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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Deutsche Telekom's Conference Call. At our customers' request, this conference will be recorded and uploaded to the Internet.

May I now hand you over to Mr. Hannes Wittig?

Hannes C. Wittig

Head-Investor Relations

Yeah. Good afternoon, everyone, and welcome to our Q3 2017 conference call. With me today are our CEO, Tim Höttinges; and our CFO, Thomas Dannenfeldt. Tim, as always will first go through a few highlights followed by Thomas, who will talk about the quarter's financials in more detail. And again, after this, we have time for Q&A.

Before I hand over to Tim, please pay attention to our usual disclaimer, which you'll find in the presentation.

And now, it's my great pleasure to hand over to Tim.

Timotheus Höttinges

Chairman-Management Board & CEO, Deutsche Telekom AG

Yeah. Thank you, Hannes. And a warm welcome also from my side. I'm pleased to see that at the nine months stage, we are well on track of our 2017 targets. Q3 was a strong quarter. All our major businesses are growing, growing customers and growing revenues. We have upgraded our EBITDA guidance again this morning due to T-Mobile US and our free cash flow is on track for another year of double-digit growth.

So let me start on page number 4. You know our philosophy, strong investments, customer growth, and financial results. And because of this, we can keep growing investments to keep this virtuous circle going. Let's look at investments a bit closer. Year-to-date, our investments are up 12.2% in line with our full year guidance of around €12 billion. Of this, we plan to spend a bit over €5 billion in our various German operations, including over €4 billion in our German unit. And as you know, a lot of this will be spent on fiber.

I know you are worried about the German CapEx risks. I've seen the most recent CapEx consensus for Germany, which is now stable through 2021. As Thomas already said in the second quarter call, from today's perspective, that seems a reasonable assumption and provides a strong basis to deliver for German customers going forward in a number of possible scenarios.

Because it makes sense, we continue to focus our resources on bringing high speed connectivity to as many customers as quickly as possible. Last week, we switched on 3.5 million vectoring homes, bringing the year-to-date installations to 7 million. By the year end, we are aiming to rise this to 10 million. Just you know consider that for a second, we have almost 14 million houses in Germany and only in one year, we are installing fiber to the home – to the cabinet installations for almost 10 million households.

These homes will get 100 megabits per second now and up to 250 megabits per second from next summer. We also started our fiber build out to German business parts. You may have seen a number of announcements here in recent weeks, for instance in Hamburg or in Düsseldorf or in a rule Southwest Germany or in the files. And we just want tender for fiber to the home subsidies and rule Eastern Germany. While others stock, we just do it.

Because of our investments, we grew across all our geographics in the U.S. and Germany and in our other European operations. And the financial results reflect this. Year-to-date, our revenues are up 4.2%. Our adjusted EBITDA is up 6.6% and our free cash flow is up 8.8%. And we delivered strongly this quarter, reducing our net debt to EBITDA ratio to 2.3 times from 2.5 times the quarter before.

So we are well on track for investing in our future and generating double-digit free cash flow growth. We raised our EBITDA guidance again for 2017 and keep executing against the target from our Capital Markets Day in 2015.

Slide 5 shows some examples for our success within our quarter, especially focusing on customers. In the last 12 months we added a further 1.6 million converged customers. The number of fiber customers in Germany grew by 2.8 million and in the U.S. we won 5.9 million customers. In the Cloud, our growth has reaccelerated to 14%.

Page 6, as usual shows by means of a few examples, how we drive customer experience through innovations. We doubled the customers in our Smart Home platform in the last 12 months. Over 350,000 customers take advantage of our hybrid, an increase of about 100,000 compared to last year.

Downloads of our service have increased, as did our levels of online IT support. We are using digitalization to simplify our processes and the customer experience. And like for our peers, this is of course an area of great focus. Our stream on tariffs in Germany has proved increasingly popular. We already have over 400,000 subscribers in Germany and we have recently launched it in Croatia, Poland and Greece. In the U.S., Netflix On Us is our latest and carry up proposition and it is off to a very good start.

Slide 7 compares our year-to-date performance with our guidance. It is fair to say that this year again we are quite comfortably ahead of the group level guidance we issued at the 2015 Capital Markets Day. For 2017 we now incorporate the recent EBITDA guidance increase by T-Mobile U.S. Adjusted for currency and accounting, this translate into the €150 million and you can see in our group guidance increase. The outlook for the remainder of our businesses is unchanged. Mainly due to higher investments in the U.S. and Greece, we are keeping our free cash flow outlook for 2017 unchanged at around €5.5 billion, up from €4.9 billion last year.

Before I pass on to Thomas, let me comment on last weekend's news regarding T-Mobile and Sprint. You will remember our statements in our first quarter and second quarter conference calls that it is possible, if not likely that there will be various discussions regarding various potential strategic combinations among industry participants including ourselves. And we said, it was far from clear that any such discussions will lead to a successful outcome, and this is where we are. In the last few months, T-Mobile U.S. and Sprint together with their parent companies have explored ways to create a win/win for the shareholders and for U.S. consumers by scaling up and realizing substantial synergies. However, this weekend we decided to terminate our discussions. You remember our stated design criteria for a possible agreement to be clearly superior to our excellent standalone prospect. Any merger would have to stack up primarily on valuation, on effective governance and on regulatory concerns, and have sound financial foundations. In the end unfortunately, we could not make the equation work. And this is where we are.

But what you can be absolutely sure of is that we did our very diligent homework on all of these criteria. Where do we go from here? The answer is simple. We won't stop. With our support, T-Mobile U.S. has invested over \$40 billion in the last five years. We are only starting to benefit from these investments. We are winning the network tests even before the new low band spectrum has been deployed. You know our unique and massive regional expansion opportunity that we are just starting. And we are only just starting to leverage our B2B opportunities.

Our financial performance is excellent, allowing us to maintain a high investment profile and strong commercial momentum. In Q3 for instance, adjusted for the hurricane damage, our EBITDA was almost \$300 million ahead of consensus expectations. T-Mobile is in great shape and we won't stop or should I say, we're just starting. But as ever, while we are excited by our standalone prospect while we are excited by our standalone prospects, we will of course remain open minded about other opportunities to create value for our shareholders.

Before I hand it over to Thomas, let me also express my sincere thanks to Niek Jan van Damme and Reinhard Clemens who are leaving us at the end of this year. I'm very grateful for their contributions. You can see the strength of our German operations today.

Now let me turn it over to Thomas to review our excellent third quarter in Germany and elsewhere in greater detail.

Thomas Dannenfeldt

Chief Financial Officer, Deutsche Telekom AG

Yeah. Thank you, Tim, and a warm welcome to everyone from me as well. So let's deep dive a little bit in the numbers. Adjusted EBITDA grew 3.3% this quarter and by 6.6% at the nine months stage. Our adjusted net income grew 19.6% this quarter. And meanwhile, our reported net income is impacted by a write down into systems which reflects recent challenges in the IT part of the business, especially a much weaker than expected order book. Year-to-date free cash for growth is consistent with our guided 10% mid-term CAGR and well on track with all around €5.5 billion target for this year.

