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Deutsche Telekom AG (DTE.DE)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges
Chairman-Management Board & CEO

Q3 HIGHLIGHTS

Investments, Customers, Earnings and EBITDA

- Let's start today's call with my summary on the first nine months of 2016
- Strong momentum continued also in Q3
- I think strong momentum with investments, strong momentum with customers and customer growth and as well with earnings, strengthened our focus here as well on the EBITDA line

Performance

- We are very happy with our YTD performance, and we remain on track for our group target we presented to you at our Capital Markets Day last year
- We also reiterate our guidance for 2016
- The first slide is our usual quick reminder of our main strategic building blocks
  - These remain as well as on the first day

Fiber Products

- Slide 5, you see summarized some of highlights for the year to-date
- We enjoy a healthy commercial momentum in our European businesses, as we will discuss in more detail later on
- Most prominently, the demand for our fiber products remains very strong
- We now connect 6.1mm German homes and businesses with fiber
  - We added a new record of 1.8mm fiber customers in the last nine months alone

Subscribers, Investments, EBITDA and FCF

- In the U.S., we gained 6.1mm subscribers so far this year, and we raised our full-year forecast yet again
- We strengthened our position in Europe and in the U.S. by investing more than €8B in our networks and more than €2B in spectrum
- And we are seeing the results
- Our strong growth continues, our revenues grew over 4% so far this year, while adjusted EBITDA is up 9.4%
- Our FCF is up 14% in the first nine months, on track with our full-year target of €4.9B, which remains unchanged

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Customers

MAGENTAEINS, CONVERGENCE PRODUCTS, FIBER AND CLOUD

- The next page shows some examples for the strong momentum we are seeing with our customers
- We continue to see good momentum with our MagentaEINS convergence products
- We now have 3.9mm converged subscriptions in Europe, of which over 2.6 millions coming from Germany
- I already mentioned our success with fiber in Germany where we added a record 2.3mm homes in the last 12 months. 30% of our retail broadband homes are now on fiber, up from 21% one year ago
- Our U.S. performance continues to speak for itself
- In the cloud, in the B2B area, we grew 13% so far this year and remain on track for our ambition levels

Agreement with Vodafone

- On slide 7, let me highlight some more topics
- On Friday last week, we disclosed our agreement with Vodafone to acquire their Dutch fixed line network with its infrastructure asset and almost 150,000 customers
- This provides us with an opportunity to offer a converged proposition in the Dutch market

TECHNOLOGY AND PRODUCT LAUNCHES AND MAGENTAEINS

- After the many exciting technology and product launches earlier in the year, the last three months were again focused on bringing innovative products to the mass market
- We launched a number of proposition at this year's Berlin Consumer Fair
- For instance, we further strengthened MagentaEINS by including mobile TV for free for all Magenta ONE customers
- We now offer Apple Music for free for six months

SMART HOME PLATFORM

- We added 73,000 customers to our Smart Home platform so far this year, and we are getting very positive customer feedback
    - Our more-for-more tariffs were well received and after six months already account for more than 10% of the base
- German data usage growth continued to accelerate this year

NEW NARROWBAND IOT STANDARD

- Together with Huawei, we launched the world's first commercial network build on the new NarrowBand IoT standard
- We installed the first LTE base station for our pioneer European Aviation Network and, as disclosed already by our partner, Inmarsat, IAG intends to equip 300 4G to short-haul aircraft
- The project is on track for a commercial launch in 2017

T-MOBILE ONE AND CAPEX

- In the U.S., we led the market by launching T-Mobile ONE, which builds on the positive Binge On experience

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- On the technology side, T-Mobile Austria was able to demonstrate 2-gig speeds in an LTE Advanced class network
- Supporting our network leadership, our CapEx grew 5.5% so far this year
- We also spent €2.2B on spectrum, half of which in Poland, half of which to further extend our low-band spectrum footprint in the United States

Regulation

- As all of you know, regulation was a big subject this quarter
- At the beginning of September, we confirmed our intention to connect 6mm German Nahbereich homes with vectoring
- We will work as hard as we can to make up for the delays caused by the much longer than expected approval process
    - Also well-known to you, the German regulator has announced plans to recalculate interconnection fees based on long-run incremental costs

Service Revenues and EBITDA

- Depending on the size of the cut, this will of course impact reported service revenues both on the mobile and also, but to a lesser extent, on the fixed-line side
- While on the mobile side, the impact is broadly EBITDA neutral, on the fixed line side it is somewhat negative
- So, please be aware of that

European Regulatory Debate

- Moving on to the European regulatory debate
- We note the current discussions regarding the implementation of the roaming fair use, this policy and wholesale roaming charges
- Together with our industry peers and supported by the national regulators, we worry that if the implementation is not fully thought through, the European industry and with it, Europe's consumers, could be harmed in the longer-term

FRAMEWORK AND WORK-IN-PROCESS

- Finally, there is, of course, much to say about the European framework, which was revealed at the beginning of September
- While this is clearly still work-in-process, we work on some of the proposals, especially regarding spectrum
    - But at this stage, the draft is still overly prescriptive and so far does not mark the clear step toward deregulation that would encourage greater investment

PLANS

- Importantly, we believe the current draft is consistent with our plans
- So, whatever the current debate, we continue to execute our plans to roll out our very dense fiber network to as many homes as quickly as possible
- And clearly, our plan is working, 6mm homes in Germany on our fiber, 2.3mm more than one year ago
    - We think these numbers speak for themselves

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Group Financials

REVENUES, EBITDA AND FCF

- Moving on to our group financials on slide 8
- We are happy with our performance in the first 10 months of 2016, and we reiterate our stated guidance for the year
- We also reiterate the group target that we stated at last year's Capital Market Day
- Our headline revenues grew by over 4%, comfortably ahead of our medium-term guidance
- Our reported adjusted EBITDA grew 9% YTD, 5.4% on a comparable basis
- And despite our high investment, we delivered double-digit growth of our FCF.

Summary

- To sum it up, our main group financial metrics are well on track for what we committed at last year's Capital Market Day

Thomas Dannenfeldt
Chief Financial Officer

FINANCIAL HIGHLIGHTS

Revenue Growth

- And let me start with the financial highlights of Q3, as the slide shows you, the financial highlights of the group as a whole
- As already mentioned, our financial momentum remained strong in Q3
- On revenue growth, we accelerated to 6% this quarter, largely driven by double-digit service revenue growth in the U.S. and also benefiting from the rollover of last year's introduction of handset leasing by T-Mobile U.S.

