– The spoken word shall prevail –

Conference Call
Second quarter report of 2015
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Ladies and Gentlemen, I, too, would like to warmly welcome you to our conference call.

Let me go into the Group's financial figures and explain the development in the operating segments in detail.

In the second quarter, we continued the clear revenue and earnings growth we achieved in the first three months of the year. That applies for both the reported figures and the figures adjusted for exchange rate fluctuations and changes in the composition of the Group.

In the Germany segment, revenue rose by 2.1 percent to EUR 5.6 billion. This includes very strong growth in mobile equipment revenue. But we are also

pleased with the development of our fixed-network and mobile service revenues, which were in line with our expectations.

We held the EBITDA margin within the target range of 40 percent. The increase in the cost base relates in particular to direct costs and, more specifically, the cost of procuring mobile devices, which is directly allocable to the corresponding revenue generated.

The adjusted indirect costs were reduced slightly. Increases in personnel costs due to more staff required for the IP migration and the network build-out were offset by savings in other areas, such as IT.

In the fixed network, customer growth accelerated further compared with the first quarter.

This has to be seen against the backdrop of our investments in fiber-optic technology. Our network now covers some 20 million households, almost 4 million more than just a year ago.

As a result, we won around 271,000 new branded fiber-optic customers in the second quarter, more than twice as many as in the same quarter last year. In addition, competitors created growth of 159,000 fiber-optic lines in the wholesale business. The number of fiber-optic lines operated by our wholesale partners rose to more than 1 million at the end of June, driven by our contingent model. In total, we now have more than 3.4 million fiber-optic lines in operation.

The growing number of broadband lines and the product packages relying on broadband technology have reversed the trend in fixed-network broadband revenue: Broadband business with branded retail customers increased by 0.2

percent to around EUR 1.3 billion.

In mobile communications, net additions in branded customers – i.e., under the Telekom, Congstar, and Multibrand brands – totaled a good 170,000. This bolstered the positive trend in our service revenues.

In terms of service revenues, the market shrank by some 0.6 percent in total. We, however, recorded a slight increase of around 0.1 percent to EUR 1.7 billion, thereby defending our market leadership.

Compared with the increase in the first quarter of 2.8 percent, this is a substantial decline.

The difference is attributable on the one hand to seasonal factors in the corporate customer business. In addition, price discounts in connection with MagentaEINS were increasingly posted on mobile cards in the second quarter, reducing revenue from mobile business.

Furthermore, we recognize all revenue from customers with a hybrid line under the fixed-network business. So, as Tim Höttges mentioned, if a customer switches from the purely mobile product Telekom LTE Broadband to a hybrid line, mobile revenue decreases, while fixed-network revenue increases. These two factors reduced mobile service revenues in the second quarter by around 1 percentage point year-on-year.

Overall, nothing has changed in our assessment from February that mobile service revenues should grow by around 1 percent on average in the medium term.

And that brings us to T-Mobile US, which continued its dynamic revenue growth and accelerated its earnings trend again.

T-Mobile US published its figures on the basis of U.S. GAAP on July 30.

So let me explain these figures which make such an impressive contribution to the development at Group level. I will give you the figures on a dollar basis so as to eliminate exchange rate effects.

Organic revenue growth increased again by around 2 percentage points compared with the first quarter to 13.7 percent. Service revenues increased by 12.6 percent compared with the prior-year period.

In the first quarter, they had increased by a good 9 percent.

The number of net additions in the second quarter was up 41 percent on the prior-year level at 2.1 million, while the churn rate among branded postpaid customers at T-Mobile US remained on a par with the first quarter at 1.3 percent and thus at the lowest level the company has ever seen.

At the same time, T-Mobile US further increased its earnings.

Adjusted EBITDA rose by 22.1 percent to USD 1.8 billion. Our EBITDA margin improved by 1.6 percentage points year-on-year to 22.1 percent. This was driven on the one hand by higher service revenues due to the larger customer base. In addition, T-Mobile US completed the migration of customers from the former MetroPCS network much faster than planned. This means that the components of the CDMA network will now be dismantled much sooner and the cost synergies can be ramped up accordingly, reaching their full extent in the first half of 2016, once there is only one network in operation.

Despite raising the customer target yet again and the costs associated with it, T-Mobile US confirmed its earnings guidance. This means that adjusted EBITDA on a U.S. GAAP basis is expected to increase to between USD 6.8

and 7.2 billion for the full year compared with USD 5.6 billion in 2014. That is an increase of 24 percent based on the mean value for the guidance.

