

# Deutsche Telekom Investor Day. Europe: Increase competitiveness.

March 18, 2010  
Guido Kerkhoff

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, including those described in the sections "Forward-Looking Statements" and "Risk Factors" of Deutsche Telekom's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. 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 writedowns 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. 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. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Deutsche Telekom's Investor Relations webpage at [www.telekom.com](http://www.telekom.com).



# Agenda.

1

**Differentiated strategy in tough market environment starting to pay off**

2

NatCo achievements and initiatives

- a) Service Leader (TMCZ, PTC)
- b) Smart Challenger (TMA, TMNL)

3

Joint Venture on track (TMUK)

4

Targets



# Fix - Transform - Innovate:

EU region addresses 4 of the 5 strategic building blocks.

Fix	Transform		Innovate	
Improve performance of mobile-centric assets	Leverage one company in integrated assets	Build networks and processes for the gigabit society	Connected life across all screens	Connected work with unique ICT solutions
 CZ  PL  AT  NL	 CZ  PL  NL	 CZ  PL  AT  NL	 CZ	





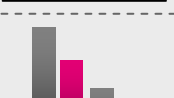


# DT strategy breakdown into NatCo specific ambitions.



		Positioning	Sales and service	Operations	Network
<b>Overarching ambition</b>		Strengthen brand	Increase competitiveness	Lean & efficient	Performance & perception boost
<b>Service Leader</b>	CZ	Integrated operator	Differentiation and growth	Save for service	Network enhancement (3G rollout)
	PL	Market leadership	Customer excellence		Smart technology (IT performance)
<b>Smart Challenger</b>	AT	Multi brand execution	Sales machine		Strong network (focus on data)
	NL	Value for money	Focus on customer & grow in value		Network enhancement (close perception gap)



# Increase competitiveness in EU5 with differentiated NatCo strategies.

Position	Service Revenue Market Share 2009 <sup>1</sup>	Strategy
 <p>CZ #1</p>	38.3%	<b>Service leader</b> <ul style="list-style-type: none"> <li>▪ Differentiation through quality</li> <li>▪ Efficient telco</li> <li>▪ Market leader offerings (including FMC)</li> </ul>
 <p>PL #2</p>	31.4%	
 <p>AT #2</p>	31.0%	<b>Smart Challenger</b> <ul style="list-style-type: none"> <li>▪ Quality on par level with market</li> <li>▪ Lean operations</li> <li>▪ Leading value proposition</li> </ul>
 <p>NL #3</p>	23.3%	
 <p>UK #4 (#1)</p>	15.0% (37.3% w/Orange)	<ul style="list-style-type: none"> <li>▪ From smart challenger to Joint Venture</li> </ul>



<sup>1</sup> Service Revenues Market Share Average, DT estimates

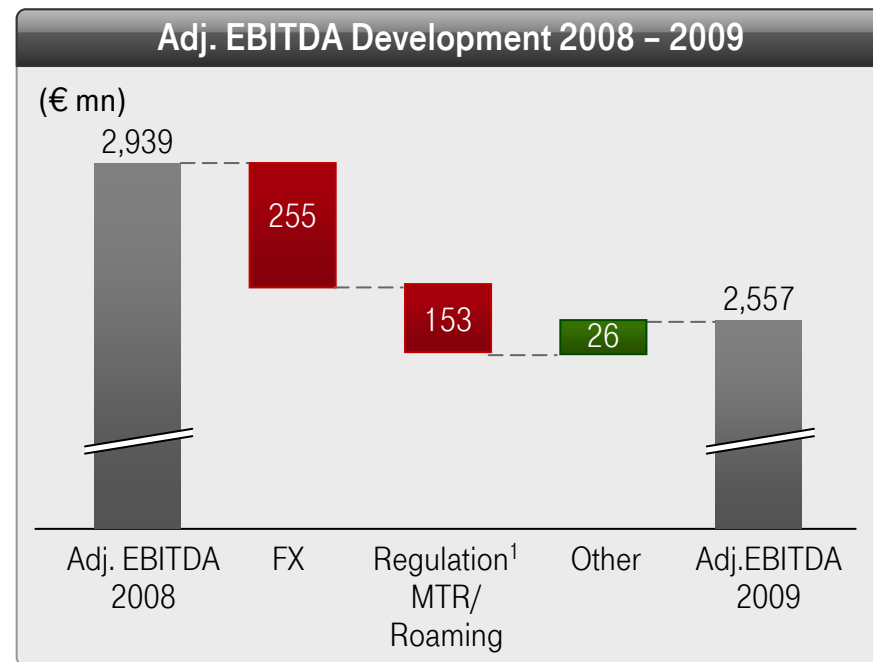
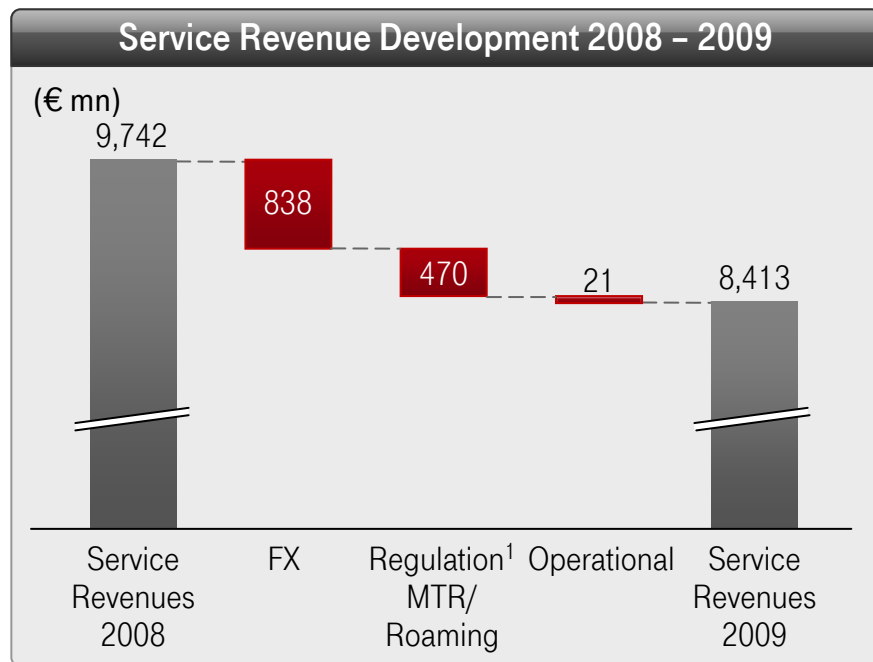
2009 was a tough year with massive F/X deterioration, adverse regulatory effects and a slowing down economy.

