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Deutsche Telekom AG *(DTE.DE)*

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CORPORATE PARTICIPANTS

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

René Obermann

Chief Executive Officer, Deutsche Telekom AG

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

OTHER PARTICIPANTS

Matthew C. Bloxham

Analyst, Deutsche Bank AG (Prime Brokerage)

Robin A. Bienenstock

Analyst, Sanford C. Bernstein Ltd.

Ulrich W. Rathe

Analyst, Jefferies International Ltd.

Simon H. Weeden

Analyst, Citigroup Global Markets Ltd.

Justin B. Funnell

Analyst, Credit Suisse Securities (Europe) Ltd.

Hannes C. Wittig

Analyst, JPMorgan Securities Plc

Nick Delfas

Analyst, Morgan Stanley & Co. International Plc

Dominik Klarmann

Analyst, HSBC Trinkaus & Burkhardt KGaA (Broker)

Frederic E. Boulan

Analyst, Nomura International Plc

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Deutsche Telekom's Conference Call. On our customers' request this conference will be recorded.

Unidentified Participant

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Operator: Now please listen to the statement of René Obermann and Timotheus Höttges; afterwards you are welcome to ask your questions. May I now hand you over to Mr. Stephan Eger.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

Yes thank you, and good morning, and good afternoon to our listeners in the U.S. Representing our Q2 results for the DT Corp today with our CEO René Obermann and our CFO Tim Höttges. Due to a very tight schedule, we'll have to end the call sharply at 2 PM CEST. Therefore I ask you to restrict yourself to one to two questions per persons only.

With that, I'll hand over now to our CEO René Obermann.

René Obermann

Chief Executive Officer, Deutsche Telekom AG

Yes, hello, hi, we have delivered a good and a solid quarter. Supported by currency, group revenues were almost stable at €14.4 billion, just 0.7% down. Adjusted EBITDA at €4.7 billion was actually slightly above last year's level. And free cash flow in the first half of the year was essentially stable at €2.8 billion. And on this basis, we reiterate our full-year guidance and also our dividend policy which is unchanged. This compares as I believe very favorably to almost all other incumbent operators in Europe.

Our solid first half results provide us with the necessary cushion to improve our competitive positioning in German mobile and in the U.S. with potentially some higher OpEx in the second half. In this context, let me also point out that we are not under-investing in terms of CapEx. Although first half CapEx, first half year CapEx came in 5% lower year-on-year, we are sticking with our full year guidance of CapEx on the same level as last year. In the U.S., the network modernization started in earnest only in June and will ramp in the second half of the year. And in Germany we will continue to ramp especially the LTE and broadband CapEx in the second half of the year.

So coming to Germany, we have encouraging fixed line results and slightly improved mobile service revenue trends as well. Good net adds in broadband and Entertain and line losses at a historical low at just 236,000, 20% below last year. This is really reflecting strong customer retention and great service quality and good service and increasing service reputation by our customers.

In wireless, service revenue trends improved in Q2 and mobile contract net adds amounted to 464,000, but before – don't want to paint the picture too rosy, but the service trends improved and I do believe that we might see an even further improvement in Q3 simply because the effects of the tariff migration and some wholesale extraordinary effects and so forth faint out.

We have started investing into measures to fight back on market share and we gained profitable customers already in Q2 and we expect to continue this going forward. Our goal clearly is to regain the market leadership in service revenues. Overall adjusted EBITDA margin improved to 42% supported by an adjusted OpEx reduction of 4.1%.

Second quarter in Europe results reflect a higher bias on market [ph] investor ready (7:36) and a deteriorating impact from the economy and currency. Revenues were down 5.9% and adjusted EBITDA 8.8% and the underlying organic decline amounted to 3.8% – minus 3.8% for revenues and minus 6.7% for adjusted EBITDA. Nevertheless, growth in key KPIs in these markets remained solid. The highlight of the U.S. results was a further improved adjusted EBITDA and margin. Adjusted EBITDA increased impressively, and in euros anyway by 18.6%, but also U.S. dollars with 5.7% with the margin reaching 27.7% of total revenues. In euros, total revenues were up 8.7% due to currency while U.S. dollar revenues declined by 3.1%. Finally branded customer churn – contract customer churn improved from 2.6% to 2.1% year-on-year. However, it was offset by weaker growth rates, but the churn trend is encouraging.

In terms of the search of the new CEO, I have personally seen a number of promising candidates. The objective to find a strong, and entrepreneurial, and a permanent CEO with relevant U.S market experience pretty soon.

Let's take another quick look at the key group financials for the quarter and the first half year. In the quarter reported net profit increased by more than three quarters to €640 million. This was driven by different seasonality of special factors compared to the last year. Adjusted net profits declined by almost 14% due to a higher depreciation in the U.S. You will recall that last year we stopped depreciating the U.S. following announced sale of T-Mobile U.S.A. This was reversed in the fourth quarter. Free cash flow was down slightly in the quarter and essentially stable for the first half year, while cash CapEx declined by 13.5%.

