



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.



EUROPE & TECHNOLOGY

Claudia Nemat, Board member for Europe and Technology

KEY MESSAGES









- 1 Leading European Telco: We are the first operator to move to a superior, pan-European all-IP production model, based on our TECHNOLOGY LEADERSHIP.
- 2 Creating BEST CUSTOMER EXPERIENCE with the differentiator “trust”, “best seamless connectivity”, “simple and personal”.
- 3 Making us more agile than our competitors, and resulting in a SUPERIOR FINANCIAL PERFORMANCE:
 - a. Radical indirect cost savings
 - b. Superior cash performance compared to peers
 - c. Increasing op. ROCE



REVIEW 2013–2014

STRONG COST SAVINGS AND TECHNOLOGY ACHIEVEMENTS

CASH NOT YET STABLE

		AMBITION LEVEL 2015 (FROM CMD 2012)	ACHIEVEMENTS 2014	DELIVERED / ON TRACK
FINANCIAL STABILITY IN EUROPE	OFCF ADJ.	Stable (€3.1 bn)	€2.9 bn	
	TOTAL REVENUE ¹	€14 bn	€13 bn ⁵	
	CUM. INDIRECT OPEX REDUCTION BY 2015 ²	€0.6 bn	€0.5 bn	
	OP. ROCE	further improving	11.1%	
TECHNOLOGY LEADERSHIP	ALL-IP TRANSFORMATION	<ul style="list-style-type: none"> All-IP migration in HR and MK In other countries All-IP migration launched 	<ul style="list-style-type: none"> MK 100%, SK 100%, HR 78% IP All-IP migration in all integrated NatCos on track 	
	TERASTREAM/BNG ³	<ul style="list-style-type: none"> TeraStream trial in HR by end 2012 BNG introduction in GR ongoing until 2015 	<ul style="list-style-type: none"> Successful TeraStream trial in HR BNG implemented, customer migration as planned 	
	HYBRID ACCESS/INS ⁴	<ul style="list-style-type: none"> Maximum bandwidth experience by bundling fixed & mobile data streams, launch in at least one country 2014 	<ul style="list-style-type: none"> Successful Hybrid Access pilot in ME in April 2014, others in preparation Leading in LTE rollout in several NatCos 	
	mWALLET	<ul style="list-style-type: none"> Mass market product by 2015 	<ul style="list-style-type: none"> mWallet launched in PL and in SK as mass market product 	

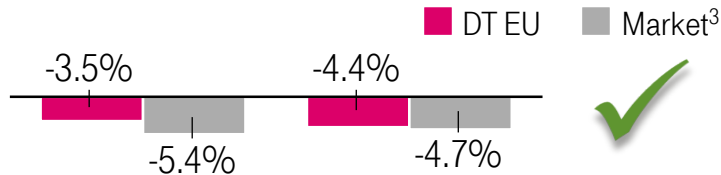
¹ Adjusted, organic revenue development only, based on assumptions regarding regulation (esp. MTR cuts), new entrants/spectrum auction, etc.; revenue transformation achieved ² Baseline 2012 ³ Broadband network gateway
⁴ Integrated network strategy ⁵ includes negative deconsolidation/acquisition net-effect of ≈0.1 bn€ (mainly Bulgaria and GTS) and negative FX effect of ≈0.1 bn€, negative regulatory effects were broadly in line with expectations

SUPERIOR CASH AND EBITDA PERFORMANCE COMPARED TO PEERS

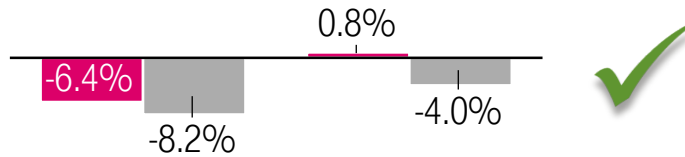
DT EUROPE PERFORMANCE VS. MARKET

YoY development

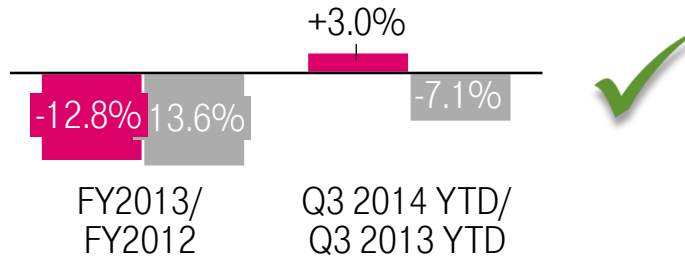
REVENUES¹



EBITDA¹ adj.

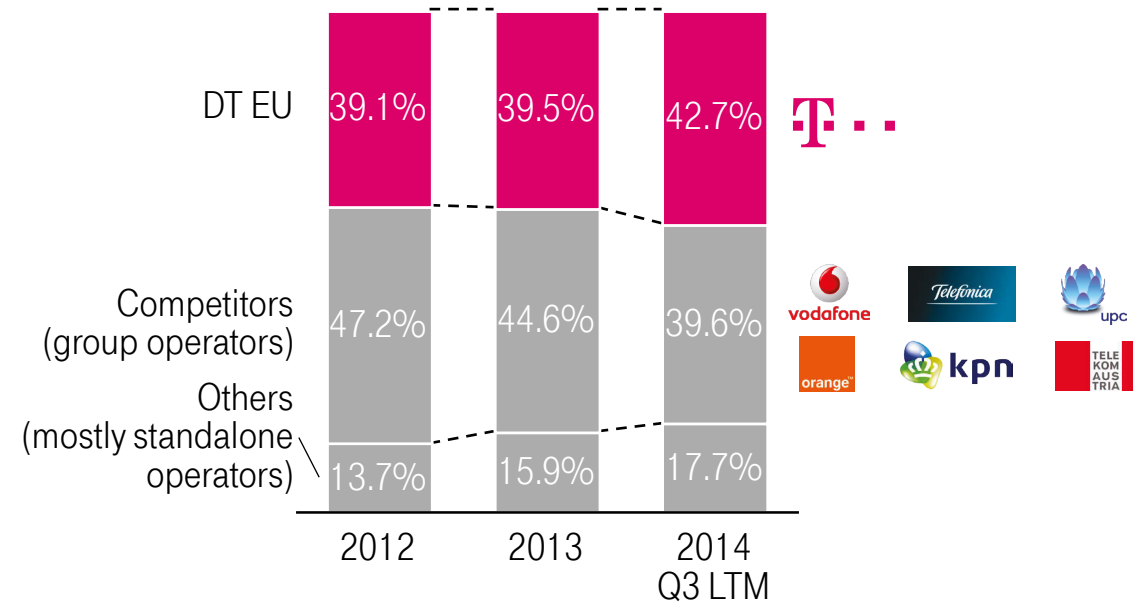


CASH CONTRIBUTION^{1,2}



CASH CONTRIBUTION² MARKET SHARE

Groups' Cash contribution² in DT Europe footprint, as share of total sum⁴



Source: DT analysis Notes: Competitor Cash Contribution not for all Companies available.

