

MEDIA INFORMATION

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Harvest time for Deutsche Telekom on both sides of the Atlantic

- T-Mobile US exceeds the 50-million customer mark and raises guidance on customer figures for the full year
- Germany business strong in mobile communications and VDSL roll-out areas
- Europe increases profitability and efficiency
- Revenue down 0.3 percent in the quarter to EUR 15.1 billion, adjusted EBITDA up 0.3 percent to EUR 4.4 billion
- Capital expenditure up again by 6.2 percent in the second quarter

For Deutsche Telekom, the second quarter of the current year was dominated by an improved earnings trend. Adjusted EBITDA was up slightly by 0.3 percent to EUR 4.4 billion. At the same time, the Group's total revenue remained more or less on a par with the prior-year level, down 0.3 percent to EUR 15.1 billion, leading to an adjusted EBITDA margin of 29.3 percent compared with 29.1 percent in the prior-year period.

In organic terms, i.e., adjusted for changes in the composition of the Group and currency effects, revenue was up 0.6 percent in the second quarter; adjusted EBITDA was slightly down by 0.3 percent. For comparison, the organic decline in EBITDA stood at 8.3 percent in the first quarter.

"Our strategy so far has been to make bold and prudent investments, focus first on lifting customer numbers, and then on upping revenues and results. And we are now starting to reap the rewards," said Tim Höttges, Chairman of the Board



of Management of Deutsche Telekom. "We are also gaining more customers thanks to our outstanding networks, and this success is being reflected more and more in our financial figures."

Deutsche Telekom invested EUR 2.2 billion in the second quarter, which in terms of cash capex before mobile spectrum was 6.2 percent more than in the prior-year period. Substantially more was invested between April and June in Germany with an increase of 58.1 percent to more than EUR 1 billion. Nevertheless, at Group level, free cash flow was just 5.4 percent below the prior-year level at EUR 1.0 billion, and was therefore in line with the forecast.

Reported net profit increased by 34.2 percent to EUR 711 million, driven by positive effects on earnings from the spectrum swap with Verizon in the United States. By contrast, adjusted net profit declined 21.5 percent to EUR 636 million, primarily due to increased depreciation and amortization as a result of the increased asset base following the MetroPCS takeover and the investment drive in the United States in the prior year.

Deutsche Telekom confirms its guidance for the full year 2014, with adjusted EBITDA expected to amount to around EUR 17.6 billion. Free cash flow is expected to total some EUR 4.2 billion.

Germany – Fiber-optic products still highly sought-after

In Germany, Deutsche Telekom continues to experience strong demand for the fiber-optic products VDSL and FTTH. In the second quarter, the pace accelerated again compared with the first quarter, with 227,000 new customers. Of these customers, 109,000 came from the wholesale sector, mainly due to the success of what is known as the contingent model. Thus, the total number of optical fiber-based lines climbed by 55 percent within one year to almost 2 million.



The development in the broadband market improved slightly compared with previous quarters, with 7,000 net additions for Deutsche Telekom. The Group recorded above-average growth in new broadband customers in the VDSL roll-out areas. Investments made as part of the network upgrade initiative had a direct positive impact. Among the encouraging developments in the quarter was the increase in the number of Entertain customers to more than 2.3 million, with more than half of new branded fiber-optic-product customers booking Entertain as an add-on. The IP transformation is also progressing well. As of the end of the second quarter, 3.2 million retail lines had already been migrated – more than twice as many as a year earlier.

Deutsche Telekom held its lead in mobile communications. Mobile service revenues declined only slightly in the second quarter by 0.3 percent compared with the prior-year period. Deutsche Telekom's market share of service revenues increased by 0.6 percentage points year-on-year to 35.5 percent. The mobile contract customer base grew by 275,000 between April and June, including 198,000 new customers under the Deutsche Telekom and Congstar brands.

