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Deutsche Telekom AG (DTE.DE)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges

Chief Executive Officer

Q4 HIGHLIGHTS

Opening Remarks

- Thank you, Hannes, and a warm welcome also here from my side; great having you all on the call and looking into what Deutsche Telekom is doing
- I will use my time as well for giving you a bit update about Germany and about the infrastructure investments that we have done and we are going to do
- So it is a little bit longer now my speech

Foundation for Future Growth

- That said, jumping immediately on to slide 4 and talking about the highlights, and I think this was a good year for Deutsche Telekom
- We delivered on our guidance, we are growing strongly in all metrics and we have laid the important foundation for future growth in most of the business by good infrastructure and by customer growth, and therefore, I think we are on a good track

CapEx, Networks, Revenues, EBITDA, Debt, FCF and Dividend

- Our CapEx amounted to €12B last year and we spent €8B to acquire over 30 megahertz of nationwide low-band spectrum in the U.S. on top of it
- To have the best networks, to offer the best customer experience, this is exactly what we are working for in all our operations and you know that I always make it clear that we are very few telco investors in what we are doing
- And the network investment is supporting our custom growth
 - This was strong across the board, has even accelerated in a number of our European markets
- And I think we see a good development
- We grew revenues and EBITDA despite our currency headwinds
- And in spite of our massive investments, our net debt remained within our comfort zone
- And we were able to grow our FCF by 11% last year
- Based on this, we are proposing an increase in our dividend as promised to €0.65
 - So I think all good news

Innovations

NARROWBAND IOT NETWORK AND MOBILE WORLD CONGRESS

- Let's start with our usual update on innovations, and to highlight a few
- We launched our NarrowBand IoT network in eight countries
- We completed the roll out for our European aviation network, which is set to launch soon

- Mobile World Congress will be a big launch date and presentation on this subject
- In Germany, almost 400,000 homes are using our hybrid router
 - More than 100,000 additional homes subscribed to our Smart Home offering last year
- Digitization for us is a comprehensive concept, starting at the network layer with our industry-leading All IP migration
- And we are using 1,300 bots to automate processes in our German service operations alone

Customer-Facing

GERMAN DIGITAL SERVICE APP

- On the customer-facing side, let me highlight the 11mm visits we saw on our German digital service app or the 40% penetration of our Greek mobile app just to give you an indication for all the markets we have here going in good numbers
- But clearly, this is just the beginning
 - Expect to hear a lot more on this front from us on the Capital Markets Day, which we're scheduled for May

Demand and Customer Momentum

- On page 6, starting with the demand and the customer momentum which we had, it's quite strong and this is not only a U.S. story anymore, it's in all our markets
- T-Mobile, you know, in the U.S. already reported 5.7mm net additions in 2017
- In Germany, we added almost 3mm fiber customers to reach almost 10mm customers by year-end and customer satisfaction is very high and our market share performance vs. cable is even improving

CONVERGENCE AND B2B

- Convergence remains a centerpiece of our strategy
- We have now 6mm converged customers in Germany and in our European operations, 1.5mm more than 12 months ago
 - Interesting-wise, if you look to net promoter scores or to the TRIM satisfaction values, these customers has the highest rates from all our customers within the operations and this is helping us a lot because we get even supporters or promoters for our products
- On the B2B side, our cloud revenues grew by 12% in 2017, driven by much higher growth in our public cloud services

Customer Growth in European Operations

CONTRACT CUSTOMERS, GROWTH AND SERVICE REVENUES

- Going to slide 7 on the next, we see the strong customer growth in our European operations, including Germany and the Netherlands, primarily driven by a commercial turnaround in our European segments
- We added 12mm contract customers in 2017, over 40% more than in 2016
- You see with the change in management we even see a change in the growth trajectory of our operations here
 - And our broadband customer growth accelerated to 558,000 in Germany, the time where we had negative developments in this regard are very slow, flattish is over 600,000, I think, is a clear statement in our industry in Germany

- Service revenues on this side of the Atlantic are moving into positive territory, despite regulatory headwinds and would have grown 1.3% last quarter without these headwinds

Capital Allocation

PORTFOLIO, UPC AUSTRIA AND ORANGE POLSKA

- On the next slide, I would like to update you on a number of capital allocation decisions we have taken in recent months
- So the portfolio is very important from our perspective as well to change the face of Deutsche Telekom
 - Let me first highlight the moves we announced last December, to strengthen our convergence proposition in a number of markets
- The takeover of UPC Austria, we are with this substantially strengthening our competitive position
 - UPC Austria is a well-performing cable operator and we see significant synergies both on the cost and on the revenue side
- In Poland, we decided to enter into negotiations with our Orange Polska for comprehensive fiber wholesale agreement, and in the Netherlands, we announced the takeover of Tele2 in a bid to create a stronger competitor in a highly-converged market

Layer3 TV

UN-CARRIER INNOVATION AND GROWTH

- In the U.S. we acquired Layer3 TV, creating a new platform for Un-carrier innovation and growth around content aggregation
- And we also took the decision to transfer BT into our pension fund
 - This has benefits for our credit rating, while not affecting our governance rights
- So, it is a good impact for the balance sheet, but it's not changing anything in the way how we support Austria, the company
- To be clear, there is no strategic read across from what is basically a technical move here from our side
 - And also to be clear, this transfer is voluntary not in response to any funding obligations as have been our previous voluntary annual funding payments, which in recent years amounted to €250mm and which we have now decided to discontinue

T-Mobile and OTE

CASH, BUYBACK, DIVIDEND AND STRATEGIC INVESTMENTS

- Moving on, two of our subsidiaries T-Mobile and OTE have made announcements to return cash to shareholders
- We have decided not to participate in the T-Mobile buyback and have instead opted for an increase in our share
- I have already mentioned that we want to pay a dividend of €0.65 for 2017
 - What's new this year is that we will no longer offer the dividend in kind, whoever introduced it
- So we introduced that instrument to give shareholders a choice and to help us funding our strategic investments, especially in the turnaround of T-Mobile US, but we have listened to you and with T-Mobile US now generating substantial FCF, we have decided to discontinue the dividend in kind, moving to a full cash dividend instead and no further dilution on the stock

German Infrastructure

- German infrastructure, now going into – deep dive into our operations
- We are aware of some concerns regarding infrastructure spend in Germany, so let's give a little bit flavor around that one

SPENDING, INVESTMENTS AND LTE POPULATION COVERAGE

- Let's start on slide 9, here you can see that we are spending way more than our competitors, more
- We are investing well over €5B.
 - If you include T-Systems, it's well over €5.5B and we are investing in fiber, obviously, only fiber
- We are not deploying copper, only fiber
- Last year, we deployed 40,000 kilometers of fiber, double the amount in 2014
- Our investments since the end of 2013 have taken our German fiber coverage to over 70% and our LTE population coverage to 94%
 - What we care most about our – is about the customer feedback and here the situation is very clear
- As already mentioned, we had almost 10mm customers on our fiber infrastructure direct or indirect, well over one fifth of German homes and businesses
- And we have 11mm customers on our LTE network
 - And this number is growing strongly too

Mobile

INVESTMENT PRIORITIES

- So where are we going now from here? Let's start with mobile
- One of our investment priorities in the coming years is the coverage of LTE white spots, for instance in certain rural areas or along motorways and high speed rail tracks
- For this we will quadruple the run rate at which we deploy towers in Germany from around 500 annually in recent years to around 2,000 in the coming years
 - As a consequence, our tower unit will invest around €100mm more this year already and this will increase our population coverage by 3mm to 98% in the next two years
- And as always, we are happy to host our competitors on our towers where it makes sense

Fixed Line

FIBER COVERAGE AND NETWORKS

- Moving on to the fixed line, which you see on page 11
- At the end of 2018, our fiber coverage will be around 80%, by the way, as always promised and our speeds will step up massively with super vectoring
 - At the end of this year, already 15mm and I repeat that, 15mm German homes will have access to speeds of up to 250 megabits per second
- Going forward, we will continue to deploy fiber towards the gigabit targets laid out by the German government
- We will bring our dense fiber networks even closer to the customers

