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MANAGEMENT DISCUSSION SECTION

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

May I now hand you over to Mr. Hannes Wittig.

Hannes C. Wittig

Head-Investor Relations

Good afternoon, and welcome to our second quarter and first-half 2016 conference call. With me today are our CEO, Tim Höttges; and our CFO, Thomas Dannenfeldt. Tim will first go through a few highlights of the first-half followed by Thomas who will talk about the quarter's financial in more detail. After this, we have time for Q&A. Before I hand over to Tim, please pay attention to our usual disclaimer, which you will find in the presentation.

And now, it is my pleasure to hand over to Tim for his highlights.

Timotheus Höttges

Chairman-Management Board & CEO

Yeah, thank you, Hannes, and a warm welcome to everybody also from my side. Let's start today's call with my summary of the first-half year 2016.

Our strong momentum continued, strong momentum with investments, with customers, and with earnings. We are very happy with our year-to-date performance and we remain well on track for our group targets, we presented to you at our Capital Markets Day last year. We also reiterate our guidance for 2016.

The first slide is our usual quick reminder of our main strategic building blocks. These remain as valid as on the first day. Let me reiterate our focus on the integrated IP networks, our commitments to create the best customer experience, our ambition to lead in business, and to work with the partners where it makes sense.

Slide five summarize some of my highlights for the year-to-date. The demand for our fiber product remained strong and even accelerated. We now connect 5.6 million German homes and businesses with fiber, this is by the way an increase year-over-year by 27%. We added a new record of 1.2 million fiber customers in the last six months.

In the U.S., we gained 4.1 million subscriber so far this year and we raised our full-year forecast yet again. After our technology and product launches at the Mobile World Congress this year, the CeBIT Fair – and the year's CeBIT Fair, the last three months were more focused on bringing innovative products to the market.

Our strong growth continues. Our revenues grew 3.4%. In Germany, we achieved stable fixed-line service revenues for the first time since the full deregulation 20 years ago. Comparable EBITDA was up 6.9% in the first-half on track for our full-year target. Headline free cash flow was slightly down year-on-year, but comparable free cash flow grew 16%, on track for our full-year target of €4.9 billion.

The next page shows some examples for the strong momentum we are seeing with our customers. We continue to see good momentum with our MagentaEINS convergence products. We now have 3.6 million converged

subscriptions in Europe of which, 2.5 millions in Germany. I already mentioned our success with fiber in Germany, where we added 2.2 million homes in the last 12 months. 28% of our retail broadband homes are now on fiber, up from 19% one year ago. Our U.S. performance speaks for itself. And in the cloud, we grew 22% year-on-year on track for our ambition level.

Let me now look at some recent highlights and start with our innovations. As I said, after the many exciting technology and product launches earlier in the year, the last three months we're focusing on bringing innovative products to the mass market. A few days ago, we finally launched our new Entertain TV product with its many innovative features. At the same time, we also launched our new Test the Best promotion, which gives customers the chance to experience our high-speed network for one year at no extra cost.

We added 40,000 customers to our smart home platform this year, doubling our base. Our more-for-more tariffs were well received by new customers, but also by our existing customers. German data usage growth accelerated throughout the year.

In the U.S., we now have more than 100 content provider on our Binge On platform. We extended our connected car partnership with BMW, by offering worldwide 4G connectivity, and to Telekom Wi-Fi hotspot solution in the car. And we agreed to trial the new LTE standard for vehicles in our Autobahn test bed. And we are seeing good initial traction with our new public cloud products.

On the technology side, we recently demonstrated a record 1.2 gig LTE advanced pro-speed, together with Nokia, in our subsidiary in Poland. And we agreed to build a 5G test network in Berlin. Supporting our network leadership, our CapEx grew 8% this year. We also spent €1.1 billion on spectrum so far this year. Another highlight last quarter was our agreement to acquire the A-block spectrum for Chicago. We were also able to secure 2.6 gigahertz spectrum in the Czech Republic, and a second 800 megahertz block in Poland. We have been busy working on regulatory issues.

We are happy that the German regulator and the European Commission finally want to go ahead with the Nahbereich vectoring. This is a great opportunity for more than six million German homes. And we are hopeful that the conditions will soon be in place for this rollout to proceed.

As for Level 2 bit stream, Bundesnetzagentur has recently presented its draft proposal. We would not expect us to be happy with the regulation, and we are not. There are some aspects in the proposal that are logical in the overall context, but there are also aspects, which are counter-productive, if you want to encourage infrastructure investment.

Finally, the German government has recently decided to increase its broadband subsidies by around 50%. We welcome this extension, and will again look to participate wherever it makes sense. We do not expect the new programs to contradict our free cash flow guidance for this year or our Capital Market Day's targets of 10% average annual free cash flow growth from 2014 to 2018.

Finally, let me mention our recent governance changes. We decided to consolidate our convergent network, innovation and IT activities in a separate board of management department, which will be led by Claudia Nemat who has the best possible background for this role. We believe this is the right step and the logical step as technology and IT increasingly come together. As we accelerate our network transformation and prepare for 5G.

The over responsibility for the segment Europe stays with our new board member Europe, and I'm delighted that we were able to recruit Srinu Gopalan, who joins us from Bharti for this position. This is a clear signal for the internationalization and a better focus on marketing and sales.

Moving on to our group financials on slide eight. We are happy with our first-half performance and we reiterate our stated guidance for the year. We also reiterate the group targets that we stated at last year's Capital Market Day. Our headline revenue grew by over 3%, the slight slowdown this year reflect changes in the commercial model in Germany and the U.S., but we're comfortably ahead of our medium-term guidance.

Our EBITDA grew 7% on a comparable basis, and despite our high investments, we were able to achieve double-digit growth in comparable cash flow. To sum it up, our financial metrics remain either in line or ahead, sometimes strongly ahead of the run rates we committed at last year's Capital Market Day.

With this, I want to hand over to Thomas, who'll provide you with more details on our second quarter.

Thomas Dannenfeldt

Chief Financial Officer

Yeah. Thank you, Tim, and I'm going to start with my first slide, which shows the financial highlights for the group as a whole, and as already mentioned, our financial momentum remained strong in the second quarter.

Our revenue momentum was impacted by changes in the commercial model for German spot market deals, and through handset leasing in the U.S. But, yeah, service revenues continued to grow double-digit; and in Germany, we saw a bit of growth in our fixed-line services revenues for the first time in 20 years, Tim mentioned that already. Our adjusted earnings were almost stable and our online free cash flow momentum is in line with our full-year targets.

Moving on to slide 11. In Germany, our sales were down by 3.1% this quarter, mostly due to lower revenues from spot market handset deals. However, our total service revenues improved sequentially and were stable year-on-year. Our Germany EBITDA was stable year-on-year as well, in line with our unchanged guidance for this year. However, service revenues declined 0.8% this quarter, showing the expected sequential improvement despite a meaningful drag from roaming.

