

– Check against delivery –

Conference call
Report on the third quarter of 2020
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Christian P. Illek
Chief Financial Officer
Deutsche Telekom AG

Thanks, Tim.

Ladies and Gentlemen,

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

First, I will explain the development of the Group's financial results in the third quarter of 2020. They were mainly driven by the first-time consolidation of Sprint in the United States.

In addition, the positive development of the Group excluding the United States also continued in the third quarter.

Then we will take a look at the development in the operating segments.

Finally, I will go into the Group's liabilities, in particular the reduction of interest-bearing net debt, and net profit.

So, first of all to the Group's financials for the third quarter of 2020.

They continued to develop well and, together with the first half of the year, formed the basis from which we were able to raise the Group's earnings guidance for the full year.

Net revenue went up 31.9 percent in the three-month period. That is headline growth of around 6.4 billion euros. The vast majority of this is attributable to the first-time inclusion of Sprint.

In organic terms, revenue grew by around 525 million euros.

This reflects the organic growth in the Group including Sprint, and exchange rate effects. The strength of the euro compared with the U.S. dollar meant that the translation of revenues from T-Mobile US had a reducing effect on net revenue.

Taking these factors into account, net revenue increased by 2.0 percent in organic terms in the three months.

Free cash flow was down by 23.9 percent in the third quarter of 2020 against the same quarter of 2019. This reflects higher investments and financing costs in the United States following the business combination with Sprint.

After nine months of this year, free cash flow AL was 1.8 percent up on the prior-year figure. This already takes into account the fact that the Group discontinued factoring activities with a value of around 0.7 billion euros in the first quarter of 2020, which reduced free cash flow. For the full year, we have raised our guidance for free cash flow AL from the previous level of at least 5.5 billion euros to at least 6 billion euros.

At the same time, we are sticking to our investment plans, which remain unchanged at around 17 billion euros for the Group.

Adjusted EBITDA AL increased by 49.6 percent in the third quarter of 2020. The majority of the growth of 3.2 billion euros resulted from the first-time inclusion of

Sprint in the Group. In organic terms, adjusted EBITDA AL increased by 0.9 billion euros.

This corresponds to organic growth in the Group's adjusted EBITDA AL of 10 percent compared with the third quarter of 2019. Impressive proof of the Group's successful growth course on both sides of the Atlantic.

The business excluding the United States generated a 2.6 percent increase in adjusted EBITDA AL in the three-month period. In organic terms, the increase was 3.2 percent.

The Europe operating segment has therefore generated organic EBITDA growth for the last 11 quarters in a row. The Telekom Deutschland business has now seen earnings growth for 16 quarters in succession.

The Group managed to increase its EBITDA despite the headwind from the impact of Covid-19.

Revenue declines in the third quarter were recorded primarily in retail roaming, which reduced net revenue excluding the United States by around 65 million euros.

ICT revenues decreased by around 100 million euros, although the earnings margin was lower.

By contrast, there was a positive effect on revenue of around 10 million euros from higher call volumes in the European fixed network due to more working from home.

The resulting net negative effect on revenue in turn reduced adjusted EBITDA AL of the Group ex U.S. by around 100 million euros in the third quarter.

However, thanks to its strong overall operational development, the Group is able to more than offset this effect. Hence, we are able to raise the guidance for adjusted

EBITDA AL for the Group excluding the United States for the full year 2020 from 13.9 billion euros to 14.0 billion euros.

Let me now show you the progress we have made in our operating segments in the third quarter of 2020.

First of all, Germany:

We once again recorded strong branded customer additions. New customer growth in broadband business was particularly encouraging, with net adds of 97,000. This is the strongest growth since the end of 2017.

The number of fiber-optic-based lines went up by 367,000, taking the total number to 15.5 million as of the end of the third quarter.

The number of supervectoring lines stands at 0.6 million. This represents growth of around 265 percent year-on-year.

The number of MagentaTV customers went up by 64,000, about the same level recorded in the third quarter of 2019.

Declines in traditional single-play lines continued, down significantly to 47,000 in the third quarter of 2020. Following the completion of the IP migration of consumers in Germany, that is the lowest level in more than 15 years.

We were able to further build up the MagentaEINS customer base. 25 percent of households with a broadband line now have also subscribed to a MagentaEINS package.

