

# DEUTSCHE TELEKOM

## Q2/2018 RESULTS



LIFE IS FOR SHARING.

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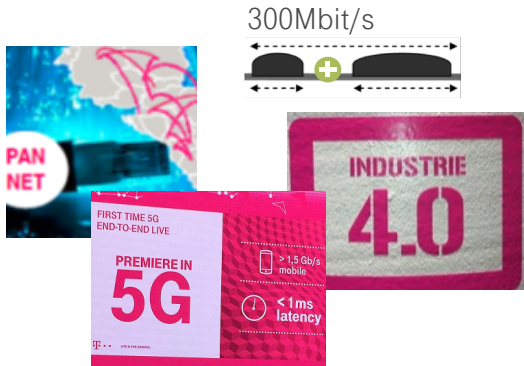


# REVIEW H1/2018

# H1/2018 HIGHLIGHTS: GROWTH ON BOTH SIDES OF THE ATLANTIC

## Growth: investments and innovations

- Cash capex at €6.1 bn (ex. spectrum)
- IP-Migration continues in GER (77%) and EU (74%). +5.5 mn households LTM
- Fiber roll-out: 5.5 mn new homes in GER and EU with access to Fiber yoy
- Continued LTE pop coverage expansion in GER (95%) and EU (96%)



## Growth: customers

- 11 mn German fiber homes (+34% yoy)
- 1 mn converged net adds LTM
- 1.7 mn mobile contract net adds in Germany and EU LTM
- 6.1mn net adds LTM in the US
- T-Systems order book up 30% in H1



## Growth: financials

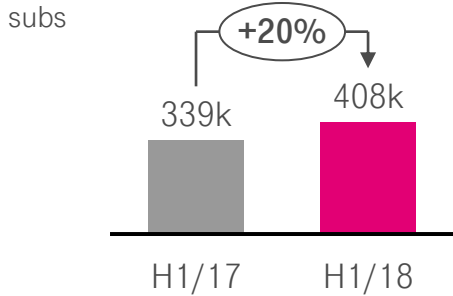
- Strong organic<sup>1</sup> growth continues
  - Revenue up 2.2% yoy
  - Adj. EBITDA up 5.2% yoy
  - Adj. EBITDA ex. US up 2.4%
  - FCF up 14.5% yoy
  - Adj. EPS up 10.9%
- Net debt/adj. EBITDA at 2.5x



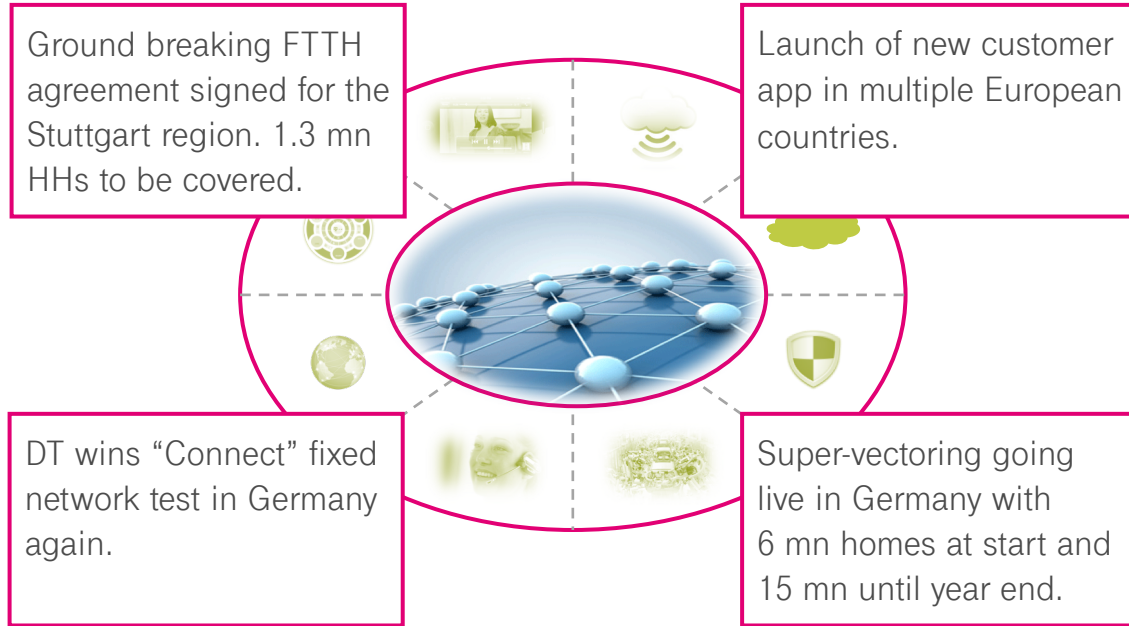
1) Revenue and adj. EBITDA growth rates on organic base: adjusted for currency fluctuations and changes in the scope of consolidation. FCF and adj. EPS calculated on reported results

# H1/2018 INNOVATIONS: FOCUS ON CUSTOMER EXPERIENCE

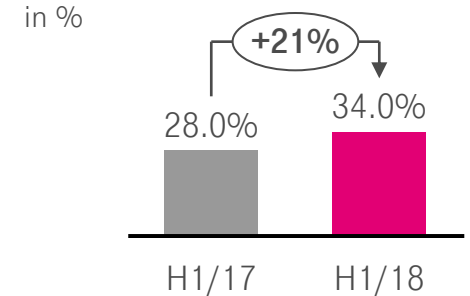
## Hybrid access<sup>1</sup>



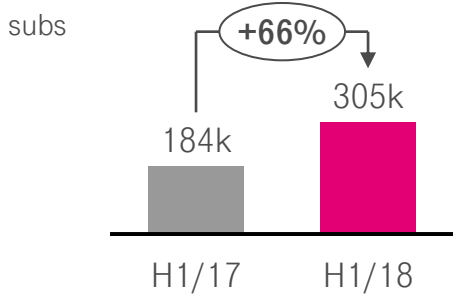
## Innovation/Network



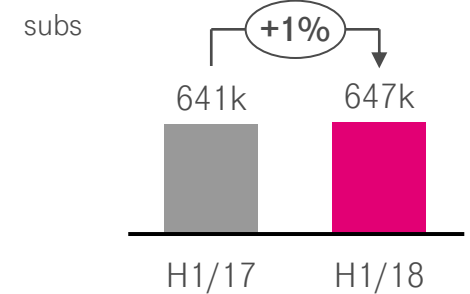
## E-service share of interactions



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



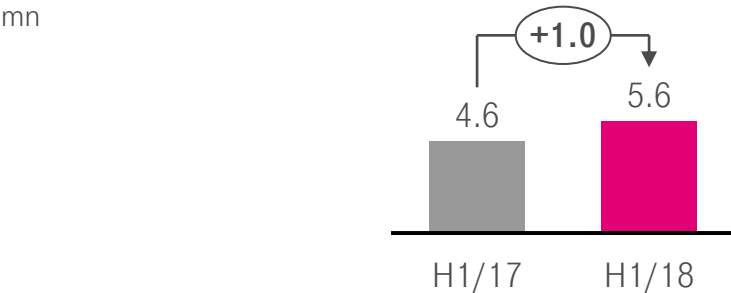
## IT-Support<sup>3</sup>



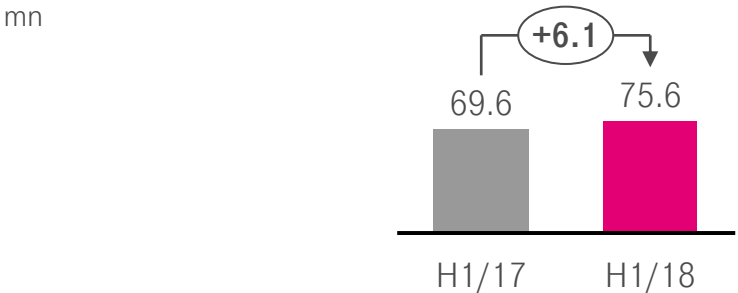
1) +€ 5 per customer/month    2) +€ 5 per customer/month    3) +€ 8 per customer/month

# H1/2018 CUSTOMERS: ONGOING STRONG MOMENTUM

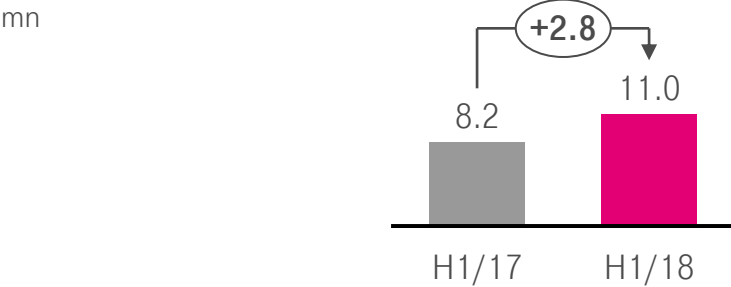
## MagentaEINS (Germany + EU)<sup>1</sup>



