

Combination of Orange UK & T-Mobile UK: *Creating a new mobile champion*

8 September 2009



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Transaction highlights

Key terms

- France Telecom and Deutsche Telekom plan to merge Orange UK and T-Mobile UK
 - 50:50 joint venture with balanced governance structure
 - Key transaction terms agreed, subject only to confirmatory due diligence
 - T-Mobile UK to be contributed to the JV on a cash free, debt free basis
 - Orange UK to be contributed to the JV including £1.25bn intra-group net debt in order to equalize the value of the respective contributions
 - Immediately after closing, £1.25bn JV net debt to be refinanced by two shareholder loans of £625m held by each of Deutsche Telekom and France Telecom, resulting in a cash receipt for France Telecom of £625m
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Key conditions

- Exclusive discussions
 - Confirmatory due diligence (to start immediately)
 - Approval by relevant authorities
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Key milestones

- Execution of definitive documentation expected by end October 2009
- Operations managed independently up to closing
- T-Mobile UK and Orange UK brands to co-exist for 18 months; brand strategy after this 18 month period to be decided by the shareholders

Transaction rationale

1 Emergence of a new #1 player in UK mobile

- Creating a new champion in the UK mobile market
 - #1 player with a combined market share of 37% (2008 PF)
 - Serving key mobile market segments: from business customers to prepaid/postpaid consumers and wholesale customers
 - Best positioned for convergence offerings in the future
- Best 2G and 3G networks in terms of coverage and performance
- Serving combined pro forma 2008A customer base of 28.4m subscribers with best of both partners' products and services
- Industry leading and experienced management team to ensure smooth integration and long term leadership
- Attracting the best talent and offering outstanding career opportunities

2 Best customer offering in the market

- Enhanced coverage quality including indoors and in rural areas
- Leader in mobile broadband
- Providing the most innovative and widest range of handsets, products & services
- Largest distribution network among mobile operators
- Ability to build the best customer service platform in the UK
- Realising the vision of Digital Britain by investing into technology and services

Transaction rationale (cont'd)

Costs savings through integration and scale

3

- Significant synergy potential: NPV of net opex and capex savings in excess of £3.5bn
 - Opex run-rate synergies of £445m per annum
 - Capex run-rate synergies of £100m per annum
 - Large and readily achievable synergies in network & IT
 - Quick ramp-up of savings in commercial and G&A expenses
 - Improved efficiency in distribution and customer services
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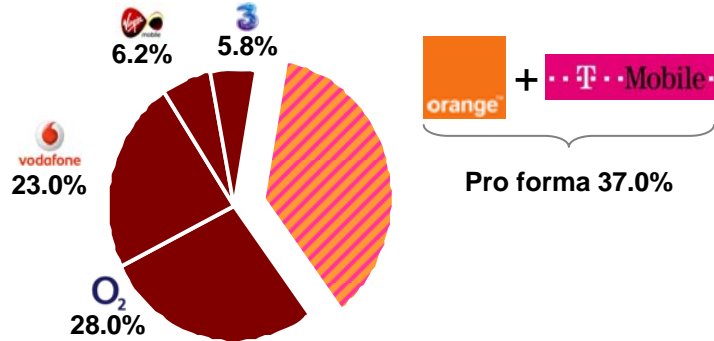
Value creation for shareholders

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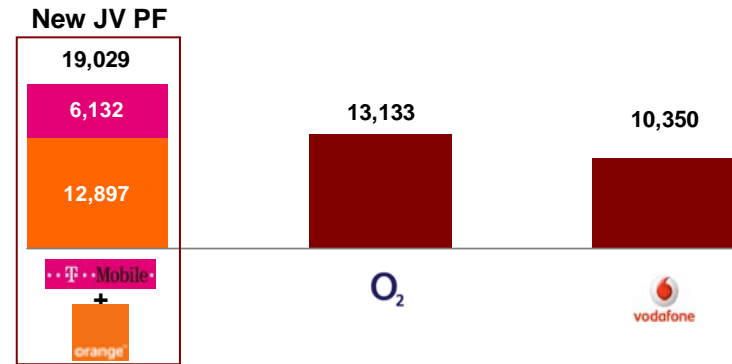
- Joint ownership of a larger, more profitable asset
- EPS accretive from first full year of JV operation (2011)
- Free cash flow per share accretive from 2010
- Maximisation of cash to the parent companies through a distribution of 90% of the JV's free cash flow
- No impact on parent companies' debt and dividend policy

