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Deutsche Telekom AG (DTE.DE)

Capital Markets Day - Day 1

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MANAGEMENT DISCUSSION SECTION

Unverified Representative

Ladies and gentlemen, please welcome your host, Stephan Eger.

Stephan Eger

Senior Vice President & Head-Investor Relations

Well, good afternoon. Good afternoon to you in the room. Good afternoon, good morning, and good evening to everybody who is following on via our HD webcast stream; and a very warm welcome to our Deutsche Telekom 2015 Capital Markets Day.

We're very proud. We're very proud, first of all, that we've been chosen and elected in the top three European companies across all sectors by institutional investors this week for the organization of capital markets. And that obviously has to do with what we've done in the past. But I'm sure that will be even better with the Capital Markets Day 2015 and providing you with even more added.

We're also proud that we have over 100 investors here in the room with a share representation which is almost of the size of what we usually have with our AGMs. Now you'll see what we do in the next two days, just in the back of me, the agenda, we'll be having today in the afternoon. Basically, we're focusing on our Group Strategy.

We will be starting with Tim, and Tim will be giving a deep dive into the Group Strategy and Outlook for the next four years, and then we'll have a few deep dives into certain elements of that strategy. Superior All-IP production model we'll be focusing with Thomas on Cost and Portfolio Transformation and on Lead in Business with Reinhard Clemens from T-Systems.

Tomorrow, we will be as usual doing some deep dive into our segments, the most important ones, Germany, Europe, T-Mobile U.S. The entire management team, by the way, is over here. We have Q&A sessions embedded in the respective sessions with the exception of Tim and Thomas, it will be tomorrow. After the final presentation by Thomas Dannenfeldt on finance, we'll have about 45 minutes Q&A just on finance and on strategy.

Investors following us online, by the way, can contribute and can participate interactively by just handing in the questions via Twitter or via email. And we'll make sure that we'll [ph] take from here (2:18) on stage as well.

Now, without any further ado, let me just remind you of the legal disclaimers, which are embedded in all our presentations. I'm sure that you will read them out thoroughly. So have fun with that. We'll start now with real content, and let me welcome with you my Group CEO, Mr. Tim Höttges on stage.

Timotheus Höttges

Chairman-Management Board & CEO

Yeah, a very warm welcome here to Deutsche Telekom's living room. I hope you're going to enjoy the next 24 hours with us. I hope you had enjoyed the hospitality with the German Telecom fellows here in Bonn and even with the management team and the ExCom during the next 24 hours.

I hope you even have some fun. Our business should not always be that serious. I'm sure you get the highlight tomorrow when John Legere and his team is showing up here on stage. So, until then you have to live a little bit with the German humor, but I promise you ending high with the US team.

Now, what is this Capital Markets Day about? This capital markets is about your questions. How do these folks going to create value for me? This is the ultimate question. In which kind of environment are these guys operating from a macroeconomic perspective? What are the challenges these guys are facing? And what are the appropriate answers they might give us? And what is the way what makes these guys different to the other telcos, which might be the alternative take we have.

And this is, let's say, the purpose that we fulfill these questions during the next days. And honestly, the simple answer on this question is the team. And I'm totally convinced that, if you're going to be the leading European telco, you need the best team on board. And therefore, we have done a lot of changes throughout the last years on how we work together.

On a weekly basis, we need not only the board members of Deutsche Telekom, but even the key leaders of the functions within the organization, in a session which we call ExCom. And I want to introduce you, first to the team, which is bringing you through the next 24 hours, most of them going to present within this session here. The rest of the team is available through the evening sessions. So that you have a personal dialog, a contact, whatever questions you might have throughout the day.

Now, before we start, let me start with the American team, because these guys came over from Seattle with, let's say, the total joint intelligence of the US team. I'm very happy that they took this long route here down to Bonn. And therefore, let me welcome our very famous 1.2 million followers on twitter John Legere, the CEO of T-Mobile U.S. Come here, John. The New Chief Operating Officer of T-mobile U.S., Mike Stewart. Come here, come here, come here. Then we have Braxton Carter, let's say the very challenged CFO of his team. Yeah. He always has to hold the things together. And Peter [indiscernible] (6:10) as well, so Peter come here as well.

So, these are, let's say, a little bit to start of 2014 within this group. I am sure these guys are going to make it. I could tell you the difference in cultures guys. You know I just experienced 10 minutes ago. You have seen some of the unions standing out there, because we are going to reduce some of the educational quota within the company and to adapt it to the future needs of our company, part of the restructuring which we are doing in the transformation. And I went there as a German being very serious in my [ph] augmentation (6:49) and I am trying to convince them and they were serious there. John was standing aside to me, looking at them, didn't understand a word and said, there was a guy with a nice hat, and he said how much for your hat. And then he put \$40 out of his pocket, gave them the hat. The guy put the hat to John. He took off the hat and the people were applauding. So that's the way of convincing a customer. So thank you for being here guys. Great having you all here and we look forward to the presentation later on.

Now, for me the team is the most important part because at the end of the day this 240,000-people organization, very complex transformation we are running. And therefore we have structured the group of people where we have a segment ownership, but even where we have a functional owner/head within [ph] departments (7:40).

And let me introduce you through the people from the ExCom which are with us today. There is on the one side Claudia, our lady in-charge of Europe. We have Niek Jan van Damme, our Dutch guy for the German organization. We have Reinhard Clemens, our Head of T-Systems International. And then we have Thomas Kremer, Head of DHT, Compliance Officer and Legal Affairs. Then we have Thomas Dannenfeldt, the Group CFO. And then do I miss something? Yes, I missed something. We have a new fellow within this group. And by the way

for us this is not a new fellow it's an old one. Yesterday we appointed Christian Illek, Dr. Christian Illek, CEO of Microsoft Germany to become our new Head of HR.

Now you question what the heck is going on at Deutsche Telekom? Why are they appointing an operational commercial guy who was in-charge of marketing at Deutsche Telekom in the past? I could tell you if you want to really transform the company, you have to do that with operational experience and operational excellence. Not about let's say HR tools only, but with HR tools, but with the background of commercial content and he is joining this team from 1 April onwards.

Now, this is a new guy coming soon but we have other guys, who is making a big important parts to the equation as well. Claudia is in charge of Europe, but she's as well in charge of Technology. And therefore, the Chief Technologist for the transformation of our network, Bruno Jacobfeuerborn is with us here. He is going to make a presentation with Claudia tomorrow.

Niek Jan is in charge to Germany and the innovation part. So the Chief Innovation Officer, Thomas Kiessling is with us here. He belongs to this guy. Then we have Reinhard Clemens, being in charge of T-Systems but as well for the IT within the organization. And we have Markus Müller, by the way he created huge value for you guys, €1 billion savings in IT's over the last 1.5 years. Markus Müller.

So, and then, anybody missing? Yes, the [expletive] legend, you know, our M&A guy you know them all, you know he is very, very prominent. He made a lot of value for this company over the years, the smartest deals in our industry, Thorsten Langheim. It's the first time I see him in a suit by the way, first time I see him in the suit, so therefore – you look great.

So this is the team bringing you for the days with their presentations on the operational side. I could tell you this is going to be one of the best teams in the telco you are going to find. But find out during the next 24 hours. Thank you all for coming here and let's make a good presentation of our company.

So getting serious, on what Deutsche Telekom stands for, you've seen the results of the presentation and what we are doing and I would like to give you a brief overview now about what is the purpose of Deutsche Telekom, why we are existing, and what are we doing for the upcoming years until 2018. I'd like to start with the key messages what we are aiming for. This let's say, the [indiscernible] (11:41) of everything we want to achieve.

First, our ambition is to be and to become the leading European telecom. Now, a lot of you might associate leading with big. That's not what we are talking about. We are talking leading in the categories where we are operating and leading by the way, that means leading in differentiation. Not doing the same of everything but doing something different to how we run Deutsche Telekom and a telco operator.

And we have two categories where we think leading is a big opportunity. The first one is on the infrastructure side and the second one is leading in the choice for customers in the relevant markets we're operating.

On the infrastructure side, the differentiation is coming from three areas. First, investing into converged infrastructure more than anybody else. Second, migrating the net faster to IT than all the others. And thirdly it's about the Pan IP, the cloudification, the virtualization of our infrastructure across the European footprint.

If we are faster, if we are more consequent in this regard, we're going to build a more modularized platform than anybody else and then we have huge advantages on the one side to serve our customers but on the second side on the efficiency how we run the network.

We are true believer that we could imitate something from the car industry, which we have seen in the 1990s where the Japanese raised with their modularized way of producing cars in a different manner in a very, very standardized way but differentiating in the way [ph] how's the products (13:51) to the customers.

And that brings me to the second side of the differentiation, the second side is the customer experience. Now you might say, oh we have heard so much about the great service, better service from all the telcos, which is true. And you have seen us even going a long journey, especially in the business where we have an incumbent heritage.

But I can tell you, we went a long way. In Germany, we are perceived as the best service company already today. But when we talk about customer service, we are not talking about servicing only. We're even talking about the products, which we are bringing to our customers, the proposition, which is going to be fixed mobile converged, which is integrating new functionalities. And don't need to talk about Germany, MagentaEINS was the coup in the German market with 650,000 customers since we launched, a huge success so far with a different functionality not coming at lower cost, but better service quality for our customers.

Now, this is, let's say, the second area of differentiation. We are going to self-fund this growth by a very intense cost reduction, which we're going to drive throughout the next years. And with this we're going to be able to fund the high CapEx to sales ratio, which we already have and where we believe we could even slightly increase throughout the year, but this is not at the expense of value creation.

Our clear ambition is that we are growing our financial KPIs on revenues, on EBITDA, on free cash flow, and on return on capital employed until 2018. And by the way, not promising another hockey stick as a lot of the competitors saying it's going to be better, but the next year going to be worse. It is going to be starting already in 2015 where we promise an increase in all the relevant metrics for Deutsche Telekom.

On total debt, we stay to our prudent debt policy. This remains unchanged. And we will even let the shareholders participate with the growth of dividends following the free cash flow, which we are promising. So in a nutshell, this is a story from a customer journey to prudent financial policy into commitments towards our shareholder to create value over the next years.

Now you might question, do these guys have a track record on their promises? And therefore, as you might have witnessed, we're always trying to be open and honest and not trying to oversell and being transparent in the way how we're communicating. And therefore, we have just used the slide which you know from our last Capital Markets Day in 2012. And this was a big commitments we have given. And you see, let's say, the traffic lights on the right side whether we were able to deliver or whether we didn't deliver.

Very quickly on this topic. We clearly delivered on our promise to grow our revenues from 2014, only we are able to show an increase on our revenues by 4.2%. Organically 3% year-over-year and you see that the group revenue has been achieved with a big support by the way from the U.S. business, but even improvements in Germany are quite encouraging, I come to that in a second.

Secondly, on the group EBTIDAR, the year-over-year performance is in line with our guidance, which was predominantly driven by the much higher than anticipated customer growth in the U.S. I think it was a wise decision to go for a little bit more growth here. We clearly will not reach our promise on the €6 billion free cash flow target for 2015 as already communicated in March last year, which is due basically to two entrepreneurial decisions, which we took.

First, we fund the stellar U.S. growth with more CapEx and push our LTE and narrowband rollout and coverage in the U.S. and by the way even in Germany. And second, that we took the decision to restructure our system

solutions more consequently and the T-Systems 2015 program came with special items, which were costing us cash.

On the adjusted earnings per share, we even were not able to achieve the projected number, which is the result of the heavy investments into the U.S. and therefore of an increased depreciation level, which we have seen. In the rest of the business by the way, depreciation is declining as projected at our Capital Markets Day in 2012.

Our group return on capital employed, we came in at 5.3%, but this was helped by the Scout sale and the spectrum swap within Verizon underlying the return on capital [indiscernible] (20:20) improved slightly to 4% showing a small but steady development into the right direction.

And most important for you, as always we were reliable and predictable and delivered on our shareholder remuneration promise with €0.50 and by the way yesterday the board, the supervisory board took the decision to remain €0.50 to the AGM, which is going to be held in May.

So a mixed picture but overall I think we were able to make it transparent why we had to invest more of our free cash flow into the stellar growth in the U.S., which is hopefully creating then additional value towards the next years.

Now that said, this is let's say the detailed map of the measurements, which we showed you at the Capital Markets Day in 2012. I am not going into all the details, you could read them. Everything is in the booklet, which is on front of your table. But if you would ask me the pattern why we achieved certain things, I would give you four main reasons.

The first one is I think we are good and diligent in the disciplined execution of things. And we've even strengthened this initiative. Nobody believed us that the U.S. on carrier strategy is going to show the results it showed so far.

In our model leadership in Germany, the network rollout very early, the rollout of VDSL very early gave us an advantage to our competition, which was even giving us now nice results on the revenue stream. The cost discipline in Europe is outstanding.

Last year, we lost €500 million on revenues and only €40 million on EBITDA. This shows how disciplined the European organization is adapting their cost structure to the environment the companies are working.

The second thing is the very disciplined approach towards pricing. It is not our intention to match every single High Street price. We want to differentiate in what we are offering. And MagentaEINS is just an example. If you can't win the game change the name of the game. You have seen mobile prices €39.99, €35.99, €29.99, €59.99, €9.99. It's always the same game, you compare yourself but if you cannot compete on prices, the only answer is cost. And honestly, we are tired of imitating the last High Street price.

It's our intention to bring a product, which is different to what is offered on the High Street. And so far with the difference on quality on the network, with the difference on the quality of the product, with functionalities which are included in our product, we are to a certain extent able to differentiate to the High Street prices which are mainly offered mobile only, fixed line only or other services.

The third driver of this execution in the last years is an outstanding M&A performance. I think this is a great track record of selling non-core assets at very high multiples and at the same time creating new opportunities at very reasonable multiples.

And I'll come to that later on again. If you take the sale of Scout at a multiple of 20 times or even if you take the MetroPCS merger with a starting price of [ph] \$15.60 why we today have hold (24:43) a share price of \$32.

So the last topic of why I think we are good on execution is the communication. I think we have a very aligned communication across our entities. It is much more of one company than rather a conglomerate of different entities and the clear communication even helped us here on the execution combined with some of a new issue which I think very important.

What are the surprising elements for your customer? Being it partners, being it products, but you have to surprise your customer. Because they are not looking only on price points, they even want to have future in-built. And the latest announcement with our partnership with Airbnb is not a surprise. But it's important for a part of society, but I'll come to that in a second.

Now this helped us as Deutsche Telekom to create value for DT shareholders since the last Capital Markets Day. And what you could find on this slide is in the middle, the total shareholder return of Deutsche Telekom, which was since our Capital Markets Day in December 2012, 108%, 108%. If you look to the DAX, showed a performance of 46%. The DAX – sorry, 41%, the STOXX 50 at 46% and the Euro STOXX 70. We clearly, we clearly were able to beat the index.

And if you compare ourselves with the relative picks in our industry, you even see here that most of them, most of them are significantly behind the performance of Deutsche Telekom. And I think predictability and reliability wasn't an effort during the last two years, at least we took that as a learning from the feedback which we got from the capital markets.

Total shareholder return is not only important for you guys. Total shareholder return is even very important for me, because I hold quite a significant piece of this company at least relative to me, not as John is doing for the U.S., but anyway. But I remember pretty well the discussion which we had at the last Capital Markets Day and the question was here how many of the leaders in this organization are holding shares of this company. My answer was 150, but the new program we launch.

Today 2,400 people, 2,400 leaders are managers, but even shareholders of this company. By the way, they get the daily review from our Investor Relation team in the morning and in the evening how the performance of the market is. They get the sell-side analyst reports. So they really understand that the share price is the indicator of the performance of this company.

The third reason I think why we performed better than the index and our competitors is luck. We were simply lucky, because being Germans in this turmoiled markets, sitting in a market where 60% of our equities is based in an environment where the markets started consolidating as a consequence by the way out of the strength of Deutsche Telekom, I think in this market we were even lucky with, let's say, being a little bit of the safe harbor for lot of investors in the past. So it's not just all smart execution, sometimes you even have to be lucky.

Now, that said, this is water under the bridge as you always say and remind me what's happening for this. I'm not going into the detail of what we have announced for the 2014 numbers, because today we are not holding the normal earnings call. And therefore, you'll find the highlights and the brochures and the details in your booklets.

Let me just give you a few highlights of this very strong quarter of Deutsche Telekom and its markets, 4.2% growth. I cannot recall that we ever had a revenue increase like this in the past. 3% on an organic basis, mainly driven from the U.S., but lot is coming even from the good performance in the German environment. DT last year

shares yielded at a return of 11%, comfortably beating the broader NGCs and all peers, and a commitment to the dividend as I said already.

In Germany, we had a very good operational year with Niek Jan and his team with a 25% reduction in line losses year-over-year. Return to significantly positive broadband, net adds in the Q4. I know that is one of the headaches investors had. Good take up rate for fiber and TV. To give you a number, 1 million fiber customers last year. This is 100% more than the year before.

Wholesale and retail doing very nicely. Wherever we built high broadband we find new customers, 250,000 new TV customers in Germany, and a very successful launch of our first integrated offer. Niek Jan is going to talk about that. To give you one indication, the ARPU per household is up €4 for this 650,000 new customers. So it's not just another rebate. It is something which is differentiating towards customers, so far so good.

Operational progress is even reflected in a very healthy operational revenue, but especially the margin with 40% is I think very, very strong. So knowing that we have a lot of triple-digit additional cost for the IP migration in Germany, I think the 40% is a stunning number.

On the IP migration, we migrate 60,000 customers a week in a very constant way. And we have talked about how many customers already have been migrated so far. The U.S. story you already know very well after our U.S. colleagues reported their earnings already last week, and John and the team is going to talk about that in detail later, but I could tell you Harvard and Stanford, these guys sitting already on cases, on business cases to really describe this turnaround in the U.S. It was the best year in history of T-Mobile in 2014; by the way, even from a customer, but even from a development on EBITDA and free cash improvements. So it's not just a customer game, it's even showing results.

In Europe, we continued our revenue and production model transformation. We showed an impressive €600 million OpEx reduction resulting in an EBITDA margin improvement for the segment in 2014.

And in T-Systems, we achieved the first results from our T-Systems 2015 restructuring program. And we even see a nice progress on the margin side, and by the way even our order entries are developing nicely. I think it's more than €1 billion now already. So, therefore, I think 2014 was a good year for Deutsche Telekom.

Let me come now to the environment. It is very difficult to summarize Group Strategy and its development in two or three slides. And, therefore, I am not going into every single detail, we could follow up on that one.

But if you categorize the development of our industries, we see three big trends. The one is the customer trend, and the customer trend is going to more digitalization. The customer trends are going into seamless connectivity, into the sharing philosophy, which is coming alive for every single item from your home to your car, to your emotions, to your experience, to your know-how, to your car, whatever you could imagine. And there should be somebody who is enabling this.

Individualization is the name of the game from the over-the-top players, but even you know from amplification, all kind of use cases for partners should be enabled for all aspects of life through our platforms, and MobileFirst stays even more relevant.

The second thing is the technology trend. It's all about virtualization, softwarization, the hybrid infrastructures we are going to build, the modernization of the product platform and the new technology developments, which we see to enable the different environments.

22% of people are older than 60 today. This was – sorry, it was going to be in 2020, today it's 11%. 50 billion connected things going to be in the network by 2020. €40 billion investments in the so-called industrial internet are coming. 50% of online sales going to be handled over mobile. 55% of all CEOs in our environment would source application and services into the cloud. In 2018, the market for new devices like wearables is going to mount the size of €90 billion. Our networks should be ready for that. And that's our intention when we talk about seamless connectivity across all infrastructure opportunities.

The third one are the business models, and even our business models we are operating as a telecommunication operator and changing quite rapidly. The name of the name is open or close platforms, network effects by internet companies, ecosystems which are established with partners, more being outsourced than insourced.

Data and big data hasn't been really used from over the top – from infrastructure companies like ours so far. Data analytics is becoming key not only for consumers but even for the industrial internet. So this is let's say in a nutshell, the trends we have analyzed and if we move along, you see our thinking on how this world is going to change.

Maybe some of you have been in Barcelona for Morgan Stanley conference recently and we had this discussion about sharing. Our belief at Deutsche Telekom is the sharing paradigm. The sharing paradigm is the driver for our ecosystem, for our business model in the future.

Life is for sharing, is not an accident. It's a promise. That we are partnering exclusively with Airbnb in Europe, that we have an exclusive partnership with Uber in all our European entities. That we are now working with GE and Cisco together on the industrial internet side as well developing things with Siemens in the discrete production, it's not an accident.

It is the belief that we need platforms where all these devices, these functions you know should be enabled via Deutsche Telekom. And you see that as an example on this slide, here on these devices, life is for sharing. How is the sharing taking place? We have seamless connectivity: LTE, Wireless LAN, Fiber, Hybrid, fixed line. The devices automatically accessing every different infrastructure. No different tariffs, no different ID management, no different passes whatsoever, it should be seamless in the way it is operating.

Second, the sharing of different apps, being it the Airbnb, being it the car2go, being it the Uber, there are 1.2 million apps today on iStore – on the iTunes, or 1.4 million on Google, guys, nobody cares less about this huge amount of number. We have to tailor it. We should put content injection, help customers to access the relevant, the most important devices.

The third one, we are not exclusive to certain devices. We are inclusive. You get all different devices via our channels and even you know our partner ecosystem is bringing advantage to the partners. You see the €35 voucher which is coming with the Airbnb offer for every single customer. You saw us being first at this €45 tariff, it's not eating up your data, volumes at T-Mobile U.S., but as well at our operations here in Germany. And the last thing is just MobileFirst, we should never forget. Mobile is the name of the thing which we apply.

On the technology side, we have to adapt four trends. The first trend is softwarization. The softwarization is SDN and CDN, this will replace customer hardware. With this softwarization, we become much faster and much cheaper in the way how we operate with less, by the way, indirect costs within our organization.

Virtualization is the next paradigm, which we have to apply to our business model. Cloudified IMS, Cloud VPN services. So IP communication across, let's say, different countries should be operated via a Cloud service. This is

creating higher redundancy, higher quality of service, and it's even creating independence from expensive hardware.

The third main driver is convergence. Convergence is, you know, bring it all together. If you really want to bring fiber-like experience to every customer, it's only possible if you amalgamate the different technologies in the most efficient way.

And the last one is data analytics. Big Data, Big Data is the name of the gate for the Industrial Internet by the way. The opportunity is even not really seriously value for all of us. But the optionality of producing a size slot of one at the cost of a mass market product, to steer decentralized production areas with real-time analytics and high-performing infrastructures, is a big productivity driver for the industry. And that is, by the way, very relevant for the German environment, all of this, by the way, trust and security as a value of our brand from Deutsche Telekom. So these are the drivers on technology.

And the last part is the business model trend. This is a big worry for us. If you see on the left side, our business model of today, we are operating in open platforms. Highly regulated, interconnection, number portability, roaming across all footprint, interoperable standards and in regulated environments. This industry is heavily asset-intensive, heavy network investments, and therefore, we have to scale for utilization. We have to try to fetch a premium from our consumers.

In the same ballpark, we are in conflict with all of the top players. They all have closed platforms, no interoperability. They are creating with the big size of networks, a de facto standard which is closed and they are totally unregulated, independent from the fact that they're operating in the same business model as we are operating.

Nobody would question that Microsoft is in Skype operating a communication service. They're even not registered at regulators. Would you question that Facebook is a communication service? Nobody does. But nothing of this business is regulated.

So therefore, we are competing with the premium service where you are paying with your personal data with the service where we are trying to get money for, for our business, for our asset, heavy network investments in a model where it's very differentiated to compete against something which is zero-rated.

So what's the answer for the Telcos with the huge investments? This is, I think, the third trend which we have to take up. Now going forward, this is the answer. And by the way, there's much more. I could take hours for that one to guide you through that one.

The first thing is what we are saying is, we fight for our control points in our value chain. And we want to establish more control points which are different than what the all of the top players are offering. And what you can see here is the value chain of a classical operator.

You have a dumb pipe excess. You have an owned network, which you steer with your services. You have excess enabling hardware with SIM cards, which are enabling consumers. You have the services on a TV and conference service, collaboration tools and others. You have the device distribution across the different channels you are offering. You have a contractor billing relationship with the customers. And you have your sales and service centers, which you're offering. This is what we're doing today.

What we're seeing is that we have a threat from new players who are trying to eat up value of our proposition – being it infrastructure project like Google Fiber in the U.S., being it virtualized e-SIM offers of Apple and others,

being it a substitution of communication suites by Facebook, being it the retailization of handset and devices by Amazon or being it even new kind of customer relationships, which all these guys are trying to build within their closed ecosystems.

You want to have a service, apply to iCloud. You want to have a service, first register as Gmail. You all know this. So we see them how they're trying to reduce the value chain of the classical Telco operator. The answer which we are trying to do is we have to differentiate in the way how we offer the proposition to the consumer.

The first thing is the seamless connectivity in fixed and mobile. The infrastructure, which we are offering, which has a huge value for the consumer, the best infrastructure, I go to Deutsche Telekom. That's the first I need, before I go to services which have I have in outside.

State-of-the-art devices, not exclusive, inclusive. Offer new devices, not only one, offer all the handset suppliers which are relevant [indiscernible] (46:54), always bring new players into the game. The tariff offers should not be easily subsidized by zero-rated services. So MagentaEINS is not offering just connectivity for home and mobile. It's even including the entire functionality of your home base into that one.

Strategic [ph] channel ready (47:13) management on top of that and high security. Germans are totally crazy about security. I don't know why. But this is a value. And if you could sell the security, convincing customers that we guarantee your data is always safe, this is a value of our people are willing to consider Deutsche Telekom or our carrier as the operator and to service, which is helping people in this digital life.

To be the digital companion in this environment is something where we could leverage our business line. So this is, I think, the idea to key value points against the substitution of over-the-top players. Now facing technology trends, facing the customer trends with sharing economy, and facing the over-the-top substitution, what is the right strategy and the execution for Deutsche Telekom?

And the answer is very simple. A strategy is a strategy is a strategy. We have laid out the strategy by the beginning of next year. And we confirm that this is the right strategy going forward. And we have to adapt to certain things. We have to accelerate certain things and focus, but in principle, integrated IP networks, best customer experience, winning with partners and surprising them with them and leading in business are the right answers for the challenges which we see where we embed our measures.

Now you cannot answer everything by just putting paper onto the table or executing along that. You might find yourself in two years from now and say, how do the Telekom guys think about certain things, which they haven't addressed in their presentation in 2015? And therefore, we found it valuable to just share a slide with you how we believe, how we decide on things, what's relevant?

So, if you might ask yourself what would these guys do, what would these guys consider in a certain situation? This is the way how we think about things. First, we will relentlessly strive for delivering best customer experience. Our products are based in the paradigm of sharing simple, simplicity is very important, reliability and secure. Our networks will provide better, best seamless connectivity. That's why we're investing this huge amount of money into this consistent infrastructure.

Thirdly, the sales and service processes go digital. Digital was a channel in the past. Everything is digital in the future. Omni-channels and 24 hours/365 days, this is the ambition that customers could administrate themselves at any time on their own. Partner products and services are meant our core products. We are not trying to compete with the agility of application managers in the Valley and Israel or maybe in Berlin. We will partner with

them. And advanced analytic – data analytics will improve and extend our service offering. We will work on Big Data in the future with a bigger focus than we did in the past.

Technology leadership, with a superior production model, based on fiber-based integrated IP networks, they will deliver superior coverage, speed and quality. This is the basis, the foundation. [ph] I am a devoted (51:24) network investor. And you know that from last year, we invested 15% more than the year before.

We scale our production across footprint for efficient and time-to-market. And we are open and interoperable connected data platforms. We cannot build a closed platform as Facebook, as Google, maybe even at Amazon, and therefore we are trying to scale platforms with open interoperable platforms like the Tolino, like the TV.com platform and like others.

And last but not least, if you want to transform that company, you have to transform the organization into niche transformational leaders. Some of the insights I had [ph] at CES (52:16) that we need more transformational leaders in this organization on operations. We have imperative for our leadership, a leading European telecom with more collaboration, more installment and more innovation. And we will constantly raise the bar in the way what we define as target. 100% achievement last year will not be the 100% achievement in the next year. We will constantly raise the bar with regard to our targets, which we impose to our people.

And we want to think even more customer-centric, more disruptive in the way we're approaching things and to taking our truly international stance in the way how we're operating, less German in the way how we're operating.

In detail, that means seamless high-performing networks. What is the message on the slide? Last time we said we're going to build 65% in Germany with up to 50-megabit per second. Today, with the same amount of money, we have learned a lot. And with some regulatory improvements, we will increase our build-out to 80% for 50-megabits by 2018. We significantly increased our build-out.

To tackle the cable competition, we will improve our super-vectoring, accelerate the [ph] Super Vector out (53:44) in the cable areas. In all cable areas, we will go to 250 megabits per second at least where we have competition from infrastructure.

This is the huge commitment, combined with download speeds of up to 500 megabits via our hybrid infrastructure. I could tell you we will almost cover full Germany with LTE, 95%. We are already leading the pack in this regard, and we will attract the offer with 264,000 hotspots and 2,000 small cells that even in the dense areas, in the cities that people have always the best and fastest access wherever they are.

This is the new build-out commitment for Germany. By the way, Deutsche Telekom now alone is covering, let's say, the digital commitment of the Bundesliga [ph] on (54:49). With this commitment, we'll see how our competition is going to react on that one.

In Europe, we're following the same pattern, maybe with a slight delay. 75% to 95% LTE coverage, 50% of households with at least 100 megabits and 12% of the households up to 500 megabits plus 1.6 million hotspots. This is the foundation, the basis on which Deutsche Telekom is offering its services.

On top of that, a superior production model. In know we are totally alone in this environment. But if you want to differentiate in doing something, you always have to do something alone. And this is the way going forward. All-IP transformation highly only in January; 330,000 customers have been migrated on IP in our European footprint, including Germany.

This is a heavy additional cost which we are carrying today. But this is paying off later on. Not only from a cost perspective, but customers will love it. It makes us possible to deploy services like TV and others much [ph] fixer (56:08) into the companies – into the customer living rooms than we could do that today.

Pan-European Network, time to market is the name of the game behind that and efficiency and the integrated network strategy, I think I made that already clear to deliver best connectivity. This is differentiation for infrastructure at Deutsche Telekom in its footprint. And just take a cable operator who only has a cable, what could he do it against this one.

Think about a mobile operator. They might have a niche, but they do not have, let's say, a market which they could really address, the total product market. Think about all the companies which are just talking about integrating their services. We have already one company totally integrated in each of these entities and now we move even beyond that. So I think this is a true differentiation to the way how we are operating our factories. This will give us an annual run rate of OpEx savings of €1.2 billion within our business case over the next year.

Second, the integrated customer proposition, this is the journey we went. In the past, you had a mobile tariff, you had an Internet tariff, you had maybe a DSL service, you had an access, whatever you know you've had – you have different tariffs for everything, high complexity and very often easy to compare.

We radically simplified the silos in the past into home and mobile. And now, we're going into one converged portfolio. And by the way, this converged portfolio is not a tariff. The tariff is just the beginning. Our intention is to have a full functionality behind this tariff.

It should include TV services, it should include Smart Home, it should include seamless connectivity on the move, it should include communication tariff anytime. This is what we are working on.

We have learned from our American colleagues Un-carrier 1, Un-carrier 2, Un-carrier 3 and you will see MagentaEINS Punkt Null, MagentaEINS Punkt Eins, MagentaEINS Punkt Zwei and so forth. That's what we are working on.

And we want to change the name of this game because you cannot compete if people are talking about €5.95, a mobile flat tariff which you see in German market, nobody is buying because nobody believes that it's a trustworthy tariff. After six months, it's going up to €19 or whatsoever. So, you have to change the name of the game and anticipate what the customers are asking before.

Next topic, partnering, I made clear what partnering is about. We want to increase our ambition levels for the partners as well with our Steckerleiste. We will talk about that later on one of the presentation. Subscribers going up to 6 million in Europe and 6 million on top of that. In Europe, that's our ambition level for our partner story moving forward. This is a very important part for making the services for our customers easier than before.

Lead in Business, the fourth pillar we're standing on. It is across Europe, it's across the systems, and it's across Germany. We focus on integrated services. We focus on standardized Clouds; we focus on machine-to-machine to enable Industrial Internet. And we're going to focus even on the way how we're servicing with our system integration partners and even with our organization on the customer side.

This is taking place in all of the entities we are operating. And therefore, our target is to increase the B2B and ICT level by revenue growth of 12% in Europe to systems by 3% revenue growth in the market unit and the mid-market initiatives which is handled by the German operations by €400 million until 2018.

The next slide is just [ph] maybe an ex cost (1:00:34), but I want to draw and by the way we do not have all the answers, a strategy by the way is even something which is going to take place in the future. So therefore don't blame us if we cannot give you all the details. But we truly believe that Deutsche Telekom has something to offer and to gain in this Industrial Internet.

Germany is highly industrialized. The wealth of Germany is based on its car, on its engineering, on its process engineers and industries. And therefore, the digitalization and the next step, not the softwarization, this is what they do pretty nice already. But the connectivity across different industries, the Internet of Things in this environment is definitely a big opportunity for us at Deutsche Telekom.

And how we have tackled that with services on Smart Data, with an open and interoperable platform, I cannot go into the detail what we mean with that. But think about Tolino, think about a Qivicon for the car industry. Why do they have to store all the information like traffic information like weather, like content, [ph] wood (1:01:52) for the car in ten different platforms?

Why can't there be a kind of open platform where some of the informations are getting aggregated and distributed to different cars, while there are always specific informations only the car producers own. I think they are threatened that there might be a closed standard coming from the other top players like Google's and the like, that they even might consider building cars at one point in time. And we could help them to facilitate this kind of open platforms. And you could apply that for a lot of industries. Think about the process industry. We have already a big project in this regard where we, by the way, already make double-digit revenues, the venture with China Mobile on the connected car services is one example. We have 1 million Daimler vehicles connected under command online services. We have with, [ph] KLAS (1:02:47), one of the biggest harness manufacturer, a telematics service and data analytics in place. We want to be part of this Industrial Internet which is taking place in Germany with all the requirements of German customers. This brings me to a list which I cannot walk you through, but please have a look into that one and ask yourselves what innovations Deutsche Telekom is working on. And this is what we are working on these days, across the pillars within our digital business unit, and together with our newly formed entity, DT Capital Partners, which is a €500 million venture firm, which we just have established to participate even in ownerships with partners which we drive through our innovation labs within Deutsche Telekom.

These are, let's say, the focus areas we are working on. So we have radically reduced the list of things which we are deploying over our labs. But this is, let's say, the list on topics we have.

The last topic brings me to my biggest customer. We could sell and sell and sell and sell, but you know the moment the regulator makes a mistake, I could tell you this stands for 100s, for 1000s, for millions of customers on a value perspective, we might win or we might lose. This is unfortunate, but this is reality.

And therefore, to only give you an impression what I'm spending my day on, on this very important customer because the environment, the regulatory environment we are working in is so critical for the value of this company. And therefore, the most important part is that I'm trying to convince leaders, regulators that we're living in a converged world; that media, over-the-top telcos and cable operators are operating in the same environment and they should apply to the same rules.

This is the [ph] convergence of them (1:05:08). So the moment we have cable operators, let us out of regulation because you have [ph] too retentive infrastructures (1:05:14). It cannot be that we are regulated on number of portability while you cannot carry our content from iOS into the Android world. So this is the main driver of the regulatory work.

On top of that, our strategy behind regulation is addressing first, what would you do to improve the revenue profile of the company? Second, how could we generate scale because that is helping the utilization? Thirdly, what is it where the competitor is not offering a level-playing field? And last, how do we take out the investment issues of our industry that we are, let's say, getting more safety on this huge infrastructure investments which we are carrying. And therefore, on the revenue side, I think price regulation, quality differentiation and the consistent legal framework with the over-the-top players are the main drivers.

On the scale side, enable market consolidation across Europe and not regulating excess always on the 28 different markets is something should be understood, and the cooperation to promote open platform and interoperability than rather having close monopolies who are, let's say, creating their own business models independent from us.

On the [ph] competitiveness is that (1:06:42) we should apply all within this converged industries to the same data protection and data security laws. There should be interoperability between all these players in this industry, and there should be consumer protection. Because the moment we have a scandal with Facebook, the guys are calling us, they are not calling Facebook.

And the last one is investments. We have to get incentives for broadband infrastructure investments, not only in the suburban areas, but we have to get better funding opportunities. There's a big discussion which is going in Brussels from this €500 billion program which is now brought forward. We have already big programs in Germany, like Bavaria only have €2 billion of these programs in place. And we have to get new spectrum policy rights. So what I want to tell you is only that we have a clear strategy what has happened, the ecosystem from political environment, from a regulatory environment to improve, and we are working on that front.

Now, this is about the regulation, getting first on the portfolio strategy. You know the deals. Our portfolio strategy forward is first. In Europe, we're going to have selective and minor fixed mobile convergence ICT acquisitions in our core integrated markets. T-Mobile Austria and T-Mobile Netherlands, we little -- let them play like a mobile attacker. A little bit more than the T-Mobile U.S. business knowing that it's different, but Claudia is going to talk about that tomorrow.

In the U.S., we pursue on the U.S. Un-carrier strategy, continued derisking, the self-funding and the kingmaker asset strategy. It's not going to change. And we will have, in our Q&A, probably a long discussion about what is the way going forward with our U.S. entity. We have a great asset, which is developing nicely with a good value plan going forward.

Others, further monetization of assets, if more value can be crystallized outside of the group, Scout is leading us the way. We will consider smaller technology and M&A to strengthen the business innovation capabilities. And optimistically, we're approaching minorities in the Eastern companies, only if economically attractive. We are not doing that deal just of the sake of getting 100% of this entity.

In general, no major acquisitions outside of our footprint, because the balance sheet, because the value, the synergies, the regulatory environment are more of the requirements which we have in our entities today, which justify moves in this regard. We reduced our indirect costs excluding TMUS by €1.8 billion. This is the commitment of our business case.

That said, we will further increase the variable part of our cost base. The target is to reduce the indirect costs by five percentage points to 61% in 2018 and then further towards 50% to 55% in the early 2020s. We want to be more variable in the way how we operate it. This is along the countries and the segments and you see the numbers on the right side. This is excluding the U.S. with €1.8 billion contributions coming from the segments.

