REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DTEGn.DE - Q2 2021 Deutsche Telekom AG Earnings Call

EVENT DATE/TIME: AUGUST 12, 2021 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

Hannes Wittig *Deutsche Telekom AG - Head of IR*

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

CONFERENCE CALL PARTICIPANTS

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

Akhil Dattani *JPMorgan Chase & Co, Research Division - MD and European Telecoms Analyst*

Andrew Charles Robert Beale *Arete Research Services LLP - Senior Analyst*

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

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

Georgios Ierodiaconou *Citigroup Inc., Research Division - Director*

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

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

Joshua Andrew Mills *Exane BNP Paribas, Research Division - Research Analyst*

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

Robert James Grindle *Deutsche Bank AG, Research Division - Research Analyst*

Simon Alexander Arulraj Coles *Barclays Bank PLC, Research Division - Research Analyst*

Ulrich Rathe *Jefferies LLC, Research Division - Senior European Telecommunications Analyst*

Usman Ghazi *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

PRESENTATION

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 Wittig - *Deutsche Telekom AG - Head of IR*

Yes. Good afternoon, everyone, and welcome to our second quarter and first half 2021 webcast and conference call. As you can see, with me today are our CEO, Tim Hottges; and our CFO, Christian Illek. Tim, as usual, will go through a few highlights first before Christian will dive a bit deeper into financials of the quarter and also the operating performance. And then we have time for Q&A.

And as always, before I hand over to Tim, please pay attention to our usual disclaimer, which you'll find in the presentation. And with that, over to you, Tim.

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

Thank you, Hannes, and welcome, everybody, to our second quarter and first half 2021 results. It's a sunny, warm day here in Bonn and coming with a sunny quarterly outlook. So I hope you're doing as well as we do.

I feel we'll first review some year-to-date highlights. Then Christian will take you through the quarterly performance in more detail. We look at our second quarter results as another strong step towards our full year growth targets and also towards the midterm ambitions we laid out at our recent Capital Markets Day. Of course, the Capital Markets Day was itself one of the highlights of this quarter, and we gave a lot of guidance, which we are now executing. First, we gained towards strong growth in all relevant financial metrics, including for earnings and for free cash flow. And this was underpinned by detailed segment-level guidance. I'm sure you're all aware of this. Surely, all of you also saw T-Mobile's excellent result in the U.S. 2 weeks ago. They delivered strong quarter results on customer growth, on EBITDA AL growth, and they raised their full year guidance. The merger is very well on track. The network leadership is apparent, and the churn is low. T-Mobile also confirmed their medium and long-term financial targets, as stated at this year's Investor Day.

Today, we are reporting excellent results for all of our European operations as well and for Deutsche Telekom as a whole. And we raised our group guidance for 2021 to reflect the T-Mobile's guidance upgrade. Our organic ex U.S. EBITDA AL was up 4.4% year-to-date, powered by around 2% organic revenue growth and EUR 0.3 billion indirect cost savings. This puts us well on track for our full year guidance.

Our free cash flow was EUR 2.7 billion in the first half year. This is also something relevant because it takes us a long way towards our EUR 3.6 billion full year target already.

Customer growth remained strong across the board. Our German FTTH build is well on track, both in terms of volume and costs. We announced plans for major cities, including Hamburg, Munich, Frankfurt and Düsseldorf. And with Deutsche Bahn, we agreed plans to remove any remaining white spots in our railway coverage, by the way, countrywide.

You can see our main financial targets and financial performance on Page 4. For the group, we delivered 4.6% organic growth in adjusted EBITDA AL year-to-date. Without the deliberate wind-down of T-Mobile handset lease revenues, this would have been growth of nearly 10%. All segments contributed to our strong growth and is consistent with our EBITDA AL guidance. The European segment has now delivered 14 consecutive quarters of organic EBITDA AL growth. For Germany, this is now the 19th quarter in a row. By the way, Q2 was the 12th consecutive quarter of organic growth in our ex U.S. EBITDA AL and the seventh consecutive quarter in which this growth exceeds 3%. We love statistics. Free cash flow is up by 44% year-on-year and adjusted earnings per share almost 30%.

Moving to our networks. In Germany, we already cover 82% of the population with 5G. We will take this to over 90% by year-end. There have never been a rollout that fast. In the U.S., we reached 165 million people with our 2.5 gigahertz network, up 25 million in the quarter. We passed 1 million homes with FTTH in the last 6 months, thereof 340,000 in Germany. In Germany, we are well on track to take this to over 1 million homes this year, 1.2 million is, by the way, our interim target. And we are making very much and very good progress towards our stated target of cutting the cost per home by 25% by 2024.

Our customer growth remains very strong. This really matters to me. We gained 2.5 million new postpaid customers in the U.S., 738,000 new contract customers on this side of the Atlantic, 328,000 new broadband customers, very strong, of which 186,000 in Germany; and 122,000 new TV customers. As already mentioned, today, we raised our EBITDA AL guidance for 2021. This is based on the upgrade by T-Mobile U.S. 2 weeks ago. We now expect adjusted EBITDA AL for the group based on last year's exchange rates at over EUR 37.2 billion. We continue to expect more than EUR 8 billion free cash flow, of which EUR 3.6 billion from our ex U.S. operations.

And with this, and a very optimistic and positive outlook for the remainder of the year, I hand over already to Christian, who will take you through the details of this quarter. Thank you.

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

Thanks, Tim. And I hope you're all doing well. So let's have a closer look at the Q2 financial results and take a look at how they have developed. Look, the reported figures are obviously impacted by 3 major factors, obviously, by the Sprint merger as of April 1, 2020. It's been impacted by the deliberate wind-down of the handset lease business in the U.S. and it's also been impacted by a weak dollar in the second quarter. So what I would propose is we're going to focus on the organic development of our business.

And let's start with the revenues. Organic revenues were up by 6.8% on a year-on-year basis. And if you take a look -- closer look at the service revenues, they were up 5%. The ex U.S. business grew by 2.2%. On EBITDA, the organic EBITDA was up 1.1% this quarter. And if you account for the wind-down of the handset leasing business, which accounted for about EUR 400 million, that growth would have been, without that drag, a 6% growth year-over-year. And the organic revenue -- the organic EBITDA growth ex U.S. was another strong 4.1%, and I'm really pleased with the development of our European business and how it's moving.

Let's move to the bottom line, and let's start with the EPS. The EPS was up by 67%. There was obviously a reflection of the strong earnings growth, but there was also a valuation gain coming from the SoftBank options of EUR 640 million, which obviously contributed to that result. Without that gain, the EPS would have been grown by 15% in Q1 or 12% in the first half. Free cash flow was up 14%. That growth was mainly driven also by the EBITDA growth, which we have seen in our operating segments. And therefore, all in all, I think a very nice set of numbers.

Let's focus on the net debt. And the net debt -- and we're focusing going forward on the perspective, excluding leases. So excluding leases, the net debt declined by a good EUR 1.5 billion. And that was basically being driven by the free cash flow growth, which was offset by the dividend payout and then equalizes itself out, but it was basically been brought down by the valuation gain of the SoftBank options and obviously by a benefit from a weaker U.S. dollar. The net debt, including leases, was up to EUR 128 billion, and that is obviously reflecting the lease extension of T-Mobile U.S. with ATC.

