

# DEUTSCHE TELEKOM

Q4/2016 RESULTS

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**REVIEW FY/16**

# OUR STRATEGY

**LEADING EUROPEAN TELCO**

**INTEGRATED  
IP NETWORKS**

**BEST  
CUSTOMER  
EXPERIENCE**

**WIN WITH  
PARTNERS**

**LEAD IN  
BUSINESS**

TRANSFORM PORTFOLIO

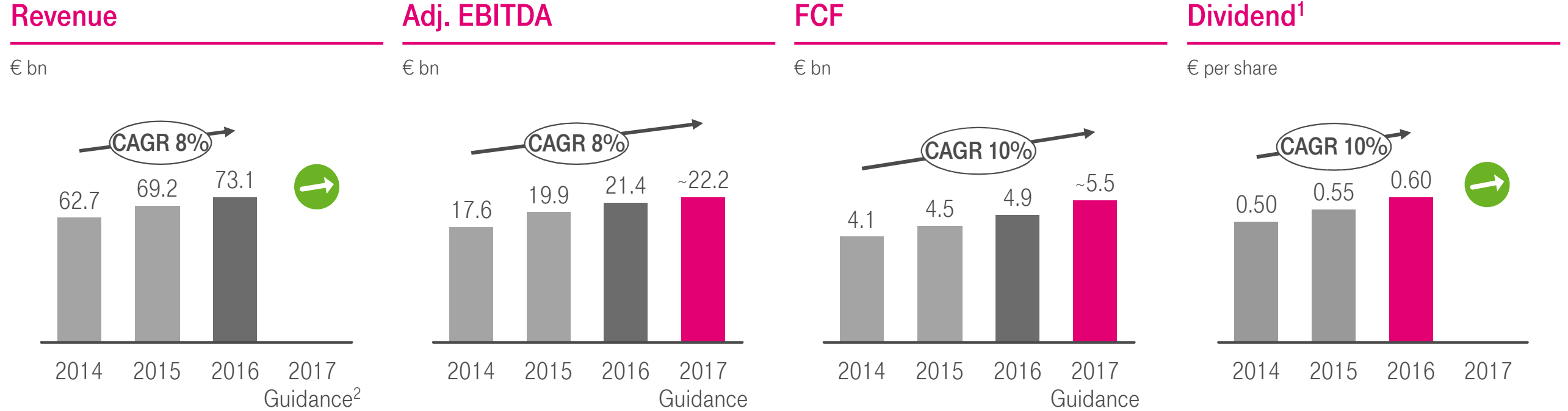
EVOLVE FINANCIAL TARGETS & EFFICIENCY

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

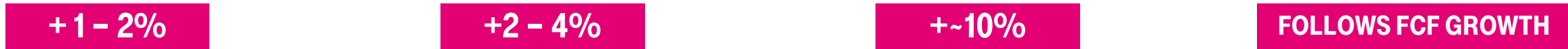


LIFE IS FOR SHARING.

# GUIDANCE AND ACHIEVEMENTS: DELIVERING GROWTH



## Medium term guidance (2014 – 2018 CAGR): Re-iterated

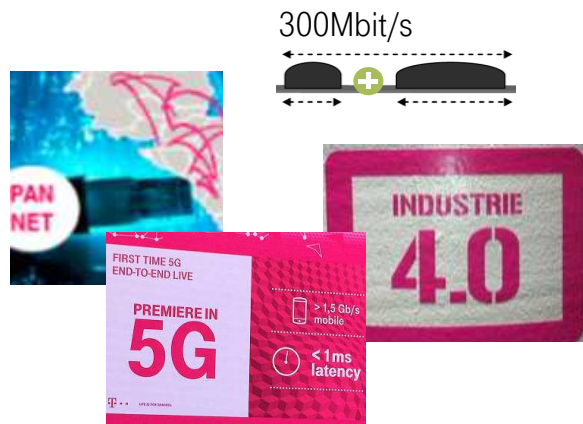


1) 2016 and 2017 subject to necessary resolutions 2) Guidance based on US\$ 1.11 = € 1 exchange rate

# 2016 HIGHLIGHTS: INVESTMENTS, CUSTOMERS, AND RESULTS

## Investments and innovation (FY/16)

- Further strengthening of spectrum position in the US and Europe
- € 11 billion investments (excl. spectrum) in networks and transformation
- Ongoing product and technology innovation



## Customers (FY/16)

- Demand for fiber in Germany continues unabated
  - 6.8 million German homes with fiber
  - 2.4 million new subs in FY
- Execution in the US continues
  - 8.2 million net adds



## Financial results (FY/16)

- Strong growth continues
  - Revenue up 5.6% yoy
  - Adj. EBITDA up 7.6%
  - FCF up 8.6%
  - DPS +9% to 0.60 €<sup>1</sup>
- Net debt/adj. EBITDA at 2.3x

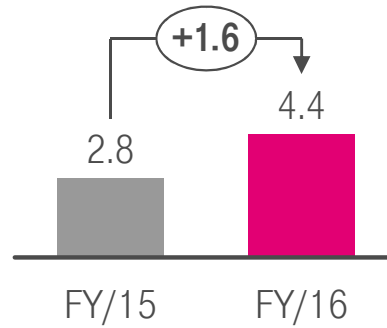


1) Subject to necessary resolutions

# CUSTOMERS: STRONG MOMENTUM. RECORD NEW FIBER SUBS

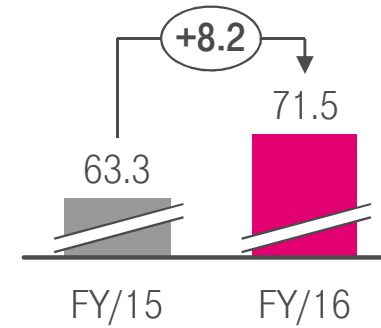
## MagentaEINS (Germany + EU)<sup>1</sup>

mn



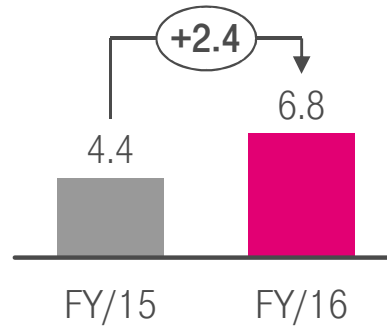
## US Mobile

mn



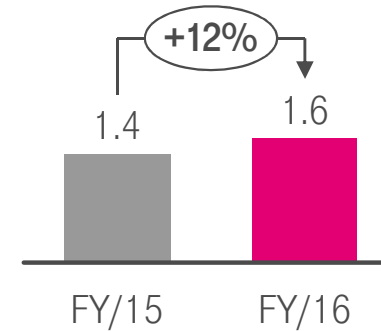
## Fiber in Germany

mn



## Cloud revenues

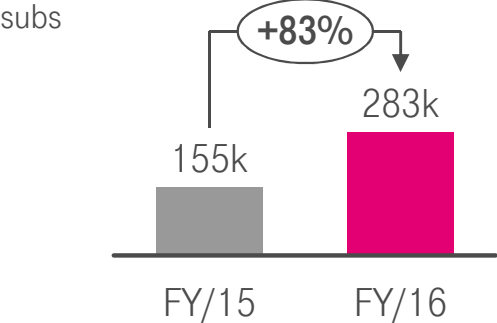
€ bn



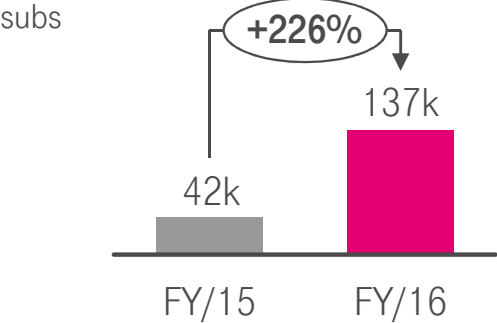
1) FMC RGUs may also appear under other brand name outside of Germany

# INNOVATIONS: FOCUS ON CUSTOMER EXPERIENCE

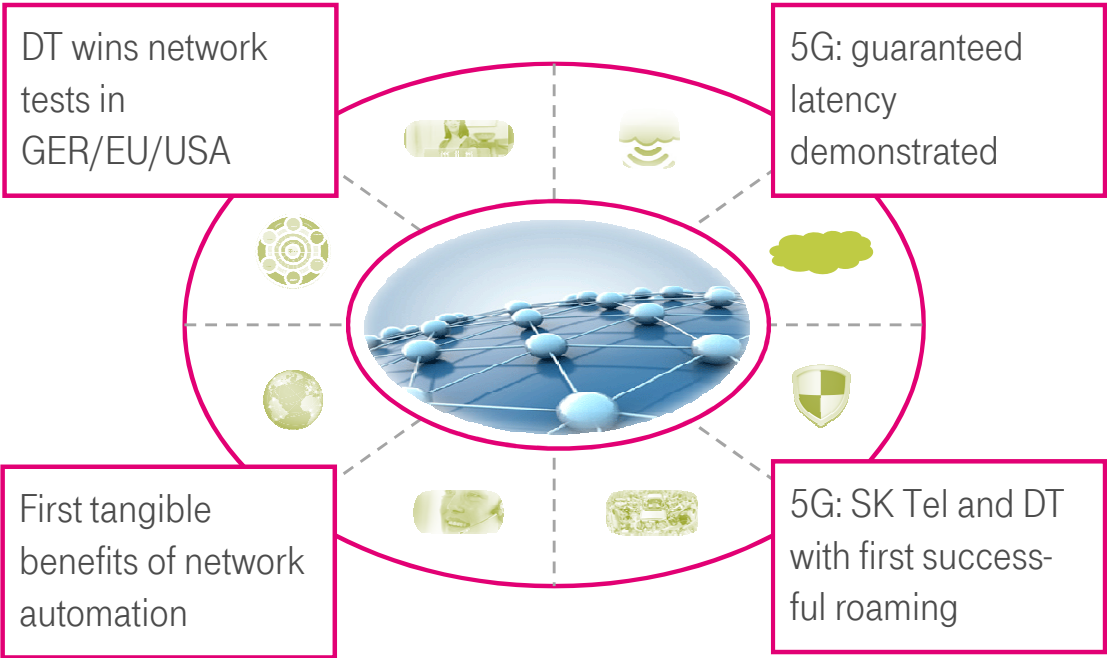
## Hybrid access<sup>1</sup>



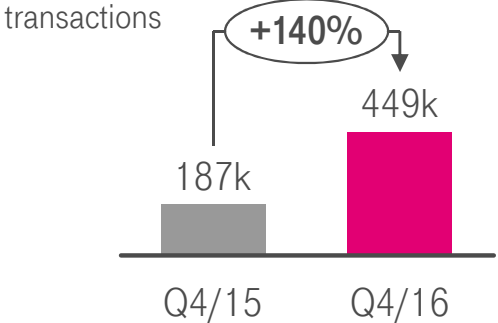
## Smart home<sup>2</sup>



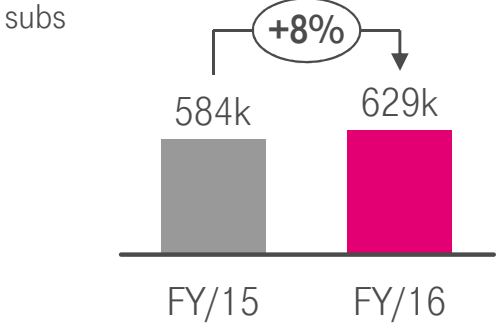
## Innovation/network



## Service app



## IT support<sup>3</sup>



1) +€ 5 per customer/month 2) +€ 10 per customer/month 3) +€ 8 per customer/month



