2021 Deutsche Telekom Capital Markets Day

Company Participants

- Dominique Leroy, Member of Management Board-Europe
- Hannes Wittig, Head of IR
- Michael Sievert, President, CEO, COO & Director
- Neville Ray, President of Technology
- Peter Osvaldik, CFO
- Srinivasan Gopalan, Management Board Member – Germany
- Timotheus Höttges, Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board
- Unidentified Speaker, Unknown

Other Participants

- Akhil Dattani, MD and European Telecoms Analyst
- Andrew Lee, Equity Analyst
- Emmet Kelly, Head of European Telecoms Research
- Georgios Ierodiaconou, Director
- Jakob Bluestone, Research Analyst
- James Ratzer, Europe Team Head of Communications Services & Analyst
- Joshua Mills, Research Analyst
- Ottavio Adorisio, Equity Analyst
- Polo Tang, MD & Head of Telecom Research
- Simon Coles, Research Analyst
- Stephen Malcolm, Research Analyst
- Ulrich Rathe, Senior European Telecommunications Analyst
- Unidentified Participant, Unknown
- Usman Ghazi, Analyst

Presentation

Hannes Wittig {BIO 4033762 <GO>}

Welcome. Welcome to the 2021 Deutsche Telekom Capital Markets Day.

Here we go again. We gave you three years to recover from our last Capital Markets Day. But now we could not spare you any longer. There's just too much goodness we must share with you.

Welcome to you all. Welcome to our first fully virtual Capital Markets Day.

Sadly, we are not all together in Bonn. To be sure, the Deutsche Telekom management team is here. They're actually over there.

Can we have a picture of them? Can we show them, please? Can you wave, guys? Okay. Here they are. You will hear from all of them. Thank you.

There will be no barbecue this time. No wine. No heavy digging machinery. Sorry.

How can we make up for it? Well, we got eight powerful presentations, cool slides, your favorite color, magenta and black background, topped up with slick videos and a replay function. And not to forget, many compelling messages. You know if we do something, we do it properly.

So what's the order of play? We start with our CEO. He will present you our group strategy and capital allocation. Our guidance is for the usual four years, but our thinking goes further. Next will be Srini and Dominique, who will talk about leading in networks, in customer experience, in digitization, about acceleration. Finally, for today, Mike and team will outline their plans for T-Mobile US. This will bring us to the end of the first day.

Tomorrow, We will have presentations from Claudia Nemat on IT and technology; from Adel Al-Saleh on T-Systems; from Thorsten Langheim on group development; and finally, from Christian Illek, who will put it all together in terms of numbers.

Here are a couple of technical points. Please take a look at our usual disclaimer that is contained in the presentation. (Operator Instructions)

Okay. Now I'm excited to present our first speaker, our CEO, our unstoppable leader, Tim Höttges.

Timotheus Höttges

Welcome, everybody. Where are you? Hope you're doing well during these difficult times.

It's a little bit like results day at school today, but as well about the question about, what kind of job do we have in the future? And this is what I'm going to talk about. And it's a pleasure that you are spending the time with us today.

I have to admit it's an easy one because it's my fourth Capital Markets Day. And looking in hindsight, I'm very happy about, let's say, how we performed over the last three years and looking at the results we have achieved.

And this is due to an outstanding team in this industry, I think to an outstanding strategy of very focused approach of delivering of what we have promised, and even sticking out to the others in this industry and outperforming them as well from a capital market perspective.

That leads me already to my first slide, which is the full monty of all the messages in a nutshell. And for the ones who don't have time or want to do their sports in the afternoon or who want to, let's say, hang out with other companies, here we go, just digest this slide. With this, you got it all.

This is, by the way, how we are looking into the future. And that is built on two pillars. The one is the organic pillar. It's the way how we operate in our telecommunications industries. But the second pillar is at least as the same importance, which is the way how the -- how we think, how we allocate money and the way how we are organizing the portfolio which we are running. And this all is resulting in the commitments which we are giving for the future. Now this is what we're doing already for quite some times.

And this is our so-called flying wheel. And the flying wheel is very simple. On the one side, we always invest more than our competition. This is the idea: a little bit better, a little bit higher from a quality perspective, which, on the other side, gives us the opportunity to gain more customers.

Gaining more customers on the infrastructure will help us to create higher efficiency, which means the productivity of our network is higher than the ones from our competition. And the high efficiency, plus more customers is -- as a consequence, resulting in more profitability and higher financials. And the higher financials made us able to go into further investments, which is helping us to outperform the competition.

To give you just a number, since I'm CEO, I've invested EUR 85 billion without spectrum into this flying wheel. This is, by the way, EUR 37 billion more than what Vodafone invested, EUR 37 billion more than what Orange invested and EUR 27 billion more than what Telefonica has invested. And this is, by the way, at the end of the day, this is the consequence why we are doing better than the others.

Going forward, we are accelerating. And if you would ask me today, what is the headline of our capital market strategy? It's acceleration. It's acceleration. We have a sound foundation, and now we accelerate on the KPIs. There is a revenue CAGR of 1% to 2%. Looks like the other one, which we had previous one, but behind it is a revenue growth, a service revenue growth of 3% to 4% commitment, which we foresee.

Our profitability is going to increase by 3% to 5%. So this is more than what we were able to deliver on last time. So we are very confident that we can accelerate on the profitability of that company.

The last time, we were talking about EUR 8 billion free cash flow for this group as our ambition level. Now we are handing out a commitment of EUR 18 billion as the minimum which we foresee for our 2024 ambitions. And on top of that, we even want to be leading -- more leading on the capital returns, which we are delivering on our network. So you know that the ROCE is one of our core KPIs. It always were. It was Deutsche Telekom, by the way, bringing it into the telecommunication industries. And now we are achieving, and we are aiming for 6.5% return on capital employed as a minimum for the foreseeable future at Deutsche Telekom's infrastructure.

This is the organic growth and the flying wheel which we foresee.

On top of that, the capital allocation is for us very important. It always was. If we cannot live with only the organic growth, we have to find ways to generate value outside or within the portfolio.

The first thing what we are doing is we invest more to be leading in 5G across the globe, the trans-Atlantic position which we hold. And we're going to be the number one in fiber investment in the European footprint. This is something where Dominique and Srini will talk about. On top of that, network is nice, but monetization is the must if you invest this amount of billions into the infrastructure.

The second topic is focus on structurally healthy markets. For us, a very important thing. If we do not find a market which is structurally in order, if we find a market which is over-regulated, over-competitive, we are even willing to leave that market. We did that already in the past. Think about Albania. Think about Romania and other markets. But this is a clear commitment that we do not fight an impossible game. So therefore, we are trying to focus on fixing a structural issue. And if we can't, we are even willing to exit markets.

On top of that, maybe the biggest news for today, we are clearly committing to get the majority in the U.S. within the time frame of which we have laid out. Our voting proxies will expires in 2024. But until then, we will make sure that we have a clear ownership of 50% and above in the U.S. environment. The U.S. is part of our story, is part of our footprint. We are the trans-Atlantic leader in the telco markets.

On top of that, we commit to deleverage the company into the investment-grade commitments, which we have always laid out in the last capital markets. This is due to the merger and the integration costs, that we are out of it in the U.S. right now, but we will come back into this corridor soon. And that is another commitment which we are giving.

And on top of that, we have waited, and we have looked. We have improved the profitability of our Dutch business. We have restructured the market. We found partners with Tele2. We have integrated the Simple business. Now is the time, after this super value accretion, to think about what is the best way to monetize our asset in the Netherlands. That doesn't mean we have to do that to the other stuff. It's an add-on which we seek to optimize our overall portfolio. But we will move into the market with this asset right now, checking out what is the best way on the Dutch side.

And we have improved our profitability on the tower side as well. We have taken the European towers out of the business as well. And we will work on monetizing towers as well in the upcoming future. And we will talk about that later on how we're going to do that, what kind of scenarios we foresee and why it's now the right timing. It's a kingmaker asset which we have on hand. And I think -- we think, with the current multiples, the current valuations we see in the markets, now is the right time to understand what we can do with this asset in the best manner.

These two pillars result into outstanding profitability. And to be very clear, Our focus is not anymore to compare ourselves with Vodafone, Orange or Telefonica. They're anyhow focusing on free cash flow and other compares. Our industry, fast-moving consumer goods. This is areas like Henkel and others who are delivering constant earnings per share increases in their business. And that's the peer group which we want to -- where we want to benchmark ourselves.

And therefore, we have changed our logic from a free cash flow logic, a full consolidated free cash flow number, which doesn't give you an indication about what we are able to contribute to the community. But we are now focusing on the earnings per share as the main KPI. And we will increase our earnings per share from EUR 1.10 to above EUR 1.75 in the upcoming three years. This is then the basis for the dividend accretion you will get from Deutsche Telekom. And the basis of that one is that we are willing to contribute between 40% and 60% of the adjusted earnings per shares into your direction. This is, by the way, if you benchmark yourself with other industries, I think that's a very fair value contribution. And on top of that, it gives us a leeway to further increase the dividends of Deutsche Telekom in the upcoming years.

That said, we know that you need a floor. You need a kind of interest rate for the huge investments you have taken with us on that journey. And therefore, we guarantee a floor of EUR 0.60 as a minimum. This is the story lining of our Capital Markets Day today.

Now quickly going into a review. And I know you know our numbers, but we are proud about what we have achieved. And therefore, this is not an accident. I think it was the consequence of our very focused strategy. We didn't change our strategy over the last years. We amended it here and there. But in principle, we kept pace on one direction, and that made us strong. We didn't deviate. We didn't expand it outside of our footprint. We didn't make adventures into the over-the-top business models, nor we did it into the content world.

We really focused on our network technology as the centerpiece of what we had. We focused on the convergence, which was for us, really a big gain of revenue in the past. And we're very much focusing on the IP migration and the digitization of our service so far. This, based into outstanding service capabilities, plus a business class, which is -- where we enable our customers to digitize their service around the connectivity piece.

Reducing the cost, we overachieved our costs, our commitment from the last Capital Markets Day. And we simplified, digitized and accelerated our services within the company.

Now these are in a nutshell the numbers. We grow on both sides of the Atlantic, 3% on a CAGR in Europe, 9% on an organic CAGR in the U.S. So all the business are in growth mode. We invested a lot in sustainable growth momentum. And you see that René Obermann, he was investing in Germany, EUR 3.3 billion to EUR 3.6 billion. We changed that immediately. And we have invested around EUR 5 billion, EUR 5.5 billion in the vicinity of -- in the area of Germany alone, 7.5% on the European space. And we have constantly grown this to gain an advantage towards our competition. And on top of that, we had the U.S. investments into a leading mobile infrastructure.

These two years are reflecting the merger integration. Prospectively, this will shrink, but the integration cost is worth doing.

Our free cash flow, at the same time, were even able to grow from EUR 5.5 billion to EUR 6.3 billion, including the merger costs here, or EUR 8 billion if you look forward to our guidance which we have laid out. So a great story going forward, but now we go from EUR 8 billion to EUR 18 billion.

With this, we were able to perform better on infrastructure than our competition. And this is the outcome of it. We gain market share in every region where we're operating. We've grown in Germany by 2.4% on mobile postpaid customers; 1.8% in the European averaging [ph]; 29% in the U.S.; and in the Netherlands, by 25%. So wherever we were able to invest, we were able to gain new customer momentum with -- which was the basis for the growth we were able to show.

The story is well aware to everybody here in this audience. We have more than 100 million customers on branded services. We have a market cap of EUR 165 billion. By the way, we increased our value 7x over the last four years, EUR 68.4 billion of revenues, and an outstanding position, especially of the mid-band spectrum. And the value creation is, I think, the biggest value creation ever seen in a merger in the telecommunication history at Deutsche Telekom.

Going forward, I think there is more to understand what is driving us. And the first thing is cleaning the garage. And I'd like to start, and you maybe have already forgotten that. We had a EUR 9.6 billion arbitration risk coming from the Toll Collect, something we inherited from the history. We were able to settle that for a cost of EUR 550 million. Done. We divested Telekom Albania And we even divested our fixed line business in Romania. Markets where we believe structurally, we had no way to win prospectively.

We have created new growth areas with the fixed mobile integration of our Liberty business in Austria, a EUR 1.8 billion cash acquisition. But we are ahead of the synergies. We are ahead of our market shares in this region. So I can call this merger already a success today.

Turnaround in the Netherlands, an outstanding story. We are faced by integrating our partner Tele2 with a shared deal into our business. Consolidating Simple over the last years, creating a new Un-carrier momentum in the market with a market share gain never seen before. This builds -- this has more than doubled its position since the difficult times when we started.

And we carefully separated our tower business, not only in Germany, but as well in the European operations. And we built a company which has 55,000 towers and is, by definition, the second biggest tower company in Europe.

We are the kingmaker because everybody is putting his chess figures on the game, but nobody has so far consolidated in these industries. With us, somebody can really create the winner.

And on top of that, we have managed the Dutch portfolio together with Cellnex, which gives us a leeway to create money outside of the balance sheet for infrastructure investments for Europe.

We said, no. And maybe saying no is more important to all the good stories which I just described. Because to stay focused, what's very important? And there were a lot of, let's say, kind of things which sounded attractive. Verizon went into their adventure with Yahoo! and the like. AT&T went into the adventure with media -- with Warner Media and alike. Telefonica went into a EUR 3 billion investment for football rights for three years, and so on and so on. We said no to all of this outside business opportunities where most of the people lost billions.

We stayed focused on our connectivity plus strategy. And I think this is what we call put your money where your mouth is than rather trying to build empires.

Now this is the consequence of all of this. Revenue grow from EUR 75 billion to more than EUR 109 billion of today. This is a CAGR organically of 3%, but it's overall a growth of 10%. We grew our EBITDA by 14%, organically by 6%. And we grew our cash flow by organically 14%, 10% overall. These are all targets -- these are all achievements which were higher than our originally committed targets which we laid out at our last Capital Markets Day.

And thank you for that, guys. You gave us a higher multiple. You contributed more trust into us over the past. We highly appreciate that. And we know that our multiples is a little bit higher than to the others.

We have created 45 -- 40.5% more value while Telefonica, Orange and Vodafone, they all lost market cap during this season. So this is, I think, for me, the biggest outcome.

And if you look to the numbers, I was just reading them up before I came down here. Since I'm a CEO, we have created 84% accretion, which is a total value of EUR 46 billion, while, at the same time, Vodafone lost 13.4% and Telefonica lost 50.6%.

So I think when it comes to results day, I feel pretty okay.

But the problem with the results day is nothing is guaranteed. And the more results you have, the bigger the risk is you fail. So therefore, I think we have to move on with the changes we are doing. And this is already part of the journey which we have started.

Our teams are working agile now. We are much more digital than we ever were. 30% of our workforce of today is already working in an agile environment. 300 scrum masters and product owners running these projects.

We became very diverse and international all the time. I'm not talking about our board, which has 40% women ratio. My board here, around my team, which is executive, where we have not only 30% women ratio, but even we have four nationalities. We are quite diverse in the way how we're organizing ourselves. More than 25% of all the new hires in Germany are international people. So this company really became an international footprint, trying to create best breed of the world. Remember, last time I said, we want to be like FC Bayern Munich. We want to have, let's say, a very solid German foundation about our German engineering piece. But we want to allocate a lot of international people, the best players of the world into our team to play Champions League.

Catching the youngsters. We have started new advertising campaigns with Billie Eilish and others, because the customer of today might not be the customer of the future. And there will be a next generation coming who should appreciate our brand the same way as the others are doing.

We have created a big footprint around sustainability and about ethical standards. And we have a very strong stand in the political arena, especially in Europe, where we are hurt with the needs. And I think this is very important, and we go into that one even beyond -- more.

And the last one is for me the most important piece. It's something you never see. You always see the CEO, you see Christian, you see some of the board members, and you think you understand the company.

Sorry, guys. You don't. You only understand the company if you're going down to Earth, going down into the operations of these people, if you're going down to the service people who are going out to the customers on a single day, if you go into our shops, if you go down into the organizational piece. These are the drivers of the change and the transformation of our company.

And we were able to change the thinking, the way how they act, the way how they constantly perform into one direction significantly over the last years. 85% of our employees say, we like to work for Deutsche Telekom. More than 80% of the people say, we recommend Deutsche Telekom as an employer. More than 80% think our brand is something unique.

And we have just a lot of grassroot initiatives in these companies. 200 brand ambassadors. They're just sitting there and always communicating about Magenta, talking about T and talking about our products. Think about if 200,000 people constantly are proud about what they're doing. Think about the momentum they can create with other customers. This gives confident to customers if the employees believe in what we are doing. We have green pioneers all over the companies who are caring about sustainability on the shop floor. And we have a lot of agile activities. Think about design thinking, I never asked for design thinking with the company. But suddenly, it grew like mushrooms everywhere, design thinking teams on creating a new way for developing products and services. So this is, I think, even stronger than all, let's say, the strategic elements which I just described.

Now this is the outcome. These were the commitments. This is, let's say, what we achieved. Please have a look to this one. And I can tell you, they are almost all green. I put two on yellow, because the merger costs and the dividend commitment which we have given were a little bit higher. But we said if we are digesting this super merger with Sprint, we couldn't plan that. It was unforeseeable whether we deliver on it. We had to cut it to the EUR 0.60, by the way, which is more than the EUR 0.50 we said originally, but this is at least the only thing where I think we have not delivered or overdelivered over the promises of our last Capital Markets Day.

This brings me to a totally different topic. If you are grabbing scent and trying to keep it in your hand, it will disappear. You cannot hold it. It will get less and less and less. So you constantly have to grab and grab and grab new scent. This industry is changing dramatically. As an industry, telcos are at the center of the tsunami. The industry is expecting that our industry is accelerating as well. And on top of that, this landscape is changing dramatically when it comes to the players which are new in the field of telecommunication service. Just think about the over-the-top players. Just think about the service providers who are changing their business models.

And I want to spend a little bit more time not talking about the next horizon one issue. I just want to talk with you a little bit what is our vision for 2030. How does Deutsche Telekom might look like in 2030? How can Deutsche Telekom be successful in 2030, knowing that this is still a long way to go? But we have to prepare the future now if we don't want to miss it on a long-term perspective. And I think we are more and more talking about the next quarter. But we should always keep in mind why are we doing things. And therefore, let me deep dive a little bit into a long-term perspective.

(presentation)

So talking about 2030, one is for sure clear. Connectivity is a human right. Connectivity is expected everywhere. And therefore, Deutsche Telekom's business is at a centerpiece of this expectation.

Now I cannot give you all, let's say, elements of what we foresee as trends in this environment. And therefore, I'm trying to reduce it to five major trends which we have to anticipate if we think about a successful telecom business in the future.

And I like to separate it into the B2C, the B2B area, into the ESG and the purpose issue around the network and about the services which we have to deliver in this regard.

Now the first paradigm is we will go from a pure connectivity provider, even in a siloed way, into somebody who is enabling different customer use cases with different connectivity pieces. On the B2B side, we will go from dedicated services, like MPLS, like voice, into more software-driven enterprise solutions with embedded connectivity. In the ESG world, we will face customers choosing, let's say, products and brands with their feet from a kind of ESG as a hygiene factor to companies who are able to differentiate with ESG criterias.

We will deliver, and we will see network of networks. So there will be the monolithic incumbent who's providing all kind of connectivities today. He will in the future be an orchestrator of infrastructures even from third parties. And what we see, we would see a softwarization of the networks in the way how they are organized. They will be disaggregated. They will be cloud-based, cloud-native. And micro-services will enable different use cases in these environments. And the prerequisites have to be organized. It will not be any count a vertical silo as a telco operator is working today.

Let's go a little bit deeper into this storyline.

Connectivity everywhere is something which is obvious to us, especially after this corona crisis. And we will have a mobile world. And we will have a kind of stationary world in our offices and in our living environments. There will be all kind of devices which has to get connected to the infrastructure. And there will be at home all the kind of connectivities, a lot of data flow in the home environment which has to get organized in the kind of service way. Data streams, customer ID, this all has to be organized in a way that is working, functioning and is affordable for the clients. A mesh router, for instance, is already a centerpiece for your home living where all the different devices might get easily get connected.

On top of that, there will be new forms of connectivity. We call that embedded connectivity. The principle is always the same, always best connected. So wherever you are, independent, whether Deutsche Telekom is there with their own infrastructure, yes or no, we have to make sure that customers are always best connected. We buy it, we use it, we integrate it, and it should be always super secure. If it's not secure, we get the blame for that one.

And it has to be modular, because customers don't want to buy the super, super, super product. They want to buy a tailored product which is fitting to the needs of the specific use case they are organizing. Take the consumer IoT world. You do not want to buy a global connectivity for voice if you just need an IoT device. Think about mobile gaming. You need low latencies. In specific, you do not need the full-fledged service or take the 8K conference systems, which we are all witnessing during this times, more or less 4K today. But 8K conferences will have a huge data demand in a stationary use case.

And we have to tailor the infrastructure in the way that we can monetize this different service in a kind of context-aware way, but as well in a kind of dynamic way, because customers don't want to have the service forever for a 24-months contract. They want to have it when they're using the infrastructure.

This always best connectivity means tailored connectivity. And that is something which we foresee in the future: services everywhere and embedded connectivity, context-aware and dynamic.

On the B2B front, we will go away from the classical siloed approach. We deliver a voice service for B2B customers. We deliver a data service. We have messaging services. This connectivity piece will get embedded into UC or enterprise communication and collaboration tools. We call that ECC. So you will buy maybe your Microsoft package with an embedded connectivity already in the future. And this requires a lot of changes in the way how we organize, but even if we sell connectivity in the communication piece.

Security today is a firewall which is covering connectivity on an end-to-end basis in the network. In the future, we see that zero-trust networks, secure access service edge networks will deliver every application in a different security functionality. This is a big expectation towards telcos to organize that all different elements of a data use in the business environment is protected in a special way.

And what we're going to see in the mobile space in specific is we will see dedicated network slices. Interesting-wise, nobody is talking about the network slicing, but 5G was always -- the biggest advantage of it, apart from the bandwidth, was always the capability of slicing in a dynamic way parts of that infrastructure. And we foresee that for the different use cases in IoT, in the B2B space, that we are able to deliver sliced infrastructure for these customers going forward. This creates new opportunities of growth for telecom operators if you differentiate, not between one or two products, but between a variety of use cases in this telecommunication space.

The third one is ESG. And by the way, we have started with ESG maybe a little bit late. I have to admit. But as we learned how important it gets for our customers. Today, already 46% of customers, we know they're looking how purposeful and how reliable and how consequent a company is acting in their societal behavior. And therefore, companies will definitely be chosen, we -- by the way, how they adapt to the social norms going forward.

There will be significant issue coming from the CO2 emission reduction, which our industry is creating, and by the way, is able to reduce. Low-carbon economy, the question about our value chains and supply chains is something which is very important. And the telecom operators are the ones who are helping all other industries to be more efficient.

Think about an autonomous car. By the way, 1 terabyte of data within eight hours of an autonomous car is being generated over the infrastructure. We have to manage that. Think about car sharing. Think about the capability of collaboration tools, less travel. Think about the cloud of the -- especially the midsized companies who are not in the cloud environment already today. These companies can save significant CO2 emission by just using telecommunication services.

So the telecom operator is the biggest enabler for the CO2 emission in the digital world. And the factor which is to calculate for that one is 1:7 CO2 reduction through telecommunication service in the upcoming future. So we are at the center of this ESG movement if we are driving it right and if we are driving it in a way that we are accepted.

The fourth development is the network. And the network -- and I have to maybe disappoint you. Don't believe that the consolidation and the consolidation is bringing this industry to less networks. We foresee significantly more networks in the future. We foresee a much higher complexity in the network and the ownerships of these networks going forward than it is today. So there will be a multifold of different infrastructure who is providing this new connectivity which is required from the customers on all angles.

There will be a physical infrastructure which is coming from satellites. It will come from multiregional FiberCos like CityFibre or KKR here in Germany. There will be the local FiberCos who are providing infrastructure, take the NetColognes or others. There will be alternative networks like Amazon mesh network. However, there will be Sidewalk. Take G Orion, another Wi-Fi network, mesh infrastructures, which are providing connectivities, special in dense areas. There will be campus networks which are existing in the shop floor of big manufacturing plants or parts or other equations. So spectrum being used for a dedicated infrastructures. And there will be even some kind of wholesale businesses who are providing specific services in the IoT case or TowerCos who are providing just infrastructure, passive infrastructure in the ecosystem.

Now think for a moment. Now you can compete and trying, okay, we are better than Starlink on the satellite side or we compete. But is this the right approach? We doubt that. We believe that the advantage lays in a kind of network orchestration layer. We believe what is happening in the content world is happening in the network world as well. So the one who is able to orchestrate different technologies, infrastructures they might not own but provide it to the end customers, these are the ones who are succeeding prospectively. So the network orchestrator is the one who is winning in this field.

But this sounds easy, but from a technical perspective, it's very complicated. How can you organize a satellite into a mobile network or into a fixed line infrastructure? How can you bill it? How can you organize the quality of service? All the things I laid out further. So we have to see who is first on building the network of networks, who is first to enable this software layer? We have a super advantage because we have accomplished our IP migration. So these services already are able to be steered in the software world. But there are new infrastructures which we will not own, which we have to embrace and integrate into our ecosystem. With this, we have a bigger reach. With this, we have a bigger market. And with the bigger market, we have a bigger potential to sell our products towards the customer.

And on top of that, the question is, how we embrace communication service like Cisco, like Apple, like Microsoft, into our infrastructure? We do not want to develop that on our own. We want to build strategic partnerships. But we have to build the APIs, the interfaces to these services in the right manner. The telco industry will go from a monolithic incumbent to a orchestrator, to a network of networks.

And my last thing is the software layer which is enabling the surfaces -- services. And Claudia will talk about that in more detail because we are already on that journey. You have, again, this infrastructure, which I laid out on the previous chart. And I said there is this element of the orchestration which we have and which we have to organize in a cloud-native, in a kind of software-driven environment.

But on top of that, we need tools who are making this service intelligent, unified data and analytic engine services, product services and development. Take the home OS environment, which is easily connected to the different infrastructures. Embedded security, as I have laid it out, and platform-based services, which are needed to build customers to identify customers, to authorize customers and the like.

This is the world which we have to build. We have to build telco as a platform service. This is the next evolution after the IP migration. And that is something which I'm expecting from the NetCos to do this in a consolidated and a synergistic way that we can scale.

On top of that, micro-services and APIs enable the customer use cases, because we will not develop the use cases our own. Some, maybe. But most of them are developed in the ecosystem of the over-the-tops. This is why they called over-the-top. And this is something where we have to make sure that it's easy to connect. It's another form of the Steckerleiste. Maybe some of you remind the story, the plug-in which we had already in earlier strategies.

So this is our 2030 view. This is, let's say, a thing which we should think about. We should not do some step after another. We should have an orientation. We should have a lighthouse in which this industry might go and where we position ourselves already today. And that is our strategy today. This is what we foresee as paradigms for 2030. And this is what we do now to get there.

So the headlines of all presentations of my colleagues are around: from connectivity to customer experience by making and turning customers into friends, creating experience around products and services, which are unique. From dedicated to software-driven enterprise solutions, we want to become the digital enabler for our B2B customers on their needs which they have in collaboration, in communication, in IoT and in the cloud space. People society, from ESG as hygiene factor to ESG as a differentiator. GreenMagenta and GoodMagenta, our ethical expectations.

Networks, from monolithic incumbent to a network of orchestrator. We build, orchestrate and differentiate. This is already something where our architectural logic is working on. And digitization, from vertical solutions to telco as a platform to a cloud-native API environmental. The prerequisite for this is we digitize and digitize and digitize everything what we have. So wherever we can digitize, we should do that because this will enable a cloud-native API-based architecture which we foresee for the long-term future.

So coming into the commitments, and coming into the next years, the next three years, what we want to achieve. And we will have deep dives on each of these topics. So let me quickly go through that.

We want to play our differentiation in the convergence piece in Europe. We are strong at that. And we foresee that the FMC penetration in our customer base has a big opportunity to gain more momentum. Best connectivity experience, embracing other technologies, seamless interplay between them, and innovations beyond the core for the services is one thing.

Best mobile experience. We always want to have the best infrastructure on mobile. And differentiated service, we want to increase, as an example, our first call contact resolution from 55% to more than 62% in Germany. And by the way, we are not talking about idle times. We're not talking about call handling times. We are not talking about deadline compliant. We just talk about the way, solve the issue for the customers.

And we're doing that already today, still in with pride from the U.S., which is called the tech team of experts, which is now embedded and implemented across all the operations we are running. A personalized, off-line and digital service, first time right, and very much about Heimvernetzung, the connectivity at home, which will enable a seamless and interruptible-free service.

Our commitment, 10 million households in FMC. Our commitment, industry-leading growth in branded postpaid customers. We want to win market share in this regard. Extended all-time high customer satisfaction, we want to increase our customer satisfaction, our Net Promoter Scores, beyond the level which we have already achieved in all areas where we're operating. And re-innovate the brand under the idea of digital optimism, believing into a future which is getting better through our services.

Coming to the B2B. On the B2B, we see two big paradigm shifts short-term. The first one is the SD-WAN development from MPLS dedicated lines to an SD-WAN service, which is more flexible, more affordable for our clients and customers. And we see a growth of 36% in this environment. And we see this enterprise communication and collaboration where we see huge tailwind where end customers are spending a lot. The hybrid way of working is the way of the future, and the ECC is the tool which is enabling this.

This is what we are working on: enterprise networks, IoT and security solutions, cloud and digital. And our commitment going forward is we're going to see a CAGR growth of 2% in the B2B's CAGR. I'm very irritated when I see all my telecommunication players around me always talk about negatives. They're all shrinking in that environment. We are growing. We are growing already today. And we believe we can grow at least with a CAGR of 2% in this environment in Germany and in Europe. U.S., we will double. We will double our B2B market share from 10% to 20% because we have the credibility, because we have, for the first time, a better network than AT&T and Verizon at affordable prices. And this makes us strong to gain market share of these guys.

We will double our IoT revenues and even our ARPU in this area. A big enabler, and I can talk about hundreds of thousands of SIM cards, which we recently gained with car manufactures and the like, which is enabling IoT connectivity to cars.

By the way, the chipset shortage is something which is good for us because every chipset is producing data, which has to get allocated in the infrastructure. So therefore, we are in the play.

In public cloud, we are expecting that our public cloud servicing is growing by 50%.

Coming to the field of ESG. And I think we can skip directly to the slide. It's not working. Go ahead. We can go to the slide. We have built a new team, a stronger team for all the ESG topics which we have. And we even have created a new ambition level for our ESG targets.

The first thing is 100% of electricity from -- coming from renewables already this years. So every kind of energy we are using in our footprint is already today on 100% renewable energy. This is already, I think, a big step. And it costs us millions, double million -- digit millions to get there, but I think it's worth doing it to have a green network.

Now the next step, which is new. On Scope 1 and 2, we want to, let's say, have a net 0 own emission by 2025. Now you might question, what are you talking? This is electricity. But we still have a fleet. We still have buildings who are consuming energy in this regard, oil and other things. And we are now working how we can reduce even this emission to 0. So that's the scope and our commitments towards 2025.

And then we have up and downstream energy consumption, the way how our technology is getting produced: handsets, routers, all this kind of stuff. And we have the end customers consuming all the product of Deutsche Telekom. We want to make sure that the net 0 emission is achieved for this value chain at least by 2040, which is at least significantly ahead about, let's say, taxonomy and the targets of the European Commission and others. This is the Scope three where we're working on.

Third, increase the energy efficiency in our network. Every single discussion should be not only saying, by the way, we help you to reduce the energy consumption. We should even think about how we can gain productivity in the way how we are consuming energy in this environment. And Claudia will talk about how she can do this in the technology field later on.

Maintain an all-time high customer and employee satisfaction. Our people should be proud, our people should have a purpose, our people should understand why they're working every day for Deutsche Telekom. And we have a big purpose, as I have laid it out already. We are the enabler for future growth. And therefore, we should keep this momentum, that people are proud about the T, proud about Magenta, proud about what we are doing. And therefore, having almost 90% of the people being committed, I think this is unique if I see the benchmark of other industries.

And then on top of that, we have ESG initiatives in the recycling field. And we have said, every board member, prospectively, short term, prospectively, every leader of this company should have ESG target in his long-term incentive scheme. So it's not only that we are committing to something. We will be paid by the fulfillment of our ESG targets, which I'm just describing.

And the last thing is, apart from the GreenMagenta initiatives, we have a GoodMagenta initiatives. GoodMagenta is, what are we doing about digital literacy? What are we doing about democratic values in a digital society? What are we doing about hate speech? What are we doing about all these escalations which are taking place around us with regard to fake news, deep fakes and other things?

We are fighting them. And we want to stand as a voice in this circumstance. We are by far the leading European telco and, therefore, we have a duty to tackle these issues. And we just launched a campaign together with Billie Eilish, which was seen 340 million times on the Internet from the next generation. So it has already impact, but this is definitely not a 1-session issue. It will be a campaign which we're going to create even beyond today.

That brings me to the core of the core, our network. And what you see here is, today, we have -- as an example, our fiber situation in Germany, 5% is our FTTH position, 83% is FTTC. And then we have still some ADSL. We have 100% more or less ownership of this kind of services.

We're going to change that, and we're in the middle of this transformation. 60%, 70% of the infrastructure we will own, and it will be fiber. We have made a clear commitment that we are now developing a significant acceleration on the fiber build-out in Germany. We had 600,000 last year. This year, we're going to 1.3 million, 1.4 million. The year after, to 2.1 million. And then we go to 2.5 million households on an annual basis as the run rate of the infrastructure. This is what we do as owners of the infrastructure. There will be as well external money going into networks, which we embrace, wholebuy, which is extending our footprint beyond where we are today.

On reciprocal terms, reciprocity is the name of the game. Why should we overbuild somebody? If they have built already fiber, why can't we embrace them into our infrastructure? So third party will help us to have a big footprint. And you see we will keep our retail market share. We will keep the same position as we have it today at least.

The commitment which we are giving is: Germany, we will quadruple the fiber-to-the-home output. We will attack. We will not be only in the outskirts. We will not be there where only subsidized monies are available. We have announced Berlin, Dusseldorf, Hamburg, Frankfurt already. I would love to see us being strong in Munich as well because that's a market where we want to, let's say, play a significant role on the city. So there are other markets to come soon.

We will have additional footprint in Europe. Today, Europe is already at a run rate of 1.1 million fiber households on an annual basis. So we want to keep that, even accelerate this output effort, that we are the leading FiberCo in Europe. That's definitely our ambition. And therefore, we have allocated money to this one. It's highly profitable because it's easier, it's cheaper to build an FTTH structure in these regions.

And this will bring us to an outstanding leadership position, not only on fiber, but as well on the 5G area. I don't want to repeat that. You know that there is no question. No question. Deutsche Telekom will always lead the mobile space. This is our ambition. We will win every network. Tested, by the way -- just this morning, OpenSignal published their test. We have a 30% advantage to our follower, which is Vodafone. We are really, let's say, ahead of our competition. I'm very proud about our technicians who make that possible.

And in the financial envelope which we have laid out, by the end of this year, we will have 90% 5G coverage already in Germany. So that shows you the advantage of what we have created in this environment.

In the U.S., I think you know the story, and Mike will talk about that one as well later.

Which brings me already to the end, which is a very important piece: digitize, digitize, digitize. I always say to the company, if you do not understand the strategy, if you do not know what to do, if you do not have a leader who tells you what to do, digitize. Because there is always a place where we can improve. three areas of digitization: customer frontline, boost the e-sales and the digital reach. We want to have one unique app with a high usage.

Service automation and remote provisioning. We are running the biggest bot farm in telco industries, 3,000 bots operating in our network already today, including predictive and proactive maintenance because the more proactive we are, the less complaints, the less costs we are creating in the system.

Network and IT. Digitize, digitize, digitize. The way of Open RAN, the disaggregation of our network. So the way of running network from a software perspective than rather having it in a very decentralized way is the next thing. And this is in a kind of agile and cloud-native IT, our IT has significantly improved over the last years. The time to market has come down to numbers which were even not close to our expectation when we had the last Capital Markets Day.

And then we have the operations. Everything internally has to get flattenized, everything has to get automized in a way. We should not bother our people with routines which we can softwarize. And therefore, there is a big boost for internal efficiency via digitization. And we commit to another EUR 1.2 billion of savings in the organization here in Europe for further productivity gains.

The ambitions: 30% e-sales shares; 25% to 30% e-sales shares in Europe; two months time to market in Germany; and one month's time to market in Europe, which makes us much more flexible, much quicker in responding to our competition. And even our testing of new products is easier to handle.

This is the last thing on the portfolio, the capital allocation. We want to achieve trans-Atlantic leadership by creating more synergies in our footprint. Due to the fact that everything is going in software, we can jointly work much better together. And we're doing that already today. Take our TV platform, which is now harmonized around the whole European footprint. Think about the mesh router and the router development, it's harmonized around Europe and beyond that. So we have a lot of areas where we can harmonize and where we can generate synergies within the footprint of the biggest telco in the Western hemisphere.

Being in AAA market is, by definition, an advantage. We have one regulatory or more -- less harmonized regulatory environment with less risks, which helps us a lot. number one in Europe and soon, number one in the U.S. This is our ambition rate. This is leading.

Build once and scale, I made that already. And the One App is another example on how we are driving it. We have just joined and integrated the team on this field that this development is just taking place out of one hand.

And a repeatable playbook, leverage the best practice around the footprint. And this is not only for operations. It's as well in the way how we do portfolio and M&A.

Always trying opportunities. We don't say we are selling and we are buying. We are even trying to do forms outside of the balance sheet. We are trying to do things that we have maybe even minority shareholders in some areas to create upsides at a later stage. And that is the way how we are driving things. And this repeatable playbook, which we have learned, is even stronger because we have one single business model in our organization.

The commitment. We want to increase our return on capital employed for the German operation by 50%. We want to double the B2B market share in the U.S. We want to scale the One App beyond all the footprint. And we want to have 80% of the router base with an own operating system. By the way, even the home OS which we are developing, which is bringing all the home services together, is something which we are launching soon. So more to come on the product events.

So this was my journey, in a nutshell, about what we are doing. We are very, very ambitious in how we see the future. And the headline, as I said, it is acceleration, acceleration.

Revenues, 1% to 2%. Okay, you know that number. But nobody is interested about revenues from handsets. Service revenue matters. The utilization of the infrastructure matters. 3% to 4% growth. So we believe in a significant growth on the service revenue side.

EBITDA, the group is going to grow by 3% to 5%. This is 2% more than what we said last time. Adjusted EBITDA grows by 5% to 6%. This is significantly more than what we said last time. Free cash flow today, EUR 8 billion; '24, beyond EUR 18 billion. Another EUR 10 billion in the year '24 on the cash flow which we are generating today. And ex U.S., we're going to bring it to the EUR 4 billion here.

Adjusted EPS, we go to EUR 1.75. And the ROCE should be beyond 6.5%.

The CapEx envelope is designed ex U.S., EUR 8.2 billion is the vicinity on how we are investing. And indirect costs should get reduced by EUR 1.2 billion.

The shareholder remuneration, based on the EPS, with a payout ratio of 40% to 60%, which gives a perspective to grow our dividend significantly over the next years.

Look, I think Deutsche Telekom is not only excellent. The strategy is something which we work very hard on it. It is supported from 250,000 people in this organization.

I commit that we, again, will deliver of what we have promised. We see the future as a growth future. We see us positioned very well from our portfolio and the markets we are operating. We have a differentiator, which is around our infrastructure. We have an idea about how we are developing this company towards a new layout for the generation 2030. And with this, I'm very optimistic that we will create more value than the other telcos.

Thank you very much for listening.

Questions And Answers

A - Hannes Wittig {BIO 4033762 <GO>}

Thank you, Tim. Thanks for this great -- for setting this framework for us. Maybe you can join me now for the Q&A. We don't have too much time for the Q&A now, but we have Tim back on stage tomorrow after the last session. So let's have a couple of questions right now. I can see already Polo, Polo Tang from UBS there on the WebEx. So Polo, maybe if we start? We can have your question, please.

Q - Polo Tang {BIO 3059030 <GO>}

So I have one question, which is just on shareholder returns and the EUR 60 billion buyback at T-Mobile US. It's very clear that you want to get to a 50% shareholding in T-Mobile US.

But once you reach a 50% shareholding, are you likely to participate in the T-Mobile US buyback program? And if so, what would you do with the proceeds?

A - Timotheus Höttges

Okay. Polo, thank you. The first thing is first step after the second. So the first step is we have a big commitments towards our build-out program in Germany on fiber and on 5G. On top of that, we want to achieve this majority position. And we haven't taken any decision on whether we will take part of that program or not.

I would expect us having a 50%-plus position that we then will more think about how we can do the allocation of that money. Whether we do debt reduction or other things, I would not see us immediately, let's say, participating and extending it. I do not see an immediate value out of that. But that would be my spontaneous reaction of today. So now taking first 51%, and then letting the whole equation being reviewed again.

A - Hannes Wittig {BIO 4033762 <GO>}

Very good. Thank you, Polo. And so the next question, I can see you Andrew at Goldman.

Q - Andrew Lee {BIO 18737078 <GO>}

Yes. Tim, it's great to see your ROCE targets today, which ultimately come down to growth in costs. When we saw you in Bonn a couple of years ago, the main question mark on that was probably on sustainable growth. And it was actually viewed -- it's not a big thing to hear about a telco talking about growth. You've since delivered on that nicely, and your guidance from here is more credible as a result. But right now, there's a heightened uncertainty in the sector on what you described as the investment you put into the wheel.

And so I wondered if you could talk a bit more about how much visibility and certainty you have on CapEx intensity? And also, how you flex for the spectrum that fits into that? Just to give us some confidence that we don't get a CapEx warning over the next couple of years like we've seen across the space over the past few weeks and months.