We continue to build out our network in our European subsidiaries, thereby strengthening the basis for our revenue transformation.

In the second quarter, growth areas accounted for 28 percent of revenue, compared with 25 percent a year earlier.

Reported revenue decreased by 0.9 percent. On the one hand, the first-time consolidation of the GTS group for the full quarter had a positive effect. The company has been included in the Group since the start of June 2014.

On the other hand, we are discontinuing our international hubbing business in voice telephony. Although this business of merely routing third-party voice traffic over our networks generated revenue in the past, it hardly contributed to earnings. More than half of the organic revenue decline resulted from this decision. Excluding this factor, reported revenue would actually have increased slightly.

This decision also highlights the fact that we are focusing on value-driven growth.

The adjusted EBITDA margin was in line with our guidance at around 34 percent in the second quarter.

At T-Systems, we achieved further improvements in the Market Unit. Revenue increased by 3.6 percent to EUR 1.7 billion. The adjusted EBIT margin stood at 2 percent.

This is due in part to cost savings and in part to the number of cloud deals, showing the first successes of the transformation at T-Systems.

As announced, the company plans to grow primarily through scalable, platform-based, and thus fundamentally more profitable offers in digital innovation areas. The restructuring program is making good progress and will run until the end of the year.

The substantial decline in adjusted EBITDA of around a quarter at T-Systems was mainly attributable to intragroup business: In the second quarter of the prior year, partial payment for a major Telekom IT contract – for the One.ERP project to standardize data structures and processes in the various corporate functions throughout Europe – had a positive impact on both internal revenue and earnings. This is, however, a purely internal effect.

To conclude, let me briefly talk about the development of the Group's key financials.

Adjusted net profit in the second quarter increased substantially by around 70 percent to USD 1.1 billion. This is due to the increase in adjusted EBITDA.

Reported net profit remained stable quarter-on-quarter, impacted by a net increase of around EUR 0.4 billion in negative special factors in the second quarter of 2015, primarily for restructuring measures.

In a year-to-year comparison of the first six months, I would again like to highlight the positive special factor of around EUR 1.7 billion from the sale of the 70-percent stake in the Scout group that impacted equally on reported EBITDA and net profit.

Free cash flow increased by 31.1 percent to EUR 1.4 billion. This includes a one-time effect of EUR 175 million from the settlement of anti-trust proceedings which we had already mentioned in the first quarter when explaining adjusted EBITDA trends. The amount was therefore recognized some time after the receivable was posted.

The significant increase in cash contribution from operations more than offset the EUR 0.4 billion increase in capital expenditure and increased free cash flow excluding the aforementioned one-time effect by around 14 percent in the quarter. Here, we are also well on track for our full-year guidance.

Traditionally, liabilities increase from the first quarter of each year to the second, due to the dividend payment. Due to the great popularity of the dividend in the form of shares – with 49 percent of the shareholders accepting this option – the dividend payout amount was again slightly reduced compared with the prior year to just under EUR 1.2 billion.

On top of this, we took two important strategic steps in the three months from April to June 2015:

Firstly, we acquired mobile spectrum in Germany, which is indispensable for successfully continuing our integrated network strategy. We are very pleased with the result.

Secondly, we bought out the non-controlling interests in Slovak Telekom for an attractive price. Not only did this simplify our corporate governance, it also reduced the share of net profit attributable to non-controlling interests as well as potential dividend payments to third parties.

We continue to expect the ratio of net debt to adjusted EBITDA to fall within our target corridor of 2 to 2.5 again.

Let me remind you that the unchanged adjusted EBITDA forecast for the full year of around EUR 18.3 billion is based on a constant exchange rate compared with 2014. This is the case in particular for the U.S dollar, for which the average annual exchange rate for the last year was USD 1.33 per euro. We also confirm the free cash flow guidance at around EUR 4.3 billion.

Calculated on the basis of the current average dollar exchange rate for the first half of 2015, our guidance for adjusted EBITDA works out at EUR 19.3 billion. For free cash flow, this basis gives a figure of almost EUR 4.4 billion. Including exchange rate effects and the aforementioned one-time effect of EUR 175 million as well as a number of smaller contrasting effects, we feel the current market expectation for free cash flow of just under EUR 4.5 billion is about right.

And now, we will be happy to take your questions.