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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Deutsche Telekom's Conference Call. At our customer's request, this conference will be recorded and uploaded to the Internet. May I now hand you over to Mr. Hannes Wittig?

Hannes C. Wittig  
Head of Investor Relations, Deutsche Telekom AG

Yeah. Good afternoon, everyone, and welcome to our third quarter 2020 conference call. With me today are our CEO, Tim Höttges; and our CFO, Christian Illek. Tim, as usual, will first go through a few highlights year-to-date, including our raised guidance. And this will be followed by Christian, who will talk about the quarter's financials in more detail. And then we have time for Q&A, and as usual, before hand over to Tim, please pay attention to our disclaimer which you find in the presentation.

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

Timotheus Höttges  
Chief Executive Officer, Deutsche Telekom AG

Yeah. High five, guys. So welcome from my side here for a great quarter of Deutsche Telekom, another very good outlook for the remainder of the year, and the future we’re having. I want to share some of the highlights with you today, and our strong results which we have presented earlier this morning. As usual, my overview would be
followed then by Christian, and then we go deeper into the questionnaires. This was a good quarter, as I mentioned, on both sides of the Atlantic, strong commercials, a lot of progress with the merger, and underlying strong financials.

The most important thing for me, we are growing. And despite COVID, I think this tanker is on its way through a storm, and in a very, very clear way. And I'm very happy about commitment of our people to this. We are investing, at the same time with €17 billion record high levels, and this at despite COVID.

So we are not negatively tangled by that.

In the US, we made great progress with the Sprint integration, you saw the numbers already, and with the rollout of 5G services, we are well ahead of AT&T and Verizon. We raised our full year guidance on this side of the Atlantic, we continue to deliver commercial and financial growth and here too we – we raised our full year guidance as well. So that makes it a good story for whole Deutsche Telekom.

Germany has grown 16 quarters EBITDA in a row now, and the Europe segment grows 11 quarters in a row. So I think that shows you the good performance.

Our commercials remain strong. We added 97,000 broadband customers in Germany on the broadband side. Our line losses are down by two-thirds, 45,000. So this is almost nothing this quarter compared to the history, and we achieved a Grand Slam of German Service Awards. Look, I would say every company, every telco would name them. We have so many awards that I cannot list them here. But I will definitely do that in the Capital Markets Day. So that I show you at least how we are outperforming our competition.

And just today, we got another award, there was a big network drive test made in seven categories, Deutsche Telekom won six out of them. So from a network perspective, there's no one else even close to our performance these days.

We entered a benchmark wholesale agreement with Telefónica Deutschland, which is helping us to improve our commercials around the FTTH rollout going forward, and this is even helping us big time in our credibility towards regulators.

Our headline debt is up due to T-Mobile’s long-term American Tower Agreement but our financial leverage dropped to 2.5 times this quarter which is a good note as well.

I'm also happy to confirm our clear intention to pay a €0.60 dividend for 2020 next year which is subjected to the board's approval.

Let's go to our presentation and looking at page 4, where you see that we are growing despite COVID. Headline financials are up a lot boosted by the consolidation of Sprint, but also by our consistent strong organic growth, organic revenues are up 1.2% year-to-date.

Organic EBITDA grew 7.5% and all segments contributed here including T-Systems.

Free cash flow was up by 1.8% despite COVID-19 and more than €1 billion year-to-date US merger integration costs are supporting the financial numbers.
Let's move to the US merger on page 5. And I think it's obvious to see that we made great progress with the merger since our closing in April. On the commercial side, we implemented the rebranding in August, and yet we had a record quarter for our net add numbers. By the way we looked it up. This is the second, most successful quarter in the history of T-Mobile US.

Our postpaid churn remained low at 0.9% well below historical pro forma levels, and that's despite the fact that we are integrating the Sprint customer base with the T-Mobile one.

As for the network, the team will cover a 100 million POPs with 5G in 2.5 gigahertz by year-end and then they will double this again next year at least.

15% of the Sprint traffic is already on our T-Mobile infrastructure. This will jump to well over 50% in 2021. We are very confident about our synergy targets. We will realize €1.2 billion of synergies, and I'm talking now, annual savings already this year, and we will double this then in 2021.

T-Mobile also significantly improved its financial position in a series of refinancing transactions. Last week T-Mobile raised the EBITDA and free cash flow guidance as you know. Clearly, the team is very well on track to deliver the promised goods for customers and shareholders. And by the way, only looking at the track record since the announcement of the deal, the company has more than doubled its valuation. And you know who is T-Mobile US biggest shareholder, don't you?

So moving to page 6, and the investments. We show that our key investments outside of the US are moving on as expected. We keep our flying wheel going. In Germany, we now cover 35.7 million lines with fiber of which 1.9 million are with gigabit connectivities. In the EU, we passed 7.6 million with gigabit cable lines. This brings our total gigabit footprint including Germany to almost 10 million now. So across Europe, we added 1.3 million gigabit lines in the last 12 months.

We agreed a benchmark fiber wholesale deal with Telefónica Deutschland, and we think this is a very important win-win situation for our partners in Münster. The agreement extends our proven contingent model approach for the next 10 years, and from VDSL to fiber-to-the-home. As part of the deal, both parties have entered commitments. We have agreed certain minimum build and Telefónica has committed minimum volumes. The German regulator has a stated preference for light-touch fiber regulation based on voluntary commercial agreements. They immediately welcomed this deal.

Moving on to customer service and we further improved our service KPIs, fault repairs are down by another fifth. Our first contact resolution rate is up by a quarter, and complaints are down by over a third. We keep winning most service awards. Our chatbot came first in the recent computer build. We achieved a Grand Slam as we call it in the recent Chip service hotline test. We became first for mobile and for fixed, and for TV, and for hosting services, and we won most other awards as well, I mentioned that already at the beginning, and I'm very happy with these wins. We won't stop until everyone is connected. That is our purpose. And I think that the company is really aiming for leading.

On page 7, let's talk about the investments into 5G. In Germany, we are well on track for our plan to cover two-third of POPs with mid-band 5G by year end. This is far ahead of our competition. And I can tell you one thing I am here since 20 years. I was witnessing the 3G, the 4G launch, but we never, in our history in Germany had a bigger advantage compared to our competition than we have it today.
We now offer 27 5G capable devices including the iPhone 12, but also more affordable models like the ones from OPPO.

Moving on, the iPhone arrived. The share of 5G capable devices has more than doubled to almost half of all new devices. So step by step 5G is becoming increasingly relevant for our customers both on the B2C and on the B2B side.

We already mentioned the great progress T-Mobile is making in the US with their 5G build. We are covering over 270 million POPs with 5G service, already way ahead of the competition. By the way, for the first time in history, T-Mobile US is ahead of competition with regard to a network technology, and their 5G area cover is twice that of AT&T, and 3.5 times of Verizon. 5G in 2.5 gigahertz is already available to over 30 million people, and it will be available to 100 million by the end of this year. And by the way, we are doubling up on 2021, we will cover 200 million.

In the Netherlands, we already have 90% of the population covered with 5G services and other markets like Poland and Hungary are doing well as well. We are also off to a good start elsewhere. It depends a bit on where spectrum has been awarded and where not.

Moving on to our customers, and here again, we keep growing. In our European footprint, we added 1.2 million converged customers in the last 12 months. In Germany, 15.5 million customers are on our fiber products and 600,000 on super vectoring. And we saw very good mobile customer growth not just in the US.

With that, let me go to the guidance. Today, we raised our EBITDA guidance for the group not only in the US but also in Europe. We also raised our free cash flow guidance. But, first let me look into the ex-US EBITDA guidance. Here we raised our 2020 target from €13.9 billion to €14 billion. And you might know that last quarter we already improved it. And we do this despite some headwinds in our operations from the COVID-19 crisis.

