– The spoken word shall prevail –

Conference Call
First quarter report of 2015
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Ladies and Gentlemen, I, too, would like to welcome you to our presentation.

Let me follow on directly from Tim Höttges' speech.

Below the line, adjusted net profit stood at a good EUR 1 billion. This figure, as well as the adjusted EBITDA figure of EUR 4.6 billion, includes a positive one-time effect of around EUR 175 million, attributable to a payment resulting from an agreement to settle legal proceedings.

Since it is a one-time effect and not a special factor, this amount is included in the respective adjusted figures.

This effect is not included in free cash flow for the first quarter because there has not yet been an inflow of cash.

We are mentioning this point expressly to make it clear that our guidance for the full year is based on earnings excluding this one-time effect. We expect adjusted EBITDA for the full year of some EUR 18.3 billion, based on constant exchange rates; this additional factor effectively runs in parallel.

The same applies for our free cash flow target of around EUR 4.3 billion.

For the sake of completeness, please note that, following the agreement with the BT Group, the reclassification of our joint venture EE in the United Kingdom as held for sale had a positive impact of around EUR 280 million on adjusted and reported net profit.

Having clarified this, I would like to take you through the development in the individual segments.

In the Germany segment, we held the EBITDA margin close to our target value for the full year of 40 percent at 39.6 percent.

Adjusted EBITDA declined slightly by 0.9 percent, while revenue grew by 1.9 percent.

This was attributable to an increase of around 3.6 percent in the adjusted cost base.

We picked up the pace again in converting our network to IP and migrated more than a million lines in the first quarter. This is two thirds more than in the prior-year quarter. In addition, we forged ahead with our integrated network buildout, which is clearly reflected in the increased investments. Of course, this also creates increased work volumes for service. In order to maintain our high standard of quality, we increased the workforce by more than 2,000 FTEs compared with the prior-year period. This costs additional money, invested wisely in the best customer service in the industry.

Tim Höttges has already named the key cornerstones for strong development in the German fixed network. Let me add two more facts that demonstrate how our integrated network strategy and the issues of cross-selling and upselling are increasingly running through our business.

As of the end of the quarter, we reached 46 percent of households with a fiber-optic line. That is almost 4 million more households than in the previous year.

The increase in fiber optic-based lines and rising bandwidths also further increased the number of Entertain customers, which grew by 74,000 in the quarter and now stands at more than 2.5 million.

In mobile communications, we continued the trend of the previous quarters and won additional market shares in service revenues. With an increase of 2.8 percent, we were around 1.5 percentage points ahead of the market trend as we expected it.

Overall, our customer base increased by 289,000 contract customers in the first quarter of 2015. The breakdown of branded customers and customers served by service providers was significantly impacted by the reallocation of a net 288,000 customers.

Our LTE network now covers 82 percent of the population, 8 percentage points more than a year ago. And this is paying off: 6.4 million customers are currently using an LTE-enabled device with an LTE rate plan; this is 85 percent more than a year ago. Thanks to another strong quarter of smartphone sales, the percentage of consumers under the Telekom and Congstar brands with a smartphone increased further to 78 percent, up 4 percentage points against the end of 2014. These figures clearly speak for themselves.

Let us turn to our U.S. business. T-Mobile US is the U.S. provider with the strongest customer, revenue, and earnings growth.

The customer base grew by 7.8 million year-on-year. At the same time, retention of branded postpaid phone customers improved further, with the churn rate reaching a record low for the company of 1.3 percent in the first quarter. This trend more than offset the decline in average monthly revenues from postpaid phone customers. Service revenues increased by 9.1 percent in the first quarter. Earnings increased substantially: Adjusted EBITDA rose by 18.4 percent. All figures are prepared on the basis of IFRS and presented in U.S. dollars, and thus exclude exchange-rate effects.

As you know, T-Mobile US has just raised its full-year targets for customer acquisition to between 3 and 3.5 million branded postpaid customers, up from the previous guidance of 2.2 to 3.2 million. The earnings guidance remains unchanged. Even at the lower end of the target range, this would mean growth of more than 20 percent in the full year. In other words, the earnings trend should pick up even more speed compared with the first quarter as the year progresses.

This brings me to the Europe segment.

Here, the development of revenue and earnings continued to improve slightly against the last figures presented.

Reported revenue fell only slightly by 0.6 percent, after a decrease of 3.4 percent in the prior quarter. The consolidation of GTS had a positive effect here.

Adjusted EBITDA fell 1.9 percent; in organic terms, it decreased by 3.8 percent. This is also an improvement compared with the decline of 4.7 percent in the last three months of 2014.

Thus, we recorded improvements in both the reported and organic revenue trends.

This is thanks in part to the continuation of our revenue transformation towards growth areas, whose share of total revenues increased by 3 percentage points year-on-year.

