CHANGING WIRELESS FOR GOOD

T · · Mobile ·

Q2 2018

Financial Results, Supplementary Data, Non-GAAP Reconciliations, Reconciliation of Operating Measures

T-Mobile US, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except share and per share amounts)	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 215	$ 1,219
Accounts receivable, net of allowances of $70 and $86	1,630	1,915
Equipment installment plan receivables, net	2,308	2,290
Accounts receivable from affiliates	11	22
Inventories	998	1,566
Other current assets	1,929	1,903
Total current assets	7,091	8,915
Property and equipment, net	22,375	22,196
Goodwill	1,901	1,683
Spectrum licenses	35,532	35,366
Other intangible assets, net	260	217
Equipment installment plan receivables due after one year, net	1,222	1,274
Other assets	1,311	912
Total assets	$ 69,692	$ 70,563
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,686	$ 8,528
Payables to affiliates	190	182
Short-term debt	1,004	1,612
Short-term debt to affiliates	320	—
Deferred revenue	722	779
Other current liabilities	359	414
Total current liabilities	9,281	11,515
Long-term debt	12,065	12,121
Long-term debt to affiliates	14,581	14,586
Tower obligations	2,574	2,590
Deferred tax liabilities	4,087	3,537
Deferred rent expense	2,746	2,720
Other long-term liabilities	968	935
Total long-term liabilities	37,021	36,489
Commitments and contingencies		
Stockholders' equity		
Common Stock, par value $0.00001 per share, 1,000,000,000 shares authorized; 848,736,488 and 860,861,998 shares issued, 847,225,746 and 859,406,651 shares outstanding	—	—
Additional paid-in capital	37,786	38,629
Treasury stock, at cost, 1,510,742 and 1,455,347 shares issued	(7)	(4)
Accumulated other comprehensive income	—	8
Accumulated deficit	(14,389)	(16,074)
Total stockholders' equity	23,390	22,559
Total liabilities and stockholders' equity	$ 69,692	$ 70,563

T-Mobile US, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended			Six Months Ended June 30,	
(in millions, except share and per share amounts)	June 30, 2018	March 31, 2018	June 30, 2017	2018	2017
Revenues					
Branded postpaid revenues	$ 5,164	$ 5,070	$ 4,820	$ 10,234	$ 9,545
Branded prepaid revenues	2,402	2,402	2,334	4,804	4,633
Wholesale revenues	275	266	234	541	504
Roaming and other service revenues	90	68	57	158	92
Total service revenues	7,931	7,806	7,445	15,737	14,774
Equipment revenues	2,325	2,353	2,506	4,678	4,549
Other revenues	315	296	262	611	503
Total revenues	10,571	10,455	10,213	21,026	19,826
Operating expenses					
Cost of services, exclusive of depreciation and amortization shown separately below	1,530	1,589	1,518	3,119	2,926
Cost of equipment sales	2,772	2,845	2,846	5,617	5,532
Selling, general and administrative	3,185	3,164	2,915	6,349	5,870
Depreciation and amortization	1,634	1,575	1,519	3,209	3,083
Gains on disposal of spectrum licenses	—	—	(1)	—	(38)
Total operating expense	9,121	9,173	8,797	18,294	17,373
Operating income	1,450	1,282	1,416	2,732	2,453
Other income (expense)					
Interest expense	(196)	(251)	(265)	(447)	(604)
Interest expense to affiliates	(128)	(166)	(131)	(294)	(231)
Interest income	6	6	6	12	13
Other income (expense), net	(64)	10	(92)	(54)	(90)
Total other expense, net	(382)	(401)	(482)	(783)	(912)
Income before income taxes	1,068	881	934	1,949	1,541
Income tax expense	(286)	(210)	(353)	(496)	(262)
Net income	782	671	581	1,453	1,279
Dividends on preferred stock	—	—	(14)	—	(28)
Net income attributable to common stockholders	$ 782	$ 671	$ 567	$ 1,453	$ 1,251
Net income	$ 782	$ 671	$ 581	$ 1,453	$ 1,279
Other comprehensive income, net of tax					
Unrealized gain (loss) on available-for-sale securities, net of tax effect of $1, $(1), $1, $0 and $2	3	(3)	1	—	2
Other comprehensive income	3	(3)	1	—	2
Total comprehensive income	$ 785	$ 668	$ 582	$ 1,453	$ 1,281
Earnings per share					
Basic	$ 0.92	$ 0.78	$ 0.68	$ 1.71	$ 1.51
Diluted	$ 0.92	$ 0.78	$ 0.67	$ 1.69	$ 1.47
Weighted average shares outstanding					
Basic	847,660,488	855,222,664	830,971,528	851,420,686	829,356,255
Diluted	852,040,670	862,244,084	870,457,181	858,728,832	870,854,386

