

INTERIM GROUP MANAGEMENT REPORT

GROUP ORGANIZATION, STRATEGY, AND MANAGEMENT

With regard to our **Group organization, strategy, and management**, please refer to the explanations in the combined management report of the **2018 Annual Report**. From the Group's perspective, the following changes and/or additions were made to the Group organization and the performance management system:

On December 15, 2017, Deutsche Telekom signed an agreement with the Tele2 Group on the acquisition of 100 percent of the shares in the telecommunications provider **Tele2 Netherlands Holding N.V.** by T-Mobile Netherlands Holding B.V. Tele2 Group received a consideration in the form of a 25 percent stake in T-Mobile Netherlands, along with a provisional cash payment (taking purchase price adjustments into account) of EUR 234 million. After the European Commission issued its approval without conditions on November 27, 2018, the transaction was consummated on January 2, 2019. Tele2 Netherlands has been included in Deutsche Telekom's consolidated financial statements as a fully consolidated subsidiary since the acquisition date. This transaction will establish a stronger, more sustainable provider of convergent fixed-network and mobile services on the Dutch market.

On January 15, 2019, OTE concluded an agreement concerning the sale of its stake in **Telekom Albania** to the Bulgarian company Albania Telecom Invest AD for a purchase price of EUR 50 million. The transaction was approved by the authorities and then consummated on May 7, 2019.

The consummation of our **Business Combination Agreement to merge with Sprint** is subject to approvals by the regulatory and anti-trust authorities and certain other customary closing conditions. On June 18, 2018, we filed the Public Interest Statement and applications for approval of our merger with Sprint with the Federal Communications Commission (FCC). We received statements of support for the merger by the FCC Chairman in May 2019, with formal approval by the FCC pending. In June 2019, the attorneys general of 13 states and the District of Columbia filed a lawsuit against T-Mobile US, Deutsche Telekom, Sprint, and Softbank Group Corp. in the U.S. District Court for the Southern District of New York. The State of Texas decided to join the lawsuit. We believe the lawsuit is without merit. On July 26, 2019, we entered into a consent decree with the U.S. Department of Justice, which is now awaiting confirmation by a U.S. federal court. As such, the DoJ is waiving its right under U.S. law to file a suit against the transaction. In parallel, multiple agreements were signed with the U.S. TV satellite operator DISH Networks to implement the conditions for the merger. We expect final federal regulatory approval in the third quarter of 2019.

Effective January 1, 2019, we created the new **Board of management department "USA and Group Development."** Deutsche Telekom AG thus has had nine Board departments since the start of 2019. Thorsten Langheim took up the role of head of the newly created Board department. The former Board member responsible for Human Resources (CHRO), Dr. Christian P. Illek, became the new CFO as of January 1, 2019. Birgit Bohle joined the Board of Management on January 1, 2019 as the Board member responsible for Human Resources as successor to Dr. Illek.

The mandatory **first-time application of the new IFRS 16 "Leases"** accounting standard as of January 1, 2019 has a material impact on Deutsche Telekom's consolidated financial statements. The new standard requires payment obligations from existing operating leases to be discounted and recognized as lease liabilities; as financial liabilities, they increase net debt. At the same time, the lessee recognizes a right-of-use asset. Operating expenses previously recognized in connection with operating leases will in future be recognized in depreciation charges on right-of-use assets and in interest expenses for discounted obligations from operating leases, as appropriate. This will significantly increase EBITDA without any attendant change in the economic circumstances. In the statement of cash flows, the principal repayment portion of the lease payments from existing operating leases will reduce net cash from/used in financing activities and no longer affect net cash from operating activities. The interest portion of the payments will remain in net cash from operating activities and thus also in free cash flow.

Since expenses and cash outflows for leases are substantial elements of our earnings performance and solvency, effective the start of the 2019 financial year we have taken into account the effects of the mandatory first-time application of the IFRS 16 accounting standard when determining our financial performance indicators. We also want to ensure maximum comparability with our previous performance indicators. Our operational performance is now measured on the basis of "EBITDA after leases" (EBITDA AL) (previously EBITDA). EBITDA AL is calculated by adjusting EBITDA for depreciation of the right-of-use assets and for interest expenses on recognized lease liabilities. The "free cash flow" performance indicator has been replaced by "free cash flow after leases" (free cash flow AL). Free cash flow AL is determined by adjusting free cash flow for repayments of lease liabilities. To improve comparability of our performance indicators with the EBITDA and free cash flow indicators reported in the financial statements of T-Mobile US in accordance with U.S. GAAP, which continues to differentiate between operating and finance leases, expenses and repayments for finance leases at T-Mobile US will not be taken into account when determining EBITDA AL and free cash flow AL. For more information on the new IFRS 16 accounting standard, please refer to the section "[Accounting policies](#)" in the interim consolidated financial statements.

A reconciliation of the definitions of the former financial performance indicators with the new “after leases” indicators can be found in the following table.

millions of €	
	H1 2019
EBITDA	13,162
Depreciation of right-of-use assets ^a	(1,543)
Interest expenses on recognized lease liabilities ^a	(398)
EBITDA AL	11,221
Free cash flow (before dividend payments and spectrum investment)	4,682
Principal portion of repayment of lease liabilities ^a	(1,579)
FREE CASH FLOW AL (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	3,103

^a Excluding finance leases at T-Mobile US.

The published prior-year figures have not been adjusted retroactively following the first-time application of IFRS 16. To enable comparability with the new performance indicators, pro forma comparatives were determined for the prior year. These were reached using approximate calculations of the key effects of IFRS 16 for the prior year, before applying the calculation shown in the table for the current year. Changes to the organizational structure within the Group were also taken into consideration.

THE ECONOMIC ENVIRONMENT

This section provides additional information on, and explains recent changes to, the economic situation as described in the combined management report of the [2018 Annual Report](#), focusing on macroeconomic developments in the first six months of 2019, the outlook, the currently prevailing economic risks, and the regulatory environment. The overall economic outlook presupposes there are no major unexpected occurrences in the forecast period.

MACROECONOMIC DEVELOPMENT

In the first six months of 2019, leading institutions and banks revised their growth outlooks downwards. The International Monetary Fund (IMF) lowered its growth forecast for global GDP in 2019 from 3.5 percent to 3.2 percent. Global growth is expected to return to 3.5 percent in 2020 on the back of the pickup anticipated for the second half of 2019. For the German economy, the IMF projects growth in the current year of 0.7 percent. Despite the sharp decline in industrial activity in Germany, domestic consumption remains robust. Similarly, the sustained healthy climate in the IT and telecommunications sector is confirmed by the first-ever Bitkom-ifo-Digitalindex report, published in June 2019. The national economies in our core markets in Europe (excluding Germany) and North America continue to expand.

OUTLOOK

Under the current conditions, we expect to see weaker but still stable economic trends in the economies of our core markets. However, the outlook is negatively affected by the economic slowdown in Europe and China and decelerated growth in global trade, with expansion in 2019 and 2020 now expected to be weaker than previously projected.

OVERALL ECONOMIC RISKS

The economic risks have increased. Trade conflicts, political uncertainty – including with respect to Brexit – and further declines in industrial activity could curb a sustained expansion. Furthermore, geopolitical crises could also have a negative impact on the economies of the countries in which we operate.

REGULATION

Federal Network Agency adapts regulation of the “last mile.” The Federal Network Agency carries out regular reviews to determine whether and which companies are in dominant market positions and what regulatory requirements this entails. To date, Telekom Deutschland has had to comply with extensive regulation of what is known as the “last mile.” The Agency published its draft of a new market analysis on access to the “last mile” for consultation on May 27, 2019. According to the draft, Telekom Deutschland remains in a dominant market position. However, the Agency emphasizes that the regulations governing Telekom’s existing copper network should not apply to FTTH; rather, the Agency advocates – at most – minimal regulation provided the market participants can reach mutual agreement. The details of the regulatory requirements will be determined in separate proceedings, the outcome of which cannot be predicted.

Fixed-network termination rates given final approval for four years.

On June 28, 2019, the Federal Network Agency issued final approval of the fixed-network termination rates (FTR) both for Telekom Deutschland and for alternative telecommunications operators in the form of a four-year glide path. The following FTRs will apply effective January 1, 2019: 2019 = 0.08 ct/min., 2020 = 0.06 ct/min., 2021 = 0.05 ct/min., and 2022 = 0.03 ct/min. These rates will apply until the EU-wide FTR cap required under the new EU legal framework – and to be enacted by the European Commission by December 31, 2020 by way of a delegated act – enters into force.

New application filed for mobile termination rates. The current mobile termination rate (MTR) approval, which sets the rate at 0.95 ct/min., is due to expire on November 30, 2019. Deutsche Telekom thus applied for a new rates approval on June 3, 2019. Similar to the previous approval process, it is expected that the Federal Network Agency will once again set the MTR on the basis of the pure LRIC cost model recommended by the European Commission. Here, too, it is anticipated that the rates approved by the Agency will apply until the EU-wide MTR cap required under the new EU legal framework – and to be enacted by the European Commission by December 31, 2020 by way of a delegated act – enters into force.

Increase of rates for unbundled local loop lines (ULLs). The Federal Network Agency increased the regulated rates received by Telekom Deutschland for leasing the "last mile" of its network with effect from July 1, 2019. Specifically, the rate for leasing the line from the customer to the cable distribution box is increasing from EUR 6.77/month to EUR 7.05/month and the rate for the longer section from the customer to the main distribution frame is increasing from EUR 10.02/month to EUR 11.19/month. The rate for leasing cable duct capacities is increasing from EUR 0.04/month to EUR 0.06/month. Although these rates remain below the level we sought in our application, the Agency has at least recognized that the costs of building out the "last mile" of the network have risen in the three years since the rates were last set. The rate approvals are valid until June 30, 2022.

StreamOn. In its ruling announced on July 15, 2019, the Münster Higher Administrative Court confirmed that the Federal Network Agency's orders regarding the optimization of data traffic in connection with internet access services as well as the obligation to also make the services available within the EU must be followed for the time being. In consultation with the Federal Network Agency, we will modify the product pursuant to the legal requirements. Nevertheless, the Cologne Administrative Court will review in separate principal proceedings whether the steps to optimize data traffic as well as the restriction of the service to Germany are compatible with the EU's net neutrality rules.

Spectrum auction in Germany. The Federal Network Agency's auction of nationwide frequencies for Germany in the 2.1 GHz and 3.4 to 3.7 GHz bands was held between March 19 and June 12, 2019. Telekom Deutschland GmbH was admitted to the auction proceedings along with three other companies: Drillisch Netz AG, Telefónica Germany GmbH & Co. OHG, and Vodafone GmbH. All participants purchased spectrum. We won four frequency blocks in the 2 GHz band and nine lots in the 3.6 GHz band worth a total of EUR 2.17 billion. These additional licenses double our spectrum holdings in the 2 GHz band and give us almost a third of the available spectrum (90 MHz) in what is the optimum band for us, the 3.6 GHz band. Achieving this desired outcome to the auction cements our leading position in the competition to deliver the best quality mobile network in Germany. The three existing network operators and six service providers had brought legal action in connection with the auction terms and conditions; however, this had no effect on the auction timing.

