

– Check against delivery –

Conference call

Report on the second quarter of 2018

August 9, 2018

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Ladies and Gentlemen,

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

Ladies and Gentlemen, the core message of today's conference call is this:

Deutsche Telekom is once again revising its full-year guidance for 2018 upward and continuing to make record-level investments in state-of-the-art networks.

We now expect adjusted EBITDA of around 23.4 billion euros for the full year. The forecast has been raised on the back of the increased guidance for our operations in the United States.

But let me turn first to the capital expenditure that forms the basis of our strategy.

We invested some 6.1 billion euros in the first half of the year. That is around the same high level as this time last year.

We continue to build out our networks to increase coverage with the focus on improving quality and offering the best customer experience.

As such, we remain by far the biggest investor among the integrated European telecommunications companies and, of course, within Germany.

32 million households across Germany are now connected to our fiber-optic network – that is four million more than one year ago.

In addition, in the last twelve months alone we put around 1,000 new cell sites into operation. Our LTE network now covers 95 percent of the German population. As you know, we plan to up the pace of our efforts in this regard even further. Our goal for 2019 is up to around 2,000 new cell sites.

We also accelerated the build-out of our network across Europe and have connected another 1.5 million households to our fiber-optic network since mid-2017.

Our LTE network here covers 96 percent of the population, or 108 million people. That is growth of six million within twelve months.

In the United States, T-Mobile is now using the 600 MHz spectrum it acquired in 2017 in around 1,000 cities. And T-Mobile already offers twelve smartphone models that work with this new spectrum.

Our substantial investments and attractive rate plans have driven strong customer growth on both sides of the Atlantic.

Allow me to touch on several growth areas:

- At the mid-year point, we operated eleven million fiber-optic lines in Germany. More than 1.4 million of these were added in the first half of 2018 alone.
- In Europe, our mobile contract customer base continued to grow with more than half a million customer additions in the first six months, as did the number of fixed-network broadband lines, where our customer base grew by around 140,000.
- Our strategy of being a one-stop shop for fixed-network broadband, mobile communications and, where possible, TV is increasingly paying off, with around 700,000 customers signing up for MagentaEINS products or, at our European subsidiaries, for equivalent product bundles in the first half of 2018.
- T-Mobile US continued to record consistent growth, adding over one million new customers for the 21st consecutive quarter. That is a year-on-year increase of more than six million customers.

And the number of customers in our particularly important postpaid plus handset segment grew by 2.8 million compared with this time last year. This performance once again stacks up extremely well against the other nationwide providers.

Our key financial figures have also recorded substantial organic growth on the back of the positive development in customer numbers this year so far.

Revenue rose 2.2 percent in the first six months to around 36.3 billion euros.

Adjusted EBITDA increased in the same period by 5.2 percent to 11.5 billion euros.

All of these trends exceed our expectations.

Fluctuations in the U.S. dollar exchange rate drove a decline of 3.3 percent in reported revenue while adjusted EBITDA remained virtually stable year-on-year.

We expect reported and organic trends to converge much more closely starting in the third quarter.

The good development of our figures in the first half of the year and in particular the even more robust uptrend at T-Mobile US has prompted us to lift our year-end earnings guidance for the Group for the second time this year.

We now expect adjusted EBITDA of around 23.4 billion euros on the basis of constant exchange rates. That is 0.2 billion euros more than we expected at the start of the year.

We still expect free cash flow for 2018 to come in at around 6.2 billion euros. Free cash flow increased 14.5 percent in the first half of the year to 2.9 billion euros.

Ladies and Gentlemen,

As this quarter once again illustrates, high capital expenditure and rising cash flows are not mutually exclusive. Our strategy – that is: investing in infrastructure first and foremost to create the best networks, attract customers, and thus improve revenue and earnings from the growing customer base – continues to reap rewards.

Let me remind you of the cornerstones of our finance strategy for 2014 through 2018, which we have exceeded in the first three years. 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.

As we announced at our Capital Markets Day in late May, we intend to continue growing at the same rates from 2017 through 2021.

The trend in the second quarter was fully in line with this ambition level.

Net revenue increased organically by 1.3 percent. Reported revenue declined by 2.8 percent.

I already touched on the effects of the U.S. dollar exchange rate, but let me reiterate: The difference of around 4 percentage points in revenue development is due to the around 10 percent weaker U.S. dollar compared with the previous year.

By contrast, the positive trend seen in operations in the first three months continued across the board throughout the second quarter.

We recorded a marginal decline in revenue from our operations in Germany, due entirely to the transition to the new IFRS 15 accounting standard. Adjusted for the effects of this change, revenue would have increased by 0.5 percent.

