

# DEUTSCHE TELEKOM

## Q1/2018 RESULTS



LIFE IS FOR SHARING.

# DISCLAIMER

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows, and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor, or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings, and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents alternative performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, gross debt, and net debt. These alternative performance measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

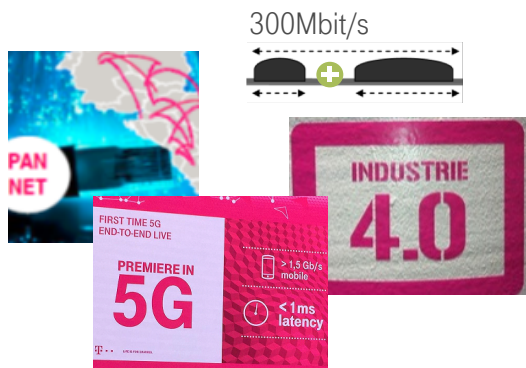


# REVIEW Q1/2018

# Q1/2018 HIGHLIGHTS: GROWTH ON BOTH SIDES OF THE ATLANTIC

## Growth: investments and innovations

- Cash capex at €3.1 bn
- IP-migration continues in GER (73%) and EU (71%)
- Fiber roll-out: 4.4 mn new homes in GER and EU with access to fiber yoy
- Continued LTE pop coverage expansion in GER (94%) and EU (95%)



## Growth: customers

- Demand for fiber in Germany
  - 10.4 mn German homes with fiber (+37% yoy)
  - Record quarter with 781k net adds
- Continued strong US growth
  - 5.9 mn net adds LTM<sup>1</sup>
  - Net add guidance for full year raised



## Growth: financials

- Strong growth continues
  - Revenue up 3.1% yoy<sup>2</sup>
  - Adj. EBITDA up 6.6% yoy<sup>2</sup>
  - Adj. EBITDA ex. US up 2.2%<sup>2</sup>
  - FCF up 12.5% yoy
  - Adj. EPS +20%
- Net debt/adj. EBITDA at 2.3x

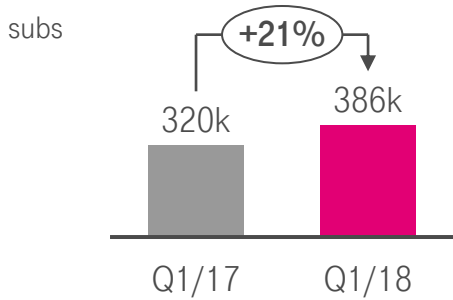


1) Adj. for 4,528k wholesale customers no longer reported since Q2/17

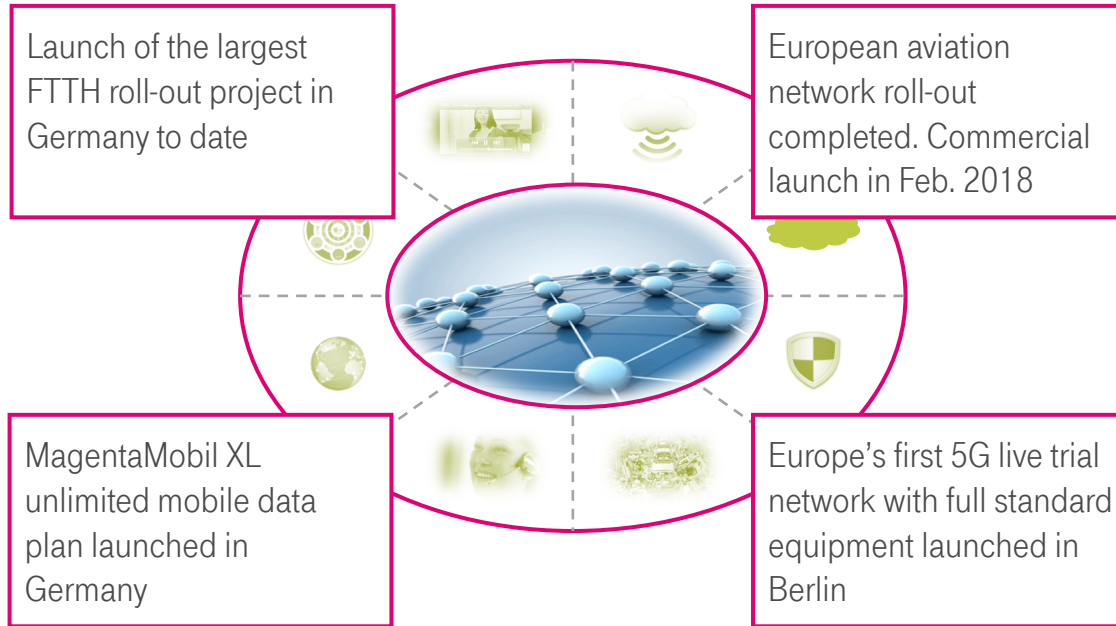
2) Revenue and adj. EBITDA growth rates on organic base: adjusted for currency fluctuations and changes in the scope of consolidation

# Q1/2018 INNOVATIONS: FOCUS ON CUSTOMER EXPERIENCE

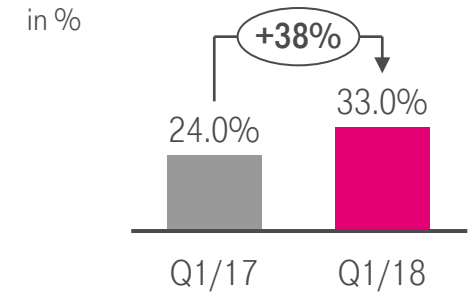
## Hybrid access<sup>1</sup>



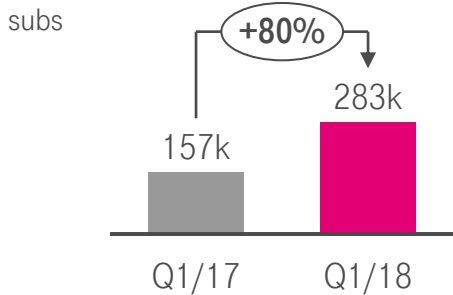
## Innovation/Network



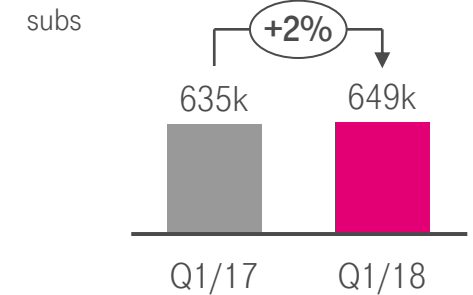
## E-service share of interactions



## Smart Home<sup>2</sup>



## IT-Support<sup>3</sup>

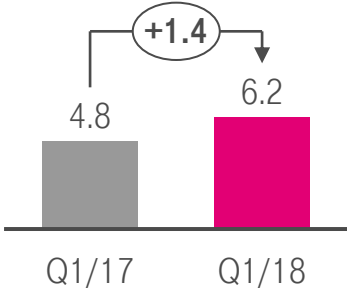


1) +€ 5 per customer/month 2) +€ 10 per customer/month 3) +€ 8 per customer/month

# Q1/2018 CUSTOMERS: STRONG DEMAND DRIVES MOMENTUM

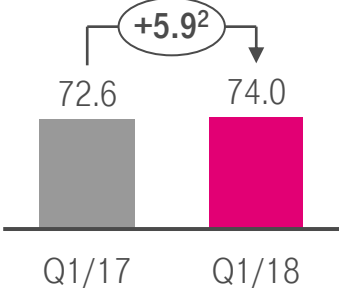
## MagentaEINS (Germany + EU)<sup>1</sup>

mn



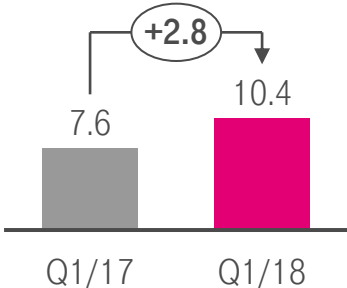
## US Mobile

mn



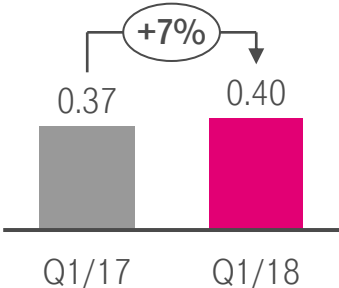
## Fiber in Germany

mn



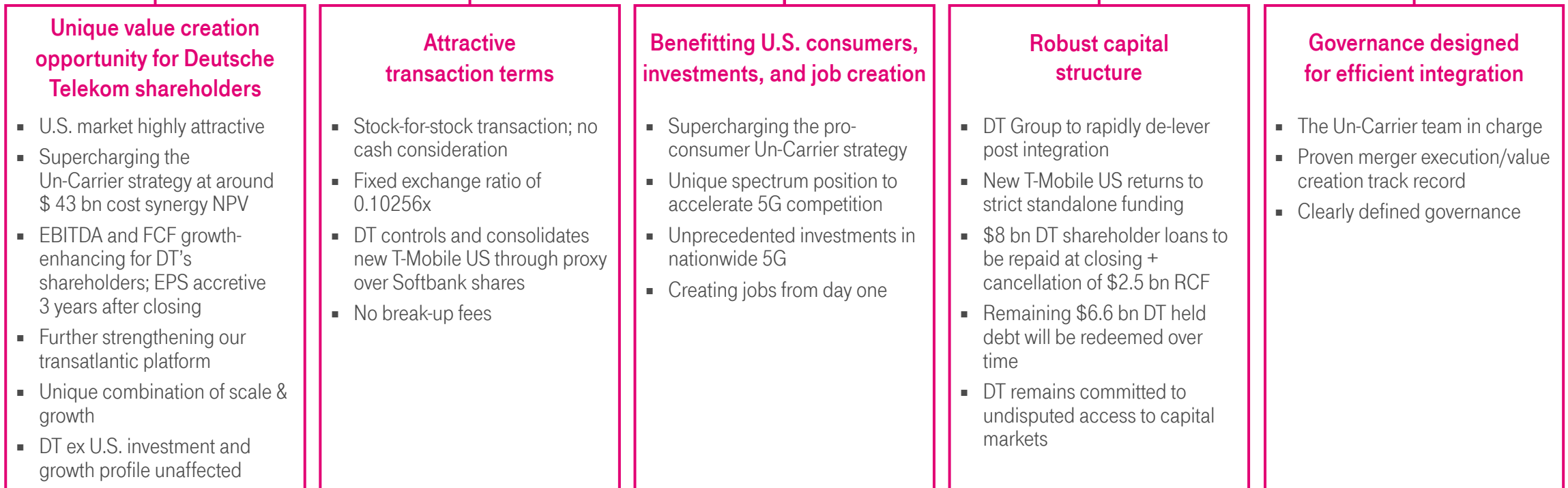
## Cloud revenues

€ bn



1) FMC RGUs may also appear under other brand name outside of Germany 2) Adj. for 4,528k wholesale customers no longer reported since Q2/17

