Conference Call
Presentation of the Q3/2012 financial figures
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Good morning, Ladies and Gentlemen,

Welcome to our conference call. Today, Tim Höttges and I will report on the Group's performance during the first three quarters of 2012. We will show you the paradoxical two sides of the same coin: more money in the bank – and, at the same time, less value on the books.

On the accounting side, a negative special factor running into the billions with a correspondingly negative impact on net profit, but with no effect on cash flow whatsoever.

And, on the operating side, virtually stable revenue and operating income after nine months, as well as a 13 percent rise in free cash flow. We are therefore able to confirm our dividend forecast of EUR 0.70 for 2012.
The overall positive development of the Group during the first half of the year continued into the third quarter. We are on target to reach our objectives for the year, namely adjusted EBITDA of around EUR 18 billion and free cash flow of around EUR 6 billion. This should not be taken for granted at a time when some of our European industry peers have reported a considerable decline in revenue and profits and, as a result, have had to cut their dividends quite considerably in some cases.

Let me mention the most important figures for the Group:

- Net revenue after nine months was EUR 43.5 billion. Thanks to the development in the third quarter, that is a decrease of only 0.6 percent year-on-year – so virtually stable.
- Adjusted EBITDA after nine months was EUR 13.9 billion, almost one percent lower than in the prior-year period.
- Free cash flow rose by 13.2 percent to EUR 5.1 billion.

These positive operational developments still stand, despite the other side of the coin, which I come to now. Reported net profit after tax after nine months stood at minus EUR 6.0 billion. By contrast, in the prior year the figure reached plus EUR 1.9 billion. In the third quarter of 2012, this item was impacted by an impairment test resulting in the recognition of an impairment loss of EUR 7.4 billion at our U.S. business.

Admittedly, the background to this is complex, and Tim Höttges will take you through it in a moment. My message to you is that, although the impairment charge is hardly pleasant, our arrangement with MetroPCS will produce a larger, more powerful carrier in the United States that will generate a clear increase in real value in the medium and long term. So we have a future-oriented, clearly advantageous entrepreneurial concept on the one hand and a decrease in a book value on the other.

The Board of Management and the Supervisory Board took a decision that opens up new entrepreneurial prospects for us. We were aware of the impact the move would have on our balance sheet and decided to look ahead. We want to shape the future of T-Mobile USA and take the right business decisions.

Some of you will probably now go and headline your articles "Deutsche Telekom loses billions." But just make sure you also tell your readers this:

- This effect impacts only our balance sheet, not our cash flow.
- We made a forward-looking decision for our U.S. business in full awareness of these accounting consequences.
- The net loss is not indicative of the Group's operating performance in the first nine months of 2012.

And allow me to say a few words about the capital markets' reaction to the news. Most analysts have rated the transaction as generally positive, and several of them have upgraded their recommendations or raised their stock price targets. We are currently very well positioned on the bond market; for instance, we just issued a seven-year euro bond with a coupon of just 2 percent.

Debt capital providers and equity investors are familiar with the figures, and they are aware of the accounting implications and the impairment charge that resulted from the impairment test. Their conclusions are clear: The Group's operating business is stable, we are delivering on the forecasts, and we have found a constructive solution for Deutsche Telekom's U.S. business – subject, of course, to approval by the shareholders of MetroPCS and the authorities.

I would like to round off this subject by giving you the nine-month figure for the Group's net profit excluding special factors, of which the impairment test is the most relevant: a positive EUR 2.3 billion.

I now turn to the operating performance of the segments in the first nine months of 2012. Afterwards, Tim Höttges will take you through the third-quarter financial indicators. The main factor that guaranteed the stability of the entire Group was once again the positive development of our German business.

In mobile communications, we reduced the decrease of 1.8 percent in service revenues in the first quarter to 0.5 percent in the third quarter. We are generally satisfied with how our own customer base is developing. And we expect that to result in further improvements in service revenues. Progress with our mobile data business continues unabated, with revenue in the third quarter up more than 20 percent.

There were also clear improvements in the fixed-line business. Our Connected Home revenue from broadband lines and Entertain packages grew almost one percent in the third quarter. Our strategy of offering our customers premium product packages is evidently bearing fruit. As many as 15.3 percent of our 12.4 million DSL customers have booked Entertain. That is 4 percentage points more than in the previous year. 6.5 percent of customers are using the VDSL option.