Why are we doing that? Infrastructure transformation requires lower cost per gigabyte. And this will then help us even to fund the infrastructure investments and the lower portion of indirect costs even provides us with more flexibility for unseen circumstances, can be seen as measures to reduce our risks in this part as well. And we want to improve our margins. We want to improve the return on capital employed; we want to improve our balance sheet ratios along the guidelines we are giving.

This brings you to my last slide on the strategy which is the leadership thing. Culture eats strategy for breakfast. If you do not have the right team, if you do not have the right people, if you do not have the right transformational leader, this total transformation of this company will not going to work. So, therefore, we have started a big initiative on a new kind of leadership culture, more job rotation, 24 jobs in my T3 program of the top 300, 24 people were moved in last year within the group, 17 rotational, horizontal rotation, just the beginning. You've seen the move in sales in Germany, or pure rotation and other examples. Rotation is the best way, that collaboration is getting better within the group.

Clearer end-to-end responsibility is very important. In a big organization like this, who is owning? By the way, you find to lot of people saying if something was successful, it was me. But if you have people, if something is going wrong, you won't find somebody. We are changing this. If you look to this system's new setup, with three clear pillars, the digital division, the IT business and the telecommunication international business, clear end-to-end ownership, clear end-to-end ownership.

We will link our incentive schemes even more to performance and shares. In the U.S., we have already every employee being incentivized by shares, but we will further raise the bar and we will further use the share as an incentive instrument within the group. Push for cross-functional, cross-segment careers and even invest into training and just this small demonstration outside or just a proof that we are already working on it because there was a discussion how we're going to change our education within Germany and they didn't like at least the ideas from the beginning, but you see that we already triggered this event.

The last topic on the strategy and I cannot tell you how important that is, is the perception of the brand and the strength of the brand. Maybe some of you have seen Global 500. What is the most valuable brand from Germany in the world? BMW. What is the second most valuable brand in the world from Germany? Deutsche Telekom, \$31 billion. And by the way, if you compare our sales with Vodafone, significantly billions ahead of Vodafone, significantly ahead of Telefónica, even double the amount of some of the other carriers in this world. Now, we don't give something on that numbers, but it gives us an indication and the brand drives the perception.

And if you look to the brand values of our companies, what you could see, we are by far the most trusted internet and mobile brand in Germany. By the way, you see that 46% – 46% and Apple and others you know are strictly behind us. We have to elaborate work on these things as additional differentiator, as additional thing we could combine into our offerings. So the brand is very important, and MagentaEINS is even something that [ph] resonated with high worth (1:15:18).

Now finishing, I do not go into that one, please have a look, these are the strategic priorities. These are the financial implications in each of the segments. And my colleagues will talk about that, about the commitments in their presentations later on.

This brings me to our financial strategy. And even here, I know that you are all trained on this slide. This is, in every road show, in every bilateral meeting we have had, we talked about it, it stays as it was. And we are amending it to some of the requirements. Thomas is going talk about that one. The undisputed access to capital market – debt capital market is a must-have for this company.

We always have this liquidity maturity – liquidity reserve of 24 months. This always helped us in market where the markets were weakened. We have in the middle the strategic leading imperatives for our companies and how we're going to create a value higher than the weighted average cost of capital, transformation of costs, transformation of portfolio, transformation of our infrastructure, and even you know, risk portfolio is a must-do as we did it in the past.

And on the equity side, on the equity side, we make a new commitment with the increase of our parameters, which I'll show in a second. We will guide a dividend of \$0.50 as a floor per share for the upcoming years. And with the free cash flow, the dividend is going to increase following the performance of that company. On top of that the dividend-in-kind is something we want to consider as well for the future.

Now the guidance, and here, you see the results of 2014, €62.7 billion. What we expect for 2015 is growth. Now the question is what is your assumption for the dollar-exchange rate? I don't know. I don't know your models. I would love to understand your models.

And therefore, we have put it into very clear wording here. In the middle, you find the guidance based on the assumption on our business plan and the budget for last year and even for the upcoming years. On a dollar base of \$1.33, we expect an EBITDA which is growing from €17.6 billion to €18.3 billion and a free cash flow which is coming up from €4.1 billion to €4.3 billion.

On the current exchange rate, which is \$1.13, the company would deliver on an EBITDA around €19.3 billion and a free cash flow of €4.3 billion. Why is there no change on the free cash flow number? Because there is not so much free cash flow contribution coming from the U.S. So therefore, that doesn't make a big difference on the exchange rate.

I think it shows no hockey stick commitment for growth already this year. For the upcoming years, I think this is unique for European telco. And you could even say this is brave. And that is unusual compared to what you have gained from telco operators in the past.

We are willing and we are committing and we are convinced from the measures I showed you, from the strategy, from the strength of the brand, from the success with the investments which we have that we are able to deliver until 2018 a CAGR of 1.2% on revenues, 2.4% growth on EBITDA, 10% growth on free cash flow, adjusted earnings per share of around €1 for 2018, a Group ROCE which is ahead of its WACC, and a cash CapEx which stays at this high level and even a little bit higher to fulfill the requirements of our customers of 1% to 2%, and the shareholder remuneration with a floor of €0.50, following a free cash flow growth even increasing this total amount.

So this is the commitment. This is now open for debate. This is now ready for going into the detail of the story. I think it's a very convincing story. The team is totally excited about achieving this. I hope you appreciate the work. Thank you very much for listening.

Stephan Eger

Senior Vice President & Head-Investor Relations

No. It's a lie. It was about 25 minutes overdue. But 25 minutes overdue is much better than you did the other week at the TMTM which is our internal management meetings where he actually overdue – was overdue by about 40 minutes. But no worries, because the next one on stage is our Group CFO, Thomas Dannenfeldt, and he is used to make up the time that Tim loses along the way. So we're going now into some of the details of our Group strategy,

some of the elements. And the first one is cost and portfolio transformation; and Thomas, the floor is yours. You have exactly 40-minutes time.

Thomas Dannenfeldt

Chief Financial Officer

So, good afternoon, everybody. I'm really pleased to have all of you here. And for those of you who're following via the Internet via streaming, very warm welcome to you as well wherever you are.

So, before I jump into the section, which is about cost and portfolio transformation, it would be really a shame and a pity not to talk a minute about 2014, you know. So, give me just two minutes to talk a little bit about 2014, and then I come back to the real stuff here in terms of the cost and portfolio transformation.

So, I'm going to start with the 2014 perspective. And I start on the right hand side, on the full year's perspective. Tim mentioned that already. I think the key messages you should remember, you should have in mind are the following: Number one, we are a growing company again. It's a 4.2% growth; if you look at an organic view, it's 2.9%. So there's a difference in there, obviously, but clear message, there is growth, number one.

Number two is, and that is how it should be, we delivered what we promised in terms of the EBITDA, in terms of the free cash flow and also in terms of the cash CapEx, so the money we invested into our future. So basically, no surprise. You know that from my side, I'd like to be very reliable or some might even say boring guy, just delivering what we're saying here. So, I think that's what you should remember on the full year. And I come back to the balance sheet in a minute, so I skip the net debt side of that right hand side.

But I like to have a close look again on Q4 because what you see there is that some of the very important trends, meaning the revenue on one hand side, the EBITDA on the other hand side, and also net profit. You see strong improvements. I can tell you I've been with the company since 1992, and last time I've seen that kind of development is like late 1990s, which was a fun time, you know. It was like party time, and that feels like this plus around 10%-ish in terms of revenue growth and also EBITDA growth we've seen here in Q4.

So I really like it, and like to remember you that this is not only, it's by a huge extent, it is coming from the U.S., but not only. And that's the good news. There's also Germany behind in the – on the revenue side. There's a huge cost reduction efforts on European side supporting that, et cetera, et cetera.

So I think, looking at Q4, very much supporting numbers, especially looking at the guidance for 2015 Tim has given a minute ago.

I said already just a very short view on 2014, but what I wanted to do as well is have a short look at the balance sheet for 2014. And I said already on the net debt, the page before and there was one of the two figures you might have some concerns about and let me address that. What happens on the net debt and you know that there is an impact of €1.8 billion roughly in dollars-to-euro exchange rate in the net debt, increasing the net debt.

In parallel, on the EBITDA numbers you've seen here on the right-hand side, on the EBITDA for the full year, the FX effect, so dollar and pounds and whatever we have here, in terms of exchange rate are a loss across the year. So the EBITDA impact of exchange rate across the whole year is minus €3 million.

So no change basically by exchange rates in the full year EBITDA, that is because, for instance, in the beginning of the year, the dollar was weak and then it strengthened across the year, same for other currencies. So EBITDA was

not impacted so to say on the exchange rate other than the net debt because we're looking at the end of the year and then taking the dollar of course.

So, obviously, there is a, as I said, €1.8 billion impact here on the net debt, we need to take into account. Nevertheless, you see the net debt to adjusted EBITDA and all the other ratios we have here, according to the balance sheet ratios, we want to have are in our target lines. We have the green lights being in our comfort zones and the same holds true if you were to look at the big rating agencies, you see there is a stable outlook looking forward.

So, that was the minimum I wanted to do at least for 2014 and then let me now move forward to the cost and the portfolio perspective, which is the key part of my presentation. I think what I want to tell you here is in the first instance, and I think Tim was crystal clear on that. It is about differentiation. We need to give, find reasons for the customers to choose our products and pay more. There needs to be important reasons for the customers to do so.

So basically that only is possible if you do two things. You need to differentiate and we've been quite clear where we want to differentiate; it's network, quality and consistent experience and the customer experience, those both areas we want to outperform the rest of the pack and clearly differentiate.

Okay. So that's one element. And the other element is, in parallel, in the meantime, we want to transform the company in a way, I'll come back to that later under superior production model, in a way that we even strengthened that differentiation over time and even get bigger distance to the competitors in terms of what they offer.

If you want to do so, you need to put investments in place to make it happen, for network, for customer experience, for simplification of the product and the processes and so on and so on.

And you all know, and I've been part of that for several years the good old story of telcos is okay, we're going to invest the first two, three years and then afterwards, everything will be fine. I've been part of that several times and believe me, I know that very often, after two or three years, there's the next story and the next story and the next story. And what we don't want to do is change that.

The way we want to tackle it is as follows: We want a change by differentiation and by transformation; put the investments in, and in parallel, at the same time continuously grow revenues, EBITDA and free cash flow. That is what you have seen in our guidance on the mid-term perspective what we've seen in 2015, and that's basically the story I will talk about now.

And it is about – as you can see here; number one is, we have a cost gap out of our benchmarking activities. We know roughly our cost gap is around €2.4 billion; I'll come back to that in a minute. We will close 75% of that in the next four years which does simply mean, we will reduce our indirect costs, ex-U.S., and I'll mention that in a minute why it is ex-U.S., by €1.8 billion.

So that is for 2015 to 2018. That is what you will see in the reported numbers as a net effect, incorporating all the investments we have for transformation. In parallel, we're doing that kind of transformation. And after that period of time, by the early 2020s, we will see huge changes in the OpEx line by that transformation by another €1.2 billion of OpEx savings, as I mentioned that again also. And additionally, portfolio management will simply have an ongoing focus on supporting the strategy and the value creation.

So now let's dig a little bit deeper into the cost transformation. What we're going to do there. What you can expect and what you should see along the timeline in terms of changes we're going to do.

First of all, I mentioned it already; U.S. is not part of that here because very simple. I think U.S. is in a different stage. U.S. is fast growing. The U.S. team has shown that they are very, very cost-conscious, that they are not only looking at the marketplace, but also taking all the costs out of the operations.

We are not of relevance for the customer or for the competitiveness of their company, but again fast-growing different market situations. So that's the reason why we're here, only looking at the ex-U.S. so to say, DT perspective. And the cost gap as of 2014, as we've seen that, is €2.4 billion here and we're going to tackle €1.8 billion of them within the next four years.

I've given you the split here also on the left hand side. The biggest and most challenging element I think in terms of closing that gap is IT. Why is that? And I'm always getting enthusiastic talking about the IT side because it is not only about cost. If you have high IT cost, in incumbent process and IT infrastructure, it does simply mean you are by far too complex and you miss simplification.

Or the other way around, if we drive towards simplification, it will make it easier for our customers to use and provision our products. If we give the control basically to the customer, you will see IT costs falling like hell. So the IT costs and the gap is, simply, from my point of view, nothing else than a proxy for a lack of simplification.

That's where nicely two elements come together, the cost reduction on one hand, but on the other hand, an upside in the marketplace. So IT is the biggest chunk, but as you can see here, I don't read them all. The other areas are of importance as well. And we're going to tackle that €1.8 billion, that's what you will see in the reported numbers.

Okay, Tim mentioned that already, our thought process behind is what we need to do is get the share of the indirect costs down because basically what will happen is, as you can see here, if you move it down from, let's say, beginning of that decade it's like two-thirds of the OpEx being indirect cost to 10 years later, 50% being indirect costs.

What you're basically doing is you're de-risking, because the direct cost, they don't cause too much trouble from my point of view, because they are strongly linked with the revenues. Either the revenue kicks in and then you have a nice margin out of it, or the revenue doesn't kick in so you don't have the OpEx.

So on the direct side, there is a variable element of the cost; it is not on the indirect side. So we want to change that step-by-step that mix and de-risk, so to say, also here by changing the share and moving the share of direct cost upwards as the indirect cost.

And it is clear to do so, we will, again, like you know that from the past, we were using special factors, we're using money to get people into – early retirement, get them off the payroll etcetera, etcetera. And you've seen in 2013 a relatively high level of that restructuring expenses.

And 2014 was a relatively low level, that will increase again on 2015, as you see here, by 30%, especially because we will see extra activity in the German geography on restructuring. We've announced that 12 months ago when we talked about the restructuring of T-Systems. The market unit is a major share of that one, but also specially headquarter functions here in the headquarter – group headquarters, but also in the German environment.

So that is the reason why that will increase again. And as you see, the line here, we've shown that will slow down again on 2016 and go a little bit up on 2017 again. Because the basic idea is you go into the organization, you take head count out, you need to let the organization settle by a certain distinct – and then you go again. That's

basically how we do it in the German geography, and that's why you have that kind of profile [ph] time-wise (1:33:48).

Okay. So how we're going to do it? Basically, we started some months ago, first of all, with the programs we had already in place. We had several programs in place in the German environment in Europe. Claudia is going for a program called One DT Europe. We mentioned last year the restructuring in the T-Systems environment. We changed the way, because we adopted our strategy towards partnering, the way we deal with the innovation center, the DBU Next, as we call it. So that was all up and running already; programs not all primarily looking at reduction of cost, but at least for the relevant cost reduction impact.

And we just screened what we've missed so far, taking those programs which are already in place, and then looking what have we missed. And basically we came up with the three elements you see on the right hand side. It's reduction – further reduction in headquarters where you don't have any impact to network or to customers and steering functions. It's the whole area of shared services where we think – and I'd come back to that in a minute, can do much better. And it's about logic, we call target costing approach, and I will talk you a little bit through later on what this is about and what you can and what you should expect here.

Okay, before I go into some examples and make you little bit more comfortable what is behind, I want to give you the split across the segments of what you can expect as a net indirect OpEx reduction, because I said that is what you should see in the numbers afterwards and then it's I think good to make you aware about where will that occur in terms of the segment. And you see here the split, which is more or less representing also the split of gaps we have in the group.

There is one element which might look a little bit funny like [ph] minus €0.1 billion (01:35:21) in the headquarters. There is some consolidation in there as well. So, the headquarters are on a track to reduce at least by minus 4% net year-by-year. That's their minimum track. There is more in the headquarters than €100 million, but there's also consolidation effects within the group, so one being a service center for another one and then you see, for instance, in Germany, you see a reduction because the headquarter is serving with some services to the Germans cheaper, so you see the savings here. You don't see them here. So, that's the reason why on the right hand side the headquarter might look a little bit funny.

Okay. So basically what minus €1.8 billion; that is the split on the segments and let me show you some examples of how that cost reduction will work? In terms of content what are the main areas we're doing it and how we're going to do that? So, let me start with the personal efficiency that is very much related to the German geography. You've seen during the course of 2014, I think especially if we talk about Q2 and Q3 figures, EBITDA figures in Europe, you've seen that Claudia is already very aggressively going after head count reduction and cost reduction in Europe. Tim mentioned that minus €500 million of revenues, minus €40 million of EBITDA, there was a very high level of discipline on the costs side here.

We think on the German side, German geography, we should do more, we can do more, we have to do more and that is basically what we see here that is related to Germany in the overhead element, so the segment Germany overhead, so all the people who are not directly dealing with the customer over the network or being involved in this transformation all of those are called overhead. It's not only finance and HR. It's also marketing people doing analytics, et cetera, et cetera. So, everybody who is not touching network or dealing with customers is [ph] meant with that (1:37:19) overhead. So, roughly 20% reduction there on the right hand side; as an example we went through on the headquarter side maybe 50% reduction, and obviously, as we have announced a further reduction on the market unit onto system side as well.

Just a few examples – that is roughly €0.5 billion you should expect here. Another example is shared services, I mentioned that. What we've done so far is you see shared services activities across DT, but you see it per function, per country. So, there is an HR shared service in Germany, there is another one in some European countries, there is one in Germany on the procurement side and there's another one in other European countries.

What we haven't done so far is combining the classical functions of shared services like you see them here; HR, accounting, procurement and reporting, dealing with them in a way that we create a target picture end of 2018. We're going to have a European multi-shared service footprint, changing the way we deal with it in an end-to-end process perspective, so not the accounting guys are doing their stuff and the procurement guys are going their stuff, but dealing with the whole value chain in an integrated way. And we do know from externals doing that and we know from our internal analysis that at least we will see €150 million decrease of the cost in the OpEx here until 2018 on that one. And as you see on the chart mentioned below that bars here, that is not the end because we think after 2018 towards 2020 there is more to come in what we can get out there.

So multi-shared services is another example. A third very important example from our point of view is Tel-IT. 2011 we said clearly we're going to reduce IT spend by €1 billion and it's just related to the German geography again. It's not Europe. It's not U.S. It's just the German geography. We said we're going to reduce it by €1 billion from 2011 to 2015. That was our commitment at that time. Current status is we've reduced it from €2.8 billion to €2 billion, so roughly €800 million. I think we are on a very good track towards that €1 billion in 2015, but there is a clear message there needs to be more.

And I mentioned that in the beginning, this is not only about cost. This is much more about simplification of the way we deal with the customer of our processes, of our infrastructure, and again, if you want to give customer control, much more control, your processes, your IT has to be much simpler, much easier and then also the cost will go down. So that is on Tel-IT as another example. And I'm really energized about is the whole thing about target costing. We did that bigger approach first time after last Capital Markets Day. It was December 2012 when we told you guys that we're going to heavily – if we got the allowance of vectoring, which we got then finally from the regulator – that we will heavily invest in vectoring infrastructure.

And we said at that time, we guess we will need roughly €300 per household to make that infrastructure happen. And right after the Capital Markets Day, when it was over, I had a chat with Bruno basically. Talking about Bruno, I think we need to find a way to get the same output for the €1 billion less and he said it's a good idea. By the way, that's not a normal reaction of a CTO. And he said, yeah, let's try it. Let's give it a try. And then we put 20, 30, 40, I don't know how many people together in the room and they have been there for several weeks and thought about what can we do completely differently to make the same output happen for the €1 billion less or basically on a level of €220 per household, which is the same kind of logic. And they came up with a whole bunch of ideas, tons of ideas. The way we do the rollout was changed in a way that you get money out of that, you get efficiency out of that. The way we use the existing fiber infrastructure was changed. And the way we did the planning was changed.

So it was quite amazing to see that the people started – at the beginning when we said, very simple equation is get €1 billion out and the same output, they said, okay, I want to have the same you're smoking. You're completely crazy. We can't do it. And after several weeks of just doing it, trying it, finding ideas and elaborating on those ideas, basically the outcome and you see that the actuals in 2014 now is per household €220 and that's not €300 anymore. And little bit similar on the NGTV platform. Our current cost, as you can see here, on the platform is roughly €110 million. And what we did is we sat together with the marketing guys and asked them what do you think knowing that there is Netflix, there is OTT players in the market, there is a change in behavior of consuming television, it's – like my age, it's very often using the classical way of linear television, but my kids they use other channels to get their television content.

So, in that world, how much willingness to pay will be available from customers' point of view to justify cost of a platform? And then we had a debate, the technical guys, the IT guys and the marketing guys to find out what is it basically per customer, how many customer, et cetera, et cetera. And our confusion was we cannot allow more higher cost levels than €60 million, €65 million for the platform.

Basically that was the starting point when we sat the teams together and said, okay, you need to come up with €65 million; find a solution. And it took them some weeks, some months with the right supplier, with some ideas from the supplier side as well, some things we hadn't seen before in terms of our thinking. We changed the way, we de-featured some topics, some features where we thought that will not be of relevance for the customer later on, et cetera, et cetera. We came up with that kind of solution. And that is an approach we're going to apply consistently across the whole group. The next, one pilot is running right now is in Europe. You see it on the right-hand side. It's the whole area of provisioning and fault/repair on fixed line. If you take the OpEx altogether in the European segment across all the fixed line operators and you take the cost, the OpEx of those processes is roughly €1 billion ticket.

We're now going aggressively after, because I can tell you the target cost for a complaint and a fault of a customer in fixed line, you know what it is? You don't need a marketing guy to answer that question. It's zero. The customers don't want to have an issue. They want to have a zero default, zero defect infrastructure. There is always a little bit, but it is a very simple equation here. We need to get rid of all those types of activities we call service but no customer wants to have it.

So, that is an exercise again we are going to hear and it just should give you some idea what our thinking here behind is and how we're going after it. I think we can be very self-confident that we were going to get to that point because that was what we have promised to you last Capital Markets Day on the cost side and then the Capital Markets Day 2012. I don't go through all that but you see there is one green light on it. I think we have delivered on what we have promised here as well. And that picture should give you now, especially, if you want to do some modeling. If you're not sure whether you got it right should give you the clear message what you should expect and what not in terms of the OpEx development.

So if you look at left-hand side, what we did is we split it in grey the U.S. because as I mentioned different story, and looking at the U.S. here, you see some CAGRs, but you know the revenue and the EBITDA CAGRs are by far above that so not an issue at all. So let's concentrate on the magenta areas. You see 2014 adjusted OpEx that is direct cost, so the cost direct related to revenue. So whenever you do termination, you pay something or whenever you do roaming, you pay something, et cetera. So those are the direct costs, the cost linked to the revenues and it's the indirect cost. Indirect cost will be net reduction by minus €1.8 billion. You see on the direct cost there is a CAGR of 1% to 2%. Why is that? Because ex-U.S. there is revenue growth as well. With higher revenues, you will see little bit higher of direct cost. Should not raise any concern because there is a good margin baked in there.

Nevertheless, there are two elements to mention here on the direct cost; one, is the revenue growth per se and the other one is naturally that losing €1 of revenue in single play and voice fixed-line telephony obviously is in terms of having a very high margin in that compared to getting a [ph] new euro (01:46:47) of revenue in. You will have a lower margin in there. You will have also kind of mix effect. So that is why you see on the direct cost a CAGR of 1% to 2%, and as I said, the net reduction of minus €1.8 billion on the indirect cost reduction.

If you do the math, €10 billion roughly on direct cost, CAGR 1% to 2% on the direct cost, it is something between €400 million and €800 million, you deduct it from the €1.8 billion, you will see at least €1 billion or €1.5 billion that's the kind of the synergy you will have on the adjusted OpEx. If we see growth in revenues, what we think will happen? Okay. So I think that's the basic way to put it. And that is for 2015 to 2018. That is what we're going to do from 2015 to 2018 and what you can expect from 2015 to 2018. And as Tim mentioned, in parallel we are doing

that, we are going to transform the complete infrastructure, and obviously, there are costs related to that. I'll show you the graph in a minute. There are costs related to that transformation and those costs are in the numbers you've seen before a minute before.

So what we're basically doing here is four key elements: one is we digitalize the customer-facing processes; number two is the all-IP transformation. We're going to make sure the infrastructure elements, they all speak the same language. They all speak IP technically; number three is we will move from a multinational operation – each and every country is operating their networks by its own – into a Pan-European operations and virtualize the network. That is basically what is behind three, a very powerful element; and number four is have the best access and the best connectivity for our customers.

I'm always completely enthusiastic about the number one, because yes there is OpEx savings of €1.2 billion – I'll come back to that in a minute – behind it and for a CFO, OpEx reduction is always a good thing. But I can tell you, the most powerful element is number one in that one, because making it easier for the customer to use our products, giving the customer control what he or she wants to use and what not to use, eliminating barriers for users we have created today. That's a huge upside we might see and I don't want to go too much there because I know Claudia later on will elaborate on that one very much. I think that's the most powerful part. Nevertheless, there is also fun in there for the CFO, which is on the right-hand side, the annual run rate on the adjusted OpEx savings from the early 2020s onwards will be €1.2 billion.

So I've talked about the minus €1.8 billion in the indirect cost savings 2015 to 2018. Why are we transforming you will see that net effect, and then out of that transformation later on you will see additionally that €1.2 billion in a later stage. So that's the way how to read it and to get it hopefully right. And what I also want to do is give a little bit more insight on what is the investments we're putting right now for 2015 to 2018 in there and what are the areas where you should expect that €1.2 billion are coming from, and again, here Claudia will talk a little bit more later on, on that split.

First of all, on the upper left-hand side, you see that graph. That graph is showing you – you remember one, two, three, digitalization of customer-facing product, all-IP migration and the Pan-European part, that is what is behind the upper graph on OpEx and CapEx. That's what we're putting in. You see in 2014 it was €800 million of investments to make that happen. That will increase further in 2015 and 2016, again all in the numbers you have seen, to roughly €1 billion in 2016, around €1 billion, maybe a little bit more, might be little bit less. And by the way, also for your modeling maybe important and helpful in the early stage of that graph it's very much, very high level of CapEx in there, because you changed something in the network.

The OpEx part, and share in, for instance, in 2014 is – or in 2013 as well is between a quarter and a third. Moving to 2016, that OpEx share increases significantly to roughly 50% because the more you go along the timeline, the more you have activities like switching in the network, like customer service, which is much more OpEx loaded. And on the bottom side, you see that share of the CapEx we're putting from the European and the German CapEx, the total CapEx, into the improvements of our last mile of the access and so-called integrated network strategy now.

Okay. On the right-hand side, little bit about the split of the €1.2 billion I mentioned. Basically you see here, two types of splits: one is geographically, what is Germany, what is Europe. By the way, Germany is also Europe, but geographically by splitting into all the segments. Germany is around €700 million, Europe is around €500 million, and in both parts in Germany and in Europe there is roughly €200 million ticket on the technology side and there is roughly a €500 million in Germany on the service side, and €300 in Europe. As I said again, Claudia will come back to that and elaborate a little bit more about that one.

So, before I move to the portfolio part, now, let me summarize again what you should expect and what not. What you should expect is if you look at the OpEx of Deutsche Telekom differentiate between the huge growth story in the U.S. and the rest of the DT. On the rest of the DT you will see on the indirect side, indirect OpEx, you will see a minus €1.8 billion. You will see slight increase on the direct OpEx, if the revenue growth kicks in. If not, obviously not, but this is the plan, and you will see at least €1 billion to €1.5 billion of net reduction in the overall OpEx bar I have shown you. That all incorporates the investments we're doing here to transform as fast as we can and that transformation will lead to another €1.2 billion of OpEx reduction after the planning [ph] cycling (01:53:18) period I mentioned.

So, now to the portfolio transformation, Tim mentioned that already. I think we can be proud of what we've seen during the course of the last year. That was not always the case at DT. I mentioned I have been with DT for more than 20 years and we had some dark hours as well in terms of M&A. I think at least looking at the last six years, seven years that's not true anymore. We have an excellent track record here. I want to talk a little bit about that track record in three buckets basically: growing values of assets, and I am not going to talk so much about the T-Mobile U.S. because John will do that tomorrow in his session. But also looking at T-Mobile UK, remember end of last decade it was a number four – difficult number four spot on mobile-only we've been in where we're now.

Number two, on the sale of non-core assets, I think we've shown that we can do smart deals and smart moves because the sale we have done on Globul and in Scout as well compared to the market, I think we've outperformed with the multiples we've shown here. The same holds true on acquisitions. If you look at Poland, if you look at Czech and also if you look at Metro. And by the way, although knowing that John will come back to that one – sorry, John I take that one beforehand – I think it's not only the question what kind of multiple you show here. There is one even more important question, which is how you execute on your synergies and whether you make the synergies happen or whether it's just a nice business case you have the moment you buy an asset and then you see somehow the synergies disappearing.

And I think the U.S. team has done a tremendous job on integrating MetroPCS in the best way you can do it. The original case was, I think it was €6 billion to €7 billion on synergies on Metro. We are now talking about €9 billion to €10 billion. John will come back to that tomorrow. That is how you should do it. Not only pay for good price, but then ruthless execution, do it the right way and make sure that the synergies you have in your case are being delivered or even over exceeded.

And yes, I think we can as DT be proud of what we've seen here. We have that strong track record. Tim was already mentioning the de-risking, self-funding and king maker asset strategy, and as I said, John will come back to that tomorrow. So, I am going to skip that here also for the sake of time. But I want to spend a little bit of time on that chart because that will be not part of Claudia's presentation, which is the de-risking story at OTE. Greek not being the easiest geographies to be in, and believe me for Claudia, for the whole European management team, for Michael Tsamaz, our CEO in Greek, it was tough times last year. But what they have done I think is really worthwhile to management's fundamentals.

They sustainably deleveraged in the first instance the OTE by selling Telekom Srbija, Globul, and HellasSat. And look that cash flow generation is in appropriate manner. With that, you see on the right hand side the rating improved by Moody's. We're covering the maturities of the next three years until 2018 with the cash we have in the company, OTE. And the leverage is now on 0.8 times as you see in the bottom right hand side.

So, I think in that difficult environment to generate and deliver that story and in parallel not completely losing the market, but further differentiating where there's competition, further investing, further being attractive into the customer, being number one in customers' choice that's the real story which needs to be mentioned. So all the congratulations Claudia to yourself and the team. I think it's a great story here on the de-risking on OTE and it

was mentioned already also EE and BT, I don't want to repeat all that stuff here. You see it on the chart and Tim mentioned it already also a minute ago. I think we firmly believe that for Europe a model where you have fixed line and mobile, where we have been the number one in B2C and B2B operations.

And where you get the synergies out of that fixed-mobile convergence setup and synergies by the way does not mean discount your products. It does mean you get synergies out in the infrastructure, you get synergies out in your IT, you've got also synergies out by a higher level of attractiveness to the customer that kind of target picture is in our mind. This is where we're heading for from our strategy and that's exactly what's happened from the late – end of the last decade was a number four player in mobile-only now to the new market leader in a combined fashion and setup.

I don't want to repeat what Tim said already on our portfolio and then our M&A policy. In Europe selective and minor FMC and ICT acquisitions in our core integrated countries like you've seen it with GTS. That makes a whole lot of sense. TMA and TMNL being on a mobile attacker strategy, U.S. unchanged. We will always look after smaller technology M&A activities. Our thought is part of the partnering thought and strategy is let's look who is best owner for something. And if we find the best owner, let's make it easy for our customer to access that owner. And the same should hold true, by the way, in technology, looking at some M&A stuffs.

On the minority shareholder side, I very often get the discussion, when we will buy out Slovakia or this or that? That's not the way we're looking at it. The way we're looking at it is if there is a business case, if it does make sense, like it did in the Czech situation, where we've been able to buy out the minorities to avoid dividend leakage, and we had a good case, we're going to do so. But to make our Pan-European Network happen, to deliver on that one there is no need for action from our side. And the general policy, I'd like to repeat it again, Tim said it already, but I think we should repeat it again and again and again to avoid misunderstanding is no major acquisition outside our footprint. So that's basically what the cost and the portfolio transformation is about. I tried to be fast and make up the time. I'm done.

Thanks guys for your attention.

Stephan Eger

Senior Vice President & Head-Investor Relations

Well done, Thomas. Actually, well done. Only five minutes. Now there is now a 25-minutes coffee break for the ones attending here in the room. You'll find everything necessary; coffee, cakes, sugar, caffeine outside of the door. We will meet you [indiscernible] (2:00:42) sharply here back at 4.30 PM Central European Time. For the ones following via live stream, we'll be now showing the best of our commercials from T-Mobile U.S. from over us here in Europe. So have fun, and we'll see each other for the next deep dive into the strategy at 4.30 PM Central European Time. Thank you.

[Music] (2:01:34 – 2:02:04)

Stephan Eger

Senior Vice President & Head-Investor Relations

Well, welcome back, at least for most of you. I think a couple of you got lost on the way or still stuck at the coffee bar. Nonetheless, I think we'll be starting right on time, 4.30 PM Central European Time. We have two more sessions for today. First session is on Lead in Business. That's one of our key pillars of our strategy. And it is a cross-functional across our segment. So, as Tim has pointed out, you cannot be a successful operator in the future, if you're not successful in B2C and also in B2B.

So Reinhard Clemens, our board member for T-Systems, the CEO of T-Systems will elaborate on: A, what we are doing in Lead in Business across the segments for the entire team; and he also will explain what we'll be going to do in the next four years with the market unit at T-Systems. So, please welcome with me on stage, Reinhard Clemens, CEO of T-Systems.

Reinhard Clemens

Member-Management Board

Yes. Thank you. Also warm welcome from my side today here, and as Stephan already said, we are going in more detail here on our strategic initiative, Lead in Business. For the next 45 minutes, I would like to stress three points. First of all, I'll give you an overview why we focus on Lead in Business within the group and it's a group-wide initiative. Second piece is share our ambition level in Europe, T-Systems and here in T-Deutschland with business customers and go a little bit more in detail on the external business of T-Systems, so the T-Systems' market unit performance and the outlook moving forward.

So what you should take along as a key message, I think five points: first point is Lead in Business will tap the significant growth potential, which we see in the business customer segment. The second point is we have a clear differentiation based on the network quality. On security, Tim mentioned it this morning already, cloud experience and platform approach specifically on Industry 4.0, Internet of Things. And we as a provider here inside Germany and a footprint in Europe, we are probably the only provider who by 100% can comply to the data privacy, legal requirements which we have here in Germany and Europe.

To the third point, T-Systems, I am totally aware that we haven't delivered to our commitments in the past. And the market conditions still will be challenging over the next years. However, and Tim mentioned this morning, we started the master plan in 2014 called T-Systems 2015+ (sic) [TSI 2015+] (2:04:30) to really reshape the company in five major areas.

And one is a very clear focus on profitable business, which also means we will not find any deals which are not at a certain kind of profit level. Secondly, sustainably bring production cost down, which I am going to share. We stopped unprofitable businesses, portfolio elements, contracts and also countries where we had a very clear exit strategy. We have a new setup in the company with three units, with a different kind of structure. We have a very clear focus on telecommunication IT and the growth areas which we call Digital Division, and also very clear end-to-end responsibility, so in the end, we are able to really have a full P&L responsibility for all the three units. And we have a new leadership team on board with a proven track record on execution.

With those measures, which we have taken and that's point number four, we will grow the external revenue above market growth, and by the way changing the revenue mix in these businesses, shifting to much more profitable business in the future. And the last point is in TSI in total, so that's the T-Systems Market Unit external business plus the internal IT business where we say funding after 2016 and in 2018 the TSI Market Unit business will reach then an adjusted EBIT of 7%. So with those key messages, I'm going into the market trends to give you an overview where we are.

So three major trends; I think, if I would describe it, I always say everything goes into the cloud, everything becomes digital and everything gets connected. And what's more or less the summary of the discussion and the presentations this morning and if you look at those three big trends to give you some facts and figures behind it, on cloud and IT transformation business customers increased their investment in the last years, so from 2013 to 2014 by 54%, it's now €1.2 billion on cloud transformation. So you see that the trend into cloud is moving up, but 57% of those customers prefer German-based data centers. So the data, which is stored into the cloud is important. Normally what you don't do is you have public and private cloud environments. So you really look on

where is my data located, which would also mean the data center location is becoming a differentiator in the marketplace.

And 25% of the German companies they more or less said, we want to have a national cloud even if we have to pay additional cost. So that's also a point. So my take out of this discussion and that's what I'm sharing a little bit later in more detail with you is differentiation is location and presence in a certain kind of market, applying to the legal requirements and data privacy is a differentiator in the marketplace. Digital business models, so three out of four manufacturing companies in Germany, specifically in the small and medium areas, say, big data as a success factor for their business is extremely important.

40% of the CEOs in Germany, for example, rate digital transformation as a very important agenda on IT. So companies – and that's the summary – companies who don't transform in those digital kind of business model, as you can imagine that the mobile device is now also a device where you make business will fail in this existing or changing market environment and there is a huge demand for open platforms which really enable an efficient business-to-business-to consumer kind of model and also have to include analytic kind of services and data-sharing kind of services. And by the way, doing those kind of data, what I always say as data roaming kind of platforms, you have to ensure that you comply to German and European data privacy rules.

Then on seamless international connectivity, so the share of mid-market companies operating in more than six countries in Germany for example, was 20% 2013 will be 33% in 2016, which is an 18% per annum growth, which also means I think there is a much more higher demand on international telecommunication, bandwidth demand will increase specifically for enterprise VPNs, which are growing by 7% and Ethernet services which will grow by around 12% CAGR over the next years, which also means for us one global contract, one solution for fixed and mobile. That's more or less the fixed-mobile convergence, which we are seeing also on the business customer side.

So what will it mean in numbers, even if we see a moderate growth on the overall ICT market of only 2.9%, you see the main growth drivers here on cloud, on digital business and on international telecommunication services. There is a difference. For example, if you look into the cloud market, there is no difference between enterprise customers and SMEs anymore. So they are all growing by around 20% CAGR, so no differentiation anymore which was by the way the case in the past.

On the digital business side, what you see is there is a difference in industries. On the automotive side, for example, we see growth for digital business models of more than 80%; 82% is currently the number. It's more or less driven by different kind of mobility services in those industries, if you look at connected car or car2go kind of concepts. The automotive industry is in a tremendous change in their business models which is driving connectivity, different kind of models, platform sharing. If you only think on autonomous driving, for example, in the future, the exchange of data between different kind of OEM suppliers becomes extremely important.