T-Mobile US, Inc.
Condensed Consolidated Statements of Cash Flows [1]
(Unaudited)

(in millions)	Three Months Ended June 30, 2018	Three Months Ended March 31, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating activities					
Net income	$ 782	$ 671	$ 581	$ 1,453	$ 1,279
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	1,634	1,575	1,519	3,209	3,083
Stock-based compensation expense	112	97	72	209	139
Deferred income tax expense	272	206	345	478	248
Bad debt expense	75	54	82	129	175
Losses from sales of receivables	27	52	80	79	175
Deferred rent expense	7	4	20	11	40
Losses on redemption of debt	90	32	88	122	86
Gains on disposal of spectrum licenses	—	—	(1)	—	(38)
Changes in operating assets and liabilities					
Accounts receivable	(1,136)	(873)	(629)	(2,009)	(1,654)
Equipment installment plan receivables	(286)	(222)	(584)	(508)	(793)
Inventories	125	33	(185)	158	(141)
Other current and long-term assets	(248)	132	(135)	(116)	(146)
Accounts payable and accrued liabilities	(79)	(1,028)	56	(1,107)	(595)
Other current and long-term liabilities	(105)	45	(189)	(60)	(144)
Other, net	(9)	(8)	(14)	(17)	—
Net cash provided by operating activities	1,261	770	1,106	2,031	1,714
Investing activities					
Purchases of property and equipment, including capitalized interest of $102, $43, $34, $145 and $82	(1,629)	(1,366)	(1,347)	(2,995)	(2,875)
Purchases of spectrum licenses and other intangible assets	(28)	(51)	(5,791)	(79)	(5,805)
Proceeds related to beneficial interests in securitization transactions	1,323	1,295	882	2,618	2,016
Acquisition of companies, net of cash acquired	(5)	(333)	—	(338)	—
Other, net	33	(7)	5	26	(3)
Net cash used in investing activities	(306)	(462)	(6,251)	(768)	(6,667)
Financing activities					
Proceeds from issuance of long-term debt	—	2,494	4,485	2,494	9,980
Payments of consent fees related to long-term debt	(38)	—	—	(38)	—
Proceeds from borrowing on revolving credit facility	2,070	2,170	1,855	4,240	1,855
Repayments of revolving credit facility	(2,195)	(1,725)	(1,175)	(3,920)	(1,175)
Repayments of capital lease obligations	(155)	(172)	(119)	(327)	(209)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	—	(292)	—	(292)
Repayments of long-term debt	(2,350)	(999)	(6,750)	(3,349)	(10,230)
Repurchases of common stock	(405)	(666)	—	(1,071)	—
Tax withholdings on share-based awards	(10)	(74)	(3)	(84)	(95)
Dividends on preferred stock	—	—	(14)	—	(28)
Cash payments for debt prepayment or debt extinguishment costs	(181)	(31)	(159)	(212)	(188)
Other, net	(3)	3	(3)	—	16
Net cash (used in) provided by financing activities	(3,267)	1,000	(2,175)	(2,267)	(366)
Change in cash and cash equivalents	$ (2,312)	$ 1,308	$ (7,320)	$ (1,004)	$ (5,319)
Cash and cash equivalents					
Beginning of period	2,527	1,219	7,501	1,219	5,500
End of period	$ 215	$ 2,527	$ 181	$ 215	$ 181
Supplemental disclosure of cash flow information					
Interest payments, net of amounts capitalized	$ 559	$ 378	$ 727	$ 937	$ 1,222
Income tax payments	10	1	6	11	21
Noncash beneficial interest obtained in exchange for securitized receivables	1,205	1,128	992	2,333	2,008
Noncash investing and financing activities					
Changes in accounts payable for purchases of property and equipment	(386)	(364)	8	(750)	(317)
Leased devices transferred from inventory to property and equipment	280	304	270	584	513
Returned leased devices transferred from property and equipment to inventory	(90)	(82)	(273)	(172)	(470)
Issuance of short-term debt for financing of property and equipment	54	237	2	291	290
Assets acquired under capital lease obligations	176	142	313	318	597

