

– The spoken word shall prevail –

Conference call

Report on the second quarter of 2017

August 3, 2017

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Thank you, Stephan, and a very warm welcome from me as well.

Ladies and Gentlemen,

The core message of today's conference call is this: Deutsche Telekom's capital expenditure is at record levels and the company is revising upward its full-year earnings forecast.

First, cash capex:

In the first half of this year, we invested the record amount of 6.2 billion euros. That is an impressive 13.5 percent more than in the comparable period last year. We remain the biggest investor among the European incumbents and, of

course, within Germany. Capital expenditure in Germany rose by more than 20 percent year-on-year, to 2.6 billion euros. We are building out tomorrow's networks, for consumers and business customers alike: higher speeds – in both fixed-line and mobile networks – better network coverage and more innovation. Customers have acknowledged that and are switching to us – not just in the United States, but also in Germany and, increasingly, at our European subsidiaries as well. We are very happy that our success rests firmly on several pillars. This positive trend is also evident in our financial figures, which were substantially higher year-on-year. That is why we are revising upward our full-year guidance for Group earnings.

Let me pick out, by way of example, four areas that are driving growth:

- Our MagentaONE product bundles, which combine fixed-line and mobile communications, continue to attract large numbers of new customers across Europe. At the mid-year point, we had 1.6 million more customers than this time last year. That was an increase of around 50 percent.
- Customers in Germany opted for 622,000 fiber-optic lines in the second quarter, equivalent to a year-on-year increase of around 50 percent as well.
- In the United States, T-Mobile US gained an additional 6.5 million customers year-on-year – that makes us the country's fastest-growing nationwide mobile communications provider.
- We notched up an 11-percent increase in cloud revenue in the first half of the year, with the second-quarter growth rate accelerating compared with the first three months.

Growth in the Group's net revenue and adjusted EBITDA accelerated over the first six months.

At the half-way point of 2017, adjusted EBITDA came to 11.5 billion euros, up by a full 8.2 percent year-on-year. As a result, after six months, we have already achieved over half of our original full-year guidance. T-Mobile US has increased the mean value for its full-year EBITDA guidance by 100 million U.S. dollars. In view of this, we expect to post full-year adjusted EBITDA of around 22.3 billion euros, roughly 100 million euros more than previously planned.

The Group's other targets for 2017 remain unchanged.

Free cash flow for the 2017 full year is expected to come in at around 5.5 billion euros and thus rise more than 10 percent year-on-year. After six months, we have reached 2.5 billion euros, which is 400 million euros higher than in the comparable prior-year period, even though we recognized an offsetting effect in the amount of some 180 million U.S. dollars in the second quarter from optimizing T-Mobile US' financing structure.

For us, all this confirms that – both this year and last – record cash capex and growth in free cash flow are not mutually exclusive. And we plan to further increase cash capex for the full year to around 12 billion euros. In other words, more than 1 billion euros more than in 2016.

And add to that figure the equivalent of 7.2 billion euros that T-Mobile US paid in U.S. dollars for spectrum at the latest FCC auction. T-Mobile US will begin utilizing this spectrum before the end of the year: Our U.S. colleagues want to increase their low-frequency mobile coverage across the country and also achieve a substantial improvement in indoor network quality. That will offer us an opportunity to systematically expand our sales in areas in which our network has not yet been capable of delivering optimal quality, and consequently to address potential new customers.

In this context, one thing is particularly important to me as a numbers man: Despite high capital expenditure, the ratio of net debt to adjusted EBITDA has remained within our comfort zone of 2 to 2.5. In addition, all of the big three rating agencies kept our rating unchanged.

The increase in net debt came to just over 5 billion euros compared with year-end 2016. The strong free cash flow had a positive impact here, as did the fact that our shareholders opted for the payout in shares for 49 percent of their dividend entitlements. That meant that 1.4 billion euros stayed in the company. The sale of Strato and of the remaining shares in Scout24 had a positive impact, too, as did currency translation effects not recognized in profit and loss.

As regards all its key figures, the Group thus remains well within its financial plan.

