Press conference on the 2013 financial year
Bonn, March 6, 2014

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Good morning, Ladies and Gentlemen,

I am also delighted to welcome you here today. Following the overview from Tim Höttges, I would now like to explain the figures to you in detail, focusing on the fourth quarter. Overall, we are very pleased with the performance in those three months, as in the year as a whole.

Net revenue rose by 6.5 percent in the fourth quarter to just under EUR 15.7 billion. For the full year, revenue increased by 3.4 percent.

At Group level, adjusted EBITDA increased by 1.3 percent to EUR 4.1 billion in the fourth quarter. For the full year, it stands at a good EUR 17.4 billion, thus reaching our target. Adjusted net profit stood at EUR 355 million in the fourth quarter, an increase of almost 78 percent compared with the prior year. In the full year 2013, adjusted net profit even increased by 8.6 percent to EUR 2.8 billion.

In both 2012 and 2013, reported unadjusted net profit in the fourth quarter was impacted by considerable special factors:

- In the fourth quarter of 2013, the main negative effect came from impairment losses recognized on goodwill following the annual impairment test. This primarily relates to our company in Austria.
- In the prior year, by contrast, we had a positive effect from the cell tower deal in the United States.

Free cash flow developed in line with our forecast: Quarter-on-quarter, it declined by 6.6 percent to just over EUR 1 billion. In the full year, it declined by around 26 percent, primarily due to deliberate business decisions reflecting two main factors:

- We have invested EUR 0.8 billion more, especially in the network upgrade in the United States.
- The rapid growth in the United States also brought with it corresponding effects in working capital.

Nevertheless, at EUR 4.6 billion, we actually slightly exceeded our target of around EUR 4.5 billion.

Net debt increased moderately by around 6 percent in 2013 to EUR 39.1 billion. The mid-year increase to EUR 41.4 billion at the end of the first half of 2013 was attributable in particular to the first-time inclusion of MetroPCS. We managed to cut this back again by around EUR 2.3 billion by the end of the year.

That covers the key figures at Group level – let us move on to developments in the segments.

In Germany, business performed well overall. In mobile communications, we achieved the most contract adds in years in the fourth quarter and extended our market lead in service revenues. At the same time, competition especially in the fixed-network broadband business remains fierce.

In detail, this means:

Revenues from business in Germany fell slightly in the fourth quarter by 1.7 percent. As expected, the fixed-network business recorded a decline. In mobile business, a decline in revenue was caused by reductions in mobile termination rates.

Adjusted EBITDA decreased slightly by 2.3 percent to around EUR 2 billion in the fourth quarter. Due to seasonal effects, the adjusted EBITDA margin declined to 35.9 percent. The main thing is that we held the margin steady at 40 percent for the full year.

Our German broadband business remained stable at 12.4 million customers. However, like many other telecommunications competitors, we failed to profit from the market growth. In this regard, the cable operators are currently ahead of the field.

But we can see that our strategy of developing more punch by offering a wider range of fiber-optic products is working.

Within the year, the number of fiber-optic lines increased by 54 percent to EUR 1.5 million. By stepping up the marketing of VDSL, rolling out FTTC, and launching vectoring, we will also score points here with outstanding product quality.

Overall, our customers opted for higher-value rate plans. Growth of 11 percent in the number of Entertain customers to now almost 2.2 million is also contributing to this. All in all, revenue per line increased slightly.

We managed to curtail the losses in traditional telephone lines – for the first time in years, fewer than a million lines were lost in the full year. This includes more than 105,000 customers who have opted for our Call & Surf via Funk product, and who therefore effectively moved within the company.

We want to exploit this strong position and build on our successes again in 2014. A key factor for the future is the conversion of the fixed network to all-IP. Tim Höttges will say more on that subject in just a moment.

In mobile communications, we are profiting from the excellent quality of our network, which won us first place in all the major tests in 2013. In the fourth quarter, we gained 280,000 new branded contract customers – the most additions in a fourth quarter in years. Last year, 68 percent of all cell phones sold were smartphones. The number of LTE-enabled cell phones in use more than quadrupled over the year to almost 2.8 million.

The overall mobile market lost around EUR 853 million in service revenues in total in the past year, of which around EUR 552 million was due to the cut in mobile termination rates. We were the only company in 2013 to increase our market share in mobile service revenues. Adjusted for the mobile termination rate cut, our service revenues were virtually stable in the fourth quarter and in the full year. That is something we are proud of.

