Press conference
Annual report of 2012
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Good morning, Ladies and Gentlemen,

Welcome to our press conference on Deutsche Telekom's financial statements. We seem to be crossing paths quite often at the moment, what with the Mobile World Congress in Barcelona just over and CeBIT starting only a few days from now.

Whereas those meetings focus on product issues, we want to turn our attention today to the company as a whole.

2012 was another tough year for our industry. Not only due to the continuing harsh economic situation, but also because of the particular challenges caused by the still difficult regulatory environment and other forms of state intervention. Despite this, we met our targets for the last financial year. Our operating

business is stable and we have formulated a clear strategy for the coming years.
This is reflected in our key performance indicators:

- At around EUR 18 billion, adjusted EBITDA was in line with our guidance.
- In the case of free cash flow at EUR 6.2 billion, we actually exceeded our target.
- Net revenue of the Group came in at EUR 58.2 billion, which was less than 1 percent below the prior-year figure – and therefore virtually stable.
- We again reduced our net debt, this time by more than EUR 3 billion to EUR 36.9 billion.
- All this makes it possible for us to plan a stable dividend payment of 70 euro cents per share.

The bottom line shows a net loss of EUR 5.3 billion. We explained the main reason for this loss in the third quarter: Following the impairment test conducted as a result of our agreement with MetroPCS, we had to record an impairment loss with a net negative impact of EUR 7.4 billion. Without these special factors, we generated an adjusted net profit of EUR 2.5 billion.

I do not intend to repeat here what I said about this on November 8. We knew what the agreement would mean for our figures, but we deliberately chose to accept this effect because we are convinced of the advantages of the MetroPCS takeover. Thanks to the high synergies involved, it will mean added value for Deutsche Telekom and MetroPCS and is the best solution for both companies.

While the telecommunications sector in Europe as a whole faces major pressure, we have retained – and will retain – our capacity to act. This was a point we made clear at our Capital Markets Day in early December. In the future, we plan to invest more, not less, in the future of our enterprise and hence in the future of this country.

In concrete terms, this means that we intend to massively step up our investments again – to almost EUR 30 billion in the years 2013 through 2015.

Incidentally, in January, we took the opportunity of taking financing from the bond market for an extremely low 3.3 percent over 15 years – a clear indication of the high stability attributed to Deutsche Telekom by the debt capital market.

This loss of billions is therefore not what it appears to be: We are not lacking in funds to take the Group forward.

And now, let us take a look at our operating business. To start with, I would like to explain how we base our actions on a long-term orientation and in line with our strategy – and do so specifically in critical areas – rather than reverting to short-term actionism.

An example from our business in Germany:

In the fourth quarter, we gained 226,000 mobile contract customers with our own brands. Including service providers' net adds, this figure even totals 437,000! Our Group brands have not seen such strong growth for several quarters (since Q1/2010).

Over the full year 2012, we recorded 569,000 branded contract additions – that is substantially more than double the figure from last year and consolidates our position as the clear market leader in the contract customer segment.

In addition, we deployed considerable financial resources in the fourth quarter with a focus on promoting further growth in smartphone sales and driving ahead business with new contract customers. With this in mind, we increased market investments by 27 percent year-on-year in the fourth quarter.

The result was a record of almost 1.5 million devices sold in the fourth quarter – 56 percent up on the previous year.

By contrast, revenue in Germany decreased by 1.4 percent in the fourth quarter, adjusted EBITDA by 9.6 percent. But this is certainly not a sign of weak operations.

One of the key reasons for the decline, in particular in EBITDA, is our active, forward-looking management of mobile business.

Saving money in market investments in the short term would mean losing several times that amount in revenue and earnings over the long term. Expansion of our customer base, above all with smartphone contract customers, will ensure that we can continue the fast growth in mobile Internet in the coming year.

In this market, mobile data revenue in Germany rose by 19.6 percent in 2012 to just under EUR 2 billion. Our performance in the mobile Internet area is a key element that will enable us to regain our position as service revenue market leader.

Another key component is of course our network. To differentiate ourselves here from the competition, we are massively expanding our LTE network. We increased spending in German mobile communications by 16 percent in 2012. This is especially important, because we are currently the only company whose

LTE network supports full speed for the iPhone 5. We have quadrupled the number of LTE base stations by year-end compared with 2011.

All of our measures are designed to lay the foundation for growth and for being number one in the German mobile market.

That brings me to the fixed-network business in Germany.

Last year in the fixed network, we acquired 413,000 new Entertain customers, bringing the number of Entertain customers to just under 2 million.