	F/X 2008 – 2009	real GDP <sup>1</sup> 2008 – 2009	MTR rates 2008 – 2009
 UK	- 8.0%	- 4.8%	- 15%
 NL	-	- 4.0%	- 15%
 AT	-	- 3.6%	- 34%
 CZ	- 2.3%	- 4.2%	- 16%
 PL	- 11.0%	+1.3%	- 41%



1 Source: Estimates by Institut für Weltwirtschaft (IWW) Kiel, Dec 2009, for UK: International Monetary Found (IMF), Jan 2010

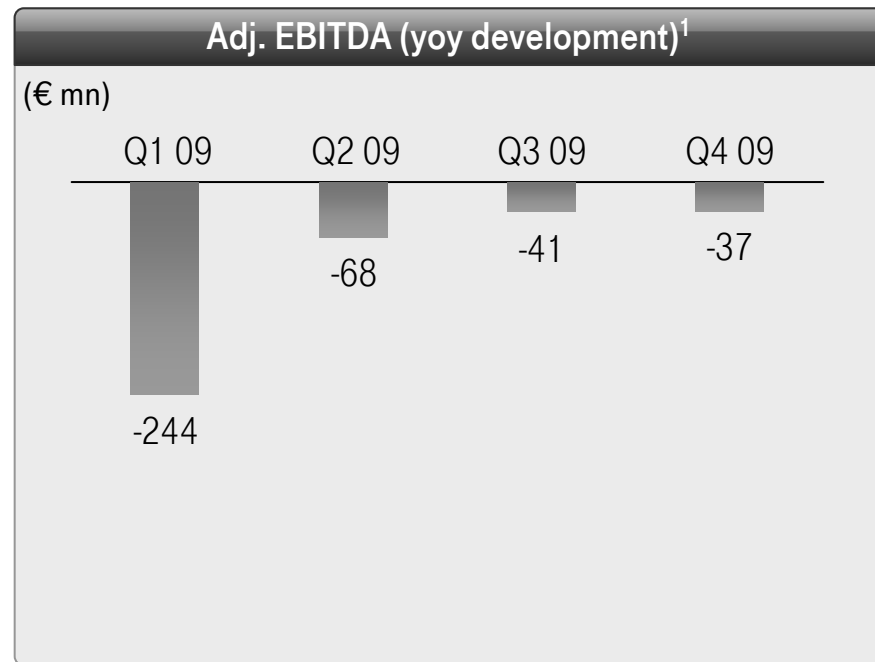
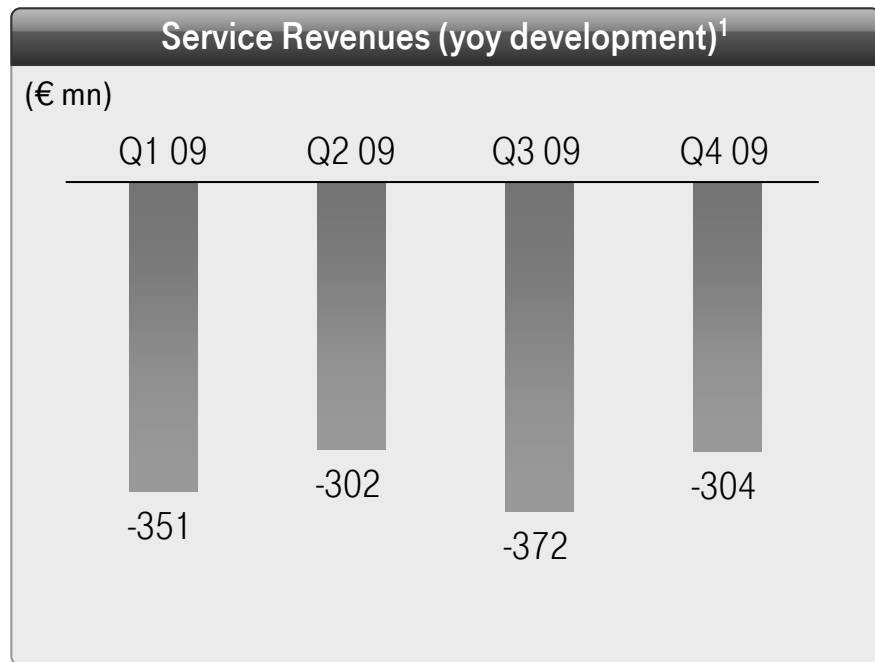
# EU 5: FX and regulation explain revenue and adj. EBITDA decline.



