



DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2015

Bonn, February 26/27, 2015



LIFE IS FOR SHARING.

DISCLAIMER

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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.



GERMANY

Niek Jan van Damme, Board member for Germany








KEY MESSAGES

- 1** Leading European Telco: Among the first European Integrated Incumbents to return to Revenue stabilization & EBITDA growth.
- 2** Differentiation via Superior Networks, Best Customer Experience and Integrated Best in class Products.
- 3** Number One choice in Mobile, Fixed, Broadband, TV and Convergence supported by e-company and self-service.
- 4** Strong execution: Growing mobile market share, on track with INS and ALL-IP, healthy 40% EBITDA margin.
- 5** Strong Financial Performance ahead: Revenue stabilization and EBITDA growth fund our high Investments.



REVIEW 2013–2014

SOLID PERFORMANCE IN COMPETITIVE MARKETS

	AMBITION LEVEL 2015 (FROM CMD 2012)	ACHIEVEMENTS 2014	DELIVERED/ ON TRACK
MARKET	<ul style="list-style-type: none"> # 1 in mobile service revenue market share ≈35% # 1 broadband market share ≈43% # 1 in TV growth (2012-2014)¹ 	36.3% 41.6% +476k	  
QUALITY	<ul style="list-style-type: none"> Customer loyalty index ≈+10% 	60 points (+7%)	
FINANCIALS	<ul style="list-style-type: none"> Stable total revenues in 2014 Connected home revenues +2% vs. 2012 Adj. EBITDA margin ≈40% 	-0.8% yoy -0.9% 40%	  

¹ Measured in total number of net adds



MARKET TRENDS

DIGITAL TRANSFORMATION DRIVES CONVERGENCE AND DATA CENTRIC MARKET GROWTH

CHANGE IN CONSUMER BEHAVIOR

USAGE¹

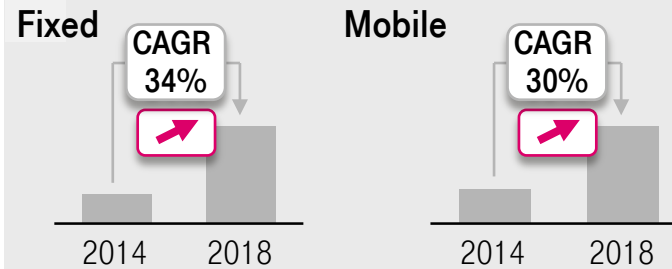
Video		▶	40% on mobile devices
Messaging		▶	35 mn user
Social Media		▶	28 mn user

DEVICES²

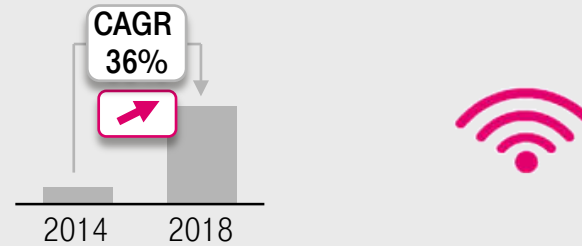
Smartphone Base		▶	41 mn user
Monthly Tablet User		▶	27 mn user

MARKET TRENDS (2014-2018)³

1 | DATA TRAFFIC

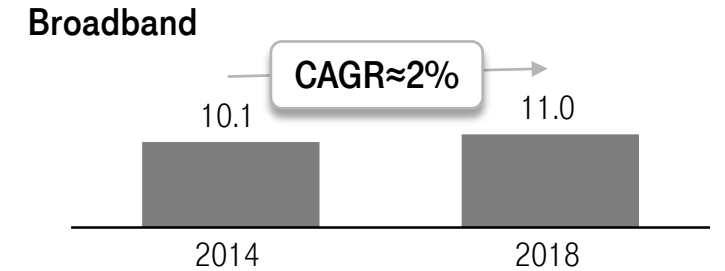
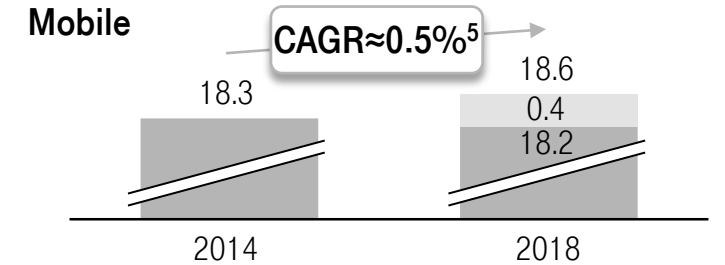


