

– The spoken word shall prevail –

Conference Call
Second quarter report of 2016
August 11, 2016

Timotheus Höttges
Chairman of the Board of Management
Deutsche Telekom AG

Ladies and Gentlemen,

Welcome to our half-year conference call. The last seven months have been very rich in news – within Deutsche Telekom, but even more so outside of the Group. And much of that news has been related to Europe.

People who find themselves on vacation, outside of Germany, outside of Europe, may now be realizing again what makes Europe so special, whether that is just freedom to travel or the common currency. Because you do not have to queue at the borders any more, or wonder two days before the end of your trip if your vacation money will last, or if you should exchange another 100 Euros.

Without doubt, the idea of Europe with all its achievements is subject to constant questioning. It is not to be taken for granted, that has been made clear by the recent slew of terrorist attacks, the discussions with Turkey, and the British decision in favor of Brexit, the shape of which still remains to be decided.

And that is exactly why it is worth fighting for the idea of Europe, its achievements, and their preservation. Especially in our industry, where digitization is a global challenge, to which Europe with its single market is the answer. And Europe also has a unique set of values.

I am proud to live here in Europe and to help shape it. When it comes to digitization in particular, we can give it a European aspect. We can emphasize the related digital responsibility. And it only works in a large, unified, European Economic Area. We need to take this opportunity.

And that brings me to our figures.

Ladies and Gentlemen,

When you make a forecast at the start of the year, you are confronted with various uncertainties. That is to be expected. We are now six months on and still confident that we can achieve the ambitious targets we set out to you.

The strong development in our business continued in the second quarter and for the first half of 2016 – in capital expenditure, customer numbers, and our financial results.

First off, the good news for our customers: We have substantially built out our networks, especially in Germany, in line with our strategy.

In terms of numbers: We activated more than 1.2 million new fiber-optic lines in Germany in the first six months of the year. We now have a good 5.6 million lines in operation.

T-Mobile US continued its impressive growth story. We won 4.1 million customers in the first six months of the year, and raised our full-year expectation for growth.

The financial figures reflect this strong development.

Net revenue rose by 3.4 percent in the first six months of the year. In organic terms, it increased by 4.2 percent. In the second quarter, our fixed-network service revenues in Germany stabilized for the first time since regulation began almost twenty years ago.

Adjusted EBITDA grew by 10.6 percent in the first half of the year. In the past, we have named a number of factors to be taken into account in a year-on-year comparison. I would like to name in particular the issues of device leasing and Data Stash in the United States, as well as the contribution to earnings from the settlement of a complaints procedure under anti-trust law. On a like-for-like basis, our earnings increased by 6.9 percent.

Free cash flow in the Group declined 4.4 percent to EUR 2.1 billion. Adjusted for the dividend payments of the British joint venture EE, which was disposed of to the BT Group, as well as payments received in the previous year in connection with the aforementioned settlement, free cash flow increased by 15.9 percent.

That all looks good in the context of the plan for the period up to 2018, which we set out to you at the Capital Market Day last year. And so we confirm our targets for the current financial year.

Ladies and Gentlemen,

Our strategy is based on the following core elements:

- Integrated networks based on IP technology
- The best customer experience
- Setting up innovative products and services in cooperation with partners
- Lead in business

In the first six months of the year, we increased our capital expenditure by 7.6 percent to EUR 5.5 billion and on top of this, acquired spectrum for EUR 1.1 billion above all in the United States and Poland.

In just one year, we expanded our LTE network coverage by around 45 million people worldwide. That is almost the population of Spain.

Over five million households in Germany as well as our European subsidiaries can now also be connected to our fiber-optic networks. We are talking about the same number of households as in all of Sweden.

In the Europe and Germany segments, we migrated more than four million lines to IP. In Germany, we have now migrated some 47 percent of lines, so we are practically half way through.

