

Q1/12 – Results Presentation. Deutsche Telekom.

May 10, 2012

For smartphone and tablet users:

just scan the
QR-code and
download this
presentation



Disclaimer.

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows, and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor, or business initiatives, including acquisitions, dispositions, and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings, and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets and changes in interest and currency exchange rates may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, 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.



Agenda.
Deutsche Telekom Results Presentation.



René Obermann
CEO



Timotheus Höttges
CFO



Q1/2012: a solid quarter.

Group	<ul style="list-style-type: none">▪ Solid 1st quarter, full-year guidance re-iterated<ul style="list-style-type: none">▪ Group revenue of € 14.4 billion (-1.1%) – organically (-1.7%) improved versus revenue trends in 2011▪ Adj. EBITDA with € 4.5 billion – stable compared to last year▪ FCF with € 1.1 billion on last year’s level, net debt reduced to € 38.6 billion▪ Well-balanced dividend policy executed upon
Germany	<ul style="list-style-type: none">▪ DT remains best performing incumbent on home market – maintaining strong market position and financial profile:<ul style="list-style-type: none">▪ Revenue trend (-2.3%) better than in any quarter in 2011, adj. EBITDA margin further improved to 40.7%▪ Solid market share with 45.1% maintained, strong net adds in broadband (102k) and Entertain (173k), line losses (-259k) and broadband churn on historic low▪ Strong performance in mobile data: revenue +20%, smartphone sales (+11%) to 863k, iPhone with 291k
Europe	<ul style="list-style-type: none">▪ Continuous improvement in revenue and adj. EBITDA trends:<ul style="list-style-type: none">▪ Recovery in quarterly revenue (-2.6%) and adj. EBITDA (-4.3%) trends continues. Organic revenue decline of 0.7%, adj. EBITDA (-2.2%)▪ Smart pricing in Q1 with encouraging results: amongst others in Greek, Romanian, and Bulgarian mobile▪ Solid growth in key KPIs: broadband accesses (+3%), smartphone share (+43%), and mobile contract subscribers (+3%)
US	<ul style="list-style-type: none">▪ Strong financial Q1 results create headroom for execution of Challenger strategy:<ul style="list-style-type: none">▪ Total revenues up 2% to € 3.8 billion due to currency, in US\$ revenue declined 2.3% to US\$ 5.0 billion▪ Adj. EBITDA increased 12.9% to € 1.0 billion; in US\$ improvement of 8% to US\$ 1.3 billion; margin of 25.6%▪ 187k net adds due to stronger-branded prepaid and M2M net adds, branded contract customer churn improving



Q1/2012 Key financials: improved revenue trends, stable adj. EBITDA, free cash flow and capex.

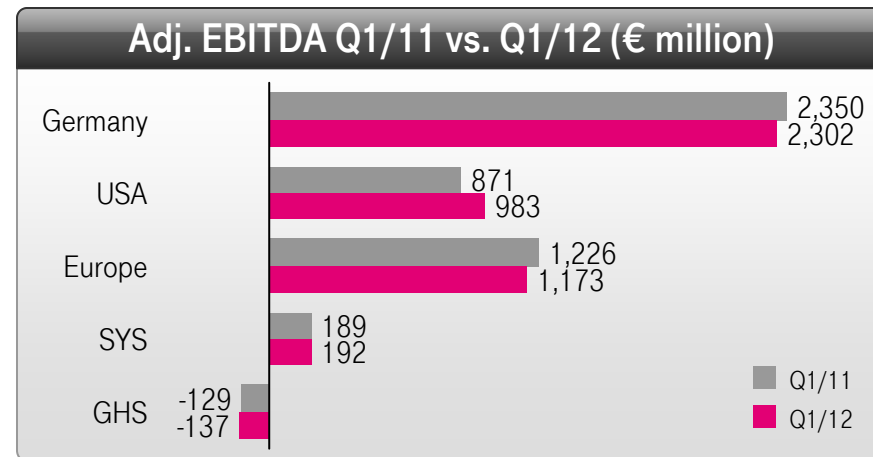
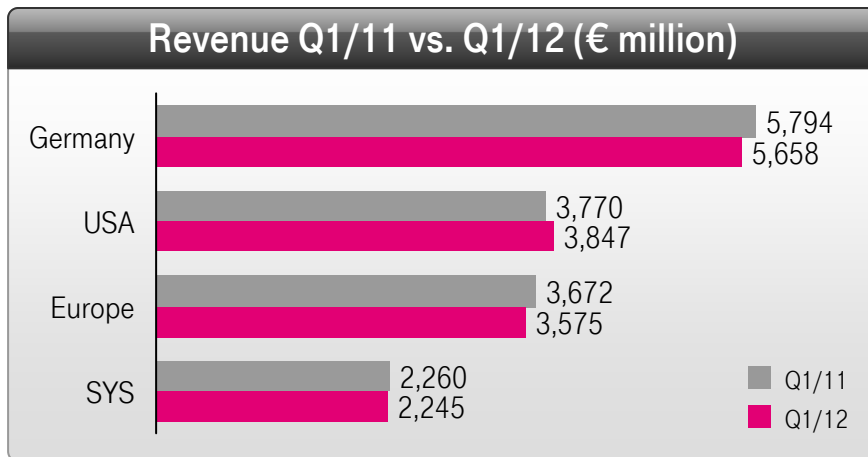
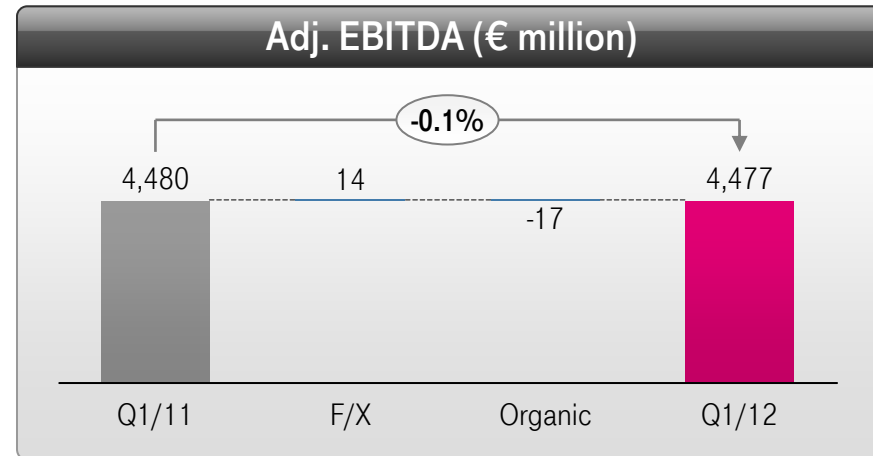
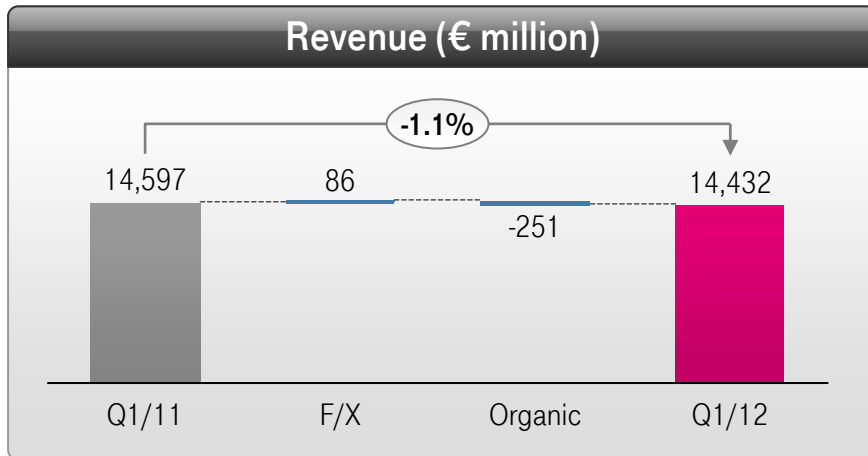
€ million	Q1/11	Q1/12	change in %
Revenue	14,597	14,432	-1%
Adj. EBITDA	4,480	4,477	0%
Adj. net profit	701	581	-17%
Net profit	480	238	-50%
Adj. EPS (in €)	0.16	0.14	-13%
EPS (in €)	0.11	0.06	-46%
Free cash flow ¹	1,061	1,122	6%
Cash capex ²	2,120	2,129	0%

