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**DEUTSCHE TELEKOM**  
Q2/2016 RESULTS



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# REVIEW H1/16

# 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



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# LEADING EUROPEAN TELCO: GUIDANCE RE-ITERATED – ONGOING EXECUTION

## Customers (H1/16)

- Record demand for fiber in Germany
  - 5.6 million German homes with fiber
  - 1.2 million net adds
- Growth story in the US continues
  - 4.1 million net adds
  - FY forecast raised again



## Investments and innovation (H1/16)

- Further strengthening of spectrum position in the US and Europe
- Continued high investments (excl. spectrum) of € 5.5 billion (+7.6%) in networks and transformation
  - Progress with 5G
    - Berlin test network, speed record in Poland
- Innovative products in the market



## Financial results (H1/16)

- Strong growth continues
  - Revenue up 3.4% yoy
  - Comparable<sup>1</sup> adj. EBITDA up 6.9%
  - Comparable<sup>1</sup> FCF up 15.9%
- Net debt/adj. EBITDA at 2.3x down from 2.6x one year ago

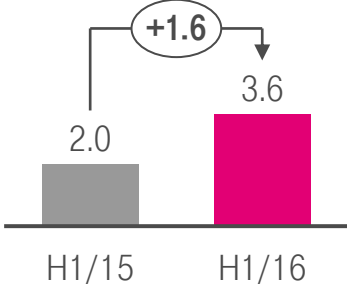


1) Adjusted for handset lease/data stash (adj. EBITDA), EE dividend (FCF), and settlement (adj. EBITDA and FCF)

# CUSTOMERS: STRONG MOMENTUM

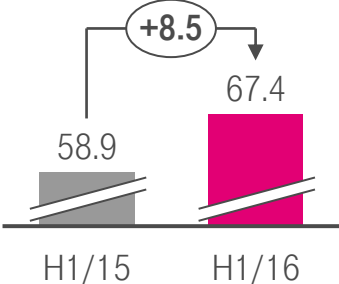
## MagentaEINS (Germany + EU)<sup>1</sup>

mn



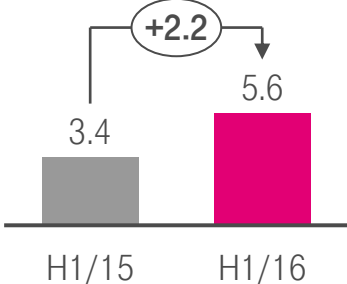
## US Mobile

mn



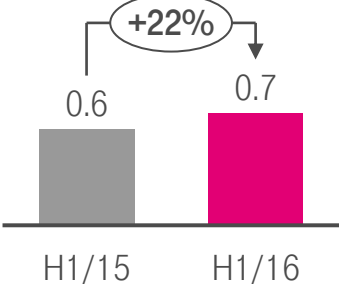
## Fiber in Germany

mn



## Cloud revenues

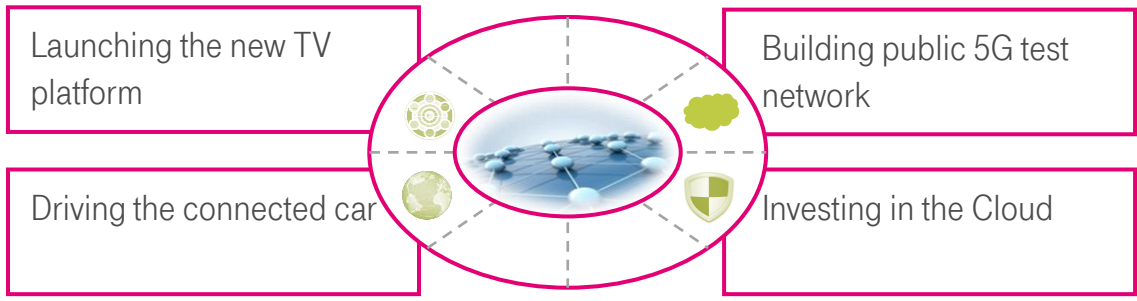
€ bn



1) FMC RGUs may also appear under other brand name outside of Germany

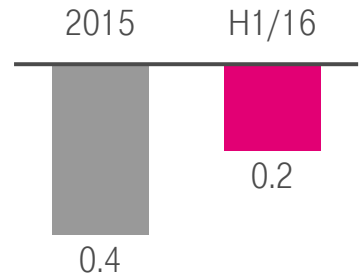
# H1 2016: HIGHLIGHTS

## Innovation/best networks



## Efficiency

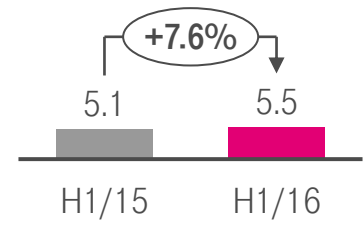
YOY change indirect costs (excl. US) in billion €



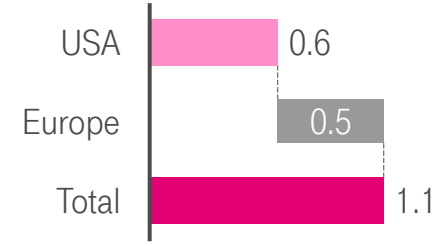
- Ongoing efficiency improvements esp. in domestic businesses in line with target run rate

## Investments (€ bn)

Cash capex (excl. spectrum)



H1/16 Spectrum spend



## Regulation

### “Nahbereich”

- EU conditionally approves revised proposal of BNetzA

### BSA-Level 2

- BNetzA proposes BSA L2 terms

### Broadband subsidies

- Government raises subsidies from € 2.7 billion to € 4.0 billion



# FINANCIALS AND GUIDANCE 2016: STRONG MOMENTUM CONTINUES, GUIDANCE RE-ITERATED

€ bn

	Revenue	Adj. EBITDA	FCF
14-18 CAGR <sup>1</sup>	+1-2%	+2-4%	≈+10%
2016 Guidance (\$/€: 1.11)	Increase	Around 21.2 bn <sup>2</sup>	Around 4.9 bn
H1 2016 performance	+3.4%	+10.6% (+6.9%) <sup>3</sup>	-4.4% (+15.9%) <sup>3</sup>

1) 14-18 CAGRs as per CMD 2015 guidance 2) Of which handset lease and data stash \$ 0.7 billion

3) Percentage change in brackets represents adj. EBITDA and FCF comparable development yoy: adjusted for handset lease/data stash (adj. EBITDA), EE dividend (FCF), and settlement (adj. EBITDA and FCF)



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# REVIEW Q2/16

# Q2/2016: FINANCIAL HIGHLIGHTS

€ mn

	Q2			H1		
	2015	2016	Change	2015	2016	Change
Revenue	17,428	17,817	+2.2%	34,270	35,447	+3.4%
Adj. EBITDA	5,026	5,457	+8.6%	9,600	10,620	+10.6%
Adj. net profit	1,078	1,054	-2.2%	2,114	2,101	-0.6%
Net profit	712	621	-12.8%	1,499	3,746	+149.9%
Adj. EPS (in €)	0.24	0.23	-4.2%	0.47	0.46	-2.1%
EPS (in €)	0.16	0.13	-18.8%	0.33	0.81	+145.5%
Free cash flow <sup>1</sup>	1,375	1,320	-4.0%	2,240	2,142	-4.4%
Cash capex <sup>2</sup>	2,575	2,664	+3.5%	5,105	5,495	+7.6%
Net debt	48,835	48,692	-0.3%	48,835	48,692	-0.3%