# US: HIGHLY ATTRACTIVE TRANSACTION



# GUIDANCE 2018: EBITDA OUTLOOK RAISED BY €0.1 BN

€ bn

	<u>Revenue</u>	<u>Adj. EBITDA</u>	<u>FCF</u>
2014 – 2018 CAGR	+1 – 2%	+2 – 4%	≈+10%
Achievements Q1/18	+3.1% <sup>2</sup>	+6.6% <sup>2</sup>	+12.5%
2018 Guidance (\$/€: 1.13)	Slight increase	Old: around 23.2 <b>New: around 23.3</b>	Around 6.2
thereof group excl. US		Around 13.2	
thereof TMUS (US\$ bn)		Old: around 11.3 <sup>1</sup> <b>New: around 11.4<sup>1</sup></b>	
impact of new revenue standard (US\$ bn)		Around 0.35	
handset lease (US\$ bn)		0.6 – 0.7	

1) Equals mid-point TMUS guidance (\$ 11.6bn US GAAP (previously 11.5)) + mid-point revenue recognition guidance (+\$ 0.35bn) and -\$ 0.5bn IFRS bridge

2) Growth rates on organic base: adjusted for currency fluctuations and changes in the scope of consolidation



LIFE IS FOR SHARING.



**REVIEW Q1/18**

# Q1/2018: FINANCIAL HIGHLIGHTS

€ mn

	Q1			FY		
	2017	2018	Change	2016	2017	Change
Revenue	18,646	17,924	-3.9%	73,095	74,947	+2.5%
Adj. EBITDA	5,550	5,549	0.0%	21,420	22,230	+3.8%
Adj. net profit	939	1,190	+26.7%	4,114	6,039	+46.8%
Net profit	747	992	+32.8%	2,675	3,461	+29.4%
Adj. EPS (in €)	0.20	0.24	+20.0%	0.89	1.28	+43.8%
Free cash flow <sup>1</sup>	1,228	1,382	+12.5%	4,939	5,497	+11.3%
Cash capex <sup>2</sup>	3,245	3,076	-5.2%	10,958	12,099	+10.4%
Net debt	49,963	50,455	+1.0%	49,959	50,791	+1.7%

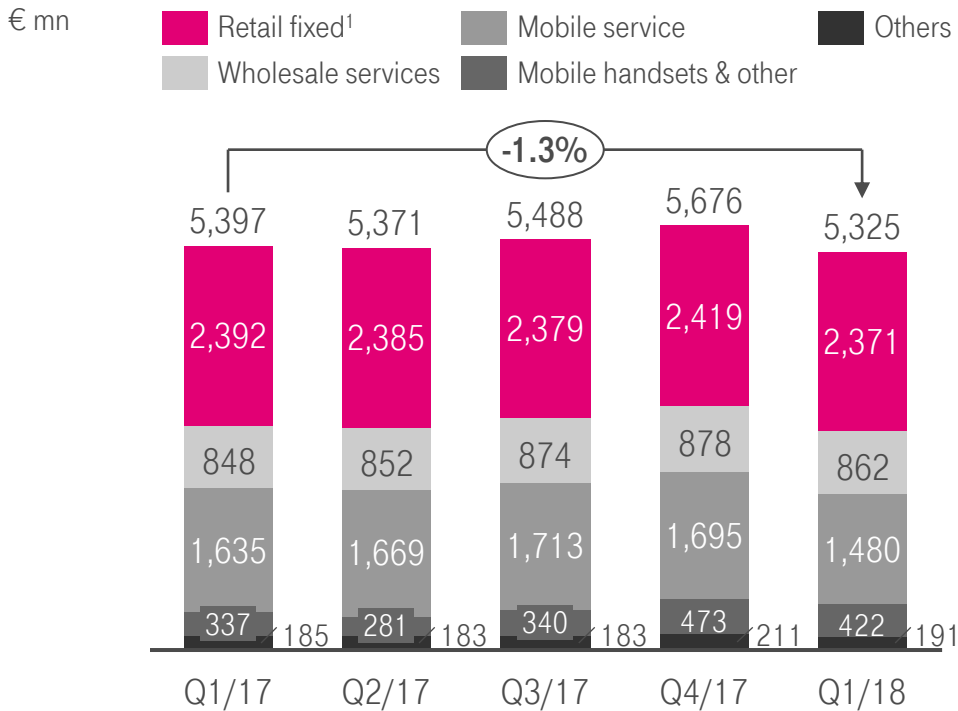
1) Free cash flow before dividend payments and spectrum investment 2) Excl. spectrum: Q1/17: € 35 mn; Q1/18: € 63 mn. FY/16: € 2,682 mn; FY/17: € 7,395 mn



LIFE IS FOR SHARING.

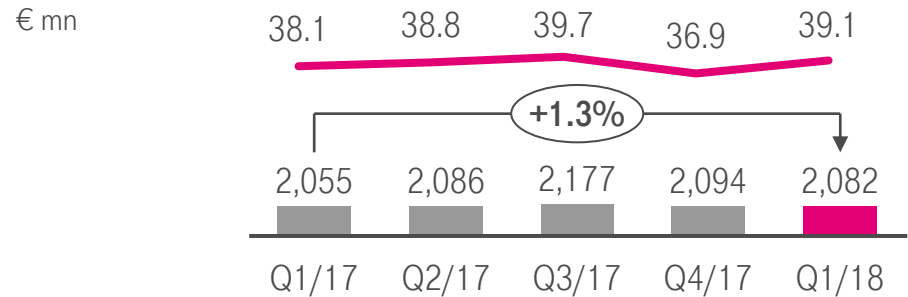
# GERMANY: REVENUE IMPACTED BY IFRS, ADJ. EBITDA ON TRACK

## Revenue (as reported)

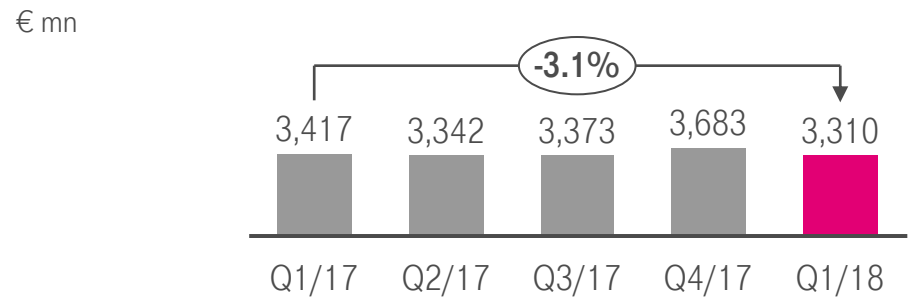


1) Fixed network core business

## Adj. EBITDA and margin (in % as reported)



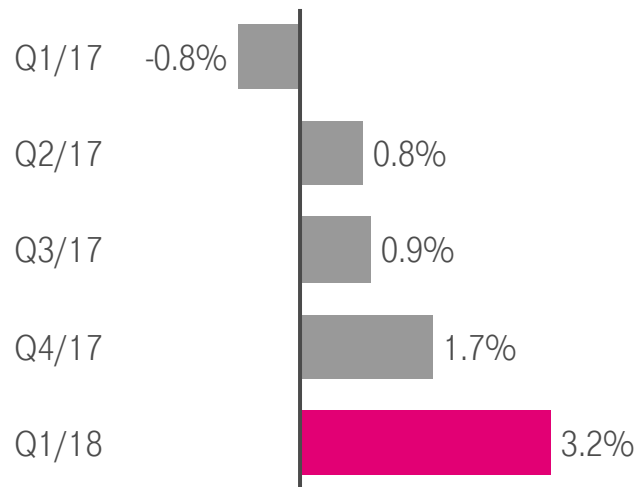
## Adj. OPEX (as reported)



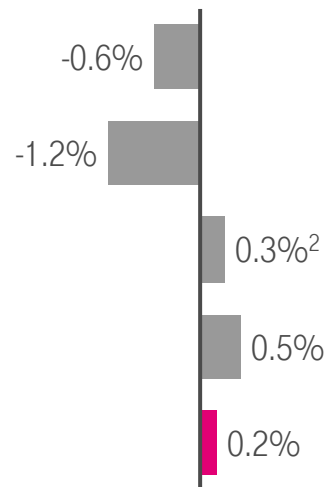
LIFE IS FOR SHARING.

