

DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2018



LIFE IS FOR SHARING.

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 AI-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

GROUP STRATEGY

GERMANY

SYSTEMS SOLUTIONS

TECHNOLOGY & INNOVATION

T-MOBILE US

EUROPE

GROUP DEVELOPMENT

FINANCE

FINANCE STRATEGY ACHIEVEMENTS 2014–2018

II Equity

Reliable shareholder remuneration policy

- DIVIDEND¹
 - 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 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

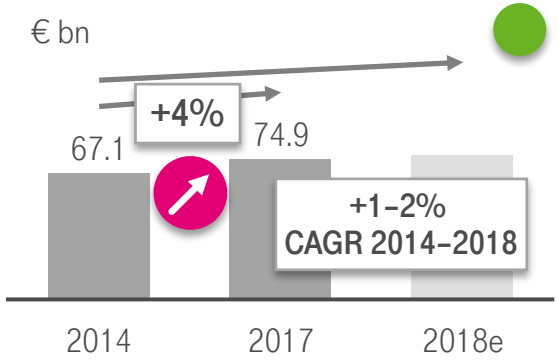
Undisputed access to debt capital markets

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

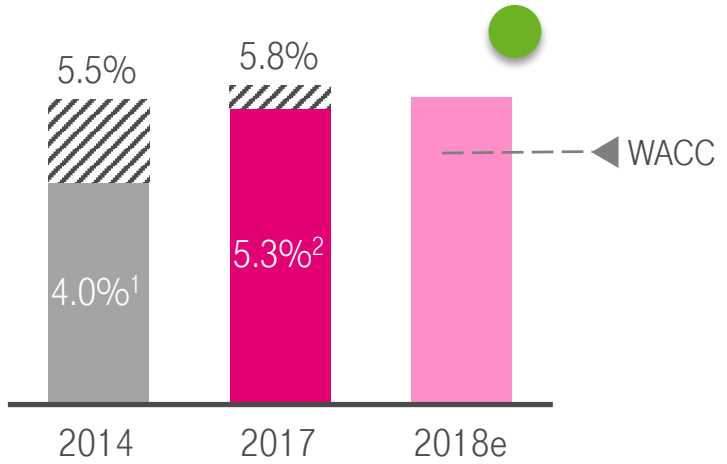
¹ Subject to necessary AGM approval and board resolution

DELIVERING VALUE...

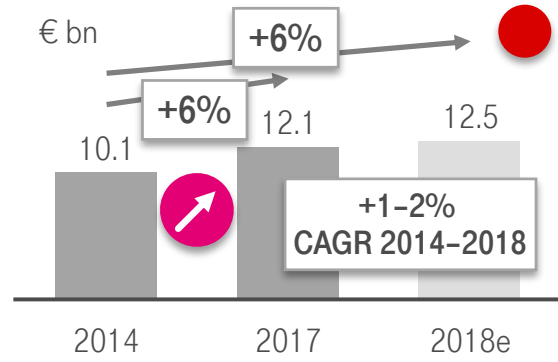
Revenue



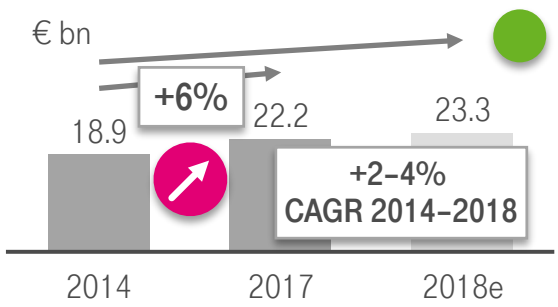
ROCE > WACC



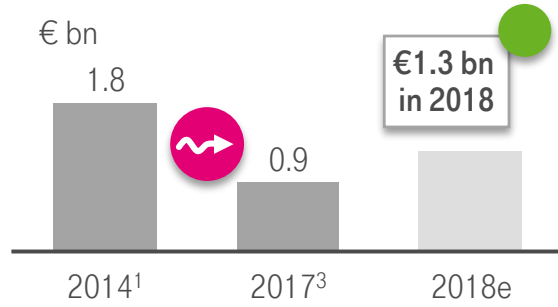
Cash Capex



Adj. EBITDA



Special factors (EBITDA)

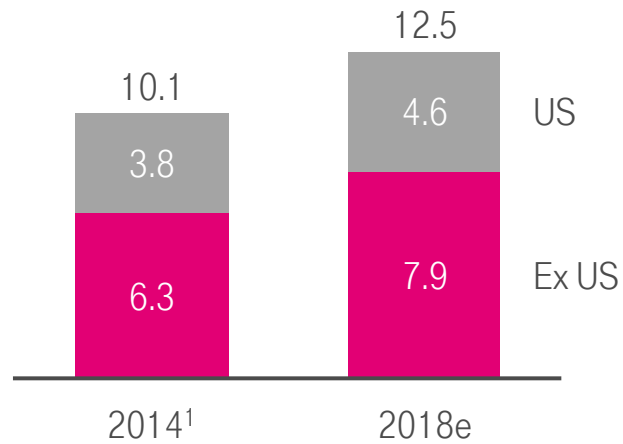


¹ Excl. effects from 70% Scout disposal and Verizon 4.0 spectrum ² Excl. effects from reversal of US spectrum impairment, Strato disposal, 9% Scout disposal, BT compensation payment, Impairment T-Systems and Impairment Poland/Romania
³ Excl. effects from reversal of US spectrum impairment, Strato disposal,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

