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Deutsche Telekom AG (DTE.DE)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Hannes C. Wittig

Head-Investor Relations, Deutsche Telekom AG

Soon everyone, and welcome to our first quarter 2018 conference call. With me today are our CEO, Tim Höttges; and our CFO, Thomas Dannenfeldt. Tim will first go through a few highlights, and will be followed by Thomas, who will talk about the quarter's financials in more detail. After this, we have time for Q&A.

Before I hand over to Tim, as always please pay attention to our usual disclaimer, which you'll find in the presentation. And now, it's my pleasure to hand over to Tim.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Yeah. Thank you, Hannes, and a warm welcome also from my side. Deutsche Telekom has started very well into the New Year, growing strongly on both sides of the Atlantic. Our operational momentum remains excellent, another quarter of record net debt and a first quarter for branded ARPU stabilization in Germany. And we saw ongoing strong commercial momentum in Europe and of course in the U.S. While there's clearly still some room for improvement for instance T-Systems, most of our trends points are in the right direction.

On an organic basis, our revenue grew 3% and our EBITDA grew 7%. On this side of the Atlantic, Our ex-U.S. EBITDA grew by 2.2%. Our headline free cash flow grew 12.5% and our adjusted earnings per share grew 20%. With their results last week, T-Mobile raised a 2018 EBITDA guidance by €100 million. We are raising the group guidance today by the same amount, while we confirm all other guidance.

T-Mobile also raised their net debt guidance last week and are targeting 2.6 million to 3.3 million branded postpaid voice net ads in 2018

voice net ads in 2018 after 3.6 million in 2017. And of course we're excited that we were finally able to announce our big transaction in the U.S. We are confident that this will create huge value for T-Mobile and for our shareholders for a decade. But today, our focus is on encouraging first quarter numbers and this is something we want to deep dive today. We will look and welcome you at our 2018 Capital Markets Day in Bonn on the 24th and 25th to deepen all other issues.

Let me start with our usual update on customer experience. In Germany, we launched the country's largest fiber-to-the-home project covering 40,000 homes in the State of Mecklenburg-Vorpommern another FTTH project to cover 55,000 homes in the state of Saxony, was also read recently. Also in Germany we've pioneered an unlimited mobile data plan. We launched Europe's first live 5G trial network in Berlin and our aviation, European Aviation Network is up and running. You will hear more on our innovations and our plans for a peer leading customer experience at this year's Capital Markets Day.

As you can see on slide 6, our momentum with customers remain very strong, more than 10 million German homes subscribed to our high speed broadband products and you saw T-Mobile's relentless momentum when they reported results last week. Slide 7 summarize the main highlights of the U.S. transaction we announced 10 days ago. We have created a lot of value in the U.S. in recent years and now we have a chance to super charge this. As I said before, we believe this is a huge

valuation creates an opportunity all around. For this transaction, we can create synergy for the net present value of € 43 billion, net of integration costs. We have been able to agree a very clear and decisive governance framework and the [indiscernible] team is clearly in charge. You will ask especially given the European experience, why should U.S. authorities approve this merger. The bottom line is that the merged company will leverage its unique spectrum resources to deliver the fastest path towards the most powerful 5G platform will create U.S. jobs and will give U.S. consumers much more value for money.

Importantly, the transaction does not require fresh capital investments from us in the United States and it's built on a sound financial framework, including the principle of strict standalone funding of the combined U.S. company. We expect the transaction to be accretive to group free cash flow and to adjusted earnings per share after three years. And importantly, our investments and growth plans for our operations outside of the U.S. are not affected by this transaction. Our stated dividend policy also stays in place, specifically we will pay the promise €0.65 for 2017 and 2018 and our dividend for 2018 and 2019 will reflect our cash flow growth this year.

And while we are on the subject of M&A, you know our M&A department has been busy on this side of the Atlantic as well and we are currently working on the approvals of our recently announced acquisitions in Austria and in the Netherlands. As mentioned our U.S. colleagues have raised EBITDA guidance for the year by €100 million and we are happy to raise our group EBITDA guidance by the same amount. Our outlook for our ex-U.S. EBITDA remains unchanged.

Ex-US EBITDAR remains unchanged. Also our group free cash flow remains unchanged, this reflects expenses related to the US transaction. Our CapEx guidance remains unchanged. Let me now hand it over to Thomas who will take you through the details of our Q1 financials.

Thomas Dannenfeldt

Chief Financial Officer, Deutsche Telekom AG

Yeah. Thanks, Tim, and hello to everyone also from my side. Let me start as always with our financial performance on slide 10 in the overview. Our reported revenues this quarter declined by 3.9% year-year-over. On an organic basis however they grew by 3.1%. A reported adjusted EBITDA was flat, but would have been up 6.6% without FX or M&A. Our ex-US EBITDA grew by 2.2% organically this quarter, we're on track for similar growth for the year as a whole. Adjusted earnings were up 20% to €0.24 a share reflecting lower interest and taxes. Net free cash flow was up 12.5% on track with our full year guidance. So starting with Germany headline sales were down 1.3%, driven by our shifting effect, which we estimate at around 1% to 1.5% of sales for the year as a whole and also reflecting lower handset sales while our service revenues are pretty strong.

Our EBITDA was up 1.3% year-on-year and this is a little below our planned full year run rate, but this just reflects cost phasing and so we remain comfortable with our guidance to grow German EBITDA from €8.4 billion to €8.6 billion this year.

On the next page, you can see that our reported mobile service revenue adjusted for April 15 accelerated to 3.2% year-over-year driving better growth in overall service revenues.

Note that this is after circa 1 percentage points point impact from mobile regulation. The main driver for this strong momentum is successful upselling in both B2C and B2B calling our more-for-more logic. Visitor revenues also contributed positively. Excluding the above, our contract mobile ARPU stabilized this quarter which is really great to see.

And looking now at mobile on slide 13, our commercial performance remained steady with 77,000 own branded customer contract net adds. We continued to see favorable gross net mix driven by upselling to more data-rich plans like, for instance, StreamOn. Our headline numbers reflected big write-down by one a low ARPU service providers, but this is not material for our financials.

As you can see on slide 14, mobile data growth remained strong at 45% year-over-year – 54, sorry. 54% year-over-year with average consumer data usage at 1.9 gigabytes per quarter. 44% of our Magenta branded mobile contracts are now part of a convergent relationship, up 2 percentage points this quarter.

Moving now onto the fixed line side on slide 15, we're able to sustain our improved broadband customer momentum. To adjust for losses from our All-IP migration, which was broadly unchanged this quarter, we estimate a netted share of 40% or better.

Demand for our fiber product remained strong at almost 800,000 additions this quarter with a majority again joining our retail platform. And finally, we added 54,000 TV customers.

Our run rate remains below our target.

Turning to our fixed products on slide16, our retail revenues fell by 0.9% year-on-year similar to last quarter. Positively, our broadband revenues recovered to grow 1.8% this quarter on a like-for-like basis, up from 0.6% last quarter. This reflects the expected rollover of the test the best promotions we launched in summer 2016.

