

# Analysts Meeting.

March 10, 2004

# Full year 2003. Results.

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CEO



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This presentation contains a number of non-GAAP figures, such as EBITDA and EBITDA adj. for special factors, EBITDA margin adj., capex, adj. net income, free cash flow, and gross and net debt. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. To interpret the non-GAAP measures, please refer to the Backup materials accompanying this presentation and the “Reconciliation to pro forma figures” posted on Deutsche Telekom’s Investor relations link under [www.telekom.de](http://www.telekom.de).



# Highlights of 2003.

## Delivering on our targets.

**The Deutsche  
Telekom  
Story 2003:  
debt reduction  
and  
profitable growth**

- Significant reduction in net debt
- “6 + 6 Program” over-achieved
- Margin improvement across all divisions
- Return to profitability
- Strong improvement in EBITDA
- Introduction of the 6 initiatives to deliver profitable growth



# Targets.

All year end targets exceeded.

	December 2003 actual	Original target FY 2003
■ Net debt	€ 46.6 billion	€ 49.5 – 52.3 billion <sup>1</sup>
■ Adjusted EBITDA	€ 18.3 billion	€ 16.7 – 17.7 billion <sup>2</sup>
■ Free cash flow <sup>3</sup>	€ 8.3 billion	€ 5.5 – 6.0 billion
■ Cash contribution <sup>4</sup>	€ 12.1 billion	€ 10.0 billion <sup>1</sup>
■ Net income <sup>5</sup>	€ 1.3 billion	Positive <sup>6</sup>
■ Adj. net income <sup>5</sup>	€ 0.2 billion	

1 Announced in connection with the Strategic Review in Nov. 2002.

2 Raised to € 18.2 billion in November.

3 Before dividends.

4 Defined as adjusted EBITDA minus Capex (excluding Goodwill).

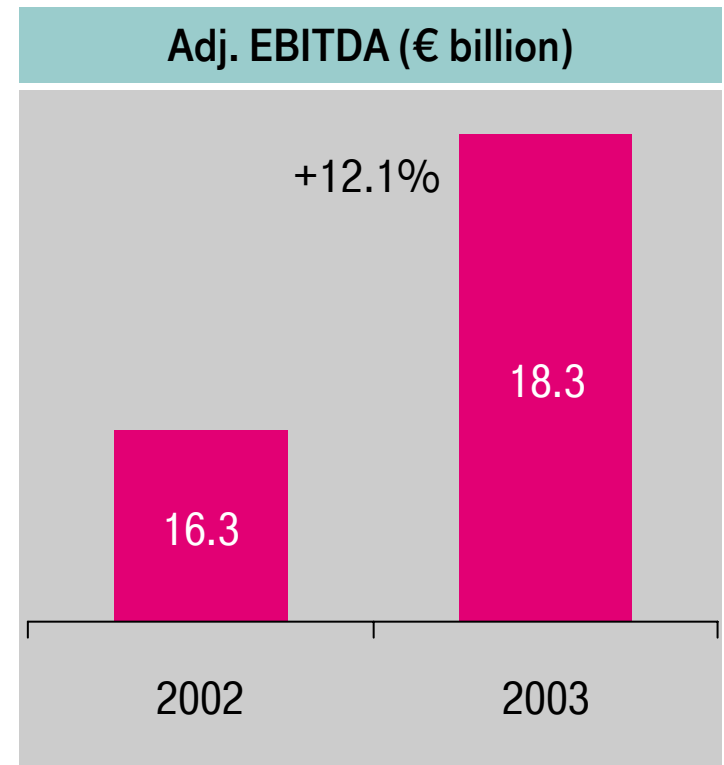
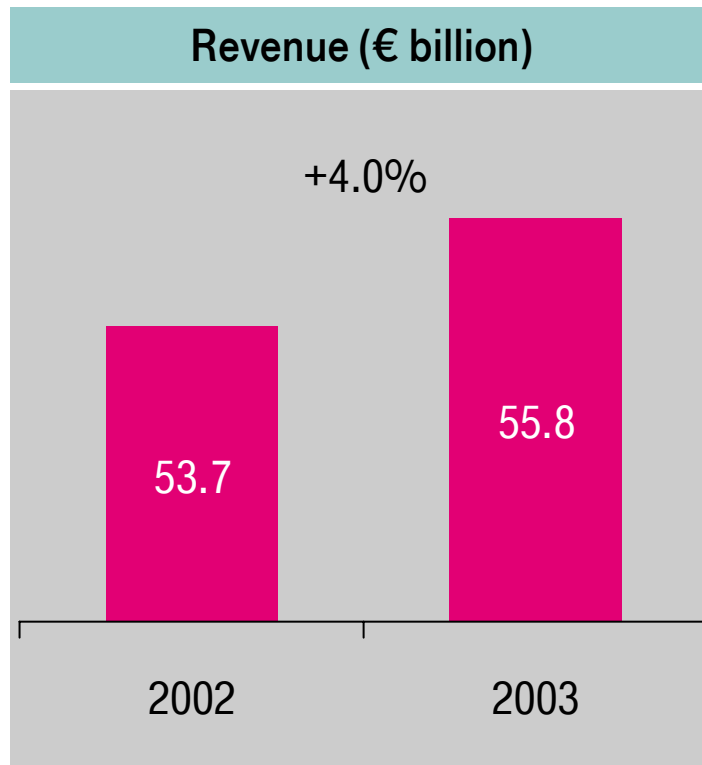
5 Incl. impact of Toll Collect on net financial result (€ 442 million).

6 Announced Q1/03.



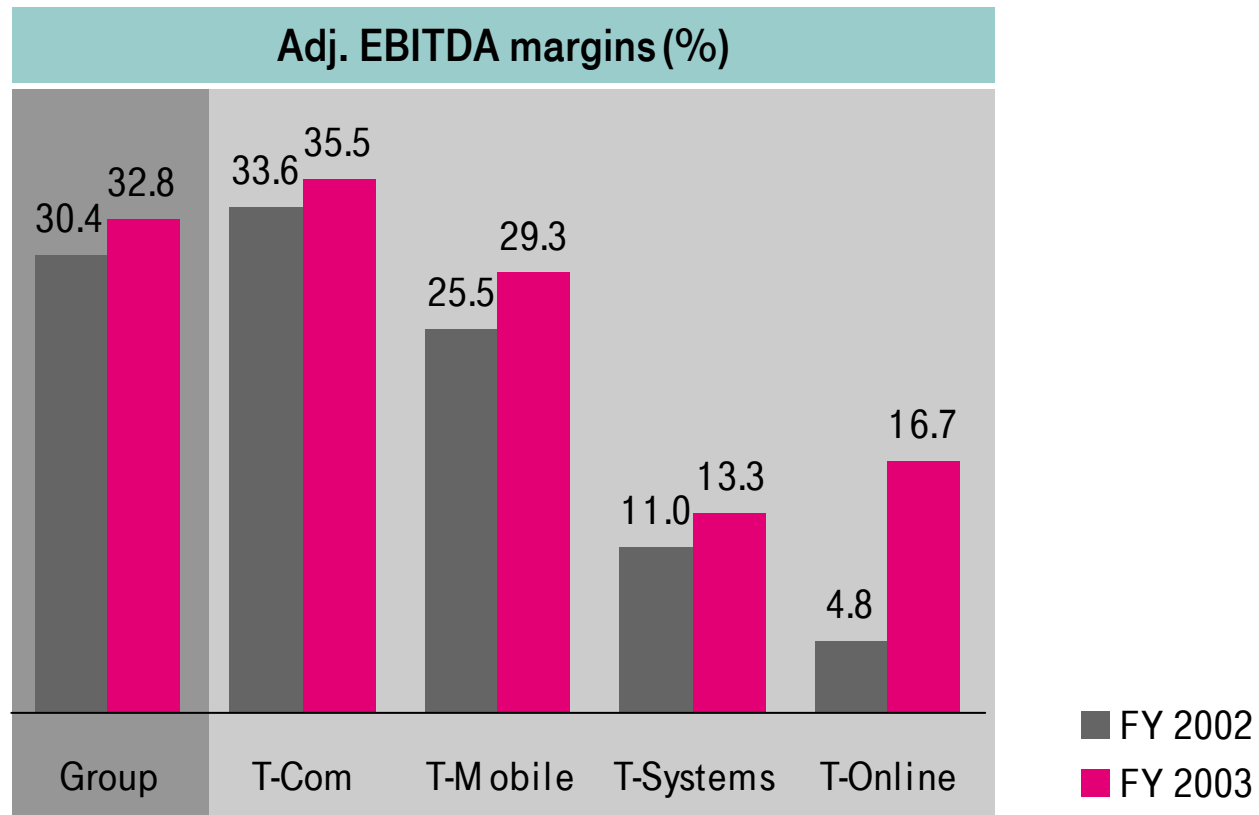
# Financial Highlights.

