FINANCE

THOMAS DANNENFELDT, CFO
KEY MESSAGES

01 LEADING GROWTH IN KEY FINANCIAL METRICS
We expect growth for all our businesses driven by both better revenue momentum, and increased cost reductions. Ex US EBITDA growth to average 2–3% through 2021

02 DELIVER COST TARGETS
Our cost targets are based on All-IP, automation, and greater agility. Headcount reductions in the German footprint are largely secured through active measures and demographics

03 STABLE HIGH EX US INVEST
We invest to make our growth sustainable in the longer term. Ex US capex to peak in 2018

04 DEBT POLICY UNCHANGED
We maintain undisputed access to credit markets

05 SHAREHOLDERS RETURNS
For 2018 we propose a dividend of €0.70. From 2018 the dividend will reflect growth in adjusted EPS. We will consider buybacks of DT and TMUS stock if excess cash is available

06 EXECUTE US TRANSACTION
Huge value creation opportunity. We supercharge DT’s growth profile. Expected accretive after 3 years
REVIEW 2014 – 2018
FINANCE STRATEGY ACHIEVEMENTS 2014–2018

II  Equity

Reliable shareholder remuneration policy

- DIVIDEND\(^1\)
  - Following FCF growth
  - Floor at €0.50 per share
  - Attractive option: Dividend in kind

III  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

II  Strategy leading European telco

- INTEGRATED IP NETWORKS
- BEST CUSTOMER EXPERIENCE
- WIN WITH PARTNERS
- LEAD IN BUSINESS

I  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

\(^1\) Subject to necessary AGM approval and board resolution
DELIVERING VALUE...

**Revenue**
- 2014: €67.1 bn
- 2017: €74.9 bn
- 2018e: +1–2% CAGR 2014–2018

**Adj. EBITDA**
- 2014: €18.9 bn
- 2017: €22.2 bn
- 2018e: +2–4% CAGR 2014–2018

**ROCE > WACC**
- 2014: 4.0%
- 2017: 5.3%
- 2018e: 5.8%

**Cash Capex**
- 2014: €10.1 bn
- 2017: €12.1 bn
- 2018e: +1–2% CAGR 2014–2018

**Special factors (EBITDA)**
- 2014: €1.8 bn
- 2017: €0.9 bn
- 2018e: €1.3 bn

---

1 Excl. effects from 70% Scout disposal and Verizon 4.0 spectrum
2 Excl. effects from reversal of US spectrum impairment, Strato disposal, 9% Scout disposal, BT compensation payment, Impairment T-Systems and Impairment Poland/Romania
3 Excl. effects from reversal of US spectrum impairment, Strato disposal, 9% Scout disposal and BT compensation payment.

All figures based on a constant exchange rate of €1 = US$1.13 (except ROCE); Revenue and EBITDA adj. figures are corrected for handset-lease

---

GROUP STRATEGY  GERMANY  SYSTEMS SOLUTIONS  TECHNOLOGY & INNOVATION  T-MOBILE US  EUROPE  GROUP DEVELOPMENT  FINANCE
...WHILE INVESTING INTO FUTURE GROWTH

### Cash Capex

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2018e</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>3.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Ex US</td>
<td>6.3</td>
<td>7.9</td>
</tr>
</tbody>
</table>

### Spectrum

<table>
<thead>
<tr>
<th></th>
<th>2015–2017 cumulative spend, € bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>11.1</td>
</tr>
<tr>
<td>Ex US</td>
<td>2.7</td>
</tr>
</tbody>
</table>

### Further investments...

- **in customer growth**
  - Growth leader in US mobile and ex US mobile
  - Low-band roll-out of $\approx \€0.3$ bn in 2018

