

DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2012 GERMANY

NIEK JAN VAN DAMME



LIFE IS FOR SHARING.

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.



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SUMMARY.

- 1 We believe highspeed network quality will be key differentiator
- 2 We will invest significantly in LTE, Fiber and Vectoring
- 3 We secure broadband market leadership in fixed and mobile
- 4 We stabilize revenue in Germany in 2014



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
REVIEW 2010 – 2012

2010 – 2012: SOLID PERFORMANCE IN A COMPETITIVE MARKET.

AMBITION LEVEL 2012

- Stable market share broadband
 - Stable market share service revenues (mobile)
 - 2.5 – 3mn Entertain customers
 - ≈ €1.5 bn data revenues (mobile)
-
- Customer loyalty Index + >10% (2010 – 2012)
-
- > €1.5 bn adj. opex net reduction (2010 – 2012)
 - Increasing adj. EBITDA margin
 - Stable revenues
 - One Company: exploit German fixed mobile integration
 - Revenue synergies ≈ €0.4 bn in 2012 (mainly cross-/up-selling)
 - Share of customers with both fixed and mobile contracts > 30%

ACHIEVEMENTS 2012

- 44.9% (-1.7PP) 
 - 34.2% (-0.7PP) 
 - 1.9 mn 
 - €1.8 bn (LTM) 
-
- 56 points (+10%) 
-
- €1.9 bn (YTD 2012) 
 - 41.7% YTD 2012 (+4.0PP)¹ 
 - -2.2% yoy (YTD 2012) 
-
- > 0.4 bn (2012e) 
 - ≈ 25% 



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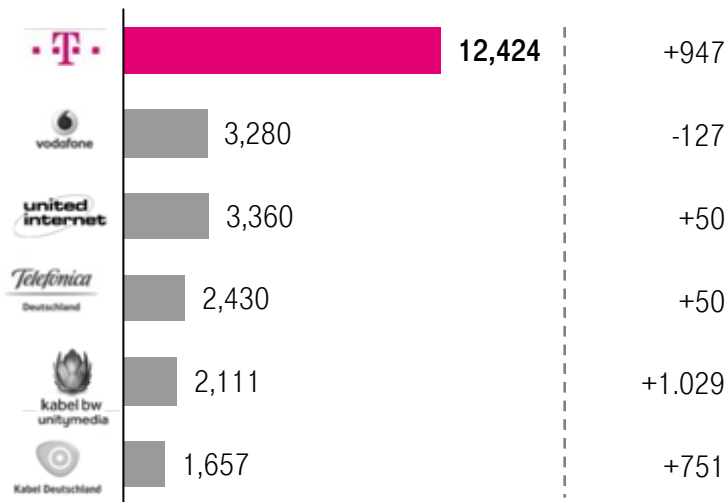
¹ EBITDA margins FY 2009 as reported by companies within FY 2010 results. Telekom Deutschland: adj. EBITDA before online consumer restatement LTM = last twelve month

REVIEW 2010 – 2012: CLEAR #1 IN BROADBAND.

GERMAN BROADBAND MARKET Q3/2012

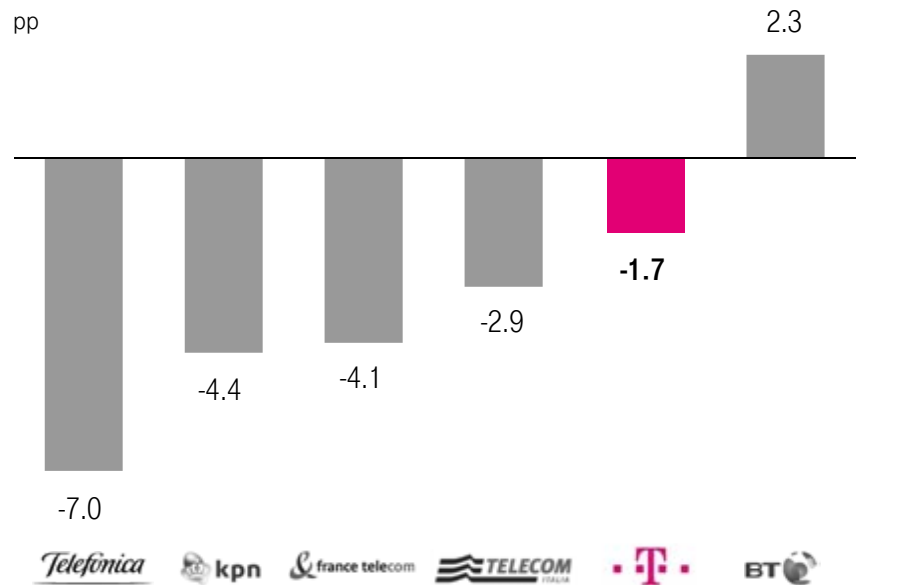
in k

BB NET ADDS
2010 – Q3/2012



PEERS DOMESTIC BROADBAND MARKET SHARE Q3/2012 VS. FY 2009¹

pp

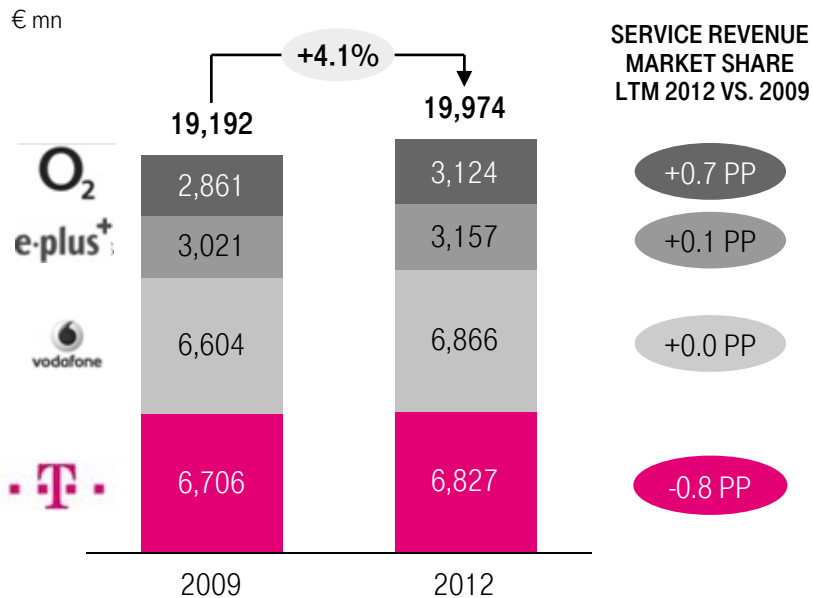


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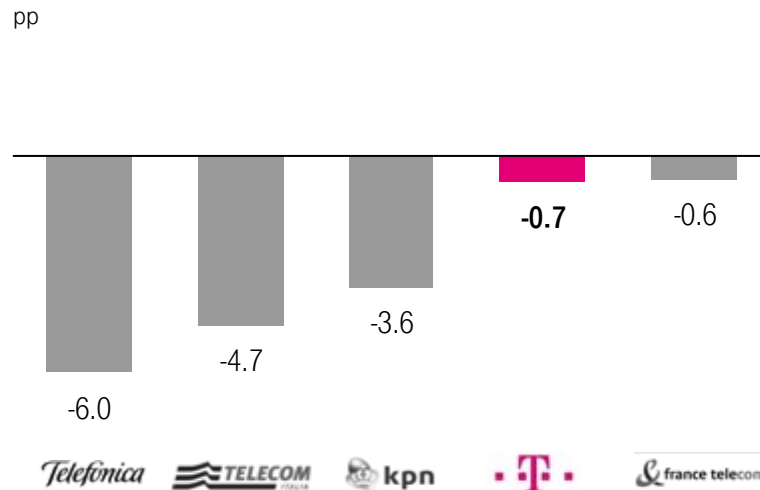
¹ Source: Bank of America Merrill Lynch

REVIEW 2010 – 2012: HOLDING UP WELL IN A VERY COMPETITIVE GERMAN MOBILE MARKET.

GERMAN MOBILE MARKET¹



PEER DOMESTIC SERVICE REV. MARKET SHARE Q3/2012 VS. FY 2009²



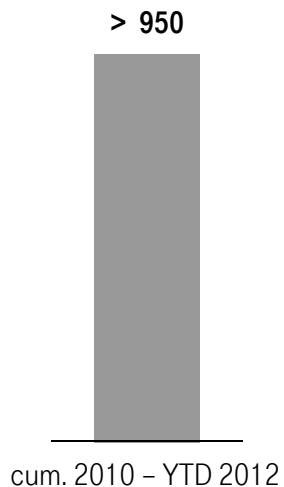
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¹ 2012 = LTM: Last twelve months (Q4/2011 – Q3/2012) ² Source: Bank of America Merrill Lynch

REVIEW 2010 – 2012: “ONE COMPANY” SUCCESSFULLY STARTED, MORE TO COME.