A year of profitable growth.



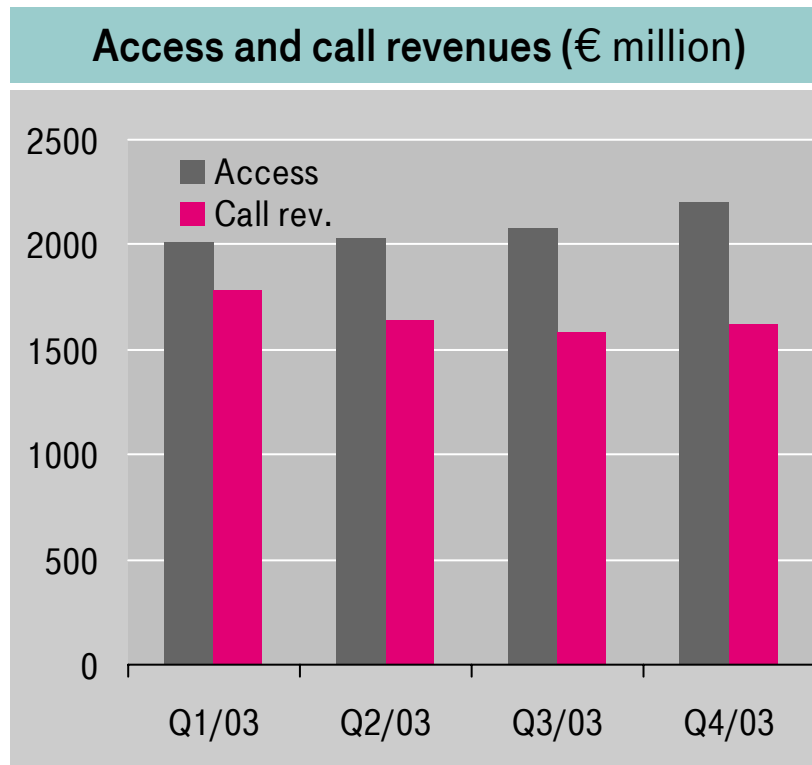
## Margin improvements.

Significant efficiency improvements in all divisions.



# T-Com.

Secure topline through access revenue growth.



## Grow access revenues:

- Broadband
- Access price increases
- New optional tariffs

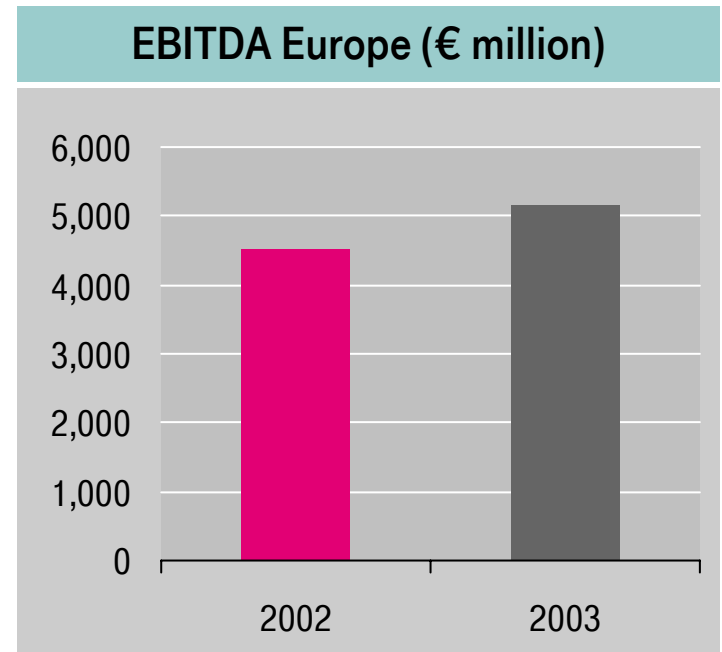
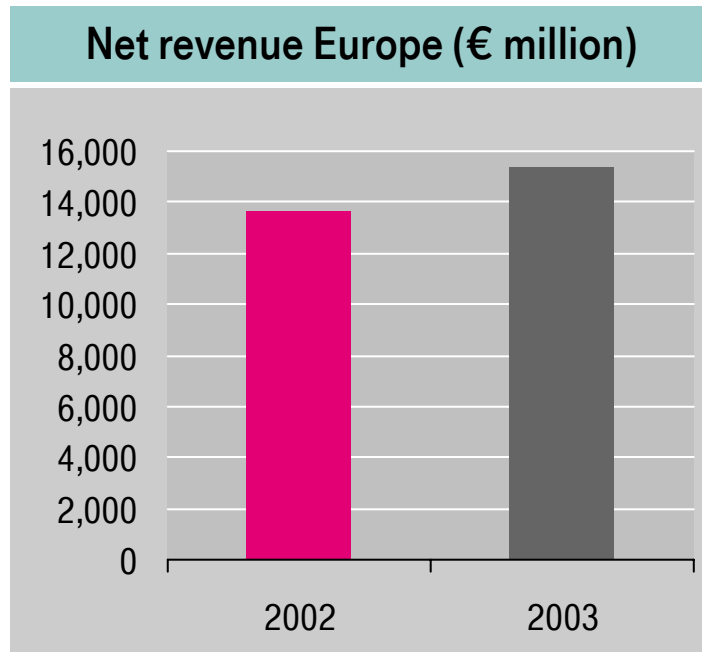




# T-Mobile Europe.

## Strong revenue and EBITDA growth.

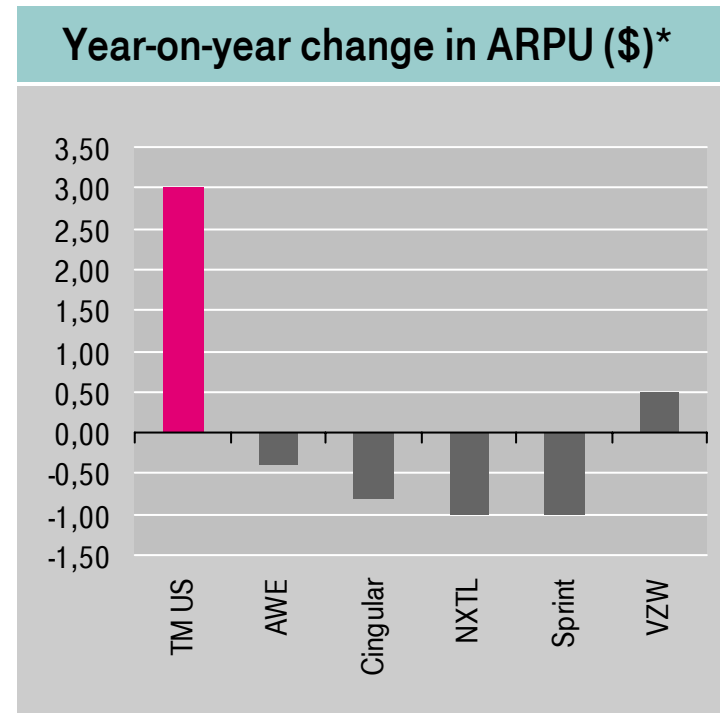
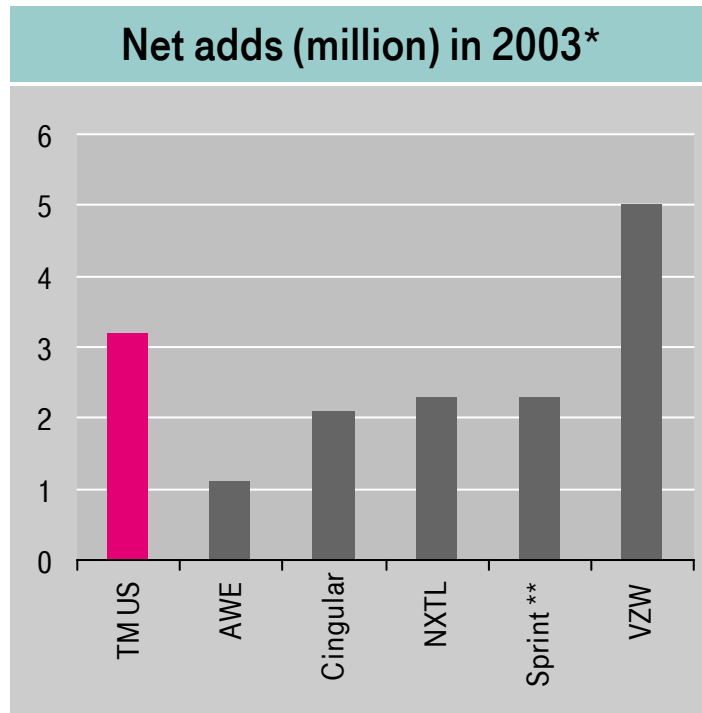
- Net revenue increased by 13.0% to € 15.4 billion
- EBITDA increased by 14.1% to € 5.1 billion
- Contract net adds increased to 2.0 million (from 1.5 million in 2002)



# T-Mobile USA.

## High-quality subscriber growth.

- No. 2 in net adds in 2003
- Highest ARPU increase among the “Big 6”



\* Source: company reports.