And with that, let me turn to our U.S. business, which is really taking off at the minute. The fourth quarter of 2013 was the strongest since 2005 in terms of branded postpaid customer growth. We are really delighted with T-Mobile US.

The two key factors are the business combination with MetroPCS and the Un-carrier strategy, which is going down extremely well with U.S. consumers.

As a result, the T-Mobile US customer base grew from 33.4 million at the end of 2012 to 46.7 million now. In 2013, net customer increases on a pro-forma basis stood at 4.4 million customers, 2 million of which were branded postpaid customers. By comparison, in 2012 we were still seeing a 2.1 million decline in customers. Management adjusted its forecasts upwards twice in the course of the year and still exceeded them in the end. A customer rush and a clear turnaround!

In the fourth quarter, the number of branded postpaid customers increased by almost another 870,000. And at the same time, we reduced the churn rate in this customer group quarter-on-quarter from 2.5 percent to 1.7 percent. Customer retention has improved significantly.

Just as fast-paced as the customer rush was revenue growth, with total revenue measured in dollars up 40.7 percent in the fourth quarter.

Of course, service revenues increased in part thanks to the business combination with MetroPCS. Our Un-carrier strategy was another significant driver of this growth. In the first quarter of 2013, so before the MetroPCS deal, service revenues measured in dollars declined by 9.3 percent. By contrast, in the fourth quarter we saw a year-on-year increase of 25.3 percent. Adjusted EBITDA increased by 26.9 percent to USD 1.3 billion quarter-on-quarter.

But T-Mobile US is not only proving a real hit with consumers. The stock exchange also sees the decision to drive forward growth in this way as extremely positive: The enterprise value of T-Mobile US increased by more than 53 percent between the completion of the business combination with MetroPCS on May 1 and the end of December 2013.

As such, we have of course also created substantial value for Deutsche Telekom.

This brings me to the Europe segment.

Where we saw a stable development in organic revenue and adjusted EBITDA in the fourth quarter.

In absolute terms, revenue declined by 3.3 percent in the fourth quarter to just under EUR 3.5 billion.

Excluding the effects from the changes in the composition of the Group, i.e., mainly from the sale of Globul and Germanos, and assuming exchange rates remain constant, in organic terms, there is a slight increase of 0.4 percent.

This stable revenue is principally attributable to the positive trends in growth areas such as mobile Internet, TV business, and also in the business customer segment with ICT solutions.

Compared with the prior year, for example, the number of TV customers increased by more than 600,000. Around 370,000 new TV customers were attributable to organic growth, the remainder from the acquisition of Digi in Slovakia.

Overall, the growth areas increased their share of segment revenue by 4 percentage points over the year.

In particular due to lower personnel costs in Greece, adjusted EBITDA remained stable on a like-for-like basis – i.e., adjusted for changes in the composition of the Group and for currency effects.

Another component of our Europe strategy is GTS, for which we signed a purchase agreement in the fourth quarter. We plan to use it to drive forward our business with integrated services.

At the same time, we are migrating our networks in the region to all-IP, one by one. This ensures we will achieve efficiency gains and, at the same time, we will be able to bring products to our customers faster.

Macedonia has just migrated its entire fixed network to all-IP, as the first country in Europe to do so. Slovakia will be the next country to follow.

So the signs in the Europe segment point clearly toward transformation. This affects the business models and thus revenues – and it also affects the technical platforms.

And that brings me to Systems Solutions. I will largely confine myself to the Market Unit, i.e., mainly external business with corporate customers.

Quarter-on-quarter, revenue in the Market Unit declined by 3.8 percent to just over EUR 2 billion. This is due to the deconsolidation of companies in Italy and France, as well as exchange rate effects and the sustained pressure on prices currently dominating these markets. Compared with the prior year, this is a decrease of 1.8 percent.

Adjusted for the exchange rate effects and changes in the composition of the Group, however, revenue remained almost stable quarter-on-quarter, falling by just 0.6 percent. In the full year, we recorded slight organic growth of 0.7 percent.

The adjusted EBIT margin in the Market Unit increased to 4.1 percent quarter-on-quarter, up by almost 1 percentage point.

