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Start statement René Obermann

– The spoken word shall prevail –

Conference Call
Third quarter report of 2011
November 10, 2011

René Obermann
Chairman of the Board of Management
Deutsche Telekom AG

Good morning, Ladies and Gentlemen,

A warm welcome to our conference call. As usual, I will first provide you with an overview of how the Deutsche Telekom Group has performed over the past three months. Afterwards, Tim Höttges will explain the financial figures in more detail.

Overall, the development of our business was sound in the third quarter – and we achieved that against the backdrop of a tough economic environment in several markets. You will all be following the news and know about the economic situation in Greece and other European countries.

How did the Group develop in the third quarter? In our German mobile communications business, we recorded 466,000 new contract customers –

more than in the past ten quarters put together. Our mobile Internet business continues to develop at speed, generating a revenue increase of 26 percent year-on-year. In the fixed network, we attracted 50,000 customers for our new Entertain Sat product in the first month alone. The number of VDSL customers increased by 242,000 year-on-year to more than half a million. More than 50 percent of our fixed-network customers now have broadband Internet access. And our line losses have fallen by 40 percent year-on-year.

In Europe, we increased the number of our TV customers by 19 percent and recorded growth of 35 percent with IPTV. In mobile communications, we recorded 227,000 net contract adds. At the same time, the proportion of smartphones increased to 50 percent of all handsets sold, a jump of 20 percentage points year-on-year – and in most countries that was achieved in the difficult environment we are all aware of. And T-Systems increased its net revenue by a further 2.3 percent, together with an increase in its order entry of 18.5 percent.

Based on the figures we have achieved so far, we expect to meet our Group targets for the full year both for adjusted EBITDA and for free cash flow. After nine months, we are three quarters of the way to achieving our target for adjusted EBITDA. I can therefore confirm our forecast for 2011.

Net revenue excluding T-Mobile USA – in other words, from continuing operations – decreased by 4.1 percent to a total of EUR 11 billion. At the same time, adjusted EBITDA fell by just 2.7 percent to EUR 3.9 billion. This means that the profit margin within the Group improved by half a percentage point, largely driven by business in Germany.

That means our Save for Service program is working. We have further improved earnings by implementing cost-cutting measures. Specifically, we reduced our cost base by EUR 1.5 billion gross with this program in the first nine months of 2011.

Adjusted net profit rose by almost 50 percent to EUR 1.3 billion. Reported net profit increased by 14.6 percent to EUR 1.1 billion.

In the third quarter of 2011, free cash flow totaled EUR 1.7 billion. Our target is some EUR 6.5 billion for the year as a whole, of which we have already generated EUR 4.5 billion after nine months. We are thus right on track bearing in mind that we expect the year's highest free cash flow contribution in the fourth quarter.

That brings me to developments in the individual business areas. I would just like to remind you that at Group level our reporting is now split into two, following the agreement on the sale of T-Mobile USA. On the one hand, we report continuing operations – in other words Germany, Europe, and T-Systems – and, on the other hand, results including our U.S. business. I will focus on the key developments in continuing operations from here on. Tim Höttges will then again look at the individual segments in more detail – including the USA.

But before I go on, I would just like to say something about the agreed sale of our U.S. subsidiary: In recent weeks, the U.S. District Court for the District of Columbia issued the first constitutional rulings concerning the forthcoming court hearing. I do not intend to comment upon the rulings because the lawsuit is still ongoing. But we remain convinced that we will be able to keep to our timetable for the transaction and that we, together with our partner AT&T, will ultimately receive approval for the transaction – after all, the sale is positive for the U.S. mobile communications market and consumers.

The team under Philipp Humm at T-Mobile USA is working through a very ambitious program in a fiercely competitive environment and has managed through a combination of strict cost discipline and various calling plan measures to increase the EBITDA margin by three percentage points year-on-year. New customer acquisition has improved even if the churn rate among contract customers is still unsatisfactory.

I am now turning to the Germany segment where business continues to be impacted by persistently high competitive pressure, relentlessly fierce regulation, and increasing market saturation, for instance in the field of broadband lines.

Thanks to successful cost control, we have nonetheless managed to increase our EBITDA margin by 1.6 percentage points to 41.5 percent. Adjusted EBITDA decreased year-on-year by just 1.3 percent to the current EUR 2.5 billion. We thus managed to almost fully offset the revenue decrease. Revenue in Germany declined by 5 percent to EUR 6 billion in the third quarter.

This decrease is, however, not entirely due to the development of operating business. In mobile communications, for instance, the reduction in termination rates had a negative impact of some EUR 60 million on revenue – an effect already felt in the previous quarter, added to which are effects from changes to the product portfolio, decreases in wholesale business, and a sales boost from the newly launched iPhone 4 in the prior-year quarter. Just to remind you, in the first half of 2011, the decrease in revenue was 3.3 percent.

At first glance, this revenue decline therefore tends to overshadow some of the success we have achieved in the past few months – that holds true primarily for our key future markets: Mobile Internet growth, for instance, remained very dynamic, with revenues increasing by 26 percent year-on-year to EUR 410 million. I cannot stress enough that this segment is only now starting to develop and we expect to post additional strong growth with the mobile Internet.

