

# DELIVERING ON DT'S UK VALUE CREATION STRATEGY

February 5<sup>th</sup> 2015



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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.

# CONTINUED FOCUS ON ACTIVE VALUE ACCRETIVE PORTFOLIO MANAGEMENT

- ✓ Strong transaction rationale in line with DT strategy:  
Building the leading converged UK operator in the dynamic UK market
- ✓ Transaction value of £12.5bn implies £3.9bn<sup>1</sup> value creation since formation of #1 mobile operator via merger of T-Mobile/ORR
- ✓ Further value upside through participation in £4.6bn NPV synergy potential

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

# COMBINING #1 MOBILE AND #1 FIXED TO BUILD QUAD-PLAY LEADER IN THE UK

 <ul style="list-style-type: none"> <li>▪ Nationwide fixed network</li> <li>▪ Fibre leader with 22m premises passed</li> <li>▪ #1 fixed BB + Telephony</li> <li>▪ #1 Fixed B2B</li> <li>▪ Premium content</li> </ul>	+	 THE UK'S BIGGEST AND FASTEST NETWORK <ul style="list-style-type: none"> <li>▪ #1 mobile revenues<sup>1</sup> &amp; subscribers</li> <li>▪ #1 spectrum position</li> <li>▪ #1 network quality</li> <li>▪ #1 distribution</li> <li>▪ #1 wholesale</li> </ul>				
<h3>OUTSTANDING 4P OFFERING</h3> <table border="1"> <tr> <td data-bbox="85 706 427 879">                       Mobile   </td> <td data-bbox="427 706 763 879">                     Fixed BB     </td> </tr> <tr> <td data-bbox="85 883 427 1055">                       Fixed Telephony   </td> <td data-bbox="427 883 763 1055">                     TV     </td> </tr> </table>	 Mobile 	Fixed BB  	 Fixed Telephony 	TV  	<h3>#1 B2B</h3> <p>Integrated</p>    	<h3>ATTRACTIVE PROPOSITION TO UK CONSUMERS</h3> <ul style="list-style-type: none"> <li>▪ Convergent consumer products</li> <li>▪ Integrated business customer solutions</li> <li>▪ Customer proximity through outstanding shop footprint</li> <li>▪ Attractive content and TV offering</li> <li>▪ Leading network service quality</li> </ul>
 Mobile 	Fixed BB  					
 Fixed Telephony 	TV  					

1. Source: Analysys Mason, total service revenue for calendar H1 2014.

# COMPELLING TRANSACTION RATIONALE

<b>UNDERScores DT STRATEGY</b>	<ul style="list-style-type: none"><li>▪ DT's strategic goals covered (FMC, market leadership, best customer service and shareholder value)</li><li>▪ DT to provide advice on FMC integration given its experience and know-how</li></ul>
<b>ATTRACTIVE EE VALUATION</b>	<ul style="list-style-type: none"><li>▪ Premium to broker valuations and comparable transactions &amp; significant value creation since formation of JV</li></ul>
<b>FURTHER SHAREHOLDER VALUE UPSIDE</b>	<ul style="list-style-type: none"><li>▪ 12% stake gives DT upside potential from:<ul style="list-style-type: none"><li>▪ Participation in synergy upside</li><li>▪ Robust BT dividend payout reconfirmed</li></ul></li><li>▪ Enhanced market position of BT</li></ul>
<b>INCREASED STRATEGIC OPTIONALITY / POTENTIAL FOR PARTNERSHIP</b>	<ul style="list-style-type: none"><li>▪ Exchange of illiquid JV stake into larger, more liquid entity ("IPO with synergies")</li><li>▪ Leverage-neutral transaction</li><li>▪ Both BT and DT with strong cost transformation record and common DNA</li><li>▪ Potential for further partnership with BT</li></ul>

# TRANSACTION TERMS

<p><b>TRANSACTION VALUE</b></p> <ul style="list-style-type: none"> <li>▪ Purchase price of £12.5bn (on a debt/cash free basis)<sup>1</sup> <ul style="list-style-type: none"> <li>▪ EV/2014A adj. EBITDA of 7.9x (pre-synergies)</li> </ul> </li> </ul>	<p><b>CORPORATE GOVERNANCE</b></p>	<ul style="list-style-type: none"> <li>▪ DT to appoint one member of BT's BOD</li> <li>▪ DT post transaction largest BT shareholder</li> </ul>
<p><b>CONSIDERATION MIX</b></p> <ul style="list-style-type: none"> <li>▪ Targeted proceeds to DT <ul style="list-style-type: none"> <li>▪ 12% stake in BT</li> <li>▪ Additional cash depending on BT share price and EE net debt at closing</li> <li>▪ Collar price protection mechanism in place</li> </ul> </li> </ul>	<p><b>LOCK-UP AND STANDSTILL</b></p>	<ul style="list-style-type: none"> <li>▪ Standstill: 3 years at 15%<sup>2</sup> (limited voting rights to 15% for a period of 2 years post standstill)</li> <li>▪ Lock-up period: 18 months for public sale<sup>3</sup></li> </ul>
	<p><b>CONDITIONS AND CLOSING TIMELINE</b></p>	<ul style="list-style-type: none"> <li>▪ Class 1 Approval by BT shareholders</li> <li>▪ Customary anti-trust and regulatory approvals</li> <li>▪ Expected to close by March 2016</li> <li>▪ Break fee agreed</li> </ul>

1. Implied Equity value of £10.2bn based on illustrative adjusted net debt of £2.3bn.

2. For a period of three years post closing DT will be restricted from purchasing BT shares, unless it acquires these directly from Orange, in which case its holding can increase to 15%.

3. Allows market sales to financial investors (who will be subject to the same lock-up restrictions for the remainder of the 18 months).



