



**DEUTSCHE TELEKOM**

9 MONTH 2015

UPDATE



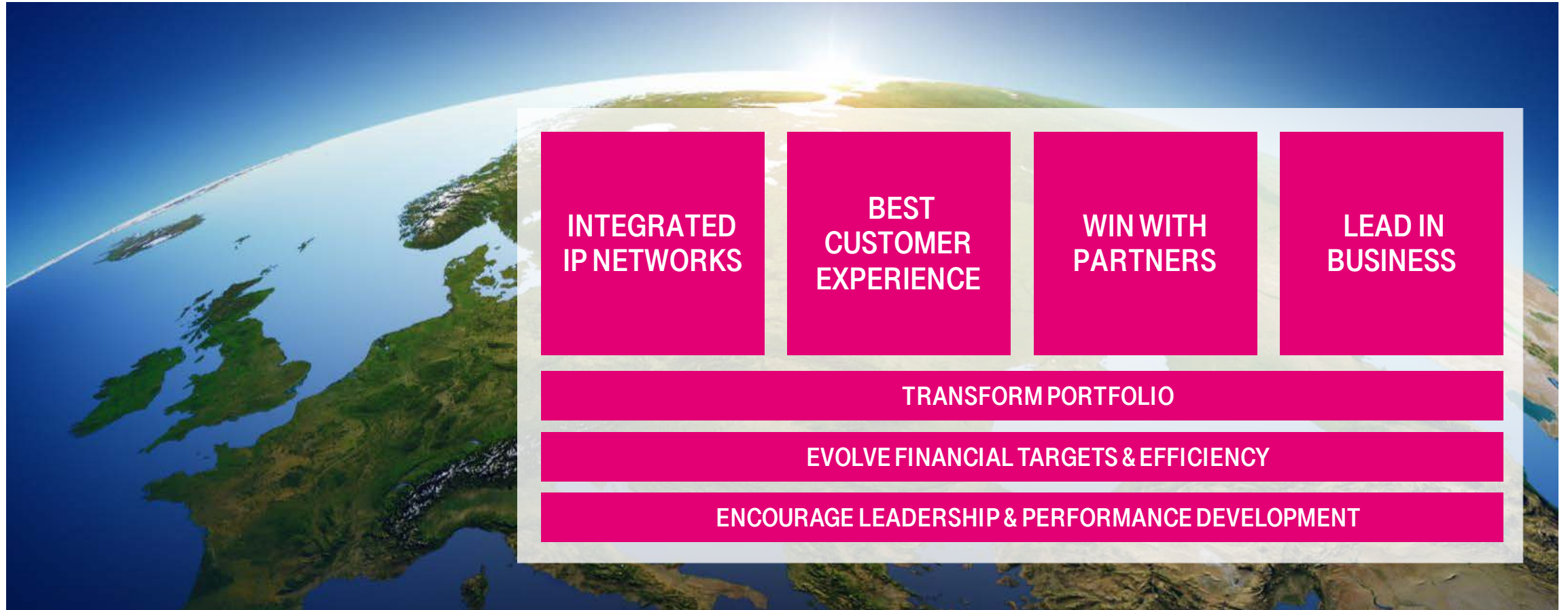
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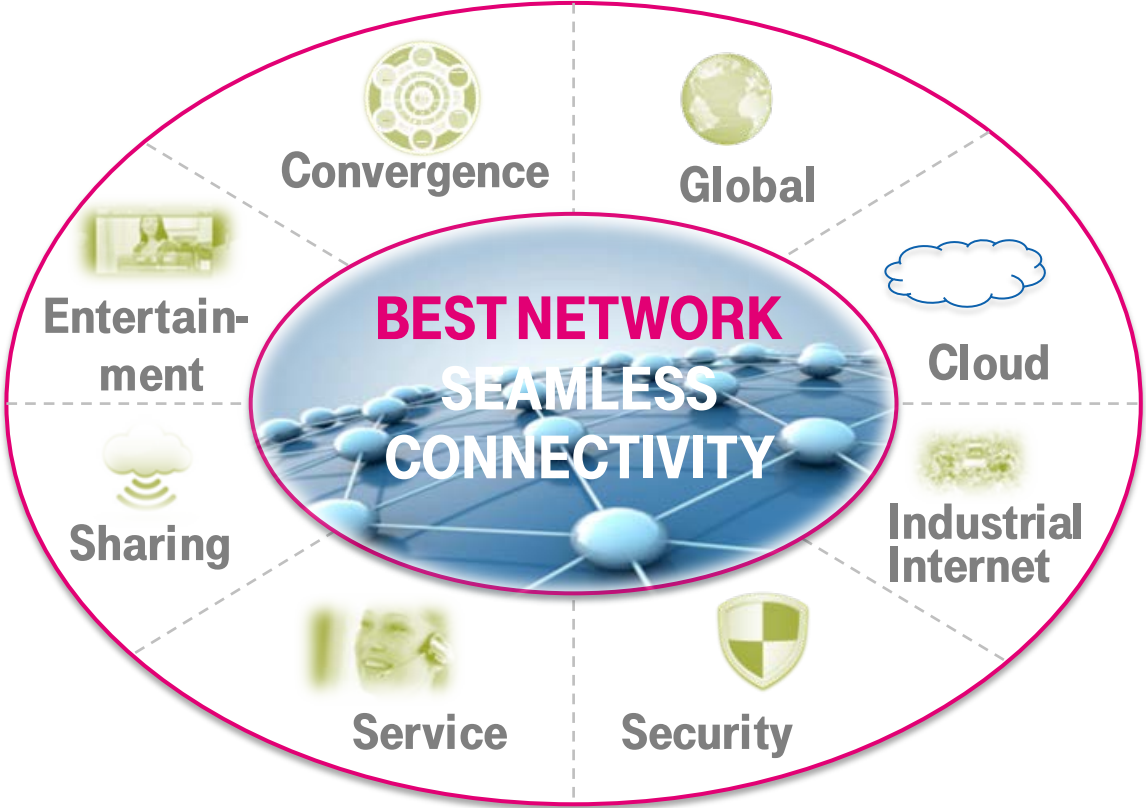
This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and 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. 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 write downs 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. Without prejudice to existing obligations under capital market law, 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.

