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Deutsche Telekom AG (DTE.DE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Deutsche Telekom's Conference Call. At our customer's request, this conference will be recorded and uploaded to the Internet.

May I now hand over to Mr. Hannes Wittig.

Hannes C. Wittig
Head-Investor Relations

Good afternoon, everyone, and welcome to our second quarter 2015 results call. With me are Tim Höttges, our CEO; and Thomas Dannenfeldt, our CFO. Tim will start by presenting our highlights for the quarter, followed by Thomas who will dig deeper into some of the details. This will be followed by a Q&A. Please pay also attention to our disclaimer at the beginning of the presentation.

With these words, I pass the word to Tim, our CEO, and his introductory remarks.

Timotheus Höttges
Chairman-Management Board & CEO

Yeah. Good afternoon, good morning, everybody. Thank you, Hannes, and welcome to today's call of our Q2 results. To start out of the agenda, let me highlight the quarter. You'll find us in a good mood here, at Deutsche Telekom. And to summarize the quarter, I would say the first topic is great customer growth. So the acceptance of

our propositions in the U.S. was quite strong, but as well on the broadband side in Germany was strong. The mobile net add numbers were quite strong. So this highlight would be customers.

And the second highlight is, despite the fact that we have invested 20% more, €5.1 billion, into the improvement of our infrastructure, we were able to show a very strong cash flow, an increase by 31%. I think this gets us a lot of confidence towards the rest of the year. In this quarter, like in the previous ones, we made good progress towards our guidance for this year and towards the strategic targets we communicated to you at our recent Capital Markets Day and we are very happy to reiterate our guidance and these targets today.

Our financial results, you have seen the numbers, are quite strong. Our revenue growth accelerated from 13.1% to 15.3% organically. We delivered sales growth of 5.7%. This is even faster than the 4.7% in the last quarter. Our adjusted EBITDA growth accelerated from 11% to 13.5% in the second quarter, and even here organically EBITDA growth amounted to 6.7% after 5.6% in the last quarter. Our free cash flow, I mentioned that, was €1.4 billion, up 31% year-on-year or 14% without the contribution from the settlement we mentioned already in the last quarter.

We continued our better-than-expected performance in a lot of core KPIs. In the U.S., we had another great quarter of customer growth. We overtook Sprint and are now the third largest operator in the U.S. We were able to raise our 2015 subscriber guidance for the second time this year and we initially expected 2.2 million to 3.2 million branded postpaid net adds and we are now – expect 3.4 million to 3.9 million for the full year. Despite this increase, we did not change our financial guidance.

In Germany, while we are showing a headline slowdown, we believe our underlying mobile service revenue trends remain on track for our medium-term guidance; we will come back to that one later. Also in Germany, our second quarter line losses of 118,000 were the lowest in 11 years. We added 157,000 broadband subscriptions in the first half, of which 81,000 came in the second quarter. Based on this success, we raise our guidance to at least 250,000 broadband net additions this year from our initial expectation of 100,000, and we do so again without changing our financial guidance.

Our strong KPIs are driven by our network investments, but also reflect the success of our Magenta One bundle offers where we now have 1.3 million customers just after 10 months, and you might debate our 2018 target of 3 million. This compares to initially expected 3 million at the end of 2018. At the same time, we added 2 million German lines to IP in the first half of the year, and we continue to progress faster than initially planned as well.

As you know, we are not only investing into an industry leading all-IP migration, we are also rapidly building out our LTE and fiber networks. We now reach 47% of German homes with fiber, an increase of 8 percentage points within 12 months; at the Group level, invested over 5 billion in the first half, a double-digit increase on the prior year.

As I have mentioned, while we are tracking ahead on many core KPIs, we are happy to confirm our financial targets. This is due to our strict cost control in the U.S. despite the faster-than-expected subscriber growth. We continue to expect €6.8 billion to €7.2 billion of EBITDA this year.

In Germany, despite the faster-than-expected growth in fiber, all-IP migration and Magenta One, we still expect €8.8 billion of EBITDA this year. At the Group level, we reiterate our guidance for €18.3 billion adjusted EBITDA and €4.3 billion free cash flow as you know our guidance is based on last year's average exchange rate and excludes the €175 million one-timer we reported last quarter. If we were to use the first half 2015 average dollar exchange rate, our EBITDA guidance would translate into €19.3 billion.

As for our free cash flow including the €175 million one-timer, we are happy with current consensus expectation for close to €4.5 billion this year which compares to €4.1 billion in 2014. And last but not least, we also successfully concluded a number of transaction in recent months including our purchase of the 49% of Slovak Telekom, we did not previously own, and we also further strengthened our German mobile network for the acquisition of valuable spectrum in the recent German auctions and the transfer of cell sites from Telefónica Deutschland announced in July.

On slide five, we summarize our core financials. As already mentioned, we achieved strong headline and organic sales growth. Our headline and organic EBITDA growth accelerated even though Q1 had benefited from the €175 million one-timer. Driven by our EBITDA growth, our adjusted net income grew by almost 70% to €1.1 billion. So finally, we get attractive for PE investors as well.

Despite the €0.4 billion higher CapEx, we delivered €1.4 billion of free cash flow in the quarter, of which €175 million was contributed by the one-timer. The increase in our net debt is primarily driven by the acquisition of spectrum in Germany and in the U.S., the strong U.S. dollar and our acquisition of the government stake in Slovak Telekom.

In summary, we are very happy with our operational performance year-to-date. We are able to accommodate major long-term investments while we achieved some very strong customer metrics and confirm our full year financial guidance.

Slide six provides a bit more detail on the three major transactions I already mentioned. In May, we announced the acquisition of the 49% stake in Slovak Telekom held by the Slovak government. We believed that we were able to increase our exposure to a high quality asset at a very attractive price, just under four times last year's EBITDA. We feel this transaction nicely exemplifies our disciplined approach to M&A. As previously stated, we will continue to assess similar opportunities on their individual merits.

Please let me use this opportunity to reiterate our stated European M&A policy. We are not looking at major acquisitions outside our footprint. We believe our recent transactions provide compelling evidence that we are highly committed to pursue M&A only where there is a clear opportunity to create value for shareholders.

Next, let me explain and mention our recent activities to strengthen our very important German mobile network. In June, we acquired 100 megahertz of valuable spectrum from the German regulator. Half of this spectrum was in the low-band and half in the mid-band area. Our average spend amounted to €0.22 per megahertz and POP. In July, we agreed the transfer of 7,700 cell sites from Telefónica Deutschland. This transaction will further increase our capacity and signal quality, thus reinforcing our network leadership.

