Conference Call
Second quarter report of 2013
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Chairman of the Board of Management
Deutsche Telekom AG

Ladies and Gentlemen,

I, too, would like to extend a warm welcome to you to our conference call.

We have good results to present to you today, despite the fact that the industry continues to struggle, as a look at our competitors shows.
One figure in particular illustrates our success on the market in the past quarter and demonstrates the major progress we have made with our most important issue:

688,000. That is the number of mobile branded postpaid customer additions at T-Mobile US. 688,000 Americans signed a new T-Mobile US contract within 90 days. We fought hard for that over the last few years, and this is a real turnaround. Just for comparison, in the second quarter of 2012, the "old"

T-Mobile USA actually lost some 557,000 branded postpaid customers!

Ladies and Gentlemen,

Developments in the United States in recent months have been very good. But we can also say of our other regions: The customers are flocking to us, particularly in Germany:

- Our strong performance on the domestic market resulted in 434,000 mobile contract customer additions in Germany. We are now once again the market leader in terms of the significant service revenues. Including the total of 258,000 new contract customers at our European subsidiaries, we gained some 1.38 million mobile customers overall in the quarter just ended.
- Our TV customer base grew by 121,000, 42,000 of which in Germany and 79,000 in Europe.
- And our broadband business has also grown, with another 44,000 customer additions throughout the Group. We have made progress in Germany with VDSL in particular, and our competitors, who share our platform, are very receptive to what is known as the "VDSL contingent model".

Ladies and Gentlemen,

Today I will talk in particular detail about developments in our Germany and U.S. segments, before Tim Höttges takes you through the details of what has been happening in Europe and at T-Systems, and of course our financial indicators.

In the second quarter, business in Germany made excellent progress, which I already mentioned. Customers are no longer leaving Telekom; they are returning in droves.

In terms of service revenues, we have positioned ourselves ahead of the competition. We kept our service revenues almost stable despite the continued high level of competitive pressure and the cut in termination rates. Adjusted for regulatory effects, we are the only competitor to have actually increased its service revenues in the second quarter – by 1.0 percent. That reinstates us as number 1 in the German mobile communications market – both in absolute terms and in a year-on-year comparison.

The strategy we have been pursuing consistently for years is bearing fruit: We are investing a great deal in top network quality, which is attested in all tests; just last week once again by the respected Kundenbarometer customer survey carried out across Germany. We have a strong position in the market with the two brands Telekom and Congstar, we have a broad handset portfolio that allows our customers to take full advantage of our LTE network with speeds of up to 100 MBit.

This maximum speed is even set to increase in the near future. And we have now been proven to offer great service. What is more, we are constantly driving future technologies such as the mobile Internet, cloud services, and the connected home, including television. We are ahead in terms of our combination of quality of service, technology, and innovation.

Customers are impressed by all of this: Sales of high-value smartphones were strong again in the second quarter. And this smartphone trend tends to go along with higher monthly revenue, not least because around 35 percent of these devices are now LTE-capable. Many of these users are on a higher-value rate plan or have chosen additional service options.

Building on this basis of quality and customer confidence, we will do everything to extend our position at the top.

Our fixed-network business continues to face tough competition, with particularly strong headwind coming from the cable operators. We defended our customer base in the second quarter, most effectively thanks to the following developments:

126,000 new optical fiber lines were added in the second quarter, two and a half times as many as in the prior-year quarter. A portion of these lines are held by customers who have migrated from an existing standard line to a premium package with higher bandwidth. On top of that are new customers. Around one third using lines that competitors have acquired under the contingent model.

All told, we now have around 1.3 million optical fiber lines, 69 percent more than in the prior year. Thanks to our vectoring roll-out, we are set for a massive repeat increase in bandwidth and potential customer base.

The high quality of our fixed network as recently confirmed by Connect magazine, including in comparison with cable operators, is paying off.

Telekom makes a good offer, both at the top and across the board. A host of Telekom customers have opted for our Call & Surf via Funk product, which is broadband coverage on the basis of LTE or 3G. This has meant that the number of old PSTN lines has declined, but the customers have merely switched to another Telekom product. The number of effective customer losses has thus continued to fall, putting them under the 200,000 mark in any one quarter for the first time since market deregulation began. Customers are switching to higher-value lines – who wants just a phone line these days?

Ladies and Gentlemen,

We had the strongest levels of customer growth we have had in a long time in the second quarter – right across the Group.

And it has enabled us to achieve something that is rare among our peers in Europe:

For the first time, revenue has increased on a like-for-like basis – and by 2.1 percent, no less. This is the first organic revenue growth for years. Overall, net revenue increased by as much as 5.4 percent to EUR 15.2 billion due to the first-time consolidation of the former MetroPCS.

Reported net profit increased by 10 percent in the second quarter to EUR 530 million. Adjusted for special factors, it remained practically stable at EUR 810 million.

Adjusted EBITDA decreased slightly by 6.0 percent to EUR 4.4 billion in the second quarter.