CROSS- AND UPSELLING REVENUE

€ mn

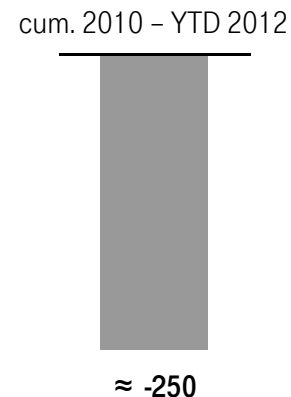


TELEKOM DEUTSCHLAND

- ONE BRAND 
- ONE SALES & SERVICE 
- ONE ORGANIZATION 
- INTEGRATED PROCESSES & STEERING 
- INTEGRATED NETWORKS 
- INTEGRATED IT-SYSTEMS UND PROCESS 

OC DRIVEN OPEX REDUCTION

€ mn

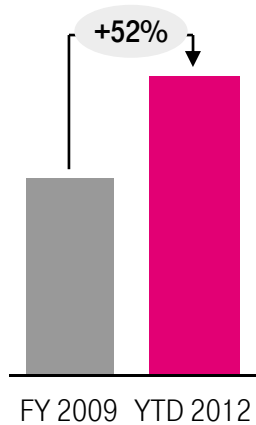


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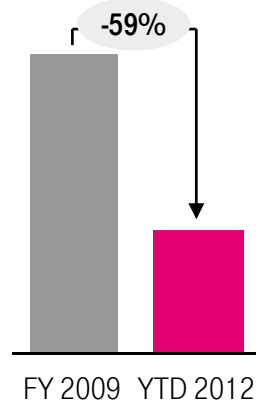
REVIEW 2010 – 2012: SIGNIFICANT CHURN REDUCTION BASED ON SUPERIOR NETWORK QUALITY AND CUSTOMER SERVICE.

OUR CUSTOMER SERVICE TODAY...

Mean Time between assistance for DSL lines



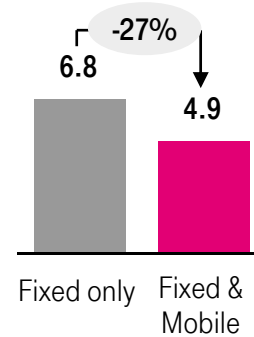
Customer complaints



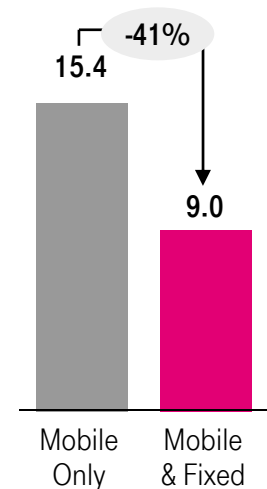
... LEADS TO LOWER CHURN.

% YTD/2012

Churn Fixed Double Play



Churn Mobile Double Play



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REVIEW 2010 – 2012: OUTPERFORMING IN PROFITABILITY TERMS.

OUTPERFORMING INTEGRATED DOMESTIC BUSINESS OF OUR PEERS...

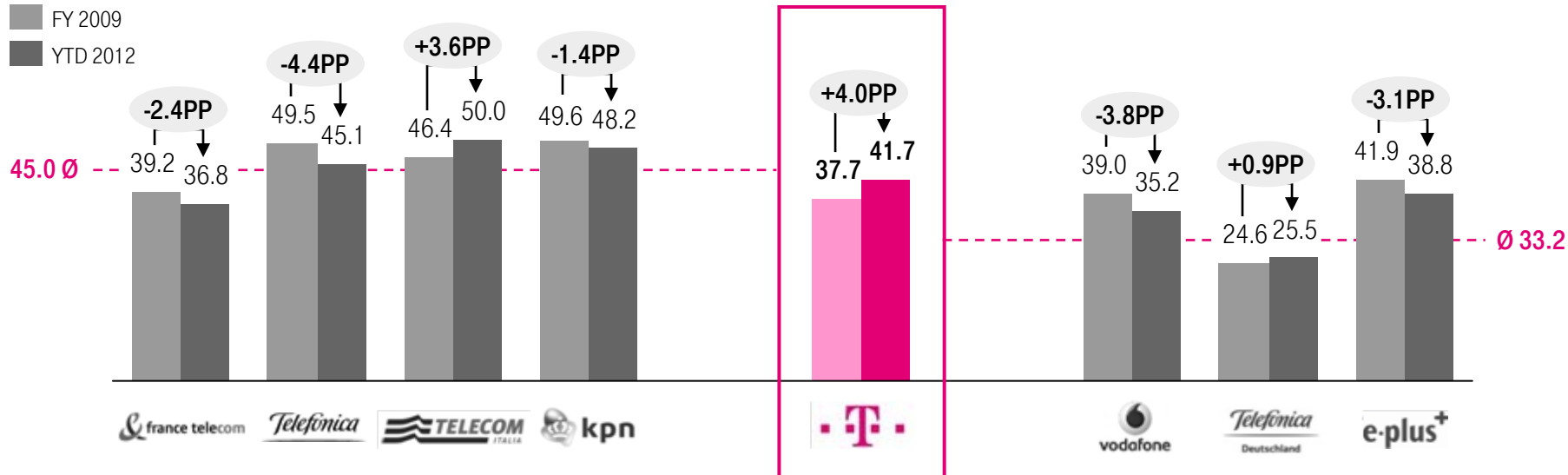
... AND NATIONAL TELCO COMPETITORS.

Ebitda margin

%¹

■ FY 2009

■ YTD 2012



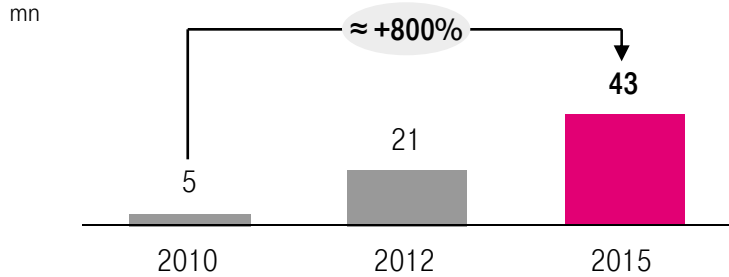
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¹ EBITDA margins FY 2009 as reported by companies within FY 2010 results. Telekom Deutschland: adj. EBITDA before online consumer restatement | Vodafone figures based on half-year reporting (FY2009= Q2/2009 – Q1/2010: YTD 2012 = Q2+Q3/2012) | TI: adjusted EBITDA margin | KPN: Dutch telco business | Telefónica Deutschland: Oibda margin before group fees

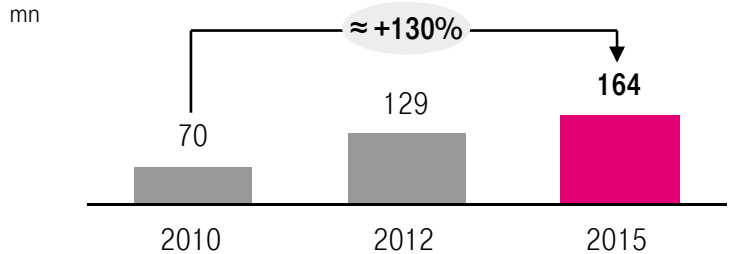
MARKET TRENDS

MOBILE DATA BECOMES MASS MARKET...

WESTERN EUROPE TABLET SALES¹

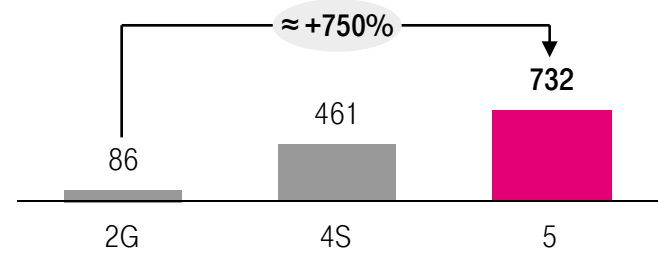


WESTERN EUROPE SMARTPHONE SALES²



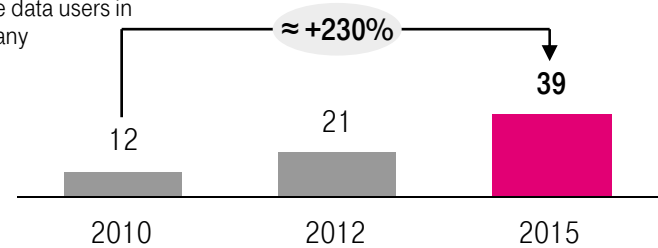
EVERY IPHONE GENERATION DRIVES DATA APETITE

MB usage per month in October 2012



MOBILE DATA MARKET GROWTH³

Mobile data users in Germany
mn



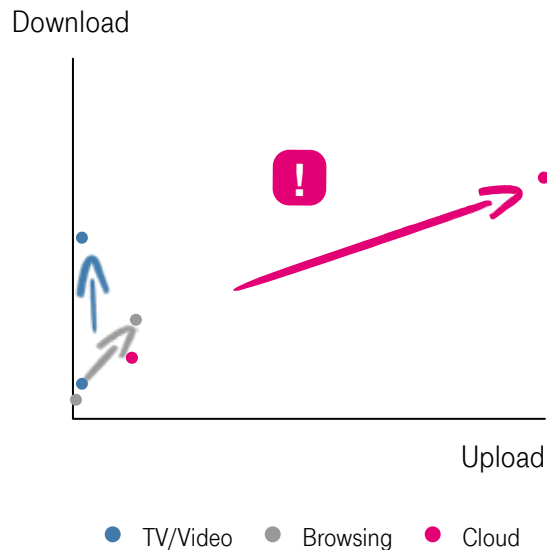
LIFE IS FOR SHARING.