2 | WIFI TRAFFIC ON MOBILE DEVICES



REVENUE MARKET DEVELOPMENT⁴

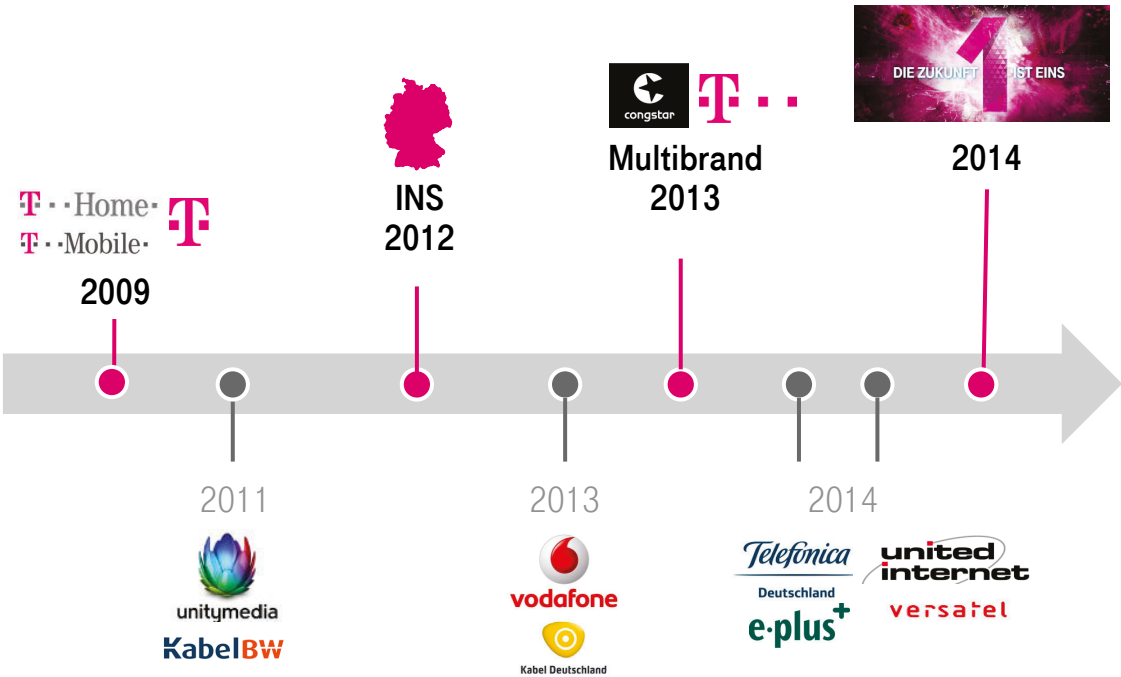
€ bn  EU Roaming  Mobile  Broadband



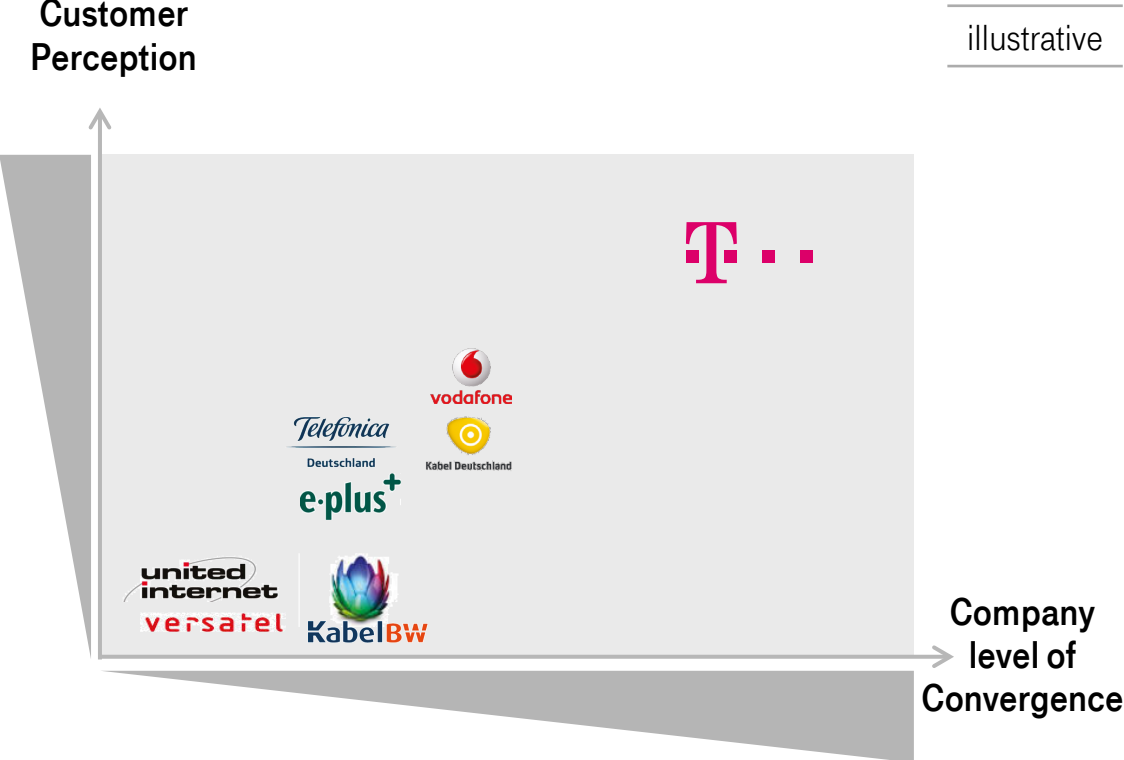
¹ Company reporting, 2014/15 ² Statista, 2014 ³ Analysys Mason, March 2014 for Germany ⁴ Telekom estimate: broadband incl. IPTV ⁵ Without EU roaming impact of ≈€0.4 bn

DATA DEMAND AND NEED FOR CONVERGENCE INCREASE TREND TOWARDS CONSOLIDATION

CONVERGENCE



LEVEL OF CONVERGENCE¹



¹ Telekom estimate



STRATEGY 2015–2018

OUR STRATEGY: GERMANY



LEADING EUROPEAN TELCO

- INTEGRATED IP NETWORKS**
 - Integrated Network Strategy
 - Network Quality
 - IP- & Process Transformation
- BEST CUSTOMER EXPERIENCE**
 - MagentaEINS
 - Next Generation TV
 - E-Company
- WIN WITH PARTNERS**
 - Partnering Initiatives
 - Steckerleiste
- LEAD IN BUSINESS**
 - Mid-Market Initiative
 - IT-Cloud
 - DeutschlandLAN
 - M2M

TRANSFORM PORTFOLIO

EVOLVE FINANCIAL TARGETS & EFFICIENCY Stable revenues & EBITDA growth fund our transformation investments

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

INTEGRATED IP NETWORKS: DIFFERENTIATION AND SUPERIOR QUALITY LEAD TO TECHNOLOGY LEADERSHIP OF TODAY



MOBILE BROADBAND

BANDWIDTH

- Fastest Network¹ with 80% LTE Pop coverage



Ø download in Mbps



BACKHAUL

- >80% Fiber to the cell site²

TOWER COMPANY

- Full control

FIXED BROADBAND

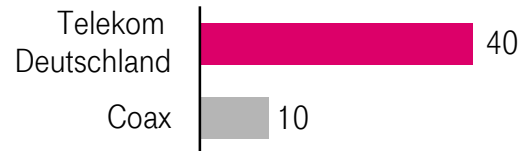
HIGHSPEED FOOTPRINT

- Largest national fiber HH coverage with 44%
- Vectoring download speed up to 100 Mbps

UPLOAD

- Superior Fiber Upload

Mbps



DEDICATED ACCESS

- Nationwide for Business

HYBRID ACCESS

CONVERGENT TECHNOLOGY

- Market launch Q4/14



HYBRID FOOTPRINT

- 80% Pop coverage with superior bandwidth

Mbps



¹ Connect 2014 – average download speed ² 3G/4G ³ Technically feasible upload speed; commercially 80 Mbps

MORE COVERAGE & SPEED WITHIN THE SAME CAPEX ENVELOPE




INTEGRATED NETWORK STRATEGY STATUS 2014

1 LTE rollout



80% Pop coverage
Download up to 150 Mbps

2 Fiber rollout



44% HH coverage

3 Vectoring

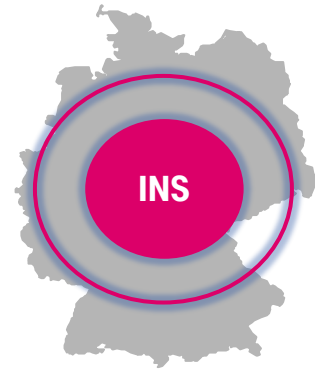


Download 100 Mbps
Upload 40 Mbps

4 Hybrid access



Market launch Q4/2014



AMBITION 2018

95% Pop coverage with up to 300 Mbps

≈80% HH coverage with at least 50 Mbps depending on regulatory adjustments

Introduction of Supervectoring with more than 250 Mbps in cable footprint

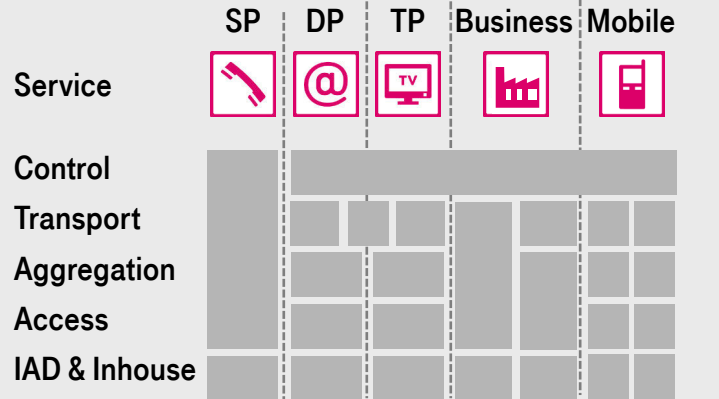
Top download-speed of up to 550 Mbps in cable footprint

→ MORE COVERAGE AND HIGHER SPEED WITHIN THE SAME CAPEX ENVELOPE VS. CMD 2012

TRANSFORMATION ON TRACK TO ACHIEVE 100% IP-CUSTOMERS IN 2018



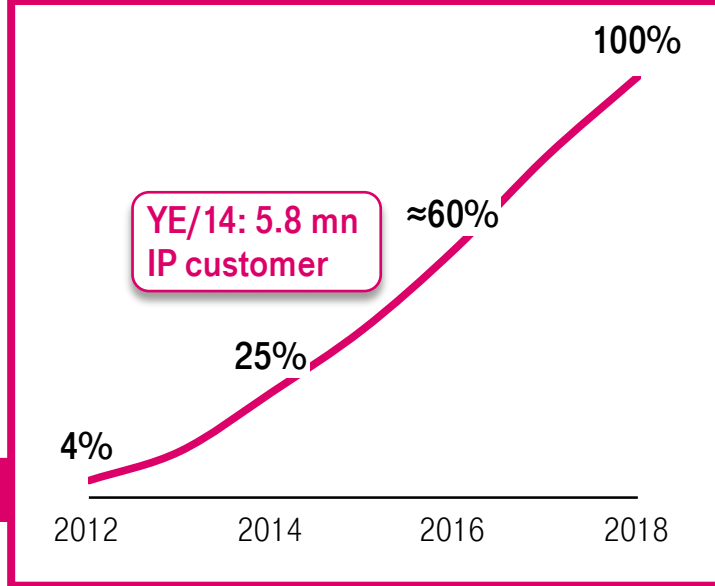
FROM THE "OLD PSTN WORLD" ...



