Conference Call
Presentation of the Q2/2012 financial figures
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Thank you, René Obermann!

I will continue by explaining the development of the financial figures for the second quarter in more detail.

In the Germany operating segment we saw slightly weaker revenue trends and almost unchanged trends in adjusted EBITDA. Revenue declined by 3.1 percent, essentially due to weaker revenue trends in wholesale and other business areas.

Mobile revenue declined by 1 percent, which is a slight improvement over the first quarter. Core fixed-network trends were essentially stable at -2.6 percent.

Despite the slightly steeper revenue decline adjusted EBITDA trends remained essentially the same as in the first quarter, with adjusted EBITDA down just 2.2 percent year-on-year.

This good result was primarily due to stronger cost-cutting. Opex declined by 4.1 percent, compared to the 1.6-percent decline we recorded in the first quarter.

In mobile communications, the measures we initiated had some first results. Service revenues declined by a total of 1 percent. Although we posted slight losses in our market share, the decline was much less than in the first quarter. Unlike in the first quarter, the growth rate in service revenues was in line with that of our main competitor (+1.8 percent). If the contract with a wholesale provider had not ended, service revenues would have remained at the same level as in the previous year.

We continued to record strong year-on-year growth of 18.6 percent in our mobile data business. The KPIs were strong with 464,000 new mobile contract customers and strong smartphone sales.

We further expanded our LTE coverage to 10 million households in rural areas and are planning to provide coverage for 100 larger towns and cities by the end of the year. As defined in our roll-out strategy, we are focusing on dense, high-quality LTE coverage right from the start.

We are pleased with our KPIs for the fixed network in Germany. We defended our broadband market share of 45 percent despite strong competition from cable. Overall, we had 47,000 broadband net additions in the second quarter.

Growth was particularly strong once again among Entertain customers with a net increase of 105,000 and VDSL customers with a net increase of 48,000. Accordingly, consumer ARPA, or average revenue per access, improved by another 30 euro cents to EUR 25.70.

In the United States, overall trends were quite similar to the first quarter. The highlights were strong growth in adjusted EBITDA, strong growth in branded prepay customers, and a better churn rate. On the other hand, branded contract losses were impacted by weak gross adds, at least partially due to U.S. industry trends.

Service revenues declined by 6.1 percent, mainly due to contract customer losses. Total revenue fell by only 3.1 percent. This was due to the increase in handset revenues resulting from the migration to value calling plans, and considerably increased smartphone sales year-on-year.

Adjusted EBITDA improved 5.7 percent thanks to a decrease in volumes and migration to value calling plans, and assisted by cost cutting.

Overall, there was again a negative trend in the number of net adds. The strong branded prepay net adds of 227,000 reflect the success of our Monthly 4G unlimited prepaid plans. Among the U.S. carriers, we had the best branded prepay net adds (excluding tablets) in the second quarter.

Turning to Europe, quarter-on-quarter trends were slightly weaker, in terms of revenue as well as adjusted EBITDA. The main reasons for this were:

1. A weaker economic environment in some of our markets, notably Greece, Croatia, Hungary, the Netherlands, the Czech Republic, and a slowdown in Slovakia

2. Taxation and regulation. Negative regulatory effects were intensified in the second quarter compared with the first three months of the year due to measures implemented in Romania. We are still required to pay special taxes in Hungary and Croatia

3. A still fiercely competitive environment in all of our markets, in some of which we invested even more compared with the first quarter

Despite this difficult environment, we performed remarkably well in operational terms in the second quarter. The higher market invest compared with the first quarter is reflected by the continued growth in key KPIs, such as broadband and TV lines and contract customers.

We outperformed competition in some of our markets:

- In Greece, we outperformed Vodafone in terms of service revenue development
- In Poland, we clearly outperformed our main competitor in terms of contract net adds
- In the Netherlands, we outperformed both KPN and Vodafone in terms of service revenue development
- In Romania, we are currently the only big player gaining mobile contract customer market share

Let us do a deep dive in the markets where we saw the most important changes in trends compared with the first quarter.

In Greece, we are still facing a very challenging economic environment and unfair regulation in the fixed network. Despite these difficult conditions, the colleagues at OTE continue to do an excellent job. This becomes particularly apparent when compared with the competition.