In its home market, Deutsche Telekom's financial KPIs remained stable. Revenue in the Germany operating segment fell 1.8 percent against the prior-year period in the second quarter of 2014, to EUR 5.5 billion. Adjusted EBITDA was down slightly by 1.0 percent to EUR 2.3 billion, resulting in an adjusted EBITDA margin of 41.3 percent, a clear improvement of 0.7 percentage points compared with the second quarter of 2013.

United States – Industry leader in terms of growth in service revenues

T-Mobile US continued its rapid growth of the last few quarters, passing the 50-million customer mark for the first time in mid-2014. 1.47 million new customers were recorded in the second quarter of 2014, 908,000 of them branded postpaid customers. The company has once again revised its growth



expectations upwards for the full year. The number of branded postpaid customers is expected to increase by between 3.0 and 3.5 million in 2014. At the start of the year, the forecast stood at 2 to 3 million new customers.

This result was mainly driven by the successful Un-carrier strategy and the roll-out of the 4G LTE network to cover 233 million of the population. Growth in branded mobile postpaid phone adds was the strongest of the four competitors operating in the United States, at 579,000. At the same time, effectively five times as many customers chose a tablet or data contract in the second quarter as in the first three months of 2014, with the number reaching 329,000.

The churn rate remained low, while the trend in service revenues continued to gain momentum. On an organic basis, i.e., including MetroPCS in full for the first two quarters of the year, the company reported the strongest growth in service revenues of the four major mobile providers in the United States.

Total revenue increased by 14.6 percent to USD 7.2 billion for the second quarter. On a euro basis, it climbed 9.2 percent to EUR 5.3 billion. The earnings performance also improved substantially, with adjusted EBITDA increasing by 22.1 percent to USD 1.5 billion. On a euro basis, the increase was 16.5 percent to EUR 1.1 billion.

Europe – Rapid pace of technological change

The European national companies performed much more profitably in the second quarter than in the past. Adjusted EBITDA grew by 1.7 percent in organic terms, i.e., excluding changes in the composition of the Group and currency effects. Reported adjusted EBITDA decreased slightly by 1.7 percent to EUR 1.1 billion.

At the same time, revenue fell by 5.3 percent in organic terms. Almost half of this decline is a result of regulatory decisions relating to mobile

communications. The reported figure decreased by 7.9 percent to EUR 3.2 billion. These figures result in a reported EBITDA margin of 34.7 percent, after 32.5 percent a year earlier. The earnings development improved primarily as a result of systematic cost discipline in the national companies, with indirect costs falling by almost 8 percent year-on-year on an organic basis.

The conversion of networks to IP is progressing apace and right on schedule. At the end of June 2014, 32 percent of all fixed-network lines in the segment were already IP-based. That is 11 percentage points more than in the previous year. In mobile communications, the number of base stations for the state-of-the-art technology standard LTE increased from 1,600 to 10,000 within a year. Positive trends were also recorded in customer figures: Between April and June, the number of broadband lines increased by 48,000; the number of TV customers rose by 61,000.

Systems Solutions – Transformation well underway

The restructuring of T-Systems impacted on the financial KPIs of Systems Solutions again in the second quarter of the current year. Stricter profitability criteria apply as part of the T-Systems 2015+ transformation. As a result, the company concluded substantially fewer contracts than a year earlier. Accordingly, order entry in the Market Unit, which mainly comprises T-Systems' external business, declined by 30.2 percent to EUR 1.3 billion.

The lower level of new business and the non-renewal of contracts are also reflected in revenue, with the Market Unit recording a year-on-year decrease of 6.0 percent to EUR 1.7 billion in the second quarter. Adjusted for the sale of T-Systems Italy and the Systems Integration business unit in France, as well as exchange rate effects, the decline was 4.5 percent. At Telekom IT – which handles the Group's internal IT business in Germany – revenue increased by 31.9 percent. This picture is distorted by a partial payment on a major IT



project. Essentially, Telekom IT's revenues, and hence the Group's IT costs, will continue to fall according to plan.

