DT Finance Strategy: Towards Efficiency and Capital Returns.

Investor Day 2010, Timotheus Höttges

Life is for sharing.

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Finance supports strategy with strong focus on profitability and shareholder returns.

EQUITY

New **Shareholder Remuneration** policy

- **€ 3.4 bn** Shareholder remuneration p.a. 2010-2012
- **Dividend floor** € 0.70 for 3 years*
- **Share Buyback** up to € 1.2 bn within 3 years**

FIX – TRANSFORM – INNOVATE

Improve performance of mobile-centric assets	Leverage One Company in integrated assets	Build networks and processes for the Gigabit Society	Connected Life across all screens	Connected Work with unique ICT solutions

ROCE

Drive **Profitability** and improve **Capital Allocation**

1. **OPEX** – Full cost benchmarking & Group-wide Save4Service
2. **CAPEX** – Efficient Capital Allocation
3. **FCF** – Centralized FCF management & oWC optimization
4. **Portfolio** – Shift to value-driven active portfolio management
5. **M&A** – No major acquisitions & strict M&A hurdle rates

DEBT

Undisputed **access to debt capital markets**

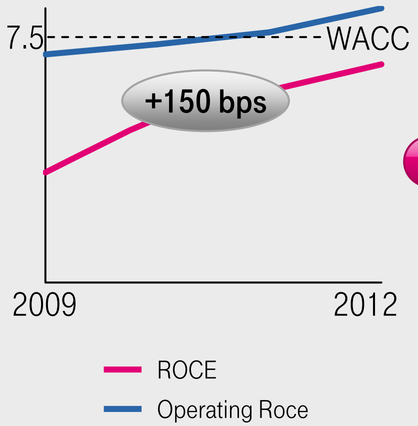
- **Rating:** A-/BBB+
- **Net debt/adj. EBITDA:** 2-2.5x
- **Equity ratio:** 25-35%
- **Gearing:** 0.8-1.2x
- **Liquidity reserve** covering maturities of coming 24 months

*Subject to necessary AGM approval and board resolution **Final amount depending on dividend level, timing and price of share buyback

Strict focus on continuous increase in Return on Capital Employed.

ROCE is Our Key Metric

Operating ROCE and ROCE (%) *



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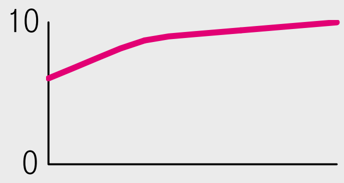
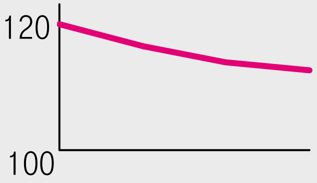
Net Operating Profit After Tax (€ bn)



Net Operating Assets (€ bn)



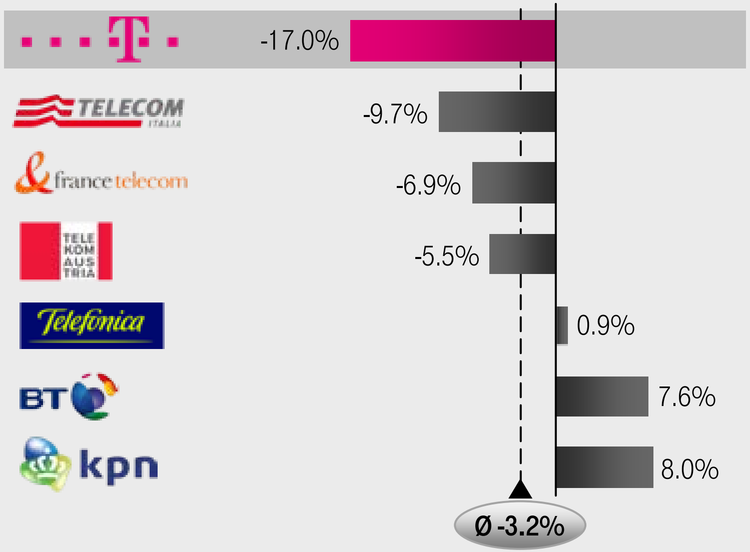
ROCE Drivers

1. **OPEX benchmarks** towards peer level
2. **CAPEX prioritization** based on value creation
3. Dedicated **working capital** management
4. Value-driven and **actively managed portfolio**
5. Strict synergy tracking & **M&A hurdle rates**

