

DEUTSCHE TELEKOM CAPITAL MARKETS DAY 2018



LIFE IS FOR SHARING.

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

GROUP STRATEGY

GERMANY

SYSTEMS SOLUTIONS

TECHNOLOGY & INNOVATION

T-MOBILE US

EUROPE

GROUP DEVELOPMENT

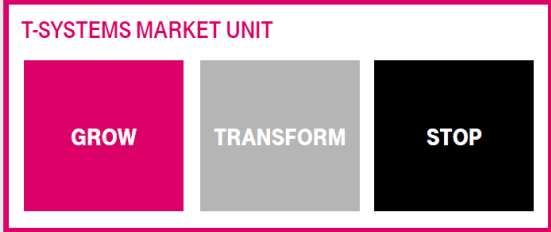
FINANCE

WHAT HAPPENED TO THE OLD PLAN?

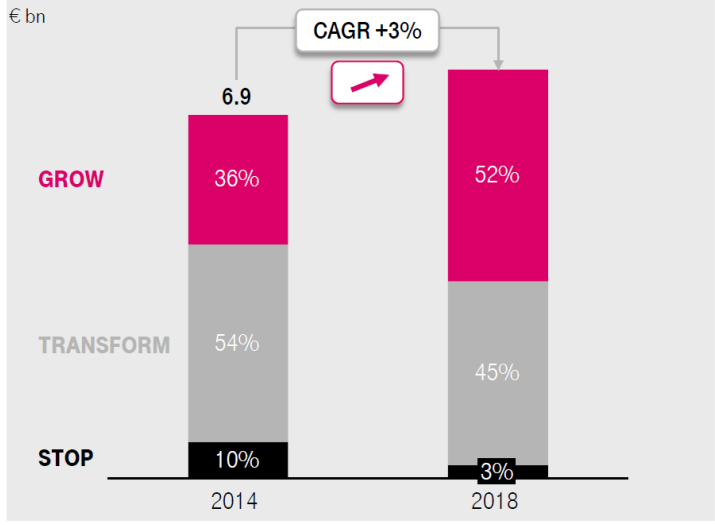
CMD 2015

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



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

CHALLENGED PERFORMANCE IN A COMPETITIVE MARKET

FINANCIALS

Ambition level 2018

- Revenue TSI > 1% CAGR (2014–2018e) expected [pro forma: CAGR > 2%]
- Adj. EBIT margin TSI around 6% (2018e) [pro forma: ≈ 7%]
- Adj. cash contribution TSI positive from 2017 [pro forma: ≈ €500 mn]

QUALITY

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

Achievements 2017

- -1.5% CAGR (2014–2017)
- 1.7%
- €126 mn

- 88 points (+4pts)

Delivered/on track

The 'Delivered/on track' column contains four circular status indicators. The top three are red, indicating that the financial goals (Revenue TSI, Adj. EBIT margin TSI, and Adj. cash contribution TSI) were not delivered. The bottom one is green, indicating that the quality goal (Maintain TRI*M index) was delivered.

