Conference Call
Second quarter report of 2013
August 8, 2013

Timotheus Höttges
Chief Financial Officer
Deutsche Telekom AG

Thank you, René Obermann!

I will start with the Germany segment. We are very pleased with our operating performance in Germany in the second quarter. Revenue remained virtually stable, falling by just 0.8 percent compared with the prior year.

Discounting regulatory effects, changes in the composition of the Group, and a negative one-time effect in our wholesale business, revenue declined by just 0.3 percent.

The main factor behind this encouraging trend was growth in mobile communications of just below 4 percent, attributable to an improvement in revenues from both services and handsets.

In traditional fixed-network business, revenue fell by 3.1 percent, which is in line with the trend from the previous quarters.

Adjusted EBITDA decreased by 2.9 percent year-on-year. Our margin is a strong 40.6 percent.

Thanks to the 34,000 new customers won in the second quarter for our LTE wireless broadband services, we improved the trend in line losses compared with the first quarter. Added to this is steady growth in the average revenue per line, driven by ongoing migration to double and triple-play products.

We recorded strong growth in fast fiber-optic lines, with 126,000 new customers. 45,000 of them came from wholesale business thanks to what is known as our contingent model.

Net broadband adds fell slightly by 14,000. We plan to counteract this development in the second half of the year by stepping up marketing and advertising activities for our Entertain product – for example, with the new product "Entertain to go" and by expanding our offering through the partnership with Sky.

Service revenues in the German mobile market declined by 3.4 percent in the second quarter of 2013.

As planned, despite a difficult market environment and excluding the effect of reduced termination charges, service revenues returned to growth of 1.0 percent compared with the prior year.

This was driven by:

- Strong growth of around 18 percent in mobile data services.
- Our continued excellent sales performance: we gained 434,000 new mobile contract customers, 157,000 of them under our own brand.
- Momentum in smartphone sales continued unabated with almost 1 million devices sold. We recorded unchanged strong growth in double-play customers, who now account for 65 percent of branded contract customers, a year-on-year increase of 53 percent.
- Contract churn stood at 1.2 percent – a best-in-class result.

Turning to our business in the United States, this is the first quarter where MetroPCS has been included in our performance indicators. After 16 consecutive quarters with net postpaid customer losses in our U.S. business, we are delighted that we have managed to reverse this trend in the second quarter with 688,000 new branded postpaid customers.

In the prepay segment, we saw a clear migration of customers to postpaid rate plans with "Simple Choice" plans without an annual service contract.

As expected, there was a high level of capital expenditure in the second quarter of 2013, due to the start of the "Un-carrier" strategy as well as the launch of the iPhone. This was reflected in the development of adjusted EBITDA, which declined by 10 percent year-on-year, resulting in an adjusted EBITDA margin of 19.3 percent.

Average revenue per user (ARPU) from branded postpaid customers declined by 6.5 percent year-on-year, due to customers migrating to Simple Choice and value plans. They now account for 50 percent of the branded postpaid customer base – a clear increase against the 36 percent we saw at the end of the first quarter. The decline in ARPU for branded postpaid customers improved to 0.9 percent compared with the first quarter. ARPU from branded prepay customers increased by 30 percent year-on-year and by 23 percent compared with the prior quarter. The main reason for this was the inclusion of MetroPCS customers, who have a higher ARPU.

Revenue at T-Mobile US increased by 12.5 percent, even excluding the effects of the first-time consolidation of MetroPCS. This increase is mainly attributable to increased handset sales. In the second quarter alone, we sold 4.3 million smartphones, which accounted for 86 percent of all handsets sold. At the end of the quarter, we had 15 million smartphone users in our branded postpaid customer base. This corresponds to 72 percent of the total branded postpaid base.

Service revenues fell by 8.3 percent – a positive development following a decrease of 9.3 percent in the first quarter.

Excluding the first-time consolidation of MetroPCS, EBITDA fell by 27 percent.

These developments are also attributable to the introduction of the "Un-carrier" strategy and the inclusion of the iPhone in the portfolio, as well as to the excellent branded postpaid net adds.

And I am particularly pleased that we have gained high value customers:

Orders from “Prime” customers more than tripled since the second quarter of 2012. 52 percent of our receivables from equipment installation plans can be classified as "Prime". This is a substantial increase from 43 percent at the end of 2012.

Revenue in Europe decreased by 4.5 percent in the second quarter – which is a substantial improvement against the 6.9 percent of the first quarter. In organic terms, the decrease was only 1.4 percent.

The most significant contributions to revenue on a like-for-like basis came from Hungary, Poland, and Slovakia. We returned to revenue growth in the latter two markets, and Hungary also provided good impetus again. If you exclude the regulatory effects, service revenues were positive again in the second quarter. The energy resale business and handset sales once again made substantial contributions.