Despite all this good news, however, there is of course still room for improvement in the fixed-line business. For instance, the number of new broadband lines increased only slightly in the third quarter in an overall weak market. We were able to defend our market share in terms of customer numbers, however. Cable operators are currently catching up enormously, while our telecoms competitors are rapidly losing ground.

And that brings me to our European business. The general conditions in many of our markets remain difficult, which continues to impact the development of our operations. Interventions from governments and regulatory authorities have had a strong impact; for instance, in the third quarter, mobile termination rates were cut in 9 out of our 13 markets in this region. Including special taxes on telecommunications services, we recorded burdens on our revenue of more than EUR 100 million in the third quarter.

Nevertheless, we are making progress with our business operations. Revenue in the first nine months went down 4.7 percent, whereas the decline had been 6.5 percent in the same period last year. Adjusted EBITDA decreased 5.8 percent – but that is compared with minus 8.9 percent in the first three quarters of 2011. We believe we have just about passed the low point and hence are cautiously optimistic about the future.

And with that, let me turn to our U.S. business. Our total customer base grew yet again in the third quarter, with the number of net adds rising to 160,000. That is partly attributable to the Challenger strategy that we have been using to position ourselves as the best provider in the prepaid segment in terms of value for money. In the third quarter, T-Mobile customer net adds rose by 365,000 compared to 254,000 in the previous year.

Average monthly revenue per T-Mobile prepaid user also went up by 12.5 percent year-on-year to over USD 27. That is about half of the revenue that we generate per contract customer. As you can tell, the U.S. market is quite different from the markets in Europe and Germany, where the average monthly revenue of a prepaid customer is less than one sixth of that of a contract customer.
While the prepaid business is doing well, there is no denying that we are still recording decreases among contract customers. Our contract customer base declined by 492,000, largely due to the iPhone 5 which was launched in September.

The decline overshadows the progress we made year-on-year in terms of reducing customer churn. Smartphone sales rose almost 28 percent year-on-year to reach 2.3 million in the third quarter, demonstrating that customers appreciate the quality of our network. And a great many customers – around 1.5 million – are now coming to us from other providers and bringing their iPhone with them. That is a further sign that we are absolutely competitive with a good network and attractive data plans.

And that takes me to the two major reasons for our planned transaction involving MetroPCS. Our partner MetroPCS is an established prepaid carrier whose coverage is currently limited to certain regions across the United States. It is very successful in this market, with a monthly average revenue per user of over USD 40, considerably more than that of T-Mobile USA. Just to compare: USD 40 is more than the average revenue per contract customer in Germany. We plan to work together to expand MetroPCS' foothold in the market while strengthening our own position in the prepaid business, which is a growing segment. We expect this joint company to generate clear growth in revenue, EBITDA and free cash flow in the years to come.

We want to migrate MetroPCS customers to our network, which we will be building out using LTE technology. In this regard, working with MetroPCS will give us a considerable amount of additional spectrum. In other words, following the migration we will have just one nation-wide network with one technical standard for all users. This will help the joint company to cut back enormously on capital expenditure and utilize capacity much more effectively than if we had two separate networks.

Factoring in this and all other benefits, the net present value of the arrangement with MetroPCS stands at between USD 6 and 7 billion. The transaction is structured in such a way that practically no capital injection is required from Deutsche Telekom. On the contrary, it will make us the majority owner of a stock-listed company that has access to both equity and outside capital and, as such, is self-financed.

This is a similar approach to the one we had already taken in the United Kingdom: Our joint company Everything Everywhere finances its own capital expenditure, has raised debt capital on the bond market several times now, and pays France Telecom and us healthy dividends from its cash flows.

We have tackled various issues over recent years and have developed future-oriented solutions. In some cases, we had to deal with difficult market situations, such as with Everything Everywhere, another time – in the case of PTC – we had to resolve a debilitating legal dispute that had been going on for years, and in the case of BuyIn, our procurement joint venture with France Telecom, we created a forward-looking solution to generate more economies of scale.

This kind of solution looking to the future always involves drawing a line under the past – and sometimes that line has a painful impact on the balance sheet. But when you modernize and expand your house, the previous value of your house is of limited interest only. Let me follow on from one of the first things I said today: less value on the books – but greater strength for the company.

I would now like to hand you over to Tim Höttges.