- Well it makes sense and under the right conditions, we also want to collaborate with our infrastructure investors like EWE-Tel, where we announced the plan to jointly pass more than 1mm homes with FTTB building and FTTH home in the next 10 years, or even use other networks through hold-by agreements as we want to make our networks available to others on fair commercial terms

German Business Districts

- Another near-term priority, our German business districts
- Here we have announced plans to connect more than 80% of businesses with fiber by the early 2020, and we are well underway as you can see in our almost weekly announcements here
 - Aside from infrastructure tiers, I and our German B2B business will work to digitally enable businesses and public authorities, not least with our industry leading IoT and cloud services

CapEx, Investments

- As you can see on next page 12, our German CapEx will remain broadly at last year's elevated level plus the incremental investments in our tower company
- We had previously told you that we were comfortable with analyst consensus of about €4.3B to €4.4B for our German unit
- Today's guidance is equivalent with this, although the distribution is a little different with more CapEx in our central unit
- And on top of this, there is the incremental spend for towers in our group development unit
- Within this framework, we are ramping up our fiber deployments to 60,000 kilometers in 2018
 - Remind, this year we were – in 2017, it was 40,000 kilometers
- We will complete our promised vectoring rollout in 2019
- And then in the coming years, we will maintain our high-spending levels towards the gigabit targets, assuming a fair and a reliable regulatory framework
 - To maximize our time to market and our return on investment, we will leverage our fiber investments through a technology mix that includes fiber to the building, fiber-to-the-home, but also fixed wireless and hybrid solutions

Strategic Goal

- As before, we will leverage governmental subsidies and defend our fair share
- Our strategic goal remains to bring the maximum possible speed to the maximum number of people as efficiently and as quickly as possible
- And by the way, this is paying off already every single day while we are sitting here
 - We will provide you with more detail on the Capital Markets Day, but these are our main coordinates that you should be expecting

FINANCIAL PERFORMANCE.....

Revenues, EBITDA, FCF and FX

- Moving on to our financial performance in 2017
- Very quickly said, and by the way, this is the [ph] fourth (15:26) year of growing in all parameters
- Our revenues grew by 2.5%, adjusted EBITDA by 3.8% and FCF by 11.3%

- Adjusted for FX, our revenues would have been grown by 3.6%, our EBITDA by 4.9% and our FCF by 12%

EBITDA

- You remember that we raised our EBITDA guidance twice during the year to reflect T-Mobile's guidance upgrade we delivered against this raised guidance
- Our reported ex-U.S. EBITDA was at the low end of our €12.9B to €13B guidance range, but adjusted for the disposal of Strato would have been in the middle of the guidance range, and would have grown by 1%

Capital Markets

FX, EBITDA AND FCF

- On page 14, you can see how much growth we have delivered in recent years compared to our 2015 Capital Markets guidance
 - That's my favorite chart
- Including 2017 and adjusted for FX, our revenues would have grown at an average of 4% in the three years since 2014
- Our adjusted EBITDA before handset leasing at an average at 5%, but comfortably ahead of our 2015 capital markets guidance
- And our FCF at an average of 11% in line to slightly above our guidance as we have used the extra headroom to invest even more into our future growth
 - And by the way, one slight comment aside, if you look to the return on capital deployed, it's well ahead of our capital costs

OUTLOOK

Revenues, EBITDA and FCF

- As you can see on the next page, we expect to keep growing strongly in 2018
- We expect revenues to grow adjusted for foreign exchange and the impact of IFRS 15, which is a big exercise
- We expect our EBITDA to grow to €23.2B.
 - This is €1B more EBITDA and our FCF to €6.2B.
- At the consensus exchange rate of €1.19, the EBITDA guidance would amount to €22.7B and the FCF guidance to €6B

CapEx

- Again, at last year's average exchange rate we were guiding for CapEx of €12.5B, another step up compared to the €12.1B we reported for 2017
- You should not be concerned about that one
- At the consensus exchange rate, our CapEx guidance would be €12.3B.

Investments, Growth and Operations

- The increase in 2018 is due to the lower – sorry to the tower unit as I mentioned, as well as T-Systems where we anticipate additional investments into our European roads toll business and into the Internet of Things growth business
- Importantly, we expect growth on both sides of the Atlantic, T-Mobile already guided on February 8
- For our ex-U.S. operations, we anticipate 2018 growth of around €13.2B from €12.9B in 2017, driven by Germany and our European operations

Thomas Dannenfeldt

Chief Financial Officer

FINANCIAL HIGHLIGHTS

Revenues, EBITDA, Impairment Charge and Tax Rate

- For the full year our revenue grew 2.5% and our adjusted EBITDA rose 3.8%
- In Q4, our revenues and EBITDA declined, but adjusted for FX our revenues would have grown 2.7% and our EBITDA would have been stable
- Our reported net profit rose 46.8% for the full year
- Q4 we had an impairment charge related to Poland of €800mm and the tailwind of €1.7B from the U.S. tax reform
- So a net benefit of €900mm for Q4
 - The €1.7B gain reflects lower deferred U.S. tax liabilities
- As a result of the U.S. tax reform, T-Mobile expects not to be a cash taxpayer until 2024, four years later than previously expected
- In the future, effective tax rate would drop from almost 40% to around 25%

Germany

SALES, COSTS, EBITDA AND GROWTH

- Now let's have a closer look at the second performance
- Starting with Germany, our fourth quarter sales were up 2%, partly due to a stronger handset business, but even our reported service revenues grew by almost 1%, which marks a historic and exciting turnaround
- Driven by this top line improvement and by cost efficiencies, our EBITDA grew 4.7%
- The key message here is, we expect growth to continue in 2018 and 2019, if you can take from our annual report, more details on this at our Capital Markets Day

Service Revenues and Regulatory Headwinds

- On slide 19, you can see that our reported total service revenues improved further in both fixed and mobile
- These trends are shown after headwinds from roaming, fixed and mobile termination rate cuts and in 2017, these regulatory headwinds totaled €200mm
- For 2018, we estimate these headwinds will only be at a level of €30mm to €40mm

- Excluding regulatory headwinds, mobile service revenues growth would have been 3.6%, similar to last quarter, while fixed service revenue growth would have been 0.9%, slightly better than the 0.7% we had in Q3
- In sum, excluding regulation German total service revenues would have grown at almost 2%

B2B and B2C

- In both B2B and B2C, this growth is mainly driven by a successful upselling, the market has embraced more-for-more logic and our clear leadership in network performance and customer satisfaction

Mobile

COMMERCIAL PERFORMANCE

- Looking at mobile on the next slide, on slide 20
- Our commercial performance remained steady with 181,000 branded contract net adds
- We continue to see a favorable growth add mix driven by upselling to more data-rich plans like StreamOn

Mobile Data Growth

- As you can see on slide 21, mobile data growth remained strong at 38% y-over-y with the average usage now at 1.7 gigabytes, 42% of all-branded Magenta mobile contracts are part of the – of a convergent relationship, up 8% points in the last 12 months
- MagentaEINS homes spend on average €8.9 per month more with us than before

Fixed Line

BROADBAND CUSTOMERS, ALL-IP MIGRATION AND FIBER PRODUCTS

- Moving on to fixed line on slide 22, we rebounded to add 104,000 broadband customers
- This was our best quarterly net add performance since 2011, and we estimated this entailed a 34% share of the net adds in the market
- If you adjust for the impact of our All-IP migration, we estimate a net add share of around 40%, which is, as you know, in line with our strategic target
 - Demand for our fiber products remained strong and steady with another 700,000 additions this quarter with the majority again joining our retail platform
- TV net adds were 50,000 in Q4 bringing the full year total to 260,000
 - This was better than 2016, but as you know, we have high ambitions here