# GERMANY: SUSTAINED GROWTH IN SERVICE REVENUES (EXCL. IFRS 15)

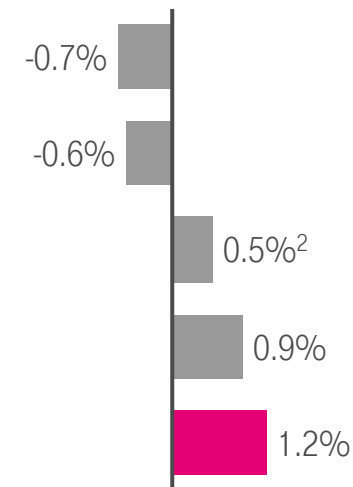
## Mobile service revenue



## Fixed line service revenue<sup>1</sup>



## Total service revenue<sup>1</sup>

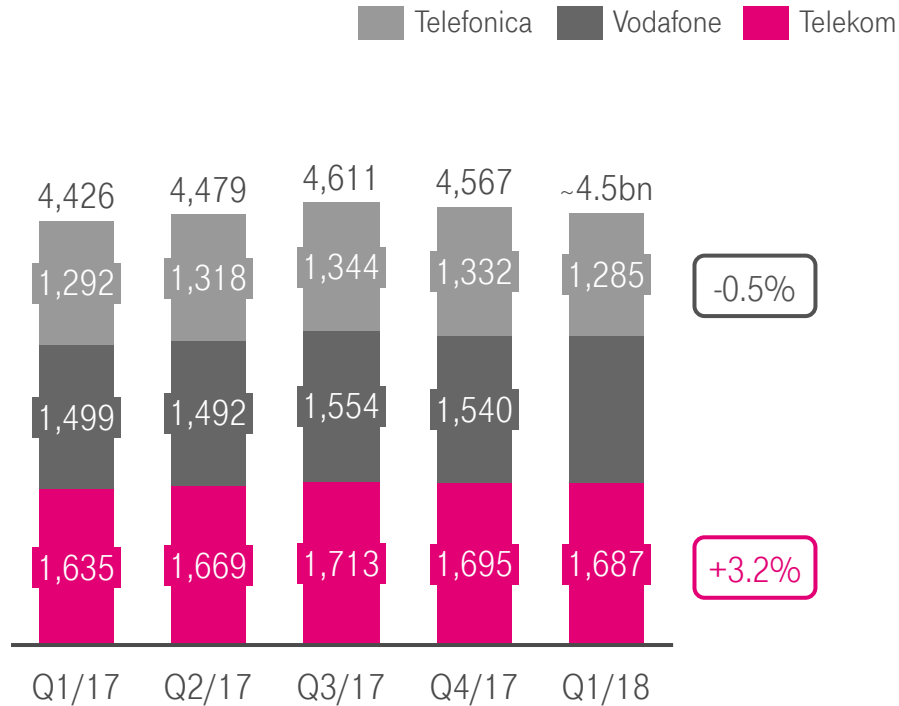


1) Total service revenue is a sum of fixed line and mobile service revenue. We define fixed line service revenue as fixed network core business revenue less fixed hardware revenue plus wholesale services fixed network revenue. From Q2/16 onwards, we classify CPEs recurring rent revenue as fixed service revenue, and thus also part of total service revenue. Without this reclassification, fixed line service revenue growth rate would be -0.2% in Q1/18, whereas TSR growth rate would be +1.0% in Q1/18. Old growth rates have not been restated 2) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at -1.5% for fixed service revenue, resp. -0.8% for total service revenue

# GERMANY MOBILE: GOOD COMMERCIAL MOMENTUM

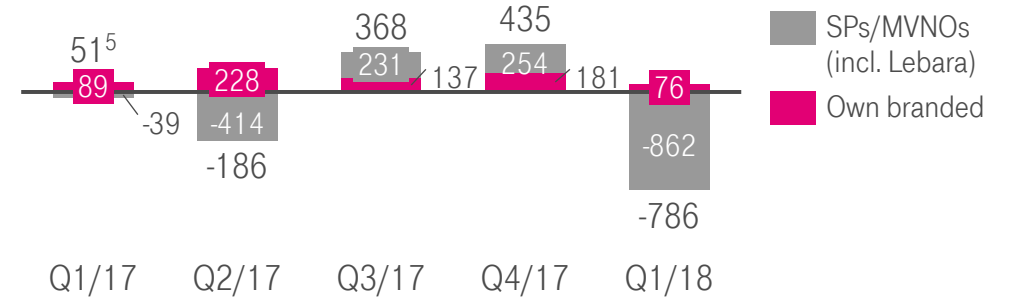
## German mobile market service revenue<sup>1</sup> (excl. IFRS 15)

€ mn



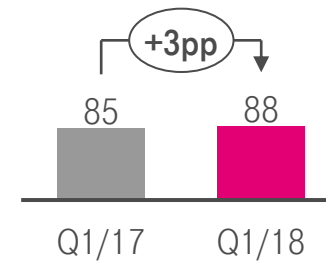
## Contract net adds<sup>2</sup>

000



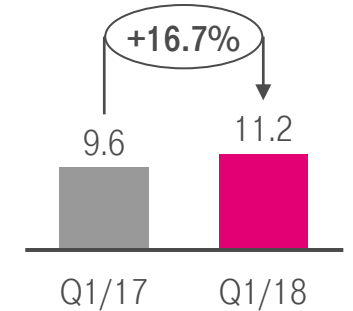
## Smartphone penetration<sup>3</sup>

%



## LTE customers<sup>4</sup>

mn



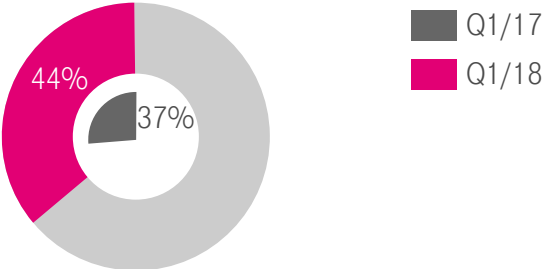
1) Management estimate 2) Figures may not add up due to rounding 3) Of own branded retail customers 4) Own customers using an LTE-device and tariff plan including LTE 5) Contract net adds under own brand impacted by disconnections (minus 41k)



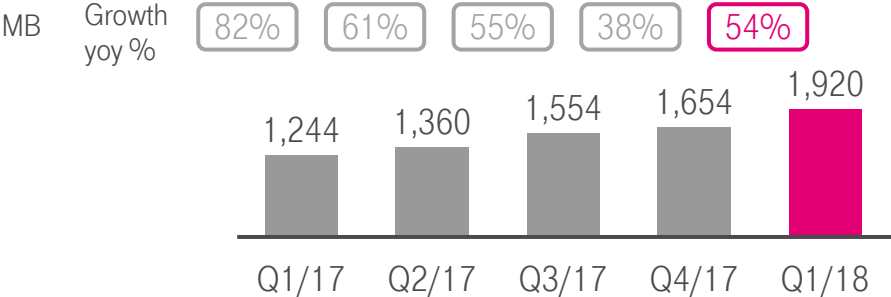
LIFE IS FOR SHARING.

# GERMANY: GOOD PROGRESS WITH CONVERGENCE AND DATA

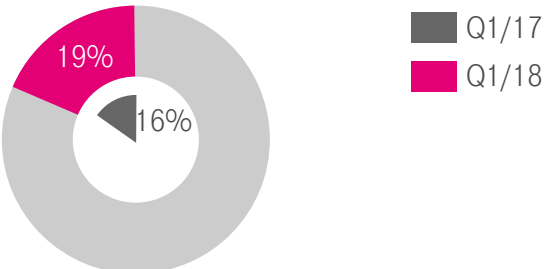
## Mobile contract customers in MagentaEINS bundles<sup>1</sup>



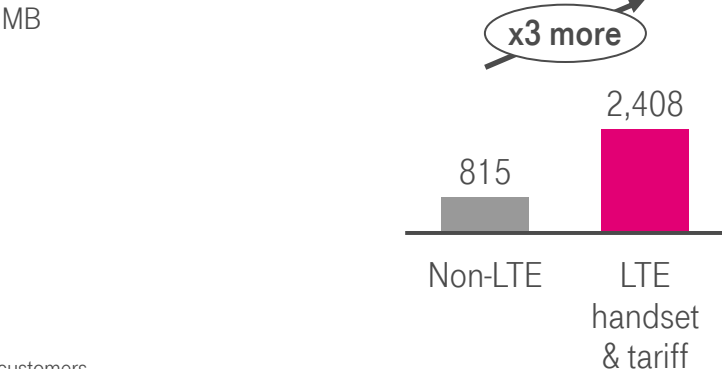
## Average consumer data usage<sup>3</sup>



## Households in MagentaEINS bundles<sup>2</sup>



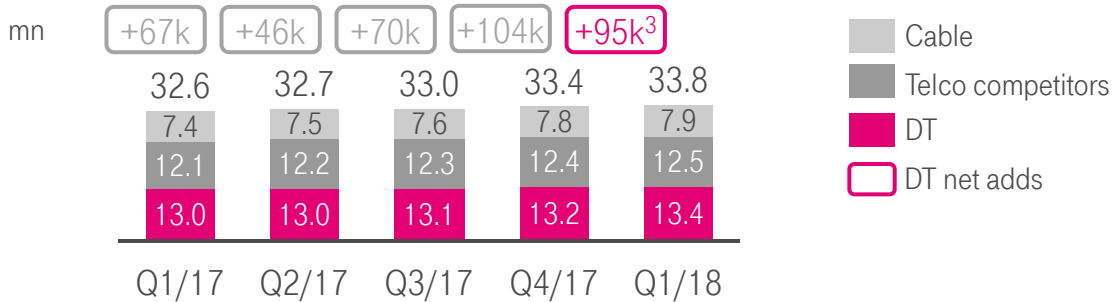
## Average data usage uplift<sup>3</sup>



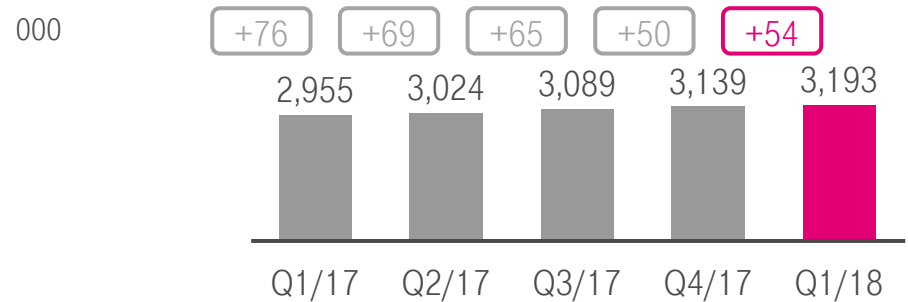
1) As % of B2C T-branded contract customers 2) As % of B2C broadband access lines 3) Per month of B2C T-branded contract customers