Spectrum auction in Austria. The auction in Austria of key 3.6 GHz spectrum (3.4 to 3.8 GHz) required for the rollout of 5G was held between February 12 and March 8, 2019. The nationwide network operators A1, T-Mobile Austria, and Hutchison, as well as other regional operators, were admitted to the proceedings as participants. Deutsche Telekom's subsidiary T-Mobile Austria secured continuous nationwide spectrum of 110 MHz (in the 3,690 to 3,800 MHz band) worth EUR 57 million, while Hutchison obtained only 100 MHz and A1 received varying regional spectrum packages due to the success of four regional providers.

Spectrum auctions in the United States. The Federal Communications Commission (FCC) held a 28 GHz auction from November 2018 through January 2019. This was the first time that 5G spectrum in such a high frequency band (known as millimeter wave (mmWave)) had been auctioned in the United States. On March 14, 2019, a second mmWave auction began in which a total of 1.55 GHz of spectrum in the 24 GHz band was available. T-Mobile US also participated in this auction. Over the course of the two auctions for 28 GHz and 24 GHz spectrum, T-Mobile US paid around USD 843 million for a total of 367 MHz, thus securing itself a solid mmWave holding in preparation for 5G. A third auction is due to start on December 10, 2019 for spectrum in the 37 GHz, 39 GHz, and 47 GHz bands.

AWARDING OF SPECTRUM

The following table provides an overview of the main spectrum awards such as auctions as well as license extensions in Germany and at our

international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

Main spectrum awards

	Expected start of award procedure	Expected end of award procedure	Frequency ranges (MHz)	Award process	Spectrum acquired (MHz)	Spectrum investment
Germany		Completed	2,100 / 3,400–3,700	Auction (SMRA ^a)	20 MHz / 90 MHz	€ 2.17 billion ^b
Greece	Q1 2020	Q2 2020	700 / 1,500 / 3,600 / 26,000	Auction (SMRA ^a), expected	tbd	tbd
Croatia		Completed	2,100 / 2,600	Assignment on application	2x 20 MHz in the 2,600 MHz band	Annual fees, no one-time charge
Croatia	Q3 2019	Q4 2019	3,400–3,800	tbd	tbd	tbd
Netherlands	Q1 2020	Q3 2020	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
North Macedonia		Completed	2,100	Sealed-bid tender ^c	Did not participate	
North Macedonia		Completed	1,800	Extension of licenses	2x 10 MHz	No extension fees
North Macedonia	Q2 2020	Q3 2020	700 / 3,400–3,800	Auction, details tbd	tbd	tbd
Austria		Completed	3,400–3,800	Regional auction (CCA ^d)	1x 110 MHz	€ 57 million
Austria	Q1 2020	Q2 2020	700 / 1,500 / 2,100	Auction (CCA ^d), expected	tbd	tbd
Poland	Q4 2019	Q1 2020	3,600–3,800	Sealed-bid tender ^c	tbd	tbd
Poland	Q3 2021	Q4 2022	700 / 3,600–3,800	tbd	tbd	tbd
Romania	Q4 2019	Q4 2019	700 / 800 / 1,500 / 2,600 / 3,400–3,600	Auction, details tbd	tbd	tbd
Slovakia	Q3 2019	Q4 2019	700 / 1,800	Auction (SMRA ^a), expected	tbd	tbd
Czech Republic	Q4 2019	Q1 2020	700 / 3,400–3,600	Auction (SMRA ^a), expected	tbd	tbd
Hungary	Q3 2019	Q3 2019	700 / 2,100 / 2,600 / 3,400–3,800	Auction, details tbd	tbd	tbd
United States		Completed	28,000	Auction (SMRA ^a)	367 MHz (all in 24 / 28 GHz)	\$ 843 million
United States		Completed	24,000	Auction (CCA ^d)	See above	See above
United States	Q4 2019	Q1 2020	37,000 / 39,000 / 47,000	Auction (CCA ^d)	tbd	tbd

^a Simultaneous electronic multi-round auction with ascending, parallel bids for all available frequency ranges.

^b Majority of payment still outstanding.

^c Sealed-bid tender: auction in which bidders submit their offers in sealed envelopes.

^d Combinatorial clock auction, three-stage, multi-round auction for spectrum from all available frequency ranges.

DEVELOPMENT OF BUSINESS IN THE GROUP

The new IFRS 16 “Leases” accounting standard has been applied since January 1, 2019. The presentation of the **financial position of the Group** and the **results of operations of the Group** are materially influenced by the application of this standard. Since the start of the 2019 financial year, we have taken the effects of the mandatory first-time application into account when determining our financial performance indicators. For further information on the first-time application of the accounting standard, please refer to the section “[Group organization, strategy, and management](#)” and the interim consolidated financial statements in the section “[Accounting policies](#).”

RESULTS OF OPERATIONS OF THE GROUP

NET REVENUE

In the first half of 2019, we generated net revenue of EUR 39.2 billion, which was up EUR 2.9 billion or 7.9 percent year-on-year. Even adjusted for positive net exchange rate effects of EUR 1.2 billion – mainly from the translation of U.S. dollars into euros – as well as positive effects of changes in the composition of the Group in the net amount of EUR 0.4 billion resulting primarily from the acquisitions of UPC Austria and Tele2 Netherlands, revenue increased by EUR 1.2 billion or 3.2 percent.

Our United States operating segment contributed to the positive revenue trend with an increase of 13.6 percent – or, adjusted for exchange rate

effects, of 6.0 percent. This increase was due primarily to higher service revenues from the rise in the average branded customer base, triggered in particular by the continued growth in existing and greenfield markets, and the growing success in new customer segments, along with low customer churn. Revenue in our home market of Germany was up slightly on the prior-year level, due in particular to the strong performance in mobile business and higher IT and broadband revenues from fixed-network business. In our Europe operating segment, revenue was up by 2.8 percent year-on-year; adjusted for exchange rate effects and for the inclusion of UPC Austria, it increased marginally by 0.4 percent. Factors in this increase were growth in revenue from our broadband and TV operations and in wholesale business. Mobile revenue remained at a consistently high level. While revenues in growth areas continued to develop positively in our Systems Solutions operating segment, revenues with traditional IT and telecommunications business declined in this segment – although to a lesser extent than expected. Revenue in our Group Development operating segment increased significantly year-on-year on the back of a positive development in operations and in particular due to the revenue contributions from Tele2 Netherlands taken into account since the beginning of 2019.

For detailed information on revenue development in our segments, please refer to the section “[Development of business in the operating segments](#).”

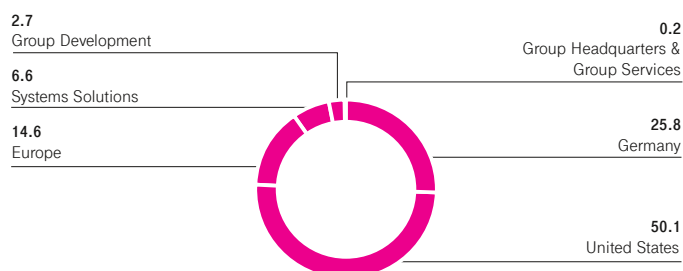
Contribution of the segments to net revenue

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
NET REVENUE	19,488	19,664	18,367	7.1	39,152	36,291	7.9	75,656
Germany	5,357	5,388	5,322	1.2	10,745	10,648	0.9	21,700
United States	9,796	9,826	8,821	11.4	19,623	17,277	13.6	36,522
Europe	2,891	2,978	2,896	2.8	5,869	5,707	2.8	11,885
Systems Solutions	1,630	1,673	1,674	(0.1)	3,304	3,339	(1.0)	6,936
Group Development	682	683	535	27.7	1,364	1,063	28.3	2,185
Group Headquarters & Group Services	651	678	767	(11.6)	1,329	1,418	(6.3)	2,735
Intersegment revenue	(1,520)	(1,561)	(1,649)	5.3	(3,081)	(3,161)	2.5	(6,307)

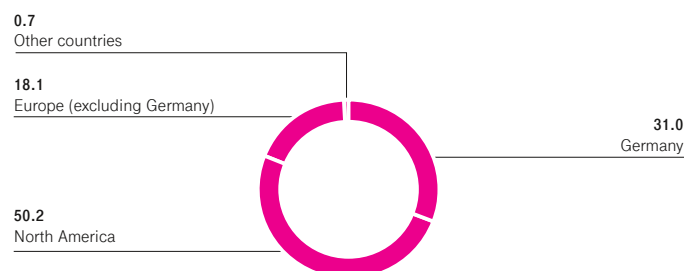
Contribution of the segments to net revenue^a

%



Breakdown of revenue by region

%



^a For more information on net revenue, please refer to the disclosures under [segment reporting](#) in the interim consolidated financial statements.

At 50.1 percent, our United States operating segment again provided the largest contribution to net revenue of the Group and was up 2.5 percentage points above the level in the prior-year period. The proportion of net revenue generated internationally increased from 67.1 percent to 69.0 percent.

EBITDA AL, ADJUSTED EBITDA AL

Excluding special factors, adjusted EBITDA AL increased year-on-year by EUR 0.9 billion or 7.7 percent to EUR 12.2 billion in the first half of 2019; this increase was attributable to positive net exchange rate effects of EUR 0.3 billion and slightly positive effects of changes in the composition of the Group. Excluding these effects, adjusted EBITDA AL increased by EUR 0.4 billion or 3.7 percent. All operating segments made a positive contribution to this development: Adjusted EBITDA AL of our United States operating segment had a noticeably positive effect on the back of the higher revenue. Our Germany operating segment contributed to this result thanks to a positive revenue trend, lower personnel costs, and the successful implementation of further efficiency enhancement and digitalization measures with 2.4 percent higher adjusted EBITDA AL. Adjusted EBITDA AL in our Europe operating segment increased by 5.6 percent; even adjusted for the inclusion of

UPC Austria and assuming constant exchange rates, an increase of 1.8 percent was recorded. Successfully implemented efficiency enhancement measures are taking effect in our Systems Solutions operating segment in the form of higher adjusted EBITDA AL. The increase in adjusted EBITDA AL in our Group Development operating segment was driven by revenue growth and efficient management of costs as well as by the earnings contributed by Tele2 Netherlands, acquired in early 2019.

EBITDA AL increased by EUR 0.5 billion or 4.9 percent year-on-year to EUR 11.2 billion, with special factors decreasing from EUR -0.7 billion to EUR -1.0 billion. Expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses decreased by EUR 0.1 billion compared with the prior-year period to EUR 0.6 billion. In addition, expenses incurred in particular in connection with the approval process for the business combination of T-Mobile US and Sprint were recorded as special factors.