Fixed Products

- Turning to our fixed products on slide 23, our retail revenues fell a modest 0.6% year-on-year
- Within this category, broadband revenues grew only 0.6% this quarter
 - This reflects the impact of promotions we launched last year plus the incremental headwind from our hard migration
- The tariff mix for those customers coming off promotion is actually tracking ahead of plan, and so we expect the broadband revenues run rate to improve again in the upcoming quarters

GERMAN HOUSEHOLDS AND STREET FIBER NETWORK

- As mentioned, we now cover 71% of German households with our street fiber network. 69% of our access lines are already on IP, up from 53% one year ago
- To optimize the final leg of our industry-leading All-IP migration, we have slightly slowed our run rate and now expect to effectively complete the migration late 2019

T-Mobile US

IFRS SERVICE REVENUES AND EBITDA

- Moving on to our usual two slides on T-Mobile US, we have already presented very good results two weeks ago
- Now, in the U.S., we won 891,000 branded postpaid phone customers as many as the rest of the market combined
- IFRS service revenues grew 4.8%, while IFRS EBITDA fell 5.7%, mainly due to negative effects from inclement weather

U.S. Operations

BRANDED POSTPAID PHONE CHURN AND DEBT EXPENSES

- On the next slide, as usual, we show some selected performance metrics for our U.S. operations
- Our branded postpaid phone churn improved further and reached 1.18%
- Bad debt expenses reached a new record low, reflecting improved customer quality
- Our commercial results are underpinned by a strong network and recent Ookla and OpenSignal data confirms the clear T-Mobile LTE network leadership

COST OF SERVICE

- Excluding the impact from hurricanes, the cost of service would have been stable year-on-year despite low-band build-out costs
- By year-end 2017, T-Mobile US had already deployed 600 megahertz spectrum covering 300,000 square miles
- And they target having 100mm POPs clear and ready for deployment
 - In 2018, the company expects to spend an incremental €300mm to €400mm of OpEx on its low-band deployments, resulting in improved network performance and coverage
- Importantly, the equipment being deployed is 5G ready, and this would give T-Mobile a head start into the next-generation services

European Segment

NEW CONTRACT CUSTOMERS, INNOVATIVE PROPOSITIONS, REVENUES AND EBITDA

- So moving on to our European segment, this was another quarter of strong commercial momentum
- We added 364,000 new contract customers, 87,000 broadband customers, and 216,000 new converged homes
- In Poland, our turnaround is now well underway

- Based on innovative propositions, a significant expansion of our distribution footprint, and network leadership, in Q4, we delivered 124,000 postpaid net adds
- Our revenues in Europe was stable this quarter
- Our organic EBITDA was down only slightly year-on-year
 - Building on our successful commercial turnaround, we expect our European segment EBITDA to grow in 2018, and this will be a historical first

LTE Coverage

- The next chart shows that we have now migrated 68% of our homes in Europe to IP.
- Our LTE coverage now stands at 94% and our fiber coverage has grown to 32%

Systems Solutions

REVENUES AND EBITDA

- Moving on to Systems Solutions on slide 30, revenues and EBITDA both rose in Q4, the latter reflecting last year's negative one-offs
 - Nevertheless, we are expecting EBITDA to decline in 2018, driven by increasing All-IP migration costs and investments in new services, especially the IoT, the Internet of Things area

T-SYSTEMS AND ENTERPRISE TELCO BUSINESS

- T-Systems is a mixed bag
- The secular pressures from legacy IT depresses our order book as per our caution in Q3, but there's also some pockets of strength
- Our enterprise telco business is stable, while our cloud and security businesses are growing strongly
 - More on this at our Capital Markets Days again where our new board member, Adel Al-Saleh, will outline his plans for the business

GROUP DEVELOPMENT

- The next slide shows group development, which now comprises mainly T-Mobile Netherlands and our German towers
- We had another good quarter in the Netherlands with 77,000 contract net adds
 - This marked the 10th consecutive quarter of contract customer growth driven by a strong network and a strong commercial execution
- Adjusted for regulation, Dutch service revenues would've been almost stable

Tower Business

COSTS, EBITDA GROWTH, FCF AND NET INCOME

- In 2017, our tower business was impacted by transition costs after the carve-out of our German segment
- In 2018, we expect EBITDA growth for this unit
- Mainly driven by EBITDA growth, our FCF increased to €5.5B despite more than €1B additional capital spending
- Q4 growth in our adjusted net income was driven mainly by the U.S. tax reform benefits, as mentioned already earlier

FCF, ROCE, Net Debt-to-EBITDA and Dividend

- On net add reduction reflected the growth in FCF and mechanical deleveraging from the exercise of the T-Mobile US mandatory convertible in December
- Our ROCE increased to 5.8% exceeding our WACC.
- This means that on slide 33, our balance sheet ratios remained right down the fairway with a net debt-to-EBITDA down to 2.3, near the midpoint of our target range
- Despite paying €8B for spectrum in 2017, our net debt for the year only increased by €800mm
- Our balance sheet strength give us confidence in removing the scrip dividend option, as Tim has already mentioned in his speech

Strategy

- My final slide as always summarizes the strategy we presented to you at the 2015 Capital Markets Day then we finished 2017 with people, products and attitude in place to build our growth story on an ever greater number of pillars going forward
- More on this at our 2018 Capital Markets Day

Promises

- And before I hand over to the operator for the Q&As, let me finally say something about my decision not to extend my contract beyond the end of its term by the end of this year then
- You know that I'm always trying to stick to what I promised
- And one of my promises I've given myself and my family some time ago is that I will do exactly this, namely, leave DT after now 26 years of service to find time for new opportunities
- Nothing is lined up yet and this is the point
 - This is a personal decision, and as we can see in today's numbers and guidance, which I believe are very strong, I will leave a house that is in a very good shape

CLOSING REMARKS.....

- DT is a great company with strong well-invested assets and excellent team, management team, and lots of future growth potential
- I have known Christian, Christian Illek, my successor, for more than a decade
 - And I'm sure you will find that he is the perfect successor
- And we will be together until the end of the year to work on a smooth transition
- And I'm pretty sure I will see most of you on roadshows and conferences in the upcoming weeks and months
 - And of course for sure on the Capital Markets Day in May
- QUESTION AND ANSWER SECTION

Polo Tang
UBS Ltd.



I just have two questions. The first one is on German fixed line service revenues. They've now grown for two consecutive quarters after several years of decline. However, how optimistic are you that German fixed line service revenues can continue to grow going forward?

And my second question is really about the guidance in your annual report. So you state that you expect a strong increase in equity FCF for 2019 after €6.3B of equity FCF in 2018. So can you maybe talk bigger picture about the main moving parts that are driving equity FCF growth in 2018, but specifically, why you're expecting the strong increase in 2019? Thanks.

Timotheus Höttges

Chief Executive Officer

A

The first question is, yes, we are strongly convinced that the ARPU and the mobile service – sorry, the service revenues on fixed line is going to increase towards the upcoming quarters and years. Why do we think that? The first thing is, we have an unbelievable high amount of our investments in the infrastructure. By the end of this year, we will open up 15mm households up to 250 megabit per second, this year. So therefore, the upselling opportunity for us is really great.

The second thing is the promo s rolling over. So we had these promos at the beginning, now we're coming into the normal tenure of this contract and therefore we will see the ARPU and the revenue impact from that one as well. Thirdly, even B2B is growing in this area, so this is helping us on top of that as well. And last but not least, the new areas where we are building, vectoring and super vectoring are even areas where we are regaining or winning market share back from cable operators, so even here we see a positive momentum, which is helping us on the service revenues.

On top of that, I'd like to mention and it's not your question, but it's on top of that, we are growing on the wholesale side. So, reselling this network, which is a big part for our profit stream as well with the higher value added to 1&1 and Vodafone because it's not anymore only the ULL, it is now the full bit stream excess with a higher amount of contribution, which we gain in this area. So yes, we are very well convinced that this is moving on.

