Good afternoon, and welcome to Deutsche Telekom’s Full Year 2022 Conference Call. As you can see with me today are our CEO, Tim Hottges; and our CFO, Christian Illek.

Tim will first go through his highlights and also provide a short a review of our Capital Markets Day targets and how we track against them. This will be followed by Christian, who will talk about the segments in somewhat more greater detail.

After this, we have time for the Q&A, which will be conducted through a Webex. Before I hand over to Tim, please pay attention to our usual disclaimer, which you can find in the presentation. And please also note that the conference will be recorded and uploaded to the Internet.

And now it’s to hand over to Tim.

Thank you, Hannes, and welcome, everybody, to our fourth quarter and full year 2022 results call. As you have seen our record numbers, which we can provide on both sides of the Atlantic and as well another growth guidance for 2023. We will also do a halfway review on how we are tracking with regard to the 4-year targets, which we have laid out at the Capital Markets Day in May 2021, and we will put that in context of our longer-term results.
These are challenging times, no doubt about it. Our economies are on the brink of recession and inflation is rampant. And as you can see, Deutsche Telekom keeps delivering. And therefore, there are 3 main themes for me coming out of the review today: first, growth, possible on both sides of the Atlantic; second, consistency; and third, reliability.

T-Mobile had another strong quarter, wrapping up another great year, a lot of growth, consistent growth. Their 2023 guidance means that they will fully deliver what they promised in 2021, and that's reliability. And in Europe, we also had another strong quarter, another great year. Here, too, a lot of growth and a highly consistent delivery, just as we promised in 2021.

Actually, in most areas, we are ahead of track what we have and that's what we want to keep delivering to you reliability, consistent and growth on both sides of the Atlantic. I'm very happy and grateful that this has been rewarded by a strong share price in 2022 and more recently, over EUR 100 billion market capitalization finally. But of course, we won't stop and we don't want to stop here.

On this page, you can see some of the highlights of 2022 and of our performance since the Capital Markets Day. Let me start with our key financials on Page 5 before moving on to the organic view on Page 6. You can see strong growth in revenues, in EBITDA, in free cash flow and in earnings. For the full year, we delivered EUR 40.2 billion adjusted EBITDA, of which EUR 14.6 billion was generated ex U.S. You can see EUR 11.5 billion free cash flow, well, it's a big number, of which EUR 3.9 billion were coming from ex U.S. And we see an earnings per share of EUR 1.83, which is a record high as well. All of these are better than we expected at the beginning of the year 2022.

On the next page, we show our organic growth in 2022. All segments grew, all segments, including T-Systems, despite some one-timers in the last quarters are what we talk about later.

When it comes to our most important operational KPIs, organic service revenues grew by 3.7%, outside of the U.S. by 1.8%. Organic core EBITDA grew by 6.8%, ex-U.S. by 8.4% -- sorry, 4.8%. And this shows that we are ahead of most telcos in our sector.

Germany has now delivered 25 consecutive quarters, which is, by the way, 6 years of organic EBITDA growth. And Europe, the segment has delivered now 20 quarters, which is 5 years year-over-year in a row consistent organic growth.

Going to Page 7 and looking at the free cash flow. We show the year-on-year bridge. Our 30% growth in free cash flow was driven by higher free cash flow from operations, the biggest piece. Higher year-on-year CapEx was mitigated by lower lease payments, mainly reflecting T-Mobile's prepayments in the prior year, and our adjusted net income grew by 55% year-on-year, well ahead of the initial expectations. This strong growth is mainly explained by EUR 3 billion higher EBITDA, partially offset by higher tax and minorities. We also benefited from various nonrecurring items, mainly in the financial results, more about this later.

Going to [next chart], I'm very happy about, which is the net debt situation. One of the areas where we still need progress towards our 2021 capital markets targets is the area of leverage. And you know that we have given ourself a strict target, which is to have a leverage in the vicinity of 2.75x by the end of next year. We ended this year with 3.07, incremental lease liabilities, mainly resulting from the Crown Castle lease extension were offset by strong free cash flow and EBITDA growth.

Remember, at the end of Q3, we stood at 3.34 million times. Surely, the dollar has helped since then, but I'm still happy to see our leverage coming down by 0.3x in the fourth quarter, equally and this is how almost everyone has reported, our financial leverage came down significantly sequentially and year-on-year. At the end of 2022, we now stand at just under 2.6x. This is almost within the comfort zone we used before the IFRS 16 introduction and it now compares rather favorable to our European and U.S. American peers.

Next up is our tower transaction, which we completed at the beginning of the month. This will take our ex lease leverage down by a further 0.2x. So we are not quite there yet, but it's great to see our leverage inflecting.

Finally, on the debt topic, let me mention that our pension deficit declined by EUR 2 billion in '22, mainly due to higher interest rates, and it has declined by over EUR 3.5 billion since 2020. This is reducing our rating debt as well.
On Page 9, we compare our '22 guidance with our '22 performance. Without going too much into the detail here, I think it's fair to say that we overdelivered on all our financial promises. On a like-for-like basis, we grew and we were reliable.

Let me dive a bit deeper into our earnings per share performance. We initially guided for more than EUR 1.25, and then we raised it to more than EUR 1.50, that was at our 9-month stage. We outperformed our initial guidance by almost EUR 0.60. But to be fair and transparent, about half of that performance was coming from nonrecurring items and mostly noncash factors. Yes, we have those even in adjusted earnings per shares. The nonrecurring factor in 2022 reflect a year of unusual interest rate volatility and significantly M&A activities.

First, interest rate volatility resulted in a positive valuation effect related to our civil service health insurance fund. Second, a stronger dollar and a stronger T-Mobile share price resulted in positive valuation effects related to our forward and our fixed price options. And third, T-Mobile Netherlands still contributed in Q1 '22. And fourth, post deal, group developments tower benefited from held-for-sale accounting.

Let me be very clear. We will be consistent in our treatment of any nonrecurring items. There may be years like the last one, where these nonrecurring were positive. There can also be years where they are negative. Either way, we will be fully transparent.

Now let's move to our guidance for '23. We follow the same mechanic as every year. We take the midpoint of the T-Mobile guidance and at our ex U.S. guidance. For the overall group guidance, we used the average exchange rate of the prior year, in this case, EUR 1.5. And in the case of EBITDA, we adjust for the U.S. GAAP to IFRS translation in this case, $0.8 billion to $0.85 billion for 2023. So it's $0.8 to $0.85 billion for '23. This gets us to the following guidance. Adjusted EBITDA of around EUR 40.8 billion and core EBITDA of around EUR 40.5 billion, of which EUR 13.9 billion coming ex U.S. Free cash flow of at least EUR 16 billion, up over 40% year-on-year of this around EUR 3.5 billion ex-U.S., and adjusted EPS of at least EUR 1.6 per share.

In the appendix, we compare our guidance to the consensus. We think our initial 2023 guidance is like-for-like broadly in line with market expectations. Please note that our ex-U.S. free cash flow guidance bakes in EUR 150 million one-off tax payment related to our group development tower transaction.

Moving on to our short '21 Capital Markets Day review. The foundation of growth remains our network leadership. We now passed 13.5 million homes passed in FTTH, up 3 million year-on-year. We passed 5.4 million in German homes with FTTH already. Our ultra-capacity 5G network reaches 265 U.S. POPs, way ahead of our competition. And we will reach 300 million POPs by the end of this year. In Germany, we now cover 95% of the population with 5G. In the European segment, we stand at 47%, up 6 percentage point in the quarter.

