Q1 2019 Earnings Call

Company Participants

- Hannes Wittig, 'Head of IR'
- Timotheus Hottges, 'Chairman of Management Board & CEO'
- Christian P Illek, 'CFO & Member of Management Board'
- Unidentified Speaker, "

Other Participants

- Mathieu Robilliard
- Polo Tang
- Ulrich Rathe
- Analyst
- Jakob Bluestone
- Ottavio Adorisio
- Frederic Boulan
- Emmet Kelly

Presentation

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 Wittig, 'Head of IR'

Yes.

Good afternoon, everyone, and welcome to our Q1 2019 conference call. With me today are our CEO, Timotheus; and our CFO, Christian Illek. Tim will as usual first go through a few highlights, followed by Christian, who will talk about the quarter’s financial in more detail, 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 Hottges, 'Chairman of Management Board & CEO'

Thank you, Hannes. Good afternoon. Good morning, everybody from Germany.

All is good on German frontier. Quarter was strong, and we are quite happy. Another good start into the year on both sides of the Atlantic, all operating segments contributed to our 8% growth in EBITDA after leases, the new KPI’s so-called EBITDA AL. Our organic sales are up 3.5%.

Our organic EBITDA AL grew by 3.9%. And our ex. US EBITDA AL is up 2.1% year-on-year. Our free cash flow is up 9.6% like-for-like and adjusted earnings are stable year-on-year.
CapEx in the US was front loaded as per guidance and while ex. US CapEx was stable as promised. We are well on track for our 2019 guidance on every key metric. And equity line by line, quarter by quarter, we are delivering against the long-term growth guidance we gave at our 2018 Capital Markets Day one year ago.

So I can stop now, but I will dive a little bit more into the topic. So let me continue with Slide 5. The foundation of our strong growth is our consistent investment into the network. And in Germany, I think it's very important to know that we already passed the 20 million homes with Super-Vectoring enabling speeds of up to 250 megabits per second and we are well on track for our 28 million target by year and 2019.

2019, we will complete our German FTTC deployment and redirect resources to step up to our FTTH investments in line with the plants we have outlined at the Capital Markets Day. We continued to extend our LTE coverage from its already high level. Here we clearly lead the industry. In Germany, we added 1,300 new sites in the last 12 months. In 2019, will ramp up another 1,800 new sites. This is on track for our stated plans to increase our sites for '20 by one-third by 2021. Interest ones, we have put a new online webpage public today. At DFMG you can find it, where you can see almost thousand mobile sites in Germany, which are in a long approval process from governmental or owners or whatever you are, so that shows exactly where we are willing to immediately improve our coverage to close white spots or even areas where we have dropped calls.

So we are now even pushing the public environment and make it full transparent how to further increase our great footprint. We made further significant progress with our IP migration, reaching 90% of lines at the end of Q1. So we are well on track to finish the German B2C migration this year. The German B2B migration will go into next year a bit, so that we are already ready by the end of this year.

As mentioned previously, the IP migration not only involves significant extra cost but also weighs on our fixed line KPIs. But the end is now clearly inside, and cost savings will start to kick in already next year. Let me also quickly address here the two big elephants in the room, the German auction and Christian Illek -- no, sorry, the German auction and the planned US merger. The German auction has not been underway for eight weeks, and we have previously made it clear that we are not happy with the auction rules, which is why we challenged them in court. By the way, the German auction is not the only one for us. In the US, we have been participating in the recent 28 gigahertz auction as well as the ongoing 24 gigahertz auction. We expect the FCC to reveal the results for both in the coming weeks, and of course we cannot comment here either. When it comes to the planned T-Mobile and Sprint merger that we announced almost exactly one year ago, again unfortunately there's a little we can or should say at that point in time.

We are working with the relevant authorities and it would be wrong to provide a running commentary on these conversations. In terms of process, here are a few milestones since our last earnings calls. On March 6, we made a filing with the FCC laying out at our plans to bring competition to the home broadband market. On April 4, the FCC resumed its short clock.

Without further stoppages, this would take us to the 3rd of June, so we still expect a decision by the federal agency in first half 2019. Some of the remaining state approval, most notably California, could extend the regulatory approval process into second half of the year. As before, we remain optimistic that the relevant authorities will appreciate the significant benefits of these transactions for US consumers. Next is our usual slide Page 6, where we show some of our initiatives to improve customer experience on top of our network leadership.

Our German stream on product already has over 2 million customers. We are working to leverage digitization towards a better customer experience. For instance, the penetration of our new European mobile app has quickly grown to
almost 40%, and we are working to further extend its goal and benefits. We continue to see meaningful improvements in our German customer service parameters.

Complains, waiting times are down year-on-year. Functionally and first-time resolution rate are up. But we won't stop here. We dominated the recent customer satisfaction survey by the Connect magazine winning in every single category.

So, just to mention that, I was reading that the morning and we won the service, we won the network, we won the network in Germany, we won it in fixed land, we won it in mobile, we won it in Austria, we won it to Netherlands, whatever Connect was testing, it was Deutsche Telekom. Only Switzerland, something went wrong, guys. I don't know what went wrong. I asked my people what the heck is going on in Switzerland.

So, after the successful auction in Austria, we launched Jio's first commercial 5G network. We also launched our first 5G campus network with OSRAM. Another key to strategic pillar for us is growth in B2B. Again, this quarter we outperformed and achieved revenue growth both in Europe and in Germany, even despite the drag from the IP migration. In Europe, we grew 3% year-on-year, in Germany 1.3%.

Let me also mention here two important announcement regarding our environmental sustainability. First, we shift to 100% renewable energy already by 2021. Second, we decided to cut our carbon dioxide emissions by 90% by 2030. There is much more on the web page, but even you known on my LinkedIn stream where I'm talking about sustainability and the way going forward.

Please have a discussion there as well with me. Moving on to Slide 7. Our momentum with customers remains very strong. Almost 13 million German homes are already subscribed to our fiber products, 2.5 million more than the year ago.

In Germany, and in our European markets, we added 2 million converged customers in the last 12 months. We added 3.3 million mobile contract customers, of which EUR1.8 million organically. T-Mobile continues to grow strongly and raised its guidance for 2019 branded postpaid net adds towards a new range of EUR 3.1 million to EUR 3.7 million, another 300,000 more. On slide 8, we reproduce and reiterate our 2019 guidance.

And as you know, our 2019 EBITDA and free cash flow guidance is based on the after lease, or shorten AL, logic. And as we saw our guidance, it's provided based on last year's average exchange rate. In the appendix of this presentation you can also find the headline Pro Forma Segment Financials and the guidance for each of the segments, all unchanged this quarter. With this, I hand over to Christian AL, who will take you for this quarter's financial in greater details.
showing Germany, what you see is that the headline sales was up by 0.6% and that is very much driven by total service revenue growth of 1%. The EBITDA is up by two 2.4% this quarter, which is very consistent with our guidance for '19 and also with our guidance for the whole Capital Market Day. On page number 12, we see the service revenue growth -- and let me draw your attention first to the total service revenue growth, so you see that the decline which we have faced over the previous quarters has now been reversed and we're seeing 1% growth.

