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# Deutsche Telekom AG (DTE.DE)

Q1 2016 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

Timotheus Höttges  
*Chairman-Management Board & CEO*

### BUSINESS HIGHLIGHTS

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#### Opening Remarks

- Let's start with the highlights for Q1
- The strong momentum continued, the strong momentum with investments, with customers, and with earnings
- We remain well on track for our group targets, we presented to you at our Capital Markets Day last year, and we also strongly reiterate our guidance for 2016

#### Strategic Building Blocks

- The first slide is a quick reminder of our main strategic building blocks you might all know
- This includes our focus on integrated IP networks, our commitment to create the best customer experience, our ambitions to lead in business, and to work with partners where it makes sense

- And maybe later in the discussion, I could show you that in each of these categories, we have tangible products and measures, how we improved in these regards

#### Fiber Products

- Going to slide number four, I'd like to summarize Q1 highlights
- The biggest number might be the 5mm German homes which are now connected with fiber
- The demand for our fiber products remained strong and even accelerated
- We added a new record of 660,000 fiber customers in the last three months alone
- In the U.S., we gained 2.2mm subscribers this quarter and our service revenue momentum accelerated to 14%, outstanding quarter
- We continued to invest heavily in our networks and into innovation in fiber, in LTE, and in our industry-leading pan-IP network transformation

#### EBITDA AND FCF

- Our financial momentum remained positive, headline revenues grew by 5%; EBITDA grew by 13%; and our FCF was on track
- Without the contribution from U.S. handset leasing and data stash on EBITDA, the number was up by 6.5% year-on-year
- But if you also take into account last year's €175mm settlement with Liberty, the EBITDA grew by 10.6%
- Adjusted for the disposal of EE, FCF grew by 11%
- So our double-digit momentum continues

#### Customer Growth and Convergence Products

- The next page shows you some examples of the strong momentum we have seen with our customers
- I mentioned already our success with fiber in Germany where we added 2mm homes in the last 12 months and our relentless customer growth in the U.S. where we gained 9mm subscribers in the last 12 months
- We continued to see good momentum with our convergence products as well
- We now have 3.3mm converged subscriptions here in Europe, of which 2.2mm only in Germany and the track is well on its way
- In the cloud, we continued to grow at 30% year-on-year
- Maybe some of you took part in our Cloud Webinar last month
- The replay is still available on our Investor Relations website

#### Innovations

- Page seven summarizes a few of my highlights this quarter
- Let me start with the innovations, never lose the high end
- Last time I told you about the many innovations we presented at this year's Mobile World Congress
- You may remember our demonstration of 1 millisecond latency in the wireless network or our world record of 11-gigabit-per-second over a standard copper line
- Our next big milestone was the year's CeBIT fair where we launched a number of innovative products, including our Open Telekom Cloud and a portfolio of security solutions
- On the consumer side, we were happy to see YouTube joining the list of providers on our innovative Bing On service platform in the U.S.

## ENTERTAIN TV PLUS

- And in Germany, late last week, we announced our new consumer TV platform called Entertain TV Plus, which offers exciting features such as instant restart or a seven-day replay facility for selected content
- It's not needed to program it; you are always able to watch the content you would like to see
- And our much improved video aggregation platform with sVoD partners is available on this platform as well

## NETWORK DEPLOYMENT

- Our network deployment continues apace
- We now reach 56% of German homes with fiber
- Our LTE network covers 91% of the population and we now have 43% of German homes on our peer-leading all-IP infrastructure, up from 40% at the end of last year
- By the way, in LTE, if you compare Germany with the rest of Europe, with 91% of the population covered, we're well ahead, and if you go into the country-side, we have now opened up a lot of areas where we had formerly [indiscernible] (6:24) available
- We're significantly ahead of what you might find in France or in Spain or in Italy where the average coverage is around 30% to 40%
- In Europe, our networks were highly rated in recent tests

## DUTCH NETWORK

- In the recent network test by P3, the company behind the connect test that many of you know, our Dutch network achieved the highest score ever awarded to any mobile operator
- In the last 12 months, P3 has awarded eight of our NatCos including those in Greece, Hungary, and in Poland the Best in Test seal; and of course, we also won the German connect test for the fifth year in a row, and as you know the T-Mobile network remains the fastest 4G network in the U.S.
- I think you see how consequent we're executing along our strategic pillars

## CAPEX

- Supporting our network leadership, our CapEx grew 12% this quarter
- We also spent €1.1B on spectrum
- Of this, we spent €0.5B to boost our spectrum position in Poland while the other half was spent in the U.S. on one of the two A-block portfolios, which we talked about at the time of full-year results
- As we have mentioned earlier, the two A-block transactions will boost our low-band coverage by 68mm POPs
- The low-band spectrum will improve our service quality in the areas in which we already operate and allow us to substantially increase the area in which we commercially operate
  - It was a quiet quarter for M&A, but it was a busy quarter for funding

## MATURITIES

- At the beginning of March, we raised funds worth €4.5B to cover this year's maturities
- The terms were very attractive thanks to Mr. Draghi
- T-Mobile U.S. meanwhile secured a further \$5B towards its stated funding envelope

- As you know, of this \$5B, \$4B were provided through note purchase agreements with Deutsche Telekom. \$1B were raised through a bond issuance in the public market
  - This approach marks a partial departure from our strict self-funding principle that we established a few years ago
- And I've discussed it with a lot of investors [indiscernible] (9:00) by the way
- Given the fantastic progress of T-Mobile in recent years, we feel very comfortable in taking this step, which is accretive to our shareholders
- But let me stress three important points
- First, there's no read-across to the other pillars of our stated U.S. strategy
  - We continue to look at T-Mobile as a kingmaker asset
- Second, there's also no read-across to the spectrum auction
- And thirdly, as you can see we are following a case-by-case logic

