

# DEUTSCHE TELEKOM

## Q3/2018 RESULTS



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**REVIEW 9M/2018**

# 2018 9M HIGHLIGHTS: EUROPEAN GROWTH CHAMPION

## Growth: investments and innovations

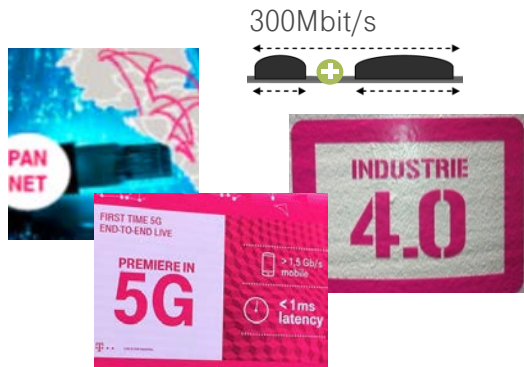
- Cash capex at €9.1 bn (ex. spectrum)
- Fiber roll-out: 4.8 mn new homes in GER and EU with access to Fiber LTM
- IP-Migration continues in GER (82%) and EU (79%). +6.8 mn households LTM
- Austria now converged – w/o remedies

## Growth: customers

- 11.6 mn German fiber homes (+30% yoy)
- 1.4 mn converged net adds LTM
- 1.7 mn mobile contract net adds in Germany and EU LTM
- 6.5 mn net adds LTM in the US

## Growth: financials

- Strong organic<sup>1</sup> growth continues
  - Revenue up 2.8% yoy
  - Adj. EBITDA up 6.2% yoy
  - Adj. EBITDA ex. US up 2.5% yoy
  - FCF up 8.5% yoy
  - Adj. EPS up 9.7% yoy
- Net debt/Adj. EBITDA at 2.4x



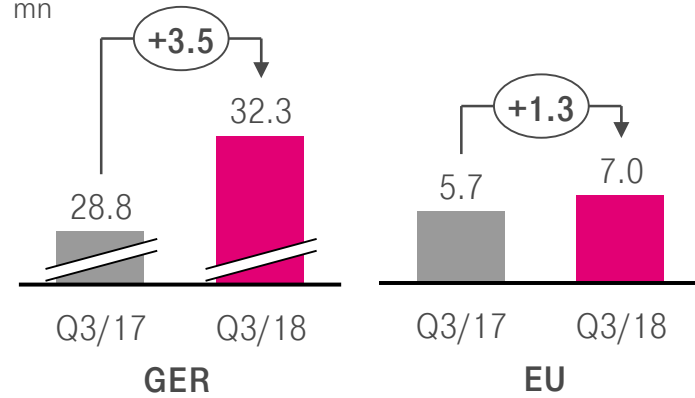
1) Revenue and adj. EBITDA growth rates on organic base: adjusted for currency fluctuations and changes in the scope of consolidation. FCF and adj. EPS calculated on reported results.

# 9M/2018 INVESTMENTS: DRIVING NETWORK LEADERSHIP

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

### Fiber households

mn

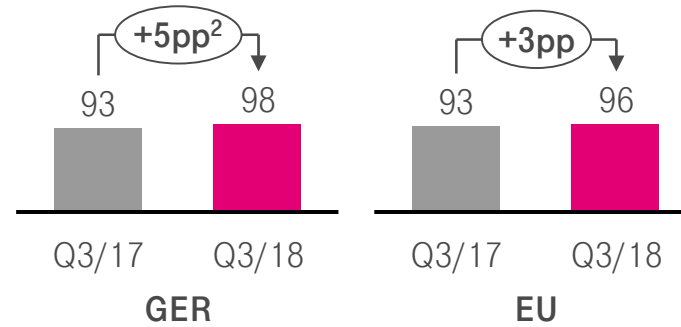


- Additional 4.8 mn HHs added to coverage
- Germany: Super-Vectoring successfully launched for 8 mn HHs

## LTE rollout

### LTE outdoor pop coverage

%

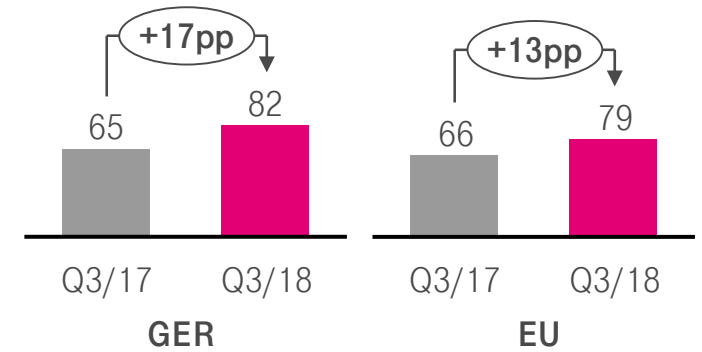


- On track for site expansion
- 5G plan for Germany communicated
- Network leadership maintained across footprint

## IP migration

### IP share of fixed network access lines

%

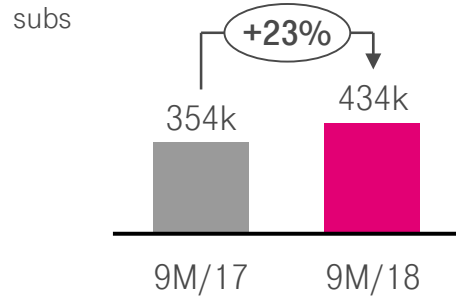


- GER on track for targets: B2C YE/19, B2B YE/20
- Impact on line losses and top-line as expected

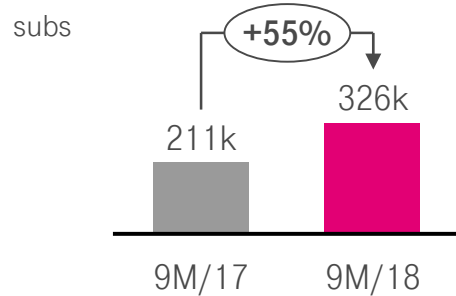
1) EU: ≥ 100Mbit/s coverage: FTTH, FTTB, FTTC (with Vectoring), cable/ED3. Broadband also incl. wholesale customers. As of Q2/2018, adjusted HH baseline to include the Census update, B2B premises & CZ. 2017 restated.  
 GER: In % of households within fixed network coverage in Germany. 2) LTE outdoor coverage in 2018 based on German regulator measuring approach. 2017 not restated.

# 9M/2018 INNOVATIONS: FOCUS ON CUSTOMER EXPERIENCE

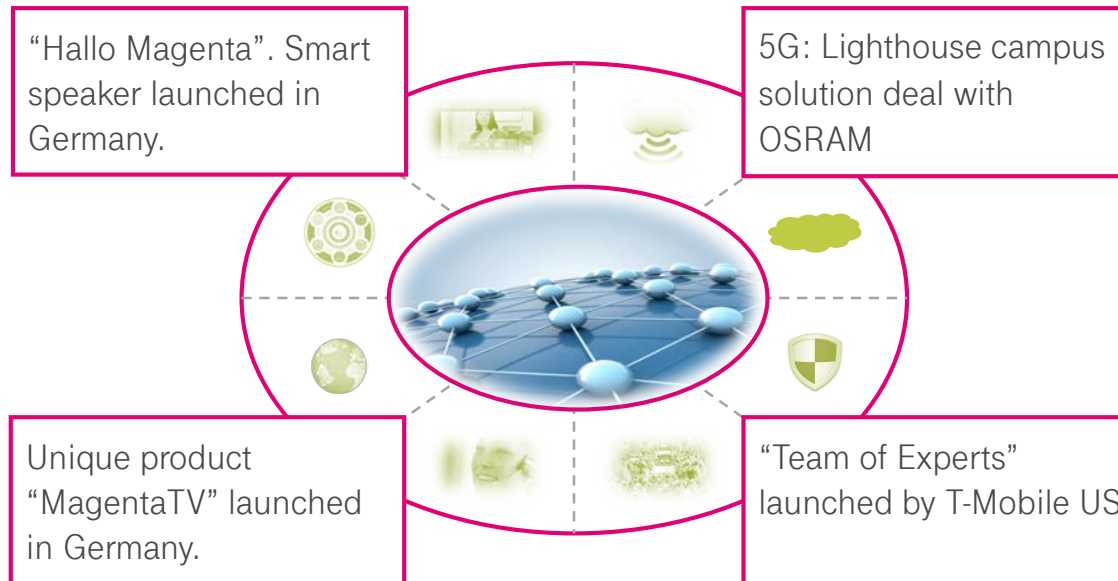
## Hybrid Access<sup>1</sup>



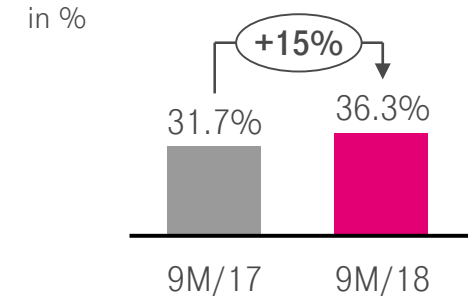
## Smart Home<sup>2</sup>



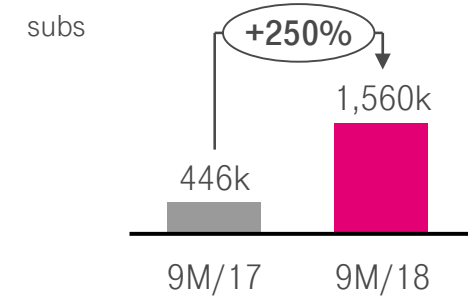
## Innovation/Network



## E-service share of interactions



## StreamOn

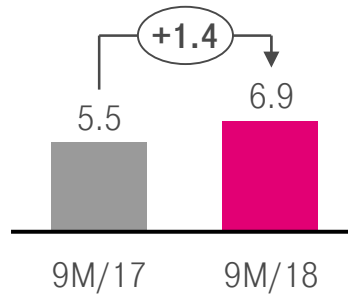


1) +5€ per customer/month 2) +5€ per customer/month

# 9M/2018 CUSTOMERS: ONGOING STRONG MOMENTUM

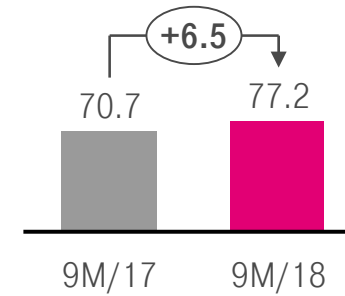
## MagentaEINS (Germany + EU)<sup>1</sup>

