

# Q4/10 – Results Presentation. Deutsche Telekom.

February 25, 2011

Life's for Sharing



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# Agenda.

## Deutsche Telekom Results Presentation.



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CEO



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CFO



# FY 2010 Highlights – guidance achieved.

## FY 2010

- Excl. T-Mobile UK revenue stabilized at €62.4 billion
- Targets achieved/overachieved: €19.5 billion adj. EBITDA, €6.5 billion free cash flow
- Adj. net profit (€3.4 billion) at last year's level – reported net profit improved to €1.7 billion
- PTC settlement secures undisputed full control and ownership

## Operations

- Adj. EBITDA stabilization in Germany – margin improved to 38.3%
- Mobilize the internet: 30% growth data revenues to €4.4 billion in FY 2010
- Cash flow in segment Europe stabilized – despite austerity measures and ongoing difficult economy
- Continued improvement at Systems Solutions – external revenue growth (+5.4%) and adj. EBIT-Margin increased
- US: ongoing improvement in data proposition and data-ARPU, churn and net-adds not satisfying

## Save 4 Service

- Better than anticipated:
- €2.4 billion gross savings 2010,
- €1 billion net adj. opex reduction in the group 2010
- Strong underlying net cost base reduction in Germany and Europe of €1.1 billion

## Shareholder Remuneration <sup>1)</sup>

- 2010: €3.4 billion annual shareholder remuneration confirmed:  
€400 million share buyback already done in 2010 - resulting dividend €0.70 per share



# FY 2010 and Q4/10 excl. UK.

in € million	Q4/09 ex. UK	Q4/10 ex. UK	change in %	FY/09 ex. UK	FY/10 ex. UK	change in %
Revenue	15,416	15,477	0.4%	62,152	62,421	0.4%
Adj. EBITDA	4,904	4,550	-7.2%	20,168	19,473	-3.4%
Adj. net profit	767	665	-13.3%	3,259	3,413	4.7%
Net profit (loss)	-135	-607	349.6%	232	1,744	651.7%
Adj. EPS (in €)	0.18	0.15	-16.7%	0.75	0.79	5.3%
EPS (in €)	-0.03	-0.14	366.7%	0.05	0.40	700.0%
Free cash flow <sup>1)</sup>	1,769	1,353	-23.5%	6,688	6,163	-7.8%
Cash capex <sup>2)</sup>	2,172	2,540	16.9%	9,054	8,551	-5.6%



1) Before dividend payment and spectrum invest. 2) 2010 excl. €1,300 million of spectrum in Germany

# FY 2010 and Q4/10 reported.

in € million	Q4/09	Q4/10	change in %	FY/09	FY/10	change in %
Revenue	16,200	15,477	-4.5%	64,602	62,421	-3.4%
Adj. EBITDA	5,070	4,550	-10.3%	20,668	19,473	-5.8%
Adj. net profit	905	690	-23.8%	3,390	3,364	-0.8%
Net profit (loss)	-3	-582	n.m.	353	1,695	380.2%
Adj. EPS (in €)	0.21	0,16	-23.8%	0.78	0.78	0.0%
EPS (in €)	0.00	-0.13	n.m.	0.08	0.39	387.5%
Free cash flow <sup>1)</sup>	1,863	1,733	-7.0%	6,969	6,543	-6.1%
Cash capex <sup>2)</sup>	2,249	2,540	12.9%	9,202	8,551	-7.1%



1) Before dividend payment and spectrum invest. 2) 2010 excl. €1,300 million of spectrum in Germany

# FY 2010 strategy update: Fix – Transform - Innovate on track.

Fix	Transform		Innovate	
<b>Improve performance of mobile-centric assets</b>	<b>Leverage one company in integrated assets</b>	<b>Build networks and processes for the gigabit society</b>	<b>Connected life across all screens</b>	<b>Connected work with unique ICT solutions</b>
<ul style="list-style-type: none"> <li>▪ Increased data ARPU in the US by 25.5% yoy to \$12.80</li> <li>▪ A, PL, NL adj. EBITDA-margin improved, growing adj. EBITDA, CZ defending high margin</li> <li>▪ Percentage of contract customers in base improved in CZ, PL, NL</li> </ul>	<ul style="list-style-type: none"> <li>▪ Merger of fixed and mobile operations completed in Germany, Croatia, Slovakia</li> <li>▪ Quadruple play products launched in Romania, Hungary and Slovakia</li> <li>▪ “Call &amp; Surf via Funk” pilot launched in Germany: broadband via LTE, voice via fixed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase of 3G cell sites in Germany by 3,200 during 2010</li> <li>▪ German spectrum auction secures future spectrum needs at reasonable price</li> <li>▪ FTTH pilots launched in autumn 2010</li> <li>▪ Significant expansion of mobile 3G networks in Europe</li> <li>▪ TMUS 4G: 21Mbps rolled out to 200 million POPs, 42 Mbps to be launched in 140 million POPs by mid-year 2011</li> </ul>	<ul style="list-style-type: none"> <li>▪ Smartphone share of handsets sold increasing drastically from 29% to 43% in Germany. Android phones picking up</li> <li>▪ TV push in SEE: +23% growth in base</li> <li>▪ STRATO acquisition strengthened position in web hosting business</li> <li>▪ Entertain: 3D-TV broadcasting</li> <li>▪ 580,000 users on Mediacyber in Germany</li> </ul>	<ul style="list-style-type: none"> <li>▪ Big Deals won in 2010: EON, DHL, DekaBank etc. provide basis for further external revenue growth (+5.4% in 2010)</li> <li>▪ Innovative products like “Infrastructure as a service” or “Deutschland LAN” for corporate customers launched</li> <li>▪ Pilot projects on smart metering and eHealth launched in 2010</li> </ul>



# Strategy update: growth areas.

Deutsche Telekom growth areas	FY 2009	FY 2010	Change		Ambition 2015
Revenue (€ bn)					
<b>Mobile Internet</b>	<b>3.4</b>	<b>4.4</b>	<b>1.0</b>	<b>29.2%</b>	<b>≈ 10</b>
<b>Connected Home</b> Double & Triple play, Home Gateway and Communication Suite	<b>5.2</b>	<b>5.5</b>	<b>0.3</b>	<b>5.0%</b>	<b>≈ 7</b>
<b>Online consumer services</b>	<b>0.9</b>	<b>1.0</b>	<b>0.1</b>	<b>13.1%</b>	<b>2 - 3</b>
<b>T-Systems external revenue</b> incl. Cloud Services	<b>6.1</b>	<b>6.4</b>	<b>0.3</b>	<b>5.4%</b>	<b>≈ 8</b>
<b>Intelligent networks</b> in Energy, Health, Media Distribution, Connected Car	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>≈ 1</b>





# Outlook 2011.

## Guidance 2011

- Adj. EBITDA of around €19.1 billion (based on constant currency)<sup>1)</sup>
- Stable to slightly growing free cash flow from €6.5 billion in 2010<sup>2)</sup>

## Operations

- Execute on challenger strategy in the US and return to growth
- Maintain market leadership and stabilize adj. EBITDA despite MTR cuts and related revenue decline in Germany
- Stabilize cash flows and maintain market-leading position in Europe
- Continue revenue growth and further improve efficiency at Systems Solutions
- Continued focus on mobilizing the internet, triple play products and convergent offerings
- Innovate with online consumer services and intelligent networks

