

# Q2/10 – Results Presentation. Deutsche Telekom.

August 5, 2010

Life's for Sharing



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# Agenda.

## Deutsche Telekom Results Presentation.



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CEO



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CFO



# H1 2010 Highlights – Excellent execution.

- Well underway to achieve full year guidance:
  - Excluding T-Mobile UK revenue stable year over year in H1
  - Adj. EBITDA at €9.9 billion in H1
  - Net income improved from -0.6 to €1.2 billion in H1
- Excellent execution in Q2:
  - Germany: Good progress in stabilization of revenue and turn around in adj. EBITDA: +2.4%. Strong outperformance of competition: mobile with **6.1% service revenue growth** and margin of 44%. Broadband net add market share of 52%. Fixed network line losses on lowest level since 2005.
  - US: Revenue and subscriber trends improved. With 106k contract net-adds return to contract customer growth. Strong growth in data ARPU to 11.60 US\$. Service revenue trend improved.
  - Europe: Excluding UK adj. EBITDA margin remained stable compared to Q1 2010 in an ongoing difficult environment.
  - Systems Solutions: EBIT-Margin further improved to 3.4%, accelerated revenue growth: external revenue growth of 7.2%, total revenue growth of 2.9%. Stable order entry at €2.3 billion.
- Share buyback program: Board resolution taken, program to commence as of August 10th
- Save for Service continues to support group profitability with savings of 1 billion € in H1
- Mobile data revenue of €2.1 billion in H1 up 28%

 **We confirm our guidance**

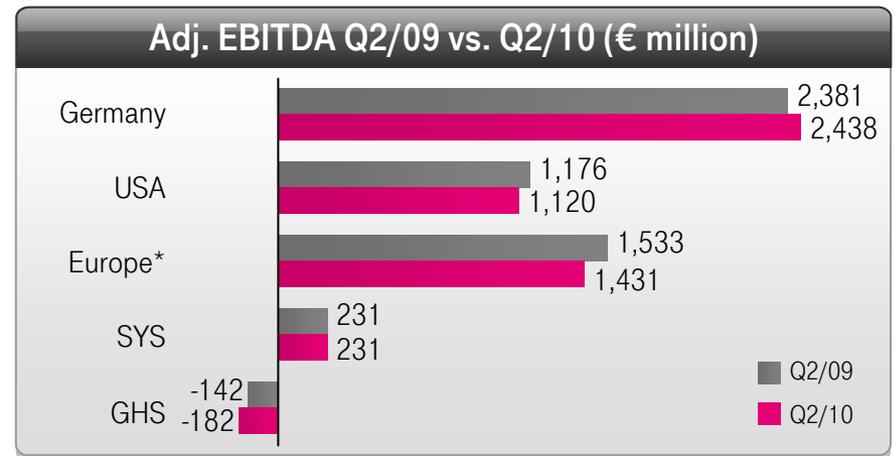
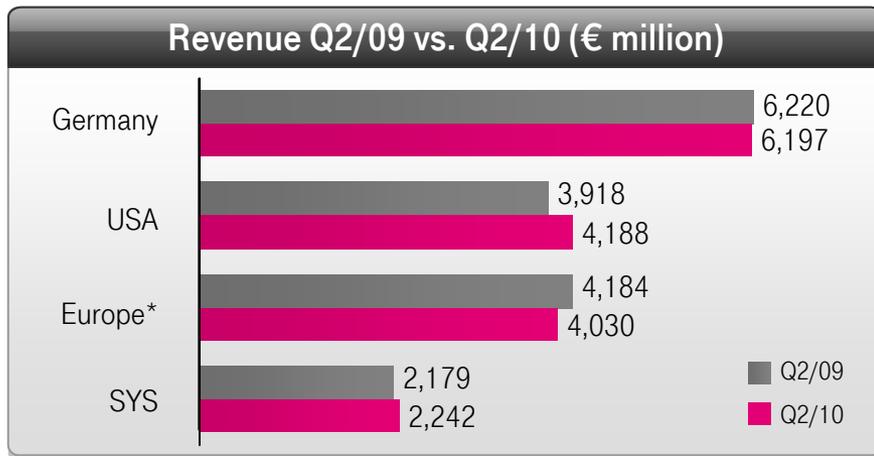
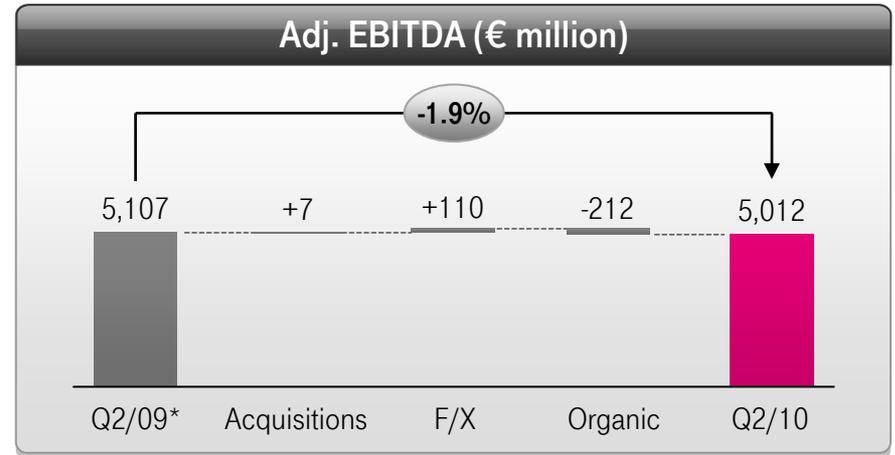


## Q2 financial overview: year on year improvement.

in € million	Q2/09 reported	Q2/10 reported	Q2/09 excl. TM UK	Q2/10 excl. TMUK	change in % excl. UK
Revenue	16,238	15,531	<b>15,386</b>	<b>15,531</b>	<b>0.9%</b>
Adj. EBITDA	5,258	5,012	<b>5,107</b>	<b>5,012</b>	<b>-1.9%</b>
Adj. Net income	756	814	<b>831</b>	<b>836</b>	<b>0.6%</b>
Net income	521	475	<b>599</b>	<b>722</b>	<b>20.5%</b>
Adj. EPS (in €)	0.17	0.18	<b>0.19</b>	<b>0.19</b>	<b>0.0%</b>
EPS (in €)	0.12	0.11	<b>0.14</b>	<b>0.17</b>	<b>21.4%</b>
Free cash flow	1,404	1,489	<b>1,409</b>	<b>1,489</b>	<b>5.7%</b>
Cash capex	2,211	2,041	<b>2,177</b>	<b>2,041</b>	<b>-6.2%</b>



# Well underway to achieve our guidance.



\* 2009 figures without T-Mobile UK: Impact group €million 852 of revenue and 151 of adj. EBITDA; Impact segment Europe: 881 of revenue and 153 of adj. EBITDA

# Strategy Update: Fix – Transform - Innovate on track.

Fix	Transform		Innovate	
<p>Improve performance of mobile-centric assets</p>	<p>Leverage one company in integrated assets</p>	<p>Build networks and processes for the gigabit society</p>	<p>Connected life across all screens</p>	<p>Connected work with unique ICT solutions</p>
<ul style="list-style-type: none"> <li>US: Revenue and subscriber trends improved. Continued growth in data ARPU: up 70 cents in Q2 to 11.60US\$</li> <li>NL: Margin improved from 22% to 31%</li> <li>PL &amp; CZ: ongoing margin strength: Czech republic at 48%, Poland remains at 39%.</li> </ul>	<ul style="list-style-type: none"> <li>Update on OTE-Synergies: €164 million run rate achieved</li> <li>Legal merger in Slovakia completed on July 1<sup>st</sup>.</li> <li>Quad-play product launched in Hungary and Romania</li> </ul>	<ul style="list-style-type: none"> <li>Spectrum auction in Germany with excellent result. 2x5MHz of spectrum acquired in Romania</li> <li>HSPA+ roll-out in Europe started in April. HSPA+ roll-out in the US now reaching 85 million POPs</li> </ul>	<ul style="list-style-type: none"> <li>iPhone4 introduced</li> <li>Further Android devices</li> <li>Football world cup on mobile TV</li> <li>First 3D-Broadcasting over IPTV in Germany</li> <li>Personalized football TV-conferencing</li> <li>Scout24-Group expands internationally</li> </ul>	<ul style="list-style-type: none"> <li>Launch of „de.mail“ registration</li> <li>Several Big Deals in Q2/10 won: DEKA, DHL</li> <li>T-Systems receives “SAP-Certification in Cloud Services“</li> </ul>