A - Timotheus Höttges

I think the uncertainty at the last Capital Market was significantly higher than it is today. Last time, we had the unclear position on the U.S. Last time, we were not clear how to do play the 4G game and extend our footprint to where we are today. Last time, we had this big auctions, AWS in front of us in the U.S. Last time, we had just announcement around the Vodafone integration of fixed line and mobile services here in Germany and the competitive challenges we were facing. Last time, we had portfolio assets which were not running operationally well, like the Netherlands.

So today, I can tell you, I'm sitting in a portfolio which is more or less fixed in every regard. We're still working on two systems. We can talk about that. But from a total equation, that is for me, from an outlook perspective, the most uncertain one because I do not know how these markets are recovering after COVID and how much of this -- how much of -- that we are participating in that growth. But that said, I see that.

The second one is I do not see super significant auctions coming. We always had this kind of buckets in our planning and anticipating big auctions. This time, looking to this one, it's much more foreseeable what's coming. This is millimeter wave bands which are coming. There are some European market with 5G services coming, which are not that big. I do not see significant big auctions on the horizon, which will eat up into our balance sheet.

And on top of that, our position, think about our position in the U.S. We are ahead of our competition with 5G services and buildout. We have a very clear view that how we -- what we need is CapEx to stay ahead and what is needed there in the market environment. So look, I'm very confident to the German build-out. Because what we have changed is -- and by the way, this is even a regulatory approach.

Look, in the past, people were saying, we won't expect that you build a new monopoly. We don't. We will make safe that -- we will protect our market share at least, that I said that. We will have a decent share of wholesale because the deals are already made in the vicinity of EUR 17 billion, even Germany as an example. So we have a decent wholesale share on top of that one. But we will not build the whole country. So there will be others doing it. So why should I overbuild others if these guys are opening up their infrastructure to us and we can sell Magenta services as well in this region? This is the way going forward.

And that keeps me more relaxed than this attitude of saying we always in the fixed line business have to own a monopoly for the whole country. So I think this is a new learning, that we do not have to own whole infrastructure. We hope to own the majority. And the argument, is it 60%, is it 70%? This is, let's say, the pitch which we are doing. That just gives us credibility. But beyond that, we will have a lot of whole buy deals. And therefore, we are limited on this exposure.

I think it's even a capacity issue. Building now 2.5 million households in Germany, this is a big stretch target for an organization and even for our external service partners. So therefore, look, I'm -- maybe I'm too optimistic. Challenge me on this one. But for me, the perspective is more easier to take than it was four years ago. And that is why we gave you higher numbers.

On top of that, we have a better control about the fixed line market in Germany. You see our market share, beyond 50% on the net add side. We have no line losses anymore. So even the constant revenue stream we're getting out of this, the growth was around 5-ish already, is something which gives me confidence that we are well positioned.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Thank you, Andrew. Thank you, Tim. And I can see Akhil, not at the trading floor, it looks like. And then, Akhil, can we have your questions? Then we have one more. And then we move on to Srini. Okay? So Akhil?

Q - Akhil Dattani {BIO 7190509 <GO>}

Yes. It's two very quick ones, hopefully. So one is on towers. Tim, you mentioned, as you have before, that you see yourself as a kingmaker when it comes to towers. I just wondered, with the strategic review you're talking about, whether that changes the options you're thinking about. I think in the past, you've said you are ruling out an IPO. You are ruling out a disposal. It was more trying to find ways to create incremental value. If you could just maybe talk to whether there are other options now, whether you're thinking around that's changed. So that's the first one.

And then the second one is, you've talked a lot about the network of networks and this aggregator strategy as Deutsche Telekom going forward. How important is scale to that? And when you think about Europe, which remains very fragmented, do you think that, that means that, as this industry evolves, scale is incrementally important? And do you think cross-border consolidation therefore becomes more important, too?

A - Timotheus Höttges

Very good. Look, the first thing is, we have been at the forefront of carving out our towers. And we have, I think, over the last years very much professionalized the operations in Europe on the tower side. And we have increased our EBITDA, just from my mind, EUR 150 million on top of that. So not going to the market with a low performance, but having already, let's say, taking the low-hanging fruits on the services, which will give us a better value.

We have seen that even the market contributes, I think it was EUR 6 billion or EUR 8 billion, now it's around EUR 12 billion value to this thing. So they see this value enhancing. We have seen that the Americans have positioned themselves into the European space as well. We have seen Cellnex scaling up their business. So we saw the multiples between U.S. and Europe becoming very similar. And on top of that, where -- we see that everybody is positioned themselves to become an industry leader in this space.

So we saw high multiples, beyond 30, on these businesses. And we don't believe that these multiples are going now significantly higher on this one. So now it's the right timing to think about to play in this game. Because the fantasy of something organically is more limited. So we have now an asset on hand we can play with. We can consider selling the majority. We can selling -- a piece.

Look, I want to send Langheim out there and come home with a fantastic deal. I'm open to every option, to be honest, open to every option. But it has to be a good deal. It has to be a fat and juicy deal for Deutsche Telekom. And that is why I think it's now the right timing where everybody is positioned and nobody is talking about theory. These companies are now built, and the players are there. And there was never so much money in the market. So I think this is now the right thing.

Look, I hope that we can come soon coming back to you guys and show that we're doing the right deals here. Thorsten will talk about that one in more detail later on, but that is the strategic topic.

Network of networks. Thank you for -- because, guys, I think we have to think about the future because, otherwise, we will not understand that the companies -- telco companies are long-term positioned. So the network of networks and the aggregator strategy is something you have to invest, you have to learn. You have to cooperate with hyperscalers in this case. So are they enemies? Are they frenemies? What role do they play? This is the thing where we have now to start working on.

And scale is important, because the bigger the aggregator is, the better the economy scales gets in this ecosystem, the more your incremental cost of IT investments are getting lower. And therefore, I think it's important, but who is better positioned in Europe than Deutsche Telekom? Now compared to the U.S., compared to Asia, we are subscale. And therefore, I'm calling, desperately calling, as a European citizen, for a harmonization for a single market of Europe. We need it to survive. We need it to play a relevant role in this piece prospectively.

So I'm not driving politics. I know that the single market is still far away. I'm calling for bigger consolidation. But Deutsche Telekom is not sitting here and willing to invest cash into buying a company and then integrating it. That is not what we are looking for. But I hope that this market is coming into consolidation, that we are creating GBP 200 billion, GBP 300 billion here who are able to create the same economies of scale like other markets. But this is a way which is very difficult to predict.

And prospectively, with the software development, the cross-border consolidation maybe gets more juicy because you have better economies. Look, at that point in time, I can only tell you, there is no activity in this regard. Europe is on -- a little bit on the way in these network issues to get -- become more nationalistic due to all the discussions we have in the political landscape. But prospectively, we need a single market for Europe. I cry for that.

A - Hannes Wittig {BIO 4033762 <GO>}

Thanks, Tim. That's very good. I mean we are very short of time now. So Usman, great to see you. Have a -- let's have a quick question and a quick answer maybe, so we can have time for Germany and the other subjects as well. Thank you, Usman. Good to see you.

Q - Usman Ghazi {BIO 15041671 <GO>}

It was just going back to the strategic question of telco relationship with hyperscalers, this one particularly in light of the deal that DISH is doing with Amazon in the U.S. So is it -- from your overview, I mean it's clear that more and more telco kind of network data will be running on cloud servers or hyperscaler servers. More of the network will be run as software, again, on commoditized kind of hardware. Through network slicing, I guess you have a situation where hyperscalers can in theory run telco networks directly into customer premises.

So the question was really, I mean, how are you as an organization managing the potential disintermediation risk? And to what extent does the telco kind of connectivity model need to change in order to be able to get more upside from this relationship with hyperscalers, and not to be reduced down to just providers of commodity where connectivity were just priced down all the time?

A - Timotheus Höttges

Look, thank you very much for that good question here. It's at the core. And I have to be now fast. Very complex question. Now the thing is you have to manage your dependencies. And there's one dependencies, the hyperscalers will not go away. And there will be, definitely, let's say, a service which they're providing and where we can benefit from.

We have to bring the physical connectivity and the logical connectivity. We have to bring that together. This is how we make services and quality of service for customers available. This is, I think, the logic. Therefore, we need hyperscalers prospectively.

Now the question is, we should not become dependent on one hyperscaler. So this multi-cloud approach is one of the solutions that you're not relying only on one hyperscalers in the way how you cloudify your infrastructure.

The second thing is, look at the car industry. The car industry is embracing big time, Amazon and Microsoft, to their services. But they're not losing value chain, and they take them as a service provider. And this is the way how we think as well about it. We are not building the cloud ourselves. We are not running it. There will be critical pieces which we have to control ourselves. There will be pieces of the network where we leverage our network. Think the housing of edge clouds. I can believe that we do that with hyperscalers together. And then there will be pieces of it.

I think the value for us is in the centerpiece which we're having, on the other -- on the one side, orchestration infrastructures from us and others, and on the other side, having always the access to 260 million customers in our footprint directly, including our B2C relations and B2B relations. And for me, the hyperscalers can enable our services, which I laid out earlier: quality of service, different carrier grades and the like in a kind of intelligent way. I do not see them when they really substitute us. I think they will help us to enable this orchestration and the cloud-native approach of our infrastructure. And we will select not only one. We will work with different players together.

That's the way how we -- how I see the future going forward. But Claudia will talk about that tomorrow, hopefully, for you in a more clearer way. That is the way which I want to drive. You cannot just ignore them. You have to embrace them. And that is why DISH and Amazon are working together in the U.S. And I think Rakuten is on the same journey. So therefore, we should adapt that.

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A - Hannes Wittig {BIO 4033762 <GO>}

Yes. Thank you, Tim. If you can't beat them, join them, but thanks for this great framework. And as you can see, the idea of today is we won't rest on our laurels. On the contrary, we will accelerate. So how do we accelerate in Germany because it's a great asset? Well, we got the guy from Europe who -- formerly Europe, but he's actually already here running the German business for quite some time. Sorry?

A - Timotheus Höttges

He has to accelerate.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. And now he will accelerate. And he will talk to us how he will do that. And I cannot think of anyone better suited for this than Srini. So we look forward to now hearing Srini, how we'll take Germany to the next level. Thank you.

A - Srinivasan Gopalan

Thank you, Hannes. (spoken in foreign language)

You can see seven months into the role, my German is already fluent. But seriously, before I expose my numerous shortcomings with the German language, let me move to talking about the German business.

So it's my pleasure and honor to spend the next 45 minutes talking to you about where the German business is right now and where we're going. So without further ado, let me jump right into it.

So where is the German business right now? I think the German business is in a really solid, good place. We've delivered reliable, predictable financials on the back of solid operations. And through this -- and all of this, despite the fact that we've gone through a fairly large transformation, one of the biggest that I think any of the incumbents in Europe has gone through, the IP transformation, which gave us its own headwinds. And I'll talk in more detail about that. But where we are is a really solid foundation, a place that delivers solid financial results, a great experience, a really good brand and a solid operation.

Question is, where do we go from here? Now this is a question I've been asked often within the organization over the last seven months, and often in German. And so that leads to one of my favorite German words, (spoken in foreign language). By which, we mean acceleration. And so the vision really for the next four years is to take the solid foundation and accelerate from there.

What does acceleration mean? Accelerate in terms of building out the networks for the future; accelerate in terms of our revenue across consumer and B2B; but also accelerate in terms of our internal digitization, so that the combination of all of that creates an acceleration of EBITDA that self-funds the fiber rollout. And last but not least, use all of that accelerated EBITDA, allocate capital well, so that it's not just EBITDA, but also return on capital employed that accelerates. So it's a story of acceleration built on a solid foundation, which you can see has a lot in parallel with the way Tim was laying out the story for the group as a whole.

So let me now dive in a bit into our performance and the solid foundation that I talked about. I'll start with just reflecting on some of the commitments we made in our last Capital Markets Day and how we've performed against those commitments. Now the commitments for 2017 to '21, and the numbers you can see here are our actual reported numbers from '17 to '20. So as I talk through each of them, I'll also give you a flavor of how '21 is turning out.

Let's start at the top with mobile service revenue. Now we committed to a 2% mobile service revenue growth. Our actuals 2017 to 2020 were 1.4%. When you take out the corona effect, it was actually about 2%. And as we look at '21, we're pretty comfortable, giving us a tick on mobile service revenue.

Let's talk about fixed service revenue. Here, our landmark strategic decision of actually going down the route of vectoring changed the game for us on broadband. So on broadband, we had committed a 4% -- 3% to 4% growth. Now the reality is we're storming ahead of that: 4.6% delivered till 2020; quarter 1 2021, 6.4% broadband growth. So clearly, vectoring is paying off in spades.

If you look at our EBITDA commitment, we said 2% EBITDA growth. We've delivered 1.9%, 2017 to 2020. That despite the headwinds from the IP migration, and I'll talk about them in a little more detail on the next slide. And 2020 itself also had the COVID headwinds. So our 2020 EBITDA growth rate was only 1.4%, which brought down our overall growth rate in this period. But when you look at Q1 2021, with a lot of the headwinds behind us and some of the headwinds of IT migration turning into tailwinds, you can see the acceleration. We grew at 3.4% in quarter 1 2021.

Cash, the last of those numbers, we said 4% to 5% growth. We've clearly nailed that at 4.8%.

So financially, stable, predictable delivery.

Let me talk a bit about IP migration because I mentioned it earlier. Look, we are the only scale incumbent in Europe who's really completed the IP migration. This was a tough journey. What did the IP migration involve? Essentially, swapping out all our legacy infrastructure to put in an all-IP network. Especially with B2B customers, this was also the effective equivalent of cleaning up your back book.

Now we started in 2014, but it really peaked in terms of impact in 2018 and 2019. So in 2018, we had 700,000 line losses; 2019, 800,000; 2020, 200,000; 2021, an even lower run rate. The drag of this on revenue was about EUR 100 million a year in '18 and '19. It's about 0.5%. Now it went away largely in '20. You didn't see it in our results because COVID hit us at the same point. But when you start looking at 2021, you are beginning to see the release of that and the tailwinds coming in. So our service revenue quarter 1 2021 grew by 1.7%.

Now the IP migration didn't have headwinds and effects just on revenue. It impacted cost as well. So installations peaked, because you've got to physically go there and change out the legacy network. Our installations are now down 30% from peak. And last but not least, and this, I think, will be the most selling factor for the future, the IP migration gave us the ability -- and I think we're the only incumbent in Europe who has this ability now, to really build modern, technologically sophisticated products, such as SDx, enterprise cloud communication, on top of our all-IP network, for our B2B customers.

So solid financial delivery in the face of a tough IP migration. How have we achieved all of this? I think the core of a lot of this has been operational excellence. If you look at the chart here, we have seen complaints go down by 66%, a 20-plus-percent increase in first contact resolution. That's impressive. IT time to market going down from 18 months to three months. Add to that, the fact that -- and I've now worked in several incumbents, our IT infrastructure is amongst the most stable that we've -- that I've seen amongst incumbents.

What's the payoff of a lot of this? Record levels of customer satisfaction and record lows on churn. A further testament to our strategy of invest in the network, invest in service, good things will happen. And that's not just us saying it. You can see, we won most of the awards possible in this space.

So solid financials, tough migration handled well, delivery despite that, based on solid operational foundations.

I'm going to close off the looking back with a quick sense of our other commitments, specifically the ones I didn't touch on earlier.

I'd like to start by highlighting cost. It's a bit of a myth here that you can't take cost out in Germany. We reduced EUR 1 billion in cost across GHS and Telekom Deutschland. We reduced our workforce by about 10,000 people between 2017 and 2020. So you can take cost out, you can drive efficiency in Germany.

I then want to spend a few minutes on the ambers. So B2B growth, we said EUR 500 million. We delivered EUR 110 million. Correcting for corona, we had about a EUR 240 million impact of corona, which was mostly lost roaming as well as the big IT deals. We delivered EUR 350 million. And I can always stand here and say, yes, IP migration was the rest of it. But cold hard facts, I think we would have liked to have delivered more on B2B growth. And we'll talk about our plans going forward.

The second area of amber I want to spend a few minutes on is fiber rollout. We said we would get to a run rate of 2 million homes per annum. Last year, we delivered 600,000; this year, upwards of 1.2 million. But in the last quarter of this year, we will be running at close to 500,000 homes per annum -- sorry, 500,000 homes in the quarter, which is about 2 million homes per annum. So we'll get there. But truth be told, we would have loved to have got there a little quicker.

And the last area of amber is then our revenue delivery, where we said we would deliver 1% in growth. Reality, we've delivered flat revenue. Now some of that is because of corona. Without corona, it would have been 0.4%. But I think the more important piece, which is same point Tim made, when you look at service revenue, we actually delivered 0.7%. We chose to let go of some of the lower-margin revenue. But still a near miss, so an amber rather than a green.

So that's the scorecard and the state of the past, a really solid foundation.

Let's now start talking about (spoken in foreign language) or acceleration. I'm going to skip through the first slide on this. This is the slide Tim talked about in terms of the priorities. Our priorities are consistent with the group priorities. Let me dive into the heart of it and talk about acceleration on the network side.

So network acceleration. Where are we on 5G, first? As Tim said as well, we today have 80% coverage on 5G. Now this blows my mind a bit. I've been in the industry a while. It's rare that you find a case where, with the new technology being introduced, one player has twice as much coverage than the next competitor. And the task going forward from an acceleration perspective is, how do we now really get efficient about 5G deployment, and more importantly, how do we monetize it?

Let's talk about the fixed line infrastructure. I think what was strategically brilliant was the choice to go down the route of vectoring.

What has vectoring given us? Several things. We now cover 83% of the country with vectoring and super vectoring. Our choice of going broad and high speed versus narrow and gigabit really paid off over the corona crisis because we could almost overnight allow the entire country to start moving to working from home. The other big advantage of vectoring is in the fiber rollout. Now our last mile in Germany is shorter than anywhere else in Europe because of the depth of our vectoring coverage. So the last mile in Germany is 200 to 400 meters. That's a lot shorter than elsewhere. We'll come back to why it's still so expensive to roll out fiber. But the length of the last mile or the shortening of that length was a huge achievement of vectoring. As a result, we have a copper network that delivers -- that can deliver up to 250 Mbps. And for a large number of customers, already delivers more than 100 Mbps. That's different from a lot of places in Europe.

So how do we build on that foundation and accelerate?

Let's start with fiber and how we accelerate. Now I already talked about this at our Q4 earnings call, where we laid out our target of 10 million homes by 2024, with -- getting to, with our competitors, 100% fiberization of Germany by 2030. Now since then, I've spoken to a lot of you. And typically, there are three questions. The first one, I think Andrew was kind of subtle in the way he phrased it, but how do you know 10 million homes is enough? Is there another CapEx warning coming around the corner?

The second one I've dealt with is, tell me more about your fiber strategy. How do you decide where to roll out? What's your strategy? And the third one typically is, how do the economics of fiber work? How does this contribute to monetization? So let me deal with them one by one.

Let's start with, is 10 million homes the right number. We are convinced 10 million homes is the right number because we believe that's the number we need to get to above 60% infrastructure share.

What drives that conviction? Three pieces.

Firstly, the demand side. Now I've seen fiber rollout in over 10 countries now. Consumer behavior remains quite clear. There are two principles. One, most consumers hate having to move infrastructure and change their in-house wiring and everything else, unless that's the only way they can get high speed. Second, most consumers upgrade the speed of their line one step at a time, at most, two steps. So they go from 16 Mbps to 50, 50 to 100, 100 to 250, 250 to 1 gig. Why do they upgrade one or two steps at a time? Because each step normally comes with a 15% price premium. Now you take those two principles, and all the data I've seen in Germany suggests that those two principles still hold.

Now you add a couple of facts to those principles. One, over 80% of Germany has vectoring available. You take a second fact, which is that, in our retail plus wholesale 25 million customer base, 80% of customers are at least one or two steps away from the peak speed that their line can deliver. What does all of that mean? For the next four to five years at least, a lot of the demand for fiber will come from the 20% non-vectored areas, and the 20% in vectored areas who have already reached the maximum speed potential of their line, which means there will be demand, but that demand will be focused in certain pockets.

And that demand will grow because what will end up happening is that more and more people will reach the peak potential of their line speed. But it will grow steadily. There isn't a flood of fiber. There's a steady, nice growth in demand for fiber. And when we work through the math of all that, we come to the answer, 10 million lines will comfortably put us in a place of 60% infrastructure share, assuming people build in economically sensible manners to drive demand.

There's a second factor which convinces me that 10 million is the right number, which is supply side dynamics, and Tim referred to this.

Germany, it's bloody hard to build out fiber. You have 2,700 different municipalities. And there's my favorite German phrase now, (spoken in foreign language), which is the process by which you get permission to build. That has to be negotiated with every single municipality at a local level. And by the way, the municipality doesn't necessarily always give you permission to do micro-trenching. In most cases, not. Almost never gives you permission to do overhead. What you get permission for is (spoken in foreign language), which is expensive and takes time. So it takes time to scale fiber in Germany.

Now you add to that the fact that construction capacity is pretty limited. And scaling fiber in Germany is a lot harder than what I call fiber to the press release. So there are a lot of people doing press releases on the amount of money they've raised and the rest of it. It's bloody hard doing that with 2,700 municipalities. We'll come back and talk about some unique advantages we have in that context. I think that supply side constraint also makes me really comfortable that when we scale this machine to 2.5 million households, we will get 60% infrastructure share.

Last but not least, every good plan has to have contingency to it. Now our plan has flexibility, firstly, because it's self-funded. But there's an important element of breathing room that we think is critical, which is external funding. Now what do I mean by external funding? I mean raising external funds in a manner that we get as close to owner economics as possible and raising external funds with a JV with as much independence that allows us to get off-balance treatment.

What does that look like? Think KPN-APG. We really like that model. Now we're in quite progressed conversations on getting there. And that will come on top and give us capacity on top of the build-out we're just talking about.

So hopefully, that nails question 1, why do I believe the 10 million number is right?

Let's go to question 2, which is, how do we think about our strategy for rolling out fiber in Germany? In many ways, it follows exactly the same principles of supply and demand. Now the way we think about Germany, firstly, is to start de-averaging it.

Let's start with the quadrant on the top left here, which is areas where we have an FTTC network and there is fiber competition or coax competition, more likely. This is typically in the large cities, so the Berlins, Hamburgs, et cetera, of the world. And here also, a lot of customers live in the multi-dwelling units.

So how do we decide where we roll out here? How do we actually scale this? We start with the supply side. So the most important thing here is to absolutely make sure that you get the municipalities on site. Berlin, great case in point. We committed to rolling out 1 million households in Berlin because we have a deal with the city, where they have made massive improvements in their permission process. They have digitalized a lot of it. That helps take out cost. That helps cut time.

We also look at making sure we get agreements with the multi-dwelling units so that we can put our fiber in there. Here, what has been achieved with the removal of nascent [ph] cost and privilege is massive because it suddenly changes our ability to get into these buildings. Obviously, the other factor we look at here is how utilized are these customers? To what extent do we see demand as people are getting close to top speeds? And again, in a lot of metros, that tends to be quite high depending on the area you're looking at. So that's how we think about the first set.

Now in the first set, these are not just kind of empty concepts. We've evaluated and started now declaring our plans by city. So we declared 1 million in Berlin. We will do 1 million across Frankfurt, Hamburg and Dusseldorf. And we're now laying out detailed plans per city.

Let me now go to the next quadrant, which is the top right. Now this is areas where we have FTTC and there is no alternative infrastructure. Now these areas are very different, and there's a lot of distribution between -- in these areas, because they range from the outright rural to just outside the city. And therefore, there is a massive deviation in the costs to cover here. So it can range from EUR 900 to EUR 5,000 in these areas.

How do we decide where we go here? What do we do here? Again, the same supply and demand side factors. So let's start at the supply side. Freiberg is a good example. Really good cooperation with the city council help bring down the cost to build. Other factors we consider here are, clearly, the most attractive areas in this quadrant are ones with the lowest costs to cover. So we proactively go ahead there so that we can prevent cherrypicking. Now these areas from 2023 onwards will also become available for subsidy. And we'll compete hard and win a lot of subsidies in these areas.

Let's talk about the third quadrant in here, which is the bottom right, which is kind of really rural. Now this space, you have no FTTC and no competing infrastructure. It's the center of the government subsidization program.

Let me give you some facts here. When you look back from 2013 to today, we have won above 60% of all the households that have been subsidized. In places like Bayern, our win rate's actually 80%. So we like the subsidy program. It's very sensibly structured. And we will continue competing and winning in this space.

Now to the bottom left. This is pure market share gain territory, honestly, because here, we're in a place where there is competing fiber or coax infrastructure. We don't have FTTC. And our shares are quite often lowest here. How do we attack this space? Again, supply and demand. Good way into supply, partner with a local utility. Example, Glasfaser Nordwest, where we're working with EWE TEL to build out here. But there are other options and models as well. The other thing we're looking at is, if the costs are low enough and there's high enough utilization here, let's go for it and overbuild, right? And the worst case or the last resort is, we will hold by and continue to provide our customers with this.

So I hope that gives you a sense of how we think about de-averaging the German fiber monster, right, and how we think about going about it.

The one thing in common with all of these is the way we approve projects and commit to building. Every project has to deliver greater than the hurdle rate of return or the hurdle IRR, which is 7.5% post -- sorry, 7.5% pretax. What that means is, our average is not 7.5%. That's the minimum. Our average is clearly north of that. So that gives you some sense of how we think about the different de-averaging of fiber.

Let me go to the third question, which was, how do we think about economics of fiber?

3 big factors driving the economics of fiber: ARPUs, utilization and CapEx. So obviously, a fourth, which is market share gain, which we will have in some areas, but I'm going to focus on these three right now.

Let's start with ARPU growth in retail, right? Now our retail ARPUs have followed the earlier principle I was talking about, which is customers upgrade one step at a time. And as we rolled out more and more vectoring, people moved out from 16 to 50. That's why we saw a 5% ARPU growth from '18 to '20. As we roll out fiber and add to that infrastructure, it will fuel the ARPU growth.

On the utilization side, we're sitting today at 51% net add share, which is well ahead of our fair share. We will certainly defend at least 40% in net add share in retail. That combination on the retail side fuels the monetization of fiber.

On the wholesale side, again, the same two factors. What gives us almost the bedrock of utilization is the long-term wholesale deals we have with our partners, 10-year deals. What drives ARPU is a really forward-looking framework from the BNetzA, which is structured around More For More. And I think Hannes talked about this in detail in the Q1 earnings call in terms of the trajectory, and why in '21 and '22, we see a slowdown, and after '23, we see the growth. But the reality here is, our new commitment tariffs have a price increase for 50 and 100 Mbps, but more importantly, a clear more-for-more growth path on fiber.

So you pull that all together, the ARPU and the utilization levers across both wholesale and retail drive the revenue side of fiber.

Equally importantly, driving down CapEx efficiency. We are committed to reducing our CapEx per home passed by 25%. Let me be clear by what I mean by that. That is CapEx per home passed like-for-like areas. Obviously, our overall CapEx per home passed depends on our mix. So if we roll out more urban, we have lower CapEx per home pass; more rural, higher CapEx per home pass. But on a like-for-like basis, we will take it down by 25%. Is that a pipe dream? Not really. Quarter 1, we are already running at about a 5% to 7% efficiency. So we're already beginning to really move the needle. So that by the end of the period, we will definitely be at a place of 25% lower CapEx per home passed.

What drives this? Four things drive this, right?

Number one, scale. So that allows us to standardize processes. That creates massive efficiency.

Number two, digitization. Claudia will talk tomorrow about how much we've reduced our time to plan, but digitization across the fiber factory is a very powerful tool, including with things like T-Cars, which allow us to map out an area before we go into that and give us a reliable sense of CapEx, right?

The third big factor here is what our scale gives us in terms of committed relationships. So we talked earlier about construction capacity. We have 70% of our construction capacity for 2022 already signed and committed. We have a similar number even for 2023.

Why do we have that? Because of scale, because of our willingness to do long-term deals and our willingness to do turnkey construction.

Last but not least, my favorite topic again, (spoken in foreign language), right? Now the beast that getting approvals from local municipalities is, is hard. But it's a lot easier when you have 13,000 people who are deeply regional, come from the area, are able to talk the dialect, can work with the local municipalities to actually get us micro-trenching, to get us the local permissions that we need.

So that combination of things is why I'm confident about the economics of fiber and about the 25% CapEx reduction.

Moving on to the next piece of accelerating our infrastructure, which is 5G.

Building on the head start that we have to drive efficiency and to drive monetization. Now the head start that we have is not just in coverage, but also in total spectrum deployed, and importantly, especially with 5G, number of sites backhauled by fiber. We have a 75% connect rate of our sites to fiber.

Now how do we drive efficiency on top of this? Similar to the way we've actually been really efficient by using DSS as the way of rolling out our fiber, we are now retiring 3G. And we will use a lot of that spectrum for 5G. We are looking at small cell deployments to further increase the efficiency of our 5G.

On the monetization side, I think the first couple of years of 5G will be monetizing using B2B. I think there's order of magnitude, a low 3-digit million number in terms of the size available as opportunity for us to go after, with IoT, with campus networks. And I'll come back and talk about that.

On the B2C side, most of the monetization will come from upgrading our customers to higher tariffs. And again, I'll talk about this more on the B2C side.

So that was the heart of network (spoken in foreign language).

I'm going to now move on to talk about our B2C area and what drives acceleration within our consumer business.

Let's start from where we are. Where are we today? A really strong consumer business that gets its strength from product leadership in each individual area. So we're clearly product leaders in mobile, fixed and convergence. And we have a really powerful brand that pulls it all together.

Where do we go from here? How do we build on top of this? I think the next part of this journey, very similar to Tim's articulation of being experience-led, where we think go -- where we think we can unlock growth from herein is from going from product leadership to really growth driven by loyalty and owning the household experience.

What does that mean? What does that look and feel like?

So starting off with how we create growth from our existing customer base. I've already talked about the fixed line side and the amount of upside left in monetizing our base. 25% of our retail customer base today is sitting on greater than 100 Mbps. There is a huge opportunity as the demand for speed goes up for us to monetize this. We will see 100% to 150% increase in the percentage of our customers who are on greater than 100 Mbps. And with EUR 5 typically per upgrade, that is a lot of revenue.

The second part of our upgrade story is in mobile, where we will see a 50% to 100% increase in the number of our customers on the largest tariffs. Now how do we do this? We can learn a lot from the playbook in Europe, in the DT European countries who successfully driven a More For More, including an accretive ARPU strategy by really managing channel as well rather than by discounting. I'll come back to this theme in a minute when we talk about convergence.

But the important thing is this not just gives us more revenue. But you can see with the chart on the left, it gives us significantly happier customers. And that's a big part of creating growth through loyalty.

The second part of the playbook for driving growth in consumer is convergence, is really beginning to own the household. Today, we have 11.6 million retail broadband customers. Stick a finger in the air, that probably means 20 million SIMs in these households. 5 million of them are Magenta. Gives you a sense of the opportunity available for us on convergence.

Again, taking a leaf out of the European playbook, we're at about 51% convergence in Europe. Now how do we get there? Because four years ago, we were about 25%, 26%. We got there through very, very disciplined execution. We didn't get there through discounting.

What does disciplined execution mean? It means every time you walk into a store, every time you make a phone call, every time you use the app. And I know you're an existing broadband customer. A combination of channel incentives, data in the ecosystem, my CRM, allows me to speak to you about the benefits of getting onto a convergent package. That, in the heart of it, is what unlocks all of the good stuff in convergence: the 50% churn reduction, the higher ARPUs as well as the higher customer satisfaction.

Now that's very much the first two steps or, as Tim would say, the horizon one of this.

Equally important is now binding this together in a true converged product experience. I know Claudia has got a lovely video on this tomorrow. So I'll leave you just with the headlines of this.

In the end, we own the three most important and sticky gadgets in a consumer household: the router, which decides where you get coverage; your TV with Magenta TV; and the mobile devices. Now our vision here is to pull them together in a seamless experience so that you get a genuinely product -- a converged product feel.

So that gives you some sense of what underlies the B2C growth story, the B2C acceleration, from product leadership, to loyalty, and household experience-driven growth.

I'm going to move on next to B2B. Now B2B is interesting, right, because B2B is -- I'm sure a lot of you see it as the graveyard for incumbents on growth.

Now fact one, our B2B business has grown, 0.7%, but it has grown in the last three to four years, which is more than you can say for most. It's grown despite the headwinds. Three significant headwinds: IP migration, EUR 100 million a year; corona, EUR 240 million; and we went through a difficult process of integrating a EUR 2 billion TC business from T-Systems last year.

Despite those headwinds and challenges, it's grown. Why? Because of an incredibly strong market position, really good distribution, good service and a great network. Now you put that together and you get what's now a common picture, I'm sure, for you, a solid foundation on the basis of which we can accelerate.

One of the biggest forces that's emerging for me in Germany now is the flood we're seeing of businesses beginning to digitize. Things like the European Recovery Fund, with 20% of it allocated to digitization, will only help. But we are seeing, especially post the pandemic, a huge push towards digitization. And there is a unique opportunity for us in B2B to be at the center of this.

But rather than me talk about it, I think this video captures a lot of what I'm saying here better than I can. With that, can we play the video, please, on B2B?

(presentation)

Thank you. I hope that gives you some feel of the speed at which this is moving in Germany and how central we are to making this happen.

Now especially post the IP migration, with our ability to offer services like SD-WAN, right, this does change the game.

Now a bunch of factors for me now convince me that this business is ready to accelerate. Two for me is the fact that the headwinds have turned into tailwinds, certainly with IP migration and as we're seeing increasingly with corona. And last but not least, our go-to-market is really powerful now, because we're able to take all the telecom services together and offer our customers -- serve integrated services from one hand.

So that is the story of why we believe in B2B acceleration.

Now having talked about the digitalization of our customers, I want to now talk about our own digitization.

Now we will look to substantially accelerate digitization in the next three to four years.

Now starting off with the front end, how do we think about digitalization at the front end? Now at the front end or customer facing, I think our strategy is actually really simple. It is bring together the best of digital with the best of the human touch. What does that mean? It means using digital to eliminate as many routine transactions, to eliminate as many faults proactively as possible.

Tim already spoke about the 3,000 bots. We are putting in place now a tool called MagentaView, which gives you an overview of your entire relationship and is powered by AI. Tools like these help remove a large number of the routine inquiries, which then allows us to really invest in our people to solve those difficult problems which need a customized solution, which needs someone to talk to you.

Now that said, the only way you can do that is incentivizing them right, right? I often say telcos sometimes are a bit bizarre. They first cause you a problem. And then they pay people to spend less time solving it for you, which is really what paying people based on average handle time really is, right?

Now with our people model through dramatic digitization, what we can do is really take home the team of experts model that the U.S. has designed and focus on solving customer issues, focus on incentivizing first time resolution, first contact resolution. This combination of digitalizing the front end as well as combining that with people where we need them most will see a 60% first contact resolution, more than EUR 200 million in savings over the next four years and a growing customer satisfaction. That's sort of the front-end story.

But our view of digitalization is full stack. It's not just about the front end. The principles of digitization apply across the entire stack. Claudia will talk about that in more detail tomorrow. But it equally applies to the back end. It applies to our IT. And it applies above all to our network through disaggregation, cloudification and automation.

Let me just give you some quick sense of the way we think of the outcomes of this: really strong outcomes on customer touch points, as I talked about earlier, app penetration, e-sales share, digital share; very strong outcomes on the IT side in terms of a more agile, quick to react IT; and last but not least, at the heart of our business, cloudifying, automating, disaggregating our network.

When you pull all of the digitalization stuff together, what's the payoff? Pretty impressive in the next four years. We will take out EUR 700 million in indirect cost. Now a lot of that will come through directly through the digital tools. Some of it will be the knock-on effect of the nature of the organization we will have, a slimmer, smaller organization, but also some real big knock-on indirect cost effects. We will give up about 300,000 square meters of real estate, 50% reduction in real estate because of this whole process.

So that's then -- we've now covered off the acceleration of the infrastructure build, how we fund that through accelerating revenue on B2B and B2C and through accelerating digitization.

Last but not least is a subject quite close to my heart, which is the place we occupy in German society. We are proud today of being an integral element of the German social fabric. Nothing shows this more than the way we reacted to the corona crisis. Things like 10,000 smartphones being given to old age homes, things like specific packages for our B2B and SMB customers to enable them to move quickly to homeworking.

This lies at the center of what Deutsche Telekom Germany is. We believe we play a central role in society. And we don't see that as an obligation. We see that as a privilege and something quite special to be. Just as in all the other areas, we're committing to accelerate this as well. How do we do that? Deep involvement in digital education and literacy. 7,000 schools to be covered through FTTH and digitized.

Real commitment to the environment. We're already 100% user of renewable energy. And again, Claudia will talk in more detail about this. But we plan to push further on energy efficiency. And even the way we build networks, build networks with the community for the community, not for ourselves. That combination of things, we think, is an integral part of who we are, a responsible employer, a responsible corporate citizen in Germany.

That sort of covers all of the five big areas of acceleration. I'll move on now to the outcome of all of this, right? The combination of driving B2C growth from loyalty and households, to being the chosen partner for the rising wave of digitization in B2B; two, driving digitization within our own company; and having built a solid foundation, which gives us tailwinds now, enables us to accelerate EBITDA growth, from the 1.9% you saw to the 2.5% to 3%.

When you put together this accelerated EBITDA growth with real discipline around capital allocation and asset management, some examples. As a result of IP migration, next year, we will switch off our SDH platform. That will give us EUR 50 million savings in indirect costs. We are now retiring our 3G network. Mobile network, we have 6,000 sites that we will share in white spots across us and Telefonica and Vodafone. That, plus all the CapEx efficiencies I've already talked about, will result in, as Tim said earlier, a 50% growth in our return on capital employed.

So you have a business here which is growing, creating great terminal value, with 10 million homes with fiber by 2024, and still creating value each step along the way, not just with ROCE greater than WACC, but with a ROCE that is growing. And that truly is what acceleration means.

Sum this up in terms of our midterm ambition, I think this is a repetition of a lot of the stuff we said. I'll highlight the EUR 0.5 billion higher cash CapEx. That was exactly what we guided at the end of -- at the Q4 earnings call; 2.5% to 3% EBITDA growth, which I've talked about; and 10 million FTTH homes passed; 97% 5G coverage; EUR 700 million indirect cost removal. So all in all, a comprehensive (spoken in foreign language) for the German business.

Now as we talk about acceleration and everything that happens with it, none of this is possible without really charging the motor of this company. 60,000 people who come to work every day at Telekom Deutschland need a purpose. They need a reason to accelerate. And that reason and that purpose is (spoken in foreign language), turning our customers into fans. That's the reason why we accelerate.

Now what that means is not just a slogan. It's about us really putting our frontline first, the people who are out there serving our customers through all of the pandemic, the people who are out there day and night actually delivering for our customers. Because we believe only by putting our frontline first can we put our customers first. And only by doing this, can we make the transition not just to acceleration, but from a solid, well delivering incumbent, to an accelerating un-incumbent. And nothing captures this spirit more than the film I'm about to show you. Thank you. The film, please.

(presentation)

+++qanda

A - Hannes Wittig {BIO 4033762 <GO>}

Well, thank you, Srini, and that was really inspiring. And we also feel inspired. We think we should turn investors into fans. So that's our next mission here or we're trying. But the other thing that we really like is (spoken in foreign language), yes. So I can see our -- I need to make an organization announcement.

As you might have noticed, we are running over a little bit. And so we skip the break and the subsequent sessions will move backwards a bit by 10, 15 minutes. Apologies for this. But I think it's important we also have a space for Q&A now on Germany. I know it's a business dear to your heart. And we start with Simon. I can see you, Simon from Barclays.

Q - Simon Coles {BIO 19462757 <GO>}

So on wholesale, you've been able to negotiate these new wholesale contracts with your wholesalers that have a very attractive more-for-more structure on pricing going forwards. And as customers move to faster speeds, and that means we're going to see your wholesale revenue growth after a short-term hit. But if we think about what's happened elsewhere in Europe, we've seen challenges actively try and avoid this cost inflation that this brings by maybe moving to alternative network providers.

So I'm just wondering, is there something in the contract that gives you confidence that this won't happen. And how can you get comfortable that, say, if a wholesaler does get reasonable market share, they won't seek to get some help from say, private money that's very interested in digital infrastructure because you yourself said, if you get good penetration in certain area where you don't have infrastructure, then you'll be more than happy to overbuild. So I'm just wondering how you think those moving parts play out and why you have a lot of confidence on wholesale going forwards.

A - Srinivasan Gopalan

Yes. So maybe respond to the -- so thanks for that question, Simon. So a couple of things. One, there are parts of the contract that we can't really talk about, right? But the overall construct does give us a fair degree of reassurance in terms of utilization of the network, right? And it's hard for me to go into more detail than that, but it does give us a fair degree of reassurance on the utilization of the network.

That said, will there be parts and geographies where some people will get some share on the wholesale business? Yes. But equally, there are large chunks of areas where we don't have share today. So there will be swap sets that will end up happening as a result of the -- of effectively an infrastructure reset, right? But there's enough in those to ensure that there's a floor to the utilization of our fiber network. And I'm already treading into ground that's beyond which is hard to talk about.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. Thank you, Srini. And it's -- for sure, we feel very good about these contracts, and we went into a lot of detail as much as we possibly can. But -- at the earnings call, but it's -- and we are guiding today for a flat wholesale access.

A - Srinivasan Gopalan

You explained that briefly. So Simon, the reason we're guiding for a flat wholesale revenues despite the kind of more-for-more structure is a well-publicized fact that Vodafone has committed to a certain amount of migration of our network to achieve their cable synergies. So effectively, volume goes down, price goes up. That's what creates stability.

A - Hannes Wittig {BIO 4033762 <GO>}

Okay. Thanks, Simon. Next question is from Josh at Exane. Josh? Good to see you.