Now fixed-line service revenues continues their steady improvement and grew 0.4% this quarter. What this [indiscernible] (10:34) this is the best performance since our deregulation 20 years ago. Together fixed and mobile service revenues were stable year-on-year.

We gained 156,000 contract customers, while this is slightly below last quarter, our most valuable own branded contract customer intake improved sequentially. So, in sum, our commercial momentum was very steady. We're seeing good tractions with our new more-for-more tariffs, with new and with existing customers. With more-for-more, we also increased the data allowance for our existing customers for free of charge, but many of them already choose to upgrade their plans. So, data usage growth almost doubled to 61% this quarter.

Slide 14, detailed some of the factors impacting our reported mobile service revenues. As expected, our performance improved to minus 0.8% year-on-year this quarter. This is in spite of much greater regulatory drag. On top of the small headwind from last year's MTR cuts, we experienced a headwind of around one percentage point due to the roaming cuts at the beginning of May. The accounting headwind related to our convergent offers was similar magnitude to the prior quarters with 1.1% you see. While the market has recently been dynamic, not

all the news has been bad. And we continue to expect 1% annual CAGR in our mobile service revenues, excluding the impact of EU roaming regulation.

Moving on to fixed-line on slide 15, we added 64,000 broadband customers. For the year as a whole, we continue to expect at least as many broadband net adds as we did last year. While our first-half run rate is little bit below that we need for our target, but expected our momentum this year to be somehow back loaded in the fixed-line, due to the timing of our planned commercial initiatives.

At the beginning of August, we finally launched our excellent new TV platform in the mass market. And as Tim has mentioned, we also launched a new Test the Best promotion, to encourage customers to use our high-speed tariffs and to participate better what is stronger than expected German broadband market. It was another great quarter for fiber growth. We added 578,000 fiber customers this quarter compared to 430,000 one year ago. Just over half of these new customers were on our retail platform.

Our broadband revenues grew 1.8% again this quarter, helping to reduce our retail revenue decline from minus 1.7% last quarter to minus 0.8% this quarter.

We've already highlighted that after two decades of decline we finally achieved slight fixed service revenue growth for this quarter. This was driven by improving retail revenues and ongoing strength in our wholesale revenues.

On slide 18, you can see that we could add another 0.4 million German households to our fiber footprint and now cover 57%. And we remain on track for our milestone to cover close to two-thirds of German homes by end of this year. 47% of access lines are already on our IP platform, so we are almost halfway there. Within the mix, we now have migrated also 1 million German [ph] B2B (14:05) line, and we have reached 91% coverage in LTE.

Moving on to our usual two slides on T-Mobile US, that already presented their very strong numbers two weeks ago. We won 890,000 branded postpaid customers. We also added almost 0.5 million prepaid customers. Total branded net adds of 1.4 million in the quarter compared to 1.2 million one year ago.

Strong subscriber growth and broadly stable ARPU combined to 12.5% mobile service revenue growth driving another quarter of strong EBITDA growth. As a result of the strong second quarter growth, we raised our full-year branded postpaid subscriber growth guidance again, and now expect 3.4 million to up to 3.8 million branded postpaid net adds this year.

Next, we show some of the underlying T-Mobile performance metrics. Branded postpaid phone churn, at 1.27% was the lowest ever. Our bad debt expense ratio, which had temporarily increased last year further declined. Our LTE network is now almost nationwide and due to our recent A-block deals including the Chicago deal agreed in May, we now have access to low-band spectrum covering more than 80% of the U.S. market. This is great news for our customers, and will allow us to profitably serve additional markets.

In Europe, our reported revenues were down 3.2%. Adjusted for deconsolidation and currencies, our revenues were down only 1.2%. Roaming stood for an additional 0.5% drag this quarter. Reported EBITDA was down 4% and organic EBITDA was down 2.9%. The slight sequential deterioration was mainly due to the impact of European roaming and some winter revenue phasing in Poland. I think we mentioned that already in Q1.

Our customer momentum was positive with 153,000 contract net adds in mobile, 67,000 in broadband and 39,000 in TV. Bigger picture remains that excluding the Netherlands, our underlying European business is almost stable,

due to some ongoing strong performances for instance in Greece and Austria, offsetting some weaknesses elsewhere.

Talking about the Netherlands, where we are clearly in a turnaround mode, we are pleased to see that we now achieved positive contract net adds for four quarters in a row.

As chart 22 shows, in Europe, we now have migrated more than half of our homes to IP, up from 43% one year ago. Our LTE coverage now stands at 75%, up 15 percentage points in the last 12 months.

On T-Systems, T-Systems posted a slight revenue decline this quarter. Half of this was related to currency effects and we also had a difficult comp due to higher project-related revenues in the prior-year quarter. While our first quarter had benefited from a large payment related to the launch of our toll collect system in Belgium, our second quarter was impacted by a few non-recurring items. We are clearly still in a transformation mode, but there are a few bright spots such as our cloud initiatives, so we remain confident that our market unit will continue to improve.

Free cash flow was slightly down year-on-year, but adjusted for the loss of the divi from EE and the last year's settlement, it would have grown 19% in the quarter or 16% in the first-half of this year. Our year-to-date trends are consistent with our stated around €4.9 billion free cash flow target for the year.

Next slide shows our financial metrics at 2.3 times our net debt is well within our comfort zone of two times to 2.5 times adjusted EBITDA. As a result of our ongoing strong EBITDA growth, we quickly moved back from slightly outside this range one year ago – remember, it was 2.6 times in Q2 last year, to back within our comfort zone. All three major rating agencies confirmed their Deutsche Telekom rating with a stable outlook during this quarter.

My final slide summarizes the strategy we presented to you at last year's Capital Markets Day and we continue to strongly execute against these targets; and as Tim said, we remain confident that we will keep delivering them going forward.

And now we are ready for your questions.

QUESTION AND ANSWER SECTION

Hannes C. Wittig

Head-Investor Relations

A

Thank you very much, Tim and Thomas. Now we can start with the Q&A part. [Operator Instructions] Please would you kindly restrict yourself to no more than two questions at a time. And I think we have some first questions already. So, the first one is from Fred Boulan at Bank of America Merrill Lynch. Fred, can we have your question, please?

Frederic Boulan

Bank of America Merrill Lynch

Q

Hi. Good afternoon, everyone. Thanks a lot for taking the question. If I could start on two points, please, on Germany. Firstly, if you could come back on your high-speed broadband strategy, in the light of the promotion you launched, don't you think there is enough natural demand from high-speed broadband? And don't you worry that you could see competitive reaction on the back of the offer taking the whole market pricing downwards?

