



## MEDIA INFORMATION

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### **Growth with Deutsche Telekom's best network**

- 578,000 new fiber-optic lines in the second quarter of 2016
- Service revenues in the German fixed-network business stable for the first time since liberalization
- Net revenue up 2.2 percent in the quarter, on an organic basis up 3.9 percent
- Adj. EBITDA up 8.6 percent, on an organic basis up 9.9 percent
- Capital expenditure (before spectrum) up 3.5 percent in the quarter
- Full-year guidance confirmed

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By investing heavily in the network build-out and the IP transformation, Deutsche Telekom is driving forward its strategy of becoming the leading European telecommunications provider and at the same time profiting from growth in the United States. In Germany, Deutsche Telekom's best network is proving to be a customer magnet.

Capital expenditure (before spectrum) increased by 7.6 percent year-on-year in the first half of 2016 to 5.5 billion euros. The high network quality combined with innovative product offers and integrated product bundles resulted in strong customer growth, especially in the United States and, with regard to optical fiber, in Germany where the number of fiber-optic lines went up by 578,000 in the second quarter of 2016 to 5.6 million. This contributed to the stabilization of service revenues in the German fixed network for the first quarter since the start of liberalization in the German telecommunications market.



Deutsche Telekom is building on this strong customer demand with its innovative "So gut, so guenstig" ("Best value, great deal") offer, to drive forward broadband business in Germany with the aim of offering the best customer experience. Since August 1, new customers have been able to try out the multi-award-winning German fixed network, which emerged from the latest Connect test as winner, for one year at their desired bandwidth to see if it meets their needs. In return, they pay just 19.95 euros per month, regardless of the bandwidth they choose. Only at the end of the year do they choose a specific bandwidth and the applicable monthly price.

"It is widely recognized – our network is the best network in Germany. We continue to invest massively and constantly work with new ideas and initiatives to offer customers the best service experience," said Tim Höttges, CEO of Deutsche Telekom. "We want to maintain the huge momentum in our fiber-optic lines with the Germany-wide vectoring roll-out. We are happy to carry competitors on our network – but we will fight for every single customer, that is crystal clear."

The rapid customer growth at T-Mobile US made a substantial contribution to the Group's net revenue growth of 2.2 percent in the second quarter to 17.8 billion euros. On an organic basis, especially adjusted for exchange rate effects, revenue increased by 3.9 percent. This increase was despite the decision to reduce the low-margin distribution business with mobile devices in Germany, which took around 0.7 percentage points off the revenue trend.

Adjusted EBITDA increased by 8.6 percent to 5.5 billion euros in the second quarter, also driven by the U.S. business. In organic terms, the growth rate totaled 9.9 percent. The strong increase in adjusted EBITDA improved the ratio of net debt to adjusted EBITDA – based on the calculation over the last four quarters – to 2.3, which was well within Deutsche Telekom's target range.



Adjusted for special factors, net profit remained more or less stable in the second quarter of 2016 at around 1.1 billion euros. The improvement in adjusted EBITDA was partially offset by higher depreciation and amortization compared with the prior-year quarter, mainly as a result of the further roll-out of the 4G/LTE network and the terminal equipment lease model JUMP! On Demand launched at T-Mobile US in June 2015. Both elements resulted in a higher depreciation and amortization base.

The 4.0-percent decrease in free cash flow to 1.3 billion euros is primarily attributable to the non-recurrence of the cash inflow of a payment of 175 million euros recorded in the prior-year quarter in connection with an agreement to settle a complaints procedure under anti-trust law and the dividend received in the prior year from former UK joint venture EE. Adjusted for these factors, free cash flow would have recorded good double-digit growth, despite higher investments.

Based on this positive development in the second quarter and in the first half of 2016, Deutsche Telekom confirms its guidance for the full year.

Massive investments again significantly increased network coverage, especially in Germany and the European subsidiaries. Thus, as part of the integrated network strategy, LTE coverage in Germany increased by 6 percentage points within a year to 91 percent. The percentage of households in Germany that have the option of connecting to Deutsche Telekom's fiber-optic network increased by 10 percentage points to 57 percent, an increase of well over 4 million households.