By the way, even if some newspapers write it wrongly, in Germany, we entirely fulfill and over fulfill the build-out obligations, which we have with regard to the spectrum auctions. I'm particularly proud of the next slide. It shows our consistent customer growth, and we had a strong fourth quarter. We keep the foot on the pedal year-after-year. Our mobile customer growth accelerated in '22 on both sides of the Atlantic. Our growth in broadband and TV was a bit slower. And this was mainly due to the temporary impact of the new German Telecom Law in the first 3 quarters of the year. So you haven't seen them anymore in the fourth quarter.

Last October, we hosted our Sustainability Day with the full management. And we outlined our ambitions, our clear commitment and how we will actually walk the talk. And you can find all the materials on our Investor Relations website. Let me focus today on a couple of highlights. In our ex U.S. operations, we managed to reduce our energy consumptions by more than 10% in Germany. TM US became the first U.S. telco to announce a science-based 2040 climate neutral target, and we provided extensive support for crisis victims. Our customer satisfaction improved and our employee satisfaction remained at the high level. Our commitment here too is, we won't stop.

Next up, let's look at our capital markets cost reduction target. Here, we are not where we want to be. This is not for lack of effort. You can see this is an average 3% reduction in our ex U.S. head count in the last 2 years. The main reason are inflationary headwinds, especially from energy costs in our European segment. In T-Systems, we are growing mainly in digital services, which is more people-intensive, and this results in higher than planned indirect costs.
Let’s now look at how our key financials have developed in the last 5 years, including the first 2 years of the capital markets guidance. Again, the theme is consistent growth. Group service revenues grew by 3.6%, EBITDA adjusted for handset leases grew by 7.3% and free cash flow grew over EUR 5 billion since 2020. Of course, there was the year of the one-off with the Sprint merger. All this growth compares very well to our capital market guidance targets. And our guidance means this will not stop for ’23.

The next page shows our ex U.S. financials. Again, very consistent growth, well on track for our capital markets guidance. Service revenues up by 1.9% in the last 2 years, EBITDA up by 4.8% on average and free cash flow up by EUR 0.6 billion over the same period. One way to think about our performance is to compare our actual performance with where we would have been at the midpoint of our guidance. Taking the example of adjusted EBITDA AL, organic 2020 EBITDA was EUR 13.3 billion. At the midpoint of our 2.3 capital market guidance would have grown to EUR 14 billion in ’22, but we delivered EUR 14.6 billion EBITDA in ’22. Of this EUR 0.1 billion was from held-for-sale accounting. So we delivered over EUR 0.5 billion EBITDA more run rate outperformance over the 2 years than what we have guided. And it is ex-U.S. alone.

On Page 18, we review our progress against our capital allocation target. We call it portfolio management. The theme here is reliability. On the left, you can see the main decisions we have taken. On the right, you can see some of the key outcomes. Two years into the merger, we reached 49 in the U.S. Currently, yesterday, we were at 49.6%. We are still outside of our stated leverage comfort zone, but as mentioned, we are now seeing the inflection. And even while we were still executing the merger, we twice raised the dividend to EUR 0.70.

On the next page, we summarize the financial review on the previous pages. The second column shows our target, as stated at the Capital Markets Day. The next column shows where we stand after 2 years. Note, here that all numbers are comparable, given changes in the composition of the group.

For instance, our ex U.S. free cash flow target of EUR 4 billion for 2024 will translate into around EUR 3.5 billion. The difference is due to the disposal of T-Mobile Netherlands and GD Towers. The traffic lights on the right show how we assess our prospects to reach our stated capital markets targets. And I’m happy to say that we see ourselves mostly on track. In many places, we are ahead of it. And with this optimistic outlook and difficult environment, I’d like to hand over to Christian to give you a deep dive about the quarter.

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

Thanks, Tim. And let me deep dive on Q4. And let me start with T-Mobile U.S. Q4, another set of excellent financial results, 7% postpaid service revenue growth and 16% U.S. GAAP core EBITDA growth. With that strong finish in 2022, T-Mobile was able to comfortably outperform its initial guidance for ’22. And let me remind you, there are a few transaction items, as you know, between T-Mobile’s U.S. GAAP EBITDA performance and our IFRS EBITDA performance.

We covered those in the most recent webinar, but for those who weren’t be able to participate, we have on Page 41, an explanation for those translation items. The first thing which we have to consider is obviously handset revenues, which are not part of the core EBITDA definition and handset revenues have declined from ’21 into the end of ’22 by USD 1.9 billion. So we basically left the year with remaining [5 1.4] billion of handset revenues in ’22. For ’23, we expect a further decline to roughly EUR 300 million. So this will be still a relevant headwind in ’23, but much less so in the years after ’23, meaning starting from ’24.

The second one is obviously the bridge between U.S. GAAP and IFRS, which is driven by the energy purchase agreements, which we’re seeing in the U.S. and which obviously have to be evaluated every quarter and stock-based compensation elements. And we have seen some changes between ’21 and ’22. In ’21, those accounting effects were almost neutral and the bridge was very small. In ’22, they have actually been -- become a headwind. In Q4 only, we had a gap between U.S. GAAP into IFRS of close to EUR 300 million. And the year before, that was only EUR 30 million. So that will obviously dilute the EBITDA whenever we’re translating from U.S. GAAP into IFRS.

But as you know, those effects will effectively wash out whenever it comes to EPS and free cash flow. Let’s move over to the commercial performance, and you’ve all seen the numbers. Very strong set of numbers for Q4, 930,000 phone net adds, post churn was the lowest in the fourth quarter ever, 314,000 new postpaid accounts or a total of 1.4 million in the year 2022. ARPA was up 2% year-on-year. And obviously, a very, very strong performance...
on the high-speed Internet category, which grew by more than 500,000 in the fourth quarter or almost EUR 2 million over the course of the full year. And so therefore, we are absolutely confident that we are full on track with our EUR 7 million to EUR 8 million guidance for '25.

Let's move over to Germany on Page 23. So Tim said it already, and you get used to it, but it's not normal. 25 consecutive quarters of EBITDA growth. Organic revenue was only at 1.1%. That was because we had lower handset revenues. But service revenue actually accelerated sequentially and the organic EBITDA again grew by 3%.

Next page. As I said, service revenues in Germany grew by 1.7%, mobile service revenues grew by an astonishing 3.5%, but let me flag a couple of issues. Despite the fact that Lebara is completely included in -- the loss of Lebara revenues is completely included in those numbers which account for roughly EUR 20 million in a quarter. We had a couple of positive one-offs and we also had a tailwind which accounts for roughly 1% growth just coming from the roaming and visitor revenues.

So what we're seeing in the German business is actually that we are ranging at the upper end of our 1% to 2% CMD guidance. The organic fixed revenues were up 1%, which is pretty consistent with the quarter -- with the recent quarters. On commercial performance, look, we're happy to report out that we had a very good broadband quarter in Q4. And you can also see that our prediction, which we have given to you at the beginning of the year that the TKG effect will essentially fade out of the year is actually happening in the broadband space. We also had a good quarter for TV net adds of 51, and we're also seeing that the TKG effect is fading out on this one.