¹ Integrated fixed & mobile, incl. mobile only NatCos, w/o BG ² EBITDA minus cash capex ³ Market = (integrated (fixed/mobile) markets in GR, HU, HR, MK, SK, RO, ME, CZ, PL) + (mobile only markets in AL, NL, AT)

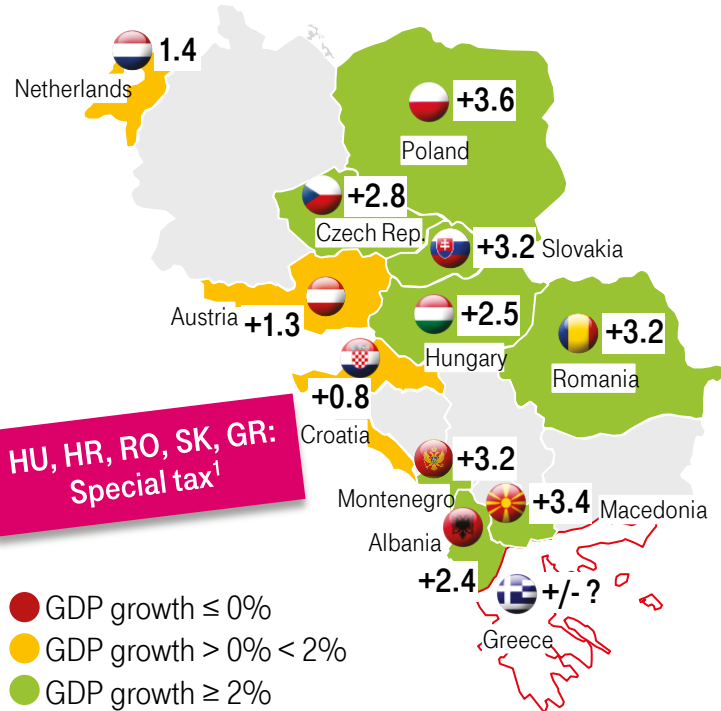
⁴ Numbers for: DT EU w/o AL, incl. mobile-only in PL, NL, AT; KPN = NL; Orange = SK, RO, PL; Vodafone = GR, RO, NL, CZ, HU; O2 = SK, CZ; Telekom Austria = HR, MK, AT; UPC = HU, SK, RO, CZ considered.



MARKET TRENDS

MARKET TRENDS IMPROVING SLOWLY

MACROECONOMIC DEVELOPMENT

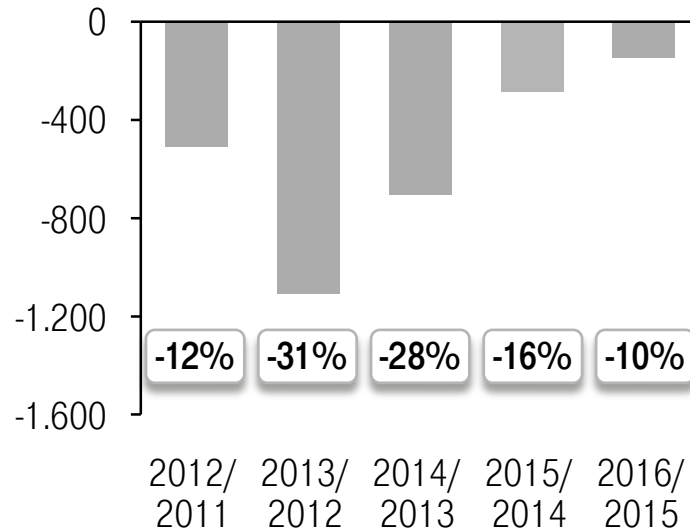


Source: Oxford Economics (January 2015)

¹ HU utility, usage taxes; RO infrastructure tax; SK levy on regulated industries; GR mobile taxation; HR increased annual spectrum fee

REGULATORY INTERVENTIONS

YoY market decline of interconnection revenues in € mn



Source: DT EU

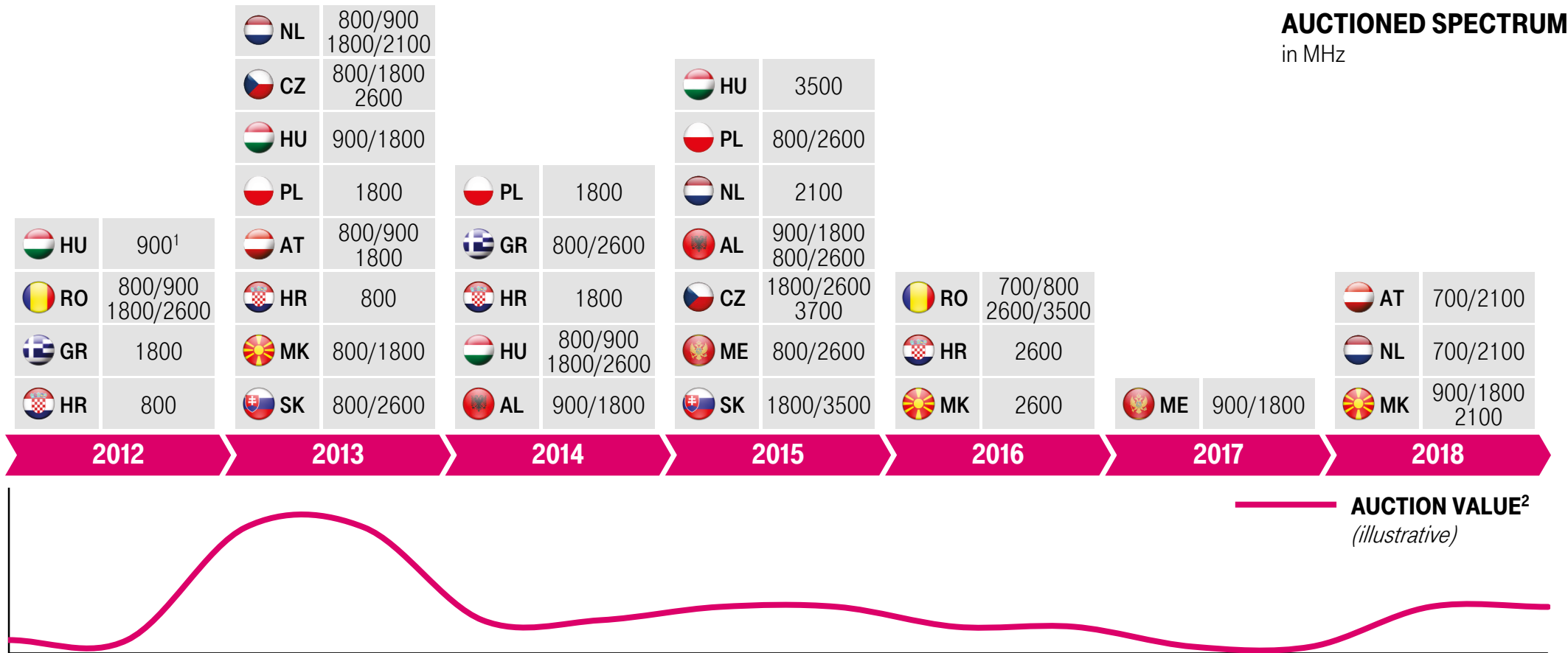
² Calculation based on 40 mobile operators in 2012 vs. estimated 42 operators in 2015, population 130mn in footprint

COMPETITIVE PRESSURE

Competition intensity increased:

