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EDITED TRANSCRIPT

DTE.DE - Q1 2018 Deutsche Telekom AG Earnings Call

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OVERVIEW:

Co. reported 1Q18 YoverY reported revenue decline of 3.9% and adjusted EPS of EURO.24.



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PRESENTATION

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 Wittig - *Deutsche Telekom AG - Head of IR*

(inaudible), everyone, and welcome to our first quarter 2018 conference call. With me today are our CEO, Tim Höttges; and our CFO, Thomas Dannenfeldt. Tim will first go through a few highlights and will be followed by Thomas, who will talk about the quarter's financials in more detail. After this, we have time for Q&A. Before I hand over to Tim, as always, please pay attention to our usual disclaimer, which you'll find in the presentation.

And now it's my pleasure to hand over to Tim. Tim?



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Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Yes. Thank you, Hannes, and a warm welcome also from my side. Deutsche Telekom has started very well into the new year, growing strongly on both sides of the Atlantic. Our operational momentum remains excellent, another quarter of record fiber net adds and the first quarter for branded ARPU stabilization in Germany. And we saw ongoing strong commercial momentum in Europe and, of course, in the U.S... While there's clearly still some room for improvement, for instance, at T-Systems, most of our trends points are in the right direction.

On an organic basis, our revenue grew 3%, and our EBITDA grew 7%. On this side of the Atlantic, our ex U.S. EBITDA grew by 2.2%. Our headline free cash flow grew 12.5%, and our adjusted earnings per share grew 20%. With the results last week, T-Mobile raised their 2018 EBITDA guidance by \$100 million. We are raising the group guidance today by the same amount while we confirm all other guidance.

T-Mobile also raised their net add guidance last week, now targeting 2.6 million to 3.3 million branded postpaid voice net adds in 2018 after 3.6 million in 2017. And of course, we are excited that we were finally able to announce our big transaction in the U.S. We're confident that this will create huge value for T-Mobile and for our shareholders for a decade.

But today, our focus is on encouraging first quarter numbers, and this is something we want to deep dive today. We will look and welcome you at our 2018 Capital Markets Day in Bonn on the 24th and 25th to deepen all other issues.

Let me start with our usual update on customer experience. In Germany, we launched the country's largest fiber-to-the-home project, covering 40,000 homes in the state of Mecklenburg-Vorpommern, and now the FTTH project to cover 55,000 homes in the state of Saxony, was also (inaudible) recently. Also in Germany, we pioneered an unlimited mobile data plan. We launched Europe's first live 5G trial network in Berlin, and our aviation, European Aviation Network is up and running. You will hear more on our innovations and our plans for peer-leading customer experience at this year's Capital Markets Day.

As you can see on Slide 6, our momentum with customers remain very strong. More than 10 million German homes subscribed to our high-speed broadband product, and you saw T-Mobile's relentless momentum when they reported results last week.

Slide 7 summarize the main highlights of the U.S. transaction we announced 10 days ago. We have created a lot of value in the U.S. in recent years, and now, we have a chance to supercharge this. As I said before, we believe this is a huge valuation creation opportunity all around. For this transaction, we can create synergies with a net present value of \$43 billion net of integration costs. We have been able to agree to very clear and decisive governance framework, and the Un-carrier team is clearly in charge.

You will ask, especially given the European experience, why should U.S. authorities approve this measure? The bottom line is that the merged company will leverage its unique spectrum resources to deliver the fastest path towards the most powerful 5G platform. We'll create U.S. jobs, and we'll give U.S. consumers much more value for money.

Importantly, the transaction does not require fresh capital investments from us in the United States and is built on a sound financial framework, including the principle of strict standalone funding of the combined U.S. company. We expect the transaction to be accretive to group free cash flow and to adjusted earnings per share after 3 years. And importantly, our investments and growth plans for our operations outside of the U.S. are not affected by this transaction.

Our stated dividend policy also stays in place. Specifically, we will pay the promised EUR 0.65 for 2017 in '18, and our dividend for 2018 and '19 will reflect our cash flow growth this year.