\*\* Net adds incl. resale.



# T-Systems.

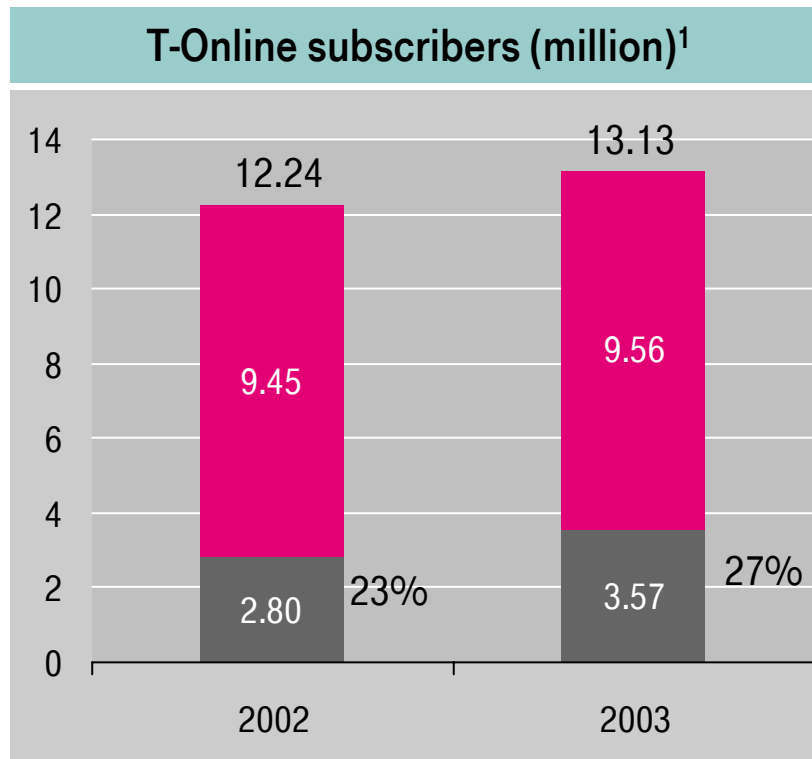
## Focus & execution.

- Customer campaign “Managed business flexibility” started
- “Focused Solution Portfolio” established
- Large order book of €12.6 billion strong basis for future growth
- General administration and overhead streamlined
- Sales and distribution reorganized
- International organization refocused



# T-Online.

## Focus on broadband.



- 1 On the basis of rounded figures.
- 2 German GAAP results of T-Online division.

- Over 13.1 million subscribers: over 27% in broadband
- Revenues<sup>2</sup> increased by 16.9% to € 1.9 billion
- Adj. EBITDA<sup>2</sup> more than tripled to € 310 million
- Adj. EBITDA margin<sup>2</sup> increased to 16.7% from 4.8% in 2002

■ Narrowband  
■ Broadband



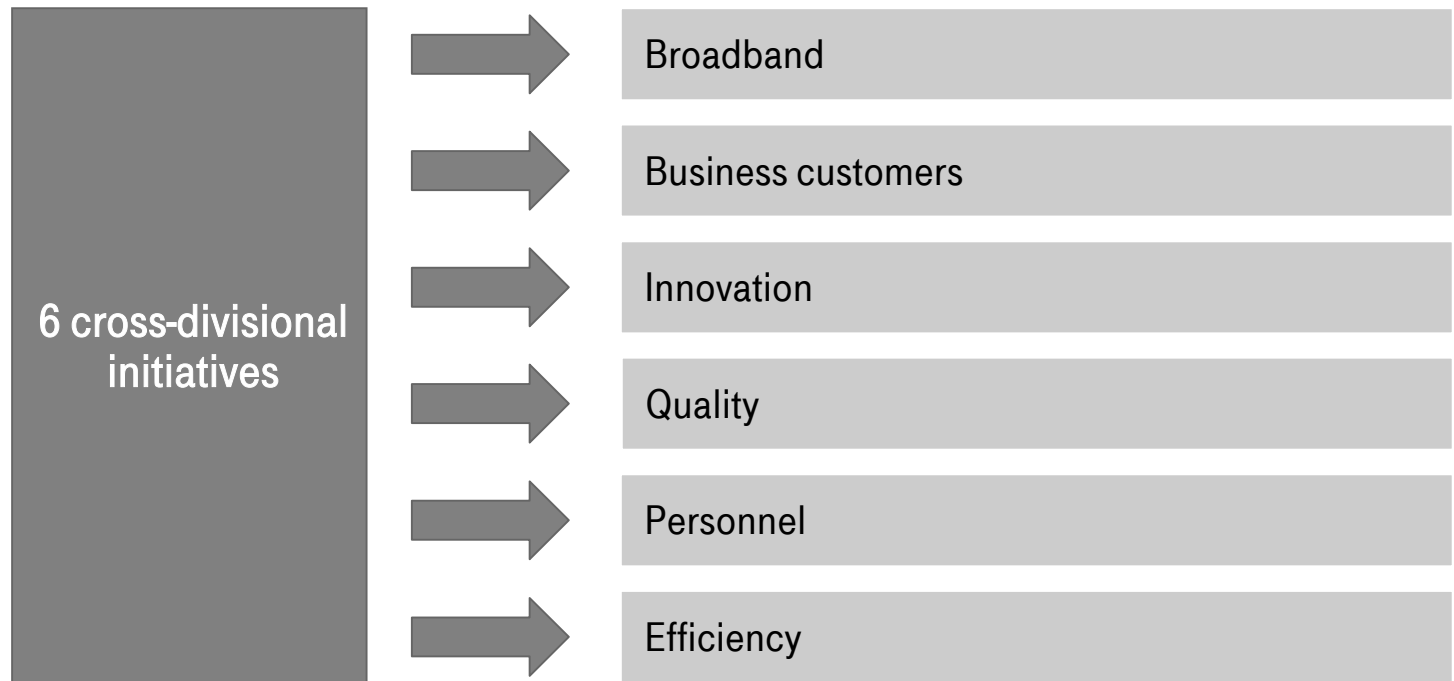
**The “T” stands  
for Innovation,  
Quality and Efficiency**



- Three principal growth drivers:
  - Broadband
  - Mobile
  - Business customers
- Integrated telecommunications operator across Germany and Central & Eastern Europe
- Become leading connectivity provider of fixed and mobile broadband services
- Growth opportunities in the Portal and IT services businesses
- Customer centricity

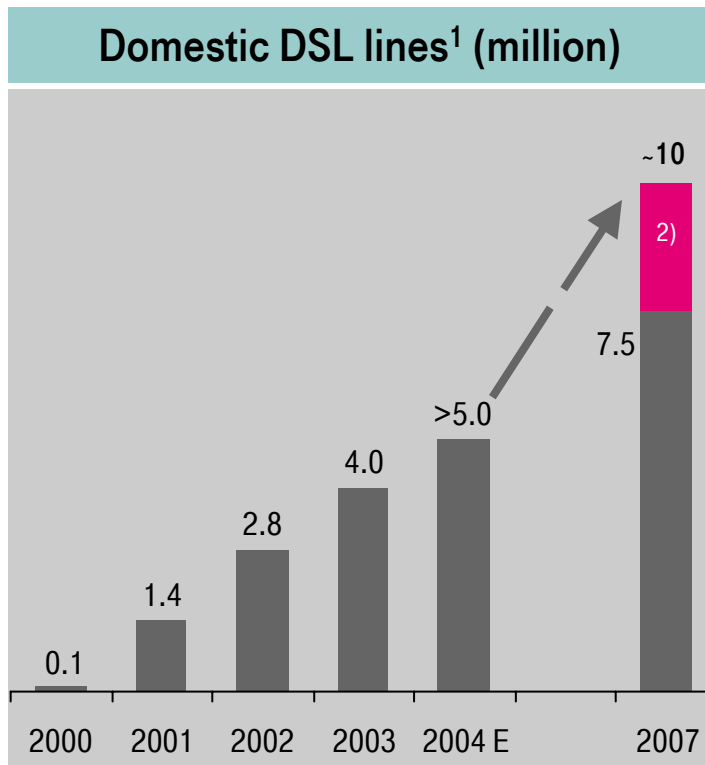
# Agenda 2004.

