DT Finance Strategy:
Towards Efficiency and Capital Returns.

Investor Day 2010, Timotheus Höttges
Disclaimer.

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom’s control, including those described in the sections “Forward-Looking Statements” and “Risk Factors” of Deutsche Telekom’s Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment writedowns of assets carried at historical cost, which may materially affect our results at the group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. We do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, gross debt and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter “Reconciliation of pro forma figures”, which is posted on Deutsche Telekom’s Investor Relations webpage at www.telekom.com.
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

**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

**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

---

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

**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
- Remote provisioning
- Mean Time between Assists (DSL)

**T-Home Customers perception & competitiveness**

- Tri*M Consumer Retail vs. peers
- Broadband Net Add Share
- Customer Complaints
- Competitive Labor Costs

**ΔOPEX Domestic Fixed Line Business 2007 – 2009**

- T: -17.0%
- Telecom: -9.7%
- France Telecom: -6.9%
- Telefonica: -5.5%
- BT: 0.9%
- KPN: 7.6%
- 8.0%
- Ø: -3.2%

*Source: UBS, FT, 2006 extrapolated based on FT data, DT: internal, domestic fixed line business: 2009 pro forma, no YE09 restatement for T-Home
**OPEX:** Overall € 4.2 billion by 2012 with stronger international savings contribution.

<table>
<thead>
<tr>
<th>Measures</th>
<th>GER</th>
<th>EU/SEE</th>
<th>TMUS</th>
<th>SYS</th>
<th>GHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remote provisioning and fault elimination</td>
<td>• Remote provisioning and fault elimination (&quot;Zero Touch&quot;)</td>
<td>• Simplify service offerings (e.g. tariffs, bills)</td>
<td>• Reduce handset inventory</td>
<td>• Optimization of data center infrastructure</td>
<td>• Establish consolidation and payment factories</td>
</tr>
<tr>
<td>• Integrated fixed/mobile market communication</td>
<td>• Integrated fixed/mobile market communication</td>
<td>• Consolidate fixed and mobile shop networks</td>
<td>• Increase customer care efficiency</td>
<td>• Restructure and standardize sales activities</td>
<td>• Reduce external legal and consulting spend</td>
</tr>
<tr>
<td>• Online-billing</td>
<td>• Online-billing</td>
<td>• Increase share of online transactions</td>
<td></td>
<td>• Standardize &amp; reduce T-Systems portfolio to 55 elements</td>
<td>• Optimize real estate capacities</td>
</tr>
<tr>
<td>• Optimization of data center infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Restructure and standardize sales activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Standardize &amp; reduce T-Systems portfolio to 55 elements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reduce external legal and consulting spend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Optimize real estate capacities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Gross Savings (€ bn)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2010-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>DT</td>
<td>2.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Germany</td>
<td>~-0.5</td>
<td>&gt;-1.5</td>
</tr>
<tr>
<td>EU/SEE</td>
<td>~-0.1</td>
<td>~-0.3</td>
</tr>
<tr>
<td>TM US</td>
<td>~-0.4</td>
<td>~-0.5</td>
</tr>
<tr>
<td>SYS</td>
<td>~-0.5</td>
<td>~-1.2</td>
</tr>
<tr>
<td>GHS</td>
<td>~-0.3</td>
<td>~-0.4</td>
</tr>
</tbody>
</table>
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
- 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
  - T-Home/T-Mobile
  - PSTN-net
  - ISDN
  - Voice/data

- New DT
  - One Company
  - All-IP (GER 2015)
  - FTTx
  - Connected life & work
CAPEX shift towards transformation and revenue growth.

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

- 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.

**Measures to improve FCF management in 2009**

**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

**Key figures 2008 to 2009**

<table>
<thead>
<tr>
<th>Item</th>
<th>2008</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables  € bn</td>
<td>7.4</td>
<td>6.8</td>
<td>-9%</td>
</tr>
<tr>
<td>Payables  € bn</td>
<td>7.1</td>
<td>6.3</td>
<td>-11%</td>
</tr>
<tr>
<td>Inventories  € bn</td>
<td>1.3</td>
<td>1.2</td>
<td>-9%</td>
</tr>
</tbody>
</table>
Portfolio: Consequent portfolio management – no long-term toleration of value destroying assets.

- 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)
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 ✓
M&A: Focus on portfolio optimization, not expansion.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Synergies (in € mn)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>~400</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>~400</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>~700</td>
<td>~1,100 (€545)</td>
</tr>
<tr>
<td>Run rate post 2014</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GT 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.  \([\text{STRATO AG}](https://www.strato.de)\)
- 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.

- 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

![Bar chart comparing income taxes and cash taxes with peers](chart.png)

**Tax assets safeguard low cash taxes payout**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Taxes/Revenues</th>
<th>Cash Taxes/Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2011</td>
<td>4.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2012</td>
<td>5.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2013</td>
<td>6.9%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Low taxes compared to peers (2008/09)
Equity: 2010 policy shift in shareholder remuneration.

2009 – Strong dividend yield in peer group*

- 4.6%
- 5.3%
- 6.4%
- 7.9%
- 8.0%

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**
- Average 2009 5-year CDS

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

**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

**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.

<table>
<thead>
<tr>
<th>Key priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ambition level 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ 3.4 bn p.a.</td>
</tr>
<tr>
<td>Increase &gt;150 bps</td>
</tr>
<tr>
<td>€ 4.2 bn gross savings</td>
</tr>
<tr>
<td>FCF increase</td>
</tr>
<tr>
<td>Roll-out for senior management</td>
</tr>
</tbody>
</table>