– The spoken word shall prevail –

Conference Call
Second quarter report of 2014
August 7, 2014

Thomas Dannenfeldt
Chief Financial Officer
Deutsche Telekom AG

Good morning, Ladies and Gentlemen,

I, too, wish you a warm welcome to this conference call.

Tim Höttges has already gone through the development of the Group with you and shown that we continued to develop well and stably over the first quarter.

We can also be very satisfied with these figures in relation to our international competitors.

This is confirmed by a closer look at the individual segments.

The adjusted EBITDA margin from business in Germany increased to 41.3 percent, despite a slight decline in revenue of 1.8 percent to EUR 5.5 billion, which was mainly due to a decline in revenue-related costs, such as for interconnection. The savings we made more than offset expenses associated with the IP transformation and the integrated network strategy.

But this development has not come about of its own accord. On the revenue side, it is the result of our strict pursuit of the integrated network strategy. We continue to make relevant investments in our network and our service. And our customers are noticing the difference – a fact evidenced in part by the top standing that our customer service and our networks regularly achieve in readers' choice awards and industry tests.

The solid overall development in revenue was driven by several factors.

Growth in the number of fiber-optic lines remained at the same high level as in the first quarter, increasing by 227,000. This figure increased by 126,000 lines in the same quarter of 2013, so this is a significant improvement. The total number of customers with fiber-optic lines went up by 55.3 percent year-on-year to 1.97 million.

This includes strong growth of 118,000 lines per quarter among branded customers, which also includes an overall improvement in the trend for branded broadband customers.

Wholesale business developed along similarly positive lines. We recorded an increase of around 110,000 new lines in the second quarter of 2014 thanks primarily to what is known as the contingent model.

Cross-selling and upselling also progressed very well. About half our branded net fiber-optic adds also opted for Entertain. As a result, our Entertain customer base grew by 11.5 percent to over 2.3 million as of June 30.

Tim Höttges already mentioned the substantial slowdown in fixed-network line losses. This includes 14,000 customers who have switched to our wireless broadband product Call & Surf via Funk for their broadband coverage and are therefore still with the Group – only now as mobile customers.

The number of mobile contract customers under the Group's Telekom and Congstar brands continued to grow – by almost 198,000, which is considerably higher than the 157,000 in the same quarter of the previous year.

The total number of new contract customers increased by 275,000 – less than in the second quarter of 2013. This is due to the derecognition of inactive customers by one of our wholesale contract partners. Contract customer churn increased as a result, but actually stayed very low at 0.9 percent if this factor is excluded.

The growth in our customer base meant that our service revenue market share increased as a result. Service revenues remained virtually stable, declining slightly to EUR 1.7 billion.

Let us turn to T-Mobile US. You will have seen over the past few days that our U.S. subsidiary is maintaining its successful course. Customer acquisitions are developing well, as are service revenues and the churn rate.

The strong customer growth of recent quarters continued through April to June with a net increase of some 1.5 million customers, of which 908,000 were branded postpaid customers.

Revenue rose substantially again by 14.6 percent to EUR 7.2 billion, but was lower than in the prior quarters as the effect of the first-time consolidation of MetroPCS only lasted until April.

At the same time, however, strong customer growth over recent quarters meant that service revenues continued to grow well, increasing by 15.3 percent in the second quarter of 2014. This also includes the effect from the first-time consolidation of MetroPCS for one month.

Organic development, i.e., including MetroPCS in both quarters for comparability, is gaining substantial momentum: T-Mobile US recorded growth in service revenues of some 5 percent in the second quarter.
The steep increases in revenue due to the first-time consolidation of MetroPCS were therefore increasingly superseded by growth in service revenues due to the broadening of the customer base.

At the same time, the churn rate among branded postpaid customers remained very low at 1.5 percent.

The much larger customer base, which now totals more than 50 million, more than offset the decline in average monthly revenues among postpaid customers that resulted from the Un-carrier rate plans.

Adjusted EBITDA increased by 22.1 percent to USD 1.5 billion. The company's margin therefore also improved to 20.5 percent, as we had forecast.

First the customer base grows, then our service revenues and earnings power go up. In short, our strategy is paying off.

And that brings me to our business in Europe.

As Tim Höttges mentioned earlier: We achieved a number of further successes in terms of strategic advancement in our European subsidiaries in the second quarter. For example, the number of broadband lines rose by another 54,000 in the quarter, and the number of TV customers by 61,000.

In mobile communications, we added 38,000 new customers to our contract customer base, bringing it to 26.1 million. This growth was higher than in the first quarter of 2014 but lower than in the same period of last year, mainly due to the loss of some 60,000 contract customers in Poland.