#### Group Financials

- Moving on to our group financials, we are very happy with our first quarter 2016 performance and we reiterate our stated guidance for 2016 as a whole
- We also reiterate the group targets that we stated at last year's Capital Markets Day
- Our headline revenue grew by almost 5%, comfortably ahead of our medium-term guidance
- The sequential slowdown this quarter is largely due to lower handset revenues in Germany and the U.S. due to the shift in the commercial model
- Despite our high investments, we were able to achieve double-digit growth in comparable cash flow and adjusted EBITDA, as I already mentioned
- Our financial metrics remain either in line or ahead, sometimes strongly ahead, of the run rates we committed at last year's Capital Markets Day

### Thomas Dannenfeldt

*Chief Financial Officer*

## FINANCIAL HIGHLIGHTS

### Earnings

- My first slide shows the financial highlights for the group as a whole, and as you can see, our financial momentum remained very strong in Q1
- Headline earnings benefited from a €2.5B book gain on the sale of our stake in EE to BT
- Our adjusted earnings grew slightly although Q1, 2015 had benefited from a €175mm non-recurring item

### Germany

- Let's have a look at the segments
- In Germany, our Q1 revenues were down by 2.5% mainly as a result of lower handset sales; and to a lesser extent, due to a strong prior-year comparable in mobile services
- EBITDA was down slightly year-on-year, and this reflects the tough mobile service revenue comp as well as cost saving
- For the year as a whole, we continue to expect stable EBITDA

#### MOBILE SERVICE REVENUES

- Our mobile service revenues declined 1.7% this quarter and we will take a closer look at this in the following slide
- We gained 231,000 contract customers and own branded customer trends remained steady
- The next slide is now – by now familiar to you
- As you can see, the drag from convergence on mobile service revenues is no longer growing, as expected
- Nevertheless, we are showing a 1.7% decline in our mobile service revenues
- The weakness this quarter is largely a reflection of the exceptional strength we showed in Q1 2015 and which we explained at that time with some unusual volatility in our large accounts
- What is important is that we do not see a change in German market fundamentals or in our online performance
- So we continue to expect 1% annual CAGR in our mobile service revenues, and we are confident that we will show a better trend next quarter

#### FIXED LINE MARKET

- In the fixed line market, we added 62,000 broadband customers
- This marked a sequential improvement
- For the year as a whole we expect to deliver at least as many net adds as we did last year
- We added 53,000 new TV subscribers
- As Tim has mentioned, we've now launched our new Entertain platform, which we expect to drive accelerating momentum later in the year
- Line losses ticked a bit and this is a reflection of our broadband performance
- Here, again, for the year as a whole, we expect to do at least as well as we did in 2015

#### FIBER GROWTH

- And now let me talk a little bit about really amazing part of the German section
- I think it was another record quarter for fiber growth
- After 532,000 net adds in Q4, we provided a further 660,000 fiber this quarter, almost 200,000 more than one year ago
  - As in the previous quarters, the majority of these customers were on our retail platform
  - Our broadband revenues continued to improve as a consequence of this
- We saw 1.8% growth in Q1, up from 1.3% in Q4
- And remember, we have seen a zero at the beginning of last year
- Looking at what we call our German service revenues, fixed and mobile, Q1 was down 0.9% after a year-on-year decline of 1.1% in the last quarter
  - This is a small sequential improvement even despite the difficult comp I mentioned in mobile

#### UNDERLYING TRENDS

- The big picture is that underlying trends are going in the right direction and that we see ourselves broadly on track for medium term revenue targets that we've presented at the Capital Markets Day last year
- We added more than 0.7mm German households to our final footprint and now cover 56%. 43% of access lines are already on our IP platform and we have reached, Tim mentioned, at 91% LTE coverage
- So far, so good in Germany

## U.S. Business

## T-MOBILE

- Let me now quickly present some highlights of our U.S. business
- T-Mobile has already presented very strong numbers last week
- Q1 was the seventh quarter in a row in which we won more than 1 mm branded postpaid customers
- We also added more than 800,000 prepaid customers
- Postpaid phone ARPU, excluding the data stash, was stable year-on-year and quarter-on-quarter
- The strong subscriber growth and stable ARPU combined to accelerating mobile service revenue growth
- Despite much higher than expected subscriber growth, reported and core EBITDA grew strongly
- As a result of the strong first quarter growth, we raised our full year branded postpaid subscriber growth guidance from 2.4mm to 3.4mm branded postpaid net adds to a new year range of 3.2mm to 3.6mm
- In the following slide, we show some of the underlying T-Mobile performance metrics

## CHURN AND BAD DEBT EXPENSE RATIO

- After strong year-on-year declines in 2015, Q1 churn was marginally higher in Q1, but we still see scope for further improvement
- Our bad debt expense ratio, which we had temporarily increased, declined again as we have promised last year
- Our LTE network is now almost nationwide and due to the recent A-block deals, we now have access to low band spectrum covering almost 80% of the U.S. market
  - This is great news for our customers and will allow us to profitably serve additional markets

## Europe

## REVENUES AND EBITDA

- Now let's turn to Europe
- Our European performance continued to improve
- Reported revenues were down 2.4%
- But adjusted for de-consolidations and currencies, our revenues were almost stable
- Reported EBITDA was down 3% and organic EBITDA was down 2.4%, which also marks an improving trend
- I think the bigger picture remains that excluding The Netherlands; our European business would again have been stable in Q1 due to some ongoing strong performances for instance in Greece and in Austria, offsetting some weaknesses elsewhere