With this, I like to hand over to Thomas to provide you with a more detailed review of the quarter.

Thomas Dannenfeldt

Chief Financial Officer

Yeah. Thanks, Tim. Obviously, you delivered the story which is growth in revenue, EBITDA and free cash flow and at the same time in parallel an increase in investment in the network quality and the transformation. No surprise as we've laid out that story in the Capital Markets Day in Feb, but a good clear confirmation to that. Now, it's up to me to look at the nitty-gritty details and, as you call them, operational and financial details of the quarter. And as always, let's get started with the German operations.

On Germany, sales growth remained strong at 2.1%, benefiting obviously from strong handset sales and improving wholesale and broadband revenues. Our margin was around 40% in the quarter with the year-on-year decline largely driven by the increase in handset sales and higher transformational costs.

While overall OpEx increased, indirect costs, and that's important, declined slightly year-on-year despite our transformational costs. Adjusted EBITDA declined by 1.4% year-on-year, but we believe this should be seen in the context of a strong commercial momentum on one hand and our faster-than-expected network transformation. Despite this, as already mentioned, we remain very comfortable with our stated targets.

Based on our competitors' report, looking here at the mobile side in Germany, we calculate that reported mobile service revenues for the market as a whole declined slightly this quarter. Again, we grew faster than the market average. Operationally, we continued our strong performance in the quarter. Our subscriber momentum remained steady. Out of 408,000 contract net additions, 172,000 were own branded.

The smartphone penetration in our own branded retail customer base continued to grow to 77%, up from 70% last year. The number of LTE customers continued to grow strongly to 7 million, almost 3 million more than one year ago. Including fixed broadband via mobile, our data usage grew 42% year-on-year.

As you have seen in the second quarter, our mobile service revenues slowed to 0.1% year-on-year after 2.8% growth in the first quarter. While this looks like a big slowdown, we are not worried here at all because we are not seeing any major change in the market environment nor in our underlying trends.

As you surely remember, we cautioned against extrapolating our first quarter reported number while we reiterated our guidance for the 1% average mobile service revenue growth in the medium term. We also have highlighted the impact of Magenta One bundle discount, which are completely booked in mobile, as well as the migrations from LTE broadband to our hybrid router, which are then booked in fixed.

The combined impact on mobile service revenue growth accelerated from 0.2 percentage points in the fourth quarter 2014 to 0.7 percentage points in the first quarter and 1.0 percentage points in the second quarter. While this means that our underlying growth would have been higher without those accounting changes, of course, this does not fully explain the sequential slowdown in headline mobile service revenues.

In addition, our first two quarters this year were impacted by seasonal factors in large account billings. While there's always some seasonal volatility in reported numbers, there was an unusually strong compounding effect in the first two quarters this year. However, again, this should not be extrapolated.

When we look at the first half as a whole, our mobile service revenue grew around 1.5% year-on-year. Without the impact from convergence products, this would have been over 2%. To summarize, we are not worried by the reported slowdown. We believe our underlying trends remain very healthy and on track for our medium term guidance.

So let's have a look at fixed line now. We had another excellent quarter of broadband net additions. Driven by the strongest quarterly broadband growth since the first quarter of 2012, our line losses improved again to only 118,000, our best performance in more than a decade. We had another very strong quarter of fiber net additions with 430,000 net adds, almost double the intake of one year ago. Of this, approximately two-thirds came from our retail business and, in total, we already have more than 3.4 million fiber customers, reflecting growth of above 1.4 million in the last 12 months.

After 76,000 in Q1, we added 81,000 broadband customers in the quarter, benefiting from strong demand for fiber and the success of our new convergent propositions. We've already exceeded our initial guidance of 100,000 broadband net additions for this year and, as Tim has mentioned, we now believe that we can add more than 250,000 broadband subscribers this year. And again, we're delivering this greater-than-expected growth without any change in the financial guidance.

On our core fixed, revenue declined by 2.7% compared to 2% in the first quarter, partly driven by lower voice revenues. I will put this into context on the next slide. Positively, driven by our successful retail upselling strategy, retail broadband revenues momentum has now turned positive.

On the next slide, we want to provide some additional perspective on our German performance. On the left-hand side we show what we call total German service revenues, fixed and mobile, which we define as all revenues minus device revenues. These were down 0.9% in the first half of the year. With this, mobile service revenues were impacted by significant volatility and convergence accounting as we already mentioned, but nevertheless grew 1.5% in the first half of the year.

On the fixed line side, what you would call our fixed service revenue, momentum improved slightly from minus 2.3% to minus 2% year-on-year. While core fixed line services worsened a bit, wholesale and broadband trends nicely improved quarter-on-quarter as expected.

As I have already mentioned, our broadband revenues have begun to grow. Our subscriber growth already contributes, but due to introductory promotions, we are not yet seeing ARPU growth. But this is just a matter of time. So we remain very comfortable with our Capital Markets Day's guidance of 2% growth through 2018.

Our wholesale business was down by close to 1% in the first half, but stabilized in the quarter, benefited from our strong fiber momentum. Here, we remain comfortable with our guidance for flat revenues through 2018 as well.

Our fixed line revenues include single play line rentals, voice and value-added services, are impacted by a slightly accelerated legacy attrition, also due to our accelerated broadband growth and IP migration. But this is fully in line with our medium-term plans.

So while there are many forces at work, we see our KPI trends going in the right direction and we remain comfortable with our guidance for total annual German revenue growth of 0.3% between 2014 and 2018.

As we discussed at our recent Capital Markets Days, we're accelerating our investments in high-speed infrastructure. By the end of the quarter, we had achieved 47% fiber households and 85% LTE coverage. We now cover 19.8 million homes, of which 4.1 million are vectored FTTC already. In the quarter, we added more than 0.9 million lines to our IP footprint, and we now already have 7.8 million homes on this platform in Germany, one-third of our lines. This is double the number of one year ago and well in track towards our 2018 target.

Now, let's have a look in the U.S. Let me quickly summarize the highlights of the quarter as all relevant numbers have been already reported and discussed by our TMUS colleagues. TMUS added 2.1 million net adds up from 1.5 million a year ago and 1.8 million last quarter. Of these, 1 million were branded postpaid net adds. Importantly, TMUS raised its subscriber growth guidance for the second time in a row to between 3.4 million and 3.9 million. This is up from 3 million to 3.5 million in our Q1 call and 2.2 million to 3.2 million in the beginning of the year.

