– The spoken word shall prevail –

Conference call
Report on the first quarter of 2018
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Ladies and Gentlemen,

I, too, would like to warmly welcome you to our conference call.

Tim just underlined it in his summary: Our financial figures continued to develop very well on an organic basis.

The only slight shadow cast over this very good picture comes from the differences in the euro-dollar exchange rate.

The guidance we announced at the 2015 Capital Markets Day is based on year-on-year constant exchange rates. Thus, our planned medium-term growth rates continue to apply in the fourth year.

Our plan for 2014 to 2018 is to achieve average annual growth:

- of 1 to 2 percent in revenues,
- of 2 to 4 percent in adjusted EBITDA, and
- of around 10 percent in free cash flow.

It goes without saying that we also want to keep our dividend promise to our shareholders and orient dividend growth to the rate of growth in free cash flow.

These statements apply to the period up to and including the 2018 financial year and are thus not affected by the planned business combination of T-Mobile US and Sprint.

Allow me briefly to discuss the developments in the operating segments during the first quarter.

First to our business in Germany.

The sharp rise in the number of fiber-optic lines was a major driver of the growth in broadband business. We won 95,000 new broadband customers in the first quarter. That is noticeably more than the 67,000 we added in the first quarter of 2017.

Growth in Entertain customers reached 54,000, while the number of MagentaEINS customers increased by 130,000. In other words, around 19 percent of our broadband customer base now use MagentaEINS product bundles.

The demand for mobile data continues to be strong. Telekom-branded consumers now use over 1.9 gigabytes of data on average, that is an increase of 54 percent year-on-year. Our More-for-More rate plans are extremely popular. The number of StreamOn customers has now passed the one-million mark by a significant margin. All of these factors combined have helped keep revenue per contract customer stable for the first time in three years.

And our MagentaMobil XL unlimited rate plan has been in high demand since its launch.

The application of the new IFRS 15 accounting standard, which changes the way revenue is determined and recognized, has had an effect on the presentation of the development in mobile service revenues. Because revenue from bundled contracts is now broken down into service and handset elements, service revenues reported are now lower than in the comparative period.

We did not adjust the prior-year figure to the new accounting standard, which is why you will see a decline in service revenues of 9.5 percent for the first quarter of 2018. Under the old accounting system, service revenues grew by around 3.2 percent.

In broadband business, service revenues increased by 5.3 percent. Of this increase, 3.5 percentage points were attributable to a reclassification from the item “Other”. This reclassification had a neutral effect on total fixed-network revenue. Operational revenue growth in broadband business totaled 1.8 percent. It reflects the positive impact of our “So gut – So günstig” offering (best value, great deal).

Adjusted for the effects of the change in accounting, service revenues in this segment grew by around 1.2 percent overall. Fixed-network business also recorded growth.

Adjusted EBITDA rose by 1.3 percent, which improved the EBITDA margin by one percentage point to 39.1 percent.

In the Europe operating segment, we once again saw marked growth across all key customer figures.

Our TV customer base grew by 4.2 percent year-on-year, while the number of broadband lines increased by 6.9 percent. The number of mobile contract customers grew by a further 4.9 percent.

Tim Höttges has already mentioned the strong rise in revenues with convergence products.

In the last 12 months alone, we have added 815,000 customers – that is equivalent to growth of 51 percent.

And the number of mobile contract customers increased by 1.2 million year-on-year. Mobile service revenues grew on the back of this trend. The positive development we have been seeing since the second quarter of 2017 points toward a turnaround after five years of, in some cases, markedly declining revenues.

Adjusted EBITDA in the Europe segment also developed positively. That goes both for the organic result and the reported result. We have worked long and hard to achieve this. The 2.5 percent growth in adjusted EBITDA is the first increase in over three years. Let me just remind you: The Europe segment also set itself a higher target for the full year compared to 2017.

The strong trends in the Germany and Europe operating segments were more than sufficient to offset the decline in earnings at T-Systems driven mainly by start-up costs related to investments in growth areas such as cloud computing, the Internet of Things, and healthcare.

T-Systems kept its revenue virtually stable. And while IT business remained under pressure from prices and volumes, in parallel we posted positive developments not only in our growth areas of cloud computing, the Internet of Things, and M2M, but also in the telecommunications business.

Order entry in the first three months was 18 percent up compared to this time last year. This does not include the deal we closed in April with the Sparda Banks for a figure in the three-digit-million range.

T-Systems stands by its guidance for the full year.

In the Group Development segment, T-Mobile Netherlands underpinned the strong customer growth with 83,000 contract customer additions.

Two main factors affected service revenues in the first quarter. These were regulation-induced effects and – as in Germany – the first-time application of IFRS 15, which triggered a sharp decline in reported service revenues. However, the underlying trend showed only a marginal decrease of a good 1 percent. The contrast between the strong growth seen in the customer base and the revenue trend is evidence of the market pressure resulting from competition with KPN and Vodafone/Ziggo and their convergent offerings.

Tim Höttges has already given you a detailed look at the developments at T-Mobile US.

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

They were all clearly within our defined comfort zones at the end of the first quarter.

We presented the planned business combination of T-Mobile US and Sprint to the rating agencies in advance on the basis of pro forma figures. As you know, Moody's has changed our rating outlook to negative, while Standard & Poors has designated us as CreditWatch negative and expects any potential rating downgrade to be limited to one notch.

But please note that these statements relate to our rating following the close of the planned merger of T-Mobile US and Sprint. In their notes, all three agencies – so that includes Fitch – emphasize the strong long-term logic of a transaction of this nature.

As I said before:
At 2.3, the ratio of net debt to adjusted EBITDA was still comfortably within our target range at the end of the first quarter. Financial liabilities decreased slightly compared with year-end 2017. At 1.4 billion euros, free cash flow was more than sufficient to offset the cash outflows for the acquisition of Layer3 and the buy-back of T-Mobile shares.

Based on the structure of the Group as it currently stands, the ratings of all three agencies remain stable and unchanged at BBB+ and Baa1.

And now, we would love to hear your questions.