Thomas Dannenfeldt

Chief Financial Officer

A

I'm taking the second question. The answer is quite simple. You know we worked very hard to turn around the U.S. first, Germany second and Europe into growth in EBITDA. And as you've seen our guidance, conceptually it's quite simple. All of them creating or generating cash contribution growth in 2018, 2019 onwards. So that is basically the one key element of the answer. And second element of the answer is we do not expect any headwind than in the same period of time from CapEx, interest tax and special factors. You know special factor guidance I've given in 2015 Capital Markets Days was that there is a continuous slight decline potential for us because of the A structure, and so no relevant headwinds from this area. So to summarize, cash contribution, FCF growth from U.S. from DT ex-U.S., from Germany, from Europe, there is one missing part you know that is Systems part, as it's part of the DT ex-U.S. perspective, I think we are in a good shape there. So that is driving basically the growth.

Akhil Dattani

JPMorgan Securities Plc

Q

I've got two questions as well, if I may. Firstly, just on CapEx and there is two little parts to it. The first is, you've called out some investments that you're making into 2018 in towers, IoT and the toll road investments. I just wondered if you could comment on whether these are one-off or whether we think there is some ongoing spend as we go forward.

And the second bit related to that is, Tim, you mentioned the concerns the market has around CapEx and German fiber spend. I just wondered if you could comment on the rhetoric we've had from the coalition paper that came out a couple of weeks ago, what your interpretation is of that and just how we get a timeline going forward to get better clarity around CapEx?

And then the second question was related to comments that we've seen on Bloomberg just around your message on the Vodafone-Liberty deal, you've spoken out seemingly quite vocally as to why you think that deal should not be approved. Maybe we just elaborate on why that is? What are your key issues, what are your key concerns? Thanks a lot.

Thomas Dannenfeldt
Chief Financial Officer

A

. Akhil, I start on the CapEx and the numbers, and I think then Tim will kick-in in terms of the coalition negotiations and the potential Liberty or combination of deal. So first of all, I think today's news in terms of our CapEx is very good news. Basically, we're starting with a – we'll deliver in our or we have delivered in our guidance a spot-on guidance for the FCF vs. the market expectation consensus. While CapEx is a little bit higher, where is that little bit higher CapEx coming from, it's coming from basically two main areas. One is the tower business, second is T-Systems and in T-Systems again it's two parts. One is the road tolling stuff, and secondly is M2mm IoT.

I think the good news is, we deliver free cash while we invest a little bit more, we invest more into areas which are non-regulated, so that gives us a much better perspective looking forward in terms of returns. Is that all one-off or – nothing one-off, basically it's a mixture of one-offs and continuous, so the toll part will be more continuous, whereas for instance the toll element is one – has one-off characteristics.

Market concerns about CapEx, yeah, I'm aware about that. I think we've given a lot of insight today again. You've seen that the German CapEx remains in the vicinity, which we have already given to the market, the €4.2B, €4.3B vicinity. You know that there is a chunk of roughly €2B of CapEx today being spent for fiber to the street and IP which will be freed up during the course of the year 2019 when we'll finish that activity, then will can – and will be reinvested again for further improvement.

There is the total volume we've mentioned, so I think there is everything said. My guess is, it needs more detail and insight and the longer debate and we will take – and that will take place Capital Markets Day to convince the bears here that this is a fantastic plan and that is what will take place and happen then later on. So, Tim, maybe you comment a little bit on the coalition and the Liberty deal.

Timotheus Höttges
Chief Executive Officer

A

Parties in the government have agreed on the coalition deal and issued quite a long document, including several items relevant to our sector. I have heard that the word digitization is mentioned 227 times. So, you see Germany is in the digitization fever. That said, the first thing is, there's a fundamental shift for us relevant from current regulatory regime towards a model delivering incentives for private network investments, so that is a very clear statement and quite encouraging.

There's a statement that – on the deployment of a nationwide gigabit capable network until 2025 is tasked and there is a founding of an investment fund for rural fiber deployment financed by auction proceeds and other resources, and last but not least, the provision of new frequent licensees are coming with coverage obligations to close white spots and enable dynamic 5G deployment. So these are some major items out of these documents.

First, we welcome that the coalition agreed on ambitious goals for digitization and not only regarding infrastructure, but as well in important fields like public administration, health, universities, education and the like.

We secondly clearly appreciate that the coalition supports private fiber investments by fundamentally changing the current regulatory regime. Fiber will no longer be regulated as copper. That is a quote out of this. New rules for oil companies willing to invest must now be implemented by the regulator. In addition, we approve of measures taken by the coalition to provide networks with open access on commercial terms. So I think that is quite encouraging on the way going forward.

So, the second thing it is a technology-neutral wording. So we are not forced, just to go into every household with fiber-to-the-home or fiber to the building, but there is even fixed wireless excess to 5G allowed. So, a mix of technologies is drafted as the way forward. There is a significant subsidy program, which is included for industrial areas and school. Overall, the total amount of subsidies for the upcoming full year should be in the vicinity of €10B to €12B. This is huge, really huge, so today the industry is not able to invest this amount of money. Just two bottlenecks in the construction areas and other things but at least this is the amount of money, which is probably available from the government for the rural areas.

5G is playing an incremental role in the context of the coalition contract. There was a discussion about national roaming and maybe some misunderstandings, our interpretation or understanding from the national roaming idea is that it's not a must, but a can condition. So in areas where others want to roam with their partners they can do it. But it's not a must obligation on that one. And there will be a significant amount of spectrum, which should be made available for the industry to accelerate innovations in the environment.

So, there is a lot of encouraging elements into that one, especially the deregulation. There are some as well very ambitious statements as well into that one, which are unclear. So, the fundamental framework is driven, but we have now to understand better how it gets implemented.

Your second question was with regards to the Vodafone-Liberty and we have a lot of evidence that this thing might be happening soon. We hear about due diligence, which is already taking place here and therefore it seems to me that there is some excitement around that one.

Now, our position as Deutsche Telekom on that one, remind us that Deutsche Telekom was pushed to sell the former cable operators into three pieces into the market. We were not allowed to sell it in one piece at that point in time to Malone. We had to split it. And with this we were as in the history of telecom unable to realize big proceeds because of the dis-synergies of the split of this entity. But that was at that point in time the position of the antitrust authorities in Germany that they did not want to create a monopoly on TV market nor on cable access.

Now, this is I think still the situation. So what our position is and I'm very clear on that one, I think it's completely unacceptable. So I do not see that this kind of concentration in the cable market can be supported from regulatory bodies and the reason for that one are many fold. The first thing is the market concentration in the TV market. Look, I don't believe that Germany wants to go into the situation like Eastern European markets are, where TV markets are dominated by telco players and with automatically political power is with telecommunication operators.

And this concentration, the new combination would have a dominance in the TV market and therefore, I think for the media companies in Germany this is something they might complain about it as well as Deutsche Telekom will. The second thing is that, you are aware that almost a third of German homes is very difficult to access due to

the [Foreign Language] (46:32) the rental privilege, which is creating a monopoly for these households. And there were already remedies imposed when cable – when Unitymedia and Kabel Baden-Württemberg merged and this concentration in this housing association will even grow significantly throughout that merger. The third observation is that, having a cable asset across the entire country and an asymmetric regulation for Deutsche Telekom with the infrastructure of today, this must have been seen as an unfair treatment of one player as well. So there are a lot of other arguments, which are coming on top of that. So, I think there will be no way that this deal is going to be approved and for us it's completely unacceptable.

Robert Grindle

Deutsche Bank AG

Q

Two questions again. On the BT asset transfer to the pension fund, is that tax deductible, and if it is, do you guys get it or does it just made more money into the fund?

And then on the very strong broadband net adds in Germany in Q4, is that you guys being more active on keeping the customers who are being forced to migrated? And in Q1 so far have you seen any impact from the greater discounts from Vodafone? Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

I'm going to start on the BT question. There is no change on the tax side and nor is there any change on governance rights on EBITDA and FCF whatsoever. The only change is basically that with that move we reduce our pension deficit. As you know pension funding here in our case is voluntary, but still we always have a look at that and we reduce the deficit significantly. The rating agencies, I think, they will incorporate that in their perspective. And additionally, we will stop that yearly voluntary €250mm funding, but that's basically no changes on tax, EBITDA, FCF, whatsoever.

