Not to be released until: May 6, 2011
Start statement René Obermann

– The spoken word shall prevail –

Conference Call
Deutsche Telekom AG, First quarter report of 2011
May 6, 2011

René Obermann
Chairman of the Board of Management
Deutsche Telekom AG

Good morning, Ladies and Gentlemen,

I wish you a warm welcome to the presentation of our results for the first quarter of 2011. As always, I will first provide you with an overview of the key developments, after which Tim Höttges will run through the details with you.

There were four main issues in the first three months: growth areas positive, regulated network business declined as expected, business in Germany strong and with clear increase in margins, several challenges abroad.

That means specifically:

- Continuation of the positive development in our growth areas in which revenue increased by more than 9 percent overall. At 28 percent, growth in our mobile Internet market was particularly marked.
- Strong development of operating business in Germany and a positive trend in revenue and new orders at T-Systems, while we had to contend with very fierce competition in the USA as well as difficult overall economic conditions and stringent regulatory requirements in several European countries.
- The agreement with AT&T and, in turn, the all-round solution for our U.S. business that generates a great deal of value.

You will be familiar with the key elements of the agreement of March 21: The total volume is USD 39 billion, of which AT&T will pay USD 25 billion in cash and USD 14 billion in its own stock. We intend to use some EUR 13 billion from the transaction to reduce debt, which will allow us to improve our balance sheet ratios further.

A further EUR 5 billion or so will be used for a share buyback program; something that will directly benefit our shareholders. We will therefore be continuing our policy of attractive and, above all, consistent shareholder remuneration. We had already provided clear guidance with our statements on the dividend and share buybacks for 2010 through 2012.

Our equity investment of up to 8 percent in AT&T will enable us at the same time to retain a stake in the growth of the mobile Internet in the United States. From today's perspective, we will receive dividends of some USD 600 million per year.

We will reduce our annual interest expense thanks to the lower debt. The planned share buyback will also reduce the number of shares carrying dividend rights. Together with the aforementioned dividends from the AT&T share package, the reduction in expenses in combination with additional income from today's perspective add up to some EUR 1.5 billion per year.

This transaction has clear advantages for Deutsche Telekom and our customers in the United States. We would have had to upgrade the mobile communications network in the USA with substantial investments over the next few years and would also have needed additional spectrum to do so. We have found by far the best solution for the many open questions that would have entailed. By working with AT&T, our customers in the USA will be able to access mobile technology of the future through the use of LTE, just like in Germany.

We have freed Deutsche Telekom and the T-Share of these uncertainties. Strengthening our financial ratios gives us additional room to maneuver for the further development of our business. The advantages of our agreement with AT&T are clear to the capital market and were rewarded with a significant jump in our share price. There can be no doubt that this agreement is a great solution for all of Deutsche Telekom's stakeholders.

Ladies and Gentlemen,
Based on information to date, we expect to close the transaction in around mid-2012. Before that, it has to undergo an approval process in which the advantages for U.S. consumers will be checked and analyzed closely. In view of the extremely tough competition that characterizes the U.S. market, I am confident that approval will be given once the process has been completed.

Then the first part of our Fix – Transform – Innovate strategy will essentially be complete. We have

- greatly improved the prospects for our business in the U.K. with the Everything Everywhere joint venture,
- finally brought the legal dispute in Poland to an end after many years and taken over undisputed ownership of PTC,
- and achieved the optimum solution for T-Mobile USA thanks to the transaction with AT&T.

In just 18 months we have tackled three important structural issues and delivered outstanding solutions that create value. In doing so, we have taken an unwavering, consistent approach and always clearly focused on the interests of Deutsche Telekom and its stakeholders.

In future, we will be able to focus even more clearly on the challenges in our other operating segments. This will essentially involve

- safeguarding and strengthening our market position in Germany,
- improving the position of our European affiliates in what is a very difficult economic environment in certain areas, further compounded by high regulatory pressure,
- and pushing forward the positioning of T-Systems in the ICT market and in new groundbreaking business segments.

In doing so, we will continue to embrace innovative, efficient solutions that create value long-term. Examples include the planned procurement joint venture with France Télécom and the planned network partnership between PTC and Orange in Poland.