So moving on to slide 10. In Germany, our sales were stable this quarter, driven by growth in total service revenues. Our EBITDA grew 4.5%. Remember, we told you last time, our EBITDA growth for the year would be back-end loaded and we're now seeing the benefits from the operating expense reductions we expected, including for example the merger of our sales and technical field service. So clearly we are well on track for our guided EBITDA growth this year.

On the next slide, you can see that our reported total service revenues swung to a slight growth in Q3 Q3, both in fixed and mobile service revenues. And this is after the effects from roaming and the fixed and mobile termination rate cuts, that went into effect in December last year. Underlying mobile service revenue growth amounted to almost 4%. And underlying total service revenue grows to almost 2% year-over-year. We're currently tricking a bit ahead of our mobile service revenue, mid-term growth CAGR, but we guided towards at the 2015 Capital Market Days.

The other hand, we are tracking a bit below the promised growth rate on broadband, so I think net-net, it's very fair to say that we are pretty much where we thought we would be. Looking at mobile on slide 12. Our service revenues grew 0.9% this quarter. Based on our innovative tariffs, we are seeing a shift to higher value plan, with continued growth in our own branded contract base and that way, we are able to monetize the growth and the data consumption. Despite various competitive promotions, our commercial performance has been very steady. Our own branded customer base grew by a 137,000.

And as you can see on page 13, mobile data growth remains very strong at 55% year-on-year, with the average usage now at 1.6 gigabytes a month. And we're making good progress with convergence. This quarter, we further increased the percentage of [indiscernible] with MagentaEINS contract to 18% and 40% of all Magenta branded mobile contracts are now part of a convergent relationship, up one percentage point in the last 12 months.

Our up-selling remains very successful and contributes to our improving service revenues. MagentaEINS homes spend on average now €8.8 per month more with us than before.

Moving on to fixed line on slide 14. Here we rebounded to add 70,000 broadband customers this quarter. Our hard IP migration will continue through year-end 2018, but we could offset this through the strength of our commercial offerings, line losses also improved sequentially.

Demand for our fiber product remains very strong with 700,000 additions this quarter, again with the majority coming on our retail platform. TV net adds benefited from the launch of our new StartTV in May, and our Telekom sport packages in August. Launch of EntertainTV Plus area last month with the exclusive titles should further increase the attractiveness of our TV offerings going forward.

Turning to our fixed products, on slide 15. Our retail revenues fell 0.6% year-on-year. Our broadband revenues grew 0.6% this quarter. This reflects the impact of promotions we launched last year, plus the ongoing headwind from our IP hard migration. We continue to expect a slight improvement in this run rate in coming quarters, as last year's test the best promotion begin to roll over.

On slide 16, you can see that, we now passed 68% of German households with our fiber network. Let me remind you that next year we will ramp up speeds for most homes in our [indiscernible] footprint to 250 megabits per second. 65% for access lines already on IP, up from 49% a year ago. This accelerating run rate takes us towards our target of migrating our B2C access lines to all IP by the end of 2018.

So now moving on to our usual two slides on T-Mobile US. As Tim said, our momentum remains very strong. We won 0.6 million branded postpaid phone customers, two-thirds of the total market's growth and we kept ARPUs generally stable, the prepaid ARPU is was reaching a new record level of nearly \$39. Service revenue grew by 6.5%. But adjusted EBITDA grew a 11% and this was in spite of a \$148 million headwind from the recent storms. And as mentioned already, T-Mobile raised its EBITDA outlook for 2017 by \$200 million.

On the next slide as usual, we show some selected performance metrics for our U.S. business. Our branded postpaid phone churn improved further and reached a record third quarter low of 1.23%. Our bad debt expenses remain stable, as cost of service affected by the storm cost, but better on an underlying basis. As you can see our U.S. network has underpinned that performance and keeps getting better. The recent Ookla data shows that T-Mobile 4G upload and download speeds have been improving, while at the same time, our competitors network performance is worsening.

By the end of this year, we will have deployed 600 megahertz spectrum to 62 million PoPs over 1.2 million square miles and launched 3,000 retail shops. Many of these in new geographies to monetize our network and brand proposition. To sum it up, it was another great quarter for T-Mobile US.

So moving on to our European segment. We continue to show positive commercial momentum. We had 265,000 new contract customers, including 56,000 Poland and we added a 167,000 new converged homes.

Our revenues in Europe were up 1.6% this quarter and up 0.7% organically. Reported EBITDA was down 2.9%, but adjusted for our recent reorganization and FX, EBITDA would have been down only 1.3% in line with the trend we continue to expect for the year as a whole.

And the next chart shows that we now have migrated 66% of our homes in Europe to IP. Our LTE coverage now stands at 93% and our fiber coverage has reached 30%, with accelerated penetration forthcoming increase especially.

Moving onto Systems Solutions on the next slide then. Revenues rose 2%, while EBITDA fell 5.8%, but we continue to expect around €0.5 billion of EBITDA for the year as a whole. We are seeing good momentum in the cloud and security and in our road tolling business. Our connectivity business is growing as well. But we still experience headwinds from classical IT business. These headwinds have manifested themselves in a weaker than expected order book and the mentioned goodwill write down.

Looking forward, we are delighted to welcome Adel Al-Saleh, as our new board member for Systems from beginning of January on and I'm really looking forward to his contribution on the business.

The next slide shows group development, which now comprises mainly T-Mobile Netherlands and our German towers. We're now showing the numbers on the slide here with all the Strato business. We had another good quarter in the Netherlands with 66,000 contract net adds. And this is now the ninth consecutive quarter of contract customer growth. Dutch service revenue reflected headwinds from regulation and terminations rate cuts, while EBITDA reflected changes in Dutch rate cuts, while EBITDA reflected changes in Dutch consumer protection laws and Roam like Home. Excluding regulation, our mobile service revenues would have been up 1.1% year-on-year. Our tower business is still absorbing transition costs following the carve out from our German segment. From 2018 on, we expect growth in revenues and EBITDA from new builds and increased colocation and amendment activities.

As already mentioned, our third quarter free cash flow was very slightly down year-on-year, but clearly above consensus expectations and we are well on track to generate around €5.5 billion for 2017 as a whole. Growth in our adjusted net income was driven mainly by higher adjusted EBITDA and benefits from interest expense optimization. Higher taxes and the higher share for the minorities driven by the strong performance of the U.S., partially offset this positive impact. Our net debt reduction reflected: a, the growth in free cash flow this quarter; and b, FX due to the U.S. appreciation against the dollar. Recall at the end of this quarter, the U.S. convertible will be exercised and resolved in further deleveraging.

Slide 25 shows our financial metrics. And as mentioned, despite the U.S. spectrum auction, our net debt fell to 2.3 times the adjusted EBITDA. Remaining with our comfort zone of 2 times to 5 times adjusted EBITDA, I'm now particular pleased with that. And my final slide is as always summarizes the strategy, we presented to you at the last 2015's Capital Market Days. We continue to execute well against our targets. It was a good quarter across most, if not all our markets, and the best is yet to come.

And with that said, we'll be delighted to answer your questions, and I guess, I will hand back to the operator or Hannes.

QUESTION AND ANSWER SECTION

A

Thank very much, Thomas, so back to me. We can start with the Q&As now.

We can start with the Q&As now. [Operator Instructions] So with that, we move on to your questions. I think the first question is from Dhananjay of Bernstein, please.

