

## MEDIA INFORMATION

Bonn, November 9, 2017

### **Deutsche Telekom continues to grow in the third quarter and raises its full-year 2017 earnings forecast for the second time**

- Revenue up 0.8 percent in the third quarter of 2017 to 18.3 billion euros; organic growth of 3.3 percent
- Adjusted EBITDA rises 3.3 percent to 5.7 billion euros; organic growth of 5.7 percent
- Adjusted net profit 19.6 percent higher at 1.2 billion euros
- EBITDA forecast for full-year 2017 raised once again
- Record capital expenditure of 9.2 billion euros in the nine-month period, 12.2 percent more than in the comparable prior-year period
- Unbroken broadband boom in Germany
- Strong profit growth at T-Mobile US
- Positive trends in Europe
- Impairment at T-Systems due to low order entry

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Deutsche Telekom increased its revenue and earnings in the third quarter of 2017, prompting it to raise its full-year profit forecast yet again. While revenue from July through September rose 0.8 percent year-on-year to 18.3 billion euros, adjusted EBITDA grew 3.3 percent to 5.7 billion euros. In organic terms – i.e., excluding the effects of changes in exchange rates and in the composition of the Group – revenues increased 3.3 percent and EBITDA 5.7 percent. The weaker U.S. dollar had a noticeable impact here.

The strong upward trend in adjusted EBITDA of the first six months thus continued in the third quarter as well, prompting the Group to raise its full-year



profit forecast for the second time this year. Assuming constant exchange rates, Deutsche Telekom now expects to post full-year adjusted EBITDA of around 22.4 to 22.5 billion euros in 2017. At the start of the year, the company had forecast full-year earnings of around 22.2 billion euros, raising that figure to around 22.3 billion euros in August. The guidance for free cash flow remains unchanged at around 5.5 billion euros.

"Deutsche Telekom continues to post strong growth, which is why we are upgrading our forecast for the second time this year," said Tim Höttges, CEO of Deutsche Telekom. "This was made possible by our booming U.S. business, our strong performance in Germany, and the positive trends in our European subsidiaries."

The Group's record capital expenditures form the basis for this success story. In the third quarter alone, cash capex (excluding expenses for mobile spectrum) grew 9.6 percent to over 3 billion euros. In the first nine months of 2017, Deutsche Telekom's global investment spending exceeded 9.2 billion euros, up 12.2 percent on the comparable prior-year period. Cash capex is planned to reach around 12 billion euros by year-end. With planned cash capex of over 5 billion euros in Germany alone – across all operating segments – Deutsche Telekom continues to pursue its build-out of cutting-edge infrastructure, from fiber-optic cables in the fixed network through to Europe's largest data center in Bielefeld.

Free cash flow rose 8.8 percent in the first nine months to 4.4 billion euros, keeping the company well on track to reach its full-year guidance. In the quarter just passed, there was a slight decrease of 1.6 percent in free cash flow to 1.9 billion euros.

The trend in adjusted net profit was very positive in the third quarter, with an increase of 19.6 percent to 1.2 billion euros. Reported net profit, on the other



hand, declined by 51.9 percent to 0.5 billion euros, with a number of special factors playing a role in this decrease.

The impairment of goodwill at T-Systems in the amount of 1.2 billion euros had a negative impact that did not affect cash flows. It resulted from an impairment test carried out because order entry has remained below the planned figures throughout the year to date.

The reversal of impairment losses on U.S. mobile spectrum licenses had a positive effect of 1.7 billion euros. After non-controlling interests and taxes were taken into account, this special factor had a positive impact, on balance, of around 0.7 billion euros on Deutsche Telekom's net profit.

### **Germany – fiber-optic build-out continues to fuel growth**

In Germany, Deutsche Telekom continued to post strong customer growth in the third quarter of 2017. 700,000 new fiber-optic lines (FTTC/vectoring, FTTH) within the three-month period ratcheted up the total number of lines in operation to 8.9 million. That was 2.8 million more lines than a year ago and a rise of 45 percent. The number of customers with the bundled product MagentaEINS exceeded 3.5 million, after 2.6 million a year earlier. The proportion of households with a Deutsche Telekom broadband line using MagentaEINS rose from 14 percent to 18 percent year-on-year.

Deutsche Telekom continues to build out its German network at a fast pace. 28.8 million households already have access to fiber-optic products, 15 percent or 3.7 million households more than a year ago. Just under two-thirds of all lines have already been converted to IP technology.

Deutsche Telekom remains the benchmark in Germany's mobile communications market. The company recorded an increase of 0.9 percent in



its most important KPI, mobile service revenues. If the effects of regulation and cuts in roaming charges and mobile termination rates are factored out, the increase would have been 3.7 percent. As a result, Deutsche Telekom continued to grow substantially faster than the market as a whole and strengthened its position as No. 1 for mobile service revenues.

