



DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2015

Bonn, February 26/27, 2015



LIFE IS FOR SHARING.

DISCLAIMER

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GROUP STRATEGY

Tim Höttges, CEO







KEY MESSAGES: DT IS THE LEADING EUROPEAN TELCO!

- 1** Leading European Telco:
Integrated market leader with superior margins and returns.
- 2** We strengthen our differentiation by best customer experience and by continuously investing into leading access networks and our transformation programs.
- 3** We are transforming towards a lean and highly agile IP production.
- 4** We are self-funding DT's transformation by disciplined cost management.
- 5** We will grow in all relevant financial KPI's (ROCE, Revenue, EBITDA, FCF).
- 6** Our shareholders will participate with growth of dividends following FCF growth and our prudent debt policy remains unchanged.



REVIEW 2013–2014

PERFORMANCE TOWARDS AMBITION LEVEL

	AMBITION LEVEL 2015 (FROM CMD 2012)	ACHIEVEMENTS 2014		DELIVERED/ ON TRACK
		2013	2014	
GROUP REVENUES	Growing in 2014	60.1	62.7	
GROUP ADJ. EBITDA	Growing in 2014	17.6 ¹	17.6	
GROUP FCF	Improvement (to reach ≈ €6 bn in 2015)	4.6	4.1	
GROUP ADJ. EPS	Improvement (to reach ≈ €0.8 in 2015)	0.63	0.54	
GROUP ROCE	Improvement (to reach ≈ 5.5% in 2015)	3.8%	5.5% ²	
SHAREHOLDER REMUNERATION	€0.50 per share	€0.50 for FY 13/14 ³		

¹ Pro forma EBITDA 2013, adjusted for changes in the scope of consolidation ² ROCE 2014 incl. effects from 70% Scout disposal and Verizon spectrum (excl. = 4.0%)

³ Subject to resolutions of the relevant bodies and the fulfillment of other legal requirements Note: Figures as reported

STRONG EXECUTION IN BUSINESS & PORTFOLIO

BUSINESS 2013-2015



- Return to organic revenue growth
- Group EBITDA stabilization
- Big transformation and network rollout programs on track
- Execution on financial & dividend commitments

- Market leadership in mobile expanded
- Profitable business EBITDA Margin 40%
- First and best truly converged offer launched in the market
- High investments: INS roll-out & IP migration on track

- Execution Un-carrier 1-8
- Stellar customer & revenue growth
- Increasing customer quality
- Increasing profitability
- LTE ramp-up to 265M covered pops (YE 2014)

- Ongoing revenue transformation
- Consequent cost discipline & margin improvement
- Strong execution in IP migration
- Outperforming competition on cash contribution

- MU: TSI 2015+ launched
- MU: Management team changes
- Tel IT: 1 bn spend reduction in internal IT (2012-15)

PORTFOLIO 2013-2015



**MERGER
PCS**



**ACQUI-
SITION**



**SALE OF 70%
STAKE**



**MINORITY
BUYOUT**



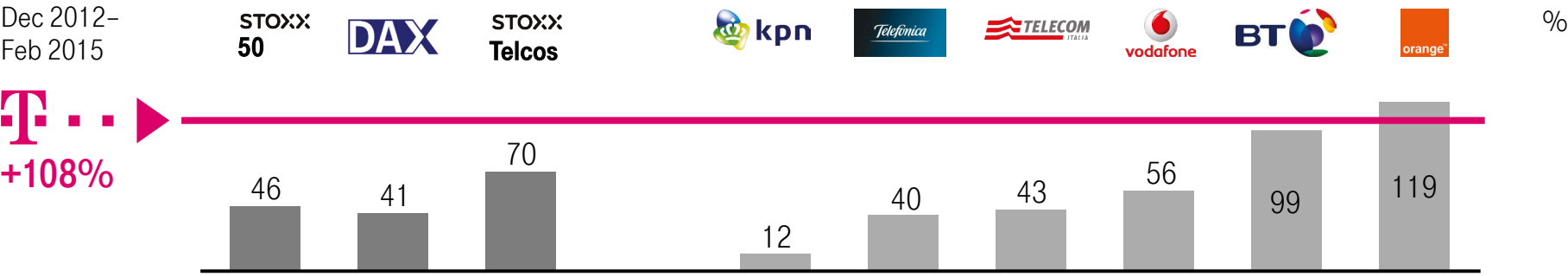
2013

2014

2015

WE CREATED VALUE FOR DT SHAREHOLDERS SINCE LAST CMD

TOTAL SHAREHOLDER RETURN SINCE CAPITAL MARKETS DAY 2012



CMD 2012 DIVIDEND POLICY DELIVERED



¹ Subject to board resolution and AGM approval

LEADING EUROPEAN TELCO: KEY HIGHLIGHTS 2014

2014 HIGHLIGHTS

- Germany: Revenue trends improved (-0.8% 2014 yoy versus -1.3% 2013 yoy). Adj. EBITDA Margin stabilized at 40% level. Improvement in all relevant KPIs: line losses reduced by 25%, Broadband losses stopped. TV net adds +26% (265k), Fiber net adds (incl. wholesale) almost doubled to 1 million. Successful launch of Magenta EINS converged product with 506k customers.
- US : In US\$ revenue grows 20.3%, service revenue grows 17.1% and adj. EBITDA grows 10.3%. 8.3 million customers added.
- Europe: Ongoing revenue transformation - revenue share from growth areas improved to 25% (+2pp) , TV (+6%) and broadband (+6%) customer base continue to grow. Reduction of adj. opex (€-0.6 bn) results in improved adj. EBITDA margin of 34% (+1 pp).
- Systems Solutions: First results for “TSI 2015+” achieved. Adj. opex in market unit reduced by €0.4 billion.