Dhananjay Mirchandani
Analyst, Sanford C. Bernstein Ltd.

Q

Yes. Thank you very much, Hannes. My question is related to fiber to the premise and the role of government subsidies to facilitate a potential role out in rural Germany. And some of your competitors are suggesting that up to €24 billion in subsidies could be allocated to such infrastructure upgrades to about 8 million premises outside your target VDSL footprint. So can you give us a sense of how likely you think this scenario really is and what role you expect to play at Deutsche Telekom, should this scenario indeed materialized? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO, Deutsche Telekom AG

A

Dhananjay, it's Tim. Welcome. So quick answer on that one. Today we have 1.7 billion subsidies in the market and the municipalities, now let's say the government was able to spend the money. So we're talking about €718 million, which have been spent yet. The reason for that one is not that there is no willingness to spend it, major is the approval phase and the construction capacities in Germany. One of the reasons is you know that Deutsche Telekom is building a big time on the fiber deployment in Germany, you've heard the numbers from Thomas just few minutes ago. We are opening up let's say fiber connected street coming in every four minutes, every four minutes, while we are sitting here.

and next year it's going to be every three minutes. On top of that, we have this huge infrastructure progress going on in Germany for any other infrastructure, so the teeth fall, the construction capacity is very, very limited. The chancellor by the way I mentioned that already in several speeches, because she knows about the situation. What we have done to compensate for the shortages, we are hiring people around a 1,000 people from Spain. We have people from Romania, we have people from Wise Island, so working here for us already to fulfill this requirement.

If these subsidies would go up significantly, I can tell you, we do not have a money problem, we have a capacity problem. That's the first thing. The second thing is, it sometimes Vodafone they are jumping forward and then jumping back. Look we are used to that one, but independent from that, they seem to find out that they have no interest at somebody's overbuilding cable. So I got already messages from Berlin that they are not interested in a high subsidized program. And I know from the small players in Germany that they are very concerned about this huge subsidization programs, and that they are losing control about, let's say, the rollout of the footprint which we are aiming for.

So there will be in the new government, however, it might be constituted, a group of – an amount of local subsidizations I strongly recommend it's in the vicinity of €1 billion to €2 billion on an annual basis, and the capacity will be hard to find. Hopefully, there is some elasticity going forward, but I do not expect that there will be

problems significantly beyond that. And even the discussion that maybe the proceeds of selling Deutsche Telekom would help to fund this. And – and If you talk to the leaders in this regard, I think, there is now even more realistic approach towers. The first ideas that we will see, so that's my – my way looking forward. What it means for us, we will move on in our fiber build all-in FTTC build out. We will fill let's say, the commitments which we have given to the public and we see that we are doing absolutely the right thing. We will have 10 million households being connected to vectoring by the end of the year. Think about that magnitude and what we see is with 700,000 on an average customers a quarter, you see that the – the customers are voting with their feet and we are very happy and very successful on the take up rate, which we currently see.

A

Maybe to – to answer that. On the specifics of the experiences, we have right now on those subsidization program, as we are participating in those programs and have a good success rate, so basically, we were talking about two-thirds of the success rate. For instance in just last week, we won a public subsidy program to connect 40,000 FTTH homes in rural East Germany, the biggest one in Germany right now. And so, as long, you know, as long as we take a fair share, the terms are reasonable and subsidies are not per se about thing. I think that's – that's the way we look at it.

A

Thank you, Thomas and Tim. So we move on with the next question from Polo at UBS.

Polo Tang

Analyst, UBS Ltd. (Broker)

Q

Yeah. Hi. Thanks. Just two questions. The first one is on the U.S. and really a bigger picture question about potential M&A going forward. So if the DOJ are pushing back against the horizontal deal like AT&T Time Warner, can four to three mobile consolidation happen or kind of fixed mobile consolidation ever happened in the U.S. And my second question is really just the clarification in terms of the German election outcome. So specifically do you think a new coalition government will push for you to do more in terms of FTTH? And can I clarify also your comments about what politicians think about DTE stake sale that – sorry it wasn't quite clear in terms of what you're saying in response to the first question? Thanks.

A

Look, the first – what about Deutsche Telekom is investing in this €4.2 billion or whatever number for this year, it's fiber, it's fiber. We are not building copper, we are building fiber everywhere. And we are connecting street cabinets with fiber. So in the new construction areas we are building fiber and even you know in the areas of our business communities we are building only fiber. So therefore, if some of our competitors criticize us not building the right technology, I don't know what the right technology might be, but we are building fiber. So that said, this will not change going forward.

Now, the government is talking about the technology and I make everywhere clear and the ones being in Germany and reading let's say my interviews or my statements on that one, I think we should keep the customer in mind. The most important thing are the needs of our customers. And the first need is that he is able in his private life to consume all kind of service today and tomorrow in a sufficient I call it [indiscernible] in a kind of zero

defect manner. This is our ambition, and that is what we are building the capacity for, and that is why we are trying to get as many customers as possible into this infrastructure.

I think going forward, there will be a mix of technologies, there will be fiber-to-the-home deployments in the cities and I appreciate highly the possibilities which are given now that we have two kind of construction possibilities like micro trenching and others and subsidies.

Second, there will be corporation models. We have an alliance with all the smaller carriers, which Mnet, which Evetel, which is Wilhelm.tel, which is NetCologne and others that we are trying to fight that the regulation gets changed, that when we doing a corporation model and when we building fiber, there should be no regulation for none of the other players. So we have to now convince only Vodafone and [indiscernible] that they are supporting us. I understand that they would love to use our technology, but I think this is unfair from a way going forward. So corporation model is the second way of deploying it.

The third area is, we should be technical agnostic. I think the new technologies like Wi-Fi to the home, a kind O&T outdoor, so that we do not have to go for the rose garden of every house here in Germany, but still deploying 1 gig into private homes, that we have 5G technologies for the rural areas where fiber deployment doesn't make sense, or even G.fast in certain areas. So I will fight, and I will constantly fight for a technology agnostic approach. And if you look to the election programs or to the programs of the big parties, they are like the CDO and CSO, the conservative ones, there is a technology agnostic build out so and more customer driven build out and this is let's say what we're going to do. I do not see that at the end of the day, that one of the parties, Northern Jamaica coalition, we really let's say intend to force people only to go into the fiber to the home build out. And anyhow, they cannot force private companies to build a specific technology. So therefore, I think our build out scenario is very clear. It's built on first deploying now fiber to the curb and really connecting the people, who are not connected today, especially in the rural areas. This is a big political issue as well.

Second, going to fiber rollout then in areas, where we have fighting huge competition with cable. In parallel to that one, we are deploying the industrial zones, because we want to enable digitization in Germany and maybe some offers to schools and then we going to you know, improve our intensity to cooperate with – with the smaller players that we do not have redundant fiber to the home build out and faster deployment of that one, all was under the assumption that we have no regulation anymore on that one. And in the other areas, we want to deploy that technology mix, which is supporting customers demand. This is the way going forward and we have a clear path to this one and that's the one I'm loving for.

A

Polo, on your €103 million.

A

Yeah. I just wanted to add one thing. I think the situation in Germany, you should remember is such that by the end of 2018, 70% of the population will have access to cable, footprint, that's quite different from various other European countries. And we will connect over 80% of the population with fiber to the street. So you know, we have a situation where let's say 85% plus of German households have us vote for choice and then you have a section of the population which isn't. I just want to make this -- bring this into awareness because it's quite a different situation from other countries in Europe.