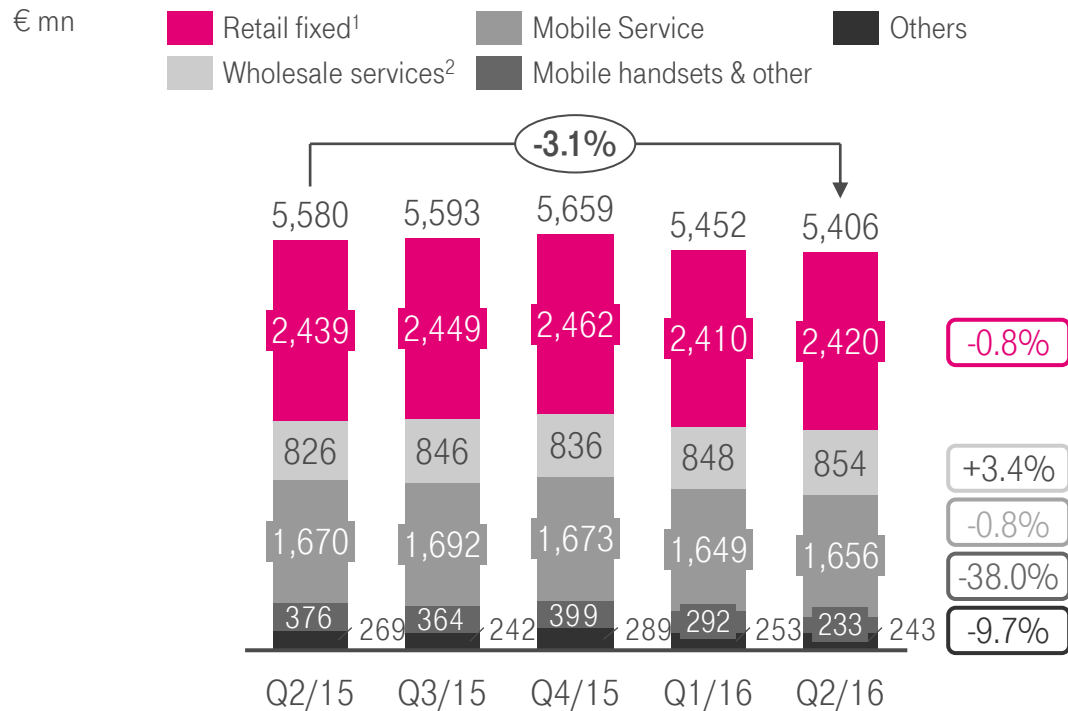
1) Free cash flow before dividend payments and spectrum investment 2) Excl. spectrum: Q2/15: € 1,755 million; Q2/16: € 39 million; H1/15: € 3,654 million; H1/16: € 1,104 million



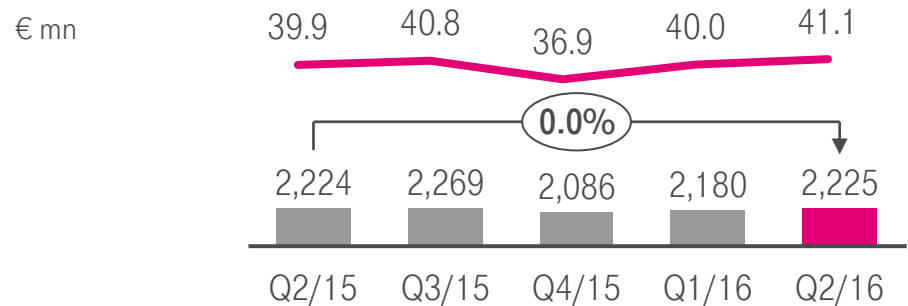
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# GERMANY: HIGHER MARGIN REFLECTING LOWER HANDSET SALES AND COST MANAGEMENT

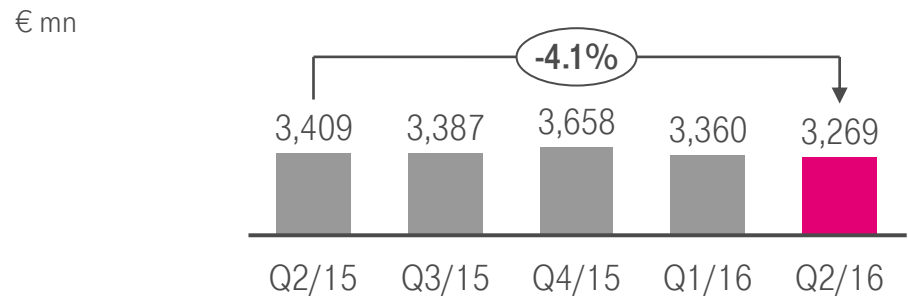
## Revenue reported



## Adj. EBITDA and margin (in %)



## Adj. OPEX



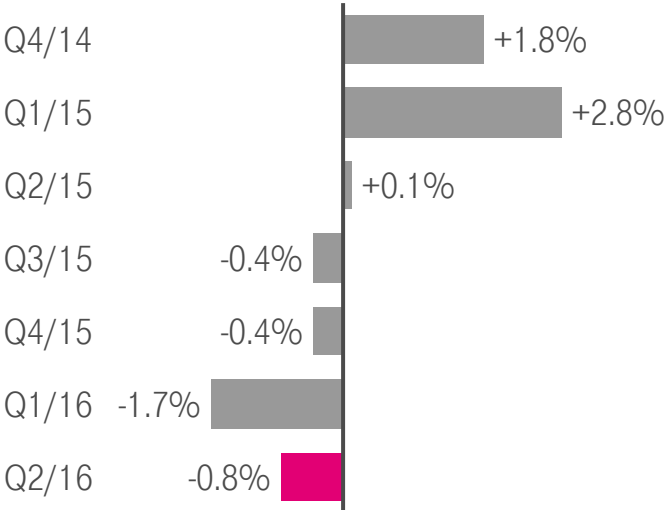
1) Fixed network core business 2) Figures 2015 have been restated. Approx. € 80 million shifted from wholesale to others



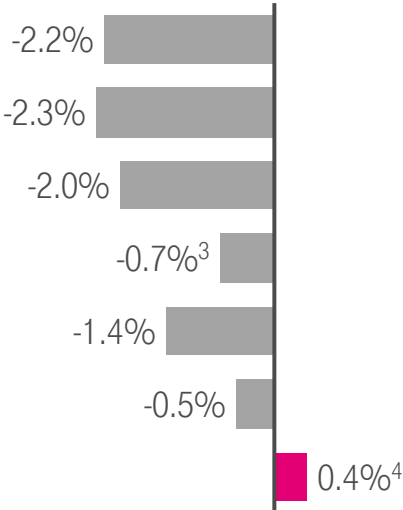
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# GERMAN TOTAL SERVICE REVENUES: GROWTH IN FIXED, STABLE OVERALL