And then secondly, in terms of domestic CapEx, if you could share some thoughts around the impact of those increased subsidies on near-term CapEx. And any early thoughts on 5G implications for your CapEx envelope in Germany? Thank you very much.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, the first thing is, we're investing heavily into the infrastructure in fixed-line. As you know, it is 19% of our revenues which we're investing, and mainly into the fixed-line area at this time. We are highly happy with the uptake of the high-speed products from our customer base already, but it's our intention as well to increase the net add numbers going forward.

We mentioned that in the last conferences already, and I'll say in the vicinity of retail net add market share of 20%. And we have clearly a higher ambition to monetize the infrastructure we are building. We do not want to build the network for United Internet or other wholesale partners.

That in mind, our intention is to show customers the full-speed at no risks. So, Test the Speed, Test the Best is the communication around that and we want to make it easier for our customers to experience this high-speed products. The German broadband market has recently accelerated and it would be totally wrong if we are not participating in this environment.

So, now what is the offer? €19.95 for the first 12 months. And afterwards, you decide which kind of speed you like. If you stay in the highest speed, it's €44.95. If you stay with 50 megabit, it is €39.95. And if you want to go below that in the 25 megabit area, it is €34.95. That's the offer.

By having this retail customers then within our base we have the capabilities of upselling our new TV product. The TV product has a very good look and feel. And by the way all the tests, which we have seen now are very positive. By the way, the best ones, which you will find in Germany at that point in time. So, we are upselling TV as well on that one. So, we have a promotion behind that, that we say, if you take the TV product it costs you additional €9.95 on top of that and there is a Sky promotion, which we have agreed with Sky, which is three

months for free for their services as well. So, that makes that very attractive to go into the full value proposition of Deutsche Telekom and that's our intention.

We really wanted to upsell the MagentaEINS services in two new kind of customer base and we want to convince customers who haven't had the opportunity to use this services by not having the bandwidth so far.

So, this is the intention behind that, the clear intention is bring more revenue to the table. You see that we are successful with this already. For the first time since 20 years we are on the right track with our revenue profile, overcompensating as well as the revenue shortfalls on single play line loss this year. So, this is very encouraging and we see that there is an accelerating demand of customers for this kind of product.

Thomas Dannenfeldt

Chief Financial Officer

A

And Fred on your question on the domestic CapEx. First of all, on 5G, short one and a little bit longer one on the subsidies on 5G in our mid-term planning in our profile, we already anticipated and assumed that there will be more CapEx needed on the mobile side from 2017 onwards versus 2015 and 2016, so that is anticipated and within the CapEx envelope, there will be an increase in the mobile side, on the mobile CapEx obviously to support ramp up towards the 5G infrastructure.

On the subsidies, maybe a little bit more here. First of all, as you can imagine we welcome that decision, it's good for the customers and I think it's good for infrastructure rollout that now government decided to move from the 2.7 billion into the vicinity of four billion.

At the moment, we are analyzing the possible scenarios for that usage, what I can tell you is meanwhile there has been tenders already in the country with federal subsidy program, they have been launched as always, we won some, we lost some. But for this year, there is already an impact of a lower triple-digit number on the CapEx side included in our envelope for this year, included in our reiteration of free cash flow guidance.

So, something in the vicinity of €100 million to €200 million of that we will see already this year, that's our assumption. Then it will peak in 2017 and there will be now I think with an increase to €4 billion, also a good chunk of that will be seen also in 2018 then.

As we have planned always in a little bit room to maneuver, we reiterated our free cash flow 10% CAGR for the 2014 to 2018 perspective as well. We believe that even with that increase we can stick to that commitment.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Thomas. And the next question please from Mandeep at Redburn. Mandeep, can we have your question, please?

Mandeep Singh

Redburn (Europe) Ltd.

Q

Yeah. Thank you for taking the question. The first question actually is partly related to Fred's first question. Obviously, you've reached revenue growth in fixed-line. It seems a lot of it, that's driven by the significant year-over-year, but also sequential acceleration in wholesale revenue, which is now growing at 3.4% and if you adjust for some of the one-offs that you called out in the footnotes, it's actually even faster than that.

And that appears to be as a success of wholesale broadband take up by others. So, it's sort of inconsistent with the answer to the first question which is you're not building a network for others, you actually – seems to be that the wholesale revenue is what's driving the growth. So, other people are being more successful selling your network than you are, so I'd like a little bit more color on that point please?

Second question I had was really on the balance sheet, now that you're comfortably within your leverage targets at 2.3 times, you obviously – your EBITDA is still growing, Germany is now stabilized. How do you feel about the balance sheet and potentially moving to a full cash dividend rather than a scrip dividend, just maybe give us some color on the balance sheet and how you feel about that?

Timotheus Höttges

Chairman-Management Board & CEO

A

So, by the way, the revenue effect on the fixed-line side is driven by both angles – driven by the wholesale impact, it's driven by the retail impact; it's driven by the base and it's driven by new customers. So, it's coming from all these angles. And you're right, the impact of the wholesale numbers were higher than the numbers on the retail side. We have seen, growth of our – something like vicinity of 4% on the wholesale side.

Now, we build the network and we are investing heavily into the infrastructure. And our intention is that, we want to see both numbers growing, but we want to see the mix coming into another share here. So, what we want to see is that, our retail share is going up and we could easily sacrifice some of the wholesale side here.

And the intention, which we have seen by the way and that is in our contingent model and in the wholesale pricing model is – we were surprised about some very aggressive offers from our competitors, coming in with €999 for the first six months or 12 months and then going to the higher prices and we saw as well, Vodafone being in this range with the subsidy for the first 12 months as well.

And, knowing that the original product of Deutsche Telekom is always better than what our wholesale partners are offering, at least, that is, my belief with all the maintenance people behind and with all the service behind – with all the customer service behind, we don't want to leave that share as it is today; and therefore, we make it now easier for customers with this kind of lower [indiscernible] (28:52) price here to choose and to test our own capabilities. That's the intention behind the modification we made for that one.

And on top of that, we were not able in the second quarter to fully excavate the Entertain service offering. That is due to the introduction of this new platform. Both is up and running. The August prices are in the market. The IFA, our biggest fair in Germany, is coming soon with the promotion. So, the second half year we'll be focusing very much on fixed-line retail's products. The first half year was very much focusing on the front loading of our mobile services. So, that's the intention. We expect that we at least make them same net add numbers on our fixed-line retail services, as we made last year, that's the intention, so that is what you could expect for the remainder of the year.

Thomas Dannenfeldt

Chief Financial Officer

A

Hey, Mandeep. And your question around the balance sheet. First of all, leverage 2.3 times, it is where it should be. Please keep in mind, there is an U.S. auction running that will have obviously some impact on the leverage, as planned. But, what I'm saying is, prior to the end of that auction the leverage should be significantly below 2.5 times and that's where we are. But, that's one part of the answer.