Service revenues in the German fixed-network business increased by 1.6 percent.

This reflects the further reduction in line losses, the growing broadband customer base, and a small positive effect from higher call volumes as a result of Covid-19.

Around 60 percent of our mobile contract customers have a MagentaEINS bundle.

We recorded branded mobile net additions of 192,000 in the third quarter. This growth is stronger than in the same period of the prior year.

The churn rate for contract customers (excluding Lebara) remained very low at 0.8 percent.

Service revenues in the German mobile business decreased by 0.5 percent. This includes a negative revenue effect from the Covid-19 pandemic due to lower roaming and visitor revenues of around 35 million.

Adjusted for this coronavirus effect, mobile service revenues increased by 2 percent. As such, Deutsche Telekom remains the clear leader in service revenues in the German mobile market.

Revenue in the Germany operating segment decreased 1.1 percent overall in the third quarter to 5.8 billion euros.

A decline in business with mobile terminal equipment had a reducing effect of around 1.5 percentage points. This mainly reflects the later launch of the new iPhone 12 compared with the prior-year, in October 2020. The new model in 2019, the iPhone 11, had been on the market by September. The margin for terminal equipment trade is traditionally lower than it is for mobile and fixed-network service revenues.

Service revenues at Telekom Deutschland increased by 0.9 percent overall in the third quarter.

Adjusted EBITDA AL increased in the three-month period by 1.3 percent to 2.4 billion euros.

In the United States, we are making great strides in the integration of Sprint and the build-out of the 5G network.

Around 15 percent of the traffic of Sprint contract customers has now been migrated to the T-Mobile network.

Around 85 percent of the Sprint contract customers have a cell phone that is compatible with the T-Mobile network.

The synergies arising from the business combination of T-Mobile US and Sprint are being realized faster than planned.

Fewer new cell sites need to be built than had originally been expected. At the same time, the decommissioning of existing but no longer required cell sites is progressing more rapidly than previously planned. The same goes for the consolidation of the shops and in marketing.

And all the while, T-Mobile's customer base continues to grow apace.

2.0 million branded postpaid net additions, yet again the highest growth in the U.S. mobile market. The same applies for the number of new phone customers, which grew by 0.7 million. At the same time, the churn rate for branded phone customers remained at the record low level of 0.9 percent.

And it did so despite the integration of Sprint customers since the business combination effective April 1, 2020. It should be noted that, before the business combination, the former Sprint had a much higher churn rate among contract customers than T-Mobile US.

The business combination with Sprint and strong organic growth boosted T-Mobile US's total revenue by 74.0 percent to 19.4 billion U.S. dollars.

Organic revenue growth amounted to 4 percent.

Mobile service revenues increased by 1.4 percent on an organic basis. This is an improvement on the second quarter, when they decreased by 0.8 percent year-on-year.

Adjusted EBITDA AL was up by 119.3 percent to 7.0 billion U.S. dollars (under IFRS). In organic terms, we recorded an increase of 14.6 percent.

In the Europe operating segment, we continued to record solid customer growth in the individual business areas.

In mobile communications, the number of contract customers increased by 171,000 in the third quarter.

Broadband net additions totaled 60,000, roughly the same level as in the third quarter of 2019.

Sales of fixed-mobile convergence products increased again by 258,000. In the Europe segment, 53.2 percent of broadband households now also use these product bundles, which corresponds to growth of 5.7 percentage points.

The growth in the number of TV customers recorded in the second quarter continued between July and September, with 26,000 TV net adds.

Revenue in the Europe operating segment decreased by 1.7 percent in the third quarter.

This decline is attributable to exchange rate fluctuations and lower mobile service revenues from roaming and visitors as a consequence of Covid-19. By contrast, increases in fixed-network service revenues, ICT revenues, and revenue from mobile terminal equipment had a positive impact on segment revenue.

In organic terms, i.e., particularly assuming constant exchange rates, revenue was 0.2 percent up against the figure for the prior-year quarter.

Adjusted EBITDA AL grew 2.1 percent in organic terms. The decline in roaming revenue was offset by the increase in fixed-network and ICT revenues. At the same time, we managed to reduce indirect costs.

At T-Systems, the consequences of the Covid-19 pandemic had a negative impact on the transformation and the medium-term outlook.