- Number of inhabitants per operator: From 3.3 mn to 3.1 mn (2012 vs. 2015)²
- Still new entrants: **Digi/RCS&RDS** is aggressively penetrating mobile market in **Romania**, and won 1800 spectrum in **Hungary** (launch announced); **Swan** acquired 4G license in **Slovakia**

EXPECTED SPECTRUM INVESTMENT DECREASING



¹ Auction in Hungary was nullified later on ² Auctioned bandwidth weighted with GDP and population per country



STRATEGY 2015–2018

OUR STRATEGY: EUROPE



LEADING EUROPEAN TELCO

- INTEGRATED IP NETWORKS**
 - All-IP Transformation
 - Pan-European Network (PANNET)
 - Integrated Network Strategy (INS)
- BEST CUSTOMER EXPERIENCE**
 - Digitalization¹
 - Differentiators rollout:
 - Trust
 - Best seamless connectivity & products/services
 - Simple & personal with TV, FMC push
- WIN WITH PARTNERS**
 - Easy-to-Partner
- LEAD IN BUSINESS**
 - Revenue transformation
 - GTS integration

TRANSFORM PORTFOLIO

EVOLVE FINANCIAL TARGETS & EFFICIENCY

- Value Oriented Pricing
- Save to Invest (Indirect Cost containment)

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

Note: Each bullet reflects one program initiative. ¹ Digital transformation of customer facing processes

SUPERIOR PRODUCTION MODEL WITH 4 PROGRAMS



DIGITAL TRANSFORMATION OF CUSTOMER FACING PROCESSES

COST EFFICIENCY & SIMPLICITY



ALL-IP TRANSFORMATION



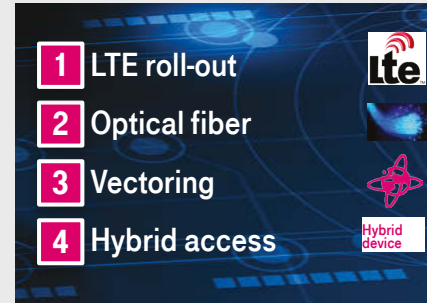
PLUG & PLAY

PAN-EUROPEAN NETWORK



TIME TO MARKET

INTEGRATED NETWORK STRATEGY



BEST CONNECTIVITY

Holistic approach

INTEGRATED NETWORK STRATEGY EUROPE

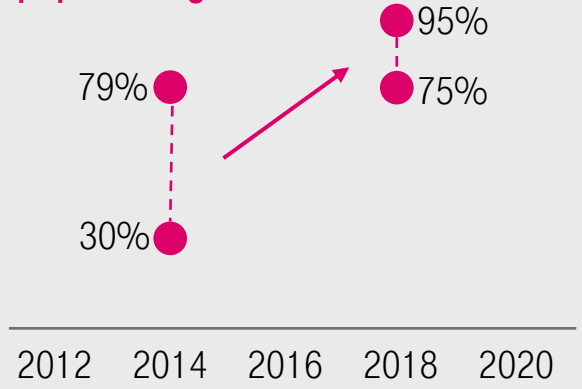


1 LTE ROLLOUT

Ambitions 2018:

- 75 – 95% LTE pop coverage¹ with up to 300 Mbit/s

LTE pop coverage¹

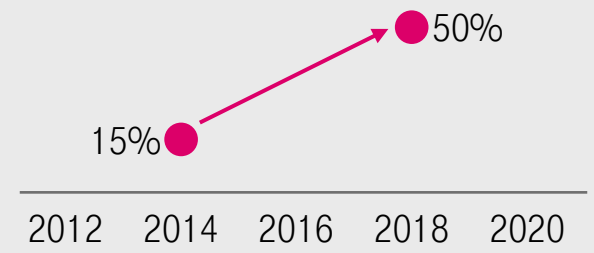


2 FIBER² ROLLOUT

Ambitions 2018:

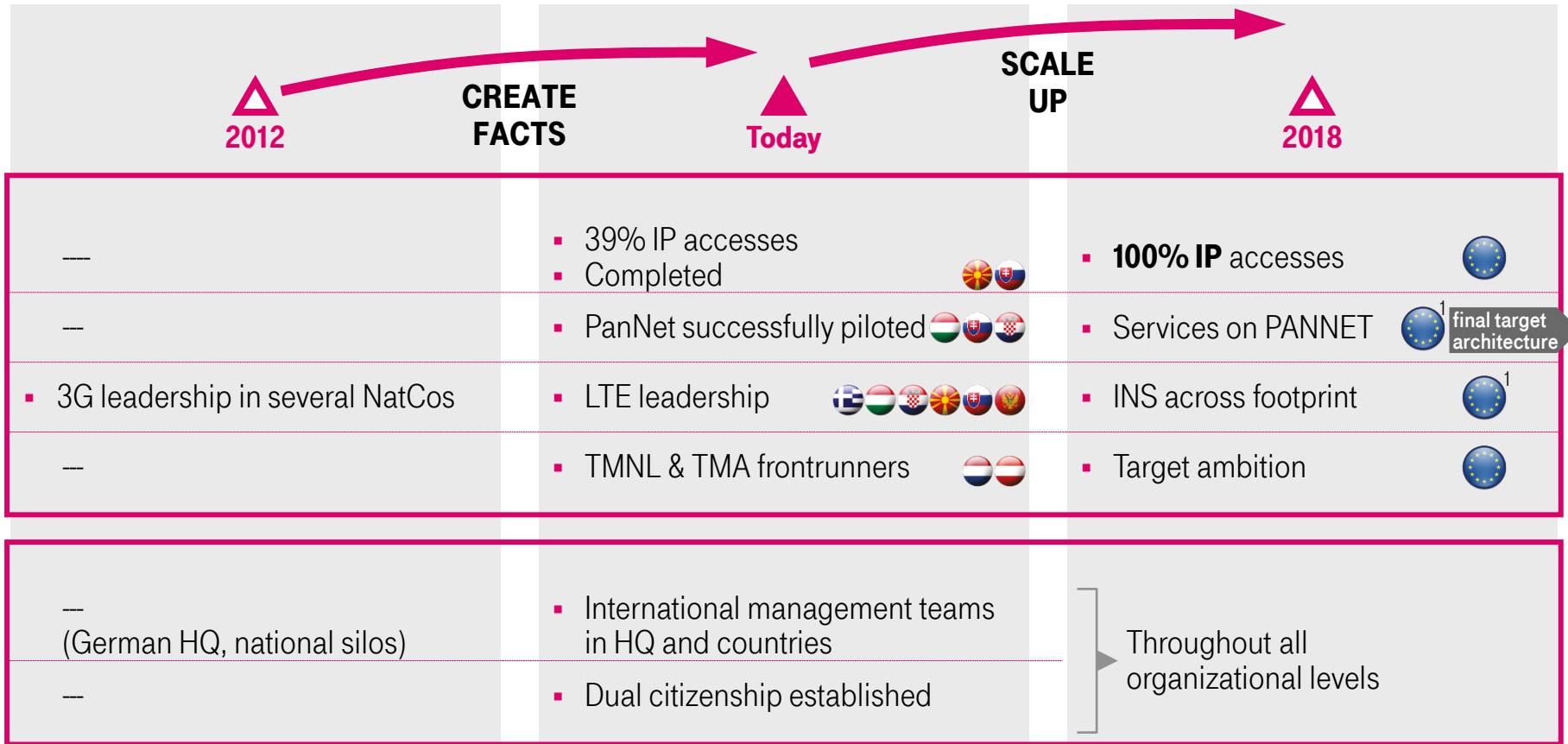
- ≈50% of households³ with at least 100 Mbit/s
- ≈12% of households³ with up to 500 Mbit/s (FTTH, FTTB, FTTC, cable/ED3⁴)