And while we are on the subject of M&A, our M&A department has been busy on this side of the Atlantic as well. And we are currently working on the approvals of our recently announced acquisitions in Austria and in the Netherlands.

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As mentioned, our U.S. colleagues have raised their EBITDA guidance for the year by \$100 million, and we are happy to raise our group EBITDA guidance by the same amount. Our outlook for our ex U.S. EBITDA remains unchanged. Also, our group free cash flow remains unchanged. This reflects expenses related to the U.S. transaction. Our CapEx guidance remains unchanged.

Let me now hand it over to Thomas, who will take you through the details of our Q1 financials.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Yes. Thanks, Tim, and hello to everyone also from my side. And let me start, as always, with our financial performance on Slide 10 in the overview. Our reported revenues this quarter declined by 3.9% year-over-year. On an organic basis, however, they grew by 3.1%. Our reported adjusted EBITDA was flat but would've been up 6.6% without FX or M&A. Our ex U.S. EBITDA grew by 2.2% organically this quarter, and we're on track for similar growth for the year as a whole. Adjusted earnings were up 20% to EUR 0.24 a share, reflecting lower interest and taxes, and free cash flow was up 12.5%, on track with our full year guidance.

So starting with Germany. Headline sales were down 1.3%, driven by IFRS 15 effect, which we estimate at around 1% to 1.5% of sales for the year as a whole and also reflecting lower handset sales while our service revenues were pretty strong. Our EBITDA was up 1.3% year-on-year, and this is a little below our planned full year run rate but this just reflects cost savings. And so we remain comfortable with our guidance to grow German EBITDA from EUR 8.4 billion to EUR 8.6 billion this year.

On the next page, you can see that our reported mobile service revenues adjusted for IFRS 15 accelerated to 3.2% year-over-year, driving better growth in overall service revenues. Note that this is after circa 1 percentage point impact from mobile regulation. The main driver for this strong momentum is successful up-selling in both B2C and B2B, calling our More for More logic. Visitor revenues also contributed positively. Excluding the above, our contract mobile ARPU stabilized this quarter, which is really great to see.

I'm looking now at mobile on Slide 13. Our commercial performance remained steady with 77,000 own branded customer contract net adds. We continue to see a favorable gross add mix, driven by up-selling to more data-rich plans like, for instance, StreamOn. Our headline numbers reflect the big write-down by one -- a low ARPU service providers, but this is not material for our financials.

So as you can see on Slide 14, mobile data growth remained strong at 45% year-over-year -- 54%, sorry, 54% year-over-year with average consumer data usage at 1.9 gigabytes per quarter. 44% of our Magenta-branded mobile contracts are now part of a convergent relationship, up 2 percentage points this quarter.

Moving now on to the fixed line side on Slide 15. We were able to sustain our improved broadband customer momentum. To adjust for losses from our hard IP migration, which were broadly unchanged this quarter, we estimate a netted share of 40% or better. Demand for our fiber product remains strong at almost 800,000 additions this quarter with the majority again joining our retail platform. And finally, we added 54,000 TV customers. Here, our run rate remains below our target.

Turning to our fixed product on Slide 16. Our retail revenues fell by 0.9% year-on-year, similar to last quarter. Positively, our broadband revenues recovered to grow 1.8% this quarter on a like-for-like basis, up from 0.6% last quarter. This reflects the expected rollover of the Test the best promotions we launched in summer '16. Please note that since the beginning of this year, we include certain B2B broadband products in our broadband revenues. And this reclassification increases reported broadband revenues and the reported growth rate but, as mentioned, we are also doing better like-for-like. As mentioned, we now cover 73% of German households with our street fiber network. 73% of our access lines are already on IP, up from 57% 1 year ago, as we target 2019 completion for our B2C all-IP transformation and 2020 completion for our B2B all-IP transformation.

Now moving on to our 2 usual slides on T-Mobile US, who already presented good results 2 weeks ago. In the U.S., we won 1.4 million new customers. This was the 20th quarter of more than 1 million customers. IFRS revenues grew by 8.7% this quarter while IFRS EBITDA grew 12.8%.