## The 6 initiatives.



# Broadband initiative.

Accelerating the broadband adoption in Germany.



## Accelerating broadband adoption

- Market leader in Europe
- 91% market share in broadband in Germany<sup>3</sup>
- New pricing and broadband strategy “1-2-3”
- Wholesale DSL access from mid 2004

1 In operation.

2 Wholesale DSL.

3 Source: Annual report RegTP.



## Personnel initiative.

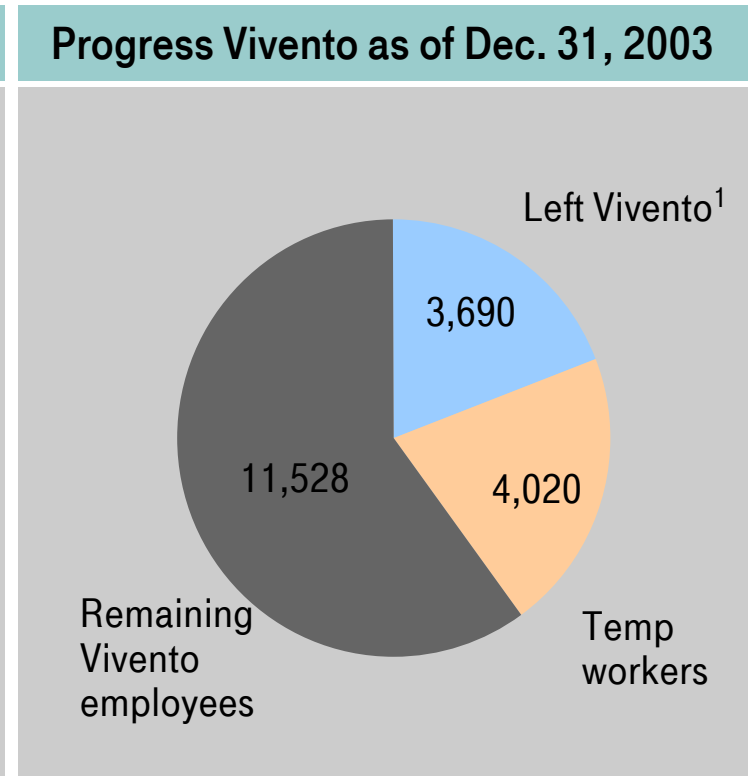
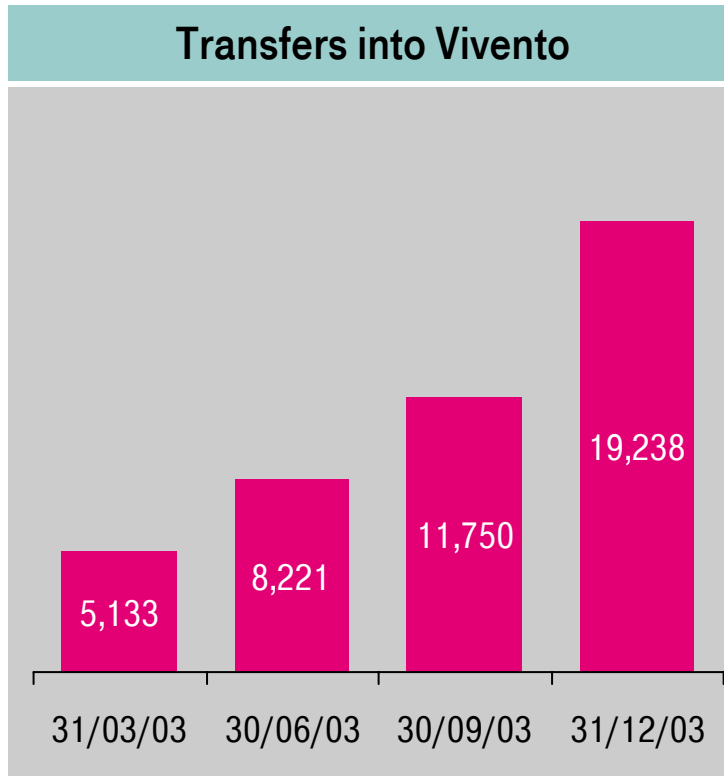
Target to reduce relative personnel costs.

- Propose reduction in working hours and pay per year: discussions with DT AG unions ongoing
- Negotiate appropriate annual pay rise: discussions with unions ongoing
- Implemented voluntary redundancy scheme: 1,700 contracts signed per year-end 2003
- Leverage natural attrition: 3% of domestic base
- Outplacement through Vivento (PSA)





# Vivento (PSA). Transfer program on track.



<sup>1</sup> Of which approx. 2,150 employees left the Deutsche Telekom group.



## Efficiency initiative.

7 point program for further efficiency gains.

- Continuous improvement in working capital optimization
- Re-sale of used equipment
- Continue selective asset sales
- Leveraging purchasing power
- Reduce IT support costs through standardizing IT infrastructure
- Increased integration of network and IT platforms
- Optimization of opex and capex



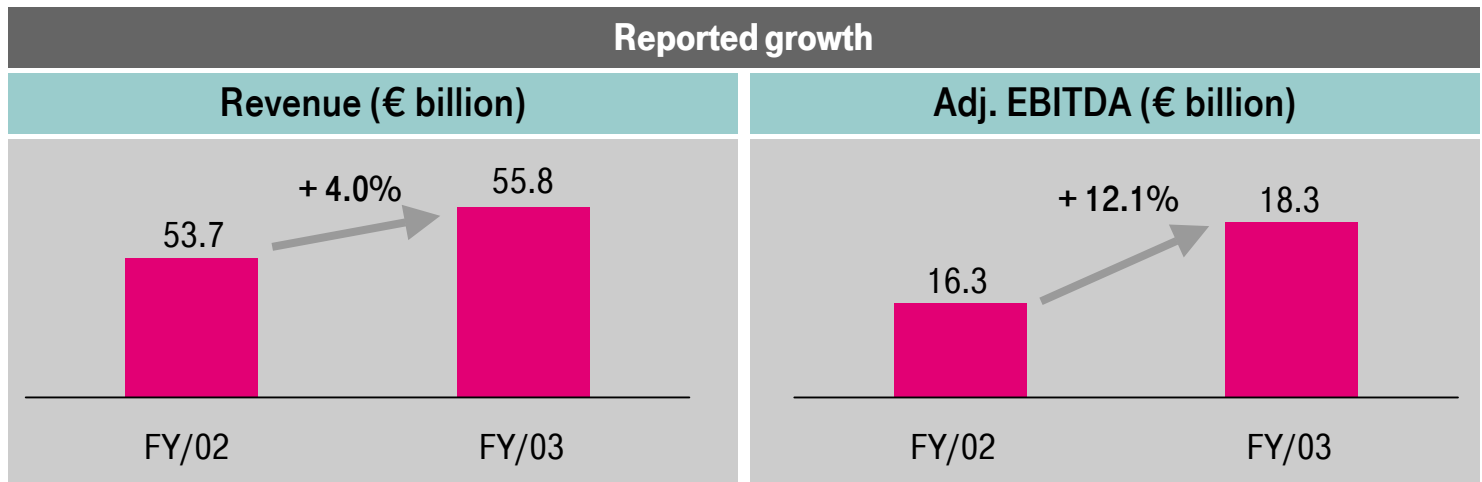
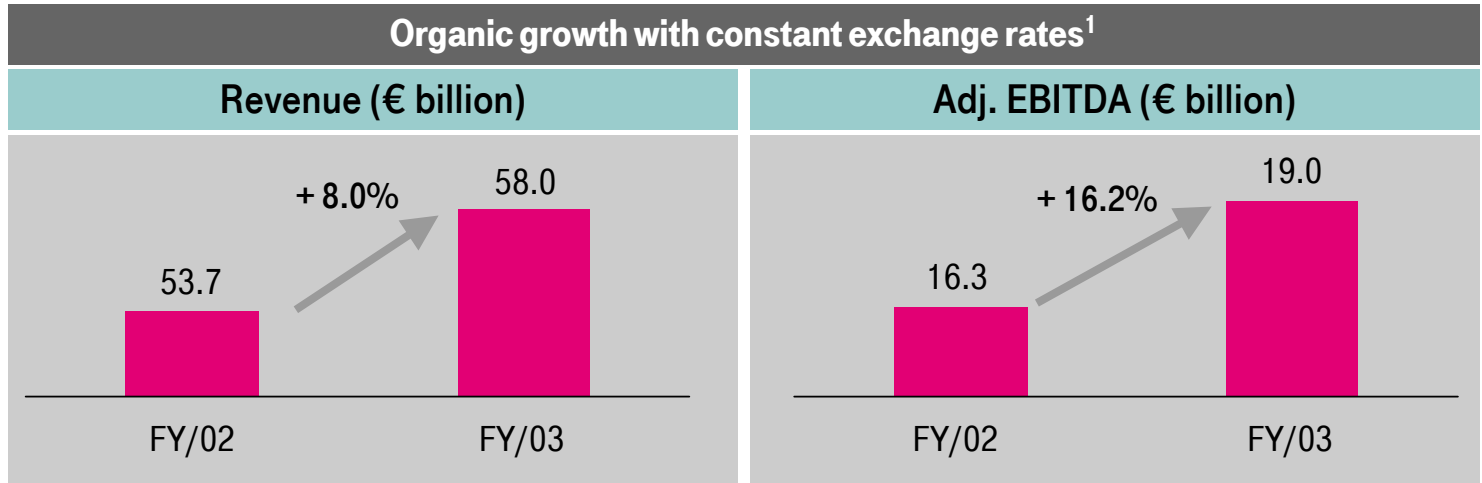
# 2003. Financials.

