– Check against delivery –

Conference call
Report on the second quarter of 2023
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Thanks, Tim.

I would like to break down my comments into three sections.

First, the development of the Group’s financial results for the second quarter of 2023.

I will then explain the development in the operating segments in the three months from April to June 2023.

Finally, I will go into the development of free cash flow, our leverage ratio, and adjusted net profit.

Let us begin with the first topic.

The Group’s financials developed well in the second quarter of 2023.

Reported net revenue fell by 2.4 percent to 27.2 billion euros in these three months.

That is a decrease of 667 million euros year-on-year, with the translation of U.S. dollar revenues having a reducing effect of 415 million euros.

This decline in revenue is largely attributable to the planned reduction in low-margin business with mobile terminal equipment in the United States. As I have explained in previous quarters, total revenue was reduced by two factors here.

First, we have largely completed the migration of former Sprint customers to the T-Mobile US mobile network. As a result, the number of compatible devices we issued to these customers declined, which had a corresponding impact on revenue at T-Mobile US.

Second, T-Mobile US is systematically winding down the mobile terminal equipment lease business. The reduction in the second quarter of 2023 amounted to around 80 percent compared with the same period in the prior year.

As such, it is important to look at the Group’s service revenues in the second quarter, which increased by 319 million euros or 1.4 percent.

Reported adjusted EBITDA AL in the Group increased by 1.5 percent in the three-month period to 10.0 billion euros. That is growth of 147 million euros.

In terms of the development of revenue and earnings, the organic trend is worth noting.

Two factors are particularly relevant for the second quarter of 2023:

- The development of currency exchange rates. The U.S. dollar was around 2.5 cents weaker than in the prior-year period. As a result, earnings decreased by around 145 million euros year-on-year.

- The deconsolidation of the tower business in Germany and Austria following the sale of the majority shareholding effective February 1, 2023.

That brings me to the development in the operating segments in the second quarter of 2023.

First, T-Mobile US.

Strong growth in customer numbers continued in the second quarter. In mobile communications, T-Mobile US led the market by some margin in net customer additions.

- In the three-month period, 1.6 million postpaid customers were won. That is more than AT&T and Verizon combined.

- Postpaid phone net additions, i.e., new customers with a phone component in their contract, stood at 760,000. That is the highest growth in the industry and T-Mobile US' best second quarter in eight years.

- Postpaid phone churn improved to 0.77 percent. That is a record low and the best rate in the U.S. telecommunications industry. This low churn rate also reflects the progress in the migration of former Sprint customers to the T-Mobile network.

- T-Mobile US won around 509,000 new customers for its high-speed internet offering in the second quarter of 2023. That is higher net additions than at AT&T, Verizon, Charter and Comcast combined for the fifth quarter in a row, with the customer base growing to 3.7 million by the middle of 2023. That is year-on-year growth of 2.1 million. T-Mobile US is therefore on track for its target of reaching between 7 and 8 million customers with its home internet offering by 2025.

T-Mobile US' segment revenue declined slightly (on an IFRS and U.S. dollar basis) in the second quarter of 2023 due to the described planned reduction in the low-margin terminal equipment business.

Service revenue, by contrast, increased by 2.8 percent year-on-year in the three months (on a U.S. GAAP basis), with service revenue from branded postpaid customers increasing in particular by 5.5 percent or 625 million U.S. dollars.

Adjusted core EBITDA (under U.S. GAAP) increased by 10.8 percent in the second quarter of 2023. The effect from reduced terminal equipment leases has been eliminated here.

Now on to our business in Germany.

We achieved further strong net additions in branded customers in the second quarter of 2023:

- The number of customers using an FTTH line increased by 64,000 in the three months, an increase of 38 percent compared with the middle of 2022, taking the total number of FTTH customers to 833,000. In addition, another 650,000 FTTH lines have been pre-marketed. That is 100,000 more than at the end of the first quarter of 2023. That is where a contract is signed before the build-out is complete.