The second one is, in my planning – my mid-term planning in our guidance, as we've given, we assumed no scrip dividend. So it is, the whole discussion about scrip dividend is on a yearly basis, an opportunistic view on, does it make sense, is it appropriate or not, but mid-term planning never assumes that it takes place. And so, that is, I think answering your question.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Thomas. The next question we have is from Akhil Dattani at JPMorgan.

Akhil Dattani

JPMorgan Securities Plc

Q

Yeah. Hi. Good afternoon. Thanks for taking the questions. Firstly, just on German mobile, and I guess, it's somewhat related to the first question we had on German fixed. Just interested in terms of how you think about some of the conflicting moves we seem to be seeing in terms of pricing across the market. Obviously, you've discussed the more-for-more changes that you've put sort of the high-end, but equally Vodafone seems to be arguing that there has been a step up in indirect channel spend associated with that. And then at the low-end, we've all seen a bit more aggression from some of the smaller players. So, just generally, a bit of color around the competitive environment.

And you mentioned on more-for-more specifically some numbers around the usage trends you're seeing on the back of that, so if you wouldn't mind sharing a bit more color in terms of both the uptake of those offers and sort of data usage trends we're seeing that would be quite interesting.

And then just a very quick one on Holland, you mentioned the improving contract net adds we see in the last few quarters. Just interested to understand from you whether you feel there are meaningful changes you still need to make to that business or do you think things are on track. And if you are able to comment on them, the remedies that have been offered in Holland, whether or not you'd have an interest in those, that'd be interesting too.

Thanks.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah, Akhil. I am going to start on the German mobile and I think, and Tim will pick up the question about the Netherlands. I think, first of all, it is important to mention that as you know the German market is quite well segmented. So, you have that upper end of the market where you have with more-for-more Voda following the trend. And I would say that the big network operators following a strategy of value more-for-more. You offer more and people pay more. And yes, there is always noise around competition, that's what competition is about. Someone is complaining about what happens in indirect channels and so on.

But I guess, the general trend here is more-for-more upward strategy. By the way, on indirect channels to be very specific on that one, we clearly said that for the introductory quarter, which was Q2, we will have higher subsidies behind that new offer. And we've said we're going to reduce that again in Q3 once we did. So, I guess that's a trend we can observe, and you mentioned that, in the, what we call smart shopper, where Drillisch and United and also otelo and Congstar and Blue and so on are working, there is a lot of competition going on as the market segmentation works I guess very well, that's kind of normal situation from my point of view.

Our bigger impact we had in Q2 on our mobile service revenue was not coming from the B2C side, it was B2B. So on that side in Q1, we had a very big impact, that was already – the negative impact was declining in Q2, that's

why we are confident looking at second half of the year, because of that B2B drag diminishing over time, because we will see that guidance of 1% ex-roaming kicking in.

Timotheus Höttges

Chairman-Management Board & CEO

A

With regard to your question to the Netherlands. Look, you know that this isn't an easy market for us and it was in the past and so, we have to do our homework here. And the first step was to fix the basic and that was, let's say, that we have to improve our network which is now one of the best network which we have. It has an excellent spectrum position, it has an excellent build out, it has excellent testing now, and so the prerequisites for good carrier services is given.

The second thing what we have to do is that we have to ensure that our brand is good positioned with a clear mandate here and with a clear view on what's going on there. We are working on that one with the new management. We have changed the management entirely over the last month, and we're working in a very tight governance with this team together to reassure that we find the right proposition around the mobile area.

The prime focus for us in the net Dutch market is the mobile area, because we have some competitors sitting there with fully converged environments, while we are very much focusing on mobile services. That's the prime market for us.

In any market by the way, there will be place for mobile services. And we have to find out what is the best position in this regard. And I don't want to, let's say, release our latest thoughts on that one here. You will see that within the next weeks by the way coming to the market what our intention is around that.

Looking to the situation around the merger of Ziggo and Vodafone, yes there are remedies, there is a disposal of the fixed-line intended here. This fixed-line is quite small business, 123,000 customers, the net add per quarter is 17,000. So, it's pretty small that business – and the question is whether we are tackling the fixed mobile converged as an answer. It is for us too early to say whether this is interesting, but we would be not well advised if you would not look into that one. So, that doesn't mean that we're going to buy it, it means we will have a look onto that one and after a good due diligence on strategic fit here, we will come back to you on that one.

So, I hope that is answering your question. The first steps done, network, the net adds numbers we expect a positive net add number for the total year 2016 and the other propositions we will come into the market soon and then we could discuss about the impact.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Tim. Just to maybe add a bit more color on the mobile data trend. So, as Thomas had already said in his speech, we're seeing acceleration of German mobile data usage in the residential customer segment from around 35% year-on-year growth in the previous quarter to 61% this quarter and it's approaching the 1 gigabit per month level, not huge by the national standards but for Germany clearly a good development. And we are pleased to see that, it's something you would have hoped to see, given we have increased the data allotted for our customers as part of the more-for-more move in April. So, the other positive aspect here apart from the data usage increases that that's been really quite little spin-down and not as much cannibalization of top-ups, et cetera as when you – one might have thought. So, genuinely people seem to enjoy having more data and they're using it and I think that's encouraging as a trend for the market.

So the next question, we would ask for it from Sam McHugh at Exane. Sam, can we have your questions, please?

Sam McHugh*Exane Ltd.*

Q

You talked about your share of net adds from retail broadband, what do you think your fair share of net adds is then if you've been doing kind of 20% recently? And then secondly, just on the cost base in Germany, one of the slide shows it's down about €140 million year-over-year, which is roughly the same amount that the handset sales are down. Can you just give us a little color about how the cost base in Germany is moving and what your expectations are for next year and the year after with that? Thank you.

Timotheus Höttges*Chairman-Management Board & CEO*

A

The first question with regard to the net add numbers that we want to see, we have a good base, we have a low churn on that base. We see a lot of upgrades in that base towards new bandwidth, this is the 580,000 number. So, our base is very stable.

Now with regards to the net add numbers, we are expecting, we have said that, in the vicinity of last year, so in the vicinity of 300,000 is the number, which we're aiming for and for the total year. That's the ambition and this is then translating into the market share, overall, which we then see by the end of the year.

Thomas Dannenfeldt*Chief Financial Officer*

A

And on the cost base, the share of the indirect costs, so not [ph] SSCs and CRCs (40:06) and revenue related is minus – or it's €45 million, which is kind of a fair chunk of the whole thing. Last year I said €1.8 billion is the number on the four years perspective. I think we've been in line with that on a 2015 perspective. I think we will do on 2016 as well. As you know, there will be a little bit of back loading due to the IP migration we have. So in 2017 and 2018 there will be a little more than 2015, 2016, what we said. And I guess, we're in line with that.