## Mobile service revenues



## Fixed line service revenues<sup>1,2</sup>



## Total service revenues<sup>1,2</sup>

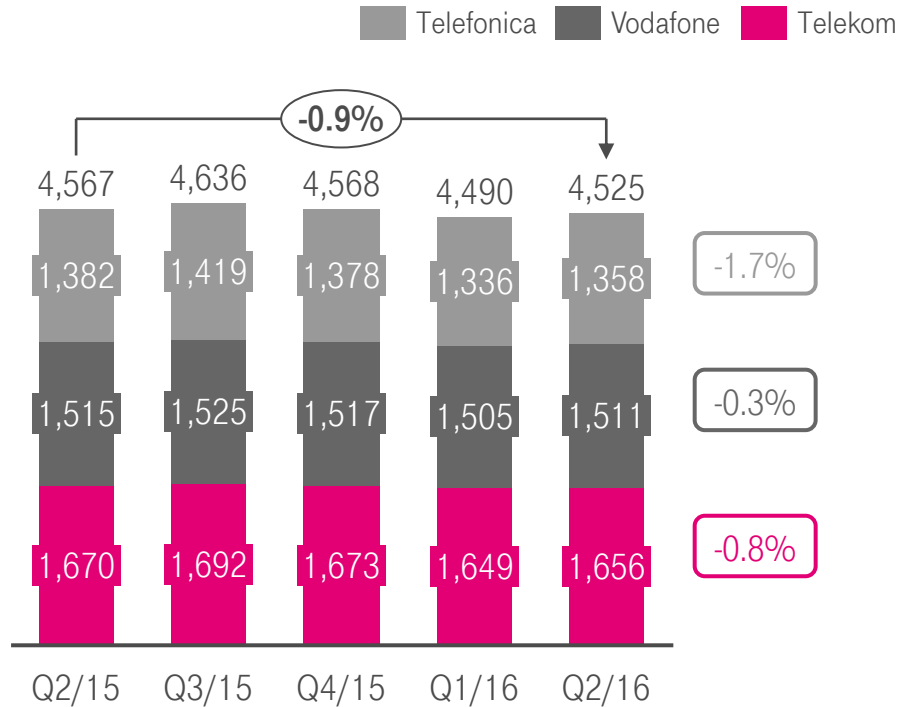


1) Total service revenues is a sum of fixed line and mobile service revenues. We define fixed line service revenues as fixed network core business revenues less fixed hardware revenues plus wholesale services fixed network revenues.. From Q2/16 onwards, we classify CPE's recurring rent revenues as fixed service revenues, and thus also part of total service revenues. Without this reclassification, fixed line service revenue growth rate would be +0.2% in Q2/16, whereas TSR growth rate would be -0.2% in Q2/16. Old growth rates have not been restated. 2) Percentage changes for Q4/14 – Q4/15 not restated 3) Revenue in Q3/15 benefitted from special factor related to settlement agreements concerning charged fees from previous years. Adjusted growth rate at -1.5% for fixed service revenues, respectively -1.1% for total service revenues 4) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at +0.7% for fixed service revenues under definition in Q2/16 (see 1), respectively +0.2% for total service revenues under definition in Q2/16 (see 1).

# GERMANY MOBILE: STEADY COMMERCIAL MOMENTUM

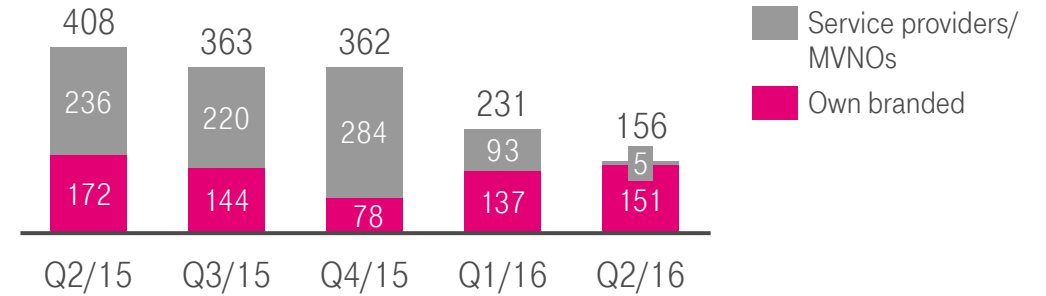
## German mobile market service revenue

€ mn



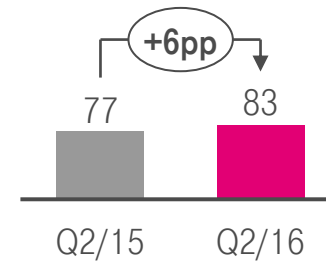
## Contract net adds<sup>1</sup>

000



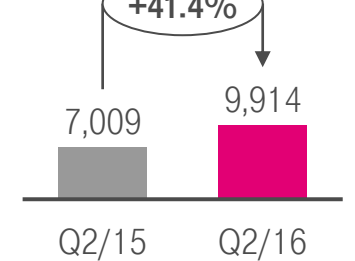
## Smartphone penetration<sup>2</sup>

%



## LTE customers<sup>3</sup>

000



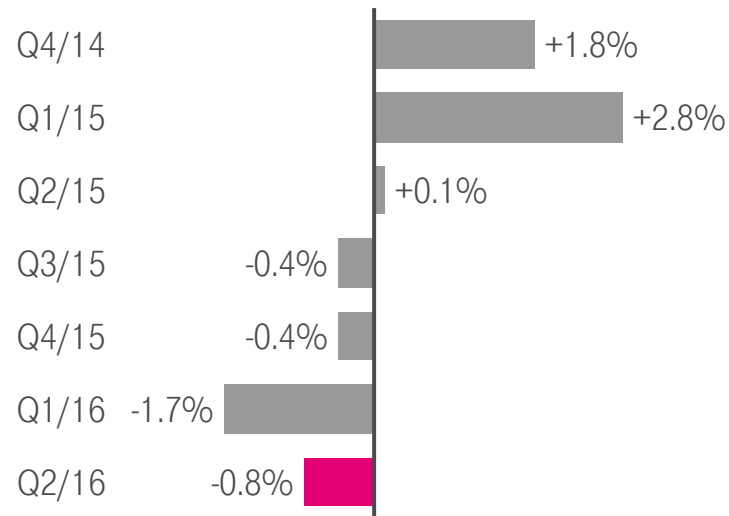
1) Figures may not add up due to rounding 2) Of own branded retail customers 3) Customers using an LTE-device and tariff plan including LTE



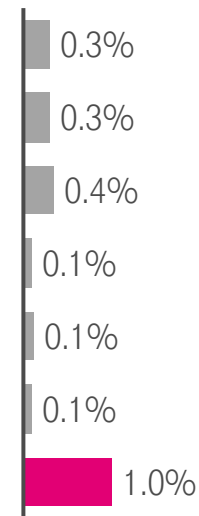
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# GERMAN MOBILE SERVICE REVENUES: TREND RECOVERY IN Q2 AS EXPECTED

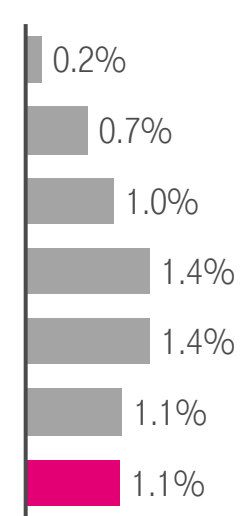
## Reported mobile service revenues



## Impact of mobile regulation<sup>1</sup>



## Impact of convergent offers<sup>2</sup>



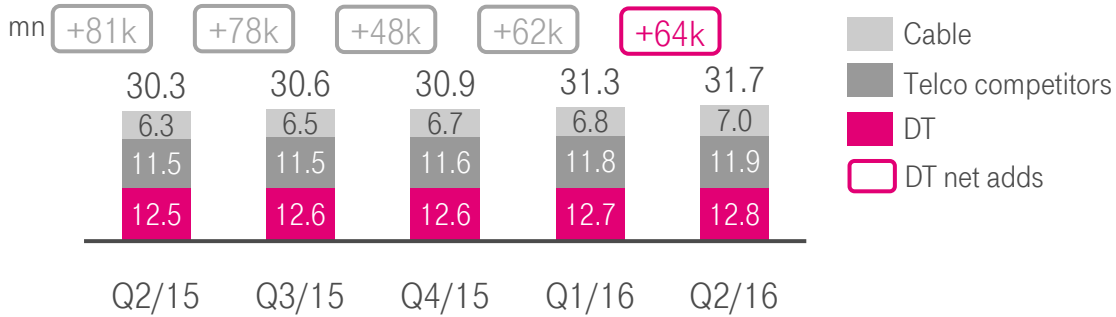
## Medium term guidance (2014–2018 CAGR): Re-iterated