Earnings, EBITDA and FCF

- Our adjusted earnings were almost stable y-over-y
- And adjusted EBITDA grew 7% in the quarter
- Our underlying FCF grew very strongly this quarter, taking us a long way towards our full-year guidance of around €4.9B.
- But to be clear, the strong FCF reflects phasing and quarterly volatility and we reiterate our stated guidance for this year

Germany

SALES, REVENUES AND EBITDA

- Now, a closer look on Germany
- Moving on to slide 11
- In Germany, our sales were down by 0.8% this quarter
- We adjusted for the direct from roaming and for a positive one-off we reported in our wholesale division last year, while German revenues were slightly up year-on-year

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- Our German EBITDA was slightly down year-on-year this quarter
- But as always, there is a bit of phasing in this and we remain well on track for our unchanged guidance for the full year

MOBILE SERVICE AND FIXED-LINE SERVICE REVENUES

- Our mobile service revenues improved again and grew 0.2% this quarter despite an increased roaming drag
  - And this growth results from a steady commercial performance by our consumer division and an improved performance by our B2B division
- Our fixed-line service revenue slowed sequentially this quarter
- Adjusted for last year's one-off in the wholesale division, our fixed-line service revenues would have been down by 0.6%
  - Just for the one-off, combined fixed and mobile service revenues were almost stable year-on-year

CONTRACT CUSTOMERS

- We gained 609,000 contract customers, but this was impacted by seasonal volatility in lower-value service provider cards
- I think more importantly, our own branded customer base grew by 145,000, broadly in line with the trend in previous quarters
  - And we now have almost 11mm LTE customers, up more than 3mm in the last 12 months

Mobile Service Revenues

B2B DIVISION, REGULATION AND CONVERGENCE ACCOUNTING

- Slide 14, these are some of the factors impacting our reported mobile service revenue
- As already mentioned, our performance further improved to 0.2% year-on-year this quarter, mainly due to an improved performance on our B2B division
  - We also benefited from a positive customer response to our new more-for-more tariff, as Tim has already mentioned
- This quarter's improvement came through in spite of a sequentially higher roaming drag, which was somehow expected in the summer quarter
  - Without the impact of regulation and convergence accounting, we would have grown by over 3% this quarter

DEVELOPMENT

- But before we get too excited as before, remember H1 2015, a lot of people got very excited about the development
- We remain committed to our guidance for 1% annual CAGR in our mobile service revenues before the impact of regulation

Convergence Propositions and Data Monetization

MAGENTAEINS

- Slide 15 shows the progress we are making in our convergence propositions and data monetization

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- Only two years after launch, MagentaEINS already accounts for over 30% of the relevant customer base
- And we achieved this milestone while keeping our consumer mobile service revenues stable
- And I think it's clear evidence of our successful up-selling
- Benefiting from our more-for-more propositions, data usage growth further accelerated this quarter to over 80%

Fixed-Line

- Now moving on to fixed-line on slide 16
- We added 64,000 broadband customers as in the prior quarter
  - For the year as a whole, we still expect similar broadband net adds as we did last year, which basically means we will improve in Q4 vs Q3

LINE LOSSES

- Line losses improved sequentially and we still expect the full year loss to be of similar magnitude as in 2015
- It was another strong quarter for fiber growth
- We added 526,000 fiber customers this quarter compared to 425,000 fiber customers one year ago
  - The majority of these new fiber customers were on our retail platform

BROADBAND REVENUES

- Our broadband revenues grew 1.6% this quarter, which is a slight sequential slowdown
- This mainly reflects the slowdown in TV net additions prior to the launch of our new Entertain platform
- However, we see this mainly as a phasing issue and remain confident that we will deliver the 2% growth as promised at last year's Capital Market Days
  - Our recent revenue momentum was also impacted by a fast erosion of variable core revenues in this quarter

FIXED SERVICE REVENUE GROWTH

- As you recall, last quarter we achieved slight fixed service revenue growth
- This quarter, both retail and wholesale revenue momentum was a bit slower, as already mentioned, but we remain confident of improving retail momentum
- And in wholesale, this slowdown mainly reflected a one-off in Q3 2015
  - Adjusted for this one-off, our fixed-line service revenues would have declined only by 0.6% this quarter

Network and Transformation

FIBER AND MIGRATION OF B2B CUSTOMERS

- So in short, you know our network and transformation
- On slide 19, you can see that we could add another 1mm German households to our fiber footprint and now cover 59%
- We remain on track for our milestone to cover close to two-thirds of German homes by end of this year. 49% of access lines already on our IP platform, so we're almost halfway there, and we continue to work towards our target of migrating 100% of our access lines to all IP by EOY 2018

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- The migration of B2B customers is more complex and more time consuming, but we're making progress here, too, and have migrated over 1mm German B2B lines, which was about one-third of the total

T-Mobile U.S

- So, moving on to our usual two slides on T-Mobile U.S. who already presented very strong numbers two weeks ago
- We won 969,000 branded postpaid customers
    - We also added 684,000 prepaid customers
- Strong subscriber growth and slight ARPU growth combined to 13.1% mobile service revenue growth after 12.5% in the prior quarter
- And we saw another quarter of very strong EBITDA growth
    - As you know, we raised our full-year branded postpaid subscriber growth guidance once more and now expect 3.7mm to 3.9mm branded postpaid net adds this year in the U.S.

Performance Metrics for U.S. Subsidiary

- On the next page, we show some selected performance metrics for our U.S. subsidiary
- Our branded postpaid phone churn improved year-on-year, as did our bad debt expense ratio, as did our cost of service
    - To sum it up, another great and fantastic quarter for T-Mobile U.S.

Europe

CONTRACT NET ADDS, EBITDA AND INVESTMENTS

- Now, back in Europe, on the next slide, we were able to improve our cost momentum in most of areas in this quarter. 220,000 contract net adds marked a substantial improvement compared to the prior year
- In the Netherlands, we have now grown contract net adds for five quarters in a row, 54,000 this quarter
- Our convergence momentum remains strong with 144,000 new additions
- Meanwhile, our TV and broadband momentum remained strong and steady despite some impact from additional taxes in Greece
- Our organic revenue momentum was stable this quarter despite a roaming drag of 0.5%
- Organic EBITDA was down 4.7% this quarter
    - This mainly reflects revenue mix effects, the impact of European roaming and increased market investments as evidenced in the improved customer momentum

Operations in Other Markets

- As before, we are seeing weakness in the Netherlands and Poland, while our operations in the other markets are doing well, for instance, in Greece, in Hungary, in Austria or in our recently combined Czech and Slovak operation

IP Migration and Technology

- And here, a short look at the IP migration and technology as well in Europe
- As chart 24 shows, in Europe we now have migrated well over half of our homes to IP, and our LTE coverage now stands at 78%

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- The performance of T-Systems this quarter was negatively impacted by headwinds from a number of large legacy contracts
- Unfortunately, some of these headwinds will continue to weigh going forward
    - We are clearly still in transformation mode here, but there are also many bright spots such as our new cloud initiative, which will progressively offset these nearer-term headwinds

EBITDA Performance

- Unit EBITDA performance was also being impacted by our IP transformation cost as the business customer migration is stepping up a gear here
- We are making progress, but it's a bit slower than we would have hoped for

FCF and Debt

- FCF was up year-on-year both on a headline and even more so on a comparable basis, taking us a long way towards our full-year guidance
- But as mentioned, the strong FCF reflects phasing and quarterly volatility, and we reiterate our stated guidance of €4.9B.
- Our net debt was impacted by spectrum payments due this quarter
- Talking about net debt, the next slide shows our financial metrics at 2.3 times
    - Our net debt remains well within our comfort zone of 2 to 2.5 times adjusted EBITDA.