Order entry decreased by 25 percent in the third quarter of 2020 to 0.7 billion euros on account of a coronavirus-induced reduction in the number of contracts signed.

Revenue in the Systems Solutions operating segment decreased by 11.6 percent to 1.0 billion euros. The decline was attributable in particular to project business and systems integration. By contrast, some growth areas, such as public cloud, posted slight growth.

Adjusted EBITDA AL decreased by 16.3 percent in the third quarter. In organic terms, it declined by 11.9 percent. This decline was primarily driven by project business and in the area of IT infrastructure.

In the Group Development operating segment, the strong growth in customer numbers at T-Mobile Netherlands continued. Mobile contract net adds totaled 62,000 in the third quarter.

In the fixed network, the number of broadband customers rose by another 17,000.

Revenue increased by 1.0 percent compared with the prior-year quarter, with mobile service revenues increasing by 0.4 percent, despite the substantially decreasing effect of lower roaming revenues.

Adjusted EBITDA AL increased by 6.8 percent compared with the third quarter of 2019 on the back of the broader customer base and lower indirect costs.

In the cell tower business, the number of sites totaled 35,000 as of the end of September 2020.

That is an increase of around 1,800 sites within 12 months, resulting from growth in Germany alone.

Recurring lease revenues increased by 3.8 percent year-on-year.

The development of earnings was also bolstered by lower operating costs per site, increasing adjusted EBITDA AL by 4.9 percent.

Revenue in the Group Development operating segment increased by 2.1 percent in the third quarter.

Adjusted EBITDA AL was up 5.6 percent in organic terms, thus exceeding the revenue growth rate.

That brings me to the explanation of the year-on-year growth in adjusted net profit in the third quarter of 2020.

The growth of 6.3 percent is primarily due to the first-time consolidation of Sprint and the increase of around 3.6 billion euros in adjusted EBITDA, which is also primarily a result of the inclusion of Sprint. In addition, the business excluding the United States made a larger contribution to earnings.

The increase in adjusted EBITDA more than offset the factors that reduced earnings. These are in particular:

- An increase of around 2.55 billion euros in depreciation, amortization and impairment losses, mainly due to the inclusion of Sprint in the Group for the first time.
- An increase of around 0.4 billion euros in loss from financial activities. This reflects the higher financing volume of the Group following the inclusion of Sprint.
- In addition, the tax expense was around 0.2 billion euros higher.

- The share of profit attributable to non-controlling interests increased by around 0.4 billion euros. This is down to the much higher net profit of T-Mobile US and the larger share of external shareholders of T-Mobile US compared with the prior year.

Reported net profit decreased by around 40 percent year-on-year to 0.8 billion euros in the third quarter.

This is mainly due to an impairment loss of around 0.5 billion euros recognized in the third quarter of 2020 as a result of an impairment test conducted at Systems Solutions.

On the basis of a coronavirus-induced downturn in the year to date, medium-term expectations have been lowered, especially in traditional IT business.

Net debt increased by 3.6 billion euros compared with the second quarter of 2020, to 124.5 billion euros.

At the same time, interest-bearing net debt was reduced by 4.6 billion euros.

The rise in overall net debt is attributable to the increase of 10.5 billion euros in lease liabilities. This relates almost entirely to the extension of existing lease arrangements at T-Mobile US. The now extended lease terms of existing arrangements with American Tower also increased the volume of payment obligations to be recognized in the statement of financial position.

There were three offsetting factors that reduced net debt:

- Free cash flow (IFRS 16) of 2.9 billion euros in the third quarter
- The proceeds of 1.2 billion euros from the sale of Sprint's prepaid business to Dish
- Around 3.4 billion euros from currency translation as a result of the strength of the euro compared with the prior-year quarter

The important aspect is that interest-bearing net debt was reduced by 4.6 billion euros in the third quarter.

This brought the ratio of interest-bearing net debt to adjusted EBITDA AL down to 2.5 compared with 2.73 in the second quarter of 2020.

As of September 30, this corresponded to the upper end of our previous leverage ratio range before the implementation of IFRS 16.

Our goal is unchanged:

We also want to bring the ratio of net debt including leases to adjusted EBITDA back within the comfort zone of 2.25 to 2.75 within three years of the merger of T-Mobile US and Sprint taking effect.

All other guidance figures remain within the defined target ranges.

And now we look forward to your questions!