... WHILE CUSTOMER USE CASES DRIVE HIGHSPEED AND ESPECIALLY UPLOAD DEMAND.

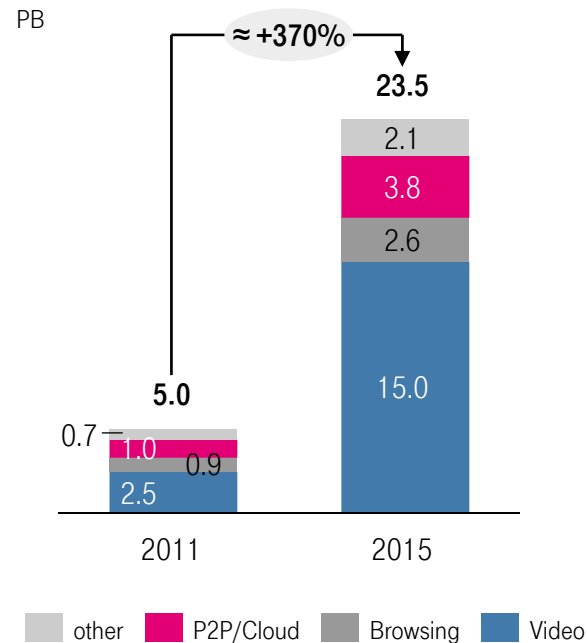
3 RELEVANT CUSTOMER USE CASES...

- 1 Video/TV
- 2 Cloud
- 3 Browsing

... WITH CLOUD BOOSTING UPLOAD ...



... ARE THE MAIN TRAFFIC DRIVERS.¹



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¹ IDC, Europe Wireline Traffic Share by Traffic Type, 2011 and 2015

MAJOR TRENDS IN CORE MARKET.

FIXED COMMUNICATIONS



Cable competition
speed & TV



Fixed mobile
substitution via LTE



Change in
wholesale business



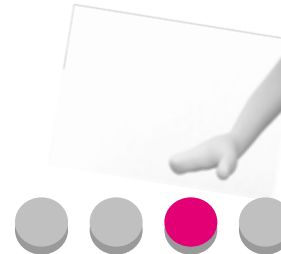
MOBILE COMMUNICATIONS



Price competition
via discount brands



Full flat
penetration



Network quality perception
as differentiator

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CORE MARKETS UNDER CONTINUED REGULATORY PRESSURE.

MOBILE TERMINATION RATES CUT¹



INTERCONNECTION CUT²



POSITIVE SIGNALS HAVE TO MATERIALIZE



“I intend to produce durable regulatory guidance, to apply at least until 2020.”³



Encouraging comments have to materialize and are a precondition for increased network investments

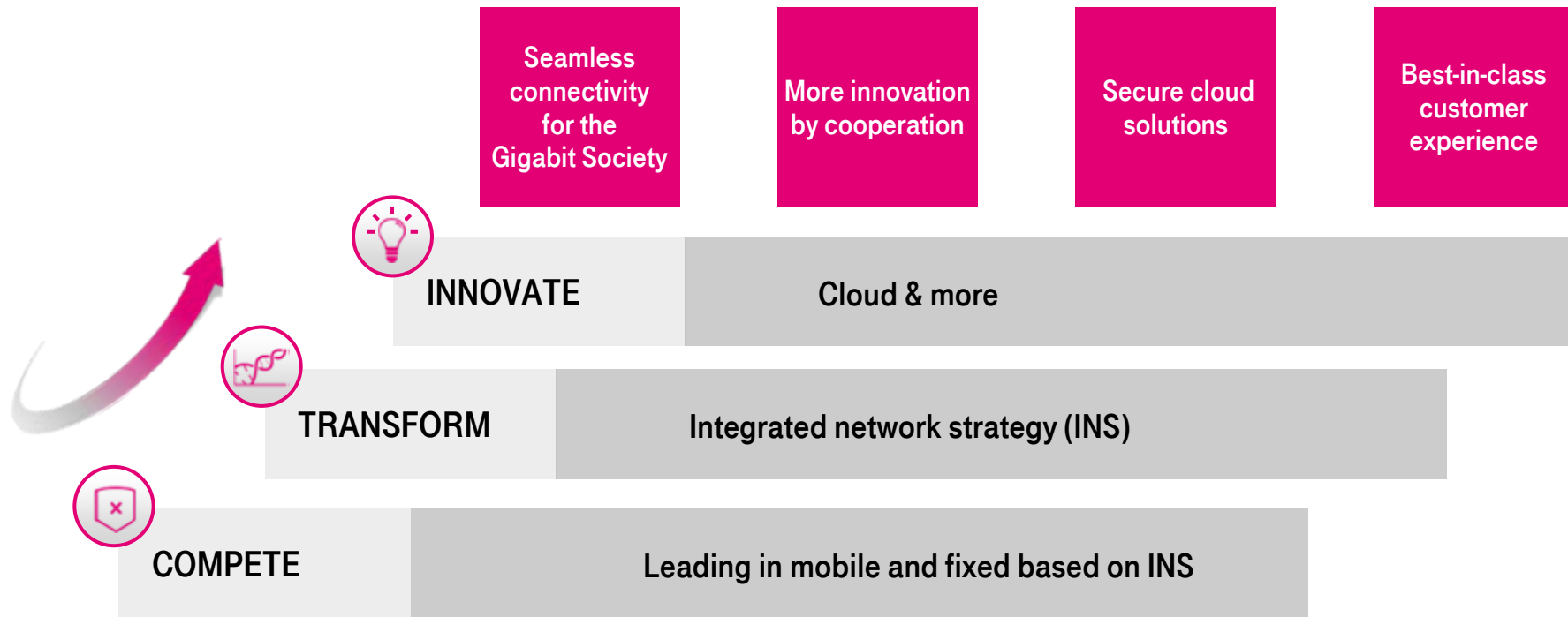


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STRATEGY 2013 – 2015

STABILIZE REVENUES IN
2014 AND MARKET
LEADERSHIP

OUR PRIORITIES IN GERMANY UNDERLINE THE GROUP STRATEGY.



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OUR PRIORITIES IN GERMANY UNDERLINE THE GROUP STRATEGY.

Seamless connectivity for the Gigabit Society

More innovation by cooperation

Secure cloud solutions

Best-in-class customer experience



INNOVATE

Cloud & more



TRANSFORM

Integrated network strategy (INS)



COMPETE

Leading in mobile and fixed based on INS



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NETWORK QUALITY BECOMES CRUCIAL.



BANDWIDTH DEMANDING USE CASES...

- 1 Video/TV
- 2 Cloud
- 3 Browsing

...EVERYWHERE & SIMULTANEOUS...



... MAKE NETWORK QUALITY CRUCIAL.

Speed

Coverage

Capacity

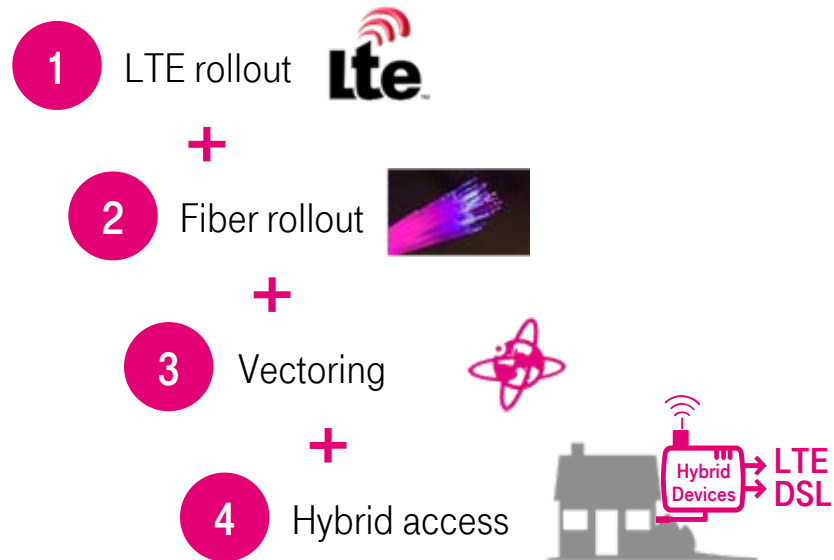


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INS: MASSIVE ROLLOUTS OF LTE AND FIBER WITH VECTORING COMBINED WITH REVOLUTIONARY ACCESS APPROACH.



