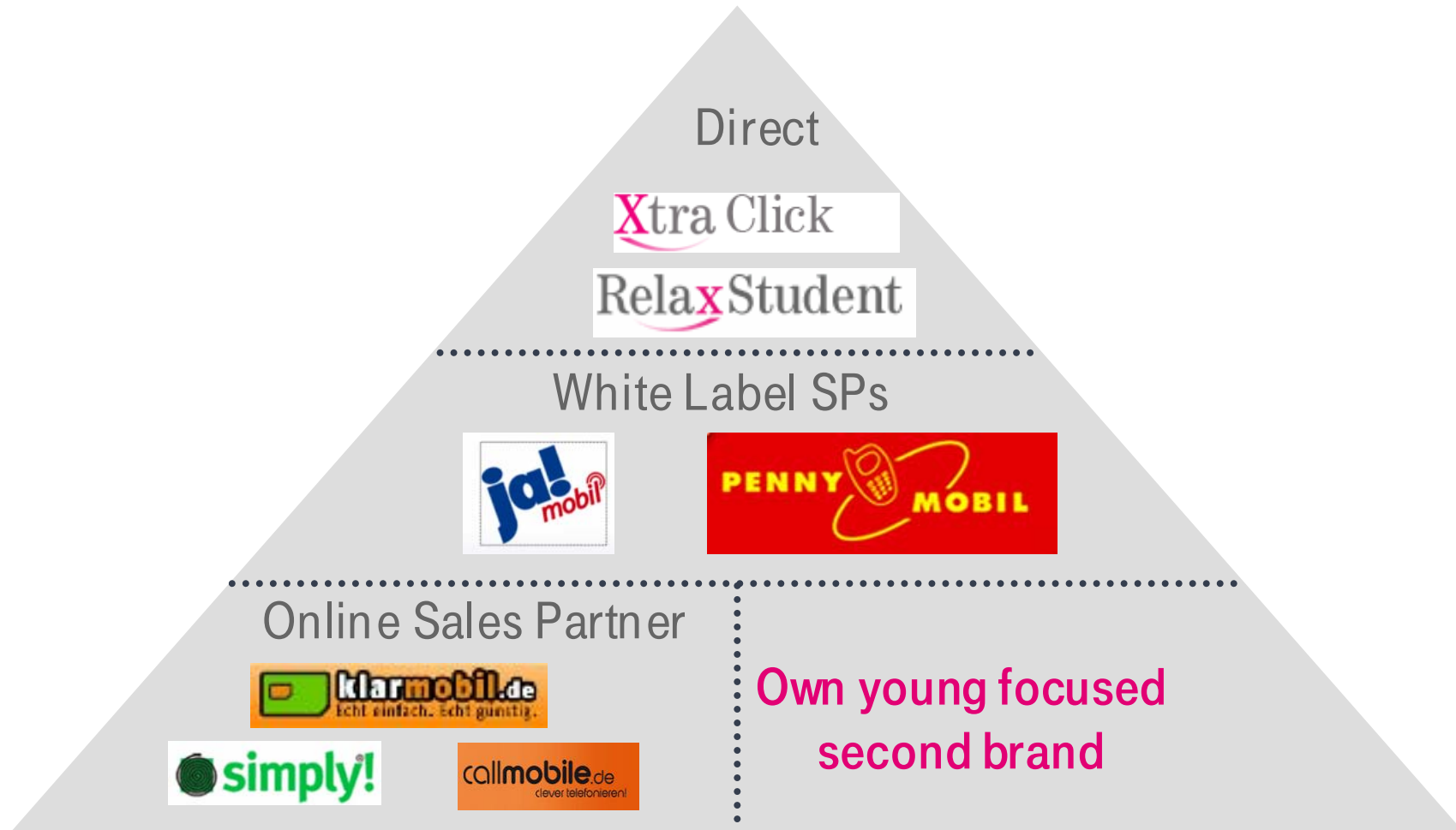
- Average customer age for T-Mobile Deutschland is 42 years
- High price perception associated with Brand
- Relatively low Net Promoter Score

Source: TMD, GfK

# Stabilization Measures for T-Mobile Germany.



# Targeted Approach to Young & Low Frills Market Segments.



# T-Mobile USA.



## T-Mobile USA. Successful New Products Drive Growth.

- myFaves tariffs successfully launched
  - Unlimited calling to 5 people on any network
  - People-centric unique user interface
- Converged devices (e.g. Sidekick 3 & Blackberry Pearl) drive data ARPU:
  - Approx. \$6.50 in Q4 (up 36% yoy)
  - >200,000 net adds in Q4
- T-Mobile HotSpot @Home
  - Leveraging America's leading hotspot network - T-Mobile HotSpot
  - National launch in 2007



