



# DEUTSCHE TELEKOM

## Q4/FY 2013 & STRATEGY UPDATE



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# REVIEW Q4/FY 2013



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# 2013 KEY ACHIEVEMENTS: CREATING VALUE

## Segments

- Revenue trends further improved
- Adj. Margin at 40% level
- Mobile market leadership regained
- INS roll-out started



- Organic revenue trends improved
- Revenue and cost transformation progressing well



- MetroPCS merger successfully accomplished
- Turnaround in subscriber development
- Value creation: EV improved by 53%



## Group

### Operational management:

- Efficiency: Tel IT delivers along plan – 0.35 billion IT spend reduction
- 0.8 billion more organic investments into the business
- FY 2013 Guidance achieved



### Financial management:

- Stable Rating
- Executed on dividend policy
- EPS and ROCE improved



### Portfolio management:

- Value of Scout group crystallized
- GTS: enhancement of commercial opportunities in Europe at reasonable price



Total shareholder return 2013:

**+56%**



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# Q4 KEY ACHIEVEMENTS: TURNAROUND IN THE US CONTINUES, GERMANY REMAINS SOLID, EUROPE WITH SLIGHT IMPROVEMENT

<b>GROUP</b>	<ul style="list-style-type: none"> <li>▪ Growth in key areas: 1,639k mobile contract net adds, 163TV net adds, 42k broadband net adds.</li> <li>▪ Revenue grows 6.5% to €15.7 billion. Organic revenue growth<sup>1</sup> of 2.8%.</li> <li>▪ Adj. EBITDA of €4.1 billion (+1.3%) and Free Cash Flow of €1.0 billion in line to achieve full year guidance .</li> <li>▪ Full year: ROCE improved to 3.8% up 6.2pp, adj. EPS improved to €0.63(+6.8%).</li> </ul>
<b>GERMANY</b>	<ul style="list-style-type: none"> <li>▪ Growth in key areas: 638k mobile contract net adds, 56k TV net adds and 133k fiber net adds (incl. wholesale).</li> <li>▪ Revenue trend (-1.7%) slightly weaker vs. Q3 due to less handset sales; adj. EBITDA-margin of 35.9% in Q4 – delivered on 40% margin target for full year.</li> <li>▪ Underlying mobile service revenue (-0.4%) almost flat in Q4.</li> </ul>
<b>US</b>	<ul style="list-style-type: none"> <li>▪ Growth in key areas: +1,645k mobile customers, branded postpaid customers +869k.</li> <li>▪ Revenue in US\$ grows 40.7% to 6.9 billion US\$ driven by MetroPCS consolidation. Organic revenue growth<sup>1</sup> of 13.9%.</li> <li>▪ Adj. EBITDA grows 26.9% to 1.3 billion US\$. Organic<sup>1</sup> adj. EBITDA declines 7.9% due to record subscriber growth.</li> </ul>
<b>EUROPE</b>	<ul style="list-style-type: none"> <li>▪ Growth in key areas: 132k mobile contract net adds, 107k TV net adds, 64k broadband net adds.</li> <li>▪ Organic revenue<sup>1</sup> trend +0.4%, improved vs. Q3 primarily due to higher handset revenues.</li> <li>▪ Organic adj. EBITDA<sup>1</sup> up by +0.4%.</li> </ul>
<b>SYSTEMS SOLUTIONS</b>	<ul style="list-style-type: none"> <li>▪ Order entry with 2.4 billion €, significantly below last year due to an exceptionally high order volume in Q4/12 driven by one big deal .</li> <li>▪ Organic revenue growth<sup>1</sup> of -0.6% at Market Unit. Tel-IT with expected revenue decline (-19.4%) supports IT spend reduction of 11% in group.</li> <li>▪ Adj. EBIT grows 23% in Market Unit – margin improved to 4.1%.</li> </ul>

1) Adjusted for changes in the scope of consolidation and currency fluctuations



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# 2013: KEY FIGURES

€ mn	Q4			FY		
	2012	2013	Change	2012	2013	Change
Revenue	14,707	15,665	6.5%	58,169	60,132	3.4%
Adj. EBITDA	4,008	4,060	1.3%	17,973	17,424	-3.1%
Adj. net profit	200	355	77.5%	2,537	2,755	8.6%
Net profit	641	-752	n.a.	-5,353	930	n.a.
Adj. EPS (in €)	0.05	0.08	60.0%	0.59	0.63	6.8%
EPS (in €)	0.15	-0.18	n.a.	-1.24	0.21	n.a.
Free cash flow <sup>1</sup>	1,105	1,032	-6.6%	6,239	4,606	-26.2%
Cash capex <sup>2</sup>	2,357	2,466	4.6%	8,021	8,861	10.5%
Net debt (in € bn)	36.9	39.1	6.1%	36.9	39.1	6.1%

1) Free cash flow before dividend payments, spectrum investment, effects of AT&T transaction and compensation payments for MetroPCS employees

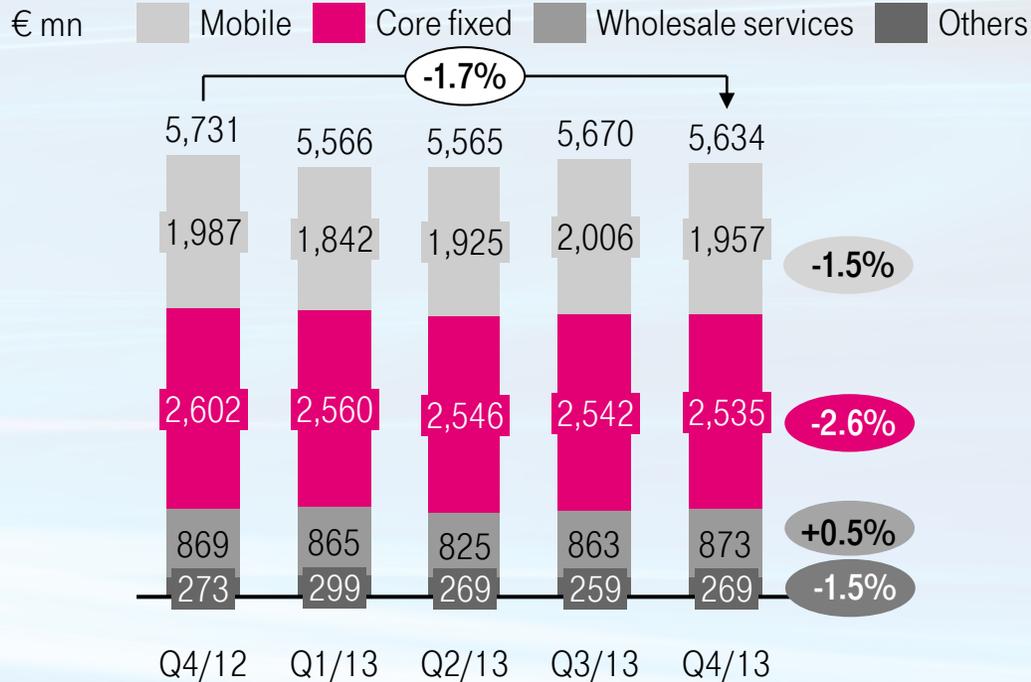
2) Before spectrum payments. Q4/13 € 1,022 million . € 82 million in Q4/12. FY/13 € 2,207 million, FY/12 € 411 million.



