– The spoken word shall prevail –

Conference Call
Third quarter report of 2014
November 6, 2014

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Good morning, Ladies and Gentlemen,

I, too, would like to warmly welcome you to this presentation of our quarterly figures.

Tim Höttges just gave you an overview of the key developments.

I will now give you more detailed figures for the operating segments.

Let us start with the net revenue reported. Tim Höttges mentioned the 0.8 percent growth in the third quarter. I can add to this: In organic terms, we saw an increase of 1.4 percent. This is a reflection of several changes in the composition of the Group, such as the sale of Scout24 and the acquisition of GTS.

Over the last three quarters, we generated revenue of EUR 45.7 billion, an increase of 2.7 percent. Organic growth was 2 percent.

Adjusted EBITDA in the third quarter amounted to EUR 4.6 billion. For the first three quarters, we reported adjusted EBITDA of EUR 13.1 billion. This constitutes a decrease of 1.8 percent in both reporting periods, which is in line with our forecast for the year as a whole and the capital market expectations.

In the third quarter, adjusted net profit remained mostly stable year-on-year, at EUR 0.8 billion. Net special factors were more or less on a par with the prior-year level. In the third quarter of 2014, these primarily related to restructuring expenses in connection with our staff restructuring program, which is focused on T-Systems.

In the first nine months, adjusted net profit decreased by 15.7 percent to EUR 2.0 billion. This stands in sharp contrast to our reported net profit, which increased by 80.4 percent to EUR 3.0 billion, largely due to the sale of the stakes in Scout.

This brings me to the Germany segment.

Our high capital expenditure in the integrated network strategy is paying off. Cash capex in Germany was EUR 2.7 billion in the first three quarters, 28.3 percent more than in the previous year.

The result: premium network quality in mobile communications with broader network coverage and a significant increase in fiber-optic coverage.

The trend in the customer figures speaks for itself: Our network build-out and the higher bandwidths that are available for increasing numbers of customers as well as our bundled offers are showing an unequivocally positive effect.

In our fixed-network business, we added 225,000 fiber-optic lines in the quarter – an increase of 90 percent over the prior-year period.

Business with the branded customers is going very well, as are sales within the scope of what is known as the contingent model.

We now have 2.2 million lines, 58 percent more than in the same period last year.

Particularly in the vectoring roll-out areas, we have a large number of customers who order Entertain in addition to a broadband line. Compared with September 2013, the number of Entertain customers has risen by more than 12 percent to 2.4 million, with the number of new customers over the past twelve months up almost 20 percent on the prior-year period. Here, too, business is growing apace.

In the DSL new customer business, we continued to improve the trend as the year went on. In the third quarter, we recorded a loss of 20,000 lines due to seasonal effects caused by the expiration of a large number of contracts in this period.

However, the decrease is less than half of that recorded in the same period of last year.

For the last three months in 2014, we expect the situation to improve further and the customer base to be stable compared with the previous year.

Our MagentaEins package offers will support our efforts in this respect, as will the marketing launch of 1.3 million vectoring households in the fourth quarter. Additionally, we intend to advance our integrated network strategy further in the fourth quarter with the Hybrid router.

Line losses in the third quarter remained below 200,000, which represents a decrease of 24 percent on the prior-year figure.

In mobile communications, we further consolidated our position as market leader with stable service revenues of EUR 1.7 billion. The number of customers who use LTE has more than doubled to 4.7 million in just twelve months.

In terms of new customer acquisition, we again recorded substantial increases under the Telekom and Congstar brands compared with the prior year. We added 235,000 customers in the third quarter of 2014, as against 164,000 in the same period in 2013.

As a result, we posted revenue of EUR 5.6 billion in the Germany segment in the third quarter, a decrease of just around 1.5 percent on the previous year, thus reflecting the trend for the year as a whole. Adjusted EBITDA declined 2.1 percent to EUR 2.3 billion, a slightly higher decrease than in the first six months as a result of strong customer demand, especially for high-value smartphones.

The key words in this connection are our new MagentaEins package rate plans and the market launch of the iPhone 6. The adjusted EBITDA margin in the third quarter was an outstanding 41.6 percent.

This brings me to T-Mobile US. Our U.S. subsidiary reported strong performance back on October 27. The figures were very well received on the capital markets. T-Mobile US has continued to grow and even increased the momentum of its growth compared with the preceding quarters.