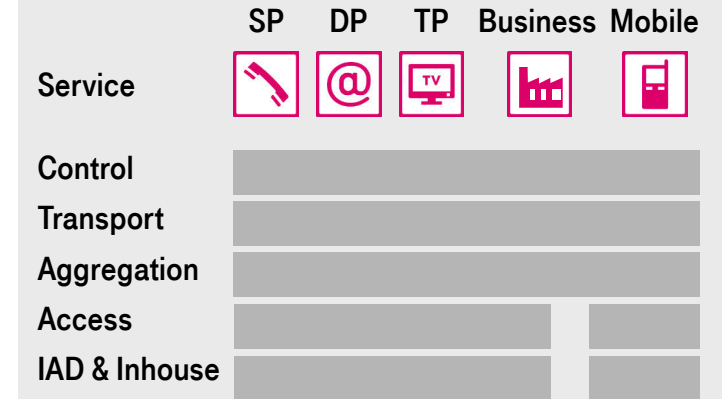
BENEFITS FOR CONSUMER

- Higher **Speed & Network Quality**
- **Access to future Products** and **services**
- **Easy** self-provisioning and set up via **WEB & APP**
- Less wiring at customer site

SHARE OF IP-ACCESS¹



...TO THE "NEW IP ERA"



BENEFITS FOR BUSINESS

- Higher **Speed & Network Quality**
- **Easy** self administration
- **Modular** fixed mobile offers
- **Seamless** Cloud integration & high scalability

¹ Incl. Wholesale

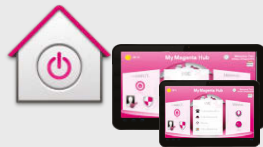
WE STRIVE FOR THE “WOW”-EXPERIENCE



SURPRISING & INNOVATIVE „WOW“-EXPERIENCE



SEAMLESS CONNECTIVITY



Consistent & unlimited high-speed access everywhere at anytime

CONVERGED COMMUNICATION



Integrated portfolio on multi devices,
One brand,
World class design

OMNICHANNEL SALES & SERVICE



Self-Service and Unified processes across all customer touch points

SIMPLE TO USE & HIGH QUALITY



Innovative products & services,
Smart partner approach

DIFFERENTIATION IN MOBILE THROUGH SUPERIOR NETWORK AND CLEAR VALUE STRATEGY



BRAND PORTFOLIO

CONTRACT CUSTOMER BASE¹

SERVICE REVENUES

mn ■ Single Play ■ Double Play

€ bn ■ EU Roaming

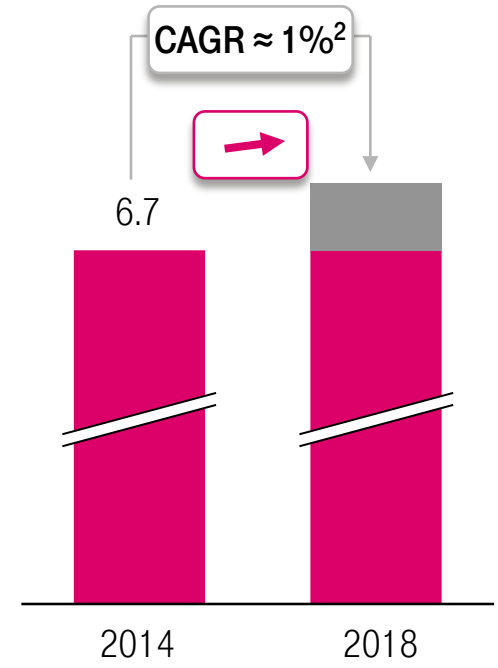
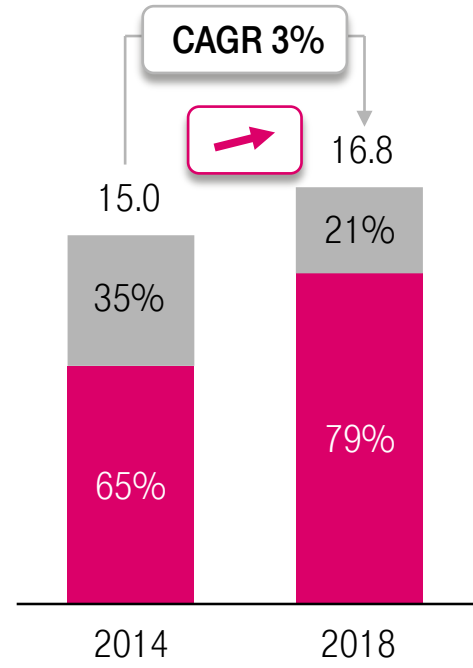


≈30€



- “D-Netz” Quality
- Medium speed
- Smartphone lease
- Basic portfolio

- Best Network
- High speed
- Subsidized smartphone
- Attractive options
- MagentaEINS