...WHILE INVESTING INTO FUTURE GROWTH

Cash Capex

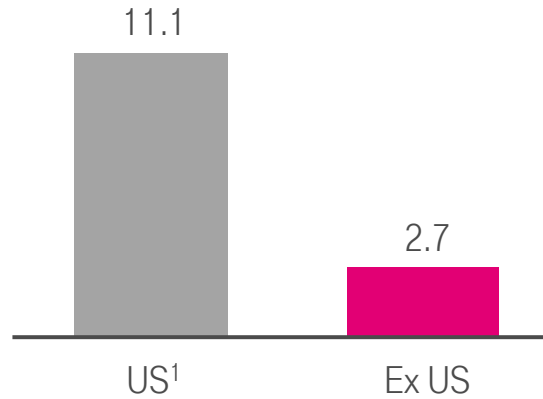
€ bn



- US & Europe: Investments in mobile network leadership
- Ex US: Investments in fiber deployments and IP migration

Spectrum

2015–2017 cumulative spend, € bn



- TMUS now has 40 MHz low-band
- US spectrum is a lifetime asset

Further investments...

...in customer growth



- Growth leader in US mobile and ex US mobile
- Low-band roll-out of ≈ €0.3 bn in 2018

...in transformation



- ≈ €0.4 bn IP migration opex in 2018

...in innovation, e.g.



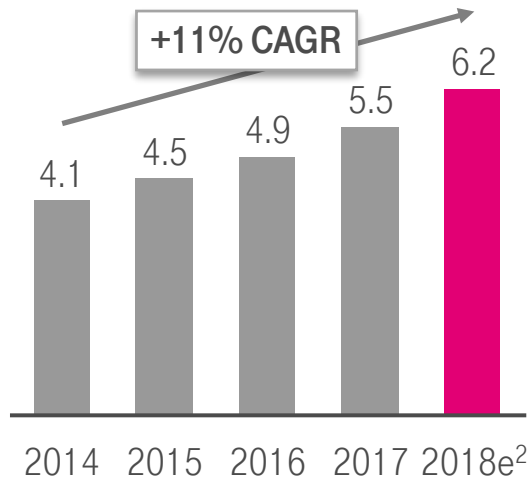
- IoT €0.1 bn
- Layer 3 TV €0.1 bn

¹ Based on a constant exchange rate of €1 = US\$1.13

DELIVERING FREE CASH FLOW AND DIVIDEND GROWTH

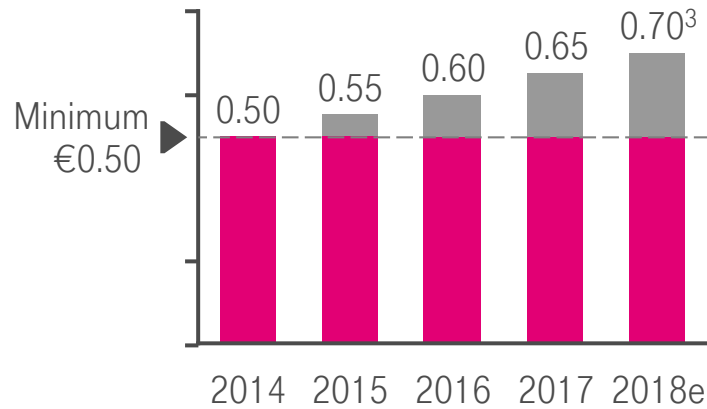
Free Cash Flow DT group¹

€ bn



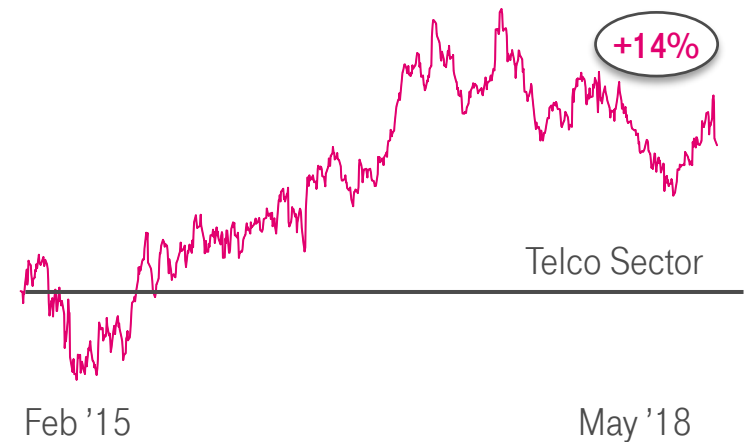
Dividends following FCF growth

€



Relative TSR since last CMD

%



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)

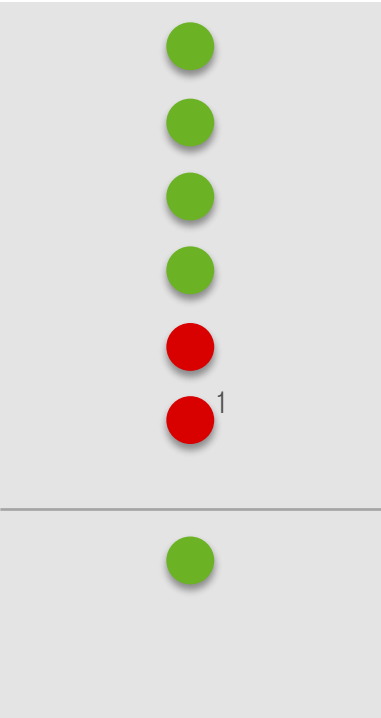
- Following FCF growth; min. DPS of €0.50 p.a.