## T-Mobile USA.

### Leading in Service & Outstanding Network.

- JD Power Award for best customer care 5x in a row
- Expand quality distribution in 2007
  - Expand # of company stores
  - Add high quality dealer locations
- Improve coverage
  - Further expand suburban coverage
  - 1,200 3G cell sites already deployed in NY
  - Broad 3G coverage within 18-24 months
  - Contracts with Ericsson and Nokia concluded
- HSPA logical technology choice
  - 2x more efficient than GSM in voice
  - Supports rich data applications and Internet access
  - Same technology path as T-Mobile in Europe



# T-Mobile UK.

# T-Mobile UK: Profitable Growth And Improving Operations.

## ■ **2006: Balancing Growth And Profitability**

- Service revenue growth in 4Q of 16% YoY
- Margin back at 26.9% in Q4 while adding a strong 246k net adds
- Flex: more than 1.3m customers since February 2006

## ■ **Driving Most Highly Regarded Service Company in 2006**

- Strengthened direct sales: 119 new shops to a total of 247 in 2006
- Contract churn in 4Q decreased from 2.9% to 2.1% YoY
- First to launch HSDPA; leading broadband coverage in major cities

## ■ **2007: Continue Profitable Growth**

- Increase data revenues and continue shift to contract (target of >1m contract gross adds in 2007)
- Improve loyalty & retention via truly differentiated customer experience
- Improve cost base via Save for Service

# Other Markets.

## Review 2006 / Operational Levers.

	Achievements 2006	Operational Levers (2007/08)
NL CZ A	<ul style="list-style-type: none"> <li>■ <b>Simplified &amp; innovative tariffs:</b> NL - 225k web'n'walk subs, 300k Flex subs; Austria - 80k Mobile Internet</li> <li>■ <b>Significant improvements in customer service:</b> #1 in call center satisfaction in all 3 markets</li> <li>■ <b>Successful integration of tele.ring:</b> First synergies realized (e.g. network &amp; IT) Organizations aligned</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Develop customer base &amp; increase usage:</b> <ul style="list-style-type: none"> <li>■ New propositions</li> <li>■ Cross- &amp; up-selling</li> <li>■ Churn reduction program</li> </ul> </li> <li>■ <b>Manage competitive &amp; regulatory pressure:</b> <ul style="list-style-type: none"> <li>■ Continue push in direct channels</li> <li>■ Reduction of cluster costs</li> </ul> </li> </ul>
CEE	<ul style="list-style-type: none"> <li>■ <b>Successful re-branding</b> in Montenegro and Macedonia</li> <li>■ <b>Successful launch of new propositions:</b> e.g. HSDPA data cards in SK &amp; HU</li> <li>■ <b>Improved customer experience in all markets:</b> #1 in call center satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Prepare for Further Competition:           <ul style="list-style-type: none"> <li>■ Lock customer base via loyalty programs</li> <li>■ National Roaming</li> </ul> </li> <li>■ Mobile broadband build-out</li> <li>■ Leverage Integrated Telco Approach: e.g. use of common retail network, bundles</li> </ul>

# Mobile Industry Trends.

## Further Trends and Developments in the Telco Industry.

- Personal communication in social networks and communities replacing traditional voice and messaging usage patterns



- Mobile Internet as mega trend



- Multi-access and net-centric IP services






- Devices and user interface as differentiator

**Opportunities for innovative products and customer-centric services**



# Focused and Innovative Product Roadmap.

	Strategic Direction	Product Example
Personal Communication	Inner circle bonding – leverage personal social networks	<ul style="list-style-type: none"> <li>■ Community Tariff &amp; UI</li> <li>■ Mobile IM</li> <li>■ Easy mobile email</li> </ul> 
Mobile Internet	Strengthen category leadership in “real time” Internet with worry-free pricing	<ul style="list-style-type: none"> <li>■ New „worry-free“ data tariffs</li> <li>■ Web‘n‘Walk 3.0</li> </ul> 
Terminals	Compelling and differentiated devices	<ul style="list-style-type: none"> <li>■ Next Generation MDA: Ameo</li> </ul> 

## Summary.

Deliver on 2007 financial envelope

- Stabilize T-Mobile Deutschland financial performance
- Sustain growth & profitability in TMUS & TMUK and other markets
- Increase execution speed and build on the One Company success
- Continue focus on contract growth & revenue market share
- Continue aggressive push towards direct channel in all markets
- Strengthen Brand, particularly in youth segments and position for Social Networking
- Prepare to take advantage of mega trends in telecommunication via effective partnering & product development

FY 2006.

Operational Priorities –  
T-Systems.