Please note that since the beginning of this year, we include certain B2B broadband products and our broadband revenues. And this reclassification increases reported broadband revenues and the reported growth rate, but as mentioned we are also doing better like-for-like. As mentioned, we now cover 73% of German households with our street fiber network, 73% of our access lines are already on IP, up from 57% one year ago. As we target 2019 completion for our B2C all IP transformation and 2020 completion for our B2B all IP transformation.

Now moving on to our two usual slides on T-Mobile, as already presenting good results two weeks ago. In the U.S., we won 1.4 million new customers. This was the 20s quarter more than 1 million customers. As far as revenues grew by 8.7% this quarter, while IFRS EBITDA grew 12.8%.

On the next slide as usual, we show some selected performance metrics for T-Mobile U.S. our branded postpaid phone churn improved further and reached a record low of up 1.07. Bad debt expenses also reached a record low of 1.0% reflecting improved customer quality. Now commercial results are underpinned by a strong network and recent Ookla and OpenSignal data confirms

confirms the T-Mobile LTE network leadership. Cost of service were up year-on-year, and this reflects the accelerated build-out of our new low-band spectrum.

Now moving on to our European segment, this was a quarter of strong commercial momentum. We added 203,000 new contract customers, 60,000 broadband customers and 201,000 new converged customers.

In Poland, our turnaround remains on-track based on innovative propositions a significant expansion of our distribution footprint and network leadership in Q1. We delivered 69,000 postpaid net ads. As promised, our

European segment has begun to grow both at the revenue and the EBITDA level. Reported revenues were up 1.1%, EBITDA by 2.5%. Organic EBITDA was up 1.6%. This is an exciting development driven by better markets, better commercial performance and a renewed focus on efficiency.

Srini Gopalan will give you more details on our performance and our future outlook on Europe at the Capital Markets Day. So the next chart shows that we have now migrated 71% in our homes – on our homes, of our homes in Europe to IP. Our LTE coverage now stands at 95% and our fiber coverage has grown to 33%.

Now moving on to System Solutions on the next slide. Revenues and EBITDA declined in the first quarter, while Q1 EBITDA momentum looks poor, this is impacted by frontloading investments and IoT, the IP migration and by costs related to the business transformation that Adel has initiated and that we expect to deliver improvements going forward.

Hence we reiterate our guidance, which implies a more modest EBITDA decline for the year as a whole. Again hear more on this at our Capital Market Days, where Adel will outline his detailed plans for the business.

So the next slide shows then the segment group development, which comprises mainly T-Mobile, Netherlands, and our German towers. We had another decent commercial quarter in the Netherlands with 83,000 contract net adds and adjusted for regulation and it was 15, our Dutch service revenues would have been almost stable.

On page 25, we provided some more detail on our German tower business. Recurring rental revenues grew by 3% and EBITDA grew by 5% driven by OpEx improvements. Year-on-year, we added a thousand 1,000 towers, and in 2018, we target to almost double this run rate, but as you can see this will be a bit back end loaded.

So on the financials, many driven by lower interest costs on our first quarter free cash flow, grew 12.5% to €1.4 billion went on track with our full year guidance. Our net debt benefited from additional free cash flow. However, this was largely reinvested in acquiring additional [indiscernible] shares and in the TV platform, Layer 3 TV for which payment was made this quarter.

Q1 growth in our adjusted net income and EPS benefited from lower interest and taxes previously mentioned. This means that on slide 27, our balance sheet ratios remain right down the fairway with net debt to EBITDA down to 2.3 near the midpoint of our target range. Subsequent to the announcement of our U.S. transaction, we have been put on a credit watch negative by Standard & Poor's and our ratings outlook at

Moody's has changed to stable. Fitch was left – has left rating outlook unchanged. As mentioned while U.S. merger integration costs will take us out of our stated 2% to 2.5% EBITDA comfort zone at the group level, we expect to return this into this zone within three years after closing.

My next slide as always summarizes the strategy we present to you at our – presented to you at our 2015 Capital Market Day, in which we have since executed. The DT I believe is in a very good shape, but now it's time for an update and that is a sneak preview you see on the next page. There is a new strategy framework and we hope you will come to hear about the substance behind those labels you see on that page on the 24 and page 25 of may in bond. And I think we are now ready to open the lines for Q&A specialty on DT's performance in Q1.

QUESTION AND ANSWER SECTION

Unverified Participant

Yeah. Thank you very much, Thomas and Tim. Now we can start with the Q&A part. [Operator Instructions] I think the first one will be from Dhananjay at Bernstein.

Q

Yeah. Thank you very much. My question is related to, and this is not related to about only Liberty, so would you call business to the composition of your MagentaEINS subscriber base. You report a 19% of your broadband access lines in converged bundles, and quite an astonishing 44% of your B2C branded contract customers in those bundles. Now this seems to suggest that you are having more success in converting your existing mobile base

existing mobile base on the back of rebates into bundles than increasing your mobile contract market share within your broadband base. So, two parts of the question to what extent is this observation accurate? And if this is an accurate observation, what are you doing to address this imbalance? Thank you.

A

First of all, I'm going to start and then potentially Tim will chip in. First of all, I think it's kind of natural that you have a higher share in the – on the mobile side than the household side, because on the household the fixed line you have always one line, whereas you can have in a household obviously several lines on the mobile side, that's number one. I think number two is, I think the main focus and you've seen us has been very clear during the course of the last three years, four years was always not to drive only volume, but also always make sure that we make sure that the transaction per se is accretive and you know that currently we are on a basis like €8.6 per transaction with accretivness in Magenta bringing people into MagentaEINS that's number two. So, it's always that the right mix of driving volume and iniquitous transaction, I think that's number two. Number three is basically I think our mobile service revenue is nicely growing, but I guess from this year onwards once the regulatory effects all of that holds true for the whole market as well. So, I think that looks like a healthy development.

Operator: Thank you, Thomas. Next is Polo at UBS.

Polo Tang

Analyst, UBS Ltd.

Q

Yeah. Hi. I got some two questions. The first one is on Vodafone Liberty Global. I mean are you concerned that the combined company could create more competition to the DT and specifically how should we think about the risk to your risk to your wholesale revenues, if any. And the second question is really just a bigger picture question in terms of fiber. Can you maybe talk about what feedback you've had from politicians and the new coalition governments for your fiber rollout plans, specifically are they happy with the mix technology rollout combining super VDSL vectoring and FTTH. Thanks.

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

A

Hi, Polo. This is Tim. First, with regards to the communicated transaction of Vodafone, look, I will do everything from my angle. I said that already to protect, let's say the competitiveness of our customers, and for the market environment in Germany where we are operating. Everything to do to fight for fairness, for how this situation is changing the environment and how the political landscape authorities have to work with us in the future. And I would always fight that there is a fair value and an increase in productivity to common shareholders at the end of the day. This is my duty. This is my obligation and I would everything to defend and even to improve the situation in this environment.

My observation is that there will demonopolization of the cable market. And there will be a situation where 70% of the TV market would be in one hand. And I think that even the housing association is a topic which we have to address. And this is something which we will now discuss with the authorities here and even have to say I heard that this seems to be an issue for process alone. I honestly, I question that because 80% of the deal is related to Germany. And for me, this is not

clear why the German authorities should not have something to say to this, because it's heavily infecting the German landscape and the German competition here.