Q - Joshua Mills {BIO 17873641 <GO>}

I have two questions, please. The first is actually just going back to that very helpful quadrant on Slide 12 about the different fiber build areas. I understand the kind of cost of rollout and the potential returns in each of those areas may be different, but it'd be great to get a sense of which of these areas are going to prioritize most in the near term. I mean, in particular, it sounds like this move to counteract cherry-picking could be quite important when we think about the phasing of rollout in 2023 onwards?

And then the second question is on this curtailing customers into fans strategy. So you've highlighted that moving to convergents helps. But are there any particularly strong products in your portfolio and also particularly challenged products, which you think you need to change the setup? And I think in the past, we've talked about the fact that TV might be a bit lagging a bit behind broadband growth. Are there any actual changes to the product structure you're thinking about as you look to achieve this?

A - Srinivasan Gopalan

Good. So let's start with the prioritization, right? Now on that slide, it also had the percentages of Germany in each place, right? So you have 55% in quadrant 1. Then we have 15, 10 -- 15, 10, 15, I think, in the rest. Now broadly speaking, our rollout will follow some of those patterns. Now what have we announced so far? We've said we will build out 3 million households in rural, right? And that's a public commitment, and that will fit into the right-hand side quadrants. That will be a mixture of subsidies, but also it will be counteracting cherry-picking. So that's clearly one place.

And then because 55% of the population sits in quadrant 1, you will see us build out there as well, right? So I think there will be slight differences in our percentage of build-out versus the percentage of population, but it's not going to be dramatically different because that gives us enough leeway to deal with the cherry-picker issue.

Because if you take the right-hand side quadrant, yes, there's 15% of the population there, but it's really probably half of it which is attractive to build out without subsidy, which could be cherry-picked. So you want to go there first, absolutely. And that we're completely committed to. But that doesn't result in 50% of our money being spent then. just because of the way the math lands are working, if that makes sense.

I love your second question on product structure. So firstly, on TV, it's actually a product that we really like, and it's been going very well. As we look forward, one of the numbers I didn't put up there is our plan actually involves an increase in our 3P mix. So from about 25%, we will be looking to move that to 30%, 33%, which is more TV attach rate to our existing products. So it's actually something we see accelerating in terms of where we are right now.

The -- let me come back to your other question of product structures and where that plays out. Look, I think some of the issues with an incumbent tend to be when you have back book issues, right? And the most significant of those tend to be in B2B. I think what I really like about our portfolio right now is IP migration washed out a lot of those effects, which means we can now start competing in some of those places, SD-WAN migration, for example, without this Damocles' sword of the back book necessarily hanging over us all the time.

So my sense of where we are on product structures and what you should be expecting is a lot more focused on convergents, and a lot more focused on the Magenta brand in consumer. I think we punched below our weight on the Magenta brand in consumer, and you will see a lot more focus on that. Does that help?

A - Hannes Wittig {BIO 4033762 <GO>}

And that's mainly also relative to, let's say, the Congstar brand or others. So it's not a very -- necessarily an imperialist statement.

Next, we have Ulrich. I think, Ulrich, we have you on the phone here.

Q - Ulrich Rathe {BIO 17059015 <GO>}

That's right.

A - Hannes Wittig {BIO 4033762 <GO>}

Okay. Cool. Go for it.

Q - Ulrich Rathe {BIO 17059015 <GO>}

Appreciate it. I have two questions -- segment, very short. The first one is the 4% minimum for the broadband revenue growth looks maybe a little bit conservative considering the MDU opportunity where the changes to the telecoms law means maybe 1/4 of households, your competitive situation improves. Is that essentially because you think there's a case we're not rocking the boat too much to sort of not disrupt market structure? Or what's the background there?

My second question is about the 7.5% return hurdle for the project that you mentioned. Is that an all-in number after the loss of the legacy revenues that necessarily comes when you connect the customer to fiber? Or how is that calculated? Because it looks fairly high given that you're essentially replacing infrastructure from one where you have paying customers already?

A - Srinivasan Gopalan

Good. So I enjoy being told that 4% is conservative. Look, it's -- we are growing at 6.5% right now. Beyond the point, we -- I am very optimistic about the broadband business. Do I -- on rocking the boat on market structure, look, I don't like rocking the boat on market structure in general, right? Now we will gain share where we land up building. But even on the MDUs, in the vast majority of MDUs between wholesale and retail, we have 60% of the customers in an MDU typically are ours.

So when I build into an MDU, I'm often building from my own base rather than to necessarily gain share. We will end up gaining share in some places. There are lots of places where there's performance issues with competition, and we will end up gaining share. But the 4% is, like I said, given where we are right now, I think we've benefited from massively from vectoring. I think there's been some flight to quality as a result of corona. So we think it's a sensible number to guide for. And from a market share perspective and a net add share perspective, I think the above 40 still continues to be where we are because we think that's the right thing from a market structure perspective.

I think the biggest thing that the MDU access lands up giving us is it frees up consumer choice on TV, but also importantly, prevents people from blocking our entry with fiber, right? So that's the way I think of it.

On the fiber IRR, look, we can do a separate deeper conversation on the specifics of the model. But let me just put some of the questions of fiber economics into context, right? Because I tend to think of fiber economics in the broader context of us running a business, a lot of which is valuation is based on the terminal value. Now you think of yourself today in a decision where you may -- where you don't roll out fiber. four years from now, you have largely a copper network, and you have a business where ROCE is greater than WACC.

You think of the alternative. We grow ROCE greater than WACC, so we create value at each point. And we have a business with 10 million fiber homes, which clearly has significantly higher exit trajectory as well as terminal value. And happy to kind of walk you through the mechanics of how we calculate the project IRR and what drives the hurdle return, what's included, how much of it is a do versus don't do case, et cetera. And we can take that offline and talk through it in more detail.

A - Hannes Wittig {BIO 4033762 <GO>}

Thanks, Srini. So that brings us to the next question, and that will be from Emmet. Emmet? Oh, there he is. Wonderful. Good to see you.

Q - Emmet Kelly {BIO 16592963 <GO>}

Yes. As Srini was trying to speak or was speaking some German, I'll throw a bit a German in, too. So you have a (spoken in foreign language) or two questions, please. And the first question is on your broadband market share and the outlook for that. And if I rewind the clock back to we say the Capital Markets Day in 2012, I think that's when you announced your initial VDSL investment. And clearly, that was a -- let's be honest, it was quite a defensive move because you were losing a lot of broadband market share at the time to cable.

Now if you fast forward to this year, your broadband speeds are now quite high. You've got a vectoring available to 80% of the population. It feels like a little bit more of an offensive move. So with that in mind, is it fair to say that you could look at winning market share off cable, off the wholesalers as I think the motivation for moving to fiber as perhaps a little bit different this time?

And then my second question was on the ARPU uplift, as you move customers onto fiber as well. Can you just say a few words about your experience as you move customers onto VDSL initially and on to vectoring later? And what the read across is for retail ARPUs as we roll out fiber?

A - Srinivasan Gopalan

Very good. Look, let's deal with the first one. I agree with you, fiber is a more aggressive move in the sense of -- not purely because of market share, but in the sense of I could sit here and make the argument that we don't need to do it just now. Now I believe that's a defensive incumbent argument. I fundamentally disagree with that argument because when I work at -- I think of this differently. I come back from where customers are going to be, right? The upgrade cycle, like I talked about earlier, the two principles of the upgrade cycle, everyone tries to stay with their infrastructure until they need to move looking for higher speed.

Second, people make one upgrade at a time in terms of speed cycles. Now you could look here and say 80% of our customers, right, have at least one or two upgrade cycles left. Let's milk that and then go on, right? My perspective on that tends to be different, which is let's get the 80% of them done in the next two years and get ready then for the next cycle of investment, which will give us another round of ARPU upgrades. And let's fund that by being -- by driving our efficiencies really hard. And by the way, that upgrade cycle will help fund itself as well.

So I agree with you on the -- it is not the classic incumbent way of thinking about it, which is milk the asset as much as you can for now. But it's -- the market share gain, it will happen when it happens. But the bigger price here is the growth within our own base. And for sure, we will end up gaining share in some areas, right? But we also need to make sure that it's coherent with the right structure.

The ARPU uplift, great question. Look, there's a EUR 5 ARPU uplift, typically, with each speed up that you move from, right? What we have seen in the vectoring cycle is order of magnitude of 5% ARPU growth, annualized about 2.5%, right? Now this is where you kind of get into the question of, is 4% conservative or not, et cetera, et cetera. I would expect us to see at least the same because what you will end up having is more of a mix of the higher speeds. I mean here's how the typical pricing works, right, it's EUR 5 an upgrade up to about 250 Mbps. And then it tends to be more like EUR 10 an upgrade because we -- the curve gets sharper. So I'm hopeful of seeing an acceleration in that, but I will plan on seeing the 2.5.

A - Hannes Wittig {BIO 4033762 <GO>}

Good. So I think we take two more questions now. And the first one is from George at Citi. George? There he is. Wonderful.

Q - Georgios Ierodiaconou {BIO 7535136 <GO>}

One is a follow-up on some of the comments you've just made around pricing. It's very encouraging to see that there are significant fiber investments have been given some returns as part of the wholesale agreements. I'm guessing some of the other resellers may want to raise prices over time in order to pass through some of this inflation to the customers. So I just want to hear from your side, what do you plan to do in outer [ph] to maybe give them the room to do that in order to raise ARPUs, not just when migrations happen, but maybe in a bit more active way yourselves.

And then the second question is more around capital allocation outside of fiber. So fiber is slowly turns, but low depreciation, we can understand the mix when you benchmark -- with returns of (inaudible) employee. In the previous presentation, Tim also mentioned about cloud-native networks, IT. And some of these things are easier to do when you are a greenfield, not when you have a huge established space and also a legacy of technologies. But I'd be interested to hear from your perspective, what are the challenges in your view? And does that mean you depreciate some of your existing assets earlier in order to move into cloud-native solutions before competition?

A - Srinivasan Gopalan

So let me start with the pricing piece. Look. I think two -- two, three separate perspectives or reactions to it. I tend to think of speed upgrade-driven ARPU increases as healthy. And there are some -- there's a real danger in fixed line, right, where sometimes you are the only supplier in a region and you view that as permission, sometimes like cable in parts of Eastern Europe, to have an annual round of price increases. I think that can get dangerous from a pure customer experience perspective, but also from a regulatory perspective. So I have a bias towards growing ARPUs through as people upgrade, right?

The way I think about room -- and I think a healthy market structure is always worth keeping an eye on. And one of the things I keep a really close eye on is how is our net add share evolving? Are we making sure that we're at the right mix in terms of net add share? And that's where I think your really good question on how do you make sure you give people room plays in, because they can -- ultimately, their pricing is their own call. I look at titrating my mix in terms of what is my net add share. And I do, I think that's appropriate from a healthy market structure perspective.

On capital allocation, and especially on new technologies, Claudia will talk a lot about it. Look, I think, firstly, on the IT side. I think the view that somehow incumbents have a huge disadvantage is increasingly changing, right? As you get into a world where you're able to introduce, for starters, an intermediate layer, which is API-based, you're able to start with overcoming a lot of your disadvantages. And then there's so much cloud-native IT available today that you can, piece by piece, start taking apart your old BSS and OSS to do a 3-year migration.

Now I think the old world of -- if you're an incumbent, all you have to do is a big bang IT project that costs 3x as much as you thought and takes 3x longer. I think we've proven now in several countries that, that's a myth. And in Germany as well, we're making the same journey, right?

I think your network question, I think there, it is harder to swap it out overnight as an incumbent. But I also think the components of a network cost structure are more complex, and there are several incumbent advantages in it, the amount of spectrum you have, a huge advantage, the amount of towers you have fiberized. Yes, it's easier as a new player to come in and establish a cloud-native core, but the core is a small proportion of the total cost structure, right?

And scaling is really hard. I mean, just to give you an example, let's say you have a player in Germany who is building a cloud-native infrastructure. They can build that, but it will take them 10, 15 years to get to -- or take them 10 years to get to 50% population coverage. And that scale itself does have limitations purely because of the availability of sites, the antenna available on rooftops, et cetera, et cetera. All of that does impact their ability to really attack.

For us, on the other hand, as an incumbent, we are in a place where if we started pushing on O-RAN, which we are doing now, and we're looking at lots of options of really scaling O-RAN, in four to five years, we could have a significant part of our network disaggregated, and we will always have our 30-odd thousand sites, which gives us a scale advantage. So I think there are puts and takes on it.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. And of course, more on this from Claudia tomorrow. And last question, please, is from James. James, good to see you. Go for it.

Q - James Ratzer {BIO 2442169 <GO>}

Yes. Hannes, Srini. So two questions from me, please, first. The first one would just be interested to hear a bit more about your targets around B2B growth. And I'm thinking about this specifically in the light of what Vodafone said yesterday, they specifically were talking about increasing their investment in B2B and seeing considerably higher growth rates may be heading towards mid-single-digit revenue growth. I mean is this an opportunity you see where you might actually be able to increase investment more in Germany and potentially drive higher growth than you're targeting at the moment? Or do you see something specific about Germany that maybe the B2B growth rates in this market are going to be a little bit lower?

And the second question I had, please, was around the network economics you were talking about in some of these joint fiber projects. And we just love to hear a little bit more about how that works. So your projects, for example, with NetCologne or EWE, as you're migrating customers potentially over onto those shared networks, how are you incentivized to do that if you're moving from 100% ownership of a network to a network that is joint owned? We'd just love to hear a bit more about how you see the economic payback from those models?

A - Srinivasan Gopalan

Good. So let's split three different types of models, James. Sorry, I'll deal with your second question first. Three different types of network economics models, right? I think the NetCologne one is a pure whole buy, right? And so that's why I said this is my last resort, right? It's -- I do lose margin in the process of moving to a whole buy, right? That's -- now we have whole buy today in FTTC. We will have some whole buy tomorrow in FTTH. But that's not going to be the center of my economic model. EWE TEL, a very different case. That's one of the bottom left quadrants, right, where we didn't have FTTC reasonably low shares, there's a lot of upside in creating that model.

The third different model is kind of the KPN APG model, right, which is if we get into a model with an investor. Now there, the way we maintain as close to owner economics as possible is by trying to figure out ways in which we can effectively capture a lot of the value between the passive and the active layer, right? Because when you look at -- when you deleverage a network, right, ideally, when I buy someone else, I want to buy passive. Or if I'm buying active, I want to be the provider of the active services that go with it because I have scale on active, right?

That's -- so that's how I think about making sure I get close to owner economics and gives me incentive to migrate. Or in the other -- in the EWE TEL case, there's pure upside. And NetCologne, whole buy is whole buy. I will do it when I have to. But it's not my going in -- it's not my going in choice. And I would ideally prefer to do it when I do it with community-based players like EWE TEL rather than pure overbuilders and cherry pickers.

So to your first question, B2B growth, look, I think there's upside. I think the place -- I don't think this is a question of investment in our case because we're making the investment in fiber and networks and infrastructure. I think the real question here is for us, how do we make sure that we develop cutting-edge B2B product, right? And cutting-edge B2B product, both in terms of software-defined networks, but also things -- I mean, Tim's point earlier, being able to manage a disparate diverse network and being able to control and automate it, right? That, plus areas like cloud communication, right?

So I don't think this is network investment. I think this is product investment. We do foresee a fair amount of that. Is there upside to the 2%? Yes, I'd love that. I love for there to be, right? Am I happy to say right now there is? We'll see. I mean I think you can bet too much on things like the EU recovery fund. I saw a lot of press about that yesterday. If those tailwinds blow in Germany as well, then we will benefit from it more than anyone else.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. Thank you so much, Srini. And that brings us to the end of this Q&A session. And of course, we will be talking to you a lot more in the next weeks, months and years on many of these subjects.

+++presentation

So apologies, again, for taking your time and taking your break away, and we come to the next session straight away. And the next session is on Europe. And our next session will be presented by Dominique Leroy. She doesn't need much intro in this audience here. We are delighted to have her in our management team.

At our last CMD, we presented our turnaround plan for the European segment. Now three years on, Europe has become one of our best-performing assets, Europe's best-performing telcos. And we have the same challenges in Germany, how to accelerate, how to make something good even better. This is a noble challenge and who would be better qualified to take this challenge than Dominique. Dominique Leroy.

A - Dominique Leroy {BIO 17644657 <GO>}

Thank you, Hannes, and good afternoon, everybody. I'm really happy to be here in my new capacity of Board member Europe. And I'm sure you remember, three years ago, Srini was standing here and was talking about turning around Europe. I can tell you that today, I'm very proud to say that the turnaround has been done and that we are today, a leading large-scale European telco, and on top of it, a very fast-growing European telco.

So the whole challenge we have today is how do we write the next chapter. How do we accelerate that growth? And what we want to do is really go to long-term sustainable growth by focusing on customer centricity and on digitalization. We have opportunity in the B2C area. We want to scale fiber. We want to upsell customers in fixed mobile convergence, grow revenue per household. We want to improve customer service even further. We want to grow in B2B. There are several markets where on B2B, you have still lots of opportunity, and we will grasp that because we will also converge telco and ICT products in the European region.

Next to that, we want to -- people are very important to me. We want to scale agile organization, customer-centric mindset, I will talk about network, how we will scale fiber, how we will bring 5G and a very important element for us as well is how do we scale digitization and how -- where do we go from where we are to the next step in digitization.

One element, which for me is a very important one, and I would probably not have said that three years ago, I think today the telecom operators that will be very successful going forwards are the one that are multi-country. We are able, with digitization coming up, with cloudification coming up to really scale across the countries, and that will give us a very strong advantage versus local players. We will be able to get best practice from one country to another, skill or digital infrastructure, scale cloudification, and that will give us way faster speed to markets than competitors.

A last element which I will comment on is very much how Europe will bring a fair share and a fair value to DT equity. We have been growing. We will continue to grow and accelerate growth. We have a very strong cash conversion, and we want to accelerate that as well. And on top of it, you will see that ROCE is a quite nice evolution as well.

So let's start with the review over the last four years. If you look at that, I mean, these are the figures of 2020. We are EUR 11 billion turnover European telco, if you look at the region as a stand-alone region. We delivered almost EUR 4 billion EBITDA, close to EUR 2 billion cash. If you take those figures in a stand-alone European landscape, we would be around the seventh biggest telco in Europe, far ahead of Iliad, of KPN, of Telia.

But on top of it, we are one of the fastest-growing telco. If you see some figures here, even with one year of COVID in the four years, and COVID has impacted quite a lot the European segment because you have a lot of countries like Greece, Croatia that have had quite a loss of revenue and profit in terms of roaming and visitors. But despite that, we have been able to get a 2.3% EBITDA growth over the period and a 3.9% cash growth over the period. So I think a tremendous presentation of the EU segment and somewhere, I think something is not always well known or known enough in the community, and I think we should really reconsider Europe as a key engine for growth within DT.

If we look at the market, because then sometimes you could say the European markets are not very healthy markets. I would just say it's the opposite. If you look at our market, we have quite a lot of growth potential. If you look at the expected consumer spend on telco market, it's around 3.5% going forwards, a very strong potential growth.

If you look at the structure of our market, most of our market are three MNOs markets, where we can indeed further drive growth. Only two of them are four MNOs, which is Poland and Romania. We also, today, very much more than before, we have regulation and we have governments that are really looking at how can we faster digitalize those countries. If you look at the DC index in Europe, we are currently in the countries we are in relatively below the median, with the exception of Austria. So we see that quite a lot of political will is there to further drive infrastructure rollout, to further drive digitization, and we will get around EUR 20 billion of EU funds that will come into the DT EU footprint.

So I think those -- all those elements should give you confidence that the EU segment is growing, is big and that's quite a lot of growth potential going forward. But let's look at what we have achieved over the last three years.

You see here 13 quarters of growth in a row. Growth coming from around 1/3 net margin growth, 2/3 reduction of costs. I will go one by one for those parameters. If we look at the revenue, it is both value and volume, very important, and you see the acceleration over the last year. The value has been achieved by upselling customer on the mobile, but also, I mean, pushing the fixed mobile convergence and the volume, you see here a few figures, 2.5 million new extra mobile contract customers and close to 1 million broadband customer.

On the cost side, I think it's quite impressive. What has been done on the cost side, we have been able to reduce IDC by EUR 320 million. So a 30% IDC percentage on revenue, which I think is close to best-in-class, but you will see we will not stop there. We will go further. We have done that through some reduction of people, quite a lot, 6,000 people less in 2020 versus 2017. But that has been very much by downsizing central function, outsourcing some noncore activity and a bit of digitization, but that's where I think we can still grow further if we look at the future.

Another thing we have been doing and Tim has highlighted it, we have been able to put one new home pass in fiber in 2020. It was the first year that we have been able to get to this number, but our intention is really to go forwards with that number. And you see here some figures, 22% coverage, which is quite significant. But what's for me is even more important, it's not just home passed, it is homes connected. The homes connected, 30% utilization of our network, 1.7 million homes connected on fiber already in our footprint.

So if you look at then all the promise that were done back in 2018, I'm very proud to say that we have delivered. All measures are green, being measures on the customer side, the consumer side, the business sides and the financials, I have highlighted most of them. So I think we can really be proud of what has been achieved in Europe.

So let's look together now how we move forward from here. Strategy '21-'24. A few elements and Hannes highlighted to it. It is really moving from good to great. And we want to do that by a few elements, keeping a fast-growing telco with a customer-centric and digital focus; winning the hearts and minds of customers, even going further than just a good customer service, it is winning hearts and minds; truly converged fixed mobile convergence in every market we are in; drive further digital, as we have a very strong basis; change the organization to an even more lean and agile organization; and last but not least, move our brand from a rather functional brand into a territory, what I would call it, love brands, but I will come on that later.

We'll do that around 6 levers for growth. I will not go in details on this one, but immediately jump into the B2C elements. Where we are today, I think very strong growth in number of subscribers on all our products and a quite strong FMC, 51% of our broadband base is already fixed mobile convergence.

If we look then at the future, I mean, what we want to do is further drive fixed mobile convergence value, but also capture underserved segment. So the fiber build-out we will do, the 1 million additional fiber a year will really help us to boost broadband penetration. From there, the strategy is to really cross-sell and upsell, get several multi-mobile customer onto our broadband, upsell on TV, but also upsell potentially on new services coming down the line.

The second bucket for growth in the B2C is very much capturing segments. So we are running segmentation study in all our footprint. And from there, we are really looking how can we capture also the young generation, be relevant with proposition for the young generation, but also look very relevant to either reshape or introduce a second brand where we can really tap into the smart shopper segment. That will help us to drive new customers and then being able to upsell them to the Magenta NT proposition.

Customer centricity. Best customer experience, our very second pillar. We have a lot of customers. We want that those customers are really happy and loyal customers. We want to reduce churn further than we do today. For that, we will really drive a customer-centric organization. We will also make sure that we implement a tool, which is called Medallia in all the footprint. It will be rolled out this year. From there, we will really get a lot of information on every interaction we have with our customers. From those knowledge, we will be able to identify what are the pain points, and we will then be able to really reallocate resources and CapEx to make sure that we tackle the pain points that are really hindering the most our customer experience.

And last but not least, we really want to implement the customer journey, the mentality in the organization and processing the organization by really being end-to-end, really looking at end-to-end experience for customer, doing that also across all the channels, knowing that, of course, we want to push more digital channel, but we will making sure that both digital and human touch are centric to our customer interaction.

I touched upon it in the info, the love brand. So the love brand for me is really how can we, with our T brand, convey digital optimism to the countries. How can we turn employees and customers into our brand ambassador? And also, how can we bring the brand in a much more emotional territory where people are really attracted by the brand, and therefore, we will be able to fish in a much bigger pool of customer that would come to Magenta NT brands.

We will -- that's all the major pillar of growth on the B2C that should translate in those metrics. So we want to further grow significantly our EUR 6 billion consumer business. We want at least to have net add share in line with our fair share and to be honest in countries where we are not significantly dominant of incumbents, we want to even grow these net adds. We want everywhere to grow value market share, and we want to deliver 1% to 2% net margin growth. You also see on the right side, everything our targets on fixed mobile convergence, we want to grow by around 10% a year to at least 4 million fixed mobile convergence, driving value and driving the RGU per households.

Let's go to B2B. In B2B, we have already realized quite some good growth. ICT is within Europe, so that's probably not always known to investor that the faulty system is in the NatCo, in the EU NatCos, So we go to customer with a full package of connectivities and digital solution. We have been able to grow our ICT product by around 7% a year to more than EUR 1 billion, and we have done that with a strong focus on profitable growth. So you see there as well our ability to grow net margin in the B2B by around 2% over the last three years.

Next to that, there is always a very important element in terms of competence, in terms of skills. So we are organizing ourselves to have competence center in the B2B area to really drive the knowledge on our products across the region. And last but not least, I think we have done quite a lot of good work on the IoT and on the Smart City, where we are rolling out Smart City in several of our countries.

If we look forwards, I mean, we want to continue the growth in the B2B, focusing very much on the different segments and accompanying our customers into their own digitization. So we want to become the partner of digitization in the B2B area.

If you look at the public sector, it's all about driving further digitization of public sector, also using EU funds because a lot of countries are running new projects based on those funds to digitalize faster the administration and the country, but we also want to bring quite a lot of value in the enterprise segment. We will then focus on smart connectivity, SD-WAN, unified communication collaboration, but also tapping into the hybrid cloud space and bringing security into our portfolio.

And on the small and medium businesses, I think there is also a very different way of driving business there. It will be very much to Magenta bundles where we bring connectivity and digital solution in packages to small and medium company with service on top and therefore, scale their ability to tap into the digital domain for their business to become more successful.

If we look how that translates in figures, we want to add a EUR 300 million additional revenue into the B2B segment. I think there is a very strong opportunity still in three countries, and those countries are the biggest in terms of footprint in B2B. I mean Austria, Czech and Poland. And these are three countries where we are still a bit small. So there is still a big growth potential there. And as I already said, we want to further grow with a healthy margin. So our objective is to deliver 2% net margin in B2B as well.

If we move to people, I think people is very important. I already said it, it is all about attracting the right talent, having international and diverse scope, having organizations that are lean and agile and very much having a culture which is very customer-centric, and you see a few elements there. We really want to become top employers in the country we are in.

We are also a big player in most of the country we are in. So we also want to really take ownership for our impact on society and bring positive impact on society. We want to do that on digital inclusion. We have a lot of programs running in the countries to see how we can bring digital and STEM to the youth, but also how we can include more the elderly people in the digital space. We also have a lot of program on environment alongside the whole DT objective by reducing our CO2, reducing -- or increasing our energy efficiency and making sure we also have more recycling, less waste. So quite a strong program on those elements as well.

Let me turn to network because I think network is a very important element. We have already done quite a bit of network. We have currently 98% coverage on LTE. We have already 22% on fiber, but we want to go further. If we see here, we want to become the undisputed fiber leader in our footprint. We want to do that by rolling out fiber in several countries. And why do we do that? Because we think fiber is a very -- is very good economics in our country. We have been able to roll out fiber in 2020 for less than EUR 400 per home passed. So that gives us quite good TCO and quite good payback on fiber. So our objective is to really further roll out fiber.

We will complement that with partnerships. You have countries where there is already quite a lot of fiber. For instance, like Poland. One -- that country, we will not try to overbuild with fiber. I think it would not be really sensitive and sensible to do that. We will do a whole buy with people that have already deployed fiber.

So we will have a hybrid model about own fiber rollout, but also partnering where it makes sense. Our objective is to have 40% coverage of fiber. We have an objective of 10 million owned fiber. We will complement that by 4 million to 5 million fiber that we'll buy in whole buy deals. Our utilization rate will even increase to 33%, where we will then have at least three million households connected to fiber. So quite a strong program on the fiber.

On the mobile, we are very mobile leader in the country we are in. We want to stay mobile leader. So we will further roll out 5G. We have already secured spectrum in a lot of our countries. So most of the country, we have been able to buy 5G spectrum. We will deploy 5G along the renewal cycle of O-RAN and our radio units. We will make sure that we stay ahead of competition.

We have an objective of 75% coverage for 5G, but we will also make sure that we retire the 3G to increase capacity for fourth and 5G, but we also very much focus on monetization of fiber -- or monetization of 5G, excuse me. We will do that by putting the 5G where there is capacity needs. We will do that where we put 5G in some rural area where we'll be able to bring fixed mobile substitutions or fix wireless access to customers, but we will also monetize 5G in the B2B area with campus network with further scaling IoT.

The -- one of the very large but strong pillars of growth is everything around digital. I mean we have been able, over the past year, to really build an impressive digital factory. And I can say it because I try to build it in my former job, I can tell you, I have been very much impressed by what has been built in the EU segment in terms of architecture.

We have a harmonized API layer where we can connect with all the countries. So serving 10 countries. And hopefully, quickly, 11 country and even 12 countries when the Netherlands and Germany will try to move into the same platform.

On top of that, we have really been able to build new type of application, new type of platform, which are state-of-the-art and where we build them once, and we expose them to all the countries. But instead of speaking quite long here in front of you on that chapter, I propose we just watch the video and see together what has been done and how we want to move forward with that one.

(presentation)

So I think quite a strong video that really explain you what we have done, but also what platforms we have to build the future. So let me go quickly through some of the elements.

The first one was everything around digital telco. You've seen it's the OneApp, it's how you manage your products, your contracts, how you do payments. But from there, you can imagine to build a lot more services in there, and that's really a route that we'll be looking at.

The second pillar was everything around broadband. We have one firmware for all the countries. So it means that we can get quite some advantage in procurement. On top of it, we have the RDK layer, which enable us to build a lot of services on top of that. You've seen some of them, parental control, guest Wi-Fi. But from there, you can imagine that you can build a lot of different home solutions on that platform.

If we look at TV, the same. one firmware for Europe, building on the IP -- Android IPTV platform. And from there, you are able to really get one of the best UI, aggregated content, voice search engine, which are harmonized and where we can really offer all our customers state-of-the-art content viewing.

And the last bit is also a very important one. All these new digital platform have been built with one data lake, where we are able to store a lot of data from the way our systems are working with our customers. From there, we are able, through data analytics, through AI, to really see what our potential problem and we can do predictive maintenance, predictive action so that we are really increasing the satisfaction of the customer because we avoid a lot of thought. But on top of that, it's a way to drastically reduce the cost. And that's what you see as well here on the slide that our ambition going is to further decrease cost on the call, on the truck rolls, increase the number of transaction in the app and also have a first-time right provisioning above 95%. These are all elements that are now possible, thanks to the digital layer and in 10 countries in one go, which is quite amazing.

Last but not least, we can try to do the same in the network piece. I mean we said already a few times. I'll say it again, Claudia will come on that a bit more in details tomorrow. But we are able to further modernize our IT structure in our network. We want to simplify the way we work. We want to simplify our legacy, but we also want to simplify further our portfolio and our business roles to be able to automate more and also get some more benefits. And the same is true on cloud, the more we will put on cloud, the more we will be able to harmonize and to automate. This should bring us to around 42% workload in the cloud by 2024, another EUR 300 million reduction in costs and other elements like four of our NatCo that will already be on 5G stand-alone by 2024.

The last topic I wanted to highlight with you is everything which is about capital allocation and portfolio. There has been quite a lot of work that has been done to strengthen our portfolio. We have gone out of several geographies. You see here, Albania has still been done, and we are in the process of closing the deal with Orange to sell our fixed business in Romania. That has enabled us to reinforce ourselves in other countries where we needed more capital. The first one, which is a very important one, is the merge we have done with UPC in Austria. Through that, we have been able to bring our EBITDA margin from 34% to above 40%, thanks to a lot of synergies, both in cost and in revenue.

In Poland, as I said, we have been able to sign whole buy deals, mainly with Orange, but also with several small players where we now have access to more than 4 million fiber households. And as from beginning of this year, we are really accelerating the fixed mobile conversion strategy into the country. And you probably have seen that in the first quarter, we have already been able to have several thousands of new FMC customers in the country.

And last but not least, Czech will be a bit of a hybrid model. We will roll out fiber ourselves. We have done some small M&A, but we will also do partnership deal because in Czech, there is not so much fiber in the ground. We still need to build it, but we will build it together with some partner like the agreement we have done with CETIN to exchange some fiber build-out, which give us further access to fiber going forward. All that very disciplined capital allocation and capital management has enabled us to significantly increase our return on capital employed. You see here three basis points extra on the ROCE between 2017 and 2020.

If we look forward, I really believe that we can still further improve ROCE, further decrease costs and further grow mainly because we have a lot of synergies. I come back to what I say in the beginning. I really believe in the power of multi-country synergies in the new era we are entering. We need, of course, a culture that allows that. We have built the next chapter strategy together with the country, and there is a strong willingness to go there.

We see that we can have competent center which serves the whole region. We have, for instance, 300 people in our digital lab in India, helping us drive the digitization. We have these data lake where we have common data analytics, AI model that serves the whole region. We are able to develop products, develop capability once. We roll it out to countries. We are fostering today a lot of exchanges of within the country. We deploy playbook, whereby we do it in one country and then we see how we can have repeatable models in other country. I think all that should really change a bit the game going forward and really enable telco to drive more synergy, more speed to market, more cost reduction in a multi-country approach.

So that's then my last slide before we come to the ambition level. I think, I hope at least, I've been able to convince you that Europe is probably a bit unknown or under evaluated jewel within the DT footprint that we are strongly growing, that we are strong in execution. We are growing in customer. We are very strong in cost reduction. We have a highly digital infrastructure we can leverage. We have strengthened our portfolio. We are investing a lot into fiber. We are investing in 5G. We have secured the spectrum in most of the country at very good conditions. We still have a few countries to go. But we also think that we will be able to get spectrum at very decent price. So this all enable us to continue to grow.

We have 13 quarters of growth behind. We want to further grow, and we commit to a higher figure than on the last CMD. We want to have an EBITDA growth between 1.5% and

2.5%. We have a very strong cash generation, and I think that's very powerful that we will even increase going forward to 57% of EBITDA. With a stable CapEx, it will give us a cash growth of around 4% to 6%, so quite a significant number. And for the first time this year, in 2021, we will have a return on capital employed that will be superior of the weighted average cost of capital of the region, and we will further grow into ROCE going forward. So I think a quite strong region, a quite strong segment that has proven to be able to do the turnaround, when I'm very convinced we will be able to further deliver growth and deliver value for DT.

If you look at our commitment, but I think I've been through most of them during the presentation, we have strong commitment in terms of customer centricity, in terms of network. We have strong commitment into financials. We want to have revenue growth above 1%. We want to have EBITDA growth between 1.5% and 2.5%. We will further reduce IDC by EUR 300 million. Our cash CapEx will be stable, even though we want to continue to grow fiber and 5G. We will reprioritize the CapEx. And we have a ROCE that will be higher than the WACC.

So this is my story for Europe. I hope that I've been able to convince you about the power and the growth ambition of Europe, and I was very happy be able to bring that story to you. Thank you.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Thank you, Dominique. I think Europe is just a fascinating story really. And when I think about it and if we really look at it in isolation, it really strikes me as one of Europe's most attractive telecoms operators, size and the level of digitization, the level of network penetration with fiber and the growth. And so I think a lot of it is really -- it all stacks up really.

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And with that, we come to Q&A. We start with George, I can see you. George, the man from Greece or rather the Little Island next to it. Okay. So George, can we have your question?

Q - Georgios Ierodiaconou {BIO 7535136 <GO>}

I have two questions, maybe. The first one is around portfolio optimization. And obviously, you are now in the process of exiting the fixed line in Romania, but you still have a mobile operation and that's a bit subscale. Also I think from your business is maybe Poland, the returns are a not as good as some other countries. And I think you have some issues maybe with the vendor changes that may come in that market. So can you kind of run us through how you're thinking about other actions you can take around the returns in some of these markets and where your focus is in terms of optimization?

And then my second question is on the European Recovery Fund. I'm guessing for all of these countries, this could be a major event. If you could perhaps give us an idea of the scale. Also, where you think you are well placed to win some of these projects and actually benefit from that?

And then finally, if we can get an idea of what the bottom line impact is because it's hard for us to know if these digitalization projects are high cash flow projects for telco or whether a lot of it has something lower gross margin for revenue flows?

A - Dominique Leroy {BIO 17644657 <GO>}

Okay. So thank you, Georgios, for your questions. So I think, yes, Romania, we are exiting the fixed business. We are selling it to Orange. We will keep the mobile business. I think we have proven in -- certainly in the Netherlands that we are able to grow and to manage an attacker position on the mobile segment. So for the time being, when the closing will be done, we are currently preparing a plan to really see how we can further scale the mobile and have a position, which will more be an attacker position in the Romanian market, but that's currently where we are in Romania.

Concerning Poland, I think Poland, we have a strong position. I mean, we could -- some people say we are the number four on the market, but we are the number four with 20%. So it means everybody is relatively close to each other. I think what we are currently missing in Poland is indeed this fixed mobile convergence opportunity, but we are really building it. We have now the wholebuy deal that has been finalized with several partners.

We are starting to have communications on the market to really try to scale it. So I think Poland is a country which, for me, is still a very great opportunity where we can further grow and it will be one of the growth engine going forward in the region, where we want to, of course, keep and increase our mobile positioning but also complement it with a strong FMC positioning.

Concerning operators and supplier, this is something we need to discuss, when there will be the auction will come and then when the government will decide about their Cyber Act. So I think it's too early to give any indication on supplier in the country.

So your second question, I think, was on the European Recovery Fund. So I think there, it's a big opportunity. And as Srini said, we don't want to oversell it because the funds are there. But in every country, you have now -- we are now going through a process where we have to apply for some funds. I think Greece is probably one of the countries where it's most advanced. So we will definitely use some of the funds to build infrastructure, to further build fiber in more remote area, that's currently ongoing.

But we are also certainly in Greece looking at using that and not only in Greece, in the B2B area, where we have strong position back in Hungary, back in Slovakia, Greece, even Croatia. These are all countries where we are former incumbent, our B2B position is quite substantial. And when you talk about digitization, there is quite a lot of opportunity to partner with public sector and further drive digitization. So that's certainly one of our key elements in growing in the B2B area next to the three countries I have highlighted where I think we can still grow even in -- a lot in the enterprise market because we are subscaled.

Your last one is the bottom line impact on the digitization project. It's difficult to say. What I would say is that probably 2/3 of the IDC savings will come from digitization and waste reduction. So it's quite significant. We are looking at EUR 300 million IDC reduction going forward, and ballpark, I think 2/3 of that reduction should come from digitization.

But for me, digitization is not only a tool to reduce costs. It's also very much a tool to enhance customers' experience. And that's great about digitization because you really can do two things at the same time, you improve your customer experience and you decrease cost by decreasing waste. And I think that's really what we want to do going forward with our digitization opportunity.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Well, thank you, Dominique. And the next question is from Charlotte [ph].

Q - Unidentified Participant

My question is around competitive dynamics and competitive intensity. Would you provide some more color on the markets where you see competitive intensity, particularly increasing or decreasing? I suppose it builds on Georgios -- the first part of Georgios' question as well.

A - Dominique Leroy {BIO 17644657 <GO>}

Yes. No, I think as I put it forward, we have -- most of our markets are three MNOs markets. So where you have, of course, quite high competitive intensity in all markets. I think you also have a lot of markets where the ARPU is still very low. So I see that personally today as an opportunity because what you see as well in a lot of market is a huge demand from consumer and from enterprise for more data, more capacity, more coverage. So there is competitive dynamic, but there is also a huge potential to increase the value of the market. So I think somewhere, it is relatively healthy competition. It's competition to serve customers with more products, more capacity.

Where you see more intense competition, it's typically Romania. That's probably also one of the reason why we have decided to sell the fixed business and because if we would need to compete there, we would probably have to put quite a lot of money in upgrading our fixed network. The ARPU is relatively low. It's still low with digi being an operator, which is quite aggressive on the market. So there, we have decided indeed to move out of the country to be able to invest in other.

You could say Poland could be also more intensive because Play has just been bought by Iliad. But so far, we have not seen any increase in competition. I think there as well, everybody is looking, how can we further bring fiber to the country, how can we further bring high-speed Internet in the country? And it's, I think, again, more healthy competition on trying serve the customers on the next step.

So I think all in all, the markets are relatively healthy with strong potential for growth as the ARPU is low, the demand is high and the regulator and the government are now more and more looking into digitization of service, rolling out of infrastructure as an important way for them to be recognized as a good leader.

So it's not anymore getting money out of the auction or out of the industry, it's much more trying to roll out better infrastructure, better service to serve their customers or their citizens better. And I think we can now really mean play on that and get value out of that in most of the countries. So I'm very optimistic about the potential of the European segment.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. And then we have one more question from Jakob.

Q - Jakob Bluestone {BIO 21717761 <GO>}

I had actually two very short questions, if that's okay. Firstly, just on the revenue growth side. You're guiding for 1% revenue growth, which is very similar to what you did over the previous three years, even though you've got what I think is a reasonably sizable tailwind for roaming. So can you maybe just give a little bit of context on the revenue guidance, which looks a little bit conservative?

And then just secondly, I'd be interested in just hearing your thinking around tower ownership in the region. Is that something that you're a bit more flexible on and that's perhaps one of the ways where you could relatively easily drive up your ROCEs in the region?

A - Dominique Leroy {BIO 17644657 <GO>}

No, thank you, Jakob, for the question. I think on revenue, I mean it's true that roaming is, I mean, it has impacted us in 2020, EUR 130 million, so it's quite significant. We will, of course, have some tailwind from that this year and probably next year. But next to that, we also have quite a lot of MTR cuts, which are still coming in from mid of July, mid of this year, July this year. I don't think it's such an impact because it's in percentage high, but in the value, it's relatively low, but that's anyhow something which will impact a bit the service revenue.

And the guidance is on full year. So we have always a tendency and DT, but also myself to try to really deliver against the guidance to make sure that we potentially even over-deliver And we have a 4-year period. So I think for the next two years, we should probably be a bit better. But going forward, we have to be prudent and see what happens in the market. So around 1%, I think, is a very decent figures, and we will do everything we can to over-deliver on that.

