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## PRESENTATION

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

Good afternoon, and welcome to Deutsche Telekom's Third Quarter 2023 Conference Call. As you can see with me today are our CEO, Tim Hottges; and our CFO, Christian Illek. As usual, Tim will first go through his highlights for the year-to-date. And then Christian will deep dive into the quarter. And then we have time for Q&A. Before I hand over to Tim, as always, I would like you to pay attention to the disclaimer that we have included in the presentation. And please note, the conference will be recorded and uploaded to the Internet. Now it's my great pleasure to hand over to Tim.

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

Thank you, Hannes, and welcome to the third quarter 2023 results. We continue to deliver consistent growth as promised on both sides of the Atlantic. All businesses are growing. You know that I'm rarely satisfied. But honestly, even I have to find little to criticize in these results, and I'm quite happy camper today.

Let me mention a few highlights today. In the U.S., we added an industry-leading 850,000 postpaid phone customers, and we raised our outlook for the year. In Germany, we added over 900,000 branded postpaid phone customers in the first 9 months. We added 237 broadband customers. And we had the first quarter without any line losses since that last millennium.

Our adjusted core EBITDA grew by 6.8% organically in the first 9 months with 8.9% in the third quarter, what a number. We pass on T-Mobile's guidance increase and raised our guidance for the third consecutive time this year. I will go through the details later on. Our TM US stake now

exceeds 52%. Our net debt is down around 10% in the last 12 months. In September, T-Mobile U.S. announced a \$19 billion shareholders' return program, which includes, for the first time, a dividend payment. And we are happy to receive the dividend. And starting next year, we also sell into the T-Mobile share buyback.

Last week, we also announced our planned shareholder returns for next year. We plan to raise the dividend by 10% to EUR 0.70 for '23. And we also announced a DT share buyback of up to EUR 2 billion in 2024.

With our planned share buyback, we deliver against our promise to reverse the September 21 capital increase. Our flywheel remains very successful.

And let me now dive into the operations a bit. The foundation is our network. We are network leaders in all our markets now. In the U.S., our 5G leadership is underpinned by spectrum leadership and confirmed by all the tests. This quarter, we got a clean sweep in every category of network performance for the first quarter in a row from Ookla. There's also no doubt who has the best network in Germany. According to Ookla, our mobile speed is almost twice the competitor average. We are the network leader in most of our European markets, most recently with wins in Austria, Croatia, Greece, Czech Republic and Slovakia.

We as well lead in customer service. In Germany, our first-time resolution rate has doubled in recent years. Now almost 2/3 of faults get solved the first time around. This is ahead of our capital markets guidance. Our complaints are down by 90%, 9-0, in the last 4 years. And in the last 3 months alone, we won the chip interconnect shop test the Focus Magazine service quality test, the Connect Hotline test, and so on and so on. We had 14 tests from external sources in Germany, and from the 14 tests, we all won them. So you see that we are taking customers at the center of our organization, and this looks -- seems to pay off with very high customer satisfaction. And by the way, today, we as well announced that in all European markets for the first time in history, we have the highest Net Promoter Score of the competition. So even there, we are fulfilling our promise to make customers to fence.

In Germany, our customer Net Promoter Score neared the 20% in October, our B2B TRIM is at an all-time high. And in the U.S., we had the lowest third quarter postpaid churn ever with 0.87%. The sum is up. It's great to see a strategy, which is working.

Moving on to Page 5 and the development of our organic financials. All segments are contributing to our growth. Organic Group Service revenue is up by 3.3%, and ex U.S. grew by 2.6%. Overall revenues were only flat due to lower equipment revenues. And as mentioned, organic core EBITDA increased by 6.8%. In Germany, we posted our 28th consecutive quarter with EBITDA growth and in Europe, our 23rd consecutive quarter.

The foundation of everything we are doing is our network leadership. We now pass 15.6 million European homes with FTTH, up 3.4 million households year-over-year. We passed 6.9 million German homes with FTTH and we reached our year-end goal of covering 300 million U.S. POPs with ultra capacity 5G 3 months ahead of time.

Our strong customer growth continues, both in U.S. and in Europe. Our broadband and TV net adds accelerated strongly this year driven by Germany.

Let's move on to ESG. At our AGM in April, we had sharpened our climate ambitions. And despite strong growth in data usage, we further reduced our energy consumption on both sides of the Atlantic, so far this year by minus 9%.

Let's move to our guidance update. A couple of weeks ago, T-Mobile U.S. raised this guidance for customers, EBITDA and for free cash flow. Today, we are passing this on a group level and raise our EBITDA and free cash flow guidance by EUR 0.1 billion each. Our ex U.S. guidance, which we upgraded at the half year stage remains unchanged this time. Our adjusted EPS guidance for at least EUR 1.60 is also unchanged. And we continue to expect 7% core adjusted EBITDA growth this year, over 40% in free cash flow at group level.

Note that our guidance remains based on U.S. dollar exchange rate of [\$ 1.05], and continues to exclude any contribution from group development towers. Please refer to the appendix for a like-for-like comparison of our guidance with the latest consensus. With it, I hand over to Christian for a deeper dive into the quarter.

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

Thanks, Tim. And let me start with T-Mobile U.S. So core EBITDA according to U.S. GAAP, grew by 12% on a year-on-year basis. If you're interested in how this reconciles into IFRS reporting, I refer you to Page 29 in the appendix. The drag from the planned handset leases is coming to an end. It will be around EUR 300 million this year. Let me remind you in 2020 was EUR 4.2 billion. And next year, I think it will be almost negligible. The U.S. GAAP IFRS bridge in this given quarter is EUR 216 million, and we expect it to be EUR 800 million to EUR 850 million over the course of the full year. Overall, revenues in the U.S. declined because of lower equipment revenues. Service revenues increased by 3.6%, that was very much driven by postpaid service revenue growth of 6.4%. And you know that we have closed and shut down the wireline business earlier than expected without that closure, that service revenue growth would have been 4.6%.

What you see in T-Mobile is that our differentiated growth is still continuing to grow. We see a massive expansion opportunity in [SMRA]. So that means small markets and rural areas. This quarter, for the first time ever, we captured the highest shares of switchers in these markets. In business, we have seen the highest net adds in the enterprise space, combined with the lowest churn in history of this business segment. And as you know, we have a very good success in high-speed Internet with almost 560 net adds in the given quarter, which brings us now to 4.2 million subs.

Postpaid phone net adds, not new to you is [850,000] in Q3, and it was associated with the lowest churn in Q3 ever.

Based on the strong customer results, T-Mobile was able to raise its guidance. We now expect 5.7 million to 5.9 million postpaid net adds, of which around 3 will be postpaid phone net adds. And I think that brings me to the end of the U.S. section.

Let's move over to the very successful German business in the third quarter. You see that the organic EBITDA growth was around 3.1% this quarter. Organic revenue growth improved to 2.1%, driven by service revenue growth, which was 2.4%. And we move to the next slide, you also see that the mobile service revenue accelerated to 2.9% growth, and that was coming from both customer growth, so volume growth and upselling.

You'll recall that previous quarters, we have been impacted by the Lavara wholesale deal, which we lost, but this is now rolling over. Organic fixed revenues growing by an accelerated 2.1%. And what you see in our growth in the fixed service revenue remains very much driven by the retail revenues. These reaccelerate to 2.4% and was mainly driven by the broadband revenue growth of 5% in the given quarter relative to the 4%, which we have in the previous quarter. The wholesale access revenues grew at 1.6% and remain in positive territory. And despite the fact that we're losing some lines, we're able to offset this by upselling.

