

– The spoken word shall prevail –

Conference Call

First quarter report of 2015

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Timotheus Höttges

Chairman of the Board of Management

Deutsche Telekom AG

Good morning, Ladies and Gentlemen,

I, too, wish you a warm welcome to our conference call.

Let me make it clear right at the start: We are delighted to be able to present a very good first quarter to you here today, and we are glad that our strategy is proving to be the right one. We have built out our networks in order to offer even more customers better and, where possible, integrated services. To do this, we once again substantially increased our investments.

We see that we meet with high demand wherever we offer fiber-optic or hybrid lines. We see that our LTE rollout goes hand in hand with a further increase in smartphone usage. We see that our integrated offers meet our customers' need for all-in-one solutions from a single source.

As a consequence, this focus on customer benefit also means successful business and good financial figures, which we are able to present to you today. They feature significant organic growth in revenue and earnings.

This is news that any CEO would be happy to announce.

Let me start right at the beginning, with the basis for our business, our networks, and our services for customers.

We invested a great deal more in the first three months of the year than in the prior-year period in 2014. Cash capex before spectrum payments increased by more than one fifth to EUR 2.5 billion.

In particular in Germany, we massively stepped up our investments. They rose in the first quarter by more than a third to around EUR 950 million.

You are familiar with our main investment focuses:

- Network buildout to increase the population coverage and transmission rates, in both mobile and fixed-network communications. LTE, optical fiber, and vectoring are the key terms here.
- Network transformation towards all-IP which allows us to speak the same technical language.

This is the basis for our integrated network strategy.

We have raised the proportion of households passed by optical fiber in Germany by another 8 percentage points to 46 percent.

This fiber-optic and vectoring rollout is giving a powerful thrust to our fixed-network business. Fiber-optic lines increased by 463,000 to a total just short of 3 million. This growth is therefore more than double that recorded in the same period of last year. And it was particularly strong in our branded business, with an increase of 295,000.

This means that we recorded an increase of 76,000 broadband lines in the quarter, which is a very promising upward trend following a year that featured zero growth in broadband lines.

As you see, Ladies and Gentlemen, broadband counts for our customers. But it is not always economically viable to rely on the fixed network alone. We therefore offer our hybrid line – especially for customers in rural areas – as part of our integrated network strategy and an innovation that you only get from Deutsche Telekom. In conjunction with LTE, we can boost transmission rates in places where the fixed-network line only provides relatively low bandwidths. We put some 12,000 hybrid lines into service over a short period, in particular since the market launch in Germany in March. We are very happy with the demand.

Another component is MagentaEINS. Niek Jan van Damme will be providing information about our new convergence offers at a press meeting next Monday.

I do not intend to reveal the contents here but let me just say that they are really successful, with an increase of 400,000 customers for the quarter. For customers, MagentaEINS means services from a single source and package benefits.

This strong trend in our fixed-network product portfolio has resulted in yet another substantial reduction in line losses, which were down 39 percent compared with the same period in 2014, the lowest figure for over ten years.

In mobile communications, we continued to rollout LTE. Our network, which recently won all key ratings, now covers 82 percent of the population compared with 74 percent one year previously. This rollout and the excellent network quality are much appreciated by our customers. The number of customers using an LTE-enabled device with an LTE rate plan increased by 85 percent within a year to 6.4 million.

Ladies and Gentlemen,

in prior quarters we reported that IP migration does not always run smoothly. Our response to this situation in the first quarter was to increase our staff, above all in the area of technology, and in technical and customer service. This gave us more than 2,000 new full-time jobs year-on-year. As a result, we are able to maintain our service at the customary high level that we aim for, despite the marked increase in IP migration in the first quarter. Our key performance indicators are back on track.

Ladies and Gentlemen,

this focus on customer benefit as the basis for our business success has been systematically implemented in past quarters, in particular at our U.S. subsidiary T-Mobile US. The combination of LTE network expansion to a population coverage of 275 million and the various Un-carrier initiatives have led to major customer growth. T-Mobile US published its figures a few days ago. Before Thomas Dannenfeldt explains the financial figures under IFRS accounting, I would therefore like to emphasize just one especially notable aspect. In the first quarter, T-Mobile US gained 1 million new branded postpaid phone customers. On the other hand, the three other national providers lost a total of more than 600,000 of these particularly high-value customers. These figures speak for themselves.