In Greece, we continued to record declines in fixed-network and mobile communications services. But overall, the trend in Greece improved slightly. Our successful TV business in particular made an impact: We gained 100,000 new TV customers within a year.

The decrease in adjusted EBITDA was lower than in the first quarter, since the Hungarian energy tax for the full year was booked in the prior quarter. Savings made by cutting indirect costs were fed partly into higher investments in the market in the second quarter. Adjusted EBITDA for the segment, adjusted for exchange-rate, regulatory, and one-time effects, declined by 5.8 percent. This led to a decrease in the margin of around 1.5 percentage points.

In the Netherlands and Austria, we recorded a substantial decline in adjusted EBITDA due to higher levels of investments in the market on the back of accelerated sales.

The strongest positive contribution to adjusted EBITDA came from Poland – due to more efficient investments in the market resulting from the switch to separate contracts for mobile services and handsets.

In addition to the good new customer figures in the Europe segment, with the number of TV customers increasing to more than 3 million, and broadband customers to more than 5 million, I would also like to point out the continued momentum in the mobile data business. Adjusted for exchange rate effects, mobile data revenue in the first half year increased by 11 percent. This is attributable to a further increase in smartphone sales, which now account for 70 percent of all delivered mobile devices, 10 percentage points more than in the prior year.

Let me just briefly talk about the progress we have made in our strategy for the Europe segment.

- The share of total revenues from our growth areas by 2 percentage points year-on-year to 21 percent.
- The share of fixed-network revenues from “connected home” grew by 2 percentage points year-on-year to 21 percent, driven by TV revenue growth.
- The share of mobile-data revenues in total mobile revenues grew by 2 percentage points to 16 percent.
- And the share of B2B/ICT revenues in total revenues increased slightly by 0.3 percentage points to almost 3 percent.

This shows that the revenue transformation in the Europe operating segment is in full swing.

Progress on the cost and efficiency side included:

- The All-IP share of all fixed-network lines grew by 9 percentage points to 23 percent, driven by Croatia, Slovakia, and Macedonia.
- LTE sites in service doubled year-on-year to 1,600. We have LTE networks in commercial use in six countries already.
- And the number of households connected via fiber to the home rose by a quarter year-on-year to 150,000.

And now, let us turn to Systems Solutions, where we achieved satisfactory results in the second quarter. The decrease in revenue of 8.6 percent was mainly attributable to seasonal effects and project delays at Telekom IT, which recorded a decline of 30 percent.

Revenue at the Market Unit declined by 2.3 percent, with the dominating factors being the deconsolidation of companies in France and Italy as well as exchange rate effects. On a like-for-like basis, revenues of the Market Unit declined by just 0.4 percent.

In the second quarter, order entry reached almost the same level in absolute terms as in the first quarter and grew by more than 3 percent year-on-year, due among other things to orders from Kone and the Swiss National Railway (SBB).

We saw a significant improvement in adjusted EBITDA and adjusted EBIT in the second quarter. The EBIT margin increased to 2.6 percent. This was mainly driven by efficiency measures and the completion of the cost-intensive transition and transformation phase for some of our big deals.

At EUR 1.1 billion, free cash flow decreased by more than 30 percent compared with the very strong prior-year quarter. This was largely due to a decrease of EUR 0.3 billion in cash generated from operations. In addition, capital expenditure (excluding spectrum) increased by EUR 0.4 billion, due in particular to capital expenditure in the LTE network build-out in the United States as well as seasonal effects that resulted in lower capex in the first quarter.

Adjusted net profit declined by just 1.5 percent year-on-year despite the lower level of EBITDA. Lower depreciation and amortization in particular had a positive impact and were attributable to a reduced depreciation and amortization base as a result of the impairment loss on the assets of T-Mobile USA recorded in the prior year.

Our net debt increased by 11.5 percent compared with the first quarter of 2013. The usual seasonal increase caused by the dividend payment in the second quarter was intensified this year as a result of the first-time inclusion of MetroPCS's net debt. Despite this effect, net debt changed only marginally compared with the second quarter of 2012.

This was partially due to the strong take-up among our shareholders of the new offer to receive their dividend in the form of stock, thus reducing the cash dividend and the corresponding burden on net debt to EUR 2 billion this year.

We have therefore already reached the highest level of net debt we will have in this year. Free cash flow for the next two quarters and in particular the proceeds from the sale of Globul will reduce net debt even further.

Finally, let us turn to our balance sheet ratios. The ratio of net debt to adjusted EBITDA increased to 2.4, the reason being the full consolidation of net debt taken on from MetroPCS, although MetroPCS's EBITDA contribution was only included in our KPIs for two months.

The decline in the equity ratio to 26.9 percent is mainly attributable to the higher balance sheet total resulting from the consolidation of MetroPCS. With regard to our comfort zone ratios, we are in the green across the board.

And now René Obermann and I look forward to taking your questions.