We currently expect that the fixed service revenues to be weaker in the next quarter for two reasons. One is, it's related to content cost accounting. We expect there's going to be a slight drag relative to the fourth quarter of the last year. And there's a rollover the single-play price increase, which we implemented back in October 2022.

Let me get to the German fixed KPIs. As you can see, 96,000 broadband net adds, I think we're benefiting temporarily from the competitor churn, but we are still confident that we have a very strong intake of broadband revenues, broadband net adds, but not exactly at the number you're seeing here. We're also pleased with the acceleration of our TV net adds, which continue to be in the vicinity of 50,000, so it was 51,000 in the third quarter. And this is before the rental privilege is getting to an end.

We're also making good progress on upselling. You see that now 45% of our broadband customers have speeds of at least 100 megabits per second. And we have around 910,000 FTTH customers -- paying customers in our base, which is up 77,000 from the previous quarter. And we also have a premarketed contracts of around 700 in our books.

So our mobile contract customer intake remains strong, as you can see on the next page. So 350,000 relative to the [320,000] of the previous quarter, and it's coming both from consumer, from the business segment as well as from [Congstar]. So year-to-date, we have grown our mobile customer postpaid base by 940,000.

What also is encouraging is the strong increase in data usage growth because that supports our more for more strategy.

Moving over to Europe. Europe is actually performing better than we anticipated it to be in the beginning of the year. They are coming in with a strong organic revenue growth of 3.7% and an EBITDA growth of 3.3%. And this is despite a very high inflationary cost inflation, which we are seeing in Europe, especially when it comes to salary and energy costs. You can see on the next page, the strong commercial performance when it comes to mobile net adds or to broadband net adds. I think it's across all categories. And we're really confident to continue this journey also in the upcoming quarters.

What you also should know is that we are now #1 in customer satisfaction measure in TRIM, except for Romania and this is the first time ever that I've seen that number.

Moving over to T-Systems. Organic revenues grew by 7% despite a lower order book. The order book is mainly impacted by two factors. One is obviously the transfer of MMS into the German business, and there's also a lot of phasing, and we will see how this plays out in the fourth quarter. Organic EBITDA grew by 1.2%, and I think we're fully in line with our guidance, which we have given for the year.

I think that is the end of my operational review. Let's get to the group financials. So let me start with the free cash flow. The free cash flow grew by 60% in the third quarter on a year-on-year basis, which is largely driven by the significant lower CapEx, which is coming from the U.S., and this is obviously related to the Sprint integration. It brings us to an overall 25% free cash flow growth year-to-date, and we're continuing to expect that we are seeing at the end of the year, free cash flow growth of larger than 40%.

On the adjusted net profit, we actually lost 6% or year-to-date 14% relative to the previous year. And that is very much related to the, what we call nonrecurring nonoperational effects, which is related to the provisions for the civil servants for the U.S. forward, which we had last year and the fixed price options. They basically gave us a tailwind of almost [\$0.30] on the share last year. And right now, they basically equal out to almost zero. And therefore, you see a drag if you compare the third quarter in '22 to the third quarter in '23.

Next chart is overall financials, what you can see is financials are impacted by basically three effects. One is obviously the transaction of our tower business. The second one is the foreign exchange rate, we are budgeting at basically \$1 equals EUR 1. Obviously, the dollar is weaker and that puts a burden on the reported numbers. And the third one, especially in the U.S., is a reduction in the handset sales, which basically gives you a negative impact on the revenue figures.

Let's move over to net debt. Net debt, actually, what you can see is stable. If you exclude the leases, it's EUR 97 billion. And you see how basically the bridge works out with the free cash flow, which is almost reducing net debt by EUR 5 billion, but we have contra effects like the share buyback in the U.S. of EUR 2.5 billion, and there's a ForEx exchange rate effect, which is putting burden on the net debt. Nevertheless, ex leases, we are [2.4] relatively to year-end 2022, which was [2.58]. And same was true for including leases. We have now a ratio of 2.94 relative to 3.07 in the end of 2022.

So we added another chart on the next page, which basically is also taken up some of the discussions, which we're seeing right now with you guys and the capital markets. So it's -- which is related to the financing structure of our group. So what you see is basically that we're pretty much having a solid structure. We have a net debt of EUR 137 billion, of which EUR 40 billion is leases. So the interest-bearing debt is EUR 97 billion, of which 75% is coming from the U.S. As you know, T-Mobile U.S. and DT have separate debt towers. So let's put them apart in the two sections. So what you see is 100% of the refinancing in the U.S. is fixed. It cost us roughly EUR 2.1 billion on a 9-month basis this year, and we have an average tenure of 11 years.

In the ex U.S. business, our maturities are limited to EUR 6.4 billion until end of 2026. And our net debt ex leases is down to EUR 23.7 billion, and which you can also see is that we, over the course of the year have reduced our variable exposure from 41% to basically 8%. So there's limited exposure when it comes to future interest rate increases. So we're pretty happy with the financing structure, as you can see right now, the average interest rate is around 4%, slightly lower in the ex U.S. business relative to the U.S. business. So I think we're fully funded over the next years. I think we have a very good maturity and a very good interest tenor. And I think this is also reflected by the assessment of the rating agencies. And with that, I hand it over to Tim.

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

Well done, Christian. Let me wrap this call by reiterating some high-level takeaways. Our commercial performance continued strongly in all markets. Germany has now grown EBITDA for '28, European segment for '23 consecutive quarters. We have raised our full year guidance. We now own more than 52% of T-Mobile US. Our net debt has come down by around 10% in the last 12 months. And based on our strong results, our solid financial framework and our share of T-Mobile shareholder returns, we were able to propose an attractive remuneration package for our shareholders last week.

So if you tick the boxes on the Capital Markets Day 2021, you see that we are very well on track with these targets.

To summarize it in one sentence, I thought about that this morning is the one with satisfied customers cannot prevent financial success. That's the simple ratio of our quarter this year. But we stay greedy and hungry. And therefore, for us, this is an obligation to even further accelerate our momentum in all the markets in the business where we are, and we are preparing the next Capital Markets Day already quite now.

We are currently planning to host our next Capital Markets Day in October 2024. And on this one, we are preparing a lot of subjects. Just to give you a little bit of the glance on what we are working on. How can we address global business models in a better way and take advantage of the scale, which Deutsche Telekom has gained in the Western world, both in B2B and in B2C, talk about, including satellites, CPaaS models, or even synergies in the operations.

What are our new future revenue streams in the core business, but even beyond core, thinking about tech CPaaS business models, (inaudible) models, SDx, (inaudible) or other areas. What can we do with fixed line in the opportunity in the U.S. market? How can we define the FTTH market in the next 1,000 days and how can we monetize both fiber and 5G in a better way. How can we set up the current and future vendor ecosystem to get even more severinity on what we are aiming for. How can we better efficiently manage our cost base, and how can we gain even higher revenue growth than what we have today? How can we radically close the existing skill gap, which we have in our organization on the AI side for instance, or on other areas and how can we deliver on the ambitious ESG commitments, including, let's say, a kind of predictable distribution of energy within our footprint.

And last but not least, how can we fully reap benefits from the digitization and from AI, how can we implement AI functionalities in service, in IT coding and in the support functions to gain more productivity. So you see the agenda is long, a lot to do. So with this, I hope you have not so many questions to distract us from getting this executed, and with this, I hand it over to Hannes.

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## QUESTIONS AND ANSWERS

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

Well, thank you very much, Tim and Christian. As you can see, there is no rest for the wicked, as it says. And now we can start with the Q&A part. (Operator Instructions). And we would be grateful if you restrict yourself to two questions. (Operator Instructions). I know you know the system, but it's worth repeating, but Emmett has cracked it, so he is the first one to ask us a question, Emmet go for it.