2014 FINANCIAL HIGHLIGHTS GROUP

- Group revenue growth of 4.2% to €62.7 billion
- Adj. EBITDA growth of 0.8% to €17.6 billion in line with guidance
- FCF of €4.1 billion in line with guidance
- Net profit more than tripled to €2.9 billion

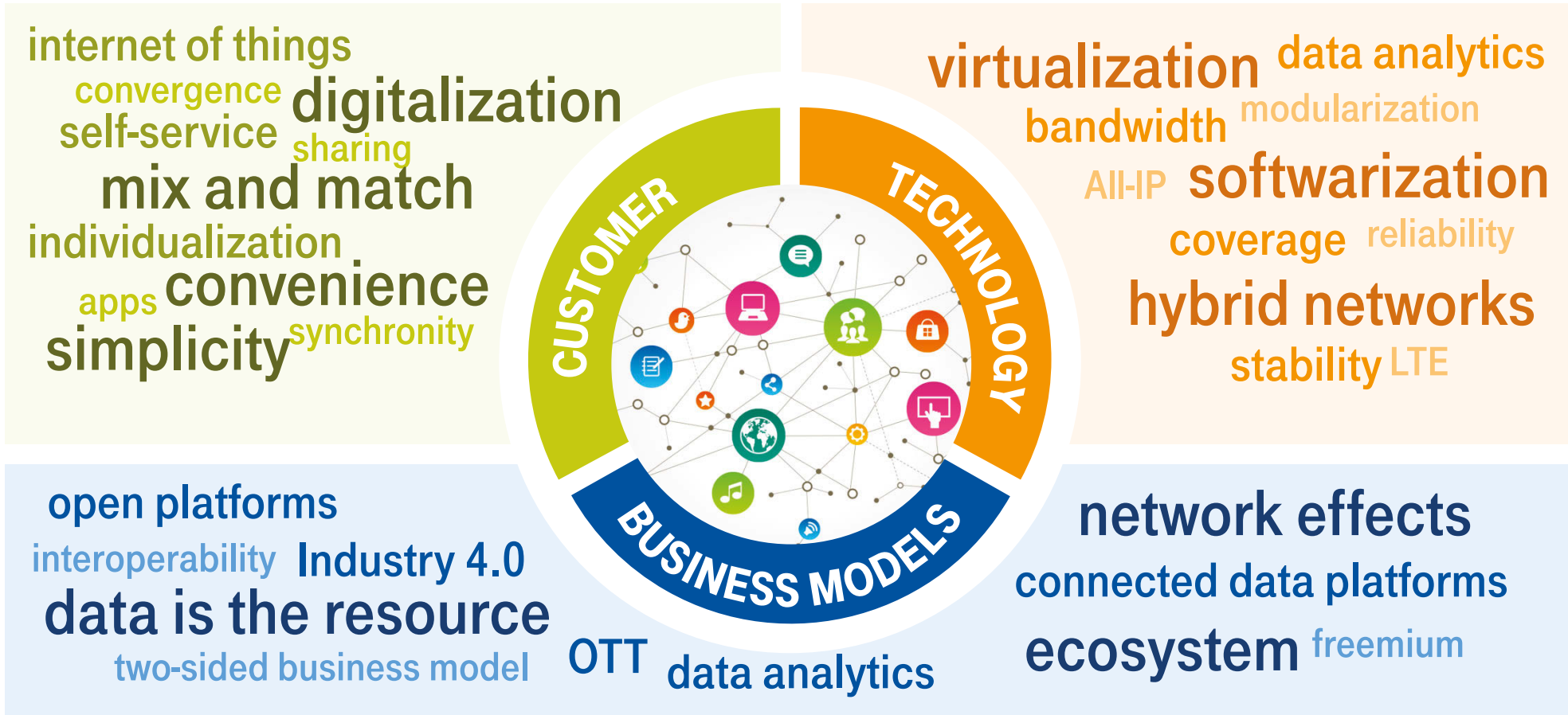
Delivering on dividend policy for 2014:
0.50€ per share to be proposed to AGM

2014 Shareholder return:
Total shareholder return of **11%** achieved in 2014



MARKET TRENDS

CHANGING INDUSTRY'S PARADIGMS



CUSTOMER TRENDS: SHARING IN A CONNECTED WORLD



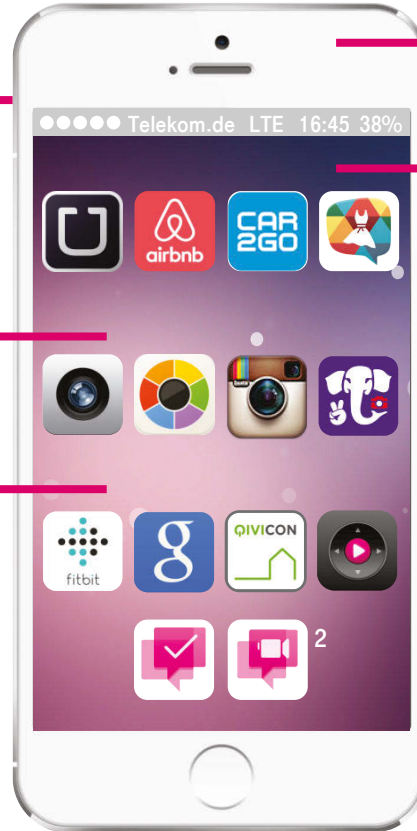
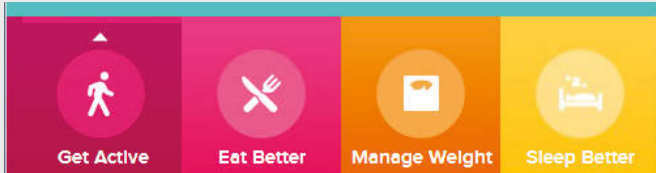
Exemplary device and apps

- ✓ Phone by Apple
- ✓ Contract by Telekom
- ✓ 25 different apps¹

Individual mix & match

Appification: one use case, one app

Digital enabling of all aspects of life



Seamless connectivity

LTE	WLAN	FIBRE
HYBRID		

Sharing is the new having

Intuitive and simple interfaces – mobile first



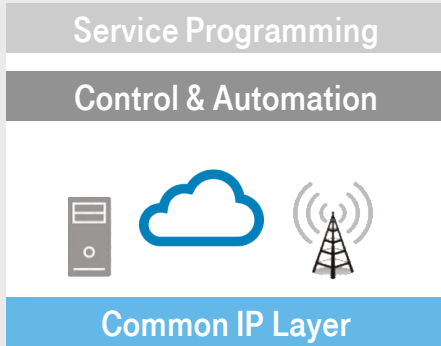
¹ Average number of downloaded apps on smart phones (2014) ² Telekom Service Apps: Magenta Service and Telekom Hilft

