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Deutsche Telekom AG (DTE.DE)

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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges

Chairman-Management Board & CEO

BUSINESS HIGHLIGHTS

- We are delivering on line what was expected and a little bit ahead of our target internally
- I'm very please to say that we are – 2017 off to a good start here at Deutsche Telekom
- And I always start with a short overview and before Thomas goes into the detail

Earnings Summary

- On page 4, you can see that our peer-leading growth continues
- Our customer growth is strong
- Our revenue is up by 5.8% YTD and our adjusted EBITDA grew 7.5%

Fiber Customer Growth

- In Germany, we added a new record number of quarterly fiber customers and we are rapidly approaching 8mm customers
- In the U.S., we delivered another strong quarter and raised our customer guidance again as seen in the numbers last week
- We continue to strengthen our position in Europe and in the U.S. after investing €11B in 2016, our YTD investments are up 15%, so we are on track to spend €12B in 2017

FCF

- Despite the step-up in investments, our FCF is strongly up on the year
- Thomas will further reiterate on that one; that is driven mainly by our good EBITDA increase
- Our high investments in sustainable long-term growth are clearly being rewarded

Customer Take-Ups

- You see that with the good customer take-ups, both on LTE and on fiber investments
- We keep filling the pipeline
- We now have almost 60% of our European homes on All-IP, as we move towards our target of completing this massive transformation in two years from now
- In Germany, while we continue our FTTC rollout, in addition, this quarter, we launched a program to connect 100 industrial zones with fiber to the premise
- Also in Germany, we launched LTE in 900 megahertz to improve the customer experience and drive our network leadership
- And in the U.S., we were able to acquire massive 31 megahertz of valuable low band frequencies at a very attractive price
 - This will allow us to take our commercial footprint nationwide, it's an extension of more than 8mm – 18mm customers

Margins

- This quarter, we were also able to close the sale of our web hosting subsidiary, Strato
 - This resulted in a book gain of €0.5B
- So if you look to the margins, a very attractive deal, which our people in the [indiscernible] (3:39) department were able to strike
- Deutsche Telekom keeps delivering against the targets we gave at our 2015 Capital Markets Day

2017 GUIDANCE

- We reiterate our guidance for 2017
- We target another year of strong investments into the future combined with double-digit FCF growth

Customer Prospects

- Slide 5 shows some examples of the strong momentum we are seeing with our customers
- We continue to see good momentum with our MagentaEINS convergence products, we now have 4.9mm converged subscriptions in Europe, up from 3.1mm one year ago
 - Of these, 3.2 millions are in Germany, 1.7 millions in Europe
- I think, if you compare that with any competitor here in Germany, this is outstanding
- I already mentioning our success with fiber in Germany where we added a record of 2.6mm homes in the last 12 months, 36% of our retail broadband homes are now on fiber, up from 26% one year ago

U.S. Performance

- Our U.S. perform continues to speak for itself
- We have almost 73mm subscribers having added more than 7mm in the last 12 months alone
- After 0.8mm postpaid phone net adds in Q1, we raised our 2017 guidance from a range of 2.5mm to 3.4mm to a range of 2.8mm to 3.5mm
- In the cloud, we grew only 4% this quarter, reflecting some teething trouble and last quarter's T-Systems project write-downs
- We expect growth to reaccelerate as the year progresses

Innovation and Focus on Customer Experience

- Slide 6 shows the innovation and the focus on the customer experience
- After the success with our more-for-more moves last year, which by the way we were the first operator to induce, we again showed innovation leadership in the German mobile market with our new StreamOn tariff offering which we launched mid of April
- Subscribers to MagentaEINS or to our high value plans now get free unlimited music and video stream
- We look at this as a move to drive usage and upselling and we have had great feedback from the media and from our customers
 - After two weeks, we have almost 100,000 customers on the StreamOn proposition already
- Our TV momentum accelerated to 76,000 net adds in Q1 and in April, we launched Start TV, our new entry-level TV product
- Last September, we added mobile video to our MagentaEINS portfolio and this was very well received with almost 250,000 new subscriptions since then

Smart Home Platform

- We made great progress with our Smart Home platform where we added 90,000 German customers in the last 12 months
- Our pioneering hybrid router now has 320,000 German customers and we have an internal discussion how we could further significantly accelerate this

Service Innovation

- Our networks in Europe and in the U.S. keep winning surveys
- So far this year, we won the P4 network test in Poland and in Netherlands, very important because remember these were two countries where we were suffering a bit and in the Netherlands you see already the huge improvement of the situation
- We're also seeing the first tangible benefits of our network transformation
- In Germany, for instance, where we have rolled out our All-IP aggregation platform, customers find it easier to connect and our incoming call center traffic is lower by around a quarter
- Innovation also means service innovation
- In Germany, we now have more than 635,000 subscribers to our IT support service and we saw 350,000 transactions on our MagentaSERVICE app, up 50% on last year

Revenue and EBITDA

- Slide 7 compares our first quarter performance with our 2017 guidance which we reiterate today
- We expect our revenues to keep growing and our EBITDA to grow by 4% to €22.2B this year
- As you know, we guide using last year's average exchange rate
 - If you were to take the exchange rate of our most recent consensus instead, our EBITDA guidance would be even better, it would be around €22.6B for 2017

FCF

- And despite the further increase in investments and the costs related to the U.S. spectrum auction, we expect our FCF to grow by more than 10% to €5.5B
- Our main group financial metrics remain well on-track for debt
- We committed at the 2015 Capital Markets Day, and we reiterate these targets today

