

Conference call third quarter 2013

November 7, 2013

René Obermann

Chairman of the Board of Management

Deutsche Telekom AG

Ladies and Gentlemen,

Welcome to our conference call.

Deutsche Telekom is in a very strong financial position. We may not have been able to detach ourselves from market developments in all cases, yet we did manage to distance ourselves from the trends that dogged our European rivals during the third quarter.

The fact is, Deutsche Telekom is growing. Both our customer base and our revenue grew during the third quarter, something we have been working hard to achieve for a long time.

- Across the Group, our mobile contract customer base grew by 1.3 million
- We acquired another 152,000 TV customers
- The number of fixed-network broadband lines throughout the Group went up by 21,000.

Overall, reported net revenue rose 6.0 percent during the third quarter. That is quite an improvement over the first two quarters, when growth stood at just 0.5 percent.

Of course this is largely due to the first-time consolidation of MetroPCS on May 1, 2013.

But even organically – i.e., adjusted for changes in the consolidated group and for currency effects – our third-quarter growth stood at 2.4 percent.

This is down to three factors:

- First, strong growth in the United States, where we increased our revenue by 30.5 percent year-on-year. T-Mobile US generated around a third of the Group's net revenue in the third quarter.
- Second, our virtually stable business in Germany, which is responsible for around 34 percent of our third-quarter revenue.
- Finally, our T-Systems Market Unit succeeded in boosting its revenue with external customers by 2.7 percent on an organic basis. On aggregate, T-Systems' contribution to net revenue in the third quarter was around 10 percent.

In other words, around three fourths of net revenue came from business areas that were either stable or underwent rapid growth. That has helped us to clearly overcompensate for the decline in the Europe segment.

Strong market growth costs a little margin to begin with and that is a burden we are happy to bear to secure our future. Adjusted EBITDA for the Group dropped slightly by 2.6 percent. Here, too, the third quarter saw an improvement over the first six months of the year, when we registered a decline of as much as 5.2 percent.

The high level of our investment in network build-out – which has made us the leaders in Germany in terms of quality – is the foundation for this positive development on the customer side. Excluding spectrum, our capex for the first nine months stands at some EUR 6.4 billion, an increase of 13.3 percent on the prior-year figure.

Net profit and free cash flow for the first nine months are both on target, so we can stick to our full-year guidance.

And that brings me to the development of business in our operating segments.

The particular highlight in this quarter was of course our business in the United States. T-Mobile US has clearly completed the turnaround.

The major success of the company's "Un-carrier" strategy in the period April to June continued unbroken into the third quarter.

Our U.S. subsidiary succeeded in acquiring more than 1 million customers net. That is the second consecutive quarter in which net adds were over 1 million.

Mobile branded postpaid customer additions amounted to 648,000 in the third quarter. Our U.S. business is a growth driver for the Group, and the T-Mobile US team has achieved outstanding market success. Not only are customers returning to T-Mobile US, the number of customers leaving us is also sinking

rapidly. The churn rate in the postpaid customer segment was an impressive 0.6 percentage points per month below the prior-year figure.

The initiatives that John Legere and his team have come up with are clearly resonating with customers. Today, T-Mobile US stands for attractive and above all highly unconventional rate plans that no other carrier is able to offer. However, our success in the U.S. is also due to our good and fast network that we now offer our customers over there. As you know, we have invested heavily in recent years, and we are now reaping the benefits.

The original plan was to achieve 4G network coverage for 200 million users by the end of the year, but T-Mobile US managed to reach 202 million already in late September.

Of course we intend to continue down this successful path. We expect T-Mobile's branded postpaid customer base to grow by between 1.6 and 1.8 million this year in total. Previously, our goal was to grow by between 1.0 and 1.2 million. Meanwhile, T-Mobile US has again confirmed the forecasted financial indicators. This excellent development has also impressed the capital markets.

And now I would like to turn to our domestic business.

Revenues have remained virtually stable and our customer base has grown.

In mobile, we have extended our market leadership even further. Our contract customer base went up by almost half a million in the third quarter.

We have also managed to consolidate our leading position in terms of mobile service revenues. Mobile service revenues across all carriers dropped 4.7 percent in the third quarter. The decline in our figures was considerably smaller.

Adjusted for the cut in mobile termination rates, we recorded a minus of just 1.0 percent.

Our strategy of maintaining network quality leadership is paying off. We are consistently getting top ratings for our network quality, most recently from Computer Bild magazine's readers for our German LTE network. This is clearly reflected in our financial figures. We sold more than one million smartphones in the third quarter; that is 14 percent more than in the prior year. Around 38 percent of these smartphones were LTE-capable.

This positive trend continues in the fixed network, notably with our optical fiber products such as VDSL and FTTH and Entertain.

We now operate around 1.4 million optical fiber lines, 65 percent more than a year ago. We gained 119,000 new lines in the third quarter alone, mainly due to existing customers switching to higher value products. Another strong contributing factor is the "contingent" model we are running with our competitors.