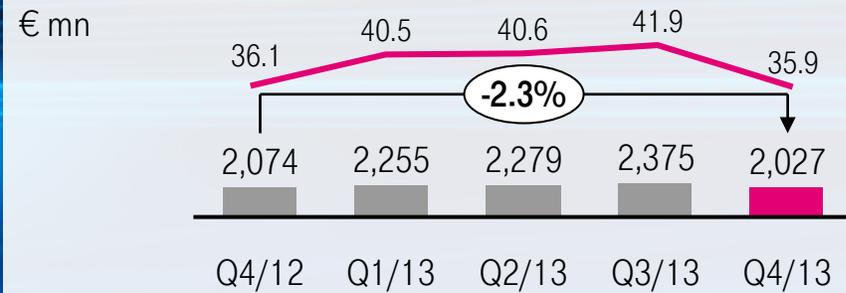
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# GERMANY: FY ADJ. EBITDA MARGIN AT AROUND 40%

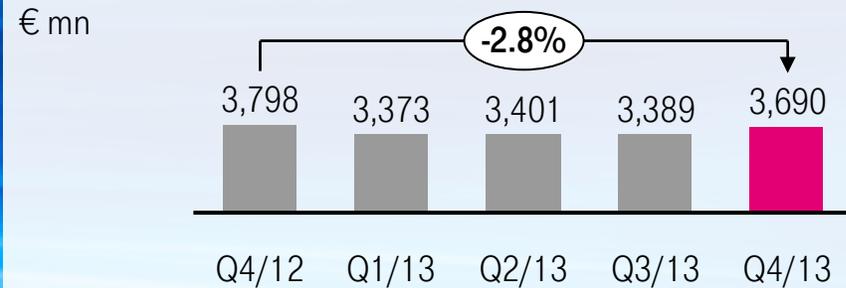
## REVENUES



## ADJ. EBITDA AND MARGIN (IN %)



## ADJ. OPEX



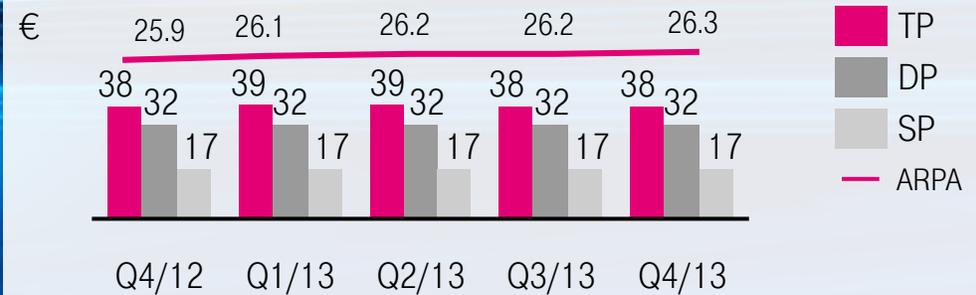
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# GERMANY: FIXED – INCREASING ARPA, FIBER BASE GROWING, LINE LOSSES DECREASING

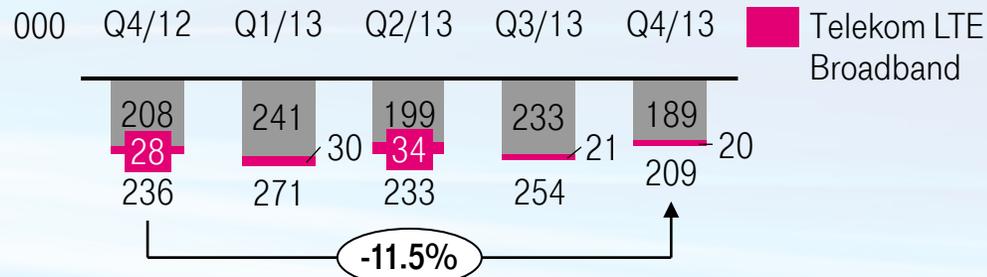
## GERMAN BROADBAND MARKET<sup>1</sup>



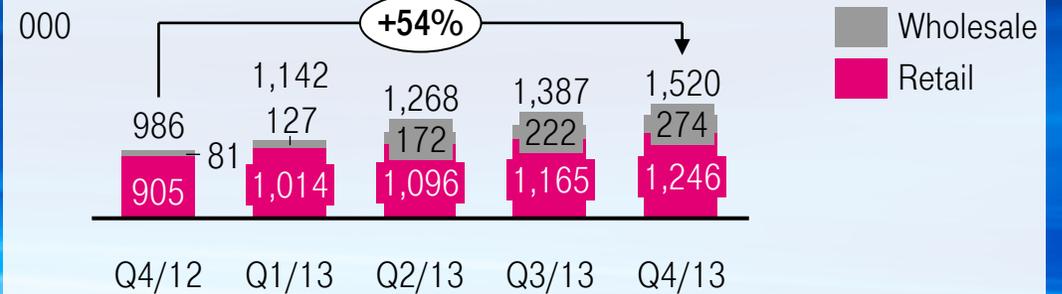
## AVERAGE REVENUE PER ACCESS GROWING



## LINE LOSSES: IMPROVING TREND DESPITE LTE SUBSTITUTION



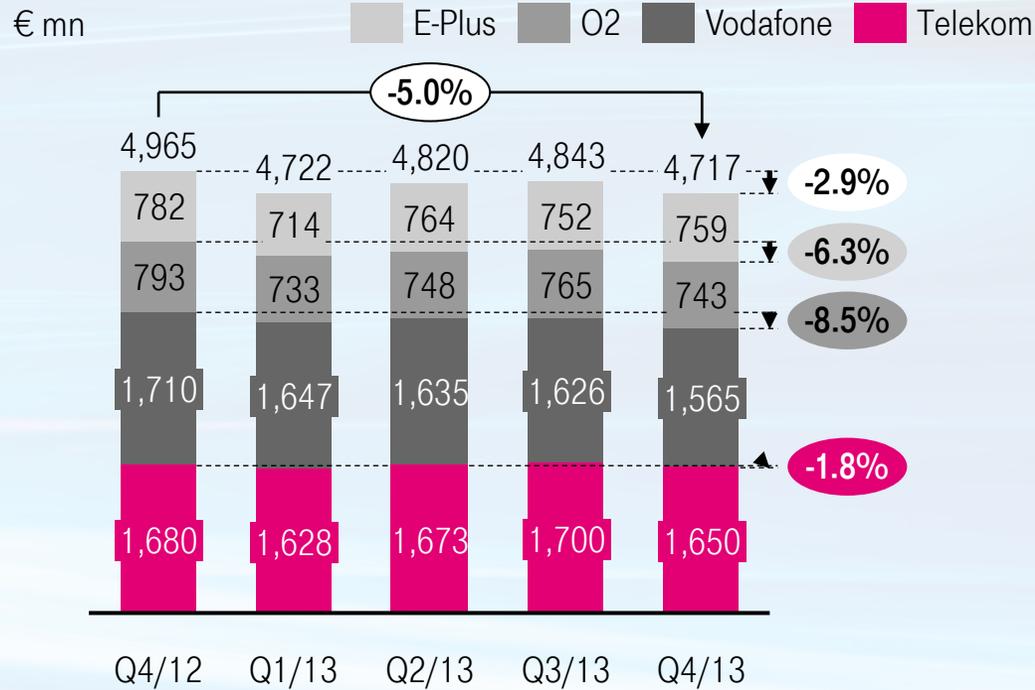
## FIBER CUSTOMERS: RETAIL AND WHOLESALE



