– Check against delivery –

Conference call
Report on the first quarter of 2019
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Thanks, Tim.

I will start by talking about the development of the Group's financial figures in the first quarter of 2019. Then I will go into key developments in the operating segments. To finish, we will take a look at the Group's financial ratios including the effects of the new IFRS 16 accounting standard on net debt.

So let us begin with the development of financial figures at the Group in the first quarter.

We once again maintained the strong momentum in our operating business in the first three months of 2019.

The Group's reported net revenue rose by 8.7 percent to 19.5 billion euros. Organically, the growth was 3.5 percent.

Around three-quarters of this difference is attributable to the stronger U.S. dollar compared with last year. That is purely a currency translation effect. The exchange rate averaged out at around 1.23 U.S. dollars to the euro in the first quarter of 2018. By contrast, the exchange rate in the first three months of 2019 was around 1.14 U.S. dollars to the euro.

The remaining quarter is due to the first-time consolidation of UPC in Austria and Tele2 in the Netherlands.

Adjusted EBITDA AL increased in the first quarter by 8.3 percent to 5.9 billion euros and by 3.9 percent on an organic basis. Around 80 percent of the difference here is due to the developments I mentioned in the dollar exchange rate. And the remainder is due to the first-time consolidations of UPC and Tele2.

In the first three months of 2019, free cash flow increased year-on-year by 18.1 percent to reach around 1.6 billion euros. In organic terms, the growth rate totaled 9.6 percent. The difference here is due virtually entirely to the developments in the exchange rates.

The increase in free cash flow compared with the prior-year quarter is a result of strong growth in net cash from operating activities of around 1.0 billion euros. This was more than enough to offset the substantial year-on-year increase in cash capex of around 0.6 billion euros – excluding cash outflows for mobile spectrum licenses.

Adjusted net profit in the first quarter of 2019 remained stable in comparison with the previous year at around 1.2 billion euros.

Higher adjusted EBITDA AL was offset mainly by an increase in depreciation and amortization charges resulting from our high investment volume. The prior-year figure also included higher contributions to earnings from associates.

Reported net profit decreased 9.2 percent year-on-year to 0.9 billion euros, due to the fact that special factors were 0.1 billion higher than in the prior year. These special factors primarily relate to expenses in connection with the agreed business combination of T-Mobile US and Sprint.

I would now like to turn to the developments in the individual operating segments.

First to our business in Germany.

Our customer numbers continued to grow substantially.

The momentum in fiber-optic-based lines remains strong, with 688,000 lines added in the first quarter. The number of lines has now increased by over half a million per quarter for the last 14 quarters in succession.

The number of our branded customers opting for broadband lines increased by 47,000. The growth rate here is lower year-on-year, mainly as a result of the accelerated migration of business customers to IP lines. We aim to complete the migration of consumers to IP in 2019 as planned, with business customers to follow in 2020.

Growth in the TV customer base picked up pace compared with the prior-year quarter, with 66,000 new customers added. The rebranding and the addition of more new content are giving us a competitive edge over our competitors.

In mobile business, the positive trend in the branded customer base, i.e., under the Congstar and Telekom brands, continued. We recorded 132,000 net additions in the first quarter.

Data usage among consumers with postpaid contracts continued to grow substantially. Compared with the first quarter of 2018, data usage increased by around 1 gigabyte a month or 48 percent to over 2.8 gigabytes.

We also further strengthened our market leadership in mobile service revenues, which increased by 2.8 percent in the first quarter compared with one year ago.

Starting the first quarter of 2019, we are reporting service revenues in accordance with IFRS 15. This means that revenue from contracts with subsidized handsets is now distributed differently across mobile services and the device compared with previous quarters. However, the cumulative revenues recognized over the entire contract term remain the same.

Our MagentaEINS convergent product bundles remained popular, attracting 135,000 new customers in the first quarter. This brings the number of mobile customers using a MagentaEINS product bundle to 53 percent of our consumer contract customer base, up from 44 percent a year ago.