*Operating ROCE = ROCE – Goodwill - Impairment

1 OPEX: Today No. 1 in domestic savings in the sector – no reason to stop.

ΔOPEX Domestic Fixed Line Business 2007 – 2009*



Achievements Save for Service 2007 – 2009

- With overall **€ 5.9 bn** of **savings 30% above plan**
- Focus on **domestic operations**
- Sustainable & value creating savings logic

T-Home Operational efficiency

- First contact resolution rate +24%
- Remote provisioning +38pp
- Mean Time between Assists (DSL) +47%

T-Home Customers perception & competitiveness

- Tri*M Consumer Retail vs. peers +8 points
- Broadband Net Add Share +2pp
- Customer Complaints -51%
- Competitive Labor Costs -21%

*Source: UBS, FT: 2006 extrapolated based on FT data, DT: internal, domestic fixed line business: 2009 pro forma, no YE09 restatement for T-Home

1 OPEX: Overall € 4.2 billion by 2012 with stronger international savings contribution.

Gross Savings (€ bn)

	2010	2010-2012
DT Σ	2.0	4.2
Germany	~ -0.5	> -1.5
EU/SEE	~ -0.4 (SEE ~ -0.3; EU ~ -0.1)	~ -0.7 (SEE ~ -0.5; EU ~ -0.2)
TM US	~ -0.3	~ -0.5
SYS	~ -0.5	~ -1.2
GHS	~ -0.3	~ -0.4

Measures

GER
- Remote provisioning and fault elimination ("Zero Touch")
- Integrated fixed/mobile market communication
- Online-billing

EU/SEE
- Simplify service offerings (e.g. tariffs, bills)
- Consolidate fixed and mobile shop networks
- Increase share of online transactions

TMUS
- Reduce handset inventory
- Increase customer care efficiency (reduced number of complaints and call handling time)

SYS
- Optimization of data center infrastructure
- Restructure and standardize sales activities
- Standardize & reduce T-Systems portfolio to 55 elements

GHS
- Establish consolidation and payment factories
- Reduce external legal and consulting spend
- Optimize real estate capacities

1 OPEX: Save for Service lays the ground for a profound transformation of Deutsche Telekom.

S4S I

Domestic scope

€ -5.9 bn

- Domestic operations
- 2007-2009

S4S II

Global scope

€ -4.2 bn

- Shape Headquarters
- Global operations, 100% OPEX
- 2010-2012

"Transform"

+ overarching functions

tbd

- Global operations, OPEX & CAPEX

Leverage DT scale by e.g.:

- IT factory, NT factory
- Global G&A: Shared Services
- Group value chain/internal sourcing

Transformation

Old DT	New DT
T-Home/T-Mobile	One Company
PSTN-net	All-IP (GER 2015)
ISDN	FTTx
Voice/data	Connected life & work