- **in transformation**
  - $\approx \€0.4$ bn IP migration opex in 2018

- **in innovation, e.g.**
  - IoT $\€0.1$ bn
  - Layer 3 TV $\€0.1$ bn

---

1 Based on a constant exchange rate of €1 = US$1.13
DELIVERING FREE CASH FLOW AND DIVIDEND GROWTH

Free Cash Flow DT group\(^1\)

\[\begin{array}{cccccc}
2014 & 2015 & 2016 & 2017 & 2018e^{2} \\
4.1 & 4.5 & 4.9 & 5.5 & 6.2 \\
\end{array}\]

+11% CAGR

Dividends following FCF growth

\[\begin{array}{cccccc}
2014 & 2015 & 2016 & 2017 & 2018e^{3} \\
0.50 & 0.55 & 0.60 & 0.65 & 0.70^{3} \\
\end{array}\]

Minimum €0.50

Relative TSR since last CMD

\(\text{Telco Sector}\)

Feb '15 - May '18

\(+14\%\)

1 Before spectrum investment  
2 Based on a constant exchange rate of €1 = US$1.13  
3 Subject to necessary AGM approval and board resolution
**CMD 2015 COMMITMENTS: WELL ACHIEVED**

### KEY FINANCIALS

#### Ambition level 2018
- Group Revenue CAGR +1–2% (2014–2018)
- Group Adj. EBITDA CAGR +2–4% (2014–2018)
- Group FCF CAGR ≈ +10% (2014–2018)
- Group ROCE > WACC in 2018
- Group Cash CAPEX CAGR +1–2% (2014–2018)
- Group Adj. OPEX decrease (2014–2018)

#### Achievements 2017
- +4% CAGR (2014–2017)
- +6% CAGR (2014–2017)
- +11% CAGR (2014–2017)
- ROCE > WACC in 2017
- +6% CAGR (2014–2017)
- €0.7 bn indirect cost decrease vs. 2014

#### Delivered/on track

- **Green**
- **Red**
- **Yellow**

### SHAREHOLDER REMUNERATION (2015–2018)

- Following FCF growth; min. DPS of €0.50 p.a.
- €0.65

---

¹ Compared to target of €1.8 bn
STRATEGY 2018 – 2021
10% FCF GROWTH TO CONTINUE, DRIVEN BY BOTH US AND EX US

DT FCF in non US deal scenario

€ bn

- Adj. EBITDA growth
- Improving balance sheet
- Ongoing tax benefits
- Adj. EBITDA growth
- Stable Cash Capex (2021 vs. 2017)
- Declining Special factors

2014–2021 FCF CAGR of 10%

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Ex US</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5.5</td>
<td>3.3</td>
</tr>
<tr>
<td>2018e</td>
<td>6.2</td>
<td>≈ 3.0</td>
</tr>
<tr>
<td>2021e</td>
<td>&gt;8.0</td>
<td>≈ 4.0</td>
</tr>
</tbody>
</table>
EX US EBITDA HAS TURNED AROUND AND IS GROWING

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2–2.5%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Europe</td>
<td>1–2%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>GD</td>
<td>≈ 3–4%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>TSI</td>
<td>≈ 5%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>DT ex US</td>
<td>≈ 2–3%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

1 Pre-accounting effects  2 Pro forma figures, adjusted for M&A

Ex US EBITDA²

€ bn

-1.3% CAGR
2–3% CAGR

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2016</th>
<th>2017</th>
<th>2018e</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service revenues</td>
<td>13.2</td>
<td>12.8</td>
<td>12.9</td>
<td>13.2</td>
<td></td>
</tr>
</tbody>
</table>

1 Pre-accounting effects  2 Pro forma figures, adjusted for M&A

GROUP STRATEGY  GERMANY  SYSTEMS SOLUTIONS  TECHNOLOGY & INNOVATION  T-MOBILE US  EUROPE  GROUP DEVELOPMENT  FINANCE
OUR EX US CAPEX PEAKS IN 2018

Cash Capex ex US

€ bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.3</td>
<td>2017</td>
<td>7.5</td>
<td>2018e</td>
<td>7.9</td>
<td>2021e</td>
</tr>
</tbody>
</table>