Including € 464 million of early retirement provision due to different seasonality versus 2011

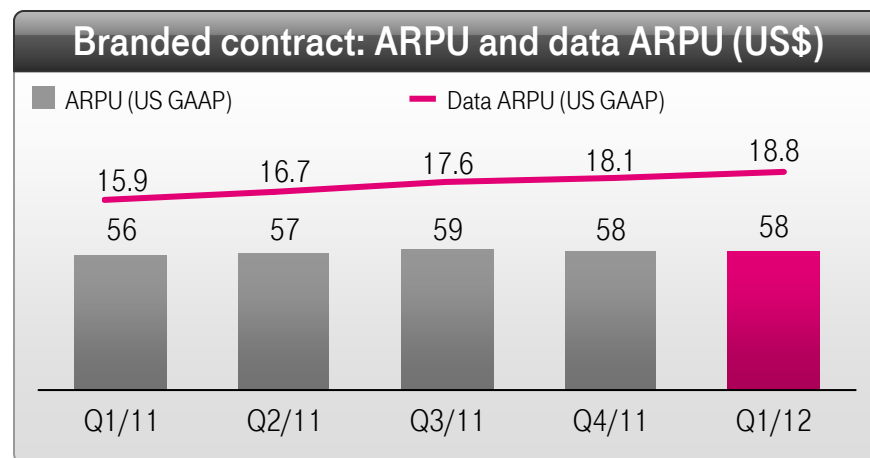
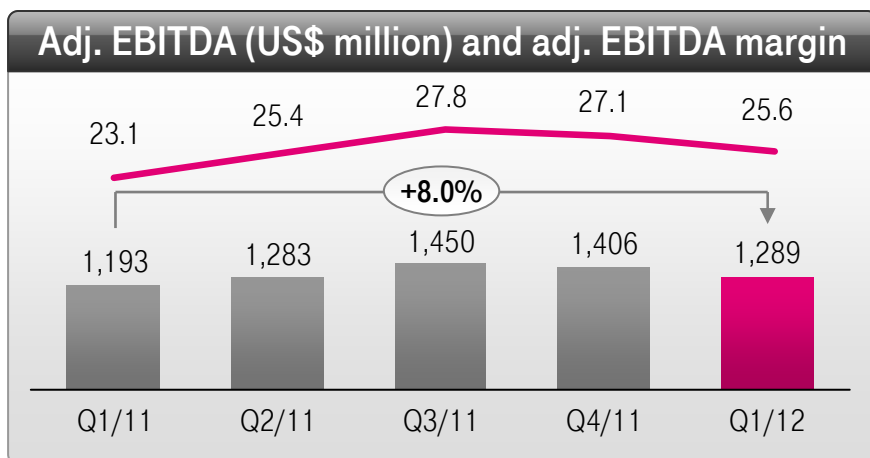
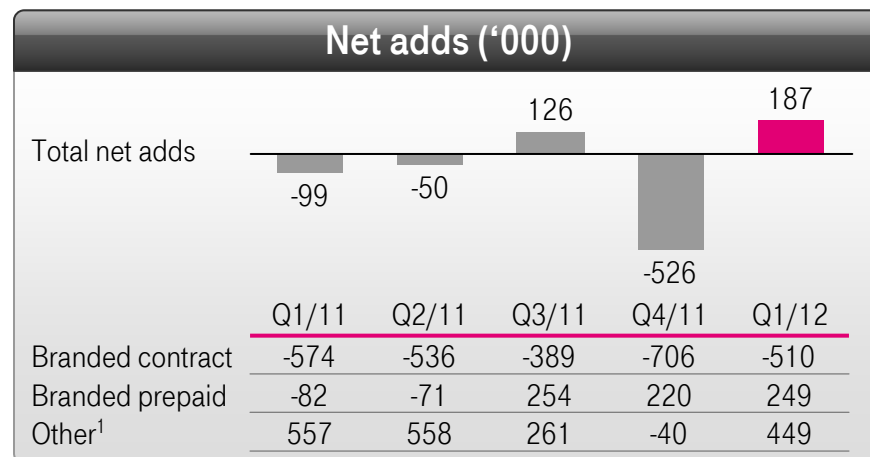
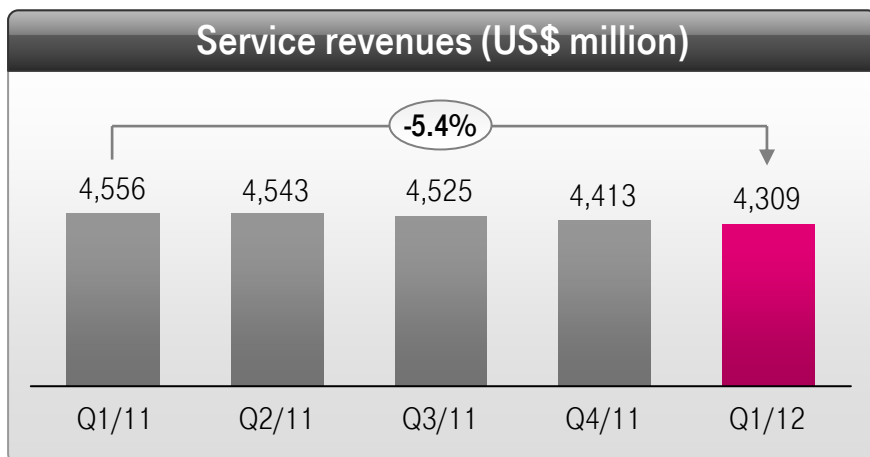


1) Before dividend payments, break-up fee, PTC settlement, AT&T deal-related payments and spectrum investments
 2) Adjusted for spectrum investments (€ 40 million in Q1/12)

Q1/12 Overview.