# GUIDANCE: 2016 GUIDANCE SUCCESSFULLY ACHIEVED. 2017 GUIDANCE IN LINE WITH MID TERM AMBITION

€ bn

	<u>Revenue</u>	<u>Adj. EBITDA</u>	<u>FCF</u>
14-18 CAGR <sup>1</sup>	+1 – 2%	+2 – 4%	≈+10%
2016 Guidance (\$/€: 1.11)	Increase	Around 21.2 bn <sup>2</sup>	Around 4.9 bn
FY 2016 performance	+5.6%	21.4 bn (+7.6%) <sup>2</sup>	4.9 bn (+8.6%)
2017 Guidance (\$/€: 1.11)	Increase	Around 22.2 bn (+4%) <sup>2</sup>	Around 5.5 bn (+12%)

1) 14-18 CAGRs as per CMD 2015 guidance 2) Of which handset lease and data stash \$ 0.7 billion in 2016 as per guidance. Actual result in 2016 was \$ 1.1 billion. 2017 guidance includes \$ 0.8 to 0.9 billion.

# REVIEW Q4/16

# Q4/2016: FINANCIAL HIGHLIGHTS

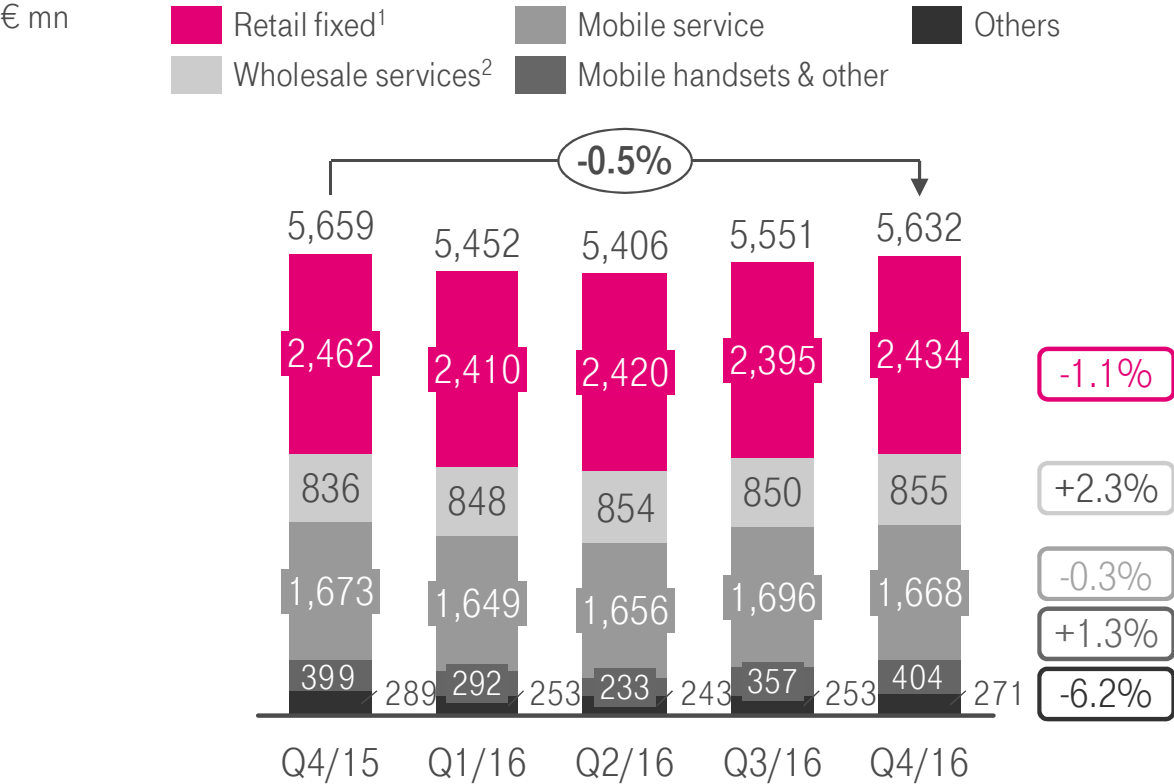
€ mn

	Q4			FY		
	2015	2016	Change	2015	2016	Change
Revenue	17,859	19,543	+9.4%	69,228	73,095	+5.6%
Adj. EBITDA	5,143	5,265	+2.4%	19,908	21,420	+7.6%
Adj. net profit	959	973	+1.5%	4,113	4,114	0.0%
Net profit	946	-2,124	n.m.	3,254	2,675	-17.8%
Adj. EPS (in €)	0.21	0.21	0.0%	0.90	0.89	-1.1%
EPS (in €)	0.21	-0.46	n.m.	0.71	0.58	-18.3%
Free cash flow <sup>1</sup>	998	893	-10.5%	4,546	4,939	+8.6%
Cash capex <sup>2</sup>	3,015	2,724	-9.7%	10,818	10,958	+1.3%
Net debt	47,570	49,959	+5.0%	47,570	49,959	+5.0%

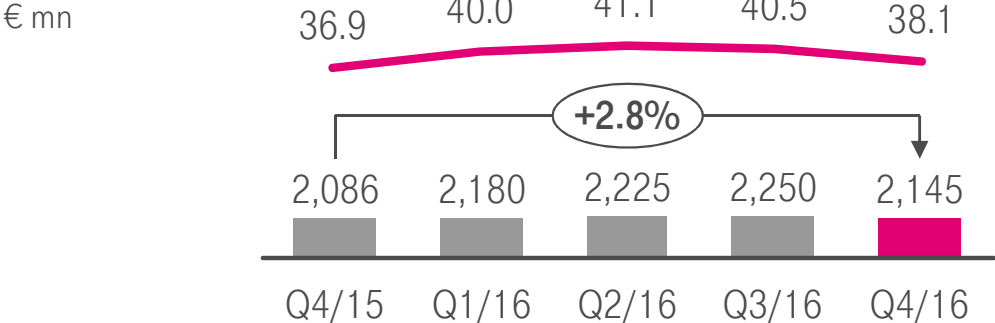
1) Free cash flow before dividend payments and spectrum investment 2) Excl. spectrum: Q4/15: € 26 million; Q4/16: € 432 million; FY/15: € 3,795 million; FY/16: € 2,682 million

# GERMANY: GROWING EBITDA IN Q4 AND FY

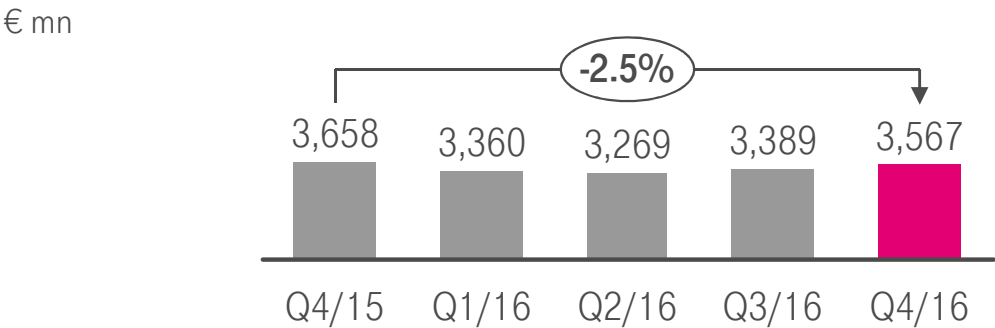
## Revenue reported



## Adj. EBITDA and margin (in %)



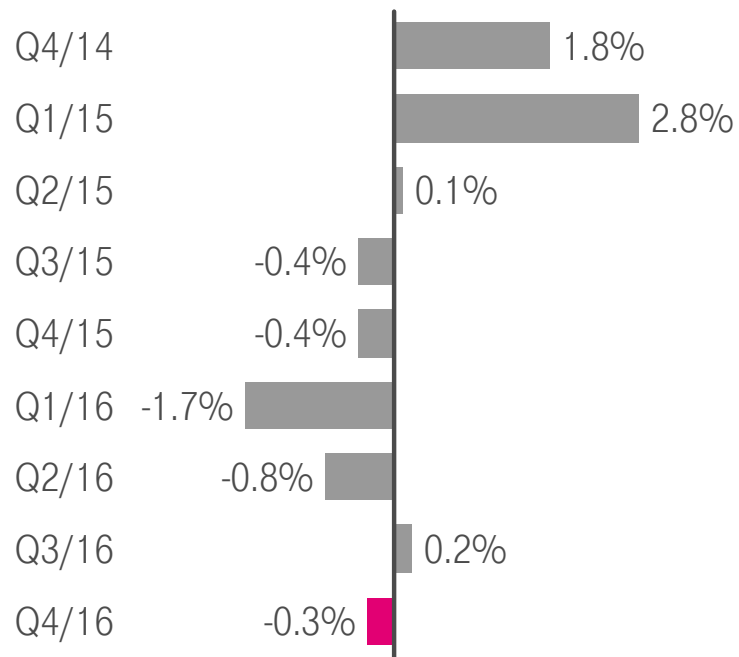
## Adj. OPEX



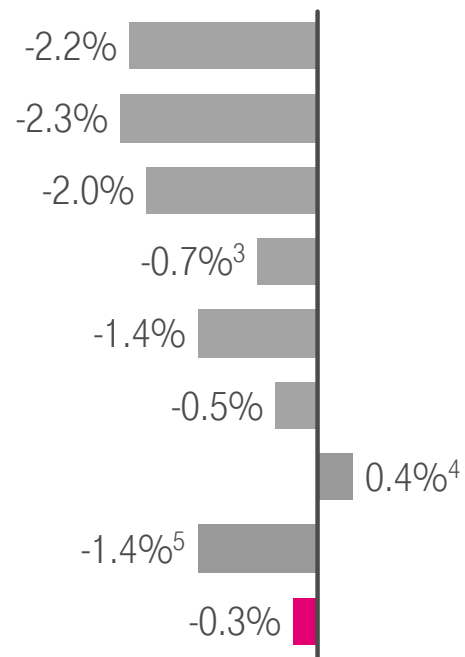
1) Fixed network core business 2) Figures 2015 have been restated. Approx. € 80 million shifted from wholesale to others

