DEUTSCHE TELEKOM
CAPITAL MARKETS DAY 2015

Bonn, February 26/27, 2015

LIFE IS FOR SHARING.

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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.

COST AND PORTFOLIO TRANSFORMATION

Thomas Dannenfeldt, CFO

KEY MESSAGES: CLEAR FOCUS ON VALUE CREATION

1. We will increase cost flexibility and close 75% of our cost gap until 2018 by reducing indirect cost across all segments ex US by €1.8 bn
2. Thereby we are self-funding our investments into a superior production model which will deliver €1.2 bn of opex savings
3. Portfolio Management with ongoing focus on supporting strategy and value generation

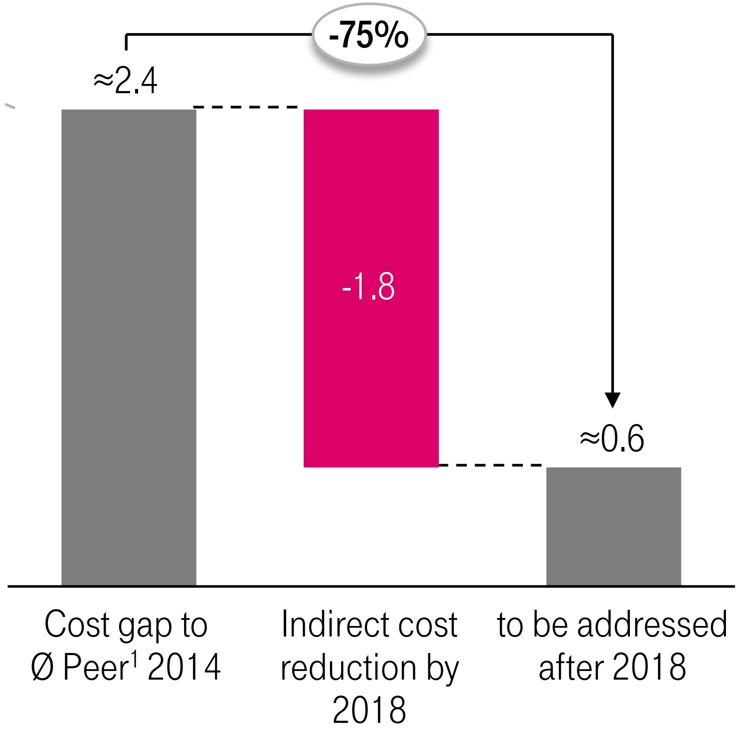
COST TRANSFORMATION

WE WILL CLOSE 75% OF THE CURRENT COST GAP BY 2018 BY REDUCING INDIRECT COSTS EX US BY €1.8 BILLION

COST GAP VERSUS PEER GROUP[1] (EX US)

€ bn

IT	≈€0.7 bn
Network	≈€0.4 bn
Sales & Marketing	≈€0.4 bn
Customer Management	≈€0.3 bn
Support & Overhead	≈€0.2 bn
Other	≈€0.4 bn