<sup>1</sup> Hypothetical MTR effect, calculated as if there was no regulation in 2009.



# Excellent efficiency management helped to stabilize EBITDA despite revenue pressure.



<sup>1</sup> EU mobile network operator (excluding 'other' revenues)

# Agenda.

1

Differentiated strategy in tough market environment starting to pay off

2

## **NatCo achievements and initiatives**

**a) Service Leader (TMCZ, PTC)**

b) Smart Challenger (TMA, TMNL)

3

Joint Venture on track (TMUK)

4

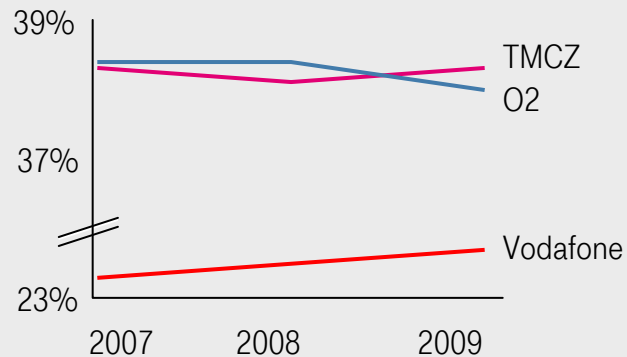
Targets



# TMCZ achieved service revenue market leadership and increased profitability beyond 50%.

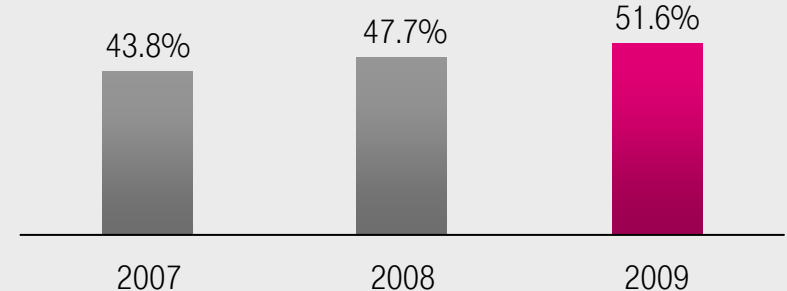


## Service Revenue Market Shares<sup>1</sup>



- Successfully extended market leadership
- Good execution of “boost” program

## Adj. EBITDA margin<sup>2</sup>



- Highly efficient company: leads to highest profitability in EU segment
- TMCZ Q2/09 positively influenced by the settlement of the interconnection dispute with TO2



<sup>1</sup> DT estimates and reported figures

<sup>2</sup> in % of total revenues

# TMCZ: Successful acquisition and integration of České Radiokomunikace retail telecoms operations.



## České Radiokomunikace (ČRa)

- ČRa as leading alternative provider of fixed-line telecoms services
- Primarily fixed line & internet broadband operations
- 135k customers
- Modern LLU network covering majority of CZ business customers

## T-Mobile Czech Republic

- Focus on selective FMC strategy
- Need to extend fixed coverage footprint and portfolio
- Specifically relevant for business customer base

### Strategic fit



- Clear #1 alternative DSL player in Czech Republic
- Improved sales performance (X/U), competitive positioning and tariffs/propositions



# TMCZ: Growing through an integrated operator strategy.



## Integrated operator

- Integration of CRa DSL retail business
- Build position of an integrated operator, target markets: Triple play

## Differentiation & growth

- Customer treatment as main differentiator
- Build loyalty in our customers
- Consistent focus on differentiation across all touch points
- Grow in data – mobile confined and full connectivity, fixed broadband
- New mobile businesses in the future

## Network enhancement

- 3G rollout
- Get ready for LTE
- Evaluate options for further development of fixed infrastructure

## Save for service

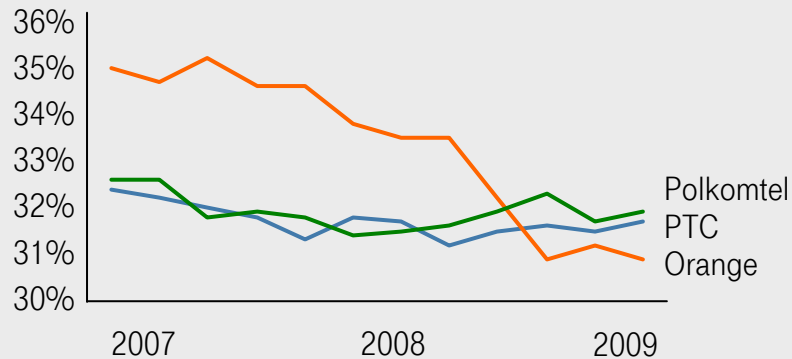
- Continue cost reduction
- Participation in NGNT and NGIT projects



# PTC: EBITDA margin market leadership achieved since Q3, service revenue market share leadership on eye level with Polkomtel.