US: +8% adj. EBITDA and +187k customer growth.



1) Other includes MVNO and machine-to-machine. Amounts may not add up due to rounding.

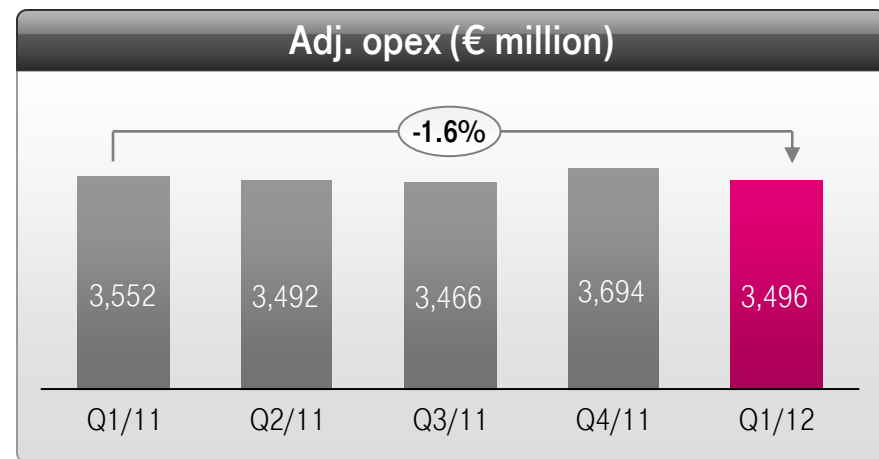
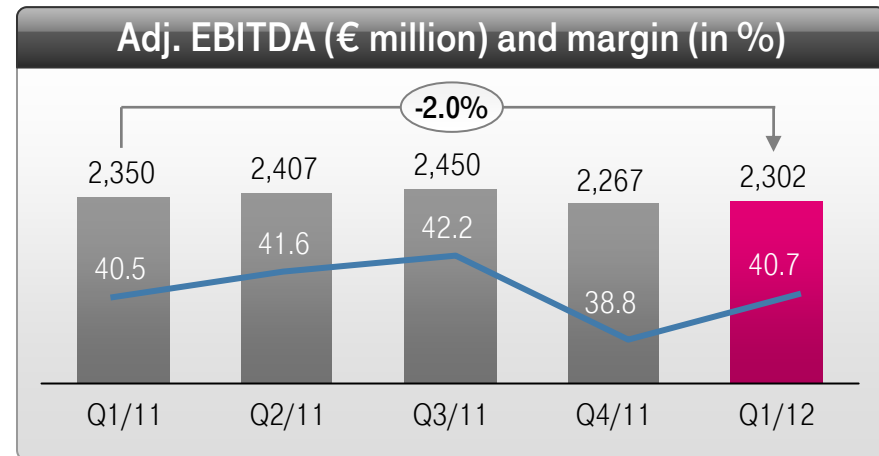
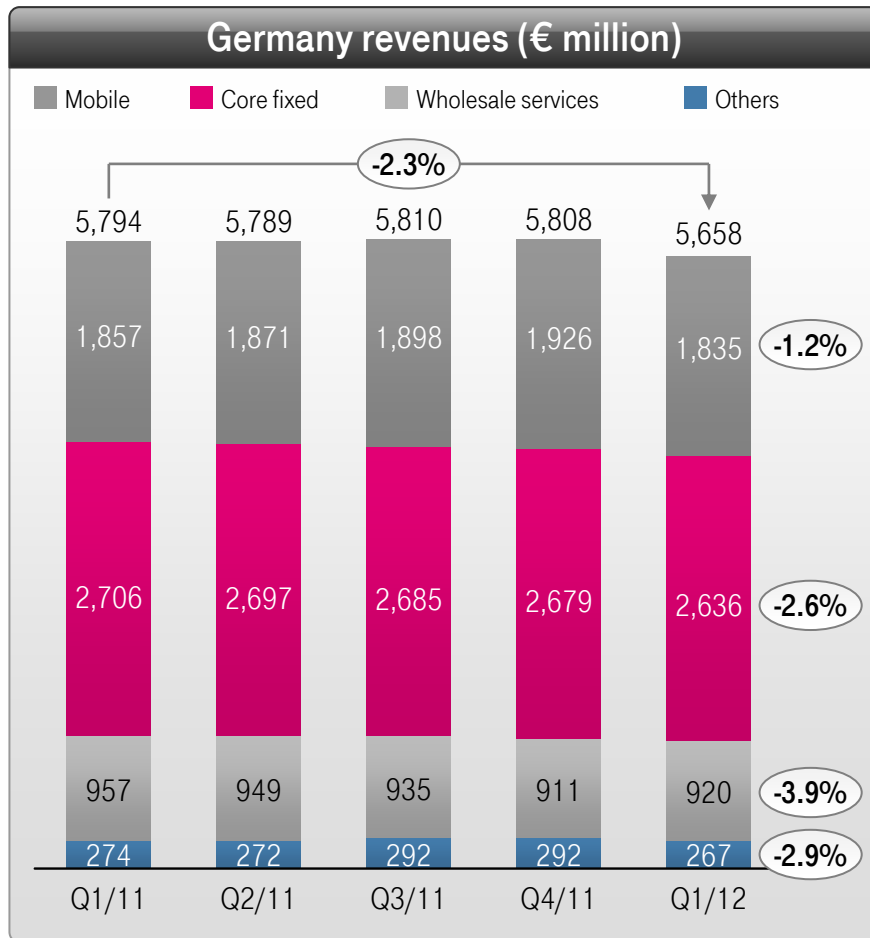
US: Challenger strategy execution progressing well.

Mission: Making Amazing 4G Services Affordable

	Amazing 4G Services	Value Leader	Trusted Brand	Multi-Segment Player	Challenger Business Model
Key Programs	<ul style="list-style-type: none"> ▪ Refarming ▪ LTE in 2013 	<ul style="list-style-type: none"> ▪ Brand relaunch 	<ul style="list-style-type: none"> ▪ Distribution push 	<ul style="list-style-type: none"> ▪ B2B Invest ▪ MVNE platform 	<ul style="list-style-type: none"> ▪ Reinvent v2 ▪ Churn v2
Progress	<ul style="list-style-type: none"> ▪ Breakup spectrum transferred ▪ Contracts with Ericsson & NSN ▪ Refarming on track for Q4/12 launch 	<ul style="list-style-type: none"> ▪ Phase 1 rebranding "Test Drive" 	<ul style="list-style-type: none"> ▪ 115 new branded dealers ▪ 7,000 new doors 	<ul style="list-style-type: none"> ▪ B2B ramp initiated ▪ 4 new MVNOs signed 	<ul style="list-style-type: none"> ▪ Tracking to US\$ 0.9 billion savings ▪ Branded contract churn improving