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On the next slide, as usual, we show some selected performance metrics for T-Mobile US. Our branded postpaid phone churn improved further and reached a record low of 1.07. Bad debt expenses also reached a record low of 1.0%, reflecting improved customer quality. And our commercial results are underpinned by a strong network, and recent Ookla and open signal data confirms T-Mobile LTE network leadership. Cost of service were up year-on-year, and this reflects the accelerated build-off -- build-out of our new low-band spectrum.

Now moving on to our European segment. This was a quarter of strong commercial momentum. We added 203,000 new contract customers, 60,000 broadband customers and 201,000 new converged customers. In Poland, our turnaround remains on track. Based on innovative propositions and significant expansion of our distribution footprint and network leadership in Q1, we delivered 69,000 postpaid net adds.

As promised, our European segment has begun to grow, both at the revenue and the EBITDA level. Reported revenues were up 1.1%, EBITDA by 2.5%. Organic EBITDA was up 1.6%. This is an exciting development driven by better markets, better commercial performance and a renewed focus on efficiency. Srinji Gopalan will give you more details on our performance and our future outlook on Europe at the Capital Markets Day.

So the next chart shows that we have now migrated 71% on our homes -- of our homes in Europe to IP. Our LTE coverage now stands at 95%, and our fiber coverage has grown to 33%.

So moving on to Systems Solutions on the next slide. Revenues and EBITDA declined in the first quarter. While Q1 EBITDA momentum looks improved, this is impacted by front-loading investments in IoT, the IP migration and by cost related to the business transformation that Adel has initiated and that we expect to deliver improvements going forward. Hence, we reiterate our guidance, which implies a more modest EBITDA decline for the year as a whole. Again, you hear more on this at our Capital Market Days, where Adel will outline his detailed plans for the business.

So the next slide shows then the segment Group Development, which come from -- comprises mainly T-Mobile Netherlands and our German towers. We had another decent commercial quarter in the Netherlands with 83,000 contract net adds. And adjusted for regulation and IFRS 15, our Dutch service revenues would have been almost stable.

On Page 25, we provide some more detail on our German tower business. Recurring rental revenues grew by 3%, and EBITDA grew by 5% driven by OpEx improvements. Year-on-year, we added 1,000 towers. In 2018, we target to almost double this run rate. But as you can see, this will be a bit back-end loaded.

So on the financials, mainly driven by lower interest cost in our first quarter, free cash flow grew 12.5% to EUR 1.4 billion, well on track with our full year guidance. Our net debt benefited from additional free cash flow. However, this was largely reinvested in acquiring additional TMUS shares and the TV platform, Layer3 TV, for which payment was made this quarter. Q1 growth in our adjusted net income and EPS benefited from lower interest and tax, as previously mentioned.

This means that on Slide 27, our balance sheet ratios remain right down the fairway with net debt to EBITDA down to 2.3, near the midpoint of our target range.

Subsequent to the announcement of our U.S. transaction, we have been put on a credit watch negative by Standard & Poor's, and our ratings outlook at Moody's has changed to stable. Fitch was left -- has left rating outlook unchanged. As mentioned, while U.S. merger integration costs will take us out of our stated 2 to 2.5 EBITDA comfort zone at the group level, we expect to return this -- into this zone within 3 years after closing.

My next slide, as always, summarizes the strategy we present to you at our -- or presented to you at our 2015 Capital Market Days in which we have since executed. DT, I believe, is in a very good shape, but now it's time for an update.

And that is a sneak preview you see on the next page. There is a new strategy framework, and we hope you will come to hear about the substance behind those labels you see on that page on the 24th and 25th of May in Bonn.

And I think we are now ready to open the lines for Q&A, especially on DT's performance in Q1.



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Hannes Wittig - Deutsche Telekom AG - Head of IR

Yes. Thank you very much, Thomas and Tim. Now we can start with the Q&A part. (Operator Instructions)

And with that, we look forward to your questions.

QUESTIONS AND ANSWERS

Hannes Wittig - Deutsche Telekom AG - Head of IR

I think the first one will be from Dhananjay at Bernstein.

