Press conference on Deutsche Telekom's financial statements
Presentation of figures for the 2011 financial year
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Good morning, Ladies and Gentlemen and a warm welcome to you all at our annual press conference.

2011 was a difficult year. Not only for us, but for the entire telecommunications industry. In addition to the familiar challenges of continued intense competition and unfavorable regulation, the weak economic situation in Southern and Eastern Europe in particular also had a negative impact in 2011. On top of this, the situation at our U.S. mobile subsidiary remains difficult. As you know, the relevant U.S. authorities unfortunately did not green-light the sale to AT&T.

We achieved our targets for adjusted EBITDA and free cash flow despite that and therefore stand by our dividend forecast for 2011.

Let me look first at our key financial indicators. Net revenue of EUR 58.7 billion – on the basis of a comparable Group structure – decreased 4.9 percent year-on-year. Excluding the effects of exchange rate fluctuations and regulatory decisions, net revenue declined by 2.5 percent.

The extent to which regulation impacts our business can be seen based on one example. The cuts in mobile termination rates alone reduced revenue in the German mobile communications market by some EUR 850 million compared with 2010.

Turning to our adjusted EBITDA, fluctuations in the U.S. dollar exchange rate compared with the average figure for 2010 reduced earnings by EUR 0.2 billion. We reported adjusted EBITDA of EUR 18.7 billion. Based on the U.S. dollar exchange rate applied in our forecast, that figure would have been EUR 18.9 billion. That means we met our target of generating around EUR 19.1 billion based on constant exchange rates.

We generated free cash flow of EUR 6.4 billion – here the negative exchange rate effect accounted for EUR 0.1 billion – which means we were right on target. Free cash flow is the decisive indicator of the Group's ability to pay a dividend. The Board of Management and Supervisory Board therefore intend to propose to the shareholders' meeting payment of a dividend of EUR 0.70 per share as planned.

Adjusted net profit totaled EUR 2.9 billion, compared with the 2010 figure of EUR 3.4 billion. Reported net profit of EUR 0.6 billion is substantially below the 2010 figure of EUR 1.7 billion, however. That was the result of special factors in the fourth quarter that had a net negative impact on the net profit for the full year. The positive special factor of the break-up fee received for the discontinuation of the planned sale of T-Mobile USA was offset by impairment losses in the United States and Greece. Tim Höttges will go into more detail on that in a few minutes.

Let us start with business in Germany. Revenue from the mobile Internet continued to grow. In the fourth quarter alone, revenue rose by 31.7 percent to EUR 440 million. More than 60 percent of the cell phones we sell in Germany are now Internet-enabled smartphones – almost 20 percentage points more than last year. We were quick to recognize this trend – which is why we are the market leader.

In the full year, we gained slightly over 1 million contract net adds in the mobile communications segment. That's compared with 29,000 contract customers lost in the previous year.

We are pushing the quality of our network relative to our competitors. We came out on top in the three most important network tests in 2011 – those carried out by the German consumer testing organization Stiftung Warentest and by Chip and Connect magazines.

TV business in the fixed network has become another important market for us. We increased the number of connected Entertain customers by 34 percent year-on-year to 1.55 million, one reason being that we can now reach twice as many homes thanks to Entertain via satellite. Deutsche Annington, a major player in the housing sector, has also signed up for our services. The next step will be for us to develop Entertain further and make it available on mobile devices.

Our business with VDSL lines developed just as positively as our Entertain business – we now have 608,000 customers, an increase of 78 percent. We managed to keep our broadband market share stable overall with just over 45 percent at the year-end. We lost 21 percent fewer customers in our traditional fixed network business in 2011 than in 2010 – a total of 1.25 million. That is the lowest it has been for years.

Ladies and Gentlemen,
Adjusted EBITDA in business in Germany was stable year-on-year in 2011, coming in at EUR 9.6 billion. Overall, we increased profitability in 2011. Whereas our adjusted EBITDA margin was 37.7 percent in 2009, it was

39.9 percent last year. That is a strong performance. Revenue, on the other hand, declined 4.4 percent in 2011 to EUR 24.0 billion. We are not satisfied with this result.

The fact is that our customers are constantly receiving better and better value for money. They can now have a quadruple flat rate within our mobile communications network including text messaging, mobile Internet and hotspot usage, as well as 100 free minutes of calls to all German networks for under 30 euros. That's good for our customers, but it impacts our revenue in the short term. At the same time, however, it increases our customer retention and allows us to continue developing our customer base, encouraging them to opt for higher-value package components. We are constantly investing in our networks, technology, and IT to achieve this – almost EUR 3.7 billion last year.

