

Company Name: Deutsche Telekom
Company Ticker: DTE GR
Date: 2017-08-03
Event Description: Q2 2017 Earnings Call

Market Cap: 74,512.07
Current PX: 15.649
YTD Change(\$): -.706
YTD Change(%): -4.317

Bloomberg Estimates - EPS
Current Quarter: 0.235
Current Year: 0.865
Bloomberg Estimates - Sales
Current Quarter: 18612.000
Current Year: 76139.095

Q2 2017 Earnings Call

Company Participants

- Hannes C. Wittig
- Thomas Dannenfeldt

Other Participants

- Polo Tang
- Dhananjay Mirchandani
- Akhil Dattani
- Ulrich Rathe
- Stéphane Beyazian
- Mandeep Singh
- Robert James Grindle
- Frederic Boulan
- Ottavio Adorisio
- Matthijs van Leijenhorst
- Russell A. Waller
- Andrew Lee
- Mathieu Robilliard
- Sam McHugh
- Justin Funnell
- Wolfgang Specht

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to Deutsche Telekom's Conference Call. At our customers' request, this conference will be recorded and uploaded to the Internet. May I now hand you over to Mr. Hannes Wittig?

Hannes C. Wittig

Yeah. Good afternoon, everyone, and welcome to our first half and second quarter 2017 conference call. With me today is our CFO, Thomas Dannenfeldt. Tim Höttges, our CEO, is excused today because he's enjoying his long-planned and well-deserved holidays. Thomas will first go through a few highlights, and then he will discuss the quarter's financials. And after this, we have time for Q&A.

Before I hand over to Thomas, please pay attention to our usual disclaimer which you'll find in the presentation.

And now I hand over to Thomas. Thank you.

Thomas Dannenfeldt

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Yeah. Thank you, Hannes, and a very warm welcome also from my side. I think there are only two things I'm not going to do today; one is to participate on the speculation about the U.S., and the second one is to tell you where Tim is doing his holiday. But seriously, I'm very pleased to say that, at the half-year stage, we are well on track for our 2017 targets. We've seen good commercial and also good financial momentum in all our markets. We've upgraded our EBITDA guidance today due to the T-Mobile US, but we're also seeing a bit of growth on this side of the Atlantic, which is important to us as well.

So, let's have a look into the presentation. On page 4, you can see that our peer-leading momentum continues. Our customer growth is strong across all geographies. Our revenues are up 5.9% year-to-date, and our adjusted EBITDA, 8.2%. In Germany, we now have over 8 million fiber homes, having added 1.4 million this year alone. In the U.S., we delivered another strong quarter, and what is particularly pleasing, we also saw strong customer growth in our European subsidiaries. We keep investing at record levels. After investing €11 billion in 2016, our year-to-date investments are up 13.5%. But because of our high EBITDA growth, our free cash flow is still up 18% year-on-year. And despite our \$8 billion investment in over 30 megahertz of U.S. low-band spectrum, we managed to remain within our net debt-to-EBITDA comfort zone. So, we're well on track for another year of major investment into the future, plus double-digit free cash flow growth. Today, we raised our EBITDA guidance for 2017 and we keep delivering well against the targets of our 2015 Capital Markets Day.

Slide 5 shows some examples for the strong momentum we are seeing with our customers. In the last 12 months, we added 1.6 million converged customers, 2.6 million German fiber customers, and 6.5 million U.S. customers. In the cloud, we grew 11% year-to-date after an acceleration in the second quarter.

As you can see on page 6, we maintained good momentum with our innovative products. For instance, we added 97,000 customers to our Smart Home platform in the last 12 months. In the quarter, we launched our new router, which integrates our Smart Home platform now. Our new StreamOn tariff in Germany launched in April has proved very popular and already has close to 300,000 subscribers.

This week, we revealed our new Telekom sports package based on exclusive arrangements and agreements with Sky. For €9.99 a month, our EntertainTV customers can now watch live conferences of the Bundesliga, the Champions League, and the German Handball League. This is in addition to our own content such as the national ice hockey, basketball, and the woman's football league. Also, in Germany, our new entry level TV product, StartTV, is off to a good start and has contributed to our 69,000 TV net additions this quarter.

We've also launched HD Voice Plus to provide our German customers with the superior voice quality. In the U.S., we again demonstrated technology leadership, and launched LTE U and are testing LAA. Both technologies are taking advantage of the unutilized spectrum in the very wide 5 gigahertz band. This band is, today, primarily used for Wi-Fi. We believe this is an excellent opportunity to complement our strong, low and mid-band spectrum positions towards a superior customer experience.

Talking about the U.S., you will remember our statement in our first quarter's conference call that it's possible, if not likely, that there will be various discussions regarding various potential strategic combinations amount industry participants including ourselves. We said at the Q1 stage that it's, of course, far from clear that any such discussions will lead to anything. And in any case, our number one priority is to leverage the fantastic opportunity that we have at hand and that we just further strengthen with our great success in the low-band auction.

You know our policy is that we do not comment on M&A speculation, and we and I will stick to our line that it would be wrong and that we will not give a running commentary here. By the way, I believe there are, anyway, enough people speculating around.

Slide 7 compares our year-to-date performance with our guidance. It is fair to say that we are comfortably ahead of the group level's guidance we issued at the 2015 Capital Markets Day. For 2017, we now incorporate the recent EBITDA. Our guidance increased by T-Mobile US. The U.S. has increased the EBITDA outlook by \$100 million, and the outlook for the remainder of the business is unchanged so that we can raise our group EBITDA guidance to €22.3 billion accordingly.

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Just a few words on the impact to the free cash flow. After T-Mobile guidance increased [ph] €50 million (6:10) due to an increased outlook for handset lease revenues, this does not have an immediate cash impact. Also T-Mobile now expect that CapEx will be at the upper end of their guidance range of \$4.8 billion to \$5.1 billion due to early 600 megahertz deployment, which makes a lot of sense. We, therefore, keep our free cash flow outlook for 2017 unchanged at €5.5 billion, up from €4.9 billion last year.

So, let me now discuss our second quarter in a greater detail, starting on slide 9. Adjusted EBITDA growth accelerated to 8.9% this quarter and to 8.2% at the half-year stage. Our adjusted net income grew 14% this quarter. Free cash flow was slightly down year-on-year this quarter, but this is just phasing. For instance, we incurred roughly €0.2 billion of call premier in the context of our recent bond refinancing in the U.S.

At half year stage, our free cash flow is up €0.4 billion or 18%. So, we're well on track for this year's €5.5 billion free cash flow guidance.

Moving on to slide 10. In Germany, our sales were again slightly up this quarter, but total service revenues were slightly down due to various regulatory headwinds. Our EBITDA grew 1% this quarter at the half year stage. While this looks a bit slower than what seems needed for the year, this is no concern for us and no cause for concern. For instance, at the second half, we will benefit from the merger of our sales and technical field service that we announced last year and associated savings. So, we see ourselves very well on track for our guided €8.4 billion EBITDA for the year as a whole.

On slide 11, you can see that our reported total service revenues are slightly down, but when you adjust for roaming and for both fixed and mobile termination rate cuts, our total service revenue would have grown 0.3% this quarter.