And we're making progress with our upselling efforts, now more than 40% of our broadband customers on speeds, which are at least 100 megabits per second. And if you take a look at the vectoring platform, actually, we have now 1.8 million retail and wholesale customers on our super vectoring platform, sorry, which is an increase of 46%.

As I mentioned last time, during the last 2 quarters, we proactively moved roughly 1 million customers from ADSL to VDSL, and that was a forced migration in order to increase the customer experience. So this is now the last time that we're going to do this, and it's also the last time that we're going to report out on those numbers because we basically have now every customer on our Fiber platform, and therefore, there's no reason to basically show the numbers in the upcoming quarters.

Next page, 26. Organic retail fixed revenues grew at 1.7% and they were obviously supported by a strong broadband quarter, which, again, consistently shows a 5% growth rate. Wholesale revenues are always a little bit volatile, as you know, and we expect also a little weaker quarter in Q1. But all up, we expect stable to slightly growing wholesale revenues in the year '23.

So that brings me to Page 27. Mobile, you see a strong quarter again in Q4 on mobile net adds, 225,000 net adds, roughly 100,000 on the first brand, another 800,000 on Congstar and the rest goes into the B2B space. So we're really happy with our next Magenta proposition, and it really yields a good market response.

So fiber build-out, which you can see on the Page 28. We are on track. Obviously, we're currently facing some headwinds when it comes to cost inflation, especially in the construction area. And we're seeing some delays by connecting homes, that obviously is something which is currently at a sweet spot of our analysis and obviously remediation actions. But we're absolutely confident that we're going to pass a minimum 10 million households by the year '24 and therefore, are completely in line with what we predicted in the Capital Markets Day. And you know that our target is now for this year, well above 2.5 million homes passed in '23, but that does include GlasfaserPlus, our joint venture, which we established in the year '22.

So Tim has mentioned the consistency of growth in the whole company. I think what you also see that holds absolutely true for our large operation here in Germany. Again, 25 quarters of consecutive EBITDA growth. And you see that EBITDA growth has actually accelerated, and that we have an average of 3.4% since 2022 when it comes to organic EBITDA growth in Germany.

Let me move over to the European segment. Again, another consistent strong performing quarter from our European colleagues. Despite meaningful headwinds, the segment was able to deliver a 20th consecutive quarter of organic EBITDA growth, which was close to 1%. But bear in mind, they have to fight to, I would say, artificial headwinds, at least 1 is from the artificial, which is the Hungarian revenue tax and also they have to find higher
energy costs. If you would exclude this, the underlying growth momentum on EBITDA 3.5%. Our customer growth, as you can see in the next page here is very consistent across all different categories, being it mobile, net adds, broadband, FMC and TV net adds. And despite the fact that we have increased prices, we don't see a significant slowdown in the volume momentum in the European segment.

So if we review now where we are with regard to the Capital Markets Day, we can say despite that we're facing headwinds right now, we're tracking really well. We have now 8.1 million households passed when it comes to fiber. Our target is 10 million by the end of '24. The average organic EBITDA growth was roughly 4% over the course of the 2 years since 2020. That compares really well with the 1.5% to 2.5% guidance, and 7 out of 10 that goes are leaders when it comes to customer satisfaction.

Next chart brings us to GD Towers. And as you know, we have closed the deal with Brookfield and DigitalBridge on the first of February. But if we take a look at the operational performance over the course of ‘22, we see that we have net added 800 sites in Germany, which comes from 1,200 new mills and 400 decommissions. A very strong momentum when it comes to recurring revenues with a 5.7% growth rate and organic EBITDA grew by 8.1%.

So if organic EBITDA grew 8.1%. Okay. Taking a look at the system solution, which brings us to the next page, you see that order entry organic and revenue performed well year-over-year, with 2% and 6% growth. But as part of the strategic alignment, which we’ve done in November, we also had a deliberate decision to do some derisking on large projects and large legacy projects, which obviously brought EBITDA down in the given quarter. But even if you include that quarter and combine it with the first 3 quarters, T-Systems is growing. T-Systems will also grow in ’23 and has reiterated its guidance of an average 5% EBITDA growth over the course of 1 year.

So from this perspective, we are really positive and comfortably tracking our CMD targets. And I think that leads me to the end of the review of the Q4 performance, and I hand it over to Tim.

**Timotheus Hottges** - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Yes. Thank you, Christian. And let me wrap it up for us before we go into the Q&A. Q4 was another good quarter. ’22 was a very good year of our operations and with regard to our financial results. Our trends have been consistent now over many years, and we are well on track for our capital markets targets. And this is true for our operational and financial targets, but also for our key strategic efforts. I hope today’s presentation has illustrated the 3 themes that we outlined at the beginning: first, growth; second, consistency; and third, reliability.

And with this, I’d like to listen and discuss your requests.

**Q U E S T I O N S A N D A N S W E R S**

**Hannes Wittig** - Deutsche Telekom AG - Head of IR

Excellent. Thank you very much, Tim, and thank you very much, Christian. Now we can start with the Q&A part. So first today is a WebEx. (Operator Instructions) And I understand that a few people have already got to the bottom of that system. And then we also have the possibility to ask questions through the telephone. (Operator Instructions)

I announce your name when it’s your turn to ask a question. I think our goal is to wrap it up in an hour because as you know, Liberty Global’s call will start then. So with that, I can see that Polo is ready to ask a question, Polo. First question is from Polo at UBS, please.

**Polo Tang** - UBS Investment Bank, Research Division - MD & Head of Telecom Research

I have 2. The first question is on the German Spectrum auction. Can you give us your latest thoughts on whether you’re willing to give up your 900 megahertz spectrum early in return for an extension of the 800 megahertz spectrum. Second question is just about net neutrality. So the ECs...
launching and consultation on how sector CapEx should be funded and whether the tech players are making a fair contribution. So what is your view on the range of outcomes for both the sector and Deutsche Telekom?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Thanks, Polo. So where do we stand on the German auction issue here? The regulator has finished another round of consultation called the positive (inaudible) per peer. And we were very disappointed that this proposal solely focused on an auction. We are not scared by an auction. Nevertheless, we think it's a wrong signal at the wrong time. By the way, I personally think that Eins&Eins has lost eligibility for participating in an auction because they have not fulfilled their duties from the last auctions already. As you know, they have only built 3 sites, and they should have built something around 1,000.

To conduct an auction in an emerging recession does not fit into the greater economic picture and will again distract the money which is needed for a faster rollout in our industry. And as such, I believe that bonus nets, again to and their ambition for going into an auction is heating up the inflation risks. We will not give up any kind of spectrum in advance. You know that we need it. We have, by far, the biggest customer base, which we are serving. And on top of that, we are the leader with regards to quality, and therefore, we don't see that we have to give up anything here before that one, we will then go to an auction process at a later stage.

There is a second part of your question with regards to the net neutrality and the consultations on funding here the review. When it comes to the over-the-top players, generally, we have always pushed for a better level play field, as you know. And the top 6 tech giants. They generate around 50% of all telecom network traffic, but they have made only a very, very small contribution to the network deployments. I think the historical reasons for this kind of Tier 1 agreements where they are now participating from, they have to get changed. And on top of that, they are not anticipating in the very expensive build-out of the last mile. So therefore, we as network operators, we have an alliance in this regard and we have talked to the commissioners (inaudible) and others, that every study shows that it's a totally asymmetric allocation of investments which we put into the infrastructure build out and what is coming from the over-the-tops.