## LTE COVERAGE

- As the next chart shows; in Europe, we now have migrated almost half of our homes to IP, up from 40% one year ago
- Our LTE coverage now stands at 72%, up almost 20% from one year ago
- And Tim has already mentioned the excellent performance of Dutch and other European networks in the independent drive tests

## Systems

- Now to Systems, the Systems post strong headline revenue and EBITDA growth
- Please be aware that the performance this quarter benefited from an upfront payment related to our toll-system operation, Belgium
- Going forward, this operation will then continue on a more regular basis – contribute on a more regular basis
- We continue to expect that driven by innovative offers, such as our new Cloud initiatives, the momentum in our market unit will continue to improve

## FCF

- A few words on financials, FCF was slightly down year-on-year; but adjusted for the lower dividend from EE, it would have grown just over 10%
  - This is consistent with our unchanged €4.9B FCF target for this year
- Our adjusted net income was slightly up year-on-year but as Tim has mentioned last year's result benefited from €175mm settlement that we disclosed at that time
- Hence underlying net income grew double-digit

## Net Debt to Adjusted EBITDA

- The next slide shows our financial metrics and I'm pleased to say that at the end of the quarter at 2.3 times we're comfortably within our net debt to adjusted EBITDA comfort zone of 2 times to 2.5 times
- As a result of our ongoing strong EBITDA growth, we moved from slightly outside this range three quarters ago to now comfortably within that range
- Our funding situation remains very comfortable as was also evident in the success of our recent €4.5B bond issuance, Tim mentioned that

## Strategy

- My final slide summarizes the strategy we've presented to you at the last Capital Markets Day and I think we consistently continue to strongly execute against these targets and we remain very confident that we will keep delivering them going forward



## QUESTION AND ANSWER SECTION

Mathieu Robilliard

*Barclays Capital Securities Ltd.*

Q

First, the question with regards to mobile in Germany; I do appreciate obviously that the comps were tougher. If we look at the corporate segment, there seems to have been some sort of deterioration in the last quarters and certainly in Q1 and I was wondering if that was the result of renewed competitive pressure on that segment or based on price or is it that the quality gap between you and some of the other players is reducing and therefore it's harder to justify the premium, so basically if you could give us a little bit of color on that dynamic?

And second, looking at fiber, German fixed, obviously great results there both on the retail but also on the wholesale side. Is that a dynamic on the wholesale side that you think is sustainable and if you could give us a little bit of color as to pricing if that can grow in the future that'd be great? Thank you very much.

Thomas Dannenfeldt

*Chief Financial Officer*

A

Yeah, Mathieu, I'm going to start on the mobile in Germany. As you mentioned first of all the one impact is the comps, the other one is volatility we have in B2B anyways, it's normal kind of volatility that you have in the market; remember a year ago we mentioned that it was a positive volatility, then we mentioned in Q3 there was a lot of big customer and you have volatility by those kind of moves.

But I think there is no reason to assume that there is any market heating up. It is kind of normal course of business we see in B2B and normal course of volatility driven by large accounts win or losses we are having here.

And I'll turn over to Tim on the fiber and the fixed line.

Timotheus Höttges

*Chairman-Management Board & CEO*

A

Mathieu, thank you for your questions with regard to – I'm sorry, Mathieu. Thank you for the question on fiber and German fixed. Yes, I think we have seen a huge improvement and interesting-wise, the fiber products, the net additions in Q1 was outstanding. I think the highest ones we have seen for ages here in this company, 660,000 net additions in Q1 alone. This is very successful and that reflects in the new vectoring areas that we have started commercializing, we see as well the tick up of consumers and what we see as well is we see the impact on our data revenues here in the business.

On the fiber side, two-third of the total business is retail and one third of the business is wholesale. And I think this sounds like a sound mix here. Interesting, a lot of our competitors are criticizing us for deploying a copper on the last mile. But exactly these competitors are the ones who are selling our product best. The 2.9% wholesale revenue we have seen we expect is sustainable. We might even expect a slight improvement throughout the total year. Overall, we are very optimistic that we see higher uptake rates on the fixed line connectivity throughout the year.

Andrew J. Lee

*Goldman Sachs International*

Q

I had a follow-up question just to Timotheus on German fixed and then a question on the TMUS funding, if that's okay? On German fixed, are you seeing the fiber rollout as the key driver of German broadband penetration accelerating, that's certainly seen in other European markets, is that giving you more confidence in the German broadband revenue growth outlook or is it your content driving the uptick, any kind of color on what's driving that acceleration and driving your positive outlook?

And then on the TMUS funding, could you just talk more about what else you can do to achieve more efficient TMUS funding, would you ever look to buy in the minorities of this asset as a way to lowering finance costs? And what do you mean on your comment that you're sticking to a case-by-case logic with regard to this? Thank you.

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### Timotheus Höttges

*Chairman-Management Board & CEO*

A

I think this question is an extension to Mathieu's question here. Where is the growth coming from? Look, there are new areas where we have higher bandwidth. This is encouraging for customers.

Second, we have MagentaEINS and our commercial, the branding, the presentation, the image of the product is very well received here from the customer sides. So we have a higher footfall in the shops talking about this. What is it about and what is the advantage for me?

The third one is we have recently launched a new TV Entertain platform. By the way, it has outstanding functionalities as I mentioned. Please have a look into that one. And this is something which we expect is, in the upcoming quarters, in addition, driving the sale of it.

So it is a mixture of everything. On top of that, more demand for customers on the Internet in general, so even Germany starts digitalizing themselves. We see that as well with our Smart Home applications here, especially on the security features.

