

DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2012 T-SYSTEMS

REINHARD CLEMENS, KLAUS WERNER



LIFE IS FOR SHARING.

DISCLAIMER.

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

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.



LIFE IS FOR SHARING.

REVIEW 2010 – 2012

2010 – 2012: T-SYSTEMS' ACHIEVEMENT SINCE WE MET LAST TIME.

GROWTH

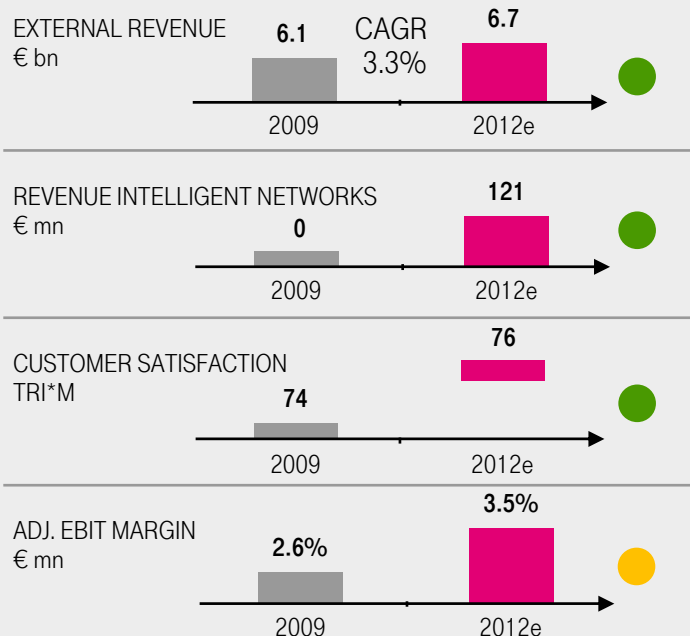
QUALITY

PROFITABILITY

AMBITION LEVEL 2012

- Revenue growth above industry average
- Fair market share in innovative “industry solutions”¹
- Strong TRI*M Index over peer average and above 75 pt
- Grow adj. EBIT margin towards peer level (ca. 7%)

ACHIEVEMENTS 2012



LIFE IS FOR SHARING.

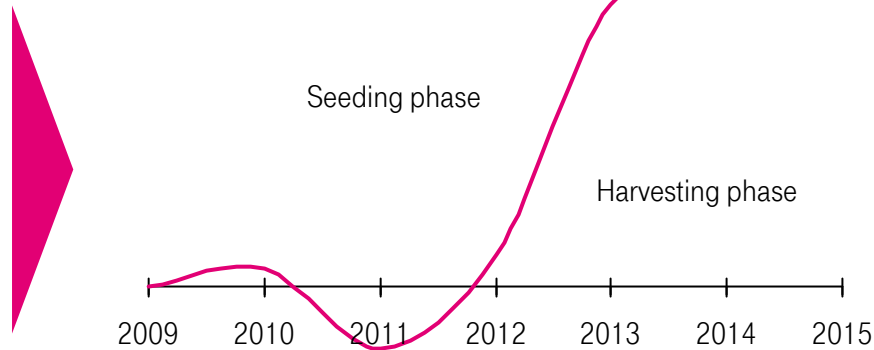
¹ Enabling perspective for groupwide responsibility adj. EBIT margin: Forecast in old structure before restatement

2010 – 2012: OVER 20 BIG DEALS SHOW GREAT TRUST.

Total Contract Value 2010 – 2012: ~€8 bn



GROSS PROFIT DEVELOPMENT OF BIG DEALS WON 2009 – 2010



QUALITY: CHALLENGE TO DELIVER....



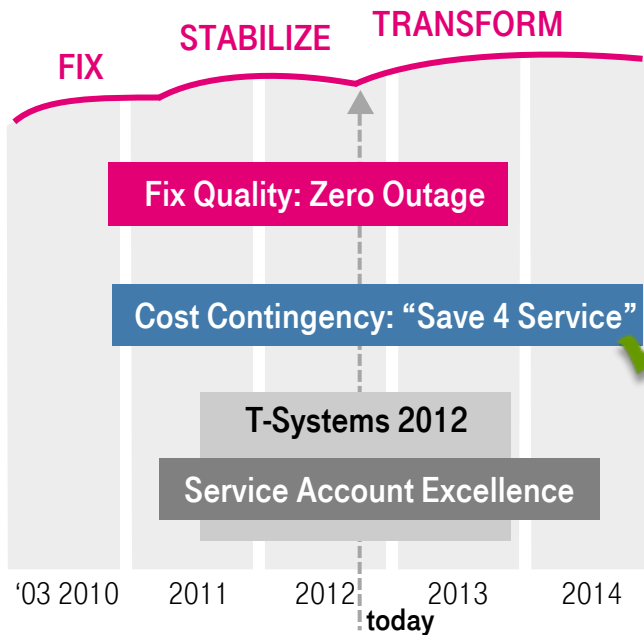
LIFE IS FOR SHARING.

2010 – 2012: KEY PROJECTS FOR IMPROVEMENTS ALREADY IN PLACE.