A

And, Polo on your question on the M&A U.S. perspective, let me emphasize again how committed and convinced we are about our standalone store in the U.S. So we are not worried about the T-Mobile U.S. running out of steam. Our network leadership is becoming more and more apparent, we're enhancing the distribution footprint B2B opportunities, so not only geographic expansion but also segment expansion. You've seen the financial performance, so there is enough firepower available. We are convinced that there is a very, very good standalone perspective. And in convergence, U.S. picture as you know is different from Europe. We believe there is scope for a successful mobile-only player, and our approach is always to be front footed when it comes to content, so first we had [indiscernible] then we had Netflix offering there. So as Tim said, it's a quite simple story. We won't stop. What we're not going to do is speculate about potential combinations in the market, as you know, we -- never speculating on that one our way to deal with that is if there is something to talk about we will find ways to talk about it and then find out.

A

Thanks, Thomas, thanks, Tim. So next we move on to Simon from Citi. Simon?

Q

I wondered if you wouldn't mind just talking a bit about Germany and first question would be, what contribution price rises made to the growth rates that you've posted in the third quarter, particularly taking into account the nice improvement you saw over the second, and I think particularly perhaps posted on fixed, but maybe mobile as well to some extent. And then the second question is just on the customers that you've migrated to all [indiscernible], do you see differences in behavior, are there any helpful or possibly unhelpful changes in churn or the propensity to take up sort of product or that sort of thing in terms of the customer side of that equation? Thanks.

A

Hi Simon, this is Thomas. First of all, the simple answer on the question of price rise is €200 billion to growth rate, it's very little, it's as you know, we've made a price rise in Q2 and the single play that is coming through, but it's -- it's a very minor share of the whole improvement. The basic improvement is by improving a richer mix, so more customers on the M&L rather than the S tariff plans. By the way, that holds true for fixed and mobile side and not for raising price points per se.

And the second question is customer guide to all IP, what we see in there is better after migration sometimes, we still have to struggle and trouble in the migration phase with customers, but after migration, a good experience to customers. But let me remind you, our churn any way is around 6% to 7% on a yearly basis. So there is no fundamental change in the churn here. But we know from the customer side, that obviously, there are some things you can do more easily and [indiscernible] the way you experience our business and our product is for our customers is improving. But as the churn rate is already so low, no significant changes here.

A

Thanks, Thomas. Next we move on to Akhil at JP Morgan.

Akhil Dattani

Analyst, JPMorgan Securities Plc

Q

Yeah. Hi, good afternoon. Two questions please. Firstly, we spoken a lot about CapEx, but I guess the other thing that people in the sector are debating quite a lot of moment is the joint dominance regulation issue, so I guess I just need to understand what your thoughts are on that? And I guess, on top of that how likely or not do you think that is just a general update data around that would be useful?

And then secondly on the U.S. and M&A, I guess, another big picture question I was just wanting to follow-up on was just in terms of how you think about or what you're able to say about the process and what happened? Yesterday, Sprint's CEO commented that the big issue was masses unwillingness to relinquish control, which would seem to make that somewhat of an insurmountable issue given that historically you've said very similar things yourself in terms of control being important, so I guess, what I'm really trying to get to is you know are the issues things that you think are very substantial, very hard to address or is there any possibility that at some point, the conditions could once again mean you could revisit? Thanks.

A

The German discussion about the deregulation currently is as follows. We have what we highly appreciate this market consultation phase going on, how strong the market dominance is at that point in time from Deutsche Telekom and on a regional basis. And we know that this has changed since the regulation Deutsche Telekom was invented 20 years ago, so we hope that we will see in regional wise significant less regulation on German fixed line then more regulation.

The second thing is we do not expect that there are any kind of, you know, significantly price adjustments to the layer 3 victim, excess which is part of the upcoming regulation, because we hear everywhere the support to say we understand that you are investing heavily and therefore we expect that you have to end this money back and therefore, we support let's say the cost based approaches, analytics which we bring to their attention. Adjoin dominance regulation is nothing which is currently discussed here. In Germany, unfortunately the parliament and council have both reacted to the pressure by national regulators organized doing direct on this kind of things.

So they do not want to see any kind of significant market and power from one of the players here, but that there is a need for further regulation here is not the case. Even in the paper, in the court, we are discussing more the intention to deregulate companies who are investing into fiber. So it's not ready, and to be fair, there's a certain amount of frustration of the – in the big players in this fixed line invest – in fixed line environment. I hope that we can convince the parliament to change their approach to this one before it goes into the national and consultations here. But what I've seen from the court so far, it's disappointing, it's not really motivating or encouraging us to invest more, but it's not worsen the situation to be fair as well.

A

And I'm going to answer the second question and Tim then can share later on, on the if he wants to on the U.S. and M&A big picture. First of all, as always we and I don't comment on Marcelo's messages. I think what is important and you may recall that we've been always very clear on the criteria we set out to evaluate a potential transaction and what its valuations to governance and the trust issues on financial framework and all of those dimensions in totality are important to a discussion like this. I'm not sure whether it's right to signal out one factor.

But your second question I think was whether there is that the deal is off the table forever. And I think the answer is two-folded. First of all, never say never. I think that's clear we continue to see a strong industrial logic, we've always been clear about that since the AT&T deal failed. So there is an industrial logic for wireless market consolidation and we always said it can make sense on the right -- under the right terms.

On the other hand, believe me we surely did not make an announcement like this and [indiscernible] news this week and because we wanted to continue the discussion any time soon. So, never say never, but I guess the talk is giving you kind of indication where we are.

A

Let me give a little bit more flavor to the situation with Sprint and T-Mobile U.S. and the parent companies. The first, the relationship and my -- with Softbank and in-person with Masayoshi Son is very important, and I would have love to see an even closer working relationship between the two companies. I very much admire Masayoshi Son, his entrepreneurial spirit, his visions, and even his braveness to move forward with a lot of things being it let's say in the Internet of things, being it in the artificial intelligence, being it in even the satellite communication services. I admire my son and I call him a friend. Nevertheless, business first, always business first and it's much more difficult.

In this relations says don't say no than to say yes. We had a very intensive and good relationship, and honestly, I respect much more the partners on the other side that I did before in the way how we work together, how we build up the business cases, how we came up, let's say over the due diligence phases, how we understood the different angles of -- of this deal and of a joint activity.

Now that said, at the end of the day, you have to look on the situation of how is the valuation, how is an effective governance, how is the anti-trust risk and how is it so sound financial framework in order to be established for this kind of entity. And all of these criteria have been important for us on a decision. And you can be sure that we did our homework along all of them.

And to just improve that, Thomas and myself, we flew 50,000 kilometers in one week to just check with everybody, you know, what's the right way going forward and what's let's say the -- the total equation of that deal. At the end of the day, I always said, I'm not doing bad deals. And since I'm in this office, I'm very proud that so far I haven't made a mistake on that one. So I hope that you respect our decision on that one. Even if maybe the intention at the beginning was a little bit different, I think there are a lot of big synergies in this case. It's a great opportunity. The doors to this great entrepreneur, Masa Son and his team are never closed at Deutsche Telekom, but for now, I think that we had to take a decision, which has been communicated then in the last days.

