



DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2015

Bonn, February 26/27, 2015



LIFE IS FOR SHARING.

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In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, gross debt and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.



LEAD IN BUSINESS

Reinhard Clemens, Board member for T-Systems

KEY MESSAGES

- 1** DT Group “Lead in Business” initiative will tap the significant growth potential of the B2B market.
- 2** Best networks, scalable platforms, security and outstanding cloud experience differentiate us in the market.
- 3** TSI 2015+ as a radical paradigm shift:
 - focus on profitable growth areas
 - massive reduction of production costs
 - discontinuation of unprofitable business
- 4** Market Unit (MU) will grow external revenues above market growth.
- 5** TSI: self funding entity after 2016; MU: adj. EBIT of ~7% by 2018.



MARKET TRENDS

CUSTOMERS EXPECT OUR SUPPORT IN THREE MAJOR AREAS

4 Million jobs will be generated due to big data until 2015. (Gartner)

By 2015 the world's mobile worker population will reach 1.3 bn or 37.2% of the total workforce. (IDC)

70% of financial services and manufacturing customers have already invested in SaaS. (Gartner)

Ethernet penetration in new vehicles will grow from 1% in 2014 to 40% in 2020. (ABI Research)

55% of CIOs indicated they would source all their critical apps in the cloud by 2020. (Gartner)

79% of German employees use a mobile device (Notebook, Tablet, Smartphone) for their work. (BITKOM)

CLOUD & IT TRANSFORMATION



- Guidance for the transformation of legacy IT into the cloud environment
- SME's demand easy to use cloud products with transparent pricing models



SBB CFF FFS



DIGITAL BUSINESS MODELS



- Interactions are increasingly based on digital exchanges – e.g. platforms, social media, eGovernment
- Customers expect solutions for digital businesses

DAIMLER



Hafen Hamburg

SEAMLESS INT'L TC



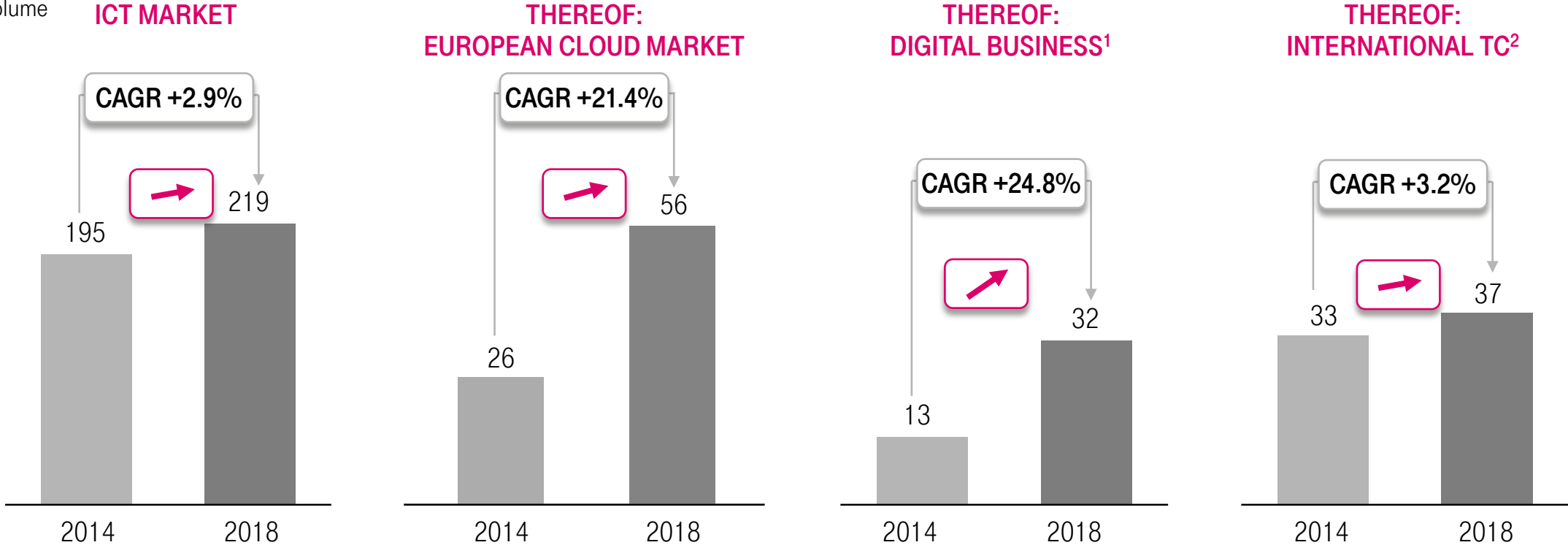
- Globalizing customers from SME to MNC expect seamless international TC offerings
- Customers expect internationally integrated fixed/mobile services