1 The Joint Venture will create the new #1 player in the UK mobile market

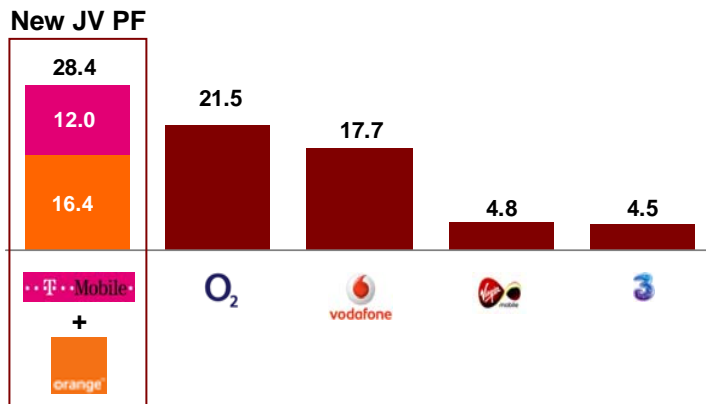
UK mobile subscribers market shares (2008PF combined)¹



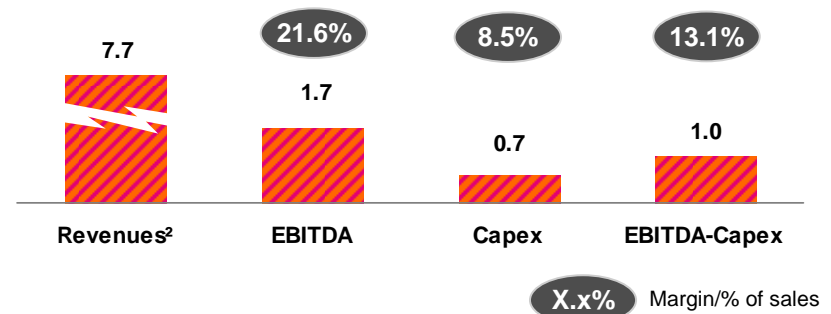
Total UK mobile employees by operator (2008PF combined)²



Total UK mobile subscribers (m, 2008PF combined)



Joint Venture financials³ (£bn, 2008PF combined)



Source: Ofcom "The Communications Market 2008", company filings ¹ T-Mobile UK excluding wholesale via Virgin ² Company reporting as of the respective last fiscal year end

³ Adjusted for national interconnect revenues between T-Mobile UK & Orange UK

2 The new venture will benefit British consumers, boost innovation and enhance competition

A new, compelling customer offer

- The biggest, fastest and widest network
- Enhanced quality of coverage including indoors and in rural areas
- Most innovative and best handset portfolio, products & services
- Notable environmental benefits through large reduction of duplicate radio sites

