

– Check against delivery –

**Press conference on the financial statements
for the 2020 financial year
February 26, 2021**

**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 fourth 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's financial results outside the United States also continued in the fourth 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 net debt compared to the end of the third quarter, and net profit.

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

They continued to develop well and, together with the first nine months, formed the basis from which we achieved the Group's earnings guidance for the full year.

Net revenue went up 29.3 percent in the three-month period. That is headline growth of around 6.3 billion euros. The vast majority of this is attributable to the first-time inclusion of Sprint.

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, organic growth amounted to around 1.4 billion euros or some 5.1 percent.

Free cash flow was down by 46.6 percent in the fourth quarter of 2020 against the same quarter of 2019. This primarily reflects higher investments and integration costs in the United States following the business combination with Sprint.

In the full year, we exceeded our target, which was last raised to at least 6 billion euros, with free cash flow AL of 6.3 billion euros. This figure already includes integration costs in the United States amounting to around 1.5 billion U.S. dollars.

Adjusted EBITDA AL increased by 48.5 percent in the fourth quarter of 2020. The majority of the growth of 2.9 billion euros resulted from the first-time inclusion of Sprint in the Group. In organic terms, adjusted EBITDA AL increased by 0.7 billion euros.

This corresponds to organic growth in the Group's adjusted EBITDA AL of 9 percent compared with the fourth quarter of 2019.

The business outside the United States generated a 2.8 percent increase in adjusted EBITDA AL in the three-month period. In organic terms, the increase was 3.5 percent.

The Europe operating segment has therefore generated organic EBITDA growth for the last 12 quarters in succession. The Telekom Deutschland business has now seen earnings growth for 17 quarters in succession.

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

Revenue declines in the fourth quarter were recorded primarily in retail roaming. These declines reduced net revenue excluding the United States by around 60 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 25 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 excluding the United States by around 100 million euros in the fourth quarter.

In the full year, the negative effect on earnings as a result of the pandemic was around 0.2 billion euros. However, thanks to its strong overall operational development, the Group was able to more than offset this effect. In the fourth quarter as well as in the full financial year 2020.

For the current year, we expect the pandemic to have a similar impact on adjusted EBITDA AL as in 2020.

Let me now show you the progress we have made in our operating segments in the fourth 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 121,000. That is the strongest growth in a single quarter for many years.

The number of fiber-optic-based lines increased by 415,000. That represents a growth of around 1.6 million compared to the previous year.

The number of supervectoring lines stands at 0.7 million. This represents growth of around 180 percent year-on-year.

The number of MagentaTV customers went up by 77,000, about the same growth level recorded in the fourth quarter of 2019.

Line losses fell substantially again to 12,000 in the fourth 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, surpassing five million customers for the first time. 26 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 0.6 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.

We recorded branded mobile net additions of 206,000 in the fourth quarter. This growth is more than double that recorded in the same period of last year.

The churn rate for contract customers (excluding Lebara) remained very low at 0.9 percent.

Service revenues in the German mobile business decreased by 1.7 percent.

This includes a negative revenue effect from the Covid-19 pandemic due to lower roaming and visitor revenues of around 44 million.

Adjusted for this coronavirus effect, mobile service revenues increased by 1.1 percent. As such, Deutsche Telekom remains the clear leader in terms of service revenues on the German mobile market.

Revenue in the Germany operating segment increased by 0.6 percent overall in the fourth quarter to 6.3 billion euros.

Revenues from broadband business grew by 6.4 percent and from wholesale business by 0.9 percent. By contrast, as already mentioned, mobile service revenues declined due to the impact of Covid-19.

Adjusted EBITDA AL increased in the three-month period by 1.1 percent to 2.3 billion euros.

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

More than four million former Sprint customers and around 25 percent of the traffic of Sprint postpaid customers have now been migrated to the T-Mobile network.

The synergies arising from the business combination of T-Mobile US and Sprint are being realized faster than planned. Already in the full year 2020, we achieved synergies of around 1.3 billion U.S. dollars.

Fewer new cell sites need to be built than originally 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.

T-Mobile's 5G network now covers 280 million people, far more than those of AT&T and Verizon.

5G already covers 106 million people in the 2.5 GHz range. The target for the end of 2021 is around 200 million.

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

1.6 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 0.8 million. At the same time, the churn rate for branded phone customers remained at the very low level of 1.0 percent.

The business combination with Sprint and strong organic growth boosted T-Mobile US' total revenue by 71.6 percent to 20.5 billion U.S. dollars.

Organic revenue growth amounted to 8.8 percent.

Adjusted EBITDA AL was up by 120.1 percent to 6.6 billion U.S. dollars (under IFRS). In organic terms, we recorded an increase of 12.6 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 219,000 in the fourth quarter. This is at the level of the fourth quarter of 2019, before the outbreak of the coronavirus pandemic.