- The number of broadband lines grew by 67,000 between April and June 2023. In the prior-year quarter, broadband net adds had totaled 45,000, at the time still impacted by the amendment to the German Telecommunications Act (Telekommunikationsgesetz – TKG). This effect has now leveled off as expected. This development makes Deutsche Telekom the strongest provider in the market.

- We saw a strong increase in fixed-network customers with lines of 100 Mbit/s or higher, with growth of around 1.0 million compared with the middle of 2022, taking the current figure to 6.4 million. That corresponds to around 43 percent of our retail customer base.

- In mobile communications, we saw very strong branded contract net adds in the second quarter of 2023, with growth of 319,000. In the prior-year quarter, net adds had totaled 194,000. The increase in contract net adds in the consumer segment is attributable in part to the rate plan Next Magenta.

- Churn among mobile contract customers in the consumer segment was 0.8 percent in the second quarter of 2023, well below the level of the same period in the prior year of 1.0 percent. This development also reflects the expiry of the effect from the German Telecommunications Act.

That brings me to revenue development in the German business.

Service revenues in the Germany segment increased by 1.6 percent year-on-year in the second quarter of 2023.

- Mobile service revenues recorded growth of 2.1 percent in organic terms.

- Fixed-network service revenues increased by 1.4 percent in organic terms, with broadband service revenues growing by 4.0 percent in the three months from April to June 2023. This growth was driven in particular by increases in revenue from TV business and double play.

Total revenue in the Germany segment was up 1.9 percent in the second quarter of 2023 to 6.2 billion euros.

In organic terms, segment revenue grew by 1.1 percent.

The difference from the development of reported revenue is mainly due to the inclusion of MMS, which had not yet been included in the segment in the prior-year quarter.

The organic revenue growth of around 70 million euros reflects in particular the increase in service revenues with branded fixed-network and mobile customers. By contrast, the low-margin terminal equipment business declined by 97 million euros.

Reported adjusted EBITDA AL in the Germany segment increased by 4.1 percent in the second quarter to 2.5 billion euros.

- In organic terms, it increased by 3 percent or 73 million euros. This growth was driven by higher service revenues.

- Thus, the Germany segment has had increased earnings for 27 consecutive quarters.

Let us move on to business in the Europe segment.

Here, growth continues to be robust – in customer numbers across all business areas. And we are recording growth in revenue and earnings.

- Mobile contract net adds totaled 173,000 in the second quarter of 2023.

- Broadband net adds were 72,000.

- For fixed-mobile convergence products, we recorded net adds of 152,000.

- The TV business also recorded growth with 34,000 net adds.

The financials in the Europe segment also developed very positively on the back of this.

Reported segment revenue increased 6.2 percent to 2.9 billion euros in the second quarter of 2023.

- This included a purely mathematical net positive effect of 36 million euros from changes in exchange rates, in particular from the strength of the forint, zloty, and Czech koruna.

- In organic terms, segment revenue increased by 5.1 percent in the three-month period. That is growth of 139 million euros, driven largely by an increase in high-value fixed-network and mobile service revenues of around 90 million euros.

Reported adjusted EBITDA AL increased by 3.9 percent in the second quarter of 2023 to 1.02 billion euros.

- This included purely mathematical positive exchange rate effects of around 11 million euros.

- Adjusted EBITDA AL increased by 2.6 percent in organic terms to around 25 million euros.

- That makes 22 consecutive quarters of organic adjusted EBITDA AL growth for the Europe segment.

T-Systems' results for the second quarter puts it on track to meet the annual guidance for 2023.

Order entry over the last 12 months was 9.4 percent below the prior-year comparative figure. It was down year-on-year in the second quarter of 2023, in part as a result of delays in decisions to place orders in the course of the year.

Revenue at T-Systems increased in the three months from April to June 2023 by 1.8 percent to reach 959 million euros.

- In organic terms, it increased by 4.8 percent.

- The difference is primarily attributable to the transfer of MMS to Telekom Deutschland.

- Revenue saw the same trend in the second quarter of 2023 as in the previous quarters:

  - In traditional infrastructure business, revenue declined.

- By contrast, digital solutions saw revenue growth.