Household coverage³ 100 Mbit/s



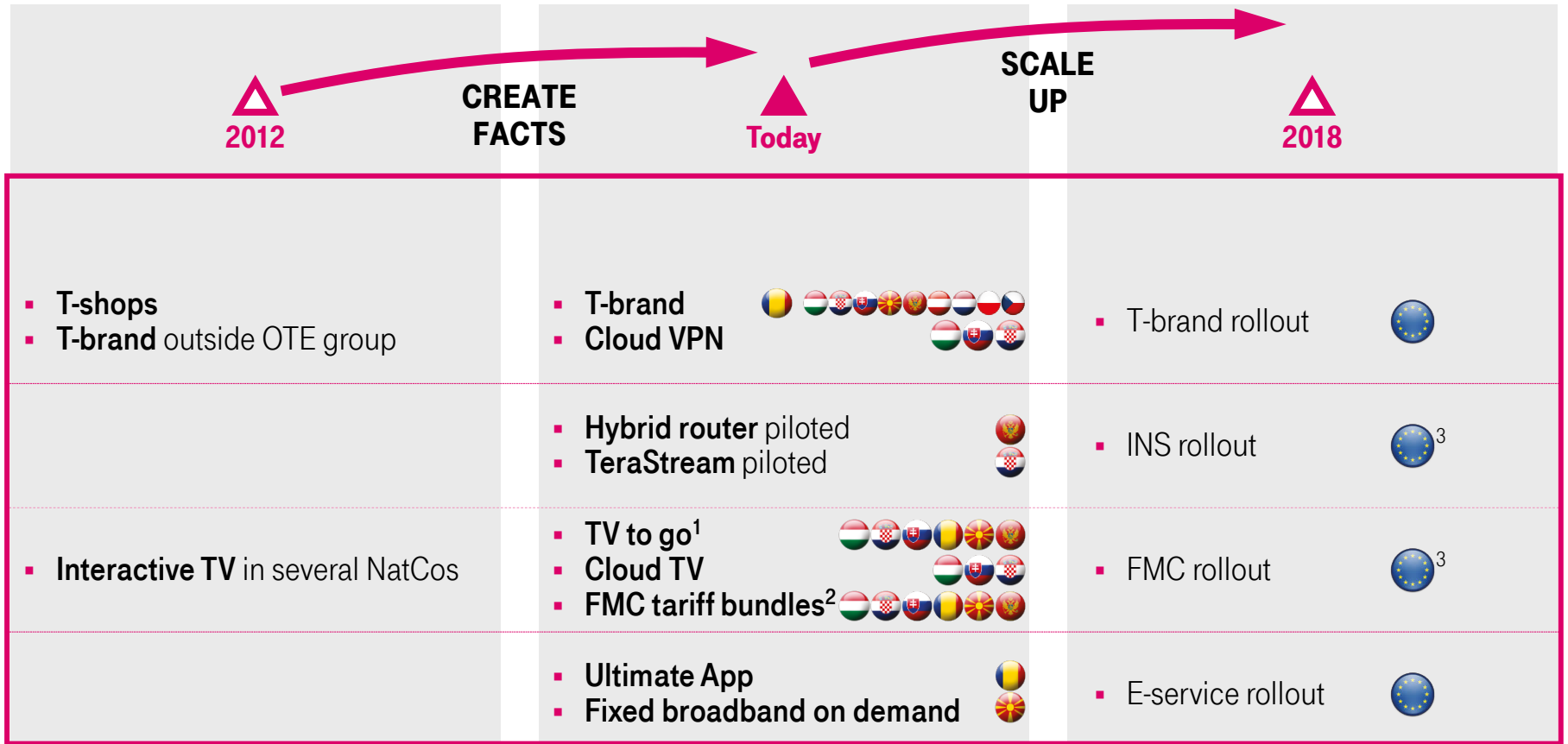
¹ outdoor coverage ² FTTx ³ In integrated footprint ⁴ Cable with Euro-DOCSIS 3

PRODUCTION MODEL AND LEADERSHIP PARADIGM EVOLUTION



¹ Without TMNL & TMA

CUSTOMER EXPERIENCE DIFFERENTIATORS EVOLUTION









¹ TV to go scheduled to be launched in Greece in 2015 ² Greece: Regulatory approval pending ³ Without TMNL & TMA

DIGITALIZATION OF CUSTOMER EXPERIENCE



KEY ELEMENTS E-TRANSFORMATION

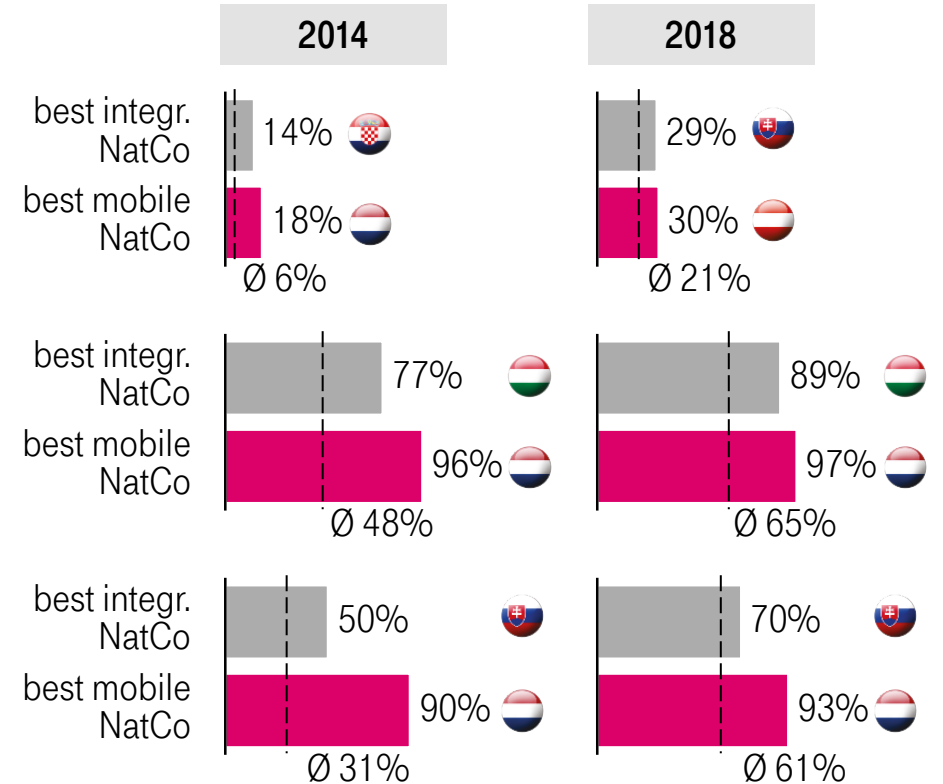
-  Customer self service capabilities
-  Social media
-  Personalized interaction
-  Selective involvement of human assistance
-  Contact steering
-  Process automation

E-SALES share

SELF-SERVICE share

E-BILL share

STEERING KPIs



Note: Averages un-weighted across 12 NatCos

DIFFERENTIATION : CUSTOMER EXPERIENCE AT DT



SELECTED PRODUCT EXAMPLES

Macedonia: FIXED BROADBAND ON DEMAND



- Instant broadband activation
- Seamless self-service

▪ **Simple & personal**

Croatia: TERASTREAM



- Secure and high-speed transfer of data
- Best connectivity, 1GB data transmitted in 7 sec.