## Save 4 Service

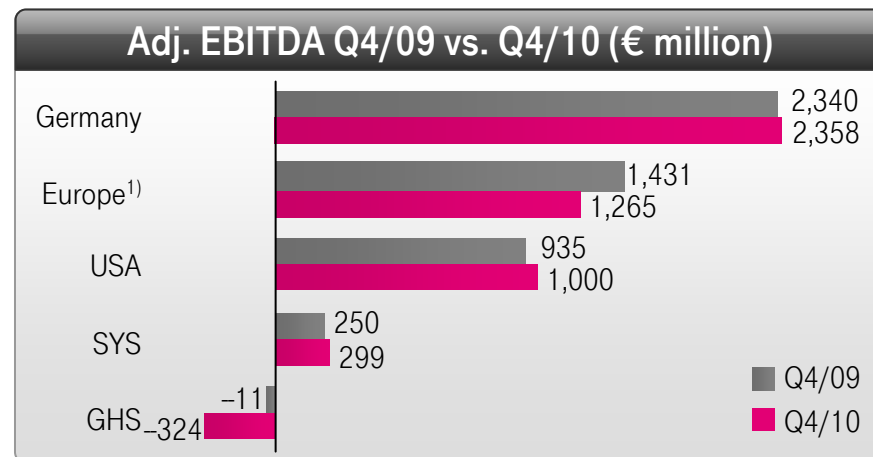
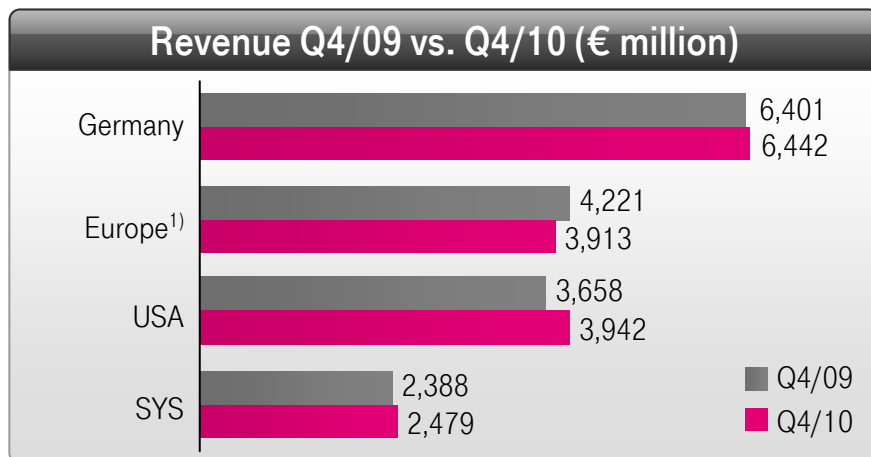
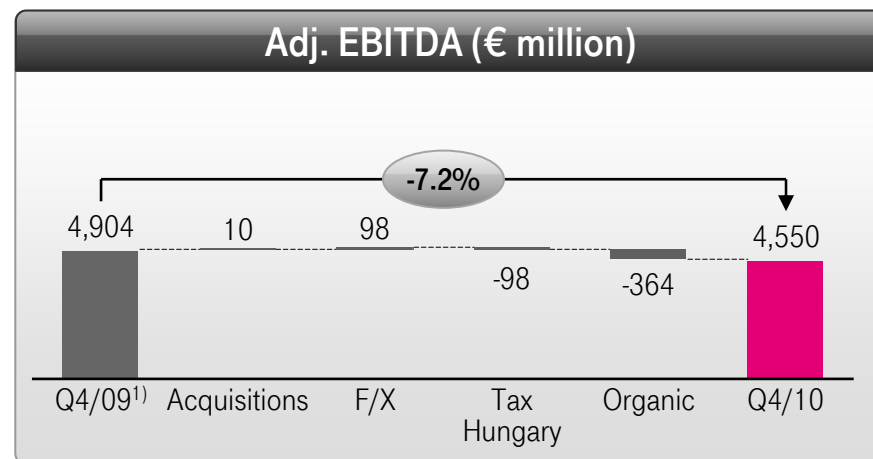
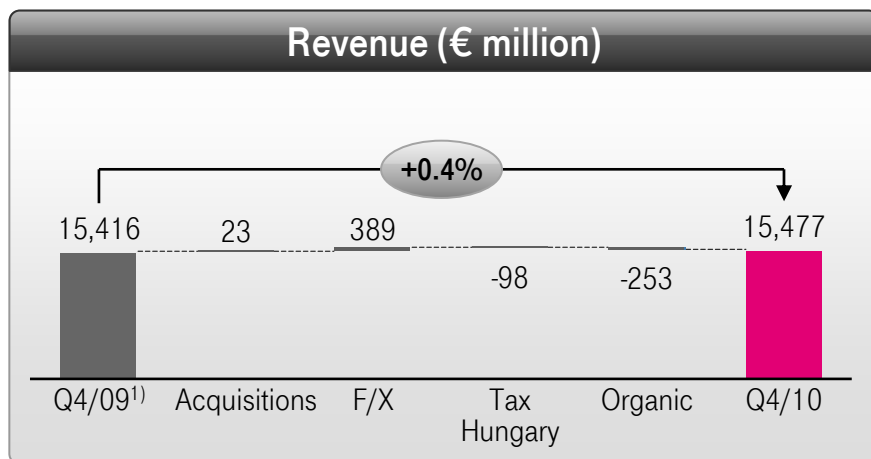
- Further execution on efficiency programs
- S4S Phase II: around €4.2 billion gross savings expected 2010-2012  
€1.8 billion net savings in Germany and Europe
- Reinvent (US): additional gross savings of \$1 billion by 2013

## Shareholder Remuneration <sup>3)</sup>

- €3.4 billion remuneration p.a. to DT shareholders expected for 2011-2012 with a minimum dividend of €0.70 p.a. and the rest via share buy backs

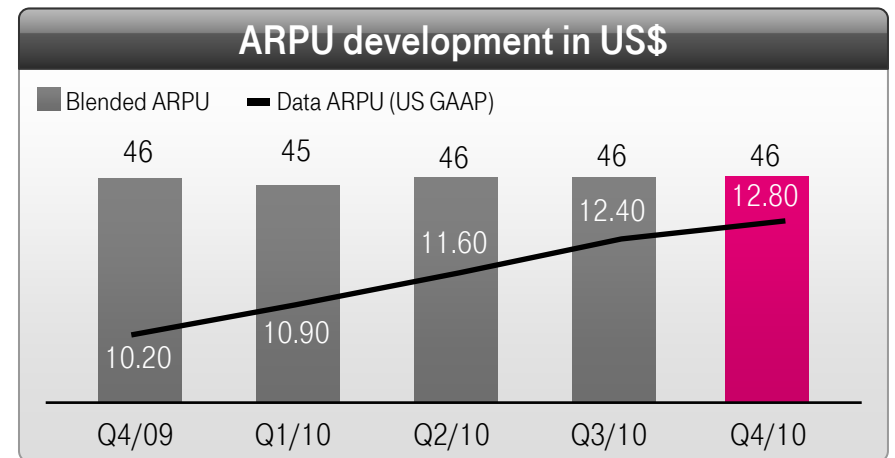
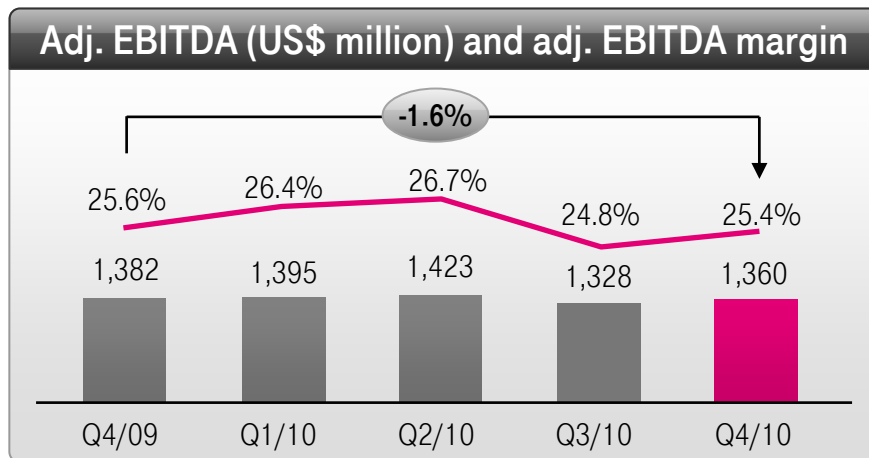
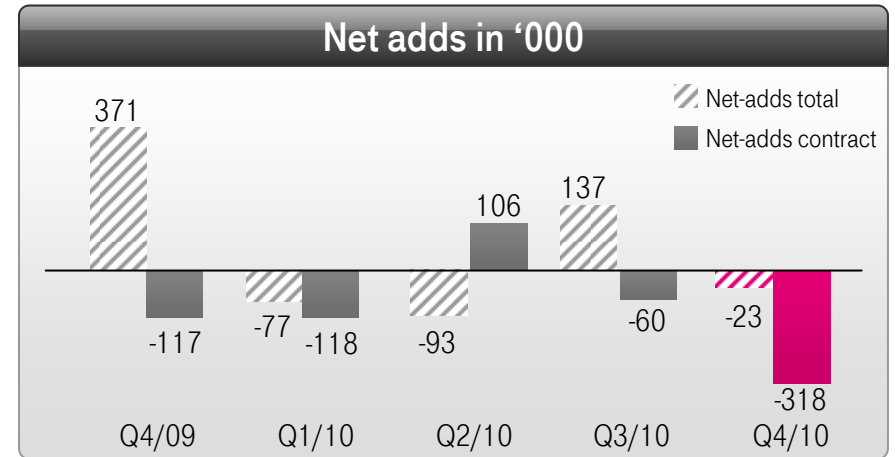
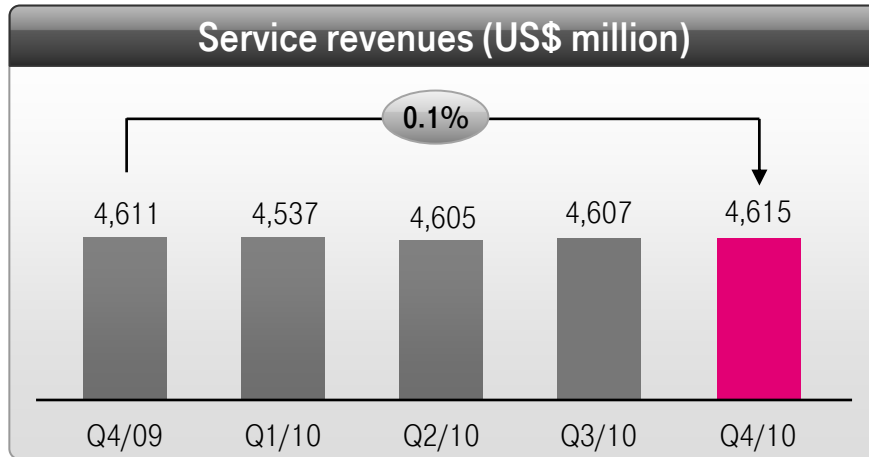