A

Okay. Thank you, Tim. Next question, I'll take from Ulrich at Jeffries.

Ulrich Rathe

Analyst, Jefferies International Ltd.

Q

And I think I have two questions please. The first one is an operational one on Germany. In mobile, the postpaid churn has -- is down really quite far beyond sort of historical track records and I was just wondering, whether that's something that's happening in the branded base or in the service provider base or whatever else you can say about that?

My second question is on T-Mobile. Maybe asking it a different way, in the past well before potential discussions were sort of being debated in the market, I've heard you comment that T-Mobile doesn't really produce returns on investment, that U.S. investments – sorry U.S. returns on capital, that returns on capital in the U.S. overall even at the leaders are lower than in Europe on average, that there is no organic path for T-Mobile to reach returns on capital. So I was just wondering, when you talk about being well positioned with T-Mobile, you could sort of interpret this as saying T-Mobile is in a good position to continue growing and taking share, but with no returns. So eventually, you're building up something something that will be ever stronger deal partner at some point or are you now saying, no there is really an organic part to producing commensurate return on capital with the sort of growth trajectory that we have built up for T-Mobile? Thank you.

A

Yeah, Ulrich I'm going to start with the first question on the postpaid churn. It's quite simple. Our contract churn rate without Lebara so the famous element of fluctuation, we always have in the numbers is basically if you look at last five quarters, six quarters, seven quarters, it's more or less always 1% or it's 0.9%, 1.1% so it was a little bit of ups and down, it's the same magnitude. No significant change in the whole change and the fluctuation is around. But I think what we've seen in the mobile market is very high loyalty of customers high satisfactory customers on one hand and we're working up-selling and in that contract part of the business, which is our own branded, there is no significant changes in dynamics.

A

On the second question with regard to the return on capital employed and the economic value added, Ulrich, you're absolutely right. Five years ago, this was my assessment. And I have to admit I was wrong. So if I look – so look if I – if I look to the numbers today and into the return on capital employed, comparing Europe and comparing Germany, or let's say the U.S. this -- return on capital assets are very, very close. And the take up right on the return on capital employed in the U.S. is much faster than we have is in the [indiscernible] NTT this year for instance in Germany. So the development on the mobile side with this huge custom growth, which we have seen over the last 15 quarters is helping us significantly in the improvements. On top of that, our capital costs came down significantly over that time. So earning our capital costs and even beyond, is it's more likely than it ever was even for our big huge U.S. operations and whatever we do when it comes to new markets and new build outs, we have this equation in mind.

So with regard to this, I'm very – I have very much changed the perspective from what it is. This was the reason why we have invested so much money over the last years, because we see this positive development.

A

Thank you, Tim. And now, I would like to have Fred's question, please. Fred of Bank of America.

Frederic Boulan

Analyst, Bank of America Merrill Lynch

Q

Hi. Good afternoon. Two questions, please. First of all, on Germany. We had a nice pickup in EBITDA growth in the quarter. If you could detail some of the key growth drivers, you mentioned, the merger of the tech services, but how we should think about cost and margins for that business in the medium term? And back to fiber, if you

could help us a little bit in the sense of how you articulate the number of different timings being the political timings, being [indiscernible] timing, the announcements from your competitors, including Vodafone, easy to work on configuration code with your own timing to define your high-speed broadband strategy beyond the targets here for 2018? Thank you very much.

Thomas Dannenfeldt

Chief Financial Officer, Deutsche Telekom AG

A

Hi, Fred. This is Thomas. I'm going to start with the question about the German margins. I think key driver, I mentioned one which is the integration on the customer service and field service side, obviously, what you have there is and operations where you had redundancy in the structure of the business will set up on one hand and then the other hand, you had the processes being delivered to the customer or running through several organizations in one part of the indirect OpEx reduction and see here is obviously streamlining the processes now and one organization is much easier and getting rid of redundant infrastructure, not organizational structures in there, so that redundancy element, process optimization is one part. By the way, there's also better capacity utilization of real estate locations and technology, which is a windfall or an effect of some parts of we're doing in the IP migration. So all that adds up to what you see here and I think that will support further on in the margins. I think we've given the guidance in 2015 on where the margin should be and there's no change on that one.

A

With regard to fiber in Germany and the timings, look we have a commitment with regards to the vectoring rollout in Germany, which is 2018, our main full course and a little bit into 2019. Then we further you know, would improve the build out and [indiscernible] in Germany as we discussed it earlier today. That said, the most recent consensus is reflecting this CapEx requirements for our build out with almost stable CapEx projections of around €4.3 billion for the German segment for 2021, and a bit over €5 billion in the region of Germany as a whole. This is including all the CapEx, including let's say 5G deployment and the IT requirements, which we need and that might give you an orientation. And as I said earlier, we believe that from an investment perspective, it is not a money issue at that point in time, even a capacity issue in the world. Now the question about fiber build out is even something to do with the decisions about the deregulation and the political support for that one. It's too early to say how Germany or the EC might decide on that one. I hope they're coming up with a clear cut decision on that one soon, and then we will give you our assessment what that means from an economic terms perspective. The only thing, which I can leave with you and take that's yours, I will not invest into something which is not financially viable.

A

Okay. So the next question is from Russell at New Street, please.

Russell A. Waller

Analyst, New Street Research LLP

Q

Yeah. Thank you. Just a quick one on the Netherlands. So yeah, I was wondering if you saw the potential for value creating deal there, I guess 32 spectrum an asset might be available as of January. Now, obviously, in the past four to three has been controversial in Europe. But do you think that the European Union might look at that deal in a different way given the fixed mobile asset – infrastructure dominance over KPN and Vodafone as they go. And then my second question, I it was just on the U.S., you know, obviously the asset is performing very nicely. I was just wondering though what does worry you about the medium term outlook, I mean, I'm thinking for

example densification for 5G for example. Is that something that you would consider when thinking about inorganic opportunities, and you know for example, do you worry the impact to OpEx or CapEx bill as you have densify your network with small household? Thank you.

A

Look, coming up first with the Netherlands, and to be clear in principle, we like market consolidation. In the Netherlands, we have two very strong integrated incumbents, and it seems clear that consumers would benefit if the two mobile-centric operators could join forces and really develop a powerful third force. But clearly our first priority has been to strengthen our existing asset as much it is possible in the given circumstances.

And I hope that the listeners of that call would give us credit about how we are solving our challenged environments. We have fixed the Netherlands since four quarters, we are number one in the contract, net adds, we have fixed Poland very encouraging momentum here even from a fixed mobile convergence offerings, and we have fixed the European entity which is now on a growth pace. Again so I would say, more or less all the big challenges, we've had one year ago and then back to growth. And nevertheless, the good progress we are making and the good subscriber growth, or customer growth which we have and the excellent network we've just won the P3 checks for another time, and we are open to the consolidation.

So that said, let's see what the other side might consider on this one and the European Commission then might treat this, but that's our position at that [indiscernible] .