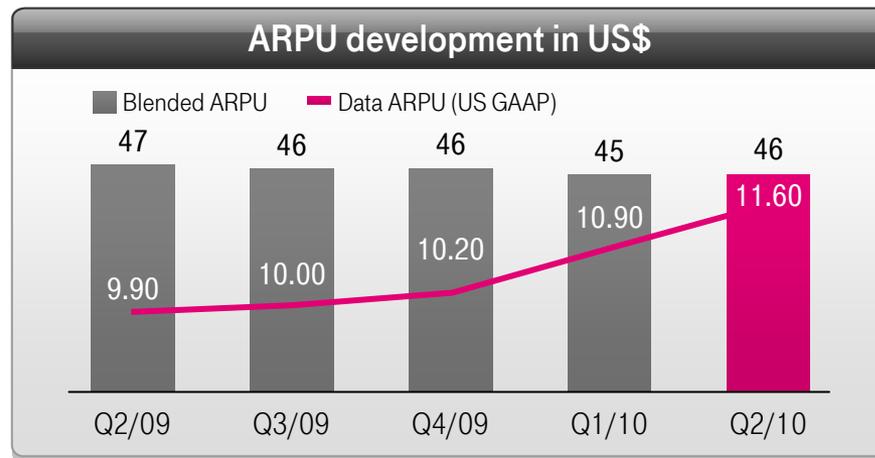
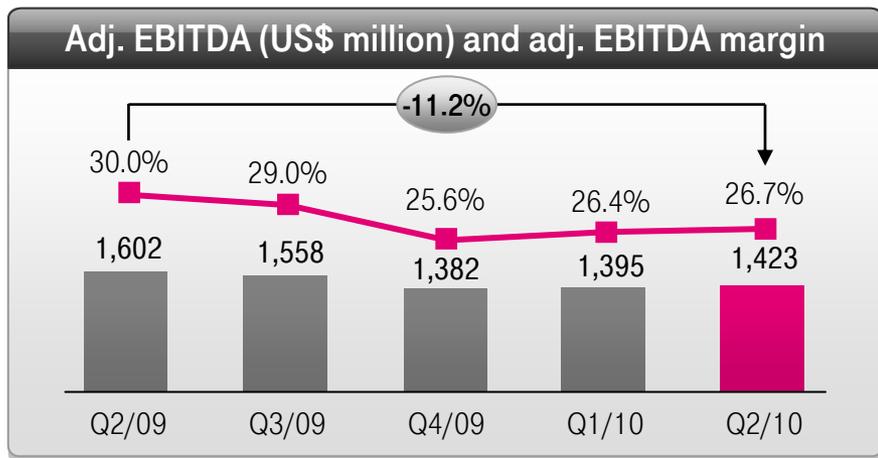
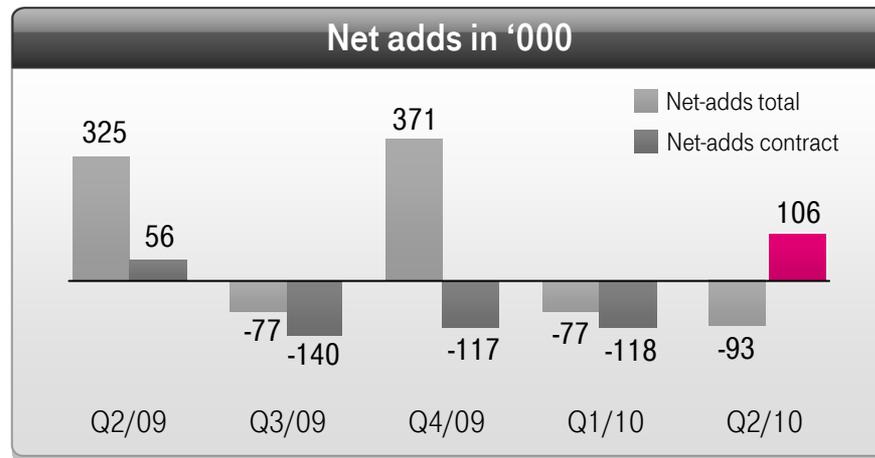
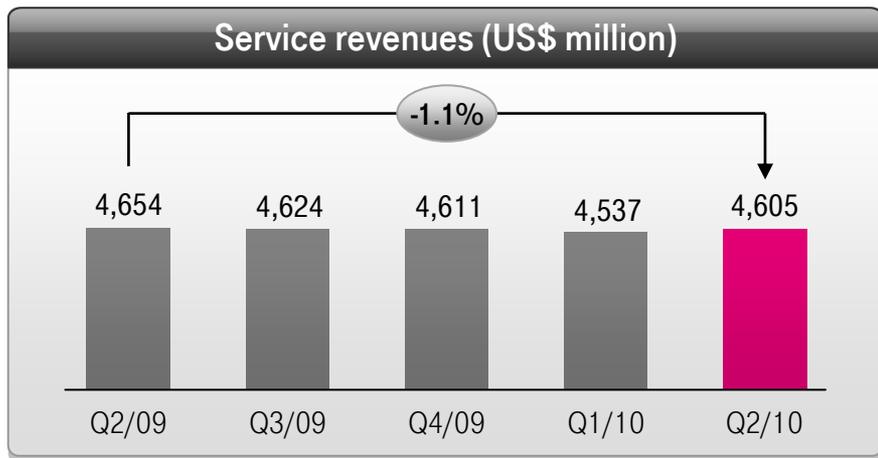


# Strategy update: growth areas.

DT's Growth Areas	H1 2009	H1 2010	Change		2015e
Revenue in € bn.					
<b>Mobile Internet</b> Non-voice revenues w/o SMS and messaging	1.6	2.1	0.5	27.9%	≈10
<b>Connected Home</b> Double & triple play, Home Gateway and Communication Suite	2.5	2.8	0.3	9.5%	≈7
<b>Online Consumer Services</b>	0.4	0.5	0.1	18.0%	2 - 3
<b>T-Systems external revenue</b> incl. Cloud Services	3.0	3.1	0.1	4.8%	≈8
<b>Intelligent Networks</b> in Energy, Health, Media Distribution, Connected Car	0.0	0.0	0.0	0.0%	≈1



# US: improved revenue trend and strong data ARPU – contract customer base growing again.



# Operational priorities for 2010: improve the US market position.

## Network

- 3G coverage: 208 million POPs; 27,581 3G sites, up 589 in Q2
- HSPA+ (21 Mbps) now reaching 85 million POPs; 185 million POPs by YE 2010 expected

## Devices

- 6.5 million 3G smartphones (19% of total customers), up 1.3 million in Q2
- New 3G smartphones/devices: Samsung Vibrant, T-Mobile myTouch 3G Slide, Garminfone, new Rocket data stick, first HSPA+ smartphone later this summer

## Distribution

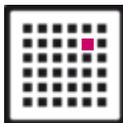
- 2,052 own stores
- 7,298 national retail stores (postpaid only)

## Pricing

- Focus on value-conscious families: promotional \$5 family add-on
- 5GB data stick plan for \$50 (\$40 for customers with another line)
- New branded prepaid plans: \$50 unlimited voice and text, \$15 unlimited text



