

MEDIA INFORMATION

Bonn, February 26, 2015

Deutsche Telekom plans to grow on all relevant financial KPIs over next four years

- Compounded average organic revenue growth of 1 to 2 percent per year targeted for the financial years 2015 to 2018
- Adjusted EBITDA set to grow even faster in organic terms at a CAGR of 2 to 4 percent per year
- Free cash flow expected to increase at a CAGR of around 10 percent per year in organic terms
- Earnings per share for the 2018 financial year of around EUR 1 targeted
- For the financial years 2015 to 2018, the dividend is planned to grow in line with the expected growth in free cash flow, with a planned minimum annual dividend of EUR 0.50 per share
- ROCE of the Group set to exceed cost of capital in the 2018 financial year
- In 2015, adjusted EBITDA is expected to increase to around EUR 18.3 billion, or in mathematical terms, to around EUR 19.3 billion assuming a dollar exchange rate of USD 1.13 per euro
- Free cash flow of around EUR 4.3 billion planned for 2015

Deutsche Telekom aims for sustainable growth in the three most important financials. While revenue is expected to increase by an average 1 to 2 percent per year until and including 2018 in organic terms, earnings performance and free cash flow are expected to grow much faster. Shareholders are to participate in these rising earnings: For the 2015 to 2018 financial years, the Board of Management aims to grow the dividend in line with the expected average growth in free cash flow of around 10 percent per year. At the same time, the Board of Management would like to emphasize its intention to pay out

a dividend of at least EUR 0.50 for each of these financial years. The objective is to offer shareholders an attractive return on their capital employed. This planned dividend is subject to approval by the relevant bodies and to other statutory requirements.

Deutsche Telekom's CEO, Timotheus Höttges, said: "Growth is our top priority. With massive investments in our networks, we are forging ahead toward becoming the leading European telecommunications provider. Our strategy as an integrated provider makes us the first choice for customers. And our shareholders profit from our growth profile in revenue and earnings performance."

For the current 2015 financial year, Deutsche Telekom expects a clear jump in earnings. The Group's adjusted EBITDA is to rise from EUR 17.6 billion in 2014 to around EUR 18.3 billion. This increase is mainly driven by the positive operational development of the U.S. business, where adjusted EBITDA (based on U.S. GAAP) is expected to climb by around 25 percent based on the mid term of the guidance of T-Mobile US for 2015. The forecast for 2015 of Deutsche Telekom Group is based on the average exchange rate of the prior year of USD 1.33 per euro, in order to reflect the comparable development of operating business unaffected by changes in exchange rates. Based on the exchange rate in mid-February of USD 1.13 per euro, this would make T-Mobile US' contribution to expected net profit significantly higher in purely mathematical terms, bringing it to around EUR 19.3 billion.

Deutsche Telekom expects free cash flow of around EUR 4.3 billion in 2015, a clear increase compared with the EUR 4.1 billion recognized in 2014.

Clear organic growth expected

For the next four years, Deutsche Telekom set itself an ambition level that provides for a continuation in organic revenue growth. The Group already

achieved an increase in 2014 adjusted for exchange rate fluctuations and changes in the composition of the Group. In Germany, revenues are expected to stabilize in 2016, while the European subsidiaries aim to stabilize the revenue trend in 2016/2017. Substantial further organic growth is expected for T-Mobile US, and T-Systems' Market Unit is expected to increase its revenue at a compounded average growth rate of around 3 percent per year.

The ambition for free cash flow is an average growth of around 10 percent per year until 2018. With massive investments, Deutsche Telekom wants to further pursue its claim of providing the best fixed network and mobile connections for its customers, reliably, securely, and simply. Hence, investments in property, plant, and equipment are also expected to increase in the next four years by an average of 1 to 2 percent per year.

The targeted higher growth in earnings and free cash flow, as compared to in revenue, with simultaneously increasing investments, is based in part on further efficiency improvements in the Group from ongoing programs such as T-Systems 2015+ or TD 2018. The IP transformation of the fixed networks, the implementation of a pan-European network based on all IP, and the integrated network strategy are to simultaneously incorporate efficiency improvements and simplifications into production.