# GERMANY FIXED: STRONG BROADBAND CUSTOMER GROWTH

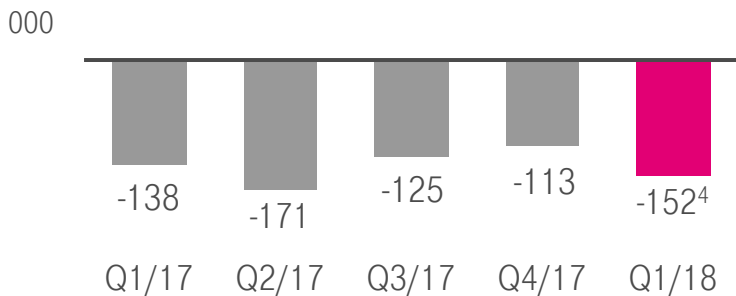
## German broadband market<sup>1</sup>



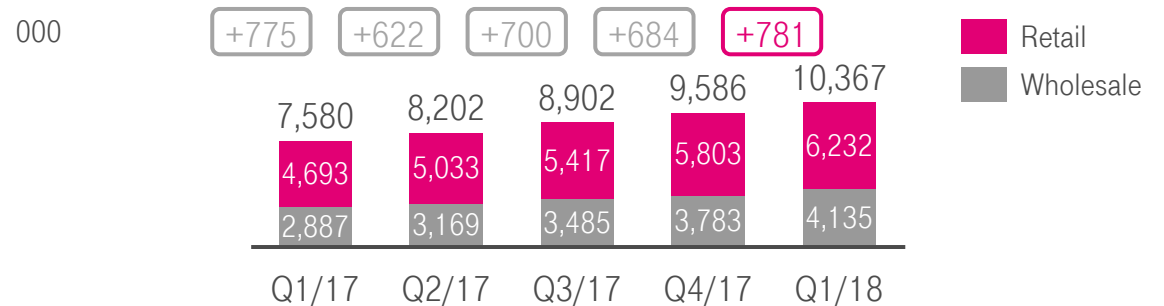
## Entertain customers



## Line losses



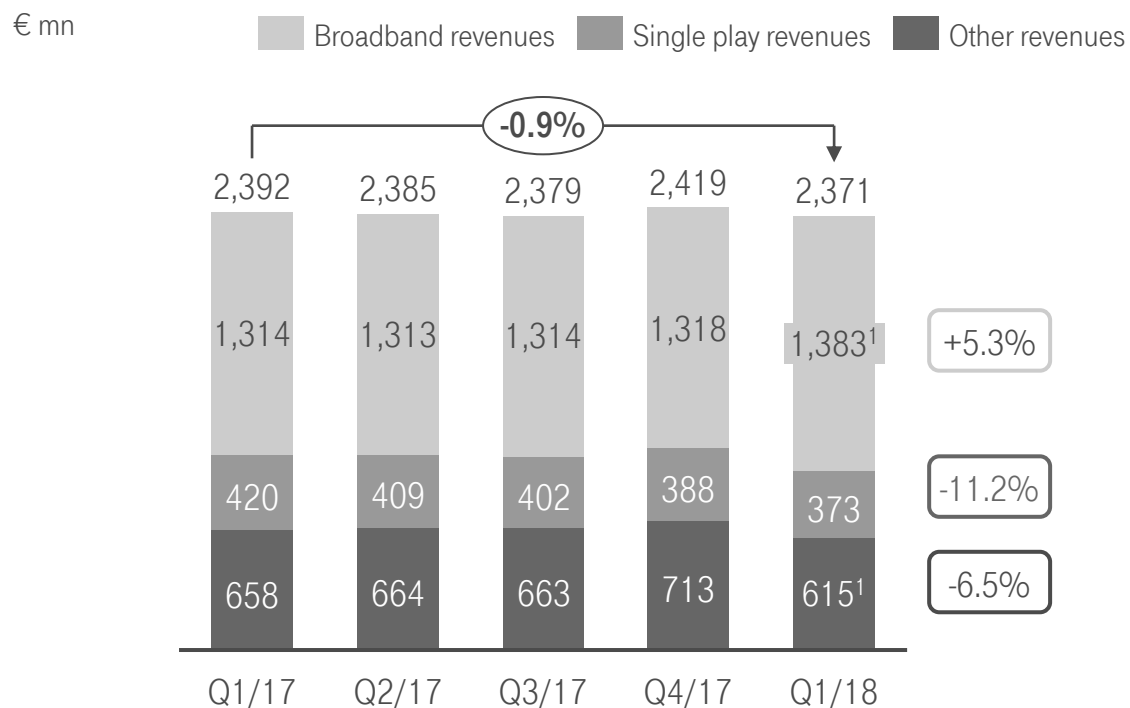
## Fiber customers<sup>2</sup>



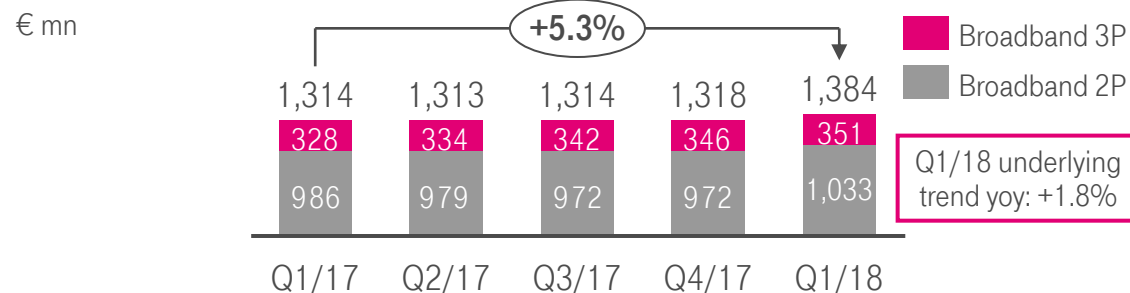
1) Based on management estimates 2) Sum of all FTTx accesses (e.g. FTTC/VDSL, vectoring, and FTTH) 3) Organic view: change in base was +148k 4) Organic view: change in base was -90k

# GERMANY FIXED: REVENUE TRENDS HEADING TOWARDS STABILIZATION

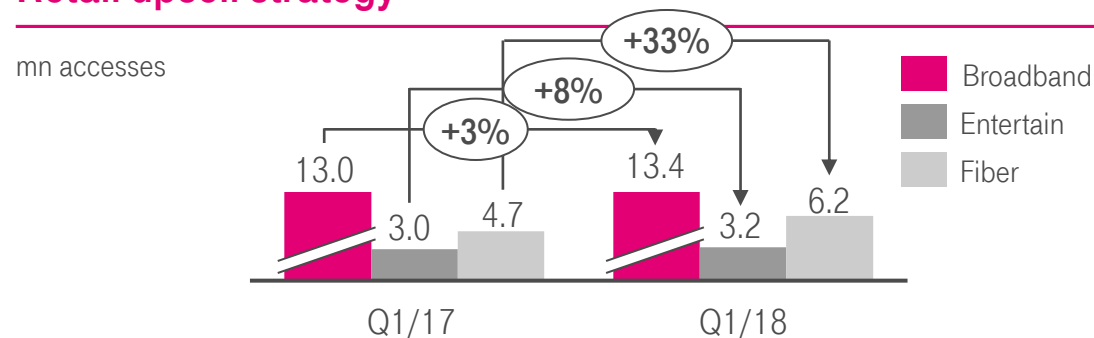
## Fixed network revenue retail (as reported)



## Broadband revenue<sup>1</sup> (excl. IFRS 15)



## Retail upsell strategy<sup>2</sup>



1) Change in definition – no restatement for 2017. Effect in Q1/18: shift of € 47mn from “Other revenues” to “BB revenues” related to B2B broadband customers. 2) Percentages calculated on exact figures

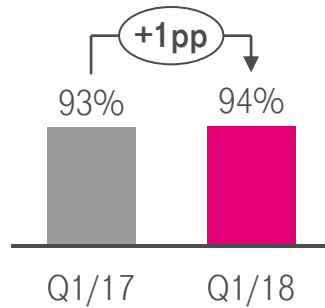




# GERMANY: NETWORK ROLL-OUT AND IP-MIGRATION ON TRACK

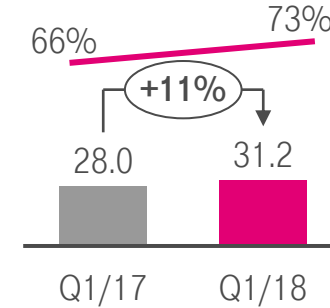
## INS – Status LTE rollout

POP  
Coverage in %<sup>1</sup>



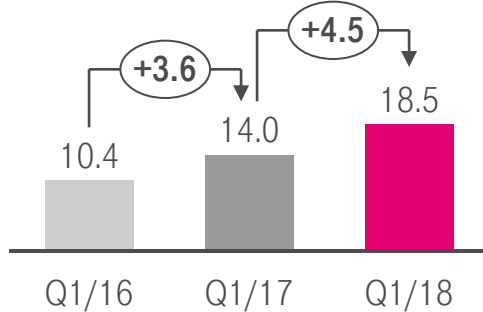
## INS – Status fiber rollout<sup>2</sup>