# Germany: strong execution over the last 4 years.



## Competition

	H1/06	H1/10
Broadband net add market share	5%	→ 50%
Mobile service revenue market share <sup>1</sup>	35.9%	→ 36.9%

## Adj. EBITDA margin

	Q2/06 <sup>3</sup>	Q2/10
Fixed network	37.2%	→ 34.0%
Mobile communications	39.3%	→ 44.4%



## Adj. opex

	H1/06 <sup>4</sup>	H1/10
EUR	9.7bn	→ 7.9bn

## Customer base

	H1/06	H1/10
Line losses	1,007k	→ 687k
Share of retail broadband & IPTV as of total base	19%	→ 46.2%
Mobile contract customers	14.6mn	→ 17.2mn



## Service KPIs

	Q4/07 <sup>2</sup>	→	Q4/09
Number of complaints	-51%		
MTBA	+47%		
First contact resolution rate	+24%		

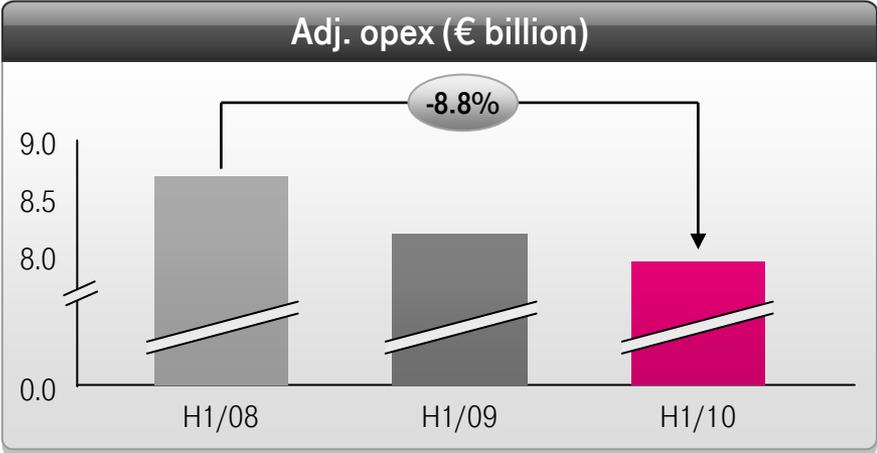
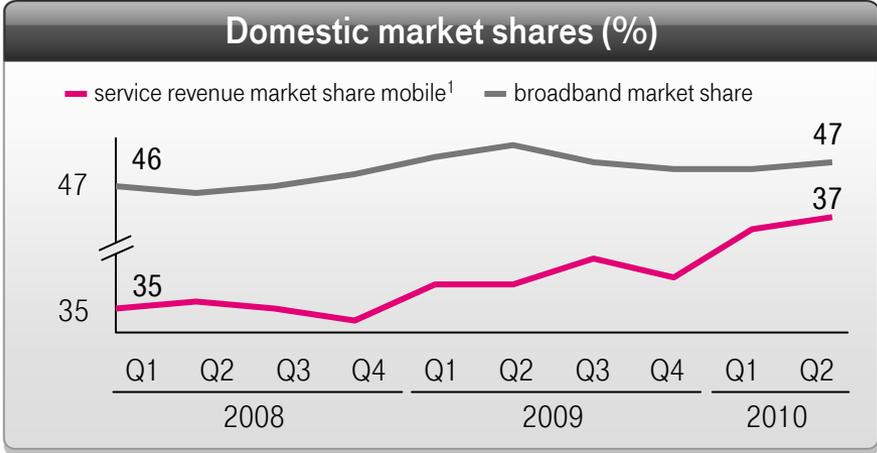
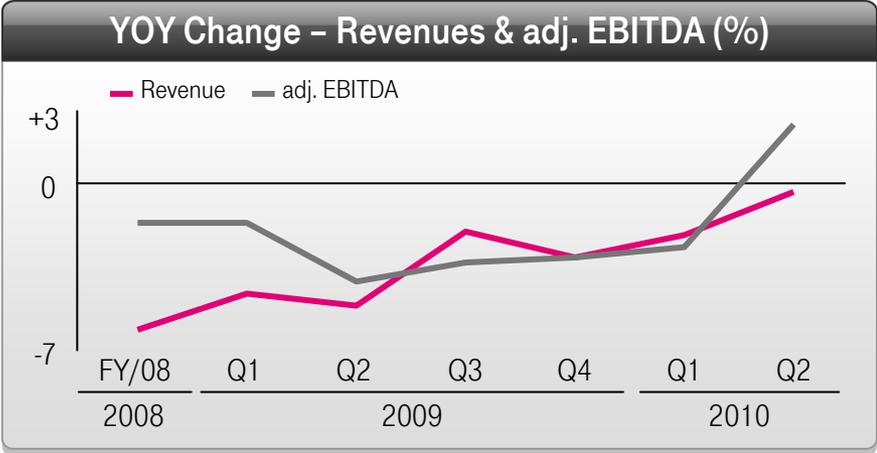
## Innovation

1.3 million Entertain packages sold  
 1.9 million iPhones sold  
 ~100k LigaTotal! customers  
 DeutschlandLan  
 MobileTV  
 Program Manager



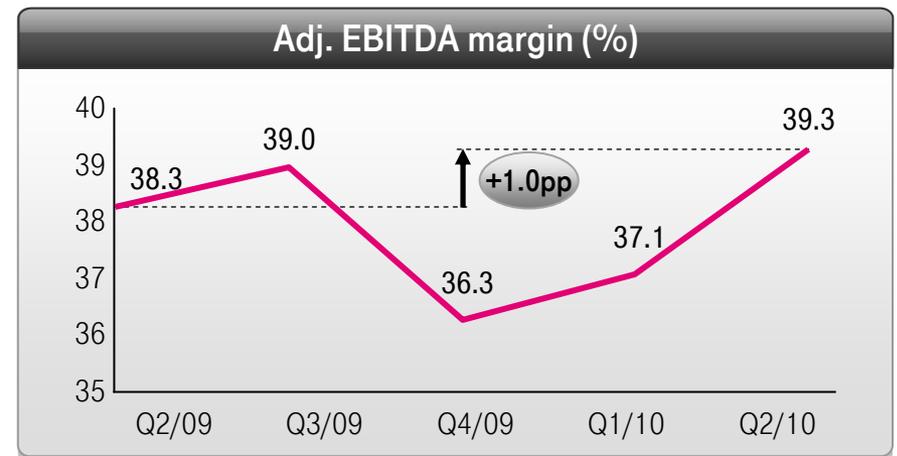
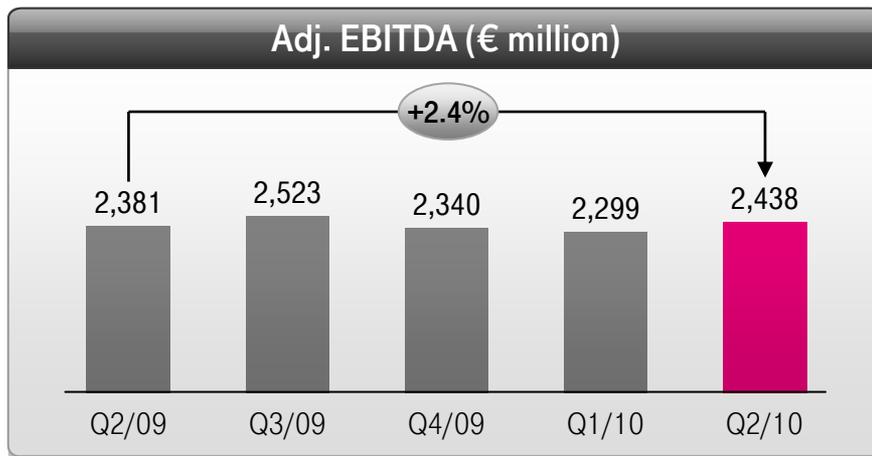
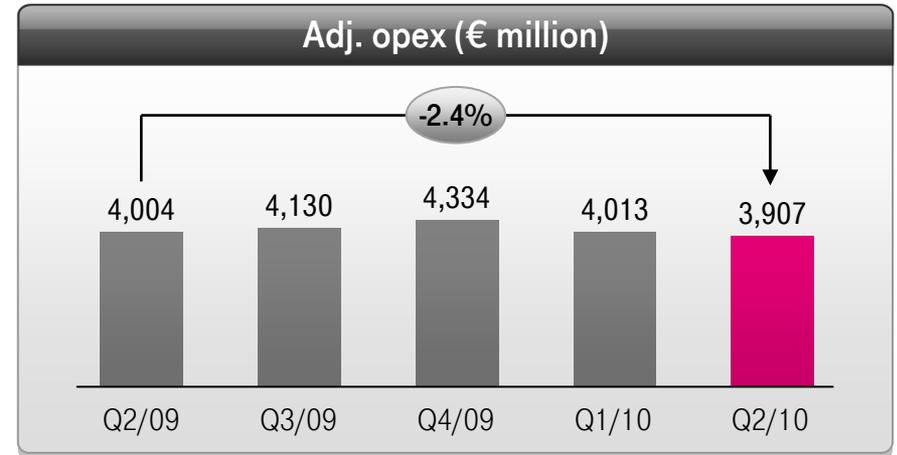
1) Q2 data  
 2) Values indexed to 100  
 3) Fixed network = T-Com domestic; Mobile communications = T-Mobile Germany  
 4) Due to structural changes not entirely comparable