TECHNOLOGY TRENDS: CONVERGENCE & VIRTUALIZATION



SOFTWAREZATION

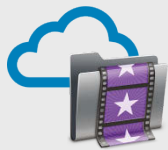
Software defined networks



Replacing consumer hardware



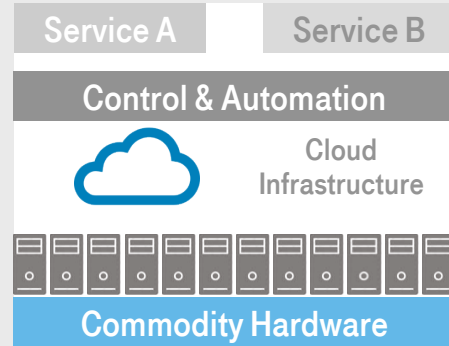
eSIM



virtual set-top box

VIRTUALIZATION

Network function virtualization



- Faster Time-to-Market
- Higher elasticity
- Higher redundancy
- Independence from hardware

CONVERGENCE

Hybrid



Fixed net for base load and stability

+

mobile net for additional bandwidth

Heterogeneous networks

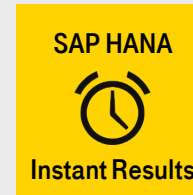


micro cell

macro cell

pico cell

DATA ANALYTICS



- Modern in-memory platform
- Transact & analyze data in real-time



- Low-cost open source platform
- Batch process/archive infinite amounts of data



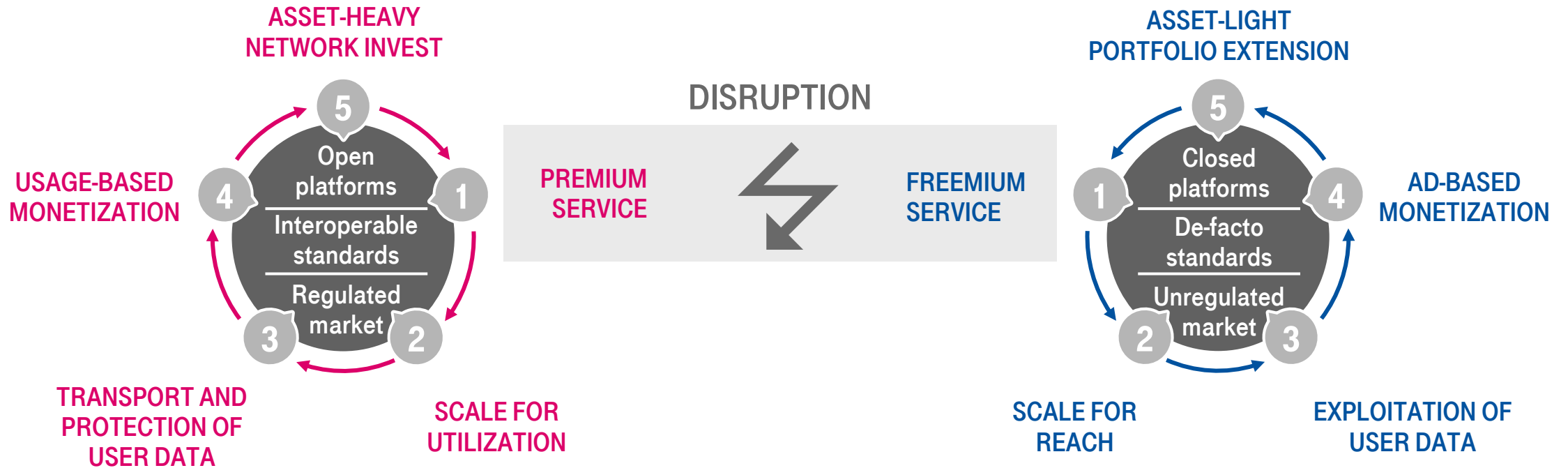
Real time business results from big data

BUSINESS MODEL TRENDS: OTT DISRUPTION



TELCO BUSINESS MODEL

OTT BUSINESS MODEL



WE FIGHT FOR CONTROL OVER OUR VALUE POINTS

Examples

Google fiber



Infrastructure projects

Virtualized access through eSIM

Telco service substitution

Retailization of device distribution enforced by eSIM

Customer relationships dominated through app and content stores, payment solutions and online service

OTT moves

Dumb Pipe

Owned network

Access enabling hard-ware/ SIM-card

Services (communication, TV, ...)

Device distribution

Billing & contractual relationship

Sales & service channels



Seamless connectivity in fixed and mobile

State-of-the-art devices

Integrated and simple offers

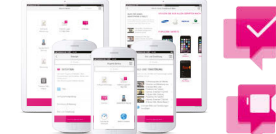
Strategic terminal management

Reliable and secure service

Digital and omni-channel service

DT moves

Hybrid



Examples



STRATEGY 2015–2018

OUR STRATEGY

LEADING EUROPEAN TELCO

INTEGRATED
IP NETWORKS

BEST
CUSTOMER
EXPERIENCE

WIN WITH
PARTNERS

LEAD IN
BUSINESS

TRANSFORM PORTFOLIO

EVOLVE FINANCIAL TARGETS & EFFICIENCY

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

OUR CORE BELIEFS

WE ARE THE TRUSTED PARTNER FOR OUR CUSTOMERS

We relentlessly strive for delivering the **best customer experience**

- Our products make “life is for sharing” **simple, reliable and secure**
- Our networks provide **best seamless connectivity**
- **Sales and service processes go digital, omni-channel** and “**24 x 365**”
- **Partner products and services** amend our core proposition
- **Advanced data analytics** improve and extend our service offering

Technology leadership with a **superior production model**

- **Fiber-based, integrated IP-networks deliver superior coverage, speed and quality**
- **We scale our production across footprint** for efficiency and time-to-market
- Our **open and interoperable connected data platforms** enable the industrial internet

We build the **best team in the industry**

- **Empowerment, collaboration and innovation** are imperatives of our leadership
- We **constantly raise the bar** while investing into the next, superior generation of talents
- We think **customer-centric**, are **disruptive**, take **ownership**, and act truly **international**