Strategic Future of T-Mobile US Performance

- Before I hand over to Thomas, let me quickly say a word on the market's favorite subject, the strategic future of T-Mobile US
- First and foremost, we remain extremely happy with T-Mobile US performance and execution
 - This continues to be an exceptional success story
- Along the way, there were many decisions for us to take, and I think we deserve some credit for our consistent investments for the deals we have done and for the ones we did not do
- Our fantastic success in the low band auction gives us the opportunity to further improve our service for customers and to expand nationwide
 - This gives us another huge leg of growth
- When it comes to the relative merits of different industrial combinations, it is of course clear that we will not be specific here

Convergence Perspective

- FROM an conceptual perspective, we like consolidation and we like convergence
- Each offers opportunities for synergy and scaling, but there are also many other factors to consider, such as relative valuations, financial leverage, or future governance
- There is no rush at all, and we are happy to evaluate any opportunity together with our colleagues in the U.S. from a position of strength and with the primary goal to create even more value for customers and shareholders
 - Now that the quiet period has ended, it is possible, if not likely, that there will be various discussions regarding various potential strategic combinations among industry participants including ourselves
- You know our policy that we do not comment on M&A speculation and we do not intend to give a running commentary here
- It is of course far from clear that these will lead to anything
- And in any case, our number one priority is to leverage the fantastic opportunity that we have had or that we have on hand and that we just further strengthened with our great success in the low band auction

Thomas Dannenfeldt

Chief Financial Officer

OPERATING AND FINANCIAL RESULTS

- And my first slide as always shows the financial highlights for the group as a whole
- As Tim said already, we're off to a very good start to the year with both revenue and EBITDA momentum well ahead of our group growth rates we guided for at our Capital Market Days back in 2015 and on track to our 2017 guidance

Adjusted EBITDA and Earnings

- Adjusted EBITDA growth reaccelerated to 7.5% in the quarter, despite a difficult comp due to the last year's one-off related to the Belgian toll system
- Our adjusted earnings were impacted by financing activities related to T-Mobile US
 - With this, adjusted net income would have grown double-digit

Net Profit and FCF

- And our reported net profit reflects the €2.5B gain related to EE in Q1 2016
- FCF was up almost 50% year-on-year, which is a pretty good start
 - But as you know, this can be volatile and we continue to target our guidance of €5.5B FCF for 2017 as a whole

Performance in Germany

- Moving on to slide 10, in Germany, our sales were slightly up this quarter while total service revenue was slightly down due to various regulatory effects
- Our EBITDA grew 1% this quarter, on track for our guided €8.4B for the year as a whole
- And as you know, our German business no longer includes the tower operations
 - These are now reported under the Group Development segment

Total Service Revenues

- On slide 11, you can see that our reported total service revenues are slightly down this quarter, but when you adjust for roaming, fixed and mobile termination rate cuts, our total service revenues would have grown 0.4% this quarter

Mobile Service Revenues

- Now, turning to our mobile service revenues, these were slightly weaker than the prior quarter but this mainly due to incremental regulatory drags
- As you can see in the appendix, adjusted for the 2.2% regulatory drag and a further 0.8 percentage convergence accounting drag, our underlying mobile service revenue momentum remains firmly positive
 - As before, small quarterly trend variations should not be overrated
- We do not see any major underlying trend changes and we remain on track for our Capital Market guidance of 1% mobile service revenue CAGR before roaming

Fixed Line Service Revenue

- Our fixed line service revenue momentum worsened slightly this quarter, but again, this reflects regulatory headwinds from fixed interconnection cuts
 - Without these, wholesale revenues would have grown 1.7% and our fixed service revenues would have been stable
- So the picture for our total service revenues in Germany remains one of steady underlying improvement

Commercial Performance

- Our commercial performance remains very steady
- We gained 51,000 contract customers in Q1, but this was again impacted by seasonal volatility in lower value service provider cards
- Our own branded customer base grew by 89,000
 - Adjusted for a small write-down, this would have been a gain of 130,000 which is very consistent with the previous quarters

Homes Signing with MagentaEINS

- As you know, convergence is our strategic focus and we are making great progress
- This quarter, we increased the percentage of homes with the MagentaEINS contract to 16%
 - Already 37% of our Magenta branded mobile contracts are part of a convergent relationship
 - We achieved this, while keeping our underlying consumer mobile service revenues stable
- Our up-selling remains very successful
- Homes signing up to MagentaEINS homes spend on average €8.5 per month more with us than before
- Benefiting from our more-for-more tariffs and other innovative propositions, our mobile data usage growth further accelerated and again almost doubled year-on-year
- Going forward, our innovative proposition such as mobile TV or newly launched StreamOn should drive further usage growth

Fixed Line Business

- So moving on to fixed line on slide 14, the key highlight is the 775,000 new fiber customers we achieved last quarter which is another new record
- Let me just remind you that means on a working day, it's around 12,000 households moving into that new infrastructure
- While our resellers keep doing well and most of the new customers were in our retail platform, we think this strong customer response clearly demonstrates the benefits of our strategy to bring our super-dense fiber network as many homes as quickly as possible
 - We are also happy that TV net additions improved to 76,000 this quarter

Broadband Customer Growth

- We added 67,000 broadband customers, on track for our target of at least the same broadband customer growth in this year as in 2016
- Both broadband and line losses were impacted by an accelerated All-IP migration which resulted in somewhat higher churn
- Our broadband revenues grew 1.4% this quarter
 - The slight slowdown in the run rate reflects the impact of the promotions launched last summer which should wash out later in the year so that we remain in close sight of the 2% CAGR we promised at the Capital Market Days
- Positively, our total retail revenue momentum further improved to minus 0.8% this quarter

FTTC Deployment

- On slide 16, you can see that we now passed 66% of German households with our FTTC network for a total of 28mm homes
- We're on track to launch super vectoring in mid of 2018
 - This will increase the speed for most homes in our footprint to 250 megabits per second at a fraction of the costs of the initial FTTC deployment
- 57% of our access lines are already on IP, up from 53% at the end of the last year
 - This accelerating run rate takes us towards our target of migrating our mass market access business to All-IP by the end of 2018