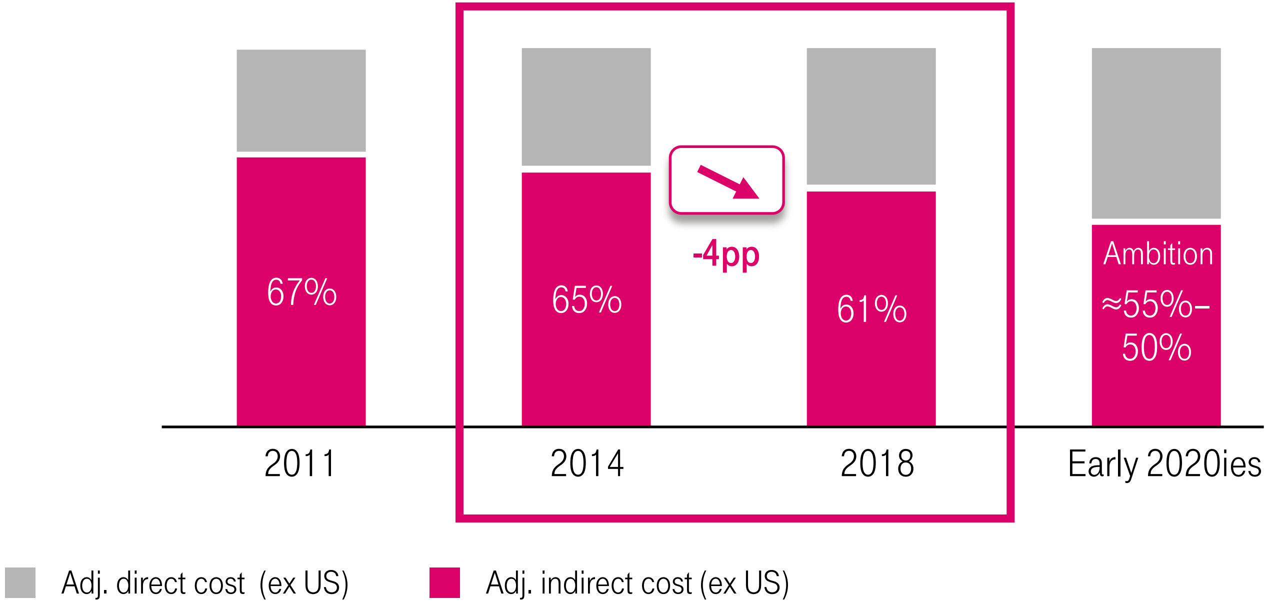


[1] Comparison of cost structures DT vs. peer group (=integrated European incumbents) based on reported information; management estimates

THEREBY WE WILL IMPROVE COST FLEXIBILITY

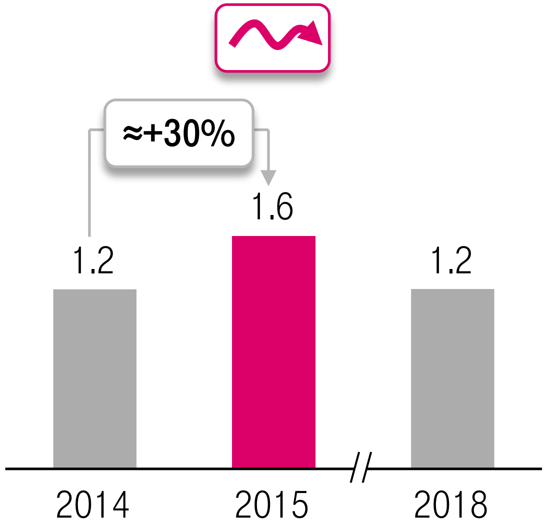
INCREASE OF FLEXIBILITY BY “VARIABILIZATION OF COST” (EX US)

Share of direct and indirect[1] cost



CASH PERSONNEL SPECIAL FACTORS (EX US)

€ bn



[1] Before capitalization of labor

WE WILL ACCELERATE EXISTING PROGRAMS AND ADDRESS NEW POTENTIALS TO CLOSE THE GAP

EXISTING PROGRAMS IMPACTING COSTS

TD 2018

One DT (Europe)

TSI 2015+

GHS

DBU Next

+

ADDITIONAL COST REDUCTION AREAS

- Reduce HQ and steering functions
- Optimize shared service centers
- Apply strict target costing approach

ALL SEGMENTS EX US WILL CONTRIBUTE

NET INDIRECT COST[1] SAVINGS PER SEGMENT (2014–2018)

GHS & Cons.

€-0.8 bn	€-0.4 bn	€-0.5 bn	€-0.1 bn

€-1.8 billion

EXAMPLES FOR COST REDUCTION UNTIL 2018

1. PERSONNEL EFFICIENCY — €-0.5 bn
2. SYNERGIES: MULTI SHARED SERVICE CENTER — €-0.2 bn
3. TEL-IT — €-0.4 bn[2]
4. ...

\+

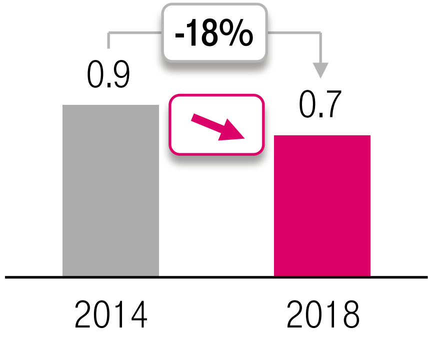
\+ APPLICATION OF SYSTEMATIC TARGET COSTING APPROACH

[1] Before capitalization of labor [2] IT spend consisting of Capex and Opex. Split approx. 50/50

EXAMPLES FOR PERSONNEL EFFICIENCY – WE CONTINOUSLY STRIVE FOR BETTER STRUCTURES

GERMANY (OVERHEAD)

