

– The spoken word shall prevail –

Conference Call
Third quarter report of 2016
November 10, 2016

Thomas Dannenfeldt
Chief Financial Officer
Deutsche Telekom AG

Thanks Tim, and a very warm welcome from me as well.

I would like to set out the development of the third quarter in some detail for you. But as you know, it is the big picture that is especially important to us. That is why I deliberately keep reminding you of the financial targets we have announced the last year.

- To increase revenue by an average of 1 to 2 percent per year from 2014 through 2018.
- To grow adjusted EBITDA by an average of 2 to 4 percent per year in the same period.
- And to improve average free cash flow by some 10 percent annually.

Our financial figures continued to develop very well in the third quarter.

Revenue increased by around 6 percent, driven by double-digit growth in service revenues at T-Mobile US, once again mainly as a result of the increase in the number of customers by more than 8 million year-on-year.

The Group's adjusted EBITDA rose by more than 7 percent, primarily due to the revenue increase I just mentioned at T-Mobile US.

Adjusted net profit remained stable year-on-year. The higher operating result was impacted by higher depreciation and amortization due to our increased investments in networks and T-Mobile US' terminal equipment lease model. Reported net profit, by contrast, increased by around 30 percent year-on-year, driven mainly by the much lower special factors in connection with staff restructuring.

The sharp increase in free cash flow of around 46 percent reflects the strong operational development. We are exactly in line with our expectations and guidance of around EUR 4.9 billion for the full year.

Now let us take a look at the development in the operating segments.

In Germany, we achieved a slight increase in mobile service revenues of 0.2 percent, despite the impact of reduced EU roaming charges as well as of the MagentaEINS bundles, as the discounts granted to customers are exclusively accounted for in mobile communications. Put simply, in the past, without the reductions in roaming charges and without convergence products, we would have recorded an increase in service revenues of around 3.5 percent.

The positive overall performance is attributable to an improved trend in our business customer segment as well as a stable performance in our consumer segment.

Net customer adds under the Deutsche Telekom and Congstar brands are more or less on a par with the prior-year level at 145,000.

On the one hand, this shows continued strong positive reception of our mobile data offers and our new More4More rate plans. More than 10 million customers now have a rate plan with an LTE component – and monthly usage is rising fast, as Tim Höttges pointed out.

On the other hand, the percentage of consumers who have booked a MagentaEINS bundle increased further. Two years after the launch of our integrated bundles, some 31 percent of the relevant target group has opted for a MagentaEINS rate plan. These integrated products also contribute to the positive trend in mobile service revenues.

In summary, these trends show a good basis for achieving our guidance announced at the Capital Markets Day, under which we plan to increase mobile service revenues by an average of around 1 percent, excluding regulatory effects.

In the German fixed-network business, the strong development in the number of fiber-optic lines continued with growth of 526,000. That is around 100,000 more than in the third quarter of 2015. The majority of these lines were added in our branded retail business.

The number of broadband customers grew by more than 65,000 in the quarter. Our latest initiatives, such as "So gut, so guenstig" (Best value, great deal) and the extended Entertain offer for MagentaEINS customers, should help us in the rest of the year to add as many broadband customers in the full year as we did in 2015.

Please bear in mind that, unlike in mobile communications where a card can be transferred from one provider to another in just a few hours, in the fixed network, there are still longer ordering and switching processes that service staff have to carry out on site. This means that there is a natural lead time before the new calling plan packages launched in early August begin to take full effect.

Broadband revenues in fixed-network business increased by 1.7 percent in the third quarter. The continued strong growth in fiber-optic business, the launch of the new Entertain platform, and the aforementioned additional offers give us confidence that we will achieve the growth of around 2 percent in broadband business that we announced at the Capital Markets Day.

Fixed-network service revenues fell by 1.4 percent overall in the third quarter. The figure for the third quarter of 2015 included a positive one-time effect on wholesale revenue. The underlying revenue trend was down by just 0.6 percent.

On aggregate, revenue in the German business declined by 0.8 percent. Including the aforementioned one-time effect on wholesale business and the impact of the reduced roaming charges, the underlying revenue trend was slightly positive quarter-on-quarter.

