

– Check against delivery –

Conference call
Report on the first quarter of 2021
May 12, 2021

Christian P. Illek
Chief Financial Officer
Deutsche Telekom AG

Ladies and Gentlemen,

Welcome to our conference call on Deutsche Telekom's results for the first quarter of 2021.

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

First of all, I would like to go into a few key issues and developments in the first quarter. Then I will give an outlook for the full year and explain the development of the financial results in the first quarter of 2021.

I will then go over the development in the operating segments.

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

Let us begin with the first quarter:

Deutsche Telekom's growth story remains intact. We achieved excellent customer numbers and financial figures. On both sides of the Atlantic. We added around 330,000 new mobile contract customers on this side of the Atlantic. We won another 162,000 new broadband customers in Germany and our European subsidiaries. The strong demand on our home continent also continued in other areas – across Europe, we were able to win around 80,000 new TV customers.

Last week, T-Mobile US published its figures for the first quarter, which were once again very impressive. Especially the 1.2 million net postpaid customer additions in the United States. The integration of Sprint is also progressing faster than planned: Around 50 percent of Sprint customer traffic has already been migrated to the T-Mobile US network. Around 20 percent of Sprint customers have already been migrated to the T-Mobile US network.

The strong development in customer numbers is also reflected in the financial figures. Adjusted EBITDA AL increased by 8.3 percent Group-wide in organic terms to 9.2 billion euros in the first quarter.

All segments contributed to this:

- Our German business has now recorded growth in adjusted EBITDA AL for 18 consecutive quarters.
- In the Europe segment, adjusted EBITDA AL has increased for 13 successive quarters.

In business outside of the United States, adjusted EBITDA AL increased by 4.6 percent in organic terms in the first quarter.

Given these excellent financial figures in the first three months of the year and a positive outlook for the rest of the year, we are raising our guidance for the business outside of the United States:

- We now plan to achieve adjusted EBITDA AL of 14.4 billion euros for the full year. That is up from our previous planning of 14.3 billion euros.
- We now expect free cash flow AL outside of the United States of 3.6 billion euros, up from our previous guidance of 3.5 billion euros.

In addition, we are reflecting the raised guidance for the business in the United States communicated by T-Mobile US last week.

In total, we are raising the guidance for the Group's adjusted EBITDA AL for 2021 by around 200 million euros. The same applies for free cash flow AL, which we also expect to be around 200 million euros higher.

As such, the Group's guidance for 2021 is as follows:

- The guidance for adjusted EBITDA AL has been raised from around 37 billion euros to now over 37 billion euros.
- We have also raised the guidance for free cash flow to more than 8 billion euros, up from around 8 billion euros.

Ladies and Gentlemen,

These are excellent financial figures.

They come on the back of our high investments. In the first quarter, we increased our investments by 27.7 percent to 4.3 billion euros. This is due to the inclusion of Sprint in the United States.

We are making good progress in the 5G build-out in Germany. Our network coverage has already surpassed 80 percent. We have raised our target for the end of the year to 90 percent.

The intelligent use of spectrum for 4G/5G means our customers already enjoy higher speeds, even if their device is not yet 5G-capable. The number of 5G-capable devices in our portfolio of cell phones is constantly growing. It currently stands at more than three dozen. And demand is also rising quickly: At the latest count, around two-thirds of devices sold were 5G-capable.

Regarding the 5G build-out in the United States: Our 5G network in the 600 MHz band covers 295 million people in the United States, putting us well ahead of AT&T and Verizon. Our Ultra Capacity network in the 2.5 GHz band is already available to around 140 million people. The goal is to reach 200 million by the year-end. In February, we concluded the spectrum auction with the purchase of 40 MHz spectrum. This supports our strategy of having the best 5G offer in the U.S. market.

Regarding the fiber-optic build-out in Germany: Our fiber-optic network is now around 600,000 kilometers long. Having successfully completed the build-out of FTTC, we are now driving fiber to the home, or FTTH, forward. In the first quarter, we increased the number of households that can be connected with optical fiber to 2.3 million, an increase of 35 percent compared with the end of the first quarter of 2020. To achieve this, we enabled around 140,000 additional FTTH lines in the first quarter of 2021 alone. Our target remains to enable 10 million households to get a Deutsche Telekom FTTH line by 2024.

Another highlight: We offer our MagentaTV customers top content. The very latest news, which soccer fans have been waiting for: From June 11, we will be streaming all matches of the European Championship live and in Ultra HD.

