

**DT and FT will form a 50/50 procurement JV to
achieve a more competitive cost position**
analyst presentation

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highlights

key elements

- DT and FT have signed a non-binding term-sheet to form a 50/50 procurement JV (the “JV”) which will combine most of their respective procurement operations
- purpose is to help DT and FT achieve a more competitive cost position by aggregating demand to vendors, aligning conditions to the best price already obtained by DT or FT, and harmonizing purchasing specifications
- the JV will be responsible for negotiating contracts with vendors, while DT and FT will place actual orders and make payments to them
- areas covered by the JV are the parent companies’ core purchases in network equipment & services (including service platforms), customer equipment (including terminals) and IT or €12bn addressable spend in all countries of operation*
- the target for joint global CAPEX + OPEX savings* is an annual run-rate after three years of JV operations of €1.3bn for DT and FT
- Savings split is targeted at above € 400m for DT and below € 900m for FT
- a benefit sharing compensation will be paid by either company to the other, in order to partially balance both companies’ actual savings from alignment to best price in network equipment in the first 3 years of the JV operations

conditions

- presentation to DT / FT employees’ councils and clearance by competition authorities

timetable

- the JV operations are expected to commence by 4th quarter of 2011

* volumes are excl. T-Mobile US



business rationale

why and why now?

- telecom is a capital intensive industry with significant scale effects
- as a result of consolidation in the equipment industry, a substantial share of the operators core purchases is now done with global suppliers (network equipment and customer equipment, incl. handsets)
- global peers have recently launched several initiatives in the procurement area
 - Vodafone Procurement Company formed in 2008, open to both Vodafone affiliates and external telecom operators
 - Telefonica Global Sourcing formed in 2009 as a German company located in Munich
 - Telefonica and China Unicom announced January 2011 an extension of their cooperation in procurement
- JV operations enable both groups to make their businesses more competitive and bring sustained benefits and savings to their customers

why DT and FT?

- little overlap in DT's and FT's countries of operations (5 out of 50)
- similar maturity in DT's and FT's procurement processes
- similar purchasing spend and mix
- cultural fit and track-record of successful partnering : Everything Everywhere JV in the UK, network sharing JV in Poland



the procurement JV will help its parents improve their cost positions and better cooperate with a consolidated vendor industry

short-term

- align conditions for both parents to the **best price** already obtained from vendors by either DT or FT

medium-term

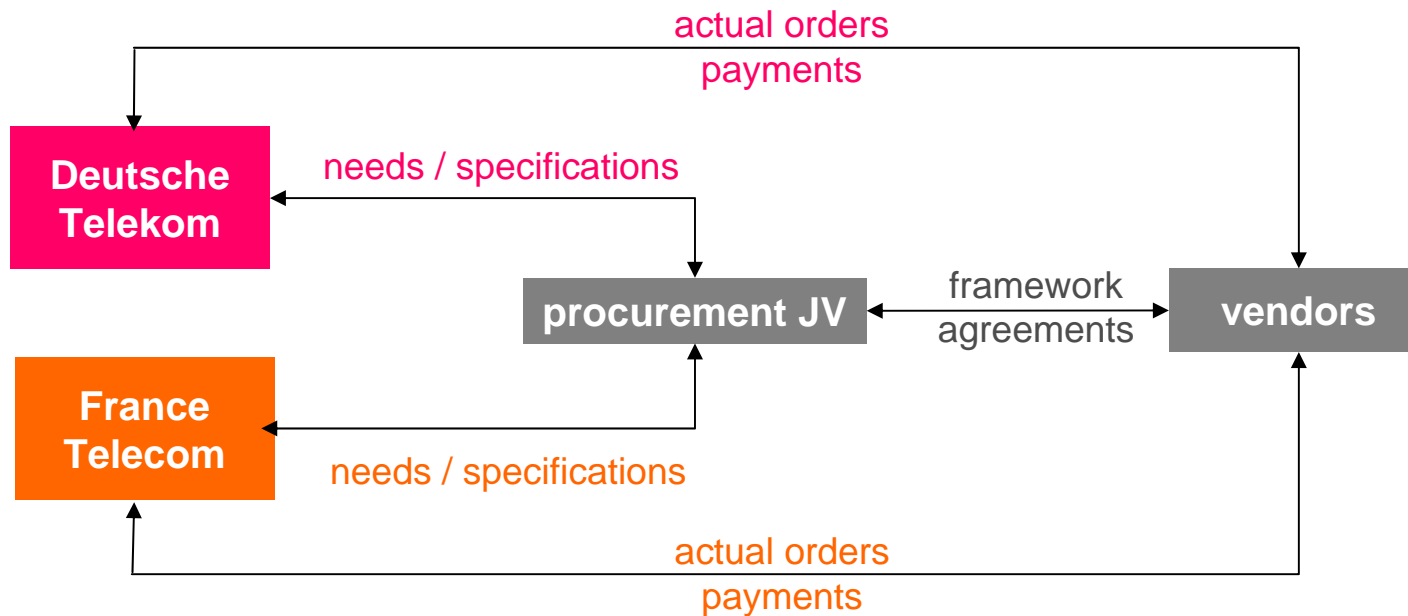
- **aggregate demand** from DT and FT and negotiate volume purchase agreements with vendors
- **harmonize specifications** to build-up volume with vendors on fewer references

long-term

- **upgrade relationships** with key vendor partners
- greater influence on **standards** and **innovation** to match customer needs
- explore ideas to jointly reduce cost and create opportunities for **shared benefits**



the procurement JV will negotiate framework agreements with the vendors, paving the way for the parents to place direct orders to the vendors



the procurement JV will be staffed by existing DT and FT procurement experts and supported by the two parents on a “cost-plus” basis