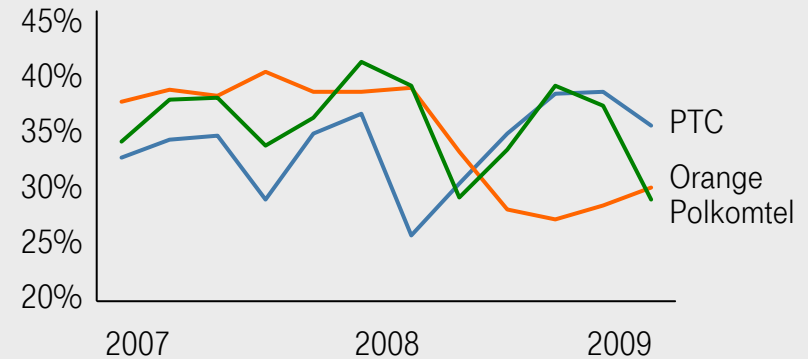


### Service Revenue Market Shares<sup>1</sup>



- PTC closer to No.1 position than in the last 2 years
- PTC recorded slowest YoY revenue decline among main competitors in Q3 and YTD
- Strategy to focus on post-paid was successful

### Adj. EBITDA margin<sup>1,2</sup>



- Since Q3 PTC with EBITDA margin market leadership due to constant focus on costs, e.g:
  - Increase of non handset offer share
  - Optimization of back office costs



# PTC: Focus on sharpening performance.



## Market leadership

- Voice/data push
- Service culture
- Retail optimization
- CRM/analytics

## Customer excellence

- Bundling
- SOHO strategy

## Save for service

- Cost & efficiency management
- Retail optimization

## Smart technology

- IT architecture simplification
- Customer experience management
- Value-based steering/product portfolio management



# Agenda.

1

Differentiated strategy in tough market environment starting to pay off

2

## **NatCo achievements and initiatives**

- a) Service Leader (TMCZ, PTC)
- b) Smart Challenger (TMA, TMNL)**

3

Joint Venture on track (TMUK)

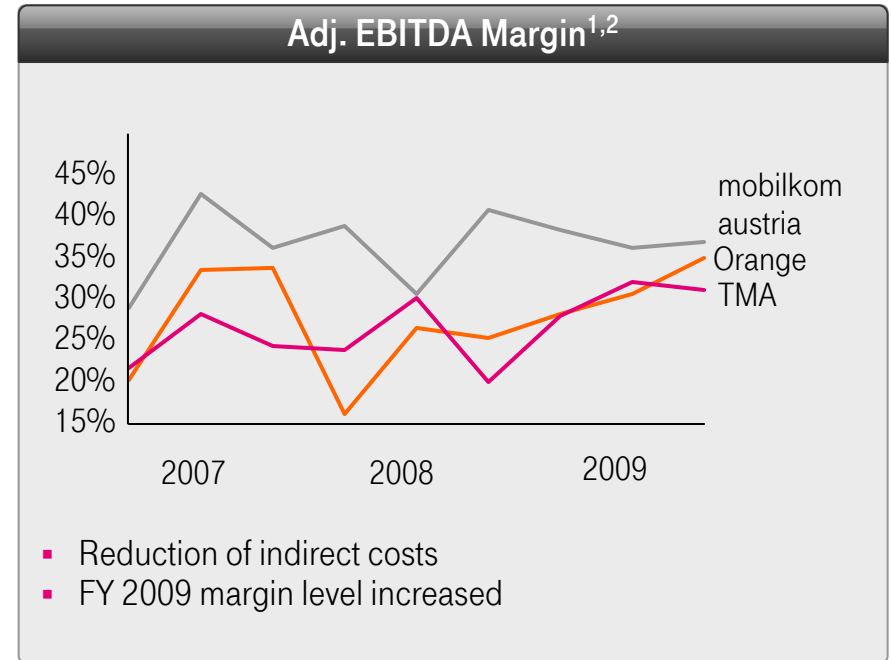
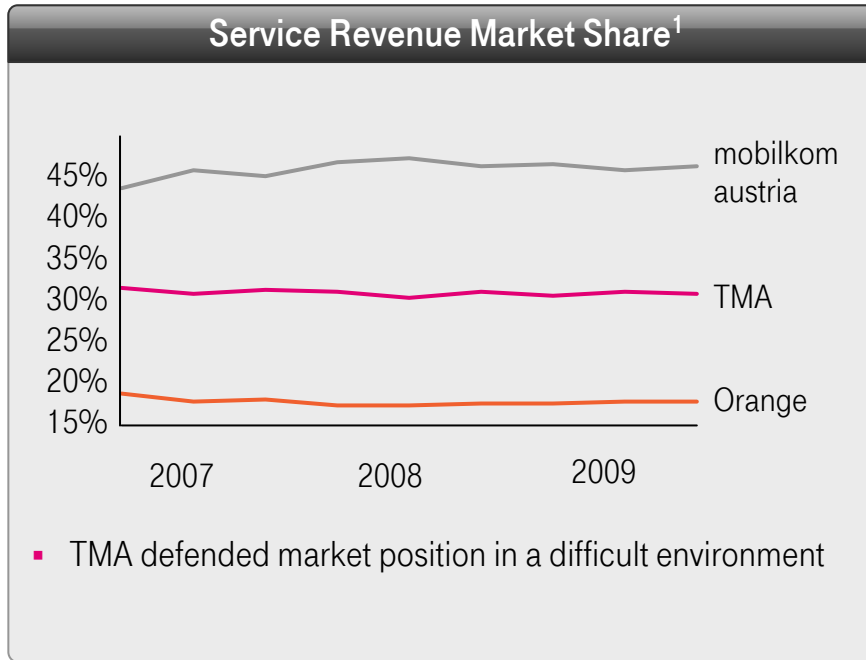
4