Adjusted EBITDA AL increased organically in the three-month period by 2.0 percent to 84 million euros.

Let me now turn to our leverage ratios and adjusted net profit.

First, an explanation of free cash flow.

It increased by 27.2 percent in the second quarter to 3.5 billion euros.

- The following two factors in particular had an increasing effect:
    - The year-on-year increase of 685 million euros in net cash from operating activities as a result of the improved business performance.
    - Cash capex declined by 562 million euros year-on-year compared with the second quarter of 2022. This mainly reflects the planned reduction in investments at T-Mobile US of around 0.8 million euros.
- In particular, the increase in lease payments of around 484 million euros had a reducing effect on free cash flow.
    - This reflects an increase in lease payments at T-Mobile US compared with the second quarter of 2022. In that quarter, lease payments had been lower because the company had made an advance lease payment a year earlier, i.e., in 2021.
    - Following the sale of the majority shareholding in the cell tower portfolio in Germany and Austria, payments had to be made in the second quarter of 2023 for the lease of cell sites, which had not been incurred in the prior year due to the different ownership structure at that time.

That brings me to our adjusted net profit.

In the second quarter of 2023, adjusted net profit decreased by 22.8 percent to 1.9 billion euros year-on-year. That is a decline of 558 million euros.

- The following main factors had an increasing effect on adjusted net profit:
    - Adjusted EBITDA increased by 146 million euros compared with the second quarter of 2022.
    - Depreciation, amortization, and impairment losses declined by 602 million euros compared with the prior-year quarter.
    - This was mainly attributable to the planned reduction in terminal equipment lease business in the United States and the decommissioning of network components in the former Sprint wireless network.
    - In addition, depreciation, amortization, and impairment losses are no longer charged on the tower portfolio in Germany and Austria after Deutsche Telekom sold the majority shareholding.
- The following factors had a decreasing effect on adjusted net profit:
    - The growth in earnings also increased the share of profit attributable to non-controlling interests by 323 million euros compared with the second quarter of 2022.
    - Profit/loss from financial activities had a reducing effect on earnings of 975 million euros compared with the prior-year period.
- Other financial income/expense decreased by 818 million euros year-on-year.

- For one thing, in the second quarter of 2022, the subsequent measurement of liabilities and provisions (due to a change in the discount rate) in particular for the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse) had resulted in a positive effect on other financial income/expense. In the second quarter of 2023, however, a negative effect was recorded here. This resulted in a net negative year-on-year difference of 489 million euros.

- The measurement of options to purchase T-Mobile US shares as well as hedges had also had a positive effect on other financial income/expense in the prior-year quarter, but a negative effect in the second quarter of 2023. This gave rise to a negative effect on earnings in the second quarter of 2023 compared to the prior-year period of 288 million euros.

Recurring adjusted earnings per share increased year-on-year by 9 percent to 0.77 euros in the first half of 2023. The aforementioned non-recurring factors affecting earnings have – as previously communicated – been eliminated for this calculation. With this development, we are on our way to achieving recurring adjusted earnings per share of more than 1.60 euros, our target for the 2023 full year.

That brings me to net debt and the financial ratios compared with the first quarter of 2023.

Net debt (excluding leases) increased by 4.4 percent or 4.1 billion euros compared with the end of March 2023 to 97.2 billion euros.

- Free cash flow AL had a reducing effect of 3.5 billion euros.

- The following factors had an increasing effect on net debt:

    - The T-Mobile US share buy-back accounting for around 3.3 billion euros.

    - The payout of dividends, in particular Deutsche Telekom AG, amounting to a total of 3.6 billion euros.

The ratio of net debt excluding leases to adjusted EBITDA AL increased slightly in the second quarter of 2023 as announced to 2.40, up from 2.31 at the end of March 2023.

- With this development, we are still on track to achieving our financial ratio targets for the end of 2024, as announced at our Capital Markets Day in 2021.

- Analysts reach the same conclusion in their expectations.

- The progress in leverage ratios prompted Standard & Poor's to raise their rating in May to BBB+ with a stable outlook.

I would now like to hand over to Tim Höttges.