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

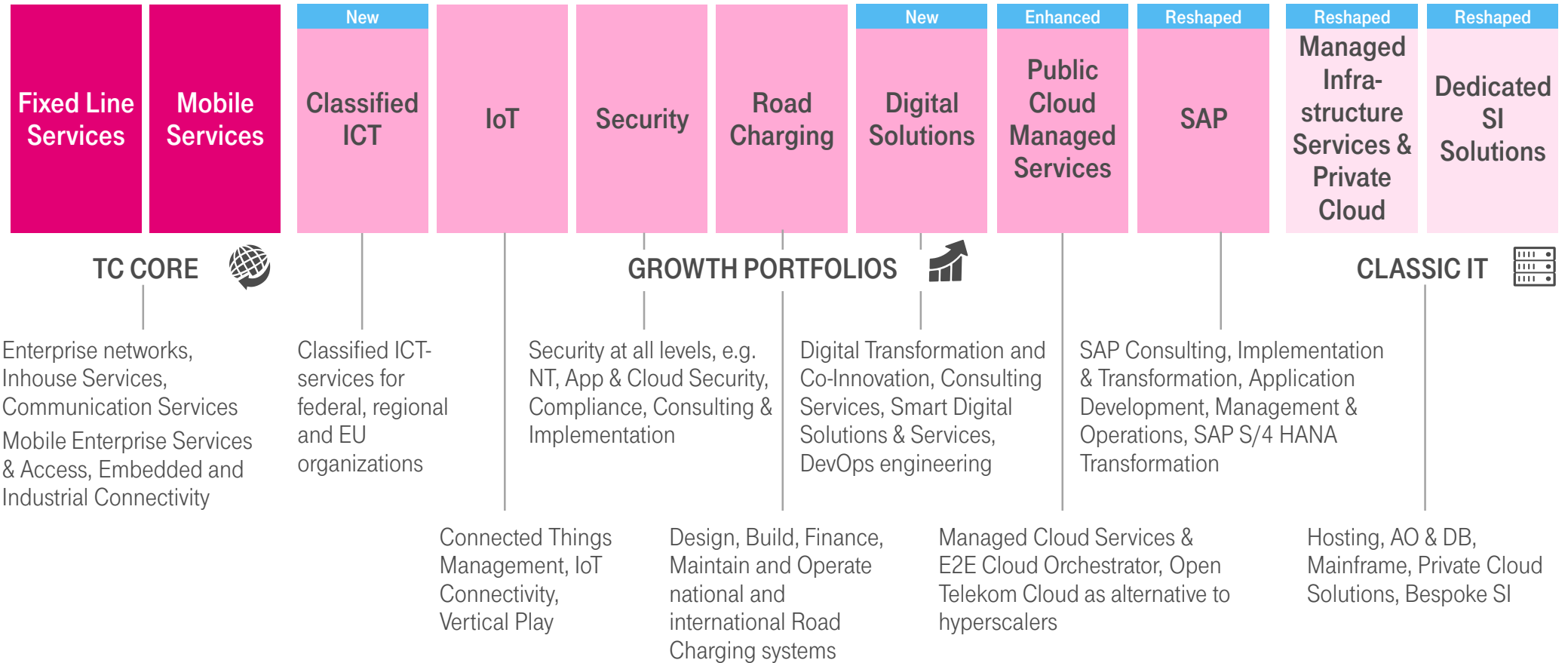
BREADTH OF PORTFOLIO

SKILLS & EXPERTISE

INVESTMENTS IN GROWTH AREAS

COMMITTED EMPLOYEES

NEW PORTFOLIO STRATEGY DEFINED



STRATEGY 2018 – 2021

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FINANCE

FOUR TRANSFORMATIONAL INITIATIVES TO ADDRESS CHALLENGES



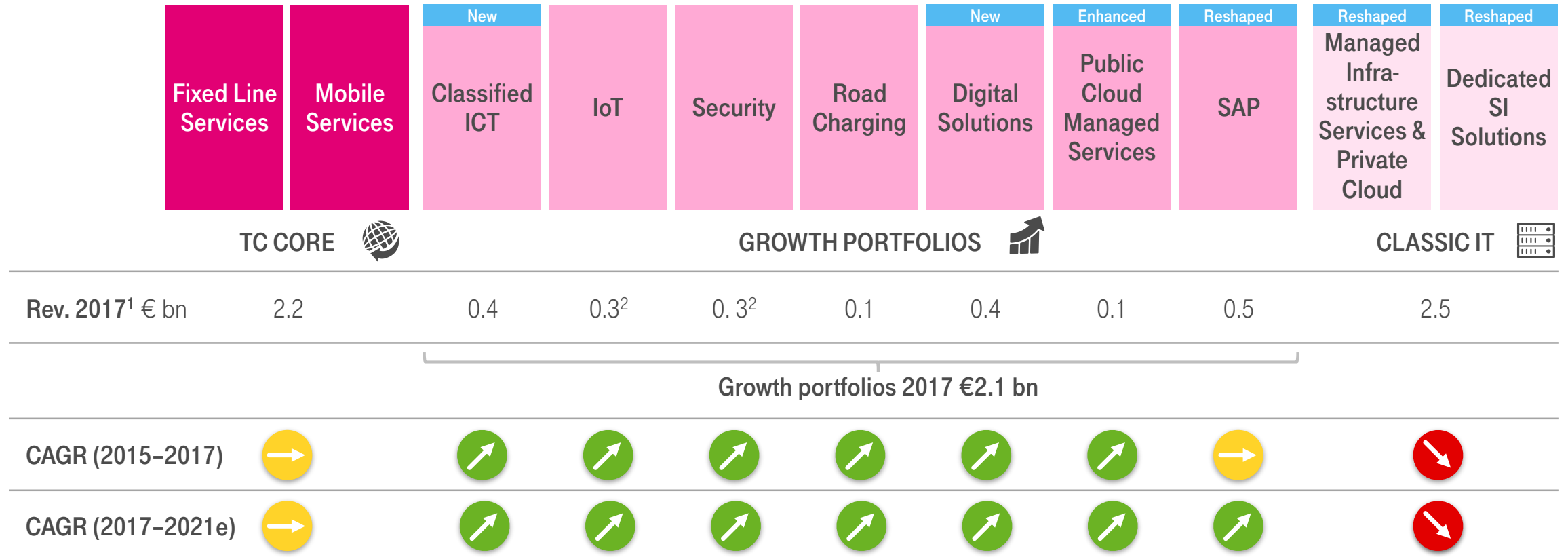
1 PORTFOLIO: SIGNIFICANT CHANGE BY PORTFOLIO MANAGEMENT