T-Mobile US Business

- Now, moving on to our two usual slides on T-Mobile US who has already presented excellent numbers two weeks ago
- As you know, our momentum remains very strong
- We won 0.8mm branded postpaid phone customers
- We also added almost 0.4mm prepaid customers with an ARPU of \$38.5
 - The combination of strong subscriber growth and year-on-year higher ARPUs combined to 11.6% mobile service revenue growth, and we also saw another quarter of very strong EBITDA growth
- As Tim has already mentioned, T-Mobile also raised its subscriber growth outlook from a range of 2.4mm to 3.4mm to range of 2.8mm to 3.5mm branded postpaid net additions

U.S. SUBSIDIARY PERFORMANCE

- On the next slide, we show some selected performance metrics for our U.S. subsidiary
- Our branded postpaid phone churn improved further and is now at a record low of 1.18%, outstanding
- Our bad debt expense ratio was steady while our cost of service are now below 20% of service revenues
- We now cover 340mm POPs with LTE and 269mm POPs with our low band spectrum and we will begin to deploy our new 600 megahertz spectrum this year, is again another outstanding element of the whole story, deploying the commercialized spectrum so far, that's really amazing
 - To sum it up, another great quarter for T-Mobile US

Europe Segment Business

- Now back in Europe, it was a strong quarter for customer growth in the Europe segment
- Continuing Q2 – Q4 momentum, 225,000 organic contract net adds mark a substantial improvement compared to the prior year
- Note that the numbers on this page now exclude T-Mobile Netherlands, which has moved to our new segment, Group Development
- Our convergence momentum remains strong with 127,000 new additions this quarter alone
- Meanwhile, our TV and broadband momentum remained strong and steady
- Our revenues in Europe were stable this quarter, while reported EBITDA was down 4.5%
 - This was partly due to increased market invest, but two-thirds of the EBITDA decline was due to an internal transfer in favor for GHS segment, as a result of our recent reorganization
- Adjusted for this and currency, organic EBITDA was only down 1.8% year-on-year
- One the next chart – the next chart shows that we now have migrated 61% of our homes to IP, and our LTE coverage now stands at an impressive 89%, up 5% this quarter
- And our fiber coverage has reached 26%

Systems Solutions

- Moving to Systems Solutions
- This quarter's revenue and EBITDA were in line with our expectation, and on track for our stable EBITDA performance for the year as a whole, as we steadily move away from classical IT towards network-centric services
- Q1 year-on-year performance was impacted by a difficult comp due to the payment related to the completion of the Belgium toll system in Q1 last year, which we had flagged at that time
 - Adjusted for this one-off Q1 revenues would have been stable year-on-year, while adjusted EBITDA would have been slightly up

Group Development Segment Business

- On the next slide, we show our new segment, Group Development, which mainly consists of:
 - T-Mobile Netherlands
 - And our German tower business
- Just to recap, we created this segment for operations
- We want to consider alternative ways of managing governance
- Very good quarter in the Netherlands following the successful launch of our unlimited propositions
 - We also retained our lead in the P2, P3 network tests and agreed a pioneering outsourcing deal with Huawei

- Our customer growth remained strong with 69,000 mobile contract net adds, and this is now the seventh consecutive quarter of contract customer growth
- We also added 12,000 fixed broadband customers

Service Revenue

- And our service revenue is almost stable, supporting a more positive EBITDA development
- EBITDA also benefited from increased share of SIM-only contracts, reflecting the recent change in Dutch consumer protection laws
 - Our toll business reported a slight year-on-year EBITDA decline mainly due to transformation expenses and cost related to integrating the towers acquired from the TEF Deutschland two years ago

Segment EBITDA and FCF

- Overall, the segment EBITDA was up 7% this quarter and is well on track for our guidance
- As already mentioned, our FCF was almost – was up almost 50% year-on-year reflecting our growth in EBITDA
- We continue to target €5.5B FCF for 2017 as a whole
- Our net debt benefited from the growth in FCF but was impacted by the U.S. related financing activities I already mentioned plus some additional U.S. finance lease

Net Debt

- The next slide shows our financial metrics
- At 2.3 times, our net debt remains well within our comfort zone of 2 times to 2.5 times adjusted EBITDA
- YTD, we have already raised €8B of debt under favorable terms covering our maturities for 2017 and to finance in advance our latest funding agreements with T-Mobile US

CLOSING REMARKS

- My final slide, as always, summarizes the strategy we presented to you two years ago at the Capital Market Day
 - And we continue to execute well against those targets and remain very confident that we will keep delivering them going forward

QUESTION AND ANSWER SECTION

Hannes C. Wittig

Head-Investor Relations

A

Thomas and Tim early on, now we can start with the Q&A part. [Operator Instructions] And please as per our practice, please restrict yourself kindly to no more than two questions at a time. And with that, I go to the first question and it's from Andrew at Goldman. Andrew, can we have your question, please?

Andrew Lee

Goldman Sachs International

Q

One is the kind of a bit of partial question that you may want – no one wants. Another one's just on FCF generation. On the partial question, is there any reason why consolidation in U.S. and the synergies available should be dissimilar to the synergies that we've seen generated in European consolidation both mobile to mobile and fixed to mobile?

And then secondly, just on your FCF generation on slide, I think it was, 24, when you look at the net debt development, we've consistently had spectrum and other kind of offset FCF generation meaning your net debt – you haven't delevered over time, spectrum hopefully presumably comes down now that you've made the big investments in U.S. spectrum, but so I wonder if you could talk about kind of how we should see the development of the other line. It's been €800mm to €1.5B over the past few years and includes derivative accounting, vendor financing, et cetera. Does that – can that go down or do you suggest to go up over time? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Andrew, I'd like to start with the first question. I don't think that there are dissimilar synergies Europe to U.S. I think that in principle and conceptual and they're following the same logic, where they're coming from and the areas you know. And in mobile-to-mobile or fixed-to-fixed, they are normally higher synergies than in fixed to mobile. And this is something which is known, but I will take them with a similar proportion in the U.S. compared to European ones.