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

- €0.65

Delivered/on track



SHAREHOLDER REMUNERATION (2015–2018)

¹ Compared to target of €1.8 bn

STRATEGY 2018 – 2021

GROUP STRATEGY

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SYSTEMS SOLUTIONS

TECHNOLOGY & INNOVATION

T-MOBILE US

EUROPE

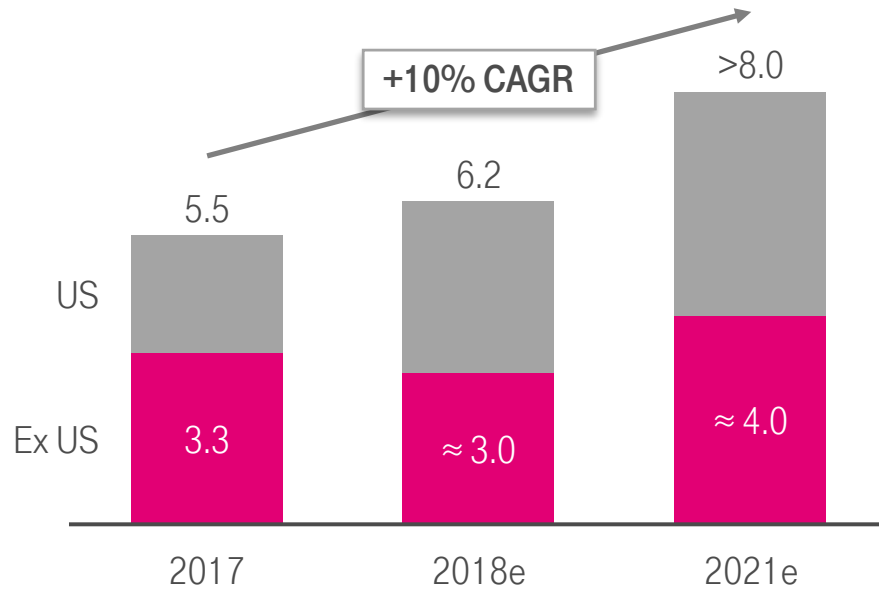
GROUP DEVELOPMENT

FINANCE

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%**

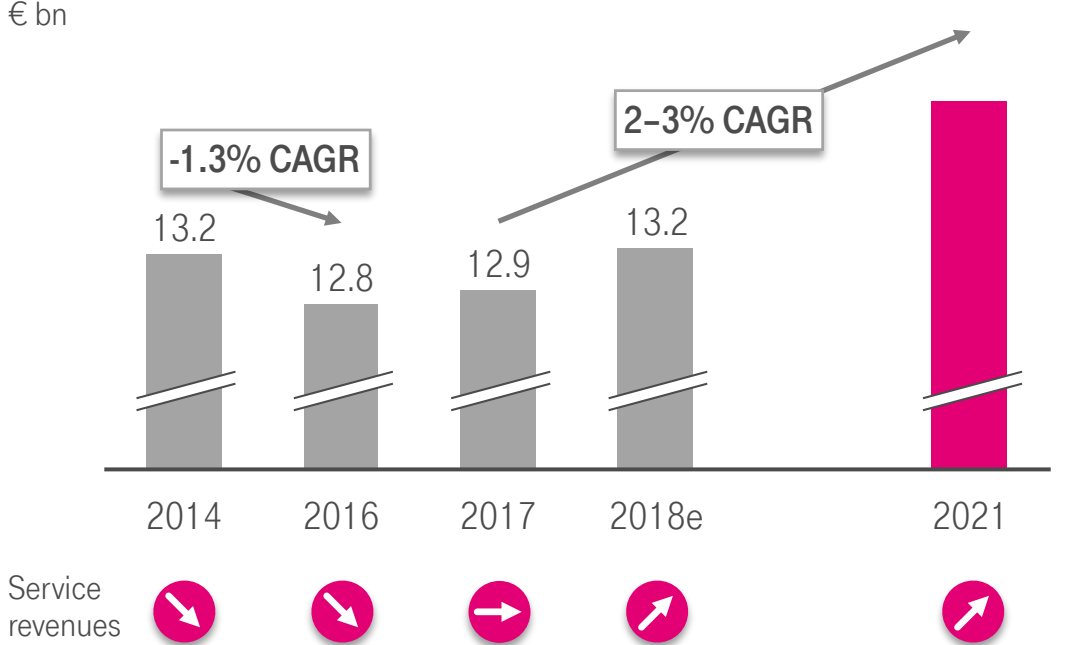
EX US EBITDA HAS TURNED AROUND AND IS GROWING

	Guidance	2017	2018	2019	2020	2021
Germany	2-2.5%	✓	✓	✓	✓	✓
Europe	1-2%		✓	✓	✓	✓
GD	≈ 3-4%		(✓) ¹	✓	✓	✓
TSI	≈ 5%			✓	✓	✓
DT ex US	≈ 2-3%	✓	✓	✓	✓	✓