# LEADING EUROPEAN TELCO



# BEST NETWORK: SEAMLESS CONNECTIVITY



**CONSUMERS**

**BUSINESS CUSTOMERS**



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# 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 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.





# WE WILL BENEFIT FROM THE TRANSFORMATION TOWARDS A SUPERIOR PRODUCTION MODEL

## 1 DIGITAL TRANSFORMATION OF CUSTOMER FACING PROCESSES

COST EFFICIENCY & SIMPLICITY



## 2 ALL-IP TRANSFORMATION



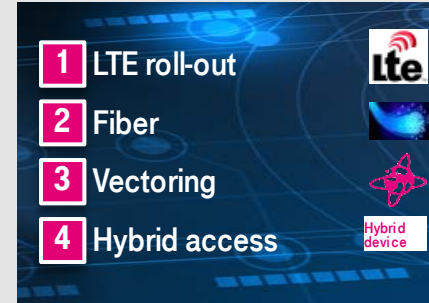
PLUG & PLAY

## 3 PAN-EUROPEAN NETWORK



TIME TO MARKET

## 4 INTEGRATED NETWORK STRATEGY



BEST CONNECTIVITY

Annual run rate adj. Opex savings:

≈€-1.2 bn<sup>1</sup>

(steady state in early 2020ies)



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

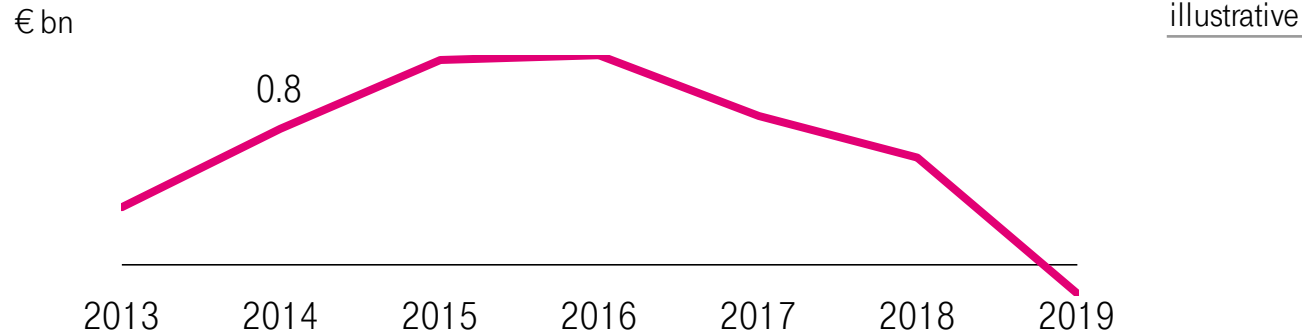
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# INDIRECT COST SAVINGS WILL FUND THE INVESTMENT FOR THE TRANSFORMATION