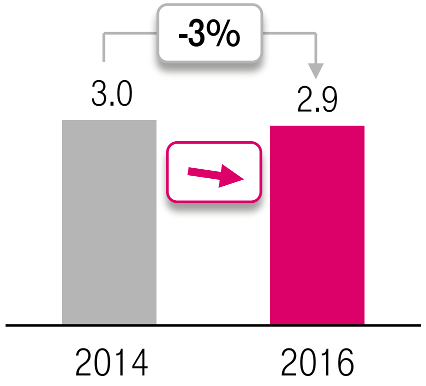
€ bn



≈€-160 mn

T-SYSTEMS MARKET UNIT (CORE TWC[1])

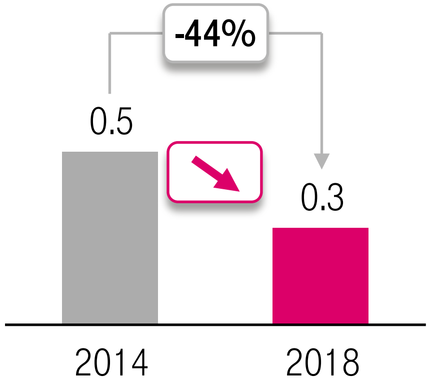
€ bn



≈€-100 mn

VIVENTO (EXTERNAL ADJ. OPEX)

€ bn

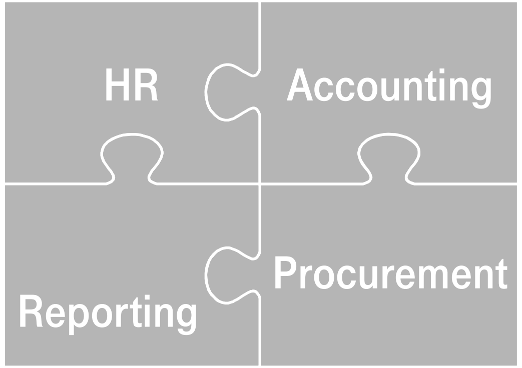


≈€-240 mn

[1] TWC with flat revenue assumption for MU Core

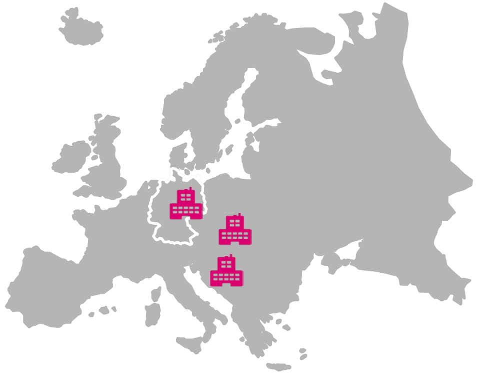
EXAMPLE MULTI SHARED SERVICES – SERVICES ACROSS EUROPE CENTRALIZED TO REALIZE SYNERGIES

CONSOLIDATE SERVICES



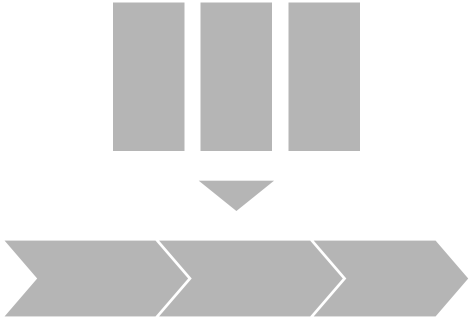
- Consolidation of existing functional services
- Establishing one multifunctional shared service unit

STRENGTHEN EU FOOTPRINT



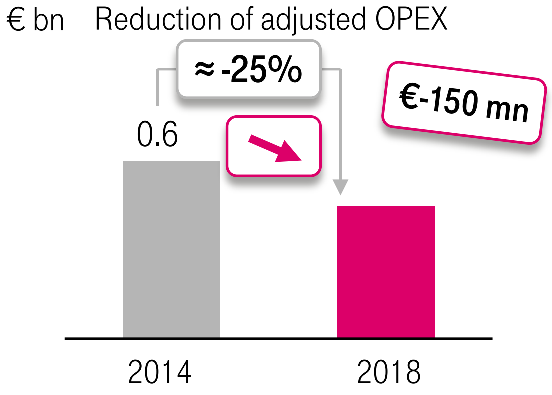
- Shift from local to European service delivery model
- Pooling of operations and expertise in service hubs

CHANGE TO E2E PROCESSES



- Changing from a functional to a process oriented organization
- Implementing internationally standardized end-to-end processes