TRANSFORM



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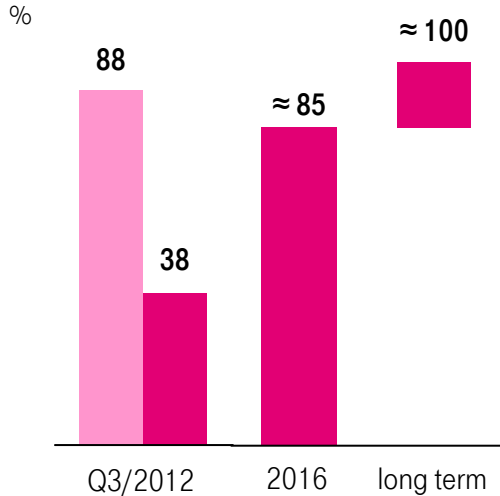
1 INS: CAPEX EFFICIENT AND RAPID ROLLOUT OF BEST-IN-CLASS LTE NETWORK.



LTE

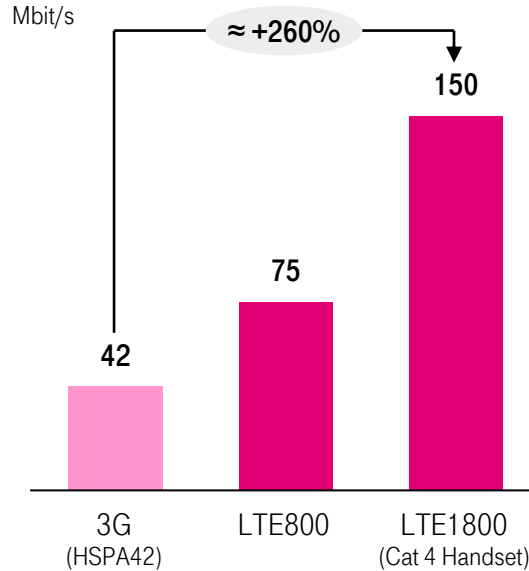
LTE ROLLOUT PLAN

Outdoor pop coverage

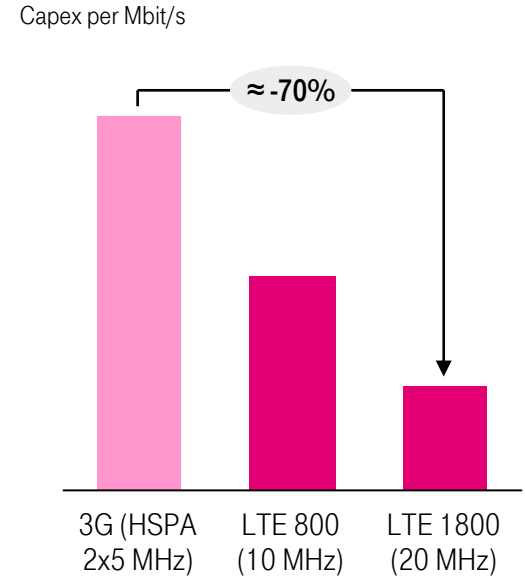


HSPA LTE

PEAK PERFORMANCE



HIGHER CAPEX EFFICIENCY



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2+3 INS: FIBER UPGRADE OF FIXED NETWORK IN COVERAGE & SPEED IS A SMART “NO REGRET MOVE” TO FTTH.

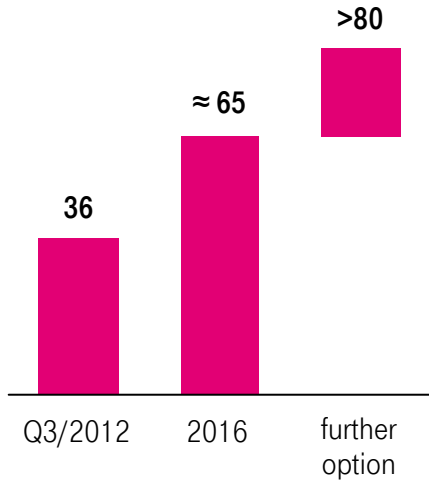


Fiber

FIBER ROLLOUT PLAN

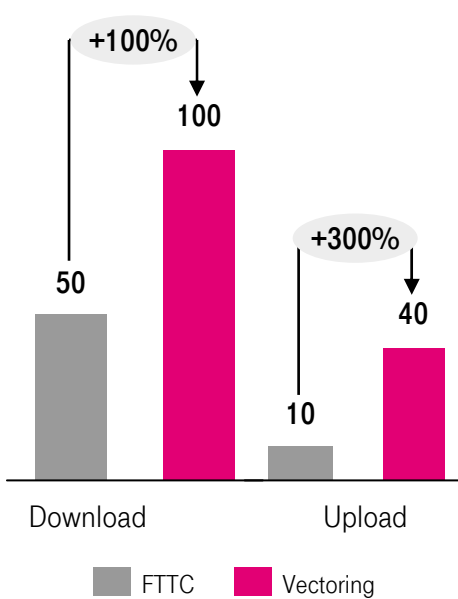
Coverage

%



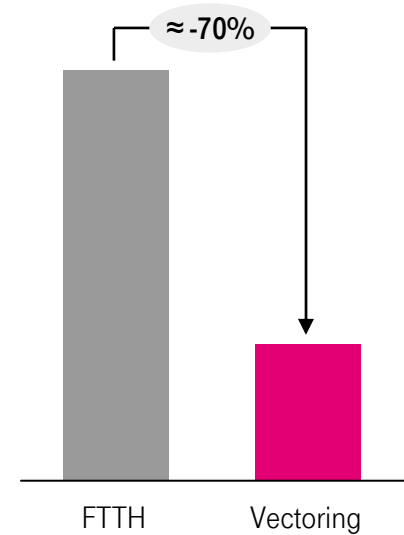
VECTORING PERFORMANCE UPGRADE¹

Mbit/s



HIGHER COVERAGE WITH LOWER CAPEX

Capex per connected home



¹ with short distribution cables lengths

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4 INS: HYBRID REVOLUTION THROUGH COMBINATION OF FIXED AND MOBILE FOR SUPERIOR SPEED EXPERIENCE.



Hybrid

SUPERIOR OFFERING FOR CUSTOMERS...

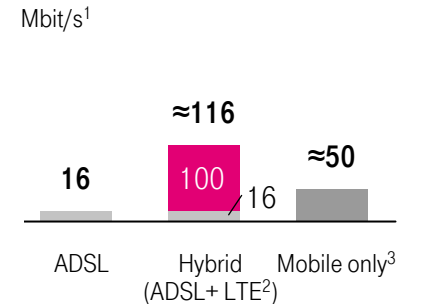
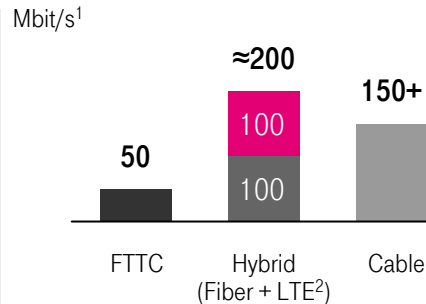
Speed up your access @ home



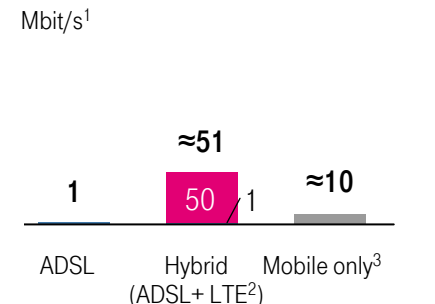
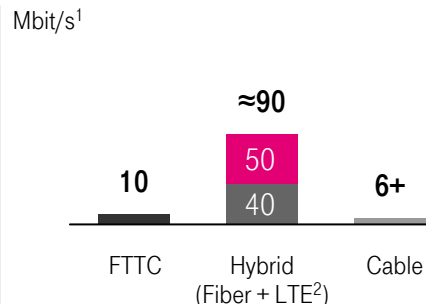
CABLE FOOTPRINT (24MN HH)

COPPER ONLY (16MN HH)

MAX. DOWNLOAD



MAX. UPLOAD



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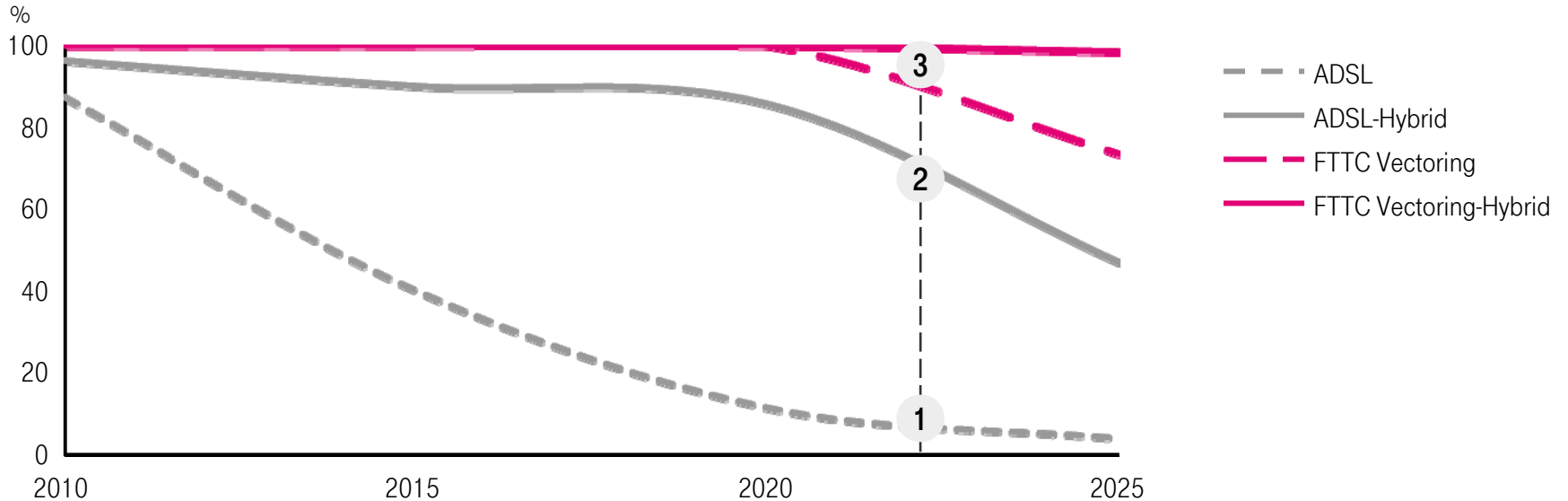
¹ broadband speed communication for consumer ² LTE 1800Mhz ³ Vodafone LTE Zuhause