THE BUSINESS CUSTOMER MARKET GROWS IN ALL SEGMENTS

EUROPEAN B2B MARKETS (ADDRESSABLE)

Market volume
€ bn



Source: Market Model 2014 based on PAC, Gartner, IDC et.al; ¹ e.g.: M2M, eHealth, Connected Car, Big Data; ² e.g.: VPN Services, Unified Communication Services, Ethernet Services



STRATEGY LEAD IN BUSINESS

2015–2018

OUR STRATEGY

LEADING EUROPEAN TELCO

INTEGRATED
IP NETWORKS

BEST
CUSTOMER
EXPERIENCE

WIN WITH
PARTNERS

LEAD IN
BUSINESS

TRANSFORM PORTFOLIO

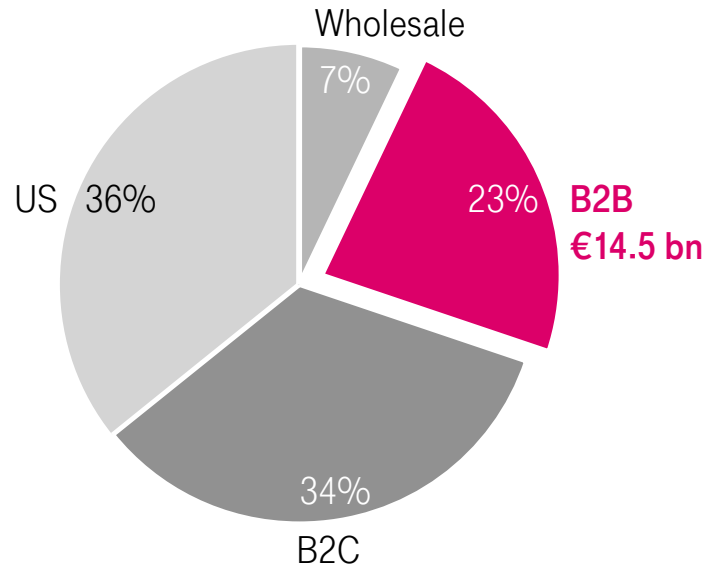
EVOLVE FINANCIAL TARGETS & EFFICIENCY

