

# Q1/09 – Conference Call. Deutsche Telekom.

May 7, 2009



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# Agenda.

## Deutsche Telekom Investor Presentation.

### Introduction

Stephan Eger  
Head of Investor Relations

### Q1/09 Highlights & Operations

René Obermann  
CEO

### Q1/09 Financials

Timotheus Höttges  
CFO

- Q&A: If you like to ask a question, **please press “\* 1”** on your touchtone telephone
- For remaining questions please contact the IR department after the call



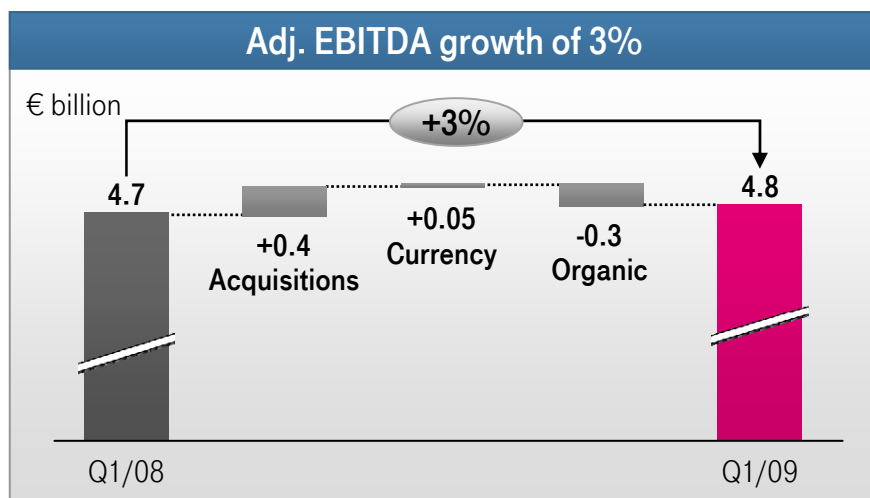
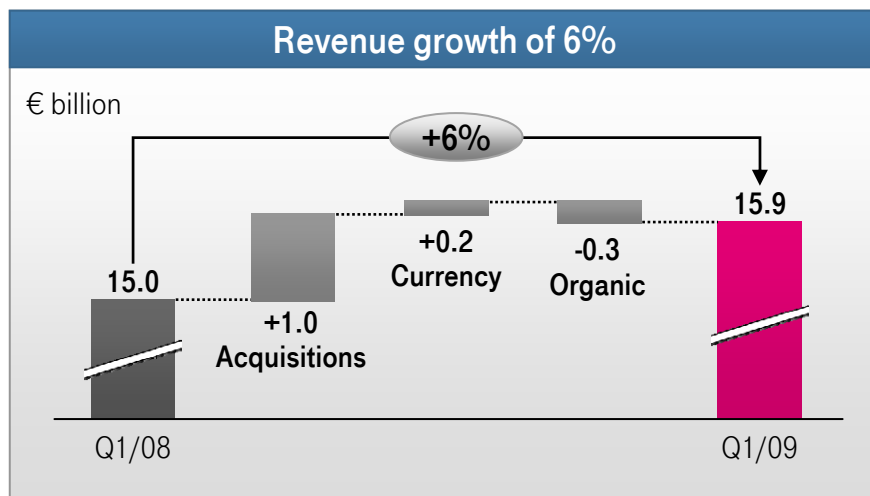
# Q1/09. Highlights & Operations.

René Obermann, CEO



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# Q1/09 Highlights.



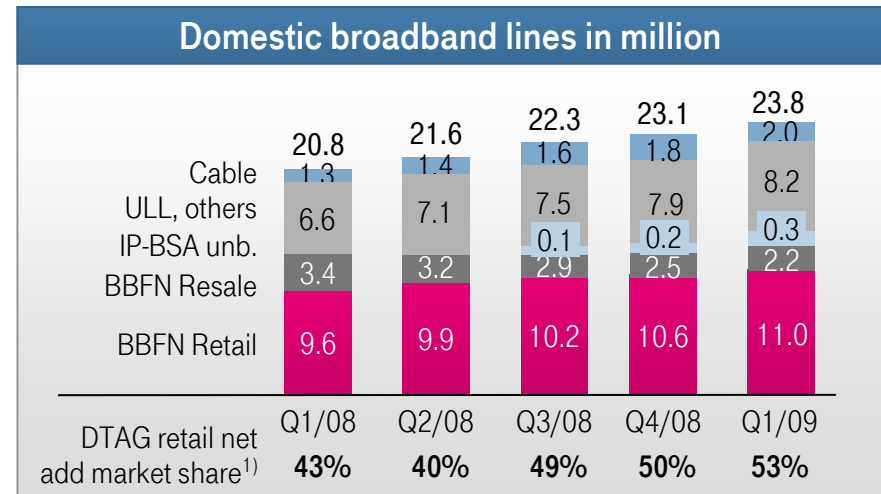
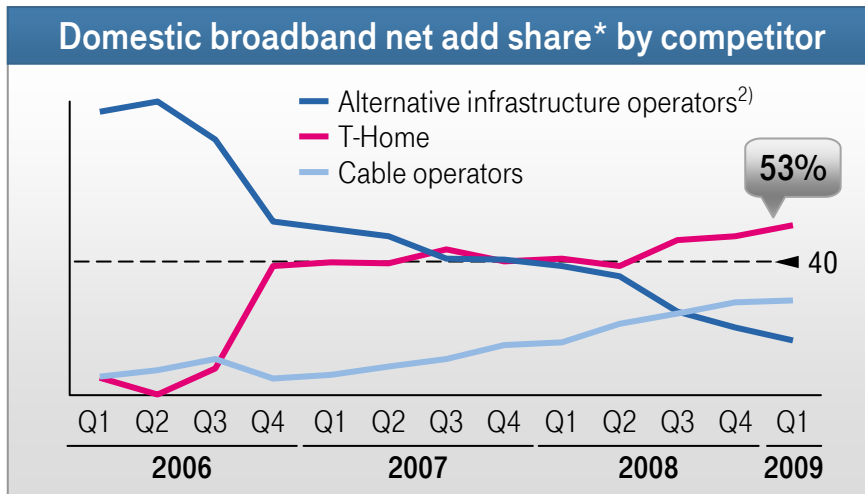
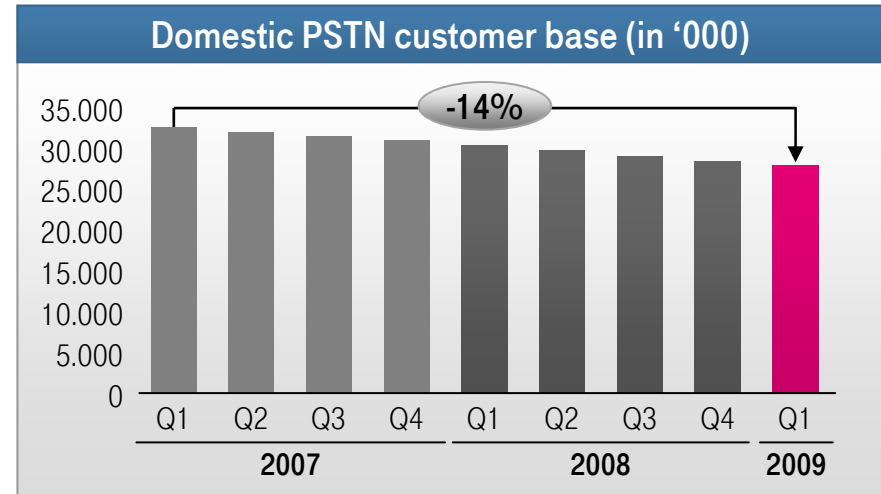
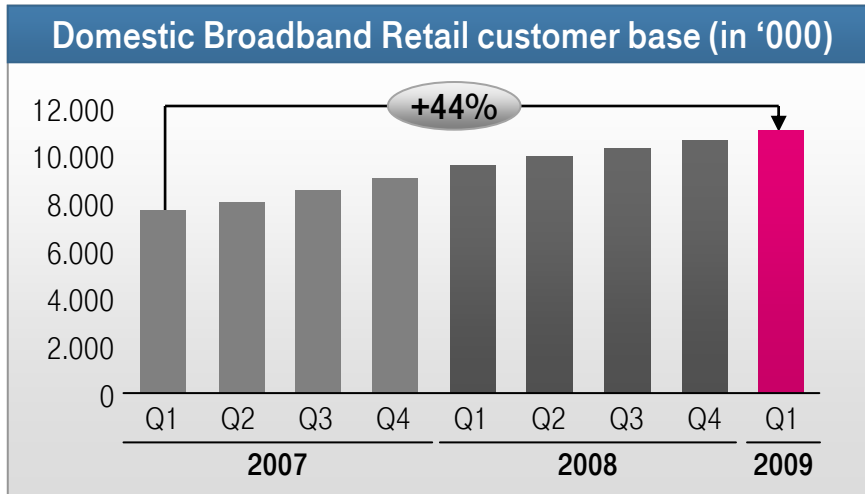
- Revenue increased +6.2% incl. OTE.
- Adj. EBITDA + 2.7% incl. OTE.
- “Save for Service” on track: €4.4 billion run rate achieved.
- Good progress in German and CEE fixed business.
- Adj. EBIT turn around at Systems Solutions (T-Systems).
- German mobile business stable.
- Most CEE mobile assets with stable EBITDA-Margins.

- Action plan being implemented for the US, the UK and Poland.
- Free cash flow impacted by front-loaded capex/opex spending and higher restructuring payments.
- Organic EBITDA impacted by opex, customer growth front loading and FX.
- Net income impacted by goodwill write-down at TMUK.