Industry leading retail presence

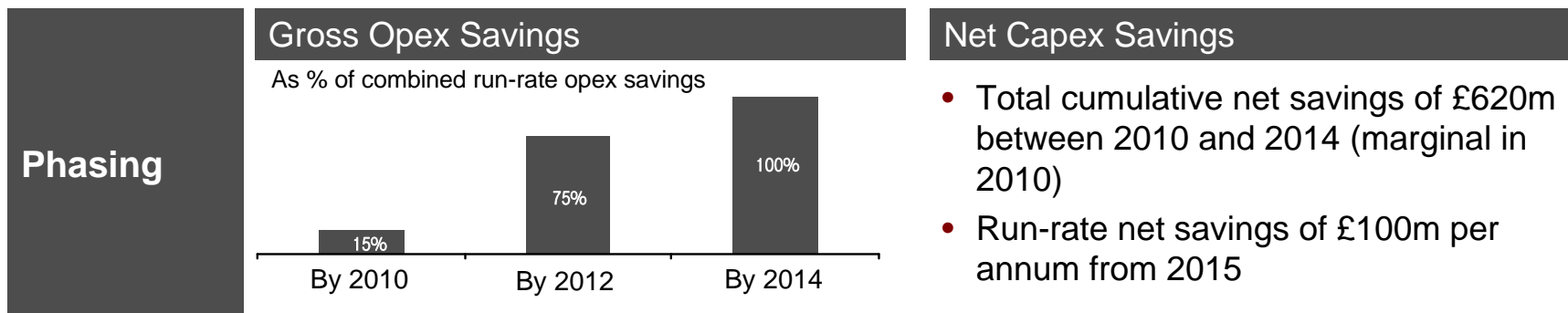
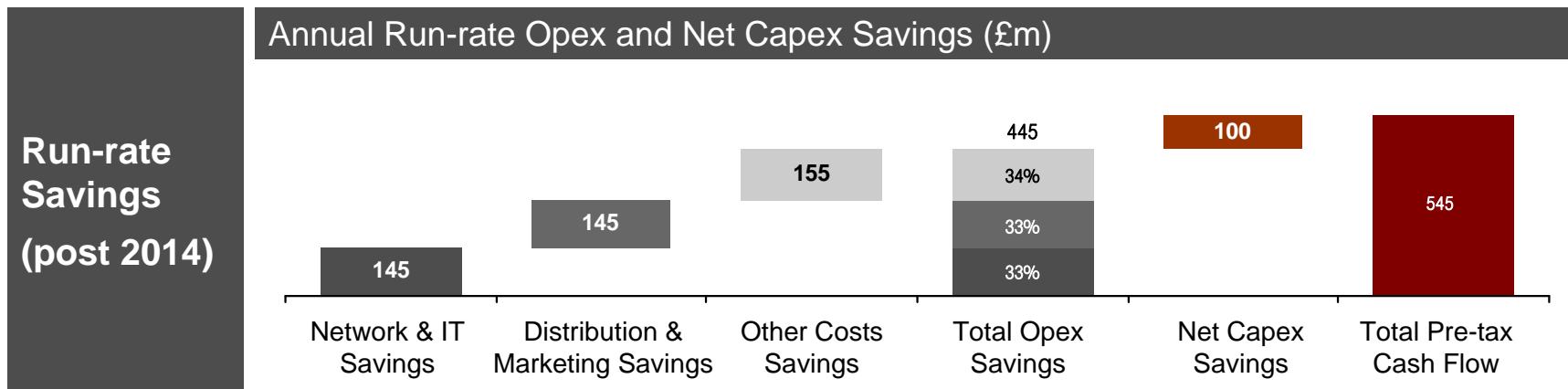
- Higher customer proximity through largest distribution network of mobile operators
- Enhanced ability to demonstrate our new services and devices in our own environment
- Unparalleled customer access complemented by deep relationship with existing independent distributors
- Outstanding customer service

Realising the Digital Britain vision

- Delivering the potential of multimedia devices and convergence products to consumers nationwide
- Enabling rapid deployment of mobile broadband to most parts of the country
- Creating the scale to invest in new consumer technologies and services

The combination creates a strong national competitor, with the critical mass to accelerate the vision of Digital Britain

3 Over £3.5bn NPV of synergies, net of integration costs



- Integration Costs**
- Cumulative integration costs over 2010 – 2014: £600m-£800m Opex
 - Integration capex factored into net capex savings

- Long term EBITDA margin superior to current margins of best in class operators in the UK
- Best in class capex efficiency