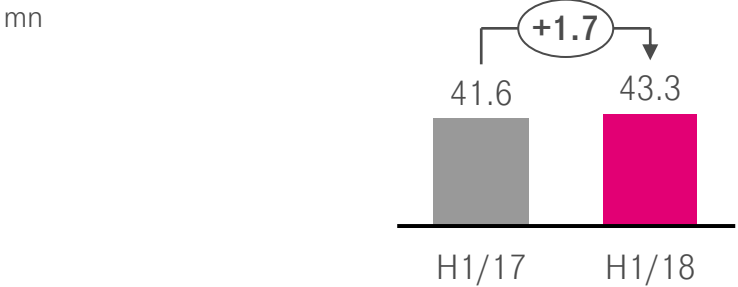
## US Mobile



## Fiber in Germany



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



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

# GUIDANCE 2018: EBITDA OUTLOOK RAISED AGAIN BY €0.1 BN

€ bn

	Revenue	Adj. EBITDA	FCF
2014 – 2018 CAGR	+1 – 2%	+2 – 4%	≈+10%
Achievements H1/18	+2.2% <sup>1</sup>	+5.2% <sup>1</sup>	+14.5%
2018 Guidance (\$/€: 1.13)	Slight increase	Old: around 23.2 Q1 update: 23.3 <b>New: around 23.4</b>	Around 6.2
thereof group excl. US		Around 13.2	
thereof TMUS (US\$ bn)		Old: around 11.3 <sup>2</sup> Q1 update: 11.4 <sup>2</sup> <b>New: around 11.5<sup>2</sup></b>	
impact of new revenue standard (US\$ bn)		Around 0.35	
handset lease (US\$ bn)		0.6 – 0.7	

1) Growth rates on organic base: adjusted for currency fluctuations and changes in the scope of consolidation guidance (+\$0.35 bn) and -\$0.5 bn IFRS bridge

2) Equals mid-Point TMUS guidance (\$11.7 bn US GAAP (previously \$ 11.6 bn resp. \$ 11.5 bn)) + mid-point revenue recognition



**REVIEW Q2/18**



# Q2/2018: FINANCIAL HIGHLIGHTS

€ mn

	Q2			HY		
	2017	2018	Change	2017	2018	Change
Revenue	18,890	18,367	-2.8%	37,537	36,291	-3.3%
Adj. EBITDA	5,944	5,928	-0.3%	11,495	11,477	-0.2%
Adj. net profit	1,199	1,238	+3.3%	2,138	2,428	+13.6%
Net profit	874	495 <sup>3</sup>	-43.4%	1,621	1,487	-8.3%
Adj. EPS (in €)	0.26	0.26	+0.0%	0.46	0.51	+10.9%
Free cash flow <sup>1</sup>	1,301	1,514	+16.4%	2,530	2,896	+14.5%
Cash capex <sup>2</sup>	2,994	3,021	+0.9%	6,238	6,097	-2.3%
Net debt	55,249	54,772	-0.9%	55,249	54,772	-0.9%

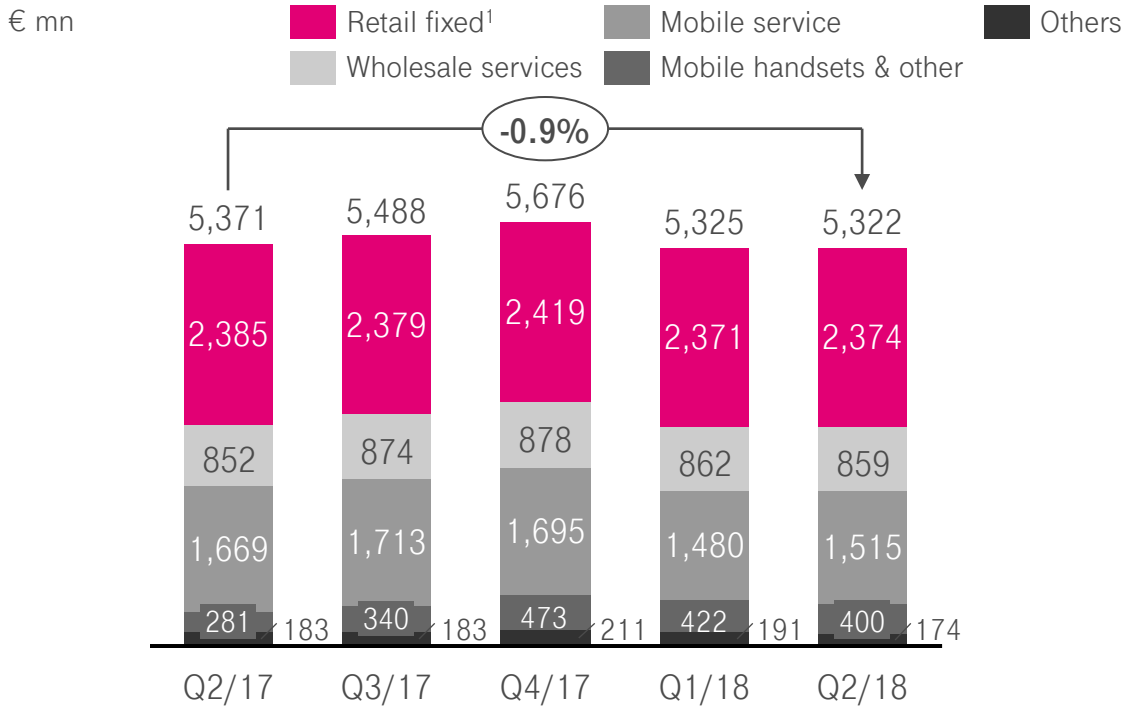
1) Free cash flow before dividend payments and spectrum investment    2) Excl. spectrum: Q2/17: €7,246 mn; Q2/18: €73 mn. HY/17: €7,282 mn; HY/18: €137 mn    3) Net income in Q2 impacted by Toll Collect settlement of €550 mn



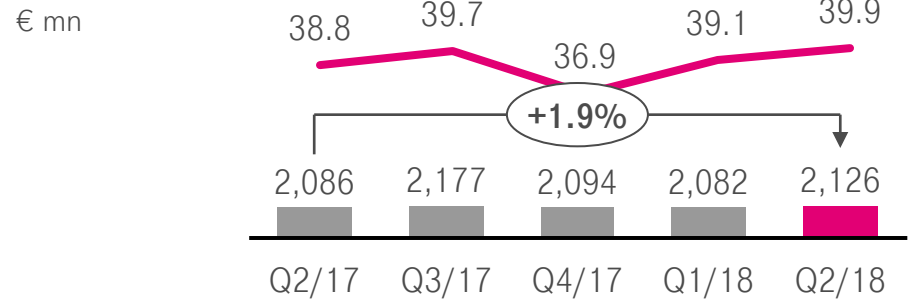
LIFE IS FOR SHARING.

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

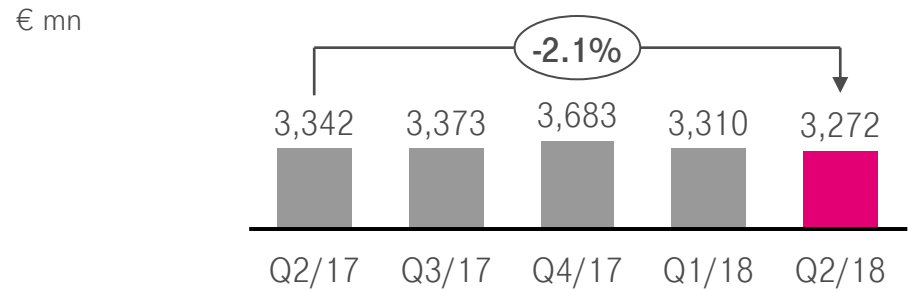
## Revenue (as reported)



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



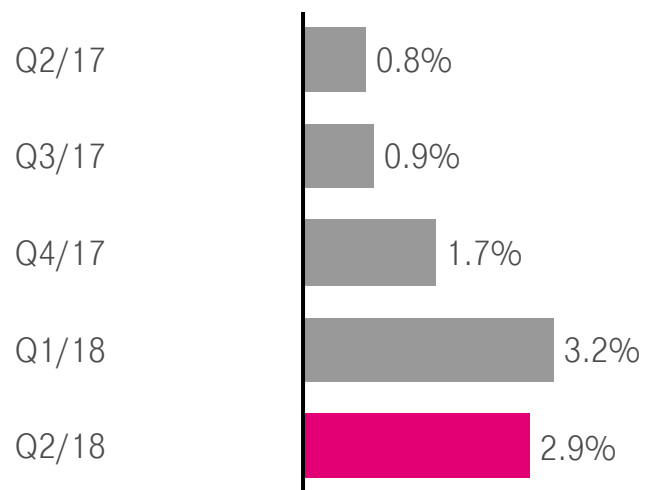
## Adj. OPEX (as reported)