# GERMANY: TOTAL SERVICE REVENUES STABLE

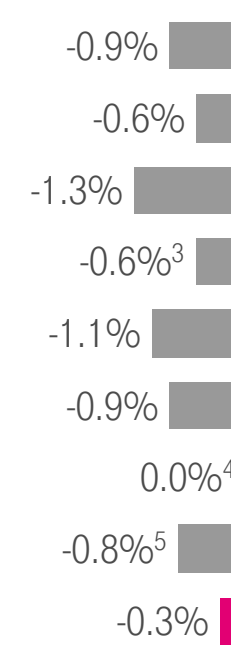
## Mobile service revenues



## Fixed line service revenues<sup>1,2</sup>



## Total service revenues<sup>1,2</sup>

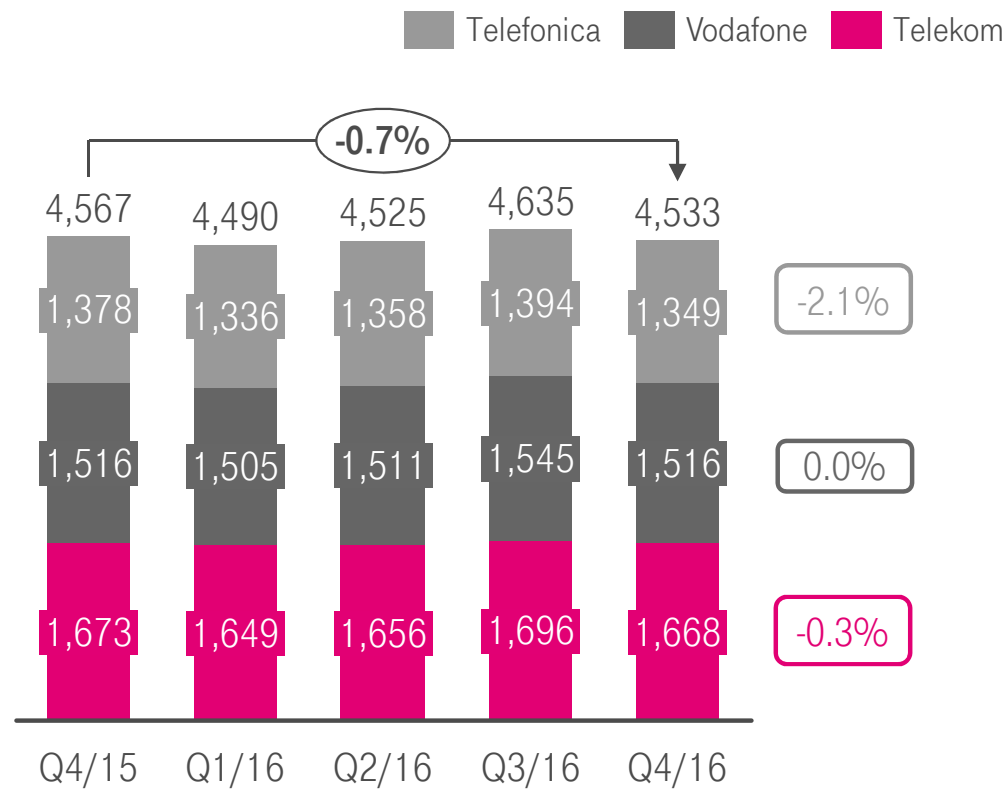


1) Total service revenues is a sum of fixed line and mobile service revenues. We define fixed line service revenues as fixed network core business revenues less fixed hardware revenues plus wholesale services fixed network revenues. From Q2/16 onwards, we classify CPEs recurring rent revenues as fixed service revenues, and thus also part of total service revenues. Without this reclassification, fixed line service revenue growth rate would be -0.6% in Q4/16, whereas TSR growth rate would be -0.5% in Q4/16. Old growth rates have not been restated. 2) Percentage changes for Q4 2014 – Q4 2015 not restated 3) Revenue in Q3/15 benefitted from special factor related to settlement agreements concerning charged fees from previous years. Adjusted growth rate at -1.3% for fixed service revenues, respectively -1.0% for total service revenues 4) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at +0.7% for fixed service revenues under definition in Q2/16 (see 1), respectively +0.2% for total service revenues under definition in Q2/16 (see 1) 5) Revenue in Q3/15 impacted by a positive one-off effect in wholesale. Adjusted for this effect fixed line service revenue trend would have been -0.6%, total service revenue trend in Q3/16 would have been -0.3%

# GERMANY MOBILE: STEADY COMMERCIAL MOMENTUM

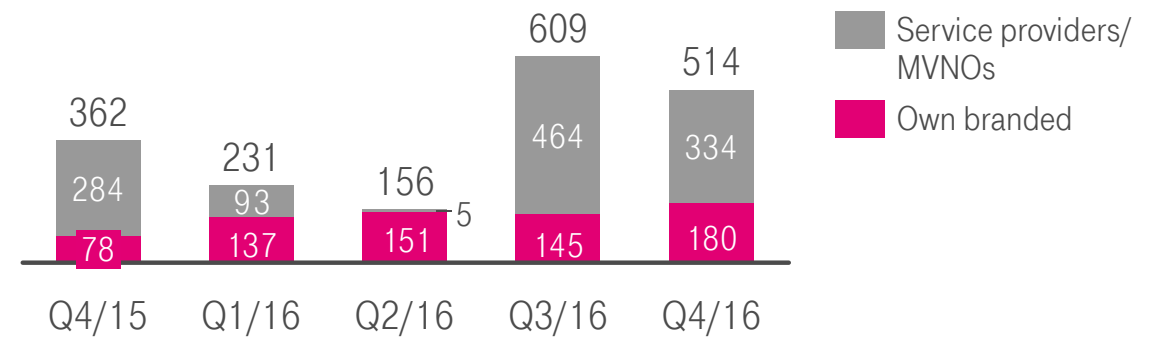
## German mobile market service revenue<sup>1</sup>

€ mn



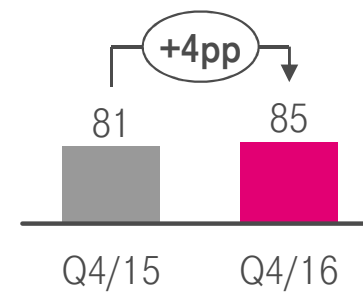
## Contract net adds<sup>2</sup>

000



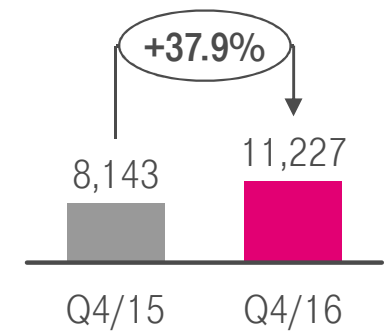
## Smartphone penetration<sup>3</sup>

%



## LTE customers<sup>4</sup>

000



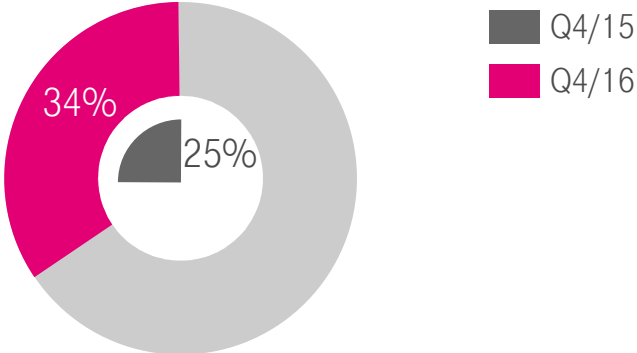
1) Management estimate 2) Figures may not add up due to rounding 3) Of own branded retail customers 4) Customers using an LTE-device and tariff plan including LTE



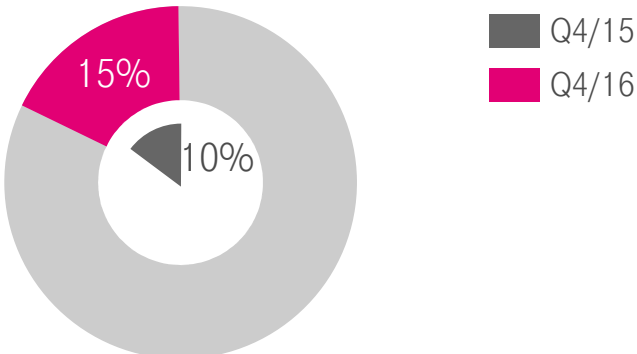
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# GERMANY: GREAT PROGRESS WITH CONVERGENCE AND DATA MONETIZATION