For detailed information on the development of EBITDA AL/adjusted EBITDA AL in our segments, please refer to the section [“Development of business in the operating segments.”](#)

Contribution of the segments to adjusted Group EBITDA AL

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP^a	5,940	6,283	5,866	7.1	12,223	11,353	7.7	23,074
Germany	2,108	2,153	2,103	2.4	4,261	4,161	2.4	8,516
United States	2,679	2,872	2,552	12.5	5,551	4,883	13.7	10,084
Europe	945	991	936	5.9	1,937	1,834	5.6	3,813
Systems Solutions	92	127	124	2.4	219	184	19.0	442
Group Development	255	250	227	10.1	506	452	11.9	892
Group Headquarters & Group Services	(137)	(82)	23	n.a.	(219)	(69)	n.a.	(601)
Reconciliation	(2)	(29)	(100)	71.0	(31)	(94)	67.0	(72)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

EBIT

Group EBIT stood at EUR 4.6 billion, up EUR 0.1 billion or 1.9 percent against the prior-year period. This increase is partly due to the effects described under EBITDA AL. At EUR 8.6 billion, depreciation, amortization and impairment losses were EUR 2.3 billion higher than in the prior-year period, due in particular to the depreciation charge for right-of-use assets required to be recognized for the first time in accordance with IFRS 16. In the prior-year period, expenses had been recognized in EBITDA in connection with operating leases. Depreciation of property, plant and equipment and amortization of intangible assets were EUR 0.5 billion higher than in the prior year, mainly due to the consistently high investment volume in past years – the prior-year period had included depreciation, amortization and impairment losses on finance lease assets.

PROFIT BEFORE INCOME TAXES

At EUR 3.7 billion, profit before income taxes was EUR 0.8 billion higher than in the first half of 2018, with loss from financial activities decreased from EUR -1.6 billion in the first half of 2018 to EUR -0.9 billion. While the finance cost increased by EUR 0.2 billion, due in particular to increased lease liabilities since the application of IFRS 16, other financial income/expense improved by EUR 0.3 billion, mainly due to positive measurement effects from embedded derivatives at T-Mobile US. The share of profit/loss of associates and joint ventures accounted for using the equity method also improved – by EUR 0.6 billion. This item had been negatively impacted by an effect of EUR 0.6 billion in the first half of 2018 due to the settlement agreed in connection with ending the Toll Collect arbitration proceedings.

NET PROFIT, ADJUSTED NET PROFIT

Net profit increased year-on-year from EUR 1.5 billion to EUR 1.8 billion. Tax expense came to EUR 1.0 billion in the first half of 2019 compared with EUR 0.9 billion for the prior-year period. For further information, please refer to the section "Income taxes" in the interim consolidated financial statements. Profit attributable to non-controlling interests

increased from EUR 0.6 billion to EUR 0.9 billion, mainly in our United States operating segment. Excluding special factors, which had an effect of EUR 0.7 billion on net profit, adjusted net profit in the first half of 2019 amounted to EUR 2.5 billion or EUR 0.1 billion higher than in the prior-year period.

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
NET PROFIT (LOSS)	900	944	495	90.7	1,845	1,487	24.1	2,166
Special factors affecting EBITDA	(440)	(562)	(371)	(51.5)	(1,002)	(652)	(53.7)	(1,497)
Staff-related measures	(290)	(304)	(360)	15.6	(594)	(630)	5.7	(1,159)
Non-staff-related restructuring	(19)	(30)	(33)	9.1	(49)	(55)	10.9	(109)
Effects of deconsolidations, disposals and acquisitions	(111)	(174)	(37)	n.a.	(285)	(9)	n.a.	(223)
Other	(20)	(54)	59	n.a.	(74)	42	n.a.	(6)
Special factors affecting net profit	158	178	(370)	n.a.	335	(288)	n.a.	(882)
Impairment losses	0	(50)	0	n.a.	(50)	0	n.a.	(707)
Profit (loss) from financial activities	0	(1)	(705)	99.9	(1)	(703)	99.9	(757)
Income taxes	122	173	276	(37.3)	295	366	(19.4)	401
Non-controlling interests	36	56	59	(5.1)	91	49	85.7	181
TOTAL SPECIAL FACTORS	(282)	(385)	(743)	48.2	(667)	(941)	29.1	(2,379)
ADJUSTED NET PROFIT (LOSS)	1,183	1,329	1,238	7.4	2,512	2,428	3.5	4,545

ADJUSTED EARNINGS PER SHARE

From the 2019 financial year onward, the dividend amount is to reflect the relative growth of adjusted earnings per share. Adjusted earnings per share is calculated as the profit attributable to the owners of the parent adjusted for special factors divided by the adjusted weighted average number of ordinary shares outstanding which totaled 4,743 million as of June 30, 2019. With adjusted net profit attributable to the owners of the parent in the amount of EUR 2.5 billion, this gives adjusted earnings per share of EUR 0.53. Adjusted earnings per share in the first half of 2018 had amounted to EUR 0.51.

EMPLOYEES

Headcount development

	June 30, 2019	Dec. 31, 2018	Change %
NUMBER OF FTEs IN THE GROUP	212,762	215,675	(1.4)
Of which: civil servants (in Germany, with an active service relationship)	12,595	13,507	(6.8)
Germany	61,552	62,621	(1.7)
United States	46,600	46,871	(0.6)
Europe	46,017	48,133	(4.4)
Systems Solutions	37,803	37,467	0.9
Group Development	2,739	1,976	38.6
Group Headquarters & Group Services	18,050	18,606	(3.0)

The Group's headcount decreased by 1.4 percent compared with the end of 2018. In our Germany operating segment, the total number of employees had decreased by 1.7 percent at the end of the first half of 2019 as a result of efficiency enhancement measures and the take-up of socially responsible instruments in connection with the staff restructuring. The total number of employees in our United States operating segment decreased by 0.6 percent at June 30, 2019 compared with December 31, 2018, primarily due to seasonal effects. In our Europe operating segment, the headcount was down 4.4 percent compared with the end of the prior year. This was due in part to the sale of Telekom Albania. The headcount also decreased in Romania and Hungary in particular. The number of employees in our Systems Solutions operating segment increased by 0.9 percent compared with the end of 2018, mainly due to the first-time inclusion and expansion of a service unit in India. The remaining headcount in this segment decreased by 2.2 percent on account of restructuring measures. In our Group Development operating segment, the number of employees rose by 38.6 percent compared with the end of 2018. The increase is attributable to the inclusion of Tele2 Netherlands in the Netherlands. The headcount in the Group Headquarters & Group Services segment was down 3.0 percent compared with the end of 2018, mainly due to the ongoing staff restructuring at Vivotto and the lower headcount in the Technology and Innovation unit.

FINANCIAL POSITION OF THE GROUP

Condensed consolidated statement of financial position

millions of €

	June 30, 2019	%	Dec. 31, 2018	%	June 30, 2018
ASSETS					
Trade and other receivables	9,898	6.0	9,988	6.9	8,921
Intangible assets	66,266	40.4	64,950	44.7	63,636
Property, plant and equipment	49,119	29.9	50,631	34.8	47,844
Right-of-use assets	17,549	10.7	n.a.	n.a.	n.a.
Other assets	21,382	13.0	19,806	13.6	19,348
TOTAL ASSETS	164,214	100.0	145,375	100.0	139,749
LIABILITIES					
Current and non-current financial liabilities	64,187	39.1	62,275	42.8	61,262
Current and non-current lease liabilities	19,347	11.8	n.a.	n.a.	n.a.
Trade and other payables	9,647	5.9	10,735	7.4	8,924
Provisions for pensions and other employee benefits	6,569	4.0	5,502	3.8	5,650
Deferred tax liabilities	8,935	5.4	8,240	5.7	7,500
Other liabilities	12,839	7.8	15,186	10.4	15,010
Shareholders' equity	42,690	26.0	43,437	29.9	41,403
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	164,214	100.0	145,375	100.0	139,749

Total assets amounted to EUR 164.2 billion as of June 30, 2019, up by EUR 18.8 billion against December 31, 2018. The recognition of right-of-use assets and current and non-current lease liabilities resulting from the mandatory first-time application of the IFRS 16 "Leases" accounting standard had a significant impact.

The total carrying amounts of **intangible assets** and **property, plant and equipment** were EUR 0.2 billion lower year-on-year. Capital expenditures in the amount of EUR 8.0 billion had an increasing effect. In our United States operating segment, investments in intangible assets related primarily to the acquisition of FCC mobile spectrum licenses totaling EUR 0.9 billion. In the Europe operating segment, 5G licenses acquired in Austria increased the carrying amount by EUR 0.1 billion. Investments primarily to upgrade and build out the network in our United States operating segment and in connection with the broadband/fiber-optic rollout, the IP transformation, and mobile infrastructure in the Germany and Europe operating segments increased the carrying amount of property, plant and equipment. Effects of changes in the composition of the Group totaling EUR 1.0 billion, mainly due to the acquisition of Tele2 Netherlands in the Group Development operating segment, and positive exchange rate effects totaling EUR 0.4 billion, particularly from the translation of U.S. dollars into euros, also increased the carrying amount. Depreciation of property, plant and equipment and amortization of intangible assets reduced the carrying amount by EUR 6.8 billion and disposals by EUR 0.2 billion. **Rights to use** lease assets were recognized in the amount of EUR 17.5 billion as of June 30, 2019; until December 31, 2018, these had been reported in the amount of EUR 2.5 billion under property, plant and equipment as assets from finance leases. **Trade and other receivables** decreased slightly from the 2018 year-end level by EUR 0.1 billion. **Other assets** increased primarily on the back of the rise in current and non-current other financial assets, which was mainly due

to positive measurement effects from the remeasurement of embedded derivatives at T-Mobile US. Cash and cash equivalents also increased.

On the liabilities side, current and non-current **financial liabilities** increased by EUR 1.9 billion compared with the end of 2018. This was largely attributable to the euro bonds issued by Deutsche Telekom in the first half of 2019 with a total volume of EUR 1.8 billion and pound sterling bonds with a total volume of GBP 0.4 billion (EUR 0.5 billion). In addition, a loan of EUR 0.5 billion was taken out with the European Investment Bank in addition to a promissory note in the amount of EUR 0.3 billion. This was offset by changes in short-term borrowing amounting to EUR 0.6 billion (net) and in commercial paper amounting to EUR 0.5 billion (net), as well as the scheduled repayment of promissory notes in the amount of EUR 0.2 billion. The transition to IFRS 16 resulted in finance lease liabilities being reclassified from financial liabilities to lease liabilities. Based on the carrying amounts as of December 31, 2018, this reclassification reduced financial liabilities by EUR 2.5 billion. The current and non-current **lease liabilities** to be recognized since the first-time application of IFRS 16 amounted to EUR 19.3 billion as of June 30, 2019. **Trade and other payables** decreased by EUR 1.1 billion due to the reduction in the level of liabilities, mainly in the Europe, Germany, and United States operating segments. **Provisions for pensions and other employee benefits** increased by EUR 1.1 billion compared with December 31, 2018 due, in part, to interest rate adjustments and the decline in the value of the BT shares transferred to plan assets. **Other liabilities** were reduced in particular by liabilities of EUR 2.2 billion from straight-line leases, mainly for cell sites, in the United States operating segment that were no longer required to be reported under IFRS 16. In addition, current and non-current other provisions decreased by EUR 0.5 billion, mainly due to the performance-related compensation components for the prior year paid to employees in the first half of 2019.