Mobile service revenues declined by 4.3 percent in the second quarter. Revenues from contract customers were increasingly under pressure, driven by reduced basic charges and lower non-voice revenues. Total mobile revenues were lower due to a drop in handset sales.

On the cost side, the management continues to deliver, resulting in an almost flat adjusted EBITDA and a margin more than 2 percentage points higher. For the remainder of the year, the OTE management team will focus on securing their refinancing. They will also continue to reduce their cost base and gain further momentum in the fixed and mobile networks.

However, due to the cut in mobile termination rates and the impact of the economic situation, we expect the development of service revenues we saw between the first and second quarters to continue in the second half of 2012.

In Hungary, the prevailing economic and political conditions remain very difficult overall. There is uncertainty regarding the new state-backed market player and the new usage-based special levy in place since July 1, which Magyar Telekom will need to pay in addition to the old telecommunications tax until the end of 2012.

In operational terms, we continue to defend our revenues (on a like-for-like basis) well, with quarterly revenues actually up 0.5 percent, driven by our IPTV sales, our mobile broadband offerings, and our new businesses. The drop compared with the first quarter is attributable to the seasonality of some of our resale business activities, above all in the energy sector.

On the mobile side, we outperformed competition with our 25,000 contract net adds and had a 57-percent smartphone share of all devices sold. The decline in the EBITDA margin year-on-year to 34.7 percent is a result of the low margins of the new revenue streams from the sale of energy contracts.
In Slovakia, a slowdown of the economy and the continued harsh competition had an impact on some of our business areas and our financial figures. The negative revenue development was mainly driven by fixed-network operations, notably the ICT business, where the government has significantly reduced its spending, but also by mobile service revenues, which are down by 8.5 percent due to lower usage and continued price competition.

In operational terms, we once again achieved a positive result with a 10-percent rise in TV customer numbers. At the same time, we considerably stepped up investments in mobile subscriber acquisition in order to win 12,000 new contract customers.

We partially offset the revenue decrease and higher market investments in mobile communications by cutting costs, thus limiting the margin decline to 41.6 percent.

The highlight of the Systems Solutions results was considerably improved profitability. Revenues, both external and overall, were down year-on-year due to general price erosion.

Adjusted EBITDA was up almost 11 percent, while adjusted EBIT grew by close to 56 percent. This reflects successful cost savings of EUR 147 million gross in the second quarter.

Before moving on to our Q&A session, let me briefly summarize the financial figures for the second quarter.

As expected, free cash flow in the first half of the year benefited from lower interest and tax payments. The EUR 0.2 billion lower invest also contributed to the strong performance of the almost stable free cash flow. Capex will probably rise in the second half of the year, which is why our forecast of a free cash flow of around EUR 6 billion for the whole year remains unchanged.

Reported net profit in the second quarter of 2012 improved by more than three quarters to EUR 614 million. This development was affected in particular by a EUR 0.4 billion reduction in special factors, improvements in net financial expense, and a negative one-time effect from the reclassification of T-Mobile USA as a "continuing operation".

The biggest influence on special factors was timing differences in the expenses for staff-related measures compared with 2011. This benefited net profit in the second quarter of 2012.

You will recall that this year the majority of expenses were incurred in the first quarter. Net profit was also impacted by an increase in depreciation and amortization, due in particular to T-Mobile USA being reclassified as a "continuing operation".

As you know, in accordance with the International Financial Reporting Standards (IFRS), the classification of T-Mobile USA as a "discontinued operation" meant that the assets of T-Mobile USA were not depreciated and amortized in the second quarter of 2011.

Since this classification was reversed at the end of the 2011 financial year, these assets are now depreciated and amortized again. This effect reduced net profit compared with the previous year. Adjusted net profit was also impacted by this increase in depreciation and amortization. This trend will continue into the third quarter and then reverse completely in the fourth quarter.

Let us conclude with the balance sheet, which remains in good health: Year-on-year net debt was reduced by EUR 2.3 billion.
The key ratio of net debt to adjusted EBITDA improved from 2.3 to 2.2 times year-on-year, while the gearing – i.e., the ratio of shareholders' equity to net debt – remained stable.

We continue to have a stable outlook from all rating agencies and maintain unrestricted access to the debt capital market.

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