MEDIA INFORMATION

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Deutsche Telekom records successes worldwide in the third quarter

- Net revenue of the Group up by 0.8 percent in the third quarter and, for the first time, more than 60 percent of revenue generated abroad
- Adjusted EBITDA down by 1.8 percent due to high market investments
- Capital expenditure up by more than 10 percent
- Guidance confirmed for the full year
- Telekom extends market leadership in service revenues in German mobile communications compared with the prior year
- Record branded postpaid customer growth at T-Mobile US
- Europe increases adjusted EBITDA by 35.7 percent

All strategy-related trends are clearly on an upward trajectory. An excellent performance in the German mobile market, record customer additions in the United States, strong financial development in Europe and improvements in Systems Solutions – these are Deutsche Telekom's results for the third quarter. These trends gave rise to an increase in the Group's net revenue by 0.8 percent compared with the prior-year period to EUR 15.6 billion. For the first time in the history of Deutsche Telekom, more than 60 percent of revenue was generated abroad.

Higher market investments in Germany and the United States had a noticeable effect on adjusted EBITDA. Nevertheless, the decline remained slight, down just 1.8 percent to EUR 4.6 billion. A moderate decline of 1.8 percent was also recorded for the first nine months of the year.

"The challenges vary regionally, but we are clearly making progress everywhere," said Tim Höttges, CEO of Deutsche Telekom. "Whether in the Unites States, Europe, or our home market of Germany, it has been a very successful quarter for us."

The Group substantially increased its capital expenditure once again. In the third quarter, cash capex excluding expenses for mobile spectrum amounted to EUR 2.5 billion and thus was 10.3 percent higher than a year earlier. At EUR 800 million, adjusted net profit remained more or less stable in the third quarter, down 2.8 percent. Unadjusted, it decreased 13.9 percent, as the proceeds from the sale of the Bulgarian subsidiaries had been posted in the prior-year quarter.

Free cash flow decreased by 21.2 percent to EUR 1.1 billion in the third quarter. This is in line with the guidance, as is the cumulative figure for the first nine months of EUR 3.2 billion. Deutsche Telekom has confirmed its forecast for the full year in line with market expectations. Adjusted EBITDA is expected to amount to around EUR 17.6 billion. Free cash flow is expected to total some EUR 4.2 billion.

Germany – Mobile market leadership defended

Telekom remains the clear leader in service revenues in the German mobile market, significantly extending its lead on the market number two. Mobile service revenues remained stable year-on-year in the third quarter, in a mobile market that is expected to have declined slightly. The mobile contract customer base increased significantly between July and September. Telekom won 432,000 mobile contract customers in the third quarter. At 235,000, net additions under the Telekom and Congstar brands were more than 40 percent up on the prior-year figure.

This success is also attributable to Telekom's multi-award winning network. Network coverage with the latest mobile standard LTE has now grown to 79 percent of the population. In the third quarter, Telekom sold almost 1.4 million smartphones in Germany – the second highest number of all time.

Demand for fiber-optic products VDSL and FTTH remains strong. In the third quarter, 225,000 new customers opted for a fiber-optic-based line, almost 90 percent more than in the prior year. Thus, the total number of fiber-optic-based lines climbed by almost 60 percent within one year to almost 2.2 million.

There was also an encouraging trend in the number of Entertain customers, which rose by 12.1 percent within a year to almost 2.4 million. In the broadband market, the decrease expected due to the large number of contracts expiring in the third quarter was much smaller than in the prior-year period, with a decline of 20,000 customers.

Revenue in the Germany operating segment only decreased slightly in the third quarter of 2014, as during the year so far, down 1.5 percent compared with the same period in the prior year, and amounted to EUR 5.6 billion. Adjusted EBITDA fell, as expected, due to a 2.1 percent increase in market investments to EUR 2.3 billion, resulting in an adjusted EBITDA margin of 41.6 percent. The reasons for the higher market investments were the successful launch of the MagentaEins, Magenta Mobil rate plans, and the launch of the iPhone 6.

United States – Customer forecast raised again

In the third quarter, T-Mobile US achieved record customer growth and, thanks to its increased revenue, clearly set itself apart from the competition.
1.4 million branded postpaid customer additions – this has never been seen before within three months at T-Mobile US. The majority related to phone net adds. This growth was also the best achieved among the four national

competitors, as was the increase of 411,000 in the number of branded prepay customers in the third quarter. Overall, the number of T-Mobile US customers increased by 2.35 million to 52.9 million. Compared with the end of the first quarter of 2013 – the start of the Un-carrier strategy and before the business combination with MetroPCS – the customer base grew by around 19 million, or more than 55 percent – in just 18 months.

The key factors for this ongoing success were the Un-carrier strategy with its innovative and radically simplified rate plans, the modern handset portfolio including the new iPhone 6, and the outstanding network quality, with LTE network coverage that now includes 250 million people. The addition of another ten markets to the sales region for the MetroPCS brand in the third quarter of 2014 alone also made a contribution.