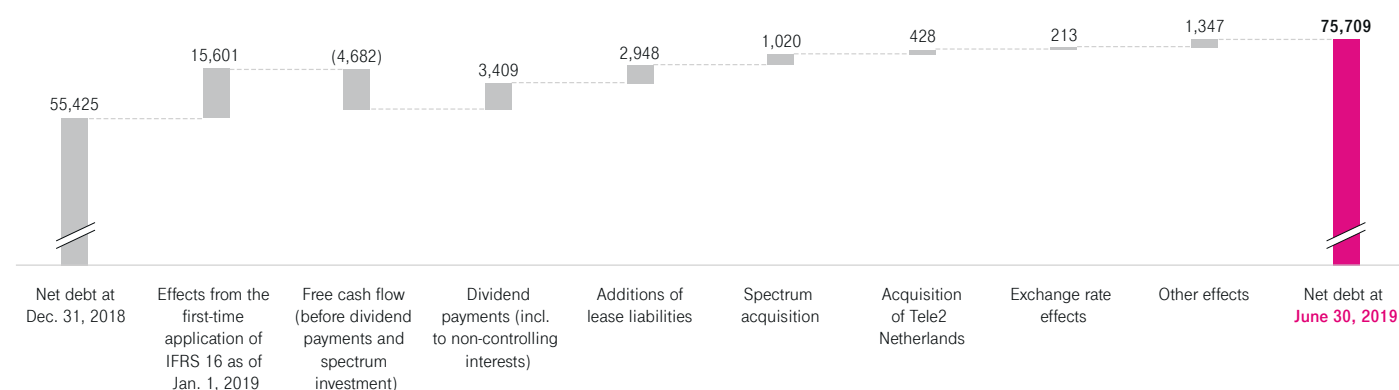
Shareholders' equity decreased by EUR 0.7 billion as of December 31, 2018 to EUR 42.7 billion, mainly due to the dividend payments for the 2018 financial year to Deutsche Telekom AG shareholders in the amount of EUR 3.3 billion and to non-controlling interests in the amount of EUR 0.2 billion. The carrying amount was also reduced by EUR 0.8 billion (after taxes) due to the remeasurement of defined benefit plans and by a total of EUR 0.7 billion due to losses from hedging instruments, mainly in connection with forward-payer swaps concluded for highly probable future borrowings at T-Mobile US. By contrast, the profit of EUR 2.7 billion increased shareholders' equity as did the transition to IFRS 16. The cumulative effect of this was an increase of EUR 0.3 billion in retained earnings (including shares

attributable to non-controlling interests) recognized directly in equity as of January 1, 2019. Currency translation effects recognized directly in equity and capital increases from share-based payments each increased shareholders' equity by EUR 0.2 billion. The acquisition of Tele2 Netherlands in the Group Development operating segment resulted in transactions with owners which increased shareholders' equity by EUR 0.5 billion, and effects of EUR 0.2 billion from changes in the composition of the Group.

For further information on the statement of financial position, please refer to the [interim consolidated financial statements](#).

Changes in net debt

millions of €



Other effects of EUR 1.3 billion include, among other factors, effects from the measurement of financial instruments, financing options under which the payments for trade payables become due at a later point in time by involving banks in the process, and the recognition of liabilities

for the acquisition of broadcasting rights. For more information on net debt, please refer to the disclosures on the reconciliation of alternative performance measures in the section ["Additional information"](#).

Free cash flow (before dividend payments and spectrum investment)

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
CASH GENERATED FROM OPERATIONS	6,609	6,157	4,947	24.5	12,765	9,753	30.9	19,663
Interest received (paid)	(600)	(559)	(555)	(0.7)	(1,159)	(1,064)	(8.9)	(1,715)
NET CASH FROM OPERATING ACTIVITIES	6,009	5,598	4,392	27.5	11,607	8,689	33.6	17,948
CASH CAPEX (BEFORE SPECTRUM INVESTMENT)	(3,682)	(3,324)	(3,021)	(10.0)	(7,006)	(6,097)	(14.9)	(12,223)
Proceeds from the disposal of intangible assets (excluding goodwill) and property, plant and equipment	44	38	144	(73.6)	82	304	(73.0)	525
Free cash flow (before dividend payments and spectrum investment)	2,370	2,312	1,514	52.7	4,682	2,896	61.7	6,250
FREE CASH FLOW AL (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)^a	1,557	1,546	1,467	5.4	3,103	2,785	11.4	6,051

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Free cash flow AL. Free cash flow AL in the Group before dividend payments and spectrum investment increased by EUR 0.3 billion year-on-year to EUR 3.1 billion.

Net cash from operating activities increased by EUR 2.9 billion year-on-year to EUR 11.6 billion. Due to the first-time application of the IFRS 16 accounting standard, the principal repayment portion of lease payments is presented in net cash used in/from financing activities. These payments totaling EUR 1.6 billion were taken into account in the calculation of free cash flow AL. The strong performance of our operating segments, in particular the United States, significantly increased net cash from operating activities. As in the prior-year period, factoring agreements – especially in the Systems Solutions operating segment – resulted in positive effects of EUR 0.3 billion on net cash from operating activities. In addition, in the prior-year period, dividends

received in the amount of EUR 0.2 billion had had an increasing effect. Net cash from operating activities was also reduced by a EUR 0.1 billion increase in net interest payments and a EUR 0.1 billion increase in tax payments.

Of the EUR 0.9 billion year-on-year increase in cash capex (before spectrum investment), EUR 0.7 billion is attributable to the United States operating segment, mainly due to the accelerated infrastructure build-out for the 600 MHz spectrum, laying the groundwork for 5G. Other capital expenditures were focused primarily on the Germany and Europe operating segments and went toward the build-out and upgrade of our networks.

For further information on the statement of cash flows, please refer to the [interim consolidated financial statements](#).

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

For detailed information, please refer to the IR back-up at: www.telekom.com/en/investor-relations.

GERMANY

For information on changes resulting from the first-time application of the IFRS 16 “Leases” accounting standard, please refer to the section “Group organization, strategy, and management.”

CUSTOMER DEVELOPMENT

thousands

	June 30, 2019	Mar. 31, 2019	Change June 30, 2019/ Mar. 31, 2019 %	Dec. 31, 2018	Change June 30, 2019/ Dec. 31, 2018 %	June 30, 2018	Change June 30, 2019/ June 30, 2018 %
Mobile customers	44,827	44,657	0.4	44,202	1.4	43,023	4.2
Contract customers	24,974	25,195	(0.9)	25,435	(1.8)	24,965	0.0
Prepay customers	19,853	19,462	2.0	18,767	5.8	18,058	9.9
Fixed-network lines	18,228	18,414	(1.0)	18,625	(2.1)	18,989	(4.0)
Of which: retail IP-based	16,614	16,065	3.4	15,356	8.2	13,629	21.9
Retail broadband lines	13,636	13,608	0.2	13,561	0.6	13,437	1.5
Of which: optical fiber	7,913	7,609	4.0	7,236	9.4	6,559	20.6
Television (IPTV, satellite)	3,477	3,419	1.7	3,353	3.7	3,240	7.3
Unbundled local loop lines (ULLs)	4,913	5,050	(2.7)	5,236	(6.2)	5,587	(12.1)
Wholesale broadband lines	7,126	6,975	2.2	6,722	6.0	6,277	13.5
Of which: optical fiber	5,503	5,285	4.1	4,970	10.7	4,432	24.2

Total

In Germany we continue to be market leader both in terms of fixed-network and mobile revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network as in mobile communications – and with a broad product portfolio and excellent service. Thanks to the sustained popularity of our convergent MagentaEINS offering, our MagentaEINS customer base totaled 4.5 million at the end of the first half of 2019.

High demand for mobile rate plans with included data volumes resulted in an increase in the number of branded contract customers under the Telekom and congstar brands. Our initiatives in the automotive sector drove growth in the number of prepay customers.

We made further headway with our IP transformation program, and by the end of the first half of 2019 had migrated 23.7 million retail and wholesale lines to IP, bringing the total migration level to 93 percent of all lines.

We continued to see strong demand for our fiber-optic products. As of the end of the first half of 2019, the number of lines had increased to 13.4 million overall. In other words, we connected 1,209 thousand lines to our fiber-optic network in Germany in the first six months of 2019. With the progress made in fiber-optic rollout and vectoring technology, we also drove the marketing of higher bandwidths.

Mobile communications

We won a further 625 thousand mobile customers in the first half of 2019 compared with year-end 2018. Of these, a total of 271 thousand were contract customers under our Telekom and congstar brands. The number of mobile contract customers with resellers (service providers) decreased, primarily due to the volatile developments at some of our service providers. The number of prepaid customers increased by 1,086 thousand.

Fixed network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, we are pursuing new paths in marketing. Our focus is on convergent offerings and their further development – for instance, MagentaTV with

exclusive access to a wide range of additional content – as well as TV lines and fiber-optic lines. We continue to see growth in our broadband lines. The number of TV customers increased by 124 thousand. In the traditional fixed network, the number of lines decreased by 397 thousand.

Our MagentaZuhause rate plans offer a comprehensive product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths.

Wholesale

At the end of the first half of 2019, fiber-optic lines accounted for 45.7 percent of all lines – 4.1 percentage points higher than at the end of 2018. This accelerated growth was driven largely by high demand for our contingent model. The number of unbundled local loop lines decreased by 323 thousand or 6.2 percent compared with the end of the prior year. This is due first to the move to higher-quality fiber-optic lines, and second to retail customers switching to cable operators. In addition, wholesale customers are migrating their retail customers to their own fiber-optic lines. In wholesale, the number of lines stood at 12.0 million as of June 30, 2019.