▪ **Trust**
▪ **Best seamless...**
– **Connectivity**

Hungary: TV EXPERIENCE (TV to go/Cloud TV)



- Seamless TV experience across all screens
- Recommendation engine, developed in TV shared service center Hungary

▪ **Best seamless...**
– **Products/services**

Romania: ULTIMATE APP



- Management of all fixed and mobile services in one single App

▪ **Simple & personal**

TV: KEY DIFFERENTIATOR FOR FMC IN DT EUROPE



OUR DIFFERENTIATED PROPOSITION...

TV & video at the **core** of our marketing & sales approach...



Az első 100 megrendelőnek!

AJÁNDÉK PÁROS MOZIJEGY

CSAK ONLINE

Új otthoni TV, internet, vagy telefonszolgáltatás online megrendelése esetén 2015. január 28. és február 10. között.

Részletek



... with superior experience, live and on demand, across all screens...



MAI MULTE EXPERIENȚE PE TOATE ECRANELE CU PACHETUL ALL INCLUSIVE FIX-MOBIL

- nelimitat minute internaționale către fix
- nelimitat internet mobil și fix
- nelimitat apeluri către fix
- nelimitat acces în aplicația Telekom TV

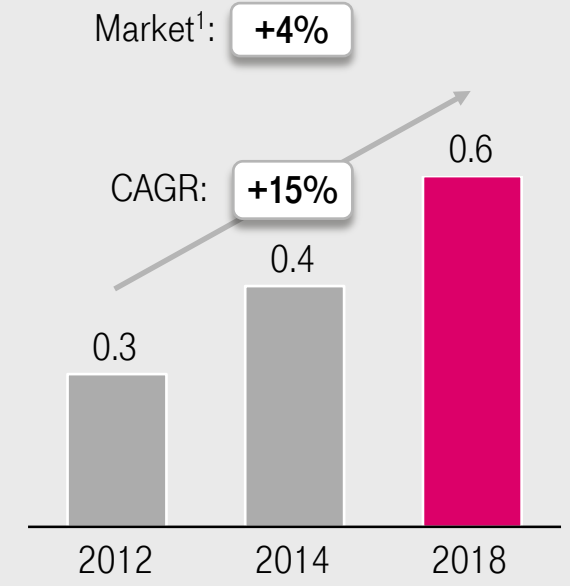
Vezi oferta

... based on unique **local & int'l** content partners & partially own channels .



... RESULTING IN GROWTH ABOVE MARKET

Pay-TV revenues, in € bn, stable FX



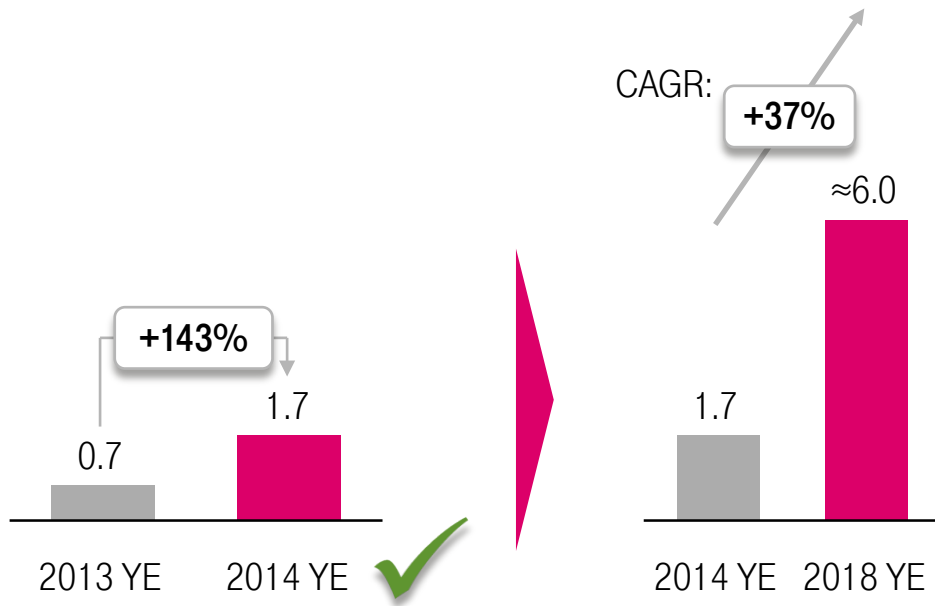
¹ Integrated NatCos, GR, HU, HR, RO, SK, ME, MK

EASY-2-PARTNER: ENHANCING CUSTOMER EXPERIENCE



“EASY-TO-PARTNER” SUBSCRIBERS DEVELOPMENT¹

Subscribers on partner products,
in mn



LEADING PARTNERS TO DIFFERENTIATE CORE PRODUCTS

- Trust**
 - Norton
 - AE
 - CYAN MOBILE SECURITY
 - Lookout
- Best seamless...
- Connectivity &
- Products/services**
 - fon
 - NETFLIX
 - DEEZER
 - Spotify
- Simple & personal**
 - EVERNOTE
 - QIVICON
 - magisto

- Exclusive/innovative services
- ARPU uplift potential

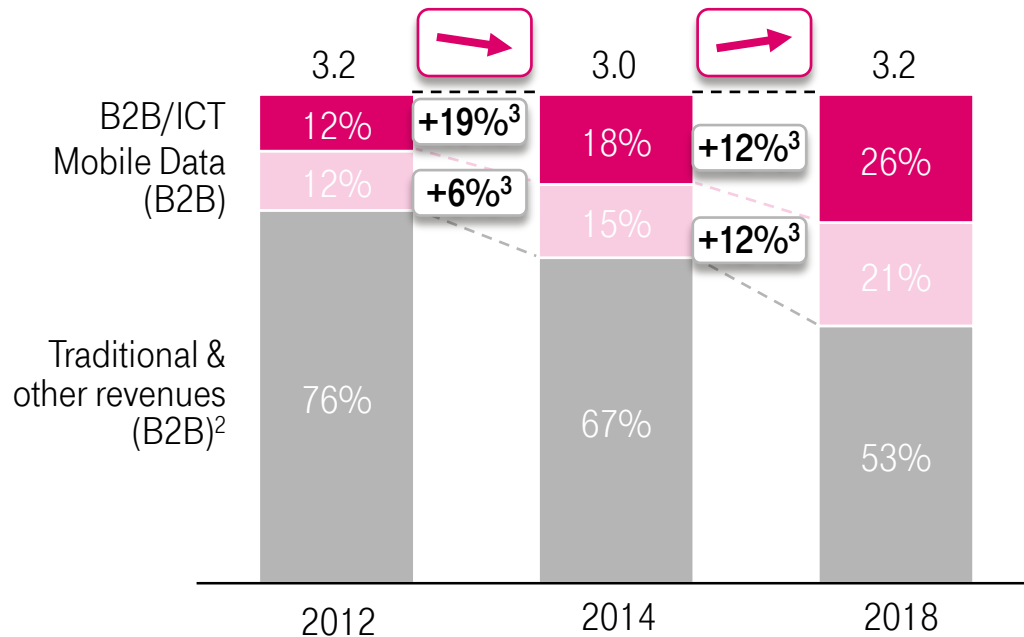
¹ Only partners considered that are rolled out in at least four NatCos and with significant impact (including search fields, music, security); key local partners (e.g. SKY) not included; Evernote reported from Q2/2014 onwards