Funding Agreements

- As you surely saw last week, we have prolonged our existing €4B funding agreements with T-Mobile U.S. beyond November and previously stated, we remain open for sensible extensions on a case-by-case basis

SUMMARY

- So, my final slide as always summarizes the strategy we've presented to you at last year's Capital Market Day
- We continue to execute well against our targets, and we remain confident that we would keep delivering them going forward

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QUESTION AND ANSWER SECTION

Ulrich Rathe
Jefferies International Ltd.

Q

My first question would be on the B2B mobile business. I mean, you're sounding in your outlook by reiterating that 1% outlook and putting that in sort of in the forefront now. You sound a bit as if that quarter was a particularly strong one and you don't want to get – to get too excited in your words. Could you maybe explain what element of that B2B performance might not come back and what the volatility, what might explain the volatility of that sort of being very strong this quarter and maybe not so strong in future quarters? I'd be interested in that.

My second question is a very technical one. T-Mobile U.S. raised the guidance for the data stash and handset leasing impact by €200mm. You're reiterating the outlook for that. I'm just wondering why that is because, obviously, with another €200mm of a non-cash sort of inorganic item coming in from the U.S., that would devalue the quality of the EBITDA if it were showing in the DTE Group accounts as well. Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

On B2B mobile. First of all, I guess what we've told the market during the course of the last four to six quarters was basically that our B2C, and so the consumer market, is very stable, sees a very stable development and a very stable line. And that the volatility in our reports is driven more or less completely by B2B.

And I think what we have observed is H1 the year, the market got a little bit carried away by the positives, which was driven at that time, again, mainly by B2B and then was three, four quarters off a kind of frustration because there was impact of loss of big deals and some pricing impacts there. And again now, we see the positive results. I guess, the key message is if you don't look at it on a quarter-by-quarter basis but more on a midterm perspective, and you exclude those volatilities, you have by big deals in B2B normally. And it's sometimes an up and sometimes a down. You will find, on a midterm perspective, back to our guidance, which is that 1% growth, ex the roaming and the regulatory impact.

And the only thing I'd like to do is urge everyone not to extrapolate if you see those peaks and dips. Basically sometimes you have a big deal coming in into peak and sometimes you have a dip by losing one. But on a midterm perspective, it doesn't matter. It's just a bit of volatility you have by those developments.

Hannes C. Wittig
Head-Investor Relations

A

Let me maybe add that we feel good about the current run rate. So, it's not like we're trying to suggest that it's going to turn around the next quarter. But, as you know, mobile market in Germany has a lot of participants. And so visibility here is not that we can say extrapolate 3% or so. That just would not be reasonable. But we're feeling good about where we are.

And let me now just say something about your question regarding T-Mobile U.S. You have rightly pointed out that they have increased their adjusted EBITDA guidance, reflecting a greater impact from leasing and data stash. Although when you look at the core EBITDA guidance, and that's the core point, the most important point, there is no change. So, the core EBITDA, then surely, you will be focused on and I guess the majority of people are focused on there is no change and, therefore, there is no dilution in the EBITDA quality or so in this sense.

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Andrew Lee
Goldman Sachs International

Q

Just firstly on your vectoring approval which you've received a couple of months ago. Could you give us an update on your rollout plans and what this means to CapEx in 2017? How much higher should we expect CapEx to be in that year as a result of this, of your ramp-up?

And then, secondly, just maybe capturing the question on your TMUS ownership plans, but more specifically, I wonder if you could talk through what you see as the implications from potential AT&T-Time Warner deal? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

I'm going to start on the CapEx profile. First of all, I think last year at the Capital Markets Day our expectation was that we will get an earlier approval of the Nahbereich. So, our original plan was to have a little bit more kind of frontloaded, meaning 2017 CapEx in Nahbereich . Now, what we've seen is that the approval due to a long debate in the EU and on the German regulatory side that shifted the bid.

On the other hand, the government has increased the amount of CapEx. They're willing to give for the very rural areas for subsidization and support that rollout there. And I guess, overall, there is kind of decrease by later Nahbereich rollout vs. the original planning and a little bit higher rollout on very rural areas. So, that's the basic two dynamics we will see. Obviously we will give the complete guidance for 2017 in end of Feb or beginning of March talking about the 2017 guidance, but we remain clear and confident about our 10% CAGR on the FCF side in 2014 to 2018 for the U.S. I hand over to Tim.

Timotheus Höttges
Chairman-Management Board & CEO

A

We lack the U.S. business. We lack our management there. We lack our story there and the track record, and we do not see that there is any weakness on the overall story. So, is there any plans with regard to the change of our ownership? No, it's not. But we want to be open-minded to further consolidation steps in that market, what might come up there in the next years. And therefore, we are not changing our kingmaker strategy there.

The U.S. market is quite attractive, and the outlook is quite encouraging. And the share price is reflecting that this is the right market to be in.

With regards to Time Warner merger, it's an interesting deal and it shows that AT&T continues its strategy of diversification away from the wireless area. And it is exactly the area where we are doing very well. And for me, this merger looks like it could be a major distraction.

And beyond financial arbitrage, the benefits for me are not so clear when it comes to this content integration. But who cares? We are focused on mobile and on the connectivity where we are very successful and where we're gaining market share.

Polo Tang
UBS Ltd. (Broker)

Q

On the portfolio overall. So, how strategic is your stake in BT? But also, I just wanted to pick up on your comments in terms of the Netherlands. So, given the purchase of Vodafone's fixed line assets, is the Dutch business core or non-core going forward?

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But also, the second question is really just in terms of regulation and the European Communications Code. Does it imply more fiber-to-the-home rollout longer-term in your view? Thanks.

Timotheus Höttges
Chairman-Management Board & CEO

A

The first question, with regard to the portfolio, look, there has been some speculation to press about our shareholding in BT. And for us, there is no internal discussion on that one, why should it? We are very much looking to support BT wherever they want us – need our – wherever they like our support. So, that's the way going forward. Second thing is we anyhow sitting in a situation where we are not able to consider a sale of the stock due to the quiet period or the standstill which we have negotiated.

Looking to the BT on itself, I think the portfolio of the operations, the performance of that business is quite impressive when it comes to the netted shares, when it comes to the operating margins, when it comes to the cash flow generation. And the EE is doing pretty well. At that point in time, it's performing nicely. The network is outstanding and the integration looks like it's – everything is on track with them. So, that doesn't speak for any kind of requirements to change our strategy.

Now, there are three elements of the story of BT which are more concerning for us. The first one is the Brexit situation uncertainty which is coming with that one. The second one is the pension funding discussion due to the lower interest rates. And the third one is for me the most concerning one, which is the discussion about the separation and driven by the regulator and by some competitors.

So, this is something where we have to be very open-minded and awake looking at what that means from a very good – going forward. But, at that point in time, nothing to change with regards to our shareholding here.

With regard to the Netherlands, especially on the mobile assets and smaller assets, I always have said there is nothing sacrosanct in our portfolio. If the company is not creating performance and accretive to the profitability and the cash flow, everything is core or non-core, however you take that.

Now, I think we are moving forward. We were lucky on this buy on the remedies here. That helps us to counteract the fixed mobile converged offers of our competition. This is, at least, a good way forward for our competitiveness in this market. We have reduced the head counts and the cost side is improving.