Coverage in % and  
millions of households



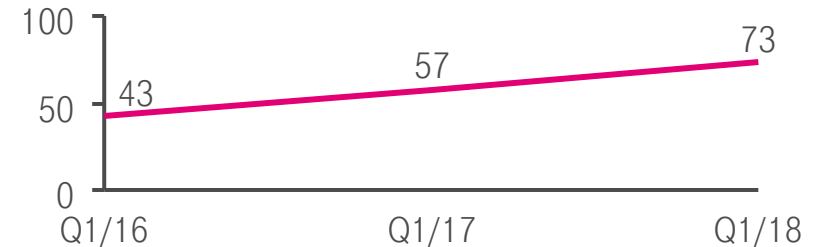
## Status IP accesses (retail & wholesale)

mn



## Status IP accesses (retail & wholesale)

% of lines



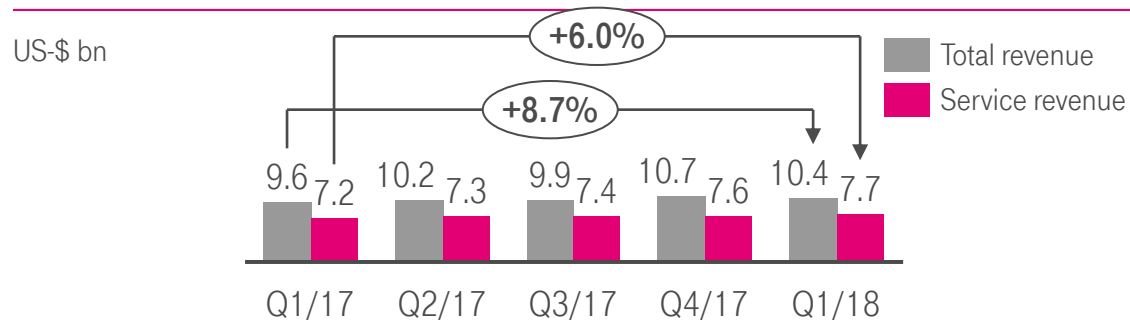
1) Outdoor coverage 2) In % of households within fixed network coverage in Germany



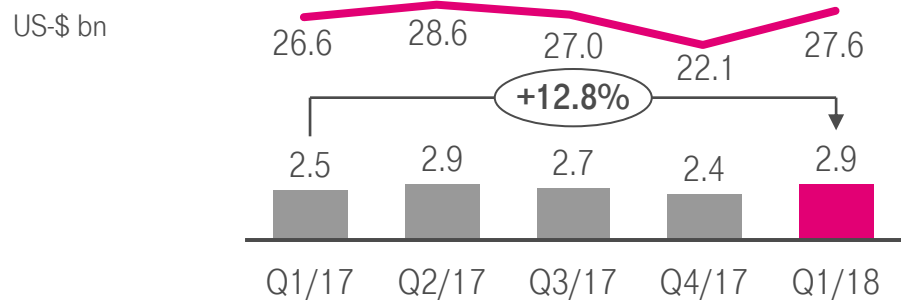
LIFE IS FOR SHARING.

# TMUS: CONTINUED INDUSTRY LEADING GROWTH

## Revenue and service revenue



## Adj. EBITDA and margin (in %)



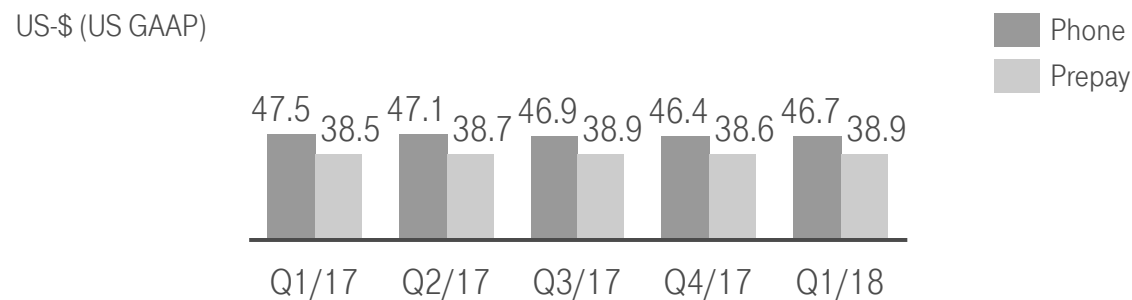
1) Wholesale includes MVNO and machine-to-machine (M2M). Amounts may not add up due to rounding.

## Net adds

000

	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18
Total net adds	1,142	1,333	1,329	1,854	1,433
Branded:					
▪ Postpaid	914	817	817	1,072	1,005
▪ Prepay	386	94	226	149	199
Wholesale <sup>1</sup>	-158	422	286	633	229

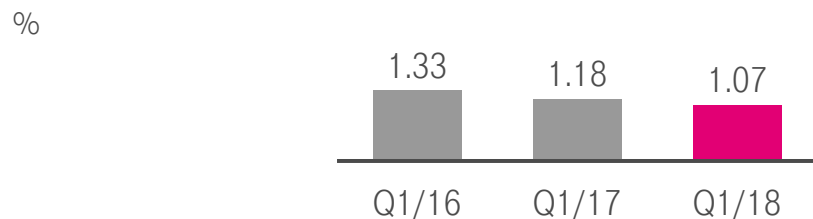
## Branded customers: postpaid phone and prepay ARPU



LIFE IS FOR SHARING.

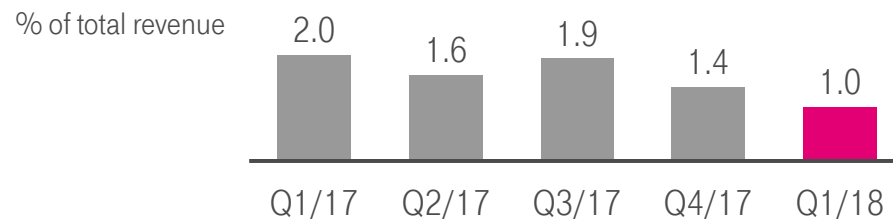
# TMUS: EXECUTING ON KEY DRIVERS

## Branded postpaid phone churn



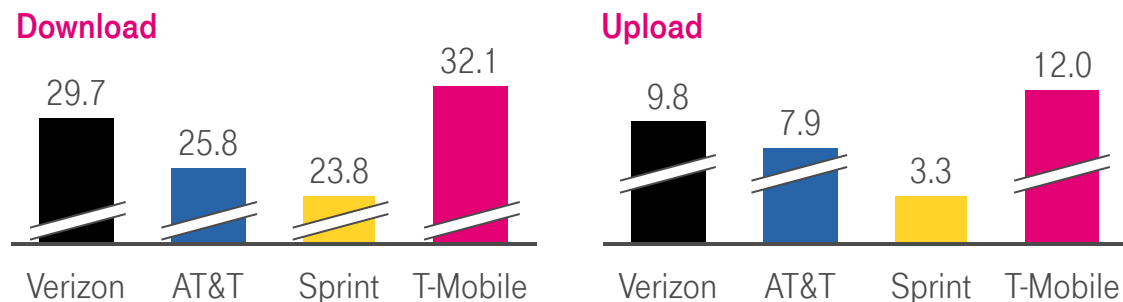
- Branded postpaid phone churn on record low level

## Bad debt expenses & losses from sale of receivables



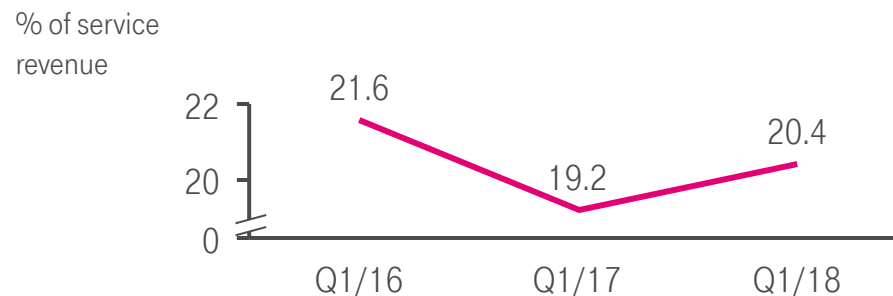
- Decrease reflects ongoing focus on managing customer quality

## Average 4G LTE speeds (in Mbps) Q1/18



- Based on T-Mobile's analysis of national LTE results from Ookla® Speedtest data

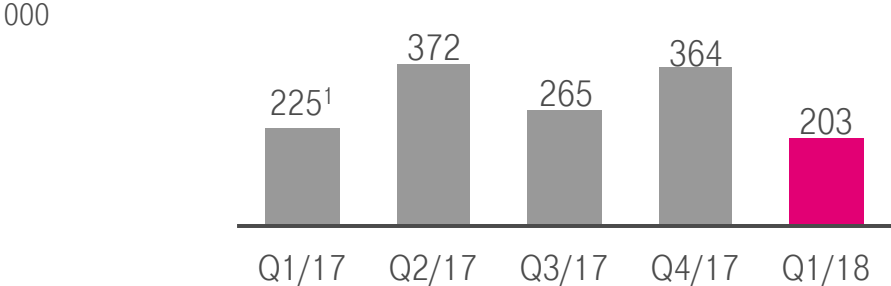
## Cost of service



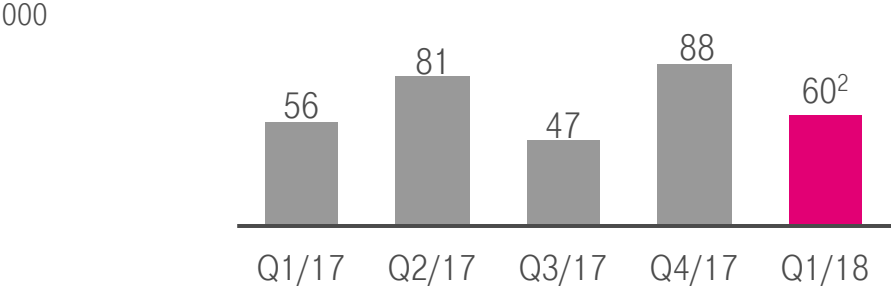
- Increase mainly driven by 600 MHz roll-out