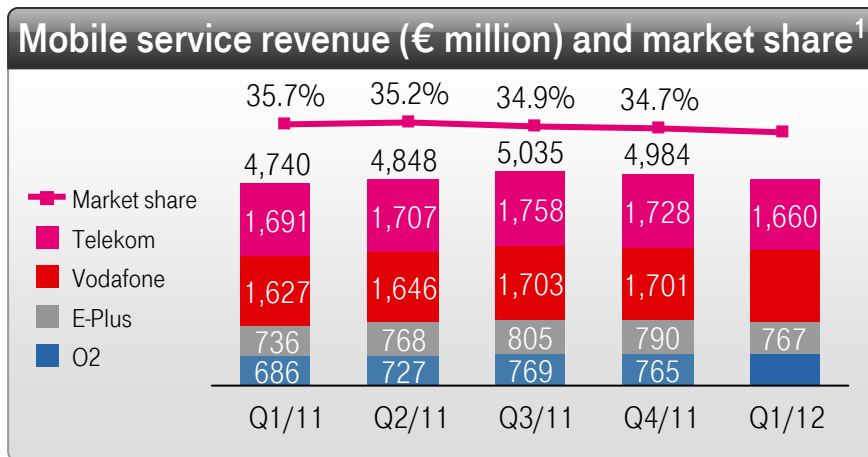
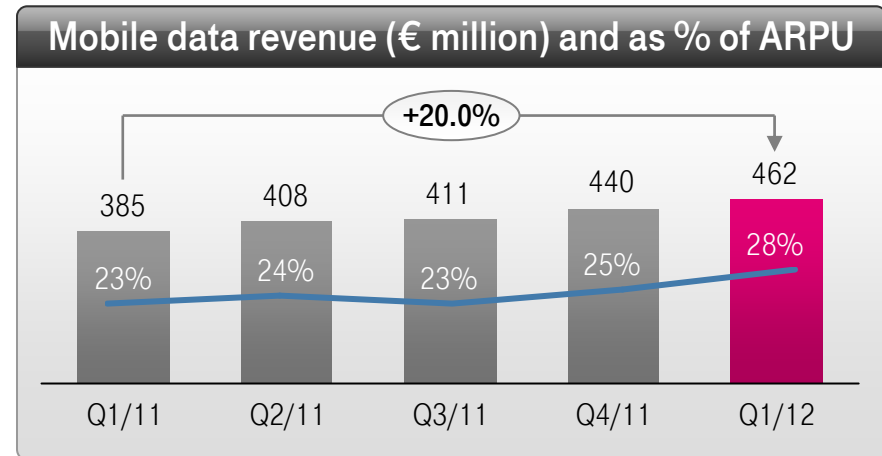
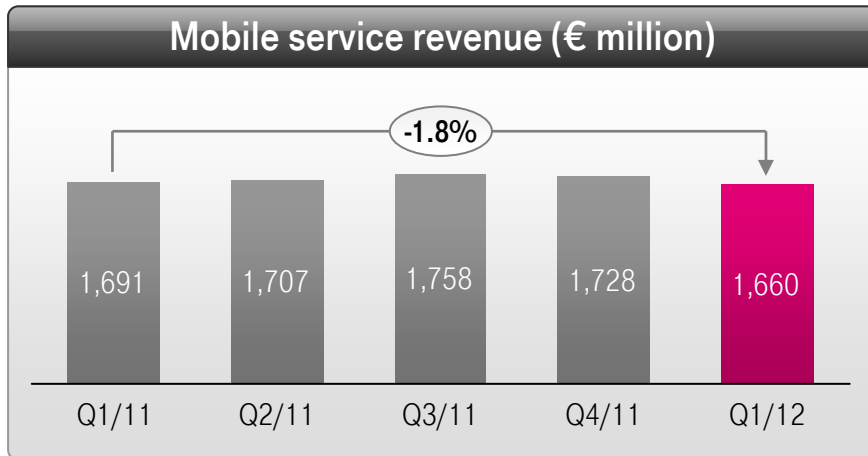


Germany: better revenue trends and further improved EBITDA margin.



The activities and functions of the Digital Services area and of the Internet service provider STRATO (Consumers) that were previously reported under the Germany operating segment have been assigned to GHS from January 1, 2012, and reported as part of the DBU (Digital Business Unit). Prior-year figures have been adjusted.

Germany – Mobile: continuous strong smartphone and mobile data development.

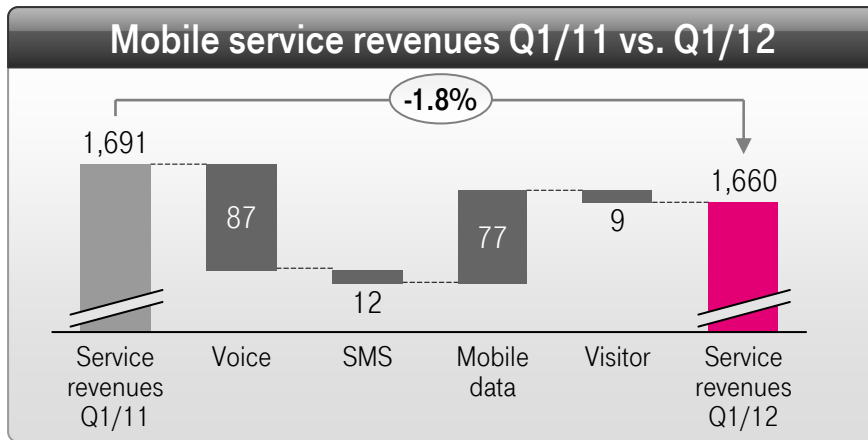


- Mobile contract net adds of -107k – due to customer migration of one reseller
- Smartphone sales in Q1: 863k smartphones, of which 291k iPhones
- LTE coverage increased to 25% of population (+11 pp quarter-on-quarter)



1) Company estimates, incl. revenues from stationary wireless solutions (Call and Surf via Funk) since October 1, 2011

Germany – mobile service revenues: measures.