That's one of the reasons why we are in heavy discussions with the automotive industry as we are market leaders in automotive to really focus on enable them, which also means Big Data, who is storing the data, who is roaming the data becomes extremely important. M2M and all those kind of activities are underlying kind of services, which must be on those kind of platforms. Then on the international telecommunication side, you'll see it around 3%. However, unified communication is growing by around 8% and Ethernet services, like Ethernet Connect, for example, around 11.5%. And that's more or less the market condition. If you now look on our strategy how we are going to tap on those growth areas, and Tim showed this slide this morning, Lead in Business is one of the elements where we are going to focus on.

And now I would like to share what is the business we are talking about inside Deutsche Telekom, and we probably never reported those numbers so far. So currently the business-to-business segment is responsible for

23% of the overall revenue inside the group in total, which means I think in numbers €14.5 billion generated across all segments. So segments is really T-Systems Europe and T-Deutschland or TDG. From a competitive perspective, if you look at the different competitors in the marketplace, global players, European players, we are already leading from European market perspective. Globally we are a good midfielder, which by the way gives us real good starting point in moving forward.

So, if you look from a segment perspective into the business, we are covering more or less the whole business customer environment base inside Deutsche Telekom, which means multinational companies around 1,350 companies but also millions of customers in the small and medium enterprise segment of Europe and T-Deutschland. So then on the right side, if you look at the split in the different kind of segments, so T-Systems Market Unit, we have a very good balance between IT and telecommunication services. If you look at Europe and T-Deutschland, for example, you see that we are much more telecommunication-centric. And by the way that's also the opportunity which we are talking about. First of all, how do we leverage more or less synergies, which we have inside the group to grow on the IT side in Deutschland and also in Europe, but on the other hand also on the international telecommunication side, how can we improve to better position ourselves inside international telecommunication growth within the group.

So, what would it mean and how do we approach the market then in the different kind of segments? First of all, we create – if you look at Europe, we have started to create bundles; bundles of fixed mobile and cloud services, which makes it by the way much easier for customers to deal with us. So, it's self management. It's automatic kind of provisioning. It's carrier-grade security built in an overall solution, easy to use for customers, and even easy to order for customers. And some of this will be shown in the presentation a little bit later.

On the international product launches, we are going for Cloud VPNs, M2M coverage, best-coverage for M2M. New innovative go-to-market models together with partners and win with partners is one of those topics. So we don't do everything by ourselves, but we involve partners in the overall delivery scheme which we are doing there.

Growth is anticipated by around 12%. CAGR until 2018 and Claudia Nemat will go tomorrow in more detail on how we address the market in Europe.

Then on the German SME market side, same kind of approach more or less, one-stop shopping experience for business customers, same kind of bundling of offerings like in Europe, but focusing a little bit on IT Cloud, M2M, Deutschland LAN, so that we really have a model kind of offering in front of the customer, but always bundled together with telecommunication services.

For example in connectivity, fixed mobile access services, cloud TV access, LAN services, but then coupled together with office, mail, security, video conferencing, storage out of the network, that's more or less the story. By the way this works. We have seen it in Germany here already in 2014, and we had a tremendous good development in IT the last year.

So we'll even see more product launches at CeBIT, which is in two weeks from now. So, €400 million additional revenue out of IT for Germany. Niek Jan van Damme also tomorrow in his presentation will go a little bit more into detail.

Then on T-Systems, I think, it's the transformation program which I'm going into more detail now in the second part of the presentation. But it's more or less driving, I think, the international telecommunication service forward and then also a non-labor intensive IT services creating growth and the growth should be around 3% CAGR which is about market in the moment, so until 2018 that's our growth aspiration T-Systems' market unit.

So what are the key differentiators, trust was already mentioned. We are by far the most trusted brand here in Germany, but also in Europe. Security was another extreme important kind of topic. Experton, for example, which is an independent analyst made a survey and the statement was very clear, we as DT are setting the standard in terms of security. More than 1,500 security experts within the group. We have the security operation center and security will be built into the network, so that's a clear differentiation factor.

Quality, we are at an all-time high on quality. The TRI*M currently is 84 points, which is really the customer loyalty segment and we are significantly above the normal benchmark. I think, if you look at competitors, the average is around 68 points, around 70 points. That's the number where we see currently the competitors.

So on connectivity, best network was already shared, and Niek Jan will go a little bit on more detail. In Germany. PANNET was already discussed. So our Pan-European Network initiative based on IP will make us, as DT the technology leader not only in Eastern Europe, but also in Germany on the network side, and Claudia will share this after my presentation with our strategy on PANNET.

So on the platform side, open platforms are key. We have two good examples, one will be shown the QIVICON platform this evening at the dinner event, and I only can encourage you to look at it. 30 companies are already working on this platform and providing services in a way that we really can deliver business-to-business to consumer experience to customers on connected car, which was one initiative which we started three years ago, which had a very slow start because all the OEMs tried to do it by themselves, but connected car is lifting off.

So in the last year, we are now – and started really in 2014. We now have more than 1 million cars on the platform. We are working with Daimler and also with Volkswagen, and it's still growing very rapidly.

Then on cloud, I think we are ranked cloud leader. Experton ranked us this week, specifically as the top-notch full-service provider for cloud offerings. By the way, we have in the meantime developed partner ecosystems for public cloud solutions, which I'll explain a little bit later in a much different kind of model. In private cloud, we are market leader in Germany, and one of the top three providers in Europe.

And by the way, the differentiating point is – sorry, that DT is the only player currently here in the European market, who really has an integrated offer public and private clouds, which really comply to the data privacy rule here in Germany.

So, with this I'm switching over to T-Systems' market unit, and would like to start to give you an update on our performance. So, -- and as I already mentioned, in the past we have delivered and I go through some of the KPIs, which we shared with you on the last Capital Market Day.

So, revenue growth market unit we promised a 2% CAGR, which we are not going to deliver or haven't delivered in 2014. So, see the number €6.9 billion, so we're not on track. Let me share more or less the reasons what happened.

First of all, we initiated in 2014 – beginning of 2014 our Master Plan activities which is really a paradigm shift because for the first time we are willing to lose revenue. And we are proactively managing revenue out of our books, which doesn't fulfill certain kind of profitability measures for T-Systems.

So, we have two effects, one is deconsolidation which was a €700 million ticket. We exited Italy. We divested the SI business in France. We made some revenue shift because we still had some internal Deutsche Telekom revenue in our numbers to TEL IT. And we moved ICSS/GNF and the business in Czech Republic to Europe. So, that was the €700 million tickets.

Then we had another ticket where we really had stopped contract which was €200 million. So we stop reselling and we stopped – that's detailed now, 22 contracts in 2014, which accounted in total €200 million of revenue.

Even if order entry was okay in 2014, we overachieved our ambition level in order entry. It was not enough to compensate the shortfall based on deconsolidation and discontinuation of those mentioned kind of activities there. So the – on the profitability side, we promised around 4% in 2015 March, last year we promised 3% in 2014. We are currently at 2.3%. So, we have the slippage in the transformation program laying-off people, the negotiations with the works council took a little bit longer. By the way, we achieved all the numbers of layoffs, but people will leave, and it was backloaded in the year 2014, will leave in 2015. So our commitment that we still make the around 4% number in 2015 still exists. So you will see the positive impact coming based on the savings, which we have achieved in 2015.

So on customer satisfaction already mentioned 84 points on TRI*M, that's a good result. TEL IT was mentioned this morning €1 billion IT spend reduction until 2015 was promised. We are currently at €800 million and we will make the €1 billion number in 2015. So that's also green by the way with a very clear OpEx and CapEx under run in 2014. And on top, quality has improved in the group in terms of IT delivery, the major incident, even if we had hard cost cuts went down from 81 incidents in 2012 now to 10 incidents in 2014.

So what is the transformation program, [ph] the masked upon principle (2:25:56). I think it's really three elements. It's about investing in growth areas with real scalable kind of services. So scalable platforms, cloud products, not labor intensive business anymore for us, because we are extremely cautious that we don't start to more or less build an addition workforce in Germany or in high cost countries.

The second piece is transformation, so move from an – more or less focus on reducing costs on the production side, so make a buy decisions, very hard make a buy decision, whatever we can't deliver on a profit competitive way, we are going to source externally.

So for example, we have divested the feed service business already in Germany EDS and we are underway to also divest the feed service business in Spain, for example. And I'll share some numbers with you a little bit later. And we are shifting, whatever we can shift form an old legacy IT infrastructure into new services, so met – more platform and standardized in our offering. And the efficiency measures are totally clear. It's all about cost reduction efficiency, and every step we are taking there must be sustainable also for the future.

On stop, very clear, all non-strategic assets are being removed out of the company, which means all unprofitable portfolio elements, which we still have in our portfolio, contracts which are not profitable enough, countries, no more loss making countries until 2015 was very clear and is a very clear target. So we have a clear exit strategy on countries.

As a result, and that's on the right side, very clear revenue shift to much more growth in the future from 36% to 52%, decline on the traditional business which we are in from 54% to 45%. And then the stop piece, and we still keep a certain amount, 3% of our revenue in stop as we still are in existing contracts where we are not able to exit, so that's the remaining piece, which will go away over the next year's time. So – and even with this transformational shift a 3% CAGR over the next years.

So what are the areas we want to grow in? And, by the way, it's nothing new. We are working now for one year on it. And I'll give you some ideas how we perform in the different kind of areas. On cloud, we have initiated a public cloud approach and a private cloud offering, which is already existing and running, by the way very successful, more than 28% growth on private cloud.

On public cloud, we made a decision that we said we are not going to build up a public cloud by ourselves. Where we are doing it with partners, we have signed agreements now, with Salesforce, with Cisco, with SAP on HANA, we are in the final negotiations with Microsoft. But it's very clear that will be in offering where we don't do any kind of investments in.

The partners are installing their hardware, then resting in their own hardware in our data centers. We are taking over the employees charging them back. So it's a cost free kind of model for us. But we have agreed on revenue share model based on our sales approach; for example, with Salesforce of 30%. So whoever utilizes the infrastructure we get a 30% revenue share from Salesforce.

The same on Cisco side, it's a little bit higher on Cisco side. So it's a different kind of model than you have seen in the past. No own investment, no CapEx spend for public, on private we are fine.

So what have we achieved in 2014? 2,800 contracts signed in this cloud environment, €300 million revenue growth to give you a feeling on the current margin side, gross profit margin side it's 24%. It was last – the year before, 2013, it was 15%. So you see that the leverage really works in this business.

On the security side, Security Solutions, it's more or less a new portfolio, also build it up with partner, RSA is one partner, from the America with FireEye. We have more or less invested into CleanPipe Enterprise Solution which is security out of the network, cloud oriented. So that is not people intensive, €150 million order entry in 2014 alone, €36 million additional revenue, and by the way, profitability in this area is 23% coming from 12% in 2013.

So Future Workplace, that's something where we have invested in 2014, and it's more or less brining the desktop into the cloud. I will show the solution during the dinner event. So I am not going into details. We'd probably have more time to explain it over there.

Gross profit margin in 2015 will be around 24%. We already have an order entry of €260 million achieved in 2014, selling this solution into the marketplace because there is high demand on virtualized kind of desktop solutions because it's also reducing the cost structure inside the customer base.

Then on future telecommunication, the Push program on Ethernet VPNs, on corporate voice managed plan and dynamic unified communication, so unified communication delivered out of cloud. Gross profit of 27% in 2014, and that's I think our traditional business which is growing fast enough, scalable enough.

If you then look at the total revenue ambition level which we have for growth, I think, you see 13% from €2.5 billion to around €4 billion in 2018. By the way with a profitability of around in 2018 of 29% gross profit. That's what we are trying to achieve there.

So then, what have we done on the cost side? And on the cost side it's four elements, get people out, so labor cost down, consolidate infrastructures, optimize global services with really automation, standardization, concentration of services, and increasing the offshore quota.

To give you a feeling, I think 6% of workforce reduction in Germany, 14% on top international has, by the way, an positive effect, EBIT effect in 2014 of €25 million, in 2015 it will be €50 million, and you will see the effects on the restructuring program, which is still in front of us in 2015 with an additional 1,200 people of around €50 million.

Consolidation, radical consolidation of data center locations, I think 2012 we had 89 locations with data centers. Target 2018 is going down to 11 locations. 18 locations are closed already in 2014. Another 26 locations will follow in 2015, a positive impact – EBIT impact is around €100 million until 2018 based on this measure.

Then optimize global services, that's more or less the service chain. Five countries are closed, which is a positive effect of €10 million. Offshore quota is up now to 42% in 2014 will go up to 46% in 2015.

Then on the stop side, I think, portfolio contract and countries, more or less everything which is labor intensive will move away. I said it already EDS is sold, 500 employees. We are in the process of selling Spain, which is 700 employees, downsizing hardware. Revenue already mentioned. So that's a €200 million ramp down in revenue until 2018. Contracts, we have 22 contracts already finalized and optimized, so that they are not loss making anymore 26 will follow in 2015.

And yes, in some areas we lose some customer results. So gross profits in those areas, but if it doesn't count into positive EBIT number, we are even exiting those, kind of, contracts. So countries, Italy is restructured, France is restructured, Belgium, Japan and Singapore are all done.

So that's more or less the case. So we are ramping down the revenue in those areas. That's a negative development from the revenue side. On the profit side, this will help us to increase the profitability.

Set-up for units already mentioned. We now have a very clear P&L responsibility for telecommunication division. And the clear focus is grow the international telecommunication services across the group by the way because what we found out margin accumulation is sometimes hindering us within the group to really be successful in international telecommunication offerings. So what we do is we have set up a deal box. We are going deal-by-deal through those kind of things, and the clear focus is here grow the international telecommunication service business.

On IT, it's restructuring and shifting to non-labor intensive kind of services kind of services, and the digital division are the new platform oriented kind of models in healthcare, connected car, M2M, all those kind of things where we don't have an own go-to-market. Here we go to market over partners, so we will introduce channel management, extreme Lean, only 700 people in this division, extreme Lean, but high aspiration on growth in this unit.

So with this financial outlook, what are those measures then doing on the number side? Revenue growth, it's around 1%, and you have to take in consideration. It's revenue growth, market unit will be 3%. TEL IT is a different kind of model. As I said we are going to reduce inside TEL IT, the cost structure for Deutsche Telekom, which has a 6% decline in revenue, so from €1.7 billion that's more or less the number in 2014 so we are going for additional savings for Deutsche Telekom in our internal IT, on the market side we will grow by 3%.

On the EBIT side, we increased the EBIT over the next years by 43% moving forward, and it's more or less then as a result, cash positive. I think, the market unit will be cash positive from 2016 onwards, T-Systems in total together with TEL IT is one year later 2017.

On the cash CapEx side, I think, €1.2 billion in 2014. We are going to reduce our amount of CapEx spend moving forward and it's really based on the efficiency which we are taking on the infrastructure build out. TEL IT is going to reduce the CapEx spend, so that we even can reduce the internal IT cost. So that's the path on the CapEx side minus 6%, and then on special factors we will have a peak in 2015 because we are finalizing the restructuring program for T-Systems.

And after 2015 what you will see is a 50% decline of special factors, which we need for our business, so that more or less results then in a CAGR of minus 25% over the next years. As a result, ROCE is expected to [indiscernible] (2:38:34) in 2018.

So then from our mid-term ambition level, it's more or less the summary. Revenue TSI 1% CAGR expected. Revenue market units above market growth, 3% CAGR. Quality market unit, we keep it at the level where we are in the moment. Adjusted EBIT margin in TSI around 6% in 2018 in total, which is – are taken in mind, it includes T-Systems market unit, plus Tel IT, adjusted EBIT margin market unit, the external business around 7%, and the adjusted cash contribution TSI positive from 2017.

Thank you very much.

Stephan Eger

Senior Vice President & Head-Investor Relations

Thanks, Reinhard, and I think we got about 10 minutes to 15 minutes time now for Q&A and please welcome with me on stage Thilo Kusch, the CFO of T-Systems. You may know him from his past. He had some real jobs before. So he was working for Investor Relation, for example, and then in the last six years or seven years, he was the CFO at Magyar, and he is now for 1.5 years the CFO of T-Systems.

We do a mixture. We do the questions within the room, and we also try to tackle the questions handed in by the investors following us on the live stream, so please don't hesitate to send them in by email or twitter, and I think, we'll just get started.

QUESTION AND ANSWER SECTION

Stephan Eger

Senior Vice President & Head-Investor Relations

Who wants to shoot away? Maybe here on the left hand side?

A

Q

I've just one simple question. Following from the slide on page 10, Deutsche has agreed to take a stake in DT, and from your slide you basically showed that DT is the only sizeable of the incumbents that actually have a sizeable IT business in Europe.

So my question is pretty straightforward, it's pretty early stage at the moment, so probably you're not talking about synergies and taking about corporations. But in terms of overlapping, in terms of product and geography with global services, what's the overlap and where it could be potentially the corporations to extract synergy in revenue and costs? Thanks.

Reinhard Clemens

Member-Management Board

I think that if I only talk about service, because I don't want to make speculations that that make sense or not sense. But there is an overlap in service because DT has more or less the same kind of strategy we have. It's a little bit more telecommunication centric, but there are overlaps of services and businesses, which fits together.

A

Plus they have the same kind of point, global telecommunication services bundled with cloud services, so they are also working with Salesforce, they also have an agreement with Cisco in place, they have own, I think, cloud services. Moving forward, I think, it's more or less the same kind of offering they are doing.

So, from a – and by the way, when I look at T-Systems and you know that we always in the past had a challenging question how international is your company? And by the way we are moving away to really play on an international global kind of basis. Because my strong belief is we have a clear differentiation factor here in Europe, based on the, I think, really environments differentiation factor which I mentioned.

So, we must be leader in Europe for telecommunication services, for what we are doing in the cloud environment, what we are doing on platforms because here we have a very clear differentiation which we don't have in America and which we don't have in Asia.

By the way if you look at the RFP process which we normally face with customers, they normally structure RFPs in three different regions. So, you get an RFP for Asia, you get an RFP for Americas, and you get one for Europe.

And what we want is we win every deal in Europe. Yeah, so – and by the way combining activities with DT will give us more reach on a global basis, but here in Germany, in Europe, I think, that should be our homeland and our battlefield.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Well, thanks, Reinhard, and maybe let's move on. I think, there was one question with Dominik Klarmann from HSBC, in the right hand side over here, the gentleman with the light blue shirt.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG (Broker)

Q

Yeah, [ph] just I wanted some (2:43:26) clarification, the self-funding goal for 2016 that is basically neutral EBITDA minus CapEx, and then positive from 2013?

Reinhard Clemens

Member-Management Board

A

Cash contribution positive at the T-Systems level for T-Systems in total in 2017, [indiscernible] (2:43:47) market unit even before that.

Reinhard Clemens

Member-Management Board

A

Next question, I think, there was one in the back over there. Ulrich Rathe, as far as I can see.

Ulrich W. Rathe

Jefferies International Ltd.

Q

Yeah. Thanks, Ulrich Rathe, Jefferies. And two questions, just one clarification on the 3% revenue CAGR, is that explicitly including divestments and product curtailments, so actually you talked about the Spanish divestment, I mean, that wouldn't be then sort of excluded for organic reasons, that's really sort of what we will see as total?

And the other question is, I mean, on this security and data protection, how do these contracts work? Or even more generally asking, what are the legal implications if you find that your infrastructure has been accessed, and you start losing data? Does that start to really increase potential legal risk and then also really cash risks that we should really think about when it's obviously a big issue. The business is growing very fast and the legal constraints are pretty strict as far as I understand. How are these contracts structured, and what are the legal risks then taking on this business on a grand scale? Thank you.

Reinhard Clemens
Member-Management Board

A

Yeah. So, first of all, there's nothing where we are going to guarantee anything to customers, because that's not possible in the security or cyber security environment. So to really make it clear, what we do is, give the service which you as a customer can book, but without any kind of guarantees, so that we don't have any kind of financial risk on our side. It's because I think if you currently install security functionality by yourself you also don't have a guarantee, and we avoided in every contract that we make any kind of commitments that we guarantee security for any kind of customer.

But by the way, we probably have a much better security system than every customer in Germany because we are seeing much more in the network which is going to come, and that's by the way also accepted on the customer side. It's a unique combination of what we monitor in the network, what we monitor with our hotspot infrastructure, our honeypot infrastructure, which we have more or less around the world. So we see the viruses, we see everything already coming through the network before it hits the customer walls, and the customer doors, and that's more or less the services customers are looking for us. But it's very clear, no kind of guarantees contractually from our side. So no risk involved anywhere.

A

And it's actually an opportunity because, as Reinhard said, we have basically 50% revenue growth from about €74 million in 2013 to €110 million last year for advisory service, but also for protection services for customers.

Stephan Eger
Senior Vice President & Head-Investor Relations

A

Well, fine. I think, the gentleman in the back with the white shirt.

Robert J. Grindle
Deutsche Bank AG (Broker UK)

Q

Thanks. Thanks. It's Robert Grindle from Deutsche Bank that is, not Telecom. Very interesting start there on German customers who want a national cloud and prepared to pay for it. There's a difference between saying they'll pay for it and actually paying for it. Any evidence that that is actually happening that they are talking out?

And when customers think of moving to the cloud are you finding that this is a risk in so far that it crystallizes the willingness to tend the contracts to a wider number of operators than they would have normally they might have gone to use an incumbent. And in that regard are the mobile operators in Germany, I suppose Vodafone in particular, encroaching significantly?

Reinhard Clemens
Member-Management Board

A

Yeah. So first of all and that's what I like to explain a little bit. Because you have – you don't have normally one cloud as a company because we have data, which you believe you shouldn't share in a shared environment.

The cloud, if you look at the cloud infrastructure it's normally a shared environment. So whatever you can buy from Amazon, what you can buy from Microsoft is a shared environment. So your data is directly resides the data from your competitors. And that's what companies on critical data don't want.

So they have normally an isolated environment, which we call private cloud. So everything moves into the cloud, but it's private. It's not a shared environment. It's dedicated for the customer. Non-critical data, for example, like email services whatever, will go into the shared infrastructure, which we call the public cloud environment.

Where you have an RFP process, is on private clouds, you know, where customers have specific request, specific demand on how the data should be protected. If you look at public cloud services, they say, okay, I book it over the internet. So the principal idea is publicly there will be no RFP.

We said we don't want to compete [ph] like hell (2:49:43) with all the existing players in the market. And there are 17 players offering cloud services, which are all American players. And you can imagine that even an email in some cases that was the reason for example for Daimler to make a decision to work together with us.

But email can be also a threat because you're documenting something which you don't want to more or less expose into the market. So my point is and that's what we have learned, they are willing to pay more as long as they are having a secure environment, where the Americans don't have access, the Asians don't have access to the data,. That's the reason why I say there look, it's not only the location where the data is stored is important.

So the model is that I'm -- if Microsoft or Salesforce are building a data center in Germany, it's not enough. Because the operation must also be done by Germans otherwise we have access from the US to this data.

So our point was then to say we use the technology of those players like Salesforce. They are putting their infrastructure into our data center. We take over the people from Salesforce onto our payroll and we charge them back to Salesforce whether it is cost neutral for us. But this enables us to really fulfill all the data security, legal requirements by totally 100%. So there is no access from outside into this data center anymore from a legal perspective, U.S. perspective, and by the way the last time where we talked together it was 2012. Thanks to Mr. Snowden because that's more or less was the best marketing story for us on cloud by the way.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Well, I think, there is one more question over here, on the left hand side.

Steve P. Malcolm

Arete Research Services LLP

Q

Just a couple of questions, First, Steve Malcolm from Arete. One on the self-funding comment, is that the four special factors. And then on special factors themselves, can you give us a, sort of, idea what the €300 million you got in 2018. What's driving that – is that, sort of, ongoing early retirement, can you dream of a day when there is no special factors, maybe some color on the profile of the workforce that staged that drives that €300 million and how you move on from that? Thank you.

Reinhard Clemens

Member-Management Board

A

Yeah, I mean, the self funding is basically after special factors i.e. inclusive, so really properly cash positive. And the remaining special factors is that we – while we try increasingly to not take over personnel from other companies, it's usually traditionally the outsourcing, you easily take out in bigger company 500 or 1000 people from a customer. In recent contracts, we have already managed to reduce that dramatically. We've one very big German company where we only in the region of 200 people, who will be taking over compared to probably in past times that would be probably more 1,500.

Nevertheless, we will still continuously, will have the need to lay off people because if you takeover, personnel and really develop the economies of scale. There will be still rest of restructuring, what is needed every year and that's why we said, we probably need round about 253 net million as a run rate, yeah, in the plan.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

I think, there is a question here in the first row, Paul Marsch from Berenberg.

Paul A. Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thank you. I just wanted to ask a question about the stop element of the business plan. And the 10% of revenue, which is unprofitable, how did that end up being unprofitable, was it cost overruns or revenue shortfalls, I am presuming it wasn't profitable. It wasn't unprofitable when it was signed.

Reinhard Clemens

Member-Management Board

A

By the – I'll start with the comment and then you can comment, because I think in the – when we met in 2012, I said that the big contracts the big deals are unprofitable. And we have to restructure them. That's not the case anymore. So, every big deal is now on the profitable side.

And we made some lessons learnt specifically on unified communication and that's much more complicated than we all have believed. I think, moving a customer into a big – enterprise customer into an IP world, with IP telephony, integrating everything. In a very early stage, it has driven us in contract where the product development, for example, Microsoft Lync, so we have – I think products from Microsoft and so on where the products were not ready and the commitments by Microsoft to certain kind of releases and functionalities were not existing, but we had those contract, and we had to deliver service into those contracts.

So we made a decision very clearly every – in every of those unified communication contracts, where we are not able to turn it around long-term into profitability or mid-term into profitability, we are going to exit. So every contract, existing contract until the end of the contact duration, which will not become profitable is going to exit.

So it's really dedicated contracts where we don't see that we are not able to turn them around with new technology, where the customer is resistant to more or less help us together in new technologies to change the contract. That was a clear decision. And by the way, it's an ugly kind of discussion with customers, by the way, which we had to learn because we never did it before.

So in 2014, we had a bumpy start on managing of those contracts. We now have improved because 22 are closed. 26 are on the ramp now for 2015 which has a positive effect on – impact on the EBIT number, on the gross profit number. They are still contributing a certain amount of gross profit. But from an EBIT perspective those contracts are definitely not able to turnaround over the lifetime of the contact.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Thanks a lot. I think, there is time for one last question. If I look around in the – I think, there is Guy Peddy here on the left-hand side from Macquarie.

Guy Peddy

Macquarie Capital (Europe) Ltd.

Q

Yeah. Thank you. I just want to understand, your – when you setup your business model with the aspiration of delivering both revenue growth plus margin expansion because the history of the business would say delivering revenue growth is very hard. The history of your peers in the industry would suggest that they have contracted down to deliver sustainable cash flows rather than grown. So I am just wondering why you chose a revenue growth target rather saying, you know what, revenues are going to decline by 2% to 3% for the next two years to three years. Because we're getting rid of all this unprofitable business and then we can deliver cash flow positive and we can move on from there.

A

Yeah. Guy, I think, it's two things. It's – we have done that. So partly what Reinhard explained, why we haven't grown the 2% in the last years, but declined quite heavily is that we shed off businesses we don't really want like Italy, France have aspects where we couldn't make any money, and exactly that's what we have done.

But what we also see now is that in some of the areas, for example, if you look at the cloud, and I think Reinhard mentioned it, we grew revenue by €300 million from €602 million to nearly €900 million, and at the same time, we increased profitability. And this is because it's running of a standardized machine where you can really leverage economies of growth.

And that's a little bit the whole idea of this revenue transformation is that we're getting more into these standardized services where we can actually earn good money, grow there. And as you have – probably have seen in the transformed area, which is more of the traditional service that we actually want to scale down slightly further and definitely in the stop area. Yeah, so, it's kind of both.

Stephan Eger

Senior Vice President & Head-Investor Relations

Great. Thank you. Well, I think we have to leave it here if we want to stay in our timeline. But I think we have plenty of time for Q&A. Reinhard, Thilo, thanks a lot. See you at the evening event by the way. And we'll continue, thanks guys. And by the way, you lost your bottle of champagne.

Reinhard Clemens

Member-Management Board

Yeah. I lost my bottle.

Stephan Eger

Senior Vice President & Head-Investor Relations

You know, the way we stay in the time limit I do bet about bottles of champagne, so that's the first one for today which I already won.

Reinhard Clemens

Member-Management Board

Visit our presentation tonight, by the way, because it's interesting to see. There you can see live what we mean on cloud transformation.

Stephan Eger

Senior Vice President & Head-Investor Relations

They have no choice. They have to report to...

Reinhard Clemens

Member-Management Board

Okay. Thank you.

MANAGEMENT DISCUSSION SECTION

Stephan Eger

Senior Vice President & Head-Investor Relations

Thanks guys. Well, we'll move on with the next deep dive into the elements of our strategy. And you have heard us talking a lot in the last two years about us moving on into superior IP production model us moving faster. Tim has elaborated upon that, but we think we are a faster, more rigid than our competitors which has the effect of us getting sooner to the efficiency savings on the on side and also on the commercial agility side of things on the other side, because we'll be quicker to the market.

Now, what it is all about and we'll discuss that in more detail now with Claudia Nemat, member of the Board for Europe and Technology; and Bruno Jacobfeuerborn, our CTO will do a presentation followed by a Q&A, and then we'll do also some live demonstrations for the ones in the room. So please welcome with me on stage Claudia and Bruno.

Claudia Nemat

Member-Management Board

So, good evening, and hello to everyone who is watching us from remote. Leading European Telco, Tim showed our strategy to you. Uno, leading European telco, what does that mean in essence?

Some people argue it has to do with number of customers, number of countries, revenue market share, I've also heard CapEx leadership as if spending is a virtue. No, this is not what we are believing.

We believe it is about category leadership. And the category for us is undisputed technology leadership, creating the best customer experience, turning us into the number one choice for our customer.

And in the technology leadership it's also the basis for the production model Bruno and I are going to describe. Because we are the first operator to move to a truly Pan-European all IP integrated production model. And that is actually the first part, the first packet of the strategy Tim presented.

Now superior production model for us it's not a purpose in itself because we love technology, I mean, we do. But the purpose why we are doing that is threefold; one, because it delivers a better customer experience and I will come to that; two, and Thomas had shown that it creates a very competitive cost base, and three, it really makes us fast and agile.

Now when we talk about superior production model, it can list of three components. Component number one is the PSTN migration, the all IP transformation which we started to rigorously execute since January 2012. Now of course that has an agility and cost effect, but the main thing is really the plug and play customer experience.

For example, in Macedonia, which was the first country which went all IP in 2013, customers, for example, single voice customers can just go to their smartphone, to their pad, click-click and get a broadband internet access immediately. Immediately, click-click, you order it, you have it because the network is preconfigured. So therefore, the PSTN migration removes usage hurdles for the customers to use our products.

The next element is what we call the Pan-European Network. As you know today, all countries have different type of networks historically grown. We are actually in the process to create a truly Pan-European Network with an integrated production and the main benefit of that is as follows. Today very often, it takes one year to two years to introduce a new product or service in every single country. With that it takes a few weeks across the entire footprint.

The third component is the integrated network strategy. That is the continuation of the LTE, then LTE-advanced, some point in time 5G roll-out, vectoring, further rollout of fiber-to-the-home, to create the best connectivity for our customers.

In Germany, anyhow, and the new thing is now also that we decided to do an integrated network strategy in the rest of the European footprint as well. And on top of that we're digitalizing the customer facing processes, meaning enhancing the online share of service bill and sales and creating a seamless experience across all channels. So, let's also say the customer interface to that production volume.

Thomas mentioned it uno OpEx savings and steady state amount to around about €1.2 billion in steady state. So that is the production model and we will now deep dive into the different schemes.

First of all, IP transformation. We mentioned that several times and also did webinars around it, so therefore, pretty quickly. In our today's world, the spaghetti world, which we can see on the left-land side, we have different platforms for every different service; mobiles, fixed telephony, internet, TV, carrier business.

And second, the intelligence for steering the network and bringing in new services is distributed over 10,000 distribution points across entire Europe and these are complex because they have vendor specific hardware/software combination.

So therefore it takes long to do something new. In the new era, we have the same platform for all type of services. That's the basis for executing fixed mobile conversions quickly.

[ph] Latanya, (3:05:48) we have virtualized the intelligence for steering the network into the cloud, quick the infrastructure cloud, and we have separated the business support system for the processes from the operating systems. And by the way, that infrastructure is access agnostic. It works with all access technologies which we are having here below.

So as you know this is my PowerPoint, we are actually very proud that after Macedonia in '13, we managed to finish Slovakia all IP without any accident by the way and in Croatia, we are currently at 78% and all the other countries are roadmap wise on track.

We have as of today migrated more than 9 million customers and you will see and you see what the order of magnitude of customers is when we finished. We keep the commitment to finish in Germany and in the rest of Europe by 2018.

So, Bruno, maybe if you comment about Germany.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

Well, in Germany, we are well on track. I think, it was mentioned already this morning from Tim as well, one-fourth of the way we have already migrated. We have an huge ISN baseline and with this – we see at the moment with the product we've, we're good on track and you see here 25% and 5 million to 8 million customers already in January, another 300,000 migrated to our new network to IP. And especially the rollout we are doing now with Vectoring helps us to migrate very smooth into the new IP work. This is well on track and we will make it end of year 2018.

Claudia Nemat

Member-Management Board

Fantastic. When we go to PANNET and that is the new thing here. So it's important to understand where we are coming from and by the way not only us, literally everyone else who has fixed line business in more than one country.

As I've said in the today's world, we have a very complex production and the intelligence for steering the network highly decentral and distributed. And there are vendor-specific hardware, software combinations making it very inflexible and expensive.

In the future world and that is driven by the IP transformation, things will be simplified, virtualized IP based production and the logic will move into the cloud. So that's the first aspect. The second aspect we have that situation not only in one country, but in the 13 countries each in a very different way.

In the future, we will create one Pan-European Network with an integrated production across all the national companies, Germany and Europe outside Germany.

Sometimes I say you can compare it with the euro, but we also debate who gets then an exit, right? So that's the idea about that one. And the last point is about the way products get produced. By the way the production of a product, as you know, means specification entrance letting into IT then.

Today every national company specifies codes, implements into the systems and the networks, the products by their own in a different logic. In the future we have so-called product or pre-product catalog with pre-products and then the commercial leaders in the countries take these elements and configure country-specific product and service out of that. So that is what indicated here, like a legal principle, yeah, for instance when you want to offer Magenta1 which includes normal entertain HD voice plus two mobile phones and this you will have the descriptions of that and can compose that and have a common production logic. So that is in a nutshell what the PANNET idea is about.

Now some tech stuff. You might say okay, Claudia, Bruno, what is different. We have heard all of that. Software define networks, virtualization, cloudification, network functions, virtualization et cetera. So let us explain what is different in the way we are doing it. First of all and that is probably the most important aspect of that. We do these things altogether holistically, not just one aspect. You will find a lot of telcos that do one or two aspects of that. But here we do it all together holistically.

And then going into the details, on the IP network, we are not only migrating PSTN to an IP platform but we use the same SMC-enabling platform for all services today and we are in the process of making it radically lean. And where the target picture will be? You can see in the TeraStream pilots in Croatia and Germany where we have native IPv6 networks and deep optical IP integration.

Now, why is that cool? Because that enables scaling it up and combining it with high bandwidth and you need that in order to get a network which has de facto no latency, I mean, I know there is nothing like no latency, but no perceived latency. So that's about the TeraStream.

May be Bruno you comment a little bit on your pet topic, the Infrastructure Cloud.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

Well, a tight integration of fully automated data center and the IP network together, this is we call Infrastructure Cloud. That's an holistic approach to optimized network input and network output in one cloud approach. What does it mean for us? It helps us [ph] warm us (3:11:50) to get all network function we have to deal with the network, to bring that into that cloud and the infrastructure is doing that for us.

We can say it in this way like an app all boxes we have in the network, we bring into that infrastructure cloud. And that's the reason, that we minimize the latency as it's mentioned here and then we'll have to get the high bandwidth on top of that. And this is something what we've shown in Croatia that it works and we are on our way to exactly implement that and there we are leading.

Claudia Nemat

Member-Management Board

Yes. In addition we have also the real-time operating system that is an avenue the industry is taking anyhow but of course this is also part of this concept. And it's very important that again, it has standardized open interfaces and software flexibility. So in a way, it's crafted in a way that it doesn't make us dependent on certain vendors. That's all important in the entire system.

But the most important thing to keep in mind here is what is different. We put these components together. And by the way it's not PowerPoint, we have actually piloted and implemented all aspects of that in Germany and the rest of Europe. So as you can imagine when you hear the name PANNET, this will mean that certain activities that were historically done in national companies will be harmonized and centralized. Today, everything is decentral. Decentral meaning done in a country only, completely.

In the future, of course the customer processes, the excess network, the customer equipment, the business support system will be local. Clear, will be local. But what will be harmonized and centralized is the virtualized network function and services. So what you see here in Magenta, computing, storage, networking and the Real-time Network and Service management system, so the system to actually manage the network. What is Magenta here will be harmonized and centralized, the rest will remain local. And that is what enables the fast execution of new products into the countries.

Now looking at the architecture, and please take that picture only as illustrative because we have not yet finally decided on the locations. In that target picture, we would need outside of Germany three back-end data centers and two georedundant network operation centers.

In addition, two data centers in every country very likely with routers at the edge of the network. So that's in a very simplified manner would be how that network would look like compared to what we have today until we see it later how it looks today. So that is the Pan-European Network.

Now Bruno, we have decided actually to create a common architecture for the Group meaning for entire Europe, and Germany is of course part of Europe and the rest of Europe, so the architecture is the same one. Comment on that one?

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

Absolutely. What I see that in your chart the Germany is a black part of Europe.

Claudia Nemat

Member-Management Board

Yeah.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

But let's see how that works. No, the point is that we have one clear common architecture to simplify the IP network, and the architecture is called BMG and TeraStream. Why do we have two names?

Very easy, we have the key architecture for the future, for the 2020s onwards and we have different, say, legacy topics in the different networks, especially for example in Greece and in Germany, we started the BNG, is that is the reason because we have [ph] old access (3:16:05) and old legacy. There we have to put more, say, technology as well as software in the routers.

In the other countries we started TeraStream, so two trains are running and they are coming to one railway station latest in 2020. And that brings us into situation that we can effectively implement that you just have described to have one PANNET in place.