Dhananjay Mirchandani - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

My question is related -- and this is not related to Vodafone-Liberty. So I will go to your core business, to the composition of your MagentaEINS subscriber base. You report 19% of your broadband access lines in converged bundles and quite an astonishing 44% of your B2C branded contract customers in those bundles. Now this seems to suggest that you are having more success in converting your existing mobile base on the back of rebates into bundles than increasing your mobile contract market share within your broadband base. So 2 parts of the question. To what extent is this observation accurate? And if this is an accurate observation, what are you doing to address this imbalance?

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

First of all, I'm going to start and then, potentially, Tim will chip in. First of all, I think it's kind of natural that you have a higher share in -- on the mobile side than the household side, because on the household on fixed line, you have always one line, whereas you can have in a household, obviously, several lines on the mobile side. That's number one. I think number two is I think the main focus, and you've seen us being very clear during the course of the last 3, 4 years, was always not to drive only volume but also always make sure that we -- make sure that the transaction per se is accretive. And you know that currently, we are on a basis like EUR 8.6, I think, per transaction. We -- accretiveness in Magenta, bringing people into MagentaEINS. That's number two. So it's always the right mix of driving volume and accretive transaction. I think that's number two. And number three is basically -- I think our mobile service revenue is nicely growing. But I guess from this year onwards, once the regulatory effects are out, that holds true for the whole market as well. So I think that looks like a healthy development.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Thank you, Thomas. Next is Polo at UBS.

Yin Kin Tang - UBS Investment Bank, Research Division - MD and Head of Telecom Research

Two questions. The first one is on Vodafone-Liberty Global. I mean, are you concerned that the combined company could create more competition to DT? And specifically, how should we think about the risk to your wholesale revenues, if any? And the second question is really just a bigger-picture question in terms of fiber. Can you maybe talk about what feedback you've had from politicians and the new coalition government for your fiber rollout plans? So specifically, are they happy with the mix technology rollout, combining super VDSL vectoring and FTTH?



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Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

Polo, this is Tim. First, with regards to the communicated transaction of Vodafone, look, I will do everything from our angle, I said that already, to protect, let's say, the competitiveness for our customers and for the market environment in Germany, where we're operating, and with everything to do to fight for fairness, for how we -- for how the situation is changing the environment and how the political landscape authorities have to work with us in the future and I will always fight that the fair value and accretion for Deutsche Telekom shareholders at the end of the day. This is my duty. This is my obligation and with everything, to defend and even to improve the situation in this environment. My observation is that there will be remodernization of the cable market. There will be a situation where 70% of the TV market would be in one hand. And I think even the housing association is a topic, which we have to address. This is something which we will now discuss with the authorities here. And even have to say, I heard that there seems to be an issue for Brussels alone. Honestly, I question that because 80% of the deal is related to Germany. And for me, this is not clear why the German authorities should not have something to say to this because it's heavily affecting the German landscape and the German competition here. So with regards to the wholesale and your question on the wholesale, first, I hope that this deal is not taking place at all. And that -- but when this will take place, Vodafone stated today that they will achieve 100 million of ULL and midstream-related synergies in the next 5 years. They have been slowly migrating Kabel Deutschland customers in the recent years. And you have seen our wholesale performance, which is very positive in this regard. Vodafone is heavily losing -- using infrastructure, fiber infrastructure from Deutsche Telekom in areas where they haven't built a cable infrastructure yet. And even their CapEx envelope, which I had (inaudible), not giving any indication that they are helping out to build the rural areas in Germany. So even this wholesale revenues will stay intact. So I think this number sounds realistic to me and seems to be manageable. With regards to the fiber discussion, in Germany, the first thing is that the political criticism around our infrastructure has heavily slowed down. We have announcements almost every day, but at least every week while we're opening up new vectoring and super vectoring areas across Germany. And it's really impressive if you see these numbers. I just gave, in my introduction, an overview, about 40,000 fiber households in Saxony, 40,000 households for Mecklenburg-Vorpommern and other areas. So the huge investments, which we are jointly taking here of Deutsche Telekom is paying off and showing the relevance in the market environment. So in the areas where we have built out vectoring, we see high customer satisfaction, and we see strong uptake from customers with 780,000 just in the first quarter in these areas. And I'm not talking about only base. There are also existing Deutsche Telekom customers. We are even attracting new customers. And without having seen now the final numbers of Vodafone here and -- I know that our market share is almost close to the target, which I have set for the organization already. So we see that there's something happening. There will be always rural areas, and there will be always areas who will go on TV. This will be always people who get interviewed, and these are people which you might notice by following the public around Germany. These customers not having as sufficient bandwidth is first and foremost one of our focuses, we will talk about the Capital Markets Day and our strategy on this one on firsthand. Secondly, and there is a lot of subsidy money, which is available, which is not being spent yet due to a lot of reasons. So there is a healing mechanism, which is not working yet. So I see that there is a clear target from a political direction. I see that this discussion is cooling down at that point in time due to the investments, which we see from us, but is now from smaller carriers here. And on top of that, we see the huge customer satisfaction in areas where we have built vectoring. And just to remind us, in summer, we start then with the software update on super vectoring, which will then immediately drive customers up to 250. And we have already 30 million households now covered with fiber. So I would guess that this is helping out to reduce the political criticism, which we had during the election.