Thomas Dannenfeldt

Chief Financial Officer

A

And on the question on the net debt, I guess, look, the headwinds we had this quarter basically are €600mm in change of valuation on the derivatives from the U.S. and the 300 vendor financing. And the biggest chunk of that €600mm headwind is basically two types of one-off. One is the – related to the mandatory convertible which will end this year, the second one is on the valuation on those loans we called, which is a one-off as well.

So, let's say, a big chunk of what you've seen in terms of that €900mm headwind this quarter one-off type of thing. So, they will not disappear, because some of them are related to the development in the U.S. but for sure, I think, there is a pretty good chance that we'll see them declining.

Sam McHugh

Exane Ltd.

Q

. Just two. Just first on super vectoring, I was kind of interested in how you're thinking about the regulatory outlook for that and the wholesale pricing? I seem to recall before you had a bit of a disagreement with the regulator kind of overcharging more for higher speeds?

And then, just secondly on T-Systems, are there any more Belgium like one-offs that we should be thinking about for the rest of this year? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

I'll answer the second question, though. Look, on the – the first thing is we are very vastly deploying vectoring these days, and we have – are well on track with the super vectoring in 2019 – 2018 and 2019 finalizing on that one across the country. So, we have extended the market with high bandwidth at really, let's say, speed rates here, and we're going to continue this rollout. Now, everything which is needed for that one has been approved from the regulator already. So, there are no headwinds at all. Let me, let's say, maybe spend a sentence on this new market consultation the regulator has started here. He's now looking whether there are areas to deregulate the market, and to look, let's say, how the market dominance of the different players is going to be. So, he's looking now into every detail of the market.

And I think the hope which we have here at Deutsche Telekom is that in certain areas where no market dominance is given, we get out of regulation. In markets where others are dominating with their infrastructures, we might see even new players getting regulated. But in principle, that the co-operations which we are trying to do with our smaller carriers here in Germany are not infected automated by the wholesale access obligation and by the price regulation, which is existing there today. This is all in the area of probably ahead of 250 megabits, so it's not affecting the vectoring and the super vectorization here but the rollout and the capabilities to earn money with this two services is given and it's safe now from a regulatory perspective.

Thomas Dannenfeldt

Chief Financial Officer

A

Sam, maybe one addition because my answer was quite short on T-Systems, was no. If you look at last year, basically there have been two types of one-off. Q1 was a positive, the Belgian toll collect system. The negative one was Q4 with the write-downs on the two big contracts we had, we explained here. And our assessment is, you will not see the first one, neither the second one type of situation during the course of this year.

Jonathan Dann

RBC Europe Ltd.

Q

Thought I'd limit myself to one. With the integration of the O2 towers in Germany, can you give us an idea around sort of a timeline and how you think that will impact sort of capacity and your competitive advantage?

Thomas Dannenfeldt

Chief Financial Officer

A

Look, as you know, the competitive advantage we're trying to create and what we have created and we keep going on that one is based on three pillars basically. One is the backhauling infrastructure, the second one is some advantages in spectrum and the third one is rollout where the passive infrastructure was a part of it. So, if you want to talk about competitive differentiation, we're now looking at one-third or fraction of that one-third of it because the other elements are playing a relevant role as well here.

The integration is taking place right now so they're, let's say, commercialized already. We're going to use them and they are part of the enhancement of the tower infrastructure, we are going to see towards 5G infrastructure. That's for sure a kind of LTE network in a German environment is 22,000 towers to 25,000 towers, obviously, with the 4.5G, 5G development you see that is not enough anymore. And we will enhance that number significantly by the magnitude of roughly two and so that's part of that activity which is going on right now.

Hannes C. Wittig
Head-Investor Relations

A

Thank you, Thomas. And thanks, Jon, for your discipline and restraint. But as I say two questions are fine, but obviously it's a tough day for everyone. So, Justin is next. Justin, can we have your question, please?

Justin Funnell
Credit Suisse Securities (Europe) Ltd.

Q

Thank you. Yes, the StreamOn tariffs, we obviously saw a similar tariff launched by [indiscernible] (32:24), I guess, a couple years ago. And then in the end it was sort of followed up with full unlimited data, which the market has quickly followed. Do you think that's your likely end game in the German market as well? It's notable that markets like Finland and Switzerland seem to have been able to drive revenue growth with unlimited plans. Is that your thinking? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

Sorry. So the first thing is that the StreamOn optionality is – you're right, is free of charge in the existing tariff scheme, but it's not free of charge in all tariff scheme which we're offering. It's only in the L tariff and in the MagentaEINS proposition where the StreamOn optionality is bookable.

The second thing is it is a great instrument for capacity management because this service is coming for all customers at the same speed, so it is a good capacity issue. And by doing that, we are not violating net neutrality as well because all traffic is treated in the same speed and in the same way. So it's a good optionality for organizing, let's say, video and music streaming in an organized fashion.

That said, it's a great upselling opportunity because we are upselling it into the higher bundles and into the MagentaEINS offerings. And you know with MagentaEINS today, we generate €8.50 more with the customer than outside of this tariff. So this is a great optionality for us to earn more money on this one.

Do I correlate that with any kind of unlimited tariffs at that point in time, not at all. We have an unlimited tariff already, which is beyond €100 if customers are interested in that one. So that's already optional, bookable and it's not our intention to go into unlimited streams here in Germany.