2 CAPEX shift towards transformation and revenue growth.

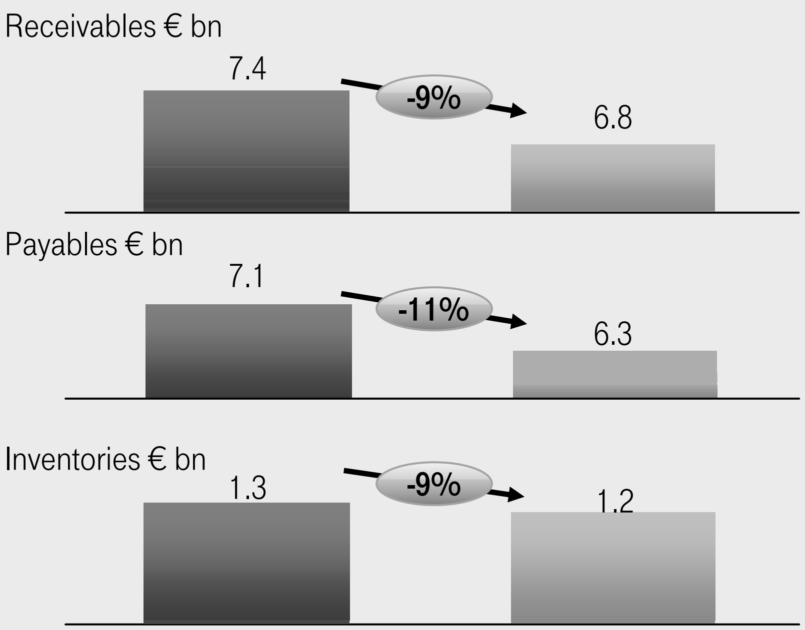
Strategic Capex shift

Efficiency in capital allocation

- **Volume:** Capex to fund **transformation and innovation process**
- **Efficiency** leverage: Capex as **pre-requisite of Opex reduction** (e.g. automation)
- **Monitoring:** Top Management focus on **top business cases per segment**
- **Capex Management Boards** installed with strict Group-wide CAPEX prioritization standard
- **Forced ranking of projects** with high ROI and strategic fit

3 oWC: Centralized FCF management fine-tuning instruments and roll-out of working capital optimization.

oWC – Key figures 2008 to 2009



Measures to improve FCF management in 2009

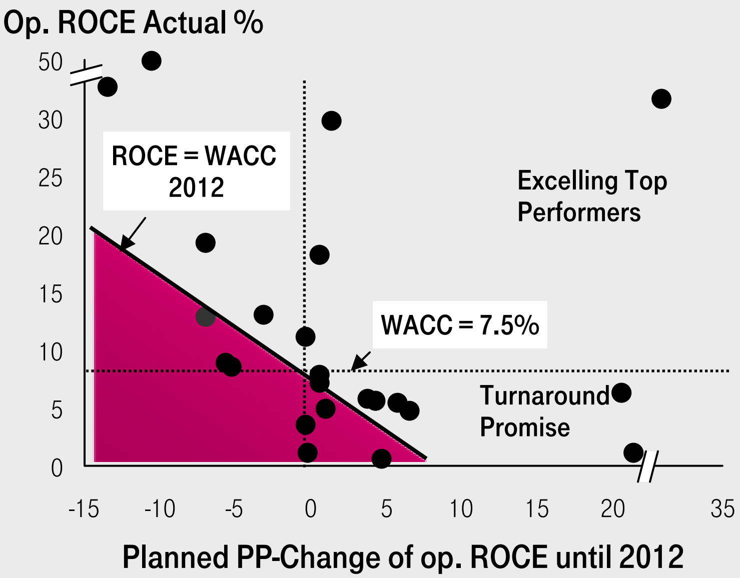
- **Centralized FCF management**
- **Group-wide forecasting tool "FCF on demand"** installed in 60 entities covering 97% of cash flows
- **WC optimization** in procurement, inventory, billing, overdue etc.

FCF Fine-tuning and oWC Roll-out 2010 – 2012

- Implementation and tracking of **sustainable WC optimization in a multiyear group-wide program**
- **Strong focus 2010** on SEE/OTE, TM US, and T-Systems
- **New KPI Set** for **monthly FCF analysis and steering**, e.g. Days Sales, Days Payables, Days Inventory Outstanding

4 Portfolio: Consequent portfolio management – no long-term toleration of value destroying assets.

Rigorous analysis of status quo



Consequent management action

- Shift to **more active portfolio management**
- Close monitoring of asset development
- **Top-Management focus** on **solutions for non-value creating candidates**
- **All options, incl. disposal of underperforming and non-core assets**

No long-term toleration of assets with operating ROCE < WACC (e.g. UK)

4 Portfolio: Strong execution in establishing new market leader in UK.

Market leadership	Customer leadership	People leadership
37%+ mobile subscriber market share	based on network, distribution, loyalty & experience	top talents & best place to work

Foundation

Step change in business model

- **Efficient & agile operations** with **best 2G and 3G networks**
- New commercial model, T-Mobile UK & Orange UK **brands to co-exist** for 18 months in 'smart competition'
- Leverage new / beyond voice services as **platform for growth**