Stable outlook ≈ 7.6

Drivers

- Invest in fiber/IP migration
- TSI with ca. 0.2 bn one-off spends in 2018
- 2018 vs. 2017 increase also reflects greater tower spend (€0.1 bn)
TARGETING €1.5 BN OF NET INDIRECT COST REDUCTIONS EX US

Net indirect cost reduction & composition of savings

€ bn (ex US)

2017 18.5

2021e 17.0

-1.5

Internal Workforce Costs by automation & operational excellence: gross reduction of ≈ 13 k FTEs already secured by YE 2018

External Workforce Costs by automation & operational excellence: high flexibility due to total base of 10k FTEs German labour force

Non-Headcount OPEX, e.g.¹

- ≈ €0.2–0.3 bn real estate
- ≈ €0.3 bn platform retirements
- ≈ €0.1–0.2 bn shared services savings
- ≈ €0.2 bn procurement improvements

¹ Gross savings

Across all segments

DEUTSCHLAND -€0.8 bn
EUROPE -€0.4 bn
T·Systems -€0.1 bn
GHS -€0.2 bn

(incl. GROUP DEVELOPMENT)
GHS TO SUPPORT SEGMENT COST SAVINGS

**Lower real estate cost**
- € bn: 0.2–0.3
- Savings enabled by desk sharing, standardization & modularization:
  - Reduce vacancies by 50%
  - 20% less office & technical space
  - Reduced facility management costs

**Efficient shared services**
- € bn: 0.1–0.2
- €0.1 bn savings already delivered since CMD 2015, further measures planned, e.g.:
  - Near Shoring and reducing locations (95 to 5)
  - Further reduce demand & OPEX by > €0.1 bn through simplification & automation
  - Standardization level of one.ERP > 85%

**Reducing purchasing costs**
- € bn: 0.2
- Innovative sourcing approaches will reduce external spend supported by BuyIn:
  - Optimize technology maintenance costs by 10% through stronger harmonization
  - Apply new commercial model to reduce media spend by > 10%
  - Up to 20% reduction of rates for Data Center facilities

---

1 Gross savings
CENTRAL PROGRAM (FIT4FUTURE) IMPROVES CUSTOMER EXPERIENCE AND SUPPORTS COST SAVINGS

Approach

Group-wide program
- Driven by all Board members personally
- Leveraging cross-segment experience and capacity
- Focus on implementation

Goals & benefits

- PUSH CUSTOMER EXPERIENCE
- REDUCE INDIRECT COSTS BY €1.5 BN

Key levers supporting segment initiatives

- **OPERATIONAL EXCELLENCE**
  Smart & lean processes accelerated with robotic process automation

- **PRODUCT SIMPLIFICATION**
  Simple products, smart customer processes & next generation IT

- **AGILE & FUTURE-PROOF ORGANIZATION**
  Simplified & reduced overhead structure

- **DIGITAL CUSTOMER TOUCHPOINTS**
  One user-friendly app & web interface centrally developed for all customer interactions

- **ZERO DEFECT SERVICE**
  Predictive servicing and maintenance

- **DATA-DRIVEN NETWORK ROLLOUT**
  Return maximizing network rollout based on big data & artificial intelligence

- **ADVANCED ANALYTICS & DATA GOVERNANCE**
  Next level analytics skills, data architecture & governance to leverage scalability
**DEMOGRAPHICS TO INCREASINGLY SUPPORT COST SAVINGS**

**Personnel Special Factors (Cash) ex US**

- € bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Personnel Special Factors (Cash) ex US</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.0</td>
</tr>
<tr>
<td>2018e</td>
<td>1.1–1.2</td>
</tr>
<tr>
<td>2021e</td>
<td>0.8–0.9</td>
</tr>
<tr>
<td>2025e</td>
<td>≈ 0.5</td>
</tr>
</tbody>
</table>