Let's move over to the operational performance of the individual segments, and let's start with Germany. Germany, overall, grew by 0.9%. On an organic basis, that would have been 1.8%. The organic EBITDA growth was 3% year-over-year, and that is not only the 19th quarter. And if you translate this, this is almost 5 years, guys. But it also shows some acceleration as we have [commented] in our May Capital Markets Day. The service revenue growth was driven by both mobile and fixed. The organic service revenue was up 1.8%. Mobile improved sequentially, and we had a slight slowdown in the fixed line business, which was related to corona effect.

Let me start with the fixed line and let's basically flesh out 2 major drivers. One is we still have stronger call volumes in the fixed line business, but that impact has become much smaller relative to the previous quarter last year, and that basically drags down the service revenues by EUR 25 million. On the contrary, we have a very strong seasonal public sector business, and that is pretty much in the same vicinity. So we expect that this public sector business will continue throughout 2021, but it will not recur in 2022.

If we're taking a look at mobile, so the mobile service revenue growth on a reported basis was up 2%. We had a benefit coming from roaming, and we had a drag coming from the MTR cut. And if you basically add them up, that would have taken down the underlying growth by 0.6%. But net-net, we're seeing ourselves in pretty good shape by meeting our revenue guidance.

So let's take a look at the mobile KPIs. Despite the lockdowns, which we have seen, our mobile customer growth was steady. It was pretty much the same level as in Q1 and it was much stronger than it was in Q2 last year. Churn remains on a very low level.

If we're taking a look at our fixed line business, what you're going to see is basically 4 things. One is a strong broadband growth with 93,000 broadband net adds, same as we had it in Q1, almost no line losses. TV net adds at 37,000 and a healthy retail fiber net add of 213,000.

On the other hand, what we're seeing is that the wholesale fiber net adds has come down. And I think it's not a surprise given that some of our wholesale partners have already reported their figures. And therefore, it's not a surprise to us.

Let's go on Page #14 and take a look at the broadband growth. Can we have Page 14? No?

Okay. Let me continue. So what is supposed to be on Page 14? On Page 14, you see basically very strong broadband growth of 6.4% on a revenue basis. And you also see that our organic retail revenues grew by 3.7%. On the flip side, what you're going to see is that the wholesale revenues were coming down by 5.6%. And that is something which we explained at the Q1 call, where we said, look, there are drags which we already called out in Q1. There are some impacts coming from the corona crisis, but the main impact is coming from the shift from the old contingent model to the new commitment model. And as we explained in Q1 on the commitment model, we expect a dilution effect this year, a stabilization next year and then in the year 2023 onwards, we have -- going to have an accretive effect.

So if we take a look at the overall service revenue growth of 1.7%, 2 positive effects. One is the strong broadband revenue growth. The other one is the public sector business, which is not recurring in 2022. Then we have a drag compared on a year-on-year basis coming from the call revenues on fixed line, and we have obviously a wholesale reset, which drags down the numbers.

Let's move over to the U.S., and I think I keep myself short on that one because you have seen all these numbers. The service revenues, according to U.S. GAAP, they were up 9.7%. And if you exclude basically the Boost MVNO business out of this equation, it would have been 5.7%. The adjusted EBITDA after leases was slightly down year-over-year because of the wind-down of the handset leases. The core EBITDA, where you basically take out this effect, was growing by 7.1%. Total net adds were at 1.3 million and T-Mobile US has shown a very low postpaid churn number. And you know this is a combination of T-Mobile [first brand] and Sprint.

If you take in just the phone churn on T-Mobile, that was even lower than Verizon. The Sprint integration continues with full speed. So 30% of the customers and 80% of the traffic has been moved on the T-Mobile network, and that is an improvement relative to Q1 where those numbers were 20% and 50%. And I think you see multiple service in the U.S., which clearly confirms the 5G leadership of T-Mobile US.

Let's move over to the next chart, which is Europe. The organic revenues in Europe grew at 4% on a year-on-year basis. We obviously benefited from strong commercials, but there's also a partial recovery from the pandemic. The EBITDA grew even faster at 5.3% and this is driven by profitable revenue growth, but at the same time, a good cost discipline in that segment. And on the next page, you see the overview on the actual commercial performance, which is really good across the board.

T-Systems on the next page. Revenues are still down by 5.5%, and this is driven by the old legacy business but also by the ongoing exit of the end user business. That's that. We have been encouraged by the movement of the order entry, so this grew by 14%. There is one big contract in there in the mainframe area, which accounts for more than EUR 300 million. And we expect that the revenue will stabilize in the second half of the year. EBITDA has already stabilized as you can see on the chart, and this is very much driven by the cost savings in that segment.

Next segment is GD. Another very strong revenue and EBITDA AL performance. Obviously, the headline growth benefited from the inclusion of the Austrian towers back in January this year. On the other hand, we deconsolidated the Dutch towers, but this is only from June onwards.

Let's focus on the Netherlands first. I think healthy broadband net adds was 15,000, a very strong net add performance on -- contract net adds was 70,000. This is very much supported by the opening of the shops back in April. The organic mobile service revenue was up 3.6%, and that obviously is -- 3.5%, sorry. And that is driven by the underlying performance of the business, but also a partial recovery from the pandemic.

GD Towers, there's quite a bit of movement on GD Towers. So the tower count increased at the beginning of the year by the inclusion of the Austrian towers. Now we have deconsolidated the Dutch towers. And in Germany, we had a net add -- we had an increase of towers of 1.2k or 1,200 over the past 12 months. And you see a very nice financial development. The recurring revenues on an organic basis grew by 3.3%, and the EBITDA grew even faster, and this is also driven by the strict OpEx management.

So that brings me to the end of the review of the operating segments, and let's move over to the group financials. So what you see is, on Page 23, net income as well as net debt have benefited from the EUR 640 million valuation gain of the SoftBank call options. The free cash flow, as been described by Tim already, grew by 14% and you see it's very much driven from the cash flow from operations. The net debt before leases declined by EUR 1.5 billion, and that is basically driven net-net by a softer dollar and the SoftBank options.

Look, what we're going to do and we discussed this internally, going forward, we will focus on the reporting on the net debt without leases because this is very much in line with what we're seeing with our peers here in Europe, but also what we're seeing in the U.S.

The adjusted EBIT -- EPS grew from EUR 0.25 to EUR 0.45 on a quarter-by-quarter basis or 65% on a year-on-year basis. If you exclude for the call option from SoftBank, again, as I said earlier on, on a quarter-by-quarter basis, that would have been 15%.

So finally, on the balance sheet. Look, you can see what is our net debt ratio based on IFRS 16, that is 2.97, and it's out of the corridor and it shouldn't surprise anybody because we said it's going to be out of the corridor for the next -- actually, until end of 2024. Our financial leverage or the leverage without leases has actually come down. End of Q2 this year, it was 2.59. A year ago, it was 2.66. What I also want to highlight is that we're really happy that Moody (sic) [Moody's] confirmed our Baa1 rating, while at the same time, they were removing the negative outlook. We're happy that all 3 rating agencies improved the rating on T-Mobile US, being it Standard & Poor's, Moody's and Fitch. And that the TMUS has received an update.