Our program includes exclusive rights to ten matches: for example, the European champion Portugal against France. The package is rounded off with daily reports from the German training camp presented by well-known soccer experts.

We also raised our climate targets and brought forward key milestones in the first quarter. Our own emissions (Scope 1 and 2) are set to be climate-neutral by 2025 – five years earlier than previously planned.

Emissions from the production stage through to operation at the customer's premises (Scope 3) are to be climate neutral by 2040. That is ten years earlier than previously planned.

There will be more on this at our Capital Markets Day on May 20 and 21.

So, now to the Group's financials for the first quarter of 2021. They have developed very well.

The Group's net revenue increased by 32.3 percent to 26.4 billion euros in the first three months. That is headline growth of around 6.4 billion euros. The vast majority of this relates to the inclusion of Sprint for three months. It was not included in the first quarter of 2020, since the business combination with T-Mobile US took effect as of April 1 of last year.

Organic growth in the Group was around 7.1 percent. Service revenues increased by 2.4 percent Group-wide in organic terms.

Adjusted EBITDA AL increased in the first quarter of 2021 by 41.3 percent to 9.2 billion euros. The majority of the growth of 2.7 billion euros resulted from the inclusion of Sprint in the Group. I mentioned the organic growth at the start. Just to repeat: up 8.3 percent compared with the first quarter of 2020.

The business outside of the United States generated a 4.6 percent increase in adjusted EBITDA AL in the first three months, taking it to 3.5 billion euros. Organic earnings growth was also high in the business outside of the United States.

Free cash flow was up by 101 percent in the first quarter of 2021 against the prior-year quarter to 2.6 billion euros.

The business outside of the United States recorded an increase of around 830 million euros. This was partly due to the fact that we had reduced factoring in the German business by around 0.7 billion euros in the first quarter of 2020, which resulted in lower free cash flow. This effect did not recur in the first quarter of 2021. T-Mobile US achieved growth in free cash flow AL of around 470 million euros.

Let me now show you the progress we have made in our operating segments in the first quarter of 2021.

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 93,000. That is 10,000 more new customers than in the first quarter of 2020.

The number of fiber-optic-based lines increased by 368,000. The number of supervectoring lines stands at 0.8 million. Compared to the end of the first quarter of 2020, that is an increase of around 137 percent. The number of FTTH customers increased by 38,000. Growth is accelerating here too: In the first three months of 2020, 27,000 new customers had been added.

The number of MagentaTV customers went up by 32,000. This somewhat slower growth is attributable to the shop closures as a consequence of the coronavirus pandemic.

Line losses continued to decrease substantially to 29,000 in the first quarter of 2021. In the prior-year quarter, this figure had still been as high as 113,000.

We were able to further expand the MagentaEINS customer base year-on-year. 62 percent of our mobile contract customers now also have a MagentaEINS bundle.

We recorded branded mobile net additions of 167,000 in the first quarter of 2021. This was higher than in the prior-year period despite the shop closures. Growth was also bolstered by the churn rate, which continued to be very low at 0.8 percent.

Service revenues in the German mobile business decreased by 0.8 percent. This includes a negative effect of 2 percentage points as a result of the coronavirus pandemic.

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 1.9 percent overall in the first quarter to 5.9 billion euros.

Service revenues in the German fixed-network business increased by 2.7 percent. This primarily reflects the 6.5 percent growth in retail broadband revenues.

Adjusted EBITDA AL increased in the three-month period by 3.4 percent to 2.3 billion euros. This is primarily attributable to high-value growth combined with lower indirect costs.

In the United States, we are ahead of schedule in the integration of Sprint and the build-out of the 5G network.

And all the while, T-Mobile's customer base continues to grow apace. 1.2 million branded postpaid net additions – yet again a record figure in the U.S. wireless market. The same applies for the number of new phone customers, which grew by 0.77 million. At the same time, the churn rate for branded phone customers remained at a very low level of 1.0 percent. T-Mobile US raised its guidance for customer net additions for the full year. The mean value of the guidance range is now 300,000 net additions higher than expected previously.

The business combination with Sprint and strong organic growth boosted T-Mobile US' total revenue by 77.4 percent to 19.9 billion U.S. dollars.

Organic revenue growth amounted to 10.5 percent.

Adjusted EBITDA AL was up by 97.4 percent to 6.9 billion U.S. dollars (under IFRS). In organic terms, we recorded an increase of 10.7 percent.