¹ Without mobile wholesale ² Without EU Roaming impact

DIFFERENTIATION IN BROADBAND VIA INNOVATIVE PRODUCTS AND INCREASED FIBER FOOTPRINT



LEVERS IN BROADBAND RETAIL

1 MagentaEINS

- Leverage the base
- Increase loyalty

2 Entertain 2.0

- Next Generation TV
- Entertain on n-screens

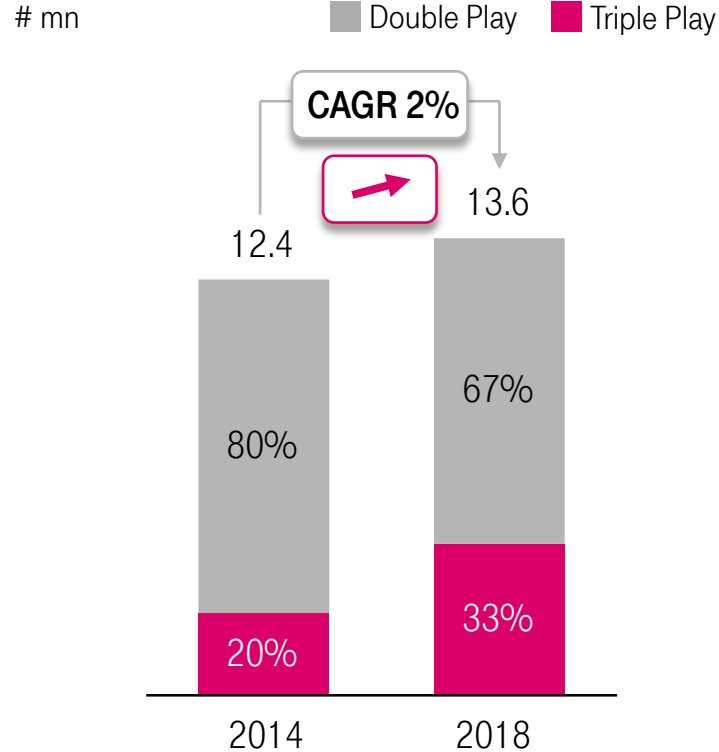
3 Innovations

- Supervectoring
- Hybrid

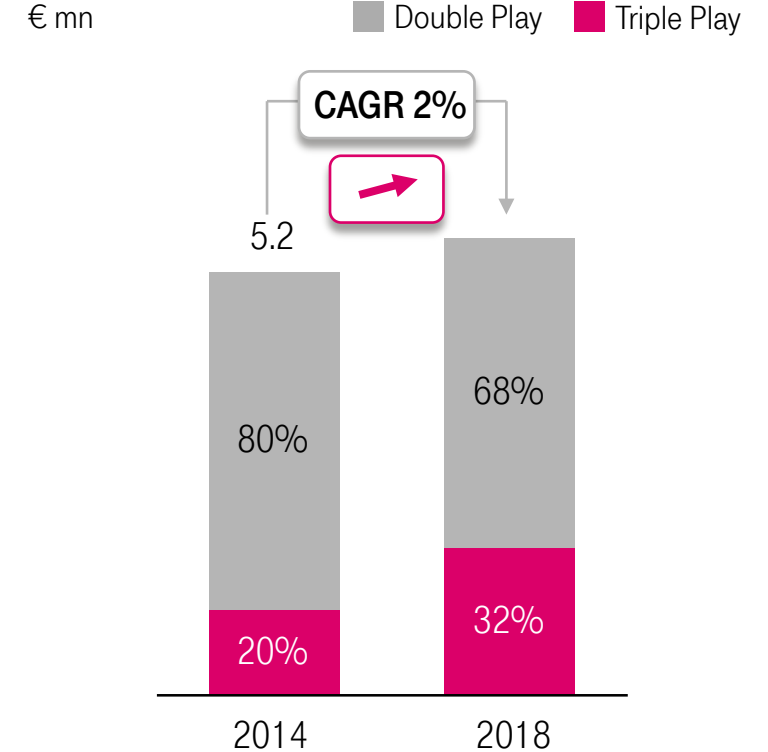
4 Regional offers

- Regional Pricing
- Special Hardware Offers

BROADBAND CUSTOMER BASE



BROADBAND REVENUES



GROWTH IN TV BY A MULTILAYER STRATEGY AND INCREASED FIBER FOOTPRINT



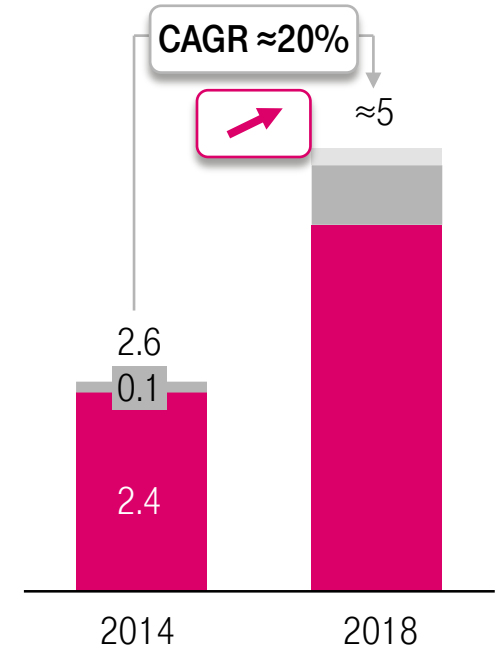
NEXT GENERATION TV WITH NEW FEATURES

- Revised state of the art **user interface**
- Seamless multi-screen** experience
- Number 1 in HD** and becoming innovator in **4K**
- Best on-demand content** experience
- New functionalities**
(Instant restart, backwards EPG)



TV CUSTOMER BASE

mn ■ Wholesale ■ Housing Associations ■ Entertain



3RD PARTY TV OFFERS (WHOLESALE)

- Customized product offering as “Digital TV – provided by Telekom”
- Resale partnership
Start Q1/2015



TV FOR HOUSING ASSOCIATIONS

- Deutsche Annington deal executed
- New deals won and direct roll-out
- Enlarge regional TV footprint



INCREASE NETWORK UTILIZATION BY UPSELLING WHOLESALE PARTNERS TO FIBER SERVICE REVENUES



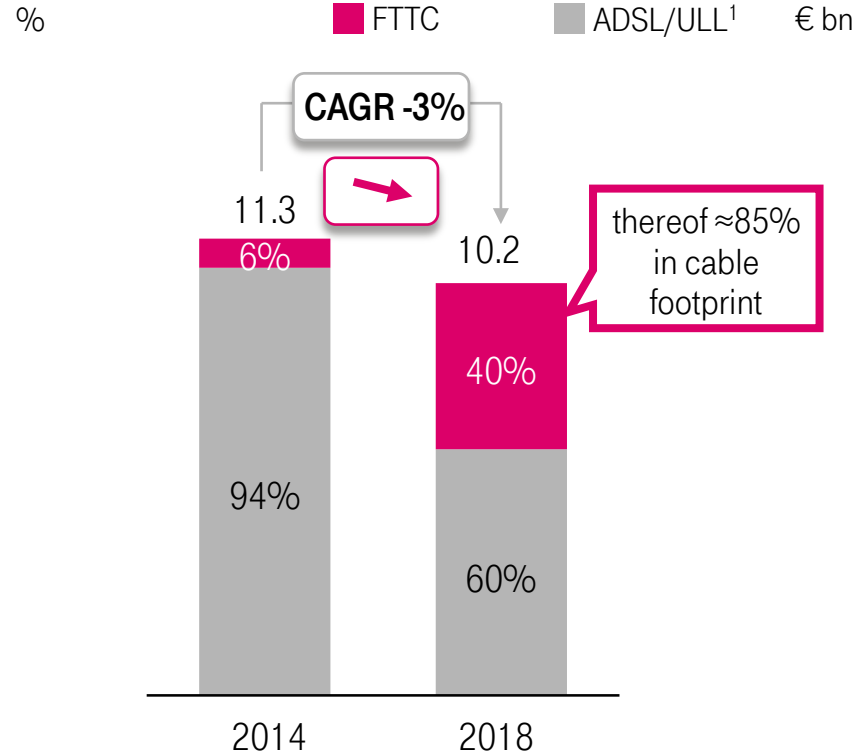
KEY GOALS

1 Utilization of Fiber Infrastructure with $\approx 35\%$ of Fiber Footprint in active service

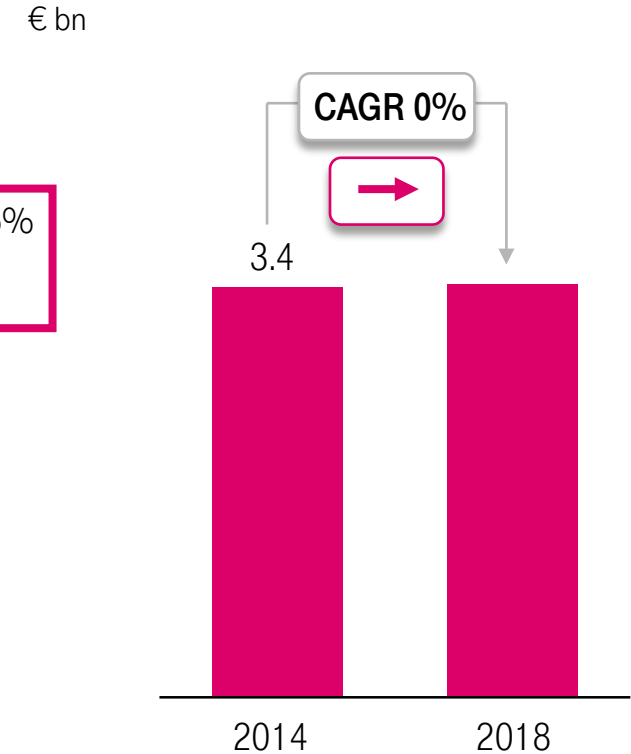
2 Invest-Sharing via upfront Payment

3 Competitive Fiber Wholesale prices for Partners (ARPA of $\approx 20\text{€}$) and innovative Products (IPTV)

WHOLESALE ACCESS BASE



WHOLESALE REVENUES



¹ Unbundled local loops

MAGENTA EINS: FIXED AND MOBILE ARE CONVERGING...