Our group EBITDA guidance is based on our increased ex-US guidance plus the €15.5 billion from T-Mobile's year-to-date And then we – at the midpoint of T-Mobile's implied Q4 guidance. And that's €5.9 billion. And finally, we deduct the expected fourth quarter GAAP IFRS bridge of €0.2 billion. And so we get to at least €35 billion for the group this year. I know guys you know it, but it's so impressive to just reflect that again.

Think about that one. Last year Deutsche Telekom was €10 billion EBITDA smaller than what we are showing this year, and we have increased our guidance by almost €1 billion, €1 billion. Remember before COVID, we said we are going to achieve a result of around €34 billion. Using the same approach based on T-Mobile's guidance increase, we also raised our group free cash flow guidance to at least €6 billion. This was at least €5.5 billion in August. Our full-year group CapEx guidance remains around €17 billion and our dividend remains at €0.60 for 2020 as well. We confirm this today. And now let me hand it over to Christian for giving you all the details around that.

**Christian P. Illek**
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Chief Financial Officer, Deutsche Telekom AG
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Thank you, Tim. And also welcome from my side. And as usual, let me start with the key financials on slide number 11. And let me start with the revenues. Reported revenues were up by 32% organically. We grew by 2% in the third quarter. So that means we’re growing despite corona related headwinds in which I will get into more detail later on.
Headline EBITDA grew by 50%. Organic growth would have been 10% in the third quarter and that compares to a year-to-date growth of 7.5%. Also in the ex-US business, we are growing in earnings. The ex-US EBITDA on a reported basis was up by 2.6% and that translates into an organic growth of 3.2%.

Free cash flow was down this quarter by 24%. That reflects the rapid pace of our US merger implementation. And it's slightly up for the first nine months in the year.

Adjusted earnings grew by 6.3% this quarter or 3.6% year-to-date. Net debt was up by 58%. That was all driven by the Sprint integration which we have seen this year. And I will talk about the drivers later.

So let's move on to page number 12 where you see the strong growth which we're consistently delivering on both sides of the Atlantic when it comes to earnings growth, I think that that chart speaks for itself. Let me give you a little bit more details on the COVID-19 impacts and especially how they translated into financial impact in Q3. So you know that we have given the indication on the COVID impact back in May. If you now take a look on how it played out in the third quarter, you see obviously that the roaming revenues are still depressed, and the negative impact was €65 million in the third quarter.

The mobile handset revenue, we only see a limited impact. We see a shortage in the revenues in the third quarter but that was for different reasons. There was lower spot sales and especially the delay of the iPhone launch.

On the ICT revenue, we're seeing actually an effect, lower order inflow on the ICT revenues, and that translates both to – and basically covers both T-Systems, but also the business in our German segments, that impact was negative €100 million, round about €100 million. And I think it's noteworthy to tell you that in the SME business, in the small business customer business, the momentum is just very steady and we don't see any kind of negative impacts nor do we see any negative impacts on bad debt.

So if you add everything up, the negative drag was about €100 million in the third quarter. And despite this drag and due to the strong underlying operational performance, we're still able to raise the ex-US guidance by a €100 million from €13.9 billion to €14 billion. I think that proves to me also that the immediate reaction which we have taken on costs back in March really helped us to support the operational performance of the business outside the US.

So now, let's walk through the individual segment results, Germany. And let's move on to page number 14. Headline revenues were down by 1.1% year-over-year, and what I said is the handset revenue accounts about – for about 1.5% on this one, but that was especially driven by the iPhone delay and also by lower spot sales in the handset segment.

So the total service revenues grew by 0.9%, EBITDA after leases slowed down sequentially in that third quarter to a growth of 1.3% but that reflects a bit of phasing, and we're well on track with the full year guidance. When comparing the growth rates and that's important shown here to the previous quarters, please note that we have restated the first and the second quarter for this year for the T-Systems integration. But we did not do this for the prior years.

So fixed line service revenue growth, grew by a solid 1.6% that was very much driven by the very strong net adds in the broadband business, and a smaller contribution from the out-of-bundle revenues. But as I said, they were very, very small in the third quarter relative to the second quarter.
Mobile service revenues improved sequentially to negative 0.5%. If you would adjust for the roaming and the visitor revenue impact, that growth would have been around 2% and that is in line with our mid-term guidance.

So German mobile commercials are strong. We registered 190,000 branded contract net adds. We see a continuous low churn in the business, and we have now 60% of the mobile contracts on converged offers. We recently launched MagentaEINS Plus. This takes the customer to a different experience when it comes to convergent offerings. So what you get is an unlimited fixed and mobile offering at a bundled price with a single bill, you can obviously add any additional services to it in an easy fashion, and there is no fixed contract duration. It's still early days, but what we're seeing from the market is very positive in terms of feedback. So we see how this plays out over the course of the upcoming months.

Page 17 shows the excellent performance in fixed line. In retail broadband, we added another 97,000 net adds. This is the highest intake since Q4 2007. The line losses improved to negative 48,000. That's an improvement year-over-year of 80%. And I was joking this morning on the press conference, and I said, hopefully you are going to see a time where I can actually communicate some line adds rather than line losses.

We added 367,000 customers on fiber connections. Two-thirds of our broadband customers are now on a fiber infrastructure. And we have now 600,000 customers on super vectoring, which is an increase of 400,000 year-over-year. Stable TV net adds based on an net add addition of 64,000 in the third quarter.

Moving to slide number 18, our fixed retail revenues they grew by 1.7%. That obviously reflects our strong broadband performance. Some phasing of the former T-Systems business has to be included here as well. The revenues grew obviously at a slower level. There are two reasons for this. One is there was a rollover of last year's unbundling fee price increase. And secondly, also on the wholesale business we have seen a lower tailwind from the out-of-bundle calls.

Let's move to page 19 to T-Mobile US. And you see the usual pictures and Tim already talked about T-Mobile US. We're really happy with the merger progress and it obviously led to that significant guidance increase. Our Q3 revenues amounted for €13.6 billion up from €13.5 billion last quarter. The organic revenue was up 14.6%. EBITDA growth was up 46% year-over-year. And if you compare these quarterly trends, please note that the financials and the growth rate including Q1 reflect T-Mobile before the merger while Q2 and Q3 are shown on a pro forma basis.

So moving to page 20. As Tim already mentioned, T-Mobile grew its customer base quite significantly in the second quarter as a combined company. They added another 2 million postpaid customers or 700 on phone and that 700,000 on phone represent a third of the total net add in the US market. The churn remains low at an 0.9%, I cannot find this remarkable because in a time of a merger usually you will be heavily attacked by competitors. And secondly, if you take a look at the Sprint churn rate on a standalone basis, which was significantly higher and still we achieved an 0.9% I think it's an outstanding result. And also the KPIs on bad debt and ARPU trended well as well.

Let's move over to Europe on page 21. So the organic revenues in our European business were stable, despite meaningful roaming effects and other COVID-19 headwinds, organic EBITDA was up by 2.1%, so it's the 11th consecutive quarter with EBITDA growth despite COVID, and our customer momentum remains consistently strong as you can see on page 22. We added 171,000 contract customers, 258,000 converged customers, a stable 60,000 increase in broadband and 26,000 additional TV customers over the course of the third quarter.
Let's move to page 23, TSI or T-Systems and obviously what you see is, this business is negatively impacted by the COVID crisis. We're seeing quite a bit of headwinds that clearly result in a weaker order book, declining revenues in our legacy business, especially in the IT space, but also in the systems integration space. We have seen some good growth in security, and especially in the public cloud, but still this is not able to compensate the overall effect.

