

– The spoken word shall prevail –

Conference call

Report on the third quarter of 2017

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Thank you, Tim, for that excellent overview of our broadband activities. I could of course continue on in the same vein, but I think we will leave it at that and I can delve more deeply into our financial figures.

A very warm welcome from me, too, Ladies and Gentlemen.

Deutsche Telekom remains on track for growth.

And: We are in line with the medium-term outlook for 2014–18 that we presented at the 2015 Capital Markets Day. We want to increase:

- revenue by an average of 1 to 2 percent per year,
- adjusted EBITDA by an average of 2 to 4 percent per year, and
- free cash flow by around 10 percent per year.

Although reported revenue rose only 0.8 percent in the three-month period, that was mainly due to the weaker U.S. dollar. Organic growth was actually 3.3 percent.

The Group's adjusted EBITDA rose 3.3 percent. Exchange rate effects were a key factor here, too, and constituted the main reason for the difference between the reported figure and our organic growth rate of 5.7 percent.

As Tim already mentioned,

our EBITDA growth rests on two strong pillars: Germany with 4.5 percent and T-Mobile US with 11.4 percent.

Although our European subsidiaries recorded a decrease in earnings of around 1 percent in organic terms, the trend here is going in the right direction, which is toward a turnaround.

T-Systems posted a decline of 5.8 percent in adjusted EBITDA, while adjusted EBIT was stable compared with the prior-year quarter.

In the Group Development segment, earnings at T-Mobile Netherlands continued on a positive trajectory.

If you take a look at our reported net profit for the third quarter, you are bound to wonder how the earnings forecast and the Group's reported net profit go together – after all, the latter is about 0.5 billion euros lower quarter-on-quarter.

This trend is mainly attributable to the negative effect of an impairment of goodwill recognized at T-Systems. While we are benefiting from growing cloud and digitization business, the year to date has been marked by a decline in order entry, particularly in traditional IT business. The decline in order entry,

which we will not be able to recoup by year-end, triggered an impairment test in the third quarter. As a result of the test, we had to reduce the goodwill recognized in our statement of financial position. This impairment has no effect on cash flow. But our other full-year guidance for T-Systems remains unchanged.

Adjusted for these special factors, net profit increased by around 20 percent or 0.2 billion euros in the third quarter. In absolute terms, this increase corresponds to the improvement in adjusted EBITDA.

Our capital spending is higher than ever before – up by over 12 percent year-on-year – and we intend to keep it that way.

The ratio of net debt to adjusted EBITDA is nevertheless 2.3, well within our stated corridor of between 2 and 2.5.

I would now like to give you an overview of developments in our operating segments.

We posted robust customer growth across all business areas of our Germany operating segment. Our high cash capex – up 11 percent year-on-year in the nine-month period – is paying off.

The boom in fiber-optic lines continues unabated and has even accelerated, with 700,000 lines being added in the third quarter alone.

The net addition of 70,000 broadband lines is on par with the prior-year quarter. And that was despite the fact that, through the changeover to IP, we had to terminate roughly the same volume of contracts as in the second quarter. The number of Entertain customers rose in the third quarter as well, by a substantial 65,000. Our ability to offer product bundles with highly attractive content is

paying off. And we will up the ante again next year with our first homegrown TV series: "Germanized", starring Christoph Maria Herbst, will be available exclusively to Entertain customers in late 2018.

In the mobile communications segment, we continued to benefit from Germany's best network, which now covers 93 percent of the population. With 1.8 million net additions year-on-year, the number of LTE customers clearly exceeded the 10-million threshold for the first time. What is more, our contract customers used a lot more data, up 55 percent year-on-year to a current 1.6 gigabytes a month. Together with the addition of 137,000 branded mobile customers, that helped increase mobile service revenues by 0.9 percent and enabled us to further strengthen our position as market leader. By the way: without regulatory intervention, revenues would have risen by about 4 percent.

The share of households signing up for the MagentaEINS package expanded by 4 percentage points to 18 percent of all households subscribed to one of our broadband lines.

As you know, upselling enables us to reach much higher average monthly revenues in households with MagentaEINS packages than in those without such product bundles. That accounts for around 8.80 euros a month more in revenues per household.

Broadband revenues in the fixed network grew by 0.6 percent overall. I already mentioned the termination of some contracts due to the migration to IP. Both this and promotional offers had a negative impact on revenues. In the next few quarters, we expect to see good acceptance rates for our higher-value "So gut – So günstig" (Best value, great deal) offerings, which will have a positive impact on revenues.