And now Tim and I are happy to take your questions.

QUESTIONS AND ANSWERS

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

Lovely. Thank you, Christian. And thank you, Tim. And now we can start with the Q&A part. (Operator Instructions) So we start with the first question. We start with Polo from UBS, please.

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

I have 2. The first one is really just about towers. Because at your Capital Markets Day, you indicated you'd be willing to sell a majority stake in your towers. But just wondering if there's any update in terms of the process and the thinking. And do you think tower consolidation within Germany is possible from a regulatory and competitive perspective?

Second question is really just about the 800 megahertz spectrum allocation in Germany. So BNetzA recently put out a consultation with a range of scenarios, including an auction to an automatic renewal. So what's your expectation for how the spectrum will be allocated? And specifically, what is your view on an automatic renewal but with some carve-out for one-on-one?

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

So Polo, on towers, I think not a lot of new news. I think we said we're going to test the market, and we said it back in May. The option set is still where it has been a quarter ago. So there's obviously partnering options between MNOs and also with pure plays. There is a partial monetization option, which we could pursue. There is also a straight [sellout]. I think what we are looking into is not only what's going to be the monetization effect, but what is kind of the entrepreneurial idea or the equity story behind it. And I think this is still under valuation right now. And therefore, I can give you another, let's say, a refresh on an update, which we have also given in Q1.

On the other question, whether it's possible to consolidate towers in Germany. Obviously, at the end of the day, you have to test with the antitrust authorities. But I think we have a precedent in Italy where this actually happened. We don't believe that the approval will take place on a local level. We assume that it's going to be on an EC level. But at least there is a precedent where those combinations have been passing the European Commission. So let's see. I think the first important thing is that we're going to find the right partner to team up with or the right monetization option. And then we see what are the obstacles on the way to get there.

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

On the 800 megahertz spectrum allocation in Germany, look, our position is that the whole industry has to invest into coverage into 5G, into ubiquitous data access everywhere. And therefore, we are highly working on that this money is not being treated as a tax again and then going back by subsidies into the market. It would be better just to make an automatic renewal of this one. We have, by the way, as well 1,800 and 2.6 megahertz frequencies, which will expire at the end of the year 2025. So therefore, it is not only the 800 megahertz spectrum which we are discussing, we are discussing as well the other [topping].

Given the scarcity of the spectrum, a normal auction could escalate the prices again and that would endanger the capacity for this industry to invest. Therefore, we believe an extension should be considered. Also considering that Eins&Eins has access to low-band spectrum via its national roaming contract with O2 already. And so there are good arguments. We contributed our concept to the Bundesnetzagentur. And the basic idea of this is that we have a [prolongation] of the frequencies expiring end of the year 2025 by 5 years. This is based on the new law which we have, the telecommunication law, which says there is a 15 plus 5 rule. So there is a legal possibility to prolong this. We even said that the big multi-band auction '28 and '29 with all bands expiring 2030, 2032 and sub-700 megahertz expanding in '20 to '32, that this is then maybe a better time for considering the auction procedures. And therefore, yes, as an industry, we are thinking there is a good likelihood to do this. This is a political decision at the end of the day. I think everybody has learned that our scarcity is not creating the best for consumers. So therefore, I hope that the new government will take the right decisions in this direction.

Giving us this, I think even knowing we have it longer, it will give us even better security for the investments which we have in front of us. So therefore, I think at the end of the day, this will be very beneficial for the consumers as well because we can start investing already at an earlier stage.

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

Thank you, Tim. And with that, we move over to Akhil at JPMorgan, please.

Akhil Dattani - *JPMorgan Chase & Co, Research Division - MD and European Telecoms Analyst*

Two questions from me as well, please. Maybe I can start first on regulation, just as a follow-up to the previous question on spectrum. I guess over the last 6 months, investors have started to get a little bit hopeful that we're starting to see some positive signs with change on regulation. We've seen some good spectrum policy decisions in the U.K. and Spain, and obviously, some directionally helpful commentary on fiber regulation in the U.K. So I was just keen to understand, what are you seeing in Germany in terms of your conversations with the regulator? And beyond spectrum, what are your key focus areas in terms of where you'd like to see change? So that's the first question.

And then the second question, I guess, a little bit difficult one to answer, but I guess whatever comments you can give would be helpful. I'm sure you'll have seen that there's been various press reports around the T-Mobile Netherlands sale process over the last week or so. And I guess investors have been surprised to hear Reliance's name positioned as a presently interested party. So I was just keen to understand if you could comment on whether or not that is part of the process, whether the name has been involved. And I guess more broadly, how do you think about potential offers? Is it all about price? Or are there other factors that are also going to be considered when you think about selling that asset?

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

Okay. So maybe I start with the second question on the Netherlands. First, I cannot comment on the process as you might understand. You have seen recent press and I can tell you, it's a very exciting process. I love deals. There is no need for us to do a deal. But if we get a good price, this is definitely something which we will then seriously consider as we have laid out because we put the asset into Group Development because we think in a market where you have 2 big players on fixed mobile convergence and us as a mobile-only player, this doesn't fit to the group strategy of Deutsche Telekom, and therefore, we are in a sales process.

When it comes to the potential offers of strategic buyers and private equity, what is our thinking? Is price or other factors to be considered? Look, at the end of the day, it's price, what we are looking at. But it's as well considering about the brand. It's as well considering about our people there. It's considering about, let's say, the solidity of this investor. But our focus is on gaining best price for this asset, which we have turned around over the last years in a very, very impressive way.

Talking about the regulation and look, it is my DNA. And of course, I will never say anything positive about regulation. No, I'm kidding. But honestly, the momentum in Germany, but as well in the European Union, has clearly been more positive over the last quarters. And so therefore, I have to admit that it didn't get worse before it's better. We are already on a much more optimistic trend, which is considering as well the infrastructure investments, which the industry is [stemming] these days.

In German fixed line, we are seeing a deregulation, for instance, on the midstream pricing. The removal of ex ante regulation was a big step forward. We have seen commercially agreed FTTH wholesale fees, which reflects that the industry is able to find a solution than rather always waiting for a regulated price. And on top of that, we have seen that the FTT regulation is not something which is coming by the regulation. And if the regulator has to involve, that it's considered the economic requirements of our industry. Explicit and helpful support of the German regulator were the statement about the 10-year wholesale contract, which we now call the commitment models. One of the reasons that we have seen the shortfall on the wholesale side was that we are going from the contingent model into the commitment model with the biggest player, which is helping us to stem investments and getting in higher utilization. At the same time, we keep the competition on the retail side lively.