Strong customer growth also continued in the Europe operating segment. In mobile communications, the number of contract customers increased by 151,000 in the first quarter. This is well over the level of the prior-year quarter (108,000).

Broadband net additions of 58,000 were also up on the prior-year figure of 50,000. Sales of fixed-mobile convergence products also increased again with net customer additions of 191,000.

Following a slight decline in the prior-year quarter, the trend in the number of TV customers picked up again, increasing by 48,000.

Revenue in the Europe operating segment decreased by 1.1 percent in the first quarter to 2.7 billion euros. In organic terms, the business grew by 0.8 percent. The difference is attributable to currency effects, primarily the strength of the euro against the Polish zloty and the Hungarian forint compared with the prior-year period.

Adjusted EBITDA AL increased in organic terms by 4.1 percent to 946 million euros, largely as a result of the positive revenue trend. In addition, we achieved savings in indirect costs.

Let us turn to T-Systems now: Order entry stabilized at 4.6 billion euros over the last 12 months. Revenue in the Systems Solutions operating segment decreased by 4.4 percent to 1.0 billion euros. In organic terms, the decrease was 3.1 percent. While traditional IT infrastructure business declined, the growth areas of public cloud and digital solutions once again recorded growth.

The outlook for adjusted EBITDA AL for the full year remains stable for the Systems Solutions segment.

In the Group Development operating segment, the shop closures at T-Mobile NL as a consequence of the coronavirus pandemic had a noticeable impact. In mobile communications, around 12,000 new contract customers were added in the first three months of 2021.

In the fixed network, the number of broadband customers rose by another 11,000.

Service revenues at T-Mobile NL increased by around 10 percent. This was due in part to inclusion of Simpel for three months for the first-time. In organic terms, mobile service revenues grew by 0.6 percent. Adjusted EBITDA AL increased by 11 percent in the first quarter compared with the first three months of 2020, and stood at 151 million euros. In organic terms, it grew by 6.2 percent.

In the cell tower business, the number of sites totaled 42,600 at the end of the first quarter of 2021.

On a pro forma basis, that is an addition of around 1,200 sites compared with a year earlier. Austria Towers has been assigned to the Group Development segment since January 1, 2021. NL Towers is reported as “held for sale”, following the sales agreement.

Revenue in the Group Development operating segment increased by 10.5 percent in the first quarter to around 0.8 billion euros. Organically, growth was 5.0 percent. Adjusted EBITDA AL increased by 17.5 percent to 0.3 billion euros. In organic terms, the increase was 9.7 percent.

That brings me to the explanation of the year-on-year decline in adjusted net profit in the first quarter of 2021. It decreased by 6.5 percent to 1.2 billion euros. A 3.1 billion euro increase in adjusted EBITDA, mainly from the inclusion of Sprint in the Group, had an increasing effect.

This was offset by a number of reducing factors.

In particular:

- Higher depreciation and amortization of around 2.2 billion euros, primarily in consequence of the inclusion of Sprint in the Group.
- An increase in finance costs of around 0.7 billion euros. The reasons are as follows:
 - Primarily, the net debt acquired in connection with the inclusion of Sprint.
 - Around 0.2 billion euros resulted from the measurement of our option to buy T-Mobile US shares from Softbank.
- Higher shares in profit attributable to external shareholders, especially of T-Mobile US, of around 0.2 billion euros.

Net debt increased by 9.3 billion euros in the first quarter of 2021 compared with the end of 2020.

Free cash flow had a reducing effect of 4.1 billion euros.

The following three factors had an increasing effect:

- 8 billion euros for the acquisition of spectrum in the United States.
- Higher lease liabilities by around one billion euros in the United States.
- A non-cash effect of 3.8 billion euros from exchange rate effects (mainly the stronger U.S. dollar as of the end of the first quarter of 2021 compared with the end of 2020).

The ratio of net debt without leases to adjusted EBITDA stood at 2.6 at the end of the first quarter. Including leases, the ratio stood at 2.98.

We expect the ratio of net debt to adjusted EBITDA in the current year to be the highest within our medium-term planning period.

In particular as a result of the spectrum auction in the United States, which will enable us to further expand our leading position in 5G.

In the planned reduction of debt towards our guidance corridor, we will benefit from the further increases in adjusted EBITDA and free cash flow.

We will explain this in more detail at next week's Capital Markets Day.

I would now be happy to take any questions.