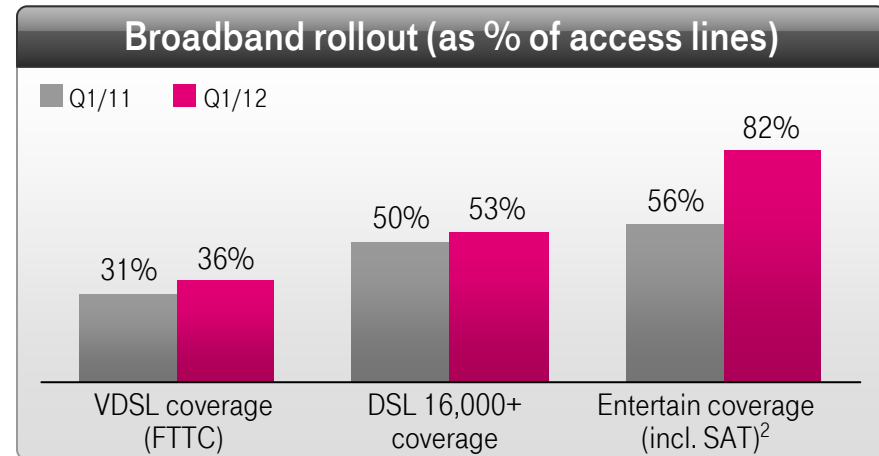
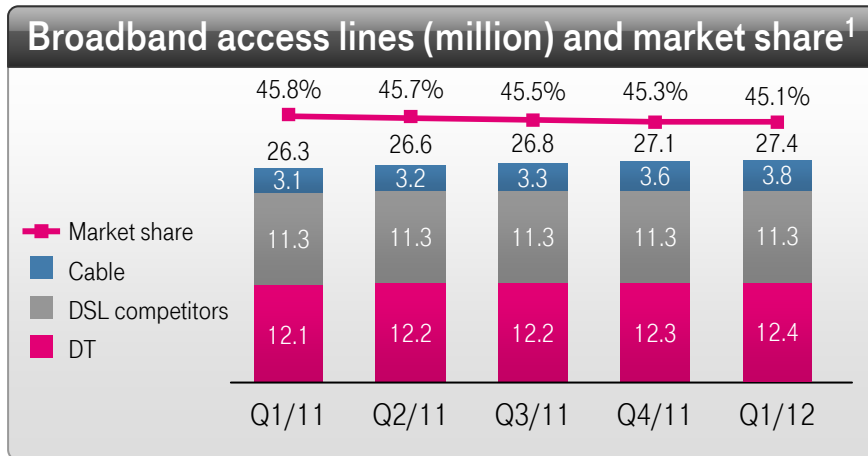
- Business customer mobile service revenues -1.5%
 - Decline in prices only partially compensated by growth in customer base
- Retail customer mobile service revenues -2% driven by:
 - Migration of customers into new tariff portfolio
 - Lower revenue contribution from service providers
 - Lower revenue contribution from prepay

	Focus	Measures
1	<ul style="list-style-type: none"> ▪ Own contract customer base 	<ul style="list-style-type: none"> ▪ Smarter management of tariff migration ▪ New tariff scheme and increase of subsidies to push mobile broadband with tablets and sticks ▪ Marketing of new tariff options (e.g. speed-on, all-net SMS) ▪ Enhancement of LTE distribution (start of sales and marketing outside white spots)
2	<ul style="list-style-type: none"> ▪ Prepay 	<ul style="list-style-type: none"> ▪ New tariff schemes (Congstar in Q1) and T-Brand (in June) for mobile data users ▪ Congstar sales in T-branded sales channels ▪ Introduction of travel&surf in prepay to exploit roaming potential
3	<ul style="list-style-type: none"> ▪ Wholesale 	<ul style="list-style-type: none"> ▪ Attractive offers in wholesale mobile data ▪ Push of ethnic and discount brands
4	<ul style="list-style-type: none"> ▪ Business customers 	<ul style="list-style-type: none"> ▪ Push mobile broadband ▪ Expansion of tailor-made offers for MNC/LE/ME customers¹ ▪ Expansion of CRM activities (high share of fixed line only customers)



1) MNC = multinational company, LE = large enterprise, ME = medium enterprise

Germany – fixed: strong customer trends.

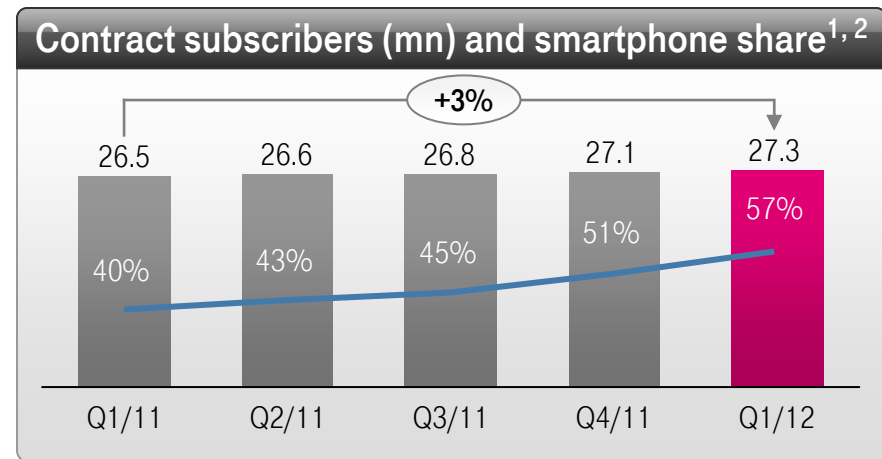
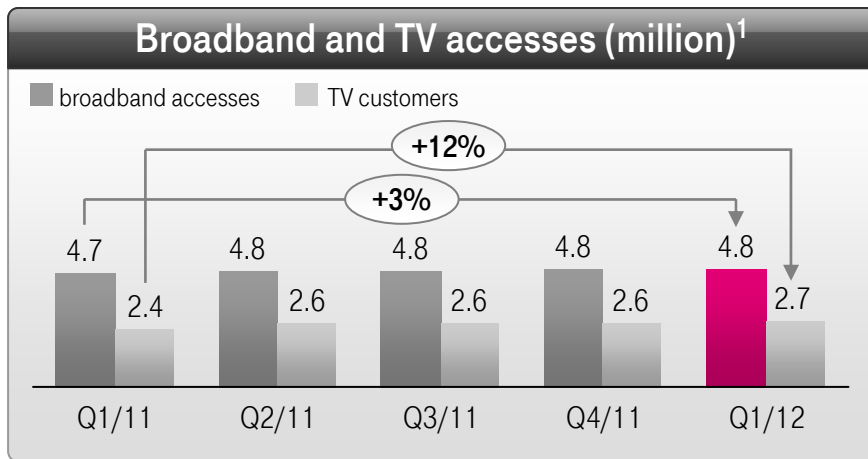
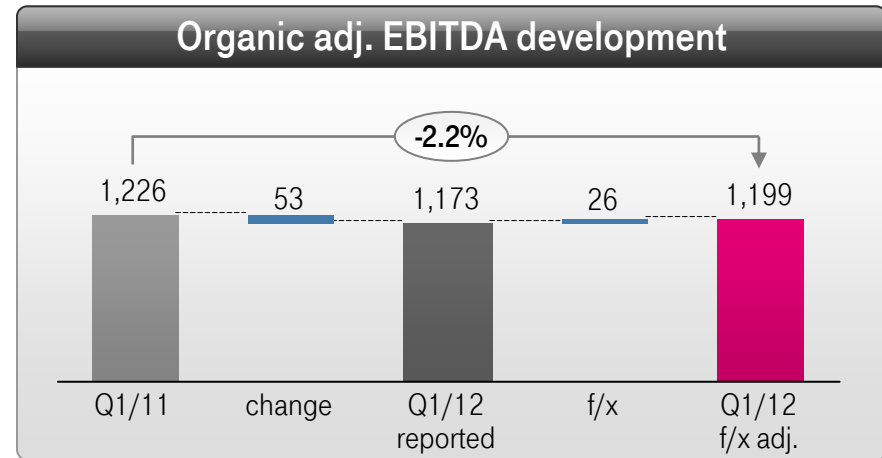
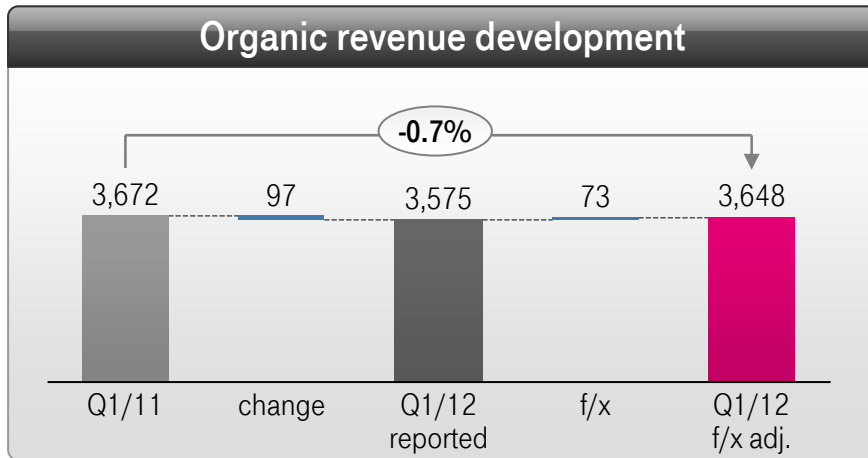