Dr. Karl-Gerhard Eick  
CFO



# Revenue and adjusted EBITDA.

## Growth continues.



<sup>1</sup> Pro forma figures: organic growth excludes changes in the scope of consolidation.



# Capex.

Full-year capex at € 6.2 billion.

€ billion <sup>1</sup>	2003	2002
T-Com	2.1	3.2
T-Mobile	3.0	3.5
T-Systems	0.7	0.8
T-Online/GHS (incl. recon.)	0.4	0.5
<b>Total</b>	<b>6.2</b>	<b>7.9</b>

<sup>1</sup> Figures rounded to the nearest € 100 million figure.



# Cash contribution<sup>1</sup> up 44%.

## Strong improvement in all divisions.

€ billion <sup>2</sup>	2003	2002
T-Com	8.2	7.1
T-Mobile	3.7	1.6
T-Systems	0.8	0.3
T-Online	0.2	0.0
GHS (incl. recon.)	- 0.8	- 0.6
<b>Total</b>	<b>12.1</b>	<b>8.4</b>

1 Adj. EBITDA minus capex (excl. goodwill).

2 Figures rounded to the nearest € 100 million figure.



# Free cash flow.

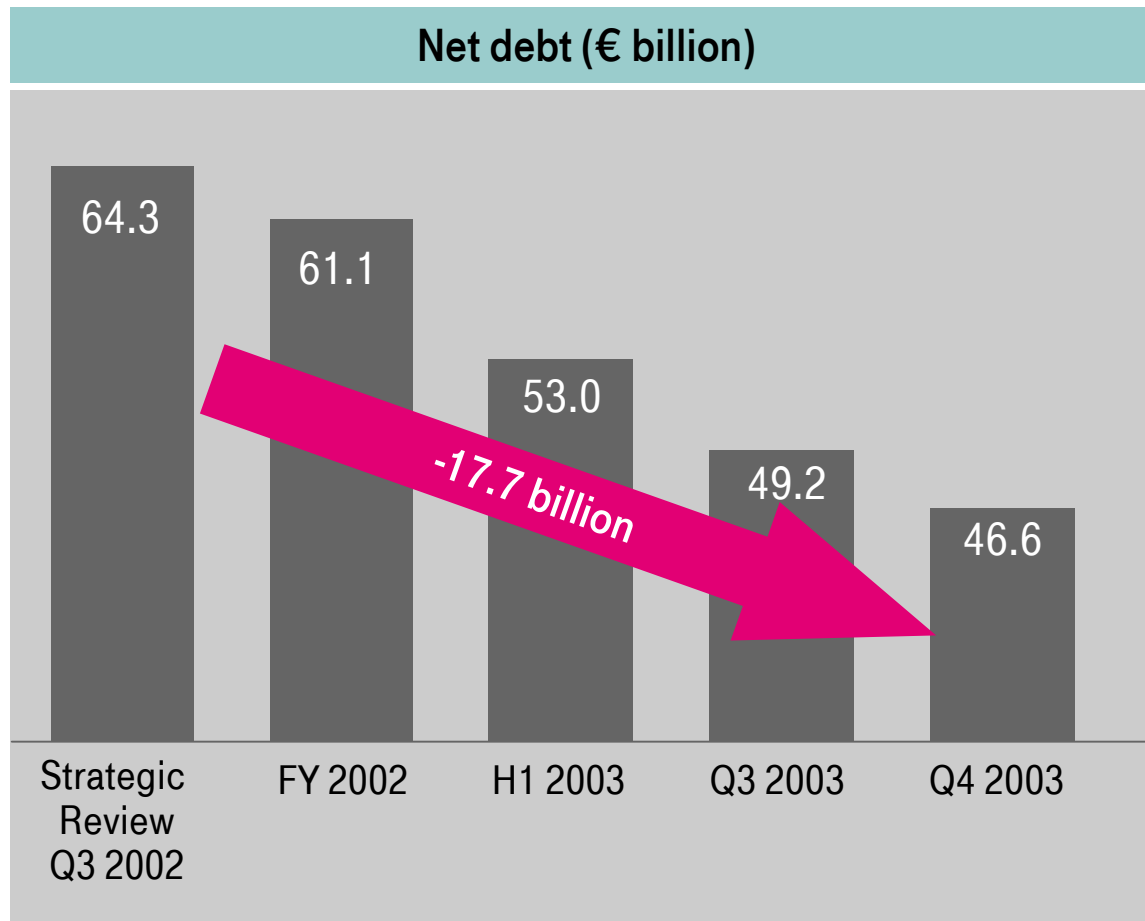
## Highest operating cash flow.

€ billion <sup>1</sup>	Q4/03	Q4/02	FY 2003	FY 2002
Cash generated from operations	4.4	3.6	18.1	16.7
Net interest payment	- 1.1	-1.3	- 3.8	- 4.2
Net cash provided by operating activities	3.3	2.3	14.3	12.5
Cash outflows from investments in property, plant and equipment	- 2.0	- 1.9	- 5.2	- 6.8
Intangible assets	- 0.4	- 0.3	- 0.8	- 0.8
<b>Free cash flow before dividends</b>	<b>0.9</b>	<b>0.2</b>	<b>8.3</b>	<b>4.8</b>

<sup>1</sup> Figures rounded to the nearest € 100 million figure.



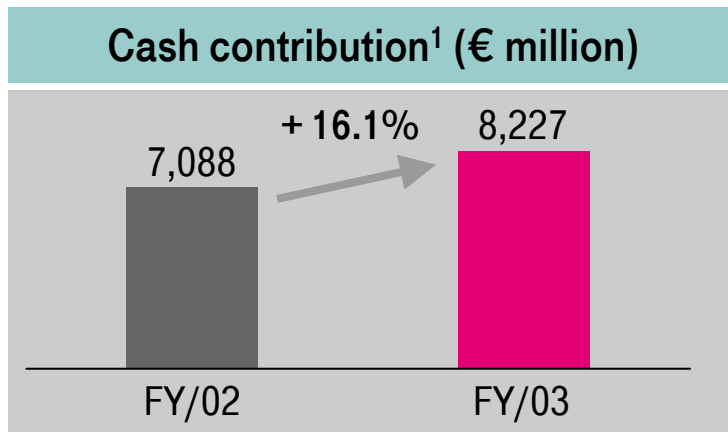
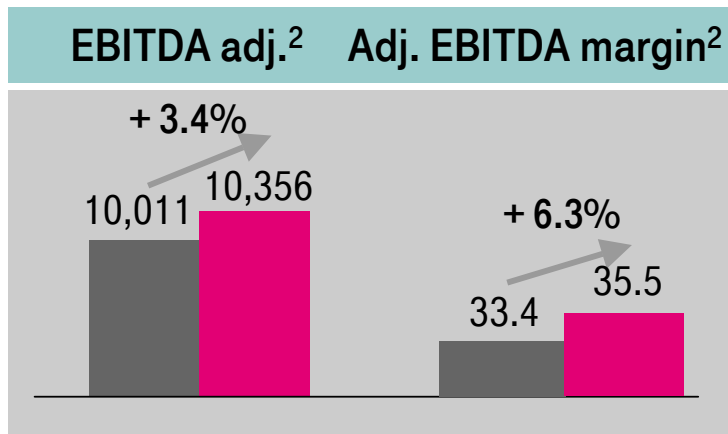
# Debt reduction program. Targets overachieved.