On tower ownership, I think it's a good question. We have done tower co in Austria. But what I think -- and we can look in -- at other countries And perhaps you'll hear about -- a bit more about that tomorrow. I don't want to reveal too much today. I'll leave something for Thorsten to tell you. But everything we will do, we will do towards DT TowerCo.

So it could be a way to improve ROCE and ever, but it will not be a leverage that we will do to third party. I think that the strategy of DT is really to build a strong tower co internally with DT Funkturm. And so if we do carve out of tower in Europe, it will be to DT Funkturm and then we will see, as a group, what we will do with our tower assets. So we will not start to do some individual tower carve-out to third party in Europe.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Thank you, Dominique. Before I let you go, maybe one question from me. Now that you have -- of course, you work there for -- you were brand Proximus before. And so I just wanted to see how does it feel to work at Deutsche Telekom in this group? I mean, is that -- and how to work in the European portfolio? Any impressions that you can share?

A - Dominique Leroy {BIO 17644657 <GO>}

So I think it's very different. I think DT is, of course, a much bigger group. What I have been impressed is that DT is a very diverse and international company, probably much more than people sense when you look at it from the outside. So I think it's a much more international and diverse culture. And I think in Europe, I think it's very much a hidden jewel. I think Europe is a great asset. It's -- there is not a lot of publication. So it's difficult to follow, I guess, as analysts or investors.

But when I am here and looking at the country, I think there is a lot of potential. And I think DT is so well placed with this transatlantic foot in the U.S., foot in Europe. And in Europe, there is a lot of focus on Germany, but there are a lot of other countries. And I think when we will be able to get even more scale and more harmonization within the European footprint, it is really a base from which I think we can really deliver growth and even potential further growth going forward.

A - Hannes Wittig {BIO 4033762 <GO>}

Acceleration. Okay. Very good. So thank you very much, Dominique.

A - Dominique Leroy {BIO 17644657 <GO>}

Thank you, Hannes.

A - Hannes Wittig {BIO 4033762 <GO>}

That brings us to the last session of this Capital Markets Day. First day of the Capital Markets Day, I should say, Capital Market Days it is. So now we are welcoming our U.S. team.

So we will be having -- we'll be joined by Mike Sievert, CEO; Peter Osvaldik, CFO; and our very Neville Ray, President of Technology. And at the end of their presentation, Jud Henry, my colleague in Seattle, will host a Q&A, to which you can register in exactly the same way as you have done the whole day. So I'm happy now to announce T-Mobile's dream team.

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(presentation)

A - Michael Sievert

Hey, everyone. It's so great to join all of you for the DT Capital Markets Day. Thanks for being here.

When I was last with you, back in May of 2018, it was just one month after we announced our merger with Sprint. And we shared some big aspirations for the combined company. So today, I'm happy to be back, just over a year since we closed our merger, to share our progress and our plans for growth and value creation. And while I wish we could all be in Bonn together this year, I'm coming to you this time virtually. As is Neville Ray, our President of Technology; and Peter Osvaldik, our Chief Financial Officer.

Let me just start by saying how proud I am of our team and of how our employees have united as a combined company to serve our customers and deliver outstanding business results during unforeseen times like this past year. Our first year results as a combined company say a lot about our people and about our culture because many mergers really struggle in the 12 months right after closing. We persevered through a pandemic, an economic crisis and significant social and political unrest. And this team rallied together around our love for our customers. Our success reinforces the fact that we've assembled the best team of leaders and employees in the industry, and it's something that continues to set T-Mobile apart from the competition.

2020 also marked the true beginning of the 5G era in wireless. T-Mobile is already the demonstrable leader with the largest and fastest and most reliable 5G network in America. And I'm here to tell you why our network advantage will last for the entirety of the 5G era and beyond, while translating into strong business results that we believe will result in extraordinary shareholder returns.

Our mission is to be the best in the world at connecting customers to their world. And our strategy to get there isn't complicated, but it is differentiated. We plan to simultaneously deliver the best network and the best value for businesses and consumers, something that has never been done before in our industry and something that only T-Mobile can aspire to as the leading pure-play wireless company.

Customers shouldn't have to choose, and at T-Mobile, they don't. Add to that, the differentiated customer experiences delivered by this customer-loving team and you have a formula that allows us to pursue our simple, yet audacious vision to become number one in customer choice and number one in customers' hearts.

We'll get there by focusing on three strategic pillars. First, building the world's best 5G network and delivering product leadership by turning our combined network and spectrum assets into a truly superior wireless experience, an experience that T-Mobile becomes famous for and one that's here to stay. Second, unlocking the potential of our scale and the superior cost structure that results from our network assets to deliver ongoing value leadership while also expanding margins. And third, delivering the best experiences from the best team as we build on our Un-carrier strategy to make customers happy by rewriting the rules of the industry in their favor.

As we deliver on these strategic pillars, we're focused on some simple ambitions, the outcomes by which we'll be measuring ourselves and by which we think you'll be measuring us as well. They showcase our balanced approach to growth and profitability.

First, our goal is to consistently and continuously profitably lead this industry in growth, particularly once the major elements of our integration are behind us. Second, translate that growth into an increasingly valuable business, focusing on synergies, scale economies and cost transformation. And third, we'll do all this without borrowing from tomorrow.

We'll continue to make the right decisions and investments to position T-Mobile for long-term success. For T-Mobile, all of our short- and long-term goals start with building the best 5G network. It's the underpinning of virtually everything we'll talk about today. And our build is tracking well ahead of schedule. And it's clearly differentiating T-Mobile as the undisputed network leader in the 5G era.

T-Mobile already offers the largest, fastest and most reliable 5G network in America, delivering 5G across more geographic coverage than AT&T and Verizon combined. And our ultra-capacity 5G, utilizing our spectrum depth of 2.5 gigahertz mid-band and above has been rapidly expanding. While Verizon's 4G leadership may have helped them over the last decade, T-Mobile is positioned to be famous for our network in the 5G era and solidly take that crown for years to come. That's a perception shift that we're laser-focused on at T-Mobile, and we're already starting to see the tide turn.

And because of our merger, we're essentially funding this entire network build through merger synergies. In a few minutes, Neville will dive into the value our network represents to customers and how it serves as a linchpin for our business.

Now let's talk about the work we're doing to expand our addressable markets and fuel growth for years to come. Our expansion into smaller markets and rural areas across the country will open up massive potential as our network has expanded significantly in the last few years, delivering LTE coverage on par with the other national carriers and 5G coverage that's miles ahead of the competition. And when we say smaller markets in rural areas, that represents 50 million U.S. households, almost 40% of all households in America, where our market share is in the low teens today compared to our national market share of roughly 30%. We plan to significantly expand distribution into these areas to finally bring real competition.

Our strategy to unlock this opportunity will require growth in areas where we already have both the network and distribution assets today as well as growth in areas that will receive these investments in the future, building the best 5G network throughout rural America is foundational to unlocking consumer switching, and we plan to expand our physical footprint in smart ways.

We'll build hundreds of new stores in small towns in rural areas over the next five years and add significantly more points of distribution, including entering national retail channels like Best Buy and Walmart as well as leveraging our recently launched Hometown Experts, an innovative and cost-effective initiative to recruit individuals dedicated to assisting communities too small to support the cost of a full retail store. Combined, we expect these efforts will help T-Mobile to grow our share in smaller markets and rural areas to nearly 20% over the next five years.

Another key area of focus is the enterprise and government sector. After having successfully redefined consumer wireless for good over the last eight years, we're bringing that same un-carrier attitude to businesses. Our share today in the large enterprise space is only around 10%. And we're already starting to win in this space.

There are over 50 million corporate liable lines today, which is a massive opportunity. We like our game plan here because it's building on a strong 2020 performance. With our 5G leadership, businesses no longer have to make the trade-off between the price they pay and the quality of the network. They can have both.

This includes our recent WFX launch, an innovative suite of products that are ideally suited to help companies adapt to the hybrid workspaces of the future with fully featured secure calling and broadband products and the peace of mind of having unlimited data for those companies that have still been handcuffed with pooled data plans by the carriers. We see room to run here with a massive market share potential running up to 20% over the next five years, which is still quite under-indexed versus fair share.

And the B2B space is a great example of the benefits of a strong partnership with Deutsche Telekom, affording us a unique opportunity to capture transatlantic synergies by leveraging the assets of DT and T-Mobile to offer solutions to global companies.

Now looking beyond traditional mobile wireless. One of the immediate opportunities is home broadband where we're bringing competition to an estimated $90 billion market. After successfully growing our 4G LTE home Internet pilot throughout 2020, last month was the official launch of T-Mobile Home Internet, a simple, fast broadband service, leveraging our expansive high-capacity 5G network to give customers a real choice in high-speed Internet.

And while others in the industry are still in the planning phases of what wireless home broadband could look like in the future, T-Mobile 5G reaches more than 30 million eligible broadband households today. Our focus is on a great service at attainable prices because our business plan isn't burdened with significant capital costs, given that the network is funded by the mobile business plan. We're excited for everything ahead here in this space, and we expect to serve 7 million to 8 million customers over the next five years.

We're also rapidly expanding our addressable market with prime consumers who value network quality and who may not have considered us previously due to legacy perceptions. For example, earlier this year, we launched our Magenta MAX plan, giving customers the industry's only truly unlimited plan and putting the full capabilities of our ultra-capacity 5G in the palm of their hand. The early indicators that we see from Magenta MAX customers underscore that the most discerning consumers increasingly consider T-Mobile when we offer the right plan that really showcases our leading 5G network.

So we'll unlock customer growth by both growing the total number of customer accounts and deepening these customer relationships with more premium services and additional connected devices to consistently and profitably grow both our core business and exciting new businesses. T-Mobile continues to win customers because of how our company creates experiences. And we're relentlessly looking for ways to simplify and optimize the customer experience.

Our focus is on further enhancing our digital capabilities to provide even better options for customers who, after a year of the pandemic, are showing a willingness to work with us digitally in ways they didn't before. For us, it's all about serving the customer how they want to be served and building on our already industry-leading award-winning customer service experience, which is our secret sauce. Ultimately, we believe that when you provide customers with the best network and the best value and the best customer experiences, they will become loyal ambassadors for the brand and further drive our growth and long-term success.

Now let's talk about merger synergies and our financial performance. I am incredibly proud of the team for being able to execute and perform in a competitive marketplace, while simultaneously driving integration faster and better than expected to capture our merger synergies and deliver value for both customers and shareholders.

Our 5-year growth and financial plan, built on the conservative market assumptions I've shared with you here, creates enormous potential shareholder value. Peter will go into greater depth on these topics in a few minutes.

Now before I turn it over to Neville and Peter, I want to provide some insight on another important focus area for T-Mobile, making an impact that matters for our employees, our customers and the communities that we all serve. Throughout the merger, we talked about how we've not only become a bigger company but also a better one, using our network scale and resources for good.

Our marquee initiative here is Project 10 million, and it's focused on the audacious goal of helping to connect every single student and eradicate the homework gap in the U.S. so kids can get the access they need and the education and equal opportunity that they deserve. We launched this unprecedented $10.7 billion initiative last year and then enhanced it to address the more pronounced inequities that have arrived in the wake of the COVID-19 pandemic. We focused heavily on our people over the past year as well because we believe only the best team working together and inclusively can deliver the best experiences.

With the world watching, America has experienced significant social unrest over the past year and the quest to achieve greater racial justice. At T-Mobile, our commitment to diversity, equity and inclusion plays an integral role in our culture, and it always has. Last year, we launched our 5-year Equity In Action plan, which reflects the ways we're embedding DE&I into our culture as the un-carrier. And we continue to build diverse talent in our leadership ranks to reflect our highly diverse employee group and the communities we serve with more ambitious programs in this space than ever before.

In addition, we continue to follow through on our long-standing enterprise sustainability commitments. T-Mobile was the first major telecom to commit to a 100% renewable energy back in 2018, a goal that we expect to achieve this year. And in recognition of our efforts, we were recently named to the CDP's A List for Climate Change (sic) [Climate A List], the gold standard of corporate environmental transparency. We've created ambitious goals to positively impact the planet, and we're immensely proud to be the only U.S. telecom given this top listing.

Okay. Now let me turn it over to Neville to tell you how T-Mobile's 5G network is leading this industry into the 5G era and how we are prepared to sustain and expand our network advantage for the duration of the next decade and beyond.

(presentation)

A - Neville Ray {BIO 15225709 <GO>}

It's so great to be here today, and I'm excited to update you on our network journey and the progress we continue to make. As many of you know, I have been personally invested for many years in creating a leading network here at T-Mobile. But there has never been a more exciting time in the growth of our network than right now. We are uniquely positioned to become famous for network as we continue to combine our superior assets and execution to deliver a demonstrable and sustainable 5G and overall network advantage.

There are five major and compelling reasons why our network leadership position today will be a durable advantage into the future. Let me walk you through these one by one. First, we have a clear 5G coverage leadership position today with 5G coverage in all 50 states and Puerto Rico. Our extended range 5G provides reliable coverage where customers live, work and play.

And just less than a year after reaching nationwide, we now cover 295 million people with 5G across more than 1.6 million square miles today. That's nearly 4x more than Verizon and over 2x more than AT&T. And we're expanding our extended range 5G to over 300 million people by the end of this year, and we expect to cover 97% of all Americans by the end of next year.

At the same time, we are the only operator to have deployed dedicated low-band and mid-band spectrum, delivering on the true promise of 5G, with our ultra-capacity 5G delivering game-changing speeds averaging 325 megabits per second and reaching 140 million people already in 2021. And we're expanding our ultra-capacity 5G at a remarkable pace to bring those game-changing speeds to 200 million people by the end of this year, expanding to approximately 250 million by the end of next year and on our way to bringing ultra-capacity to nearly 90% of all Americans by the end of 2023.

Multiple independent third parties, including Ookla, OpenSignal and Umlaut all recently gave exciting accolades to T-Mobile's 5G network based on real customer usage from millions of device measurements. We just continue to pull away from the pack. OpenSignal recently released their latest report, showing that T-Mobile customers average 5G download speed increased by 23% since the beginning of the year, while speeds on other networks stayed virtually unchanged, widening the gap to competitors as T-Mobile now has nearly 50% faster speeds than Verizon and 30% faster speeds than AT&T. All signs point to one clear fact. T-Mobile is America's 5G leader. We're the largest, fastest and most reliable 5G network.

Second, our network upgrade program is fueled by synergies from our network integration. This integration program, combining the assets of Sprint and T-Mobile networks, has presented the opportunity to not just combine the networks for LTE services, but upgrade them at the same time for 5G, unlike our competition who face incremental 5G costs in all that they do.

Third, we maintain a meaningful spectrum advantage following the FCC's recent C-band auction where we added to our ultra-capacity 5G in urban and suburban areas that the spectrum is well suited for. We came out of the auction with the best mid-band spectrum assets by far while our competitors spent unprecedented amounts trying to catch up. Our mid-band is mostly comprised of frequencies with superior propagation to C-band, which means they are superior not just in reach, but also in deployment costs.

With this recent C-band spectrum auction complete, we are well positioned to maintain our 5G leadership for the duration of the 5G era, not just for a year or 2. Our position and advantage will be long-standing. Bringing all of this together, our 5G leadership is even more clear when you combine both our spectrum and coverage deployment plans as contrasted to our major competitors.

Fourth, through this capital-efficient deployment, we have the financial capability to smartly invest and maintain this network advantage, as Peter will describe in a few minutes. We are delivering faster on this deployment and a broader rollout of the 2.5 gigahertz spectrum for less total capital than originally planned in the merger announcement. This is as a result of material procurement savings from new agreements with key partners and significant savings from an efficient deployment engine, including adding multiple spectrum bands on a single site at the same time, as well as more effective controls via a lean deployment model, effectively reducing the time to deploy.

And fifth, but by no means least, we have the most technically advanced network and a clear leadership edge on 5G innovation. Not only are we building the densest, deepest and broadest network, but we are also building on our history of 5G firsts, and embracing technological evolutions as they are ready to improve customer experience, lower costs and unlock new revenue opportunities. And our network enhancement program is running at a truly unprecedented pace with thousands of radio upgrades underway each and every month.

So in summary, I am so excited that T-Mobile is leading what I expect will be a 5G revolution. We have all the tools to succeed, a robust plan and a powerful team to go execute it.

Now let me pass the mic over to Peter.

A - Peter Osvaldik {BIO 18597986 <GO>}

Thanks, Neville. I'm excited to get to our financial highlights, starting with a look at synergies.

As you already know, we beat our own aggressive synergy targets for 2020, realizing EUR 1.3 billion or 4x what the original merger plan expected to achieve in the first year. And during our Q1 earnings a couple of weeks ago, we updated our 2021 synergy guidance, now expecting to realize $2.8 billion to $3.1 billion in merger synergies, which represents a $550 million year-over-year increase in avoided costs and a $1.1 billion year-over-year increase in P&L benefits at the midpoint of our 2021 guidance, helping to fund the investments in our network and growth initiatives this year, and we're not slowing down.

Our team's strong execution led to us updating our expectations at our Analyst Day for total run rate cost synergies of approximately $7.5 billion per year by 2024, up 25% from the original merger guidance of $6 billion. While the full original and increased run rate synergies are achieved in the same time frame, primarily due to the time line for avoided costs, we overachieved in each year relative to the original plan. In fact, we now expect to exceed the original $6 billion target in 2023.

As we have said from the beginning, these massive synergies are unlocked with some onetime upfront costs to achieve. We continue to expect approximately $15 billion of total net cost to achieve, delivering more synergies with no incremental cost. This faster paced and increased run rate result in a new net present value of over $70 billion for shareholders, more than 60% higher than the original $43 billion NPV in the merger case, including a lower cost of capital, which reflects not only lower rate market conditions, but just as importantly, our scale and performance driving a lower cost of capital, as demonstrated by our capital markets activity.

Our team's strong execution and our strategic plan is now expected to deliver financial results that exceed both the original 3- to 4-year and longer-term targets that we provided in the merger announcement. For reference, we are using 2023 as the comparable midterm point as it is the third full year following our actual closing date. And as we think about the long-term projections for the business, we are using 2026, which is actually earlier than the original long-term guidance milestones, which assumed seven to eight years out. And of course, our ambitions include continued growth in the business beyond 2026, driving a sustainable increase in shareholder value in later periods, too.

All right. Jumping into the numbers. And for clarity, these are on a U.S. GAAP basis, which will differ slightly from IFRS. Core adjusted EBITDA, which reflects our underlying business performance without the noise of declining lease revenues as we deemphasize device leasing quickly post-closing, is now expected to be between $22.8 billion and $23.2 billion in 2021. In 2023, we expect to be between $28 billion and $29 billion versus the original merger plan, which implied core adjusted EBITDA of $25 billion to $27 billion, a $2.5 billion increase at the midpoint, driven by growth in service revenue and higher synergy realization.

We expect further growth in 2024 with core adjusted EBITDA expected to be in the range of $31 billion to $32 billion, with additional service revenue growth and full synergy realization. Long term, we expect core adjusted EBITDA to be more than $36 billion, more than $1 billion above the high end of the original merger target, driven by higher service revenues, along with additional efficiencies, including in the areas of continued distribution transformation and an increasing consumer digital experience.

Looking at capital expenditures. We now expect CapEx in 2021 and 2022 to be between $11.7 billion and $12 billion annually as we deliver our network integration milestones earlier and build a nationwide multilayer 5G network with better capital efficiency, thanks to both material procurement savings from our improved scale and deployment efficiencies, which Neville highlighted. We expect CapEx in 2023 through 2026 to be between $9 billion and $10 billion per year, reflecting the capacity and network efficiencies we expect after having completed our network integration and be largely done with our nationwide 5G deployment by 2022. This capital plan also includes all of our expected costs for C-band deployment. This all translates into the promised unlock of significant free cash flow.

In 2021, we now expect free cash flow to be between $5.1 billion to $5.5 billion. Looking ahead, free cash flow is expected to be between $13 billion to $14 billion in 2023, a massive $3 billion or 30% increase from the original expectation of $10 billion to $11 billion. Again, a product of increased growth in service revenue and operating leverage, bigger and faster synergy capture and improved capital efficiency.

We see further growth into 2024 with an expected range of $16 billion to $18 billion. And long term, we expect free cash flow to be more than $18 billion, above the high end of the original target. And similar to our 2021 guidance, our mid- and long-term free cash flow guidance does not assume any material net inflows from securitizations. And while our expectations for midterm and long-term milestones are all above the original merger plan, equally exciting is that this is really a story of cumulative overperformance in every year, delivering cumulative free cash flow through 2025 of up to $65 billion, up nearly 20% from the original plan.

So as Mike highlighted earlier, with our increased cash flow, we see the flexibility for substantial shareholder returns, potentially up to a total of $60 billion from 2023 through 2025, all assuming a conservative mid-2x core adjusted EBITDA leverage ratio. As you would expect, we will always focus on maximizing value creation for shareholders, and we'll assess future spectrum purchases, M&A options and share repurchase opportunities to create the most shareholder value.

And of course, there is massive potential beyond 2025 as well. I couldn't be more excited about this updated plan, and I'm extremely proud of our team's ability to consistently meet or exceed the guidance we commit to. We have done that now as T-Mobile since 2013, and we have every intention of continuing to deliver on that front and maintain the trust you place in us. I can't think of a better high note to end on.

Now I'll hand it back over to Mike before we get to your questions.

A - Michael Sievert

Thanks, Peter, and Neville, great job. Okay. We're eager to take your questions. But let me leave you with a final thought. As you heard in our remarks, we believe T-Mobile is uniquely positioned with this once-in-a-career value-creating opportunity. We have a great hand. And to me, that means the industry's best assets, a clear and simple business strategy that's already proven, lots of room to run, exciting new businesses where we have permission to win and a team with a track record of delivering.

Add to that, a strong balance sheet and a compelling financial plan, and the result is a business with massive cash flow and value creation potential. On top of it all, we have the opportunity to continue to change and improve this industry yet again as the Un-carrier to the benefit of consumers and businesses everywhere, to be the best in the world at connecting customers to their world and to earn their hearts in the process. I am tremendously excited about our future.

Now while we get into position to take your questions, I'll leave you with this video, a collection of a few words that form our brand manifesto, words that say everything you need to know about who we are, what makes us different and where we're going. Take a look, and we'll see you live in a minute. Thanks, everybody.

(presentation)

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A - Unidentified Speaker

All right. All right. We're excited to get to your questions. So let's get right at it. It looks like we've got some names queuing up already. So let's take our first question from Usman Ghazi from Berenberg.

Q - Usman Ghazi {BIO 15041671 <GO>}

I guess the question I had was on one of the comments you made earlier about investing to create that network perception change in the U.S. And specifically, and I don't know whether this is the right perception, I'm obviously sitting in London, so I might have gotten this completely wrong. But it seems that Verizon obviously has a very close relationship with Apple. I mean at the iPhone launches, you see them -- Verizon there.

And on the TV, when I'm watching, I mean there's a lot of joint advertising going on between Verizon and Apple. I'm just wondering, I mean, that, at first, it seems surprising obviously, because I mean you -- it's pretty clear you have the best network and you're extending that lead on 5G. So is there any chance of TMUS being able to break that triangle that Verizon has with Apple, obviously, because of the captive 4G base that they have? Or is it going to take more time?

A - Michael Sievert

Yes. Thanks, Usman, great question. Thanks for joining. And yes, it's very interesting. I'll answer it two ways. First of all, as it relates to the big companies, I'd say T-Mobile, AT&T and Verizon all have great partnerships with Apple and the other major providers. So no concerns there. And I wouldn't overread Verizon appearing at their event in any way. We all do the exact same amount of joint advertising and co-development and so many things.

But your question has another premise to it that I think is very important, which is Verizon has established for over a decade now brand fame around being the best network in the United States. And that's very clear. And that's something that you heard us remark on in our upfront remarks that we know our opportunity is to turn that around. And let's face it.

n 2010, at the beginning of the 4G era, they jumped out in front. And AT&T jumped out with the iPhone. But Verizon jumped out with LTE, and they got after it faster than anybody else, and they claimed that mantle of network leadership in the 4G era and then rode it. They made the rules of the 4G era. And those rules, by the way, were terrible. Things like contracts and overages and roaming when you leave your country and treating people poorly and so forth, high prices. So we came along and decided to try and change those rules, and we were always in catch-up mode on our network during the 4G era.

Today, in the 5G era, T-Mobile has the opportunity to make the rules. And those rules are going to be customer-friendly and they're going to be built around a brand that in the 5G era claims the mantle of network leadership. And that's so important. Right now, we have 5G leadership, way ahead, as Neville just got done describing to us. But we have to translate that into perception of overall network leadership. That's going to mean working with our partners like Apple to the premise of your question, but it's also going to mean taking advantage of big expansions into the places where we've historically been behind.

We already get good credit in the big cities for having a good network. But in the huge swaths of this country, 40%, 50% of the country that are smaller markets and rural areas, we've been way behind. And that's a massive tailwind for our business as we start to come up the curve with the demonstrably best 5G network in rural America, as we talked about in our remarks. So we're taking this very seriously. We know we don't just have to be the best. We have to get credit among businesses and consumers for being the best, and our strategies are geared around that.

A - Unidentified Speaker

All right. Excellent. Let's take our next question from Joshua Mills from Exane.

Q - Joshua Mills {BIO 17873641 <GO>}

There's two from me. The first is related to what AT&T has talked about earlier this week with the deal they've done on Time Warner, the decision that they want to accelerate in CapEx, market share gains, et cetera. Now you've talked a lot about how 5G is an opportunity or a window for you to win share and change perception.

And I guess a lot of the work you've been doing is to try and extend the window on 5G leadership and you use that as an opportunity. So my question is, firstly, does the AT&T deal and the cash they've unlocked perhaps even narrow that window because they'll be spending more on CapEx? Or make the market more competitive in the near term if they choose to deploy more cash into handset subsidies?

And then the second question -- go on, sorry.

A - Michael Sievert

Please let us know. Yes.

Q - Joshua Mills {BIO 17873641 <GO>}

Yes. And the second question is just we've heard a lot today from the European side of Deutsche Telekom. And I think after we look at the U.S. business and see the growth in returns it's quite envious.

But a key theme that's come out of today's presentation is the importance of convergence, fixed line, et cetera, in Europe. Now I understand the U.S. market is different, but do you see any advantage at the moment from your competitors owning fixed line? And is there any potential scenario in which you would think about either doing deals with fixed line operators on wholesale or maybe even building organically in that space?

A - Michael Sievert

Thank you. Those are great questions. First of all, I'll start on AT&T and then let Neville pile in. I think what we've seen from both Verizon and AT&T over the past two, three, four months, and certainly this last week with AT&T, is a journey towards both of our major scaled competitors realizing that T-Mobile's strategy of being a pure-play mobile Internet company is the right one.

All content and entertainment of all kinds are leaving their prior linear forms and going digital, landing on the Internet. And the Internet itself is going mobile. And T-Mobile years ago, established itself as a pure-play mobile Internet company and sought the best assets and won the best assets in the industry, to lead the industry as the mobile Internet company focused on this space.

And it's a great space. This is a viable, profitable industry that's changing people's lives in big ways. And both of our major competitors have decided to wake up and try and emulate our strategy. The problem is they're years behind, and we have the wherewithal to stay ahead for the duration of the 5G era, as Neville mentioned in his remarks.

And so an example of that would be -- and I'll let Neville jump in before we get to your second question. An example of that is what Neville took you through in his remarks, which is the pace at which we're going, even with AT&T's new found love of mobile Internet, will allow us to stay ahead, especially when you apply not just the spectrum we'll have on 5G, the amount of spectrum, but the amount we have deployed on 5G, multiply that to look at megahertz pops, as Neville showed us, and the advantage that we have is massive and sustainable. Neville, maybe you can comment on it.

A - Neville Ray {BIO 15225709 <GO>}

Yes. Thanks, Mike. And obviously, delighted to be here today and take the queues. To your question, Josh, on what happened this week with AT&T, I mean, finally, now we see our major U.S. competitors, as Mike said, starting to look at our strategy overall as a business. But importantly, too, they're starting to mirror and chase our network strategy. And so we've talked for a long time about the capability of a multilayered mid-band, low-band network. And so now we see AT&T kind of coming all in on that model and plan.

And to just shape some of the news and announcements they made, I mean the one thing that caught my attention was that they said they would have 200 million people covered with the recently acquired C-band spectrum by the end of 2023. So to contrast that to where T-Mobile is today, as I outlined in my comments, 140 million people we've covered in the last year since we combined with Sprint. By the end of this year, 2021, we'll be at 200 million people covered on that mid-band layer and a much deeper and richer spectrum layer than AT&T can accomplish by 2023.

So even though they're coming after and starting to mirror and chase our strategy, we have an incredible leadership position that they now have to try and close that gap. And so as we talk through here, every day, our network and the performance of this network is improving. And our customers are starting to understand that more and more each week and as we move through every month. And so for AT&T and Verizon, there's a lot of catch-up they have to do to try and mirror and match what we can do this year, inside 2021.

A - Michael Sievert

Just to the profitability piece, before we move to your question on fixed assets. Look, I think this is very good moment in time for the industry. And if the premise of the question is if Verizon and AT&T have finally decided to come around and pay attention to their mobile Internet businesses, is that bad for us?

And I'd say absolutely not. Competition is tricky only if there's no differentiation. Competition is a great thing and something welcomed by T-Mobile because our position is differentiated. And the more this industry focuses on mobile, the more this industry focuses on smartphones, the more we get to showcase to people that increasingly consider, whether they're with the right carrier in a more vibrant market, our differences.

Showcasing our differences of being the first company in the history of this industry to be able to simultaneously offer the best value, which we can sustainably do with our asset base and the best network where we're ahead by several years and positioned to stay ahead. That's something that, in a market that's more vibrant and made -- a market where there's increased switching through the efforts of our competitors, that will ultimately favor us.

And we think it's a very good market. It's the profitable part of the industry. That's why all of our competitors have decided to focus on it. I think that means that they understand that it needs to stay profitable because this is the knitting. And so all of these signs, I think, are good signs for us.

Now to the second part of your question about fixed and we'll try to be quick here. I give the short answer and then again turn it to Neville. No, we don't see it as an advantage. In fact, when the primary profit pool is mobile, as we just talked about, the advantages of owning fixed assets are a bit false. And you'd be stealing from one profit pool to feed the other. And so the ownership advantage gets diminished.

We think we can get there and have demonstrated we can get there through partnerships. We have fantastic fiber relationships all across this country. There's plenty of supply. And when it comes to tackling enterprise opportunities, we're working with partners like our recently announced collaboration with Lumen. So just briefly, Neville, on whether or not, not owning fiber as a disadvantage or perhaps if it's an advantage to have the flexibility that we have.

A - Neville Ray {BIO 15225709 <GO>}

No. I mean, clearly, Mike, for us, I mean it's an advantage for us to drive our investments into our radio and our wireless network. And we have just tremendous deals and partnerships out there to support our fiber delivery to our cell sites in a 5G world. And we've had fiber to our cell sites for many years. Now we're just scaling that delivery. We have actually decreasing price levels coming into our business while we scale the throughput and output on those links. So we're very, very comfortable today with how we construct our delivery there.

A - Michael Sievert

And this is an area where, to the premise of your question, the U.S. market is a little bit different than Europe. Obviously, the trend here, we never did fully converge. And in the recent moves as it relates to media convergence, both of our major scaled competitors shedding media assets as a sign that there wasn't the promised benefit of convergence that they had sold shareholders.

A - Unidentified Speaker

All right. Let's take our next question from Ulrich from Jefferies.

Q - Ulrich Rathe {BIO 17059015 <GO>}

Mike, if Deutsche Telekom were to sell the T-Mobile stake tomorrow, what elements of your midterm guidance would you have to change? I mean I suppose it's a slightly cheeky way of asking what are the tangible benefits that the pan brings to the party from your point of view where you're sitting.

A - Michael Sievert

Well, first of all, I'm not sure it would change anything in that -- I'll answer it from two perspectives. One is we've certainly been enabled to buy DT through the years with investment. But now we have a business that is producing significant cash flow and is able to for -- in recent years, acquire its financing on its own.

So a company that is viable on its own. And secondly, it's a business that is neither constrained by DT. Every major thing we've needed to do, we've been able to partner with and be supported by our major owners, DT. And so we've not been constrained yet either. What we do have right now are some terrific opportunities for synergies, as I talked about, and we're collaborating with major global companies to serve those companies together in transatlantic ways. And that's terrific.

So look, we -- DT, I think, much to its credit, has run and allowed us to run the U.S. business as an independent U.S. public company with them as our major shareholder. And that has allowed us to focus on our knitting in a way that's created an awful lot of success. And so for us, we're consolidated into DT and are looked at by DT as part of DT, but they deliberately asked us and with our Board to run this as an independent company. And my fiduciary is to all shareholders of our company, all shareholders of TMUS, DT included, and that's how we run it, as an independent U.S.-listed public company.

A - Unidentified Speaker

Great question. All right. Let's go to Jakob Bluestone from Credit Suisse.

Q - Jakob Bluestone {BIO 21717761 <GO>}

So I had a question around the capital returns that you referenced earlier. And I guess there's two aspects. One, can you just sort of talk us through how do you look at dividends versus buybacks when thinking about it from a TMUS point of view? And also, as you rightly pointed out, you've got a fantastic track record of beating your own guidance. So do you think there's the potential that we could see those buybacks or those capital returns starting sooner than 2023?

A - Michael Sievert

I absolutely love it. You announced an up to $60 billion share buyback, historic buyback program, and it's how soon can it start? So Peter, can it start by 2022? And can it be bigger than we promised?

A - Peter Osvaldik {BIO 18597986 <GO>}

Absolutely. Well, thank you so much for having us, and a great partnership here. So first off, I'm really excited about the massive free cash flow generation of this business, and it truly is a differentiator, as we've talked about. This massive 5G network that's being built, the greenfield opportunities that others do not have, in smaller markets in rural America, in enterprise, and the unlock of synergies during that whole time frame allows us to have expanding margins, and by the time we get to our midterm guidance, have the best conversion of service revenue into free cash flow, which helps unlock and allow those massive potential shareholder returns.

A couple of questions you had. One is, how do we think about it? Would we do share repurchases or dividends? And right now, the way we're thinking about it is our intention is to continue to be a growth company, both in the midterm as well as the long-term guidance. So as we see it right now, we're definitely thinking the flexibility that share repurchases versus a dividend offer would probably the way we would initiate shareholder returns and, of course, assess it during that period and go forward.

In terms of can we start early, as you know, right now, the focus point is building this massive network and spending the cost to achieve funds to unlock the synergies and the integration as rapidly as possible while also making all the investments to unlock those markets and get to those rapid free cash flows. So is there opportunity? If we go faster, if we have better success in terms of quicker integration, quicker synergy delivery or outperform some of the assumptions that we put in the model around growth, ARPA, ARPU, there's always a potential that we could come to our Board and ask to initiate something even before 2023.

A - Unidentified Speaker

Excellent. Let's take our next question from Polo Tang from UBS.

Q - Polo Tang {BIO 3059030 <GO>}

I just have 2. So it's clear that you're significantly exceeding expectations in terms of both growth and synergies. But what do you see as the main risks to your medium and longer-term outlook? Is there anything that keeps you awake at night? Is it cable gaining share? Is it DISH building a fourth mobile network? Or is it AT&T and Verizon getting more aggressive? So that's the first question.

And the second question is, you obviously outlined a clear plan in terms of accelerating growth from expansion into rural areas, the B2B market, but also fixed wireless access. Are there any recent data points that you can share to give us an idea of how you're progressing in these new segments?

A - Michael Sievert

Sounds great. Well, I'll start. It's a great question, Polo. The way I think about it is that for me, obviously, we've built this company by being fighters, by playing above our weight, by being scrappy, by running scared, by never resting. You saw some of that philosophy in the video that we ran right before we came on. And look, I think competition is a great thing, as I was saying earlier, as long as we're differentiated. And so the thing that keeps me up at night is making sure that in every time period for the foreseeable future for years to come, T-Mobile is well differentiated in this market for both businesses and consumers. Because that's what allows us to navigate competition and win like we've been doing for years.

As it relates to the specific competition, look, I feel great about our hand of cards. It's never been better. Relative to cable and DISH and smaller companies, we have the scale and we have the advantage of our synergy-backed model, and we have owner economics. It's going to be very hard for much smaller companies to compete with us over the long haul on being the best value, something that our brand is famous for in the United States.

As it relates to our scaled competitors, we have better assets on network. The factor of competition for scaled competitors is network. We're way ahead and with the superior assets and balance sheet to stay ahead. And that allows us to compete on product leadership and network leadership with the scaled competitors. And so look, I feel great about our differentiation potential.

As I said in my first comment, we're going to need to convince the world. Our brand is coming from a place of where we haven't been the network leader, and that's a risk to our business. We've got to convince businesses and consumers that we are the demonstrable network leader in the United States. And we've seen great progress on that. With the percentage of people seeing us as the 5G company more than doubling just in the last six months.

So then the second question that you're asking about is our big growth areas like small town rural, smaller markets, prime suburban families, enterprises, home broadband. And I'd just tell you that all of the signs are looking good for these growing businesses. As you know, we're not starting from scratch.

We declared several years ago a path to move from 230 million to 265 million people covered by our full distribution. And we carved out shares from single digits now up to 13% share in smaller markets. And we're saying in our plan, the one that delivers all this cash flow that we can in five years after a lot of effort, get it all the way to just 20%, just shy of 20%.

And I -- that sounds a little conservative to you. It should. Because, as you know, our national market share is well over 30%, and that includes a giant swath of the country where it's only 13%. So do the math on the balance of the country, especially the big markets where T-Mobile already is the market leader.

So that's a terrific opportunity. Similarly, we're a 10-share in the enterprise space and already growing share at a rate that would allow us to exceed our ambition of being a 20-share in the planning horizon. Our last two quarters were some of the best quarters in our history when it comes to gaining share among enterprises for smartphone adoption. So some terrific early indicators.

Home broadband, as you know, we piloted it for a year in LTE. We just launched it. And the experience that customers are having is fantastic. We look at early on, you're looking at things like remorse rates and Net Promoter Scores and whether or not people are happy with the service. Because that bodes best for whether or not our long-term aspirations are solid.

And the Net Promoter Score has tripled from people who adopted our service versus what they -- the score that they gave their prior providers. So they're very, very happy with what we're serving them in the early going. So those are a few things. And we'll be sure to check in as we announce each quarter and provide some spot reports here and there on how we're doing on these growth trajectories.

A - Unidentified Speaker

All right. Let's move to Steve Malcolm with Redburn. Steve, go ahead.

Q - Stephen Malcolm {BIO 18418112 <GO>}

Yes, a couple. Just on coming back to sort of collective outlook for the industry. I mean I think we all understand your 5G network advantage. But when I look at what you're saying, AT&T is saying, Verizon is saying, you all seem to think you can grow EBITDA in the mid-single digits. Just sort of backing into the AT&T release, it looks like they think they can grow EBITDA 5% to 6%. Do you think that's a credible position for the industry over the next three to four years? And if not, what is the downside of maybe your big competitors failing to hit their targets?

And then just on fixed wireless access. I know it's very early days, but can you maybe help us understand what you think the sort of annual switchers pool in the state is, give us some sort of bottom-up sense of how you get that 7 million or 8 million number, percentage of the gross adds that you have to take to get there, that would be very helpful. I understand the top-down picture, but the bottom-up would be quite interesting.

A - Michael Sievert

Yes. Thanks. Well, first of all, on the home broadband piece, I can't unpack it for you too much other than the fact that if you think about the market that we're addressing, the vast -- a huge swath of the market, a significant minority, in fact, almost half of the market where we're going has no choice. They have one or fewer options in rural America, smaller towns, as it relates to home broadband. And so what we're doing is bringing our model that knows how to compete into these markets. And we're going to be bringing competition and choice for the first time.

And it's important to note that we're ahead of our other wireless competitors in this area. And so think about it this way. When we arrive in town with a viable option that's high quality and lower price, there's suddenly going to be a big market out there. People saying, "Hey, could I save some money?" In a time when the economy is probably telling people to find ways to save money. And at the same time, we're advertising our mobile service and our 5G leadership in their neighborhoods.

Now when our competitors arrive, when Verizon and AT&T arrive later, they have to do more than that. They have to offer something that's better than T-Mobile to be a late entrant. They have to come with a superior point of difference. And they don't have it. They're not going to have that to offer in very many places. And so that shows, I think, the importance of our urgency of getting to these markets quickly with our mid-band strategy.

Now as to your first question, the health of the industry. Listen, I take it as a very good sign that both of our major U.S. scaled network competitors have decided to focus on strategies more similar to T-Mobile's, mid-band-centric, 5G-oriented, focused on the knitting pure-play mobile Internet companies who then say they want to grow their margins. And to me, those are all healthy signs for the industry.

This is a viable profitable industry. It's capital intensive. It's difficult. It's competitive. It's getting better for consumers every year. But it's got players that are now going to be able to -- have no choice but to be focused on the overall profitability of their mobile operations, which is probably a good thing for the ongoing health of the industry. They have no place else to go to make their financial aspirations.

Now the second part of your question, which is asking me to speak to their credibility, listen, I can only speak to our team's credibility and thank you to the last couple of people who gave us some credit for the fact that we do what we say around here. When we say we're going to make 100 million POPs on mid-band 5G by the end of 2020, we get there. When we say we're going to get to 200 million in 2021, we get there. When we say what the financial results are going to be, we go get that done.

And our competitors -- look, what they're doing today is a complete about-face from what they stared at the camera just a month ago and said they were going to do. And so look, I can't speak to their credibility. There's some disarray and some turmoil, it looks like, from the outside.

But what I can say, regardless of their words, which I'm not sure what people are perceiving about the quality of their words right now, regardless of their words, my perception is, they have no choice but to treat this industry as the place that they will drive margins and cash flows. And that's probably overall good for the health of our industry.