- Line losses 24% below last year: 259k in Q1 (339k in Q1/11)
- Broadband customers +2.5%: 12,367k, 102k net adds in Q1
- Entertain customers +37%: 1,725k total, 173k net adds in Q1
- Retail fiber customers (VDSL) +67%: 674k total, 66k net adds in Q1
- Upsell strategy: consumer ARPA increased by €0.40 to €25.60



1) Company estimates; rounded figures; incl. reseller (competitor resale and resale); Q1/11 adjusted mainly due to changes in KDG reporting structure
 2) DSL access of at least 3 Mbit/s required

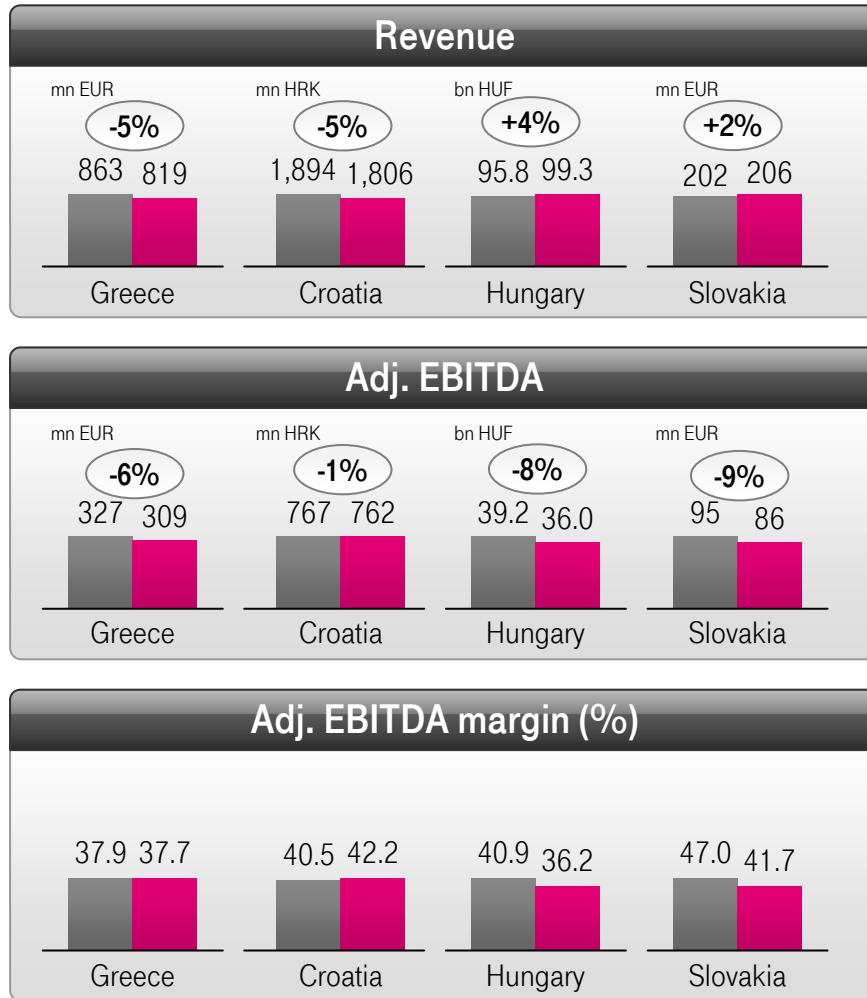
Europe: successful segment-wide performance improvement program leads to almost stabilized revenue and adj. EBITDA.



1) Incl. business customers shifted to T-Systems in Hungary as of January 1, 2011

2) Figures adjusted due to incorporation of data from Cosmote Greece. Percentage of smartphones in dispatched devices (excl. Slovakia, Romania, Bulgaria, Montenegro, and Macedonia).

Europe – integrated markets.



Greece:

- Mobile: positive development in service revenue. Driven by higher subscriber base and revenue initiatives especially in consumer segment.
- Fixed line: Revenues down by -8.7% yoy. Situation is still dominated by an ex-ante regulation resulting in uncompetitive offers: about 50% more expensive than competitors.

Croatia:

- Underlying adj. EBITDA (ex. F/X and one-timers) is +1.0% above previous year
- Smartphone push: 48% of all dispatched devices are smartphones

Hungary:

- Figures in € impacted by F/X losses due to weak HUF
- Underlying revenue (ex. F/X and MTR cut) +4.8% due to strong performance of energy resale and IPTV
- Underlying adj. EBITDA (ex. FX, MTR cut and one-timers in 2011) -4.2% as new revenues cannot fully compensate reduction of high margin traditional revenue.