≈ +1% (without EU roaming impact)

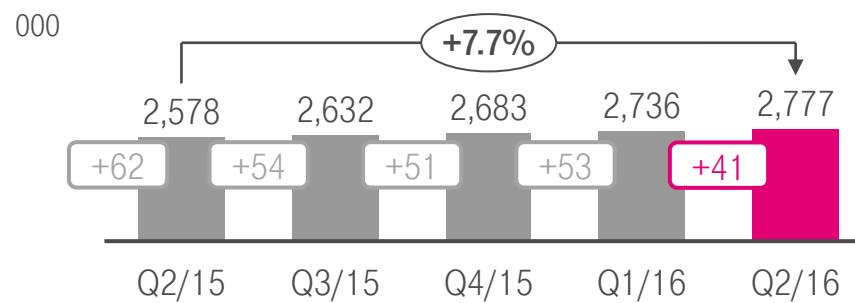
1) Impact of MTR and EU roaming regulation 2) Impact of MagentaEINS and Telekom LTE broadband

# GERMANY FIXED: STRONG GROWTH IN FIBER

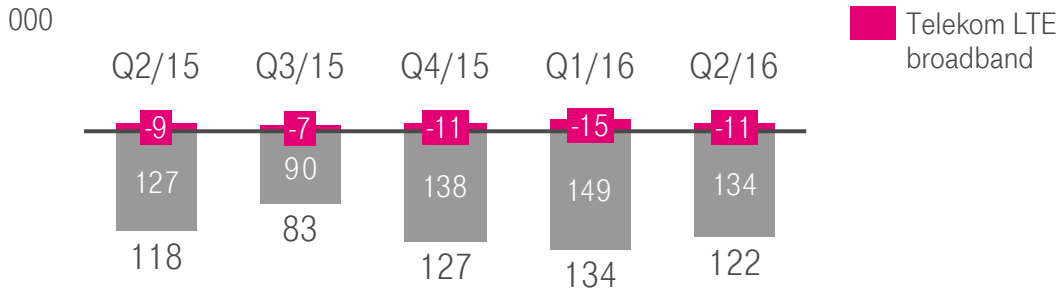
## German broadband market<sup>1</sup>



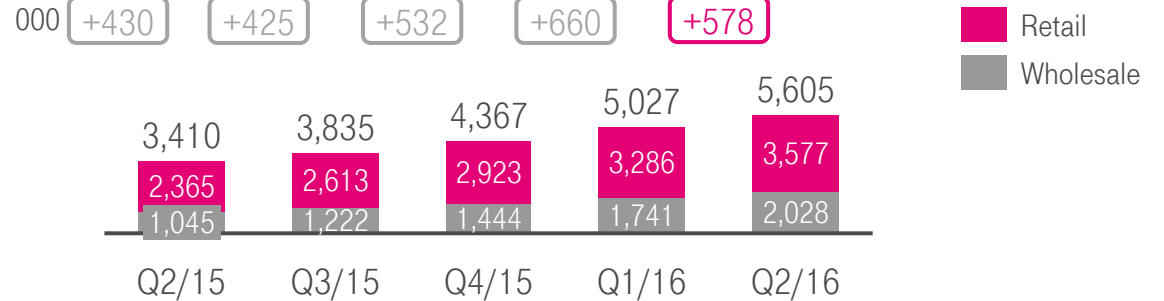
## Entertain customers



## Line losses



## Fiber customers<sup>2</sup>

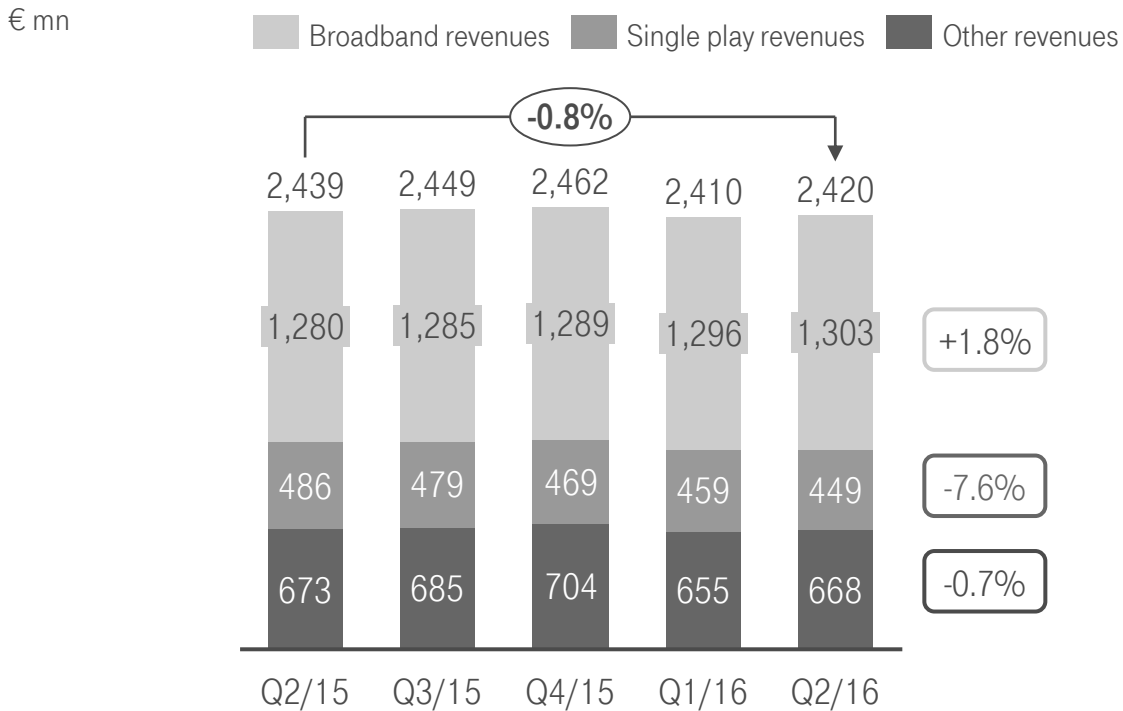


1) Based on management estimates 2) Sum of all FTTx accesses (e.g. FTTC/VDSL, vectoring, and FTTH)