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



1 PORTFOLIO: REVENUE EQUALLY SPLIT BETWEEN THREE CLUSTERS



¹ Revenue different from reported TSI segment view, due to further entities and intragroup charges ² DT-View

1 PORTFOLIO: INTERNET OF THINGS

Integrated platform built on our connectivity

- **Emerging multi-billion market**, growing at +20%
- DT revenue today at €0.3¹ 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

1 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



¹ DT-View

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 PORTFOLIO: DIGITAL SOLUTIONS

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



BARMER

1 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

1 PORTFOLIO: SAP

Capitalize on SAP's market growth

- Recognized market leader in Germany
- **€0.5 bn revenue**, 1%–2% growth today, expected to grow > 5% p.a. going forward
- Lead SAP S/4 HANA transformation
- Lead SAP in public cloud
- SAP on open Telekom cloud certified

Client example

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

Further customers



Volkswagen

SHELL



1 PORTFOLIO: SAP



EXPERTISE & COMPETENCE

4,000

SAP experts



6.7 MILLION

SAP users



10,000

SAP instances

Biggest single SAP system with



850,000

SAPS

Largest SAP hosting provider



600 TB

HANA database



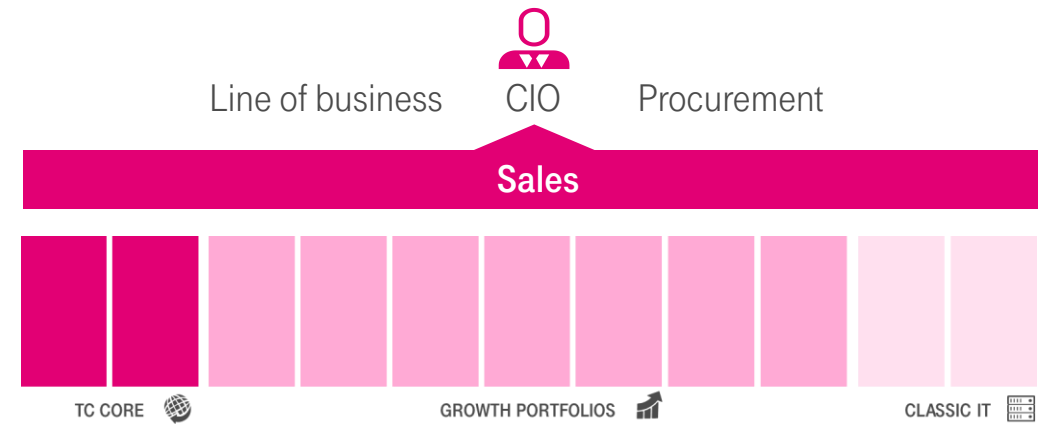
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Global competence centres