In the Europe segment, we continued to make progress with our transformation program. Over 40 percent of our subsidiaries' lines have now been migrated to IP. Transformation is already complete in two countries, Macedonia and Slovakia, with two others, Croatia and Montenegro, due to follow suit this year.

Our LTE networks now cover 53 percent of the population in countries in which we offer mobile communication services. One year ago, the figure was 38 percent, in absolute numbers this means growth of over 19 million residents who can now use our high-speed mobile communications networks. A good 6.2 million households have access to our fiber-optic lines, likewise a major increase year-on-year. Here, too, we are investing more.

We see positive demand effects, above all in the broadband and TV business, both areas in which we greatly increased our customer base.

Revenue and earnings continued to improve. This is attributable to customer growth, progress in the transformation of revenue towards our growth areas, and the integration of GTS.

At T-Systems we see improvements in the revenue trend and earnings margin in the Market Unit. Our restructuring program is progressing well.

Ladies and Gentlemen,

these developments led to very gratifying financial figures in the first quarter. The Group's net revenue increased by 13.1 percent. Naturally, we also profited from the strong dollar, a purely currency translation effect that is not generated in our operational business. But, even excluding this exchange rate effect, we still achieved organic growth of 4.7 percent in net revenue.

We see the same trend in adjusted EBITDA, where part of the reported 11.0-percent increase for the quarter is attributable to exchange rate fluctuations.

Nonetheless, in organic terms, we achieved a respectable increase of 5.6 percent. I have already mentioned the substantial increase in our investments. Accordingly, the free cash flow of EUR 0.9 billion was around 12 percent lower than in the same period last year. It therefore is in the range planned for the full year.

Net profit stood at EUR 0.8 billion in the first quarter. This is below the prior-year figure of EUR 1.8 billion, which, however, included as a major factor the sale of our 70 percent stake in the Scout group accounting for around EUR 1.7 billion. Calculated on a comparable basis, net profit adjusted for special factors increased by 75 percent to over EUR 1 billion.

Adjusted EBITDA and net profit both include a positive one-time effect of EUR 175 million, which Thomas Dannenfeldt will be detailing in a moment. I just want to say that we explicitly omit this amount from our forecast!

Ladies and Gentlemen,

these figures are both gratifying and impressive confirmation that our strategy applies the right levers in investment and product planning. By focusing on the needs of our customers we achieve excellent business success.

Our strategy is taking effect, our growth profile is visible. We can confirm our guidance for the full year.

In other words, adjusted EBITDA of around EUR 18.3 billion based on constant exchange rates, and free cash flow of around EUR 4.3 billion.

More about this now from Thomas Dannenfeldt, who will explain our financial figures to you in detail.

Ladies and Gentlemen,

let me summarize briefly.

This was a really strong quarter.

We are therefore on track for the six key topics that we named at our Capital Markets Day for our objective of being the leading European telecommunications provider.

Let me remind you of the details:

In Germany and our European subsidiaries, we drive our integrated provider strategy, which is most noticeable in our MagentaEINS product.

We invest in leading networks to assure the best customer experience. Increasing network coverage in LTE and optical fiber, and the excellent ratings that we repeatedly receive for the quality of our network all speak for themselves.

We drive the IP transformation and have already quoted the figures for Germany and our European subsidiaries.

Transformation goes hand in hand with disciplined cost management, which is reflected in the earnings trend for the first quarter. Higher expenditure in Germany is not a contradiction here, since we must always keep an eye on service quality.

In the first three months of 2015, we showed that we have made progress in reaching the forecast growth in ROCE, revenue, adjusted EBITDA, and free cash flow.

This is why we announced our ambitions for the years up to and including 2018, and promised to allow our shareholders to participate in the expected positive development.

We will now approach the coming 15 quarters confidently with this clear target in mind.

And now we look forward to your questions.