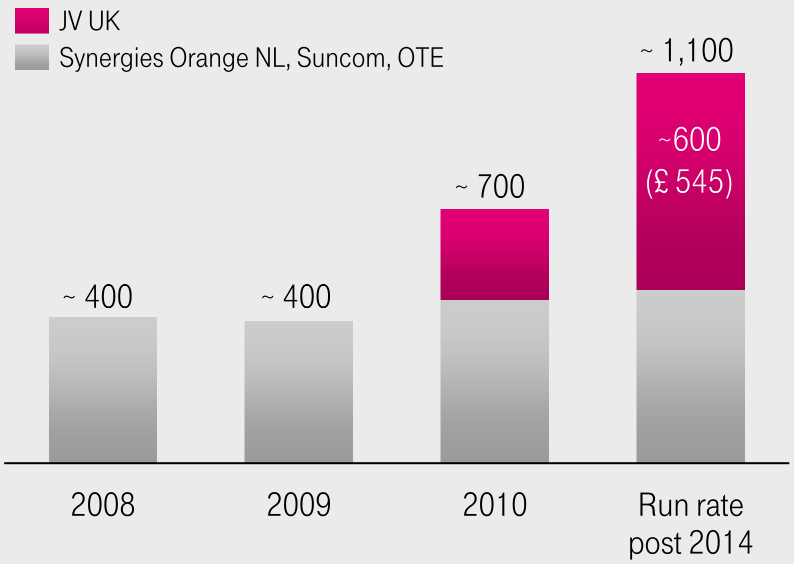
Impact confirmed

All financial targets set out in September **fully confirmed and committed despite imposed remedies**

- Significant synergy potential: **NPV of net opex and capex savings in excess of £3.5 bn** ✓
- Opex run-rate synergies of **£445 mn per annum** ✓ Capex run-rate synergies of **£100 mn per annum** ✓

5 M&A: Focus on portfolio optimization, not expansion.

Cash synergies 2008 – 2010 p.a. (in € mn)*



DT M&A policy

- **No major acquisitions,** focus on **existing footprint**
- Preference for **in-market consolidation**
- Clear path to **full operational control**
- **Strict monitoring** of investment cases & **synergy** targets

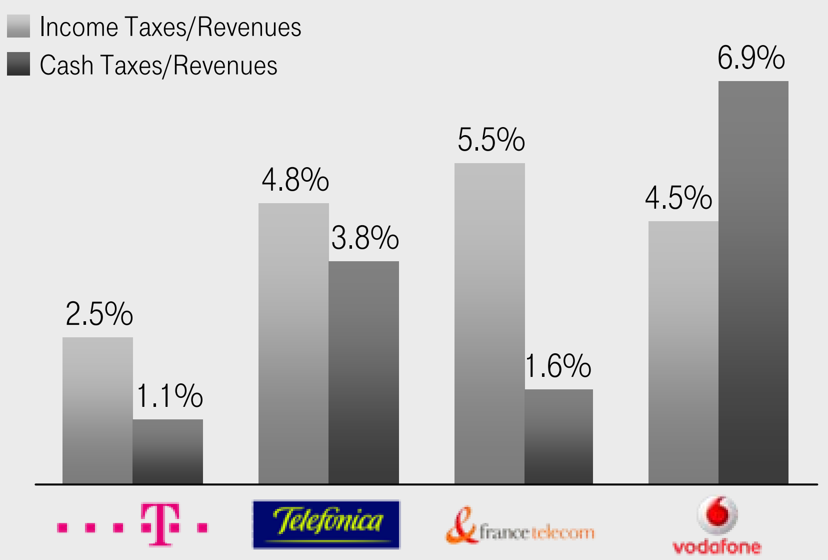
Valuation criteria

- Strict **hurdle rates**, e.g. STRATO AG
- **Risk adjusted WACC + 200 basis points**

*Gross synergies opex and capex w/o implementation costs

Low impact of tax cash outs on free cash flow.

Low taxes compared to peers (2008/09)