2 SALES: HOW WE EXECUTE BETTER IN SALES

Sales revitalization

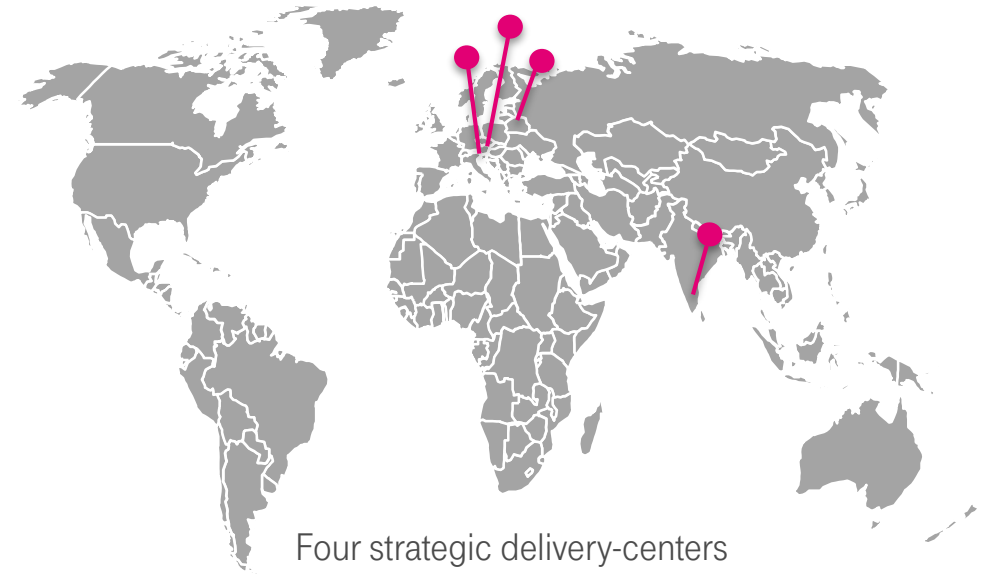
- **Integrated sales** and **go-to-market organization** – Responsible for entire portfolio, supported by portfolio sales specialists
- Return to significant signings per year > €6 bn
- **Drive client centricity** → Increase client facing time + 25%
Structured/consistent sales management approach
- Simplify and Improve **tools and processes**



3 DELIVERY: HOW WE EXECUTE BETTER IN DELIVERY

Delivery integration

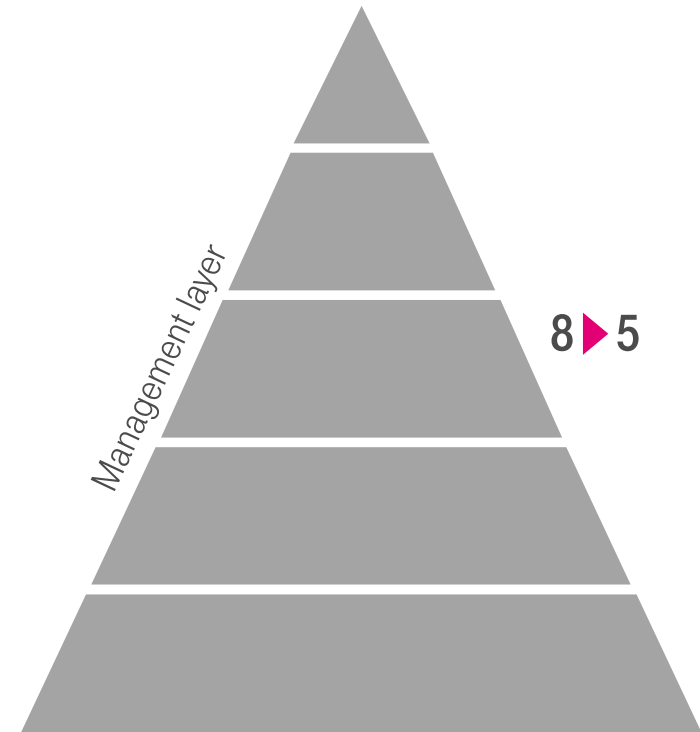
- Integrate **delivery functions within the portfolio units**, creating end to end cost transparency and clear ownership
- Cross delivery function driving **standardization, automation** and **tooling** → saving **> €100 mn**
- **Digitalizing client interfaces** and **workflows**
- **Cross delivery function** to manage and drive **right-shoring-strategy** → saving **> €100 mn**