Q3 revenues were negatively affected by also our international business and EBITDA declined by €13 million this quarter. So the visibility on the ICT business is quite low. So we have to see how it plays out. But right now, obviously we don't have a positive outlook right now. We're seeing a negative trend in that industry as a total.

GD, let's move over to this one on page 24, solid revenue and EBITDA growth continued, T-Mobile on page 25, Netherlands continues to outgrow its competitors by strong customer results. They added in the third quarter again 62,000 mobile customers and 17,000 broadband customers. Mobile service revenues remain positive despite a negative drag of 3 percentage points coming from roaming effects and the EBITDA was up 7% year-over-year.

Page 26, GD Towers, what you see here is first we have added 1,800 sites over the past 12 months that translate into higher recurring revenues, which grew by 4% and higher EBITDA growth which grew by 5%. So we're seeing a very steady performance in that business and we're really optimistic that this continues also going forward.

Let's move over to page 27 to the financials. And here you see reported cash flow which was down by 24% in the last quarter. And again, it massively, it is impacted by the efforts which are done on the merger in the US. The adjusted net income was growing by 6.3% and that is obviously driven and supported by a strong EBITDA growth. And if you've taken a look to our net debt development in the third quarter, you'll see that if you include IFRS 16, the net debt grew by €3.6 billion. And despite the fact that we had to absorb €2.5 billion additional lease liabilities, which almost to 100% coming from the US, and the biggest one is the obviously the ATC tower agreement.

So we think that the ATC tower agreement is a sensible commercial agreement. Unfortunately, it hits us on the lease liability according to IFRS 16. But we also had some positive effects. So we saw obviously a good growth in free cash flow in that number in that €6.9 billion which you see in the middle graph on page 28. There is also included the sales of the Boost business which accounted for €1.2 billion. And we also had some positive effects or supporting effects on a stronger euro versus the dollar.

What's noteworthy to mention is if you exclude the lease liability impact, and you go to the pre-IFRS 16 world, you see that the interest bearing debt has actually increased by €4.6 billion. And if you translate this into the leverage ratios according to the old standard, it would have been at 2.5. And I think that was the upper end of the original corridor before we introduced the new standard. If you include the lease liabilities, obviously, we haven't moved. It's another 2.9 metric for the third quarter.

So I'm remaining really confident also for the remainder of the year. We're seeing a great opportunity – great momentum in the business long term, obviously a huge opportunity to leverage. So I think we're also committed to deliver everything, which we said to the capital markets especially when it comes to delivering – deleveraging and when we're getting back into the comfort zone. I think with that I leave it for – I hand it over to Hannes for discussion. Thank you.
QUESTION AND ANSWER SECTION

Hannes C. Wittig  
Head of Investor Relations, Deutsche Telekom AG

Yes. Thank you, Christian and thank you Tim. Now we can start with the question-and-answer session. [Operator Instructions] You can also send questions via webcast sometimes I get questions by mail. So that's fine. And I think have a first question that is from Polo at UBS.

Polo Tang  
Analyst, UBS AG (London Branch)

Yeah, hi. Thanks for asking the question. I actually have two questions. The first one is really around German fiber. Can you maybe give us your latest thoughts in terms of the cost per home passed for FTTH, and is there anything in the latest Telecommunications Modernization Act that helps bring down costs? And can you maybe also talk about how you think about the impact from Deutsche Glasfaser growing its footprint in rural areas and what you think of the latest announcement from Telefónica Infra on rural fiber build. I mean, are they potential partners or do they present overbuild competition for DT? And then maybe just a very quick question, second question on COVID-19. How should we think about the impact of a second European lockdown on your business in Q4?

Timotheus Höttges  
Chief Executive Officer, Deutsche Telekom AG

Hi, Polo. It's Tim. So first on the question about the average cost per home passed, that varies massively due to the topography of Germany. So something in the vicinity of around €500 in the cities to up to five digit numbers when it comes to the more farming areas, and the very rural areas. It really depends on the area. Interesting was even on the level of subsidization which is which is differing very much. Most of the – all of the subsidization is going in areas in the very rural areas.

In 2020 given focus on the lower density of areas on the B2B areas, and schools, we have spent an average of €2,000 per home passed. But this will come significantly down, and on average we estimate something in the vicinity of €1,000 per home. So that's the level of – of what we thought about. I know it's expensive, but it's expensive for everyone, so we do not have any kind of disadvantage compared to – to the alternative carriers. And we are working very hard to get these costs further down.

There are different areas. What we are talking about, one is the effect of 5G which is fully digitized. So including let's say the planning tools and including even the – the outdoor planning costs, everything is based on new technologies.

We are using two technologies for cheaper deployment of fiber, one is the trenching and the other is a kind of drilling we are – we are working on. The third one is the amount of subsidization, which we are getting as in white spots and in the Stuttgart partnership. And the last one is even you know that we are working with others together EWE TEL.

And there are a lot of activities going on even the idea of how we synchronize every kind of construction with the construction of municipalities in a much better degree, so lots of things going on in this degree. And therefore,
Srińi’s task is definitely to bring down the cost per homes passed. That's what we’re working on. And I’m very, very encouraged about the progress we made already over the last years.

The second question was around the – the question around COVID-19. Look, I will start with that question on a – on a more industry perspective. The interesting thing is that the new lockdown seems to be milder than in Q2. The way how it is handled here in Germany is in a more disciplined way on wearing the masks and not meeting friends too many. At Deutsche Telekom, most of the people are back to home offices. We have reduced the meeting, the amount of members at a meeting to maximum 10. So we're reducing the physical contact. But in principle, our industries are working. And as you know, we have already managed Q2 in a very nice way. And I always say convergence means resilience. The more a fixed line you have, the better you can compensate for shortfalls on the mobile side, which is mainly affected by less travel.

For the current situation, I'm expecting a lower impact from roaming. The reason is because traditionally we have less roaming anyhow in this fourth quarter. So therefore, the gap or the loss will be smaller.

On the bad debt side, so far so good. We haven't seen any kind of significant impact on bad debts. So insolvency, which is due to the fact that the government heavily supports industries now in specific restaurants and SMBs. So there is a lot of let's say subsidization going on to keep our industry up and running, and therefore we are not affecting bad debt.

So when I talked to the Minister of Economy here, Altmaier, he obviously stresses that they have sufficient funding even going deep into 2021 with their programs. So I believe the new lockdown will be even milder than the Q2 results where we have I think shown with our fixed line business, great performance.

Christian P. Illek
Chief Financial Officer, Deutsche Telekom AG

Okay. If I may add a couple of thoughts here. I think we have very good grip on the key drivers except for one which is the ICT revenues. So, I think how this will evolve in a second lockdown is really hard to project because you need to be on customer premises. You need to interact in a physical way. And if you’re not allowed to basically enter customer premises, then it becomes difficult to sell large IT projects. So, this is something I think where I would say we don’t have a grip on.

On the roaming effect and all this stuff, you can take a look on our predictions versus how it played out. We're very, very close.

And the final question on Glasfaser impact. Deutsche Glasfaser and Telefónica Infra investment. Look, we’re building 600,000 fiber this year, we’re going to double next year, and we’re roughly double another time the year after. So what I heard from Deutsche Glasfaser in their recent commentary is that they’re suggesting to have a target of €3 million by end of 2025. So by all means that means that we are the biggest by far the biggest fiber builder and infrastructure investor in the German business. And I think I don’t know, Tim, whether you have a thinking on the Telefónica Infra investment. I think it's too early to make a comment on what's going to be the commercial impact.