We have changed five people out of the management team, sent very experienced manager from Deutsche Telekom into this, our organization. We have changed the setup of the governance for this organization so that it's not totally in the discipline of the European organization. They could take whatever they want. At the end of the day, they have to find in this mobile space a plot to increase the competitiveness.

The net adds are looking quite encouraging so far, but we expect more to come. So, it's now a value-creation story within the group, which we are trying to drive. But I would not discuss non or – our core business at that point in time. It's about value creation, and we have a clear number in mind what we want to do.

With regards to the third question, regulation in Europe and more-fiber-to-the-home rollout expected – look, I – in general statement, we have no intention to further increase our CapEx envelope within the group. That is not only by financial reasons. This is as well by technical reasons of – if network architects was in the group, but as well construction capacity which we find in the German market.

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On top of that, we have agreement for Germany that we are now beyond our original plan are deploying the Nahbereich areas. For this, we have an additional of €1B CapEx which we have included into our CapEx envelop. This is part of the guidance, and we could reiterate the numbers again for all of you to just remind which kind of numbers that would incur. For this year – last year, it was around €4B. This year, it's higher in the vicinity of up to €5B overall for the German market only, and we're going to be able to increase our fiber build-out up to 80% of the households by 2018. With the delay, it is going to be partially going into 2019. That is due to the delay of the approval phase.

So, again, we expect that there's no additional envelope needed for anything else and no capacity available at all. And therefore, this is now the step one.

Then after 2018 or 2019, we then have to discuss what's then the next step towards more broadband could look like, but there's nothing we are discussing at that point in time. We are fully stretched and fully, let's say, challenged by the requirements laying on the table at that point in time.

Hannes C. Wittig
Head-Investor Relations

A

We can see the success of our strategy very clearly, 6mm customers. That's a very, very strong number. We've passed 25mm homes, and those numbers are, I think, quite leading in any context. So, when we talk about CapEx in Germany, I think Tim referred to, of course, not to the CapEx here, but the €5B for the segment Germany, but for Germany as a country which, of course, includes other segments in which we operate.

Dominik Klarmann
HSBC Trinkaus & Burkhardt AG (Broker)

Q

On German fixed line revenues and what's going to drive the improvement as you say. On pricing, you launched Zuhause promotions in August. And then in October, I think you also started to give Entertain for free for the first 12 months. So, are there other promotions you have recused to offset those? Or is it primarily just a reacceleration of fiber migrations that drive revenue growth? So, is it volume rather than pricing, what are the moving parts there?

And then more strategically, what's the reason in your view that you need those discounts? Is it cable competition, is it reseller competition, is it something else? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

It's important to remind ourself that on a longer-term perspective, two years ago, three years ago, situation was minus 2% in retail and minus 5% in wholesale. And we said we're going to invest to turn that around, and that was basically what we did. You look at wholesale, it's somewhere, if you take the one-offs out, it's like 2.5%, 3%, that's the vicinity. And you see around 2%, not exactly, 1.7%, 1.8% on retail. So, first of all, it works.

And secondly, what we did last year, three times try to increase prices. And the last, that at least was too aggressive, we changed pricing and brought it back more or less to the same level we had on Capital Markets Day in 2015. I think the way we're doing it right now is clever, because one element of upselling is obviously you want to give the customers in an either case the best speeds they can have. But, guess what, what we've seen is wherever 100 megabit was available, 80% to 90% of the people choose 50 megabit. And we want to make sure that people enjoy the 100 megabit.

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And the current pricing suggests you start with the highest bundles you have and then you can decide to go back instead of up. And I guess, what happens is that the 6mm Hannes mentioned on fiber infrastructure, a huge chunk of that was done in the last 12 months to 24 months. And so as you know, there is always promotional elements in pricing for the first months. The full impact of that up-selling will kick in over time. So, there are always ups and downs per quarter, but from the longer-term perspective, what we wanted to achieve and what we see right now, I think we are spot on.

By the way, we're also seeing an acceleration in number of households moving to broadband or not always on a quarterly basis, but at least on a yearly basis which was another element we targeted. So, I guess we think we are in a good shape. As you know, we are not satisfied per se with our broadband net adds, that is something which we wanted to improve and will improve in Q4. But other than this, we've turned around from negatives into positive territories by investment and we'll keep going and seeing more and more positives in terms of up-selling kicking in from those 6mm customer base in the fiber infrastructure.

Stéphane Beyazian
Raymond James Financial International Ltd.

Q

Just regarding the, I guess, the mobile business and the dynamic offer. Can you talk a little bit on the speed of migrating the customers to the more-for-more plans? And if you could update us on where they come from?

And my second question is just coming back to the Dutch business. How much time do you think you need to integrate the new operation commercially and technologically before really getting back in the market, with, let's say, a stronger quad player proposition to the customer – sorry, to the market? And I can see that the customer trends were a little bit better in Q3. Are you already seeing some improvement in the underlying trends of the business and the commercial propositions? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

We had long debates about mobile and the mobile market and development in the mobile market. And if you look to that quarter, I think especially the mobile environment was where Deutsche Telekom was quite strong, both from a customer perspective, showed good, sound net add market share growth despite the fact that we have with more-for-more increased prices.

And secondly, with regards to the development of our ARPU and the revenue as a total, which was positive now considering the – if you go to the Magenta more-for-more volumes, we have 870,000 in net adds. That is to say the total numbers which we have as a total. We added 490,000 in Q4 on that one. The ARPU development in this one is slightly increasing them. But I found more impressing is that the data monetization is working because what we see is a strong volume response to the more-for-more tariffs.

In Q3 2016, we had always gig usage on an average consumer data usage. And just one year ago, we had 550 megabit per second. So, what you see is that we have a significant increase of the uplift of the data usage within this program. This is mainly driven by the smartphones: iPhone 6s Plus, as the highest; and the 5s, second highest. So, what you see is that there is – with the handsets which we are driving to the market, we, as well, accelerate the data consumption which, as the consequence of that one, requires higher data bundles, which is helping us on the more-for-more proposition, which is creating higher revenues per customers and, at the end of the day, higher contributions to margins for the company. And that is something that we have seen throughout that quarter.

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Thomas Dannenfeldt
Chief Financial Officer

A

And on the Netherlands and the timing on integration, I guess, your question is regarding the fixed-line part of, we acquired recently last week. First of all, I think the order of activities and the relevance is simple. It is ensure that we, first of all, ensure that commercial attractiveness of our product in the marketplace towards customer increases, and I'm talking mobile now.

It's very important to us that we stabilize the trend in the market and be more attractive to the customer and get the net adds in a continuous and positive shape and manner. And Netherlands, in the first instance and also, as Tim mentioned, be aggressive on cost reduction in parallel as well.

And then, secondly, integrate the business. So, I guess, what you shouldn't expect is a very aggressive and short-term integration, but more kind of mobile-centric and focused activity during the course of the next two quarters or three quarters, and then later on, more and more type of integration.

And improvement in the underlying trends, yes. As you see, net adds have been negative for quarters, for very many quarters. They are now some five quarters positive. Is that already a turnaround? No, it isn't, but it's first leading indicator of getting the attractiveness in the market back, back to attractive proposition in the marketplace. And as I said, that's where we're going to focus on.