Looking at mobile, our service revenues grew 0.8% this quarter. The sequential improvement mainly reflects growing data usage, while 0.5 percentage points of the 1.6 percentage points quarterly improvement are due to a lower regulatory drag than in Q1.

We also saw nice growth in M2M where we added almost 1 million SIMs in the last 12 months. Without regulation, our German mobile service revenue would have grown 2.5% this quarter. Both our B2C and our B2B mobile sales revenues improved sequentially. And as always, small quarterly trends variation should not be overrated. But we see ourselves very well on track for our Capital Market guidance of 1% CAGR before roaming.

Our fixed-line service revenue momentum worsened slightly this quarter mainly due to a weaker broadband revenue growth and a difficult comp in wholesale. There's more detail in the appendix.

Despite various competitive promotions, our commercial performance has been very steady. We lost 186,000 contract customers this quarter, but our own-branded customer base grew by a strong 228,000, slightly stronger than in the more recent quarters. Our new StreamOn product had a positive impact.

As in the previous quarters, almost all of the volatility here is due to lower-end cards such as Lebara and not service provider business. So, basically, no relevant revenue impact here.

As you know, convergence is our strategic focus and we'll continue to make good progress here as well. This quarter, we further increased the percentage of homes with the MagentaEINS contract to 17% and 38% of all Magenta branded mobile contracts are part of a convergent relationship.

Our up-selling remains very successful. Home signing up to MagentaEINS spend, on average, €8.6 per month more with us than before. Benefiting from our various innovative propositions, our mobile data usage growth remained strong and contributed to our improved mobile service revenue performance. This remains a focus for us.

You may have seen that we have raised the data allowance in our S and M tariffs with effect from next week on by 1 gigabyte. Maybe two quick comments on this. First, this is a time-limited promotion for the summer month. And second, while this looks like a more-for-the-same, it's actually a more-for-more move, because we have raised one-off fees and taken out certain promotions.

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Moving on to next – to the fixed line on slide 14. Demand for our fiber product remains very strong with over 600,000 additions this quarter. Again, it's like – I think it's 7,000 a day, which is an amazing run rate. While our resellers keep doing well, most of the new customers were again on our retail platform.

We continue to think that this strong customer response clearly demonstrates the benefits of our strategy to bring our super-dense fiber network to as many homes as quickly as possible. TV net adds were strong again on 69,000. This also benefited from the launch of our new StartTV.

We added only 46,000 broadband customers this quarter. Our growth was, again, affected by our hard IP migration, which, for legal reasons, involves cancelling a customer line, still unbelievable. And adjusted for this headwind, we would have added well-over 70,000 broadband customers this quarter, consistent with recent performance.

The sequential slowdown compared to the first quarter reflects some seasonality and a slightly greater hard migration headwind. We continue to target similar broadband customer growth in this year as in 2016. But clearly, whether this can be achieved will depend on how successful we are with various planned mitigation matters.

Line losses were also hurt by the hard migration. In addition, in May, we put through a small line rental hike for single play customers. The resulting churn was a bit better than we had expected, but largely explains the increase in line losses, the first and the second quarter.

Our broadband revenues grew 0.8% this quarter, after 1.4% in Q1. The slowdown in the run rate reflects the still progressive impact on the promotions launched last summer, plus the incremental headwind from the hard migration, which is worse than we had originally expected.

While we expect trends to improve in the coming quarters, it is fair to say that from today's perspective, the target of a 2% CAGR in broadband revenues, which we promised at the Capital Markets Day, looks quite challenging.

On slide 16, you can see that we now passed 67% of the German households with our vectoring network. We are on-track to launch super vectoring in mid of 2018. This will increase the speed for most homes in our footprint to 250 megabit per second at a fraction of the cost of the initial FTTC deployment.

61% of our access lines are already on IP, up from 47% one year ago. This accelerating run rate takes us towards our target of migrating our B2C access lines to all IP by the end of 2018.

Now, moving on to our usual two slides on T-Mobile US, who already presented very strong numbers two weeks ago. Our momentum as you know remains very strong. We won 0.8 million branded postpaid phone customers. We also added 0.1 million prepaid customers with a sequential improved ARPU of \$38.70. Service revenues grew 8.5%, while IFRS EBITDA grew 18%. And as mentioned, T-Mobile raised its EBITDA outlook for 2017 by \$100 million.

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 1.1%. Our bad debt expense ratio dropped significantly, while our cost of service remained at 20% of service revenues. As you can see based on user-generated data but strongly underscored by yesterday's OpenSignal report, our network has a clear and growing lead on the competition. Since their launch of unlimited, both Verizon and AT&T have seen their network performance deteriorate, while T-Mobile's has further improved.

The key focus for T-Mobile has been our commercial expansion towards 17,000 [ph] brand doors (15:18) by year-end. This is an increase of 3,000, of which just over 2,000 have been delivered year-to-date. Another focus has been small cells where T-Mobile is planning 25,000 next 18 to 24 months, of which all will be fiber backhauled.

To sum it up, another great quarter for T-Mobile U.S. and lots of potential going forward.

Back in Europe, it was a strong quarter for customer growth in our Europe segment. Continuing the recent acceleration, the segment added 372,000 new contract customers and 175,000 new converged homes.

In Poland, where we had been losing share, we are now turning the tables and saw improving porting ratios and another positive quarter of contract net additions. Meanwhile, our European TV and broadband momentum remains strong and

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steady as well.

Our revenues in Europe were up 2.4% this quarter. Mobile service revenue grew in most markets, accelerating to 2% year-on-year across the European footprint. Reported EBITDA was down 2.2% but adjusted for our recent reorganization and FX, EBITDA would have been stable, consistent with the trend we continue to expect for the year as a whole.

The next chart shows that we now have migrated 64% of our homes to IP. Our LTE coverage now stands at an impressive 91%, up 7% year-to-date. And our fiber coverage has reached 27%.

Moving onto Systems Solutions on slide 22. Here we saw small revenue decline, as continue to execute our plan to move away from classical IT towards network-centric services. EBITDA was up strongly year-on-year, but this is mainly reflecting normal quarterly volatility. And as guided, we continue to expect a broadly stable EBITDA performance for the year as a whole.

On the next slide we show our new segment group development, which mainly consists of T-Mobile Netherlands and our German tower business. Importantly, from the beginning of this quarter Strato was no longer included from the 1 of April, so we are showing the numbers on this slide without Strato.

We had another good quarter in the Netherlands with 61,000 contract net adds. This is now the eighth consecutive quarter of contract customer growth. Dutch service revenue were up year-on-year. EBITDA also benefited from efficiency measures and from recent change in Dutch consumer protection laws as of the last quarter. Our tower business reported a slight year-on-year EBITDA decline, that was mainly due to transition costs following the carve-out of our German segment. Overall, the segment EBITDA was almost stable once you exclude Strato and is well on-track for our full year guidance.

As already mentioned, our second quarter free cash flow was slightly down year-on-year, due to phasing and TMUS refinancing cost. But at the half year stage, we are up 18%. And we continue to target the €5.5 billion for 2017 as a whole.

