Speech for Deutsche Telekom's shareholders' meeting in Cologne on May 24, 2012

René Obermann
Chairman of the Board of Management
Deutsche Telekom AG

Good morning, Ladies and Gentlemen,
Good morning, Shareholders,

A warm welcome to our shareholders' meeting.

If we look at the telecommunications industry in Europe now, in the spring of 2012, it soon becomes obvious that our sector is still under massive pressure. This is not a phenomenon specific to Germany – virtually all comparable telecommunications enterprises in Europe are battling with similar challenges: Conventional telephone network business is shrinking. Analysts expect a global annual slowdown of around 4 percent by 2016.

This is due among other things to harsh competition and new Internet services which are replacing previous methods of communication. Social networks like Facebook and Twitter, communication services like Skype, WhatsApp, and many more – all have one thing in common: They are offered over the Internet and can be used via the fixed network, mobile network, or wi-fi. What is more, they appear to be free of charge.

In addition to this – in Europe and especially in Germany – intervention by the regulatory authorities is costing us vast amounts of revenue. And they are not just interested in the money we earn in the fixed network, but in helping themselves to revenue from mobile communications, too. And let me remind you, this is a market that has been open to competition from the outset. For example, termination rates have dropped by over 60 percent since 2007. The latest reduction alone cost the industry around EUR 850 million in revenues in 2011.

This is dramatic and it is wrong. Everyone is calling for high-speed networks in the furthest-flung corners of the country – ideally fiber-optic networks. And rightly so, as it happens – we need these networks for the future of the country. At the same time, however, politicians at the European level and the national regulatory authorities are taking away the incentives for investment.

No one builds a house to rent out if there is a risk that the authorities will subsequently set the rent. And possibly to a level at which he cannot even pay back his loans, let alone earn enough to cover risks. If I may continue with this analogy: The result would be a lack of housing in the long term – and the situation with our networks is very similar.

The regulatory authorities must promote and reward investments, otherwise they will fail to materialize. However, if Germany wants to continue having one of the most modern infrastructures in the world, the basic regulatory issues must be resolved once and for all. In one of the latest surveys, European capital market analysts conclude that a lack of investment incentives due to misguided regulation is the main barrier to further investment. We therefore need less regulation, not more. When we look at Brussels, however, we observe exactly the opposite: The number of recommendations is increasing and leading to an even more extensive rate and cost regulation. This is highly counterproductive and does not provide any incentive to make the necessary investments in fiber optics.

The industry would be prepared to shoulder the main burden of broadband roll-out. What we need is a turnaround in regulatory policy. It is vital to give top priority to market solutions and stable network charges, which can be used to finance the building of new networks. The price decline for network usage resulting from regulatory intervention must be halted; if it is not, there will be no new stimuli for broadband roll-out. In addition to this, regulation cannot carry on as it has, given the preferential treatment cable network operators are receiving on the broadband market.

Ladies and Gentlemen,
As I have already outlined, this conflict between harsh competition and incomprehensible regulatory decisions means that the air is getting thinner and thinner for Europe's telecommunications sector. You only have to take a look at the performance of the major European telecommunications companies: nearly all of them suffered losses in 2011.

Please do not misunderstand me here: No one can be satisfied with T-Share trading at under EUR 9. Nor am I. It is, however, true to say that Deutsche Telekom has fared relatively well in this tough environment. If we compare the total return – meaning price performance plus dividend – since the realignment of the Group in March 2007, T-Share developed better than the DAX and significantly better than the shares of comparable companies.

Our price performance has also been better than that of most of our European competitors over the past few years: Four years ago, the

T-Share was between EUR 9 and 10 and it is currently just below EUR 9. France Telecom's share price was EUR 19 and now it is EUR 10. KPN was at EUR 14 and now it is at EUR 8. And Telefonica was at EUR 22 and now it is at EUR 10. This means that the shares of our competitors have dropped in value by around 55 percent over a comparable period – while the T-Share has remained just about stable.

Overall, we succeeded in meeting our targets for 2011, with adjusted EBITDA (earnings before interest, tax, depreciation and amortization) of EUR 18.7 billion and free cash flow of EUR 6.4 billion. It was hard work and a really difficult year. At this point, my thanks go above all to our employees, whose great commitment made this result possible.

Taking a look first at our mobile communications business in the USA: At the 2011 shareholders' meeting I presented to you the agreement to sell our business to AT&T. Unfortunately, over the course of the year we saw resistance to the sale of our mobile subsidiary become too big in some areas of U.S. politics as well as among the relevant U.S. authorities.