Targets



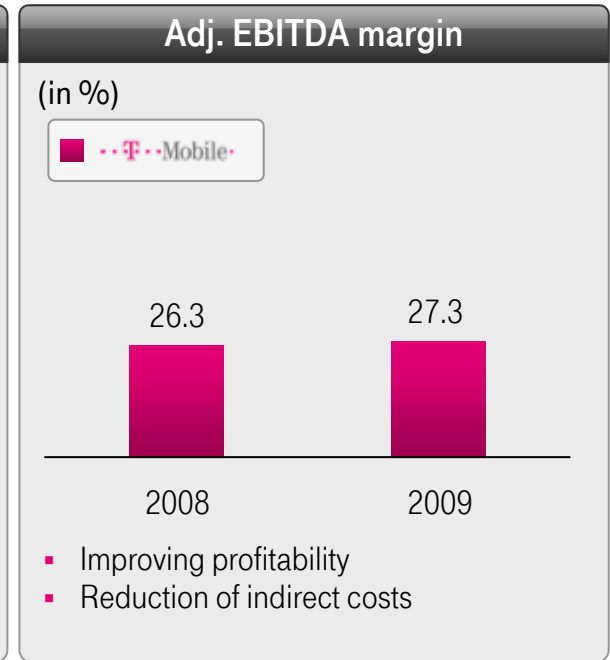
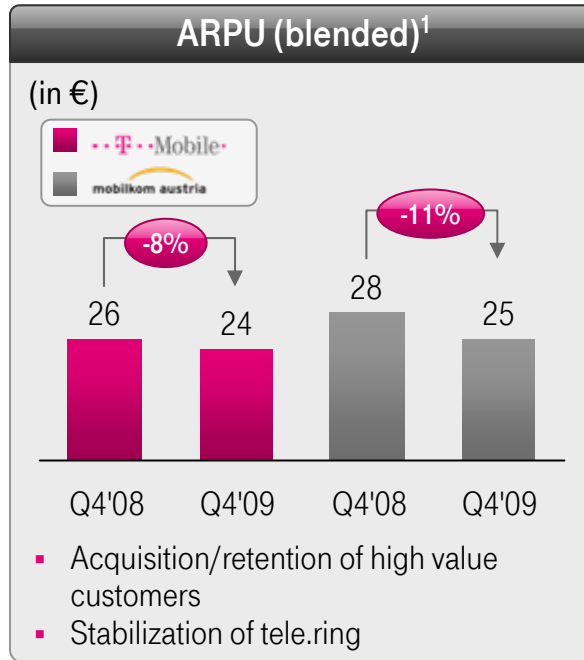
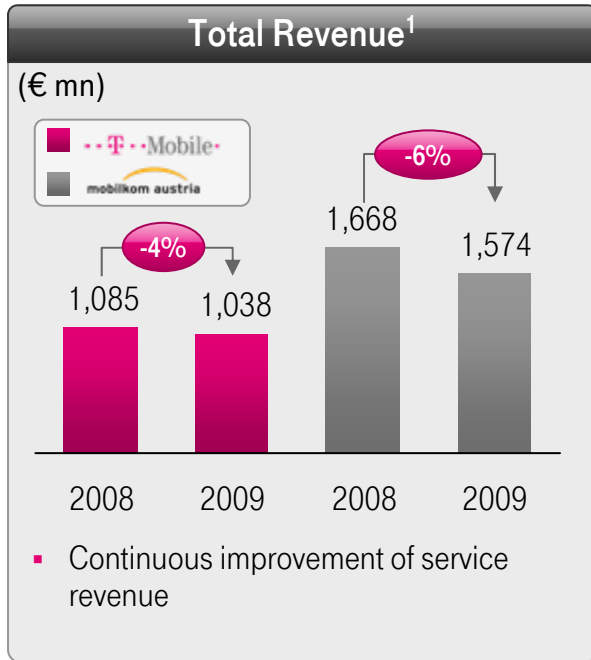


# TMA: “Smart Challenger” works – service revenue market share stable and increased margins.



1 DT estimates and reported figures  
2 in % of total revenues

# TMA: "Smart challenger" works - outperformed mobilkom austria in revenue and ARPU development, EBITDA margin improving.