We very much welcome the commission's plan to launch a consultation on where the large over-the-top should contribute to the cost of Europeans telco networks. I think that’s more than fair. And now it’s not about the if, it’s more about how this fair share is going to take place in this regard. It’s not a violation of that neutrality. By the way, our initiative or the initiative of the European Commission is not that everybody has to pay now for using the backhaul service. We are only talking about players who are using more than 5% of the infrastructure build-out, which is only 2 handfuls of companies, all the others should stay in the favorite situation which they have already today.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Excellent. Thank you. And with that, we move on to Jakob Bluestone at Credit Suisse. Please, Jakob.

Jakob Bluestone - Crédit Suisse AG, Research Division - Research Analyst

Hopefully, you can hear me. I have 2 questions as well. Firstly, can you maybe just explain the rationale to terminate the or to unwind the forward purchase agreement. So maybe if you can just sort of explain what was behind that decision? And then secondly, you mentioned Thierry Breton, who has also been talking about cross-border M&A. Can you just remind us what’s your sort of current position around that, any interests or not really part of your current capital allocation thinking?

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

Jakob. So on the rationale of unwinding the forward, it's darn simple. Tim told you what is our shareholding right now? It's 49.6%. For us, the forward was always a hedging instrument to have access at a certain price to T-Mobile shares. We don't need this anymore. And therefore, we're saying, okay, we don't need it anymore. It's in the money, as you know, because the average price of the forward was $143 for a share. Let's unwind it, and
basically rely on other tools which you’re going to have, which is in the first place, obviously, the share buyback, but bear in mind we also have another EUR 7 million fixed price option, which we can, at any time, transact on.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

And Jakob, a very quick answer on where we stand. I think Europe is trying to fight their sovereignty in a lot of areas and trying to find them back and working on this one. And there is a deep understanding that the telco industry has suffered too much in the past from regulation and from antitrust laws, from local laws and alike.

And that consolidation is part of the storyline to strengthen the infrastructure investment and to strengthen the industry as a whole, which is increment. It's relevant for the digitization for taxonomy so far, the sustainability efforts and whatsoever. So therefore, there is a much better understanding what it takes to build digital infrastructure and that cross-border mergers are supported.

My understanding and that's my personal view is that talking to Breton, talking to investor, or talking to a lot of these commissions, they even invite us to consider cross-border mergers to strengthen our positions compared to the rest of the world and for sovereignty. Now does that happen? I'm not sure because I think our industry is still very much focused on our kingdoms and trying to defend them. And there is as well local governments who look at more, the interest, the security and the relevance of infrastructure in this difficult geopolitical situation. So I would say it's a little bit tight situation here. But I don't see obstacles. I hear even invitations for more cross-border M&A.

On top of that, by the way, there is consolidation taking place. I have never experienced the telecommunication market being so active as it is right now, maybe in the 2000s. But if you see what’s happening on private equity, what is happening with the big billionaires entering into telco sectors, the activities ongoing private with telcos, all of this. There's a lot of things happening. And you know that better than me, what's happening at Vodafone and other companies.

So I would say there’s something moving, and I think we are in a very excellent position. Our share price is very good. Our company is very solid. We have better results than most of the telco players in these industries, and we are not exposed to very volatile non-Western European or Western markets here. So I'm optimistic on what’s going on here, and we will look what it would mean for us.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Thanks, Tim. And then we move on to Matthew. He's been patiently waiting. [Matthew] you can we have your questions, please?

Unidentified Analyst

So I had 2 questions. The first one was kind of a follow-up on this question around how the ECS changed. So we talked about contribution from OTTs. We just talked about cross-border M&A.

My question was more about intra-market M&A because it seems to me that before you can all move on into the cross-border not even sure that generates synergies the best way to really improve the profitability of the sector and to get to an acceptable return is intra-market consolidation. There's always been opposition from the EC or at least in most cases, you had a good outcome in the Netherlands. And I was wondering if you sense that there could be also some change there? Because to me that seems like the most important element.

The second one was about German pricing. I think if I refer to your comments in the previous conference calls, you had different takes about the direction of pricing in Germany. I think in Q2, you’re a bit skeptical about the merits of what was being announced. In Q3, you become maybe a bit more optimistic. And I wanted to understand where you stand now? Are you happy? Do you think that the price increases we're seeing in the German market, mobile fixed are substantive and could enable you at some point to follow on.
Let me start to pick up the intra-market M&A question. So look, for us, it's difficult to assess from the outside whether Orange mass mobile merger stands. I think it's much easier, much better to ask the Orange guys what is their perspective on this one. But when it comes to intra-market M&A, you mentioned the Dutch merger already, which was a great result for us a couple of years ago, it was in 2019. But also don't forget our UPC acquisition in Austria, which also served as well. These were 2 transactions, which came in with absolutely no remedies. So I think whenever you see it makes sense from a market perspective and from a market logic. We always said we invite all the competitors to think about this. It served us well in 2 instances, and we'll see how the Orange mass mobile merger will play out.

Most of our markets in which we are operating are consolidated. That is the reason why we're in that market because remember that we said we are not acting in markets where we can't win from a structural perspective. And therefore, we made this decision strategically much earlier. Now some markets are fighting for their consolidation and look, we should wish them all the best, Christian. I'm in favor that the telco sector as a whole is recovering and is getting more healthy.

Now with regards to the pricing question. And look, first thing, it is never clever to talk with investors about the pricing strategy about products and you understand that. And you know that for me, customers are the most important things, and therefore, we want to surprise customers in every regard with a clear communication around what we are doing. But nevertheless, I want to say, there is no question that there is cost inflation and especially in the area of broadband network construction costs and even our long-term contracts do not protect us forever. So we have to look how do we offset these price increases, and price increases at the end customer is definitely a part of this equation.

Our competitors have already reined in some of their promotions and raised front book prices, we didn't. And at the beginning of February, we have also reduced our promotion period from 6 to 3 months, and this is unlikely to be the end of it. So therefore, we are thinking about how we can mitigate the cost increases going forward. But always in a way that our customers will not overreact or become negative.

Okay, Robert, consistent with your question in the previous quarters, you are always positive on our leverage. Look, yes, we're seeing obviously that the net leverage is coming down, has come down significantly Q-over-Q, if you compare it against Q3. And it will further improve next quarter because we will also include the EUR 10.7 billion, which we have received for the Tower transaction, and then we see how it plays out. But I'm still not in the corridor. And I'm a stupid, stubborn German guy with regard to my leverage corridor, which is...
I can confirm that.

Which is 2.25 to 2.75. So as I said in many other situations as well, let’s fulfill our 3 main targets first. One is consolidation in the U.S., return back into leverage corridor. And the third one is obviously consistently build out fiber and 5G in all the markets we are currently active in. And whenever we have received those, we can have a completely open debate on what we’re going to do with the firepower with the free cash flow, which may come from the share buybacks in the U.S. and so forth. But as we also said in the U.S., it’s not like our plan is to build up 60% in the U.S. We said we want to be in the low 50s. We want to be in the low 50s, not 50.1 because we have to protect ourselves because of the true-up and nothing has changed relative to what we said in previous quarters.