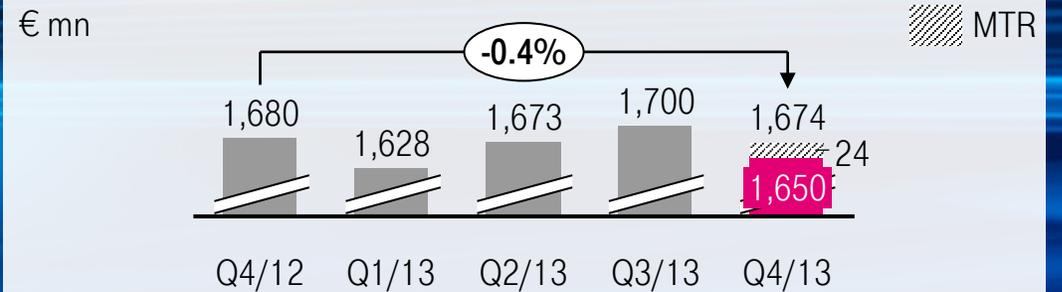
1) Based on management estimates

# GERMANY: MOBILE – CONTINUED OUTPERFORMANCE OF COMPETITION

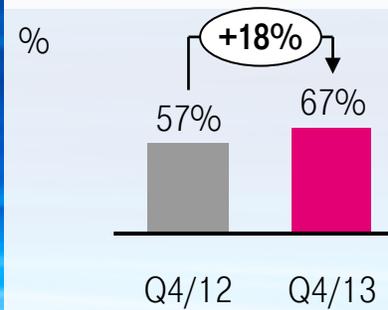
## GERMAN MOBILE MARKET SERVICE REVENUE



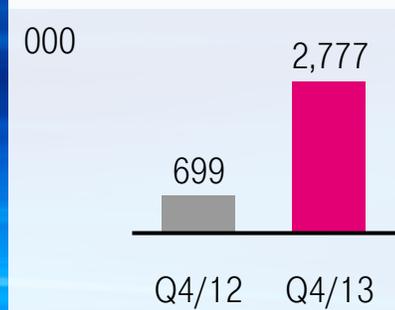
## TD MOBILE SERVICE REVENUE EXCL. MTR CUT



## SMARTPHONE PENETRATION<sup>1</sup>



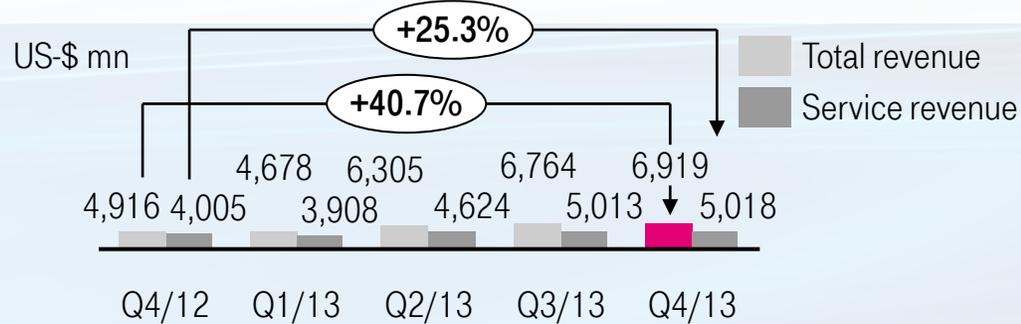
## LTE CUSTOMERS<sup>2</sup>



1) Of T-branded consumer contract customers 2) Consumers using an LTE device and tariff plan including LTE

# TMUS: Q4 WITH STRONGEST CUSTOMER GROWTH SINCE 2005

## REVENUE AND SERVICE REVENUE

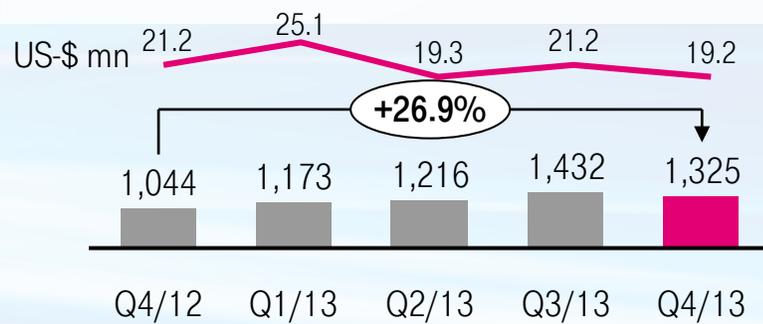


## NET ADDITIONS

in 000

Total net adds	Q4/12	Q1/13	Q2/13	Q3/13	Q4/13
Total net adds	61	579	1,130	1,023	1,645
Branded:					
▪ Postpaid	-515	-199	688	648	869
▪ Prepay	166	202	-10	24	112
Wholesale <sup>1</sup>	410	576	452	351	664

## ADJ. EBITDA AND MARGIN (IN %)



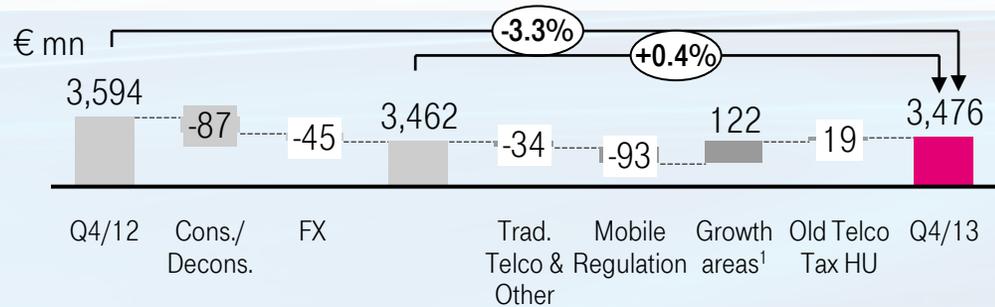
## BRANDED CUSTOMERS: POSTPAID AND PREPAY ARPU



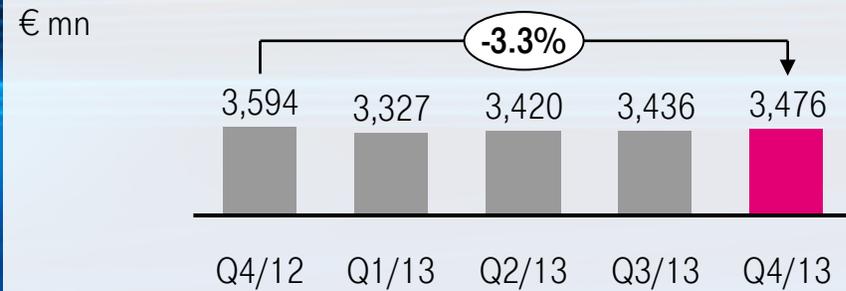
1) Wholesale includes MVNO and machine-to-machine (M2M). Amounts may not add up due to rounding.