OUR SEAMLESS HIGH PERFORMING NETWORK

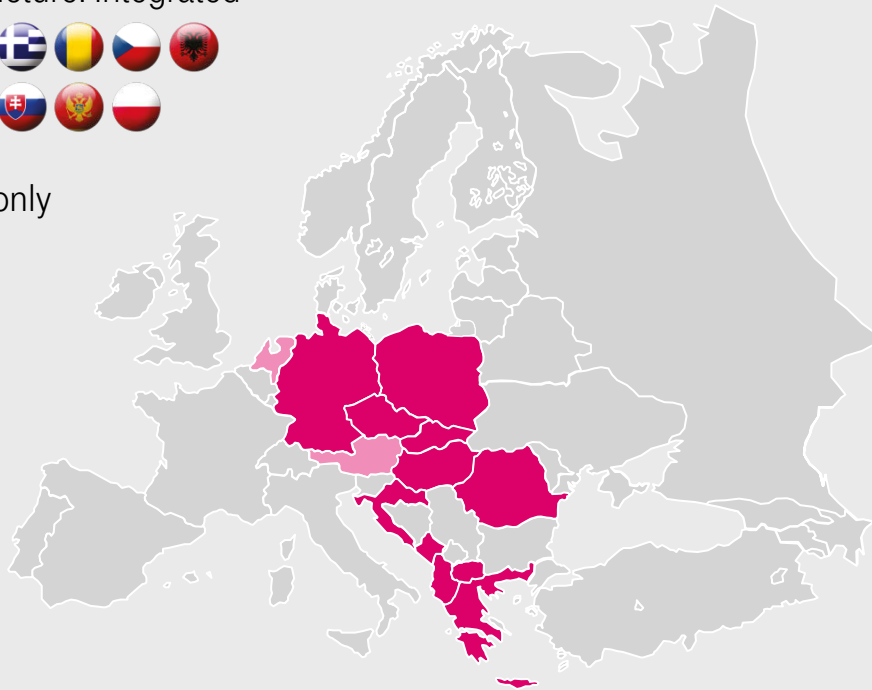


TECHNOLOGY LEADERSHIP

Target picture: Integrated



Mobile only



SUPERIOR SPEED AND COVERAGE - SEAMLESS ACCESS

We push a highly competitive fiber based infrastructure and at the same time stick to our capex envelope!



- **95% LTE** pop-coverage¹ in 2018 with up to 300Mbps
- Fiber household footprint of **≈ 80% in 2018** with at least 50 Mbps depending on regulatory adjustments
- Introduction of **super vectoring** with **more than 250Mbps in cable footprint**
- Download speed of **up to 550Mbps** via hybrid in cable footprint
- **264.000 hotspots and 2.000 small cells** in 2018 to boost mobile capacity & indoor coverage



- **75–95%**² LTE pop-coverage in 2018 with up to 300 Mbps
- **≈50%** of households³ with **at least 100Mbps** in 2018
- **≈12%** of households³ with **up to 500Mbps**⁴ in 2018
- **1.6mn hotspots** in 2018⁵

¹ Outdoor coverage ² Depending on country ³ In integrated footprint ⁴ FTTH, FTTB, FTTC, cable/ED3 (cable, esp. in Hungary with Euro-DOCSIS) ⁵ Including FON

OUR SUPERIOR PRODUCTION MODEL



DIGITAL TRANSFORMATION OF CUSTOMER FACING PROCESSES

COST EFFICIENCY & SIMPLICITY



ALL-IP TRANSFORMATION



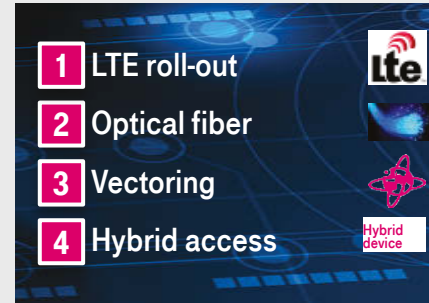
PLUG & PLAY

PAN-EUROPEAN NETWORK



TIME TO MARKET

INTEGRATED NETWORK STRATEGY



BEST CONNECTIVITY

Annual run rate adj.
Opex savings:

≈ €-1.2 bn¹

(steady state in early 2020ies)

¹ Gross Opex savings D/EU before any counter effects (e.g. personnel cost increases)

OUR INTEGRATED CUSTOMER PROPOSITION



Mobile

Internet

DSL

Access

- Product world in silos
- Every tariff element to be booked separately

FROM SEPARATE, COMPLEX TARIFFS...

S

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- Simplified tariff scheme
- Data as key differentiator

...TO SIMPLIFIED WITHIN SILOS...

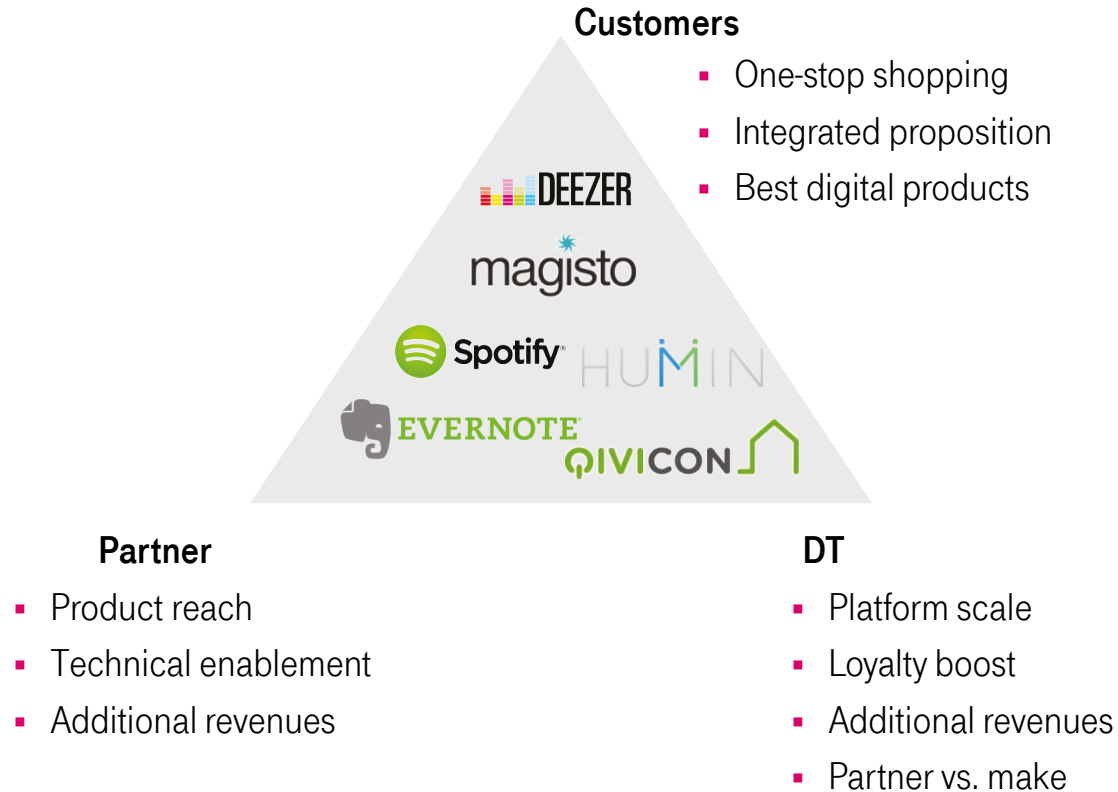
- Convergent portfolio, also beyond tariffs
- Seamless connectivity

...TO FULLY INTEGRATED TODAY.

