

– The spoken word shall prevail –

Conference Call
Second quarter report of 2014
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Ladies and Gentlemen,

I, too, would like to wish you a very good morning. Thank you for dialing in to our call today. Over the next few minutes, I would like to take you through our figures, together with Thomas Dannenfeldt.

How did the quarter go?

In a nutshell: We pushed ahead with our strategy and we delivered. We maintained the positive trend of the first three months and can look back on a good first half year.

In the second quarter, net revenue remained largely stable at EUR 15.1 billion. In organic terms, we actually saw an increase of 0.6 percent.

Adjusted EBITDA rose by 0.3 percent year-on-year to EUR 4.4 billion. Revenue and adjusted EBITDA both benefited greatly from the very positive trend in the U.S. Business in Germany remained very strong and was considerably better than the market in many areas.

In addition, we cut costs significantly in Germany and at our European subsidiaries. We improved our earnings margins in all three segments, Germany, T-Mobile US, and Europe.

Our reported net profit increased by 34.2 percent to EUR 0.7 billion. Our adjusted net profit includes several developments, some of which offset each other, which Thomas Dannenfeldt will explain in a few moments.

Free cash flow for the three months was just over EUR 1 billion and thus down 5.4 percent year on year.

All financial figures are well within our planning framework. We can therefore confirm our guidance for the full year.

Our massive investments, which we increased by 6.2 percent to EUR 2.2 billion in the second quarter, laid the foundation for this positive development. We have invested EUR 4.3 billion in cash capex since the beginning of the year – more than any other company in our industry in Europe.

By the end of the year, Telekom will have invested the enormous sum of more than EUR 9 billion, excluding expenditure on spectrum.

These huge investments were and continue to be the basis for convincing customers of our products and services. We did so in many areas in the second quarter, which meant we substantially increased our broadband

coverage, made our portfolio more attractive, improved customer satisfaction, and significantly boosted our customer numbers.

This growth in our customer base has had a marked impact on our revenue and earnings. And so, as we predicted, we have begun to reap the benefits. We are on the right track to become the leading European telecommunications provider.

Ladies and Gentlemen,

In Germany, we are making excellent progress with our integrated network strategy. With a total of over EUR 1.0 billion, we invested around 60 percent more in the second quarter of this year than in the same period last year. The year-on-year increase over the first half of the year was 39 percent.

Preparations for connecting around 39 percent of the country's households to the fiber-optic network are now complete. That is around 15.9 million households – 1.7 million more than one year ago. By mid-year, we achieved coverage of 77 percent with our LTE network.

That is some 63 million households – almost 19 million more than in mid-2013. On top of that, we also migrated fixed-network lines to IP technology for 527,000 of our retail customers in the second quarter alone.

Customer numbers for our fiber-optic products have really started to take off. We had a total of 227,000 new lines from our branded retail customer and wholesale business in the second quarter, largely on the basis of what is known as the contingent model.

In the fixed-network segment, we are able to report a positive trend in new broadband customers for the first time in several quarters. The figure is still

only 7,000 new customers per quarter, but after seeing negative developments in customer figures for several quarters in succession, this upward trend gives us confidence for the second half of the year.

The customer gains in regions where we are rolling out vectoring played a major role in this respect. This shows that we have adopted the right strategy. We are not only selling more lines in this segment, but also, in relative terms, regaining market share. And around half the customers who sign a contract for a fiber-optic product with Telekom also opt for Entertain.

Again, far fewer lines were lost in the fixed-network segment. The figure now lies at below 170,000. The last quarter in which this happened is ten years back.

All of these factors have contributed to the solid development in our fixed-network revenue.

In our mobile business, we continued to benefit from the top network quality which was confirmed by all tests performed in recent quarters. We had 4.3 million customers on our LTE network at the end of June.

That is 172 percent more than a year before. Together with the growth in the number of contract customers under the Telekom and Congstar brands, this helped keep our service revenues practically stable. We have again succeeded in winning market share in a market that has shrunk by around 2 percent.

At the same time, we exercised great discipline on the cost side. The result is an excellent adjusted EBITDA margin for all business in Germany of 41.3 percent in the second quarter, which represents an increase of 0.7 percentage points.

We intend to defend our position on our home market – as you know, competition has become a great deal more intense again in Germany.

We will continue to set ourselves apart on the product side, which will be the focus at IFA in early September.

Ladies and Gentlemen,

What I have just told you about our business in Germany applies doubly for T-Mobile US.

We made the "triple jump" work in the development of our business.

- First, we invested massively in building and expanding a top-grade LTE network. In parallel with that, we launched radically new offers with our Un-carrier strategy, which has been very well received by customers. That is reflected in the massive growth in the number of new customers and in the marked drop in the churn rate.
- In the next stage, this high customer growth leads to a distinct rise in revenue.
- This results in improved earnings in the third stage.

You may recall the discussion we had during the last call. We were asked whether we were simply buying customers and whether the growth in the U.S. would be "sustainable". The figures confirm that our growth is both sustainable and valuable.

In the second quarter, T-Mobile US again reported a huge rise in new customers and has now passed the 50-million customer mark. The customer base at T-Mobile US grew organically by 6.5 million within a year, with 3.75 million of them branded postpaid customers.

The double-digit revenue growth reported for the last three quarters was partly the result of the first-time consolidation of MetroPCS on May 1, 2013. Of course that did not continue to the same extent in the second quarter of 2014 because we only had the consolidation effect for the one month, in April.

Instead, we now see that service revenues are gathering pace at a considerable rate on the back of the growing customer base.

If MetroPCS is included in full in figures for the second quarter of 2014 and the same period of the previous year, service revenues increased by 5 percent. By comparison, growth lay at 2.5 percent in the first quarter. Of the four big U.S. national mobile service providers, T-Mobile grew fastest in terms of service revenues in the second quarter!

T-Mobile US plans to systematically exploit this momentum. For the second time this year, John Legere's team has hiked its target for new branded postpaid customers to somewhere between 3 and 3.5 million. Over 2.2 million already signed up in the first two quarters.

Ladies and Gentlemen,

We continue to work consistently on implementing our strategy at our European subsidiaries, too. In the mobile segment, we are building out LTE further. In June, for example, our Polish subsidiary brought the first LTE services to market.

We have increased the number of LTE sites at all of our European subsidiaries sevenfold to 10,000 within just one year. That means we already cover 19 percent of the population.

In the fixed network, we now reach around 6 million homes with our fiber-optic products. We have now migrated 32 percent of our fixed networks to IP at our various NatCos. That equates to almost 3 million lines, more than anyone else in Europe. This gives us a crucial advantage over the other European players and is a basic requirement for building a pan-European all-IP network, which is our objective.

On a comparable basis, we have increased the number of mobile communications contract customers by more than 300,000 year-on-year. The number of broadband customers grew by more than 250,000.

We have been pushing GTS' integration since the company was consolidated for the first time at the end of May. GTS strengthens our position on the hotly contested business customer market, particularly in Poland and the Czech Republic, where we can offer integrated products and services in future.

Ladies and Gentlemen,

The high level of our investments is consistent with a clear and simple belief: quality pays off. That is what we believe in. And the development of the second quarter shows: Our customers agree with us.

And on that note, I would like to hand over to Thomas Dannenfeldt, who will explain our financial figures in detail.