So in principle, these are the drivers for the growth we have seen and due to the fact that we have a lot of let's say areas where we still haven't sold the high bandwidth, the market potential is still quite big for us.

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### Thomas Dannenfeldt

*Chief Financial Officer*

A

On the question of the TMUS funding as we mentioned, it is a case-by-case decision for the following reasons. So it does mean we are not in principle funding or we'll fund in the future everything T-Mobile U.S. is requesting. But it's case-by-case. One reason is, obviously, we have a third of the – as the company is owned by minorities, so we need to respect the right of the minorities and do that always at arm's length perspective. That's number one.

Number two, we're trying to optimize the cost of financing on one hand, but also make sure that we keep the very good access T-Mobile U.S. has to the funding market, keep that intact. So we should always have a balance between both of them and obviously then also stay very disciplined in terms of the investments looking forward in spectrum and network.

So, that is the reason why after we agreed on the €2B in – I think it was March, yeah, it was March, when we agreed about the €2B T-Mobile U.S. – then later, a month later, went into the market and raised another €1B in the external market, as I said to keep also the access to capital markets intact for the U.S., and that's basically the philosophy behind it's a case-by-case decision.

Robert J. Grindle  
*Deutsche Bank AG (Broker UK)*

Q

Yes, two questions. You talked about the strong growth in fiber. That's growing very strongly, particularly relative to TV customers. It does sound like you're updating your Entertain platform from a technology perspective, do you think that's sufficient or are you now feeling the urge to also update your product from a content perspective as well?

And secondly, would you kindly say a few words about the Dutch markets and your options there in light of the recent consolidation event in that market, and in your case a deal didn't go through? Many thanks.

Thomas Dannenfeldt  
*Chief Financial Officer*

A

So I'm going to start, Robert, I'm going to start on Entertain and TV side. First of all, I think you're spot on. We have a lot of ingredients for success at hand, meaning new infrastructure with higher bandwidth, the new platform, and I guess there should be an improvement in the run rate we're showing right now. So that's number one.

And number two is, I think what we're doing already is on the content side, looking where we can add some value by adding content like we've done that on ice hockey, on smaller parts of sports business in the past already, basketball, ice hockey, those kinds of things. And it is not a big topic, but it's adding value for some segment of customers and we are always looking into opportunities where we can find another element of being more attractive to customers. But I think the key driver is having more infrastructure in hand that allows to provide a good TV service and a new platform that should be the big two drivers to increase the run rate.

Timotheus Höttges  
*Chairman-Management Board & CEO*

A

Let me talk a second about let's say the main features of our new TV platform. I think we have seven-day replay. We have instant restart. We have total new interface. By the way, not anymore starting with the EPG, it starts with what is the hottest content on TV at that point in time. So what are people watching. We have mobile TV capabilities, including cloud recording. So wherever you are, you could watch the content you are interested in and you could easily switch your mobile content onto any screen which is connected to our platform. So there's a wide functionality, which brings the content then from your pad or from your mobile device onto a screen.

Entertain TV will be also available over hybrid. So it is not only over DSL. So over-the-top services are included into this one, and we have new partners on block there as well and so that the content is – as I always told, it's an aggregation platform.

So when you look for something, you will see where this service is available, whether this is on TV, whether it's on Video on Demand, whether it is on sVoD with partners like maxdome or with partners like Netflix. So you could see the trailer, so you have a kind of an organized funnel for all the content and you could get access to every content you are interested in.

The TV mobile functionality is €6.95 per month. It is included in the normal data volume, so it is not zero rated service here. And the product Entertain will cost the same as the old one, which is the €40.95, which you put on top of the service which you currently have.

Your question with regard to content is the same as to previous meetings. Maybe your question is with regard to Bundesliga and the ongoing auctions. First, due to the rules of the process here, we are not able to comment or to signal any kind of details here.

What I could tell you is the content, football content, is an essential building block for our TV strategy and we are the aggregator. So it is our intention to be able to stream the content with a partner or directly from our side, and this is something which we have in mind.

The conditions of the tender are released and have been approved by the Bundeskartellamt. And No Single Buyer Rule has been implemented but different than the rule in the U.K. Here in Germany, if one bidder acquires all Bundesliga live packages, an additional over-the-top package will be sold. So, this is let's say their way of designing the No Single Buyer Rule. And our goal, as I said already, is to have a fair access to the right content for our customers, but we are not dogmatic whether it will be done via purchase of content or via partnerships.

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**Thomas Dannenfeldt***Chief Financial Officer***A**

And to add to the second part of the question, the second question on the Dutch market; first of all, as you know, we never comment on any M&A speculation. So that's to the second part of the question about the trade deal. But the first question is about what is our – what are our options. I think KPN has been successfully driving convergence very aggressively in the marketplace and also LTE. And Tim mentioned that in his speech in the beginning, we think we've been too late in our network investments by a year roughly.

But I think the good news is now we have a very good network. You know, if you look at the LTE network today, we have seen P3 tests, the guys who are performing the tests across Europe, with the highest score ever in LTE network in the Dutch network. We know that we have from a spectrum position roughly two times the capabilities and the capacity there. So we have a very high-performing network and we have very, very good spectrum position. National 4G coverage since Q4 last year and so on, so network is in a good shape.

Nevertheless, looking at Q2 for instance last year, our net adds has been minus 85,000. Last three quarters have been around 25,000 net adds per quarter. So we improved from that minus 85,000 to plus 25,000. We restructured the tariffs, we launched February 1 T-Mobile Together, opening up the whole thing to the family. We also deemphasized split contracts which on the other hand weighs on our margins as you can see looking at the EBITDA in The Netherlands. We do pilots in terms of fixed mobile substitution for the home. We call that, I don't know my Dutch is not good enough. So the translation is "for the house", whatever it means in Dutch. Okay.