For the first time in several years, we recorded an overall increase – of 0.5 percent – in service revenues in the Germany operating segment in the third quarter. The growth in adjusted EBITDA in the first nine months, which even accelerated in the third quarter, shows that the underpinnings of this trend are firm.

I will now turn to our business in the United States. The figures T-Mobile US presented two weeks ago, and the fact that it has raised its earnings guidance for the second time this year, demonstrate the company's drive as leader of the U.S. mobile communications market, a position it has held for more than three years now.

Last quarter, we added another 600,000 new customers in our key target group of branded postpaid phone customers. That represents two-thirds of total market growth and is more than twice the number achieved by Verizon.

Average monthly revenues remained stable on the whole, while those generated by prepay customers reached a new peak year-on-year.

High levels of customer loyalty are evident in the low churn rate, which declined yet again to 1.23 percent, the lowest third-quarter level we have ever achieved.

In U.S. dollars, service revenues increased 6.5 percent in the third quarter, propelled by the broader customer base and revenue growth in both the prepay and postpaid segments. That means we remain the only company posting growth in the U.S. market. Adjusted EBITDA increased 11.4 percent, and even included a negative effect of 148 million U.S. dollars from the hurricanes that hit the southern U.S. states and Puerto Rico.

T-Mobile US intends to continue this dynamic growth, also by utilizing the low-frequency spectrum it has recently acquired. By year-end, our team in the U.S.

expects to make available spectrum to cover some 62 million people and an area of around 1.2 million square miles. That equates to about 3 million square kilometers, more than eight times the surface area of Germany. It means we can start network build-out in these regions – in some cases we already have. T-Mobile US plans to open around 3,000 new shops this year. Many of them are located in areas in which the network is also being upgraded with 600-MHz spectrum, and that should unlock further growth opportunities for us.

To put it simply, it has been another excellent quarter for T-Mobile US and I can only say: "Keep up the good work."

This brings me to business in the Europe segment.

The strong trend in customer growth recorded in the first half of the year continued in the third quarter.

We succeeded in signing up 265,000 new mobile contract customers. 56,000 of those were in Poland alone, enabling us to continue the trend of the first two quarters in this market.

A further 167,000 households opted for our product bundles, reflecting a much stronger growth rate than in the comparable quarter last year.

As a result, we achieved customer growth of more than 4 percent year-on-year in each of our key growth areas: mobile contract customers, broadband business, and TV customers.

The revenue growth recorded in the first six months held strong in the third quarter, too. In organic terms, we posted a rise of around 1 percent. Adjusted EBITDA decreased 1 percent due to exchange rate effects and effects from

changes in the composition of the Group, and is in line with what we expect to post for the year as a whole.

We are confident about the future growth of our European subsidiaries and will continue to invest in order to further strengthen our position as Europe's leading network operator.

I already touched on T-Systems' revenue and earnings figures for the third quarter.

Our cloud business is doing well, as are our security and toll collection portfolios. Telecommunications business, too, posted growth in the third quarter.

We are facing headwinds, however, when it comes to traditional IT services, precisely because this business is transitioning so quickly to the cloud. This trend is evident in order-entry figures that were much weaker than anticipated. That will also have an effect on this business going forward, which is the reason for the impairment loss recognized on goodwill already mentioned.

We nevertheless expect T-Systems to post adjusted EBITDA of around 0.5 billion euros this financial year.

In the Group Development segment, T-Mobile Netherlands experienced another good quarter in terms of customer numbers. The addition of 65,000 contract customers means that the company has now notched up four successive quarters at the top of the growth table for this customer group. One of the reasons for this success is the new portfolio of rate plans introduced at the start of the year. The number of broadband lines in the fixed-network consumer portfolio acquired from Vodafone continued to rise – by almost 15 percent in the first three quarters of 2017 to reach 188,000.

Regulatory decisions and cuts in termination rates impeded the recent upward trend in revenue. Adjusted EBITDA in the Netherlands rose 8 percent in the third quarter on the back of substantial improvements in the cost situation.

I would like to finish by taking a glance at our financial ratios.

After net debt rose in the first half of the year in line with the payments for spectrum in the United States, we achieved a considerable reduction again in the last three months. Free cash flow of 1.9 billion euros in the third quarter was a key factor in helping us reduce our net debt to 52.6 billion euros. As a result, the ratio of net debt to adjusted EBITDA is once again 2.3, well within our stated corridor of between 2 and 2.5. And we managed this despite our extremely high expenditure for spectrum in the U.S. during the year.

We would now like to answer any questions you have.