But it was the right decision to pursue the sale. It would have been the best solution, not only for Deutsche Telekom and its shareholders but also for the customers and staff of T-Mobile USA and AT&T – and also for the U.S. mobile market as a whole. Do we stand here empty-handed now that the sale has fallen through? No, definitely not. We insured ourselves handsomely against precisely this situation. In fact, it was one of the highest levels of compensation ever to be agreed worldwide. AT&T paid us USD 3 billion in cash alone. Added to this, we received an extensive package of highly sought-after mobile spectrum and the option to share AT&T's UMTS network for several years. Experts rate the value of this package at a further USD 3 billion.

There is no doubt that business operations in the USA continued to be affected by uncertainty in 2011. In the fourth quarter, we recognized impairments of EUR 2.3 billion. However, the frequency spectrum we received from AT&T reinforces our position on the U.S. market. We are investing in modernizing the networks and are now developing an LTE network. And we are positioning T-Mobile as the carrier that offers the best value for money.

Of course, we continue to look for a long-term solution to improve earnings in our U.S. business. However, a complete sale like the one to AT&T is considered unlikely. We must find other ways to increase the return on our capital, or to reduce our capital investment. We are doing everything in our power to achieve this.

And so now I come to our German business – still our most important market: With the mobile Internet, revenues have continued to grow, by over 30 percent in the fourth quarter alone 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. Using the Internet while on the move has been taken for granted by many people for a long time now.

Growth in the number of customers subscribing to Deutsche Telekom's television offering continues unabated. Entertain has also been available via satellite since summer 2011, almost doubling our coverage. At the end of the year there were 1.6 million Entertain customers in Germany – and 173,000 more joined by the end of March. The next move will be to make Entertain available on mobile devices.

Just one word about the award of Bundesliga rights: We have always stressed that we are not willing to acquire the rights no matter what the price. Our bid went as far as possible within the bounds of what we consider to be economically responsible. We respect the Deutsche Fussballliga's decision to award the rights to Sky. Initially, nothing will change for our customers in the next Bundesliga season. And if Sky wishes to cooperate with us, we are very open to this.

Now back to our operating result: Adjusted EBITDA in Germany was EUR 9.6 billion, meaning it was stable year-on-year. Overall, we raised our profitability once again in 2011: to an EBITDA margin of almost 40 percent. This is regarded as positive by the capital market. Revenue, on the other hand, declined 4.4 percent in 2011 to EUR 24 billion. We are not satisfied with this result. We must make even greater efforts to change this, particularly in our mobile business.

Finding ourselves torn between regulation and market requirements, we are investing more than any of our competitors in networks, service quality, and IT. We invested nearly EUR 3.7 billion over the past year in Germany alone. This is paying off: In 2011, we won the three leading network tests, from the German Stiftung Warentest consumer association as well as from Chip and Connect magazines. And we head the field again in the first big fixed-network test of the year 2012. The editors of Connect summed up as follows: "This year, no one can afford to ignore the magenta giant from Bonn. Telekom currently has the best overall telephony and Internet package.” This is a great result thanks to the work of our employees who, on a day-to-day basis, do everything in their power to make it possible for customers to enjoy the best possible connections wherever they are. That is something we are proud of.

Now I come to our European subsidiaries. The overall economic situation remains tough: Greece is still in the midst of a deep recession with all the known consequences also affecting consumer spending. In other countries, such as Poland and Hungary, while the economic recovery held up, the currencies weakened over the course of the year. On top of that, in Hungary, a special tax has been arbitrarily imposed. This sends out the wrong signal to future investors and has a detrimental effect on both companies and consumers. The tax cost us almost EUR 100 million in revenue in 2011.

Taking this environment into account, business in Europe performed reasonnably well on the customer side, with the number of mobile contract customers increasing further by 3 percent to 27.1 million. The proportion of smartphones increased by 20 percentage points to 54 percent, which means that every other cell phone sold in Europe is now a smartphone. In the fixed network, we expanded the number of broadband lines by just over 5 percent to almost 5 million. And TV business grew by 12 percent to 2.6 million customers. IPTV – TV via the Internet protocol – increased by a substantial 24 percent. This makes us the market leader in Europe.

Although revenues on a comparable basis fell, the EBITDA margin rose to almost 35 percent. This was due above all to the fact that we succeeded in cutting our costs by some EUR 400 million.