ENCOURAGE LEADERSHIP & PERFORMANCE DEVELOPMENT

BUSINESS CUSTOMERS REPRESENT A SIGNIFICANT SHARE OF DT'S REVENUES

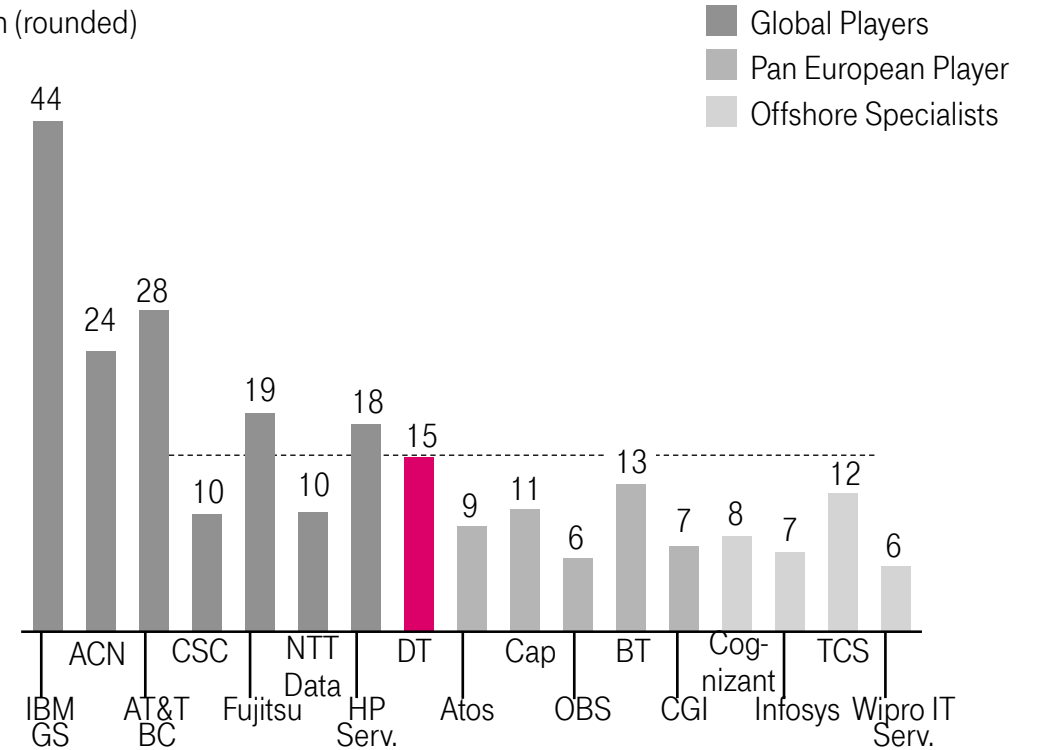
REV. BY CUSTOMER SEGMENTS 2014

DT Group Revenue: €62.7 bn



COMPETITIVE ENVIRONMENT (REV. 2014¹)

€ bn (rounded)



¹ 2014 Revenues for HP Services estimates by financial analysts. Revenue for AT&T BC, BT (GS+BT Business) and OBS include only IT & wireline services for Business Customers.

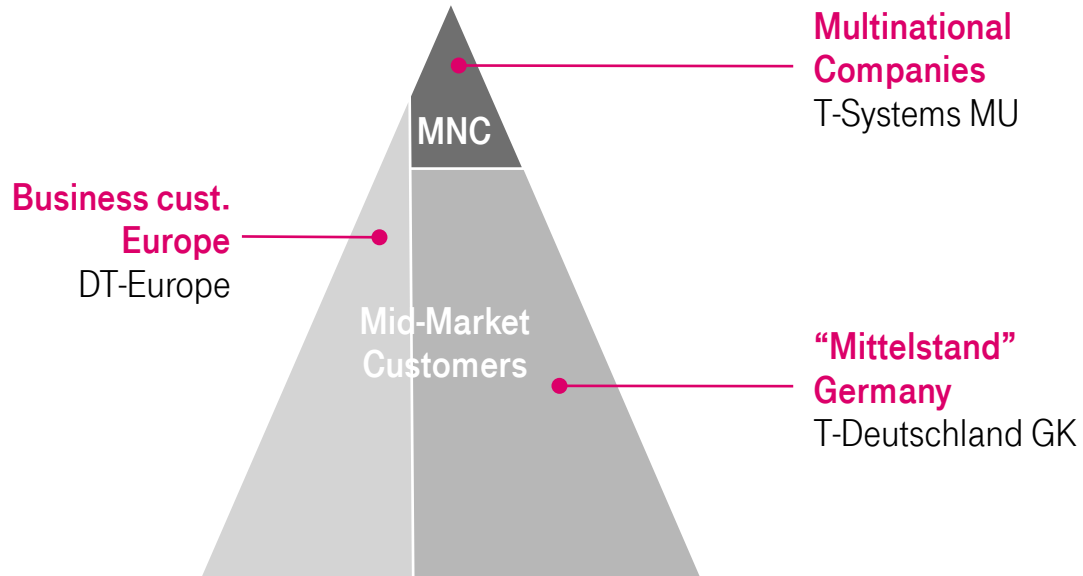
HIGH MARKET POTENTIAL ESPECIALLY IN MID-MARKET IT