Hannes C. Wittig
Head of Investor Relations, Deutsche Telekom AG

Yeah. Let me maybe also add that I think there might be a bit of a scramble for the same sweet spots when it comes to the over builders because what they are looking for is areas without VDSL, and areas without cable, and areas where the cost to build is lower than say €2,000 per home passed, and those areas are let's say not
abundant in Germany. So that’s maybe a bit of competition there amongst themselves and we might not be able to add them all together in terms of their targets.

So next question is from Fred at Bank of America, please.

Frederic Boulan  
**Analyst, Bank of America**

Hey, guys. Two questions, please. First of all, on the leverage, so you are 2.9 times now on a IFRS basis pre-pension. We have the C-band ahead, you have options to increase your stake in TMUS. So if we look at your leverage level in the next two to three years, are you comfortable with your path of organic deleveraging? And would you consider any other options to accelerate leveraging, so thinking about disposals including towers? And then maybe second point, just around Huawei, if you can give us an update on your working assumption in terms of decision you expect that the German government will take, and maybe if you can talk about the different variables and impact on your new business? Thank you.

Christian P. Illek  
**Chief Financial Officer, Deutsche Telekom AG**

Okay. So Fred, on the leverage question, let me start with the potential development. Look, as you know, we have registered for the C-band auction, but we can’t talk about this because this is currently in the quiet period, so we have to see how this plays out. I think the long term free cash flow generation of T-Mobile in the US is massive. If I’m not mistaken, I think the free cash flow consensus is about €14 billion by the year 2024. So there is massive deleveraging potential.

Obviously, as we crafted the deal back in 2018, nobody was foreseeing a C-band auction. So obviously that hasn't been part of the original deal model. But in any case I think it doesn't shape – change the story. And from this perspective, I think even whatever is going to play out on the C-band auction which we're going to see, and it's too early to make a comment on this one, we're still confident that we're staying within that framework which is returning back into the corridor after three years.

I think there is one caveat I would make. If you take a look between the difference of including or excluding leases, we thought a quarter of a point is sufficient. If you can take a look right now at the Q3 numbers, it's 0.4 points. So we have to take a look whether the adjustment which we have made for lease liabilities remain to be the way how we initially crafted them. But I think the whole story on deleveraging is absolutely intact. And we will, we have shown 2.5 ex leases this year. So you see that we're getting in that vicinity area in any case. I’m truly confident that this all holds true.

And obviously we always said there is disposal potential in the portfolio. We always were open about T-Mobile, Netherlands and also monetization of towers hasn't taken place yet. So that could serve as a supporting funding source. But let's take the decision first and then see how to use the funding. Tim, do you want to do the Huawei?

Timotheus Höttges  
**Chief Executive Officer, Deutsche Telekom AG**

Yes. Look, I think on the Huawei situation already pre-elections in the US, the public discussion and pressure was slowing down, smoothening a bit here. We are expecting that the IT security law will be ratified by the parliament soon. Nevertheless they take a long time here in Germany to get that through the parliament, and we are supporting all the positions which I mentioned in this paper.
There is clearly the attention to regain digital sovereignty in a lot of areas. And the one thing is that the core network of our infrastructure should be independent from Chinese vendors, here I can mention that Deutsche Telekom is already clean or very close to be clean by the end of this year. The smaller functions will be rebuilt.

The second thing is that, we are supporting O-RAN, all the industry players are doing and we are intensively working on the software code so that the 2G, 3G, 4G dependence on one vendor is not automatically pre-defining the selection of 5G services. We highly appreciate this protocol and working on it. So hopefully in the next – latest two years we have this capability as a software tool, so that we can use that for 5G antennas and new vendors are open for us.

And the third thing is that, we do not see security risks on the antennas and the access nodes, which we are deploying from Huawei today, so does the government at that point in time. So in principle, we do not have any negative impacts on our business so far, nor commercially nor from the speed of the 5G rollout, and you have seen this impressive numbers, which we put forward in the first half year.

So that's where the current situation is, I think the German, Chinese relationships are highly dependent from a lot of industry sectors exporting products to China. So my understanding is that the government doesn't want to have an escalation here. They are very much working on a neutral position considering the digital sovereignty and the independence from any vendor here, single vendor here, and we are working according to this policy.

Hannes C. Wittig
Head of Investor Relations, Deutsche Telekom AG

Thank you, Tim. Next question is from Ulrich at Jefferies, please.

Ulrich Rathe
Analyst, Jefferies International Ltd.

Yeah. Thanks very much. So, two quick ones, I hope. The first one is you have said in the past that the Deutsche Telekom cannot be the full coverage incumbent in fiber in the way it was in copper. So how do you think about the revenue position in Germany in that situation? In other words, are you foreseeing a situation where potentially you're going to shrink into a slightly smaller scale operator once you are arrived in the fiber world simply on the basis that you are not incumbent everywhere, and you're losing this wholesale revenues that you currently have from universal copper coverage? Or is this a sort of a more comment on the margin and overall it's not something that would sort of create a smaller Deutsche Telekom in Germany?

The second question is you have in the past sort of expressed your dissatisfaction with the way Deutsche Telekom is trading, is not getting enough credit by the equity markets. Do you think that is a conglomerate discount issue or a market concerns over the German business? And what levers do you – would you touch or not touch to address the underlying issue for investors? Thank you.

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

Ulrich. Thank you. Good questions. The first question I think is, look I do not see us, you know, shrinking here in our fixed line business. Our plans internally, and it was very wise of us to deploy the vectoring and super vectoring not only from a societal perspective, bringing this country through the crisis here, but as well from a market share and churn-related position.
You have seen we are constantly growing on our fixed line position. Constantly gaining new customers on that one. Almost 13 million customers are using our retail offering here plus the wholesale business. So, this is let's say the market size and perspective we're having. And with the current netted market share, we are – that is our expectation. We haven't seen the Vodafone numbers yet, but we are optimistic and that we are achieving our 40% market share in this regard.

Now that said so, we are not shrinking, these days we are growing in the fixed line business, which is I think after let's say all the attempts from our competition, and impressive performance. Now, our anticipation going forward is that you are totally right. We will not build the fiber for the whole country. It's impossible for one player. And by the way, we are not the state-owned company anymore who had this universal build-out obligation. So, we will build according to our scale, and to our customers' needs, we will build network infrastructure, our own. And we will have capabilities, we call whole buy, where we are able, active and passive infrastructure to be used which is built from other players.

So, we are open, and you have seen the deals which we made already so that we do not have to automatically own every infrastructure. In Münster for instance, we are taking over let's say the infrastructure from the city – from the municipality, and we are now using it for our customer base, but as well for managing the wholesale business with third parties. So this is, let's say, passive infrastructure built by a municipality. We help them to utilize the infrastructure, but we have access for all the millions customers in this region for our Magenta service as well for our wholesale partners.

And this is the model which is extending our footprint beyond our own. So on top of that, we can build with others. I can even imagine that we have partnerships of balance where we are committing in a contingent model from our side so that we overall create scale and have access to the FTTH which is built across Germany.

Today, VDSL has a nationwide share of 85%, in FTTH, it will probably be a bit lower at the end. But when it looks – comes to the revenue perspective, I can tell you, we believe that both on the retail and on the wholesale side, we will at least be in the magnitude of the scale, and the size which we are offering already today. So that's the good way forward. And so we are not concerned about what's Telefónica others are doing. I think this is adjacencies where we can collaborate to bring fiber into the households here in Germany without having all the burden on our shoulders.

