– Check against delivery –

Press conference on the financial statements
for the 2021 financial year
February 24, 2022

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Ladies and Gentlemen,

From me too, a warm welcome to our conference call on Deutsche Telekom's results in the 2021 financial year.

Our presentation today is organized a little differently from what you are used to. Because 2021 was the last year of the forecast period from the 2018 Capital Markets Day when we presented our plans for 2017 through 2021. So, today, we will first look at last year's results. Then we will look back at what we have achieved since 2017. Finally, we will give our guidance for the current financial year, 2022.

The Group's excellent operational development in terms of customer numbers is also reflected in very good financial figures. If you look at the two performance indicators adjusted EBITDA AL and free cash flow AL assuming constant exchange rates, we exceeded our guidance. And do not forget: We had already raised the guidance figures several times during 2021.

The most recent guidance for adjusted EBITDA AL for 2021 was around 38 billion euros. Our reported adjusted EBITDA AL totaled 37.3 billion euros.

When comparing the reported figure with our guidance, you must bear in mind that our guidance was calculated assuming constant exchange rates with 2020. In the 2021 financial year, the U.S. dollar/euro exchange rate was 1.18 U.S. dollars per euro. In the prior year, this rate was 1.14 U.S. dollars per euro. This weakness of the U.S. dollar compared with the prior year reduced adjusted EBITDA AL by around 0.85 billion euros. Assuming constant exchange rates, adjusted EBITDA AL stood at around 38.2 billion euros, which exceeds our guidance for 2021.

We began 2021 with a guidance for free cash flow of around 8 billion euros. In the end, we achieved 8.8 billion euros.

We also exceeded the guidance from the 2018 Capital Markets Day for 2017 through 2021, thereby building up a sustainable growth profile.

In the following, I will concentrate on the organic development of the financial figures, because that gives an undistorted view of the operational development.

For the comparison on an organic basis, the following factors are to be taken into account, in particular:

- In 2021, the former Sprint Corp. was consolidated in the Group for the full year, compared to just three quarters in the prior year.

- In the 2021 financial year, T-Mobile US acquired Shentel, which was included in the Group for six months. This entity was not part of the Group in 2020.

- The fixed-network business in Romania was consolidated for the full year in 2020. Following its sale in the financial year just ended, this business was only included in the Group for nine months in 2021.

- When translating financial positions from foreign currencies into euros in 2021, exchange rates constant with the prior year were applied to ensure comparability between the periods. This particularly relates to the U.S. dollar, which was around 4 dollar cents weaker on average for the year in 2021 than in 2020.

Reported net revenue increased by 7.7 percent or 7.8 billion euros year-on-year in 2021. In organic terms, revenue increased by 4.5 percent or around 4.7 billion euros.

The increase in revenue was primarily the result of organic growth in service revenues of 3.5 percent or 2.8 billion euros. In the United States, service revenue grew by 4.6 percent in organic terms, in the business outside of the United States by 2.0 percent. This is the basis for value-enhancing growth.

Now I will move on to EBITDA AL. The Group’s reported adjusted EBITDA AL grew by 6.6 percent in the 2021 financial year. That is an increase of around 2.3 billion euros. In organic terms, the Group’s adjusted EBITDA AL increased by 1.9 percent.

This includes an increase of 4.8 percent in organic adjusted EBITDA AL outside of the United States. As such, this more than met the guidance for the 2021 full year of 14.6 billion euros.

Organic adjusted EBITDA AL in the United States rose slightly by 0.1 percent. Why is this growth rate rather low? You have to bear in mind that T-Mobile US is withdrawing from the Sprint business model of leasing terminal equipment to customers, on a planned basis. The plan is to move away from this former Sprint business model towards the sale of terminal equipment with payment by installments.

This shift distorts the comparability of EBITDA between periods. In the lease model, mobile terminal equipment is leased to customers and accounted for by the company under non-current assets. They are depreciated on a straight-line basis over time accordingly. Since adjusted EBITDA is calculated before depreciation and amortization, this depreciation expense is not reflected under the lease model.