Mathieu Robilliard
Barclays Capital Securities Ltd.

Q

The question, first, in terms of the fixed business, I just wanted to understand when I look at the numbers, it seems that part of the weakness, if we ignore wholesale, is due to the traditional voice business which has deteriorated. Is that a reflection of a lack of price increase which is really assigned to that revenue line, or is there anything else going on there? And more generally, is there any potential to offset that by price increases here? I understand you don't want to do it on the double or triple-play, but maybe on the single-play?

And then, my second question is with regards to content. I think you said quite clearly that in the U.S., you don't need content and you have your own strategy, but I was wanting to understand in Germany, if you can remind us what is your view on content? I mean, do you feel being an aggregator is really the route for you or do you think that exclusive content at some point could make sense? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

Minutes and the impact there. I think the kind of natural impact we have, because we're talking about variable voice minutes, priced voice minutes. And they declined because more and more people move in complete packages being it a double-play, triple-play packages. By the way, MagentaEINS is also a complete package. That's what we want to do. Look, we want to give the customer worry-free which doesn't mean you have it in the package instead of price per minute. And so, you see a kind of natural development of this revenue stream declining. Is there room for price raises in single-play, we're considering that and we'll keep you updated.

Timotheus Höttges
Chairman-Management Board & CEO

A

With regard to content, for the integrated markets especially for fixed-line markets, having attractive content is definitely something which is driving the usage at home. Now that said, our strategy is – and to be the content aggregator and with our Entertain platform to have, let's say, the most attractive content with a fingertip directly.

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And we are willing to partner with everybody to still creating an open platform in this regard. This is our strategy and stays our strategy, does it exclude that we have some additional content exclusively, no.

As you know, in Germany, we have some of the long-tail content like the Basketball League or like the Ice Hockey League, where we find a group of customers being interested in. Does it mean that we are now going into €1B investments per annual on football rights? No, because from a market here in Germany that would not be commercially viable and attractive.

So, I think it is a little bit opportunistic, with regards to some exclusive content, which we put adjacent to our aggregation strategy.

Hannes C. Wittig
Head-Investor Relations

A

The customer migration from DSL to fiber. And considering our target, how many of our current customers could you migrate to fiber? And what is the ARPU uplift in our view regarding the coming years?

Thomas Dannenfeldt
Chief Financial Officer

A

I'm going to take the question. First of all, let me remind ourselves that we're not talking about the migration we're doing, but the customers choosing it. So, it depends, obviously, on the attractiveness of the proposition, number one.

Number two, as you see, the run rate on people moving into the fiber infrastructure is around 500,000-plus a quarter which is, I guess, amazing. But we always said, as we use promotions to attract customers to do that to move into the new propositions and those promotions very often have pricing for 6 months, 12 months on a lower level, we see a delay in the ARPU uplift kicking in.

So, the guidance, we've given off at least 2% fixed-line broadband revenue growth is, obviously, assuming that coming from a 1.7%, 1.8% we have right now that there is, in the future, a stronger support by customers moving into fiber infrastructure and certain additional uplift in the one we've seen it.

On the 90% on 2018, that was part of the question as well. Again, let me remind everyone that due to some delays we had in the approval process on the Nahbereich, we will shift, obviously not, we will not finalize in 2018. We will shift into 2019 here as well, just as an additional remark.

Timotheus Höttges
Chairman-Management Board & CEO

A

Let me add something, Thomas. I think in the past, Deutsche Telekom's strategy was always to own 100% of the network and trying to deploy, let's say, our signal in areas where we have our own infrastructure.

I think what we are changing in the way how we're approaching the market is that it's our interest to bring our signal, our content, our TV offerings, whatever you associate with Deutsche Telekom to the customers, to 100% of the customers, but not always trying to use 100% of our own infrastructure. So, we are open for infrastructure collaborations to complement our extensive and successful own deployment, which we are driving on the one side.

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Second, if there are partners who are offering us dark fiber services, we are willing even to rent that or to deploy that in our infrastructure. But this, however, takes more than one for a collaboration. We need the partners on the one side, and we need the regulatory support on the other side. It cannot be that we might have a partner, but that moment where we partner with them, this partner is driven into a wholesale bit-stream access from a regulatory perspective.

So, these are some commercial or some regulatory prerequisites which we have to change. But I'm very clear that Deutsche Telekom is not able and not willing to deploy the full country with its infrastructure, and we are open to reduce our investments by joining forces.

Jonathan Dann
RBC Europe Ltd. (Broker)

Q

On All-IP and Central Europe and Eastern Europe, is there an update on the plans and, for example, perhaps some tangible ways in which you can cut costs, perhaps emerging some of the operation, emerging some countries to take out overhead?

Thomas Dannenfeldt
Chief Financial Officer

A

First of all, in terms of the phasing and the timing we have announced by country, there's no change. We will deliver what was announced Feb 2015 in terms of the completeness of the countries. So, for instance, that is this year, as the bigger one, is market kicking in? That's number one. Number two is obviously, part of our plan to use cross-country synergies here is the Pan-European infrastructure. We've set up some first technology voice, some first services. Is that already relevant for a customer to choose the product or not, if not? But the first impact we're seeing here positively. So, the first service and applications on a Pan-Net infrastructure are now available. That's number two.

And I think number three is also that there's obviously some upsides in sharing SG&A costs across the country. So, for instance, in Czech and Slovak, we are right now exactly heading towards that that we – instead of having complete setup of SG&A per country using cross-country partly in one country and partly in another country one setup. So, that's all going on. But let's be open and clear. On Pan-Net, it's the first services. It's like 2 or 3 out of 90. So, it's the start. It's there. It's existing. But the magnitude of impact today is limited. And the same holds true for Czech and Slovak. But I think we are on the track we've announced and the guidance we've given here.

Robert J. Grindle
Deutsche Bank AG (Broker UK)

Q

My question is about T-Systems. You mentioned that there's some large legacy contracts which are less profitable and may drag. Is this all about actual real-time cost and revenue performance or are you sort of changing your view as to the future profitability of some of the large long-term contracts you have in the business?

And what are the actions you're taking to resolve this profitability issue and when you say they're going to drag in the future, does that mean that profitability isn't going to improve or could it deteriorate? Have you looked at all your future contracts and with a view to are you accruing the right level of profits? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

First of all, the conclusion is, as I've said in my speech, we will see improvement on a year-on-year basis. You will see that this year. We will see it next year. But unfortunately, it will be slower than we've originally expected that.

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And one part of the restructuring effort we took last year on T-Systems was getting the legacy contracts, get that profitability improved, and that has been achieved but, as I said, not to the extent and not with the speed we originally planned to.

So, that' not like a transactional business like Europe or segment Germany. This is long-term contract. And this is where you see, A, a longer lead time to change things; and, B, also a longer period of time, the effects will kick in.

So, that doesn't mean there is no fundamental change in our perspective. It's a matter of speed, how fast we are able to change that, that's number one. And the same holds true, by the way, for the new important services. If you look at cloud services et cetera, we are still convinced we will grow above market level on a yearly basis. But we've seen, for instance, especially if you look at Q3 and Q4, we will see some delays in certain cloud services here as well, by the way, related to systems like, for instance, Dynamic Workplace, so a workplace out of the cloud you provide for big customers, those type of things. So, in principle, the key message is it takes longer. It is delayed, but it's still a sequential improvement year-on-year.

