

– The spoken word shall prevail –

Conference Call
Second quarter report of 2015
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Good morning, Ladies and Gentlemen,

Welcome to our conference call. Today we are going to take a look at our second quarter figures. And I will be able to repeat a number of statements made in the past. Once again, as in previous quarters, I can inform you that our business is doing well, really well in fact. We can therefore clearly confirm our guidance for the full year.

What are we doing to maintain this success in the mid and long term? I would like to answer this question today by looking at two investments made in recent months, which only affect our mobile business in Germany at first sight. If we look more closely, they demonstrate how we combine our investment and innovation capacities optimally to continue offering best customer experience in

the future based on our integrated network strategy. We are laying the foundations to add new chapters to our past success story.

But first some remarks on our operating performance in the second quarter.

We increased revenue by 15.3 percent to EUR 17.4 billion. In organic terms – excluding exchange rate fluctuations and changes in the composition of the Group – this translates into a growth rate of 5.7 percent. We have impressively reinforced our growth profile, which featured a revenue rise of 4.7 percent in the first quarter.

Adjusted EBITDA rose by 13.5 percent to EUR 5.0 billion, an increase of 6.7 percent in organic terms. This underlines the fact that we have adhered to a strict cost control policy – despite high growth, despite a greater influx of new customers than expected in the United States, and despite continuing heavy investments.

The increase in free cash flow – before dividend payout and payments for mobile spectrum – proved especially strong, up by 31.1 percent to EUR 1.4 billion.

This is partly down to a one-time effect, which Thomas Dannenfeldt will explain in more detail.

Overall, this puts us well on track to our forecast for the full year 2015 and to the targets we announced at our last Capital Markets Day.

First, let me give you some examples of how we have particularly succeeded in impressing customers with our products.

In Germany, we have seen even more dynamic success in our broadband business and, first and foremost, in our fiber-optic lines.

The number of fiber-optic lines grew by 430,000 lines, compared with an increase of 227,000 lines in the prior-year quarter. In other words, the number of additions increased again by around 90 percent.

In the second quarter, we recorded around 81,000 net broadband additions. This is the highest net add rate for three years. This means that we acquired a total of around 157,000 new broadband customers in the first half of the year. The mid-year figure is already well above the target we set ourselves for the full year, namely 100,000 net adds.

Looking ahead to the rest of the year, the trend in subscriber numbers in broadband business is traditionally slightly weaker in the third quarter due to a large number of expiring contracts. Nevertheless, we expect growth of at least 250,000 broadband customers for the full year.

This trend is supported by the roll-out of MagentaEINS, MagentaZuhause and the market launch of 1.5 million vectoring households in the first half of 2015.

Our high network quality and attractive product packages helped to minimize our line losses, which, at 118,000, were on a similarly low level as in the first quarter. This is the lowest level for eleven years.

We continued to step up our IP-migration activities and switched around 3.8 million lines over to IP within a twelve-month period.

I will be looking at the details of mobile communications as an element of our integrated network strategy in Germany in a moment.

T-Mobile US maintained the strong development it reported in past quarters – and has now overtaken Sprint as the market's number three in subscriber figures.

Customer growth increased once again compared with the prior-year period, to 2.1 million net adds.

This is the ninth quarter in succession that T-Mobile US has won over 1 million new subscribers. And, as in the previous three months of the year, the entire net growth in postpaid phone customers in the second quarter was again achieved by our U.S. subsidiary. This is the impressive result of strict customer focus.

As a consequence, our U.S. subsidiary has adjusted its already raised forecast for customer growth in the full year upwards for the second time. T-Mobile US started the year with a target of 2.2 to 3.2 million new branded postpaid customers. This guidance has now been raised to 3.4 to 3.9 million new customers.

Our de-risking strategy in the United States is working very well. T-Mobile US can ensure self-funding for its own business. And EBITDA continues to grow with strong momentum in line with our guidance despite the significantly raised forecast for customer growth.

In our European subsidiaries, we are gradually making progress. We improved LTE coverage in the countries that offer this mobile service by 22 percentage points year-on-year to 60 percent. 17 percent of households in the national companies that provide consumers with fixed-network and mobile services now have access to our fiber-optic products.

In our broadband customer base in Europe, we have again moved ahead, with 38,000 net additions in the second quarter. And in our TV segment, we have acquired another 27,000 customers.

Ladies and Gentlemen,

Let me summarize again at this point.

We are raising our expectations for key growth areas in our business.

T-Mobile US has increased its guidance for branded postpaid customer growth by around 1 million, if we compare the mean value for expectations at the start of the year with the current guidance. For our broadband business in Germany, we assume that customer growth will exceed our previous expectations by at least 150 percent.

I hope you will forgive a slight understatement at this point. The fact that we can confirm our guidance for adjusted EBITDA and free cash flow despite this stronger growth shows that Deutsche Telekom and its operations are in good shape.

Ladies and Gentlemen,

On that note, I would now like to explain the strategic steps in the second quarter that I mentioned at the start.

We invested a good EUR 5.1 billion worldwide in the first half of the year, around 20 percent more than in the previous year. In Germany alone, the figure was up by around 24 percent.