Then the removal of the rental privilege was another big step for us. So TKG [changed on] this one, and we're having deep discussions with the housing associations right now to open up 25% of the German households for our fiber offers. So this is, let's say, all the good developments. I can go further on to the mobile side and the resolution of the national roaming overhang, which went away. So this is a discussion which was -- and the investigation was stopped from the Bundesnetzagentur after the binding agreement between Eins&Eins and Telefonica. Then the 800 megahertz discussion, which I already answered earlier, and the passing of the IT security law take away as well worries, which we had around Chinese equipment vendors, where we are now having at least legal certainty in the way how we do the things that we do not end up in a situation, rip and replace scenario, which is then costing us a lot of money. Now going forward, I think not interfering into the pricing, not having [exempt] regulation is something. I think the extension of spectrum use is for us the biggest topic, which we are discussing with the regulator these days. Then we have a discussion about the antitrust regulation around the over-the-top players. So one of the question is, are they abusing their gatekeeper function in expanding their horizontal models? And the question about is there a likelihood that they should participate in the investments for our industry, there should be no free serve. And as you know, 8 out of the big over-the-top companies create more than 80% of the whole traffic in our networks. And they do not pay something; the opposite, they get something for congesting the networks. They get all the data of customers, which they can then later on for free, monetize into big dollars. So I think there are still a lot of things to do, which we have. We are working now with the different parties on the question about universal build-out obligations and what are the thresholds for this one, and they might ask for, that should be reasonable. We are working on the extension on the spectrum, as I mentioned. We are working with these guys on the topic on subsidization and what are the thresholds for the bandwidth and the subsidization in this regard. There's a lot of money available in the fixed line build-out for the regional areas. These are the main topics we are addressing right now.

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

Okay. Apparently, we had an issue with the connection in the last few seconds. Has that been resolved by now? Is the operator going to comment on that? I hope we are back on track. I tested with Ulrich at Jefferies. Ulrich, can you hear me? And please, can we have your questions?

Ulrich Rathe - *Jefferies LLC, Research Division - Senior European Telecommunications Analyst*

Two, one is a clarification. Maybe a clarification first on Akhil's earlier question. Is there a strategic consideration of bringing a big foreign, if you will, operator group into Europe through a deal like that, that could be a bridgehead for the sort of competition that might -- I mean this is a bit speculative, I admit, but it might just become painful over time. It's the first question.

Second question is, you highlighted the very strong broadband net adds that were not affected in Germany by the lockdown as Vodafone sort of commented. Now Vodafone sounded -- is this a -- they are trying to accelerate their volume momentum in fixed and also in mobile in the second half? We've heard a competitor comment earlier today that Mr. Ametsreiter is unhappy with the momentum in this context. So I was wondering, do you have an expectation for competition to how to map the [bid] in the second half? And do you think marketing budgets will have to expand in the second half in the German market?

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

Look, I know what you're talking about and what you are thinking about. Look, at the end of the day, if a big foreign -- an operator or investor with deep pockets wants to go to Europe and wants to enter the market, there are always opportunities which came up. The markets are very much local. And therefore, he has to always consider the different competitiveness and legal settings in these respective markets. And so therefore, I would not be so worried about if a big new player would show up in the scene here. It has a lot to do with the opportunity he has in that market, it has a lot to do with the things -- I do not like the word [bridgehead] because it needs more steps to be taken in this environment. So therefore, I'm not so worried about a foreign operator. But nevertheless, at the end of the day, we will see what is, let's say, for us the best offer being on the table. As I mentioned, price is super relevant in this consideration. And if there are strategic observations, I do not believe that you can, just by closing opportunities here for these investors outside of the Europe, that you really can close markets. I think Europe is too big for that and there are always possibilities then to enter the European environment. If this is happening and if this then happen, affecting our markets, then we have to find appropriate answers on this one. But look, every market is following its own economics.

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

Let me answer, Ulrich, the question on the broadband performance of DT, especially in Germany. Look, we've seen an increase in our net adds since Q1 2020. So even before the pandemic started, you see that our broadband net adds have significantly increased. And the reason why we believe this happened is there's a flight to quality, how we call this internally here. There's several reasons why a customer is buying a broadband access. This is not purely because of speed. They're buying a brand. They're buying a proposition on top of it. They are buying a superior service quality, which they expect from their providers. And that is the reason why so many customers deciding on our broadband offering.

And you're also alluding to the new promotional proposal Vodafone made to the market when it comes to the 1 gigabit offer, which is now the third time that they're doing this. First time that, I think, it started in Q1 2020. Look, we are playing our game. They're playing their game.

On the other topic you were asking on, so what we have done quite successfully throughout the lockdown period, we moved customer traffic from the shops into the call centers and online. And that helped us a lot to basically acquire a lot of customers.

That didn't help on the TV offering. We mentioned this numerous times that the net adds are depressed of the shop closures, but it worked really well on the broadband offerings. So that may also be a reason why customers are deciding on DT. So we're playing our game, they are playing their game, and then we're going to see how it plays out.

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

Christian, I might say that we have a flight to quality. And our flight to quality is having outstanding service. We are awarded. Having invested into areas where the bandwidth was very low with vectoring and super vectoring, this is, let's say, the investments are paying out now. By the way, if this would not be the case, something would have been wrong. Thirdly, we are not playing it by price. We already today, more than EUR 10 more expensive than Vodafone. So we know that we have here maybe on the price side, a disadvantage. But at the end of the day, the customers make an equation and a decision about the whole equation. And in this regard, our net add share is what our net add share is. So therefore, we will continue this flight for quality. That's our clear ambition. And we see with our great reputation and our high Net Promoter Score that this is paying off pretty well.

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

Okay. Thank you, Tim. And now we move on to Usman from Berenberg, please.

Usman Ghazi - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I've got 2, please. Firstly, on the 5G coverage target in Germany that has been upgraded, I just wanted to confirm that, that is 5G on your 2 gigahertz mid-band spectrum, or is this upgrade mainly related to 5G on the low-band frequency? So that was the first question.

The second question was, again, regarding the spectrum consultation. I guess one of the proposals from BNetzA is quite kind of innovative almost, where they're suggesting that the low band spectrum might be handled by an independent operator that then leases it back to everyone else.

And I just wanted to get your thoughts on that given that in 5G, it seems that mid-band capacity deployment or active equipment -- or the speed of active equipment deployment is the key differentiator and we're seeing DT do that in Germany. And low-band spectrum, it's -- that's a bit differentiated going forward. So it seems like quite a sensible proposal. And I would just like to get your thoughts on why that might not be a good outcome in the market.

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

So let me start with the first question. Look, the leading 5G positioning, which we are aiming for and which we hold currently is based on 2 pillars. First, it's based on our 2.1 gigahertz upgrade using DSS. And here, we have reached the 82% coverage in the first half, and we target now 90% coverage by end of the year and based on, second, our lack of 3.6 gigahertz upgrade. By the way, we will lead in both categories.

