DEUTSCHE TELEKOM
ACCOUNTING CHANGES 2018
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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.
2018 ACCOUNTING CHANGES: MAIN TAKE-AWAYS

- Current accounting standards IAS18 (revenue recognition) and IAS 39 (financial instruments) will be replaced by IFRS15 (revenue recognition) and IFRS 9 (financial instruments) respectively as of January 1, 2018
- No restatement for 2017 or earlier figures based on IFRS15/9
- No perfect yoy comparison (break in revenue and EBITDA line)
- Both standards will have effects on revenue and EBITDA, no FCF effects
- First reporting date under new standards will be Q1/2018 results in May 2018

- Top-line Revenue/EBITDA and mobile service revenue comparisons for transition year 2018:
  - All other line items will be based on IFRS15/9 only

- From 2019 onwards yoy comparisons figures based on IFRS15/9 only
IFRS 9: ONLY MINOR P&L IMPACT

New accounting logic under IFRS 9 for financial instruments with impacts on financial statement presentation and minor P&L impact

- IFRS 9 (Financial Instruments) replaces IAS 39 (Financial Instruments: Recognition and Measurement)
- Effective date: January 1st, 2018
- Main topics of IFRS 9:
  - Impairment methodology on financial assets esp. trade receivables and contract assets (change from incurred loss model to expected loss model):
    earlier realization of impairment by write-down of asset at initial recognition (time shift / minor impact on impairment amount within other operating expenses)

Impact in 2018 will be approx. -50m € on the group adj. EBITDA (approx. 60% related to the US)
General effect of IFRS 15:

- **Lower revenues/lower OPEX**: due to (implicit) handset subsidy reimbursements included in third party dealer commissions and payments to other service providers, now recognized as *service revenue reduction (straight-lined)*

- **Effects on EBITDA**: due to change in number of contracts/prices and market invest actions over time: time effect leads to positive or negative impact on EBITDA of reporting period depending on which opposing effect outweigh
IFRS 15: MAIN DIFFERENCES COMPARED TO IAS 18

- Example: Bundle Contract with the elements device and service and device sold at subsidized price

- Main changes of IFRS 15:
  - **Revenue-reallocation** of total contract revenue to both elements according to their relative fair values
    - Shift effect (**higher** handset revenues, **less** service revenues by same amount (1))
    - time effect (higher revenues at commencement date of contract and lower revenues during contract term)

  - **Cash** from customer **unequal** to revenue recognized (equal over total contract period)
    - Increase in working capital (delta between cash received and handset revenue recognized as contract asset (2) and released against service revenues over contract period (3))
    - no impact on FCF

- No impact (compared to IAS 18) on bundle contracts where device is sold at full price in installments
**IFRS 15: MAIN DIFFERENCES COMPARED TO IAS 18**

- Example: Third party distribution with dealer commission
- Main changes of IFRS 15:
  - **Commissions paid to third party dealers** deferred on balance sheet in to (1) and released P&L effective over subsequent contract period only partly as OPEX (2a) and partly as service revenue reduction (2b) (time effect by straight lining)
  - **Commissions paid to service providers** deferred on balance sheet in t0 (1) and released P&L effective subsequently over contract period as service revenue reduction (2b) (time effect by straight lining)
Aggregated IFRS 15 effect over all contracts on Group P&L compared to IAS 18: total Revenues and OPEX decrease c.p. (with opposing effects on EBITDA)

- **Downside of “catch up” on Revenues/ EBITDA in 2018:** on Jan 1 2018 all existing contracts with commencement date before 2018 are treated as if always accounted for under IFRS 15. Therefore

  - upsides of IFRS 15 (i.e. higher handset revenues and lower OPEX on commencement date of new contracts) are booked as catch up within equity (no P&L effect), whereas
  
  - downsides, i.e. (lower service revenue and release of commissions into OPEX / service revenue reduction over still running contract term) mainly hit P&L in 2018 and following years.

- With reduction of old contracts in stock negative impact on EBITDA from catch up will decrease.

Impact in 2018 will be approx. -0.15bn € on group revenue and max. +0.1bn on adj. group EBITDA
IFRS 15: EXPECTED IMPACT ON SEGMENTS

- Germany
  - Impact on total revenues approx. between -1% and -1.5%. Impact on EBITDA: approx. +1%
  - Impact on service revs: Mobile approx. -13%, impact on fixed is negligible

- Europe
  - Impact on Revenue and EBITDA is negligible
  - Impact on mobile service revenue is approx. -4%, impact on fixed is negligible

- US
  - Impact on total revenues approx. +0.5%. Impact on EBITDA: approx. +0.2%
  - Impact on service revenues approx. -0.8%
THANK YOU!