Revenue growth accelerated from 12% in Q1 to 14% in Q2. Service revenue growth accelerated from 9% to 13%. This reflected also a continued strong subscriber growth as well as the partial unwind of the first quarter's Data Stash accrual. Encouragingly, even adjusted for this accrual, our branded postpaid ARPU improved sequentially.

Despite the strong growth, our U.S. EBITDA growth accelerated to 23% from 18% in the first quarter. Positively, while we raised our subscriber guidance for the second time this year, our EBITDA guidance remains unchanged.

On the next slide, we're showing how some of the key drivers of our U.S. business are developing. We had another quarter of decline in churn, with branded postpaid churn again down from 1.5% to 1.3% this year. Porting ratios remain positive against our carriers and demonstrating customer quality bad debt expense declining meaningfully year-on-year.

Our LTE network now covers 290 million POPs, up from 275 million at the end of Q1, and we will reach 300 million people by end of the year. Our new 700 megahertz frequencies covering 60% of the U.S. population have been almost completely cleared and now reach 141 markets.

Despite our network expansion, our cost of service has declined almost 4 percentage points year-on-year. This has benefited from significant MetroPCS merger synergies. We're able to shut down the MetroPCS network on 1st July well ahead of initial plans. I think by the way this is really a showcase how to integrate mobile networks.

So let's turn to Europe. Back across the Atlantic, our European segment was able to moderate revenue declines to only minus 0.9%. While the GTS acquisition contributed positively, this was offset by the planned unwind of our international Voice Hubbing business.

Organic revenues declined by 2.7% year-on-year after 2.9% in Q1. Further adjusting for the unwind of the Hubbing business, revenues declined by 0.8% year-on-year after 1.8% in Q1. On a country basis, we remain particularly pleased by our performance in Hungary and Austria, meanwhile our Dutch business continues to be impacted by intense competition and the rollover of the split contract launch. We're responding to this challenge through innovative product offers and through what we believe is a superior mobile network proposition.

On a reported basis, adjusted EBITDA declined by 2.6% this quarter. Organically, adjusted EBITDA declined by 4.2% year-on-year after a decline of 3.8% in Q1 mainly reflecting the rollover and de-emphasizing of split contract plans. Based on our year-to-date results, we see ourselves on track for our full year and medium-term targets in Europe, U.S., both.

We continue to make good progress towards the targets we presented at the Capital Markets Day in terms of technology leadership and transformation as well. 43% of lines are now on IP platform, up 11 percentage points within the year, and our broadband and TV customer base each grew by 6%. Our LTE network now covers 60% of the population, up from 38% one year-ago. We already cover 17% of homes with fiber.

Turning to Systems Solutions, our results reflect our ongoing restructuring at the market unit, as well as continued cost savings delivered by Telit. Gross revenues declined by 1%, compared to 2.5% decline last quarter. This benefited from 3.6% growth at our market unit, by the way that's 1.2% excluding the foreign exchange effect.

Systems Solutions EBITDA declined year-on-year or would have grown slightly adjusted for particularly large internal payment related to our pan-European OneERP project in Q2 2014, we mentioned that a year-ago. These payments do not impact Group EBITDA because they are reconciled at the group level. The market unit which services external customers was able to grow EBITDA up by 27% in the quarter. This reflects success of our structuring efforts, but also benefits from favorable first half comps.

Moving now on to our Group financials for the quarter. Group free cash flow was up 31% year-on-year. Even without our €175 million settlement, Q2 free cash flow was €150 million higher than last year, putting us well on track for our guidance of €4.3 billion based on the 2014 exchange rates. As mentioned, we are able to deliver this

increase despite a double-digit increase in investments. And as Tim has already said, including the €175 million settlement and based on current FX, we are comfortable with the current consensus of close to €4.5 billion free cash flow for the full year.

Our net debt increased sequentially. The increase is mainly driven by our investments in spectrum, our acquisition in Slovakia and our dividend payment during the quarter; positively again almost half, exactly 48% for our shareholders opted for the dividend in kind which was the highest ratio since we begin to offer our shareholders this choice few years ago. Our adjusted net income grew by 70% to €1.1 billion, mainly as a result of our strong EBITDA growth.

Finally, we turn to our balance sheet ratios. We are currently at €2.6 billion in the net debt over adjusted EBITDA, and this reflects our investments in CapEx and spectrum as well as the dividend in our Slovak Telekom stake increase. Clearly, our debt ratios should be seen in the context of a very strong EBITDA growth in the U.S. and at a Group level.

As we have said in Q1, because of this strong EBITDA growth, we expect to return back to our communicated corridor and comfort zone during the second half of the year. Importantly, our ratings remain stable at BBB+, and we are well within our comfort zone which ranges from BBB to A-. Based on these ratios, we believe we will continue to enjoy excellent access to funding.

I think this quarter clearly shows that we are executing our strategy as we presented it to you at the recent Capital Market Days and, as I said, its delivering growth in revenues and EBITDA and free cash flow and, in parallel, increased investment in network quality and transformation.

With that, Tim and I am happy to answer your questions.

QUESTION AND ANSWER SECTION

Hannes C. Wittig

Head-Investor Relations

A

Thank you very much, Thomas. Now we can start with today's Q&A section. If you like to ask a question, please press star one on your touchtone telephone. I will announce your name when it's your turn to ask a question. Should you wish to cancel your question, please press the star two. Alternatively, you can send the succession via webcast, just type your question into the box below the screen. And I think you already have a first question. So I pass on to Fred Boulan from Bank of America Merrill Lynch.

Frederic Boulan

Bank of America Merrill Lynch

Q

Hi. Good afternoon, gentlemen. Thanks for taking the question. If you could start with discussing and elaborating a bit on the statements you made on your European M&A policy, I think you were on the tape this morning talking about a small European M&A, but in general what is the framework here? You are integrating a number of assets in Eastern Europe, seeing some synergies there. How and when do you think this is a logic that can be extended beyond your current footprint?

And, secondly, if we can talk about the all-IP benefits, you reached 32% of your base in Germany. Can you clarify a little bit, the gains, and in terms of costs line or profitability that you've experienced on that base or is it a little bit too early? And in the medium-term, what kind of profitability we should expect to see benefiting on the two-year to three-year view? Thank you very much.