George, first, we are not victims here. We are [billions], we are acting, and we are trying to fight cost inflation and other things. So therefore, yes, there is definitely an increase of costs, but we are fighting them on different levels. We always have stated the goal that on a like-for-like unit cost basis, we want to reduce our cost by 25% for the homes passed. So we said we bring them below EUR 1,000 in Germany, and this is still our challenge, which we are giving on [side end].

And you must note we are industrializing the fiber rollout. By the way, very German now, again. We are industrializing the fiber rollout. And that means we have a learning curve. And this learning curve helps us a lot with regard to become cheaper in the fiber deployment in Germany. And this is the learning curve, which we are going right now. So therefore, we have secured prices for a lot of, let’s say, the construction companies we are working with. And we have worked to reduce the cost of materials. This is protecting us to some extent as well. We are also seeing a good willingness from the municipalities to allow now shallow digging. So the (inaudible), depth of it is not anymore 60 centimeters or more – it is 30 centimeters, which helps us a lot to reduce the costs.

And in ’22 – sorry, ’23 we will step up our deployment from 2 million home passes to up to 3 million. I said this morning, I want to see 3 million – 3 million number by the end of this year. Therefore, we feel comfortable with our financial envelope, which we currently have and [Srini] as well, and therefore, let us get things executed.
Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

George, on the IDC question. So look, our primary target is EBITDA growth. And obviously, IDC reduction pays into this. But as you have seen in the European segment where we couldn’t offset the energy headwinds and the salary increases, obviously, we’re acted swiftly by introducing price increases. So the primary target remains EBITDA growth. But when it comes to IDC, and I think we have been very realistic with our assessment of where we are right now. I think so far so good in Germany. But at the end of the day, there’s going to be another social partner negotiation coming up in ’24, which I don’t know how it plays out. So salary cost and personnel costs are sticky. And the only way in how do we sustainably reduce it is digitalized processes and take people out of the process and reduce -- and replace it by digitization.

The second one is on energy. Yes, it can reverse, but not short term because, obviously, we are now covered in all of our markets to a large degree. So the prices are locked in for ’23. So I wouldn’t expect a significant upside on the energy cost. And on T-Systems, there is a structural challenge. And we are very open with that. They’re moving their business towards digital solutions. Digital solutions comps is a people-driven business. So therefore, that obviously adds to the IDC line. So you can be rest assured that we are hammering on bringing down the IDC. But it’s going to be a challenge, especially in the European segment and in T-Systems. And again, we have to accelerate digitization in order to make sure that we are sustained bringing down the cost structure.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Right. And just on the subject of working with municipalities city or how they are responding to the situation, we collaborate with most municipalities. It’s exceptional situations, we may do a bit of local building ourselves in some cities. But typically, that’s very well in sync with what the local municipalities are doing or we are sharing in various ways in those places. So there’s no change that is reflecting in the situation. It’s more the infrastructure-based investors that are coming from the outside that are challenged now. And that's what you've been seeing in some of the recent press articles.

And now I can see James Ratzer from New Street on the screen. So we can move on with James. Can we please have your questions.

James Edmund Ratzer - New Street Research LLP - Europe Team Head of Communications Services & Analyst

Yes, good afternoon, can you hear me? Great. Yes. So 2 questions, please. I think the first one, probably for Christian. I was wondering if I could come back to the earlier question around the T-Mobile option for 20 million shares, which you decided to pass on at $142 a share. Given that's a lower price than the floating option with SoftBank of 29 million shares. I'd just be interested to hear why you chose to pass on that option. And I noticed in your earlier answer, you only mentioned the 7 million at the fixed price. So does that imply that you’re having second thoughts about whether to exercise the floating price option as well?

And secondly and a more strategic question around your German business. How are you thinking about the opportunity going into next year with the change in cable housing association billing. I mean do you see this as an opportunity to increase your TV market share and push the Magenta TV product more aggressively. On the flip side, I mean are you worried that direct cable billing might put a bit of pressure on your broadband business going into next year?

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

So coming back to the first question with regard to the forward. First of all, yes, absolutely, we do have another 28 million floating options. But again, considering that we’re close to 50% right now, the question is to what extent we have to use them. This is why I focused on the fixed price option.

The second question is, why did we transact on the forward and not on the options. Very simply because the forward costs us quite a bit every month. There are service costs associated with it. And since the forward is in the money, it makes sense to basically unwind it right now.
Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

With regard to the [VoWi], the answer is definitely, yes. We want to make more steps forward into the housing associations, it’s our clear ambition and our targets, and that is, by the way, our fiber rollout is addressing them.

Second, our capabilities to build these customers. Thirdly, we have deals which we are trying to make with the housing associations. And we have -- last year, we had, I think, 2 or 3 announcements around that, smaller ones, not the big ones yet.

And on the first topic next in '24, is we will have the European Championship in Germany. And you know that we have the exclusive rights for the TV broadcasting here. And we will definitely use this as well to gain market share in the VoWi areas. So I would say there is more to come. It’s not going that fast as we expected. It’s not one of the easiest tasks which we have to gain ground, but you have seen that our broadband net add shares are developing in the right direction. And we have as well to think about how we develop our convergence offer in a better way and there’s more to come during the course of this year already.

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

Tim, let me just follow up on what you said on the direct billing of cable. Right now, the housing association is a close market to us. So we have a hard time to address it. So if there is a direct billing relationship, it’s more like we have in the regular retail market. And I think in the regular retail market, we have taken the lion’s share of the net adds. So from this perspective, for me, it’s more of an opportunity than a risk.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Great. And also, it gives us the legal changes. Of course, also mean that we have access to all the in-house fiber that now assured, which previously was not the case, and that’s very important for our fiber build in the greater scheme of things. So next is David Wright at Bank of America, please.

David Antony Wright - BofA Securities, Research Division - Head of Developed EMEA European Telecoms Equity Research and Director

Apologies, for the lack of video. I guess we absolutely applauded the guidance based on EPS that you guys gave at the Capital Markets Day and you gave a dividend payout based on that. But I guess we could say this year that EPS has been excellent, but maybe caused a bit of volatility, and that now means that you’ve actually paid the dividend outside of the range you gave at the Capital Markets Day. I think your sub 40% with the 70% over today’s delivered number. I guess the question is, could you perhaps look to a slightly different way to guide on dividend, given that, that volatility you’ve had to wear this year? Or should we maybe just expect a much more -- a much cleaner EPS trajectory next year in any case?

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

David, the key question you’re alluding to is adjusted EPS is EUR 1.83, and if you basically take the EUR 0.70, then it’s only 38% payout. But the question is whether the EUR 1.83 is the right basis to determine the dividend because we have a lot of nonrecurring factors. And let me drill down on the EUR 0.32, which we excluded from the adjusted EPS as a basis for the dividend payout.

One is we earned on the forward and on the options, especially on the fixed price options, EUR 0.18 a share. Because remember, back in the beginning of the year, I think TM US was at [EUR] 115, and at the end of the year, it was north of EUR 145. The second one is we got a relief on the pension accruals for the civil servants, which also accounted for EUR 0.09 that gets you to EUR 0.27. And then we had 2 held-for-sale effects. One is T-Mobile Netherlands and the other one is obviously Towers, which has nothing to do with the operational results which accounted for another EUR 0.05. And this is why we said those effects have to be deducted, but also, they will be deducted if they’re not playing in our favor. So if we would have an option effect, which is negative, then obviously, it will not be the basis for the dividend payout, then we have to basically adjust for this one in the other direction. And that’s the reason why we feel that we have paid out 46% rather than 38% because of the 3 effects I just mentioned.
Okay. thanks, Christian, for clarifying this. And of course, years -- another year could be the other way, exactly. It's like Tim has also said, Christian have said. So Josh, from Exane is next.