# Germany: strong execution over the last 2 years.



1) Service revenue: incl. MTR, without transit revenues

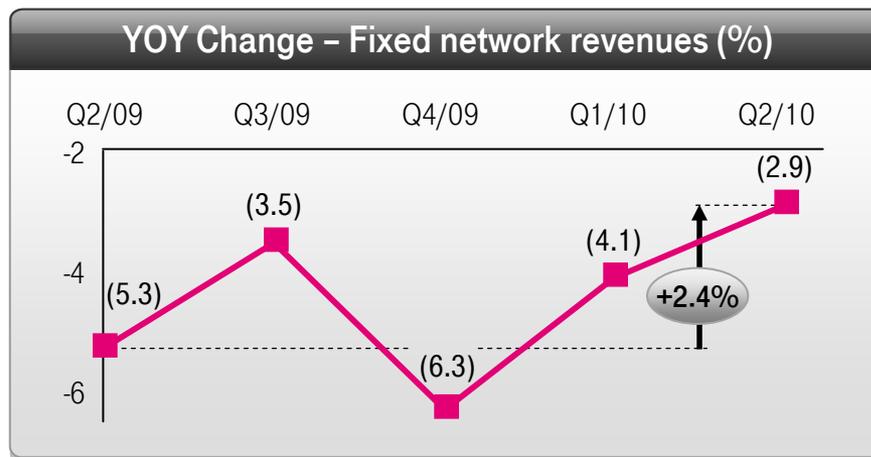
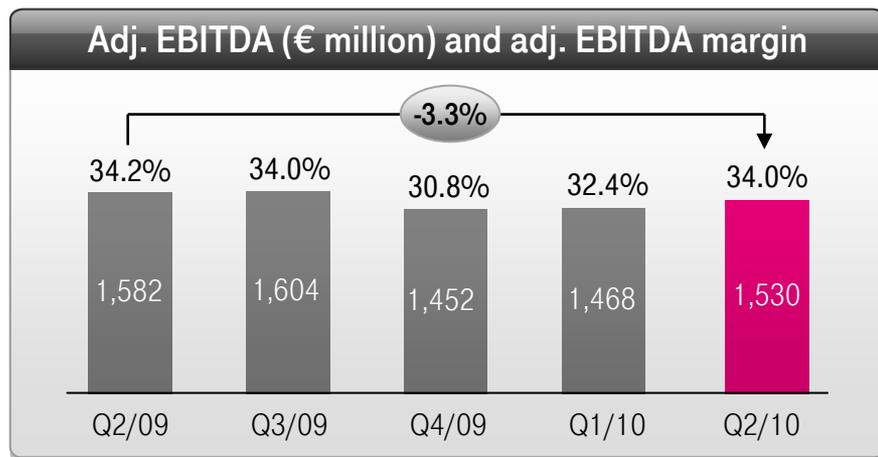
# Germany Q2 2010: close to stable revenues and EBITDA growth.



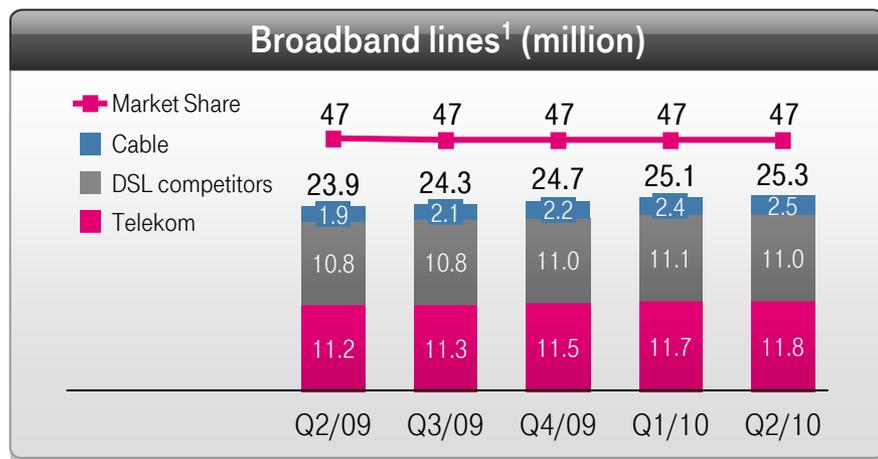
# Germany fixed Q2 2010: continued top line recovery.



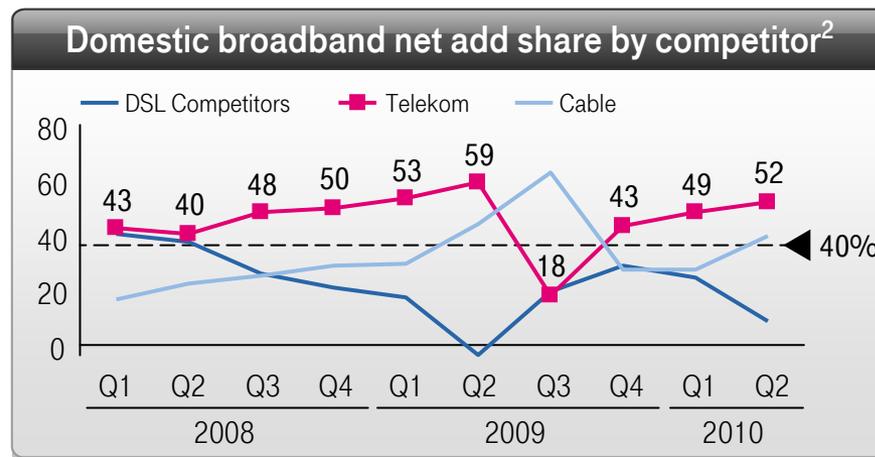
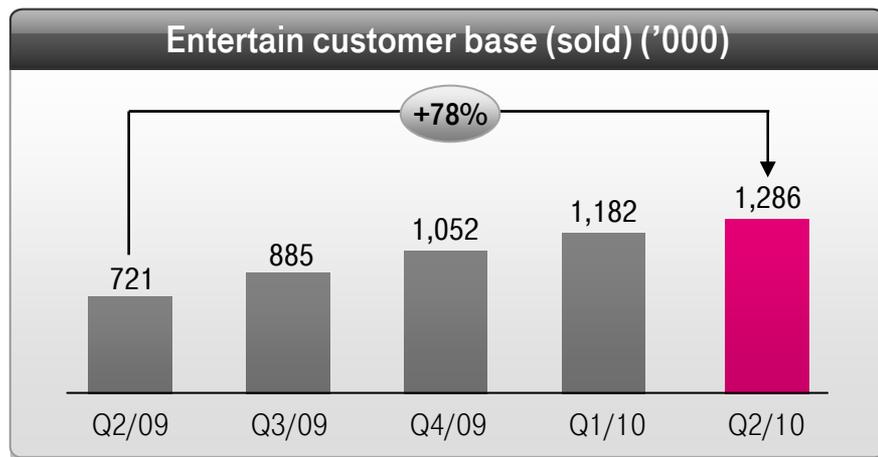
- Lowest revenue decline since 2008.
- Adjusted for settlement with Tele2 (affecting profitability by 0.7pp) EBITDA margin improved.
- Due to adj. net Opex savings of 2.4% yoy, adjusted EBITDA decreased by only 3.3 percent in the second quarter.
- Continued reduction in fixed costs as a result of simplification and rationalization.



