

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**

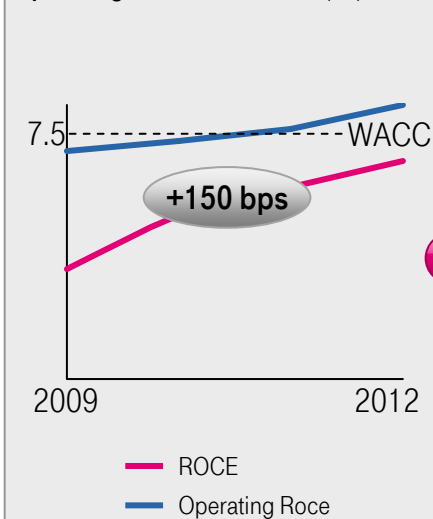
- **Rating:** A-/BBB+
- **Net debt/adj. EBITDA:** 2-2.5x
- **Equity ratio:** 25-35%
- **Gearing:** 0.8-1.2x
- **Liquidity reserve** covering maturities of coming 24 months



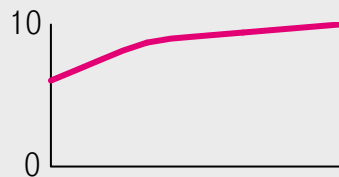
Strict focus on continuous increase in Return on Capital Employed.

ROCE is Our Key Metric

Operating ROCE and ROCE (%) *

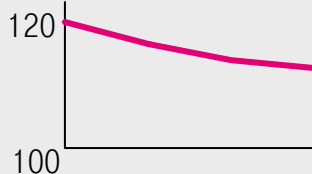


Net Operating Profit After Tax (€ bn)



=

Net Operating Assets (€ bn)



ROCE Drivers

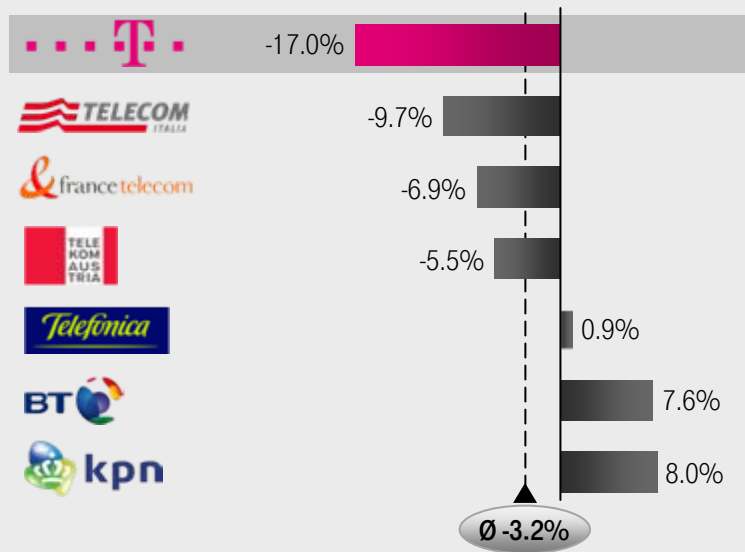
- 1 OPEX benchmarks** towards peer level
- 2 CAPEX prioritization** based on value creation
- 3 Dedicated working capital** management
- 4 Value-driven and actively managed portfolio**
- 5 Strict synergy tracking & M&A hurdle rates**



*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%**



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



Measures

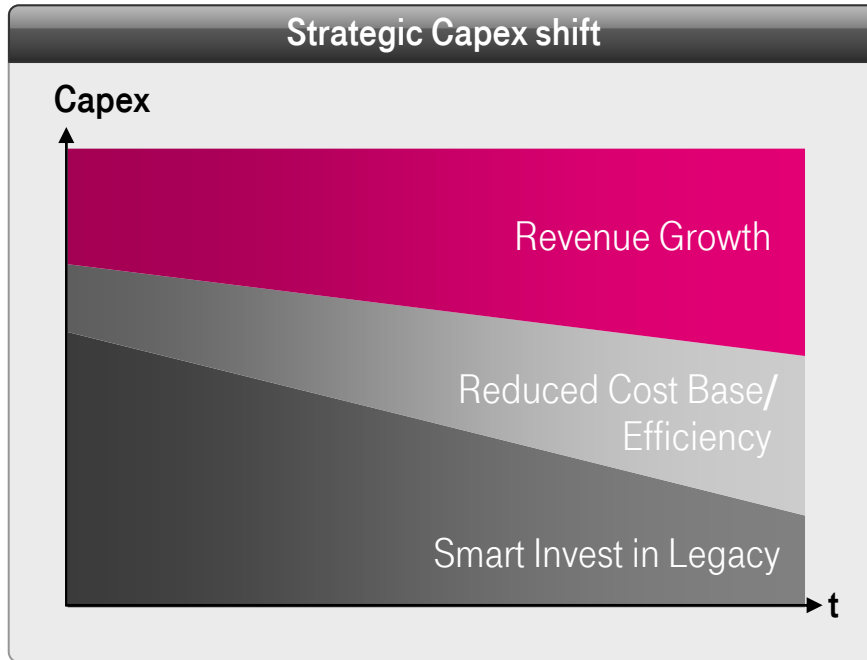
GER	<ul style="list-style-type: none"> Remote provisioning and fault elimination ("Zero Touch") Integrated fixed/mobile market communication Online-billing
EU/SEE	<ul style="list-style-type: none"> Simplify service offerings (e.g. tariffs, bills) Consolidate fixed and mobile shop networks Increase share of online transactions
TMUS	<ul style="list-style-type: none"> Reduce handset inventory Increase customer care efficiency (reduced number of complaints and call handling time)
SYS	<ul style="list-style-type: none"> Optimization of data center infrastructure Restructure and standardize sales activities Standardize & reduce T-Systems portfolio to 55 elements
GHS	<ul style="list-style-type: none"> 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.