In addition to the decrease in revenue, start-up costs for the development of new business areas resulted in a negative earnings trend in the Market Unit. Adjusted EBITDA declined by 35.6 percent to EUR 105 million. In the second quarter, the adjusted EBIT margin lay at minus 0.2 percent, compared with plus 2.8 percent the year before.

At the end of July, T-Systems' subsidiary Satellic signed a 12-year deal to set up and operate a toll system in Belgium. This success shows that Systems Solutions is reinforcing its standing in the market thanks to competitive products. Clear progress is being made, especially with innovative digital business models, such as those based on the cloud. For example, revenue from cloud-based solutions increased by more than 40 percent year-on-year in the first half of 2014.



The Deutsche Telekom Group at a glance:

	Q2 2014 millions of €	Q2 2013 millions of €	Change %	H1 2014 millions of €	H1 2013 millions of €	Change %	FY 2013 millions of €
Revenue	15,114	15,157	(0.3)	30,008	28,942	3.7	60,132
Proportion generated internationally %	59.6	58.6	1.0p	59.1	56.6	2.5p	57.8
EBITDA	4,417	4,032	9.5	10,055	8,111	24.0	15,834
Adjusted EBITDA	4,429	4,417	0.3	8,550	8,705	(1.8)	17,424
Net profit	711	530	34.2	2,528	1,094	n.a.	930
Adjusted net profit	636	810	(21.5)	1,223	1,577	(22.4)	2,755
Free cash flow ^a	1,049	1,109	(5.4)	2,032	2,147	(5.4)	4,606
Cash capex ^b (excl. spectrum)	2,197	2,068	6.2	4,262	4,155	2.6	8,861
Cash capex ^b	3,946	2,198	79.5	6,143	5,222	17.6	11,068
Net debt				41,385	41,374	0.0	39,093
Number of employees ^c				229,897	231,195	(0.6)	228,596

Comments on the table:

MetroPCS was included in Deutsche Telekom's consolidated financial statements for the first time as of May 1, 2013.

a Before dividend payments, investments in spectrum, and before effects in connection with the AT&T transaction and compensation payments for MetroPCS employees.

b Cash outflows for investments in property, plant and equipment, and intangible assets (excluding goodwill).

c At reporting date.

Operating segments:

	Q2 2014 millions of €	Q2 2013 millions of €	Change %	H1 2014 millions of €	H1 2013 millions of €	Change %	FY 2013 millions of €
Germany							
Total revenue	5,464	5,565	(1.8)	10,947	11,131	(1.7)	22,435
EBITDA	2,217	2,161	2.6	4,422	4,279	3.3	8,401
Adjusted EBITDA	2,256	2,279	(1.0)	4,486	4,534	(1.1)	8,936
Number of employees ^a				67,883	67,936	(0.1)	66,725
United States^b							
Total revenue	5,270	4,825	9.2	10,344	8,366	23.6	18,556
EBITDA	1,411	884	59.6	2,206	1,738	26.9	3,642
Adjusted EBITDA	1,083	930	16.5	1,927	1,818	6.0	3,874
Europe^c							
Total revenue	3,163	3,435	(7.9)	6,288	6,778	(7.2)	13,704
EBITDA	1,074	1,116	(3.8)	2,086	2,255	(7.5)	4,371
Adjusted EBITDA	1,098	1,117	(1.7)	2,125	2,214	(4.0)	4,550
Systems Solutions							
Order entry	1,311	1,878	(30.2)	2,725	3,854	(29.3)	7,792
Total revenue	2,187	2,170	0.8	4,239	4,396	(3.6)	9,038
Of which Market Unit	1,674	1,781	(6.0)	3,353	3,581	(6.4)	7,244
Adjusted EBIT margin (%)	0.4	2.4	(2.0p)	0.1	1.3	(1.2p)	1.5
Adj. EBIT margin, Market Unit (%)	(0.2)	2.8	(3.0p)	(0.3)	1.5	(1.8p)	2.8
EBITDA	155	41	n.a.	236	149	58.4	358
Adjusted EBITDA	288	210	37.1	426	378	12.7	774

Comments on the table:

ICSS/GNF business at the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014, and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. Comparative figures have been adjusted retrospectively.

a At reporting date.

b First-time inclusion of MetroPCS as of May 1, 2013.

c First-time inclusion of the GTS Central Europe group since May 30, 2014.