Obviously, it's very much supported by a strong service revenue growth in mobile, but also by better wholesale revenues. Lastly, to the IP migration headwinds, the fix retail number, has declined 0.8% we see that on a later chart. But is also very in line with the recent quarters. As I said, wholesale revenues were better.

They grew by 1.6%. And the mobile service revenue grew by 2.8% year-over-year. And you may remember that we explained during the last quarter that we have some phasing issues with the visitor revenues, and you see now that the trend has been reversed and that we're seeing almost 3% growth. When it comes to our mid-term guidance, no changes here.

We're comfortable with our 2% revenue CAGR for the service revenue in mobile. And so there's no change from that one. Page number 13, you see the mobile performance on the left hand side of the chart, the numbers which you seen, they're all past IFRS 15. So we're comparing IFRS 15 numbers now with our IFRS 15 numbers, and we had very strong (Technical Difficulty) both in B2B and B2C.

Next chart, Page number 14. Two things I would like to draw your attention to. One is, you see that we had a constant increase in mobile data usage. We're now at 2.8 gigabyte per month.

Right now we have 53% of all MagentaMobil contracts in part of convergent relationship, and that is an increase of 11 points vis-a-vis the previous year. And if we compare this on the broadband coverage right now, -- broadband households on a convergent contract and that is an increase of 4 points vis-a-vis the last year.

We're moving to the next chart. Page number 15 shows the commercial performance in fixed line. You see that we have a steady increase on the mobile broadband side. Obviously, that increase is impacted by the IP migration.

The IP migration is also clearly highlighted in the elevated line losses, which increased to 211,000, but this is very much attributed to the very strong pace we're having right now on the B2B migration. More positive on this side is obviously the net additions on fiber. We delivered now for 14 quarters in a row, an increase of more than 0.5 million nets adds. And if you compare vis-a-vis the previous quarter, we also see a slight acceleration in the net add growth.

And finally, on TV You see that we have increased our customer base by 66,000 customers, which is a slight increase vis-a-vis the previous quarters, and we attributed this to the rebranding of our MagentaTV offering but also to RX enhanced content offering. Page number 16, Germany fixed. As I said earlier on, the retail revenues and Germany fixed has have fell by 0.8%, which is slightly worse sequentially, but it's very much in line with the trend which we have seen in 2018. Our broadband revenues grew by 2.3%, very much comparable to the last through the -- to the trends of the last quarters.

And you may remember we had headline trends in 2018, which actually showed a higher growth figure, but that change has now rolled over. Let's move to the two classical chart from the US, which I've already presented to you two weeks ago. Again, another very, very good quarter when it comes to customer acquisitions, 24 quarters in a row with more than 1 million net adds. The EBITDA growth on IFRS terms grew by 6.1%.

That is a difference between what Braxton Carter told you because under US GAAP, he grew by 11%. There are two reasons for this. One is, last year, our EBITDA, IFRS EBITDA was supported by hurricane reimbursements, and we see a negative drag, which is being accounted for in IFRS form a purchase power agreements, we've had a negative impact of EUR50 million. Taking a look on the next slide to some performance metrics.

Let me start with the stunning churn rate, which is now on an ultimate low with below 0.9%. Obviously, that commercial performance is underpinned by very strong network performance which we're seeing. We also see that the cost of service has come down significantly year-over-year. But please bear in mind, a, this quarter has benefited from
some accounting changes, and also we have seen lower hurricane-related vis-a-vis the previous year.

Moving over to Europe. The strong commercial momentum in Europe continues. We have added another 196,000 mobile contract customers, the stunning number of 445,000 new converged customers, which can to a large degree been allocated -- or to a large degree been driven by Greece. Household penetration encouraged offerings.

It's now at 42%, which is a 10 point increase vis-a-vis the previous year's. Less strong are obviously the TV net adds, and also the broadband net adds are more on the lower end vis-a-vis the previous quarter's, that is very much driven by an intense competition which we're facing in Romania. When it comes to financial performance, European segment keeps growing both in sales and EBITDA AL I would say growth has now become the new normal year. The reported revenues were up by 2.8%, EBITDA AL by 5.2%.

And if we make that comparison on an organic basis, which is basically carving out UPC Austria, revenues were up by 0.4%, EBITDA AL by 1.5%. So also on Europe, we're well on track with regard to our full-year guidance, but also with regard to our midterm targets, which we communicate at the Capital Markets Day. So page number 21, let's move over to T-Systems. I think we're seeing some initial progress with our ambitious turnaround program, but clearly there is still a way to go.

Our order book continues to develop positively. Unfortunately that has not translated in revenue growth yet. Nevertheless, we continue to expect stable revenues for 2019 as a whole. EBITDA was up quite a bit this quarter.

I think this is driven by two effects, one is the basis in Q1 2018 was really weak, but also we're making progress when it comes to cost reductions in our transformation program. So our guidance of roughly EUR0.5 billion EBITDA AL for the year 2019 is robust and also does it apply for the midterm targets at the Capital Markets Day. Page 22, segments group development. The results are obviously impacted by the consolidation of Tele2 Netherlands from beginning of January.

And also please be aware that we added 3,200 Dutch towers into our tower business, and renamed the tower business now to GD Towers. Financial performance, organic sales growth up 2.2%, EBITDA AL grew by 12.8%, and that was mainly driven by T-Mobile Netherlands, which benefited from efficiencies and favorable comps from Tele2. The underlying Dutch mobile service revenues, which now includes Tele2, actually moved to a growth of 2.5% in this recent quarter. As Tim said earlier on, when it comes to the tower business on the next page, we added 1,300 mobile sites last year and we're well on track to basically increase the footprint in Germany by 9,000 sides until end of 2021.

The recurring revenues grew by 4% and EBITDA AL grew by 2% on an organic basis. So let's move to the two final slides on the financials, which basically cover free cash flow net debts and adjusted income. As I said earlier on, free cash flow grew by 18%. It was very much driven by a higher EBITDA and a better working capital management, and it affect actually the front loading of the CapEx in the US So we had a net increase of EUR240,000 -- EUR240 million free cash flow vis-a-vis the last year.

And on a net debt, despite that strong free cash flow, the net debt has increased based on IFRS 16, and this is mainly due to: a, currency effect, which you can see on the chart; the acquisition of Tele2 additional leases; and evaluation effect from interest derivatives. So, on the net debt, you may remember as we gave our explanation to you back in January, we indicated to have an IFRS starting point effect of EUR15.4 billion, actually it turned out to be EUR 15.6 billion, which is well in the quarter which we articulated to the outside, which was plus/minus 5%, but this is now solid number, and this is basically giving you a slight different relative to our forecast back in January. Finally, if we take a look to the net income, which is slightly down year-on-year, this is very much driven by the Q1 effect, which I indicated earlier on Q1 2018 and the dividend from Toll Collect. Last chart, on the balance sheet ratios.

Let me focus on the net debt to EBITDA ratio. You know that we have changed our corridor from 2.25 to 2.75, where in that corridor range was 2.65. Also we're in the range of all the other comfort ratios. Let me just explain to you we haven't changed the equity ratio.