✓ EBITDA growth

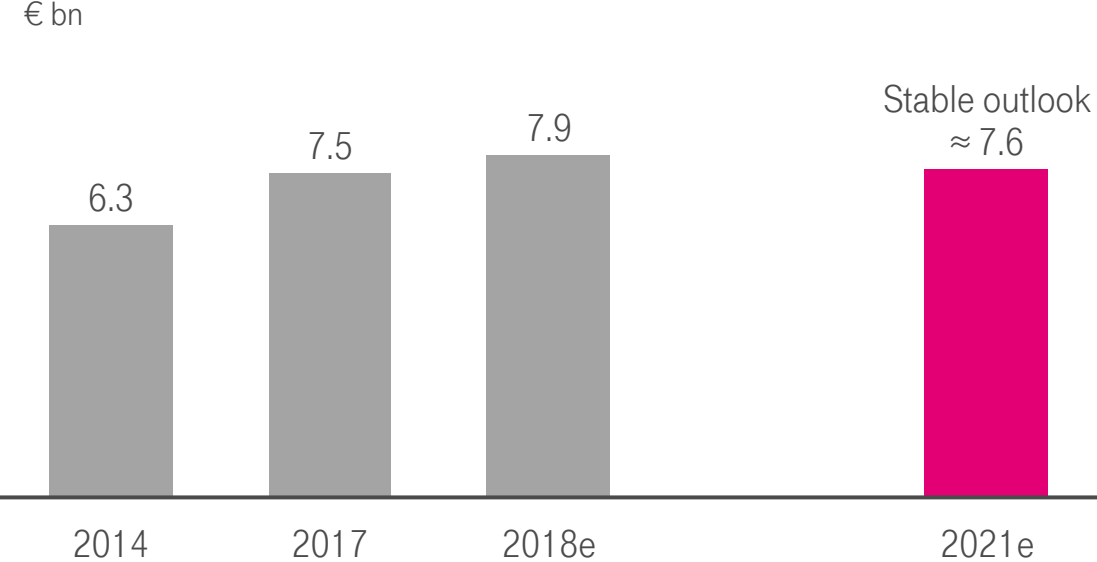
¹ Pre-accounting effects ² Pro forma figures, adjusted for M&A

Ex US EBITDA²



OUR EX US CAPEX PEAKS IN 2018

Cash Capex ex US



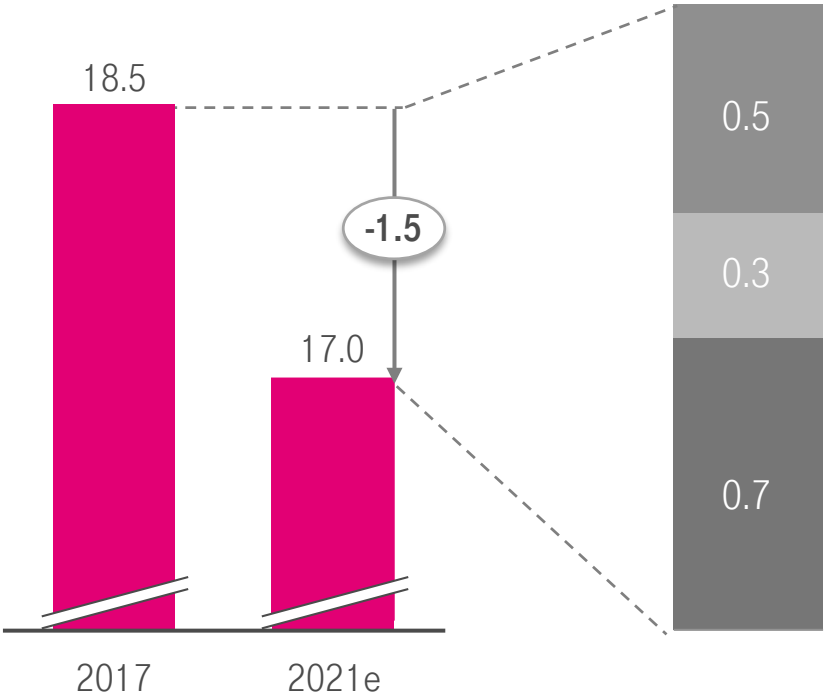
Drivers

- 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)



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

T . . . DEUTSCHLAND **-€0.8 bn**

EUROPE **-€0.4 bn**

T . . . Systems **-€0.1 bn**

T . . . GHS **-€0.2 bn**

(incl. GROUP DEVELOPMENT)

GHS TO SUPPORT SEGMENT COST SAVINGS

Lower real estate cost¹

€ bn



Savings enabled by desk sharing, standardization & modularization:

- Reduce vacancies by 50%
- 20% less office & technical space
- Reduced facility management costs

Efficient shared services¹

€ bn



€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 costs¹

€ bn



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

SIMPLIFY



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

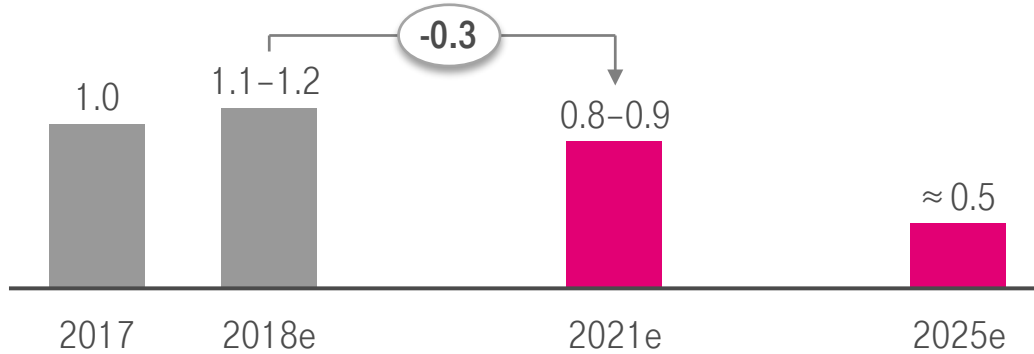
Next level analytics skills, data architecture & governance to leverage scalability