# German fixed: Best retail broadband net add market share since 2005.

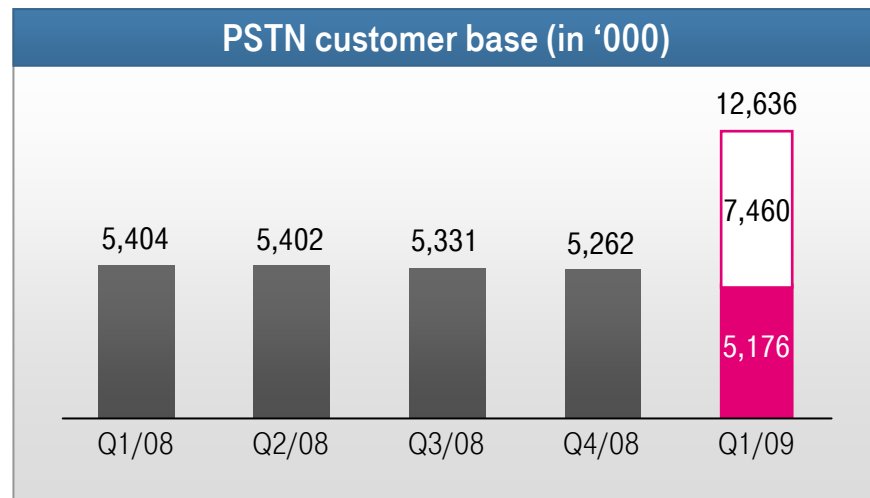
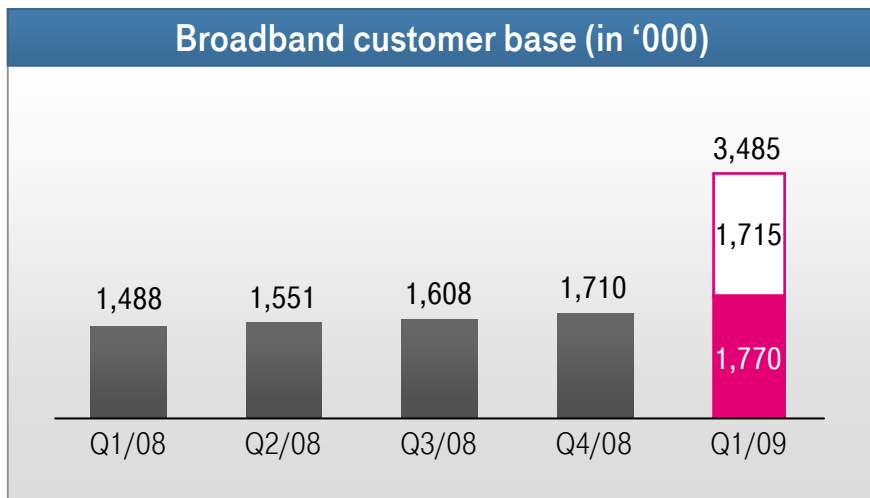
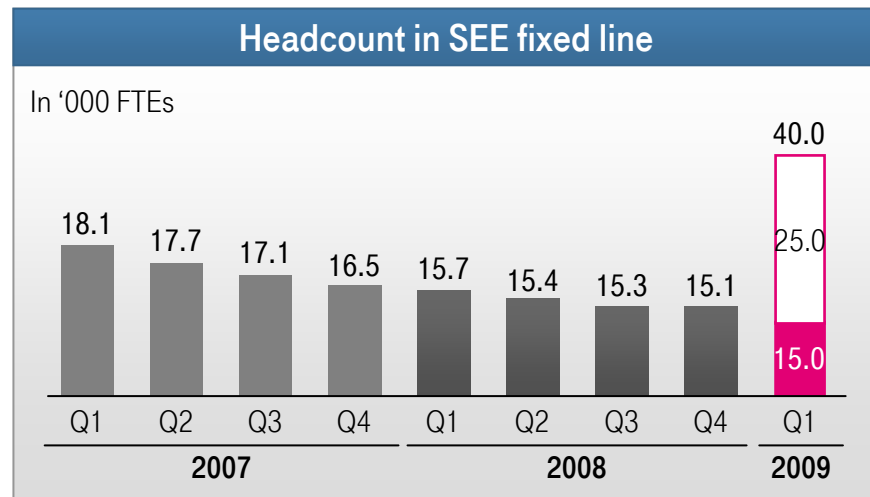
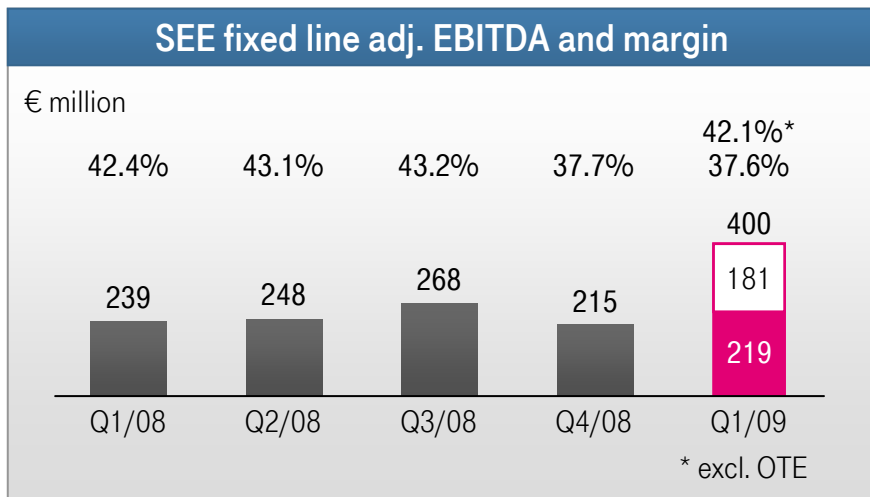
- Improve competitiveness in Germany and SEE
- Grow abroad with mobile
- Mobilize the internet
- Build network centric ICT



<sup>1)</sup>Net add market share for 2008 adjusted based on new BNetzA figures, 2009 own estimates. Rounded figures. <sup>2)</sup>Incl. reseller (competitor resale and T-Home resale); \*DTAG view (retail).

# SEE fixed: Continued broadband growth with stable margins.

- Improve competitiveness in Germany and SEE
- Grow abroad with mobile
- Mobilize the internet
- Build network centric ICT

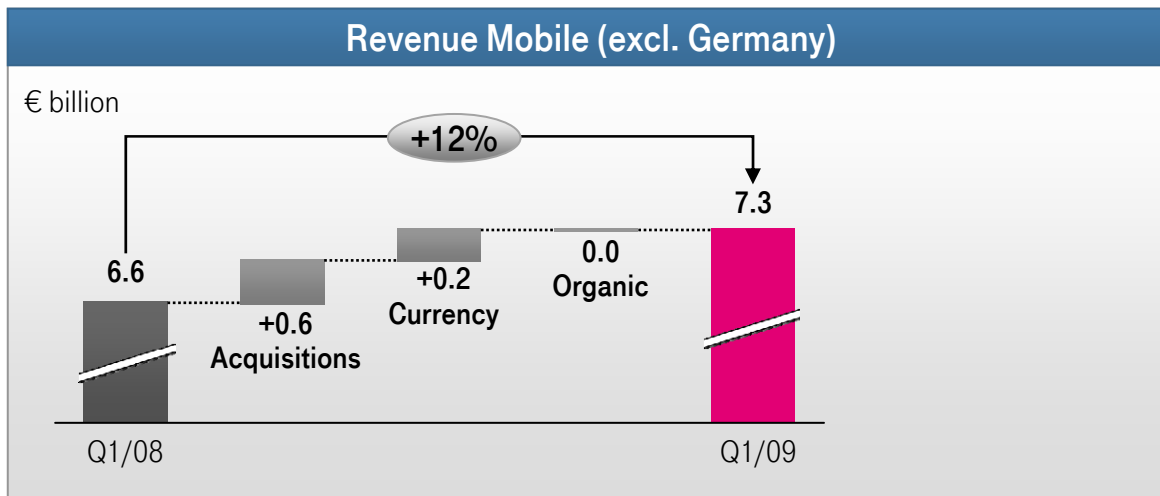


□ OTE contribution

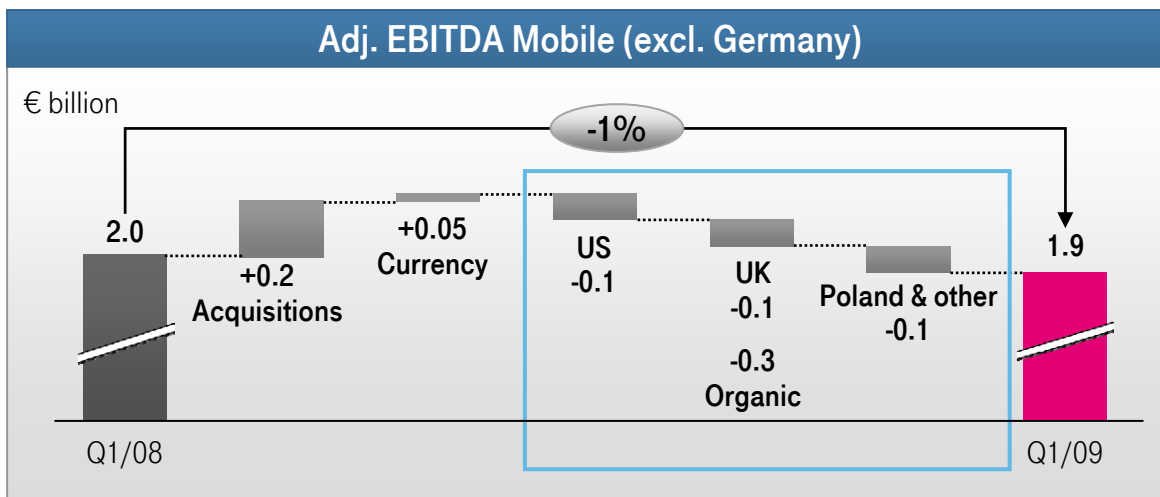


# International Mobile: Revenue growth thanks to OTE.

Improve competitiveness in Germany and SEE	Grow abroad with mobile
Mobilize the internet	Build network centric ICT