Our Entertain customer base grew 11 percent compared with the third quarter of 2012, bringing the number of customers enjoying the next generation of television viewing to more than 2.1 million.

The number of fixed-network broadband lines decreased slightly in the third quarter. We are not satisfied with that. We expect to see a clear improvement in the last three months of the year.

The third quarter of the year tends to be the weakest in terms of gaining new customers. And we can already see on the product side that our combined offer together with Sky has been very well received.

Ultimately, as we continue to roll out our optical fiber network and with the benefit of vectoring, we will be in a much better position to compete with cable operators in the medium term with our increased bandwidths.

Added to this are two factors that demonstrate the effects our integrated network strategy is having on the Group as a whole.

As we develop and improve our contingent model, we are producing stronger incentives to migrate from traditional wholesale products such as ULL to higher-value VDSL lines.

A great number of existing customers are also switching from fixed-network lines to our “Call & Surf via Funk” product. This is also part of our network strategy. Thanks to the build-out of our LTE and 3G networks, we can offer our customers better and to some extent also faster broadband access via our mobile networks.

We are addressing precisely the points that are so essential to customer retention: high transmission speeds and full packages.

Our most recent market analyses show that the TRI*M index is highest among consumers with fixed-network transmission rates of at least 16 Mbit/s who also use Entertain. And these customers have just given us a higher rating than the average for cable operators.

We also lead the way in terms of customer retention among mobile contract customers, both with consumers and with business customers. That is particularly true of customers who use the mobile Internet. So here, again, the key is bandwidth (and quality of service).

We enjoy the greatest customer retention among consumers who use the same provider for fixed network and mobile services. And it is precisely this strength that we want to build on even further.

That brings me to our business in Europe:

First, the good news, then the less good. The number of mobile contract customers has risen once again, with 164,000 new additions in the third quarter alone. In the fixed network, too, the number of broadband lines has continued to rise, this time by 64,000 to just under 5.2 million.

But that has not yet led to more revenue. With little change to the composition of the Group and with constant exchange rates, we recorded a minus of 3.4 percent.

Mobile termination rates have been cut in several markets which accounted for almost half of the decrease in revenue. The trend improved compared with the second quarter, but it remains difficult to develop well in a challenging economic environment, particularly due to completely nonsensical regulatory intervention.

Ladies and Gentlemen,

Negotiating the effects of the weak economy in this region is a managerial challenge. We are investing in customer acquisition and retention.

Developments in mobile communications and broadband lines in the fixed network demonstrate that. And we are pumping massive amounts of money into our networks; 13.5 percent more year-on-year in the third quarter alone. We are investing against the industry trend.

Unfortunately, we are still also faced with a variety of challenges under prevailing regulation and competition law that are making it difficult to build out our infrastructure rapidly in a way that makes commercial sense. Because schedules are subject to abrupt change and regulatory decisions are taken without any consideration for companies' ability to invest. This was recently demonstrated in connection with mobile license auctions:

- In Romania, the spectrum auction was postponed because the minimum bid level was set too high.
- In the Czech Republic, the auction was halted because even the national regulatory authority had to concede that the bids had risen far beyond what was commercially reasonable.
- What is more, in several countries the methods used for the auctions offer no transparency for the bidders and are designed to maximize the proceeds. The clearest recent example of this was Austria, where the auction generated absurd amounts of money. As a result, operators are left with insufficient funds to build out the network and turn it into a profitable operation.

This leaves me speechless. What else needs to happen for politicians to finally sit up and realize that these practices are leaving the operators with no basis on which to continue investing in the infrastructure? The carriers are being bled dry. This simply cannot be allowed to go on if Europe is to continue benefiting from a competitive telecoms industry and to protect that industry from becoming vulnerable to takeover.

I have said it before and I will say it again: Europe's regulatory and competition policy urgently needs to be reformed. Europe has over 200 mobile carriers that have to respect European law as well as national legislation. The market is

fragmented, and in some cases the very basis of economic calculation is being eroded.

There is a stark difference between Europe and the United States with its four national carriers, where economies of scale – a defining feature of the telecoms industry – are much easier to achieve. As a result, it is much easier to plan one's investments. 4G networks are being rolled out much faster than in Europe. There is a danger that the infrastructure build-out in Europe will start to lag behind the U.S. and also Asia, resulting in severe impacts on the overall economy.

Ladies and Gentlemen,

We need a robust basis for investments and for the continued development of our business. This is the only way we can prepare the ground for an infrastructure that promotes prosperity across Europe.

We are prepared to put our hands deep in our pockets to expand our networks. We demonstrate that in all the regions where we are active. But to create a modern infrastructure, we need an in-depth reform of European competition policy.

Deutsche Telekom is doing so well in the market despite the unfavorable conditions – let me remind you of the comparison with our European competitors – and for that I owe my gratitude to every one of our employees and, in particular, the customers who have placed their trust in us.

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