I’ll also come back on some of the comments which were made earlier around the fiber [optic] market. So this is a market which you refer to as complicated in Q3. And since then, we've seen classified as direct to pull out. And there's also reports of Telefonica rollout being in some trouble.

So the question is, how do you think that changes the scope of the rollout ambitions for your GlasfaserPlus business? There are reports you have been stepping in certain municipalities to take over the projects left behind. And then also maybe more tactically how you're currently targeting your fiber build programs, and whether or not you’re seeing increasing your fiber into areas your nets are targeting to stem that growth?

First thing is. By the way, Christian's last answer on the dividend and this answer on this fiber build-out, is another question about consistency and a question about reliability of Deutsche Telekom. Maybe sometimes a bit boring, but very reliable in what you get.

And we said from the early beginning that fiber build out is not a quick amortization. It has a long payout. It is especially more expensive in German environment than it is in other areas compared to the 1,500 1,600 versus 200 in Spain. That is a total different story for the build-out cost. And therefore, the amortization is taking a bit longer. That was always what we have laid out. There were players in this market who were coming maybe with a little bit, let's say, of fast money into the environment, and they had wrong assumptions. Deutsche Glasfaser at the beginning, I think their first rollout was 60% utilization at an ARPU of EUR 60. Now if this is the basis for business cases going forward, I can tell you most of the business cases of the alternative players will collapse. Because they will not see that and then...(inaudible)

On top of that, at the beginning, there was a significantly lower interest rates. So this business cases get challenged as well from the financing cost. And then they're facing the cost inflation on top of that, we discussed it. And most of these guys, they don’t have the long-lasting relationships and contracts, which we have put in place. So therefore, yes, you're totally right, it's going to be much more difficult for the newcomers in this market to succeed. By the way, we will always foresee that.

Now what is our plan? The first thing is, we always said we are doubling down every year. And we said, look, last year, it was 2 million. And this year, you heard me saying, it's going to be 3 million homes passed. Second thing is we have -- we are building out in rural areas and we're building out in cities. So we have selected the areas where we want to build, but it's not that we are exclusive on certain areas. Thirdly, we always have said, if there is a willingness from a local partner who has built out fiber already, we -- and giving us dark fiber access, we are willing to collaborate with them. This is what we are doing, by the way, with a lot of players.

And on top of that, in areas where we do not get access or where an inferior infrastructure is given like in Cologne and others, we even say then we are overbuilding our infrastructure. And that is what we are doing. To be honest, it’s a minority. It’s a very low percentage of all, let's say, this. It finds a little bit, let's say, noise -- more noise in the [press] than it was worth. But nevertheless, yes, everybody wanted infrastructure competition. And if there is no collaboration willingness, then we even consider overbuilding these players, understanding that we cannot let our customers go to a single operator, and we have no way of serving them. That's not in our interest and not in the interest of the brand.

Okay. So the next question is from Andrew Lee at Goldman Sachs. Andrew?
Andrew J. Lee - Goldman Sachs Group, Inc., Research Division - Equity Analyst

I say the hottest topic on your biggest risk factor, the U.S., the hottest topic is on convergence. And we're getting a lot of incoming now from U.S.-based investors that invest in TM US is asking us about our experiences with convergence in Europe, 10 -- 15 or 10 or so years ago and onwards.

The question for you would be if you could just lay out some of the similarities and differences you see between the conversions we've seen in Europe over the last decade and how you see convergence playing out in the U.S. and how those thoughts really pertain to what you think is the right strategy for the TM US in the medium to long term because it's certainly an element of the U.S. market that U.S. investors are getting more nervous on.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Andrew, first thing is, by the way, I've learned something. I remember when I was the Chairman of EU, and that was in the 2013 and '14. I was panic ing out because I thought everybody is going to convergence. And therefore, a mobile-only company will not survive. So we very much, very early went into BT, and you know the whole story.

And if you look to the Netherlands, it is not fitting to our business model here in Europe, but(inaudible) and investors sitting on that one, they are quite happy with their investments with regard to a mobile-only play because there's always a play or -- and it's not something which is coming overnight. So it's not like [lied] on that this convergence market is taking place.

Nevertheless, cable operators have been active in the market in the U.S. similar to the European play here, and they have achieved new records in subscriber growth. That is what we have seen. And we have focused ourselves on fixed mobile substitution, by the way, which is working nicely as well, especially in areas where the cable data throughput is very, very slow.

So I would say we have to understand and look into the market. I think a fixed wireless access is compelling and a successful product for a large proportion of U.S. households. It has to come with a commercial rationale for us. It is definitely something which we have to develop and where we have to look into this one to find an accretive opportunity here. There is no regulatory help here. It will be not a big blow transaction or whatever, which I foresee here. It will be more an incremental experience which we make. And based on success, we can then talk about expanding this proposition. But as I said earlier, we should not commit suicide because of being afraid about the future.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. And next is Adam at HSBC. Adam, please?

Adam M. Fox-Rumley - HSBC, Research Division - Analyst of Global Telecoms, Media and Technology Research

I just had 2 quick follow-ups, please. The first one is on costs. And obviously, the cost stack in Europe is that the -- really the only amber in your pack. And I was wondering if you needed to take any specific items above and beyond wages and energy to address that this year if you have any plans.

And then secondly, just on pricing. I was wondering if you could reflect on how family plans were being adopted within Germany and if you're -- if that's working out well for you?
Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

Second, let me start with the cost question. Obviously, yes, we have to dive into different categories like real estate. You know that we have massively reduced our office space at Deutsche Telekom by over the past 6 years by 50%, to tell you the full potential is another 50% reduction. And obviously, this is something where we have to dive into. And for me, the most important thing is really this topic of digitization because we cannot protect ourselves from salary increases. But as we basically narrow down the number of employees, which we need to provide a superior services, I think that is the best way of protecting yourself and to come up with, I think, a more convenient and better cost structure.

And then there is the little stuff, which you’re always picking up, whether it’s travel cost, the usual stuff, external support and blah, blah, blah, which you’re going to do in any case. But I would basically highlight the 3 of those. So energy is -- we’ll see salary through digitalization, real estate management because it’s still a big chunk. And not only alluding to office spaces, I’m also alluding to technical spaces. We’re paying quite a bit of money for the technical real estate, and there’s also a potential to further reduce this.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

I think it got commented from a lot of people here today that our mobile numbers are very strong in the market environment and here in Germany. So that is the feedback which I want to give you as well. Our new family plan have performed as expected, and we are happy with what we have seen so far.

We see a strong demand for additional household cards, and what we see is a little down selling and dilution on it. So that is very good from development. And by the way, interesting wise, one of the biggest negatives on our brand was always the price worthiness that is improving as well. So it looks like a very encouraging and clever move from Srin’s team.

Hannes Wittig - Deutsche Telekom AG - Head of IR

And mobile service revenue is obviously performing very well in the, let’s say, low 2s on an underlying basis, if you want, low 2% growth rate. Next, we have Jerry at Jefferies, please. Jerry?