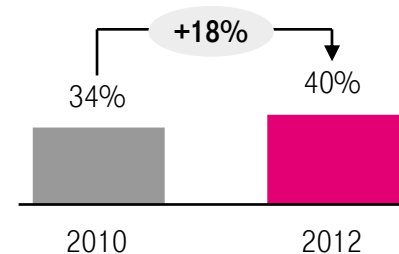
MASTERPLAN T-SYSTEMS



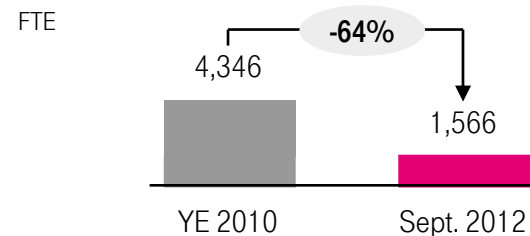
- 1 QUALITY
- 2 UTILIZATION
- 3 PRODUCTIVITY
- 4 COST OPTIMIZATION



NEARSHORE/OFFSHORE QUOTA PRODUCTION



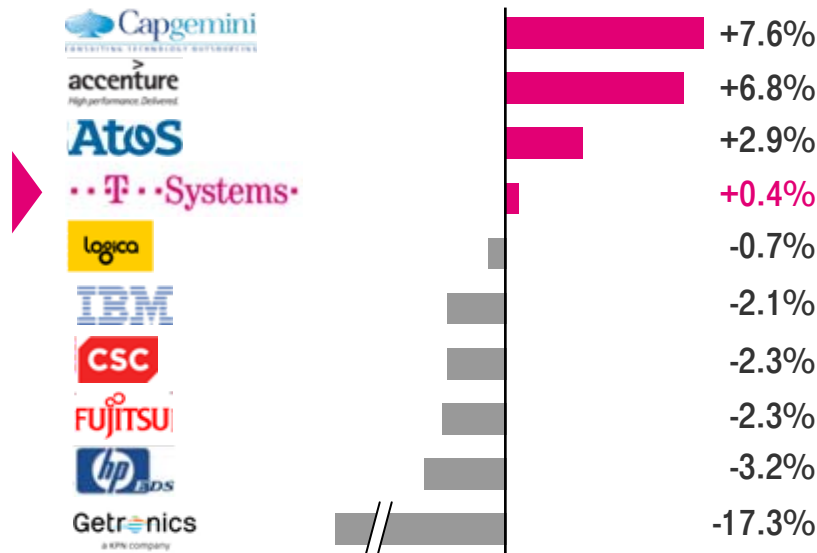
FREELANCER GLOBAL PRODUCTION



LIFE IS FOR SHARING.

2010 – 2012: UNLIKE MAIN PEERS OUR REVENUE IS STILL GROWING.

△ REVENUE: 9M 2012 OVER 9M 2011



Logica: No quarterly reporting since acquisition by CGI

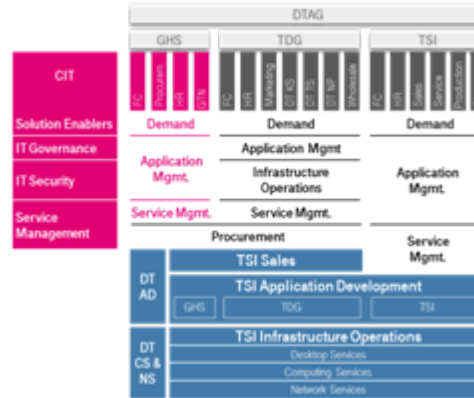
LIFE IS FOR SHARING.

DT NEEDS TO CUT IT SPEND SIGNIFICANTLY – FORMATION OF TELEKOM IT.

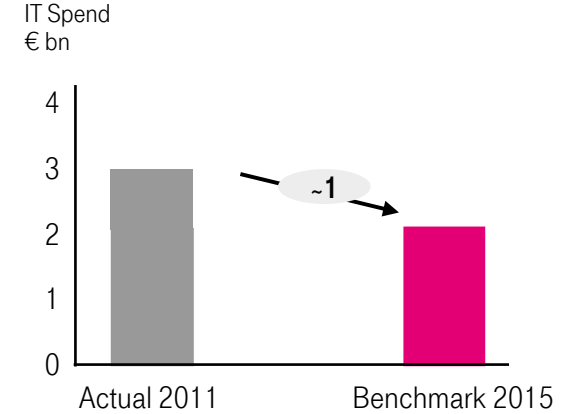
QUALITY ISSUES

- **Time to market** not competitive
- Insufficient **time, budget, and quality** of projects
- Distributed projects and **redundancies** in tasks
- **No clear responsibility** and heterogeneous IT systems

COMPLEX STRUCTURES



NEED FOR IT SPEND REDUCTION



With bundling of all internal IT functions of DT in Germany within Telekom IT, a strict optimization in terms of cost, quality and time-to-market is possible.



MARKET TRENDS

ATTRACTIVE MARKET ENVIRONMENT FOR ICT BUSINESS.

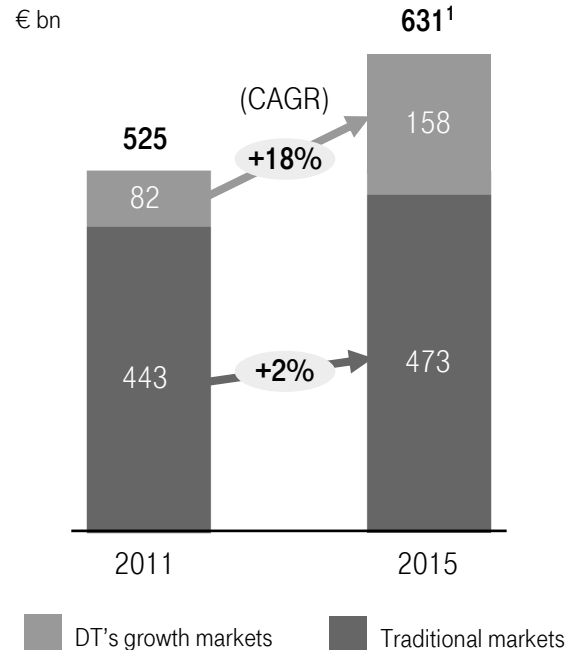
BUSINESS AREAS

SCALABLE ICT SERVICES
(GROWTH AREAS)

CONVENTIONAL ICT BUSINESS

MARKET DEVELOPMENT TSI FOOTPRINT

€ bn



SUCCESS FACTORS

- Fuel growth by **developing bundled, end-to-end solutions** in disruptive technology areas (cloud, analytics, mobility)
- Make use of **key paradigms like:**
 - speed & simplicity
 - service & convenience
- Increase **offshore** leverage
- Develop industrialized delivery models to drive up **services profitability**
- **Expand channel partner** delivery as primary lever of margin improvement



LIFE IS FOR SHARING.