Summarizing these numbers, I would like to remind you of the fact that this was not an easy reporting season for the European telecom sector which is still facing economic and competitive headwinds from all angles. As a result, a couple of our competitors had to reduce their earnings forecast for the year and they had to cut back on shareholder remuneration.

In contrast, we at Deutsche Telekom; A, delivered on our guidance with almost flat EBITDA and free cash flow, whereas some of our competitors showed significant weakness; B, we stay fully committed to the full-year guidance for 2012; C, we stay fully committed to our dividend policy of course always subject to the necessary formal approvals, whereas some of our competitors like KPN or Telefónica had either steep or complete dividend cuts; and D, we have even the strength to invest even more for instance in our home market in Germany, particularly now given a seemingly better regulatory framework. We will analyze that and we will talk about that in the session.

On slide seven, you can see the organic decline in revenues and adjusted EBITDA. You can see that it was almost offset by currency gains mainly from the strength of the U.S. dollar. These currency gains explain the strong

growth of T-Mobile U.S.A., observed in revenues and in EBITDA in euros. Besides the U.S., all other divisions had revenue declines in the second quarter. We will explain these trends in detail when we come to the divisions.

In terms of adjusted EBITDA, profitability improved in three divisions. In the U.S. strongly in System Solutions and in GHS, while in Germany, profitability was slightly down, with a more pronounced decline in the Europe division.

Before turning over to Tim who will lead you through the results of the divisions, let me just briefly comment upon the recent developments in German and European regulatory policy, because it's so important, where a few decisive signals for our industry as well as the European economy as a whole was sent out just recently. Let me state very clearly. We appreciate the reorientation of the European regulatory policy, as it was announced by the Commissioner [ph] Kroes (12:24) in July.

A stable and predictable regulatory framework until at least 2020 is a prerequisite for long-term investments into modern broadband infrastructure. Finally these arguments which we – our arguments were listened to, and finally change is on the horizon.

The announced stabilization of the price levels for [ph] pre (6:25) products, that improves the basis for calculation for market participants, as well as for you on the investor side. Equally important is the planned abandonment of a cost regulation for new fiber networks. As long of course as there is sufficient competition from other network operators, for instance ULLs, cable, and LTE, and I don't think we have to worry about that, competition is there. So, the planned abandonment of a cost regulation for new fiber networks is welcome, and can take place.

These are steps in the right direction in order to provide Europe with a framework which actually promotes investments into the infrastructure, into next generation infrastructure, and it does set a basis for entrepreneurial calculations.

Another positive news is the recent statements from the German regulator approving our revised, so-called contingent model or Kontingentmodell, the quota model for the wholesale of our VDSL network. Also it's an important message because these type of models reduce costs and allow for the scale effects both for the wholesaler as well as for the reseller and they help to make these investments much more calculable. So, I'm happy about that decision.

Most important for us is that regulatory policy will no longer only pursue price reductions, thank God, but also going forward take into account, the necessary improvements in the overall framework in order to foster the investments. That's the way forward if we want to build necessary infrastructure for Europe. We will evaluate, in fact we are already quite far down the road in evaluating these new framework and the opportunities which result out of that and will update you in the coming weeks on what it means for the business cases if we make more aggressive investments because we believe there are good opportunities coming ahead – coming forward.

So with, that was it from my side. I'll hand over to Tim and I look forward to our discussion later on.

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

Thank you, Rene. Welcome everybody. In Germany, we saw a slightly weaker revenue trend and almost unchanged trends in adjusted EBITDA. Revenue declined by 3.1% essentially due to weaker revenue trends in wholesale and others. Mobile revenues declined by 1%, a slight improvement over Q1. Core fixed line trends stable

at minus 2.6% while wholesale services revenues declined by 5.5%. Compared to the first quarter, revenues in network services were weaker due to lower volumes and price reductions.

Revenues in others declined by 14.3% driven by fixed related and value added revenues such as lower revenues from public telephonies, directory assistance, and the 0180 numbers. Despite the slightly steeper revenue decline, adjusted EBITDA trends remained essentially the same as in Q1, with adjusted EBITDA down 2.2% year-on-year. This result was due to stronger cost cutting. Adjusted OpEx declined by 4.1% compared to the 1.6% decline we achieved in the first quarter.

In mobile, the measures were initiated – we initiated [ph] had some first (16:26) results. Mobile service revenues declined 1.1%, an improvement over the 1.8% decline in the first quarter. This was driven by continued strong mobile data revenue growth of 19%. Excluding the loss of one wholesale provider, service revenues would have been flat year-on-year. We still lost some further market share in terms of mobile service revenues, but the sequential decline in market share was much less than in the first quarter. Compared to Q1, we had the same growth rate in service revenues as our main competitor.

The KPIs were strong with mobile contract adds of 464,000, and strong smartphone sales as well. We further expanded our LTE coverage to approximately 10 million households in rural Germany and plan to cover 100 bigger cities by year end. Consistent to our overall approach to coverage, we are focusing on dense, high quality LTE coverage right from the start.