# EUROPE: ORGANIC REVENUE AND ADJ. EBITDA WITH SLIGHT IMPROVEMENT

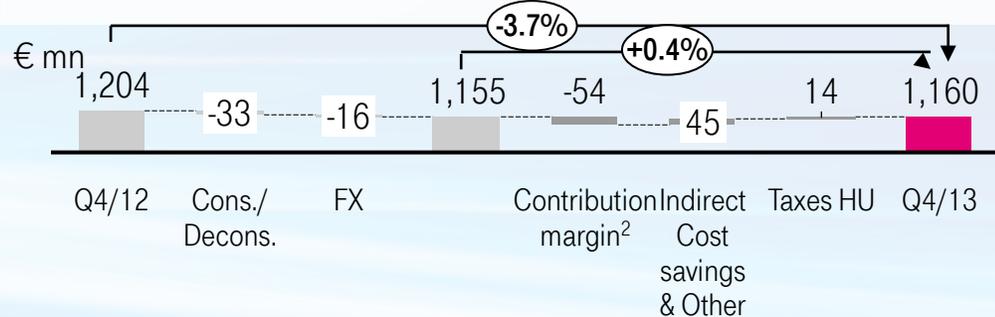
## REVENUE



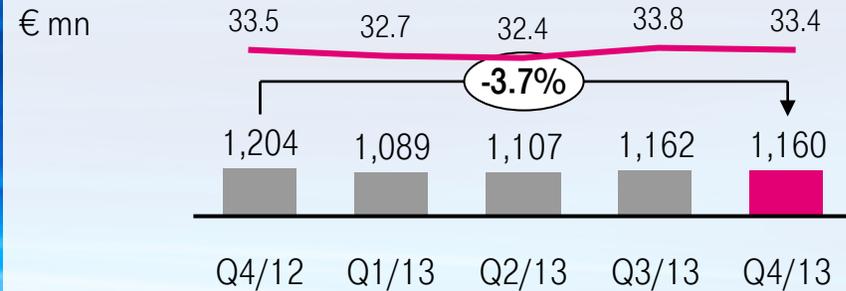
## REVENUE



## ADJ. EBITDA



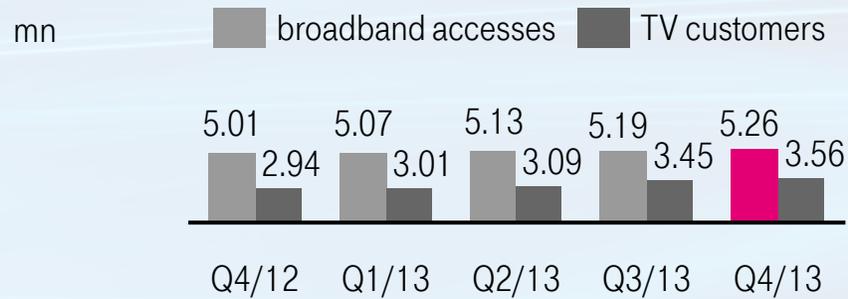
## ADJ. EBITDA AND MARGIN (IN %)



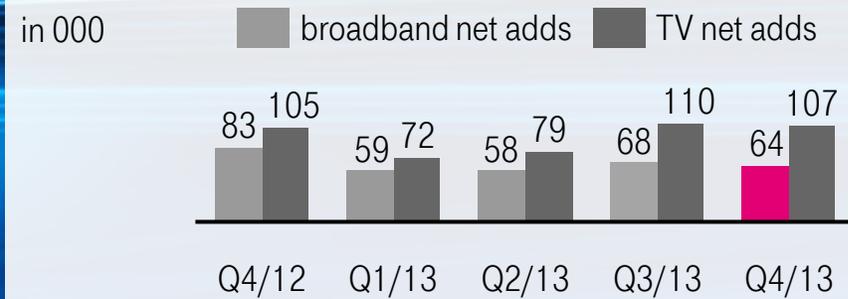
1) Mobile Data, Pay TV & fixed broadband, B2B/ICT, adjacent industries (online consumer services, energy and other) 2) Total Revenues - Direct Cost

# EUROPE: CONTINUED GROWTH IN MOBILE AND FIXED KEY AREAS

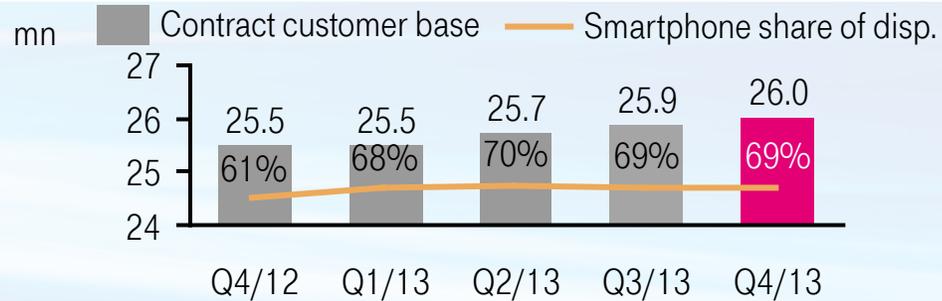
## POCKETS OF GROWTH - BROADBAND AND TV<sup>1</sup>



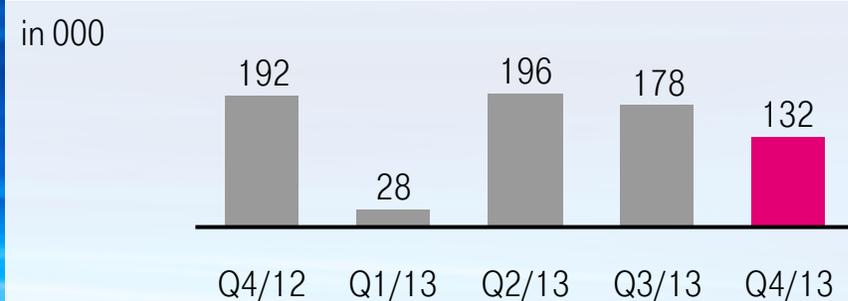
## NET ADDS - BROADBAND AND TV<sup>1</sup>



## POCKETS OF GROWTH - MOB. CONTRACT AND SMARTPHONES<sup>1</sup>



## NET ADDS - MOBILE CONTRACT<sup>1</sup>

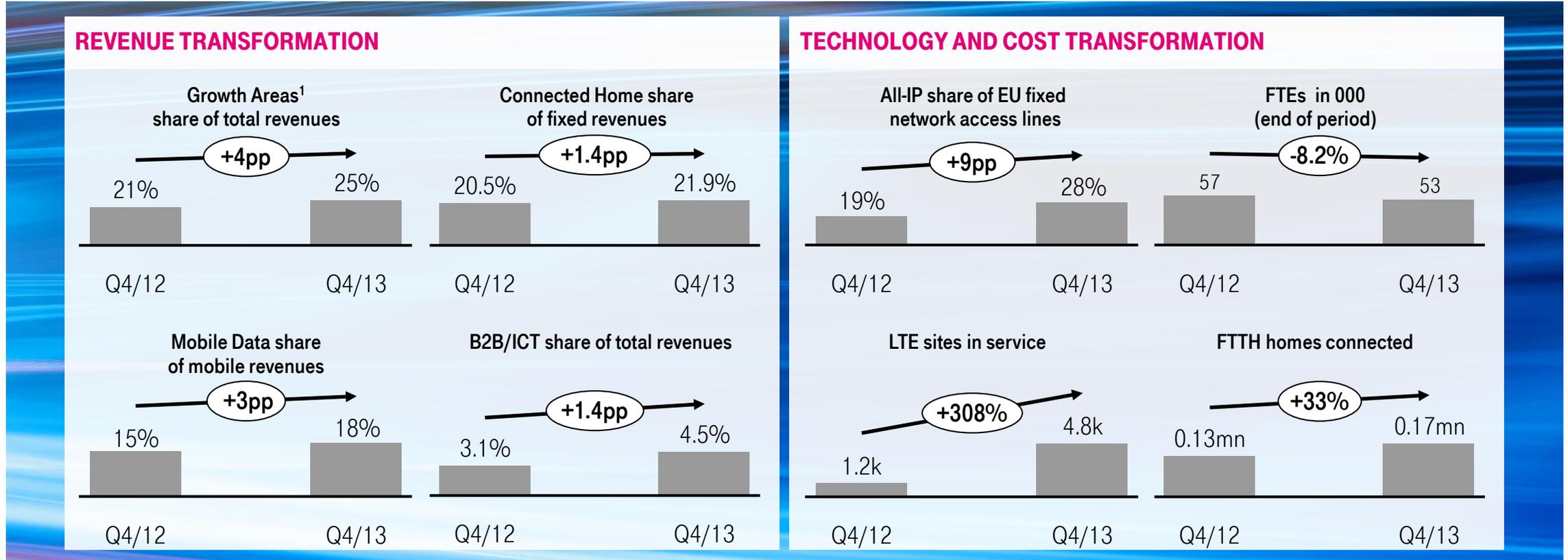


<sup>1</sup>) incl. business customers shifted to T-Systems in Hungary as of 1.1.2011. Smartphone share w/o SK, RO, MK, AL, CG and Bulgaria. TV figures include DiGi Slovakia as of 1. September 2013 (not counted as net adds). The customers of our companies in Bulgaria are no longer included in the Europe operating segment since August 1, 2013 following the sale of the shares held in the companies. They have been eliminated from the historical customer figures to improve comparability.