Hannes C. Wittig*Head-Investor Relations*

A

Thank you, Thomas. And with that, we move on to Robert Grindle at Deutsche Bank. Robert?

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

Q

Yeah. Thank you. I think it's really interesting Claudia's appointment as the Head of the merged IT and Technology Network division, and it appears that some of the benefits of your investments in IT infrastructure might be becoming more visible. And I note some announcements on Pan-Net this morning, which maybe is moving to some sort of delivery phase. So, the question is, are we starting to get to the point where you might see some of the Pan-Net investment benefits in Europe or are we still a way off on that?

And separately, what might be other benefits of the new merged IT and technology division under Claudia? Thank you.

Thomas Dannenfeldt*Chief Financial Officer*

A

Maybe I'm going to start and, Tim, you can add some thoughts here. First of all, what we mentioned and said already is, last year we laid out our strategy about the superior production model and we said what the impact of

those activities will be. Remember there are four parts with digitizing the customer facing processes, we create the pan-European network, we do the [ph] INS (42:05) rollout and we do the IP migration.

And we've given you the profile, which was a drag between 2014 and 2018 basically, and turning into positives from 2019 onwards. We said from the early 2020s onwards, you will have – you will see a €1.2 billion OpEx run rate related to that, and all the steps we're doing here is to support and secure that development and activities and our commitments.

A little bit more color on Pan-Net to give you an idea. I think we're talking about 360 platforms across our European countries and we will consolidate them into 50 platforms to 60 platforms. The first ones will establish itself and be available by the end of this year, so it's not anymore a concept, it's work being done already and getting commercialized this year.

But, as always, there is enough platforms. As I said, the first ones end of this year, it's 50 platforms to 60 platforms to establish, so it will take some years. And then, as we've said, €1.2 billion will be the run rate in the early 2020s in OpEx you should expect.

Timotheus Höttges

Chairman-Management Board & CEO

A

Let me add one sentence to the governance issues. The first thing, it was never a question of whether, it was only a question when we're going to this governance structure, because as you know, we are strongly believing into that IT and networks are becoming the same more and more, and to have a kind of seamless handing over within one governance, within one clear organization structure makes a lot of sense to simplify process within the organization.

The second thing is that we have still inefficiencies in that system. When it comes to our IT roadmap, to be honest, one evidence is, sometimes we are ready with our network capabilities, but the next month we find out that on the CRM side, on the BSS side we are not ready for launching this products. And to synchronize in this big organization these activities in a better way.

Thirdly, we have announced that we have now built and started the three data centers across Europe. That is what you were referring to. So, we are investing money into that one, you see the benefits already on data services. For instance, this cloud VPN piece is up and running and get marketed already in the market every day. So, there are already benefits on that one. And there's a clear cost target and efficiency target behind Claudia's work.

The second intention behind this organization structure, is I call it always the [indiscernible] (44:56) which means, how many construction areas could one manager handle. And the reason that having technology and all the European markets at the same time was, from my reading, high complexity. And reducing the complexity and handle it over to two guys makes a lot of sense. On the one side you bundle IT and technology. On the other side, you have a guy who is more marketing focused and sales oriented with a very international experience.

So, that gives us in the boardroom, and you might say, German telecom is a little bit of technocratic and bureaucratic, it was my intention to have even more sales and marketing skills in the boardroom, meaning we have here the right attempt, focusing very much on the consumers' propositions in this regard.

And the last message is, we scale up this organization to a more international organization, because now we have two member in the board who is not able to speak a word in German, which I highly appreciate, because we

have already everything in English here in the organization, but we have to bring the discussions and the teams and the rotation within the organization to more international. So, this is the intention behind that as well. So, a lot of intentions behind this strategic move apart from the benefits we're expecting from the integration of IT and NT.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Tim. And with that, we move on to Justin at Credit Suisse. Justin, can you please ask us your question? Thank you.

Justin B. Funnell

Credit Suisse Securities (Europe) Ltd.

Q

Thank you. One or two questions. Just coming back to mobile, I guess, in Q3, there is another impact from roaming. Is that going to be a bigger impact than Q2? And then at the end of the year, there's a potential change in MTRs, which some of your peers have started guiding, maybe we move to [indiscernible] (47:05), maybe quite a big cut. So, I guess we should be starting to think about negative [ph] MSR (46:58) trends for next year still. But I guess you're also a winner from lower MTRs. I know you probably don't want to spell it out too much, presumably a cut to MTR would be actually net positive for your EBITDA outlook next year for Germany in total. I was just wondering if you could just give us a bit of a steer on these different factors, as we start sort of modeling it in.

And the second question is quite big picture. Obviously VDSL is working for you and you're building out high-speed broadband much faster than countries that are doing FTTH, and if you look at France, for example, there's obviously a danger longer-term as more of Europe does FTTH that Germany gets a bit left behind. I'm just wondering if you are starting to think longer term about how you might do more FTTH and what the conditions would have to be for that to make sense for you. Thank you.

Hannes C. Wittig

Head-Investor Relations

A

Justin, let me take the first question. Hannes here. So, the roaming impact, it started on the 1st of May. And therefore, we had two months in this quarter in Germany and also in the remainder of Europe, where we, of course, also had a roaming impact. It was about a similar magnitude in each territory. And you would expect that in the third quarter and fourth quarter, therefore, is a greater aspect, subject to seasonality, tourist season, et cetera. So, that's probably more an issue for Europe than for Germany, where it's probably a bit flatter in terms of the year – the impact for the year. And, of course, it's also a drag going into 2017. We think it's about the same magnitude as we're expecting for this year, which is around about €70 million for Germany and a similar magnitude for Europe on a 2016 impact basis, so that's not the annualized number, that's the expected impact for this year.

In terms of the MTRs, we have heard from the German regulator that they want to change their methodology. It is for us not a significant EBITDA impact, it's marginal and – or actually it may be slightly positive, but depends on a few factors, but it's not a significant factor on the EBITDA side.

In terms of the revenue impact, of course, it will depress headline service revenues, there is no question about that. As you can see, we will always make sure that the effects are understood, and I hope that people understand that this is, of course, not – let's say a relevant EBITDA, relevant category of revenues that we might be using here. So, I hope that answers your question. I'll pass on to Tim for the fiber question.

A

Timotheus Höttges*Chairman-Management Board & CEO*

Look, the answer is one – the question is one of the most relevant one, which we are discussing publicly, but even internally here. And if you ask the man on the street, whether he wants to have FTTC, FTTP, FTTH or GPON or whether he likes more vectoring. I could tell you the answer is who give the shit. The answer is I want high bandwidth and I want high speed at my home and I want to have all this kind of services in a good quality. Then is let's say what the customers are giving us as a feedback. So, to say this is good technology, this is bad technology, doesn't make sense.