## OPEX AND CAPEX: DIGITAL TRANSFORMATION, IP TRANSFORMATION, PAN-EUROPEAN NETWORK<sup>1</sup>

1 & 2 & 3



## CAPEX: INS NETWORK

4



## BENEFITS STEADY STATE FROM EARLY 2020IES

FIN. BENEFITS: ≈ €1.2 BILLION OPEX SAVINGS<sup>2</sup>

- Segments
  - ≈ €0.7 bn Germany
  - ≈ €0.5 bn Europe
- Functional Areas
  - ≈ €0.4 bn Technology/ Platforms
  - ≈ €0.8 bn Service

## COMMERCIAL BENEFITS

- Enlarged fiber and LTE footprint and increased bandwidth for customers
- Faster time to market
- Easy to partner

<sup>1</sup> Excl. special factors. Measure related effects incl. savings. PanNet w/o transport & access. INS Opex in German fixed network also included.

<sup>2</sup> Gross measure-related steady state Opex savings early 2020ies GER/EU vs. 2013, after accomplished IP and process-/e-transformation as well as PanNet (w/o transport & access) before any counter effects (e.g. personnel cost increases).



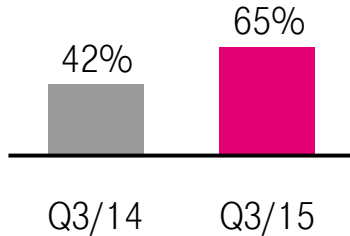
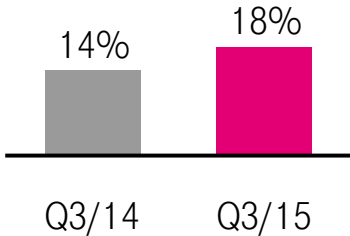
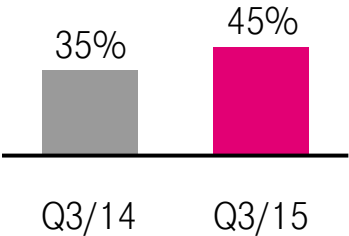
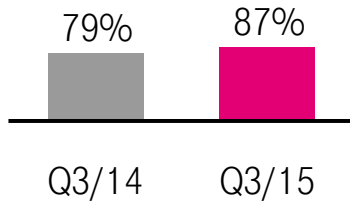
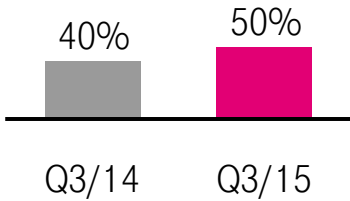
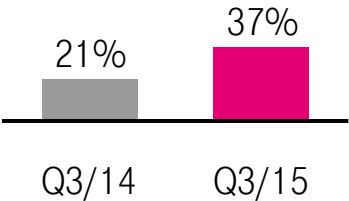
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# INTEGRATED IP NETWORK: TRANSFORMATION KEY METRICS

## IP SHARE OF FIXED ACCESS LINES

## FIBRE ROLLOUT

## LTE ROLLOUT



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# PORTFOLIO STRATEGY: DISCIPLINED EXECUTION FOR SHAREHOLDERS

2013  
2014  
2015



**MERGER  
PCS**



**ACQUISITION**

SCOUT 24

**SALE OF 70% STAKE**



**MINORITY BUYOUT**



**BT/EE**

## RECENT TRANSACTIONS

### SLOVAK TELEKOM MINORITIES

- Quality asset
- Attractive valuation

### T-ONLINE SALE

- Sale of general interest portal for 12% and 2 board seats in Ströer
- A clear win-win plus future strategic upside

### TRANSFER OF TEF D CELL SITES

- 7.7k cell sites transferred
- Strengthening our German network leadership

## GUIDING PRINCIPLES

- Committed to A-/BBB ratings comfort zone
- In Europe preference for integrated approach
- In US, focus on Un-carrier strategy. Continued de-risking, self-funding, kingmaker asset.
- General Policy – no major acquisitions outside our footprint.
- Clear and proven commitment to creating value for shareholders.