And I think the key focus now is having a good network in place, utilizing it, finding the right proposition to attract those customers who are very affine to a mobile proposition. And turning not only net adds around as it happened already in the last three quarters but also then over time, the revenues and finally also the cash contribution, the FCF.

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**Simon H. Weeden***Citigroup Global Markets Ltd.***Q**

Simple one I think, I am just looking at Germany again, could you contrast and compare the acceleration in voice line losses to the better performance on the broadband side, and just say if there's any price implication of seeing that coming through this quarter? Thanks.

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**Timotheus Höttges***Chairman-Management Board & CEO***A**

Absolutely. I think what we expect with regards to the line losses for the remainder of the year is a number where we expect should be in the vicinity of last year's numbers. Remember last year was something around 280,000 that was on the broadband side.

So the line losses and the broadband net-adds, they should be balanced; and to be straight forward here, I expect higher broadband sales throughout the year compared to Q1. Remember last year, we were almost stable; now we are up 60,000 plus but I think the run rate could be higher throughout the next quarter, that is at least my internal measures, while at the same time the line losses would be in the vicinity of what we have seen last year.

Jonathan Dann

RBC Europe Ltd. (Broker)

Q

Two questions. The first was, I think there have been quite a lot of price movements on the front book, removal of discounts recently, re-introduction of say regional discounting. Do you think there's a moment when you can put through a back book price increase, so price increase through the whole base?

And then secondly, is there any update on the process toward receiving regional subsidies for fiber rollout?

Thomas Dannenfeldt

Chief Financial Officer

A

I think first of all what happened last year is that we in several steps pulled back promotional activities in the fixed line. That's what we're basically talking here. We started in Q2 and then Q3 and finally in Q4 we pulled out the regional promotions. I think it's quite a normal type of behavior in a marketplace. That's the way you test the water, how far you can go in terms of getting prices up or removing promotional elements.

We found out the first two ones have been, two and a half ones, they have been quite accepted by the market. The last one, the regional promotions, maybe was too far to go, so what we decided to do is from, I think mid-of March on we would put them back again into the marketplace to get the run rate up, Tim mentioned that, we should see higher run rates during the course of the remainder of the year.

So, I consider that as a normal type of behavior. You test the water, you see how far you can go and then if you're too far, you move a little bit back. That's what basically happens around the regional discounts. I don't think there is a huge and big back book element in the whole game here. The churn is low, we're looking forward to a churn expectation this year, there is no expectation that there is an uptake here; and as you see, the broadband revenues are increasing by – or have increased by 1.8% in this quarter. So I think we should be good.

Jonathan Dann

RBC Europe Ltd. (Broker)

Q

Okay. Very good.

Timotheus Höttges

Chairman-Management Board & CEO

A

By the way, I think to add one sentence here to Thomas. It is our clear intention and give us some credit for more initiatives – interesting while Vodafone has followed these initiatives here – to increase the value on our mobile side and increase the value due to the heavy investments in infrastructure. And we are trying to do the same on the broadband side. One intention is to do it by up selling; the other side is it by taking out subsidies out of the initiatives. But we always said we have to balance our net add market shares towards these value assumptions.

And that is what Thomas just described. And at the end of 2015, we had reduced a lot of discounting like router promotions, regional promotions, some shortening promo periods, and other things. We have seen that this has an impact, so we have slightly rebalanced that. But in principle, what we wanted to see here is a growing German business, both on mobile and both on fixed and both on B2C and both on the B2B side. And that is what we are striving for and I hope we're going to be successful by what we bring to the market.

[Indiscernible] (41:45) Let me come to the decision on the subsidization of fixed line infrastructure. The first thing is that our intention is to build 80% of the country with fiber build outs, built on the vectoring technology, so that means up to 150 megabit but then very soon after that, following by super vectoring which is software update going to 250 megabit per second as the primary let's say step towards the gigabit society.

We do not want to have a split between the countryside and the cities because a lot of customers are sitting in the countryside and we want to cover them as well. We do not want to end like in Sweden, where you have good bandwidth in the cities but only 30% of the countryside is properly covered.

This was the intention behind the discussion with the Bundesnetzagentur and the vectoring decision which is now pending in Brussels and I hope that we get soon a feedback on that one.

For the remainder of the 20%, there is commercially for all by the way players in this market is subsidization needed. The German Federal Ministry of Transport and Infrastructure published the detail of the NGA state aid in the vicinity of €2.7B for supporting build out in these areas.

In the meanwhile, 55 regional projects have been launched and have been subsidized with a total amount of around €500mm and what we see is here the first tender will be decided now in May, June time period and it looks but positive with regards to Deutsche Telekom's role in this regard. So the money is now coming to these regions. I think this is good for customers, good for Germany, and it's the right way going forward. In principle, it's technically agnostic, so it's not only related to fiber to the building or fiber to the apartment rollout. It is agnostic to this one; it depends on the area where the RFQ or the tender has been launched.

So, we are quite comfortable that at the end of the day, with the vectoring decision and with the subsidies, which are coming to the market that Deutsche Telekom will have in the vicinity of 90% coverage with the fiber network across Germany by 2018.

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### Thomas Dannenfeldt

Chief Financial Officer

A

Maybe a few additions on the financial impact of those activities, I think our current assessment is that the majority of CapEx needed to make that subsidized rollout happen will occur in 2017. So it will be a smaller chunk in 2016 and smaller one in 2018 and big chunk in 2017.