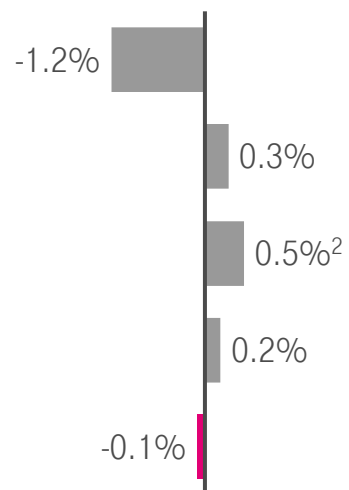
1) Fixed network core business

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

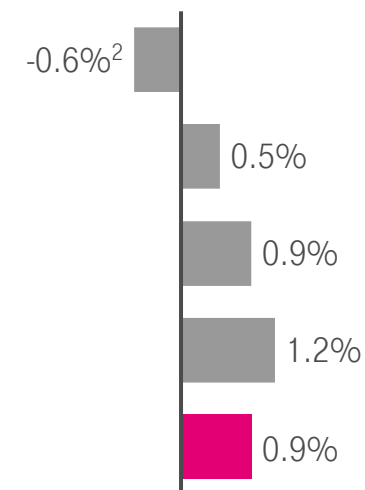
## Mobile service revenue



## 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 CPE's 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 -0.5% in Q2/18, whereas TSR growth rate would be +0.7% in Q2/18. Old growth rates have not been restated

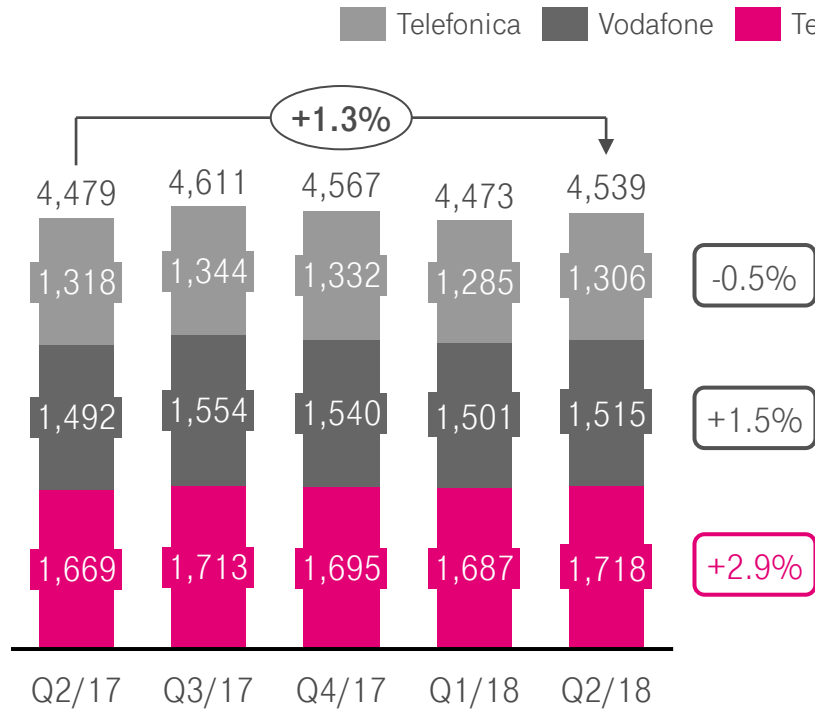
2) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at -1.5% for fixed service revenue, resp. -0.8% for total service revenue



# GERMANY MOBILE: HEALTHY GROWTH CONTINUES

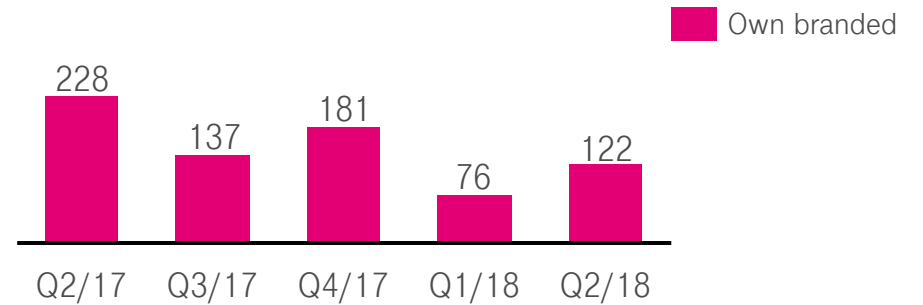
## German mobile market service revenue (excl. IFRS 15)

€ mn



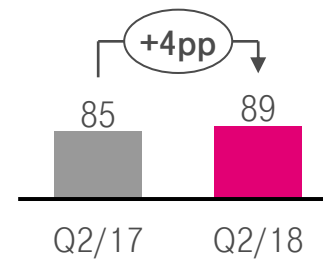
## Contract net adds<sup>1</sup>

000



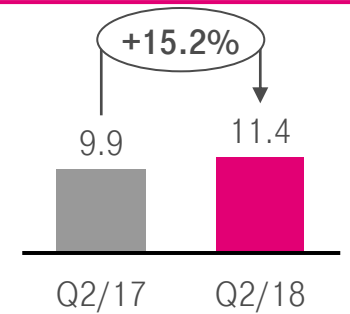
## Smartphone penetration<sup>2</sup>

%



## LTE customers<sup>3</sup>

mn



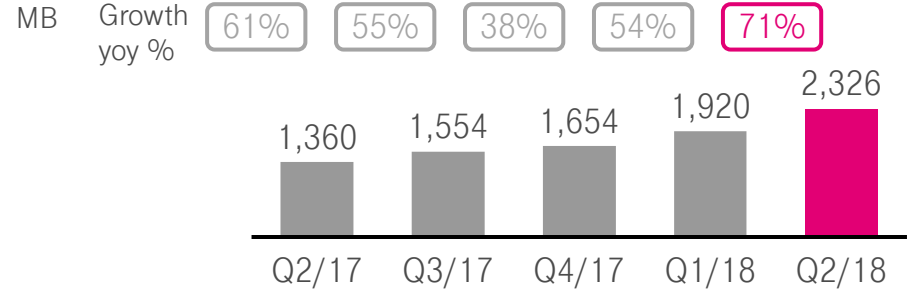
1) Figures may not add up due to rounding 2) Of own branded retail customers 3) Own customers using an LTE-device and tariff plan including LTE

# GERMANY: GOOD PROGRESS WITH CONVERGENCE AND DATA

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



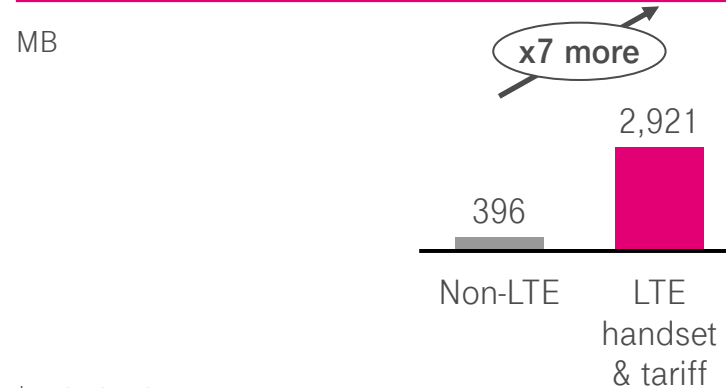
## Average consumer data usage<sup>3</sup>



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



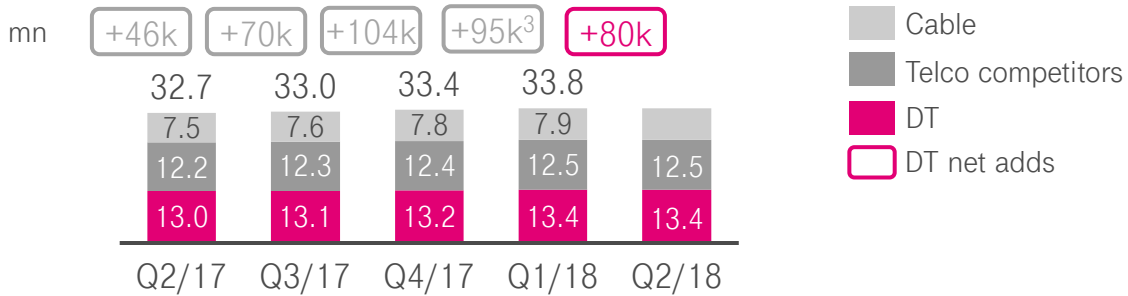
## Average data usage uplift<sup>3</sup>



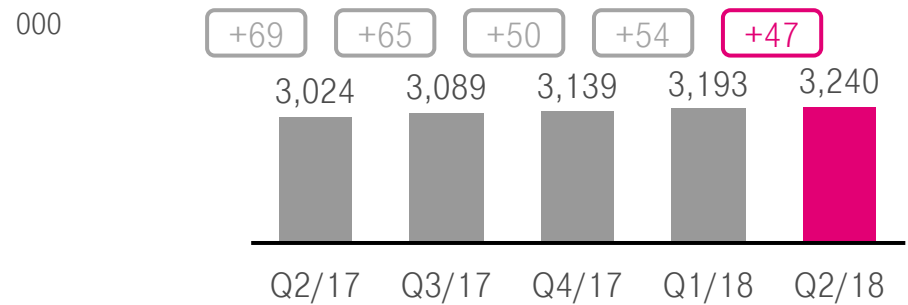
1) As % of B2C T-branded contract customers 2) As % of B2C broadband access lines 3) Per month of B2C T-branded contract customers