4 INS: VECTORING AND HYBRID PROLONGATE THE COPPER LIFECYCLE UP TO 10 YEARS.



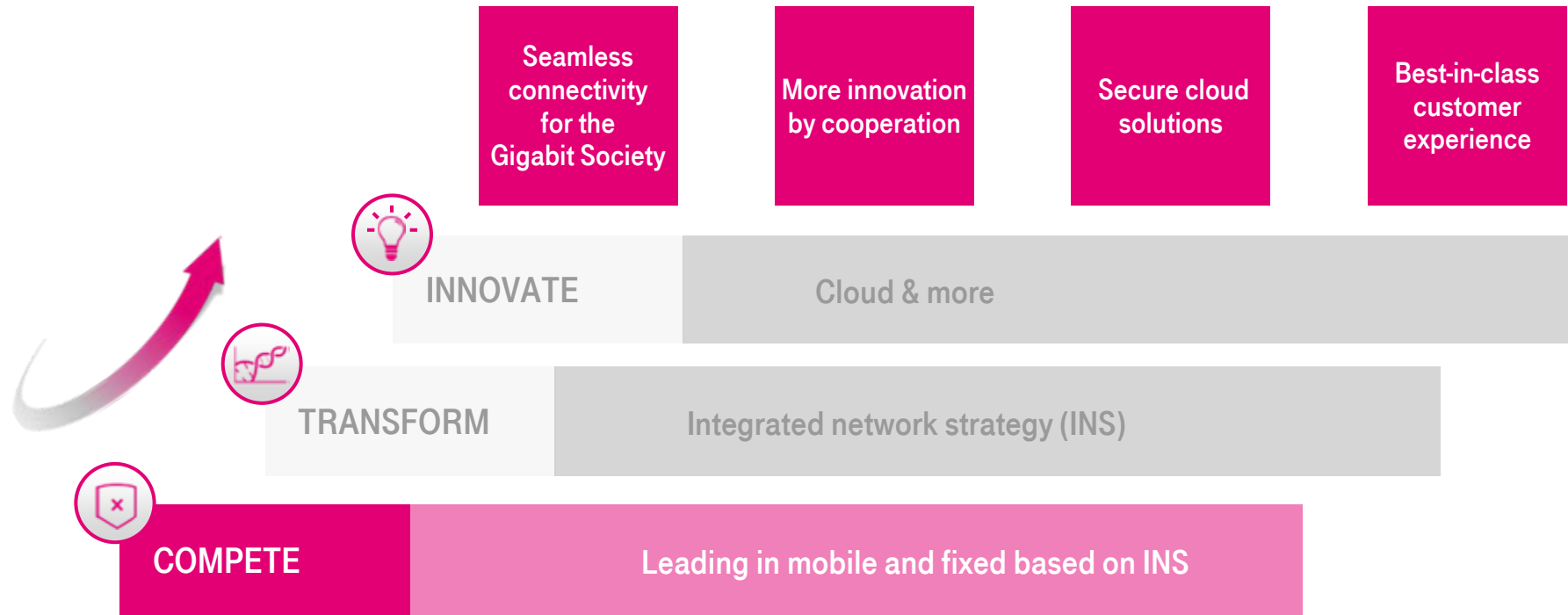
INS FULLY COVERS CUSTOMER USE CASES FOR THE NEXT DECADE.

Customer use cases covered



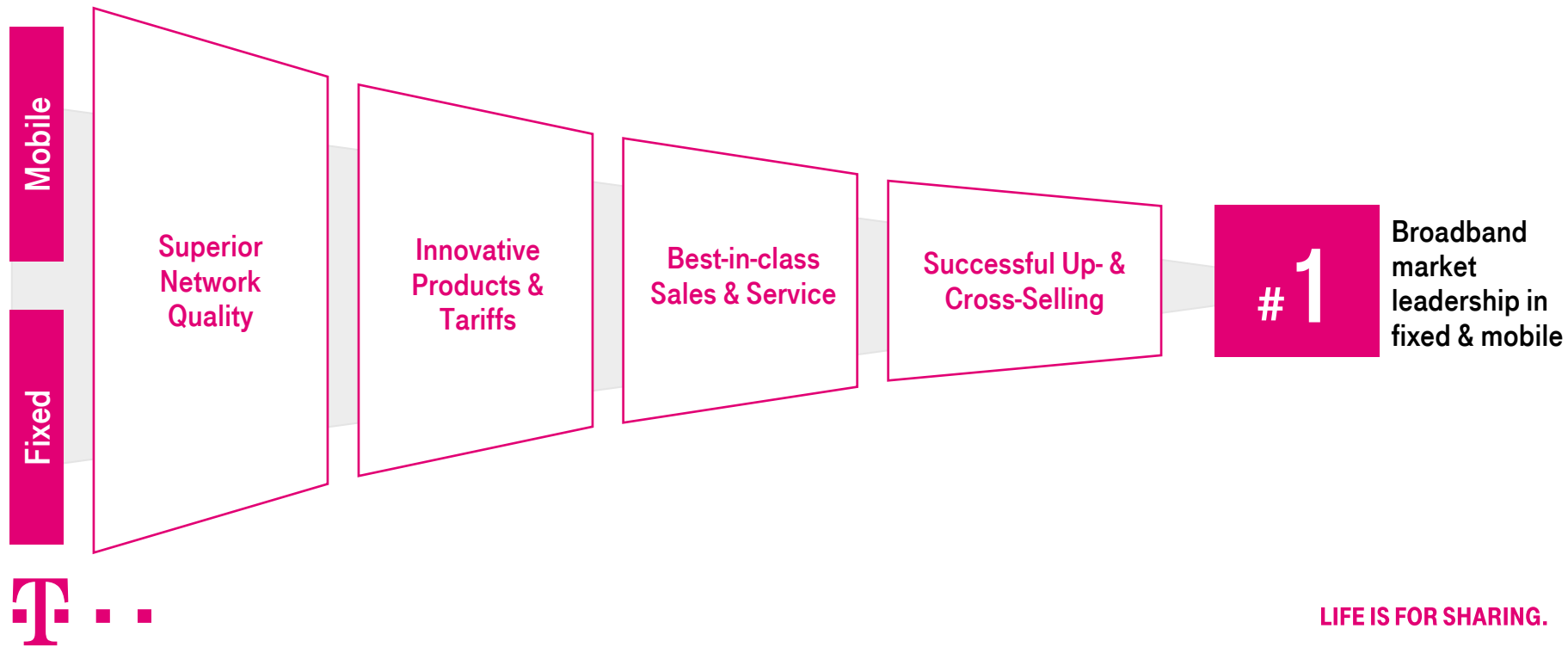
LIFE IS FOR SHARING.

OUR PRIORITIES IN GERMANY UNDERLINE THE GROUP STRATEGY.



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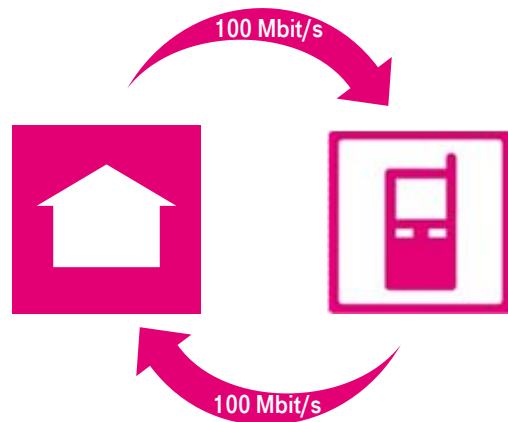
KEY DIFFERENTIATORS ACROSS ENTIRE VALUE CHAIN SECURE MARKET LEADERSHIP.



UNRIVALED CUSTOMER EXPERIENCE IN ALL USE CASES - EVERYWHERE!