Our guess is that somewhere between €700mm and €1B is the vicinity we're talking about between 2016 and 2018; so in total, as I said roughly €100mm to €200mm this year, €100mm to €200mm like this in 2018 and the remainder in 2017.

That was, obviously, not part of our guidance we've given last year on the Capital Markets Day around the CapEx because at this time there was no subsidy available. So that is additional, but I think it's important to understand the FCF guidance for this year and the 10% CAGR – growth CAGR stays intact, so there is no change on that one.

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Justin B. Funnell  
*Credit Suisse Securities (Europe) Ltd.*

Q

Two questions please, just going back to Germany again. I think we've seen the last year a bit of a competitive fight back, you said Vodafone doing Project Spring and closing some of the gap in order to, starting to build 4G, so they could start to catch up as well. I'm just wondering what you can do or what you're planning to do to stay ahead of the game in the mobile race. Obviously you've got this rural coverage, what about your speeds in the cities, are you going to start building more cell sites; are you going to roll out 2.6 gigahertz, do you think you can maintain a speed premium?

Secondly, a similar sort of question on fixed line, the United Internet somehow won the P3 connect test for fixed line last year. It appears to be due to the modems they were offering. What are you doing to win that award back again this year?

And then finally there has been a price move by Vodafone on otelo where they appear to have come down on price, it is just a 3G product but do you consider that to be a potentially disruptive move? Thank you very much.

Thomas Dannenfeldt  
*Chief Financial Officer*

A

I think I'm going to start on the mobile side, the first question. First of all, Tim is complaining because I started to answer the question if you want to jump in, jump in come on. Okay. So the first part of the question, on the German mobile infrastructure, first of all I think we have been in a superior position on the spectrum side due to the LTE auction 2010. It was on 1.8. We used that to gain competitive advantage. Again, we have a low band advantage from last year's. So looking forward next year, there's an opportunity for us on low band to utilize the spectrum advantage we have in here, number one. Number two we have by far the highest level of backhauling by fiber and the infrastructure which plays a very important role.

And I think number three is, and you mentioned that it is not only coverage but it's also what kind of stable and good bandwidth you get within rural areas, within buildings, exactly the same storyline by the way we are pursuing in the U.S. by acquiring low band spectrum, improving there not only signal outdoor but what customers really experience.

So we are heavily and aggressively investing in those areas I mentioned. Additionally, as you know, one important driver for differentiation from our point of view is also our converged products with MagentaEINS and you know that we are doing very well on that side here.

So that's basically – keep going and aggressively investing on the mobile infrastructure in those areas plus to the converged stuff. By the way, the last measurement I have seen on bandwidth Voda vs. Deutsche Telekom in Germany, the gap was not declining. It was widening. So I think that's important to understand as well. And I think Tim, you've been so keen to answer the next question.

Timotheus Höttges  
*Chairman-Management Board & CEO*

A

Look, we like competition and I like the next drive test with Vodafone and I like the next competition or benchmark with United Internet on the modems side. Look, if we are not number one, we have a discussion here. So I like that because it's our ambition in every category to be leading and to be number one. To give you an example, today we are quite proud to say that we have won a very big shop comparison from Connect in 250 shops here in Germany, and Deutsche Telekom is clearly number one compared to the other players.

And interesting statement was the shoppers were impressed by the enthusiasm of people about that product. So, I think we are on the right track and I promise you we will do everything to win this number one position back. And if it's router, or it's bandwidth or whatever you know, we are working on that one.

The second question was with regard to the pricing of Otello and whether this is disruptive. The first thing, what I mentioned already is that Vodafone seems to adhere to the more-for-more logic and to focus more on retail over wholesale. And I think this is the right move, how it's an infrastructure competition than rather just going on prices. I think that's the positive sentiment here.

However, recent MVNO pricing actions look quite aggressive with big data bundles already in the anti-tariff be it on Ufone smart mobile with 2 gigabit for 12 months for €7.99, and €14.99 afterwards.

So, in this smart shopper segment, there is more competition. We clearly have to state that and in the top premium segments, everything's looked good. But in the smart shopper segment, there is a dynamic. And we read the Otello data volume increase the way to stay competitive in this landscape, for us this is the area of [ph] Comstar (51:59) where we are present and competing here, and we have to look how this will impact the business over time. But this is focusing very much on the smart shopper side.

So, I hope this is answering your question. And we have a very comprehensive overview about all usage and price promotions here in the market and maybe our Investor Relations team could share that and you get an overview about the dynamic of the market quite easily.

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**Emmet B. Kelly**

*Morgan Stanley & Co. International Plc*

Q

I've just got two quick ones. The first question is on the debt refinancing opportunity. I think you mentioned you re-fied €4.5 B since the beginning of the year. Could you maybe just give a quick update on what debt maturities are coming up at the Deutsche Tel AG level over the next couple of years and at what rate you believe you could refi at?

And then the second question is an area where you probably don't get many questions, it's on GHS. Just looking back over 2014 and 2015, I guess you burned about €250mm, €270mm of cash each quarter throughout 2014 and 2015. But it's a lot better in Q1 of 2016. There is only cash burn of about €160mm, €170mm. Is there a step change there now or it's just a timing question? Thank you.

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**Timotheus Höttges**

*Chairman-Management Board & CEO*

A

Okay. So, let me start on the GHS question here. And by the way, I hope that the people in the GHS not have burned the money, so that they have created value for the money. Nevertheless, I think I sit on that payroll as well, but I'm kidding.

Look, I think what is very important here is that in the GHS we are driving heavy headcount reduction already over the last year but even in the next years. And so we are trying to reduce redundant structures, complexity and non-contributing elements out of this asset.