Frederic Boulan Q
Bank of America Merrill Lynch

A quick question on the cost side. If you could share a little bit where your sales are, when we look at your 2018 margin target for the Dutch business – the German business. So right now, we're still in an environment of stable EBITDA. Can you detail a little bit the concrete actions that will drive improvement in profitability in the coming years? Thank you.

Thomas Dannenfeldt A
Chief Financial Officer

First of all, on the German business and the 2018 target in terms of profitability, there is no change. We gave the guidance of a 42% EBITDA margin. And I guess the market has an understanding about the level of EBITDA that should mean for – there is no change at all in here. By the way, there's also no change for, as I said, for the full year this year which is the stable EBITDA. And there is changes in the mix of what's going on beneath that key messages. So, for instance, on the IP migration and B2B, it takes a little bit longer on what we do and there is some more costs. The more B2B customers you get involved, the more load you have in here. But that's all elements below the top level and the top level is quite simple, no change in EBITDA on Germany in 2016 as well as in 2018 guidance.

Mandeep Singh Q
Redburn (Europe) Ltd.

I really wanted to come back to an earlier question on BT. Unless I'm mistaken in how I interpreted what you said, you're clearly not thinking about it at the moment. But you outlined three areas of concern and the biggest concern was, what's going on with Openreach, and you said you would be open-minded. So, I mean, what I'm really trying to get to is if those developments on those three points was adverse, you're not saying that you're committed to this holding regardless?

Timotheus Höttges A
Chairman-Management Board & CEO

I'm not speculating about any kind of, let's say, investments Deutsche Telekom is doing especially not around M&A. And so, I was very open about, let's say, how we are looking at an asset and especially in the shareholding like we have in BT. I think it's our duty as managers to consider everything within this portfolio and the money

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which is employed and to see, let's say, what kind of risks and what are the opportunities we might see in our asset base.

Now that said, on the one side, we see huge upside potential within BT especially from the integration, the synergy potential within the company coming from the fixed mobile integration. But there are as well some downsides as well. So, there's nothing which we conclude, nothing which we see at that point in time. But, I only want to make it clear to everybody that we are not just letting it in our portfolio without supporting it, without serving it, and without looking into, let's say, the overall profitability and how this develops.

Matthijs Van Leijenhorst
Kepler Cheuvreux SA (Netherlands)

Q

Two questions. Firstly, on the mobile towers in Germany, can you comment whether you are still investigating to spin off these assets also taking into account the postponed IPO of Telefónica's mobile towers?

And the second question is on fixed broadband in Germany. It came, in my view, a bit soft. Can you comment what is the reason behind it, especially considering this proposition you made in August which in my view, seems pretty effective. And can you give me some color on the trends through the quarter and also taking October into account?

Thomas Dannenfeldt
Chief Financial Officer

A

First of all, I guess your first question is on the towers in Germany. I thought I was clear in the last quarters that we – on two ends. The one is we're looking into it, and the second is we are not in a rush. Or take it the other way around, it was not top on our list in terms of priorities. It was something we believe there's upside and we will have a – or we were going to find those upsides.

And I think what we've changed now, and it was announced some weeks ago, I guess, is that Bruno Jacobfeuerborn, our German and Group CTO, he will, in the future, head that entity, will become the new CEO of that company because he's extremely experienced in all technological perspectives in the question about the relevance of towers and 5G, as well as in the tower business per se in terms of how to monetize potentially those assets better and so on and so on. So, what we've changed is not having it at the top end of our list. We took a top manager, put him on here and now seeing where we go. But, again, it's not like I don't feel any rush at all here. That's number one.

Number two, on fixed line broadband, first of all, there's one big difference between mobile and fixed line. Mobile, you order a SIM and a second later, it's active and it's in your base. If you order a fixed line, sometimes customer gives you a date when to deliver the product and the service. And sometimes, there's also delays simply because there needs to be physical installments in the network, et cetera.

So, you always have a kind of delay from selling the product and having it provisioned in a complete technological manner and seeing it in the numbers. That's number one. And number two is we've changed our pricing in August which is, by the way, summertime and holiday season. And number three is, in Q3, basically you don't have the full impact of those activities.

I guess what I'm telling you is that we are relaxed about the activities and the propositions and promotions we started there because we assume and expect higher numbers in Q4. And, obviously, I would not tell you without having kind of good backing from October numbers and year as well.

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Steve Malcolm
Arete Research Services LLP

Q

[indiscernible] as well. Just firstly on the CapEx first of all. Can you just outline exactly the MBfD CapEx plans for the next three years and confirm whether they are sort of baked into your overall FCF guidance? That's one.

Secondly, on sort of implied €6B of FCF in 2018, can you confirm, when you originally set that, you were anticipating €500mm or €600mm of U.S. tax spend. It's not going to be there now. And if it's not, why hasn't the guidance gone up and where's that money being spent, the [indiscernible] part is still at €6B?

Just try to sneak one in the U.S., I mean, just to come back. I guess the share price reaction with Sprint and T-Mobile yesterday, suggested that U.S. investors at least think that a deal between the two is more possible under the Trump administration. Maybe update your thinking on how that's evolved over the last couple of years just the sort of the preference for a possible tie-up on the mobile side vs. getting together with a cable operator and your overall thinking around [indiscernible] position. Thanks a lot.

Thomas Dannenfeldt
Chief Financial Officer

A

The first, the first question on the German broadband subsidy plans. I think you recall that when the first big tranche of that program was announced in November 2015, we said that we might spend up to €1B on this subject to our success rate and participation. Now, the program has been increased by 50% to €4B and so correspondingly we will also have a greater spending related to this program.

So previously, we said it could be up to €1B. I would say it could be €1B or a little bit more than that. Now, that being said, there is lots of, first, on the CapEx side, there is lots of moving parts. And then, when you talk about FCF, and that's your second question, that also has moving parts.

So, first, on the CapEx side, I think in the mix, yes, we spent – we will have some spending related to this and the phasing will be – a little bit of that is already in this year's number. The peak is 2017 and I'm talking the initial program. And then 2018, there will be some leftover. So, the new program was announced about six months later. So, you would expect slightly delay, overlapping delay, but superimposed on the previous things. So, you have a little bit more in 2017 and then, a bit more in 2018, than we previously announced or expected.

So, at the same time, we talked about a delay in the German nearshore vectoring in Nahbereich spending and build-out. So, that could give us a little bit back in 2017. So, I think it would be wrong to expect that our spending will be completely different from what you find currently in the consensus assumptions.

And the other point here to make is regard to also your second question. There's lots of moving parts. So, yes, you are right. In the U.S., you wouldn't – you don't have – you have a tax release in 2018, which is quite meaningful, and it will continue in subsequent years. And that was very good news for our shareholders and T-Mobile and our cash flows going forward.

At the same time, of course, there are other areas like the increased spending in German broadband, so related to the government subsidy program. So, in a way, your first and your second question taken together kind of almost belong together because, let's say, we can save some taxes in the U.S. and then be, from a cash flow point of view, then we also spend some more in Germany, and from a FCF point of view, it kind of could be a wash in certain years. But there are many, many other moving parts.