# GERMANY FIXED: STRONG BROADBAND CUSTOMER GROWTH

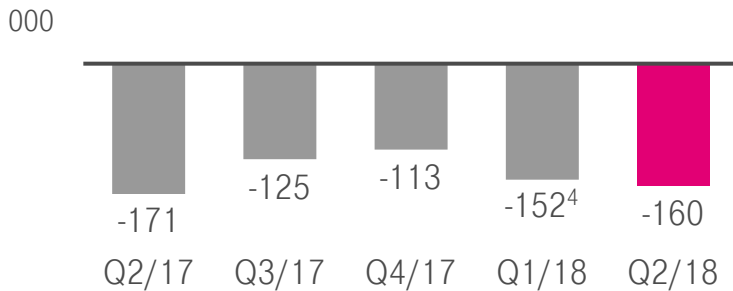
## German broadband market<sup>1</sup>



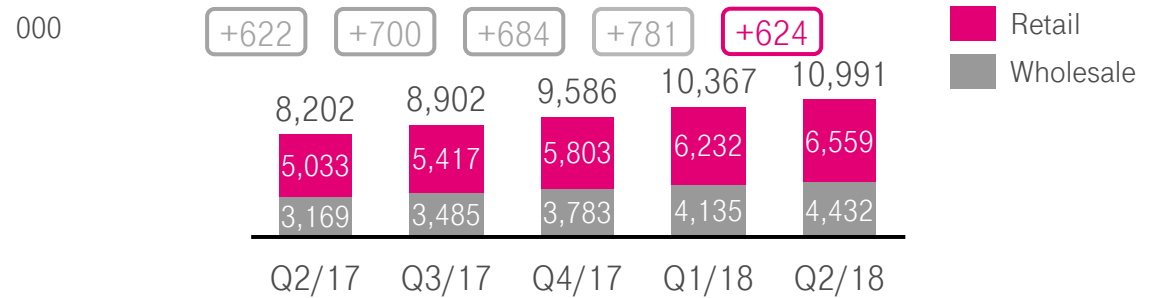
## Entertain customers



## Line losses



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



1) Based on management estimates

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

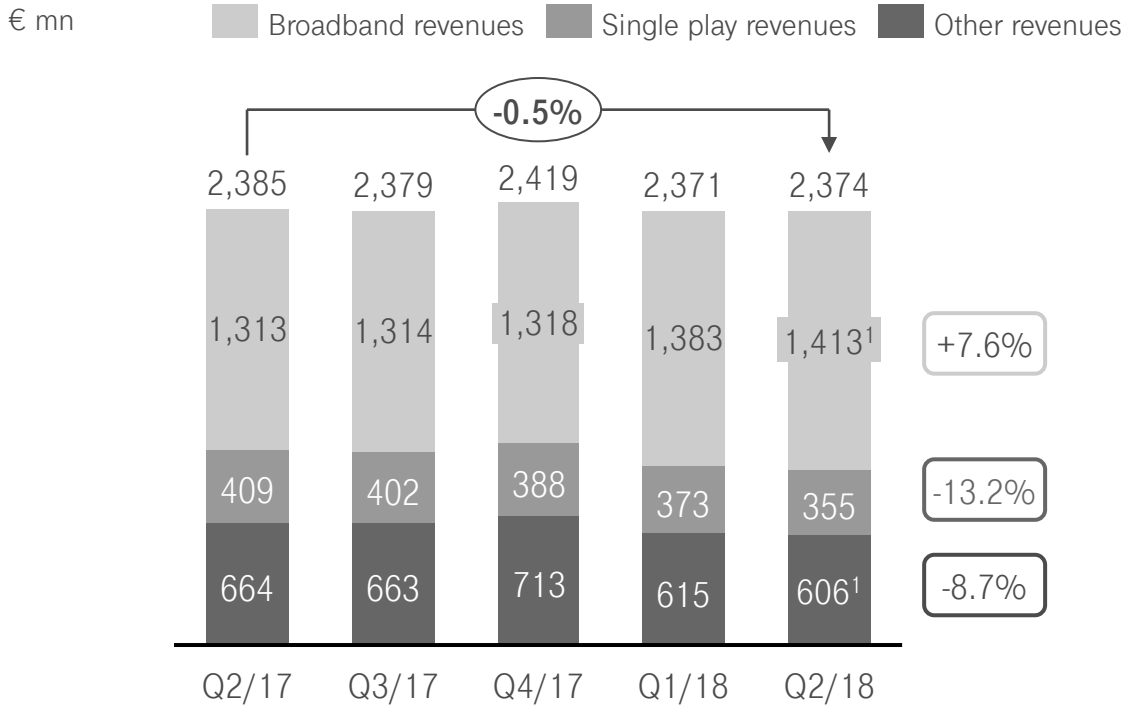
3) Organic view: change in base was +148k

4) Organic view: change in base was -90k

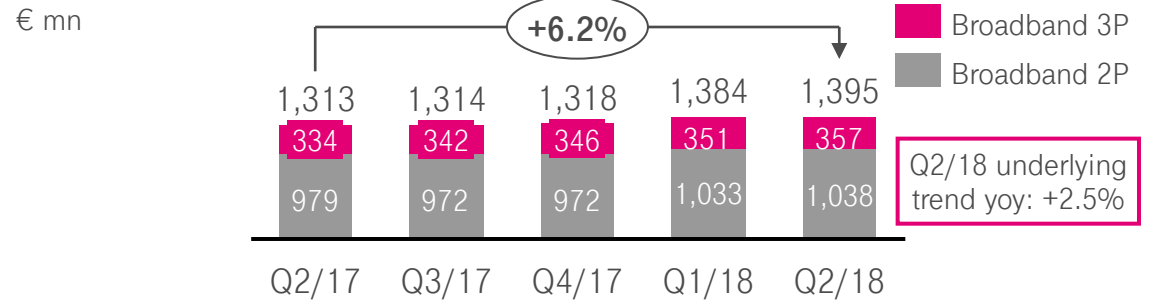


# GERMANY FIXED: SOLID UNDERLYING TREND IN FIXED

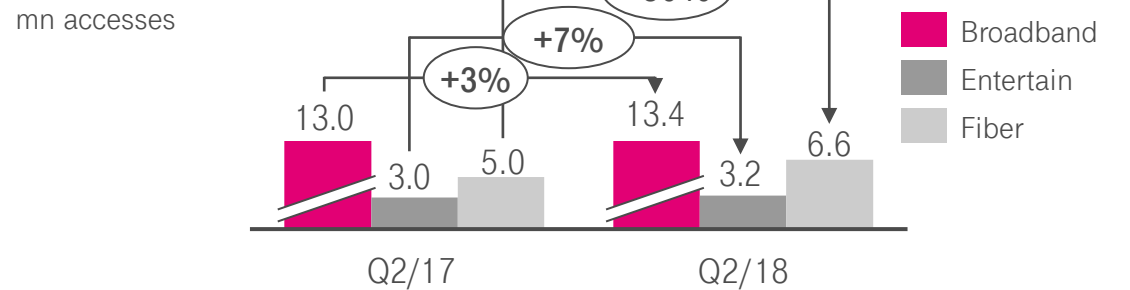
## Fixed network revenue retail (as reported)



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



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



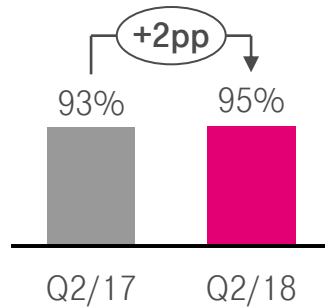
1) Change in definition – no restatement for 2017. Effect in Q2/18: shift of € 47 mn from “Other revenues” to “BB revenues” related to B2B broadband customers

2) Percentages calculated on exact figures

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

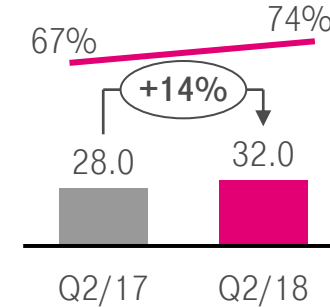
## INS - status LTE rollout

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



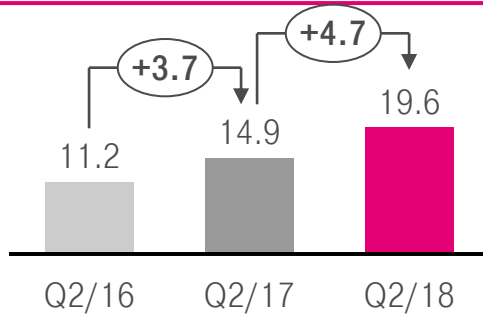
## INS - status fiber rollout<sup>2</sup>