INTEGRATED
IP NETWORKS

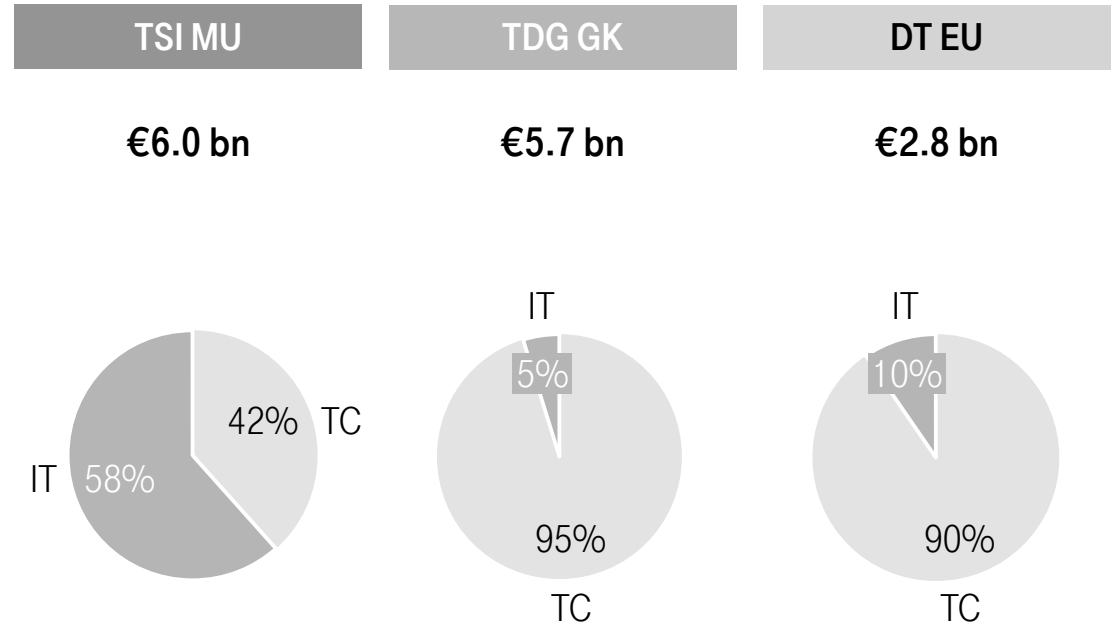
BEST
CUSTOMER
EXPERIENCE

WIN WITH
PARTNERS

LEAD IN
BUSINESS



SPLIT OF TC AND IT REVENUES 2014 PER SEGMENT¹




¹ External Revenues DT Group

GROUP INITIATIVE “LEAD IN BUSINESS” TO BOOST THE B2B REVENUE IN ICT

 **DT-EU**

Strengthen B2B in Europe:

- Focus on **Fixed + Mobile + Cloud service offers & bundles**
- International product launches: **Cloud VPN, M2M best-coverage**
- Establish **innovative G2M** and **partnership programs**



TARGET:
ICT REVENUE GROWTH >12% IN EU (CAGR UNTIL 2018¹)


 **GERMANY**

German Mid Market initiative:

- **Nationwide sales and service presence**
- **One-stop-shop product portfolio** including **customized bundle offers**
- **Focus business initiatives:** IT Cloud, M2M, Deutschland LAN




TARGET:
+€0.4 BN IT REVENUE IN SME (UNTIL 2018 IN GERMANY)

 **TSI MARKET UNIT**

T-Systems 2015+:

- **Transformation program** incl. new set-up with 3 divisions: IT, TC, Digital
- Group wide initiative to strengthen the **Int'l TC Business**
- Growth focus on **digital innovation areas like Cloud, Big Data, M2M**