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

Yes, super. Thank you very much for the kind intro Hannes. So I had two questions, (inaudible). My first question, please is on the TMUS share buyback. When the release went out a few weeks ago, I remember you stated you would not participate in the Phase 2 of the buyback for the remainder, I think, of calendar 2023. Can you just maybe say a few words about how you view potential participation as we go into 2024, in particular, variables like your stake in T-Mobile USA, how sensitive you are to the TMUS share price and then also the group debt as well, please?

And my second question, please, is the classic question I always ask, which is on German fixed line. Can you maybe say a few words about the outlook for 2024 for your German fixed line business? Clearly, it was a good Q3 you just had. You may have mentioned it might be a little bit softer

in Q4, but clearly, there's some good momentum in broadband, in TV. And I noticed that you actually had a positive line gains as well in the quarter. So just a few words on the moving variables into 2024.

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

Okay. So Emmet, let me start with the first question. So the target shareholding hasn't changed. It's [low-50s], we said that we are participating or selling into the share buyback beginning of next year. But we haven't been clear whether we're completely selling into the share buyback or we're the only partly selling into the share buyback. And we're not intending to basically declare this. You will see this after the effect, obviously, in the quarter reporting to what extent we have sold into the market. But, I think the sequence and that we're selling into the share buyback is unchanged relative to the previous announcement.

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

With regard to the German fixed line market, we are very optimistic. The German fixed line market has lately seen price increases from a number of operators, including ourselves. Vodafone did a more-for-more move last year and then started to raise back book prices by EUR 5 per month from May onwards. And [Enson Irons] also raised back book prices for some customers, while O2 remained promotionally.

We are seeing mixed moves now in the market at this point, which is normal for the course of the year. But in principle, we see that the additional cost which we had on the build out, everybody is trying to get them reimbursed, and on the pricing side. On top of that, we saw that the take-up rate for our services to higher speed is almost 50% today, 45% or 46% with 100 megabit per services. So people are hungry on speed. And therefore, even the outlook knowing that this is a marathon, the FTTH take-up rates are increasing as well. And as you can see in the numbers, we have done quite well on the net adds in the recent quarters, and this is reflected in the service revenue development as well, which has been 4.5% growth so far this year. We see a continuum on this one. And you know, I would love to see even a little bit more around the 5-ish percent throughout 2024.

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

Thanks, Tim. And with that, we go to Akhil, JPMorgan, please.

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

So I guess the results are very strong, so I'm going to focus on two bigger picture questions. Firstly, Tim, you mentioned your Capital Markets Day. The date is now set for October, next year. And obviously, you laid out some interesting themes in terms of topics you're focused on. I guess conceptually, I was just trying to understand, when you think about some of those strategic decisions you need to make around accelerating growth, pivoting into new revenue streams and the vendor ecosystem. How do you think about the trade-off between organically pushing into those optionalities versus maybe considering more great inorganic options. So how do you just think about the trade-off between those two different routes? That's the first question.

And the second one is on regulation. You've mentioned on prior calls generally more coordinated approach from operators in regards to the topic of regulation. But I guess I'd be keen to get your take on some of the recent developments we've seen at the sector level. We've seen the fair share debate get pushed out, that doesn't seem to materialize in the time frame and issue hope for, and maybe it's more definitely pushed out. And on Spanish consolidation, there is, again, also a delay and speculation about potentially quite meaningful remedy. So can you maybe just talk through how you feel conversations [EC] going? Are you happy with direction of travel. And should we read maybe as negatively into these headlines as I am? Or am I maybe missing some of nuances as well?



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

Thank you, Akhil. And I highly appreciate that you're not heating your living room sitting there with your jacket. So this is really ESG confirmed. So -- that said, Akhil, talking about the Capital Markets Day. By the way, we will not wait for capital market to do the right things for the business. Nevertheless, we have to consolidate everything and the strategy and all this together and we have anyhow a dynamic process throughout the year with you guys talking about the developments. But to bring it all into let's say, one good piece of work and giving guidance for the next year is the purpose of that event.

How do I think about the organic and inorganic options. Look, we are not here to announce any big M&A. That's not what we have in mind, nor we have in our planning. But right, yes, there might be some inorganic options we are considering. There is one thing we are considering. We have this super successful DT Capital Partners venture, which is doing as well a lot of, let's say, scouting and in well good investments in growth areas around our core activities. Christian and myself and the team, we are considering allocating up to EUR 2 billion into group development to do smaller acquisitions, equity hiring, acquisitions around the IoT, around (inaudible) services, which enable our core commodity business on the connectivity side, to have an added value for our consumers without destroying the entrepreneurship of the companies we want to participate in. We are screening the market. We have already done some very small things in this regard. And we want to scale this with the competence of the DT Capital Partners teams and not to -- I always call it the black hole, if you do it in the organization, you just lose side of these entrepreneurs and therefore, to put it aside, but enable the business for more growth trajectory.

This is a little bit, let's say, how we're thinking about it. And I think we will soon announce something around this activity.

On regulation, look, yes, I was recently 10 days with my experts in Asia. And we should not only focus in the digital ecosystem on the U.S., amazing progress a lot of companies making in Gen AI and the like. I was quite impressed about the developments you can witness when you're traveling Korea or in China or Japan, mainly around AI, mainly around developing own LLM models. And Deutsche Telekom is the only telco in the Western world, which has and is working on an own telco-specific LLM. We are joining forces with these high-tech companies, developing services around customer interaction, developing services about network, maintenance productivity here. We are working on developments around programming and productivities. And we want to do that jointly because the data set should be ours and should not be based on third-party foundations. So that said, we are working on these initiatives.

Now with regard to the EZ, everything is too slow. The commission is now leaving the offer soon. There will be a white paper now released to the fair share debate. We just got this note traveling to the [ATNO] conference the day before yesterday. There is a willingness and an understanding to do something around it. But there is no legislation yet in place. This is a task for the new commission. Now I would have hoped it would have been faster. But I would say the support from the people and at least from the leaving commissioners is underlined. And I hope that they will speak up and hand it over to the next leadership team here. Europe has to move faster.

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

Good. Let's hope for some progress there. And with that, we move on to George at Citi, looking very smart.

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

(inaudible) didn't have time to (inaudible), so I get our ESG certification also. Maybe we'll start the first question, Christian. And on Slide 24, useful that you show the maturities of the debt for DTX [team was]. I also had a question about the outlook for financial expenses. It's very hard for us to model given that now there will be at least some repatriation, which should exceed the dividend and other costs you may have below the line. What I wanted to understand is how meaningful could these be for financial expenses given that you are (inaudible) it's very low and you can deploy this capital, you are receiving at much higher rates. So is this something that could be a major tailwind for the coming years in the event of no M&A.

And then the second question is just a bit more of an understanding on the regulatory standpoint. I appreciate the comments you made earlier. But what I'm trying to understand is if there isn't going to be that much progress on the fair share the way we understood it before, what is it that



the industry can actually extract over time? What's the objective for the new commission was the ask from the industry. And within that, maybe something we [cut down] location team. In the past, my understanding was that the commission [wanted a] single market and you want a better regulation. Does the fact that you are committing more to buybacks signal, you're not that optimistic about getting that much support on regulatory side?