# EUROPE: STRONG GROWTH IN CUSTOMER BASE

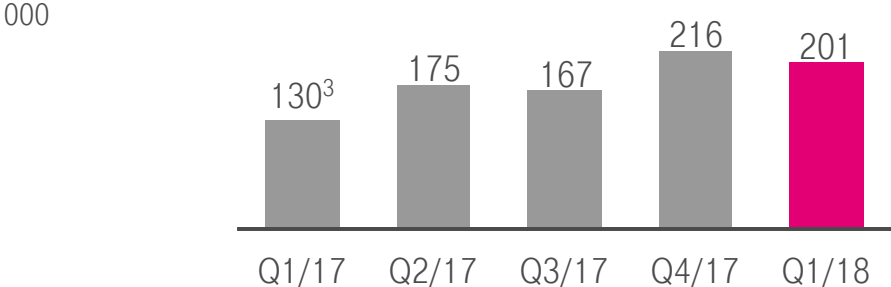
## Contract net adds



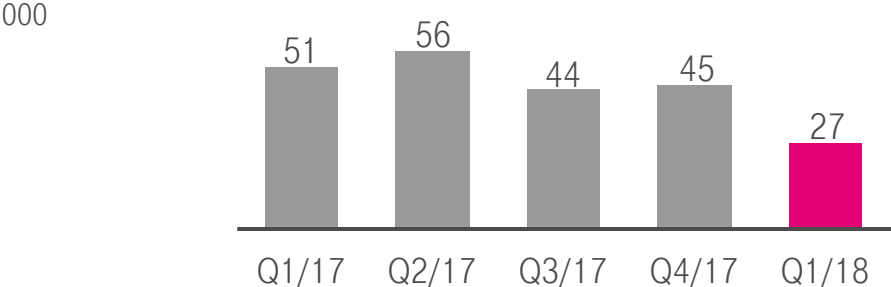
## BB net adds<sup>4</sup>



## FMC net adds



## TV net adds

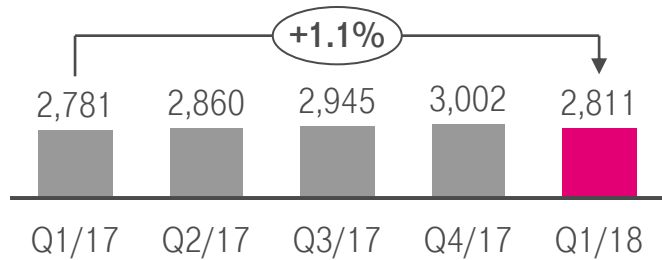


1) Organic view adjusted for reclassifications in Austria and Slovakia. Change in customer base is 167k 2) Organic view adjusted for 111k reclassifications. Change in base is 171k  
 3) Organic view adjusted for 137k reclassifications in Greece. Change in base is 267k 4) Based on accesses

# EUROPE: GROWING REVENUE AND EBITDA

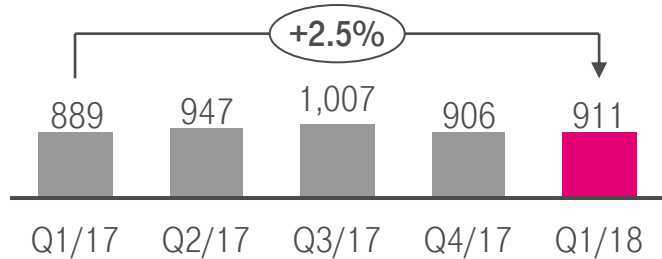
## Revenue

€ mn



## Adj. EBITDA

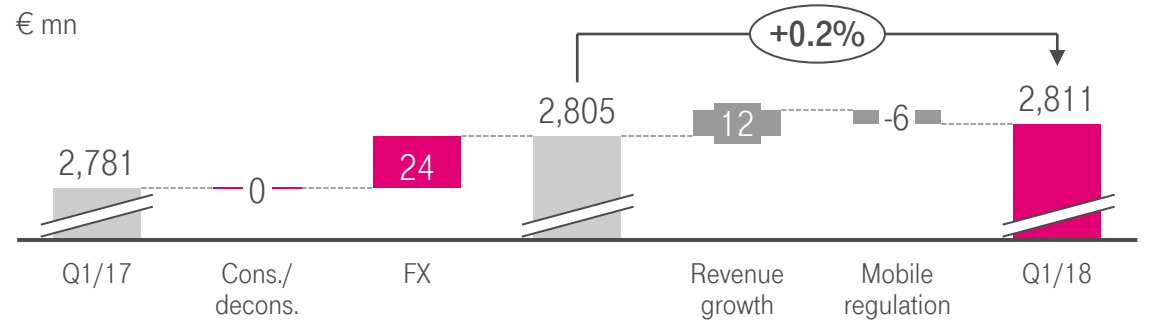
€ mn



1) Total revenue - direct cost

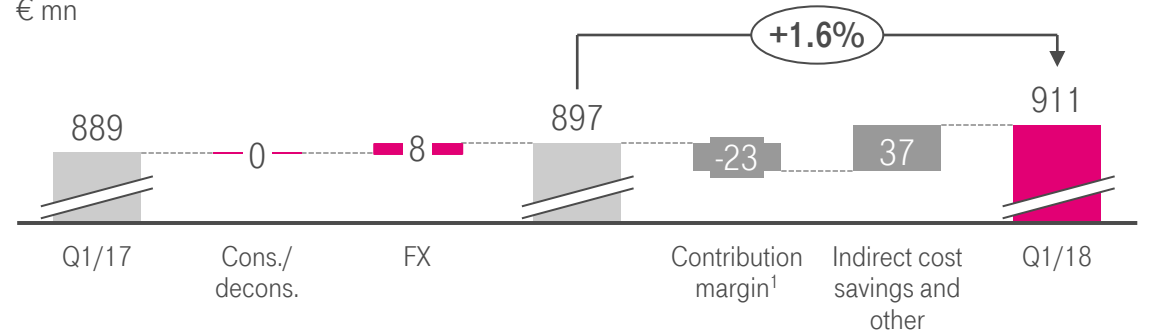
## Organic revenue development

€ mn



## Organic adj. EBITDA development

€ mn



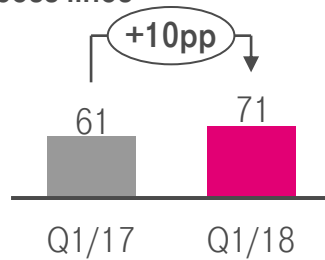
LIFE IS FOR SHARING.

# EUROPE: ONGOING INVESTMENTS IN NETWORK LEADERSHIP

## IP migration

IP share of fixed network access lines

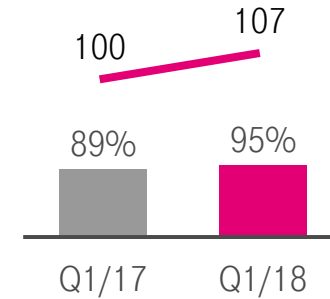
%



## LTE rollout

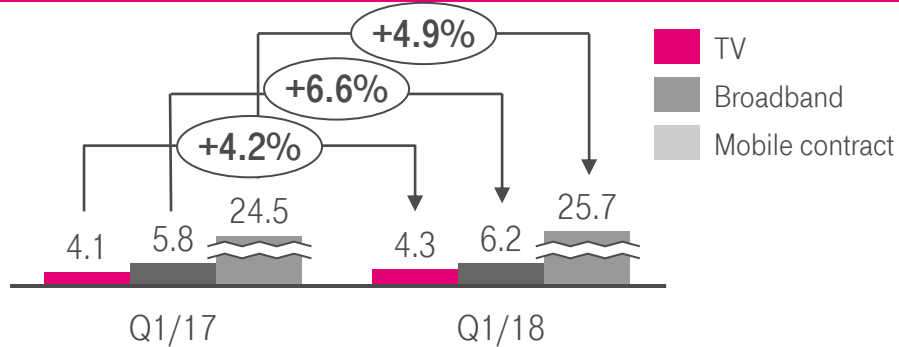
LTE outdoor pop coverage

mn and %



## Customer base<sup>1</sup>

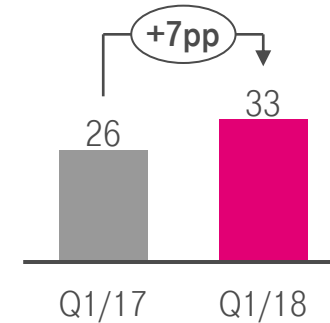
mn



## Fiber rollout<sup>1</sup>

Fiber household coverage

%



1) ≥ 100Mbit/s coverage: FTTH, FTTB, FTTC (with vectoring), cable/ED3. Broadband also incl. wholesale customers



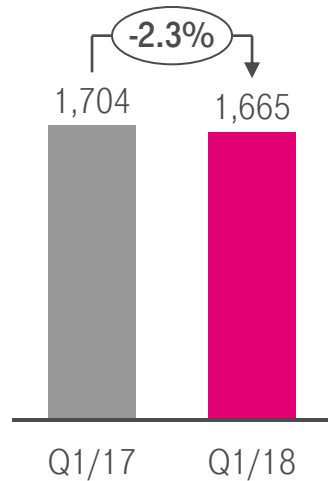
LIFE IS FOR SHARING.