Claudia Nemat

Member-Management Board

Absolutely. And the fast track execution of PANNET, and that is cross country product introduction will start asset here in the international part of the European business and actually it has started already.

Next week at the Mobile World Congress, we will introduce two products that got delivered on a Pan-European architecture and will be provided to three countries, Hungary, Croatia and Slovakia, to all the three countries immediately. The first product is a TV product, but it's not the TV product as you know, so out of the set-top box. It is actually a TV offering out of the cloud, which it enables delivery into three countries in parallel.

In addition to that, because this is fast product introduction as a benefit, we have also massively improved the customer experience. And I must say what I find specifically cool about it is the fact that we are combining the TV experience with the gaming experience.

So gaming gets integrated into the TV and in the movie experience, and in addition we are having a smart recommendation engine, leveraging big data, which will actually give recommendation for certain categories for movies, for TV and for the gaming which is included. So that product we will show in Barcelona, but the interesting thing here is it was delivered for three countries immediately.

The other product is a B2B product, a virtual private network. Now you might say, a virtual private network is a quite boring thing. A virtual private network has been around for many years.

Now the difference to the existing virtual private networks and this virtual private network is that this gets delivered out of the PANNET Cloud. That means precisely that as a business customer who has a medium complexity in locations you can very easily by just going through a mark can figure your virtual private network. Actually it takes 15 minutes. I tried it out. 15 minute medium complexity and then this gets also delivered immediately. With one exception, of course, you still need the CPEs, the routers. So you would need to wait. We tested it for two days until you get the routers and then you plug it into the wall.

And that's a huge difference from today's world, where it takes, in Croatia for instance two weeks for medium complexity and four weeks for high complexity to set up a virtual private network. So what this shows is that it is a radically simplified customer experience, whether you reduced usage hurdle delivered over a Pan-European architecture.

And with that Bruno, I hand over to you to talk more about the connectivity, the access.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

So thank you very much, Claudia. See that it works. Integrated Network Strategy, that was presented to you at the Capital Market Day in 2012 when the board said let's see, we would like to invest into Germany.

Starting with Germany and we have four pillars, one is LTE, be the LTE leader in Europe, in Germany first and then in Europe. So we delivered that as it was mentioned in the speeches from Tim and Thomas that we are the undisputed technology leader here in Germany. We had the fastest rollout, have the highest speed and the highest bandwidth from the perspective of our customers.

The second part was get fiber done, fiber closer to the customer, so we believe in fiber, don't get us wrong with that. However, we start an evolutionary pace, we start from central office going to the suite cabinets and then do some say chip tuning, we call it vectoring to double the speed and to download and get four times higher speed in the upload.

At that time we didn't know if we could make it because we had to ask the regulator if we could do vectoring. We got the permission, last year we started with the, say vectoring cell and if you look into this one, we delivered 5 million ports up to the mid of this year, so a great success on that one.

And last but not least if it comes to fixed mobile conversion, I always tease my colleagues in marketing a little bit what they can do with converged product we can do in technology as well. So we are combining the fixed line and the mobile line with bonding to get best of both worlds and I really mean best of both worlds. We add DSL, cloud

DSL, vectoring and then hybrid, not doing a load balancing where you get either/or. So that was promise and we delivered that. What we do now in the next years from 2015 to 2018? We will have an increase in the coverage what was mentioned, rough 95% in Germany and the increase of speed to 300 megabit per second. The same we do in Europe, a little bit dependent on the market and the competition situation between 75% and 95%. So the same amount in Europe with 300 megabit per second on speed.

Fixed line, there is maybe one thing. If you really compare 2012 with 2015, you see that we say okay 80% of the households with at least 50 megabit per second.

In 2012 we said we do VDSL and vectoring. That means speed between 16 megabit and 100 megabit. So there is a slightly but very important difference and Thomas mentioned already that we had a huge invest in so-called [ph] campus mode (3:22:59), put people together to say can we do it in the same envelope, yes we did. So we are on the way to save a lot of money but really follow that promise as it was mentioned here already this morning. And on top of that we will introduce super vectoring. What's that? Is that's changing a line card in the [indiscernible] (03:23:19) this one and that brings us around 250 megabit per second starting in the cable footprint.

In Europe, it's a little bit different because there we have a better situation regarding fiber rollout; for that reason in some of the countries we do a fiber rollout that ends up with 50% of the household above 100 megabit per second and roughly 12% will get 500 megabit per second.

So coming to the hybrid of course development will be if we get super vectoring in place that we add then that into the router that's 250 megabit, plus 200 megabit in the mobile side, we get to 550 megabit per second in that cable footprint. Taking that into account talking today from 2015 to 2018, of course our engineers are working in the labs because we would like to be the thought and the implementation leader in this industry and there will be of course some new development, it will not stop.

I think if you stand here 2018, there will be even more, so that what here show, we definitely will deliver and may be even more, give you a few hints. In mobile there will be evolution in LTE-Advanced and 5G. I am pleased that I am at the moment the head of the NGMN alliance as chairman. We have all the operators sitting together and we will announce in Barcelona the 5G white paper.

So that we have like in LTE a standard worldwide. I think that is a great achievement and you are invited if you have time on Tuesday next week 11 o'clock at the Deutsche Telekom booth, we are hosting that one. And if it comes to fixed line vectoring, already mentioned it's live, we promised and we delivered super vectoring and G.fast we are working on, and it will come in this next year. So just giving an outlook on mobile and fixed, technology is easy we have just three dimensions.

So if it looked from the [indiscernible] (3:25:19) perspective, you see speed, you see capacity and you see efficiency. If you would look from the inside out, we say we need spectrum, we need sites and efficiency. We promised to be the LTE leader in Germany in speed, we did it with 150 megabit per second after the Capital Market Day. We nowadays do Carrier Aggregation that means combining two frequency blocks with 20 megahertz, already in some cities available at 300 megabit per second.

If it comes to innovation, you see this antennas 4x4, it's called MIMO or it's called Multiple-Input Multiple Output that means four antennas on the rooftop, four antennas in the handset, normally you have two-two and then you can double it and we have shown it last year in the live network in Germany to a few of 580 megabit per second. In 5G I mentioned, will come in Barcelona, we get more than 1 gigabit per second.

Capacity compared to UMTS to make it a bit faster, LTE is five to six times higher capacity than if we do Carrier Aggregation, it will double. And last but not least if the customer would like to have more bandwidth and more speed, we have to introduce Small Cells. This is a little bit of our toolbox.

On the right side, you see how do we do that. You see Single RAN that means just easy one-box for all frequencies. In the future, it's just software and we can decide which frequency for which technology we'd like to use. Advanced Antennas, Cell Collaboration help us to get rid of interference, I will not go into these details, but really optimize the network because building sites everybody can do, but you optimize it with the right approach from the engineering perspective, it's not so easy, so for that reason we have right engineers on board to do that. And you see Self Optimizing Network, we have heard that maybe in the last years, now it's catching up, we will do that from 2016 onwards as well.

And last but not least coming to the Fiber Evolution, one thing again I repeat that, we believe in fiber at the end, maybe not in my time in the Deutsche Telekom, but definitely our customers will get fiber. We do it in the evolutionary way as we said, Vectoring 100-megabit delivered, Super Vectoring will come 2017 onwards with 250-megabit and more and fiber to the distribution point, G.fast, when the loop length is less than 100 meter, we'll be above 500-megabit per second and at the end it's FTTH.

So this is more or less the update on the access strategy, our integrated network strategy. With this tool belt, we will be able to address most of the use cases of our customers in a very efficient way.

So Claudia, I hand it back to you now.

Claudia Nemat

Member-Management Board

Bruno, talking about the customer, as I said what's the purpose, improving customer experience, getting fast and reducing the cost base. On the IP Transformation, I already mentioned the broadband-on-demand product in Macedonia. That is really a click, [ph] set (3:28:30) plug-and-play experience to get a broadband connection. In addition, in that world in Macedonia, it's very easy to really create a fixed mobile convergence experience. Yeah? That's very easy. It takes just a few weeks to implement that.

On the Pan-European Network, I was showing you that Cloud Virtual Private Network which gets introduced to B2B customers in these three countries and of course for us the benefit is to do that very fast in more than one country. There is another benefit about that network which is when we have such TeraStream infrastructure that that network is highly scalable and has a very, very low latency, so that enhances for the customer experience.

On the integrated network strategy, Bruno you explained in detail the experience is best seamless connectivity combining the capacity from fixed and mobile and the flagship product on that one is as you know the hybrid router which we introduced in Germany. So on top of that but I will explain that tomorrow and Niek Jan will so as well, we have a number of service innovations to make the experience, the interface with us easier, this is what we call the ultimate service apps but more to come tomorrow.

Now that was the customer experience, very shortly. And now I hand over to you very shortly to show the financial benefits of this thing.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

You have seen that slide, so I will just say the delta what Thomas already has said. If you look into this slide the OpEx and CapEx on the left side, the upper corner, you see the number €0.8 billion. So what we did, if in Germany for example, look we have the IP and INS in one business case, so this €0.8 billion mention what did we do to transform our network into an IP and integrated network. So this not included is the access CapEx, but all the other spend we have done over there is included. And you see this slide ramp up in the next year speaking in 2016 and then going down and in the early 2020s we will get a lot of benefit out of this one.

The CapEx itself on the access side will increase as well up to 2018 but delivering as what we have promised as you have seen that on the access strategy doing much more as we have done at the Capital Market Day in 2012. But staying in the self funding mode to really be able then to deliver what we have promised here today as well.

If we do a short break down of what does it mean, if you look in the €1.2 billion OpEx savings, in Germany it's mentioned €0.7 billion, €500 million is more or less related to service, €200 million is related to technology and you can say roughly one-third is maintenance, one-third is people related and one-third is energy related. So, that will give you a small breakdown.

In Europe it's a similar situation except that depends on the country people where this maintenance, where this energy is a little bit different if it comes to ratio.

But overall, if you look to the picture on the left side, again, mainly the uptake in that OpEx capital is coming from Germany, not from Europe. So the transformation we have to do especially here in Germany due to the old legacy what is now our network takes a lot of effort. But I think it's very important do that effort, and to be able to have them from 2018 on a flexible network where we can do plug-and-play. And I think tomorrow in Europe and in the German presentation we will hear more about that one.

Claudia Nemat

Member-Management Board

So, coming to the end and the commitment, and to underline the commitment...

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

[indiscernible] (3:32:32)...

Claudia Nemat

Member-Management Board

I just want to really make it what from our perspective is the most important thing to keep in mind. So therefore, let me repeat it. Leading European telco is very much a leadership in a category, absolute leadership in a category. And that for us means undisputed technology leadership creating the best customer experience, turning us into the number one choice. The best customer experience is coming out of the technology leadership.

And this is why we create such a superior production model. It is not PowerPoint. We have actually worked on that and executed the last three years relentlessly. And therefore, we believe, Bruno that we are able in Germany and in the other European countries to continue exactly that execution track record. And therefore, I would repeat a commitment we gave already, I gave in 2012, which is all countries, and Niek Jan will repeat that tomorrow as well for Germany, all countries will migrate to IP until 2018.

On the Pan-European Network you have seen we started in 2014. We could show that it worked with these two products. By 2018, we will have set up the back-end and front-end data centers and a georedundant network operation. And we will migrate the services in the countries fully towards the Pan-European Network, the new services.

And on the integrated network strategy, both Tim, Thomas, Bruno and you mentioned that the commitment is to increase the top coverage in LTE as you can see here. And the second commitment is to increase the household penetration in Germany to 80% with a guaranteed bandwidth of 50% and in rest of Europe I should say 50% with a guaranteed bandwidth of 100%. So that altogether shapes the superior production model.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

Right. Absolutely. There's one remark on this asterisk, you see this number, one regarding the 80%, you just asked the regulator for this so called 550 meter radius around the central office. There we need another permission that we can do vectoring over there because it's not allowed so far. But we're working on this, and like last time to get this done that we are able to make that.

Claudia Nemat

Member-Management Board

Okay. Thank you. Bruno.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

Yeah, thank you.

Claudia Nemat

Member-Management Board

Thank you.

Stephan Eger

Senior Vice President & Head-Investor Relations

Well, thanks, Claudia. Thanks Bruno. I think we have about 10 minutes time for Q&A session. And I would start over here on the right hand side with Polo, Polo Tang from UBS, please.

QUESTION AND ANSWER SECTION

Polo Tang

UBS Ltd. (Broker)

Q

Yeah, thanks. It's Polo Tang from UBS. Just have a few different questions. So in terms of the move to All-IP, can you give us a rough idea in terms of what the cost is per line to migrate, and also what the cost savings benefit is, and how does it vary for example between Germany and Europe? That will be the first question. And the second question would really just be in terms of as you move to All-IP and complete the transformation, you mentioned how quickly you can roll out new products. So how much of an impact you think that'll have in terms of your KPIs and net adds; in terms of for example fixed line, do you expect to make significant market share gains?

And my final question is really just in terms of the new mobile technology. So you talked about for example carrier aggregation 4/4. How much cost will be involved in terms of deploying these new technologies, will there be a step up in CapEx or is it already included in your existing envelope? Thanks.

Claudia Nemat

Member-Management Board

A

Yeah, so I'll start with the first question and giving you some practical answers from both Slovakia and Macedonia. In those countries, the cost savings, in those countries, the cost savings per line were around about €10 compared to an investment per line of €30. And these savings compose themselves of three elements: energy, service level agreements to vendors, because it gets cheaper, and staff and technical service. But what we have seen that the portion is very different from country-to-country, so therefore it's very difficult to actually deduct that conclusions for other countries, yeah, because just to give you a thing. In Croatia, it's really about energy savings what we are seeing versus in Slovakia, it was very much about safe service level agreements to vendors.

Reinhard Clemens

Member-Management Board

A

Which is exactly why we moved away from that cost for access or savings per access, down to the €1.2 billion, how it splits between Europe and Germany and also the big layers in the cost. Also the preconditions are so different from all the technology foundation and basis is so different but it doesn't really make sense and it's not comparable.

Claudia Nemat

Member-Management Board

A

Yeah. So adding to that because Bruno and Timot communicated the €500 million and the €700 million for the production model and to break it down from there, and I take the €500 million for Europe, you can roughly estimate €250 million comes from the simplification of the customer facing processes, the digitalization. €200 million come out of the platforms, yeah, the platforms and €50 million is round about purely the migration of PSTN voice customers to All-IP.

Polo Tang

UBS Ltd. (Broker)

Q

On carrier aggregation maybe?

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

A

Yes, in mobile everything is included except carrier aggregation, as mentioned, it's partially included, but especially in German we'll modernize the network from 2016, 2017 onwards and there we do of course an RFI, RFQ, and we have some ideas how we can finance that because [ph] we simply get much better prices here today (3:38:39).

Polo Tang

UBS Ltd. (Broker)

Q

[inaudible] (03:38:40).

Reinhard Clemens

Member-Management Board

A

Yeah. Well, obviously what we especially in Germany count upon other than what we're doing on the INS rollout, our addressable market for higher bandwidths go up, but what we said before is the agility in the market for self servicing really reducing the barriers of customers using our services obviously implies our hope we didn't yet factored in largely in our numbers, and you should ask that to Niek Jan tomorrow as well. But obviously implies that we think we will be better in the market, that we will be defending our market share better that we will be gaining market share, over time winning more customers because we will be more agile in the market, and we will be having the better propositions. But it's not yet factored in, it will be an add-on. Next question, over here from Tim Boddy, Goldman Sachs, please.

Tim D. Boddy

Goldman Sachs International

Q

Yes. Thank you. I wanted to ask about – well, two things, first of all, from the experiences you've seen, obviously looking across different markets, but particularly also from the PANNET vision that you've laid out, how large are the cross-border synergies available from combining with an adjacent European country that you don't currently own, is it 5% of OpEx, 2%, if you could sort of vaguely quantify that would be incredibly interesting?

And then secondly, it'd be good to – appreciate there is always something else to invest in, but it feels like the structural level of CapEx intensity is actually declining once you've deployed fiber, so kind of assuming you add fiber-to-the-home everywhere, and you could do the PSTN switch off, what's the sort of long, long term CapEx to sales intensity for the business?

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Tim, on the first question, may I ask you to park that until tomorrow. Because we have prepared that question with Thomas our Group CFO, so there is two options; either he quickly jumps on to the stage or we just repeat the question tomorrow in the bigger Q&A, which I would recommend because he is the man who exactly knows the answer to that.

Claudia Nemat

Member-Management Board

A

But the short answer is, when I was talking for example about the €500 million outside Germany in the European footprint, yeah, the speed to simplify the customer phasing process is the €200 million I mentioned on the platform consolidation. You would not be able to execute that in such a pace if you wouldn't take such an

approach. So if you wish you can argue that this is so to say the benefit out of the production model and PANNET there is very much the centric piece of that, yeah.

But the biggest synergy, if I may use the word, is really to introduce products across countries fast and the interesting piece is, if you have long-tail product, yeah, today when you have to think country-by-country and then you execute one or two years, you have to think very precisely [ph] as a commercial leader (3:41:52). I have what it's going to work, what's not going to work. Here you can have a product which works for a specific niche.

The teenagers like the daughter of my friends in Macedonia love it a lot, yeah, and this is just a customer niche in Macedonia, but what we do then is [ph] that (3:42:11) we scale it up and we figure out. So this is pretty fast product into an innovation on a long tail. Hence I hope that came across. This is an entirely different way this industry is operating, because finally it gets industrialized under normal industry, I mean other guys are working like this now for a certain time outside of this industry, yeah, [indiscernible] (3:42:35). Yeah, whatever product niche you wish to create, you do it, try out, super, roll out.

Tim D. Boddy

Goldman Sachs International

Q

And then maybe on the structural level of CapEx, whether that is declining in terms of long-term, because I think there is a couple of issues here. I think Bruno can work it out?

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

A

Yeah, exactly. Of course if you have fiber-to-the-home to every household, the CapEx will be kind of significant, it must be. Because if you looked at, you can – 80% is access, rest is core. So if 80% is done then you know what happen. But it depends on the market we are in, as I said. In Germany we have this approach, evolutionary start with fiber-to-the-street covenant and then go further with G.fast in the pedestrian areas closer to the home, and this will happens of course to say spend less CapEx at the beginning because if you get everything done in Germany it would cost you €80 billion, minimum.

In Europe, different story, because it's easier to do, just complete different way how to deal with that one, and there we will have much more fiber already now, and this will happens of course to decrease then the CapEx level over there.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Well, time for the next question maybe here on the left – on the far left hand side. I think it's Jonathan Dann if I see correctly; well, I'm getting old sorry about that.

Jonathan Dann

RBC Europe Ltd. (Broker)

Q

Hi, there. You didn't mention Netherlands or Austria and you've gotten snazzy leather jacket, so I presume there's the beginnings of a challenger strategy.

Claudia Nemat

Member-Management Board

A

Actually, tomorrow when I give the European presentation, I will in detail talk about the Netherlands and Austria, so if you can wait until then because we have a dedicated session for that.

Jonathan Dann
RBC Europe Ltd. (Broker)

Q

Sorry, could I ask a separate follow-up on, what networks, what you see are rivals in Eastern Europe, what type of networks? I mean, you mentioned 50% with 100 megabits, my understanding is there is quite a lot of cable in Eastern Europe presumably?

Claudia Nemat
Member-Management Board

A

So actually the situation in Eastern and Southern Europe is very different. For example in Greece there is no cable, in Hungary there is heavy cable. So it's very, very different. And in each country it is also very different region-from-region, yeah. So our reaction to this when you think about this, what Bruno said is 50% which will move at minimum 100 megabits per second. It will be like this: more than 50% will really be fiber-to-the-home in Europe because of a different topology, then there will be 30% vectoring increase, we pursue the same approach as in Germany that will be a vector [ph] applying (3:45:14).

And then in Hungary there's still 10% in our footprint really cable which we are doing, yeah, and the rest is fiber-to-the-building, yeah. And the type of technology we choose really depends very much on the local competitive situation in the respective country.

Stephan Eger
Senior Vice President & Head-Investor Relations

A

I think we got one more question from Fred Boulan right here on the left hand side, please? Over here.

Frederic Boulan
Merrill Lynch International

Q

Thank you. Fred Boulan from Bank of America. Two questions. Firstly on mobile networks in Germany. Can you tell us if you think you can maintain a structural network advantage versus Vodafone and Telefónica considering the plan you've just presented?

And secondly if you can give us some ideas on unit costs for supervectoring in G.fast, can you give some interesting elements for VDSL but if we can have some visibility on broad numbers for the next two or three stages of fixed investments? Thank you.

Bruno Jacobfeuerborn
Group Chief Technology Officer, Deutsche Telekom AG

A

Okay. Starting with the last question, supervectoring is just a line card in an [indiscernible] (3:46:28) and of course as a customer you must have a capable router at home. So due to that that we adjust with that in the labs, I can't tell you what is the amount of money because you will have to negotiate this one. We have independent [indiscernible] (3:46:45) for you is we have it embedded in the CapEx, it's included. So we have I think planned conservative and we hope that with our procurement power we will be able to even get it cheaper, so. But I wouldn't give you now an answer on what a line card will cost, but I think you are able to look at VDSL line card and then I think it's the same magnitude, something like that one. That is the first answer.

The second answer if it comes to more networks in Germany, the advantage we have is two-fold at the moment. One is due to the frequency auction in 2010, when Thomas Dannenfeldt at the time CFO in Germany, Christian Illek at that time Marketing Director in Germany, and myself were bidding for the frequencies, we had this

entrepreneurship to say we bet on 1800, and that worked out. And you see that advantage, we've two times 20 megahertz at 1800, and that gives at the moment speed and the capacity advantage in this network.

On the other hand, we have maintained, especially if it comes to speech quality and how we deal with network, they are done in a very well way so far. Of course, everybody is trying to catch up. Vodafone is doing that. If you look to the results, they're working hard on this one. They have the spring program on that. And our task is like always in live work against it, be better, wake up in the morning. Try to find out what is next. How can we improve the network on the one hand side? And of course, with the next upcoming frequency auction to be as smart as we have been in 2010, knowing that's not easy. Yeah. But we are confident that [indiscernible] (3:48:21).

Stephan Eger

Senior Vice President & Head-Investor Relations

A

I think we've got time for one last question here on the right hand side in the middle. Emmet Kelly from Morgan Stanley.

Emmet B. Kelly

Morgan Stanley & Co. International Plc

Q

Yes. Thank you. Just one question. Could you just say a little bit about where your German fixed line network speeds are now, and compared with cable, where they were maybe three years or four years ago, and where you think they will be in three years or four years' time? So how that evolution has mapped out since say 2011? And if you just look at those networks speed, could you just maybe mention are German consumers demanding speeds of 100 megabits, do they actually come looking for those speeds? And do you think there is a much of a differentiation once you reach 200 MHz, is there much value-added in having 300 megabits or 500 megabits?

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

A

Yeah.

Emmet B. Kelly

Morgan Stanley & Co. International Plc

Q

Thank you.

Bruno Jacobfeuerborn

Group Chief Technology Officer, Deutsche Telekom AG

A

So, I'll say it in this way when we announced 2012 that you'd like to roll out VDSL and vectoring, we said we will not win the speed rate in the fixed line network with cable. That is impossible. That's as a first remark. Then we said, we have to address an efficient way, minimum 90% of the used cases of our customers, and if you look to that one I think two years ago 6 megabit was average in Germany, now it's 16 megabit per second because the broadband from today is small band from tomorrow. And with this idea to say, okay, we win vectoring in place for the next 10 years, I'm pretty sure that most of the households will have enough speed if it comes to that area.

However, we have to catch up [indiscernible] (3:49:55) we have said we will have supervectoring in place from 17 megabit to 18 megabit because cable is already offering now 150 megabit or 200 megabit in the future, they can grow up to 640 megabit and even more when they invest a lot.

So what we see is, okay, the ambition must be, we have better service, we have better quality and we fulfill the use case of our customers and this is the strategy what we have just presented, I'm pretty sure that we fulfill that needs.

And the last two years have shown even with our network if we can get 100 megabits, sometimes the people only take 50 megabit. So they are very conservative in Germany. So we are pretty confident that we are able to fulfill all the needs of our customers.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

And also with respect to the second question, I think there is plenty time to discuss that tomorrow with Niek Jan van Damme as well. But the starting point is Germans are a bit more conservative, you know that by now already. But I think over time they will be getting educated. It's not so much about bandwidth for 80%, 90% of our customers. It is about the combination of bandwidth speeds and products.

People, if you look at our take-up rates of Magenta 1 which is our integrated FMC product, if you look at our fiber take-up rates, you see that people actually are willing to pay up for that. If it's sold as a value-added proposition which is not necessarily just on bandwidth, but again Emmet, more in detail with Niek Jan van Damme tomorrow. And I think we will be having to end the Q&A session. I know guys there is plenty of more questions, but there is also more time to address these questions now with the demonstrators.

Thank you very much, especially to the ones following us via the live webstream which is going to end now. So the official program for today is ending. Thank you very much.

We'll see each other tomorrow 08:30 A.M. Central European Time for the segmental deep dives. Bruno and Claudia, thank you very much. You can actually already move over to your positions, whereas I do some introductory remarks. Because what we're doing now for the people who made the effort to come over to see us here in Bonn, we will have some exclusive content, so.

And with respect to the PSTN equipment, all IT migration, you may have wondered is what does an PSTN equipment look like or...

[Ends Abruptly]

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Capital Markets Day - Day 2

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MANAGEMENT DISCUSSION SECTION

Claudia Nemat

Member-Management Board, Europe and Technology

Hello, again. Good morning to everybody here and hello to everyone who is watching us on the screen. So, once again, leading European telco. I'm very happy to start this morning with Europe, which is Deutsche Telekom's second largest division in terms of EBITDA, as you know and starting with the key messages.

First, as I said yesterday, leading European telco for us means, we are the first operator to move to a superior pan-European, all-IP integrated production model, which is based on our technology leadership and we do that to get more agile, but in particular we do that to create the best customer experience, the best customer experience, which fits to our brands.

As Tim had highlighted yesterday, it's the second most valuable German brand and the customer experience differentiate us fitting to that our trust, the most trusted brands, the best seamless connectivity, and third, we want to be simple and personal. That's point number two. And number three, doing that, we get agile, but we are also committed to a superior financial performance. And a superior financial performance means, radical indirect cost containments, which we have done throughout the last three years as you can see in the results and we are very committed to continue to do so. Second, it means superior cash performance compared to our peers. And third, it means commitment to increasing royalty.

But let us have a look of where we started from compared to last time. We actually achieved all our technology commitments and we are, in particular, proud of having managed the IP transformation, without any accident, we're absolutely on track, 100% completed in Macedonia and Slovakia, and 78% in Croatia and we will continue to do so.

On indirect costs, we actually overachieved our own aspirations. So far we have achieved indirect cost savings of €500 million. On cash and [indiscernible] (2:46) we have not yet treat our target yet. The operating free cash flow remained at €2.9 billion instead of €3.1 billion as we had assumed and [indiscernible] (3:00) didn't improve but was rather stable. And the main reason for that is that the regulatory interventions impacted competitive dynamic, and as you know, price levels in some of the markets more harshly than we had prognosed in 2012.

On revenue, we didn't achieve the overall number, yet we achieved our aspirations in all the growth topics, which are mobile data, B2B/ICT and TV. We actually managed to increase the share of growth from 19% to 25%. Even though we didn't meet the cash targets which we set in 2012, we outperformed our peers by orders of magnitude and that you can see on this slide for 2013 and 2014 up to Q3, because here we don't have the numbers of the competitors and what you can see is, we overperformed on integrated revenues and we massively overperformed on EBITDA and on cash contribution. And as a result, our value market share which you can see on the right hand side increased from 39% in 2012 to 42.7% end of Q3 in 2014.

So, superior cash and EBITDA performance compared to our peers. Now [indiscernible] (4:41) regulation and regulatory interventions have such a significant impact on the market, let's see what's the prognosis are for the years to come. What we see is that the market trends are improving slowly. If you look at the macroeconomic development, in most countries, it's prognosed to be rather positive, of course, I have to say we all have the uncertainty what will happen to Greece at this point in time.

When you look at the regulatory interventions, I mentioned at the last Capital Market Day that the peak was in 2013 and 2014, that was the peak of the cut of the interconnection fees in MTRs and this is now getting better for the years to come, while the competitive intensity is still on a very high level, but also here we expect improvement for the years to come.

Regarding spectrum, I have a good news, what you can see here is the historic and upcoming spectrum auctions, and that illustrative curve, which of course I'm not allowed to quantify here for you, shows the expected value of the spectrum investment. And, what you can see also here, that's the peak asset in 2012, what's in 2013 for the European footprint. So, we expect lesser investments into spectrum, which then has a positive impact on the return on capital employed on the asset base.

Coming to our strategy, as I said, it's mainly around those three points; superior pan-European production model, creating the best customer experience about trust, best seamless connectivity and simplicity and very solid financial performance due to very rigorous regime on indirect costs. And, you can find these three items actually on that chart in bucket number one and bucket number two, and in the horizontal bucket. I want to outline that in essence, that is not really new, because we started, as Thomas mentioned, the One DT Europe strategy, we started it in January 2012. And, what you can see here is the key element, which I also highlighted in 2012 with a few new aspects. And, let me be precise on that one.

If you go into the first bucket of the strategy, the integrated networks, we started to execute the IP transformation very rigorously in January 2012. And, for everyone here in the room, who have seen the old PSTN technology and the new IMS technology, becomes hopefully very clear that doing that is the absolute necessary prerequisite for really creating a function in pan-European network and that is the thing, which is now relatively new because we started that in January 2014.

In addition to that, we had rolled out LTE over our footprint the last year, and as Thomas mentioned, we had decided to add also investments into fiber rollout across Europe, that's the new aspect. On that customer experience, I said last time, the story is to increase the share of growth topics, in consumer that was in particular around FMC & TV which we did. We also started to digitalize the customer-facing processes and we'll do very radically so in the years to come; and going forward we will also even more so push FMC. Win with partners; yesterday a few of you had the question, do you need to develop all the applications yourself, and my answer was no. We don't. Actually we don't believe in not invented here. We believe that whenever there is something out there, which we can easily integrate in our customer experience, we do so.

Lead in business; also here we said we want to increase the share of growth topics, actually B2B/ICT grew by 19%, and as you know, we acquired GTS and the integration is on plan. On the financial efficiency which you can see here, we had conducted a rigorous program on indirect costs and now we come to that in 2014 and for the years to come, set up a specific pricing project. To remind you, that is the superior pan-European production model, it's about the IP transformation for plug-and-play. It's about the pan-European network. We want to introduce products and services in a few weeks across the entire footprint and the third pocket is the integrated network strategy and the purpose here is to provide better connectivity for our customers.

As layer on top, we strive to have a seamless experience across all channels, making it much simpler for the customers to interact with us. One specific remark about the integrated network strategy in Europe, we have the commitment to increase LTE pop-coverage from today 30% to 75% to 75% to 95% in 2018 and here I have to say the majority of the countries will be with 75%-plus.

Cyber rollout, we want to increase the share of households with guaranteed 100 megabit per second to 50% and in Europe that means that the majority in that pocket will be really fiber to the home. In Greece, we will have

vectoring and in Hungary, we will also have cable technology to achieve that target. So, how do we do that? Actually the purpose of that slide is only to show you one thing, we are not in PowerPoint. We started to create the production model in 2012, and since then IP migration has succeeded. We have piloted PANNET in three countries. We have achieved LTE leadership in many countries. But what is very important and where I want to draw your attention on, the main difference was actually the type of collaboration model and leadership model, we've been implementing since January 2012, and I discussed that with some of you yesterday evening.

Back in 2012, we had the situation that we had an entire German headquarter at national silos. And people only thinking about their specific country. In the meantime, we have enforced rotation on Level 1 and Level 2. My own team consists of German people, Hungarian people, Croatian and Greek people, and in the national companies, we have mixed – internationally mixed management teams, Level 1 and Level 2. And we have created a mechanism which I call dual citizenship. Dual citizenship means, for example, that the CTIO in Czech Republic is not only accountable for executing his task in Czech Republic, but it also means that he has an accountability for a platform in PANNET for the entire footprint.

And that was something which I didn't introduce in one quarter or two quarters. It takes time to build that type of performance and collaboration orientation. It really takes time. And I have to say that the change of the governance model and the leadership paradigm is very important to really do PANNET. Now, talking about customer experience; as I said, PANNET is not a purpose in itself. It's to give a great customer experience. And customer experience means three things; to repeat it again because that's the branded customer experience differentiation; trust, reliability and simplicity, best seamless connectivity and product and services, simple and personal. On the trusted brand, we rolled it out further, you know, we rebranded [indiscernible] (14:38). We tested the best connectivity was TeraStream and hybrid routing also in Montenegro, outside Germany.

We introduced bundled tariff in many countries. They are usually not yet called Magenta 1. We introduced the TV to go experience which you saw yesterday in many countries and we simplified the service experience. Now, what is the main message here? We have actually created a new approach to product innovation, a new approach to product innovation, how is that? The new approach says, we try out something in a certain national company wherever there is the biggest entrepreneurial drive and commercial commitment, we do it, we do it fast.

We do rebranding in four months and we introduce an entire new TV experience together with FMC bundles in four months, not in two years. For example, in Romania, we do it fast, and when it works and not everything works, we roll it out across the entire footprint and this is why we need that type of production model and that collaboration model. That's the principle, yes. On all of the products, TV to go, fixed/mobile convergence bundles, Ultimate service cloud, it's always the same principle, [indiscernible] (16:09) not long cycles, debates on processes, and then when it works, [indiscernible] (16:17) and leverage the new collaboration way need us to excite to actually execute it across the entire footprint. And you can see today, we have rolled out many things and more will come.

To make sure that this is not abstract, and I will go into the product, but let me highlight one scheme on the digital transformation. A big chunk of the cost savings on agility, but also on the customer experience is coming from the way we are interacting with our customers, in an old incumbent world often complex. Therefore we decided already in 2012 to execute the e-company transformation. This is how we call it and this is about customer self-service, leveraging social media, outside the U.S. we do it in particularly in the Netherlands. It's about a contact steering, it's about process automation. And we have for every NatCo, for every national company, very clear targets how we want to get there. Today, we have already in the Netherlands quite a big share, about 90% on e-bill and e-service and it will go up to almost 100% in 2018, e-sales is less so, stood at 18% and then for instance, Austria will go up to 30%. So that's the avenue we are taking here.

And then to give you a few practical product examples, as I said differentiation means trust, best seamless connectivity and reliability, and here are just a few product examples, which show that. Macedonia, a country that is all-IP, you can, via your smartphone, via your pad, via your PC with few clicks order broadband on demand, for example in your summer house, immediately and you get it immediately, because the network is preconfigured as an all-IP network. So instant broadband activation that is very simple and it is also very personal, so that's an example for plug-and-play and the more we move into all-IP in the countries, the more we will roll out that type of product across the entire footprint.

TeraStream in Croatia; TeraStream is the target architecture for PANNET, that's native IPv6 fiber with optical IP integration and leveraging all the virtualization technologies. And what I like very much about that one is the super connectivity and the sheer fact that that is, from a human perspective, de facto latency-free network. So therefore we had all the use cases with the hospitals and remote surgery in Croatia.

TV, that's actually my pet topic; TV experience, TV to go, same interface, everywhere, on the pad, on the TV, seamless experience. We've introduced that in many countries, and we have turned Budapest into the hub, the platform hub for the entire TV production in Central Europe and Eastern Europe. What I love as well is, that in Croatia, Slovakia and Hungary, the next generation of TV product will also include gaming, gaming as a part of the experience, and what is specifically cool, it has a smart recommendation engine, which allows based on data analytics, to actually find the right category mix from linear TV, on-demand TV, games, and potentially other things to monetize customer experience.

Last but not least, we have the so called universal service app or Ultimate App, so I don't have my smartphone, [indiscernible] (21:02). The universal service app is as follows; it got introduced in Romania first. It gives you an overview of all your mobile, fixed TV and whatever services you have. It's super easy; you can upgrade your data allowance with two clicks. You can pay your bill on that Ultimate App, super simple, and the Ultimate App shows you whenever there is some issue, whether it was a network or with the set-top box or whatever, and when you use your smartphone, you can actually fix any type of issue that doesn't require a technician very easily from that smartphone, for example, if there is an issue with the set-top box, yes, because this is not really setup, you can actually click here, re-fix that, Ultimate Service App all experiences very simple on the universal service app and this one we will roll out to the other countries as well.

Now talking about partnering, main message here we have – oh, sorry first TV, TV before come to partnering. TV in many of the Eastern European countries, people come to our shops to buy an entertaining experience, TV, gaming, other entertaining stuff. And then they buy connectivity attached to that. It's not the other way around as we experience that here in Germany, people buy connectivity and then TV is the premium. How do we differentiate? In Eastern Europe actually in several NatCos we acquired exclusive content, the Champions League. And we have a very simple experience which is all the same across all the screens and doing that we managed to grow by 16%, within CAGR of 16% compared to market growth of 4% and as you see here on this graph, our intention is to continue to do so.

Partnering; on partnering, we don't have the idea to reinvent the wheel and to do everything ourselves, with ever great proposition we can find that we can actually integrate in our portfolio we do. Actually, the best ones, if you ask for [indiscernible] (23:49) and music type of things.

B2B, we also want to grow our business in the business-to-business area, this is why in 2012, we actually created B2B organizations across Europe, which didn't exist before, and here the aspiration is to increase the share of growth topics, and in 2018 to almost 50%, and the biggest drivers for that are the ICT business, clouds business, specifically also in Eastern Europe and machine-to-machine, and of course, the integration of GTS, the company which we acquired.

A news on that one, we are very happy that the GTS integration is completely on track. We got anti-trust clearance without remedies, and we integrated the businesses within four months, and what I personally like very much about that, we did not lose any person whom we didn't want to lose, and we didn't lose any customer. On the contrary, we actually won customers. For example, recently in Czech Republic, the TC outsourcing deal with RWE, which is a very big deal, our Czech assets before we got together with the systems in GTS was not able to perform to that extent. So GTS integration is on track.

So now some of you have asked for some specific topics. First, how do we go about with our assets in the Netherlands and in Austria; and second, what do we do with MVNO deals, may be starting with T-Mobile Netherlands and T-Mobile Austria; to avoid some misunderstanding because some of you asked me that yesterday. This is not a maverick strategy. This is not a maverick strategy. It's not copy paste of the strategy in United States, even though, [ph] John (26:07), we did steal a lot of things was big pride because we found them cool. So mainly in T-Mobile Netherlands and T-Mobile Austria, it's about a very focused mobile-only strategy and that means in particular three things.