As we projected, the sharp rise in customer acquisition is increasingly being reflected in revenue.

Average monthly revenue from branded postpaid telephony customers rose slightly in the period July to September compared with the previous quarter. Among prepay customers we can see an increase in average revenue, both quarter-on-quarter and year-on-year. Here, the fact that customers of the MetroPCS brand traditionally have higher monthly revenue than was the case in T-Mobile's former prepay business is paying off.

We further expanded the sales region for the Metro brand. As the brand's share of the prepay customer base grows, so does average monthly revenue in this customer segment.

Adjusted EBITDA decreased by 6.1 percent to USD 1.3 billion on account of the expenses incurred in connection with the customer rush.

In the same way as revenue increases when the number of customers grows, so earnings will improve in the next few quarters as revenue rises.

In the Europe business, we increased earnings for the first time in ten quarters in spite of the still sluggish economic situation in most countries.

While I do not wish to overemphasize quarterly figures and in particular will not use revenue development as a yardstick for the fourth quarter, the figures are an encouraging sign that our hard work has paid off in two areas in particular:

1. the reduction in revenue losses and
2. systematic cost management

The trend in revenue has greatly improved in the year to date. In the second quarter, reported revenue was still down 7.9 percent and by 5.3 percent in organic terms.

In the third quarter, the decline in revenue was 3.6 percent, on both a reported and an organic basis. Here, the growth areas almost fully offset the downturn in the traditional telecommunications business.

For example, the share of the mobile data business in total mobile revenue rose by 3 percentage points year-on-year to 20 percent. Similar to the business in Germany and the United States, this is a consequence of the LTE network roll-out. Within a year, we increased the number of LTE sites by more than a factor of four to just under 12,000.

This supported the uptrend in new mobile contract customers, where we added approximately 55,000 customers in the third quarter.

To improve comparability, two effects were adjusted here: first, the sale of a second brand in the Netherlands and, second, the insolvency of a service provider in Austria.

An encouraging trend in customer figures is something we can also see in our fixed-network business: The broadband roll-out further increased the number of DSL and fiber-optic lines – by 38,000 in the third quarter. Here, too – as in Germany – we are thus creating the platform for a growing TV business that grew by 51,000 customers in the third quarter.

Revenue from operations in the quarter thus remained more or less constant, were it not for the mobile regulation, which cost us around EUR 114 million in revenue quarter-on-quarter. With an EBITDA margin of 35.7 percent, you can figure out for yourself that this also knocked a couple of percentage points off our EBITDA growth.

The fact that adjusted EBITDA rose by 1.3 percent in spite of a 3.6 percent decrease in revenue is testament to systematic, successful cost management in the segment.

This now brings me to T-Systems, which continued its 2015+ transformation program.

I would like to stress that, even more so than in the Europe segment, we should not overstate developments in a single quarter, though they are an indication of the success of the measures introduced.

Revenue generated by the Market Unit declined by 4.7 percent, in tandem with total revenue, which was down 4.9 percent. On account of the stricter profitability criteria, T-Systems is now much more selective about the orders it accepts, something which naturally has an effect on revenue.

This year, for the first time, we achieved a positive EBIT margin of 3.3 percent in the Market Unit.

One important reason for this was the strict cost management: Across T-Systems we reduced the cost base adjusted for special factors by 6.7 percent.

Quarter-on-quarter order entry, on the other hand, surged by 37.7 percent to EUR 2.4 billion. This is mainly attributable to the contract to build a toll collection system in Belgium that was awarded to the T-Systems subsidiary Satellic.

I would like to finish by briefly shedding some light on our solid key financial indicators.

All indicators are still well within our guideline.

You will have noticed that the ratio of net debt to adjusted EBITDA is 2.4, i.e., within the set range of 2.0 to 2.5.

Net debt as of September 30 includes exchange rate effects of around EUR 1.1 billion resulting from the strong U.S. dollar. Since the end of 2013, the U.S. dollar has gained around 9.5 percent against the euro – 8.6 percent in the third quarter alone.

This means that the liabilities denominated in dollars increase when translated into euros. This is simply a currency translation effect; it is not based on any transactions.

Ladies and Gentlemen,

We are systematically working on the implementation of our strategy, bit by bit. The rising customer figures in both the fixed-network and mobile business show that our high capital expenditure is paying off. Combined with a continued strict cost discipline, this will enable us to stay within our guidance and fulfill the capital market expectations.

And now we look forward to your questions.