We have now 60 cities live with 3.6 gigahertz spectrum deployed over 600 cities with 1,900 antennas in operation. By the way, we cannot build as fast as we have sources here in the company. So therefore, this is a question about the tower company and about the allowances, about, let's say, the processes, which is the processes which we have here in Germany. And our ambition is clearly to be undisputed 5G leader both in these 2 categories, and it will manifest itself in the 3.6 gigahertz bandwidth play, which is giving them the high speeds, which we are looking for. By the way, as an example to ours, Telefonica Deutschland has, I think, something like 2,000 sites launched and Vodafone is around 1,000 sites. That is at least the press resource. They cover 30% of the German POPs with DSS. So you see that in both categories, including our ambition, we are well ahead.

Now on the spectrum consultations, look, this is a new model which you're recommending here. To be honest, it's not something which is on the high radar screen on the regulatory side nor on our internal political side here -- lobbying side here. So therefore, I don't think that this specific way of going into a third party who is then handling the low-band spectrum with the operator that this is a model which is deeply considered. I think the way what was relevant in the future, we will have multi-band antennas. We will have always the need for voice coverage in Germany adjacent to our data, even if we use voice over LTE or the voice over 5G. But nevertheless, it's an IP traffic and we can very much, especially rural areas, use this low-band spectrum. So therefore, I would see that always in a kind of inclusion here in the way how we did it in the past as well. So maybe a good idea from your side or might be a good idea, but nothing which is on a high priority in the discussion at that point in time.

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

If I may add, I think it's also incredibly complex to implement in an existing operator environment where spectrum is in use like 900, 800, other spectrum ranges, 1,800, they are all, let's say, substitutes for each other, how are you going to handle that, who's going to invest in this. So this kind of idea is conceptually nice, but it's practically impossible.

So if we move on now to the next question, we have got Josh from Exane, please.

Joshua Andrew Mills - *Exane BNP Paribas, Research Division - Research Analyst*

Two from my side. The first is coming back to the broadband trends. And I think you talked very clearly about your own momentum on the retail front. But we can see from your competitors and also from your wholesale fiber net adds, at least this quarter, that there's been a bit of a slowdown in overall market growth. So I just wondered if you, despite outperforming that, have some views on why the market is slowing down. Is it simply that there was a lot of demand for new connections during the pandemic, potentially second homes, which is dropping away? Or is there anything else which we're missing? Maybe just to think about whether the second quarter wholesale net adds is a normalized or more normalized run rate going forward.

And then the second question, it is about network technologies and the 1&1-Rakuten news. So I know that you don't want to talk about other operators' plans. But from your perspective and your own experience of Open RAN, I'd just like to know what you think the benefits and drawbacks of using that technology in the German mobile markets are.

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

Okay. Let me start with the broadband question and then I hand it over to Tim. So 2 effects on the wholesale side. Obviously, we got, let's say, one wholesale partner who was also a competitor and he is moving customers from our wholesale connections onto his own network. You can imagine who this is. The second piece is -- and I think one of our wholesale partners said it in their quarterly results, they haven't focused a lot on the fixed line business, and they will shift focus in the second half. So I'm moderately positive on this one.

But look, as the overall growth in the market is coming down, and you can see this on a year-over-year basis, what's driving profitable revenue growth is the upselling path, which we described in our Q4 numbers. So this is going to be something how we basically utilize revenue growth, and that holds true for retail as well as for wholesale. So it is the migration of customers onto the [own] network. I think there will be stronger focus in the second half on fixed line also in our wholesale partners. And I think we all have to stay focused on upselling because this is where the whole value is coming from going forward.

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

Josh, think about a fascinating idea. In the morning, I get a call from Ralph Dommermuth, and he would say, "Tim, do you want to become my Chief Operating Officer?" And I would move to Eins&Eins and become Eins&Eins' COO. Then I would sit there and would say, "Okay, what are we doing with the mobile technology now?" And to be very clear, I would have done it exactly the way how he has done it now. He is taking a commercial from the shelf technology from Rakuten, which is enabling a very flexible Open RAN infrastructure and a virtualized cloud, which is managing the core. This is giving him all the flexibility. It is not a Chinese vendor. So it's easy to select, let's say, this vendor without any risks. On top of that, he has the capabilities for using the cloud advantages from a cost perspective. And he has antennas, which are not coming as a black box, but he can really buy bar metal in the open space, which is then contracting into the infrastructure. So therefore, I think even if he communicated that it is a masterpiece on how he did it and I have a lot of respect for that.

Now what is the advantage of Open RAN? I think you know this. The biggest difference is that we can virtualize components of the infrastructure, which means we can standardize and [software-ize] them at a center point. It's easier for upgrades. It's easier for new releases. It's easier from -- as well from a cost perspective to operate from this edge cloud. And at the same time, he can buy the bar metal at significant lower prices from different operators. He's not buying the whole software and antenna stack. He's not buying, let's say, the integrated physical and digital connectivity. He can now select new vendors in this ecosystem. And by the disaggregation, he has the capability for buying the components at a lower price.

The disadvantage of this Open RAN is he has to manage the quality of service. So he has to make sure that the transformation from a physical connectivity into digital, that this quality of service is always working appropriately. And Rakuten has proved that this is working, at least announced that this is working. So therefore, this is something where we are as well working on. So there is more responsibility for managing the infrastructure and managing the quality of service than it was in the past when you were [borrowing], let's say, all of this in a kind of, I would not say black box, but at least in an integrated ecosystem from the big vendors of this world.

What I would do differently as a COO, combining the discussion, I couldn't start my networks built out earlier because I haven't had a national roaming deal. This is -- I don't understand, let's say, the correlation between these topics. I think starting that late and not being committed 1,000 sites by '25, I think this is nothing which is able to compete in an ecosystem where all the big players are heavily investing into infrastructure at that point in time and into coverage. So therefore, by going into Open RAN, by going into a cloudified core infrastructure, you don't get automatically coverage. What you still need are antennas. What you still need are, let's say, all the investments in the field. And by the way, if you look to the CapEx split, just from a [stomach] number here, I would say it's 80-20, 80 sits in the coverage and 20 sits in the Open RAN and the cloud infrastructure. So therefore, I think the big challenge he is still facing is, is he really seriously considering building mobile sites in Germany?

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

So the good news of the day is that Tim is our CEO and not working for anyone else, and that's great. And so 2 other quick points. For Open RAN, as Mr. Dommermuth rightly explained, you need fiber backhaul. We got a lot of it, so that's a real competitive benefit we have going forward. And the other point is if you're a fixed line operator and you've got [all] IP and if you got the right thinking, then you also have a lot of potential in fixed line. So that's important as well when you talk about virtualization.

So moving on to Jakob at Credit Suisse, please.

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

I'll keep it to one question. I have a question around your outlook for the ex U.S. EBITDA. You did EUR 7.2 billion of EBITDA in the first half of the year. You're guiding for EUR 14.2 million. Typically, though, your EBITDA in the second half tends to be around sort of EUR 200 million higher than in the first half, which would put you sort of more on track for around EUR 14.6 million of ex U.S. EBITDA. So just interested if you -- are there any sort of -- is that just you being a bit conservative? Or are there any specific headwinds that you envisage coming up, particularly as Germany sort of exits the lockdown and maybe there's some additional costs that you see coming back? So just any color around that would be helpful.