We will continue to pursue our strategy right down the line. That also means we still have no major acquisitions planned. But we could imagine making smaller purchases, such as Internet service providers – as we did in the past.

Ladies and Gentlemen,
Before I run through the details of the first quarter in a moment, let me just say a few words about our guidance for the whole year, which I now confirm:

When comparing the figures with 2010 you need to bear in mind that T-Mobile UK was still included in the consolidated figures in the first three months of 2010, contributing EBITDA of some EUR 0.2 billion. So the basis has changed in this respect. The following data will be based on comparable figures, in other words after elimination of T-Mobile UK from the 2010 figures.

As a consequence of the agreement with AT&T, we now also have to report T-Mobile USA as a discontinued operation. Hence this presentation and the interim report reflect, on the one hand, the Group figures based on the Group's current structure. On the other hand, the data for T-Mobile USA and for the Group after the disposal is presented separately, as also reflected here in the breakdown of the guidance for 2011. Any statements regarding the Group naturally relate to data including T-Mobile USA.

We still expect to achieve adjusted EBITDA of around EUR 19.1 billion for 2011. We expect our free cash flow to remain stable or even rise slightly compared with the prior-year level of EUR 6.5 billion. This also includes T-Mobile USA with an expected EBITDA contribution of around EUR 5.5 billion.

Excluding T-Mobile USA, we expect Group EBITDA for the year of around EUR 14.9 billion, compared with EUR 15.1 billion last year. The difference is mainly down to our European business outside Germany, as we said back in February when we announced our guidance. In terms of free cash flow, the costs of the resolution of the PTC dispute totaling EUR 400 million continue to be excluded.

Ladies and Gentlemen,
The first quarter of 2011 posed major challenges. In particular, the economic and regulatory environment in several countries in the Europe segment drove down revenues. Competition in the USA has also become fiercer once more.

This demonstrates once again that our business is impacted by lagging factors: We came through the financial and economic crisis relatively stable, while other industries such as the motor and steel industries slumped.

We have seen positive developments with business customers, in particular at T-Systems and in Germany, since 2010. The situation with consumers differs from one country to another: In Poland and Hungary, for example, the trends look promising. By contrast, we have not yet seen any sign of improvement for Greece and Romania.

In the first three months, comparable net revenue – i.e., excluding T-Mobile UK in 2010 – decreased by some 3.0 percent to EUR 14.6 billion. Adjusted EBITDA decreased year-on-year by 5.0 percent to EUR 4.5 billion. Due to the decline in EBITDA, adjusted net profit was EUR 0.7 billion compared with EUR 0.9 billion in the same period last year. Free cash flow was EUR 1.1 billion compared with EUR 1.4 billion in the first quarter of 2010. This was largely due to different seasonal influences on capital expenditure and interest payments.

Now let's take a look at the segments in detail:

Business in Germany performed well overall, with adjusted EBITDA up 3.7 percent. Here our ongoing rigorous cost monitoring has paid off.

Revenue decreased by 3.2 percent. But this figure includes the significant decrease in mobile termination rates and the discontinuation of various low-margin retail trading activities. Excluding these effects and adjusted for the first-time conso-lidation of ClickandBuy, revenue decreased by just 2.0 percent, mainly as a result of the decrease in conventional fixed-network business. The strong profitability is reflected in an increase in the EBITDA margin of more than 2.5 percentage points.

The positive development of key performance indicators has continued. A few examples:

Growth in mobile Internet revenue has continued impressively, increasing 32 percent to EUR 384 million. Almost 60 percent of the handsets sold in Germany are now smartphones – of which almost 300,000 are iPhones. That's more than in the first quarter of last year.

In the fixed network, we have maintained our market share of existing broad-band customers at 46 percent. We now have more than 1.3 million Entertain customers and the number of the VDSL customers has more than doubled to over 400,000.

Our Systems Solutions business has performed very well on the revenue side. Here we posted a 6.1-percent increase year-on-year, taking us to the current level of EUR 2.3 billion. The increase in revenue from international business of 9.3 percent is particularly pleasing. Adjusted EBITDA remained virtually stable at EUR 0.2 billion. New orders have been encouraging, totaling EUR 2.6 billion in the first quarter – a year-on-year increase of almost 20 percent. Major contracts were signed with the likes of health insurance provider DAK, Everything Everywhere, and airport operator Fraport.