The second thing is if you – you could tap a market with fiber-to-the-home and building out very slowly into the cities and the density on the urban areas is much lower than it is, for instance, in the Netherlands or as you would find it in France. We are highly spread around the countries and even in the cities, the density of population is lower. And you would define a very small markets and our intention is to define a big market here in Germany. And therefore, we have two vectors to spread out bandwidth. And what we're doing is, the first vector is that we bring a good sufficient bandwidth into everybody's house, and then later on we consider whether people are, question for even higher bandwidth.

So, the first thing what we are doing is now with the vectoring and with the Nahbereich discussion which is going on that we bring up 80% of the households with vectoring technologies 100 megabit. On top of that we have €4 billion net subsidies in the market, where we will apply for – and where we, so the Deutsche Telekom is able to tap beyond that households.

And then we will go with software updates on vectoring, plus with up to 250 megabit and then there might be areas, new areas where we're already building today fiber-to-the-home. And that is what we're doing anyhow, so that we are not investing an old technology here, we're going in this areas with fiber-to-the-home. But this is much more efficient, it is enlargening the market, which we then could deploy. It would satisfy customers demand for the next year and this will help us from a commercial but as well from a customer satisfaction much more than focusing only on a specific fiber-to-the-fixed technology.

On top of that there are lot of technologies being developed, G.fast and others, let's see how that could compensate. 5G is coming with the peer-to-peer communication on top of that very soon, which is enabling a new technology. So, being very specific and only focused on FTTH, I think this would be entrepreneur-wise and commercial-wise, the wrong answers, and I'm not participating in this dialog in the public, we will create a mix of it, and we will create the best mix of what we have.

Let me mention one thing at the end. If there would be, let's say, the idea of going to fiber-to-the-home, the question is, under which regulation. If the regulation is a ULL regulation, as we have it to save, what is an incentive for us, an incentive for us to build this infrastructure and there is none.

So, the prerequisite even to think about fiber-to-the-home in the German environment, would be a change of the ULL or the bit stream access regime in the German environment for Deutsche Telekom, because otherwise, immediately our competitors could easily jump on this technology, without additional costs, while we're having all the investments to carry.

So, that doesn't make sense at all. So, therefore I think the Vector One going to full coverage of customers, or let's say 80% coverage is what we're saying here at Deutsche Telekom, in the first stance with the speeds beyond 100 megabit is the right thing to do customer-wise and as well commercially.

Hannes C. Wittig
Head-Investor Relations

A

Okay. Thank you, Tim. The next question, we have is from Emmet Kelly, at Morgan Stanley. Emmet, can we have your questions, please?

Emmet B. Kelly
Morgan Stanley & Co. International Plc

Q

Absolutely. Thank you very much, Hannes. So, yes, two questions please. The first question is on your German tower portfolio, I think I recall a couple of years ago, you separated it out into a different kind of HoldCo. Correct me if I'm wrong, I think it's called Deutsche Mobile Funkturm. Can you just give me your latest thoughts on how you see these strategic options for this business? Whether it's sale or listing or just maintaining the status quo?

And then the second question please is on, fixed mobile convergence, pretty big picture question on the United States, here in Europe Telefónica, Fusion and Orange Open, and of course, MagentaEINS, have all been huge commercial hits for the European telcos. So far there seems to be basically no sign whatsoever that fixed mobile convergence is happening in the U.S., in fact as you know Verizon is offloaded much of its fixed-line network. Do you think fixed mobile convergence will happen in the U.S. eventually? And maybe just mention what role T-Mobile USA can play there? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

Well, I'm going to start with the tower question, perfectly pronounced Deutsche Funkturm [indiscernible] (55:44). The intention of I think I mentioned quarter or two ago, that we have a deeper look into it and there was some headlines saying we're going to sell it. And our intention is not to use that primarily as an element or a component for deleveraging or things like that.

The key question is, is there additional value we can get out of that business by managing it differently and handling it differently, because we have the German tower, we have by the way some assets as well in the European countries additionally, we're using it more like a workbench for tech, then as a dedicated optimized tower portfolio. And so, we think there is value.

We can get out of a different way of handling the business, whether it's then a listing or a sale or a status quo, as long as, we are not concluding is open, my guess is status quo is unlikely, because we believe we can do better and more. Sale is unlikely, as well, because we believe there is lot of optimization, we should go for in the first instance. But, as I said it's an ongoing process and we don't feel in a hurry there, in a rush. We're looking into that and then after we conclude it, what we believe is the best way forward, we will talk about it, that's on the tower portfolio.

Timotheus Höttges
Chairman-Management Board & CEO

A

Okay. Let's go into this broader question on the U.S. The answer is, do we expect that cable and wireless are to converge in the U.S.? Potentially, yes, the convergence make sense, given the increasing data consumption and [indiscernible] (57:38) seller and Wi-Fi networks. So, there might be players who has the idea to bring this together, at one point in time.

That said, it's different to the very local markets here in the German footprint, but you always have a full-fledged infrastructure for mobile and fixed-line, as long looking to the Netherland and to Germany and to other markets.

And then you could advertise it in that way, and you could communicate across all areas, makes it a lot of easier to sell the stuff.

In the U.S. the overlapping of this mobile and fixed-line networks is quite fragmented. AT&T for instance has 50% overlap across the country, Comcast is 45% coverage for their network in the U.S. Verizon is 18% in the countryside. So, it's very difficult to assume that this is going to happen across the whole country in the U.S. And so far, we have not seen big experiments on local market as well.

Independent from that one, the mobile business in the U.S., is a very mobile centric-oriented business. For the upcoming next years, we are the challenger, we are the pure mobile assets and position ourselves in this regard. We see enough room for growth. Growth has been a mobile player in this environment. And if I do not see business impact from convergence in the U.S., landscape soon, but potentially convergence might take place there as well with the difficulties, I mentioned.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Tim. The next question is from the webcast, and it's from [ph] Vitaliano Pariti at the Horizon Capital (59:41). He asked, how is your IP migration proceeding in general and for large caps in particular and how are you performing there?

Thomas Dannenfeldt

Chief Financial Officer

A

I guess, I'm going to take that one. First of all, as we've shown in general, we're roughly half through in terms of the volume in European countries, four countries are done. We will finish Hungary this year, the migration, current status is 86% of the lines being migrated end of the year, we'll be at 100%.

So then, after end of this year, Romania and Greece will be the relevant countries being left not completed. Current status there is 22 in Romania, 12 in Greece. So, we're early phase here. So, overall, especially looking at the mass market – in consumer and B2B mass market, I think we're doing well in the migration and the speed of migration.

