Conference Call
Presentation of the Q2/2012 financial figures
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Good morning, Ladies and Gentlemen,

Welcome to our conference call. As usual, in a moment Tim Höttges will give you a detailed overview of our financial indicators. First, let me take you through the most important developments that took place within the Group in the first half of the year.

We are pleased to report stable and positive figures overall for the first six months of 2012. Our full-year guidance remains unchanged, as does our dividend planning.

This is the case despite a continued difficult economic environment as the financial and economic crisis continued into the second quarter of the year, particularly in Eastern and Southern Europe. The reports published by our peers this season have shown that the telecommunications industry is also strongly affected by this. We, too, are feeling the effects of the recession, especially in our European national companies. However, the continued robustness of Germany's economy and our strong position in key markets are certainly helping us to maintain our guidance for the full year now that we have passed the half-year mark. This is far from being a given in our industry right now.

Expressed in figures, this means: Net revenue in the first half of the year reached EUR 28.8 billion, that is EUR 96 million less than in the same period last year. In other words, net revenue has remained virtually stable. The same is true for adjusted EBITDA. At EUR 9.2 billion, it was up 0.1 percent on the prior-year figure.

This trend holds true even when we adjust the figures for exchange rate effects. The strong U.S. dollar had a positive effect in the second quarter in particular, with negative effects coming from the weak Polish zloty and Hungarian forint. Excluding these exchange rate effects, net revenue declined slightly by 2.3 percent while adjusted EBITDA was down 1.1 percent. These figures, too, confirm that by the middle of the year we have earned more than half of what we are forecasting for the full year.

Free cash flow also remained stable, reaching EUR 2.8 billion at the end of the first half of the year, which is just 1.3 percent less than the corresponding prior-year figure.

Reported net profit for the first half year was EUR 852 million, 3 percent up year-on-year. In both 2011 and 2012, this item was impacted considerably by the socially conscious reorganization of our workforce as a special factor. The impact of last year's arrangement with AT&T on our balance sheet also needs to be taken into account when comparing these figures. Mr. Höttges will talk about that in a moment.

Year-on-year we reduced our net debt by EUR 2.3 billion in the first half of 2012 to the current level of EUR 41 billion.

We still expect to achieve adjusted EBITDA of around EUR 18 billion and free cash flow of around EUR 6 billion for the full year. And we can also confirm our dividend planning for 2012, which we anticipate to be a minimum of 70 euro cents per share.

Ladies and Gentlemen,
Before I turn to the developments in our segments, allow me to say a few words about what is happening in terms of European regulation, since the decisions taken at this level affect our industry as well as the European economic region as a whole.

We are pleased about the announcement by Neelie Kroes, European Commission Vice-President, in mid-July that the European Union's regulatory practices are set to change. Regulatory conditions that are stable and consistent until at least 2020 are necessary to underpin long-term investment in modern broadband networks. The announcement of a stabilization in wholesale access prices gives market players and investors more planning certainty. Another equally important development is the plan to suspend cost regulation for new fiber-optic broadband networks. Of course, that also means there has to be sufficient competition from other network carriers on the Telekom network, and in cable and LTE. And, as we know, there is sufficient competition.

These are all steps in the right direction when it comes to creating a framework across Europe that encourages carriers to invest in modern broadband infrastructures while enjoying more certainty when planning these investments – all to the benefit of consumers. We now look forward to seeing these changes translated into practice in the various Member States.

We are also pleased that the German Federal Network Agency has approved the revised version of what has become known as the "contingent model". Under this scheme, we can now work with other carriers to reduce the costs and risks involved in rolling out and operating broadband networks, which will help all involved to gain more planning certainty for their investments.

For Deutsche Telekom, Ladies and Gentlemen, it is particularly important that the regulatory authority extends its focus beyond low prices and focuses more strongly on improving the investment environment in the future. We need to continue applying ourselves in this area if more investment is to be encouraged in ICT infrastructures, which are so vital to national economies. We will keep track of these new developments as soon as they unravel and assess the flexibility and investment opportunities they open up.

And that takes me to the development of business in our various segments. One of the main factors determining our financial stability was and is our good performance here in Germany. In relation to our peers across Europe, our revenue and profit figures have been respectable. Although reported revenue in Germany decreased 2.7 percent in the first six months of the year, adjusted EBITDA declined less strongly by 2.1 percent. On the other hand, our EBITDA margin improved slightly by 0.3 percentage points to 41.3 percent. And overall, we succeeded in defending our strong market position and strong profitability in Germany.

Our fixed-network business continued to develop positively. The number of connected VDSL customers went up 59 percent year-on-year to 722,000. The total number of Entertain customers, including those who signed up for our new Entertain Sat service, went up 41 percent to 1.83 million. This is a positive development that we plan to carry over into our fiber-optic network roll-out. In early August, we began connecting customers to this new network, which currently offers transmission speeds of 200 megabits per second – that is the fastest speed available in Germany at the moment.

We offer a good range of products and services, confirmed by the fact that our line losses continue to decline sharply – and it is worth remembering that these line losses are encouraged by the regulatory authority. The number of line losses reached a historic low in the first quarter of 2012, and with a decline of 236,000 lines in the first half of the year – a drop of 20 percent year-on-year – we managed to take it even lower.

In mobile communications, our smartphone sales continued to rise. 71 percent of mobile customers looking to buy a new phone are opting for smartphones; that is another 8 percentage points more than one year ago. All of this is a major boost for our mobile data business, which grew once again by 18.6 percent to EUR 484 million between April and June.