# Q4/10 Overview.

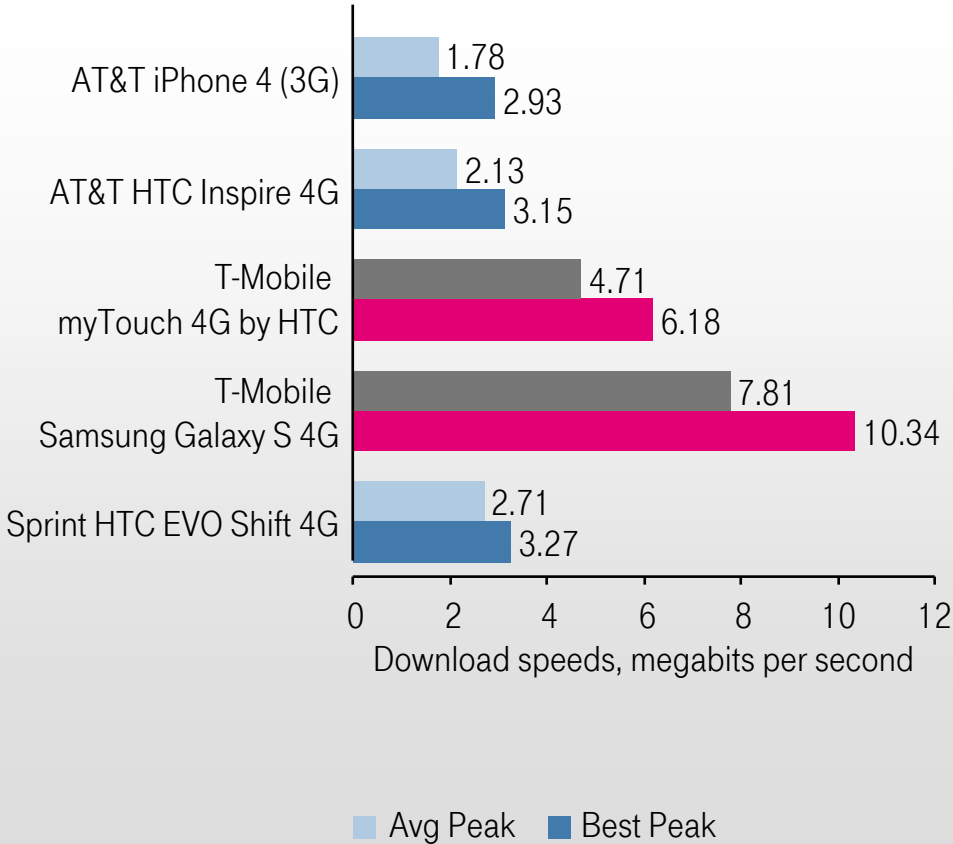


1) Q4 2009 figures without T-Mobile UK: Impact group €784 million of revenue and €166 million of adj. EBITDA; Impact segment Europe: €814 million of revenue and €164 million of adj. EBITDA

# US: continued revenue stabilization and strong data ARPU.



# Recent US 4G speed tests confirm superiority of our network.



**Galaxy S 4G beats out the competition with speeds of 7-10 Mbps**

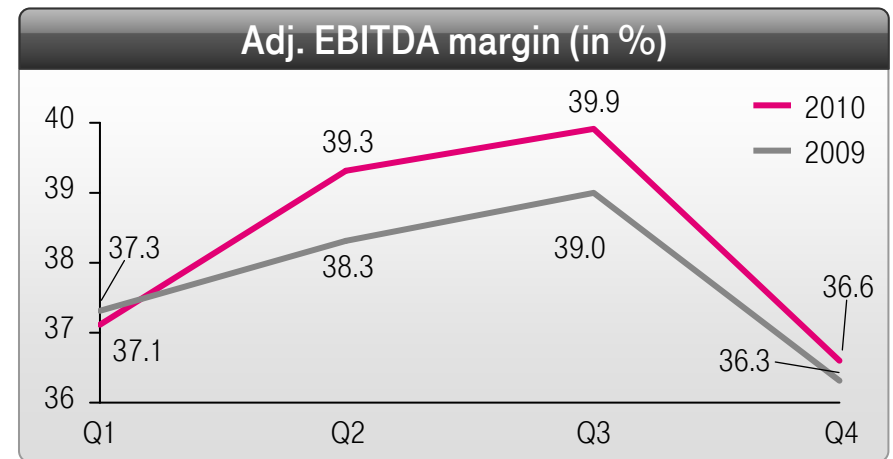
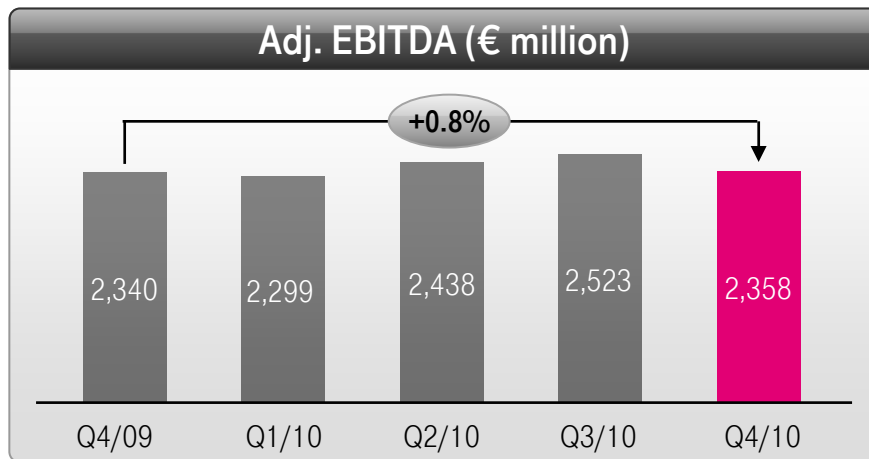
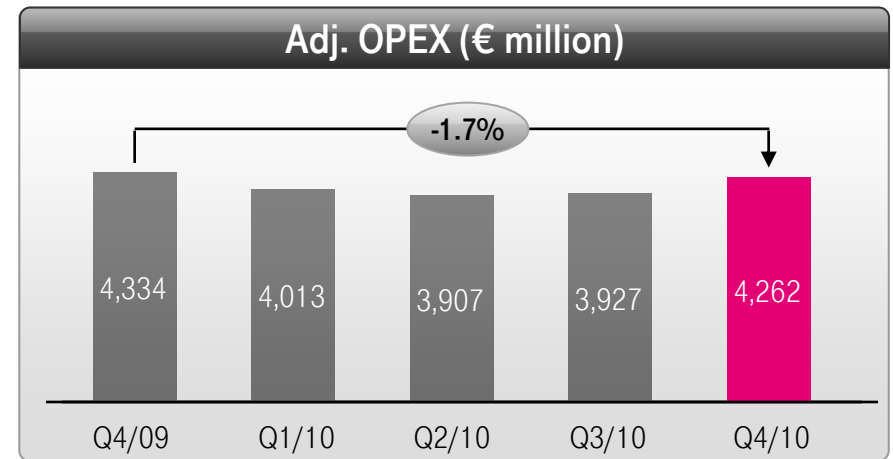
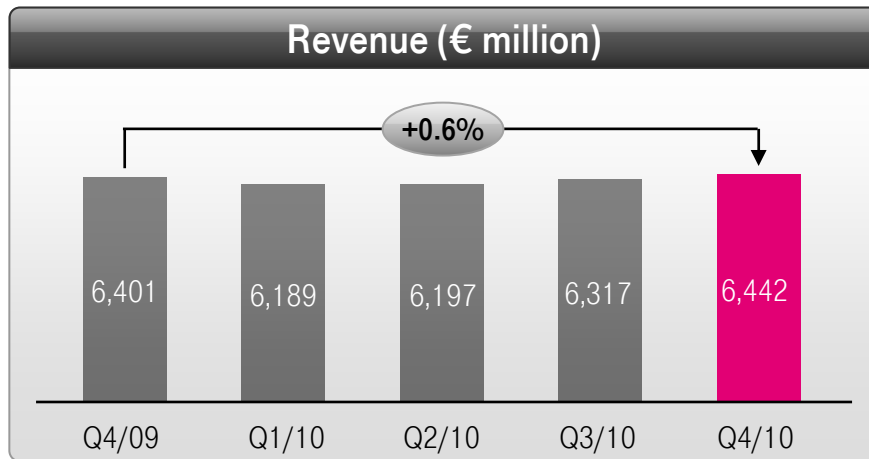
“Only one phone delivered anything you could really call ‘extreme.’”

“Results consistently favored T-Mobile”

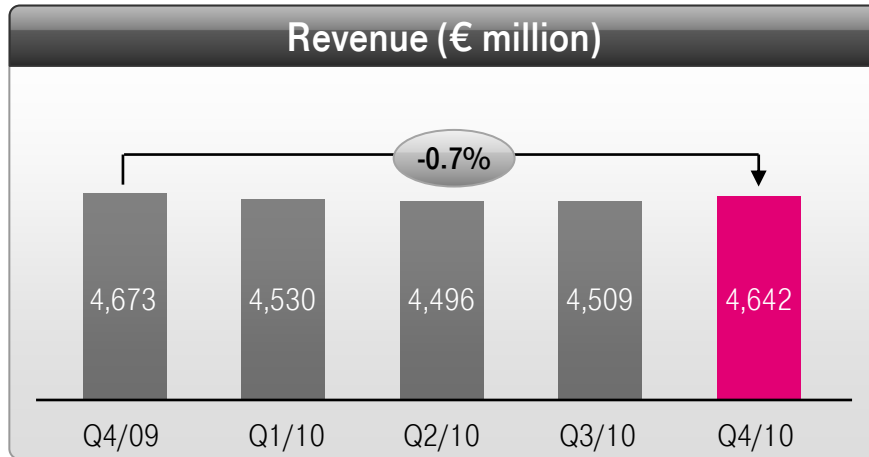
“[Galaxy S 4G] is one fast phone”