# T-Com.

## Strong bottom line performance.



- Adj. EBITDA growth of 3.4% year-on-year
- Strong efficiency improvements – adj. EBITDA margin reached almost 36% in 2003
- € 8.2 billion cash contribution

■ FY 2002  
■ FY 2003

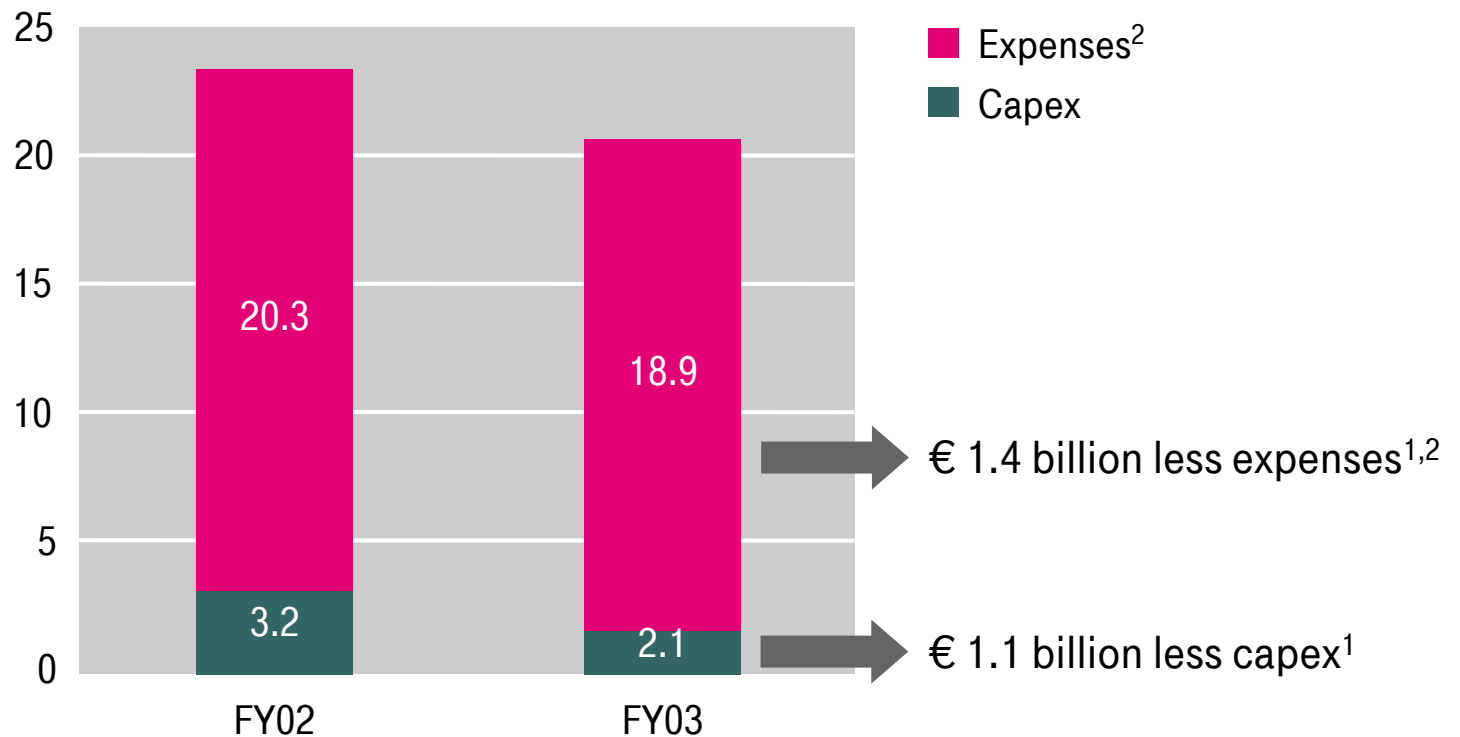
1 Adj. EBITDA minus capex (excl. goodwill).

2 Calculated on a comparable basis: (after deconsolidation of cable).



# T-Com.

Expenses and capex reduced by € 2.5 billion.



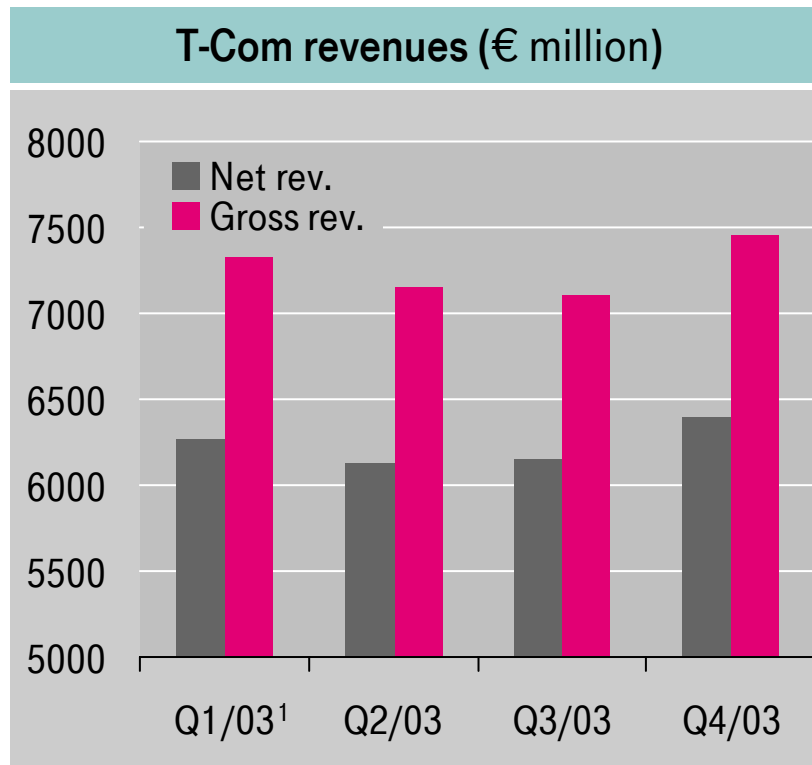
1 Calculated and rounded on exact figures.

2 Expenses: revenues minus adj. EBITDA.



# T-Com.

## Q4 revenues strong.



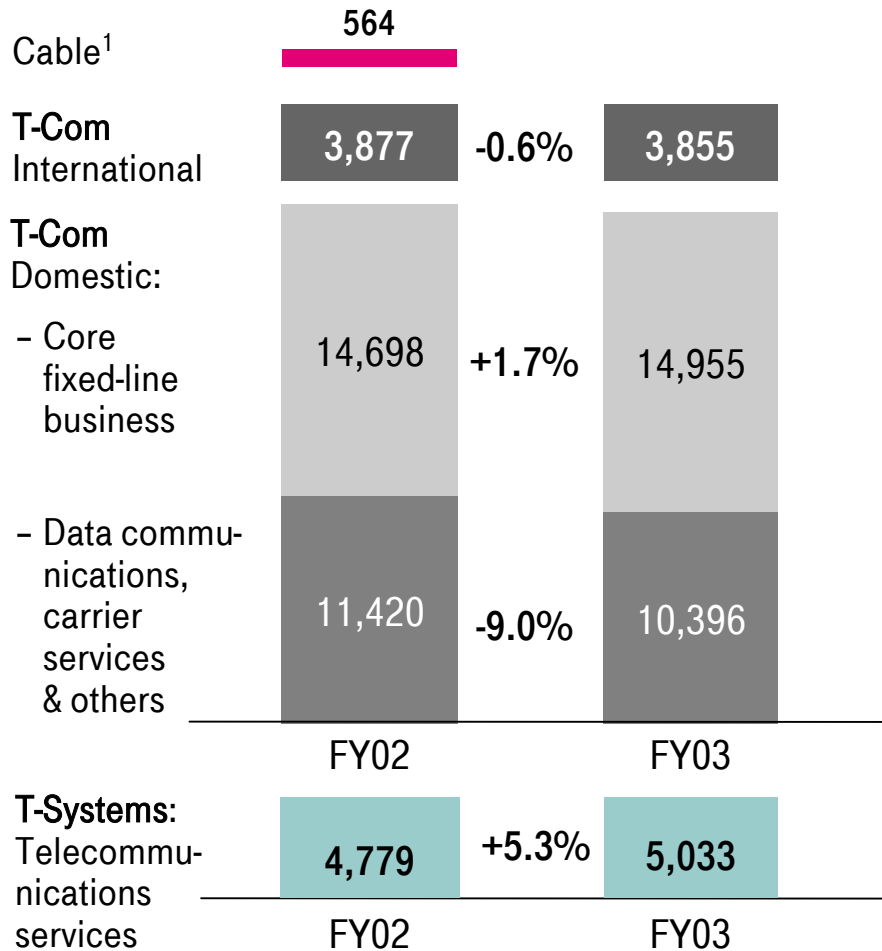
<sup>1</sup> Q1 excluding cable revenues.