# Operational Priorities 2007. Challenges and Measures.

Revenue planning	Adjustments in captive business
<ul style="list-style-type: none"><li>■ Total Revenue → flat</li><li>■ of which external → significant growth</li><li>■ of which international → very ambitious growth</li></ul>	<ul style="list-style-type: none"><li>■ Significant reduction of internal revenue as a result of price decrease</li></ul>

## Operational Priorities – Measures

## Operational Priorities 2007.

### Measures to boost revenue.

Operational Priorities	Measures	Realization
<b>International business</b>	<ul style="list-style-type: none"> <li>■ Synchronize industry lines and local business units</li> <li>■ Launch global key account management</li> <li>■ Using alliances for global IP VPN coverage</li> <li>■ Expand international IP infrastructure by 35 PoPs</li> </ul>	<p><b>Mar. 2007</b></p> <p><b>Mar. 2007</b></p> <p><b>Feb. 2007</b></p> <p><b>Dec. 2007</b></p>
<b>Key account management</b>	<ul style="list-style-type: none"> <li>■ Implement horizontal sales (BPO, SI, TC): Strengthen front-end to customers via expanded specialist perspective</li> <li>■ Run efficiency and effectiveness enhancement program "Account Management"</li> <li>■ Enforce service management: Ensure full-range customer support with sales, service, and delivery</li> </ul>	<p><b>Mar. 2007</b></p> <p><b>April 2007</b></p> <p><b>Dec. 2007</b></p>

# Operational Priorities 2007.

## Measures to boost revenue.

Operational Priorities	Measures	Realization
<p><b>Portfolio principles</b></p>	<ul style="list-style-type: none"> <li>■ Horizontal IT and TC infrastructure services</li> <li>■ Comprehensive vertical competency (auto motive, public, and telco)</li> <li>■ Selected vertical topics (e.g. road charging, transaction banking, health care card)</li> <li>■ Define strategic portfolio and sales portfolio</li> </ul>	<p><b>Q1/07</b></p>
<p><b>Innovations</b></p>	<ul style="list-style-type: none"> <li>■ Focus on "Real ICT" Present and prove ICT value.</li> <li>■ First "all IP" products               <ul style="list-style-type: none"> <li>■ Conduct merger of all VPN offers</li> <li>■ Standardize voice-data connection</li> </ul> </li> <li>■ Start ICT marketing campaign, communication offensive</li> <li>■ Start offers of fixed-mobile convergence</li> <li>■ Develop innovative vertical solutions in our core industries, auto motive, public and telco</li> </ul>	<p><b>Q3/07</b>  <b>Q3/07</b>  <b>Q1/07</b>  <b>Q2/07</b>  <b>Dec. 31, 2007</b></p>

## Operational Priorities 2007.

Measures to increase efficiency.

Operational Priorities	Measures			Realization
Personnel reductions, site consolidations	■ Personnel reductions of about 2500 FTE			<b>Dec. 31, 2007</b>
	■ Consolidate customer independent data centers			<b>Dec. 31, 2008</b>
	■ Consolidate service desk sites			<b>Dec. 31, 2007</b>
	■ Consolidate BPO sites			<b>Dec. 31, 2008</b>
	■ Consolidate Systems Integrations sites			<b>Dec. 31, 2007</b>
	■ Sell/close units that do not fit the vertical competency portfolio			<b>Dec. 31, 2008</b>
Offshore/ Nearshore	■ Double System Integration offshore staff in 07			<b>Dec. 31, 2007</b>
	■ Strengthen Offshore Capabilities			<b>Dec. 31, 2007</b>
	YE 06	YE 07	YE 08	
	1550	3400	5500	
			(FTEs)	

# Operational Priorities 2007.

## Measures to increase efficiency.

Operational Priorities	Measures	Realization
<p><b>Processes</b></p>	<ul style="list-style-type: none"> <li>■ Streamline service processes: migrate T-Systems portfolio to flexible delivery chain.               <ul style="list-style-type: none"> <li>■ Initial migration steps have already been realized in a pilot.</li> <li>■ Plan is to realize all IP products in 2007 with new delivery chain:                   <ul style="list-style-type: none"> <li>■ Business access IP</li> <li>■ IP VPNs</li> </ul> </li> </ul> </li> </ul>	<p><b>Q4/08</b></p> <p><b>Feb. 2007</b></p> <p><b>Aug. 2007</b></p> <p><b>Dec. 2007</b></p>
<p><b>Platforms</b></p>	<ul style="list-style-type: none"> <li>■ Reduce IT budget</li> <li>■ Standardized wholesale interface T-Com – T-Systems               <ul style="list-style-type: none"> <li>■ Initial products</li> <li>■ Migrate all preliminary products for T-Com</li> </ul> </li> <li>■ T-Systems drives the changeover to modern IP technology also via consolidation and reduction of transmission platforms               <ul style="list-style-type: none"> <li>■ Consolidate to one IP-VPN platform</li> <li>■ Dismantle frame relay platforms</li> <li>■ Dismantle ATM platforms</li> </ul> </li> </ul>	<p><b>Dec. 31, 2007</b></p> <p><b>Oct. 2007</b></p> <p><b>Dec. 31, 2008</b></p> <p><b>July 2007</b></p> <p><b>June 2009</b></p> <p><b>Dec. 2012</b></p>