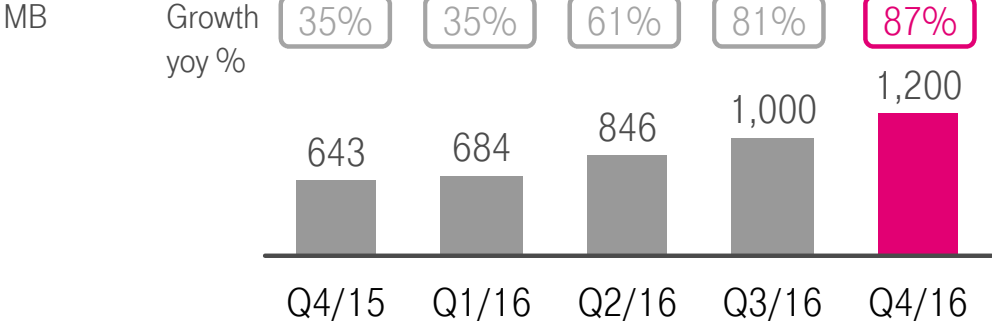
## Mobile contract customers in M1 bundles<sup>1</sup>



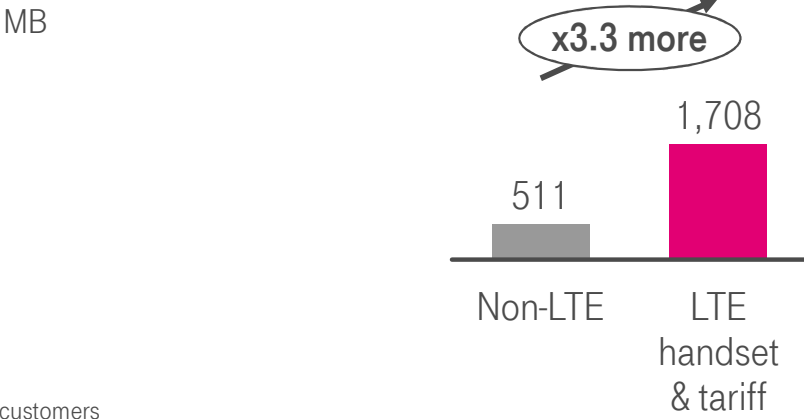
## Households in M1 bundles<sup>2</sup>



## Average consumer data usage<sup>3</sup>



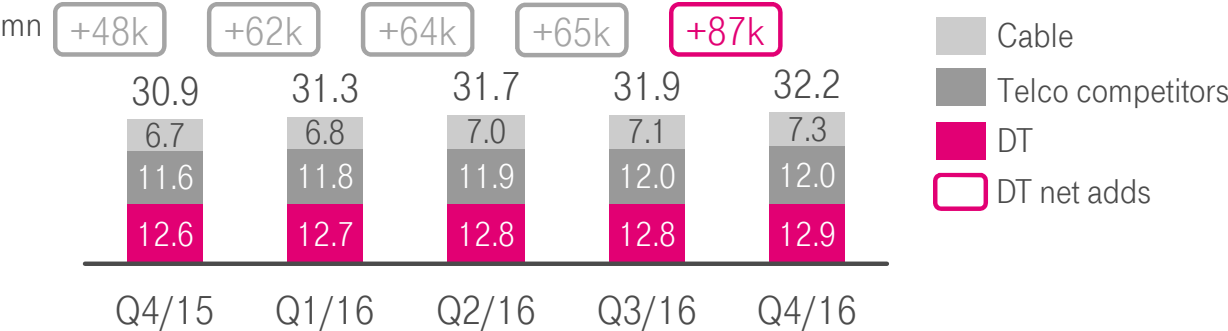
## Average LTE usage uplift<sup>3</sup>



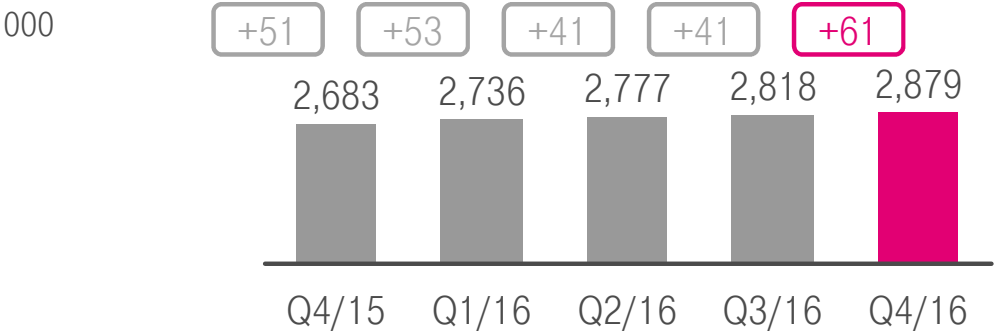
1) As % of B2C T-branded contract customers 2) As % of B2C broadband access lines 3) Per month of B2C T-branded contract customers

# GERMANY FIXED: RECORD GROWTH IN FIBER WITH 674K NEW CUSTOMERS

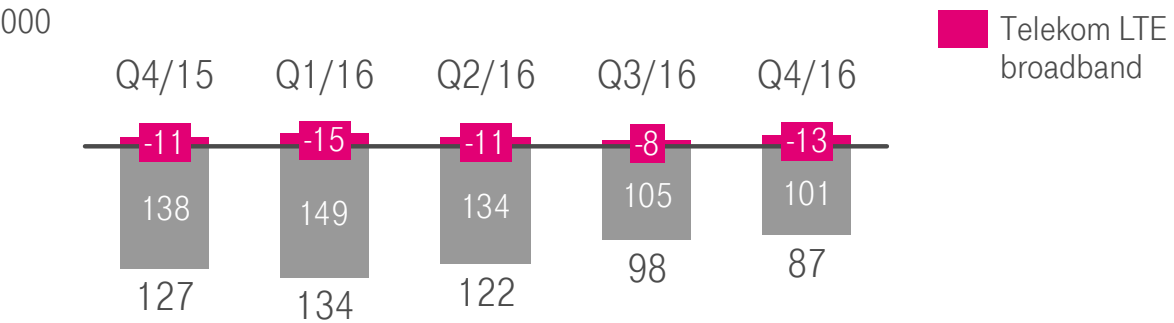
## German broadband market<sup>1</sup>



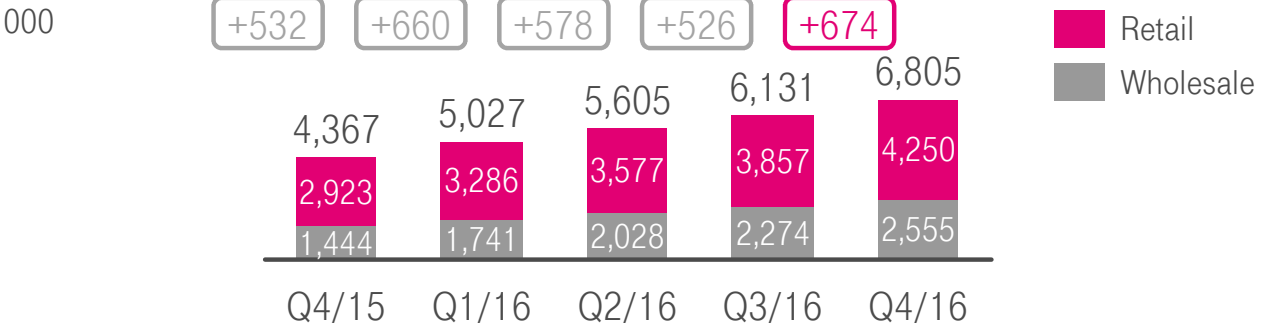
## Entertain customers



## Line losses



## Fiber customers<sup>2</sup>

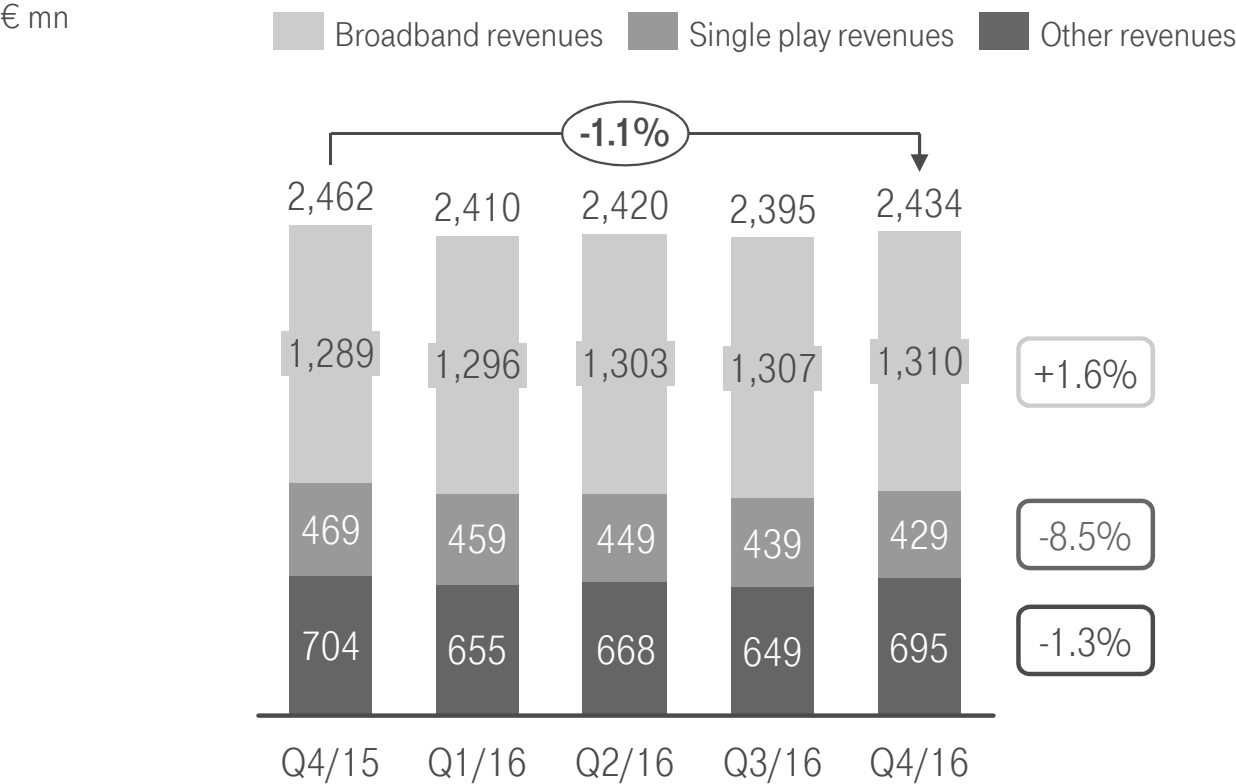


1) Based on management estimates 2) Sum of all FTTx accesses (e.g. FTTC/VDSL, vectoring, and FTTH)