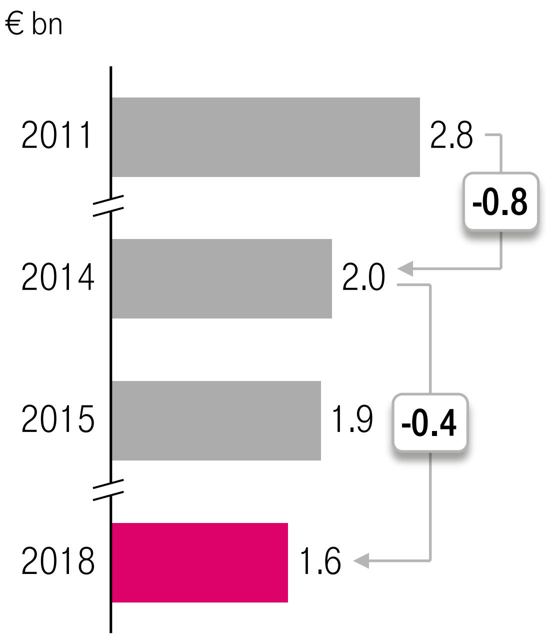
INCREASE COST EFFECTIVENESS



- OPEX will be reduced until 2020 by approx. 30%
- Cumulated savings 2015–2020 of €0.7 bn

EXAMPLE TEL-IT – FURTHER €0.4 BN IT SPEND REDUCTION

IT SPEND[1]



KEY LEVERS / IT SPEND REDUCTION

€ bn

		2011–2014	2014–2018
Volume	▪ IT project portfolio optimization – smart prioritization and design to cost ▪ IT Retirement: shutdown of legacy applications and IT landscape simplification	-0.4	-0.1
Efficiency	▪ IT process industrialization – simplification and automation of processes ▪ IT data center consolidation ▪ IT workplace standardization	-0.3	-0.2
Price	▪ European IT factory – grow production outside Germany ▪ Optimized sourcing – standardize interaction with suppliers	-0.1	-0.1
		∑ -0.8	€-400 mn[2]

[1] Capex and Opex. At the CMD 2012 2.7 billion IT Spend in scope for 2011 were communicated. In the meantime additional IT units had been transferred to Tel-IT. The historical/planned figures have therefore been adjusted accordingly

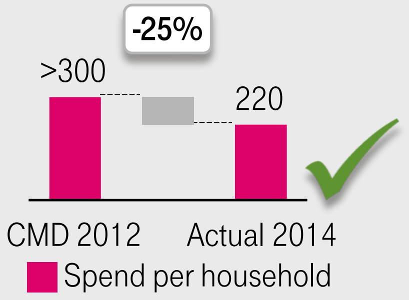
[2] Capex and Opex. Split approx. 50/50

ON TOP WE WILL APPLY A SYSTEMATIC TARGET COSTING APPROACH

EXAMPLES FOR SUCCESSFUL TARGET COSTING

FTTC/VECTORING ROLLOUT GER

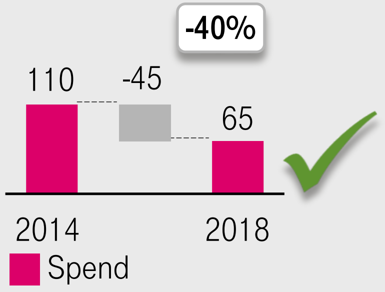
€



- Optimized usage of strategic outdoor locations and of existing fiber infrastructure
- Reduction of hardware costs

NGTV PLATFORM

€ mn



- Use standards instead of customized solution
- Utilize cloud infrastructure to reduce hardware
- Develop only features our customers value

UPCOMING PROJECTS, E.G.:

MOBILE GERMANY

Focus on direct cost, service and network & technology, representing €5 billion opex and D&A

- Optimize sales channels
- Moving to self service
- Increase architecture efficiency in network technology

CUSTOMER PROCESSES IN MT&OTE

All customer facing processes across Europe reflecting opex of around €1 billion

- Optimize horizontal and across Channels: Customer Service, Technical Service, Billing & Payment

WE HAVE PROVED THAT WE CAN EXECUTE

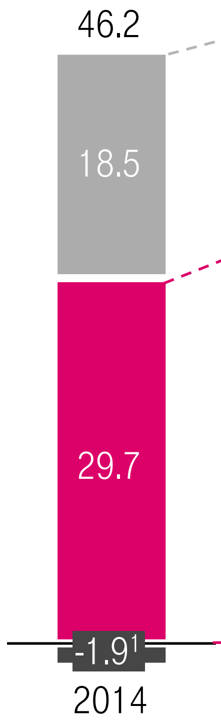
	AMBITION LEVEL 2015 VS. BASELINE 2012	ACHIEVEMENTS 2014	DELIVERED/ ON TRACK
GROUP	▪ Reduce indirect costs from 44% to 42% of revenues[1]	43%	
GERMANY	▪ Reduce indirect costs from €9.1 to 8.7 billion[1]	€8.8 billion	
EUROPE	▪ Reduce indirect costs from €4.7 to 4.4 billion[1]	€4.3 billion	
TELEKOM-IT	▪ Approx. € 1.0 billion IT-spend reduction (Opex and Capex) from €2.8 to 1.9 billion	IT spend at €2.0 billion	
GHS	▪ Reduce indirect costs by 4% p.a.	-4% CAGR achieved	