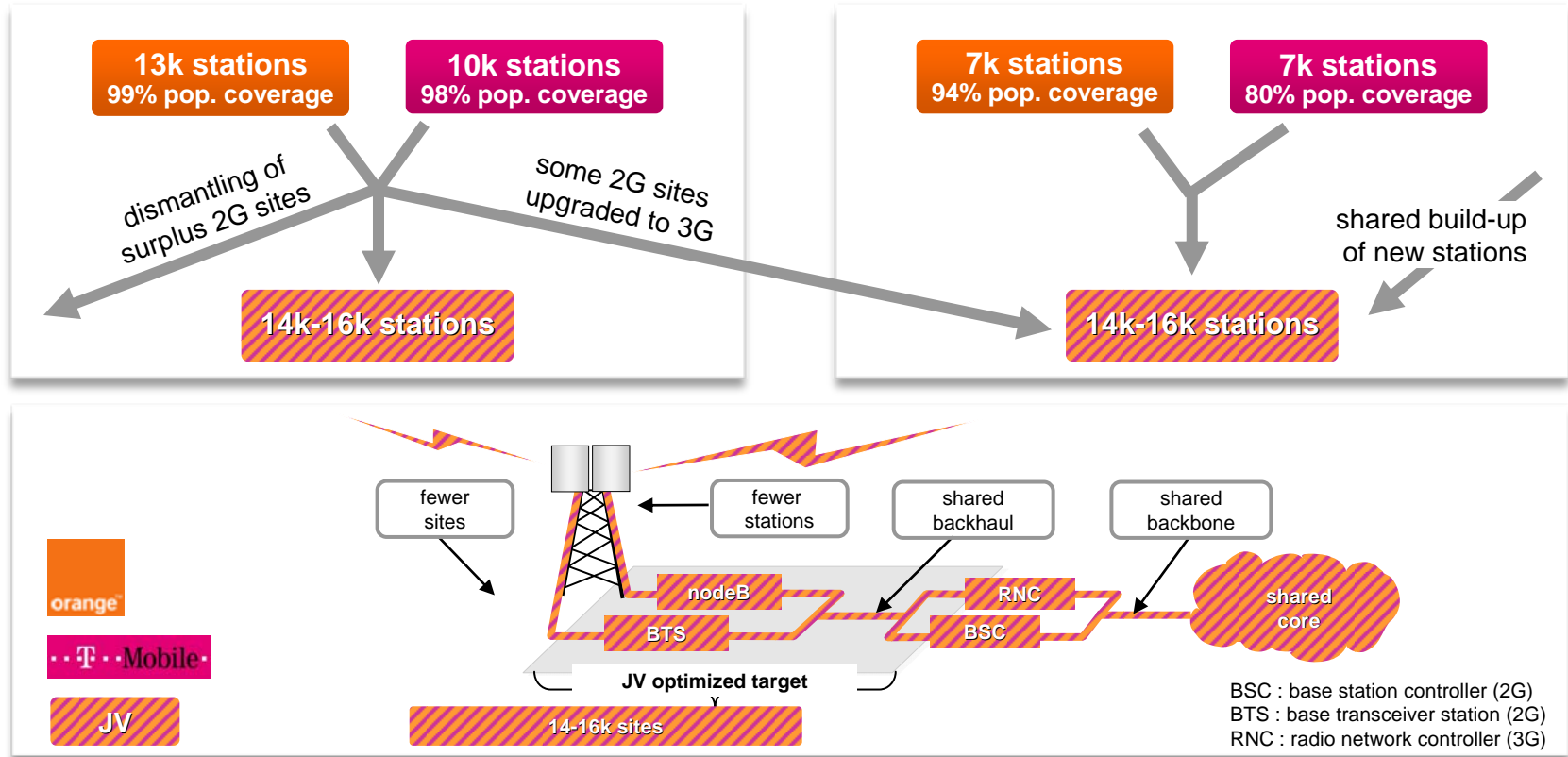
3 Sources of synergies and integration costs

	Sources of synergies	Related integration costs
Network & IT	<ul style="list-style-type: none">• Site rationalisation and modernisation• Backhaul, backbone and core network consolidation• Combining 2G and 3G network coverage and extension• IT and back-office unification	<ul style="list-style-type: none">• Site decommissioning• Costs of terminating supplier contracts• Network integration capex
Distribution & Marketing	<ul style="list-style-type: none">• Lower distribution costs due to enlarged own distribution network• Rationalisation of retail network• Reduction in marketing costs	<ul style="list-style-type: none">• New branding strategy implementation costs• Shop refurbishment / closures
Other costs savings	<ul style="list-style-type: none">• Reduction of G&A• Optimisation of workforce• Elimination of duplicate costs and processes	<ul style="list-style-type: none">• Costs associated with rationalisation of processes and removing duplications• Costs associated with optimisation of workforce and subcontracting

3 Network/IT: large savings from combining existing 2G and 3G networks and jointly extending 3G network coverage

2G network

3G network (co-sited with 2G)



- One single network with ~20% fewer stations and ~35% fewer sites than standalone scenario
- Best sites retained for improved coverage and quality of service
- Progressive sharing of backhaul, backbone and core

3 Network/IT: substantial radio access and core network synergies

Significant synergies are achievable given that **partners have compatible:**

- Spectrum holdings
- Network architecture
- 2G/3G coverage
- Rollout plans
- Voice/data traffic profile
- Requirements for additional spectrum

Opex savings

- Fewer radio sites in combined network
 - Reduced rental expenses
 - Better leverage to negotiate site locations and rental fees
 - More opportunities for co-siting (reuse of existing sites)
 - Reduced operations and maintenance expenses through better use of field staff

Annual Run-rate opex savings (from 2014)
£145m

Capex savings

- Network sharing results in shared costs for 2G and 3G coverage and capacity extension
 - Radio access
 - Backhaul
 - Backbone
 - Core network

Annual Run-rate capex savings (from 2015)
£100m

3 Distribution/Marketing: Gradual integration

Transition period (2010-2011)

Initial co-existence of two strong brands ...