We acquired another 464,000 new contract customers in the second quarter. Around 370,000 of them were acquired indirectly through resellers, although there is a slight downside as these customers generate a lower monthly average revenue per user than our branded contract customers. This – along with the effects of price reductions among our customer base – is the reason why service revenues did not rise in step with the increase in customer numbers but rather declined slightly by 1.0 percent. Compared to the first quarter, though, that is still an improvement, and we are seeing strong service revenue development to equal that of our competitors, with an increase of around EUR 30 million compared with the first quarter of 2012. But it goes without saying that we are still not satisfied. We plan to regain our leading position in the market in terms of service revenues and we will continue systematically working to achieve this.

We have continued to expand our LTE network, initially focusing on rural areas. We have managed to close existing gaps in 14 out of Germany's 16 federal states. In metropolitan areas, too, we are making good progress. Our LTE network is already available in 50 cities. By the end of the year, we plan to set up LTE in around 100 major cities across the country. In metropolitan areas, LTE has even higher download speeds of up to 100 megabits per second, allowing us to offer the fastest service in the German market.

On balance, then, our German business is performing well. In positive terms, our mobile service revenues still offer room for improvement. Our network quality is recognized as the best in class, and that gives us a basis for gaining a larger market share in future.

And now, let us turn to our U.S. business: On the positive side, profitability was strong, mobile data revenue good, and the churn rate among our branded customer base improved, too. But we are still not happy with the overall situation in our contract customer base.

Let us take a look at the details. Revenue in the first half of the year rose by 5.3 percent to EUR 7.7 billion. Adjusted EBITDA increased disproportionately thanks to cost-cutting measures, namely by 15.8 percent to EUR 2.0 billion. Expressed in U.S. dollars, however, revenue declined 2.7 percent to USD 9.9 billion.

In the second quarter, monthly average revenue per T-Mobile contract customer remained stable at just over USD 57.00. ARPU for branded prepay customers increased 13.6 percent to just under USD 27.00. This is especially due to continued strong growth in the mobile data business, where data ARPU for branded contract customers was up 14.6 percent year-on-year.

The churn rate among T-Mobile customers declined compared to the same period last year, in fact by half a percentage point to 2.1 percent among contract customers. The lower number of gross customer adds meant that the positive effects of the lower churn rate have not become obvious yet. Overall, T-Mobile USA lost 205,000 customers in the second quarter. We are observing a slowdown in customer growth across the U.S. market overall. Still, to compensate for that, we need to continue improving the churn rate and step up our efforts to increase gross customer adds.

A major element of our offering strategy is the roll-out of our 4G network. Using the spectrum AT&T transferred to us under the break-up agreement, we can now upgrade our network as planned to the LTE standard.

And now to the Europe segment. Our European mobile, broadband, and TV businesses continued to see customer growth in the first half of the year. The number of broadband lines rose by 123,000 to 4.9 million year-on-year, while the number of TV customers went up 6.7 percent to 2.8 million. In mobile, the number of contract customers increased by 964,000 to the current level of 27.6 million. At 60 percent, the proportion of smartphones among all devices sold rose considerably compared to the second quarter of 2011, when it was 43 percent.

The continued difficult economic environment in most countries in the Europe segment and the weak currencies in Poland and Hungary, in particular, left their mark on our financial indicators. Currency translation effects alone caused revenue in this segment to decrease 2 percentage points. Organically – that is, adjusted for these factors – revenue in the first half of the year decreased 2.3 percent to EUR 7.2 billion, with adjusted EBITDA declining 4.5 percent to EUR 2.4 billion.

This means that we have performed relatively well considering the circumstances. Take Greece, for example: The number of mobile customers increased by more than 120,000 year-on-year, the branded broadband customer base remained stable, and TV business recorded a major boost. At the same time, OTE management improved the EBITDA margin by more than two percentage points in the second quarter, bringing the increase over the first half of the year to one percentage point overall.

This clearly shows that most of our international subsidiaries are recording positive development compared to their peers, despite the headwind coming from the economic environment, exchange rates, and state-backed measures.

And finally, let us turn to T-Systems: The clear improvement in profit margins continued into the second quarter of this year. The adjusted EBIT margin rose from 1.6 percent in the prior-year period to 2.5 percent in the first half of 2012. At EUR 4.5 billion, revenue for the first half was down 1.0 percent, so it remained more or less stable compared to the prior-year period, despite external revenues coming under fire owing to price pressure across the entire industry.

T-Systems closed several major deals in the second quarter, including one with the Swiss Georg Fischer group. Cloud computing is becoming a major area of growth for T-Systems, with the company implementing a major project for VW subsidiary Seat, to take just one example. Deutsche Telekom is also making progress with intelligent networks. The company signed an agreement with German power utility RWE to offer smart metering services. In a pilot project, 15,000 digital power meters will be installed in the city of Mülheim an der Ruhr. Overall, in the second quarter the number of new deals climbed 8.2 percent year-on-year.

Ladies and Gentlemen,
In the second quarter, and indeed in the entire first half of 2012, our company produced stable financial indicators and is hence developing well compared to its industry peers. We can therefore clearly confirm our guidance for the full year. What is more, we have given ourselves the flexibility to invest more over

the coming six months in strengthening our position in the German mobile segment and the U.S.

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