We are pleased with our KPIs in German fixed. We defended our broadband market share of 45% despite the strong competition from cable. Overall, we had 47,000 broadband net adds in Q2. Once again Entertain and retail fiber customer net adds were particularly strong at 105,000 and 48,000 respectively. Accordingly consumer ARPA or average revenue per access improved by another €0.30 to €25.70. We continue to expand our broadband coverage, as you can see on slide 10 in the upper right corner.

In the U.S., overall trends were quite similar to the first quarter. The highlight was strong growth in adjusted EBITDA, strong growth in branded prepaid 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, but also due to credit optimization initiatives and the relative lack of new smartphones. The Galaxy S III only came at the end of the quarter and that will help us throughout the rest of the year.

Service revenues declined by 6.1% mainly due to contract customer losses. On the other hand, total revenues declined by just 3.1% due to stronger equipment revenues resulting from the shift to value plans and higher smartphone sales. Our adjusted EBITDA improved by 5.7% as a result of lower volumes and the shift to value plans, but also due to strong cost cutting as evidenced by lower network cost and a significant sequential decrease in the G&A cost. Overall net adds turned negative again mainly due to lower wholesale net adds. The strong branded prepaid net adds of 227,000 reflected the success of our monthly 4G unlimited prepaid plans. Among the U.S. carriers, we had the best branded prepaid net add number in Q2.

With regard to the implementation of our strategy, we made good progress in the second quarter. In June, we agreed on a spectrum swap with Verizon, which is conditional on the Verizon Cable agreement. This spectrum swap if approved would significantly improve our AWS spectrum position in many markets. We started the network modernization in earnest in June and have already modernized over 250 sites. We expected to modernize at least 20,000 sites in the course of 2012. This plan has not changed.

Our cost reduction program Re-Invent is going very well. We are well on track to achieve the target of \$4.9 billion gross savings in 2012. And branded contract churn improved from 2.6% to 2.1% as a result of our churn reduction program, but also due to the seasonal trends.

Turning to Europe, trends were weaker in Q2 than in Q1 both in revenue as well as in EBITDA terms. The main reason for this were a weak economic environment in some of our markets notably the Netherlands, the Czech Republic, Hungary, Croatia and the slowdown in Slovakia; tax and regulation, we had roughly €10 million higher negative impact on regulation driven by Romania in Q2 versus Q1 and are still exposed to special taxes in Hungary and in Croatia; a still very competitive environment in all of our markets in which we even invested more in some markets compared to Q1. A positive one timer in our Polish operation in Q2 2011, so last year, is another reason for the deviation.

Despite this difficult environment, we performed well in Q2 operationally. To give you some examples. The higher market invest versus Q1 is reflected by the continued growth in key KPIs, broadband TV access and contract subscriber growth. Impressively the smartphone share amounts to 60% of [ph] dispatch (22:37) devices, up from 43% a year ago. 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 add share, in the Netherlands we outperformed KPN and Vodafone in terms of service revenue development. And in Romania we are currently the only big player gaining mobile subscriber market share. So the reason that you have seen a further decline on the EBITDA side in the European business is due to more market invest in this respective region.

Let's do a deep dive in the markets where we saw the most important change in trends versus Q1, as can be seen on chart 14 and 15. In Greece, we are still facing a very difficult economic environment and an unfair regulation on the fixed line side. Despite this [ph] the colleagues (23:38) of OTE continued to do an excellent job under these conditions. Operationally we returned to positive broadband and TV net adds on the fixed line side and outperformed competition in mobile again. Service revenues in mobile however declined in the quarter due to a tougher year-over-year comparison against Q2 than in Q1. And postpaid revenues were up under pressure driven by lower subscription fees and lower non-voice revenues, highest in [ph] only share (24:12) this year the reason.

On the cost side the management continues to deliver resulting in an almost flat EBITDA and a more than two percentage point's higher margin. For the remainder of the year the OTE management team will focus on securing their refinancing, further reducing their cost base and maintaining momentum in both mobile as well as fixed.

Looking into Hungary the overall economic and political environment stays difficult with the uncertainties around the new state entrant and the new usage based special fee, [ph] forced (24:56) since July 1 which Magyar Telekom will need to pay in parallel to the old telco tax until the end of 2012.

Operationally we continue to defend well our revenues with underlying revenues ex-MTR being up 4.5% in the quarter driven by our IPTV sales, our mobile broadband offers and our new businesses. The drop versus Q1 is explained by the seasonality of some of our retail businesses especially energy. On the mobile side, we outperformed competition with our 25,000 contract net adds and has a 57% smartphone share of all dispatch devices. The decline in the EBITDA margin year-over-year to 34.7% is a result of the low margins of the new revenue streams in our business mix.

In Slovakia, a slowdown of the economy and the continued harsh competition has impact on some business areas and on our financials. The negative revenue development was driven especially by fixed, notably the ICT business,

where the government has significantly reduced its spending, but also mobile service revenues decreased by 8.5% due to lower usage, and continued price competition.

Operationally, we showed again good 10% year-on-year growth in our TV customers, and spent significantly more as a [ph] fee (26:33) in order to win 12,000 new contract customers in mobile. As a result of the revenue decline and higher market invest in mobile, even a good performance in cluster cost reduction could not prevent the decline EBITDA margin to 41.6%.