If you would have adjust for IFRS 16, which we don't have, that would basically reduce the equity ratio from 25% to 22% and from 32% to -- 32%, but we're well basically in that comfort range and in that corridor. So bottom line, I think
we delivered a solid quarter when it comes to commercial and financial performance. We're absolutely in line with our 2019 guidance and our midterm guidance. And with that, Tim and I are happy to take your questions.

(Question And Answer)

**Operator**

Tim and Christian, now we can start with the Q&A part. (Operator Instructions) So, that's all right, and let's see how many elephants we have in the room today. Maybe there's another one. So, we start with Mathieu at Barclays.

Please.

**Mathieu Robilliard**

Yes. Good afternoon. Thank you.

First I had a question in terms of the German Mobile. So, obviously a very strong performance and recovery has -- it led us to believe it Q4. When I look ahead, can you maybe give us a little bit of color on the competitive environment? We heard there's been some more promotions in some segments of the markets and one of the players maybe want to leverage a bit more its improved network. So I'd like to know how you think that can play out this year.

That's a simple question on Austria. So you launched a 5G network, is there any early findings or any color you can give on how that is going? Thank you.

**Timotheus Hottges, 'Chairman of Management Board & CEO'**

Hey, Mathieu. It's Tim.

First let's talk about Austria because I was there on our rebranding party on Monday evening with Bundeskartellamt and three minutes, there's all this kind of folks -- and we launched the company. Because we couldn't call the company Telecom Austria, so the company has got Magenta T Team Magenta Telecom is now up and running. Honestly speaking, the auction on the 5G spectrum went pretty well. We paid EUR50 million. Compared that with Germany, that would have been EUR600 million. So therefore, we got funded 10 megahertz of spectrum. We were prepared for the market launch and we will first one launching 5G in the Austrian market. We started with something like 25 sites, but we are growing now across the footprint in a rapid way.

It's by far too early to say this is here at 5G experience. If you look to the tariffs which we launched around, our Magenta Telecom launch, and we had this unlimited tariff, which we brought to the market and the pricing and this kind of service, not representative for 5G It's small let's say showing the capability for mobile in the market. And it's more that the intention to adjust the data on consumption in this environment. So, really it's too early to say what is the pricing, what's the tariffs and how to take up.

(Technical Difficulty) generating is amazing in the Austin market, beyond 300 megahertz -- megabit per second. So it's quite impressive, but you know that most of the handsets are handsets not available yet. Coming to the competitive environment in the German mobile market. Over the last years, the German mobile market has been comparatively stable, despite some volatility and always this discount competitions, which we have towards the lower end of our B2C market. Over the last years, the German mobile market has been comparatively stable, despite some volatility and always this discount competitions, which we have towards the lower end of our B2C market and especially focusing on the B2C market.

This volatility was mainly driven by MVNOs and -- which is now I think on its -- last year of its five-year glide path, how I look and from this environment. In 2018, Drillisch invested around EUR270 million of additional EBITDA in handset subsidies. But despite this money, we were able to post our revenues at the stable performance. So, this shows that it's not only about handset subsidies, it had a lot to do with how you presented, how trustworthy your brand is, how
good the network perception is around that one, and how the distribution is working.

And I think there’s a good proof point 2018 on how we move forward. Last month, we have seen some incremented price aggression from O2, and from -- and Drillisch Group. So Vodafone's move seems to be a good sign for the environment in which we are operating. So I think it is more the lower market segment which is fighting for volumes here and the promos we have seen there.

So we guided for the mobile service revenue at CAGR growth of something around 2%, and we remain comfortable with this guidance going forward.

Christian P Illek, 'CFO & Member of Management Board'

So, if I may add a couple of things, when it comes through a three consumer segments, still almost no spillover between discount, smart shopper and the premium segment. Obviously, we're closely watching what Vodafone has done with its new data buckets in the Red portfolio. Obviously, they increased the bucket significantly.

And be aware, the B2B market is really, really strong.

Operator

Thank you, guys. Next question is from Polo at UBS

Polo Tang

Hi, Polo Tang at UBS I just have two questions. So in terms of remedies for the Vodafone Unitymedia deal, Telefonica Deutschland would be able to get wholesale access to cable.

So in your view, how has it impact the German broadband market? And how much of a risk is this to DTE's wholesale revenues in Germany? And the second question is really about latest thoughts on a fourth mobile network build, because that's being currently stand in the auction, drill issues spectrum of both the 2 gigahertz band and also 3.6 gigahertz band too. What's your latest view or whether fourth mobile network build by drill issues viable? And if it does go ahead, how will this impact DTE? Thanks.

Christian P Illek, 'CFO & Member of Management Board'

So let me start with the remedy question first. So, we're opposing the merger because of the concentration of the TV market, not broadband market.

So whatever kind of deals which have been struck now between Telefonica and Vodafone, from our perspective, it doesn't solve the problem on the TV market, it doesn't solve the problem on the housing association. So we don't know in what -- to what degree that remedy can actually help to facilitate a merger. When it comes to that deal, obviously -- Telefonica is in our network, it has roughly 2 million DSL customers. If you assume that the cable penetration is about 60% in Germany, so let's say 60% of their customers are overlapping with the cable network, Telefonica is locked in with a multi-year deal on the contingent model, and so we don't expect them to actually force customers from our current network to -- into the cable network.

But ultimate question for me on the remedy question is, how does a -- in the opening of a cable network actually solve the questions which we're having of the TV market and the housing association market. So, on the network, Tim, do you want to answer the network question?
Timotheus Hottges, 'Chairman of Management Board & CEO'

Yeah. Let me let me talk a bit about, let's say, my thoughts about froth entrant and what's going on. I cannot comment on the auction, and nobody should do that at that point in time, but let me give you some general observations.

Look, the first froth is that -- look if there's a froth entrant coming, he has built-out obligations both on 2.1 gigahertz, 50% of the market, and as well on 3.5 gigahertz, which is 25% of the market. So in addition to the to the price for this spectrum, there will be let's say minimum requirements for building out the network, and this is something, which is a business case, which has to be amortized in Drillisch portfolio. These people are not new in the market. So they have 9 million customers already in their footprint, and they might amortize it with revenues coming from that angle.

And luckily we have no ambient over Drillisch. So we are not affected by the migration into this infrastructure. If I would be, let's say, in their shoes, I think it's hard to amortize the business case and would be hot even to build out a network, and it is even hard to find in areas where I haven't built an infrastructure, a decent economics to get access to another network. So it cannot be that this is coming on the expense of the existing infrastructures which are sitting there, and our position on the national roaming.

Now, looking to the auction design and the current auction. I was very explicit on this one at the beginning. That look we have 400 megahertz of spectrum. If it would have been allocated to 4 players, would have been an easy task.

Taking out 100 megahertz of this auction and giving it to industrial purposes without knowing who that is and where that is, and limiting it to 300 to the others, this is only creating additional proceeds to the government, but it's not building networks. And exactly that is happening in the auction right now. If you take the total lump sum of the auction of the day, it has taken out almost 50,000 mobile sites, which could have been built with this money. So, I think this shows that this is a kind of additional tax for the government, but not something which is helping the industry to build out a full-fledged network.