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

Thank you very much, Tim. And next is Robert at Deutsche.

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

I'd like to ask about the impact of convergent offers on the mobile service revenues. I see it picked up a little bit this quarter after having fallen for quite some time. So I wondered what's driving that. Is it -- I don't think you changed your discounts but maybe it's recontracting of the base. And then to stick with mobile service revenues. Obviously, a great quarter on that. How much of the improvement could you say was driven by B2B versus consumer? Or was it more evenly spread?



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Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Robert, B2B -- this is Thomas. B2B and B2C is roughly 50-50. That was the second part of your question. The first one is the impact on the -- from FMC in the mobile service revenues, slightly up from last quarter, 0.5%, now 0.7%, but it has been 0.7% in Q3. So that's a bit of kind of normal volatility you have in the numbers, depending on the mix you acquire there, but it's nothing which is, let's say, steered or strategically driven. It's just a matter of what kind of mix by household you -- basically, you acquire here. So I think that level of 0.5%, 0.7%, quite a normal level you will see looking forward.

Hannes Wittig - Deutsche Telekom AG - Head of IR

But it's nice to see that our MagentaEINS momentum has actually slightly accelerated again this quarter. So we're happy to see that, and that's kind of a contributor here.

So next question is from George at Citi.

Georgios Ierodionou - Citigroup Inc, Research Division - Director

I have 2. The first one, I'm sorry to go back into the Vodafone-Liberty merger. But they did mention during the call that they would potentially look at opening the cable network at -- on a wholesale basis. I was wondering if you can give us some color without going into fairly specific contracts on how the contingent model agreements work and whether the parties on the other side could scale them down, whether there are any penalties and if they are able to just focus their efforts on one region rather than across the whole country. And then my second question is around 5G in Europe. Obviously, with the announcement of Sprint merger and the big 5G push in the U.S., if the merger gets approved, we know you are willing to invest there. In Europe, you don't lack scale in most markets. So I was wondering if you could give us an idea, not just for you, but for all the operators as a whole, why there's more reluctance and whether you're seeing that regulators and politicians are willing to give you the framework to invest.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

