CHANGING WIRELESS FOR GOOD

T · · Mobile ·

Q1 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)	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 2,527	$ 1,219
Accounts receivable, net of allowances of $76 and $86	1,689	1,915
Equipment installment plan receivables, net	2,281	2,290
Accounts receivable from affiliates	13	22
Inventories	1,311	1,566
Other current assets	1,788	1,903
Total current assets	9,609	8,915
Property and equipment, net	22,308	22,196
Goodwill	1,901	1,683
Spectrum licenses	35,504	35,366
Other intangible assets, net	291	217
Equipment installment plan receivables due after one year, net	1,234	1,274
Other assets	1,157	912
Total assets	$ 72,004	$ 70,563
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 7,157	$ 8,528
Payables to affiliates	291	182
Short-term debt	3,320	1,612
Short-term debt to affiliates	445	—
Deferred revenue	791	779
Other current liabilities	353	414
Total current liabilities	12,357	11,515
Long-term debt	12,127	12,121
Long-term debt to affiliates	14,586	14,586
Tower obligations	2,582	2,590
Deferred tax liabilities	3,813	3,537
Deferred rent expense	2,730	2,720
Other long-term liabilities	933	935
Total long-term liabilities	36,771	36,489
Commitments and contingencies		
Stockholders' equity		
Common Stock, par value $0.00001 per share, 1,000,000,000 shares authorized; 854,576,971 and 860,861,998 shares issued, 853,066,229 and 859,406,651 shares outstanding	—	—
Additional paid-in capital	38,057	38,629
Treasury stock, at cost, 1,510,742 and 1,455,347 shares issued	(7)	(4)
Accumulated other comprehensive income	5	8
Accumulated deficit	(15,179)	(16,074)
Total stockholders' equity	22,876	22,559
Total liabilities and stockholders' equity	$ 72,004	$ 70,563

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

	Three Months Ended		
(in millions, except share and per share amounts)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Revenues			
Branded postpaid revenues	$ 5,070	$ 4,983	$ 4,725
Branded prepaid revenues	2,402	2,371	2,299
Wholesale revenues	266	324	270
Roaming and other service revenues	68	79	35
Total service revenues	7,806	7,757	7,329
Equipment revenues	2,353	2,708	2,043
Other revenues	296	294	241
Total revenues	10,455	10,759	9,613
Operating expenses			
Cost of services, exclusive of depreciation and amortization shown separately below	1,589	1,580	1,408
Cost of equipment sales	2,845	3,459	2,686
Selling, general and administrative	3,164	3,291	2,955
Depreciation and amortization	1,575	1,485	1,564
Gains on disposal of spectrum licenses	—	(168)	(37)
Total operating expense	9,173	9,647	8,576
Operating income	1,282	1,112	1,037
Other income (expense)			
Interest expense	(251)	(254)	(339)
Interest expense to affiliates	(166)	(162)	(100)
Interest income	6	2	7
Other income (expense), net	10	16	2
Total other expense, net	(401)	(398)	(430)
Income before income taxes	881	714	607
Income tax benefit (expense)	(210)	1,993	91
Net income	671	2,707	698
Dividends on preferred stock	—	(14)	(14)
Net income attributable to common stockholders	$ 671	$ 2,693	$ 684
Net income	$ 671	$ 2,707	$ 698
Other comprehensive (loss) income, net of tax			
Unrealized (loss) gain on available-for-sale securities, net of tax effect $(1), $0 and $1	(3)	4	1
Other comprehensive (loss) income	(3)	4	1
Total comprehensive income	$ 668	$ 2,711	$ 699
Earnings per share			
Basic	$ 0.78	$ 3.22	$ 0.83
Diluted	$ 0.78	$ 3.11	$ 0.80
Weighted average shares outstanding			
Basic	855,222,664	837,416,683	827,723,034
Diluted	862,244,084	871,501,578	869,395,984