Hannes C. Wittig

Head-Investor Relations

A

Okay. I think Tim will talk about the European context and before Thomas will explain where we are on the all-IP integration in Europe.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. Thanks, Fred for the question. I think on the all-IP situation, on the Capital Markets Day, I think we've tried to make clear that the IP migration has a negative impact on our financials to 2016. We've shown a slide where you see the ramp-up from 2012 to 2016 basically; it's page 55 of our booklet. Ramping up to roughly €1 billion of spend for the transformation, for the complete all-IP transformation and from 2016 onwards, meaning 2017, 2018, 2019 then benefits kicking in.

So basically, the answer is, it's still a negative game for us. It's an investment game for 2015 and 2016 embedded in our numbers. And if you look at the German EBITDA for instance, obviously a part of the development you see here is due to exactly that higher volumes of customers been transferred. And as I said, the total spend is €1 billion, we're expecting for the complete Group this year. And the share of OpEx and CapEx, the split is more towards the 50-50, slightly higher part of OpEx in 2015 and 2016.

Timotheus Höttges

Chairman-Management Board & CEO

A

So Fred, coming back to your question on the European M&As, seen here. I think we have communicated a clear and attractive plan for our existing portfolio at the Capital Markets Day. And we stated then, we will not undertake major M&A acquisition outside of our footprint, we have simply no need. Importantly, in addition, we do not need to undertake any major acquisitions, but we can be opportunity-driven. When it comes to fixed mobile convergence and other optionalities where we – was driving fund within the markets.

The focus on what we're doing is on the footprint which we have. We are in the middle of the process of getting approval for our BT deal in the UK. We have done transaction in Slovak now recently. And in the European portfolio, we are always looking to improve our fixed mobile convergence structure. But what we see in our footprint, but as well in the footprint of our competitors, is wherever you have, let's say, a structured advantages of both infrastructures and the growth prospects and the profitability, again, are bigger than running a business totally separate.

On the U.S. side, everything has been said. I know these questions might come. We are very excited about the performance of T-Mobile U.S. We are not only adding more subscriber than expected, we are capturing the entire growth of the market. And we are able to do this with an unchanged EBITDA target and the churn is at record low and even before we tend to full benefit from our new low-band spectrum. So there is clearly – or we could clearly state that the strategy is working, and our visibility on the business for the upcoming quarters is very good.

So now, with regard to M&A in the U.S., there is no rush, not any strategic need to do any deal at that point in time. We continue to look at T-Mobile as a kingmaker asset and, therefore, we remain open for deals which would significantly increase the value of T-Mobile for our shareholders. For instance, through achievement of convergence before consolidation benefit, and there might be some opportunities arising over time. But currently there is no need to rush into anything at that point in time. We are doing operational business, we are preparing ourselves for the low-band auction and the total footprint is in a very good shape. It's not only the U.S. which is doing very nicely as well; Germany is improving and the trend in Europe, in especially the fixed mobile converged markets, very encouraging.

Frederic Boulan

Bank of America Merrill Lynch

Excellent. Thank you very much.

Q

Hannes C. Wittig

Head-Investor Relations

Thank you, Tim. Now, we move on to the next question. It's from Simon from Citi.

A

Simon H. Weeden

Citigroup Global Markets Ltd.

Good morning and thanks for taking the questions. I do have three, one of which I think is very short. In terms of looking at OTE, I just wondered if you could comment on whether the minority there is potentially of interest to you and whether you see any barriers or technicalities around increasing your stake there?

Q

And in terms of German broadband, perhaps you could comment a little bit more on whether you see this improvement in the dynamic as being assumption of market growth or market share gain or a bit of both and whether or not fiber is playing a more significant role in that now or is it something else in the commercial mix? And then the final question seems a bit obvious but just to ask it. Can you just confirm that you do see the UK as being in footprint in regards to your M&A guidance that you're only interested in footprint acquisitions? Thanks.

Hannes C. Wittig

Head-Investor Relations

A

Thanks, Simon. I will give the first question to Thomas who will talk about the German broadband market, and then Tim will talk about Greece and your question related to the UK.

Thomas Dannenfeldt

Chief Financial Officer

A

I see, Hannes, I always have to take the first question. So, Simon, on the German broadband side, I think – remember, our view on what you need to get right to get the business in the appropriate shape is first upselling in a good shape, then churn in a good shape, and then gross adds. I think the last two years have been upselling okay, churn okay or good, but gross adds not really. And I think that is the element which really has changed obviously due to our investments in the networks.

It is not and I'd like to reiterate that it is not, for instance, Liberty being weaker because they increased prices in Q1. We had a detailed investigation in our numbers to see is it our – is it good customer demand, healthy customer demand or is it weakness of competitor. And the clear message is we see the same rate of growth in terms of net adds and the same churn in non-Liberty than in Liberty areas. So there's absolutely no indication that it is weakness of competitors. It's basically demand we've seen here driven by network investments in one hand and obviously secondly driven by our fixed mobile propositions. Magenta One on one hand, but also the hybrid router was very good, the growth rates there.

So the basic dynamics we need to put in place to really move the needle from a slight minus number on broadband revenues into a positive and you've seen that it's slightly positive now. They are intact. They are in a good shape, and I think that's driving the numbers here.

Timotheus Höttges

Chairman-Management Board & CEO

A

The reason that you're always first, Thomas, is because you're thinking faster than I do. But anyway, so let's come to Greece. First during this crisis in Greece over the summer, we had a daily monitoring on things which were going on and we followed the event very closely, and for our employees in Greece, for our customers, but as well from a social responsibility for the society in Greece.

And during the peak of the crisis, we provided support when it came to cash advances or extra allowances or vouchers which we offered. And the interesting piece, what I learned in this crisis is that the more established and the bigger the brand is, the more trustworthy and reliable it is for the consumers. So they stick to the top brands which were there already before than rather running to the cheapest offer which just occurs in the market.

In the first half year, you've seen the numbers. We had no negative impact from the critical situation. Now, we might, let's say, see some things coming up in the second quarter or in the third quarter, but currently looking into the numbers in the discussions with our team, we do not foresee any negative impediments here from the situation.

Now, positively saying, during the last years, this management team and the local one had enough time to de-risk the business. And OTE has a net debt position of only €1.1 billion, and a comfortable maturity profile. We are talking about, let's say, €570 million to €600 million over the next two year which we have to refinance, I think, with regard to outstanding bond. So there are no peaks for the local team when it comes to the refinancing.