In the European subsidiaries, household coverage with fixed-network optical fiber increased by almost 1 million and now stands at 21.4 percent of households. In mobile communications, population coverage increased by some 19 million to 97 million people, or 75 percent of the population.

## Germany

In the years 2014 to 2016, Deutsche Telekom invested an average of almost 5 billion euros per year in Germany across all segments, a rate of almost 20 percent of revenue. The majority of the investments went into building out the network, which underpinned strong demand for fiber-optic lines in Germany. The increase by 578,000 fiber-optic lines in the second quarter was once again a good third higher than in the prior-year quarter. Half of the new lines were added in branded business, half in wholesale business. The dynamic growth bolstered the increase in branded broadband lines in the second quarter by 64,000. In combination with another 41,000 new Entertain customers, this trend contributed to the growth of broadband revenues in the German fixed network – comprising double-play and triple-play revenues including Entertain – by 1.8 percent in the second quarter to 1.3 billion euros.

In mobile communications, branded contract net additions remained more or less on a par with the prior-year quarter at 151,000. Mobile service revenues declined slightly by 0.8 percent to 1.7 billion euros. This decrease was in line with the trend in the overall market, thus Deutsche Telekom retained its position as clear market leader. There were two factors that negatively impacted revenue, i.e., the reduction of roaming rates, and the discounts under the MagentaEINS rate plan program, both of which exclusively related to mobile communications. If these factors had been added back, mobile service revenues would have increased by around 1.1 percent.

The success of MagentaEINS continued in the second quarter of 2016. The number of customers increased by another quarter million to reach 2.5 million – around twice as many as in the middle of 2015. The revenue effect of MagentaEINS, which is positive for the German business overall, can be seen in the steady growth in additional revenue per household compared with customers not benefiting from bundle offerings. Even after deducting the discount recorded in mobile communications, MagentaEINS households



generated additional revenue on average of around 8.20 euros per month through upselling and add-ons compared with the revenue generated previously.

Overall, total revenue in the Germany operating segment decreased by 3.1 percent in the second quarter to 5.4 billion euros. The reduction of the distribution business with mobile devices had a negative impact of around 2 percentage points. Adjusted EBITDA remained at the prior-year level at 2.2 billion euros, which resulted in the EBITDA margin improving to 41.1 percent.

### **T-Mobile US**

T-Mobile US continued its strong upward trend across all key performance figures such as customer growth, revenue, and earnings in the second quarter of 2016.

LTE network coverage increased by around 20 million people year-on-year to 311 million. Thanks to the combination of the highest average transmission speeds in the LTE network and excellent value for money supported by the innovative Un-carrier initiatives, T-Mobile US won 1.9 million new customers in the second quarter. It was the thirteenth quarter in succession with more than one million customer additions. And T-Mobile US once again achieved positive porting ratios versus all three other national mobile providers, i.e., not only is the company growing overall, but also relative to each of the three providers, the number of customers won significantly exceeded the numbers lost to the respective competitor.

The strong customer growth had a positive impact on revenue, which increased by 12.6 percent to 9.3 billion U.S. dollars. Service revenues also increased in line with this trend to 6.8 billion U.S. dollars, both growth rates representing the highest in the U.S. mobile industry. Adjusted EBITDA increased by 34.6



percent, improving the margin by more than 4 percentage points to 26.5 percent. T-Mobile US plans to maintain this growth trend as the year progresses: The earnings target for the full year was narrowed around the average to date and the guidance range for branded postpaid customer additions revised upwards by 200,000 to between 3.4 and 3.8 million.

## **Europe**

The companies of the Europe operating segment overall maintained growth in the main customer figures, thus continuing the trend towards stabilizing revenue and earnings. The number of mobile contract customers increased by 3.0 percent year-on-year to 26.7 million, fixed-network retail broadband lines increased by 4.4 percent to 5.3 million, and the number of TV customers grew by 5.1 percent to 4.0 million.

More than half of the fixed-network lines in the European companies have now been migrated to IP. At the same time, activities are intensified to build the pan-European network, which will provide an efficient, harmonized production platform for operation across all national companies.