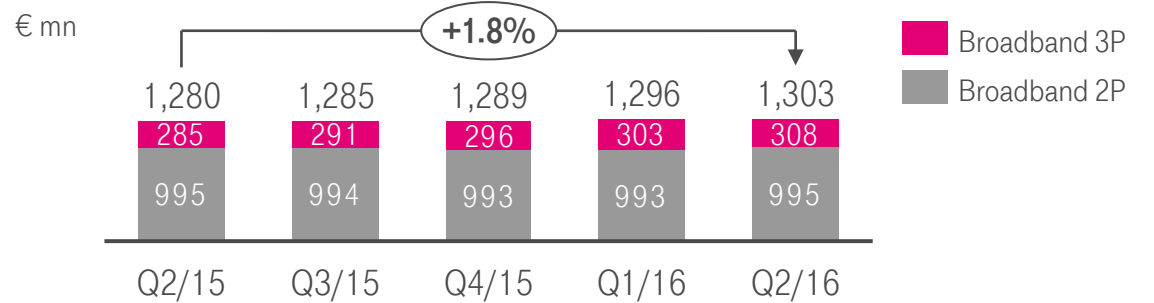


# GERMANY FIXED: FIBER DRIVES RETAIL BROADBAND REVENUES

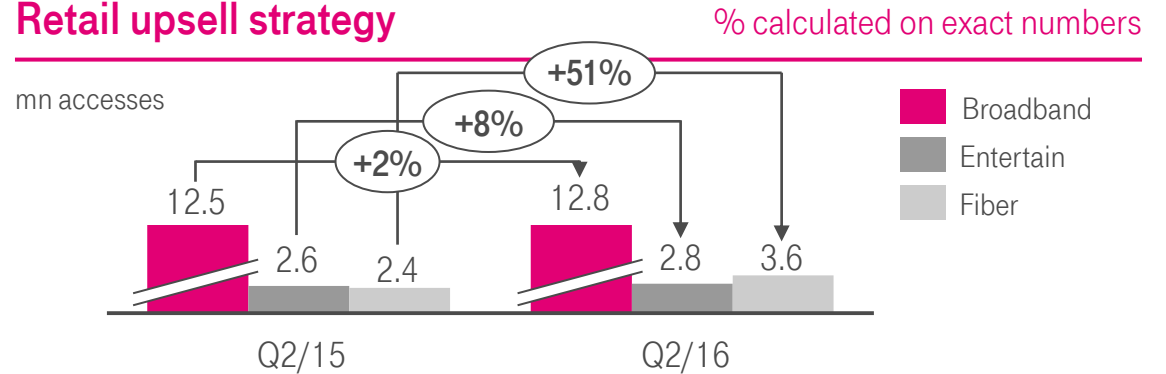
## Fixed network revenues retail



## Broadband revenues



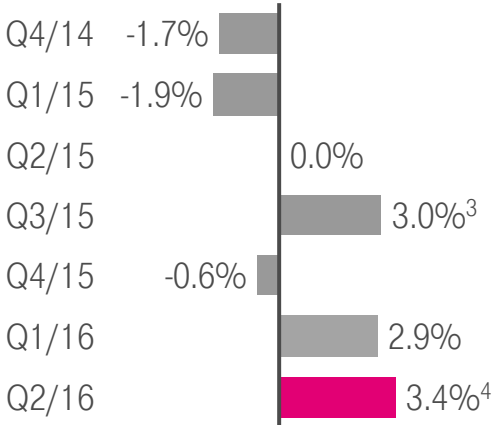
## Retail upsell strategy



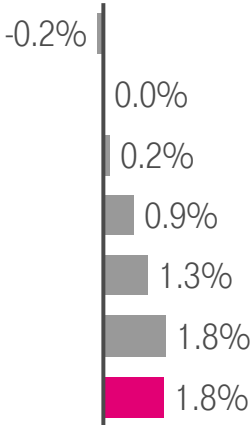
# GERMAN FIXED LINE SERVICE REVENUES: SUCCESSFUL TURNAROUND

## Growth rates YOY

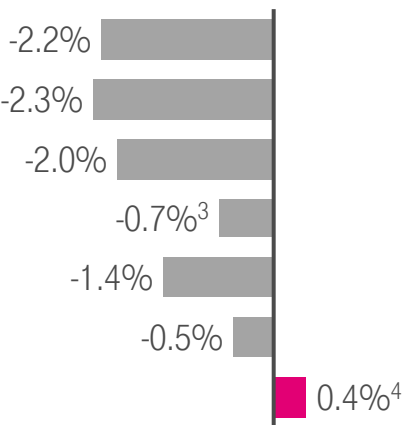
### Wholesale revenues<sup>2</sup>



### Broadband revenues



### Fixed line service revenues<sup>1,2</sup>



## Medium term guidance (2014–2018 CAGR): Re-iterated

**+0.0%**

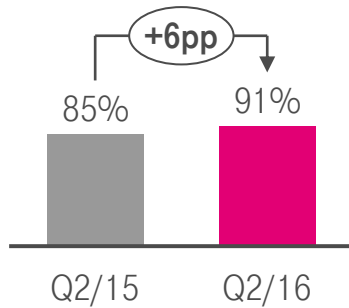
**+2.0%**

1) We define fixed line service revenues as fixed network core business revenues less fixed hardware revenues plus wholesale services fixed network revenues. From Q2/16 onwards, we classify CPEs recurring rent revenues as fixed service revenues. Without this reclassification, fixed line service revenue growth rate would be +0.2% in Q2/16. Prior quarters growth rates have not been restated. 2) Percentage changes for Q4/14 – Q4/15 not restated. 3) Revenue in Q3/15 benefitted from special factor related to settlement agreements concerning charged fees from previous years. Adjusted growth rate at 0.0% for wholesale, respectively -1.1% for total service revenues. 4) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at +4.6% for wholesale, respectively +0.7% for fixed service revenues under definition in Q2/16 (see 1)

# GERMANY: NETWORK ROLLOUT AND TRANSFORMATION PROGRESS TOWARDS TARGET

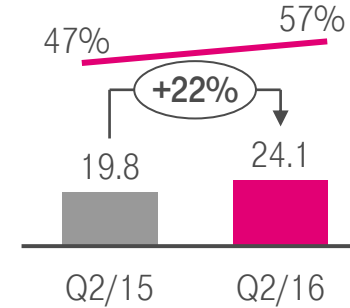
## INS – status LTE rollout

POP  
Coverage in %<sup>1</sup>



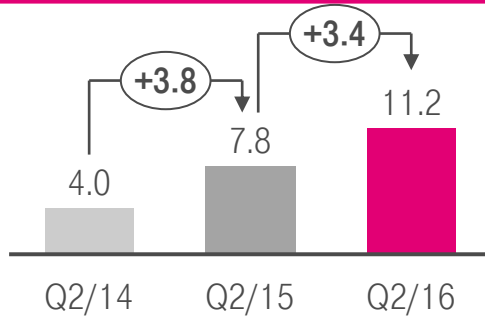
## INS – status fiber rollout<sup>2</sup>

Coverage in % and  
millions of households



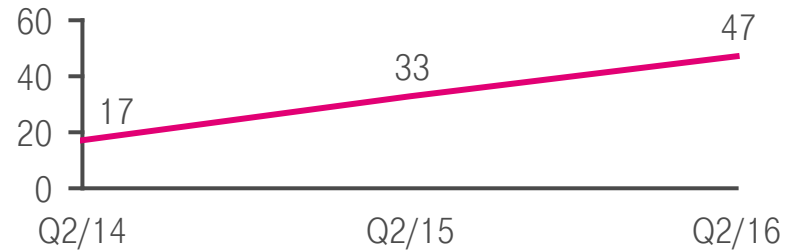
## Status IP accesses (retail & wholesale)

mn



## Status IP accesses (retail & wholesale)

in % of lines



**Target:**  
100% of lines  
by 2018!

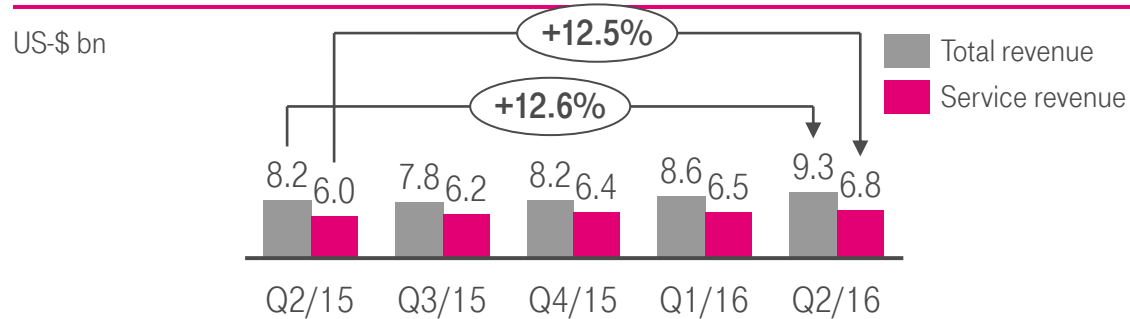
1) Outdoor coverage 2) In % of households within fixed network coverage in Germany