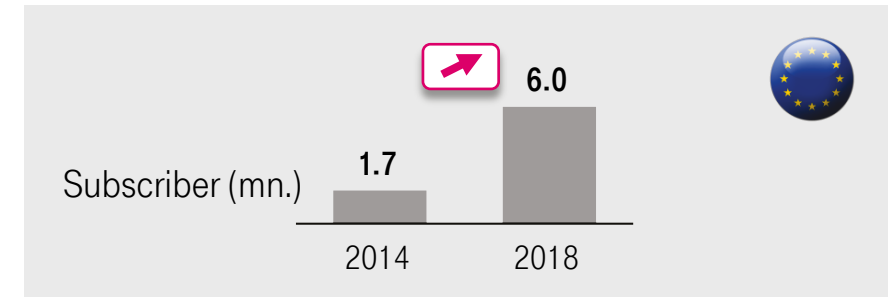
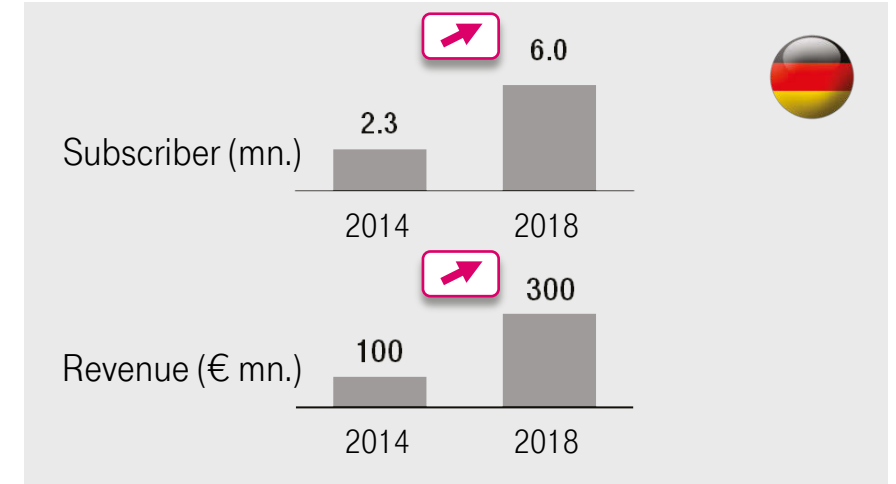
PARTNERING STRENGTHENS OUR CUSTOMER PROPOSITION



WIN-WIN-WIN THROUGH PARTNERING



ACHIEVEMENTS AND AMBITION OF PARTNERING



LEAD IN BUSINESS: NEW SETUP AND HIGH AMBITION LEVEL



B2B: UNIFYING THE STRENGTHS OF EUROPE, TSI AND GERMANY

Europe	TSI	Germany
<p>Strengthen B2B in EU</p> <ul style="list-style-type: none"> Focus on Fixed + Mobile + Cloud service offers & bundles International product launches: Cloud, VPN, M2M best-coverage Establish innovative G2M and partnership programs 	<p>TSI 2015+ program</p> <ul style="list-style-type: none"> Transformation program incl. new setup with 3 divisions: IT, TC, Digital Group wide initiative to strengthen the Int'l TC Business Growth focus on digital innovation areas like Cloud, Big Data, M2M 	<p>German SME initiative</p> <ul style="list-style-type: none"> Nationwide sales and service presence One-stop-shop product portfolio including customized bundle offers Focus business initiatives: IT Cloud, M2M, DeutschlandLAN

Collaborative coverage of B2B clients EU and D

PARTNERS

Examples



REVENUE AMBITION LEVEL (€ BN)

Strengthen B2B in Europe:

Target: B2B/ICT revenue growth >12% in EU (CAGR until 2018)

T-Systems 2015+:

Target: ≈3% revenue CAGR in TSI MU until 2018

German Mid Market initiative:

Target: + €0.4 bn IT revenue in SME (until 2018)