Timotheus Höttges

Chief Executive Officer

A

With regard to the second question and why is our Q4 so strong? Very simple as that. You know our target of 40% market share and net add market share as well. And therefore, you know there is a lot of pressure on our organization to achieve that. And when it comes to the situation, we were able to win a higher number of new customers in that respective quarter. The churn rate due to the new speeds which we are offering were kept stable and you know that they are very low. And on top of that we are reaching new households now more than 70%, 71% and this was even an opportunity for us to up-sell or to regain some customers from cable operators back into the operation.

The number by the way is, if you look to the gross add number is higher. If you exclude some headwind, which we are facing from All IP migration, so we have some incremental churns of a few ten thousands of customers due to All IP. If we would not have had the All IP migration, we would have been already at the 40% market share level.

Hannes Wittig

Head of Investor Relations

A

Just quickly adding on the BT's pension fund transfer, that is [indiscernible] (50:28) affected, it's neutral to FCF just to be clear and the funding payment is below the FCF line our current or previous voluntary pension payment.

Frederic Boulan

Bank of America Merrill Lynch

Q

Just a follow-up on the previous questions around CapEx. So following the statement from the coalition, what's your expectation right now on the fiber regulatory framework? Can you talk about deregulation, how is that consistent with what the EC is trying to do? And do you have already some signals, any positive reception on your willingness of no regulation on your JV with EWE for instance. And then secondly on the same page, if you could give us a bit more insights on the assumptions you've taken in the CapEx guidance of flat €4.2B in 2018 and 2019. From a fiber rollout perspective, from a 5G perspective, so any color on what's embedded in there would be welcome. Thank you very much.

Timotheus Höttges
Chief Executive Officer

A

But as always, look the answer is the following. We do not have, let's say, a final calculation on what that all means, because we have to understand what this €10B to €12B subsidies would mean for the rural areas. Interesting wise, what we have learned is that the subsidies are not only to fiber-to-the-home, they support everything which has to do with fiber, so we are only building fiber. So, even this money which we are spending today is able to be subsidized. So the moment where we enable a street cabinet with fiber, which we are doing by the way every three minutes today until the end of the year. This area is ready even for subsidization.

Now on top of that, what we are doing is the great coalition now that they know that it should be a mix of operators, carriers to build this gigabit infrastructure. So the next step for us is now to get the allowance and the approval for our corporation models, because they will be build out from our own, but there will be a lot of areas where we will partner. Today, we have EWE Tel the most prominent one, but only to give enough flavor, we are ready for 70 corporations across the German footprint, the moment we get the allowance from the political environment and the regulator.

Thomas Dannenfeldt
Chief Financial Officer

A

And the second part of your question Fred, this is Thomas, maybe again on the CapEx assumption and logic in between, as you know we are firing on all cylinders to get the Nahbereich roll out done, in this year and it will – that will happen into 2019 onwards as well with some delay caused by the EU regulatory authorities.

So that will take place in 2018-2019, the super vectoring switch to mention that 15mm homes with a minimum speed, guaranteed speed of 103 megabit and up to 250 megabits. The All IP is in there obviously first 5G investment, and which is very important also from this year onwards, a very strong development and deployment around business parks. We assume the demand is there because in B2B we see a really demand there. In 2018, we will be installing FTTH to direct link up some run 100 business parks, and in the upcoming years we want to cover – we'll cover 3,000 business parks with our build out initiatives.

And that – it equates a minimum of 80% of business locations within these parks with around 400,000 businesses and millions of workers, so that's all included in there. And as I mentioned, if you look at the 2018-2019 figures roughly, \$2B amount of deployment money will come to an end by finalizing the Nahbereich, finalizing All IP and that will then turn into the next level of improvement of the infrastructure.

Andrew Lee
Goldman Sachs International

Q

I had a question on overbuild and then just another question, apologies, on CapEx. On the overbuild risk, we've seen greater overbuild in a number of markets recently, including in the UK. Do you think the economics of network rollout are evolving in Germany or more broadly to raise the overbuild risk in B2C in Germany?

And then just secondly some further clarity on CapEx creep uncertainty, which should obviously hurt the share price performance today. Can we take your mid-term B2C fixed investment plans will not be a material departure from current spending levels given you are not announcing anything new now and obviously you want to tell us if you're planning a big change in spending? Thank you.

Timotheus Höttges

Chief Executive Officer

A

Trying to answer – that's the first thing is I know some of you might be concerned about the CapEx envelope and what we are doing. But if you look hindsight and looking back, what we are doing is we are investing very efficiently into more bandwidth for our customers and at the same time we do that by creating a high utilization of this new infrastructure. And that is the reason that you see that the investments we are doing are resonating in a very good growth rate, which we see on the broadband side, so that is what we do.

On top of that, we are open for reselling as we have always been. So there is a wholesale model, which is supporting our contribution to margin at the same time. So – and this is something which we have been moving on in our infrastructure build-out. So I think this is well invested money and it's paying off already today.

Now, with regard to this current situation, we have said we have vectoring as the main prime area to cover almost everybody in Germany. Now, that is our way for 2018 and in part even for 2019, and then we will have a share of 85% to 90% of this vectoring and super-vectoring technologies in our footprint.

Now, automatically with this, in some areas, there might be alternative fiber-to-the-home infrastructures from smaller places. This is a coincidence which is happening. Now, what can we do about that one? On the one side, we can compete. On the other side, we can build a kind of a sharing model with these guys so that we cooperate and that customers who are asking for a higher bandwidth that they can get it already on our partner's infrastructure, while, if they are staying with 50-megabit, 100-megabit or 200-megabit, they keep, let's say, the original footprint, which we currently have.

On top of that, we are developing areas now where we are not deploying the original plan, where we find partners, with EWE Tel, we are building fiber-to-the-home in one area in Germany alone. In Mecklenburg-Vorpommern, we get subsidization and good economics on fiber-to-the-home build-out. Therefore, we are not building vectoring of this area, so immediately go to fiber-to-the-home deployment. We have business areas where we have decided to go there, but only if 40% of the business owners are supporting to the fiber deployment. Otherwise, we will spend the money else. So, I think we have a very clear cockpit of investments and utilization and refinancing the growth of our operations by revenue.

Thomas Dannenfeldt

Chief Financial Officer

A

And a final sentence on the magic number, as you see in our prognosis we've published today, you should also expect the magic €4.2B number we've seen for or we've guided for 2018 also in 2019, that's what it's saying, stable development over what we are guiding in 2018 here.

Ulrich Rathe

Jefferies International Ltd.

Q

And my first question is on FCF and sort of the pension situation there. I think you have said in the press conference that the transfer of the BT stake would essentially fund 60% of the pension liabilities, and I think the

target for the CTA was sort of 50%, so you are essentially there. Does this then mean that the CTA will actually start to pay pensioners in scale any time soon? And if yes, is that not a support to FCF because obviously those payments wouldn't go for FCF anymore because the CTA is sort of outside of it? So I'm just wondering what the scale of these payments of pensioners from the CTA would be now that it's fully funded post-BT? That's my first question.

Second question is a bit of a clarification only on this super vectoring of 15mm homes up to 250 megabits, minimum guaranteed 103 megabit per second. Can you give us some indication what percentage of the households you think can actually get 250 megabit per second and to what extent that is a scalable infrastructure? I supposed the 15mm other ones where it works best, i.e., for those shortest loop lengths, how does super vectoring look in a German context at large? Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

I'm going to start with the FCF question. First of all, as I said, it's all FCF neutral as the – first of all, to bring it into CTA. And secondly, there is a headwind and a tailwind related to that. You mentioned here the tailwind that there is – start to pay already pension out of the CTA, that's what will happen, as a matter of fact. On the other hand, we will not have to divvy any more from the BT and that's more or less a wash. So it's basically a neutral activity, looking at the FCF, it's not, again, looking at the pension deficit or the rating side. But from a FCF perspective, it's a wash.