We are currently facing several challenges with our business in Europe:
On the one hand, there is the difficult economic situation – particularly in South-Eastern Europe – which later impacts on our business as a lagging effect. On the other hand, we are faced with regulatory and other forms of state intervention, such as arbitrarily levied special taxes. Revenue here decreased by 8.0 percent to EUR 3.7 billion. Adjusted EBITDA decreased by 13.1 percent to EUR 1.2 billion.

In terms of EBITDA, the fact that we have made major market investments in certain countries, for instance in Poland, Croatia, and the Netherlands, has had a substantial impact in addition to the decrease in revenue. Such investments were important because they enabled us to reinforce our position in the contract customer segment. In total, we now have 26.5 million mobile contract customers in Europe, around 1 million more than in 2010.

We have increased the number of lines in our broadband business by some 10 percent to 4.7 million. The number of IPTV customers even increased by 50 percent to more than 700,000.

As I said before, any analysis of the figures for the European affiliates needs to take account of various effects that help put into perspective the overall picture, which is distorted by sharp downturns in certain markets. This includes, for example, the special tax we had to pay in Hungary, which I'm sure you're aware of.

And in the Netherlands, to give you another example, termination charges were reduced by a total of 50 percent effective January 1. That impacted on our revenue and earnings – and we still developed better than the number one in the market.

But it is also true that we are seeing the convergence of difficult overall economic conditions with fierce competition, especially in Greece and Romania. While we are gaining market share in the Greek mobile market, the market as a whole is shrinking. In addition, in our Greek fixed-network business, we are facing a regulatory set-up which either does not approve products and rate plans at all, or is slow to do so.

Rising to these challenges will be one of the most important tasks over the coming months and quarters.

That brings me to T-Mobile USA. On the one hand, service revenues increased by 0.4 percent to USD 4.6 billion. And mobile data business has continued to develop very positively year-on-year, posting an increase of 20 percent to USD 13.10 per customer per month.

Our EBITDA, by contrast, saw a substantial decrease of 14.5 percent to USD 1.2 billion. This was essentially due to increased expenditure on customer acquisition and retention in particular. These investments have, however, only paid off in certain areas so far: For example, the number of prepaid customers increased sharply by 372,000 in the first quarter. T-Mobile USA faces its main challenge with contract customers: Here in the first quarter we lost another 471,000 customers. There is no doubt that the churn rate among contract customers is still way too high.

I'd now like to look at developments in our growth areas. Here we continued to make sound progress, posting growth in the first quarter to EUR 4.6 billion. T-Mobile USA is still included in these figures.

Revenue from mobile Internet services increased by around 28 percent to EUR 1.2 billion. I mentioned the figure for Germany earlier, but we have also seen sharp increases in the Netherlands and Poland, for instance.

Revenues from Connected Home business increased by around 2 percent to EUR 1.6 billion. In Germany, growth was significantly more marked with revenue increasing by 3.5 percent. Looking ahead, our strong position in the broadband market and encouraging developments in Entertain and VDSL will have a positive impact.

With our Internet products and services we have, as I mentioned earlier, abandoned some low-margin retail trading activities, with the effects that has on income. By contrast, some other areas have continued to grow and in some cases by considerably more than the 2 percent shown on the chart suggests. The Scout Group, for example, reported an increase of 8 percent.

T-Systems has succeeded in further increasing its external revenue with a 5.5-percent increase and growth of 9.4 percent in international revenues.

The future-oriented market for intelligent networks is also starting to evolve – even though there is still no revenue to report in this area. T-Systems concluded a new agreement in the energy business area with VOLTARIS on reading, transmitting, and processing energy data. Besides this, we have also con-cluded several partnership agreements, such as the one with Autotxt in the connected car area. The focus of this agreement is on developing anti-theft protection for vehicles. Under a partnership with Gemalto, we are looking at integrating an emergency call feature in vehicles. This solution will be incorporated into the latest models from BMW.

So you can see, we continue to make good progress in our growth areas. And with that I would now like to hand over to Tim Höttges who will run through the details of the financial figures with you.