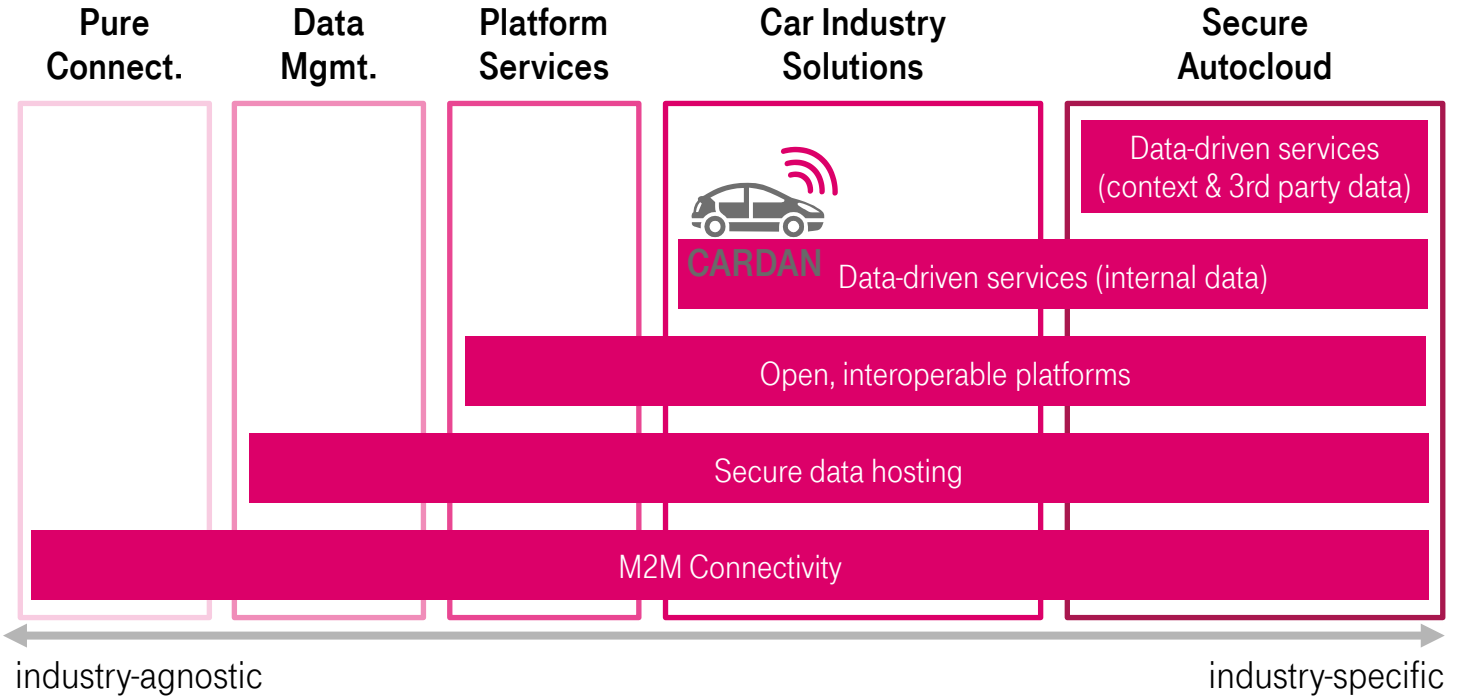
OPEN & INTEROPERABLE PLATFORMS



INDUSTRIAL INTERNET

- **Smart Data** fuels the next industrial revolution:
 - Lot sizes of 1
 - Autonomous robots
 - Real-time ERP
- **Open & interoperable platforms** for cross-industry data pools
- **Data security & privacy** as key differentiator
- **High performance network infrastructure & traffic prioritization** as enabler

EXAMPLE: CONNECTED CAR



OUR CUSTOMERS
(SELECTION)

DAIMLER

Continental

中国移动通信
CHINA MOBILE

SAP
Hafen Hamburg

INNOVATION DRIVES FUTURE DIFFERENTIATION



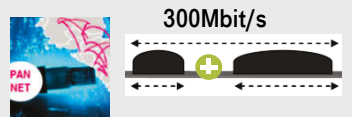
INNOVATION @ DT...

- **...is leading edge:** e.g. Hybrid, Super-Vectoring, Qivicon
- **...happens on all levels:** networks, processes, platforms and products
- **...considers** today's and **anticipates** future **customer demands**
- **...is efficient and effective:** focused make vs. partner decisions



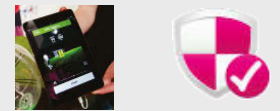
INTEGRATED IP NETWORKS

Access Enhancement
 All-IP/PAN-Net
 QoS
 Hybrid/WiFi
 5G
 SDN/Virtualization
 Super-Vectoring
 Carrier-Aggregation/
 MIMO



BEST CUSTOMER EXPERIENCE

Communication
Security
 Wearables
 eTransformation



MagentaEINS/FMC Plus
Smart Home/Qivicon
 NGTV
Payment
 Ecosystem Management
 eSIM



WIN WITH PARTNERS

“Steckerleiste”
 Strategic Partners



LEAD IN BUSINESS

M2M
 Cloud
Verticals
Advanced Data Analytics
 Open and interoperable platforms



Accentuated: Innovation in adjacent businesses

REGULATION NEEDS TO KEEP PACE WITH MARKET REALITIES



REVENUE

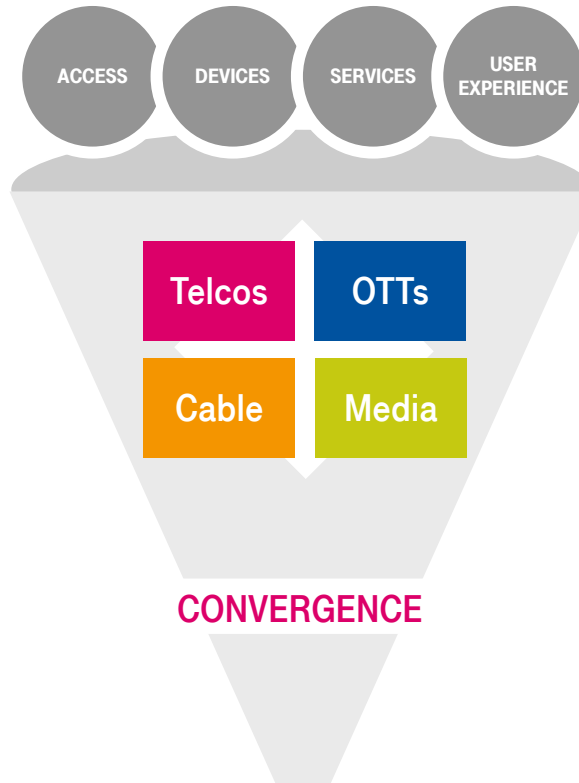
Fix regulatory framework to restore industry growth

- Revise price regulation
- Allow quality differentiation
- Develop consistent legal framework enabling digital innovation

COMPETITIVENESS

Ensure a level playing field with same rules for all players in the value chain

- Data protection & data security
- Interoperability
- Consumer protection



SCALE

Enable scale economies to unlock dynamic efficiencies

- Enable market consolidation
- Allow co-operations to promote open platforms and interoperability

INVESTMENT

Create incentives for broadband infrastructure investments

- Gear regulation towards investment
- Harmonize spectrum policy
- Supply better funding, promoting cost effective technologies

**TELCO-OTT MARKETS MERGE
COHERENT REGULATORY FRAMEWORK MANDATORY**

STRATEGY EXECUTION IS SUPPORTED BY THREE ENABLERS



INTEGRATED
IP NETWORKS

BEST CUSTOMER
EXPERIENCE

WIN WITH PARTNERS

LEAD IN
BUSINESS



TRANSFORM PORTFOLIO



EVOLVE FINANCIAL TARGETS & EFFICIENCY

**LEAD
TO WIN**

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

WE FOLLOW A CLEAR PORTFOLIO STRATEGY



CMD 2012: EE AND SCOUT UNDER STRATEGIC REVIEW



- **Strategic** solution: building the next **FMC market leader**
- **Premium** valuation: **£12.5 bn** EV
- Partnership potential and upside via participation in synergies



- Sale of 70% stake in Scout for **€1.6 bn**
- **Attractive valuation** of 20 times 2013 EBITDA
- 30% stake retains **significant upside potential** in value creation