B2B REVENUE TRANSFORMATION



B2B REVENUE TRANSFORMATION

B2B revenues¹,
in € bn



¹ 2013 B2B revenues: € 3.0bn; 2012 & 2013 w/o GTS, 2014 GTS incl. for 7 month, 2018 GTS incl. 12 month ² Traditional: mobile & fixed non-data revenues ³ CAGR

B2B BUSINESS TRANSFORMATION & ACHIEVEMENTS

- B2B organizations everywhere (2012)
- New service portfolio (from 2014 onwards)
 - Integration of GTS
 - Cloud VPN, M2M best-coverage
- Innovative partnerships (Business Wall of Fame, cooperation CISCO)
- Selected deals won:
 - Cloud based eServices for public administration (Slovakia)
 - National Traffic Information System (Slovakia),
 - Outsourcing of TC services for RWE (Czech Republic)
 - Healthcare E-prescription solution & services (Greece)
 - Smart meter pilot (Albania)

GTS INTEGRATION ON TRACK



GTS INTEGRATION ACHIEVEMENTS SO FAR

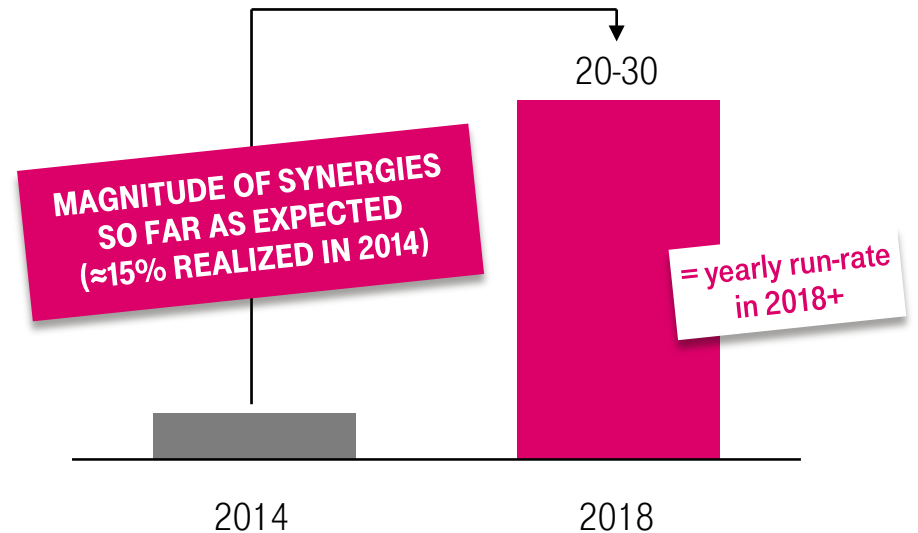
- **EC anti-trust** clearance without remedies
- Operational integration completed 4 months after closing:
 - Fully integrated teams with **single management** (40% of management roles with GTS background)
 - Key people retained (**retention** program with stable 2.4% YoY overall attrition)
 - **Business continuity** ensured, quick wins realized (e.g. procurement, network coverage)
- Joint go-to-market approach and integrated service portfolio:
 - **Customers retained** w/o any single extraordinary cancellation
 - **New customers**/cross- and upsell-deals jointly won

GOING FORWARD:

- Integrated offerings in B2B in Poland & Czech Republic
- Transformation program towards best customer experience

SYNERGIES IMPACT OF GTS

Cash impact of synergies from GTS integration, Impact in Poland, Czech Republic, and on international carrier services, in € mn





SPECIAL TOPICS



focus on value oriented pricing

STRATEGIC PRIORITIES

▪ **FAST TRANSFORMATION TOWARDS E-COMPANY**

- Rigorous cost containment
- High degree of online experience
- “Simple” customer experience

▪ **EMPHASIS ON PARTNERING**

▪ **BRAND REPOSITIONING WITH FOCUS ON CARE-IER¹ PLUS INNOVATIONS**

▪ **MOBILE BROADBAND ON PAR WITH MARKET LEADERS**

ACHIEVEMENTS BY 2014

- 20% Opex reduction 2014 vs. 2013 (TMNL)
- 18% e-sales, 96% self-service, 90% e-bill share (TMNL)
- Example “T-Mobile Forum” (social media platform; TMNL): >210k members, plus 5k per week; 65% of all questions answered by other members, preventing over 500.000 calls per year

Various new partnerships launched in last 15 months, e.g., Evernote, Magisto, Wunderlist, Booking, Dropbox, Lookout, Twitter (TMNL)

“How-I-Want” principle introduced with “JUHU” proposition (TMA)

70% of customer base with LTE coverage, 50% higher 4G speed than competition in key urban areas, e.g. in Amsterdam, Randstad (TMNL)

¹ CARE-ier vs. Un-CARRIER approach as of TMUS

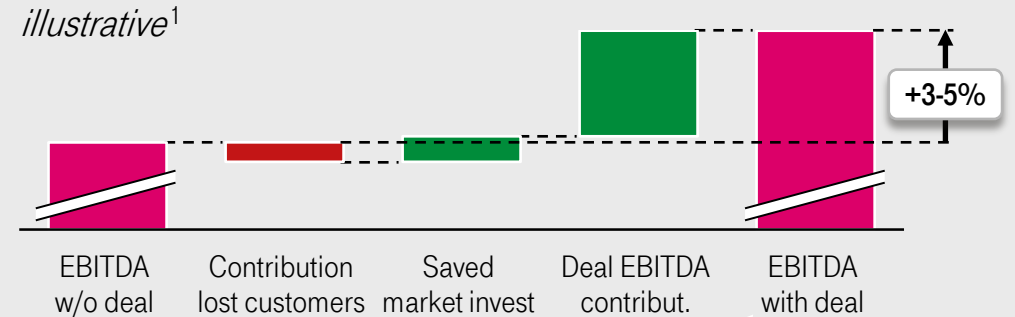


STRICT RULES ON WHOLESALE DEALS

EU WHOLESALE/MVNO APPROACH:

- MVNO business is done **CASE-BY-CASE & COUNTRY-BY-COUNTRY**; a **CENTRAL DECISION TEAM** ensures consistency
- We design wholesale contracts that make our **RETAIL DIFFERENTIATION** possible and ensure that **OUR DEALS DO NOT HAVE A NEGATIVE EFFECT ON MARKET VALUE**
 - Unit based-pricing, no flat rates
 - Monetize network quality
 - Distinguish between **EXISTING MVNOS & NEW ENTRANTS**
- We act within **REGULATORY BOUNDARIES** that determine some MVNO markets