Hannes C. Wittig
Head-Investor Relations

A

Thank you, Tim, and maybe also worth adding that another similar innovation was that we included the Entertain mobiles or the mobile TV, for our converged customers free of charge in September last year. And as we said before, that has resulted in a very good take-up. So we are working hard to showcase our network, motivate greater usage and we're seeing this coming through. And I think StreamOn is another piece of the puzzle here.

Josh Peter Hallett
Redburn (Europe) Ltd.

Q

I just want to talk about your Dutch numbers actually. I can see that your contract gross adds – your net adds were very good again, but your SAC declined a lot compared to Q4 2016. So, I was just wondering how you've managed to maintain the commercial momentum while reducing your SAC. Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

So first of all, I think you're right. We have great momentum there. We have the right team on board now. We have the right dynamics in the market. There is good demand from customer side SAC on the net adds. But looking at the SACs and CRCs there is one effect we need to be aware of, that is the change in the consumer law there, which means that basically the way the SACs and CRCs are treated is like the – split contract logic. So, basically you move EBITDA into cash burden and EBITDA goes up, the effect of that is €17mm in the quarter. So, excluding that, the remaining effect is around with €5mm with 6% growth, so still very good growth but this is important to understand that due to the Dutch law we have that kind of effect.

Nevertheless, commercial momentum, demand of customers, up-selling all works well plus also the first good steps forward in the fixed line area, so we are pretty happy about the latest developments we've seen there.

Robert James Grindle
Deutsche Bank AG

Q

Please, may I ask, Tim, for a bit more clarity about his comments around the cloud revenues. He said there were teething problems. It feels it should be just a bit easier than that for this growth segment, but perhaps that full plan growth is not like-for-like and something happened in T-Systems, perhaps if you could just give a bit more color on that. Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

So, look, in the cloud areas, we had a number of small one-offs adjusted for this y-over-y growth of 4%. Our ambition is higher in these areas and the weakness compared to the prior year is mainly in two areas. One is the inevitable self-cannibalization we are being confronted and the second one is hangover from the deals that we had to write-down in the last year. They were partially in this cloud services included. So, that said, for our cloud revenues for this year and the remainder of the year, we estimate 14% growth for the whole of 2017 knowing that we are still including some risks. I think the issues are different. And in some areas, we are good on public cloud and in some areas we are more stronger on the private cloud. I think the OTC service or the open telecom cloud, a public cloud, we are doing pretty well when it comes to T-Systems, but we are weaker when it comes to Deutsche Telekom's German business with the Mittelstands unit and when it comes to the private cloud services, it's the other way around. So, we are on both angles focusing our sales orientation, sales focus. On these angles, we have now cleaned up the deals from last years, and then we have the self-cannibalization effect here in the business which we are managing. Thomas?

Thomas Dannenfeldt
Chief Financial Officer

A

And maybe just to add a little bit outlook for the year, still we are very confident that we will deliver this year double digit growth in that area. So, because as Tim mentioned that, write-down in Q4 part of last year that will go away. So, within this year, you should expect a double-digit growth for the full year on the cloud revenue still.

Hannes C. Wittig
Head-Investor Relations

A

So, Robert, you can see, we remain optimistic.

Ulrich Rathe

Jefferies International Ltd.

Q

I'll try two, if that's right, again. The first one is on the broadband intake, obviously, you have extremely high fiber up-sell which is really good. But it doesn't come through on the overall broadband intake, now you talked about the All-IP migration impact there, but still, I mean, you're running very high discounts at the moment with this promotion that you started late last year. So I'm just wondering, is the up-sell to fiber essentially a moment of churn by itself? Is that essentially the moment where customers sort of reconsider whether they want to use Deutsche Telekom or not, and is that the reason why despite this extremely high up-sell, you're not able to accelerate the broadband intake or if that's not the reason, what holds back the overall intake in the phase of this very good product that you are selling there?

The second question I have is, is on the mobile service revenue growth. In the report, you disclosed that the consumer mobile service revenues actually declined minus 2.6% in the quarter. Now, I think in the annual report for 2016, you're sort of talking about minus 0.7%, so the huge acceleration in the mobile service revenue declined in Q1 that cannot be explained just by the regulatory impact. So I'm just wondering is there any particular one-off there or the particular reasons that drove this acceleration? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, the first thing here is you, investors, you gave us the trust and the support that we're investing more into our infrastructure and we're doing that very consequently to give an indication on the fiber side in Germany only vectoring €1.5B in Germany alone this year, which is the highest amount ever in this period. Now, the consequence of that is that we have now already 28mm households covered by fiber of which 18mm households are serving speeds beyond 50 megabit already.

Now from this 18mm, we have 8mm households where we have now a subscription already. So, where our line is active and only in Q1 we added another 800,000 to this utilization. It's our prime interest to roll out as quick as possible to cover the entire landscape of Germany. I have a program which is called 100%, 100% means not only covering it by our own infrastructure, but even by corporations so that we use the smaller players in the regional areas where we then could hold by excess, but we could everywhere achieve the signal of Deutsche Telekom. That's the program behind and that is what we are driving actively these days and with 800,000 net adds on fiber this quarter, you see that it's getting executed quite successfully.

On top of that is it a risk of churn that we are all driving at the same time? No, it's the opposite. Long term, I think we have more happier customers with higher bandwidth with a modern IP infrastructure and with all the services Deutsche Telekom is offering in these areas where we have 50 megabit plus. We even sell much better DTV service. So this is driving our trim, so our net promoter scores rating and at the same time, it's helping us as well on the opposite side. So, I think it is a very clear and consequent strategy and people gaining the speed, they're very happy and buying the service.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. And to add to what Tim has said, first of all, the 67,000 on the broadband net adds, we think, it's a good decent number, it's not exciting because there is some impact of churning there which we should not confuse you is not related to any fiber infrastructure or yeah, infrastructure situation, but it's simply due to All-IP migration.

What happens is basically that in some of the areas and more and more in the areas in the country, we use the prolongation of customers or even the win of customers last years to move them forward into IP infrastructure.