- Gross revenue growth between Q3 and Q4 at 5.0%.
- Net revenue growth between Q3 and Q4 at 4.0%.



# Fixed line.

## Total revenue development.



T-Com Eastern Europe +2.4% on a comparable basis<sup>2</sup>

T-Com domestic: - 2.9%

■ Successful rebalancing strategy continues

■ Other revenues: - 9.0%

<sup>1</sup> Deconsolidation effect: March/December 2002.

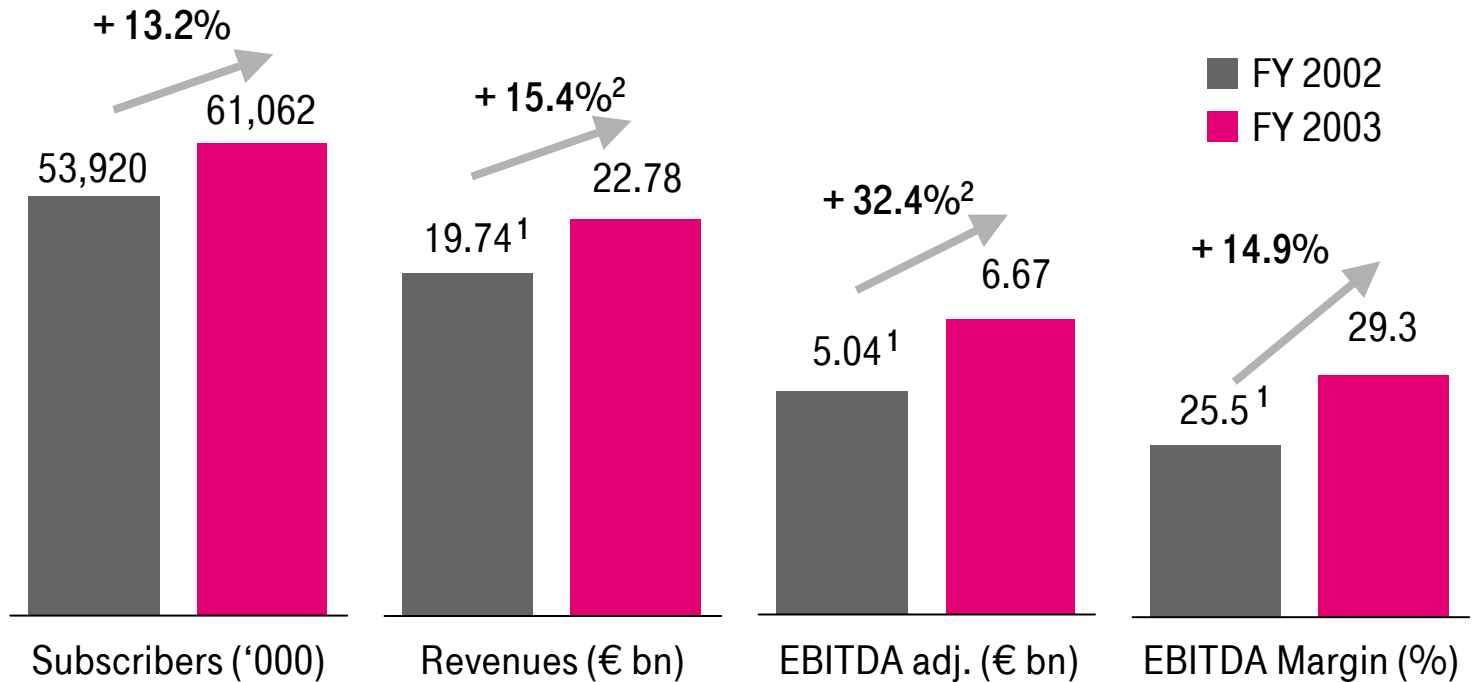
<sup>2</sup> Applying constant exchange rates based on the average 2002 rates.



# T-Mobile.

## Sustainable revenue and profitability growth in 2003.

- More than 5.1 million new contract subscribers
- 5.5 million unique active non-voice users (without SMS)



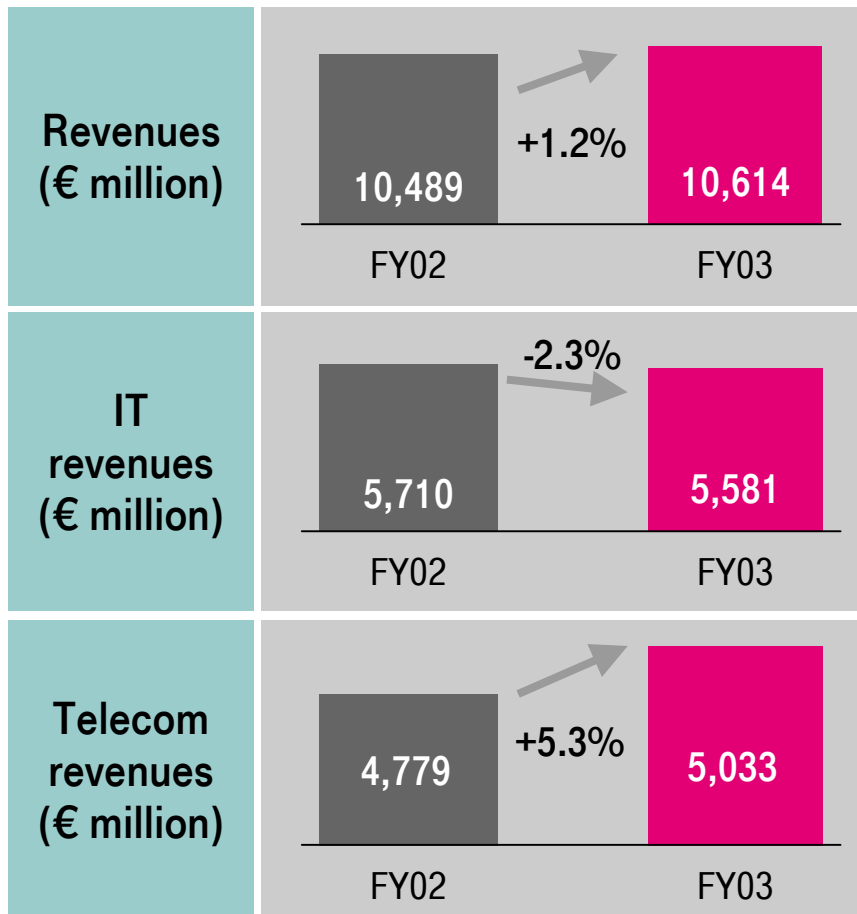
<sup>1</sup> T-Mobile Netherlands fully consolidated since Q4/02.

<sup>2</sup> Calculated on exact figures.



# T-Systems.

Revenue growth despite difficult market environment.