EBITDA IMPACT OF WHOLESALE/MVNO DEAL



Plus: Upsides of further deals with partner

- **Reach additional customers**, by targeting segments with minimum overlap
- **Leverage partners' assets**, e.g. brand, sales channel
- **Share** the burden of **network build-out**

¹ Impact illustration based on real case assessment of one of our NatCos, 1st year view



FINANCIAL OUTLOOK

MANAGE FOR VALUE NOT FOR VOLUME

POSITIONING

DT as first choice in the market:

- Technology leader
- Creating best customer experience
 - Trust
 - Best seamless connectivity & products/services
 - Simple & personal

STEERING LOGIC

VALUE ORIENTED PRICING

IN THE PAST

- Net adds
- Revenue market shares

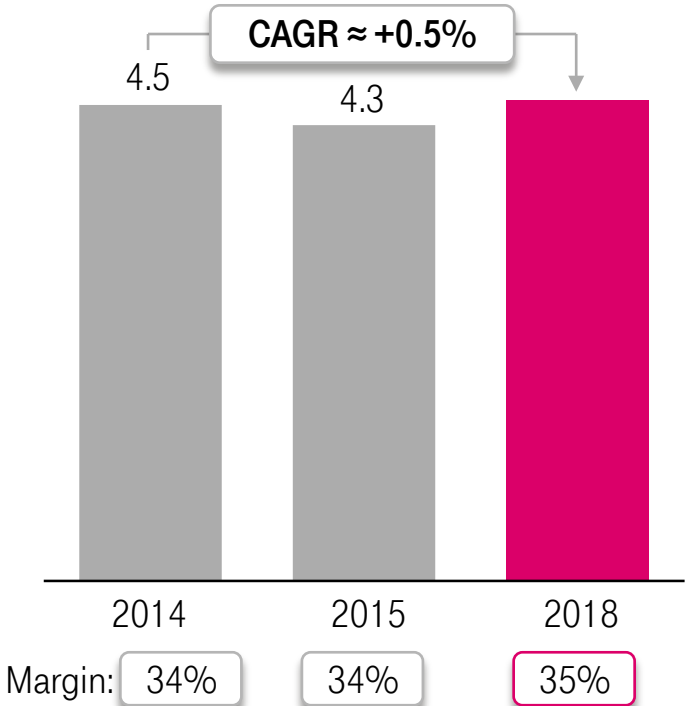
TODAY & IN THE FUTURE

- Net margin
- Absolute (service) revenue growth
- Absolute ARPU

TECHNOLOGY LEADERSHIP: INVESTMENTS NECESSARY

ADJ. EBITDA & EBITDA-MARGIN

€ bn, like for like¹

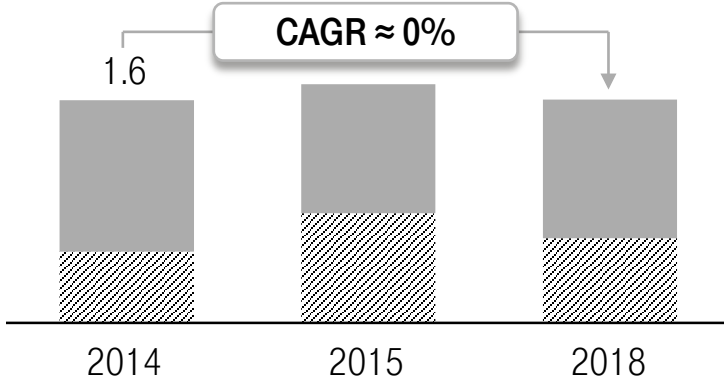


¹ stable FX, for comparability 2014 figures assumed with 12 months GTS

CASH CAPEX

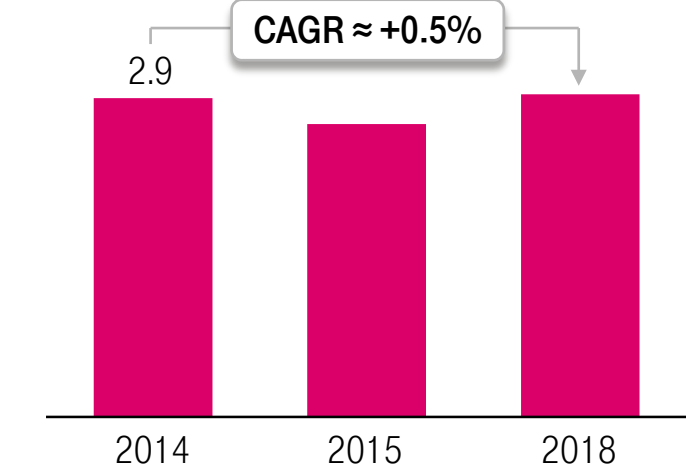
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Basic Transformation



ADJ. CASH CONTRIBUTION

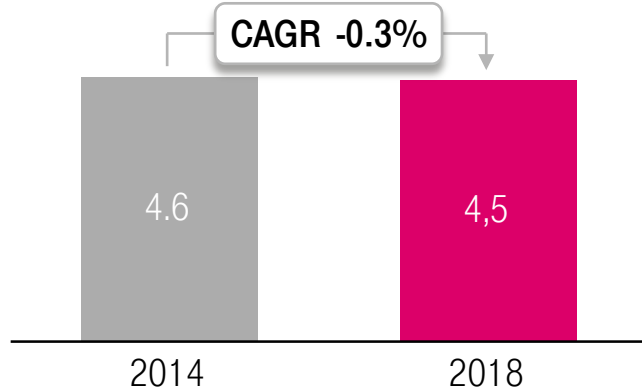
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CONTINUATION OF COST TRANSFORMATION

STABLE ADJ. DIRECT COST

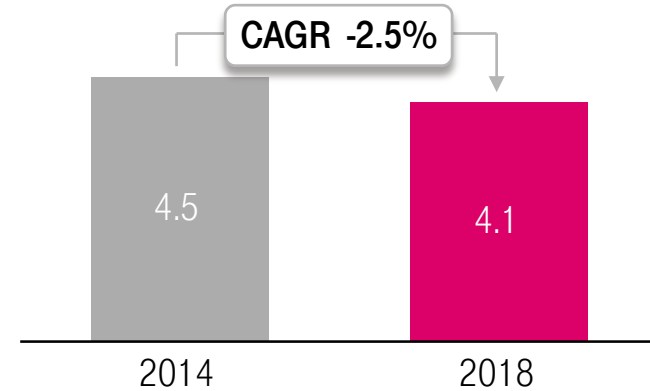
€ bn, like for like²



- **Interconnection costs** will steadily decrease in the next years, partly because of regulatory impacts but Direct costs related to growth business will compensate decline in interconnection costs
- Slight reduction in **Market Invest** due to **cash efficiency program** roll-out in most NatCo's in 2014 with focus on increasing value added through all segments and channels

RADICAL REDUCTION OF ADJ. INDIRECT COST¹

€ bn, like for like²



- **Total workforce** costs optimization e.g. via several successful Voluntary Exit Schemes and Outsourcing
- **eTransformation** by further automation of services & products .
- **G&A cost reduction**, e.g., via shared service centers (HR and TV)
- **IT transformation** (One ERP, One Billing etc.)
- **Technical service transformation** to achieve operational excellence

¹ before capitalization of labor ² stable FX, for comparability 2014 figures assumed with 12 months GTS