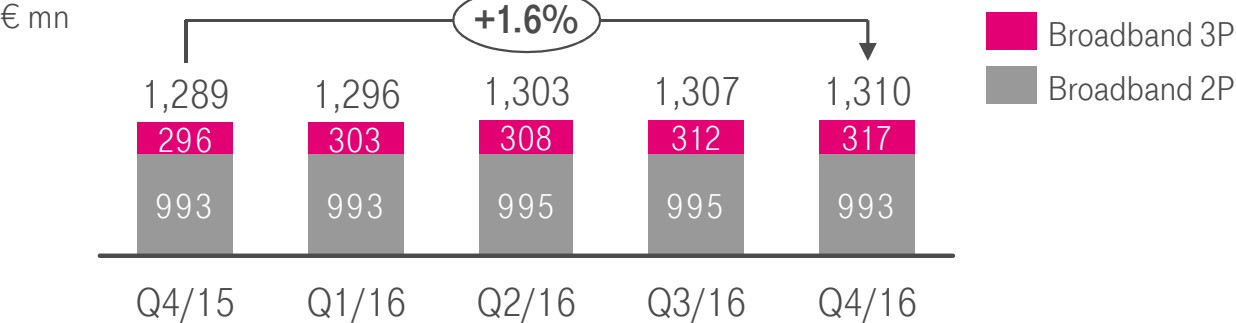


# GERMANY FIXED: FIXED RETAIL MOMENTUM STABILIZING

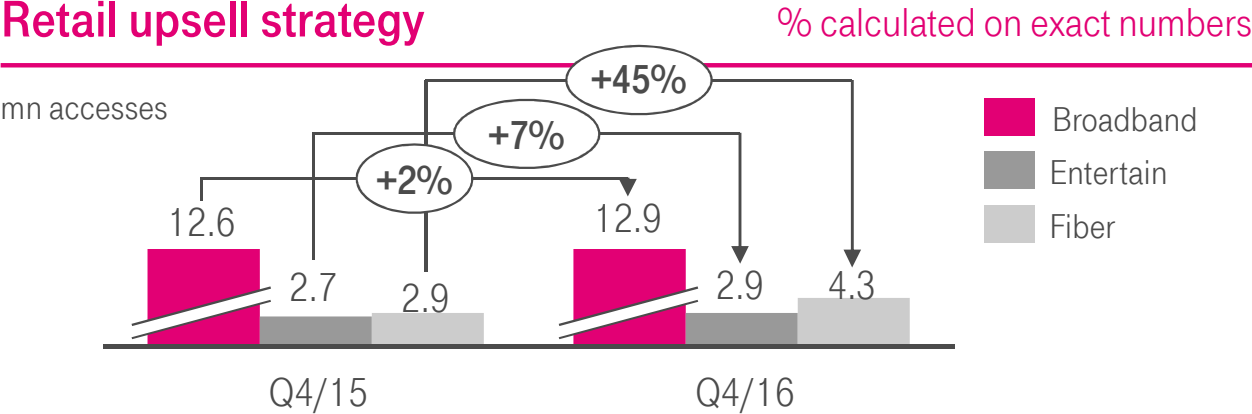
## Fixed network revenues retail



## Broadband revenues



## Retail upsell strategy

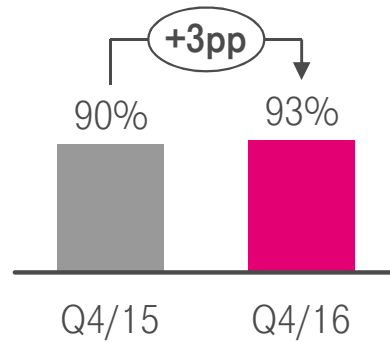


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# GERMANY: FIBER COVERAGE REACHING 64 PERCENT AS PROMISED

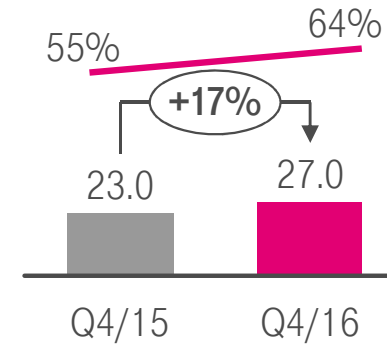
## INS – Status LTE rollout

POP  
Coverage in %<sup>1</sup>



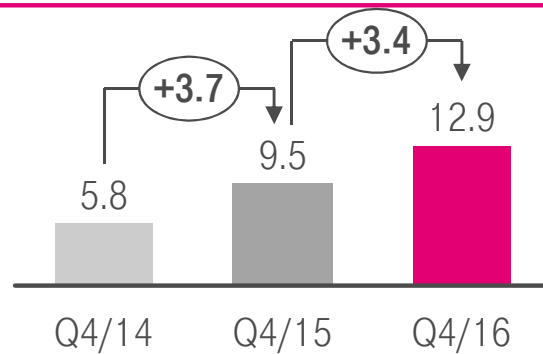
## INS – Status fiber rollout<sup>2</sup>

Coverage in % and  
millions of households



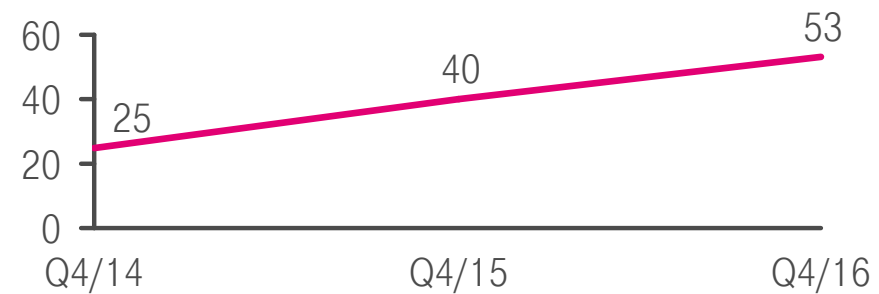
## Status IP accesses (retail & wholesale)

mn



## Status IP accesses (retail & wholesale)

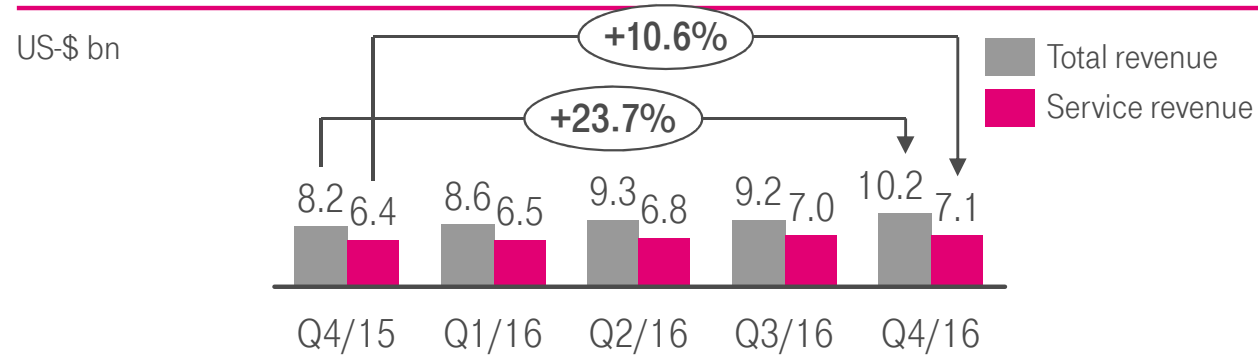
in % of lines



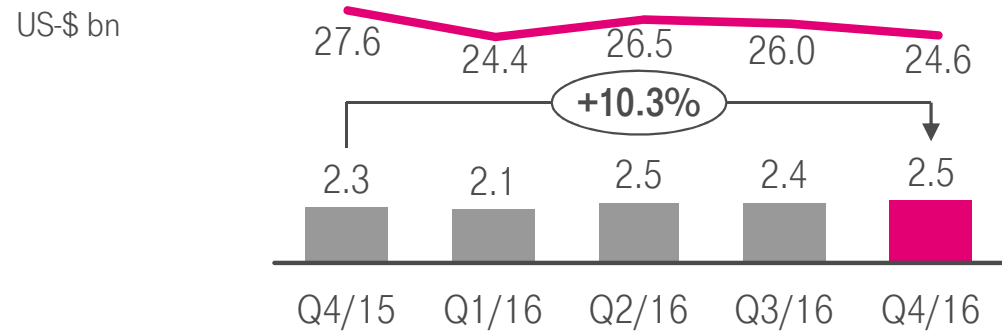
1) Outdoor coverage 2) In % of households within fixed network coverage in Germany

# TMUS: STRONG GROWTH IN ALL KEY METRICS

## Revenue and service revenue

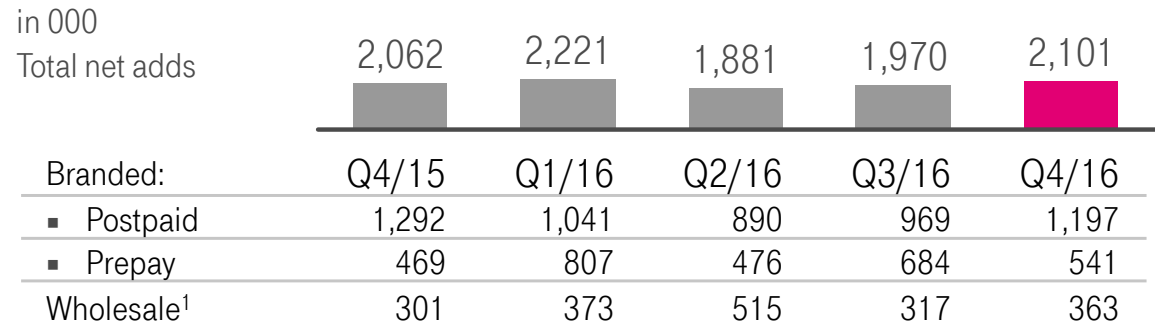


## Adj. EBITDA and margin (in %)

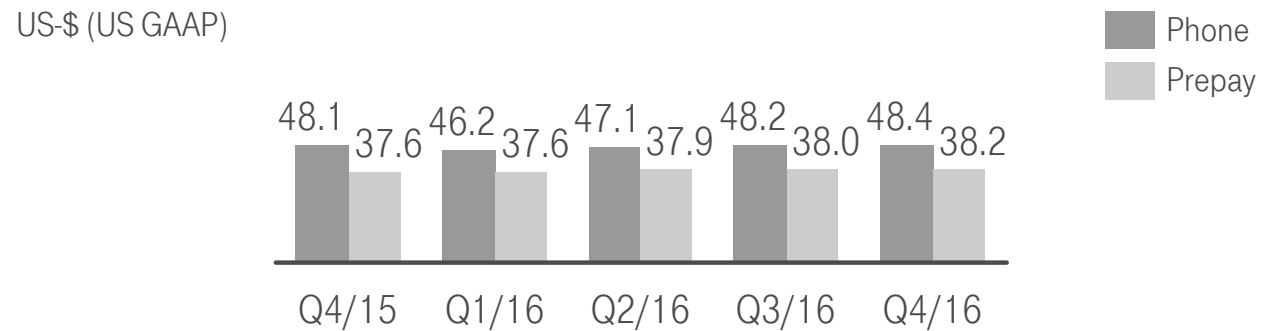


1) Wholesale includes MVNO and machine-to-machine (M2M). Amounts may not add up due to rounding.