So with regards to the wholesale, and your question on the wholesale. First, I hope that this deal is not taking place at all, and that – but it wouldn't take place. Vodafone stated today that they will achieve a 100 million of ULL and bitstream related synergies in the next five years. And they have been slowly migrating [indiscernible] Deutschland customers in the recent years. And you have seen our wholesale performance which is very positive in this regard. Vodafone is heavily losing – using infrastructure – fiber infrastructure from Deutsche Telekom in areas where they haven't built a cable infrastructure yet. And even their CapEx envelope which had a lot of – not giving any indication that they are helping out to build the rule areas in Germany. So even this wholesale revenues will stay intact. So I think this number sounds realistic to me, and seems to be manageable.

With regards to the fiber discussion in Germany, the first thing is that, the political criticism around our infrastructure has heavily slowed down. We have announcements almost every day, but at least every week while we are opening up new vectoring and supervectoring in areas across Germany. And it's really impressive if you see these numbers

I just gave in my introduction an overview about for the 1,000 fiber hotels in [indiscernible] 40,000 households for Magenta and other area. So, the huge investments which we are jointly taking here of Deutsche Telekom is paying off and showing the relevance in the market environment. So in the areas that we have built out vectoring we see high customer satisfaction and we see strong uptake from customers with 780,000 just in the first quarter in this area. And I'm not talking about only base there are so existing Deutsche Telekom customers. We are even attracting new customers and without having seen now the final numbers of Vodafone here and I know that our market share is almost close to the target which I have set for the organization already.

So we see that there's something happening. There will be always ruled areas and they will be always areas who will go on TV. There will be always people who get interviewed and these are people which you might notice by following the public around Germany. These customers not having sufficient bandwidth is first and almost one of our focuses we will talk about the Capital Markets Day and our strategy on this one first end. Second and there is a lot of subsidy money which is available, which is not being spent yet due to a lot of reasons. So there is a healing mechanism, which is not working yet. So, I see that there is a clear target from a political direction. I see that this discussion is cooling down at that point in time due to the investments which receive from us, but as well from smaller carriers here and on top of that

on top of that we see the huge customer satisfaction in areas where we have built vectoring. And just to remind us in summer we start then with the software update on super vectoring, which will then immediately drive customers up to 250. We have already 30 million households now covered with fiber. So I would guess that this is helping out to reduce the political criticism which we had during the election.

Operator: Thank you very much, Jim. And next is Robert at Deutsche.

Robert Grindle
Analyst, Deutsche Bank AG

Q

Yeah. Thanks very much. I'd like to ask about the impact of convergent offers on the mobile service revenues. I see it picked up a little bit this quarter after having fallen for quite some time. So I wondered what's driving that. I don't think you changed your discounts, but maybe it's re-contracting of the base.

And then to stick with mobile service revenues, obviously a great quarter on that. And how much of the improvement could you say was driven by B2B versus consumer, or was it more evenly spread? Thank you.

A

Robert, B2B – this is Thomas. B2B and B2C is roughly 50-50. That was the second part of your question. The first one is, the impact on the – from FMC in the mobile service revenues slightly up from last quarter 0.5% and 0.7%, but it has been 0.7% in Q3. So that's a bit of kind of normal volatility we have in the numbers depending on the mix you acquire there, but it's nothing which is let's say steered or strategically driven, it's just a matter of what kind of mix by household you basically you acquire here. So I think that level of 0.5%, 0.7% is quite a normal level you will see looking forward. But it's nice to see that our more – our momentum has actually slightly accelerated

see that our MagentaEINS momentum has actually slightly accelerated again this quarter, so we're happy to see that and that's kind of a contributor here. So, the next question is from George at Citi.

Q

Hi. Thank you for taking the question. I have two. The first one, I'm sorry to go back into the Vodafone-Liberty merger, but they did mention during the call that they would potentially look at opening the cable network to – on a wholesale basis. I was wondering if you can give us some color without going to any specific contracts on how they're continuing in model agreements work and whether the parties on the other side could scale them down whether there are any penalties, and if they are able to just focus their efforts on one region rather than across the whole country?

And then my second question is around 5G in Europe, obviously with announcement of spin merger in the big 5G pushing the U.S. if the merger gets approved, we know you are willing to invest there. In Europe, you don't lack scale in most markets, so I was wondering if you could give us an idea not just for you, but for all the operators as a whole, why there is more relaxed time and whether you think that regulators and politicians are willing to give you the framework to invest? Thanks.

A

I'm going to start on the 5G side and then we come back to the Liberty question, Voda-Liberty question. I think first of all, that will become clear as well in our Capital Market Day is, we are not defensive in terms of our 5G – of about 5G in Germany and Europe. We believe there is basically the way you can structure the whole discussion discussion from all point of view is a.) there is a certain upside you have on 5G which will become more and more important for more data throughput you see in a network infrastructure by better efficiency and on the capacity side that's one part, number one. Number two, there is upside and opportunity in fixed wireless access set up that depends very much on the topology you're looking at but if that is right you can use that technology to provide efficient super high bandwidth, that's number two. And number three, obviously there is our new business models you can think about whether it'd be IoT or whether it'd be dependent on quality of service classes et cetera, et cetera.

So we are quite keen to see that development is taking place and I'm not defensive on that one. I think what you need to have is kind of key ingredients to make 5G as success, it's obviously the right spectrum. You need to have a very good fiber back hauling infrastructure, which I think we are in terms of Germany and Europe clearly in a favorable position. And then obviously need to have the CapEx, spend the CapEx to rollout and upgrade the infrastructure, and potentially also identify the network infrastructure. This is by the way why you've seen on the tower German and tower company, the number of towers going up because it's about the densification which is needed.

So in essence we believe there is not only in the U.S. or in Asia there's also in Europe a significant upside on 5G. And as I said that's just a teaser more to come on the Capital Market Days, we'll have a section on that one to share our thoughts here. So for us obviously and clearly an opportunity looking forward.

Now I hand over to Tim on the broader Liberty part.

The first thing is I was very surprised about the state and debt Vodafone can consider and wholesale excess obligation for the cable market, because we had now for almost 10 months negotiations with the regulator and with the [indiscernible] in Germany and Vodafone's position in Germany was always heavily opposing to always had excess obligation, and so this comes to me to big surprise. That said it seems to be that they are concerned about their approval face and opening up their network now. I don't know what they mean with their wholesale excess regulation. Are they talking for a bit stream for the entire access or are they just talking about the nets in for so the housing wiring. Are they talking about opening up the access to the housing association. Look guys, I can talk and share let's say all on my positions here now, but I don't want that, because this is probably the negotiation project with the political bodies which is going on. I have my clear opinion on that one. The access to the housing associations and the housing wiring is definitely something, which we see as a violation. With regard to monopolization and the rest of this is something which has to be discussed and in the respective claimants.

Second, your question with regard to contingent models. What we are stating and what we have said is that, we are willing to opening up our private infrastructure for everybody and if they are accepting to let us to give us access to their infrastructure as the same conditions, the principal basis is a contingent model, which we have laid out in a normal contingent model is running for eight years, but I could even imagine

eight years, but I could even imagine that you know to create certainty around this huge infrastructure that we could extend this tenure beyond that.

