

Press Conference

Deutsche Telekom AG, Half year report of 2011

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René Obermann

Chairman of the Board of Management

Deutsche Telekom AG

Good morning, Ladies and Gentlemen,

Thank you for coming. Today we are presenting the figures for the second quarter of 2011. As always, I will describe the developments of the Group as a whole and then hand over to Mr. Höttges who will present our financials in more detail.

We have continued to implement our strategy over the past three months. All in all, we are satisfied with the results of the second quarter, but not in every respect.

In Germany we have substantially improved earnings and increased the EBITDA margin to over 40 percent. This was driven by factors such as the strong growth in mobile Internet business, which increased by 30 percent. Looking outside of Germany, we also improved our margins in a difficult environment, for example in Poland, the Netherlands and Austria.

T-Systems continued to grow in the second quarter, yet at a slower pace than in the first three months of the year. Our focus in the second quarter was less

on securing major new deals and more on working to ensure quality in existing agreements.

You will be aware that following the agreement to sell T-Mobile USA, our reporting is now split into two: On the one hand are our continuing operations, i.e. Germany, Europe and T-Systems, and, on the other, T-Mobile USA business.

In the second quarter, the US market remained exceptionally competitive and challenging. This is particularly evident in the development of customer numbers and service revenues. In contrast, data revenues continued to develop positively with growth continuing in the second quarter.

In the first half of the year our continuing operations were characterized by fierce competition and a difficult economic situation in several countries in Southern and Eastern Europe. This was further compounded by decisions made by regulatory authorities: the decision to cut mobile termination rates alone has cost us around EUR 60 million in revenue from German mobile communications business.

Despite this, revenue development improved somewhat. Compared with the first three months, when revenue fell by 3.7 percent, in the second quarter revenue dropped by 3.3 percent to EUR 11 billion. Adjusted EBITDA in both quarters developed slightly more favorably than revenue. Following a decrease of 2.7 percent in the first three months, adjusted EBITDA fell 2.6 percent year-on-year in the second quarter to EUR 3.8 billion. This result was partly attributable to our ongoing cost-reduction efforts.

Ladies and Gentlemen,

All in all, adjusted net profit including T-Mobile USA grew 16.8 percent to EUR 1 billion. Unadjusted net profit totalled EUR 0.5 billion, down 26.7 percent year-on-year chiefly as a result of the higher costs associa-

ted with staff restructuring in Germany. The increase in free cash flow of 18.7 percent to EUR 1.8 billion is very encouraging. Following the second quarter, we can now confirm the guidance for adjusted EBITDA and free cash flow.

This provides a good basis for us to work on improving our efficiency over the coming quarters and accelerate the establishment of the new business areas. I am therefore delighted that the Board of Management team will be complete once again from October following the resolutions by the Supervisory Board. We are being joined by two competent individuals in the form of Claudia Nemat, who has been appointed head of the Europe segment, and Marion Schick, who will succeed Chief HR Officer Thomas Sattelberger from May 2012. These new members of the team will play an active role in the restructuring of Deutsche Telekom.

I would now like to take a closer look at key developments in the individual segments:

Let's turn first to business in Germany, which continued to stabilize. The EBITDA margin climbed by 1.4 percentage points to 40.7 percent. In addition, we successfully kept adjusted EBITDA constant at EUR 2.4 billion.

At the same time, we continued to build out our broadband customer base: Net additions came to around 85,000 despite a slowdown in growth in the market. We practically retained our share of the market as a whole. The trend in conventional fixed-network business was also encouraging: With line losses of 300,000, we lost fewer in the second quarter of this year than in any other. This means that customer retention is improving all the time.

Our add-on products are doing well: The number of VDSL customers has increased to over 450,000. Entertain is also performing satisfactorily overall:

The active customer base has now grown to 1.3 million. We expect to be able to continue this trend in the second half of the year with our new "Entertain via Satellite" product.

In the mobile communications business, in the second quarter we maintained our focus on the contract customer segment and on mobile Internet, where we recorded growth of 30 percent to EUR 410 million. We are well-positioned in this segment with our device portfolio. Two thirds of the mobile devices we sell in Germany are now smartphones – 31 percentage points more than a year ago.

Adjusted for the reduction in mobile termination rates, service revenues in mobile communications rose slightly by 0.1 percent. We are once again the market leader in this segment – and we plan to keep it that way, too.

That brings me to our business in Europe: As I have already said, the economy in Southern and Eastern Europe in the first half of the year was difficult overall, even if it did display some signs of recovery.

On a like-for-like basis, our operations there saw favorable development. In the first quarter, revenues continued to decline year-on-year by 7.7 percent, and adjusted EBITDA fell by 13.1 percent. In the second quarter, revenue declined by 5.5 percent and adjusted EBITDA by 9.1 percent.

We hope that the economy will recover in the second half of the year. In virtually all countries, experts expect a return to positive growth rates for the gross domestic product or the continuation of the current upward trend for 2011.