DIGITALIZE

DEMOGRAPHICS TO INCREASINGLY SUPPORT COST SAVINGS

Personnel Special Factors (Cash) ex US

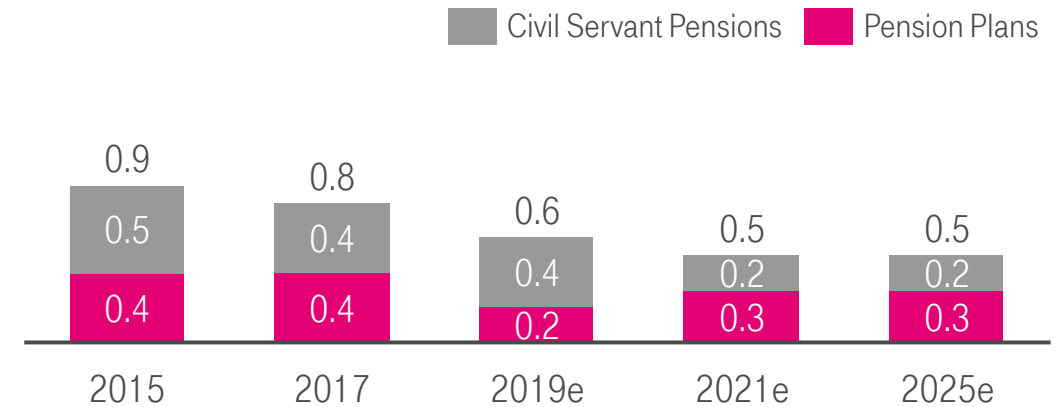
€ bn



- ≈ 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

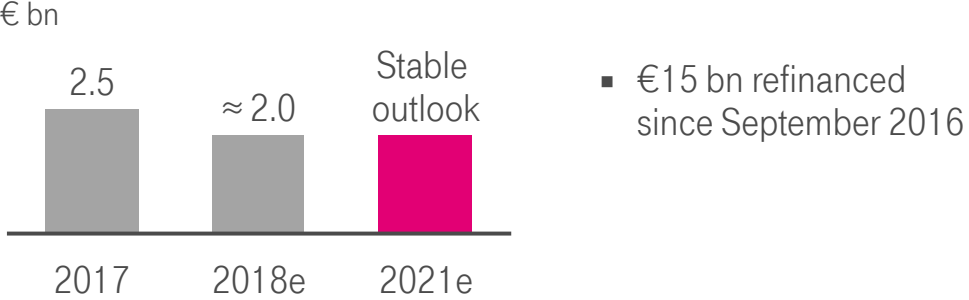
€ bn



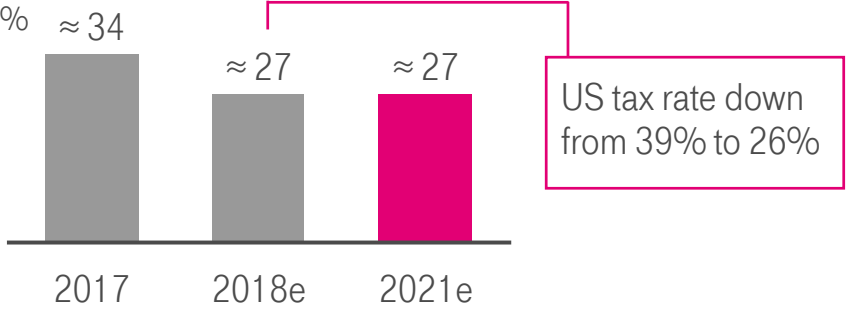
- Payments for the civil servant pensions to decrease over time
- No volatility expected as number of civil servants is decreasing (no new hires) and contribution is fixed