GLOBAL FUTURE TRENDS & TECHNOLOGIES FROM DT'S PERSPECTIVE.

GROWTH WITH GLOBAL TREND CLOUD¹

Turnover worldwide **EUR 114 billion**

1.3 billion

mobile workers worldwide (till 2015)



BIG DATA MARKET FORECAST²

CAGR (IDC)

40 %

currently

1.8 Zettabytes

of data volume worldwide

Market forecast
worldwide (till 2017)

EUR 53 billion

INTELLIGENT NETWORKS³

Installed
smart meters
worldwide
(till 2020)

nearly **1 billion**

More than **50%** of patients
will use mobile health solutions (till 2017)

Numbers of cars with internet access
by 2020 (global)



> 100 million

NETWORK SECURITY BECOMING MORE RELEVANT⁴



Total volume cyber crime incl.
countermeasures 2011 (global)

EUR 290 billion

Direct damage caused
by cyber crime 2011 (worldwide)

EUR 85.2 billion

10% CAGR (2012 - 2016)



LIFE IS FOR SHARING.

STRATEGY 2013 – 2015

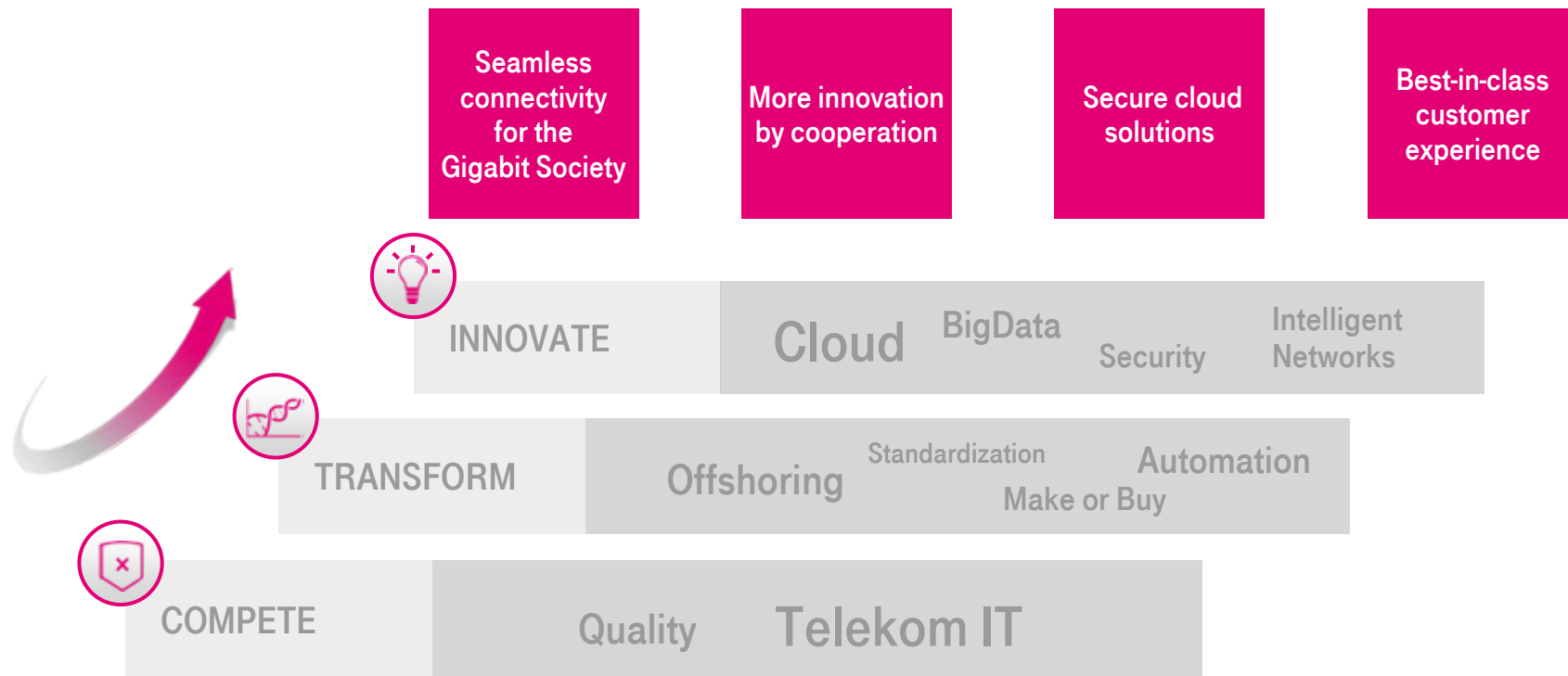
MARKET UNIT:

PROFITABLE GROWTH

TELEKOM IT:

SPEND REDUCTION

2013 – 2015: OUR PRIORITIES DERIVED FROM DT'S STRATEGY.



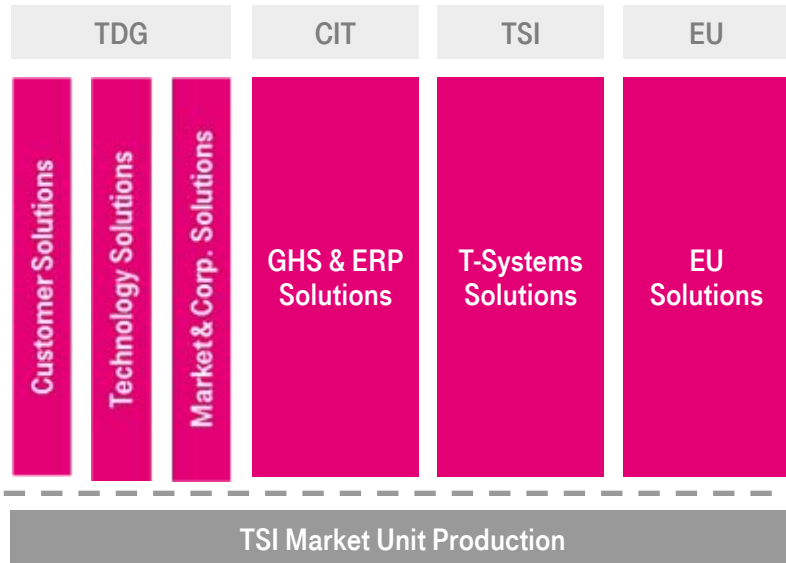
LIFE IS FOR SHARING.