The uptrend at our European subsidiaries continued, with revenue up organically by 1.4 percent. Greece and Hungary were particularly strong drivers of this growth.

T-Mobile US reported organic revenue growth of 3.6 percent.

Adjusted EBITDA remained stable in the second quarter at 5.9 billion euros. In organic terms, adjusted EBITDA was up by 3.9 percent, attributable in part to a currency translation effect of around 0.2 billion euros caused by the weaker U.S. dollar compared with one year ago.

All three major segments also reported growth in this regard: almost 2 percent in Germany and around 1 percent in Europe, as well as, on an organic basis, around 6 percent in the United States.

Adjusted EBITDA from the Group's operations excluding the United States grew in both the second quarter and the first six months – and it did so by some 2 percent. This is testament to our strong multi-pillared growth strategy on both sides of the Atlantic.

Adjusted net profit increased in the three months from April to June by 3 percent to reach 1.2 billion euros.

Reported net profit stood at 0.5 billion euros despite a negative special factor of around 0.6 billion euros.

This was due to the expense in connection with the conclusion of the toll collection arbitration proceedings. The payment puts an end to the proceedings after more than ten years and satisfies all claims by the parties involved.

This brings me to the development of business in our operating segments.

Our integrated network strategy continued to pay off in our operations in Germany.

Telekom Deutschland invested 2.1 billion euros in the first six months, up 2.5 percent on the first half of 2017.

By pursuing our strategy of bringing the fiber-optic network ever closer to customers, we are now increasing transmission speeds over the fixed network using vectoring to up to 100 Mbit/s, thus delivering high speeds to a very large number of households.

The number of additional households with access to these speeds has grown to around 5.7 million since the start of the year, and the 81,000 increase in new fixed-network broadband customers in the second quarter was also down to this development.

Together with our multi-award-winning LTE network, the largest of its kind in Germany, this has attracted a large number of customers to our MagentaEINS products.

20 percent of households with a Deutsche Telekom broadband line also use a MagentaEINS product bundle, up 3 percentage points on the previous year. Our MagentaEINS bundles were even more popular among mobile contract consumers, where growth of 7 percentage points brought the total to 45 percent.

As a result, if you compare the results adjusted for the transition to the IFRS 15 accounting standard, revenue from our operations in Germany in the second quarter grew by around 0.5 percent year-on-year. Service revenues increased by around 1 percent, driven mainly by mobile service revenues, which grew

2.9 percent in the second quarter. Adjusted for regulatory effects, growth would have been as much as 3.9 percent.

In parallel, we reduced reported opex by more than 2 percent and increased the EBITDA margin by one percentage point year-on-year.

All business areas in our Europe operating segment are reporting growth. With 334,000 new mobile contract customers and 73,000 new broadband lines, our growth trend continued at the same level as in the prior-year quarter.

The number of customers choosing product bundles increased substantially to some 230,000 customers compared with the second quarter of 2017. The MagentaONE customer base has grown by almost 50 percent since the mid-2017 to some 2.7 million.

Revenue generated with convergent products increased by 60 percent in the first six months of 2018. In part, this reflects the aggregation of revenue from contracts that were previously accounted for separately. Additionally, higher average monthly revenue generated by MagentaONE households contributed to this revenue trend.

Demand among business customers developed extremely positively in the second quarter, up 4.6 percent compared with the prior-year quarter. This more than compensated for declining revenue in traditional telephony business. As a result, the Europe segment recorded a year-on-year 1.3 percent rise in revenue in the second quarter.

Adjusted EBITDA in the second quarter grew by around 1 percent year-on-year on the back of strict cost discipline.

T-Mobile US continued its success story throughout the second quarter of 2018. Our network there already covers around 323 million people. T-Mobile US is an attractive choice for customers thanks to the highest LTE transmission speeds in the United States.

Over 1 million branded postpaid net additions and around 1.6 million total net additions in the second quarter once again drove up service revenues by a substantial margin. With year-on-year growth of 6.1 percent to 7.8 billion U.S. dollars in the second quarter, T-Mobile US again recorded the strongest growth among the big four U.S. network operators.

At the same time, the postpaid customer churn rate was brought down to a record low of 0.95 percent. That is an improvement of 14 percent within 12 months.

Adjusted EBITDA increased by 5 percent to 3.0 billion U.S. dollars, driven mainly by revenue growth and stronger customer loyalty.

T-Mobile US published its second-quarter figures a few days ago, both specifying and lifting its growth forecast for the full year. Incidentally, that is the second time it has done so this year.

Branded postpaid net customer additions are now expected to total 3 to 3.6 million, up from the 2 to 3 million net additions forecast at the start of the year.

