Conference Call
First quarter report of 2013
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Thank you, René Obermann!

We are pleased with our operational and financial performance in Germany in the first quarter.

Revenue declined by just 1.6 percent year-on-year, very similar to the trend in previous quarters.

Mobile revenues grew by 0.4 percent, driven by handset revenues and a stabilization of our service revenues. Revenues in traditional fixed-network business declined by 2.9 percent, in line with the development in the prior quarters.

In wholesale business, revenues dropped by 6 percent compared with the fourth quarter of 2012. This was largely due to intensified regulatory effects with respect to interconnection, as well as a slowdown in the development of service revenues for voice services.

Adjusted EBITDA declined by 3.8 percent year-on-year, resulting in a strong margin of 40.5 percent. This was driven mainly by an opex reduction of 2.3 percent year-on-year.

In German fixed-network business, we saw a satisfying first quarter in line with previous quarters. I would just like to mention in particular the following developments:

A relatively stable trend in line losses thanks to the 30,000 new LTE wireless broadband customers added in the first quarter. Bear in mind that we have reduced our line losses since the 2008 peak by almost 60 percent.

In addition, continued growth in average revenue per access – ARPU – driven by ongoing migration to double-play and triple-play.

And very strong growth in high-speed fiber retail customers of over 50 percent year-on-year to more than 1 million as well as a strong take up among fiber wholesale customers driven by our so-called contingent model.

Turning to mobile business, service revenues in the entire German mobile market declined by 2.7 percent in the first quarter in line with our expectations.

As projected, we already saw a stabilization in our service revenues excluding the effect from the cuts in mobile termination rates.

Let me turn briefly to the primary drivers:

- A sustained negative trend in the development of voice service revenue, although this improved slightly quarter-on-quarter.
- An accelerating decline in text messaging (SMS) driven by IP substitution and increased bundling.
- Growth of 17 percent in mobile data products.
- No recurrence of the negative effects experienced in 2012, such as the loss of a service provider.

And one last key point: We once again posted excellent sales figures – let me give you a couple of examples:

- Combined with strong smartphone sales, our double-play customer base saw strong growth and now accounts for 62 percent of branded contract customers.
- Contract customer churn was best-in-class, down by 60 basis points year-on-year to 1.1 percent.

Let us now turn to the U.S. business, where we are reporting T-Mobile USA's results on a stand-alone basis for the last time. In the second quarter, T-Mobile USA will start reporting results for the new combined company made up of T-Mobile USA and MetroPCS.

Turning to the latest results for T-Mobile USA, we already mentioned our much improved customer development in the first quarter.

Most noticeably, we reduced branded postpaid losses to 199,000 customers, a 61 percent improvement compared to the first quarter of 2012. This was driven by a reduction in branded postpaid churn of 60 basis points.

Looking at the financial figures, the decline in service revenues was similar to the development in the prior quarter. This was driven by customer losses in the prior year and the ongoing migration to Value and Simple Choice plans, which now account for 36 percent of the branded postpaid customer base.

As in previous quarters, total revenues declined less than service revenues due to growth in handset revenues, also driven by the Value plan migration.

Despite the decline in service revenues, T-Mobile USA's adjusted EBITDA margin remained virtually stable at 25 percent. This was due in part to lower advertising expenses than in the fourth quarter and continuing progress on the cost front.

ARPU also continued to develop in line with prior trends, with branded postpaid ARPU down, driven by the Value plan migration, and strong growth in branded prepay ARPU, driven by the success of our monthly prepay plans.

The first quarter was extremely tough for the Europe operating segment. Negative regulatory effects were 2.5 times higher than in the prior year and the economic and competitive environments remained extremely strained. This was reflected in the development of revenues and adjusted EBITDA in the first quarter.

Segment revenue declined by 6.9 percent in the first quarter, or 3.9 percent excluding regulatory effects, exchange rate effects, and one-time effects.

Hungary made the biggest positive contribution to segment revenues driven mainly by the energy retail business, a larger smartphone share, and increased prices.

The biggest negative impact came from Greece, where we posted declines in traditional fixed-network voice services and a decrease in mobile revenues as a result of heavier pressure on prices in the Greek market.