2 CAPEX shift towards transformation and revenue growth.



- 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

Receivables € bn

7.4

-9%

6.8

Payables € bn

7.1

-11%

6.3

Inventories € bn

1.3

-9%

1.2

Measures to improve FCF management in 2009

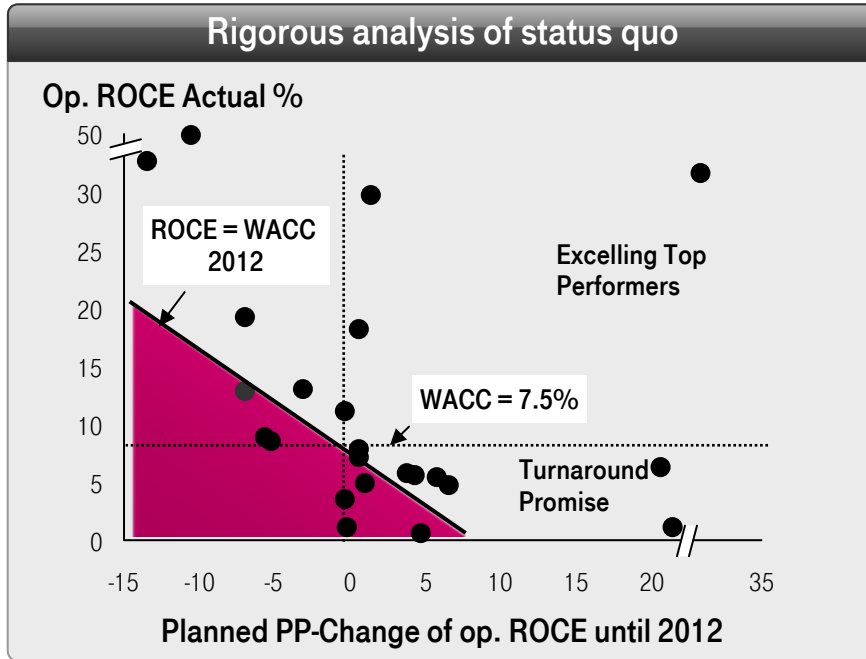
- **Centralized FCF management**
- **Group-wide forecasting tool “FCF on demand”** installed in 60 entities covering 97% of cash flows
- **WC optimization** in procurement, inventory, billing, overdue etc.

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.



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
37%+ mobile subscriber
market share

Customer leadership
based on network,
distribution, loyalty & experience

People leadership
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**

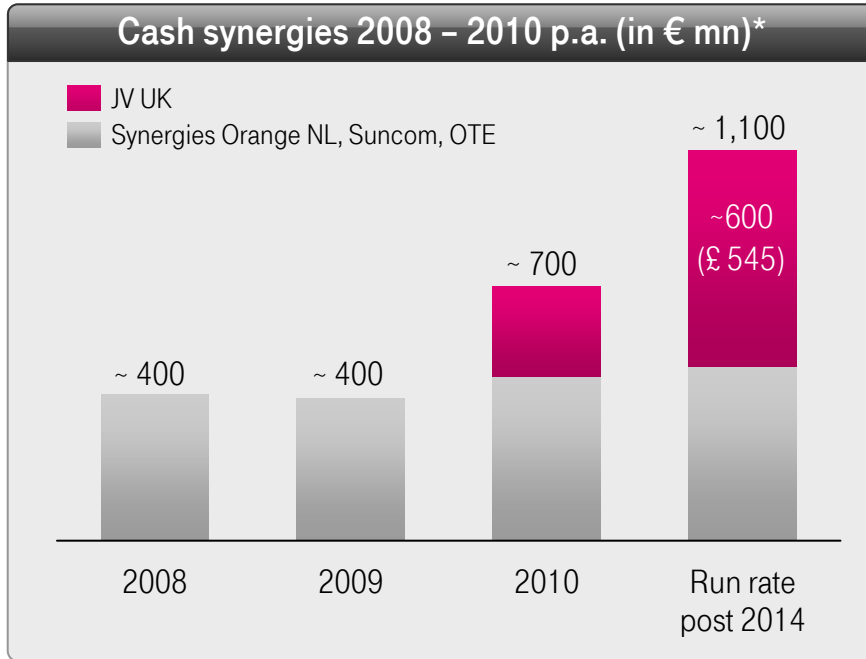
Impact
confirmed

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.