US or even Austria are better examples how that could be done in another way. And now in this case, everybody's part of it, so it will not be only Deutsche Telekom, Vodafone a Telefonica, but even -- who has to pay this tax to the government. So that's where we are.

Operator

Thank you, Tim.

And with that we move to Ulrich Rathe of Jefferies. Please.

Ulrich Rathe

Yes, sorry. Yes, my question is regarding the all-IP migration.

It's very good to see that did you make great progress in your closing in towards the definalization. I'm just wondering whether you could explain a bit better the link to the broadband, broadband intake was probably a bit on the softer side in the first quarter. And I think that part of the explanation is the all-IP migration. But, I'm not entirely sure why the loss of legacy was hard to have such a big impact on the broadband side as well.

And so a link to that, would you sort of say that the broadband intake would recover once the all-IP migration is over, these levels that you're currently seeing on the network side, and in broadband, retail broadband it's kind of a new normal? Thank you.

Timotheus Hottges, 'Chairman of Management Board & CEO'
Again, just to reflect on where we are right now, on average we have migrated 90% of all customers, obviously, consumers are moving ahead of B2B customers. But also on B2B, close to 80%. So we're not at the very starting point.

But we have accelerated efforts right now in the IP migration, especially when it comes to B2B, both the factory ones we have migrated, the very complex customers finally. So if you take a look at the broadband growth, I think our understanding is that our broadband numbers would basically be 5% to 10% higher, if we wouldn't have an IP migration. On a roughly basis, you can do that math, a 100%. And if we take a look at the line losses in our legacy business, you see that that share of B2B is continuously -- so that is clearly allocated and attributed to the to the all-IP migration.

Unidentified Speaker, 

Let me add one word to the IP migration. Look, we are very happy that we are finalizing on the IP immigration, the B2C area by the end of this year, not only from a productivity perspective. I always remind us that if you come to remote maintenance, if you come to fixing functionalities at the street covenants, when it comes to network quality on big data in the network, and when it comes to the migration into vectoring and Super-Vectoring, all of this would not be possible without IP migration. So, the customer and productivity gain which we drive from IP is already helping us today big time, because Super-Vectoring would not be possible without it.

20 million households in Germany have already passed up to 250 megabits now with Super-Vectoring. Now, if I look to the broadband numbers and the customer intake, which was here referred to, we have a steady intake of something around 700,000 on a quarterly basis. So, this is very, very strong. So wherever we have built it we approach the customers, and they like the product very much.

So we are creating a high loyalty with our customers, our churn in this is very, very low and intake this good on this one. Now, with Super Vector, which we have just started, we have a big, big upselling opportunity on top of that. So therefore, I think you should challenge us on this number going forward. I want to be measured by our success on Super-Vectoring to upsell the speed into the base.

This is definitely one of the key marked issues which we should focus on going forward. But overall, I think the numbers, the broadband numbers speak for themselves.

Operator

Thank you guys. Next is Steve -- Steve?

Analyst

Yeah.

Hi, guys. Can you hear me?

Unidentified Speaker, 

Yes.

Analyst

Yes. So out of the three, I was wondering if you can give something or not.
First of all, just pulling up on the points on O2, the continued contender, a bit more color as to how long that is and what their ability is to migrate customers away from you, should this remedy prove, get everybody sort of a unity deal over the line. Certainly, just on the auction. I mean, I totally understand your frustration, Tim. I'm through your comments on aims completely at us, we got us some other ends at German government regulator.

I'm just wondering if this process of the auction so far, it has been your conviction to pursue what you think that might be -- collaborating on network build rollout, is that something you're giving greater consideration to, given the cost of the auction going forward? Then just finally word on holding if I can, just early days obviously with T-Mobile and O2 there, you're very clear that your fixed lines share is way below your mobile share, any thoughts as to how you might address that over time? And I guess -- on the other foot with cable access there and thoughts on using wholesale cable access in that markets maybe trying to address your lack of fixed line market share? Thanks a lot.

**Timotheus Hottges, 'Chairman of Management Board & CEO'**

We start just with the first question. And we makes sure that we've got the second question right. But first question is on the contingent login, so the standard contingent model allows through 2021, and then there is a three-year extension.

Are you paying in this model upfront for eight years, and during that time you get then a reduced fee on cash basis. And clearly if you are Telefonica you would broadly adhere to this, there are some that say exceptional contract stipulations related to Telefonica and the fixed line side, because as you may remember they have outsourced their fixed line network to us. So that creates a bit of a tighter relationship, but we won't go into the details there. In terms of the auction, there was one moment when you broke up, so we didn't quite hear that, in terms of collaborations.

I should let Tim answer that in a moment. But maybe before we go there maybe can you repeat the question related to the auction process.

**Analyst**

Now, I was just wondering.

**Christian P Illek, 'CFO & Member of Management Board'**

Maybe you do this at the end and I'll just pass on to Tim and he will first answer the question on collaborations?

**Analyst**

Okay.

**Timotheus Hottges, 'Chairman of Management Board & CEO'**

Look, the consequence of an auction which is coming more expensive than expected, is that the business case for everybody was part of that, one is changing. And now you cannot spend Euro twice, it's impossible, here we are. So, and therefore, I'm always reiterating that the money which is on the table for just the spectrum, stands for 50,000 sites already as a whole industry. And if this is not any more available for the industry the only way of building the infrastructure is then for more collaboration on the side.

So, we have been already being clear and publicly said that we are willing and open to collaborate in innovative ways to fulfill the auction coverage obligation. I can imagine for instance white spots where nobody has coverage today, that we are jointly building passive infrastructure together. The waterways as, I'm -- I said, it's clear, nobody needs free mobile infrastructures across the motorway -- the waterways in Germany. So, if we find collaborations in this area, it
makes totally sense.

I think, and you know me, I’m very open on cooperation models, but it should be fair. It should be fair. That means for me that the on the build-out, I would clearly address the issue of reciprocity, which is an important criteria. It cannot be that some players only offering one site, while all the others are building 100 sites.

I think there should be a fair share of the infrastructure independent from the market share of the players. When it comes to the collaboration and to prove that we are serious on this one, I just wanted to remember that we have a sizable backhaul agreement signed last year with Telefonica Deutschland on the backhaul here, which is working. So, let’s then after the auction trying to understand how and where we can collaborate, but Deutschland Telecom is open.

**Timotheus Hottges, 'Chairman of Management Board & CEO'**

So on question with regard to cable wholesale in the Dutch market, that the ACM has mandated cable wholesale buyer next post regulation.

However, VodafoneZiggo has appealed that ACM decision, and we expect that we get clarity on whether this can be now mandated, yes or no with three years. So, for the time being, we’re happy with our multi-year agreement we’re having this KPN and our little DSL business, which were running by ourselves, until we get clarity on that one.

**Analyst**

Okay. But you obviously --

**Hannes Wittig, 'Head of IR'**

That little anymore, but it's 0.5 million, and 550,000 in fact, and we have committed some infrastructure build as well as part of the merger agreement.

So, let's see where that takes us. In terms of the next question, we have Jacob at Credit Suisse.