[1] Netted with capitalized labor

WE WILL CONTINUE TO DELIVER ON OPEX TRANSFORMATION

ADJ. OPEX 2014

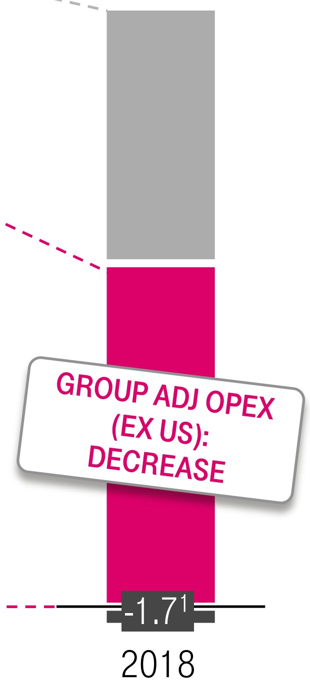
€ bn



TOTAL COST[2] VIEW 2014–2018

9.1	↗	CAGR[3] ≈ 4–5%	Total cost US CAGR ≈ 4%
9.4	↗	≈ 3–4%	
adj. direct cost 10.4	→	CAGR ≈ 1–2%	▪ Revenue growth drives direct costs ▪ New revenues come with lower margin
adj. indirect cost[2] 19.3	↘	€-1.8 bn	Indirect cost reduction across all segments ex US

MID TERM AMBITION



[1] Capitalization of labor [2] Before capitalization of labor

WE WILL BENEFIT FROM THE TRANSFORMATION TOWARDS A SUPERIOR PRODUCTION MODEL

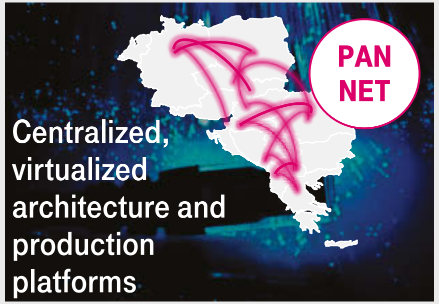
1 DIGITAL TRANSFORMATION OF CUSTOMER FACING PROCESSES

COST EFFICIENCY & SIMPLICITY

2 ALL-IP TRANSFORMATION

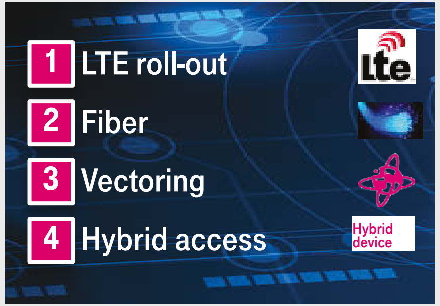
PLUG & PLAY

3 PAN-EUROPEAN NETWORK



TIME TO MARKET

4 INTEGRATED NETWORK STRATEGY



BEST CONNECTIVITY

Annual run rate adj. Opex savings:

≈€-1.2 bn[1]

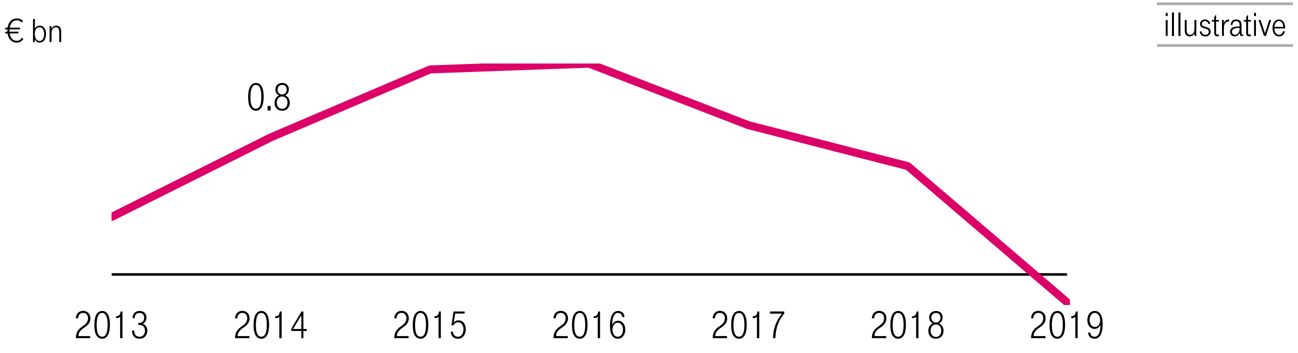
(steady state in early 2020ies)