## Net adds

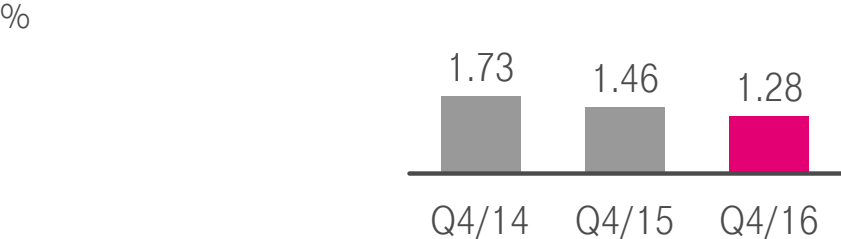


## Branded customers: postpaid phone and prepay ARPU



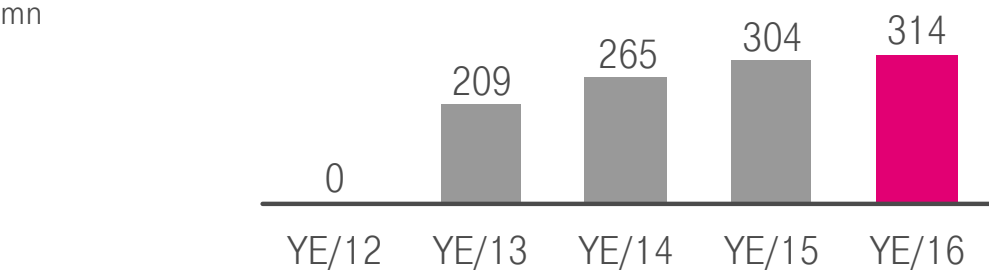
# FOCUS ON TMUS: IMPORTANT DRIVERS KEEP TRENDING WELL

## Branded postpaid phone churn



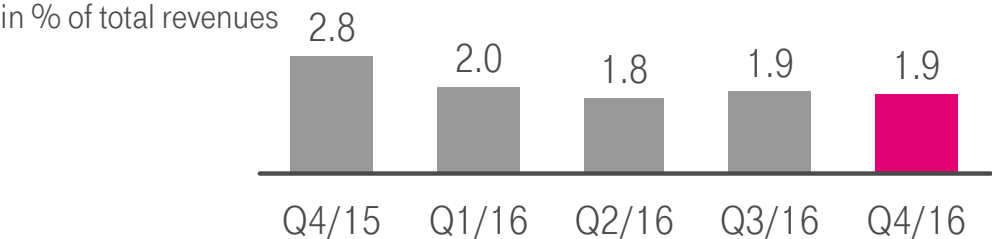
- Branded postpaid phone churn on record-low for a fourth quarter

## LTE covered POPs



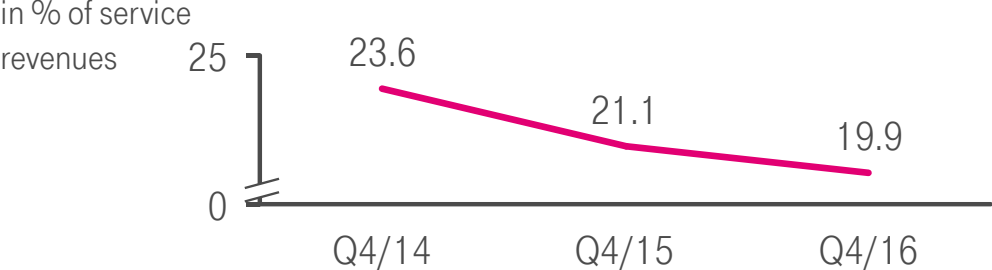
- A-block update: deployed in more than 252 million POPs across 500 market areas (spectrum covers approx. 84% of US POPs or 272M people)

## Bad debt expenses & losses from sale of receivables



- Receivables classified as prime remain flat at 53% (adj. for EIP receivables sold)

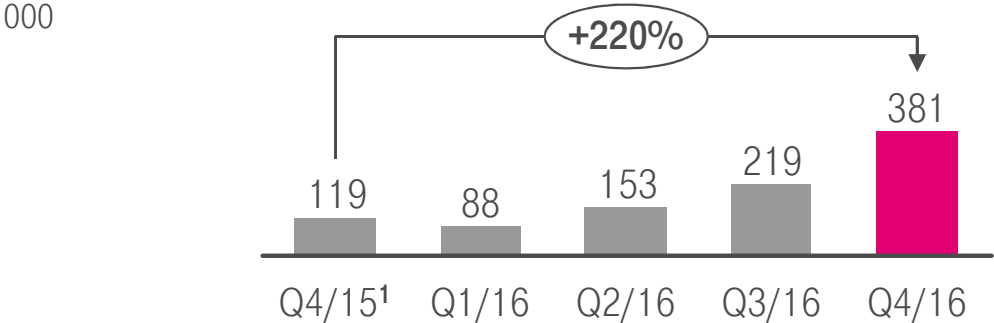
## Cost of service



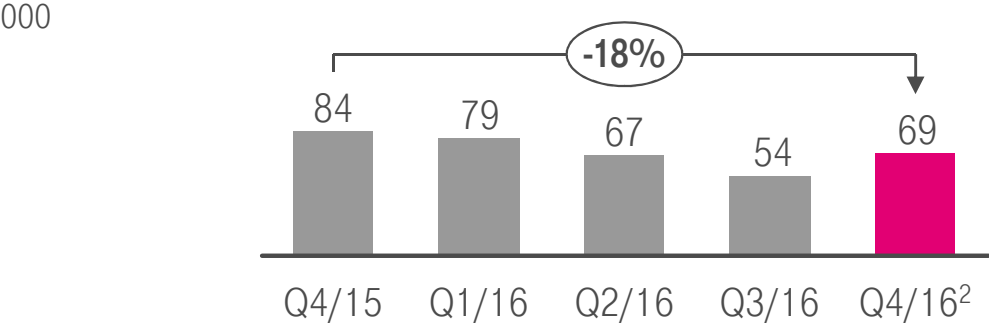
- MetroPCS synergies and growing scale outweigh network expansion costs