DEVELOPMENT OF OPERATIONS

millions of €								
	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
TOTAL REVENUE	5,357	5,388	5,322	1.2	10,745	10,648	0.9	21,700
Consumers	2,833	2,861	2,820	1.5	5,695	5,633	1.1	11,543
Business Customers	1,510	1,514	1,492	1.5	3,024	2,983	1.4	6,082
Wholesale	931	927	926	0.1	1,858	1,858	0.0	3,720
Other	83	86	84	2.4	168	173	(2.9)	355
Profit from operations (EBIT)	863	892	954	(6.5)	1,754	1,889	(7.1)	3,969
EBIT margin %	16.1	16.6	17.9		16.3	17.7		18.3
Depreciation, amortization and impairment losses	(1,083)	(1,144)	(988)	(15.8)	(2,227)	(1,968)	(13.2)	(4,042)
EBITDA	1,946	2,036	1,941	4.9	3,981	3,857	3.2	8,012
EBITDA AL ^a	1,940	2,028	1,918	5.7	3,968	3,809	4.2	7,918
Special factors affecting EBITDA	(168)	(125)	(185)	32.4	(293)	(352)	16.8	(598)
EBITDA (adjusted for special factors)	2,114	2,161	2,126	1.6	4,274	4,209	1.5	8,610
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS)^a	2,108	2,153	2,103	2.4	4,261	4,161	2.4	8,516
EBITDA AL margin (adjusted for special factors) ^a %	39.4	40.0	39.5		39.7	39.1		39.2
CASH CAPEX	(1,216)	(1,069)	(963)	(11.0)	(2,284)	(2,108)	(8.3)	(4,240)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

Total revenue was up slightly year-on-year by 0.9 percent, mainly due to an increase of 3.2 percent in mobile business thanks to higher service and terminal equipment revenues. Higher IT and broadband revenues had a positive effect on fixed-network business. This was sufficient to almost completely offset the decrease in fixed-network revenue compared with the first half of 2018 (primarily from voice components).

Revenue from **Consumers** grew by 1.1 percent year-on-year. Volume-driven declines in revenue from voice components continue to strongly impact on traditional fixed-network business. By contrast, revenue from broadband business increased. Mobile business also grew by 3.8 percent.

Revenue from **Business Customers** increased by 1.4 percent. Mobile revenues increased by 2.1 percent and IT revenues by 25.2 percent compared with the first half of the prior year. In the fixed network, by contrast, a decline was recorded in traditional voice telephony, due largely to the increasing number of customers moving to flat-rate plans in connection with the migration to IP.

Wholesale revenue remained on a par with the prior-year level in the first six months of 2019 due to the positive contributions to revenue from our contingent model, which offset the decline in revenue from ULLs/voice.

EBITDA AL, adjusted EBITDA AL

EBITDA AL amounted to EUR 4.0 billion in the first half of 2019, an increase of 4.2 percent against the prior-year period. In addition to the positive contributions from the development of revenue, this increase was also primarily due to lower personnel costs, mainly as a result of a lower headcount and a decline in expenses for socially responsible instruments in connection with the staff restructuring. The successful implementation of efficiency and digitalization measures also had a positive impact. Adjusted EBITDA AL increased by 2.4 percent to EUR 4.3 billion year-on-year due to the same reasons. Our adjusted EBITDA AL margin increased to 39.7 percent, up from 39.1 percent in the first half of 2018.

UNITED STATES

For information on changes resulting from the first-time application of the IFRS 16 "Leases" accounting standard and changes in the

EBIT

Profit from operations decreased by 7.1 percent compared with the first half of the prior year to EUR 1.8 billion due to higher depreciation, amortization and impairment losses on account of sustained high investments in our network infrastructure.

Cash capex

Cash capex increased by 8.3 percent compared with the first half of 2018. As part of our integrated network strategy, we again made significant investments in the broadband and fiber-optic rollout, our IP transformation, and our mobile infrastructure.

organizational structure, please refer to the section "[Group organization, strategy, and management.](#)"

CUSTOMER DEVELOPMENT

thousands

	June 30, 2019	Mar. 31, 2019	Change June 30, 2019/ Mar. 31, 2019 %	Dec. 31, 2018	Change June 30, 2019/ Dec. 31, 2018 %	June 30, 2018	Change June 30, 2019/ June 30, 2018 %
Mobile customers	83,052	81,301	2.2	79,651	4.3	75,619	9.8
Branded customers	65,983	64,744	1.9	63,656	3.7	61,049	8.1
Branded postpaid	44,646	43,538	2.5	42,519	5.0	40,082	11.4
Branded prepay	21,337	21,206	0.6	21,137	0.9	20,967	1.8
Wholesale customers	17,069	16,557	3.1	15,995	6.7	14,570	17.2

Total

At June 30, 2019, the United States operating segment (T-Mobile US) had 83.1 million customers, compared to 79.7 million customers at December 31, 2018. Net customer additions were 3.4 million for the first half of 2019, compared to 3.0 million net customer additions for the first half of 2018, due to the factors described below.

Branded customers. Branded postpaid net customer additions were 2,127 thousand for the first half of 2019, compared to 2,022 thousand branded postpaid net customer additions for the first half of 2018. The increase resulted from higher branded postpaid phone net customer additions primarily due to record-low churn and higher branded postpaid other net customer additions primarily due to higher gross

customer additions from connected devices, partially offset by higher deactivations from a growing customer base.

Branded prepay net customer additions were 200 thousand for the first half of 2019, compared to 290 thousand branded prepay net customer additions for the first half of 2018. The decrease in net customer additions was primarily due to continued promotional activities in the marketplace, partially offset by lower churn.

Wholesale customers. Wholesale net customer additions were 1,074 thousand for the first half of 2019, compared to 700 thousand for the first half of 2018. The increase was due primarily to higher gross additions from the continued success of our M2M and MVNO partnerships.

DEVELOPMENT OF OPERATIONS

millions of €								
	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
TOTAL REVENUE	9,796	9,826	8,821	11.4	19,623	17,277	13.6	36,522
Profit from operations (EBIT)	1,376	1,465	1,201	22.0	2,840	2,338	21.5	4,634
EBIT margin %	14.0	14.9	13.6		14.5	13.5		12.7
Depreciation, amortization and impairment losses	(1,835)	(1,870)	(1,321)	(41.6)	(3,704)	(2,544)	(45.6)	(5,294)
EBITDA	3,210	3,334	2,522	32.2	6,545	4,882	34.1	9,928
EBITDA AL ^a	2,580	2,672	2,520	6.0	5,252	4,879	7.6	9,924
Special factors affecting EBITDA	(99)	(200)	(32)	n.a.	(299)	(4)	n.a.	(160)
EBITDA (adjusted for special factors)	3,309	3,534	2,553	38.4	6,843	4,885	40.1	10,088
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS)^a	2,679	2,872	2,552	12.5	5,551	4,883	13.7	10,084
EBITDA AL margin (adjusted for special factors) ^a %	27.3	29.2	28.9		28.3	28.3		27.6
CASH CAPEX	(1,713)	(2,272)	(1,353)	(67.9)	(3,985)	(2,495)	(59.7)	(4,661)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

Total revenue for the United States operating segment of EUR 19.6 billion in the first half of 2019 increased by 13.6 percent, compared to EUR 17.3 billion in the first half of 2018. In U.S. dollars, T-Mobile US' total revenues increased by 6.0 percent year-on-year due primarily to an increase in service revenue driven by growth in our average branded customer base driven by the continued growth in existing and greenfield markets, including the growing success of new customer segments and rate plans such as Unlimited 55+, Military, Business, and Essentials, along with record low churn and growth in wearables and other connected devices; partially offset by decreases in branded postpaid and branded prepaid average revenue per user (ARPU).

EBITDA AL, adjusted EBITDA AL

In euros, adjusted EBITDA AL increased by 13.7 percent to EUR 5.6 billion in the first half of 2019, compared to EUR 4.9 billion in the first half of 2018. The adjusted EBITDA AL margin of 28.3 percent in the first half of 2019 remained relatively flat, compared to the first half of 2018. In U.S. dollars, adjusted EBITDA AL increased by 6.1 percent during the same period. Adjusted EBITDA AL increased due primarily to higher service revenues, as further discussed above. These increases were partially offset by higher employee related costs, costs related to outsourced functions, commissions and costs primarily related to an increase in amortization expense related to costs that were capitalized upon the adoption of IFRS 15 on January 1, 2018, and the impact from hurricane-related reimbursements of USD 128 million received in the first half of 2018. There was no significant impact from hurricanes for the first half of 2019.

EBITDA AL for the first half of 2019 included special factors of EUR -299 million compared to special factors of EUR -4 million for the first half of 2018. The change in special factors was primarily due to the expenses associated with the proposed Sprint transaction in the first half of 2019 and a purchase and investment gain in the first quarter of 2018. Overall, EBITDA AL increased by 7.6 percent to EUR 5.3 billion in the first half of 2019, compared to EUR 4.9 billion in the first half of 2018, due to the factors described above, including special factors.

EBIT

EBIT increased to EUR 2.8 billion in the first half of 2019 compared to EUR 2.3 billion in the first half of 2018 driven by higher EBITDA AL. Depreciation and amortization expense increased due to the application of the IFRS 16 accounting standard as of January 1, 2019, which results in higher depreciation charges for capitalized right-of-use-assets previously recognized as operating expenses for operating leases. Excluding the impacts of IFRS 16 depreciation decreased due to a lower number of devices under lease, partially offset by higher depreciation charges related to the continued deployment of low-band spectrum, including 600 MHz, and laying the groundwork for 5G.

Cash capex

Cash capex increased to EUR 4.0 billion in the first half of 2019, compared to EUR 2.5 billion in the first half of 2018, primarily due to an increase in spectrum licenses acquired and accelerated rollout of our 600 MHz low-band spectrum including laying the groundwork for 5G.

EUROPE

For information on changes resulting from the first-time application of the IFRS 16 "Leases" accounting standard and changes in the

organizational structure, please refer to the section "[Group organization, strategy, and management.](#)"