SCOUT 24



- **Access to capital markets**, scale and synergies
- In combination with spectrum & AT&T breakup fee: foundation for **improved network proposition** and **turnaround**
- **Market cap almost doubled** since listing
- **Synergies NPV increased to \$9-10 bn**



M&A POLICY GOING FORWARD

1 Europe

- Selective and minor FMC/ICT acquisitions in our core integrated markets, but only for attractive multiples
- TMA and TMNL: mobile attacker strategy

2 US

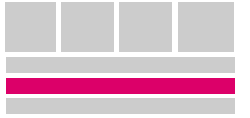
- Un-carrier strategy
- Continue de-risking, self-funding, king maker asset

3 Other

- Further monetization of assets if more value can be crystallized outside group
- Smaller technology M&A to strengthen business and innovation capabilities
- Minority shareholders: Opportunistic approach, only if economically attractive

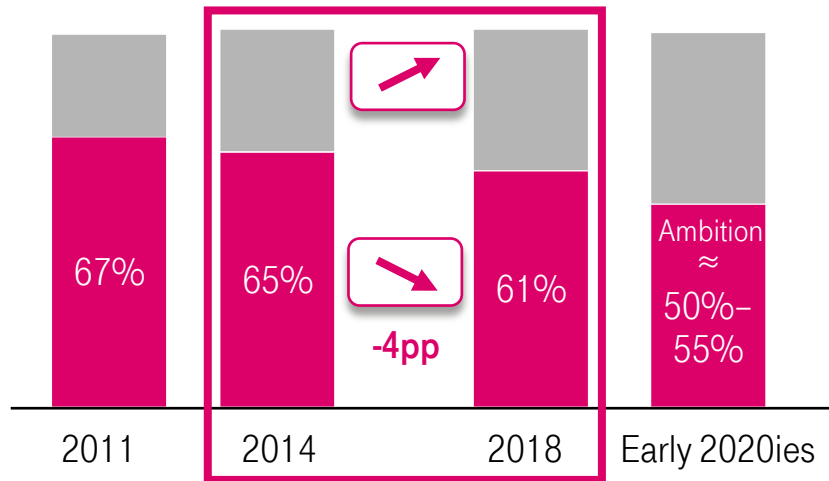
4 General policy – No major acquisitions outside our footprint

WE REDUCE OUR INDIRECT COST EX TMUS



“VARIABILIZATION OF COST” (EX. US) ...

Share of direct and indirect¹ cost (ex US)



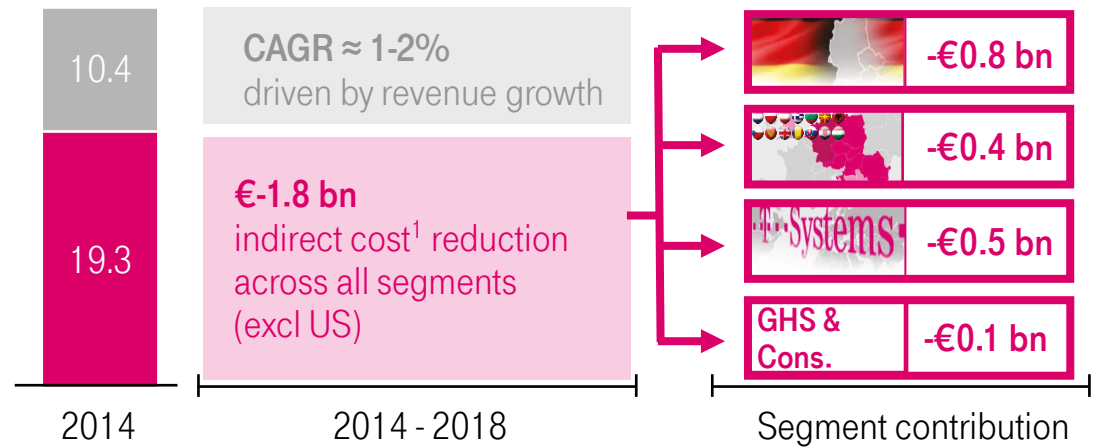
■ Adj. direct cost (ex US) ■ Adj. indirect cost¹ (ex US)

¹ Before capitalization of labor

... DRIVEN BY REVENUE GROWTH AND INDIRECT COST REDUCTION

€ bn

Total cost (ex US)



THE BEST TEAM PUTS OUR STRATEGY IN ACTION



LEADING EUROPEAN TELCO

More...

Leadership ...collaborate, innovate and empower to perform.

Diversity ...international mindset.

Responsibility ...clear leadership and ownership.

Incentivation ...raising the bar for overall success.

Talent management ...international leaders & experts.

Qualification ...skill development for future business.



CR & SRI: WE TAKE RESPONSIBILITY

WITHIN THE GROUP...



Living guiding principles: values for global workforce



Restructure responsibly: internal before external



Collaboration: leverage cross-functional synergies



Jobs of the future: manage workforce transformation

...AND IN SOCIETY...



Climate: reduce DT's emissions by 20% (vs 2008)