**Jakob Bluestone**

Hi. Good afternoon.

I've got a couple of questions please. Firstly, could you maybe comment a little bit on the sort of outlook for ARPUs in the fixed line business? I think you've had some price hikes in May. You're pushing Super-Vectoring. So just to sort of -- you've obviously commented on the line loss.

But maybe if you can just comment a little bit about what sort of revenue per line trends we could see? I mean could we see this accelerate? And then secondly, just if I could maybe just follow up on the network sharing. I think Tim said at the beginning of the call that we see network leadership as non-negotiable, but you also open for network sharing. Could you maybe just sort of help us understand a little bit more what are the things you're not willing to share? Is it urban areas? Or what are your sort of red lines in any potential network sharing arrangement? Thank you.

**Christian P Illek, 'CFO & Member of Management Board'**

(Technical Difficulty) Let me start with the ARPU on fixed line and where we are standing there.

Fixed market has been fairly steady and our performance was impacted by the IP migration to a certain extent. The German bought that market as a whole, had slower growth over the last quarters here. Some of our resellers have been
quite aggressive at the end of last year and continued really to offer longer promo periods compared to falling to Deutsche Telekom. February, there have been some price moves been that triggered by Ains & Ains [ph] up to EUR5 per month broadband price hikes for the second (Technical Difficulty) I see that as a positive sign that even these companies have to reimburse the contingent model, and Vodafone have recently reduced the online discounts.

So, some developments. I think this is reflecting the higher build-out cost which we have. Moreover -- and our office, special tariff or discounts has been taking out as well, and so there is a little bit of hopefully stabilization in this very highly competitive environment. Our way going forward is to stabilize and to increase the ARPU by upselling of Super-Vectoring, FTTH and additional services into the base.

So I have today launched by the way another tariffs had kind of entrance tariffs for 25 bucks in the fixed line environment. So therefore, I think this environment that everybody is investing into infrastructure is prospectively even reflected in the offers. For us, I think it's more relevant that we have good looked -- we include more for more for our customers. Being it TV servicer, being it higher speed upakes, being at let's say elements of hardware, which we include then while the sacrificing on the monthly subscription, that is let's say our strategy going forward, and we have guided some 3% to 4% broadband revenue CAGR for the upcoming years.

And this is absolutely consistent with the recent performance, which we have shown, and therefore, we are comfortable with this guidance. Please keep in mind that Super-Vectoring is just coming to the market with this additional speeds, which gives us new market opportunities?

Timotheus Hottges, 'Chairman of Management Board & CEO'

Okay. Let me try to answer the network question and the network sharing question. So first of all, we have to find a set of rooftop and towers, which we call differentiating, in our internal terms which you called golden sites.

And these are sites where we believe we are differentiating from competitors, which we will never share. So, where we are open to share is actually where you don't create a possibility of differentiating from the competition, and therefore we wouldn't basically endanger our market leadership, our network leadership. The second point I think we have to bear in mind especially when it comes to rooftops, many of those can't be shared and there's -- and it will become even more difficult when we're moving them to 5G, because of the emission standards which we have adhere to. So from this perspective, we also have to take a look where it's technically possible to actually share.

But wherever there's a non-differentiating possibility or a side where the customer experience is non-differentiating between the different competitors, we're willing to have a discussion. And please bear in mind, if you exclude the rooftops, our sharing ratios on mass and the very large towers is already 2.3. So we're sharing quite a bit.

Hannes Wittig, 'Head of IR'

Great stuff.

So next question from Ottavio Adorisio at SocGen, please.

Ottavio Adorisio

Hi. Good afternoon. I've two follow-up questions on answers been already given.

The first is on the Netherlands. I appreciate that VodafoneZiggo is challenging the relation in court. But I would like to know what's your take on the wholesale reference offer. one was proposed in the 1st of January, and T-Mobile has been very vocal against.

So they come out with another one on the 1st of April. So could you tell us what do you think about this offering. So it give you enough margins for you to compete? And the second one, it's basically going back on the Vodafone Liberty
Global. You said that the remedy has been proposed Vodafone.

Of course, it doesn't address at all the TV markets. For memory, you have three key issue in the two markets, is the axis of the cable line for infrastructure and the long-term nature that we contract with the associations and the carriage fees. Can you tell us if during the -- because it's been a very long process over the last year. Even though the market test, Vodafone has given any concession on any of these three points? Thanks.

Hannes Wittig, 'Head of IR'

So, Ottavio, I'll just start with the question. Both of them to some extent relate to a cable wholesale access, which is something that we systematically do not think is a great idea, frankly, because we don't need more regulation on infrastructure. We need less regulation. And in the pacific case of Germany, this is not the right remedy for the kind of issues that we are seeing.

I think we -- I'll leave it to Tim or Christian to comment in more detail on that. When it comes to the Netherlands, I think you will understand that we will not comment in detail on how we operate there. As I say, we are in principle not those who have shouted the loudest here, because we are -- we don't like this intervention. And we have a good agreement with KPN. It's a long-term agreement.

And the rates are something for other to discuss. So, maybe Christian or Tim, you comment on the second half of Ottavio's question.

Timotheus Hottges, 'Chairman of Management Board & CEO'

I think the issue is -- I think, there's an unacceptable media concentration with the merger which is taking place for Germany, and there's an unacceptable position of the housing associations. It's a stranglehold, which is taking place in this broad, what is up to more than 20% of the households.

And independent from this, I expect that remedies coming around this subject, and effective remedies coming around that subject, because the antitrust authorities already decided against this put remedies on liberty during the takeover of cable back and wooden back [ph] and at the end of the day the remedies which they enforce are not effective at all. So therefore, this time hopefully the instruments are stronger in the way going forward. I think on the on the cable wholesale side, I think what we'll see across the globe is that more regulation is not building networks. It is less regulation and infrastructure competition, which is driving networks.

So if we would have more freedom, less wholesale access obligations, less price regulation, which is dominating even our retail pricing, if we would have let's say more freedom to compete, I would love to have that position. So having a kind of 70% of German market where cable present, no regulation for Deutsche Telekom, I would say this would create more infrastructure competition and more fiber build-out than trying to regulate everything and inviting wholesale access models, more MVNO into the market, which is using a regulated infrastructure. So therefore, I think we have a very balanced approach. It's an approach towards a customer orientation that customers getting better services prospectively, and that's what we're trying to fight for.

But look, it's not us deciding on this one. And sometimes they even have the feeling the clearer and louder we are on asking for something, it's always wrong because people want to see not a merger coming, they want to see let's say the Deutsche Telekom getting is getting weakened, which has nothing to do with improving the situation for the customers or for the citizens in Germany. So, therefore, we do that in the back, we are doing it at loudly publicly, but I think different horses for different courses is what we need in this environment here.

Hannes Wittig, 'Head of IR'

Okay.
So next is Fred at the Bank of America. Please.

**Frederic Boulan**

Hi, Good afternoon. Firstly a quick follow-up on the German market.

You have extended data allowance in your office. You have a bit before flattened your promotions, but you've moved away from those. Meanwhile -- was pretty aggressive six months of free offers. So, if you could qualify a bit this market, I felt some of your previous comments you seem pretty comfortable around competitive environment, but whether you think you can carry on with your more formal strategy based on the network differentiation.

