

– The spoken word shall prevail –

Conference Call
Third quarter report of 2016
November 10, 2016

Timotheus Höttges
Chairman of the Board of Management
Deutsche Telekom AG

Thank you, Philipp.

Ladies and Gentlemen,

I, too, would like to welcome you to the presentation of our quarterly figures.

Before Thomas Dannenfeldt and I explain to you how Deutsche Telekom fared in the third quarter, I would briefly like to mention another important topic.

People generally know there is one thing I am not, and that is patient.

That is why, with one issue, I have even surprised myself.

That issue is nearshore vectoring: It took more than one-and-a-half years for the regulatory order to be published, which finally granted us basic approval.

We hope that the topics of the reference offer and rates will also be clarified shortly. It is our pledge that almost six million customers in the nearshore vectoring areas will be provided with additional super-fast Internet access.

We have been working toward that end with patience and perseverance – because we are convinced it will enable us to offer as many customers as possible the fastest possible Internet access. By pursuing our strategy, we are getting optical fiber closer to our customers.

In the process, we are achieving bandwidths of up to 100 and, in the future, with super vectoring, even 250 megabits per second – and not just in urban areas.

Another important factor: Going forward, we can continue to build on this high-performance infrastructure, which will create the conditions for ongoing increases in speed in the immediate future.

Our focus is firmly on investing our capital in the best possible way – and we are certainly breaking records with our capital expenditure. We currently invest around EUR 5 billion a year in Germany.

Overall, our ratio in Germany of capital expenditures to revenue is substantially higher than that of our competitors. Or, to put it another way: No one invests more than we do.

Our build-out is both needs-based and forward-looking. Our figures speak for themselves: over 500,000 new fiber-optic lines in the last quarter alone; 1.8 million in the year to date; and a total of more than 6.1 million households.

Some 25 million households in Germany have access to, or already use, our high-speed lines. In the fourth quarter, we will add a further 2.7 million homes that can be connected.

At the center of the public debate is the demand that every household be connected to the fiber-optic network immediately.

We have worked for a long time to develop a future-proof technology mix. To date, 4G in mobile communications has formed part of this technology strategy, but the buzzword for the future is now 5G.

Rolling out 5G will require a broad-scale, high-performance fiber-optic network. Measuring more than 400,000 kilometers, our network is by far the biggest in Germany – and we are adding more than 30,000 kilometers each year.

The mobile network of the future will, among other things, need to have low latency and high transmission rates – and we are working with our partners to deliver that.

In Berlin and Warsaw, we have already achieved transmission rates of 1.2 gigabits per second in the LTE network together with Nokia. The team from T-Mobile Austria has now gone one better, reaching just under two gigabits in a test environment together with Huawei.

We are working on the technologies and products of the near and more distant future – on the basis of a convincing strategy.

To this end, Group capital expenditures – excluding those on spectrum – increased again in the first nine months of the year, rising by 5.5 percent to EUR 8.2 billion, and we spent a further amount of more than EUR 2 billion on mobile network licenses.

- That means, for example, that a good four million more German households now have access to our fiber-optic network. As of the end of September, that was equivalent to almost 60 percent of all households.
- It also means expansion of the 4G LTE network in the United States to cover some 312 million inhabitants – on a par with Verizon, but offering higher speeds than the competition.
- And it means around 16 million more people with access to the LTE networks of our European subsidiaries. This will allow us to provide coverage to more than 100 million people in these countries.

All this translates into a substantial increase in our customer base. Allow me to touch on several developments in this area.

I already mentioned the 6.1 million fiber-optic lines installed to date in Germany.

On the topic of convergence, some 3.9 million customers across Europe already use MagentaONE, more than 2.6 million of them in Germany.

Customer additions at T-Mobile U.S. continue to be strong, with the company winning over more than six million new customers in the first three quarters. As a result, our U.S. subsidiary's full-year guidance for postpaid customer additions has already had to be revised upward three times.

It is strong figures like these that investors like. A large number of analysts have raised their target prices for T-Mobile U.S., and the share surpassed the 50-dollar mark for the first time last week.

Cloud revenue in the first nine months was up 13 percent year-on-year – and more is possible. New products are in the offing, although the launch of some has taken longer than originally planned.

None of this changes our fundamental outlook. In the period 2014 through 2018, we want to grow faster than the market. To this end, we are continuing to invest and, together with our partners, are working on new ideas in our comprehensive cloud ecosystem. And in the third quarter, we laid the cornerstone for the extension of our data center in Biere, Germany.

In order to keep up this momentum, we have already initiated our next round of innovations, innovations we believe will make it easy for small and medium-sized enterprises to transition to the Internet of Things and make the most of the opportunities presented by the digital transformation.

In Germany, we are beefing up our MagentaONE packages, offering "EntertainTV mobil" free of charge.

We are the only provider in Germany to offer Pixel, Google's new mobile handset. We thus have another top-of-the-line device in our portfolio that will contribute to the strong growth of mobile Internet in the country's best mobile network.

Data usage by Deutsche Telekom's contract customers has risen by more than 80 percent year-on-year to around 1 gigabyte a month.

That is an indication of the very good uptake rates for our More4More plans, which offer higher data volumes.

Unlimited data volume in the 4G LTE network is the linchpin of the T-Mobile One product that our U.S. subsidiary launched in September.

The transformation to IP is also progressing at our European subsidiaries. At the end of the year, Hungary will become the fifth country to convert fully to IP technology, and our first pan-European production site was also commissioned in that country. Further ones are set to follow in Poland and Greece in 2017.

These sites will provide product modules such as text messaging, e-mail, and voicemail to all our national companies, which can then choose from these modules to create specific local offerings.

We plan to strengthen our operations in the Netherlands through our acquisition of Vodafone's fixed-network business there, which covers around 80 percent of the country's households.

This will enable us to offer both fixed-network and TV services going forward and further refine our mobile business based on the highest network quality.

In the third quarter, we also put up the first LTE antennas in southern England for our joint project with Inmarsat, which will provide aircraft passengers with fast Internet access. Last week, we welcomed our first major customer in this area, the IAG group, which includes British Airways, Vueling, Iberia, and Aer Lingus. These airlines plan to equip up to 341 short-haul jets with our technology.

Ladies and Gentlemen,

The Group's key financial indicators all continued to grow strongly in the third quarter.

Net revenue of the Group increased by 4.2 percent to EUR 53.6 billion in the first nine months.

Adjusted EBITDA rose by 9.4 percent to EUR 16.2 billion. We have thus achieved more than three-quarters of our full-year target.

Free cash flow is 14 percent higher than in the comparable period last year.

We are now entering the home stretch of the financial year. Not only in the current year but also beyond that, we are confident of achieving the Group targets for revenue, adjusted EBITDA and free cash flow that we forecast at our 2015 Capital Markets Day.

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