- 12% revenue growth driven by OTE and FX.
- More than 70% of organic adj. EBITDA decline driven by the US, the UK and Poland.
- 148 million total mobile customer base (incl. Germany)





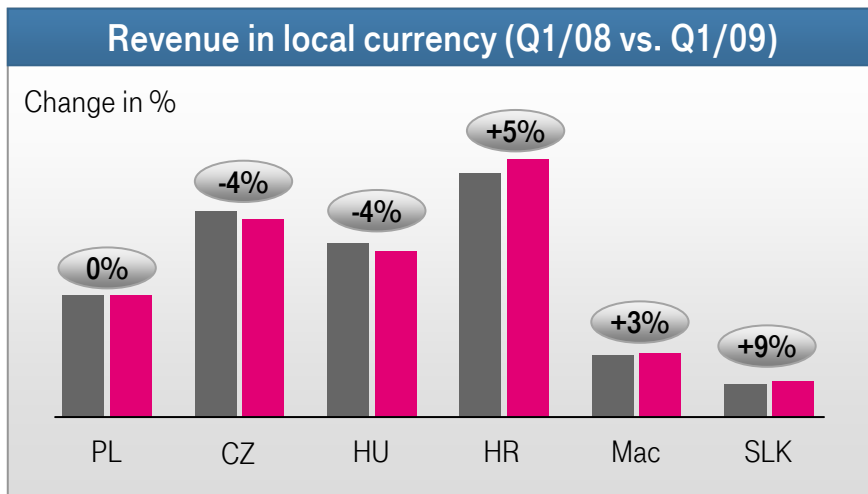
# SEE: Apart from Poland high margin levels stabilized.

Improve competitiveness in Germany and SEE

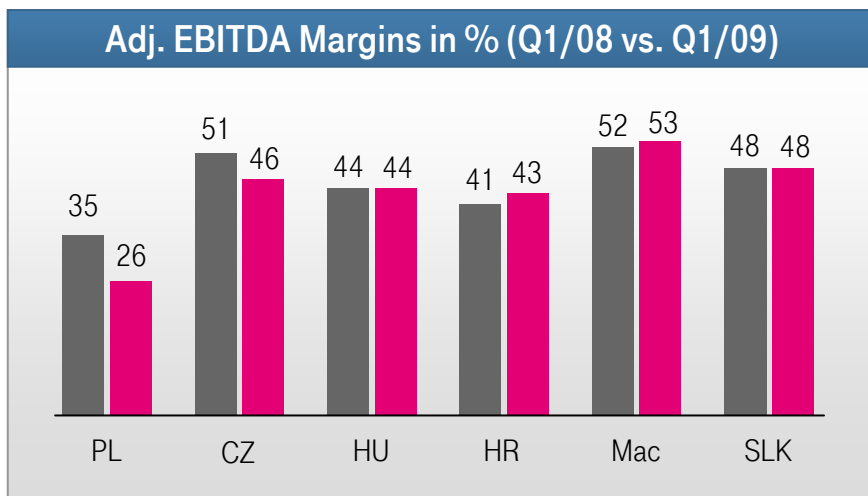
Grow abroad with mobile

Mobilize the internet

Build network centric ICT

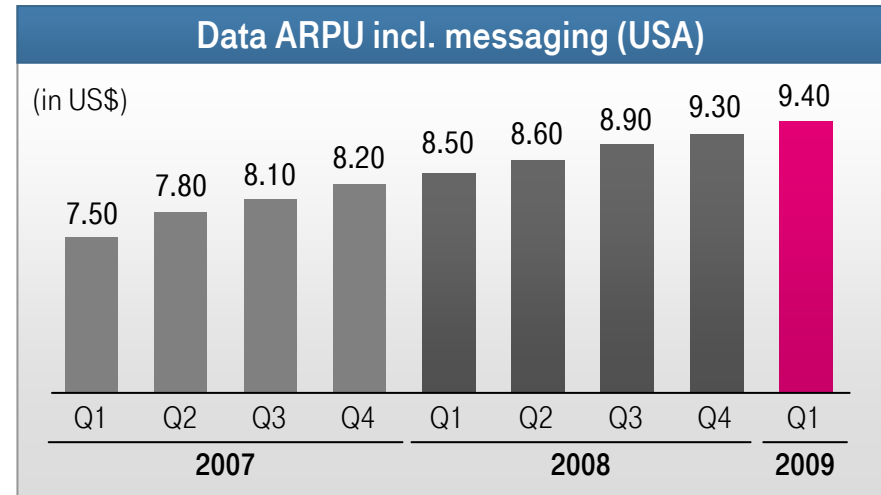
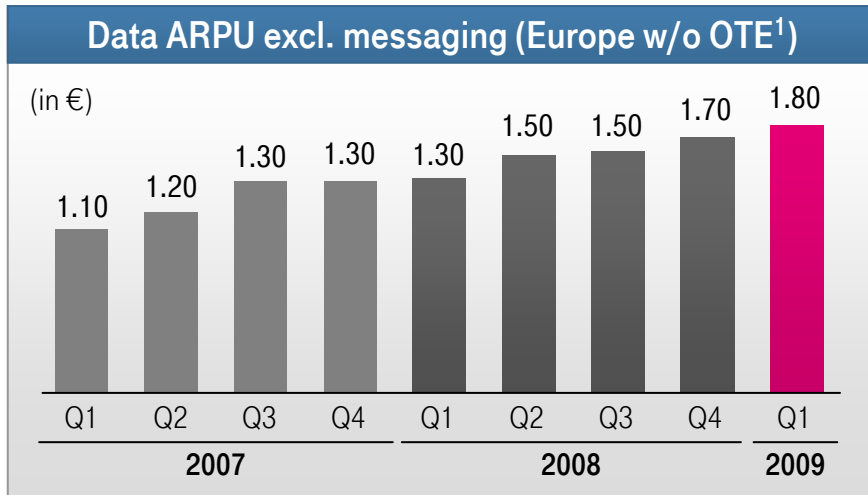
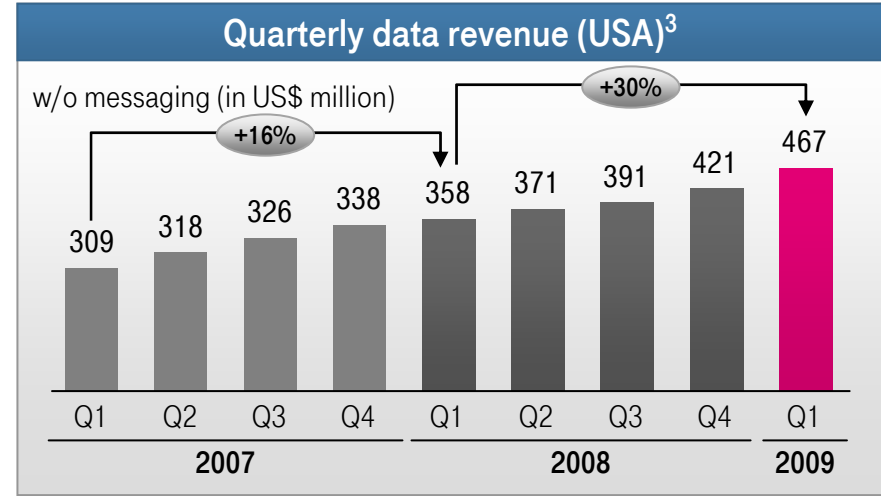
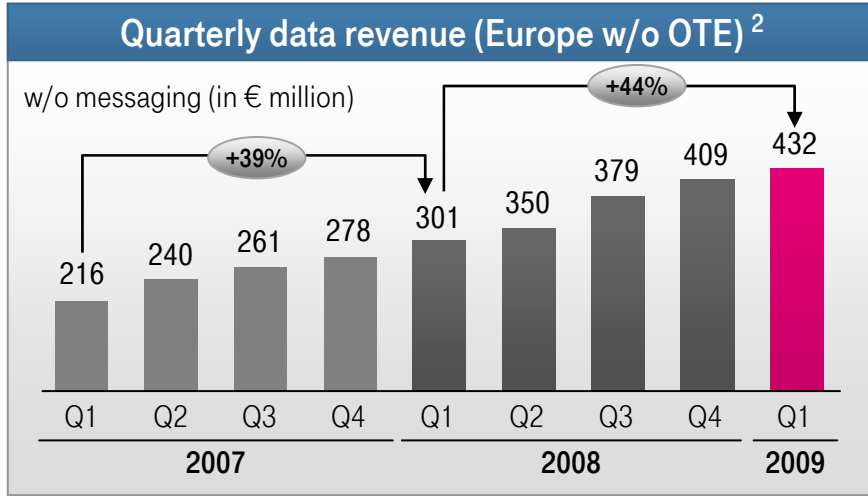


- Ongoing strong or improved margins.
- Healthy revenue trends in Croatia, Slovakia, and FYROM.
- Poland with stable revenues outperforming peers.
- Stable contract churn rates:
  - PL 0.6% after 0.7%;
  - CZ 0.6% after 0.5%;
  - Remaining CEE countries 1.1% after 0.9%.