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# OUR PRIORITIES: GROWTH AND TRANSFORMATION

## CONTRIBUTION OF THE SEGMENTS (YTD 2015)



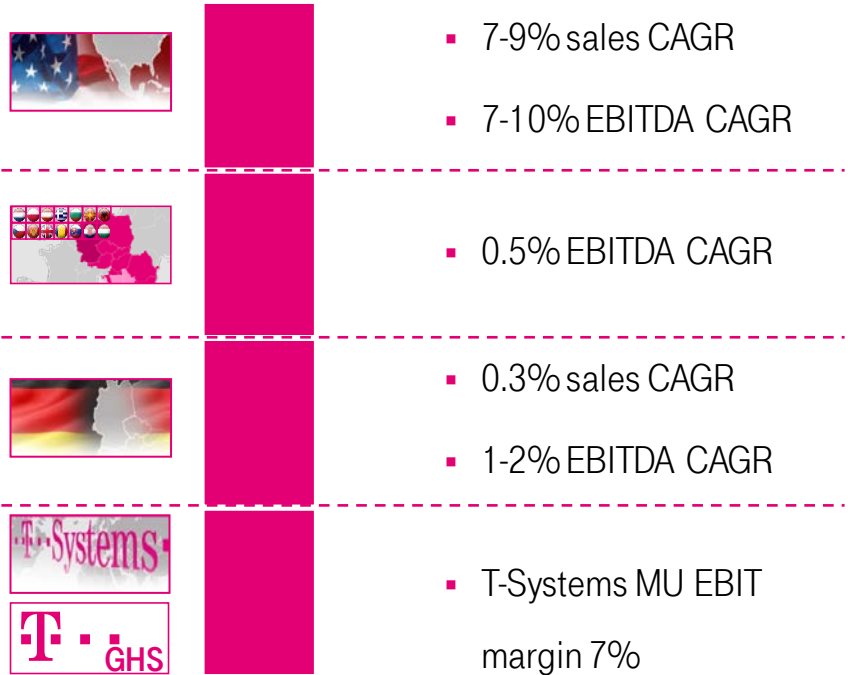
## SEGMENT VIEW

- Rapid subscriber growth and margin expansion
- Low-band spectrum opportunities
- Progress towards operational stabilization
- Peer-leading network transformation program
- Strong momentum in fibre and convergence
- Significant investments in network transformation
- T-Systems focusing on higher margin growth

# OUR CMD TARGETS: WE ARE WELL ON TRACK

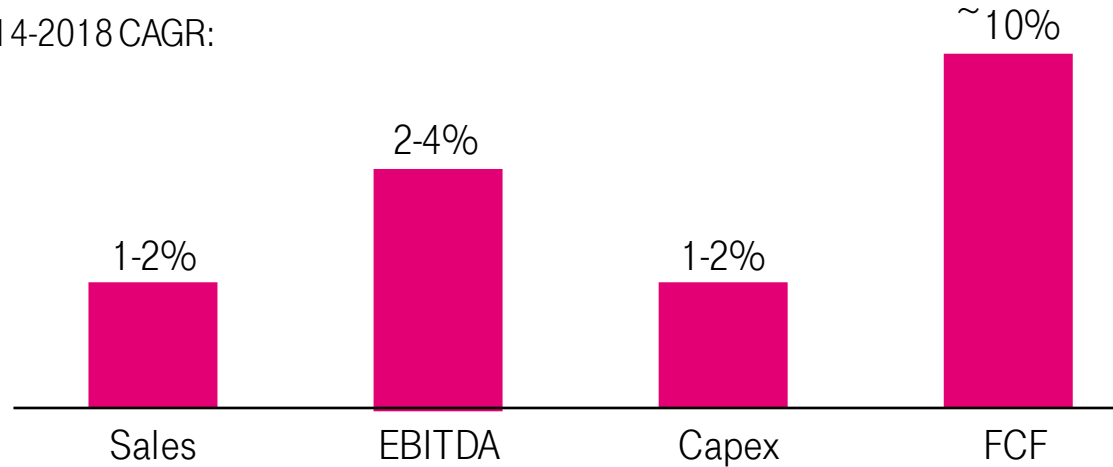
## SEGMENT LEVEL\*

€ bn



## GROUP LEVEL\*\*

2014-2018 CAGR:



- ROCE > WACC in 2018
- Adjusted EPS ~ €1 in 2018
- Shareholder remuneration to follow FCF growth
- Minimum DPS of €0.5 pa

\*2014-2018, except US (2012-2017)

\*\* Based on 2014 average exchange rates



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# LEADING EUROPEAN TELCO: KEY MESSAGES Q3