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

Jakob, I wouldn't call it conservative. I would call it prudent. It's not because we're expecting massive changes in the second half of the market, but we still don't feel comfortable enough to basically make an adjustment on our guidance yet. So I would continue to expect that we're going to outperform the market, at least this is our aspiration. And when this turns into a higher EBITDA number in the second half, obviously, we'll update you when it's going to be the next time. But right now, I would call our guidance, especially in the ex U.S. business, as prudent.

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

Yes. And we are not seeing anything that makes us particularly worried.

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

Market momentum is expected to be very similar in the second half.

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

So with that, we move on to David at Bank of America, please.

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

My first, it's interesting you mentioned the dynamics through COVID and through lockdown, that the broadband adds have been sustained, especially through the call center, while the TV adds have maybe been a little softer, which obviously indicates some relevance to the high street. So that -- I wonder if that has surprised you a little, that dynamic. It's something we're only learning over the last few quarters. And how that shapes your view for the digitalization of your sales channels, to what extent are you able to consolidate the high street, reduce the infrastructure, bring more sales online? Is there a more sort of convergent focus to the high street shops, for instance? Just interested in your thinking because this is clearly a very moving target.

And then secondly, a question which I'm struggling to phrase to receive an answer. But ultimately, you have seen another significant shareholding in BT, where you have a broadly equivalent shareholding. I just wondered if you had any discussions or whether you are rethinking your view on that particular stake and how that could evolve over time. I appreciate that, that might be very difficult to answer, but I'm asking.

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

Look, David, when it comes to the dynamics, especially across the different channels, we've always been a strong supporter of omnichannel approaches. And my observation throughout the COVID crisis was, obviously, customers found their way to get in contact with us. We were surprised to what extent, and especially at what speed, traffic moved to the call center and also to the online channel. So customers know how to basically approach us, and I think that's the strength of our omnichannel approach.

On the other hand, I think every channel has a specific advantage versus the other one. So what I said early on, our shop distribution footprint is needed in order to drive our TV propositions because that is a product which is hard to explain over the Internet or over a call center. Therefore, we rely on this physical shop infrastructure. But what we're doing is we're basically treating this in a dynamic way. So I don't want to force everyone now basically going online because not every product is tuned towards online. But what we're going to do is we'll review where is the traffic moving towards, where is it more cost beneficial to have a stronger [thrust], let's say, in a call center but also where it's needed to have a physical infrastructure. And what we've seen throughout the COVID crisis, that the system was kind of flexible and taken on customer demand. And I think that was also one of the drivers why we have been successful with our commercial figures.

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

With regard to BT, first, we are very happy that we see that entrepreneurs see that the BT stock is highly undervalued and that he is contributing value to all the efforts, which the U.K. management has taken, solving our pension issues and addressing this fiber market in a very intelligent way, even solving the content right issues prospectively and the converged positioning. So we always believed in this, and therefore, we were there. And now we are benefiting from our patience here on this one.

Second, we are very curious and excited about what's going on. Look, we weren't in any discussions before. We saw the announcement on this one and there will be discussions, definitely. I know that Patrick might be interested to talk to us on this subject. But it's too early to say which directions we are attending. I think it's interesting. Again, we are a little bit kingmaker here again, yes. So we have an asset where we have a lot to say and a lot of influence. So therefore, let us work on this subject, like I understand until Patrick has laid open his card on the table, what he's aiming for. The only thing is, whatever happens, I do not see a big lose situation for us. And we are open and that is, I think, the most important thing for you. We are prepared. We are ready to talk. And I think we will see an exciting quarter 4 with regard to this shareholding.

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

David, if I may just add on the omnichannel question or the sales question. We have laid out our targets at the Capital Markets Day, right, for how we -- where we wanted to take the share of digital between now and then. So for instance, for Germany, we wanted take the calls, the digital share, of course, that are digital to over 40%, and we want to have the sales share growth from about 24% to about 30%. So this is the kind of direction. Let's see where we end up, but that's kind of the mix shift that we anticipate.

Next, we have a question from George at Citi, please.

Georgios Ierodiaconou - *Citigroup Inc., Research Division - Director*

I have one on Poland and just a follow-up on Germany. We've seen in Poland Iliad cost in UPC. And I'm just curious, in the past, you did mention the fact that mobile-only assets may not be the future. You've consolidated a lot of markets like Austria. I'm just curious why you're not expressing such interest in Poland. Is it returns on capital employed are not high enough for you to commit more capital? Is it you are thinking about other options in the future? I'm just curious to hear from you the logic behind not necessarily being that active in that particular market.

And then the second one is just a follow-up on the previous questions. And I think Christian partly answered this question by talking about upselling. But I just wanted to clarify, you did mention there was a slowdown, which we could see in the market. Was there any specific factor related for the first half that may reverse? Or do you expect the kind of levels we've seen in the last few months to continue in the second half?

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

George, let me start with the second part. There is a slowdown in the market because we don't have a lot of inflow of new, let's say, inhabitants into Germany. This is one key driver. And the other one is, obviously, you get to kind of a penetration rate where the market growth is kind of moving towards a limit. And these are the 2 drivers, while the overall market growth is expected to be smaller in the upcoming years relative to the previous years. I think that would be my simple answer to it.

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

If I think about Deutsche Telekom's group strategy and our positioning here in Europe, and we had a deep discussion on our Capital Markets Day on this one. One of the reasons why we are so successful is the synergies in thinking, in executing, in procurement is the synchronization, the -- that win all our markets position ourselves as a converged player. It's helping us in all regards.

When I think about -- we had earlier the discussion about Open RAN, and we talked about the cloudification of the core, if I think about the overlapping which we have with Access 4.0 in our fixed line infrastructure and the core 5G infrastructure, there are huge opportunities for synergies in this regard. When it comes to customers, the opportunity of having ubiquitous data access everywhere, independent from which kind of bearer is laying beneath. When it comes to the positioning against a single-play provider, we have always something. If you can't win the name of the game, change the name of the game and go into a converged play. So therefore, we really like the converged offering, which we have built over the last 8 years.

Now in the Polish situation, the market is very, very fragmented, both on cable and on fiber. It's not that you have a single-play fixed line company, which you can merge with or which you can partner with to get ubiquitous data access. It's not possible, it's just fragmented. On top of that, you have edge technologies there. So buying a cable operator always means to invest heavily into the node splits, into the fiber overbuild in some areas. So you have to always think from the end and not from just -- from the current competitive situation.

On top of that, in the Poland market, we have Orange, which is our partner there when it comes to the fiber access, which is superior to cable. So therefore, we are elaborating the opportunities in the Poland market. We like the Polish market very much. It's a big market, I think the fourth biggest market in Europe. It has a very vibrant society and good growth, and we have a strong mobile foothold there. So our positioning is trying to find access to fiber with different solutions, and I'm not commenting on any kind of speculation around Iliad here.

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

And it's not only Orange, right? It's NEXERA, it's [EMEA], where we also have whole buy agreements with. So we have access to fiber.

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

And there as well, private equity companies now going in, considering fiber build-out, which is maybe sometimes a significant cheaper than going into a big M&A with super premiums. So therefore, consider that we are having a solution there and an approach towards Poland.