When it comes to your second question, and the question around the valuation of Deutsche Telekom. Now clearly, and this always reminds me that I should not teach the market. I always do. I'm sorry for that guys, but I clearly believe that the share price performance is unsatisfactory of what we are offering. And looking to that one, I'm not concerned. I'm not concerned about it because at the end of the day, the operating execution, the way of making our business, solving the problems, being cost conscious, investing in the right field, staying focused in the business where we are, don't making bad deals and moving forward, I'm sure we will get the credit from the investor side as well.

If you look to the situation, and there is a super performance of the US, as I mentioned earlier, kept – doubled over the – since announcement. Now if I look to the German entity and the European ones, we might have lost equity value in the past, which is a little bit according to the negative sentiment the whole telco sector has. I understand that, because what we have seen is most of our competitors are shrinking, and even this quarter again, most of them are shrinking, second quarter by minus 7% to minus 10% if I look to Telefónica, look to Orange, looking to Vodafone and the like.
The only thing is Deutsche Telekom in its core market in Europe is growing. We grew by 4% in Q2. We're growing by 3.2% this quarter. So we have another development than our competition. I believe not all the investors are recognizing this. They are looking at the telco sector as a whole for the European situation, and not differentiating among the players here. So it's our task to show this difference, to make clear that our business is doing better than the one from the other telcos here in Europe. And then we will over time close the – close this existing gap, which you mentioned, Ulrich.

I think maybe a last sentence on that one, I always believe at the end, the good wins. So put your blinkers on an and execute along your plan. This is our strategy at Deutsche Telekom and we feel very close to our American colleagues working very closely. They are very happy that we are working together and sharing the synergies. So therefore, all this pressure which I can see from the capital markets, it's not something which is bringing us apart from our strategy.

Hannes C. Wittig  
Head of Investor Relations, Deutsche Telekom AG

Very good. Thank you, Tim. And I actually don't think the market is always right. I think right now it's – it is wrong. But at least we can understand what some people's concerns are, and it is obviously our job to address those concerns. Like and I think it's pretty evident that we will see pretty strong earnings growth. In fact, our third quarter shows that even in a year of massive merger investments, we can deliver €6 billion free cash or more and our earnings are pretty steady. So I think we have – we can show that we address these concerns and that will translate into benefits for shareholders quite soon.

So the next one is Josh at Exane, please.

Joshua Mills  
Analyst, Exane SA (United Kingdom)

Hi, there guys. Thanks very much. Two questions for me. The first is on the fixed line trends in Germany. So if you highlighted very strong service revenue trends in fixed line and also broadband net adds, I just wonder how you square that with what you're seeing on the fiber side. So overall, fiber-to-the-cabinet or fiber-to-the-home that's not slowing down both in the retail and the wholesale segment. Are you seeing that the people buying those fiber products do pay more or is that generally a bit more upselling within the overall broadband base including DSL. It'd be great to hear a bit more on that.

And then the second question, 1&1 Drillisch last week were saying that they have requested the BNetzA become involved as a referee with regard to national roaming, and that they don't consider your offer – the offer from either you or Vodafone to be satisfactory, but just be great to hear a couple of lines from you on your perspective around that. And is there any legal scenario where the BNetzA can actually force you to lower pricing or is it still a commercial negotiation? Thanks very much.

Christian P. Illek  
Chief Financial Officer, Deutsche Telekom AG

So Joshua, on the fixed line German question. No, we don't expect that there is a slowdown in trends. Look, let me go back about a year ago, as the Kabel merger was approved with Vodafone and United. You were all concerned that we're not able to basically compete against Kabel, and now we're having net adds which will be very likely above 50% net add share in that given quarter. I think, there is a – we've seen a slowdown of roughly a 100, but I wouldn't, I wouldn't say this has something to do with the slowdown in our performance.
And I think what you see in the German market is quite right. People are willing to spend money where they see the clear value. But the Germans are not very famous on buying basically the latest and greatest technology and willing to pay a premium. And if the vectoring technology is still satisfactory, they may have a conservative approach to further upgrade. So that would be my question. I think take a look at, what's happening on the market on the net adds, I think that's a better indicator rather than how many fiber adds we're producing. So from this perspective, I think there's no negative momentum change in the fiber business from my perspective.

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

Let me add one sentence, Christian, for customers the service is something which matters as well. And the reliability and the position on how we are delivering on fixed line services these days is something which has a big value. And we see all the feedback which we are getting in the tests, you see that as well in our Net Promoter Score and our TRI*M values, and we have made really leapfrog, and jump on the service quality, and that is something that customers appreciate.

So they're highly appreciating our VDSL and vectoring services these days, very good product. But what we are doing is now after having finalized our build out on this area, we and the IP migration, we are using this money to deploy fiber to the home. In areas where the subsidization is high that makes total sense for us. From a commercial perspective, but as well-known areas where we can regain market share, while we add to the good service a fiber proposition.

So this is, let's say, how we are looking in this world, and that is how we're selecting the markets. And we do not want to be too late on fiber. So we are now increasing now our fiber roll out asset up to 2 million households per annum in selective areas plus the partnerships which we are seeing with investors like Telefónica and Allianz. So this is, let's say, a good path going forward to safeguard our good position. Today customers don't need it, and don't buy it so much, but prospectively that may change, and then Deutsche Telekom is ready.

Your second part of the question, Joshua, was Drillisch eins und eins. And look we are, in principle, and I see, I do not mean in principle. We are open to third-party businesses and reasonable commercial terms. So that is a principle which you can see everywhere being at our contingent model being it open up our fiber infrastructure, being it the joint ventures which we have with EWE TEL, being it our passive infrastructure and partnership.

Wherever you see us, and as well on the mobile side, we have decided to partner with Vodafone and Telefónica when it comes to the rural build out where everybody has committed to 2,000 sites which we jointly share. This is, let's say, a model which makes the servicing and the service quality for our customers better.

However, national roaming is no off-the-shelf access solution. I think it is a temporary backstop until a network operator has carried out its own full network rollout, and if an operator relies on national roaming in the long-term, or if conditions do not reflect the commercial interest of the host network. This undermines incentives for further network rollout, especially in rural areas, and leads to less, and not more capacity in the market. And this is my point.

Look it cannot be that we are investing into 30,000 mobile sites that we are investing into a full coverage which cost us billions, and that any partners coming and asking for access to this infrastructure on variable cost terms, on incremental costs or whatever. This is something which will, if this the model nobody will invest into a fixed line – fixed infrastructures anymore, and that is something where I'm criticizing the principle. I'm open to share with anybody if he's paying an appropriate condition. This is, let's say, the partner model which we have laid out with others as well.
Now, Drillisch and eins und eins has called for mediation by Bundesnetzagentur both regarding negotiation with us and with Vodafone. And we are now part of this involvement here, but we will be very clear on our positions that it cannot be that we are going to a variable incremental cost model. This is something which is very negative for Germany prospectively.

And one last sentence, I don’t think there is a lot of political support for free riding these days. I think everyone is expecting that eins und eins start building. To my knowledge they haven’t built any site yet. So I would question whether they are really serious on building an infrastructure. My expectation is more that prospective to therefore find a commercial agreement with Telefónica.

Hannes C. Wittig  
Head of Investor Relations, Deutsche Telekom AG

Okay, thank you. Next question I think is from Akhil, JPMorgan.

Akhil Dattani  
Analyst, JPMorgan Chase

Hi, good afternoon. Thanks for taking the questions. I got two, both in various ways, related to the same fiber topic we’ve been going through. And the first is just a very high level question. I'm sure you get the same questions yourself, but I guess a lot of the conversations on fiber today are somewhat simplistic, and revolve around the fact that you’re saying €2 billion a year to fiber spend is the sort of parameter you’ve laid out. But the concern is that at some point you might want to get to 30 million homes or more, and therefore the run rate CapEx could go to €3 billion or higher for fiber. So I just wondered without going into the details of things you haven't guided to yet, how do you at least address the bigger picture points, could there be a scenario where CapEx goes up that much and what would you do in that sort of scenario?