- Both brands are maintained separately for a period of 18 months after closing
- Initial co-existence mitigates churn
- Period for management to assess both operations and review branding alternatives

... and progressive convergence of marketing activities

Proactive activities to enhance loyalty

Intensify dialogue with independent distributors

Coordinate marketing actions & product offerings to reduce cannibalisation

Leverage broadband product

Integrated branding strategy (from 2012)

Roll-out of branding strategy in H1 2012...

- Decision on branding strategy will be made in H2 2011 for implementation in H1 2012
 - JV management to make recommendation on branding strategy
 - Shareholders will decide the branding strategy

... allowing full integration of marketing and distribution activities

- More effective marketing spend
- Restructuring of own shops network to create the most powerful distribution network in the UK among the mobile network operators
 - Largest network, with all shops rebranded in line with new brand strategy
 - Highest quality network: best locations, best store formats
- Scope for deeper relationships with independent distributors

3 Distribution/Marketing: Improved distribution platform and more efficient commercial spend

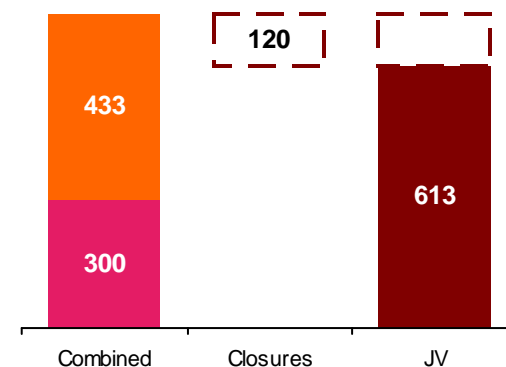
Distribution network strengthened by integrating best store formats & locations

- Significant rationalisation of overlap in premium locations
 - Savings of c. £35m per year
- Reduction in distribution costs through increased share of distribution of own shops
 - Increased scale and quality of own shops network
 - Savings of c. £50m per year
- Implementation costs of c. £65m to be spread over 2012-2013 period
 - Closed shops: termination costs
 - Retained shops: refurbishment costs

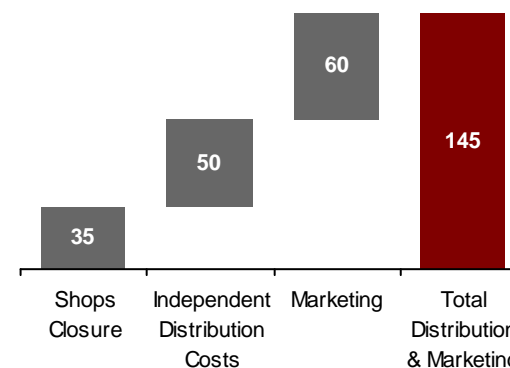
Significant savings in marketing costs

- During integration phase: cost reductions due to combined negotiating power for buying advertising space and rationalisation of marketing costs
- Post decision on branding strategy: reduction of c. 30% of combined marketing costs (c. £40m in 2012 and c. £60m per year from 2014)

Own shops network¹



Annual Run-rate synergy breakdown²



¹ Estimated 2009 shops

² Run-rate opex post 2014

3 JV strategic direction and future ambition – become the #1 for customer experience in the UK

Network & IT

Direction

- Implement one network platform & deliver network synergies
- Continued progressive migration of 2G traffic to 3G
- Network JV with 3UK maintained to deliver attractive savings from 3G site sharing
- Demand driven LTE strategy incremental to 3G deployment

Ambition

- **Become #1 in network quality of service**
 - A powerful driver for reinforcing customer attraction and retention
- **Become #1 in efficiency**
 - Ensure highest network efficiency amongst MNOs in the UK