OUR FIRST CONVERGED OFFER

63% MARKET RESEARCH¹

Customers prefer bundles from a single source



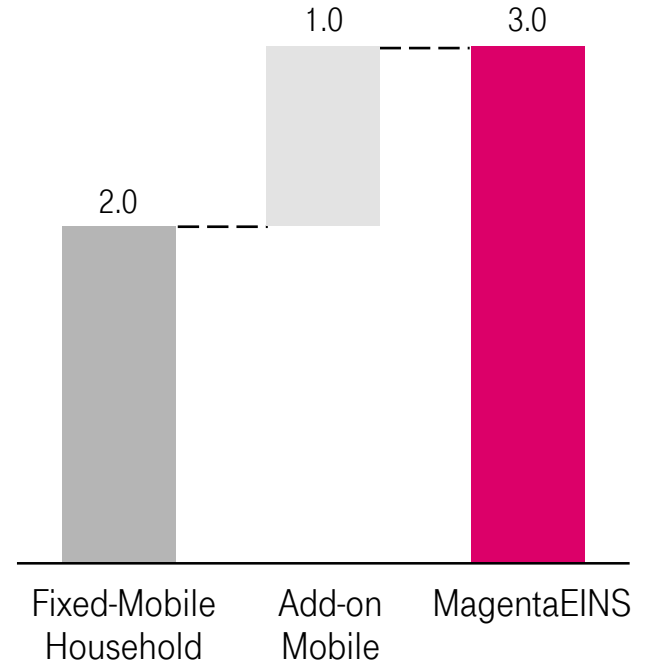
¹ Market research based on customer survey (2014)

KEY GOALS

- 1 CROSS-/UPSELLING**
Leverage customer base
- 2 ADD ON MOBILE SIM'S**
1.5 SIM cards per household
- 3 LOYALTY INCREASE**
Reduce churn
- 4 NEW CUSTOMERS**
Value based customer acquisition

2018 (CONSUMER) CUSTOMER BASE

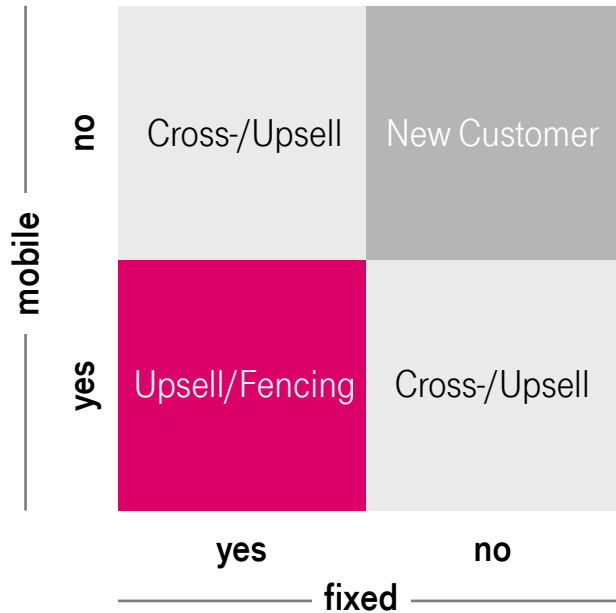
mn



... AND GENERATING ADDITIONAL VALUE THROUGH CROSS-/UPSELLING



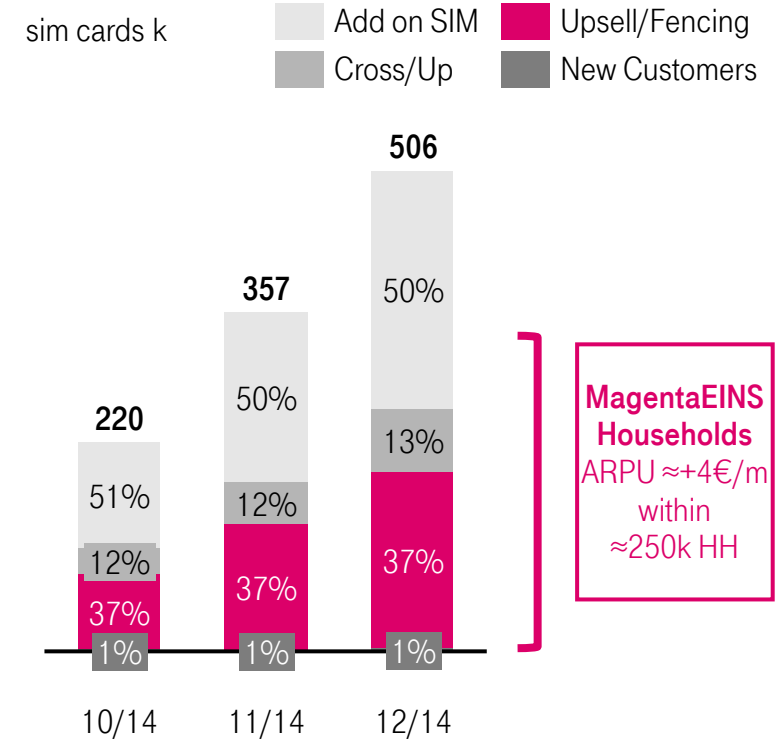
FMC CUSTOMER POTENTIAL



HIGHLIGHTS AFTER 4 MONTH

- 1 TRIPLE PLAY SHARE**
>50%
- 2 GROWING SIM CARD PENETRATION**
≈2 SIMs per HH
- 3 BOOST CUSTOMER LOYALTY¹**
75 Points TRI*M
- 4 INCREASED MAGENTAEINS REVENUES**
≈4€/m per HH

MagentaEINS CUSTOMER BASE



¹ TRI*M Index MagentaEINS customers

E-COMPANY TRANSFORMATION WITH FOCUS ON E-SERVICE AND E-SALES



EXCELLENT CUSTOMER EXPERIENCE “24/365”



Digital touch points & omni-channel approach

- Products and services are e-Channel enabled
- Seamless customer experience across all touch points



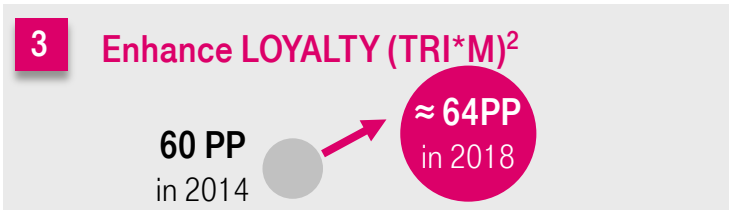
Increase customer self service

- All sales and service processes are self-service enabled
- Customer self service via portal, app & magic button functionalities



Optimized usability

- Plug and Play functionalities incl. optimized incident management
- One Identity Management



¹ Without IVM and Congstar ² TRI*M Index for all Telekom customers

PARTNERING ACTIVITIES CONTRIBUTE TO REVENUE GROWTH



KEY GOAL: LEADING PARTNERS TO DIFFERENTIATE CORE PRODUCTS

REVENUE & SUBSCRIBER DEVELOPMENT



SMART HOME



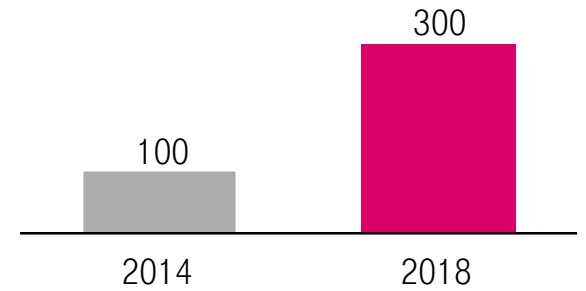
SECURITY



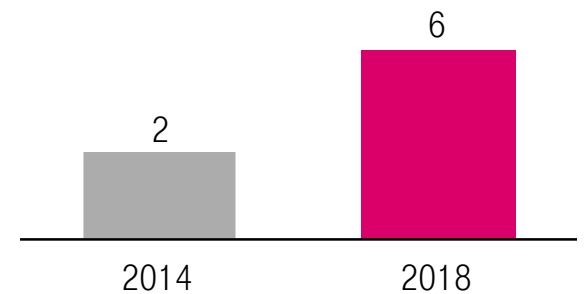
ENTERTAINMENT



€ mn



mn



1 Enrich portfolio with innovative services

2 Leverage customer demand through de-risking revenue share model

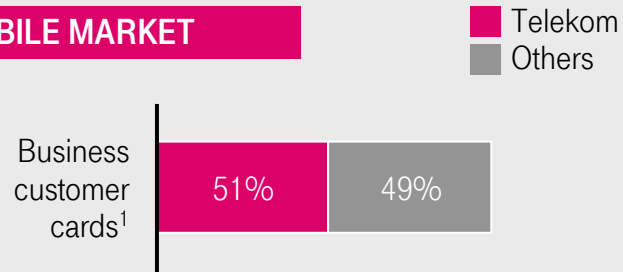
3 Platform with standardized interface for efficient integration

OUR STRONG NATIONWIDE DISTRIBUTION AND ICT COMPETENCE ARE THE BASIS FOR A LEADING POSITION IN THE BUSINESS MARKET

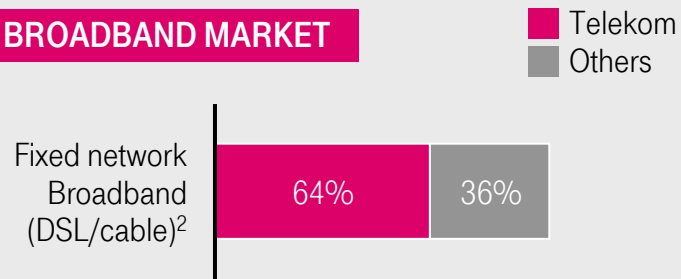


MARKET LEADER IN BUSINESS...