A - Unidentified Speaker

All right. Let's take our next question from Ottavio Adorisio with Societe Generale.

Q - Ottavio Adorisio {BIO 2134369 <GO>}

Congratulations on the results. A couple of questions. It's actually both for Peter. The first is a follow-up from shareholder returns, and the second is on the future renewal at tower leases. On the shareholder returns, I didn't hear about the credit rating as a sort of key priorities whenever you decide about the cash distribution. Consider that you are still non-investment grade and in a climate of rising interest rates, could you just tell us if your share buyback to start what is the acceleration will be timed according to an upgrade to investment grade for credit ratings, or that is not a priority.

And the second one is on your renewal of the tower leases. Now T-Mobile does not report net debt with tower obligation included. But Deutsche Telekom does report that under IFRS, and that's required to capitalize all leases. Now I believe that T-Mobile has three to four years left in the tower leases with Crown Castle and SBA Communications. If you renew American Tower lease one or two years before the expiry date, would you plan to renew the Crown Castle and SBA comps within the next two years? And if so, would the impact on tower obligation for T-Mobile be smaller or larger than the $11 billion that you recorded after renewal with AMT?

A - Peter Osvaldik {BIO 18597986 <GO>}

Excellent. Well, thank you for those excellent questions. And one, we are absolutely focused on getting to corporate family investment-grade rating. And that's a priority for us. And this business plan, with the massive unlock of free cash flow and rapid deleveraging where we'll be in the mid-2% core EBITDA leverage range by the end of next year, allows that for us. And we're absolutely taking that as a priority.

You can already see where our secured investment-grade rated notes trade ahead of AT&T even today. So I think the market takes us very seriously. They're very much looking forward to us delivering on the progress, and that's the stepping stone to get to IG. I don't see getting to corporate family IG as the precursor to beginning shareholder returns. It's something we would consider in terms of the timing of that, but they might come very closely together and not necessarily a precursor for us.

On tower leases. So yes, you mentioned and referenced our ATC renewal, which was just an incredible job by Neville and the team to allow us massive flexibility, lock in decreasing escalators in the industry for a significant length of time and generate, most importantly, cash savings from day 1. Yes, there's accounting interpretation of this that puts it on the lease liability. But from a cash savings perspective, it was day one savings.

As it relates to Crown, the priority right now is building this 5G network and giving Neville and his team all the tools necessary and investments necessary to maintain this lead for the duration of the 5G era. And if there's opportunity to do that, that makes economical sense and benefit with Crown, then, of course, we're going to entertain that.

Q - Ottavio Adorisio {BIO 2134369 <GO>}

And the impact of the tower obligation will be larger or smaller because from memory, I think your exposure to Crown and SBA combined, it's larger than the one towards American Towers, at least historically going forward.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yes. I'll tell you, I can't speak to where any sort of negotiations can end up. But I can tell you that just like we approached ATC and just like we approach everything, we're looking towards value creation for this enterprise. Flexibility to maintain the duration of the 5G era the network advantage by giving Neville the flexibility but also creating economic advantage for our shareholders. Where that ultimately ends up in terms of a magnitude and when, it's hard for me to predict right now. But those are going to be the fundamental drivers for any decision that we make.

A - Unidentified Speaker

All right. Let's take next question from Akhil Dattani from JPMorgan.

Q - Akhil Dattani {BIO 7190509 <GO>}

I've got 2, please, if I may. The first one, obviously, we've talked a lot about your accelerating cash generation and the $60 billion buyback potential that you have. And maybe just wanting to address that question another way, which is, obviously, there is accretion and value to be created by buying back stock. But potentially, that money could also be used to accelerate growth or find new other opportunities to create value. So I just wondered if you could talk about that trade-off. Are there other areas of opportunity for growth that you can think of? Where else could you spend that money if we think about alternative uses of cash? So that's the first one.

And then the second one is, sitting here in Europe, we always struggle with the belief of CapEx going down a lot long term. European telcos haven't had the best track record on that front. You've obviously got a very nice message around CapEx, spending out $9 billion to $10 billion long term. Can you just talk us through how we get confidence that CapEx can reduce to those sorts of levels long term.

A - Michael Sievert

Yes. I'll start and then maybe ask Peter to comment because your two questions are kind of related to each other. First of all, this business plan that we have crafted is a growth plan for the duration of our planning period and beyond. So it includes the investments that we need to make in order to continue growing after the planning period. And that's different than I think some business plans out there look like. And so in the out years, these $9 billion to $10 billion in CapEx are what we believe we need to have a viable competitive network on the back of years of building on a superior asset base in order to be able to continue to grow.

And the delivery of significant cash flows that gives us the potential for share buybacks is net of investments that we would make in ongoing growth. Now that's not to say that there might not be trade-offs as it relates to the growth that we have and potential greater growth opportunities that could come instead of those returns. And so it's important to understand that as we go along, we'll be looking at opportunities. And if there are great opportunities that accelerate our long-term potential, we'll trade that off, and we'll be very transparent as we do that.

A - Peter Osvaldik {BIO 18597986 <GO>}

Absolutely, Mike. I couldn't agree more. It's going to be looking at that point in time as to what are the opportunities in front of us to create the maximum shareholder value. But what's equally exciting, as you stated, is the magnitude of free cash flow that this plan delivers, not only from 2023 to 2025 of the $60 billion, but beyond into the long term that continues. So you have a lot of room with free cash flow generation to make the right trade-offs and decisions and maximize shareholder value, not only in the midterm like we're doing, but also into the longer term.

On CapEx, one of the beauties of the scale that we've been able to accomplish with new T-Mobile is Neville and team have been able to successfully go out and create procurement arrangements with some of the largest OEMs. And we are building faster in terms of the network build than anybody has in this country before. And that pace is what we're doing to build $11.7 billion to $12 billion in CapEx annually.

So you can think about, as this massive network build completes, then it's rational that you would have a lower step down in CapEx. And the beauty is that those procurement synergies that we've been able to deliver on with the scale are what drive not only today the ability to build this network at such a rapid pace with the CapEx that we're actually doing, which is significantly less than our competition, but also then allows that step down.

A - Unidentified Speaker

All right. Let's wrap up our final question with our host today. Thank you again for having us. Tim, go ahead with your questions.

A - Timotheus Höttges

Look. First, what I want to say is, guys, we got everything recorded what you said, you sounded very bullish. Peter, I got your payback starting 2022. So here we go. Everything is recorded. So that's -- thank you. Guys, we want to say thank you for an outstanding performance and a great partnership with you -- we have with you guys over the last years. Thank you for your great friendship and what you delivered, including the pandemia management that was outstanding in the 10 million campaigns.

There's one thing what I want to say, guys. You have to work on your outfit. Now the Germans are looking cooler than you guys. We are differentiating.

Mike, you have to work on the differentiation. You know that.

A - Michael Sievert

That's fantastic. I guess cool is in the eye of the beholder.

A - Timotheus Höttges

But we are definitely cooler than you guys. Keep on running, guys. It's great working with you. It's fantastic -- the results.

Good luck with the upcoming months. We'll see you soon.

A - Michael Sievert

It's great to see you guys today. Thanks for having us. And great day, great first day to capital markets. I hope to see you guys soon.

A - Timotheus Höttges

Thank you. Bye-bye.

A - Hannes Wittig {BIO 4033762 <GO>}

So thank you everyone, for bearing with us.

I think -- I hope you had a good first half of our Capital Markets Day, 2021 Capital Markets Day.

So in terms of organization, tomorrow, we start again. We start at 11 in the morning. The presentations for tomorrow -- that's CET. The presentations will be available from 7:00 a.m. CET, so 6 GMT. And Claudia, tomorrow will take us -- Claudia Nemat will take us into the engine room or I would call it maybe the cloud, rather.

In any case, it's stuff for the dreams/ Here we go.

So look forward to welcoming you back tomorrow.

Thank you very much.

Capital Markets Day - Day 2

Company Participants

- Adel Al-Saleh, Member of the Board of Management
- Christian P. Illek, Chief Financial Officer, Member of the Management Board
- Claudia Nemat, Member of the Management Board, Responsible for Technology and Innovation
- Hannes Wittig, Head-Investor Relations
- Srinivasan Gopalan, Member of the Management Board and Responsible for Europe
- Thorsten Langheim, Member of the Deutsche Telekom AG Board of Management, USA and Group Development
- Timotheus Hoettges, Chairman of the Management Board, Chief Executive Officer

Other Participants

- Akhil Dattani
- Analyst
- Andrew Lee
- Georgios Ierodiaconou
- Jacob Lundberg
- James Ratzer
- Joshua Andrew Mills
- Ottavio Adorisio
- Polo Tang
- Robert Grindle
- Steve Malcolm
- Ulrich Rathe
- Usman Ghazi

Presentation

Hannes Wittig {BIO 4033762 <GO>}

Okay, hello everyone. Good morning. I hope you have recovered from our first half day of presentation yesterday. You're ready and eager to take the second installment today. To wake you up, we showed you a -- we gave you Billie Eilish. And I'll tell you from here, it's going to get even better. So can I please first refer you to our usual disclaimer?

Let's move on, once you've seen that and what do we have for you today. So as I said, it gets better, we'll start with Claudia Nemat and Technology, IT and all that stuff that is hard to understand, but it really matters. When I was an analyst, I had no idea how important this is and Claudia will show you where we are on all the backward stuff digitization, cloudification, all around all this stuff. I'm glad to say, we are right there. We got the nerves, we got the PhDs, we got the guys from Bangalore and we got the board and the self-learning one. So let's get cloudified with Claudia.

Claudia Nemat?

Claudia Nemat {BIO 17332462 <GO>}

Thank you, Hannes. A wonderful good morning. It's great to digitally meet you. I hope you are all fine and healthy. For me, it is actually my fourth Capital Market Day so special greetings to all of you who have joined us throughout the last decade.

My summary, we actually delivered our CMD promises from 2018. We successfully implemented our superior production model. Meaning, we completed our all IP migration with clear benefits regarding customer experience, cost savings and resilience. We did a very rigorous IT transformation with significant benefits, regarding speed, stability and cost containment, and we further enhanced our integrated network leadership in Germany and Europe and our perception as the 5G company in United States with clear business benefits.

Going forward, we will evolve from a leading telco to an experienced obsessed tech player and that means precisely five things. Number one, we are moving to a high degree of network automation, hyperscalar like regarding speed, but telco grade regarding security and reliability.

On the basis of our increasingly cloud native infrastructures and over time disaggregated networks, for lower costs and better experience. Number two, in addition to the digitization of our networks, we continue to digitalize the entire value shape, sales, service, G&A. For better experience and lower cost to achieve that we built on the software and data capabilities of our people.

Number three, our integrated network leadership will continue to deliver key business benefits. We are committed to 5G leadership in Germany, Europe, and the U.S. and to fiber in Germany and Europe.

Number four, to support our ambitious climate targets and to offset by the way, the massive volume increase in our networks. We commit to double energy efficiency in our network production by 2024. And number five, experienced obsession. As Srini said (inaudible) guides our consumer innovation. We focus on products and experiences that leverage our superior networks.

Coming to my review. We completed our all IP migration with clear benefits precisely. In Germany, the IP migration was the necessary basis for broadband availability at scale. As a result, we have today 10 million households with speeds above 250 Mbps. Those are our top super vectoring lines plus fiber households.

In both Germany and Europe, it was the basis for plug and play for all our customers. Today to take the router, plug it into the wall and it works here you go, it works immediately. As a result, the activation incidents in Germany went down by 40%. And the annual cost savings we achieved in 2020, mount up to EUR100 million. They are by the way, the result mainly of our ATM platform shutdowns, leading to energy savings, to make that tangible. When we shut down, the ATM platform in Germany in Q3 last year, we saved in the subsequent quarter, the annual energy consumption of the City of Cologne in just one quarter.

Last but not least, I would add that without the IP migration, we would not have mastered the COVID crisis so well. Our networks are stable and safe. in spite of massive volume increases. For example, plus 300% in video conferences. The IP migration with V digitization project of the previous decade.

Now you might ask what is different at DTE compared to other telcos. Two things. Number one, we did it. We did it 100% and that is not the case in UK, Spain, France, or Italy. And number two, in Germany, we did it together with a massive simplification of our aggregation network, the so-called P&G migration which is the basis for further automation.

Second, as I said, we did a super rigorous IT transformation. What is behind that? We actually fundamentally changed the way we work. IT and business from us to them to joint teams with joint targets. We radically changed the way we develop software, from having only four so-called release containers per year with very time consuming linear planning, testing, developing, planning, developing, testing, and zero flexibility to a highly adaptive process.

Today, 70% of more features at workload are delivered outside reuse containers and that means we can flexibly adapt to market requirements, and 80% with agile methodologies. Overall with that, as you can see here, we reduced our time to market from 18 months to 3.5 months. And with that we over achieved the promise which I gave three years ago. The event target was 6 months, not 3.5 months. So, for us for IT speed is key. Why? To reduce waste for lower costs and better experience.

Now in addition to that, major speed increase, we also, as you can see here doubled. We doubled the stability of our systems, while at the same time, reduced the IT spend by EUR200 million. How did we do that? We moved away from silos for example redevelopment here at operations, to a modern depth of setup. Making sure that operations requirements are being dealt with from the very beginning for less operational incidents and lower cost.

We moved away from hierarchies and taylorisms to skill based organizations with relevant investments in future proven capabilities of our people around the world. And finally, we moved away from deeply coupled architectures to decoupling architecture with modern APIs and microservices. We consider this level of change and speed increase industry-leading, from my point of view, it is how we do things that differentiates us. And for us that is the avenue to becoming a modern tech company.

The third point of the superior production model was our integrated network leadership. In Germany, we want all relevant tests, among others, the mobile connect test, the 5G chip test and the 5G innovation award. Our mobile and fixed network perception is 23 percentage point better than the one of the next best competitor.

With the population coverage of 80% for 5G, I would say, we are miles. We are just miles ahead of competition. And by the way, that is not only the result of superior spectrum position. Our superfast rollout is also the result of technology foresight. For example, we were the first operator worldwide to pilot dynamic spectrum sharing, required for superfast rollout, and we were among the first operators in the world to commercialize that.

In Europe, we are number one in network perception in 8 out of 10 markets. And our network in the Netherlands was even ranked the best mobile network in the world. T-Mobile's perception as the 5G company in United States has increased by 100% since Q3 2019 and all of that together manifests our belief in superior networks.

Superior networks are the key ingredient for our valuable brands, for our commercial strengths, and upside going forward. In summary, we delivered, as you can see here with the dominance of the green color. Srini and I ranked the ramp up of the cyber rollout in Germany with the yellow traffic light. The reason is that we have a shift, the planned roll out speed only or we will achieve the planned rollout speed only in the last quarter of that year, ramping up to the full fiber -- 2 million fiber households slightly later than expected.

Coming to the strategy going forward. As I said, we are very successful telco, a leading tackle. We have a superior production model. We are crisis resilient. We have invested into future proven capabilities like modern DevOps. But, being a leading telco might not be enough. Like, being a leading automotive company is no longer enough.

In today's software driven world that might put you into the role of the one eye among the blind and that is not our ambition. We are redefining ourselves. We are redefining the root of our industry to become an experienced obsessed tech player, a tech company obsessed with the experience (inaudible) of our customers. And precisely that means five things. We double down our efforts of network automation cloudification and disaggregation. We will double down our digitization efforts along the entire value chain, leveraging what we have and the data and software capabilities of our people.

Number four, we will enhance our integrated network leadership story numbers on the basis of fiber and 5G. We will double our efforts on energy efficient production. And we will focus on experienced innovation, best connectivity experience, seamless interplay at home and focused innovations beyond the core.

And I will now go into point number one, network automation. Historically, automation was like this. We analyze the process, took out a few steps and then quoted the result into software. Usually the speed gains you get amount to 20% 50%, 100%. Our new software driven approach for network automation helps a far more significant impact on speed. It was applied first for our new voice production platform next generation IMF in Germany, which is by the way a multi-vendor platform, open, fully automated and running out of the cloud. So what, so what is this cloud-based automation has significant impact on speed. That's what I call hyperscalar-like but telco operate security wise.

Practically the introduction of a new product feature takes three months compared to 18 months before, you see, I pursue similar ideas in network technology SNIT. We moved from 90 days for rolling out a software feature into the network to only two days and fixing it back takes no longer 14 days, but only one day. And finally, no night shifts are required. In June, 1 million fixed voice customers are live in Germany. By the way, our ambition is to have all voice and mobile customers in Germany and in Europe, on one, just one automation framework and at least 50% of our data customers on one cloudified platform by 2024. Automated production will contribute to achieving our cost targets. Can I have the video on NIMS please?

(Audio-Video Presentation)

So here is another example, automated fiber planning. Historically, fiber planning included many manual processes and most maps existed only at analog or in scan formats, plus super complex interactions with municipalities.

And as a result, planning a typical fiber area took on average 25 days. At the last Capital Market Day, I showed you our demo for what was back then a pilot for a new fully automated fiber planning system. We actually digitized the maps, and the applications for the municipalities, and we use street cars, like you see here driving around and taking 360-degree pictures of surfaces and obstacles.

And then these pictures are analyzed in a PowerPoint cloud by algorithms and deliver a passive fiber planning. And on that that basis, the planning time of the same average area got reduced from 25 to 5 days. Today, the system is deployed in 75% of all new areas.

So it's up and running and ready for scaling. Needless to say that it is one out of many contributors to reducing our fiber unit cost by 25% until 2024. And for sure, it's one of the necessary conditions for doing the fiber rollout so fast.

Okay. Now let's go to another aspect networks this application. Historically, we have acquired large systems. In the future, the systems will be smaller, and soft and hardware gets decoupled, making hardware much cheaper, because we can use standard hardware. One well known example is ORAN, open radio access networks what you can see here. In our today's single radio access network, the radio unit on top of the antenna pole and the basement unit down in the grey box, all need to come from the same vendors. The stuff within the BBU comes from the same vendor 2G, 3G, 4G and 5G and all antennas in one area. The advantage, high spectrum efficiency and high performance, the disadvantage, limited choice and higher TCO. That topic is being addressed in ORAN.

Now, all of these components I mentioned can come from different vendors. On top, we deploy software on a standard hardware wreck, this spend can look like that. That's an ORAN basement unit. You see standard hardware wrecks and software deployed on that.

The advantage more choice, lower TCO. The challenge for the industry, end-to-end integration, and automation. And I will now explain you back on phase how we are addressing that.

So, as I said end-to-end integration automation. So Deutsche Telekom was actually the first operate in Europe to set up, and open tests and integration lab in Berlin to test and operate exactly that end-to-end testing and integration, that is by the way open for all suppliers and our competitors. And in addition, in the second half of this year, we intend to start ORAN town around Neubrandenburg which will deploy ORAN technology to actually tested in our real and our productive network.

But disaggregation does not only happen in the mobile access, also in fixed. We call that 4.0x, 4.0. Based on the application network simplification, we did together with the IP transformation in Germany and that's the simplification of the aggregation network was the result of the way we did the IP transformation in Germany, which is by the way another differentiator.

And based on that, we created a fully disaggregated edge cloud simplified fixed broadband access. As a pilot, it is live by the way the world's first fixed disaggregated access live. And the next step of course is work with the industry ecosystem to adopt those principles.

In a nutshell, we are prepared. We have the capabilities in place to get it done as soon as the technology and the ecosystem matures. What I assume with regard to ORAN in the next two to five years to happen. But we are not only digitizing the network, but the entire value chain and that chart shows two examples. One is our easy fiber ORAN and configuring and provisioning system for our customers. With the previous legacy IT it took seven super cumbersome interactions for the customers to order fiber collection. Now only two very intuitive and easy ones are required.

That system is cloud-based for our channels and next year, the complete fiber rollout will be processed throughout this platform, which is another contributor for the speedy fiber rollout Srini mentioned. The other example here on the chart is our award-winning bot Frag Magenta. The digital assistant that supports our services organization through automation. By now more than 2 million issues were solved and its independent solution rate without human help is 37%.

Srini pointed it out in his speech, our belief is to combine human service with digitalization. AI and ML advanced augmented. And our ambition is to have all service interactions augmented by AI or algorithms by 2025.

And again, as I explained before, this is based on our industry leading IT in terms of speed, flexibility, and stability. And now our ambition is to move one step further and create a world-class IT. And that means that we will move to a very high degree of truly crowd native infrastructure, 80% in IT and 55% for NT across Germany and Europe. Plus we will massively increase APIs at microservices which means further decoupling the architecture, and we will of course retire. And if you express that in KPIs, we will further increase -- decrease, sorry, decrease time-to-market down to two months with 100% agile working, stability will further increase and the IT spend will go down by at least another EUR200 million which is a most significant contributor to the message Srini gave, fiber rollout self-funded. And why can we do that? Because we are driving a capability and cultural transformation. Let me explain how we work.

Traditional corporate thinking oscillates between centralization bias to capture synergy and decentralization bias to realize speed. I'm a fan of speed and experience focus. In other words, decentral accountabilities. On the other hand, for those of you who got educated in the software rather in the telco industry, it's totally clear that you need economies of skill and scale when you want to get done the stuff I mentioned like the scaling automation platforms, there's really no way, no way to reinvent the wheel for that in every country in every location if you want to get it done. And our solution is a modern chapter tribe organization, which actually combines the best of both worlds. All IT, NT and product, people work totally decentral with the businesses, for example, on the automated fiber planning or on the gigabit delivery system on the 5G roll out.

At the same time, every human being here in technology and innovation is part of the global skill chapter. For example, for software engineers, network engineers, data scientists or AI specialist, and the purpose of those chapters is to make sure to really make sure that everyone has her or his individual skill journey. And at the same time to make sure that we have the right number of people with the right number of capabilities in place from a global perspective because that goes across Europe, Germany, Russia and India.

Today we have by the way in my bot area 2,800 people with skills like software engineering, DevOps, data scientists or modern architecture skills, that's 23%. And as you can see here on that slide that number will go up at least to 45% by 2024.

Coming to the point number three. We will remain network experience leader. Now Srini and Dominique talked about our ambition for 5G and for fiber. And Mike and Neville about T-Mobile U.S. So I will not repeat that.

I just want to say to bridge the link to Tim's presentation, that in addition to our ambition of being the 5G and fiber enabled technology experience in product innovation leader, we will also make sure always that we use our toolbox of best access technology combinations our own as well as third parties. And that will include 4G, 5G hybrid routers or indoor repeaters. But it could also include broadband satellite connection for global IoT.

So coming back to 5G. A couple of years ago, and you know that, the tech industry hyped 5G as the solution to everything, including world hunger. And then a few years later, the finance and analyst community challenged 5G as a driver for growth. Now our conviction is -- my conviction is, we are convinced by 5G. We are convinced by the comprehensive benefit of 5G. And I have summarized them on this slide.

First of all, following up on what Dominique and Srini said, 5G is the basis for up and cross-selling in the consumer area. Number two, 5G is a key enabler for B2B differentiation upside potential. By the way, together with IoT, edge cloud and network slicing.

The letter being made available to enter an orchestration in 5G standalone. But network slices could deliver the latency slides for those who want to operate drones over their compass networks or IoT slides, if you have massive sensors. Another advantage is 5G has a higher capital efficiency than 4G only. We assume that the CapEx per top speed will go down by 40% by 2024 per mbps. Another aspect the 3G shutdown, together with 5G is one contributor to our energy efficiency. And last but not least, there's the topic of fixed wireless access mainly relevant in United States and Europe. And I would say, let's listen to our customers.

(Audio Video Presentation)

Okay. Coming to the next topic green. What is pretty obvious? Our society's path to carbon neutrality and waste reduction will be entirely impossible without digital technologies. And Deutsche Telekom is an important enabler. The COVID crisis showed video conferences reduce travel significant, and an individual transportation is a super major contributor to CO2 emissions. Digital technologies enable a more diligent usage of natural resources in agriculture, digital technologies are necessary to detect and reduce waste and CO2 footprints in logistical chains. And they are the basis for smart electricity grids and for smart homes.

So, super, nevertheless as an industry, we need to look at our own emissions as well. And as Tim pointed out yesterday, we commit to be carbon neutral regarding our own emissions, Scope 1 and 2 by 2025. Already this year, we will use around the entire globe, Mike mentioned that as well, electricity from only renewable sources. For your info, electricity accounts for around 85% of our emissions, meaning in our own emissions we have moved a big step ahead. We also commit to be CO2 neutral in Scope 3, so for our supply chain latest by 2040, but -- and for me that is very important. We have started to put major emphasis on this carbon footprint energy efficiency and waste avoidance in all our RFPs with our vendors.

Our challenge, electricity, including green electricity by the way is of course, also a cost factor. And the data volume growth for all of us, we assume by at least 25% per annum and to offset this volume increase, so to keep our energy consumption stable. To keep our energy consumption stable, we will double our energy efficiency by 2024.

Energy efficiency being defined as the ratio between the gigabits you produce and the watt hours needed to produce them. What are the key levers to do that? One big lever retirement. I talked about ATM, SDH will come next or Srini mentioned 3G and other levers are things like network site sharing or again using algorithms, and AI to do for instance a smart steering with the antennas with the scheduler.

Another point are more efficient data centers, and of course the copper to fiber migration. So that is our plan. Doubling down on energy efficiency to keep the consumption stable, to move credibly along the green path.

My last point is about the consumer experiences. (inaudible) Delightful home experiences are of course based on our best networks, and we focus on three experiences. Of course the best connectivity experience anywhere, a seamless interplay of all our products, Magenta TV, Magenta Smart Home, Magenta Gaming, the apps for the telecom routers or Hallo Magenta. And in a very focused manner we innovate beyond the core for example, our Magenta Gaming offering on the cloud gaming platform.

For better experience we focus on three enablers, Voicification, again Big Data and AI and Service Orchestration. So that's the summary. And let me explain what is behind that on that chart. First experience, best connectivity.

Our customers expect that they have a stable and fast connection anywhere in their home or in the office like at the curb. The reality is often different. A typical problem of the telco industry. In spite of having a super fiber or super vectoring line connection might have issues. Why?

Because, the customer uses the wrong router for her or his access line. He or she might have put the router at the wrong place. I visited many homes and you wouldn't wonder very often, I found it behind the fish tank or at the bookshelf. Sometimes the cabling in the house is outdated as is the access point and Also, we have the phenomenon that the interferences of the neighboring Wi-Fis disturb.

Obviously, there are some non-technical solutions to that challenge which is that our sales and service people convince our customers to take the right routers in the first place. Now, other more automated solutions require a different technology, more precisely a new router operating logic. What does it do? Again, it decouples software and hardware. So, you see that's also my best topic here. And, it does real-time analysis of the connectivity data, again based on algorithms and AI. And then as a result, you can support the customer with automated sales installment manage Wi-Fi placement tool or -- and that's what we're currently doing in Croatia, the router to this automatically the best channel and it also supports predictive maintenance for our service.

Today, we have in Europe 1 million customers who got this new router operating system, and our ambition is to enable 75% of the entire Deutsche Telekom router base in Germany and in Europe. We set new logic, first or second generation until 2024.

Next topic, experience the seamless interplay. Our customers expect, super, super simple and intuitive onboarding upgrading and operating of any new devices. My personal benchmark is the Apple experience from one mode of item goes really seamless. Now to get that done, we've built a new API first orchestration layer that exists between the different services and devices.

And with that, you can, for example, on your TV screen show the QR code of your home Wi-Fi to the kids of your -- friends of your children or you can get my mother called notification on the screen or on the TV screen that someone is ringing at the door.

So, our ambition is, by the way, it's been rolled out this year, with already today 200,000 engaged customers on our smart home offering. And our ambition is to have 90% of our customer base across Germany and Europe enable with that. And last but not least, our Voicification platform, the idea is not to compete against OTTs but the objective is to voicify all our services and our ambition is by 2024 to have all DTE services voice-enabled. But let us have a look at the homes of our customers.

(Audio-Video Presentation)

To sum it up, here you can see our midterm ambition level. It's a commitment to fiber rollout in Germany and Europe, a commitment to enhancing 5G leadership, a commitment to enhancing customer experience and innovation leadership. On value transformations, our commitment on cloudification, superfast time to market, share of agile 100%, IT spend reduction by at least EUR200 million. And as I said, keep the energy consumption stable. Now Hannes before I come to you allow me one final remark.

I believe what really differentiates us is the way how we do things and why? And I want to share with you my, why? I have this ambition to transform us as I said before into an experience obsessed tech player, which means a tech more than a telco company, and it means being truly human centric (inaudible) investing into digital capabilities of our people, turn shareholders to fence and increase shareholder value. And by the way not to forget have trusted relationships with our technology partners within this fragile world of impacted global supply chains is also a real differentiator.

And last but not least, for me it means also to be responsible digitally and socially. I call that human centered technology. And for me personally, it's the reason why I love to be here in this management team, get up every morning and try to make it even better for all the stakeholders, all the human beings out there.

Hannes Wittig {BIO 4033762 <GO>}

Lovely. That was -- it's a great vision and it's not just a vision, I mean it's becoming very tangible for our customers with the help of the great teams that we've got together. So we've got time for I think about for Q&A people, 15 minutes start with Usman. Usman from Berenberg. Good to see you again.

Questions And Answers

A - Hannes Wittig {BIO 4033762 <GO>}

(Question And Answer)

Q - Usman Ghazi {BIO 15041671 <GO>}

Hey, thank you very much. I've just got one clarification, and then two questions, please. The clarification I was seeking was in the final slide you show the percentage of cloudified production. I mean, is this showing the data the amount of data that you're looking to put on cloud networks and if so, I mean, are these public or private clouds that you're referring to? So, that was the first question.

The second question was just on the statistic that you gave in one of the other presentations on the 40% reduction in the cost per peak throughput. And I was just wondering that seems a bit conservative given you have 5x more spectrum in 5G with -- you have 4x more structure efficiency with massive MIMO. So I mean, other operators have spoken more like a 90% cost per bit kind of reduction going into 5G, so your comments there would be interesting.

And then my final question was, just on becoming more of a software company as opposed to focusing on connectivity. Could you share with us perhaps what proportion of your network functions have been virtualized today? Where you expect that to get to and on software developers? Are you seeing that this is an issue when it comes to hiring this kind of talent when there's already a lot of competition for it? Thank you.

A - Claudia Nemat {BIO 17332462 <GO>}

Okay. So I start with question one, it is It is indeed our workload, 80% of our workload in IT internationally and 55% in the network workload. And it is a combination of part of public cloud and also private cloud and especially in the IT arena we are working intensively we're collaborating with the hyperscalars on that one.

So, second question. Okay. Good. So what I said is, by 2024 to produce 1 gigabit per second. Yeah. So for top speed, it's a relative number. We will have that efficiency. And by the way this has a number of contributors. As you are referring to massive MIMO versus the normal antennas to just give you a flavor. If you look just at the 32 times, 32 massive MIMO antenna deployed on 3.6 gigahertz, compared to 2.2 4G, 5G traditional antenna, you will find that the power used is twice as high. But when you look at that antenna in relative terms, it is around about 20%. And as I said, it is one contributor, it's not only about this active element, this is actually I think how you need to read it. So the last question was --

A - Hannes Wittig {BIO 4033762 <GO>}

I would say it's also the five times spectrum efficiency seems like a big number, yes--

A - Claudia Nemat {BIO 17332462 <GO>}

Absolutely. You could at that. Let me see the last question was around the cloudification. Yeah, one the voice and data platforms, which I mentioned we intend to actually use that automation framework as the cloudify platform for all our customers until 2024. Today it's 1 million customers. But the biggest as you know, cost item is in the access network, fixed access network and mobile access network.

And here, as I also mentioned before, technology is not yet mature. We expect it to mature in the next two to five years and then if you wish, so the excess part of the network will be cloudified as well. Yeah, so the cloudfication happens together with the disaggregation and the further automation.

Yes, you had another question on, is it difficult to get people? Yes and no. You see, I'm actually extremely proud of having a few super gigs from across the world. So obviously, we are very attractive to get talent whether it's from South Korea, from Africa, also from the United States. So, I'm super proud actually of my very international team and of people who are real gigs. Having said that, I also strongly believe when you look at the mass of people that in addition to hiring we need to invest for social and financial reasons also in the capability building of our both network and software engineers. So we pursue an approach where we combine that.

A - Hannes Wittig {BIO 4033762 <GO>}

Very good. So the next question then. Thank you Usma -- is from Ulrich at Jefferies. Hi, Ulrich.

Q - Ulrich Rathe {BIO 17059015 <GO>}

Yes, thanks very much. I have three shorter questions if I may. First one is, I'm interested in the comparison of how you see DTE positioned within the industry? Where is DTE ahead where is behind? I suppose your choice of topics probably tells us where you think DTE is ahead. So the question really, is where might would be behind or where is the opportunity relative to your peers?

The second question is on ORAN you mentioned that. I suppose it's a difficult question to answer simply but how far is ORAN for mass deployment at DTE. How many years? And my last question is a bit philosophical, but I mean every, I mean much of the efficiency gains in your area come from taking our complexity which has been layered on in cars technology side because I suppose, that seems to be a bit of a hamster wheel. Is there any reason to expect that this hamster wheel slows down with a current technology cycle? So that in five years' time we're not going to talk about delayering whatever has been added on in 2021, this is what I mean. Thank you.

A - Claudia Nemat {BIO 17332462 <GO>}

Okay. So I start with where we are ahead and where do I see upside potential I hope I made clear that when it comes to our 5G positioning in Germany and Europe and you heard yesterday the U.S. team, and honestly I see competition miles behind us. And I can ensure you one thing, we will make sure that this remains like that in any dimension. If you talk about scope, if you talk about fiber backhauling, if you talk about the top speed, we're number one. And by the way also in our ambition to be integrated network leadership and you see it from the customer feedback and the results also in the network.

Also, I would say, and I mentioned that in my talk, we have really an advantage, Srini called it tailwind for having completed the IP migration, because without having done that you run into intrinsic complexity. For example, the next level of automation and disaggregation which I mentioned for the fixed line network, when you want to virtualize that and use different vendors with lower hardware cost requires a level of simplification, and we really did it 100%. And we did it together with that access disaggregation here. And also based on some of the topics which I mentioned the leverage of AI in fiber planning, and the that very radical approach to automation on our platform, I think enables us in the future to capture the potential because, I would view it if I were you like this we have proven this, and now we are scaling. And because our ability to scale, we are able to execute, for example on what Srini said fiber upscale self-funded. So that is the scaling opportunity.

On IT to be honest, I think we are really industry-leading when it comes to radicality of transformation, capability, stability and speed. We are not world-class when it comes to cost, we are actually in the third quartile. So on the upper third quartile and that is also an upside potential, which I laid out here in the presentation.

And on the digitization front and Srini and Dominique talked about it. I think we are also very good way with our bot firm, with the Magenta bot and the one, it's yes. So I see us honestly in multiple dimensions, but because we have proven it with exactly that upside potential to get it done as for the different level of automation.

Now ORAN, I think ORAN the question is, when is it matured for leading operator like us and some others. And my time estimation is in the next two to five years. But what can -- what I also want to say here, it will be a relevant component in the next request for proposal when it comes to the network modernization in Germany.

So, and the last question, complexity, hamster wheel --

A - Hannes Wittig {BIO 4033762 <GO>}

Yeah. Whether there is just another installment of a regular cycle or whether we are talking about something that is a structural change at let's say in last for give us more stability.

A - Claudia Nemat {BIO 17332462 <GO>}

So honestly I believe once you went through the decoupling and the micro services APIs, and this high degree of cloudification, which forces you to automate. You have actually achieved very strong level of simplification and then you can decide on what areas you put your additional investments.

So I see it's more evolutionary. But maybe more and more than just the historic automation projects, where you always take out the next complexity and as you go.

A - Hannes Wittig {BIO 4033762 <GO>}

Okay. So next you have -- thank you, Ulrich. And next, we have James, New Street. Hi James.

Q - James Ratzer {BIO 2442169 <GO>}

Yeah. Good morning and thank you, Hannes, and good morning, Claudia and thank you for taking the question. So I've got two questions please, Claudia. The first one was going back to the slide where you talked about the comprehensive benefits from 5G. And in particular, I'm really interested in the point you made around higher CapEx efficiency business interesting to kind of just dig into that a little bit more. What are your plans within Deutsche Telecom for further densification of your macro sell grid? I mean, do you think that's actually needed at all, given some of the efficiencies that come through with 5G? I hope Srini yesterday talked a little bit about small cell build plans in Germany as well. So if you could kind of layer thoughts around that into the answer to please?

And then the second question I had just was very interested in the developments in the private campus network space and B2B. Could you talk a little bit about how you actually see the competitive environment there? How does Deutsche Telekom has an advantage there? Do you see competition in particular from non-MNO players who can maybe you share 5G spectrum to compete in that area? Thank you.

A - Claudia Nemat {BIO 17332462 <GO>}

Okay. Thank you for the question. I come to the first one on the marco and small cells.

So 5G probably does not require network densification. Now the volume increased in some areas potentially, yes. So we assume that 5G deployment will kick in around 2023, 2024 and it will really depend on deployment of our macro networks.

The German team for example assumes to have a few thousand small cells in addition to the macro cells in place by 2024. Then the next question was around the campus network. Campus network private versus public. What we actually see with our customers different horses for different courses. There's a number of customers who want to have a combination of public and private or only public.

For example, what you saw in the video, to speak campus network at the University Hospital was actually based on a public network and why is that? Because the customers want to also have mobility use cases which move beyond the boundaries of the campus networks. Yeah. And so therefore we see a need for public campus network solutions or combined ones.

Now in Germany as you see, we have the very specific situation that private spectrum was granted. But what we see that 60% of those who ask for that private spectrum are basically universities or research institutions or certain manufacturers. For the other 40% who apply for these frequencies. I assume a combination of Deutsche Telekom together with vendors will do it.

Now your question was also, how are we positioned against others? So feedback, we get actually very well. In particular when you think about that combination of campus IoT connectivity and edge cloud, I also need to say that I believe as of today the market is still in an early stage and will probably take up the moment the full benefits of network slicing come live.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Just also maybe to add on the first question, we had a lot of densification network densification last few years. We extended our site footprint or will have extended by the end of this year by about 6,000 sites in German lot of that was actually densification. So we have a very strong grid right now.

Next, thanks, James. See you soon. Next is from Robert at Deutsche Bank.

Q - Robert Grindle {BIO 1840555 <GO>}

Thank you very much. Thank you. I would like to follow up on open ORAN with Claudia for me. Some people think that the complexity of multiple interfaces for multiple vendors within an ORAN environment will leave you as dependent on a few specialists aggregators.

In the same way you are dependent on a few mobile equipment vendors today. Do you think that's a risk for Deutsche Telekom or is it an advantage perhaps where you guys can manage the complexity yourselves? Whereas smaller players may struggle. And a quicker size is can open LAN be as green as conventional technology or do you think there was a trade-off there? Thanks.

A - Claudia Nemat {BIO 17332462 <GO>}

So Robert, great question. So first of all, I think it's going to be very difficult for smaller telcos. I think it's an advantage for us. Having said that, I view the word not evolving to best of breed and then being dependent on just one integrator, but rather best of suite.

I expect certain ecosystems to avoid on certain pre-configurations, I believe also if you want to capture the full TCO benefit, you -- as a telco you will not go into software development so don't be scared. We are not going to develop a network, virtualized network functions, but you need to have certain network integration capabilities in place. And I think I showed on one of my slides, we have that, based on the work we did with Access 4.0 and ORAN. So I believe actually it is an advantage.

But in the end, it will not be a case where totally disconnected components gets acquired, and then all the TCO gaining you have you waste by spending all the money for an integrator. And it must be. So our view is, yes. So there is when you really get the end-to-end automation done. And honestly from a technical perspective, I don't see any reason why not to do it.

What prevents progress from happening is, of course, the ability to capture value in the old expensive hardware systems. So I don't see any technical reason with the end-to-end automation why ORAN shouldn't be as green as single LAN you're right today it's not yet. And this is why I said we still need to solve to some of these technical challenges.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. And thank you Robert. And the last question is for this round is from Andrew at Goldman Sachs.

Q - Andrew Lee {BIO 15121310 <GO>}

Yeah. Hi thanks. Thanks very much for the presentation. It's really helpful in terms of understanding new technologies, new progress. What I'm still struggling a little bit with is just how your mobile network will stack up versus your peers by 2024. It's really hard to kind of get a real sentence on specifics in terms of how you're going to look.

So it was heard mostly that they're going to get to around 35,000 towers by mid-2020s with similar spectrum per customer to you. Vodafone we know is going to have around 35,000 towers but with more spectrum per customer to you. I am not really sure on where the fiber backhaul differences are between. So the question really is, where will you end up on number of towers in your 2024 plan? Will you need more additional spectrum versus your peers and ultimately will you increase or see a reduction in your network superiority versus peers.

A - Claudia Nemat {BIO 17332462 <GO>}

So we will continue to have a superior network towards our peers and I need to say and I'm realizing you want to also say something in the end it's a combination. It's a combination of the spectrum position which you have at any time. It is a question of coverage, it's a question of where you have the towers, it is also the question not to be underestimated on certain technological insight.

And the moment you test it, you are not talking about it widespread. Our dynamic spectrum sharing thing was really a coup, I would say when we rolled it out. And there is a question around the 3.8 massive MIMOs in the city. And don't underestimate, we will always observe our peers -- by the way I forgot the fiber backhauling, our intensified fiber backhauling. So we will always observe our peers and then if necessary work on adaption of the parameters.

A - Hannes Wittig {BIO 4033762 <GO>}

I think, you could have asked the same question a few years ago or even longer the spectrum was looked. I mean, if one of our competitors even had a lot more spectrum than us, and now we have a very competitive spectrum position based on composition, we'll have more than the numbers that you have quoted because they include the white spots by that time and that's shared -- that we have those two and we have a build out rate that is way higher than anyone else, we've always been the best on coverage, and don't worry about it. Okay, so that's a great way --

A - Claudia Nemat {BIO 17332462 <GO>}

You wouldn't at all, don't worry. So whatever happens, we will be a step ahead.