A

Yeah, and maybe on the U.S., what worries us most in the medium-term, first of all, I think as you know we have great assets, and one of the greatest assets we have here is a team which can deliver on network densification and rollout better and faster than any other team I've seen in the world, just remember the integration of MetroPCS Network into the T-Mobile US network. So I think in 5G we are front footed, we leverage our new low band spectrum. We're deploying small cells. I think other than in Europe, in the U.S., it's much easier to get the fiber access to the sites as you know in Europe sometimes. It's more difficult to get to a good connectivity set up for your sites. We have already the dense with Microtel footprint, and as I said rolling out fast on the small cells. So I think in terms of the capabilities and ingredients for success, they are all there and so there is no worry about that. What about the OpEx, but yes, part of the equation of and running a network, if you don't own the complete fiber footprint like we sometimes do in our European operations, it's part of your financial and your economical equation, but it's no news that's like today.

A

Thomas, let me add one sentence on that one. The deployment of the 5G capabilities with Nokia and Samsung will begin in 2018 already and the 600 megahertz spectrum, where we gain the biggest portion. This will provide us the spectrum capacity for the small cell deployment, but even for the deployment, but even you know, for the deployment of the entire country. So this is for us, the prerequisites for the 5G deployment and I think we are well positioned in this area.

A

Okay. Next we have Andrew at Goldmans, please .

Andrew Lee

Analyst, Goldman Sachs International

Q

Yeah. Good afternoon, everyone. I had a question on other – other opportunities in the U.S. and then one on cost cutting, maybe more domestically say, on the other opportunities is more on buybacks with reference to your comments that we have other opportunities to create value teams. How do you think about buybacks, given the rapid deleveraging that you deliver with your free cash flow growth and or given the IFRS changes in the treatment of operating leases, would you rather focus on de-growing the balance sheet? And if it is buybacks, when – when will you tell us about this and would DTE sell into the – into a buyback? And then, just on the cost cutting and digitalization, you clearly have a big opportunity here. Is that something you can bring forward or is it something you have to wait for the all IP migration to be complete to deliver meaningfully on? Thank you.

A

Look, it's great to see team U.S. generating increasing amounts of cash, while their outstanding EBITDA growth brings down the leverage quite rapidly. That's very encouraging even looking forward into the combination of T-Mobile U.S. and Deutsche Telekom AG. So the choice you mentioned is definitely a nice one to make. That said, both dividends and buybacks have their merits and I have to say at this stage, we have no decisions to communicate, but we hear [indiscernible]

A

Yeah. On the cost cutting. You know, the way the IP migration works in terms of the savings related to that is partly, it is basically the savings depending on the completion, that's more or less technical parts of the savings where you need to switch off platforms to get to ramp down the costs and partly you can, you see that already prior to complete shutdown or retirement, for instance, if you can simplify processes like I mentioned the part of what you see in Q3. So it is partly something which happens, while you go and partly you need to finalize the whole thing to get the – especially the technology savings and that's the way it works. And that kind of pattern is embedded in all the guidance we've given you, so it's partly prior to retire and partly after retire.

A

Great. Thanks, Thomas. The next question is from Usman at Berenberg, please.

Usman Gazi

Q

Hello, gentlemen. Thank you for taking my question. I've got two please. The first question was just on the German [indiscernible] (01:02:01) would you be able to segment the trend between the consumer and enterprise business of, I know last quarter with normal enterprises up 4% consumer was slightly down, I mean has that – has there been a significant change in that trend this quarter?

And then the other question was just on the All-IP migration. I think you – Tim you mentioned in a recent road show that the All-IP kind of migration was costing around €500 million in German OpEx per annum. So the

question really was as we get to in 2018 does it – is it the case that suddenly the €500 million OpEx is drops out, or is that more phased over a number of years? Thank you.

A

Okay. Usman, so Hannes here. So I will answer both questions actually. The first one – okay, if they let me.

A

No, if they let me.

A

No, okay. So the first one on the B2C and B2B trend, I think, we are happy to see good trends in both segments of our business. I think, we are monetizing our customer base well. I think, there's not really that much to add. So I think, what you would see in this quarter, I think both – both units you know contributed to the strength of the performance and we hope and our confidence as we'll you know continue. So as far as the all IP costs are concerned and so first, it's our B2C rollout that will be completed by the end of 2018. So we still have B2B work to do in the German segment and in systems. So we will start to see some of the benefits as Thomas has described earlier. Coming through at the network level and others will take longer as our guidance at Capital Markets Day. And so I think, it'll be a you know, a phased and gradual development with some improvement coming through beginning in 2019.

A

Next I will take a question from Sam at Exane, please.

Sam McHugh
Analyst, Exane Ltd.

Q

Two questions, if I can. Just the first one on mobile service revenue in Germany. I think, the kind of quarter-on-quarter trends are improving quite a lot on an underlying basis. And then, if you could just talk about what you're seeing in terms of more for more, maybe average kind of gigabyte packages people are taking. You mentioned a bit more towards the medium and large packages. I guess, it seems to be having a pretty positive impact. And then, secondly on the U.S., we didn't get to ask John and the guys this in the quarter. What kind of productivity or kind of comparison, can you make between some of the new stores you've opened this year compared to existing stores and when should we expect that to start ramping up a bit more? Well, thank you.

[indiscernible]

A

Okay. Then, go ahead. I'm lazy. Go ahead.

A

Okay. So I'm going to start now with the German question. I think basically what we've seen during the course of the last quarters is an improvement as I said in the mix of S, M and L, what you've seen if you just add M and L to the higher more richer tariff plans, the percentage of customers taking those has improved by 15% roughly and that was basically driven by a more volume, but also StreamOn. The way StreamOn works is you only can get it, if you're M or an L customer. So what we're doing is we're using those elements to incentivize the people and then the customers to choose more richer products and that is what works well and what is – what is shifting the rich into – the mix into much richer shape. And I think that's basically the answer on number – question number one. And now, Tim, give us...

A

Thanks, Tim. So next question is from Mathieu at Barclays. Please?

Mathieu Robilliard

Analyst, Barclays Capital Securities Ltd.

Q

Yes. Good afternoon. Thank you. So I have two questions, please. First, with regards to EBITDA and CapEx at the group level. So for the second time, if you raise your EBITDA guidance, which has created at the group level. You haven't changed your free cash flow guidance. So my question is really, if you look ahead, if you continue to do may be better than you had expected on EBITDA, it's not something that you would use to invest more, because you see more projects, where you can deploy that capital effectively or at some point, do you think the free cash flow growth can accelerate? That's the first question. And the second question with regards to costs. So we've all focused a lot on the all IP migration and the costs associated to that. But I imagine that there are other areas, where you're working, digitalization, et cetera, et cetera. And it's very hard for us to compare between companies where they stand on all the different aspects, the network, the IT system, the customer interaction, how do you think you're doing there and what are the big areas, where you still think you can improve efficiencies, but also probably need to invest to get those efficiencies? Thank you.

A

Okay. Thanks Mathieu for the question. First of all, on the EBITDA and CapEx of the group. I think you've spot on with increased the EBITDA, but not the free cash flow. And that's simply, I think in Q2, you've seen that – that the U.S. raised the CapEx or moved up to the upper end of their CapEx guidance because they're accelerating 600 rollout this time. It is the Greece operations, spending more money on the fiber deployment there. And I think that's you know that pattern what for instance from the German side what happens in Greece as well. So we've accelerated the rollout there and we'll see good network infrastructure, and for sure also then revenue improvement and then finally EBITDA improvement over there.