# SYSTEMS SOLUTIONS: FULL YEAR OUTLOOK UNCHANGED – Q1 IMPACTED BY PHASING

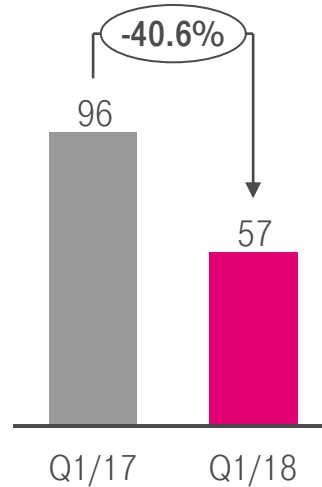
## T-Systems financials

€ mn

### Total revenue

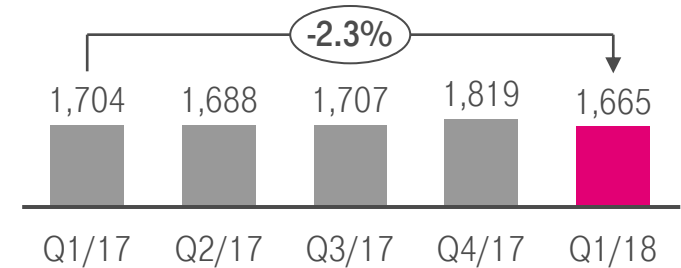


### Adj. EBITDA



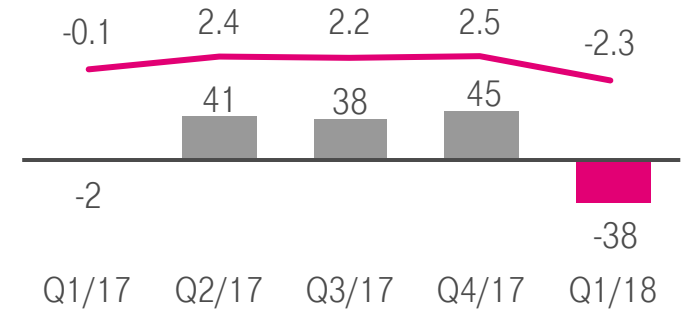
## Revenue

€ mn



## Adj. EBIT and margin in %

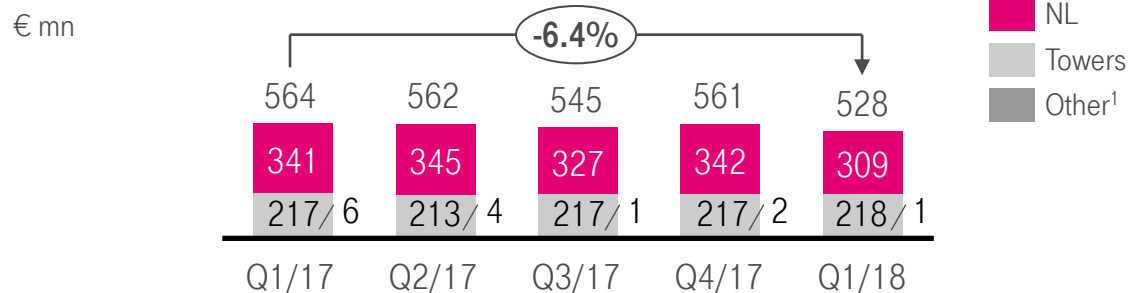
€ mn



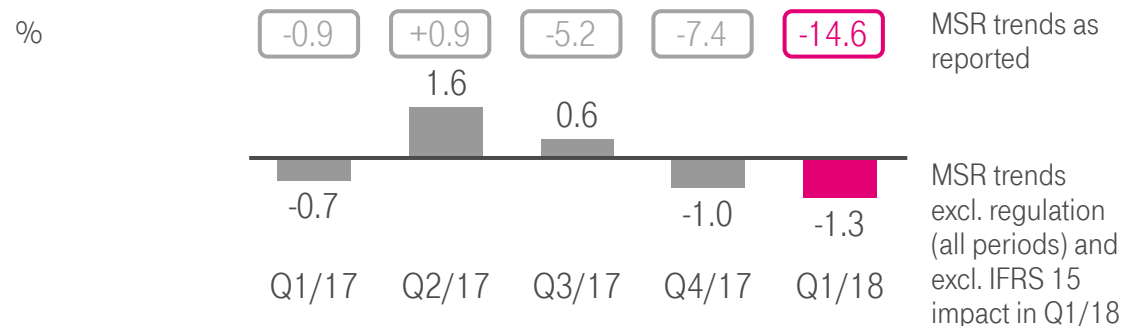
LIFE IS FOR SHARING.

# GROUP DEVELOPMENT: STEADY UNDERLYING DELIVERY – TMNL REVENUES IMPACTED BY IFRS 15

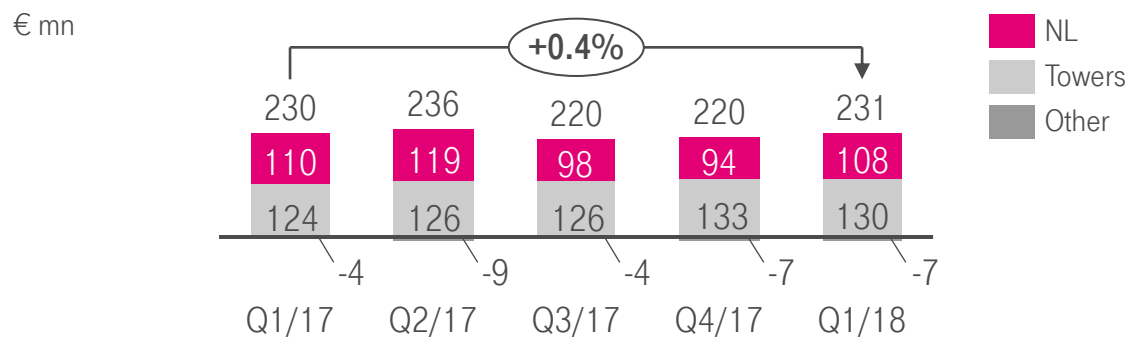
## Revenue



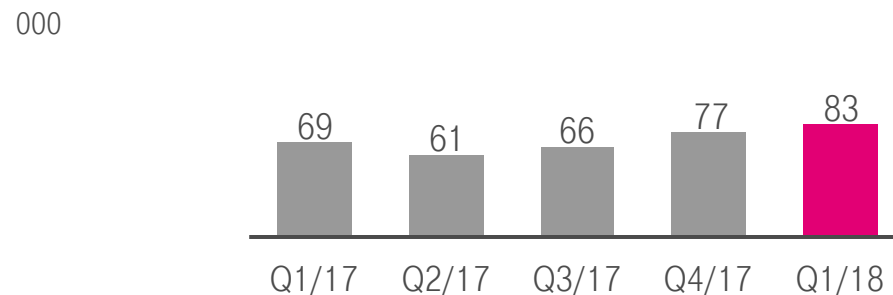
## Mobile service revenue trend yoy (NL)



## Adj. EBITDA



## Contract net adds (NL)



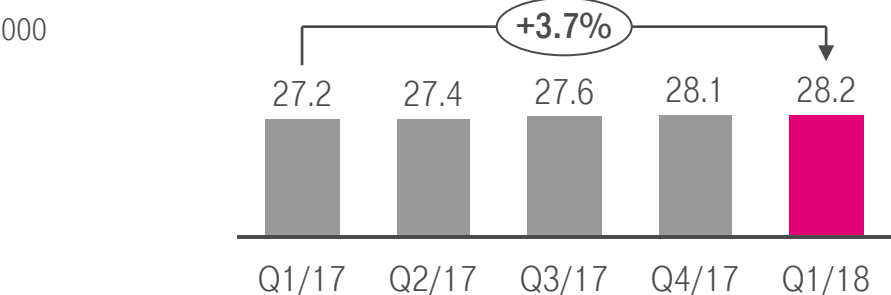
1) Strato was deconsolidated in Q2/17. Historic figures are also adjusted for Strato.



