SYSTEMS SOLUTIONS

ADEL AL-SALEH
KEY MESSAGES

01 TRANSFORMATION STILL UNDER WAY
T-Systems has struggled with growth and profitability, however, since the 2015 CMD has invested heavily in transforming its portfolio (growth topics and All-IP), and de-risking legacy contracts.

02 PORTFOLIO WITH STRENGTHS AND WEAKNESSES
T-Systems portfolio consists of telecommunications (TC), classic IT, and multiple growth offerings; in most, but not all, of its offerings T-Systems has a clear right to play and proven track-record.

03 STRATEGY: EVOLVE PORTFOLIO
T-Systems strategy focuses on successful transition of the business to digitalization and growth areas, while further strengthening our TC business and managing the decline in legacy segments.

04 ACCELERATE THE TRANSFORMATION
Four transformational streams launched to address business challenges, reinvigorate sales, and substantially improve profitability.

05 FINANCIAL OUTLOOK
We are confident to grow our EBITDA 2017–2021 and generate a positive cash contribution from 2020.
REVIEW 2014 – 2018
WHAT HAPPENED TO THE OLD PLAN?

**What we delivered**
- Stopped more than 20 bad contracts
- Addressed three major loss contracts
- Invested in growth areas

**What went wrong**
- Execution of transformation plan
- Compromise in cost reductions
- Weak portfolio management discipline
- Inefficient organization structure

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

**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

**Execution of transformation plan**

- Compromise in cost reductions
- Weak portfolio management discipline
- Inefficient organization structure
## CHALLENGED PERFORMANCE IN A COMPETITIVE MARKET

<table>
<thead>
<tr>
<th>Ambition level 2018</th>
<th>Achievements 2017</th>
<th>Delivered/on track</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Revenue TSI &gt; 1% CAGR (2014–2018e) expected</td>
<td>- -1.5% CAGR (2014–2017)</td>
<td>☺</td>
</tr>
<tr>
<td>[pro forma: CAGR &gt; 2%]</td>
<td>- 1.7%</td>
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<tr>
<td>- Adj. EBIT margin TSI around 6% (2018e)</td>
<td>- €126 mn</td>
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<tr>
<td>[pro forma: ≈ 7%]</td>
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<tr>
<td>- Adj. cash contribution TSI positive from 2017</td>
<td>- 88 points (+4pts)</td>
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<tr>
<td>[pro forma: ≈ €500 mn]</td>
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<tr>
<td>- Maintain TRI*M index above peer average at current</td>
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<tr>
<td>levels of 84 points</td>
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### Quality

- Maintain TRI*M index above peer average at current levels of 84 points

### Delivered/on track

- Revenue TSI > 1% CAGR (2014–2018e) expected: ☺
- Adj. EBIT margin TSI around 6% (2018e): ☺
- Adj. cash contribution TSI positive from 2017: ☺
- Maintain TRI*M index above peer average at current levels of 84 points: ☺
BUSINESS CHALLENGES & FOUNDATIONS TO BUILD ON

Business challenges

REVENUE
- Impacted by classical IT erosion, not compensated by new growth areas
- Sales set-up/structure/tools and processes, capability gaps, internally focused

LOSS MAKING CONTRACTS
- Three years of abnormal loss levels
- Risk management upgraded
- Improved focus on implementation and transition periods

COST STRUCTURE
- G&A too high relative to our size
- Cost of delivery a challenge

Strong foundations to build on

- MARQUE CLIENTS
- NETWORK AND TELECOMMUNICATION ASSETS/CAPABILITIES
- BREADTH OF PORTFOLIO
- SKILLS & EXPERTISE
- INVESTMENTS IN GROWTH AREAS
- COMMITTED EMPLOYEES
NEW PORTFOLIO STRATEGY DEFINED

TC CORE
- Classified ICT services for federal, regional and EU organizations
- Security at all levels, e.g. NT, App & Cloud Security, Compliance, Consulting & Implementation
- Digital Transformation and Co-Innovation, Consulting Services, Smart Digital Solutions & Services, DevOps engineering
- Hosting, AO & DB, Mainframe, Private Cloud Solutions, Bespoke SI

GROWTH PORTFOLIOS
- Connected Things Management, IoT Connectivity, Vertical Play
- Design, Build, Finance, Maintain and Operate national and international Road Charging systems
- Managed Cloud Services & E2E Cloud Orchestrator, Open Telekom Cloud as alternative to hyperscalers

CLASSIC IT
- Enterprise networks, Inhouse Services, Communication Services
- Mobile Enterprise Services & Access, Embedded and Industrial Connectivity
- Security at all levels, e.g. NT, App & Cloud Security, Compliance, Consulting & Implementation
- Digital Transformation and Co-Innovation, Consulting Services, Smart Digital Solutions & Services, DevOps engineering
- Hosting, AO & DB, Mainframe, Private Cloud Solutions, Bespoke SI
STRATEGY 2018 – 2021
FOUR TRANSFORMATIONAL INITIATIVES TO ADDRESS CHALLENGES