# Germany fixed Q2 2010: excellent customer KPIs.

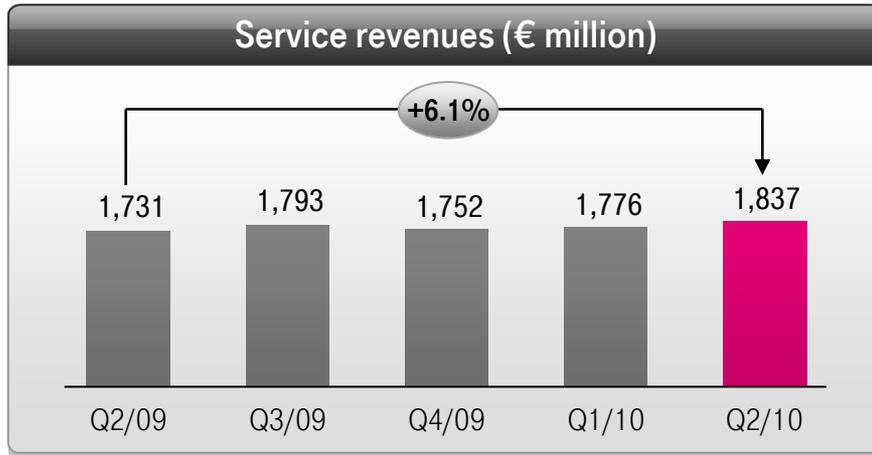


- Strong leadership in the broadband market:
  - Stable Broadband retail market share of 47%; Net add market share of 52.3% in Q2/10. YTD we saw a cumulated net add market share of 50.1%.
- Fixed market on recovery path:
  - Retail line losses (315k) on lowest level since 2005, supported by the further increase in double/triple play packages to 46% of total customer base.
  - Improved customer satisfaction as a key lever to reduce line losses. Broadband TRI\*M index at 54 +1 point yoy and better than competition

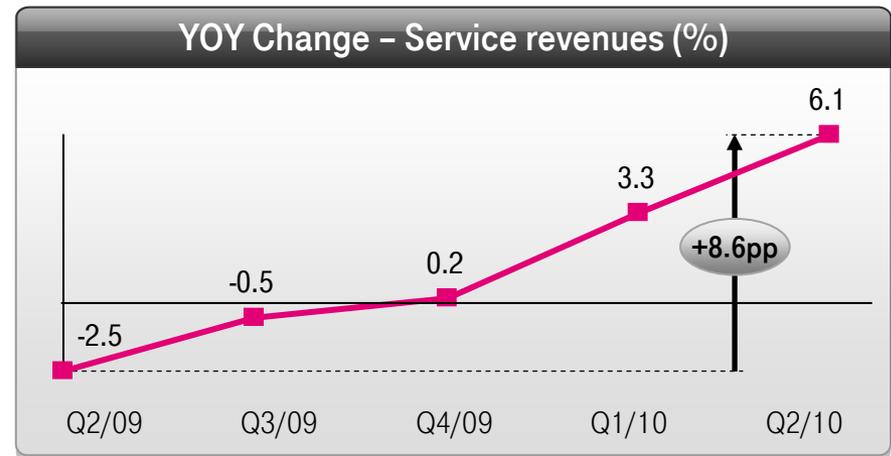
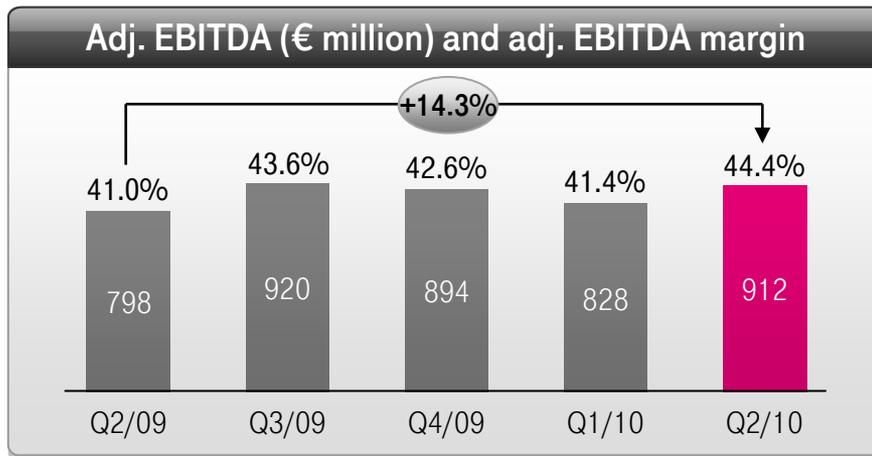


1) Market share for 2009 adjusted based on new BNetzA figures, 2010 own estimates, Q1 and Q2 adjusted by one-time item wholesale. Rounded figures. Incl. reseller (competitor resale and resale);  
 2) DTAG view (retail).Retroactive adjustment starting in 2007 because of reclassification of UnityMedia broadband customer base (March 31, 2010)

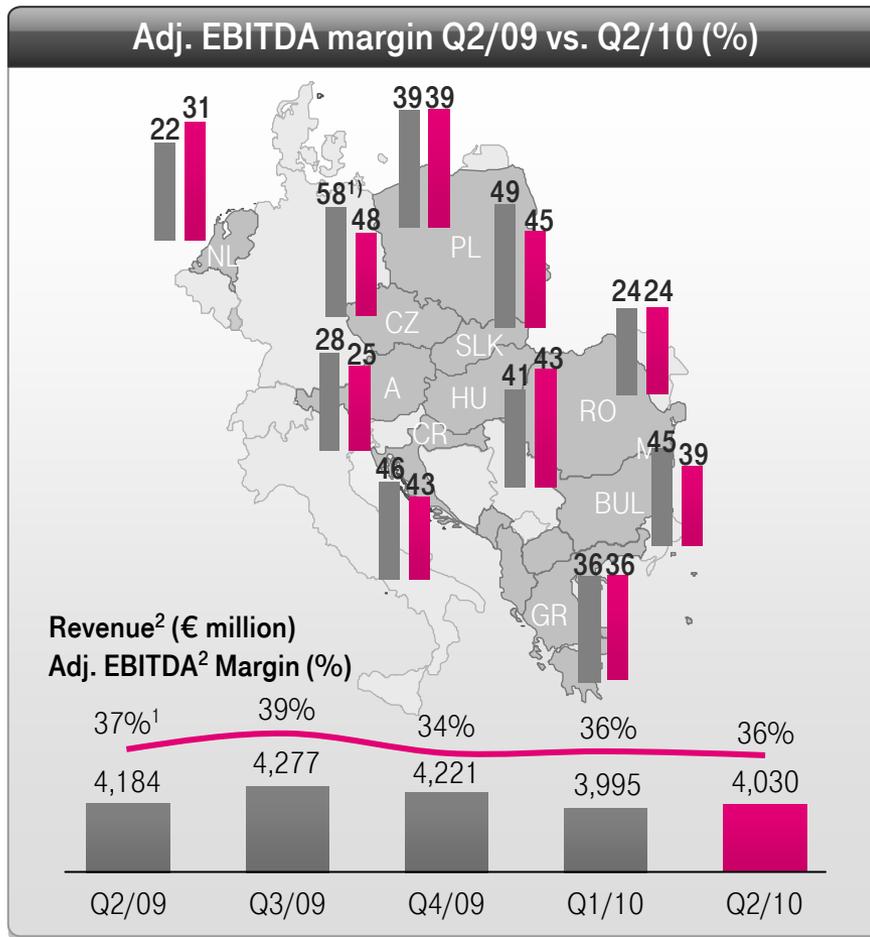
# Germany mobile Q2 2010: sustained top line growth and continued focus on profitability.