4 OVERHEAD: LEAN OVERHEAD SUPPORTS OUR AMBITION

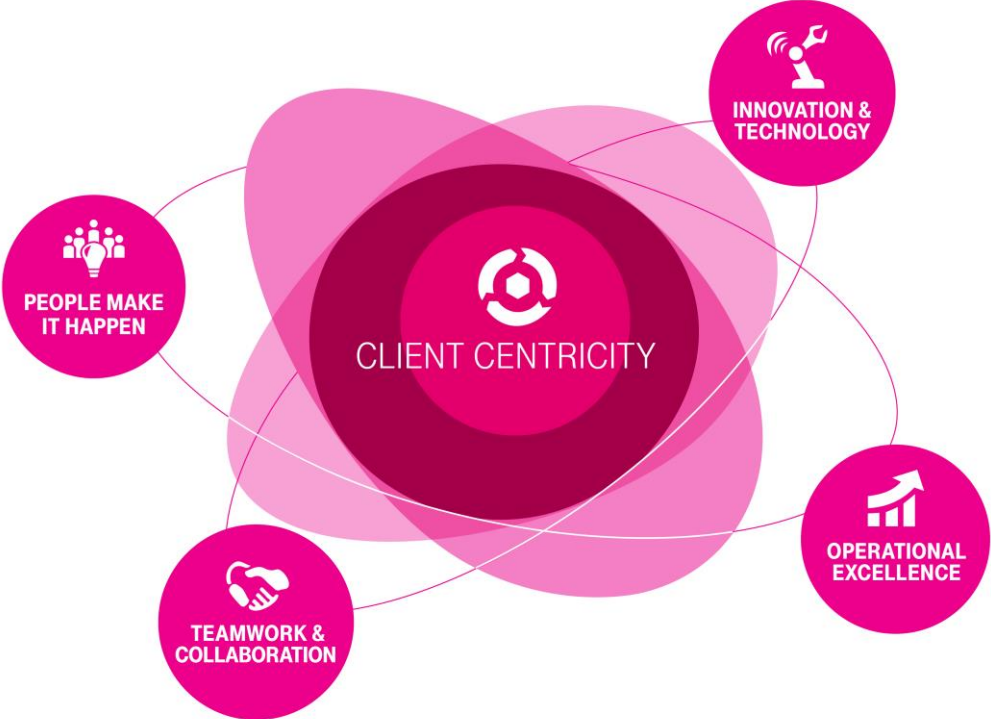
Overhead reduction

- **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

PORTFOLIO FOCUS	SALES REVITALIZATION
DELIVERY INTEGRATION	OVERHEAD REDUCTION



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

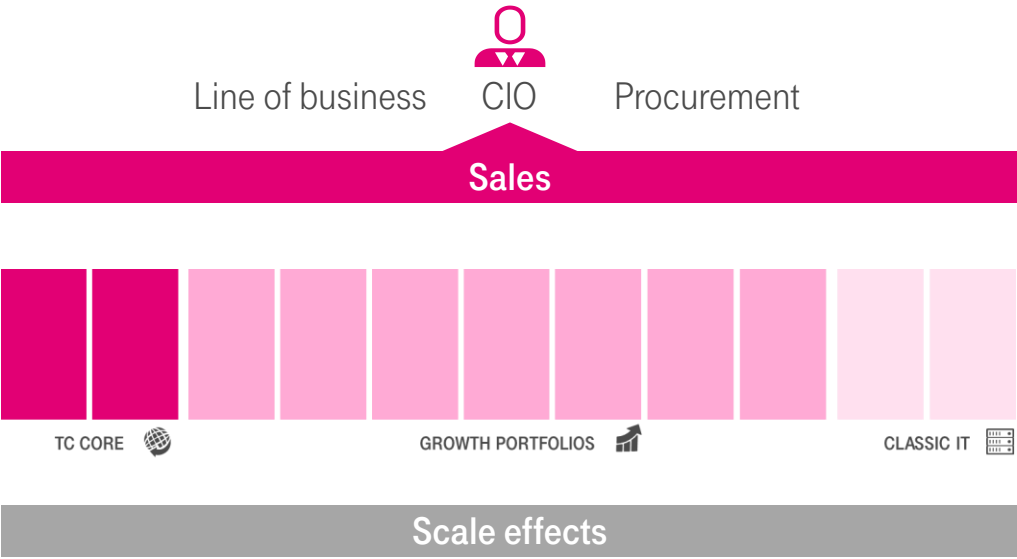
- Implemented improved **risk-management**

- **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.