Q - Andrew Lee {BIO 15121310 <GO>}

I am not worrying. Thank you.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. So thank you very much Thank you, Claudia, thank you, Andrew. And that brings us to the close of this session. And now I'm happy to welcome Adel next. Adel is going to talk about after Claudia has talked about how we digitize ourselves, he's going to talk about how we digitize our customers, and how we enabled the cloud in Germany and elsewhere. And it's been quite a journey in last few years some headwinds but I think a lot of stuff got done. So let's hear what has got done and how we take this forward. Thank you.

Next is Adel, Adel Al-Saleh.

A - Adel Al-Saleh {BIO 17655930 <GO>}

Thank you, Hannes. Good morning, good afternoon, good evening, wherever you're from. It's good to be with you. By the way, we all feel like in Deutsche Telekom popped down right, all wearing the same jacket and I promise you we all have our own jackets, right? So no sharing.

Anyway, look it's been exactly three years since I stood in front of you, it was live and talked about T-Systems. And at that point in time, when I spend time with you, I got many questions. I said, look, we're not sure what T-System is all about. Why is it continuing to be a bleeding business within Deutsche Telekom? What are you going to do about it? How are you going to position the company? And five months into my role in 2018 I shared with you the journey that we're going to get into in order to clarify those questions and fix the business as we go forward.

So what I'll do today is I'm going to share with you the journey, and what exactly have we done. But also more importantly talk about what happens in the next four years in front of us. Let me go ahead and get started. So first of all, it's really important to say that the transformation that we put T-Systems on has progressed. And as a matter of fact, hopefully you will realize after the presentation, what we have today is a very different company from what we had three years ago. Clearly it didn't turn out exactly how we planned. So there were things that went well, the things that were challenging and we struggled with.

But at the end of the day, the biggest thing that we've accomplished is new portfolio for T-Systems that is 100% IT services focused company. So that's point number one. Point number two, different than what DTE Group experienced we actually did see a big impact from COVID crisis in 2020. After a very good 2019, a lot of our customers were hit 60% of T-System's business is concentrated in automotive, industrial, manufacturer, travel and transportation, the industries that were hit the most, if you will with the COVID crisis. Many of our customers were shut down, and not even able to communicate with us and not able to continue their transformational programs or the projects that they were on. So we felt that pain. And the biggest issue we faced, of course, is the revenue development in T-Systems during 2020, but also the delay in our transformation.

We should by the way put on track, as we went forward. The third point, I hopefully will come across clear is, as we went through the three years, we have evolved our strategy. So now being an IT focused services player, our strategy to be the European leader, especially when it comes to cloud transformations, cloud operations, digital enabler, and digital solutions with secure sovereign capabilities that our customers are looking for, and I'm going to share that strategy with you on how we go -- how we take the company going forward.

The fourth point is, we have a very clear roadmap how to build value going forward. We know exactly what we need to do to accelerate our EBITDA growth and I will share that with you as well throughout the presentation. And finally, I will share the financial outlook, which we are confident in to deliver 5% compounded annual growth rate through the planning period and get ourselves to a positive cash contribution. That are the key points, and now I want to get into the details of exactly what happened.

Now, before I dive into all of the granular information, I wanted to step back for a second, and share with you the journey that we've been on. And I look at it in three phases for T-Systems. Phase number one, which was 2017-2018 this is what I walked in a little bit before that I joined the company, it was all around stabilizing the company. You remember, the troubled contract, I had a lot of questions from you when we got to May of 2018. What are you going to do about these contracts? Is it more than your peers? How do you control it going forward? It was also about launching a new cultural transformation within T-Systems to think differently, to modernize, to evolve and we've done that through 2017 and 2018.

I don't think you've read in the newspapers, any of our troubled contracts since we met in 2018. We've launched a very ambitious cultural transformation with over 20,000 employees participated in that. We've enabled more like 70% of our employees. That was phase number one. Phase number two and you you'll recall it, when I go to the next slide was about this four-pillar strategy, a tactical strategy that was focused on fixing the fundamentals with T-Systems, and that was 2018, 2019, 2020 and we're ending it in 2021.

And we're now entered a new phase, which is where we evolved our strategy and evolving our business model, to deliver a consistently performing company going forward. That is really important to visualize for us as we go now through the different areas.

Now, let's talk about the 2018 through 2021 phase, which was about the four pillar strategy. You remember, the four pillars were number one, fix the portfolio, number two fix your go-to-market, number three, what are you going to do with your delivery, and number four was about your SG&A. What do you do with the overheads?

Let me go through this very, very quickly. So, first of all on the portfolio, huge accomplishment here. One is we changed the business model of the company. We created a portfolio driven logic where the P&L set in the company, away from the divisional structure. We got clarity where do we make money? How do we compete? How can we make -- how can we grow? Do we have the right to play in some of these areas, and that drove a bunch of decisions, things that were stopped for example end user services, which is painful on the top line but it was a business we decided we're not going to do anymore and we continue to bleed that out from the company.

Second was, exiting some of the geographies where we didn't see future for us, like South Africa, like Malaysia, which were in the final stages of exiting. We also did a very important deal, partnership deal with IBM where we changed the fundamentals how we deliver mainframe services. Changing from a CapEx heavy model to an OpEx model accessing technology as fast as it becomes available. But the biggest component of our portfolio was about moving the connectivity businesses from T-Systems into Telecom Deutschland. It was very clear to me as soon as I started digging down into the organization, that the value chain of delivering TC Services business was usually fragmented in B2B between T-Systems, TDG, Global wholesale et cetera. And we decided as a team that it didn't make any sense, we're going to put it together with Srini he has the end-to-end value chain to deliver the service. And he talked about that yesterday that was the big change in our portfolio as we went forward.

The second area was about the integrated go-to market. We were very fragmented in how we covered the market. We created an integrated sales force. We digitized that sales force through deployment of sales, Salesforce.com as the technology. It's now a data-driven management of our sales capabilities. And very important, we rebranded ourselves, we repositioned ourselves. I don't know how many you've seen the missing T-campaign, which by the way won the ICT Award which is a very prestigious award in branding and positioning, and we started talking about the connectivity, security, cloud, digital as our key portfolio elements.

The third area was about our delivery. We were very heavy dependent on high-cost locations. And we set ourselves to make sure we change them, via first of all building up India, we went from almost zero headcount in 2018 to over 2,000 people today. We're very proud of that team. We shifted a lot of our high-cost locations from a delivery into lower-cost locations. We declared that we have a four country delivery strategy, Germany of course as a foundation, but also Slovakia, Hungary, India and Russia where we have a lot of software development. And we started building scale in these areas. And that drove a lot of synergies across the company.

And the last pillar of course was about taking costs out of SG&A. I focused initially at SG&A, I thought that was the first area we need to address. So we looked at layers, managers, executives. We removed almost 40% executives from the company. We removed several layers of management, four layers of management. We deployed agile organization structures. We reduced our HR, Finance, G&A functions by 30% plus. And at the end, we delivered EUR300 million net IDC savings, that's just over 10% of our IGC capabilities in T-Systems.

We deployed agile structure across your organization. So we worked differently and there's more to come in this area, but that was what drove our EBITDA expansion in 2019 of 17%. Now, all these four pillars, they were underpinned with our cultural transformation journey on a very tight management system to deliver. And that's what made the difference, for us over the last several years.

Now that is just a quick summary. And I already talked about this EUR300 million net savings, and it was driven really by four key areas. Number one, our sales organization. As we integrated it we saw a lot of duplication and ability to take some of the costs out. Second was about delivery integration and moving things offshore into lower cost locations. We went from about 20% of low-cost locations of our total population to 30% in 2020. Third was overhead reduction we talked about, and the last one was of course overhead reductions. And I want to highlight that not only did we take headcount out of Germany about 1,600 net reductions which is about 11%.

We also took headcount almost 2,000 people net from our other high cost locations and moved that work -- a portion of that work into the lower cost locations. That's what drove our IDC savings through the period. But we've had had headwinds. I mean, I've already said about the impact of COVID. The biggest headwind we have was the revenue development.

When I stood in front of you in May 2018, I said our plan is to keep revenue stable or growing at low levels, 1% where we didn't get there. That is the big challenge. Now one of the things of course that drove the revenue down is our decisions to exit certain businesses like end-user services. By the way through this planning period, it was a 180 million reduction on top line, also, of course, the COVID impact that we have. But nonetheless, when you look at the shift into the growth areas, it did not go as well as we were hoping for, it was slower. Although, we had excellent growth in our public cloud over 30%, very strong growth in our security, our digital solutions was a disappointment where we declined minus 2% after growing first from '18 to '19 in 2020 we saw big headwinds for that.

And our MIS business our infrastructure business declined at about 8%. But if you normalize for the end-user services about minus 4%. So that did not give us the growth dynamics that we wanted. Although we did shift more of our business into the growth areas, from 38% of our total business in 2018 to over 47% in 2020.

And by the way, that will continue for us going forward. But that was our biggest challenge. Because that 1% growth would have expanded EBITDA much faster than what we've seen. If you normalize for things, by the way, if you normalize for end-user services. Our revenue would have been minus 1% over the period and our EBITDA would have been plus 1%. So challenging period, especially in 2020.

Now, let me go through the actual commitments that we made to you in May 2018 versus where do we expect to be landing in 2021. So first of all, our revenue growth, as I said, that is the element we could not -- we did not deliver on, right? We're declining minus 3% compared to what we promised, which was either flat business or plus 1%.

Second was our EBITDA performance. We rated ourselves amber here because if you normalize for the portfolio shifts, and some of the COVID crisis, we actually have a very strong EBITDA performance of plus 1%, given all of the changes that we're doing within the company.

CapEx, we decreased our CapEx from a little bit closer to about EUR300 million run rate to about EUR250 million. And by the way, we expect to keep it like that. Our CapEx is between 5% and 6% of our revenue. I would like to drive it in the lower 5% and even below 5% as we progress this business going forward. Our special factors, we dropped it slightly from the runways that we had but we kept it pretty much stable throughout the period. So we did not escalate after a big bump in 2019. We brought it down to exact levels we were, it's about EUR160 million, EUR170 million.

Cash contribution, I committed to you in May of 2018 that we will get the business to a cash contribution breakeven by 2020. Well in old key systems when we still had the TC Services, we achieved that. I would say we achieved that by hook and crook and different ways than what we envisioned, but we got there. Then new T-Systems needs another couple of years to achieve cash breakeven after we moved profitable business of TCN into the TDG business. And of course, our indirect cost was better than what they promised to you, we've talked about EUR100 million of net savings in May of 2018, we delivered EUR300 million plus more to come in the future.

Our EBITDA margin, we expanded by 2 points and our trim continue to be one of the best in the industry. We consistently score in the top quartile of our competitors with high 80s trim performance. So all in all, challenging three years, lots of things happened, a very different company we have today versus what we had in the past. We're proud to where we are but we still have a lot of challenges in front of us to address. So we are not done with where wanted T-Systems to be. So what is the strategy going forward?

So first of all, it's important to just step back and realize that we now have an IT services company, focused on Europe and select countries around the world, that is number one in Germany. That is number two in DACH. We serve majority of the DAX30 companies. We have eight strategically located security operations center across the world. We manage close to 600 petabytes of storage, by the way, we grow every month half a petabyte about a hundred thousand servers across the world through 16 data centers. And we're operating in 20 countries, not in every country the same, because some of the countries are more delivery organizations with 28,000 people across the world.

Out of the 28,000 about 12,500 sit in Germany, out of 28,000, 12,500 sit in German, so we've shifted that population to be balanced across the world. That is who we are today, a very different company from what we were three years ago with a clear portfolio, which I will expand on in a few minutes, and a clear path to value creation as we go forward.

We operate as IT services company in a very buoyant and a very fast moving market environment. You heard Tim talked about digitized, digitized, digitized where all of our customers are on that path. Digitization is a matter of survival now. And that drives a lot of the consumption and a lot of the spend in the marketplace. Now, if the buyers are changing as well from not only being the CIO into more of a business line managers. So the guys like Srini who are making the decisions how do they digitize their companies.

So, we had to expand our customer context and our go-to-market to cover these business leaders in the marketplace. Of course, COVID accelerated the investments. Initially, it froze everything in 2020, but it is accelerating digitization as we go forward, no doubt about that. And cloud as the biggest technology in terms of adoption is the enabler of digitization as we go forward.

Now, that gives the European countries, the European market at about 4% to 5% growth going forward. And it gives us an opportunity because only 10% of Germany has been digitized so far. So there's a huge opportunity to come going forward. There is also this European sentiment of sovereignty that's becoming stronger, and stronger, and stronger, and this is an opportunity for us being a European player. It is not just in Germany, it's across the European EU, European Union member states, and it's accelerating. And of course, data protection security continues to be a very, very big topic. So, those are the dynamics in the marketplace.

So the question is, why T-Systems? How can these systems participate in this? So again, repeating some of the things I said. Number one, we are a big player, we are number one in Germany, we're bigger than our competitors, DXC, Accenture were equal in share by the way with IBM, so we shared the number one spot before IBM splits the company, after that we will become number one again, undisputed number one. And we're number two in DACH. And in several select countries, we're in the top 10. So we are a player with credibility.

The second thing is we have is we have proven market leadership and engineering capability, when it comes to infrastructure management, transition to cloud and digital capability. And I'll use a few examples well as I go through the presentation.

Third, we have the industry expertise, especially in the industries that we have selected. We have deep knowledge of how these customers work. We have deep industry solutions, and we have horizontal platforms that can apply to any industry. And lastly, we have a very longstanding client relationships. Just last year in fourth quarter we renewed over EUR2 billion worth of contracts that extend our relationships with a like of Shell, DPDHL, Heineken, Adidas for another 5, 7, 10 years, after having a relationship a relationship for over 10 years. That is a proof point how customers trust us. But I think it's best to hear from customers themselves. Can we play the video, please?

(Audio Video Presentation)

So, now, let me talk about this new strategy that I keep alluding to, which is an evolved from where we were. There are five pillars to this new strategy. Number one, you'll hear me say this over and over again. Focus, focus, focus, focus. Just like Tim says, digitize, we are about focused right now. And the focus for us is to be the number one player in Germany and focused on DACH and other select countries around the world. So we are not spreading ourselves then by covering every country in the continents, we are focusing where we want to play with the biggest focus in Germany and DACH as a region. That's number one.

Number two, we want to be the leader and maintain our leadership in three to five industries with deep industry solutions. And a portfolio of horizontal solutions that apply to any industry. Number three, historically we have focused on the very large multinational companies and we will continue to do that. We will protect our space and our base of these large international companies. But there is a massive opportunity in the market to focus on the EUR1 billion to EUR5 billion companies that are struggling to digitize, struggling to drive themselves forward.

That is a big opportunity we have untapped to in the past, but that's going to be a focus area. The fourth area is we are positioning ourselves as a strong local partner for our customers. The customers we work with. They have access to the entire management team. They have our mobile numbers, they can call us at any time and that gives them confidence that the one they're partnering with is not somebody who sit in the United States or in Asia somewhere, it's somebody local in the countries where we play. And finally, sovereignty and security is a big differentiator that we bring to the marketplace, given where we come from as a Germany, as a German headquartered company.

We understand what data privacy mean. We build it into our solutions. We understand what sovereignty means. So then if you look on the left hand side you can see -- on the right hand side, your right hand side, you see how does this portfolio come together and you'll see simplification there. First, you see the industries that we focus on. Right now, we picked the four industry being automotive, public, health and public transport but of course we have other emerging industries that we cover.

And our portfolio now consists of four straight forward elements, advisory service, advising clients on their digitization strategy, this is based on our Detecon Company a fully owned subsidiary of T-Systems, driving the transformation agenda with the CEOs and the C-level executives, that then opens up the door for our cloud services, hybrid multi-cloud capabilities, our digital enabler, capability with over 7,000 experts in writing software and digitizing and automating and process improvements, and security being embedded in everything we do. That is our evolved portfolio it's pretty straightforward, it's very clear where we need to focus.

Now what I will do is I will run through each of these portfolios very, very quickly given the time constraints that we have. And then of course get into how do we deliver over the next four years our financial and in terms of our financial commitments.

So first cloud services. Everybody knows the market is driving very hard into public cloud but also hybrid clouds. There is speed of implementation that's happened over the last 18 months that we have not seen in years, and that will continue because cloud is the foundation where you digitize from. It's not only public cloud, it's also private cloud, it's also hybrid could, it's edge solutions. And what we have created here is a platform that gives the clients the flexibility and the different platforms that they need in order to digitize. So we have partnership with public cloud companies. You've heard our partnership with AWS with Microsoft with Google that are substantial in nature for us. We have our own platforms that we deliver OTC being one of our public cloud solutions as well and our private cloud solutions. We have our edge-air that's been deployed in many campuses across the world, driving some mission-critical real-time compute and store environment, in order to drive data ingestion and AI capabilities to improve the results for our clients.

On top of these platforms, we provide migration services to help clients move, including of course after that cloud application services. This is a big business for us and there we have a period of time for the next three years where we're bleeding away some of the legacy, like end-user services where we still have about EUR150 million to shut down. We didn't shut everything down, we're bleeding off the contracts that we have. But also some of the legacy classical IT businesses that we have, which makes it difficult for us to grow.

On the other hand, our public cloud or private cloud businesses are growing at faster than market rates, as we've demonstrated already over the last three years. If you think about our digital enabler, we talked about digitization, we've talked that this is a priority for majority of the companies. Here, we focus ourselves with 7,000 plus experts across the world, to start with industry solutions, and services things like their connected back end of the car.

For the Daimler customers here, Mercedes me, that is an application that T-Systems has developed with Daimler. That's deployed across millions and millions of cars. As an example, our police solutions, our hospital solutions those are industry specific solutions that drive digitization. They're fueled by innovation in some of the core technologies, like AI, like 5G. The 5G campus question that cloud you got.

It's not just putting the network, it's how do you then deploy applications that use that network. Blockchain some of the innovative areas that we drive. Third area is building platforms that we can repeat and scale, so we don't have to invent it every time. For example, Big Data platforms. So our data engineers don't have to think about what platform they focus on, what are the applications, and how do I deploy them. And finally, it's all about transforming our customers in the cloud landscapes that is another big area for us as we go forward.

Then if you look about embedded security, just last two weeks we heard about the news of a pipeline company in United States being held hostage with some of the hackers, that is not unique. Some of it makes it to the press, some of it doesn't. But every company as they digitize, as they go into the cloud, they need security. And here we have a survey on the left hand side from the city CIO survey in 2020 that continues to say that IT security is going to be the biggest area where CIOs are going to be spending over the next several years. And we have a platform that actually takes you throughout the value chain of security, identifying, protecting, detecting, responding and recovering. We have some of the world most sophisticated SOCs deployed in strategic areas. We deal, get ready with 80 million attacks per day on our Honeypot infrastructure that we deployed across the world. So we can learn the vectors. We know where they're coming. And now our value proposition was having security in the network and IT is very unique in the marketplace.

We can see the traffic coming through our networks, and we can apply it to the IT environments, which is very unique. Now, I'm going to skip advisory, given the timing and I'm going to go ahead and reinforce what I said earlier. We have a clear strategy and path to continue to build value. One of them of course is to deliver additional cost savings. And what we're committing to you is, over the next planning period, we'll deliver another EUR200 million of IDC reductions.

The next wave of IDC reduction is a little bit different than the past. We're now focusing deeper in our delivery, automation, process improvements, toolings. We select ServiceNow as our digitization workflow management system across the entire company.

There's still some left in G&A and sales, and our real estate. We'll reduce our real estate, by the way, in the beginning of this year by 50%. We are not going back to work the way we did. We're going into a very different work of -- new way of working, where we have collaboration areas, development areas, in big buildings, where people come in and work together and we tell them if you don't have things to do with your teams you can work for wherever you want.

So, we're committing EUR200 million worth of savings over the next planning period. And of course, all this kind of comes together, to give us the new strategy. We -- our vision is to be the most reliable IT service provider, with best technology and industry expertise. And our mission is to help our clients on their digital journeys. We are the European IT service leader in the markets where we choose to play, and we take our customers we partner with them on a journey into modern, secure, resilient digital environments, with three differentiators, data sovereignty, innovation in an open ecosystem, and secure operational excellence.

And our enablers are learning, continuous learning, continuous improvement, it's our people, #people make it happen, and sustainability on diversity that Claudia already covered all part of that plan, that Claudia was talking about earlier. That is our strategy as we go forward. Then what is it deliver then. This is our commitment for the next four years.

One, revenue. We are focusing to deliver slight growth. We have that balance point we're reaching between our legacy, and our new businesses, our growth businesses, where it's going to pass that 50% threshold which should deliver us growth going forward. Second, EBITDA growth of 5%. Third, our margin EBITDA will extend another two points in this planning period and EUR200 million in indirect costs as I described. Cash CapEx we will keep stable. There is no plan to go back again to where we were after we reduced it from about EUR300 million to about mid EUR200 million, and delivering cash contribution positive in the planning period. This is for the new T-Systems. The old T-Systems we did it. We demonstrated we can do it. This is now for the new T-Systems. So Hannes, that's our plan and I think I'm ready for Q&A now.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Thank you showing you for the Q&A over here. Thank You, Adele.

Okay, very good. The time is changed and we changed with them. And that's the challenge but it's amazing what has been done, and what has been created to take us forward here. So very good. I have the first question here from -- it's from Steve at Redburn. Steve?

Q - Steve Malcolm {BIO 20941168 <GO>}

Yes. Thanks. Thanks very much for the presentation. I think we will probably thought three years ago you had one of the toughest jobs indeed here. But you still have one of the toughest jobs indeed here and you're leading pretty well in a tough market. Can you maybe just help us understand the trajectory of those financial metrics you set out because, when you look at it I guess that my sense is that as you burn off legacy and move into new collaborations on cloud that's kind of a negative gross margin mix, but maybe not, declined in 5% in Q1 so when do you think you can get to growth.

And just give us a sense of I guess the 5% compound EBITDA is probably a bit of backend loaded, maybe not. But that would be helpful as well. And then just finally just on I guess your division is probably in the frontline of COVID than what you've seen in the last 12 months, what do you expect in the next 12 -- what your enterprise customers are telling you, how the business has changed with this process. What you're anticipating for the next 12 months in terms of challenges as we come out of COVID we'd be really interesting to hear as well. Thanks.

A - Adel Al-Saleh {BIO 17655930 <GO>}

Very good. Well, Steve. So let me start kind of with the last part of your question and then I'll build it up awkward. So, what are we seeing in terms of COVID dynamics? So first of all, we are seeing customers spending again, and we started to see that happening in towards the end of 2020. Especially our industries, where we are very concentrated let's say 60% of our business concentrated in automotive, manufacturing, industrial, travel and transportation. So we've seen that come back. And as a matter of fact one of our biggest disappointments over the last three years was our digital solutions that grew strong from '18 to '19 then declined for us in 2020 and now in that first four months of the year, it's up towards 10% growth. So we're seeing that come back.

Now I wouldn't celebrate yet and say that the market has recovered. I think it's still very measured. There are very clear plans to continue to spend. We started the projects, people are pushing forward with their digital agendas if you will. But I'm still skeptical, I think it will be a very gradual recovery, and people will still prioritize quite heavily where they want to spend. So like security would be front and center, cloud movement would be front and center, but other areas like changing your SAP systems, it's something that people are thinking more carefully about. So that's what we've seen?

Now in terms of the metrics and how it comes, especially on the top line. Look we've seen very good growth in the growth areas and you've seen that we've moved the needle to being almost 50% of our portfolio now made out of growth. Every single element of our growth portfolio is making money, that was not the case in 2018. As a matter of fact even public cloud at that point was losing quite significant amount of money.

So over the last three years, we moved them into making money without starving an investment in them. So as we go forward, the growth in these units is accretive to us on a bottom line and top line, that's why getting 1% growth is supercritical, right? Because that does come with incremental EBITDA and incremental cash contribution different than what it was in the past. And the margins for us the digital solutions margin, now for example, the work that we do with the government', the work that we do with EU. You guys heard about the Corona Warn App that we did with SAP. The vaccination back ends that we've deployed across. These are good projects for us. They generate reasonable return for us.

And the issue for us is, how do we expand the margin further by creating more repeatable assets? So the Corona Warn App that we built, we've used those assets to go build other areas like an enterprise tracking system for folks who manufacturing. Like who want to deploy a more closer proximity track who's standing where, we use that platform. There's work going on around vaccination sharing across the EU countries, we reused a lot of the work that we've done in the past in order to do it. And we want to do that more and more.

So not having to recreate everything, having more built up assets that we can build -- that we can reuse and that expands the margin going forward. So, the tricky part is for me is, can we sustain digital solutions growth that we have demonstrated in the first four months. If we can growth is a real achievable number. If we can't, if the market changes, and we're not fast enough in changing and shifting more and more towards this innovative platforms, then we will struggle to show the growth going forward. But I'm optimistic in terms of the financials and how they come across with those growth profile.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. And you've given EBITDA guidance and you said this year will be stable and then that implies that '22, '23, '24 will be better than stable.

A - Adel Al-Saleh {BIO 17655930 <GO>}

It's not back and loaded, Steve, so it's not all sitting in 2024 but it is -- we plan for gradual recovery as we go forward.

A - Hannes Wittig {BIO 4033762 <GO>}

Okay. Well, thank you, Steve. And next is Polo. Hi, Polo again.

Q - Polo Tang {BIO 3059030 <GO>}

Yes. Hi. Hi, Adele, hope you're keeping well. Thanks very much for the presentation. Just as a few different questions. The first one is really just about your peer group, you made a point that you had a leading position in DACH. But who do you see as your main competitors and are there any listed companies that you think resemble T-Systems? Second question is really just a clarification on client concentration, you said that you're focused on multinationals. But can maybe just give us some sense in terms of what percentage of revenues your top 10 clients had account for? And then my third question is really just a bigger picture question in terms of what do you see as the benefits of T-Systems being part of DTE Group?

A - Adel Al-Saleh {BIO 17655930 <GO>}

Okay. Polo, good to see you. By the way, I hope you're doing well. I miss our workouts in London, but hope everything is all right. So, Polo, first of all, it's a very good question on the peers, right? So, we have repositioning the company to not be compared to the likes of DXC, IBM, Accenture, the very large global players that have a different scale and go very much after this very large horizontal kind of place, right?

We've focused ourselves in more of the European leaders. We include Atos in that of course, because they are very present in Europe, Capgemini of course. But companies like so Sopra, like Reply, right? Like Indra like, those are companies and since we're big in Spain, we do look at Indra as a competitor. So that is who we compare ourselves to. And by the way, when we look at the performance of these companies, the median performance in 2020 was about 1% revenue growth, and minus 9% EBITDA growth. That unit that I just described, with a few other company, European companies.

So we did actually better than competition on EBITDA side, because our reported numbers were about minus 2%, but like-for-like if you normalize for all of the movements we had, it was flat year-on-year in EBITDA. But revenue-wise, we were lower, because we were minus 1% normalized with some of the areas. But those are the competitors that we look at going forward, and we just chased less of these big global deals, and focus ourselves more on this local opportunity that we have, which are still very large companies. Like I said, DAX30, we serve most of the DAX30.

We serve a big portion of the Fortune 500, but we serve them from a local perspective, when they're buying local things. When -- to answer your question on concentration, we haven't published these numbers everywhere, but I'll tell you this. Our top 30 customers make up a big portion of our business, more than 50% of our business. And this is where I see the opportunity, Polo, right? Because out of those top 30, very small -- about 20% of them are the EUR1 billion to EUR5 billion revenue companies.

And if you look at Germany alone or you look at DACH, the number of this EUR1 billion to EUR5 billion companies is much larger from a total market opportunity that the real big multinationals. So, we are focusing ourselves with a different go to market and approach to really get traction in that customer segment. And we have some examples already that we've done, right, in several of these customers. And then, I guess the last question you had, what is the benefit of T-Systems within the Deutsche Telekom Group.

Well, look it's the following. First, when you think of our entire portfolio of DT including T-Systems. We are the only company in the world that can offer our customers a true end-to-end capability that covers connectivity, cloud, digital and security. The security work that we keep talking about is driven by T-Systems and it's a company, our key site company serves everybody in Deutsche Telekom, right?

So they although manage then consolidate in T-systems, it's a big part of Deutsche Telecom. Examples of 5G deployment and private networks. We depend of our -- on our colleagues in the network side to deploy the 5G campus but the use cases in 5G campus is driven by T-Systems, i.e. the autonomous vehicles, i.e. big data, edge solutions, where we deploy how do you actually capture.

We do Daimler's tests set -- all of the Daimler's hard conditioned test environments are managed by T-Systems. So we have edge solutions in very harsh areas in the deserts and in North Pole where we capture data through edge solutions and having network expertise brings a real good consolidated solution to the market. But as I said, we've created this IT services company, right? That's no longer confused kind of what we do but still quite a bit of opportunity to leverage DT as a whole.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. Thank you Adel, and thank you Polo for the questions. And now we have a very short break before we move on to the grand finale and of Thorsten Langheim on group development and Christian Illek on the finance, development and then the -- we'll have a final Q&A also including Tim Hottges.

So we have a short break, we'll reconvene at 1:00 p.m. German time, 12:00 GMT and look forward to seeing you back. Thank you. Thanks, Adel.

So welcome back everyone. Now, it's a turn of Thorsten Langheim. He leads our Group Development department. As I think most of you know, Thorsten is our living legend. He will talk about how we have created value from the portfolio in recent years and launched us in the United States. And it's equally amazing how Thorsten and team have turned around the Dutch business. This is stuff for the textbooks. Let's hear Thorsten talk about how we will create even more value from our portfolio. So, Thorsten, the stage is yours. Thorsten?

A - Thorsten Langheim {BIO 16896102 <GO>}

Alrighty. Look, I want to make it short 30 minutes. I'm the only difference between a good weekend and this presentation. I look forward to this presentation because I get two beers. Beer number one is for this wearing this jacket and the second beer is coming a little later. In any case, let me come to this wonderful picture. Of course, yesterday when I looked at the webpage of the Capital Markets Day, I picked up that there was one in 2010. And in 2010, we had our wonderful leader, Tim, presenting on the topic efficiency and capital returns.

We were the number four in the market behind Vodafone, Telefonica and Orange, our key competitors. And we had a burning platform in the U.S. Now today, if you look at it, we all look different. We wear fancy jackets, and we are the number one in the European marketplace. And if you see this, we are almost the size of Orange, Telefonica and Vodafone. Why do I show you this? I show you this because we are investors, we are shareholders, we are a management team that is in for the long haul. And that history is not always a good prediction for the future, but I think our track record is good and you can trust us.

If you look at my presentation, I think I want to leave three major things with you that you should remember. That's all. I think number one, we have been the best telco portfolio in the sector, and this gives you earnings per share growth, free cash flow growth and strategic optionality. We have no burning platform like in 2018. We will continue with what we have done over the last 10 years, active portfolio management and exploiting strategic optionality.

In the U.S., we want to retain control. In Europe, we will review strategic options for our towers in T-Mobile Holland. And I will explain to you in a minute why. Number three, we don't have a share price or Chief Share Price Officer, we have eight -- this management team has aligned interest with our shareholders. We won't shock you and we want to build out our lead. You can trust us. This is my personal business card. It's kind of interesting to look at Capital Markets Days and then see presentations, everything can be interpreted as you have won, you have delivered your numbers. I'm just a simple number guy. And I'm just looking at the numbers and want to be judged on this.

We at group development are responsible for two things. And I think this to a certain extent is unique in the industry. Of course number one, we are responsible for the portfolio for active portfolio management. I'm certainly not the most popular person in the group because we have trade-off discussions, we have to allocate capital and not on a first come first-serves basis but on a risk-adjusted return basis. Second one, sometimes we run activities, like in the past Scout or Strato, all over the last three years towers and fixing T-Mobile Holland or building up the capital partners from scratch. We are the department for value creation. And these are my important -- most important metrics. Of course, you will find further operational KPIs in the booklet. But I'm just focusing on this $44 billion since our last market capital -- Capital Markets Day in 2018 on the U.S. for DT shareholders alone, and the sum of the parts based on your best your best estimates of the value of T-Mobile Holland in GD Towers creating $10 billion of value.

How we've done that, you've seen on the right-hand side. We have done in-market consolidation because we believe in that. We have also bolstered up assets for FMC capabilities, like in Austria, by acquiring UPC or just recently in Holland by teaming up with KKR and DT Capital Partners for building out fiber. The recite of our work, I think, is impressive. I still want to be humbled because, at the moment of your great success, you sometimes overestimate the future, and this is the moment where you should be most vigilant. However, having said that, we have a fantastic portfolio spending on two major legs. TMUS on the left-hand side is our resource. 50% free cash flow growth, EUR18 billion of free cash flow in 2026.

I think a very smart analyst has recognized that mid-May that this level of free cash flow is almost representing the whole free cash flow of the European sector. But, on the other hand, we have, let's say a stable and steady workhorse of -- for the digitization in Europe. This is our European business which is -- has delivered a 3% EBITDA growth, and Christian would tell you in a how -- what we see in the future. It's a number one in revenues.

So, now dwelling on this, let me move on and give you a bit more detail on this three assets that we are kind of overlooking. T-Mobile, U.S., Holland in our towers.

So, this is a 10-year story. You cannot create value overnight, and it's not coming to you as a present. It was a long, and sometimes difficult journey. For us, it's always important to get the right asset but also at the right price, not just a deal that looks great at announcement day. And that takes time. Even when we get a deal done, we always are looking ahead, and you have seen us negotiating a valuable call option on 45 million shares in the U.S. as a subsequent step to putting these wonderful companies together in the U.S.

I very well remember the long journey that we had, starting with the AT&T break fee, the reverse merger into MetroPCS, selling our tower business to fund our top line and un-carrier moves, identifying fantastic management team that invented the un-carrier or saying no to dish at a time when it was fancy to think about a media content skills to differentiate in wireless, or the 2016, '17, '18 Ross & Rachel episode between Tim and Masa about we get engaged, we don't get engaged which finally lead to our transaction in 2018.

You may remember what I said in 2018. We have $70 stock was a free option on deal approval. This is a picture that I showed you at the Capital Markets Day in 2018 and we were celebrating. But to be honest, we were celebrating too early. In football, there's a saying knocked (inaudible) after the match before the match and what follows were two tough years, tiring and frustrating at times.

So, let me look at this picture here. This is Tim and me outside the New York courthouse, after the cross-examination by the state attorneys. It's fair to say that we looked a little bit like (inaudible) frustrating and completely tired. To be honest, in 2018, we had no idea. We needed two years with a lot of ups and downs to get to a deal approval. Of course, the heavy lifting has been done by the team, U.S. management team by John, Mike, Braxton and Dave Miller. But remedies are a tricky thing. They need to be balanced, not killing the merger, but merger benefits but addressing the competitive concerns to get to deal approval. So far so good. I honestly believe that judge Marrero took the right decision not only from myself as position of shareholder value, but also from the consumer perspective. If you look at the recent C-band auction and our - and Verizon spending $45 billion on it, how on earth should we or Sprint have been able to compete as standalone companies.

Moreover, last week's refocusing and shedding of some media assets by AT&T tells you a story about, how competitive our merger is. So since closing another 12 months have passed. So what has happened since then and I'm just focusing on the stuff that we as a shareholder were focusing on, not on what Mike clearly claims as a strong operational performance and improvements over the last 12 months. Number one, we conducted a successful management transition from certainly one of the best management team if not in the U.S. alone with John and Braxton leaving the firm succeeded by Mike and Peter Osvaldik.

We renegotiated as you know the exchange ratio and we negotiated a valuable call option that we currently enjoy, because it's at $101 while the stock is shortly below $140. We have been conservative enough on synergies. We've learned our lessons out of MetroPCS, and we'd like to outperform expectations. You've seen that we have increased synergy estimates, and that we have put team U.S. in a position where even on a balance sheet basis they can compete with the big guys. The target price has been increased over the last 12 months from $102 to $106 which gives us great hopes that everything is going to improve in the future even further.

And we're looking at the share price. Three years ago, I showed you that our stake value has improved from EUR9 billion to EUR32 billion. Now we had EUR76 billion let me stress a little bit, and take a little bit of a pause. This is EUR67 billion value creation since 2013.

That's a lot of value that has been created. For us it's EUR44 billion over the last three years. I'm not smart enough to judge, but has this been the most value creating transaction in telco land. I'm asking as Tim is always asking for bring me awards. We started together with collecting the largest break fee in history. We enjoyed 4 to 3 consolidation in Europe without remedies and maybe the future will tell. It may be too early to celebrate, but in two or three years hopefully this has been seen as one of the better transactions.

Even my old word of private equity, we would get our about two times money with -- on an unlevered return in three years, it's not too shabby. And also for us as a German company, it's a relief after the challenges set for example by our Daimler experience with U.S. M&A. To be honest, it's not given and actually people will know most of the big ticket transactions go wrong. And so far, this team in the U.S. and we as shareholders have delivered on a good story. And why is it? The value comes from strategic rationale that has been very compelling from the get-go. The C-band auction showed you how valuable the Sprint spectrum is especially in the 5G world.

We can build the best network far better than we would ever do it organically and by ourselves. And if you look on the right hand side, the implicit valuation of Sprint, based on the exchange ratio was about EUR70 billion on an EV basis. The synergies are now at about EUR70 billion, the value of the spectrum that brings to the -- that Sprint brings to the table based on the C-band auction implicit price of EUR64 billion and on top of it DT shareholders got customers, network and EBITDA.

Now look forward. What does it mean for our shareholders? TMUS is a sustainable well positioned company. We believe there's a lot of further value creation in front of us, therefore retaining control is a priority. And most importantly, it would certainly be financially attractive. Having said that, control in itself is not a value. And however, we'd like to be invested in good assets, and as shareholders, we'd like to determine few things in order to avoid the Vodafone, Verizon trap. We want to bring our expertise to the table if it comes to capital allocation, M&A, capital structure and as we have demonstrated to you in the past to pick the right team on the bus.

There's plenty of optionality around our U.S. stake and we have time. There is no message today we want to increase to 50.1% tomorrow. We have three years and who got -- who knows what SoftBank may do when the lock-up expires May 2024. If they are not selling their shares, we have a proxy for ever. However, if they sell, we have a wolf and we have a call option so we could act earlier if we want to. And on top of the call option on the 101 million shares, 45 million comes at $101. I think that's a good position we are in.

Now look at the TMUS Capital Markets Day in February, based on their own projections, they outlined and indicated a share buyback of EUR60 billion between 23 and 25. This gives us even more opportunity and choices either enormous cash inflows if we keep our stake flat or increasing our stake if we are not selling anything in the share buyback. We will figure something out, like we figured out how to fix the 2016 burning platform T-Mobile Holland. So, let me move to our Dutch friends.

Let's look at Tim and Christian in 2017 when they tried to figure out who assumes responsibility for T-Mobile Holland. Whoever plays tennis -- and Christian is almost a pro on the tennis side knows what happens when the ball comes through the middle of the court when you play doubles. Everybody's looking at each other and says, It's yours. And guess who ended up taking the T-Mobile Holland ball. It won't mean so much to that.

T-Mobile Holland was certainly an intensive care in 2017. Very competitive four player market. Multiple MVNOs converged to duopoly of KPN and VodafoneZiggo. And you may remember that, at this moment in time in 2017, Vodafone was acquired by Ziggo, and Ziggo ditching us at the ultra.

What did we do? Drastic measures were required. First thing to do, align management with value creation by a hard restructuring. What do I mean by that? We introduced an innovative equity incentive scheme, and, on the back of it, we were able to hire one of the best management teams in the sector.

Srini, my friend (inaudible) and Johan Andsjo have been the key architects of this turnaround. A bit like John Legere, and Mike Sievert in the U.S., combined with an equity incentive scheme that in the U.S. was a reverse merger in to MetroPCS, aligning our interest. The rest was fairly simple. Radical cross-takeout, self-funded network improvement, copying TMUS such as unlimited and then we applied our M&A playbook to create value, market consolidation, tower separation, and monetizing it, a recent JV of building out fiber with KKR, exploiting remedies of the VodafoneZiggo merger by acquiring the small fixed line business twist.

Resides are good. Best network in the world as Claudia said. Market leadership assumed on B2C mobile, and we have the fastest growing B2B business in Holland.

We more than doubled free cash flow since hitting the trough in 2018. And on top of it, we outperformed the competition, something that is always very important for Tim. The numbers speak for itself. The EBITDA growth between 2018 and 2020 has been 15% on the headline side, including obviously the acquisitions. But even organically, it's a 5% -- 5.3% CAGR that takes up very well in the European sector.

Johan would look at this -- Johan Andsjo, the former CEO of Yoigo and Orange Switzerland. Would look at this and say, oh, Thorsten it looks like they are moderate. And, I'd say not true. It's Bayern Munich winning the 9th championship in a row. And here's my second peer, Johan promised me a beer for making a joke about Bayern. The problem I don't know about Bayern but I know one about (inaudible) and I just want to share this with you in a second.

A guy throws a coin on the pitch at (inaudible) What is it? People are asking themselves. Is it a miss on a player or is it takeover bid given the high debts of Real Madrid? I don't know. In any case, I have my second beer. So, look at the value creation. In 2018, we had a bit on the table by a private equity firm roughly at about EUR2 billion. If I look to your best guesstimate and we obviously monetize our towers, we are now at about EUR6 billion.

The company is extremely well positioned. It has a fantastic team. It's not only the CEO, it's 2,000 big fans that are working for T-Mobile Holland in that market. We have a past two FMC via the fiber a JV. We will over deliver on the synergies on Tele2. But also on the simple acquisition that we recently done and we will as we said initiate a strategic review of that asset. Let me say one thing, I don't like the word monetize. What we want to do is crystallize, not monetize. This company deserves more than being monetized. It deserves to find a good partner for its next journey.