[1] Gross Opex savings D/EU before any counter effects (e.g. personnel cost increases)

INDIRECT COST SAVINGS WILL FUND THE INVESTMENT FOR THE TRANSFORMATION

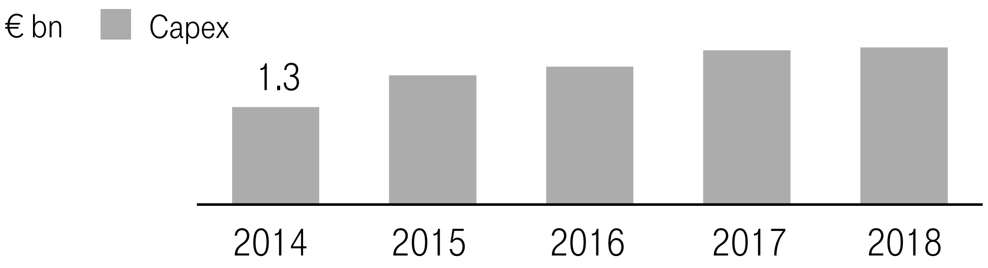
OPEX AND CAPEX: DIGITAL TRANSFORMATION, IP TRANSFORMATION, PAN-EUROPEAN NETWORK[1]

1 & 2 & 3



CAPEX: INS NETWORK

4



BENEFITS STEADY STATE FROM EARLY 2020IES

FIN. BENEFITS: ≈ €1.2 BILLION OPEX SAVINGS[2]

- 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

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

2 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).

PORTFOLIO TRANSFORMATION

WE HAVE A STRONG TRACK RECORD OF DELIVERING

1 GROW VALUE OF ASSETS

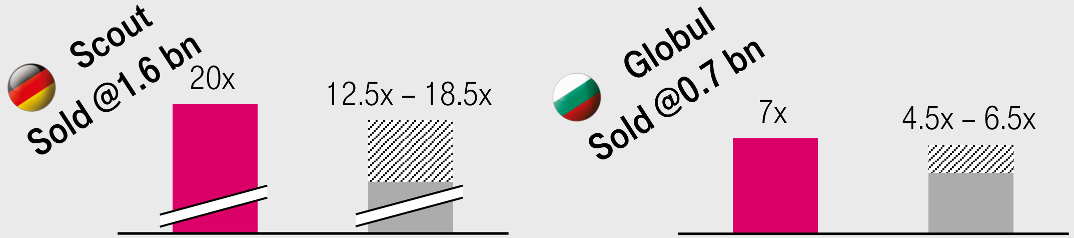
TM US

EV +$16 bn
since IPO

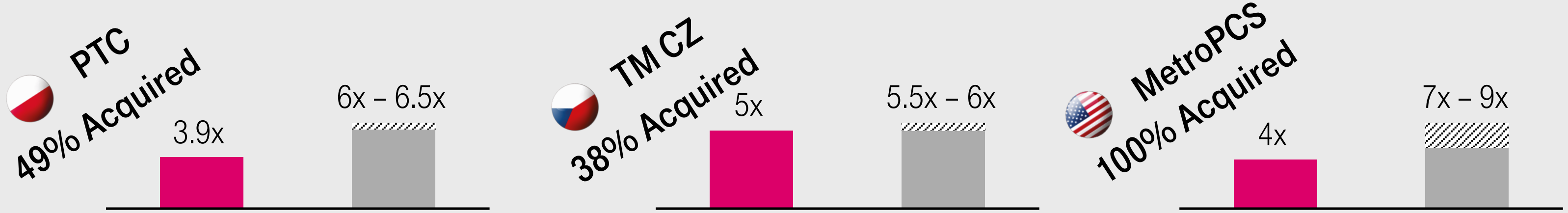
T-Mobile UK

+£3.9 bn
since JV start[1]

2 SALE OF NON CORE ASSETS



3 ACQUISITIONS



EBITDA Multiple of sale/acquisition
EBITDA Multiple of comparable transaction

[1] Reflects increase in Equity Value compared to Broker SOTP valuation prior to JV formation plus dividends received.