Timotheus Höttges

Chief Executive Officer

A

With regard to the super vectoring, what we have said is, if we talk about super vectoring, we guarantee customers more than 103 megabit per second. So I think that is clear, it's not like cable where you don't get a guaranteed speed depending on how many customers are on that infrastructure, we are guaranteed at least 100 megabit up to 250 megabit. Now, the number by the question is what time you are talking about, but by the end of this year, 250 megabit, more than 50% of the households will have this maximum speed of 250 megabit.

Sam McHugh

Exane BNP Paribas

Q

Two questions, please. It feels like every night I check my phone and I have a new alert saying you've bought back more TMUS stock. I'd wonder if you could just tell me how much you bought cumulatively in the last month or two, and how much you're willing to buy and a bit more about the thought process behind that. And then secondly kind of T-Systems, as ever, is a bit of a black box, what gives you the confidence that you can kind of stabilize around \$400mm EBITDA next year given we just have the big write-down and downgrade to estimates last quarter? Thanks very much.

Thomas Dannenfeldt

Chief Financial Officer

A

First of all, I'm going to start on the buyback, when Braxton and John announced the share buyback from the T-Mobile US point of view, he also mentioned that, yes, DT will also join that activity with the several hundreds of millions. I think we are in the vicinity of around €100mm so far, what we've seen, and as guided or as announced, that will be the vicinity of a few hundred million. And then after a slot we are using right now, when DT, so to say, will stop again, I think then T-Mobile US guys will kicking in again and do the tranche, which is still missing to go and move up to the €1.5B.

Is there anything I missed, Hannes, from your point of view?

Hannes Wittig
Head of Investor Relations

A

The thinking behind why we are doing it, why we are doing it.

Thomas Dannenfeldt
Chief Financial Officer

A

It was basically, remember, it was the time when the – basically, it became clear that there will be no deal with Sprint and we feel and we still believe that the share of – the current share price of T-Mobile US is significantly undervalued, that's number one. And I think that is the rationale why T-Mobile US started to do so and why we're doing it.

And obviously, the second element is we moved ourselves into the position we wanted to do is there is something to distribute. There is – think about 2013 and 2012, 2013, 2014, there was no cash to be distributed. Now, at T-Mobile US, there is cash to be distributed and we feel it's an appropriate way, especially as the stock is undervalued to use that this way.

Timotheus Höttges
Chief Executive Officer

A

Now, what gives me, let's say, confidence that we can stabilize T-Systems and even grow the EBITDA in 2019 and forward, now, look, the situation at T-Systems isn't easy. So, we have to work on that one, but it is not as bloody as sometimes mentioned.

Now, why is that the case? The first thing is, we have three divisions. The first division is the telecommunication service area where we very early compared to Orange or even BT, moved into an IP service, which we call ngena, you know that, which is now launched. We have the first customers which we are testing on this platform, which is enabling us to implement SD-WAN services and substituting expenses and pay less.

Now, this is one thing where I see already a good track record. And on top of that, what I'm seeing is that this business is not shrinking, compared to other telcos, our business is flattish in this area. So, therefore with the new product and with the current situation, we are doing well despite the fact that we are facing negative effects in this area from All IP and from a deal in 2017, which is now cleaned up.

The second thing is the area of growth. We have areas of growth, we have cloud where we grow with 12%, where we believe we can grow beyond that number because the market is growing faster on that one. And we have the IoT business, which is currently an investment case with the negative profitability because we have upfront investments to support new platforms, new services like machine-to-machine service or IoT solutions.

The last thing is the T-Sec area in this division is already a showcase of success and it's growing very nicely. So, therefore, we do not see any reason why this very relevant topic of cyber security should slow down within the upcoming future. Now, the area of concern which we have is the IT outsourcing part and the IT part. But even in this IT part and I do not want to go into every detail on our hosted SAP service where we are a market leader. But in these areas, we have to do restructuring work.

We have a new manager on it in this division and we have a new board member, Adel Al-Saleh, who are now very intensively working on restructuring of this entity. They are in deep discussions with the unions. We have the idea of even splitting up pieces of this company into a more market focused entity.

These discussions are ongoing, but with this we could even improve the way of becoming more agile, more closer to the customer. So, therefore, there is some evidence for us and some confidence that we turn it around and improve the situation. And that is the task of what Adel is working on. And at the Capital Markets Day, you could [ph] see it from the farthest mouth (68:31) on every single item how he planning to do so.

Q

I have two. The first one is around the balance sheet and the leverage level. Over the last few months you announced a couple of acquisitions, you raised the dividend distribution in a couple of your subsidiaries, you're building up stake at TMUS and you've moved to a completely cash dividend. I was just wondering whether all these moves towards a higher level of leverage are going to be offset by other actions like disposals and whether you could also update us a bit on what you expect to see in terms of major spectrum payments in the next couple of years.

And then my second question is on regulation in Europe. I was wondering if you can share some thoughts ahead of the communications code, anything that may have changed recently from your discussions. And maybe if you could also update us a bit around the zero rating issues you had in a couple of your markets and whether there is a bit more understanding as we move into the next phase of investment. Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

. Maybe first of all on the first element of the question, I think after the €8B in the U.S. in terms of the spectrum auction by the way several more billion prior to that in 2016 and 2015 on 700 megahertz spectrum and some AWS spectrum, I think we are by the end of the year and including some of the topics at least most of them you mentioned, we are at the end of 2017, we see a 2.3 times leverage ratio here. And so we are right where we wanted to be, number one.

Number two is, what is the thought process looking forward? Thought process looking forward is quite simple. There is growth in the U.S., there is growth in Germany, there is growth in Europe on the EBITDA side and that will give us room to maneuver and help us to keep the leverage ratio where it should be, that's number two part. I think on spectrum per se, I'm always not commanding and speculating on that one, that's very clear. I think what I can say is that obviously there is some 5G spectrum coming up. For instance, there will be a mixture of 3G and 5G spectrum auction coming up this year in Germany. I think on the other hand, it's also clear that as you can see in the – what [indiscernible] (71:24) and the U.S. team for instance is doing on LAA, that there is optionality to use unlicensed spectrum. So I think there is a need for additional spectrum looking forward, but there is – in the licensed and unlicensed area spectrum available, the key question will be much how it's been made available, but no big concerns in terms of the balance sheet. Tim, maybe anything to add from your side or fine?

Timotheus Höttges

Chief Executive Officer

A

The only thing which I'd like to add, on Germany, on Europe is that the sentiment for auctioning and making spectrum available is given. For 5G in Germany, we go into the auction of 3.x spectrum. So I think a 300 megahertz and 400 megahertz, which is coming to the market. So this is something we expect to come. If we can

get more spectrum beyond 6 gigahertz and 26 gigahertz and the U.S. kind of stuff, I mentioned that we are interested on doing so. So this is coming and what I can tell you the political leaders understand very well that they cannot just let the industry suffer from huge spectrum spendings and at the same time expecting that we are building out the infrastructure. So I think it will be a balanced and what you see in the coalition contract already today is that they will consider a build out in the countryside as a tradeoff against higher prices of spectrum. So, this is something which I find encouraging.

Ottavio Adorisio

Société Générale SA (UK)

Q

I have a couple of questions and a follow-up from previous queries. The first one is on the Liberty-Vodafone. If a deal takes place, it will be a follow-up from another deal we had three or four actually more years ago. It's a bigger scale but you will have the same hurdles that Tim has explained earlier. And if you go through the same process, it's very likely the ball will come back to you. Last time around, you had the ability to stop that deal, but you preferred to settle. Now, if that process will kick off and the ball will come back to you, would you do the same or this time you will actually try to stop the entire merger.