And I guess the second question which is a bit linked to that is that if you look at this year, there’s been a very clear trend of private equity money increasingly ramping into the sector given low cost of capital. And I guess that one of the reasons is they are different duration obviously with listed companies all very focused on near-term cash flow with infrastructure funds. They care about long-term infrastructure value creation.

So I guess I’m just trying to understand when you think about those things as a listed company how do you think about your options if you are trying to maximize the long-term infrastructure value creation within the context of trying to manage what investors are worrying about, which is near-term cash flow? Thanks.

Timotheus Höttges  
Chief Executive Officer, Deutsche Telekom AG

Okay. Look guys before we go into the main question which we have and it’s interesting, we always have one topic which is the hottest topic then, and this seems to be fiber these days. And it has a bit of overhang on our stock as well as the storyline. I just, I just don't get it because 2 million fiber households and we said we are carrying that out in the envelope which we have laid out. And even if you do the math, and see a shortfall or whatsoever from an investment perspective, guys we have just increased our EBITDA guidance by €1 billion.
So I'm just questioning, this is, there is so much money for compensating all the other topics that I just don't get the math, if I see on the one side the increase on the EBITDA line while on the other side you are very concerned about some for me, I would not say minor, but at least questions around the CapEx envelope which we have laid out.

The second one is our learning curve is steep when it comes to the cost reduction and the CapEx reduction for fiber.

And thirdly, the money which is flowing into this market, from a subsidization perspective is the highest in whole Europe which is having to prove the internal rate of return for all the investments we're doing into fiber. So we are not sleeping on the tree. We are trying to make a commercial model out of FTTH build out and there is a limitation to our capabilities. No one in Germany is able to just go for 2 million fiber holes or just on the next morning. We have to build up the scale and everybody has to do this.

So therefore, we are going from 600,000 now. We will now focus on going up to 1.5 million to 1.8 million then the year after, and then we are going into the 2 million fiber per whole – per year rollout which is a super big attempt going forward. Now I believe that others will invest into this scenario as well because of let's say even the subsidization which is available there. And therefore, I'm not criticizing that, I appreciate that, because as I mentioned earlier, we will not be able to build 100% of this country with FTTH nor we have the interest to do this, because not all of this is commercially viable.

So therefore, let us go now. I can, with all the track record I hope we have built. I can give you a kind of guarantee that our financial envelope is the financial envelope which we have defined under which we are able to build this 2 million households here. We have to get the learning curve up and running. We have to see the take up rates, and that's the way forward. There is no bigger picture of this scenario, which I see, at least not the capabilities at that point in time.

And the last question on the private equity money sector, look, if there's anyhow a lot of money which is [indiscernible] (01:04:42) around in this world. So, and yes, I think not all of this money will probably, let's say, earn its returns. Nevertheless, having a company maybe even a company outside of our consolidation who is, let's say, building infrastructure at reasonable terms and reasonable areas. This is definitely – we are definitely open to share that for prospectively, let's say, bringing our customers into their infrastructure. So we are open to all of them. And by the way, we're talking to all of them.

Christian P. Illek
Chief Financial Officer, Deutsche Telekom AG

Well, my repeating sentence on this one I love only economics. So wherever we have the opportunity to build by ourselves I would always prefer this versus using private equity money. The second, I would say, most attractive category is what we have done with EWE TEL to build that joint venture on infrastructure because we basically using one infrastructure, but two distribution structures, and have also offers. And yeah there is I think there's an incremental market for private equity money, but we always have to think through how this plays out with the lease liabilities. And I think this is something where you have to factor this into your implications on the balance sheet as well, because depending on the duration of a contract that really can kill a deal because we have seen that already.

Hannes C. Wittig
Head of Investor Relations, Deutsche Telekom AG

Great. And with that, let's move on to Christian at HSBC.
Christian Fangmann
analyst, HSBC Trinkaus & Burkhardt AG

Yeah. Thank you. I have actually two. One is also again on the whole FTTH CapEx thing. Just in terms of timing, is it fair to assume that you will give us a real guidance in terms of CapEx at the next Capital Markets Day or is there possibility to hear at least some kind of color on this before that? And the second one is on the new German Telco Law that is in draft status. It seems that the current draft is not really different to the early draft [indiscernible] (01:07:06). Can you share what kind of debate is happening behind the scenes? What are the risks in the current draft? I mean for example the [indiscernible] (01:07:16) length is still under investigation. The living costs which we believe, can you share your latest thoughts around that?

And then maybe one last point is actually a third question, sorry about that. On the guidance upgrade ex-US, is the €100 million high on adjusted EBITDA, but not being adjusted on the free cash flow. Is that really a cash tax thing or is it because of lower cash flow from T-Systems. Can you share a bit of light why you didn't really increase the ex-US free cash flow? Thank you.

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

Okay Christian. Let me try to – that's a complex question with regard to the telecommunication law. So politicians are still, let's say, debating the incorporation of the EU Court into the German Telecommunication Law. And so I think this is offering an opportunity to support the network investments. Now the major topics, and you know them, are national roaming, removal of the rental privilege, FTTH regulation, symmetric access regulation, contract durations. And so, the discussion is going on. There was already first draft expected earlier this year, so postponed until now. So a little bit later than we originally thought.

I think there's not so much political support for any kind of national roaming. That is my readout. I do not see that there is a very aggressive FTTH regulation which is enforced. So I think the new law reflects aspects like switch from ex ante regulation to ex post regulation, there is kind of non-discriminatory access regulation. And by the way, we are doing that anyhow that we give access to our infrastructure. And so these are positives.

There is this idea which we are trying to incorporate which is calling about the reciprocity -- the reciprocal access fees being discussed, the regional price differentiation, and as well the non-discriminatory wholesale access regulation where we think these are topics which should get included, but which are under discussion at that point in time.

When it comes to the hottest topic on this list, Christian, I think it is the removal of the rental privilege and Deutsche Telekom is together with the [indiscernible] (01:10:03) and others are very much pushing for this topic. The logic for us is the following: having 20% to 25% of the houses not being accessible for us. This is clearly reducing the amortization of new FTTH build-out and that is not only true for us. This applies as well for the smaller carriers who are deploying FTTH in Germany. So therefore, we find ourselves with the challenges in one boat here.

On the other side, we see the housing associations as well, Vodafone trying to define their monopolies here. This is an issue which is debated. And I'm in the middle of this process talking to all relevant stakeholders in this regard. Look, we will see how it is out today, the NIM cost and privilege, the rental privilege is in violation with EU law and should therefore be removed, that is, let's say, the current draft on this one.
I think in principle, the new German telco law is – it's not worsening the situation. It's improving the situation. But it's not, let's say, a big leapfrog change to the current situation. So that would be, let's say, a summary in short. And maybe if you want to go to specific topics, please ask again on this subject. But I do not want to spend too much time on the details here. Christian, maybe do you want to go into the guidance?

Christian P. Illek
Chief Financial Officer, Deutsche Telekom AG

The guidance? Yeah, sure. Look, we're looking at this the following way. First, we have just increased the guidance for the group to at least €6 billion or greater. The second one is, yeah, we increased the EBITDA guidance by €0.1 billion. But please also reflect that we have already a significant increase in free cash flow announced with €3.3 billion for this year. And don't forget that we have reduced factoring in the first quarter by €700 million. So that was already an ambitious target. And I think there are many factors influencing free cash flow beyond EBITDA. And we don't have full visibility, for example, on taxes right now or on some interest expenses. So from this perspective, that led to a decision to increase the EBITDA, but not the free cash flow?