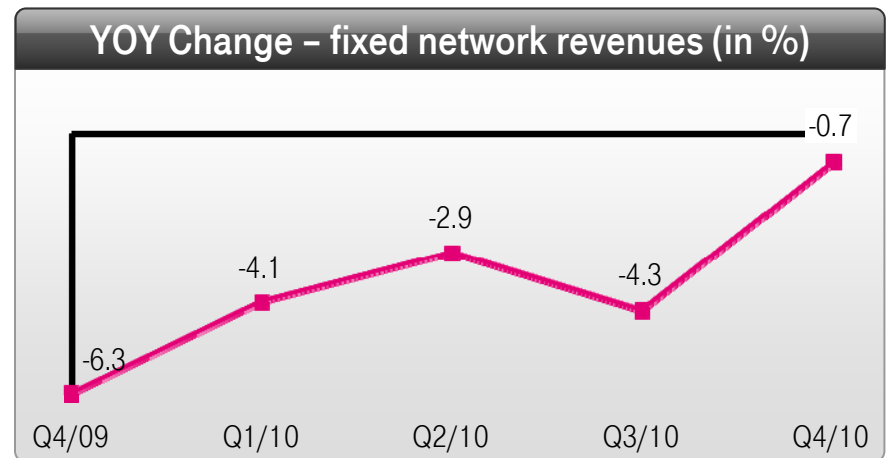
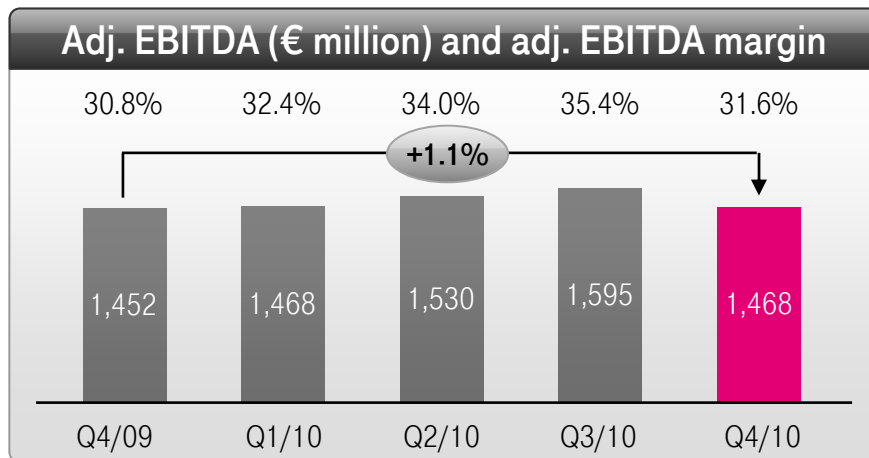
# Germany: strong revenue and third consecutive quarter of increasing adj. EBITDA yoy.



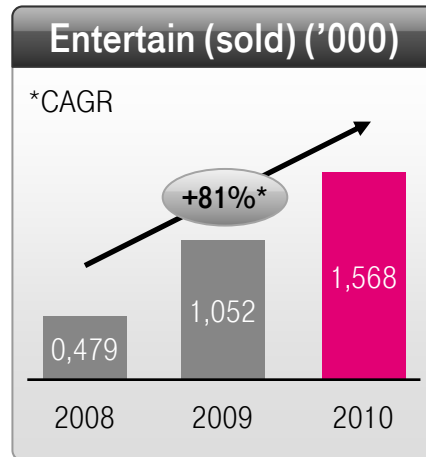
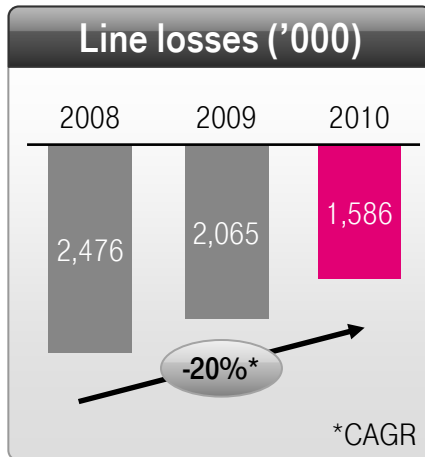
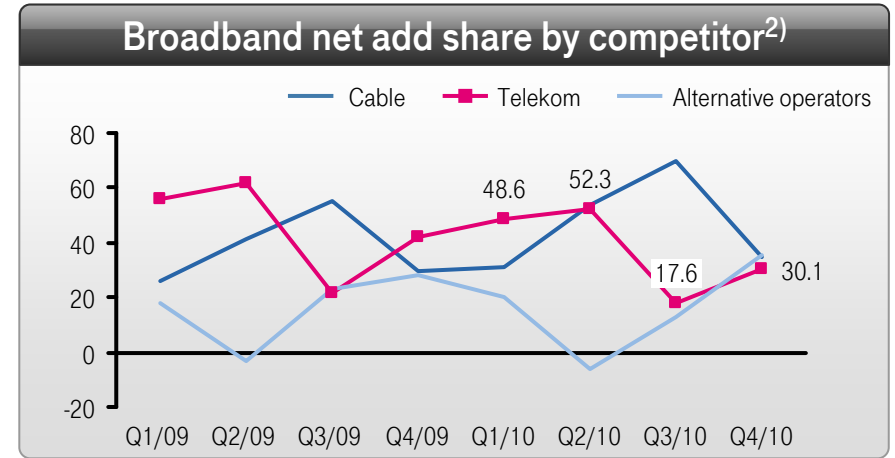
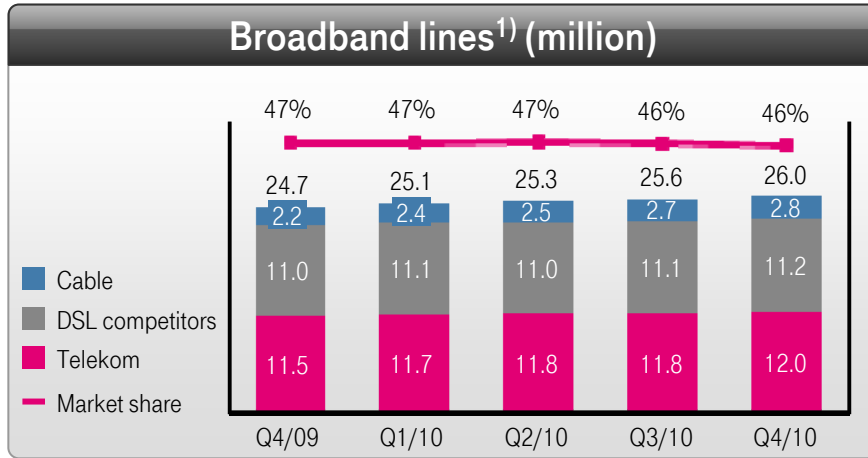
# Germany fixed: continued increase in profitability.



- As already announced in Q3 strong Q4 revenue
- Increase in adj. EBITDA, despite commercial efforts
- Cost reductions compensate for revenue pressure
  - Driven by simplification, lower procurement costs and selective centralization
  - Save 4 Service deeply embedded in organization
  - Adj. EBITDA improved by 1.1% yoy, driven by adj. opex savings of 3.8%



# Germany fixed: managing for value resulted in stable broadband market share.

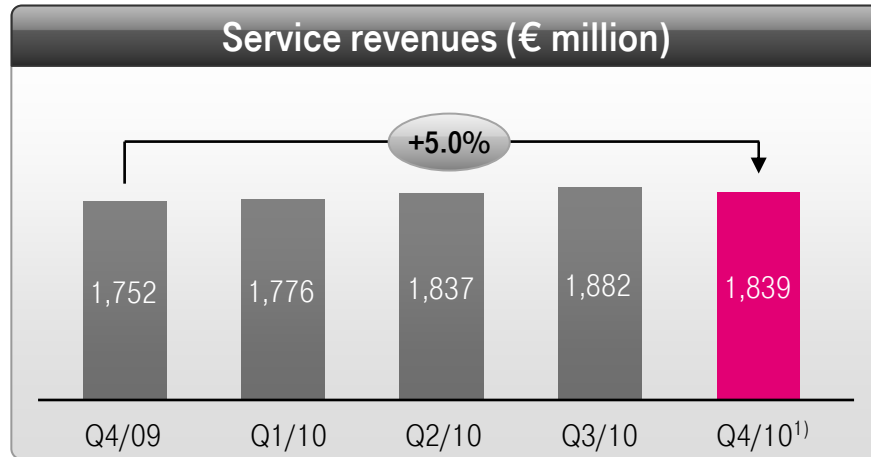


- Broadband net add share in Q4 impacted by aggressive unbundlers at the expense of cable. Managing for value resulted in 37.3% Net Add Share in 2010
- Solid IPTV growth continues with +516k marketed Entertain customers in 2010 now at 1,568k
- Retail fiber-customers (VDSL) at 342k (+194k yoy)