mn



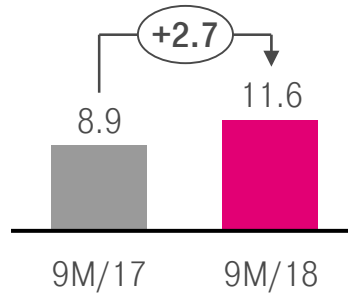
## US Mobile

mn



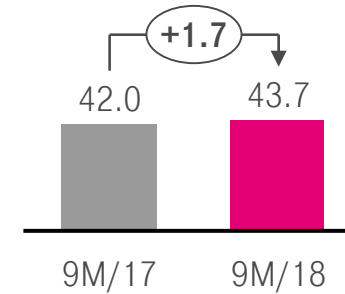
## Fiber in Germany

mn



## Mobile contract customers GER (own brand) + EU

mn



1) FMC RGUs may also appear under other brand name outside of Germany

# GUIDANCE 2018: 3<sup>RD</sup> INCREASE OF OUTLOOK

€ bn

2014 – 2018 CAGR
Achievements 9M/18
2018 Guidance (\$/€: 1.13)
thereof group excl. US
thereof TM US (US\$ bn)
impact of new revenue standard (US\$ bn)
handset lease (US\$ bn)

## Revenue

+1 – 2%

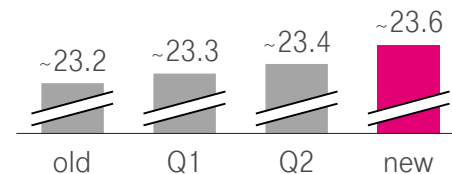
+2.8%<sup>1</sup>

Slight increase

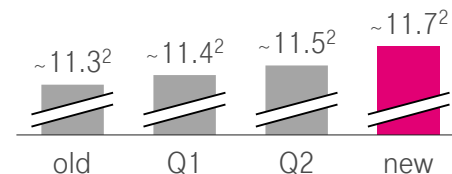
## Adj. EBITDA

+2 – 4%

+6.2%<sup>1</sup>



~13.2



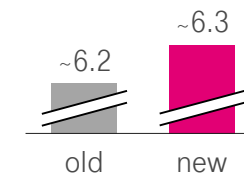
~0.35

0.6 – 0.7

## FCF

≈+10%

+8.5%



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

2) Equals mid-Point TMUS guidance + mid-point revenue recognition guidance (+\$0.35 bn) and -\$0.5 bn IFRS bridge



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**REVIEW Q3/18**

# Q3 2018: FINANCIAL HIGHLIGHTS

€ mn

	Q3			9M		
	2017	2018	Change	2017	2018	Change
Revenue	18,251	19,104	+4.7%	55,787	55,395	-0.7%
Adj. EBITDA	5,720	6,207	+8.5%	17,215	17,684	+2.7%
Adj. EBITDA (excl. US)	3,433	3,542	+3.2%	9,902	10,133	+2.3%
Adj. Net profit	1,244	1,321	+6.2%	3,382	3,749	+10.9%
Net profit	507	1,110	+118.9%	2,129	2,597	+22.0%
Adj. EPS (in €)	0.26	0.28	+7.7%	0.72	0.79	+9.7%
Free cash flow <sup>1</sup>	1,873	1,883	+0.5%	4,403	4,779	+8.5%
Cash capex <sup>2</sup>	3,002	3,047	+1.5%	9,240	9,143	-1.0%
Net debt	52,635	55,473	+5.4%	52,635	55,473	+5.4%

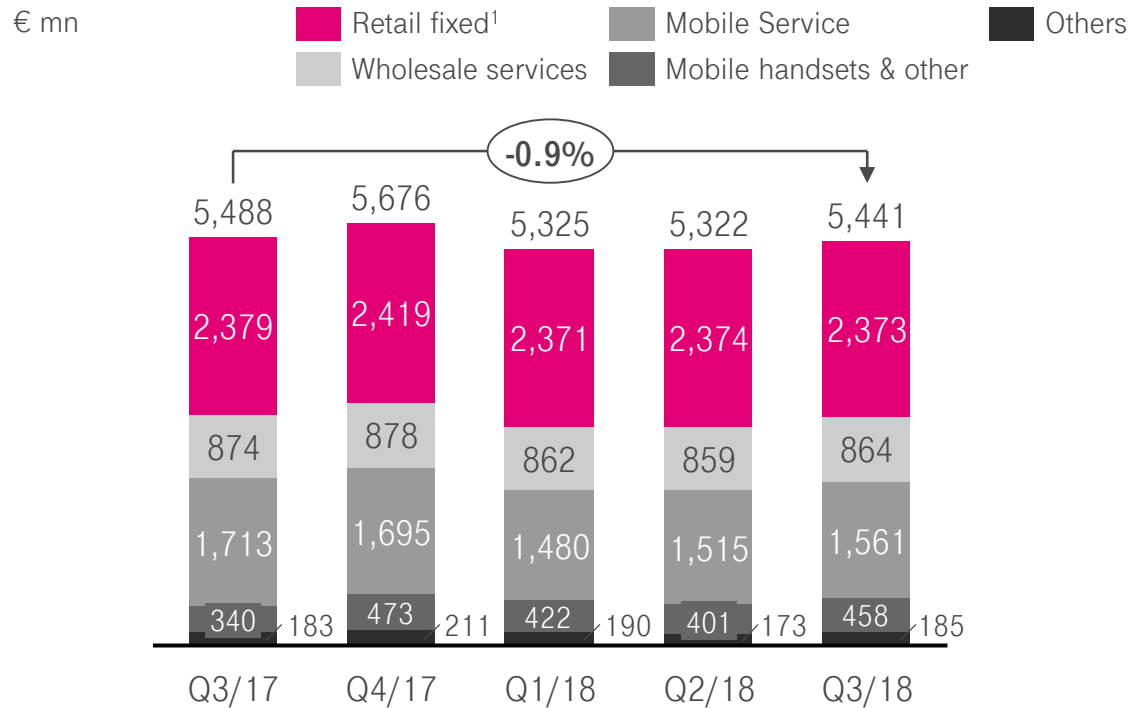
1) Free cash flow before dividend payments and spectrum investment 2) Excl. Spectrum: Q3/17: €19 mn; Q3/18: €71 mn. 9M/17: €7,300 mn; 9M/18: €208 mn



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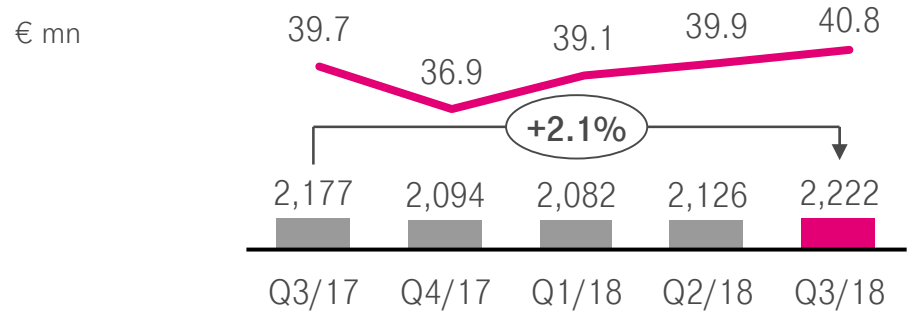
# GERMANY: REVENUE IMPACTED BY IFRS; ADJ. EBITDA ON TRACK

