

– Check against delivery –

Conference call

Report on the third quarter of 2021

November 12, 2021

Christian P. Illek

Chief Financial Officer

Deutsche Telekom AG

Ladies and Gentlemen,

From me too, a warm welcome to our conference call on Deutsche Telekom's results for the third quarter of 2021. I would like to break down my comments into three sections.

First, I would like to explain the development of the Group's financial results in the third quarter of 2021. We had positive developments on both sides of the Atlantic. I will then set these out in detail when I present the operating segments.

Finally, I will go into the development of the Group's liabilities and net profit.

Let us begin with the third quarter:

Deutsche Telekom's financial figures for the Group developed very well in the third quarter of 2021. Its reported net revenue increased by 1.8 percent year-on-year, or around 484 million euros. In organic terms, revenue increased by 2.1 percent.

Revenue at T-Mobile US grew by around 0.3 billion euros in organic terms compared with the third quarter of 2020, an increase of 1.8 percent. The business outside of the United States recorded organic growth of around 0.3 billion euros or 2.7 percent. The change in the U.S. dollar exchange rate reduced revenue by around 133 million euros.

Let me now turn to the development of adjusted EBITDA AL. The Group's reported adjusted EBITDA AL decreased in the third quarter by 0.3 percent to 9.7 billion euros. That is a decline of around 31 million euros. In organic terms, the Group's adjusted EBITDA AL increased slightly by 0.2 percent. The difference between the reported and organic figures results from the translation of earnings into euros. This factor amounts to around 50 million euros.

In the Group outside of the U.S. business, we recorded very substantial growth in adjusted EBITDA AL of around 191 million euros or 5.2 percent in the third quarter of 2021. That is a particularly strong performance.

Looking at the development of EBITDA at T-Mobile US and hence also at Group level, you have to take into consideration a significant factor arising from the merger in the United States. T-Mobile US is gradually moving the business model of the former Sprint away from terminal equipment leases with retail customers and towards agreements containing installment plans.

In terms of the figures for the third quarter, this had a decreasing effect on adjusted EBITDA AL for the Group of around 0.5 billion euros. Excluding this factor, i.e., in adjusted core EBITDA AL, the increase in organic terms stood at around 6.7 percent.

Free cash flow in the Group increased by 80 percent to 2.9 billion euros in the third quarter. The increase of around 1.3 billion euros resulted from the positive business development on both sides of the Atlantic. Around 950 million euros of this related to the T-Mobile US business and around 350 million euros to the Group outside of the United States.

We had previously set ourselves a free cash flow target for the year of more than 8 billion euros. After nine months, we have already achieved 8.3 billion euros and we have increased the target for the year to around 8.5 billion euros. It should be noted that in the first nine months of 2021, the growth in free cash flow AL was attributable, among other things, to improvements in working capital, some of which are only temporary.

Let me show you the progress we have made in our operating segments in the third quarter. First let us look at the Germany segment.

We recorded further strong growth in branded customers. This was especially encouraging once again in the broadband business, where the number of customers increased by 90,000 in the three-month period. We have seen more than 90,000 broadband net adds in every one of the last four quarters. In the third quarter, our market share of new customers was well over 50 percent.

The number of fiber-optic-based lines increased by 276,000 in the third quarter. That is 1.35 million net adds year-on-year. Branded net additions remained very high at 204,000.

By contrast, in terms of wholesale net adds, we again recorded a decline compared with the same quarter of the prior year because competitors are migrating customers to their own platforms and demand from local exchange carriers has fallen.

Around three quarters of our retail broadband base is now on fiber-optic infrastructure.

Compared with a year earlier, we have added around half a million new supervectoring lines, bringing the customer base here to now over one million. That corresponds to an increase of 80 percent year-on-year.

The number of MagentaTV customers grew by around 33,000 in the third quarter.

Line losses in the fixed network were again at a very low level of 12,000 in the third quarter of 2021.

In mobile communications, the number of branded customers increased by 182,000. That is an increase in net additions of 8 percent compared with the prior year. Around 63 percent of our mobile contract customers have now subscribed to a MagentaEINS convergence product. The B2C contract churn rate in the third quarter was at a very low level of 0.8 percent.

Service revenues in the German mobile business increased by 2 percent in the third quarter, with a positive effect of around 0.2 percentage points resulting from improvements in roaming and visitor revenues. Deutsche Telekom remains the clear market leader in terms of mobile service revenues in Germany.

Fixed-network service revenues increased by 1.4 percent in organic terms, primarily driven by the broadband business. Broadband service revenues increased by 5.5 percent, mainly as a result of business with branded retail customers. This more than offset the decline in wholesale revenue of 4.4 percent. Total revenue in the segment increased by 2.5 percent to 6 billion euros in the third quarter.

Adjusted EBITDA AL in the Germany segment increased in the three-month period by 3.9 percent to 2.5 billion euros. The increase in earnings was mainly the result of high-value revenue growth. Thus, the Germany segment has now managed to improve its earnings for 20 consecutive quarters.

At T-Mobile US, we are making great strides in the integration of Sprint and the build-out of the 5G network. Around half of all Sprint customers have now been migrated to the T-Mobile US network compared with around 33 percent at the end of the second quarter of 2021. Around 90 percent of the mobile traffic of Sprint customers is already carried on the T-Mobile US network.

T-Mobile US has raised its synergy target for the current year to 3.2 to 3.5 billion U.S. dollars. That is a mean of around 300 million U.S. dollars more than in the second quarter of 2021.

New customer acquisition continues to be bolstered by T-Mobile US' progress in the network build-out and by its reputation in terms of network leadership, as confirmed by the latest testimonies of OpenSignal, Ookla, Umlaut/formerly P3, and PCMag.