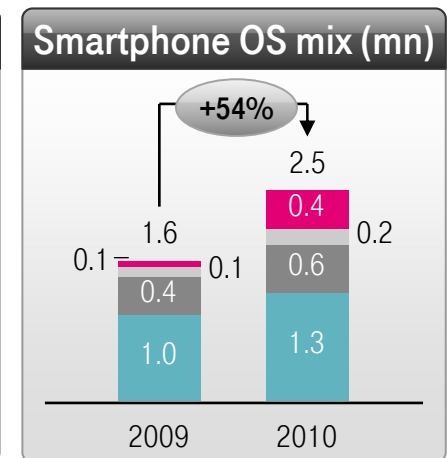
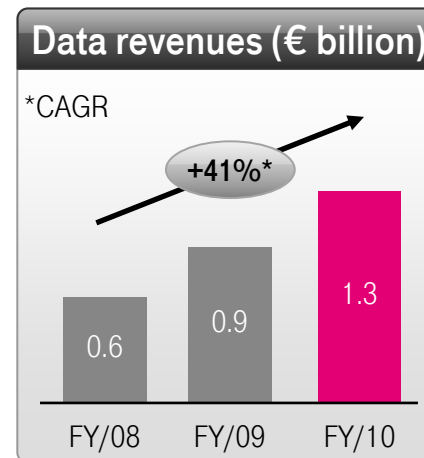
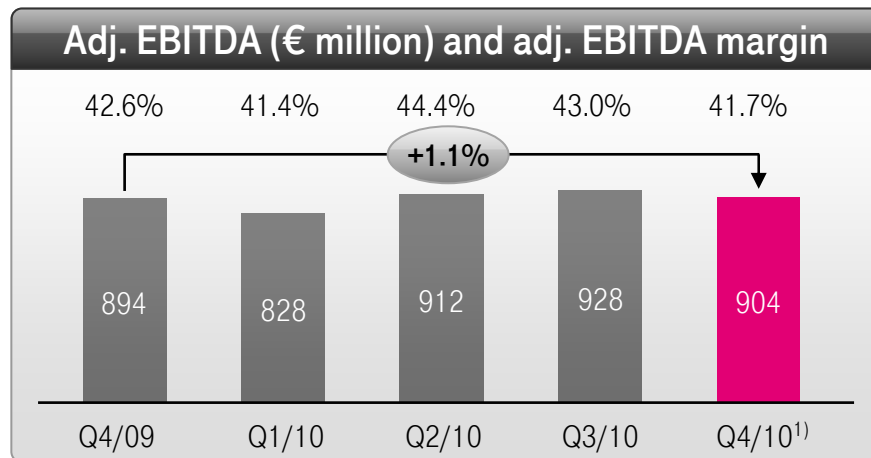


1) 2010 own estimates, Q1 and Q2 adjusted by one-time item wholesale. Rounded figures. Incl. reseller (competitor resale and resale);  
 2) DTAG view (retail).Retroactive adjustment starting in 2007 because of reclassification of UnityMedia broadband customer base (March 31, 2010)

# Germany mobile: continued service revenue growth and profitable market outperformance.



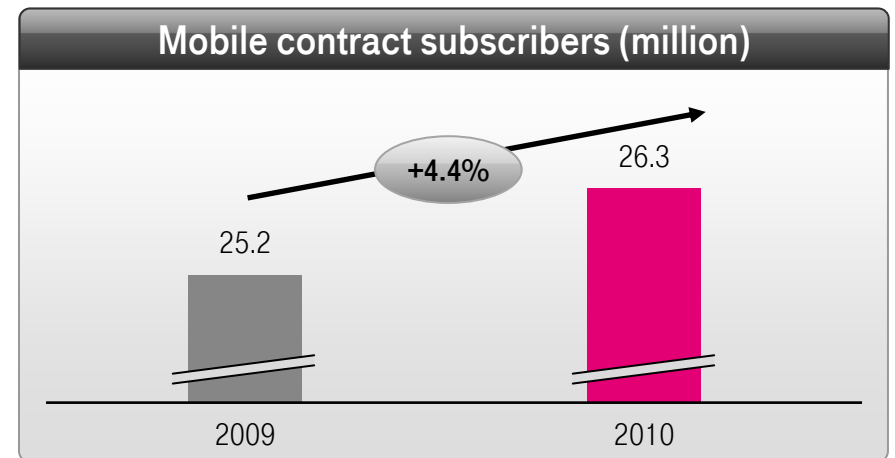
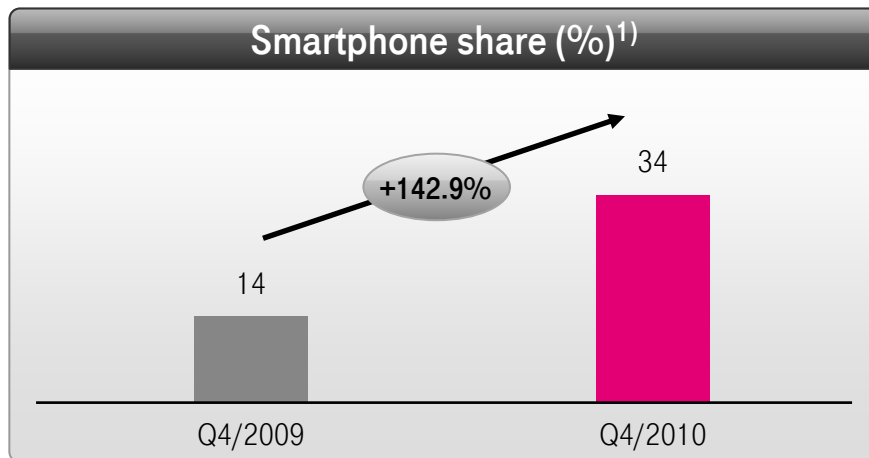
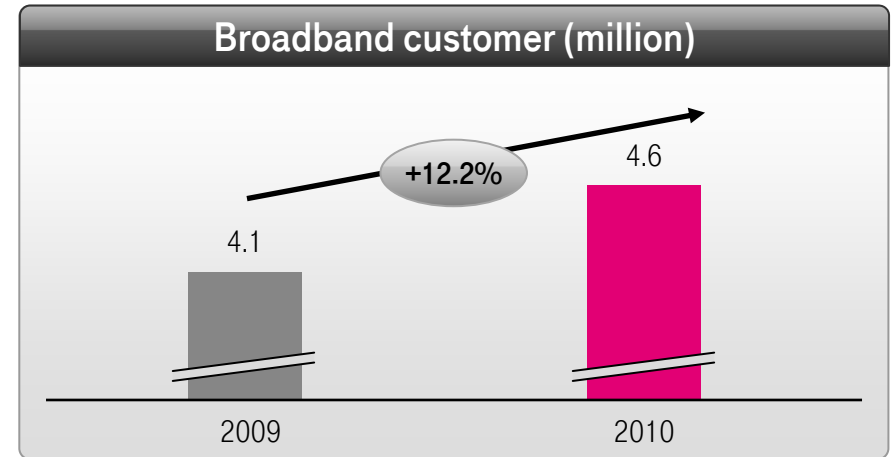
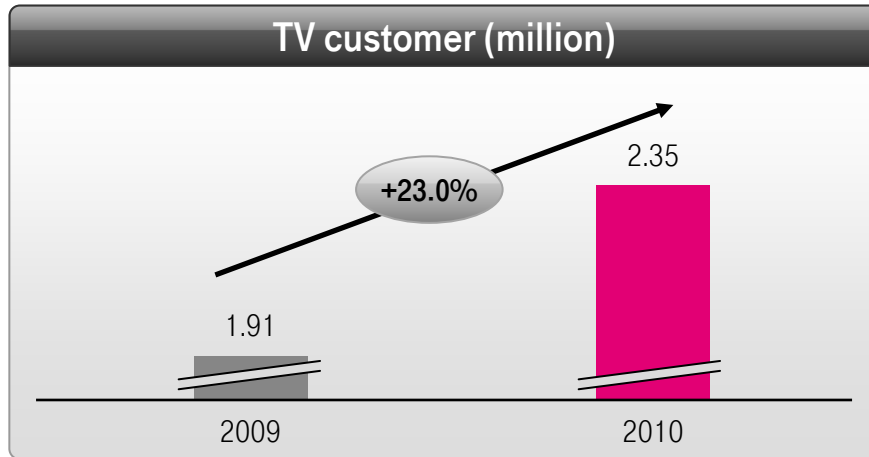
- Data revenue growth of 28% boosting share as % of Service Revenues by 4pp to 19% in Q4/10. December MTR impact of €28 mn on service revenues and €13 mn on EBITDA
- Continued focus on high-value customers
  - 347k iPhones, 45k Windows phone 7 sold
- 50% of handsets sold in Q4/10 were smartphones compared to 28% in Q4/09
- Adj. EBITDA margin of 41.7%<sup>1)</sup>, ahead of all competitors  
Underlying (w/o O2, Regulation) adj. EBITDA improvement of 11.1%



1) Adjusted for the reduction in MTR-rates (28 million revenue and 13 million adj. EBITDA)

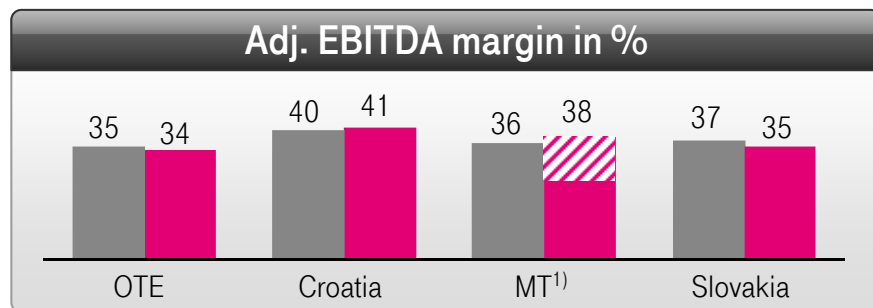
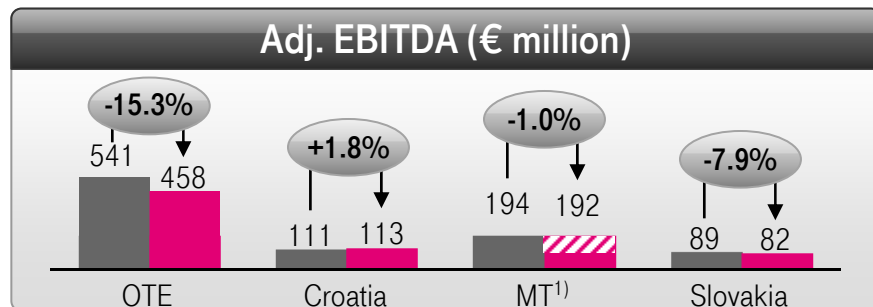
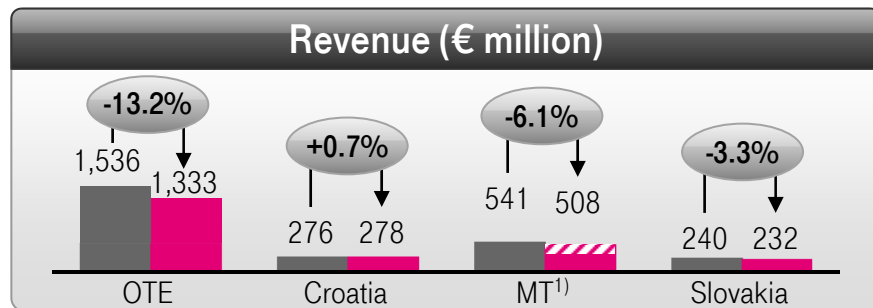