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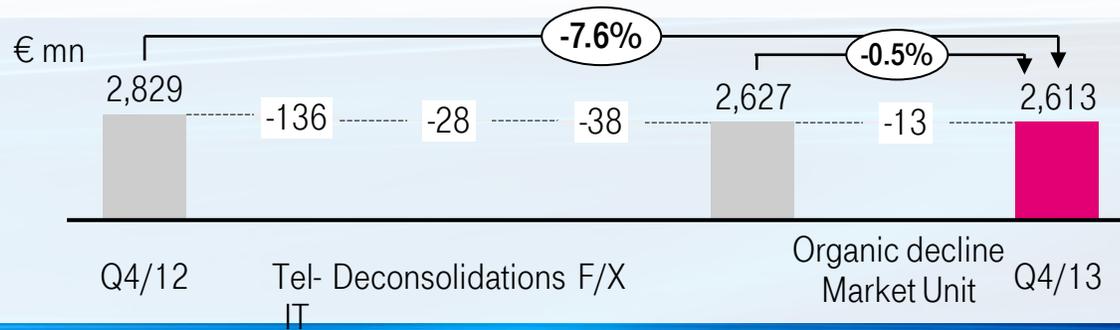
# EUROPE: COMMERCIAL AND TECHNOLOGY INITIATIVES DRIVING REVENUE AND COST TRANSFORMATION



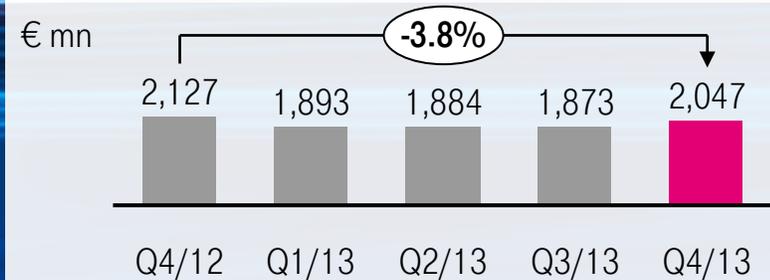
1) Mobile Data, Pay TV & fixed broadband, B2B/ICT, adjacent industries (online consumer services, energy and other)