Marketing & Distribution

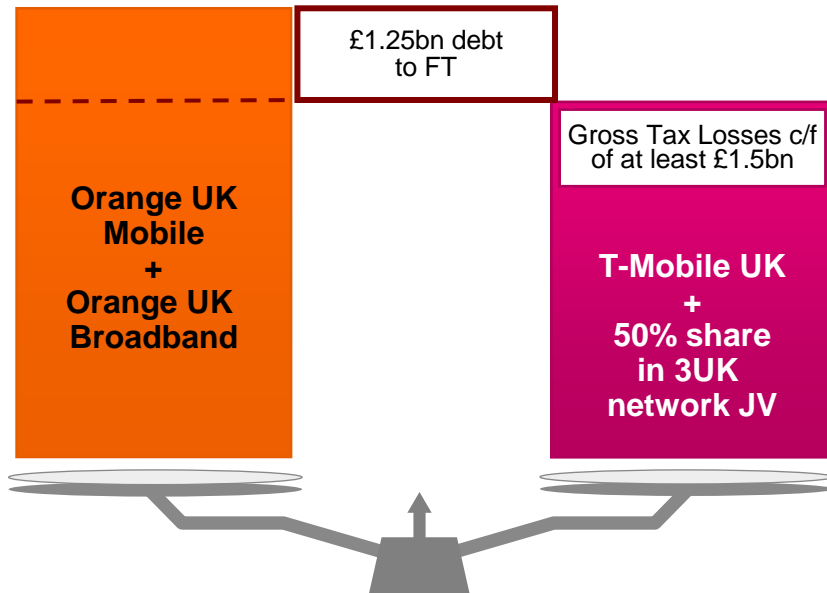
- Exploit marketing synergies
- Maximize direct channel strategy
- Optimize SRCs and SACs
- Deepen relationships with indirect distribution partners
- Leverage online & customer service sales capabilities

- **Become #1 for sales and services on the high street**
 - Optimizing the balance between direct and indirect distribution
 - Key factor for improving EBITDA margin
- **To retain #1 position in wholesale**
- **Become #1 for customer service**
 - Improve customer lifetime by creating loyal happy customers

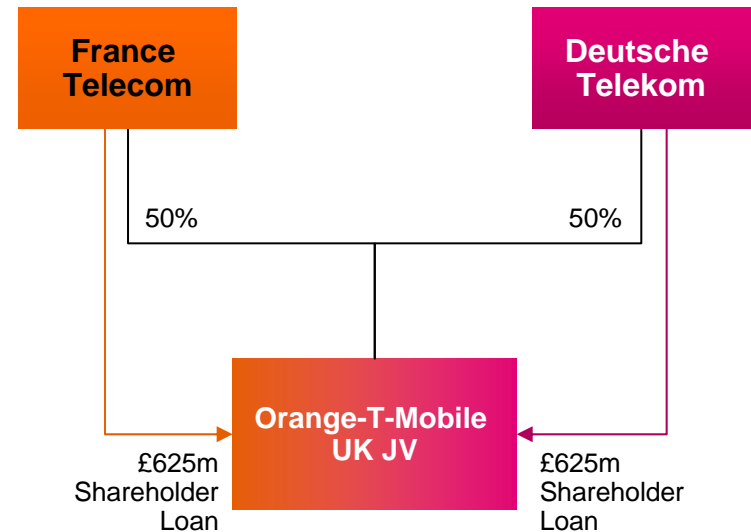
Creating a winning environment for our people

Transaction structure designed to achieve 50/50 JV

Balanced contributions to JV



Post closing structure



Step 1: Contributions to JV

- France Telecom contributes Orange UK Mobile and Orange UK Broadband with intra-group net debt of £1.25bn
- Deutsche Telekom contributes T-Mobile UK, including its 50% stake in the network JV with 3UK, on a cash free and debt free basis

Step 2: Partial reimbursement of debt to France Telecom

- Immediately after closing, Deutsche Telekom grants a £625m shareholder loan to JV
- Simultaneously, JV reimburses £625m to France Telecom

Post closing:

- JV indebtedness of £1.25bn
- Represented by two equal shareholder loans of £625m each, borne by each of the two parent companies

Key governance principles – joint control and streamlined decision making

Board of directors

- Equal representation from France Telecom and Deutsche Telekom
 - 2 representatives from France Telecom, 2 representatives from Deutsche Telekom
 - 2 executive directors (CEO and COO)
- Deutsche Telekom nominates first Chairman of the Board