In addition, we invested in mobile spectrum. In Germany, we acquired spectrum for around EUR 1.8 billion at the license auctions.

These are initially only abstract figures. So how do they translate into a contribution toward our goal of "best customer experience", into simplicity, best networks, and integrated products?

At Germany's frequency auction, we acquired 100 MHz out of 270 MHz of available spectrum. 50 MHz of the acquired spectrum is in the low frequency bands.

In other words, we now have the mobile licenses we need to further upgrade the broadband network and roll out LTE. And we have got the right mix: the higher frequency ranges for urban areas and the longwave frequencies for rural areas.

At our Capital Markets Day, we set ourselves the ambitious target of serving 95 percent of the population with speeds of up to 300 Mbit/s.

We are building a network that keeps pace with customers' evolving needs.

As you are aware, wide-mesh coverage with fewer radio cells and a growing user base will ultimately result in lower transmission capacity per customer.

But the most important aspect for customers is that they actually benefit from the high transmission rates we deliver.

During our network build-out, we have therefore always taken great pains to ensure that network quality does actually reach the customer. Accordingly, a range of tests and surveys held in recent years have shown that these efforts are also perceived and appreciated by customers.

We are continuing on this track and have therefore signed an additional agreement with Telefónica to acquire around 7,700 cell sites, mainly roof-top cell sites.

This will enable us to increase the density of the mesh network and, as a result, provide more customers in a particular area with high transmission speeds. At the same time, with more cell sites, we will be able to improve in-house coverage.

In other words, we are building out our network not only to technically offer high speeds, but also to establish a network that is as dense as possible in both urban and rural areas, giving our customers genuine access to these high transmission rates – inside as well as outside buildings.

We are thus creating the basis for guaranteeing the best network experience in the future, too.

With the additional frequencies and resulting transmission capacities, and with the new cell sites, we are also taking a huge step forward in our integrated network strategy.

We are also investing massively in the fixed network with a focus on vectoring – in other words, the use of fiber optics right through to the cable distribution box. Vectoring is sustainable and future-proof. As of 2018, super vectoring will also be available and will make bandwidths of up to 250 Mbit/s possible.

In regions where this presents an economic challenge, we are also looking for ways to offer our customers broadband lines.

One example of this is our collaboration with local authorities. So far, we have signed agreements with several thousand municipalities featuring division of

work or costs, so that we can build out the fixed-network infrastructure in places where it would not otherwise be a viable business proposition for Deutsche Telekom. Special funding is available for this purpose.

Another way of covering rural areas with our broadband service is to use a purely LTE-based line, in other words our mobile Call & Surf via Funk product. For customers, this often means a quantum leap in their broadband coverage.

Around 300,000 customers have opted for this offer within a very short space of time. It does, however, also mean that, if the acquisition of new customers continues at the same rate, the transmission speed available to individuals will diminish even further in the near future, because the number of customers simultaneously using the capacity of each radio cell will rise.

The next step was therefore only logical, although it requires high technical expertise and innovation capacity: the hybrid router. We were the first network carrier to merge our expertise for the mobile and fixed networks in the mass market.

The hybrid line routes the data traffic base load over the fixed-network line at speeds which would not alone satisfy customer broadband demands. As soon as the need for download capacity increases, the system is adding the high transmission rate of the LTE network.

The benefits for the customer are higher overall transmission rates thanks to the use of two networks. At the same time, greater transmission stability, since some of the traffic is routed over the fixed network, where capacity does not have to be shared with other subscribers.

This product is proving extremely popular. Since the national launch of the hybrid service in March, 58,000 customers have already opted to subscribe to

this product. They include many previous Call & Surf via Funk customers as well as a large number of genuine new customers.

So let me just summarize what the two aspects of frequency acquisition and the agreement with Telefónica Deutschland, coupled with our innovative spirit, mean for the customer:

- Best mobile network experience, in terms of regional coverage and available speed, and this also inside buildings.
- More broadband capacity and broadband for more people thanks to the combination of mobile and fixed networks in our hybrid router. And all extremely easy for the customer, without any need for complex installation.

We are continuing to offer this service in regions that cannot be served with a single access technology, either because it is not stable enough or is not a viable business proposition.

We are investing massively, not only in individual areas but nationwide – unlike, for instance, the urban and regional carriers. We are the biggest investor in our industry in Germany.

In the first half of the year, Telekom Deutschland invested around EUR 1.7 billion, and most of this in networks. We make a massive amount of capital available, we rely on innovation, we enter into partnerships, for example in collaborations with municipalities or the contingent model. As we do so, we have our sights set on one clear goal: How can we provide more customers with future-proof broadband lines?

We take the political broadband targets seriously and feel we have a particular responsibility. This is the reason why the Federal Network Agency's decision on local-area vectoring is so important to us.

We are ready and prepared to connect the local areas, and are simply waiting for the go-ahead. In this way, we could connect another 6.2 million households and deliver very high bandwidths to almost 80 percent of all households by 2018.

In doing so, we are playing a key role in the nationwide broadband build-out, and in reducing the digital divide in Germany. With a high level of investment, with comprehensive technical expertise and innovative spirit – in short, we are prepared, with our integrated network strategy.

On that note, I will now hand over to Thomas Dannenfeldt.