<sup>1</sup> Source: Reported figures

# TMA: Further strengthen #2 position as a “Smart Challenger”.



## Save for service

- Achieve cost benchmark
- Leverage outsourcing

## Multi-brand execution

- Move up & emotionalize T-Mobile brand
- tele.ring: Outsmart orange
- Further extend low frills
- Push data

## Sales machine

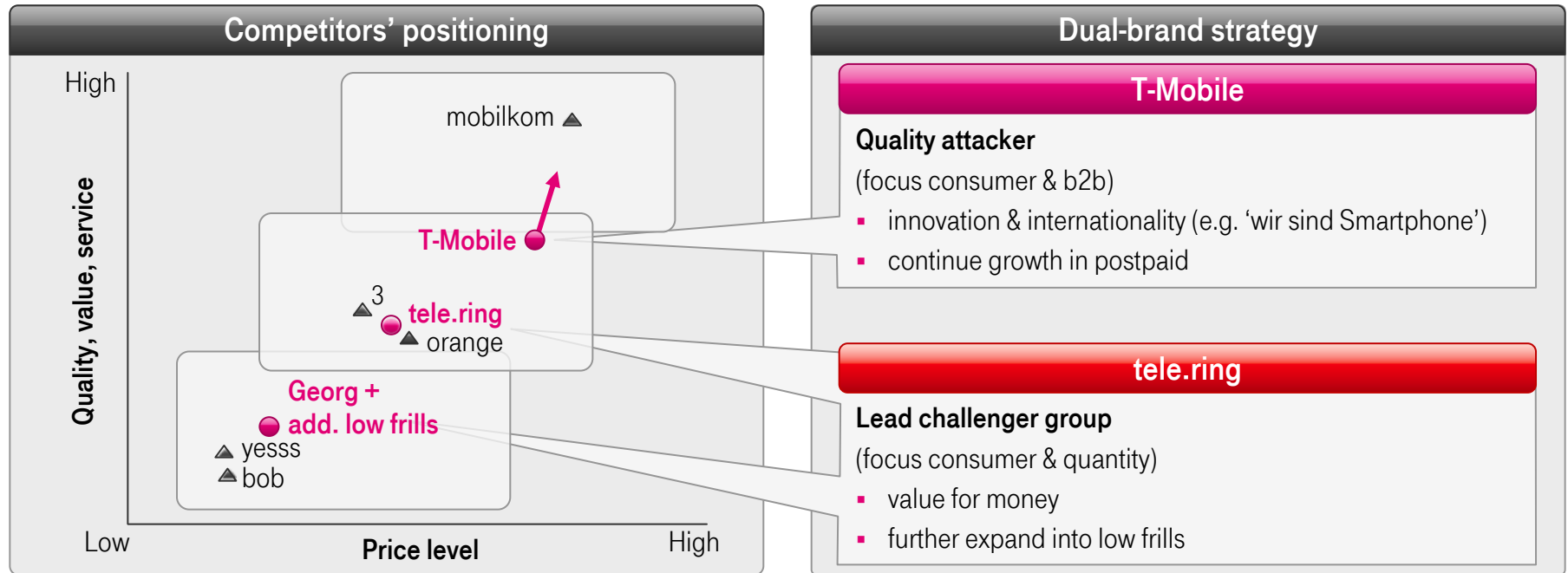
- Shift-to-direct
- Value based steering
- Build up business sales force
- Increase market share in areas below fair market share

## Strong network

- Get ready for LTE (innovation leader)
- Network perception campaigns
- Smart network invest/outsourcing