- ≈ 10 k FTEs off payroll 2020–2025 already secured
- Natural attrition region Germany from 1% in early 2020s up to 4% Eo2020s

**Pension cash-outs ex US decreasing**

- € bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension cash-outs ex US decreasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.9</td>
</tr>
<tr>
<td>2017</td>
<td>0.8</td>
</tr>
<tr>
<td>2019e</td>
<td>0.6</td>
</tr>
<tr>
<td>2021e</td>
<td>0.5</td>
</tr>
<tr>
<td>2025e</td>
<td>0.5</td>
</tr>
</tbody>
</table>

- Payments for the civil servant pensions to decrease over time
- No volatility expected as number of civil servants is decreasing (no new hires) and contribution is fixed
STABLE INTEREST COSTS AND REDUCED TAX RATE PAY INTO 20% ADJ. EPS GROWTH

Interest costs

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018e</th>
<th>2021e</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ bn</td>
<td>2.5</td>
<td>≈ 2.0</td>
<td>Stable outlook</td>
</tr>
</tbody>
</table>

- €15 bn refinanced since September 2016

Group tax rate

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018e</th>
<th>2021e</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>≈ 34</td>
<td>≈ 27</td>
<td>≈ 27</td>
</tr>
</tbody>
</table>

- US tax rate down from 39% to 26%

Adjusted EPS

<table>
<thead>
<tr>
<th>Year</th>
<th>2017²</th>
<th>2018e</th>
<th>2021e</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>0.9</td>
<td>≈ 1.0</td>
<td>≈ 1.2</td>
</tr>
</tbody>
</table>

- Unadjusted EPS to exceed €1 by 2021
- Lower growth vs. FCF reflects (US) minorities
- Share purchases potentially accretive

1 Cash
2 Reported: €1.28 due to US tax gain

0.9
≈ 1.0
≈ 1.2
DEBT – DT REMAINS ANCHOR OF STABILITY

Stable rating

BBB+
Baa1
BBB+
2009 ➔ 2017

Solid country profile

EBITDA generated in countries rated:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>85%</td>
<td>AAA/AA+</td>
</tr>
<tr>
<td>5%</td>
<td>AA up to BBB-</td>
</tr>
<tr>
<td>10%</td>
<td>BB+ or below</td>
</tr>
</tbody>
</table>

Low CDS (5Y)

Undisputed access to debt capital markets

Rating: A-/BBB  Net debt/adj. EBITDA: 2.0–2.5x
Equity ratio: 25–35%  Liquidity reserve: covers maturities of next 24 months

Balanced maturity profile

Debt policy remains unchanged
OVERVIEW FINANCIAL STRATEGY

**Equity**
- Reliable shareholder remuneration policy
  - DIVIDEND\(^1\)
    - €0.70 in 2018 (paid in 2019)
    - Thereafter, dividend will reflect growth in adjusted EPS\(^4\)
    - Floor remains at €0.50 per share
  - BUY BACKS\(^2\)
    - To be considered
    - DTAG shares or TMUS stake increase

**Leading European Telco – ROCE > WACC**

**GROW**
- LEAD IN CUSTOMER EXPERIENCE
- LEAD IN TECHNOLOGY
- LEAD IN BUSINESS PRODUCTIVITY

**SAVE FOR GROWTH INVESTMENTS**

**SIMPLIFY, DIGITALIZE, ACCELERATE**

**Debt**
- Undisputed access to debt capital markets
  - RATING A-/BBB
  - NET DEBT/ADJ. EBITDA\(^3\)
    - 2–2.5x
  - EQUITY RATIO
    - 25–35%
  - LIQUIDITY RESERVE
    - covers maturities of coming 24 months

---

1 Subject to necessary AGM approval and board resolution
2 Not relevant for first 3 years in US deal scenario
3 Only a short departure from comfort zone in US deal scenario
4 Adj. EPS 2018 as starting point

BASED ON EXISTING LOW RISK COUNTRY PORTFOLIO
Boosting Deutsche Telekom’s financial profile... 

