

– Check against delivery –

Conference Call
Report on the second quarter of 2020
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Thanks, Tim.

Ladies and Gentlemen,

The Group's development in the second quarter was dominated by the integration of Sprint into the new, larger T-Mobile US as the company was also fully consolidated in the Group for the first time.

Reported net revenue increased by 37.5 percent to 27.0 billion euros in the three months. The majority of this increase – approximately 7 billion euros – was due to the inclusion of Sprint. In organic terms, net revenue declined slightly by 0.6 percent, primarily due the effects of the coronavirus pandemic.

Adjusted EBITDA AL increased in the three-month period by 56.9 percent to 9.8 billion euros. The first-time inclusion of Sprint accounted for 2.6 billion euros and thus the majority of this growth.

The positive organic development of the Group's earnings continued with growth of around 0.76 billion euros, up 8.4 percent. In the second quarter of 2020, T-Mobile US recorded an organic increase in adjusted EBITDA AL of 11 percent.

Furthermore, as in 2019, adjusted EBITDA AL increased in business outside the United States, which recorded organic growth of 4.1 percent. The three segments Germany, Europe, and Group Development by far more than offset the decline in the Systems Solutions segment.

The Europe segment recorded an organic increase in adjusted EBITDA AL for the tenth quarter in succession, for the Germany segment it was already the 15th quarter in succession.

Free cash flow AL increased by 56.9 percent to 2.4 billion euros in the second quarter.

Now let us go into the details for our operating segments.

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

The number of customers grew by 87,000 in the quarter. This is the biggest increase for more than two years and was higher than at the cable network operators.

For fiber-optic-based lines, we continue to see strong growth in the number of new lines, with 386,000 net additions in the second quarter.

The number of lines that can reach speeds of up to 250 Mbit/s via supervectoring increased to around half a million by the middle of the year.

Line losses declined significantly to 62,000 compared with the prior-year period. We completed the fixed-network IP migration of consumers in 2019. As planned, this is having a positive effect on the trend in line losses.

Our MagentaTV product attracted 45,000 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 package continued to grow. 24.9 percent of households with a broadband line have now also subscribed to a MagentaEINS package. For mobile contract customers, it is around 58.8 percent.

In the German mobile business, growth in the branded contract customer base and the strong increase in data usage continued.

In the second quarter of 2020, we won 110,000 new branded contract customers. This was despite the restrictions for the Telekom shops as a consequence of the coronavirus pandemic.

At the same time, data usage rose substantially again: On average, by 52 percent per month for branded contract customers compared to the prior-year quarter, to 4.7 GB.

The branded contract customer churn rate remained far below 1 percent, where it has been since the fourth quarter of 2018.

Mobile service revenues decreased by 1.1 percent year-on-year in the second quarter.

This was primarily due to coronavirus-related decreases, especially in the area of roaming and visitors. Adjusted for the effects of coronavirus, mobile service revenues increased by around 2 percent. As such, the development was better than on the German mobile market as a whole.

In the fixed-network business, service revenues increased by 2.9 percent, with the growing number of broadband customers and the decline in line losses having a positive effect. In addition, as a consequence of the coronavirus pandemic, call volumes not covered by flat rates increased, as, correspondingly, did revenue.

Revenue in the Germany operating segment increased by 1.1 percent in the three-month period to 5.4 billion euros.

Overall, service revenues continued to grow substantially, with increases coming from wholesale services and the fixed-network core business. These increases more than offset the losses in single-play lines and the slight decline in mobile service revenues.

This revenue growth, together with a comparatively lower increase in costs, contributed to a 3.0 percent increase in adjusted EBITDA AL in the second quarter to 2.2 billion euros.

T-Mobile US already reported its figures on August 6. They were well received on the market, with the share price rising 8 percent.

Since the closing of the merger with Sprint, we have made huge strides forward in integrating the company as well as in building out the 5G network.

Already more than ten percent of the traffic of former Sprint contract customers has been transferred to the T-Mobile network.

T-Mobile has the largest nationwide 5G network based on the 600 MHz spectrum, covering over 250 million people.

The build-out of 5G in the 2.5 GHz spectrum band is already underway in the first eight major markets. Approximately 700 base stations are connected to this fast 5G network every week.

As of August 2, Sprint shops were rebranded as T-Mobile.

T-Mobile still sets the bar in terms of customer additions in the U.S. industry. 1.1 million new postpaid customers were added in the three-month period. This is on a par with the prior-year quarter, despite the coronavirus-related store closures. At the same time, the churn rate for branded phone customers remained at the record low level of 0.8 percent.

In the second quarter, reported total revenue increased by 72.5 percent to 19 billion U.S. dollars as a result of the business combination with Sprint.

Adjusted EBITDA AL increased in the second quarter by 115.1 percent to 6.9 billion euros. The first-time consolidation of Sprint was the main factor here, too. But adjusted EBITDA AL also increased in organic terms by 11 percent according to IFRS.