And we will have less people sitting in the vehicles of Viven to and other areas, so the placement service areas where we see further cost reductions going on, but we are reducing heavily the floor space and the rents of our locations.



And next time, you're here maybe at the headquarters, you will see that we are rebuilding the entire landscape here into open office spaces, which is significantly more efficient and will enable us to reduce rents outside of the areas.

So, it is our clear intention, and we did several benchmarks on that one and this is affecting GHS as well to reduce costs and headcount within the central headquarters and the GHS function.

**Thomas Dannenfeldt**

*Chief Financial Officer*

A

And, Emmet, on the first question on refinancing, first of all the numbers for 2017 and 2018, 2017 is around €3.5B, 2018 is around €1.2B. So, not really very much.

In terms of this year, we are done except we've agreed with T-Mobile U.S. facilities of in total \$4B, so that's €3.5B and depending on how the outcome of the auction will be, there will be some additional need for this year, but other than this, this year is done and, as I said, next year is €3.5B and €1.2B for 2017 and 2018.

**Dominik Klarmann**

*HSBC Trinkaus & Burkhardt AG (Broker)*

Q

Can we get an update on BT and your discussions around potential cooperation? Thanks.

**Hannes C. Wittig**

*Head-Investor Relations*

A

Hi, Dominik, we couldn't hear you just now. Could you maybe ask the question once more?

**Dominik Klarmann**

*HSBC Trinkaus & Burkhardt AG (Broker)*

Q

Can you hear me now? Hello?

**Timotheus Höttges**

*Chairman-Management Board & CEO*

A

I think I got the question. I think the question was an update on BT and how we are progressing in this regard. First, we are happy shareholder in BT and I am a happy board member of BT. So that was a nice start with this folks. We believe in the EE merger activities and the synergies here and we have seen a good quarter, I think – sorry, I cannot talk about the numbers, but about the developments which have been announced from this company.

We see multiple opportunities for mutual beneficial collaborations for instance in purchasing, in technology, and even investigation on how we could cooperate in the global services businesses. So we are talking with BT about a number of collaborations here. But, it's too early to say what are the next tangible steps we are taking. So clearly it's one thing. This is a very early stage, very early days with BT. And we know that BT is quite busy with integrating EE and there are various regulatory reviews. So don't expect something in short terms here.

**Mandeep Singh**

*Redburn (Europe) Ltd.*

Q

Two questions I have, please. First of all is similar to what Emmet was asking. I mean, how do you sort of relate this sort of ongoing heavy restructuring costs whether you look at it within GHS or Vivento or wherever they're booked, with the progress towards All-IP where you're planning to have 100% lines IP by 2018. Is that the time

horizon that we should expect the restructuring charges to peak, and then start coming down dramatically or should we think of these as a sort of ongoing feature? That's the first question.

The second question is just on the general health of the mobile market. Everyone talks about German market repair post consolidation, data monetization, rational behavior. I know you've alluded to some points and where the extra competition is, but from where we're sitting, Telefónica Deutschland is shrinking, mobile service revenue, you're shrinking mobile service revenues. We're not sure what Vodafone will print, but consensus is looking for just the correct slide of flat; and Freenet's numbers were not great. So can you help us understand why the German market is such a great market because we can't really see it in the numbers?

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Thomas Dannenfeldt

Chief Financial Officer

A

Mandeep, I'm going to start on the restructuring costs. I think what last year on the Capital Markets Day, I've shown a profile of all the total restructuring costs to develop and I think one key message was they should decline and not peak towards 2018. And the second message was 2016 will be much lower level than 2015 and 2017, up.

Now what has changed in the cover of last 12 months is that German state decided to have a kind of last round of early retirement exit for civil servants. That was a decision by the government. So what we did is deviating from the message last year is we decided to use that kind of last exit opportunity to offer it to each and everyone who wants and is willing to leave based on that scheme the company.

So what basically will happen is this year we'll be a little bit higher than last year announcements. Not would impact on the cash side, but would impact on the special factors on the EBITDA side and then from there on towards 2018 we should see lower levels. Why? Because we are moving a lot of workforce into partial retirement schemes already. We are using the time of the IP migration to flexibilize the workforce, so to have external workforce, or the internal one more flexibilize towards 2018. So, I think there's no different news on the restructuring side.

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Timotheus Höttges

Chairman-Management Board & CEO

A

Look, your question with regard to the mobile market, is Germany a great market or not, and look, it's big. Whether it's great is something different. But now what is Germany? I think first thing is that we have always said, it's not that we have guided the market towards significant improvements. No, we have guided the market into significant deterioration here.

What we always have said is this Moore's Law has to stop at one point in time that you build additional capacity y-over-y, invest into infrastructure for both, B2C and B2B, but at the same time, you are not able to monetize on the data. And this is to say I think an economical reasoning, which we are just trying to follow, and for this our strategy going forward was we want to differentiate and there are two areas where I am more positive than you are, where I see differentiation. I see the differentiation on the upper end.

I see it on the LTE high-bandwidth Magenta customers, MagentaMobil customers, who are willing to pay a premium for good coverage and high bandwidth. That is to say one thing what we are seeing and where we are very encouraged about.

The second differentiation what we see is on the B2B side. Yes, the B2B side was a little bit more competitive on the classical telephony side. But on the data consumption, we see an uptick here. So while we see new market opportunities which are driven from the connectivity, be it cloud services, being the combination with the security

service, being the Internet of Things services, our cloud service combined with the telecommunication services is growing by 30%. This is a very nice number in this huge segment where we have a very strong market share.