TARGET:
≈ 3% REVENUE² CAGR IN TSI MU UNTIL 2018¹

¹ CAGR 2014-2018 ² External + DTAG

KEY DIFFERENTIATORS OF DEUTSCHE TELEKOM GROUP



Trust

Most trusted brand acc. to Allensbach Security Report 2014

Security

>1500 Security specialists
Cutting edge managed security services (Experton)

Quality

Customer satisfaction at **84pts.** TRI*M Index in 2014 (TSI)

Connectivity

Best network in GER
Technology leader in CEE with PanNet and IP

Platforms

Automotive Leader:
~1 mn cars on con. car platform
Home automation with Qivicon

Cloud

Public Cloud Partnership with Salesforce, Cisco, Microsoft
Private & Public Cloud DC according to **German data privacy regulation**

TRUST, SECURITY, RELIABILITY


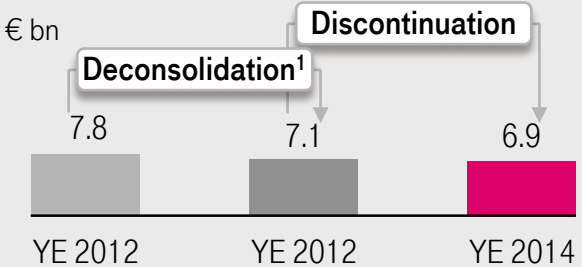



BEST SEAMLESS CONNECTIVITY

OPEN, INTEROPERABLE PLATFORMS



T-SYSTEMS MARKET UNIT

WHAT WE PROMISED IN 2012 AND WHAT WE ACHIEVED – IMPROVED EBIT & ALL TIME HIGH CUSTOMER SATISFACTION

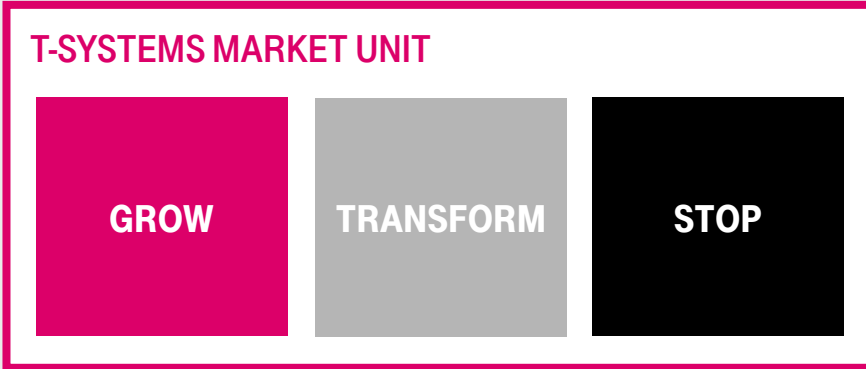
	AMBITION LEVEL 2015 (FROM CMD 2012)	ACHIEVEMENTS 2014	DELIVERED/ ON TRACK
REVENUE GROWTH MU	<ul style="list-style-type: none"> Above market growth (2% CAGR expected, starting from €7.8 bn) 	<ul style="list-style-type: none"> €6.9 bn (€-0.9 bn) 	
– DETAILS REVENUE GROWTH MU	<p>€ bn</p>  <p>YE 2012 YE 2012 YE 2014</p>		
ADJ. EBIT MARGIN MU	<ul style="list-style-type: none"> Around 4% 	<ul style="list-style-type: none"> 2.3% (+0.9 PP) 	
CUSTOMER SATISFACTION	<ul style="list-style-type: none"> Maintain TRI*M Index above peer average and >70 points 	<ul style="list-style-type: none"> 84points (+8 P) 	
TEL IT	<ul style="list-style-type: none"> €1 bn IT spend reduction until 2015 	<ul style="list-style-type: none"> Reduction by €-0.8 bn 	