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**

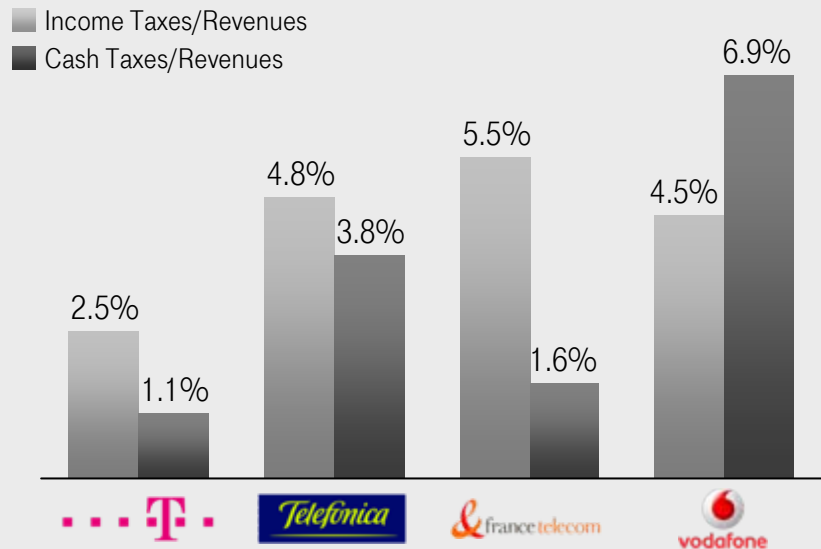
Valuation criteria

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



Low impact of tax cash outs on free cash flow.

Low taxes compared to peers (2008/09)



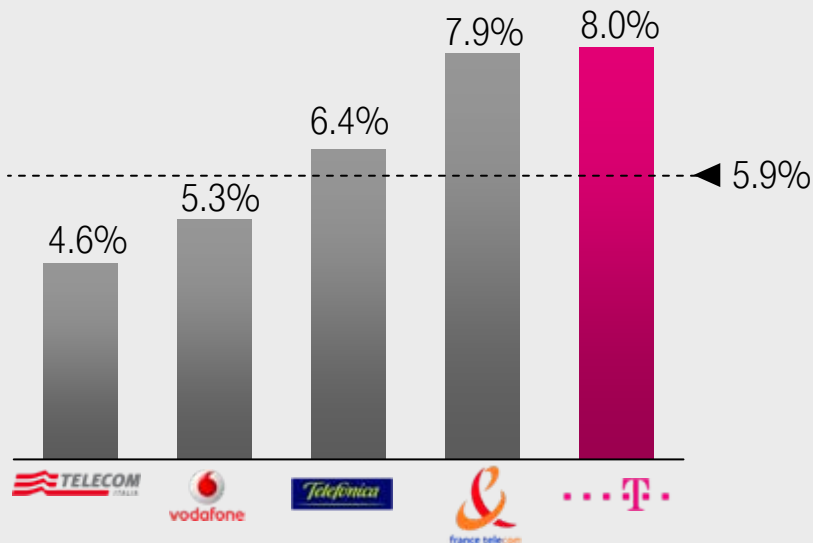
Tax assets safeguard low cash taxes payout

- 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

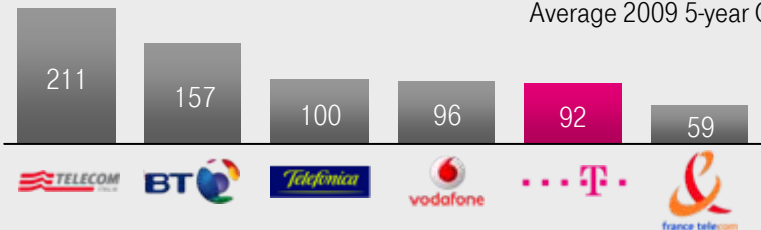
- **Group adj. EBITDA-margin +0.4pp vs. 2008**
- **3 year shareholder remuneration** commitment
- **Savings 30% overachieved & commitment 2012**
- JV approved: **Market leader UK, NPV synergies £ 3.5 bn**



Debt: Stable net debt despite continuous inorganic growth.

Moderate credit risk compared to European peers*

Average 2009 5-year CDS



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+**



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

Key priorities	
1	Shareholder Remuneration
2	Continuous Increase of Return on Capital Employed (ROCE)
3	Execute Save for Service
4	Concentrate on Working Capital and Free Cash Flow steering
5	Stakeholder-oriented incentive program incl. EPS/ROCE, based upon share ownership



Ambition level 2012
€ 3.4 bn p.a.
Increase >150 bps
€ 4.2 bn gross savings
FCF increase
Roll-out for senior management

