Press Conference
Deutsche Telekom AG, Half year report of 2011
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Thank you, René Obermann!

I am pleased with our German results overall, especially the strong profitability and the adjusted EBITDA margin of 40.7 percent.

Fixed-network revenues declined by 4.5 percent. Fixed-network revenue, adjusted for the discontinued mobile prepaid card business, declined by 3.8 percent, an improvement on the 4.3 percent decline in the first quarter. This was due to the increase in wholesale revenue.

Apart from the reduction of EUR 60 million in mobile termination rates, there were three main effects that impacted mobile voice revenues:

Firstly, a lower retail customer base due to a customer shift to service providers and a lower prepaid customer base. Secondly, a shift of the existing retail customer base to the new tariff portfolio launched in November 2010. And thirdly, a changed mix in new contracts, driven by a shift to promotion bundles and a lower contract volume for the Complete rates.

These effects taken together resulted in underlying mobile growth slowing from 2 percent in the first quarter to stable revenues in the second quarter.

Despite this, we remain the No. 1 in broadband and mobile service revenues in Germany. Already more than 50 percent of the domestic fixed customer base are broadband customers.

IPTV growth remained solid, growing by more than a third year-on-year, or 330,000 net new Entertain customers. We now have more than 450,000 retail fiber customers, doubling year-on-year!

Our churn rate for mobile contract customers even decreased further to 1.1 percent, a year-on-year improvement of 0.3 percentage points.

As can be seen on the chart, our service revenue market share in mobile declined slightly in the second quarter due to the aforementioned reasons.

Turning to Europe, there were clear and encouraging signs of stabilization in the second quarter. The growth in key market KPIs continued unabated. Let me just highlight the 25 percent growth in TV customers, even faster than in the first quarter. The share of smartphones in percent of dispatched devices also more than doubled.

With the exception of Croatia, revenue trends improved across the board in the integrated operations. As you can see from our second quarter figures, the environment in Greece remains very challenging for us! Results in Croatia were impacted by weak mobile revenues, which were impacted by regulation and a very tough competitive environment.

Adjusted EBITDA trends also improved compared to the first quarter for all integrated operations, with Magyar Telekom generating a stable adjusted EBITDA year-on-year when adjusted for the special tax in Hungary. Accordingly, margins remained solidly in the 40s, with the notable exception of Greece, which generated a margin of 34 percent, down from 36 percent the year before.

With respect to the performance versus competition: In Hungary, we outperformed our mobile competitors for all key performance indicators! In Greece, we continue to gain market share in mobile versus our competitors, showing massively better service revenue trends. In Slovakia, we performed eye-to-eye with our main competitor!

Trends in the mobile-centric markets were also encouraging, with the expected margin recovery in Poland, the Netherlands, and Austria. Revenue trends in the Netherlands, the Czech Republic, and Austria improved compared to the first quarter, while Poland remained stable.

In the Netherlands in particular, total revenues grew by 5 percent, adjusted for regulatory impacts, with SMS revenues up 8 percent, and very strong smartphone sales. EBITDA trends recovered strongly, compared to the first quarter, with the Czech Republic remaining at a high and stable level. In Austria, we clearly outperformed One/Orange on subscriber metrics, while in other markets the market-share development was inconsistent.
In Systems Solutions, trends were weaker compared with the first quarter. Revenue continued to increase, though at a slower rate than in the first quarter. Order entry remained strong at a level of more than EUR 2 billion. New deals in the second quarter included Valora, TOTAL, and Magna.

In terms of profitability, the adjusted EBITDA margin in the second quarter remained at a similar level to the first quarter, while the adjusted EBIT margin

improved sequentially to 2 percent, though still down from the year before. The higher opex related to big deal execution had an impact on the second quarter margins. Total Save for Service cost savings amounted to EUR 250 million in the first half of 2011, compared to EUR 93 million in the first quarter.

In the US, overall trends remained difficult in the second quarter but slightly improved compared to the first quarter. Service revenues declined slightly by 1.3 percent, despite the positive impact from the in-sourcing of handset insurance. This was primarily the result of the loss of high-ARPU contract customers in previous quarters and to a lesser degree rate plan optimization by customers. The margin recovered to 25.4 percent from 23.1 percent in the first quarter.

This was due in particular to lower retention costs, which had been particularly high in the first quarter due to several promotions including the Valentine's Day offer. Slightly better contract customer trends followed the introduction of the new unlimited rate plans in the second quarter.

However, higher machine-to-machine net adds were also a major contributor to the improvement. Data ARPU trends remained solid with an acceleration in the sequential growth rate of data ARPU. The number of 3G/4G smartphones increased to almost 10 million, up more than 50 percent from the second quarter of last year.

Turning to free cash flow, second-quarter cash flow was strong with EUR 1.8 billion. The improvement compared with last year was due to higher cash generated from operations, lower net interest payments, and lower cash capex. This balanced out the higher level of interest payments and capex from the first quarter as expected.

Free cash flow in the first half amounted to EUR 2.8 billion, in line with last year's level of EUR 2.9 billion. Compared with last year, cash generated from operations benefitted from a slightly improved working capital, lower income tax payments, and the dividend received from the Everything Everywhere joint venture, partially offsetting the weaker EBITDA trend.

We are therefore confirming our guidance of stable to slightly growing free cash flow over the 2010 level of EUR 6.5 billion. We expect the strongest quarterly contribution to free cash flow coming in the fourth quarter.

We made significant progress with regard to Save for Service, with savings of EUR 919 million realized in the first half of 2011, resulting in a total run rate of EUR 3.3 billion so far. Our target for the 2010 to 2012 target remains unchanged at EUR 4.2 billion. These cost savings were the biggest driver in reducing the Deutsche Telekom cost base by 7 percent or EUR 1.6 billion in the first half of 2011. Large net opex savings were achieved in the Germany, United States, and Europe segments.

In difficult times we have been focused on reducing our net debt and were able to reduce our net debt by EUR 3 billion year-on-year! The sequential increase in the second quarter due to the dividend payment was only temporary and we expect net debt to improve significantly in the second half of the year, driven by the strong free cash flow.

This concludes my remarks. René Obermann and I now look forward to taking your questions!