

**Not to be released until: November 10, 2011**

**Start statement René Obermann**

– The spoken word shall prevail –

**Conference Call**

**Third quarter report of 2011**

**November 10, 2011**

**Timotheus Höttges**

**Chief Financial Officer**

**Deutsche Telekom AG**

Thank you, René Obermann!

I am pleased with the financials of our Germany segment. However, the slight weakening quarter-on-quarter was due to lower equipment revenues and the reduction of termination rates in mobile communications – you will recall that last year we launched the iPhone 4 on June 24 with full impact in Q3 and this year the iPhone 4S was only launched in October – and revenue trends in the wholesale sector were weaker.

Despite a revenue decline of more than EUR 300 million, adjusted EBITDA declined by just EUR 33 million or 1.3 percent. This was due to strong adjusted opex cuts of more than EUR 300 million, of which two thirds were structural opex savings, with the remainder coming from regulatory price cuts including the mobile termination rate – or MTR – cuts and the discontinuation of the

profitless mobile prepaid cards business. This resulted in an expansion of the adjusted EBITDA margin to 41.5 percent, up 1.6 percentage points year-on-year, our best margin ever since the integration of fixed and mobile!

Fixed-network revenues declined at a slightly steeper rate than in Q2, although this was primarily due to weaker wholesale revenue trends as already mentioned. Wholesale revenues declined by 8.6 percent year-on-year, compared with a decline of 3.5 percent in the second quarter. This was driven by price and quantity and the new wholesale provisions on interconnection which came into effect on July 1. In addition, wholesale revenues this year were strongly influenced by structural changes.

The number of double- and triple-play customers grew by 3 percent year-on-year, the same growth rate as in Q2. As expected, our broadband net add share was seasonally lower at 22 percent in Q3, but slightly higher than in the third quarters of the two previous years. In mobile, service revenues including the MTR cuts declined by 3.1 percent, a slight improvement over the trend in Q2. Excluding the MTR cuts, mobile service revenues were essentially stable in both quarters.

Looking at the German fixed broadband market as a whole, market growth was weaker. We successfully defended our market share in excess of 45 percent of all broadband customers, despite the already mentioned lower net adds share in Q3. Already more than half of our domestic fixed customer base are broadband customers.

Our IPTV and VDSL promotions and the introduction of Entertain Sat generated a considerable boost in our IPTV business with 74,000 additional connections, taking the total number of Entertain connections to 1.4 million. VDSL net adds also accelerated to 66,000 in Q3.

Turning to mobile, our mobile service revenue share remained stable in Q3. The quality of our customer base is reflected by a stable low contract churn of 1.1 percent, which remains best in class. In terms of handsets sold, 64 percent were smartphones in Q3, up 11 percentage points year-on-year. iPhone sales, though still a respectable 221,000 in Q3, were clearly impacted by the pending iPhone 4S launch in October. Since the launch of the 4S, we have seen very strong iPhone sales, which reached close to 90,000 iPhone 4S within the first two weeks.

Our initiatives in mobile and fixed have already generated impressive achievements. Our “Special Call & Surf Mobil” promotion was a striking success, capturing 31 percent of our contract gross adds in Q3. This is compared with 18 percent in Q2.

In addition, we have also successfully delivered on our promised initiatives geared toward addressing new customer segments via service providers. Consequently, contract net adds in Q3 amounted to an excellent 466,000, compared with just 25,000 contract net adds in Q3 last year. Service providers' contribution to contract net adds improved from minus 59,000 in Q3 last year to plus 371,000 this quarter.

Turning to Europe, the growth in key market KPIs remained strong despite a slight slowdown compared with the previous quarter. Of particular note is that the smartphone share in percent of dispatched devices is now at 50 percent.

Economic trends across the Europe segment are quite diverse, ranging from robust in Poland, in terms of GDP growth, moderate in Slovakia, the Czech Republic, and the Netherlands, and difficult in Hungary, Romania, and Croatia, to still weak in Greece.

Turning to our operations in integrated markets, both revenue and adjusted EBITDA trends in Greece improved in comparison with Q1 and Q2, as René Obermann already mentioned.