The number of broadband customers increased by 162,000. Growth in optical fiber products was significantly higher at 297,000, due to the fact that many of our existing customers opted to change over to the premium product VDSL.

This shows that customers want high bandwidths and continue to have high demand for the matching attractive add-on offers.

Our wholesale model, which has become known as the 'contingent model', already started to post initial successes on the market in the fourth quarter. Under the terms of this model, we offer competitors VDSL lines for resale. The purchase volumes and the rental charges are, for the most part, agreed freely between us and our competitors in compliance with the relevant provisions of the Telecommunications Act. This model, for which we have already signed agreements with Telefónica Deutschland, 1&1, and NetCologne, is steadily gaining popularity with our partners and reinforces competition in Germany's broadband market. It helps us make better use of our VDSL network capacities. And these agreements provide the basis for secure planning and costing, which are vital to our investments in optical fiber and VDSL.

This shows two things: Firstly, that VDSL is a strong, competitive product. And secondly, that agreements on access to our network can be achieved without regulatory intervention.

We intend to continue along this path – with our partners, with state-of-the-art technologies like LTE, VDSL, fiber, and vectoring, within the framework of our integrated network strategy and vastly increased investments. This benefits not only our customers, but also Germany as a business hub.
But for this to happen, we need the investment-friendly regulation as announced by the EU to be translated into national law quickly – including the preconditions necessary for implementing vectoring.

This equation works: Commercial predictability = economic benefit for Germany as a place to do business.

I will now summarize with an overview of the current developments in Germany: Revenue for the whole year fell by 2 percent. This is a considerable improvement on the 4.1 percent decline in the previous year.

One of the key factors here was the trend in line losses. We lost some 1 million lines in 2012, around 19 percent fewer than in the previous year. To remind you: In 2008, the equivalent figure was 2.5 million!

We succeeded in maintaining the adjusted EBITDA margin at over 40 percent, with a slight drop of 0.8 percentage points for the entire year. I have already mentioned one of the main reasons for this, namely our higher investments in the mobile communications market.

That brings me to our Europe segment.

We have won new customers in many areas, an achievement that cannot be taken for granted in the context of extremely intense competition and the harsh economic situation facing many countries. In mobile communications, we registered 970,000 new contract customers. A similar trend applies to our TV services and broadband business with 298,000 and 201,000 new customers respectively.

This positive operational development meant that we were again able to contain the decline in revenue compared with the prior year: Revenue in the 2012 financial year decreased by 4.7 percent to EUR 14.4 billion. Adjusted for currency factors, this translates as a total decline of 4 percent, which is a great deal better than the previous year's 5.5 percent drop.

A good half of the decline in revenue after adjustments for currency effects can be attributed to regulatory decisions. In some countries, we had to shoulder reductions in mobile termination rates of over 50 percent between year-end 2011 and year-end 2012.
Despite this, we succeeded in keeping earnings virtually stable. Our adjusted EBITDA margin lay at 34.2 percent, only slightly below the prior-year figure of 34.6 percent.

Another important sign that our business continues to stabilize is the EUR 700 million bond issued by OTE at the end of January. With this step, the company was the first issuer in Greece to conclude a deal on the capital market for over two years. The bond generated considerable interest among investors and demonstrates increasing market confidence in OTE's stability.

And with that, I now come to our U.S. business.

Here, there were highlights as well as lowlights last year. We are launching a whole series of measures in our efforts to ensure that 2013 and, in particular, 2014 bring distinctly more highlights than lowlights: first and foremost, the agreed merger with MetroPCS and the future marketing of Apple products. John Legere's team has a clear strategy for how we can significantly improve developments.

In detail this means:
T-Mobile USA revenue increased by 3.8 percent to EUR 15.4 billion in the 2012 financial year. This rise is attributable to the impact of exchange rates, however. On a dollar basis, we report a decline in revenue of 4.1 percent to just under USD 20 billion.

In the case of adjusted EBITDA, too, the slight increase of 0.2 percent is due to strong currency effects. In dollars, EBITDA fell by 7.5 percent to USD 4.9 billion.

Overall, 2012 was the first year since 2009 in which we recorded a net increase in customers, namely a total of 203,000. I would not go as far as to say that this is a satisfactory figure, but it is better than 2011, when we lost a total of over half a million customers.

The number of contract customers in our U.S. business fell by 5.7 percent to 23.4 million in 2012. By contrast, there was a positive trend in prepay business – with growth of over 19 percent to some 10 million customers.

Monthly revenue from prepay customers under our own brand improved year-on-year by 11.2 percent in the fourth quarter. It now lies at around 50 percent of that of a T-Mobile contract customer – a clear reflection that the market situation in the United States differs from that in Germany.