MOBILE MARKET



BROADBAND MARKET



...BASED ON SUPERIOR ICT COMPETENCES

1 Nationwide sales and service presence & comprehensive **end-to-end** responsibility

2 One-stop-shop product portfolio including **customized bundle offers** for **any need**

3 Cloud services with the **highest safety standards** ("made in Germany")

MID-MARKET INITIATIVE AS A GROWTH DRIVER

IT/CLOUD PRODUCT PORTFOLIO EXPANSION
 19 products in 2014 → **>30** in 2018

IT PARTNERING NETWORK
 38 partner in 2014 → **≈500** in 2018

+€0.4 bn by 2018
 B2B revenue in GER

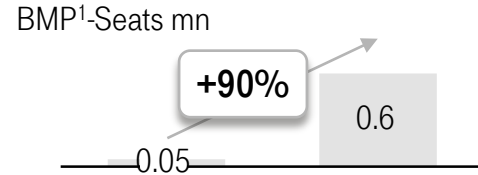
Source: GfK Tele.Basics b2b 2014 ¹ Cards in frame contacts ² Access market share in 2014

GROWTH INITIATIVES AND MID-MARKET APPROACH DRIVE OUR HIGH AMBITION IN BUSINESS

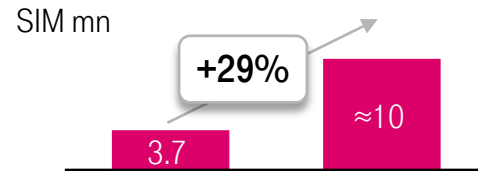


FOCUSED BUSINESS INITIATIVES

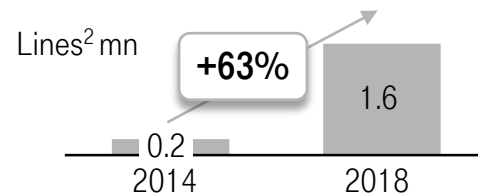
1 IT Cloud



2 M2M



3 DeutschlandLAN



¹ Business Marketplace ² Includes expansion of DLAN brand family into other access products