Nevertheless, there is a gap between our profitability and that of our competitors. We are tackling this by realigning our business model. In future, T-Systems will focus more heavily on the trend of digitization and related products and services in connection with platforms for cloud services, intelligent networks, and cyber security.

A great deal already happened in this direction in 2013. Nevertheless, we believe an extensive restructuring of the business is still necessary.

To this end, we set out a concrete two-year plan in January. We are expanding growth areas like the cloud and intelligent networks, and restructuring traditional outsourcing business.

Thus, we are working on clear future prospects for T-Systems. We are in talks with the employee representatives in respect of implementation.

At Telekom IT – our intragroup IT business – we succeeded in further cutting costs, reducing them by around EUR 350 million year-on-year. So we are on a stable path to reducing our IT expenditure in Germany by EUR 1 billion by 2015 as promised!

To finish with, let me go into a few of the Group's key financial indicators.

Return on capital employed – ROCE – increased by 6.2 percentage points in the 2013 financial year to 3.8 percent. This is mainly due to the fact that the 2012 figure was impacted by the impairment loss recognized in connection with the MetroPCS transaction. The improvement is clear progress, but it is only one step on the road to finally earning our cost of capital.

Shareholders' equity rose steadily over the course of the year and now stands at EUR 32.1 billion. The equity ratio decreased moderately to 27.1 percent as a result of the increase in net debt. However, it still lies well within our target range of 25 to 35 percent.

The same is also true of our other key balance sheet ratios.

At 2.2, for example, the ratio of net debt to adjusted EBITDA fell well within the limits of the communicated range of 2 to 2.5, and our liquidity reserve more than covers the capital market maturities of the next 24 months.

In short, Deutsche Telekom is on course in terms of operations, finances, and the balance sheet. This is a good foundation on which to build further successes in the future.

And with that, I would like to hand you back to Tim Höttges.

Finance strategy and outlook for 2014/2015

Thomas Dannenfeldt
Member of the Board of Management, Finance
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Thanks, Tim.

I would now like to give you our outlook on expectations for the 2014 and 2015 financial figures based on this strategic positioning.

It is particularly important to me that we continue on our course of financial stability. This means that the cornerstones of our finance strategy communicated by Tim Höttges over the last few years will stay as they are.

Let me briefly run through them once again:

Debt capital is one key area. We want to safeguard the company's ability to refinance itself at all times with unrestricted access to the debt capital market. A solid rating and the communicated balance sheet ratios with the same corridors thus remain our goal.

The second cornerstone is shareholders' equity. And nothing has changed in this respect since the Capital Markets Day in December 2012. We are standing by our reliable dividend policy, under which we plan to pay a dividend of EUR 0.50 per share for both the 2013 and 2014 financial years. As always, of course, this is subject to the corresponding resolutions by the relevant bodies and the shareholders' meeting.

As you know, our finance strategy is also structured with a view to improving operating business and the portfolio. The goal was – and remains – to earn our cost of capital in the medium term in order to generate added value for our shareholders and our company.

You can see this in the "value creation" section, which includes a new element called "fast transformation" that is relevant to the Group strategy we just presented.

We are well on course in terms of "efficiency management" as a result of aggressively tackling our cost structure.

I will give you a couple of examples:

- In Europe, the gap between our costs and the benchmark is to be virtually closed within two years. We have already made good progress with indirect costs, in particular at OTE and in the Czech Republic.
- Tim Höttges already spoke about the efficiency gains at the T-Systems Market Unit when he explained the T-Systems 2015+ strategy.
- And Telekom IT is on target in terms of cost savings, as are Group Headquarters.

Another key element of the "value creation" section is "portfolio management". We will continue to implement measures in this area with the systematic, disciplined approach of the past.

We will defend our strengths as an integrated provider and work to build on them. In Germany, we are strengthening our leading position with high investments in optical fiber, vectoring, and LTE in the fixed network and mobile communications. The target is integrated offerings for our customers, wherever this is possible and promises value growth.

That is also why we have purchased GTS – to further develop the previously mobile-only business, in particular in Poland and the Czech Republic.

This is all about de-risking: The merger with MetroPCS enlarged our U.S. business while protecting its equity and at the same time listing it on the stock exchange.

We financed the recent acquisition of A-block spectrum in part through a capital increase at T-Mobile US in addition to selling bonds of USD 5.6 billion to external investors.