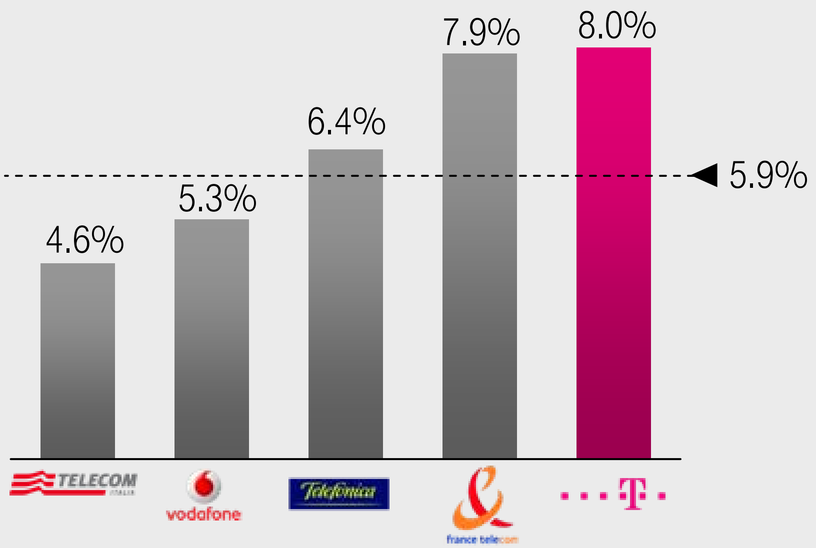


Tax assets safeguard low cash taxes payout

- Income taxes and cash taxes represent a **lower percentage of revenues** compared to peers
- Cash taxes significantly below income taxes due to **tax assets**
- Cash taxes **remain low** due to net deferred tax asset carry forwards of **€ 5.2 bn**
- **Tax cash out in 2010 and 2011 below € 1 bn** and also in 2012 below income tax expense

Equity: 2010 policy shift in shareholder remuneration.

2009 – Strong dividend yield in peer group*



2010-2012 Shareholder remuneration mix

- Share buybacks as **additional instrument** of shareholder remuneration
- Investment in an **asset with 14.2% FCF yield****
- Right capital allocation decision

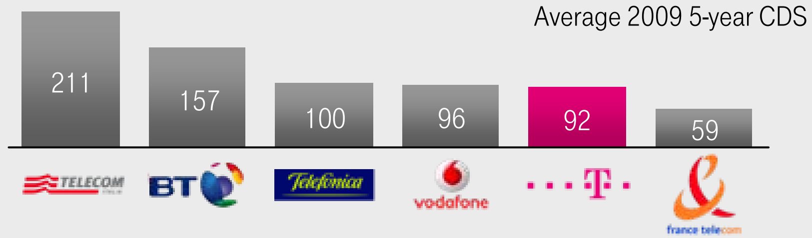
Achievements & potential upside

- **Group adj. EBITDA-margin +0.4pp vs. 2008**
- **3 year shareholder remuneration** commitment
- **Savings 30% overachieved & commitment** 2012
- JV approved: **Market leader UK, NPV synergies £ 3.5 bn**

*Source: UBS European Telecoms Valuation 15.03.2010 **assuming share price of €10 and FCF of € 6.2 bn

Debt: Stable net debt despite continuous inorganic growth.

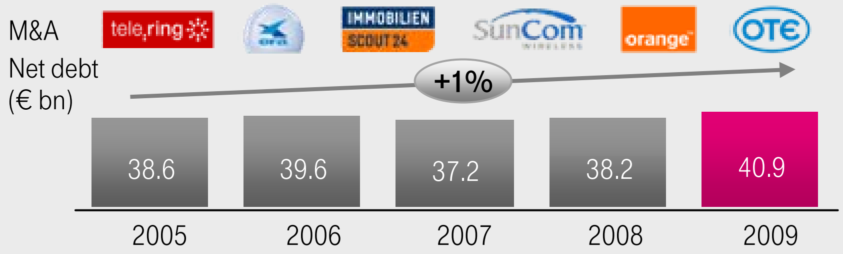
Moderate credit risk compared to European peers*



Excellent standing in debt capital markets

- Credit Risk at **lower end of European Telco risk** scale as market **appreciates less risky portfolio**
- **2010 fully financed**

In 5 years app. € 11 bn M&A digested in net debt



Comfortably positioned in defined ratios

- Net debt/adj. EBITDA: 2.0
- Equity ratio: 30.2%
- Gearing: 1.0 x
- Liquidity reserve: € 21.1 bn
- **Rating: BBB+**

* Source: Bloomberg 05.03.2010

DT commits to further efficiency push and more value-oriented allocation of capital.

	Key priorities	Ambition level 2012
1	Shareholder Remuneration	€ 3.4 bn p.a.
2	Continuous Increase of Return on Capital Employed (ROCE)	Increase >150 bps
3	Execute Save for Service	€ 4.2 bn gross savings
4	Concentrate on Working Capital and Free Cash Flow steering	FCF increase
5	Stakeholder-oriented incentive program incl. EPS/ROCE, based upon share ownership	Roll-out for senior management