In this context, let me make a few remarks about our joint venture Everything Everywhere. We achieved the growth in service revenues of 3.4% ex-MTR. With 150,000 contract net adds, we achieved a solid market share of postpaid net adds, we even increased. Postpaid churn remained at a low 1.2%, and finally the adjusted EBIT margin remained stable despite higher retention expenditures and we are on the track to achieve £3.5 billion of synergies by 2014.

The highlight of our System Solutions business result was a strongly improved profitability as measured by adjusted EBITDA and adjusted EBIT. Revenues both external and total were down due to general price declines. However, we are encouraged by an 8% growth in order entry, 8% growth in order entry in a difficult economic environment, and several deal highlights, including British Petroleum, Daimler, and Everything Everywhere. Adjusted EBITDA was up almost 11% while adjusted EBIT grew by close to 56%. This reflects successful gross savings by €147 million in the second quarter.

Before moving to the Q&A, let me briefly summarize on the Q2 financial as shown on slide 17 to 19. As expected, free cash flow benefited in the first half from lower taxes and interest payments, additional €0.2 billion less CapEx contributed to the strong performance of almost stable free cash flow. CapEx I expected to increase in the second half. Therefore the guidance of around €6 billion free cash flow for the year remains unchanged.

In terms of bottom line, reported net profit improved by more than three quarters to €640 million. The biggest influence here was the different timing of restructuring charges compared to 2011. You will recall that this year the majority of restructuring charges occurred already in the first quarter. In addition, net profit benefited from an improved financial result and lower P&L taxes. The tax line again was lower as consequence of T-Mobile US being a continued operation again. That's the reason that we have depreciation again as well.

Adjusted net profit was impacted by an increase in depreciation, predominantly from the U.S. due to being fully consolidated again. This trend will continue in the third quarter, and then reverse in Q4.

Let's conclude with the balance sheet, which remains in good health, as measured by key ratios. Both shareholders equity and net debt were impacted by the dividend payment in Q2. Year-on-year, net debt was reduced by €2.3 billion. The key ratios of net debt to adjusted EBITDA improved from 2.3 to 2.2 times year-on-year while the gearing remained stable. We continue to have a stable outlook from all rating agencies and maintained undisputed access to the debt capital markets. Our very comfortable and low refinancing costs were intact as well in the second quarter of this year.

With this solid quarter, I like to handover to René and be ready for answering your questions.

QUESTION AND ANSWER SECTION

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

Well. Thank you very much. Tim, the Q&A session will be starting right now. [Operator Instructions] And then we start right now with Matthew Bloxham from Deutsche Bank. Matthew, go ahead.

Matthew C. Bloxham

Analyst, Deutsche Bank AG (Prime Brokerage)

Q

Yeah, hi there. I had a question on the balance sheet and I guess to some extent linked [ph] I'd say (31:24) to the comments that were made about regulatory policy and how that's helping clarify future investments. Obviously, we've seen rating agencies and balance sheet pressures have a direct influence on other operators in the sector about strategic decisions and the use of cash flow, just wondering if you can give us an update on to what extent you are seeing pressure from the rating agencies, how that is or isn't affecting your strategic decision making process, to what extent investments might need to be balanced against the lower shareholder returns [ph] themselves (32:01) or a different approach on the balance sheet?

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

Matthew, the sound quality was very weak. Therefore, I'll try my very best and to try to repeat what I hope I have understood. The question is with respect to future investments, I reckon your question is how do you balance these out against the rating impact and future shareholder returns, is that correct?

Matthew C. Bloxham

Analyst, Deutsche Bank AG (Prime Brokerage)

Q

Yeah, I think it was a good summary. Hello?

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

A

Matthew, I think the outlined financial strategy you all know with regard to our different stakeholders was very balanced over the last year and our current investment prognosis for this year is absolutely intact and in a balance with this target this year. We're going to be able to invest €8.2 billion, €8.3 billion throughout this year that is based in our planning and this will help us to fund the additional investments which we have laid out for the U.S. as well it is helping us with regards to the needed investments into the modernization of LTE, and even fixed line infrastructure here especially in Germany.

With regard to 2013 and beyond, that is something we have to discuss when planning or a change to the planning is due, that is not the case today. Therefore, we stick to our outlined financial strategy. As I said it's very balanced and we have a comfortable payout ratio with regard to our dividend. And therefore at that point in time we are not worried with regard to any kind of unbalance in this regard.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

Thank you, Tim. And we continue with Robin Bienenstock of Bernstein. Robin?

Robin A. Bienenstock*Analyst, Sanford C. Bernstein Ltd.*

Q

Yeah, thanks very much. I guess more of a longer-term question about the changes in fiber regulation. I'm wondering whether you think given these changes that investors should think about this is leading to longer-term revenue growth in German wire line revenues eventually. And secondly related to the U.S. given that your spectrum position has improved a little bit, you used to think about having a fairly short-time horizon until you ran into spectrum constraints in the U.S. How far off do you think those constraints now are and do you believe that some kind of deal is necessary there or do you think you can go alone for a quite a long term now on – in your U.S. operations? Thanks.