That is the market side of things – where it is our job to excite the customers for the right products and to continue developing our business. Let me leave you in no doubt, however, that the competitive pressure and, above all, the regulation in Germany are making it increasingly difficult to come up with the necessary funds. Let me take mobile communications briefly as an example. The aforementioned cut in mobile termination rates alone cost us over EUR 200 million in revenue. Cost-efficiency efforts, which we have been using to stave off the pressure on revenue, are becoming ever more difficult to realize. That's something that regulation that is focused on the long-term interests of the customer and the development of a modern infrastructure in Germany cannot afford to ignore.

Now I come to our European subsidiaries. The market environment remains extremely tough:

- Greece is still in the midst of a deep recession with all the familiar consequences also affecting consumer spending.

- In other countries, such as Poland and Hungary, while the economic recovery did hold up, the currency weakened over the course of the year.

- On top of that, in Hungary, there is an arbitrarily imposed special tax. That is the wrong signal to encourage future investment.

Taking this environment into consideration, business in Europe performed reasonably overall, with the number of mobile contract customers increasing further by three percent to 27.1 million. The smartphone share of handset sales increased by 20 percentage points to 54 percent.

In the fixed network we expanded the number of broadband lines by just over 5 percent to 4.8 million. TV business grew by 12.2 percent to 2.6 million customers, while IPTV increased by a substantial 24 percent.

Overall, revenue on a like-for-like basis decreased by 5.8 percent to EUR 15.1 billion. At the same time, the EBITDA margin increased by half a percentage point to 34.6 percent. Cost reductions, in particular, totaling EUR 0.7 billion contributed to this achievement.

That brings me to T-Systems: In our corporate customer segment, we again secured a number of big deals last year, including with Total, Shell, Daimler, and Neopost. Business with cloud-based services is growing all the time, with cloud agreements signed with insurance group Intermedica in Brazil, Africa's largest glass producer Consol, and Spanish mail provider Correos. Overall, 80 percent of T-Systems' SAP business already comes from the cloud.

T-Systems increased external revenues by another 2.4 percent to EUR 6.6 billion in 2011. That includes the fourth quarter, when revenues are high for seasonal reasons. T-Systems improved system utilization while increasing its revenue but preventing its costs from rising. That's why its EBITDA margin in the fourth quarter was 5.0 percent. T-Systems was also successful in cutting costs, with a total saving of EUR 0.7 billion in the full year. We are certainly not yet satisfied with the EBIT margin of 2.7 percent for the full year compared with the 3.7 percent posted in 2010 – but we have seen some progress in the course of the year, too.

Ladies and Gentlemen,
As I mentioned at the start, one issue dominated the 2011 financial year, namely the planned sale of our U.S. operations to AT&T. I still believe that this sale would have been in the interests of all involved – and I would definitely include mobile customers in the United States in that statement. Unfortunately, the authorities changed the parameters for evaluating the transaction and were not sufficiently appreciative of the proposed solutions developed together with AT&T. Together with AT&T, we therefore withdrew the applications for approval since the responsible authorities in the United States were no longer expected to approve the deal.

2011 was very difficult for T-Mobile USA, particularly the fourth quarter. T-Mobile USA has a high-quality network, offers excellent value for money, and a broad device portfolio – but that was not sufficient to offset the successful launch of the iPhone 4S in the United States. It boosted sales among our competitors, but it also cut their margins drastically.

Despite this, T-Mobile USA recorded several successful developments last year, with monthly data revenue across the entire customer base climbing in the fourth quarter to USD 14.20 – up from USD 12.80 in 2010, for example. Smartphone sales remained good in the fourth quarter at 2.6 million units.

In total, 10.8 million customers are now using our high-speed mobile communications network in the United States – over 30 percent more than in 2010.

But let us be absolutely clear, we cannot be satisfied with the loss of customers and the ensuing decrease in revenue. Losses of contract customers increased once again in the fourth quarter, reaching 802,000 as a result of the launch of the iPhone 4S. This had a direct impact on revenue, which decreased in the full year by 3.3 percent to USD 20.6 billion.

T-Mobile USA countered this decline by improving efficiency considerably. Consequently, the EBITDA margin remained stable at a sound 25.9 percent for the year as a whole. Overall, adjusted EBITDA was USD 5.3 billion in 2011.

Ladies and Gentlemen,
I would like briefly to outline for you the way ahead for our business in the United States. Most importantly, T-Mobile USA will also be offering the new mobile communications standard for mobile Internet, LTE, in many areas of the United States from 2013. To date, the spectrum available to us has not been enough to offer these services.

But now we have come up with a way: The additional mobile spectrum that we will receive together with the break-up fee will enable us to substantially improve our position for the next few years. T-Mobile USA will receive spectrum that covers a population of 120 million in 128 regional markets in the United States, including 12 of the top 20 markets. Together with the spectrum that T-Mobile USA already has, we now have access on average to 60 MHz spectrum in the top 100 markets.