2013 – 2015: TELEKOM IT WITH End2End ACCOUNTABILITY & CLEAR INTERFACES.



COMPETE

TELEKOM IT



KEY FACTS

- **DT's service provider** for domestic business units, organized along six solution domains
- **More than 8,000** internal and **2,000** external employees (1.7.2012)
- **€2.7 bn** IT budget (2011 restated)
- Responsible for CRM/Billing systems managing **23 mn fixed line & 35 mn** mobile customers
- Operating **Shared Platforms** for European NatCos (€15 bn yearly revenue)

➔ Mission: Reduction of IT spend by €1bn by 2015



LIFE IS FOR SHARING.

2013 – 2015: COST CUTS BY OPTIMIZING PORTFOLIO & PRODUCTION.

STREAMLINING OF PORTFOLIO



MAKE OR BUY DECISION

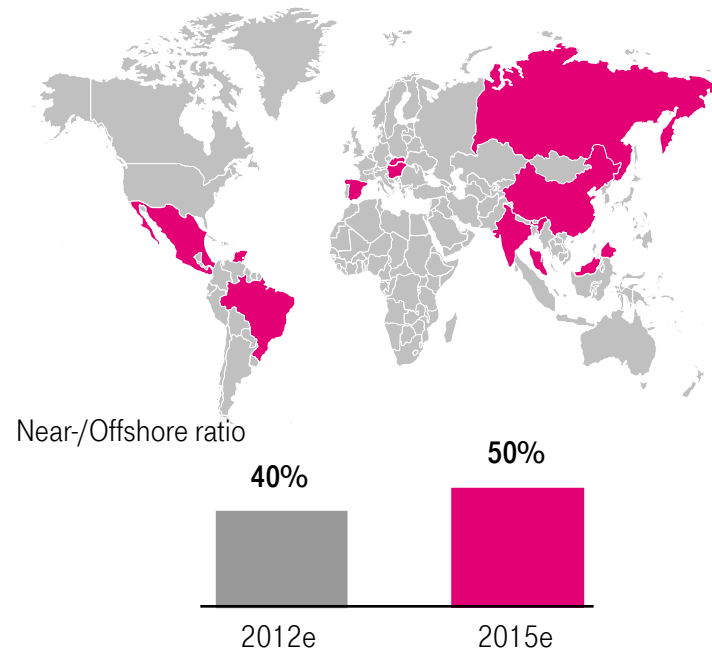
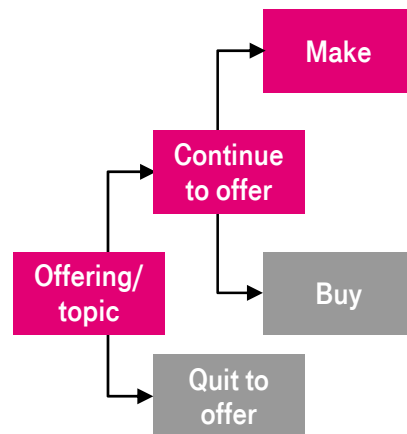


MOVE TO NEAR-/OFFSHORE LOCATIONS

▪ INNOVATION

▪ STANDARDIZATION

▪ PARTNERING



LIFE IS FOR SHARING.

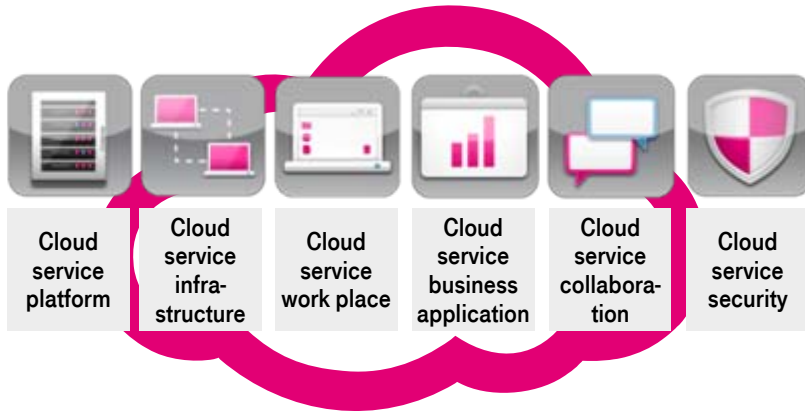
2013 – 2015: CLOUD COMPUTING AS KEY ENABLER FOR GROWTH.



INNOVATE

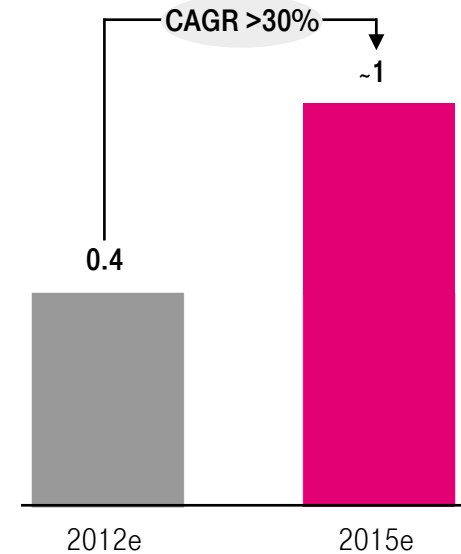
DT CLOUD SERVICES PORTFOLIO

- T-Systems cloud pioneer since 2005: first SAP applications from the cloud
- The cloud as a current business driver: 80% of the SAP business is cloud
- In total 600 customers to use DT cloud services