Coverage in % and  
millions of households



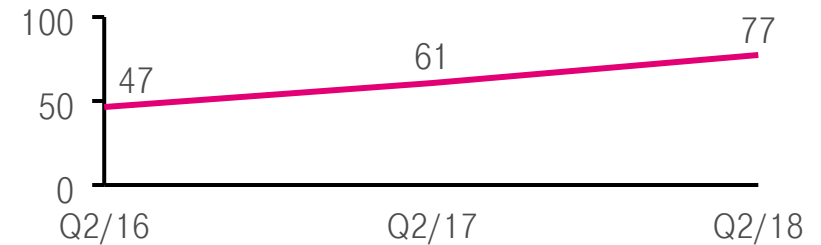
## Status IP accesses (retail & wholesale)

mn



## Status IP accesses (retail & wholesale)

% of lines

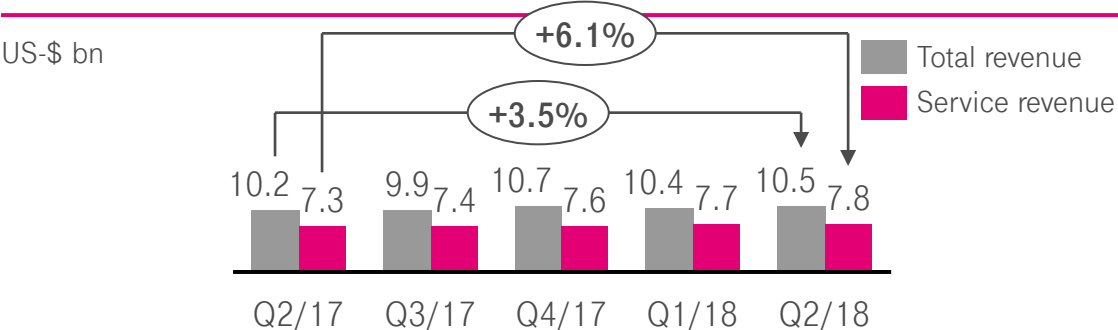


1) Outdoor coverage 2) In % of households within fixed network coverage in Germany

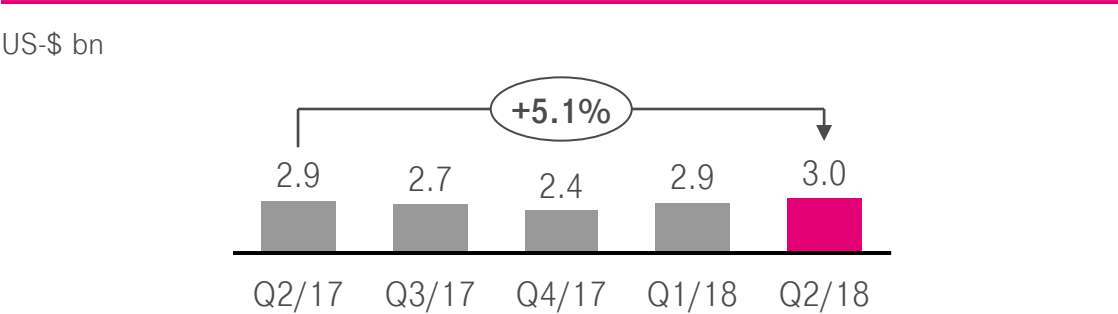


# TMUS: CONTINUED INDUSTRY LEADING GROWTH

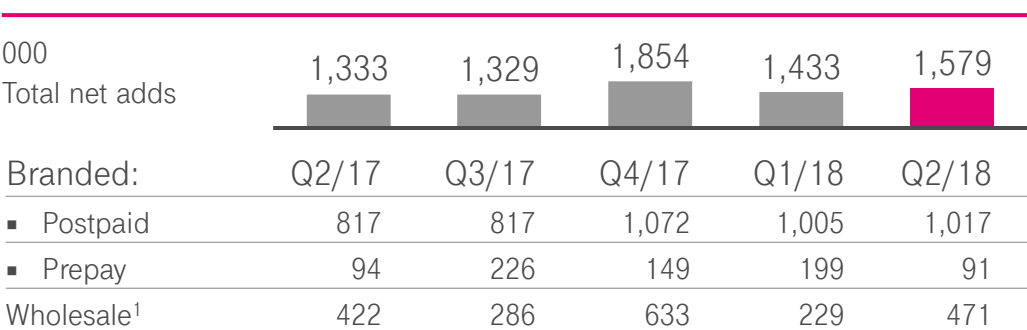
## Revenue and service revenue



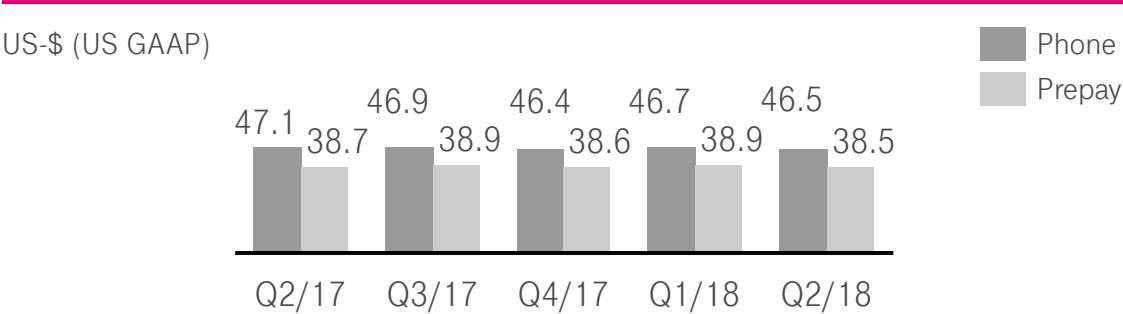
## Adj. EBITDA



## Net adds



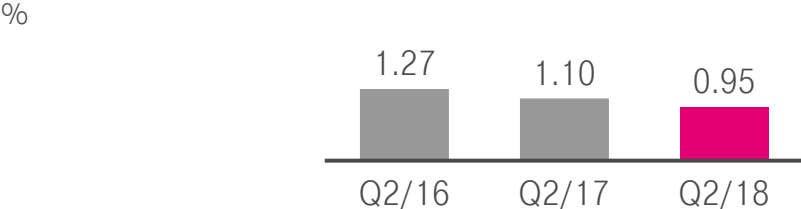
## Branded customers: postpaid phone and prepay ARPU



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

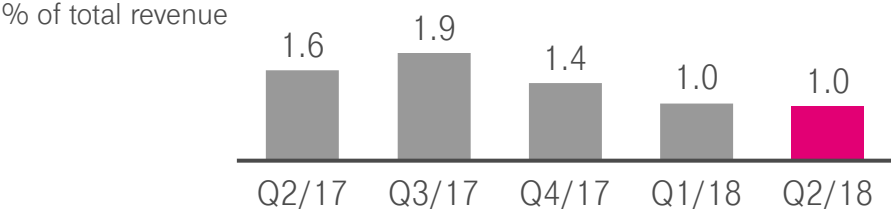
# TMUS: EXECUTING ON KEY DRIVERS

## Branded postpaid phone churn



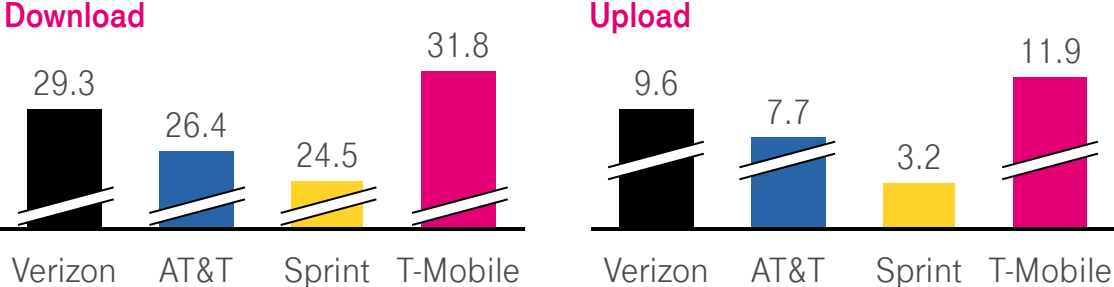
- Branded postpaid phone churn on record low level

## Bad debt expenses & losses from sale of receivables



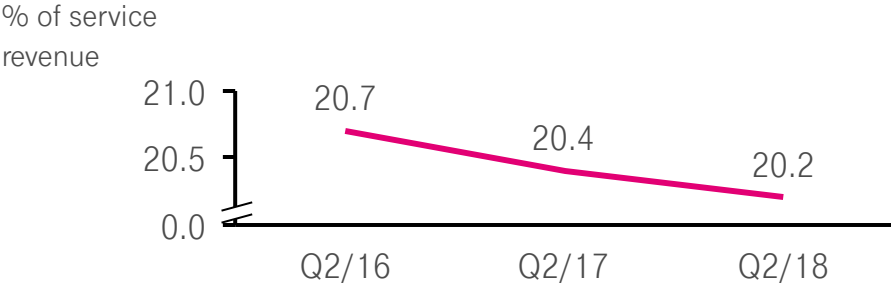
- Decrease reflects ongoing focus on managing customer quality