Now, your question with regards to the 10% stake, 6% lying with the government and another 4% with a special vehicle here, we're controlling the business today and this will unlikely change. We have certain rights pursuant to the shareholder agreement with the Hellenic Republic, including a right of first refusal in the event of the sale of OTE shares held by the Republic here. And we are therefore monitoring the situation closely and would consider, as we always do, any deal under the right terms. And please guys give us some credit that we never acted just by power, but always driven from a very reasonable M&A logic. So there is an opportunity, there might come an opportunity, but we are closely following what the government is going to do, and then we make our course on this.

With regard to the UK. UK is in the footprint. Yes. BT is a great company and there is no need to do anything at that point in time. We now have to get the approval for our deal. I think the exchange with the management from our side is very positively, we could learn a lot of things, but we cannot, let's say, fully exchange everything at that point in time because we are in this approval phases and we have to respect the rules here. But we see a lot of, let's say, opportunities on partnering our business more than we saw at the beginning.

Timotheus Höttges

Chairman-Management Board & CEO

A

Okay. Thank you, Tim. The next question is from Mathieu Robilliard at Barclays.

Mathieu Robilliard

Barclays Capital Securities Ltd.

Q

Yes. Good afternoon. Thank you for taking the questions. First, with regards to your mobile service revenue development in Germany, you highlight obviously the impact of convergence product, but it does seem trying to distinguish between corporate trends and consumer trends that most part of the slowdown is actually explained by a reversal of trends in corporate. So just want to confirm that's right. And also I understand if you see that as an issue, meaning you're losing market share there and you want to regain it or not, and whether it's fair to say that trends in the consumer continue to be pretty healthy?

Second question has to do with the U.S. spectrum auction. What is your working assumption today, is it that the auction happens in 2016 and there's only 30 megahertz of spectrum reserved for the small players? Thank you.

Hannes C. Wittig

Head-Investor Relations

A

Okay. So we will start with Tim on the U.S. spectrum auction. He's going to prove his quick thinking on that one. And then Thomas will comment on the German mobile service revenue situation.

Timotheus Höttges

Chairman-Management Board & CEO

A

So now I'm first. So look, we always have said that we intend to be a participant in the Broadcast Incentive Auction. Low band spectrum remains our high priority for us and for our business. And on the timing of the Broadcast Incentive Auction, Chairman, Wheeler seems focused on driving this to a success in the first half year 2016 and the FCC is supposed to be setting out the rules, by the way, within the next hours or within the next days. We are expecting something coming very soon. We want to see it happen as soon as possible and so we are ready to go because this is an event to create a better level playing field for us in the U.S. and to keep our momentum on attacking, let's say, the establishment of AT&T and Verizon the way how we did it over the last years. Today, 75% of the low band spectrum is in the hands of the big two, just to mention that as a consideration here.

We believe that having a robust spectrum set aside, this is very important for the Incentive Auction, in order to avoid a situation where the auction is just dominated by the two big carriers. And therefore we are very pleased that the FCC wants to reserve up to 30 megahertz that is at least our large reading. We always were trying to lobby for a reserve of at least 40 megahertz with no one party getting more than 20 megahertz that was our position, but my read today is that it's more going on the likelihood of 30 megahertz that is what the market talks.

Let me come to your second question on the mobile business in Germany and thus highlighting something maybe in general, because that seems to be one of the hotter topics from the investor side in this quarter. Look, the first thing is, we were able to gain market share in the mobile market over the last quarters and we did it as well in this quarter. You've seen the strong net add numbers, you've seen the comparison on mobile service revenues. That is our reading on looking on it. So we see our momentum unbroken with the great network which we have and the great proposition. And this is, by the way, not only true for the consumer market where our perception is by far the best here from a network quality perspective, but as well in the business segment. And especially, in the small and medium enterprises, we are definitely gaining market share. So we are on the right track on creating more value for the company over time.

So for me, the focus is not mainly on the mobile service revenues in the market. For me the focus for German success is on how could we monetize the huge network investments which we have taken both in mobile and on broadband side. So this is the focus of our businesses, what we are doing today. And if this could be a mobile or a Magenta One or just a fixed time connectivity, but this is the way monetizing the infrastructure investments.

And the second topic is for us as a management team these days challenging the OpEx, challenging the total workforce cost, challenging the total OpEx in this organization to increase the productivity of our business. So you might disagree on that one, but this is, let's say, how we see the situation. We're doing very well on the customer side in Germany. Our brand is very much working. We have a strong momentum on mobile, both in B2C and B2C. That doesn't mean that we're not focusing on, but there are other priorities at that point in time which we push as well.

Hannes C. Wittig
Head-Investor Relations

A

That answer your question, Mathieu?

Mathieu Robilliard
Barclays Capital Securities Ltd.

Q

Yes. Thank you very much.

Hannes C. Wittig
Head-Investor Relations

A

So we move on to Emmet from Morgan Stanley. Emmet?

Emmet B. Kelly
Morgan Stanley & Co. International Plc

Q

Just kind of couple of questions here, please. The first question is on MagentaEINS. And I know it's difficult to talk about the pricing on certain products, but just wondering what your latest big picture thoughts are about the discounts that you're giving on MagentaEINS, because I think it's quite clear that the take-up of the product has been very impressive and probably a little bit faster maybe than expected. So do you feel that the discounts maybe

need to be so big given that subscribers are taking it up so quickly? And maybe also given that, the discounts threaten to maybe bring competition back into the market in terms of maybe regenerating price competition or promotion competition there?

And then my second question, again, just it's more technicality on Magenta. I think back in Q1, you said the bulk of the MagentaEINS subscribers were existing DTE subs. Is that still the case with the 1.3 million subs or you begin to see some, let's say, more subscriber win from the other operators, be it on mobile or on fixed? Thank you.

Hannes C. Wittig
Head-Investor Relations

A

Could easily answer that in a second, but I will nevertheless give the question to Thomas.

Thomas Dannenfeldt
Chief Financial Officer

A

Thank you, Hannes. Okay. So first of all, I think MagentaEINS, I think the first thing we need to recognize is it's a great platform for cross and upselling networking. And that, to your question, how many of the customers are new customers versus existing customers? I think the trend here we see is that the share of new customers and cross-sell customers, so customers only having mobile or fixed line and moving into converged proposition is increasing. But still the bigger share is on customers coming from both products already. So that structural situation, the major part is on those 4 million having already in mobile and fixed line is still right, but the trend is towards a, so to say, improving mix towards new customers and cross-selling elements. That's number one.