# Mobilize the Internet: Accelerated double digit data revenue growth.

- Improve competitiveness in Germany and SEE
- Grow abroad with mobile
- Mobilize the internet
- Build network centric ICT



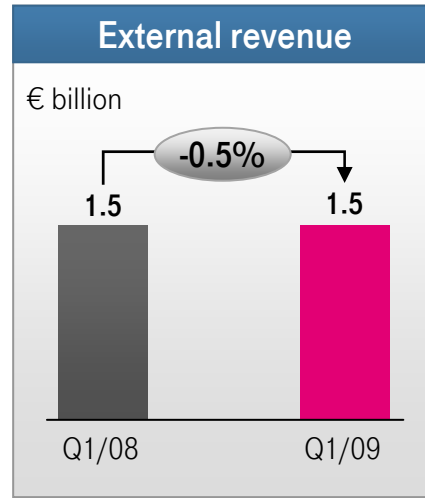
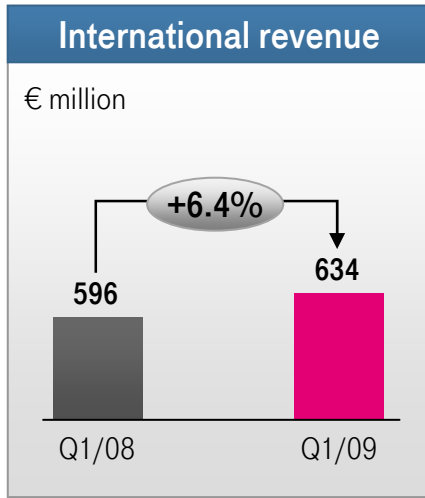
<sup>1</sup> Germany, UK, Netherlands, Austria, Czech Republic.

<sup>2</sup> Germany, UK, Netherlands, Austria, Czech Republic, Poland, SEE

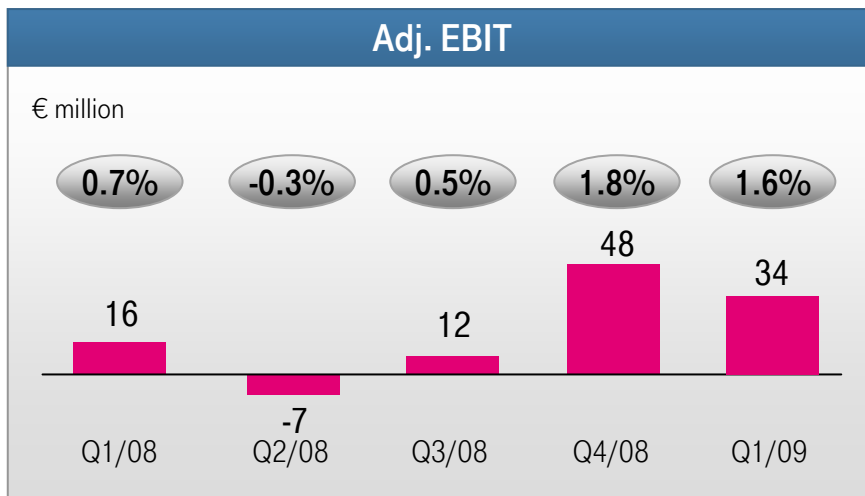
<sup>3</sup> Incl. reallocation of access revenue (mainly WiFi in USA) between Q1/07 and Q2/07.

# Systems Solutions: efficiency turnaround initiated.

- Improve competitiveness in Germany and SEE
- Grow abroad with mobile
- Mobilize the internet
- Build network centric ICT



- International revenue with growth of 6.4%
- External revenue stable
- T-Systems Big Deals in Q1: Linde Group, public sector deals in Northrhine-Westphalia and Baden-Württemberg, Continental Tires

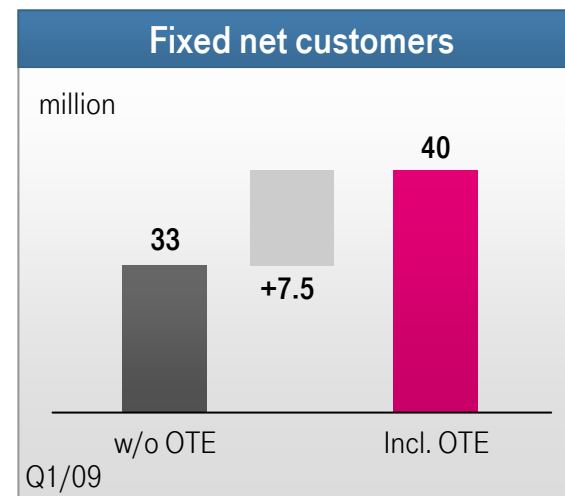
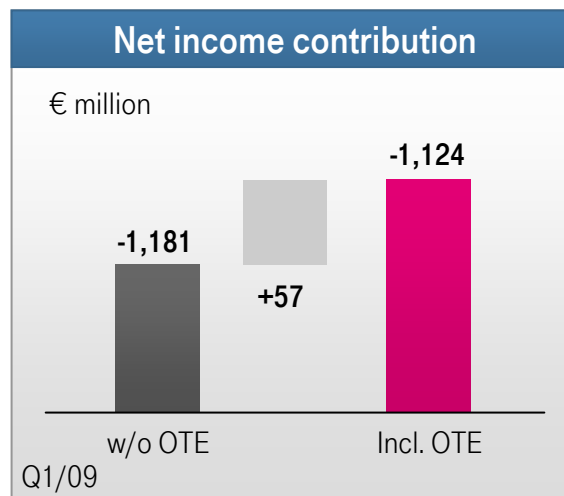
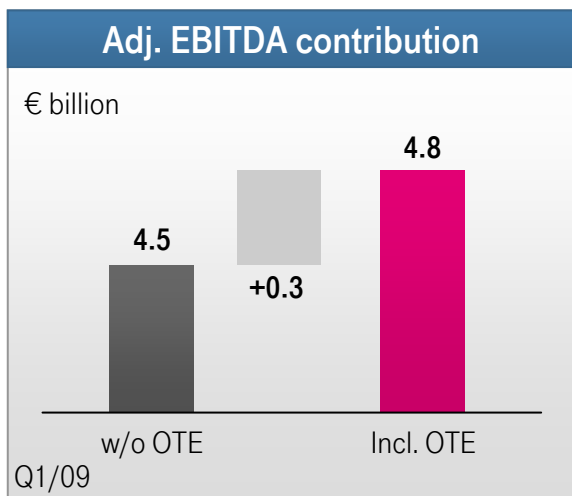
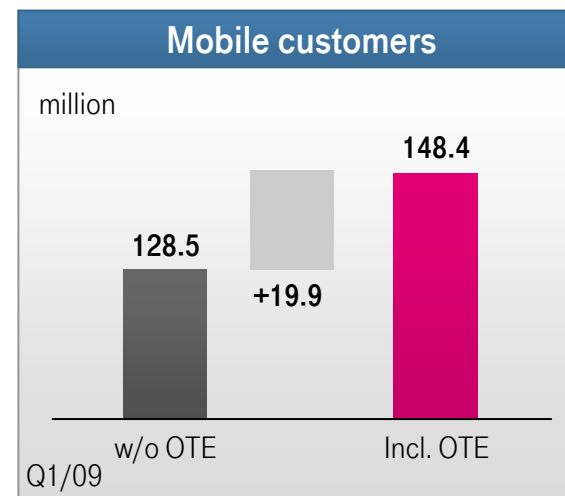
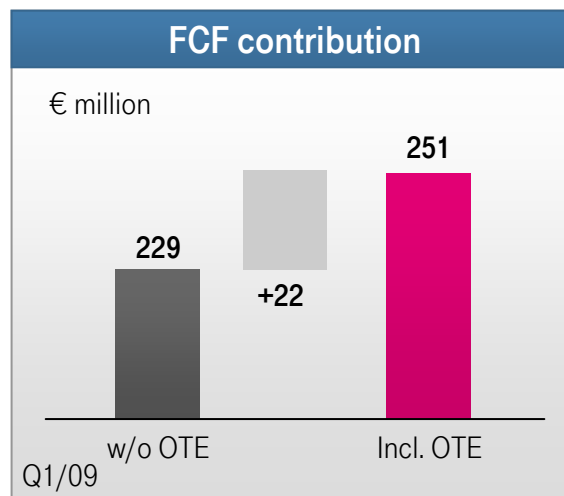
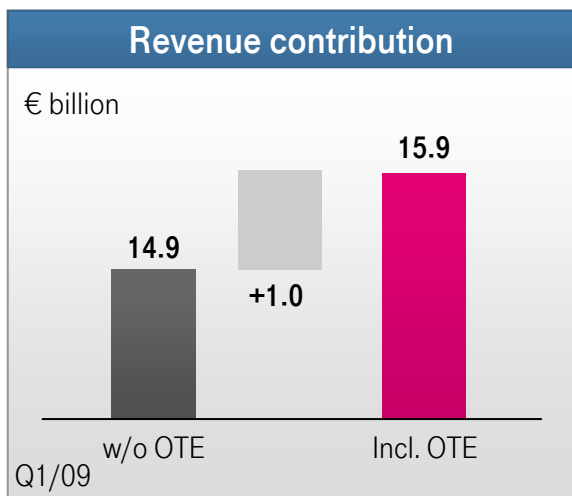


- Adj. EBIT margin in Q1/09 improved to 1.6% from 0.7% in Q1/08
- Strong improvement of operational performance of Systems Integration
- Ongoing restructuring: Save for Service cost reduction of € -75 million driven by efficiency program; main contribution by Computing & Desktop Services and Systems Integration