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

So let me start with the refinancing. And look, I can give you an indication for '24 because we have the share buyback program running in the U.S. for '24, which ends in '24, we don't have another program yet decided, obviously. But that is very limited because of the dividend, which we're going to receive, and this is because of selling into the share buyback. There's obviously (inaudible) calling the lingering topic of the true-up. If the true-up unwinds yes or no, there will be little refinance activity necessary. But I think on the ex U.S. part, we don't have to go to the capital markets quite a bit in the upcoming years because of the share buyback and our intention to sell the share buyback.

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

Look, I'm getting not tired about reminding political leaders that a part that they might think that some of the telco leaders are stupid that there is a need for a change in the setup for that industry. Since 2000, the European telcos have lost 80% of their market cap. We have 35 operators in Europe who are operating in a network with less than 500,000 customers. They don't have economies of scale. The spectrum allocation is highly inefficient compared to other markets. We have a consolidation need of this overcapacity, and I hope that they find the right conclusions in Spain. We have a discussion around the next spectrum, which has to get allocated, and we have to align this policy around the 27 markets.

It is not the fair share alone, which will solve all our problems in this European situation. It is a [edexcel] of hundreds of elements of an old, tired regulation policy. And if we want to catch up to the Western world, in Americas or to Asia, which is really accelerating in their development, Europe has to do something about it. And therefore, the fair share is just one piece of it. And therefore, I'm trying to remind everything, everybody that there is a new policy needed (inaudible), I have to admit he is willing and he understands the problems of this industry.

Now I can tell you one thing. I'm not now going and becoming a victim of this. We have to manage around the dependencies of our services. And we have done that, I think, quite successfully more successful than any other European telco by our doubling down in the U.S. by investing in this environment. Now money is always following the opportunity of returns. And therefore, I'm clearly looking where to invest. I want to invest patriotically in the continent where we are living and to do something here, good for the citizen, but always in the framework of the profitability, which is given. And therefore, I'm fighting that this Europe is getting better, that more money can be allocated here.

Now with regard to the share buyback, there is no -- you cannot read something with regard to M&A or investments into Europe into this one, there is nothing to do with it. What the share buyback is, is for me, the clear statement of saying, walk your talk. We said in 2021, there is a dilution, and I know that some of you guys were not happy about the dilution of the capital increase, which we did. Now we have not forgotten that. And we have said at that point in time, if we have the financial strength, the financial strength to buy that back and reduce the dilution, which we have created during this merger phase, we will come back and we will do this. And this is the start of now allocating money to reduce the dilution, which we have triggered in 2021. And that is the way how you should read it under the headline fair, sustainable, predictable capital allocation.

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

Great. With that, we move on to Josh at Exane, please. Josh?

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

Yes. I hope you can hear me now. So two questions on the commercial outlook in Germany. And the first one was just regarding pricing. So we're seeing very strong fixed pricing trends. Your competitors, as you referenced earlier, have raised prices (inaudible) fund book and back book. You

have an upcoming wage negotiation in Germany next year, which other operators are often seen as a reason and the need for price increases themselves. So just a bit of updated thoughts there on how you see pricing environment and then you comment on how you've been changing front book pricing in Germany would be helpful.

And then the second question just regarding the European business and TV in particular. It looks like here, you had a big step-up in (inaudible) this quarter. I know German TVs have focused for you next year. So what drove the step-up in European TV net adds? And are there any lessons you can take from that into the German business going forward?

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

Josh, as you know, we're not commenting on pricing and public before we have taken the decision. So I don't want to give you kind of indications where we have something in the plan, yes or no. But I think a clear watch out also to our cost base in Germany is the wage reduction, which we're going to see in the second quarter of next year. But it's also, I would say, cost inflation across the board. We're seeing cost inflation in the fiber construction space. We're seeing cost inflation in many other parts of the business. The energy prices will never go back to the levels as we have seen it to the pre-Ukrainian crisis. And as you know, our coverage is becoming lower and lower in the outer years. So therefore, I think there are a couple of watchouts in our cost situation, which we have to watch out.

But right now, I think we are happy with our strategy that we have risen front book prices, because that is one of the key drivers that we are enjoying such a significant net debt growth, especially in the third quarter. And from this perspective, we feel that our differentiated strategy when it comes to pricing relative to competition is actually advantageous for us. But as you said, we have to watch out what's going to happen to the cost structure in the next year, but again, we will not comment about any kind of plans before we have taken a decision.

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

Your question, Josh, is triggering something in me. And I said it earlier, for me, the most important thing is making customers defense, long-lasting relationships. No negative surprise, good service, always having some high end for these customers, always showing them innovation that they say future is in built with my operator. And on top of that, a deep societal engagement that people are noticing us, we are not only there for money. We are here as well for a societal purpose and rely local partner. That is a little bit, let's say, the start of where we started. So price is up, prices down, pro promotions here, 6 months were free, 12 months are free [bomb, bomb, bomb] confusing customers all the way along. At the end of the day, it is not paying to a long-lasting relationship. It should be based on fairness, on a kind of understand that people feel there. I know that we have to sometimes tweak the prices that we have to make additional money. And then we have to pass through significant higher cost if we are facing them in our build-out.

Now that is what we did in Europe. In Europe, we had a repricing in most of the markets. And I think Dominik and her team made that in a very intelligent way. They increase the prices, and at the same time, they reached an even higher Net Promoter Score and became #1 in the customer satisfaction at the same time. I think that's a great achievement. So I have to learn from that for Germany, whether we can do that in Germany. I don't believe in the U.K. model, increasing the prices by 14%. And at the end of the day, showing a service revenue growth of 1.5%. What the heck is that? So something is wrong. It's a wash machine, I do want to create a wash machine for Deutsche Telekom's customer base. So therefore, we have to do it in a fair way.

We are facing significantly higher costs on the build-out, especially in fiber. And therefore, we have to find ways that our customers are paying for this as well in the future. So therefore, slight price increases, I would not exclude here, and we have to draw our conclusions from the European experience.

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

In the TV business specifically, we also have a bit of seasonal volatility related to content, for instance -- so we had some content rights in Greece that helped and also -- by the way, in Germany, we had a pretty good sequential development, specifically on the TV question. David from Bank of America is next.

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

I hope you guys can hear me clearly. I've got a couple of questions. I have so tempted to get into the debate on regulation and your point, Tim. I hope you weren't blaming the market cap decline entirely on regulation there. I think the industry has made multiple mistakes internally. And I do tend to think that the whole sharing regulation is fairly flawed, but I want to save my two questions, so we're going to have to pursue that one separately. My first one is just on a theme that I think is becoming interesting, which is the pace of copper decommissioning. One of your European peers, Telefonica is fully decommissioning copper next year. I think that is undoubtedly the driver of their industry-leading CapEx to sales ratios and that's, of course, a function of [fiber] being mature. I wondered if you could give us some direction with your fiber build on the pace of copper decommissioning and how we could expect that to evolve over the next few years.

And I also, Tim, I wanted to give you an opportunity to probably shut a few of us down, which as you mentioned in your Capital Markets Day considerations fixed line in the U.S. That's one that could easily [domino] into multiple worries and debates, I think, on behalf of shareholders. If you could elaborate at all on that at this stage. I appreciate it might just be a discussion. So those two questions.

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

Thank you, David, by the way. I'm trying to live up to the thing, if something is going wrong, you should look out of the window and say, who help me that we achieve that. And if something is going wrong, you should look into the mirror and say, what was my contribution to this failure. Normally, managers tend to do it the opposite way, looking out of the window when something is wrong and looking into the mirror and say how great they were, that is Jim Collins, good to great, and I think it's a good (inaudible).

Now that said, I know we made a lot of mistakes. But by the way, I think recently the mistake, Vodafone made by just entering to this MVNO agreement and buying it out of Telefonica. I find this from a strategic assessment kind of major mistake for the whole market. So therefore, this industry makes a lot of mistakes.