The second asset that we have in group development is towers. I called it our sleeping beauty in 2018, and we spend a lot of time on it. We learned a lot, we did deals, we partnered with the smartest cookies in the European sector with the likes of 7x. And we don't have -- and we certainly have done a fairly good job on improving the towers also on an operational level.

How do we think about towers? Towers is super attractive asset class. DFMD in specific is a gold standard. We have 9,000 poor ground-based towers this two times advantage and four times American towers. We currently bid 1,500 new sites per annum and we have significant colocation upside as TDG is a single tenant on one third of our towers only.

More carve-outs to come, we are obviously working on Czech and Slovakia and our operational performance has been fairly good. People who may not recognize it, but we have not 7x delivered the largest B2C program in Europe over the last three years. We have built 5,000 towers. We have third parties with 25% revenue share on our towers. This is industry leading and why are we there, because we focus on this since 2017. We haven't hired Bruno Jacobfeuerborn because he was a CTIO of Deutsche Telekom for his technical skills. But everybody who knows Bruno, said he is certainly one of the best CMOs that we have in the telco sector. And like in Holland, our cost focus has led us to achieve 60% EBITDA margins. On the other hand, also let me say this, we have an unfair advantage and our unfair advantage is Tim. You cannot build 5,000 towers if the CEO of Deutsche Telekom doesn't give you a helping hand on this.

So now look at this famous slide here. What can I say about this? I think it creates a lot of questions and excitement. But as you know us, we try and test a lot before we come to conclusions. We have been -- can I say that sole searching of how to retain the unique value creation that towers present. We saw this coming early as we experienced a different market structure in the U.S. where no M&O owns the towers.

We saw the high tower valuations and we reviewed how to best participate. We looked at an IPO, partially monetizing our asset, we review driving tower consolidation ourselves, but this is obviously against leverage, got rates. More of it, they are clearly benefits of running an independent tower. I think in due course, our patience will pay off. More of its have re-rated to U.S. levels and most importantly M&A terms have moved significantly, protecting us as the anchored tenant on pricing and allowing to preserve network leadership.

The market is moving into the final phase where Tier 1 operators may consider their tower operations. And Real Madrid, (inaudible) Manchester City, Vodafone, PSG, Totem and

Bayern Munich us as well as some Americans at the gate may play out the Champions League over the next two years. I think the time is right to review our options and use our asset, as a kingmaker asset in the European consolidation.

We have four major criteria. We want to have a premium valuation for our premium portfolio. We want to create balance sheet headroom. We want to have a favorable M&A. And ideally, we continue to be exposed to this asset class. However, let me say this, there is no artificial deadline and we will deliver when we think the time is right. Let me move on to the final two slides.

Going back to 2018, if you will recall I said I want to be measured by Magenta. But my commitment is to create increase asset value. TMUS is a $70 stock was a free option if the deal is approved and I showed you my bonus league, my league table and you can guess where I'm going with this. This is us today. We have created a lot of value. TMUS unprecedented transaction, massive value creation and I think a lot of further upside. Holland spectacular turnaround, more upside. GD Towers valuation doubled, M&A has improved and our little company DT Capital Partners generated EUR0.5 billion in capital gains still IRs. And based on that is successful in getting further funding.

But we did not get everything right, and we learned from our failures. At BT as I said at the last Capital Markets Day, we got our timing wrong. We thought hard about selling it but like you we saw some value so we remained patient as holders. And as you can see in the UK, the stars are aligning for a much better performance of our investment in the UK marketplace. That's my final slide. And here's my pitch to you. My pitch is DT is a EUR20 plus stock. I know it's difficult to trust me on this. In 2006 long time ago, I was preparing a meeting between my former employer Blackstone and the German Finance Ministry which was called The Road to EUR20. Today 15 years later we are EUR70.

So however, let me try at least a to pitch my case. On EPS growth alone we will get there, but it may take some time. You know that we've traded between 13 to 15 times PE and given the industry hiccups was cash flow warnings, CapEx warnings, reverse off peak acquisitions. I understand your attitude on the attitude by investors seeing is believing. So how can we bridge the time gap? As some of you have picked up our some of the parts does not stick up. The value of our stake in TMUS and the value that analysts subscribe to DFMG and T-Mobile Holland leaves Germany and Europe valued almost for free.

We don't need a hedge fund to tell us this. This is a reason to review our ownership in those assets, as seeing is believing. Let me summarize my presentation. Please remember what I said upfront. There are three reasons why we are different. Number one, we have an attractive portfolio. It's well balanced and it delivers industry-leading EPS growth. We have based on our strong portfolio, strategic optionality and we want to exploit this to bridge the time gap for share price appreciation.

And finally you can trust us as a team. We have aligned interest, we do care about share price and shareholder remuneration. So I even made it now in 30 minutes in my time, I wore the jacket. I got two beers and now I'm looking forward to the usual literature on a Friday afternoon which is the our telco summary of events in the telco industry, which we sometimes need, because we are in this industry together and it needs sometimes a little bit of a funny moment given that, it's a tricky one. It's unpredictable at times and one for investors. Thank you very much. Have a great weekend.

A - Hannes Wittig {BIO 4033762 <GO>}

Thank you, Thorsten. To also wrap up in time for telcos. So that's good. You're right seeing is believing but you have shown us a lot, right? So it's I think it's a good time to start believing. And the next guy who is going to show us a lot is Christian, our CFO who holds it all together, and he will show us how this translates into numbers and you better believe it. Christian?

A - Christian P. Illek {BIO 19077446 <GO>}

Really liked the presentation so far. I think we have shown very high level of ambition both on the commercial side but also on the financial side. But now it's time to basically roll it up to consolidated financial figures. And I will use the same approach as my colleagues have done. Have a quick review on the past 3.5 years and then give you the outlook for the upcoming years. So, let's start with the key messages.

Message number one, I think we will prove that we have promised what we committed to at the Capital Markets Day in 2018. And Thorsten used that phrase, even on the critical metrics, whether it's been CapEx or whether it's been cost reduction, you can trust us, we deliver what we promised.

Second point is, if we're looking forward, we see a lot of growth. We're seeing top line growth. We're seeing big service revenue growth. But when it comes to bottom-line growth, that's even higher. And I will get to this when it comes to EPS or free cash flow growth. And it will happen across all segments. So, we're not only relying on one segment, it's basically broadly adopted by all segments going forward.

Third topic on cost. Look, we are in an industry, where efficiencies at the center of our activities, and therefore we announced another EUR1.2 billion cost reduction program for the European operations. And I think U.S. team has shown yesterday how they basically increase their efficiency by faster and accelerated synergy utilization.

Fourth topic on leverage. Look, after the introduction of IFRS 16, we changed the quarter to 2.25 to 2.75 quarters, we stay in that. We will have a return back into the comfort zone by end of 2024. And that delay -- and I will get to this later on is purely explained by the Shareholder Remuneration Program, which has been announced by the U.S., but also our clear ambition to achieve the majority in the U.S. with 15.1%.

On dividends and on shareholders, look, we are committed to stay a reliable dividend player. Our dividend policy will remain being determined by adjusted EPS. We keep the floor which we introduced in 2019 at EUR0.16, but we're moving away from EPS growth into a payout corridor of 40% to 60%. Given the financial plans, I think dividends will be progressive in the upcoming years.

And, finally, on the sixth point is, we are reliable to a debtholders. We have a very strong liquidity position, and we are committed to have unrestricted access to credit markets.

So, let's start and reviewing the past 3.5 years. And let me start with EBITDA guidance, IDC guidance, and cash CapEx guidance. What you can see on the chart as we promised and adjusted EBITDA growth of 2% to 4%, and the prediction until the end of the year is basically saying 4.4% on adjusted EBITDA if you just focus on core EBITDAs, even higher at 6.4%. So, we bet that target.

On the business ex-U.S., meaning on our operations in Europe, we basically guided a 2% to 3%, we will end up having a 3%. The 3% EBITDA growth is very much driven by the IDC reduction in the past three years. Going forward, we expect a more balanced contribution coming from that margin and cost reduction. Second point is on IDC reductions. You may recall as we reviewed at the Capital Markets Day in '18, how we were at cost reductions, we missed on that point. So we renewed our commitment to another EUR1.5 billion net cost reduction in indirect cost. And we're happy to say that we will beat that target by about EUR200 million to EUR1.7 billion. And on cash CapEx that was also a highly debated figure. We said peak is going to be in 2018 and from there onwards, we have a stable development going forward. And actually after report back that holds true.

So let me move to the IDC development and how it all breaks down. I said, we're beating our target of EUR1.5 billion by about EUR200 million and where does that come from? So first of all, EUR1 billion of the cost reduction is coming from the German operations, meaning, GHS and Germany. Another EUR400 million is coming from Europe. Dominique said yesterday, we achieved already EUR320 million and that we will continue to reduce cost in Europe by another almost EUR100 million throughout the year. And EUR300 million was delivered by T-Systems.

If you take a look and how you can assess this whether this is recurring cost and not-recurring cost, I would like to basically draw your attention to that picture here on the FTE reduction in Germany, and that excludes T-Systems. We will reduce the headcount by 17,000 people over the course of 2017 to 2021. And that reduction happens almost without any noise. It's a well-established rhythm which our people, our colleagues are made are doing with the social partner. And if you multiply these 17,000 people with average salary of EUR70,000 that gets you to a EUR1.2 billion gross savings only coming from personnel in Germany.

Second point where you see that cost is really going out of the system is real estate. We expect that you're going to reduce real estate costs by about EUR300 million over the course of the time from '17 to '21. That's coming from less space requirements, it's also coming from a renewal of our service provider contract, which we did with another company.

Let's move over to free cash flow and EPS. So that the Capital Markets Day in '18, we said, we wanted to deliver greater EUR8 billion on free cash flow by end of 2021. We assume that the adjusted EPS is around EUR1.2 a stock and in case the merger is going to be approved that was right after the signing if you may recall this. Obviously, there will be dilutive effects on both sides on free cash flow as well on EPS over the course of three years.

So what are you going to achieve? We're going to achieve actually something, which is at the upper level of the merger scenario. So we expect greater EUR8 billion free cash flow at the end of the year, and we adopted our guidance last week, so EUR3.6 billion is coming from European operations another EUR4.5 billion is coming from T-Mobile US. That compares to a EUR5.5 billion free cash flow in 2017. Same holds true for the EPS.

Look, let me draw on the free cash flow for a second. Look, what we predicted on the European business was actually EUR4 billion. So we are falling a bit short on the free cash flow coming out of the European operations, but this can't be explained by non-operational effects. So BT suspended the dividend, which accounts for EUR200 million, obviously since the merger has closed, we don't get kind of a margin from refinancing some of the T-Mobile US loans, and IFRS 16 also costed us, EUR200 million of EBIT -- of free cash flow in that equation. So adjusted EPS, you see we're developing from EUR0.90 to greater EUR1.1. I think that is both of those figures at the upper end of what we expect in our merger scenario.

So, what we also did when it comes to dividend and total shareholder return? In 2018 at the Capital Markets Day, we changed the dividend policy. You may recall historically where were coming from future -- from free cash flow growth, we're now basically took adjusted EPS as the key metric, we said dividend will orient itself on adjusted EPS growth and we basically put in a floor of EUR0.50.

Thorsten just mentioned the roller coaster ride on the closing process of Sprint. And I recall back in November 2019 where we just about the federal states jury or discussion or trial, sorry, I was looking for that. We had complete uncertainty on what's going to happen. Therefore, we've decided to basically make a call on the dividend, independent of whether we get a positive or negative result and then we declare EUR0.60 and we announced a new floor of EUR0.60.

Look, if you take a look what we have delivered over the past years, we are a reliable dividend payer. Our payout was in between EUR0.60 to EUR0.70 over the course of the past 3.5 years and we will be a reliable dividend payer. If you combine our reliability on the dividend payout with our operational outperformance, this gives you the outperformance on the total shareholder return. You see us with a 41% increase since the last Capital Market Day, Tim was basically comparing us against Vodafone, Telefonica and Orange, this is a comparison against the EURO STOXX Index and also we bet the decks by Factor 2. So, what you see here right now is reliability and operational performance really pays off and it's being appreciated.

So let's go back -- let's go and move forward to leverage. So again, I'm always comparing what we said in 2018 and where we're standing to now -- up until now. In 2018, we said if we getting back -- if we getting the deal approved, we will basically need about three years to get back into the comfort zone of our leverage. Secondly, we said what is the comfort zone? It was pre-IFRS 16 2x to 2.5x and we basically committed to have a rating in between A minus to BBB. So, in the meantime, quite a bit of things happened.

First, we got the introduction of IFRS 16 and that basically led to an increase of their comfort zone by a 0.25 point and to be honest that was conservative, because if you take a look at the current impact of the leasing liabilities, they're not 0.25 points, they're 0.4 points. So that was a very, very conservative perspective on this one. Second one is the merger closing was delayed until April 2020. And what we didn't foresee at the Capital Markets Day is obviously the tower deal with American Towers and the Cband auction. If you collapse everything together, we still, given our current financial plan, would be able to return back into the comfort zone by end of 2023.

So, let's see how we're moving forward, and that is basically the guidance. Look, we are confident about the future. Performance in 2020 has carried on into the first quarter. We had to deliberate discussion what we expect from the remainder of the year that led to that guidance increase of EUR200 million in EBITDA and EUR200 million in free cash flow, and, let me repeat again, it's being equally split between a contribution from the U.S. and ex-U.S. So, therefore, I think we have a very strong performance in the history and also are positive about the future.

And let's, finally, get into the scorecard. And what you see on the scorecard is, on the left-hand side, you see our ambition, on the middle column, you see our achievements by the end of 2020, and the traffic lights basically indicate what we expect by the end of the year. I would call this an almost green scorecard except for the shortfall in the free cash flow ex-U.S. And I think we touched the dividend policy in 2019. These are the reasons why we basically put this in yellow. So, so much about the past, so much about the past performance. Let's go and look forward.

And let me get to my favorite chart. This is my favorite chart. What you're going to see is what is our prediction on free cash flow growth, adjusted EPS growth, and royalty growth over the upcoming years until end of 2024. Free cash flow is expected to grow from EUR6.3 billion at the end of 2020 to north of being EUR8 billion this year to be greater than EUR18 billion in 2024. That translates to a CAGR of 30%. Obviously, the breakdown -- I've referred that yesterday is very much driven by T-Mobile US by contributing more than EUR14 billion to this overall result. But also we see in free cash flow growth coming out of the European business.

What are the key drivers? Obviously, that is service revenue growth coming from the U.S., that synergy realization, but they're also free supporting arguments driving the free cash flow. One is obviously the shift from hence at least to EIP, which improves our operating working capital, and we will also expect CapEx to come down once the merger synergies are achieved and lower special sectors over time. From the U.S. -- from Europe, you can expect a constant support driven by EBITDA growth and IDC settings.

So let me dwell on this a second and do a little bit of a fast forward. Let's assume, we're on the year 2024 and we have achieved the majority with 50.1%. Then out of these EUR18 billion, half of the EUR14 billion belong to DT, plus roughly out of the EUR4 billion if you exclude the minorities another EUR3.5 billion from the European operations. So EUR10.5 billion would be allocated to DT shareholders. This is more than EUR2 per share and an increase of more than 100%.

Second one on adjusted EPS. Look, we expect that adjusted EPS is growing from EUR1.20 to greater than EUR1.75 and that translates to a 10% growth. There's going to be a small dip and this is basically between 2020 and '21. This is basically can be explained by the positive impact, which we had on the fixed price option in 2020. What we're going to see is, we're going to see a constant increase of EBITDA gross and a constant decrease of depreciation, which basically gives you an indication that this growth is not back-end loaded, it is coming with steady growth starting from 2022 onwards. So therefore, I think again, this is a greater EUR1.75 prediction and it's coming more in a linear curve rather than a back-end loaded curve.

Third one is ROCE. So you've seen our ROCE being 4.6% end of 2020 and we expect it to grow it north of 6.5% in '24. The earn [ph] mind, our ROCE definition is a very strict one. It's after-tax, it does include all special factors, it does include all working capital changes on the NOA, all lease liabilities and all impairments. So once we get there, we will have a significant distance versus our average cost of capital, which is right now around about 4.5%. What is the key driver between that ROCE, obviously, our NOPAT is significantly grown faster than the NOA.

So let's move over to the U.S. and go quickly through this and you've seen that numbers already. The U.S. is supposed to grow from EUR21 billion in EBITDA to EUR27 billion and -- or EUR28 billion, that is basically a 7% growth. And if you just exclude the handset leasing for a second, the core EBITDA will grow at 10%. The cash CapEx is actually peaking in '21 and you've heard Peter saying yesterday that he's expecting the '24 level which is EUR8 billion to EUR9 billion already in '23. And also we talked about the massive free cash flow which is coming from the U.S. So on CapEx as I said, the peak is in 2021 and we will return back to normal levels starting from '23 onwards.

Let's move over to the European business and take a look how this will evolve going forward. So, what we're going to see in the European business is the steady growth of EBITDA, growing from EUR14 billion in 2020 to EUR15.3 billion in 2024, and that relates basically to a 2% to 3% CAGR growth. What you also see is that this EBITDA growth is supporting our larger CapEx envelope of EUR8.2 billion by 2024 in the European business. Well, still allows to grow free cash flow. Well, we also betting on is that the EBITDA development will be more balanced coming from net margin growth as well as cost reductions.

So, on cash flow. Guys, we always had that question, we all had it yesterday in the discussion. Look, we kept our promise on the cash flow over the past three years and we will keep our promise also what we are indicating here. So we keep the EUR8.2 billion and you shouldn't be afraid about that we basically have to exceed this. And that will support the build-out plan which Srini and Dominique presented yesterday both on the fiber and the 5G rollout side. So being committed to that envelope is important and we will apply as we have done in the past year, very strict allocation policy on where and how we want to spend and where we -- and how we want to spend CapEx.

Next topic is digitization. As you can see on the chart, we are taking a fairly holistic view on the digitization within DT. And we're basically taking all -- taking a look at all relevant parts of the business being in the front end or in the back end. And we're continuously optimizing and digitizing as we move forward. We have a program right now across the most leverage activities being defined between Germany and Europe. We track it from 2020 to '24 onwards, and we have a consistent review process on how we're making progress on these key initiatives.

And let me pick out two examples which have been mentioned yesterday by Claudia and Srini already. The first one is eSales share. Obviously, you can take a look at eSales share, this is a great measure to reduce sales cost. You will have no commissions for intermediaries and so forth. But I think we always have numerous reasons why we're doing digitization. Cost reduction is one of them. But the other one is the eSales share, as we go in and develop it further on, will allow you to give you more personalized, ideally a person-specific offer based on your needs.

So, digitization for me is always a combination of lowering cost but also improve customer experience and same holds true for the IP migration. If I summarize the IP migration in one word, I would say you get a better product, you allow our service organization to better serve you, and it allows us to reduce cost, because we are reducing energy costs and reducing all platforms. I think that's the way how we're thinking about digitization and reassess the EBITDA impact by '24 of more than EUR300 million supporting our European businesses.

But there's also just, I would say, classical IDC cost reduction besides digitization. And the EUR1.2 billion additional cost reduction program I was alluding to breaks down into the German segment by EUR700 million by another EUR300 million and T-Systems by another EUR200 million, which brings our indirect cost down from EUR17.5 billion into EUR16.3 billion.

What are the key levers? The key levers is fairly identical to what we've done in the past. So, real estate will be a big one. So, we have a range in here of a EUR100 and -- to EUR200 billion, I expect it to be at the upper end. Claudia was talking about retiring old IT systems and simplify the IT landscape, which is going to give you another EUR100 million to EUR200 million. Obviously, we rely on the leverage effects, which we are achieving through our joint venture buy-in, which gives you another EUR100 million to EUR200 million.

And the next one is obviously people-oriented. We will have a very, very strong focus on overhead structures and to make their life easier but also to let FTEs go where we basically bet on a EUR500 million to EUR600 million impact on the rest one is going over the other cost categories and saving discretionary cost. So all up, it's a EUR1.2 billion program. And I think it is -- it looks a little bit smaller than the EUR1.5 billion, which we called out in '18. But bear in mind a, our baseline is lower and b, we need certain fraction of people for the network build out both on fiber and 5G, which allows us to basically reduce cost at a lower level.

Let's move over to the finance strategy. Look, Tim often said a strategy, is a strategy, is a strategy, and same holds true for our fine strategy framework. We stay committed to be a reliable dividend payer and to have undisputed access to the debt markets. What does that mean on the equity side? Obviously, we're committed to be a dividend player and I get to the details of the new policy in a minute. Second one, we got approval on the AGM to basically have the allowance until '26 to buy our own shares back. Do I expect this to be very like in the upcoming two to three years? No, I don't. But it's still we have the opportunity. We talked about the ROCE, our ambition is that the ROCE will be higher bucks starting on from 2022 onwards. And on the debt side, not a lot of changes, we keep the comfort zone, we keep the equity ratio and also on our liquidity reserve, we keep the policy that liquidity at least has to cover 24 months of maturities.

Let's move over to the dividend policy. So, as I said in '18, we introduced adjusted EPS as the key metric and we said it should orient -- the dividend payout should orient itself according to that growth and we had a floor of EUR0.50 a share. We basically move that up to EUR0.60, we have paid out dividends in the vicinity of EUR0.60 to EUR0.70 over the past four years. And what we're going to do with the dividend policy going forward is that we're going to keep the EPS as the key metric that we're going to keep the minimum payout to give you a guarantee on the payout. But we're moving away from EPS growth to a payout ratio. Given the EPS growth, which you have seen, which was about 10%, you can assume that this dividend will be accretive and grow over time.

Let's move over to the debt side. Again, what we said is, we remain within our comfort zone which is 2.25 to 2.75. And we said at the Capital Markets Day, we will be back into the comfort zone after three years. This assessment excluded basically two things, the shareholder remuneration in the U.S. and also our ambition to achieve 50.1%. If we are doing this with the shareholder remuneration and the 50.1%, that will obviously slow down the deleveraging impact, and therefore, we will basically will be back in the comfort zone by end of 2024. The peak of the leverage is expected to be this year and then it will gradually go down. And bear in mind, if we are getting into the comfort zone in 2024, by the end of 2024, the share buyback in the U.S. officially continuous into 2025, and you heard Peter saying, it will not stop after 2025 either.

When it comes to our maturity profile, you see that actually the average maturity is which we're going to have over the next four years is EUR3.6 billion. So it's very balanced. You don't see any spikes by the way that holds true for the maturities also beyond 2024. We will receive another EUR4.7 billion coming out of the U.S. and the first chunk is coming in 2022, with almost being half of it. And you see that we have a very strong liquidity position, and that liquidity position which was EUR17 billion at the end of last year on an average will be around EUR14 billion to EUR15 billion covers our maturities over the next 24 months really well.

So, before I basically wrap it up, let me just talk a little bit about ESG. And what is our contribution to ESG? It's basically round about four points. One is on procurement, we already have a policy in place that suppliers have to sign a strict supplier code of conduct, and this is going to be monitored on a regular basis. We will increase the importance of ESG as a criteria in the vendor selection process. We don't have a final number yet, but there's a clear commitment that we're going to do this. And we're working jointly with external and internal resources on tracking where the Scope 3 emissions are being reduced with an vendors (inaudible).

Secondly, is we will introduce sustainability linked bonds into our bond framework. Thirdly, we will become more -- even more transparent on the CR reporting. Look, we received a lot of prizes on the CR reporting, but I think there is reporting standards coming from TCFD and SASB which we have to adhere to and which we're going to do. And the last one is even our DT Trust is geared toward ESG investing. Actually the pension fund started to do this in 2013 and the trust has moved into that direction in 2019.

So after that short excursion, let me conclude in our finance strategy. Look if you see that wheel, as I said, you will see a massive bottom line growth on free cash flow with a 30% growth on EPS with the 10% CGAR and also by an increased ROCE which improves by another 2 points. That massive free cash flow growth will allow to pay shareholder returns from T-Mobile US over the course of '23 to '25 which accounts in total for up to EUR60 billion. Those plans shareholder buybacks will be a significant lever for us to achieve that 50%. But you also heard Thorsten saying, we don't have to decide this tomorrow, we have time in order to get there, which allows us DT to take part on the long-term growth of T-Mobile US. And as those shelter returns will not stop after '24 will also allow us to fast the deleverage our business in the years beyond 2024 or give you a higher return as a shareholder. I was talking about the equity side and the dividend policy that we're moving to a payout ratio. I was also talking about the net debt -- the debt side, sorry.

So let's wrap it up and take a look to the commitments which we put out there. So on slide on -- can I have the next chart, please. Can we move on with the chart, please. Okay, very good and you've presented yesterday, Tim. So, --

Okay. So, we don't -- He's coming? Come on. Let me just wrap it up. On revenue growth, we're a bit pretty much at 1% to 2%, which is comparable to the last Capital Markets Day. We also basically give a guidance out for service revenue growth, which is 3% to 4%, which is the new guidance. Adjusted EBITDA will be raised from 2% to 4% to 3% to 5%. Obviously, I talked about the free cash flow growth of 30% that relates to a 10% in the past history. We have an accelerated EPS growth and accelerated ROCE growth, and we're committed to stick with the cash CapEx guidance at EUR8.2 billion, same holds true that we are committed to reduce the IDC by EUR1.2 billion over the course of the period until end of 2024. That is basically the commitment from the group side, and I will finish here.

Look, you can be rest assured that this team is committed to deliver as we have done it before. And I learned from Thorsten whenever that ball is going through the middle, you're going to pick it up.

Okay. Thank you.

A - Hannes Wittig {BIO 4033762 <GO>}

Very good, Christian. And so that brings us to the final Q&A. And the final Q&A will be with Christian, with Thorsten, and with Tim. So, I ask you to please join me here on this couch. And just maybe, while they are coming, acceleration is the word you've heard it or how Srini called it yesterday, beschleunigung, right? So, it's about being reliable and beschleunigung, so, acceleration. Here we go.

So, let's see if we have some questions. I've seen quite a few guys already on the screen, and we start with our Akhil. Akhil, can we have your question please?

Q - Akhil Dattani {BIO 7190509 <GO>}

Yes, of course. Good afternoon. I've got one strategic one and then two hopefully very quick financial ones. I mean, in Thorsten's presentation, he talked through the fact that also one of the biggest value creation events with Deutsche in the last five, six years has obviously been T-Mobile US. and the decision to stay in that market and then merge with Sprint. I guess the question was, if we look, going forward, do you see any other transformational strategic decisions on the horizon that you're thinking through in terms of the Deutsche equity story? Or do you think the story, going forward, is much more operationally driven instead? So, that was the first strategic one.

And then the two financial ones is questioning your presentation, you talked about the target at the 6.5% break. I think in Srini's presentation, he talked about Germany going from 6% to 9%. The U.S. I assume will have a very good return given the high cash generation. Can you maybe help us bridge why the total is only 6.5% with Germany is 9%, and I presume the U.S. is very good?

And then the final big was just on the dividend. I think there's no doubt the dividend growth is attractive and I think is very healthy. But I guess even at the high end, the dividends are bound to EUR4 billion dividend whereas your guidance basis cash flow is EUR18 billion and that's about EUR11 billion proportionate. So it's about the third of your cash flow generation. So just if you can maybe comment on how you think about that in terms of what the residual cash would probably be useful if you think about mid-term and where your priorities would be? Thanks a lot.

A - Christian P. Illek {BIO 19077446 <GO>}

Who wants to start strategic question, Thorsten, you want to take one?

A - Thorsten Langheim {BIO 16896102 <GO>}

All right. Look, two months ago, I would have said that for the next five years, this is all about operational improvement, performance, utilizing the best network in the 5G world and doing more of the same as in the past. We have the capacity, we have the speed, we have the quality and the network to exactly do what this fantastic team in the U.S. has done over the last seven years.

Over the last two months so Verizon and AT&T have shared media assets. And I'm asking myself as you may ask yourself, what does it mean for the future? Number one, certainly, it's a kind of recognition how strong we have become. So, it's a focus on the wireless operations of these two big players in the U.S. market, so they take us very, very seriously. And second, which also underlines the value that we can bring to the table. The question lies on the table, what is the next kind of effort to differentiate in this market if it is not network, which is what we have?

And there, we have learned a lot of lessons in the European marketplace, convergence it's one of the topics that may come up in the future, one of the reasons why we'd like to retain control, because if anything happens in the future, you want to have a juicy control at premier for shareholders. Having said that Akhil, I don't have a crystal ball. We started in 2013 as a smallest and mobile operator. And at the end, we were able to consolidate and this great team in the U.S. is now challenging the number one position in that marketplace. Who knows? Maybe we get bigger. I have no answer on that. But certainly, it would be an interesting period of time. I think, we will enjoy operational up sights and the wonderful network was a lot of capacity and then we'll see.

Look on the ROCE, Akhil, first of all, we're predicting ROCE larger than 6.5%, not 0.65%. But I think, yes, the number in Germany is right but you also heard Dominique that the -- that she will continuously take time in order to move its ROCE up. And don't underestimate the investment level coming from the U.S. We just added another EUR8 billion of spectrum. There's a massive build-out, so that burdens to know us. So it will take some time until the U.S. is actually progressing in this levels as well. So I think it's a composition of different pieces, but you're right, the German figure is already at 6% and will further grow.

On the divi, look the divi, as I said is you can expect that the divi will increase given the EPS growth. And what we have consciously discussed in the team is that we wanted to have some flexibility on the divi payout. And this is why we came out with that payout ratio of 40% to 60%, by the way, which is well established in other industries as well. Because we don't know whether we actually have the flexibility to payout more, which is toward 60% or whether we have to stay strict because we haven't secured the 50.1% in the U.S. yet. And therefore, we basically came up with that solution.

And the third one is, look even if we get to the 50.1%, we also have to think about our leverage. And we said that we are getting back into the comfort zone end of 2024. But again, this is another delay by year and therefore I think that was all factored into our dividend discussion.

A - Hannes Wittig {BIO 4033762 <GO>}

It really is about the balance, isn't it? And we'll strike the right balance. And the other point, I think that you rightly pointed out, it's nice to have these choices because your free cash flow per share is -- over EUR2 in a few years, right. So that's good.

Next question is from George at Citi, please. Thank you, Akhil.

Q - Georgios Ierodiaconou {BIO 7535136 <GO>}

Yes. Good afternoon, guys. Couple of questions from me, mostly focus on towers. The first question is to just get an understanding of how you're thinking about your tower by the crystallization. Price not being the determining factor in, let's say, similar price, would you have a preference for a clean exit or to still maintain exposure in any deal you agree?

And my second question linked to that is whether you believe in markets synergies within towers, particularly, in Germany, because there are some limitations perhaps that one exist in some of the other countries? And then my last question operation again on towers is a bit more of a long-term question about your overall network infrastructure. You spoke yesterday about cloud native networks, I think Srini also mentioned the importance about telcos could play in Edge Cloud. So I'm just trying to understand whether you believe these investments are better, it down from the tower perspective or from an operational level. And how that could change your view of the strategies, importance of towers versus the Edge Cloud? Thank you.

A - Hannes Wittig {BIO 4033762 <GO>}

I think the first one is one for Thorsten.

A - Thorsten Langheim {BIO 16896102 <GO>}

I take the first one.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes.

A - Thorsten Langheim {BIO 16896102 <GO>}

All right.

We'll get Hoettges for the second one.

Preference for clean exit or to main exposure in a deal and whether we believe in market synergies? Look, first of all, we have learned a lot over the last three years, we've teamed up with Cernex for the Sunrise Towers in Switzerland. What did we learn? We learned a lot about that the Cernex management team is certainly one of the smartest I have met in this sector.

Second, how you make money in this game? And it's all about built-to-suit, especially, for the number three and number four in a market. But there's also becomes built-to-suit for the number one or number two in the market, in the future. Second of course, in market consolidation of assets that you own, is something that creates a lot of value for teleco. Cross-border synergies are limited as we all know also in the tower sector, but this is not to say that the management team was a smart headquarter and a very smart M&A head is able to add a lot of value. I think Cernex speaks for itself of how rolling up towers in different countries can create a lot of value for investors.

Second in terms of the preference, I don't have any preference, neither had this management team right now. We are just saying we are open to a lot of auctions, we've looked at a lot of stuff. We know what the pit fords [ph] are, and what the pros and cons are and as Tim is always saying, let's attack and see and I like that. I was thinking about just putting my cell phone number in front of the page and said we are now open for business and we are in a different state than two or three years ago or over the last two and three years because we've recognized that the valuations have moved to a place where it makes sense for us to engage. And most importantly where the M&A structures provide enough protection for us to further differentiate. And that is a key thing for us, because we also see that tower model in the U.S., keep in mind, we sold our towers or part of our towers in 2013 to Crown Castle and we know how it is to deal with tower companies in the U.S. We know what we have to avoid and therefore, we are open for business now and there will be -- yes, I'm excited to what may happen over the next call it to 1.5 to 2 years until the next Capital Markets Day.

A - Hannes Wittig {BIO 4033762 <GO>}

I think the next one is for you, I guess it places to networks of networks and how we orchestrate that? Well. I think, it does. So let me answer it because I think it is in the context of what Tim presented yesterday. The networks of networks, we have the capability to orchestrate this and we will not always be the owner of this network in every place but we'll put it together in a best possible way for our customers. So I think --

A - Timotheus Hoettges {BIO 4694556 <GO>}

Yes. I think what we wanted to say and I don't want to repeat what I said and what Claudia had said as well, the idea is this ecosystem is changing. And in this changing ecosystem, we should be adaptive. Adaptive fill all the developments, which we see and we should not do that naively, but we should do it. And I know a lot of partners are watching the Capital Markets Day, they sent me notes and being at the Microsoft people, being it, let's say, my friends at Cisco and other companies. So, these people have -- they're not competitors, but sometimes they even not friends.

So, we have to find the right doses on partnering with them that we create win-win situations in this digital ecosystem. It's a very complex one but we have opened our doors to partnerships. And by the way, that's not something new. Remember, the first day -- and Capital Market Days was about win with partners. And now, I think we grown up in this ecosystem. And when it comes to the architecture of our networks, when it comes to these softwareization of all the functionalities which we talk, both on the consumer and use case side but as well from the way how we organize our businesses, we have to embrace them. And that is what we're doing and how we then share the trough? How we share them the value chain? That is something which we have to then negotiate. But I would say the last years taught me that's a win-win and that we were more winning from this partnerships than losing.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Excellent. Thank you, Tim. And the next question then is from Josh at Exane. Josh?

Q - Joshua Andrew Mills {BIO 17873641 <GO>}

Thanks, guys. Few quick ones hopefully from my side. And first one is just following up on the towers question. So, what percentage of your German towers today do you consider to be genuinely strategic in differentiating? Do you might want to retain some kind of without control over in any future tower structure?

And the second one is a slightly knowing one about cash conversion. So one of the things we often get asked about with DT is, what's the real post everything else free cash flow. And maybe just if you could give us direction of how you think things like finance leases, vendor financing, et cetera would trend over the next few years as well would be helpful?

And then the final question is just regarding your comfort range on leverage, which I think a lot of the last few days has been talking about why DTE partly through its European operations but also U.S. is different kinds of telco given its by a growth in exposure in assets. So the question is what would you need to see happen in your performance to raise your comfort level or comfort range for leverage ? And at what point do you think you could say this is a business, it should be levied more at 2.5x to 3x in the 2.2x to 2.7x you talked about today? Thanks.

C: Timotheus Hoettges: Chairman of the Management Board, Chief Executive Officer: Deutsche Telekom AG:} Can I start with the last one? We will not change the corridor. To be very clear and the reason being is, it forces discipline into the organization. I'd rather prefer to tell you I'm out of the comfort zone and having that deliberate discussion with my peer and left colleagues on an ongoing basis than basically lift up the comfort zone. I think and mathematically you're right, Josh. Because, that the lease impact is about 0.4 points right now and you could argue. But for me it's a disciplinary activity to keep the comfort zone where it is and then I rather prefer to delay returning back into the comfort zone.

Second point is, if you take a look at the share buybacks which are coming from the U.S., they will not stop in '24, right. There's an official program going into '25, so that will help us to deleverage, and it will continue the years beyond that. So on the leverage, no change and keep the discipline and keep us honest on this one.

Q - Analyst

Thorsten, on the towers?

A - Thorsten Langheim {BIO 16896102 <GO>}

On the towers, yes. Just one sentence here on debt. I think what is -- one thing that is kind of noteworthy is that leverage is good for equity holders as long as you are EBITDA and free cash flow grows. And obviously, we are also in a different environment, yes, than 10 years ago, where interest rates were much higher than today. You see that we are also as a team discussing these kind of topics. We feel much more relaxed today than maybe five years ago when the leverage ratio was lower. But this is not to negate what Christian was just saying just an observation.

Second one on Towers, yes, of course, there are some strategic towers. I cannot give you a kind of sense. Maybe it's five, maybe it's 10%, it's much less than you think, because it's no longer a coverage game in Germany. We still have and have an advantage there, but given the license requirements also, the other guys have to move up and we are open for business on colocation, but we have some juicy rooftops that in any case, we cannot share by the way, but these are differentiating things for us. So the old discussions that you had in the past about, oh, how many strategic sites you have is much less than a lot of people are thinking.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay. Let me just dwell on the free cash flow. So our clear ambition is to make the free cash flow as healthy as possible. Give you an indication, recall back in Q1 2021, we basically have reverse factoring and we're trying to do this on an ongoing basis.

Secondly, also the vendor financing in the U.S. has an increased while at the same time, free cash flow is increasing. So from a percentage point of view, I think the dilution is coming down as well. On the lease trends look and in the European business, there may be some slight increases because we have to build out into 5G and but -- it's not massive. I think that the biggest question that was asked yesterday as well, is, obviously the renewal of the leasing contract with Crown Castle and SPG in the U.S., which we haven't mastered yet. And I would say, once we're through this one, I think we shouldn't expect a significant increase on the lease trends going forward, because we struck deals which are 15 years long. So there will be basically -- there will be no new deals coming soon.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. So no vendor financing and T-Mobile has a constant level of finance leases that you know about okay. And that's it and otherwise it's squeaky clean.

So with that we move on. Thank you, George. To Jacob at Credit Suisse.

Q - Jacob Lundberg {BIO 19084969 <GO>}

Thanks for taking the question. So I had a few hopefully really straightforward questions. Firstly, I mean, you said you think DT is a sort of EUR20 plus stock but also you won't buyback stock in the next two, three years. Can you just help us understand why don't you want to buyback stocks? I appreciate you're growing the dividend, but why do buybacks make sense for TMUS but not for DTE?

And secondly, in Throsten's slides, you showed that you rejected two mergers with a European Tower Co and a 50/50 JV with a European Tower Co Was that purely about price? Or can you maybe just sort of help us understand the rationales behind those decisions just to help understand how do you think about this sort of concept of monetizing tower co-valuation?

And then just finally, I mean, it sort of sounds like you've become more flexible around your ownership with mobile assets and also on the fixed lines side where as -- as Srini mentioned yesterday, you expect to own 60% to 70% of the fiber assets long-term. So, I guess the question is, could you look at broader monetization of fixed line down the road? And could the German fiber networks that include development in a few years? I just sort of interested in how you think about that? Thank you.

A - Thorsten Langheim {BIO 16896102 <GO>}

My god, Jacob. A very, very good question and I couldn't agree more on the buyback topic. However, you also know what our leverage constraints and you know our priority of retaining control in the U.S. or first comes first and then comes second so much to that. But I certainly -- it's not lost on me and on us as a team to what you are saying.

On the, let's say, tower discussions, let me keep this private because we signed NDAs. But I indicated to you before that MLA terms, price, premiums, lease liabilities they may hit you which is kind of a very odd thing here in European accounting, which is something that I don't understand, I'm coming from the cash world and not from an accounting world. It's lost on me how you and why you have to capitalize this OpEx at these low NPVs, at the low discount rates, and then all the nice benefits of a deal are gone.

But I recognize that two things have moved a lot, especially, last year when the first American came to Europe and then the subsequent acquisition in defense market by Cernex that terms have improved significantly. So, just take this as my answer on your very good questions.

A - Christian P. Illek {BIO 19077446 <GO>}

Let me add two topics. The first one, by the way, I'm totally with Thorsten with you why not doing earnings per share buybacks on the stock? My first observation this regard is, there's a difference between the U.S. and Europe when it comes to buybacks. In the European environment, I always see it a little bit lack of strategy if somebody's doing a buyback. And now I would not say that we have a lack of strategy, but I think we have a lack of communication and conviction. And therefore that we are holding a nine hours at Capital Markets Day that we're constantly on the road that we are trying to convince you guys on Deutsche Telekom stock. This is, let's say, our answer on this one. So, then rather buying back our stocks, we are trying to attract investors into our stock. So, that's I think my approach on this one.

And dividend is a more -- for me, a more sustainable instrument, which shows our conviction into the future prospects. And rather doing 1x or 2x share buyback on our stocks to just be happy with the price we see. But the undervaluation is -- for us, is obvious, and we have a lot of bets about that one in our team here.

My second thing is about ownership on assets. I think we are, in principle, an infrastructure company, and therefore we should own the network. We are not a service provider. We are not a ServCo, we are an infrastructure company and a NetCo And therefore our ownership on fixed and mobile gives us as well the credibility on this business. We have to run the networks. We have to build and run the infrastructure. And, by the way, I even believe we do it better than a lot of other peoples are doing it.

So, therefore, the majority of our infrastructure should be under our control. This gives us a much more flexibility, even from the technical solutions, which we are providing. Nevertheless, if you can't fight the dragon, right the dragon, our balance sheet is stretched. So, therefore -- and our capacities as well. And therefore we cannot go for 100% impossible. Nobody is able to do so. And if you can't find it then you have to write it and therefore our logical step is then to say, okay guys, there are others who have maybe the same issue of utilization, the infrastructure. There are others who have good technologies in areas where we have weaknesses.

