Telecom industry walking the line between Financial and Real Economy.

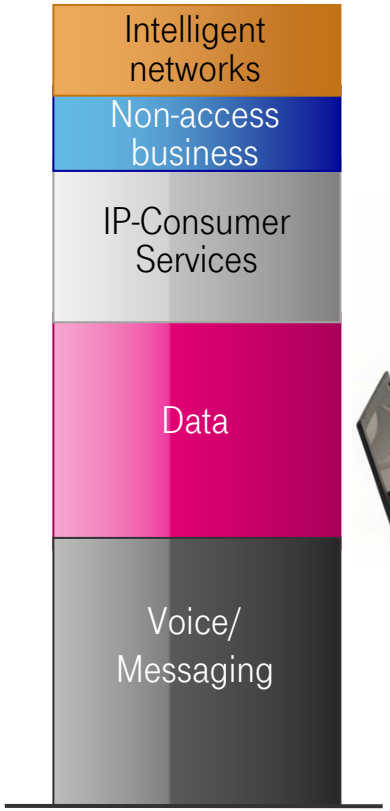
WHU – Campus for Finance

Life is for sharing.

Massive Industry Transformation requires high Capex.

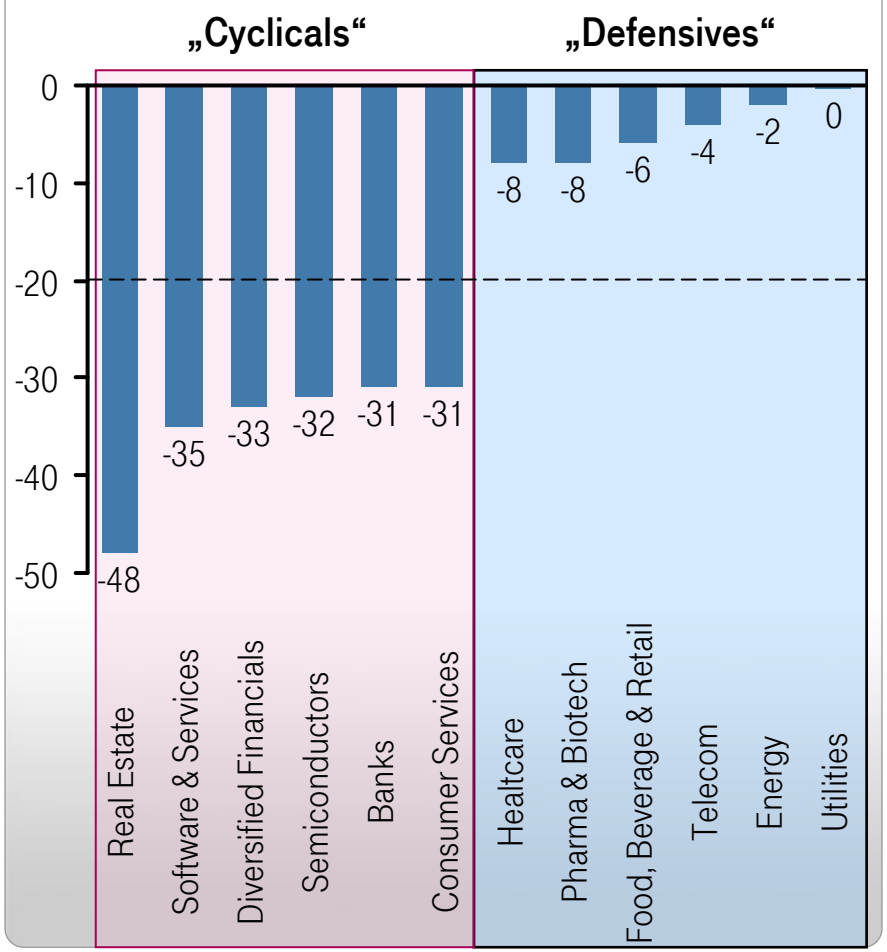
Old Business Model

Gigabit society

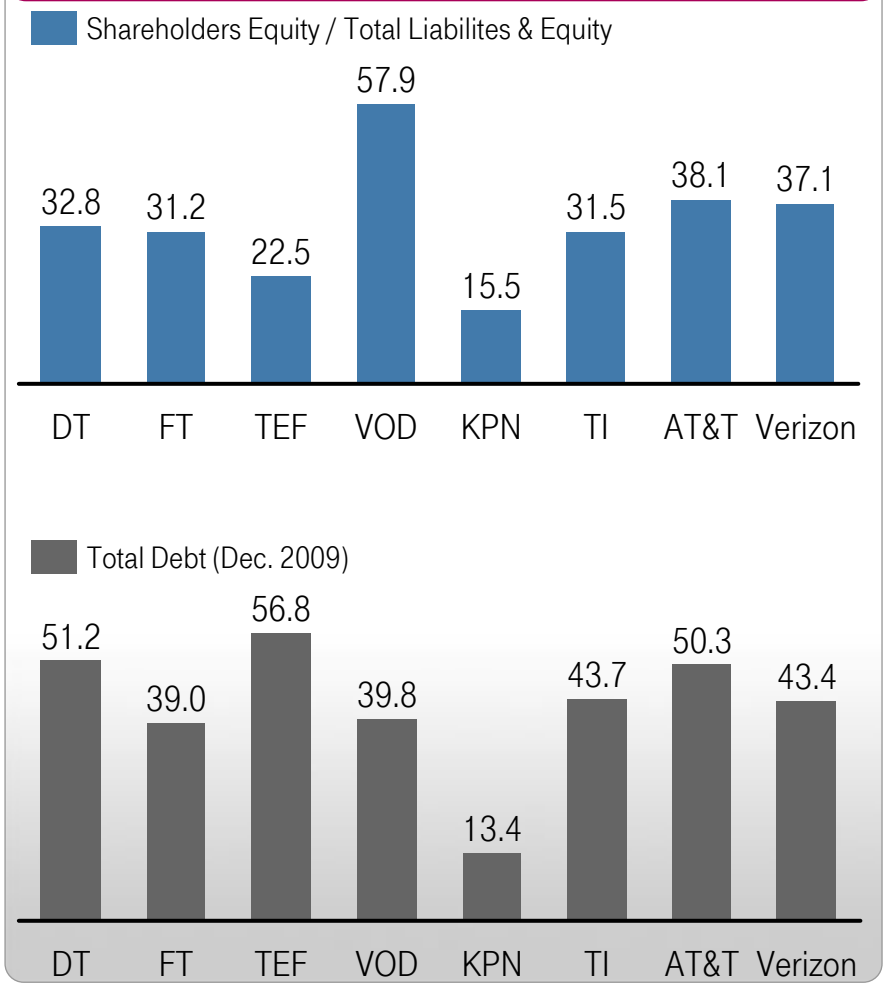


Telco's Real economy vs. Financial Economy.

Real Economy: Less exposed than others[1].



Financial Economy: Highly exposed[2].



[1]Credit Suisse Analyst Report, S&P Compustat
[2]Bloomberg figures (Bloomberg figures can differ from company reporting (DT Annual Report 2009: Equity ratio Dec 2009: 30.2
(Based on shareholders equity excluding amounts earmarked for dividend payments, which are treated as current liabilities)

Telco's Real economy vs. Financial Economy.

Real Economy: Less exposed than others.

Sector:

- Defensive in standard business
- Premium services of a more cyclical nature

Market:

- Fragmented customer base

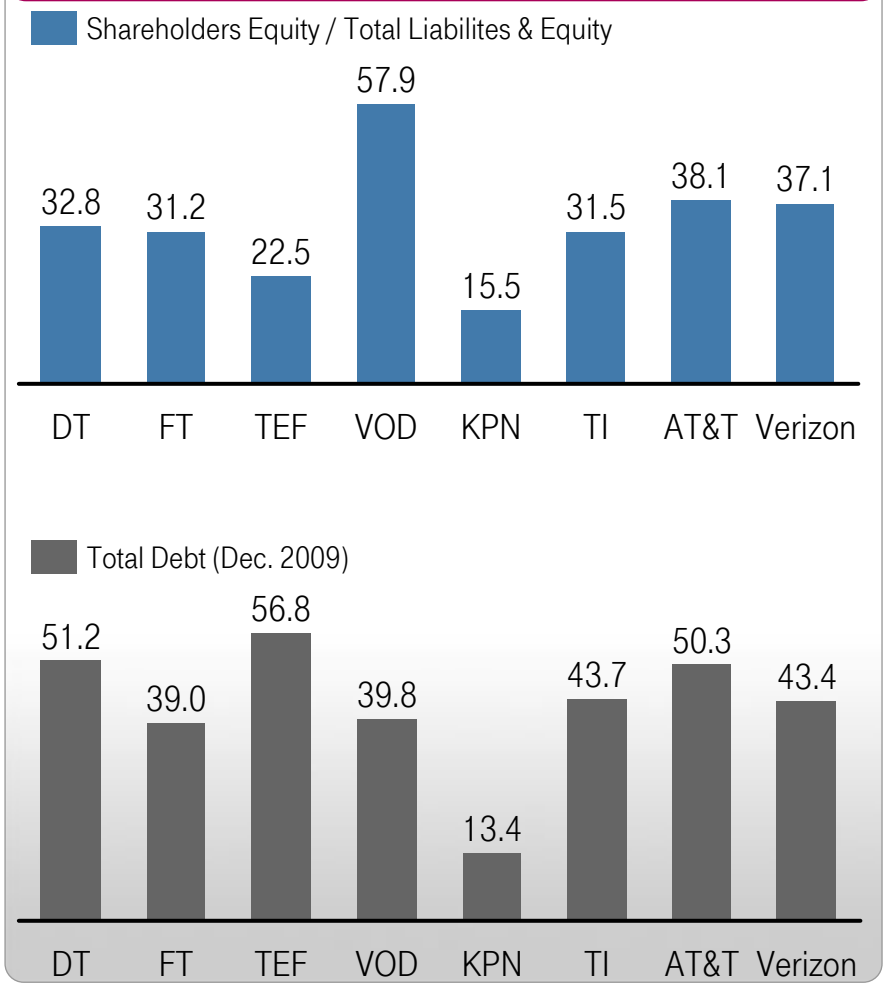
Regulatory Environment:

- National Regulatory Authorities
- International Regulatory Authorities

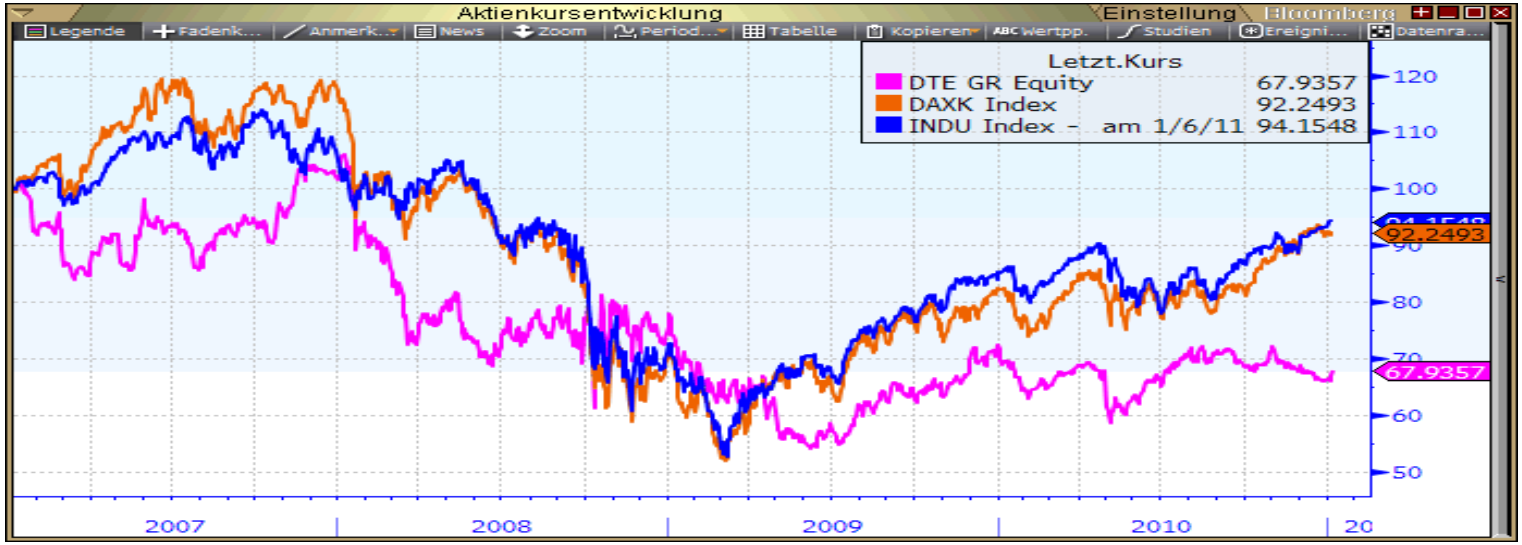
Tax Legislation:

- Crisis-driven extraordinary tax burdens

Financial Economy: Highly exposed[2].



Proof in current crisis.



Managing Macroeconomics.

Germany	USA	NL	Greece	Poland	Hungary

Germany – Positive market environment supportive for premium products
Example: Entertain

USA – Uncertain outlook and unemployment rise lift focus on optimized offerings
Example: Attracting cost-focused customers

Greece – Difficult market environment creates opportunities for low-cost offerings
Example: Cosmote

pos. dev., favorable level
neg. dev., favorable level
Heterogen. dev., unfavorable level
heterogen. dev., favorable level
pos. dev., unfavorable level
neg. dev., unfavorable level

1) Actual month (month prev. quart.) 2) Q3/2010 (Q2/2010) in comparison to last year's quarter

Risk management Real Economy.

	Germany	USA	NL	Greece	Poland	Hungary
Time-lead[1]	▪ CLI: 104.9 (105.0) ▪ Consumer climate: 5.1 (4.1) Trend:	▪ CLI: 102.7 (101.6) ▪ Consumer climate: 67.7 (67.8) Trend:	▪ CLI: 102.9 (102.3) Trend:	▪ CLI: 97.6 (97.0) Trend:	▪ CLI: 102.2 (102.4) Trend:	▪ CLI: 104.6 (102.9) Trend:
Time-match[2]	▪ GDP: 3.9% (4.3%) ▪ Consumer spend.: 1.2% (-0.5%) ▪ Industrial output: 10.0% (12.3%) Trend:	▪ GDP: 3.2% (3.0%) ▪ Consumer spend: 2.0% (1.7%) ▪ Industrial output: 6.6% (7.4%) Trend:	▪ GDP: 1.9% (2.7%) ▪ Consumer spend: 0.5% (0.3%) ▪ Industrial output: 4.1% (10.3%) Trend:	▪ GDP: -4.6% (-4%) ▪ Consumer spend: -5.8% (-4.8%) ▪ Industrial output: -5.9% (-5.1%) Trend:	▪ GDP: 4.7% (3.8%) ▪ Consumer spend: 3.6% (3.0%) ▪ Industrial output: 12.1% (10.5%) Trend:	▪ GDP: 2.2% (0.6%) ▪ Consumer spend: 1.0% (-4.8%) ▪ Industrial output: 12.6% (12.1%) Trend:
Time-lag[2]	▪ Unemployment: 7.5% (7.8%) ▪ Consumer prices: 1.1% (1.1%) Trend:	▪ Unemployment: 9.6% (9.7%) ▪ Consumer prices: 1.2% (1.8%) Trend:	▪ Unemployment: 5.4% (5.6%) ▪ Consumer prices: 1.6% (1.0%) Trend:	▪ Unemployment: 12.3% (11.8%) ▪ Consumer prices: 5.6% (5.1%) Trend:	▪ Unemployment: 11.5% (12.1%) ▪ Consumer prices: 2.2% (2.3%) Trend:	▪ Unemployment: 10.9% (11.1%) ▪ Consumer prices: 3.9% (5.4%) Trend:

pos. dev., favorable level
neg. dev., favorable level
Heterogen. dev., unfavorable level
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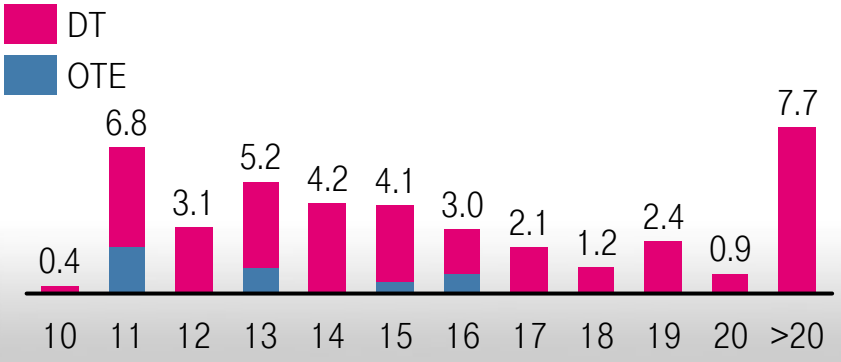
Risk management Financial Economy.

All values as per 30.09.2010 in € bn.

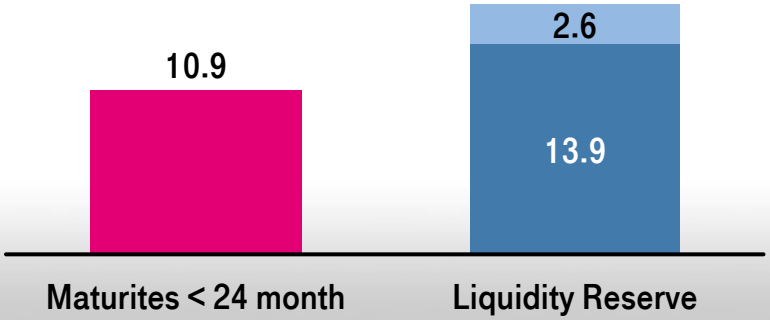
Clear target corridors.

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

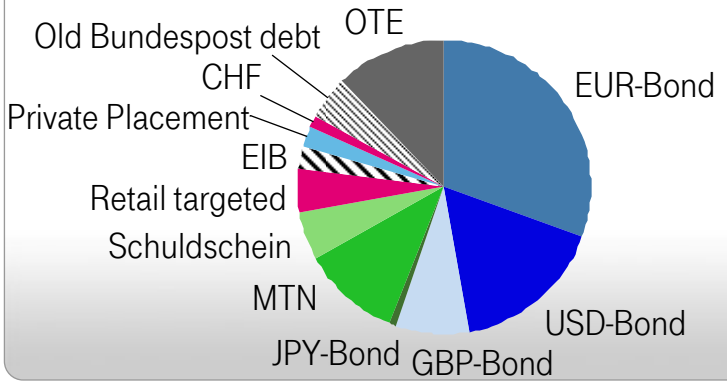
Well-balanced maturity profile.



Comfortable liquidity reserve.



Diversified Issuing Activity.



Predictability / Reliability – Finance Strategy.

Owners view

Continue dividend policy

- **€ 3.4 billion** for annual remuneration to shareholders 2010-2012
- **Minimum dividend** of € 0.70 in the 3 years to come
- **Share buy-backs** for € 1.2 billion in the next 3 years to come

Entrepreneurs / Employees view

- Improve the 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

Return on capital employed (ROCE)

Increase **profitability** and improve **capital allocation**

1. **OPEX** – Save4Service and cost benchmarking
2. **CAPEX** – Uniform rules, efficient capital allocation
3. **FCF** – Centralized FCF management & oWC optimization
4. **Portfolio** – Value-based, active portfolio management
5. **M&A** – No major acquisitions & strict M&A hurdle rates

Creditors view

Undisputed access to the debt capital market

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

In order to develop our business and help society grow we need:

- Investor-friendly regulatory environment
- Reliable fiscal policy with sense of proportion
- Fully functional debt capital markets
- Long-term oriented equity markets

Thank you for your attention.