(1) In Q1 2018, the adoption of the new cash flow accounting standard resulted in a reclassification of cash flows related to the deferred purchase price from securitization transactions from operating activities to investing activities. In addition, cash flows related to debt prepayment and extinguishment costs were reclassified from operating activities to financing activities. The effects of this change are applied retrospectively and are provided in the Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures tables.

T-Mobile US, Inc. Supplementary Operating and Financial Data

(in thousands)	Quarter						Six Months Ended June 30,	
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Customers, end of period								
Branded postpaid phone customers (1) (2)	32,095	32,628	33,223	34,114	34,744	35,430	32,628	35,430
Branded postpaid other customers (2)	3,246	3,530	3,752	3,933	4,321	4,652	3,530	4,652
Total branded postpaid customers	35,341	36,158	36,975	38,047	39,065	40,082	36,158	40,082
Branded prepaid customers (1)	20,199	20,293	20,519	20,668	20,876	20,967	20,293	20,967
Total branded customers	55,540	56,451	57,494	58,715	59,941	61,049	56,451	61,049
Wholesale customers (3)	17,057	13,111	13,237	13,870	14,099	14,570	13,111	14,570
Total customers, end of period	72,597	69,562	70,731	72,585	74,040	75,619	69,562	75,619
Adjustments to wholesale customers (3)	—	(4,368)	(160)	—	—	—	(4,368)	—

(1) As a result of the acquisition of Iowa Wireless Services, LLC (IWS), we included an adjustment of 13,000 branded postpaid phone and 4,000 branded prepaid IWS customers in our reported subscriber base as of January 1, 2018. Additionally, as a result of the acquisition of Layer3 TV, we included an adjustment of 5,000 branded prepaid customers in our reported subscriber base as of January 22, 2018.

(2) During the third quarter of 2017, we retitled our "Branded postpaid mobile broadband customers" category to "Branded postpaid other customers" and reclassified 253,000 DIGITS customers from our "Branded postpaid phone customers" category for the second quarter of 2017, when the DIGITS product was released.

(3) We believe current and future regulatory changes have made the Lifeline program offered by our wholesale partners uneconomical. We will continue to support our wholesale partners offering the Lifeline program, but have excluded the Lifeline customers from our reported wholesale subscriber base resulting in the removal of 4,368,000 and 160,000 reported wholesale customers as of the beginning of Q2 2017 and Q3 2017, respectively.

(in thousands)	Quarter						Six Months Ended June 30,	
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Net customer additions (losses)								
Branded postpaid phone customers (1) (2)	798	533	595	891	617	686	1,331	1,303
Branded postpaid other customers (2)	116	284	222	181	388	331	400	719
Total branded postpaid customers	914	817	817	1,072	1,005	1,017	1,731	2,022
Branded prepaid customers (1)	386	94	226	149	199	91	480	290
Total branded customers	1,300	911	1,043	1,221	1,204	1,108	2,211	2,312
Wholesale customers (3)	(158)	422	286	633	229	471	264	700
Total net customer additions	1,142	1,333	1,329	1,854	1,433	1,579	2,475	3,012
Adjustments to branded postpaid phone customers (2)	—	(253)	—	—	—	—	(253)	—
Adjustments to branded postpaid other customers (2)	—	253	—	—	—	—	253	—

(1) As a result of the acquisition of IWS and Layer3 TV, customer activity post acquisition was included in our net customer additions beginning in the first quarter of 2018.