## Revenue (as reported)

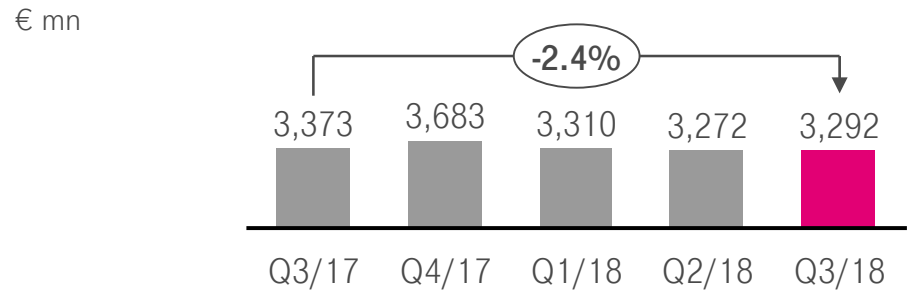


1) Fixed network core business

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

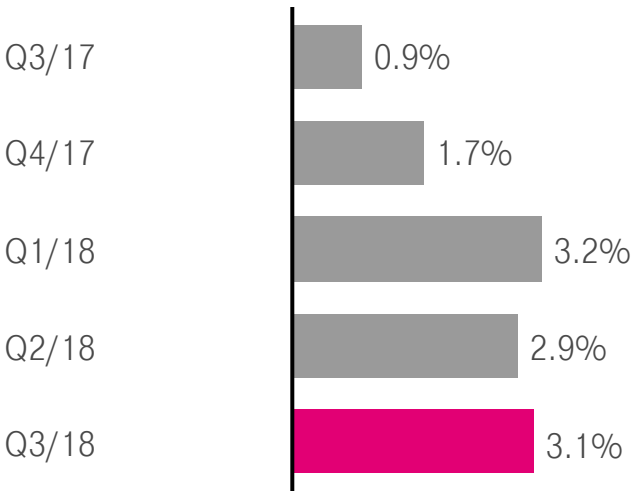


## Adj. OPEX (as reported)

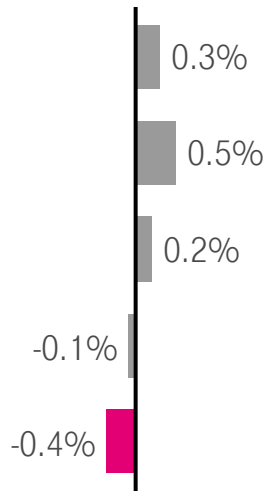


# GERMANY: SUSTAINED GROWTH IN SERVICE REVENUES (EXCL. IFRS 15)

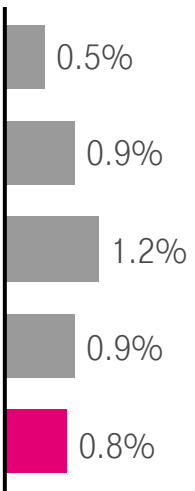
Mobile service revenue



Fixed line service revenue



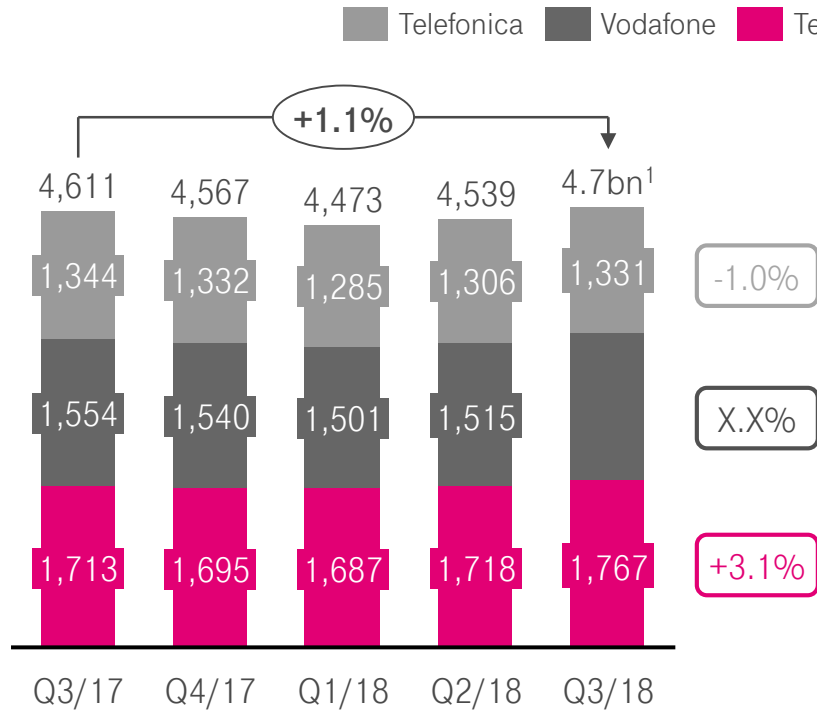
Total service revenue



# GERMANY MOBILE: HEALTHY GROWTH CONTINUES

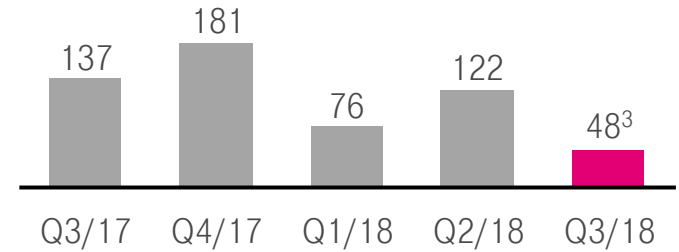
## German mobile market service revenue (excl. IFRS 15)

€ mn



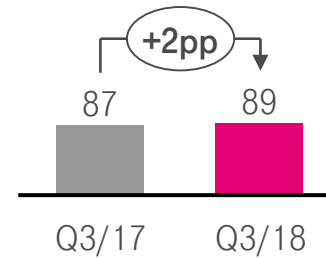
## Own branded contract net adds<sup>2</sup>

000



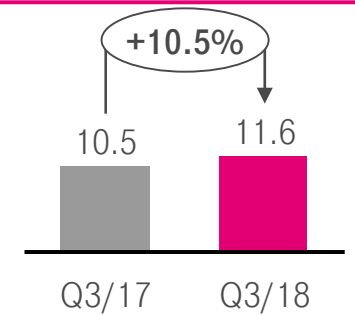
## Smartphone penetration<sup>4</sup>

%



## LTE customers<sup>5</sup>

mn



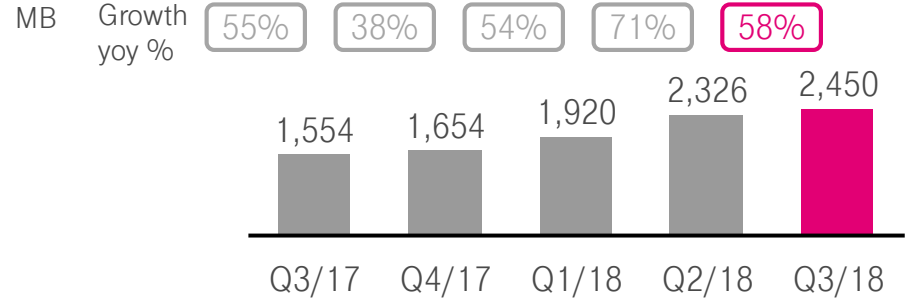
1) Management estimate    2) Figures may not add up due to rounding    3) Impacted by 58k losses due to bankruptcy of a B2B customer    4) Of own branded retail customers  
5) Own customers using a LTE-device and tariff plan including LTE

# GERMANY: GOOD PROGRESS WITH CONVERGENCE AND DATA

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



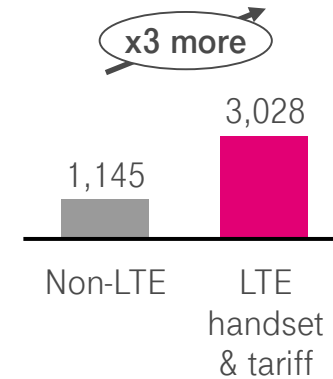
## Average Consumer Data Usage<sup>3</sup>



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



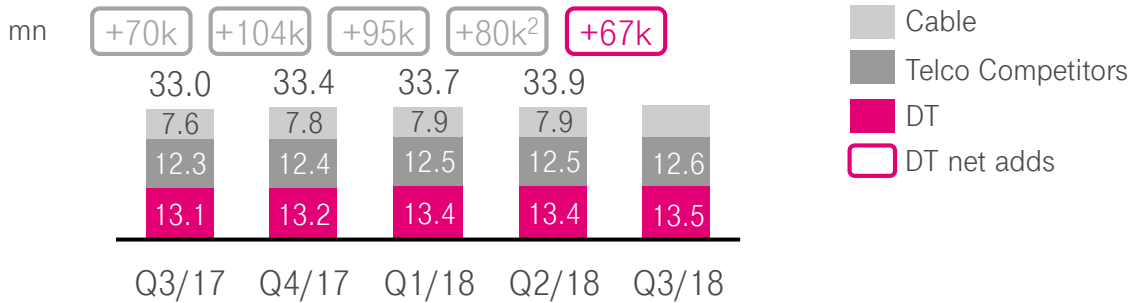
## Average data usage uplift<sup>3</sup>



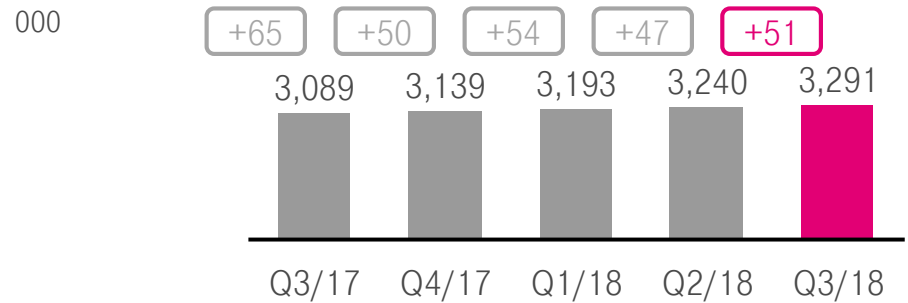
1) as % of B2C T-branded contract customers    2) as % of B2C broadband access lines    3) per month of B2C T-branded contract customers