... LEAD TO REVENUE GROWTH

■ IT ■ Mobile ■ Fixed € bn

Telekom Market

+21%

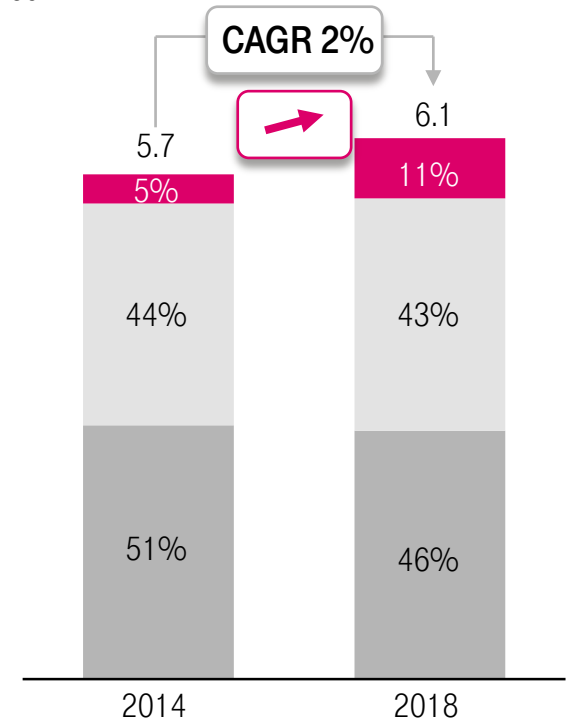
+4.8%

+1.2%

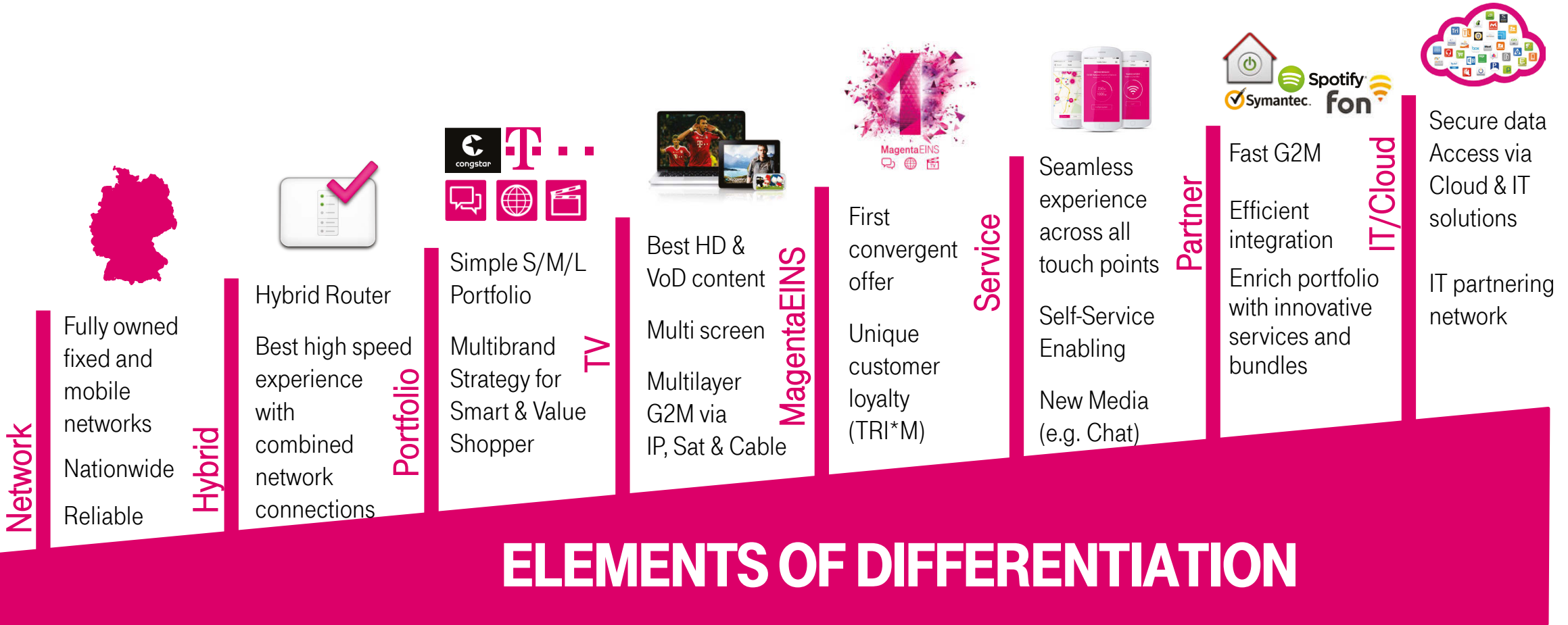
+0.8%

-0.7%

-1.7%



KEY DIFFERENTIATORS FOR OUR CUSTOMERS





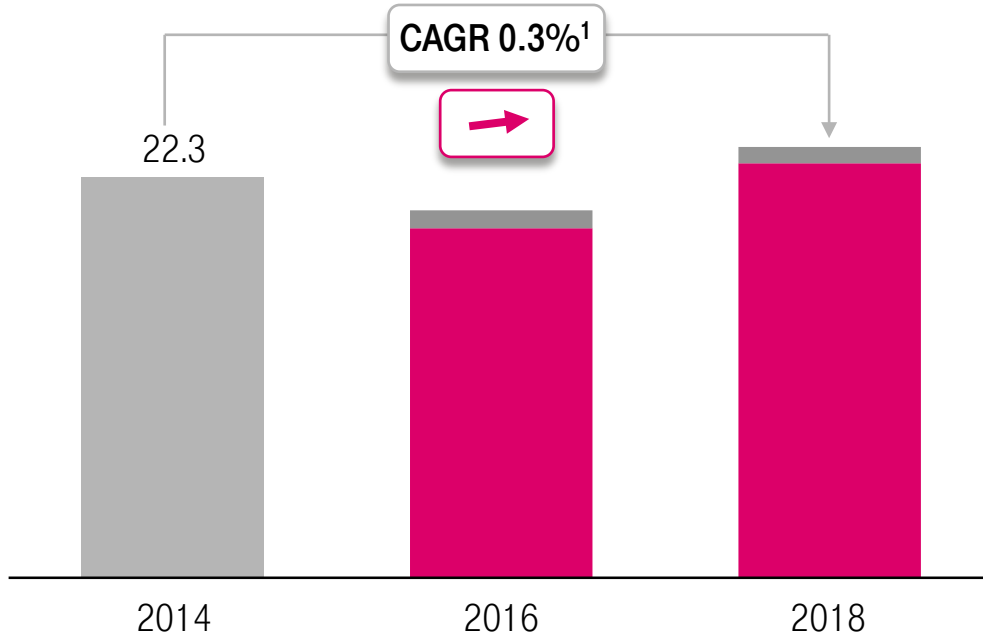
FINANCIAL OUTLOOK

REVENUE STABILIZATION YOY IN 2016

REVENUE DEVELOPMENT

€ bn

■ EU Roaming



¹ Without EU roaming impact

REVENUE DRIVER

1 Increased Mobile Service Revenues

growing contract customer base & multibrand portfolio

2 Stable Wholesale Wireline Revenues

driven by fiber access “Kontingentmodell” and high utilization

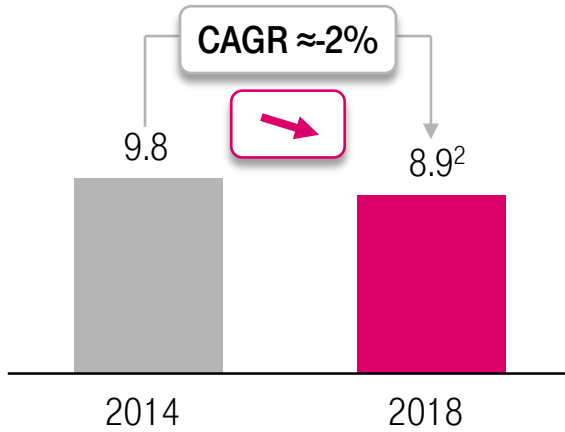
3 Growing IT-Revenues

driven by Mid-Market Initiative

FURTHER FOCUS ON COST REDUCTION THROUGH SIMPLICITY, EFFICIENCY AND TRANSFORMATION

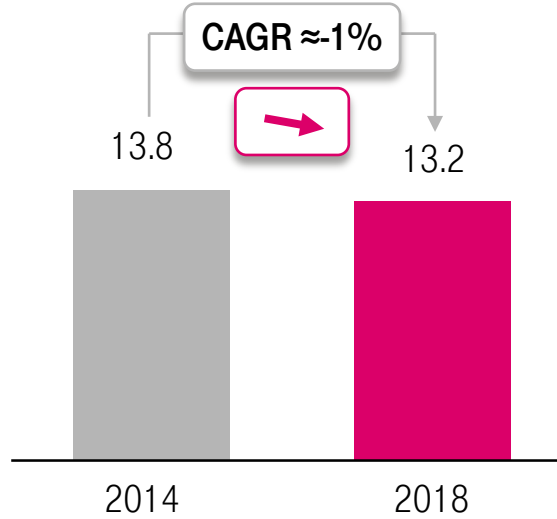
INDIRECT COST¹

€ bn



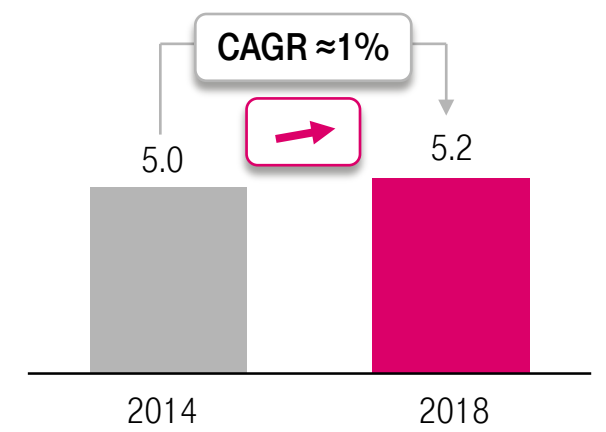
ADJ. OPEX

€ bn



DIRECT COST

€ bn



Main areas:

- Continuous right-sizing of overhead functions
- Generation of further productivity gains
- Keep driving for optimization of IT-cost

¹ Before capitalization of labor ² Reduction of €0.8bn due to rounding

LONG TERM IP & PROCESS TRANSFORMATION DRIVE OPEX SAVINGS OF €0.7 BN IN EARLY 2020'S

BENEFITS OF IP & PROCESS TRANSFORMATION



IMPROVED PROCESSES

- Zero Touch provisioning
- Plug & Play installation for customer
- Zero touch repair without assignment of technicians

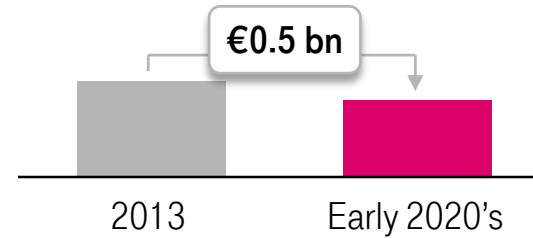


NEW IP PRODUCT & SERVICES

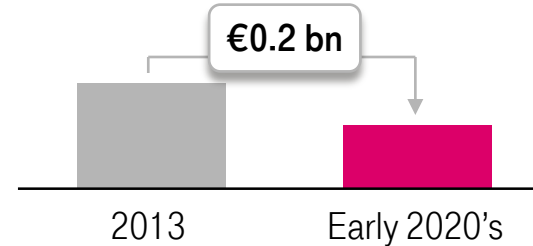
- Innovative product- & service portfolio
- Future-proof product concepts
- Accelerated time-to-market
- Lower development cost

MAIN OPEX SAVINGS¹

CUSTOMER AND TECHNICAL SERVICE



OPERATING PLATFORM COST²



€0.7 bn

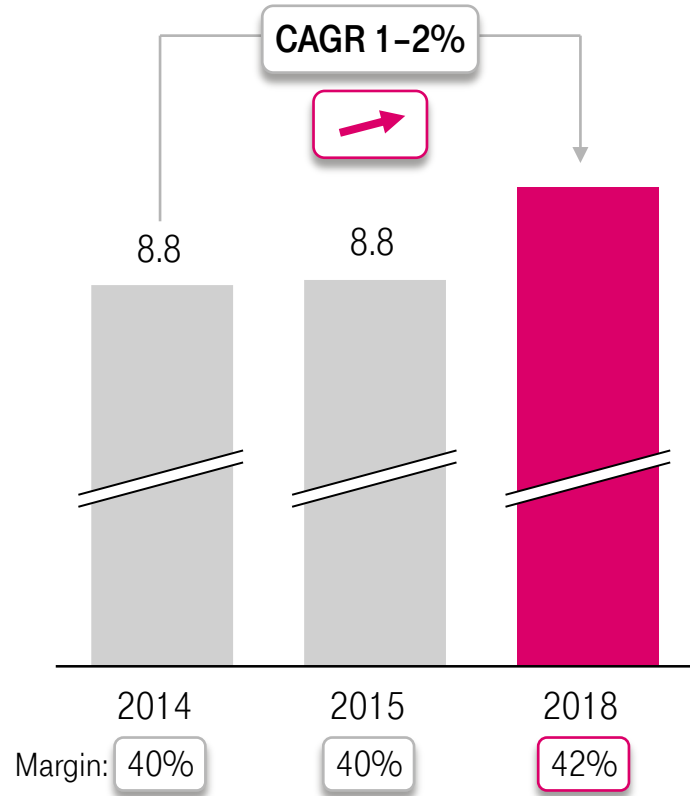
¹ 2013 = 100%; gross measure-related opex savings after accomplished transformation before any counter effects e.g. from personnel cost increases