One crucial achievement is that we reduced the churn rate among T-Mobile contract customers considerably in the fourth quarter compared with the same period last year, namely by half a percentage point. Here, the initial successes of our customer retention measures are apparent – despite the fact that our major competitors in the U.S. started selling the iPhone 5 at the end of the third quarter.

We also expect our agreement with Apple to result in further improvements in our contract customer churn rate.

At the same time, we continue to drive the network build-out. By mid-year, we plan to have achieved LTE network coverage for 100 million people, by year-end for over 200 million. In addition, we also offer increasing coverage with HSPA+. A comparison between fourth-quarter investments shows the progress we are making: Cash capex rose by almost two thirds to USD 0.9 billion.

The process to combine T-Mobile USA and MetroPCS is on schedule. We have agreed a transaction with the management at Metro that is beneficial for both companies and their respective shareholders and customers.

The new combined company will present its competitors on the U.S. market with a challenge thanks to having broader spectrum, better network coverage, and more funds. Let me remind you once again: On the cost side alone, we expect to generate synergies with a cash value of USD 6 to 7 billion. MetroPCS has convened a shareholders' meeting for March 28 to approve the transaction.

This brings me to our Systems Solutions business, which developed very well in 2012.

T-Systems' revenue rose by 0.6 percent to around EUR 10 billion in the reporting year. External revenue also grew by 0.6 percent to EUR 6.6 billion.

Another positive achievement was the trend in adjusted EBITDA, which rose by 11.2 percent to EUR 747 million for the entire year. In 2012, our adjusted EBIT margin lay at 1.1 percent – compared with 0.2 percent the year before.

Order entry increased by around 18 percent in 2012 to EUR 8.7 billion. This was due to the conclusion of major new deals, including with Shell, the Catalan government, the state of Lower Saxony, Clariant, BP, British American Tobacco, and the Swiss industrial group Georg Fischer.

Several of these corporate deals were secured using solutions from the growth area of cloud computing, which enabled T-Systems to fend off intense competition.

For our customers, this means they get bandwidth, software, computing and storage capacities on demand, pay for what they use, and benefit from reduced costs as a result of a well-utilized infrastructure and, most importantly, a high level of security.

Over the past year, T-Systems has recorded significant successes with intelligent networks such as the major contract from Presbyterian, an operator of hospitals in the United States. In addition to IT services from the cloud, the contract covers the joint development of e-health applications in the future. In another encouraging development, utilities company RWE has selected us as its partner for the largest smart metering project to date in Germany. Here, the

fact that we opted for smart grid solutions in the energy sector from an early stage has paid off and positioned us as a frontrunner in this sector today.
And in the growth area of the connected car, Daimler has called upon Deutsche Telekom to provide in-car online services. These will make it possible to access applications via the Internet while in the car, including real-time traffic updates, mobility services, and access to social networks.

Ladies and Gentlemen,

We closed the 2012 financial year with solid figures overall.

We have largely exceeded our strategic targets for the years 2010 through 2012. Overall, we have delivered what we promised. The capital market has also clearly acknowledged our efforts as seen in the development of the Telekom share. Since the start of 2012, it has far outperformed most competitors on the basis of total return, which is share price plus dividends.
We intend to keep up this momentum by continuing to take forward the TelcoPlus strategy that we presented in December last year.

On a pro-forma basis, we plan to achieve adjusted EBITDA of EUR 18.4 billion for the current year. This includes MetroPCS for the full year. The precise contribution MetroPCS will make to the Group's results is dependent on the date of first-time consolidation. We expect free cash flow of around EUR 5 billion, which reflects the increased level of capital expenditure for 2013 through 2015.

This outlook bears out the reliability we have been able to offer in past years. Reliability for our investors with solid financial planning and the prospect of an attractive return on capital with our dividend forecast of 50 euro cents per share.

A clear strategy with increased investments in the expansion of our broadband networks, fixed as well as mobile. In this way, we intend to lay the foundation for a continuing stable development at Deutsche Telekom, which will bring the Group back to growth overall from 2014.

We all know that investments in the further roll-out of our broadband networks consume vast amounts of capital. In recent months in particular, we have again seen that the results of the financial and economic crisis, high price pressure, competition from free IP-based services, regulation-induced price cuts, and high expenditure for frequency auctions diminish investment capacity in our industry.

But we plan to invest despite this trend. What we need is a realistic, forward-looking regulatory framework to be in place. We need to be able to cooperate with other companies, guided by commercial considerations. Commissioner Kroes has specified precisely this course. Individual countries must follow this up with swift and systematic implementation in national regulatory practice.

And with that, I would like to hand you over to Tim Höttges.