Second, the problem is every dollar which we are earning, we are reinvesting into the infrastructure, and other companies in the valley. These companies are sitting on piles of money. And they can do thousands of experiments in new businesses, and they can fail, but they can even big succeed. We do not have this playground. We do not have this flexibility in our system to experiment it with new areas. So if somebody's criticizing, why haven't you invested into this data model? Why haven't you invested in your payment platform? Why haven't you invested into cloud services in (inaudible) the simple answer is because our money is so tight that put your money where your mouth is, we have to put it, and we have to focus it on the infrastructure only. And that is one of the challenges which we have.

We do not have this kind of entrepreneurial freedom to experiment like Alphabet is doing, like all the others are doing these days. Now that's not an excuse, but it's just a description why we maybe have not taken full advantage of the digital ecosystem in the past.

Now the pace of copper decommissioning. To be honest, the copper switch up is more longer-term project here in Germany because what it requires is that in the area where we want to switch it up, we have to have FTTH fully available for all households in this area. So we have to completely overbuild with FTTH and firsthand in the zones around the switch houses and the clusters, which we can then switch off.

As a first step now, DT is preparing a pilot for a copper switch out. So we are overbuilding one area now entirely and coordinated with our national regulator and the authorities, we are now looking to the experience we're going to make for the customers, but as well for us, from a cost perspective, from an efficiency perspective and the like. The bonus (inaudible) tour as well our wholesale partners are involved into this one because they have to migrate as well on our network. So it's a bit of a challenge.

I can tell you one thing, David. If I would be alone in this world. I would immediately build out clusters and switch out the old copper because the energy savings, we can draw out of this switch off are tremendous and would help us significantly to achieve our ESG targets even faster. So therefore, I'm pushing for this. I take your request as well to say follow up on this one, move on like this to do it as quick as possible in the framework which you are facing, but you're on the right path here that this is a big cost and energy saving game changer for the industry, especially in Germany.

So with regard to my thoughts on fixed line, look, nothing new here on this one. This is a special market. No operators, nationwide ownership economics around the fixed market or the mobile market together. Everybody is building out. For instance, AT&T has announced that they're going to pass about 20% of the U.S. homes with fiber by the end of 2025. So we don't see any increased utility for consumer from a bundled offer and customers are still generally view wireless and broadband as a separate buying decision.

Nevertheless, as Mike has said, we're exploring this kind of capital-light fiber opportunities to add value, leveraging our brand, leveraging our distribution in the fiber space. We want to do this with most likely with partnerships. We do not want to build a balance sheet now on fiber. It should be somebody else building the infrastructure, but we offer our distribution, our brand to scale this infrastructure and to create the economies of scale here.

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

Great. Thank you, Tim. And with that, we move on to Usman at Berenberg.

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

Two questions from me. Just one on return on capital employed. So if I look at the return on capital employed or try and calculate it by different segments. Germany, Europe seem to be at above 7% TMS, obviously, we have the numbers. So they're on a good way to do earning well above their cost of capital as the synergies come through. But given that your overall group ROCE is still kind of below the cost of capital or add the cost of capital now. It implies that system solutions is either deeply negative or flat. And I'm just wondering what can you do to perhaps -- improved ROCE in that segment? Or if you don't want to comment on a per segment basis, if you can give us kind of this direction on what actions you're taking to improve that ROCE well above the cost of capital.

And my second question was just on German mobile. Your performance is stunning, to be honest. But given that your prices are higher than the competition, but you're taking well over 50% of the postpaid net adds in the market now. And I'm just fearful that, that might destabilize the market. So any kind of comments that you might have on how you see this kind of outperformance potentially tipping the market into greater price competition? Or any comments there would be interesting.

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

So Usman, let me talk about the whole cooperation. First of all, we're earning a ROCE, which is above the WACC already in this year, and we continue to increase this. And if you take our ROCE discussion, we have to find it at NOPAT divided by Noah. It's very much driven by a [no-part] increase. So it's less that we're optimizing the NOA, but it's more the NOPAT increase, but you also have to bear in mind other than other European telcos, we obviously have the spectrum in the U.S. on our balance sheet, which is not depreciating, which is obviously weighing on the NOA, but it's still a great privilege to have, right? So -- but I think starting from this year onwards, especially given the tower transaction, you're going to see a spike on the ROCE, but we will have our ROCE being above the WACC even if you include the new interest rate environment.

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

Look, on the mobile side maybe you have not noticed that we made a shift couple of quarters before where we said this whole market of second brands, the whole market of price differentiation in the market is not helping us, we should be strong in the Magenta brand in our first card business. This is the focus of our activities. And by the way, here you can create customer satisfaction. Here, you can create in custom intimacy. Here you can

really, let's say, convince customers about your infrastructure in the best way. And we have clearly focused on the owners of the first card into the families and extending our Magenta product. We call it device cater. And by the way, not sacrificing on prices because people know that our network is the best network. And therefore, we said, okay, if you want to buy the best network, if you want to have the best connectivity, you have to pay a little bit premium for that one. So therefore, this is our proposition. It's quality for money. It's a more-for-more logic, which we pushed forward.

And what we see is, with the reputation of our brand in all the combinations with the new offers, which Srin and the team has laid out in the market with the family offers, this is paying off.

Now I do not see -- the price is not the issue because we have very cheap prices in the market. There are second brands all over the place, still there and including 5G offerings. We have competition with O2 and with Vodafone in this market. But we are not going into this price battle. We are trying to position our product in the premium, in the high-value end segment, and that is what we're doing.

And by the way, we are compensating the Lebara effect, where we thought it is not worth doing it. And we talked about mistakes earlier. If you cannot make money and if you make low wholesale prices just to keep a revenue stream intact, you're paying a high price for the whole market at the end of the day. And that is why we said we are not willing to promote Lebara anymore and to give this wholesale prices to these guys, very price disciplined, but focusing on the quality. And to be honest, I think the customer traction, which we are seeing, is very well intact.

And therefore, I think the market has to find other things in destabilizing our position than reducing prices. There is something more needed. Now is there a risk that the more market we are taking, the more tax we are getting? It's for sure. But that is the price of success which we have. And we have to be aware that our competition is recognizing this. But nevertheless, I think, very straightforward, strategy based on quality.

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

Okay. Great. Tim. And with that, we move on to Polo from UBS, please.

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

I have 2. You've talked about the need for consolidation across Europe. But do you think there will eventually be consolidation in the German mobile market? Second question is, what are your thoughts on the BNetzA proposal to extend the 800 megahertz spectrum to existing players rather than hosting an auction? And where is your view in the comments from the Federal Cartel Office supporting the position of 1:1. So if the spectrum extension comes with conditions attached, what conditions would be a red line for Deutsche Telekom?

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

Again, and today is my 55th quarter result. And I don't know how often have talked about the need of European market consolidation probably in everyone. So therefore, it doesn't make sense that we have so many operators not earning their capital cost, so many operators who are just trying to make contribution to margins. I see that the multiples of these industries, because of that competition, are very low compared to others. We become victims for people in private equity, some value takers. Now the Saudis are here and other foreign investors, there are always rumors that might be -- stripping assets might be better.

Look, if we want to have a sustainable long-term investment strategy, which is fostering our society and which is developing, let's say, a digital ecosystem on eye level with the other continents of this world, I can tell you, the setup, that this industry has changed. And one of the biggest levers for that one is creating economies of scales on the very expensive network platforms, being it in fiber and being it on mobile.