By contrast, under the purchase-by-installments business model for terminal equipment, cost of equipment sales is recorded directly in EBITDA, reducing it accordingly. The T-Mobile US model, namely purchase by installments, is easier to understand for many customers. Hence the shift.

To assess the development of operating earnings performance at T-Mobile US, we therefore consider adjusted core EBITDA AL. This adjusted core EBITDA AL excludes lease revenue in order to ensure the comparability of operational development between the different periods.

Adjusted core EBITDA AL at T-Mobile US grew by 10.1 percent year-on-year in 2021. For the Group, this means that, on a like-for-like basis, adjusted core EBITDA AL increased by 7.8 percent organically in 2021.

The shift in the Sprint terminal equipment business is already well advanced: In the 2021 financial year, lease revenue from retail customers at T-Mobile US was already reduced by around 1.8 billion euros on an organic basis.

That brings me to free cash flow AL, which rose by 40.1 percent in 2021 to 8.8 billion euros. That is a year-on-year increase of 2.5 billion euros. We also raised the guidance for free cash flow AL twice from the figure expected at the start of the year of around 8 billion euros, most recently to around 8.5 billion euros, a target we thus exceeded clearly.

This includes an increase of 18.5 percent to 3.9 billion euros in the Group’s free cash flow AL outside of the United States. Accordingly, free cash flow in the United States grew to 4.9 billion euros.

The main factors in the development of free cash flow AL were as follows:

A factor with an increasing effect:

- Higher net cash from operating activities, which was up 4.7 billion euros, underlines the positive development of operations.

Factors with a decreasing effect:

- Higher cash outflows for leases and the lease of cell sites, primarily in the United States, of around 1 billion euros;

- In addition, higher cash capex, also of around 1 billion euros.

And that brings me to the explanation of the growth in adjusted net profit, which increased by 2.9 percent year-on-year to 5.9 billion euros.

The increase in adjusted net profit resulted from the around 2.8 billion euros higher adjusted EBITDA due to the strong business performance.

The following factors had a decreasing effect on adjusted net profit:

- The increase in depreciation and amortization of around 1.35 billion euros, primarily from the inclusion of Sprint for the full year for the first time.

- The net financial result was around 895 million euros lower than in 2020, mainly due to measurement effects of 491 million euros, from derivative transactions, on the back of the premature repayment of bonds and the measurement at the reporting date of the call options to purchase T-Mobile US shares, as well as a hedging transaction to hedge the price of acquiring further T-Mobile US shares in the future. In this context, the decline in the price of the T-Mobile US share to around 116 U.S. dollars as of the end of 2021, as compared with 135 U.S. dollars as of the end of 2020, had an impact.

- The increase in financing costs of 401 million euros resulted from the consolidation of Sprint for a longer period of a full year rather than just three quarters as in 2020.

- Income tax expense up by around 220 million euros.

- The share attributable to non-controlling interests up by 188 million euros.

Adjusted earnings per share therefore increased to 1.22 euros, also exceeding the guidance of around 1.10 euros from last year's Capital Markets Day. This covers the dividend proposed to the shareholders' meeting of 0.64 euros per share. Based on this planned dividend – which is as usual subject to approval by the shareholders' meeting – the dividend payout ratio stands at around 52 percent. This puts it within the range of 40 to 60 percent we specified at the Capital Markets Day for our dividend plans going forward.

I will now move on to the financial liabilities and financial ratios as of the end of 2021. Interest-bearing net debt increased by 11.1 billion euros against the prior year. This net increase is attributable almost entirely to our business in the United States. Net debt increased in particular as a result of three factors related to the U.S. business:

- The acquisition of mobile spectrum, especially in the United States, for a total of 8.4 billion euros.

- Furthermore, the acquisition of Shentel in the United States for around 1.6 billion euros.