Let's partner, let's create a win-win it's coming back to my earlier point that we are open to this one and this gives us much more credibility. It's by the way, good for the consumers, because the extension of the infrastructure is brought up and the monetization of that infrastructure as well. So therefore, I think this is the change in our thinking and by the way, you're temping a very important point because our network guys, our technology people they love to own it 100%, they love to control the whole value chain. But that is not how the world is developing and therefore we have changed this paradigm successfully and I think there's more to come.

I would add one additional point when it comes to separation complexity. We looked at this quite intensively a couple of years ago and it's not like that you open up a zipper and the left-hand side is the go-to-market organization and the right hand side is your network, it's a complex undertaking to really separate out a fixed network out of an integrated telco and take a look, what has happened in New Zealand, not through with it. So it's very -- it's a very complex project with questionable financial results whether this makes sense.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. And if I may add one thing I think Srini talked about this yesterday, it's actually, there's a lot of execution and capability opportunity and optionality, and how you run the value chain and fix their networks, right. I mean, ideally you -- let others build some stuff that you really don't want to build. And you get onto the chain of the value where the money is and then you'd use joint ventures and so on. So it's a whole -- it's a whole range of opportunities and models that you have to orchestrate and I think that's where a lot of the value creation will be and doing this in the right way in Germany, in particular.

So next, -- thanks Jacob, and the next one is from Robert, Deutsche Bank. Robert, here you go.

Q - Robert Grindle {BIO 1840555 <GO>}

Yes. Hi. Thank you very much. I loved the vision and drama over the last two days. It's been the best box set I have seen all month. And going back to the bump discount if I might, either investors don't like the U.S,, which is clearly not true or they think the ex-U.S. is worse than other telcos, which cannot be true, which leaves the interface, which is the problem and relates to intergroup cash flows and how cash gets back to shareholders. One issue causing confusion is the buyback versus the dividend from TMUS. Are they fully fungible and make no difference to you guys in your thinking and how you take benefits? I'd like a comment on that.

And going back to the payout ratio, having a payout of earning (Technical Difficulty) entirely logical as a proportionate measure. But compared to non-telcos Deutsche Telekom has a high DNA versus CapEx. The dividend did get cut and interest rates are rising. Yet it seems you are still cautious especially at the low end. So from the previous comments, it seems that it is the leverage target. So, if you monetize some of your portfolio, we'll wrap directly released cash distribution and we can expect the payout to move up the range, okay?

A - Christian P. Illek {BIO 19077446 <GO>}

So, let me start with a payout ratio. Look, first of all, yes, we're not paying at the same level relative to other competitors, but other competitors don't have the same business profile as we have and we're growing much faster by the way across the Atlantic meaning the U.S. and an ex-U.S. and I think that should be considered as well. I'm not sure whether we cautious. So, but on the EPS, let me remind you we said it's greater EUR1.75, and greater EUR1.75 means that the full potential is above that level, which we're communicating right now. And what was the question with the DT as a high DNA on CapEx, can you help me out on this one, Robert?

Q - Robert Grindle {BIO 1840555 <GO>}

Yes. That was a point around (inaudible). The basically your cash flow is growing far, far faster than your earnings is the main point. But I think you've answered that. My other question is about the getting cash back from TMUS, does it matter whether you get it through buybacks or dividends? Because investors kind of thinking somehow does but is it fungible.

A - Christian P. Illek {BIO 19077446 <GO>}

Fully fungible. It is fully fungible actually from a tax perspective as share buyback is better than a dividend. So, and you have heard the U.S. team saying, we perceive ourselves as a growth company. Therefore, therefore we prefer share buybacks away over the dividend. So I think that was a very clear message.

A - Hannes Wittig {BIO 4033762 <GO>}

But they gave a, they also said those five bags for three years and it won't stop in '25. So it's -- as far as we are concerned, is about as reliable as a dividend. Okay, hope that's a good answer, and let's move on to -- thanks Robert, to Polo again. Here we go Polo.

Q - Polo Tang {BIO 3059030 <GO>}

Yes. Hi. Thanks for taking the questions. So we've got three quick ones, hopefully, the first one is, we just about a German politics and also the EU recovery funds. So most of the German political parties have published their election manifestos in the green party HTP FTP, All seem to be proposing increased investment in broadband infrastructure. So how do you think this will impact the evolution of the German broadband market and get further government subsidies lower German CapEx for DT doing forward. And also how should we think about the impact of the EU recovery fund on the German communications market?

Second question is really German headcount, because Christian had a slide showing 85,000 FTEs in the German region. But with digitalization and also an acceleration in the number of people retiring, how should we think about German headcount in the longer term?

And my final question is really just about risks and opportunities because it's clear that the main message from the Capital Markets Day is about accelerating growth. But if you look at your 2024 objectives, what's the one area and (inaudible) what's the one area that you're most excited about? Or what do you see has the biggest opportunity similarly, what do you see is the main risk to achieve in your targets?

A - Timotheus Hoettges {BIO 4694556 <GO>}

Thorsten, I can answer and then you can. Polo first thing, by the way, it's interesting that we had only one question to a regulation so far from doing all this nine hours and that shows me that we all perceive the regulation is relaxing and it's getting better. I know and talk for Germany in a specific on the regulation side and I was preparing myself for this session, I was thinking about what is good and what is bad and what is open.

And what is good is, the new telecommunication law is opening up, better ways of building infrastructure in Germany, it is -- it's under regulation, it supported, all our whole theories which we had with the partners. The NIM cost and privilege has fallen. Okay, you can complain that it takes a few years to long, but in principle it is decided. We had not an in decrease of wholesale prices, the opposite is taking place and the regulation principle is supporting this.

The national roaming, it's not over yet but it is still there with regard to (inaudible) Heights, but the likelihood that they just legally enforced, its not there. So in principle, I would say, the regulator in Europe and in Germany are very much on a trick to ease the situation than worsening the situation, which is a good signal. On top of that Europe has EUR750 billion funds available for the recovery and Germany on top of that EUR140 billion only for Germany which are standing there. We have reacted on that one. We have built an own organization unit analyzing this different pots here and applying to this one appropriately

Honestly, I think the biggest problem is not the money. The biggest problem is the application process. And therefore I have even personally initiated at the BDE which is the industrial association in Germany, an independent support that private partnerships getting built that we find methods that this money is getting into the system quickly.

In this organization unit, we found out that something like 25% of the whole money is relevant for us as Deutsche Telekom including to systems business. And for this money, we are now organizing ourselves to apply for that one. To give you a few relevant example, schooling and the digitization of schools, not only talking about fiber, I'm talking as well about the cloud, talking about the running of the system is one of the elements.

Second, we have seen all the things around the Corona-Warn-App, we have seen the relevant about the exchange server, Deutsche Telekom is the one providing the global vaccine passport. We have seen initiatives of our more subsidization for rural areas, for connectivity by the way they're not part of the German program, because the money was available already before that, you should keep them on top of that one. And we have a discussion about GAIA-X money is available for that one. We have money for opened on Deutsche Telekom with partners as opened up in Berlin and own (inaudible) for open run, where in the field people can test it. So, the money is flowing already today. We are applying in a very professional manner to this one.

Our involvement is, you see that I can talk an hour for that one is high. I'm personally involved into a lot of, let's say, debates on how to allocate best of the business that digitization is leapfrogging in Germany. And that is the way, going forward. We will see that, over the next years now, how -- when it comes to into the system, and the application is the challenge which we see today.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay. Let me pick up on the headcount question, Polo. So, first of all, this is not a new process. We're reducing headcount in Germany since many, many years in the vicinity of 3% to 5%. It depends on the year, on the programs which are running. I think, the basis for this is, I mentioned this in my presentation, is a very productive interaction between our HR organization and the social partner. We have a well-established process. We don't make this with a lot of noise. It's kind of a continuous decline of the headcount.

So, do we see acceleration? I said in my IDC program, look, this is a lower ambition relative to the 1.5, the 1.2, and that is also due to the accelerated efforts which we're doing on fiber. So, we just, to a certain degree, restrained of letting people go because we're putting mere capacity demand into the system in order to accelerate the fiber build-out. And on the retirements, the retirements, to be honest, we can wait another couple of years, and I think that kicking in in '25, '26, so, we don't have the luxury like the French guys had, that they could let people go because of the retirements. So, it will take quite a bit of time until we get to this. But at the middle of the 20th, then we're going to see an increase of natural leavers.

A - Hannes Wittig {BIO 4033762 <GO>}

Right. I think --

A - Timotheus Hoettges {BIO 4694556 <GO>}

And then I may be a veteran already in this scene here, and especially, when it goes to the city, there's this narrative that, when you think about Germany, headcount reduction is impossible. We are anyhow not cost-disciplined because we always want high-quality and we are not able to reduce headcount. And if you see the constant decrease in our organization, if you see that we have overdelivered on the EUR1.5 billion cost savings which we have promised, I think this narrative is wrong. And you have to do it in a right way. It doesn't make sense to make that very loud and noisy and announce big programs.

I think, in Germany, the culture is to do that in a kind of COVIDition and joined effort with our works council and there's no way that this is stopping. And with Sirni on Germany, you have a no boy sit -- sitting on there, that's business. And he has started, by the way, in the lines with the unions to think about how many SG&A, how many quality assurance, how many administrative people, do we need in our organization? And that is even a new push, which came to the organization from that angle. So I think when it comes to our 3% to 5% EBITDA, you know that there is more cost discipline in every element needed to achieve it.

A - Christian P. Illek {BIO 19077446 <GO>}

Look, on the opportunities and risks, our plan is prudent and we discussed it back and forth. And if you take a look, I see currently more opportunities than I'm seeing risk to be honest. Because I think we have the worst times of COVID probably behind us in the next couple of months and people are becoming more optimistic. There's a significant backlog of digitization efforts being in the public sector, being it was some small companies and people actually value quality, which should help us in the proposition, which we're providing to customers. We have a fairly rational market environment and I hope that it continues to be obviously, I cannot influence a 100%. But what we've seen in the past, actually, gives me confident that people are staying disciplined also not becoming lunatics on pricing or something like this. So right now, I think I'm hopeful and confident that we actually achieve those numbers mid-term and short-term.

A - Hannes Wittig {BIO 4033762 <GO>}

Excellent. And there's some greater signs in front of some of the targets. Okay. Thank you, Polo. And next is Andrew. Hey, Andrew.

Q - Andrew Lee {BIO 15121310 <GO>}

Hey, everyone. Thanks for the last 24 hours of answers that have answered a lot of our questions. I had one on Thorsten's Slide 22, which is one we've all been struggling with. What gets DT to a EUR20 plus stock and specifically the team has valuation in DT. So, you guys obviously read analyst reports and speaks investors and those are people have highlighted that the DT European stub is cheap. Lots of people highlights it but it hasn't really made any difference. Maybe DT Europe is super cheap. What it looks like is that DT investors aren't paying the right value team is within the DT share price. Or at least, not the same values team as investors are paying for the team as listing. So the question is, why do you think this valuation discount exists? And outside of buybacks, is there anything you can do to make sure that DTE shares better reflect the value you highlighted in CMS and for DTE overall? Great, if you can also explain what you mean by seeing is believing? Thank you.

A - Thorsten Langheim {BIO 16896102 <GO>}

Thanks, Andrew. I know that you have written about this and quite smartly picked this up as well. It's a difficult question to answer, but we have seen this game being played out in many different sectors and also in our sector, for example, SoftBank. And it's a stake in Alibaba, not fully reflected in the SoftBank valuation. Sometimes you have then to crystallize this value, which we try to achieve by highlighting the value of our towers and of our Deutsche operations. But I think if it comes to the U.S., people are just waiting as an investor in Deutsche Telekom that they see the benefit of the value in the U.S. in the dividend. And that is what means seeing is believing.

I think, if we hit the EUR1.75 in EPS, we can pay a much higher dividend and then the bots will buy. So I think, it's a timing question. Keep in mind that over the last five years, TMO US has appreciated significantly in value, but other than seeing it and they kept market stay at the capital markets as evaluation the DT investor, the DT shareholder, hadn't had the benefit of a higher dividend or cash coming out of this investment. So I think this is a timing issue. We want to bridge this timing issue because it also gives us, yes, a greater pleasure to work and more opportunity in the future if our share price is higher.

And therefore as I said, it's not lost on me that some people arguing, "hey, why don't you buyback DTE stock at this valuation if you are convinced in this." By the way, we had a similar discussion a few years ago when DTE's -- TMO US stock was at EUR4.5 and some people internally were arguing, "jey, why don't we sell some TMO US stock in order to fund some stuff or buyback DTE shares." And I told these people the same thing that I tell them today. We have a leverage ratio that we want to bring down.

Second, we have a priority because it is financially very attractive in our view to be invested in the U.S. And we don't want to get anywhere near kind of trap where DT shareholders are not getting the benefits of the cash that is being generated in the U.S. It's not to say that we will not support, it kind of creative ways that Mike and the team comes up with investments in the U.S. But I think to cut a long story short seeing is believing, we need to see higher dividend, because that's the benefit that the DT shareholder wants to see and we want to help a little bit by crystallizing that just look at it Germany and this wonderful European operation which is gross which is EBITDA margins and its cash conversion. If you really look at this, sometimes I think. Oh, hopefully we can -- we can list Europe for a second. Yes, and put a value on this as well, then the market will better understand the benefit of having these assets not fully reflected in the share price.

A - Timotheus Hoettges {BIO 4694556 <GO>}

And if Thorsten will be the CEO, I would be the chairman of 20 companies, I can tell you because everything would be in the market. Europe in the market, systems on the market, Deutsche Telekom Germany in the market, U.S. in the market, our Mr.Portfolio here, anyhow that's a funny remark.

Look, I can tell you two things, the first one we have a lot of internal bets about out the EUR20. And there are bets like the moment we get it, we make a big donation to a good purpose. It does what [ph] even dencing on the table in our supervisory board, promising the EUR20. So Andrew so that was a big commitment was sitting under the table. Then we had the discussion as well internally on, what can we do and what is the reason that we're not there yet.

And one of the observation is that a lot of the machines are buying our stock and it's -- you're looking in it and I think you're spot on. I saw your report recently and I think, you got the points and you understand our business. The machines, they are looking on different categories. And one of the reasons that we our focusing on earnings per share seriously is that we believe that we can trigger additional demand on our stock by focusing on understanding better what machines are doing. And that is one of the reasons that we are changing the paradigm here a bit. So this is one of the elements. It's not about our fundamentals, it's not about the future prospect of our business that we are doubting, I think it's the way of communicating and addressing the market.

The second thing is -- and I have to say that because I got some harsh mail from one of our competitors about my presentation, where he said, look, it's totally unfair that you compare your total shareholder return with ours, and you show yours a growing while mine is shrinking, this is unfair. This is criticizing my work or whatsoever.

I can tell you, I was not criticizing the work of the European peers. And I know how tough the work is for Orange, Vodafone and how great they're doing, by the way. The only issue is, if you're living in Europe alone, we are in this narrative Europe is a lost ken [ph], and nobody gives a dollar on Europe in the telecommunication space, which is accelerated the issue. I think we are in Europe, all telcos, the good ones are undervalued in the way how they're doing. And that was, I think, the story. If you cannot win in Europe, then you have to find ways and you have to manage with this situation, and that is I think what we did, changing the portfolio, focusing on the U.S., investing heavily to -- into that business, having the merger on the hand, doing some structural changes. This is, I think, the method we did. We did okay in this regard, but we think we can do significantly better. We believe we are EUR100 billion stock prospectively and therefore that (inaudible).

The third answer, Andrew, when we run out of this Capital Markets Day and we were not allowed to do that earlier. This team is buying a big pile of stock. This is another commitment, because we believe in our shares. We were not able to do this beforehand, because of the insider information we had, but we will do that right after that event. And please follow up on that one Monday, so, it is even put your money where your mouth is. I'm heavy-invested in the stock double-digit. And I believe it's coming. It's a question of time that we see that. And I feel like an entrepreneur in that company, and we have to move on. Honestly, I believe we will see it, it's only a question of time.

A - Hannes Wittig {BIO 4033762 <GO>}

Thanks, Tim. And just to repeat some of the numbers, greater EUR1.75 in 2024. Christian said it's going to go there in a basically straight line. So, next year, earnings are up. Over EUR2 free cash flow per share -- proportionate free cash flow per share in 2024. It's also not -- it is not a J-curve. It's a straight line. So, that's what we'll have -- people will be looking at. So, that gives us confidence, and it's not (inaudible) the future story, right?

Okay. So, let's move on. Thank you, Andrew, and move on to Usman. Hey, Usman.

Q - Usman Ghazi {BIO 15041671 <GO>}

Great. Thanks for the opportunity again. I have two questions, please. Firstly on the special factors, cash outs in the ex-U.S. business. They have -- I mean you spoke about some of the reasons why the cash flow guidance for ex-U.S. business was a bit lower than the CMD in 2018. I guess one of the factors I can see is that these special factors cash slightly higher, EUR100 million to EUR200 million higher than what was expected. And I just want to understand what happened there and what is the outlook here to 2024. I know in the CMD 2018 presentation, there was a kind of a chart showing the special factors cash items going down to around EUR700 million. But is that still the outlook or is it different ? And if so, why?

The second question is for Thorsten. Just on -- maybe pushing back a bit on what is in group development and what isn't at the moment. I mean, T-Mobile Netherlands, obviously doing really well. There's fiber optic happening in the Netherlands, so there ARPU uplift and the market seems to be in a very good place. So why is it -- why should it not go back into DT's ownership rather than you wanting to monetize that asset? And just related to that, I guess, is there any scope in T-Systems where I know deal was attempted with IBM in the past? I mean, is there any scope to do anything with regards to T-Systems that can better surface the value of that business?

A - Timotheus Hoettges {BIO 4694556 <GO>}

Okay. Let me start with the special factors. So first of all, Usman, you're right. We've predicted a significant decrease towards '21. I think we have been in the previous Capital Markets Day, a little bit too optimistic. And on the other hand, we also have reduced costs significantly higher than we anticipated to be and therefore we needed some additional special factors in order to fund this. So if you take a look forward, so let me basically describe it in free cash flow environment. We have EBITDA growth which funds our expanded CapEx envelope and the free cash flow growth in the European business to EUR4 billion and all of the other items are basically neutralizing themselves out.

So what we're going to do is we expect obviously higher cash taxes in the upcoming years. At the same time, we're going to see an improvement on the working capital and we're going to see an improvement on the special factors. So by this at the outer years of the current projection and we'll see whether we get there, but the last Capital Markets Day was a bit too optimistic on this one. But I think it's worthwhile to spend those special factors you have seen in our indirect cost structure, especially the significant amount of people, which we let go over the past four years.

A - Hannes Wittig {BIO 4033762 <GO>}

Thorsten, you want to talk about the Netherlands.

A - Thorsten Langheim {BIO 16896102 <GO>}

Yes, with Netherlands, and I need a tissue because I'm so --. Well, first of all, Usman, it's a very fair point. It's our crown jewel in the European portfolio. But having said that, it's mobile only in Europe in a market where you have two converged players. So this is something that doesn't fit into our long term. Let me stress it, European strategy of owning FMC converged operators. And that's the reason why we've also taken a depart from the group in 2017, not only to focus in intensive care on this -- I don't say this word again, chicken, exclusively on turning it into chicken salad and I think now it's cocoa.

So, I didn't say -- so from that perspective, it's now the time to crystallize the value. But don't get me wrong -- if the value that someone is offering us for the next, let's say, five years of journey with this fantastic team and fantastic company, we may not sell it. It's just now we put it out there so that you see that on the some of the parts where there is something that has a value of about EUR6 billion according to your guesstimates. It gives us not huge deleveraging because we also lose some free cash flow, but it gives us an opportunity to do other stuff that we may want to do, which I don't want to talk about, for obvious reasons. So, flexibility is king. You know how much I like optionality, picking different buckets and seeing how we want to play around. So we cannot stay all in everything. We have good ideas we want to do and as much as I love the company, as much as I love the management team and the employees. Sometimes you have to do stuff and to reallocate your focus, let's put it this way.

In terms of the Systems, I think it's the same like on T-Mobile. Well, first you need to fix an asset and Adele started on a tough journey in 2018. And then he run into corona before you can think about doing something with these assets.

A - Hannes Wittig {BIO 4033762 <GO>}

Okay. Thank you, Thorsten. So next we have Ottavio at SocGen, please.

Q - Ottavio Adorisio {BIO 2134369 <GO>}

Hi. Thanks for taking the question. Congratulation on the results so far. The first one, it's on the leverage and it's for Christian. What I appreciate about Deutsche is that your target has always been a very consistent, clear. And I was like, if you can actually give a bit more granularity in the assumptions behind. Because one thing I liked about the Deutsche that differentiates from a lot of peers is that you have room around your targets. You don't really go very straight to what you can achieve. So, if you can tell us in terms of the assumption what do you have baked in, in the participation to the T-Mobile pay back if you do? Any segment of the SoftBank options, I believe that you assume only cash despite you got the option of delivery of shares, do you take shares in case?

You mentioned about the renewal of the tower leases with Crown Castle and SBA Comms of U.S. Do you have anything in the targets when assumptions are buying in that one? So actually, if you can talk around bid assumptions? The target is clear and your commitment, it's even more clear but it will be interesting to know what's behind in the assumptions.

The second one is (inaudible) the question. Now your preferred partner at least so far in the tower space is being Cellnex. But what management of Cellnex keep saying is that their value is not on the towers per se, but on the size and the future cash profile guaranteed by the tenants. So therefore, my question is, what is the contractual relationship between GD Towers and DT at the moment, particularly on the length of the contracts, any savings that has basically been granted to DT with new contracts assigned? Is the (inaudible) is also included in these contracts?

And the third is again to Thorsten. It's a bit of clarification. When you talk about market-leading on third-party share revenues, that's impressive. But I was wondering if the 23%

ratio you show in the slides, they only reflect the revenue from hosting the antenna or also additional services such as the backhaul services provided to third parties, such as Telefonica Deutschland. And when you talk about monetization, you also plan to crystallize the value of the backhaul, that's a big differentiating for Deutsche in Germany and I guess in other markets. Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay. So, let me start with the first question on the leverage, Ottavio. Look, as I said earlier on, I don't want to change the corridor because I want to keep the discipline in the group and I think there's a violent agreement among the Board to basically stay like this. The second one is, look, we have clear visibility of what we need in order to get to 50.1%, how many shares this mean. Obviously, you've heard Peter Osvaldik yesterday talking about share buyback of up to 2 times 20 in the years '23, '24. So obviously the share buybacks will help us to increase our position. And obviously, we got the 45 million fixed price option, which will be accretive from my perspective, massively accretive and gives us access to a low price to T-Mobile U.S. and another EUR56 million on the floating option, which obviously need to be converted at a market price.

There are other levers in place, which we will not declare and explain. We have Thorsten is always talking about optionality along two different dimensions. One is the jewels, which we can use; the second one is timing. I think we have time until 2024 and we will let you know whenever we have done something, what we have done, but I don't want to do kind of a front running.

A - Thorsten Langheim {BIO 16896102 <GO>}

Sorry. Preferred partner Real Madrid or (inaudible) tower. Of course, it will be us. Jose and Alex are right, when they say the value is not determined by the number of towers but the size and the cash flow profile from the tenants. Absolutely. And of course, we do have a market standard MLA in place between group development and -- not group development, but our tower operations and TDG. It wouldn't be a good use of our time if I now dwell on what are the terms, because in (inaudible) this will be completely started from scratch on that you discussed the things that are important to us and important to them. And that is where you see that a lot of things have changed, renewal clauses, all or nothing or the kind of, as a number one or number two in the market, you may or may not like, if a tower company is offering which I could do today, but most likely we are not going to do this, to offer a very low price to get someone else on the tower. So needs to be negotiated and be balanced out. I found it very interesting the MLA terms to see on the last two transactions that were happening in the European place. And we cross that bridge if we get there, but in principle it's absolutely right. The size and the cash flow profile and the commitment that you may give as an anchor tenant on the (inaudible) program that the TowerCo wants to offer.

As I said to you, we have an attractive company because the cash flow is very interesting that this TowerCo would get because we are going to build out a lot of towers over the next three years. And as I said, this year alone, we are building out about 1,500 towers. In terms of third-party share revenues, 23%, yes, that's revenues from other TowerCos . It's not hosting of any, let's say, additional services. There's a little bit of broadcasting in there, but that's not significant and has no backhaul in there. Of course, Bruno is always knocking on my door and said, hey, can we do this as well? No, it's not. And it's also not planned to monetize this.

A - Hannes Wittig {BIO 4033762 <GO>}

Great. Thank you, Thorsten. We've got two more questions -- time for two more questions. So the next one is from -- thanks, Ottavio, is from James at New Street. James, hello?

Q - James Ratzer {BIO 2442169 <GO>}

Hi, everyone. Yes, can you hear me okay?

A - Hannes Wittig {BIO 4033762 <GO>}

Yes. I can hear you.

Q - James Ratzer {BIO 2442169 <GO>}

Hi, guys. Right. Yes. Thanks. So, I had two questions, please. The first one actually, little bit of a follow-up for Ottavio's just now for Christian. I'd love to go a bit more into detail about the kind of thinking about how you might be allocating cash towards T-Mobile? So I'm a big fan of your decision today to push the leverage target out from 2023 to 2024, and certainly on my numbers that would seem to give you now flexibility to exercise that SoftBank option before 2023, which might not have been there before. So (inaudible) what I'm really wondering is given you announced moving out of that target by a year, why you are also not announcing today exercising the SoftBank option? I mean, if I presume if you're bullish on the T-Mobile share price going up, it would be in your interest to exercise sooner rather than later. So just interesting to understand a bit more about what are the factors you're thinking about there.

And similarly with the buyback, I think, Thorsten suggested you might sell in pro rata, you might not. I mean, given again you're bullish on the asset and you're wanting to increase your stake, what would be then the thinking on then going ahead and selling shares into a buyback, which might be seen as slightly contradictory if you're bullish on the long-term view on the assets?

And then question for Tim. I know Tim, you were mourning the fact there were no questions about regulations. So, here goes with one, which I think we've lived through could be 10 years of returns on capital declining in European telecoms, and now we're seeing really clear signs of it going up. I just wondered in your discussions with the regulators, how that metric is coming into play in your decisions. Do you find regulators have ideas of where returns on capital should be within the industry? Do you think regulators are happy with where your targeting returns should be going? Do you see scope for further upside in returns beyond that before regulators might look to come in at some point and intervene again? Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay. So, let me start with the leverage question and why don't we exercise the options right now. So, first of all, 45 million shares are basically being determined on the transaction price, which is $101. So, why should I do it right now? Because I have a guarantee on this American option to do it until the end of the period, which is 2024.

The second piece is the factor that I have to clear them out of the comfort zone does not mean I can do whatever I want to. So, look, we expect this leverage right now to peak this year around 3.2-ish. We'll see how it plays out. If I basically would exercise the floating options because I assume higher T-Mobile U.S. price, obviously would increase my net debt, and we don't want to do this, and I think that's also a sequence, Thorsten, right? Do we have to do the floating option first or the fixed price option first?

A - Thorsten Langheim {BIO 16896102 <GO>}

Both[ph].

A - Christian P. Illek {BIO 19077446 <GO>}

So, we have to do the fixed price option first. So, that's a theoretical argument. So, I think -- but there are other tools, I think, you can think of how you basically secure a lower price. We don't have to exercise the options right now, but we have clear visibility in how we get to that 50.1%. And the question hasn't been asked, but this group is really determined to get the majority to 50.1% and not 60% or something like this because there are other things which need to be done in the overall portfolio as well.

A - Timotheus Hoettges {BIO 4694556 <GO>}

I do not want to be disrespectful, but there's no politician in the world who knows what a ROCE is. So, maybe (inaudible) understands it but return on capital employed and the (inaudible) is something internal rate of return. I even had a discussion where I talked about market capitalization and they were questioning what that is. So therefore, this is not something which is in school books of politicians in Europe and Germany. Therefore, make it simple, talk about what's going on and the pitch which we constantly do is look, it's good that we have connectivity as a human right and we understand that it should come for cheap that people don't have to overpay on their expenses on communication.

But, if it's too cheap, then we might reduce the costs. So allow synergies. But if you don't allow synergies because you don't want to see inter market consultation beyond what we have today, then you have to do something that there is enough funds available to invest into the expectation of higher fiber deployments and higher 5G. And so this will -- this slide will which we have showed has to work. And I have to admit that in Germany, this slide will works better than it may be in other markets like Spain or like. But that said, this is the way how they understand it.

And now talking to Jerry Brito[ph] and talking to the German Chancellor's office, Chairman talking to the Ministers here in Germany, my feedback is that they have changed horses. Their horse is, how can we create a digital sovereignty, especially from China? How can we guarantee security of the infrastructure going forward, that nothing is happening that we never can get back mail from the outside world? How can we create innovation in Europe and enable digitization of businesses? And what is your contribution to this one? How can you create an ecosystem for venture capitalists and cloudify this world? So (inaudible) of the high topic of political leaders wherever you are, you have this topic. And they are, and that is impressive piece. I just had yesterday -- the day before yesterday, a session with the (inaudible) Chancellor where she was talking to the industry on ID management. It is a super big initiative going on an ID management in Germany, which shows that these guys are more on the use cases now than on the classical infrastructure. And this shows to me as well that this ex ante regulation is not that they are trying to steer it from political angle but that they are leaving it to the industries.

Now I can tell you, we will hear a lot of noise now during the course of this year in Germany, because every party will guarantee something to the citizen with regard to bandwidth or with regard to coverage and other topics. So we'll see how this has practically turned out at the end of the day, how is getting financed. Nobody's talking about that, nobody's talking about when and how this going to take place. But they think it's needed. And that is I think the opening for us -- or for me, to say, guys, we are willing to do so, we need that for our society, we are a big enabler for digitization and future wealth, here we are, we need your support on this one. And then, ROCE and internal rate of returns and the amortization rate can be explained.

And therefore, I think the balance of consumer prices to sustainable investments is getting into much better equivalent.

A - Hannes Wittig {BIO 4033762 <GO>}

Thank you, Tim. Okay, good. So it's all about equilibrium, right, as -- that one and in Germany, we have -- since 1st of April (inaudible) fees are no longer ex-ante regulated, right? So they are subject to commercial regulation and general cartel law, okay. So thank you, James, and let's move on to Steve at Redburn. Steve, hey.

Q - Steve Malcolm {BIO 20941168 <GO>}

Good afternoon, guys and thanks again for the excellent presentations you give. Now I'll go for three if I can. I want to come back on towers, but I actually want to ask Srini, not Thorsten who understandably has gotten most attention. Srini is -- hello? I'm hoping Srini is there to respond to the question.

A - Timotheus Hoettges {BIO 4694556 <GO>}

He is here. Srini come on to the screen.

Q - Steve Malcolm {BIO 20941168 <GO>}

Yes. I guess Srini --

A - Timotheus Hoettges {BIO 4694556 <GO>}

Take a mic.

A - Hannes Wittig {BIO 4033762 <GO>}

Yes, he's got mic.

Q - Steve Malcolm {BIO 20941168 <GO>}

You've been on both sides of the fence, in terms of running challenger operators big in India and now running an incumbent in Germany. Just interesting to hear your thoughts on the importance of tower ownership in Germany vis-a-vis compared to the other markets you operated in and how active the discussion is between you and Thorsten in terms of the future of towers win for German unit. That would be super interesting hear.

And then a question for Thorsten. Clearly, a lot of some key infrastructure models out there on the wireline side. You can sort of goose the numbers in lots of different ways but what's most important tends to be market benefit, penetration on network, how many customers you can get onto your fiber infrastructure. I'm kind of curious in that light, how you think you'll make a return in Holland where T-Mobile has got less than 10% retail share on fixed. The thought -- the think where that (inaudible) buildings 80% of the country. So, how you're thinking you will make a return on that investment?

And then just a couple of sort of detail ones on the earnings guidance. Can you just confirm that we should assume 50% stake in T-Mobile in the EUR1.75? And Christian, did you (inaudible) places ceiling on that stake at 50% in the last comment ? And also just tax rate you're assuming for next three or four years in that guidance would be very helpful as well. Thanks.

A - Timotheus Hoettges {BIO 4694556 <GO>}

Let me start. I see if -- I want to hire you for my finance organization because your face is always looking that serious and grumpy, I think you are very much qualified for our finance department.

(Multiple Speakers)

A - Srinivasan Gopalan

So Steve, rather disappointingly, I agree with a lot of what Thorsten said. It's a lot more fun when I disagree with it, but let me give you a couple of perspectives on things that I agree with, right ? First on Germany itself, I think Thorsten is right. There's a smaller than you think number of strategic sites and those ones I'm absolutely interested in making sure that we keep those golden sites, or however you want call them, right?

Piece two from me which is going to just read across from some of the India experience on towers, how that compares to more mature markets. Look, I think there's kind of a couple of different tower players, right? There's one which is effectively a pure financing play, right, which is effectively exploiting arbitrage[ph] in the market now. I think you need to do it when you need to do it depending on the state of your balance sheet. I think there is a more interesting structural play which is bringing in genuine expertise into managing towers and creating real value on the towers themselves by either getting in a team that's been there done it before or actually creating more value through greater tenancy. And my instinct is always more on the second side rather than on the first side and as and when we do stuff with the kingmaker asset, I think what you will land up seeing is much more sense of how do we create genuine economic value from this and also how do we give ourselves exposure to an asset class that my personal belief is going to grow with time. Because I think that's the way in which more and more mature markets are going to get structured. So I hope that answers some of the questions at least that you had on it.

(Multiple Speakers)

A - Thorsten Langheim {BIO 16896102 <GO>}

Okay. So let me --

(Multiple Speakers)

A - Christian P. Illek {BIO 19077446 <GO>}

-- followup on earnings guidance.

A - Thorsten Langheim {BIO 16896102 <GO>}

Let me -- sorry, Steve. Let me dwell on this, and that you see that we are sitting here, not fighting, is the lessons learned over the last three years on towers. And I tell you this is happening at every #1 and #2 operators in the market where you have a guy who's running the NatCo and then there's a guy who's running the towers and it starts with just CTIO running the towers and then the fight starts.

And you see the power of this team. We've lived through these discussion together over the last three years. We have a CEO in the German region who understands shareholder value and who understands how we can participate in this asset class and that actually the towers are not a strategic control point, as long as you have an MLA in place that is protecting you via the golden sites, as long as you have an MLA in place, it is protecting you from the TowerCo of dumping tower capacity to other operators at very low price, as long as you are not at the mercy of the TowerCo and price renegotiations and picking the towers, and if you touch the towers with new antennas.

So, I think that gives you a good indication that we are fairly advanced in our thinking of what we need in order to get the best out of our shareholders -- for our shareholders. In terms of Holland, this is a question not for me. This is a question that you should ask, obviously, the investors. And it's not lost on me that you look at it from this perspective how you make a return in this replay a market where you only have one tenant at the get-go.

We have given obviously certain commitments. And, of course, it goes without saying that this smart team that is kind of committing to build our 1 million fiber lines for us needs another tenant on it. And it will come over time. There are obviously also interesting discussions in this market about public to private and what may or may not happen. But Steve, forgive me, this is a question that you have to ask the FiberCo whether they make a return on it, and not so much for me. I like it because it gives me showcase. I know what I pay for it, and I can go to the regulator in a non-regulated market and say, hey, there's a huge asymmetry. And, second, it gives me something to support us on FMC in the future.

A - Timotheus Hoettges {BIO 4694556 <GO>}

Okay. So, on the earnings guidance, Steve, first of all, yes, we assumed the 50% stake in T-Mobile U.S. And, again, let me repeat, this is where we said greater EUR1.75, and we assume the current tax regime which we have in the U.S. because we don't want to speculate where the corporate income tax is moving towards from 21%, nor do we want to speculate on a minimum tax burden which we is also being discussed. So, I think we wait until the environment has come to a conclusion -- or the politicians have come to a conclusion. But that's the answer for -- for your answer -- for your question, sorry.

A - Hannes Wittig {BIO 4033762 <GO>}

Very good and Steve, let me say, I work in the finance department of Deutsche Telekom and I'd love to welcome you as a colleague. Okay, so let's work on that. And before I pass on to Tim for his closing statement, let me just thank you all for your kind and patient attention, the many good questions we have had and also thank the management team and all those who have supported them to prepare these presentations. I'd like to thank my team for their dedication and their hard work. And I hope you take something away from this investor day that is what we wanted to convey which is our spirit of exhilaration and excitement about the future and it's very significant highly visible and great earnings growth, that is ahead and how we will balance our capital allocation, so it's to the maximum benefit of our shareholders.

And with that, I pass on to Tim for his closing statements. Thank you.

A - Timotheus Hoettges {BIO 4694556 <GO>}

Yes. Thank you very much everybody and before I go into the very short summary. Let me -- let me say thank you as well. I'd like to thank Hannes for making this Capital Markets possible again and all the content and I can tell you cannot believe how much work we have spent into that one. I like to thank his Investor Relations team and our strategy team on bringing all the stuff together. I like to think my Board colleagues and the U.S. team for making this event happening and I can tell you it feels a little bit here like X-Factor. Because we are sitting since nine hours in one studio here, all together and I can tell you always, when somebody's coming off stage, we do this or we do that. And I can tell you there's one guy who's going into extension, which is Thorsten, Real Madrid against Bayern Munich, it is nil-nil, and therefore he has to work on his presentation style and especially on the pictures on me.

There's another thing. I'd like to thank everybody who made this event here even from COVID safe working environment possible. So you cannot believe how difficult it was and hopefully it was the last time that we have this difficulties and even the technical stuff here. I'm very proud about technicians, about the camera people, and all the people in the studio here, because it showed the digitization and the virtual world is really working. There was no slippery, nothing. Our work -- our network was always stable allocating all the details, so great work. Thank you for that one.

Now summary, and I do that quickly because I know you are tired. I'd like to thank you for listening to us from nine hours and I was thinking about the picture and you sit here at your home offices and watching us for nine hours, think about watching nine hours a Netflix series. How you feel after this? It is binge-watching of Deutsche Telekom. I feel sorry for that one. Look, this was the fourth episode of binge-watching Capital Markets Days of Deutsche Telekom. I'm a main actor, I'm still alive. This is surprising in Netflix series, but that is good. The rest of the team is there. So, thank you for nine hours of binge-watching Capital Markets Day. Hope you got something. I have to say there's one colleague, she didn't join us today, which is Birgit Bohle, our Head of HR. And she deserves an appreciation as well, because she was listening for nine hours, her team here. Look, I found we can compensate that for all of you, we make an extra episodes, nine hours of HR. You will really enjoy that, I would say.

Now coming to some serious comments here a bit. Remember on the last Capital Markets Day, I was on stage at the end and I was talking about the European market, the single market. I was talking about the regulation which is going to improve. I was talking about the opportunities of digitization. I was talking about the opportunities we might have in the U.S. with a deal and I was talking about growth. And at that point in time, I was sharing a lot of optimism in an industry which was in really dire straits and a very pessimistic and negative approach. And honestly, now four years down the road, we delivered. We were able to deliver a company and to show you a company, which is growing. I would do that again and I do it again. I know that now we have accelerated on what we did. We have delivered on a lot of things. And we even say our target should be higher than they were the last time.

But I do that again because I'm optimistic about the opportunities around digitization. I'm optimistic about the setup of Deutsche Telekom and its portfolio where we are today. I'm very optimistic about the team and the attitude, the culture Deutsche Telekom has evolved over the last years which gives us a lot of self-confidence to tackle the challenges which is lying in front of us. And therefore I hope that I was able -- we were able to share a bit of that optimism around that we believe, we have a really right to play and we should be the choice, the pick which you should choose in the telco industry going forward.

I think Deutsche Telekom is not a one-bet company. We are a multi-bet opportunity from all the angles which we are playing in the U.S. with the synergies, in Germany now with our cyber attacks, when it comes to the 5G deployment, the B2B opportunities where we, as a former incumbent, have all the right to play integral. This is a multi-bet opportunity and hopefully we came across that way.

Now the but -- I can tell you if the cameras are off, I will tell my team one thing. Do you believe everything you have said this leading here, this kind of premium there. We are the best. We are outperforming all the others. I can promise you one thing. We are coming down to earth. This is something which we are striving for. This is something we maybe get a feedback in our industry. But I can tell you only the paranoid survives. And if you talk about leading, leading is not for me something static. Leadings dynamic. If we talk about leading European telco, leading -- it's not something which is a benchmark to others. Leading is an attitude. It's the way how we're striving all the time to do the best for this company. And I cannot promise you that we will deliver on all these ambitious targets, which we have laid out. But I can you promise one thing that we have the attitude to always do the best to achieve what we have committed over the last nine hours. This is our playbook for the future and we're trying to play that playbook as best with a leading attitude going forward.

This world is not going to be easier over the next three to four years. We have this big conflict between China and the Americas, these two hemispheres which are decoupling. This is triggering challenges on the supply chain. This is triggering challenges about the volatility of markets. We have this huge in-debt business of our societies after COVID-19. We have the nationalism in a lot of countries who feel challenged from the rest of the world. We have political unrest in our society. And therefore, I think, that the purpose of trying to help societies to become better, to enable societies for future wealth, to be sustainable in what you're doing, the purpose to bring that across into the companies and to your employees. This is a big driver for the energy which is needed to give orientation this time. Telekom will be a lighthouse and orientation point for the society and its employees. And this, I think, is releasing a lot of additional energy which makes us possible to fulfill the commitments which were given. And exactly that is, let's say, what we're about. It's about the passion for our brand. It's about the passion for the purpose of what we are doing for societies.

And the good thing is we are not stretched. We have one clear area where we are. We are the transatlantic telco. We are in one hemisphere where we can play this playbook. This is a big advantage, not only from a risk and volatility perspective but even as well from an identity perspective. So we hope that we can convince more buyers into our stock, more people who trust in Deutsche Telekom, the transatlantic leader.

Thank you very much for joining us and hope to see you soon healthy and physically.