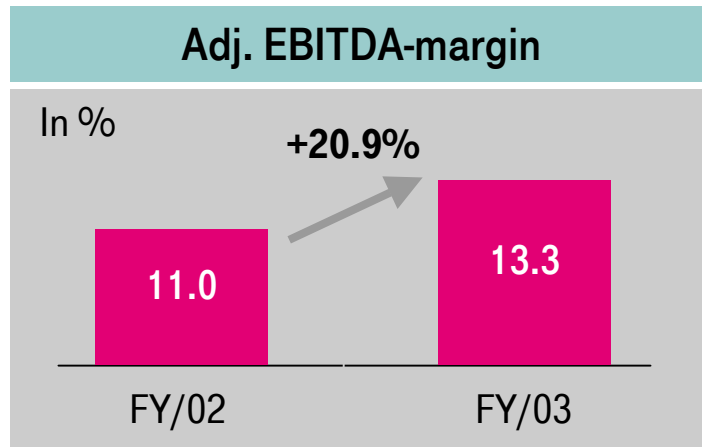
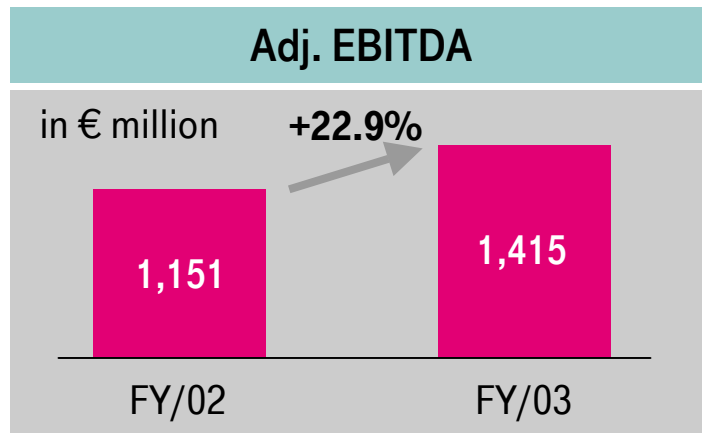


- Revenue growth (excl. deconsolidations) at 4.4%
- TC revenues up 5.3% due to successful sales efforts and attained network outsourcing deals
- IT revenues down 2.3% due to weakness in systems integration and desktop services
- Order book at € 12.6 billion



# T-Systems.

Strong EBITDA & margin improvement.

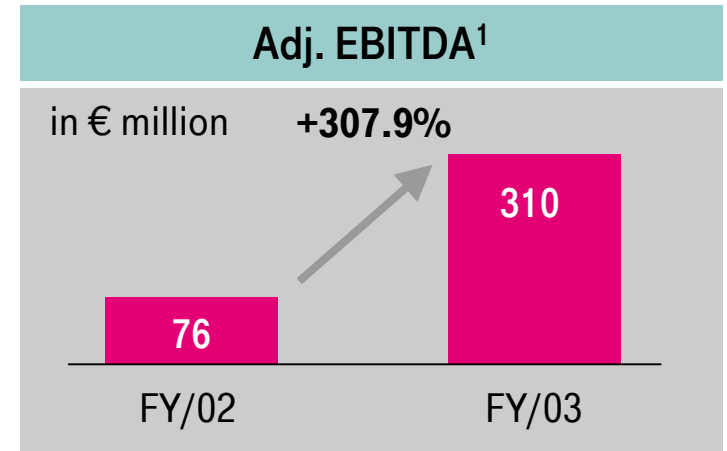
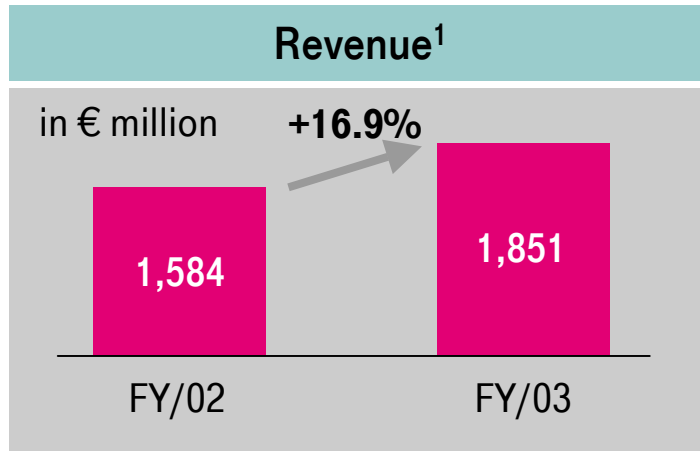


<b>Cost savings</b> (in € million)	YE/03 - YE/02
– Travel expenses	17
– Maintenance	77
– Marketing expenses	21
– Rental and leasing expenses	81
– Legal and consulting fees	44
– Losses on accounts receivable	61
<b>Total:</b>	<b>301</b>



# T-Online.

Strong operational performance.



1 German GAAP results of T-Online division.





# FY 2003 – Net income. Positive.

€ billion <sup>1</sup>	FY 2003	Q4/03	FY 2002
EBITDA	18.5	4.2	16.1
Depreciation and amortization	- 12.9	- 3.2	- 36.9
Net financial expense	- 4.0	- 1.3	- 6.0
Taxes (incl. other taxes)	+ 0.1	+0.1	+ 2.5
Minorities	- 0.4	- 0.1	- 0.3
Net income	1.3	- 0.4	- 24.6

1 Calculated and rounded on exact figures.



## FY 2003 – Balance sheet.

Strong improvement in key credit metrics.

€ billion	FY 2003	FY 2002
Assets	116.1	125.8
Equity	33.8	35.4
Net debt	46.6	61.1
Net debt/adj. EBITDA	2.5x	3.7x
Gearing <sup>1</sup>	1.4x	1.7x
Equity ratio <sup>2</sup>	29.1%	28.1%

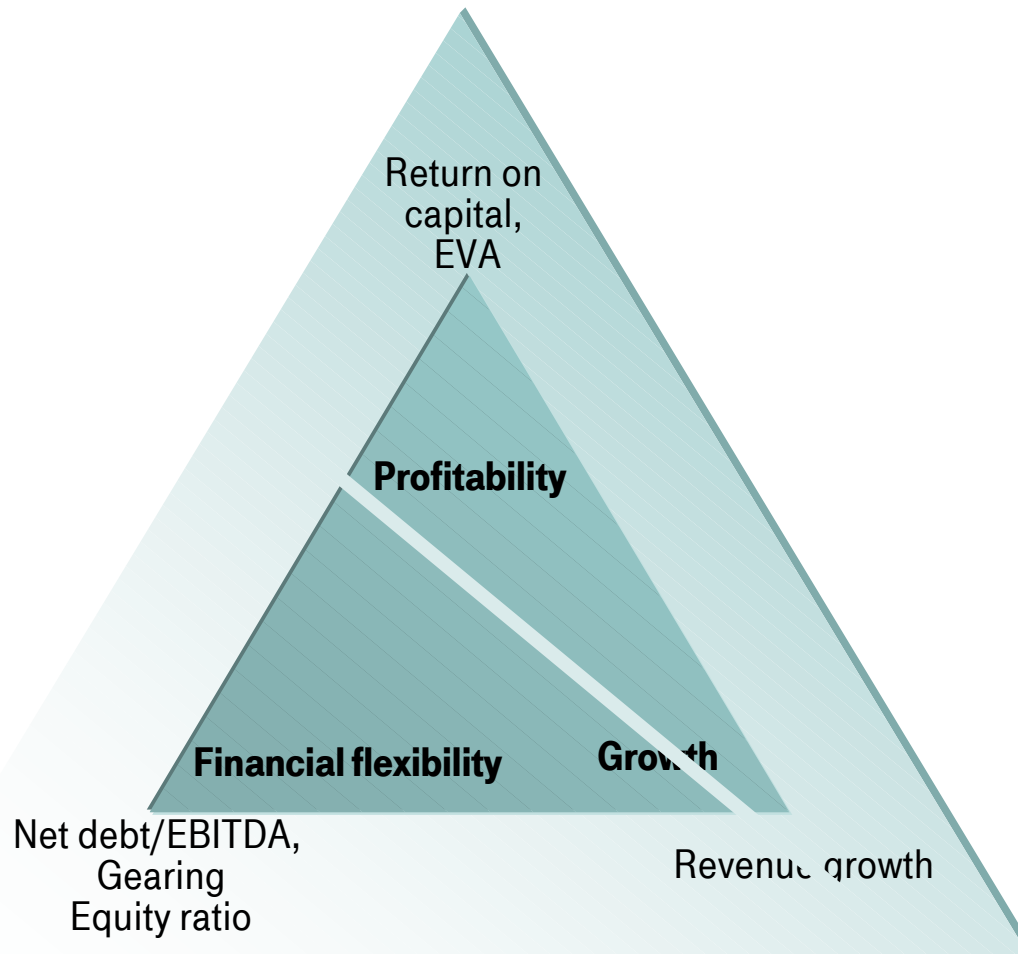
1 Net debt divided by shareholders' equity.

2 Shareholders' equity divided by balance sheet total.



# FY 2004 - financial strategy.

## Strategic financial targets.



# Deutsche Telekom.

## Outlook 2004.

- Focus on profitable growth
- Use of free cash flow in 2004
  - Debt reduction
  - Incremental capex
  - Acquisitions
- Dividend for 2004 - paid in 2005
- Target adj. EBITDA of at least €19.2 billion