Now, we're reaching a situation where we have some customers in the region, which are still not on IP and don't want to move. And what we're doing is we move them in the forced manner. So, we send them a letter basically and tell them that we're going to stop the PSN-based service. And it was always clear that with that investment – with investments we're doing into an IP infrastructure with better customer experience, more efficient infrastructure, we will reach that situation that some of the customers are on PSTN and are not willing to move without an extra trigger and that is what's taking place right now.

We address the customers to move towards IP and some of them then churn because the way we need to do it from a legal perspective in Germany is we first of all need actively to cancel the contract and then make them offer to come back, which is kind of weird situation that's the way it is. And this is the trigger here, so it's our All-IP migration and not related to fiber infrastructure situation thing. So, that was the first question.

And I think, Ulrich, the second question was on B2C and mobile service revenues. I think there is a kind of confusion in there, your question was basically why has the trend deteriorated sequentially and the answer is simple, they have not. If you just follow regulation, we're showing the same number as in Q1 and even if you go for a full quarter perspective, there is a fluctuation of 0.5% in there, which is kind of normal, B2B was a little bit up, B2C a little bit down, but this is not kind of structural changes at all. It's simply the regulatory impact and that's it.

Hannes C. Wittig
Head-Investor Relations

A

Yeah. Thank you, Thomas. Going back to the subject of fiber, we have a question from Polo at UBS. It's via e-mail. So, I will read it out for you. BT has announced this morning that it will potentially make significant investments in FTTH. What is the risk that Germany follows the UK? And that DT will – has to undertake FTTH investment over the near-term to medium term? How are the German-UK markets different in your view? So, I think Tim will answer this?

Timotheus Höttges
Chairman-Management Board & CEO

A

Look, the first thing is we have a clear rollout plan and we have all said the first thing is that we bring sufficient bandwidth to almost every household in Germany and then secondly we talked about, let's say, how we speed up, because the needs and the use cases of customers are – easily are all covered with bandwidth of up to 250 megabit per second. Second, we are investing almost 20% of our German's sales and so clearly we have – we are running full steam on investments in Germany at that point in time. To be honest, I have a lack of planning capacities here in my technical PTE organization, so my technical field organization here, because we even want to be fast on rolling out vectoring and super vectoring. The second argument is we have the densest street fiber network of any European incumbent, much denser than almost any cable network. And as a result, out of this, we have a very high bandwidth and a very good service, which we could provide to the customers. And I have not heard any complaint that the speed is not fast enough in the areas where we have build-out.

Next year, we will launch our super vectoring product and this will give us great boost on speed on top of that 250 megabits in most of our footprints. So, this is helping us as well and maybe there's a technical issues which we should not [indiscernible] (48:15) as well. In Germany, we have a lot of household where we have more copper lines lying in the ground, while other countries only have one pole, one line going into the specific household. So, from a capacity perspective, from a rollout perspective, from a coverage perspective, and a strategy perspective, it's not our intent to follow this FTTH rollout. If I compare the bandwidth of Germany with the UK, I know that we

are already doing much better and the amount of households which we are covering in Germany is already significantly bigger.

Hannes C. Wittig

Head-Investor Relations

A

Thank you, Tim. And just to put a number to our investments, we are spending €1.5B this year on the FTTC deployment and that's – so if – I think it's quite important to make clear that we are not under-investing, we are investing as we previously mentioned the All-IP migration ahead of peers. We are spending more than any other European incumbent on our FTTC, so fiber-based access and that's just something to keep in mind.

Ottavio Adorisio

Société Générale SA

Q

I have a couple of questions from my side. The first one is on towers. It looks the EBITDA has been relatively volatile over the last five quarters. You mentioned that you had some costs for integrating the TEF Deutschland towers. I will be grateful if you can just tell us what's the underlying profitability you have on the tower business and how much would this cost in the last quarter?

The second one is on the wholesale segment. This quarterly report, quite good trends and improving from the last quarter. In the commentary – in the results, you mentioned about the contingent model that is gaining momentum. The question is that, how much profitable is that contingent customer vis-à-vis [indiscernible] (50:28) to have in the past? Thanks.

Hannes C. Wittig

Head-Investor Relations

A

Yeah. So, just on your first question with the integration costs, I mean I think you saw that the EBITDA was slightly down in this first quarter and as we said that reflects transformation expenses, but we are not, let's say, at this point in a position to split that in great – in more details, so we'll have to get back to you on this one and then Thomas will talk to you about the contingent model.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. The question was on the profitability wholesale vs. retail. If you do that, more or less, it's the same. That's the short version of the answer, whether it's being – if you look at the transaction on the wholesale vs. the retail side, bottom-line, it's roughly the same result you get. Obviously, on retail, there is extra opportunity, so to say. For instance, MagentaEINS with the up-selling path we have in there, et cetera. Those things you can't do if you have the customer on a wholesale basis, but the pure transaction per se is roughly the same on wholesale vs. retail.

Frederic Boulan

Bank of America Merrill Lynch

Q

Two questions. First of all, on the German mobile market, we've seen a number of moves from Vodafone recently, which you take on this, in particular, the extension of their brand to lower tier segments. Do you think your current price grade is competitive and particularly you think your StreamOn is addressing the data offering?

And secondly, if I can try a fairly generic question not at all linked to the U.S. but in a potential merger scenario, what are the parameters for you to retain full consolidation of an asset, even if you see ownership going down

below 50%. So if you could explain this from a governance perspective, in particular, remind us how you do it in Greece with 40% ownership? Thank you very much.

Timotheus Höttges

Chairman-Management Board & CEO

A

Fred, I start with the second question. It's basically an answer given by the accounting standard in IFRS. You need to have control. So either you have control, for instance, by majority or you have control by a minority share but a shareholder agreement which gives you enough control that the accounting standard accepts that control is in place even if you have below 50%. That's the logic.

