

Conference Call
First quarter report of 2012
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Deutsche Telekom AG

Good morning, Ladies and Gentlemen!

Welcome to the conference call on our figures for the first quarter of 2012. Once I have given you an overview of the first three months of the year, Tim Höttges will talk about the results for the quarter in greater detail. So, now to the most important developments in the first three months of 2012.

The first quarter was a solid quarter for Deutsche Telekom. Let's take a look at our revenue. We have slowed the decline – more effectively than at any time in the last two years. With a slight 1.1 percent decline year-on-year to EUR 14.4 billion, revenue was practically stable. In organic terms, i.e., ignoring the effects of exchange rate fluctuations and regulatory decisions, the decline was 1.7 percent, which is better than the overall trend in the past year.

Adjusted EBITDA reached EUR 4.5 billion, which corresponds to the prior-year figure. Turning to free cash flow, on a like-for-like basis – that is to say, excluding the purchase price for spectrum, for instance – it reached EUR 1.1 billion, which is 5.7 percent more year-on-year.

Please exercise caution when interpreting our net profit, as many people like

to take it as a primary indicator of our current economic standing. One-time effects and special factors distort the picture, however. Adjusted net profit was down 17.1 percent to EUR 0.6 billion. Our reported net profit decreased by 50 percent to EUR 238 million. This was attributable in particular to the higher level of special factors affecting EBITDA at a total of EUR 0.5 billion compared with around EUR 0.2 billion in the prior-year period.

Drivers of this development were particularly the ongoing socially responsible workforce restructuring and associated early retirement expenses. It was also subject to a baseline effect, because from the point we had agreed on the sale of T-Mobile USA in the prior-year quarter, we no longer recognized scheduled depreciation and amortization of property, plant, and equipment for our U.S. subsidiary. This had a corresponding positive impact on net profit in the prior-year quarter.

So you see, we are achieving positive figures overall. At the same time, we have continued to invest heavily and reduce our debts. First-quarter investments amounted to EUR 2.2 billion, 2.3 percent more than the comparable figure in the prior-year quarter. Net debt declined year-on-year by more than EUR 3 billion to EUR 38.6 billion. These figures are in line with our forecast for the full year 2012: We expect adjusted EBITDA of around EUR 18 billion and free cash flow of around EUR 6 billion.

Let's now turn to the most important developments in the individual segments in the first quarter. First, our business in Germany. Of the major former monopolists, Deutsche Telekom continues to enjoy the strongest development in its home market. We have maintained our strong market position and our good financial profile.

Revenue declined slightly in the first three months of 2012 with a decrease of 2.3 percent compared with the first quarter of 2011, bringing the figure to EUR 5.7 billion – an improvement compared with the prior year. And it was essentially driven by the following factors:

- The wholesale business, which developed far better than in the previous quarters.
- In the first three months of the year the number of new DSL customers rose to over 100,000 net additions, an exceptional increase bearing in mind that this is a highly mature market. Our broadband market share has remained stable at over 45 percent.
- Our VDSL product offering speeds of up to 50 Mbit/s has been well received by customers. The number of VDSL customers has risen year-on-year by more than two thirds to 674,000.
- Customer growth for our Entertain product remains exceptional. In the first three months of the year alone, 173,000 new customers opted for our TV product, compared to 101,000 in the first quarter of 2011. This increase has been driven especially by the new EntertainSat product. To date we have connected more than 1.7 million Entertain customers.

This confirms that customers appreciate our strategy of offering add-on services for our DSL lines. Almost 14 percent of DSL customers are also Entertain customers; that's one third more than in the prior year. The number of customers to add on a VDSL option has risen by two thirds.

Line losses in the fixed network have continued to decline sharply and are down 24 percent year-on-year to 259,000. That's the lowest level of line losses yet.

Mobile data continued to grow strongly in the first quarter of 2012, rising 20 percent to EUR 462 million compared with the first quarter of 2011. The trend is also reflected in smartphone sales, with smartphone devices currently accounting for three fourths of all devices sold.

Adjusted EBITDA from business in Germany declined 2.0 percent year-on-year to EUR 2.3 billion. This decrease is smaller than the slight decrease in revenue, leading to a further slight increase in the margin for business in Germany to 40.7 percent.

However, one development in the mobile business stands out among these figures. Service revenues declined 1.8 percent. Mr. Höttges will talk about this in greater detail and explain what we are planning for the quarters ahead.

Following the very positive development in new contract customer acquisition in recent quarters, we recorded a minus of 107,000 lines in the first three months of 2012 as a result of the migration of a large number of SIM cards from one service provider to another network operator. Adjusted for this effect, the development of contract net adds remains positive.

We continued to invest heavily in our networks in Germany. We invested EUR 823 million in the first quarter alone, bringing the roll-out of broadband networks in Germany a major step forward. These efforts have paid off. The latest IPTV network test run by the German magazine *Connect* confirms we have the best integrated package of telephony and Internet of all, and that we are way ahead of other DSL providers. Our service was also rated better than that of the cable operators.