René Obermann*Chief Executive Officer, Deutsche Telekom AG*

A

So, the answer Robin is let's assume that what Ms. Kroes has announced gets translated into national regulation pretty fast. And that there is no more price downward pressure on the copper line on the last mile, that is already a big help, because in business cases going forward one always had to assume there were some price downward. Second, if there is no regulatory intervention, price intervention on the new access networks and the whole thing lasts until 2020, then I do think both in terms of new opportunities through high-performance network access tariffs and as well as less price pressure on the old network we should see new growth or at least stabilization in revenues in the forthcoming years, very possible in fixed line as well, given the increasing trend of HD video and applications which require high-performance access.

Just as you see a customer trend on the application side, on the consumption side and you see that even in the ARPU so, yes there is a perspective now and clearly we have done our homework already with regards to what can we make out of this new opportunity and situation. It's just a bit early to discuss it here publicly. But we do think there are new opportunities to potentially be a bit more aggressive and a bit more – as an intelligent and a bit more aggressive investment plan leveraging this and create new sources of growth.

But don't get afraid here. We're always trying to always, as Tim said it earlier, we're trying to balance out the different stakeholder objectives and don't over interpret what I'm saying, I'm just saying we have more opportunities. We will invest more particularly in Germany, but we still try and keep in mind that we have different stakeholders not just the network side and the customers.

Spectrum constraints in the U.S., We are – I think we're pretty, pretty well positioned for the next, say four to five years at least. I think it's very difficult to make a precise calculation. We – in general of course we look towards more opportunities for scale and spectrum, but in general I think we for the next couple of years we're pretty good, probably four to five years.

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

René, thank you and we'll continue with Ulrich Rathe. Ulrich?

Ulrich W. Rathe*Analyst, Jefferies International Ltd.*

Q

Yeah. Thanks very much. Two questions, one is sort of backwards looking really on the quarter, what exactly would be your rationale for holding back on market investments in the U.S. Clearly 28% margin constitutes a bit of a sort of whole backend market investment. The other question is on the shareholder distribution, you are saying, explicitly reiterating the dividend policy, and how about the share buyback element of that, is that

something where that you can reconfirm in general, but also specifically on the timing of the toolset of outstanding tranches? Thank you.

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

We have – I said it in the short speech that the investments and upgrade in earnest started really only to get traction quite recently, and we expect some more investments in the second half of the year, but network upgrade program towards LTE give or take a few weeks, but is more or less on track, and we still plan to launch by the end of the year the LTE network, so no there is no fundamental rationale for holding back on anything with regards to network investments.

And market investments I mean Philip put a lot of emphasis on these equipment installment plans, and on bring your device kind of things. The balance maybe a little too conservative and therefore in the second half of the year as we said also in the early speech, we probably put a bit more emphasis on the marketing side because churn has improved as you saw but gross add share is not yet sufficient of course for a number reasons including the lack of iPhone, but also because of our SAC policy in the first half of the year. So we may put a bit more emphasis on the growth side particularly in contract because prepaid has already gone very well. That's all.

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

A

Maybe I'm asking – I'm answering the question with regard to the share buyback and the dividend here. I think it is fair to say that Deutsche Telekom is not in the position being defensive at that point in time. It's not that we have to reduce our indebtedness and that we have to sacrifice operational business or something, as this – in this timeframe the opposite is the case where we're thinking forward what could we do with regard to the U.S. market, what could we do to further invest into the business in Germany.

So therefore if I look to the European landscape of telecommunication companies, let me say it openly, I think we get not enough credit for the well balanced and sustainable shareholder remuneration policies that we have introduced and where we are committed to that one. Unlike our peers, our pay-out ratio on the base of free cash flow is around 50%, and we make a strong statement in this call with regard to our future dividend policy especially for the tranche 2012 paid to be in 2013.

With regards to the share buyback, remember that we brought forward our 2011 share buyback to the end of 2010 last year. Definitely we stick to our remuneration policy and our dividend commitments but at the execution, the timing of the share buyback have not been decided upon the management. We are looking to the market environment, we are looking and compare ourselves with peers and we will decide upon that accordingly.

Ulrich W. Rathe

Analyst, Jefferies International Ltd.

Q

Thanks very much.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

Thank you Tim. Next one is Simon Weeden of Citigroup. Simon?

Simon H. Weeden

Analyst, Citigroup Global Markets Ltd.

Q

Yeah thank you very much. And my first question is regarding OTE whether or not you got places little bit on the refinancing outlook there and timings, but also could you comment on whether DT might get involved to a degree perhaps indirectly, perhaps by say buying OTE's subsidiaries in such a way as not to increase the group's devaluation risk. And the second question is perhaps given we see quarterly movements on the income statement on restructuring costs, but could you talk about the outlook for the cash flow impact of restructuring costs going forward, whether or not we should expect to see €1.5 billion approximately outflow pretty much every year for the foreseeable future or whether that should diminish or grow with inflation or something at a time. Thank you.