Thomas Dannenfeldt

Chief Financial Officer

A

Your question is how we think about the German mobile market. Look, in the German mobile markets, there are always some ups and some downs in the market. Recent month has seen more rational pricing, even at the low end of the market. This was a very good development. Just here referring to the price increase of €5 for the base Allnet-Flats including the young segment or, let's say, the price increases on the Allnet-Flats from EINS or even seeing the re-launch of the tariff portfolio of [indiscernible] (53:58).

So, the entry tariffs are less attractive as there was in the past. So from the low end segment, we saw definitely, let's say, a more rational behavior, because the network cost and the distribution cost reflected in this much better. Vodafone has been a bit more aggressive this quarter than the last quarters. The rate tariffs and the young tariffs there was a €100 initial bonus given extending the Christmas promo. So this was quite aggressive and then even they had on the subscription of the brand they were giving 100 gigabit for one month as a giga boost and activation fee for their app which is very aggressive as well.

So this might be due to their commercial phasing, so we will see whether they are still on track with regard to their more-for-more pricing move, whether this is an ongoing trend, but we see it more at least as a kind of seasonal thing. So, there's always some volatility which in our markets, but in overall, and you see that with our development, the picture seems pretty steady. We are not getting nervous by one or the other promotion in the market, but we always be very concerned if this is a continuous momentum against us, which we don't see.

We continue in our business to perform pretty well. We've seen great usage growth, our networks has won all surveys this year and last years, so we're doing well. And you see even this MagentaEINS as a kind of integrated proposition is designated to a lot of mobile customers as well. We have now even started the 900 megahertz initiatives to further improve the coverage in-house. So, our focus is on quality services, stays there and we're sticking out with our network in the mobile environment. So we are confident that we could continue this more-for-more and this value and create a story going forward. I hope that the rest of the market is seeing it the same way and behaving rationally.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG

Q

Just one more on German CapEx. I mean you've been very, very clear there, but I just wanted to check if this new program to connect 100 industrial zones with fiber to the premise is the beginning of something bigger, not in the broad market but maybe selectively in the business market? And behind that whether you see economics for fiber to the premise becoming more attractive or you see maybe demand for high uplink capacity growing stronger than you thought previously? So, any new thinking there would be interesting.

And then maybe just a broader question on what you consider the biggest risk to German fixed line service revenues growing over the next two years. So, what's the biggest risk from your perspective, is that network overbuild, is it aggressive pricing from cable or resellers or something else? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, Dominik, a start of something bigger, I think. Deutsche Telekom has never invested more than what we're currently doing, 20% of this huge amount of revenues into our business is already big. Everything what we're doing is into fiber rollout at that point in time, across the country, we are almost 500,000 kilometers of fiber built already and we are limited in a capacity from our network planning, people and even on some construction company sources in Germany. So there is nothing bigger than what we are doing currently.

Second, I do not – you are the cleverest people in the world, but at the same time, you're running into the same trap as everybody. There is a discussion, there is a bad world, which is somewhat copper based and there is a good world which is only fiber to the pure fiber to the home. For us, there is only good bandwidth or bad bandwidth with the customer. This is our pitch and we want to convince the customers then what they buy from us is a reliable, good quality of service where they could use all digital services at their home and on the move. And for this, we've developed different technologies, it's anyhow a hybrid infrastructure.

And we have said now, look, for the commercial areas where people and the Mittelstand is really working on the high digitalization where symmetrical speeds, up and download synchronized speeds are needed that we are in these areas are building fiber makes a lot of sense for these entrepreneurs. And we have now said, look, these guys might need higher bandwidth immediately today and in these areas, we focus directly on a build-out through the companies while in the rest of the country we are building the fiber in the streets and we use copper on the last miles to exactly do what we have said.

So, this is a good initiative to strengthen the industrial backbone of Germany, but it's not something bigger, it is part of something bigger.

Thomas Dannenfeldt

Chief Financial Officer

A

And on your second question, what's the biggest risk for fixed line revenues to grow, I'm not sure where you're heading towards. What I can tell you is what we showed you in 2015 on the Capital Market Days, what our assessment is what's right for rollout, what's right for development of the revenues, meaning upselling, et cetera. All this as you know remains – or we're right now on our way to deliver it. There is no significant change or news on that one. As always, for fixed line operator, the biggest threat is regulation although I think we can say that for our plans we are doing well here, but in principle, that's always true. But there is nothing special, nothing extra, nothing new I have in mind in terms of the fixed line revenue development.

Steve Malcolm

Arete Research Services LLP

Q

Thank you for describing us as the cleverest people in the world, that's the first time that's ever happened to me. But I just wanted to come back to U.S. under the question about the synergies that we're offering. And I guess, I look at it slightly differently and when I look at Germany in particular, I wouldn't say the test of E-Plus has been a spectacular success. In fact, you and Vodafone have probably benefited more. And when I look at Sprint, I look at something that looks like E-Plus on steroids in terms of the handset financing, underinvestment, high multiple, and how do you sort of handicap the risk that you did a deal and it went wrong, you got the wrong concessions?

Do you just think the regulatory picture in the U.S. is very, very different and therefore you would be less exposed to sort of regulatory concession risk and the chance that your competitors gain all the advantages and you possibly lose them? Thank you.

Timotheus Höttges*Chairman-Management Board & CEO*

A

Look, you belong to the smartest people, but I have given the answer already in my statement at the beginning that I'm not taking place in any kind of speculations about value or assets of any kind of the market environment in the U.S. It is irresponsible and you know how sensitive the Capital Markets are reacting on any comments in this phase of the environment that I'm not willing to give any kind of indication on values or whatsoever. Please accept that this will be even my position for any road shows in the future that we do not make any comment because there is so much speculation up and forth and down and back and that I will not participate in this discussion.