Binding ESG requirements; development for suppliers



Digital participation: foster media competencies

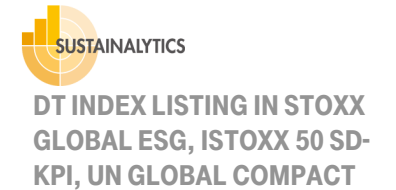


Best-in-class in compliance, data security, data privacy

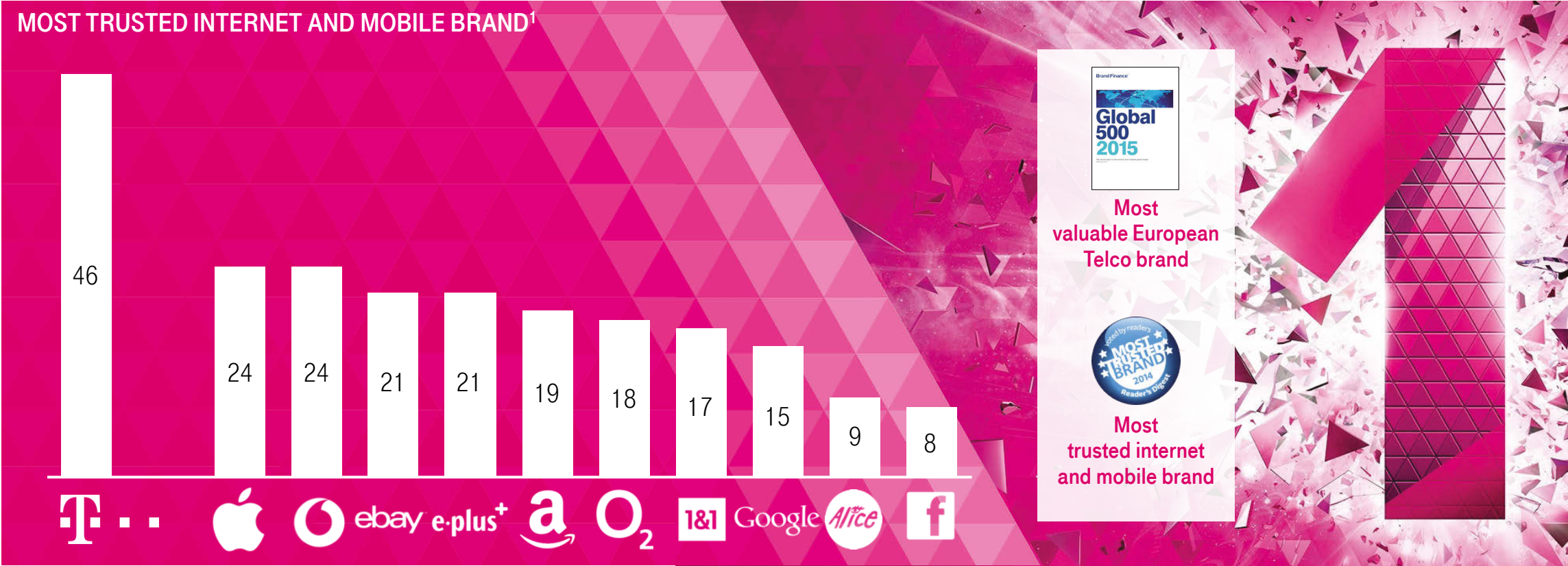


Sustainable products e.g. enable to save emissions

...WHICH IS WIDELY RECOGNIZED AND AWARDED



MOST VALUABLE AND TRUSTED EUROPEAN TELCO BRAND



Source: Institut für Demoskopie Allensbach, 2014 ¹ Share of people who consider these companies to be reliable

OPERATIONAL AND FINANCIAL PRIORITIES PER SEGMENT

GERMANY



- Superior All-IP production model and INS rollout!
- No. 1 choice for customers via differentiation:
 - superior networks
 - best customer experience
 - best in class integrated products
- Revenue stabilization in 2016
- EBITDA CAGR 1–2%¹!

EUROPE



- First to move to pan-European All-IP production model
- No. 1 choice for customers via differentiation:
 - best seamless connectivity
 - trust
 - simple and personal products!
- Radical indirect cost savings
- Cash contribution CAGR 0.5%¹
- 2pp op. ROCE improvement

USA



- Un-carrier strategy:
 - 2.2–3.2mn branded postpaid net adds in 2015!
 - 300m pops LTE coverage YE15
- Increased \$9-10bn NPV of Metro PCS synergies
- Updated 5-year growth rates²:
 - Revenue CAGR 7–9%
 - EBITDA CAGR 7–10%
 - FCF CAGR 13–18%

T-SYSTEMS MU



- TSI 2015+ Execution
- No. 1 choice for customers via differentiation:
 - best networks & scalable platforms
 - Security
 - outstanding cloud experience!
- MU Revenue CAGR 3%¹
- Positive TSI adj. cash contribution after 2016!

¹ All CAGR's 2014–2018 ² 2012 – 2017 Financial Growth



FINANCIAL OUTLOOK

LEADING EUROPEAN TELCO WITH FOCUS ON ROCE

EQUITY

RELIABLE **SHAREHOLDER** REMUNERATION POLICY

- **DIVIDEND¹**
 - Following FCF growth
 - Floor at 0.50 EUR per share
 - Attractive option:
Dividend in kind

STRATEGY LEADING EUROPEAN TELCO

INTEGRATED
IP NETWORKS

BEST
CUSTOMER
EXPERIENCE

WIN WITH
PARTNERS

LEAD IN
BUSINESS

VALUE CREATION: ROCE > WACC

- 1 INFRASTRUCTURE TRANSFORMATION**
Support fast IP migration and transform network infrastructure
- 2 COST TRANSFORMATION**
Reduce indirect cost
- 3 PORTFOLIO MANAGEMENT**
Deliver on preferred business model (integrated + B2C/B2B)
and value generation
- 4 RISK MANAGEMENT**
Maintain low risk country portfolio

DEBT

UNDISPUTED **ACCESS** TO DEBT CAPITAL MARKETS

- **RATING**
A-/BBB
- **NET DEBT/ADJ. EBITDA**
2–2.5x
- **EQUITY RATIO**
25–35%
- **LIQUIDITY RESERVE**
covers maturities
of coming 24 months

¹ Subject to necessary AGM approval and board resolution

OUR GUIDANCE

	2014 RESULTS Reported	GUIDANCE 2015 ON A CONSTANT CURRENCY BASIS ¹	GUIDANCE 2015 ON CURRENT €/€ EXCHANGE RATE ²
€ BN		€/\$: 1.33	€/\$: 1.13
REVENUE	62.7	Growth	Growth
ADJ. EBITDA	17.6	around 18.3	around 19.3
FCF	4.1	around 4.3	around 4.3

¹ Guidance based on constant exchange rates (Average €/€ exchange rate 2014 of 1,33) and no further changes in the scope of consolidation

² Guidance based on constant exchange rates (Current €/€ exchange rate of 1,13) and no further changes in the scope of consolidation; current: exchange rate as of Feb. 13



MID TERM AMBITION LEVEL

MID TERM AMBITION LEVEL

TOPIC	MID TERM AMBITION LEVEL ¹	YEAR
GROUP REVENUES	CAGR 1–2%	2014–2018
GROUP ADJ. EBITDA	CAGR 2–4%	2014–2018
GROUP FCF	CAGR ≈10%	2014–2018
GROUP ADJ. EPS	≈€1 in 2018	2018
GROUP ROCE	ROCE > WACC in 2018	2018
GROUP CASH CAPEX	CAGR 1–2%	2014–2018
GROUP ADJ. OPEX	DECREASE (ex US)	2014–2018
SHAREHOLDER REMUNERATION POLICY (2015–2018) ²	Following FCF growth; min. DPS of €0.50 p.a.	2015–2018

¹ Based on constant exchange rates (Average €/€ exchange rate 2014 of 1.33) and no further changes in the scope of consolidation ² Subject to necessary AGM approval and board resolution