In the first quarter, revenue in the Germany operating segment increased by 0.6 percent year-on-year to 5.4 billion euros. This includes a 1 percent rise overall in service revenues. The growth in service revenues in mobile communications and wholesale business more than offset the declines recorded in particular with single-play products.

Adjusted EBITDA increased by 2.4 percent to 2.1 billion euros. This is in line with our guidance for the full year.

Let us now move on to the Europe segment.

We continued to post strong organic growth in our customer base, adding 196,000 mobile contract customers in the first quarter of 2019 and 55,000 fixed-network broadband customers. Sharp growth in Greece in particular contributed to the increase of 445,000 in the number of customers with convergent product bundles.

Strong competition in Romania resulted in slower year-on-year growth in the TV customer base and a somewhat weaker trend in the number of broadband customers on the same basis.

Revenue in this segment increased by 2.8 percent year-on-year to 2.9 billion euros. Organically, growth was 0.4 percent. The difference here is due to developments in the exchange rate and in particular to the full consolidation of UPC in Austria, which has been included in the Group since July 31, 2018.

Adjusted EBITDA AL in the Europe segment rose by 5.2 percent to 945 million euros. In organic terms, the growth rate was 1.5 percent. This difference is again primarily due to the consolidation of UPC.

T-Mobile US reported on the performance of its business in Q1/2019 on April 25. In the first three months of 2019, the company continued the impressive trend of the past few years.

The number of mobile customers increased by 1.7 million in the first quarter. The branded postpaid customer base grew by 1 million. On the back of this positive trend, T-Mobile US has raised its forecast for branded postpaid customer additions and now expects average growth for the full year to come in at 300,000.

Thus, the company continues to outperform the competition in this respect. The postpaid customer churn rate declined once again in the first quarter, reaching a record low of 0.88 percent.

Revenue at T-Mobile US increased by 7.0 percent in the first quarter to 11.1 billion U.S. dollars (under IFRS). Adjusted EBITDA came in at 3.0 billion U.S. dollars. That is an increase of 6.2 percent compared with the first three months of 2018.

Order entry at T-Systems is gathering substantial momentum. For the twelve months ending the first quarter of 2019, order entry stood at 6.9 billion euros. That is an increase of 25.7 percent compared with the twelve months ending March 2018. New deals were signed primarily in growth portfolio areas with cloud computing, SAP, and IoT products.

However, the higher level of order entry was not yet felt in the segment's revenue in the first quarter of 2019, which decreased by 2.1 percent to 1.6 billion euros. Growth with products from the growth portfolio was not sufficient to fully offset declines in traditional ICT business.

Adjusted EBITDA AL increased by some 53 percent to 92 million euros, largely as a result of the effects of the transformation program.

T-Systems’ revenue and earnings are therefore on track for the full-year targets, which are stable revenue and rising adjusted EBITDA AL.

In the Group Development segment, the positive organic trend in business performance continued.

In addition, the reported figures are strongly affected by the first-time consolidation of Tele2 in the Netherlands after the start of 2019.

The strong growth in the mobile customer base continued in the first quarter with additions of 71,000 contract customers. This includes the organic increase at Tele2. This success is due in part to the high-quality mobile network, for which T-Mobile has yet again just won the P3 network test in the Netherlands.

In the fixed network, the number of customers grew organically in the first three months by 7,000.

There was substantial further expansion in the cell tower business thanks to the addition of around 1,300 transmitter stations year-on-year in Germany. Around 1,800 further sites are planned for Germany this year. The cell tower business is thus fully on schedule with its plans to increase the number of transmitter stations to around 9,000 between 2018 and 2021.

Revenue in this segment rose by 29 percent in the first quarter to around 0.7 billion euros. In organic terms, revenue grew 2.2 percent. Mobile service revenues increased by 2.5 percent. The difference between reported and organic revenue growth is attributable to the first-time consolidation of Tele2.