René Obermann*Chief Executive Officer, Deutsche Telekom AG*

A

Simon thank you. I'd like to answer first the question with regards to OTE, operationally we are quite happy with these guys are doing in this difficult environment in their markets, growing their market shares improving let's say their margin, and at the same time delivering on cash flow and as well on EBITDA in this difficult environment is quite challenging and I think it's worth giving the appreciation to OTE team here.

On top of that they are very much focused and concentrated on getting their refinancing done independently for any kind of external support and therefore today the – OTE has a lot of cash on its balance today. We have a cash position of €1.65 billion as of end of quarter, and therefore OTE is financed through until August 2013. After the disposal of 20% stake in the [ph] Telekom Zerma order (43:11) OTE is furthermore pursuing a deleveraging exercise, which would lead to additional liquidity headroom. And therefore they have even announced the sale of Hellas Sat or a potential sale of Globul. And therefore in our base case scenario and under the precondition, OTE is able to fully refinancing its positioning.

Deutsche Telekom in this regard, we have always said that we are not automatically refinancing any kind of gaps here. We will only do that on – we will never do that on an unsecured basis as we always said and in the unlikely case of not having its own access to the capital market, which I do not see, we always said then refinancing has to take place at arms length, but I like to state again they are doing a big effort that they are doing everything independently at that point in time and they made a great progress in this regard.

Your second question was what amount of restructuring related expenses are we expecting for the remainder of this year, and this number is approximately at the same level as it was in 2011 between €1.4 billion and €1.5 billion.

Simon H. Weeden*Analyst, Citigroup Global Markets Ltd.*

Q

Thank you very much.

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

Thank you, Tim. We continue with Justin Funnell at Credit Suisse, please.

Justin B. Funnell*Analyst, Credit Suisse Securities (Europe) Ltd.*

Q

Thanks. Just I guess coming back to the fiber question and I – obviously you have got to do some more thinking, but I just wondered at an early stage whether you have any views on the question of fiber to the cabinet versus fiber to the home, whether there is a need to build fiber to the home in Germany, whether it's worth the money? Secondly, is there a – part of that question as well, is there a little bit of give elsewhere in the group CapEx as your German fixed CapEx goes up, can your mobile CapEx come down perhaps in the second half of 2013, given that

you're doing an LTE build in both Germany and the U.S. and how big could that cushion be? And then my second question, German mobile has done very well despite E-Plus cutting price. What's going on there? We saw 6 years ago, E-Plus damage the market with cheap prepaid, why is it this time is different please?

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

Justin, on the question of the fiber to the cabinet versus fiber to the home, some times in the capital market there are great not only analysts, but also great business consultants. And therefore we make use of excellent studies and documents written by people like yourselves or in this case Hannes [Wittig]. And we looked at that and actually that was pretty – in many respects pretty congruous to what we thought and how we felt about the opportunity on VDSL for instance or potentially even factoring if regulatory possible, and so far. So I guess, what I'm trying to say here is, we do believe we have a smart approach and worked out in very many details, but it's a bit too early to talk about it, because some of the parameters are still missing and also we need to discuss it with our folks internally on the supervisory board level. But just expect us to be very active, in terms of how we can best use of this upcoming opportunity, but however we will tie it, we will link it closely to that the regulators do what the European Commission suggests they should do. Otherwise, we're – we would make commitments and then thereafter, implementation doesn't happen. So, we would tie it to the implementation of these regulatory reliefs, and if so then we'll have very smart, we believe they have a smart and effective investment program combining different technologies, including vectoring, and become very, very competitive even against the cable folks.

Certainly the answer is not just then to roll out within a very short timeframe, fiber to the very – into every apartment in Germany. That is not the answer, because that kills enormous value. We want to do it in a way that increases value. And again we believe we have found a way to do that, but it's too early to discuss it in detail. Please expect us to come back to you, whatever in the next, probably four to six weeks, or eight weeks or so.

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

A

Maybe – I answered the question with regards to the tariffs and price development here in the Germany market, you have seen Europhone, you have seen Drillisch, you have seen United Internet with some new offers in the market, which are around a €20 all net flat offering here. And we take that very, very serious so don't think that we are overlooking it and not comparing the performance of these initiatives here. Our intention in the mobile market and our sensitivities are on regaining growth on the – in the service revenue market here in the mobile environment on that turf therefore we are very carefully watching what's going on. Third, indication shows that the €20 offer is not really big successfully. It will hurt the old operator base more than maybe anticipated, the market reactions of the big players were mostly rational especially from the D-network operators so far, our reaction we have successfully addressed the price sensitive customers with our discount brand. Congstar has a very competitive and comparable offer in the marketplace, so that could be offered under the roof of Deutsche Telekom. And as a premium operator, we're trying to keep price points stable but we want to enrich the tariffs and therefore we have included the SMS flat to counter the IP cannibalization or we have increased our speed in order to demonstrate our network superiority here whereas the E-networks, we just recently today this morning we saw another test where it was confirmed that our quality of the network is significantly better than from some of the competitors.

We anyhow believe that the speed is the main differentiator by which a premium network operator could drive data and even ARPU over time and therefore it's not that we are trying now to immediately to imitate any kind of lowest offer. We're trying to differentiate, we're trying to increase the attractiveness of our products and if you look to our churn numbers in Germany, you see that we are quite successful in the answers for customers that what we're offering is something people even value.