(2) During the third quarter of 2017, we retitled our "Branded postpaid mobile broadband customers" category to "Branded postpaid other customers" and reclassified 253,000 DIGITS customer net additions from our "Branded postpaid phone customers" category for the second quarter of 2017, when the DIGITS product was released.

(3) Net customer activity for Lifeline was excluded beginning in the second quarter of 2017 due to our determination based upon changes in the applicable government regulations that the Lifeline program offered by our wholesale partners is uneconomical.

	Quarter						Six Months Ended June 30,	
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Branded postpaid phone churn	1.18%	1.10%	1.23%	1.18%	1.07%	0.95%	1.14%	1.01%
Branded prepaid churn	4.01%	3.91%	4.25%	4.00%	3.94%	3.81%	3.96%	3.87%

T-Mobile US, Inc. Supplementary Operating and Financial Data (continued)

	Quarter						Six Months Ended June 30,	
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Financial Metrics								
Service revenues (in millions)	$7,329	$7,445	$7,629	$7,757	$7,806	$7,931	$14,774	$15,737
Total revenues (in millions)	$9,613	$10,213	$10,019	$10,759	$10,455	$10,571	$19,826	$21,026
Net income (in millions)	$698	$581	$550	$2,707	$671	$782	$1,279	$1,453
Net income margin	10%	8%	7%	35%	9%	10%	9%	9%
Adjusted EBITDA (in millions)	$2,668	$3,012	$2,822	$2,711	$2,956	$3,233	$5,680	$6,189
Adjusted EBITDA margin	36%	40%	37%	35%	38%	41%	38%	39%
Cash purchases of property and equipment including capitalized interest (in millions)	$1,528	$1,347	$1,441	$921	$1,366	$1,629	$2,875	$2,995
Capitalized Interest (in millions)	$48	$34	$29	$25	$43	$102	$82	$145
Cash purchases of property and equipment excluding capitalized interest (in millions)	$1,480	$1,313	$1,412	$896	$1,323	$1,527	$2,793	$2,850
Net cash provided by operating activities (in millions) (1)	$608	$1,106	$1,252	$865	$770	$1,261	$1,714	$2,031
Net cash provided by (used in) investing activities (in millions) (1)	$(416)	$(6,251)	$(345)	$267	$(462)	$(306)	$(6,667)	$(768)
Net cash provided by (used in) financing activities (in millions) (1)	$1,809	$(2,175)	$(349)	$(652)	$1,000	$(3,267)	$(366)	$(2,267)
Free Cash Flow (in millions) (1)	$185	$482	$921	$1,137	$668	$774	$667	$1,442
Net cash proceeds from securitization	$(144)	$66	$11	$95	$(150)	$25	$(78)	$(125)
Operating Metrics								
Branded postpaid phone ARPU (2)	$47.53	$47.07	$46.93	$46.38	$46.66	$46.52	$47.29	$46.59
Branded postpaid ABPU	$61.89	$60.40	$59.89	$59.88	$60.14	$58.37	$61.14	$59.24
Branded prepaid ARPU	$38.53	$38.65	$38.93	$38.63	$38.90	$38.48	$38.59	$38.69
Branded postpaid accounts, end of period (in thousands)	12,275	12,432	12,668	12,990	13,237	13,498	12,432	13,498
Branded postpaid customers per account	2.88	2.91	2.92	2.93	2.95	2.97	2.91	2.97
Device Sales and Leased Devices								
Phones (in millions)	8.6	8.3	8.7	9.7	8.7	7.9	16.9	16.6
Branded postpaid handset upgrade rate	7%	7%	6%	7%	5%	6%	14%	11%
Device Financing								
Gross EIP financed (in millions)	$1,339	$1,657	$1,487	$2,090	$1,572	$1,705	$2,996	$3,277
EIP billings (in millions)	$1,402	$1,402	$1,481	$1,581	$1,698	$1,585	$2,804	$3,283
EIP receivables, net (in millions)	$2,855	$3,162	$3,236	$3,564	$3,515	$3,530	$3,162	$3,530
Lease revenues (in millions)	$324	$234	$159	$160	$171	$177	$558	$348
Leased devices transferred from inventory to property and equipment (in millions)	$243	$270	$262	$356	$304	$280	$513	$584
Returned leased devices transferred from property and equipment to inventory (in millions)	$(197)	$(273)	$(165)	$(107)	$(82)	$(90)	$(470)	$(172)
Customer Quality								
EIP receivables classified as prime	43%	43%	43%	44%	43%	42%	43%	42%
EIP receivables classified as prime (including EIP receivables sold)	53%	52%	52%	54%	53%	52%	52%	52%
Total bad debt expense and losses from sales of receivables (in millions)	$188	$162	$190	$147	$106	$102	$350	$208