What I'm more worried about is irrational behavior of MVNOs, but even the MVNOs are not as capable as they were in the past because of the lack of good LTE services. So I very much understand the decision here from Vodafone towards United Internet. And second, this MVNO segment, and we have seen that in other markets, is yes, very competitive. But from a total service revenue market share perspective, it is not as relevant. So clearly we are more optimistic with regards to the mobile revenues going forward.

But, you're absolutely right. This market is still shrinking. It is less shrinking than in the past. And on top of that, what we should always anticipate and what we have anticipated in our numbers is that the roaming revenues are disappearing now over the next years. We have said the net impact for our European and German activities in the vicinity of €150mm then net-net we do not know the elasticity yet, the full elasticity yet. But we expect kind of value of €70mm to €80mm revenues which might go out of the business for the next 1.5 years. So that is just say our internal calculation for Deutsche Telekom but this is maybe eating, or will eat some of the revenues out of the mobile market from negative elements here.

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Hannes C. Wittig

Head-Investor Relations

A

Okay. Thanks, Tim. The roaming impact that Tim has just mentioned relates to 2016 and there will be a further impact in 2017 and it's about split almost equally between Germany and Europe.

Just I think we take one or two more questions. So, one question is via email from Stéphane Beyazian and is Verizon starting to be – from Raymond James. So Verizon is starting to be vocal on 5G and wants to go early on 5G. How big do you assess the financing needs to go 5G in the U.S. and would you be ready to accelerate CapEx at the expense of group FCF?

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Timotheus Höttges

Chairman-Management Board & CEO

A

By the way the 5G standardization is something which is not defined by Verizon alone. This is an industry standard which is worked out by the GSMA and other constituencies. The real 5G deployment is something where we earliest expect something in the vicinity of 2018 from a standardization perspective 2019 and maybe from an early supply, we expect South Korea and with Olympics coming first and maybe then mass market deployment something in the vicinity of 2020.

When Verizon is talking about 5G, they are not talking about real 5G. They're talking about 5G.3 or 5.4, whatever you know, software standards in their network. This is not real 5G. And this is a marketing gig, how to trying to own this category. Honestly, I would be cautious on this kind of advertising, because we made our experience.

I remember pretty well previous to the [ph] uncarter (67:22) management, we launched 4G. But at the end of the day, not being able to launch real 4G in the marketplace and the reaction of the customer was quite rude. So with fairness and with transparency, I would launch 5G the moment I have really let say a step-up function in the quality in the bandwidth and the quality of service and the latency in specific.

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Hannes C. Wittig

Head-Investor Relations

A

Okay. And please be aware that of course in the U.S. we have a dense network already, because it's a high frequency network historically. We have small cells and we even have some high frequency spectrum that is suitable for 5G. So, when it comes, we'll be prepared.

Thomas Dannenfeldt

*Chief Financial Officer*

A

And let me just say one thing, because there was – one element of the question was related to the FCF impact, and last year I was very clear in the Capital Markets Day that we do not expect the need for additional CapEx to go away, but that our planning is based on incremental additional CapEx year-by-year. So there is a CapEx growth envelope in the U.S. anticipated.

Ulrich Rathe

*Jefferies International Ltd.*

Q

I'd say the Magenta tariffs under the new pricing has been running for some time. And I was wondering if you could share with us the initial sort of momentum, the traction that you are seeing?

And then particularly in that context comment maybe one of our researchers has commented today that they have seen all that upside from the higher prices actually reinvested in higher commissions, by Deutsche Telekom specifically the name Deutsche Telekom in this context and can you confirm that and if yes, is this just a temporary measure?

Thomas Dannenfeldt

*Chief Financial Officer*

A

I think the intention of the new tariffs with more for more concept was to address pain points of customers being the data reliance in terms of having that in an appropriate size for the customers' demand, the roaming and the Wi-Fi. And I think one of the big reasons why that basic price increase resonated well in the marketplace for the customers was because it was addressing those pain points. That's number one part of the answer.

The second part of the answer is, we always have dealer provisions. There is nothing new in this. And I think what you'd normally do is you launch a new product, you do some promotional activities to make some buzz and make that kind of hype and then obviously you also play around a little bit with promotions. So that's a kind of normal situation. There's nothing special about this one. I think the key element is as I said that it is addressing the customers' pain points and that's resonating well with the customers.

Timotheus Höttges

*Chairman-Management Board & CEO*

## CLOSING REMARKS

- Look, this was I think from my reading, a very solid working quarter of Deutsche Telekom
- There was no fancy stuff around let's say the M&A activities
- It was very much focused internally
- What's now the main subjects for diminishment for me personally for the upcoming quarter, I think there is high attention on the U.S. auction that is one major topic
- And I think supporting the U.S. team to keep on walking and the market share was you know of what they gain something in the vicinity of 189%, so outstanding performance
- What the U.S. team is doing here, our main focus on the operations is on Germany

- I think what we have to work on is on the fixed line side to better monetize our infrastructure and we will drive the net add numbers on the fixed line side
- We will drive our new TV platform because that's a very nice upselling opportunity and we will very carefully maneuver in the mobile space where we want to create additional value as the leader here in this market environment

## Europe

- My last sentence is on Europe
- We have not had any question on Europe
- But I would like to draw your attention to the development here because what we see is we had a growing revenue if you take the Netherlands out of the equation for a moment
- We talked about the Netherlands, but we have seen in all markets increasing revenues on fixed line which is a very good development and MagentaONE is paying back here
- So, a swallow doesn't make a spring

## Germany

- So, let's just say we have here in Germany, but I think we see the development and you're quite encouraging and the same is true for the systems
- I think the master plan and our turnaround plan is taking improvements and signs of significant turnaround and now over some quarters, and the order entry with all the new propositions on cloud is very strong with all the digitalization moves we're seeing in the adjacent industry

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