Number two, as you know, despite those accounting debates we're having on the mobile service revenues, what we're looking at is at households before the transaction, after the transaction. What we see is improvement of revenues in that transactional situation. So it is adding value. Obviously, it's putting on one technical KPI, the service revenue, some pressure. That's number two.

Number three, I think the big positive in there is the customer response on it. There is strong demand from customers. We originally said 3 million by end of 2018, we are now at 1.3 million. And you're right, it opens optionalities in terms of the size of the rebate we're having in the discount, the tenure we've given there. So yes, we are – and that's what we're right now doing as well, constantly reviewing and doing this review right now, also to look whether there are ways to optimize, so to say, the value further on because customer demand is still great on that product.

Emmet B. Kelly
Morgan Stanley & Co. International Plc

Q

Great. Thanks very much.

Hannes C. Wittig
Head-Investor Relations

A

Thank you, Thomas. So we now move to Robert from Deutsche Bank.

Robert J. Grindle
Deutsche Bank AG (Broker UK)

Q

Yeah. Thank you. And, firstly, just the purchase of the towers from Telefónica Deutschland impact on your CapEx expectations or is the deal more about a boost quality rather than being able to substitute CapEx for example?

And my second question is on T-Systems where the order book appears to be inflecting year-on-year. Now, I know orders can be lumpy, but is there any sign of a more confident tone there from the business with regard external orders? And if the tone is picking up and improving, where is the recent success coming from? Thank you.

Hannes C. Wittig
Head-Investor Relations

A

Okay. So I think we start with the T-Systems order book development, so Thomas will comment on that. And then Tim will talk about the tower deal unless you want to start, Tim. Tim starts, okay.

Thomas Dannenfeldt
Chief Financial Officer

A

Okay. So on T-Systems, as you know, we've increased significantly the – let's say the margin we want to see in the deals and obviously that has impact on the order entry. And I think what we expected is that more and more type of deals coming in from scalable business like cloud business, like platform-based businesses which is actually also taking place. So the margin mix and the order entry is significantly improving. Obviously, it needs to. But as a result, still the volume is corresponding to that and declining. And what we don't want to do is now again decrease the margin again. What we will want to do is increase the volume we have in the order entry meaning get our platforms and our cloud services better out in the marketplace and see more intake there. So that's the kind of reaction we're seeing. And by the way, if you look at the big customers, there is good messaging from the market, so to say, as more bigger and bigger deals are coming in like ThyssenKrupp we had by the end of last year with workstations being delivered out of the cloud are 100% scalable, no specialization in there, etcetera.

Timotheus Höttges
Chairman-Management Board & CEO

A

So it might be worth that what we could do with investors in a kind of workshop is to talk a little bit about the new propositions about, let's say, the new positioning in the cloud area and in the growth areas of T-Systems, because there has been so many changes on how we position ourselves with the significant cheaper Huawei platform which we are offering with the Software-as-a-Infrastructure service with regards to the growth units and with regards to the new telecommunication services on IP which we are offering for the big corporates, that it might be interesting. It's not that we are just hoping on revenues. There is a clear war plan behind it, how to do this. And if investors are interested on that one, we offer a workshop to just understand a little bit better how we gain this valuable revenue stream here in this entity.

Coming back to the question of the Telefónica deal. Look, I would call it a win-win situation. This is a win-win situation. It helps Telefónica to faster realize the synergies of the two networks and it helps us to accelerate our network strategy to further improve the mobile network. Does it have impact on the CapEx? No. That's not the case. What we are doing is, we are partially using the towers to improve the density of our network, because we are not – just wanted to offer a good coverage, we want to offer good coverage and high bandwidth. So it helps us a lot, especially in the rural areas to improve the bandwidth. And just think about the hybrid routers. In the rural areas, if you have a high LTE coverage and a low bandwidth, this helps customers big time. And then we have sold almost 60,000 of this hybrid routers already in the first six months shows that we have a product on hand which could further scale here. So we could accelerate the build out in the rural areas, especially there, but part of these sites got – are going to be dismantled as well over time. That is depending then on termination agreement which we filed with the landlords here, but this is something which is happening in normal cause of the business and not affecting our CapEx.

Hannes C. Wittig
Head-Investor Relations

A

Tim. So next I think we have a question from Dominik at HSBC.

Dominik Klarmann
HSBC Trinkaus & Burkhardt AG (Broker)

Q

Yeah. Thank you. I'd be interested in your view on commission acting as digital single market road map in terms of both content and also timeline, are you happy with the progress there in Brussels? And then on a German level, what's your view on BnetzA's proposal to ex-ante price regulate fiber bitstream [indiscernible] .(54:22) Does that put your network rollout into rural Germany at risk or do you still think BnetzA will come to sensible ultimate decision there?

And then maybe a provocative question on offshore mobile which seems to be back to negative market growth two quarters after Hofer launched services on your MVNO contract. If I remember correctly, you said at the Capital Markets Day that you don't see that MVNOs have an impact on retail pricing, how can I square this? Has your thinking changed there and then do you expect Vodafone to follow your logic with United Internet in Germany as well? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

Okay. So Tim will start and then Thomas will take over the last question.

Thomas Dannenfeldt
Chief Financial Officer

A

I'm anyhow the political expert here. So now let me start. The first one is the single market regulation. And as you have noticed, there has been a kind of, let's say, compromise founded on two topics, which is roaming and on net neutrality. On the roaming side, there is a proposal for roam like at home, including a fair usage policy. Positive is that the basic roaming allowance which was originally foreseen is not part of this regulation paper. So we have a roam like at home principle which then reflecting as well the different build outs which we have in the European countries. Critical from my perspective on this discussion paper here, is the so called real-time information requirements, when voice and SMS fair use limits are reached. So this is creating some complexity for us. But as you know, Deutsche Telekom, at least for German customers, has already this kind of technical features in place. So we are looking to that one, what it means if it comes into ruling.

On the net neutrality side, there is a compromise which allows the provision of specialized services with improved qualities, and that was always the point which was so much relevant for our industrial customers and for the industry side here. And this is now part of the packaged specialized service, should not be the detriment of the availability or generate equality of Internet access services, right? That is fine. But zero rating for instant traffics can still be provided. I think that is another very important information from this package. This, so called, single market regulation is going into parliament in October. It is going to be adopted by the council and the member states in September, and so we hope that the publication is expected by November 2015.