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

	Three Months Ended				
(in millions)	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
Operating activities					
Net income	$ 671	$ 2,707	$ 550	$ 581	$ 698
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	1,575	1,485	1,416	1,519	1,564
Stock-based compensation expense	97	85	82	72	67
Deferred income tax expense (benefit)	206	(1,999)	347	345	(97)
Bad debt expense	54	90	123	82	93
Losses from sales of receivables	52	57	67	80	95
Deferred rent expense	4	15	21	20	20
Gains on disposal of spectrum licenses	—	(168)	(29)	(1)	(37)
Change in fair value of embedded derivatives	—	(15)	(8)	—	—
Changes in operating assets and liabilities					
Accounts receivable	(873)	(1,255)	(1,022)	(629)	(1,025)
Equipment installment plan receivables	(222)	(664)	(355)	(584)	(209)
Inventories	33	(816)	113	(185)	44
Other current and long-term assets	132	(245)	(184)	(135)	(11)
Accounts payable and accrued liabilities	(1,028)	1,686	(12)	56	(651)
Other current and long-term liabilities	45	(149)	60	(189)	45
Other, net	24	51	83	74	12
Net cash provided by operating activities	770	865	1,252	1,106	608
Investing activities					
Purchases of property and equipment, including capitalized interest of $43, $25, $29, $34 and $48	(1,366)	(921)	(1,441)	(1,347)	(1,528)
Purchases of spectrum licenses and other intangible assets, including deposits	(51)	(8)	(15)	(5,791)	(14)
Proceeds related to beneficial interests in securitization transactions	1,295	1,193	1,110	882	1,134
Acquisition of companies, net of cash acquired	(333)	—	—	—	—
Other, net	(7)	3	1	5	(8)
Net cash used in investing activities	(462)	267	(345)	(6,251)	(416)
Financing activities					
Proceeds from issuance of long-term debt	2,494	—	500	4,485	5,495
Proceeds from borrowing on revolving credit facility	2,170	—	1,055	1,855	—
Repayments of revolving credit facility	(1,725)	—	(1,735)	(1,175)	—
Repayments of capital lease obligations	(172)	(136)	(141)	(119)	(90)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	(4)	(4)	(292)	—
Repayments of long-term debt	(999)	—	—	(6,750)	(3,480)
Repurchases of common shares	(666)	(427)	—	—	—
Tax withholdings on share-based awards	(74)	(65)	(6)	(3)	(92)
Dividends on preferred stock	—	(14)	(13)	(14)	(14)
Other, net	(28)	(6)	(5)	(162)	(10)
Net cash (used in) provided by financing activities	1,000	(652)	(349)	(2,175)	1,809
Change in cash and cash equivalents	$ 1,308	$ 480	$ 558	$ (7,320)	$ 2,001
Cash and cash equivalents					
Beginning of period	1,219	739	181	7,501	5,500
End of period	$ 2,527	$ 1,219	$ 739	$ 181	$ 7,501
Supplemental disclosure of cash flow information					
Interest payments, net of amounts capitalized, $0, $0, $0, $79 and $0 of which recorded as debt discount	$ 378	$ 463	$ 343	$ 727	$ 495
Income tax payments	1	8	2	6	15
Noncash beneficial interest obtained in exchange for securitized receivables	1,128	1,083	972	992	1,016
Noncash investing and financing activities					
Changes in accounts payable for purchases of property and equipment	(364)	771	(141)	8	(325)
Leased devices transferred from inventory to property and equipment	304	356	262	270	243
Returned leased devices transferred from property and equipment to inventory	(82)	(107)	(165)	(273)	(197)
Issuance of short-term debt for financing of property and equipment	237	1	1	2	288
Assets acquired under capital lease obligations	142	152	138	313	284

(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 table.

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

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

(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 160,000 and 4,368,000 reported wholesale customers as of the beginning of Q3 2017 and Q2 2017, respectively.

	Quarter				
(in thousands)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Net customer additions (losses)					
Branded postpaid phone customers (1) (2)	798	533	595	891	617
Branded postpaid other customers (2)	116	284	222	181	388
Total branded postpaid customers	914	817	817	1,072	1,005
Branded prepaid customers (1)	386	94	226	149	199
Total branded customers	1,300	911	1,043	1,221	1,204
Wholesale customers (3)	(158)	422	286	633	229
Total net customer additions	1,142	1,333	1,329	1,854	1,433
Adjustments to branded postpaid phone customers (2)	—	(253)	—	—	—
Adjustments to branded postpaid other customers (2)	—	253	—	—	—

(1) As a result of the acquisition of IWS and Layer3 TV, customer activity post acquisition was included in our net customer additions for 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				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Branded postpaid phone churn	1.18%	1.10%	1.23%	1.18%	1.07%
Branded prepaid churn	4.01%	3.91%	4.25%	4.00%	3.94%