Justin B. Funnell*Analyst, Credit Suisse Securities (Europe) Ltd.*

Q

Thank you. Just on that question of mobile CapEx, is there a cushion there, to your group CapEx figures?

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

CapEx guidance is completely unchanged, and which means Germany about €3.3 billion for this year in the segment. Thanks Tim, maybe a one additional info, we don't see any change in trends of fallout to E-Plus so far. I think that is also important to state. And as Tim is rightly saying, we are countering on our second plan with Congstar and having actually quite good performance here.

So, now as Hannes was already mentioned in this call I think it's only fair that he also ask a question, so Hannes go ahead.

Hannes C. Wittig*Analyst, JPMorgan Securities Plc*

Q

Thank you very much. Just one, two questions. First, in the first quarter, mobile service revenue in Germany started to deteriorate, now they have rebounded in quite a competitive way. So I just wanted to ask you to provide a little more color on just exactly how you achieved that so quickly given that normally that you should take a bit of time. Secondly [inaudible] (52:04)

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

We can hardly hear you. So I'm not sure whether you are on a loudspeaker or in Siberia or whether it's our fault, can you repeat the first question again?

Hannes C. Wittig*Analyst, JPMorgan Securities Plc*

Q

[Question Inaudible] (52:21)

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

So I tried to reckon whether it's correct. So, it's about the German service revenue improvement in the third – in the second quarter versus first quarter, what are the reasons for that, is that correct?

Hannes C. Wittig*Analyst, JPMorgan Securities Plc*

Q

That's correct.

René Obermann*Chief Executive Officer, Deutsche Telekom AG*

A

Okay. Customer growth both in terms of direct customers, Hannes and also service providers, a big chunk came from service providers such as Turkcell, Lebara and others where we have started very focused offers for these target groups, but also direct customer contract customers grew by more than 100,000.

So that's one reason, second is data is growing; data is growing quite significantly year-on-year. I think again in vicinity of 19% so, so that contributes and, but still on the other side, on the negative side we still have the effects that customer migration into these new better tariff systems which we introduced in 2011. That is in effect and also we had enormous price pressure over the last 12 to 18 months and particularly also in the last two quarters on the corporate customer side. So I'm not happy yet with the situation, but I do have, I am reasonable optimistic that Q3 may see an even improved picture with regards to mobile service revenues, but I can't of course say it explicitly at this point in time.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

Thanks, René. We will take the second question offline, Hannes, as that line is very badly. Now we will continue with Nick Delfas at Morgan Stanley. Nick?

Nick Delfas

Analyst, Morgan Stanley & Co. International Plc

Q

Sure, hopefully you can hear me? Just a quick one on the USA, first of all why is the ARPU on the contract side so flat despite moving more into the value plans and maybe you can talk a little bit about how the mix is evolving there, so you recorded flat ARPU on branded contracts? And then secondly what should we think about in the second half of the year? You indicated you wanted to be a little bit more aggressive in the U.S. at the same time we've got iPhone 5. Should we be expecting another million customers on branded contracts be lost in the second half of the year.

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

Okay. I think the reason I guess that slowdown in branded ARPU growth reflects the continuing migration of customers to cheaper tariffs, in particularly these value tariffs. On the other side, we also expect to see a cash benefit from customers on value plans that are also on equipment installment plans. As those customers paid for equipment over about I think 20 months contract period. This will not benefit the ARPU metrics on the one side, but it does positively impact the cash flow side. So, it has ...

Nick Delfas

Analyst, Morgan Stanley & Co. International Plc

Q

Just to be clear, I wasn't – I was actually surprised that the ARPU isn't showing dilution from these plans. Is the standard contract ARPU actually going up?

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

It seems that there is some little dilution effect, so then the standard contract ARPU should be going up. I just don't have the exact percentage on both sides of the contracts, but maybe we can look it up whilst we speak and deliver the answer in a few minutes, Nick if you allow. Because there is one negative effect and there is a positive effect.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

A

So, we will get back to that. And then to the second question in the meantime, we're not giving a guidance for the expected customer losses in the second half as René already pointed out, we have enough firepower to be more aggressive in the second half. We'll have a bit more support from network modernization. We will have a bit more

support from better handset including the Samsung Galaxy. But again there are some effects, which we usually did see already in the first third quarter, so it's back to school and there is obviously the introduction of the iPhone 5, which will have an impact as well. Whilst looking for the answer, I'm getting back, we'll continue – I think Tim has it?

Timotheus Höttges*Chief Financial Officer, Deutsche Telekom AG*

A

Look, I think it's a very complex answer due to the fact that in branded contract we have the old tariff plan like Flex Play and others, and we have the new value plans included in this upper number under branded contract. So, the good message is, I think that being more competitive on the price side, and having reduced that's say our tariffing for the contact service despite of this development, our branded contract ARPU hasn't declined. It has slightly increased from €57.26 to €57.36.