STRATEGY EXECUTION AND VALUE UPLIFT T-MOBILE US

DE-RISKING

- IPO through Metro Merger
- US$ 5.6 billion notes sold

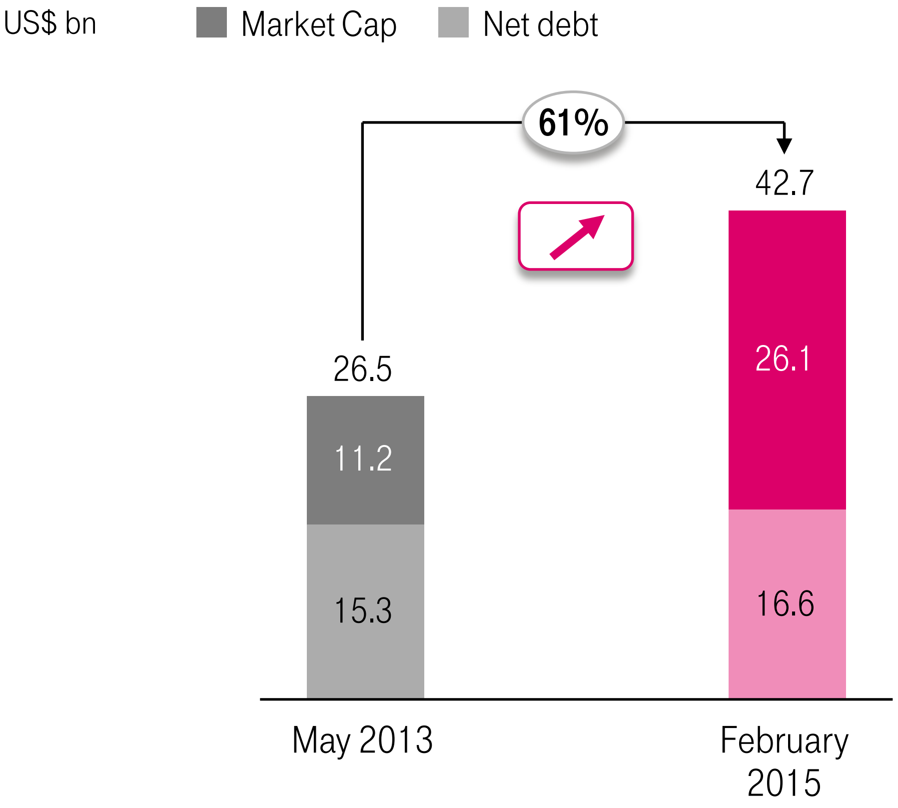
SELF FUNDING

- US$ 3.0 billion break-up fee AT&T
- US$ 2.5 billion tower sale
- US$ 5.5 billion bonds issued
- US$ 1.8 billion equity issue
- US$ 1.0 billion mandatory convertible

KING MAKER ASSET

- Enhanced spectrum position
  (AT&T break-up, Metro merger, swaps/purchase from Verizon)
- Scale increased via Metro merger
- Fastest growing US mobile operator