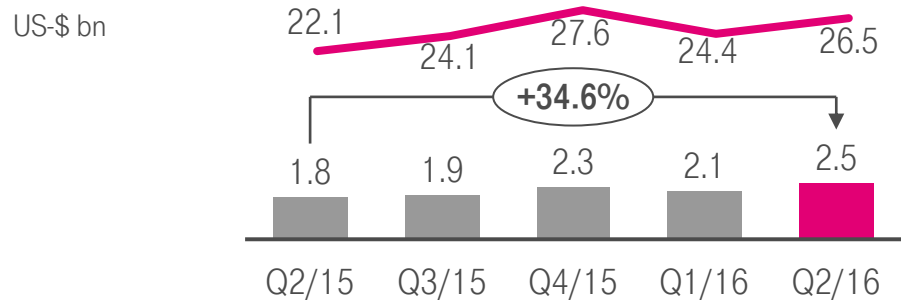
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# TMUS: STRONG GROWTH IN ALL KEY METRICS

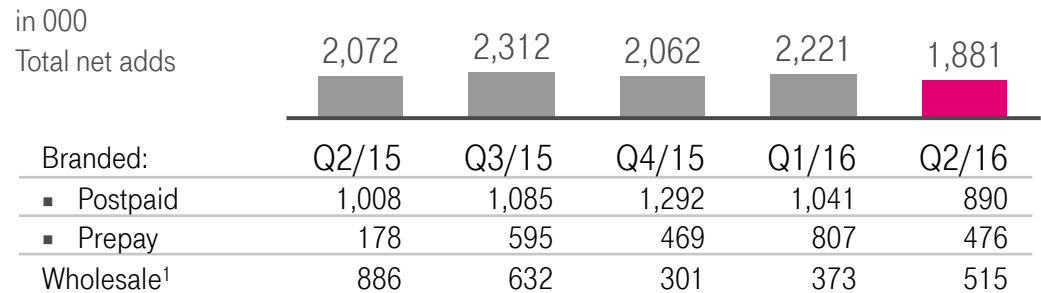
## Revenue and service revenue



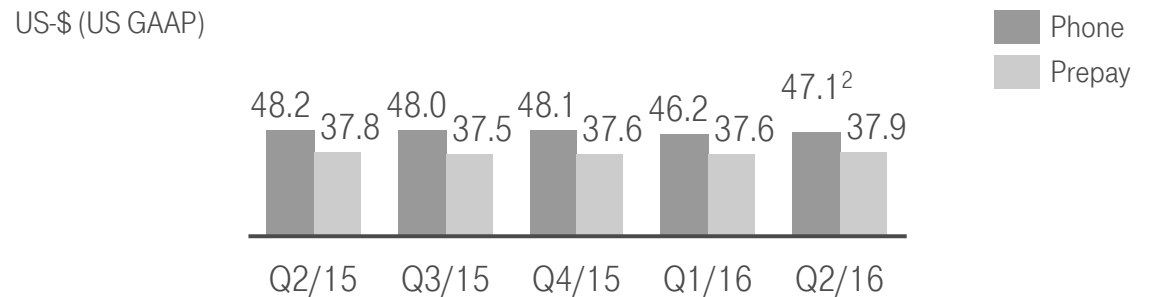
## Adj. EBITDA and margin (in %)



## Net adds



## Branded customers: postpaid phone and prepay ARPU



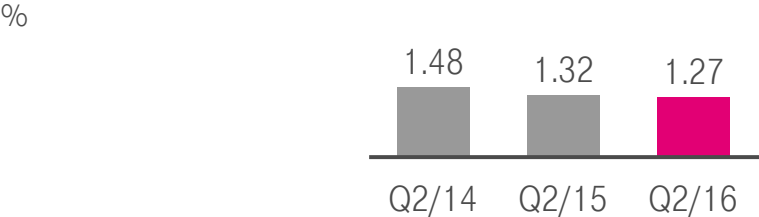
1) Wholesale includes MVNO and machine-to-machine (M2M). Amounts may not add up due to rounding.

2) Excl. data stash effect postpaid phone ARPU increased 0.8% QoQ and decreased 0.4% yoy



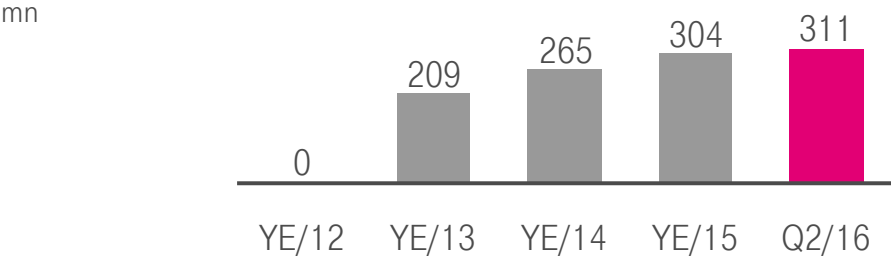
# FOCUS ON TMUS: IMPORTANT DRIVERS KEEP TRENDING WELL

## Branded postpaid phone churn



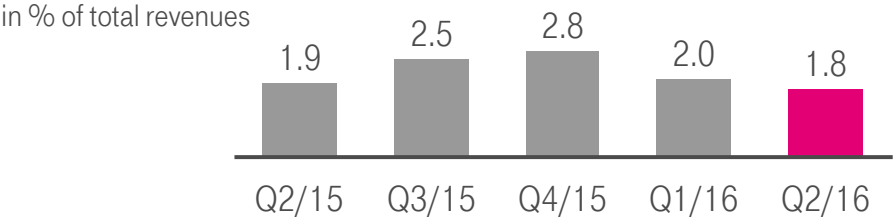
- Lowest ever churn level

## LTE covered POPs



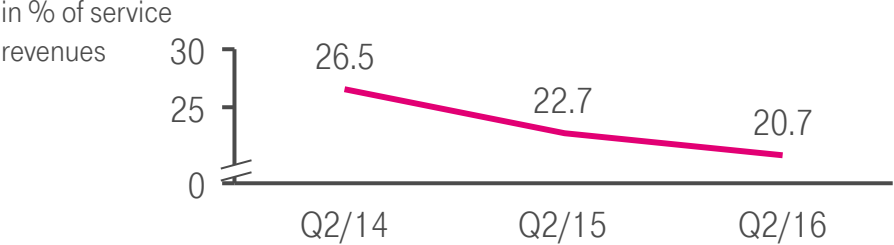
- A-block update: deployed in more than 200 million POPs across 350 market areas (spectrum covers approx. 83% of US POPs or 269M people)

## Bad debt expenses & losses from sale of receivables



- Receivables classified as prime slightly up at 53% (adj. for EIP receivables sold)

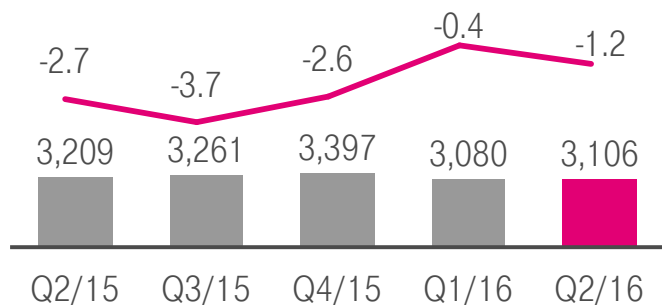
## Cost of service



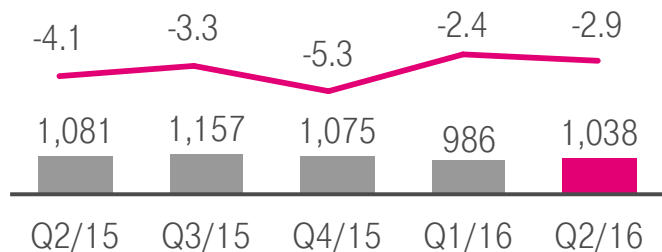
- MetroPCS synergies and growing scale outweigh network expansion costs