Jeremy A. Dellis - Jefferies LLC, Research Division - MD & Senior Telecommunications Analyst

I have 2 questions, please. The first one in relation to Towers. Brookfield is on record as saying that GD Towers would be a likely vehicle for further investments in European Tower infrastructure. Clearly, GD Towers is off the balance sheet for you now, but what would be your attitude to participating in any proposed tower acquisitions through GD Towers.

And then the second question comes back to the issue of in-market consolidation. Obviously accepting the obvious logic from a shareholder perspective. What I'm really interested in is whether there's an active debate going on between yourselves and the other large telcos with Brussel's. Are you able to sort of pinpoint on actual conversation that's going on? Or are we already in a sort of a holding pattern waiting to see what happens in Spain?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, we have entered into a deal with DigitalBridge and Brookfield. By the way, I’m in personal contact with Marc Ganzi and Bruce Flatt, here on that one. Great partnership. I think got a lot of attention around us, very impressed about our performance and even you know how we transferred the company into the new venture here. We closed the deal first of February. Interesting wise, we have a lot of, let’s say, continuity in this company.

Chairman is Thorsten Langheim you know him very well. CEO is Bruno Jacobfeuerborn and the CFO, by the way, interesting wise, is the former CFO of T-Mobile Austria. So we found some new guys as well on this company, management is intact. And you know that the company was able to build 1,200 towers last year despite the fact that and only got 3 towers in the same time frame anyhow.
So that said, the tower landscape has remained in flux and vintage towers has seen an ownership challenge. Cellnex has had a strategic reorientation. Telecom Austria is spinning off its towers and so on and so on. So this market is in flux and a lot of things are happening in it. And we would always analyze M&A opportunities, careful together with our partner in that ecosystem. And generally, we wanted to have a vehicle which has the potential even to grow in the European tower environment. And therefore, yes, in general, we are very open-minded, but we do not engage in any kind of hypothetical discussion here at that point in time.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Good. Thanks, Tim. And we have now market consolidation question.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Okay. Look, by the way, if you look to the billionaires, this impressive entrepreneurs, which are running around our industry like Patrick Drahi or Xavier Niel or even the PE guys, they don’t care about the discussions on a specific merger in Spain. They are following their opportunities. They don’t think so politically. They’re just seeing the business opportunity. So there is so much noise going on around companies these days that nobody is stopping these activities. Everybody is interested about the outcome about the personal deals, but I would not think that is stopping things in Italy or in other markets at that point in time. And have seen as well the Netherlands deal going through. We see Austria, we are working on Romania. So I would say, guys, everybody knows the European market is too fragmented. Everybody understands consolidation is going on. Even politicians tend to understand that these days. And therefore, I think this is just one deal among others to come.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Next is Ottavio at SocGen, please. Ottavio?

Ottavio Adorisio - Societe Generale Cross Asset Research - Equity analyst

Actually, I have only follow-up question to Christian and to Tim. Going to Tim. A couple of follow-ups. The first one, you clearly and correctly say that fiber rollout and a lot of your competitors are now facing increased cost of funding, increased cost to build. But also that’s with the case for your partners in the JVs. And what’s the risk that they want to recover some of these costs and increase the wholesale prices you have to pay to them? How you protect it? What are your contracts in terms of accessing infrastructure? Is the price already decided or is it going to go up with inflation?

Second is on a follow-up, you -- it is about the change in the law or in terms of the you accessing the TV market and the housing associations. Clearly, you have no market share or very little market share in TV. But my question is, are you also under-indexed in terms of mobile and fixed broadband fixed in those particular segments, the populations. And therefore, is that an opportunity for you not just to sell TV, but to basically go and win market shares in mobile and fixed and using TV as a sort of vehicle to do that.

And the third one is to Christian. It’s a factor you mentioned about salary. In fact, that’s what made Germany, one of the best vis-a-vis Europe is the fact that you are pretty good in negotiating a very good deals with unions last year and protect also from salary inflation this year. But I’m sure your unions leaders are now sitting and seeing the purchasing power of their members eroding. So the question is any risk that they want to open negotiations this year? And if it’s not, what the risk that’s going to next year, would certainly should be prepared in terms of concessions?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Okay. First question. The JVs have - we have a price and we have business agreements with these guys. The new developments are already adapted to the business cases. So I’m not aware about any kind of negative development in this regard. Everything of this one is in a good partnership, and the rollout is as mentioned. So we have adapted our things to these developments already.
Change in TV market and housing associations, definitely, yes. I mentioned that earlier, especially our World Championship MagentaSport Activity Plus our European Championship has potential to increase our customer base. That’s what we are aiming for. But we are working on a lot of, let’s say, changes in our TV environment, TV platform as well.

And maybe not to focus too much on this discussion, but maybe Hannes and the team can make a deep dive on this TV proposition and the outcome of the World Championship, which is very encouraging. And so therefore, yes, even here, TV and housing market, that is definitely something where we want to see higher market share growth.

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

So Ottavio, on your salary question. The quick answer is no. There is no risk and there are several reasons for this. First of all, I think contracts are binding for both parties. And we have a longstanding relationship with our social partner that we never broke a tariff agreement, being it in the favor or not so much in the favor of the current employees given the situation where we’re currently in. And we also have closed out on some of the remainder tariff agreements here in Germany, which is very consistent with the original tariff agreement.

What’s going to happen in ‘24? I don’t want to speculate on this one. Obviously, that’s going to be a new negotiation. It will be very much driven by the inflationary environment, which we’re going to face in ‘24. Second point is, bear in mind, historically, we’ve always paid higher than the market average. So I don’t see a lot of people or I don’t see people being exposed to having no purchasing power anymore. I think that would be relevant for other sectors and other companies much more than for Deutsche Telekom.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Good. And now I can see Emmett. Previously, mic didn’t work, but does it work now Emmett?

Emmet Bryan Kelly - Morgan Stanley, Research Division - Head of European Telecoms Research

Yes, it does. I think I’m in business. Greetings from Canary Wharf. I’ve got 2 questions, please. The first question is on Open RAN. There was obviously a lot written about Open RAN 2 to 3 years ago. And clearly, it looked fantastic in PowerPoint presentations, you can use any kit manufacturer, you can use any technology, bring it all together, looks fantastic. But there’s been a lot of conflicting reports about telco experience on rolling out Open RAN. Can you maybe say a few words about your tests bed in Neubrandenburg, and maybe some of the experiences that you’ve had there?

And then my second question, Christian, just relating to some of the financials below operating free cash flow. With the Sprint integration now complete, can you maybe say a few words about how we’re looking at restructuring costs in ’23 compared with ‘22? And then the outlook as well for cash taxes.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Emmet, I’m always impressed seeing this shiny luxury buildings of bankers. So I’m behind you still. So next time, I’m better at university and become a banker as well. So that said, look Open RAN, lots of written stories. By the way, I think we have 2 guinea pigs in the market. One is DISH and the second one is Eins&Eins. And their whole ecosystem is based on Open RAN ecosystem. So that’s an interesting showcase as well.

Second thing is, we are totally committed. And by the way, I saw some news that we said, okay, it might be very much something for the cities and less something for the rural areas, build out the Open RAN thing. Yes, there are technical challenges which we are facing and that was – what was reported. But I can tell you, we are fully committed strategically that our network disaggregation strategy is working.