LONG TERM TRANSFORMATION DRIVE OPEX SAVINGS OF €0.5 BN IN EARLY 2020'S

BENEFITS OF IP & PROCESS TRANSFORMATION



IMPROVED PROCESSES

- Disruptive digital customer experience
- End-to-end process optimization

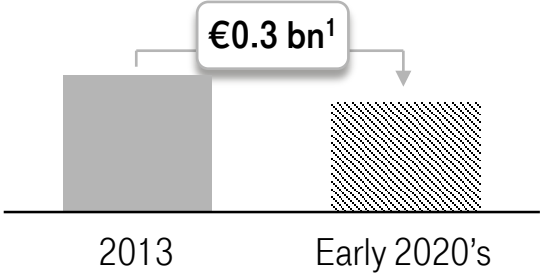


NEW IP PRODUCT & SERVICES

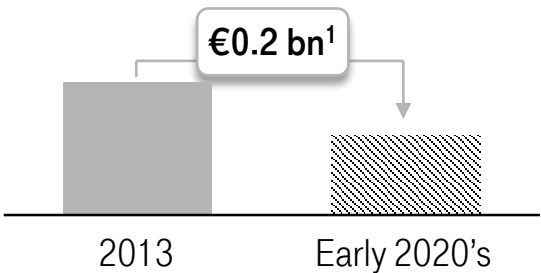
- PSTN migration finished in all NatCos by 2018
- First All-IP countries MK, SK
- Centralized architecture and production platforms

MAIN OPEX SAVINGS¹

CUSTOMER AND TECHNICAL SERVICE



OPERATING PLATFORM COST

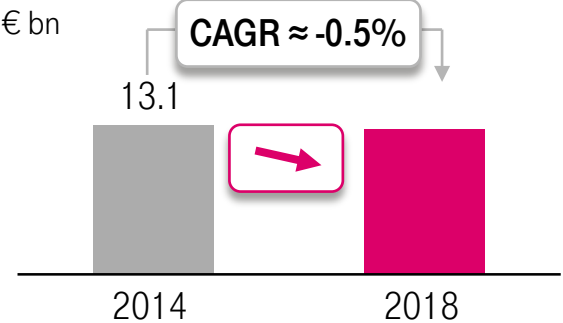


€0.5 bn¹
without savings
in other areas
(e.g. G&A)

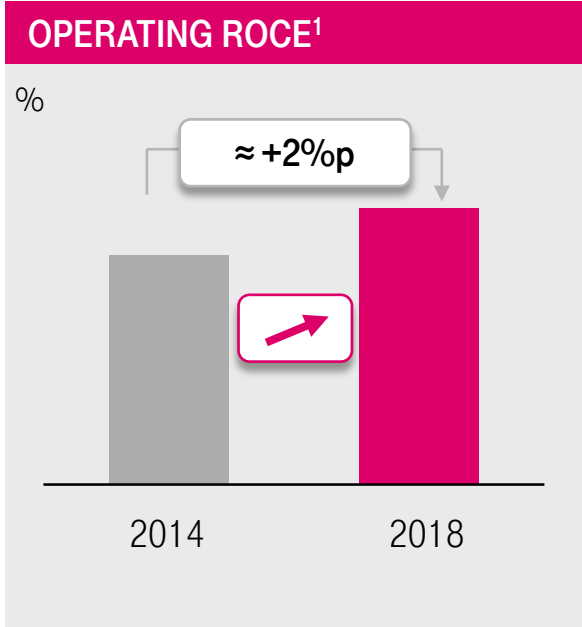
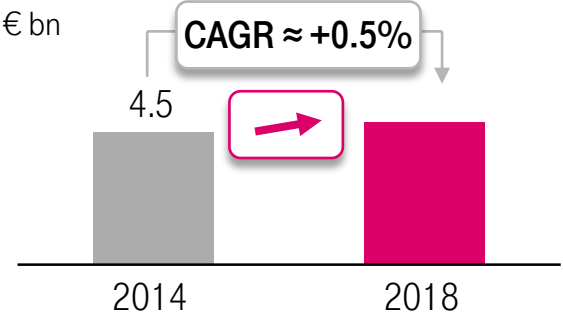
¹ 2013 = 100%; gross measure-related opex savings after accomplished transformation before any counter effects e.g. from personnel cost increases

INCREASING RETURN ON CAPITAL DUE TO OPEX SAVINGS AND LOWER ASSET BASE

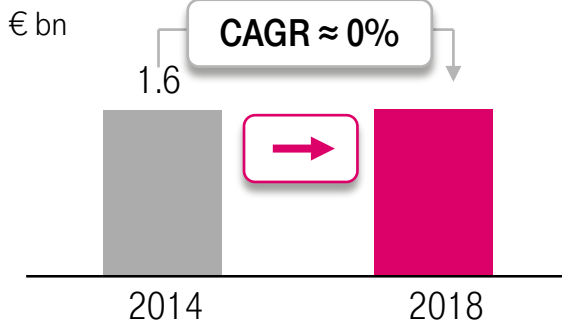
REVENUE¹



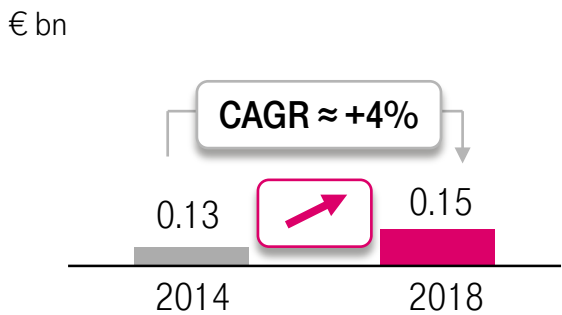
ADJ. EBITDA¹



(CASH) CAPEX¹



SPECIAL FACTORS (EBITDA)¹



¹ like for like (stable FX, for comparability 2014 figures assumed with 12 months GTS)



MID TERM AMBITION LEVEL

MID TERM AMBITION LEVEL

	MID TERM AMBITION LEVEL	YEAR
TECHNOLOGY LEADERSHIP	<ul style="list-style-type: none"> Start of PANNET implementation, migration of first platform 	2015
	<ul style="list-style-type: none"> All-IP Transformation: All integrated NatCos 100% IP-based 	2018
	<ul style="list-style-type: none"> Next generation accesses: 75-95% LTE pop coverage and FTTx for ≈50% of households¹ with at least 100Mbit/s 	2018
BEST CUSTOMER EXPERIENCE	<ul style="list-style-type: none"> Realization of customer experience initiative “eTransformation”: between 30% and 99% eService share in our NatCos 	2018
	<ul style="list-style-type: none"> Implementation of innovative FMC & TV experiences; €0.6 bn pay-TV revenues 	2018
	<ul style="list-style-type: none"> Continuation of revenue transformation: 38% of revenues with pockets of growth 	2018
SUPERIOR CASH PERFORMANCE	<ul style="list-style-type: none"> Stable Adj. Cash Contribution ≈+0.5% CAGR 	2014 - 2018
	<ul style="list-style-type: none"> Reduction of indirect cost by €0.4 bn 	2018 vs. 2014
	<ul style="list-style-type: none"> Op. ROCE improvement by almost +2%-pts 	2018 vs. 2014

¹ In integrated footprint