# CONSISTENT EXECUTION OF DT'S STRATEGY

April 2010

## Everything Everywhere JV

Merger of #3 and #4 UK MNOs

### JV STRATEGY ACHIEVED ITS FULL POTENTIAL ...

- Retained mobile revenue leadership
- Exceeded £3.5bn 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

Feb 2015

## EE and BT Combination

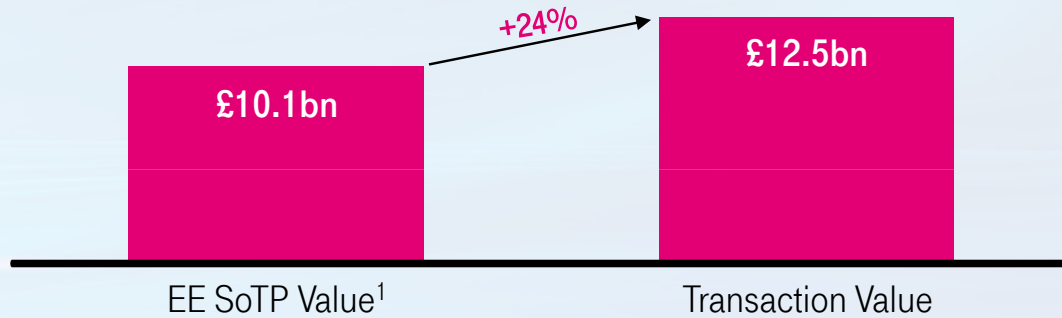
Building a quad-play champion in the UK

### ... 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

# ATTRACTIVE VALUE CREATION

## PREMIUM REALISED OVER ANALYST EXPECTATIONS ...



## ... HIGHLIGHTING THE OUTSTANDING QUALITY OF THE ASSET & SYNERGY POTENTIAL

- Transaction value at above 20% premium to EE SoTP valuation
- Further value creation through synergies over time

1. SoTP value based on broker consensus estimates as of November 2014 (pre-announcement).



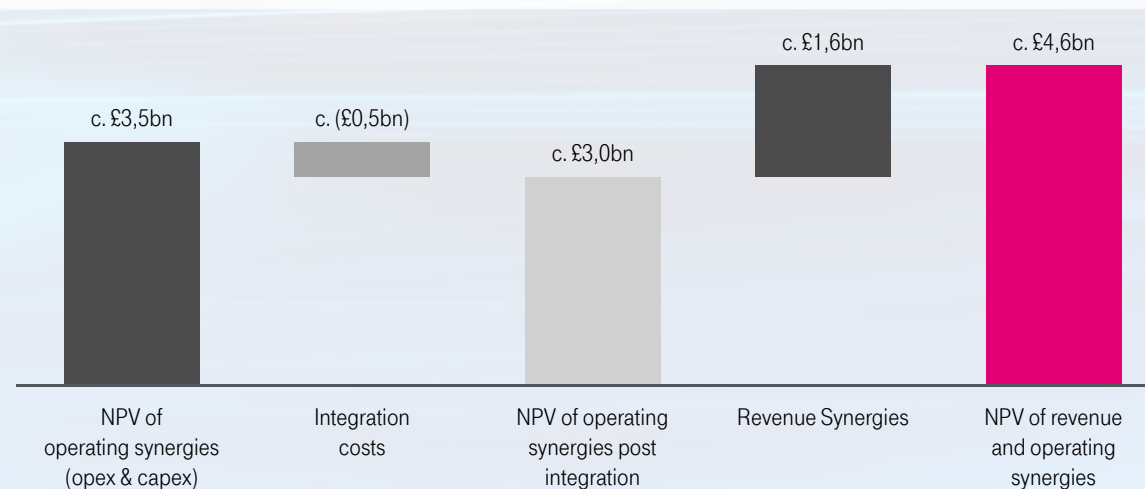


# BT IDENTIFIED SUBSTANTIAL VALUE CREATION UPSIDE

## RUN RATE EXPECTED IN FOURTH FULL YEAR<sup>1</sup>

Commercial	▪ c.£70mn
IT	▪ c.£90mn
Network	▪ c.£80mn
Operational	▪ c.£120mn

## SYNERGIES WORTH NPV OF £4.6BN AT CLOSING<sup>2</sup>



**C.£360MN TOTAL OPEX AND CAPEX SYNERGY RUN RATE EXPECTED IN FOURTH FULL YEAR POST COMPLETION**

**C.£3.5BN TOTAL NPV OF OPEX AND CAPEX SYNERGIES**

1. Post completion (Opex and Capex synergy run-rate).
2. Based on synergy calculation of BT Group.

# ESTIMATED DEUTSCHE TELEKOM GROUP IMPACT FROM TRANSACTION

## MAJOR FINANCIAL KEY PERFORMANCE INDICATORS (KPIs) 2016

DELTA	Revenue	EBITDA (adj.)	FCF	Net Debt	Rating Leverage	EPS (adj.)
	–	(€ 0.1bn)	(€0.2bn)	(€0.1bn)	+0.1x	+€0.01

- Positive one-time net income effect after closing of transaction of >€1bn<sup>1</sup> due to an expected book gain and OCI recycling
- DT's 50% stake in EE has been accounted for using the equity method until change to held-for-sale as of Dec 31, 2014. The future 12% stake in BT will be accounted for as financial asset measured at fair value
- No significant impact from the transaction on DT financials expected
  - EBITDA: slight dilution since no further income from brand and management fees from EE
  - FCF: slight dilution due to lower dividend from combined entity compared to EE dividend
  - Net debt and rating debt consequently also slightly diluted

1. Based on FX rate of EUR / GBP: 0.8179. Accounting effect significantly higher (approx. €1.5bn) based on current spot rates.

**THANK YOU!**



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