Q

My question is also in U.S., but I don't want to kind of focus on value at all, it's more about strategy. Given the strong subscriber growth that you have in the U.S., I argue that possibly it makes less sense even to look at Sprint. You know you – realistically, you will be acting as their savior. I would argue that possibly it makes more sense to look at content providers such as DISH or U.S. cable companies. So, the only thing I'm asking is a sense of your own strategic thinking of subscriber acquisition vs. content acquisition in the U.S.?

And the second one is all good to write-down the value of BT and realistically it has no impact on your valuation. But given that you have clearly different constant strategies of acquisition vs. aggregation and I guess, we know which one is the right strategy. I want to know what is the rationale potentially to hold on to a stake unless we are hoping for – optimistically for a share price recovery there?

Thomas Dannenfeldt*Chief Financial Officer*

A

First of all, the logic of the write-down in BT is quite simple. It's IFRS accounting standards. They are standards and we apply them and the logic of those standards say – clearly tell us when we have to do the write-downs and you see them running through the P&L by the way the other way round is not right or not true. IFRS also says if there's value up, you won't see in the P&L. So, that's kind of asymmetric accounting logic you – we have to apply by standard and I think the whole thing is not related to – you mentioned, to the different views on content aggregation, for instance, in our situation strategy, because I guess the local situation in the markets are very different related to content. As you know, Germany is very extremely high free-to-air level of quality and access to content whereas that's not true for the UK or other European countries, also some of our countries like Greece, where we play a different game in contents. But I think that's not related to any discussion on the valuation of BT, it's just accounting standards.

Timotheus Höttges*Chairman-Management Board & CEO*

A

Let me first answer the question on BT, and the logic about the [Foreign Language] (65:48). Okay, sorry, I was – no, I was just thinking about the first question about how to answer this U.S. issue here. And look, my answer is now very philosophical, or metaphorical. Look, we like geese, we like chicken, we like pigeons, we like every kind of poultry which is existing and we look into that one as long it is playing out to be a better for the customer, better for our customer success with experience and better for creating value in this environment.

Hannes C. Wittig

Head-Investor Relations

A

Okay. I have one more question via the Internet, and the question is if we can give us – whether we can give some more color on mobile termination rates on roaming impacts in the next quarters.

So, I suggest that you deal with this from the Investor Relations department as specifically on a quarterly perspective, but generally this year, we expect on top of the impact we had last year for the €30mm of roaming drag in our European business further a total of €80mm drag in our German business.

And we have also the termination rate drag, which incrementally, I think, is €60mm or so this quarter right – this year, sorry. And we had one month of that already in 2016. So and then I think, the quarterly progression maybe fairly pro rata.

Wolfgang Specht

Bankhaus Lampe KG

Q

One housekeeping and one strategy. Probably the housekeeping question first. If I got it right, your vectoring volume increased by around €0.4B in Q1. Can you give us some kind of indication or vision how this figure should develop for the full year?

And then the strategy question, again, on network looking forward. Would anything regarding the German network rollout change if we see a new big government program coming up probably with the next government that would be geared more towards real fiber investment?

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, I start with the governmental question here. The first thing is we have a good program, which was originally €1.7B, which is now doubled up to €3.4B to cover the rural areas in Germany and with this subsidization program. In most of the cases you have to invest 50% and 50% is coming from the other side. And very important to know is while doing this, you have to get then wholesale access to everybody. So for instance, Vodafone is not participating in that program because they do not want to have – give anybody wholesale access to their infrastructure. So in these areas, it is Deutsche Telekom who is mainly participating in this kind of programs, more than 50% at that point in time. The rest is coming from more or less local players who are throwing their towels on these areas.

That said, the question about extending this program beyond that I would answer, isn't that stupid that our tax money is going then into additional subsidization, shouldn't the government not first answer the question, why is the industry not sufficiently investing on their standalone basis. Shouldn't be – it be at the end of the day a state-owned, or let's say build-out infrastructure, or should it be a competition on infrastructure in our fixed line infrastructure? I think if you talk to the political leaders in this environment, most of them, they want to see that the companies themselves are carrying out, and the new market consultation which has been started by the Bundesnetzagentur, is exactly addressing this topic.

How, let's say, to create a better infrastructure competition in the environment, and how even to unfreeze maybe new kind of dynamic here in this broadband build-out for Germany. And I think for us, it is always something which has to do with price hygiene, and we believe that the price hygiene is not manageable as long if you have wholesale access regulation and prices below this own price regime. So, that is one of the hopes which we see that we have different prices for different elements here, and I hope that at the end of the day, something gets

here and for us something, and something changed in the setup of this industry with the consultation than rather putting additional money. If there would be additional money coming to that one, it depends what our role is and how we participate, I would say, that even in this environment, Deutsche Telekom would be the one who is investing more than the rest of the groups here. Look, the Vodafone guys, they are not extending their footprint, they are just extending the speed and they are as well – they are working in and the local carriers don't have the capacity to go for a German-wide build-out, so then the role is back to us to use the subsidization model, and then we have to do the calculation in which price regime is then taking place.

Thomas Dannenfeldt
Chief Financial Officer

A

Yeah. And on the first question, vectoring volume, this quarter was €400mm, last year's Q1 was €700mm, and you're right, we're using this tool and instrument for managing our receivables and obviously, it depends very much to full year on how the operational developments, especially in the U.S. looks like during the course of the year. So we don't give a full year guidance, but I guess it's fair to assume that we will see not more, not a higher level of factoring during the course of the full year. As I said in Q1, we are €300mm below last year's level.

Hannes C. Wittig
Head-Investor Relations

A

And I think that's the end of our call today. And thanks all for participating on a busy day. And we look forward to seeing you on the road shows even if we don't comment on certain matters, but I think...

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