With revenue rising in the third quarter by a slight 0.1 percent to 5.5 billion euros, adjusted EBITDA rose 4.5 percent to 2.2 billion euros. That yielded an adjusted EBITDA margin of 39.9 percent, 1.7 percentage points higher than a year ago.

### **United States – unabated growth in customer numbers and financial KPIs**

The boom in customer growth that T-Mobile US has been experiencing for years is starting to have an ever stronger impact on its financial KPIs. In the third quarter, service revenues rose 6.5 percent year-on-year to reach 7.4 billion U.S. dollars. At the same time, adjusted EBITDA increased by 11.4 percent to 2.7 billion U.S. dollars. That prompted T-Mobile US to once again raise its guidance for full-year 2017. The company now expects to post adjusted EBITDA of 10.8 to 11.0 billion U.S. dollars on a U.S. GAAP basis. Previously, the forecast figure was 10.5 to 10.9 billion U.S. dollars.

The trend in customer growth remains unbroken, with T-Mobile US gaining 1.3 million new customers in the third quarter. It was the 18<sup>th</sup> successive quarter in which the company acquired more than one million new customers, and it now has a total customer base of 70.7 million. In the particularly lucrative branded postpaid customer segment, the company added another 817,000 customers, strengthening T-Mobile US' position as the country's fastest growing mobile operator.

## **Europe – customer growth across a broad front**

In Europe, the favorable trend of the preceding quarters remained unbroken. Customer numbers, in particular, developed very well from July through September, with the company posting 265,000 new mobile contract customers, 49,000 new broadband lines, and 44,000 new customers for TV products. The bundling of fixed-network and mobile products is becoming ever more popular in the European subsidiaries, where the corresponding customer numbers grew by a total of 167,000 to currently over 2 million.

Broadband coverage in both the fixed and mobile networks improved in the third quarter of 2017, with 5.7 million households now having access to bandwidths of at least 100 Mbit/s in the fixed network. That is an increase of over 1.2 million within one year. The LTE mobile communications standard already covers 105 million people, 20 million more than just a year ago.

Financial KPIs continued to stabilize. Revenue increased 1.6 percent to 2.9 billion euros, or 0.7 percent in organic terms. Adjusted EBITDA declined by 2.9 percent year-on-year in the third quarter to 1 billion euros, a minus of 1.3 percent in organic terms.

## **Systems Solutions – decline expected in fourth quarter**

T-Systems posted order entry of 1.4 billion euros in the third quarter, a year-on-year rise of 4.8 percent. Viewed over the nine-month period, however, order entry was down by around 10 percent year-on-year. A further decrease is expected in the fourth quarter, given that fewer big deals are likely to be closed than in the same period last year. This expectation was the reason behind the above-mentioned impairment of goodwill of 1.2 billion euros in the Systems Solutions operating segment.



Revenue rose 2.0 percent in the third quarter to 1.7 billion euros. Revenue growth in the Telecommunications Division and in the Digital Division, as well as initial revenue from the newly established Telekom Security, more than compensated for falling revenues from IT business with corporate customers, the latter resulting from price pressure in the industry when extending existing contracts or concluding new ones. The cloud business performed well in the first nine months 2017, with revenues up 14 percent to 1.3 billion euros. Earnings indicators were mixed: Whereas adjusted EBITDA declined 5.8 percent to 131 million euros, the adjusted EBIT margin remained unchanged at 2.2 percent, as depreciation and amortization were lower than a year ago.

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

	Q3 2017 millions of €	Q3 2016 millions of €	Change %	Q1-Q3 2017 millions of €	Q1-Q3 2016 millions of €	Change %	FY 2016 millions of €
Revenue	18,251	18,105	0.8	55,787	53,552	4.2	73,095
Proportion generated internationally (%)	66.4	65.8	0.6p	67.3	65.8	1.5p	66.3
EBITDA	7,318	5,334	37.2	19,267	17,698	8.9	22,544
Adjusted EBITDA	5,720	5,535	3.3	17,215	16,155	6.6	21,420
Net profit	507	1,053	(51.9)	2,129	4,799	(55.6)	2,675
Adjusted net profit	1,244	1,040	19.6	3,382	3,141	7.7	4,114
Free cash flow <sup>a</sup>	1,873	1,904	(1.6)	4,403	4,046	8.8	4,939
Cash capex <sup>b</sup>	3,021	3,885	(22.2)	16,541	10,484	57.8	13,640
Cash capex <sup>b</sup> (before spectrum)	3,002	2,739	9.6	9,241	8,234	12.2	10,958
Net debt	52,635	48,484	8.6	52,635	48,484	8.6	49,959
Number of employees <sup>c</sup>	216,343	219,254	(1.3)	216,343	219,254	(1.3)	218,341