So I'm 100% convinced. We need not 100 operators, we need maybe a handful of operators for the market. In every market, China; in every market, India; in every market in U.S. You will not find a situation like you have in Europe. So therefore, there is a need. And I do not understand why this is not understood. I think the reason for that 1 is that we don't have a single market. There is no digital single market. We can talk about Europe,

but Europe is a combination of 27 different regulated environments, which we are operating in. And we need a change in the mindset from Brussels and from the local regulators as well that has to change.

Now so therefore, there is a need for consolidation in Europe. By the way, I don't believe it will help Germany to get a better network by now [pimping] Eins&Eins with the first auction now, now in the second auction. I do not see why, with him, we would get a better coverage for our people in Germany. I don't see it simply there. But anyhow, this is up to the regulators and to the political leaders, and they took that decision.

Now this leads me over to the 800 megahertz auction. I think this industry needs every cent, and we talked about that earlier, every single cent for investments into the infrastructure in to catching up on data throughput. What this industry needs to fulfill all the AI and all the new machine-to-machine services, which are rising at high rates, think about automotive and all the data, which goes in and out. Think about logistics, think about all the industries, which are digitalizing right now, they all go over our network.

So what we need is spectrum, spectrum and more spectrum. And we do not need a limitation of spectrum. We do not need another tax on this. So therefore, I think if Europe wants to catch up, an extension of that auction, maybe with some built-out obligation for 5G stand-alone or what it might be. I think that makes sense, that is reasonable. But going into an auction, I can tell you, will just take another pot of money out of this industry, which is needed for the next [wealth].

Now with regard to the current discussions here in Germany and Eins&Eins. Look, at the end of the day, if the obligations are getting too complex for us and they are damaging the business on another angle, I think we should be ready to go into an auction. Deutsche Telekom will defend its position. We will know what we have to do in this one. We will not let it happen that somebody takes away spectrum, which we already today use for serving our customers in a good way. That is, for us, unacceptable.

And therefore then, okay, if they want to shoot it out in the market, let's go for it. I'm ready to do this. I know that maybe some investors don't like that if this is going to take place. But that's the price which we have to pay to serve customers for a long-term perspective. Sorry for being that direct, but that's my fundamental belief as a leader here.

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

And Tim, I think if we're talking about extension of the usage, we're, not only talking about 800. We're talking 800 and all the other spectrum bands. So 800 is not good enough for us at all.

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

Maybe also worth remembering the cartel office doesn't decide. Here, it's the Bundesnetzagentur and the cartel office has commented on the proposal of the Bundesnetzagentur, right? And there are some actual omissions in terms of the recent developments we have seen in the cartel office contribution. But anyway, it's a contribution to a decision that will be taken by the Bundesnetzagentur. So with that, I think we could...

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

I think it would be good, guys, if you, as investors, as owners of our company, if you could work in the political landscape, to say, guys, don't take money out of that industry. Don't take spectrum away from these players. Extend the use of this auction, and then make 2 gigahertz, 6 gigahertz and millimeter wave available that even a new player, if he shows up, can have access to spectrum then, the moment he has built a network.

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

Okay. So with that, we move on to Robert at Deutsche Bank, please?



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

Great going on the energy consumption. Sorry, you can't see me. Where I might jump at, down almost 10% year-to-date. That's good for costs as well as environment. Please, could you remind what we're looking at for energy cost trends in the ex U.S. business moving into next year? You've avoided the difficulties above thus so far, can that efficiency momentum be sustained?

And then a quick one on the ex U.S. balance sheet, thanks for improved disclosure, very helpful. 3.8% cost of debt in Q3. That follows a big switch into fixed debt. Is that fully captured in the 3.8%, so it's a good number going forward? Is that the net interest rate, including inflows from the team of shareholder loan.

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

Okay. So first of all, what we're doing is day-in, day-out trying to figure out operational levers in order to bring down the energy consumption per gigabyte being produced. And I think this is kind of a collective work, which we are sharing across the European segment. The biggest one-off effect you're going to see in '24 is the shutdown of the SDH platform, which is a legacy platform, which consumes quite a bit of energy. That's going to be a big, big hit, which we don't see in the outer years then, but that's going to bring us down again. And on your cost of debt, 3.8% in that vicinity, maybe 3.9% or something like this is pretty much the refinancing costs, which we're having and which we're expecting.

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

Yes. On the energy cost for next year, we expect broadly stable development for Germany and for the European business, but of course, it's always a bit subject to speculation at this point in time. But from today's perspective, we would expect roughly stable energy cost after an increase of close to EUR 200 million this year, right? So with that, we move on to Andrew at Goldman Sachs, please.

**Andrew J. Lee** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

I had 2 questions. The first question was just on your buyback announcement. Thanks for the color, Tim, on the -- trying to reverse the dilution from 2021. The buyback did catch the market by surprise a little bit, particularly given comments around your focus on de-gearing. So I just wondered if you could talk about contributing factors into making that buyback decision now in terms of how you're thinking about gearing within the range. Anything that changed that drove you to make the decision when you did on instigating buybacks?

And then the second question, apologies for just bringing it up again. There's lots of comments from you, Tim, on the call already on this, but just in terms of authorities, kind of understanding the need to incentivize investment. There's lots of different types of authorities, right? And it feels like you have the year in some markets of governments you can -- the regulators, at least, adjusted approach in intra-markets.

The competition authorities, and following on from Polo's comments on the German Competition Authority in the last day or so, they appear more like islands and pretty blanket with kind of limited evidence of them changing their approach at all. I wonder if you could just maybe comment specifically on those comments out of the Federal Cartel Office and -- which don't really seem to have mentioned investment across the rest of the mobile market purely on the new network.

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

So let me start with the first question, Andrew. Obviously, we're not changing our target. The target remains the same. It's 2.25 to 2.27 by the end of '24. There's quite a bit of uncertainty. So for example, if the true-up is kicking in, that influences my leverage by almost 0.1 terms, not [100, but] 0.1 terms, but you see that uncertainty.



And the second one, I think, which you have also admit that ex leases, we are on the old corridor back again. And that was the reason why we basically wanted to signal to you guys and show you kind of the proof of the pudding that we are committed to basically bring the capital increase back and start with that share buyback this year. But the targets remain the same.

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

Andrew, I met, at a conference, 2 commissioners with my colleagues here from the industry. I had discussion with Thierry Breton. Recently, I met our virtuous Minister, Habeck. I was with the Chancellor office and with Chancellor recently. I was with our Minister for Infrastructure the other day. I can tell you, everybody, every single politician admitted that they have to change the setup for our industry.

It is not that they are -- like I was at the beginning, I'm 25 years now in this industry. At the beginning, that is said, you are bad guys. We have to do something about you. Your margins are too high and you are screwing customers, blah, blah, blah. It's the opposite. Everybody is there and trying to find a way to ease up the situation.

Now the problem is there are a lot of voices, a lot of voices. There are newcomers in the market. There are challenges, because if they change something, there are always winners and losers. If you allow consolidation, smaller companies might have a problem with that, yes? So therefore, this is, I think, the orchestra which you hear right now everywhere.

But everybody of these political leaders want to find. I think it's a governance issue to get this orchestra coordinated in the right way, finding the way on the legislation, finding a way to get this pursued. It's not like a company. It's not, like, when we have a policy and we want to bring that through, we decided and then it takes place. It has to get orchestrated.

And with the elections, with all the changes, it takes a little bit longer. But I think we have passed an inflection point here. They want to change it. They want to improve it, but they have not found, really, the key and the way going forward. And therefore, I think it will come over time. The question is how can we accelerate that process, and that is what I'm trying to do.