Number one, we have moved and will continue to move these two assets towards e-companies very quickly and very rapidly and you have seen that in the number that the share of e-sales and e-bill is very high already today in Holland and in Austria. In addition, these countries contribute significantly to OpEx reduction, for example, T-Mobile Netherlands, minus 20% in just a year.

The second scheme is emphasis on partnering. We do partnering everywhere, but here we do it even much more intensively and a good example for that one is the collaboration with Tele2 in the Netherlands. It is not only an MVNO deal. It's also a passive network sharing in addition to collaboration in the B2B segment.

And number three, those companies are much freer in actually adjusting their brands and as you have seen, T-Mobile Austria did not only go through the [indiscernible] (27:41), but they created the [indiscernible] (27:44), What I Wish, What I Want principle. So they put much more the individual in the focus of their brands.

On network, as we are a focused mobile player, we have the aspiration to be on par with mobile broadband with the market leaders. For the time being and Tim mentioned that in his presentation, T-Mobile Netherlands and T-Mobile Austria will remain mobile-only assets with great openness about anytime of FMC partnership. Therefore, all the things I mentioned before about the technology leadership, IP transformation, PANNET, fixed/mobile convergence experience applies to the 10 countries in Central Europe and Eastern Europe and Southern Europe, whereas T-Mobile Netherlands and T-Mobile Austria, we treat as focused mobile players.

Now coming to your second question on wholesale deals and I have to say those are the rules for wholesale deals in Europe, not in Deutsche Telekom, overall in Europe. We do wholesale deals always on a case-by-case base, country-by-country and always together with a central decision team. We design the wholesale deals in a way that retail differentiation is possible, meaning that the deal should not have a negative impact on market value. And that means in particular that we do not do flat rates. We also distinguish between existing MVNOs and new entrants and even though it's needless to say, we act of course within the regulatory frameworks and boundary conditions, which are fed to us in the markets and what you can see on the right hand side is the illustrative disguised deal, but the order of magnitude is real and it shows you how we look at that, because when we look at the EBITDA contribution, we have to see what is the loss, we have from lost customers compared to the win, we have [indiscernible] (30:11) market investments and because we managed to reach customer segments, which we wouldn't have otherwise, plus the effect we gain from sharing the burden of network build-up and further wise leverage the assets of the partners for sales, so therefore we really look in detail at the business case and make sure that it looks like this.

So, so much about the strategic schemes and the specific topics. Now talking about the financial outlook; so, let me explain a little bit the philosophy of the financial steering we are applying. As you've seen, we [ph] are yet (31:01) to master the following challenge and I think we mastered that very well. The challenge is, in a market environment that has been very competitive and where the profitability of the market went down dramatically, as you have seen not ours, but the market. We had on the one hand, conduct a very tough indirect cost regime, which we did and we had to accelerate the so called revenue transformation, which is increasing the share of the growth topics, B2B/ICT, FMC, TV and mobile data. To keep in such an environment the financial performance very reliable, while at the same time, improving customer experience to be able to do the growth topics, that's one.

Yes, what we did. But parallel to that, we did and we will continue to do so, rebuild the production model, parallel to that, we rebuild the production model, around IP, PANNET, digital transformation of the customer-facing processes. And we had to do that, and by the way we will continue to do that without producing unexpected debt for you. So that's actually the logic. And therefore, we realized one scheme is very important in that matter, and that's the question, how you manage pricing? And the key scheme we have here is, a mantra, we manage for value, not for volume. The mantra is we manage for value, not for volume. We manage for value, not for volume. And, why is that logical? As we said, the positioning is we want to be the number one choice in the market, creating the best customer experience around trust, best seamless connectivity and simplicity, and we do that based on technology leadership. That has some implications for the pricing behavior.

In the past, and we started to change that last year, the commercial leaders were incentivized on net adds, on transactions – on revenue market share. Now, they are incentivized on absolute revenue growth, absolute ARPU and net margin to make sure that we capture value generating revenue.

What does that mean then? Now, I come to the financial commitments. First, starting with the EBITDA; we plan to have a CAGR of plus 0.5% in EBITDA, and how do we do that? We will continue indirect cost savings and we will continue to grow the share of growth topics from today 25% to 38%. And that will over compensate the effects from regulation, direct and indirect over time. So, therefore CAGR and EBITDA of plus 0.5%.

In 2015, we will slightly go down and you might ask why is that after that fantastic performance in 2014. And the reason for that is that we will not serve our increased split contract and the second reason is we actually executed voluntary exit schemes in OTE Group for reasons you can imagine all in 2014. And you cannot repeat the step function the same year-over-year.

Nevertheless, and you will see that indirect costs will continue to go very rigorously down. Cash CapEx overall will be relatively stable with some slight increase in 2015, because as Thomas said we have decided to also execute an integrated network strategy in the European asset. In that year, the share of transformation CapEx in 2015 will be round about 50%. Overall, that leads to an adjusted cash contribution CAGR of plus 0.5%.

Cost transformation will continue. We will continue to execute our program on indirect costs and that will in particular come from further voluntary exit schemes, eTransformation, G&A savings, and continued optimization of the technical service being made possible by taking out the old stuff out of the network and getting leaner.

Direct costs will remain relatively stable. Interconnection fees will go down. Market invest slightly because of better efficiency, but on the other hand cost for the new businesses like B2B/ICT will go up, so this leads overall to rather flattish direct costs.

Talking about the long-term transformation; in the presentation, [ph] Brennan (37:02), I guess yesterday, we were talking about the long-term effects of the production model and we said that for Europe, the long-term

effects only of the production model, will be round about €500 million and that is the effect, which is coming from the PANNET IP transformation and digital transformation of customer-facing processes. And if you break it down on the main effects, you will see that from those €500 million, round about €200 million do come from platform harmonization and consolidation, €250 million from the simplification of the product and the customer-facing processes and €50 million purely from the PSTN migration. That is that in steady state.

In order not to confuse you, let me put that into perspective with the other indirect costs because I said, we saved already more than €500 million, and we will add another €400 million to come. These already executed and committed indirect cost savings contain in addition to effect from the production model, of course, savings we do in G&A, further voluntary exit schemes and shared service centers which we do around the admin functions. So, what does that mean overall?

I mentioned the EBITDA. I talked about the cash CapEx. Revenues, going down slightly. I have to add here because that's very important. Our aspiration is to keep the underlying revenues in the countries rather stable in 2015 and increase them slightly beyond that. And we can see this happening in the trends right now. We will, nevertheless, phase out certain businesses. We will phase out the [indiscernible] (39:13) business, and we will phase out the energy business and that's the effect you see here. Special sectors will increase; main contributors to that are Greece, Romania here and overall when you take this all together, and keep in mind that spectrum investments will go down in Europe, which impacts positively the asset base. We will end up with an operating ROCE growth of plus 2 percentage points, 2014 to 2018.

So that's the summary of the financial commitments. And now, we come to the mid-term ambition level. According to the three schemes; technology leadership, best customer experience and superior cash performance.

Technology leadership; we start in 2015 the PANNET implementation. 2014, we did the PANNET pilot with the three products we are commercially launching now. 2015, we start the systematic implementation and we migrate the first platforms. We will continue the IP transformation and we will have completed all countries by 2018. We are committed to increase LTE pop-coverage to 75% to 95% and we will increase the share of households with guaranteed 100 megabit per seconds to 50% by 2018.

We are committed to deliver the best customer experience and that means that we will actually come to an eService share in our NatCos between 30%, it's very behind to 99% and actually the big NatCos going to the higher end. We will continue to push FMC & TV experience and within revenue commitment of €600 million for pay-TV revenues to 2018, and we will continue the revenue transformation as I said that will reside in a share of growth topics which is B2B/ICT, FMC, TV and mobile broadband of almost 40% by 2018.

On cash, slight growth of adjusted cash contribution by 0.5% CAGR. Reduction of indirect costs by further €400 million and improvement of ROCE by almost 2 percentage points and to repeat that the main effects are the fact that the increasing share of the growth topics combined with continued rigorous indirect cost containment, over compensates the effect from regulation, direct effect and indirect effect and to repeat that on the ROCE, as the investments, the expected investments in to spectrum will go slightly down.

So, this summarizes the mid-term ambition level. And I think, Stephan is coming, now we have time for questions, right. So, thank you.

QUESTION AND ANSWER SECTION

A

Well, thanks, Claudia. Thank you very much and for the Q&A we will also get the support of Dr. [indiscernible] (43:23), the CFO of the European team and Dr. [indiscernible] (43:26), the COO of the segment Europe. Please come join in. And I think we get started with [indiscernible] (43:37) in – no, it's Mr. [indiscernible] (43:40) I think. [ph] Chad (43:44) is on the left hand side.

Q

Yes, thanks very much. Actually, I have three, step on a few...

A

Restrict yourself to two, please.

Q

Two, two, no problem. So, which one is the dullest one. And one of the things that struck me yesterday and it ties into presentation today, obviously you have this strong marketing support in Germany by being a German company, German data, [indiscernible] (44:11) in Germany, is any of the technology integration of these layers that reach across European countries, do any of those mean that ultimately this is going to be as symmetric in Europe compared to Germany. And in particular have you had any pushback from the local authorities? I understand Telia had pushed back when it came to network integration across their business portfolio, have you encountered these sorts of issues and then how are you dealing with that? That would be my first question.

And the second one is regarding the local competitors. I mean, of course, any layering – horizontal layering in these projects, ultimately means one has to make choices, which limit the individual flexibility in terms of product in the individual countries. And I was wondering if the local competitors have the ability to find niches to develop products that then fit to local market conditions, the local demands better than what you can as a result of the cross-country integration, is there a risk at some point that you're really losing on the competitive side from that angle? Thank you.

Claudia Nemat

Member-Management Board, Europe and Technology

A

So, actually, I do start with the last question. We find it very important. On the contrary, and as I said the logic for customer experience innovation is, do it where the market is, done by the commercial leaders. And whenever something is working super in a country, yes, super community we roll it out to others. The entire commercial accountability, the product accountability is in the countries, so that's very important to note. This thing gives additionally more flexibility to introduce products which otherwise a country couldn't introduce, so that's one.

And to your first question, interestingly, when you travel to Eastern Europe, the Magenta brand, the T brand shines even more brilliantly than in Germany. The topic which we had fear that some people perceive this isn't

incumbent is absolutely not any topic we have at all. I'd tell you one thing, the Romanians were begging for getting rebranded. They said that it's cool drive around there, you have Mercedes', you have German stuff, they love the German brands.

Another scheme; two weeks ago, I visited the Albanian Prime Minister, yes, and he says, you know what my favorite color is Magenta. So can we please have the plant there? And said, Oh! Yes. So we do now in the, as you know, the smart metering pilot in Albania, yes. So I would really say, this notion around German engineering, security trust, [indiscernible] (47:02) is just fantastic. We are in our leading countries even the number one employer. So from that perspective, when we talk about pushing the differentiators here, this is really something you wouldn't imagine where people say, yes, this is what we want. If they're pushed back from local authorities, so I have to say and most of the local authorities concentrate very much on the access and on access regulation and not on what we are doing here.

And what I also have to say this is not so much a regulatory topic. The key challenge in PANNET is security. In Europe, every country has different laws for lawful interception and that type of thing, different laws. There is not a common security policy in Europe. This is the super disadvantage compared to the States, but of course, we are handling that. You can be absolutely sure that whatever we do, we create the network in a way that it actually complies 100% with the security request of the local authorities. Yes, and then I think there was this question about lock-in, is there a lock-in? No, there is not a lock-in, you can step in and step out, and by the way the PANNET is more an offer that would still [indiscernible] (48:27) bunch of products and things which are just entirely local.

By the way and you know this every successful global consumer product company has a scheme for doing global products and global brands, and then certain local brands, and it's indeed the combination of being there so close, being so relevant, being in most countries the number one and not just somewhere, being so close to the consumers while at the same time leveraging the technology of the group, which makes it so superior. So, therefore, in that respect, given the psychological [indiscernible] (49:07) which we took for last three years, I was talking about the collaboration model and you can imagine I have changed a lot of leaders as well. So now where we stand ,there is in our organization on the management side no pushback on the contrary.

A

Thanks. Next question comes from Polo on the right hand side here from UBS. Polo, please.

Q

Polo Tang
UBS Ltd. (Broker)

Thanks. Just have one question in terms of revenues. So, you talked about underlying revenues potentially growing from 2016 onwards. So, can you just help us understand in your mind, what's the main factor that's going to be driving that revenue growth? And then on the flip side, what are the main risks in terms of you being able to achieve revenue growth? Is it competition? Is it macro? Is it political? Thanks.

A

Claudia Nemat
Member-Management Board, Europe and Technology

So, stable and slightly growing underlying revenue growth is increased share of growth topics. We did from 19% to 25%, and it will go up to 38%, there are massively growing categories in that, like, TV or ICT. And the second dimension is pricing discipline. Tim stated yesterday very clearly the time when commercial leaders thought they should copy any street price, over. So, what is the biggest risk, macro and – macroeconomic environment and

continued impact of regulation on competitive dynamic and pricing behavior of the others, that is the biggest uncertainty in that model.

Operator: Oh. Thank you very much. Next question comes from Nick Delfas, here in the middle.

Nick Delfas

Redburn (Europe) Ltd.

Q

Thanks very much. Nick Delfas from Redburn. Just two questions; could you just quantify for us the impact of the split contracts on EBITDA ahead of cash flow in 2014? And then just secondly on page 25 of the presentation, you talk about MVNOs and wholesale agreements. I mean obviously one of the impacts you don't show on the slide I think is [indiscernible] (51:14).

Claudia Nemat

Member-Management Board, Europe and Technology

A

What?

Nick Delfas

Redburn (Europe) Ltd.

Q

Just losing customers but re-pricing the whole market down. So, you've [audio gap] (51:21).

A

I think there's an issue with the mic, please exchange the mic, and maybe – let's wait for the MVNO question first?

Nick Delfas

Redburn (Europe) Ltd.

Q

Yes. So just – can you hear me now? That's better.

Claudia Nemat

Member-Management Board, Europe and Technology

A

Yes.

Nick Delfas

Redburn (Europe) Ltd.

Q

So on the Austrian MVNO, which you've signed with ALDI, with [indiscernible] (51:39) obviously there is a risk that you don't just lose customers as you show on page 25, but you also re-price the whole market down. So could you tell us a little bit more about how confident you are that you haven't re-priced the market in Austria down by that MVNO? Thanks.

Claudia Nemat

Member-Management Board, Europe and Technology

A

Yes. [indiscernible] (51:57) you do split contract.

A

So, about the split contract, and I'm referring to as change from 2013 to 2014, because we have already in 2013 some split contract. So it's not the total subscriber base, it's roughly €120 million, which is coming out of the split contract.

A

Then regarding MVNO, starting with Austria, this is as Claudia mentioned an existing MVNO. So we just take it over. So we don't see any core market downside risk. But this actually gives me the chance to clarify here. It is important point because many times the MVNOs are seen as decreasing the value in the market, which is rarely the case. If you actually compare a little bit markets with the many MVNOs, and you compare this with markets with just a few MVNOs, you'll see that MVNOs are a specific business for a certain segment, that actually have a limited effect on the overall end market value. Those contracts are usually negotiated over a dedicated period of time. There is a certain amount of analysis that goes into it.

So there is a significant caretaking implied in those contracts. Contrary, actually to some other pricing moves of MNOs, where you see pricing reactions within the same day, well sometimes even within hours when one competitor drops price and the other competitor follows, you have really a much, much bigger effect on value from those effects than you have on MVNOs. I do understand that MVNO contracts are usually communicated very clearly and it's a decent event, there is a press release and certain things. So, actually it is easier to follow. But from an effect point of view, price changes of MNOs are much more detrimental than MVNO contracts. And in our case, we give it serious consideration and analysis and we make sure that we do contracts that increase the value.

A

Well, thanks. And I think we'll move on with Fred Boulan here in the middle left hand side.

Frederic Boulan

Bank of America Merrill Lynch

Q

Hi, good morning. So, Fred Boulan of Bank of America Merrill Lynch. If you can give us some color on the improvement in your business in terms of move to all-IP, so you've two countries now fully transitioned. I don't think you give many financials for Macedonia, but Slovakia was looking, the margins have gone down quite a lot. The EBITDA on an absolute number has gone down quite a lot. Is it due to the investments in all-IP and now we could consider for this business a significant improvement in profitability now it's all-IP, and sensing just in terms of market share and commercial traction, are you really seeing in the ground on those two countries a much better momentum on the back of that, that eventually you can emulate in other countries in the long-term? Thank you.

Claudia Nemat

Member-Management Board, Europe and Technology

A

Yes, so, I'll start. So the developments in EBITDA and margin are of course as you know driven by many factors and the main driver on the margin is indeed the market price level, which we are currently seeing and the reactions of the MNOs, as [indiscernible] (55:46) was pointing out.

Now, specifically on the IP, the effects on the IP transformation, there has, as I pointed out yesterday, a certain cost effect in the technical service, which you can see in the indirect costs in Slovakia, and on customer experience,

and also, [indiscernible] (56:06) in December, so it's maybe a little bit early to tell, but I can give an indication, what you can see is, that we get a slight improvement in churn. But that has to do with the fact, that we are using the IP transformation when we need to touch the business-to-business customers anyhow as so to say customer care and up-sell opportunity, which is attached to this sheer fact that you need to see the customers when you do the IP transformation, yes.

In Macedonia, you could see where we have these products, yes, and when you look into customer satisfactions more precisely on the products, you can see that there is an improvement of customer satisfaction with regard to these new products, yes. So when you have IP products, you will see churn and customer satisfaction improvement, if you don't have that, you will just see the impact on indirect costs and technical service.

Frederic Boulan

Bank of America Merrill Lynch

Q

Just to be sure, I think you [indiscernible] (57:07) EBITDA because in Slovakia, and the reported EBITDA, [indiscernible] (57:13) for this case included, it has to be true?

Claudia Nemat

Member-Management Board, Europe and Technology

A

Yes. True.

A

Right. I think there is time for one last question. The gentleman, just on the left side of Fred, so that's an easy one.

Q

[Foreign Language] (57:31) just to follow on the last question, flat EBITDA of €4.5 billion into 2018 and then afterwards €0.5 billion improvement which is sort of a bit more than 10% improvement in EBITDA, even that a bit disappointing considering the ambition and the scope of the transformation of your European network?

Claudia Nemat

Member-Management Board, Europe and Technology

A

So, actually as I pointed out yesterday, the steady state when you have entirely transformed the network that one, that effect is 2018 and beyond. And therefore I said it's so important that while you transform that which also takes investment that you keep a very solid financial performance with a slight growth in ROCE and a slight growth in cash contribution, yes. But the full effect of the transformed production model does come true in 2018. But what is very important for you to keep in mind, we don't do it like this, investment, investment, investment and then pay back in 2019. Every year the way we have staged it, IP transformation country-by-country, eTransformation, country-by-country, execution of PANNET by replacing existing platforms is done in a way that we manage to do this without producing any dip in that and that is what makes it challenging, to keep that stable financial performance while changing the production model, which then will lead to a different cost base in 2018 and beyond.

Unverified Participant

Well, Claudia, [ph] Ralph, Claus (59:10), thank you very much for the Q&A session. Claudia, I'm really astonished about your energy level, very early in the morning, so astonishing. Whatever you had in the coffee, pour something into the break, into the coffee cups of the German team, because they are the next on stage. Thank you very much. We'll have a 10-minute break for coffee.

Unverified Participants

Warm welcome also from the German or Dutch side. [ph] Tim (59:43) said I should really energize a little bit and take something of a stuff, [indiscernible] (59:46) has been taking. [ph] I'm Dutch, just coming (59:49) from the coffee shop and the team as well, so we're well prepared.

Let's get started on Germany, and I think the biggest challenge is to do it in 45 minutes, because I hope for a lot of questions from your side. I'm on same stage, I was in 2012. And I'm first going to give you our key messages for this presentation very briefly, leading European Teleco for Germany specifically, this main step we want to be amongst. It says of course, our challenge is to be the first integrated [ph] incumbent (60:18) to really return to revenue stabilization EBITDA growth. The [ph] differentiation able come (60:24) by a superior networks. I think that's by now clear. We've talked a lot about networks already. Best customer experience, which we've also shown you last evening and integrated best products as a key part of my presentation for today, and I will show you the first detailed results of MagentaEINS.

We want to be the number one choice in mobile, in fixed NTV and in converged products. And we'll do so in an environment which is typically e-Company driven. The journey, as you've seen yesterday with the presentations we gave, has started and the expectations behind e-Company and Self-Service as a way to improve customer service, but also have an efficient operation and save cost will be a key driver for our business towards 2018.

Strong execution, I think that is what you can rely on from the German team. We have delivered in the past on our mobile network, mobile market shares, sorry. We're on track with the network rollout and the IT migration and we have a healthy 40% margin. Strong financial performance is also ahead.

Looking back on the period from 2012 until 2014, I was in the same stage in December 2012. We made some quite, I think, tough promises and I saw some doubts on faces of the people that were here as well. I'm proud at the moment to say, we delivered. We delivered not to a 100% and for the question mark is on the chart, I will give some comments, but if I look at the overall result, I'm a very pleased man, I'm proud of the team.

We delivered on mobile service revenue market share with 36.3% for the full year. Of course, a little positive effect from the consolidation of Telefónica and E-Plus and we have seen eight quarters of markets outperformance. What doesn't please me of course is the absolute value of the revenue in the mobile market.

On broadband, the market share is at 41.6% that is excess lines, that is not revenue and it is totally reflecting the value strategy we have followed here. We have focused on retention and [ph] not on that (62:40), but nevertheless we, of course, not satisfied with losing customer market share in this period. In TV, very strong growth, almost 500,000 new customers in a two years period. If I might remind you, Kabel Deutschland and Unitymedia both lost respectively minus 1.3% and minus 2%. Vodafone has stopped the active marketing of their TV product, and Telefónica fully withdrew out of this market.

On quality, we delivered customer loyalty index went up. We are now at 60 points, which is a 7% increase. Numerous initiatives, very structurally in all areas of our business, in the product area and customer service, and in our technical service. And the good news is we are fully on line to deliver for 2015 as well.

On the revenue, honestly, we missed our goal of revenue stabilization by 2014, due to very strong price fight in the mobile market over that period, and also in the broadband. I think we have underestimated the effect of the announcement I made here in 2012, when we said we go for massive FTTC rollout and vectoring, and our competitors also preparing for IPOs of course, have really pushed in the market, and competition has been very strong during that periods, reflected in the connected home revenue of course as well.

Proud to conclude this overview, I am on the EBITDA margin of 40%, especially, if you consider that we are in an environment where our competitors are very mobile-centric, and have much more lean operations than we have.

So, in that, I'm a happy man for the period behind us, and now let's look to the future. Future comes with trends with market trends and don't panic, I'm not going to repeat all the French team has archived yesterday, but as one or basically two trends I wanted to touch upon.

The first one is about convergence driven from a customer point of view. If we look at convergence there's a few developments in the market which is strongly driving convergence. A big supply of new devices. We're not talking only about mobile handsets, we are about tablets, we are integrated to TV devices that comes with new technologies, much higher speeds, especially in a mobile field which drive new user cases. Nobody would have thought of watching TV on a mobile handset or a tablet four years or five years ago, but LTE has made it possible and has led to new user cases for our customers.

The same is true for the mobile, for the social networks. You see some numbers here, if we only see how much the usage has grown in Germany over the past two years, 25 million more WhatsApp users. That is an average of 1 million new customers per month. And bringing that together has really led to an explosion of data traffic both on a mobile networks and on the fixed line networks. And I think especially the combination effect that the devices are used with a different content and customers don't even worry about what device they are using and on which network they are using it is also shown by the increase in Wi-Fi traffic which is the combination of fixed and mobile, but for the consumer, I think, in most cases really use as a mobile solution.

That makes us predict that there will be growth in the market. In the broadband market, we see a 2% CAGR until 2018 in revenue on the mobile one we see basically a stable development despite the significant regulatory headwinds of almost €0.4 billion as we estimate them to be. This customer trend is, of course, also seen by the industry itself and I'm happy to say that we saw the trend coming already early 2000. We prepared to go for one company and we started that project with an official start in 2010, playing together mobile and fixed line.

We've always said that mobile alone in the end of the day will not be sufficient to work with those massive amounts of data and we need fixed line support. We have the big advantage of having T-Home and T-Mobile at least with some flavor of Magenta Telekom. As you can see our competitors are far behind. And I can tell you this process we are underway now for five years, it's almost fully completed, it's a painful process, it's taken a lot of time, it's a lot of energy and it's a lot of money, but I can promise you, I can tell you I'm very glad we took the decision in 2009, started in 2010 and we are now really one integrated company.

You see the page – graph as well, which we try to explain in the graph on the right side, the consumer trust in an integrated player. Consumers want integrated products and those who wanted, we have some official numbers from the study, 37% of the customers say I would take the incumbent telecom for such a product. Cable comes only at 9% as a trustworthy partner for an integrated product and [ph] these out (68:16) providers only at 6%. So we are very well positioned for this trend, which is taking place in the markets from a consumer point of view and an industry point of view.

Going to our strategy for 2015, 2018, first one to put it into perspective of the overall Deutsche Telekom strategy and you won't be surprised, we have audited in building blocks, which also fit to the German strategy.

On integrated IP networks, we go for the integrated network strategy. We go for the maximum quality and the best quality in the market, and of course, IP and process transformation. You've heard a lot about it, the IP and process transformation, I cannot emphasize it enough. It's the basis for the modern company we're going to deliver on the way to 2018 and that will change our lives and it will change the lives of our consumers.

Best customer experience, of course, with much more elements than here, but strongly driven by MagentaEINS, that's the integrated product, TV which you've seen yesterday as well and the e-company, which is a much more modern usage of the product with also service and sales opportunities for us. Win with partners, lot said already during these two days, I will get you some perspective of where we stand in Germany and how we are going to make money weighted and lead in business, how do we continue the very positive growth in the business segment. We have transformed the company, and we have transformed in a way that we have stable revenues and growing EBITDA to also fund these transformations ourselves. It's a huge operation. It's a very expensive operation as you can imagine, and we, as management, have taken the challenge to fund that from within.

Now, let's us look in a little bit more detail what these blocks really mean, and to help you on where we are in the strategy, we have put in the right upper corner the part of the strategy where I am at the moment.

I'll start with networks and do it rather quickly because a lot has been said about networks. Our strategy is to have the highest speed, to have the highest coverage, and to have the highest capacity. We are a leader in networks, both in mobile and in fixed. I'll show you that later and we want to stay there.

In mobile, Bruno and his team have basically won all tests and with a big distance, and I think it's sometimes easy to win a test. It is about the distance, which you have to your competitors. It's now for the fourth consecutive year that the two most important tests in Germany have been won by us. We have meanwhile a coverage, as you can see there, 80% on LTE with highest speed than our competition. Behind that is a very high percentage of our sites that are connected with fiber. In advantage, our competitors don't have 80% of the cells are connected by fiber.

On fixed, we have the largest national household coverage with 44% and vectoring with a download speed of up to 100-megabit and I want to stress again here the upload speed, which we don't talk about that much yet, it goes up to 40-megabit on vectoring. Cable doesn't come further than 10-megabit. Please watch the development in the future. The press has not picked it up, focus groups have pick – user groups have picked it up. That is a key driver for customer satisfaction with the cloud services, video, music, also customers are now noticing the benefit of having a higher upload speed and no one can come as close as our 40-megabit.

On hybrid, we bring the best of both worlds together. You have seen that yesterday – we launched a product with a new hybrid router in Q4 last year. Very good customer reaction. We will go for nationwide sales as of March together that brings an upload speed of up to 90 megabit and a download speed of up to 200 megabit. How do we evolve? You see the summary of where we are, once more on the left. Bruno and his team, you heard already yesterday, took the challenge from Thomas Dannenfeldt to work within the same CapEx envelope we have been discussing on 2012 to deliver even more on our network. And what is our ambition until 2018? We will increase our coverage from 80% to 95% with a maximum speed of 300 megabit. You might recall that Vodafone and Telefónica both announced 90% by 2016, you can say only 5%, remember, it's POP coverage and this 5% POP coverage are going to be achieved in relatively rural areas with a low density of population, which means a 5% of population is a much bigger area coverage which we will have with LTE.

On fiber – on our fiber network, we will increase our coverage to about 80% depending also regulatory adjustments, really guaranteed, guaranteed that's important, minimum speed of 50 megabit, but up to, as you can see in the next bullet point with the introduction of super-vectoring a speed of 250 megabit in download. If you combine those two again, you see that we get to a download speed in the hybrid solution with a maximum of 550 megabit, specifically, of course, focused at the cable area where we have the top quality product, where we have a competitive product and where we have a super service for our customers.

That is the network rollout. One part of the network rollout is also the transformation to IP. A lot has been said about IP and the advantages are very short [ph] increase for summary (74:27), we are now at 25% of our lines including wholesale customers which have been converted to IP, a total of 5.8 million users with a speed, and try to imagine, we do between 60,000 and 70,000 transformations to IP every week, not per month, but every week. A huge operation, but absolutely necessary and absolutely right because the IP gets us away from the old legacy, which is making our life difficult, as our customers' life making difficult in the fixed line network.

We will complete the IP migration by the end of 2018, and we will do so for the customers to have better speed, higher quality, easier to use products, it's easy self-provision like you have seen yesterday some examples. This is a key step to the modern company we are building. But there's also benefits for ourselves, that is very clear, also we will have higher speed, higher quality. It will be much easier to develop products for the IP networks. We will have less problems if there is a disturbance somewhere, we can most of the time remotely help our customers and we will save significant cost not only in developing, but also in the maintenance of the networks.

Good. I said a few times a totally new company and what does it mean? Totally new is kind of an aspiration, is kind of a journey we've taken you on yesterday a little bit, is a company that I think doesn't find any copy at least in the German market but I think not even in the European market. It's started or it starts with a network rollout, the best quality network with the highest capacity, highest speed and the highest coverage both on mobile and on fixed, on top comes that IP layer, which is vital to make the products easier, to make the processes easier, to make the IT easier and cheaper and faster time to market, but then it only starts for the customer. And what we see as it says here a surprising company with innovative products. It is a company that goes with top quality products that are not always well, shocking maybe, but as you've seen, I think yesterday in that atmosphere of design and of branding, we want to bring forward to German organization.

World-class design, we had a lot of prizes for our design over the past years world-class branding. Tim showed yesterday the trust in the brand, told you the value of the brand ranking number two now in Germany behind BMW. That is something that doesn't only have a value for us, but also for our customers. And maybe one thing about surprising, Tim asked me to put one spot in because the American colleagues will have a lot of music and sound as well, so we said let's take one.

Our MagentaEINS product in Germany is supported by the family Heinz. It's a family that uses the features of the product and to make something surprising, innovative, we have the first commercial that was shot in the morning on Rosenmontag, that's the Monday of carnival in Cologne and carnival in Cologne is not just a thing, it's now brought to the UNESCO World Heritage because it's such a special event, the family Heinz is on the carnival in the morning and the film was on air the evening at 6 o'clock.

New, never seen in Germany. So, I would say, video, please.

[Video Presentation] (78:29-79:13)

Thank you. I don't think that needs any translation. That is just different and surprising and we think it's funny, at least the audience loves it.

Good, coming back to – I talk about products, we spoke a lot about e-company yesterday as well. We see a company that will be comparable to airlines, to banking. If you think how traveling was 20 years ago with paper tickets, standing in queue to get a seat, to have your luggage in, to change, to get your miles afterwards redeemed, that is a journey we have embarked on. We showed you some apps yesterday, which we have alone in Germany a total of 68 to make our customers' life easier, to make our life easier and to get to one seamless usage, experience information, experience of everything we have to offer. It should be easy to get the information about the products, it should be easy to buy them independent where you are. Is it in a call center, is it in a shop, is it online, would it be via your TV program you're watching at that moment, all the screens in which you can have an interaction, all the contacts you can have, you are with Telekom Deutschland, you have the top quality in service and in products. I said, compare it to airline companies and I think you have a few of – for everyone to go.

We do this, of course, to get highest customer satisfaction, which, at the end of the day, will also justify our price premium because we will remain to be a premium operator in a market that is our DNA, that is what we are good at, that is the quality we have, and we want to stick to.

Good, how do we differentiate? The word differentiation came a lot yesterday as well and let me tell you how we differentiate in mobile, in fixed, and in TV. On the mobile, it's of course at first our superior network, the network is the key driver for customer satisfaction. I've shown you where we are and how we are going to keep that position. On top of that, we see that the market is basically segmented in three parts. First, it's the top segment, the premium segment, then we have the middle segment in the €30, which we call the smart shopper segment and we have the discount segment. We serve the premium segment with our Telekom Magenta brand. It's the premium that focuses on best speed, best quality of handset portfolio, for example, tablets, we will offer there and surprising innovative extras like for example, Spotify.

For the smartphone – smart shopper segment, it's not that we don't like that part of our family as extremely important, Congstar, our brand in that segment is meanwhile serving more than 1 million contract customers and has been showing double-digit growth over the past years. And I think the success story of the dual brand strategy is also visible in our contractors from a base, which has been growing with a CAGR of – has been a little bit strong CAGR and we predict to grow with a CAGR of 3% over the coming years.

We will increase also width in that base – the customer base that is using double play, so voice and data by 40% point to over 13 million and because of that improvement in a mix, we will see, we think or we are sure that we can outgrow markets development or maybe not as strong as you would expect with a CAGR of 1% until 2018 including then the effect of EU roaming which we expect to be about 130 million for Telekom Deutschland.

The third part, discount segment, we serve via our wholesale partners. The differentiation in broadband also comes from having the best network and a network rollout initiatives I've told you and because another questions will come, yes, we have had two difficult years in broadband. We saw losses in 2013, we saw a black zero in 2014 and yet we are confident that we will see the growth now in 2015 and years to follow. What will we do? We will leverage our customer base and up-sell them to fiber, that is on average a €5 ARPU increase and I think little rollout plans of up to 80% fiber in 2018, you can see the big perspective we have there.

MagentaEINS is a very important driver for our fixed basis and I'll show you later as well. We will up-sell customers from double-play to triple-play with an average 20% more ARPA from €31 to €37 and, of course, once consumers are locked into our TV product, we see lower churn, higher customer satisfaction. There are additional packages like HD which are very – have a very high acceptance with our customer for those packages also a €5 ARPU uplift. And the success of Entertain, because I get asked a lot, I want to give you an example of those areas where we roll out VDSL or Vectoring, we see a 50% take rate of Entertain. So the product is very well accepted. As

I showed you in the beginning, more than 500,000 new customers over the past two years with trends going up. The rollout on VDSL and Vectoring itself is also pushing the Entertain product for us.

If I look at broadband development, we started in April with a bigger rollout of VDSL. If I look in areas where we rolled out VDSL, we see at the moment that we are able to keep our broadband market share. If I compare that to the areas where we didn't roll out VDSL yet, I still see the decline in market share. The difference is 0.9% point. And I think that's a huge difference which really shows that our strategy works.

Now, you can say it's only flat, we would expect a growth – remember that the total market is growing by roughly 3.4%. So in those areas where we rolled out VDSL, we see a growth of 3.4% in line with market. We will leverage our innovations, we talk a lot about super-vectoring and our hybrid router where we see in the initial phase, we have to be careful, it's only initial, a win back of roughly 25% of the customers who decide for this product.

Everything supported by very strong regional marketing, we have a very good regional presence, our own organization, but also our partner organization and it makes as a very efficient operation as well. We don't have to go for nationwide offers, if we only have an issue or only have network rollout in regional areas.

Asset, I trust a lot upon the measures we have taken here. I think we have absolutely the right trends in broadband trends at the moment and with these measures, we expect to significantly increase the number of fiber retail customers and we see a CAGR of 2% until 2018 and a growth in triple play revenues by 50%, totaling one-third of our revenues on triple play in 2018 then.

The third part of our customer promise is TV. I think at the moment, we have a very good product, well accepted by our customers. I repeat again, the growth we have seen represent our Entertain product as kind of an open platform. Everybody who is searching for any content on TV can find it with us, be it Sky, be it Netflix, be it maxdome. You just have to go to Entertain and that is where you find everything. The highest number of HD channels with more than 200 time shift, full interactivity, I mean there's a lot of features already now in the product, but we are facing very strong competition from cable and from OTT players. OTT players are coming to the German market as well. Still some hurdles to take because most of the programs basically, I would say, 99% are at, which translation into the German language, which is, of course, a hurdle for OTT players, which is just a matter of time that also OTT will really be a competitor to us.

Now, how do we drive sustainable growth in the TV area; comes from resources, but more importantly we hold our prices steady. I am not going to play the price promotion game and destroy all the value in the TV market. So price is stable, on top of that resources. The first one is the new TV product. You've seen it yesterday, new features, new user interface, much more telecom as it was before, instant restart, I think, will be a very important feature, which consumers are really begging us to introduce, and when we have the opportunity, best-in-class content as well. Exclusive, if it's affordable, with partners, if it's too expensive. I think we have very good experience now with Sky [indiscernible] (89:05) Bundesliga rights and we are not going to make the mistake that we buy the exclusive content too expensive and in the end of the day, don't make money waited. So, yes, content but always in a rational way and at the end of the day, we remain Germans and we spend our money very efficiently.

Second – I'm sorry, that was the first. Second part of pushing TV into the German market is resale. We started this product with [ph] EINS & EINS (89:37) on a resale partnership while they sell a white-label product on TV. And important as well though it's only small part here on the sheet, but please keep it in mind, we are attacking cable and the housing associations. We have 280,000 households now under contract to deliver TV signal, critics would say that is not a very high number, if you're looking to the German market.

We plan to go to 780,000 by 2018. So there is still a lot to do. But it is extremely important that [ph] we check (90:13) in this profit pool of cable. Also that is a point I want to repeat everything – everybody who has been with me in individual interviews knows that. By checking in today's potential, profit potential, profit pool of cable, we take a lot of profit away from the TV business, which they cannot use across subsidized their broadband product. And it works at the moment. We are in 80% to 90% of the contract discussions with housing associations. We are winning contracts, we are not winning old contracts, we don't have to win old contracts, but at least we are in there, and we take a lot of the profit away. For us, it's net revenue, it's net profit. As a result, I expect to land around 5 million TV customers in 2018.