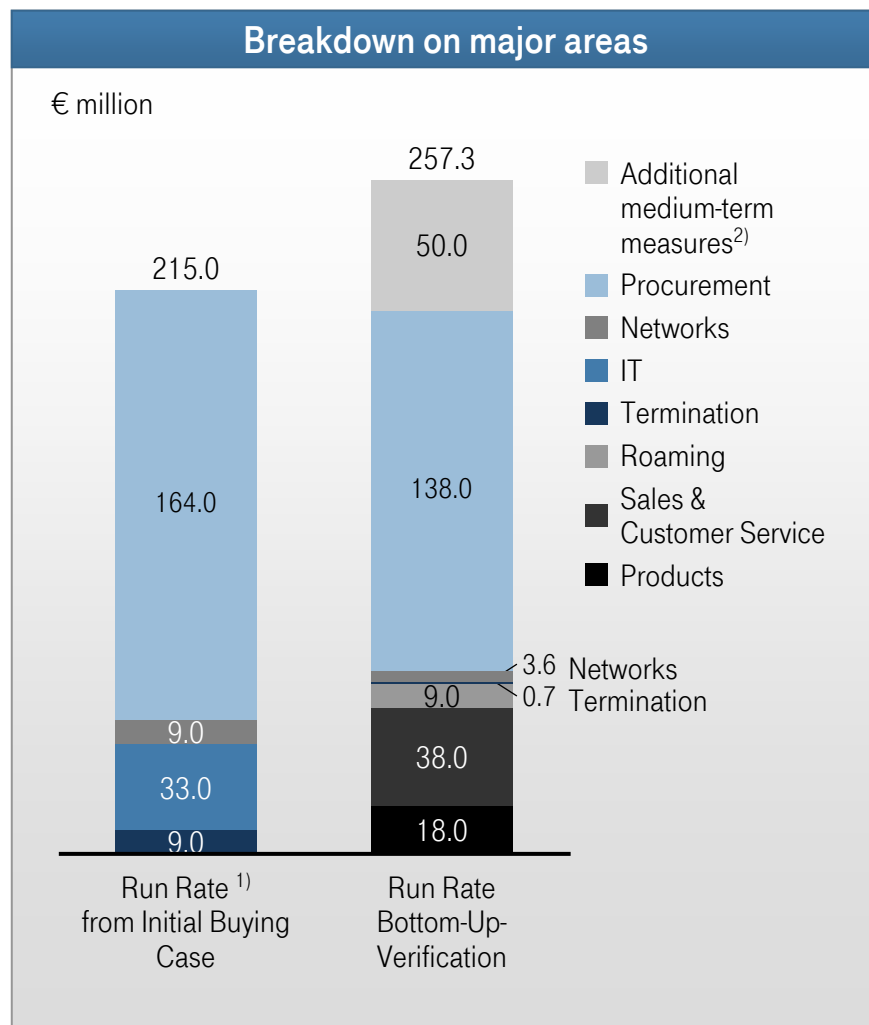


% EBIT margin

# OTE Integration: Approaching 200 million global customers.



# OTE Integration: Synergy buy case fully verified.



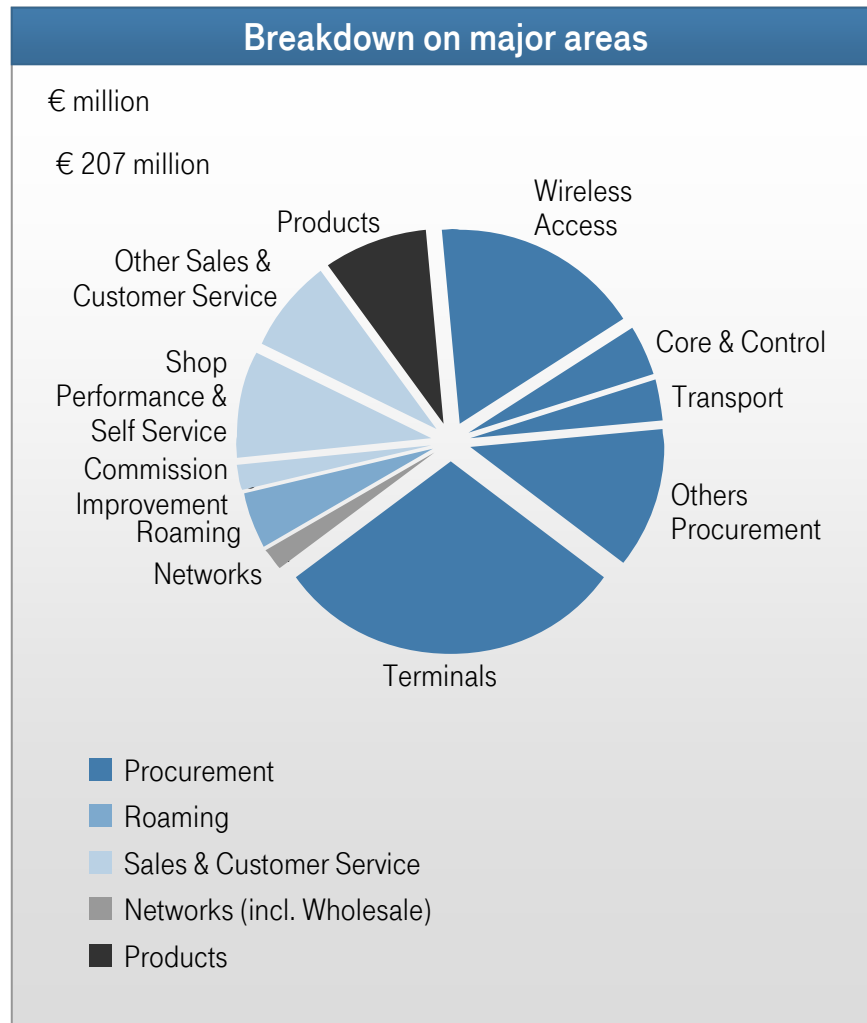
## Key statements

- App. € 200m fully verified by bottom-up-measures.
- Additional measures already identified.
- Highest potential from Procurement (incl. Terminals) (€138m).
- Double digit €m amount will already be realized in 2009.
- 2/3 of verified Run Rate will be implemented YE 2010.
- CAPEX = 1/3 of the currently evaluated synergies.
- 70% of the currently evaluated synergies lie in mobile business.

1) Run Rate = annualized synergy potential from 2012 et seq.  
 2) Assumed probability of realization: 50% of € 100m.



# OTE Integration: Synergy breakdown.



## Procurement (incl. Terminals):

- Wireless access equipment, e.g. antennas (26% of procurement)
- Core & control equipment, e.g. mobile-fixed components (6%)
- Transport equipment, e.g. network switches (5%)
- Terminals: Joint procurement

## Sales & Customer Service:

- Commission Model Improvement
- Shop Performance & Self Service: Automation, productivity optimization
- Others: e.g. supply chain management

## Products:

- Saving in content procurement
- Introduction of new product propositions & services

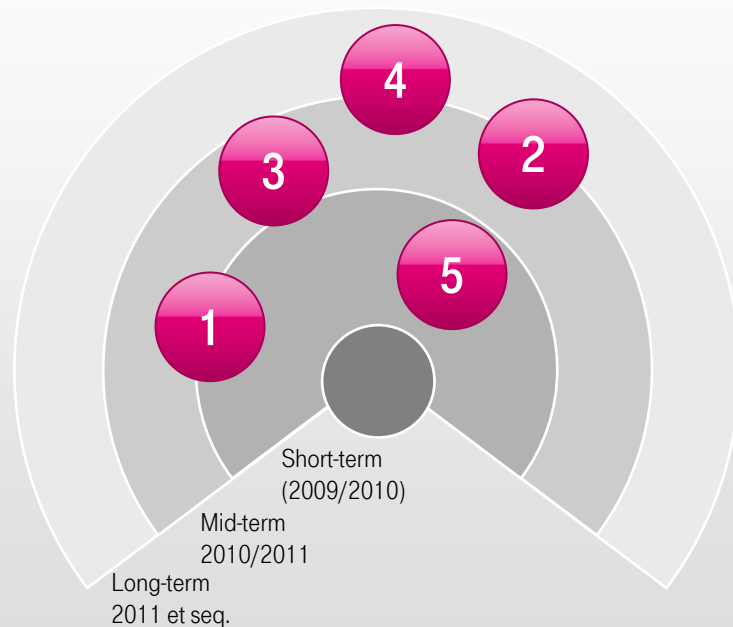
\*includes minor net effects from ARPU-increasing measures



# OTE Integration: Even higher synergy potential identified.

Significant additional opportunities already identified to increase Run Rate.

Evaluation process still ongoing. Further details to follow.