## Average 4G LTE speeds (in Mbps) Q2/18



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

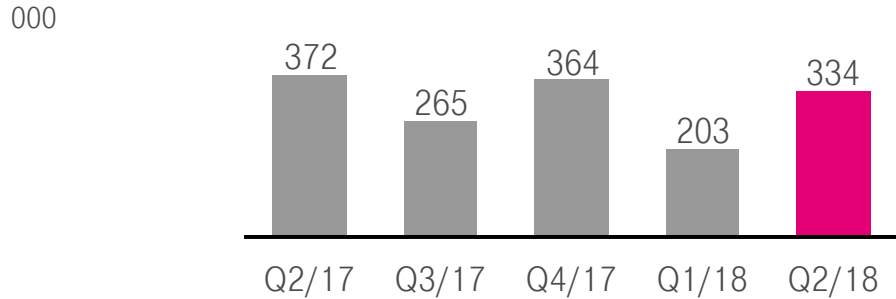
## Cost of service



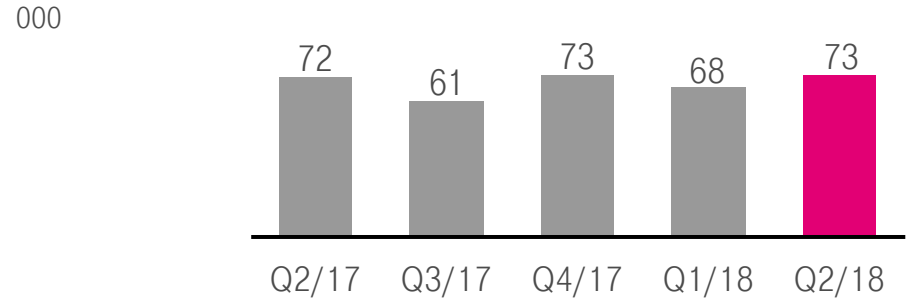
- Cost of services as a percentage of service revenues (excluding the impact of hurricanes) slightly down despite low band build-out

# EUROPE: STRONG GROWTH IN CUSTOMER BASE

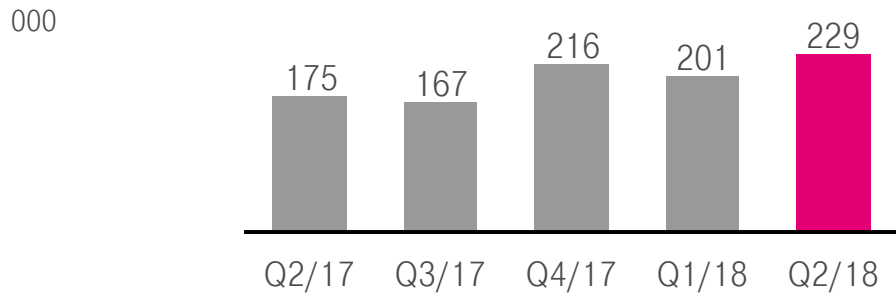
## Contract net adds



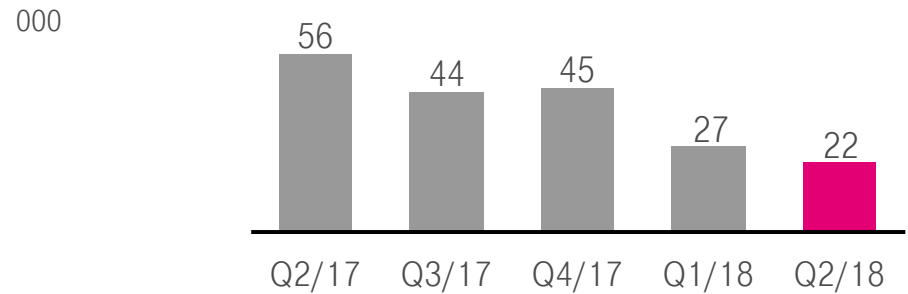
## BB net adds<sup>1</sup>



## FMC net adds



## TV net adds

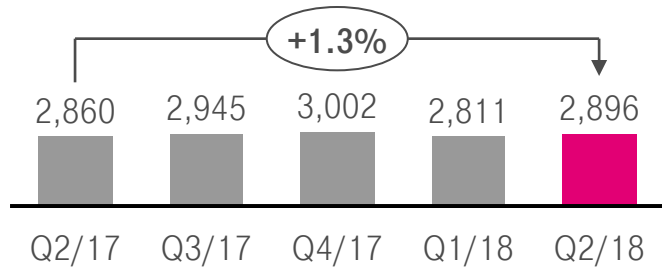


1) Based on subscribers

# EUROPE: GROWING REVENUE AND EBITDA

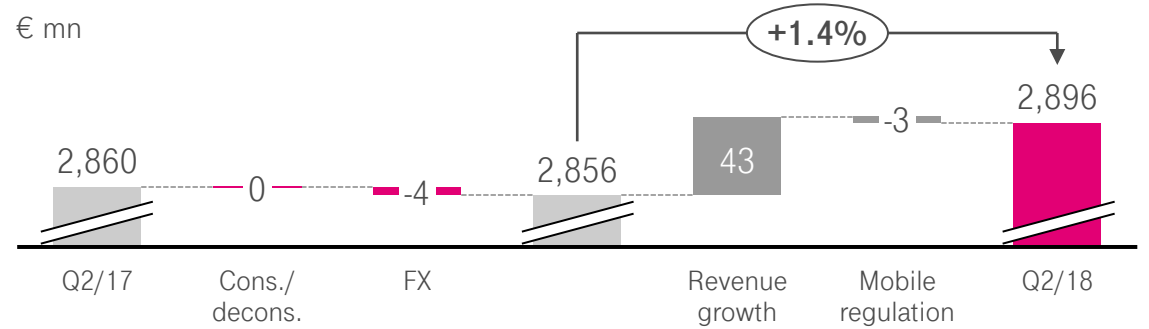
## Revenue

€ mn



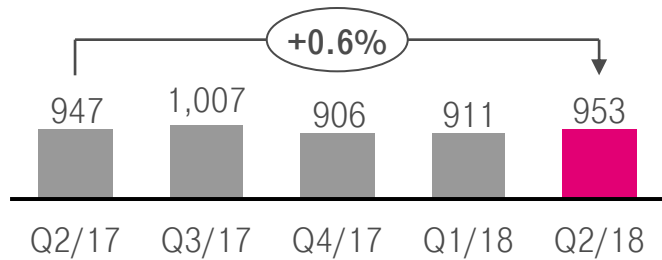
## Organic revenue development

€ mn



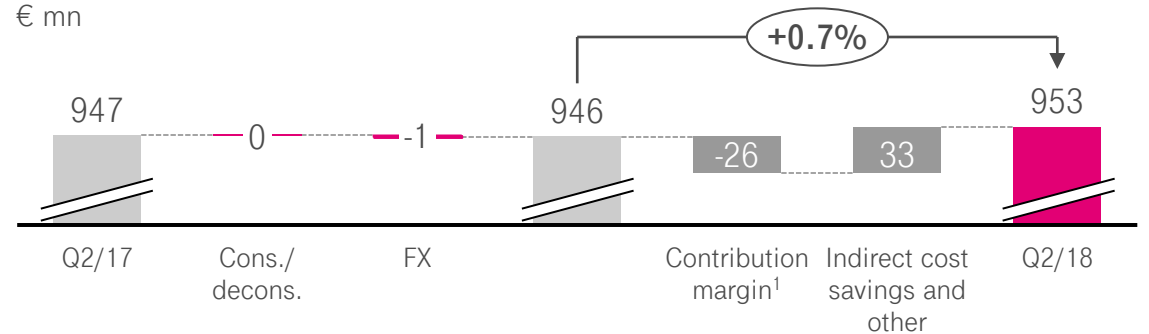
## Adj. EBITDA

€ mn



## Organic adj. EBITDA development

€ mn



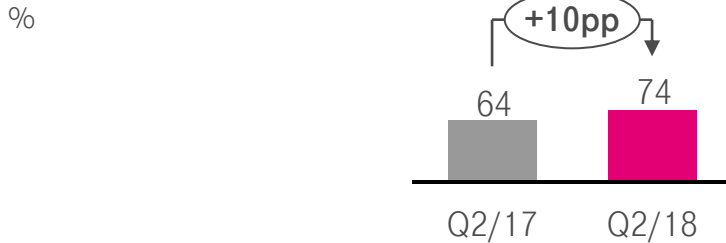
1) Total revenue - direct cost



# EUROPE: ONGOING INVESTMENTS IN NETWORK LEADERSHIP

## IP migration

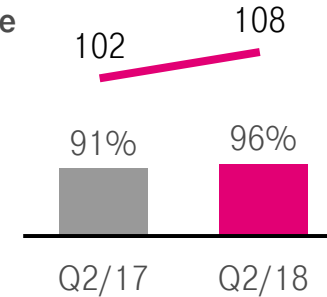
### IP share of fixed network access lines