# GERMANY FIXED: STRONG BROADBAND CUSTOMER GROWTH

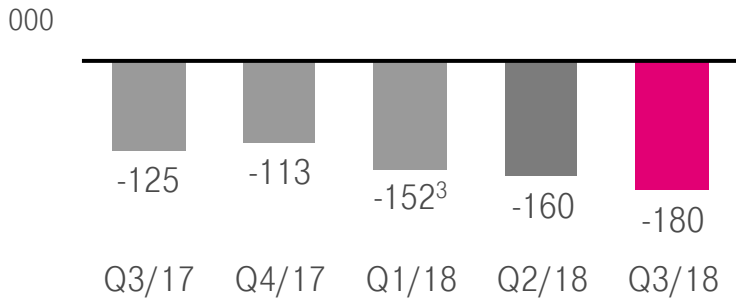
## German broadband market<sup>1</sup>



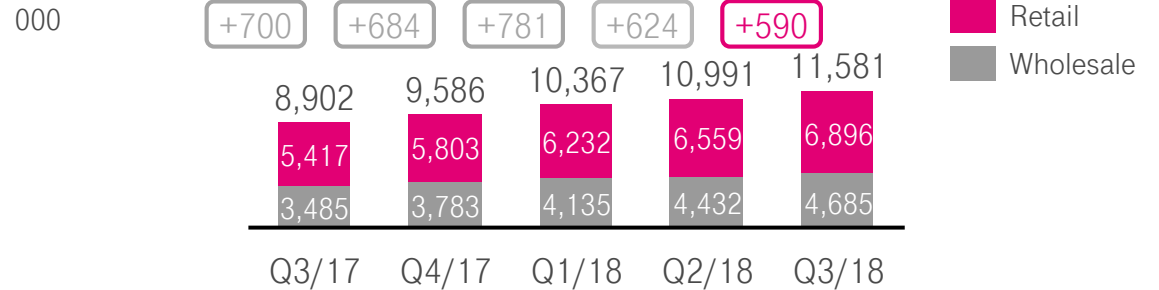
## Entertain customers



## Line losses



## Fiber customers<sup>4</sup>



1) Based on management estimates

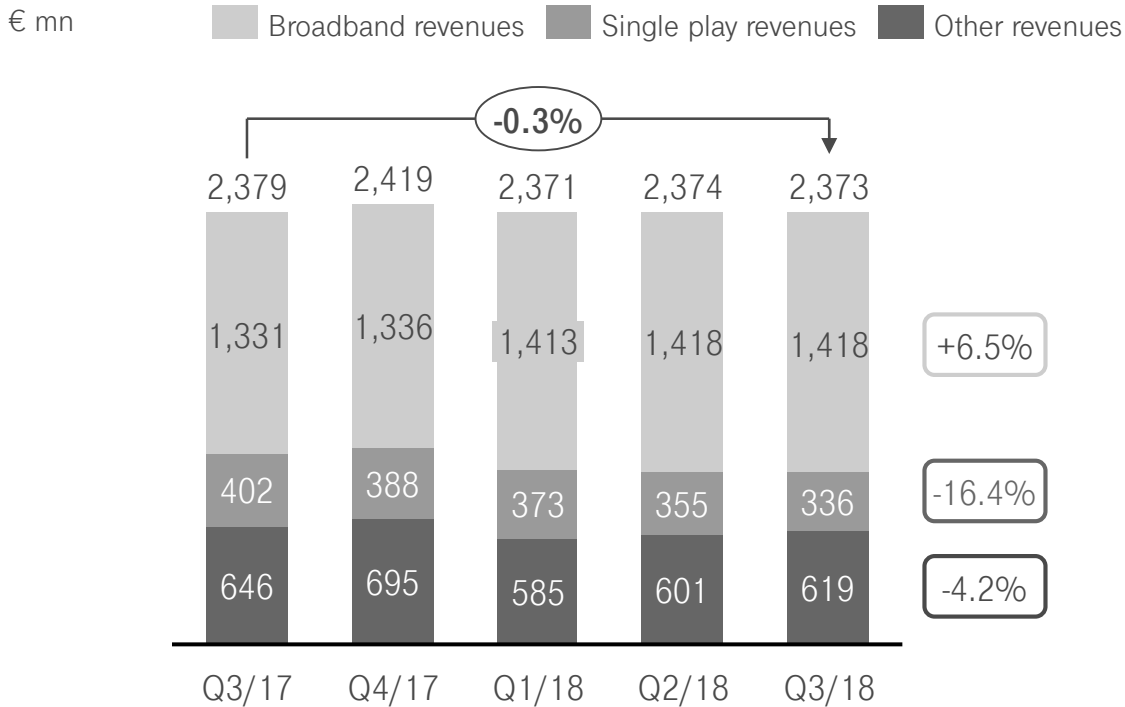
2) organic view: change in base was +148k

3) Organic view: Change in base was -90k

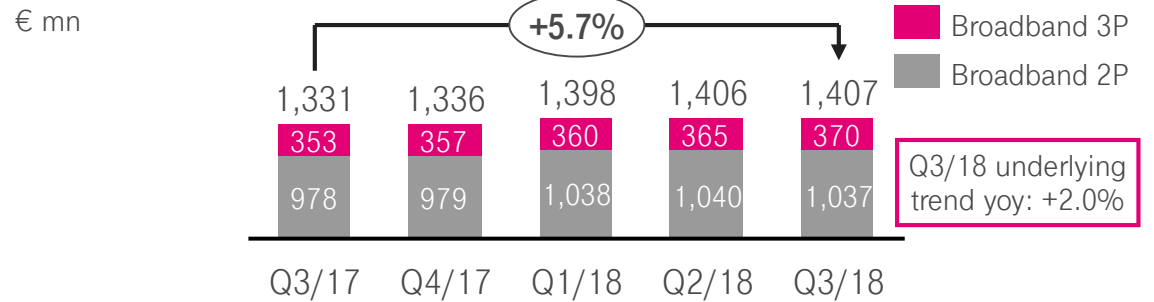
4) Sum of all FTTx accesses (e.g. FTTC/VDSL, Vectoring and FTTH)

# GERMANY FIXED: SOLID UNDERLYING TREND IN FIXED

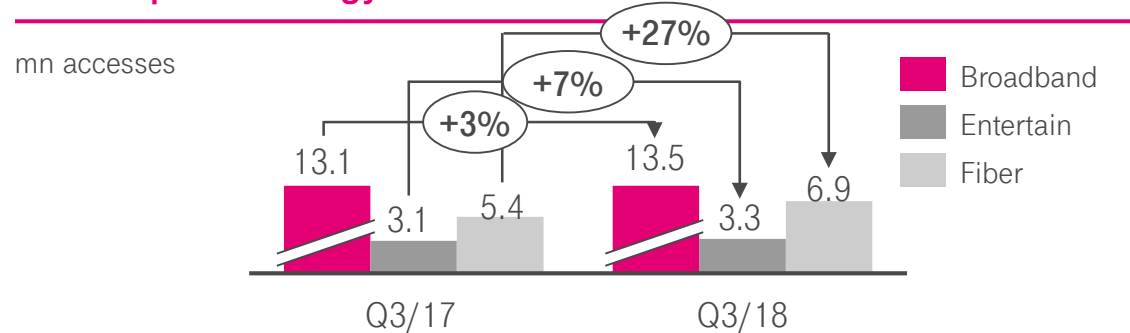
## Fixed network revenue retail (as reported)<sup>1</sup>



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



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



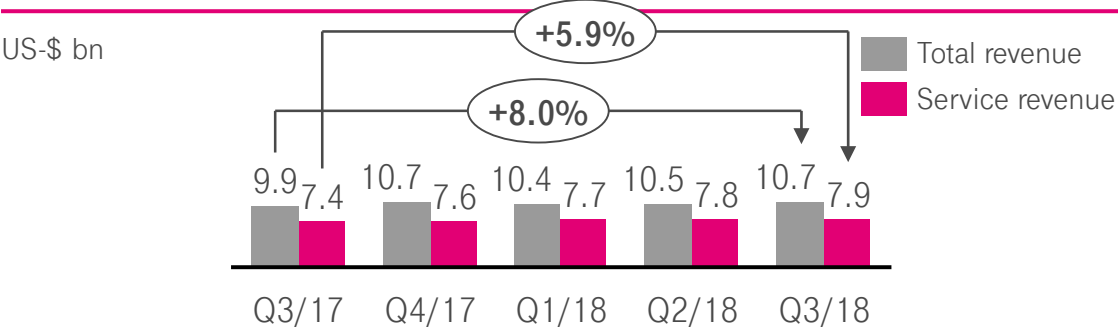
1) change in definition of broadband and other revenues – historic figures have been adjusted. In addition Q1 to Q3/18 impacted by a shift between other and broadband revenues, historic figures not adjusted for this effect

2) Percentages calculated on exact figures



# TMUS: CONTINUED INDUSTRY LEADING GROWTH

## Revenue and service revenue

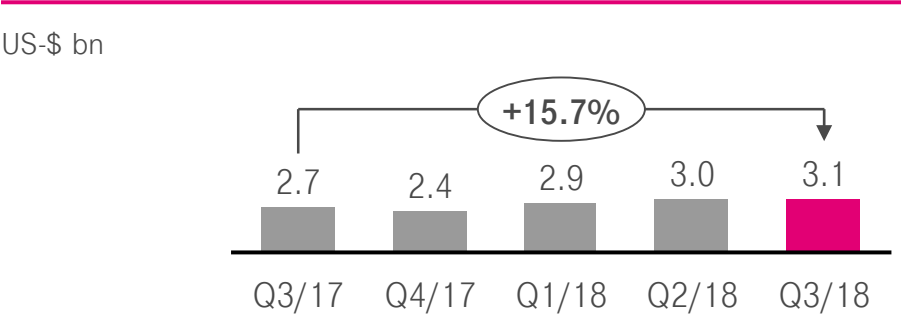


## Net adds

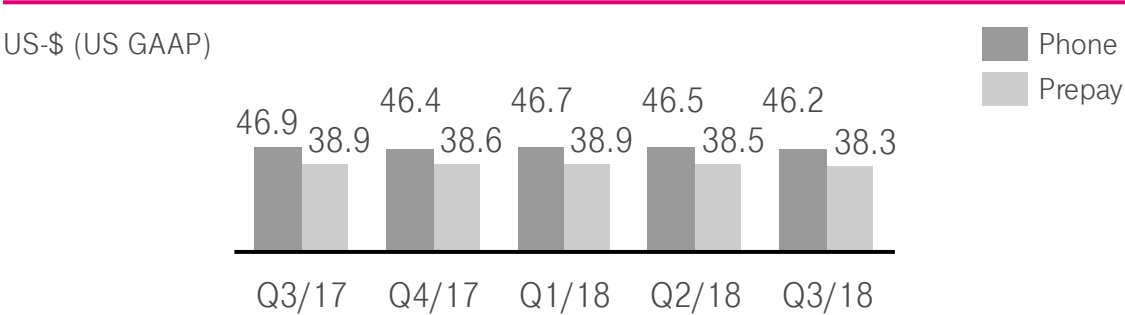
000

Category	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18
Total net adds	1,333	1,329	1,854	1,433	1,630
Branded:					
▪ Postpaid	817	1,072	1,005	1,017	1,079
▪ Prepay	226	149	199	91	35
Wholesale <sup>1</sup>					
	286	633	229	471	516