Our sales successes have fed into achieving our target of remaining market leader in Germany with mobile service revenues. We intend to keep this position in the future, too. We are certainly helped by the fact that the trade magazine connect only a few days ago singled out our mobile communications network as best in class in Germany. Following accolades from Stiftung Warentest, the German consumer testing organization, and the magazine Chip, that is our third major test win this year.

As I already mentioned, line losses in the fixed-network area have continued to improve substantially. At 323,000 in the third quarter, losses were some 40 percent below the comparable figure for 2010. This confirms a trend after we posted 295,000 losses, the lowest figure ever in any three-month period, in the second quarter of 2011. This achievement is also due to market successes with VDSL and Entertain. In order to make further improvements in this field, we have launched Entertain Sat – another product that is proving very popular with customers: After we sold 50,000 packages in the first month alone since marketing started on September 1, sales continued apace in the following weeks.

That brings me to our business in Europe: Here we continue to face downward factors, which we have already seen in past quarters: reduced mobile termination rates, special taxes, and cutthroat competition. The difficult overall economic situation in various countries also hampered our business substantially. However, we managed to combat the decrease in revenue of 6 percent to EUR 3.9 billion by cutting costs so that adjusted EBITDA decreased by only 5.3 percent to EUR 1.4 billion.

It is worthwhile taking a closer look at developments over the individual quarters: In the first and second quarters, the decrease in adjusted EBITDA of 13.2 percent and 8 percent respectively was much more pronounced. Stringent cost management has also allowed us for the first time in more than a year to increase the profit margin by 0.3 percentage points, taking the figure to 35.8 percent.

Tim Höttges will talk about the developments on individual markets in more detail in a moment. But just let me briefly look at Greece, as I said before: As far as our business is concerned, we acquired 42,000 new mobile contract customers along with another 98,000 customers in the prepay segment in what was admittedly a difficult environment in the third quarter. Revenue and earnings trends have improved substantially for Greece overall in the third quarter compared with the first half of the year: In the first three months of 2011, revenue decreased by 13.4 percent and in the second quarter by 8.1 percent. Between July and September, revenue only fell by 5 percent, to EUR 930 million. Adjusted EBITDA decreased by 7.3 percent to EUR 349 million. In the two previous quarters, the decreases were still 12.2 and 13 percent respectively.

OTE and the mobile communications subsidiary Cosmote are performing much better than the competition. But we are cautious enough not to rush into assuming the trend has been reversed. Just a few words about OTE funding: The debt write-down for Greece agreed between the European governments does not directly affect OTE as it only involves public loans, not corporate loans. OTE can rely on having a sound financial footing way into 2013.

Furthermore, the company has already reached an agreement with the unions about reducing working hours by 12.5 percent to 35 hours a week and cutting salaries by 11 percent by January 2015. Thus, OTE has found a reasonable solution, which takes account of the interests of the company and its employees in equal measure. We are well aware of the concerns of the Greek people in these difficult times. All of this is testimony to the huge efforts being made by the OTE management under the leadership of Michael Tsamaz to steer the company and its employees safely through the crisis. I would like to expressly thank our Greek colleagues for that.

Before I draw things to a close, I would just like to look briefly at T-Systems: Following a weak second quarter, T-Systems again made some improvements between July and September, with revenue increasing overall by 2.3 percent to EUR 2.3 billion. External revenue of EUR 1.6 billion came in 2 percent above the 2010 level.

EBITDA decreased year-on-year by 7.8 percent. The year-on-year decrease in the second quarter was still almost 15 percent. All of which indicates that our cost-cutting measures are paying off. But it also shows that T-Systems has more work to do in terms of its profitability, especially regarding start-up expenses for new contracts and the development of new business areas – but also expenses for migrating customer infrastructures to T-Systems' operational business. A particularly positive aspect is the strong order entry situation with growth of 18.5 percent – well above the prior-year figure.

Ladies and Gentlemen,
Let me just bring everything together: After nine months we are confirming our forecast for the full year 2011. Thus far we have achieved 76 percent of our EBITDA forecast for operations excluding the USA. Here our forecast for adjusted EBITDA is EUR 14.9 billion.

Including T-Mobile USA, we have thus far achieved 74 percent of the forecast. We have converted the results for T-Mobile USA using an exchange rate of USD 1.33 to the euro, the average rate in 2010, which we used as the basis for our forecast. For our U.S. operations we expect to post stable adjusted

EBITDA of some USD 5.5 billion or some EUR 4.2 billion on the basis of the aforementioned exchange rate. Free cash flow is expected to remain on a par with the 2010 figure – possibly even slightly above.

The planning process for 2012 is still underway. We will provide you with the forecast including full-year figures in February as usual. We have to assume that economic development is unlikely to boost our business: The German government recently downgraded its forecast for economic growth next year from the previous 1.8 percent to 1 percent. The OECD expected eurozone economic growth of just 0.3 percent instead of the 2.0 percent in its last forecast issued in May 2011.

And in October, the European Bank for Reconstruction and Development substantially downgraded its forecasts for the countries in eastern and southern Europe that are not part of the eurozone.

We will do our utmost to keep Deutsche Telekom on track even in this difficult environment. And to do that we will push forward with cost-cutting. Moreover, we will continue to take our growth areas forward.

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