STABLE INTEREST COSTS AND REDUCED TAX RATE PAY INTO 20% ADJ. EPS GROWTH

Interest costs¹

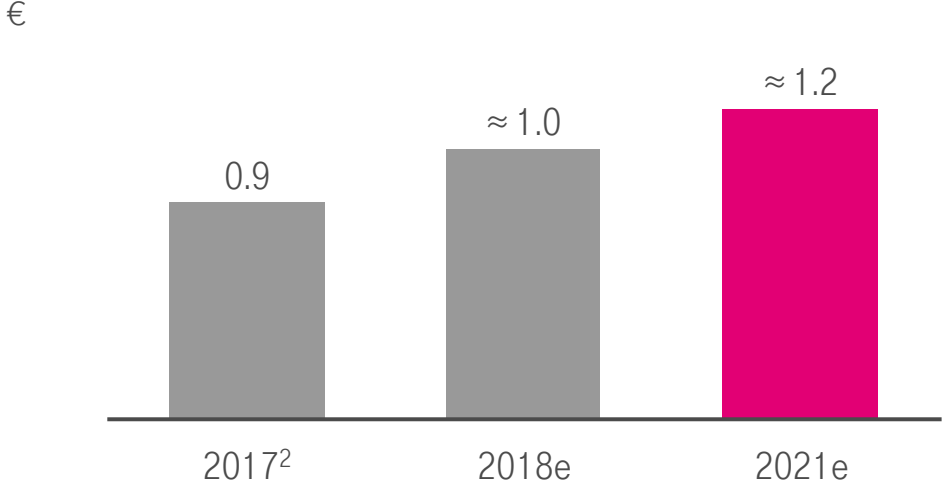


Group tax rate



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

Adjusted EPS



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

DEBT – DT REMAINS ANCHOR OF STABILITY

Stable rating

BBB+
Baa1
BBB+

2009



2017

Solid country profile

EBITDA generated in countries rated:

85% of EBITDA AAA/AA+



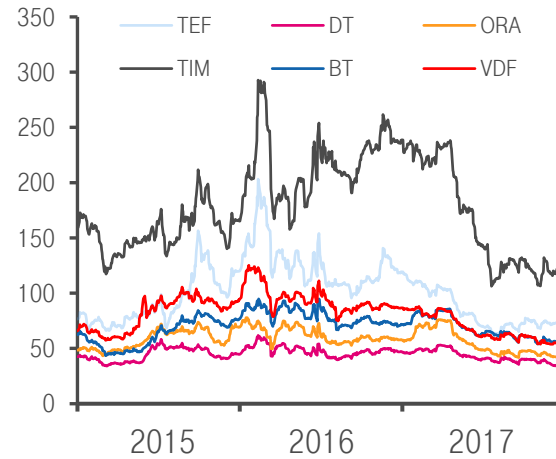
5% of EBITDA AA up to BBB-



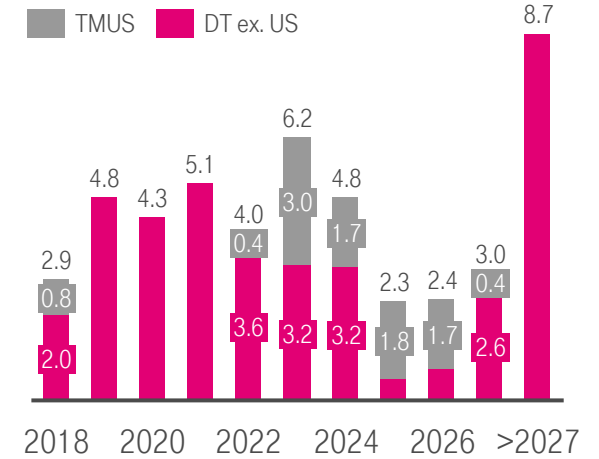
10% of EBITDA BB+ or below



Low CDS (5Y)



Balanced maturity profile



Debt policy remains unchanged

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

OVERVIEW FINANCIAL STRATEGY

II Equity

Reliable shareholder remuneration policy

- DIVIDEND¹
 - €0.70 in 2018 (paid in 2019)
 - Thereafter, dividend will reflect growth in adjusted EPS⁴
 - Floor remains at €0.50 per share
- BUY BACKS²
 - To be considered
 - DTAG shares or TMUS stake increase

Leading European Telco – ROCE > WACC



III Debt

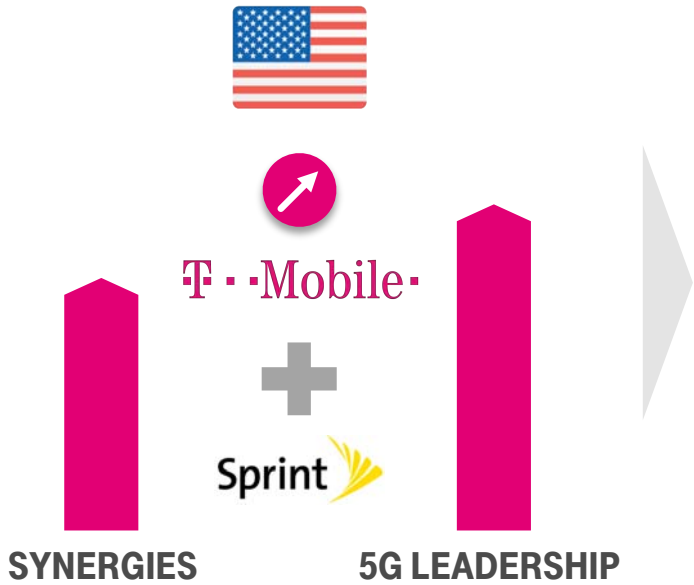
Undisputed access to debt capital markets