And then secondly, we talked about the negative impact of the old IP migration on line loss, et cetera. If you could recap a little bit for us the cost engaged for instance in 2018 for this migration? And what kind of savings we could expect from 2020 as a B2C migration is completed? Thank you.

**Christian P Illek, 'CFO & Member of Management Board'**

So let me start on the German market when it comes to mobile. First of all, do we carry on with the more for more strategy? Yes, that has been a proven model.

And if you take a look what Vodafone has done now, with its Red tariff, it's actually following our path. But our performance, our commercial performance is not only build on the attractiveness of the proposition, it's also been built on our network leadership and it's being built on our service experience. And you heard Tim saying that all -- we've won all tests. So obviously, it's a strong underpinning that we are the network leaders in all the countries we're operating in, and that also our service KPIs have significantly improved year-over-year.

I think this is the portfolio which a customer buys and it's not only the more for more strategy, and you see our very strong service revenue performance and we don't withdrawn from our mid-term guidance, which is say 2%. So we're basically comfortable with the competitive environment yet. When it comes to the all IP migration, let me repeat what I've said. We want to finalize B2C end of this year and B2B end of next year.

We assume that we have roughly, if everything has been being finalized, a cost saving of 400 million in the German footprint that would include T-Systems as well on an annual basis. So that would be the full benefit of the all-IP migration. And there will be less CapEx and also some customer-facing benefits, of course Tim has already referred to not the enabling of super vectoring, but there's more to come within infrastructure.

**Operator**

So next question from Andrew at Goldman.

**Analyst**

Question on towers and just to follow up question fixed-line. Just on towers, there has been a lot of questions on network sharing, but since we last spoke I think quite a lot of either asset sales announced or completed in terms of powers, so pretty high multiples. So just wondering if you could share any new thoughts on tower valuation and the strategic rationale for you to continue owning them following those deal announcements? Just any color you could give on your decision to, maybe, as to how you benefit most from your towers, through network sharing or selling them or IPOing the asset. Any help there will be greatly appreciated.

And just is there any reason why your towers would be worth less than comparable deals, because some of them run more of than the rooftop towers? And then the questions on fixed line, just a follow-up to Jacobs question on IP trends,
and wanted kind of full argument full hopes two years ago was that customers would spin off the test, the best for less promotions, and go too much higher. And it took this time to see that, I wouldn't see that since as we might have expected, are we starting to see that now? Thank you.

Christian P Illek, 'CFO & Member of Management Board'

I'll do the first question and give you a little bit of a glimpse on these. Andrew, the first one, DSMG and our tower operation is the largest Telco tower operator in Europe from its size, just by definition, because we are the biggest European Telco and we have mobile business in all our footprints across Europe.

I think we have super portfolio even from sharing purposes, everybody's approaching often this one. And we are now working very intensively with DSMG, DFMG is not only good in building sites but even in the running sites. So we improving the state of the art and IT services we are reducing the overhead cost in the organization big time. And we have now mentioned that already, especially in Germany, a good position even to support that parties to build their towers.

And so we can be even a service company towards build-out of a new towers into the factory environment. Now, that said, for Europe, is the value of this business different than the value of Americans? Maybe the multiple is a bit lower because there is a few sites which are not ready to share, I think it's in vicinity of 10% that's necessary, which where we say these are golden sites which we are not willing. It's up to 25 which we're not willing to share, and the rest is open.

And the second one is the tower that is different from its architecture and the use cases as the ones in the US But in principle there's an indicator as well here in Europe on valuations for towers.

This footprint is not losing value, it's gaining value, because we talked about 1,300 sites last year, 18,00 sites this year, up to 10,000 sites up to 2021. So, we're extending the footprint. So the monetization opportunity is a given, it's possible, but the question is when and how to play that. I'm open, I let this company being very, very independent the way how it is operating, even with third parties.

And we will do everything that we are ready for whatever market transaction we're going to pursue. But we know we even have to consider that with the new accounting standards there is no automation as long as we only sale minority of this one, this is helping us on deleveraging purposes. But anyway, these are the considerations, this company is getting more advanced and more professionalized every day. And when we think it's needed and where the window is right, we might even consider a market transaction.

But nothing to be speculated in short-term notice right now.

Christian P Illek, 'CFO & Member of Management Board'

So, let me try to answer the question on ARPU trends. And let me try to answer in the following way. I think we -- if I recall it correctly, we introduced Test-the-Best back in 2016.

And I think, we have seen in the consecutive quarters a decline in the broadband revenues, which was going below 1%. But now it's back to 2.3%. So, the rollover has already been taken -- has taken part, and therefore we don't expect that there's going to be a significant negative impact from Test-the-Best. The second point is, I would like to point your attention on page number 16 in the presentation.

And if you take a look at that pages you see that, obviously, the upsell strategy in fiber is working, and Tim was basically saying we just started to market Super-Vectoring. So there is lots of potential in order to bring the ARPU up in the broadband environment. And even in TV, we continue to have an upsell path. And from this perspective since these are the growth areas, we will be focusing on bringing the average ARPU per customer and per household up.

Christian P Illek, 'CFO & Member of Management Board'
Great. So, next we have George at Citi. Please.

**Analyst**

Yes, hi.

Thank you for taking the questions. I have two. The first one is around fixed line activation. I think, few weeks ago there was a news that the German Cartel office is looking into Glasfaser NordWest JV If you don't mind, just give us an idea whether what the role in this procedure, whether they could perhaps reverse some of this arrangement? And then my second question is, again, related to regulation and I appreciate it that you already commented on the action you are taking in the court against the current spectrum process.

Is there something tangible that could come out of that or is it now a done deal in a away? And then I have linked to that, part of what we are having now is certain coverage obligations, you are accepting if you take the spectrum, stop the rollout. But perhaps in the future at least that's the hope that British have, they are hoping that there could be something imposed around national roaming. In that event, which I know you don't think is very likely, is there any way of you reversing on some of these commitments around coverage of obligation? Thanks a lot.

**Timotheus Hottges, 'Chairman of Management Board & CEO'**

So, just let me start with the fixed line regulation, and especially on the EWE retail deal.

As you know, we have signed our contract on the joint venture in March this year. The company called Glasfaser NordWest. And with this signature we have officially approached German Cartel Office. They have to get involved into this one from a sales perspective, and this is currently taking place.

The approval process moved quickly into phase Phase 2 into detailed revision and it's recently under investigation. We hope that in short notice during the course of this year we would get an approval on that one. The precondition for that project over said, is the regulatory framework for FTTP and FTTH rollout. And this is something which has to be decided from the -- and this is as well in parallel on its way.

And as you know, the pre-signals we got already before we announced the deal was that they are willing to support and approve this transaction. The company will become active in 2020, so we are now in full preparation of this one to build the 5x here. And in parallel, we take the approval phases, so we do not lose time at that point in time. The second thing which I wanted to mention to you is that apart from the auction process there has been a regulation on the FTTH prices and on the bit stream prices going forward.