And with that, let me turn to our U.S. business. T-Mobile USA has made some progress in implementing its Challenger strategy. Revenue in the first three months rose 2.0 percent year-on-year to EUR 3.8 billion. Adjusted EBITDA

improved 12.6 percent to EUR 1.0 billion and the adjusted EBITDA margin by two and a half percentage points to 25.6 percent.

Revenue in U.S. dollars was down 2.3 percent year-on-year to USD 5.0 billion. Above all, this reflects a decline in service revenues as a result of contract churn in the fourth quarter in particular. However, adjusted EBITDA increased by 8.0 percent to USD 1.3 billion. Better cost control, an adjusted range of rate plans and an improved customer retention all had positive effects.

The churn rate for existing T-Mobile customers improved by 0.1 percentage points year-on-year. The improvement is particularly obvious when comparing figures with the last quarter of 2011, when the churn rate for branded contract customers fell half a percentage point to 2.5 percent.

We also have various improvements to report in terms of customer developments. A net increase of 187,000, which is considerably better than in the first quarter of 2011, when numbers were down by almost 100,000, and much better than in the fourth quarter of 2011, when the decline even rose to over 500,000.

T-Mobile USA continued to strengthen its foothold in the prepaid market. At the same time, the loss of branded contract customers slowed. Of course it hurts to lose 510,000 customers, but it is still an improvement of 11 percent compared to the first quarter of 2011 and of almost 28 percent compared to the fourth quarter of 2011.

Average monthly revenue per T-Mobile contract customer rose 2 dollars to USD 58. The trend towards rising data revenue continues, with an 18.2 percent increase to USD 18.8 compared to the prior-year quarter.

Capex rose sharply by 4.6 percent to EUR 571 million. The transfer of frequencies to T-Mobile USA by AT&T as part of the compensation package has since been approved and took place in early May, and we are on schedule with the refarming of spectrum (from 2G to 4G, i.e., HSPA+). Now 37,000 ground stations are going to be equipped with LTE technology under an agreement that was signed recently with Ericsson and Nokia Siemens Networks.

This is the basis on which T-Mobile USA is consistently implementing the individual elements of its Challenger strategy. The healthy development of results in the first quarter supports the team around Philipp Humm and creates greater room for action.

And now we come to the development of business in our Europe segment: We have improved over the last few quarters. We have succeeded in curbing the pronounced decline in revenue and profit in the first quarter of 2011.

Revenue in the first quarter of 2012 declined by just 2.6 percent to EUR 3.6 billion. Adjusted EBITDA decreased by 4.4 percent to EUR 1.2 billion. Taking into account the effects of exchange rate fluctuations and regulatory decisions in the field of mobile communications, we recorded only a slight increase in revenue of 0.7 percent and a drop in adjusted EBITDA of 2.2 percent.

This development was also due to continued growth in the customer base. For instance, in the first quarter we gained a further 173,000 contract customers in mobile, which raised the proportion of contract customers by 0.3 percentage points to 44.5 percent. Smartphone sales among contract customers increased considerably again to 57 percent.

The broadband and TV business is another success story. The number of broadband lines went up 3 percent compared to the first quarter of 2011,

while the number of TV packages continued to rise 12 percent to 2.7 million.

My fellow board member Claudia Nemat has already launched a number of major initiatives to improve coordination between the national companies in this field in particular. Besides clear cost control, a particular focus is also on an active exchange of strategic initiatives between the various national companies so they can learn faster from developments that are ongoing in the other countries. Also, efforts will be made to penetrate the small and medium-sized business sector as we have recognized additional revenue potential there.

However, we are well aware of the headwind caused by economic difficulties and, above all, state-induced administrative challenges that is impacting some countries in particular. The special taxes in Hungary and Croatia and the new government-sponsored mobile operator in Hungary are just two examples.

Let us turn to T-Systems now: In this segment, revenue with customers outside the Group continued to rise by 0.6 percent year-on-year in the first quarter to EUR 1.6 billion. We have chosen to focus strongly on cloud services, a growth business, and are seeing an increase in revenue as a result.

T-Systems has also succeeded in significantly improving its profitability. In the first three months of the year, its EBIT margin was 2.0 percent compared to 1.3 percent in the prior-year period. This was also thanks to savings of EUR 166 million that were achieved in the first quarter.

Ladies and Gentlemen,

Let me just summarize briefly. We have had a good start to the year 2012 in comparison with the rest of the industry. On that basis, we can confirm our guidance for the full year.

Our operating result has remained at the prior-year level, confirming that the first quarter has gone well. We therefore still plan to achieve adjusted EBITDA of around EUR 18 billion and free cash flow of around EUR 6 billion for the full year.

Germany's economy is in a stable condition – a major strategic advantage for us. With our strong position on our home market and acceptable financial ratios, we have a solid foundation for the future of our Group.

The revenue and profit trends in our Europe segment are clearly on the up, and T-Systems is becoming increasingly profitable. Finally, the good results achieved by T-Mobile USA in the first quarter demonstrate that our Challenger strategy is paying off.

But we have to stay on track, continuing to do business sensibly, increase efficiency and take advantage of commercial opportunities.

And with that, I would like to hand you over to Tim Höttges.