# TMA: Multi-brand execution – clear strategies and KPI targets.



# TMNL with successfully completed integration of Orange NL<sup>1</sup> in only two years and gains from synergies.

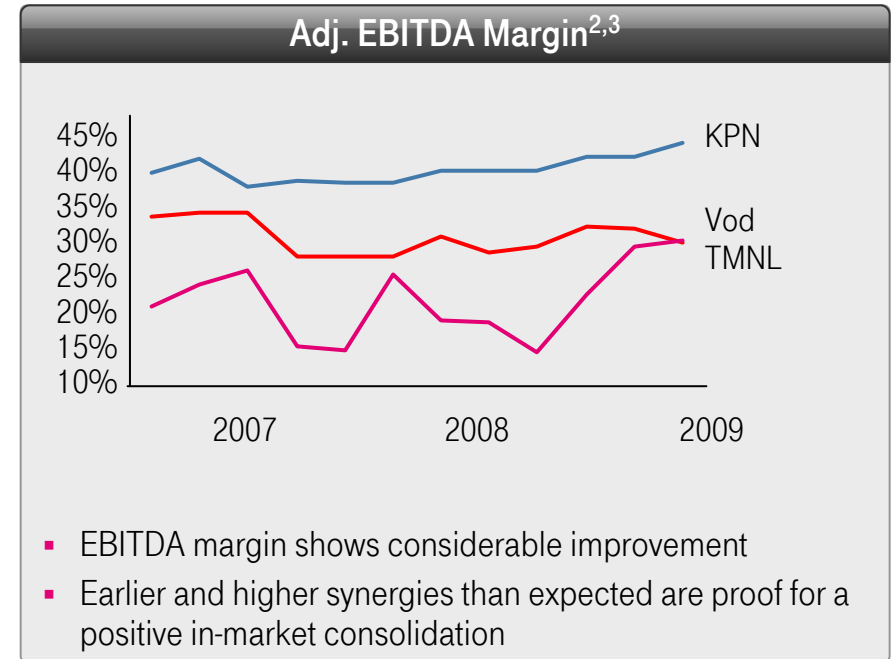
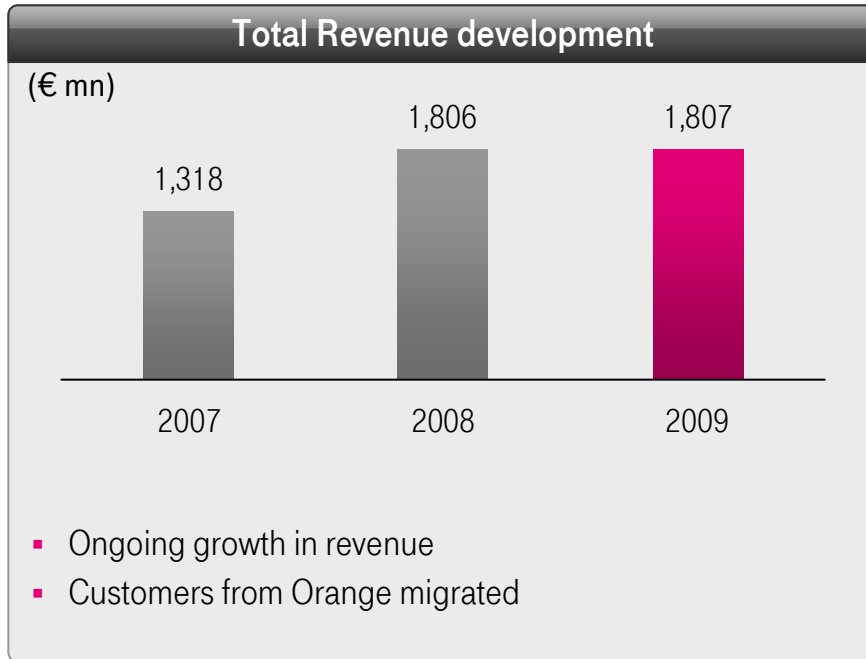


## Achievements

<b>Customers</b>	<ul style="list-style-type: none"><li>▪ All Orange customers already integrated since Q3/09 to T-Mobile Network, products and contracts.</li></ul>
<b>Brand</b>	<ul style="list-style-type: none"><li>▪ Refurbishment and closure of Orange shops was completed by June 2008.</li></ul>
<b>Staff</b>	<ul style="list-style-type: none"><li>▪ Relocation and integration of Orange staff was completed in 2008. The cultural alignment program for employees has been finalized in December 2008.</li></ul>
<b>Network/IT</b>	<ul style="list-style-type: none"><li>▪ Orange billing system migrated in August 2009.</li><li>▪ Orange 2G and 3G Network harmonization completed. Orange Netherlands 3G network has been switched off in October 2008, dismantling of the 3G stand-alone sites was finished in December 2008, 2G network has been switched off in December 2008.</li></ul>
<b>Target exceeded</b>	<ul style="list-style-type: none"><li>▪ Total integration costs 2008-2010 reduced by 30% compared to original plan, main reduction realized in 2009.</li><li>▪ Synergies are above expectations (more than 100mn EUR), in 2010 the entire synergy potential will be reached.</li></ul>



# TMNL with successful migration of Orange NL<sup>1</sup> – Operational performance improved.



<sup>1</sup> Consolidated as of October 1st, 2007

<sup>2</sup> In % of total revenues

<sup>3</sup> DT estimates and reported figures

# TMNL: Execution of “Smart Attacker” strategy with the ambition to go for No. 2 position.



## Save for service

- Continue cost reductions
- Achieve G2M excellence (shift-to-direct, value based steering)

## Focus on customer

- TMNL: Best deal available on the market
- Ben: Growing no-frills operator with leading value propositions