I'm going to start on the 5G side, and then we come back to the Liberty question, the Vodafone-Liberty question. I think first of all, and that will become clear as well on our Capital Market Days, we are not defensive in terms of our 5G -- about 5G in Germany and Europe. We believe there is -- basically, the way you can structure the whole discussion from our point of view is, a, there is a certain upside you have on 5G, which will become more and more important, the more data throughput you see in the network infrastructure, by better efficiency and on the capacity side. That's one part, number one. Number two, there is upside and opportunity in fixed wireless access setup. That depends very much on the topology you're looking at. But if that is right, you can use that technology to provide efficient super high bandwidth. It's number two. And number three, obviously, there's our new business model. So you can think about whether it be IoT or whether it be dependent on quality of service, classes, et cetera, et cetera. So we are quite keen to see that development taking place and not defensive on that one. I think what you need to have is kind of key ingredients to make 5G a success. It's, obviously, the right spectrum. You need to have a very good fiber backhauling infrastructure, which I think we are, in terms of Germany and Europe, clearly in a favorable position. And then obviously, you need to have the CapEx, spend the CapEx to roll out and upgrade the infrastructure and potentially also densify the network infrastructure. This is, by the way, why you're seeing on the tower, German tower company, the number of towers going up because it's about the densification, which is needed. So in essence, we believe there is not only in the U.S. or in Asia, there's also, in Europe, a significant upside on 5G. And as I said, that's just a teaser, more to come on the Capital Market Days. We will have a section on that one, to share our thoughts here. So for us, obviously and clearly, an opportunity looking forward. Now I hand over to Tim on the Voda-Liberty part.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

The first thing is I was very surprised about the statement that Vodafone can consider wholesale access obligation for the cable market because we had now, for almost 10 months, negotiations with the regulator and Mr. Homann in Germany and Vodafone's positioning in Germany was also

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heavily opposing to a wholesale access obligation. So this comes to me to a big surprise. That said, it seems to be that they are concerned about the approval phase and opening up their network. Now I do not know what they mean with the wholesale access regulation. Are they talking for a bitstream for the entire access? Or are they just talking about the (inaudible) for -- so the housing, wiring? Are they talking about opening up the access to the housing associations? Look, guys, I can talk and share, let's say, all my positions here now, but I don't want that because this is probably on a negotiation project with the political bodies, which is going on. I have my clear opinion on that one. The access to the housing associations and the housing wiring is definitely something which we see as a violation with regard to monopolization, and the rest of this is something which has to be discussed then in the respective (inaudible). Second, your question with regard to contingent models, what we are stating and what we have said is that we are willing to opening up our fiber infrastructures for everybody. And if they are accepting to let us -- to give us access to their infrastructure, as the same conditions. The principal basis is a contingent model, which we have let out, and the normal contingent model is running for 8 years. But I could even imagine that, to create certainty around this use of infrastructure, that we could extend this tenure beyond that.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Thank you, Tim. Next question is from Fred at Bank of America Merrill Lynch. Fred?

Frederic Emile Alfred Boulan - BofA Merrill Lynch, Research Division - Senior Analyst

Two, if I may. Firstly, if I could come back on the U.S., a couple of question on that. So to come back on the comments on Monday, I think you explained that you will provide an update on the dividend policy at the CMD mid-May in the case of a deal and without a deal. So just trying to explain what that means, if we will expect a different policy depending on whether deal goes ahead or not. And then secondly, just a question around the debt in the NewCo. So I think management guided for EUR 63 billion to EUR 65 billion of net debt post deal. So it's about EUR 5 billion of both consensus expectation. So if you could help us close the gap here. And same question for 2019, whether it's about EUR 4 billion or EUR 5 billion negative impact as well in your guided 2019 debt of EUR 66 billion to EUR 68 billion. And then maybe just a follow-up around (inaudible) question on the fiber side. You - have you -- are you getting any positive reception on your willingness to have no regulation in your JV with EWE and equally, beyond that, on any FTTH rollout? So what feedback are you getting on that?

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Yes. Fred, this is Thomas. Maybe I'll start on the divi question. I think what you've seen is 2014 to '17, you've seen 30% increase of divi, as we said, year-by-year, 10% up. And for this year, then to be paid next year, we said, clearly, we have a stated dividend policy. And that remains in place, and the deal is not impacting that. We don't expect the deal to be -- to close within this year maybe. There is a positive dynamic, but let's see. So for -- I think for '17 to be paid in '18, that's next week on the AGM. For '18 to be paid in '19, it's crystal clear, and I think that's what I'd like to say to the divi right now here because as you know, we don't have guidance so far out for the upcoming years. And then the second question was on the -- I think on the debt side on the U.S., if I got it right? I think first of all, there are 2 types of items, which are incorporated in our point of view. The one is in what I would call investment-related items. So for instance, money you bake in for spectrum acquisitions or whatever type of investments you might consider. Obviously, spectrum's a very obvious one. And then the second one, yes, the big -- the second big one is deal-related items and deal-related contingencies. We are always prudent, so is Braxton and the U.S. team, and so we've baked in those 2 elements, deal-related items, and some investment-related items like spectrum. And that is basically what makes the difference from, I think, your initial calculations to what you've seen so far. And on the fiber question, I guess I'll hand over to Tim.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