CUSTOMER DEVELOPMENT

thousands

		June 30, 2019	Mar. 31, 2019	Change June 30, 2019/ Mar. 31, 2019 %	Dec. 31, 2018	Change June 30, 2019/ Dec. 31, 2018 %	June 30, 2018	Change June 30, 2019/ June 30, 2018 %
EUROPE, TOTAL	Mobile customers ^a	46,469	47,800	(2.8)	50,542	(8.1)	49,886	(6.8)
	Contract customers	27,022	26,844	0.7	26,665	1.3	26,022	3.8
	Prepay customers ^a	19,447	20,956	(7.2)	23,877	(18.6)	23,865	(18.5)
	Fixed-network lines ^b	8,986	8,977	0.1	9,020	(0.4)	8,414	6.8
	Of which: IP-based	7,961	7,663	3.9	7,371	8.0	6,235	27.7
	Broadband customers	6,540	6,478	1.0	6,405	2.1	5,671	15.3
	Television (IPTV, satellite, cable)	4,910	4,904	0.1	4,835	1.6	4,293	14.4
	Unbundled local loop lines (ULLs)/ wholesale PSTN	2,268	2,278	(0.4)	2,275	(0.3)	2,275	(0.3)
	Wholesale broadband lines	422	417	1.2	411	2.7	395	6.8
GREECE	Mobile customers	7,605	7,682	(1.0)	7,893	(3.6)	8,163	(6.8)
	Fixed-network lines	2,607	2,581	1.0	2,566	1.6	2,552	2.2
	Broadband customers	1,972	1,938	1.8	1,893	4.2	1,830	7.8
ROMANIA	Mobile customers	5,258	5,421	(3.0)	5,360	(1.9)	5,282	(0.5)
	Fixed-network lines	1,648	1,697	(2.9)	1,741	(5.3)	1,803	(8.6)
	Broadband customers	1,055	1,078	(2.1)	1,101	(4.2)	1,117	(5.6)
HUNGARY	Mobile customers	5,332	5,305	0.5	5,330	0.0	5,306	0.5
	Fixed-network lines	1,680	1,673	0.4	1,663	1.0	1,640	2.4
	Broadband customers	1,189	1,170	1.6	1,148	3.6	1,104	7.7
POLAND	Mobile customers	10,869	10,823	0.4	10,787	0.8	10,609	2.5
	Fixed-network lines	19	18	5.6	18	5.6	26	(26.9)
	Broadband customers	10	11	(9.1)	18	(44.4)	23	(56.5)
CZECH REPUBLIC	Mobile customers	6,224	6,186	0.6	6,188	0.6	6,174	0.8
	Fixed-network lines	384	355	8.2	318	20.8	248	54.8
	Broadband customers	290	274	5.8	251	15.5	208	39.4
CROATIA	Mobile customers	2,286	2,262	1.1	2,273	0.6	2,268	0.8
	Fixed-network lines	916	922	(0.7)	931	(1.6)	952	(3.8)
	Broadband customers	619	617	0.3	618	0.2	621	(0.3)
SLOVAKIA	Mobile customers	2,402	2,391	0.5	2,369	1.4	2,320	3.5
	Fixed-network lines	854	854	0.0	853	0.1	859	(0.6)
	Broadband customers	557	550	1.3	543	2.6	532	4.7
AUSTRIA	Mobile customers ^a	4,938	4,765	3.6	7,194	(31.4)	6,441	(23.3)
	Fixed-network lines ^b	546	544	0.4	595	(8.2)	0	n.a.
	Broadband customers	606	601	0.8	594	2.0	0	n.a.
OTHER^c	Mobile customers	1,555	2,967	(47.6)	3,149	(50.6)	3,323	(53.2)
	Fixed-network lines	332	334	(0.6)	333	(0.3)	334	(0.6)
	Broadband customers	241	239	0.8	238	1.3	232	3.9

^a As of January 1, 2019, the portfolio of M2M SIM cards in Austria was streamlined. 2.4 million customers were deactivated. Prior-year comparatives were not adjusted.

^b Following the acquisition of UPC Austria, we have reported fixed-network lines and broadband customers since the third quarter of 2018. The 2018 comparatives for fixed-network lines were adjusted to exclude TV-only customers.

^c "Other": national companies of North Macedonia, Montenegro, and Albania (sold as of May 7, 2019), as well as the lines of the GTS Central Europe group in Romania.

Total

The markets in our segment remained intensely competitive in the first half of 2019. We continue to rise to this challenge in the current financial year, achieving an increase of 23.4 percent in the number of FMC customers as of June 30, 2019, thanks in particular to our convergent product portfolio, MagentaOne. We also made important progress on our journey to becoming an integrated provider of mobile and fixed-network products across our entire segment: Following the successful integration of UPC Austria, in May 2019 we added convergent products to our portfolio in Austria under the new Magenta product brand. At the end of June 2019, we began offering our customers in Poland the MagentaOne product bundle, which combines mobile communications over the fiber-optic-based internet and an entertainment package. We parted ways with our last remaining mobile-only subsidiary, Telekom Albania, on May 7, 2019.

Our broadband/TV operations are making progress consistently, not least thanks to the large-scale build-out of the network with state-of-the-art fiber-optic-based lines (FTTH, FTTB, and FTTC), in particular in the national companies of Greece and Hungary. As a result, the number of IP lines increased by 8.0 percent to 8.0 million as of June 30, 2019, primarily thanks to the migration from traditional PSTN lines to IP technology.

In our mobile business, we recorded moderate growth in the number of high-value contract customers. The number of prepaid customers decreased sharply, mainly due to the streamlining of the portfolio in Austria and the sale of Telekom Albania. In addition, our national company in Greece recorded reductions in its prepaid customer base, due in part to the deactivation of inactive prepaid SIM cards. The positive outcome of the 5G spectrum auction in Austria in the first quarter of 2019 marked the achievement of a first major milestone in the rollout of 5G in our Europe operating segment: Our national company in Austria has now put the first 5G cell sites into operation using the spectrum acquired. Successful testing is already underway in other countries. The plan is to add more 5G networks following the anticipated spectrum auctions in 2019 and 2020.

Mobile communications

The number of mobile customers totaled 46.5 million at the end of the first half of 2019, down by 8.1 percent or 4.1 million customers compared with the end of 2018. Two main effects contributed to this decline: Firstly, the streamlining of the prepaid portfolio at our Austrian subsidiary, which resulted in the removal of 2.4 million cross-border M2M SIM cards from our customer base. We had made these cards available internally to the Germany segment. The second factor was the sale of our national company in Albania. Excluding these effects, the figure would have been stable compared with the prior year. The

number of high-value contract customers rose by 1.3 percent compared with December 31, 2018. Overall, all of our national companies reported positive trends in their contract customer base, especially in Poland, Hungary, the Czech Republic, and Slovakia. Contract customers accounted for 58.2 percent of the total customer base. Our customers benefited not only from our innovative services and rate plans, but also from extensive coverage with fast mobile broadband – a result of our integrated network strategy. As of June 30, 2019, we already covered 97 percent of the population in the countries of our operating segment with LTE, reaching around 109 million people in total. Customer demand for high data volumes remained persistently high due to the explosion in data traffic driven by video streaming services, for example.

Fixed network

Our TV and entertainment services saw moderate customer growth of 1.6 percent as of June 30, 2019, partly as a result of new business in Croatia and partly from the stronger customer growth in Hungary and the Czech Republic. Declining customer numbers in Romania were offset by additions in virtually all of our national companies. With both telecommunication providers and OTT players offering TV services, the TV market is already saturated in many countries of our segment.

The broadband business also recorded growth of 2.1 percent compared with the end of the prior year to 6.5 million customers. In particular, the customer bases of our national companies in Greece, Hungary, and the Czech Republic saw growth, partly on the back of increased investment in innovative fiber-optic-based technologies. For example, we increased household coverage with optical fiber at our four biggest integrated national companies to 2.9 million households as of June 30, 2019 (December 31, 2018: 2.6 million).

Consistent growth in IP-based lines as a percentage of all fixed-network lines confirms that we are making good progress: At the end of June 2019, this share amounted to 88.6 percent. At 9.0 million, the number of fixed-network lines in our Europe operating segment remained on a par with the prior-year level, also thanks to the acquisition of UPC Austria.

FMC – fixed-mobile convergence

Our portfolio of convergent products, MagentaOne, was highly popular with consumers across all of our national companies. As of June 30, 2019, we had 4.1 million FMC customers; this corresponds to significant growth of 23.4 percent or 775 thousand additions compared with the end of the prior year. The main driver of this trend was our national company in Greece, which since fall 2018 also offers its convergent product portfolio to prepaid customers. Pleasing customer growth trends were reported in Hungary, the Czech Republic, and Slovakia. We have also been increasingly successful in marketing our MagentaOne Business product to business customers.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
TOTAL REVENUE	2,891	2,978	2,896	2.8	5,869	5,707	2.8	11,885
Greece	697	720	711	1.3	1,417	1,397	1.4	2,888
Romania	217	231	238	(2.9)	448	464	(3.4)	933
Hungary	459	455	488	(6.8)	914	931	(1.8)	1,889
Poland	348	366	368	(0.5)	713	743	(4.0)	1,526
Czech Republic	257	265	258	2.7	522	512	2.0	1,047
Croatia	220	239	233	2.6	459	456	0.7	966
Slovakia	185	190	185	2.7	375	366	2.5	761
Austria	306	315	214	47.2	621	432	43.8	1,055
Other ^a	244	244	250	(2.4)	488	502	(2.8)	1,031
Profit from operations (EBIT)	339	357	357	0.0	696	702	(0.9)	744
EBIT margin %	11.7	12.0	12.3		11.9	12.3		6.3
Depreciation, amortization and impairment losses	(696)	(681)	(550)	(23.8)	(1,377)	(1,109)	(24.2)	(3,013)
EBITDA	1,035	1,038	907	14.4	2,072	1,812	14.3	3,757
EBITDA AL ^b	921	930	890	4.5	1,851	1,782	3.9	3,691
Special factors affecting EBITDA	(24)	(62)	(46)	(34.8)	(86)	(52)	(65.4)	(122)
EBITDA (adjusted for special factors)	1,059	1,099	953	15.3	2,158	1,864	15.8	3,880
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS)^b	945	991	936	5.9	1,937	1,834	5.6	3,813
Greece	283	290	276	5.1	573	556	3.1	1,173
Romania	26	29	37	(21.6)	55	70	(21.4)	135
Hungary	121	139	142	(2.1)	260	262	(0.8)	540
Poland	92	100	99	1.0	192	194	(1.0)	382
Czech Republic	107	114	105	8.6	221	213	3.8	432
Croatia	83	91	92	(1.1)	174	173	0.6	374
Slovakia	82	79	77	2.6	162	157	3.2	320
Austria	118	114	66	72.7	233	140	66.4	336
Other ^a	33	35	42	(16.7)	67	69	(2.9)	121
EBITDA AL margin (adjusted for special factors) ^b %	32.7	33.3	32.3		33.0	32.1		32.1
CASH CAPEX	(446)	(469)	(398)	(17.8)	(915)	(836)	(9.4)	(1,887)

The contributions of the national companies correspond to their respective unconsolidated financial statements and do not take consolidation effects at operating segment level into account.

^a "Other": national companies of North Macedonia, Montenegro, and Albania (sold as of May 7, 2019), as well as IWS (International Wholesale), consisting of Deutsche Telekom Global Carrier (formerly International Carrier Sales & Solutions (ICSS)) and its national companies, the GTS Central Europe group in Romania, and the Europe Headquarters.

^b Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

Our Europe operating segment generated total revenue of EUR 5.9 billion in the first half of 2019, a year-on-year increase of 2.8 percent. In organic terms, i.e., assuming constant exchange rates and adjusted for the inclusion of UPC Austria as of July 31, 2018 and the sale of Telekom Albania as of May 7, 2019, revenue increased slightly by 0.4 percent.

Fixed-network business was the biggest driver of organic growth in the reporting period, with positive revenue effects reported in both our broadband and TV operations – partly as a result of larger customer bases and partly driven by prices. Revenue in wholesale business also increased year-on-year. Mobile revenue remained at a consistently high level: Rising higher-margin service revenues, especially in Poland, Hungary, Greece, and the Czech Republic, were offset by a decrease in

revenues from the lower-margin terminal equipment business. The ICT business recorded a revenue decline. In addition, intense competition on the telecommunications markets in some countries of our operating segment had a negative impact on revenue.