HIGHSPEED BROWSING



Same speed everywhere

TV ON ALL SCREENS



Entertain everywhere

CLOUD



Safe & trusted cloud services



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BEST-IN-CLASS SALES AND SERVICE.



DISTRIBUTION

> 750 Telekom shops



≈ 1,000 Distribution partners



Best shopping experience

CUSTOMER SERVICE

> 10,000 agents



Improve process quality



Increase customer satisfaction

TECHNICAL SERVICE

> 10,000 experts



Innovative service products



Best partner for customer



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MOBILE STRATEGY: THE MARKET LEADER HAS TO ENSURE FAIR SHARES THROUGHOUT ALL SEGMENTS.



PREMIUM T BRAND COMPLEMENTED BY CONGSTAR¹



BEST IN CLASS OFFERS FOR ALL SEGMENTS

- 1
 - **Unmatchable LTE** speeds & coverage
 - Excellent **spectrum** (800 & 1800MHz)
 - **World-class device portfolio** bundled with exclusive extras (e.g. Spotify, Hotspot)
 - **Monetization:** LTE only incl. in high-end tariffs & on-top options.
- 2
 - **Fast follower** via service provider & discount brands
 - Additional segments, avoid cannibalization of T brand
- 3
 - congstar for smart shoppers & discount mainly online & **less subsidized tariffs**



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MOBILE STRATEGY: DESPITE TOUGH PRICE PRESSURE, WE SUCCESSFULLY GROW GROSS ADDS ARPU.



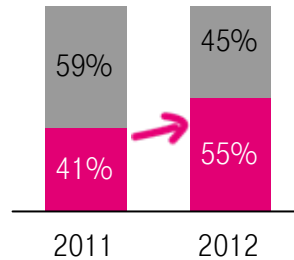
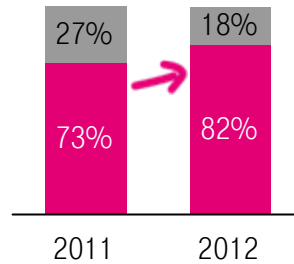
MARKETING FOCUS

Value based customer acquisition

Retention & up selling of customer base

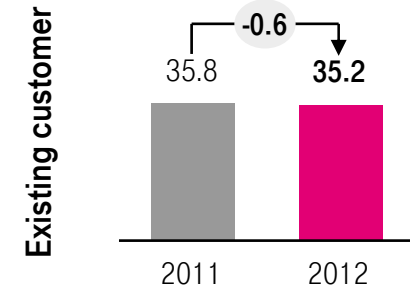
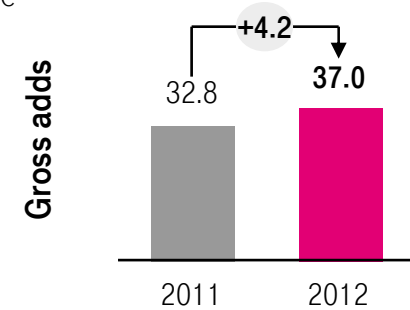
T-BRANDED CONSUMER CONTRACT CUSTOMER MIX

Single Play Double Play



T-BRANDED CONSUMER CONTRACT ARPU

€



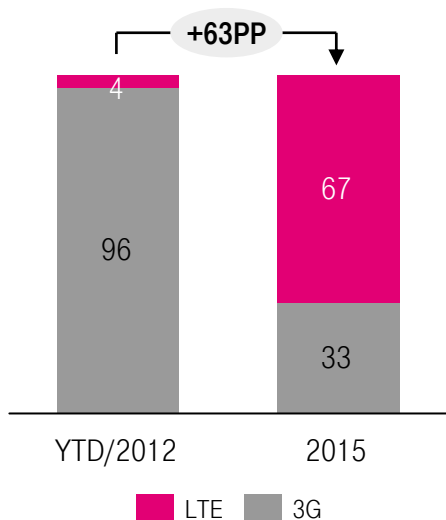
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MOBILE STRATEGY: SERVICE REVENUE RETURNS TO GROWTH AS A RESULT OF AN EXPANDING & HIGHER-VALUE BASE.



SHARE OF LTE SMARTPHONES

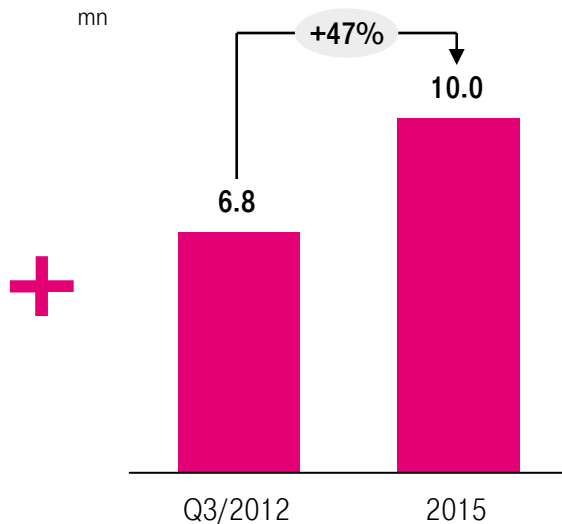
% based on TDG smartphone sales



STRONG DOUBLE PLAY UPTAKE

Contract customers

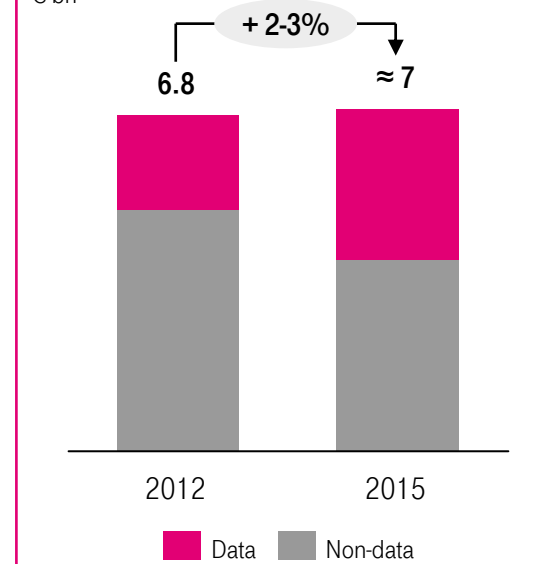
mn



SERVICE REVENUE GROWTH

Service revenue

€ bn







2012 = LTM

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FIXED STRATEGY: WE COMPETE WITH CABLE BY ADDRESSING NEW MARKETS AND REINFORCED WHOLESALE PARTNERSHIPS.



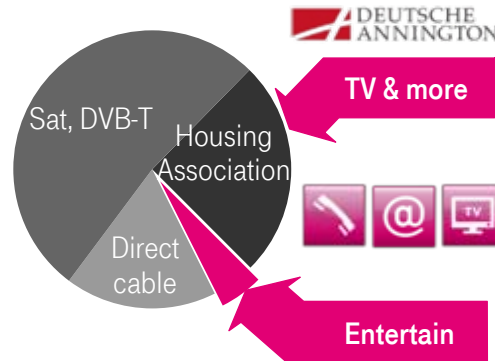
INTEGRATED NETWORK STRATEGY

- 1 LTE rollout 
- 2 Fiber rollout 
- 3 Vectoring 
- 4 Hybrid access 

Competitive integrated offerings

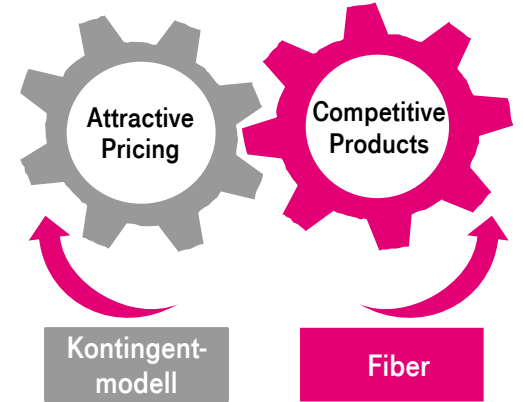
TV STRATEGY

German TV market



Fastest growing TV player

WHOLESALE STRATEGY



Strengthen Wholesale partnership



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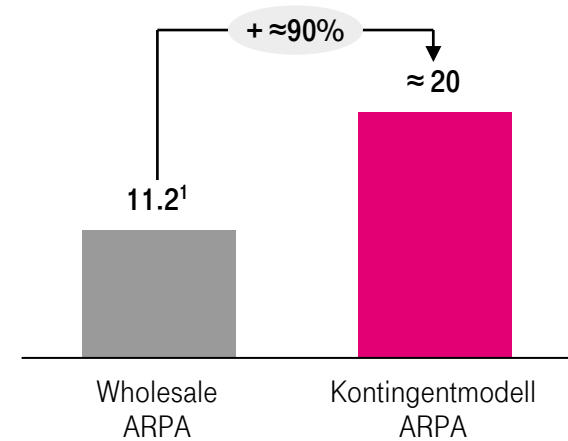
FIXED STRATEGY: "KONTINGENTMODELL" STRENGTHENS WHOLESALE PARTNERS TO SECURE NETWORK UTILIZATION.