## Adj. EBITDA



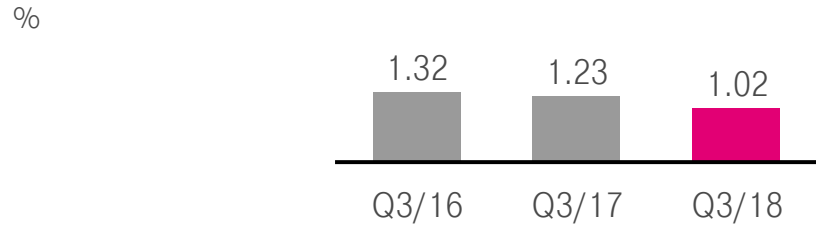
## Branded customers: Postpaid phone and prepay ARPU



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

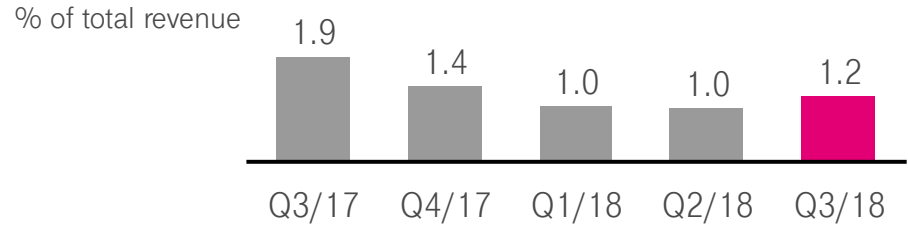
# TMUS: EXECUTING ON KEY DRIVERS

## Branded postpaid phone churn



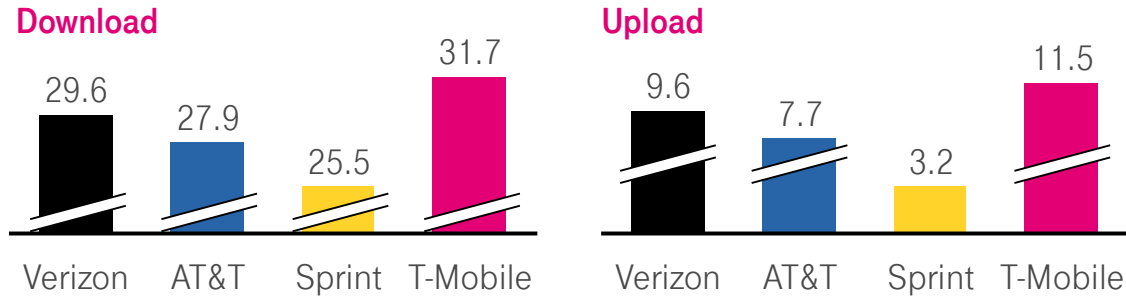
- Branded postpaid phone churn on Q3 record low level

## Bad debt expenses & losses from sale of receivables



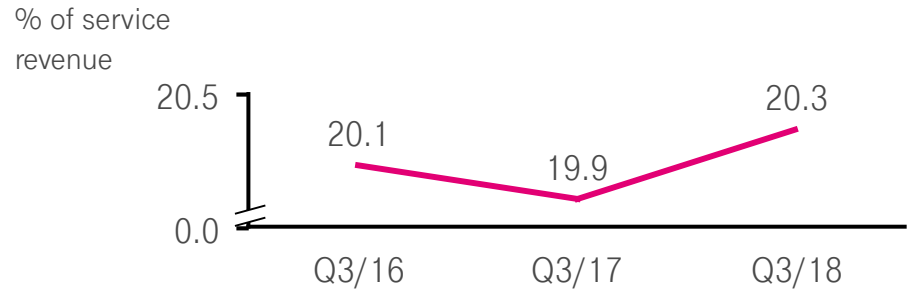
- Decrease yoy reflects ongoing focus on managing customer quality

## Average 4G LTE speeds (in Mbps) Q3/18



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

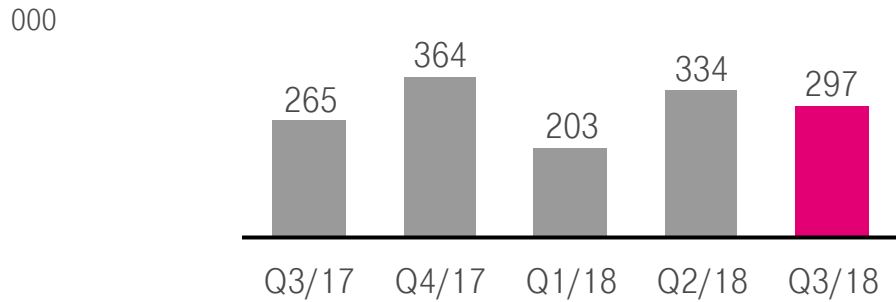
## Cost of service



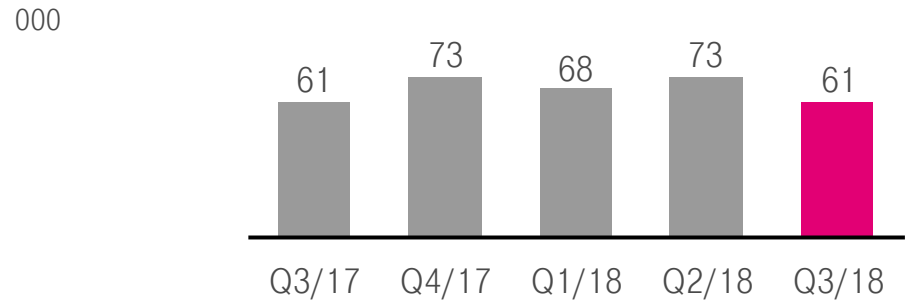
- Cost of services as a percentage of service revenues (excluding the impact of hurricanes) up yoy due to low band build-out.