# EUROPE: ACCELERATING CUSTOMER MOMENTUM IN MOBILE AND CONVERGENCE

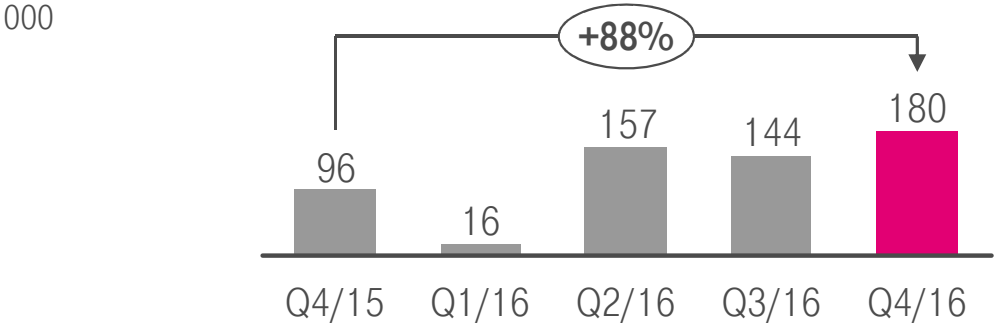
## Contract net adds



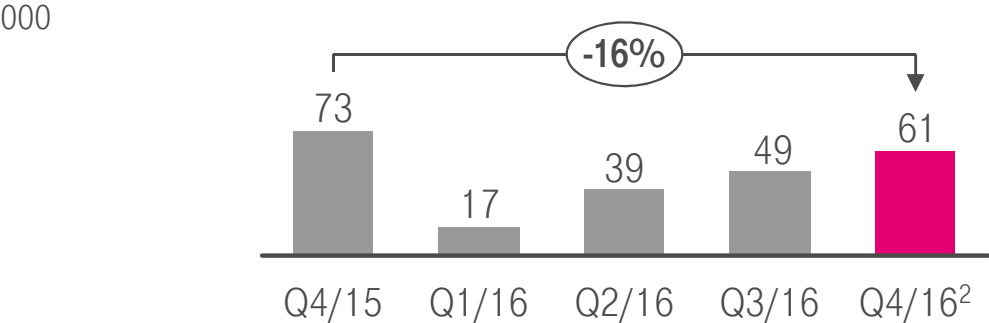
## BB net adds



## FMC net adds



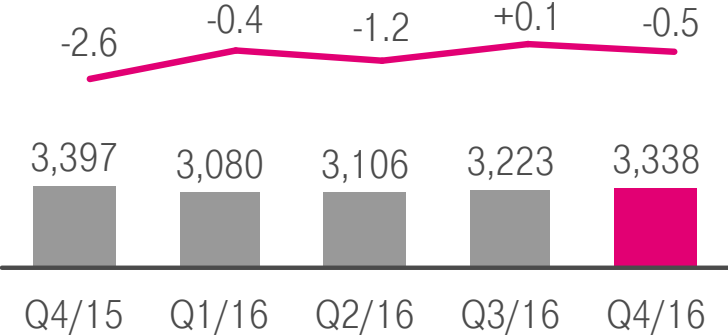
## TV net adds



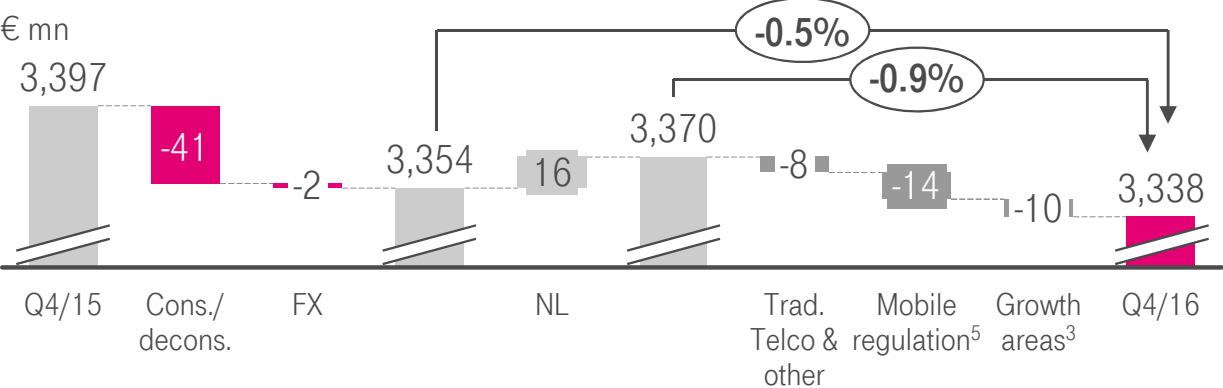
1) Adjusted for standardization of SIM-card reporting in wholesale segment. Previous value was 471k. 2) Excl.164k BB customers acquired in NL and 19k disconnections in Hungary. TV net adds exclude 22k disconnections in Hungary.

# EUROPE: INCREASED MARKET INVEST WEIGHS ON FINANCIALS

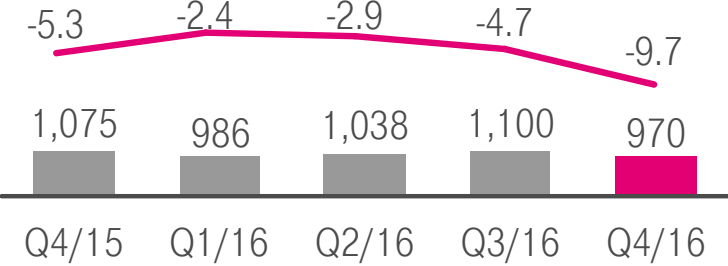
Revenue as reported in € mn and organic change yoy in %<sup>1,2</sup>



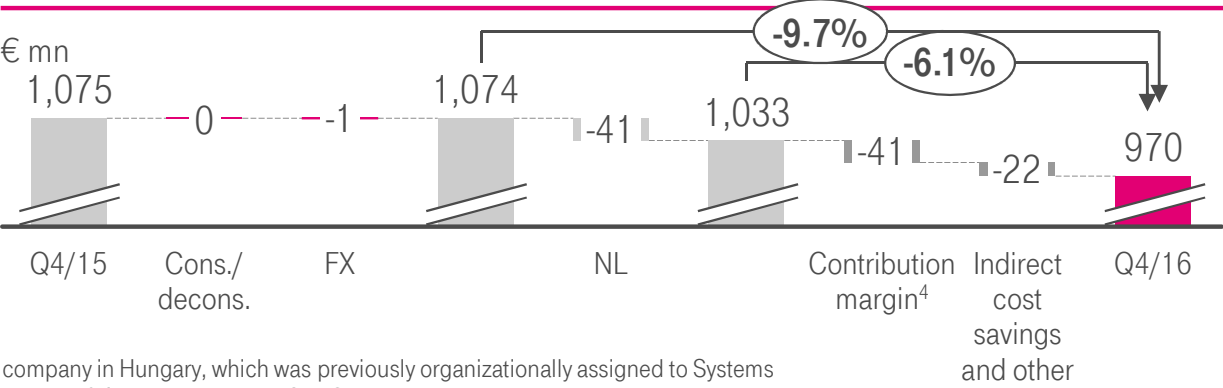
Organic revenue development



Adj. EBITDA as reported and organic change yoy in %<sup>1,2</sup>



Organic adj. EBITDA development

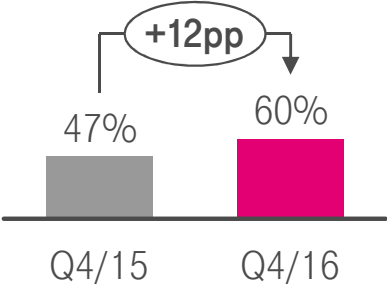


1) %-change figures as previously disclosed. Not adjusted for restatement. 2) The Business Customers unit of Magyar Telekom, our company in Hungary, which was previously organizationally assigned to Systems Solutions was consolidated in the Europe operating segment as of January 1, 2016. 2015 figures have been restated. 3) Mobile data, Pay TV & fixed broadband, B2B/ICT, adjacent industries (online consumer services, energy, and other) 4) Total revenues - direct cost 5) Total roaming impact (incl. NL) was € 15 million.

# EUROPE: ONGOING INVESTMENTS IN NETWORK LEADERSHIP

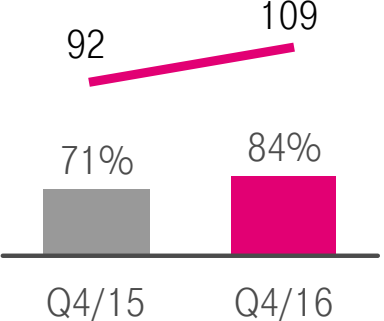
## IP migration

IP share of fixed network access lines

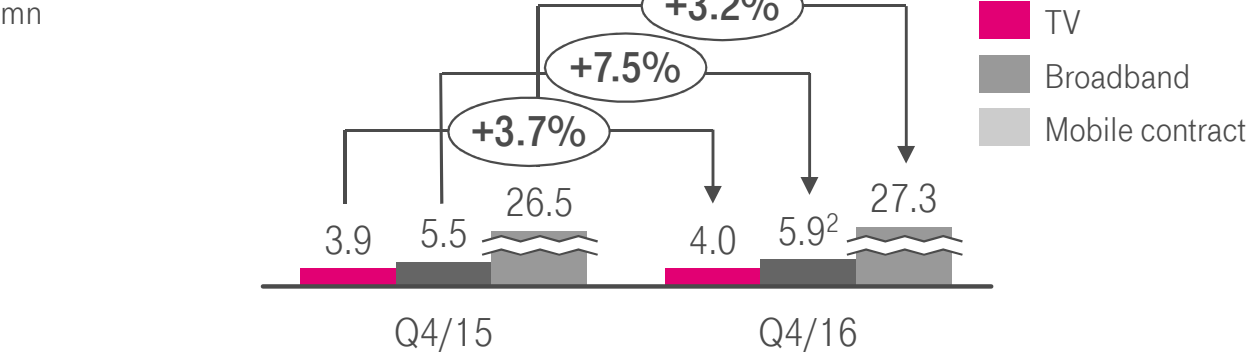


## LTE rollout

LTE outdoor pop coverage  
mn and %

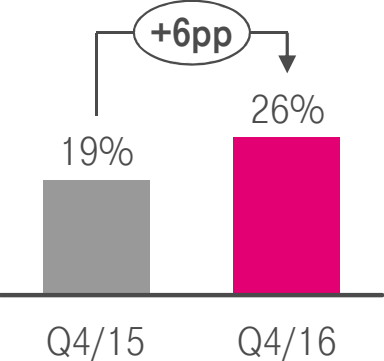


## Customer base<sup>1</sup>



## Fiber rollout<sup>1</sup>

Fiber household coverage

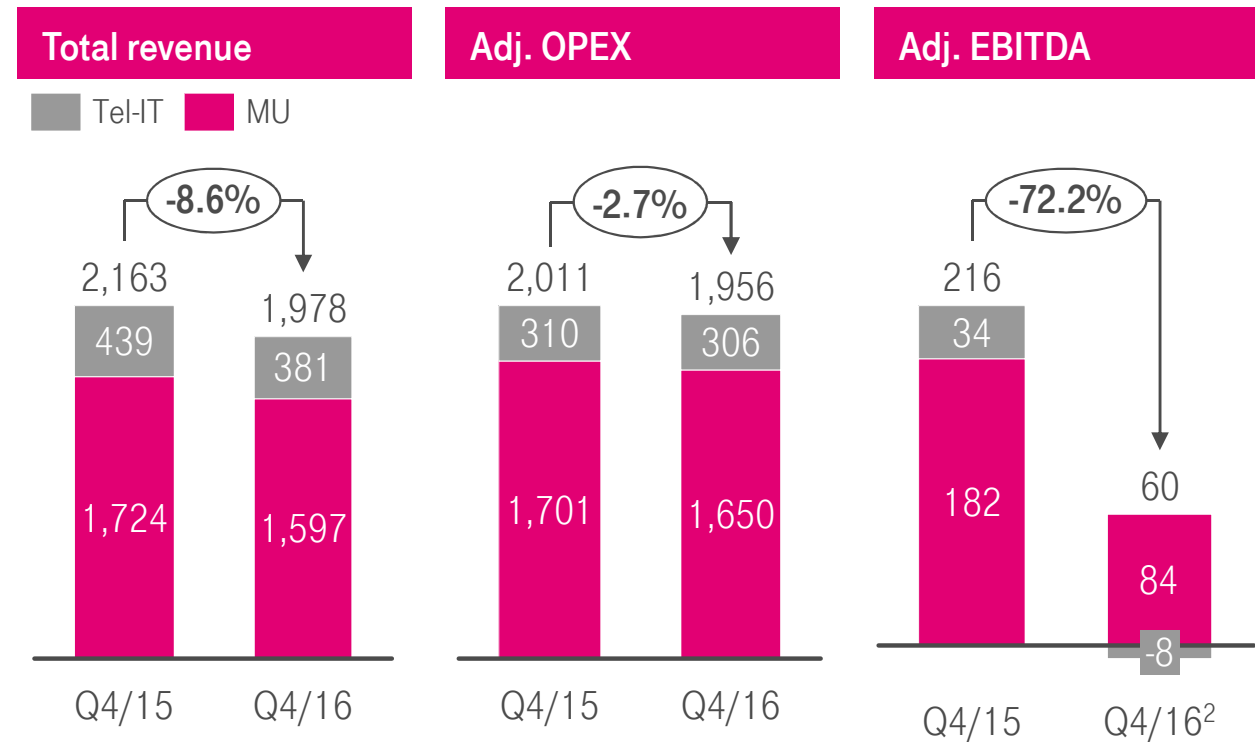


1) ≥ 100Mbit/s<sup>+</sup>-coverage: FTTH, FTTB, FTTC (with vectoring), cable/ED3. Broadband also incl. wholesale customers 2) Includes 164k customers acquired in NL in Q4