A

Okay. Thank you, Tim. Next question is from Fred at Bank of America Merrill Lynch. Fred?

Frederic Boulan
Analyst, Bank of America Merrill Lynch

Q

Hi, good afternoon, everyone. Thanks for taking the question. Two if I may. Firstly, if I could come back on the U.S. couple of questions on that, so to come back on the comments on Monday, I think you explained that you will provide an update on the dividend policy, the CMD mid-May in the case of a deal and without a deal, so just trying to explain what that means if we'll expect a different policy depending on whether the deal goes ahead or not?

And then secondly, just a question around the debt in the new growth, so I think management guided for €63 billion to €65 billion of net debt post deal, so it's about €5 billion above consensus expectations, so if you could help us close the gap here? And same questions for 2019 whether it's about €4 billion or €5 billion negative impacts as well in your guided 2019 debt of €66 billion to €68 billion? And then maybe just a follow-up around Drew's question on the fiber side, are you getting any positive reception on your willingness to have new regulation in your JV with EWE and equally beyond that on any FTTH rollout, so what feedback are you getting on that? Thank you very much.

A

Yeah. Fred, this is Thomas. Maybe I start on the JV question, I think what you've seen is 2014 to 2017, you've 30% of increase

increased STV. As we said year-over-year 10% up and for this year rent will be paid, next year we said clearly we've a stated dividend policy and that remains in place and the deal is not impacting that as we don't expect the deal to be – to close within this year, maybe there is a positive dynamic balance. So for I think for 2017 to be paid in 2018, that's next week on the AGM for 2018 to be paid in 2019, it's crystal clear and I think that's what I would like to say to the DV right now here because as you know we don't have a guidance so far out for the upcoming years. And then second question was on the – I think on the debt side on the US, as we got it right, I think first of all there are two types of items which are incorporated in our point of view, the one is what I would call investment related items, so for instance money you bake in for spectrum acquisitions or whatever type of investments you might consider obviously spectrum the very obvious one and then the second one had – the second big one is de-related items, and de-related contingencies, you know we're always prudent, so is [indiscernible] and the US team and so we have baked in those two elements de-related items and some investment related items like spectrum and that is basically what makes the difference from I think your initial calculation to what you've seen so far, and on the fiber question I guess we will hand over to Tim.

Timotheus Höttges
Chief Executive Officer, Deutsche Telekom AG

A

I don't want to do a gun jump on our discussion on the Capital Market Day, but let me say the following that we have – the first thing we are only building fiber these days and nothing else. So there is existing structure and by what we are doing is we will be able by mid of next year to cover 95% of all households mid-speeds, which are beyond 100 megabit per second. At least 80% coming from us. We did a simulation and if we would have taken the money, not spending it into fiber built out for the rural areas, so not going for connecting the street cabinet first, and just by building fiber-to-the-home in the cities, we would have had a coverage of 20%. So 95% of households in Germany by 2019 beyond 100 megabit compared to 20%. That's a fiber-to-the-home theoretically. So it was totally right in the – from an eye of the customers and even from the eye of the investor and to pursue as we did. And we will follow up on that one. The second thing is there are areas where we do not need a change in the regulation, because in areas where we get subsidies for further build outs, we anyhow have the obligation to open up this infrastructure.

For this service and higher bids, Tim, excess prices have been agreed. So therefore, there is already, let's say a kind of certainty under which we are investing. Certainly, the question about fiber build-out in general going forward. And our point is a clear deregulation. Now, we have seen the coalition contract is a clear deregulation. Now we have seen the coalition contract and we have listened to the courts of Mr. Homan, the Head of the Regulation in Germany. We have heard from even the anti-trust authorities in auditing. People hear that there should be a different regulation less Xcenda regulation going forward with regard to the fiber build out which is giving the opportunity to partner on the one side which we are heavily doing with retail and others and to opening up on the capabilities for amortization of this infrastructure going forward.

So, and this is the discussion which we're going – which we are discussing with all political parties. And I'm very encouraged about what I see and what I hear. The question is how we make that possible. We will show you our detailed offer on how we are solving that. And this has until then even presented to political leaders and the 00:40:26 how we can imagine how that could look like at the Capital Markets Day. So, there is a clear and we are now in the solution mode and not in the strategic question mode anymore. So, I'm optimistic that we find a new solution.

Let me add one last sentence. To balance the political ask with the entrepreneurial requirements, we will state very clearly that we only will go into a fiber build out investment with a certain threshold, with a certain weighted average cost of capital, so that everybody understands under which conditions we're going to invest. And this number and the details around this will be presented at the Capital Markets Day.

Capital Markets Day.

Operator: Okay. Thanks, Tim. And next is Andrew at Goldman Sachs.

Andrew Lee
Analyst, Goldman Sachs International

Q

Good afternoon, everyone. Just a question around the competitive intensity run rate in German mobile following [indiscernible] decision step up the drive for net adds with handset leasing. It really is its early days, but I wonder if you could give us any update on that? And then just secondly slightly related to that, in terms your go-to-market in German mobile, telephone [indiscernible] is that they're going to use resellers less going forward. Have you had any share or desire of any shift with how you use resellers going forward in your current drive for efficiency? Thank you.

A

Okay. So I'm going to start. On the competitive run rate on the German mobile, I think it's fair to say that there is a bit more noise and a bit more rush you see out there. Is it fundamentally changing dynamics? No, not at all. But there's a bit more dynamic in terms of competitive dynamics in the B2C market, I think that's fair to say. But not a big topic thing here.

On the go-to-market in German mobile, I think what we're trying to do is always look first of all from a customer's point of view and angle. And I think what we observed and that's kind of no brainer that more and more customers want to have online easy to use simple experience with us and that means that there is more and more and more willingness from a customer and I'm talking B2C now by the way, I guess you do as well, that you don't need that super, super crowded, overcrowded retail landscape anymore. Nevertheless, I think what is important to understand and we will always very outspoken about that our position towards

our position towards the service we want to deliver to the customers is the right mix of being present at the high street, and given fantastic online experience. So, you should not expect us to leave the retail scene, so to say completely and just go online. For us it is the superior service experience we want to deliver is the right mix of being present on the street and being perfect online. I think that's where at least we should be.

A

Let me add from a strategic perspective. In principle what we remain committed is, the more for more strategy. What it means that, you know, if there is more competition in the developed segment and from other angles that we are – do not want to participate on a high street pricing level, but really let's say creating value for our customers.

Our position as a Deutsche Telekom in this branded segment is clearly quality leader. You have seen the recent drive tests results, you have seen the recent service test results, we are number one, and we have decided to upgrade our mobile network beyond the good position as well. And in our CapEx envelope, we had a run rate – we have a run rate of 2,000 mobile sites why we were investing 500 sites on an annual basis in the past.

So, the quality is the key for us, and the more for more logic is the pricing answer. And on top of that what we are driving is, more SIM cards, more mobile connections into the MagentaEINS bundle. So convergence is for us the answer that is why we are driving it across all market segments, and we're talking about Germany only today. Please have a look to what we're doing in Europe.