MECHANICS OF „KONTINGENTMODELL“

- Logic supports nationwide and regional players
 - upfront investment
 - risk sharing
- Long-term contract (up to 10 years) with commitment
 - price (upfront & monthly fee)
 - volume
- Allows rational retail pricing

ARPA UPLIFT



High utilization of fiber network
Stabilize revenue in wholesale



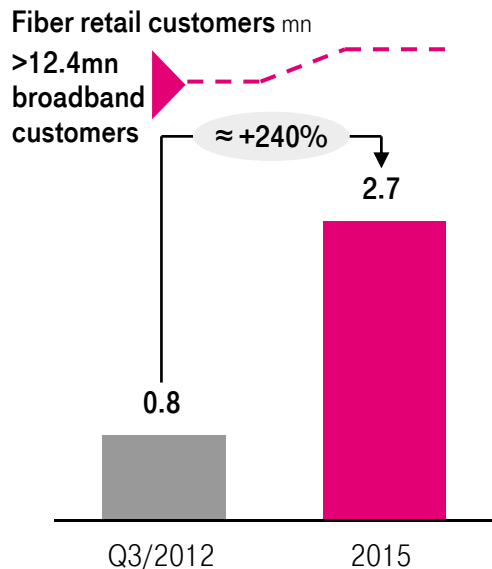
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¹ Calculation: 85% ULL, 15% IP BSA

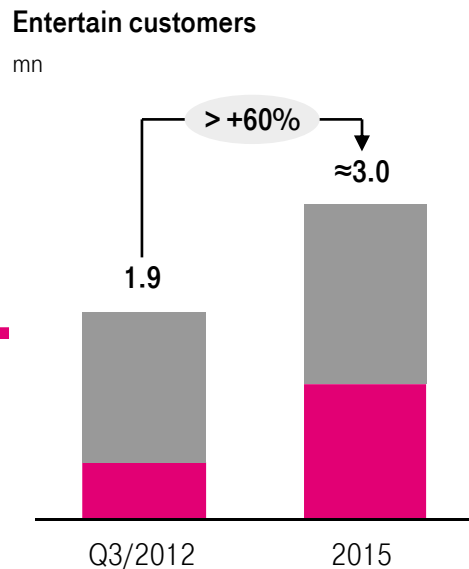
FIXED STRATEGY: COMPENSATE LINE LOSSES BY UPSELLING RETAIL BASE TO FIBER AND ENTERTAIN.



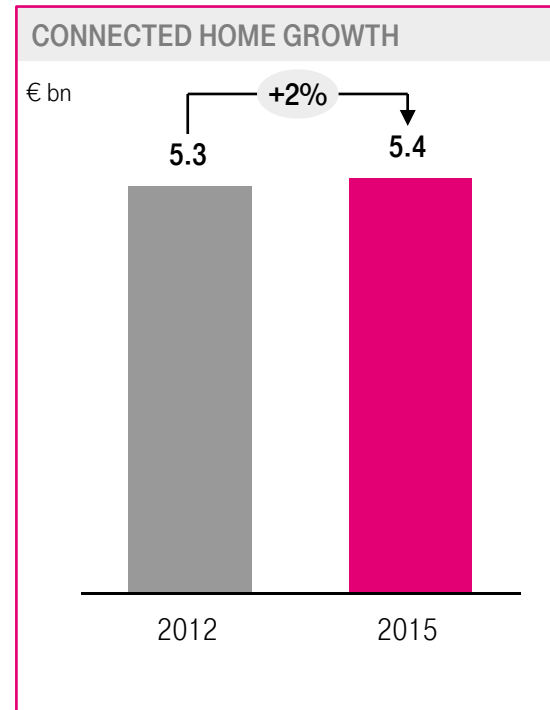
FIBER CUSTOMERS



ENTERTAIN CUSTOMERS



thereof HD



2012 = LTM

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OUR PRIORITIES IN GERMANY UNDERLINE THE GROUP STRATEGY.

Seamless connectivity for the Gigabit Society

More innovation by cooperation

Secure cloud solutions

Best-in-class customer experience



INNOVATE

Cloud & more



TRANSFORM

Integrated network strategy (INS)



COMPETE

Leading in mobile and fixed based on INS



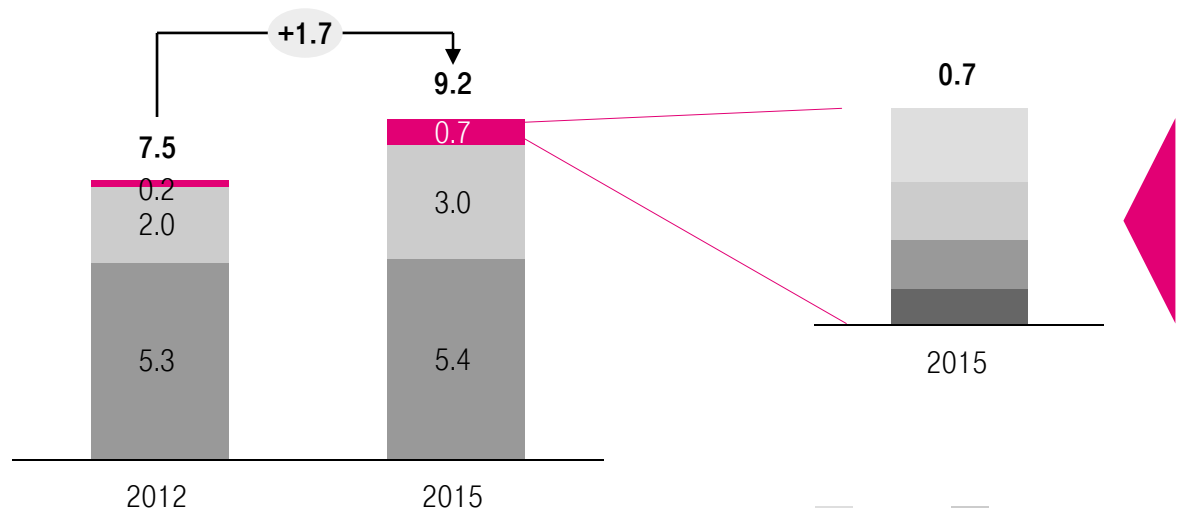
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GROWTH INITIATIVES WITH INNOVATIONS FROM OWN DEVELOPMENTS, PARTNERING AND VENTURES.



GROWING BUSINESS (OPERATING SEGMENT GERMANY)

€ bn



Growth Initiatives
 Mobile Data
 Connected Home

Cloud¹
 Intelligent networks¹
 De-Mail
 M2M



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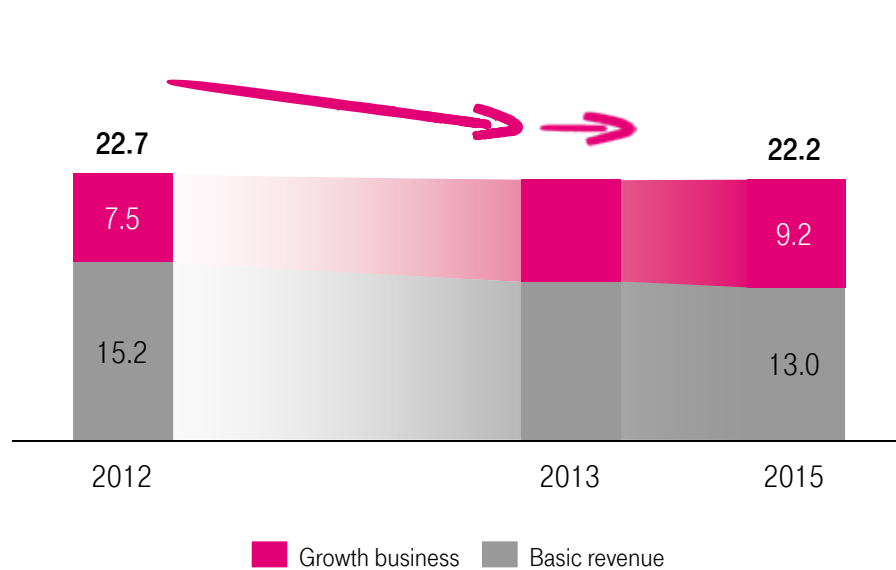
¹ Revenues in the operating segment Germany.

FINANCIAL OUTLOOK

REVENUE STABILIZATION IN 2014 DUE TO MARKET LEADERSHIP AND INNOVATION.