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When we gave the guidance, we still had EE. Now, we have BT, and there are other parts like the interest environment was a different one, the currency environment and so on and so forth. So, I think, we are very happy to reiterate our 10% FCF guidance. And this year implies that we will have two consecutive years that, of course, point to the 10% CAGR, and that gives you an idea of how we are thinking about the FCF.

Timotheus Höttges
Chairman-Management Board & CEO

A

With regards to the election and the change in the administration in the U.S., I'm not doing or participating in any speculations. It's by far too early to say, look, this is good or this is bad for Deutsche Telekom and for T-Mobile in the U.S. Definitely, the market reacted yesterday heavily on that one, both on Sprint side and as well on us. We had all-time high, as you know. And, therefore, this is, let's say, how the market took it, I think, for us.

We do not know who is in the office. We do not know how they look in markets. And we do not know whether they take this tight market definition of mobile-only, whether they look into a more broader picture. We do not know how they look on the Time Warner and on the AT&T deal which is, to a certain extent, already high market concentration in this regard.

Now, that said, so I do not see any correlation. But what was right stays right. We remain open-minded regarding opportunities to benefit in a possible consultation in the market. I was always clear that a mobile-mobile merger, with heavy big synergies, could create huge benefits for the consumers, because, we could be much more aggressive on the consumer side and as well, we could generate, very significant cost synergies here, so that makes a lot of sense from a value perspective for customers and for shareholders. But, again, it's too early to speculate about let's say, how a U.S. administration would look like into a Sprint, T-Mobile merger which you are asking.

Justin Funnell
Credit Suisse Securities (Europe) Ltd.

Q

I have two questions, please. It's just follow-up, really on the domestic business. I think you've mentioned during the call that we should watch out for a negative EBITDA effect from MTRs coming down. And you also mentioned that roaming, obviously, still waiting for the final outcome. But, obviously, some downside risk there. Do you think these regulatory headwinds, potentially jeopardize EBITDA growth in your domestic business in 2017 and you can still grow EBITDA next year or should we be being a bit cautious and assuming flat and a sort of more backend-loaded progression, to hit your full year guidance?

And then, I mean it's just a little one at the end, OTE; one of your better businesses now, 10% broadband growth, 3% revenue growth. Is the 30% stake how your position is going to remain for the foreseeable future or are there scenarios that you might actually increase that stake at some point? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

I'll take the first part of the question, domestic business. I think there's a misunderstanding. The impact on MTRs and roaming is, obviously, on revenue. It is not due to the balance we have in fixed-line and mobile. It is solely on revenue. It's obviously not on MTRs. So, MTR effect is solely revenue, non-EBITDA. And roaming is like expected. There is impact, but it's not unexpected.

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And so, the quite simple message, I guess, for 2016 for German EBITDA was, like we said, will be stable EBITDA. For 2018, I reiterated already the guidance now. You're asking for 2017, that's the missing part for the next two-and-a-half years. And, I guess, we will be in line here with the expectation what we said as well.

Hannes C. Wittig
Head-Investor Relations

A

To clarify, there are three regulatory, before we go to OTE, just sort of three dimensions of the regulation of varying significance. So, roaming, we have guided and because we have a fairly clear indication where this is going. We haven't got a clear indication, of course, yet about the wholesale roaming discussions and how that might impact things because there are no conclusions related to this. But the roaming drag, we said €70mm to €80mm this year. We said that there is an EBITDA impact related to some components of that. But generally, it's definitely a manageable EBITDA impact.

On the mobile termination rates, no EBITDA impact for us given our fixed-line exposure, and how big the impact will be will depend on what the regulator decides. But our exposure is around 3% of our mobile service revenues and that surely will not impact our EBITDA guidance for next year.

And then, we did mention one area that will also be impacted by the change of the regulator towards long-term incremental costs which is fixed-line interconnection could also be a cut that would have a small EBITDA impact on us. But it's, again, my favorite phrase is lots of moving parts. So, it's a case of lots of moving parts. And it's not magnitude-wise, it's not meaningfully impacting the outlook for 2017. OTE, Tim, Thomas?

Timotheus Höttges
Chairman-Management Board & CEO

A

First, our stake is 40% not 30%. And there's a remaining stake of 6% to 10% from the Greek government which might be available. And it's planned that the Greek government transfers its shares to the Hellenic Republic Asset Deployment Fund. So, there is, let's say, clear intention to privatize this leaving piece.

DT has the right of first refusal in its shareholder agreement. And the revised shareholder agreement secures this right and removes the need to agree future changes to the shareholder agreement with the Greek Parliament. In case the Greek state decides to sell the OTE shares, Deutsche Telekom is open-minded and look at these kinds of opportunities. And this will be on a case-by-case basis. As you know, this always depends on the track record and the bid-ask spread which we might facing.

That said, whatever we negotiate with these guys, this is not triggering a public tender or a bid for the public minority. So, whatever we do with the Greek government is not affecting minority shareholders.

Sam McHugh
Exane BNP Paribas

Q

Just on the Dutch business again, how do you think about it? Do you think about it as more of a defensive tool, that's fixed broadband to protect the mobile customer base, or could we see a more aggressive strategy? For example, is there anything stopping you from going unlimited mobile and putting that together with fiber broadband? Which would be a pretty compelling offer to consumers?

And then just secondly on the US, what do you think is a fair market share for T-Mobile if it were a standalone business in kind of a three to five-year view? Thanks very much.

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Timotheus Höttges
Chairman-Management Board & CEO
A

Look, with regard to the Netherlands, we have taken the Dutch business out of the, let's say, the European governance and put it under Thorsten Langheim's governance for corporate development. We have a private equity approach towards this asset and we have said, look, guys, we are more interested in the value creation of this asset and rather than – and being very focused on a very stringent development on networks and the likes. So, this management is incentivized. This management will invest their own money into the business. But if they are able to create an upside on the Dutch environment, they are participating. So, this team is quite free in the way how they approach the market and the environment.

We are facing a very, very tough competition from fixed-mobile convergence. Anyhow, this market is not an easy one. We have an outstanding infrastructure and network build. Just rated the best network in the Netherlands. And there's a little bit of situation similar to the US.

Now, the management should find the right mechanisms and the right answers. I think it is going to be more aggressive than what you have seen so far because we do not see that KPN or Vodafone are really, let's say, to give their turf without, let's say, a price. But what we are doing then and how we are creating the value in the Dutch management is something which you will see in due course when we announcing our propositions there. We want to regain momentum. We want to come back to growth in this environment. And I think we have the right weapons on hand.

With regard to the US, what is a fair share for T-Mobile US if it was a standalone business in a few years? We currently cover a third of the US, and our current gross add share in the year is – of the coverage where we are is around 30%. We have the A Block which is covering 100% of this environment. And the gross add share is going to be in the same magnitude of this. I'm not sure whether I 100% understand your question here. Are you asking for the market share of T-Mobile US in the respective areas where we are operating or what is, let's say, the 100% question.

Hannes C. Wittig
Head-Investor Relations
A

Maybe we can have your question again, Sam.

