DEUTSCHE TELEKOM
CAPITAL MARKETS DAY 2015
Bonn, February 26/27, 2015
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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.

MARKET TRENDS
CUSTOMERS EXPECT OUR SUPPORT IN THREE MAJOR AREAS

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

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

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

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)
THE BUSINESS CUSTOMER MARKET GROWS IN ALL SEGMENTS

EUROPEAN B2B MARKETS (ADDRESSABLE)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2018</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT MARKET</td>
<td>195</td>
<td>219</td>
<td>+2.9%</td>
</tr>
<tr>
<td>CAGR +21.4%</td>
<td>26</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>CAGR +24.8%</td>
<td>13</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>CAGR +3.2%</td>
<td>33</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>THEREOF:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPEAN CLOUD MARKET</td>
<td>2014</td>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>THEREOF:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIGITAL BUSINESS¹</td>
<td>2014</td>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>THEREOF:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INTERNATIONAL TC²</td>
<td>2014</td>
<td>2018</td>
<td></td>
</tr>
</tbody>
</table>

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

ICT MARKET: There is a growth of +2.9% CAGR from 2014 to 2018, with an increase from €195bn to €219bn.

THEREOF: EUROPEAN CLOUD MARKET: The CAGR is +21.4%, with an increase from €26bn to €56bn.

THEREOF: DIGITAL BUSINESS: The CAGR is +24.8%, with an increase from €13bn to €32bn.

THEREOF: INTERNATIONAL TC: The CAGR is +3.2%, with an increase from €33bn to €37bn.
STRAr rY 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

GROUP STRATEGY
COST AND PORTFOLIO TRANSFORMATION
LEAD IN BUSINESS
SUPERIOR PRODUCTION MODEL
EUROPE
GERMANY
T-MOBILE USA
FINANCE
BUSINESS CUSTOMERS REPRESENT A SIGNIFICANT SHARE OF DT’S REVENUES

REV. BY CUSTOMER SEGMENTS 2014

DT Group Revenue: €62.7 bn

- 36% US
- 34% B2C
- 7% Wholesale
- 23% B2B €14.5 bn

COMPETITIVE ENVIRONMENT (REV. 2014)

€ 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

SPLIT OF TC AND IT REVENUES 2014 PER SEGMENT

<table>
<thead>
<tr>
<th>Segment</th>
<th>TC 2014</th>
<th>IT 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSI MU</td>
<td>€6.0 bn</td>
<td></td>
</tr>
<tr>
<td>TDG GK</td>
<td>€5.7 bn</td>
<td></td>
</tr>
<tr>
<td>DT EU</td>
<td>€2.8 bn</td>
<td></td>
</tr>
</tbody>
</table>

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

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**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

<table>
<thead>
<tr>
<th>AMBITION LEVEL 2015 (FROM CMD 2012)</th>
<th>ACHIEVEMENTS 2014</th>
<th>DELIVERED/ON TRACK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE GROWTH MU</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Above market growth (2% CAGR expected, starting from €7.8 bn)</td>
<td>▪ €6.9 bn (€-0.9 bn)</td>
<td></td>
</tr>
<tr>
<td><strong>DETAILS REVENUE GROWTH MU</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ € bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.8 7.1 6.9</td>
<td><strong>Discontinuation</strong></td>
<td></td>
</tr>
<tr>
<td>YE 2012 YE 2012 YE 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ADJ. EBIT MARGIN MU</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Around 4%</td>
<td>▪ 2.3% (+0.9 PP)</td>
<td></td>
</tr>
<tr>
<td><strong>CUSTOMER SATISFACTION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Maintain TRI*M Index above peer average and &gt;70 points</td>
<td>▪ 84 points (+8 P)</td>
<td></td>
</tr>
<tr>
<td><strong>TEL IT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ €1 bn IT spend reduction until 2015</td>
<td>▪ Reduction by €-0.8 bn</td>
<td></td>
</tr>
</tbody>
</table>

1 Sale of ICSS, GNF, TS Czech, TS Italia, SI France & F/X effects
**TSI 2015+ TRANSFORMATION PROGRAM**

- **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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>GROW</th>
<th>TRANSFORM</th>
<th>STOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>36%</td>
<td>54%</td>
<td>10%</td>
</tr>
<tr>
<td>2018</td>
<td>52%</td>
<td>45%</td>
<td>3%</td>
</tr>
</tbody>
</table>

