

– The spoken word shall prevail –

Conference call

Report on the first quarter of 2017

May 11, 2017

Thomas Dannenfeldt
Chief Financial Officer
Deutsche Telekom AG

Thanks Tim, and a very warm welcome from me as well.

Our financial figures were again very strong in the first quarter. Tim already mentioned that the figures are in line with our medium-term outlook.

Let me remind you once again what we said at the 2015 Capital Markets Day.

- We aimed to increase revenue by an average of 1 to 2 percent per year from 2014 through 2018.
- To grow adjusted EBITDA by an average of 2 to 4 percent per year in the same period.
- And to improve average free cash flow by some 10 percent annually.

The Group's revenue growth of 5.8 percent in the first quarter was driven mainly by T-Mobile US. In Germany and in the European subsidiaries, we also generated more revenue than in the prior-year period. The decline at T-Systems was expected, given that it was attributable primarily to revenue posted in the previous year from completion of the toll collection system contract in Belgium.

Adjusted EBITDA rose by 7.5 percent. This growth was mainly due to the very good performance of T-Mobile US, which saw earnings increase by around 25 percent on a euro basis. Business in Germany also made a slightly higher earnings contribution. In the Europe operating segment, adjusted EBITDA was down by 1.8 percent year-on-year in organic terms. On a comparable basis – that is, adjusted for the one-time earnings contribution of the toll collection project in Belgium in the previous year – T-Systems' earnings were up slightly.

The Group's positive performance is also evident in the sharp increase in free cash flow by 50 percent to 1.2 billion euros. This was due to growth in cash generated from operations, in particular as a result of the substantial increase in adjusted EBITDA, which more than compensated for the increase in cash capex of 0.4 billion euros.

The decline of around 10 percent in adjusted net profit was mainly due to the restructuring of T-Mobile US' financing announced last year. This restructuring will enhance free cash flow going forward.

I would now like to give you an overview of the developments in our operating segments.

In Germany, the number of customers rose sharply in several areas.

Tim already mentioned the gratifying increases for fiber-optic lines and Entertain, but we also posted solid growth for branded mobile customers.

Our base of LTE customers grew by more than 30 percent over the previous year to 9.6 million as of the end of the first quarter.

The share of total households signing up for the MagentaEINS package expanded by 4 percentage points to 16 percent of all households subscribed to a broadband line with us.

This had a positive impact on revenue, because a MagentaEINS household generates around 8.50 euros more revenue per month than previously without our product package.

We increased our investments in Germany by 15 percent to 1 billion euros in the first quarter. And we further increased the availability of our fiber-optic-based lines and expanded LTE mobile network coverage. The newly launched mobile build-out in the 900 megahertz range that Tim mentioned will further improve our mobile network quality.

These developments have positively influenced our financial results. Revenue in this operating segment increased by 0.2 percent. Although service revenues declined 0.7 percent, without regulatory headwinds they would have increased by 0.4 percent.

The influence of regulatory factors was particularly noticeable in mobile communications, where we continued to expand our leadership position in terms of service revenues. Without regulatory intervention, we would have posted growth of 1.5 percent.

In fixed-network business, service revenues decreased by 0.6 percent, as regulators lowered interconnection fees. Without this headwind, service revenues in this business were stable.

Overall performance of the Germany segment was in line with our expectations.

Adjusted EBITDA in the segment rose by 1 percent to 2.1 billion euros. We are confident that we will meet our full-year target of around 8.4 billion euros.

T-Mobile US had another excellent quarter.

The aggregate increase of 1.3 million in branded postpaid and prepay customers outpaced the development at our three national competitors.

In parallel, T-Mobile US was able to increase average monthly revenues in both customer groups year-on-year by more than 2 percent in each case.

This led to the sharp increase in service revenues by 11.6 percent to 7.2 billion U.S. dollars.

Economies of scale from the growing customer base, synergies from the integration of MetroPCS, and cost cutting more than offset the costs of expanding the mobile network. The cost of providing services is now less than 20 percent of service revenues.

This raised adjusted EBITDA by 21 percent on a U.S. dollar basis.

For the rest of the year, T-Mobile US refined its growth forecast, adjusting it upward. Instead of an increase of 2.4 to 3.4 million new branded postpaid customers, the goal is now 2.8 to 3.5 million net adds.

The LTE network now covers 314 million people, 269 million of whom live within the area covered by the low-frequency spectrum. At the end of the year, T-Mobile US plans to gradually roll out the new 600 megahertz spectrum.

With the new mobile licenses, T-Mobile US is optimally equipped to continue its growth trajectory in 2017 and beyond.

In the Europe segment, performance was good across all customer segments in the first quarter of 2017.

We saw an increase of 225,000 contract customers in the mobile business, continuing the upward trend and more than tripling growth compared with the first three months of 2016.

The number of new customers for convergent product packages increased substantially, growing by around 130,000.

This is another area where our network investments and our MagentaONE offerings are paying off.

Organic revenue growth was stable. The downturn in the traditional telecommunications business was more than offset by positive developments in growth segments, such as mobile data and TV business. In organic terms, adjusted EBITDA declined by 1.8 percent.

I already spoke about T-Systems and the effects on our financial figures of the toll collection contract in Belgium completed in the previous year at the beginning of my remarks.

So, to wrap up, I would like to take a look at our new Group Development segment, which mainly comprises what is known as our passive mobile

communications infrastructure in Germany, that is radio masts and towers, and T-Mobile Netherlands.

Strong growth in the number of customers in the Netherlands in past quarters continued in the first three months of 2017. With 69,000 new contract customers, the company saw growth in this customer group for seven consecutive quarters. This success is also attributable to the fact that T-Mobile NL operates the best and most up-to-date mobile network in our neighboring country – and, according to testing provider P3, not just in the Netherlands, but worldwide.

A total of 12,000 new customers was added in the fixed-network broadband business.

Service revenues continued to stabilize. Adjusted EBITDA saw a very satisfactory increase of around 25 percent in the Netherlands.

In closing, a little about our financial ratios:

In the current year, we have already raised outside capital of around 8 billion euros, which will cover all the maturities in the current financial year as well as fully finance our agreements with T-Mobile US.

The financial ratios are all within our stated corridors and everything is well on track. At 2.3, the ratio of net debt to adjusted EBITDA continues to be clearly within our target range of 2 to 2.5.

Moody's confirmed our rating just now – after the results of the spectrum auction were announced.

Ladies and gentlemen,

Capital spending continued at full pace in the first quarter of 2017 on the back of our strong earnings performance and we are glad about the continuity in Moody's rating.

We would now like to answer any questions you have.