Now, talk about partners, that is also about wholesale. Thomas said yesterday, for us, it's very important to have high utilization of the network and that's why we have said, we set ourselves a high 35% target for network utilization by 2018 on our fiber infrastructure, because high utilization allows us to invest for the future as well. That means for 2018, 12 million active fiber users that is retail and wholesale and to fill the network we used the Kontingent-Modell, that model supports risk sharing with our partners, they do an upfront payment, it brings better quality for them, able to compete with cable in the areas where they sell our products because otherwise, they would be stuck on the DSL on the [indiscernible] (91:55) speed of maximum 16-megabit. And for us, two big advantages. First of all, we see rather stable pricing for the next five years to 10 years, because they are, of course, locked in – kind of locked in that price model as well, if they want to make money. And secondly, these customers go from roughly 10 [ph] ARPA on ULL (92:17) to almost €20 on our fiber infrastructure. We expect by 2018, 40% of our user base to be on the fiber wholesale and that mix improvements brings us to stable wholesale revenues despite, of course, the losses we will have in ULL, because consumers are migrating to cable.

MagentaEINS, you see individual, we've spoken a lot of about it. Tim gave you the most important data already yesterday, an important trend in the market, consumers – two-third of the consumers want bundled offers from us and they wanted from incumbents, and I think the introduction of an integrated product is only the logical step of the integrated company we started in 2010, integrated sales processes, one integrated brand and now we have one integrated product.

The challenge was what do we do? Do we reduce prices as we have seen in many countries, especially countries that had a churn problem either on fixed or on mobile? We didn't have neither, to be very precise, and we said, no, we should use it, there is an opportunity to bring more value to our customers. We address two very specific customer needs. No worries about how they use their mobile and a fixed line. And we introduced flat for calls from the fixed line to mobile as well. Secondly, they've always been complaining about speed. They want more and more and more, it's like on the German autobahn and then we said if you maximum surf speed on LTE once you have the MagentaEINS contract with us.

Our key goal is this category, this product will be a huge success. We are going to own this category, because nobody is as trustworthy in having the best mobile and best fixed line network as we are. We wanted to be the first ones, we are the first ones. We know, of course, competition is copying us. I think it's obviously a very bad and cheap copy, and it's not that easy to do, even for us, it's a lot of work behind the screens. Our target 3 million customers, SIM card customers by the end of 2018; on household, it is 2 million households.

Now, where do we get these customers? On the right, you see where our – where the customers are in the market. In the up-selling fencing part where customers very often passively they don't even know it or hardly recognize that they have it, a mobile and a fixed contract with us, already we have roughly 4.1 million customers. In the new customer block are 12 million customers and in the light grey boxes, it's either mobile or fixed, we have in total 11 million customers that use only fixed, and we have 4.3 million customers that use or 3.4 million customers that only use mobile.

Now, our customers come from all blocks, that is the good news. Of course, it's easiest to get customers from the Magenta block, because they will first go for the price advantage. And it is also a little bit the fee we had, of course, we did a lot of consumer testing but then at the end of the day, the market will decide.

Now, what do we see after four months? Extremely successful. We had aimed for 350,000 customers by the end of the year, we have 506,000 customers, and the trend we see is still fantastic. Triple play share of more than 50%. We had aimed for 1.5 SIM per household, we are over two as you can quickly calculate. It's boosting customer satisfaction, about 60 points for our total telecom business, 75 points for this product and, of course, most important, Tim said it yesterday already, an increase of revenues of about €4 per household. And the logic says those customers that optimize themselves directly are in the beginning, so the number can only get better. No risk, I would say, no fear at least for back book pricing. I think we have seen now the first four months, five months with MagentaEINS and it's a major success.

Our products and our networks will be supported and I'm almost going to skip this chart with the e-service. I'm not going to repeat it for the sake of time. We have a lot of digital touch points, which will help us to increase an online sales as well. 10%, where we are today is basically relatively low number, but the German market is relatively slow in adapting, let's say, this kind of development. We have set ourselves a 70%, 7% point increase until 2018 and I think if you compare that to where we are now, that is a major step forward in only four years' time basically. We reduced service contact by a lot of ultra-installation and self-provisioning of our equipment, but also because we were having much more opportunity to remotely support our customers.

At the end of the day, as such, it's always a combination of customer satisfaction but we are happy as well if we can reduce the cost. Customer satisfaction, behind the product initiatives, behind the network, and behind this e-company path we estimate at 4% point from 60 where we are today. Some will say with all the initiatives you have, you could be a little bit more ambitious here. Don't forget that we are in the middle of a huge transition as well. We build our networks to IP, we build our new TV platform and taking that into account, we have said, let's be a little bit modest on that point as well, we rather over deliver than overpromise. But a constant improvement of customer satisfaction is high on our agenda.

So much about customer here. Let me go to partnering. We've seen a lot of names, of friends, of partners yesterday as well. We are very clearly embracing the partner strategy in Germany. That was different two years or three years ago. We didn't have so many partners, at least not the ones we would name. We saw them rather as competitors and as threatening. Partnering is now really a pillar of our strategy. It enriches our portfolio to get new user cases and in the end of the day, I think that's important as well, it gives revenue and it gives the margin.

You've seen smart home yesterday. I won't go in anymore details. Other examples are Spotify which we are selling since 2012. Kind of a rocky rumble early start, we are now at almost 200,000 users and we have doubled our revenue on Spotify last year. And we see those trends now really taking off. In total, we expect €300 million of revenue by partnering initiatives for 2018 and as you can see 6 million active users.

Business. Before really going into what are we going to do on business for the future, I want to be a little bit proud of what we have achieved so far or where we stand now. We are clearly the number one in the business market. In mobile, we have a SIM card market share of 51%. We have won 3% point over the last three years and our colleagues from Düsseldorf are always bringing their success to the market, lost 1% point in that same period and 38% SIM card market share.

On broadband, we've been further away with 64%. We have successfully defended our strong position in broadband and fixed line market over the past two years. We do see lots behind superior ICT competencies on top of the basic telephone product we are selling, of course. We should not forget that those are rules, but we see a lot

of additional volume and activity coming from ICT competencies. We are the only one that can basically offer everything from the beginning until the end, with really the end-to-end responsibility not in specific areas of the country, but nationwide. It all comes from one hand with one responsibility and very important for Germany with highest safety standards.

Security "made in Germany" is meanwhile hurt, it's linked to Deutsche Telekom and as you saw yesterday on the chart, the 50% that trust Deutsche Telekom with the data with the cloud solutions is due to the many initiatives we've taken in Germany also together with these systems to secure this.

The midmarket initiative was told by Tim yesterday already. We introduced 19 products. We will increase by another 11 to over 30 products in 2018. We started with partnering very carefully with 38 partners. We will go to over 500 by 2018, be very close to the market that is important with specifically to SME, which are, we should not forget 3.5 million companies in Germany, SME is big, 3.5 million companies and amongst that are also well known international brands. As a result, we will bring €0.4 billion additional revenue to the party in 2018. A bit more detail on the products. On IT cloud solutions, we see almost a doubling of the number of digitalized working places per year with a huge CAGR. I would like to see [indiscernible] (102:31) KPIs, but all the products we are selling in that area you can see that we expect growth there of 21%, which is very far above market average of 4.8%. Machine-to-machine and the key of our – in the middle of our attention at the moment a new platform, new feature, new business models, a lot of partnering happening there as well, 29% CAGR we expect on the SIM level and DeutschlandLAN, which is basically the integrated and the converted MagentaEINS solution for the business segment. We will officially launch that very soon as well, converting customers to IP and with all advantages they have on IP makes us believe that we're growing all parts of our business segment above market average with a total CAGR of 2% until 2018.

This chart summarizes everything we're doing. Of course, most of the items are not on the chart, only the important ones. Please read that on your slide deck, I think all has been said here. Let's look what it means in financials. Revenue decline of 0.8% in 2014 versus slight improvement against prior year, but it was, of course, below the forecasted expectations of stable revenue which we gave a year at the Capital Markets Day in 2012. You'll see a slight decline in 2015 and then from 2016 on, we aim to stabilize the revenues despite the EU roaming impact of which is between €100 million and €130 million.

In the following years, we expect the growth to come from and, as I say, following years as of today basically increased mobile service revenues, better fixed network trends, we have told you the trends over the years, 2013 was still negative in broadband, 2014 was zero and we're seeing the growth now and growing IT revenues in the business segment with the mid-market initiatives I've just shown you.

We also need to support from cost reduction, something we have been doing for years is also part of our DNA. And I would almost say – we have invented it for this industry. If we look at OpEx, we see an overall reduction with a CAGR of 1%, you see that in the middle from 2014 to 2018. Some of you might have expected higher decrease in OpEx, I think, I see some disappointment in room, but don't forget that we have massive transformation – where we are in the middle of that massive transformation, 2014 alone led to an extra spend of €250 million and the peak is yet to come.

Good, we are facing this massive transformation. You said, okay, then we need to save on other cost as well, we save on indirect cost. We will continue the rightsizing of our overhead functions, Thomas told that yesterday as well. He showed that 18%, rounded it to around 20%, I think is good. Let's go for – let's [indiscernible] (105:53) still very big headquarters. We will further improve productivity and improving processes in our day-to-day work with the customer and in processes or in product introductions, we'd actually support, for example, to be very honest, there still must have cost reductions possible. Savings will be partly offset by 1% increase in direct cost.

They are basically due to entrance into new markets, extra products we are selling and if you want extra revenue, you have extra cost as well, but of course, with a right margin.

The savings behind IP, we talked a lot about the IP benefits for our customers, for us, as well. We're expecting customer service and in technical service a saving of €500 million that is not in the two years to come. That is comparing 2013 before IP and early 2020s, so when the IP transformation is fully completed. So please take this as a different perspective than we have shown in many of the other charts. €500 million in customer service and technical service, €200 million in the production area, be it a development of cost, be it the IT expenses we have, be it a maintenance, less electricity in the networks, all of that €700 million over a longer period of time.

I promised you that we will fund our investment through growing EBITDA. How does it work? We see from our plans stabilization of EBITDA in 2015 at €8.8 billion, significant increase until 2018 with a CAGR of 1% to 2% per year. Our EBITDA margin will increase from 40% to 42% in 2018 and that healthy EBITDA development allows us to not only fund our own investments but also contribute to growing cash. On CapEx, we have spent €3.8 billion in 2014 and we will increase by an average of 1% until 2018. This is mostly network rollout. It's vectoring LTE networks and the total CapEx for the period of 2015, 2018 amount around €16 billion that is excluding spectrum and of that between 55% and 60% is invested into integrated networks.

Overall, this leads to a growing cash contribution. In 2014, we achieved €5 billion and we expect a growth by an average of 2% until the year 2018. Overall, we see stable operating ROCE, that is well above our weighted average cost of capital, drivers: stabilization of the revenue, strict cost discipline, the increase of EBITDA, reduction of legacy CapEx and clearly [ph] defined investment growth (109:02) and hurdle rates. All together, that brings me to the mid-term ambition. In fixed mobile convergence asset, 3 million customers and with the speed we have now, I am absolutely sure that we will make that.

In mobile service revenue, we defend our market share at over 36%. You've seen, however, that our planning has a higher growth than market. So, I'm a little bit optimistic that we will not only defend, but even win a little bit in the market. On broadband revenue, a CAGR of 2%, which means that we will keep our market share over 40% and I remember again – I remind again, that is an excess line market share, not a revenue share.

On quality, we continue our successful journey on quality improvement, one point per year brings us at 64 points end of 2018, financially growing EBITDA margin to 42%, growing adjusted EBITDA with a CAGR of 1% to 2%, growing adjusted cash contribution of 2% and a revenue stabilization in 2016. A lot of promises, I hope I have given you – or the team has given you the confidence of what we promised here in 2012 was delivered, what we promise you here will also be delivered by 2018, and on the way to 2018, so it's not just a hockey stick which we're promising. We work hard to put a lot of energy in here, but it's easy to do, because we have the success in the market and I am proud on my management team, I am proud of the more than 60,000 employees in Germany, what we have delivered here we can do it the promises we have made here, we will deliver.

Thank you very much, looking forward to your questions.

QUESTION AND ANSWER SECTION

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Thank you. Thank you very much. You left about 30 seconds for the Q&A session, so...

Niek Jan van Damme

Member-Management Board

A

Sorry for that.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

I think we'll speed up on that. I think that's enough for at least one question. We will have – Bruno Jacobfeuerbornour, our CTIO. We will have Karl-Gerhard, CFO for German segment and Michael Hagspihl, who is the Chief Marketing Officer in Germany to help us with that one single question we may be able to tackle and we start with Mathieu here on the front row, please – left hand side front row.

Mathieu Robilliard

Barclays Capital Securities Ltd.

Q

Good morning, Mathieu Robilliard from Barclays. I had two questions, please. First with regards to your guidance on revenues, obviously, quite a conservative guidance, because if you're not going for revenue growth trend – compare that to the trends you've seen in Q4, I'm wondering is there anything negative that we expect in the next few years that could reverse the trend we've seen in Q4 and generally the very strong progress you made throughout 2014.

And as a follow-up on that, for instance, I look at the Magenta targets, if I made my math correct, you had 250,000 households in just four months. So if I annual that for years, it's around 3 million, if your target is 2 million. So again, why do you think the take up rate would slow down? Thank you.

Niek Jan van Damme

Member-Management Board

A

Yeah. Mathieu, thank you for the question. On the first one, let's say, 2014 was minus 0.8% revenue. We saw the uptake especially in the last quarters. We made our planning a little bit earlier, of course, already. We saw a lot of handset revenue in the last quarter. So that is a little bit the basis for our planning in 2015. We see, however, positive trends, which you're referring to. I'm also a little bit careful now for 2015 that the competitive climate is not yet as stable or as calm as we would probably like it. That is true for both mobile and fixed, but honestly, taking everything into consideration, I think, yes with the current run rate we have also for the first month, the 2015 planning looks a bit conservative to us as well. I would rather under-promise and over deliver and that is hopefully what will happen for 2015.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

I think we continue, let's see with Justin Funnell here on the right hand side.

Justin B. Funnell

Credit Suisse Securities (Europe) Ltd.

Q

Thanks very much. Yeah, there's a couple of questions. This is sort of a dull question, special factors, is that you show in the slide towards the back. Your cash growth that you've given the growth profile of total cash, does that include the special factors or not. Secondly, on roaming, I guess your budgeting process was during the second half of last year and at that time roaming regulations looks like it was going to be pretty tough.

Barack seem to then come out with the decision that, perhaps, blocks [ph] aren't (114:14) roaming regulations. Are you considering your roaming guide – your guidance of roaming revenue hits revenues pretty hard and mobile, is that now conservative or not versus something else you see coming through on roaming? That's it. Thanks.

Klaus Werner

Head-Finance, Telekom Deutschland GmbH

A

I take the special factors question. And the cash contribution shown at page 31, the special factors are not included, so this is before special factors. The number shown at 31 is a approx. EBITDA minus CapEx. So, that, you see what is going out of the operational side here.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

And then I think, on the second question with respect to roaming, I think you are absolutely spot on. I think – and as far as we know, there is no decision yet taken, there is new proposals on the table, so if this proposal would then be executed upon and the things go out – come out better than planned, we're happy to take it.

Let's start here, and with think Guy Peddy on the right hand side in the back, please.

Guy Peddy

Macquarie Capital (Europe) Ltd.

Q

Yeah, thank you. Thank you. Just a quick question. We've had a lot of focus on the consumer side of the domestic business in the past 24 hours. But I am intrigued by what's going on in the business segment, especially in a mobile space in Germany, because Vodafone were improving their networks, specifically targeting the business segment, O2 continue to talk about targeting the business segment. Can you see – what trends you see there, competitive tensions and what you've got in your business model for sort of growth or no growth in that side of the business? Thank you.

Niek Jan van Damme

Member-Management Board

A

Yeah. What I mentioned already – I try to mention at least is that Vodafone is – and I think that I understand that, there is a lot of publicity about the deals they win. And those deals are especially in the DAX 30 segment. I'm not saying it's not an important segment. Vodafone is always proudly saying we serve 90% of the DAX 30 customers, we serve 100%. And [ph] they've (116:18) forgotten, they put a lot of focus on that. They have very strange way we see that of calculating prices. We have lost some deals, but we have also won back some deals, because customers now realize that they want to be with the market leader on fixed and mobile.

If I look at the other segments because the DAX 30 is only this tip of the pyramid really and if you look below, we see growth rate of between and 3% and 5% in the different segments and that is where the bulk is. I said, yes, EMEA 3.5 million companies. Yeah, I have there a growth of 2%, I mean I can – have a little bit – less focus on the top, which we don't have. We are present there, we're basically saying to every customer, as well and I can tell you

even on some of the bigger customers where Vodafone is taking the publicity, we serve the 500 top SIM cards, for example, in a bigger company and that is a quite common thing. So, we are fighting back there for our market share because we want to have those customers as well. I am – sometimes a little bit fade of the value that has been destroyed in the market, to be very honest, but I think if you look at the overall business development is absolutely positive and we have over average growth there.

Michael Hagspihl

Director of Marketing, Telekom Deutschland GmbH

A

You're exactly right. Again, as you said and probably let's add, we are a clear market leader in terms of market share and what we call the V3, the V4 segments, that's the small and medium enterprises and we are very optimistic that we will keep that in 2015. These are these customers who go for SIM cards who obviously value the network quality. These people do not even think sometimes of leaving because we know we have the best network with the best prices, and also sometimes the best handsets, because that's the offer which is also relevant for that kind of customers. Secondly said – last comment on that one, obviously, also as Niek Jan van announced, you will see some MagentaONE offerings very soon for those groups of customers and we are very optimistic that you take the same direction as MagentaONE has taken for consumers.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Thanks, Michael. We stay on the right hand side first, Emmet Kelly and just next to him is Simon Weeden. He will be then the next one. Just pass it on.

Emmet B. Kelly

Morgan Stanley & Co. International Plc

Q

Just one question as well. On the fixed line wholesale revenues, again, you are targeting, I think, flat revenues over the next few years. And if you just break down the revenues, I guess, you've got three different buckets there, you've got the legacy DSL/ULL revenues? And secondly, you've got the Kontingent-Modell revenues, which will be going up quite nicely. I mean you've got other wholesale revenues. Can you just talk about those three different buckets and again whether you're being a little bit conservative given the step-up in the Kontingent-Modell revenues over the next few years? Thanks.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Well, maybe first, I'll start and Klaus can take it on. The wholesale business last year in – in 2000 – two years ago 2013 went down 5.5% in revenues. It is down, if I remember correctly, something like 2% last year. So we're already on the way to stabilization and the Kontingent-Modell where you know we're getting from an ARPU level of around about €10, €50, towards €20 is well on track to do so. Klaus?

Klaus Werner

Head-Finance, Telekom Deutschland GmbH

A

Yes. And we have also shown in the graph at page 19, if you see the new structure what is the old business, the ULL and the high margin business for us. So we have three trends. In wholesale, we have also the business coming via to systems to us, so we see some slight declines in this business. But it's also slowing down. We see the second one out of the ULL. But we see a tremendous positive one out of the Kontingent-Modell. So – and as you have heard, our vectoring rollout is going to happen in the next year. So something like 10% each year in terms of coverage, also the Kontingent-Modell will pay off in these matters. So, it comes with the overall network development which we planned.

Stephan Eger

Senior Vice President & Head-Investor Relations

Simon?

A

Simon H. Weeden

Citigroup Global Markets Ltd.

Yeah. Thank you for taking the question. Simon Weeden from Citi. I just have one as well and that's regarding the IP and process transformation savings. So, I've taken the 700 million you're targeting long-term and divided that by the roughly 24 million broadband customers you have on retail and wholesale and I can see Stephan's ahead of me. So, that gives you a savings rate of about just a little bit under €2.50 per broadband customer per month. Does that sound reasonable – a reasonable way to think about it? Should we worry about single play voice customers in the mix and what do you think the total cash cost including OpEx and CapEx of delivering message going to be per customer? Thanks.

Q

Klaus Werner

Head-Finance, Telekom Deutschland GmbH

From our perspective, this is not the right point to look at this. So, please, do not bring this directly related to the customer because we will see so tremendous change in the structure of our customer. They will – were brought to higher – to higher service qualities. We will bring them to Entertain. We will do the MagentaEINS stuff and so on. And so, you cannot compare the saving to a access line or to a customer today with a customer which will happen in the year 2018.

A

So, please, take it from an overall perspective what we want to save in these categories, and we want to save these categories not only in terms of the results and cash flow, but also for the customers. We want to give them better services, the e-company perspective and so on. And the financial perspective is one element, it is important for us, but, please, do not calculate it on a household or access basis. This is from our perspective, the wrong basis and look on it.

Stephan Eger

Senior Vice President & Head-Investor Relations

Moving on to the left hand side, over here on the left hand side, Steve Malcom.

A

Steve Malcom

Arete Research Services

This is Steve Malcom. [indiscernible] (122:15) a couple as well, if I can. Thanks. First of all, just on the partnership revenues, you mentioned €300 million. Add a little color on how those agreements work, I know you won't give us sort of precise commercial details, but do you have wholesale revenue shares in the likes of Netflix and Spotify baked into your forecast? And then on the housing associations comment you make, can you sort of add a bit of color on how that negotiation process works, so I understand that these guys are locked into the 10 years, 30 years contracts. How do you break that? How do you get into them? How do you sort of get [ph] into 280 to 780 (122:44) over the next four years? Thank you.

Q

Stephan Eger

Senior Vice President & Head-Investor Relations

Yeah, on partnerships. Okay.

A

Klaus Werner

Head-Finance, Telekom Deutschland GmbH

A

I can take the partnership one and Michael takes the next one. So, today, we have a lot of – a big portion of our revenues in partnership is coming out of security services. So, for example, with Norton. They are the ones coming out of streaming and Netflix, they are really at the beginning, but we see a huge potential till the year 2018 and what we as well see in this category, it is our smart home revenue, which we actually just start to bring it up and running and here we see a huge potential till the year 2018. So, bringing all these pieces together than the €300 million are well calculated with our projects we drive.

Michael Hagspihl

Director of Marketing, Telekom Deutschland GmbH

A

On housing associations, as you said, we are obviously always targeting those housing associations, which are available in that year. So for 2015, we are going to look on smaller ones, which sometimes is only 1,000 to 2,000 flats, but once you are in, you got the ability on every next bucket, which becomes free to attack like on Deutsche Annington. We got that deal. We started and provided the first households now and now we're discussing with them for more and more flats, which get free.

Steve Malcom

Arete Research Services

Q

Thanks, Michael.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

I think it's time for one last question, gentleman here on the left hand side just in front of Steve Malcom.

Ottavio D. Adoriso

Société Générale SA (Broker)

Q

Ottavio Adoriso from Société Générale. I just had one question and this is right to – on Congstar. You basically – you – previous speakers and yourself has basically put the emphasis on segment to market and avoiding conversation across the different offering. Now, the market in the Germany has been very segmented. You have a premium offer, you got a value offer. Now, your premium offer, you highlighted is defensible, very good network, very good quality. The Congstar, last time I checked is basically a value offer, low speed – relatively low speed and relatively low price.

Since last year because now we have got [ph] remedies on from the EU (124:53), there are [indiscernible] (124:56) attack the market. I'm talking about really share, with an offering that actually price less than Congstar with a higher speed. Now, you highlighted that Congstar was a good success last year. Is that revenue growth you pocketed [indiscernible] (125:11) years and to defend the Congstar position, are you going to increase speed or you will just rely on branding? And if you're going to increase speed, how you can manage conversation across your brands? Thanks.

Michael Hagspihl

Director of Marketing, Telekom Deutschland GmbH

A

As you exactly said, we monitored in 2014 what's the right offering for smart shoppers and Congstar and our opinion fully met that point, because it was a mixture of new features. Let's not forget Congstar is also doing

something, you will hear in some minutes about what an [ph] Ankara (125:43) does, because they have other models, for example, how to have your handset, yeah, and these kind of things.

So, it's always a mixture of what we said, the right price point, and it's not discount, it's smart shopper. The right offer in terms also of flexibility, and then the right ingredients, which is amount of data and speed. And we will do the same strategy in 2015, monitor exactly where the competitors move in that area, yeah, which is a one-in-one, which also is now and I'll all you know they are copying our multiband strategy a little bit, and we will find the right offer for Congstar at the right point in time.

Timotheus Höttges

Chairman-Management Board & CEO

Well, thanks, guys. Thank you very much. I think, we'll have to leave it there. There is an conclusive Q&A session with Tim and Thomas, when they're after. I think we can take a little bit on Germany as well, if you may. But my biggest task is actually today to bring you safely on time to your flights.

So therefore, thank you very much gentlemen, see you later on.

MANAGEMENT DISCUSSION SECTION

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

I got a lot to share in my mind. This is the part we're supposed to smile. Listen, a couple of things. Let me introduce Braxton Carter; the CFO, where it's kind of a gang group here; Neville Ray; the CTO; Mike Sievert; who is the CMO and now is the Chief Operating Officer; Nils Paellmann, who is the Head of IR and possibly the best export from Germany to T-Mobile US of all. [indiscernible] (127:11) as well, Head of M&A; and [ph] Dave Carey (127:15), Executive Vice President is somewhere back in the booth.

I want to give a special kind of shout out to this team. You'll notice by the voices, the flu epidemic that you had here in Germany last week made its way across this team. So, the voices are in various stages of completeness and I'll give him a lot of credit for getting up here and hanging in.

Listen, first and foremost, most important thing is, we wanted to be here as part of DT. And what we're going to do today is I'm going to do a couple of things. One is, I'm going to do a look back at Capital Markets Day of 2012, it should be fun and where we've come then we'll give you a quick update on where T-Mobile US is right now, but then, I wouldn't call it a deep strategy dive, but why does it work and how will it be sustainable, a quick run through the team. And then, our as we've called it the outlook.

A couple of things here are important to us. And the important part here is, we're very proud to be an integrated part of Deutsche Telekom. And I think what you're going to see, you go back to 2012, what we've accomplished at T-Mobile was started here as an integrated controlled subsidiary of DT, and I want to give a special kind of acknowledgement to Tim and to the leadership team because this is not easy.

As you see the strategy here of being a leading European telco, but then to have this component of your business that's extremely valuable and extremely important to shareholders, but it's unpredictable and it's requiring constant increases in capital and focus. But to be able to do that, while sustaining and integrating that strategy for Europe was a big deal.

I also want to acknowledge my fellow leadership team members on Deutsche Telekom, this is not easy. And when you're trying to be a key component of the leading European telco, and you come in with your ideas and your father says, tough shit, we have to send the money to the U.S., it's tough. So, when we see right now where the DT stock is, in the outlook for the company and for T-Mobile US I want to just most importantly, be here to acknowledge, that's not easy. And on behalf of you, that shareholders of DTE, Tim and the leadership team have done an incredible job and that's amongst the most important things that we came here to say.

So with that, I thought it would be fun, how many of you were here in 2012 at Capital Markets Day. Okay, have all fun with this. Let me do this, I'm going to run a very short video and see if you remember this from December 6, 2012. [ph] Dave (130:13), why don't you put this on.

[Video Presentation] (130:15 – 131:34)

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

Okay. So, who is here. Yeah, did you totally call bullshit on that whole presentation when we did that. I can't describe to you the look on people's faces when I came in here, and I was thinking to myself I want to take a malign. I mean this is what in effect I realized is that so many times we had heard, hey, this is the change, this is what's going to happen, this time it's different in the U.S.; and by the way, when it does it's got huge upside.

And then there's this guy, the younger thinner version of me, who is telling you with absolutely no wireless experience and pretty clear during the Q&A that I didn't have the foggiest idea what any of the shit I was talking about was, was going to be the catalyst for this to go through. And that was the precursor to some pretty broad assessments.

Let me just play the tape back for you. At that particular point in time, we had 33 million customers. This was before MetroPCS. Braxton and I were standing here and what we were facing was a proxy battle in order to potentially get MetroPCS. 9 million customers that we were successful. We were losing 2 plus million customers a year and while we were standing here that period we lost 0.5 million customers. So, that's what we are playing into. The churn was about 2.5% to 2.6%, which right now to give you an idea that's the hemorrhaging that Sprint is doing in the U.S. that we're also flabbergasted by. We were number four in J.D. Powers for sales and care and the reason we were at a whopping fourth is there were only four. Otherwise, we would have been a little bit lower.

We had an amount of LTE in our network of zero and we were hoping to get the iPhone and all of a sudden Apple demanded that we have LTE and our brand was completely categorized by the young woman on the motorcycle that everybody loved. Her name is [ph] Carly (133:46) by the way, but after they watch the commercial, nobody wanted to do anything. It was just wow, she was really pretty, I like that motorcycle, what company was that and that was kind of where we were, cost structure by the way was fab, EBITDA and margins were in the mid-20%, which really wasn't where it should be, because we were generating trench amount of cash.

The U.S. market was somewhat saturated, the duopoly was entrenched and Washington was supporting them, and interestingly at that point in time, the plan of record called for postpaid stabilization, so the goal that everybody called bullshit on us for, was that in the year of 2013, we wouldn't grow, but we would stop shrinking and then in 2014, we would slightly grow. Prepaid would be the growth engine of the business. Service revenue was expected to grow 3% to 5% compound annual; EBITDA 7% to 10%; and cash flow, 15% to 20%, which these were bold statements.

So, just a quick scorecard. I sat there that day and said, if and when we pull this up, I'm coming back and I'm going to look all those folks in the face and I can't aspire to make them laugh, because I'm pretty sure there's no sense of humor in the room except you. You seem to have a great sense of humor. The guy next to you none at all by the way and the guy next to him is scared shit I'm going to call on him like a kid in class.

So, MetroPCS did close and remember that's when we became a public company and we went public at the end of the first day of trading. It was \$16 a share, I think it's \$32 something the market's not open. We said that we would generate \$6 billion to \$7 billion worth of synergies, and what we'll talk about today is we've actually going to generate \$9 billion to \$10 billion, but here's the interesting thing that Tim talked about yesterday.

What's actually happening is, we have in the big fear of a big customer migration. We've migrated 89% of the 8.9 million customers that came over, over to our network with new handsets; and in the meantime, we've added 2 million more customers. So, MetroPCS has been a great business. We had 15 cities and 6,000 doors with Metro. We now have 55 cities and 11,000 doors. And let's talk about customers. We have 55 million customers now, 13 million net adds in the last two years in addition to Metro. And by the way, in 2014, what percentage of the postpaid phone nets in the United States industry, do you think T-Mobile took? A 100%. We took three times as many as Verizon, five times as many as AT&T, and for those of you that are good at algebra, we took [ph] Infinity, Time (136:35) Sprint as they were negative.

Big deal though is the concept of the Un-carrier. And the first thing we Un-carried was ourselves. Big consumer advocates, solving paying points in a way that structurally changed the industry and we've done eight Un-carrier moves, our tone and our brand says it all that we won't stop.

Quick side note, this is a fascinating experiment. We are Deutsche Telekom, keep that in mind. And as our leadership team and as Tim sits together and watches, what T-Mobile is doing in the U.S. We're doing it in phases as a defense, as an attack on a lot of what you've seen presented here is Deutsche Telekom; and in a fascinating way, what DTE has the ability to do, is to learn what to do to itself from doing it to people like it in other countries.

What not to do and so I think it's fascinating, I think as Claudia talk, Claudia owns a number of the countries that are using similar strategies and tactics and I think good questions I heard yesterday were things like, why don't we do more in Netherlands, like we do here. And I think that's a great, great possibility for Deutsche Telekom.

Interesting and this is the way it will continue. Right now, the SoGA, the share of growth said in the postpaid side is 26%, that's up from 9% and this is only two years. It's 46% year-over-year porting ratios, if you know what that is, tracking on a postpaid side, the porting from one carrier to another. We've ported 2.15 with the entire industry last year and this is a staggering fact never once ever in any week did any carrier port positive with T-Mobile, Verizon, AT&T never was there a week where they had more of our customers going to them, them to us.

And let me help you, one of the big questions always that would come from Tim, would come from you, what happens when the big guys wake up and crush you? They can't. When you piss customers off for so long, and then you wake up and think you're going to tell that customer, hey, I'm sorry I screwed you for 10 years, but now the T-Mobile has taken customers I want to be nice to you, they don't give a shit, that's the big learning.

And so, there's an awful lot, we're going to learn on here, churn by the way, my plan was for churn to go from 2.5 to 1.9 to 1.8 to 1.7 by the end 2016 to get to 1.69, it went to 1.5 last year. It was 1.6, it's running about 1.5 right now. So, way ahead, churn, so those are the two big variables.

Customer care, we were number one and J.D. Power is up from number four last year. We just in the recent survey moved to number two, but that has really been a culture of change in the company. 100% move to value plans,

listen it was a story when we're here last time. We've now abolished contracts 89% of our customers are now in simple choice, so we're on the other side of it. I hinted about the iPhone, when I was here in 2012, not only launch the iPhone, launch the iPad with free data for life. And we just had the biggest iPhone quarter in launch in the company's history with 11% upgrade rate in Q4.

So, full line of both devices and a tremendous amount of reason to switch prepaid with the number one prepaid carrier in the U.S., with 16.3 million customers. And on the postpaid side, moving right through all of the Un-carrier initiatives including contract freedom, we clearly have had the biggest surprise there.

We're going to talk about network. That will by the way used to be the sixth most powerful person in the United States, wireless industry. Since I've come in, he's disappeared and vanished from the list, but we paid him excessively, so that he'll stay here and be happy. But, he's a legacy as to what we've done. We have the fastest – this isn't marketing. We have the fastest LTE network in the United States and that's a big deal from where we were.

The network vision has gone from a no apologize network and even to the shock of my board at TMUS and DT. We've migrated from wanting to have an urban dense populated area network to wanting to and being on the way to having the best complete overall wireless network in the U.S. bigger and better than Verizon and AT&T, and that's what we're investing against and we're making great strides on, and finally, people are worrying holy shit these guys just might do it.

Cost structure is a core competency of ours that we'll talk about as well, and overall the spectrum is the big deal we're doing quite well, you'll see a lot of noise in Washington. And the big story, of course, is the financial results. The service revenue last year grew 9% year-over-year, Q4 was 14% year-over-year. Overall revenues 14% in overall year, and 20% year-over-year, and EBITDA is kicked in. So, the story from Capital Markets Day, I think is quite complete. So, I used that as a segue now we can move very quickly, because I want to get to Q&A, because this is open to Twitter, right?

Let me help you, the people that follow me on Twitter are very entertaining, so that very intellectual set of questions that you all asked, why do you see the 1.5 million [indiscernible] (142:33) jobs that followed me on Twitter, starts sending their questions in, and I think it'll be rather entertaining. And we'll mix those in.

So, key message is for the Un-carrier, and Mike will give you the update on it. But the key message is as to how we're doing. 55 million customers, we are the third biggest player in the United States now. We have moved past Sprint. We have our site set on number two, which is what really makes people think this time, that we're out of our minds. But stay focused. We had 4 million postpaid phone nets in last year, so when you think about where we started from that where we are, 16.3 million prepaid customers and growing; and as I said, the service revenue, and adjusted EBITDA, adjusted EBITDA year-over-year Q4 was up 41% and it was 30% sequentially.

So, the story here that I'm going to hand off to the guys is that the Un-carrier is leading to customer growth, which is leading to a revenue growth, which is driving profitability. So, the model that we've laid out is and is working and will continue to, and the synergies on the MetroPCS side are tremendous and way over what we'd anticipated to get. The network, I think we'll let Neville talk about, we'll talk about the AWS-3 auctions in some fashion, they're very important going forward as well. Now that's the overall look.

This could scare you. Tim and I have had a number of conversations that are generally related to, don't you think you're doing too much. And if you look at this chart since last time we were here, the movement from 33 million to 55 million customers, 22 million additional customers, eight Un-carrier moves, merger with MetroPCS, going

public, the network deployment that we're working through in a number of big branding and marketing moves. What I can tell you is, this will not stop.

The pace that which we're moving will continue to move at that rate if not accelerate. Un-carrier 9.0 and Un-carrier 10 are closer than you can anticipate and we'll continue to roll out behind them. Quick update by the way on each of these, 89% of the customer base has moved to simple choice. So, we're in a totally different phase. We have almost 10 million customers on junk, Un-carrier 2.0. We have a 36-fold increase in international data usage.

By the way, another one of those things that I think is underplayed. We've eliminated 1.6 million contracts in Un-carrier 4.0. We're offering a million test drives in Un-carrier 5.0, 79 million songs are streamed per day free on Un-carrier 6.0, 33 million Wi-Fi devices on our network and 68 million plus gigs of free data have been handed out on our networks on a Data Stash standpoint. This model is really a sustainable one, if you look at the growth and what's happening now from a standpoint of revenue growth.

We're shipping the acquisition model from single line to multi line, much better churn profile. The operating leverage in the cost per customer acquisition is very good. The EBITDA and the cash flow that follows is something that I think is very important for you all to see in the next chapter of the Un-carrier.

I will take you through what we're doing relative to the competition, but you can see the revenue growth. The interesting thing is, it's linear. If you look at the growth on the left hand side as it relates to additions and you look at the service revenue growth, you can also extrapolate out now to what's happening with the adjusted EBITDA growth.

So, there was a lot of confusion around ARPU, as it relates to the average revenue per user, because we move to a model that separated devices from rate plans. Most important part to look at it, is the average billing per user. \$61.80 in Q4 is the highest we've ever had in the history of the company, \$108.95 on the average revenue per account and \$5.64 billion of EBITDA last year, \$1.74 billion in Q4. EBITDA margins have moved to 30% from where they were and it was 41% year-over-year in Q4. So, you can see the trajectory also leading to what Braxton will cover from a standpoint of cash flow.

Let me just turn this over to Mike by flip to the next one, [ph] Dave (147:37) if you're listening. Okay. So those are impressive numbers, at a very impressive statistics. The issue that I want to hand off to Mike to now cover with you is why? How does it work? Is it sustainable? We are a very focused business. We are a – for the most part so far a consumer-wireless company, very simple in the transparent approach, what we're doing here the Un-carrier strategy and initiative it's a phenomenon.

It's a cultural revolution in the United States around, you know what customers see as the single most important device in their life that they hate the experience on. And when we all announce this together, there were components that were ready for the company, and I had a conversation with the couple of you yesterday that you are kind of startled by what you saw when you did come in the sales and service experience and in the network experience.