250 megabit stream charge for you EUR80 monthly premium, this is implying a EUR23 monthly wholesale price. And also, the ULL hike and you have seen the improvement there, seems to be a supportive move for a more investor friendly environment. The FTTH rollout in Germany, it's not comparable with the FTTH rolled out in Spain or in other markets, or even in the UK, because there is a lack of ducts. And there is a high request with regard to the construction, we have to go deeper and we are not able to trench the street.

And on top of that the construction anyhow is more expensive. And therefore this higher prices compared to other European countries is reflecting even the higher cost which you will find for built out in the German environment. So, we appreciate that discussion and this decision from the ones that have installed the premium, especially on the 250 megabit stream.

**Unidentified Speaker, "**

So let me comment on the on the coverage obligations and the question with regards to national roaming.
So, if we take a look at the current auction design, I think we have to split the coverage obligation into 2 phases. There’s a face until end of 2022, and this is pretty much covered with our self-committed eight points plan. So we're comfortable in order to comply to that one. But it becomes tricky in the years ‘23 and ‘24 where we basically have to support seaports, waterways and all this stuff.

And I think that comes back to that previous question, probably it is a good idea to think about whether we can share the pain by a corporation with other network operators. But this has to be obviously discussed and negotiated once the auction is over. So the court actions, so everything which we have filed in court will be decided on after the auction, but not throughout the auction. And therefore we have to wait until we get any favorable terms, given a ruling from the court.

And on national roaming, and we said the so many times, there is no legal obligation to national roaming. If you take a look at the exact terms of the of the auction regulation, it says we have to negotiate in good faith, but not that we have to strike a deal. This is what the translation says. But in any case, if there's a good business case for somebody, we will see.

So we will not rule it out. But there is no obligation to provide a national roaming from a legal basis, and we have been firm on this one since months.

Ottavio Adorisio
Okay. Thank you, Christian.

Unidentified Speaker, ''
And we said we moved to another question at Christian at HSBC, please. And just before I give him the mike, we've got -- we are in a good mood so we'll take all the four remaining people that have further questions. So we start with Christian now and then we have -- but I think we'll take no more further questions from here. Thank you.

Analyst
Yeah. Hi Christian here. I have a question, actually have two. One is more kind of accounting driven.

I was wondering about the IFRS conversion from the US GAAP US business. I mean there was kind of a weird movement in Q1 and historically we always have had 500 million to 600 million delta between the US reported and the IFRS one. So, is there any terms of guidance you can give us for the rest of year how to model this, I mean, there was this energy purchase agreement, how is that going to develop for the rest of the year? A bit of that will be helpful. And then I think the other one is on the Sprint deal, there's been a lot of let's say a bit more negative news flow recently.

Tim, would be interested in your view, what's the latest there? I mean, you mentioned that the California state may lead it into H2, so what's the latest, I would be interested in your view. Thanks.

Christian P Illek, 'CFO & Member of Management Board'
Go ahead

Timotheus Hottges, 'Chairman of Management Board & CEO'
So, on the accounting question of the difference between US GAAP and IFRS after leases, first quarter was $242 million, approximately $100 million can be attributed to different treatments of stock-based compensation, another
$100 million can be treated can be attributed to different treatment of leasing and others, and finally $50 million were in effect through a power hatch, which happened in the US and which basically confront us with a negative hit of $50 million in the first quarter. And that explains the $240 million.

So, on the stock based compensation and the lease differences that will carry through the year, how will spot develop, I will not comment on, that can also turn into a positive thing or it remains to be negative, so it's really hard to judge. And if you would have been grown up in a German environment, you would know what the (Foreign Language) is. (Foreign Language) is a kind of treatment of rehabilitation where you get always cold and hot water. And if I'm looking back to the last 12 months with regard to, say, this transaction, I can tell you it's the longest (Foreign Language) ever took place in history.

And I'm sitting in the bathtub and enjoying it. So guys, I'm sorry, there is deal flow coming, positive deal flow coming negative, and it's going on and going on and going on. So guys, I think, our team in the US is very well connected, we are very transparent in the communication going forward. I think we have been very clear and outspoken in our hearings about the benefits of this transaction.

I really admire what our US team is doing. They're sitting on an operational business, big size and outperforming the environment. And at the parallel, they are driving this very complex approval process, and that's all in a great positive spirit. So, I'm not speculating on negatives or positives here, by the way, I even haven't had the feeling that we got some really negative news flows recently that California may delay things.

I think there was something which we were expecting from their position earlier already. So, let's do the following, let's enjoy the (Foreign Language) go for another two weeks or three weeks. Then we are in June, we expect the clock is over at 3rd of June, and then we will anyhow have a clear sight on whether the treatment has worked out or not.

Hannes Wittig, 'Head of IR'

Well, I can only say it really worked on Tim.

So his very likely. And in English it's called contrast hydrotherapy, but if you want to know more about Knit Eco and the German spot islands where you can enjoy that, then please get in touch. Tim won't listen, but go to spec. It's quite -- like he is known for his hot water.

So, anyway, next question from Sam at Exon [ph], please.

Analyst

Yeah. Good afternoon, everyone. I've a couple of quick questions, if I can.

First on German broadband inventory. I guess big picture you talked historically about taking your fair share of LATAM, but in the last two or three quarters you kind of stepped down as -- back of it. Do you think you need to do a bit more? You think all the price moves that the other guys are doing will just be enough to get you back towards kind of fair a market share, if you like? Second, on T-Systems. I mean I've been in a turn around for as long as I can remember.

I thought I'd elves pitch last year was actually pretty good. You've seen some of your peers, however, accelerate transformation through M&A recently? Are there any triggers that would make you consider M&A, so it acquisitions or disposals of some of the classic IT business? And if I can try and then it's one of the elephant's so to Sprint deal. Clearly Sprint results this week a deteriorating quite a lot. And I guess you had a bit of a range of expectations that you built into your initial guidance.

Would you say that there is also still within the initial kind of range of expectations that you would outline a year ago when you first outline the deal? Thanks very much.
Timotheus Hottges, 'Chairman of Management Board & CEO'

On the German broadband deal, -- German broadband situation, I think we have been very explicit and clear about, let's say, the market share which we are striving for which is the 40% net add market share, which we -- how much we want. And by the way, we have not changed our assumption on this one. If you relate that to the build-out costs and of the infrastructure, we need a decent amount of fair share to Emmet, this infrastructure built out which we are driving.

So therefore, other teams internally know that there are quarters which are doing very well, and that quarters we're not that strong. I would have said first quarter could have been a little better, but if I look now to your analysis on the net adds share of O2, I would say this was in a very low end of the market. If we are talking about 25 megabit per second and upwards, it's a very, very -- I'm more focusing our sales organization on the upselling into the vectoring and the super-vectoring areas. So as I mentioned earlier, $20 million on super-vectoring already today, if you ask me about the customer numbers still very slow on this area.

So please challenge me on how we are able to increase our penetration the segment, and this is then automatically helping us to get a higher share of the net adds prospectively. On this system side, look, we are not commenting on any M&A speculations here. As you see, we approving on the operations. As you follow, that will make a spring if you say Germany.