¹ Sale of ICSS, GNF, TS Czech, TS Italia, SI France & F/X effects

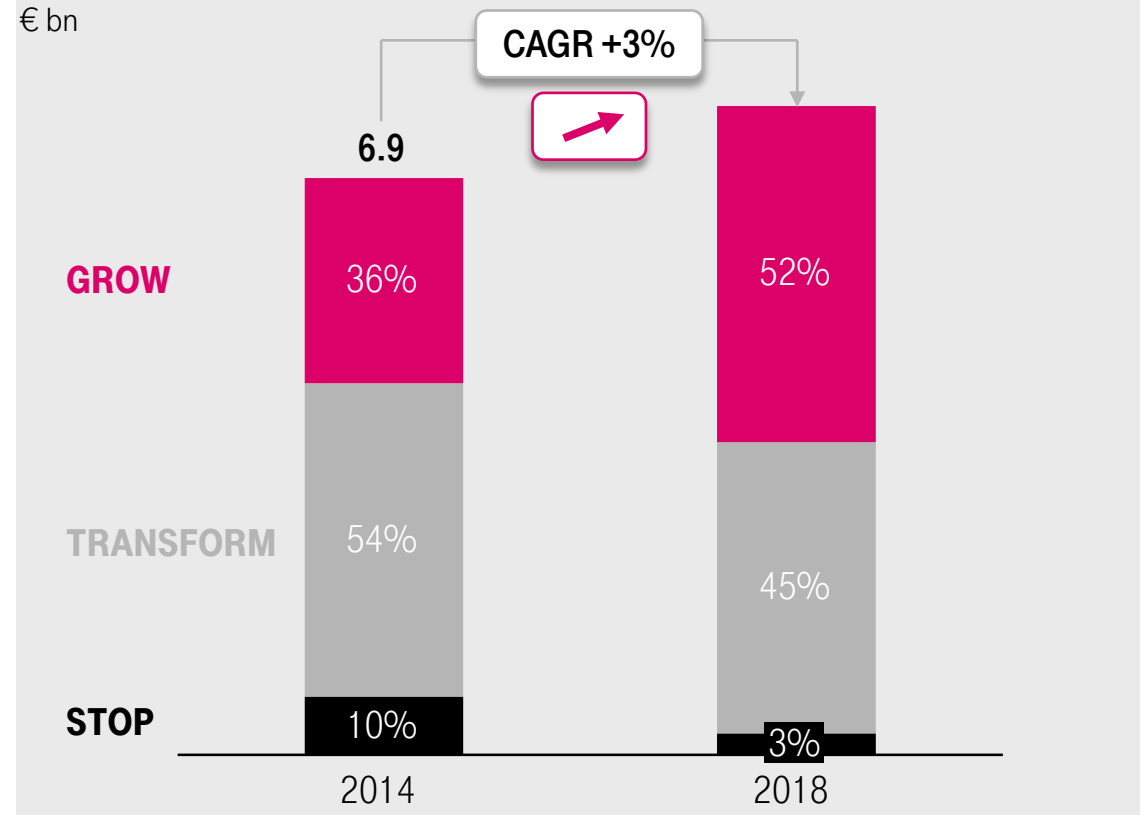
CHANGE OF REVENUE MIX AND INCREASED PROFITABILITY ARE THE KEY ELEMENTS OF TSI 2015+

TSI 2015+ TRANSFORMATION PROGRAM

T-SYSTEMS MARKET UNIT







- **Grow:** Invest in non-labor intensive, virtualized services, e.g. M2M, platform business, Dyn. Workplace, Cloud
- **Transform:** Massive reduction of production costs by increasing “Buy”-share, e.g. via partnering
- **Stop:** Discontinuation of unprofitable business with focus on countries, contracts and portfolio elements



GROW: INITIATIVES HAVE ALREADY REALIZED SIGNIFICANT GROWTH



SELECTED EXAMPLES	
 <p>CLOUD</p>	<ul style="list-style-type: none"> ▪ Partnering for cloud related services (e.g. Salesforce partnership) ▪ Private cloud offering: Dynamic Services
 <p>SECURITY SOLUTIONS</p>	<ul style="list-style-type: none"> ▪ Push new security portfolio: FireEye, CleanPipe Enterprise, DDoS Protection ▪ Launch of new products at CeBit 2015, e.g. Cyber Defence for “Mittelstand”
 <p>FUTURE WORKPLACE</p>	<ul style="list-style-type: none"> ▪ Cloud based workplace
 <p>FUTURE TC</p>	<ul style="list-style-type: none"> ▪ Push program TC international started ▪ Dynamic Services for Unified Communications



