

– Check against delivery –

Conference call
Report on the first quarter of 2020
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Thanks, Tim.

Ladies and Gentlemen,

The growth in our operating business of the last few quarters continued in the first three months of 2020.

Reported net revenue increased by 2.3 percent to 19.9 billion euros in these three months. In organic terms, the growth was 1.1 percent.

Exchange rate fluctuations accounted for 57 percent of the difference between reported revenue and revenue adjusted for currency translation effects and changes in the composition of the Group. This relates mainly to the stronger performance of the U.S. dollar year-on-year.

Double-digit growth in adjusted EBITDA AL resulted in an increase of 10.2 percent to 6.5 billion euros. In organic terms, the growth was 9.0 percent. The change in exchange rates only accounts for about 12 percent of this difference. The vast majority of the growth – 88 percent – is attributable to the organic development of our business.

Adjusted EBITDA AL increased in all operating segments, as in the prior financial year. Outside of the United States, adjusted EBITDA AL grew by 3.8 percent, in organic terms, by 4.3 percent. In the Europe segment, adjusted EBITDA AL has increased for nine successive quarters. In the Germany business, we can now look back on 14 straight quarters of increased earnings. In the first quarter of 2020, T-Mobile US recorded an increase in earnings of 14.5 percent.

We used the strong development of our cash flow to avoid extending a factoring agreement for 0.7 billion euros. As a result, reported free cash flow decreased by 17.3 percent to 1.3 billion euros in the first quarter. We confirm our full-year guidance for free cash flow of around 8 billion euros. This does not include the effects of the business combination of T-Mobile US with Sprint in the United States.

Reported net profit increased by 1.8 percent in the first quarter of 2020 to 0.9 billion euros, mainly due to higher earnings from operations and lower shares of non-controlling interests in T-Mobile US' net profit. An increase of around 0.2 billion euros in depreciation and amortization due to our continuously high level of investment had an offsetting effect. In addition, other financial income/expense included a negative change of around 0.5 billion euros compared with the prior-year period due to changes in the fair values of embedded derivatives for termination rights for old T-Mobile US bonds.

Adjusted net profit increased by 8.5 percent in the first quarter of 2020 to 1.3 billion euros.

Now let's go into the details for our operating segments.

In the Germany operating segment, we saw substantial further customer growth. The trend in fixed-network broadband business was particularly encouraging.

The number of customers grew by 83,000 in the quarter. This is the biggest increase for two years. As a result, we expect our share in the growth of the overall market to be more than 40 percent.

For fiber-optic lines, we continue to see strong growth in the number of branded customers, with 258,000 net additions in the first quarter. The weaker growth in the wholesale business compared with the prior year is mainly due to the fact that competitors are increasingly migrating customers to their own network platforms.

Line losses declined significantly by 46 percent compared with the prior-year quarter. We completed the fixed-network IP migration of consumers in 2019. As planned, this has a positive effect on the trend in line losses.

Our MagentaTV product matched its prior-year growth level with 60,000 new customers. Attractive new offers had a positive effect on new customer business here, such as the exclusive sales partnership for Disney+ in Germany.

The customer base of our integrated MagentaEINS product packages continued to grow. 24.7 percent of households with a broadband line have now

also subscribed to a MagentaEINS package. For mobile contract customers, it is around 58 percent.

In the German mobile business, growth in the branded contract customer base and the strong increase in data usage continued. In the first quarter of 2020, we acquired 141,000 new branded contract customers.

At the same time, data usage went up substantially again: on average by 61 percent per month for branded contract customers compared to the prior-year quarter to 4.5 GB. This trend is driven by the expansion of our all-inclusive offerings to incorporate services such as StreamOn as well as social media and gaming components.

One effect of this sustained growth has been to keep the branded contract customer churn rate below the level of 1 percent, where it has been since the fourth quarter of 2018.

Mobile service revenues increased by 1.7 percent year-on-year in the first quarter. This includes offsetting effects from the regulation of international calls and changes to mobile termination rates. Adjusted for these factors, mobile service revenues increased by 2.4 percent.

In the fixed-network business, service revenues increased by 1.2 percent, with the growing number of broadband customers and the decline in line losses having a positive effect.

Revenue in the Germany operating segment increased by 0.9 percent in the three-month period to 5.4 billion euros, with service revenues increasing by 1.4 percent overall across all business areas.

This revenue growth, together with a comparatively lower increase in costs, contributed to a 2.7 percent increase in adjusted EBITDA AL in the third quarter to 2.2 billion euros.

Let us now move on to the Europe operating segment.

The strong organic growth in customer numbers continued here.

110,000 mobile contract net additions were recorded in the first quarter.

This increase was lower than in the same quarter of the prior year due to shop closures as a consequence of the corona pandemic.

We recorded an increase of 50,000 broadband customers, which is the same level as in the prior-year quarter of 2019. The number of customers signing up for convergent product bundles grew by 238,000 in the first quarter 2020.

Reported segment revenue increased 0.4 percent to 2.9 billion euros.

Organically, the growth was 2.0 percent. The difference is due to changes in exchange rates and the deconsolidation of the company in Albania. The revenue growth was attributable to increased service revenues, which in mobile communications were up by 3.1 percent in organic terms, and in the fixed-network business up by 1.3 percent in organic terms.

Adjusted EBITDA AL increased by 1.9 percent to 1.0 billion euros. Organically, growth came in at 3.4 percent. The difference is down to the effects described under revenue. The increase in earnings is increasingly attributable to rising service revenues.