(1) In Q1 2018, the adoption of the new cash flow accounting standard resulted in a reclassification of cash flows related to the deferred purchase price from securitization transactions from operating activities to investing activities. In addition, cash flows related to debt prepayment and extinguishment costs were reclassified from operating activities to financing activities. In Q1 2018, we redefined Free Cash Flow to reflect the above changes in classification and present cash flows on a consistent basis for investor transparency. The effects of this change are applied retrospectively and are provided in the Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures tables.

(2) Branded postpaid phone ARPU includes the reclassification of 43,000 DIGITS average customers and the related revenue to the branded postpaid other customer category for the second quarter of 2017.

T-Mobile US, Inc.
Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures
(Unaudited)

This Investor Factbook includes non-GAAP financial measures. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information provided in accordance with GAAP. Reconciliations for the non-GAAP financial measures to the most directly comparable GAAP financial measures are provided below. T-Mobile is not able to forecast net income on a forward-looking basis without unreasonable efforts due to the high variability and difficulty in predicting certain items that affect GAAP net income including, but not limited to, income tax expense, stock-based compensation expense and interest expense. Adjusted EBITDA should not be used to predict net income as the difference between the two measures is variable.

Adjusted EBITDA is reconciled to net income as follows:

	Quarter						Six Months Ended June 30,	
(in millions)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Net income	$ 698	$ 581	$ 550	$ 2,707	$ 671	$ 782	$ 1,279	$ 1,453
Adjustments:								
Interest expense	339	265	253	254	251	196	604	447
Interest expense to affiliates	100	131	167	162	166	128	231	294
Interest income	(7)	(6)	(2)	(2)	(6)	(6)	(13)	(12)
Other (income) expense, net	(2)	92	(1)	(16)	(10)	64	90	54
Income tax expense (benefit)	(91)	353	356	(1,993)	210	286	262	496
Operating income	1,037	1,416	1,323	1,112	1,282	1,450	2,453	2,732
Depreciation and amortization	1,564	1,519	1,416	1,485	1,575	1,634	3,083	3,209
Stock-based compensation [1]	67	72	83	85	96	106	139	202
Cost associated with proposed Sprint transaction	—	—	—	—	—	41	—	41
Other, net [2]	—	5	—	29	3	2	5	5
Adjusted EBITDA	$ 2,668	$ 3,012	$ 2,822	$ 2,711	$ 2,956	$ 3,233	$ 5,680	$ 6,189

(1) Stock-based compensation includes payroll tax impacts and may not agree to stock-based compensation expense in the condensed consolidated financial statements.

(2) Other, net may not agree to the Condensed Consolidated Statements of Comprehensive Income primarily due to certain non-routine operating activities, such as other special items that would not be expected to reoccur, and are therefore excluded in Adjusted EBITDA.