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

Good. Thank you. And with that, we go on to Robert at Deutsche Bank, please.

Robert James Grindle - *Deutsche Bank AG, Research Division - Research Analyst*

Two questions from me. One is on Europe, where you saw a strong revenue growth pickup in the quarter. Net adds were consistent, as you said. So what is driving that growth? Maybe you could say something about the outlook in the second half. Is there a COVID swing-back thing that's stronger there than in Germany? Can that growth -- rate of growth remain?

And then secondly, on T-Systems, you're expecting revenues to stabilize in the second half. Now is that all due to the one-off order book entry that Christian mentioned? Or is there a broader stabilization of demand? Is there any sign of customers reengaging on IT, digital upgrades post COVID?

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

Well, let me start with the T-Systems question. Obviously, the mainframe deal is a multiyear deal. So the more than EUR 300 million of order entry will kick in over time. So that is not the key driver. What we're seeing is there's, I would say, a positive outlook in the market. There is demand coming back. And this is why we're more positive on the second half relative to the first half when it comes to revenue development. And you also have the opportunity to engage with B2B customers.

The biggest problem throughout the COVID crisis, there was no physical interaction on these complex projects. You have to sit together and interact. And we're seeing this kicking into the market. So that's more a market recovery, which also will help us to stabilize revenues going forward rather than the big order entry were talking about.

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

Robert, don't be so greedy. Look, in Q2, we achieved 4% year-over-year organic revenue growth. Just to remind you, it was 0.8% in the first quarter. And our adjusted EBITDA AL is strong by 5.3%. We made on our Capital Markets clear that the European entity is a very agile, well-hedged player. It is, I think, #6 if you take it as an independent company. And this company is well positioned in its different markets, holding very strong fixed mobile converged positions in most of the markets. So we are very happy about that development. And we would love to see more coming there.

Let's consider for a moment, let's say, what have happened in this corona crisis. We were first time impacted negatively in corona in the second quarter '20. So this impact was not just roaming and visitor revenues, but also all the commercial activities, which came to a shutdown. So therefore, this is something which is now coming back. I can tell you it's not the full swing back. So there is definitely more opportunity when it comes to roaming. There's more opportunity when it comes to having open shops and for the more complex products to provide.

So therefore, if you do your math, yes, there is more upside, but I do not know when we are back in full swing and how the full swing then would look like. We stick to our full year guidance with regard to the development -- revenue development and the EBITDA AL for 2021. And that is, I think, the most important thing. Let's go from that angle. There is some tailwind here, which I highly appreciate. But we should not get too greedy here.

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

Okay. Thank you. And next is James at New Street, please.

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

So 2 questions around the U.S. business, please. So the first one was just, I believe, we've got a couple of spectrum auctions coming up in the U.S., 2.5 gigahertz, 3.45 gigahertz. Just be interested to hear what your appetite is and interest in those upcoming spectrum auctions, given the strong spectrum position that you already have in the U.S. market.

And the second question was just regarding potential future tower deals in the U.S. You signed a big one last year with AMT. Was wondering if you might consider more of those transactions, which are value accretive from a kind of DCS perspective, but then they do increase your headline leverage. And if that were to pass, would you consider moving your leverage target towards kind of net debt excluding leases to EBITDA AL calculation, which most of your peers now do.

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

Okay. Let me start with the spectrum auction question. Look, the auction will start on October 5. As you know, there's going to be a limit for every bidder, which is maximum 40 megahertz, which you can acquire. We have basically applied for the auction so this is what we can say. But please respect also that we will not discuss in public what's going to be the strategy or what's going to be our appetite on the upcoming 3, 4, 5 gigahertz auction.

Obviously, there in 2022, you should also bear in mind there is what we call whitespace, EBS whitespace auctions, which is happening on 2.5 gigahertz. And obviously, we will look into this one as well because we are the natural buyer given the huge spectrum amount, which we're already inheriting. But also here, don't expect us to comment on our strategy.

On the tower deals, look, we have to take a look into them as they expire or as they're close to getting expired. And I think it always depends on the parties and how we want to engage with another. So there is no clarity right now with regard to the size of a tower deal or duration, but it will come, and that is normal practice of the business.

And on the leverage question, look, what we are saying is we're seeing an unlinking from the IFRS leverage and the net debt without leases. Originally, we started off with -- we're saying that impact is going to be 0.25 point, and this is why we raised basically the quarter by 0.25 point. If you take a look at the actuals, it's almost 0.4 points. But I will not basically deviate from the target, which we have given at the Capital Markets Day right now. Let's see how it plays out and also how the tower leases in the U.S. evolve because it's very much driven by T-Mobile U.S. But right now, we're sticking with the targets, which we have communicated at the Capital Markets Day.

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

And if something is good for the business, it's good for the business, right? And let's move on to Emmet at Morgan Stanley, please.

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

Just a couple of questions from me as well. The first question, please, is on U.S. merger integration costs. Maybe, Christian, if you can just give us a quick update on where we are on those costs. I remember at the time of the deal, about 18 months ago, you talked about merger integration of around $15 billion, is the number I have in my memory, over 3 years. Can you maybe just say where we are and the future phasing of those costs as well, please?

And then the second question, please, is on German line losses. For those of us with longer memories, I'm sure we all remember line losses in the multi-hundreds of thousands 10 years ago. Now line losses are at 0 pretty much. Can you maybe say what the future drivers of these line losses are now? Like in the past, it was line loss to cable and then the IP migration. What's happening now? And if you were to swing into positive territory, what does that mean for your fixed line revenues in Germany, please?

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

Okay. Let me -- Emmet, let me start with the line losses because I was running marketing at the time where we had more than 2 million line losses in the year. So therefore, I'm going to celebrate if there's going to be a quarter with a positive increase of lines in our German business. But becoming more seriously, I think I expect that the trend will continue to be at a low side, whether it's going to be 7 or 30, I cannot comment because it depends on 2 things. The structural drag is gone, which is basically the IP migration and the forced migrations we had to do there. So that will continue and carry on.

What also drives the low number of line losses is obviously our very strong retail broadband performance. And if this continues to be that way, I expect that we're going to see low line losses over the next upcoming quarters. So I'm positive on line losses. Whether we're going to see a positive number, I'm not sure yet. So let's celebrate if there's something to celebrate, but on the line losses, I'm fairly confident. So on the -- do you have it? Okay. Why don't you continue?

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

Yes. Look, the overall numbers on the U.S., by the way, were answered in the investor call with Mike and his team. So I just wanted to give you a highlight. For 2020, we said it's EUR 300 million was the original merger plan as a run rate. We achieved EUR 1.3 billion. For 2021, we said it's EUR 2.5 billion. Overall, we achieved EUR 2.8 billion to something in the vicinity of EUR 3.1 billion. This is, let's say, the ambition rate which we have, of which EUR 1.35 billion to EUR 1.5 billion are coming from SG&A; EUR 450 million to EUR 600 million coming from the [COS]; and EUR 1 billion avoided costs was the third biggest block, which we addressed.