There is a next step and I always said that, after the regulation and before the regulation, and we said in our dynamic markets we have to start immediately again. So there is a new kind of paper on the table which has looked into the total markets. And I was always very outspoken on a few things, on the level playing field and the need for incentivizing investments in the broadband environment. Then I was talking about the review of the

spectrum policy and the alignment here and the regulatory framework which should include all 28 countries here. This paper has been presented on May and, from my perspective, this is fairly general in its substance.

What shows me that the commission still seek the right answer on this pressing issues. So I think everybody has to do something. There's no clear position on deregulation, simplification of the fixed line wholesale or the spectrum policies here yet in it. I think we have to work on this one further on, promise we will do this to help better politically just to understand what would foster investments in our industry. But this is too early to say and, by the way, we have to do the first step before we do the second step.

Now, with regards to the Bundesnetzagentur in Germany and the bitstream proposal, by the way, I think we have a very strong argument. Our position is the following. We say, included in our CapEx guidance, included in our Capital Markets Day proposals, we said if we're going to be able that we get allowance to build out vectoring in a special area which is today blocked from Bundesnetzagentur. In this case, we're going to build out 6.3 million households more immediately with vectoring entire bandwidth which, let's say, with super vectoring then up to 250 megabit per second. I think that's a great advantage for the German society, it's going to help us to abridge the divide here and we are willing to take the infrastructures investments on that one.

I think the answer from the regulator to say, we're going to ex-ante regulate would not help this discussion. And you have seen that the ex-post regulation on the bitstream layer 3 was something which worked very well nicely, the contingent model is very well accepted from Vodafone, from Telefónica and as well from United Internet. And I do not see any need nor I see any kind of dynamic if we would see now a bitstream access ex-ante regulation for the layer 2 product. The opposite is the case. These competitors, they need a kind of freedom on their pricing policy towards cable operators. So we are fighting our position. I think there are very good arguments from a political and societal aspect and the timeline is that in September, there's a new hearing on the subject. And I'm still confident that during the course of the year, we're going to see a ruling on this one here in Germany.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah, Dominik, and on your question on the MVNO policy, you said it's a provoking question. So there always have been two very critical people on our MVNO policy. I hired one of those two and you're now the remaining guy.. But I think on MVNO, we need to have a differentiated view on that one and, as I said on the Capital Market Day, it is basically if you have an MVNO which is imposed by regulator based on very aggressive price levels and without giving the operators really the opportunity to differentiate in terms of speed and in terms of the quality you provide, it's critical for the market. And that's the case from my point of view for Austria.

If you look into the German environment, 50 MVNOs running already since several years. If there is no principal and basic change in that model, no need to worry here too much. I think that differentiated view, is it possible to differentiate where those guys in terms of the network quality and the service quality on one hand, are there being prices imposed or not, those elements are the main and the most important ones in that debate. And yes, for Germany, there is no news on that MVNO part. And by the way, I think Vodafone learned their lesson on the United Internet deal and you should ask them again how they feel about it.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG (Broker)

Q

Okay. Fair enough. Thank you.

Hannes C. Wittig

Head-Investor Relations

A

Okay. We have another question. I think it's from Tim. Tim from New York, from Goldman Sachs. Okay. So Tim if you are not there, we can take Paul from Berenberg, please.

Paul Marsch

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

Q

On direct versus indirect costs in Germany, and I guess I'm referring to slide seven here. So indirect costs fell 0.3% year-over-year. I think it looks like direct costs grew maybe in the mid to high-single digits, and both of those trends are quite different from the ambition level set out at the Capital Markets Day for the medium term. So I wonder if you could maybe just elaborate on that divergence and how we should read the quarter in the context of the mid-term guidance?

And then, secondly, on subscriber acquisition cost and subscriber retention cost in Germany, SAC was down and SRC was up again. So I'm just wondering if you maybe could just give us a little bit more color about what's going on there and what the aims of that are because it didn't seem to benefit the churn rate in Germany in the quarter. So how should we think about the mix of that on the total cost of acquisitions and retention going forward? Thanks.

Thomas Dannenfeldt

Chief Financial Officer

A

Hannes, I'll take the first question.

Hannes C. Wittig

Head-Investor Relations

A

It's faster.

Thomas Dannenfeldt

Chief Financial Officer

A

So on the OpEx, first of all, indirect versus direct costs. First of all, as I mentioned in my speech, the huge chunk of the increase in the OpEx you see related to direct costs are driven by handset sales. On the left-hand side of page seven, you mentioned page seven rightly, you see there is 8.8% increase on total mobile revenues, obviously, very much driven, not completely but to a high degree driven by the handset sales. And as those handsets sales are coming hardly without any margin, you see more or less the same amount of money reflected on the OpEx.

In the indirect OpEx, basically we have two elements, one is a higher investment in all-IP, the volumes are higher, last year's Q2 2014 increase on IP was 600,000, now we have 900,000. So the volume transfers into higher personnel costs, into higher indirect OpEx, but this is offset by other areas of indirect OpEx since those IT costs were managed down. So overall, indirect OpEx slightly declined, but only slightly declining because of the increase of the IP and transformation volumes we've seen.

So that's basically the way we should look at the OpEx and to reflect that on the margin, just to give you a flavor. The magnitude you should calculate in terms of impact of transformation on the margin is roughly around 1.5%, a little bit higher. And the higher revenues by spot deals, by handset deals you've seen are diluting the margin roughly by 1%. So that's the numbers I should give, I think, on the first question.

Second was on higher volumes of CoCs, also retention costs and how that should develop. As our order of relevance is upselling, churn control, gross adds, I think that basically that policy and thinking is reflected here as well, that's number one. Number two is, people are happy to stay with us. And people are – and it's good news for

me, are not looking for cheap SIM-only deals, but they're looking for complete packages, the handset, the service, the speed. And with that also we're delivering higher volumes, but also rate of CoCs. And what basically comes with that is in higher MRC. What you basically do, you sell higher value bundles in the retention and you get good churn control, but you do upselling with that. So yeah, as a trend, you should expect that as a general reflection of our policies, upselling, churn, gross adds, and we think it's a good and healthy development.

Paul Marsch

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

Q

And is the aggregate amount going up, stable, or declining?

Thomas Dannenfeldt

Chief Financial Officer

A

That depends very much on the handset landscape, so to say. So to give you an example, if a new iPhone comes in, you see retention volumes peaking for a quarter or sometimes also four months, five months, six months, and then you see it going down. So if you – quarter-by-quarter, there is no continuous trend. If you look year-by-year, you see a slight and continuous increase here.