- 1 International Network / Wholesale**
  - Reduction of out-payments to 3rd parties
  - CAPEX savings by common customer driven network expansion
  - Harmonization of sales approaches
- 2 NT-Harmonization:** Technology Alignment & Platform Harmonization
- 3 Customer Service:**
  - Call centre optimization
  - Process-optimization
  - Tools modernization
  - Avoidance of unneeded onsite-visits
- 4 IT- Optimization:** Alignment, Outsourcing & portfolio harmonization
- 5 Support Services**
  - Real Estate Management: Premises & Management Optimization
  - Fleet Management:
    - Capex savings caused by DT cross border leasing usage
    - Reduce OPEX for maintenance
  - Insurance: Insure OTE based on corporate DT standards & tariffs



## Action plan US, UK and Poland.

USA	UK	Poland
<ul style="list-style-type: none"><li>▪ Roll-out of 3G network: around 200 million covered POPs end of 2009</li><li>▪ 2G roaming overbuild to reduce roaming costs</li><li>▪ Re-negotiation of interconnection rates and data content contracts</li><li>▪ Reduce non-usage variable direct costs (e.g. re-implementation of upgrade fee and tackling bad debt)</li><li>▪ Reduce cluster costs (salary freeze, marketing spend, travel)</li><li>▪ Enhance handset portfolio: 3 additional 3G converged devices on the shelves in the next months</li></ul>	<ul style="list-style-type: none"><li>▪ New management team with strict focus on repositioning of our business in a difficult environment</li><li>▪ Capitalizing on best 3G network in the UK market</li><li>▪ Improve prepay and contract proposition, e.g. SIM-only</li><li>▪ Top line program implemented: Stronger focus on non voice services in cross- and up-selling, SIM-only offerings, retention programs to reduce high contract churn</li><li>▪ Cost cutting program, mid double digit £m volume:<ul style="list-style-type: none"><li>▪ Reduce overhead costs (salary freeze and travel)</li><li>▪ marketing/advertising</li><li>▪ Reduction of market invest, e.g. via sales channel optimization</li><li>▪ More focus on SIM only tariffs</li></ul></li></ul>	<ul style="list-style-type: none"><li>▪ Opex cut program, triple digit million PLN volume:<ul style="list-style-type: none"><li>▪ Cluster cost reduction:<ul style="list-style-type: none"><li>▪ Marketing/Advertising,</li><li>▪ Personnel related costs</li><li>▪ outsourcing/external contracting</li><li>▪ Consulting</li><li>▪ Rental and travel</li></ul></li><li>▪ Direct costs:<ul style="list-style-type: none"><li>▪ Reduce SAC's/SRC's</li><li>▪ Terminals</li></ul></li></ul></li></ul>

**Group-wide measures: Capex freeze, opex discipline and working capital management.**





# Targets 2009 incl. OTE

	Targets DT standalone	Targets DT including OTE
<b>Adj. Group EBITDA</b>	<ul style="list-style-type: none"> <li>Down 2-4% from 2008 level</li> </ul>	<ul style="list-style-type: none"> <li>DT 09 guidance + ca. €2 bn<sup>1)</sup></li> </ul>
<b>Free cash flow</b>	<ul style="list-style-type: none"> <li>Around €6.4 billion</li> </ul>	<ul style="list-style-type: none"> <li>Around €7.0 billion</li> </ul>
<b>Guidance assumes constant currencies and no further significant economic deterioration</b>		
<b>Dividend policy</b>	<ul style="list-style-type: none"> <li>2008: €0.78 per share</li> <li>2009: Maintain attractive dividend policy</li> </ul>	<ul style="list-style-type: none"> <li>2008: €0.78 per share</li> <li>2009: Maintain attractive dividend policy</li> </ul>

<sup>1)</sup> derived from OTE guidance and consolidation for 11 months in 2009 mid-double digit synergies in 2009 included in guidance



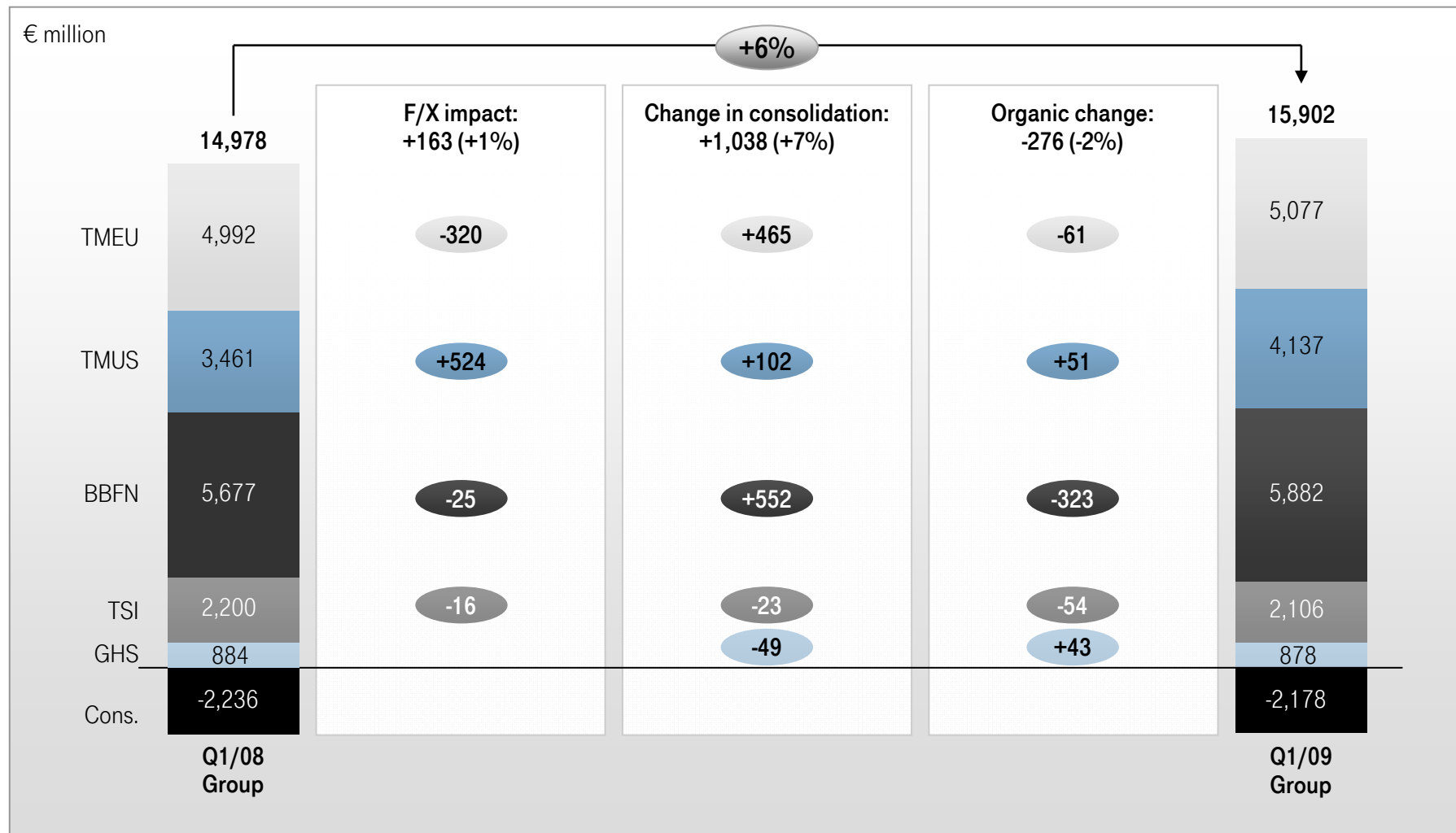
# Q1/09. Financials.