1. PORTFOLIO FOCUS

2. SALES REVITALIZATION

3. DELIVERY INTEGRATION

4. OVERHEAD REDUCTION
PORTFOLIO: SIGNIFICANT CHANGE BY PORTFOLIO MANAGEMENT

Portfolio focus

- **PORTFOLIO-ORIENTED BUSINESS MANAGEMENT**
  Creation of portfolio units with full accountability and P&L responsibility

- **PORTFOLIO STRATEGY** evaluated via four lenses

- **CLEAR STRATEGY** for each offering, including invest, divest, M&A

- **MANAGEMENT SYSTEM** and measurements **in place**
  to support new model

- **Market opportunity**
- **Our capabilities**
- **Do we have a right to play?**
- **Can we make money?**
1 PORTFOLIO: REVENUE EQUALLY SPLIT BETWEEN THREE CLUSTERS

<table>
<thead>
<tr>
<th>Fixed Line Services</th>
<th>Mobile Services</th>
<th>Classified ICT</th>
<th>IoT</th>
<th>Security</th>
<th>Road Charging</th>
<th>Digital Solutions</th>
<th>Public Cloud Managed Services</th>
<th>SAP</th>
<th>Managed Infrastructure Services &amp; Private Cloud</th>
<th>Reshaped</th>
<th>Dedicated SI Solutions</th>
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<tbody>
<tr>
<td>TC CORE</td>
<td>GROWTH PORTFOLIOS</td>
<td>CLASSIC IT</td>
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|                      | Rev. 2017\(^1\) € bn | 2.2 | 0.4 | 0.3\(^2\) | 0.3\(^2\) | 0.1 | 0.4 | 0.1 | 0.5 | 2.5 |

Growth portfolios 2017 €2.1 bn

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<tr>
<td></td>
<td>CAGR (2017–2021e)</td>
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</table>

\(^1\) Revenue different from reported TSI segment view, due to further entities and intragroup charges  \(^2\) DT-View
Integrated platform built on our connectivity

- Emerging multi-billion market, growing at +20%
- DT revenue today at €0.3\(^1\) bn, growing > 20\% p.a.
- Platform from connectivity to big data
- 5G/NB-IoT enabling technologies
- Strategic partnerships (Azure, SAP, Software AG, vertical solutions)

Client example

European market leader in property damage restoration
- E2E condition monitoring solution for digitalizing management
- Easy retrofit solution with tailored plug & play metering-box, managed connectivity, device management & service concept
- From idea to implementation in < 2 years

Further customers

\(^1\) DT-View
PORTFOLIO: SECURITY

Becoming leading European provider

- Dynamic-growth market with 8% growth
- Double-digit growth since launch, now revenue at €0.31 bn, growing > 10% p.a.
- > 1,400 security experts – German leader
- Largest security operations center

Selected Partners

Client example

World leading supplier of industrial, process and specialty gases
- Outsourcing of worldwide Security operation center
- Complete level 1 & 2 monitoring in the Security incident & event monitoring (SIEM) for all locations worldwide
- Operation & engineering of SIEM platform
- Customer is highly satisfied with Telekom Security performance and customer centricity

1 DT-View
Support European enterprises on their digital journey

- Multi-billion market growing double digit
- €0.4 bn revenue, expected growth of 10% p.a.
- End-to-end digitalization from ideation and innovation to integration
- 4,800 digitalization experts

Client example

Large international computer manufacturer
- Order picking system based on smart glasses, providing warehouse pickers with all the information about the next component at the right time
- From cloud to data glasses to strive for reduction of operating times, human errors & facilitation of complex processes.

Further customers
PORTFOLIO: DIGITAL SOLUTIONS

GROWTH & SUCCESS
4,000
Implemented Digital Projects 2017

EXPERTISE & COMPETENCE
4,800
Digitalization Experts

370
IoT Solution & Integration Experts

280
Data Analyst & Big Data Experts

230
Enabling Technologies Experts

620
Digital Platform & Architecture Experts

100
(Co-)Innovation & Digital Change Experts

470
Mobile and Network Solutions Experts

720
(General) Management Consultants and Digitalization Experts

830
Industry Digitalization Consultants & Experts

730
Cloud Transformation and Integration Experts

450
Agile/DevOps Experts
Europe’s largest bus manufacturer implements SAP S/4HANA

- Migration of SAP R/3 to SAP S/4HANA as part of the client's business process modernization program
- Transformation follows agile approach based on combination of SAP’s and T-Systems’ best practices
- Client’s benefits: increasing speed and innovation taking proactive actions throughout complete production process
PORTFOLIO: SAP

EXPERTISE & COMPETENCE

4,000
SAP experts

6.7 MILLION
SAP users

10,000
SAP instances

850,000
SAPS

Biggest single SAP system with

Largest SAP hosting provider

600 TB
HANA database

15
Global competence centres
SALES: HOW WE EXECUTE BETTER IN SALES

Sales revitalization

- **Integrated sales** and **go-to-market organization** – Responsible for entire portfolio, supported by portfolio sales specialists.