ENTERPRISE VALUE DEVELOPMENT TM US

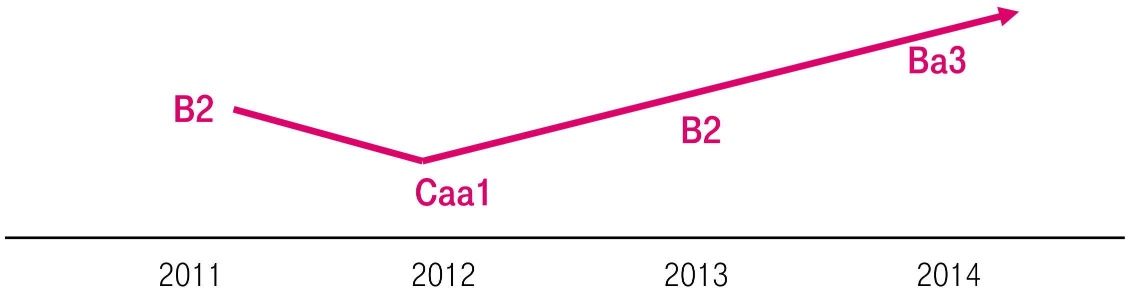


STRONG DE-RISKING STORY AT OTE

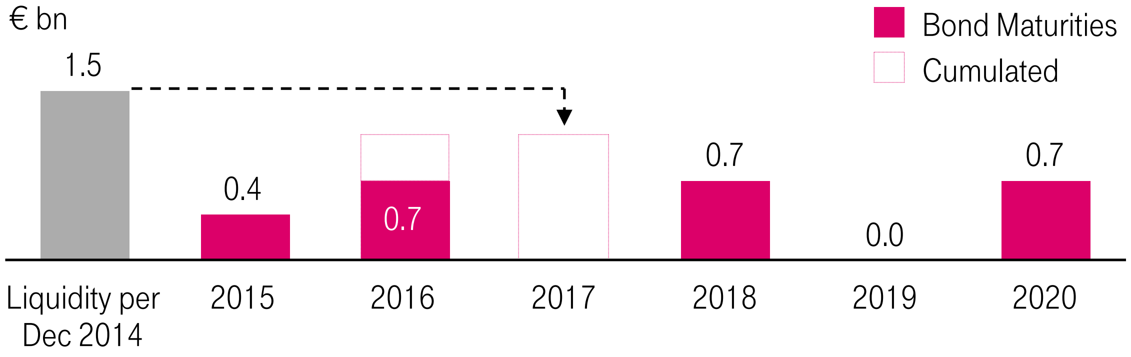
SUSTAINABLE DELEVERAGING

1. Sale of non-core assets amounting to €1.3 bn
   - Telekom Serbia €0.4 bn
   - Globul €0.7 bn
   - HellasSat €0.2 bn
2. Cash flow generation

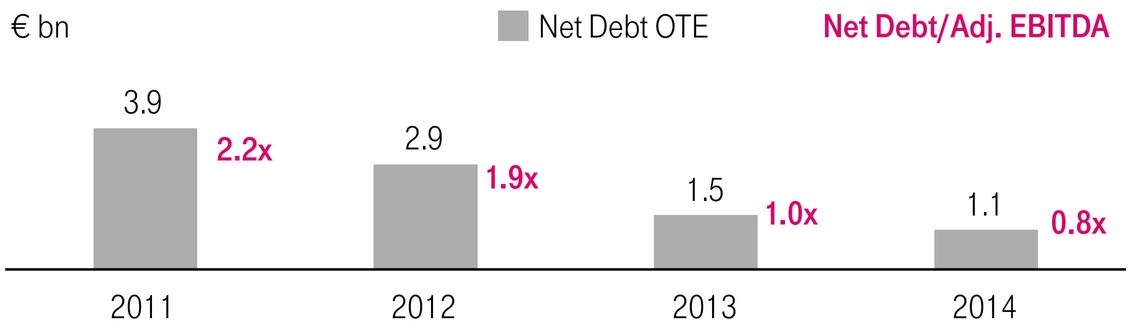
RATING IMPROVED BY 4 NOTCHES (@ MOODYS)[1]



MATURITIES OF THE NEXT 3 YEARS COVERED



LEVERAGE RATIO IMPROVED TO 0.8X



[1] Rating currently under "watch down"

SOLUTION FOR EE COVERS DT'S STRATEGIC GOALS

EVERYTHING EVERYWHERE JV

Merger of #3 and #4 UK MNOs

JV STRATEGY ACHIEVED ITS FULL POTENTIAL...

- Retained mobile revenue leadership
- Exceeded £3.5 bn NPV synergy target
- Reaching 25%+ adj. EBITDA margin
- Best network and spectrum position
- Strong brand awareness
- Fastest 4G roll-out, widest 4G coverage and fastest 4G speed across the UK

EE AND BT COMBINATION

Building a quad-play champion in the UK

... FOLLOWED BY BT/EE TRANSACTION THAT COVERS ALL OF DT'S STRATEGIC GOALS

- Mobile-only converted to leading integrated offering
- Best customer experience and best network
- Win with partners: Option to join forces with BT
- Lead in business
- Generation of shareholder value incl. synergy upside

OUR FUTURE ACTION WILL BE DISCIPLINED AND FOCUSED ON VALUE CREATION

M&A POLICY GOING FORWARD

1 Europe
- Selective and minor FMC/ICT acquisitions in our core integrated markets, but only for attractive multiples
- TMA and TMNL: mobile attacker strategy

2 US
- Un-carrier strategy
- Continue de-risking, self-funding, king maker asset

3 Other
- Further monetization of assets if more value can be crystallized outside group
- Smaller technology M&A to strengthen business and innovation capabilities
- Minority shareholders: Opportunistic approach, only if economically attractive

4 General policy
- No major acquisitions outside our footprint