How differentiated it was and what I want you to understand is when we started this, the key was launch the Un-carrier, but no that your sales and service model has to change considerably that your network is not ready and you don't have the money. So, in effect what we did right after Capital Markets Day, as we went into our business and we funded this transition as much as we could by lowering operating costs \$1.7 billion in 2013, \$1.1 billion in 2014 and the sales experience and the service experience is changing dramatically and it will continue to change each year going forward. The network has changed dramatically and as plenty of cost more to get, so that's the sustainable model that we're going to focus very simple, very transparent, take it out.

G. Michael Sievert

Chief Operating Officer, T-Mobile US, Inc.

So, when we say our strategy is Un-carrier, our strategy as a company is Un-carrier, what's that mean? It's really pretty simple, what it means is, we expect and our ambition is to be famous as the company that's changing wireless for the better. Not having people to be aware of us, not being known for it, but being famous as the company changing wireless for the better. Whether those are our customers at T-Mobile, whether there are customer that are still stuck at AT&T or Verizon or Sprint, that's our mission as a company, and that's what has driven us over these last couple of years.

Now as John said, we know that having an ambition and having a mission as a company, having something really clear that we stand for isn't enough if you don't back it up and that's why the strategy has got the pillars underneath it that we talked about.

Now a couple of things that it's not, let me just make sure that we're really clear, when we talk about being famous as the company changing wireless for the better, there are multiple parts to it. It's not just about slashing our prices. By the way, we're a great value at T-Mobile. We've been a great value all along. We had low prices years ago during the bleeding that John talked about a few minutes ago in 2011 and 2012. We had great prices then.

Sprint who has recently been trying to rise from the dead, they basically slashed their prices, that's not what our strategy has been about. Our strategy is about offering customers the best of both, a great value, that's been a consistently good value over time on a fantastic service.

That's truly differentiated, built on a great network, built on a group of people that are just passionate about giving a great experience; because as John said, this device is way too important in our customers lives for them to buy just on price. That's not something that's going to be attractive to a lot of people, there are some and we serve them, we've got a great brands like Walmart Family Mobile that are targeted towards people that mainly want to shop on price. But our flagship brands, both T-Mobile and MetroPCS offer something more, offer a great set of experiences for customers. And over time, we've been very consistent about our pricing.

And that's why as John said, in the most recent quarter, our customers and this is something most people are realize about us. Our customers paid us higher amounts on their bills than at any point in the history of the company \$61.80, the highest amounts, that's not because we've raised their prices on them, that's because we've earned a deeper relationship with our customers by providing the great experiences and we've done it with real simplicity and transparency, we've taken this confusing category that people have no idea how to shop and made it incredibly simple and approachable with people that are fired up about being approachable and those Un-carrier moves that John talked about, are things that basically systematically addressed what frustrates people about this industry that's been dominated by a duopoly, who's been imposing rules and restrictions and constraints and poor value and forcing customers to make a tradeoff. That with the Un-carrier, they don't have to make, a tradeoff between having low prices and a poor experience or high prices and a better experience. We can offer both, a great value and a great experience. And that's what each of these moves we've made over the past two years now on our eighth one and leading into nine and 10 have really been all about.

As John said, it's built on a set of pillars. The first one we'll talk about number two is a great sales and service experience, and I'll tell you when John came in at the company 2.5 years ago, we embarked upon changing the culture of T-Mobile US in a fairly profound way, and really put in a principle that said the frontline people, the people that worked with our customers, the frontline is first because customers are first.

Now look, in big companies you have plenty of executives that go around like robots and say our people are our most important asset and so on, but look what we've done is we've changed in a radical way the culture of the company, so center of the company around our people that deal with customers to put them in charge.

We often tell ourselves and our people that we can learn everything we need to know to run this company just by talking to the people that talk to customers by listening. These Un-carrier moves people ask us where do you guys come up with these things? You sit around and come up with them on your own, of course, not we talk to our people. They tell us what to do and that's the culture that we put in. We've gone as John said from being consistently in last place in J.D. Powers to consistently first or second, and we believe we've got the people and the culture and the tools with a few more pieces to come together this year in IT to consistently breakaway from the pack and be number one over time.

Now, it's also built not just on sales and service cultural experience, but on a network experience. And I'll tell you, I've been in this industry for a long time since late 2001, early 2002. I've never seen a network transformation like the one that's just been completed and is now underway by our team led by Neville and he is going to tell us more about where we're headed.

Neville R. Ray

Chief Technology Officer & Executive VP, T-Mobile USA, Inc.

Thank you, Mike. Let's jump straight into the slides here. So, say pictures worth a thousand words. This one is worth about a million square miles of LTE coverage in 2015. And the great story in terms of network advancement, as John said, two years ago, we've stood up here on the stage and we had nothing in terms of LTE coverage in the U.S., absolutely nothing. And in two short years, we now have the fastest, and one of the leading LTE propositions in the United States, up against two huge, huge competitors. So, this map is transformational for us.

The map on the right which equates to about 300 million covered people, PoPs as we say, in terms of coverage. That looks also like the Verizon advertising campaign that they put €0.5 billion plus behind every year.

2015 is about leveling the playing field, the T-Mobile US against two huge carriers who have maintained a position of dominance on coverage, well over a decade. That's a remarkable, remarkable year. So, we have a lot of work ahead of us.

The good news is, we're already a 265 plus million covered people. We finished 2014 with that number and we've already advanced that number. We're very close to 270 million right now, 280 million mid-year and then we close on this 300 million PoPs target by the end of the year. But, it's not just about PoPs. That's the important message behind this slide.

Look at the coverage footprint. The U.S. as you guys know is a massive, massive continent. Finally, we have within our reach, within our grasp, I've been working on this network, best part of two decades, we have an opportunity to match the Verizon and AT&T coverage and deliver a truly, truly exceptional customer experience. So, how do we get there. Multiple things are happening and we're reforming spectrum, introducing LTE in two areas, where we only had GSM coverage prior. Now HSPA. Vision for our business is all LTE as soon as we can get that.

So, LTE in our PCS band converting a lot of our old GSM sites that have been GSM for many years to LTE. The second and probably more important piece, how we really advance that last 20 million PoPs major square miles of coverage, as we have low band spectrum. So, we've never had low band spectrum as part of the T-Mobile portfolio.

About a year ago, we closed the transaction with Verizon and we secured some 700 megahertz spectrum, which we are furiously deploying. We're not just deploying the spectrum. We're providing the handsets and the terminals into your customers' hands. And within a couple of quarters, we had deployed major cities as of the end of 2014 and we have major terminals and handsets into customers' hands. Everything that we will do from an LTE perspective in 2015 and on, we'll cover Band 12, the 700 megahertz, A Block.

We're already up and running in major cities D.C., Philly, Dallas, Houston, Cleveland, Minneapolis list goes on. And the great news is, we have a lot of low band spectrum to move into. We will need more, we'll talk about that a little bit later, a big opportunity for us to expand and fill out our low band spectrum reach; but for me, this is the fulfillment of a dream for T-Mobile US and our customers and our employees especially are very, very excited about what we can bring in 2015 with this coverage map.

If I go to the next slide. And I won't spend, I promise as much time on these slides as I did on the first one. Speeds, you heard a lot from the German team around the importance of speed for customers, not only are we the fastest, LTE network in the U.S. we also have the levels latencies. So, think about the acceleration on that car you have. That's what latencies all about, a very, very fast access to the content that you want to see. This is amazing, can you imagine being Verizon and AT&T with their strength and muscle in the U.S. and seeing us exceed and move faster in terms of performance. And this is based on millions of customer data set, this is crowd sourced data. I get a report every morning, with almost 100,000 customer samples every day, that reinforces point that we have the fastest LTE.

Now is game on, right, we love our competition, we love it. That's part of this leadership team. Verizon is chasing us very, very hard. I'm sure this sticks in a crowd every morning, every week, when they see that we have the fastest LTE and we came from nowhere, and they were the first two LTE in the U.S.

Major achievement, how we got there, wideband LTE, we actually now talk about MetroPCS transaction how far ahead we are on the schedule we talked about, not even two years ago. Big, big benefit from that transaction was spectrum. Highly contiguous, common banded spectrum coming across from Metro. We've been able to put down a lot of committed and dedicated spectrum to LTE, we call that Y band LTE 30 MHz or 40 MHz of committed spectrum. Verizon is now getting there, AT&T actually can't get there with contiguous spectrum, we'll talk about Sprint later, but you can see where Sprint is in terms of competitive performance on LTE at this point in time.

Over on the right hand side, we're delivering all those speeds capabilities at a period of phenomenal growth. So, I think, you've heard from other presentations, this industry is finally at sweet spot where the device and their handset and network combination deliver a very fulfilling experience, which is comparable mobile broadband.

Finally, and we've been working on that for a long, long time as an industry, it's there. Customers love what we're doing. They're very excited about what they digest on these phones, we have great terminals, great network, lots of usage. But, we're in a very good position to support that, and I'll talk about that quickly on the next slide.

Lot of data around here I'll try to be brief on the left hand side of this slide, you can see spectrum holdings for customer, so there's optimistic discussion about, while T-Mobile is doing great, how long can they make that happen.

Well, if you look at our spectrum portfolio and that's clearly what's shown here for us in the competition? Our mid-band spectrum portfolio, which is the lion's share of the spectrum we own, is one of the most robust and strongest in the industry, pre-and-post, the recent AWS-3 auctions. And this is where scale is our friend. It's very, very tough for our big competitors with their scale to invest and do the things on the network they need to do to support the LTE performance that we can deliver. So, that's our big opportunity.

I look at where AT&T and Verizon are, old networks built on low band grids, we have the most dense network in the U.S. Combination of Metro and T-Mobile has allowed us to build great density, on top of that lots of LTE spectrum and then the compounding effect is great LTE performance. Our competition can't match that today. The only place that could at Sprint, they have a lot of 2.5 gigahertz spectrum depicted in our white block, there's a lot of uncertainty I think even within the Sprint business about how and when and where to begin to deploy that spectrum.

On the right hand side, why we're all LTE, you can see I think you guys all know the story. LTE is vastly more efficient. LTE Advanced is coming lot of features and capabilities that allow us to push the envelope with a very dense network and an advanced technology.

Last slide from me, we kind of are very proud of being on the front edge of innovation with major players in the U.S. marketplace. We were the first of voice-over-LTE in the U.S., national launch, brave, bold and we're doing very well with that. The first to drive this integration of Wi-Fi calling with voice-over-LTE and who was at the center of all of that, Apple, not some small brand, Apple. And so, we're leading on many, many fronts in the U.S., driving technology advancement first to HD Voice, things that are very important. These are all very customer-centric attributes.

Last one on the list, we're going to continue and you'll see those of you at our Congress next week, or track in the media, you'll see a lot of noise over LTE moving into the unlicensed space.

And Licensed Assisted Access is the LAA acronym there, us driving that very hard, and Verizon is actually doing the same thing, but you will see a lot of talk and discussion about how to take LTE into the unlicensed space in the U.S. marketplace, because of the scarcity of spectrum, lot happening very proud of where we've come

With that, I'll hand to Braxton.

J. Braxton Carter

Chief Financial Officer & Executive Vice President, T-Mobile US, Inc.

Thank you, Neville. It's a pleasure to be here. I am so excited look at the last two years has done, absolutely incredible. The last part of our presentation deals with Lean Cost Structure, which is absolutely critical for the Un-carrier.

Let' start with MetroPCS transaction textbook execution. We now estimate total synergies at \$9 billion to \$10 billion, \$3 billion higher than our original synergy estimate, driven by two things, almost \$1 billion beat on cost to achieve. The other \$2 billion comes from a massive acceleration of the shutdown of the MetroPCS CDMA networks. We're going to hit run rate synergy of over \$1.5 billion in 2016 and what that does from a cash flow profile is absolutely incredible and you'll see that reflected in our the mid-term ambitions.

The cost structure absolutely critical; we took \$1.7 billion out in 2013, \$1.1 billion out in 2014. It was lot easier in 2013. Going forward, cost transformation is a significant part of what we're doing. We're looking at the underlying drivers of cost in the business and systemically tackling those one-by-one to achieve further increases in profitability and cash flow.

Looking at our guidance for 2015; again, the thesis here was turned us into a significant growth platform with a right type of customers coming in, translating into double-digit service revenue increases, which we achieved in the third quarter of last year.

Then a substantial ramp up in adjusted EBITDA, 6% expansion of our EBITDA margins in the fourth quarter, while every other major U.S. carrier had a significant reduction in their margins. When you look at our guidance for 2015, \$2.2 million to \$3.2 million net additions.

Now on 2014, we did \$4.9 million. But, remember we started the year with initial guidance of \$2 million to \$3 million and adjusted that as we performed throughout the year. Adjusted EBITDA at 25% increase at the mid-point of our guidance, a \$6.8 billion to \$7.2 billion, the third leg of the store is coming true. In a cash CapEx profile, \$4.4 billion to \$4.7 billion, slightly up from our investment levels in 2014.

Looking at our mid-term ambition; this is in the update to what we did 2.5 years ago sitting on the stage. And you can see some fairly significant differences. Total revenue 7% to 9% versus a 3% to 5% original estimate. Adjusted EBITDA, 7% to 10%, but remember this is 2012 through 2017, and embedded in these assumptions, there is a much higher growth platform.

We're continuing to invest in growth yet still delivering the type of increases on the CAGR that are very, very impressive and important too creating shareholder value. And our free cash flow, 15% to 20%, now 13% to 18% two factors reflected in there. Again, a much higher growth platform going forward, but also a success based strategy of putting capital to work to drive continued shareholder value.

And our adjusted EBITDA margins 32% to 34%, but remember in a much higher growth scenario. So, we're very, very excited about what this is going to do. And the final point, I'll make with 2015, and the guidance that we've given, the implication here is for the first time in a very long time. T-Mobile US is a net generator of cash; on a fully levered operating free cash flow basis, we will generate substantial cash in 2015 going forward.

With that, we would love to get to Q&A and [ph] Noels (168:05) take it away.

QUESTION AND ANSWER SECTION

Operator: Okay. Great. So, we've about 15 minutes. We'll try to mix-it up a little bit here with questions in the room, and some Twitter question, if we get them, but let's start over here, sorry.

Nick Delfas

Redburn (Europe) Ltd.

Q

Thanks very much. It's Nick Delfas [Redburn]. I just had a question going back in time to the Iliad approach, which I know with a quite justified reason pay too much attention to, but is there anything in their approach on the fact that you have a network, they're still building one in France, but was there something in their approach around IT and how they thought they could save money within your business and simplify IT, that you think is interesting and that you might take up or was it simply just some financial engineering as far as you were concerned?

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

One of you guys want to start – I'll start, I think they were on drugs. Seriously, that I think it was an arrogant statement that they could come into a business as efficiently run as ours and save \$10 billion. I have a lot of respect for what they've done; but I think to a certain extent, it was mildly, it give us a pay forward me.

I think it was a bit of grandstanding to position themselves in France. I don't think they really thought about it. We obviously are open to any approach by any company. I think they would have certainly been interest in them as a financial investor; but to think that, they had some secret sauce that they were going to walk-in and save in by the way a company that is significantly underinvested in IT. So, as the time, especially during the period of kind of that decline for T-Mobile US, we will way underinvested in IT and we're catching up like crazy. So, there is certainly no and there is no secret sauce.

So, interesting approach something we should think about. But, I think, hey, we can figure out how to save \$10 billion, smoke and rope. I think outside of an envelope on the back of the napkin, I don't think, they had a clue as to how they were going to do it. But, I'll try not to be too opinionated. I can save them some money by the way.

Timotheus Höttges

Chairman-Management Board & CEO

A

All right. Let's go to Dominik here.

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

He is here [indiscernible] (170:26).

Q

Sorry, it's not Dominik. It's [indiscernible] (170:35).

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

Hold on. I'm going to just add on the back of that too. Do you really think that DT's knowledge and capability around IT and procurement and the things that they – we really have to stop and remind you who owns us and what their core competences and what happens every time we get together as a board. We've got Bruno and Tim peering down our throat as to things that they believe that we could do more effectively. So, I think that's more of a question is, just Iliad really think that they have more core competence and capability in saving IT and procurement than DT does.

Q

So, just an update maybe on your discussions with the FCC on the incentive option, how is that going in terms of putting in ceiling for the big guys, timing wise what do you expect at this stage?

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

Yeah. I think that's a very big question. So, let's just play take back. So, the AWS-3 auctions culminated recently and if you add Dish to the big and bigger duopolies, they control 93% of the spectrum in the mid-band auctions and it was pretty clear.

As Neville showed in the chart that we have a great portfolio of mid-band spectrum, so we really didn't need much. We spent \$1.77 billion for 151 licenses, fit nicely in. But what Washington is thinking about is a pair of auctions and a series of objectives for the country, one of which was raising a significant amount of capital to fund public safety and \$45 billion was raised against an expectation of about \$12 billion to \$15 billion, so you can check that box off.

What's happening right now is a positioning in Washington by the big guys to delay the auctions, so that they can get a more favorable government regime, possibly a republic administration and reload their pockets from all the money they've just spent. Our position, of course, is supporting Chairman [indiscernible] (172:48), let's get these things on track, let's have them as fast as possible.

And by the way, if you like this competition thing you're seeing, we need a little help, and I know Tim has been public on this and our position is very clear. We're not waving a flag saying, holy shit, if you don't help us, we're going to go out of business, we're going to be a successful business. But if you really want to drive significant competition on a scalable way over time, we need low band spectrum.

I think Washington understands that and the big question will be timing and it will be size of the reserve band available for bidders like ourselves and we're pushing for 50% of that to be in our daily work, but I'm still thinking early 2016, I think the Washington is going to push it. And I think there is so many scenarios that are positive for us, somewhere we get support from Washington and somewhere we don't and you really push the agenda associated with the industry structure in Washington, which will be good for us as well.

Timotheus Höttges

Chairman-Management Board & CEO

A

Okay. Let's take actually one Twitter question. So, we'll go to [indiscernible] (173:54) So, it's I think a question for Neville, basically let me read it, you have fast LTE, where do you stand with VoLTE and RCS?

Neville R. Ray

Chief Technology Officer & Executive VP, T-Mobile USA, Inc.

A

You're real quick, so I mentioned in the presentation voice-over-LTE, first to launch in the U.S. from T-Mobile. I had everybody else and we have a nationwide launch. RCS is Rich Communication Services, just translate the acronyms. And RCS is, if you think about messaging across an IT platform, especially video messaging, the confluence and all of that, something the industry has been working on for a long time. Don't have an immediate announcement for you, but we'll be right there with everybody else if not ahead once the RCS comes into the U.S. marketplace, which will be this year.

Timotheus Höttges

Chairman-Management Board & CEO

A

Okay. Let's come back to the first row, since I overstepped here earlier.

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thanks. It's Paul Marsch from Berenberg. What are your expectations for the big competitors' reaction over the medium-term here? It sounded from your opening comments like you think that they're constrained by the back books and constrained by their culture, but then it also sounds in your pitch to the FCC that you don't actually think you're going to get a free ride. So, what's embedded in your mid-term expectations for the reaction from competitors?

Neville R. Ray

Chief Technology Officer & Executive VP, T-Mobile USA, Inc.

A

First of all, I think, in 2014, you've seen most of what they have to show, right? I mean, these guys are fighting all out, price changes, watching carefully what to do with their base and understand the significant value if they price down their entire base.

And I think this is a conversation again with the benefits of us and DT talking about this. The questions, how does DT respond to competition, what would we do? First of all, the difference with AT&T and Verizon, with all due respect, they're not that good. I mean, they really have spent so long not listening to their customers. What we're doing and [indiscernible] (176:02) we're a small company, we're very visible and transparent and focused and what we care about is an individual customer's ability to get this device and use it in their life.

And we spend – I spend 10 hours a day on twitter and e-mail talking to individual people they can't do it, they won't do it, they're spoiled and they're also – they created this thing that customers hate. So what we've got is we've got a brand now. This is – the biggest evolution in two years is the Un-carrier brand stands for something. It stands for a commitment to customers to cause significant change to the pain points that they hate.

And right now the biggest fear I would have if I was the big guys is their customers survey that we are doing more for them than they are. So what I get is most in my mail, I get mail from AT&T and Verizon customers thanking me for AT&T's changes that made to them. So that's one of the difficulties which is what they do, they are doing towards us. So last piece I would say is, think about AT&T to use a war analogy or so. Their expectation was to generate significant amounts of cash from the wireless business that they would invest internationally as they are in Mexico, other industries like digital security, home security, car of the future. What they're doing now with DIRECTV, and so they are not really focused on their core business. And I think Verizon has a significant debt issue that they're dealing with as well, and their margins are under pressure. I think what you saw in the end of 2014 is they tried it in Q4, it didn't feel good. They both reported margin pressure and earnings misses. And I

would actually expect that the [ph] "Strategy 101" (177:54) will take place in 2015 where they'd rather give a few share points than fight at that level until they figure out what's going to happen.

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Have a second question?

Q

Nils Paellmann

Head of Investor Relations, T-Mobile US

All right, go ahead. One more, Paul.

A

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Yeah. So if you were parachuted into DISH as CEO, what's the best play now?

Q

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

Well, I mean if that happened, I would just assume that whoever made the decision was the smartest person on the planet, I mean, because, come on, give me a break. Listen, I don't shy away from those questions. DISH is a question for the United States industry as to what's going to happen, they have a tremendous spectrum portfolio, they have some capability associated with content and distribution to wireless. And it's a conversation that our shareholders should have, but importantly, from a position of strength. Right now, what DTE has in their portfolio is a company with a brand and a scope and a perspective and a team that can execute, and we will talk to interested parties but only from a standpoint of value for our shareholders. DISH and we, that makes some sense. I mean it makes some sense from a standpoint of integrating that spectrum and capability and deploying it in our network and then looking about how you merge some of the content distribution of mobile devices and their basic customers as well. So, yeah, take a look.

A

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Thank you.

Q

Nils Paellmann

Head of Investor Relations, T-Mobile US

All right, [ph] Tim (179:22), here.

A

Q

Yeah, thanks. A question for John. Just in terms of what are the pain points that you think continue to be an issue for customers or for Mike as well. And then secondly, I'd love to hear more from Neville about why you think it will be so difficult for AT&T and Verizon to follow where you've gone. You've obviously got a great spectrum position now. But what's structurally challenging that means that even though they spend in dollar terms a lot more, it's going to be hard to keep up with you?

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

Let's reverse those and come back and let's just celebrate for two seconds here that you just asked us how AT&T and Verizon might be able to catch-up with our network position. And just every now and then – I was on TV the other day and somebody was telling us, listen, you guys, most people compare you to Amazon and I'm thinking, come on, give me a break, from where we started. That's a beautiful question. But Neville go ahead and then Mike will jump it on.

Neville R. Ray

Chief Technology Officer & Executive VP, T-Mobile USA, Inc.

A

I kind of referenced it briefly in the presentation. It's the site density issues. So if you think about those two big guys and how they built their networks on the low band grid. And now you look at where we are with this consumption and growth in data, you need a much denser cell grid. Mid-band spectrum works very well in major metros to support that type of growth. And we have the most dense network, us and Metro coming together, the other guys are talking about small cells and DAS systems and some of these other terms I throw around, 12,000 DAS nodes with T-Mobile today as we've integrated these networks.

If you go to Manhattan [indiscernible] (180:55) New York, nobody has anything close to the density of network that we have. And so when you combine that density with a lot of spectrum, you can turn off about a great LTE performance. So the big guys have, here they are with a network that was built on a low band grid. They have mid band spectrum, but they have this coverage gap between the cells that they have to fill. So you have macro build, you have small cells, you have a host of things that [ph] they're (181:18) working towards and they have money, but it takes a lot of time to deploy those types of capabilities in the U.S. market. And so they have more spectrum coming to, but AWS-3 that John referenced that's a couple of years away at least before – there is this thing in the U.S. where you pay all this money for spectrum and then you have to clear it. So there are incumbents using that spectrum today and some of them could be on that spectrum for some time. So I look at our spectrum position, the strength we have with the network that's ready for this type of growth. We are in a very good spot and the tough one for the competition to match in the near- to medium-term.

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

Listen, we're going to running out of time. So we'd be brief on this one, but I would say the pain point bucket is almost endless. And jokingly what Mike and I said. So I'll hint to you that in the middle of March, we're going to launch Un-carrier 9. Right? and I can tell you that starting now, the Internet will be full of rumors as to what it is and in that list will be the greatest ideas you could possibly do because it's customers telling you what they want and we may – we move fast enough that what we plan on doing, we might change and use one of those. And I tell you, I challenge people every time we do an Un-carrier move, I can go back to Twitter and point to somebody sitting in a chair alone at their computer telling us what they want and what's most fun about it and it resonates with consumers and business customers coming as well is it's usually right in your face, which just a noise that [indiscernible] (182:57) out of the competition because it's right there, and it's usually a fundamental component of the industry structure that people thought was a component of the way it had to be until somebody completely shifts it. So I think it's a limitless.

G. Michael Sievert

Chief Operating Officer, T-Mobile US, Inc.

A

There is a very sincere sense in our company that we're just getting started – that we are just getting started solving these customer problems. And part of it is the culture that we've got. As John said, we have individual reps

either in care or in retail that feel 100% comfortable skipping five layers of management or however many there are, and going straight to the CEO or to anyone of us with an idea that they got from their customer, and we listen. We've got a system that says that's valuable and to be celebrated, and that's where a lot of these ideas come from, and there is a real sense that the eight things plus two or three more we didn't give numbers to, big bold things we've done that we're just getting started.

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

And lastly, there was a couple of us sitting over here, you're there last night, we were sitting over here talking, and there is a tipping point issue, right. So you've got eight Un-carrier moves that I guarantee you most of you don't know what they are in general. And so what you've got is this real favorable disposition in AT&T and Verizon where each new move, Un-carrier 9 comes, and it sits there, and it's in and of itself interesting and big, but it's enough for somebody to say that's it, I've been waiting to go, I'm going now. And it's an opportunity to resell music freedom, and international data roaming, and anytime upgrade, and what you've seen now is a delay in competitors responding, and when you don't respond to the package of Un-carrier moves that we have, it's like high school algebra. When you screw up chapter one, chapter two is really hard, and that's part of what's going on. And most of the responses that you see from an AT&T is they are very me too, poor imitations trickery intended to feel like it like they did with Data Rollover, that pisses customers off even more, because it's more of the same asterisk. So, I think, we've got an endless set, but then we've got a huge resell of what we've already did – done.

Nils Paellmann

Head of Investor Relations, T-Mobile US

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I think, I'm afraid we have to call it now, you all have – many of you have to catch a flight and – but we'll be at two conferences here in the next two weeks, and so if you have more questions.

John J. Legere

President, Chief Executive Officer & Director, T-Mobile USA, Inc.

A

Nils, I want to finish by thanking the shareholders, and those that follow DT for your patience. Because I know that on behalf of the team in the U.S., this kind of start that we were given again, it was one more, and I know that patience here in Germany and the patience of shareholders for the U.S. to turn out to be something providing value was wearing thin.

And I think the management of DT should get an awful lot of credit for balancing what they have to do with investing in the U.S. and I think, going forward, the contribution of the U.S. to shareholders in a number of ways is going to be very positive. So thanks for your patience.

Nils Paellmann

Head of Investor Relations, T-Mobile US

I think, we have about 15 minutes right now.

MANAGEMENT DISCUSSION SECTION

Thomas Dannenfeldt

Chief Financial Officer

Tim, you now the CEO, you know, CFO, that's me, and you wait and then we go to the stage. Good old times. You want to do it? Okay, come on. Okay, warm welcome again from my side here. Before I get started, I always enjoy the U.S team here being on stage. But I enjoyed as well, to be honest, the German and the [ph] U.S. side (186:53). I'm pretty sure there are a lot of U.S people here in the room as well and what the U.S guys completely missed is to ask those of you who are coming from the U.S who are still not on T-Mobile, that you have the opportunity in the next break to change that. So whomever here in that room missed it so far, think about the roaming stuff, you can have a chance afterwards again.

So, what I'm going to do with the last presentation [indiscernible] (187:22) 30 minutes and then Tim, Stephan, and myself will take your question and have a Q&A with you. What I'd like to do is in the next 30 minutes to summarize what you have heard during the course of the last, basically 24 hours, and do it in a very condensed way, we've talked about general trends in telco about the challenges, what we want to do, how we want to differentiate, et cetera, et cetera. And I'd try to bring that all together in a comprehensive way that you also get the financials and clear that you – have a clear view on what – how you can track us on our earnings calls quarter-by-quarter and that we're talking the same language.

So let me start with the key message, the key message is not showing up, this is not working guys, so you need to click somehow. There is nothing I have on my – okay, so you take care here, and I go on. The key message is basically – here we go. Okay. So, first number one, DT is leading European telco. I think Tim was clear on that one. Our perspective how that company should evolve and how a successful operator in the European landscape by the end of the decade should look like to secure superior margin is an integrated player having control of fixed line and mobile, being number one in B2B and B2C, it's not only consumer game, it's always important to have B2B successful in the game as well, and clearly have integrated in a way that we can play the strength of that superior production model.

Second, clear message differentiation, it is of utmost importance that we get that differentiation done. And they are two areas of differentiation, one is network experience and quality and the other one is customer experience. It is not like, in the past, being the best and the number one in video portals, music portals and so on, [ph] we go on to why a partnering (189:29) choose the best players, the best owners of those categories, but we concentrate on network experience and customer experience.

Number three, during the course of the next years, we will faster than all the other big European players, transform and change our production model in a way that we come to a highly agile and lean IP production. And I mentioned yesterday, and I think Claudia did it as well, linked to that we have upsides like €1.2 billion of reduce of OpEx in the steady state, but also tons and lots of upsides looking at the customer experience.

Number four, we will fund that transformation during the next years, while we have investments to do, by rigorous and disciplined cost management, and you will see at least a minus €1.8 billion indirect cost reduction, and I'll come back to that in a minute. That's number four. Number five, and that's very important again, we will grow in all relevant financial KPIs during that transformation. So, we're talking about the revenue, the EBITDA, the free cash flow, and the ROCE here. And for us it's clear that you, as a shareholders, you will participate with

the growth of dividend following the free cash flow growth and our prudent debt policy remains unchanged. So that's basically the key messages.

For the sake of time knowing that you're keen on Q&A and not so much on review 2013, 2014, I will skip that one just reminding you that the total shareholder return during last – since the last Capital Market Days was 108%, that we delivered on our dividend promises we've laid and that we've still a safe haven for the debt investor side if you look at the ranking on the left-hand side on rating wise or if you look at the CDS, five-year CDS, you see this is where we should be and this is where we are. So, still being a safe haven here for the debt investors.

So let me come then to the financial strategy and repeat and bring that as I said all together that you get the numbers right. And let me, the framework I'm going to use to tell you again is the one you know, it's the financial strategy. Three key elements in the middle part, the strategy of the company with the value creation ROCE above WACC, you see on the left hand side being reliable to shareholders and have an hopefully an attractive remuneration policy and on the debt side undisputed access to debt capital markets.

On the debt side, nothing has changed, though I keep that very short. In the mid-part, some topics have changed since the last Capital Market Days. Just to remember you, one is infrastructure transformation, we talked about that a lot yesterday and I summarize it in a minute. The second one is cost transformation, same holds true here.

On portfolio management, I will not repeat anything, I'm pretty sure you have enough for the Q&A in that area. And a few words on risk management, this is not new in the middle section. And on the equity side, as you've seen it during the course of yesterday, already our dividend policy, the dividend following the free cash flow growth with a minimum flow of €0.50 per share.

Okay. So let's go a little bit through those topics and items, what you have seen and what you should remember. I start with the middle block with the value creation ROCE above WACC and I start with the infrastructure transform – no, I start first of all – sorry – with the summary. On the value creation side, obviously, ROCE above WACC, you see in 2014 a 4% ROCE excluding the Scout transaction and a 5.5% including the Scout transaction, that's the way you should read it. Just to remind you, 2013 was a 3.8%. So, a slight increase here on the ROCE without the transaction and obviously a huge one including the transaction.

So ROCE will be above WACC. How will that happen? Very simple, we see the revenue growth in the CAGR of 1% to 2%, the EBITDA 2% to 4%. We see, in parallel, a cash CapEx increase with the CAGR of 1% to 2% across the group and I'll give you split in a minute to make you aware how that should play out across the segments and the special factors I touched on yesterday upon when I talked about restructuring and how that will take place. So 2103 higher level, 2014 lower level, 2015 higher, 2016 lower, 2017 a little bit higher, and then 2018 lower again, that was that kind of profile I mentioned.

Okay. So, as I said, first element is infrastructure transformation. Infrastructure transformation and was on the slide before shown that the CAGR should be 1% to 2% or is in our planning 1% to 2% on the cash CapEx side across the group. So we are not planning for free cash flow growth by reducing CapEx, we are trying to make that free cash flow planning robust by continuously increasing the CapEx, because we know – I'll give you an example, for instance in Germany, Bruno talked about that. In 2017 and 2018 [ph] or probably (195:17) 2016, 2017, and 2018 for instance, we will put Supervectoring in place, that will again consume some CapEx. There is 5G coming up and so on and so on. So, the idea here is not to have those kinds of profiles and then two years later we have to increase it again, but to put the money already in to be assured that we have the right level.

On the German side, it's very important that you understand that we have compared to last Capital Market Days, if you compare it in old – as Stephan always says "Bible" of the capital market is 2012. There is a CapEx profile in

Germany. And if you look into it, you will see – I think it's €4.2 billion, €4.3 billion, for instance, of CapEx in Germany in 2015. Now it's like €3.8 billion, €3.9 billion and you might say, okay, they have changed it. It is important to understand. We have changed the input. We haven't changed the output. It's the other way around. It's contradictory. We have put more output in there. So we deliver more than we have announced in 2012, but we do it with less CapEx because we have found clever ways how to manage that.

Nevertheless, in Germany, you will see a CAGR of roughly 1% during the next four years, in the U.S. that's 4% – obviously especially in the U.S. that's very much dependent on what kind of growth level we see in the next years. So we have a planning and the planning assumes growth level, it assumes revenues, it assumes EBITDA, and it assumes CapEx, but as you know, there is always a higher dependency in the U.S. than in the other – all the other countries on the CapEx level. What we've done is a CAGR – if we put in a CAGR of 4%, we think that's appropriate. And we see a slight increase in 2015, the U.S. team has guided to 4.4% to 4.7% that is what is reflected in here.

And in Europe, you will see a slight increase now in 2015 and you will see but roughly at the same level in 2018 again. So that's the CapEx profile you should expect more or less across the group. And obviously a part of that CapEx profile is also to make that change here in that superior production model happen and assure that we can get the €1.2 billion of OpEx out of the structure in a steady state again from early 20s onwards.

I don't go there anymore because you've heard a lot about that. What is of more importance to me was – I want to spend a few more minutes, is on the cost side, because after my presentation yesterday, I got the feedback, ah, we're not pretty sure how to deal now with the €1.8 billion you mentioned and the direct costs and the €1.2 billion. So I'd try to repeat it again to make sure that there is absolutely no misunderstanding in the room.

The intention and the thought process is this one. We need to get – and that's our ambition – we need to get the indirect share of our OpEx down and well that's obviously the direct share up. The intention is you see it from the beginning of this decade to 10 years later to move from two-thirds of indirect costs of non – of those costs who are not linked to the revenue to move it down to 50%.

And there are two phases basically taking place. The one phase is between 2014 and 2018. That's the phase where we're talking about the minus €1.8 billion, and I'll come back to that in a minute again. And there is a second phase after 2019 we will not stop with cost reduction. I can tell you, in this company, we will never stop, that's what I'm telling the employees after they have asked me several times, when will it end? And I said, it's easy to remember, never. It will not end. As long as we are here, it will not end.

So it is not like we're doing something till 2018 and then it's done. No, we're doing something till 2018, that's the €1.8 billion – I will talk about in a minute again. And then we will again do something additionally to reduce the cost from 2019 onwards. And part of that cost reduction is the €1.2 billion you've seen from the production model.

So let me go to the €1.8 billion again, explain it again and then jump back and clarify finally hopefully. If you look at left-hand side, adjusted OpEx, there is, that's the adjusted OpEx part, we exclude the grey part being the U.S. for the reasons you know, and just concentrate on the magenta part. And what we've done here is, we're looking at the OpEx before capitalization, because what I want to do is look at, in the first instance, I don't care whether the costs being capitalized or not. In first instance I care that they are there, that we need to manage them. So that's the way we look at it, and that's what you see on the left hand side. And you see the €29.7 billion and I just want to do some math with you to make it crystal clear how it works.

Let's assume we have a CAGR in the direct cost – or a CAGR in the direct cost of 1.5%, so in the mid-range of 1% to 2%, you see the 1% to 2% let's take the 1.5% as an example mid-range. So we have revenue growth ex-U.S. and with that revenue growth you see some direct cost growth like 1.5% just for the math.

In four years' time, that was sum up to €600 million. So 1.5 times €10.4 billion times four years, you end up with €11 billion of adjusted direct cost as an example here.

In parallel, you will see a reduction of the indirect cost from €19.3 billion down to €17.5 billion. So in that case if you sum it up all together you end up with €28.5 billion. So you would have a net OpEx reduction, indirect and direct in total of €1.2 billion as an example while revenue is growing, that's the way you should look at it, that's the way you should calculate it and that's what you can expect for 2014 till 2018 in our reported figures. So hopefully now it's crystal clear that's the way you should take it and this part is exactly what's taking place in the framework here and that or in that frame here 2014 to 2018 and again afterwards it will not stop. [ph] What's the U.S. guy said (201:52), it will never stop and that's true here as well.

Okay. So that's the way you should take the message on the cost. And as a consequence, obviously, you will see impact and that's more for your information and for your notice, you will see the impact on the EBITDA margin, EBIT margin, maybe a few words on the differentiation because they're flat. Some of you might have assumed so far that they grow, because we invest more so as a basic reaction you would expect that they grow as well, but we have especially from the European segment some counter-effect, so you should expect them to stay more or less – not more or less to stay flat. And the EPS, as a consequence of that, will also then grow as you see towards the €1 in 2018.