Growth in our adjusted net income was driven by a higher adjusted EBITDA and a better financial result, where we are benefiting from the improved interest environment. Higher taxes and a higher share of the minorities driven by the strong performance in the U.S. partially offset this positive impact.

Our net debt benefited from the growth in free cash flow, the Strato disposal, and also obviously FX, but it was negatively impacted by the \$8 billion spectrum payment and the divi.

Slide 25 shows our financial metrics. And as mentioned, despite the U.S. spectrum auction, our net debt remained within our comfort zone of 2 to 2.5 times adjusted EBITDA. And I can tell you, we are particularly pleased with that as well.

And as always my final slide summarizes the strategy we presented to you at our last Capital Market Day, as we continue to execute well against our targets. However, I think the time has come to give you our perspective for the years past, our current guidance horizon. Therefore, Hannes and myself and also in Tim's absence, Tim, we would like to invite you to our next Capital Market Days, which we'll have scheduled for the 24 and the 25 of May. And this having said, I think we're going to go to the Q&A.

Q&A

<A - Hannes C. Wittig>: Yes. And the good news is Tim will be there at the Capital Markets Day as well. So thank you very much, Thomas. We can start with the Q&As. [Operator Instructions] And as usual, the request is that you restrain yourself to two questions at a time. And so with that, we go to the Q&A.

I think I can see already a few questions here. So the first one would be from Polo at UBS, please.

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<Q - Polo Tang>: Yeah. Hi. Thanks for taking the question. I've got two questions. The first one is just on German mobile. There was a nickel improvement in terms of mobile service revenues in Q2. Part of it was lower EU roaming drag, but there was also a noticeable underlying improvement.

So how should we think about the quantum of roaming drag through the rest of the year? But also, were there any one-off factors boosting underlying service revenue growth in Q2? Or is the 2.5% underlying mobile service revenue rate sustainable over the coming quarters? So that's the first question.

Second question is really just about all IP migration economics. So can you give us a sense in terms of the quantum of OpEx savings that you can get per line when you migrate them from your current network over to all IP? Thanks.

<A - Thomas Dannenfeldt>: Yeah. Thanks for the question. First of all, on the mobile service revenue, first quarter headwind on the roaming was around €21 million. Second quarter is around €12 million. So we have a little bit of support this quarter on – due to that fact. And obviously the headwind will increase in Q3 again. So that's number one. So that was quite favorable for this quarter.

As I said, we will stick to our 1% CAGR ex-roaming here. Obviously I said on the broadband side, the 2% are quite challenging. The 1% CAGR on the mobile side, that's where we feel comfortable and might be a little bit higher. But that's basically where we are. The full-year impact on roaming, just to add, that will be €70 million to €80 million. So again, first quarter, €21 million; second, €12 million; and then the remainder of the year, you can calculate. That's on the German mobile.

And the second question was IP migration OpEx saving one line migrated to all IP. I think we haven't disclosed that for the – especially for the German environment. Especially because basically the savings you get if you switch off platforms. So, as long as you migrate the customers, there is no savings, there is the extra cost. And that's what we're still facing right now.

Once you have all the customers off the platform we switched off, you see then the effects of – it's hard to do that per line. That's much more related to a platform perspective. And remember what we've given to you in the Capital Market Days was that the extra cost we will have will peak in 2016 due to some delays we've seen in the B2B area. We've said 2017 will be like the same kind of vicinity. But from here onwards looking forward, the profile should improve and that's what you should keep in mind here.

And finally, and that's good – thank you, Hannes, for the remark – finally, the complete effect, that meaning Germany and Europe after a complete transformation will be the €1.2 billion net OpEx reduction. You will see that in the early 2020s then.

<Q - Polo Tang>: Thanks.

<A - Hannes C. Wittig>: So the next question – thank you, Thomas – is from Dhananjay at Bernstein.

<Q - Dhananjay Mirchandani>: Thank you very much. My question is built upon Polo's question related to the all IP migration in Germany, which is a crucial part, just given the orders of magnitude of the savings to your structural OpEx reduction story. So, given that 47% of retail lines are still on legacy technology and that you've been averaging about 3.5% in IP adoption per quarter of your retail line base, you still have, arithmetically, three years to go versus what you mentioned in terms of your target of completing the transition by 2018. I'd just love to understand how to reconcile the difference, because it suggest that you are planning for some sort of a hard [ph] miles (25:01) migration. That's the first half of the question.

The second half is, how concerned should we be about the implications of such a hard migration, on the flow-through of your aspired savings on a run-rate basis to EBITDA? Thank you very much.

<A - Thomas Dannenfeldt>: First of all, let me, again, clarify the numbers. Currently, we have 61% of the lines migrated, so it's like 39% to go. We are, for the mass market, absolutely comfortable, that by the end of 2018, we will have that done and completed.

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And as we've said, I think, several quarters ago already, in B2B we might slip a little bit talking about end of 2018 because it's much tougher to migrate those bigger complex, more complex customers. But in terms of the mass market, I think we are not worried about that getting it completed by end of 2018. I think the implications right now are that due to that specific German law, we are asked to really cancel the line of a customer first. Normal behavior would be, you inform the customer about a change in the line and you give them an opt-out, but – and that would be much more customer-friendly and what you normally think a player should do with its customers, but we required really to cancel the line. So, one implication is – and that's what we're seeing right now is that driving that hard migration which is necessary to get the people off the platform finally, also include some elevated churn on the broadband side. And that's the – the number I've given last quarter was high-20,000s, what we've seen there. And obviously there's a big focus on our side to find ways to mitigate that, but still be compliant with that, from my point of view, strange legal situation we're looking at.

I'm not sure whether that answers your question completely, but I think – so...

<A - **Hannes C. Wittig**>: Okay. So, Dhananjay, does this answer your question?

<Q - **Dhananjay Mirchandani**>: Thank you.

<A - **Hannes C. Wittig**>: Okay, that didn't work. But I hope you can e-mail me and we can pick up if you have further questions. So, I'll move on to Akhil at JPMorgan, please.

<Q - **Akhil Dattani**>: Yeah. Hi. Good afternoon Two questions, please, if I may? Firstly, on the StreamOn launch in Germany. Thomas, you mentioned that you've seen good initial customer reaction. I just wondered if you could maybe help us understand exactly what you are seeing? I guess either in terms of customer mix, up-sell, whatever the kind of key metrics you think are worth flagging in terms of what you're seeing at the moment, albeit appreciating it's early days.

And the data traffic growth in Germany in your presentation slides seems to have sequentially slowed. I just wondered why that was, obviously would seem a little bit counterintuitive with that launch. But maybe there's something else going on with MVNOs or wholesale or something else. So, that's my first question.

And then the second question, I guess it's just really a question around currency. Obviously we have seen quite a big move year-to-date on the U.S. dollar-euro rate. Just keen to understand when thinking about earnings and free cash flow, how we think about the drop-through in terms of debt exposure, hedging, and things like that, just so we can kind of quantify the impact on numbers. Thanks a lot.

<A - **Thomas Dannenfeldt**>: Okay. Thanks, Akhil, for the questions. First of all, on StreamOn, as mentioned, we are now around 300,000 customers on that one and I think it's important to understand that we put, let's say, the barrier to entry relatively high. It's for customers from the tariff scheme from [ph] M (29:08) upwards. So, we haven't opened it to the complete base, so to say, but clearly from that level upwards.