Key management functions

- All appointments according to principle of “best person for the job”
- CEO: Tom Alexander
- COO: Richard Moat

Stability and long term commitment

- Shareholders’ interests aligned in all respects
- Governance designed to create a stable, long term ownership structure

Operational autonomy awarded to JV

- Governance designed to allow management to focus on operations
- Extensive operational decision making with JV management

Dividend policy

- Maximum cash flows to be channeled to the parent companies
- Distribution of 90% of cash flow to shareholders

4 Pro forma impact – France Telecom

Key principles

- Orange UK will be accounted for as discontinued operations by signing at the latest
- After closing, the JV will be accounted for using the equity method
 - Deconsolidation of UK operations increases Group EBITDA margin
- Current guidance of €8.0bn of Organic Cash Flow for 2009 unchanged
- France Telecom Organic Cash Flow will include contribution from JV through payment of dividends
- Transaction reduces group indebtedness by £625m at closing; no impact on leverage ratios

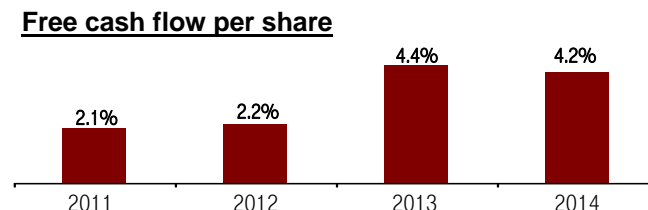
Financial impact

Impact on Key Financial Metrics

	2008A	2008 Pro Forma
Revenues	€53.5bn	€47.6bn
EBITDA ¹	€19.4bn	€18.4bn
EBITDA Margin ¹	36.3%	38.6%
Capex	€6.9bn	€6.4bn
Capex as % of Revenue	12.8%	13.5%
Net Debt	€35.9bn	€35.1bn
Net Debt/EBITDA	1.85x	1.91x

EPS and FCF per Share Accretion²

- EPS accretion from 1st full year of operation (2011)
 - c. 4% accretion by 2014
- Free cash flow per share accretive from 2010



¹ Assuming, on a preliminary basis, that the share in the JV net income will be incorporated in group EBITDA. Assuming transaction closing in H1 2010

² Based on Broker consensus estimates. Estimates factor in JV integration costs, but exclude any potential effect from one-off transaction-related accounting impacts and from Purchase Price Accounting. 18

4 Pro forma impact – Deutsche Telekom

Key principles

- T-Mobile UK will be accounted for as discontinued operations by signing at the latest
- After closing, the JV will be accounted for using the equity method
 - Deconsolidation of UK operations increases Group EBITDA margin
 - Share in JV net income will be shown as financial income
- Current full year 2009 guidance unchanged
- Future net debt positively impacted by free cash flow distribution from JV
- Shareholder loan from DT to JV (£625m) is net debt neutral

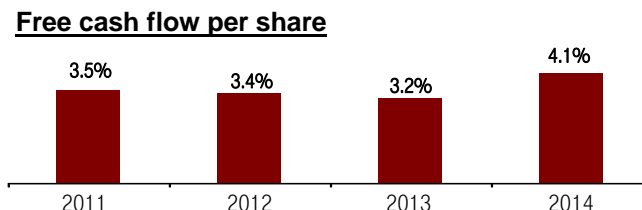
Financial impact

Impact on Key Financial Metrics

	2008A	2008 Pro Forma
Revenues	€61.7bn	€57.6bn
EBITDA	€19.5bn	€18.6 bn
EBITDA Margin	31.6%	32.2%
Capex	€3.7bn	€3.3bn
Capex as % of Revenue	14.1%	14.5%
Net Debt	€38.2bn	€38.2bn
Net Debt/EBITDA	1.96x	2.05x