# EUROPE: TREND TOWARDS STABILIZATION CONTINUES

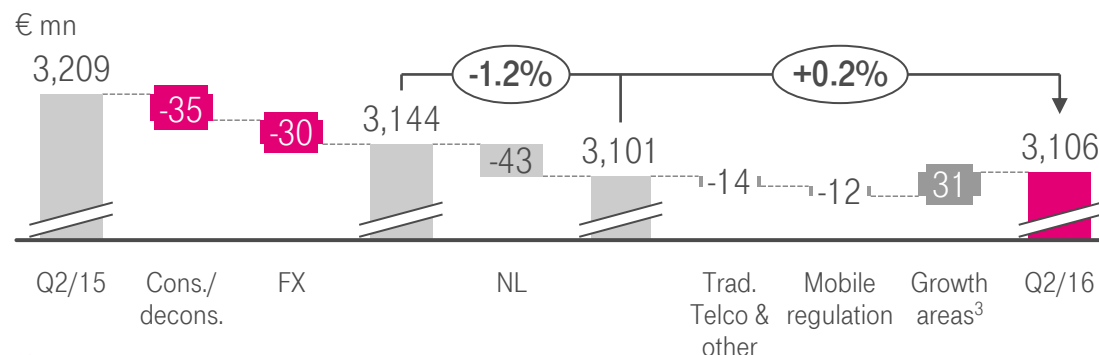
## Revenue as reported in € mn and organic change yoy in %<sup>1,2</sup>



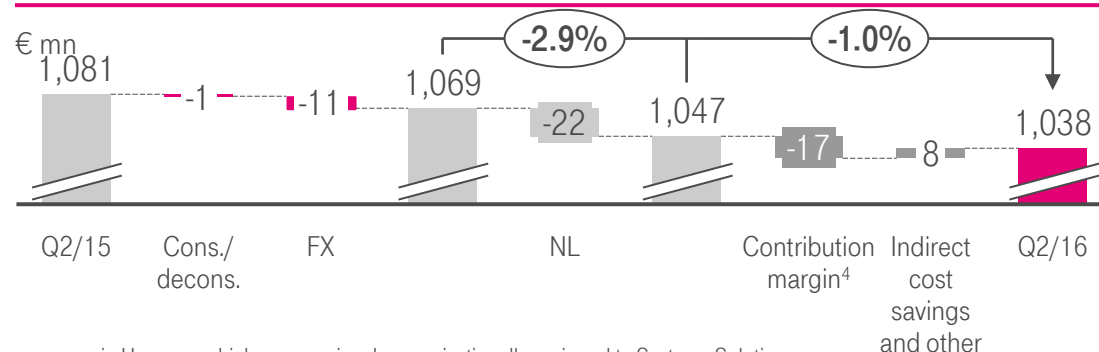
## Adj. EBITDA as reported and organic change yoy in %<sup>1,2</sup>



## Organic revenue development



## Organic adj. EBITDA development

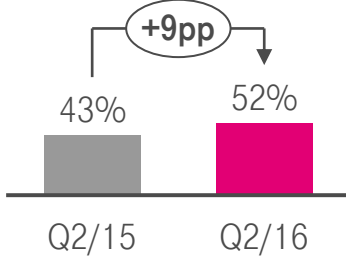


1) %-change figures as previously disclosed. Not adjusted for restatement. 2) The Business Customers unit of Magyar Telekom, our company in Hungary, which was previously organizationally assigned to Systems Solutions was consolidated in the Europe operating segment as of January 1, 2016. 2015 figures have been restated. 3) Mobile data, Pay TV & fixed broadband, B2B/ICT, adjacent industries (online consumer services, energy, and other) 4) Total revenues – direct cost

# EUROPE: IP MIGRATION AND LTE LEADERSHIP

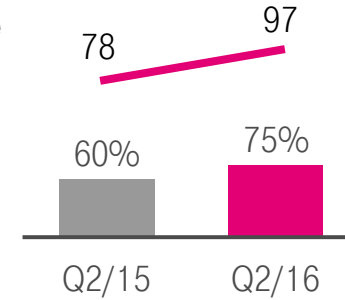
## IP migration

IP share of fixed network access lines



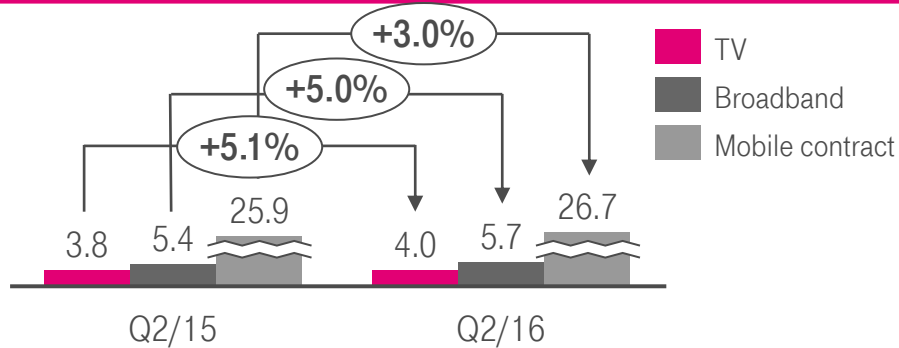
## LTE rollout

LTE outdoor pop coverage  
mn and %



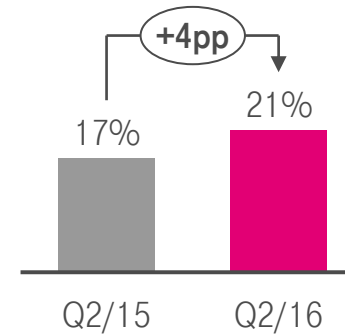
## Customer base<sup>1</sup>

mn



## Fiber rollout<sup>1</sup>

Fiber household coverage



1) ≥ 100Mbit/s coverage: FTTH, FTTB, FTTC (with vectoring), cable/ED3. Broadband also incl. wholesale customers



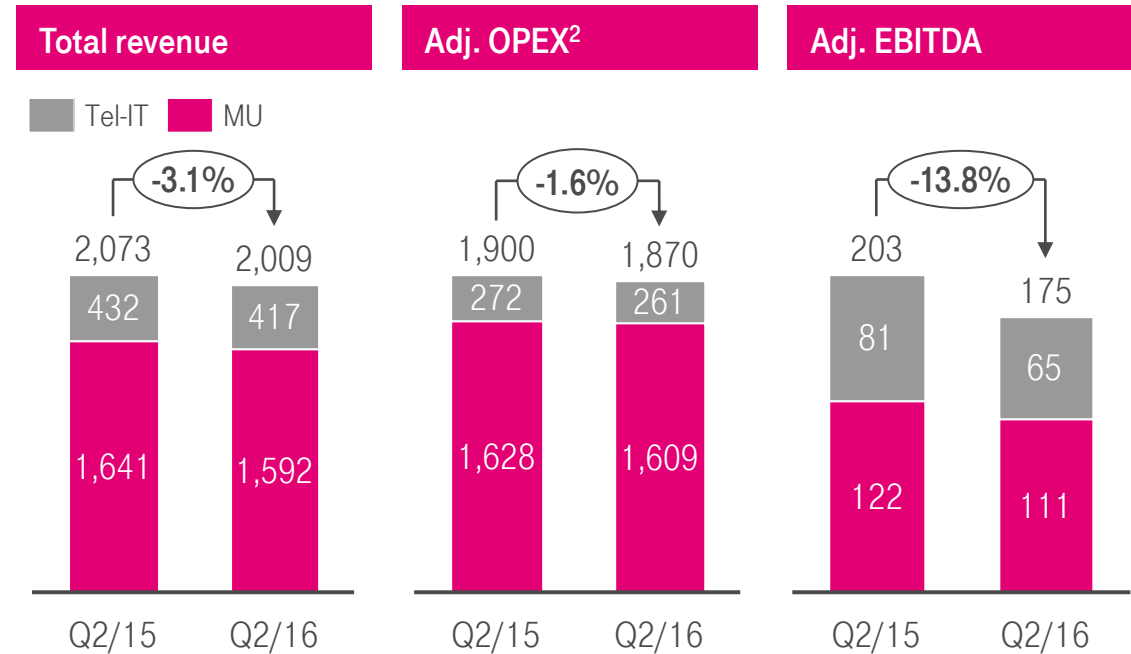
LIFE IS FOR SHARING.