# EUROPE: STRONG GROWTH IN CUSTOMER BASE

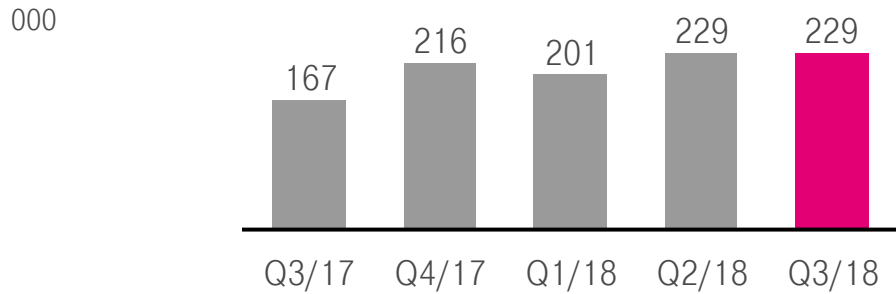
## Mobile Contract Net Adds<sup>2</sup>



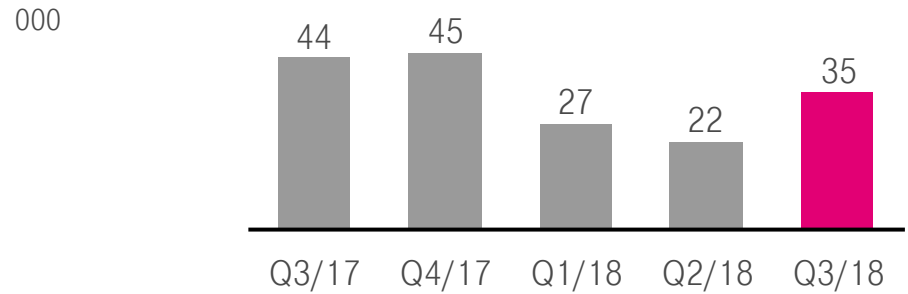
## BB Net Adds<sup>1, 2</sup>



## FMC Net Adds



## TV Net Adds<sup>2</sup>

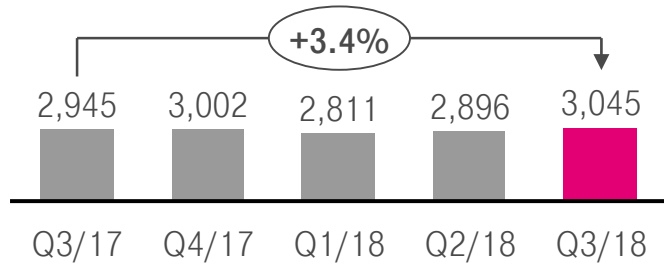


1) based on subscribers 2) Adjusted for UPC effect in Austria

# EUROPE: GROWING REVENUE AND EBITDA

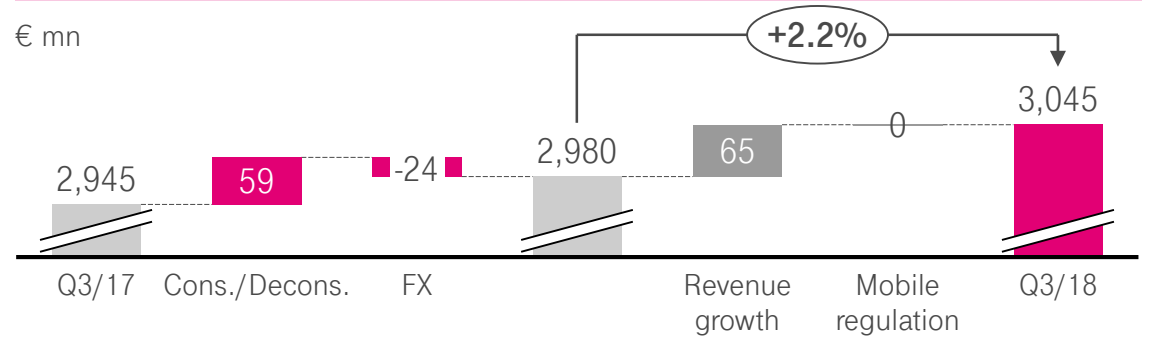
## Revenue

€ mn



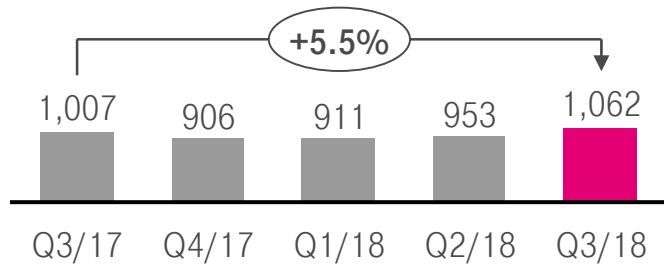
## Organic revenue development

€ mn



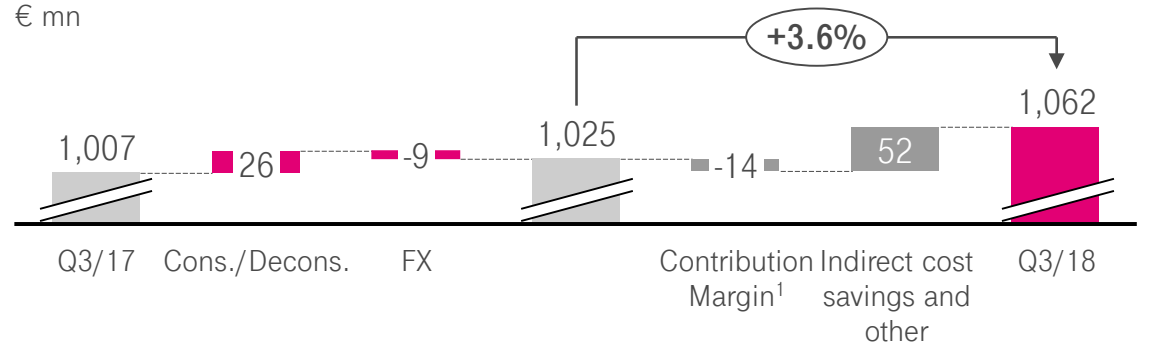
## Adj. EBITDA

€ mn



## Organic adj. EBITDA development

€ mn



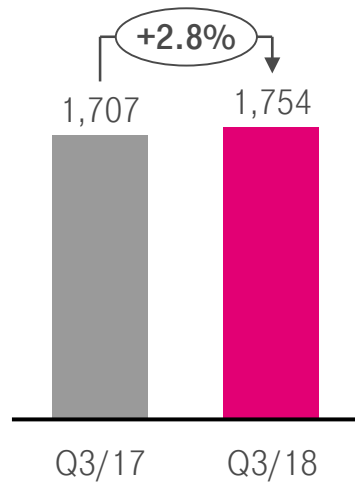
1) Total Revenue – Direct Cost

# SYSTEMS SOLUTIONS: ON TRACK FOR FULL YEAR GUIDANCE

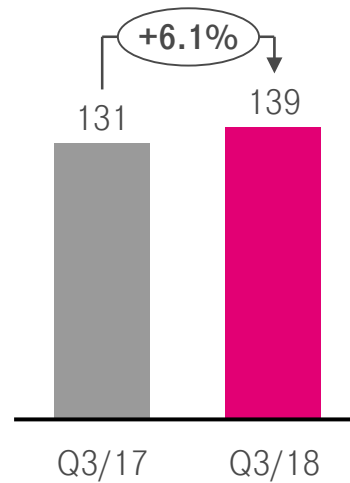
## T-Systems financials

€ mn

Total revenue

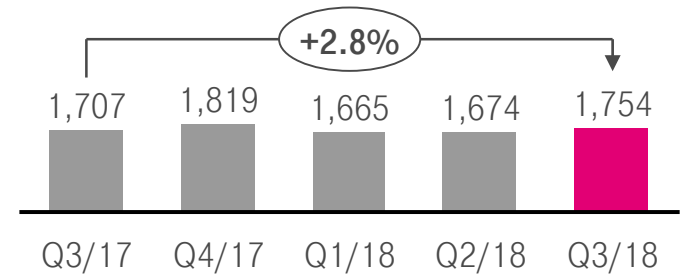


Adj. EBITDA



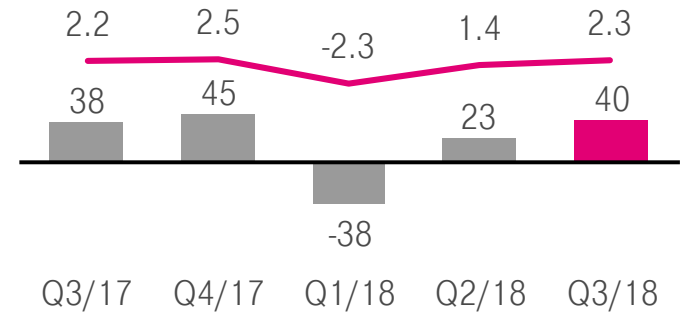
## Revenue

€ mn



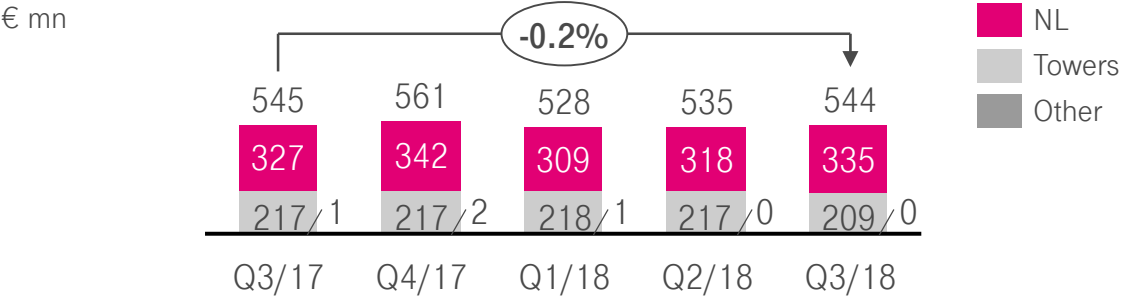
## Adj. EBIT and margin in %

€ mn

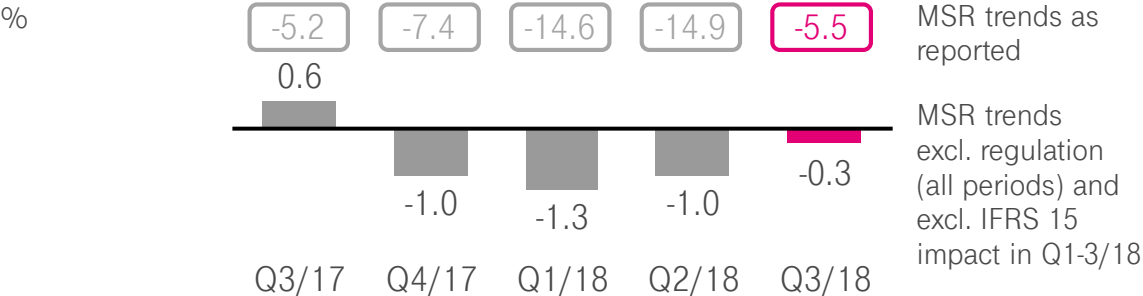


# GROUP DEVELOPMENT: STEADY UNDERLYING DELIVERY

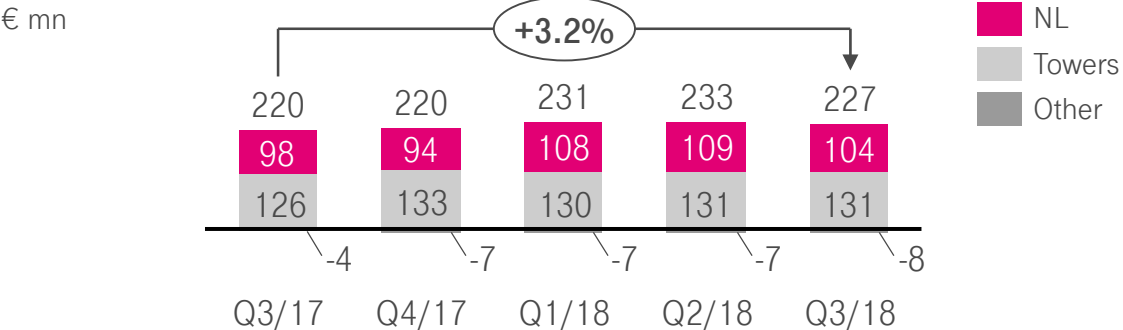
## Revenue



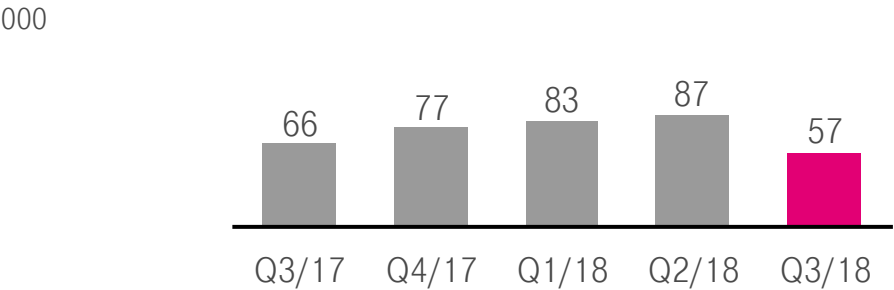
## Mobile service revenue trend yoy (NL)