That brings me to T-Systems: In our corporate customer segment, we again secured a number of big deals last year with companies such as Total, Shell, and Daimler. Business with cloud services is getting stronger and stronger. Companies no longer need to access their own computers but can lease capacity from our data centers. Years ago, we were among the first in this area – today, analysts confirm our leading role in cloud solutions for corporate customers as well as for small and medium-sized businesses. This is why companies are increasingly placing their trust in us: Thus we have concluded contracts with the insurance group Intermedica in Brazil, with the largest glass manufacturer in Africa, Consol, and with the Spanish post office Correos, among others. Overall, 80 percent of T-Systems' SAP business already comes from the cloud.

T-Systems increased its external revenues slightly in 2011, by 2.4 percent to EUR 6.6 billion. However, T-Systems has also been successful on the cost side, with gross cost reductions in the range of EUR 700 million. We are certainly not satisfied with the EBIT margin of 2.7 percent compared to a figure of 3.7 the previous year – but we have seen some progress in the course of the year.

Two weeks ago, we reported to you in detail on the progress made by our business operations in the first three months of 2012. In short: We started the year respectably. Germany continues to be strong – with satisfying results above all in the fixed network. Our mobile revenues still need improving. There are improvements in the USA and Europe and T-Systems has increased its profitability slightly.

Ladies and Gentlemen,
The year 2011 and the first few months of 2012 have again made two things clear: In view of the massive pressure on prices, we must first work harder to cut our costs. In recent years, we have been very successful in improving our efficiency – but we must not stop there. We must free up further funds to allow us to make important investments in networks and innovations – and for the necessary personnel restructuring, which cost EUR 1.2 billion in the past year alone.

Secondly, it would be strategically wrong to build our future business on network business alone, since it will remain regulated and continue to decline.
It was therefore crucial and logical that we set out two years ago to tackle fields of innovation beyond traditional fixed-network lines. Some of these fields already generate revenue – first and foremost among them the mobile Internet – the development of others will require more staying power. We will give these new areas the time they need to flourish.

I am, at any rate, convinced that we are covering the right topics. We are meeting the needs and demands of our customers – and addressing the key trends in our industry: Mobile Internet is booming, I have already mentioned this several times: By the year 2015, we expect almost two billion users around the world to access the Internet on the move – twice as many as in 2010.

The next big trend is in cloud-based services. It is interesting to stop and visualize the dimensions of the cloud computing market: We are currently recording average growth of over 30 percent per year. In Germany alone, we expect a market volume of over EUR 17 billion by the year 2016.

Large enterprises have been using cloud services for several years, but SMEs are only just beginning to discover them: So far, only twelve percent of small and medium-sized enterprises in Germany use cloud services. It is precisely to this target group that cloud computing offers huge advantages – provided the offers are tailored to their needs.

At CeBIT we presented our Telekom Cloud. We offer cloud computing for each and every need: from private photo archiving to communication software for SMEs and SAP workstations for corporate customers. Reliably and securely. We do everything in our power to guarantee as much security as possible for our products and services. Data privacy and data security have evolved into key success factors for our industry – and therefore for the entire economy.

Ladies and Gentlemen,
You already know our five innovation and growth areas: Revenue is expected to rise to around EUR 29 billion in the years ahead. That applies especially to the mobile Internet. Our target of EUR 10 billion is realistic. We have already topped the EUR 5 billion mark for revenue.

Furthermore, we aim to grow with our online services – along with Connected Home and with combined IT and telecommunications solutions for corporate customers. We will also do this with intelligent network solutions, for the energy and health sectors, for example. We are already making good progress in many sectors – but in others we still need to fan the flame.

In essence, we are striving to provide our customers with communication, transaction, entertainment, and IT services, based on a reliable infrastructure. We want our customers to say: Telekom is my first choice for connected life and work. We plan to achieve this with the following strategic focuses:

1. Integrated networks for the gigabit society

Our customers want one thing above all: to always have the best and the fastest possible connection. To them it is irrelevant whether this is with DSL, VDSL and FTTH, with wireless LAN at as many hotspots as possible, with HSPA+ and LET – they do not want to have to worry about all that. We therefore need to combine our networks so that we can guarantee seamless access despite the different mobile and fixed network technologies. No matter what you use – a laptop, smartphone, tablet, camera, games console, or on-board computer – we ensure that you always have the fastest and cheapest network connection which is suitable or necessary for the application you are using.