The same goes for the development of adjusted EBITDA AL. Reported earnings increased by 13.3 percent to 255 million euros. Organically, the growth came in at 12.8 percent. Both T-Mobile NL and the cell tower business posted improved results.

To finish, let me tell you about developments in our financial liabilities, financial ratios, and the effects of the first-time application of the IFRS 16 accounting standard for leases.

To begin with, the most important thing to say is that all of our financial ratios are within our guidance range.

Starting the first quarter of 2019, we have introduced the "after leases" methodology into the way we report adjusted EBITDA and free cash flow. This keeps our financial figures comparable with the guidance announced at the Capital Markets Day 2018 and with our major European competitors, who have also chosen to take this approach.

Previously, lease payments were recognized as expenses, which had the effect of reducing EBITDA and adjusted EBITDA.

These expenses are no longer presented following the application of IFRS 16. Instead, depreciation charges on the rights to use the leased assets and interest expenses on lease liabilities are recognized. This results in a sharp increase in both EBITDA and adjusted EBITDA.

For free cash flow, the repayment portion from existing operating leases reduces net cash from financing activities rather than cash generated from operations as was previously the case.

Adjusted EBITDA AL and free cash flow AL factor back in these technical accounting effects. This ensures that these financial performance indicators continue to reflect the development of operations rather than simply an improvement resulting from the application of the new accounting methodology.

In the first quarter of 2019, free cash flow AL increased by 18.1 percent year-on-year to 1.56 billion euros.

Cash generated from operations increased by around 1.8 billion euros compared with the prior-year quarter.

Of this increase, some 0.75 billion euros are due to the application of IFRS 16 – in this case mainly from the repayment portion of lease liabilities.

Excluding the effect of IFRS 16, the increase in net cash from operating activities amounted to around 1.0 billion euros. This development was mainly the result of the increase in adjusted EBITDA AL of around 450 million euros and an increase in working capital of around 0.5 billion euros.

Free cash flow AL grew substantially on the back of these developments despite around 0.6-billion-euro higher investments (before mobile spectrum) and 0.1-billion-euro higher net interest payments.

Adjusted net profit in the first quarter of 2019 remained stable year-on-year at around 1.2 billion euros. The increase in reported adjusted EBITDA of around 1.35 billion euros was offset by around 0.86 billion euros from higher depreciation of rights to use leased assets and higher interest expenses of around 0.2 billion euros also resulting from the application of IFRS 16.

The remaining operational increase in reported adjusted EBITDA was offset by additional higher depreciation and amortization of around 0.25 billion euros. These resulted from the high levels of investment at the Group and are not connected to IFRS 16.

The difference between reported adjusted EBITDA of 6.9 billion euros and adjusted EBITDA AL of 5.94 billion euros is attributable entirely to the application of IFRS 16. Around 0.75 billion euros of the difference is due to depreciation of the right-of-use assets now recognized under lease assets in the statement of financial position, while around 0.2 billion euros are attributable to interest payments on the increase in lease liabilities resulting from IFRS 16.

Net debt at the Group increased by around 15.6 billion euros as of January 1 as a result of the first-time application of IFRS 16.

Reported adjusted EBITDA is the figure used to calculate the ratio of net debt to adjusted EBITDA. Adjusted EBITDA figures from the second to fourth quarters of 2018 have also been calculated for this purpose. Taken together with the 6.9 billion euros for the first quarter of 2019, this provides a figure for reported adjusted EBITDA for the last twelve months. It is this figure and net debt of the Group that are used to calculate the ratio of net debt to adjusted EBITDA which stood at 2.65 in the first quarter.

This figure is clearly within the corridor adjusted for the effects of IFRS 16 of 2.25 to 2.75.

The figures show that Deutsche Telekom's growth profile remains as sound as its financial ratios.

We would now like to answer any questions you have.