Adjusted EBITDA was originally expected to reach 11.3 to 11.7 billion U.S. dollars in 2018. This target has now been revised upward to 11.5 to 11.9 billion dollars.

T-Systems doubled its adjusted EBITDA quarter-on-quarter as expected. At the close of the first half of the year, the company is still on track for its full-year guidance.

Order entry continued its particularly positive trend from the first quarter through the months April to June, and at 1.8 billion euros was up more than 40 percent year-on-year.

Revenue declined slightly in the second quarter. Adjusted EBITDA in the same period was down 11 percent year-on-year.

In our Group Development segment, the customer base at T-Mobile Netherlands continued to develop positively, with 87,000 contract net additions in the second quarter. This brings the growth in contract customers recorded over the past year to a total of over 310,000, or 10 percent.

By contrast, service revenues declined substantially in the second quarter by almost 15 percent year-on-year. This was attributable mainly to the transition to the new IFRS 15 accounting standard and to the effects of roam-like-at-home regulation. However, underlying service revenues remained virtually stable, falling by just 1 percent. Adjusted EBITDA declined by 8 percent.

But one thing remains: The market in the Netherlands is particularly challenging. Although we have consistently been adding mobile contract customers for ten quarters in succession, we are working in a market that is dominated by two convergent players.

If competition is to be invigorated with new convergent products, and above all if the Netherlands wants a fast 5G roll-out, then the country needs a strong third integrated provider that is in it for the long haul.

Tower business in Germany developed consistently well and in line with our expectations.

To round off our look at the first half of 2018, I would like to go into our key financial figures briefly.

Net debt rose as expected compared with the end of March, due mainly to the dividend payment, exchange rate effects, the purchase of further shares in T-Mobile US and OTE, and the conclusion of the toll collection proceedings.

However, net debt was reduced by 1 percent compared with the mid-point of 2017 thanks to an increase in free cash flow of 16 percent to 1.5 billion euros in the second quarter.

Ladies and Gentlemen,

As you can see, our operating business is doing well. It has given us the security we needed to tackle various strategic topics.

To close, I would like to touch on the strategic measures we have taken successfully since the end of the second quarter.

Firstly: In future, we will be able to offer convergent services to customers at another two of our European subsidiaries:

In July, the European Commission approved the takeover of cable network provider UPC by T-Mobile Austria. This will open up gigabit speeds over the fixed network to two million households in Austria by the end of 2021 and give customers access to product bundles ranging from mobile communications broadband fixed network to TV. UPC has been included in the consolidated financial statements in full since August 1, 2018.

Also, in July, we backed up our letter of intent by closing a binding deal with Orange in Poland on access to its fiber-optic network.

This will allow us to offer product bundles to more than four million households in the coming years.

Secondly: Deutsche Telekom's preparations for implementing the financing aspect of the U.S. deal have now been put in place.

Thirdly: In Germany, two standout topics are driving forward our integrated network strategy.

In Stuttgart, we plan to lay fiber-optic cable directly to up to 1.3 million households and 140,000 company sites in the next few years. We also intend to continue expanding our LTE network there and set up a 5G network for smart city applications.

We are building the region's gigabit network and have budgeted for investments of up to 1.1 billion euros. The region is contributing another 0.5 billion euros out of its own pocket.

We began rolling out super-vectoring at the beginning of August, which boosts download speeds over the fixed network to up to 250 Mbit/s and upload speeds to up to 40 Mbit/s. We can thus offer download speeds of at least 100 Mbit/s and for the vast majority of households at least 175 Mbit/s.

The first phase covers some six million households. As promised, by around the turn of the year we aim to be offering these speeds to around 15 million households in Germany. And by the end of 2019/early 2020, we want to bring this figure up to around 27 million.

Our fiber-optic build-out activities over the last four years have created the basis for offering high transmission speeds to as many households and businesses as possible, as quickly as possible. We are also accelerating the roll-out of fiber to the home and to businesses, and expect to reach some two million in 2021. Beyond this, up to two million end-to-end fiber-optic lines will be added each year.

Ladies and Gentlemen,

Our investments in networks and convergent services form the basis for the best customer experience. And we are investing more in these areas than anyone else. Our network quality regularly lands us at the top of major tests in the fixed and mobile networks, like those by Connect and Stiftung Warentest in Germany. T-Mobile US has the highest mobile network transmission speeds of all U.S. mobile carriers.

But the best customer experience relies on providing a top service and we just took the top spot in Connect's latest test comparing the hotlines of German broadband providers. In the United States, J.D. Power again awarded T-Mobile the prize for best customer service among mobile providers.

We have achieved a great deal over the last few months on our journey to delivering the best customer experience and customers are vouching for our efforts by choosing our products.

We would now like to answer any questions you have.