Supercharging the Un-Carrier

Accelerated T-Mobile US Free Cash Flow growth

- T-Mobile US Free Cash Flow\(^1\), $bn
- 1-2
- 3-4 years
- 10-11
- 16-18

- 2019\(^e\)
- Longer term

Boosting Deutsche Telekom’s financial profile\(^2\)

- EPS accretive from year 3 for Deutsche Telekom
- Deutsche Telekom ex-U.S. investment and growth unaffected

---

\(^1\) Defined as Cash Flow from Operations less Capital Expenditures
\(^2\) Assumption: closure date Jan. 1\(^{st}\), 2019
Only a short departure from our “Comfort zone”

Deutsche Telekom Group Net Debt/Adj. EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P Expected Rating</th>
<th>Fitch Expected Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>BBB/ Stable</td>
<td>BBB+/ Stable</td>
</tr>
<tr>
<td>2018e</td>
<td>2.5x</td>
<td>2.5x</td>
</tr>
<tr>
<td>2019e</td>
<td>2.0x</td>
<td></td>
</tr>
<tr>
<td>2020e</td>
<td>2.3x</td>
<td></td>
</tr>
<tr>
<td>2021e</td>
<td>≤ 2.5x</td>
<td></td>
</tr>
</tbody>
</table>

Phasing out parental funding

Deutsche Telekom Parental Funding to T-Mobile US, $ bn

<table>
<thead>
<tr>
<th>Year</th>
<th>T-Mobile US Standalone</th>
<th>New T-Mobile US</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>14.6</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Not to be renewed @ maturities

T-Mobile US Strictly Standalone Funding Going Forward
FINANCIAL OUTLOOK
FINANCIAL OUTLOOK

Revenue growth

€ bn

CAGR +1–2%

74.9

2017

2021e

Free Cash Flow¹

€ bn

CAGR +10%

5.5

2017

2021e

Cash Capex²

€ bn

12.1

2017

2021e

Adj. EBITDA

€ bn

CAGR +2–4%

22.2

2017

2021e

Special factors (Cash)

€ bn

1.5

2017

≈ 1.0

2021e

¹ Free Cash Flow before dividend payments and spectrum payments

² Cash Capex US expected to be stable
MID TERM AMBITION LEVEL
# MID TERM AMBITION LEVEL

<table>
<thead>
<tr>
<th>Group</th>
<th>Ambition Level</th>
<th>Year</th>
<th>Implications of US deal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROUP REVENUES</strong></td>
<td>CAGR +1–2%</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>GROUP ADJ. EBITDA</strong></td>
<td>CAGR +2–4%</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>GROUP FCF</strong></td>
<td>CAGR ≈ +10%</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>GROUP ADJ. EPS</strong></td>
<td>≈ €1.20</td>
<td>2021e</td>
<td>Slightly dilutive in 2021e &amp; accretive in 2022e</td>
</tr>
<tr>
<td><strong>GROUP ROCE</strong></td>
<td>ROCE &gt; WACC</td>
<td>2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>GROUP CASH CAPEX</strong></td>
<td>Ex US stable</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>GROUP INDIRECT OPEX</strong></td>
<td>Ex US -€1.5 bn</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
<tr>
<td><strong>SHAREHOLDER REMUNERATION POLICY (2018–2021)</strong></td>
<td>Dividend will reflect growth in adjusted EPS. Floor remains at €0.50 per share</td>
<td>2017–2021e</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

1 Based on constant exchange rates (Average exchange rate 2017 of € 1 = US$1.13) and no further changes in the scope of consolidation. 2 Assumption: closure date Jan. 1st, 2019. 3 Subject to necessary AGM approval and board resolution. 2018 dividend target of €0.70 per share. Share buy backs to be considered, but not relevant for first 3 years in US deal scenario.