T-Mobile US, Inc.
Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures (continued)
(Unaudited)

Net debt (excluding Tower obligations) to last twelve months Net income and Adjusted EBITDA ratios are calculated as follows:

(in millions, except net debt ratio)	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018
Short-term debt	$ 7,542	$ 522	$ 558	$ 1,612	$ 3,320	$ 1,004
Short-term debt to affiliates	—	680	—	—	445	320
Long-term debt	13,105	13,206	13,163	12,121	12,127	12,065
Long-term debt to affiliates	9,600	14,086	14,586	14,586	14,586	14,581
Less: Cash and cash equivalents	(7,501)	(181)	(739)	(1,219)	(2,527)	(215)
Net debt (excluding Tower Obligations)	$ 22,746	$ 28,313	$ 27,568	$ 27,100	$ 27,951	$ 27,755
Divided by: Last twelve months Net income	$ 1,679	$ 2,035	$ 2,219	$ 4,536	$ 4,509	$ 4,710
Net Debt (excluding Tower Obligations) to last twelve months Net income	13.5	13.9	12.4	6.0	6.2	5.9
Divided by: Last twelve months Adjusted EBITDA	$ 10,493	$ 10,976	$ 11,109	$ 11,213	$ 11,501	$ 11,722
Net Debt (excluding Tower Obligations) to last twelve months Adjusted EBITDA Ratio	2.2	2.6	2.5	2.4	2.4	2.4

Free Cash Flow [(1)] is calculated as follows:

	Quarter						Six Months Ended June 30,	
(in millions)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Net cash provided by operating activities	$ 608	$ 1,106	$ 1,252	$ 865	$ 770	$ 1,261	$ 1,714	$ 2,031
Cash purchases of property and equipment	(1,528)	(1,347)	(1,441)	(921)	(1,366)	(1,629)	(2,875)	(2,995)
Proceeds related to beneficial interests in securitization transactions	1,134	882	1,110	1,193	1,295	1,323	2,016	2,618
Cash payments for debt prepayment or debt extinguishment costs	(29)	(159)	—	—	(31)	(181)	(188)	(212)
Free Cash Flow	$ 185	$ 482	$ 921	$ 1,137	$ 668	$ 774	$ 667	$ 1,442
Net cash (used in) provided by investing activities	$ (416)	$ (6,251)	$ (345)	$ 267	$ (462)	$ (306)	$ (6,667)	$ (768)
Net cash provided by (used in) financing activities	$ 1,809	$ (2,175)	$ (349)	$ (652)	$ 1,000	$ (3,267)	$ (366)	$ (2,267)

(1) In Q1 2018, the adoption of the new cash flow accounting standard resulted in a reclassification of cash flows related to the deferred purchase price from securitization transactions from operating activities to investing activities. In addition, cash flows related to debt prepayment and extinguishment costs were reclassified from operating activities to financing activities. In Q1 2018, we redefined Free Cash Flow to reflect the above changes in classification and present cash flows on a consistent basis for investor transparency. The effects of this change are applied retrospectively.

Free Cash Flow [(1)] three-year CAGR is calculated as follows:

	FY	FY			
(in millions, except CAGR Range)	2016	2019 Guidance Range		CAGR Range	
Net cash provided by operating activities	$ 2,779	$ 3,405	$ 3,855	7%	12%
Cash purchases of property and equipment	(4,702)	(5,100)	(5,400)	3%	5%
Proceeds related to beneficial interests in securitization transactions	3,356	6,195	6,195		
Cash payments for debt prepayment or debt extinguishment costs	—	—	(50)		
Free Cash Flow	$ 1,433	$ 4,500	$ 4,600	46%	48%

(1) In Q1 2018, the adoption of the new cash flow accounting standard resulted in a reclassification of cash flows related to the deferred purchase price from securitization transactions from operating activities to investing activities. In addition, cash flows related to debt prepayment and extinguishment costs were reclassified from operating activities to financing activities. In Q1 2018, we redefined Free Cash Flow to reflect the above changes in classification and present cash flows on a consistent basis for investor transparency. The effects of this change are applied retrospectively.