Okay. So, that was on the second part on the cost management. As I said, I skipped the portfolio management and go again for a few minutes on the risk management. We've spoken already about OTE and also a little bit about the U.S., but I want to give you the complete picture. I'm not sure whether you are aware about that picture. Tim has shown that in his old role three years ago with that green, green-yellow, yellow, yellow-red, red, categories of economies in where we're operating in. So, to indicate what kind of environment we're indicating in and basically what you see is if you take, first of all, the left-hand side and you see the sum of the parts share being in green and green and yellow, that has improved from 85%, it was already high three years ago, but it has further improved to 91%.

So, those part of our operations in terms of value we're having existing in areas where we have green and green and yellow, economy risk situation, they have improved by 6%. And on the other hand on the critical part, on the right-hand side, on the red ones, you seen they have – they've moved on from and declined from 15% to 3%. So, again a message, Tim, yesterday said, we're lucky because somehow also because we are in a German stable environment, that is not only German stable environment, you see here that is a complete a 90% – more than 90% being in very stable and good environment. So, I think that's also important to understand and about T-Mobile and OTE, I think we've talked that through already.

On the risk management, another element I want to take talk you through is because I continuously got questions around it, is about the pension payout and the pension funding. I think especially because of there was always a focused point on the BT side when they have the pension funding and everybody was looking at what are the others doing in pension funding. So, let me show you here for BT left-hand side. This is for our German – where it's most relevant, German footprint. You see the payout for pensions between 2015 and 2025 and the two colors indicate the civil servants part and the pension plans.

The good news is for us and then also for you is that on the civil servants side there is absolutely no volatility, that is something I can calculate exactly, because the amount I have to pay is fixed. The number of people are well-

known, because there is no new inflow, there's just [indiscernible] (205:28) outflow of the population here. And as I have no new hires, the contribution is fixed, I do exactly know the population and when the population will leave. So, that is something I can calculate exactly and there is zero volatility on that one.

So, the basic message to you is on the left hand side is on pension payout, because that was one of the debates we had internally as well, talking about how robust is our free cash flow guidance we've given. Obviously, we had to look into that and, again, I want to reassure you here on the pensions payout, we will see a slight decline or more or less the same level, it's a little bit lower, but basically at the same level. So that's the left hand side.

Then on the middle part, there are two – on the middle part, two elements. One is the defined benefit obligations, the grey-ish, the grey one and also our planned assets you see here. Our plan was and that was something we have announced also I think two years or three years ago to do a funding ratio up to 50%, that was based on roughly a discount rate of 3%, 3.5%, we are now at 23% and you see we are moving forward into the 2020. Obviously that depends whether we match 50% or whether we have 45% or 55% that depends on the discount rate. I think the most important element for you is other than for instance BT, our funding is completely and entirely voluntary. There is no obligation to us in any way to do that, what we want to do is do that funding that is why we have announced it. That is the share of roughly [ph] €250 million (207:04) per year we take and put in there, that is what we have done in the last years as well. That is after free cash flow, so the way we deal with free cash flow is there is free cash flow and then there is money we take for a pension funding on one hand and spectrum on the other hand, so it's after free cash flow. But you should know that is the situation we're having. Then on the grey part, what happened is, as you all know, discounts rate declined strongly during the course of 2014 from 2013 – end of 2013 to end of 2014, we moved from 3.3% to 1.9% of discount rate.

And with that, as you see here, the DBO went from [ph] minus €9 billion to minus €10.9 billion (207:50). So, basically the deficit increased here. And on the right hand side, you see the sensitivity is more or less only on the discount rate. So all the other elements are not really of relevance in terms of sensitivity, it is about the discount rate. I think what you should know is we're doing that whole exercise very conservatively. So the discount rate you see in the [ph] docs (208:18) as an example, are between 1.9%, that's the lowest, to 2.5%, 2.6%, that's the highest. And you remember ours is 1.9%. So we're in a very conservative way here to deal with that discount rate. So I think that's what you should know. The basic message is on the pension payouts, slight decline you see it on the left-hand side and funding voluntary what you see in the middle.

Okay, that's it basically on the risk side. Then moving from the, middle part, value creation to equity. I think Tim mentioned that yesterday, 6 years, 7 years, 8 years ago – and I can tell you, I'm with the company's since 23 years, it's not so long ago that most of the people have not been incentivized along the line what matters to shareholders and basically that has changed in the course of, yeah, you can say that was the time when Tim was the CFO, he was heavily pushing forward to that, that we aligned short-term incentives, long-term incentives in the way that it's very much aligned with the interest and with the – with the shareholders' interest and that we put shares in as much as we can. So just to cut the story short, on the short-term incentives, for instance, we have the group free cash flow in there. We don't have adjusted EBITDA any more in there, but we have other restructuring costs as well in there, so that the operational people take care about restructuring as well, because it's a huge element of our equations here.

On the long-term, it's ROCE, adjusted EPS, it's 50% of our incentives, the other one as you see in the grey part of the circle here is customer and employee satisfaction and on the left-hand side, the third one, the share price and we have share matching plans now and it's not anymore a few tens or low-hundreds of people having that on – but as Tim mentioned yesterday, it's now thousands of executives and leaders having that in that company and I think it's good to have that because you feel that this better alignment between shareholder interest and the leadership team that changes the behavior in the right direction as well.

So that's one element on the equity side. The other one is the message you hopefully got already right that is our guidance for the free cash flow. Next four years is a CAGR of 10% and the dividends following the free cash flow growth. So as an example – because I got the question yesterday [indiscernible] (211:00) several times, as an example, if 2015, let's assume, the free cash flow grows by 4% or 5%, then our intention is to let the dividend grow at the same rate. And what we're saying also is we put a minimum flow of €0.50 in there to show everybody that, so to say, there is a minimum level but we want that our shareholders participate on the free cash flow growth.

Okay. So that's equity side. On the debt side, left hand side – upper left hand side, nothing new but sometimes to be remembered and reminded – I'd like to remind you, undisputed excess to debt capital market is of importance to us, that's why we're continuously in dialogues also with the rating agencies, we listen to them. We're also trying to make sure that they feel comfortable with our ratios as well. We are in our comfort zones and you see on the upper right hand side along the timeline from 2014, 2015, 2016, 2017, how that should evolve. On the left hand – lower left hand side, the maturity profile you see we're in a pretty good shape here and I think the rest speaks for itself.

So in a nutshell, what are we talking about? We're talking about growing revenues, growing EBITDA, growing free cash flow, but also growing cash CapEx, which I think is good news that you invest more and you got more out of it. That's good. The special factors I mentioned several times you should be comfortable now with them D&A as well with a slight increase by more investment compensated by some elements from, especially from the [ph] EU (212:49) segment obviously tax then increasing while the adjusted net income will also increase. Well, the consequence that we have ROCE above the WACC, and with the consequence that we will make sure that the dividends follow the free cash flow growth or the floor you know.

Okay. So let me again finally show you our guidance for 2015 and, as you know, at this time with two dollars exchange rates in the middle, the one who makes it easy to compare to 2014 as it is the exchange rate – the average exchange rate we had in 2014 and we guide towards the growth and revenue around €18.3 billion of EBITDA – of adjusted EBITDA and around €4.3 billion of free cash flow. And then to make it easier to you to reflect it to the current situation in terms of the exchange rate we have [ph] €1.13 (213:53) as example here, again the growth in the revenue on the adjusted €1 billion more, meaning around €19.3 billion and the free cash flow around €4.3 billion. Again here because I got several questions, the message is not that the impact of the U.S. and the free cash flow is zero. That was a shortcut some of you took already, but it doesn't mean that the share in there is so small that the delta in the exchange rate doesn't change the €4.3 billion to a higher number. And that's obviously driven by high interests we're having from the U.S. due to self-funding strategy.

Okay, and then the mid-term ambition level again and afterwards we will jump right into Q&A with Tim and Stephan. Group revenues 1% to 2%, EBITDA 2% to 4%, free cash flow, CAGR – CAGR is around 10%, the adjusted EPS around €1 in 2018, the ROCE then above the WACC, we will earn our cost of capital, the cash CapEx continuously growing with a CAGR of 1% to 2%. The decrease ex-U.S. in the adjusted OpEx with the math I've given you a minute ago, and the dividend policy – dividends following the free cash flow growth and at least a floor of €0.50 per year.

Okay, having said this, I'm done and now I think it's time for your questions.

QUESTION AND ANSWER SECTION

Stephan Eger

Senior Vice President & Head-Investor Relations

A

So, well, I think we've got well about half an hour for Q&A. So that's well done. And I [audio gap] (215:49 – 216:05) from the online channel or Twitter, we will be tackling that as well, and we start with the gentleman here on the left hand side with the blue shirt. No, yes.

John M. Davies

Banco Santander SA (London Branch)

Q

All right. It's John Davies from Santander. I've got a question, I think for Tim after yesterday's talk, you were very effusive when you were talking about Facebook and the kind of differential regulation that you see, not just Facebook, but companies along those lines, and I'm thinking if you talk to your customers that buy Internet access from you and ask them, what motivate you to want Internet access, is it not the case that a lot of them are saying that that's the reason that they are coming to you. So companies like Facebook, like YouTube and so forth, and in fact if they weren't there, then there would be much less of a motivation to take the service.

So realistically, what can you get the regulators to do for you, given the position of Facebook having an ARPU of €2 per quarter or €3 per quarter, [indiscernible] (217:04) making effectively not much money and so on and so forth. Yes I can see the point about security and privacy of data, and that's completely [indiscernible] (217:12), what concrete financial measures would you like to see? Thanks.

A

Look the first thing, by the way yesterday, the Association of Consumers in Germany, they filed a claim against Facebook because they said it is not accepted in the terms and conditions of Facebook, which got changed in January, that customers are not getting asked what's happening to their data. And by the way this is the tendency in the market here in Europe and especially in German environment, and by the way this is same as happening to Google. There was a press release this morning that the EU is investigating on the [ph] Right of Forgiveness (217:58) is not executed from these companies as decided from the European legal court.

So, therefore there is a tendency and exactly in this turf, we are playing. We are playing on security. We are playing on open platforms, not closed platforms, but we know about the strength of the network effect of this kind of infrastructures. That said, for me these are all monopolies and by the way huge monopolies, closed shops, closed standards, closed networks where we do not have [indiscernible] (218:33). So, it's an issue for the antitrust side and if you heard maybe our head of the antitrust authority in Germany, who said, I'm investigating on that one, if 98% or 96% of all searches are starting with Google, this is something which is worrying, what is happening to the data, what does that mean and the same applies for Facebook and some others.

Now, I think our answer is very simple on that one. First, we have to convince that trust within Deutsche Telekom is a value for consumers. Second, I think we are fighting with the companies that we get a contribution, if they are creating communication service on our infrastructure, they should pay for it. So, we are negotiating with these guys and we have some areas where we make some progress in this regard.

Thirdly, I think even letting the customers show the content which we are offering and not only the content which are offered from these services, like content injection, on the screen, is something which we are working on. And last but not least, it's a long shot to get a change in regulation in the European Commission. Why is that? Because the service – the answer from the commission is I get is always why should I regulate the services for free. I'm not regulating something which is for free. And then I'm also saying, hi guys this is not something they pay in money, it is something people are paying in data and most of the consumers, they do not know how valuable their data is.

So, therefore there should be a change otherwise how could you justify the huge equity values this company is selling. So, I think – so, my intention is that we are not getting disadvantage even more in the environment of European and German regulation, while second topic is that we should have a converged environment, a level playing field, which is a long shot from a regulatory perspective or if they do not regulate them, that they get us out of regulation in certain areas, so, that we have the same right.

And the last and long – I think, the most important piece is – and by the way this is, I'm a committed European, I'm committed with the legacy of European citizens that I think, we have another right to our personal data, then this might be the case in China or in the U.S. And therefore the data protection law is definitely something where we are intensively working with the [ph] Ministry of Ontario (221:04) and even the [ph] Brussels Authority (221:05) to get a legislation which is clearly defining all data belongs to the people, living in the countries, living into Europe and what are their rights and the real world should be even the rights into digital world and the big companies from the U.S., they have to apply to these rules, so they should have [indiscernible] (221:28) their operations, their data analytics, their monetization on this one, based here on Europe, otherwise in data centers in Europe and not outside of the market anymore.

A

Could you just pass on the mike to Fred Boulan, but, Fred, just stay tuned for a second because we will feed in a question from Twitter which actually comes from [indiscernible] (221:50). Thanks for that. And it is on the net neutrality development and the FCC announcement yesterday and what basically our view on that is? Tim, do you want to tackle that as well?

A

I could take that as well, I read that this morning. And, look, I do not know all the details of this decision. We always said nobody is against net neutrality, don't take me wrong, we are pro net neutrality. Every content should delivered, everything should be transferred in a proper manner, through our networks at anytime, there is no question about that. The question which we have here, is the quality classes, which we need for certain services. And therefore, I'm not sure whether this is totally now excluded from the regulation which wasn't post by the FCC yesterday, but it sounds like it.

Honestly speaking, I think this would be wrong, especially for the industrialized environment, which we're having here in Europe and especially in Germany. A lot of services need, let's say, always a quality of service which is higher, whether my SMS get transferred in a second, doesn't matter. But if I have a call, communicating self steered in millisecond, which is the requirement to make it secure, I think this matters.

So, therefore I think we have to convince the political environment, that for certain services, we should have let's say this kind of extra speed or extra classes because otherwise think about it. If the common denominator is one millisecond, we should have to build for everything one millisecond. For SMS services, for whatever you think, even for video or whatsoever, there is no disadvantage nor an advantage for the consumer. So, therefore I think, in

practical life, in the world of Internet of Things, we will anyhow see that there are certain quality classes coming, but wait for the decision which is coming from the European Commission throughout the year and then we will see how they decide upon.

A

Thanks, and, Fred?

Frederic Boulan

Bank of America Merrill Lynch

Q

It's Fred Boulan from Bank of America Merrill Lynch, two questions, please. Firstly, on your dividends, if you can explain the rationale of the [indiscernible] (224:26) dividend is something your shareholders are asking you, a lot of people are telling me or thinking that they look partly in favor of diluting your base? And secondly, on the U.S. where is the line in incentive you're holding [indiscernible] (224:43) the incentive option next year and comes to the market with some equity again, is there a level of ownership you will protect to maintain your controlled premium in the long-run? Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

So, I think I am going to start on the scrip dividend. I have the pleasure before, I really started, Stephan took me to several meetings with [indiscernible] (225:06) and we also had – I asked the question what do you think about the scrip dividend and the message was very clear. I like it and I hate it and I got both. And you know the last time, what you've seen is an acceptance rate close to 50% of it. You've seen people choosing it, earning – having a higher [indiscernible] (225:26) investment in other industries et cetera, et cetera. So there was from my point of view before I started no clear message both yes or no that was one element I think to mention. The second element I continuously get the question, is it part of your plan, do you need to do it because you need the cash or whatever, just to make it clear to each and every one here in the room, when I do my planning I don't plan based on M&A speculation, I don't plan based on scrip dividend. I do a plan which assumes a dividend, I do a plan which assumes that the setup we're having right now in the group is the setup till 2018. And then we look at it especially at the scrip dividend, Frederic. We look at it from opportunistic point of view whether we think that the no's and the yes' are in balance or in favor for it and then we decide, that's the way we're going to do it.

Frederic Boulan

Bank of America Merrill Lynch

Q

On the U.S.?

A

By the way, I have to exchange everything into a dividend and kind and I was so happy about it from the money I made for 2014. With regard to the U.S., where is the line in the sand. Look, the first thing, the thing that came across, we have a recipe for the U.S. market when it comes to further growth. And by the way, when I talk about growth, I'm not talking about custom growth only; we're now talking about EBITDA and free cash flow growth through a very significant way. And the commitment what you got from the team, which showed up here I think was very, very clear and they understand that trust is a value of our shareholders here and therefore delivering on this is very, very important. Now, that said, we have a very good standalone position for the next years, that's definitely the case. You saw our mid-band spectrum position. You see the utilization of that network which is low,

which gives us the highest speed. We have a differentiator in the market and carrier proposition with a lot of new ideas we have around the customer perception. We have a team which is really disruptive in its approach and self-confident on the success they made and all of this gives us a lot of confidence that this team is going to be able to create even more value throughout the next years on a [indiscernible] (227:49).

But, nevertheless, you all know that, that it's never white and black, it is always gray reality and the traders we have to consider are, this market is still totally bifurcated. The second topic is, we have seen in the mid-band spectrum auctions the deep pockets of the big guys, coming along and spending huge amounts of money. The third one is, we hear signals from the FCC with regard to reserved spectrum for the low band auction. But I think the market environment should even also consider that even the smaller players have a right to play and have the opportunity to survive.

We even know that with the market share of 12%, we are considering the return on investment which we have in mind. We should even improve the return on capital employed or the [ph] delta EDA (228:48) over the next years in this environment. And therefore – and last but not least is and John made that clear as well, he understands pretty well that with all the transformation we're doing in Europe and Germany, with all the CapEx we're considering to strengthen our differentiation position here in Europe, they have to be in the position to self-fund their business in the U.S.

That said, is there a line in the sand with regard to shareholdings and I think you're talking about the bonds and other things, definitely yes. Why should I ever consider giving up the controlled premium of that business, you know all, this is a lot of money and worth a lot of money. But we always said, if we could create something which is bigger, which gives us the opportunity to even more challenge the big guys in this market from a utilization perspective, from a spectrum position, from a synergy perspective, we are willing to consider it, as we did with MetroPCS, as we did with the IPO. And this is I think in your interest and this is even in our interest, it's a value creation story and we should question that for the U.S. And therefore even if you might think that [indiscernible] (230:05), but we were intrigued by the idea to merge with Sprint which weren't allowed from the FCC due to the synergies, due to the spectrum synergies but even you know the cost synergies, but we will always consider even opportunities outside of the organic business.

A

Well, thanks, Tim. I think we'll stay for a second in the left hand side and move on to Mathieu Robilliard in the very first row please and then we move backwards to the right.

Mathieu Robilliard
Barclays Capital Securities Ltd.

Q

Thank you. Mathieu Robilliard from Barclays. Two questions please. First on regulation, you touched a bit on net neutrality and data privacy. Are there other agendas for you and what do you think is realistic to be expected from the European Commission in next few years in terms of favorable or unfavorable regulation for your sector?

And second question with regards to the U.K., two questions there. First, why did you decide to take such a large stake in BT instead of cash as one of your partner [indiscernible] (231:11) and generally is the U.K. part of your footprint?

A

So, look, from the – and you know that, I made that clear yesterday and I hope you understand that our regulation policy is driven by how could we improve the investment sentiment for telcos. It's not just loving for the telecoms even loving for the entire industry in this regard because I think what customers need, what the society need is bandwidth, they need good networks, they need good infrastructure, whatever they need. We have to fight back to get our digital serenity back in Europe. And that means, apart from the infrastructure investments, even level playing fields. Now, you always have to see what's realistic and what could be from a practical perspective be done. What I am expecting is that this year, we're going to see the single market package getting verified from the European Commission.

In this package, I see three points; first, roaming. Roaming Like at Home with reasonable conditions. Honestly, I think that's a good thing. If you believe in Europe, what we do as a leading European telco, no roaming needed.

So therefore Roaming Like at Home, it's a consequence. But if we define European markets, if we find markets without roaming then we should even adapt or even change the way how we are looking on the European market, then we should not have an antitrust regulation, which is based on 28 markets.

We should not have, let's say, every regulation taking place in the local markets, then we should not intend to have three of – at least three market players in the mobile place even if the market is very, very small or that we are not able to do reasonable consolidation in the environment we operate in.

The second part is the frequency policy. Frequency policy should not be used to fund governmental issues. It should be used to build out infrastructure in the country side. By the way, Germany did that and that is the proof of the concept. Their intention to sell the LTE band in 2012 was absolutely right, because first we built the rural areas and then we went into the dense areas; that was the obligation.

And now we have a much better LTE coverage outside of the cities than ever before. So frequency policy and alignment of frequency policy is very critical for us. By the way, I expect this is indeed for [indiscernible] (233:59) which is getting approved this year. The third one which I hope to see in this paper is a clear position on net neutrality, and the discussion which we had on quality classes.

So, therefore, there are some good recommendations being discussed in facilities. I think maybe this is happening after summer or around summer at least that is what we hear. Is that enough? No. I think immediately thereafter we need a kind of second step. We're just going towards over-the-top level playing field, and the definition what is the market. So we need to kind of comment a definition about what is a telecommunication? What is an over-the-top? What is a service which should either be regulated or what should be out of the regulation. And the second thing what we even in is I think a more relaxed position on the regulation for the former incumbents especially on the fixed line side. On the mobile side, I do not see so many changes within the fixed line side. These are the two topics which we bring up to the agenda.

On top of that, by the end of the year, expecting the European data protection law, which is under heavy discussion behind the doors. So, even there, I think we're going to see something, hopefully an improvement. On Germany, only to mention that I think the spectrum auction's very clear, straightforward. I think the big discussion which is interesting for us is do we get the allowance for building out the vectoring. Here in Germany around the – to simplify it, around the switch houses where I believe it's a good opportunity for the market, but even for our competitors because it's not that we are trying to monopolize our infrastructure, we will offer bitstream access even in these areas for the competitors.

So this is a big discussion and at the beginning of the week, we officially applied for this vectoring rule here at [indiscernible] (236:12). Much here, and on the BT side very short answer, first of all, we firmly and strongly

believe that there's more in than what has been announced so far. We have experienced from the German environment, from other environments where we've seen, if you do those kinds of mergers and activities in a good and appropriate manner, you create tons of upside in synergies and we believe there's more in and we want to participate, by the way we are not alone.

While Tim was talking, I looked at the share price of BT, it's £4.54. And when we struck the deal, it was £4.11. So, we're not alone in that view I think.

A

Let me spend some – one sentence on BT because that's of interest why are you going to 12% shareholding in this company what that's about. And it's an upside as Thomas said, but, we didn't start the discussion with BT on selling our business.

We started the discussion with BT talking about international businesses and local loops and how this business could work [indiscernible] (237:24) basis. We had the debate about vectoring, about G.fast, about super vectoring and the standardization of these features towards the industry.

We had a discussion about buy in and the opportunities to leverage in a global business, scale, even better with these guys.

We had a discussion about the opportunities of MagentaEINS and fixed/mobile convergence in a market where we believe it's a superior business model.

We had a discussion about the European regulatory environment and how we could align our process to do the right thing for consumers. And I could tell you the discussion I had with Gavin or Tony, Thomas and [indiscernible] (238:03) and all the guys, whenever we were together, we were 100% aligned in our thinking. It was more that we said, look, guys, there's so much we could gain over time, a basis where we could build something upon, these guys are great managers, very pragmatic, straightforward in their approaches and then we started saying, okay, now let's create something big. Because that is exactly what we're doing here in Europe, in Germany and in other markets with the fixed/mobile convergence and the opportunities, even the synergies and the value which we could create out of that, and here we are. I think there is a lot of opportunity for all of us to come and you see even with the BT share price that this is already appreciated.

A

Right. Let's move on to the right hand side and we start with Tim Boddy from Goldman Sachs.

Tim D. Boddy
Goldman Sachs International

Q

Yes, thanks. I wanted to ask a question asked yesterday about synergy opportunity from cross-border M&A on the basis of the initiatives you've been laying out. I mean do you think there's a material OpEx saving in addition to potential revenue synergy from this strategy you've built? And secondly, I wanted just to ask a more mundane question in terms of just about cash tax and cash restructuring, these are both very big moving parts in your free cash flow guidance, and currently you pay very little cash tax and a lot of restructuring. How do you see those phasing out to 2018?

Thomas Dannenfeldt
Chief Financial Officer

A

So two questions, first question was on – I think Claudia mentioned roughly that €500 billion (sic) [€500 million] (239:41) ticket on the European side in a steady state, and you should calculate roughly 1/3 out of that cross-border, that's the right level more or less. That's number one question. The second question was cash restructuring and cash taxes. As I said, what you should do is you should calculate on the tech side, roughly 1/3 of the annual adjusted income at a tech level, and obviously what will take place is, and obviously what will take place is the tax loss carryforwards, we have in, will disappear so to say from 2017 onwards I think in all the geographies, so not only in the U.S., but also in the non-U.S. geography. So, that will have an impact here. And, I think, number three is the [indiscernible] (240:42) I have given you for the peak in 2015, [indiscernible] (240:46) peak in 2015, and the rest, I think, was in the documentation about the level you will see in 2016 onwards is like 2014, 2016 like 2014 more or less.

Tim D. Boddy
Goldman Sachs International

Q

Just a very quick follow-up, if I may.

A

Okay, quickly.

Tim D. Boddy
Goldman Sachs International

Q

Very quick follow-up. When you think about those cross-border savings, could you try and quantify those as a portion of OpEx because obviously €200 million is across quite a big base of companies?

Thomas Dannenfeldt
Chief Financial Officer

A

Yes. Most of that – so Claudia said roughly €500 million of that €1.2 billion, there was €500 million from Europe and from that €500 million, if you look at the European part, 1/3 roughly is something €150 million is coming from cross-border synergies mainly OpEx.

A

Let's move on just on to the left hand side. We start with [ph] Justin (241:35) and then Dominik and make our way back to the left again.

Q

Thanks. I mean, this is probably a high quality problem, but the leverage target you have of 2 times to 2.5 times, obviously when EBITDA was falling, that was understandable, but if EBITDA is growing, arguably you can carry more debt. Clearly there's things like spectrum uncertainties ahead of you, but that's over a one year to two year timeframe. You could see [indiscernible] (242:04) this leverage is actually starting to come down. Do you think it's actually worth reviewing at some point whether target of 2 times is even too low, maybe as decision for between now and the next CMD? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

Yes. First of all, let's get there and then we discuss. That's one answer. The second one is, I like prudence, the second one. The third one is, if you look at the profile, there was one page in the presentation I have given, you've seen the profile over there.

Q

Slide 20.

Thomas Dannenfeldt
Chief Financial Officer

A

And I think it was the page – let me look it up. And then you see, over the time, you see the profile, it was page – so, in the booklet it's page 220, you see that we are, [indiscernible] (242:50) back to 2 times in 2018, that's why I am saying, let's talk then. For the time being, we are not at 2 times, we're more at the other end and let's be prudent there.

A

All right. Let's move on to Dominik Klarmann. Just pass it onto the next row to Dominik. Thanks.

Dominik Klarmann
HSBC Trinkaus & Burkhardt AG (Broker)

Q

Yes. Thank you. Just on market structures in your footprint outside Germany, what changes do you anticipate in markets like Poland, for example, is the full play of market structure there sustainable? Do you see a race for the remaining cable assets in Eastern Europe? What should we make out of the KPN story in December, January, any thoughts there?

A

Okay. In the markets where we're operating, we said on our list of the portfolio decisions, we consider always, if there are smaller assets which might fit well to us. So, if there might be a smaller cable asset or something which would fit into our footprint and we would definitely have a look on to that one, which would give us even a better lead into the strategy of becoming a true fixed/mobile converged operator.

For the Austin and for the Netherlands, we showed you that we are pursuing a different strategy. So, therefore, I cannot comment on any kind of moves or speculations that are going on in this market at that point in time. Let's see, but so far, the focus is on the organic, on the Un-carrier for Europe strategies. Thomas, anything to add on that?

Thomas Dannenfeldt
Chief Financial Officer

A

No, I'm sorry.

A

Pass it on to Paul Marsch in the first row and then we go to the back.

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thanks. I wanted to ask about the debt maturity profile on page 20. And what the magnitude of upside from cheaper refinancing might be over the guidance horizon because I think, if you add that up, you got about €11 billion to €12 billion of bonds coming due over the next four years to five years and I think the average coupon on those bonds is just over 5% or so, but obviously, your bonds are trading in the market at much, much lower yields to maturity. So, I mean, is that a fairly sizable opportunity that underpins your cash flow forecast or is that additional potential upside to your cash flow expectations?

Thomas Dannenfeldt

Chief Financial Officer

A

I'm not sure whether I got the question, right. On page 20, you see the profile and what you are asking is exactly that...

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

I'm just asking, if you can – if the potential cheaper refinancing costs as those bonds come due...

Thomas Dannenfeldt

Chief Financial Officer

A

Yes.

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

...is additional upside.

Thomas Dannenfeldt

Chief Financial Officer

A

No, it isn't. It's incorporated.

Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

It's incorporated. Okay. Thanks.

A

Let's move on to the back to Guy Peddy and then we go to the left hand side again.

Guy Peddy

Macquarie Capital (Europe) Ltd.

Q

Question for Thomas really, I think, your special items number is very significant, last year it was about 10%, 11% of EBITDA and over DT's history special of items have always been significant. So firstly what is so special about them that they're so massive and so repetitive that we still looking out that four years away we're still 6% to 7% of EBITDA. On the secondary point, if I look through your free cash flow CAGR growth rate, it looks like something like 1/3 of your cash flow growth comes from the reduction in special items and the other 2/3 effectively comes from the U.S. Is that the right way of thinking about what is actually driving your cash flow? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

Okay. I'm going to start with the first one. That was exactly the question I raised a year ago before I started because, at least for a part of the special factors, you can argue they are not special. That's the way why, for instance, we changed the complete internal incentive system to unadjusted, so that the people don't think about special or not special anymore because that in their target systems, in their incentive scheme. So, they look differently at it. That is true, I would say for the German geography looking at head count reduction.

If you look at other special factor items, to give you an example, €300 million, €400 million last year on an earlier restructuring of the MetroPCS network, I would call that a special item. So it's not like the special is not special. There are parts in there, being a part of a continuous restructuring process we will take on for years and I think you're right. You can name them special or not, I don't care it, all we pay the people by not differentiating any more between the one and the other. But there are some elements as I said like restructuring in or integrating Metro and that kind of stuff where I believe it's absolutely appropriate to look at it.

On the second question, on the free cash flow, I don't think it's completely right to do so. Yes, there is a big impact is coming in 2016. If you look just at 2016, that's right that there will be, as I said, the profile will be much lower on special factors and that will ramp up the free cash flow significantly. And so by the way we have the freedom to increase the CapEx while growing the free cash flow, that was something I mentioned beforehand.

On the longer run looking at 2017 and 2018, that's not true, because we'll see growth from the U.S., from Europe, from Germany, and from T-Systems. So on the 2017, 2018 perspective, I think that's not fair anymore.

A

Okay, great. Thanks, Thomas. Onto the left hand side, we start with Nick Delfas here in the middle and then make our way.

Nick Delfas
Redburn (Europe) Ltd.

Q

Yes. Just a very quick question on page 23, you have got the [indiscernible] (249:03) mic again, so €1.7 billion increase in 2015 of EBITDA and then I guess you have some additional CapEx and some additional restructuring for €700 million. So that would imply free cash flow should go up by about €1 billion. So what's the gap with your actual free cash flow guidance? So should we expect some more working capital? Is that due to more split contracts? Because I think the U.S. is actually annualizing those out now. So if you could just explain why EBITDA is going up but free cash flow isn't going up that much?

Thomas Dannenfeldt
Chief Financial Officer

A

Yes, if you look at that page, I compare apples-with-apples. So I compare the €17.6 billion with €18.3 billion because that's where you have the same – you have apples-with-apples, the same exchange rate. It's a €700 million delta. I think special factors this year is €500 million, \$600 million, in that vicinity delta. So, 80% of that is already by that special factor profile defined and the rest is little bit...

Nick Delfas
Redburn (Europe) Ltd.

Q

And the rest is the [indiscernible] (250:06).

Thomas Dannenfeldt
Chief Financial Officer

A

Yes.

A

Could you just [indiscernible] (250:08) the right hand side, Nick, please.

Q

Thank you. [indiscernible] (250:12) and coming back to net debt. We've seen that net debt increased also because of currency reasons. And that said, if you look at net debt-to-EBITDA, there's a difference between your calculation and the calculation of the rating agencies. And if the [indiscernible] (250:35) I can imagine you will reach the edge of the net debt-to-EBITDA 3.2 times, I can imagine. Do you plan to reduce net debt and I asked this question against the background that at last Capital Market Day your rating target was [ph] A minus to 22 BB Plus (250:59) and now it's [ph] in minus 22BB (251:02) I think.

Thomas Dannenfeldt
Chief Financial Officer

A

First of all it has not changed, it was last Capital Markets Day, you can look it up in the old Bible, it was A- to BBB and we said at that time if we need to take a BBB rating for certain period of time, we are prepared to do it. We have avoided it during the course of the last year. And we're still exactly on that way in the talks and discussions with the rating agencies to listen to them, what we need to do to make sure that we stay where we are because for us prudent policy is important. So you see on the page 20, you see the [indiscernible] (251:41) net debt-to-EBITDA over time. And as I've said we intend to stay where we are.

Q

Okay.

Thomas Dannenfeldt
Chief Financial Officer

A

Thank you.

A

How about we go to the back to Jonathan Dann on the very back. Gentleman with the pink shirt,

Jonathan Dann
RBC Europe Ltd. (Broker)

Q

I prefer to call it Magenta.

A

You're absolutely right, you are so right, Jonathan.

Jonathan Dann
RBC Europe Ltd. (Broker)

Q

And with the link between dividend and free cash flow, have the Supervisory Board agreed that that's the right link, I am just thinking that in a scenario in 2016, you could deliver the step-up in free cash flow, but given the U.S. spectrum auctions, the various other things that are happening, you could year-on-year consolidate, you could have a scenario end of 2016 with €5 billion of your definition of free cash flow, but where year-on-year absolute net debt also increased post the spectrum auction. Is the change in net debt in anyway linked or a thought process inside the Supervisory Board?

A

So first of all, the plan, the discussion, the Capital Markets Day, the commitments we're giving all of this has been discussed in Supervisory Board. We need to prove it for the budget that is in a formal process where we get approval, we get a notice from the Supervisory, but I think to the mid-term and long-term strategy, we had a separate and specific discussion on the dividend policy and that is what I stated even yesterday, the good thing of the track record of Deutsche Telekom is that in the past whatever we have done, we got the full support of our Supervisory Board to make the needed transformation steps within the company.

A

Yes, so just one last question from [indiscernible] (253:35) who is just in front. Yes.

Q

Thank you very much. 10% CAGR on the 2014 number gets us to €6.1 billion or so which was what was originally meant to happen in 2015, obviously there are great things happening in the U.S. that require significant cash flow. So I'm not saying that's not all right. I'm just wondering your guidance essentially is for very significant free cash flow growth over the next couple of years. Is this – and I'm wondering how you think about the business as it exits sort of 2017, 2018, your guidance period?

Because, there's a risk here that we are talking about inverse hockey stick, right. You're normalizing sort of the investment peak in the U.S. That gives you a very strong free cash flow growth. But the sort of business you are

building now on a normalized basis, how do you think about the growth prospects because I'm quite intrigued by the fact that there was very little discussion over the two days about things like data monetization and some of the other things that a lot of competitors are talking about as just sort of the turnaround all the regulatory relaxation for that matter.

Thomas Dannenfeldt

Chief Financial Officer

A

Okay. I'm not pretty sure whether I got the first one [indiscernible] (254:54). I think first of all, and that I got that question several times whether we have especially the U.S. team and ourselves have a different view in terms of how we should look at the growth there, and whether we should limit the growth to get more cash etcetera, etcetera. I can tell you this kind of debate looking at growth on the U.S. side, we never have.

We have debates about what is the right level of CapEx to put in. What is the – not to under-invest and not to over-invest. I think that's a pretty difficult question. But we never had the debate about shall we stop customer growth just to make free cash flow or something like this. And I think we shouldn't have it as long.

And the U.S. team is showing and proving that that is the case. That growth is valuable. So it is not like a matter of twisting and tweaking the line. Again, that was mentioned also in 2016, a huge chunk of the upside in the free cash flow, you will see just by a decline in special factors and in non-restructuring activities you have in 2015, 2015, high, 2016, low. So there is not a kind of a back-loaded profile by a high investment in the beginning and then you do something twist and tweak in the end, I'm not sure whether I got the question right, but that is not the case.

Stephan Eger

Senior Vice President & Head-Investor Relations

A

Well, thanks, Thomas. Very quickly on logistics; we get now quarter to two. At 2 O'clock all your shuttles to all the respective airports and train stations will leave on time, so you've got plenty of time to collect your things etcetera, but we need about five minutes of your attention still for one or two announcements. It is obviously the wrap up of Tim which is the most important one. So maybe we start with, Thomas?

Thomas Dannenfeldt

Chief Financial Officer

A

Yes. Thanks, Stephan. What I'd like to do is, most of you will know it, I'd like to address here the upcoming management change we'll have in IR. Most of you might know Stephan decided to take a new career step to move forward into a much more operational role and he will become the CFO of the T-Mobile Czech entity and I can tell you myself, Tim, the whole board very much supports that because, A, Stephan deserves it, he started 2007, I was not at the board at that time, I think, Tim you've been already and he started, with the share price by the way of €14.

I did a bit of value generation...

Thomas Dannenfeldt

Chief Financial Officer

A

And now after 7 years basis, more than seven 7 years now moving to the next role, the share price is higher. So that is the way it should be, but it's not only about the share price, it's about, I think, the way Stephan has managed during the course of the last 7 years, 7.5 years that Investor Relations team and the rest of the relations

to you basically. When I started my welcome tour 1.5 years ago, I got the message, I got a lot of messages from you guys but one message was how well respected Stephan is in your group, and I hope I speak a little bit on behalf of you at least [indiscernible] (258:06). So I know I do. I think he has a fantastic reputation and he has it internally because he was always the frontrunner in terms of efficiency, doing things better, being more innovative, changing things, making sure that we're using social media, that it's easier for you guys, always very service oriented but also one of the few guys internally who pushed the board in the right moment, Tim, you know what I am talking about and it was – sometimes it was very necessary and it was very well done and rightly so. So he deserves a very, very high degree of thank from our side here, from the board side and that is what I want to do here. Thank you, Stephan, for your time. You know that it will take some more weeks, some months, to really change your role and the big party will be later on but I think it's a right forum here to address that to say thank you to Stephan.

He started in 2010, [indiscernible] (259:09) he said in 2010, I'll become with my team the best IR team across Europe, across the various industries, and there are not too many people at BT, being at that time number 9 or number 10. And just saying in four years' time, I'll make it – is that I'll make it in three years, four years and he made it. I love those type of people who throw the ball and just go for it and finally make it.

So I think that's great what we have seen from you, Stephan, here and I'd like to thank you personally because for me it was very important to have you at my side as a new CFO coming in, supporting myself and bringing me here into that group into the Investors group, it was very, very important for me as well. So, many, many thanks to you, guys.

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