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

	Quarter				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Financial Metrics					
Service revenues (in millions)	$7,329	$7,445	$7,629	$7,757	$7,806
Total revenues (in millions)	$9,613	$10,213	$10,019	$10,759	$10,455
Net income (in millions)	$698	$581	$550	$2,707	$671
Net income margin	10%	8%	7%	35%	9%
Adjusted EBITDA (in millions)	$2,668	$3,012	$2,822	$2,711	$2,956
Adjusted EBITDA margin	36%	40%	37%	35%	38%
Cash purchases of property and equipment including capitalized interest (in millions)	$1,528	$1,347	$1,441	$921	$1,366
Capitalized Interest (in millions)	$48	$34	$29	$25	$43
Cash purchases of property and equipment excluding capitalized interest (in millions)	$1,480	$1,313	$1,412	$896	$1,323
Net cash provided by operating activities (in millions) (1)	$608	$1,106	$1,252	$865	$770
Net cash provided by (used in) investing activities (in millions) (1)	$(416)	$(6,251)	$(345)	$267	$(462)
Net cash provided by (used in) financing activities (in millions) (1)	$1,809	$(2,175)	$(349)	$(652)	$1,000
Free Cash Flow (in millions) (1)	$185	$482	$921	$1,137	$668
Revenue Metrics					
Branded postpaid phone ARPU (2)	$47.53	$47.07	$46.93	$46.38	$46.66
Branded postpaid ABPU	$61.89	$60.40	$59.89	$59.88	$60.14
Branded prepaid ARPU	$38.53	$38.65	$38.93	$38.63	$38.90
Branded postpaid accounts, end of period (in thousands)	12,275	12,432	12,668	12,990	13,237
Branded postpaid customers per account	2.88	2.91	2.92	2.93	2.95
Device Sales and Leased Devices					
Phones (in millions)	8.6	8.3	8.7	9.7	8.7
Branded postpaid handset upgrade rate	7%	7%	6%	7%	5%
Device Financing					
Gross EIP financed (in millions)	$1,339	$1,657	$1,487	$2,090	$1,572
EIP billings (in millions)	$1,402	$1,402	$1,481	$1,581	$1,698
EIP receivables, net (in millions)	$2,855	$3,162	$3,236	$3,564	$3,515
Lease revenues (in millions)	$324	$234	$159	$160	$171
Leased devices transferred from inventory to property and equipment (in millions)	$243	$270	$262	$356	$304
Returned leased devices transferred from property and equipment to inventory (in millions)	$(197)	$(273)	$(165)	$(107)	$(82)
Customer Quality					
EIP receivables classified as prime	43%	43%	43%	44%	43%
EIP receivables classified as prime (including EIP receivables sold)	53%	52%	52%	54%	53%
Total bad debt expense and losses from sales of receivables (in millions)	$188	$162	$190	$147	$106

(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 table.

(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				
(in millions)	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Net income	$ 698	$ 581	$ 550	$ 2,707	$ 671
Adjustments:					
Interest expense	339	265	253	254	251
Interest expense to affiliates	100	131	167	162	166
Interest income	(7)	(6)	(2)	(2)	(6)
Other (income) expense, net	(2)	92	(1)	(16)	(10)
Income tax expense (benefit)	(91)	353	356	(1,993)	210
Operating income	1,037	1,416	1,323	1,112	1,282
Depreciation and amortization	1,564	1,519	1,416	1,485	1,575
Stock-based compensation (1)	67	72	83	85	96
Other, net (2)	—	5	—	29	3
Adjusted EBITDA	$ 2,668	$ 3,012	$ 2,822	$ 2,711	$ 2,956

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

Free Cash Flow (1) is calculated as follows:

	Quarter				
(in millions)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Net cash provided by operating activities	$ 608	$ 1,106	$ 1,252	$ 865	$ 770
Cash purchases of property and equipment	(1,528)	(1,347)	(1,441)	(921)	(1,366)
Proceeds related to beneficial interests in securitization transactions	1,134	882	1,110	1,193	1,295
Cash payments for debt prepayment or debt extinguishment costs	(29)	(159)	—	—	(31)
Free Cash Flow	$ 185	$ 482	$ 921	$ 1,137	$ 668
Net cash provided by (used in) investing activities	$ (416)	$ (6,251)	$ (345)	$ 267	$ (462)
Net cash provided by (used in) financing activities	$ 1,809	$ (2,175)	$ (349)	$ (652)	$ 1,000

(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 Branded Postpaid 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:

	Quarter				
(in millions, except average number of customers, ARPU and ABPU)	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Calculation of Branded Postpaid Phone ARPU					
Branded postpaid service revenues	$ 4,725	$ 4,820	$ 4,920	$ 4,983	$ 5,070
Less: Branded postpaid other revenues	(225)	(255)	(294)	(303)	(259)
Branded postpaid phone service revenues	$ 4,500	$ 4,565	$ 4,626	$ 4,680	$ 4,811
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
Branded postpaid phone ARPU [1]	$ 47.53	$ 47.07	$ 46.93	$ 46.38	$ 46.66
Calculation of Branded Postpaid ABPU					
Branded postpaid service revenues	$ 4,725	$ 4,820	$ 4,920	$ 4,983	$ 5,070
EIP billings	1,402	1,402	1,481	1,581	1,698
Lease revenues	324	234	159	160	171
Total billings for branded postpaid customers	$ 6,451	$ 6,456	$ 6,560	$ 6,724	$ 6,939
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
Branded postpaid ABPU	$ 61.89	$ 60.40	$ 59.89	$ 59.88	$ 60.14
Calculation of Branded Prepaid ARPU					
Branded prepaid service revenues	$ 2,299	$ 2,334	$ 2,376	$ 2,371	$ 2,402
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
Branded prepaid ARPU	$ 38.53	$ 38.65	$ 38.93	$ 38.63	$ 38.90

(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 as they are not indicative of T-Mobile's ongoing operating performance and 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.