Hannes C. Wittig
Head of Investor Relations, Deutsche Telekom AG

Right. On the question, I think your first question related to fiber-to-the-home and the next Capital Markets Day and all of this, yes, I think it's likely you will have another Capital Markets Day coming up next year, because that's what we do. We come every three years. We lay out a plan for four years and then we stick to it. And I think you can see that we delivered on what we promised more or less. And we feel on a good way towards this promise and one of the promises was that we gave a clear outline on CapEx and we stuck to it.

So 2018, 2019, 2020, and it seems 2021, no intention to not to deliver on that. And from that perspective, I think hopefully we've earned a bit of trust in terms of what we are guiding. There's no indication here that whether we will guide anything hugely surprising on FTTH given what the discussion is, given what our thinking is, that's speculation. So I think, I don't think it is right now to think that I wait until the Capital Markets Day and then something terrible will be announced in FTTH and all good things will end. So – and let's not forget also on the discussion with ex-US free cash flow, I mean T-Mobile is part of the group. Okay. And so it's a bit of an artificial separation. Sometimes it's good for [indiscernible] (01:14:36) perspective, but maybe it's falling a bit short in terms of what the group is generating. And that's what Tim tried to highlight before. When you look at the whole group, consensus currently expects €17 billion in 2024. That's you guys, okay.

So with that, let's move on to Robert at Deutsche Bank.

Robert Grindle
Analyst, Deutsche Bank AG

Yeah. Thank you. Tower's EBITDA AL growth of 5% in Q3 diverged from EBITDA growth before leases, I think that was 1%, by about four percentage points. So basically it grew faster. In Q2, the growth rates were similar. Is this a one-off in Q3 or do you see more opportunity to renegotiate lease costs to drive EBITDA AL faster than the IFRS EBITDA? And then just going back to Christian's comment about lease liabilities. From a credit rating perspective, is it more helpful to strike a cheaper, longer term deal with a high capitalized lease cost, like [ph] 3% adjusted (01:15:40), but which boosts IFRS 16 debt – or is less cheap shorter term deal with lower capitalized leases better from a credit perspective? Thanks.

Christian P. Illek
Chief Financial Officer, Deutsche Telekom AG
Robert, let me start with the second question because I don't have the first question on top of my head, but someone is looking for this. Look, on the lease liabilities, from a credit rating perspective, absolutely. It is from a rating perspective, a shorter deal makes sense. But I would never take that entrepreneurial decision. Look, it helps you on the rating leverage. And if you take a look for example what the US has done with the ATC deal, they were going for a 15-year deal in order to create stability and predictability on what's going to happen on their tower leases. And I think from an entrepreneurial point of view, this is exactly what you want to do. You want to take risk out of the system and therefore go for a long-term deal. But obviously it hits you on the lease liability side under IFRS. The US, they don't care because the net leverage is a non-GAAP figure. Therefore they don't include the lease liabilities. So you don't see that impact. But I would always try to do the right entrepreneurial decision versus preferring or basically taking advantage from a rating perspective.

Does anybody have an answer on that?

Hannes C. Wittig  
Head of Investor Relations, Deutsche Telekom AG

No. On this, the first question, Robert, I mean there is sometimes a bit of quarterly volatility, talking about small numbers and we haven't changed any strategy in the towers and so on. We've built 1,800 sites in the last 12 months in Germany, mainly rooftops. We get steady growth. There's no discontinuity in the tower operations. And by the way, something not to forget, we are building new sites. Right. Not many people do that. Organic growth is very strong in the towers. This is a part of our strategy. But also going forward, there would be the coverage obligations that we will deliver against and so on.

So, we will get back to you on this one. It didn't strike us, so good spot. We'll look it up if there's something untoward. And in terms of leases, let me just say again in terms of the metric, to that – excluding leases, And Christian answered the question related to leases and that was the question. But if you exclude leases, which is how our peers – most of our peers look at it, we are at 2.5 times end of this quarter. Anyway, next question is from Jakob at Credit Suisse, please.

Jakob Bluestone  
Analyst, Credit Suisse Securities (Europe) Ltd.

Hi. Good afternoon, thanks for taking the questions. I won't ask on fiber. Two questions on the German market. Firstly, could you share a little bit of your thoughts around the impact of the new iPhone on the market? Do you see it as a significant event for the German mobile market or not really? And then secondly, you've obviously had very strong net adds and you mentioned market share above 50%, but it does also look like there is a sort of slightly more durable acceleration in net adds in aggregate for the German market overall. I'm just interested if you could share your thoughts on what's sort of driving that reacceleration in the German sort of aggregate subscriber numbers? Thank you.

Timotheus Höttges  
Chief Executive Officer, Deutsche Telekom AG

I think it's very early to see on the iPhone in the market, it's not that it's something like creating a super hype. It is, I think, an innovation, no doubt about that one; it's too early to say. What we learned from the US, it seems to be from a mix perspective a little bit different between the S and the other lineups here; so a little bit of a shift in this regard. But in principle, it is perceived as a very relevant device. But nothing what I would say now this is super game changer in our market yet. So too early to say, but let's wait for the Christmas business and then we will see. Asking me about the device, 5G services working nicely. It's coming with great functionality and good
technology. It’s well supported by advertising money from – both from our company, but as well from Apple itself. So too early to say. But it will definitely help us to drive 5G.

**Christian P. Illek**  
*Chief Financial Officer, Deutsche Telekom AG*

So, on the net add question, first of all, we're not seeing a big acceleration in the broadband market. I think we're still feeling it's pretty steady. Look, our numbers are fairly strong because we always said we believe that customers are buying for a basket of reasons. And yes, speed is one. But the product proposition you're getting, the service proposition you're getting, the brands you're buying are also paying into this. And I think this is why we feel our net adds are as strong as they are. But you see on the other side, for example, on one-on-one in Telefónica that their growth has come down in the recent quarters. And I don't know what Vodafone is going to tell you on Monday. I think we have a good proposition in place. We have a good offer in place. We have sufficient bandwidth performance in our network. I think that drives our strengths in the broadband market and customers trust us, they trust our reliability. But we don't see a momentum change in the German broadband market.

**Operator:** Thanks Christian. And next question is from James at New Street Research.

**James Ratzer**  
*Analyst, New Street Research LLP*

Hi. Yes, good afternoon. Thanks very much. Two questions, please. I mean, it sounds the kind of tone you're making on the call, you're both more confident about your leverage, in particular, I think kind of quite rightly focusing on the ex-leases measure. And you're also sounding I think quite rightly more confident on the US business where the share price has been rising. So where I'm really going this is updated thoughts on when you might want to exercise the option to buy out SoftBank, because looks like the TMUS share price could potentially run away from you and the balance sheet today has the capacity to handle buying that out. And then the second question please, would just love to get your thoughts around the next-generation EU fund. How do you see that playing out in Germany? What are you hearing from politicians at the moment about how much might be allocated towards digital services, in particular, how do you think about the benefits for that, for the telecom sector, specifically in Deutsche Telekom? Thank you.

**Timotheus Höttges**  
*Chief Executive Officer, Deutsche Telekom AG*

The first question is, I will not tell you. Let's think about it. But when we do it, we will inform you. But this is something which we are not discussing publicly. And by the way, we have decided to say we are not doubling up immediately. We could have done that earlier. We didn't because we thought it's good to get proof of the pudding first and understanding how this merger is moving forward, the new team, the attempt to the market, all this changes to the technology and the like. So why doubling up at that point in time and on this journey, we will learn when the right timing is and then we will let you know.