- RATING A-/BBB
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- EQUITY RATIO 25–35%
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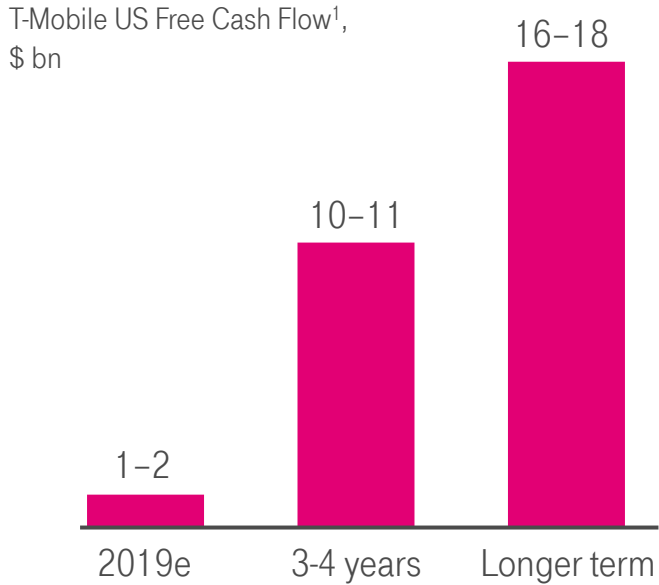
¹ Subject to necessary AGM approval and board resolution ² Not relevant for first 3 years in US deal scenario ³ Only a short departure from comfort zone in US deal scenario ⁴ Adj. EPS 2018 as starting point

BOOSTING DEUTSCHE TELEKOM'S FINANCIAL PROFILE...

Supercharging the Un-Carrier



Accelerated T-Mobile US Free Cash Flow growth



Boosting Deutsche Telekom's financial profile²

EPS accretive from year 3 for Deutsche Telekom

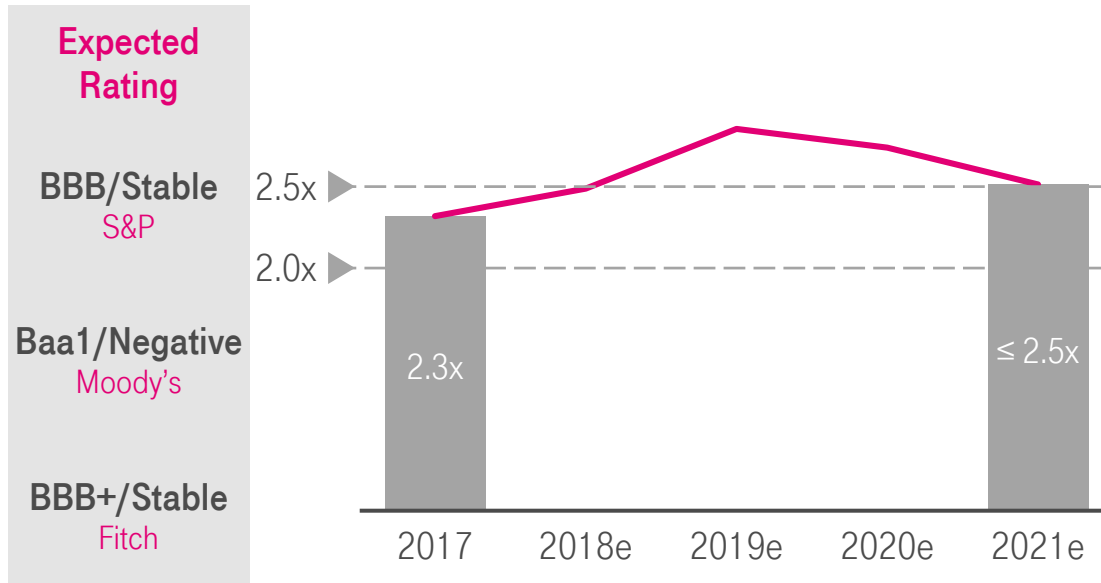
Deutsche Telekom ex-U.S. investment and growth unaffected

¹ Defined as Cash Flow from Operations less Capital Expenditures ² Assumption: closure date Jan. 1st, 2019

...BASED ON A ROBUST FINANCIAL FRAMEWORK

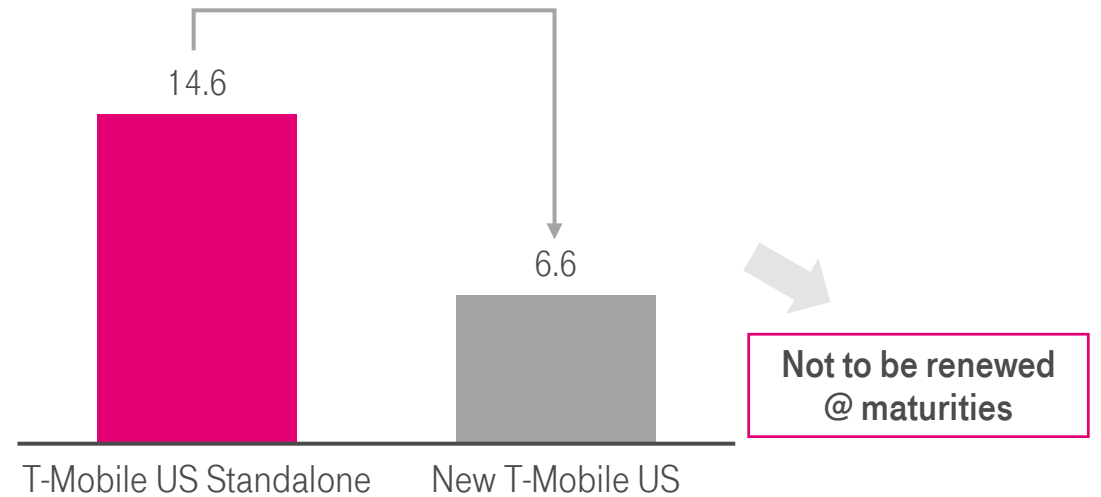
Only a short departure from our "Comfort zone"