This is with the exception of Greece, which remains in a difficult situation. As you are aware, the country is dogged by a severe recession and we need to wait and see what kind of impact the draconian austerity measures adopted by

the government will have. On top of this, our business efforts there are at a significant disadvantage as a result of the regulators.

As for the Europe segment overall, we are making excellent progress in our growth areas. The number of TV customers increased by 25 percent year-on-year to 2.6 million. The number of broadband customers in the fixed network increased by more than 400,000, putting our total customer base in this segment at 4.75 million. And in mobile communications we gained some 250,000 net additions in the contract customer segment.

We are continuing to work on improving efficiency. Take Poland, for example: With the move from era to T-Mobile, we have now standardized our brand identity in another country. What is more, we are working together with France Télécom on the operation and expansion of the 2G and 3G mobile communications network.

So, in Europe we continue to have our concerns about Greece and Romania. All our competitors are affected by the economic instability in these countries. With a revenue market share of more than 50 percent in the Greek mobile communications market, we are the strongest provider. And in Romania in the second quarter, we managed to return to profitability in terms of our mobile service revenues.

This brings us to T-Systems: Here, revenue growth held up, increasing 1.5 percent to EUR 2.3 billion. External revenue also rose, climbing by 1.7 percent to EUR 1.6 billion. In addition, T-Systems continues to cut its costs systematically. As a result, both the adjusted EBITDA margin and the EBIT margin improved compared with the first quarter. T-Systems is well-positioned in the key growth area of cloud computing. International analysts IDC recently reconfirmed that T-Systems is one of Europe's leading providers in this segment.

That brings me to our US business, which continues to present us with great challenges. Developments in the data segment have continued apace. Monthly revenue per user has gone up USD 2 compared with the prior year and now stands at USD 13.60. However, we are still unhappy with how the customer base and our service revenues are developing. In the consolidated figures and hence expressed in euros, the current dollar weakness also has a substantial impact: While service revenues in the second quarter decreased by 1.3 percent expressed in dollars, the decline expressed in euros comes to 12.9 percent.

Ladies and Gentlemen,

I would now like to turn to our growth areas. In the second quarter, developments in mobile Internet business were very encouraging with an increase of 13 percent to EUR 1.2 billion. You have to remember that the weakness of the dollar over the past few months has overshadowed part of the good operational performance. The German market is a clear indicator of this strong growth, with revenues climbing by 30 percent to EUR 410 million in the second quarter.

In the Connected Home business area, revenues remained stable overall compared with the prior year. Growth in Germany contrasted with losses in Eastern Europe.

Part of our strategy is to ensure fast broadband coverage for households. To this end, we have been pushing ahead with our fiber-optic expansion throughout Germany in the second quarter. We have just finished building out fiber to the home in our pilot cities of Hennigsdorf and Braunschweig. Another ten cities are to follow before the end of the year; we intend to provide high-speed connections to a total of around 160,000 households in 2011. The expansion will continue to pick up speed in 2012 – we are currently talking about adding two dozen or so more cities.

Internet service revenues rose slightly by 0.5 percent. Some business activities, including the Scout Group, performed well. More traditional areas such as DeTeMedien posted decreases.

We also reported growth in business with intelligent networks, where we reported revenue for the first time of EUR 30 million. Just to give you an example: In the state of Brandenburg, we signed a five-year agreement with a major health insurance provider, two clinics, and several local general practitioners for a solution that provides mobile monitoring for patients with heart problems. This wireless technology is a useful additional service for people who may otherwise have to undertake long journeys to see a specialist. This service is our contribution to improving medical care, especially for patients in rural regions. In addition, from August 8 we will be increasing our range of online health check products in 350 Telekom Shops.

And that brings me to the outlook for the financial year as a whole, Ladies and Gentlemen. Here, too, as I explained, we report separately on continuing business operations and on T-Mobile USA.

As for our continuing operations, we still expect adjusted EBITDA of some EUR 14.9 billion. Of this we already achieved EUR 7.4 billion in the first half of the year.

For the USA we still expect to see adjusted EBITDA of some USD 5.5 billion, which would translate into EUR 4.2 billion based on an average exchange rate assumed in planning and in forecasts of USD 1.33 to the euro.

We expect free cash flow for the Group to remain stable or increase slightly compared with the 2010 figure of EUR 6.5 billion. In the first half of the year we already achieved EUR 2.8 billion, which is on a par with the prior-year figure.

I would just like to repeat that our forecasts are based on constant exchange rates, and exclude a figure of EUR 0.4 billion for the PTC settlement.

Ladies and Gentlemen,

The markets in which we operate remain fiercely competitive, and some are heavily regulated. At the same time, growth opportunities arise that we intend to leverage. The figures show the extent of the challenge we are facing and, above all, just how high the pressure on pricing and costs – and thus efficiency gains in core business – remains.

And with this, I would like to hand you over to Mr. Höttges. Many thanks.