The second one is on the Systems Solutions. I'm sure that on the CMD there will be a lot of on the plans and also you give us a bit of a flavor about what you plan to do. But the question is very straightforward. As a DTE, you price that any business that's not earning it's right returns, you prepare to actually be kingmakers and potentially to sell. Now, Systems Solutions you've got a lot of granularity. You are in a number of different businesses, you're grouped in three main pillars earlier. So the question is, do you really need to be in all these segments, and if not, which are the segments that it could be trade off, and which are the segments that you believe are core for the growth and for also to support the other business segments? Thank you.

Timotheus Höttges

Chief Executive Officer

A

I've said it everything already in my statement, I'd find this deal totally unacceptable. I do not see any kind of solution ground for the political authorities nor from a commercial perspective for the other place in our industry. And therefore my position on this situation is very, very clear.

Thomas Dannenfeldt

Chief Financial Officer

A

On the second part on T-Systems just for clarification. First of all, basically there are three boxes, area, segments however you call them you – we should look at; one is telco business, two is the digital business, three is, as Tim mentioned, the IT, mainly IT outsourcing part.

The number one is doing good and it's by far not in that area of cash burn, that's very clear and it's very core, that's international telco business. And we are doing well there, noticing that there are some headwinds in terms of All IP but still doing good there and no reason to assume something different also on the mid-term.

And as Tim mentioned, we've been very active also in innovating fast with concepts like ngena. So the second box is negative, but it's negative by our strategic decision, that's the digital box, there you find the IoT, the M2mm stuff, you find the cloud stuff, you find all those areas where you invest first and then later on you see the results.

And so that is not a matter of an issue in the portfolio but much more kind of normal pattern you see in areas where you want to invest for the future. And as Tim mentioned, I don't want to repeat that, you've seen the cloud growth, you seen T-Sec and so on.

So number one box, not a discussion topic here, number two box, not a discussion topic here as well. Number three box is one. And you heard us saying three years ago, two years ago, we are not willing to consider a sale of that IT outsourcing part of the business. We have changed that perspective. We clearly said, it's one of the optionalities. It is not clearly stating here, it's not saying that this will be the option – the route forward, but it's an optionality for us and we are not ruling it out anymore. So, yes, if a combination or a sale is the best way looking forward and that's what Adel and the team is working right now on, what's the best way forward, what's the best ownership, we are open to that.

Hannes Wittig

Head of Investor Relations

A

So his first question is, whether in the FCF guidance that we have given includes a benefit of lower pension top-up?

So the answer is no. As previously stated, the pension top-ups were always below the FCF line as defined by us.

Secondly, at the German spectrum auction, the timing or any restricts or issues that DTE is worried about.

I think the timing is still not defined, but we expect clarity on the auction rules by mid-year, but you know of course more complex process of German government formation may have an impact.

The concern generically we would have is that any refurbished obligations would be imposed because we don't see a reason for this in the coalition agreement is not recommending these. So it's supportive, but ultimately it's a decision of the German regulator. And then finally, Unitymedia...

Q

[indiscernible] (78:43)

Hannes Wittig

Head of Investor Relations

A

So late this year then probably and possibly delay slightly into early next year. But that's what we are currently thinking, but it's not our decision. And then third, Unitymedia lost a MDU client, is that anything to do with us, I guess is the question.

So I think we have said earlier that you know the German cable industry has a stranglehold over the housing association market and we are not happy about that. That notwithstanding, you know that we have been trying to break into the stranglehold and this is something that we continue to do. So next question from Justin at Credit Suisse.

Justin Funnell

Credit Suisse Securities (Europe) Ltd.

Q

The German EBITDA guidance 2018 of \$8.6B, it's around 1.5% EBITDA growth, you've exited 2017 at about 4.5%. So just wondering, if you'd be willing to describe that 2018 guidance as conservative or beatable, or is there something coming up on the cost side that would essentially slow down EBITDA growth rates.

In terms of spectrum, do you think the German government is going to ask operators, the bidders to pay upfront, most of these licenses actually will be starting in the next decade? So would you be paying for it three to five years from now, do you think you'll have to pay upfront to fund all these fiber subsidies. And then finally on the [indiscernible] (80:26) deal, I guess there's some encouraging signs on the regulation. Just wondering how the wholesale deal is going to work there, will you have control over the wholesale offer or will [indiscernible] (80:39) having their own wholesale offer to the market as well. Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

So first of all, Justin, still struggling with the last question, but will come back to that later. First of all, the first question on the German EBITDA and I'd like to do two things here to be clear about German EBITDA and then DTE ex-U.S. EBITDA because I know there is always some talk about what's going on with the GHS thing. So it's easier to cover DTE ex-U.S. then it's all in, there is no way to look differently. So, Germany will grow from 8.4% to 8.6%, that's what we clearly said and guided. And then in meantime and in parallel DTE ex-U.S. will grow from 12.9% to 13.2%.

So basically what we have said is last year from 16% to 17%, a slight like-for-like increase at DTE ex-U.S., we moved from like-for-like 12.8% to 12.9%, if you'll remove, from 12.9% to 13.2% including GHS, DTE, T-Systems and Germany, of which Germany will be the 8.4% to 8.6%. And I don't think there is any cost issue related for that, it's simply we go for the €200mm and make that happen.

Timotheus Höttges
Chief Executive Officer

A

Second question. The regulator will definitely ask for an advance payment for licensees. He will not give that for free as always, you know, so they will probably organize some kind of auction for the market. And we are still working on the case that they might distribute it among the three players in the industry. But I do not know what – that is nothing which is mentioned in the coalition contract. The idea is that part of this money is going directly back into the subsidization for the rural built out. So that is, let's say, their plan, but there are no numbers nothing else mentioned on that one. And you know the situation of Germany, there is sufficient funding opportunities from the government given over the next years. So reading the text and understanding that they are looking for a build out even for 5G in the rural areas is more important than the proceeds. I would guess that the funding or let's say the money, which is going into this auction would not be as high as primary auctions, but this is much too early to say because we do not know the auction design yet.

Timotheus Höttges
Chief Executive Officer

A

How will wholesale deal work? Honestly, I was a little bit struggling on understanding the question.

Hannes Wittig
Head of Investor Relations

A

Maybe, we can get the questions from Justin once more or maybe if that doesn't – if not possible then Justin please contact us and we'll take it offline.

Timotheus Höttges
Chief Executive Officer

A

Maybe he was referring to the speculation that there will be a wholesale obligation for the new spectrum. Look, I think we as an industry and I'm talking for my partners here in Germany who are building infrastructure as well, this would be a mistake. Why should an industry on the one side pay for spectrum?

Second then, building a very – build a big infrastructure across the country maybe even considering building out the rurals there, and at the same time giving this infrastructure to a third-party who's not participating in the build-out cost and just getting at variable levels, this would be counterintuitive, not only for us as investors or as managers, but as well for the goal core for the great coalition. So that's not something that – I expect that this is getting imposed on us. So, therefore, this would be counterproductive for the 5G build out and the industry is jointly aligned on this subject.

Usman Ghazi

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

I've got two, please. The first one was on slide 21, it just shows the average consumer data usage kind of slowing down from 80% to 60% to 50% to 38%. And I'm wondering whether that has anything to do with kind of a slower intake of LTE customers as we've seen with Telefónica, Deutschland. And if so, then what is actually going on in the German market here? That was the first question.

The next question was just on digitization. Tim, I think you mentioned in the press at one of the conferences that you felt Deutsche Telekom was lagging behind companies like KPN and Telenor. I'm sure we'll hear more of this at the CMD, but if you can elaborate on what you actually meant? Thank you.

Timotheus Höttges

Chief Executive Officer

A

Look, the first question on the average consumer data usage, my understanding that this is a percentage development. If you look to the absolute numbers, the growth for us is very well intact. So therefore, I would not focus too much on this percentage than rather on the absolute number. The second question is on the digitization and what I mentioned on that one, there is a famous Goldman Sachs study about the digitization of our industry and how digital telcos are and there was the benefit of digitization within the companies and there was the implementation and the status of digitization being mentioned. In this kind of presentation, Deutsche Telekom wasn't presented let's say in the upper right box. So we were – let's say at least mentioned that there's some challenges left to more automatize our entities.