T-Mobile US, Inc.
Reconciliation of Operating Measures to Service Revenues
(Unaudited)

The following tables illustrate the calculation of our operating measures ARPU and ABPU and reconcile these measures to the related service revenues:

(in millions, except average number of customers, ARPU and ABPU)	Quarter						Six Months Ended June 30,	
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	2017	2018
Calculation of Branded Postpaid Phone ARPU								
Branded postpaid service revenues	$ 4,725	$ 4,820	$ 4,920	$ 4,983	$ 5,070	$ 5,164	$ 9,545	$ 10,234
Less: Branded postpaid other revenues	(225)	(255)	(294)	(303)	(259)	(272)	(480)	(531)
Branded postpaid phone service revenues	$ 4,500	$ 4,565	$ 4,626	$ 4,680	$ 4,811	$ 4,892	$ 9,065	$ 9,703
Divided by: Average number of branded postpaid phone customers (in thousands) and number of months in period	31,564	32,329	32,852	33,640	34,371	35,051	31,946	34,711
Branded postpaid phone ARPU [(1)]	$ 47.53	$ 47.07	$ 46.93	$ 46.38	$ 46.66	$ 46.52	$ 47.29	$ 46.59
Calculation of Branded Postpaid ABPU								
Branded postpaid service revenues	$ 4,725	$ 4,820	$ 4,920	$ 4,983	$ 5,070	$ 5,164	$ 9,545	$ 10,234
EIP billings	1,402	1,402	1,481	1,581	1,698	1,585	2,804	3,283
Lease revenues	324	234	159	160	171	177	558	348
Total billings for branded postpaid customers	$ 6,451	$ 6,456	$ 6,560	$ 6,724	$ 6,939	$ 6,926	$ 12,907	$ 13,865
Divided by: Average number of branded postpaid customers (in thousands) and number of months in period	34,740	35,636	36,505	37,436	38,458	39,559	35,188	39,009
Branded postpaid ABPU	$ 61.89	$ 60.40	$ 59.89	$ 59.88	$ 60.14	$ 58.37	$ 61.14	$ 59.24
Calculation of Branded Prepaid ARPU								
Branded prepaid service revenues	$ 2,299	$ 2,334	$ 2,376	$ 2,371	$ 2,402	$ 2,402	$ 4,633	$ 4,804
Divided by: Average number of branded prepaid customers (in thousands) and number of months in period	19,889	20,131	20,336	20,461	20,583	20,806	20,010	20,695
Branded prepaid ARPU	$ 38.53	$ 38.65	$ 38.93	$ 38.63	$ 38.90	$ 38.48	$ 38.59	$ 38.69

(1) Branded postpaid phone ARPU includes the reclassification of 43,000 DIGITS average customers and related revenue to the "Branded postpaid other customers" category for the second quarter of 2017.

Definitions of Terms

Operating and financial measures are utilized by T-Mobile's management to evaluate its operating performance and, in certain cases, its ability to meet liquidity requirements. Although companies in the wireless industry may not define measures in precisely the same way, T-Mobile believes the measures facilitate key operating performance comparisons with other companies in the wireless industry to provide management, investors and analysts with useful information to assess and evaluate past performance and assist in forecasting future performance.

1. Customer - SIM number with a unique T-Mobile mobile identifier which is associated with an account that generates revenue. Branded customers generally include customers that are qualified either for postpaid service, where they generally pay after incurring service, or prepaid service, where they generally pay in advance. Wholesale customers include Machine-to-Machine (M2M) and Mobile Virtual Network Operator (MVNO) customers that operate on T-Mobile's network, but are managed by wholesale partners.
2. Churn - Number of customers whose service was disconnected as a percentage of the average number of customers during the specified period. The number of customers whose service was disconnected is presented net of customers that subsequently have their service restored within a certain period of time.
3. Customers per account - The number of branded postpaid customers as of the end of the period divided by the number of branded postpaid accounts as of the end of the period. An account may include branded postpaid phone, mobile broadband, and DIGITS customers.
4. Average Revenue Per User (ARPU) - Average monthly service revenue earned from customers. Service revenues for the specified period divided by the average customers during the period, further divided by the number of months in the period.