T-Mobile US once again confirmed its leading position in terms of new customer growth in the U.S. market. 777,000 new branded postpaid

customers were recorded in the first quarter. This growth is lower than in the same quarter of 2019 as stores had to be closed as a consequence of the corona pandemic. At the same time, the churn rate for branded telephony customers fell to a record low of 0.86 percent.

Total revenue rose 0.7 percent in the first quarter to 11.2 billion dollars. This also reflects the impact of shop closures, since the revenue increase was substantially reduced by a significant decline in revenues from mobile devices. These are associated with lower earnings margins.

By contrast, service revenues from mobile services continued to see strong growth at 5.9 percent.

As a result, adjusted EBITDA AL increased by 14.5 percent in the three months to 3.5 billion U.S. dollars.

Within Systems Solutions, we continued to make progress with our transformation program. Order entry increased by 3.4 percent over the last twelve months to 7.1 billion euros.

In the first three months of 2020, revenue remained stable at 1.6 billion euros. Increases in the growth portfolio, for example, in security products and the public cloud, offset planned declines in the traditional IT business.

Adjusted EBITDA AL rose by 8.7 percent to 0.1 billion euros, thanks to the positive trend in the growth areas and advances in the transformation process.

In the Group Development operating segment, the strong customer growth at T-Mobile NL continued in mobile communications. There were 67,000 net customer additions. In the fixed-network business, customer growth was much stronger than in the first quarter of 2019, at 14,000.

Revenue and adjusted EBITDA AL increased at TMNL both on a reported basis and in organic terms. In organic terms, adjusted EBITDA AL increased by 10.6 percent. The growth in the customer base and the consequent increase of 5.5 percent in mobile service revenues had a positive effect here, as did the realization of synergies from the business combination with Tele2.

In the cell tower business, the number of antenna sites in Germany increased by around 1,800 year-on-year.

Revenue in this business area increased on the back of the higher number of sites and growing business with partners outside of the Group. The costs per antenna site were reduced. As a result, adjusted EBITDA in the cell tower business increased by 2 percent.

Reported revenue generated in the Group Development operating segment increased by 3.8 percent year-on-year in the first quarter.

Both business areas contributed to the 5.5 percent increase in adjusted EBITDA AL in the three-month period.

That brings me to the development of financial liabilities and the financial ratios in the first quarter of 2020.

Net debt increased by 1.4 billion euros compared with the end of 2019.

This development was essentially driven by the following factors:

- Free cash flow according to IFRS 16 of 2.3 billion euros, which reduced financial liabilities.

- By contrast, lease liabilities increased by 1.0 billion euros, mainly as a result of the accelerated build-out of our U.S. network in the 600 MHz band.
- The conversion of financial liabilities denominated in U.S. dollars at the exchange rate on the reporting date increased financial liabilities by around 0.7 billion euros.
- Forward swaps of T-Mobile US resulted in an increase of 1.0 billion euros.

The ratio of net debt to adjusted EBITDA stood at 2.64 at the end of the first quarter of 2020, within our guidance range of 2.25 to 2.75.

In the “after leases” logic, i.e., excluding non-interest-bearing lease liabilities, the ratio stood at 2.36. This is within our previous guidance range we had given for this logic of 2 to 2.5.

Let me go into the consequences of the corona pandemic for our business. We have seen both positive and negative effects on revenue. I will give four examples:

In mobile communications, the retail business of our Group companies in Europe, i.e., Germany, the companies of the Europe segment, and the Netherlands, generates annual roaming revenues of around 0.35 billion euros. In the period from mid-March to the end of April, the pro-rata revenue fell by around 80 percent. How it develops will depend primarily on the extent and duration of the travel restrictions imposed as a result of the corona pandemic.

In the fixed-network business of the companies on the European continent, we generate annual revenue of around 0.6 billion euros from call charges on top of flat rates. In the six weeks since mid-March, we saw an increase here of around 33 percent.

In the ICT business with annual revenue of around 9 billion euros, we are currently seeing delays in the execution of projects. This does not relate to all orders, and this is not about cancellations. Moreover, this generally relates to lower-margin business.

We expect annual revenue from mobile devices in Germany and the European companies of around 3.5 billion. This is also low-margin business. Here, the shop closures have resulted in a decline in revenue of around 20 percent. The majority of our shops have now reopened.

So far, the impact on our earnings outside of the United States has been very low because the various effects cancel each other out. We are of course also working hard to reduce the negative effects on earnings.

To close, let us take a look at T-Mobile US. As soon as the business combination with Sprint took effect, we immediately put the financing of the company on a stable long-term footing.

A number of Sprint bonds had a change-of-control clause. The bond holders were able to terminate these bonds following the business combination with T-Mobile US. These bonds and other internal financing were restructured.

To this end, a few days after closing, T-Mobile US placed bonds with a total volume of 19 billion dollars, which were met with very high demand.

Five tranches were issued with terms of between 5 and 30 years and average coupons of around 4 percent.

At the same time, T-Mobile US repaid internal financing of 8 billion U.S. dollars to Deutsche Telekom.

A bridge loan facility agreed with banks back in 2018 did not have to be used.

T-Mobile US now has a very balanced maturity profile in terms of its financing, which runs until 2050. This is a first measurable result of the integration of the two companies.

We would now like to answer any questions you have.