Just to remind you: The medium-term outlook from our 2015 Capital Markets Day was as follows:

- We aimed 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.

That brings me to the specific developments in the second quarter.

Net revenue increased by 6 percent to 18.9 billion euros, driven by growth of 1 percent in Germany, 10 percent in the United States, and over 2 percent in Europe.

Adjusted EBITDA came to more than 5.9 billion euros, up by around 9 percent. T-Mobile US remains the strongest driver of EBITDA, with growth of 18 percent in U.S. dollar terms. The Germany and Europe operating segments improved again quarter-on-quarter, with Germany growing by over 1 percent, and Europe posting stable earnings in organic terms.

The Group's net profit rose by 41 percent to 0.9 billion euros. Adjusted for special factors, net profit was up by a substantial 14 percent to 1.2 billion euros due to the rise in earnings from operations. So, the growth in earnings translated into a rise in net profit.

Ladies and Gentlemen,

I will now quickly take you through the performance of the individual operating segments.

In the Germany segment, we further substantially increased cash capex in the first six months by 17 percent. The greater part of this amount of over 2 billion euros was invested in network build-out – for the direct benefit of our customers. Over 28 million households already have access to our fiber-optic network. LTE coverage of Germany's best mobile network has already reached 93 percent.

In many places in which the fixed network has not – yet – been built out, our hybrid lines are making a difference. Some 340,000 customers in Germany already use such lines, up 45 percent on a year ago.

Customers continue to appreciate what we can offer: the best mobile network and the best service.

- The number of branded mobile contract customers increased by 228,000 in the second quarter.

- Some ten million customers now use our LTE network on the basis of a corresponding rate plan component, up almost a fifth year-on-year.
- And these mobile surfers are making ever more intensive use of our LTE network: Data usage by consumers with a Telekom contract rose by 60 percent year-on-year.

As a result, our mobile service revenues increased by 0.8 percent in the second quarter. Above all, that is down to increasing use of our data rate plans. If we factor out the effects of regulatory measures, the growth rate was even 2.5 percent. We have thus clearly consolidated our position as market leader.

The second-quarter figures underscore the sustained demand for our fiber-optic products.

Although growth in broadband lines appears to be declining, this is due solely to the migration to IP. The quarterly figure contains a large number of what are known as "hard migrations". If we factor out this effect, the number of broadband customers grew by more than 70,000 and was thus on a par with the comparable prior-year period.

In combination with our "So gut – So günstig" (Best value, great deal) offering, this effect was one reason that broadband revenue growth slowed to 0.8 percent.

Our broadband products remain attractive:

- Customers have opted for 622,000 fiber-optic lines. Overall, 8.2 million households are using the new infrastructure.
- Some 3.4 million customers already use our MagentaEINS product bundle.

- Growth in sales of Entertain have also improved substantially, with the number of users rising by 69,000 to over three million in the second quarter.

On balance, all this led to a 0.6-percent increase in total revenue for the Germany segment in the second quarter. Service revenues in the segment declined marginally. In addition to the decrease in traditional telephony business, we also had to contend with the negative impact of the roaming regulation and reduced termination rates. If these effects – which accounted for around 40 million euros – were factored out, the segment's service revenues would have increased by 0.3 percent.

Adjusted EBITDA increased by 1 percent quarter-on-quarter, due to the positive effect of a reduced cost base.

You know that broadband is not the only thing customers buy: Innovations offering customers more and better products as well as greater convenience are just as important. This is an area in which we are constantly going the extra mile.

- One example is SmartHome: Within the space of just one year, we have more than doubled our customer base in this area to over 180,000. Integration of the SmartHome interface in our routers has helped enhance our technical platform even more.
- Another example is StreamOn: We successfully launched this innovative audio and video streaming product in the German market in April. Sixty-five partners currently offer their audio, music, and video services via StreamOn, with the streamed data not affecting the data volume included in the customers' rate plans. This adds genuine value for customers at no additional cost, and more than 250,000 users have already opted for this offering.