# Europe – growth in strategic products broadband and mobile contract.



1) Percentage of smartphones in dispatched devices (excl. OTE, Macedonia and Montenegro)

# Europe – integrated operations: mostly outperforming peers despite tough economic and regulatory conditions.



## OTE:

- Traction gained in BB net-adds (+8k) from new tariffs. IPTV subs. more than tripled to 50k.
- Mobile: contract customer growth and service revenue development better than main competitor in Greece

## Croatia:

- IPTV +26% up to 297k and ADSL +13.3% up to 629k, overcompensating line losses. (fixed -53k).
- Revenue growth driven by fixed network overcompensating decline in mobile

## MT:

- TV customers (Sat, Cable, IP) up 19% to 750k yoy. Contract customer growth of 9% in mobile business, broadband access growth of 10.4%
- Revenue and EBITDA impacted by €90 million tax in Q4

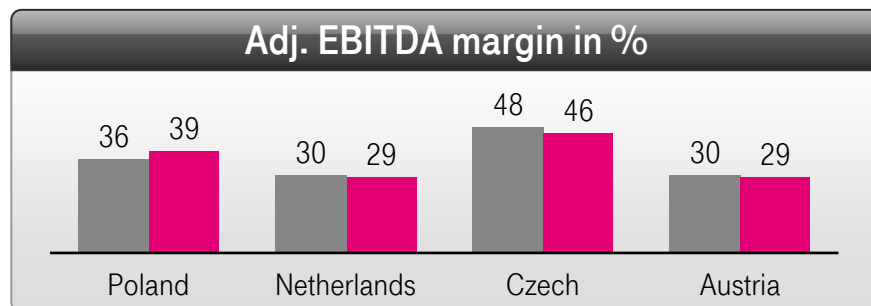
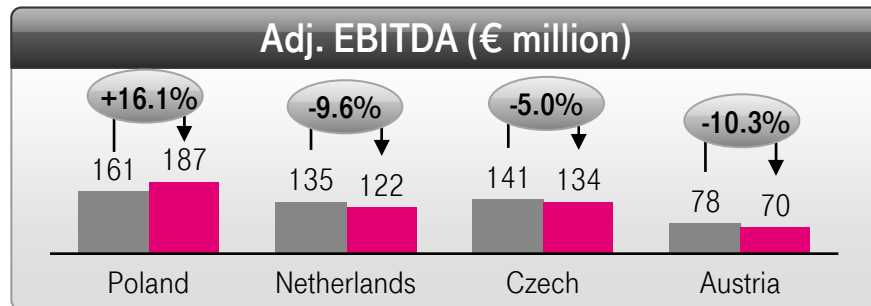
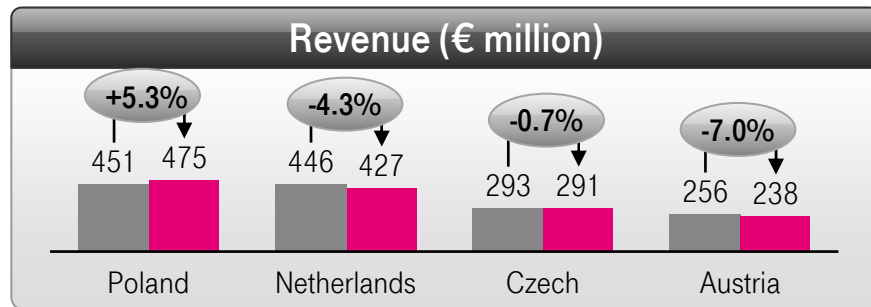
## Slovakia:

- TV net-adds +24k or +16%: driven by Sat TV with 43k customers. (+12k in Q4), IPTV customers increase of +32%
- Growth in fixed network revenues, decline in mobile



<sup>1)</sup> Figures adjusted for special tax. Shaded area illustrates impact: €90 million on revenue, EBITDA and cash contribution, 14pp on margin; difference to group figure of €98 million attributable to Systems Solutions

# Europe – mobile centric: smart market investment and push in network enhancements impacting margins.



## Poland:

- Revenue growth accelerated. Market investment in high-value customers, Smartphone-share more than 30% in Q4
- Additional 10% 3G sites vs. Q4/09

## Netherlands:

- Competitors outperformed in 2010. Revenue and EBITDA impacted by regulation and loss of MVNO.
- 37% mobile data revenue growth.

## CZ:

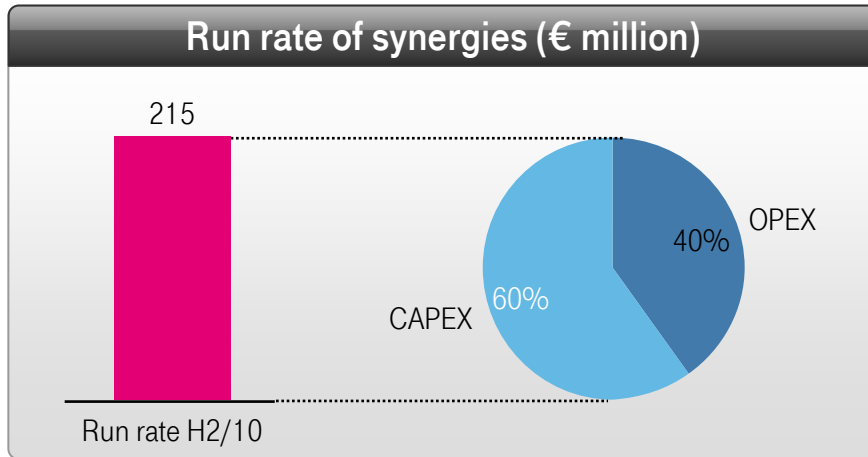
- Revenue excl. regulation +2%. Increase in market invest of 15% - resulting in 292k retained subs
- Integration of broadband business and FDD roll-out; 3G sites more than doubled.

## Austria:

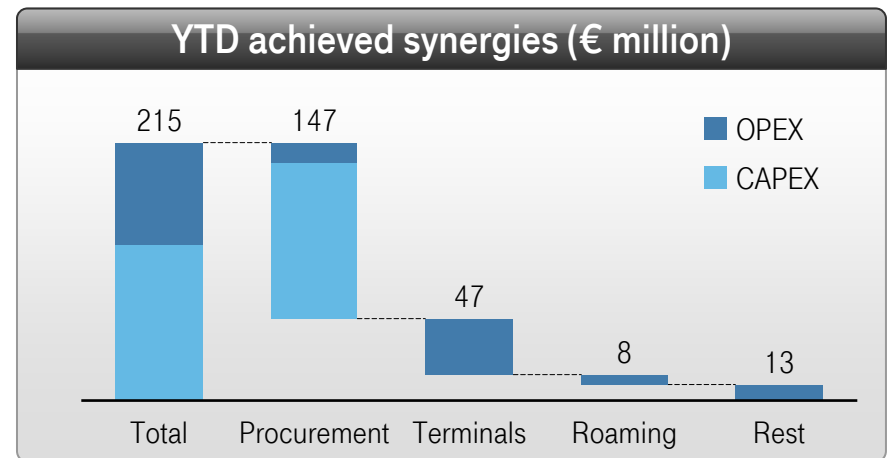
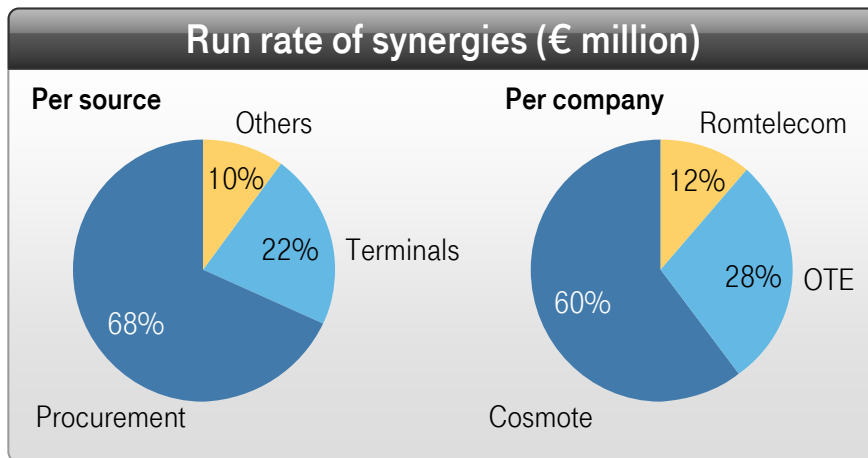
- Excl. regulation revenue flat
- EBITDA lower due to market investment and investment in 1<sup>st</sup> Austrian commercial LTE-network



