

# LETTER FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT

## DEAR SHAREHOLDERS,

If I had to sum up the 2017 financial year in just one statement, it would be: “We’re building out!” While others often just talk, we let our actions speak, and invest in the best networks and products. In Germany and in many other parts of Europe. In big cities as in smaller communities. For consumers as for business customers.

To this end, we are investing more than EUR 12 billion in our future as Europe’s leading telecommunications company. This is another billion euros more than a year earlier. On top of this comes another USD 8 billion for new mobile spectrum in the United States.

In Germany, we spent around EUR 5.4 billion in 2017, primarily on best networks. Among other projects, we laid 40,000 kilometers of new optical fiber. The original plan had “only” been for 30,000. At 455,000 kilometers, this means we now have the biggest fiber-optic network in the country. But we still have quite a way to go. We are upping the ante again. We plan to lay 60,000 kilometers in 2018 alone. Overall, we activated around 2.8 million fiber-optic lines in 2017.

Business parks are also a priority for us, as I announced at last year’s shareholders’ meeting. And we have put this into action: Our first step took in 100 business parks. The majority of them will already have fiber to the building (FTTB) by the end of this year. In the next five years, we want to develop 3,000 business parks.

Things are also moving with consumers: We are making our fast network even faster. Step by step we are bringing optical fiber closer to our customers – even right to the home. In this way, we are also increasing transmission rates – in urban centers and rural areas alike.

There is another major step planned for this year: super-vectoring, which will enable bandwidths of up to 250 Mbit/s. Of course, we are also working continuously in our European national companies to fit out our networks with optical fiber.

Commitment pays, and our customers reward us for it. The fiber-optic boom plus strong demand for our MagentaEINS product packages and rising revenues from mobile communications have pushed up earnings in Germany. Our European national companies have also improved substantially overall – thanks in particular to a significant increase in customer numbers in mobile communications and for product packages. And for the fourth year in a row, T-Mobile US won more than five million new customers and achieved the strongest growth in service revenues among the major U.S. mobile companies.

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As you can see, Deutsche Telekom is growing, in all areas: revenue (up 2.5 percent to EUR 74.9 billion), adjusted EBITDA (up 3.8 percent to EUR 22.2 billion) and free cash flow (up 11.3 percent to EUR 5.5 billion). This means we are in line with our guidance, which assumed constant exchange rates, among other things.

And once again our financial results exceeded the ambition level we set out at the Capital Markets Day in 2015. Deutsche Telekom is a reliable partner.

At the same time, we are also driving innovation: In March 2017, we launched the large-scale roll-out of LTE 900 in Germany. This will get our network ready for 5G, the communications standard of the future. The 900 MHz spectrum range is especially suited to carrying the mobile signal deeper into buildings and homes.

Moreover, we are planning to cover around 95 percent of the population in Germany with the superfast LTE mobile network by the end of 2018. In our European national companies, we are aiming for between 89 and 99 percent coverage. Thanks to the spectrum auction which was successfully completed in April, T-Mobile US will also further improve its national LTE coverage.

We are also leading the way in the Internet of Things: We are using narrowband wireless technology (NarrowBand IoT) to equip the network for sensors that will show, for example, free parking spaces or how full the local trash cans are. We began this work in Germany and the Netherlands at the start of 2017. In Greece, Poland, Hungary, Austria, Slovakia, and the Czech Republic this work was and is ongoing.

Our goal is to be leading in 5G. 5G technology is expected to launch worldwide in 2020. But we are already working on realizing NarrowBand IoT for 5G. Four radio cells in our network in Berlin are demonstrating this future of communication right now. This too was an important step we accomplished in the last financial year.

In addition to our networks, we also have our products and rate plans firmly in sight. We launched a number of corresponding initiatives in 2017. T-Mobile US looked to inspire its customers with a number of rate plan add-ons. And in Germany, we focused our product packages even more on families and young customers.

The figures bear out the fact that our innovative rate plans are well received: 3.6 million customers in Germany alone have opted for MagentaEins; that is 0.6 million more than in the prior year. And

that's not all: So far, our European subsidiaries have won 2.2 million customers over to MagentaOne and comparable offers.

We are also making great strides with StreamOn, the rate plan that allows our customers to listen to music and watch videos on their smartphones while out and about – without using up the high-speed data volumes included in their rate plans. The option has proved very popular, with around 800,000 users in Germany alone. We also offer similar options in Croatia, Poland, Romania, Greece, and at T-Mobile US.

But it is not just our customers who rate us highly. Independent testers also confirm that we are the number one in many areas – including our networks and our customer service.

I am aware that this is thanks above all to the hard work of the Group's employees. Without their enthusiasm and dedication, Deutsche Telekom would not be where it is today. So I would like to also take this opportunity to thank my colleagues sincerely for such commitment.

They work day in, day out to ensure that we can implement our strategy in a targeted way. And that is what makes us what we are: one of Europe's most valuable telecommunications companies.

Dear Shareholders,

The facts and figures for 2017 once again bear out the fact that our strategy is working. But we cannot afford to simply sit back and rest now. That is why we have further developed our strategy, re-emphasizing and refining certain aspects. We are focusing primarily on the aspects of customer experience, technology, and business customer productivity.

But an important part of our strategy remains unchanged: You, our shareholders, will continue to participate in the success of the Group. We promised that dividends would increase in tandem with free cash flow growth. That is why, subject to approval by the relevant bodies and the fulfillment of other legal requirements, this time we will be proposing to the shareholders' meeting a dividend of EUR 0.65 per dividend-bearing share.

Yours sincerely,



Tim Hottges