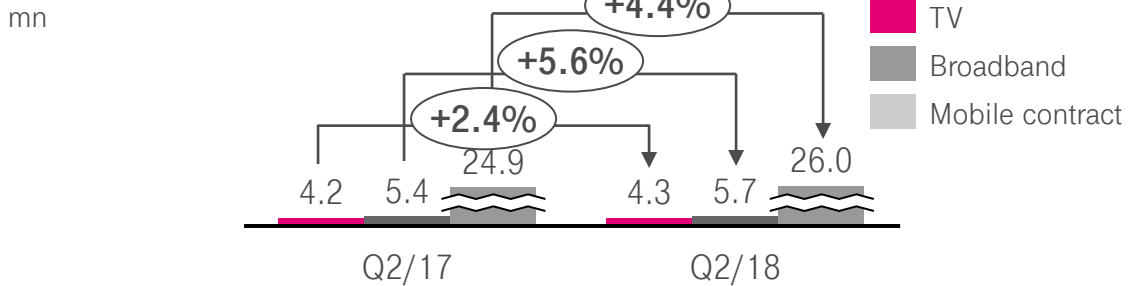
## LTE rollout

### LTE outdoor pop coverage

mn and %



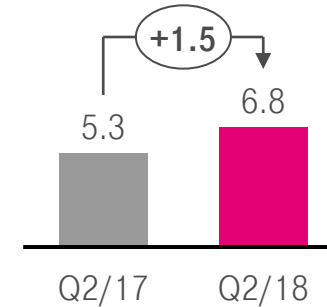
## Customer base<sup>1</sup>



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

### Fiber households

mn



<sup>1</sup> ≥ 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

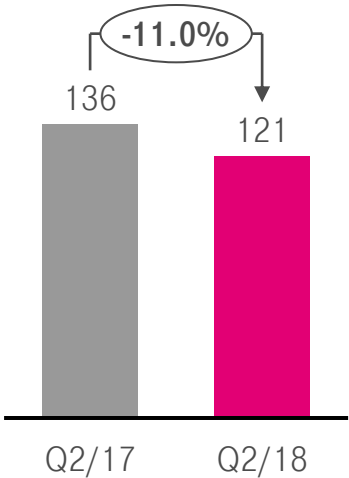
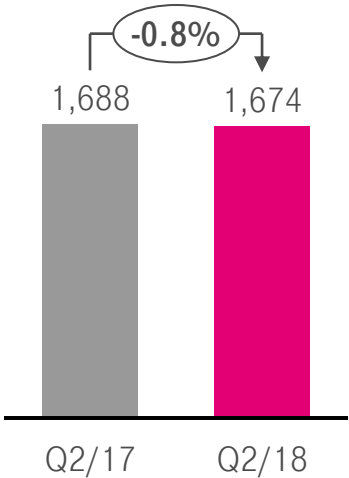
# SYSTEMS SOLUTIONS: ON TRACK FOR FULL YEAR GUIDANCE

## T-Systems financials

€ mn

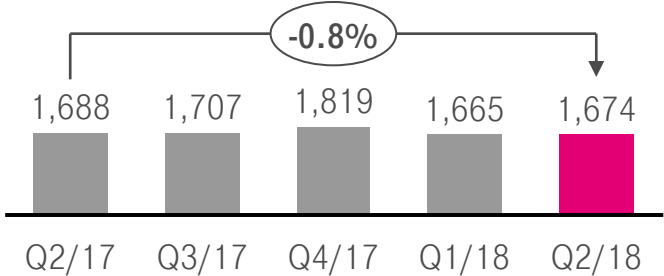
### Total revenue

### Adj. EBITDA



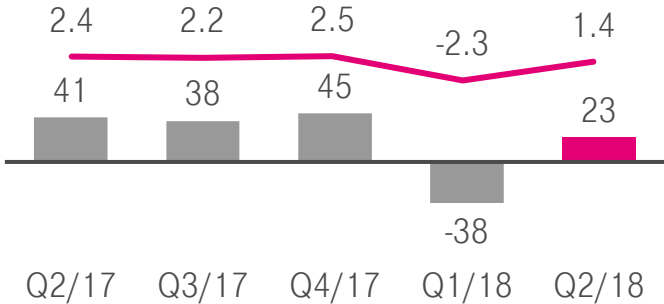
## Revenue

€ mn



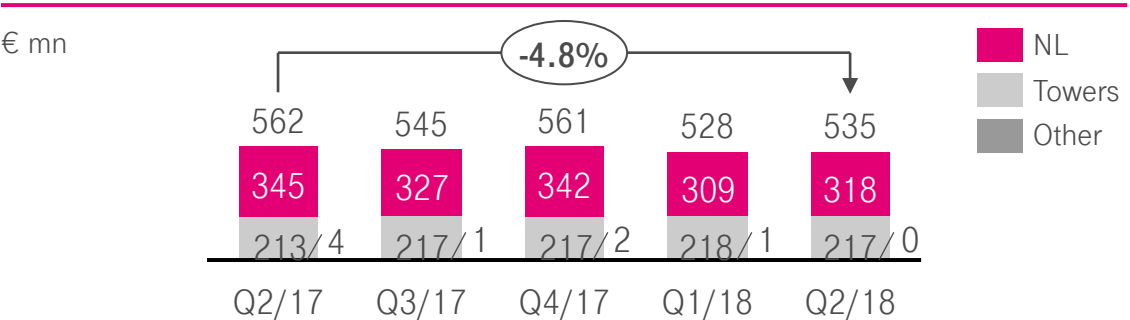
## Adj. EBIT and margin in %

€ mn

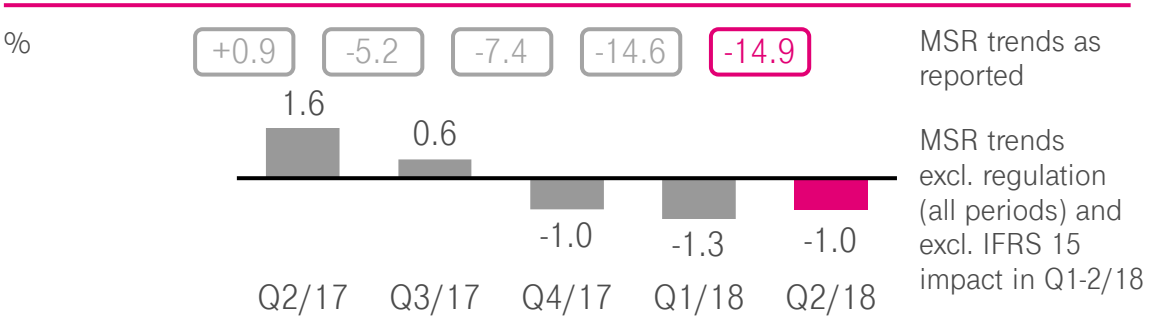


# GROUP DEVELOPMENT: STEADY UNDERLYING DELIVERY - TMNL REVENUES IMPACTED BY IFRS 15

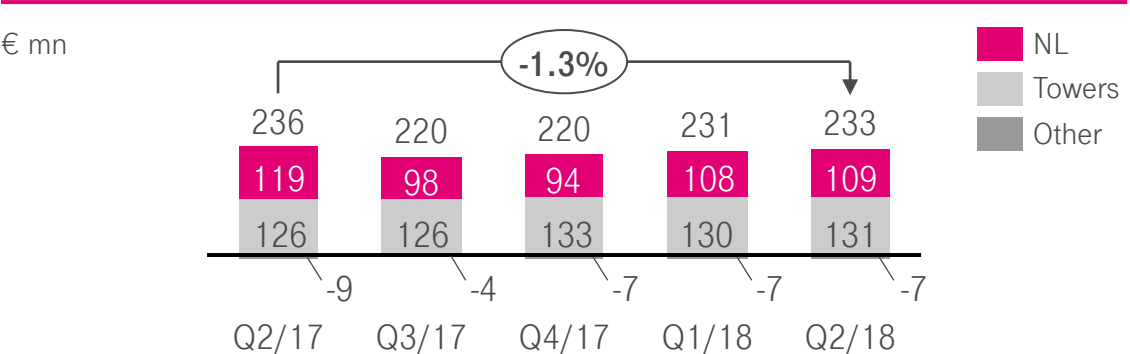
## Revenue



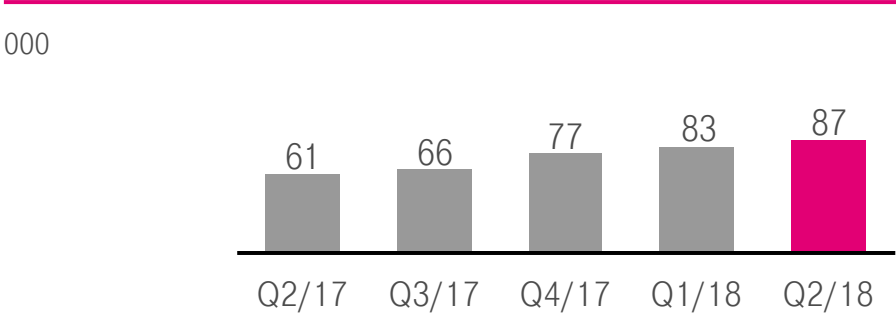
## Mobile service revenue trend yoy (NL)