Timotheus Höttges, CFO

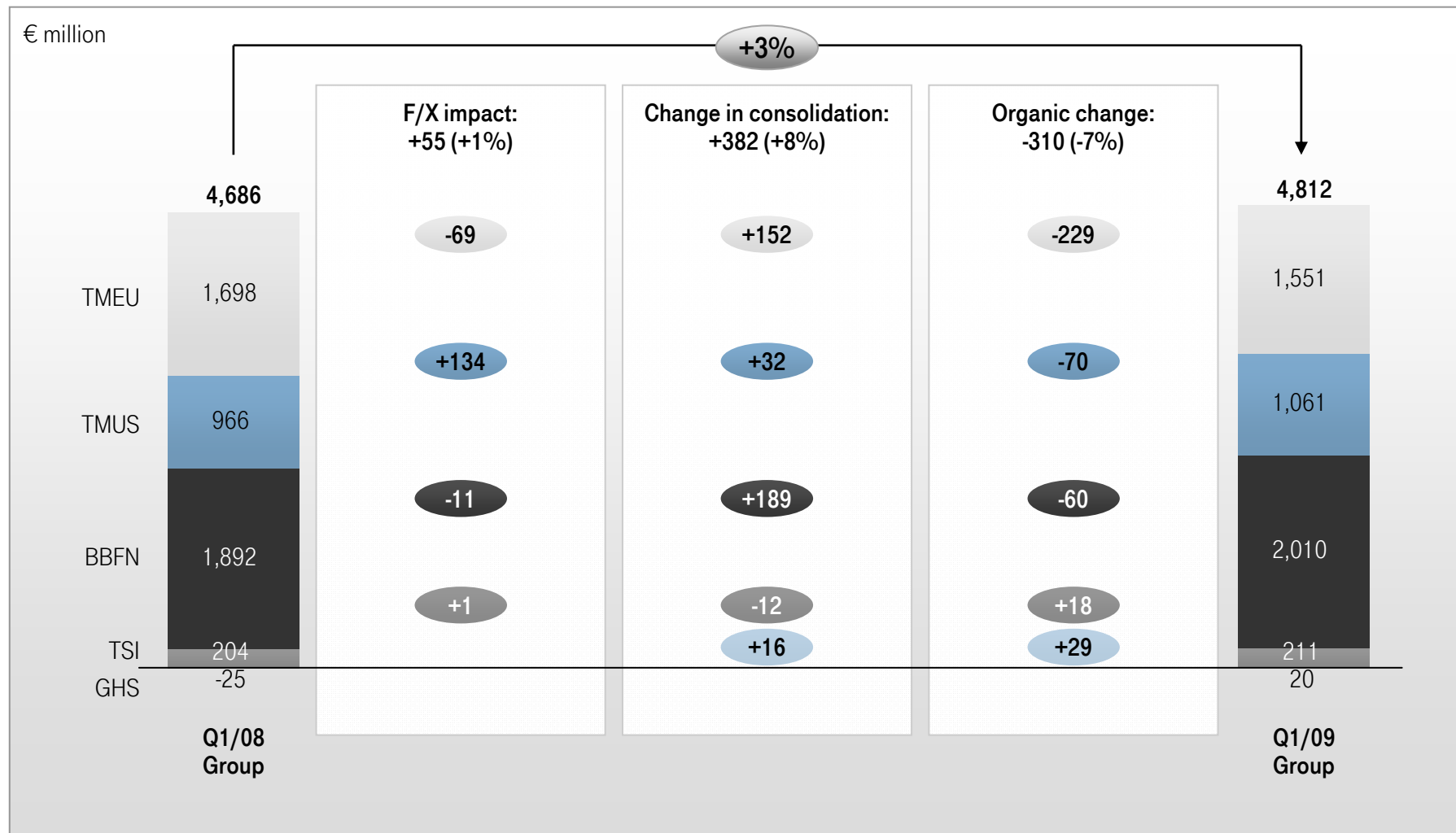


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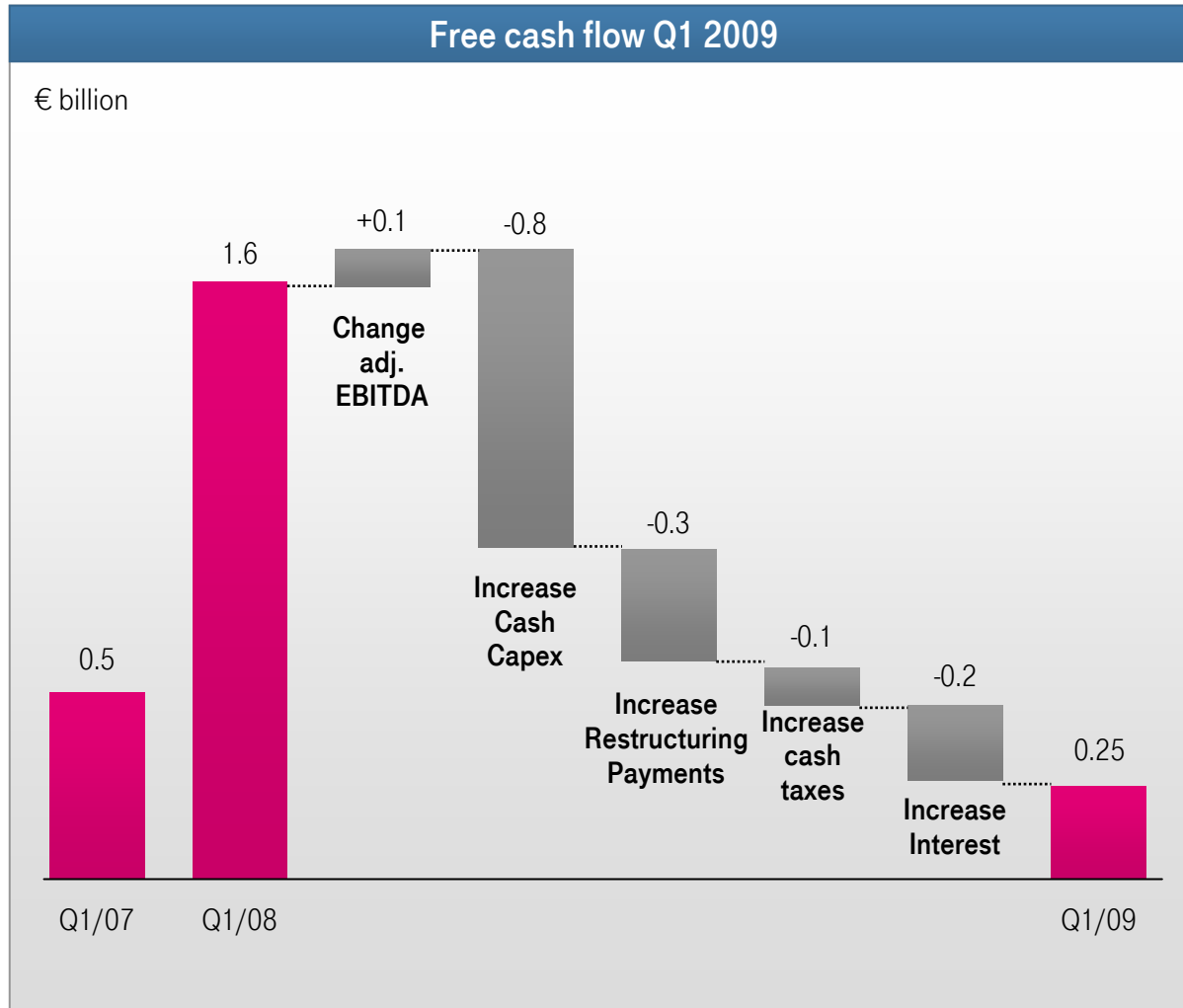
# Group financials: Revenue growth driven by OTE.



# Group financials: Adj. EBITDA growth due to consolidation impact.



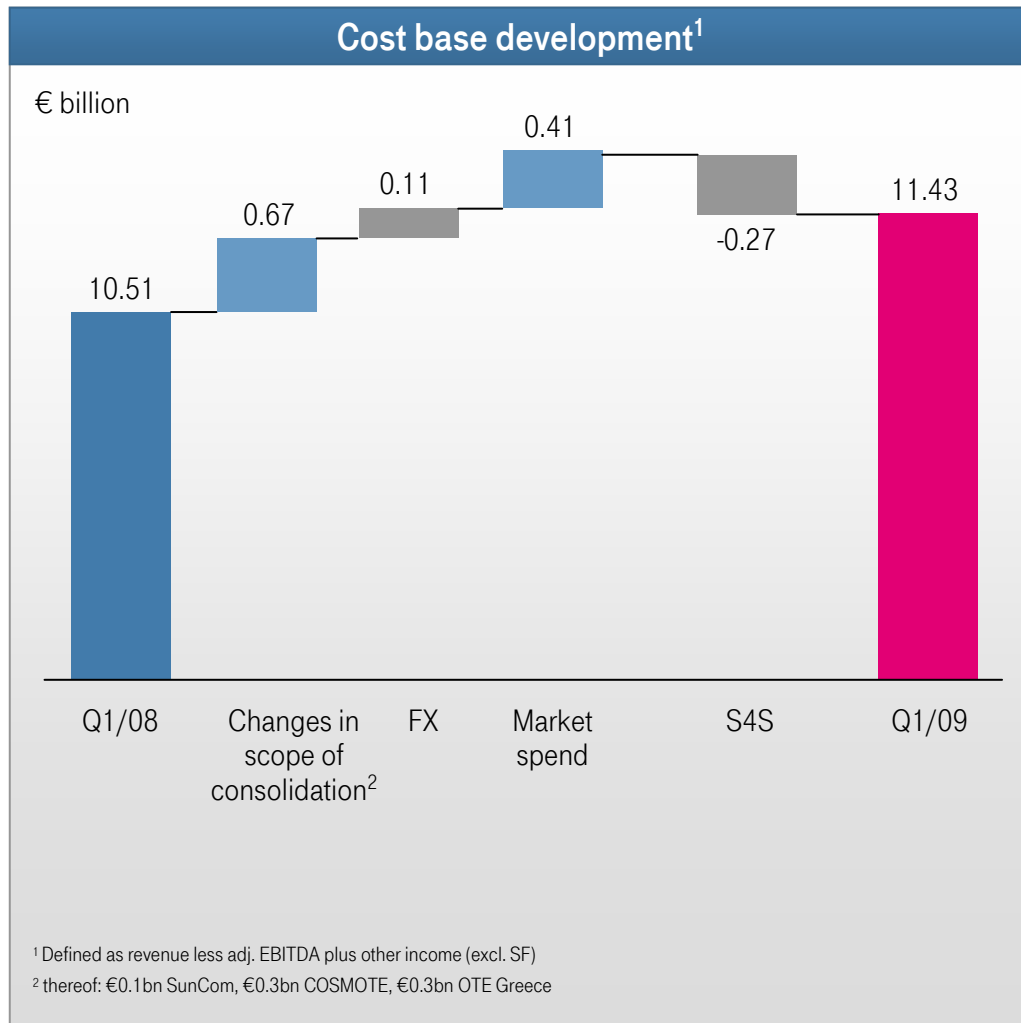
# Free cash flow: Impacted by front-loading effects.



- Cash capex increase:
  - front-loading in volume (€0.3 billion) and
  - shift in payment schedule (€0.4 billion)
- Capex front-loading drivers:
  - TM EU: accelerated 3G roll-out
  - TM US: accelerated 3G roll-out, 2G overbuild
- T-Service: Higher payments for redundancies.



# Save for Service. Well ahead of plan with €4.4 billion run-rate.

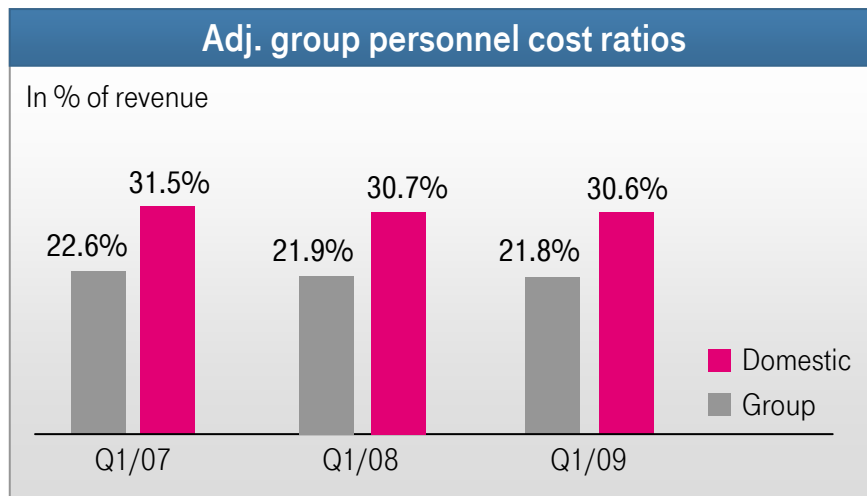
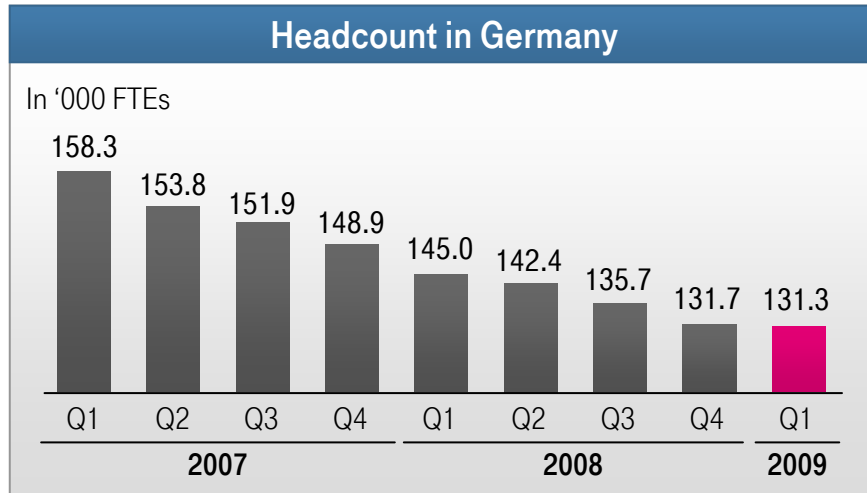