Now, looking into the operation, I would say, we were maybe a little bit bad in the way of selling it because, I know that some of our competitors are talking about how many bots they are using. We have counted them now and we came up to 1,300 bots for Germany alone. When it comes to the All IP migration, this is a big digitization project and BT just started with this. We have 70% of our businesses already on All IP. But nevertheless, I think, it should be our focus going forward and that is definitely a task for Srinji Gopalan and for [indiscernible] (88:07) to enable customer interactions but as well the internal process with modern tools and the best ways of doing it. And I do not want to push all the buzzwords on you like using data lakes and artificial intelligence, automatizing the internal processes. And this kind of stuff, but this is definitely something I think as a challenge to increase customer satisfaction at the same time, efficiency and productivity within the organization, and therefore there is a bigger focus on that one.

Thomas Dannenfeldt

Chief Financial Officer

A

Maybe I can add some more flavor on that because I think the key message is quite simple. It's a huge opportunity and it's a key priority for us and that means it's not – and that means we are not only focused on the front end, meaning the customer interface, but also the back end of our business, which is sometimes underestimated to digitize the back end as well.

I think what we're seeing, to give you some numbers and I think in the Capital Markets Day we'll talk you more intensively through, is basically on the front end. For instance, we've seen more than 11mm visits in our Magenta service app with an increase of 27% year-on-year. So you see at the front end that this is I think it's an industry phenomena. You see it's improving significantly and obviously there's an upside to that.

We've been very early in the Austrian NatCo on introducing web-based chatbots, well, the name is Tinka there. Our German sales online ratio including congstar is around 20%, a little bit up of that. Tim mentioned the 1,300 robots only at the customer front-end on the German side. But what is important to us as well is make sure that the way we work in the company does change. So we have, for instance, initiatives running like create your own bot where we train people really to create their own bot. And it's interesting to see how engaged people are to get that done and learn that and use that.

So I think that we are very active, we're excited about the potential. And let's be honest, we are just at the beginning to leverage that potential. And so, as I said, we will talk you through in much more detail within the course of the next month and then in Capital Market Days.

Steve Malcolm

Arete Research Services LLP

Q

First of all, I want to come back to the Unity-Vodafone situation and you have very forthright comments on that, Tim. I mean, logic would suggest that it's an EC deal, and following the logic of recent EC approvals that it would get approved based on what we see with similar cable to cable and cable mobile deals. So, do you dispute that? Do you think it would be over cede in Germany? And if so, why? And if it's an European deal, do you think all the precedents in Germany are as relevant as you may go?

And then just coming back briefly to German CapEx, you've talked about the new subsidy envelope, I mean, at present, I think there's about €5B of subsidy available in Germany, but it sounds like very little had been allocated because it's so difficult to access that subsidy. Can you comment on how much you've actually been able to get access to so far and how much you think you can get over the next couple of years?

And then just coming back to the comments you made in the tower rollout in Germany, you said that you would sort of wholesale where it made sense. Can you sort of just give us some color on how the relationship between T-Mobile and the towers business works and whether they have kind of right of first refusal and are able to secure the best sites before their competitors can come in and wholesale access on those towers as well? Thanks a lot.

Timotheus Höttges

Chief Executive Officer

A

Look, I do not know who is, at the end of the day, deciding on the deal. That is something you have to question the Liberty and Vodafone guys. It might be that this deal is getting approved in Europe, but even Europe has to reconcile then their decisions with the German authorities and the cartel office. And so there is an interaction between that.

Second, we haven't seen a case where media dominance has been regulated most of the business we have seen where fixed mobile convergence, so in this case, we have even a media discussion. And on top of that, we have

this specific situation of Germany of the monopoly in the housing associations of the cable operators, which is something unique, and the same is true for the abolition of the [indiscernible] (92:52) needed to create a fair competition in this one.

So, as I said, I cannot imagine a reasonable amount of remedies which might be imposed for this. For me, this is definitely the opposite of a no brainer. It's completely an unacceptable and, therefore, independent, who has to decide on this subject, he cannot ignore the facts of creating a monopoly in different markets.

With regard to the German CapEx, guys, look, I know that this is a concern of you guys. I do not really understand why and I would do my utmost best in the next weeks to convince you why this is the best thing we can do. Now, in the areas where we get subsidization in the rural areas, it is very difficult to say because it depends on competition, if there are two players who are interested to invest into an area, the subsidization is probably lower. If there's only one, like us, investing to that one, sometimes the subsidization is 70%, 80% or beyond. And we're just coming from the authorities on that one.

I can tell you, we will only enter into cooperation models based on subsidization when the pay-off ratio is quite reasonable on infrastructure, but there is no kind of thumb rule, which I could easily [ph] solve (94:31). But, Thomas, maybe you can help me on that one.

Thomas Dannenfeldt
Chief Financial Officer

A

Maybe just to add on what you said, the ratio as far as we know what we win vs. what we lose in the whole subsidization game, which is not a new game, it's nothing new. It's just another tranche, which has been discussed. So for those which has been – have taken place already, we are winning roughly two-thirds of that. That's the magnitude.

Tim is right, we've seen now areas where really there is subsidization out to connect some homes with FTTH at the cost of roughly €40,000 for – per home of which we pay €1,000 or €1,500, and the rest is subsidized, which is giving you a kind of insight on some ways of subsidization, which are potentially not reasonable.

But anyway, whatever takes place there, roughly two-third is the magnitude. We're winning there. We've – and been part in more than thousand funding programs during the last 12 months in total and more than 500,000 homes being covered with that. So that's kind of, from our point of view, running activity since several years already. And as long as we are in that vicinity of two-thirds, we feel okay.

And then on the T-Mobile and tower business, I guess, the question is how to strike the right balance between having a proper and well-up setup in running tower business, multi-tenant approach, on the one hand, and not giving up the crucial sites, which make a difference in the network potentially. On the other hand, we believe that's doable. We – our approach is kind of blacklisting thing. There are some sites and it's a smaller – in terms of percentage points, a smaller percentage points which really make the difference and the vast majority is not making a difference. So the balance we are trying to strike here is quite simple, exclude the few ones which make a difference, don't share that and share the big, big majority of those you can share, and that's basically the way we deal with that.

Hannes Wittig
Head of Investor Relations

A

Network leadership is a lot more than towers, but a part of it. And last but not least, we close the questions with Mandeep, if we can have your question, please.

Mandeep Singh

Redburn (Europe) Ltd.



I remember maybe three months, six months, a year ago maybe 90% of the questions you got were exciting ones about U.S. M&A and upside potential. And I was worried about the downside risks from German fiber, so maybe just give us your perspective on U.S. M&A prospects, willingness to partnership in fixed-to-mobile convergence, could a Sprint deal come back, just sort of let's finish on a positive tone?

Timotheus Höttges

Chief Executive Officer



The first thing is, in the U.S., we still clearly believe in the benefits of consolidation. And we were and we are always open for any sensible transactions creating value for our shareholders in the United States or elsewhere, by the way. But we – as you know, we agreed to end our merger discussion with Sprint in November.

And so, therefore, going forward, look, I don't know what's happening, but we keep awake, we keep open, we are listening, and we are talking to the industry. But independent from our curiosity and, let's say, even the willingness to create value, we have a very strong organic growth path, opening up from 230mm POPs coverage to 330mm now, this amount of customers which we can gain in this new areas. And we are just in the middle of implementing our 600 megahertz spectrum.

So these are huge opportunities for additional organic growth, which is creating value. That is by the way why we are not selling stocks, that is why we are believing to the share buyback program of this entity. We are strongly convinced about the value on a standalone basis of this company signaling ahead of what we see today. So I cannot report anything new on that front, but we keep our eyes and ears open on this note as well.

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