Revenue from **Consumers** developed positively, up 4.8 percent year-on-year driven mainly by fixed-network business. Here, revenue from broadband and TV business increased substantially thanks to our innovative TV and program management activities as well as the continuous rollout of fiber-optic technology in most of our national companies. In addition, strong growth in the number of FMC customers had a positive impact on revenue. Voice telephony revenue was on a par with the prior-year level. Mobile revenue declined slightly, with higher service revenues only partially offsetting lower revenues from terminal equipment business.

Revenue from **Business Customers** remained virtually stable in the first half of 2019. In our core business (fixed network and mobile), revenue was once again up on the prior year. As a result of the business combination with UPC Austria to form the new Magenta Telekom brand, now all ten of our European markets are one-stop shops for convergent solutions for SMEs (MagentaOne Business). We expect the launch of our partnership with Microsoft in the business customer segment to bring in new revenue from ICT/cloud solutions for SMEs and corporate customers in the second half of the year.

Wholesale revenue grew year-on-year as a result of the increase in international voice and data termination services.

Looking at the development by country, our national companies in Greece, the Czech Republic, Slovakia, and Austria made the largest contributions to the organic development of revenue in the first half of the year. This offset the decline in revenue in Romania and Poland in particular. The negative trend in Romania is a result of a substantial decrease in mobile revenue. In the fixed network, Wholesale reported higher revenue in particular from international voice and data termination services. This offset the decline in revenue from voice telephony. Our B2B/ICT business customer operations reported a downward trend.

EBITDA AL, adjusted EBITDA AL

Our Europe operating segment generated adjusted EBITDA AL of EUR 1.9 billion in the first half of 2019, an increase of 5.6 percent. In organic terms, i.e., assuming constant exchange rates and adjusted for the inclusion of UPC Austria and the sale of Telekom Albania, adjusted EBITDA AL increased by 1.8 percent compared with the prior-year period, thus continuing the positive trend in 2019.

The positive development in adjusted organic EBITDA AL comes on the back of the increase in revenue and savings in indirect costs.

Looking at the development by country, the increase in adjusted organic EBITDA AL was largely attributable to the positive trends at our national companies in Greece, Austria, the Czech Republic, and Slovakia. A contrasting development was reported primarily at our national company in Romania, where adjusted EBITDA AL was down 21.6 percent year-on-year, mainly as a result of the lower revenue contribution.

Our EBITDA AL increased by 3.9 percent year-on-year to EUR 1.9 billion, due largely to the effects described under adjusted EBITDA AL. At EUR -86 million, special factors were EUR 34 million higher than in the prior year. In organic terms, EBITDA AL remained stable.

Development of operations in selected countries

Greece. In Greece, revenue developed positively in the first half of 2019, coming in at EUR 1.4 billion or 1.4 percent higher than in the prior-year period. This was driven primarily by higher mobile revenue, in particular service revenues, and consistently high fixed-network revenue. Broadband business posted particularly strong growth as a result of the ongoing rollout of fiber-optic lines and vectoring. TV revenue also increased compared with the prior-year period. Our wholesale operations continued to grow, while our B2B/ICT business customer operations reported a decline versus the same period of last year. The FMC offering developed positively, with rising customer numbers and corresponding revenue.

In the first half of 2019, adjusted EBITDA AL in Greece increased significantly by 3.1 percent year-on-year to EUR 573 million. Higher revenue along with savings in indirect costs were partially offset by higher direct costs.

Hungary. Revenue in Hungary declined by 1.8 percent year-on-year to EUR 914 million in the first half of 2019. In organic terms, revenue was on a par with the prior year. Mobile business posted strong year-on-year growth, with volume- and price-driven increases in service and terminal equipment revenues. Fixed-network business declined compared with the same period of last year, largely due to lower revenue in B2B/ICT customer operations, caused mainly by a non-recurring effect in the prior year. Higher revenue in broadband and terminal equipment business partially offset this decline. The extreme success of our FMC offering, MagentaOne, is underscored by continued growth in the FMC customer base and a corresponding rise in revenue.

At EUR 260 million, adjusted EBITDA AL was virtually on a par with the first half of 2018 – in part due to negative currency translation effects. In organic terms, adjusted EBITDA AL grew by 1.2 percent.

Austria. Revenue in Austria totaled EUR 621 million in the first half of 2019, a year-on-year increase of 43.8 percent. In organic terms, i.e., adjusted for the inclusion of UPC Austria, revenue increased by 1.5 percent, largely a result of rising higher-margin service revenues. Alongside the existing mobile-based broadband internet solutions already being successfully marketed to customers, the acquisition of UPC Austria has enabled us to add fixed-network technology to our portfolio and introduce convergent products under our new product brand.

Adjusted EBITDA AL increased by 66.4 percent year-on-year to EUR 233 million. In organic terms, i.e., adjusted for the inclusion of UPC Austria, adjusted EBITDA AL increased by 5.7 percent as a result of higher revenue as well as savings in indirect costs.

Poland. Revenue at our national company in Poland decreased by 4.0 percent compared with the prior-year period to EUR 713 million. In organic terms, revenue declined by 2.3 percent. This decrease is mainly due to lower revenue from mobile terminal equipment business, which could not be completely offset by the increase in higher-margin service revenues. B2B/ICT business customer operations posted a revenue increase. In traditional fixed-network business, which we are still working to expand, revenue declined once again year-on-year. We are investing heavily in the development of technologies with the goal of becoming a one-stop shop for our customers as an integrated service provider.

Adjusted EBITDA AL stood at EUR 192 million, down 1.0 percent year-on-year. In organic terms, adjusted EBITDA AL grew slightly by 0.7 percent. The downward trend in revenue was offset by an even larger reduction in direct costs; indirect costs also declined compared with the prior year.

SYSTEMS SOLUTIONS

For information on changes resulting from the first-time application of the IFRS 16 “Leases” accounting standard, please refer to the section [“Group organization, strategy, and management.”](#)

ORDER ENTRY

millions of €

	H1 2019	Q1 2019	2018	H1 2018	Change H1 2019/ H1 2018 %
ORDER ENTRY	3,494	1,609	6,776	3,348	4.4

Development of business

The first half of 2019 was dominated by efforts to establish our realigned Systems Solutions business. Investments in growth areas and innovation fields (such as the public cloud, the Internet of Things, digital solutions, security) create the basis for us to continue to focus our segment strategy on a sustainable shift into strategic growth areas. In parallel, we are working to strengthen our telecommunications operations and successfully manage the decline in traditional IT business.

With this in mind, we are executing a comprehensive transformation program, launched in 2018, under which we realigned our organization and workflows, adjusted capacities, developed a new strategy for our

EBIT

EBIT in our Europe operating segment decreased slightly by 0.9 percent in the first half of 2019 to EUR 696 million. Whereas previously expenses had been recognized in connection with operating leases, the right-of-use assets recognized in this context since the application of accounting standard IFRS 16 as of January 1, 2019 result in particular in higher depreciation charges. The decline in EBIT was driven by the increase in other depreciation, amortization and impairment losses compared with the prior year.

Cash capex

In the reporting period, our Europe operating segment reported cash capex of EUR 915 million, up 9.4 percent year-on-year. This rise was largely a result of cash outflows in the first half of 2019 for the acquisition of spectrum licenses in Hungary and for 5G spectrum in Austria. A further key focus of our capital expenditures was the rollout of broadband and fiber-optic technology in Greece, Austria, Poland, and Hungary as part of our integrated network strategy.

portfolio, and created three offering clusters. Ten portfolio units and one emerging business unit look after not only our traditional IT and telecommunications businesses, but also our growth areas (public cloud, Internet of Things, digital solutions, security, SAP, classified ICT, health, and toll collection systems).

Order entry in our Systems Solutions operating segment was up by 4.4 percent in the first half of 2019, marking a consistently positive development compared with the already strong prior year. This growth is primarily due to a positive trend in our growth areas digital solutions, classified ICT, public cloud, and SAP.

DEVELOPMENT OF OPERATIONS

millions of €								
	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
TOTAL REVENUE	1,630	1,673	1,674	(0.1)	3,304	3,339	(1.0)	6,936
Of which: external revenue	1,278	1,321	1,319	0.2	2,599	2,651	(2.0)	5,497
Loss from operations (EBIT)	(49)	(126)	(28)	n.a.	(175)	(104)	(68.3)	(291)
Special factors affecting EBIT	(46)	(157)	(51)	n.a.	(203)	(89)	n.a.	(322)
EBIT (adjusted for special factors)	(3)	31	23	34.8	28	(15)	n.a.	32
EBIT margin (adjusted for special factors) %	(0.2)	1.9	1.4		0.8	(0.4)		0.5
Depreciation, amortization and impairment losses	(128)	(155)	(99)	(56.6)	(283)	(194)	(45.9)	(453)
EBITDA	79	29	71	(59.2)	108	90	20.0	163
EBITDA AL ^a	46	(3)	73	n.a.	43	95	(54.7)	176
Special factors affecting EBITDA	(46)	(130)	(51)	n.a.	(176)	(89)	(97.8)	(266)
EBITDA (adjusted for special factors)	125	158	121	30.6	284	179	58.7	429
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS)^a	92	127	124	2.4	219	184	19.0	442
EBITDA AL margin (adjusted for special factors) ^a %	5.6	7.6	7.4		6.6	5.5		6.4
CASH CAPEX	(93)	(73)	(182)	59.9	(167)	(265)	37.0	(462)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

Total revenue in our Systems Solutions operating segment in the first half of 2019 amounted to EUR 3.3 billion, putting it more or less on a par with the prior-year level. In our growth areas – in particular public cloud and security – we recorded a positive revenue trend which almost fully offset the decline in traditional ICT business. What is more, the decline in traditional IT operations was smaller than expected: The general downward trend is attributable in particular to the decline in our international corporate customer operations and the market contraction in our core market of Western Europe, as well as to deliberate portfolio decisions (such as the termination of Desktop Services).

EBITDA AL, adjusted EBITDA AL

In the first half of 2019, adjusted EBITDA AL at our Systems Solutions operating segment increased by EUR 35 million year-on-year to EUR 219 million, mainly due to effects from our transformation program, a positive development in the Open Telekom Cloud, and enhanced efficiency in traditional IT operations. EBITDA AL decreased by EUR 52 million year-on-year to EUR 43 million, mainly due to portfolio streamlining activities. As a result of both this and ongoing restructuring measures, special factors were up EUR 87 million year-on-year.

EBIT, adjusted EBIT

Adjusted EBIT in our Systems Solutions operating segment in the first half of 2019 increased by EUR 43 million year-on-year, coming in at EUR 28 million. The effects described under adjusted EBITDA AL were the main drivers of this decrease. Whereas previously expenses had been recognized in connection with operating leases, the right-of-use assets recognized in this context since the application of accounting standard IFRS 16 as of January 1, 2019 result in particular in higher depreciation charges. EBIT decreased by EUR 71 million compared with the first six months of the prior year to EUR -175 million, also due to the effects described under EBITDA AL.

Cash capex

Cash capex in the Systems Solutions operating segment stood at EUR 167 million in the first half of 2019, compared with EUR 265 million in the prior year. This decrease was a result of high investments in a new ERP system in 2018. Capital expenditures remain focused on developing our operations in growth areas, such as digital solutions, the Internet of Things, and toll collection systems.