Sam McHugh
Exane BNP Paribas
Q

Just wondering on a kind of a medium-term view, how you said in most places, you are 25% to 30% market share. Do you think you can get to that kind of level on a national basis on a five- to six-year view, maybe longer?

Hannes C. Wittig
Head-Investor Relations
A

First, we should not really provide this outlook here because it's, A, it's a very, very long-term way of thinking. I think the basic mechanics that you described, obviously, our management of T-Mobile US has talked about. They have said we currently cover round about 75% of the market. We will, of course, with the A Block spectrum that we have further expand this in the first step. So, with the A Block spectrum we already have, they are talking about 30mm to 40mm more folks that will be covered.

And that coverage, given the way the US market works, should allow us to take a fair share. And you have said yourself just now what our fair share is. So, ideally, we get close to that fair share in those new areas. But to

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extrapolate and to say, we will then get the fair share everywhere where we operate, is also quite – I mean, it would be great, but it's very difficult to assess from today's perspective because in the areas where we operate, our fair share therefore also needs to stay the same when it's a very high fair share. So, it would be great, obviously, to add instead of 8mm customers a year on the phone, extrapolation basis, maybe 10mm or more. But, I think, we'll see to that when we get there.

Guy Peddy
Macquarie Capital (Europe) Ltd.

Q

To keep harping on about this CapEx question. But I just wanted to clarify what you meant by your CapEx envelope that you're talking earlier. Was that at the group level, or was it at the domestic level of €5B for all the domestic business? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

First of all, on the capital market this last year, we said we will have a continuously growing CapEx envelope. The key driver for that growth will be US, and the CAGR was given was 1% to 2% on a 2014 to 2018 basis. Key driver of that deal was the US but also Germany being part of that growth but to a lower extent. And so that was, first of all, the message on 2015. Now, the subsidy is kicking in. As Hannes elaborated, subsidized – a rollout. And on the other hand, there is a kind of delay due to that approval process on vectoring. And that's why that number you mentioned is right for the German footprint, yeah.

Ottavio Adorisio
Société Générale SA (Broker)

Q

A couple of question. It's been a lot of questions in this call, and I can see this one, the Dutch business. And, the Dutch like the Polish business in the consumer side. You basically suffer from no avenue in ownership of fixed line infrastructure. But you have another business that has that particular issue, Austria. But over the last few quarters, you actually deliver critical result on top line and EBITDA. Now, granted that the markets are different, I was just wondering if there is anything from the Austrian experience that could be leveraged upon for Netherlands and Poland?

And the second one, it's on the balance sheet. You've been very consistent with your ratios, net debt-to-EBITDA around 2.3 times, been relatively stable. It's very likely the next time you report numbers will be after the end of the fall auction in the US. Your comfort zone, it's 2 times to 2.5 times. It looks like, potentially, it can go above that. Therefore, my question is, how stringent is that comfort zone?

And, second, are you ready to start talking to credit agencies to see even if that comfort zone is their comfort zone as well? Thanks.

Thomas Dannenfeldt
Chief Financial Officer

A

The answer on the balance sheet and comfort zone is quite simple. We are stringent in terms of a midterm perspective. We're not on a quarterly-by-quarter basis. So, last year, you've seen we've, I guess, it was one or two quarters we exceeded the 2.5 times. There was one quarter, I guess, we had 2.6 times after we acquired some spectrum here in the U.S.

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The same might be the case in 2017. But, I guess, on a year-to-year basis on not looking at quarters but more on a yearly basis, it is a very stringent understanding we have in here. So, quite clear, not on quarterly, but on a yearly basis, it's stringent.

Timotheus Höttges
Chairman-Management Board & CEO A

Your idea with regard to what can we learn from Austria and in the Netherlands and the Polish environment, a good approach. And what we do is definitely that we have the best cases, learnings which we transfer from one country to the other. So, that was what we do anyhow.

And we have learned already a lot from the US market which we have implemented in some of the Eastern European environments or in Austria already. So, this is a continuous best-in-class approach which we are driving.

Now, why is Austria doing better? Because every market is different, being it Netherlands, being it Poland, being Austria. In every market, the competitive landscape is totally different. In some markets, you have a fixed mobile converged player who is aggressively driving that, subsidizing the mobile business. In some markets, you do not have a fixed mobile offers yet in the marketplace. And in another markets, the competitiveness is very much around the mobile play. So, it is – every market is very, very different and you have to find the answers tailored to this environment.

The second one is execution. In Austria, we have a great execution. The team is doing an outstanding job. They were very, very disciplined and smart in the way how they approach the market environment. And so, it's good execution as well. While, I have to admit that the execution in the Netherlands and in Poland, and that is something where we made mistakes, weren't the best. We lost a little bit of our differentiation in both of these markets despite the fact that we have invested into infrastructure. And especially the positioning in Poland, we were not reacting appropriately to play in this market early enough.

Now, with the mobilizer strategy in the Polish market, I think we make the right attempt. You see that with the positive net adds, which we have seen in this quarter. But there is still a way to go. Srini, our new board member for Europe is very much on this Polish activities. While in the Netherlands, the new teams are working on its proposition. Maybe Netherlands, nothing during the course of this year. Beginning of next year, you could expect, lets' say, the positioning, the mobilizer strategy in the Polish market is already up and running. And we are hoping to see continuous improvement now quarter-by-quarter.

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

It's two questions, really. Just back to the roaming question. I wondered if you felt that there was the potential for the development of a, kind of like a balance of payments problem in roaming between Northern and Southern European operators. Do you feel that the mechanisms for addressing the abusive fair usage maybe don't to allow for you to control the potential for a kind of balance of payments problem developing?

And then, the second question was back to the UK. Just I'm interested in your understanding of the framework that the EC operates under with respect to national telcos. If the dispute between BT and Ofcom goes to the EC, do you see any scope under the EC framework for the EC to support the enforced separation of an incumbent operator into the network in the retail business? Thanks.

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Timotheus Höttges
Chairman-Management Board & CEO

A

Just on your two questions here. I think starting maybe with the second one. I mean, it is very difficult for us to take a view on how the European Commission would assess Ofcom proposals. And this is not, at this point, I think a situation that we are looking at. I mean, at this point, we are actually very much of the mind – of the view that, I think, Ofcom will also understand that structural separation of BT Openreach makes no sense. And that's a position that we have taken in our contributions there. And so, I think, let's worry about that when we get there. And I don't think there's any – there's much reason why we should think that we should be getting that.

The first question on the roaming side, as you know, there is a process going on between the parliament and the commission and the council. And, I think, this is Europe so, I think, there is a different interest on the table. If you're northerner, a northern operator, you have a different, let's say, balance of inbound and outbound roaming.

And then, our balance is fairly even. And we – because we – yes, we are German but we also have European businesses and some very attractive tourist destinations as part of that. And, I think, just, there needs to be a good compromise. But, I think, also the Northern European operators should – would surely not be interested in coming to an outcome that undermines investment incentives in Europe by, let's say, undermining retail pricing in their own markets. So, that's how we would look at this at this point in time.

So, with that, I think, we've truly come to the end of today's call. So, I think, we thank you all for your participation. And if you have further questions then, of course, as always, we ask you to contact the Investor Relations department.

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