At this point I would like to underline that OTE only recently agreed with its unions on a reduction in the work week with corresponding wage reduction. This agreement is expected to have a positive EBITDA effect of approximately EUR 160 million over the next three years.

In Croatia, trends were similar to the previous quarter with a very impressive margin of 51 percent. Fixed broadband trends remained strong with IPTV growing by almost 20 percent to 325,000. This trend is being supported by the acquisition of soccer rights for broadcasting the top Croatian soccer league.

Looking at the Magyar Telekom group, adjusted for the special tax and the shift of business customers to the T-Systems segment, underlying revenue trends were in line with the prior quarter, whereas adjusted EBITDA trends were weaker, partly due to higher mobile retention costs.

In Poland, results in euros were impacted by regulation and foreign exchange rate effects. Adjusted for both effects, underlying revenues declined by just 1.1 percent, while EBITDA grew by 5 percent year-on-year. Rebranding since June has gone extremely well with churn below expectations and strong brand awareness. T-Mobile Poland outperformed Orange in terms of contract net adds for the first time in a year. In September, over 300 employees were transferred to the newly established joint venture for network sharing with Orange.

In the Netherlands, underlying service revenue growth excluding regulation remained strong at 3.8 percent. Total revenues were weaker due to the "iPhone effect" – similar to the effect we felt here in Germany.

Adjusted EBITDA also benefited from this iPhone effect and grew by 33 percent year-on-year.

I do not intend to go into details about operational developments in the Czech Republic and Austria at this juncture. You can see all the relevant figures on this slide.

In Systems Solutions, we saw slightly better trends than in Q2. In particular, revenue growth accelerated to 2.3 percent. However, it was still partially offset by renegotiation and difficulties in the realization of some big deals. Order entry was quite strong, up 18.5 percent, mainly due to the Daimler deal.

Adjusted EBITDA and adjusted EBIT margins were below the previous year, even though there was a slight improvement compared with Q2. This reflects the ongoing impact of higher opex related to big deal execution and quality assurance.

T-Systems made an impressive contribution of EUR 0.5 billion to the Save for Service program in the first nine months, almost double the contribution in the first half of 2011.

U.S. results were mixed. The development of the contract customer base is a prime example: On the one hand, the number of contract customers fell again. Combined with the rate optimization by customers, this led to a further drop in service revenues. On the other hand, our team in the United States successfully slowed the losses in the contract customer segment relative to the previous three quarters. T-Mobile USA also recorded robust net growth in the prepaid segment. This development reflects the success of the new Value tariffs that were launched at the end of July and the continued success of the Monthly 4G prepaid tariffs.

Adjusted EBITDA in absolute terms was up 9.2 percent and the margin at 27.8 percent, up 3 percentage points year-on-year. In addition to the Value tariffs, this strong result also reflects progress on cost cutting. Adjusted EBITDA also benefited from a one-time effect, a 29 million dollar payment under the RadioShack settlement. Excluding this one-time effect, the margin would have been 50 basis points lower.

Turning to the Group's key financial metrics, free cash flow decreased slightly to EUR 1.7 billion due to seasonally higher net interest payments and higher cash capex. Capex increased in the Germany segment in particular due to investment in fiber, VDSL, and copper roll-out, particularly in new housing areas. We are confident of reaching our full-year free cash flow guidance. We expect the strongest contribution to free cash flow to occur in Q4.

Save for Service results were strong with a total Group saving of EUR 1.5 billion in the first nine months of 2012, with strong contributions from all divisions. The total run rate of the Save for Service program is now at EUR 3.9 billion; the target for 2010 to 2012 is 4.2 billion. In terms of the cost base, we achieved a net cost reduction of EUR 2.5 billion or 7.4 percent, aided also by the MTR reductions in multiple markets.

Our balance sheet ratios remained solid with key ratios either unchanged or slightly improved. In particular, the equity ratio improved sequentially to 32.7 percent. Net debt was stable despite the strong free cash flow which was offset in particular by adverse foreign exchange effects and the EUR 400 million payment for the 10 percent OTE put option.

And now René Obermann and I look forward to taking your questions.