GROUP DEVELOPMENT

For information on changes resulting from the first-time application of the IFRS 16 "Leases" accounting standard and changes in the organizational structure, please refer to the section "[Group organization, strategy, and management.](#)"

Since the spin-off from T-Mobile Netherlands on January 1, 2019, the cell tower business of T-Mobile Netherlands has been reported under GD Towers, the new unit set up in the Group Development operating segment. This unit comprises DFMG and the cell tower business of T-Mobile Netherlands. Prior-year comparatives were not adjusted.

CUSTOMER DEVELOPMENT

thousands				Change June 30, 2019/ Mar. 31, 2019 %		Change June 30, 2019/ Dec. 31, 2018 %		Change June 30, 2019/ June 30, 2018 %
		June 30, 2019	Mar. 31, 2019		Dec. 31, 2018		June 30, 2018	
NETHERLANDS	Mobile customers	5,455	5,382	1.4	4,021	35.7	3,967	37.5
	Fixed-network lines	578	557	3.8	241	n.a.	210	n.a.
	Broadband customers	578	557	3.8	241	n.a.	210	n.a.

The number of mobile and fixed-network customers in the Netherlands increased significantly compared with the end of 2018 due to the customer base acquired in connection with Tele2 Netherlands. There was also clear customer growth in the operating business. Despite intense competition, customer additions were recorded in particular in

mobile communications thanks to our attractive rate plan portfolio offering large data packages through to unlimited data volumes. The number of fixed-network consumers also increased further as a result of our attractive rate plan portfolio.

DEVELOPMENT OF OPERATIONS

millions of €								
		Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %
TOTAL REVENUE		682	683	535	27.7	1,364	1,063	28.3
Of which: Netherlands		461	458	318	44.0	918	627	46.4
Profit from operations (EBIT)		126	102	149	(31.5)	227	297	(23.6)
Depreciation, amortization and impairment losses		(200)	(199)	(80)	n.a.	(398)	(158)	n.a.
EBITDA		325	300	228	31.6	626	455	37.6
EBITDA AL ^a		249	232	222	4.5	481	443	8.6
Special factors affecting EBITDA		(6)	(18)	(5)	n.a.	(25)	(9)	n.a.
EBITDA (adjusted for special factors)		332	319	233	36.9	651	464	40.3
Of which: Netherlands		147	137	109	25.7	284	217	30.9
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS) ^a		255	250	227	10.1	506	452	11.9
Of which: Netherlands		123	117	106	10.4	240	210	14.3
EBITDA AL margin (adjusted for special factors) ^a		%	37.4	36.6	42.4	37.1	42.5	40.8
CASH CAPEX		(86)	(106)	(56)	(89.3)	(192)	(141)	(36.2)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

In the first half of 2019, total revenue in our Group Development operating segment increased by 28.3 percent year-on-year, primarily due to the inclusion of Tele2 Netherlands since the start of 2019. Both business customer and consumer operations contributed to this revenue growth, on the back of customer growth and a positive trend in business with MVNOs in the Netherlands. The GD Towers unit also recorded a year-on-year increase in revenue, driven by volume-based growth at DFMG.

EBITDA AL, adjusted EBITDA AL

EBITDA AL increased from EUR 443 million in the prior-year period to EUR 481 million. This growth was mainly attributable to the earnings contributed by Tele2 Netherlands and the aforementioned positive effects on revenue. Efficient cost management also contributed to the growth in EBITDA AL. EBITDA AL of the GD Towers unit is increasing steadily thanks to growing volumes. In addition to the positive effects from the acquisition of Tele2 Netherlands, EBITDA AL of T-Mobile Netherlands was impacted by the transfer of the EBITDA AL contribution of the Dutch cell tower business to GD Towers. Revenue growth and efficiency enhancement measures also contributed to a positive trend in operations. For the same reasons, adjusted EBITDA AL increased from

EUR 452 million to EUR 506 million. The decline in the adjusted EBITDA AL margin is attributable to the integration of Tele2 Netherlands.

EBIT

Due to the consolidation of Tele2 Netherlands at T-Mobile Netherlands and the associated increase in depreciation, amortization and impairment losses, as well as one-time effects resulting from the integration, EBIT decreased by EUR 70 million compared with the first half of 2018 to EUR 227 million. GD Towers' high investments in new cell sites also increased depreciation, amortization and impairment

GROUP HEADQUARTERS & GROUP SERVICES

For information on changes resulting from the first-time application of the IFRS 16 "Leases" accounting standard, please refer to the section "Group organization, strategy, and management."

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2019	Q2 2019	Q2 2018	Change %	H1 2019	H1 2018	Change %	FY 2018
TOTAL REVENUE	651	678	767	(11.6)	1,329	1,418	(6.3)	2,735
Loss from operations (EBIT)	(393)	(314)	(281)	(11.7)	(707)	(605)	(16.9)	(1,662)
Depreciation, amortization and impairment losses	(260)	(307)	(269)	(14.1)	(568)	(431)	(31.8)	(825)
EBITDA	(132)	(7)	(12)	41.7	(139)	(174)	20.1	(837)
EBITDA AL ^a	(234)	(108)	(31)	n.a.	(343)	(215)	(59.5)	(923)
Special factors affecting EBITDA	(97)	(27)	(54)	50.0	(124)	(146)	15.1	(322)
EBITDA (adjusted for special factors)	(35)	20	41	(51.2)	(15)	(29)	48.3	(515)
EBITDA AL (ADJUSTED FOR SPECIAL FACTORS)^a	(137)	(82)	23	n.a.	(219)	(69)	n.a.	(601)
CASH CAPEX	(274)	(231)	(247)	6.5	(505)	(495)	(2.0)	(1,078)

^a Prior-year comparatives were calculated on a pro forma basis for the redefined key performance indicators resulting from the introduction of the IFRS 16 accounting standard.

Total revenue

Total revenue in our Group Headquarters & Group Services segment in the first half of 2019 decreased by 6.3 percent year-on-year, mainly due to lower intragroup revenue at Deutsche Telekom IT from the licensing of the Group-wide ERP system, which does not impact on earnings at Group level. A slight negative factor resulted from the fact that, as of January 2016, the costs of intragroup development services newly commissioned from Deutsche Telekom IT in Germany are no longer charged internally.

EBITDA AL, adjusted EBITDA AL

Adjusted EBITDA AL at our Group Headquarters & Group Services segment decreased in the reporting period by EUR 150 million year-on-year due to two main effects: lower proceeds from real estate sales and lower revenue at Deutsche Telekom IT from the licensing of the Group-wide ERP system.

Overall, EBITDA AL was negatively impacted in the reporting period by special factors amounting to EUR 124 million, especially for staff-related measures. Negative net special factors affecting EBITDA AL in the prior-year period had amounted to EUR 146 million – with expenses for staff-related measures being partially offset by the positive effect of the

losses. Whereas previously expenses had been recognized in connection with operating leases, the right-of-use assets recognized in this context since the application of accounting standard IFRS 16 as of January 1, 2019 result in particular in higher depreciation charges.

Cash capex

Cash capex increased by EUR 51 million or 36.2 percent compared with the prior-year period, due mainly to the additional investments required to integrate Tele2 Netherlands and higher capital expenditure at DFMG in connection with building out mobile infrastructure in Germany.

reversal of provisions for legal risks in connection with the conclusion of the Toll Collect arbitration proceedings.

EBIT

The year-on-year decrease of EUR 102 million in EBIT was mainly due to the effects described under EBITDA AL. Whereas previously expenses had been recognized in connection with operating leases, the right-of-use assets recognized in this context since the application of accounting standard IFRS 16 as of January 1, 2019 result in particular in higher depreciation charges. Other depreciation, amortization and impairment losses were slightly below the prior-year level, largely as a result of a slight decrease in depreciation and amortization at Deutsche Telekom IT. This reflects two contrasting effects: On the one hand, depreciation, amortization and impairment losses decreased as a result of lower capitalization in connection with the decline in the licensing of the Group-wide ERP system. On the other, depreciation, amortization and impairment losses increased as a result of the fact that the costs of intragroup development services newly commissioned in Germany are no longer charged internally but are instead capitalized at Deutsche Telekom IT. In addition, slightly lower depreciation, amortization and impairment losses from land and buildings as a result of our continued optimization of the real estate portfolio also had an effect.

Cash capex

Cash capex increased by EUR 10 million year-on-year, primarily owing to increased investment in technology and innovation, mainly for development activities. The slight decline in cash capex for vehicles had an offsetting effect.

EVENTS AFTER THE REPORTING PERIOD

Please refer to the section "[Events after the reporting period](#)" in the interim consolidated financial statements.

FORECAST

The statements in this section reflect the current views of our management. To date, there is no evidence that the forecasts published in the combined management report of the [2018 Annual Report](#) have significantly changed. Accordingly, the statements made therein remain valid. For additional information and recent changes in the economic situation, please refer to the section "[The economic environment](#)" in this interim Group management report. Readers are also referred to the [Disclaimer](#) at the end of this report.

RISKS AND OPPORTUNITIES

This section provides important additional information and explains recent changes in the risks and opportunities as described in the combined management report of the [2018 Annual Report](#). Readers are also referred to the [Disclaimer](#) at the end of this report.

OPERATIONAL RISKS

The risk significance in the risk category "Risks relating to IT/NT network operations, United States" was regraded from medium to low in the first half of 2019. This was due not only to the geographical redundancies that were put in place, but also to the adequate disaster recovery functions for the billing systems for customer services, which were rated as functional in tests. The risk is thus mitigated and will no longer be reported.

LITIGATION

Lawsuits filed by partnering publishers of telephone directories. In the lawsuits filed by the partnering publishers of telephone directories, two of the suits suspended in the first instance were withdrawn in March 2019 after the already reported ruling of the Federal Court of Justice in January 2019 went in our favor. As a result, ten proceedings are still pending with a total claimed amount of approximately EUR 70 million plus interest. For nine of these suits, appeal proceedings are still in process with the German Federal Court of Justice while one claim remains suspended. Proceedings before the administrative court were also brought to a close after the remaining two plaintiffs withdrew their respective suits under administrative law.

ANTI-TRUST PROCEEDINGS

Claims for damages against Slovak Telekom following a European Commission decision to impose fines. On February 21, 2019, Slovak Telekom and Deutsche Telekom filed an appeal with the European Court of Justice against the ruling by the General Court of the European Union of December 13, 2018 in which the fines imposed by the European Commission were partially overturned and the level of the fines reduced. As such, Slovak Telekom and Deutsche Telekom are seeking, inter alia, to have the decision ruling Slovak Telekom's behavior as abusive overturned.

ASSESSMENT OF THE AGGREGATE RISK POSITION

At the time of preparing this report, neither our risk management system nor our management could identify any material risks to the continued existence of Deutsche Telekom AG or a significant Group company as a going concern.