We always said and as we mentioned in Germany for instance, we've already migrated also one million B2B lines, so there is the volume, so to say in B2B, we're doing well. We always said the large caps being addressed here are more difficult. We've seen some successes now into systems in Q1 and Q2, with contracts with large caps migrating as well.

We see some revenue pressure with that, especially into systems as well. That's something we've seen in the beginning on the consumer migration as well and then we found ways to mitigate that to upsell. I think we need to find the right way forward here on the large caps as well.

And I think, as mentioned, the more difficult part with the large caps is coming up right now. So, mass migration I think we are very confident that we will deliver on time on the large caps, that's a lot of hard work to be done.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Thomas. And with that, we move on to Andrew at Goldman. Andrew, can we please have your questions?

Andrew J. Lee
Goldman Sachs International

Q

Yeah. Thanks. Good afternoon, everyone. I had a question on your fixed network upgrades, or a follow-up question, but broader question. On the fixed network upgrades, could you just give us some more color on what you've learned from your vectoring discussions with the regulator, both on your ability to be able to upgrade your network using V-Plus across the country? And how will you monetize it? Will you have wholesale pricing flexibility there, do you think?

And then a broader question, given fixed is now delivering growth and mobile isn't yet. Which parts of your German business do you think you have the most, or indeed, any pricing power, fixed, mobile or in your bundles? And if you could give kind of a reason why, that would be great? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

So, first question on super vectoring, there are no regulatory problems at all. With regard to experience on the Nahbereich discussion, vectoring discussion overall, takes quite some time, a lot of people being involved, it was by far longer than we expected. And so, the original idea with 2018 has been postponed and anyhow from just from an approval procedure here from our angle.

The second thing is that the exclusivity was slightly reduced over time; but in principle, the concept and the approval for our vectoring of the Nahbereich is as it was as we have asked for. So, it took too long, but in principle, we got what we asked for.

Thomas Dannenfeldt
Chief Financial Officer

A

And on the second part of the question, pricing power, fixed, mobile, bundle, first of all, maybe an update on the value up in the MagentaEINS transactions. Current status is that per transaction we see revenue per household of €8.20 now, that is – that number is continuously and consistently increasing since I think the quarter we launched, which is good news. So, on bundles for sure, we see that up-sell and we see also higher stickiness and lower churn effects, which is obviously taking place here.

On mobile, I mentioned that I think if you think the separation through, we see the most – the biggest drag we had last two quarters was on B2B. And then the smaller one, last two quarters was – very small one was on B2C; and again, on B2C, you need to split up the high-end with the telecom brand and the lower end with Congstar.

So, pricing power in Congstar, I guess is a little bit of pricing power available, yes. But it's relatively small, because those customer – consumers, they are looking for a smart deal and not so much for big value in there; whereas on the telecom brand you see the more-for-more logic working. So, I think it is very important what kind of segment you're looking at. Smart shopper, not so much. High-end consumer, yes. And in some segments, especially large caps in B2B limited.

Hannes C. Wittig
Head-Investor Relations

A

Right. Thank you, Thomas. I should add that I think our network is still a very strong selling point, in principle with, again, won all the surveys for all the products. And I think that helps us with pricing power. And it's pervasive because we have good ratings in mobile and in fixed and also now in TV, in the latest tests. So, ideally of course

we bring it altogether and leverage the brand and you can see that we have some pricing power when you compare the prices in the market and our trends are healthy.

So, next question I would like to take from Paul at Berenberg. Paul, can we have your question, please?

Paul Marsch

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

Q

Yeah. Thanks for taking the questions. So, I just wanted to come back to German mobile competition again. Apologies for that. I know you've given answers already, but it does seem like the Drillisch remedy with Telefónica Deutschland is perhaps more generous and rewards volume growth more so than maybe we all appreciated or that analysts appreciated a year ago, and that seems to largely be to blame for the price tension in the value sector in Germany that we've seen in the last quarter or so.

And clearly that's provoked a response from the D-Net brands as well, the value brands. So, I'm wondering, how much insight do you have on the detail of that remedy to enable you to behave tactically in the market? And you see some observers now thinking that Drillisch is aiming for 5 million subscribers in the medium-term, others are thinking that they're aiming for 7 million to 10 million subscribers and that the remedy facilitates that kind of scale for them. So, is it a relevant risk for your own mobile target, for your 1% CAGR over the medium-term or is it something that's accommodated within that 1% CAGR? Thank you.

Hannes C. Wittig

Head-Investor Relations

A

So, Paul, maybe I give it a go and then Tim and Thomas help me if they have further thoughts. I think it is very hard for us to comment on something that, in this case, we don't know, because it's a private agreement between two companies that is also looked at by the – supervised by the European Commission.

I mean, if you remember a year ago, when we gave our guidance at the Capital Market, we laid out an expectation for the German mobile service revenues. We came from a strong starting point, we said 1% mobile service revenue CAGR for four years before EU roaming. So, if you do the math on that, with EU roaming roughly 2 percentage points, you can see that we weren't – I mean, we didn't take account of a certain number of potential risks in that guidance. And of course, nobody will again tell from today's point of view where exactly we'll land, whether it's going to be a few basis points higher or lower. But we're pretty much on track with that. So, I think our basic set of assumptions, and not specifically referring to that, the one that you're asking about, seems to have been robust and we are tracking towards our target. Maybe at the time some people hoped for more and some people now fear for less, but I think in the end of the day – fear of less, we are pretty much where we thought we were going to be. Thomas?

Thomas Dannenfeldt

Chief Financial Officer

A

Maybe to add there, if you look at the chart showing the reported mobile service revenues and then the roaming impact and the MagentaEINS impact, and you do the math for this quarter, the underlying is 1.3% growth; a year ago, it was 1.5%. So and obviously, neither Magenta One, nor the roaming have something to do with the Drillisch situation.

So, if you do that kind of math, you see our underlying trends have not changed significantly. And yes, there are those two impacts: one, voluntarily by us driven on the MagentaEINS side; and the other one, with roaming, it's kind of what happened in the complete industry then.

Hannes C. Wittig
Head-Investor Relations

A

I think we now have Jon Dann from Royal Bank of Canada. Jon, can we have your question?

Jonathan Dann
RBC Europe Ltd. (Broker)

Q

Hi there. It's a question on MagentaEINS. Why is the quarterly take-up running behind the take-up of the faster sort of 50 megabit and 100 megabit products? And then, secondly, could you just – in terms of the €19.90 12 month offer, is there [ph] some genius (70:18)? So for example, what proportion of your current customers roll from the current 12 month discount on to this second year? So would we expect a sort of stable broadband ARPU next year despite the new customers coming in at a lower price point?

