

LETTER FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT.



“We are not just another company that provides society with infrastructure. More than that, we are a trusted companion in an increasingly complex digital world – at home and at work, any place, anytime.”

TIMOTHEUS HÖTTGES.

Chairman of the Board of Management.

Dear Shareholders,

2013 was a good year for Deutsche Telekom, despite the still difficult regulatory environment in Europe and intense competition. Investors and analysts value our implementing power, our reliability, and our credibility. Experts believe that we are better able to master the challenges facing our industry than others are.

Our latest figures prove that we deserve to be trusted. We maintained our position in many of our markets last year, even improving significantly in some key markets. This means that we were more innovative and more successful than many of our peers, some of which have seen their share price decline significantly.

By contrast, the Deutsche Telekom share developed well. Last year, this resulted in a total shareholder return of 56 percent for our investors. In particular, those shareholders benefited who chose the option of the dividend in kind, offered for the first time in Germany.

The share price increase also reflects our good financial position. Deutsche Telekom met its financial targets for the 2013 financial year. Despite higher investments in the networks, along with the takeover of MetroPCS, total debt remained well below EUR 40 billion and the equity ratio stood at a good 27.1 percent.

In 2013, adjusted EBITDA – in other words, earnings before interest, taxes, depreciation, and amortization – was EUR 17.4 billion and free cash flow EUR 4.6 billion. Revenue for the full year increased by 3.4 percent to EUR 60.1 billion. The year-on-year increase in revenue in the fourth quarter reached as much as 6.5 percent due, in part, to the first-time inclusion of MetroPCS as of May 1, 2013. In organic terms, i.e. excluding changes in the composition of the Group and currency effects, our net revenue increased by 0.8 percent in 2013, and 2.8 percent in the fourth quarter.

On this basis, the Board of Management and Supervisory Board will propose a dividend of EUR 0.50 per share to the shareholders' meeting as planned. To those shareholders who want to support our growth strategy and to give us the necessary room for maneuver, we are once again offering the option of receiving the dividend in kind with a financial benefit of two percent.

How do things look in the individual segments?

In **Germany**, our network investments paid off. We not only came first in all of the quality tests, but in the fourth quarter we also achieved the best result for years in mobile communications business. Deutsche Telekom gained 638,000 mobile contract customers between October and December 2013 while keeping market investments at a constant level. Alongside customers gained in business with service providers, 280,000 of these additions were attributable to business under the Telekom and “congstar” brands. Furthermore, we strengthened our position as market leader in mobile service revenues. Adjusted for the cut in mobile termination rates, service revenues remained practically stable in 2013 compared with the prior year. We thus not only outperformed the overall market, but we were the only one of the four network operators to gain market shares in 2013.

By contrast, development in the broadband fixed-network market remains under pressure. This is caused in part by the current regulatory framework, which still does not consider the intense competition with alternative infrastructures such as cable or city networks. Although Deutsche Telekom remains the market leader, with some 12.4 million lines, its market share has declined slightly to 43 percent. It is important to point out, however, that over the course of the year around 105,000 customers switched to mobile broadband, which means they still get their broadband from Deutsche Telekom. Strong demand for the fiber-optic products VDSL and FTTH continued unabated. The total number of these lines climbed by 54 percent within one year to over 1.5 million.

All in all, we continued to stabilize revenue in Germany, which decreased by a mere 1.3 percent, i.e., at a clearly lower rate than in previous years. Despite slightly lower adjusted EBITDA, we reached our target of an adjusted EBITDA margin of around 40 percent for the full year.

In the **United States**, we are enjoying success all along the line. The un-carrier strategy attracted 4.4 million new customers with innovative and unconventional product offerings. As the challenger on the U.S. market, T-Mobile US reported the biggest customer growth of all carriers. Consequently, the value of T-Mobile US increased by 53 percent between the end of April and the end of December 2013.

Total revenue in the fourth quarter increased by 34 percent year-on-year to EUR 5.1 billion. In the full year, revenue increased 20.7 percent to EUR 18.6 billion. A radically simplified rates and service strategy, the first-time inclusion of MetroPCS in the Group from May 1, 2013, and the accelerated build-out of our cutting-edge 4G network all contributed toward this development.

In the **Europe** operating segment, the financial figures are developing encouragingly. In organic terms, i.e., adjusted for changes in the composition of the Group, such as the sale of Globul in Bulgaria, and currency effects, this positive trend becomes particularly evident. In organic terms, revenues declined by 3.6 percent in the reporting year. In the fourth quarter, by contrast, revenue increased year-on-year by 0.4 percent to EUR 3.5 billion. Growth areas such as mobile data and business customers (B2B ICT) proved to be driving factors. The share of growth areas in the Europe revenue mix has risen from 21 to 25 percent within one year.

At **T-Systems**, revenue generated by the Market Unit – primarily external business with Deutsche Telekom's corporate customers – grew organically in the 2013 financial year by 0.7 percent. The Market Unit's revenue reported for the full year decreased slightly by 1.8 percent year-on-year to EUR 7.7 billion.

Despite the improved result of Systems Solutions, there is however a profitability gap in the peer comparison. In order to close this gap over the next few years, we have worked out extensive plans with regard to changing the business model and increasing the digitization of T-Systems' business processes even more.

Dear shareholders,

The figures for 2013 underscore that Deutsche Telekom is now excellently positioned to become the leading European telecommunications provider. We expect revenue to increase further in 2014. Adjusted EBITDA is expected to be around EUR 17.6 billion, with free cash flow of around EUR 4.2 billion. Our growth will be driven in large part by business in the United States. We expect further customer additions at T-Mobile US of two to three million in 2014, followed by a significant increase in revenue.

At Deutsche Telekom, we aim to create a basis of trust and lay the foundation for a long-standing relationship with our customers and shareholders. This is what we work for – with passion, focus, and efficiency. I would like to take this opportunity to say a sincere thank you to my colleagues for their dedication.

We are not just another company that provides society with infrastructure. More than that, we are a trusted companion in an increasingly complex digital world – at home and at work, anyplace, anytime. Our mission is to always simplify and enrich people's lives. Deutsche Telekom views its network as a lifeline – fast, reliable, and secure. Easily accessible to all, while we remain close to the customer, transparent, fair, and open to dialogue.

Technical progress opens up more chances, but also increases complexity and raises the expectations of our customers. I see this as an opportunity. We will (continue to) develop our own innovative products such as Entertain. And where others may have more expertise, we will bring in partners to provide new services for our customers.

We want to link all of our network access technologies with each other in an intelligent way. Network integration plays a key role here – on a pan-European level. Networks will speak one language with all IP.

At the same time, customers should be unbothered by the complex technology. They simply get the best connection, whether they're at home or on the move – and at a good price.

Bonn, March 2014
Sincerely,

Tim Höttges