Basically we see three elements, new customers up-sell into a higher tariff plan and people just using that optionality within their tariff scheme they are already in and having a better experience. We are comfortable and fine with the mix, the new customers, that's around the vicinity of 20% roughly. So, it's not the driver of the whole thing, but it's also contributing well to it. We see a share of up-selling in there. So, a pretty good mix of making customers use more up-sell and also attracting some new customers.

The question, data traffic growth in Germany has slowed down. I'm not sure if the 61% – maybe, Hannes, you can help there.

<A - **Hannes C. Wittig**>: Yeah. Just on...

<A - **Thomas Dannenfeldt**>: 61% and before and was around the same vicinity.

<A - **Hannes C. Wittig**>: Yeah. Just when you look at chart 13, you can see that while it's true that the year-on-year rate has decelerated, the increment of the second quarter relative to first quarter is actually greater than the increment of

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the first quarter versus the fourth quarter. So, we do see some traction here from the StreamOn. But of course, you can also do the math. It's fairly early days for the StreamOn to have a full impact because it's ramping up at this point.

So, in terms of your other question on the U.S. dollar, how that fits through to the bottom line on net debt, I think, of course, we have some real hedges of the debt. We have \$30 billion roughly of the debt is in U.S. dollar. So, you can make the math there. So, it's had some natural hedge in our net profit figures.

<A - **Thomas Dannenfeldt**>: Yeah. Then the guidance is based on constant currency and the FX effect, I think there is a – on the net debt, there's a – on the debt there's a detailed information in the back-up. Yeah.

<A - **Hannes C. Wittig**>: Okay. So, let's move on to Ulrich at Jefferies, please. Ulrich, can we have your questions?

<Q - **Ulrich Rathe**>: Yeah. Thank you. The first one is on the mobile intake. The branded intake was quite strong. I was wondering whether you're willing to talk about the congstar share versus the Magenta share. And I think in the past, it was sort of roughly give and take two-thirds congstar. Is that still the case or has that ticked up and drove the uptick in the second quarter?

My second question is this. On the all IP migration, you hinted towards some mitigation measures that you're planning, I think, in the second half. And could you sort of talk about that a bit more in terms of what you're trying to do and whether that would put sort of you in touch price points or what sort of measures you're sort of trying to put in place to mitigate the issue? Thank you.

<A - **Thomas Dannenfeldt**>: Okay. First of all, on – thanks Ulrich for the question. For – on the congstar share versus Magenta share, as you know we don't disclose that, but it is constant more or less around the last quarter. So there is no big swing in the one or the other direction on congstar versus Magenta. So, no big change here.

On the all IP migration, mitigation and discussions and then thoughts about mitigation are not around price points. That's not what the customers' worries are about. Basically what we do in this, we're approaching customers who are happy with our product and they don't want to have a change and then we approach them and we cancel the line and as I said unfortunately what we can't do is tell the customer, you don't worry, we just switch you to IP and you don't have to do anything. We'll take care. What we basically do is we cancel the contract and then some days later, we can come up potentially with an offer and say, here's the new offer.

And it's much more about the way we approach the customer, make him understand that we will help him through the process and make sure that, first of all, we don't give too much negative messages and then come back and trying to fix it which, as I said, is very much regulated and required by law to grow that two-step approach. So, the whole mitigation is much more about – let me say it like this, more intensive care about what's going on in that process rather than pricing.

Operator

Okay. Thank you, Thomas. The next question is from Stéphane Beyazian at Raymond James, please.

<Q - **Stéphane Beyazian**>: Thank you. One question regarding the cost in Germany. I mean, you're clearly delivering on the return to EBITDA growth in Germany. But I'd like to understand how sustainable this is despite the two headwinds coming such as roaming. So, are you able to elaborate a little bit on the outlook for some of the moving parts in the cost base such as staff cost, marketing and acquisition cost, network cost for the remaining of year and perhaps beyond 2017? Thank you.

<A - **Thomas Dannenfeldt**>: Yes. As you know, in the first half, we grew 1%, and the guidance is growing from 8.2% to 8.4%, which suggests kind of 3% in the second half of the quarter. In the first half, we mainly benefited from the significant head count reduction in 2016, which was impacted by the front loading of civil servants' early retirement program.

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In the second half, we expect EBITDA growth to accelerate. Why is that? Several reasons. There are a lot of further IT and process optimization, automation activities going on. You can also talk about that nice buzzword of digitization, so those kind of effects. The efficiency is also related to the merger of our customer service organization we announced last year, which obviously we have done to get better output with a less input, meaning less costs and better customer quality. And that kind of initiative is also, in terms of phasing which – the delivery and the results in the second half of the year. So, that's why we are comfortable with the guidance for 8.4%.

<A - Hannes C. Wittig>: And I think, just to make clear, the roaming assets, Thomas has already talked about the roaming impact has already been, let's say, 40% of the full-year impact in the first half. And the full year impact, he said, is around €70 million. So, yes, it'll be a bigger drag in Q3, clearly for obvious reasons. But it's not, let's say, a significant item when you look at the overall magnitude of the growth that we – in EBITDA, that we try to achieve for the year as a whole.

Let me move on to...

<A - Thomas Dannenfeldt>: Wait a second. Before we move on, Hannes, I have forgotten one element of the one answer. Part of the answer was also – a part of the question was what to expect beyond 2017, so in 2018. And I think it's fair to say that we believe there is more to come in terms of cost reduction, obviously from 2018 onwards we will also see some more support on the EBITDA by revenue because the regulatory drag will more and more go away. But for sure, I think there is a big opportunity for us to deliver also even more on the cost reduction side. So, you should expect some more results here as well.

<A - Hannes C. Wittig>: Yes. And now, I move on to Mandeep at Redburn. Mandeep, can we have your questions, please.

<Q - Mandeep Singh>: Okay. Hi. Thank you, Hannes. It was just a follow-up really on – a little bit related to the previous question. Can we get a little flavor for the sort of scope and quantum of restructuring charges? They were a bit lower now, I understand they're going to step up next year. But sort of looking out into the medium term, what's the right sort of number people should be thinking about into the medium term?

And when – in how many years can we expect like a step change down? Can you just give us some idea of how we should think about this over the next few years, please?

<A - Thomas Dannenfeldt>: First of all, the long-term picture is that I think we will see just by the age structure, we will see in the first half of the next decade, we'll see a lot of support by people retiring just by age without additional money we need to spend for restructuring. Within this decade, we'll still see restructuring costs. But as we guided in the Capital Market Days, you won't see that elevated level you have seen last year, for instance, anymore. And you shouldn't expect any peak next year as well. As guided, there will be that kind of plus €1 billion level. But I guess there will be a kind of stable to slightly declining profile looking forward.

<A - Hannes C. Wittig>: Yes. And this year will be lower than last year for the year as a whole as well.

<A - Thomas Dannenfeldt>: Yeah.

<A - Hannes C. Wittig>: Yeah. Because last year, if you recall, we had the civil servant retirement program that we have referred to earlier, and that was a bit of a lump that is favorable for us. But it's also because we worked through it last year. But it's impacting year-on-year performance.