In terms of adjusted EBITDA, our efforts to maximize efficiency and instill strict cost discipline partially offset a lower contribution margin and the new infrastructure tax levied in Hungary of EUR 23 million. EBITDA decreased by 8.6 percent. Adjusted for regulatory factors, exchange rate effects, and one-time effects, EBITDA in the Europe operating segment was down by 4.7 percent.

The biggest negative impact on the contribution margin again came from Greece due to the negative revenue effect. At the same time, though, Greece is also the biggest contributor to cost savings.

The biggest positive contribution to EBITDA came from Poland due to lower customer acquisition costs and customer retention costs, as well as lower indirect costs.

From a commercial perspective, we continued to demonstrate good momentum, particularly in our growth areas:

René Obermann made reference to this earlier. Let me just add that smartphones now account for 68 percent of all devices sold, up from 57 percent last year.

I would like to elaborate a little on the OTE group as a good example that backs up our portfolio philosophy and which performed excellently from both a management and operational standpoint in one of the most difficult environments:

The OTE management team has taken necessary restructuring action over the past three years, including a significant employee reduction program, and even increased the pro forma EBITDA margin.

In parallel, the team expanded the TV customer base, the fixed broadband customer base, and the mobile contract customer base – across the OTE footprint in the same time frame.

With the help of extensive deleveraging measures, such as in the area of dividends and capex, as well as asset disposals – the most recent being the disposal of Globul agreed two weeks ago – the management will reduce OTE's net debt by around EUR 2.4 billion compared with the end of 2010, thereby fully securing its refinancing for the next years. This also gives us additional refinancing stability over the coming years.

Now that these ambitious targets have been implemented, the management team at OTE can start to focus exclusively on tackling the difficult markets in Greece, Romania, and Albania.

Turning to Systems Solutions, our first quarter results were good.

The revenue decline of 5.6 percent was mainly attributable to a decrease in revenue at Telekom IT of 24.9 percent related to seasonal effects. At Telekom IT, we expect to see the revenue situation improve in the coming quarters.

Order entry in the first quarter was particularly strong, up 33 percent year-on-year with the help of deals signed with EADS and Swiss Federal Railways.

We recorded a significant improvement in adjusted EBITDA and adjusted EBIT in the first quarter, with the EBIT margin increasing to 0.3 percent. This was mainly driven by efficiency measures and the completion of the cost-intensive transition and transformation phase for some of our big deals.

Let us now turn to free cash flow: At EUR 1 billion, free cash flow remained virtually stable year-on-year and puts us on an excellent footing to meet our full-year guidance of EUR 5 billion.

Capex (excluding spectrum) decreased slightly in the first quarter to EUR 2.1 billion. While we recorded a capex increase in the United States, the long winter in Germany meant domestic capex was significantly less.

You will remember that our guidance contained an increase for the full year – so expect capex to increase in upcoming quarters.

Adjusted net income increased by 31 percent year-on-year driven predominantly by lower depreciation and amortization. This is primarily attributable to a reduced depreciation and amortization base, mainly as a result of the impairment loss recognized on the assets of T-Mobile USA in the prior year.

Net debt increased slightly by 0.7 percent in the first quarter to EUR 37.1 billion. This was driven mainly by spectrum acquisition costs of EUR 0.9 billion, mostly in the Netherlands, and low negative exchange rate effects.

The closing of the MetroPCS transaction effective April 30 means we will include MetroPCS's net debt of USD 3.4 billion in our statement of financial position, which will increase net debt correspondingly in the second quarter.

Finally, let us turn to our balance sheet ratios.

The ratio of net debt to adjusted EBITDA remained stable year-on-year at 2.1.

At 28.5 percent, the equity ratio improved slightly compared with the fourth quarter. The year-on-year decrease was caused by the reduction in shareholders’ equity due to the impairment recognized in the U.S. business, in particular.

We are in the comfort zone with all our KPIs. And our ratings with the major agencies remain stable at BBB+ and with stable outlooks.

And now René Obermann and I look forward to taking your questions.