- Continued market outperformance in Q2, driven by service revenue growth of 6.1%.
- Strong uptake of +9pp in smartphone share of handsets sold (32%) leading to strong data growth of 54%.
- Adj. EBITDA increased 14.3% versus Q2/09 – driven by:
  - Strong revenue growth: +5.5% yoy
  - Maintaining focus on customer value. High-quality and loyal subscriber base: 17.2 million contract subscriber (+0.9% yoy).



# Europe Q2 2010: stable margin in a challenging environment.



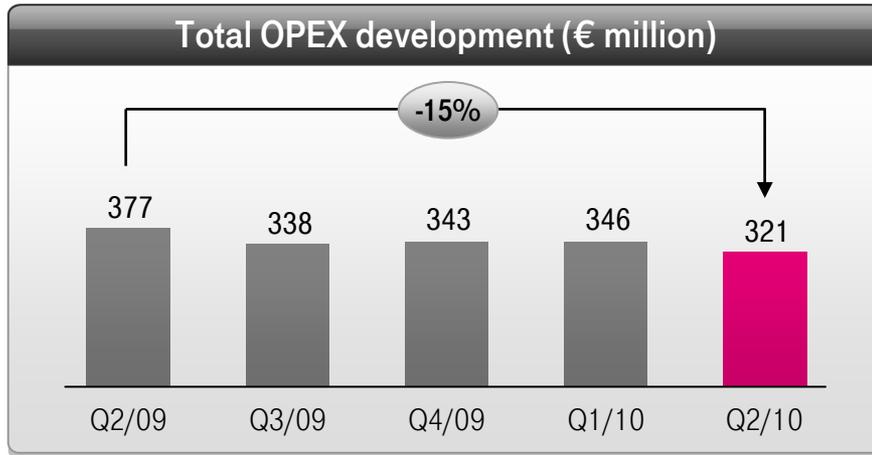
- EU: TV customers up 31% to 2.1 million yoy. Net adds of 67,000 in Q2/10
- Regulatory effects: Revenues (- € 110 million) und EBITDA (- € 31 million)
- NL: Very good performance in service revenues +3.5 % and data revenues +28.7%, TM NL significantly outperforming peers
- CZ: mobile contract subscriber growth +5% and impressive contract churn at 0.4%.
- PL: Margins stable due to tight cost control: Opex -8.1% in local currency
- Greece: Despite financial crisis and competition margin stable at 36% but revenues (-9% yoy) and EBITDA (-10% yoy) negatively impacted. Service revenue market leadership further expanded.
- Hungary: Margin growth to 43% (+1.5pp yoy)
- OTE: synergy run rate € 164 million



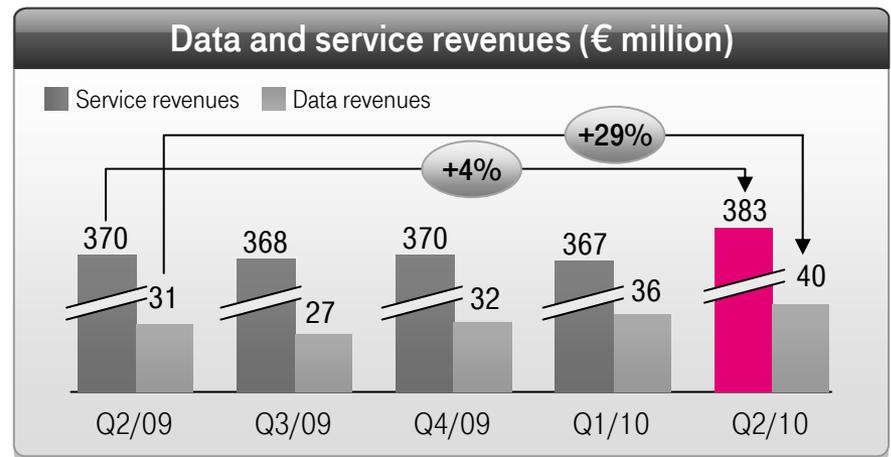
1) Q2/09 results positively impacted by a settlement of interconnection revenues related to past years.

2) Pro forma figures adjusted for UK

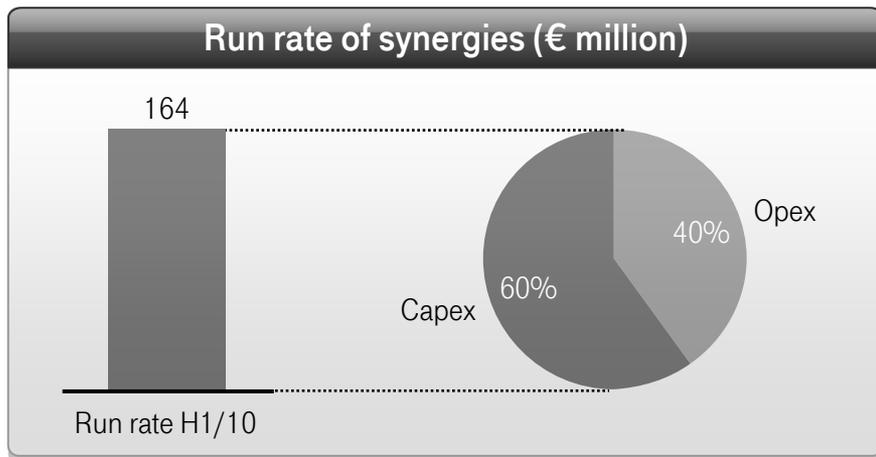
# T-Mobile NL Q2 2010: Deep Dive – synergies work!



