– Check against delivery –

Conference call
Report on the third quarter of 2018
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Ladies and Gentlemen,

I, too, would like to warmly welcome you to our conference call.

As Tim just underlined in his summary, our financial figures for the first nine months of 2018 were very good.

Net revenue increased 4.7 percent in the quarter just ended, with the first-time consolidation of UPC in Austria being included for two months in that period. Unlike in the previous quarters, changes in exchange rates had much less impact on revenue.

In organic terms, revenue grew 4.1 percent in the third quarter, driven especially by T-Mobile US, where revenue rose 9 percent when translated into euros, and by the Europe operating segment, which posted an organic increase of 2.2 percent.

The Group’s adjusted EBITDA increased 8.5 percent in the third quarter, and 8.1 percent in organic terms.

T-Mobile US posted the strongest increase at just over 16 percent. On balance, adjusted EBITDA for business outside of the United States grew by 3.2 percent, and by 2.7 percent in organic terms. The difference between these two figures is largely due to the aforementioned first-time consolidation of UPC Austria.

Just over a week ago, T-Mobile US again raised its forecast for the full year 2018.

As Tim just mentioned, we are revising upward our guidance for Group EBITDA and free cash flow for the full year 2018.

The revised guidance is thus clearly higher than the medium-term expectations for the period 2014 to 2018 that we announced at our 2015 Capital Markets Day.

Our plan for 2014 to 2018 is to achieve average annual growth:

- of 1 to 2 percent in revenues,
- of 2 to 4 percent in adjusted EBITDA, and
- of around 10 percent in free cash flow.

Allow me to give you a brief run-down of developments in the individual operating segments during the third quarter.

As you can see from our presentation, the Germany operating segment is growing in line with expectations.

EBITDA rose 2.1 percent, driven by higher service revenues and a 2.4 percent decrease in the cost base.

Service revenues grew 0.8 percent due to a 3.1 percent increase in mobile service revenues and a rise of 2 percent in broadband fixed-network revenues.

Revenue continues to be underpinned by gratifying growth in customer numbers, not only in mobile communications, but also in broadband fixed-network business and with regard to our MagentaEINS product bundles.

Demand for mobile data remains robust. Telekom-branded consumers now use over 2.4 gigabytes of data on average, that is an increase of 58 percent year-on-year.

In particular, demand for higher-value rate plans such as MagentaMobile M through XL was higher than in the prior-year quarter.

In addition, we achieved a substantial increase in our StreamOn portfolio, which recorded 245,000 customer additions in the third quarter and now has a total customer base of around 1.6 million. Thanks to add-on options and an improved rate-plan mix, we succeeded in increasing the average monthly revenue from branded contract customers by around 1 percent.

The only negative trend – due to our migration of business customers to IP – was with fixed-network telephony lines. We expect this trend to continue until the end of 2019.

As far as our U.S. operations are concerned, Tim and I have just said everything there is to say. And our colleagues at T-Mobile US provided further details last week. We continue to post gratifying growth in customer numbers, revenue, EBITDA, and free cash flow.

In the Europe operating segment, too, we again recorded growth in customer numbers, revenue, and EBITDA.

The effect of the first-time consolidation of UPC in Austria at the end of July has been factored out of the figures for both broadband and TV customers, so that they reflect genuine customer growth on a like-for-like basis.

In organic terms – i.e., at constant exchange rates and excluding additional revenue from the first-time consolidation of UPC – revenue grew 2.2 percent.

The main factors in this positive trend were higher service revenues in mobile communications and from product bundles as well as from ICT solutions for business customers.

Adjusted EBITDA likewise rose in organic terms, increasing 3.6 percent. Another positive effect in addition to revenue growth was savings made with indirect costs.

After the first nine months, T-Systems is well on track to reach its forecast full-year figures.

Third-quarter revenue was 2.8 percent higher year-on-year, led mainly by the growth portfolio – especially IoT solutions, cloud computing, and SAP business.

Adjusted EBITDA increased 6 percent to 139 million euros.

Order entry was down slightly year-on-year in the third quarter due to seasonal effects. Over the first nine months, however, order entry was up 19 percent year-on-year. We also expect the fourth quarter to be better than the prior-year period.

In the Group Development segment, T-Mobile Netherlands underpinned its positive customer growth with 57,000 mobile contract customer additions.
As in the previous quarters, regulatory changes and the implementation of IFRS 15 had an influence on reported service revenues. But the underlying trend improved compared with the previous quarters, with service revenues remaining virtually stable in the highly-contested market.

The data for Deutsche Funkturm reflects our push to build out the mobile network. The number of cell sites rose by around 1,000 year-on-year. We have set ourselves the full-year target to install approximately 1,300 new sites.
The plan is to increase the number of new sites to around 2,000 per year.

As you can see, the overall operational trend is gratifying. We have posted EBITDA gains in all of our operating segments in the third quarter.
To finish up, I would like to touch on net profit and our financial indicators.

Net profit rose 1.1 billion euros in the third quarter compared with a year earlier.

The impairment of goodwill in the Systems Solutions operating segment had a negative impact on the prior-year figure for net profit. The partial reversal of impairments of mobile spectrum licenses at T-Mobile US in the prior-year period, however, had a contrasting, though much less pronounced, effect.

The rise of 6 percent in adjusted net profit to 1.3 billion euros reflects increased earnings power with operating activities.
The ratio of net debt to adjusted EBITDA was 2.4 at the end of the third quarter, an improvement compared with the end of June.

The payment of some 1.8 billion euros for the acquisition of UPC in Austria had an impact on financial liabilities, which were slightly higher than at mid-year.

On balance, this increase was due mainly to currency translation effects.
Overall, we are well within the corridors set in our finance strategy.

We would now like to answer any questions you have.