The expansion of the customer base has also given momentum to revenue development. In the three months of the year, total revenue increased by 8.7 percent to EUR 5.6 billion. Service revenues grew by 10.1 percent to EUR 4.2 billion. On a U.S. GAAP basis, T-Mobile US reported for the second time in a row the strongest growth in service revenues of the four mobile providers that operate nationwide in the United States.

Adjusted EBITDA declined slightly by 6.3 percent to EUR 1.0 billion. This was attributable to strong customer growth, as it entails higher customer acquisition expenses. T-Mobile US wants to maintain the momentum in customer acquisition again in the fourth quarter. For the third time this year, the company raised its expectation for growth in branded postpaid customers, bringing it up to 4.3 to 4.7 million in the full year, from the previous 3.0 to 3.5 million. In the first nine months of 2014, the growth in branded postpaid customers stood at 3.6 million, more than three times as much as in the prior year. Despite this strong customer growth, T-Mobile US confirms its forecast for adjusted EBITDA of between USD 5.6 and 5.8 billion on a U.S. GAAP basis, but now expects it to be at the lower end of this range.

Europe – Positive trend in many countries

The key financial indicators of the European national companies are showing a strong development. Following substantial losses owing to the difficult environment, the Europe segment recorded a revenue decline of just 3.6 percent in the third quarter of 2014 to EUR 3.3 billion. This decrease is almost entirely attributable to regulatory decisions relating to mobile communications. At the same time, adjusted EBITDA increased by 1.3 percent to EUR 1.2 billion, primarily due to systematic cost management. As a result, the adjusted EBITDA margin climbed by 34.0 percent within a year to 35.7 percent.

The operational highlights of the quarter included the allocation of Romtelcom and Cosmote to the overall Telekom Romania brand and the launch of a completely new rate plan system in Austria. There were strong developments in the business customer segment (B2B/ICT) – above all in Greece and Slovakia. In Hungary, Magyar Telekom increased its mobile customer numbers and revenues. OTE continues to perform exceptionally well in the difficult Greek market.

The revenue transformation continues to advance in the Europe segment. In the quarter just ended, 26 percent of revenue came from growth areas, 4 percentage points more than a year earlier. Rapid progress is also being made in the modernization of the networks. In mobile communications, the number of LTE sites more than quadrupled to around 11,900 within a year. As of the end of the third quarter, 35 percent of all fixed-network lines were IP-based. This is 11 percentage points higher than in the prior year.

Systems Solutions – Strong order entry thanks to toll collection in Belgium

Strong new business, moderate revenue declines, and a substantial increase in cloud revenue were key trends at T-Systems in the third quarter. Order entry in the Market Unit, which mainly comprises T-Systems' external business, increased by 37.6 percent year-on-year to EUR 2.4 billion. This is primarily due to the contract concluded at the end of July by the T-Systems subsidiary Satellic on the set-up of a toll collection system in Belgium. Thus, the company managed to close a major deal under the stricter profitability criteria introduced as part of the transformation program T-Systems 2015+.

In the third quarter, revenues of the Market Unit decreased by 4.7 percent to EUR 1.7 billion year-on-year. Ongoing price pressure in the industry had an adverse effect on revenue. In addition, this decline is due in part to the deliberate non-extension of contracts due to the higher profitability hurdles introduced as part of restructuring. At 3.3 percent, the adjusted EBIT margin of the Market Unit was 0.6 percentage points down year-on-year in the third quarter. However, this is a significant improvement compared with the first two quarters of this year and shows that the measures taken are having an impact.

The development in the growth area environment is particularly encouraging. Cloud revenues increased by almost 50 percent in the first nine months of the year compared to the prior-year period. The third quarter alone saw a year-on-year increase of 70 percent.

The Deutsche Telekom Group at a glance:

	Q3 2014 millions of €	Q3 2013 millions of €[a]	Change %	Q1-Q3 2014 millions of €	Q1-Q3 2013 millions of €[a]	Change %	FY 2013 millions of €[a]
Net revenue	15,648	15,525	0.8	45,656	44,467	2.7	60,132
Proportion generated internationally %	60.3	58.8	1.5p	59.5	57.3	2.2p	57.8
EBITDA	4,007	4,468	(10.3)	14,062	12,579	11.8	15,834
Adjusted EBITDA	4,575	4,659	(1.8)	13,125	13,364	(1.8)	17,424
Net profit	506	588	(13.9)	3,034	1,682	80.4	930
Adjusted net profit	800	823	(2.8)	2,023	2,400	(15.7)	2,755
Free cash flow[a]	1,125	1,427	(21.2)	3,157	3,574	(11.7)	4,606
Cash capex[b] (excl. spectrum)	2,493	2,260	10.3	6,755	6,415	5.3	8,861
Cash capex[b]	2,584	2,378	8.7	8,727	7,600	14.8	11,068
Net debt				41,809	39,726	5.2	39,093
Number of employees[c]				228,588	229,094	(0.2)	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:

	Q3 2014 millions of €	Q3 2013 millions of €	Change %	Q1-Q3 2014 millions of €	Q1-Q3 2013 millions of €	Change %	FY 2013 millions of €
Germany							
Total revenue	5,587	5,670	(1.5)	16,534	16,801	(1.6)	22,435
EBITDA	2,236	2,268	(1.4)	6,658	6,547	1.7	8,401
Adjusted EBITDA	2,324	2,375	(2.1)	6,810	6,909	(1.4)	8,936
Number of employees[a]				68,788	67,434	2.0	66,725
United States[b]							
Total revenue	5,554	5,108	8.7	15,898	13,474	18.0	18,556
EBITDA	869	1,019	(14.7)	3,075	2,757	11.5	3,642
Adjusted EBITDA	1,014	1,082	(6.3)	2,941	2,900	1.4	3,874
Europe[c]							
Total revenue	3,317	3,440	(3.6)	9,605	10,218	(6.0)	13,704
EBITDA	1,142	1,271	(10.1)	3,228	3,526	(8.5)	4,371
Adjusted EBITDA	1,184	1,169	1.3	3,309	3,383	(2.2)	4,550
Systems Solutions							
Order entry	2,351	1,708	37.6	5,076	5,562	(8.7)	7,792
Total revenue	2,068	2,174	(4.9)	6,307	6,570	(4.0)	9,038
Of which Market Unit	1,678	1,761	(4.7)	5,031	5,342	(5.8)	7,244
Adjusted EBIT margin (%)	2.7	2.3	0.4p	1.0	1.6	(0.6p)	1.5
Adj. EBIT margin, Market Unit (%)	3.3	3.9	(0.6p)	0.9	2.3	(1.4p)	2.8
EBITDA	44	128	(65.6)	280	277	1.1	358
Adjusted EBITDA	197	197	0.0	623	575	8.3	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 third quarter of 2014

	Sept. 30, 2014 thousands	June 30, 2014 thousands	Change thousands	Change %
Germany				
Mobile customers	39,653	39,337	316	0.8
Of which contract customers	22,812	22,379	433	1.9
Fixed-network lines	20,841	21,034	(193)	(0.9)
Of which IP-based	3,744	3,167	577	18.2
Broadband lines	12,340	12,361	(21)	(0.2)
Of which optical fiber[a]	1,608	1,494	114	7.6
TV (IPTV, satellite)	2,377	2,318	59	2.5
Unbundled local loop lines (ULLs)	8,954	9,101	(147)	(1.6)
United States				
Mobile customers	52,890	50,545	2,345	4.6
Of which branded postpaid customers	25,909	24,530	1,379	5.6
Of which branded prepay customers	16,050	15,639	411	2.6
Europe[b]				
Mobile customers	56,087	56,485	(398)	(0.7)
Of which contract customers	25,323	25,569	(246)	(1.0)
Fixed-network lines	9,073	9,172	(99)	(1.1)
Of which IP-based	3,169	2,934	235	8.0
Retail broadband lines	4,880	4,849	31	0.6
Television (IPTV, satellite, cable)	3,670	3,619	51	1.4

Comments on the table:

a Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

b The fixed-network customers of our subsidiary Euronet Communications in the Netherlands have no longer 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.

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

	Sept. 30, 2014 thousands	Sept. 30, 2013 thousands	Change thousands	Change %
Germany				
Mobile customers	39,653	37,936	1,717	4.5
Of which contract customers	22,812	20,915	1,897	9.1
Fixed-network lines	20,841	21,625	(784)	(3.6)
Of which IP-based	3,744	1,774	1,970	n.a.
Broadband lines	12,340	12,383	(43)	(0.3)
Of which optical fiber[a]	1,608	1,165	443	38.0
TV (IPTV, satellite)	2,377	2,121	256	12.1
Unbundled local loop lines (ULLs)	8,954	9,299	(345)	(3.7)
United States				
Mobile customers	52,890	45,039	7,851	17.4
Of which branded postpaid customers	25,909	21,430	4,479	20.9
Of which branded prepay customers	16,050	14,960	1,090	7.3
Europe[b]				
Mobile customers	56,087	56,825	(738)	(1.3)
Of which contract customers	25,323	25,385	(62)	(0.2)
Fixed-network lines	9,073	9,362	(289)	(3.1)
Of which IP-based	3,169	2,258	911	40.3
Retail broadband lines	4,880	4,682	198	4.2
Television (IPTV, satellite, cable)	3,670	3,398	272	8.0

Comments on the table:

a Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

b The fixed-network customers of our subsidiary Euronet Communications in the Netherlands have no longer 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.

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