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

Great. Thanks, Tim. We've got 5 more questions or 5 more people who want to ask questions. So let's be tight. And we'll start with James at New Street, please.

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

I have 2 questions, please. The first one was just to revisit your capital structure, and in particular, how you're thinking about the dividend within that. I mean also you've put up some great numbers, you're going to have a 10% dividend growth, which is fantastic. But at the same time, your payout ratio, I think, will be in the lower half of your 40% to 60% ratio. Is that because of the fact that you're going to be, like, at the very high end of the 2.25x to 2.75x leverage target. Could you see a scenario as you delever the business that you can start to move the dividend into the upper half of that payout range?

And then the second question I had, please, was just regarding your broadband pricing. I mean, in Germany, I understand you can't comment on future moves to come. But if I look at what's happened in the past, you're seeing about 5% broadband growth, 2% customer growth roughly implies about 3% ARPU growth. Is that coming now from back book customers that you are getting them to trade up? Or given the moves you've made on the front book, is it now you're seeing new customers you're winning coming on at prices above the overall ARPU. We'd just love to understand some of the mixes you're seeing in the current ARPU trends in the business.

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

We traded dividend growth also against share buyback discussion, which we had in this announcement or from this perspective. If there is opportunity, obviously, the dividend can benefit from a payout ratio aside from the EPS growth, which we're going to see. On the broadband pricing, what we're seeing right now is, as you said, there is a volume element and this quarter, it was a very strong volume element because of the back book pricing of our competitors.

So there were customers fleeing away from the other guys and joining us. But what you can see is, and I think you can see with the 45% penetration of broadband customers beyond the 100 megabit, this continuous more-for-more trend is almost a linear curve, and we expected it to be a linear curve in the future as well.

So we're giving customers what they need. They can actually have more. And that's also one of the reasons why we don't see this massive shift into fiber right now because Germans tend to buy what they need and not more than what they need. So we expect that the more-for-more strategy will continue to grow, and there will be an element of share gain, especially in the retail space, which will support the broadband growth.

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

Great. And with that, we move on to Mathieu at Barclays, please.

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**Mathieu Robilliard** - Barclays Bank PLC, Research Division - Research Analyst

I have 2, please. In terms of share buyback, so Tim, you qualify share buyback that you announced by saying that we're delivering on the promise to offset the dilution linked to the U.S. deal. Does that mean that you only considered share buybacks in the future in the same circumstances? Or that you think more broadly, that it's a good way to return cash to shareholders?

And then the second question was with regards to DISH. I think DISH is due to make a payment for spectrum that you handed to them. I think there are some delays. And I guess the question was when do you think you'll have visibility on a potential payment and whether or not that payment, which I think is EUR 3.5 billion, is included in your guidance to delever the company or that could be a potential upside?

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

Mathieu, I think there's a philosophical discussion behind your question. Can you manage with the passive side of a balance sheet the value of a company. So what is the contribution of a share buyback? I like dividends, by the way, because dividends are clear yield and an interest which you pay out for your shareholders. So I like dividends because they're a clear commitment, they are lasting. And in our industries, I think they're committing long-term investors longer into a company than share buybacks coming and going. There are good arguments for share buyback as well. But look, I don't want to go into this philosophical discussion, I think. This is something for a bilateral discussion.

What I want to say here right now is we have made now a big step forward with regard to this dilutive effect. Now the question should be, what are you doing beyond that? There is no decision taken. It always depends on the commercial situation. It always depends on our debt situation within the company. But if you ask me, do you have the intention to take the second part of the dilution out of the market with an instrument like a share buyback, I would say, yes, I have the intent. I would support that.

Now that is not something we have decided yet, but that is, at least, the way forward. And there is some water which will go down the [Rhine] throughout this period until we have executed on this one. And I hope that then we have a debate with you, investors, what you like more, share buybacks or dividends, where we should go and what you like. For me, the main headline is a proper, sustainable long-term growing capital allocations with my shareholders. This is, let's say, the way forward and how we then design that, that's for discussion.

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

So on the 3.6 megahertz question, as you know, the time has been extended to April 1. T-Mobile U.S. will receive EUR 100 million instead of EUR 72 million from DISH. And DISH has then, time, up until the 1st of April to decide whether they want to acquire the spectrum, yes or no. You have seen the DISH numbers. I think they have decreased the option value for the spectrum by 10% or something like this, if I'm not mistaken. I can answer you the second part of your question, but we're not public with this, whether it's part of the planning envelope, yes or no. So therefore, please respect that we don't make this public here.

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

Well, as you know, we have a prudent plan. And I guess it's not in the consensus. Anyway, but for -- with that, we move on to Steve at Redburn, please. Steve?

**Stephen Paul Malcolm** - Redburn (Europe) Limited, Research Division - Partner of Communications Research

Thanks, Hannes. Tim, in the past, you've rightly criticized, we've been a little bit too hard to please at times, just to prove that leopard can change its spots, I'll throw something I never do, which is well done on a very good set of numbers. Q3 looks very, very good. I haven't gotten through all the details yet, but it looks very good all over the place.

A couple of questions. One is just on the ex U.S. leverage. Can you help us understand how much time you spend looking at that and what you think the rights of a leverage corridor is? And will you review it when you hit the targets, the ratings agency set out for you, when obviously, your ex U.S. cash and the dividends you get from the U.S. and tendering shares in the buyback should see debt continue to fall? Should -- you expect EBITDA to rise. It looks like debt-to-EBITDA is falling sort of mid-high ones there. Is that the right place for that business? That's question one.

And then just coming back to the question asked by David on U.S. fiber. I guess sort of capital-light zone's pretty seductive. But at the end of the day, you're going to rely on alt nets to do that. You have direct experience of alt nets in Europe. I mean, DTCs -- DTC's got interest in a couple of community, and from the outside looking in, they're not doing terribly well. You need to get to 40%, 50% penetration to make these things work.

Do you think that is -- what particularly is different about the U.S. that you think can make that work? Is it just the T-Mobile brand? The fact that you think you can use that to get very high penetration rates? Or is there anything else that you think can sort of give that real heft? Because it feels, from the outside looking in, that it's a very kind of marginal solution to what could be a bigger long-term issue around broadband connectivity.

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

Okay. Let me answer the ex U.S. leverage question with a lot of ifs. If the share buyback in the U.S. continues in the way how it is right now, if there will be no significant M&A beyond what Tim is indicating, if we're not significantly increasing the dividend, if we're not continuing with the share buyback and you heard the intent to basically at least bring the dilution to 0, then obviously, the ex U.S. business will significantly delever.

But these are all decisions which we haven't taken now. The only decisions which we have right now basically extends into '24, and there, you don't see that significant deleveraging yet. But if you assume all these assumptions I just mentioned, yes, there will be a significant deleverage on the ex-U.S. side.

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

Steve, on the second question, U.S. fiber. Look, I'm not so concerned with regard to the U.S. market in comparison with the European market on the alt net side. Because the market situation, by the way, as it is in other areas as well, is totally different. First, we have regional monopolies. So you do not have, let's say, multiple infrastructures.

The monopolies always have very high prices. In the U.S., the ARPU of Comcast and the like is sometimes triple digit. So if you want to compete in this market, you have a lot of headroom to challenge them. And then this big monopolies are coming with super high costs from their system. If you look to smaller players, to greenfield operations, they have significantly lower cost.

On top of that, if there would be an over penetration, yes, I would be worried. But this market is very fresh and young. So we're just at the beginning of a fiber penetration in the U.S. So therefore, there's a lot of room. And on top of that, apart from the high ARPUs, which you can get to amortize this infrastructure, I think we should, as well, see that there is, as well, a hunger for higher data throughput.