Development of customer numbers

Operating segments: Development of customer numbers in the second quarter of 2014

	June 30, 2014 thousands	Mar. 31, 2014 thousands	Change thousands	Change %
Germany				
Mobile customers	39,337	39,145	192	0.5
Of which contract customers	22,379	22,104	275	1.2
Fixed-network lines	21,034	21,202	(168)	(0.8)
Of which IP-based	3,167	2,640	527	20.0
Broadband lines	12,361	12,354	7	0.1
Of which optical fiber (FTTC/VDSL, vectoring and FTTH)	1,494	1,375	119	8.7
TV (IPTV, satellite)	2,318	2,255	63	2.8
Unbundled local loop lines (ULLs)	9,101	9,207	(106)	(1.2)
United States				
Mobile customers	50,545	49,075	1,470	3.0
Of which branded postpaid customers	24,530	23,622	908	3.8
Of which branded prepay customers	15,639	15,537	102	0.7
Europe^{a, b}				
Mobile customers	56,485	56,615	(130)	(0.2)
Of which contract customers	25,569	25,521	48	0.2
Fixed-network lines	9,141	9,215	(74)	(0.8)
Of which IP-based	2,925	2,680	245	9.1
Retail broadband lines	4,832	4,784	48	1.0
TV (IPTV, satellite, cable)	3,619	3,558	61	1.7

Comments on the table:

a The fixed-network customers of our subsidiary Euronet Communications in the Netherlands have not been included in the Europe operating segment since January 2, 2014, following the sale of the shares held in the company. They have been eliminated from all historical customer figures to improve comparability.

b The lines of the GTS Central Europe group will be reported from the third quarter of 2014.



**Operating segments: Development of customer numbers
in year-on-year comparison**

	June 30, 2014 thousands	June 30, 2013 thousands	Change thousands	Change %
Germany				
Mobile customers	39,337	37,492	1,845	4.9
Of which contract customers	22,379	20,445	1,934	9.5
Fixed-network lines	21,034	21,880	(846)	(3.9)
Of which IP-based	3,167	1,474	1,693	n.a.
Broadband lines	12,361	12,430	(69)	(0.6)
Of which optical fiber (FTTC/VDSL, vectoring and FTTH)	1,494	1,096	398	36.3
TV (IPTV, satellite)	2,318	2,078	240	11.5
Unbundled local loop lines (ULLs)	9,101	9,359	(258)	(2.8)
United States				
Mobile customers	50,545	44,016	6,529	14.8
Of which branded postpaid customers	24,530	20,783	3,747	18.0
Of which branded prepay customers	15,639	14,935	704	4.7
Europe^{a, b}				
Mobile customers	56,485	56,985	(500)	(0.9)
Of which contract customers	25,569	25,221	348	1.4
Fixed-network lines	9,141	9,470	(329)	(3.5)
Of which IP-based	2,925	1,968	957	48.6
Retail broadband lines	4,832	4,616	216	4.7
TV (IPTV, satellite, cable)	3,619	3,045	574	18.9

Comments on the table:

a The fixed-network customers of our subsidiary Euronet Communications in the Netherlands have not been included in the Europe operating segment since January 2, 2014, following the sale of the shares held in the company. They have been eliminated from all historical customer figures to improve comparability.

b The lines of the GTS Central Europe group will be reported from the third quarter of 2014.

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