GROWTH 2014
+€300 mn Revenue
+€36 mn Revenue
+€42 mn Revenue
+€30 mn Revenue

REV. AMBITION 2014-2018

Revenue 2014
€2.5 bn

CAGR 13% 

Revenue 2018
~€4.0 bn

TRANSFORM: MEASURES IN CLASSIC ICT BUSINESS IMPROVE PROFITABILITY



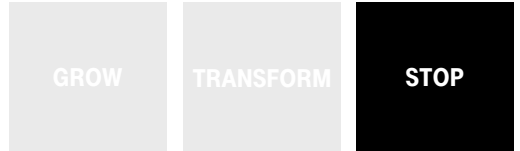
SELECTED EXAMPLES	
PERSONNEL RESTRUCTURING	<ul style="list-style-type: none"> Reduction of workforce via automation, partnering and efficiency gains
CONSOLIDATION	<ul style="list-style-type: none"> Radical reduction of data center locations
OPTIMIZE GLOBAL SERVICES	<ul style="list-style-type: none"> Concentration of global service production
OFFSHORE QUOTA	<ul style="list-style-type: none"> Deliver more services from near- or offshore locations







RESULTS 2014
6% MU total workforce reduction (nat.)
18 data centers closed since 2012
€~10 mn effect on EBIT
+ 8% OS quota since 2012

REV. AMBITION 2014-2018
Revenue 2014 €3.7 bn
CAGR -2%
Revenue 2018 ~€3.4 bn

STOP: DISCONTINUED ACTIVITIES IN 2014



SELECTED EXAMPLES		RESULTS 2014	REV. AMBITION 2014-2018
 <p>PORTFOLIO</p>	<ul style="list-style-type: none"> Partnering for labor intensive services (i.e. Field Service) rather than keep own organization: Sale of IDS 	<p>~500 FTE reduction: Field Services</p>	<p>Revenue 2014 €0.6 bn</p> <p>CAGR -22% </p> <p>Revenue 2018 ~€0.2 bn</p>
 <p>CONTRACTS</p>	<ul style="list-style-type: none"> Action plan for every inefficient customer contract: 22 contracts optimized, 26 in the process until YE 2015 	<p>22 contracts optimized</p>	
 <p>LBU'S</p>	<ul style="list-style-type: none"> No loss making local business unit (LBU) from 2016 onwards 	<p>5 LBU optimized: Italy, France, Belgium, Japan, Singapore</p>	

DIVISIONAL SET UP AS NEXT STEP OF OUR TRANSFORMATION

TSI 2015+

GROW

TRANSFORM

STOP

- **New structural set up**
- **Implementation of divisions** in order to focus on core business and specific customer requirements
- **End-to-end and P&L responsibility** for each business segment

T-SYSTEMS MARKET UNIT

TC
DIVISION



P. Molck-Ude

Business objective:

Grow international TC services

- IP VPN solutions
- Infrastructure security services
- FMC bundles

IT
DIVISION



F. Abolhassan

Business objective:

Grow dynamic IT services

- Dyn. Workplace
- Dyn. Hosting
- Dyn. Services for SAP

DIGITAL
DIVISION



A. Bronder

Business objective:

Grow platform based business

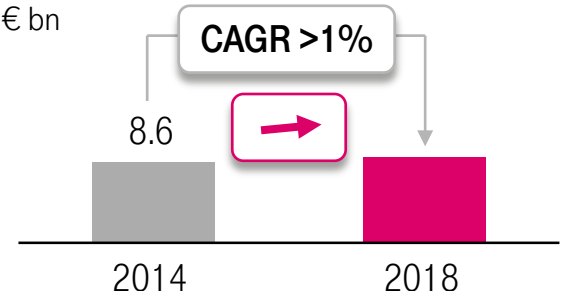
- Health & Connected Car
- Industry 4.0
- Cloud partnering