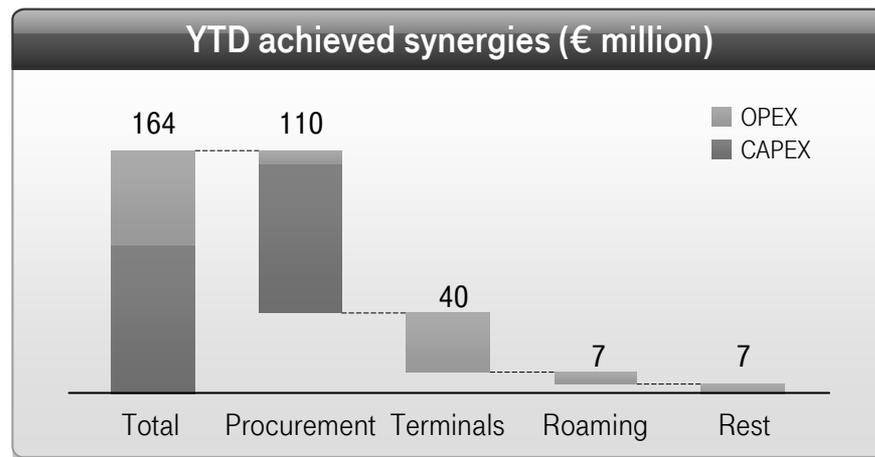
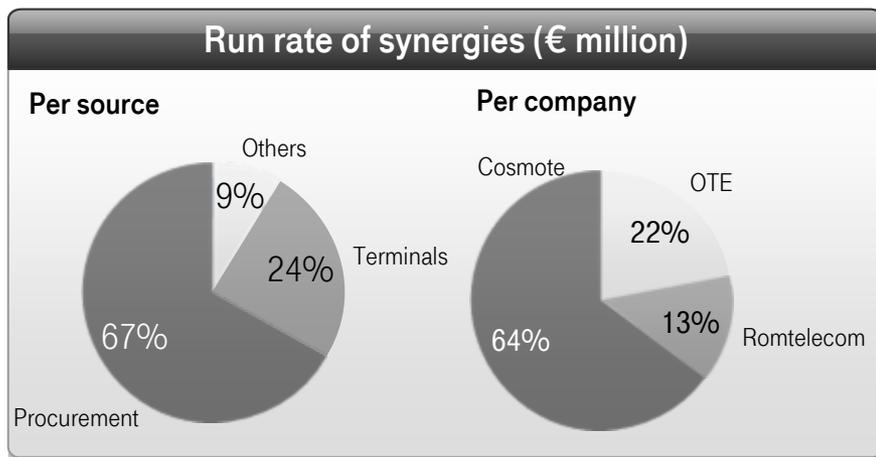
- Satisfying synergy run rate of more than € 100 million p.a. with a planned increase of 30% until 2012.
- Integration: Lower cost, higher synergies and a shorter time period than planned show great success.
- Efficiency: Lower SACs per gross add generate higher value customers. Contract ARPUs stable despite regulation and competition.
- Profitability: Record high EBITDA margin of 31% for Q2/2010.



# Update on OTE synergies: well on track



- As of Q2 measures with an annual potential of €164 million are already implemented
- The total run rate from the buying case will be overachieved one year earlier
- Current expectation is to achieve at least €215 million annual run rate until end of 2010

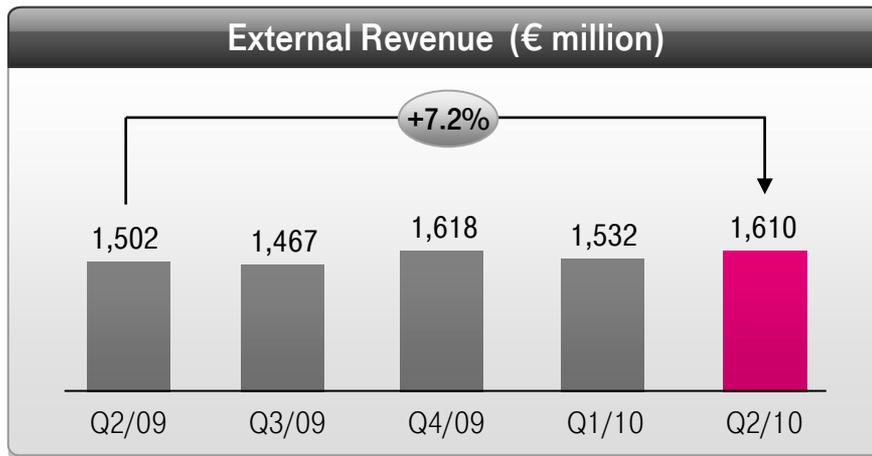


# Systems Solutions Q2 2010: accelerated revenue growth in Q2.



Revenue increase continues:

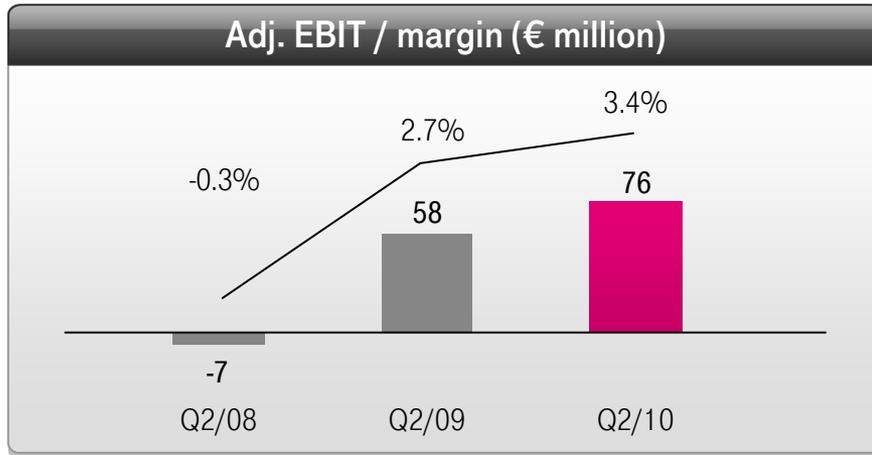
- Revenue growth of +2.9% up to €2,242 million
- International revenue grew +7.9% up to €707 million



- External revenues improved by +7.2% up to €1,610 million
- Several new Big Deals in Q2/10:
  - DekaBank, Deutsche Post DHL,
  - In 2009 closed Big Deals bear fruit

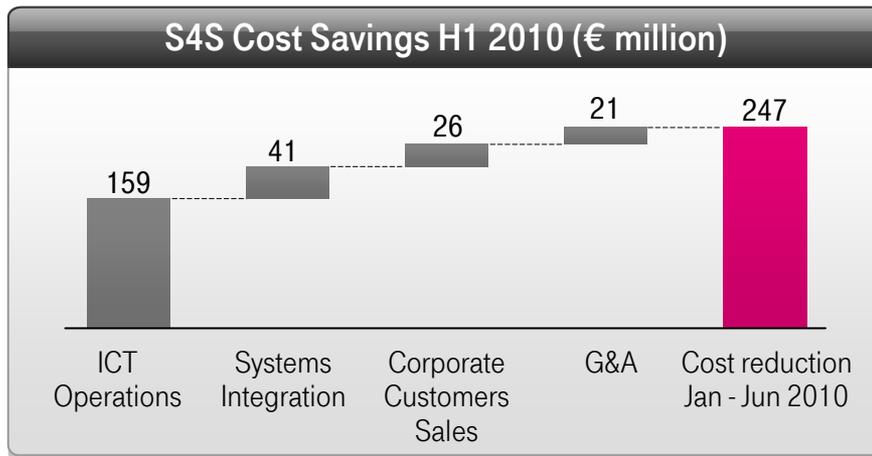


# Systems Solutions Q2 2010: profitability improvement driven by efficiency.



Sequential increase of Q2 profitability

- EBIT +€18 million up to €76 million in Q2/10
- Adj. EBIT margin in Q2/10 improved to 3.4% from 2.7% in Q2/09