² Measure-related energy, maintenance and personnel platform cost

WE FUND OUR INVESTMENTS THROUGH GROWING EBITDA

ADJ. EBITDA & EBITDA-MARGIN

€ bn

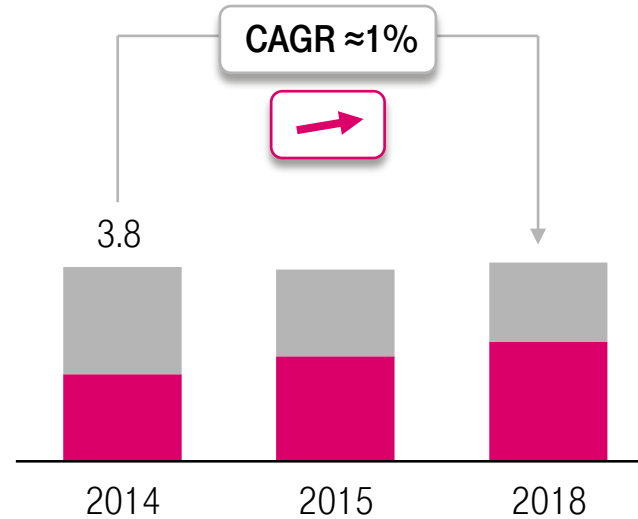


(CASH) CAPEX

€ bn

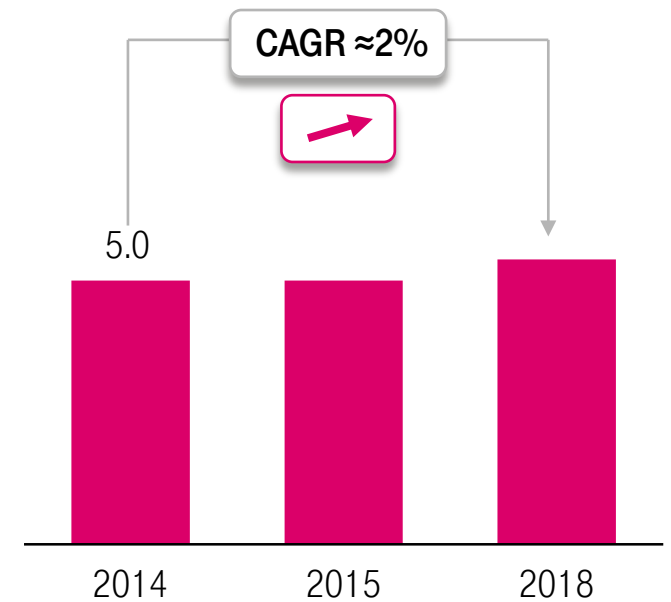
Basic

Key Projects



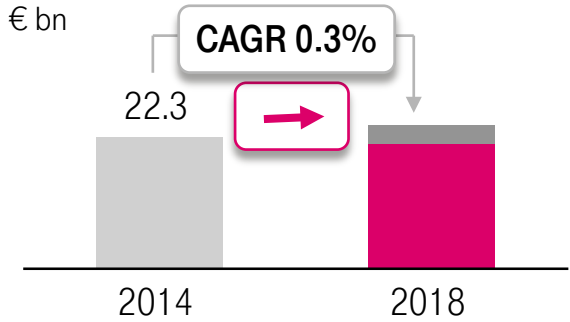
ADJ. CASH CONTRIBUTION

€ bn

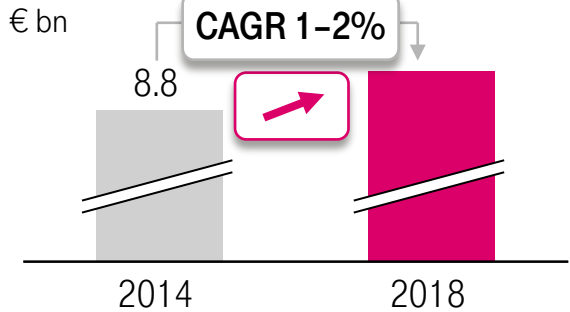


KEY LEVERS FOR STABLE ROCE

REVENUES¹

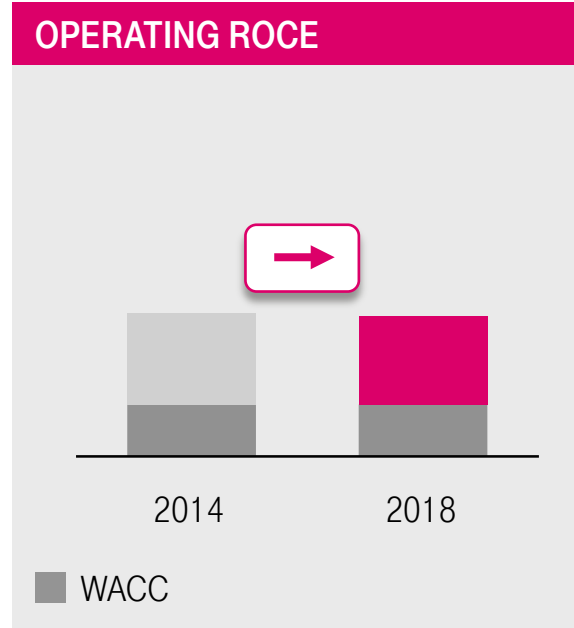


ADJ. EBITDA

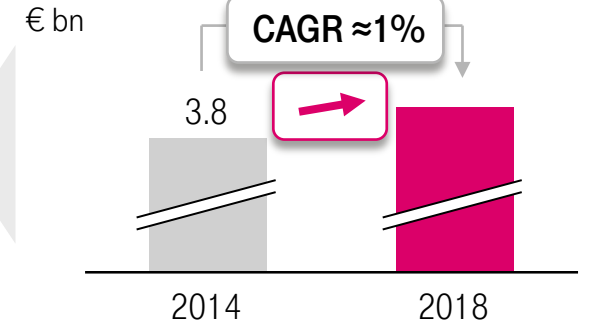


¹ Without EU roaming impact ² Restructuring

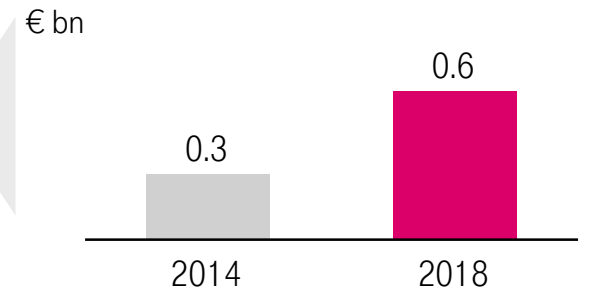
OPERATING ROCE



(CASH) CAPEX



SPECIAL FACTORS (EBITDA)²





MID TERM AMBITION LEVEL

MID TERM AMBITION LEVEL

	MID TERM AMBITION LEVEL	YEAR
MARKET	▪ # 1 in FMC with MagentaEINS: 3mn customers	2018
	▪ # 1 in mobile service revenue: CAGR $\approx 1\%$ ¹ /market share >36%	2018
	▪ # 1 broadband: CAGR $\approx 2\%$ /market share >40% ²	2018
QUALITY	▪ Customer loyalty index: ≈ 64 points	2018
FINANCIALS	▪ Adj. EBITDA margin: $\approx 42\%$	2018
	▪ Growing adj. EBITDA: CAGR 1–2%	2014–2018
	▪ Growing adj. cash contribution: CAGR $\approx 2\%$	2014–2018
	▪ Revenue stabilization	2016

¹ Without EU roaming impact ² Access market share in 2018