- Yesterday, we launched the ultimate TV package for all sports fans – for less than 10 euros per month. Telekom Sport and Sky Sport are bundling a whole range of live sports content to create a unique package, including basketball, ice hockey, handball, Germany's 3rd soccer league, and the top matches from the women's Bundesliga. On top of that, there are original Sky live conferences for Germany's Bundesliga and the UEFA Champions League – matches that are no longer broadcast free to air. This is something only we can offer.

Ladies and Gentlemen,

I would now like to move on to our European subsidiaries.

Here, too, we have benefited from our high-quality network and from our product bundles.

We have reached a further 1.1 million households with our fiber-optic lines, making for a total of 5.3 million or over 27 percent of households.

LTE coverage is at 91 percent, which corresponds to around 102 million people, one-quarter more than a year ago.

We have also done a lot to make our products more attractive.

We are pleased to have posted at least double-digit growth rates for all our key customer numbers:

- We acquired 372,000 new contract customers in the mobile segment. That is over three times as many net additions as in the comparable period in 2016.

- We added 81,000 new fixed-network broadband customers, an increase in additions of 20 percent year-on-year.
- The same goes for TV business, where we gained 56,000 new customers and grew by 44 percent.

Mobile data business, the B2B/ICT business customer operations, and Connected Home were the main drivers of this improvement in revenue.

In organic terms, segment revenue grew by 1.5 percent in the second quarter and adjusted EBITDA was on a par with the prior-year quarter. Overall, then, the Europe segment's performance was extremely gratifying.

Let us move on to U.S. business.

Our LTE network in the United States now covers 315 million people. Our download speeds are the fastest among the four nationwide network operators.

We are enhancing this high network quality with low-frequency coverage for currently 271 million people. The new mobile spectrum licenses will enable us to reach even more people going forward and allow them to enjoy better network quality.

Let me give you a few brief examples of how strong the T-Mobile brand has already become in the U.S. market:

- In each of the last 17 quarters, T-Mobile US has added more than one million new customers.
- With around 800,000 new branded postpaid telephony customers, our subsidiary accounted for more than 70 percent of the entire growth in the U.S. market for this key customer group.

- T-Mobile has positive porting ratios compared with the other three nationwide network operators. That means we are winning more postpaid customers from these competitors than we are losing to them.
- The churn rate for postpaid customers has fallen even further and, at 1.1 percent, has hit the lowest level in the company's history.

T-Mobile US is the only nationwide provider that succeeded in increasing its service revenues, which rose by more than 8 percent year-on-year.

Thanks to this positive trend in customer numbers, adjusted EBITDA rose 18 percent and net income – under U.S. GAAP – was up by more than 150 percent.

Overall, T-Mobile US once again delivered the strong performance we have come to expect of it.

And now to T-Systems.

Revenue here declined slightly in the second quarter. This was due in part to price pressure and lower sales volumes for traditional IT outsourcing business. As you know, we made a strategic decision to begin shifting our traditional IT business to the cloud and to network-based services. We see growth opportunities in this area, and I already mentioned the 11-percent increase in cloud revenue in the first half of the year.

Adjusted EBITDA rose by more than one-fifth year-on-year. This jump in profit, however, reflects the quarter-on-quarter volatility that is not unusual in this segment, and we continue to expect a stable trend for full-year 2017.

Our new Group Development operating segment benefited from the positive trend in the mobile business in the Netherlands, where our contract customer base continued on its upward trajectory. With 61,000 new customers added in the second quarter, T-Mobile Netherlands again posted the highest growth of all network operators.

After a succession of quarters with negative service revenues, the company recently posted growth of around 1 percent. This filtered through to adjusted EBITDA, which grew by a double-digit figure. Legal requirements to change contract models – and the resulting shift to SIM-only contracts – as well as a cost-reduction program were also factors in this growth.

Ladies and Gentlemen,

It is good to see how our strategy is working. We are expending record amounts of capital to build top-quality networks and launch attractive products and applications in the market. We are actively shaping the future for our customers. The strong demand for our products and services demonstrates that we are giving them what they want, and that is increasingly enhancing our revenue and earnings. We intend to continue on this course for the rest of the year.

We would now like to answer any questions you have.