**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:**

	Q3 2017 millions of €	Q3 2016 millions of €	Change %	Q1-Q3 2017 millions of €	Q1-Q3 2016 millions of €	Change %	FY 2016 millions of €
<b>Germany</b>							
Total revenue	5,488	5,485	0.1	16,256	16,208	0.3	21,774
EBITDA	2,116	1,972	7.3	6,132	5,564	10.2	7,327
Adjusted EBITDA	2,190	2,095	4.5	6,360	6,224	2.2	8,237
Number of employees <sup>a</sup>	64,388	66,677	(3.4)	64,388	66,677	(3.4)	65,452
<b>United States</b>							
Total revenue	8,466	8,281	2.2	26,684	24,293	9.8	33,738
EBITDA	3,934	2,241	75.5	8,960	6,632	35.1	8,967
Adjusted EBITDA	2,288	2,156	6.1	7,313	6,236	17.3	8,561
<b>Europe</b>							
Total revenue	2,945	2,900	1.6	8,587	8,458	1.5	11,454
EBITDA	959	1,015	(5.5)	2,749	2,879	(4.5)	3,773
Adjusted EBITDA	1,007	1,037	(2.9)	2,843	2,936	(3.2)	3,866
<b>Systems Solutions</b>							
Order entry	1,366	1,303	4.8	3,936	4,356	(9.6)	6,851
Total revenue	1,707	1,674	2.0	5,099	5,252	(2.9)	6,993
Adjusted EBIT margin (%)	2.2	2.2	0.0p	1.5	2.9	(1.4p)	1.8
EBITDA	56	87	(35.6)	214	268	(20.1)	278
Adjusted EBITDA	131	139	(5.8)	362	446	(18.8)	530

**Comment on the table:**

a At the reporting date.





**Development of customer numbers**

**Operating segments: development of customer numbers in the third quarter of 2017**

	Sept. 30, 2017 thousands	June 30, 2017 thousands	Change thousands	Change %
<b>Germany</b>				
Mobile customers	42,534	42,011	523	1.2
Of which contract customers	25,452	25,084	368	1.5
Fixed-network lines	19,352	19,477	(125)	(0.6)
Of which retail IP-based	11,177	10,351	826	8.0
Broadband lines	13,105	13,035	70	0.5
Of which optical fiber <sup>a</sup>	5,417	5,033	384	7.6
Television (IPTV, satellite)	3,089	3,024	65	2.1
Unbundled local loop lines (ULLs)	6,417	6,723	(306)	(4.6)
<b>United States</b>				
Mobile customers <sup>b</sup>	70,731	69,562	1,169	1.7
Of which branded postpaid customers	36,975	36,158	817	2.3
Of which branded prepay customers	20,519	20,293	226	1.1
<b>Europe</b>				
Mobile customers	48,205	47,688	517	1.1
Of which contract customers	25,119	24,854	265	1.1
Fixed-network lines	8,422	8,464	(42)	(0.5)
Of which IP-based	5,555	5,416	139	2.6
Retail broadband lines	5,558	5,509	49	0.9
Television (IPTV, satellite, cable)	4,200	4,156	44	1.1

**Comments on the table:**

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

b As of Q2/17, 4.368 million wholesale customers from the Lifeline program are no longer included in the figures.



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

	Sept. 30, 2017 thousands	Sept. 30, 2016 thousands	Change thousands	Change %
<b>Germany</b>				
Mobile customers	42,534	41,461	1,073	2.6
Of which contract customers	25,452	24,705	747	3.0
Fixed-network lines	19,352	19,873	(521)	(2.6)
Of which retail IP-based	11,177	8,435	2,742	32.5
Broadband lines	13,105	12,835	270	2.1
Of which optical fiber <sup>a</sup>	5,417	3,857	1,560	40.4
Television (IPTV, satellite)	3,089	2,818	271	9.6
Unbundled local loop lines (ULLs)	6,417	7,431	(1,014)	(13.6)
<b>United States</b>				
Mobile customers <sup>b</sup>	70,731	69,354	1,377	2.0
Of which branded postpaid customers	36,975	33,230	3,745	11.3
Of which branded prepay customers	20,519	19,272	1,247	6.5
<b>Europe</b>				
Mobile customers	48,205	48,508	(303)	(0.6)
Of which contract customers	25,119	24,005	1,114	4.6
Fixed-network lines	8,422	8,599	(177)	(2.1)
Of which IP-based	5,555	4,757	798	16.8
Retail broadband lines	5,558	5,352	206	3.8
Television (IPTV, satellite, cable)	4,200	4,010	190	4.7

**Comments on the table:**

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

b As of Q2/17, 4.368 million wholesale customers from the Lifeline program are no longer included in the figures.



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