## Contribution by Business Unit

	Q1 09	07-Q1/09
Mobile	41	904
Broadband/Fixed Network	129	2,207
Systems Solutions	75	759
GHS	24	505
<b>DT Group</b>	<b>269</b>	<b>4,375</b>



# Headcount development: Domestic restructuring continues.



- Group headcount +14.5% (compared to YE 2008) due to OTE consolidation
- Employees in Germany: net -13,700 FTEs (-9.4%) yoy
- Employees International: net +36,700 FTEs
  - First time consolidation of OTE
  - Increase in headcount at T-Mobile USA
- Adj. personnel expenses in Q1/09:
  - Group personnel expenses increase from €3.3 to €3.5 billion (5.2%) due to OTE first time consolidation.
  - 4.6% domestic reduction (from €2.3 to €2.2 billion).



## Net income: Impacted by UK goodwill write-down.

€ billion	Q1 09	Q1 08
EBITDA	4.9	5.0
Depreciation and amortization	-4.7	-2.7
- of which UK goodwill write-down	-1.8	-0.0
Net financial expense	-0.7	-0.7
- of which net interest expense	-0.6	-0.6
EBT	-0.5	1.6
Income taxes	-0.4	-0.6
Earnings after taxes	-0.9	1.1
Minorities	-0.2	-0.1
Net income	-1.1	0.9

Rounded figures





Adj. net income decreased by 12.7% to €655 million.

€ billion	Q1 09 adjusted	Q1 08 adjusted
EBITDA	4.8	4.7
Depreciation and amortization	-2.9	-2.7
Net financial expense	-0.7	-0.6
- of which net interest expense	-0.6	-0.6
EBT	1.2	1.4
Income taxes	-0.5	-0.5
Earnings after taxes	0.7	0.9
Minorities	-0.1	-0.1
Net income	0.7	0.8

Rounded figures



## Q1/09 – Net debt development.

€ billion

<b>Net debt 31/12/2008</b>	<b>38.2</b>
Free cash flow	-0.3
OTE consolidation	4.3
F/X and other	0.6
<b>Net debt 31/03/2009</b>	<b>42.8</b>



## Solid Balance sheet ratios.

€ billion	31/03/09	31/12/08	31/03/08
<b>Balance sheet total</b>	<b>133.8</b>	<b>123.1</b>	<b>118.4</b>
Shareholders' equity	45.2	43.1	44.5
Net debt	42.8	38.2	35.9
Net debt / adj. EBITDA	n/a	2.0	n/a
Gearing	0.9x	0.9x	0.8x
<b>Equity ratio (excl. dividend)</b>	<b>31.2%</b>	<b>32.3%</b>	<b>34.0%</b>

### Comfort zone ratios

2 - 2.5x Net debt/adj. EBITDA



25 - 35% Equity ratio



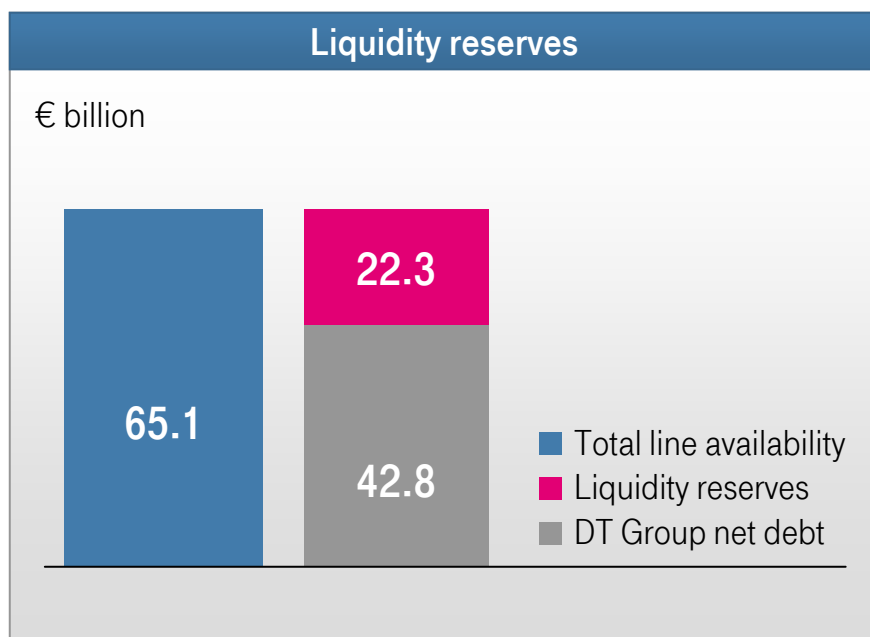
Gearing: 0.8 to 1.2



30% Liquidity reserve



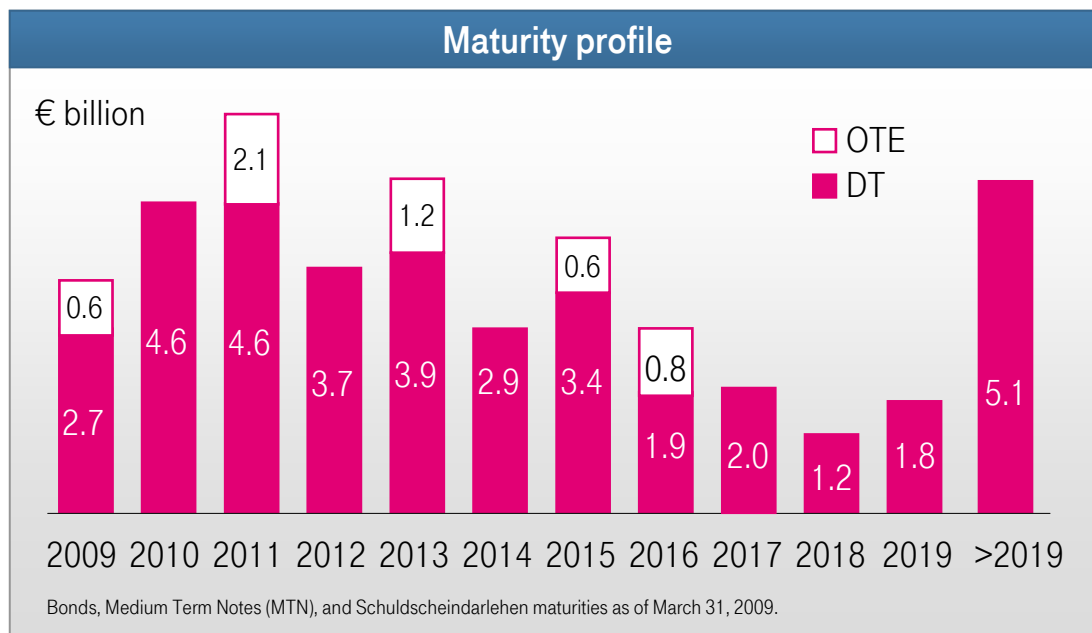
## Strong liquidity bolster.



- 28 bilateral credit facilities of €600 million each adding up to €16.8 billion.
- 3-year maturities with extension requests after 12 months already.
- Loan terms insure quality of our liquidity reserve
  - No financial covenants
  - No MAC Clause
  - No rating trigger
- Average time to maturity of credit lines as per March 31, 2009: 2.1 years
- OTE: €350 million undrawn syndicated credit facility. Maturing over a 3 year period from 2010 to 2012 with the majority in 2012.



# Maturity profile as of March 31, 2009.



- Total €4.4 billion bond maturities in 2009
- Sufficient unused bilateral credit lines
- Funding 2009 done so far:
  - Eurobond: €2 billion
  - Schuldscheindarlehen: €0.2 billion
- Issuance after Q1 2009<sup>1)</sup>
  - MTN GBP: £ 0.7 billion
  - MTN CHF: CHF 0.4 billion

## Current Rating

<b>Moody's</b>	Baa1, stable outlook (long term) and P-2 (short term)
<b>S&amp;P</b>	BBB+, stable outlook (long term) and A-2 (short term)
<b>Fitch</b>	BBB+ , stable outlook (long term) and F2 (short term)
<b>R&amp;I</b>	A, stable outlook (long term)

1) MTNs issued after the balance sheet date are not contained in this overview (GBP, CHF)



Q&A.

Please press “\*1” to ask a question.



René Obermann  
CEO



Timotheus Höttges  
CFO



# Thank you for your attention!

For further questions please contact the IR department:

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