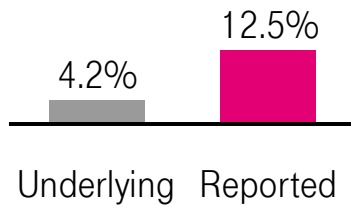
- 1** On track for our 2015 guidance and our Capital Markets Day targets. We re-iterate our guidance. Strong growth in all relevant financial KPIs. Germany growing in top-line revenues
- 2** All-IP migration and fiber expansion in Europe and LTE roll-out in Europe and the US well on track. Continued heavy investments in quality differentiation: 7.8 billion €<sup>1</sup> in 9M
- 3** Strong momentum in KPIs (TM US net adds, German fiber/broadband and line losses, Magenta1, European TV and broadband subs)
- 4** T-Mobile continues to lead in growth rates on the US mobile market. Subscriber forecast raised for the third time this year while keeping EBITDA guidance unchanged
- 5** Continued execution in portfolio management to crystallize value: Scout24 and T-Online

1) Excl. spectrum

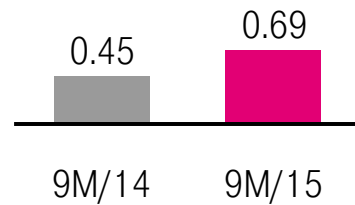


# FIRST NINE MONTHS 2015: STRONG FINANCIALS

## REVENUE GROWTH



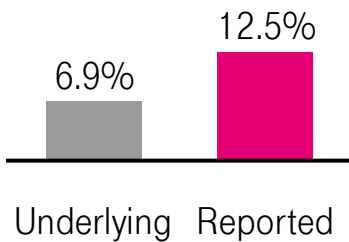
## ADJ. EPS €/SHARE



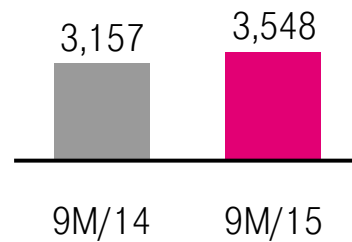
## KEY MESSAGES

- Strong growth in revenue, adj. EBITDA and FCF
- Ahead of track in key KPI's (Fibre, All-IP, Magenta EINS, US postpaid)
- Heavy investments in our network transformation, funded by strict cost management
- Well on track for our 2015 guidance and our Capital Markets Day targets