With the linking of the planned dividend to the development of free cash flow, Deutsche Telekom wants to continue its policy of prior years of attractive dividends. As a key component of shareholder remuneration, the dividend has made the T-Share an attractive investment, especially in the current period of low interest rates. Total shareholder return, i.e., share price performance plus dividend payments, has amounted to around 108 percent since the Capital Markets Day in December 2012, when the dividend policy for the period up to the financial year 2014 was communicated. In a comparable period, the DAX achieved around 41 percent.

Network coverage and transmission speeds increase

The expected positive development of revenue and earnings is based on the continuation of the strategy, which already produced revenue growth of 4.2 percent in the 2014 financial year. With high investments of recently more than 15 percent of revenue, Deutsche Telekom is driving forward the roll-out of its networks in terms of both population coverage and transmission speeds. In 2014, for example, the combined increase in the population coverage of the LTE networks of all Group companies amounted to more than 110 million people, which is more than the number of inhabitants in Germany. By 2018, the LTE network in Germany is to reach population coverage of 95 percent, compared with a good 65 percent at the end of 2014. The increase in the number of T-Mobile US customers by 8.3 million in 2014, as well as the doubling of mobile customers in Germany who use an LTE rate plan to more than 5.6 million during the year, prove that this network roll-out is meeting customers' wishes.

At the same time, bandwidths for mobile communications and fixed networks are to increase steadily. By 2018, the Group is planning in Germany – depending on the regulatory framework – to supply another 5.9 million households with fast Internet and bandwidths of at least 50 MBit/s via local area vectoring. Supervectoring even allows bandwidths of up to 250 MBit/s. By 2018, 80 percent of households could be provided with superfast Internet access.

Telekom Deutschland aims to achieve this increased coverage and speed with a basically unchanged investment volume compared with the previous plans by increasing efficiency in network roll-out. The significant increase in fiber optic-based lines in Germany by around one million in the prior year shows that this network roll-out is meeting strong customer demand.

In European subsidiaries with fixed-network offerings for consumers, there are plans to offer fiber optic-based lines for around 80 percent of households and to

achieve transmission speeds of more than 100 MBit/s for around 50 percent of all households.

Deutsche Telekom has already initiated the logical next phase of this development: integrated products based on fixed network and mobile communications. This means, for example, product bundles for customers – which have already been successfully launched on the German market under MagentaEINS, with currently more than 650,000 customers.

The migration of networks to all IP throughout the entire Group is to be completed by 2018. The benefits are clear: On the production side, simpler, more cost-effective network management, because the "intelligence" of the services is increasingly shifted from devices to the network. In addition, services of partners can be brought to the network more quickly and it is easier to make the new services available to customers.

An end-to-end IP-based network also offers a simpler way into the cloud. Consumers and business customers can access services and data securely and from anywhere. In T-Systems' B2B business in particular, convergent and cloud-based services are a key factor for further improving the competitiveness of the company in the business customer segment from the T-Systems 2015+ program.

Portfolio management supports value accretion

This strategy is supported by portfolio management that is focused on increasing the value of the business. For example, Deutsche Telekom disposed of the majority of its stake in the Scout24 group in the past year, because strategically the company will be better able to develop in a new ownership structure. At the same time, Deutsche Telekom was able to realize a substantial proportion of the accretion in the value of the Scout group that has developed over the last few years.

The planned sale of the stake in the British mobile communications company EE to BT also follows the strategic logic that integrated providers in the telecommunications market have a superior business model. The planned transaction enables us on the one hand to realize the value growth that EE has achieved over the last few years as a market leader in mobile communications. On the other hand, the agreement for the vast majority of the purchase price to be paid in the form of a 12-percent stake in BT means that, once the transaction has been completed, Deutsche Telekom will participate in the potential synergies and value growth of the leading integrated telecommunications provider in the second largest economy in Europe, and can benefit from further value growth through this investment.

All in all, the measures for growth and value accretion in the Group feed into the ambition of substantially improving return on capital employed. ROCE is expected to exceed cost of capital in 2018.

"Integrated networks on the basis of all-IP and integrated offers for customers are the decisive factor for competitiveness in the future," said Höttges. "Lean in production, fast and flexible in connecting partners, with easy access for customers, and all this Europe-wide – that is how we plan to become Europe's leading telecommunications provider."

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