Why are we so committed to this one? Because it will give us more independence from individual vendors, and it will help us to accelerate the innovation and to roll out of our network infrastructure. And that is something which is super relevant increment for us -- and so the Brandenburg
area, close to Berlin is an O-RAN town, we’re experimenting with live tests on 25 sites. And on top of that, there is a stimulus package, which is
helping us to do these things, which is a -- which is almost a EUR 1.2 billion subsidization program, which is going on around O-RAN. So this is a
lot of money, which is helping our industry to become independent. It is as well-paying into the sovereignty agenda of political leaders. So therefore,
even from this angle, we are committed.

Look, it is always a question, how is the efficiency, how is the speed of innovation, how is the quality if you disaggregate the services. And I can tell
you what the classical vendors are doing is, they’re reducing the prices to kill this new ecosystem from the beginning. But look, we are not sleeping
on the trees. We are aware that this price reductions might only, let’s say, delay some of this Open-RAN investments. But strategically, it is something,
which, on a long run is the must-do for our industries. And therefore, I’m very, very convinced that this will pay off.

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Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

So Emmet, on your 2 questions with regard to integration costs and cash taxes. Integration costs, if I’m not mistaken, last year in the U.S. were
around [EUR]4 billion. And they said in their guidance call that the integration cost or the restructuring cost will be up to EUR 1 billion. So it’s a
significant decrease year-over-year. And on the cash taxes, we are expecting roughly EUR 400 million more cash taxes year-over-year. EUR 150
million is coming from the tower transaction. We are almost paying no taxes on the tower transaction, but we’re paying EUR 150 million. And there
is elements across the different segments, Germany, Europe and also in the U.S., which adds up to that EUR 400 million in total.

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Hannes Wittig - Deutsche Telekom AG - Head of IR

And you are aware that as T-Mobile has guided that the cash restructuring costs are a bit higher than the OpEx restructuring costs this year. And
with that, we move on to the last question, and let’s hope the mic is working. It’s from Steve at Redburn, please.

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Stephen Paul Malcolm - Redburn (Europe) Limited, Research Division - Research Analyst

A couple of questions, if I can. First on German broadband, which has been remarkably resilient and successfully in the last couple of years. Can
you just help us sort of understand how should we think about the mix of the combination of volume, mix, price going forward? I think ARPU was
up 5% or 6% this year. You’ve managed to grow the base again by over 200,000 despite all the challenges of the new electronic code and all that
kind of stuff or the churn that’s created. Just some insight as to how you think of the progress of that business? And then just on cash taxes, that’s
been a sort of continued source of upside surprise on the cash flow. I think we all broadly understand the position on cash tax in the U.S. Can you
maybe just sort of refresh our memories and where you are in Germany and Europe and how we think about the evolution of cash taxes in Germany
and Europe for the next couple of years?

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Hannes Wittig - Deutsche Telekom AG - Head of IR

Well, I think we -- Christian just talked about the cash taxes that we are expecting. And essentially, what we are expecting is a normalization this
year, which in the ex U.S. footprint. Now in the past, there have been opportunities to let’s say, manage our tax cost efficiently, but those will not
last forever or are not lasting forever.

In addition, we have the EUR 150 million one-off tax bill related to the tower transaction. So it’s literally what Christian has just guided about, and
the reason for why it’s an increase because we expect this to normalize, right?

And in terms of the German broadband mix, I don’t quite understand the question. I mean we’re seeing very consistent trends. We expect the
consistent trends to continue. We are seeing ARPU increases from upselling, and we are seeing the growth in the market from the strengths of our
proposition in terms of the reliability, the super vectoring platform, in particular, providing upside to customers’ needs. And I don’t know if you
want to add anything to that?
Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, what I want to say is that the mix is more going into our retail basis. That's the first thing. The tariffs are in the 100 megabit per second. So there is an uptake on bent with. So that's good for us, 33% up 1 year ago. So the mix is going to higher bandwidth tariffs, if that was your question.

Our super vectoring is selling very nicely in this environment. And our ARPU has increased by 2.7%. That's my -- so the upselling to highest speeds is going very well. If this is your question, we are on the right track.

We have a lot of, let's say, orders lying in front of us with regard to fiber deployment, and to fiber deployment, so even with this new kind of homes passed. Now the question is about getting homes connected, and that is, I think, one of the clear targets, which we want to see this year.

So your next question in the next meeting should be maybe how do you make progress on the homes connected in the fiber environment here in Germany. The good thing is last year was a churn year because of this law, which we are facing and the change in our consumer law, which we had here in the telecommunication market. This is now digested -- and already in the fourth quarter, we were strong. So I see us in a very good position, both from a value and from a volume side to win during the course of this year.

Guys, that is the answer to our last question. It was fantastic to talking to you and all the good questions, which we got today. You can be assured that we are staying focused on our capital markets promises. And as you heard us today, we are very confident that despite, let's say, all this geopolitical and economical turmoils around this, we will deliver another year of growth towards 2023.

So beyond that, and I'll just give you a flavor about what we are doing beyond, let's say, our execution here, what are the topics we are working on. The first one is, let's say, very important after all the investments we have taken to monetize our infrastructure and getting more homes connected and getting 5G more used in all our geographies. The discussion around convergence in the U.S. market is definitely on our agenda. And we will keep you posted on the progress we are making here. We got and discussed it earlier.

Winning in the global business models is something which I'm considering more intensively because the question which I always have is we are, by far, the biggest telecommunication operator in the Western world, but how can we better leverage our scale beyond procurement and other things? What can -- what kind of a central offers, platform economies can we generate within our group and CPaaS network APIs, SDX service, unified communications. These are all standardized progress products across all our businesses.

So therefore, developing more global business models within Deutsche Telekom is definitely something where we are working on. Identifying additional revenue streams in B2C and B2B, an area which is beyond the core -- beyond our connectivity piece, which always is the majority of our endeavor is something we have to work on. I do not want to go into the details right now. It goes from (inaudible) Web 3.0 opportunities and to Magenta Advantage.

Leveraging partnerships more efficiently. I think the ecosystem of partnerships is constantly changing, and we have big partners like the GAFAs on the one side, like some telcos like SK Telecom on the other side, how can we better benefit from these partnerships is another topic we are on -- and last one is reskilling the company for a more efficient, and a more software-centric delivery is definitely one of the main tasks. We have 3,500 open jobs in software and software architecture at that point in time. We are building software hubs across our European footprint and to reskill this organization towards more digitization, more software capabilities definitely on our priority list beyond what we have said.

So a lot to do within our company, a lot of momentum. Another record year in history of Deutsche Telekom. We are quite proud about our achievement. And we very much thank you for your consistent support and going with us over the 20. That was a milestone at least for us here, fighting for this for ages, and more to come, we won't stop. Thank you very much for being with us today.

Christian P. Illek - Deutsche Telekom AG - CFO & Member of Management Board

Thank you, guys. Thanks.
Hannes Wittig - Deutsche Telekom AG - Head of IR

Thanks, guys. And with my closing remarks, I'm saying this is now at the end of the conference. And of course, as always, you can reach us on the Investor Relations connections and you can check the website for a lot of materials and look forward to talking to you and seeing you in the coming weeks and months. Bye-bye.