So my way and I've said that last quarter already, my way to look at the whole free cash flow guidance is there is we've given a clear message in terms of what you should expect and we will deliver on that one and we'll make sure that we deliver on that one. Whenever we can create headroom, we have a discussion whether there is money to be spent in a way that we can keep going with that kind of fantastic run rate an improvement in free cash flow and this time 600 for this year in Q2 and increase the rollout that was the decision behind.

A

So now we extend this call for another two hours because this question is a very exciting and very relevant for our business, talking about let's say the impact of digitization on our businesses. Look if – from a strategic perspective, if you ask me what are the challenges of our business. The first one is the competition which we have in our market still ongoing. The second is the threat from over-the-top substitution. I think it was very intensive over the last year. It has slowed down. So it's not anymore that than. New kind of business which are entering to that -- into our landscape, like SDN, cloud providers or like network-of-network players, these are new business models which are trying to substitute services from us, this is something, which is increasing. And the fourth one, which is a challenging item for us as a telco is more digital telcos. So telcos are really leveraging their capabilities in a more you know, productive, digital way. So this is something for an old incumbent like us, you know, where we have to – where we have to react on. So the digitization of our internal processes and the process toward the customer is one of the key amendments, which we will do or which we have done already to our strategy.

To give you some examples how we want to drive that. And it's the simplification, which we have to do within the – starting at the frontend. For instance in Germany, we have recorded 3.6 million visits on our Magenta service app. This is an increase of 28% year-over-year and this is reducing the load on our offline channel significantly.

And in Austria, another example and this is – this company is now using a web-based chatbot. So which is helping to answer questions of customers in a much more efficient and faster way. Second topic on how we drive digitization is for me the topic of advanced analytics. By analyzing and interpreting all of the data, which we have and we are sitting on tons of data on a personalized and individual level, we have increased the conversion rates of specific campaigns by more than 70%, much more individualized offers – individualized offers, which we can create and which are much more resonating than with the customer. Another one is the back end, we use robotics to automate big processes, standardized routines in organization and then to generate efficiencies according to thousand employees each year in Germany already today and we're just at the beginning of that one, or we even use big data analytics to improve to manage our field forces. This is something where we are experimenting with. And the last one just another flavor is we're building our own bot, so that every employee can change and automate the process he is individually using in the company. So if you are looking about your salary, if you want to go on vacation, you go into standard routines within the IT systems and we have now created the capability that every employee could build his own bot and by using this bot he could significantly improve his own productivity. So it's a big, big effort which we are – which we are addressing. I think more and more coming topic for our industry, and therefore more to come in our bilateral talks or even later the year to give you a flavor of what we're doing here.

A

Thank you, Tim, we are working to just to add one element because there was one aspect of the question I think it's still open. That's not so much a matter of big investments, CapEx investments. That's what Tim mentioned the whole process is much more about the way people work, how they address the challenge that they have every day in their business rather than the big investment thing. So, don't expect any big, big numbers beyond that one.

Q

Thanks, Thomas. He speaks the IR bot.

A

Thanks, Thomas, here speaks the IR bot. Okay. So our next question is from Robert Grindle at Deutsche Bank.

Robert Grindle

Analyst, Deutsche Bank AG

Q

I want to talk about Hannes, Thomas. Just two quick ones for me. The first on the T-Systems Systems, the business has been a bit sluggish for some time and despite cloud doing better and you have written-down some goodwill, what was the – was there a – what was the main problem with your order book? Obviously, it was light, but it was coming from any particular segment. And I think you've got new management there now, what's the – what's the prognosis on a forward-looking basis, are we just looking at more stable EBITDA or should we be expecting a little bit more pressure from here? And then, a follow-up on the mobile service revenue question, any reason to think – and it was a great print this quarter? Any reason to think why the trends aren't persisting into Q4? And as it linked is, any reason to think that the handset upgrade cycle is turning in Germany, you do seem to have a quite a high handset revenue this quarter, which also helps you on the service revenues? Thank you.

A

I'm going to start with the Systems question, first of all. So that is – oh, I missed that, Tim, I wanted to take the question, so bad luck, so you have to deal with me now. Okay. So on to the Systems, basically if you look into Systems you have the international telco business, you have the security part, you have IoT, you have – what have I missed, other than IT, obviously, there is the cloud business and our road – tower business, all those are doing well, all those are growing. And so that is not where the issue sits, the issue is clearly on the classical IT business. I think that complete market is decline – is in decline, first of all, secondly, we've increased our levels of profitability, you want to see in those deals.

levels of profitability we want to see in those deals. And that's the key reason I think or the key reasons why we're seeing order book declining, basically the right of you see and there is a reflection of what you see in last four quarters in terms of the development, as you know, we hired a new guy for the IT business and have [indiscernible] on board, both are IT experts, I think that will give new puzzles for that business. But to be clear in terms of what you should expect, we feel absolutely comfortable about the consensus regarding T-Systems. And so I think that should give you an idea about the forecast. Second question was mobile service revenues. What was that. can you take it?

A

Yeah. I think, Robert, if I understand you correctly, you wanted to get a sense for how sustainable our mobile service revenue trends are, and also you had a question on the handset cycle. So I don't think there is anything particular on the handset cycle, that is worth communicating. I mean, I think, everyone is aware that when the iPhone arrived to Germany and so on, and but – it hasn't, I wouldn't look at this is something where we have anything to communicate.

In terms of the service rental performance of all, I think we are encouraged by current trends, and we have no reason to think that these trends will dramatically change at anytime soon, but that driven by good monetization, growing data usage, you see our KPIs doing well and et cetera. But of course to some extent also dependent on

the competitive environment here. But it's fine where we are, and we are happy with where we are. And long may last and hopefully it gets even better.

So the next question is from Ottavio at Soc Gén, please.

Q

Hi, good afternoon, gentlemen. I have two questions, it's actually two follow-up from comments made by team. The very first one is on the fiber and in reply to the Vodafone gigabits investment plan. Is it possible to have a bit more granularity, because in your communication you give a lot of data points for consumers, but it's possible to share a bit more with businesses? Vodafone is talking about or targeting 2,000 business bots and according to them, there are something like around 32,000 in Germany. So – and the question is that in our [indiscernible] business bots, first of all, are these numbers correct, for 32,000 is the correct number? And how many of these business bots, you really connect the on fiber. And what will be your target and it's possible the timing? The second one is also another follow up, it's on the comments. Team has made on the CapEx envelope until 2021. You said that you relatively comfortable with consensus at €4.3 billion. You also mentioned that, that includes 5G. Now your fiber plan has got a lot of attention, but looking at comments made by policymakers around, it looks at 5G, it's also become a pretty important in Germany, because of the very high lobbying from the automotive industry that's very strong and a very big interest they have self-driving cars. So my question is until 2021, is the case of that 5G potentially is now to be fully loaded roll it up, so it will be backend loaded most of these investments or do you reckon that you just wait and see how much the automotive industry will put in terms of their own investments to go and potentially match up with those investments? Thanks.