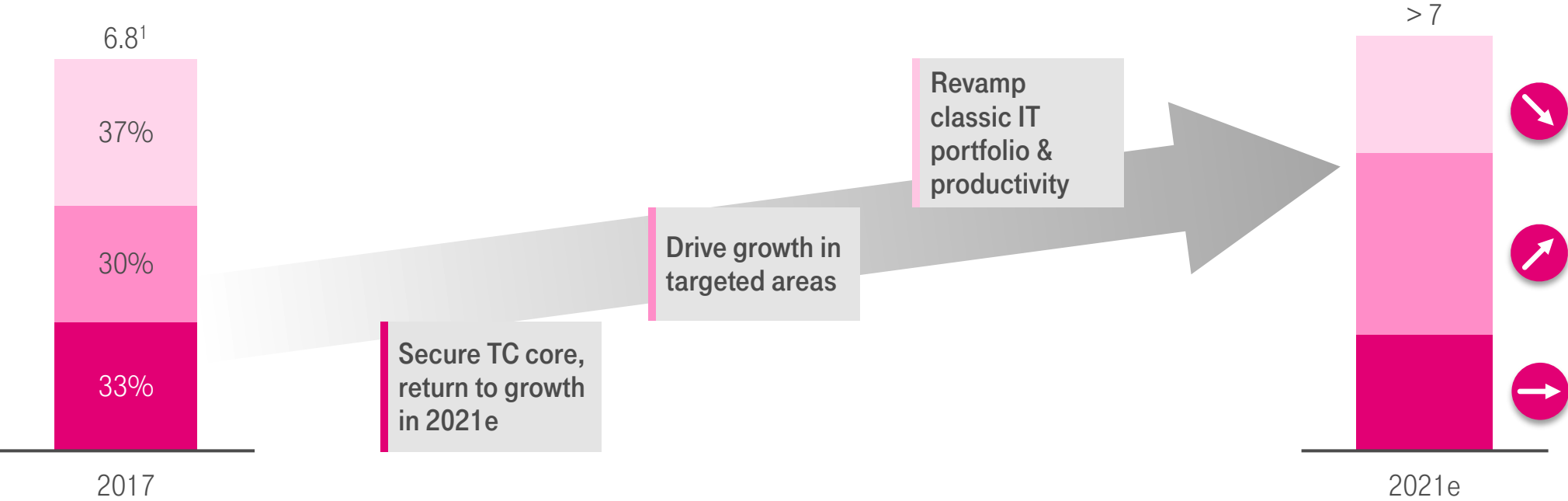
- Security as fundamental component to all offerings and contracts
- Digital solutions as tip of the arrow and integrator of TSI portfolio

Breadth of portfolio enables scale effects, e.g.

offshore-center, marketing spend, sales force size & innovation labs

STRATEGY EXECUTION TO EVOLVE OUR REVENUE MIX

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

Measures

- Delivery right-shoring-strategy
- Delivery standardization, automation and tooling
- Overhead reduction

Gross-savings

> €100 mn

> €100 mn

> €100 mn

> €300 MN

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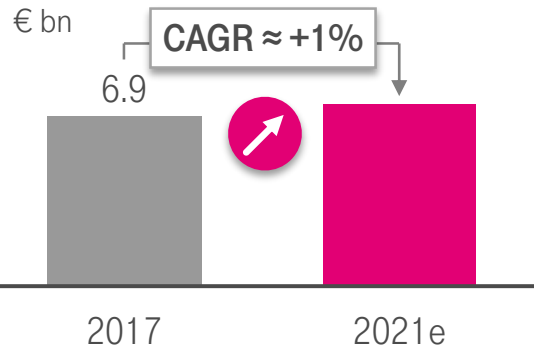
EUROPE