ENTERPRISE CLOUD REVENUE TSI 2012 – 2015

€ bn



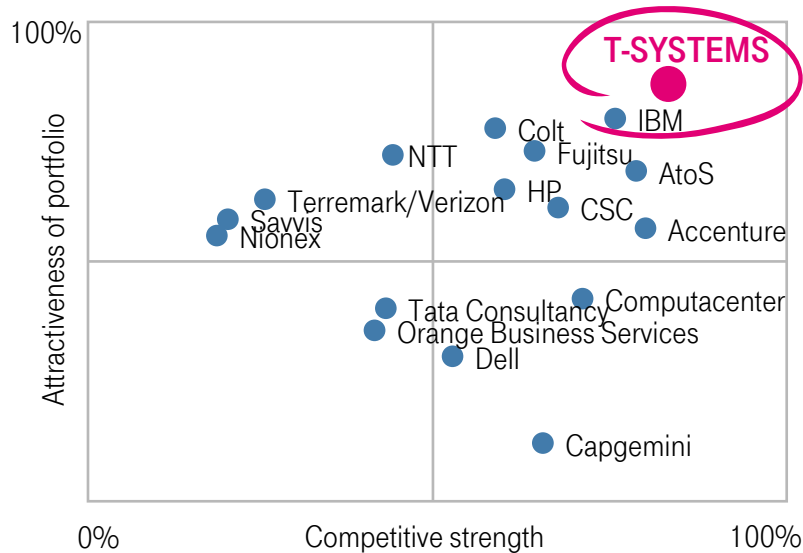
LIFE IS FOR SHARING.

2013 – 2015: #1 IN CLOUD SERVICES THROUGH EARLY MARKET APPROACH.



INNOVATE

POSITIONING OF RELEVANT PROVIDERS



5 MAJOR ADVANTAGES IN THE MARKET

- 1 Trust:** “Engineered in Germany”
- 2 Security:** “End-to-End” design with firewalls, honeypots, intrusion detection systems, etc.
- 3 Data privacy:** Data stored in Germany
- 4 Ability to perform:** High performance data center, certifications, “corporate customer tested”, reliability
- 5 Choice:** Broad spectrum for medium-sized and large companies and organizations



2013 – 2015: INTELLIGENT NETWORKS - NEW SOLUTIONS FOR UNCONTESTED MARKET SPACE.



INNOVATE

ENERGY



Energy Data Platform

Energy Efficiency Management

Metering Services

Home Management



Partner for top national & international utilities

HEALTH



Integrated Care

Utilization of care management

SAP Health Insurance Model

Telematic Services for Health



Remote monitoring at EU's biggest university hospital

CONNECTED CAR



Enabling Services and processes

Telematics infrastructure

Backend integration projects

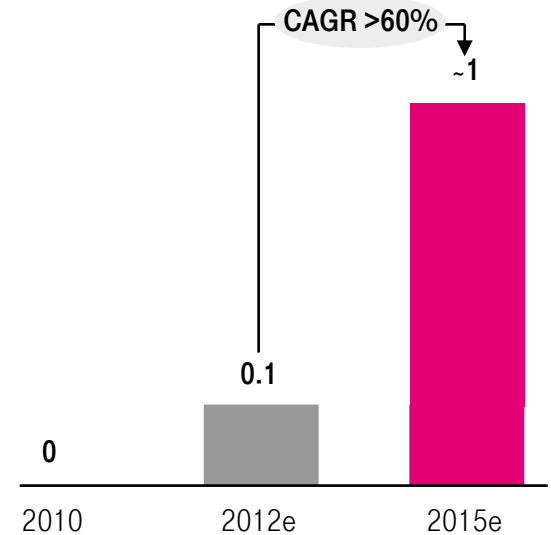
Connectivity & operations



Internet access for more than 1 mn cars in 2013

REVENUE DEVELOPMENT IN'S DT GROUP

€ bn



LIFE IS FOR SHARING.

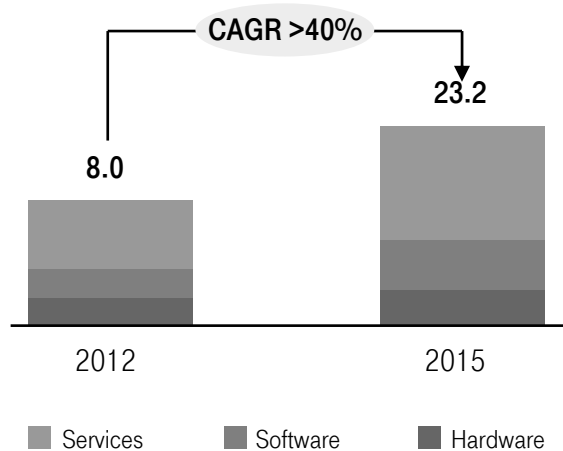
2013 – 2015: BIG DATA.



INNOVATE

TSI FOOTPRINT BIG DATA MARKET

Market Forecast € bn¹



- Key topic on CxO level at our customers ✓

- Emerging Blue Ocean Market (high margins) ✓

T-SYSTEMS OFFERING STRATEGY

- Consulting capabilities and vertical solutions
- Cloud based Big Data platform
- On demand delivery Model



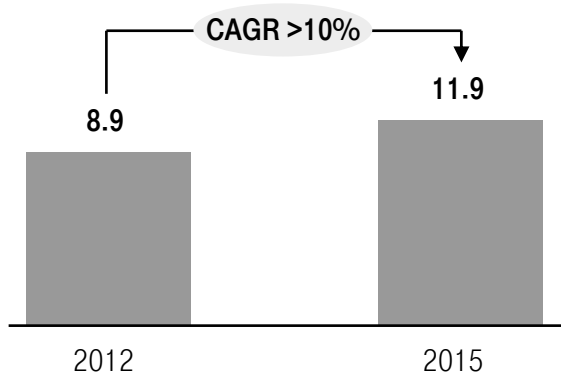
LIFE IS FOR SHARING.