- In addition, around 6 billion euros, the vast majority of which resulted from changes in exchange rates, thereby increasing financial liabilities. At the respective reporting dates, the U.S. dollar was around 9 dollar cents stronger at the end of 2021 than 12 months earlier.

In total, these factors account for around 16 billion euros. The high free cash flow AL of 8.8 billion euros reduced net debt, around 4.9 billion euros of which related to the U.S. business.

The ratio of net debt excluding leases to adjusted EBITDA AL was 2.7 at the end of the financial year. Including lease liabilities, the ratio of net debt to adjusted EBITDA was 3.06 at the end of December.

Our goal is still to bring this ratio back into the target range of 2.25x to 2.75x by the end of 2024, having left this range as planned as a consequence of the merger of T-Mobile US and Sprint.

That brings me to our targets set at the 2018 Capital Markets Day for 2017 through 2021. We have exceeded almost all the forecasts from that event. Let us take a look at the statements in turn.

Net revenue was to increase by an average 1 to 2 percent per year on a like-for-like basis. What we actually achieved was around 3.3 percent. This was partly driven by the increase in high-value service revenue, which grew in organic terms by between 2.3 percent in 2020 and 3.7 percent in 2019.

Adjusted EBITDA AL was to rise by 2 to 4 percent per year between 2017 and 2021. What we achieved was growth of 5.3 percent, or 7.7 percent taking into account the effect from reducing the lease business at Sprint.

The strong development in the Group outside of the United States is particularly encouraging. The aim there was to increase adjusted EBITDA AL by 2 to 3 percent per year. We achieved 3.7 percent.

A key contribution to the increase in earnings came from the reduction of indirect costs. We had set a target for this of a permanent net reduction of 1.5 billion euros between 2017 and 2021.

What we achieved was a reduction of indirect costs of 1.8 billion euros. This was possible in part due to the continuation of the Group’s socially responsible workforce restructuring, while employee productivity increased by 20 percent in the same period. Cost reductions were also bolstered by ongoing process optimization and digitalization. In addition, we work continuously to reduce costs for buildings.

At the 2018 Capital Markets Day, we said that free cash flow AL was to increase to more than 8 billion euros in 2021. Between 2017 and 2021, we actually increased free cash flow to 8.8 billion euros.

We achieved the forecast for adjusted earnings per share from the 2018 Capital Markets Day: a planned increase to around 1.20 euros per share. Despite the integration of the U.S. company Sprint, adjusted earnings per share were 1.22 euros.

That brings me to the last section: the outlook for the current financial year and the guidance for 2022. We want our growth trend to continue again this year.

I have already explained the issue of reducing the terminal equipment lease business at Sprint in some detail. Therefore, I will focus here on the comparable development of adjusted core EBITDA AL.

Over the last few years, we have built up a strong growth profile for the most important financial performance indicators. We plan to continue this in 2022: Adjusted core EBITDA AL is to rise by around 5 percent or 1.8 billion euros in 2022 to around 35.5 billion euros.

Of this, around 21.3 billion U.S. dollars relates to T-Mobile US, which corresponds to an increase of around 1.4 billion U.S. dollars. The T-Mobile US team expects synergies from the merger with Sprint to exceed the costs of the business combination for the first time in 2022.

The Group outside of the United States is expected to increase its earnings contribution by around 0.4 billion euros, or 2.9 percent, with the 2021 basis for comparison being adjusted for the sale of T-Mobile NL and the fixed-network business in Romania.

We plan to generate free cash flow AL of around 10 billion euros in 2022. To a large part, this will come from the United States. In the Group outside of the United States, free cash flow is expected to grow despite the higher capital expenditure for the fiber-optic build-out.

Adjusted earnings per share are expected to reach more than 1.25 euros in 2022. We still have our sights firmly set on our target for 2024 here: more than 1.75 euros per share.

We are optimistic that we can continue the successful journey we started years ago. We built up the operational basis for this over many years – Tim Höttges will now tell you exactly how.