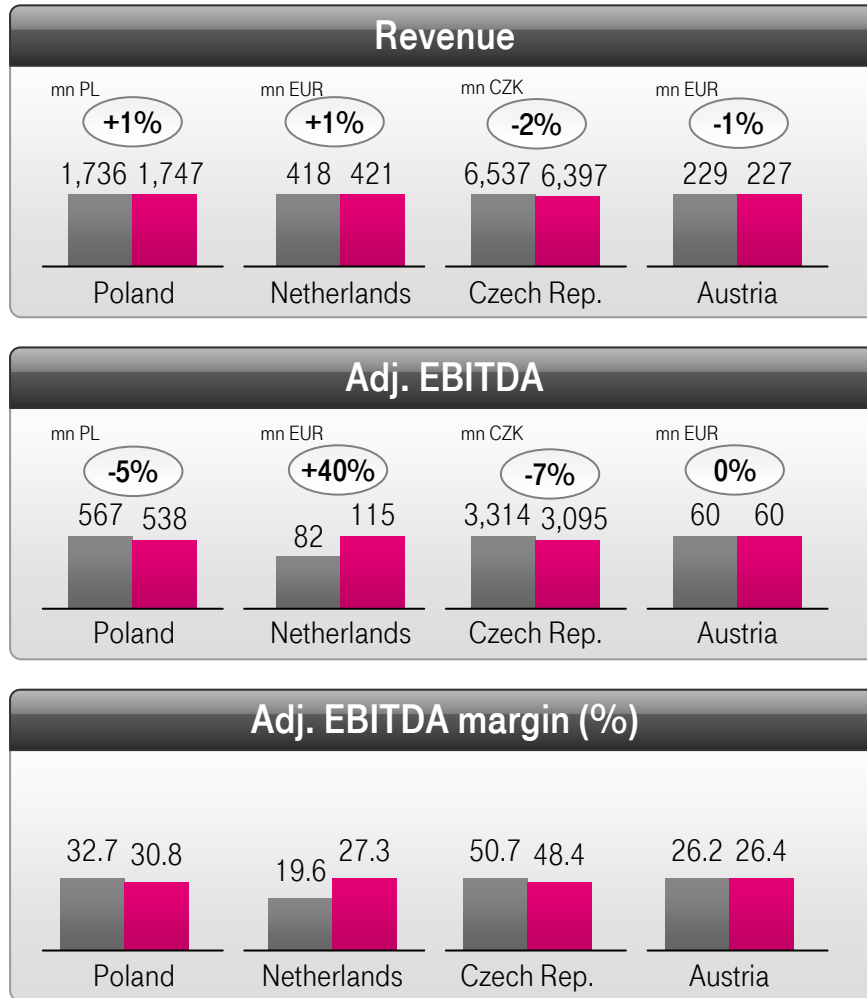
Slovakia:

- Revenue driven by ICT acquisition in fixed
- Adj. EBITDA partly driven by higher market invest than in 2011
- IPTV customers +10.5%, SAT TV +31.4%

■ Q1/11 ■ Q1/12



Europe – mobile-centric.



Poland:

- Figures in € impacted by F/X losses due to weak PLN
- Underlying revenue (ex. MTR cut and F/X) +3.0% due to device revenues (partly due to higher smartphone share)
- Underlying adj. EBITDA (ex. MTR cut, F/X and one-timers) -0.7% almost on previous year's level in spite of heavy competition

Netherlands:

- Revenues positively impacted by higher subscriber base yoy, higher device revenues, revenue initiatives, and rest effects from unlimited-offer cancelations
- Adj. EBITDA surge driven by more rational market invest in retention, revenue growth, and further cost savings (e.g. FTE -0.3k yoy)
- Ongoing focus on contract customer growth (+7.1% yoy)

CZ:

- Underlying revenue (ex. MTR cut and F/X) +1.9%
- Smartphone share in dispatched devices at 49%

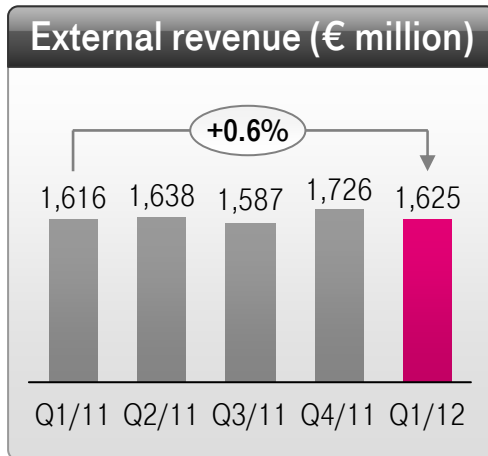
Austria:

- Underlying revenue (ex. MTR cut) +3.5%
- 10th quarter in a row with positive net adds!
- Smartphone share of dispatches at all time high of 74%

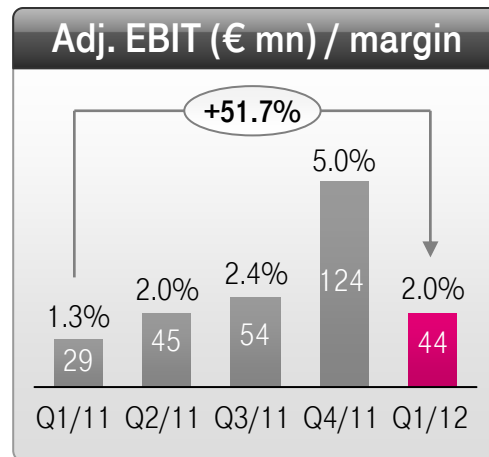
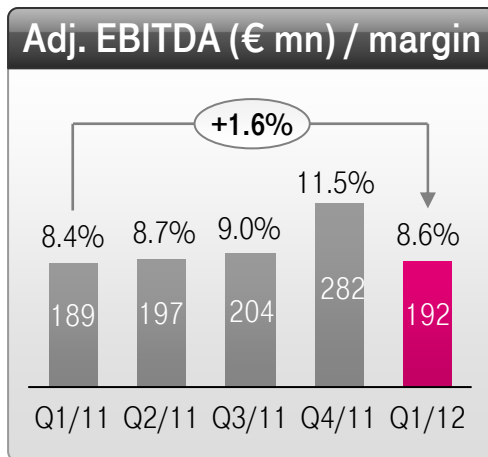
■ Q1/11 ■ Q1/12



Systems Solutions: increase in external revenue with improving profitability.