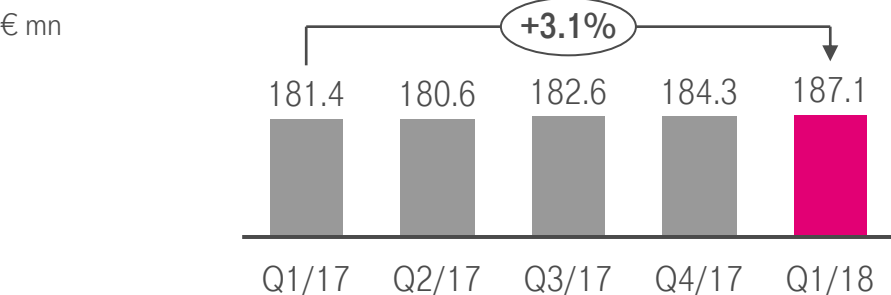


# GROUP DEVELOPMENT: TOWER BUSINESS DOING WELL

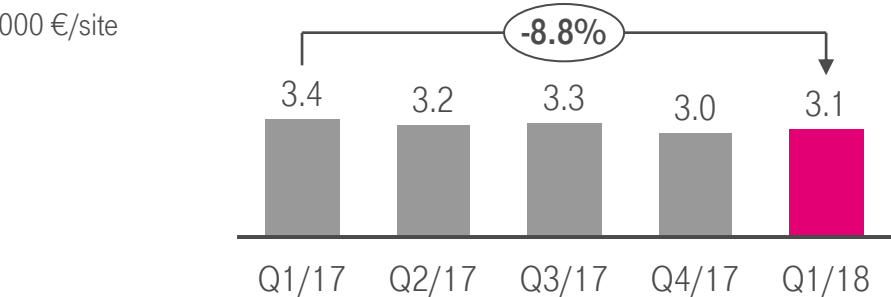
## Total site development



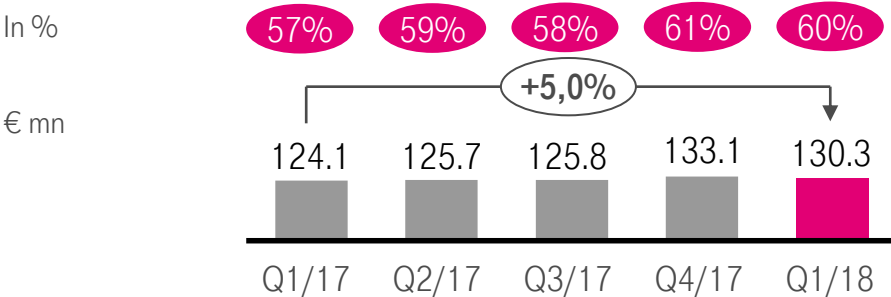
## Recurring rental revenue



## Opex per site (avg. sites)

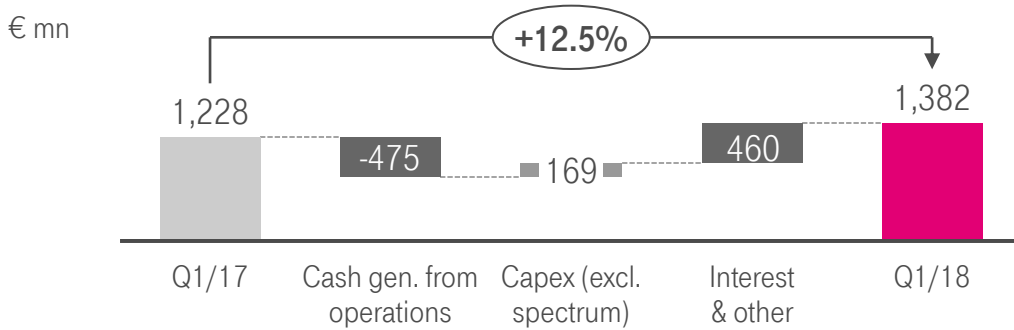


## EBITDA & EBITDA margin development

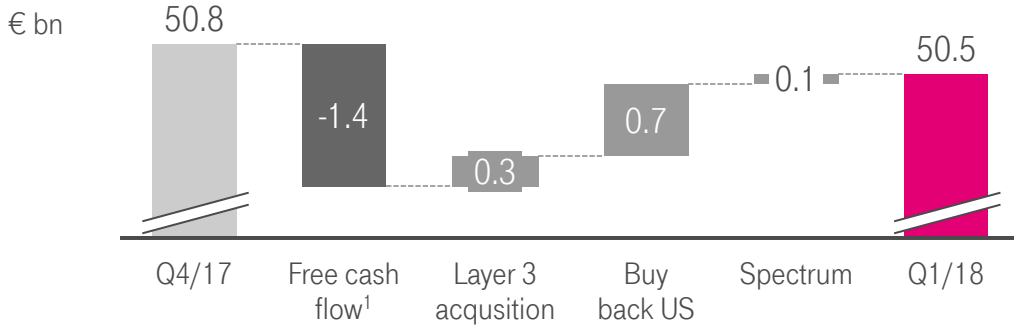


# FINANCIALS: FCF, NET DEBT, NET INCOME, AND EPS

## Free cash flow<sup>1</sup>

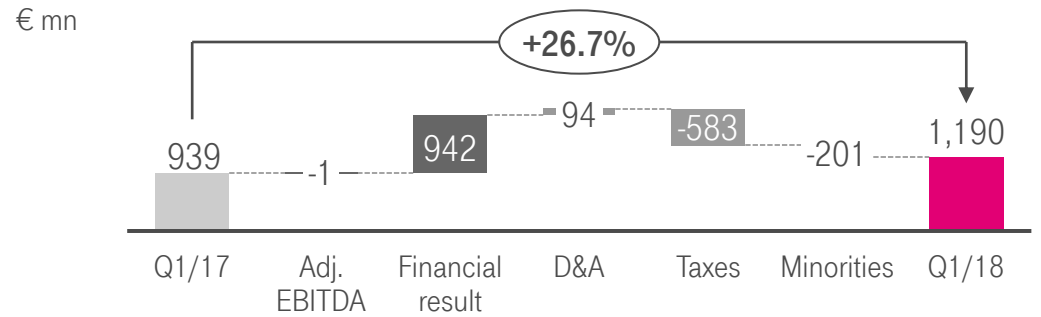


## Net debt development

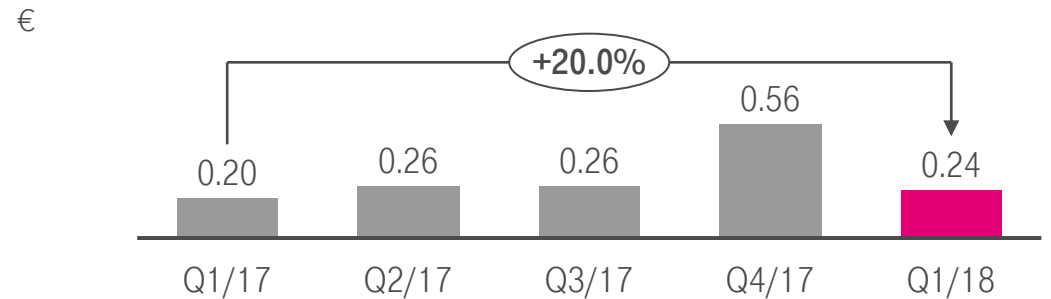


1) Free cash flow before dividend payments and excl. spectrum: Q1/18: € 63 mn.

## Adj. net income



## Adj. EPS



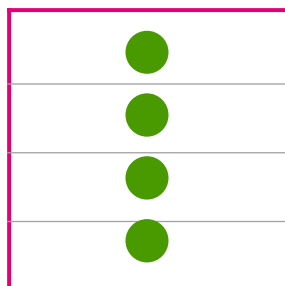
# FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn

	31/03/2017	30/06/2017	30/09/2017	31/12/2017	31/03/2018
Balance sheet total	148.6	141.5	139.8	141.3	138.0
Shareholders' equity	39.8	38.6	39.1	42.5	43.7
Net debt	50.0	55.2	52.6	50.8	50.5
Net debt/adj. EBITDA <sup>1</sup>	2.3	2.5	2.3	2.3	2.3
Equity ratio	26.8%	27.3%	27.9%	30.0%	31.7%

## Comfort zone ratios

Rating: A-/BBB
2 – 2.5x net debt/adj. EBITDA
25 – 35% equity ratio
Liquidity reserve covers redemption of the next 24 months



## Current rating

Fitch:	<b>BBB+</b>	stable outlook
Moody's:	<b>Baa1</b>	stable outlook
S&P:	<b>BBB+</b>	stable outlook

Moody's has changed outlook to "negative", S&P to "CreditWatch negative" following the announcement of the merger between TMUS and Sprint end of April.

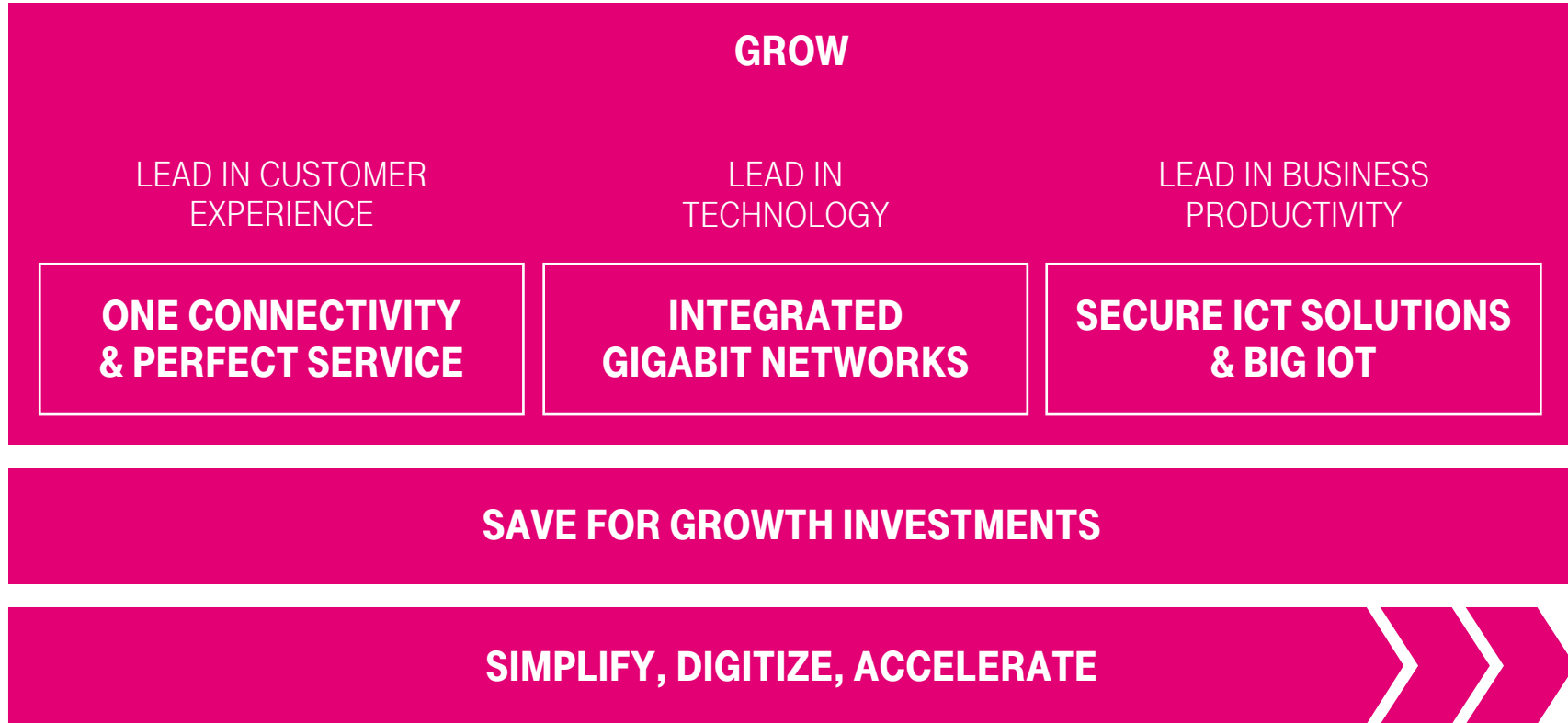
1) Ratios for the interim quarters calculated on the basis of previous four quarters

# EXECUTING OUR STRATEGY

- 1** Leading European Telco:  
Integrated market leader with superior margins and returns.
- 2** We strengthen our differentiation by best customer experience and by continuously investing into leading access networks and our transformation programs.
- 3** We transform towards a lean and highly agile IP production.
- 4** We are self-funding DT's transformation by disciplined cost management.
- 5** We will grow in all relevant financial KPIs (ROCE, Revenue, EBITDA, FCF).
- 6** Our shareholders will participate with growth of dividends following FCF growth and our prudent debt policy remains unchanged.



# SNEAK PREVIEW: 2018 CAPITAL MARKETS DAY



LIFE IS FOR SHARING.

**THANK YOU!**