So, let me move on to Robert at Deutsche Bank. Robert, can we have your question, please?

<Q - Robert James Grindle>: Thank you. The first is on the cloud revenue growth, which seemed to have quadrupled in Q2 versus Q1. And I know last year was a bit soft on that front, but has anything changed in the quarter? Was it just a big contract, or was there a favorable comp? Some color would be great.

And then just going back to the strong mobile growth in Germany in the quarter, was there any benefit from customers re-contracting with handsets, who had been on SIM-only previously. Has the SIM-only handset mix changed in the

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quarter? Thank you.

<A - Thomas Dannenfeldt>: First, to the latter question, no, there was no significant change in the mix of SIM-only to SIM-handset-based prolongations, no big change in the mix. Normally, those mix only changes if you have a launch of, let's say, like a new iPhone or Galaxy sometimes. But as I said, no big change in that mix last quarter. And cloud revenue, it's quite simple, the cloud revenues are a mix of public cloud and private cloud revenues. And the public cloud revenues, it's a platform business. It's a quite – there's not a lot of volatility in their quarter-by-quarter whereas the private cloud is also depending on larger customers you bring in or changing something. So, you have a kind of normal volatility on the private cloud revenues and that's what happened here. There's nothing special. It's just a nature of that private cloud business that there's volatility on a quarterly basis.

<A - Hannes C. Wittig>: Great. So, with that, let me move on the Frederic at Bank of America, please.

<Q - Frederic Boulan>: Hi. Good afternoon. Sorry, Thomas, I'm going to try a question on the U.S., hopefully, you can answer on that. So, we're seeing a lot of different foundations being floated around. I mean, is there any scenario that you think would substantially change your ability to drive [ph] reasonable (41:02) integration synergies with Sprint?

Then secondly, if we can talk a bit more about the German mobile business. We've seen qualitative moves from Vodafone or O2 in the quarter, including much bigger data bundles.

How do you think it's going to shape up? You think your current price grid is competitive? Or you think StreamOn, et cetera, is addressing that? Or eventually we're just moving to more and more high bundles? So if you could comment a little bit on that phenomenon. Thank you.

<A - Thomas Dannenfeldt>: Thanks, Fred. On the U.S., as you know, I'm not going to comment on Sprint, specifically. I think what's clear is and you know that there is a fantastic standalone position we're having right now and all the ingredients for future success on standalone perspective are available and I think John [Legere] is absolutely spot on to focus the organization on the customer in the market and keep going. That's absolutely the right focus.

On the other hand, we all know there is upside by intra-market consolidation. That holds true for Europe conceptually and for the U.S. And there is also a business case for other combinations conceptually. No news here. And as we always said, it depends on the specific potential situation we are confronted with. And we will make up our mind if there is something to think about and then come to conclusion and then talk. That's the order we're doing it.

On the German mobile, first of all, bigger bundles, that's what we like. Talking about network experience and differentiating by network experience. It basically means that customer experienced the value of a fantastic network versus an okay-ish network. And once you see more and more video usage, the difference between an okay-ish and a very, very good network becomes very obvious. You can't cheat your eyes. They see it. And so for us, driving bigger data bundles is good strategically. And it's exactly along the line of our positioning we have.

And is our price quite competitive? I think if you look at our numbers, we have disclosed on the net adds on the branded ones, you see it is a very good result. So there's nothing to worry about in terms of commercial momentum we're having.

But clearly, data allowance will go up for sure. And we will make sure that we follow the more-for-more logic as we do right now. And make sure that the willingness of customers to pay is used for better quality. Yeah? StreamOn is an element of that. As I said a minute ago, it is partly addressing new customers to attract new customers. It's partly attracting customers to choose richer bundles and move them up. And yes, there's also part in there for already high value customers to enjoy more network. But it's nothing to worry about from our point of view, something we're going to drive actively, that kind of move towards bigger bundles.

<A - Hannes C. Wittig>: Very good. So let me take one question from – that's been sent by e-mail. So it's from Jon Dann. I'll take two of his questions. So one is on the dividend. So the question is, is the dividend linked to all controlled cash at the group level or therefore, does a full cash dividend need the T-Mobile U.S. to distribute dividend or otherwise return cash to Germany? And maybe I'll start with that one.

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<A - **Thomas Dannenfeldt**>: The answer is no.

<A - **Hannes C. Wittig**>: And I'll take the second one. So that's easy. If you heard Thomas just now, the answer is no. And clearly behind that is a certain outlook also for the business excluding the U.S. and where we are confident in our free cash flow generation as well.

And secondly, there is a question again from Jon as well, on the German broadband market. And he wants to know if as the anniversary of the pricing and the Test the Best promotion approaches, whether we already have evidence how many customers will upgrade or not.

And I think unfortunately, when it comes to Test the Best, we don't have much experience of course, because it was launched August last year. And so it will only begin to roll over from August – from now onwards, and we will then collect these experiences. But we have some experience related to the previous promotions, we had 24-month and a €10 rebate for why – for our broadband offers. And those began to roll over as of September 2016. And there, let's say, a large majority of people, I'd say, somewhere around three-quarters or more have decided to – not to negotiate and stick with the deal and the bargain.

But of course, we can't see that currently in the numbers very well, because of the promotional drags that we have in the broadband revenue line. Hopefully as both promotions wash out, we will see an improvement here in the coming quarters.

<A - **Thomas Dannenfeldt**>: Yes, and then just in my speech I said that we are expecting in the second half of the quarter an improvement versus the Q2 numbers. So obviously that will be a contributor of that. But as Hannes said, we'll come back to you next quarter with greater details about what really happened on...

<A - **Hannes C. Wittig**>: Good. So with Jon presumably also being on the beach somewhere. And I think I know where. Let's move on to Ottavio and at SocGen. Ottavio, can we have your question, please?

<Q - **Ottavio Adorisio**>: Hi. And good afternoon. A couple of questions on the other segments. So the first one is on the European one. This quarter, you recorded very good trends compared with previous quarter. And the two main drivers were the improvements you recorded in Poland and Hungary. And Poland was very impressive. You went from [ph] minus 10% to plus 10% (47:52) on EBITDA. But I see that the [ph] SEC (47:57) have fallen by 70% to 80%. So my question is, how sustainable is that improvement? And are you going to invest back in the market at some stage?

And the second one is on the tower business. The towers are normally business that are relatively easy to predict and relatively stable. But it looks that the EBITDA on your segment has been under pressure over the last couple of quarter. I believe that it's down to some integration cost. If you can talk more about the nature of these cost, and if they are going to continue over the next few quarters. Thank you.

<A - **Thomas Dannenfeldt**>: So I'll start with the towers questions. You're right, it's integration costs, and it will continue for one or two more quarters, but that's it. So it's not like a long-term thing, as integration costs shouldn't be. That's the second question.

The first question on – I'm not sure whether I got it right – on Poland and Hungary. Maybe you can help, Hannes?