# SYSTEMS SOLUTIONS: Q4 EBITDA IMPACTED BY LEGACY WRITE DOWN

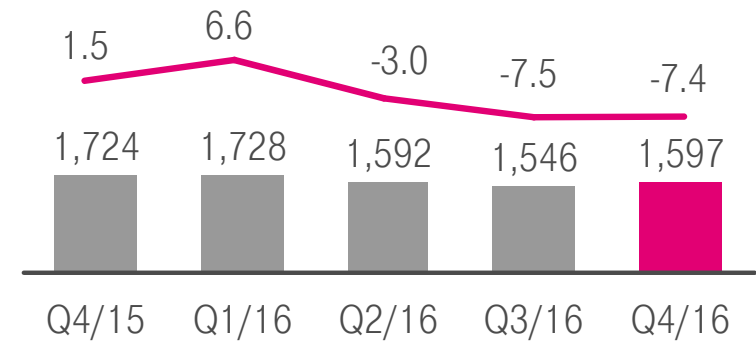
## T-Systems financials

€ mn

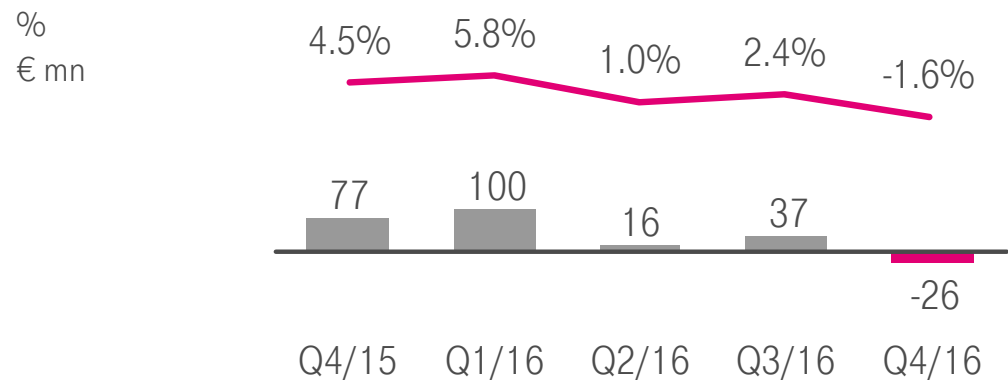


1) %-change figures as previously disclosed. Not adjusted for restatement. 2) Figures do not add up due to re-conciliation

## Revenue Market Unit in € million and change yoy in %<sup>1</sup>



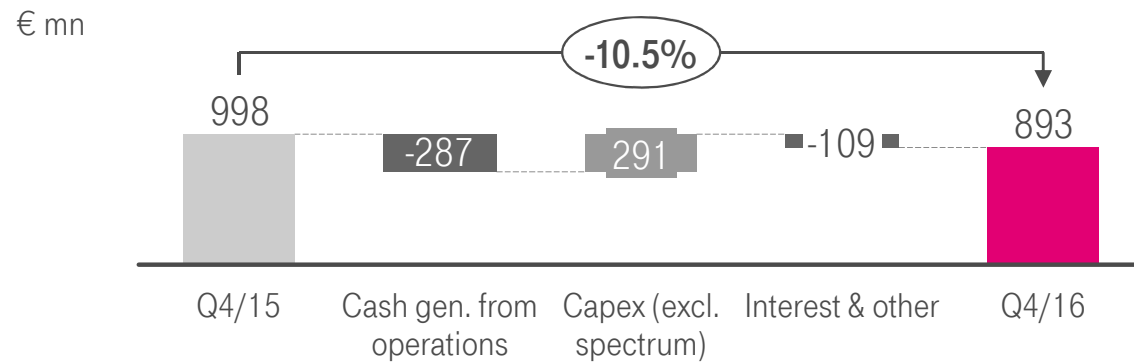
## Adj. EBIT and margin Market Unit



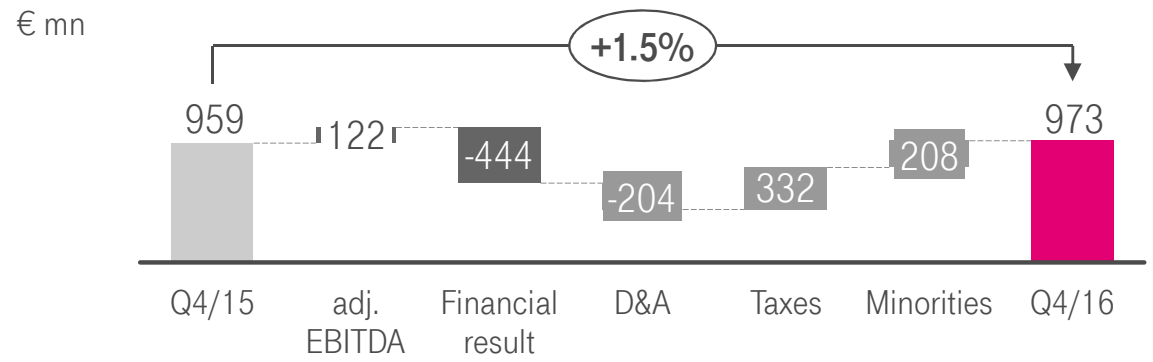


# FINANCIALS: FCF, NET DEBT, NET INCOME, AND ROCE

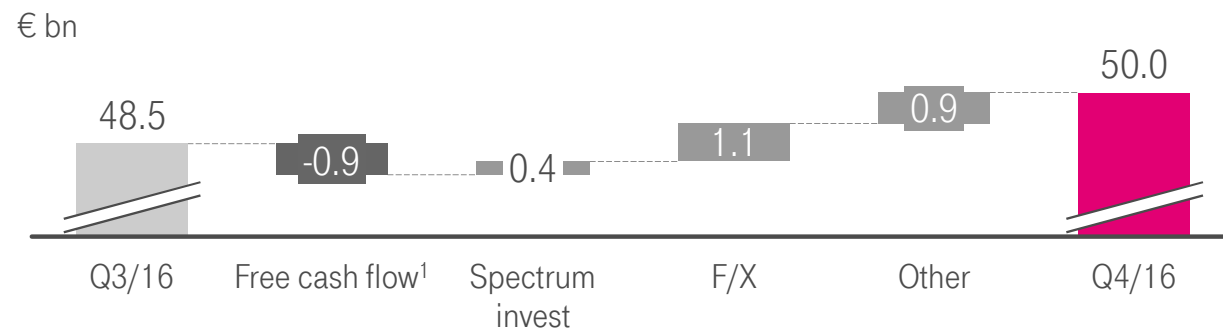
## Free cash flow Q4/16<sup>1</sup>



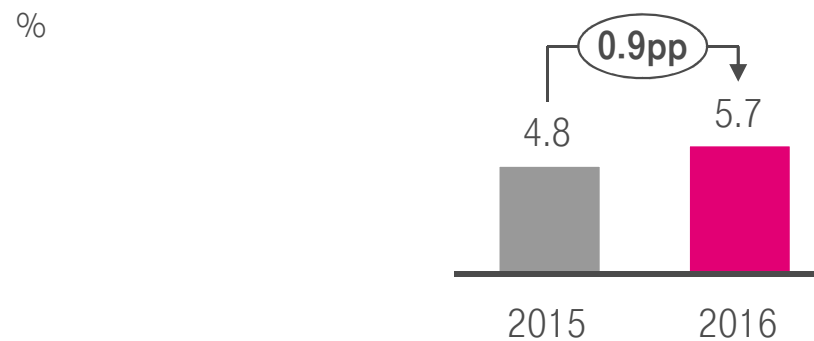
## Adj. net income Q4/16



## Net debt development Q4/16



## ROCE development FY/16<sup>2</sup>



1) Free cash flow before dividend payments and spectrum investment (Q4/15: € 26 million; Q4/16: € 432 million) 2) 2016 includes EE book gain of € 2.5 billion

# FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn

	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016
Balance sheet total	143.9	143.6	143.5	143.1	148.5
Shareholders' equity	38.2	38.4	37.0	37.6	38.8
Net debt	47.6	47.6	48.7	48.5	50.0
Net debt/adj. EBITDA <sup>1</sup>	2.4	2.3	2.3	2.3	2.3
Equity ratio	26.5%	26.8%	25.8%	26.3%	26.2%

## Comfort zone ratios

Rating: A-/BBB	●
2 – 2.5x net debt/adj. EBITDA	●
25 – 35% equity ratio	●
Liquidity reserve covers redemption of the next 24 months	●

## Current rating

Fitch:	<b>BBB+</b>	stable outlook
Moody's:	<b>Baa1</b>	stable outlook
S&P:	<b>BBB+</b>	stable outlook

1) Ratios for the interim quarters calculated on the basis of previous four quarters.

# EXECUTING OUR STRATEGY

- 1** Leading European Telco:  
Integrated market leader with superior margins and returns.
- 2** We strengthen our differentiation by best customer experience and by continuously investing into leading access networks and our transformation programs.
- 3** We transform towards a lean and highly agile IP production.
- 4** We are self-funding DT's transformation by disciplined cost management.
- 5** We will grow in all relevant financial KPI's (ROCE, Revenue, EBITDA, FCF).
- 6** Our shareholders will participate with growth of dividends following FCF growth and our prudent debt policy remains unchanged.

**THANK YOU!**