I would particularly like to note our investments in Germany where there are constantly different figures in circulation. On average, our annual cash capex in Germany across all operating segments for the period 2014 through 2016 comes to nearly EUR 5 billion – and that figure is rising. That is around 19 percent of revenue. The majority of this flows into our networks.

From figures quoted in the most recent VATM study available, in 2015 the average rate of investment among all competitors came to around 11.5 percent of revenue. In 2014, it was a rate of around 11 percent.

No one invests more in Germany than we do. We act where others just talk. And the funds are put to good use. In Germany, our integrated network strategy has received numerous awards, in both the mobile and fixed-network fields. Just recently, Connect magazine named us "Best Network" once again, with Entertain topping the table of IP TV offerings. Our clients appreciate that.

Thanks to the rapid growth in fiber-optic lines, the sales of add-on services like Entertain, and our MagentaEINS bundles, we offset the decline in revenue from traditional telephony in the second quarter for the first time since the start of liberalization in 1998.

But we must not and we will not stop there. Because if you look at the analysis, you will see that this stabilization is largely a result of business with our competitors. We currently provide them with more than two million fiber-optic lines.

There is further growth potential here – and we want to exploit it. If I can give you two figures in this regard:

In the second quarter, we had a share of around 20 percent of growth in the overall broadband market. We need to increase this figure: For the full year, we want to win more new customers than in 2015, when we won 283,000.

At present, 28 percent of our broadband customers have a fiber-optic line. We can boost this significantly and we plan to do so.

To this end, we combine the best network with the best customer experience.

For example, in customer service: the personal switch advisor who guides new customers through all of the processes involved in switching to Deutsche Telekom.

For example, with simple, transparent and low-cost product bundles. MagentaEINS has now won 3.6 million customers in Germany and the European subsidiaries, 2.5 million of them in Germany. That is growth in Germany of a quarter of a million customers within three months.

We are now going one step further: Starting August 1, new customers in Germany can test the best network thoroughly before deciding on a specific product. "Best value, great deal." That is freedom of choice that no other provider in Germany offers for fixed network products: Customers can test a rate plan with transmission speeds of up to 100 Mbit/s for one year at the price of EUR 19.95 per month – irrespective of which speed they select.

They only choose which product they want to subscribe to at the end of this extensive test phase.

Starting August 1, we also offer new customers Entertain on our new platform from EUR 9.95 a month, with features such as Restart and Replay, so you never have to miss a show again. That is freedom and flexibility in product choice.

Let me name a few more examples of innovations from the first half of the year:

I have already mentioned the new TV platform.

Now let us talk about 5G, or the link that takes us there: LTE Advanced Pro. We have developed this technology together with Nokia and successfully

demonstrated it in Warsaw last week. We have set a new record. A transmission speed of 1.2 gigabits per second.

LTE Advanced Pro forms the basis for sophisticated new mobile services like 4K-HD video, virtual reality, or the new generation of mobile video games.

In addition, we will set up a 5G test network in Berlin.

We have expanded our agreement with BMW in the area of the connected car and concluded an agreement to test our new LTE standard on the test section of the A9 freeway.

We have invested further in the expansion of our cloud business. This is already delivering strong growth rates: up 22 percent to more than EUR 0.7 billion in the first half of the year.

And we want to further strengthen virtualization and scalability across the Group. Hence, the Supervisory Board has, as proposed by the Board of Management, agreed to bundle the Telekom-internal IT and Innovation units into one Board of Management department under Claudia Nemat. As a result of this move, we will be able to further develop technical and product innovations faster and collaboratively. This is becoming ever more important, not least with respect to the next-generation networks – think 5G – and the pan-European network platform.

Each of the national companies can then access this joint, standardized network infrastructure and focus on their sales, service, and marketing activities. Srinu Gopalan will be in charge of this area in future. Srinu has an extensive background in international management and knows the industry. I am confident that, with the new structure of responsibilities and with Srinu's expertise on board, we will continue to go from strength to strength.

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