A

So good questions. Ottavio, Ottavio, first thing on fiber. Now the Vodafone gigabit investment plan, which is an amount of I think €2 billion or whatever, you know, it's a joke, it's a joke. And so we are investing in the German entity €4.2 billion into infrastructure on an annual basis, and we're moving on and we are doing that already for the last year. So therefore, we see that, but again Vodafone is very strong in the way of selling something. But I think some sense that really question the substance on that one. So that, I don't say that arrogant, but, even you know a CityFibre announcement today, I haven't looked into the details, but I do not believe that they are approaching 5 million customers, what they [indiscernible] .

Now, that said, we have on the business parks the following analytics. 10,000 business parks in Germany. From this 10,000 business parks, there are 3,000 of which are really relevant, because in this 3,000 business parks, more than 80% of all SMBs are registered. So this is the so-called very intense area. And this is the area, which we are tackling first. This is part of our investment plan. This is part of our CapEx, which we are laying out, and we want to connect them all. I mentioned that already at the Annual Meeting and that's our plan and we have started already. Every week we're announcing a new opening on that one. Thomas made I think four or five, big cities are in his speech, but there's much more if you're interested, we could easily release all of this.

This is to say our first areas on this side, and then, we will see whether there is additional subsidies coming for other ones or old ones, but it's too early to say at that point in time and anyhow, our capacities are fully loaded on this area.

A

Yeah. Maybe then on the CapEx and 5G question. So first of all, is all fiber – sorry, a 5G plan due to automotive sector developments and announcement. No, it isn't. It is driven by a very simple thought. We are the network leader in Germany on mobile. And we are on 4G and we will stay that on 5G and even increase the gap to competition. And that means, we are starting basically now with a lot of preparations for 5G. We'll make sure that we have the site densification of sites in place that we have the fiber back honing in place. By the way, as you know, vectoring, the vectoring rollout is delivering to huge extent the densification of five units to get a really good 5G infrastructure. So that is driving us and yes, there is a potential application, which is related to automotive sector in there. But you know as Tim mentioned, there is also potential application to deliver a higher bandwidth via 5G in not so dense areas, and so on, and so on. So yes, there are various applications in 5G, we can – we can talk about at length and that – those are obviously driving our thoughts and our investments on 5G, but not just one single industry sector or application on that. But in essence, it's quite simple, we are the leader in terms of quality to the customer and and we will stay in that in 5G, and that's how our investment profile is set up. Those are backend loaded, it's just a normal ramp you see in it -- in a new technology.

A

And as before we think that the consensus, current consensus covers, what Tim has mentioned related to the B2B build out our residual FTTC rollout and various other things that we've mentioned as well there is a 5G investments that we expect over this time that's at least how we look at it at this point in time.

So the next question from Guy Peddy, please at Macquarie.

Guy Peddy

Analyst, Macquarie Capital (Europe) Ltd.

Q

Yeah. Hi all. Just two very quick questions. Towards the end of the quarter and actually since then, we've seen quite substantial changes in tariffs by Telefónica Deutschland and a 1and1. I'm just wondering, what you thought of those given you are now at a substantial premium for that sort of higher volumes in the German market? And secondly on the broadband space, clearly there's been a strong in-sell of your vectoring product, but the overall growth in the industry does seem to be sort of a bit lackluster for yourselves and are still very much focused on cable. Didn't I hear I think you can do to continue to stimulate the broadband growth or do you think we're sort of starting to max out that the appetite for broadband in Germany? Thank you.

A

Yeah, first of all, I don't see any significant change on the mobile side, Telefónica result with their tariffs I think what their structure since May and 1and1 is just you know, it's with a certain delayed, it's clear that they – there will be a similar follow up of that. So, I don't think there was any substantial change in dynamics other than normal promotional activities in the last quarter on the mobile side. And what's always good and you know that we love to see data usage going up, we're driving that. I think there are various ways to do it, perhaps it's more on in terms of big buckets, we are more on stream on, like – we like all them the way to give the customer the clear message, you use as much as you want and you don't worry on applications like mobile video and mobile music. But other than this principal dynamics of increase of data, you've seen that plus 55% in the usage increase, I think there are no fundamental changes. On the B2B side, the growth – If you look at – I think if you look at not at all the net numbers, but the gross numbers, you see that we're pretty much on our all fair share in the market, if I exclude

the headwind we have in – on the IP hard migrations, it was by the way, in the same vicinity like last quarter, so mid-20s. If you add them back, you see that, that we are on the net adds as well as on the gross adds easily on our fair share. So I think that's no reason to worry on that side as well.

A

Excellent. So our next question is from Stéphane at Raymond James, please.

Stéphane Beyazian

Analyst, Raymond James Financial International Ltd.

Q

Yeah. Thank you. Just one, I'm following up your supportive comments from [indiscernible] mass adds investment strategy, and looking at around, sticking taking a surely different angle, but there's still a board move with banking. Do you have any appetite and identify possibly new fields of investment outside of the classic telecoms and [indiscernible] in, let's say, a more medium to long-term approach. Thank you.

A

Look, the first thing as you know, I said it I think last year in Barcelona, if you really want to buy a pure network provider, who is very clean in the way of focusing his investment into a superior integrated IP network, [indiscernible] that's the profile of Deutsche Telekom, that's the DNA, that's why we're investing more than the rest of the team. We are not you know spreading our money around all places. We have very much focused on the way. The network is the basis for whatever we do, mobile integrated networks, mobile fixed line head nets and the like.

Now do we have intention to go into banking? No, we don't. This is something, where we believe it's better to partner. So when somebody has, let's say, a solution here in this space, you know, we will establish partnerships, we have a 150 partners already around our infrastructure network here, which is working very, very nicely. And if you want to earn money with that one, we even have a vehicle, which is doing even very nicely, which is the DT Capital Partners, where we have invested a lot of companies into the over the last years, always in the magnitude of €10 million to €20 million investments and this company is a possibility that we commit to some new businesses vertical solutions at the moment we deploy them then in to our customer base and into our infrastructure.

There are some areas which are helping us to create an excess plus, so a kind of you know, I'm covering the pure access platform, services and alike, and this is something, which we always have considered. For instance, entertain our TV service is something, which is service is something which is helping us to sell connectivity in a added value way, this is something we're pursuing on, and we will not change the strategy. I think we're they're very much focused. We have a few bets around it. TV is one of it, big IoT is another one, but even here, we will not go into the vertical solutions and more into providing a platform service.

Q

Thanks, Tim. And I have a question for email from John Dan at RBC. So he asks regarding the group excluding the U.S. whether we have now reached an inflection point this quarter we were up 2%. And he specifically asked if the EU and T-Systems track his peaked and whether this is now a sustainable growth performance.

A

And the answer is yes. As we said, we should expect the higher ex-U.S. EBITDA this year, and should expect another growth next year. Yeah.

A

The last question is from Walt Piecyk, BTIG. If you're still on the call. Okay, so he left the call. And with that, I think we went through all the your question. If you have any more questions please contact us at the IR Department. We promise you that we'll not be aboard for the time being. Although Thomas is working on it. And now somebody actually contacted me and said, we should not get aboard, and they still prefer real people. And with that, I would like to hand back to the operator for any final words. No, okay. I hand back to the operator.

Operator: We'd like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1-805-204-7088. I will repeat, +49-1-805-204-7088 via reference number 514857#. We are looking forward to hear from you again. Good bye.

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