Thomas Dannenfeldt
Chief Financial Officer

A

Yeah. Thank you for the question. First of all on the new pricing, it's only for new customers, because the intention is obviously to remove the barrier to experience the new network. And so, it's for new customers, there is no relation to the existing base, so to say.

The MagentaEINS, the first part of the question, there is no hard coupling, so to say, of new infrastructure products with selling a MagentaEINS. You can become a MagentaEINS customer with the, so to say, old [indiscernible] (71:34) infrastructure and mobile as well with the new infrastructure. So, it's not coupled at all. Just want to remind everyone on the call that we are by far ahead and better than our targets we have announced last year for 2018 on MagentaEINS. We said we'll see the 3 million. We passed, I think, the 2.5 million already and – 3 million by end of 2018, we passed the 2.5 million already. So, we are far ahead on that but there is no hard decoupling of MagentaEINS and the new infrastructure products.

Hannes C. Wittig
Head-Investor Relations

A

I hope that answers your questions, Jon. With that, I move on to Ottavio from SocGen. Ottavio, can we have your questions, please?

Ottavio Adorisio
Société Générale SA (Broker)

Q

Hi. Good afternoon. And thank you for taking the question. I have two follow-up very quick and then a question. The first one is on fiber. There's a lot of talk about net adds and where they're coming from. Could you [indiscernible] (72:12) all the net adds you have on fiber? They're all up-selling or they are new customers, either retail or wholesale?

On the mobile, you stressed a few times that the German market is very segmented, and your exposure to the value segment is relatively lower. Therefore, is it possible to give us a bit of an insight which sort of revenues you make through Congstar or at least some insight about the customers you have in Congstar?

And the third, just a question as to, as a follow-up on an answer that Thomas gave on the tower. You say that status quo probably is not attainable. You want to extract value from your tower portfolio. But as far as I understand, you already give access to the backhaul to Telefónica Deutschland. Your spectrum portfolio is already replicated by the other two MVNOs. If you start also extracting value from the tower portfolio and

therefore give access to new tenants, how are you going to differentiate your – because at the moment you lead significantly on network and that's really given the pricing power, how you reckon that that will – that continue going forward, if you're going to extract value from the tower? Thanks.

Timotheus Höttges*Chairman-Management Board & CEO*

A

Yeah, maybe I'm going to start with the towers. I guess there is a misunderstanding. The misunderstanding is that the towers we have in our DFMG Company are solely and exclusively being used for our infrastructure. That is not the case. We use it already since years also to market those places to Vodafone and to Telefónica. And by the way, also to other media companies. It's not only a mobile infrastructure. So, it's not that it is just exclusively used by us. The bigger chunk of the advantage we're having on infrastructure, by the way, is the fiber backhauling, it's much bigger than the antennas. So, that's on the towers.

On Congstar, it's very steady, it's a mid, high-single-digit percentage of all mobile service revenues. Normally, we do not strip out those numbers concretely. And on fiber, I'm not sure...

Thomas Dannenfeldt*Chief Financial Officer*

A

The answer on fiber is quite easy. It's all retail. It's all base. So the net adds and what we have seen in the upselling is retail based on Deutsche Telekom.

Hannes C. Wittig*Head-Investor Relations*

A

Yeah. Just to add to that, you can see that our fiber intake rate, 300,000 roughly or 350,000 per quarter, in the last, on average for the last two quarters, clearly exceeds our broadband net adds of 62,000 and 64,000 respectively in last two quarters. So therefore, not clearly the majority of customers is fiber customers from upselling.

Okay. So, I think we have a final question for today from, hope I get the first name right, Matthijs van Leijenhorst.

Matthijs van Leijenhorst*Kepler Cheuvreux SA (Netherlands)*

Q

Yes, it's Matthijs van Leijenhorst. Thanks for taking the question. I've got on question left. If I look at the restructuring costs, there was quite a swing in Germany, in the second quarter. I was wondering, how do I have to look at these restructuring costs, because I assume a big part is related to [indiscernible] (75:47), but given that the transition should come to an end by the end of 2018. Is it fair to assume that, these costs should fade out after 2018? So, what I'm actually asking is, what is the amount of restructuring cost we should model in for 2016-2017 and also after 2018, can you give some color on that?

Thomas Dannenfeldt*Chief Financial Officer*

A

First of all, we've given last year in the Capital Market Day there's no change on that one. We gave guidance on, there's some special factors, you should expect that they will decline from €1.8 billion to €1.3 billion, from 2014 to 2018.

The swing in Q2 is actually not linked to the IP migration, it's simply the situation that there is kind of special situation for our civil servants. There is the *vervoegd*, what is that in English, the early retirement schemes for

civil servants and that needs to be supported by the government and there was a decision that this will be the last time, so to say, we got support from government side, so we decided to max out the volumes we can and that was the special situation here and that's not related to IP migration.

Hannes C. Wittig

Head-Investor Relations

A

Okay. I think we are through today's list of questions. Of course, if there are further questions, as always we would ask you to contact the Investor Relations department. And we also have a briefing for the sell-side in London tomorrow. And I think Tim wants to wrap it up with – say a few final thoughts and thanks all for participating. Tim?

Timotheus Höttges

Chairman-Management Board & CEO

Thanks for all your questions on the numbers. Beginning of the year, there were quite some uncertainties with regard to Brexit, the vectoring decision with regards to the network tests and with regards to the market leadership. I think we have now a much clearer view on the situations going forward. Most of the uncertainties are clear now, and we are in a quite good mood and winning mood here on the market issues. That doesn't mean that we haven't enough to do here at Deutsche Telekom.

What you could expect from us for the second half of the year is a very much intense focus on broadband retail and on the TV proposition. The IP transformation, the service issue on the German situation has been a big matter for us going forward. The Netherlands and Poland are the two markets where we are working on improving the product propositions and as well our positioning in this regard, and on top of that the cost cautiousness and the cost reduction within our organization is moving on.

On top of that, the regulatory issue is something which is an ongoing issue here within the company. We have now won, let's say, one battle, but not finally the war on this over regulation in Europe. So, we're going to work on further issues on that one. There is this MTR and FTR discussion coming. There is this a bit stream Layer 2 discussion, which is going on, so there are lot of areas as well for the environment for FTTH, and going forward, which we mentioned in our talk.

So these are, let's say, the big game changers, the big value levers for Deutsche Telekom. And on the U.S. I mentioned that this is a blockbuster performance, which we see across all metrics and we are very confident that our team in the U.S. with the auction and the back are fulfilling on the expectations which we have.

So, with this, looking forward to the next quarter with you guys talking about the business. Thank you very much.

Hannes C. Wittig

Head-Investor Relations

Thanks to all. And I hand back to the operator.

Operator: We like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1-805-2047-088 via reference number 490572#. We are looking forward to hear from you again. Goodbye.

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