Bundled offerings as part of the MagentaONE model are now supporting revenue and profits in all integrated national companies. Some 0.7 million households are currently benefiting from these packages.

Revenue and earnings improved further, as is particularly clear from the figures adjusted for changes in the composition of the Group and exchange rate effects. The reported revenue decline of 3.2 percent includes these effects, which together account for around 2 percentage points of the decrease. In organic terms, therefore, the decline was around 1.2 percent. The adjusted EBITDA trend also looks better on an organic basis, declining by 2.9 percent, compared with a 4.0-percent decrease in reported adjusted EBITDA.



The decline in revenue and earnings resulted primarily from the trends in Poland and the Netherlands. At T-Mobile NL, there was a positive trend in contract customers: Net additions of 32,000 in the second quarter compared with a decline in the prior-year period of 85,000 contract customers resulted in growth in the overall customer base.

In Hungary and Greece, revenue remained stable in organic terms, and both countries recorded moderate growth in earnings. T-Mobile Austria continued its upward trend of the previous quarters, with a revenue increase of 1.5 percent and growth in adjusted EBITDA of 6.1 percent.

## **T-Systems**

T-Systems generated revenue of 1.6 billion euros in the Market Unit in the second quarter, a slight decline of 3.0 percent compared with the same quarter of the prior year.

The cloud business was again one of the positive revenue drivers, generating some 70 percent of revenue at T-Systems. After an increase at Group level of around 31 percent in the first quarter, in the first six months of the year cloud revenue increased by 22 percent to more than 0.7 billion euros. T-Systems still expects the cloud business to grow faster than the overall market for the full year and for the period up to and including 2018.

Adjusted EBIT in the segment declined compared with the same period in 2015, due to a number of one-time effects and start-up costs for the newly launched Open Telekom Cloud.

In August, the Austrian freeway operator ASFINAG awarded T-Systems the contract for its new toll collection system GO-Maut 2.0. This is a major deal



covering the operation of IT systems in the Vienna-based data center, some 230 sales points in Austria and abroad, and the 48 mobile control units.

**The Deutsche Telekom Group at a glance:**

	Q2 2016 millions of €	Q2 2015 millions of €	Change %	H1 2016 millions of €	H1 2015 millions of €	Change %	FY 2015 millions of €
Revenue	17,817	17,428	2.2	35,447	34,270	3.4	69,228
Proportion generated internationally (%)	66.0	64.2	1.8p	65.7	63.6	2.1p	63.8
EBITDA	4,697	4,534	3.6	12,364	8,694	42.2	18,388
Adjusted EBITDA	5,457	5,026	8.6	10,620	9,600	10.6	19,908
Net profit	621	712	(12.8)	3,746	1,499	n.a.	3,254
Adjusted net profit	1,054	1,078	(2.2)	2,101	2,114	(0.6)	4,113
Free cash flow <sup>a</sup>	1,320	1,375	(4.0)	2,142	2,240	(4.4)	4,546
Cash capex <sup>b</sup>	2,703	4,330	(37.6)	6,599	8,759	(24.7)	14,613
Cash capex <sup>b</sup> (before spectrum)	2,664	2,575	3.5	5,495	5,105	7.6	10,818
Net debt	48,692	48,835	(0.3)	48,692	48,835	(0.3)	47,570
Number of employees <sup>c</sup>	220,821	225,596	(2.1)	220,821	225,596	(2.1)	225,243

**Comments on the table:**

a Before dividend payments and spectrum investment.

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

c At the reporting date.