¹ Source: Gartner/IDC



TSI FOOTPRINT SECURITY SERVICES MARKET

Market Forecast € bn¹



- Cyber crime threat increases on a daily basis

- Investments in security are a top priority for CIOs

- Spend makes up more than 10% of overall IT budget

Cyber protection initiative on European level



CyberSecurity
Labs

TRUSTED PARTNER STRATEGY

- Enterprise Security Mgmt.
- Identity & Access Mgmt.
- Infrastructure Security Serv.

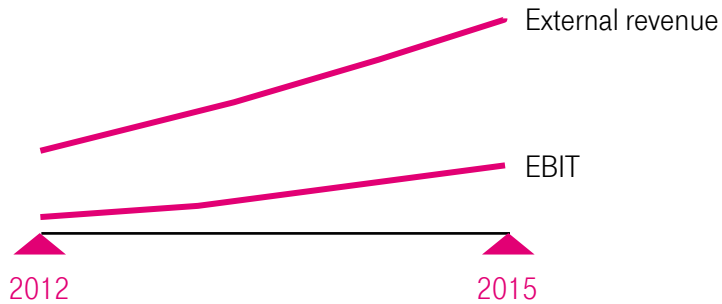


¹ Source: Gartner/IDC

FINANCIAL OUTLOOK

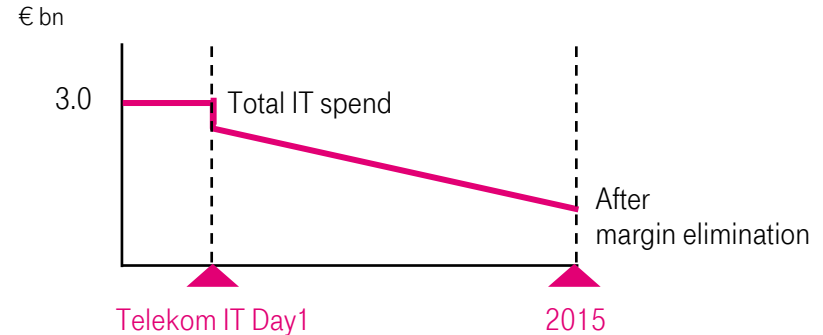
NEW ORGANISATION: INTERNAL IT SEPARATED FROM EXTERNAL IT.

TSI MARKET UNIT



- Revenue volume 2012e \approx €7.8 bn
- Push revenue growth
- Goal: EBIT margin improvement
- Profit Center

TELEKOM IT



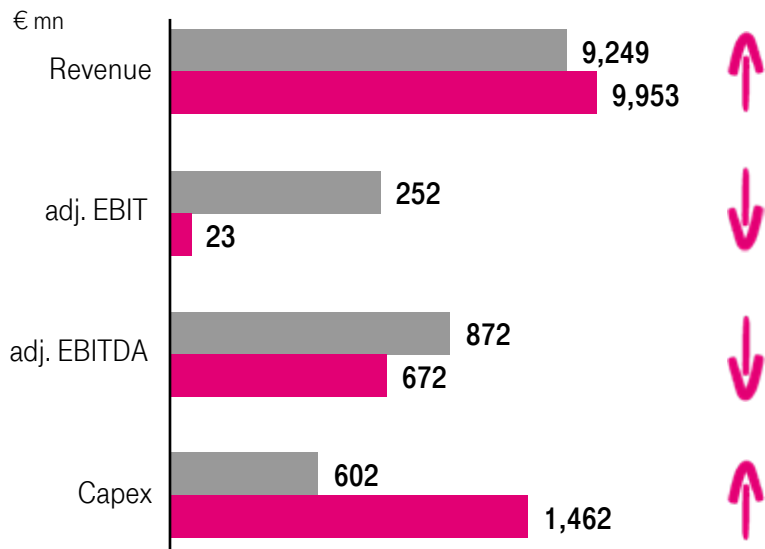
- Revenue volume 2012e \approx €2.3 bn
- EBIT margin = 0
- Go-live July 1, 2012
- Cost Center, focus: Germany



LIFE IS FOR SHARING.

CHANGES IN FINANCIALS 2011.

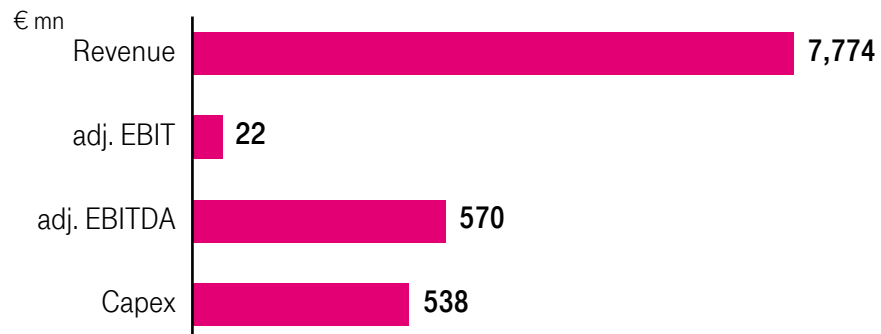
TSI TOTAL



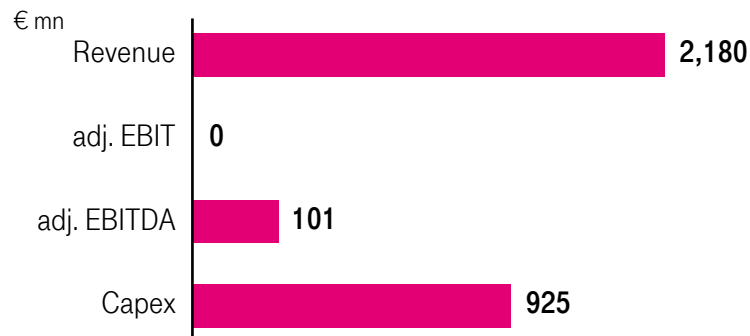
■ "Old TSI" ■ "New TSI"