Paul Marsch

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

Q

Thank you very much.

Hannes C. Wittig

Head-Investor Relations

A

Okay. So let's move onto the last question in today's call. And then, of course, we will be available at the Investor Relations level and talk to you. But the last question for today's call is from Justin Funnell at Credit Suisse.

Justin B. Funnell

Credit Suisse Securities (Europe) Ltd.

Q

Yeah, hi. Thank you. A couple of questions. You might have explained this already. But just when customers are moving to all-IP, what effects are you seeing on revenue per line, vis-à-vis, say, a slightly diluted effect. Can you quantify that a sort of per unit basis?

And then secondly on TV, and again you may have answered this in the past, as you got the Bundesliga auction coming up some point in probably early next year or something. And if we switch to a different structure instead of having the platform but move instead to big bundle and small bundle, would you consider looking at that small bundle? Obviously, you said BT is a great company would you consider copying their strategy if it was available to you?

Hannes C. Wittig

Head-Investor Relations

A

Okay. I think Thomas will start this one.

Thomas Dannenfeldt

Chief Financial Officer

A

Thank you, Hannes. So on the revenue impact by all-IP migration, I think the first thing to recognize to here is we're talking basically about two elements of the IP migration. We're talking about customers migrating, why are

they doing retention, why are they increasing their bandwidth, why are they moving from ADSL to VDSL in this group of customers, and that's the majority, it's like 80%, 85% of all the migrations we've seen. Customers giving the trigger very often by a demand for higher bandwidth and there you don't see revenue impact. There is another part of that migration where we trigger – where we, as a company, trigger migration to get, let's say, volumes up and the platforms faster empty. You might call it kind of forced migration type of activity where we address customers and ask them to migrate. In that situation, there is an impact on the revenue. As I said, it's like 15%, 20% of the migration volume roughly is allocated to that. And here we see an impact and that impact is around €4 on the [indiscernible] (01:10:11) side, we've seen roughly. But as I said, that's the very small part of the whole equation.

Hannes C. Wittig

Head-Investor Relations

A

Okay. Tim will talk about our interest in football content.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, the first thing is, we have a TV strategy which is going very nicely and, as you know, the content, exclusive deal depend on the amount of free-TV offers which you find in the marketplace. In Germany, we have a big free-TV market, while for instance in UK and other markets, the access is limited. So to just copy what Gavin has done in the UK into the German environment would not be the appropriate answer on that one.

The second thing is does it mean that we're automatically not looking into the auction process which is coming? We will definitely, let's say, have a look into the rules here. But we have not taken any final decision on that one. Football is a big topic for Germans, especially Bayern Munich. So there is – for this Group here, but anyway we will have a look on to that one.

Our principle strategy is that we want to be the content aggregator. It is a big hustle for consumers today with all the passwords or, let's say, the subscription on Apple TV, on Amazon, on Netflix, on whatever you mention, on the Universal Studios. So the benefit is on aggregating the content on one platform with an easy click, we could monetize as well for our partners. So we have a partner strategy here. And our new TV platform, which is coming out soon is exactly supporting this idea to a big extend, always depending on whether the partners willing to open up its content into our offering here. So don't do that.

With regard to small bundles, that depends by the way how this stuff is going to auction. I think the auction designed in Germany was in the past different to the ones we have seen in France and in the UK. So it's too early to say and I would not give you any guidance at that point in time because we haven't fully understood what the equation is. But in principle, I think we are very opportunistic. It should be a value-enhancing strategy and last time we took the decision not to pursue in this high bidding contest and I think that was a very wise decision.

Justin B. Funnell

Credit Suisse Securities (Europe) Ltd.

Q

Okay. Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

Now, that said, guys, I think unfortunately our time is over already. I think there are a lot of road shows coming now within the upcoming weeks here. But to just let me finalize here on that. I think for the second half of the

year, we keep on running on the infrastructure investment because our customers, they appreciate that and we see that with the good results coming back, being it in the U.S. or being it in Germany, both on broadband and on mobile. I think this is something which is paying off.

But nevertheless, we should always have our return on capital employed in mind and we should try to monetize the net investment in a best manner. And this is something which we are focusing on mainly in Germany at that point in time. And we mentioned that already today, it is our interest to move up the ARPU. And if there are criticism around discounts, be aware, we know that and we are looking to that one. Our idea is really, let's say, to lift up the market and to monetize on these huge investments which we are doing.

The second thing is improved productivity. Our OpEx reduction is a top thing to do, being it in Germany, being it on the headquarters, being it in the European entities, we will work on this challenge on OpEx these days quite intensively. And the third one is, it is our intention by doing this, we will keep, let's say, our leadership. Leading European telecommunications leadership and this means as well that we have the relevant portion of the market share which is growing in the area.

On the Telit side, we haven't discussed it today. Our intention is really to manage costs down. This is something which has to be worked out. And the complexity of our IT is something which is a big topic for our thinking here because we have so many good ideas that we could do to differentiate in the marketplace and sometimes limitation is our IT legacy.

On the market unit, I think it was mentioned, it's very important that we create valuable growth and valuable revenues here. I think order entry should be better. The new proposition should work out, I think we have a clear plan and we have to work on the order entry here. And on the European business, I think our focus lies on the fixed mobile converged markets and doing very nicely, including Greece. But our focus on the performance is today on the Netherlands and is on Poland. These are the two markets where we want to do better. And we have to focus on some structural issues where we do not have the fixed mobile converged positioning. This is the question mark which is open, I cannot, let's say, promise a quick solution here on that one, but we will carefully watch on that one.

And on the U.S. side, I mentioned that keep on running guys, de-risking self-funding kingmaker asset, that's the way going forward. And get prepared for the auction which is coming. I think we're well pre-financed for that one. And if we do this, we won't stop in the U.S. This is clearly something which is not in the DNA of this team, but if we all bring this together, I think we have Deutsche Telekom in well shape, in good shape, as we have it after the first half year and we are quite confident at that point in time that we deliver not only on the promise for this year, but even beyond.

Hannes C. Wittig

Head-Investor Relations

Thank you, Tim, for those closing remarks. As I said, the conference is now about to end. If you have any further questions, we know there were a few more people on the call with questions, we kindly ask you to contact us in the Investor Relations department. And I would like to thank you for your participation in today's call. And now with those words, I give back to the operator.

Operator: Thank you. We like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1-805-2047-088 via reference number 468955#. We are looking forward to hear from you again. Good-bye.

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