The trend in broadband, TV, and mobile contract customers helped to advance the revenue transformation. Growth areas now account for around 25 percent of the segment's total revenue, 3 percentage points more than in the second quarter of 2013. One example is the increase in mobile data revenues to 19 percent of overall mobile communications revenue, compared with 16 percent in the prior-year period. In fixed-network business, the share of Connected Home revenues rose by 2 percentage points to 23 percent, driven primarily by TV business in Croatia, Greece, and Slovakia, thanks to the acquisition of Digi.

Our European subsidiaries have also continued to invest extensively in network infrastructure. The success is reflected in part in an increase in triple-play customers to 1.7 million compared with 1.5 million a year earlier.

Strict cost discipline meant that we also successfully counteracted the effect of the revenue decline on earnings performance. Based on a comparable composition of the Group and adjusted for exchange rate effects, revenue declined by 5.3 percent. Around half of this decline is attributable to negative regulatory decisions.

By contrast, we tripled our savings in indirect costs to EUR 92 million in the quarter, particularly in Greece, Austria, and the Netherlands.

On the back of that, reported adjusted EBITDA declined only slightly by 1.7 percent to EUR 1.1 billion. In organic terms, it increased by 1.7 percent. The reported EBITDA margin increased by 2.2 percentage points to 34.7 percent.

Our European subsidiaries will also continue to invest extensively in our networks. The integration of GTS, which is fully consolidated as of the end of May, has enabled us to offer integrated products to the business customer and wholesale sectors, especially in Poland and the Czech Republic, and thus continue to boost our competitiveness.

The T-Systems figures are heavily dominated by the 2015+ transformation program as well as a partial payment from a major intra-Group IT contract.

The 0.8-percent increase in total revenue resulted from this internal Telekom IT project, while in the Market Unit, revenue declined by 6.0 percent. Based on a comparable composition of the Group, i.e., excluding the companies sold in Italy and France, the decrease at the Market Unit stood at 4.5 percent.

One reason for this was the termination of unprofitable contracts by T-Systems and the substantial reduction in the hardware reselling business. These factors also had an impact on the Market Unit's new orders, which declined by 30.2 percent.

At this point, I would like to stress that the decline in revenue is in line with our expectations for the development of T-Systems in 2014 and is the result of the restructuring and repositioning of the company.

Our Systems Solutions business has a strong presence in the market with competitive products. Clear progress is being made, especially with digital business models, such as those based on the cloud. For example, revenue from cloud-based solutions increased by more than 40 percent year-on-year in the first half of 2014.

One impressive example of this is the deal signed in the last few weeks to set up and operate a toll system in Belgium. The deal, which will run for 12 years, was concluded by a consortium led by our T-Systems subsidiary Satellic, which is also the majority shareholder.

In addition to the decrease in revenue, start-up costs for the development of growth areas resulted in a negative earnings trend in the Market Unit. In the second quarter, our adjusted EBIT margin lay at minus 0.2 percent compared with 2.7 percent the year before.

Ladies and Gentlemen,

To conclude, I would like to talk briefly about a few key financial figures. As in previous quarters and years, they are proof of Deutsche Telekom's excellent financial stability.

Free cash flow is clearly in line with our plans, which forecast a figure of around EUR 4.2 billion for the full year. Capex, which increased by EUR 129 million – excluding spectrum investments – was more than offset by an increased contribution of EUR 167 million from operating business. The slight decline in free cash flow is therefore primarily attributable to higher interest payments.

Reported net profit increased by 34 percent in the second quarter to EUR 0.7 billion. It was positively affected by an accounting effect in connection with a spectrum swap between T-Mobile US and Verizon. By contrast, special factors in the prior-year quarter were higher due to staff restructuring measures.

Adjusted net profit declined 21.5 percent to EUR 0.6 billion, largely as a result of increased depreciation and amortization in the U.S. compared with the prior year due primarily to higher capex and the higher asset base following the consolidation of MetroPCS.

The Group's net debt remained stable compared with the prior year at EUR 41.4 billion. Compared with the end of the first quarter of 2014, we recorded an increase of some EUR 3.4 billion. This reflects in part spectrum acquired by T-Mobile US, which our U.S. subsidiary financed independently by issuing bonds and with a capital increase. The other main factors for the quarter-on-quarter increase were the payment of the dividend in June and the acquisition of GTS.

All financial KPIs remain comfortably in line with our planning and forecasts.

And now, Tim Höttges and I look forward to taking your questions.