## EBITDA GROWTH

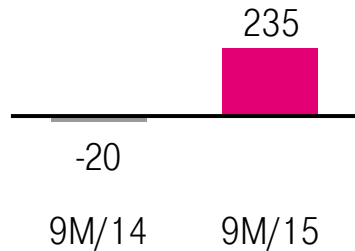


## FCF (€ MILLION)

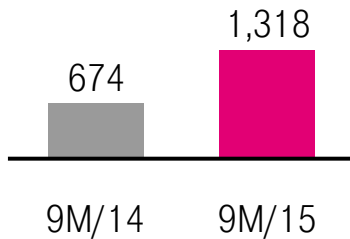


# GERMANY: KPI MOMENTUM AND TRANSFORMATION INVESTMENTS

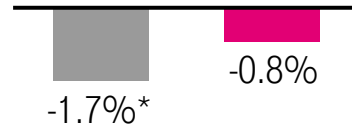
## BROADBAND NET ADDS '000



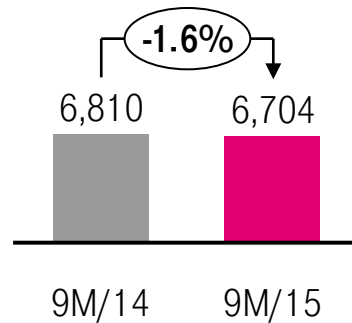
## FIBER NET ADDS '000



## YTD TOTAL F+M SERVICE REV. %Y/Y



## ADJ. EBITDA € MN



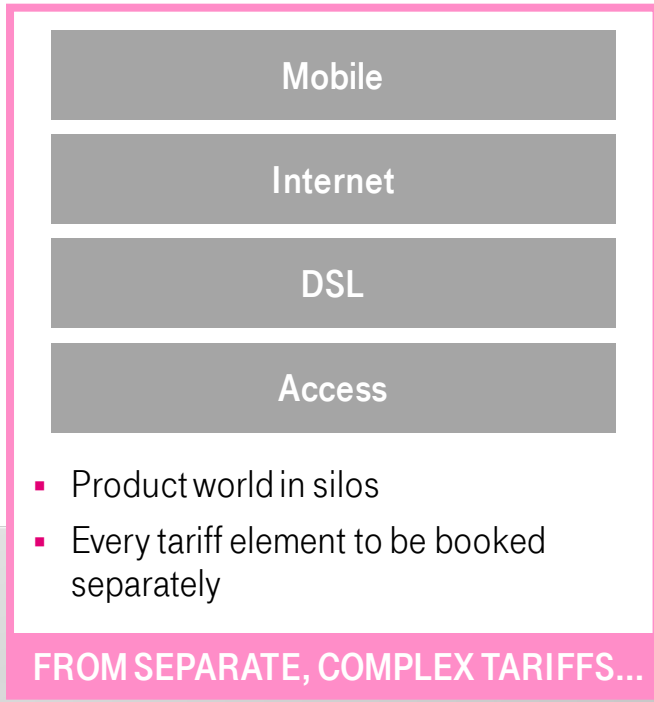
## FIRST NINE MONTHS 2015 HIGHLIGHTS

- Growing faster than expected in key KPI's
  - 235k broadband net adds
  - 1,085k Magenta EINS net adds
  - 2.8m lines migrated to All-IP
- Line loss down to -83k in Q3/15
- Mobile service revenues in Q3/15 impacted by convergence and one-off in visitor revenues, but no major changes in market environment or DT underlying trends
- Broadband revenue growth improves to 0.9% in Q3/15
- EBITDA almost stable despite commercial momentum and transformation investments; committed to €8.8bn 2015 target

\*Prior year trends not fully comparable



# MAGENTA EINS: A GREAT UPSELLING PLATFORM



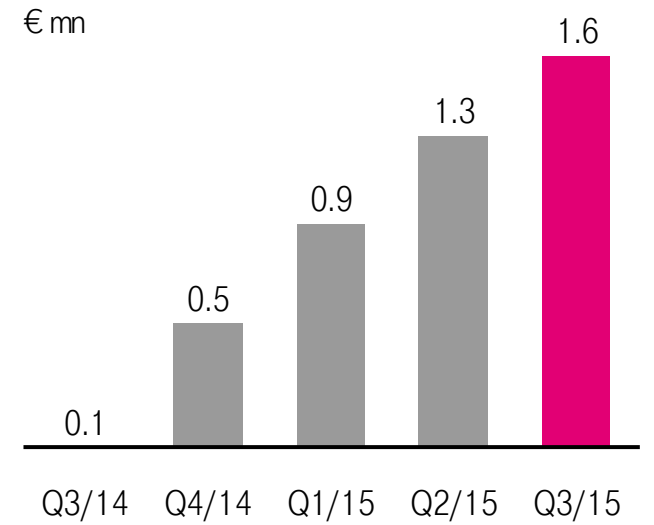
- Product world in silos
- Every tariff element to be booked separately

FROM SEPARATE, COMPLEX TARIFFS...



...TO FULLY INTEGRATED TODAY.

## MAGENTA EINS CUSTOMER BASE



- Stronger than expected momentum (initial target of 3m customers year end 2018)
- Incremental household revenue of €6/month ahead of expectations
- Better, rather than more, discounting
- Going forward, increasing focus on monetization

# GERMAN TOTAL SERVICE REVENUES: EXECUTION TOWARDS CMD AMBITION LEVELS

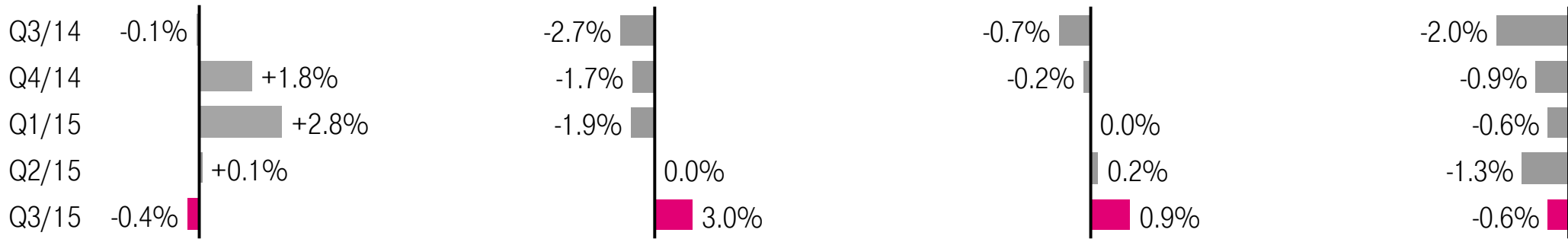
## GROWTH RATES YOY

### MOBILE SERVICE REVS

### WHOLESALE REVS<sup>3</sup>

### BROADBAND REVS<sup>2</sup>

### TOTAL SERVICE REVS



## MEDIUM TERM GUIDANCE

(2014 – 2018 CAGR)