We are also planning to free up spectrum to use with LTE through refarming. Over the next few years, we will be investing around USD 4 billion in modernizing the network and building out LTE. This means an extra USD 1.4 billion or so of capex over the next two years, which will allow us to modernize around 37,000 cell sites in 2012 and 2013 and connect them up to a fiber-optic network. This will put us in a position to launch the LTE roll-out in the United States in 2013. We will be able to upgrade LTE in around 50 percent of our 4G coverage area to 20 MHz frequency, which equates to around 75 percent of the top 25 markets. In the other half of our 4G coverage, we will roll out LTE in the 10 MHz frequency range.

These are ambitious targets and we hope, of course, that the efforts by the policy-makers and the FCC to make additional spectrum available will soon pay off, giving us better framework conditions on the way to providing broadband Internet.

In addition to a high-performance network, we also need a clearly defined position relative to our competitors. We are therefore also revamping our brand identity in the United States in order to underline our claim to be the provider offering the best value for money. In addition, we are strengthening our sales partnerships as well as business with virtual network operators. And in particular, we intend to substantially build up our sales team in the business customer segment with around 1,000 employees in order to gain market share in this area.

Certainly, we still can't base our plans on the assumption of limitless spectrum – and the break-up arrangement is not going to resolve all the challenges. But we are first achieving an important milestone: We can continue our Challenger strategy and offer products based on LTE in the key markets.

And let me make one thing very clear: T-Mobile USA continues to make an important contribution both to Group earnings and to free cash flow. T-Mobile USA intends to largely offset heavier investment in technology and its market and brand presence with cost-efficiency measures. It thus expects adjusted EBITDA for the 2012 financial year of around USD 4.8 billion. Over the medium term, T-Mobile USA wants to return to rising subscriber numbers and earnings growth.

Ladies and Gentlemen,
That brings me to the outlook for 2012 for the Group as a whole: In the current year we forecast adjusted EBITDA of around EUR 18 billion. As always, these figures assume constant exchange rates and no further downturns in the economy or adverse regulatory effects.

We are focusing on defending our market position in our current core business, on transforming the Group toward IP technology, efficiency enhancement programs such as Shape Headquarters, and on integrating IT within T-Systems, as well as on boosting innovation. We knowingly accept a lower level of EBITDA to support the achievement of these targets. We expect free cash flow of around EUR 6 billion. And the same applies here as with our EBITDA.

We are sticking to our policy of shareholder remuneration for 2010 through 2012, which of course is subject to the necessary board resolutions and approval of the shareholders' meetings. I already mentioned our dividend proposal for the 2011 financial year. No Board of Management decision has been taken on the share buy-back yet, nor have we set a time for it.

I have already talked about our plans in the United States. In Germany, we intend to defend our positions as market leader in the fixed network and with service revenues in mobile communications – and keep our earnings more or less stable. Defend is also the aim for the Europe segment, here geared to cash flows and leading market positions in our current core business areas. We intend to improve efficiency at T-Systems to be able to generate appropriate margins from outsourcing business.

Important projects for improving efficiency and transforming the Group include streamlining Headquarters and Group-wide centralization of IT. Having exceeded our target for the second Save for Service program earlier than planned at the end of 2011 by saving EUR 4.5 billion, compared with the target figure of EUR 4.2 billion, we will of course continue to operate frugally – there simply is no other option. That's the only way we can afford to invest more than EUR 8 billion – more than any of our competitors.

Ladies and Gentlemen,
We have defined our growth areas in our strategy and are obtaining good results in the different areas. This is particularly striking with mobile Internet, which posted growth of some 18 percent last year, taking its revenue to EUR 5.2 billion. But the development of the customer base in Connected Home with broadband and TV business, and with new products such as Entertain Sat, also demonstrate that we are on the right track. Revenue from this business area increased by around 2 percent to EUR 6.3 billion. In the area of consumer online services which was impacted by the discontinuation of unprofitable business areas, it is the Scout group that deserves mention as a particularly successful player.

We generated significant revenues with intelligent networks for the first time in 2011. We have seen promising developments in the field of healthcare. We have paved the way for products and services which go far beyond what you would have commonly understood as telecommunications not long ago.

Services from the cloud, for example, will come increasingly to the forefront. In addition, we will also be focusing our attentions on strategic partnerships, be it major projects such as with Google, or smaller partnerships such as the one with Groupon. We will make the innovative capacity of the Internet community more accessible to Deutsche Telekom's customers. The heart of this philosophy is not necessarily ownership of a technical invention but cooperation on the development and marketing of new products.

And you will be hearing a great deal more about these topics from Deutsche Telekom, ladies and gentlemen, at upcoming events such as CeBIT and the Mobile World Congress.

Ladies and Gentlemen,
2012 is an important leap year when it comes to implementing our strategy. We take the big tasks for Deutsche Telekom's transformation very seriously: We want to be successful in the long run. We will have to take many steps this year to promote our initiative for the future.

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