Adjusted EBITDA remained more or less on a par with the prior-year level, with a difference of 0.8 percent. This puts us well on track in Germany for delivering the results we forecast for the full year.

We migrated approximately 3.4 million more lines to IP in Germany than in the prior-year period. We have now migrated almost 50 percent of all lines. This includes around 1 million business customer lines, or around a third of the lines for this customer group. For consumers, we can use standardized processes.

For business customers, migration entails highly complex individual projects due to the need to harmonize our access technology and the technical components that can vary hugely from customer to customer. That is why we have currently migrated a much higher percentage of consumers to IP than business customers.

And that brings us to T-Mobile US, briefly, which has already published its figures on the basis of U.S. GAAP.

The strong growth in the customer base continued, with 969,000 new branded postpaid customers and another 684,000 new prepay customers. I should just point out once more that prepay in the United States means something completely different financially than it does in Europe. A prepay customer of T-Mobile US generates average monthly revenue of 38 U.S. dollars, which is only around 10 U.S. dollars below that of a postpaid customer.

Above all, the much larger customer base boosted service revenues by 13.1 percent.

Adjusted EBITDA rose by 27 percent. This growth was lower than the even higher rate of the previous quarter, due in particular to the larger number of gross adds in the third quarter and the effect of promotions in connection with the market launch of the iPhone 7.

The earnings development shows that T-Mobile US' business is performing very well in all key parameters:

The target for the number of new customers has already been revised upwards three times this year, while at the same time the churn rate has fallen further against the prior-year period.

The synergies from the merger with MetroPCS and the economies of scale from higher customer numbers largely offset the higher costs incurred in connection with the network build-out. The result is a further improvement in efficiency, as measured in terms of a reduction in the ratio of costs of rendering mobile services to service revenues.

Let us now move on to the Europe segment.

In the last quarter, we further increased our customer acquisition costs and thereby significantly expanded our market position.

For example, we won 219,000 new contract customers through subsidiaries, a good three times as many as in the prior-year quarter. In the Netherlands, we increased our contract customer base for the fifth consecutive quarter, by 54,000 in the last three months. Thus, we recorded more than 931,000 net mobile contract adds in the segment as a whole compared with the prior-year period.

The number of broadband customers increased by 5.3 percent year-on-year to almost 5.7 million. We recorded growth in TV customers of 4.6 percent to 4 million.

For our convergence products, which we offer in all integrated national companies, we won another 90,000 households in the third quarter, bringing the total number to currently around 800,000.

As a result, the organic revenue trend remained stable. The difference from the reported slight revenue decline is attributable to exchange rate effects and the spin-off of the energy resale business in Hungary at the start of the year.

Adjusted EBITDA declined primarily as a result of the reduction in roaming charges, changes in the revenue mix, and higher market investments. The latter are expenses that – as can be seen from the development of customer numbers – have a positive effect on our market position in the short term.

T-Systems continued the transformation process over the last quarter.

In the Market Unit, we can see a rising trend in earnings, which, however, is slower than originally expected. This is influenced by the rising pace of migration of our business customers to IP, and, in addition, we have been facing headwinds in particular from a number of legacy contracts. We had originally planned to deal with this somewhat more quickly.

But we must not allow this to distract us from the opportunities the business offers for T-Systems going forwards. In relation to the Internet of Things, for example. Or the cloud business, which promises high growth rates for the future.

Ladies and Gentlemen,

To close, let us take a look at our most important financial ratios.

At 2.3, the ratio of net debt to adjusted EBITDA is still well within our guidance range. Net debt fell slightly compared with the middle of the year, due to the strong free cash flow, despite the expenses of EUR 1.1 billion for further spectrum in the United States and Poland.

To summarize the situation:

Overall, our financial figures show that we are well on track for our Group targets for 2016.

U.S. business remains strong in operational and financial terms.

In Germany, development is good and in line with our expectations.

We will continue to focus on the Netherlands, Poland, and Romania, as well as T-Systems.

And now we look forward to your questions.