

DEUTSCHE TELEKOM

ACCOUNTING CHANGES 2018



LIFE IS FOR SHARING.

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2018 ACCOUNTING CHANGES: MAIN TAKE-AWAYS

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

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

- From **2019** onwards yoy comparisons figures based on IFRS15/9 only



IFRS 9: ONLY MINOR P&L IMPACT

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

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

■ Impact in 2018 will be approx. -50m € on the group adj. EBITDA (approx. 60% related to the US)

IFRS 15: GENERAL EFFECTS

- **General effect of IFRS 15:**
 - **Lower revenues/lower OPEX:** due to (implicit) handset subsidy reimbursements included in third party dealer commissions and payments to other service providers, now recognized as **service revenue reduction (straight-lined)**
 - **Effects on EBITDA:** due to change in number of contracts/prices and market invest actions over time: time effect leads to positive or negative impact on EBITDA of reporting period depending on which opposing effect outweigh



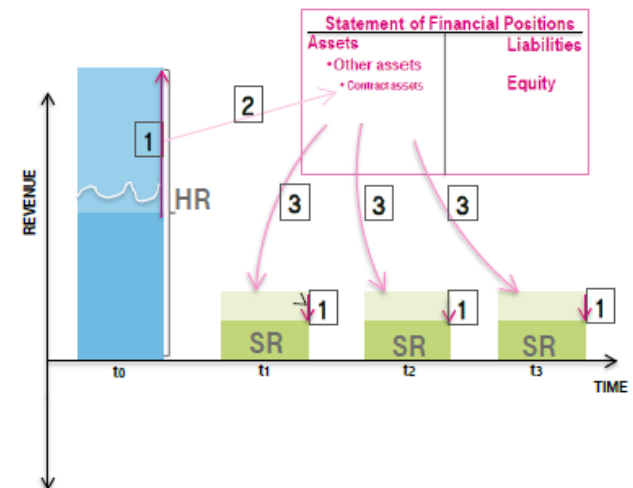
IFRS 15: MAIN DIFFERENCES COMPARED TO IAS 18

- Example: Bundle Contract with the elements device and service and device sold at subsidized price
- Main changes of IFRS 15:
 - **Revenue-reallocation** of total contract revenue to both elements according to their relative fair values
 - Shift effect (**higher** handset revenues, **less** service revenues by same amount $\downarrow(1)$)
 - time effect (higher revenues at commencement date of contract and lower revenues during contract term)
 - **Cash** from customer **unequal** to **revenue** recognized (equal over total contract period)
 - Increase in working capital (delta between cash received and handset revenue recognized as contract asset (2) and released against service revenues over contract period (3))
 - no impact on FCF
- No impact (compared to IAS 18) on bundle contracts where device is sold at full price in installments

Today under IAS 18:

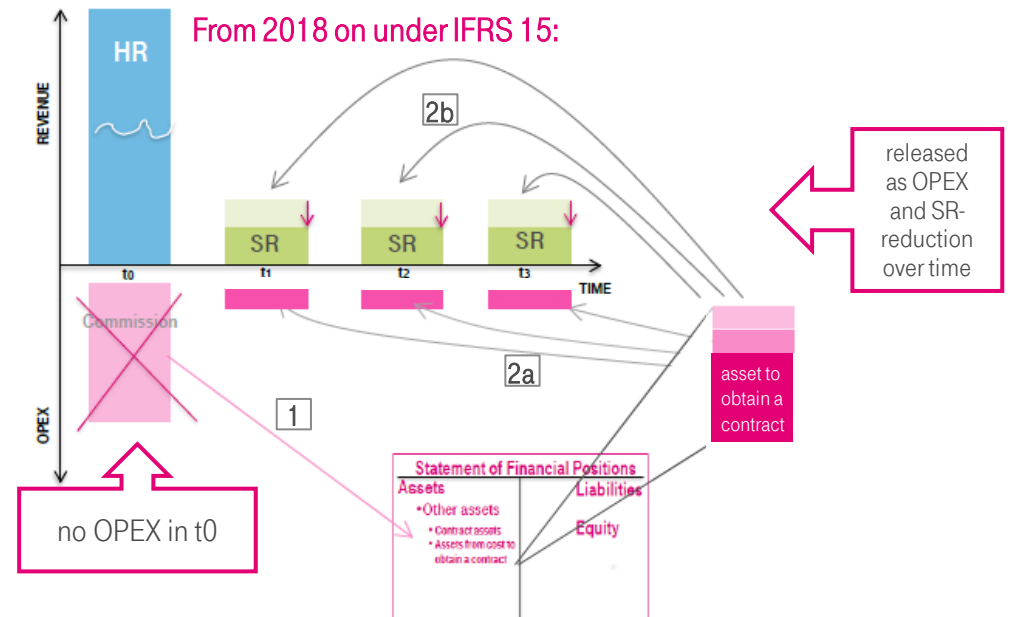
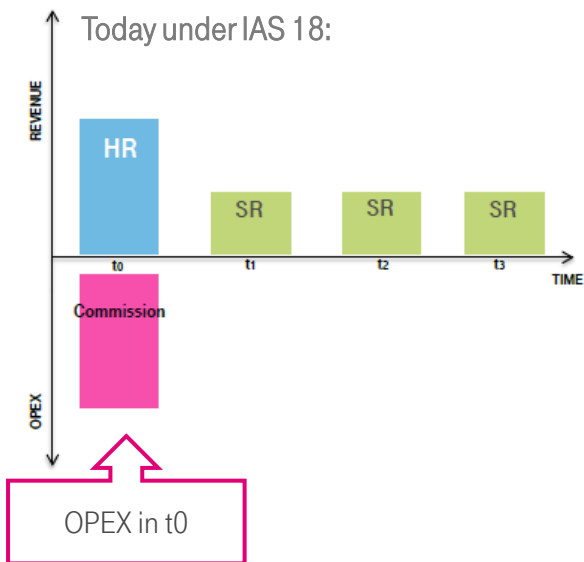


From 2018 on under IFRS 15:



IFRS 15: MAIN DIFFERENCES COMPARED TO IAS 18

- Example: Third party distribution with dealer commission
- Main changes of IFRS 15:
 - **Commissions** paid to **third party dealers** deferred on balance sheet in *t0* (1) and released P&L effective over subsequent contract period only **partly** as **OPEX** (2a) and partly as **service revenue reduction** (2b) (time effect by straight lining)
 - **Commissions** paid to **service providers** deferred on balance sheet in *t0* (1) and released P&L effectively subsequently over contract period as **service revenue reduction** (2b) (time effect by straight lining)



IFRS 15: MAIN DIFFERENCES COMPARED TO IAS 18

Aggregated IFRS 15 effect over all contracts on Group P&L compared to IAS 18: total **Revenues and OPEX** decrease c.p. (with opposing effects on EBITDA)

- **Downside of “catch up” on Revenues/ EBITDA in 2018:** on Jan 1 2018 all existing contracts with commencement date before 2018 are treated as if always accounted for under IFRS 15. Therefore
 - upsides of IFRS 15 (i.e. higher handset revenues and lower OPEX on commencement date of new contracts) are booked as catch up within equity (no P&L effect), whereas
 - downsides, i.e. (lower service revenue and release of commissions into OPEX / service revenue reduction over still running contract term) mainly hit P&L in 2018 and following years.
 - With reduction of old contracts in stock negative impact on EBITDA from catch up will decrease.

Impact in 2018 will be approx. -0.15bn € on group revenue and max. +0.1bn on adj. group EBITDA



IFRS 15: EXPECTED IMPACT ON SEGMENTS

- **Germany**

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

- **Europe**

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

- **US**

- Impact on total revenues approx. +0.5%. Impact on EBITDA: approx. +0.2%
- Impact on service revenues approx. -0.8%



THANK YOU!