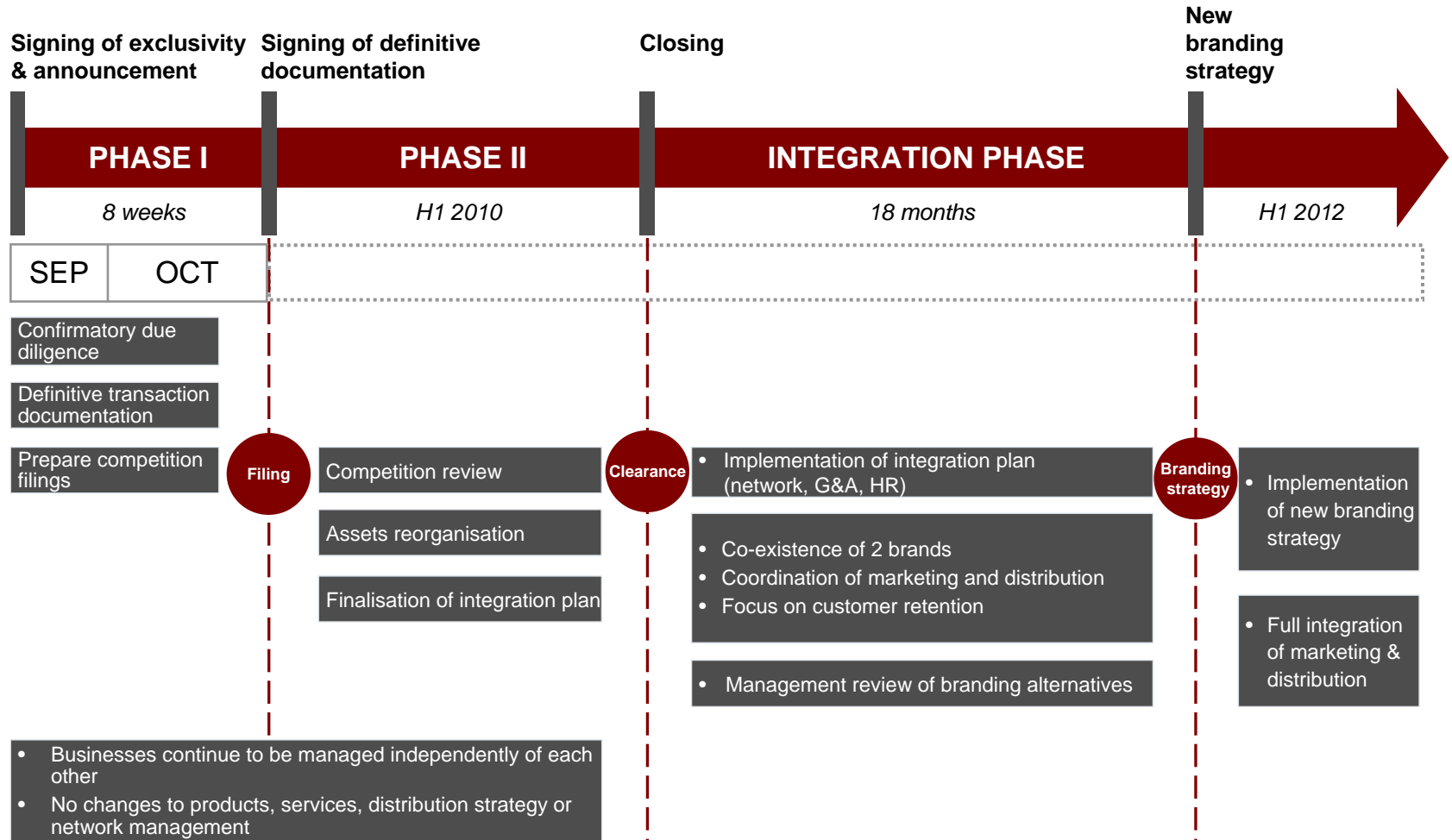
EPS and FCF per Share Accretion¹

- Double digit EPS accretion from 1st full year of operation (2011)
 - c. 11% accretion by 2014
- Free cash flow per share accretive from 2010



¹ Based on Broker consensus estimates. Estimates factor in JV integration costs, but exclude any potential effect from one-off transaction-related accounting impacts and from Purchase Price Accounting. Assuming transaction closing in H1 2010

Expected transaction timetable



Summary: Creating a new mobile champion in the UK

- ✓ Clear market leader with pro forma subscriber market share of 37%
- ✓ World class management team committed to deliver #1 market profitability
- ✓ Significant benefits and the most innovative services for UK consumers
- ✓ Best 2G and 3G networks
- ✓ Significant value creation due to synergies with an NPV of £3.5bn
- ✓ EPS accretive from first full year of JV operation (2011)
- ✓ Free cash flow per share accretive from 2010
- ✓ Distribution of 90% of the JV's free cash flow to its shareholders