People are already using gigabytes of data – soon, they will be demanding gigabit transmission rates without wanting to think about the volumes they send. In the past, we just made phone calls, today we take it for granted to use our cell phones for downloading movies and music, for weather services and as a sat-nav.

The high-performance network offering remains the basis on which our company stands. With mobile services in particular, we can earn good money in the future. How much we can ultimately invest in the networks, depends on the general conditions we are granted.

2. More innovation through collaboration

We cannot develop everything on our own. Innovation is a three-way combination of in-house developments – like Entertain, Media Center, and PagePlace – partnerships and acquisitions or shareholdings in innovation companies. In the past few months, we have taken a great many steps in this direction, some small, some larger. Only recently, we participated in the text (SMS) and voice service "Pinger" – one of the most successful iPhone applications. Or another example: We are collaborating with Lookout from Silicon Valley for more security and control over smartphones and their apps.

We need such forms of cooperation with partner firms that complement our own strengths. We must be more open and advance the improved innovation culture within the company. In the future, T-Venture – our venture capital subsidiary – will play a stronger role in getting us more strongly involved in external innovation. In addition to this, we established our first incubator for start-ups just a few days ago in Berlin. We will use it to promote innovative business ideas and support the entrepreneurs, for example, by giving them access to our development platforms, helping them with the start-up costs and providing them with advice from experienced experts.

3. Secure cloud solutions

I have already mentioned that secure and reliable cloud services are becoming increasingly important to our business. This includes communication services

for SMEs – for example our Deutschland-LAN, a full-service package for fixed-network, mobile, and PC communications from the cloud.
Another offering in this area is our intelligent network solutions for the automotive, health, and energy sectors. Let us take a closer look at the energy sector as an example. In the future, we will have a highly complex energy grid – with a combination of large central and many local generators and consumers. This requires an intelligent network – known as a smart grid – which understands when, where, and how much energy is generated and required. This development is only just starting. But it will not function without modern telecommunications and IT. We see our role in this as partner to the energy industry – or, to use the modern term, as the enabler for the new grid.

4. Customer delight drives our action

We have set ourselves an ambitious goal: We want to inspire our customers. Not only with service and network quality, but also by providing reliable and user-friendly products. That sounds trivial but we know how difficult this can be in some areas.

We want to offer all our customers the fast and reliable help they expect. This means, for example, that we meet our young customers where they are looking for information: in social networks, for example. Our service channel "Telekom helps" on Facebook and Twitter is extremely successful and was quickly copied by other companies. Our next step is to set up a feedback platform from customer to customer.

Ladies and Gentlemen,
These are the action areas on which we must now focus. We know what we have to do – and we know how to do it: We must fight for every customer in our core business. We must change our company, streamline our processes and

organizations in order to remain competitive in an industry that is undergoing dramatic change. And we must renew our company, become more innovative and faster, in order to become successful with the Internet and cloud services.

We have demonstrated that we have the power to stand our ground in a tough environment – and at the same time, to press ahead undaunted with the Group's transformation. This continues to include responsible personnel restructuring – there is no way to get around this. And no part of the company is exempt from this, including headquarters which is too big for our quick business with its aggressive prices. We are therefore in the process of significantly reducing the size of Group headquarters and organizing it more efficiently. We have always worked together with the employee representatives in the past to ensure that such measures are based on cooperation and fairness. And that is how it should stay.

Incidentally, I am using the term “restructuring" on purpose. We need new skills and an innovation-friendly culture in the company in order to be successful. On the one hand, we provide training programs for our own employees to this end. At the same time, we are seeking outstanding junior staff and experienced experts from all over the globe. And, finally, we train young talents ourselves – more than virtually any other company: many thousand trainees in Germany alone.

Ladies and Gentlemen,
Shareholders,
Despite the economic crisis, despite the brutal competition and despite adverse regulation, Deutsche Telekom stands today for stability and reliability. This means high value for long-term investors in these uncertain times. We have generated a sound free cash flow, half of which we intend to pay

out. While a number of enterprises from our industry are cutting their dividends, we are sticking to our targets. For the 2011 financial year, the Board of Management and the Supervisory Board therefore propose to the shareholders' meeting to pay a dividend of 70 cents per share. This year too, by the way, the dividend is tax-free for shareholders in Germany.

I would like to thank you for your trust over the past few years And I would be delighted if you would stay with us on this path. Our aim is clear: We want to be the first choice for our customers – with the best products and services for connected life and work – generate attractive yields for you and continue to be a good employer for our employees.