200,000 mobile net adds and 200,000 MagentaEINS net adds there as well, so great take up there from convergence perspective on all angles. So we are very much committed and focused on the convergence as an alternative to avoid, let's say, this sometimes really ridiculous and crazy price loss on the high street.

Operator: Great. Thanks. Our next question is from Emmet at Morgan Stanley, please.

Emmet Kelly

Q

Yeah. Thank you very much, Hannes. Thank you for taking the question. And I got two questions please. The first question is for Thomas. Just looking at German EBITDA growth, this was obviously very strong, I think at the tail end of 2017, I think from memory was at the 4.5%, 5% but the domestic EBITDA growth is maybe risen by I think, it's about 1%, 1.5% in Q1. I think you said this was due to the phasing of OpEx in Germany, could you maybe say a few words about that please, and what to expect for the rest of the year?

And then second question just relates to the portfolio. On slide 25 you've given some updated info on Deutsche Mobile Funkturm which is great to see, just wondering in light of the potentially higher leverage at the group following the Sprint deal have you had any updated thoughts on where you see the German towers business within the portfolio for DTE again? Thank you.

A

Emmet, you raised the question to Thomas and I will answer this question, because I'm even able to answer this question.

Q

Go ahead.

A

So on the German EBITDA growth, which was strong at the end of 2017 and now domestically only risen by 1.5%, this is nothing

we are worried about at all. This growth rate can really fluctuate. This is mainly due to the cost phasing which we are in our businesses on the quarter-to-quarterly basis, and we are absolutely confident that we will deliver on our stated guidance of €200 million EBITDA growth in our German segment until the end of this year.

A

So true on portfolio. The question on DFMG, Tim, by the way, I would never do that. If somebody is asking you a question, never jump. So Emmet on your question on the DFMG, I think, you know that our focus here is maximize the value because what we've seen is a tower company which was not managed as a tower company, but rather more, let's say there was the shop do and looking forward for sites for the tech guys, but not professionally managed as tower companies managed. And this is for us and for myself, it's not a rating question or leverage question. It is – there is value in there to manage better. I think we, on our way as you can see to get tenancy ratios of OpEx start or whatever it is important on a tower company's perspective and whether we're going to keep it in the company or partner it or whatever we do is a question which is not the main driver. The main driver is to maximize value here.

A

And if I might tell us, what we will do is that we are trying to as we did already, to add third-party business to it. So wherever we get the opportunity to manage under as the DFMG roof more assets and creating economies of scales and productivity gains, we will be open to look at this. We are working already with the Sunrise people in Switzerland on this equation in the in the Netherlands. So there are tendencies that we are europeanite, this business beyond the footprint it has today.

A

Great. So next question is from Mathieu at Barclays, please.

Mathieu Robilliard
Analyst, Barclays Capital Securities Ltd.

Q

Yes. Good afternoon. Thank you. So I have two questions kind of follow up from previous questions. In terms of the German mobile, you highlighted that there was no big change in the competitive environment. In terms of what you've been doing, I note that you have now given LTE to congstar customer. I understand it's a reduced LTE. But that's something that you said you wouldn't be willing to do in the past. I was wondering what was driven that, are you targeting new segments with this offer or does it reflect any change in competitive offers? And then, second, going back at the Vodafone Liberty deal, but from a different angle, which is as you were discussing the FTTH review from the regulators taking place. Wouldn't that deal if it go through be a good reason or an additional reason for having no regulation on FTTH? Thank you.

A

So I'm going to start on the congstar question and the LTE question. I recall our – I got this question in the past every second quarter or so, and I think the message I gave three – two – to three years ago was basically, no it's not the right time now. But LTE will not be the leading edge element forever someone when it will hit the mass market and someone it will be commodity because 5G will come up and 3G will not be. Let me also be clear, 3G will not be there forever. But basically on the concrete action

But basically on the concrete action we've taken here, we've introduced a speed option on congstar which is nothing else than more for more logic again. So what we're doing here is on the congstar base we are and then the new customers obviously as well, we are introducing more for more on the LTE side here as well with the speed option. And I think time is right now to move forward from let's say the only high end being able to use LTE to alter this segment.

A

Look Germany always you know are getting criticized for having an FTTH deployment which is slower than some other big European countries. We always hear this example of Spain or Portugal with regard to the fiber deployment to the home and then the question is always you know what is the reason for that? And you know that I have a clear position on that one. I believe as long as there is no kind of retail price controllability for an operator of foreign investor and therefore no possibility to guarantee an amortization of fiber-to-the-home investments over a longer period as long as this is not somewhere certain, there will be no significantly fiber-to-the-home build out in the European landscape. Everybody is behaving rationale on this one, and therefore the setup of the industry, the regulatory landscape has to change.

Now if there is no fiber-to-the-home deployment, why do we need regulation at all, because the regulation is always linked to the question about market dominance. So if there is no market how could be somebody dominant in this area. So, if you ask me, is there a logic to deregulate

is there a logic to deregulate or for no regulation of FTTH, definitely yes. And this by the way was right, before the merger and it will be even more right after the merger, because if you read the deck of our Vodafone carefully, interesting one. They were always criticizing us for not having a sufficient NGA network, and suddenly they use us and so we have a dominant NGA network in our genre. So a very opportunistic augmentation. I'm used to that, but independent from that one, I think on FTTH renewed new incentives for investments and this is a serious discussion which is taking place.

A

Great. We have next Ulrich from Jeffries.

Ulrich Rathe
Analyst, Jefferies International Ltd.

Q

Yeah. Thanks very much. I was wondering about the broadband market in particular the test the best behavior of customers you are seeing to people sort of drop back, do you see sort of in the big scheme things, people sort of sticking with it and then related to that, I think you sort of said during the presentation that your broadband revenue sort of are not underlying, because it is sort of a definition of change, but it is actually growing underline. Could you just highlight how much it is, because we obviously still have that target from 2015 I think from the Capital Markets Day out there. And relates to that it would be the final element of that question, is the – is the fact that this might be tracking a bit below target, is that more related to overall volumes or is that related to the dilutive effect of test the best which is obviously just a transient issue? That will be the first question.

The second one is very quick. The line loss which was sort of was a bit higher in the

first quarter. Is that just sort of a volatility or is this something more structural and how should we think about that during 2018 for the other quarters? Thank you.

A

I'm going to start on the B2B, Ulrich. First of all to clarify the numbers, reported is plus 5.3, underlying is plus 1.8 which is up from the 0.6 I think we had on last quarter if I have that right in mind. So, we always said you know once that effect of Test the Best is kicking in, we expect ourselves again to see ourselves again in the 1.6 area and that's exactly what's taking place now. So, there is not really a below target situation from our point of view. It is true and fair if you address the 2% CAGR we laid out, but in principle I think that is pretty much in line with our expectation what we have guided for last quarters around Test the Best impact. So, that's number one.

It's for sure not a matter of volume; I think we're in a good shape in terms of the volume. It is just a matter that it took a bit longer to feel that dilution was washing out. It's basically the answer on the broadband market. But for sure, if you take into account that the numbers you're seeing are A, strong, but B, softened and reduced by our IP migration we're doing proactively. I think we are in pretty good shape there.