GROUP DEVELOPMENT

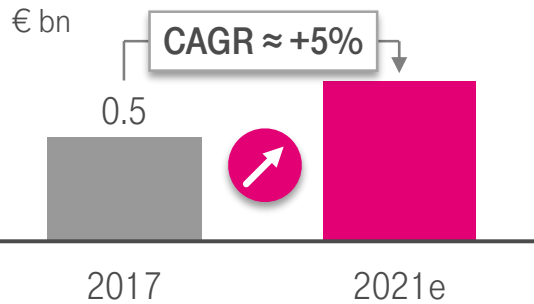
FINANCE

FINANCIAL OUTLOOK

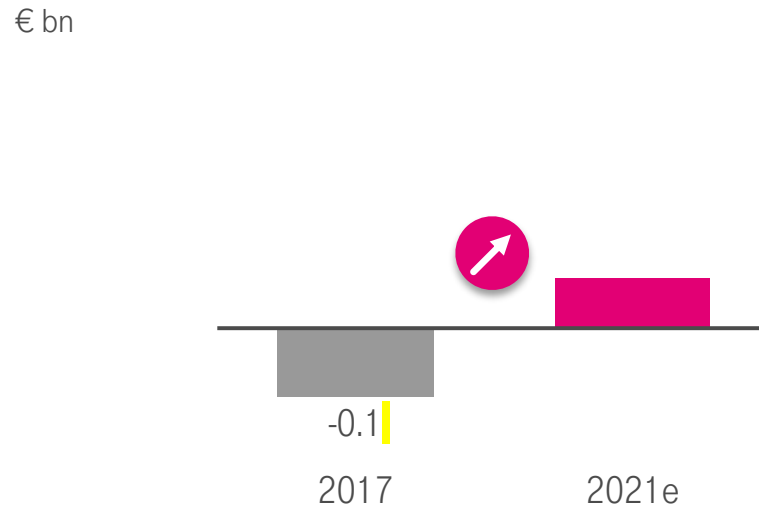
Revenue growth



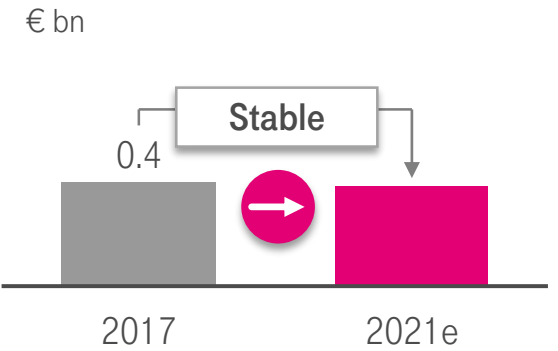
Adj. EBITDA



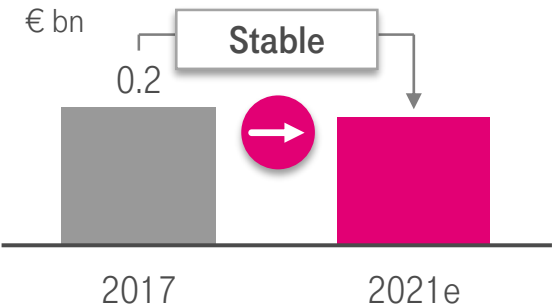
Cash Contribution¹



Cash Capex



Special factors (Cash)



¹ Cash Contribution = Adj. EBITDA - Cash Capex - Special factors (Cash)

MID TERM AMBITION LEVEL

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MID TERM AMBITION LEVEL

FINANCIALS

QUALITY

Mid term ambition level	Year
▪ Growing revenue: CAGR +1%	2017–2021e
▪ Growing adj. EBITDA: CAGR \approx +5%	2017–2021e
▪ Adj. EBITDA margin: 8–10%	2021e
▪ Cash Contribution ¹ breaking even	2020e
▪ Maintain TRI*M index above peer average at current level	Above 80 points in 2021e

¹ Cash Contribution = Adj. EBITDA – Cash Capex – Special factors (Cash)