The result is ongoing strong customer additions. T-Mobile US won 1.3 million branded postpaid customers in the third quarter, once again the highest customer growth in the U.S. industry. The growth in postpaid phone customers was on a par with the prior-year quarter at 673,000. At the same time, the postpaid phone churn rate remained very low at around one percent.

T-Mobile US raised its guidance for postpaid net adds once again, now expecting between 5.1 and 5.3 million net postpaid customer additions in the full year 2021, an increase from the prior guidance by a mean value of 50,000 customer additions.

Total revenue at T-Mobile US (according to IFRS) increased by 2.3 percent to 19.8 billion U.S. dollars. Service revenues (under U.S. GAAP) increased by 4.1 percent in the three-month period. I already explained the development of adjusted EBITDA AL.

The Europe segment saw further strong organic growth in the customer base. 258,000 mobile contract net additions were recorded in the third quarter. And we recorded 55,000 broadband customer net additions in the three months. 34,000 new TV customers were added. We further expanded the business with convergence products, recording 170,000 FMC net adds.

Segment revenue rose by 0.9 percent in the third quarter. Organic growth was 1.2 percent. Mobile service revenues increased by 62 million euros, an increase of 4.9 percent. This trend was bolstered by the further recovery in roaming and visitor

revenues, which increased by 34 million euros compared with the same three months in the prior year.

Adjusted EBITDA AL in organic terms increased 5.4 percent, thanks to high-value revenue growth. The net margin, i.e., revenue less direct costs, recorded a positive trend. In the third quarter of 2021, the contribution of the net margin increased by 69 million euros.

In Systems Solutions, we increased the order entry by 23.6 percent over the last 12 months. In the third quarter of 2021, this was primarily due to an increase in project business compared with the prior-year quarter, which had been impacted by the pandemic.

Revenue in the Systems Solutions segment increased by around 1.7 percent in the three-month period to around 1.0 billion euros, with key contributions from digital solutions and public cloud. This was more than enough to offset the declines in traditional infrastructure business. Adjusted EBITDA AL improved again in the third quarter of 2021, with organic growth of 16.5 percent.

This brings me to the Group Development segment. Following the sale agreed in September 2021, T-Mobile NL will continue to be consolidated in the Group, recognized as “held for sale,” until the transaction is closed. T-Mobile NL continued its strong customer growth in the third quarter. 52,000 new mobile contract customers were added. In broadband, we recorded 14,000 net adds.

Revenue at T-Mobile NL grew by 6.4 percent in the third quarter. In organic terms, it increased by 3.9 percent. Mobile service revenues increased by 4.9 percent year-on-year on an organic basis, with the recovery in roaming and visitor revenues contributing around 1.4 percentage points.

Adjusted EBITDA AL increased in organic terms by 23.8 percent to 179 million euros – mainly driven by operational growth and, among other factors, by one-time effects resulting from held-for-sale accounting.

In the cell tower business, the number of sites increased to 40,100. The deconsolidation of cell towers in the Netherlands following the sale to Cellnex as of June 1, 2021, had a decreasing effect of around 3,100 sites compared to a year earlier. The consolidation of the cell towers in Austria in the segment since the start of 2021 has increased the number of sites by around 7,000. Moreover, the number of sites in Germany increased by around 1,100 to 33,000 compared with the third quarter of 2020.

Recurring rental revenues in the cell tower business increased by 5.8 percent in organic terms in the third quarter of 2021. Adjusted EBITDA AL increased by 4.8 percent in organic terms in the three-month period, primarily due to the higher number of cell sites of Deutsche Funkturm in addition to cost reductions per site.

Revenue in the Group Development segment increased by 9.5 percent in the third quarter. In organic terms, revenue increased by 4.2 percent. Adjusted EBITDA AL rose by 19.7 percent in this period, an increase of 15.5 percent in organic terms. Both entities contributed to this increase.

Let me now turn to our adjusted net profit. It decreased by 13 percent compared with the third quarter of the prior year. That is a decline of around 193 million euros. It was reduced by an increase in other financial expense of around 500 million euros, mainly as a result of measurement effects in relation to the call options on T-Mobile US shares and hedging transactions. The figures as of the reporting date are based on the T-Mobile US share price at that date.

By contrast, the rise in adjusted EBITDA by 37 million euros had an increasing effect. Depreciation and amortization were 108 million euros lower year-on-year, which had a positive effect on adjusted net profit. Furthermore, the tax expense was 156 million euros lower, which also impacted positively on adjusted net profit.

After nine months, adjusted net profit amounted to 4.6 billion euros, up 13.6 percent year-on-year.

Interest bearing net debt (net debt AL) increased by 2.5 billion euros against the second quarter of 2021, with free cash flow AL having a reducing effect of around 2.9 billion euros in the third quarter.

The acquisition of Shentel in the United States increased net debt by around 1.6 billion euros, and the reporting date valuation of the call options on T-Mobile US shares and hedging transactions combined increased it by around 1.2 billion euros. Changes in exchange rates had an increasing effect of around 1.35 billion euros.

The ratio of net debt excluding leases to adjusted EBITDA AL stood at 2.66 at the end of the third quarter. Including lease liabilities, the ratio of net debt to adjusted EBITDA stood at 3.02 at the end of September. Our goal is still to bring this ratio back into the comfort zone of 2.25x to 2.75x by the end of 2024 at the latest.

All other guidance figures remain within the target ranges. Our equity ratio increased by 1.6 percentage points year-on-year.

And now we look forward to your questions!