MARKET UNIT



TELEKOM IT

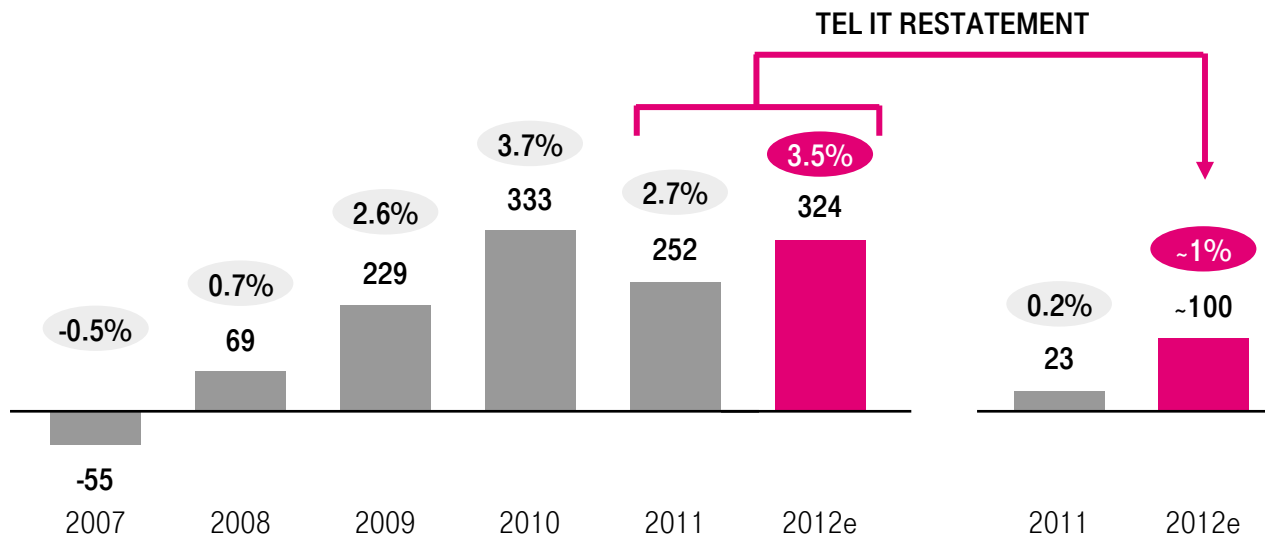


LIFE IS FOR SHARING.

ADJ. EBIT MARGIN TSI: DROP DUE TO NEW STRUCTURE.

ADJ. EBIT DEVELOPMENT AND EXPECTATION

€ mn

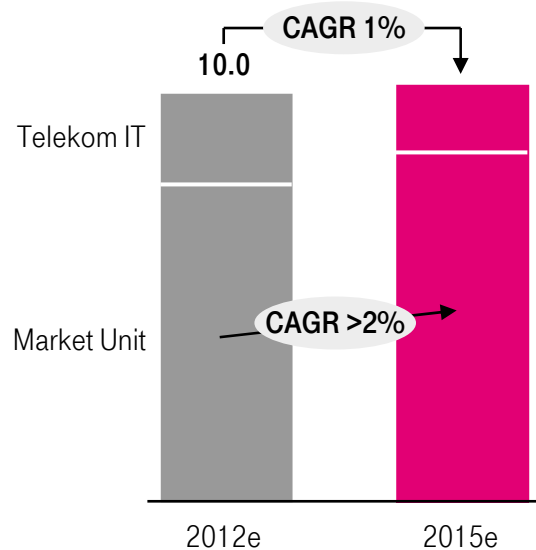


LIFE IS FOR SHARING.

WAY FORWARD: T-SYSTEMS TOTAL.

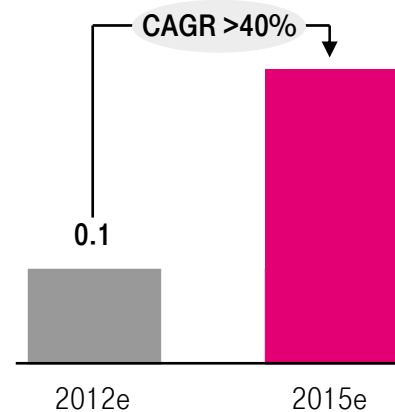
TSI TOTAL - REVENUE

€ bn



TSI TOTAL - ADJ. EBIT

€ bn

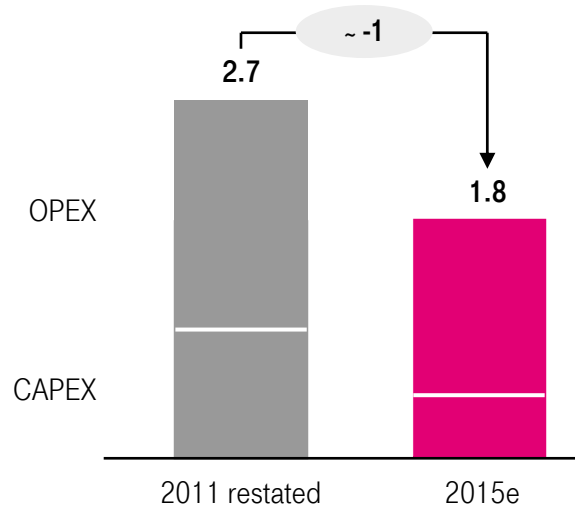


LIFE IS FOR SHARING.

WAY FORWARD: TELEKOM IT REDUCES IT SPEND FOR DT GROUP.