Let us now move on to the Europe operating segment.

The strong organic growth in customer numbers continued here.

174,000 mobile contract net additions were recorded in the second quarter. After the significant restrictions due to coronavirus-related shop closures in the first quarter, we saw a rebound here in the quarter from April to June.

Broadband customer net adds totaled 69,000, which is higher than in the same quarter of 2019.

The number of customers signing up for convergent product bundles grew by 265,000 in the second quarter of 2020.

Reported segment revenue decreased 4.5 percent to 2.8 billion euros. In organic terms, the decline was 2.0 percent. Exchange rate fluctuations, especially of the Polish zloty and the Hungarian forint, account for around half of this difference. Lower roaming and visitor revenues as a consequence of the coronavirus pandemic also had an effect.

In organic terms, by contrast, adjusted EBITDA AL increased by 1.1 percent. The difference from reported earnings is primarily attributable to exchange rate fluctuations.

Within Systems Solutions, we continued to make progress with our transformation program. The restrictions imposed because of the coronavirus pandemic led to the postponement of orders and projects.

As a result, order entry decreased by 3.8 percent over the last 12 months to 6.7 billion euros.

Revenue decreased by 3.4 percent in the second quarter. Declines in traditional IT and in projects in the area of telecommunications services contrasted with growing revenues from cloud and security products, in particular.

Adjusted EBITDA AL decreased by 22.8 percent compared with the prior-year quarter to 0.1 billion euros. This decline is primarily attributable to the Digital Solutions unit and the IT infrastructure business.

In the Group Development operating segment, the strong customer growth at T-Mobile NL continued in mobile communications, with 50,000 mobile contract net additions.

In the fixed-network business, the customer base increased by another 11,000 broadband customers.

Revenue and adjusted EBITDA AL increased significantly at T-Mobile NL, both on a reported basis and in organic terms. In organic terms, adjusted EBITDA AL increased by 22.2 percent. The growth in the customer base and the consequent organic increase of 2.3 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.

The recurring lease revenue in this business area increased by around 5 percent compared to the second quarter of 2019 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 4 percent.

Reported revenue generated in the Group Development operating segment increased by 4.8 percent year-on-year in the second quarter to 0.7 billion euros.

Both business areas contributed to the 13.2 percent increase in adjusted EBITDA AL to 0.3 billion euros in the three-month period.

Let me now turn to our adjusted net profit.

The decline of 3.8 percent to 1.3 billion euros reflects a series of factors, primarily resulting from the first-time inclusion of Sprint in the Group figures.

Growth in reported adjusted EBITDA of around 4 billion euros in the second quarter of 2020 had an increasing effect on adjusted net profit. Around three quarters of this increase is attributable to the first-time consolidation of Sprint in the Group.

By contrast, there were four main factors reducing adjusted net profit:

- The increase in depreciation and amortization of around 2.6 billion euros, mainly as a result of the first-time inclusion of Sprint.
- Loss from financial activities was negatively impacted in particular by an increase of 780 million euros in interest expense, primarily due to the inclusion of Sprint and the restructuring of T-Mobile US' financing.
- Due to the altered ownership structure of the new T-Mobile US, the share of net profit attributable to external shareholders increased by 487 million euros.
- Increased taxes had an impact of 157 million euros.

Finally, we come to the development of net debt and the financial ratios in the second quarter of 2020.

Due to the first-time inclusion of Sprint, net debt increased by 44.1 billion euros as of the middle of the year to 120.9 billion euros.

Of this increase:

- Around 34.8 billion euros relates to the increase in interest-bearing net debt.
- Another 6.8 billion euros relates to higher lease liabilities.
- In addition, around 2.5 billion euros relates to an accounting difference between U.S. GAAP and IFRS in relation to Sprint mobile spectrum licenses in the 2.6 GHz range.

Thus, net debt breaks down into 97.3 billion euros of interest-bearing net debt and 23.6 billion euros of lease liabilities.

As expected, at the end of the second quarter, the ratio of adjusted EBITDA to net debt was outside of our guidance range of 2.25 to 2.75 due to the increase in liabilities.

As of the middle of the year, the leverage ratio of adjusted EBITDA of the Deutsche Telekom Group over the last 12 months plus the earnings of the former Sprint for the quarters Q3/2019 to Q1/2020 to net debt stood at 2.9.

This pro-forma calculation ensures that both the full extent of the Group's liabilities and notional earnings for the Group in its new structure over the period of the last 12 months are included in the calculation.

As before, Deutsche Telekom expects the leverage ratio to fall back within the guidance range in the third year after the business combination of T-Mobile US and Sprint took effect.

All other guidance figures for our financial ratios remain within the target ranges; the equity ratio increased by one percentage point.

We would now like to answer any questions you have.