# SYSTEMS SOLUTIONS: EBIT MARGIN IMPROVED AT MARKET UNIT, TEL-IT DELIVERS ON COST SAVINGS

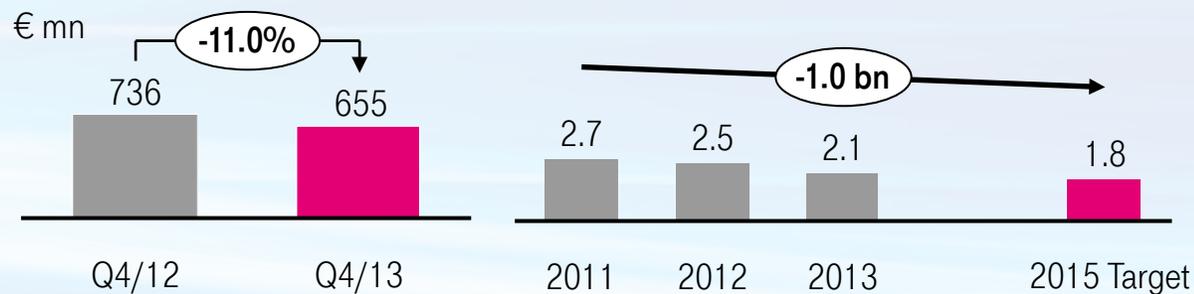
## TOTAL REVENUE



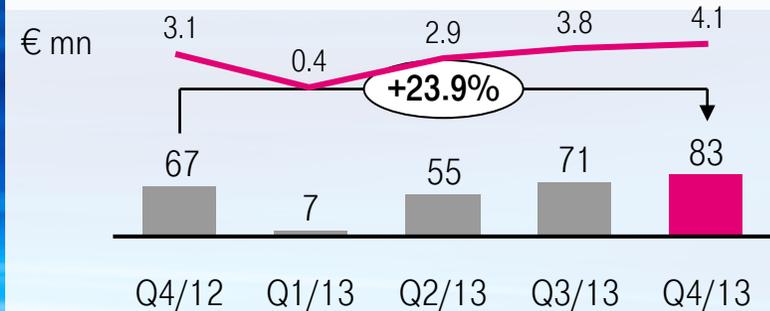
## REVENUE MARKET UNIT



## TEL-IT SPEND REDUCTION IN Q4 AND DELIVERY VERSUS TARGET

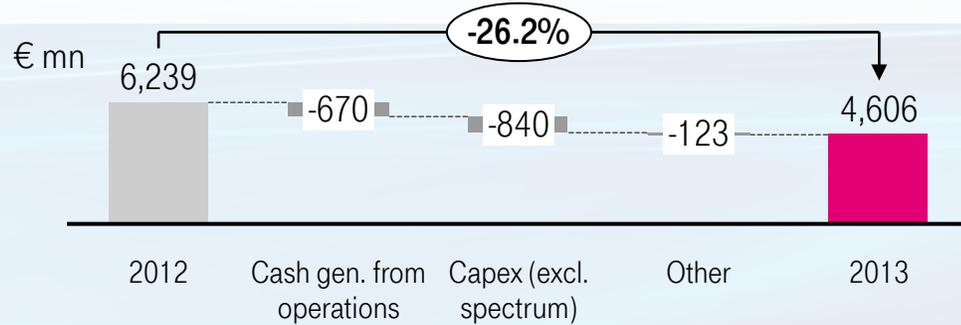


## ADJ. EBIT AND MARGIN (IN %) MARKET UNIT

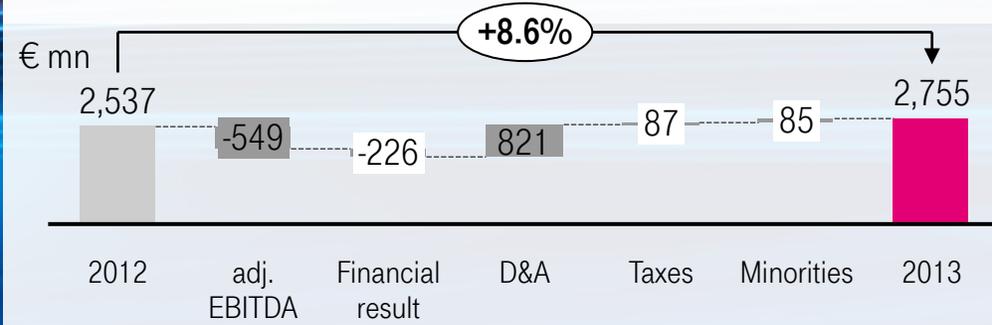


# FINANCIALS: 2013 AND Q4 FCF AND ADJ. NET INCOME

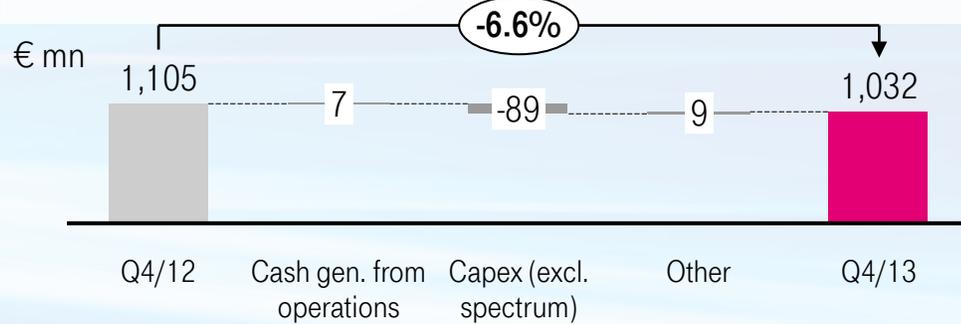
## FREE CASH FLOW 2013



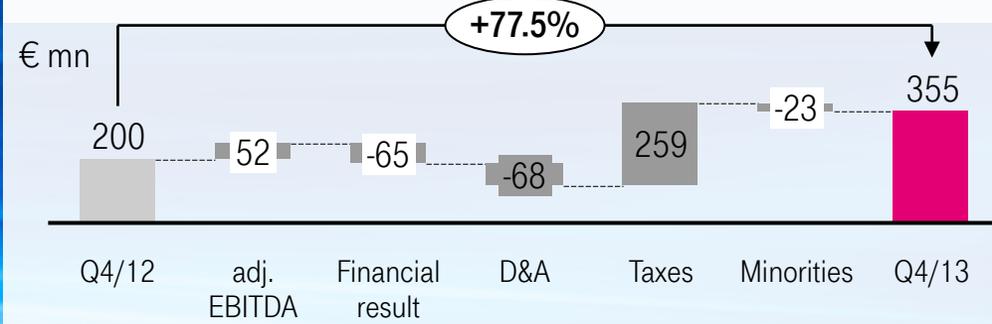
## ADJ. NET INCOME 2013



## FREE CASH FLOW Q4/13

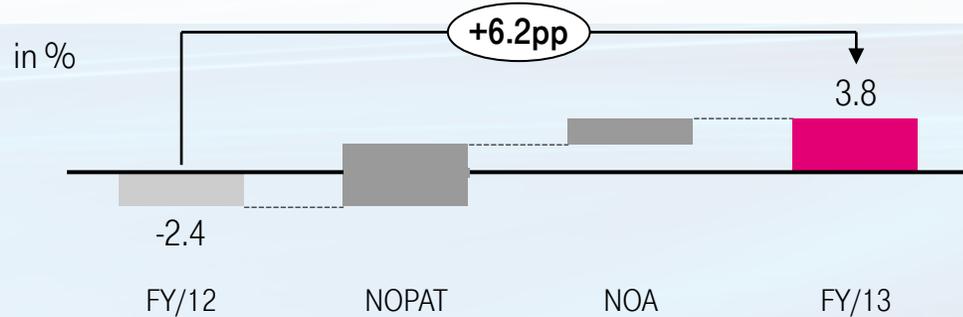


## ADJ. NET INCOME Q4/13

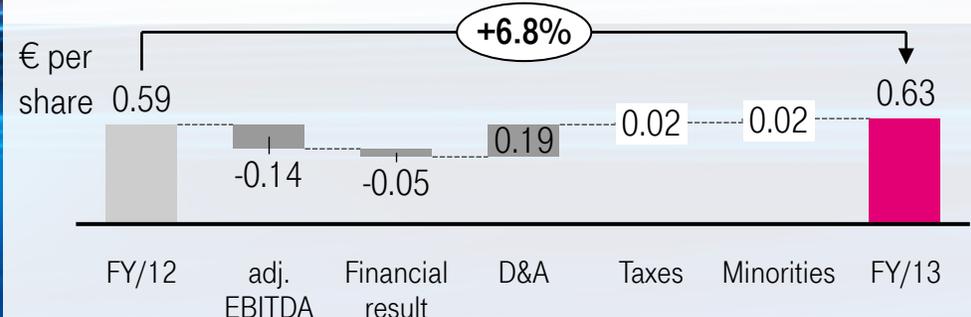


# FINANCIALS: IMPROVEMENT IN ROCE AND ADJ. EPS

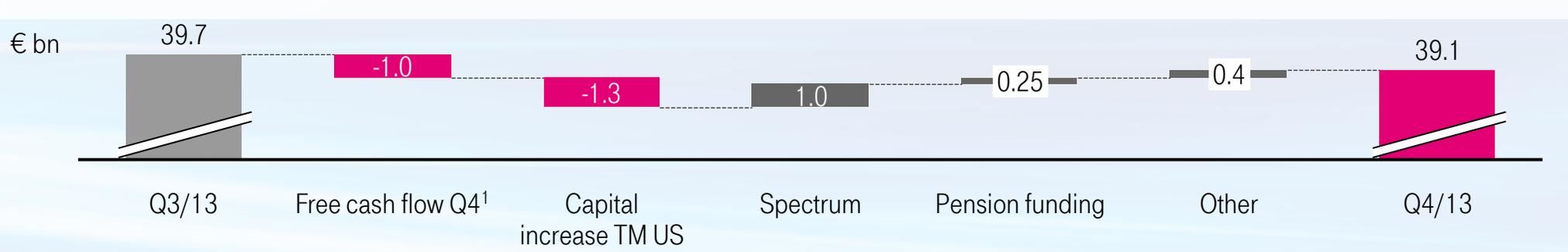
## ROCE DEVELOPMENT FY/13



## ADJ. EPS DEVELOPMENT FY/13



## NET DEBT DEVELOPMENT Q4/13



1) Free cash flow before dividend payments, spectrum investment, effects of AT&T transaction and compensation payments for MetroPCS employees



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# FINANCIALS: BALANCE SHEET

€ bn	31/12/2012	31/03/2013	30/06/2013	30/09/2013	31/12/2013
Balance sheet total	107.9	108.8	116.1	115.3	118.1
Shareholders' equity	30.5	31.0	31.3	32.0	32.1
Net debt	36.9	37.1	41.4	39.7	39.1
Net debt/Adj. EBITDA <sup>1</sup>	2.1	2.1	2.4	2.3	2.2
Equity ratio	28.3%	28.5%	26.9%	27.8%	27.1%
<b>Comfort zone ratios</b>		<b>Current rating</b>			
Rating: A-/BBB	●	Fitch:	<b>BBB+</b>	stable outlook	
2 – 2.5x net debt/Adj. EBITDA	●	Moody's:	<b>Baa1</b>	stable outlook	
25 – 35% equity ratio	●	S&P:	<b>BBB+</b>	stable outlook	
Liquidity reserve covers redemption of the next 24 months	●				

1) Ratios for the interim quarters calculated on the basis of previous 4 quarters. Ratio in 2013 negatively influenced by full consolidation of MetroPCS debt, without accounting for Metro's EBITDA in the previous quarters.