<A - **Hannes C. Wittig**>: Yes. I think on Poland, I think we have – the second quarter is a non-operational situation we had last year. We had a very strong first quarter and a soft second quarter. So that drives the year-on-year trend here. And the reason for this, as we highlighted at the time, is that we had particularly strong visitor revenues in Q1. And that impacted phasing between Q1 and Q2. So if you look at the – for instance, the EBITDA trend for Poland for the half year as a whole, it's much less spectacular than the Q2 trend. So it's 2% EBITDA growth for the half year. And that's, by the way, on euro terms, so in local currency, slightly down.

So Poland, I think the real point for us is that we want to accelerate our – get back to a fair share of market growth. And we have historically underperformed here, and I think it's important for us now to come back especially in the B2C market. And we're seeing good traction here. Thomas has mentioned it's seeing good porting ratios versus certain

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competitors who have historically taken share. And I think this is encouraging and clearly a priority for us. I mean, you can see this as a – across the European footprint. But overall, I think when you look at the quarterly performance, half year performance across the European footprint, there is no particular items to highlight. It's a wash. And for the full year, we believe the EBITDA will be stable, as we have said, adjusted for the accounting change.

Okay. So, let me maybe move on to Matthijs Leijenhorst at Kepler.

<Q - Matthijs van Leijenhorst>: Good afternoon. Yes. Much of my questions have been answered. But are you willing to share any views on the possible merger between Drillisch and United Internet's short-term and midterm impact?

<A - Thomas Dannenfeldt>: Yeah, for sure. I think, first of all, it's important always to be aware that talking about Drillisch and United Internet, you talk about two-thirds of the market. There's one-third which is the B2B market, and by the way, part of our very good performance in the mobile service revenues is due to very good performance and disciplined actions in the B2B market. And then you have two-thirds on the consumer market. And that's where we're looking at, talking about Drillisch and United.

I believe as they are strong in those segments where we are, either heavily under-indexing or having just our fair share with congstar. There is not so much of a direct impact. It's obviously potentially indirect impact if price pressure is high in those segments. But there's nothing, no changes basically to what we've seen in the last quarters on that kind of price pressure. That's number one.

Number two is, I think for sure, the German market some years ago was overcrowded. It was overcrowded by 70, 80 MVNOs. It was overcrowded by four MNOs, and it's good to see that consolidation takes place not only on the MNO level but also on the MNOs, the smaller and the bigger ones, that makes a lot of sense. And so, for us, that's basically the view.

<A - Hannes C. Wittig>: Okay. And I have a correction to make because Jon Dann tells me that sadly he's in London and not on the beach. So, Jon, thanks for getting – sitting – doing – giving me this additional information. But we will still not say what you miss. But I think he's in a very nice place. So, that's what we can say.

So, another question from the Internet – for the e-mail, rather, is from Steve Malcolm at Arete, and he asks, whether we should expect any material change in strategy with the new CEO for Germany.

So, over to Thomas.

<A - Thomas Dannenfeldt>: I don't think so. I think, Dirk, who's well known here, and we've worked for a very long time closely together. I think he understood that the story is – and he shares that the story is quite simple. And, that is basically network differentiation, service experience differentiation. And, that's the play we are playing and that execution is the most important element of bringing that to a success. I think he has gathered a lot of experience last two years on Rogers in terms of how it feels to work on a cable basis. To understand that better, sometimes that kind of knowledge of what your competitors are doing is important as well. I think he understands that there is upside by driving costs more aggressively and creating more headroom to either deliver better results or reinvest into the marketplace.

So, I know Dirk quite well, and I guess he will have a fast ramp-up and no complete or big differences in terms of the strategic perspective of that company.

<A - Hannes C. Wittig>: And, there's also a transition phase that has – where you will – of five months here, where you – four weeks, sorry, where you will work together with [ph] Niek Jan (55:01), but he knows the business extremely well.

So, moving on to Russell at New Street, please.

<Q - Russell A. Waller>: Yes. Hello. Thank you. I'm going to try another one on the U.S., sorry, if that's okay? Given obviously the enormous synergies and sort of overwhelming logic to a deal, could you talk about what the kind of

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roadblocks are or issues or impediments or kind of why things are taking so long?

And then the second one is just on FTTH in Germany. Has there been any change in your thinking, please, about future investments or maybe anything to do with the timing of government subsidies or when we should think about some CapEx on FTTH coming through? Thank you.

<A - Thomas Dannenfeldt>: Yes, I'm going to start on FTTH in Germany. Basically for us, it's more or less two phases we're looking at, time-wise; One is we're going to finalize our vectoring rollout we're doing right now, also now addressing the [indiscernible] (56:00), those areas where we unfortunately had some delays because of some long regulatory discussions driven by the EU. But basically we're going to finalize that. And as we always said, by end of 2018, mid of 2019, I guess we will deliver an around 80% coverage in the country with vectoring, and then add super vectoring feature to it by mid of next year.

So, end of 2018, mid of 2019, we should have an 80%-plus coverage with 250 megabits, which I believe is a very good network infrastructure basis we are having here. So, after finalizing that rollout, obviously if you look at our current CapEx envelope, there is €1.5 billion incorporated just for that rollout of the vectoring infrastructure right now. And that becomes available and for sure, we're going to reinvest that for – into the next phase of rolling out infrastructure.

Is it purely FTTH? For sure, not. You know our position. We believe it is not about the right technology. There's no one right technology. It is about finding the right mix of technologies depending on what competitive situation is, what willingness of customers to pay is, and that's how we've done the rollout last years. And I think that's what we're going to do in the future as well. But, yes, for sure, without having given any guidance from 2019 onwards, on that one, for sure, you would see a much larger extend of CapEx going into FTTH as well from 2019 onwards. That's for sure.

On the U.S. roadblocks, again, the only perspective I can give is a conceptual one. What you want to make sure is if you move forward and if you leave your standalone position, which is an extremely strong one. We've worked hard five years to get to that very strong position. But if you leave that and move into a deal, you want to make sure that you get more out of it. And that does mean there are a lot elements in the whole game.

So, for instance, how sure you can be to get the synergies you have on a piece of paper really out? So, looking at a practical example, MetroPCS, T-Mobile US, preconditions were very good to get to those kind of synergies. And I think, John and the whole team has done an amazing job to do the retirement of the network infrastructure to move into one infrastructure, not losing customers on that way and so on and so on.

So, it depends not only on potential synergy numbers you might have on the paper, but also the, A, capabilities and, B, the difficulties you have to integrate and decommission and what you need to do in those type of deals. And that's part of and should be part conceptually of any consideration. And as always, without giving any preference for that, a mobile to mobile merger is not only conceptually, but also by doing it, the easiest way of creating synergies in a combination. It's more difficult to create a business case by a cable or fixed line mobile combination. We know that from Europe, but the case is still there. So, it is, as we're always saying, we don't prefer the one or the other. It depends very much on the concrete situation and I think that's all I can say to it.

<A - Hannes C. Wittig>: Yeah. Thank you. And with that, we move on to Andrew at Goldman. Andrew?

<Q - Andrew Lee>: Yeah. Hi, guys. I have two questions. One on broadband growth and one on – and another question on network transformation, but on the broadband growth you signaled a, kind of, lack of – an understandable lack of confidence in achieving your broadband CAGR. And so, just – this really sounds melodramatic, but what went wrong with broadband? Is it an implementation issue, things like hard IP migration, other things that have just got in the way? Or have you learned something more structurally about the growth outlook in fixed?