Ulrich Rathe
Analyst, Jefferies International Ltd.

Q

Interesting wise, we had yesterday discussion on the line losses and the question on how we show them going forward and whether this is really let's say giving transparent good information or whether this is more irritating because you know the quality of the lines has dramatically changed. In the past we were losing a household, in the past we were losing a customer, now

most of the line losses are coming from the IP migration and from ISDN lines or from sleeping lines at B2B customers which are getting switched off. As you could imagine, the value-add of this is significantly lower as of losing a total household. And therefore, I think the question is, how is the market share of single lines compared to the double play market in the consumer space, and what does that say, the amount of sleepers are from migrations we might see going forward on this segment. But from a value perspective, I would say it's much more relaxing as it was in the past, and there's nothing to worry about this number going forward in our projections here.

Operator: Great. So next we have Stefan from Raymond James. Stefan?

Q

Thank you. Two question, one on Europe and one on the U.S. if I can. Regarding Europe EBITDA grew from Greece, Czech Republic, Slovakia, Algeria. It's quite exciting actually in the first quarter, and I think you've done a lot of work on the cost there the IP digitization. So my question is, how sustainable do you think the first quarter trends that we see here are going forward, and hopefully could also extend to Romania and Poland, which remain lagging there? And my second question is relatively open question. The T-Mobile and Sprint shares have traded quite hard since the deal was announced. So in the feedbacks that you received, is there anything you think investors have room in their perception of the transaction in your opinion? Thank you.

A

Let me start and then Tom is jumping on that. The first as we saw the trends already last year are from the customer perspective and we were heavily catching up on the relevant market shares on the net ad side. We've seen the strong and catching up on the relevant market shares on the net add side. We have seen the – a strong shift into MagentaEINS and a good – a network quality in P9 test, we have one 1 in nine 9 or 10 markets. And so we are doing very well from a quality prospection here. So is this sustainable trend in Q1 which we see in this Europe division? Yes it is. And the, the good work which has been done in another new regime from 00:59:37 [indiscernible] prepared to iCloud before that is really showing success.

Good market share on the customer side following a – sales and now are kicking in EBITDA. So you will hear a very encouraging pitch and perspective forward from Srini on our Capital Markets Day the other week. With regard to the U.S. and a quick answer on that one. Look, I understand that there is a shift in the shareholder base which is taking place, because the investment profile of our two companies are changing and definitely that's normal, we have stopped with the share buyback program. At the same time, we are announcing a merger with some uncertainties going forward. But I can tell you this is a transformational move for Deutsche Telekom for its value creation going forward I'm totally convinced on that one. And that is why I'm working for seven years on this, on this thing. This is from a market dynamic it is from a synergy perspective, it is from a shareholder perspective for Deutsche Telekom. This is the biggest value creation and opportunity which I've seen for a long time

opportunity which I have seen for, for long time and therefore I would say yes, there is currently some misjudgment, but Thomas will give you a little bit flavor of how we – how is the situation there.

A

Yeah, to build on that, what you said Tim that, the interesting stuff for me is all the discussions we had basically with everyone in the market be it Tim or myself, or Hannes or whomever. I haven't met anyone who wasn't convinced about the power of the idea. You know and so and by the way the way the, the whole synergies are setup you know that is it's done in a way where playbook is known, it's been delivered by the team setters. I don't give you the full story, so you know to be honest I'm, I'm a bit I like to learn a bit from you guys what's going on here because you know we have a talk, we present a deal, everybody says we are well. And then suddenly you see that, Tim is right there are elements like the share buybacks stuff et cetera. But guys looking at that deal, I'm not clear, I'm not sure, still I'm need to find out together potentially and in talks with you what's going on here because obviously that the power and the upside in that deal is from our point of view not reflected in what we are seeing right now in the stock price.

A

Maybe just to add on Poland, if you look at the numbers this quarter they are actually improving that good customer intake we've now been you know delivering good to regular customer growth this quarter. I think it's a 69,000 or so net ads and also therefore revenues have stabilized an EBITDA this quarter. So in Romania we, we had some operational issues last year, but we're also seeing good improvement in the commercial momentum now which is good to see. So with that next we have Sam with Exane. Please go ahead.

Sam McHugh
Analyst, Exane BNP Paribas

Q

Yeah. Hi, good afternoon guys. Hope you're well. Two questions, firstly on Germany. I just wanted to try and assemble better what's happening between consumer and B2B, I mean

I mean if I look at the spread between the revenue trajectory of both of those businesses it's now about 5 percentage point gap with B2B growing nicely and consumer going backwards presumably partly with IFRS 15, maybe more handsets into consumer, I'm not sure, but maybe you could just share some metrics on ARPU growth for consumer versus B2B. And then secondly, I'll try to ask you about Liberty and Vodafone again, so sorry, you mentioned that you would love to have access to housing associations and building wiring, but presumably if you go too far there's risk that you do end up with a Belgium sale, bitstream style product, kind of how do you think about not pushing the demands too far and what you think would be worst you're getting no remedies at all or having a bitstream star product introduced? Thanks.

Thomas Dannenfeldt
Chief Financial Officer, Deutsche Telekom AG

A

Yes, Sam. This is Thomas. I'm going to start on the German side. I think you're spot on it, the difference basically is related to handset side. So if you just look at the service revenues, you see as I said in the beginning, it's like 50-50 you'll see on both sides B2C is one of the B2B, continuing better trend in the tariff mix that is more and more coming through on the, as you know on the consumer side, things like StreamOn as an example where we've now above a million customers on that proposition, the same works around B2B, so actually it's on both sides more for more working obviously in different ways as a different segments and the debtor is related to the handset side which is obviously not changing really the value of what's going on there.

A

Look my statement on Vodafone-Liberty, I think that I see no reason why this deal should be approved and therefore, I know that the Vodafone people know this and they

have to bring something to the table and to ease the situation. Now how that looked like from a wholesale access model, they have sweetened the equity story today by saying we might be open on the wholesale model, but I do not know what kind of wholesale model they're thinking of. And there are so many opportunities, so therefore, I will not now ask for something. I will first hear what they will offer and then we'll discuss it. And therefore, don't take that as a kind of escape here for me, just tactically wiser not to comment on that one.

Operator: Okay. So, next is Christian at HSBC please.

Q

Yeah. Hi, it's Christian. Thanks. I have actually two commercial questions, first on broadband in Germany. I think you lowered your promotions to 6 months from 12 months prior. And I just wanted to see and understand what the momentum is in the introduction of the lower promotional ones at the beginning of March? And then secondly, you introduced an unlimited mobile offering and I just wanted to ask what the kind of the reaction in the market from a consumer perspective was and also from the B2B perspective is, is that is also driving your mobile service revenue and the pickup is good or not? Thanks.

A

Look, the first one is very early to say how the broadband market reaction is. What you have seen in the first quarter was very strong uptake on broadband net ads. As I mentioned in a sentence in my speech is that, we are very close to the net ad market share number, which we were fighting for. So, I think I'm very proud about what the team is doing there and how they're doing it without ruining the prices in this market. So, let's see how this

lower promo is working going forward, it is always our intention to get a fair value for our products. And you know that we have to amortize and payback the investments in our infrastructure. So that's the first thing.