   Branded postpaid phone ARPU excludes mobile broadband and DIGITS customers and related revenues.

   Average Billings per User (ABPU) - Average monthly branded postpaid service revenue earned from customers plus monthly EIP billings and lease revenues divided by the average branded postpaid customers during the period, further divided by the number of months in the period. T-Mobile believes branded postpaid ABPU is indicative of estimated cash collections, including device financing payments, from T-Mobile's postpaid customers each month.

   Service revenues - Branded postpaid, including handset insurance, branded prepaid, wholesale, and roaming and other service revenues.
5. Cost of services - Costs directly attributable to providing wireless service through the operation of T-Mobile's network, including direct switch and cell site costs, such as rent, network access and transport costs, utilities, maintenance, associated labor costs, long distance costs, regulatory program costs, roaming fees paid to other carriers and data content costs.

   Cost of equipment sales - Costs of devices and accessories sold to customers and dealers, device costs to fulfill insurance and warranty claims, write-downs of inventory related to shrinkage and obsolescence, and shipping and handling costs.

   Selling, general and administrative expenses - Costs not directly attributable to providing wireless service for the operation of sales, customer care and corporate activities. These include all commissions paid to dealers and retail employees for activations and upgrades, labor and facilities costs associated with retail sales force and administrative space, marketing and promotional costs, customer support and billing, bad debt expense and administrative support activities.
6. Net income margin - Margin % calculated as net income divided by service revenues.
7. Adjusted EBITDA - Earnings before interest expense, net of interest income, income tax expense, depreciation and amortization expense, non-cash stock-based compensation and certain expenses not reflective of T-Mobile's ongoing operating performance. Adjusted EBITDA margin represents Adjusted EBITDA divided by service revenues. Adjusted EBITDA is a non-GAAP financial measure utilized by T-Mobile's management to monitor the financial performance of our operations. T-Mobile uses Adjusted EBITDA internally as a metric to evaluate and compensate its personnel and management for their performance, and as a benchmark to evaluate T-Mobile's operating performance in comparison to its competitors. Management believes analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate overall operating performance and facilitate comparisons with other wireless communications companies because it is indicative of T-Mobile's ongoing operating performance and trends by excluding the impact of interest expense from financing, non-cash depreciation and amortization from capital investments, non-cash stock-based compensation, network decommissioning costs and costs related to the proposed Sprint transaction, as they are not indicative of T-Mobile's ongoing operating performance, as well as certain other nonrecurring income and expenses. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for income from operations, net income or any other measure of financial performance reported in accordance with U.S. Generally Accepted Accounting Principles ("GAAP").
8. Adjusted EBITDA Margin - Margin % calculated as Adjusted EBITDA divided by service revenues.
9. Smartphones - UMTS/HSPA/HSPA+ 21/HSPA+ 42/4G LTE enabled converged devices, which integrate voice and data services.
10. Free Cash Flow - Net cash provided by operating activities less cash purchases of property and equipment, including proceeds related to beneficial interests in securitization transactions and less cash payments for debt prepayment or debt extinguishment costs. Free Cash Flow is utilized by T-Mobile's management, investors, and analysts to evaluate cash available to pay debt and provide further investment in the business. The reconciliation of Free Cash Flow to net cash provided by operating activities is detailed in the Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures schedule. In Q1 2018, we made an accounting change to reduce net cash provided by operating activities by the deferred purchase price less payments for debt prepayment or debt extinguishment costs, as a result of the adoption of ASU 2016-15. Free Cash Flow has been redefined to reflect the changes in classification and present cash flows on a consistent basis for investor transparency.
11. Net debt - Short-term debt, short-term debt to affiliates, long-term debt, and long-term debt (excluding tower obligations) to affiliates, less cash and cash equivalents.