This is primarily the result of the high levels of investment in the market in the United States – something we are very happy to accept. Although we have clearly scaled back our subsidization scheme there for individual handsets when customers sign a mobile contract, adjusted EBITDA nevertheless fell as a consequence of customer growth at T-Mobile US. But this money is well invested in future growth.

This shows that our strategy in the U.S. is working. The new and bigger T-Mobile US resulting from the business combination with MetroPCS is successful. We have given our customers exactly what they want with our high-performance 4G network, our streamlined and improved rates model, and an even better handset portfolio.

One thing is clear: We intend to continue this successful journey. In the second half of the year, T-Mobile US plans to gain another 500,000 to 700,000 branded postpaid net adds.

This will put us in a position to generate higher service revenues and earnings. And we are ready to invest more in the market in the near future than we originally planned.

At the Capital Markets Day last December, we said that we intended to keep the branded contract customer base as stable as possible throughout the year. We now expect to see net growth of 1 to 1.2 million customers in the United States over the year as a whole.

We therefore expect adjusted EBITDA for the entire Group of around EUR 17.5 billion for the full year. Previously, the pro forma figure including MetroPCS for the entire year was EUR 18.4 billion and the figure including it for the actual eight months was EUR 18 billion.

The current difference is the consequence of a conscious decision to continue T-Mobile US's growth course. There are no other changes regarding the rest of the Group.

The same applies to free cash flow, which we now expect to total around EUR 4.5 billion for the full year as opposed to the previous expectation of EUR 5 billion. The strong customer growth with a high level of handset sales also has an impact on the proportion of free cash flow we receive from the United States.

In both cases, we are operating within the expectations of capital market analysts, with the customer additions definitely being a cause for celebration.

We have a solid financial foundation, which puts us in a good position to invest in growth at T-Mobile US. That is why we are able to invest around EUR 6 billion in rolling out vectoring in Germany's fixed network. And our planned dividend for 2013 is comfortably covered by our free cash flow. Let me say again – we are investing in our future. This is a deliberate decision and the timing is crucial.

And that takes me back to our U.S. business, this time in a little more detail.

First, customer figures. Due to the first-time consolidation of MetroPCS effective May 1, our customer base grew by around 8.9 million.

On top of that, approximately 1.13 million customers were added across all customer segments – that is including postpaid, prepaid, M2M, and the service provider business. So currently T-Mobile US has around 44 million customers.

What is behind this overall extremely positive development?

- Under our "Un-carrier" strategy, we radically streamlined our range of rate plans. Compared to our competitors, our rate plans have become even more attractive. For instance, we have broken the link between handset and mobile service contracts. Contracts can be terminated at short notice anytime, offering a flexibility that customers appreciate.
- We have accelerated our 4G roll-out, with POP coverage now extending to 157 million; the original plan was to have around 100 million by mid-year.

- We now offer MetroPCS-branded prepay rate plans in 30 markets, double the number of markets only 10 weeks after the deal was closed.
- In addition, we began offering the iPhone on April 12. In the second quarter, smartphones accounted for 86 percent of all devices sold. Altogether we have sold approximately 4.3 million smartphones; the prior-year figure was 2.1 million.

All things considered, we offer the best value for money in the market, and customers are rewarding us for it:

- With postpaid customer churn at an all-time low.
- Gross branded postpaid adds have risen 77 percent to around 1.5 million. This also includes a high number of prepay customers who have switched to a mobile contract.
- In our business with service providers, we have seen a net increase of 319,000 customers, a figure that is over ten times higher than in the second quarter of 2012.

Service revenues are not yet reflecting these positive developments. The increase of 8.4 percent is entirely the result of the first-time consolidation of MetroPCS, with the effect of strong customer growth obviously being felt with a slight time lag. But we are seeing an improvement in the overall trend compared with the first quarter.

As I said, the higher number of customers and the switchover of existing customers to higher-value rate plans should give a clear boost to revenue and hence also earnings in the medium term.

Ladies and Gentlemen,

Let me repeat: T-Mobile US plans to add between 1.0 and 1.2 million postpaid customers before the end of the year. After the first half of the year, that figure already stood at 490,000. You will remember that we actually had a decline in the first three months.

In other words, T-Mobile US expects the customer base to grow by another 500,000 to 700,000 postpaid customers during the second half of 2013, which is more than in the first half. To make sure this trend continues, we are raising our investment budget for the U.S. market.

Our highly differentiated "Un-carrier" strategy is paying off – and we want to make sure that remains the case long-term.

Ladies and Gentlemen,

We have found ways to improve our position in the various markets without putting our solid financial backbone into jeopardy. Despite a larger consolidated group, net debt is at the same level as in the prior year.

We have carved out room for maneuver that we are using to drive ahead with our broadband roll-out in Germany, for instance.

We will continue to drive the metamorphosis of Deutsche Telekom, build integrated networks for the Gigabit society, develop Deutsche Telekom as a platform for Internet partnerships, invest in cloud services and excite our customers with the best quality of service.

Thank you.