The second part is unlimited mobile offer. Before somebody is preempting that space, we are the first one doing it. We did it as a price point. We're just not ruling the mobile market. It is a fair value for the customers and to old promotions, but as well compared to the offers [indiscernible] in the market, and we are positively surprised about the pickup rates, which we have seen, and despite the fact that this is not now at the low end of price points, which we have renewed this. And therefore, having something like 15,000 customers already booked into this service and this is around or even higher than the expectations we originally had. So I think we are on a good track and with the total portfolio which we have in the market.

A

Maybe one additional element to you Christian, on the lowering of the promotions you know unfortunately what we haven't seen is any reaction in the market at all. So I mean, the good news is we haven't seen a reaction by customers, so run rates are good still, but what we haven't seen as well is that there is a pricing up development in the market that's ultimately taking place, which is a kind of – its like it is.

Operator: Okay. So the next question is from Steve at Arete, please?

Steve Malcolm
Analyst, Arete Research Services LLP

Q

Yeah. Good afternoon guys. I'll go for a couple of [indiscernible] harp back to the Liberty Liberty-Vodafone merger. Could you possibly give us some color on, on the sort of competitive dynamics in the two different cable footprints where you're competing at the moment, because when one looks, the overall revenue trends of Vodafone and Unity looked pretty similar. It's not obvious, what benefits Vodafone brings to the party there. So, do you find you're less able to sell the convergence offers in the Vodafone footprint as your mobile performance significantly better there. Any color there you could provide that operationally will to be very helpful? And then just on the sort of fiber subsidy program, can you update us on how much money you've actually accessed so far and how you're think that program may evolve with the governments fiber plans which will be announced by the 1st of January and whether more straightforward allocation to that subsidy would help your own efforts or help the efforts of other operators to accelerate fiber direct Germany FTTP obviously rather than FTTC? Thank you.

A

The honest answer on the behavior between Liberty and Vodafone in the German market is very clear. The Liberty people were always behaving let's say as professionals, they are very disciplined in the pricing politics and in the way going forward in their markets. Vodafone was always you know trying to behave like a mobile cowboy in the 90s. So that was our observation in the cable footprint. So, I don't know what that means for the future on this way, but we always found the Liberty people more competent in cable.

A

And on the fiber subsidies, I think a few things to mention. The vicinity we're talking so far is in a couple of hundreds of millions on a yearly basis roughly and it's kind of stable doing cause of the last three years at least when we've seen subsidies kicking in, we have two-thirds, good two-third share of what we take

of what we take or what we win in terms of the offer the subsidized offers. And I think the key question here is much more, it's not a matter of pumping more money in there, that is also helpful for rural areas, don't get me wrong, but the key element is how to make the money flow. As Tim mentioned in one of his speeches rightfully so there is enough money available which is not being used and the issues here are the way you can address, that you can grab the money how fast it's been delivered et cetera. So, it's quite complex administrative process and for sure, if you want to ramp up and do something more for the rural areas which is obviously the intention here also on the political side, there needs to be a lot of work on simplified access to that money for sure.

But we're ready to go for it in a simplified or also in a non-simplified version, don't get me wrong.

Operator: Okay. Thanks, Thomas. Next questions is from Guy at Macquarie.

Guy Peddy
Analyst, Macquarie Capital (Europe) Ltd.

Q

Yeah. Hello. Just two very quick questions, your migration to IP continues to be well developing in Germany, but not going at a very strong pace, it seems like it's still going to take you another two years, is that correct?

Secondly, commercially when there has been a deal in Germany, it's been opportune moment for competitors to win share. Do you see that now with Vodafone and Unity effectively straddled by a deal or trying to get a deal approvals that are opportunities for you to actually push a little bit harder commercially? Thank you.

A

Yeah. I'm going to start on the IP migration. I think you're spot on, on the B2B side, we said end of the next year then finally and then B2B a 20 – 2020 so it's a kind of two years, you're right. I think what

you're right. I think what we've underestimated the bit is on the consumer side as well as on the B2B side it wasn't – it's not how to get the first 80% move off the platform, it's how to get the last 10% of the platform and that's harder and takes a bit more time and effort. I think the good news is even with more time and more effort that takes here we are not off what we have promised to you guys in terms of delivery on EBITDA and we are not off in terms of consensus. So yes, that's true what you're saying. But I guess we found enough areas to mitigate the whole thing.

A

With regard to the second question, look, we had in the past and we will in the future always trying to do the right thing for the market and the right thing for Deutsche Telekom so that the value creation is balanced here. And do we see a change due to the announcement of the merger for the phase of the approval and to this drive? No. So we're always going to fight, let's say for them almost best position for the Deutsche Telekom in this environment.

A

But let me also be clear, we don't need that kind of weak competitors. We are in a good shape in terms of our commercial momentum in Germany and in the broadband arena and we will make sure that we keep going.

A

Yes. So the next question is from Josh Hallett at Redburn, please.

Josh Hallett

Q

Hi, guys. Thanks for taking my questions. The first one is just on Vodafone talking about upgrading cables DOCSIS 3.1 very quickly. And post the approval of this merger if that occurs potentially move your CapEx budget in Germany over €4.5 billion just for competitive reasons because you might need to

respond to them or is it the case that you literally can't increase your CapEx any further due to a lack of civil engineers? And then secondly, I know you're guiding for revenues and EBITDA to grow for key systems in 2019, but order entry is just 91% sales in Q1. So is that so realistic and how would that be possible? Thanks so much.

A

My reading from what has been announced today is that, our competition has just repeated old plans, so there's nothing new coming on top of that. And our plans are our plans and they do not change. And with this announced merger and we have a framework for our investments going forward. We have a clear rollout in mind. We have defined it say the envelope in which we are doing that which is stable on the level which you know we will give you all the detail and the flavors about the different regions and areas how we are investing at our Capital Markets Day coming forward, but I do not see that anything is changing here from our angle.

Q

Okay. And then on – I think on the system side yes, actually as we have two or three supporting components, I guess, the number one is order entry improved on the year-on-year basis again, that's number one. That's obviously as you've seen that it's 18% up compared to last year's quarter. Secondly, there is enough room to improve on the cost side especially if you look at atomization, digitization, and that is aggressively going after it.

I think that's second and third is obviously you know we always said T-Systems as you know is a composition of a classical IT business, which is for sure under margin pressure and a bunch of growth initiatives and activities we're going for like security like IoT and where you see the run rates and the growth kicking in, and obviously, that development also supports our assumptions here. So yeah, we are confident on that.

A

Okay. Thanks, Thomas. And next question is from Ottavio at Soc Gén, please.

Ottavio Adorisio
Analyst, Société Générale SA (UK)

Q

Hi, good afternoon. Two or three questions on my side. The first one, it's on the housing association, it's been mentioned quite a few times by team and from other people. The question is around 2012-2013, there was an emphasis from Deutsche and you want quite a number of contracts then you will win quite. So I was wondering what's your market shares and not just in the TV both on the broadband and if is that market share low is to do with the fact that your fiber coverage was not as good as it is now is the long-term nature of the contract or else?