Take for example mobile-data business, which accounts for 22 percent of all mobile revenues. This is also 3 percentage points more than in the previous year. Year-on-year, mobile data revenues increased by 10 percent, more than offsetting the decline in revenue from traditional text messages.

Increasing the number of LTE base stations by 145 percent to 16,500 and thereby increasing network coverage year-on-year from just under 50 million people to around 70 million therefore had a positive impact.

At the same time, we continue to drive forward the migration of the networks to all-IP. Two countries have already completed the migration to IP, two more are expected to follow in 2015. Migrated lines now account for 40.4 percent of all lines, 11 percentage points more than in the previous year.

The investments produce rising customer numbers.

We recorded growth in broadband lines of 3.9 percent compared with the first quarter of 2014 to 5.3 million, and growth in TV customers of 2.8 percent to 3.7 million. In mobile communications, we increased the number of contract customers by 24,000.

And now to T-Systems.

Revenue for the quarter stood at EUR 2 billion, adjusted EBITDA at EUR 154 million.

The Market Unit increased its revenue slightly by 1.0 percent to EUR 1.7 billion.

Order entry declined in the first quarter, as expected, by 9.1 percent to just under EUR 1.3 billion.

This is due to our communicated market approach of applying stricter profitability criteria. But restructuring also means addressing areas of opportunity more strongly. One example is the growth area of cloud services, in which revenue increased by some 20 percent in the first quarter.

We are seeing the first positive results in the Market Unit's adjusted EBIT margin, which increased to 2.0 percent, compared with minus 0.4 percent in the first quarter of 2014.

To close, let us take a look at our financials. And in particular at the development of free cash flow and adjusted net profit.

Based on free cash flow of EUR 865 million in the first quarter, we confirm our guidance for the year of around EUR 4.3 billion.

Why then, you will ask me, is Deutsche Telekom not raising its target, if it plans to record additional income of EUR 175 million?

One example of a negative one-time effect in the first quarter is the payment that Slovak Telekom made in connection with the settlement of EU legal proceedings. This effect did not alter our guidance either.

In essence, our free cash flow guidance of around EUR 4.3 billion remains unchanged, and as things currently stand, we have potential for upward movement. But we will see that at the end of the year.

And now to the development of net profit.

Here you can see the increase in adjusted EBITDA of EUR 453 million, which includes the described effect of EUR 175 million.

The improvement in profit/loss from financial activities of EUR 244 million relates to the changed accounting for our investment in EE: Until now, dividend payments from EE had been posted directly in the statement of financial position against the carrying amount of our share in the company as part of the equity method accounting. After agreeing, together with Orange, on the sale of the UK company EE, the investment was reclassified as held for sale and the carrying amount of the investment was in effect "frozen". As a result, the EE dividend payments are now recognized through profit or loss in profit/loss from financial activities. Hence, this factor now affects net profit, but not EBITDA.

Net debt increased by EUR 3.8 billion compared with the end of 2014. A key factor here was the expenses for spectrum, especially in the United States, of EUR 1.9 billion.

There was also a technical factor of a similar size, which resulted entirely from the weak euro and also increased debt by EUR 1.9 billion. We have seen this issue in the past. It relates to the translation of financial liabilities, mainly held by T-Mobile US and denominated in U.S. dollars, at the exchange rate as of the reporting date, March 31, 2015.

The yellow light for the ratio of net debt to adjusted EBITDA on the next chart, which shows our balance sheet ratios, is also related to this effect.

The ratio stood at 2.6 in the first quarter, compared with 2.2 a year earlier.

Net debt rose by around EUR 8 billion year-on-year. Around EUR 3.7 billion of this related to the effect of translating financial liabilities denominated in U.S. dollars.

In other words, the euro exchange rate as of the reporting date declined by around 22 percent year-on-year, which impacted in full on the currency translation of financial liabilities.

This weakness in the euro only began to affect the other parameter in the ratio, adjusted EBITDA, from around the end of November 2014.

I.e., the ratio is substantially affected by the fact that the exchange rate effect has a very lagged impact on one parameter, namely adjusted EBITDA. If we fully adjusted the exchange rates in the adjusted EBITDA trend to those in the statement of financial position, the ratio would stand slightly below 2.5.

For the second quarter, we expect the ratio of net debt to adjusted EBITDA to remain above 2.5 due to the described lag effect and the dividend payment.

In the second half of the year, however, we expect it to drop back into our target corridor.

This is partly because the lag effect from the calculation will wear off, and partly because the earnings forecast for T-Mobile US suggests that the growth rate of the first three months will accelerate even further as the year progresses.

In summary: Owing in part to non-operational reasons, one of the four ratios of our financial strategy is slightly outside the target corridor set by us. Of course, we will keep an eye on it and we know how to evaluate it.

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