And then secondly on the network transformation side, I mean, you mentioned quite a few times the €1.2 billion of savings that you set a couple of – a few years back. But I wonder if you could talk about whether that expectation has gone up or is at least in the ascendance with the emergence of new technologies and customer behavior. Any update on the key new technologies or consumer behaviors that you would pick out as raising the scope of network transformation benefits will be great. Thank you.

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<A - Thomas Dannenfeldt>: I'm going to start with the broadband growth. I think first of all let me state clearly that the overall CAGR for the total service revenues in Germany has not changed. So, it's like always you have a mix of elements. One is your retail broadband, and you have the wholesale part. You have the mobile part, and if you mix all that and come to the total some of it that hasn't changed.

The inner mix has changed a little bit. As you rightfully said, maybe, and as indicated, very challenging to achieve the 2% maybe some upside on mobile that's why the mix is still a different one but the total sum is then still intact. On the broadband growth side, basically it's two things, It's twofold: one is the IP migration element. And the way we look at it is there's still six quarters to go until end of 2018 to get it done. And as I said previously, we need to work on mitigation measures to find better solutions. That's one point.

The second one is obviously also a little bit of or a lot of promotional activities last 12, 18 months. And our offer to have the first 12 months for [ph] €19.95 (62:32) and just try the new infrastructure obviously is part of that promotional element, so that has been a headwind as well. Is that a structural problem? I don't consider that as a structural problem, as long as our turnaround into a positive territory of total service revenue is intact, and that's true. So, that's the first one.

The network transformation, when we did the calculation of the €1.2 billion basically what has changed is, again here also the mix of the contribution a little bit. When we announced it, it was 700, Europe, 500 – sorry 700, Germany, 500 Europe. It was – the larger chunk was by customer service and field service, and a little bit like also 70/30 type of split was network infrastructure. So, the inner mix has changed a little bit of the contributing elements, but overall no big change. In those countries where we've more advanced than for the big ones like Germany we've seen also that the effects are kicking in and that we are seeing those effects.

And it's basically the following elements: One is IP migration, that is network speaks one language. One is – very important one is the virtualization of the network infrastructure. So, concepts like BNG or TeraStream, it's our concepts we're using to retire a lot of hardware you have in the network infrastructure. And to make sure that you have less components, less service in the infrastructure and that the software moves into the cloud which not only reduces your costs, but increases significantly the agility you have, but also the way you can serve the customers.

I'll give you a practical example, for those areas, for instance in Germany, where we're using BNG infrastructure, which is that technology way of virtualizing. What you can do is you move your home in a fixed line. You don't have to call customer service anymore. You log off, you pull the plug of your router, you put it in new home, you log in that's it. That is a very different experience, not only cost wise, but also from a customer's point of view than the ones we had before.

So, it is – IP migration is one part which is a necessity to have. It is the virtualization of the infrastructure which is also part of the digitization we're doing. It is the rollout of the excess infrastructure for sure, and then there's another part which is those Pan-Net infrastructures where we put product platforms. We have country-by-country in one shape and consolidate them and just provide a service like TV out of 2 platforms instead of 10 platforms across the group. So, those are the components, and what has changed basically is the inner mix of the contributors. But the vicinity of the savings are completely intact. And as I said, we see the results step by step also kicking in.

<A - Hannes C. Wittig>: Very good. So, next is Mathieu at Barclays. Mathieu?

<Q - Mathieu Robilliard>: Yes. Good afternoon. I have two questions, please. First, with regards to 5G and the evolution of mobile networks, some of your competitors don't believe that small cells will be needed in Europe for a while and not for a number of years. Curious to know what is your view on that if you actually believe something differently?

And second, with regards to IP migration, I'll focus on the costs. So, you mentioned during the call that the peak costs were 2016, but actually they're not declining that much in 2017. I guess maybe six months ago, you would have expected 2017 to come down from 2016, yet, obviously, your guidance is there and looking solid. So what have been the offsetting factors so far on what you expect for H2 against the fact that IP migration costs are not coming down? Thank you.

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<A - Thomas Dannenfeldt>: Yeah. First of all, thank you, Mathieu. For the IP migration, basically what has changed during our initial view on the IP migration is basically two things. One is the speed we can transform and move the B2B complex, B2B customers into a purely IP fashion and shape. That's one part, and related to that, obviously the IT and the product delivery supporting that. Knowing that this is the case and I said, on the other hand the positive is on the mass migration. I think that it's quite clear how it will be done, and we are very confident that by end of 2018 we will have it done.

I think knowing that, we've been clear about 2016 and 2017 but also been clear about there will be a decline in 2018, and we'll see, as I said, further cost reduction on the German side also related to that in 2018 which will support the EBITDA. So, I think that message hopefully was quite clear.

On 5G, I think there is – what we're trying to do is first of all, A, leading some of the initiatives on 5G in terms of specification and standardization to understand in a perfect manner where value sits and what needs to be done in 5G. We are cooperating with those guys who are advanced, like, for instance, the SKT, the South Korean Telecom guys who will deliver a kind of pre-version version of 5G I think next year. So to understand better what's really going on in 5G and mobile networks, because I believe there is a lot of [ph] pass (68:30) there as well – out there as well around that 5G thing.

I think what's obviously and what's clear looking at our European incumbent situation that we have a lot of assets, which will support a densification in terms of small cell, potential densification in terms of small cells. I'll give you an example, and as you know in Germany, extremely dense fiber infrastructure we're rolling out right now, which is very important for small cells, that you have good fiber backhauling infrastructure. Every – not every, but nearly every street cabinet will be connected with a fiber connectivity. That is in total 350,000 in the country.

So you have that dense infrastructure. You have also dense infrastructure of not only where fiber is available but also where power supply is available. So there's a lot of assets being available from a fixed-line perspective. You can make use of that densification of the infrastructure.

And for us small cells is one element we're going to use to improve network further on, and then keep the differentiation on the network side. By the way, that holds true for Europe with the now incumbent situation and fortunately also for the U.S., where the fiber connectivity to small cells is easier to achieve also without having a fixed-line infrastructure. So yes, we're going to go for it and show the customers that there is upside for them in there.

<A - Hannes C. Wittig>: And I think in volume terms, I think you've heard Thomas earlier in the call that we have commissioned 25,000 small cells in the U.S., coming on top of our 13,000 existing cells. And that's sort of [ph] edge (70:24) – probably a two-year perspective, although we often find our U.S. guys are a bit faster doing stuff. And surely we support it as much as we can. And in terms of – and that, I guess, will continue.

And in Europe, in Germany, I think you should expect small cells deployments to slowly ramp up and move into this kind of volumes probably more early in the next decade. But since we haven't talked about this, our CapEx beyond 2018, we should not say too much right now. But it's a good subject, I guess, for our Capital Markets Day next year that you have heard about today.

So let me move on to Sam at Exane. Sam, can we please have your questions?

<Q - Sam McHugh>: Yeah, thank you, Hannes. Just two quick questions then: firstly on the all IP migration. I was just wondering, you seem frustrated by this law that forces you to go and cancel the contract. Any scope of that changing at all you think? And I guess the benefit you talked about from all IP seem to be from switching off legacy platforms. Is that something we can expect to hear about next May as well?