**Operating segments:**

	Q2 2016 millions of €	Q2 2015 millions of €	Change %	H1 2016 millions of €	H1 2015 millions of €	Change %	FY 2015 millions of €
<b>Germany</b>							
Total revenue	5,406	5,580	(3.1)	10,858	11,169	(2.8)	22,421
EBITDA	1,846	2,102	(12.2)	3,868	4,227	(8.5)	8,245
Adjusted EBITDA	2,225	2,224	0.0	4,405	4,435	(0.7)	8,790
Number of employees <sup>a</sup>	68,300	69,607	(1.9)	68,300	69,607	(1.9)	68,638
<b>United States</b>							
Total revenue	8,196	7,443	10.1	16,012	14,348	11.6	28,925
EBITDA	2,123	1,581	34.3	4,391	2,692	63.1	6,229
Adjusted EBITDA	2,172	1,652	31.5	4,080	2,877	41.8	6,654
<b>Europe</b>							
Total revenue	3,106	3,209	(3.2)	6,186	6,366	(2.8)	13,024
EBITDA	1,016	1,017	(0.1)	1,978	1,979	(0.1)	4,108
Adjusted EBITDA	1,038	1,081	(4.0)	2,024	2,097	(3.5)	4,329
<b>Systems Solutions</b>							
Order entry	1,458	1,281	13.8	2,980	2,493	19.5	5,608
Total revenue	2,009	2,073	(3.1)	4,054	4,000	1.4	8,194
Of which Market Unit	1,592	1,641	(3.0)	3,320	3,262	1.8	6,657
Adjusted EBIT margin (%)	0.5	1.5	(1.0p)	2.5	1.1	1.4p	2.1
Adj. EBIT margin, Market Unit (%)	1.0	1.8	(0.8p)	3.5	1.8	1.7p	2.6
EBITDA	65	(16)	n.a.	211	55	n.a.	93
Adjusted EBITDA	175	203	(13.8)	381	348	9.5	740

**Comments on the table:**

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Comparative figures have been adjusted retrospectively.

a At the reporting date.



**Development of customer numbers**

**Operating segments: Development of customer numbers in the second quarter of 2016**

	June 30, 2016 thousands	Mar. 31, 2016 thousands	Change thousands	Change %
<b>Germany</b>				
Mobile customers	41,138	40,643	495	1.2
Of which contract customers	24,096	23,940	156	0.7
Fixed-network lines	19,971	20,093	(122)	(0.6)
Of which retail IP-based	7,958	7,470	488	6.5
Broadband lines	12,770	12,706	64	0.5
Of which optical fiber <sup>a</sup>	3,577	3,286	291	8.9
Television (IPTV, satellite)	2,777	2,736	41	1.5
Unbundled local loop lines (ULLs)	7,648	7,867	(219)	(2.8)
<b>United States</b>				
Mobile customers	67,384	65,503	1,881	2.9
Of which branded postpaid customers	33,626	32,736	890	2.7
Of which branded prepay customers	18,914	18,438	476	2.6
<b>Europe</b>				
Mobile customers	52,213	52,208	5	0.0
Of which contract customers	26,697	26,544	153	0.6
Fixed-network lines	8,639	8,687	(48)	(0.6)
Of which IP-based	4,514	4,261	253	5.9
Retail broadband lines	5,307	5,254	53	1.0
Television (IPTV, satellite, cable)	3,961	3,922	39	1.0

**Comments on the table:**

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Comparative figures have been adjusted retrospectively.

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



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

	June 30, 2016 thousands	June 30, 2015 thousands	Change thousands	Change %
<b>Germany</b>				
Mobile customers	41,138	39,465	1,673	4.2
Of which contract customers	24,096	22,984	1,112	4.8
Fixed-network lines	19,971	20,437	(466)	(2.3)
Of which retail IP-based	7,958	5,763	2,195	38.1
Broadband lines	12,770	12,518	252	2.0
Of which optical fiber <sup>a</sup>	3,577	2,365	1,212	51.2
Television (IPTV, satellite)	2,777	2,578	199	7.7
Unbundled local loop lines (ULLs)	7,648	8,432	(784)	(9.3)
<b>United States</b>				
Mobile customers	67,384	58,908	8,476	14.4
Of which branded postpaid customers	33,626	29,318	4,308	14.7
Of which branded prepay customers	18,914	16,567	2,347	14.2
<b>Europe</b>				
Mobile customers	52,213	56,345	(4,132)	(7.3)
Of which contract customers	26,697	25,918	779	3.0
Fixed-network lines	8,639	8,875	(236)	(2.7)
Of which IP-based	4,514	3,805	709	18.6
Retail broadband lines	5,307	5,084	223	4.4
Television (IPTV, satellite, cable)	3,961	3,768	193	5.1

**Comments on the table:**

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. Comparative figures have been adjusted retrospectively.

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

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