CAGR +3%
GROW: INITIATIVES HAVE ALREADY REALIZED SIGNIFICANT GROWTH

SELECTED EXAMPLES

CLOUD
- Partnering for cloud related services (e.g. Salesforce partnership)
- Private cloud offering: Dynamic Services

SECURITY SOLUTIONS
- Push new security portfolio: FireEye, CleanPipe Enterprise, DDoS Protection
- Launch of new products at CeBit 2015, e.g. Cyber Defence for “Mittelstand”

FUTURE WORKPLACE
- Cloud based workplace

FUTURE TC
- 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
- Revenue 2018: ~€4.0 bn
- CAGR 13%
### Selected Examples

- **Personnel Restructuring**
  - Reduction of workforce via automation, partnering and efficiency gains

- **Consolidation**
  - Radical reduction of data center locations

- **Optimize Global Services**
  - Concentration of global service production

- **Offshore Quota**
  - 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**

### Revenue Ambition 2014–2018

- **Revenue 2014**
  - €3.7 bn

- **Revenue 2018**
  - ~€3.4 bn

**CAGR -2%**
## STOP: DISCONTINUED ACTIVITIES IN 2014

### SELECTED EXAMPLES

<table>
<thead>
<tr>
<th>PORTFOLIO</th>
<th>CONTRACTS</th>
<th>LBU’S</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Partnering for labor intensive services (i.e. Field Service) rather than keep own organization: Sale of IDS</td>
<td>- Action plan for every inefficient customer contract: 22 contracts optimized, 26 in the process until YE 2015</td>
<td>- No loss making local business unit (LBU) from 2016 onwards</td>
</tr>
</tbody>
</table>

### RESULTS 2014
- ~500 FTE reduction: Field Services
- 22 contracts optimized
- 5 LBU optimized: Italy, France, Belgium, Japan, Singapore

### REV. AMBITION 2014–2018
- Revenue 2014: €0.6 bn
- CAGR -22%
- Revenue 2018: ~€0.2 bn
DIVISIONAL SET UP AS NEXT STEP OF OUR TRANSFORMATION

TSI 2015+

- 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**

€ bn

- CAGR >1%
  - 8.6
  - 2014
  - 2018

MU CAGR:
- +3%

TEL-IT CAGR:
- ~ 6%

**EBIT ADJ.**

€ bn

- CAGR 43%
  - 127
  - 2014
  - 2018

1.5%²

6.0%²

1 Restructuring
2 Adj. EBIT margin

**OPERATING ROCE**

- 2014
- 2018

**(CASH) CAPEX**

€ bn

- CAGR -6%
  - 1.2
  - 2014
  - 0.9
  - 2018

**SPECIAL FACTORS (EBITDA)**¹

€ bn

- CAGR -25%
  - 0.5
  - 2014
  - 0.7
  - 2015
  - 0.3
  - 2018

¹ Restructuring
² Adj. EBIT margin
MID TERM AMBITION LEVEL
## MID TERM AMBITION LEVEL

<table>
<thead>
<tr>
<th>MID TERM AMBITION LEVEL</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE TSI</strong></td>
<td>2014–2018</td>
</tr>
<tr>
<td>&gt;1% CAGR expected</td>
<td></td>
</tr>
<tr>
<td><strong>REVENUE MU</strong></td>
<td>2014–2018</td>
</tr>
<tr>
<td>Above market growth 3% CAGR expected</td>
<td></td>
</tr>
<tr>
<td><strong>QUALITY MU</strong></td>
<td>2018</td>
</tr>
<tr>
<td>Maintain TRI*M index above peer average at current levels of 84 points</td>
<td></td>
</tr>
<tr>
<td><strong>ADJ. EBIT MARGIN TSI</strong></td>
<td>2018</td>
</tr>
<tr>
<td>Around 6%</td>
<td></td>
</tr>
<tr>
<td><strong>ADJ. EBIT MARGIN MU</strong></td>
<td>2018</td>
</tr>
<tr>
<td>Around 7%</td>
<td></td>
</tr>
<tr>
<td><strong>ADJ. CASH CONTRIBUTION TSI</strong></td>
<td>2017</td>
</tr>
<tr>
<td>Positive from 2017</td>
<td></td>
</tr>
</tbody>
</table>