So therefore, yes there is some dilution from this new tariffs on the ARPU side, but we even have lost old tariffs which were there with the lower valuation in our average ARPU number and we are quite happy that it is an uptake than rather a further decline in our ARPU, but we could go further into all of the tariff plans that you better understand let's say the exact ARPU prospects for the future.

Nick Delfas*Analyst, Morgan Stanley & Co. International Plc*

Q

Thank you very much.

Stephan Eger*Head-Investor Relations, Deutsche Telekom AG*

A

There is time for two more questions. We'll start with Dominik Klarmann of HSBC followed by Fred Boulan at Nomura please.

Dominik Klarmann*Analyst, HSBC Trinkaus & Burkhardt KGaA (Broker)*

Q

Thank you. A follow-up question around funding NGA investments, our asset disposals in Europe on your agenda at this stage at all, can you exclude that? And then separately maybe just your big picture for you on América Móvil's interest in KPKPNI and Telekom Austria, and do you expect more such outside interest in Europe or even bigger consolidation within Europe say in the next two, three years.

Timotheus Höttges*Chief Financial Officer, Deutsche Telekom AG*

A

Look as we said earlier, we are talking about different initiatives within the group with regard to improving our competitiveness in Germany on the fixed line side. We're even discussing how to improve our competitiveness in the U.S. And the moment where we would have let's say additional investments plans and additional investments coming or needed that very moment we would answer the question on how we get this initiatives financed within the group. There are no decisions at that part in time with regard to assets disposals, they are anyhow not needed at that point. And therefore let's balance out, let's try to discuss that when the decisions are due. As René have said we are intensively working on these initiatives, and therefore in short notice I think we will have a very intensive discussions on some of initiatives coming.

René Obermann*Chief Executive Officer, Deutsche Telekom AG*

A

You asked for the big picture with regards to the foreign investments from Carlos Slim in KPN and Austria and so forth. Look, it remains to be seen what how the influence from the new shareholding structure turns out to be. I do think he would do that with a long term view and potentially seize the investment opportunity here in Europe, given the low valuations of European telcos, and also a potential change in regulation. And again I would concur with that. I think the regulatory framework, what I hear from Brussels – by the way thank you for supporting comments you made and many of you made in the more recent times; that was helpful because I think the commission has understood that there is urgent need for action and I do consider that equally full of opportunities now if that is translated in to national regulatory practice, so I think he would see it the same way and therefore make these investments in order to see value creation over the next couple of years.

More consolidation may happen, but I do think first of all should happen on the national side, and -but I can't make any prognosis there I mean, I'm watching this Austrian situation with great interest, I think we're more friendly towards the most recent consolidatory move, and I want to see what the regulators now do, but yes over time there will be more consolidation first on the national level and then potentially even on the European level.

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

Thanks René and last one is Fred, Fred go ahead.

Frederic E. Boulan

Analyst, Nomura International Plc

Q

Hi, good afternoon. Just a quick question on your domestic broadband performance; you've been posting a level of net adds, which is a little bit lower than your usual trends of the last few years. Is this something which is an issue or you think in a major market it is not such a good metric to look at anymore? And secondly if you can talk a bit about the appetite for high speed in Germany. We see the takeup of the VDSL is still reasonably small going up, but it still is at a very low level, so is there an issue of pricing there and how do you take that into consideration when you think about what is the right network strategy for Germany? Thanks.

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

Yeah. Hello [ph] to be – (1:02:23) the lower net add share you asked for, I'm still relaxed because we're keeping our 45% market share on broadband. That is a very strong position, and I intend to get our teams ready for defending this mark, give or take smaller variations, but around 45% is a really strong position. And there is more uptake on triple play now. We also have more success in VDSL. So, no, I don't think the German situation in broadband is bad, I think, we – however we need to approach the next generation access in a very smart way and need to expand our performance on the network side in order to remain competitive and fight cable, otherwise over time we might lose more share. But since we're aware of it and since the regulatory framework promises better amortization on those investments, you hear me currently fairly optimistic that over the next couple of years the trend maybe our friend again, rather than in the past. Take up of VDSL I think I answered the second part of your question?

Frederic E. Boulan

Analyst, Nomura International Plc

Q

Customer appetite for high-speed broadband?

René Obermann

Chief Executive Officer, Deutsche Telekom AG

A

Yes, but not in such a – it's not scary yet, so far we can perform – we can satisfy most of the customer appetite with VDSL, but again in the future we may have to do the vectoring in order to improve VDSL performance. We have to rollout further and aggressive the LTE side. I think it's manageable, but there is a growing trend of course over time for broadband, for bandwidths, that's clear.

Stephan Eger

Head-Investor Relations, Deutsche Telekom AG

Thanks, René and thanks, Tim. Due to the tight schedule, I think we have to end it. Should you still have further questions, get back to the Investor Relations department. We have also written down all the people who are still in the waiting list. So, we will call you proactively in the next hour. And with that have a good afternoon and speak to you soon. Bye, bye.

Operator: We'd like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing Germany 49-1-805-2043-089 wire reference number 435045. I repeat Germany 49-1-805-2043-089 wire reference number 435045. We are looking forward to hear from you again. Thank you and goodbye.

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