Secondly, just on kind of bond redemptions. I think you said there was about €200 million in cash payments for the premiums this year. Is there scope for more to do in the late this year and next year? Or should we expect a nice boost of free cash flow next year as those costs kind of rollover?

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 Company Ticker: DTE GR
 Date: 2017-08-03
 Event Description: Q2 2017 Earnings Call

Market Cap: 74,512.07
 Current PX: 15.649
 YTD Change(\$): -.706
 YTD Change(%): -4.317

Bloomberg Estimates - EPS
 Current Quarter: 0.235
 Current Year: 0.865
 Bloomberg Estimates - Sales
 Current Quarter: 18612.000
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<A - **Thomas Dannenfeldt**>: Yeah. First of all, on the frustration by law on the all IP, unfortunately that will not change. The [indiscernible] (72:02) ...

<A - **Hannes C. Wittig**>: The federal, the high court.

<A - **Thomas Dannenfeldt**>: Yeah, Federal High Court, so that there is very little reason to think about a change here. And even if it's in the interest of a customer, sometimes the legal environment doesn't support that. So we will need to find better ways. That's our task now within that environment. But I guess challenging that environment and changing it, that is not – will not really help.

On the €200 million effect, it depends on – obviously there is still opportunity to optimize the financing situation in the U.S. Whether we do that or not is subject to a discussion we'll have with our U.S. colleagues and team and see then whether we do it in 2018 again. And then we will have a rollover or not. Let's see that's still open.

<A - **Hannes C. Wittig**>: But either way it will of course help us with the free cash flow next year.

<A - **Thomas Dannenfeldt**>: That's true.

<A - **Hannes C. Wittig**>: In more than one way unless we have another thing, a one-off year. But I think it's probably good to know that at the half-year stage we had €600 million more free cash flow than last year. If you take the €400 million that we reported plus the €200 million that we invested in lower interest costs going forward. So I think that's helpful. And the next question...

<A - **Thomas Dannenfeldt**>: Well, wait a second, Hannes. There is one element I want to touch on, upon, and it is, you guys should feel comfortable that we deliver what we tell you in terms of the 10% CAGR on the free cash flow, on the guidance we've given for this year, the €5.5 billion. And there is no doubt we will deliver that. And the same holds true for 2018.

But you should not get carried away. You know our perspective in terms of – our intention is to create headroom above the 10%. And whenever we create that headroom above the 10%, we're going to reinvest it to make sure that we can keep going with the free cash flow growth.

So let me state that very clearly. You should expect that we deliver what we promised. But whenever we create headroom, we're going to invest it into the future of that business.

<A - **Hannes C. Wittig**>: Yeah. We won't stop, they say, in America. And so with that, let's move to Justin at Credit Suisse. Can we have...

<Q - **Justin Funnell**>: Yeah. Just follow-up questions please. So on the all IP, does it get worse before it gets better? It feels like you've got the sort of tougher customers left on the B2C side. So are we going to see a pickup in line loss continuing through this year and next year because of that?

Secondly, your new offer with Sky on TV in Germany, is that some – you're pretty much selling it at cost or in fact selling it below cost. And do you think now that – actually you can start winning back customers from cable, particularly some of those SDU customers on cable that are paying a fair amount for TV.

And then thirdly on mobile. Obviously the way that StreamOn works is you're selling it through M and L tariffs. Can you share with us how the mix of your T-Mo customers, contract customers, the mix that are on M and L, has that changed between Q2, Q1. Is it starting to go up? Thanks very much.

<A - **Thomas Dannenfeldt**>: We do not disclose the concrete numbers on M and L. But as I said, there is an increase on the L tariff by that StreamOn – M and L by the way, but also from S to M, from M to L, so you see that increasing. You see the numbers increasing there as we have expected.

On the IP, I think the worst part about the IP we're making right now is obviously other than the cost, which is expected element in there is that churn element. And I think that vicinity of high-20s, mid-30s, that's where I believe we will see for potential – if we don't find better mitigation, we would see for next quarter's impact. And that's why I said, we are

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focusing now on mitigating those numbers. We will not get them completely off the table, but every customer counts, so we'll focus on bringing them down. But it's not likely – it will not double. So that's not the case.

On the Sky offer, you had a question on the Sky offer. Let me be clear what you get and what you don't get with the new offer. The new offer is basically Basketball Bundesliga. It's Eishockey-Bundesliga. It is a third foot – soccer Bundesliga than it is selected games of the women's soccer. And that's all products we have available any way on our site where we have the content available.

What we add from Sky is Handball-Bundesliga. We add the conference, the live conference on Bundesliga and the live conference on Champions League. So, it's not all the games or every game live. It is the conference for Champions League and for Bundesliga live.

So, it's kind of, as we believe, an extremely attractive entry level product, so to say. If you want to have the full monty you can get it, you can get it via us and Sky and the corporation. And you can get the full monty where you can see all the games live. But we believe there is a big chunk of customers, a relevant segment which would love to spend for like €10 a month to see that kind of content, and I guess we will find out next 12 months in the first phase, and then the free-to-air on Champions League will end, Hannes, I think May next year, is that right?

So, from May, June next year onwards, you will not see any Champions League anymore free-to-air. So, that will give us, I think, in the second step another boost. So, that's how we think about it. And obviously, yes it is about attracting customers, also new customers with that kind of content.

<A - **Hannes C. Wittig**>: Yeah. And we think it's a good deal from a commercial logic, and it's better, I think, under this German circumstances than models that we have seen in certain other markets in Europe. And a great way to achieve differentiation without spending an unreasonable amount of money.

So, the final question today is from Wolfgang Specht at Bankhaus Lampe, please.

<Q - **Wolfgang Specht**>: Two questions from my side. One, I read in a news channel that you are about to receive a compensation payment from BT. Can you confirm that? I read an amount of around €200 million to be paid out in Q3. And then the continuum question would be: is this included in your full year free cash flow guidance? That's it from my side.

<A - **Thomas Dannenfeldt**>: Yeah. Thank you, Wolfgang, for the question. I think what has happened is BT has reached settlements with us and Orange in parallel in respect of any warranty claims under the 2015 EE acquisition agreement, arising from issues that were previously announced by BT regarding the global services operations in Italy.

And I think we are pleased that we have found a consensual solution to that retroactive matter. It's already – it feels like 100 years ago, but I think it's only 2 years ago. And under the agreement, BT will make that payment of £180 million, which is roughly €200 million. And this settlement concerning that retroactive matter, of course, from our point of view, has no impact on the future relationship between the two companies. It's just related to what we had there in the SBA.

How does that impact our free cash flow? It doesn't impact our free cash flow because it's related to the M&A transaction, and those elements are not part of our free cash flow or reported free cash flow. And so, the only thing which is impacted positively is the net debt number and the ROCE number basically.

Hannes C. Wittig

Okay. Thank you, Thomas. So, with that, the conference is now coming to an end. And I would like to thank you, all, for your kind attention and questions. And if there are more questions that we haven't addressed today, then I would like to ask you to contact our Investor Relations department. And with that, I hand back to the operator.

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Operator

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