### MOBILE SERVICE REVS

### WHOLESALE REVS

### BROADBAND REVS

### TOTAL REVS

≈+1%<sup>1</sup>

+0.0%

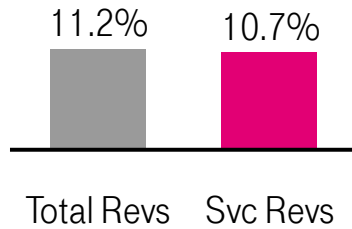
+2.0%

+0.3%<sup>1</sup>

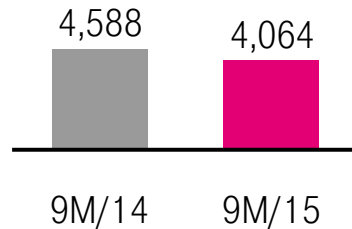
1) Without EU roaming impact 2) Percentage changes for Q3/Q4 2014 not restated 3) Revenue in Q3/15 benefitted from special factor related to settlement agreements concerning charged fees from previous years. Adjusted growth rate at 0.0%

# FIRST NINE MONTHS T-MOBILE US: STRONG MOMENTUM CONTINUES

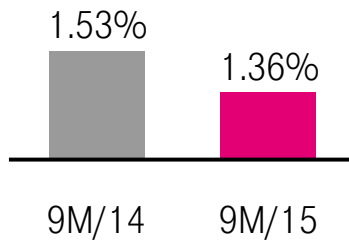
## REVENUE GROWTH YOY %



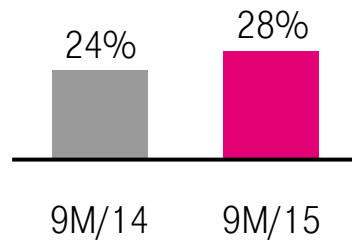
## BRANDED NET ADDS '000



## CHURN %\*



## EBITDA MARGIN %\*\*



## FIRST NINE MONTHS 2015 HIGHLIGHTS

- Third largest US wireless carrier with >61M customers
- 5<sup>th</sup> consecutive quarter with > 1 million branded net adds
- Metro PC'S network shut down accomplished, faster than planned, on July 1<sup>st</sup>
- Cost of service down almost two percentage points
- Year end 2015 goal of total 4G LTE POP coverage of 300M already achieved
- A-Block (700MHz) spectrum becoming available to ~60% of US population by year end
- FCC confirming 600MHz auction in early 2016, with up to 30MHz reserved spectrum

\* Branded postpaid phone churn

\*\* Adjusted



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# LEADING EUROPEAN TELCO: FOCUS ON ROCE

## II EQUITY

### RELIABLE SHAREHOLDER REMUNERATION POLICY

- **DIVIDEND<sup>1</sup>**
  - Following FCF growth
  - Floor at €0.50 per share
  - Attractive option: Dividend in kind