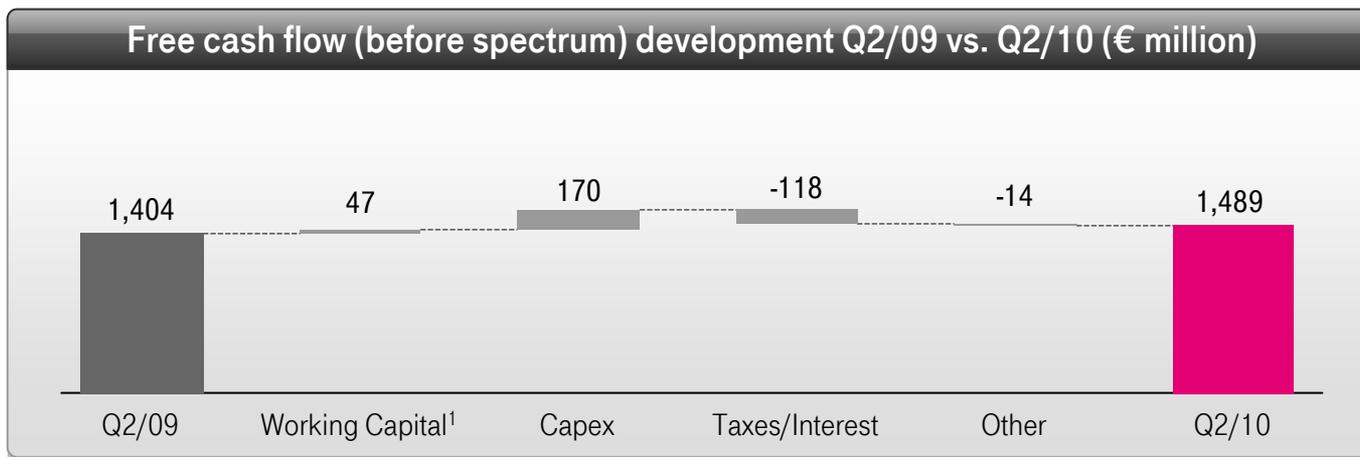
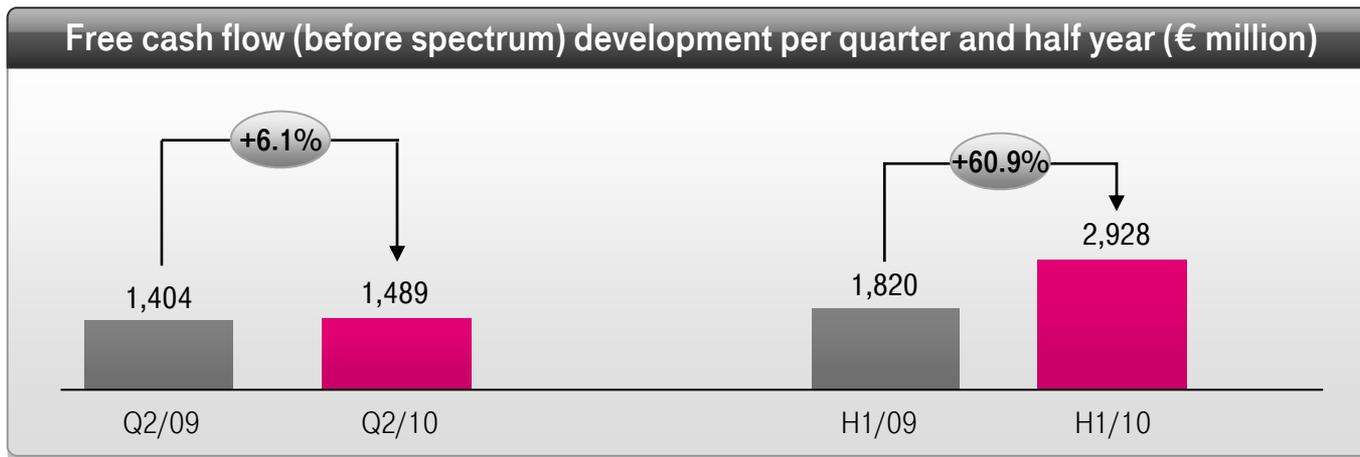


Forceful execution of efficiency program

- 0.16 billion Save for Service contribution in Q2/10
  - Optimization of data center infrastructure
  - Reduction of production costs Systems Integration through optimized international delivery
  - Restructure and standardize sales activities
  - Process streamlining in G&A

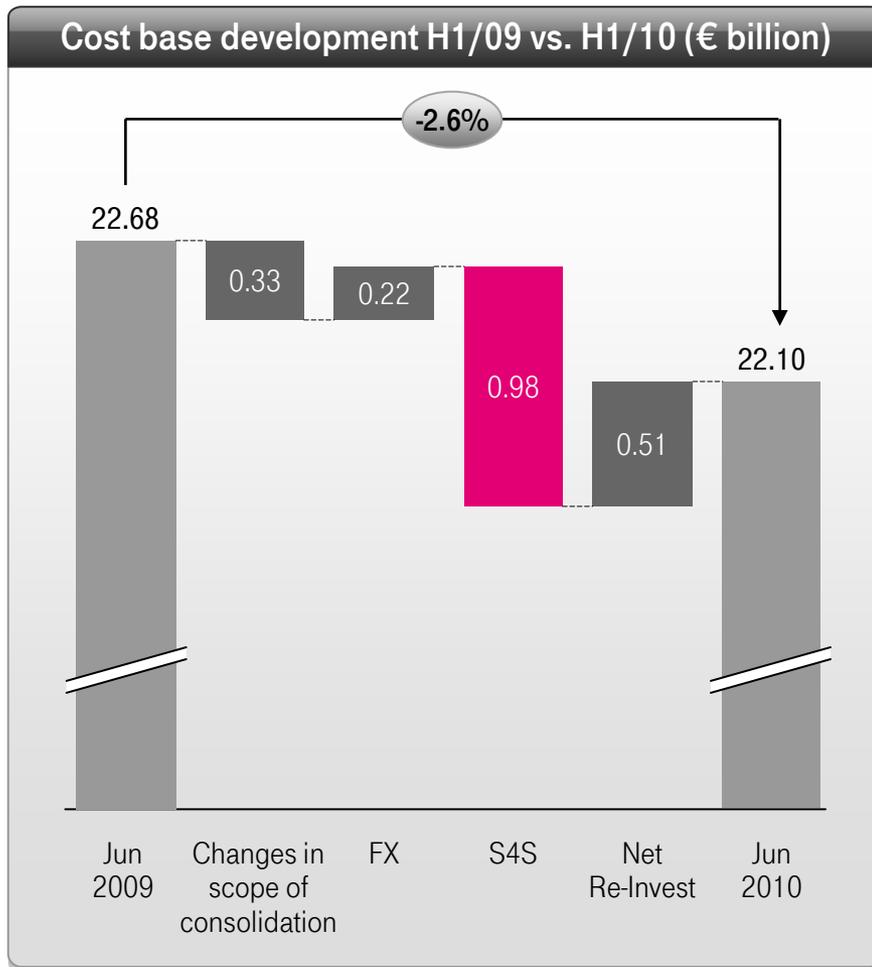


# Free cash flow: strong improvement yoy – on track to achieve guidance.



1) Adjusted for €1.3 billion mobile spectrum payment

# Net cost reduction of €0.6 billion in H1.



<b>Contribution by Business Unit (€ million)</b>	<b>YtD 2010</b>
Germany	240
USA	193
Europe	210
Systems Solutions	247
GHS	93
<b>DT Group</b>	<b>983</b>

- € 0.98 billion savings on corporate level w/o inorganic effects
- On group level adj. EBITDA margin improved to 31.6% from 31.3%
- Net cost base of group reduced by € 0.58 billion – organic decrease of € 0.47 billion



# Balance sheet: Solid ratios

in € billion	30/06/10	31/03/10	31/12/09	30/09/09	30/06/09
<b>Balance sheet total</b>	<b>132.8</b>	<b>130.8</b>	<b>127.8</b>	<b>129.3</b>	<b>132.9</b>
Shareholders' equity	44.8	44.3	41.9	41.6	41.5
Net debt	46.3	40.4	40.9	42.4	45.0
Net debt/adj. EBITDA <sup>1</sup>	2.3	1.9	2.0	2.1	2.2
Gearing	1.0x	0.9x	1.0x	1.0x	1.1x
<b>Equity ratio</b>	<b>33.7%</b>	<b>33.9%</b>	<b>32.8%</b>	<b>32.2%</b>	<b>31.2%</b>

## 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



- Re-assessment of off-balance lease obligations is expected to support our rating



Q&A - Please press “\*1” to ask a question.



**René Obermann**  
CEO



**Timotheus Höttges**  
CFO

For remaining questions please contact the IR department after the call



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