The second is on – you have quite a number of deals going on at the moment, you've got the one announced in the U.S. but also two deals that you announced back end of last year off to Netherlands. Now, the U.S. the regulatory process has just started, but the one in the Netherlands and Austria is already underway. If you can give us just an update how it's going. And the third is to – I recognize to Thomas this one, because in the free cash flow, now something that went relatively I noticed is the fact that doing the deal in – the announcement of deal in the U.S. is that the team has also announced quite a chunky buyback if the deal doesn't go off true. If I look at the cash flow, that buyback almost consume most of their cash flows. So my question is, how much cash you get from the U.S. in 2017 and therefore how much is the dividend you pay in Germany is reliant on the cash from the U.S.? Thank you.

A

Okay. Let me – let me start with the housing associations. Look as I said the housing associations are around 20% to 25% you know I would define it of the total households in Germany. In this areas we have almost none, zero market share, that is to say the situation be good. It's a, it's a monopoly situation of the – of the cable operators, long history to that one and some, some legal advantages you know to promote the private TV services under the Kohl, Chancellor Kohl area. So long history, but this is where we are and it is so far very difficult for us you know and for others to get into this stuff, that is by the way true as well for the for the regional carriers. And therefore there's a big alliance here between us and the regional carriers that this segment has to get opened. This context are long lasting contracts beyond eight years and alike up to 10% to 20% of, of this households are coming to the market on annual basis, around 1.9 million households per year and this expiring contracts, which can be attacked from outside. Now there are some legal restrictions around that and, and this is something we have to send in the regulatory process

this is something we have to think in the regulatory process that it's easier for us and that parallel infrastructures can be used or that we get a wholesale access obligation for this [indiscernible] as we said. And this is definitely something which we find as a target achieving for targeting.

A

Okay. Then from my side on the free cash flow or dividend question first of all. First of all, as you know, I pay a dividend as a group. I don't pay it by bits and pieces. So I don't tend – I do not tend to think about it that way what kind of part of your dividend comes from A, B & C because that will fluctuate over the years. So that's number one.

Number two, 234 being announced by the U.S. team. That program if the deal doesn't take place is not all of the free cash flow. There is room to maneuver built in for – partly for deleveraging for CapEx and spectrum activities. So if you look at 2019 numbers that example the guidance was 4.5. So, you can easily calculate that obviously that is not a sum of the free cash flow being available. That's number two.

And I think number three, for a certain level of U.S. share buyback is accretive. If you look at the EPS, it's accretive for DTE shareholders as well as it is for T-Mobile U.S. shareholders. So there is a perfect match of alignment of interest between both shareholding groups. And last but not least, if you look at 2018, obviously there was share buyback taking place. We have used the opportunity to

ramp up our shareholding a bit in that sense, and so, there is triple cash in 2018 coming from the U.S. as a matter of fact.

With regard to our transactions, in the Netherlands, we have filed on the 2 of May, so there was a consultation phase of other things and the final documentation has been sent out on the 2 of May. And in Austria, we are about to be file, and so that is coming within next thing. The Phase 1 approval is something of a six weeks period, and then we have to understand whether there will be a Phase 2 investigations on the respective deals.

A

Thanks, Tim. And the last question today is from Wolfgang at Bankhaus Lampe, please.

Operator: Mr. Specht? Hello?

Wolfgang Specht
Analyst, Bankhaus Lampe KG

Q

Yes. Hello.

Operator: Okay.

Wolfgang Specht
Analyst, Bankhaus Lampe KG

Q

Once again on Vodafone if I may. Couldn't we see it from a more positive side if the deal happens at least with remedies, because Vodafone would be deeply in need to recoup its purchase price and should not be interested in all to lower prices or to become more aggressive on the broadband market. And would it be at all an option for you to move at least part of your customers to cable wholesale access? And then one question on the U.S. is that you're asking why some investors didn't like it, couldn't it be the problem that part of the market believe

believe that it will only be an interim deal and you need another let's say six network infrastructure deal to follow at least in a couple of years?

A

I think with regard to the remedies and the purchase price, you know, you have to ask, you know, Vodafone how they are looking forward, how important the realization of that deal is and how valuable that might you know might become. But as I said at the [indiscernible] I will do everything you know to protect the competitive landscape here in Germany and that Deutsche Telekom is fighting for more fairness in this environment.

It is clear that there is somebody building let's say a counter play to Deutsche Telekom and I do not understand why in all the regions where these guys are operating Deutsche Telekom is still fully regulated as long as they are not regulated. So we will see how this is playing off and the tradeoff for the company of Vodafone is something they have to decide upon. With regard to wholesale I think everything has been said already. We should not speculate. I like to understand what the wholesale offer is on which level of the network infrastructure they are offering wholesale capabilities and then we will the reactions. I expect that something has to come on the TV market as well because this is definitely something which is not only violating our situation, but as well a lot of interest groups are affected by that one and there is a good partner

and there is a good a partner ecosystem which is developing to build fiber. Even the smaller carriers, I think should be considered in the whole landscape here. So, it's not just Deutsche Telekom and Vodafone who are against this. There are a lot of voices just today break or made a statement on that one. So, therefore this is let's say the equation on and on around wholesale and remedies here and on this deal. And it will take longer than just you know one consideration here in the call to understand the way forward.

A

And on the U.S. maybe the following thoughts you know what is interim, what's not interim? you If you look at the Metro and think about the MetroPCS deal as an interim to that deal, you know I think it was worthwhile to go that interim step. I don't care whether it's interim that there is never a final thing you know whether it's interim or not. What I do care about is there is a clear path forward to achieve €43 billion of synergies. And value creation, significant value creation for DT investors. So, whether that's an interim or an – a interim and I don't care as long as we make the €43 million create the value and then we go from there. Okay.

A

I think this was well said Thomas. You never know what's coming on. We have now the next way of creating significant value on uptake in the U.S. with this transaction. Whether this is market is going in one point and in time into convergence or whether somebody is coming around want to buy our business and we don't know now, it is not our interest to our interest to another deal than the one which we're announcing. And therefore, let's move on and realize this huge value which we have.

Unverified Participant

Okay. I want to say goodbye for today. I think it was a turbulent day for you guys, but please do me a favor, don't forget Deutsche Telekom is growing on both sides of the Atlantic with 3.1% organically on the revenue side and 6.6% on an EBITDA. We have an operating net income increase of 26% and our free cash flow is 12.5% up despite the fact that we are investing on the highest run rate this company ever seen. So you will find us all in a good mood to fulfill everything, which is lying in front of us and all the challenges which we – which you might see. And therefore, let's go back to work. All hands on deck. And see you all at the Capital Markets Day to give you the deal – and the sorry – the details of our strategy. Bye-bye.

Unverified Participant

So ladies and gentlemen, the conference is about to end. And should you still have further questions, we could kindly ask you to always to contact us in the Investor Relations department. With that, I give back to the operator.

Operator: We like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1805-204-7088 via reference number 520647#.

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