Deutsche Telekom Group Net Debt/Adj. EBITDA



Phasing out parental funding

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



T-MOBILE US STRICTLY STANDALONE FUNDING GOING FORWARD

FINANCIAL OUTLOOK

GROUP STRATEGY

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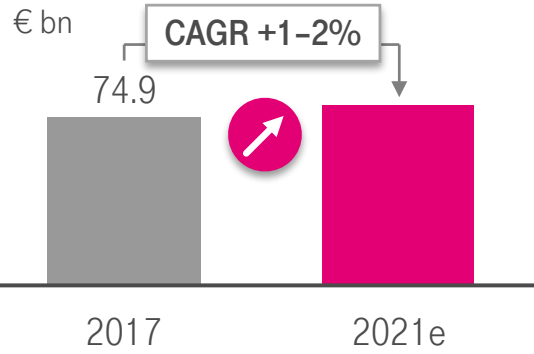
EUROPE

GROUP DEVELOPMENT

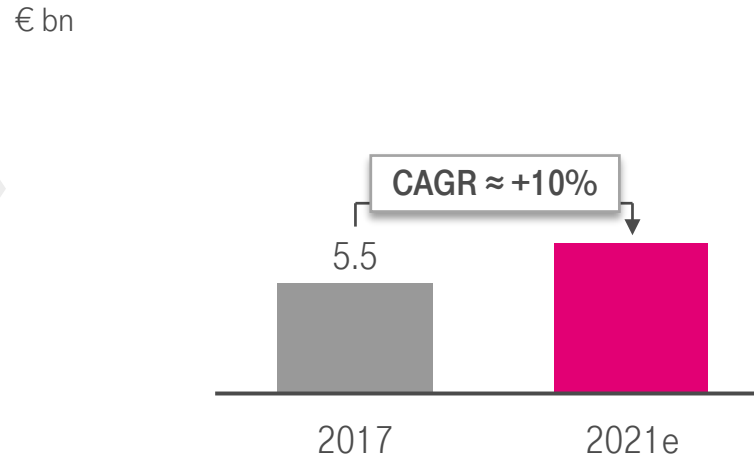
FINANCE

FINANCIAL OUTLOOK

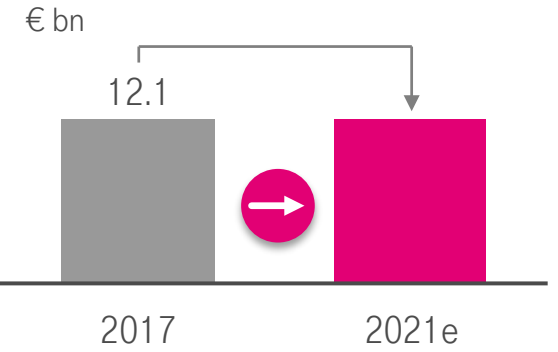
Revenue growth



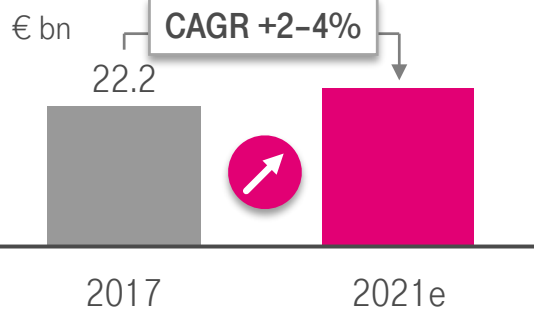
Free Cash Flow¹



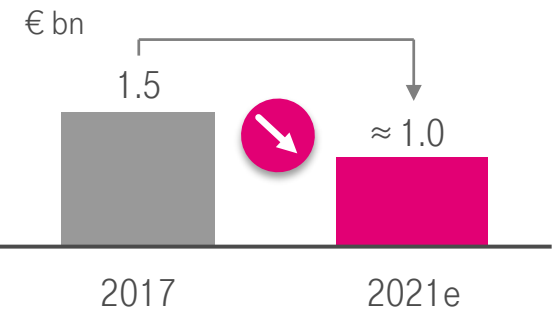
Cash Capex²



Adj. EBITDA



Special factors (Cash)



¹ Free Cash Flow before dividend payments and spectrum payments

² Cash Capex ex US expected to be stable

MID TERM AMBITION LEVEL

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GROUP DEVELOPMENT

FINANCE

MID TERM AMBITION LEVEL

	Mid term ambition level ¹	Year	Implications of US deal ²
GROUP REVENUES	CAGR +1–2%	2017–2021e	Confirmed
GROUP ADJ. EBITDA	CAGR +2–4%	2017–2021e	Confirmed
GROUP FCF	CAGR ≈ +10%	2017–2021e	Slightly dilutive in 2021e & accretive in 2022e
GROUP ADJ. EPS	≈ €1.20	2021e	Slightly dilutive in 2021e & accretive in 2022e
GROUP ROCE	ROCE > WACC	2021e	Confirmed
GROUP CASH CAPEX	Ex US stable	2017–2021e	Confirmed
GROUP INDIRECT OPEX	Ex US -€1.5 bn	2017–2021e	Confirmed
SHAREHOLDER REMUNERATION POLICY (2018–2021)³	Dividend will reflect growth in adjusted EPS. Floor remains at €0.50 per share	2017–2021e	Confirmed

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.