Broadband net additions totaled 88,000, the highest they have been since the fourth quarter of 2018.

Sales of fixed-mobile convergence products increased again by 248,000. In the Europe segment, 54.4 percent of broadband households now also use these product bundles, which corresponds to growth of 5.1 percentage points.

The positive trend in the number of TV customers accelerated further, increasing by 71,000.

Revenue in the Europe operating segment decreased by 2.9 percent in the fourth quarter.

This decline was mainly a result of exchange rate fluctuations in the Polish zloty and the Hungarian forint.

By contrast, higher service revenues in the fixed-network business had a positive impact on segment revenue. Mobile service revenues increased slightly, despite negative effects from the coronavirus pandemic of around 30 million euros.

In organic terms, i.e., in particular assuming constant exchange rates, revenue remained at about the level of the prior-year quarter, down just 0.5 percent.

Adjusted EBITDA AL grew 1.9 percent in organic terms, largely as a result of increased revenues in the fixed-network business. In addition, we managed to reduce indirect costs.

T-Systems recorded substantial growth in order entry of 43 percent in the fourth quarter to 2.1 billion euros. This can be primarily attributed to three major deals with Shell, Deutsche Post, and Heineken. In addition, a large international automotive manufacturer has commissioned T-Systems to set up a connected car platform.

However, the consequences of the Covid-19 pandemic continued to have a negative impact on the operating business and transformation of T-Systems in the fourth quarter.

Revenue in the Systems Solutions operating segment decreased by 7.4 percent to 1.1 billion euros. The decline was attributable in particular to project business and systems integration. By contrast, the public cloud growth area recorded increases.

Adjusted EBITDA AL decreased by 16.2 percent in the fourth quarter, and by 11.3 percent in organic terms. This decline was primarily driven by project business.

In the Group Development operating segment, the growth in customer numbers at T-Mobile Netherlands continued. Mobile contract net adds totaled 22,000 in the fourth quarter. The slower growth compared with the prior-year quarter is primarily attributable to shop closures as a consequence of the coronavirus pandemic.

In the fixed network, the number of broadband customers rose by another 21,000.

Revenue fell by 1.5 percent compared with the prior-year quarter, entirely on account of decreases in roaming and visitor revenues as a consequence of the coronavirus pandemic.

Adjusted EBITDA AL increased by 3.8 percent compared to the fourth quarter of 2019 on the back of the first-time consolidation of Simpel in the fourth quarter and the broader customer base.

In the cell tower business, the number of sites totaled 35,700 at the end of 2020.

That is an increase of around 1,400 sites within 12 months, resulting mainly from growth in Germany.

Recurring lease revenues increased by 4.4 percent year-on-year.

Adjusted EBITDA AL increased by 3.5 percent.

Revenue in the Group Development operating segment increased by 1.5 percent in the fourth quarter.

Adjusted EBITDA AL was up 2.7 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 fourth quarter of 2020.

- The growth of 62 percent to 1.6 billion euros was largely due to a positive contribution in the fourth quarter from the measurement of call options on T-Mobile US shares held by Softbank.

The increase in adjusted EBITDA of 3.4 billion euros was offset by a number of factors that reduced earnings.

These are in particular: an increase of around 2.4 billion euros in depreciation and amortization, mainly due to the first-time inclusion of Sprint in the Group.

- An increase of around 0.2 billion euros in loss from financial activities. This primarily reflects the substantially higher interest expenses due to the first-time inclusion of Sprint.
- The share of profit attributable to non-controlling interests increased by around 0.3 billion euros due to the larger share of external shareholders of T-Mobile US.

Reported net profit significantly more than doubled year-on-year in the fourth quarter of 2020 to around 1.7 billion euros.

The 15.5 percent increase in adjusted net profit for the full year to 5.7 billion euros is also mainly due to the positive effects from the measurement of options on shares in T-Mobile US held by Softbank.

Net debt decreased by 4.3 billion euros in the fourth quarter of 2020 to 120.2 billion euros. At the same time, interest-bearing net debt was reduced by 3.1 billion euros.

The decrease in overall net debt reflects three factors in particular. The gross amount of around 1.5 billion euros from new lease arrangements and, in particular, contract extensions had an increasing effect.

There were two main offsetting factors that reduced net debt:

First, free cash flow (IFRS 16) of 1.9 billion euros in the fourth quarter. Second, exchange rate effects of around 3.7 billion euros due to the stronger euro in relation to the U.S. dollar compared to the prior-year reporting date.

This puts the ratio of net debt to adjusted EBITDA at 2.78.

The ratio of interest-bearing net debt to adjusted EBITDA AL stood at around 2.4x at the end of 2020. As such, it fell within 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!