- Return to significant signings per year > €6 bn

- Drive client centricity ➔ Increase client facing time + 25%
  Structured/consistent sales management approach

- Simplify and Improve **tools and processes**
3 DELIVERY: HOW WE EXECUTE BETTER IN DELIVERY

Delivery integration

- Integrate **delivery functions within the portfolio units**, creating end to end cost transparency and clear ownership

- Cross delivery function driving **standardization, automation** and **tooling** ➔ saving > €100 mn

- Digitalizing **client interfaces** and **workflows**

- Cross delivery function to manage and drive **right-shoring-strategy** ➔ saving > €100 mn
# OVERHEAD: LEAN OVERHEAD SUPPORTS OUR AMBITION

**Overhead reduction**

- **Simplify** central functions & general administration, processes and structure
- **Reduction of management layers**
- **Create agile organization designs**, fit for growth areas, and efficient structures for mature areas
- **Cost saving > €100 mn**
TRANSFORMATION SUPPORTED BY FIVE BUSINESS PRINCIPLES AND CHANGE MANAGEMENT PROGRAM

STRONG MANAGEMENT SYSTEM & CHANGE MANAGEMENT PROGRAM
# Lessons Learned from the Past Help Improve Execution

## From...
- Revenue decline due to sales set-up and portfolio gaps
- Loss making contracts burden our results
- Good conceptual work, however not bold enough approach or execution
- Too little automation, offshoring and digitalization/standardization – cost disadvantages
- Cultural change not explicitly targeted

## To...
- New sales organization set-up. Strong initiative with new spirit, client centricity and opportunity tracking
- Clearly defined portfolio, focused on growth
- Implemented improved risk-management
- Rigorous execution with strong management team, new skills and capabilities
- Structured cost reduction program and current sense of urgency supports change and workforce-program
- Strong focus on mindset with new change management program
T-SYSTEMS LEVERAGING FULL POTENTIAL

Integrated client approach

Growth portfolio benefits strongly from DT network ownership and IT capabilities, e.g.
- Leverage IT delivery capability and expertise in complex projects
- Leverage of client base to up-sell new solutions
- Leverage of network (5G, NB) capabilities across all growth areas
- Partnerships across portfolios (Microsoft, SAP, Cisco, Huawei)

Complementary portfolio offerings enable cross-sell and upsell, e.g.
- Security as fundamental component to all offerings and contracts
- Digital solutions as tip of the arrow and integrator of TSI portfolio

Breadth of portfolio enables scale effects, e.g.
- offshore-center, marketing spend, sales force size & innovation labs

Scale effects
New revenue mix as result of our strategy – Leveraging our core and legacy to drive growth in new areas

1 Revenue different from reported TSI segment view, due to further entities and intragroup charges; Security and IoT DT-View
### SOUND PROFITABILITY-BASIS THROUGH > €300 MN SAVINGS

<table>
<thead>
<tr>
<th>Measures</th>
<th>Gross-savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery right-shoring-strategy</td>
<td>&gt; €100 mn</td>
</tr>
<tr>
<td>Delivery standardization, automation and tooling</td>
<td>&gt; €100 mn</td>
</tr>
<tr>
<td>Overhead reduction</td>
<td>&gt; €100 mn</td>
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</table>

> €300 MN
FINANCIAL OUTLOOK
FINANCIAL OUTLOOK

Revenue growth

€ bn

CAGR ≈ +1%

6.9

2017

2021e

Adj. EBITDA

€ bn

CAGR ≈ +5%

0.5

2017

2021e

Cash Contribution¹

€ bn

-0.1

2017

2021e

Cash Capex

€ bn

Stable

0.4

2017

2021e

Special factors (Cash)

€ bn

Stable

0.2

2017

2021e

¹ Cash Contribution = Adj. EBITDA – Cash Capex – Special factors (Cash)
MID TERM AMBITION LEVEL
## MID TERM AMBITION LEVEL

### FINANCIALS

- Growing revenue: CAGR +1%
- Growing adj. EBITDA: CAGR ≈ +5%
- Adj. EBITDA margin: 8–10%
- Cash Contribution\(^1\) breaking even

### QUALITY

- Maintain TRI*M index above peer average at current level

### Mid term ambition level

<table>
<thead>
<tr>
<th>Year</th>
<th>Financials</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017–2021e</td>
<td>Growing revenue: CAGR +1%</td>
<td>Maintain TRI*M index above peer average at current level</td>
</tr>
<tr>
<td>2017–2021e</td>
<td>Growing adj. EBITDA: CAGR ≈ +5%</td>
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</tr>
<tr>
<td>2021e</td>
<td>Adj. EBITDA margin: 8–10%</td>
<td></td>
</tr>
<tr>
<td>2020e</td>
<td>Cash Contribution(^1) breaking even</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 80 points in 2021e</td>
<td></td>
</tr>
</tbody>
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\(^1\) Cash Contribution = Adj. EBITDA – Cash Capex – Special factors (Cash)