**STRATEGY UPDATE:**

DEUTSCHE TELEKOM – LEADING TELCO



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# DT STRATEGY

## LEADING EUROPEAN TELECOMMUNICATIONS PROVIDER

LEADING TELCO

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS



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# INTEGRATED IP NETWORKS

INTEGRATED  
IP NETWORKS

BEST  
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BUSINESS

## ALL-IP TRANSFORMATION

- Future-proof **IP platform with focus on customer** and faster installation of services
- **More cost-effective production** (Example Macedonia: OPEX savings: EUR 10/customer/year)
-  >2 million customers migrated YE13
-  >2.7 million IP accesses YE13

**TARGET:  
TRANSFORMATION  
COMPLETED BY 2018**

## PAN-EUROPEAN NETWORK

- DT as **technology front runner in Europe**: design of a common European production model
- Based on a transformed **IP network**
- Advancing **virtualization** of individual **network components**

**TARGET:  
TECHNOLOGY FRONT RUNNER  
START PAN-NET SET UP BY 2015**

## INTEGRATED NETWORK STRATEGY

- **LTE roll-out:**
  -  85% Pop Coverage YE16
  -  50-85% Pop Coverage YE17
- **Fixed Broadband Rollout:**
  -  >24 million households covered YE16 with FTTC/Vectoring
  -  >9 million households covered YE16 with FTTX (partly comb. with Vectoring)

**TARGET:  
€6.5 BN NETWORK INVEST  
IN D/EU 2014-2017**



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# BEST CUSTOMER EXPERIENCE

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS

## BEST NETWORK

- **Best network quality** at home or on the move
- **Top speed** in all networks
- **LTE:** Speed up to **300 Mbit/s** (LTE advanced)
- **FTTC & vectoring:** up to **100 Mbit/s** download, upload **40 Mbit/s**
- **Hybrid network** (fiber + LTE): up to **250 Mbit/s** download, upload up to **90 Mbit/s**

**TARGET:**  
**NO.1 IN NETWORK COVERAGE,  
STABILITY & BANDWIDTH**

## INTEGRATED PRODUCTS

- **Integrated products/services** for fixed/mobile communications **from a single source**
- **Hybrid routers** for the combination of optical fiber/LTE (up to 250 Mbit/s)
- Converged **package rates** for fixed network/mobile/TV/partner services
- Customers benefit from **simplicity and increased performance**

**TARGET:**  
**MARKET LAUNCH  
INTEGRATED PRODUCTS 2014**

## BEST CUSTOMER SERVICE

- **Easy and fast** service for the **best customer experience**
- Consistent customer experience across **all channels**
- Strengthening **online channels**
- Customers can carry out **service processes flexibly** themselves
- **Integrated view** of our customer data
- **Best Telco** in TRIM-Score

**TARGET:**  
**NO. 1/2 IN CUSTOMER  
PERCEPTION**



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# WIN WITH PARTNERS

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS

## “STECKERLEISTE”

- Set up **partner system for innovative services** (“power strip”): state-of-the-art services for customers by **working with partners** (e.g. Spotify)
- **EU-wide connection** of services in the DT product portfolio
- **DT “preferred telco”** for OTT partners (security, technical integration, onboarding process, marketing, etc)

**TARGET:  
PARTNER INTEGRATION  
WITHIN 3 MONTHS**

## NEW GENERATION TV

- Best **HD-offering&Premium-Contents**
- Live (multi-cast) and on-demand-Contents **on all screens**
- delivered **via IPTV/DVB**, in addition **OTT-partner contents**
- **Social media integration** and interactivity on all devices
- **Personalized** recommendations

**TARGET:  
10 M TV-CUSTOMERS  
2017 (GERMANY/EU)**

## PLATFORM-BASED BUSINESS

### DT as a platform for third-party providers

Current examples:

- **Qivicon**/smart home
- Publishing platform/Tolino
- **Intelligent networks** (connected car, e-health, smart energy)
- **M2M/Industry4.0-solutions**
- **Payment/MyWallet**

**TARGET:  
BUILD OUT PLATFORMS FOR  
INNOVATIVE SOLUTIONS**



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# LEAD IN BUSINESS

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS

## T-SYSTEMS 2015+

- Restructuring of IT business to focus on **scalable, platform-based IT products** (standardized IT)
- Focus on **digital innovation areas**: scalable solutions from the areas of **cloud, security, big data, M2M**, etc.

**TARGET: ≈50% TSI REVENUE THROUGH STANDARDIZED IT PRODUCTS (FROM 2017)**

## STRENGTHENING B2B IN EUROPE

- **Focussed expansion** of mobile-centric countries to include fixed network products
  - Europe: **Strengthening of market position** in B2B segment
- Initial implementation successes:
- **GTS**<sup>1</sup> strengthening B2B in Eastern Europe
  - TSI CZ integrated in **T-Mobile CZ**

**TARGET: ICT REVENUE GROWTH ≈20% IN EU (2012-2015 CAGR)**

## GERMAN SME INITIATIVE

- Focus on **SME growth market: Expansion of IT market share**
- **Extended product portfolio** (also through partners) with focus on cloud, security, convergent products, collaboration
- **New “go-to-market” initiatives**: central order center and partner networks for sales

**TARGET: +€600 M IT-REVENUE IN SME (UNTIL 2018 IN GERMANY)**



1) GTS acquisition pending EC clearance



# LEAD IN BUSINESS – TSI 2015+ FASTER STRATEGY EXECUTION

INTEGRATED  
IP NETWORKS

BEST  
CUSTOMER  
EXPERIENCE

WIN WITH  
PARTNERS

LEAD IN  
BUSINESS

## CHANGING ENVIRONMENT



- Increased competitive intensity especially in classical ICT and commoditized cloud services leads to massively increasing price pressure in the market – e. g. Indian operators are gaining ground in Europe with aggressive pricing models



- Standardized solutions & products from the SMB sector are quickly penetrating the enterprise market – pushing for lower prices and more automation



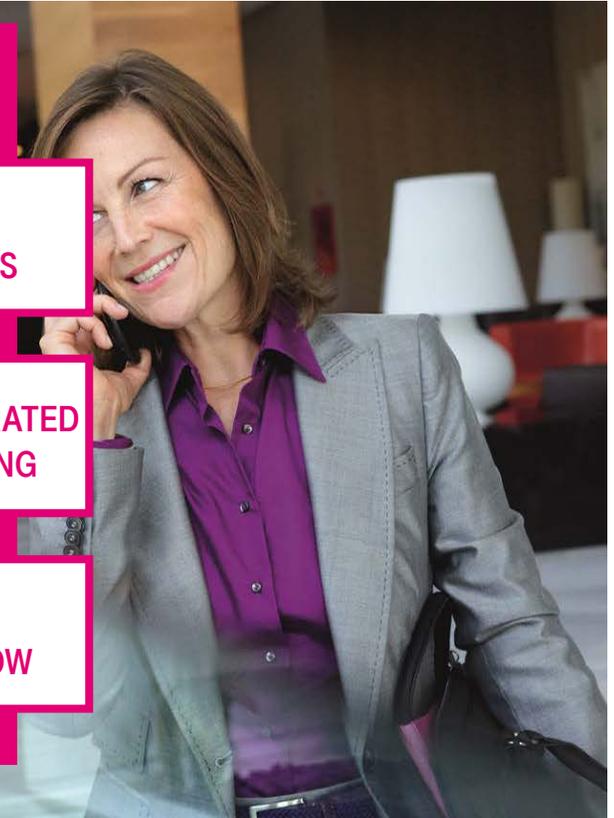
- Our customers expect more innovative solutions for their business – so the focus is not only on our customers, but increasingly also on our customers' customers