REVENUE STABILIZATION

€ bn



2014

Stable revenues

2015

Revenue split

- Basic revenue < 60%
- Growth revenue > 40%

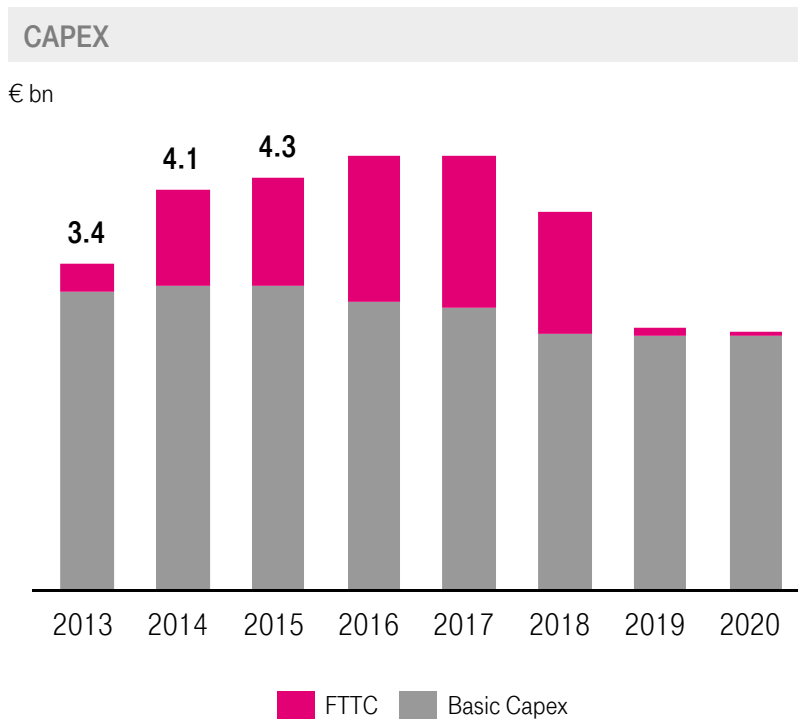
2012/15

Growth business \approx +25%



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AS ALREADY INDICATED FTTC/VECTORING CAPEX OF AROUND €6 BN UNTIL 2020.



2013 - 2020

FTTC/Vectoring Capex

≈ €+6 bn cum.

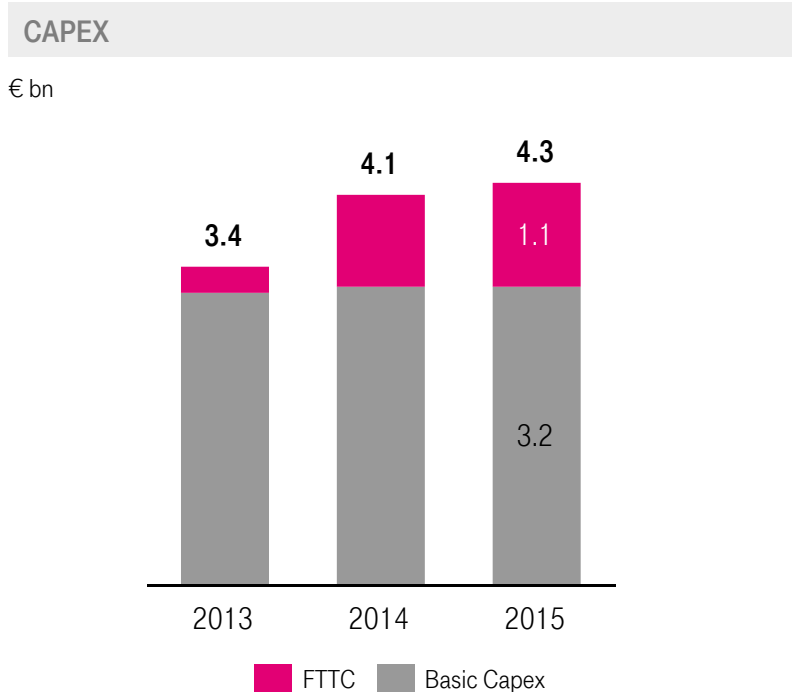
Basic Capex

≈ €-4.4 bn cum.



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FTTC/VECTORING WILL BE FUNDED PARTLY BY REDUCTION OF BASIC CAPEX.



2013 - 2015

FTTC/Vectoring Capex \approx €+2.4 bn cum.

Basic Capex \approx €-1.3 bn cum.

Total Capex \approx €11.8 bn cum.
(\approx €+1.1 bn above 2010 - 2012 cum.)

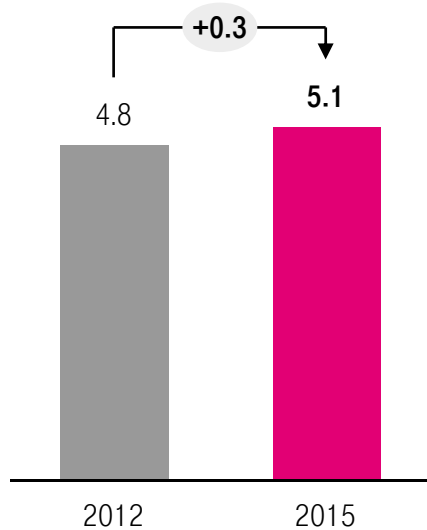


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INVEST IN MARKET LEADERSHIP OVERCOMPENSATED BY INDIRECT OPEX REDUCTION.

DIRECT COST

€ bn



Invest in revenue



Increasing customer service efficiency

Lean IT and NT

Overhead reduction

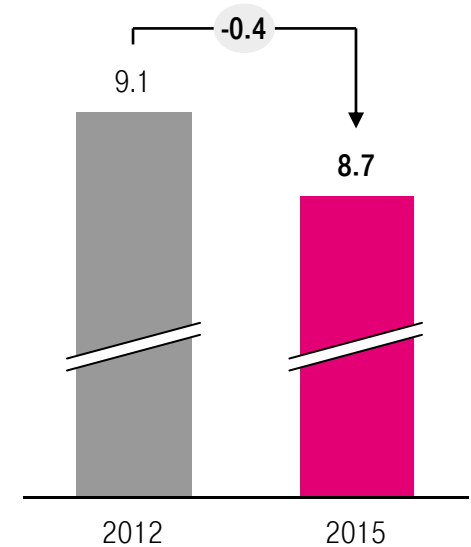


2013 - 2015

≈ €1.0 bn cum.

INDIRECT COST¹

€ bn

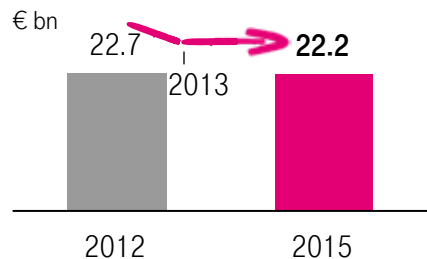


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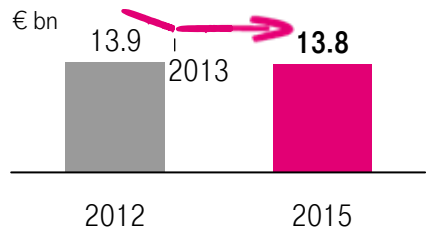
¹ Indirect cost w/o capitalized labor

INCREASING RETURN ON CAPITAL DUE TO OPEX SAVINGS AND LESS RESTRUCTURING PARTIALLY OFFSET BY INCREASING CAPEX.

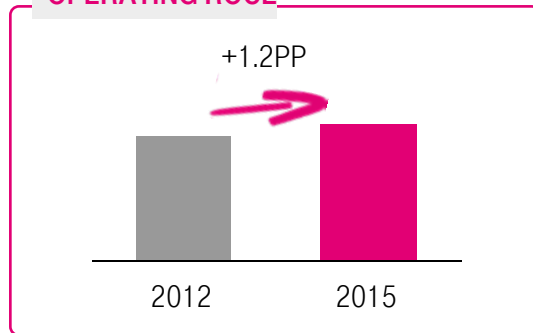
REVENUE



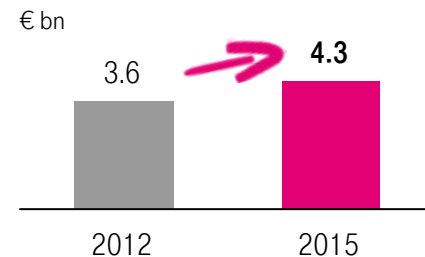
OPEX



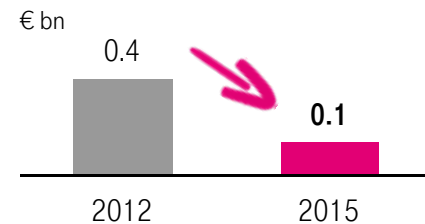
OPERATING ROCE



CAPEX



SPECIAL FACTORS



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AMBITION LEVEL 2015

OUR AMBITION: SECURE SUSTAINABLE BROADBAND MARKET LEADERSHIP IN GERMANY.

	MID-TERM AMBITION LEVEL	
MARKET	<ul style="list-style-type: none">#1 in mobile service revenue market share \approx 35%#1 broadband market share \approx 43%#1 in TV growth	<p>2015</p> <p>2015</p> <p>2012 - 2015</p>
QUALITY	<ul style="list-style-type: none">Customer loyalty index \approx +10%	<p>2015 vs. 2012</p>
FINANCIALS	<ul style="list-style-type: none">Stable total revenuesConnected home revenues +2%EBITDA margin \approx 40%	<p>2014</p> <p>2015 vs. 2012</p> <p>2012 - 2015</p>



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YOUR KEY TAKEAWAYS.

1 The best network: LTE + Fiber + Vectoring + Hybrid Access

2 Strong differentiators: best broadband coverage + largest distribution + best service

3 Revenue stabilization: monetization of mobile, fixed and integrated offerings

4 Solid financial performance: continued high margin



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