## Adj. EBITDA

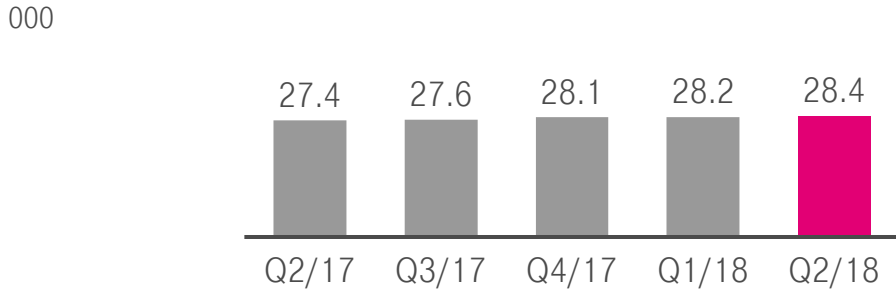


## Contract net adds (NL)

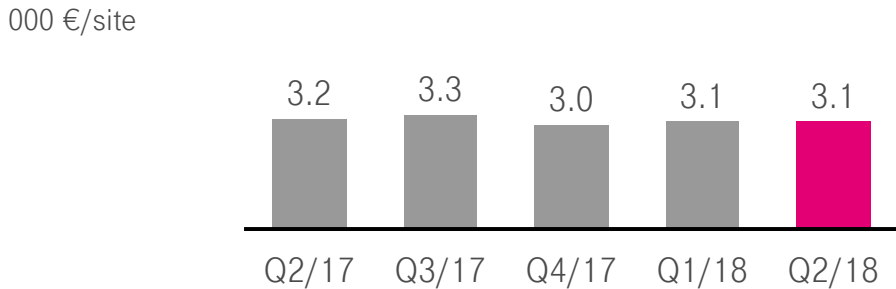


# GROUP DEVELOPMENT: TOWER BUSINESS DOING WELL

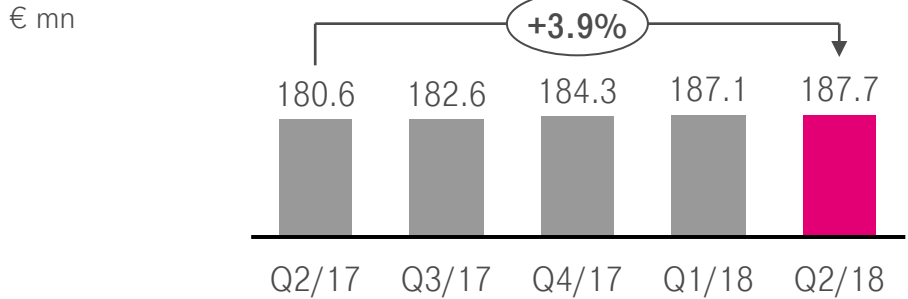
## Total site development



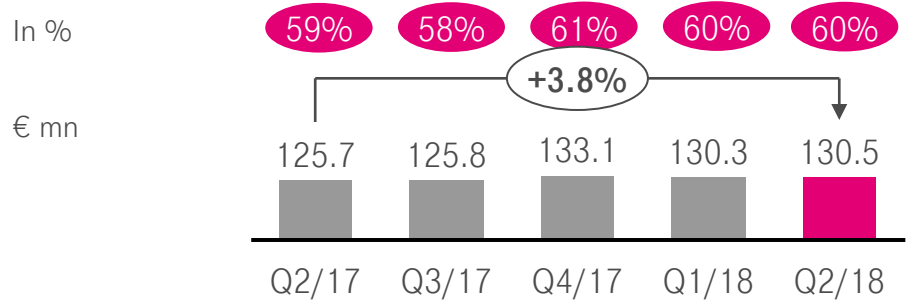
## Opex per site (avg. sites)



## Recurring rental revenue

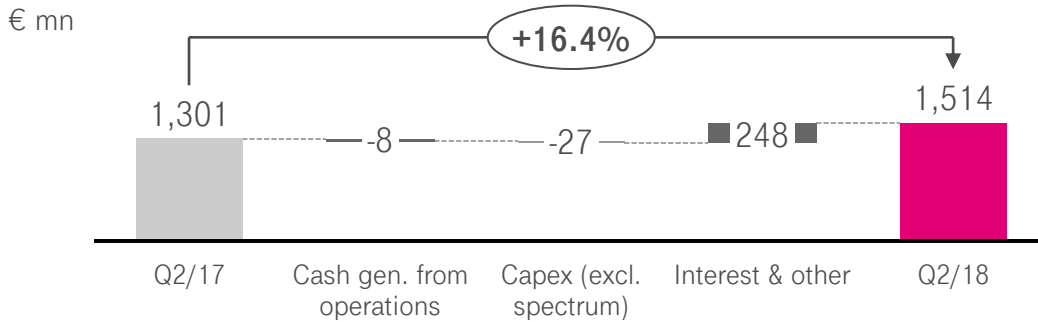


## EBITDA & EBITDA margin development

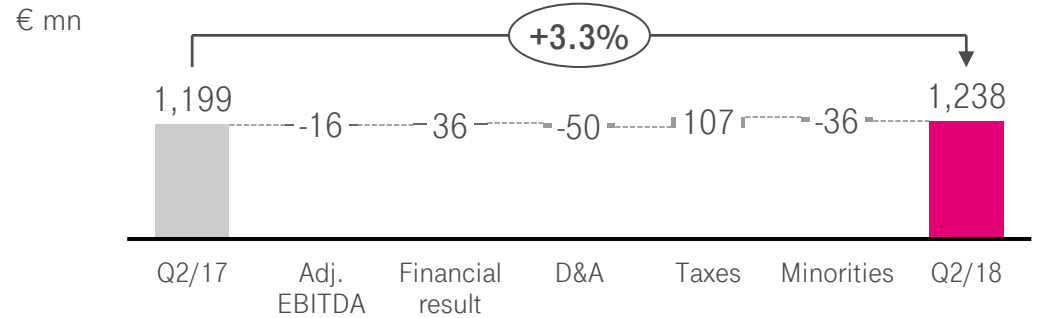


# FINANCIALS: FCF, NET DEBT, NET INCOME, AND EPS

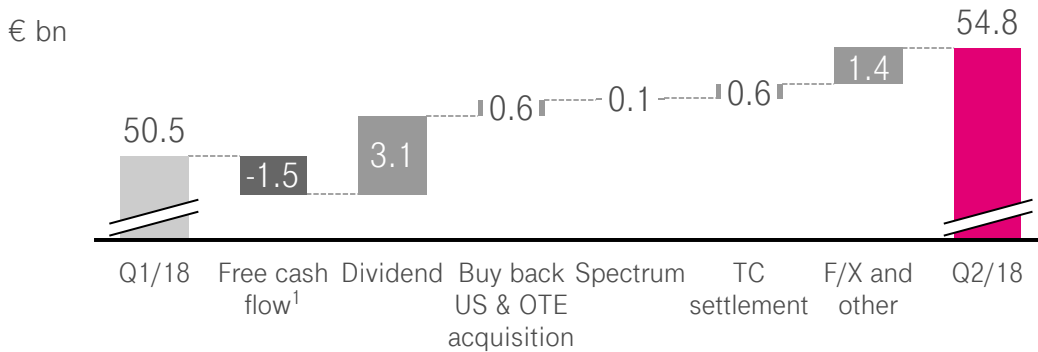
## Free cash flow<sup>1</sup>



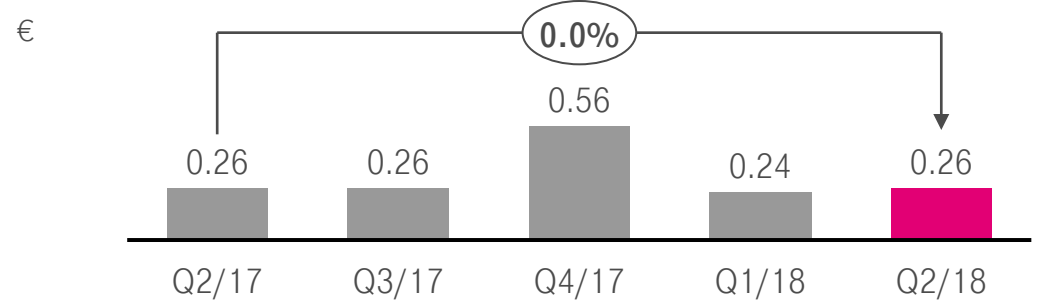
## Adj. net income



## Net debt development



## Adj. EPS



1) Free cash flow before dividend payments and excl. spectrum (Q2/18: €73 mn).

# FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn

	30/06/2017	30/09/2017	31/12/2017	31/03/2018	30/06/2018
Balance sheet total	141.5	139.8	141.3	138.0	139.7
Shareholders' equity	38.6	39.1	42.5	43.7	41.4
Net debt	55.2	52.6	50.8	50.5	54.8
Net debt/adj. EBITDA <sup>1</sup>	2.5	2.3	2.3	2.3	2.5
Equity ratio	27.3%	27.9%	30.0%	31.7%	29.6%

## 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>	outlook negative
S&P: <sup>2</sup>	<b>BBB+</b>	credit watch negative

1) Ratios for the interim quarters calculated on the basis of previous four quarters. 2) Outlook changed end of April 2018, following the announced merger of TMUS 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
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 resolution

2) Assumption: closure date Jan. 1, 2019

3) Subject to necessary AGM approval and board

**THANK YOU!**