## STRATEGY LEADING EUROPEAN TELCO

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS

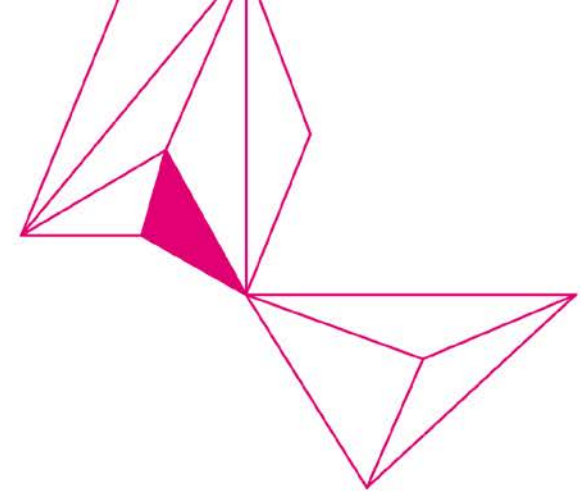
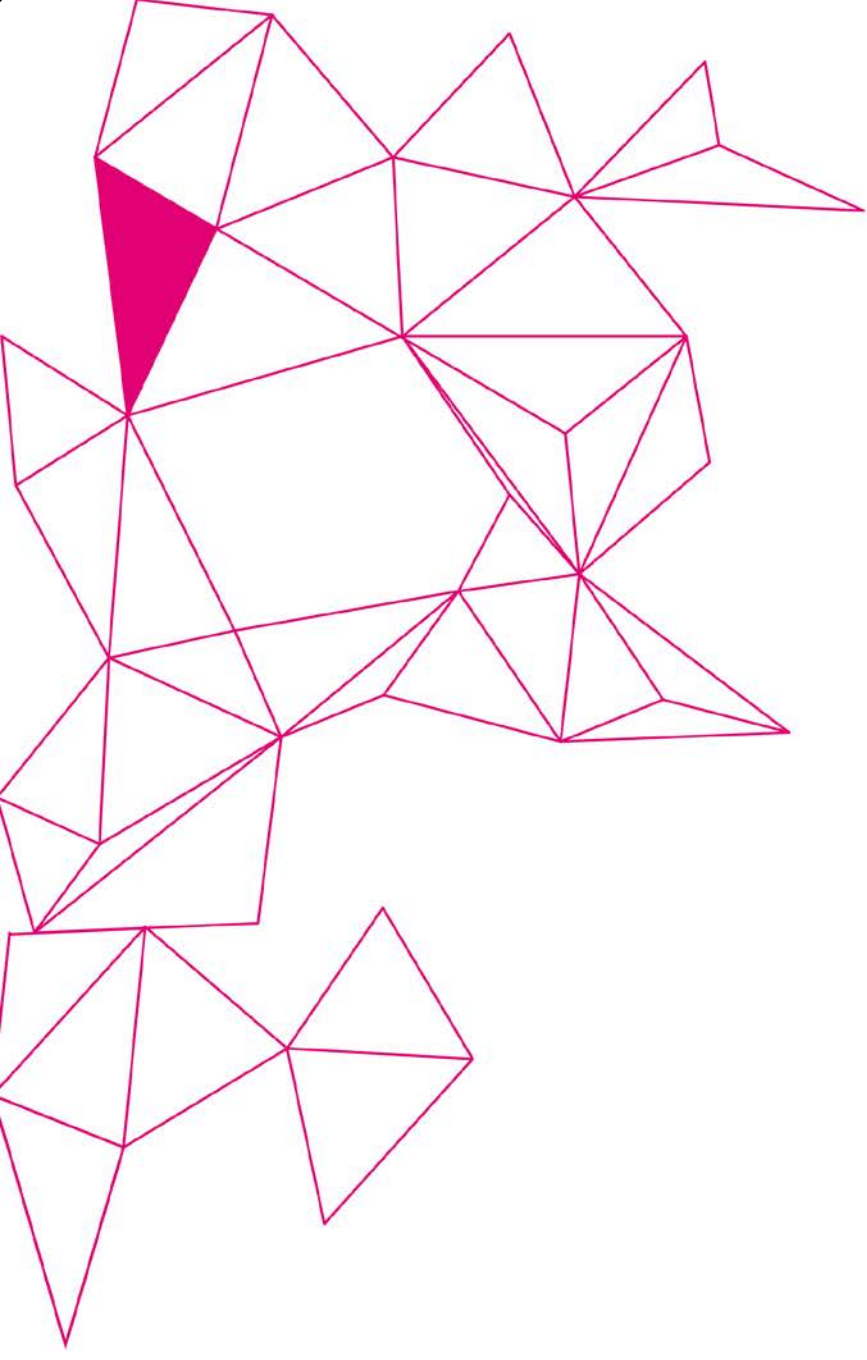
## I VALUE CREATION: ROCE > WACC

- 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

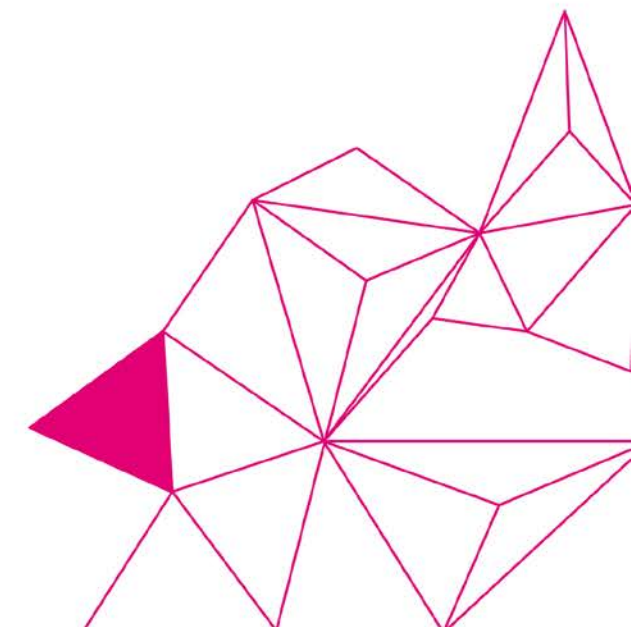
## III DEBT

### 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



**THANK YOU!**



# FURTHER QUESTIONS

## PLEASE CONTACT THE IR DEPARTMENT

### INVESTOR RELATIONS CONTACT DETAILS

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