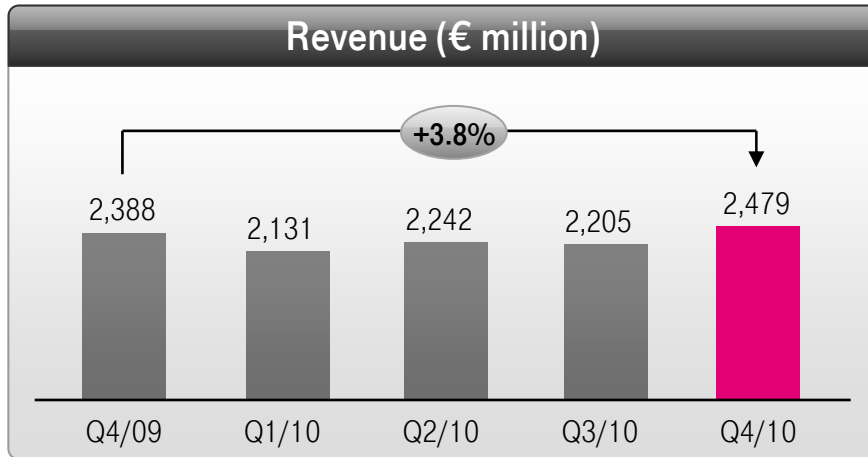
# Update on OTE synergies: initial run rate potential achieved earlier than planned.



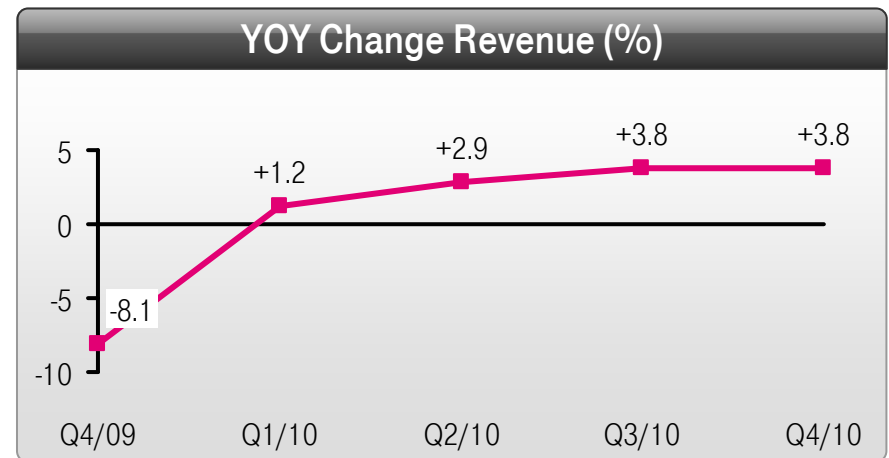
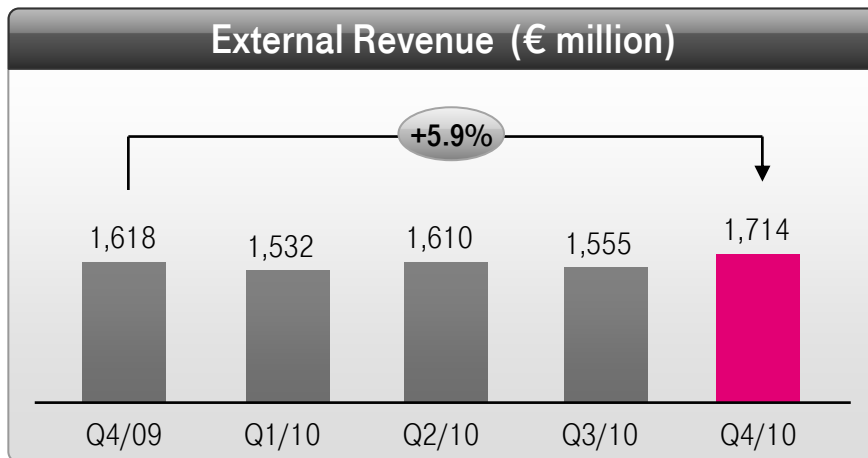
- As of Q4 measures with an annual potential of €215 million are already implemented
- The total run rate from the buying case has been achieved two years earlier than planned
- Savings are split into 60% CAPEX and 40% OPEX savings



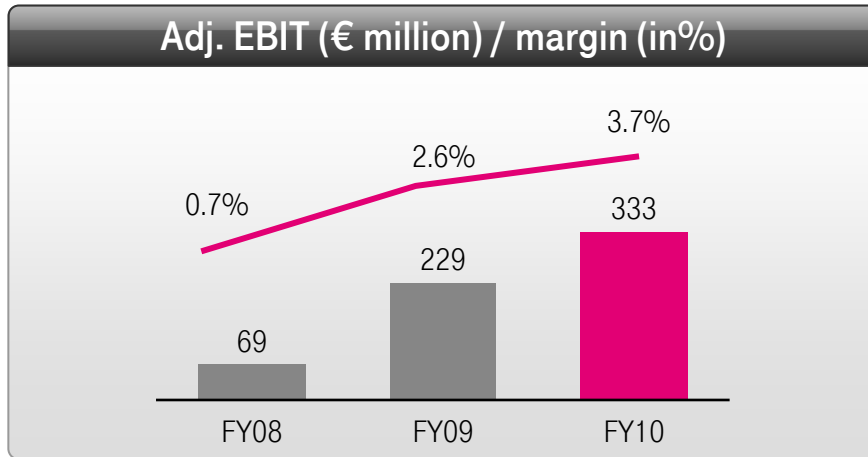
# Systems Solutions: external revenue up 5.4% in FY2010.



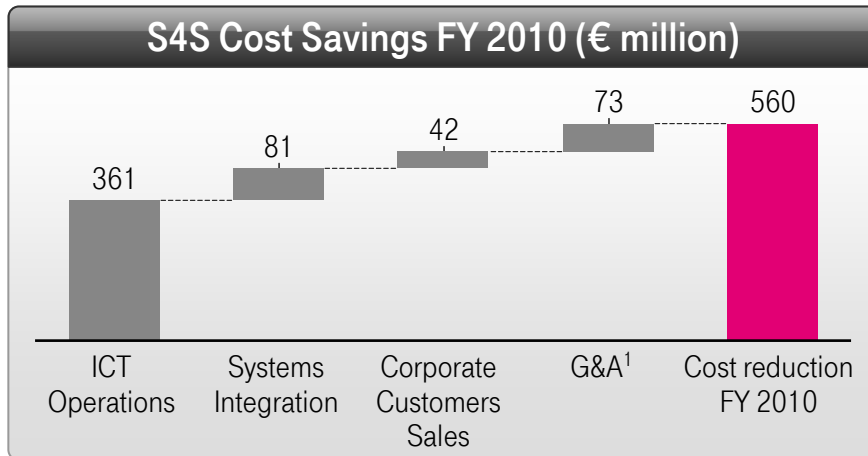
- External revenue - delivering on 5% CAGR target with FY2010 growth of 5.4%
- Closed Big Deals in 2010, such as EON, DHL, DekaBank provide the basis for further revenue growth



# Systems Solutions: profitability improvement driven by efficiency.



- Adj. EBIT margin in FY2010 improved to 3.7% from 2.6% in FY2009
- Corresponding adj. EBITDA improvement in FY2010 up to €948 million with a margin of 10.5%



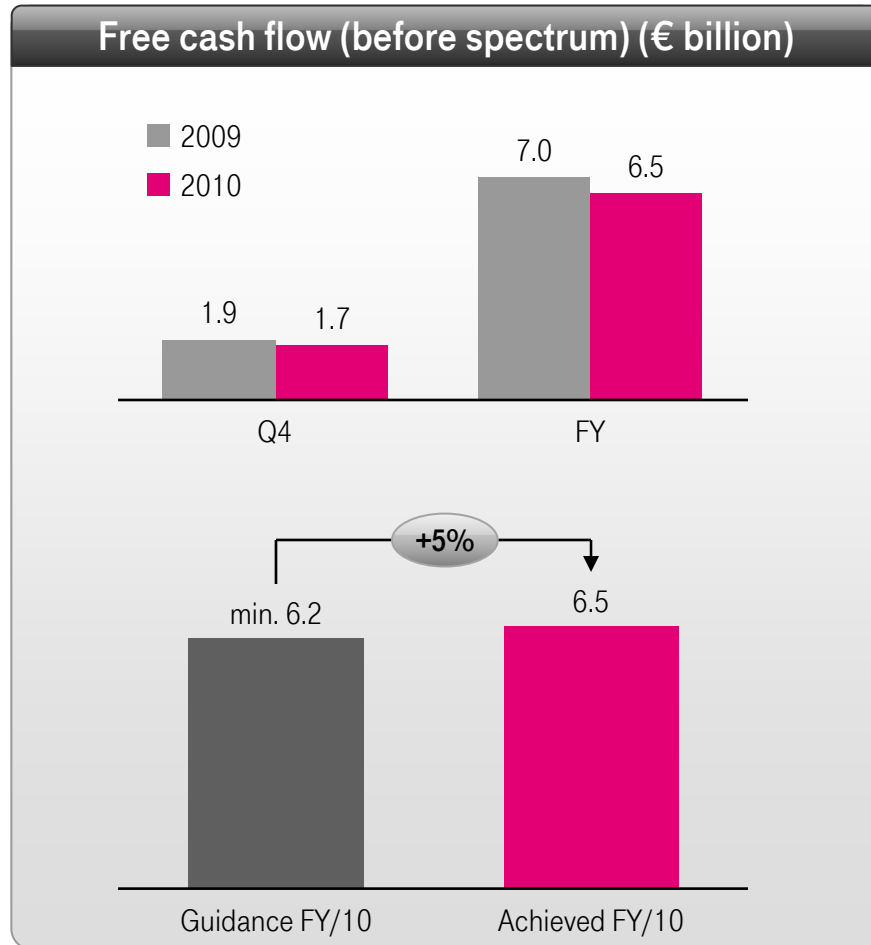
Strong execution of efficiency program

- €0.6 billion **Save for Service** contribution in FY2010
  - Optimization of data center infrastructure, reduction of maintenance costs
  - Cost reduction at Systems Integration through near- and offshore locations, optimized freelancer costs
  - Simplification and standardization of offerings in Sales
  - Internal optimization at G&A, esp. Finance & Marketing