TRANSFORM OUR  
BUSINESS MODEL

STOP  
UNPROFITABLE OFFERINGS

TRANSFORMATION & ACCELERATED  
PERSONNEL RESTRUCTURING

EXPAND & SCALE OUR  
BUSINESS MODEL AND GROW

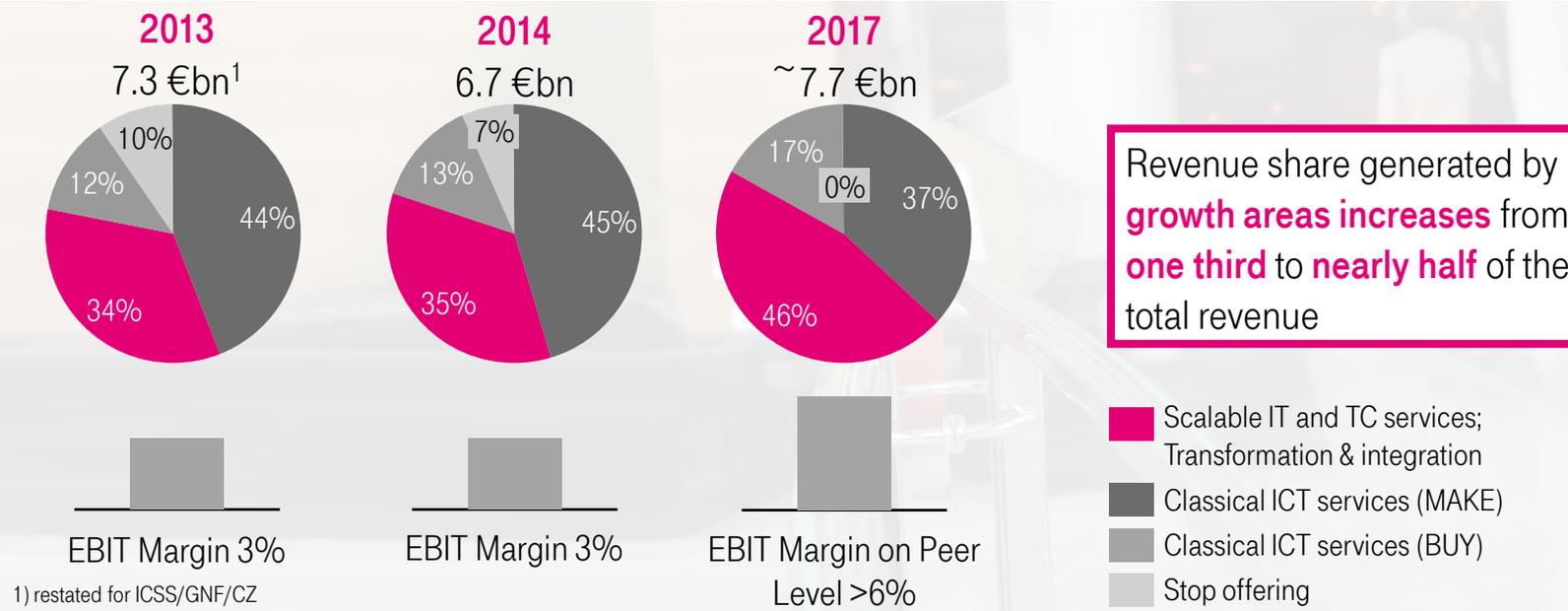


# LEAD IN BUSINESS – TSI 2015+

## REVENUE PROFILE AND PROFITABILITY



### REVENUE DISTRIBUTION TSI MARKET UNIT



# OUR FINANCE STRATEGY – PROVEN AND STILL VALID

## EQUITY

**Reliable Shareholder Remuneration policy**

### Dividend<sup>1</sup>

- FY 2013: €0.50
- FY 2014: €0.50
- FY 2015: re-visit

Attractive option:  
dividend in kind

## STRATEGY LEADING TELCO

**INTEGRATED  
IP NETWORKS**

**BEST  
CUSTOMER  
EXPERIENCE**

**WIN WITH  
PARTNERS**

**LEAD IN  
BUSINESS**

## VALUE CREATION: ROCE > WACC

- 1 EFFICIENCY MANAGEMENT** – Reduce costs by “target costing” and increase ROCE above cost of capital
- 2 PORTFOLIO MANAGEMENT** – Deliver on preferred business model (integrated + B2C/B2B) and value generation
- 3 RISK MANAGEMENT** – Maintain low risk country portfolio
- 4 FAST TRANSFORMATION** – Support fast IP migration and transform network infrastructure

## DEBT

**Undisputed access to debt capital markets**

- **Rating:** A-/BBB
- **Net debt/adj. EBITDA:** 2 – 2.5x
- **Equity ratio:** 25 – 35%
- **Liquidity reserve:** covers maturities of coming 24 months

1) Subject to resolutions of the relevant bodies and the fulfillment of other legal requirements

# PORTFOLIO TRANSFORMATION



## STRENGTHEN THE STRENGTH

- Create, protect & invest for “economic FMC fortresses”
- Continue network investments



## DERISKING T-MOBILE US

- Capture MetroPCS synergies
- Maintain & monetize Uncarrier momentum



## PORTFOLIO DISCIPLINE

- Acquisitions to be funded by cleaning up weak spots
- Exit where structurally challenged or no ROCE > WACC path



## ENABLE STRATEGIC FLEXIBILITY

- Monetize non-core assets to protect balance sheet (e.G. Scout)

# GUIDANCE<sup>1</sup>

	2013 RESULTS		GUIDANCE 2014	AMBITION 2015
€ bn	Reported	Pro forma <sup>2</sup>		
<b>Revenue</b>	<b>60.1</b>	<b>60.9</b>	<b>Slight growth<sup>3</sup></b>	<b>Growing</b>
<b>Adj. EBITDA</b>	<b>17.4</b>	<b>17.6</b>	<b>flat around 17.6<sup>4</sup></b>	<b>Growing</b>
<b>FCF</b>	<b>4.6</b>	<b>4.6</b>	<b>around 4.2</b>	<b>Slight growth</b>
<b>SHAREHOLDER REMUNERATION POLICY<sup>5</sup></b>				
Unchanged				
<ul style="list-style-type: none"> <li>▪ 2013/2014: 0.5 € per share</li> <li>▪ 2015: re-visit</li> </ul>				

1) Guidance based on constant exchange rates and no further changes in the scope of consolidation 2) Adjusted for changes in the scope of consolidation 3) Versus 2013 pro forma 4) Excl. Scout, which contributed 0.1 bn of EBITDA in 2013  
5) Subject to resolutions of the relevant bodies and the fulfillment of other legal requirements

# UPDATE MID TERM AMBITION CMD 2012

	MID TERM AMBITION (INCL. PCS)		
GROUP REVENUES	Growing	2014	●
GROUP Adj. EBITDA	Growing	2014	●
GROUP FCF	≈€6 bn	2015	●
GROUP Adj. EPS	Improvement to ≈€0.8	2015	●
GROUP ROCE	Improvement to ≈5.5%	2015	●
SHAREHOLDER REMUNERATION POLICY	Review	2015	●

# KEY MESSAGES

## DEUTSCHE TELEKOM – LEADING TELCO

### INTEGRATED IP NETWORKS ACROSS EUROPEAN FOOTPRINT

- DT with clear game plan to finish All-IP migration YE2018
- Clear Advantages: Market agility, efficiency, costs
- DT as strong integrated player in >70% of its European assets

### BEST CUSTOMER EXPERIENCE

- DT with the best network
- DT with an integrated product portfolio
- DT with the best customer service

### WIN WITH PARTNERS

- Concentrate in house innovation on areas of strength
- Set up of a partner system for innovative services – “Steckerleiste”
- DT as a platform for third-party providers

### LEAD IN BUSINESS

- TSI 2015+: Restructuring/refocusing on scalable, platform based IT products
- Target to be No.1 or 2 in B2C and B2B in each market
- Strengthening B2B in Europe/German SME initiative

### GENERATION OF STAKEHOLDER VALUE

- DT as frontrunner and think tank in integrated network strategy and All-IP
- Superior business model, leading to better margins and returns
- Thereby generating value for our stakeholders!

# FURTHER QUESTIONS

PLEASE CONTACT THE IR DEPARTMENT

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**THANK YOU!**



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