So the developments are encouraging, and we made good progress, and it is a very radical reorganization which we are driving. And this radical organization is not only addressing 600 million cost saving and trend headcount cut of 10,000 people, which is by the way ongoing, we even consider and doing a sale of parts of the business. As mind recall, we have triggered a deal with IBM on the mainframe business, which we are not pursuing any -- not excluding M&A in this regard, we do everything in order to deliver on the improvements. The good thing is that our order entry is up by 7% year-over-year and our EBITDA is up by 53% year-over-year.

So we are very consistent on our guidance with regard to this full year things, but I can tell you even the resale of AWS or the exit of our desktop business are sickness that we are not stopping in areas where we cannot turn around the business and finding a better owner.

Christian P Illek, 'CFO & Member of Management Board'

The third question on the Sprint deal. The third question on sprint deal. Look at our expectations into our guidance? Our guidance is not including the Sprint deal at all, and only the costs which we have for the approval process and for all the additional work which we have to done as part of our calculation.

And we have given a clear guidance with regard to EBITDA and profitability for this year. This is including this costs. We fill a we very well on this trick for the reminder of that year, but anything beyond that is not part of our going concern assumption.

Hannes Wittig, 'Head of IR'

When it comes to the combined entity I think, you have followed what T-Mobile has been reporting, and you have followed what sprinters been reporting and I think that speaks for itself.

And when you add it together, so, and track that over the last few quarters, I don't think it has removed a huge amount. In terms of next question, maybe have Matthews from Cape. Matthews?

Analyst

Yeah, just one question, question could you tell us what you would do when the deal of if the deal with Sprints would fill. Could you give some color on strategic options or anything you consider?
Christian P Illek, 'CFO & Member of Management Board'

What we said is exactly what we said at the Capital Markets Day, then we will continue with our share buyback program, which is two, three, four, and then we obviously will focus on standalone operation T-Mobile US You have seen the outstanding numbers of the US folks over the previous quarters, that’s going to be the alternative which is still a good alternative, but the better one is the deal.

Hannes Wittig, 'Head of IR'

Thank you, Cristian. Next is a guy from Macquarie at UBS

Analyst

Hello, thank you very much. A very quick question. If I look pro forma to the end of June, regardless of whether the Sprint deal is consummated or not, you are likely to be in breach of your new 2.75 net debt to EBITDA giving you’ve flatly tariff spent on spectrum.

And of course you’ve got the dividend payment, and your cash flow is relatively small at the moment. So, what -- does this actually create any incremental implications for you with regard to your credit ratings, which are clearly both on sort of negative watch at the moment? Thank you.

Timotheus Hottges, 'Chairman of Management Board & CEO'

So first of all I think if it comes to rating it's not being addressed on a quarterly basis. Our numbers don't indicate that we're going to leave the corridor.

Obviously you won't see that 2.65 just given the fact that we have to include the dividend in Q2, as you mentioned, but we don't have any indication that we're going to leave that Corridor but there is going to be very little wiggle room to the upper end of the corridor, which we expect in Q2.

Hannes Wittig, 'Head of IR'

But in any case IFRS 16 process just -- it just moves through the Matrix, but the rating agencies have always considered it and so there's no fundamental change in our indebtedness, because of the change in the rating standard. All we do is that we provide the pre and by the way also the post IFRS net debt right through the net debt AL, if you want to look at that is 54.9 billion at the end of the quarter. We -- next we have Emmet for Morgan Stanley and he also concludes today's call before I hand back to Tim.

Emmet Kelly

Yeah thank you very much Hannes and just one question from my side, you touched on T-Systems briefly earlier from the kind of M&A side and I know you said that one swallow doesn't make a spring but could you maybe just talk a little bit about the EBITDA swing, it's obviously pretty impressive, I know it's only one quarter, it can be lumpy, but can you maybe say a few words on some of the cost cutting initiatives in particular that Adel and his team are undertaking at the moment, and what the outlook there is for the next couple of years whether you think, we've gone past the trough for T-Systems? Thanks.
Christian P Illek, 'CFO & Member of Management Board'

Okay on T-Systems. As I said earlier on, I think the comparison is based on a weak quarter in Q1 last year, if you may recall we had $60 million EBITDA on Q1, 2018, and now it's 90, and therefore you see that 50% increase. The second one is, the turnaround program is not in full swing yet.

We're focusing on D&A functions, we our focusing on Executives but, whenever it comes to the heavy loading, when it comes to cost reduction, automation in the factories, the whole off-shoring, this is still in the process. So, we expect improvement over the course of the year. But, we're happy with what we're seeing so far, both when it comes to order entry and the initial cost reduction effect, which we're seeing. But, again as I said, it's not a full swing.

Hannes Wittig, 'Head of IR'

Okay, so I get back to Tim and he has a bunch of concluding remarks.

Timotheus Hottges, 'Chairman of Management Board & CEO'

Longer day, thank you very much for your questions and your support, and I'm very happy that we have started strong into 2019; if I look to ducks and other environments, I haven't been easy for most of the companies here, and if I look to the tackle sector same story, and that telecom is with this footprint and business I started very well in this environment. So, this is the good thing. Nevertheless, I see it's quite important that 2019 is a really relevant year for a lot of things happening here.

They are things where I would say we have to live with it, the interdependencies, which are giving from the environment. The first one is that I see this US deal coming to conclusion and the second one is the auction in Germany, which is very relevant coming to a conclusion here. You have seen that the increments are going very slowly at that point in time, but nevertheless it would be good to know -- to have clearance on this one soon. The third one, the issues around the two systems turn-around which are very relevant in this year, the visibility of this one is something which materially -- materializing throughout the year.

And then we have all this customer issues, which we are driving at the same time. To be clear, I'm very happy about the momentum, which we have on the customer sides both on B2B and on B2C especially when it comes to our network propositions but nevertheless there's still a lot of things to go. The first one is for me the customer experience and the service quality. We have good momentum in Germany, I'm very happy what's happening there.

And when it comes to trim our net promoter score issues or even the KPIs. But I want to see a little bit more that we appreciate the base, our customer base in a even stronger way. So, the loyalty -- the focus on the base, the churn is something which is very relevant for me this year. Second, we have to monetize our fixed infrastructure in Germany better than we did in the past, I think this is something we have a lot of investments over the last year.

Now it's time to show the money. So therefore, monetizing infrastructure by reselling -- sorry, by selling the fixed-line services selecting the super vectoring is super tricky and what you have even seen is we had a good start on the efficiency targets and I'm not talking only to systems, I am talking everywhere, especially Germany here and therefore, I want to deliver on the efficient stars or even beat them. So that's our program, all hands on deck at Deutsche Telekom. All people are in good spirit moving on.

Thank you for your support and hope to see you soon in -- on the road shows.

Hannes Wittig, 'Head of IR'

Okay. Thank you guys and conferences call is now about to end. And, if you have any further questions, please contact us in the investor relations department.
Have a great rest of the day. It's been a lot I think for everyone in last couple of days and weeks and in our sector and with that I hand back to the operator.

**Operator**

We like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1-805-2047-088 via reference number 523799, pound sign.

We are looking forward to hear from you again. Goodbye.

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