## Grow in value

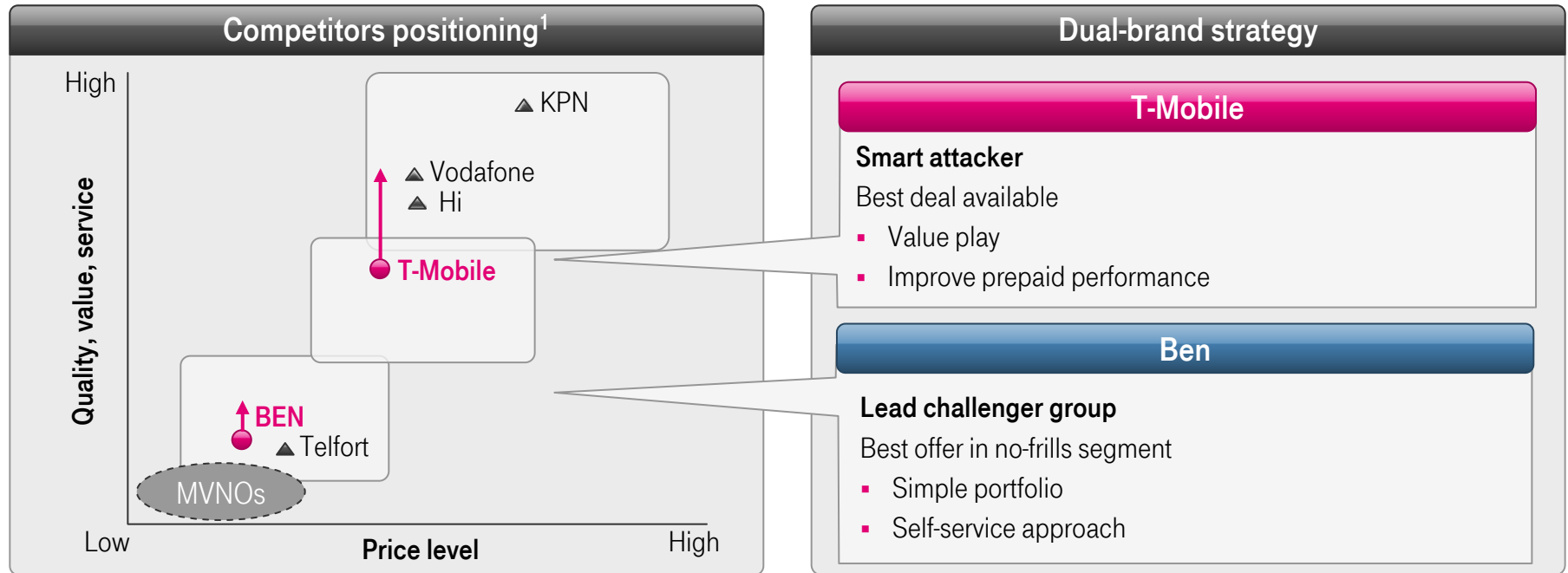
- Make Ben mainstream in no frills (move into prepaid and handsets)
- Establish tangible position in FMC
- Drive revenues by additional focus on prepaid and data

## Network enhancements

- Close network perception gap
- Pursue network efficiency improvement opportunities



# TMNL: Focus on customer with dedicated brand strategies to achieve targeted positioning.



<sup>1</sup> Graph based on Q3 '09 data



# Agenda.

1

Differentiated strategy in tough market environment starting to pay off

2

NatCo achievements and initiatives

- a) Service Leader (TMCZ, PTC)
- b) Smart Challenger (TMA, TMNL)

3

**Joint Venture on track (TMUK)**

4

Targets



# Strong execution in establishing new market leader in UK.

Market leadership  
37%+ mobile subscriber  
market share

Customer leadership  
based on network,  
distribution, loyalty & experience

People leadership  
top talents &  
best place to work

Foundation

## Step change in business model

- Efficient & agile operations with best 2G and 3G networks
- New commercial model, T-Mobile UK & Orange UK **brands to co-exist** for 18 months in 'smart competition'
- Leverage new / beyond voice services as **platform for growth**

Impact  
confirmed

## All financial targets set out in September **fully confirmed and committed despite imposed remedies**

- Significant synergy potential: **NPV of net opex and capex savings in excess of £3.5bn ✓**
- Opex run-rate synergies of **£445mn per annum ✓** Capex run-rate synergies of **£100mn per annum ✓**



# Agenda.

1

Differentiated strategy in tough market environment starting to pay off

2

NatCo achievements and initiatives

- a) Service Leader (TMCZ, PTC)
- b) Smart Challenger (TMA, TMNL)

3





Joint Venture on track (TMUK)

4

**Targets**



# Country specific strategies reflected in the ambitions.

		2009	Ambition level 2012
<b>TMCZ</b> 	Service Leader: Market share service revenues <sup>1</sup>	38.3%	Further stabilize market position
	Integrated Operator: Fixed broadband revenues	~ 30mn EUR <sup>2</sup>	Double revenues
<b>PTC</b> 	Efficiency management: EBITDA margin	~ 35%	Continue cost efficiency and further improve margin
	Service Revenue Leadership: Market share <sup>1</sup>	~ 31%	Become No. 1
<b>TMA</b> 	Smart challenger: Market share service revenues <sup>1</sup>	~ 31%	Increase
	Sales machine: shift to direct	Direct share ~ 50%	Direct share ~ 60%
<b>TMNL</b> 	Smart challenger: Market share service revenues <sup>1</sup>	~ 23%	Increase
	Synergy runrate from Orange integration	~ 100mn EUR	Increase run rate by 30%



1 DT Estimates

2 FY figures