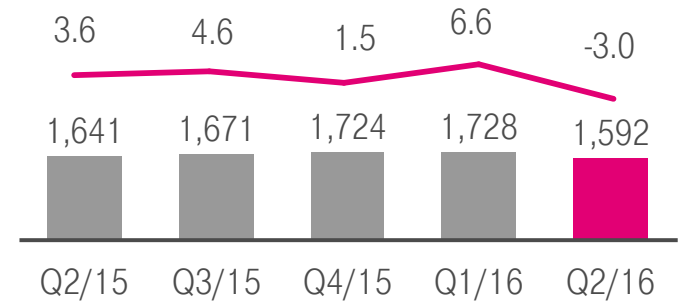
# SYSTEMS SOLUTIONS: TRANSFORMATION CONTINUES

## T-Systems financials<sup>1</sup>

€ mn

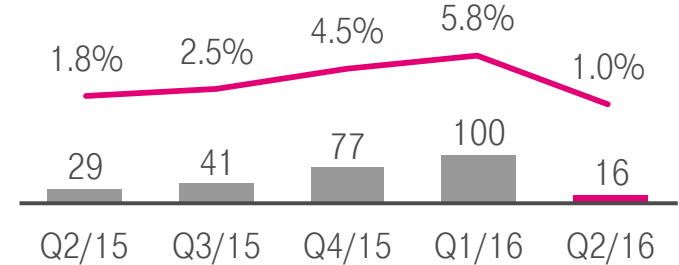


## Revenue Market Unit in € million and change yoy in %<sup>3</sup>



## Adj. EBIT and margin Market Unit

%  
€ mn



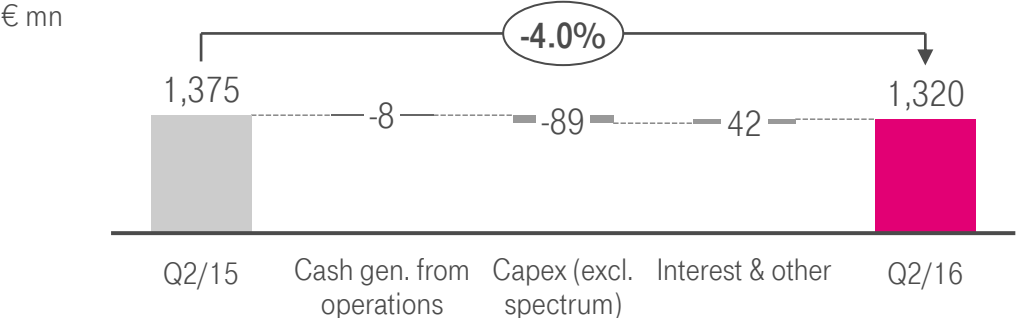
1) Trends in Q1/16 positively impacted by completion toll system Belgium – normalization in Q2 2) Figures may not add up due to rounding/elimination 3) %-change figures as previously disclosed. Not adjusted for restatement



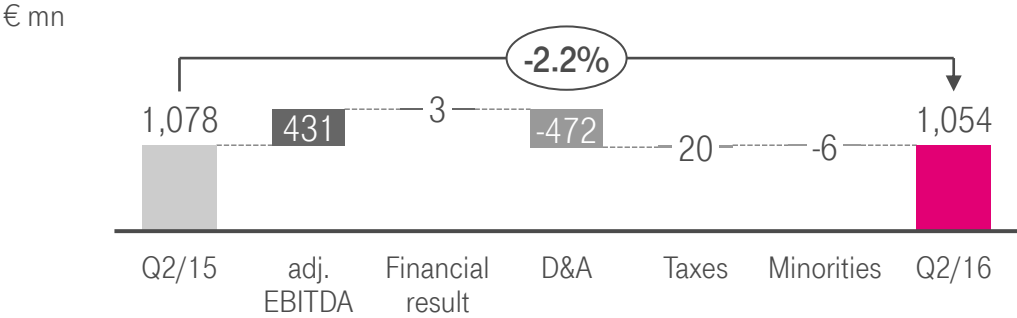
LIFE IS FOR SHARING.

# FINANCIALS: FCF, NET DEBT, AND NET INCOME

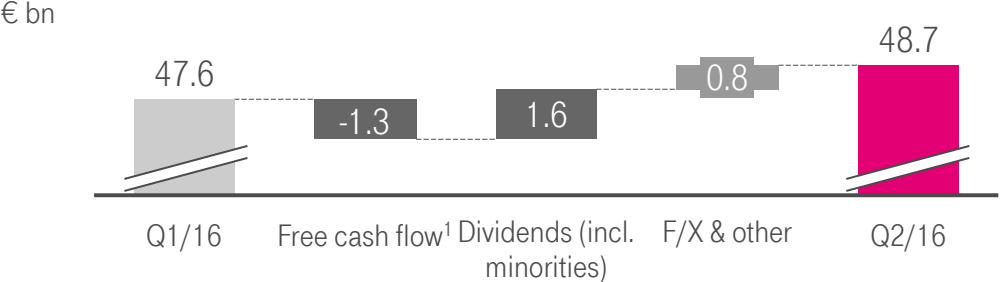
## Free cash flow Q2/16<sup>1</sup>



## Adj. net income Q2/16



## Net debt development Q2/16



1) Free cash flow before dividend payments and spectrum investment (Q2/15: € 1,755 million; Q2/16: € 39 million)

# FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn

	30/06/2015	30/09/2015	31/12/2015	31/03/2016	30/06/2016
Balance sheet total	135.0	135.2	143.9	143.6	143.5
Shareholders' equity	36.0	36.5	38.2	38.4	37.0
Net debt	48.8	47.9	47.6	47.6	48.7
Net debt/adj. EBITDA <sup>1</sup>	2.6	2.5	2.4	2.3	2.3
Equity ratio	26.6%	27.0%	26.5%	26.8%	25.8%

## Comfort zone ratios

Rating: A-/BBB	●
2-2.5x net debt/adj. EBITDA	●
25-35% equity ratio	●
Liquidity reserve covers redemption of the next 24 months	●

## Current rating

Fitch:	<b>BBB+</b>	stable outlook
Moody's:	<b>Baa1</b>	stable outlook
S&P:	<b>BBB+</b>	stable outlook

1) Ratios for the interim quarters calculated on the basis of previous four quarters.

# EXECUTING OUR STRATEGY

- 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 KPIs (ROCE, Revenue, EBITDA, FCF).
- 6** Our shareholders will participate with growth of dividends following FCF growth and our prudent debt policy remains unchanged.