FINANCIAL OUTLOOK

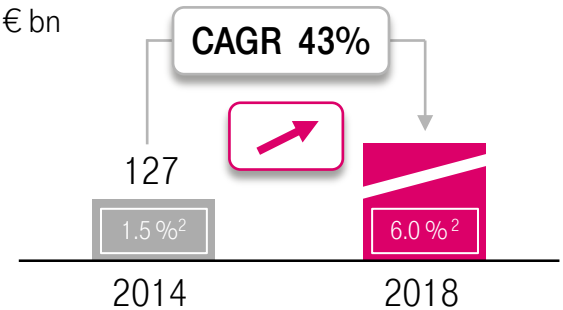
T-SYSTEMS: KEY LEVERS FOR ROCE IMPROVEMENT ADDRESSED

REVENUE GROWTH

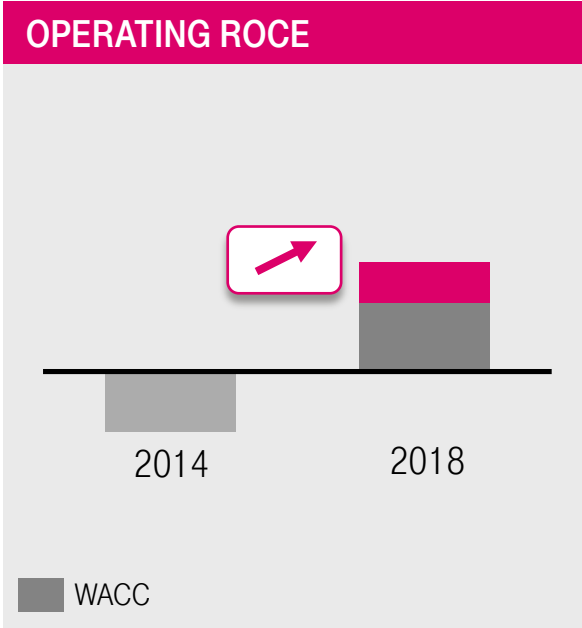


MU CAGR: ~+3%
TEL-IT CAGR: ~-6%

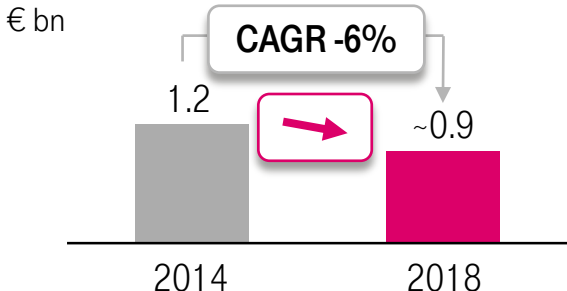
EBIT ADJ.



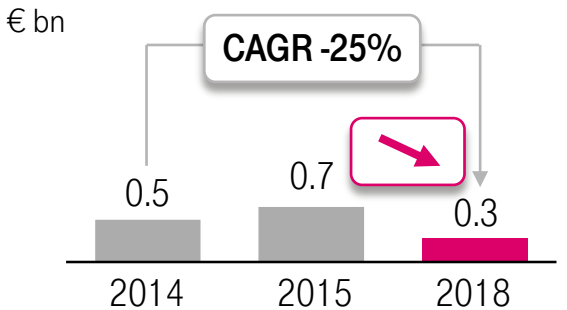
¹ Restructuring ² Adj. EBIT margin



(CASH) CAPEX



SPECIAL FACTORS (EBITDA)¹





MID TERM AMBITION LEVEL

MID TERM AMBITION LEVEL

	MID TERM AMBITION LEVEL	YEAR
REVENUE TSI	>1% CAGR expected	2014–2018
REVENUE MU	Above market growth 3% CAGR expected	2014–2018
QUALITY MU	Maintain TRI*M index above peer average at current levels of 84 points	2018
ADJ. EBIT MARGIN TSI	Around 6%	2018
ADJ. EBIT MARGIN MU	Around 7%	2018
ADJ. CASH CONTRIBUTION TSI	Positive from 2017	2017