1) incl. national subsidiaries not part of the aforementioned categories

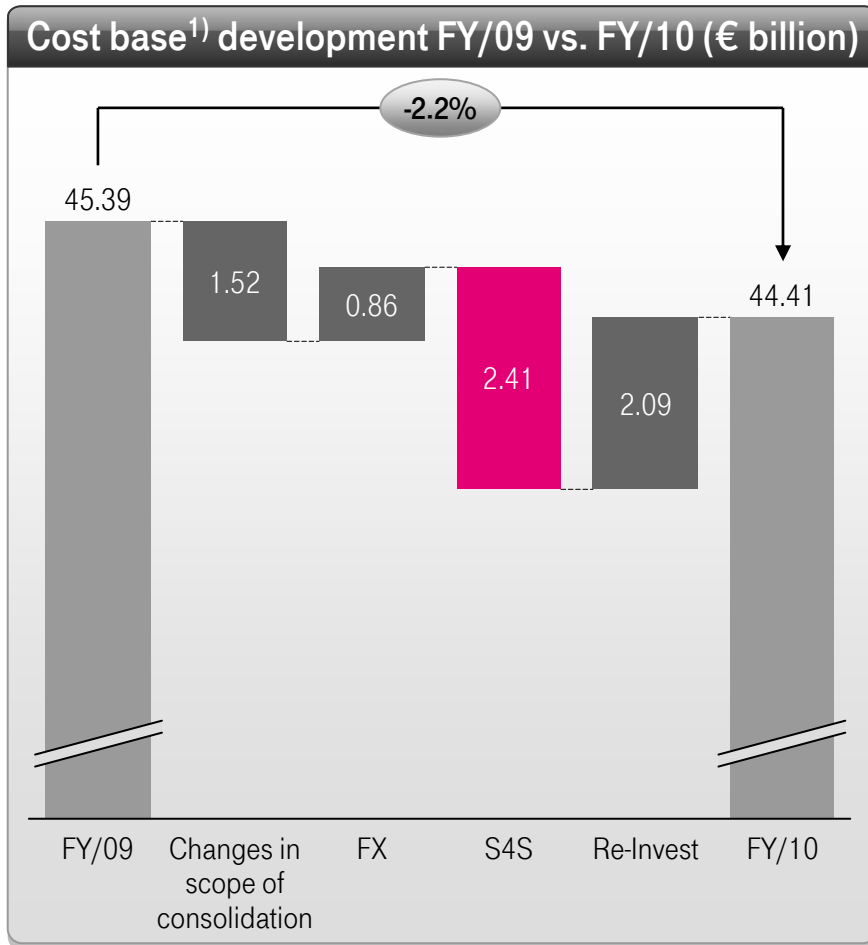
# Free cash flow: guidance overachieved by €300 million.



- Development highlights success of central free cash flow steering:
  - working capital management: significant improvement in payables by introduction of group wide payment policy
  - Capex discipline: cash capex reduced by €650 million FY on FY driven by US and EUR without jeopardizing necessary investments in infrastructure



# S4S: 60% of €4.2 billion already achieved – €1 billion net.



Contribution by Business Unit (€ million)	FY 2010
Germany	660
USA	570
Europe	370
Systems Solutions	560
GHS	250
<b>DT Group</b>	<b>2,410</b>

- €2.4 billion gross savings on corporate level
- Net cost base of group reduced by €1 billion
- Strong underlying\* net savings in Germany (€0.59 billion) and Europe (€0.5 billion) partially offset by market invest predominantly in the US

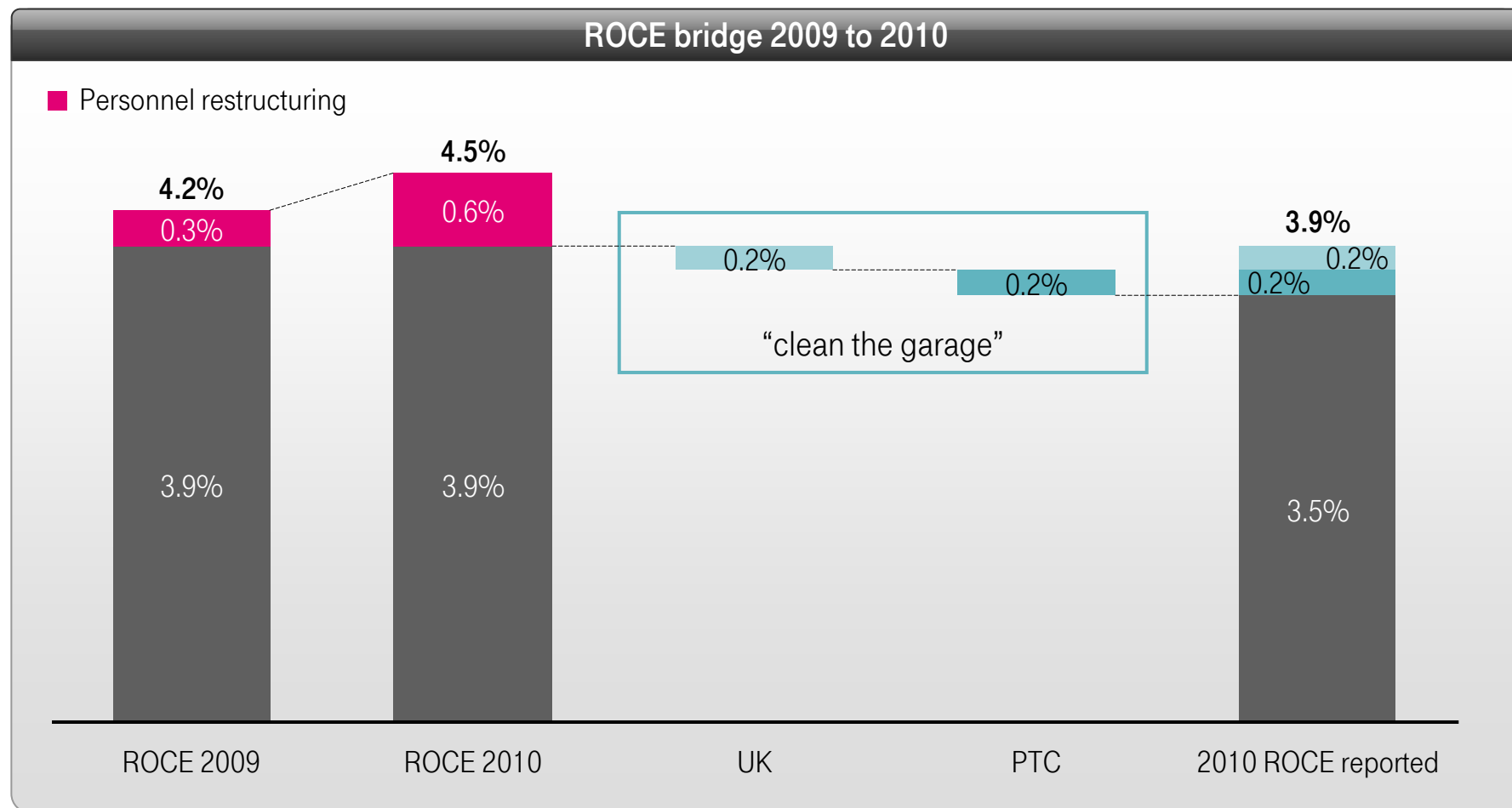


1) Defined as revenue minus adj. EBITDA plus adj. other operating income

\* Excl. F/X and changes in the composition of the group



# ROCE development driven by UK deconsolidation, PTC settlement and additional personnel restructuring.



# Ongoing solid balance sheet ratios and stable rating.

in € billion	31/12/2010	30/09/2010	30/06/10	31/03/10	31/12/09
<b>Balance sheet total</b>	<b>127.8</b>	<b>127.8</b>	<b>132.8</b>	<b>130.8</b>	<b>127.8</b>
Shareholders' equity	43.0	43.4	44.8	44.3	41.9
Net debt	42.3	43.7	46.3	40.4	40.9
Net debt/adj. EBITDA <sup>1)</sup>	2.2	2.2	2.3	1.9	2.0
Gearing	1.0x	1.0x	1.0x	0.9x	1.0x
<b>Equity ratio</b>	<b>33.7%</b>	<b>33.9%</b>	<b>33.7%</b>	<b>33.9%</b>	<b>32.8%</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



## Current Rating

Fitch: **BBB+** stable outlook



Moody's: **Baa1** stable outlook



S&P: **BBB+** stable outlook



R&I: **A** stable outlook



1) Calculation based on adj. EBITDA of last four quarters

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



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For remaining questions please contact the IR department after the call.



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Thank you for your attention!