IT SPEND

€ bn



Reduce IT spend to benchmark level

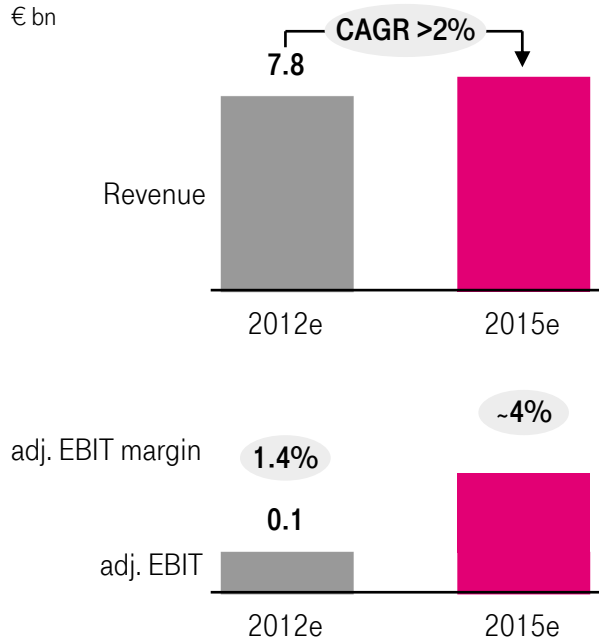
(Value Case for DT) through

- Demand reduction ~€0.3 bn
- Reduction of external Workforce Synergies & Process efficiency ~€0.3 bn
- Infrastructure consolidation ~€0.2 bn
- Application retirement ~€0.1 bn



LIFE IS FOR SHARING.

WAY FORWARD: MARKET UNIT RESPONSIBLE FOR PROFITABLE GROWTH.



GROWTH

- Further develop our business in growing markets (Cloud services, Intelligent Networks , Big Data, Network Security), focus on SI and CS revenues

EFFICIENCY

- Increase profitability through – e.g. lean and agile company (structural improvement of overhead functions)/push offshoring and standardization

ASSETS

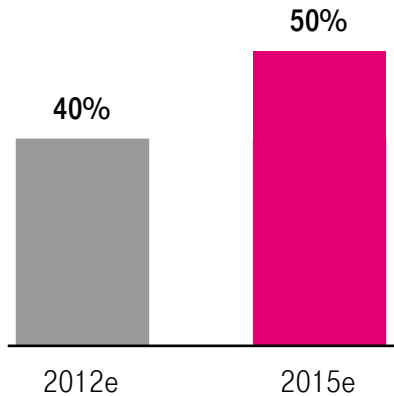
- Further improve asset utilization



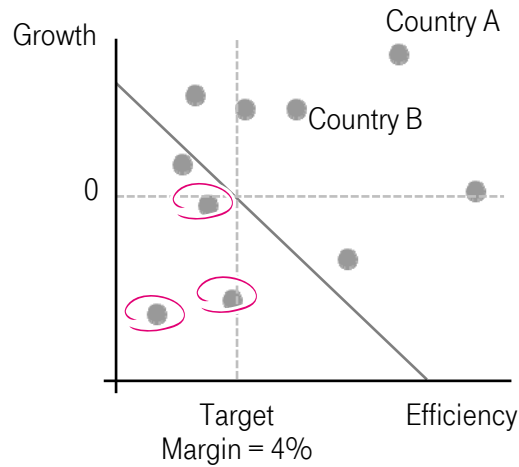
LIFE IS FOR SHARING.

WAY FORWARD: MARKET UNIT – EFFICIENCY MEASURES.

PUSH NEAR-/OFFSHORING PRODUCTION



IMPROVE EFFICIENCY OF FOOTPRINT



EFFICIENCY PROGRAM

Strategic initiatives

Lighthouse projects

Detailed measures

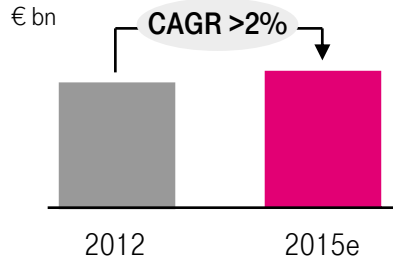
- Reduction of vertical integration
- Consolidation of data centers
- Expand “Zero Touch” - customer self service (e.g. Cloud)
- New procurement approach
- Structural optimization of Sales and G&A (reduction of support functions, SmartFC)



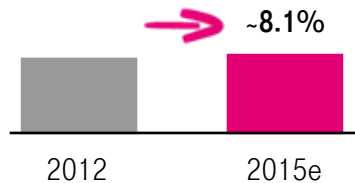
LIFE IS FOR SHARING.

MARKET UNIT: KEY LEVERS FOR ROCE IMPROVEMENT ADDRESSED.

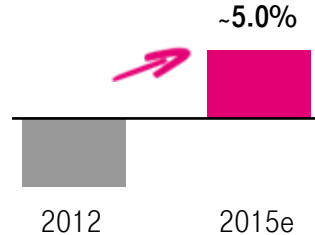
REVENUE GROWTH



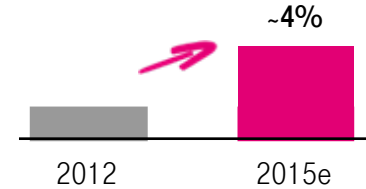
CAPEX/SALES



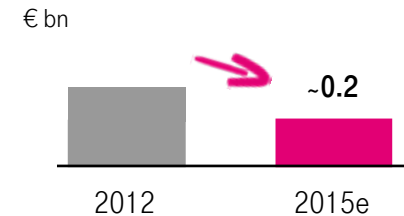
OPERATING ROCE



IMPROVING MARGINS



RESTRUCTURING



LIFE IS FOR SHARING.

AMBITION LEVEL 2015

T-SYSTEMS' AMBITION LEVEL 2015.

AMBITION LEVEL 2015	
REVENUE	Above market growth (~2% CAGR expected)
QUALITY	Maintain TRI*M Index above peer average and > 70 points
ADJ. EBIT MARGIN	Around 4%
TELEKOM IT	€~1 bn IT spend reduction to benchmark level