You see that with our super success on fixed mobile substitution services, which we have in the U.S. with this very low qualities. So if you come with a superior infrastructure, there are a lot of areas where you can really differentiate against the cable cost. So on top of that, we have the U.S. brand, which is well recognized. Most of the markets, Mike said it, we have a market leadership position and a great distribution.

So we have to manage more the processes. We have to get this up and running. We have to establish the skills in our ecosystem. That is, I think, the main task, I'm less worried about that the alt nets might not get their strength in this ecosystem. The market is totally different from its economics.

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

Okay. Before we move on to Ottavio as -- with his questions. Just quickly, I was told that the 1 question from James was a bit -- was -- the answer was mute therefore, I'd just like to go back to it. So Christian was asked if we move into the leverage comfort zone, we might consider to have a dividend payout in the upper half of our payout -- stated payout ratio. And Christian said, that's definitely a possibility. So for those who missed it because he was muted at the time, that's what you would have missed.

Anyway, with that, we move on to Ottavio, please?

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**Ottavio Adoriso** - Societe Generale Cross Asset Research - Equity Analyst

So a couple from me. The first is for Christian, and it's basically related to Slide 24. You've already come back a couple of times. When I look at the interest rate payable on -- that you pay on your debt and the one teams pay on their own, yours looks lower. But if one takes into account that the U.S. have much longer maturity, they have lower credit ratings and they have a high underlying sovereigns, much higher in the U.S. than Germany. I was just wondering, has the U.S. has been so good? Or is the fact that they've been so good on a timing when they did the refinancing? So therefore, do you have any flexibility because you already commented about the 3.9% you expect on the refinancing that you could optimize that 3.9% a bit down? Or you reckon that -- basically, that will be the floor on the refinancing you expect?

The second one is for Tim, specifically on the FTTH rollout. Now if you remember on the Capital Markets Day, you were looking for 2 million FTTH lines sort of targets on rollout. Now you're targeting 2.5 million. So effectively, you're doing better and you're improving in terms of the coverage. We never heard from Deutsche in terms of where you want to end up.

Now we are -- probably to wait on the Capital Markets Day next October next year. But if you can give us a bit of an idea, you qualitate in the past that you will be bringing FTTH where it's economically sensible to upgrade. So if you can tell us how much of Germany is economically sensible to upgrade as of today?

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

Let me start with the first question. So first of all, on the U.S., let me just comment on U.S. I think in hindsight, the U.S. was super lucky with their timing on refinancing as we close the deal, as you know, because the interest rates were really low. And the second one, I think they are benefiting from retiring old high-yield bonds by paying them back, which is coming in with a significant higher interest rate than what they have to refinance right now. So for example, in the last quarter, they retired bonds which costed them close to 8%, while at the same time, they're refinanced at 6%, 5.8% or something like this. So this is the benefit which the U.S. is having.

I'm not 100% sure whether I can answer this question on the ex-U.S. side precisely. I have to go back if the answer is not correct. I think we're staying at that level. But coming back to the previous question from Steve, if we're deleveraging, obviously, then the interest cost will come down because our refinancing will come down. Well, the rate is coming down, I would be surprised, but let me go look it up. And if there's a significant change, we will inform you about this, okay?

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

Ottavio, I love your question. By the way, some of headache around that one. The first thing is we have said that we're going to make 10 million houses by the end 2024. And what I will confirm here right now with all my conviction is we were going to deliver on this one. That is the issue. Now you can say, by the way, we have EUR 2.5 million this year. You have me heard saying, "I'd love to see 3 million." So I'm on the gas pedal here. I love that.

And so therefore, we were faced by shortage in construction capacities in Germany. We were -- by the way, which I don't understand that we don't find sufficient construction people here because there is -- there must be capacities due to the interest rates in the housing area. But nevertheless, we have a shortage here.

The second, we have inflationary costs. We wanted to manage down. Remember the productivity, which I promised once, down the cost to something around 1,000 per household, but then facing the inflation, we were not able to really, let's say, get that task managed properly. And therefore, we are facing a tough environment these days to deliver at cost on target here in these circumstances. Look, as we always said, planned it more conservative, the EUR 10 million is not at risk at all.

Second part of your question is we do not know what you're aiming for. Look, the political target is 50% by 2025 and 100% by 2030. I think this is possible. And we will have, in this ecosystem, including our partners, by the way, I always include our EWE TEL partner and always the Deutsche GlasfaserPlus into this one. We will aim for the same owners' economics as we have had it in the copper area. So this is what we are striving for. So this is something like 70%, 75% of infrastructure, which we should own and which we should control. So this is, let's say, our ambition on the long-term horizon.

By doing this, we can guarantee a growing business for our owners. So -- because we do not want to build our business model on wholesale alone. We have seen that in France with shrinking revenues and EBITDA due to the fact that you only have a wholesale revenue on this one.

And therefore, we have said, look, we should have the same owners' economics as we have had it in the copper environment in the fiber. This is an orientation. It is nothing which is now nailed in a plan because our plan is a 4-year plan and not a longer-term perspective. But if you want to have an orientation, that's the one I can give you.

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

Excellent. That brings us to the last question for today, which are questions from Adam at HSBC, please. Adam?

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

Actually, a bit of a follow-up to that last question on fiber in Germany. I'd be interested now you've got more than 900,000 homes connected, how you're seeing the cost to connect or the processes to actually connect homes evolving, whether you're seeing any change there? And then, I guess, a related question, whether or not you're seeing any change in the pace of rollout kind of on the street from your network-based competitors at the moment?

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

By the way, the most important thing with regard to the 900,000 paying customers in Germany on the fiber infrastructure is that their Net Promoter Score or their TRIM values is higher than all the other products, which we are serving. So we have happy customers, and that is the most important thing. By the way, just this minute, I got a mail here on this number. So this is for me a very important note.

But on the cost side, Christian, I think it's a mixed bag of build-out period for quite a while now. I think our ambition was to get the cost unit down by 25% to below EUR 1,000 per home passed. That was our initial planning, which we laid out in the earnings. We are definitely seeing cost inflation on the in-fiber construction areas in the order of magnitude of 20%.

So therefore, I would say we are still something between EUR 1,000 and EUR 1,500 per homes passed, which we're currently facing here. We have taken decisive actions to manage this. For instance, we have now 1,000 people hired in the organization for construction purposes, much cheaper than if we would buy them outside. And to be honest, I'm expecting, overall, in the mixed bag, an average cost per home below EUR 1,000, still our ambition for the upcoming period.

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

And I think this is something which we have to lay out in more detail in our Capital Markets Day perspective and giving you all the facts to this one that you can build your models on it.

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

So Ottavio, I got a reconfirmation from my Treasurer from Stephan Wiemann, that interest rates are expected to be at that level, 3.8% if we go for new financing based on fixed. So not a lot of changes.

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

And just maybe on -- following up on Adam's questions. So the EUER 1,000 that Tim referred to is the cost of passing homes, which bakes in a certain level of connections. When it comes to the connection in Germany, the connection per home has a huge range. So it's very hard to give averages on this one, and we haven't disclosed them. In terms of the rollout pace, we estimate that this year, we will build out around about 2/3 of the homes in Germany that are being built this year, okay?

So with that, we come to the end of our conference. And we'd like to thank you for participating in this call. Thank you, Tim and Christian. And if you have further questions, please we kindly ask you to contact our Investor Relations Department. We look forward to hear from you soon. And with that, goodbye.

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

Bye, everybody. Thank you.

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