So this is our guidance for this year. This is still the case. I think Mike said EUR 2.7 billion to EUR 3 billion merger-related costs in 2021. So that is something which we confirm. There's more cost savings which we foresee for the future and that is what we said as well. We had originally EUR 43 billion savings in our original merger case. And we have said that we are up to EUR 70 billion, 7-0 billion, which is coming on top of that. There is EUR 10 billion in this EUR 70 billion which is coming from a different interest rate, which we took into consideration, about EUR 60 billion on a like-for-like basis. And that is the number we are heading to. I can tell you, all hands on deck this year is very important, as you can see from the numbers, because this year is one of the most important years for the cost savings. And therefore, I think we are well on track. Hannes, do you want to add the CapEx number on top of that?

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

Yes. No, I just wanted to say the EUR 15 billion is -- that was -- you referred to Emmet, that was actually repeated by T-Mobile management at the Investor Day. But what they clarified is that of that EUR 15 billion, let's say EUR 11 billion to EUR 12 billion roughly is related to OpEx and the remainder to CapEx. So I think the only reason why I'm saying that here is not a change -- they haven't changed it, but let's do no double accounting, let's say. So that's the point here.

Maybe on that note, we need to wrap up at the half hour. We've got 3 more questions -- or people who want to ask questions. (Operator Instructions) And then with that, I hand over to Simon at Barclays, please.

Simon Alexander Arulraj Coles - *Barclays Bank PLC, Research Division - Research Analyst*

Hopefully, it's a quick one on fiber JVs in Germany. There was some press speculation that you started talks already. So just wondering if you could give us any color around what's happening there, but also how you balance the sort of move from owning 100% of the network to, say, 50% of the network when you do one of these deals and still be happy with the value creation that, that should bring.

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

Look, we announced our appetite to basically get into an engagement with a third party on an off-balance additional fiber build-out on top of the 10 million homes, which we committed by the end of 2024. There's a lot of speculation. Let's have a discussion around this when there is a deal, and then we can take you through the deal.

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

But I think in principle, we have a CapEx envelope, Christian, which we have agreed to, to achieve our 50%-plus (inaudible) things. This is, let's say, what we keep intact. And then we are working with partners. We always want to have, let's say, an active steering of the network. That is our primarily goal so that we are renting dark fiber. We are even willing to make commitments that's depending on the markets where the partner is offering its infrastructure. And we can then variabilize our costs because we are then just paying by use of this infrastructure. That's the logic. And [title-wise], if we were to have an opportunity prospectively to participate in the profitability of these units, this was appreciated as well. So if we become shareholders, minority shareholder of this company, that would help because then you have an interest of -- an alignment of interest here in this one as well. These are some principle which we are deeply discussing, and we are open to everybody who is offering an infrastructure in areas where we don't have own FTTH.

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

Let me put it this way, we like the KPN-APG agreement. This is what we like.

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

And also in terms of magnitude, the idea is similar. There is a chart in the Capital Markets Day guidance, which gives you an indication of potential magnitude and that hasn't changed. And so it's actually literally no change since what we told you at the Capital Markets Day. No update, but we see interest, and hopefully, that we'll be able to provide more clarity soon.

And in terms of managing the infrastructure play, of course, it's very important to look at active value adds, passive value adds and all of these things. That's an important component.

If next, we go to Andrew at Arete, please.

Andrew Charles Robert Beale - *Arete Research Services LLP - Senior Analyst*

Question around the DISH wholesale in the U.S. I mean, obviously, it was a typical prisoner's dilemma for AT&T, but their offer to DISH essentially doubled the duration of your wholesale agreement, allows in-market roaming in markets they built or will build, and they're obviously helping with the rural distribution. And it seems like a pretty big improvement over your very carefully constructed antitrust remedy terms. So I'm just really wondering what you think this will do to DISH's competitive capability, even if you know that it's going to be very, very expensive to build a base in the market dominated by family plans and multiline accounts.

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

Look, first, the TMUS management has in-depth commented on this in their Q2 results. And so we raised our guidance and confirmed, let's say, our medium- and long-term guidance. So we know what -- that there are changes now taking place to our construction. But nevertheless, I think it will not affect us that negatively.

Now looking to the situation, which has happened there. I even listened to the DISH quarter results and results calling here recently. And they have now a deal with AT&T, and they claimed it as a second vendor. So the question is, do we lose wholesale revenues? And how many -- how much of that are we losing over this time frame? We anyhow assume that the wholesale revenues would be gone at the end of the fifth year. So is that now coming a bit earlier? Is it reduced entirely? Or is it only partially considered? This is something we are working on. We have to understand better DISH's strategy in this regard. And this is a discussion which is going on.

The good thing with this is we were not -- it was not the kind of marriage in heaven. This was something which was forced by the regulator. We are -- we were not the ones who were automatically keen to offer a wholesale infrastructure on our network because what this does is it frees up capacity in our network for other opportunities.

So think about the FMS services which we have, think about rural areas. So we are not so unhappy about them leaving. We will use these capacities for our 5G leadership in the U.S. environment. So look, at the end of the day, if you question me about the DISH business, I think they are fantastic dealmakers and always finding new ways on constructing relationships or motivating the regulator to do things. But on the other side, I haven't seen them executing very well. So Boost, to my knowledge, has lost 10% of their customer base until now in 1 year. They have lost 1 million of their base. So this was another big consideration we had to make in this merger case, to give up our Boost brand. So that said, I think having a wholesale deal is nice. But on the other sense, you have to build a proposition behind that. You have to convince the customer that this is the right network to take. And for -- in this area for me, the quote is out.

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

Good. And that brings us to the last question of today. It's from Adam at HSBC. Adam?

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

I just had a quick guidance clarification question, please. On the GAAP IFRS bridge, you moved it today from EUR 700 million -- from EUR 800 million previously. But I think I'm right in saying that it's basically 0 in the first half. So if I am right there, is something changing? Or is there a reason to believe that, that will change in the future?

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

Well, our guidance for the IFRS or U.S. GAAP IFRS bridge remains unchanged for the future years. What we did see in the first half of this year was a positive impact on the bridge related to gains on renewable energy purchase agreements, which are seen accounted in IFRS EBITDA, but not in U.S. GAAP EBITDA. So of course, if you have a market like this, then your expected value of the future changes in these agreements is 0. And -- but we have seen volatility in that line in the past. It was going against this in previous years. It's going a little bit for us this year. We are not extrapolating this.

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

And the policy with us is that we don't forecast hedges. So basically, we're assuming there is no change. And if there is a change, then we'll report out on those.

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

Excellent. So thank you all very much. So you can see we are in positive spirits after a summer leave spirit, as Tim has described it. And with that, we are ending today's conference call. Should you have further questions, please contact us in the Investor Relations department. Of course, we look forward to seeing a lot of you and hopefully soon in person, again, in the autumn. And with that, best wishes and I give back to the operator.

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

Thank you.

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

Goodbye, everybody.

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

Goodbye.

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

Sunny outlook.

Operator

We like to thank you for participating at this conference. We are looking forward to hear from you again. Goodbye.