On the second question, honestly, I'm not sure whether I got the question right. Maybe you can help me. I was not listening carefully enough. Sorry. Can you repeat it?

**James Ratzer**  
*Analyst, New Street Research LLP*

Yes. Hello. Can you hear me? Can you hear me?
Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

Yes, we can.

James Ratzer
Analyst, New Street Research LLP

Great. Yes. And I was just asking about the next-generation EU fund, the €750 billion recovery fund and how you think about that in Germany. What are you hearing from the politicians at the moment on how they might be looking to allocate those funds. What percentage might go towards digital and the telecoms industry, specifically?

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

Yeah. You're totally right. And that's a good question. Look, the EU leaders agreed on this extraordinary summit in July on €750 billion recovery package in order to mitigate the social and the economic consequences of the COVID-19 pandemic. It compromises €390 billion in rents and €360 billion in loans. The recovery fund comes on top of €1 trillion in the 2021 and 2022 multinational financial framework. So and by the way, on top of that, we have a German program in the magnitude of €150 billion, which is on top of this numbers. So there are unbelievable big numbers on the table. And the EU and their program have earmarked 20% of this recovery fund for digital. So this is a good sign. And I can tell you're spending a lot of time with politician leaders in Europe, but as well in Germany on really, let's say, understanding and allocating the money in the best manner for the European societies.

We are ready to support and leverage these initiatives. And we are, as I said, heavily engaged on this one. We have our own team working on this by the way and we see different areas where it make a big difference. One of the areas is what we call the Cloud Federation or we call it Gaia-X. There are big discussions going on around an automotive cloud about governmental services. And when it comes to digital sovereignty in other industries that we have partnered up with OVH in France, this is to combine our software skills with bar metal services to provide this software for the industries. It is based on a very open, interoperable architecture which we are providing. It's always full compliance to GDPR and it can be an alternative to the US cloud services which are mainly used in the European environment.

Another area is the Corona app. And you know that Deutsche Telekom is one of the main system integrator, service providers for this for this app. We're doing well. It's the most successful app in the world. More than 20 million customers are using it. We are now extending the functionalities for the European Member States who are using decentralized app services. So this is something we are doing. I even see areas in the connection of schools, both from an infrastructure perspective, but as well including cloud services. This is under discussion at least here in Germany. So there are a lot of initiatives going on. I cannot go through all of them. But definitely, there will be double-digit billions going into the Telco sector and helping, via our industry, a society to be better connected.

Hannes C. Wittig
Head of Investor Relations, Deutsche Telekom AG

Thanks, Tim. On eventful day for European towers. We're also now able to answer Robert's question related to the discrepancy of the EBITDA growth in the third quarter in our tower operations. So basically we had a one-off related to an IFRS correction booking – IFRS 16 correction bookings. So that is basically related to something last year rather than this year. So nothing particularly to worry about. And we said we have our last question today from Usman Ghazi at Berenberg please.
Hi, gentlemen. Thank you for taking my question. I've got two. The first question was just on 5G mixed band build-out using the 3.5 gigahertz band or the C-band in the US as it's called. I'm just wondering, I mean, if you were to build a mid-band network using that frequency, I mean, what was the reasonable level of coverage? What could it actually end up being? I mean, [indiscernible] (01:29:35) obviously using with the 2.5 gigahertz to build out 99% in the long term. But if you only had the 3 gigahertz band, I mean, what would economically be the limits that you could build out to?

So that was the first question. And then, the second question was just related to a comment that the Monopoly (sic) [Monopolies] Commission in Germany made at the end of July when they were giving a recommendation to the government of prohibiting cooperation kind of deals, like the one you've done with EWE TEL on kind of future fiber build-out unless it's absolutely necessary. So just regarding that, do you think that that changes anything, that opinion changes anything or should we just disregard that thing?

Maybe on the second question, the cartel office commented on it, but they said that the concessions that were agreed are such that the joint venture should go ahead. So while there are principal concerns with regard to collaborations in fiber, because they might foreclose some competition, which I take pretty much as a holding statement for the agency that they want to have – they don't want to write out a blank check for this kind of collaborations going forward. But in the specific case of EWE TEL, they did say that those – that the concessions agreed will help address their concerns. Okay.

So also on the 3.5%, let me say, it's a good question, but it's one that we really cannot answer right now because we are in a quiet period ahead of the auction. If we, let's say, now go into details of a 3.5-gigahertz plan for us or for ourselves or others, it's telling you too little or too much and it's not prudent at this point in time to provide this commentary. We're happy to talk about our 3.5 gigahertz plants in Germany, but we've got the spectrum, while other markets where that's the case. But at this point in time, let me just reiterate, we will have 200 million homes passed, sorry, not homes passed, POPs covered in the United States with 2.5 gigahertz spectrum by end of next year. And that's surely a pretty amazing deployment of high-speed frequencies for 5G. And so I think with that, we come to the end today. Sorry, we couldn't be more helpful on the last question. Tim, you want to wrap up or say goodbye, whatever.

Yeah. Look, thank you very much for your questions. Look, I think this was a fantastic quarter for Deutsche Telekom, especially if I look how we performed against our European peers and as well, our US peers. Now there is a lot of work in front of us, which we have to solve. We want to deliver the US merger synergies as fast and as big as possible. So accelerating is, let's say, one of the tasks which we've given ourselves. We are very intensively working on digitization internally. That is another thing we are working on. I couldn't spend today time with you on the ESG topic. This is something we intensively scaling up in our organization by the way, just I became the manager of the year with regard to diversity here yesterday. So this is another award, which is showing that we taking this topic seriously here.

We are working on the leading infrastructure in every market we are operating. That's our strategy, simply as that. And that is what we are doing and the biggest challenge which we have is the one which we discussed is our
FTTH rollout here in Germany with the new management, with the new push behind that, we will find appropriate answers. We want to further improve our customer experience. Honestly speaking, this was a main topic in the past. For us, it's now a differentiator which we have on our hand. So, you haven't had questions on that one, but I cannot underestimate how important that is for our perception and how this is helping us these days.

All our competitors were with price promotions in the market. We were the only ones without price promotions, but with great service awards and you have seen the outstanding growth results we were able to deliver both on market share and as well on the revenue side.

I think the US merger is on an excellent track. Across the group, we are digitizing and we're taking out costs. Cost discipline is very high. We didn't mention that today, we are well ahead of our cost targets. We are well below when it comes to our head count numbers. So the numbers of new hires is lower. And therefore the ramp up or the starting point is at a lower level and we are very well leading on 5G. I think that's so important for us. And you have seen the numbers, two-third of the country, sorry two-third of the population covered by 5G by the end of the day in Germany. This is a benchmark for everybody who is working with us.

I know that many of you are worried about the CapEx risk, but please let me put that in perspective. And I'm always trying to calm you down and to call it off, but we've just added €1 billion, €1 billion to our 2020 EBITDA guidance. And we do this while investing €17 billion all time high of CapEx into our businesses. And while we spend a couple of billions on the US integration, we are showing this performance. So our investments will drive big growth in cash flows and earnings in the upcoming years. And therefore, I'm very optimistic that this envelope which we have shown is the one serving the growth expectations.

So therefore, thank you for your kind attention, thank you for your trust in Deutsche Telekom and we won't stop.

Hannes C. Wittig

Head of Investor Relations, Deutsche Telekom AG

Thank you, Tim, and thank you, Christian. And so we come to the end of this call and if you have further questions, please get in touch. And hopefully we can then answer or help. So with that, I give back to the operator. Stay healthy. Have a good rest of the day.

Operator: We'd like to thank you for participating at this conference. We are looking forward to hear from you again. Good bye and stay healthy.