At the same time, we are stepping up investments in the mobile network and opening up the market with a radical new rate model. The results speak for themselves: We are being inundated with new customers.

Whichever steps we take in future with respect to portfolio management, our top priority will be: to maintain the principles and discipline of the last few years. Remember: Portfolio development always comes down to value generation.

This includes the sale of assets that do not form part of our core business, such as the sale of the majority interest in the Scout Group. Having generated an excellent EBITDA multiple of over 20x, it was in line with our approach to sell our majority stake.Scout and the GTS Group have very similar EBITDA, and in return for 70 percent of the shares in Scout, we have achieved a price that brings in an additional EUR 1 billion or so over the GTS purchase price.

That is all I wanted to say on portfolio management. Let me now turn to the guidance for 2014 and the outlook for 2015, and underline the Group's Leading

Telco strategy with some clear and reliable statements on the development of our finances.

We have created the financial conditions for long-term value growth of the Group over the last few years and are forging ahead with this path.

Our goal to earn the Group's cost of capital in the mid-term remains unchanged. For 2015, our aim is to further improve ROCE to around 5.5 percent.

With respect to T-Mobile US, we were facing a clear decision. We often read in the media that T-Mobile US was the Group's problem child. We always believed that we had a good asset there with huge potential for development.

And today, we are exactly where we want to be: and that is asking ourselves how much we want to invest in value-driven customer growth and in improving network quality and coverage. We decided to continue investing in growth and network quality through 2014.

Specifically, this means that our forecasts for the development of the Group's financial figures in the current year and 2015 are based on the pro forma figures for 2013.

The calculations use the assumption that today’s consolidated group existed in its current form for the entire 2013 financial year – so, for example, as if MetroPCS had been fully consolidated for the entire twelve months.

Revenue is expected to increase slightly in the 2014 financial year and at a faster rate in 2015. This growth primarily comes from the United States. As you know, following the rapid increase in customer numbers by 4.4 million overall (pro forma figure), including more than 2 million postpaid customers, T-Mobile

US recorded further strong growth in the past year: In the current year, the number of branded postpaid customers is expected to increase by another 2 to 3 million net.

In the pro forma calculation, adjusted EBITDA for 2013 stands at EUR 17.6 billion compared with a reported value of EUR 17.4 billion. It is expected to remain stable at around EUR 17.6 billion in the current year, and to increase in 2015.

The 2014 figure has already been adjusted to exclude the contribution by the Scout Group of around EUR 0.1 billion, as the sale of the 70-percent stake thankfully closed so promptly. GTS is not included as the transaction is not yet complete. The stable development in the current year also includes high expenses for customer acquisition and retention, especially in the United States.

This can also be seen when you consider the free cash flow planning. In addition to costs for market development, this also reflects higher investments in the United States. We expect free cash flow of around EUR 4.2 billion in 2014 after a reported value of EUR 4.6 billion in 2013, which was consistent with the pro forma figures. In the financial year 2015, free cash flow is expected to increase again slightly compared with 2014.

Note:

We could achieve our original ambition level for 2015 of around EUR 6 billion if we were to slam the door in the face of the customer rush in the United States.

That is not what we want.

The market is offering us the opportunity to achieve a different ambition: value-driven customer growth in the United States that translates into an increase in the value of the company.

Let me recap on the key factors that will help us achieve our free cash flow ambition for 2015:

- We will invest more in the United States than originally planned in 2012. A particular focus will be on improving network coverage and reception quality in rural areas in order to increase customer retention. The A-block spectrum we acquired means the right conditions are now in place. We will continue to invest massively in attracting valuable new customers in the United States, thus foregoing a stronger increase in EBITDA and free cash flow.
- The increase in T-Mobile US's external financing will lift the Group's interest payments. In return, however, we thus substantially increased the level of self-financing at T-Mobile US, resulting in de-risking for the Deutsche Telekom Group.
- Additionally, we will be spending money on restructuring the T-Systems Market Unit, which means special factors will not decline as we expected at the end of 2012.

The following correlation is important to me:

Customer growth at T-Mobile US brings with it a clear increase in the value of the company. Our disregard for short-term earnings and cash flows is already paying off in a clear increase in the value of T-Mobile US. For this reason, we will not stand in the way of this customer rush just to generate quick wins.

We won't be closing the door in the face of valuable customers and saying to them, "we don't want you, we don't want to grow further."

We now look forward to your questions.