## Adj. EBITDA

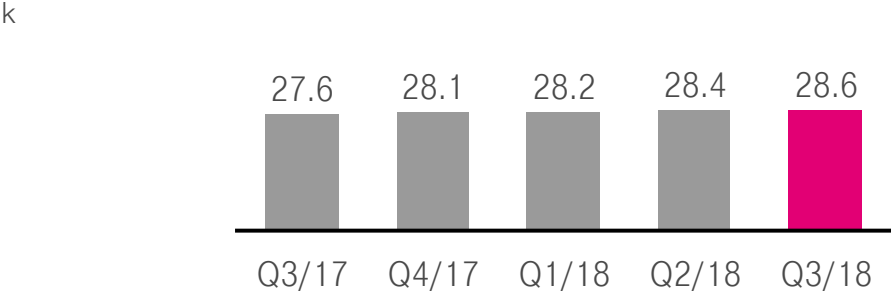


## Contract net adds (NL)

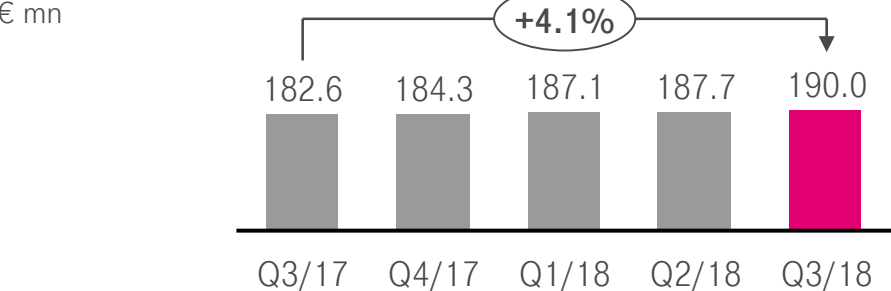


# GROUP DEVELOPMENT: TOWER BUSINESS DOING WELL

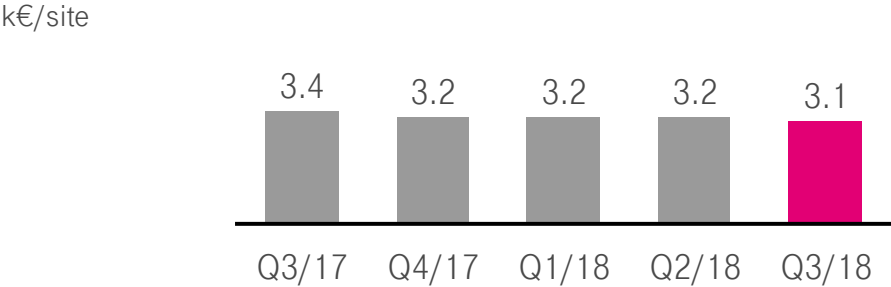
## Total site development



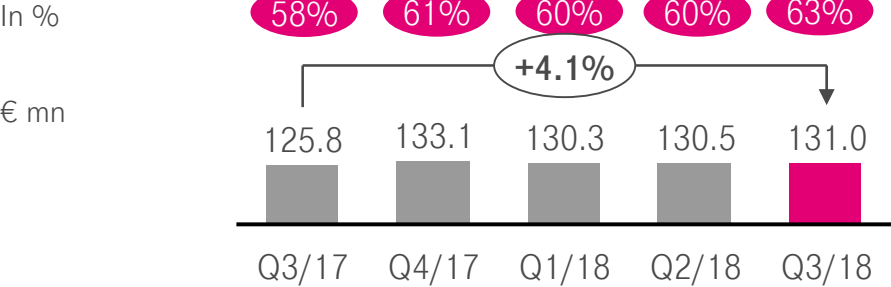
## Recurring rental revenue



## Opex per site (avg. sites)

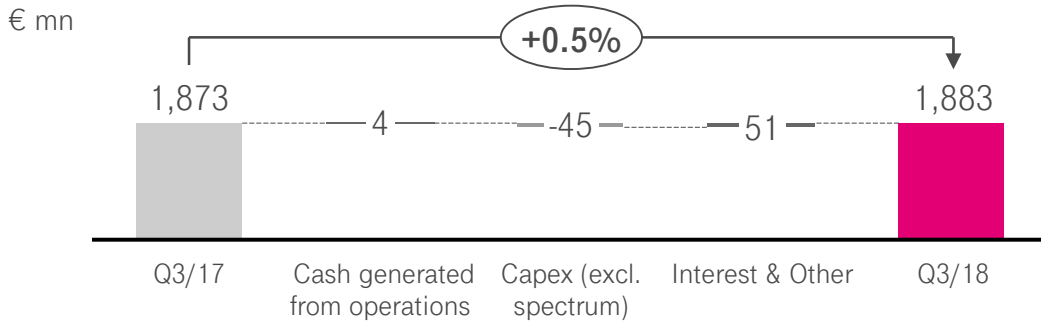


## EBITDA & EBITDA margin development

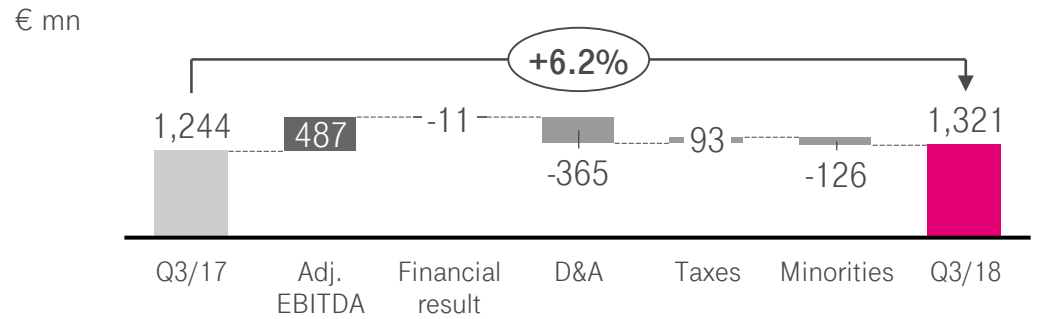


# FINANCIALS: FCF, NET DEBT, NET INCOME AND EPS

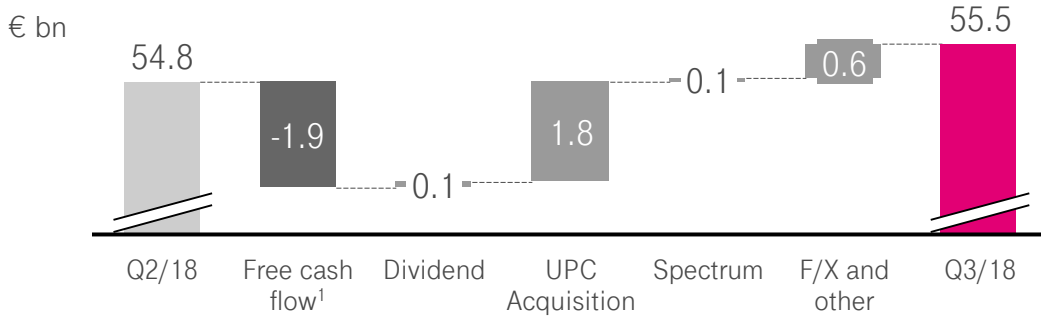
## Free cash flow<sup>1</sup>



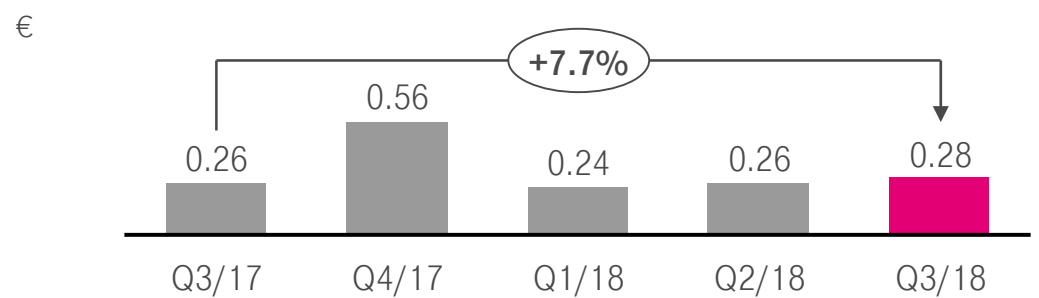
## Adj. net income



## Net debt development



## Adj. EPS



1) Free cash flow before dividend payments and excl. Spectrum (Q3/17: €19 mn; Q3/18: €71 mn).



# FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn

	30/09/2017	31/12/2017	31/03/2018	30/06/2018	30/09/2018
Balance sheet total	139.8	141.3	138.0	139.7	142.3
Shareholders' equity	39.1	42.5	43.7	41.4	43.5
Net debt	52.6	50.8	50.5	54.8	55.5
Net debt/adj. EBITDA <sup>1</sup>	2.3	2.3	2.3	2.5	2.4
Equity ratio	27.9%	30.0%	31.7%	29.6%	30.6%

## 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: <sup>2</sup>	<b>Baa1</b>	negative outlook
S&P: <sup>2</sup>	<b>BBB+</b>	CreditWatch negative

1) Ratios for the interim quarters calculated on the basis of previous 4 quarters. 2) Outlook changed end of April 18, following the announced merger of TM US and Sprint. Previous outlook was "stable"

# WHY DT: BEST POSITIONED FOR FUTURE GROWTH



Unique **footprint**  
& **Asset Base**

- ✓ **Transatlantic presence** in worlds' leading economies
- ✓ **Converged leader** in Europe with **superior network position**



**Growth Profile**

- ✓ **95% of footprint growing** with further FMC growth potential
- ✓ Supercharging the Un-Carrier **boosts DT's financial profile** (EPS accretive from year 3)



Untapped **value**  
**potential**

- ✓ Still untapped potential from **cost transformation**
- ✓ **Accelerated digitalization** to improve CX and reduce costs



Clear **strategy**

- ✓ Focus on **connectivity core & adjacent business**
- ✓ Focused **portfolio approach & capital allocation**



**Best Team**

- ✓ **New international leaders** with excellent track record
- ✓ **Walk the talk & winning mentality**



LIFE IS FOR SHARING.

# MID TERM AMBITION LEVEL

	Mid term ambition level <sup>1</sup>	Year	Implications of US deal <sup>2</sup>
Group revenues	CAGR +1 – 2%	2017 – 2021e	Confirmed
Group adj. EBITDA	CAGR +2 – 4%	2017 – 2021e	Confirmed
Adj. EBITDA ex US	CAGR +2 – 3%	2017 – 2021e	Confirmed
Group FCF	CAGR ≈ +10%	2017 – 2021e	Slightly dilutive in 2021e & accretive in 2022e
Group adj. EPS	≈ €1.20	2021e	Slightly dilutive in 2021e & accretive in 2022e
Group ROCE	ROCE > WACC	2021e	Confirmed
Group cash capex	Ex US stable	2017 – 2021e	Confirmed
Group indirect opex	Ex US –€1.5 bn	2017 – 2021e	Confirmed
Shareholder remuneration policy (2018 – 2021) <sup>3</sup>	Dividend will reflect growth in adjusted EPS while considering share buy backs	2017 – 2021e	Confirmed

1) Based on constant exchange rates (Average exchange rate 2017 of €1 = US\$1.13) and no further changes in the scope of consolidation

2) assumption: closure date Jan. 1, 2019

3) Subject to necessary AGM approval and board resolution

# CONFERENCE CALL WITH Q&A SESSION

The conference call will be held on **November 8 at 2:00 PM CET, 1:00 PM GMT, 8 AM ET.**

DT Participants: **Tim Hoettges** (CEO), **Thomas Dannenfeldt** (CFO), **Hannes Wittig** (Head of IR)

## Webcast

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- The **link to the webcast** will be provided here 20 minutes before the call starts: [www.telekom.com/18Q3](http://www.telekom.com/18Q3)
- To ask a question, **just type your question into the box below the stream**
- We webcast in **HD Voice Quality**
- The **recording will be uploaded to YouTube** after the call

## Dial-in

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DE	0800 9656288	+	code 69447490#
UK	0800 0515931	+	code 69447490#
US	+1 866 7192729	+	code 69447490#
Other	+49 69 271340801	+	code 69447490#

**NEW:** to participate in the dial-in conference please register via the following link:

<https://eventregistration.konferenz-telekom.de/EventConfRegistrationGui/?token=1538988280353&lang=en>



# FURTHER QUESTIONS

## PLEASE CONTACT THE IR DEPARTMENT

### Investor Relations Contact details

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Phone +49 228 181 – 8 88 80

E-Mail [investor.relations@telekom.de](mailto:investor.relations@telekom.de)

Contact details for all  
IR representatives:  
[www.telekom.com/ircontacts](http://www.telekom.com/ircontacts)



### IR Webpage

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[www.telekom.com/investors](http://www.telekom.com/investors)



### IR Twitter Account

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[www.twitter.com/DT\\_IR](http://www.twitter.com/DT_IR)



### IR YouTube Channel

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[http://www.telekom.com/youtube\\_ir](http://www.telekom.com/youtube_ir)



# APPENDIX

# 2018: ACCOUNTING IMPACT ON RESULTS

## Outlook beginning of year 2018

	Revenue	Adj. EBITDA	Current view
Group	-0.15 bn	max. +0.1 bn <sup>1</sup>	Unchanged
Germany	-1 to -1.5%	Impact of IFRS 9 (-) and IFRS 15 (+) will be neutral	We expect a moderate tailwind to the adj. EBITDA
US	+0.5%	+0.2% <sup>1</sup>	Unchanged
Europe	negligible	negligible	Unchanged
Group Development	no outlook given	no outlook given	Approx. -2% on revenue and adj. EBITDA
Systems Solutions	no outlook given	no outlook given	negligible
GHS	no outlook given	no outlook given	negligible

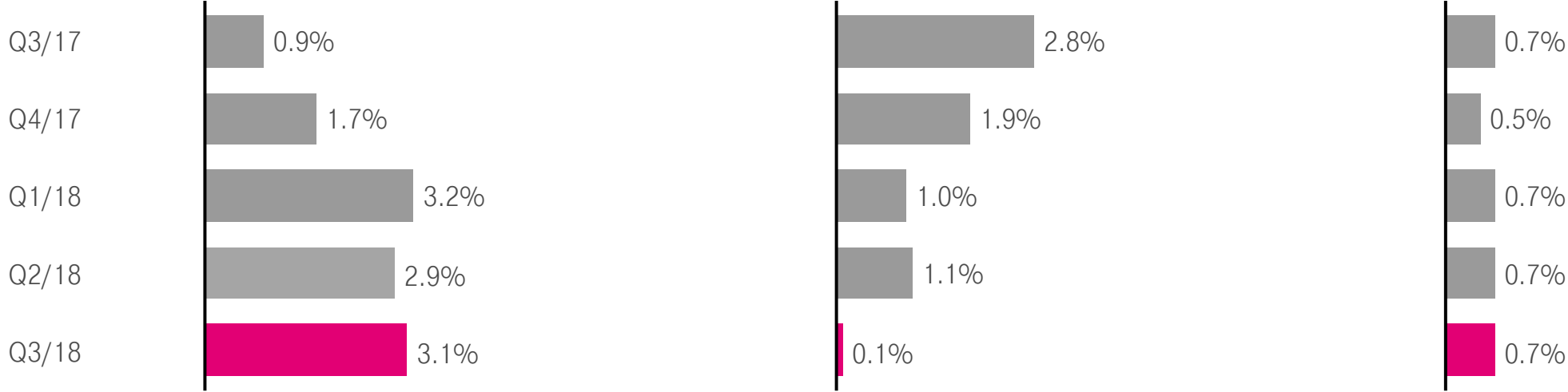
1) before the positive impact of 0.2 to 0.5 bn US\$ announced by TM US in their 2018 outlook

# GERMANY MOBILE: SERVICE REVENUE (EXCL. IFRS 15)

## Reported mobile service revenue

## Impact of mobile regulation<sup>1</sup>

## Impact of convergent offers<sup>2</sup>



Old medium term guidance (2014 - 2018 CAGR): Re-iterated

≈ +1% (without EU roaming impact)

New medium term guidance (2017 - 2021 CAGR): Re-iterated

≈ +2%

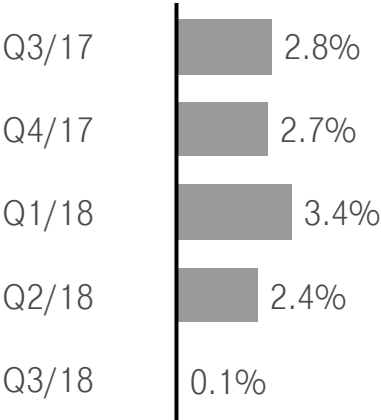
1) Impact of MTR and EU Roaming regulation    2) Impact of MagentaEINS and Telekom LTE broadband



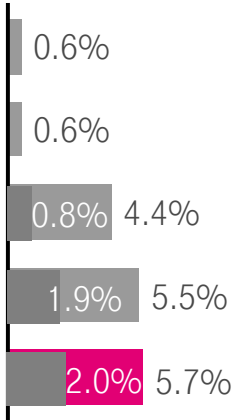
# GERMAN FIXED: SERVICE REVENUE (EXCL. IFRS 15)

## Growth rates YOY

### Wholesale revenue



### Broadband revenue<sup>1</sup>



### Fixed line service revenue



### Old medium term guidance (2014 – 2018 CAGR): Re-iterated



### New medium term guidance (2017 – 2021 CAGR): Re-iterated



1) Change in definition – no restatement for 2017. Shift from “Other revenues ” to “BB revenues” underlying performance +0.8% in Q1/18, +1.9% in Q2/18 and 2.0% in Q3/18. In addition all periods have been restated for sales reductions and add-on options, that were previously not included in Broadband. Total service revs and Fixed service revs are not affected. 2) Average growth rate adjusted for IFRS15 impact. 3) Including business IP products (e.g. DLAN, Company Connect); average growth rate adjusted for IFRS 15 impact; growth 2017 – 2021e without definition change approx. 1pp lower.

**THANK YOU!**