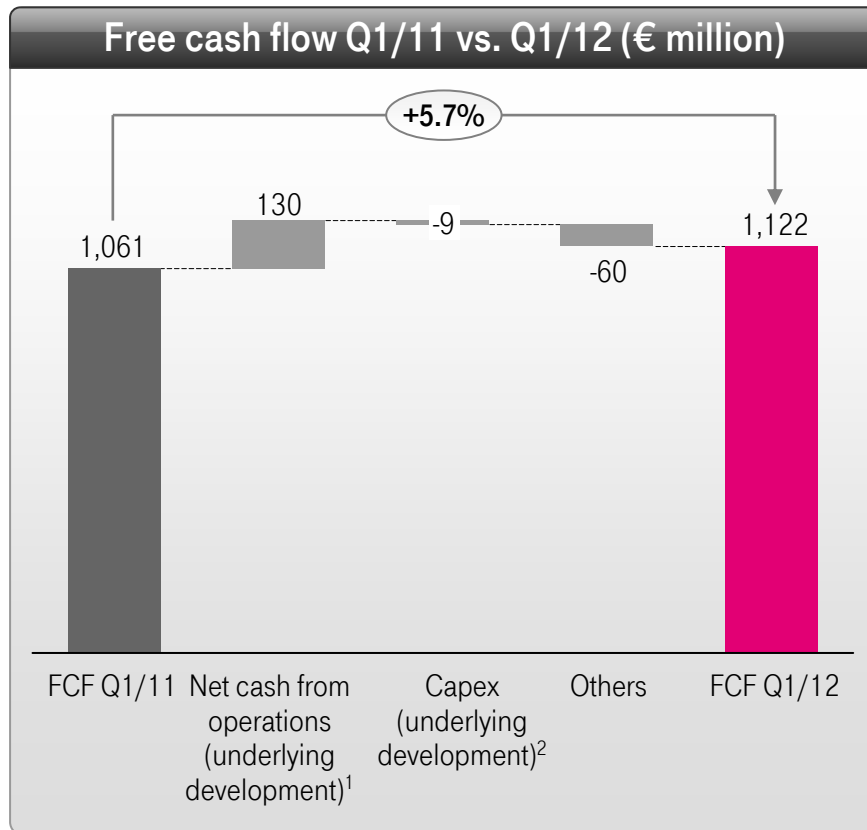
- External revenue up 0.6% to € 1,625 million due to successful closed deals in 2010 and 2011 and increasing revenues with cloud computing
- Revenue decrease of 0.7% yoy to € 2,245 million in Q1/12 driven by lower internal revenues (-3.7% yoy)
- Deal highlights in Q1/12: OMG, BAT



- Adj. EBITDA at € 192 million with a margin of 8.6%
- Adj. EBIT strongly improved by 51.7% yoy with a margin of 2.0% in Q1/12
- Successful gross cost savings of € 166 million in Q1/12



Free cash flow: solid start into the year – guidance confirmed.

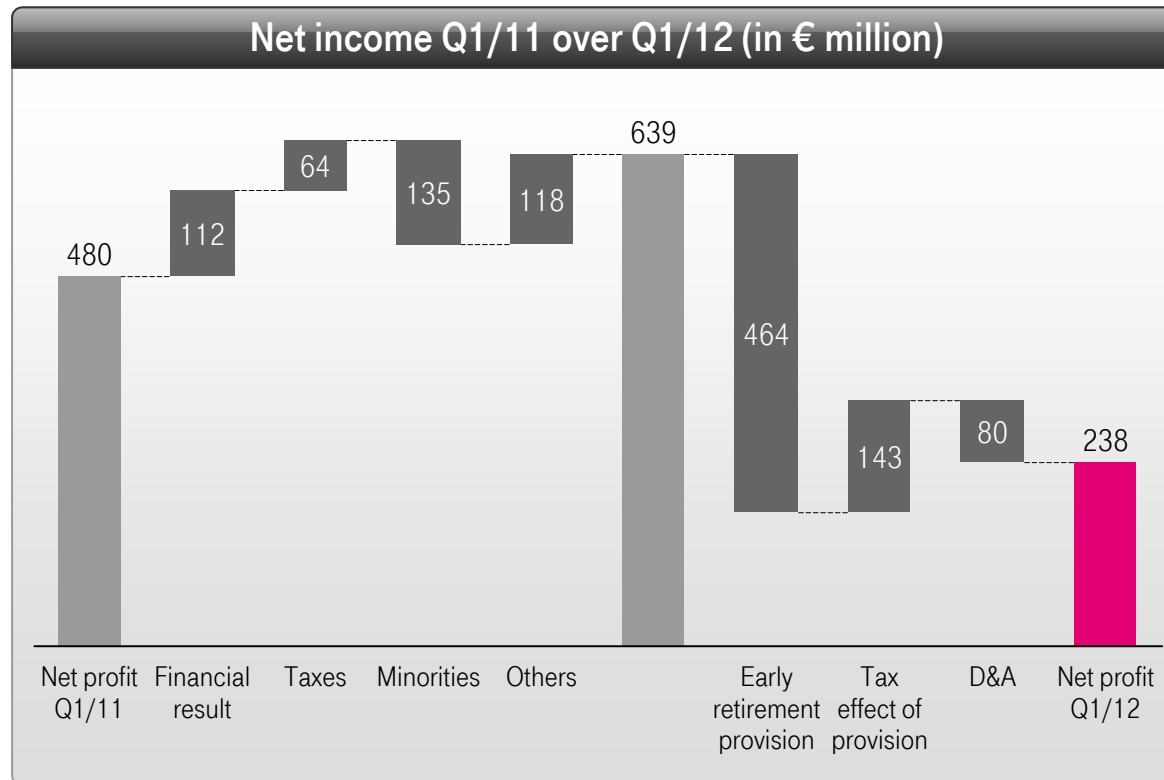


- Free cash flow improved by 5.7% to €1.1 billion
- Improvement in underlying net cash generated from operations predominately due to:
 - Less tax payments
 - Less interest payments
- Underlying capex development: essentially stable at high level of €2.1 billion
- Decrease in others due to less asset sales



1) Underlying net cash generated from operations is adjusted for € 226 million AT&T deal-related payments in Q1/12 and € 400 million of PTC settlement payment included in Q1/11
 2) Underlying capex development is adjusted for € 40 million of spectrum payments in Q1/12

Net income development Q1/12: impacted by provision for early retirement and depreciation due to US.



- Financial result and result attributable to minorities benefit from sale of Telekom Serbia
- Taxes benefit from higher restructuring charges and a US-related one-off tax charge in Q1/11
- € 464 million provision for early retirement program in Germany in Q1: different timing of special factors compared to 2011
- € 80 million additional depreciation predominantly from the US – due to being fully consolidated again. Trend will continue in quarters 2 to 3 and reverse in Q4



Balance sheet ratios: improved net debt over EBITDA ratio and gearing in Q1.

in € billion	31/03/2011	30/06/2011	30/09/2011	31/12/2011	31/03/2012
Balance sheet total	123.2	123.1	124.6	122.5	120.5
Shareholders' equity	42.7	39.3	40.7	39.9	39.8
Net debt	41.8	43.3	43.4	40.1	38.6
Net debt/adj. EBITDA ¹	2.2	2.3	2.3	2.1	2.1
Gearing	1.0x	1.1x	1.1x	1.0x	1.0x
Equity ratio	34.6%	31.9%	32.7%	32.6%	33.0%

Comfort zone ratios

2 - 2.5x Net debt/adj. EBITDA	✓
25 - 35% Equity ratio	✓
Gearing: 0.8 to 1.2	✓
Liquidity reserve covers redemption of the next 24 months	✓

Current Rating

Fitch: BBB+ stable outlook	✓
Moody's: Baa1 stable outlook	✓
S&P: BBB+ stable outlook	✓
R&I: A stable outlook	✓



¹) Ratios for the interim quarters calculated on the basis of previous four quarters

Q&A



René Obermann
CEO



Timotheus Höttges
CFO



Thank you for your attention!