I don't want to gun jump on our discussion on Capital Markets Day, but let me say the following, that we -- the first thing, we are only building fiber these days and nothing else. So there is existing structure. And by what we're doing is we will be able, by mid of next year, to cover 95% of all households mid-speeds, which are beyond 100 megabit per second, at least 80% coming from us. We did a simulation. If it would have taken the money, not spending it into fiber build-out for the rural areas, so not going for connecting the street cabinets first, and just by building fiber to the home in the cities, we would have had a coverage of 20%. So 95% of households in Germany by 2019 beyond 100 megabits compared to 20%,



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let's say, fiber-to-the-home theoretically. So it was totally right, in the -- from an eye of the customers and even from the eye of the investor, to pursue as we did, and we will follow up on that one. The second thing is there are areas where we do not need a change in the regulation, because in areas where we get subsidies for fiber build-out, we anyhow have the obligation to open up this infrastructure. For this service, higher bitstream access prices have been agreed. So therefore, there is already, let's say, a kind of certainty under which we are investing. Thirdly, the question about fiber build-out in general going forward, and our point is a clear deregulation. Now we have seen the coalition contract. We have listened to the quotes of Mr. Homann, the head of the regulation in Germany. We have heard from -- and even the antitrust authorities and other thing, people here, that there should be a different regulation, less extent of regulation going forward with regard to the fiber build-out, which is giving the opportunity to partner on the one side, which we are heavily doing with EWE TEL and others, and to opening up the capabilities for amortization of this infrastructure going forward. So this is the discussion which we're going -- which we are discussing with all political parties. And I'm very encouraged about what I see and what I hear. The question is how we make that possible. We will show you our detailed offer on how we are solving that, and this has -- until then, I even presented to political leaders and the Bundesnetzagentur. We can imagine how that could look like at the Capital Markets Day. So there is a clear -- and we are now on the solution mode and not in the strategic question mode anymore. So I'm optimistic that we find a new solution. Let me add one last sentence. To balance the political ask with the entrepreneurial requirements, we will state very clearly that we only will go into fiber build-out investments with a certain threshold with a certainty weighted average cost of capital, so that everybody understands under which conditions we're going to invest. And this number and the details around this will be presented at the Capital Markets Day.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Thanks, Tim. And next is Andrew at Goldman, please.

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

Just a question around the competitive intensity run rate in German mobile, following Drillisch's decision to step up the drive for net adds with handset leasing. I realize it's early days, but I wonder if you could give us any update on that. And then just secondly, slightly related to it, in terms of your go-to-market in German mobile, Telefonica Deutschland have said they're going to use resellers less going forward. Have you had any -- or decided on any shift with how you use resellers going forward in your kind of drive for efficiency?

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Okay. So I'm going to start. On the competitive run rate on the German mobile, I think it's fair to say that there is a bit more noise and a bit more rush you see out there. Is it fundamentally changing dynamics? No, not at all. But there's a bit more dynamic in terms of competitive dynamics in the B2C market. I think that's fair to say, but not a big topic thing here. On the go-to-market in German mobile, I think what we're trying to do is always look, first of all, from a customers' point of view and angle. And I think what we observe, and that's kind of no-brainer, that more and more customers want to have online, easy to use, simple experience with us. And that means that there is more and more and more willingness from a customer, and I'm talking B2C now, by the way, I guess you do as well, that you don't need that super, super crowded, overcrowded retail landscape anymore. Nevertheless, I think what is important to understand, always very outspoken about that, our position towards the service we want to deliver to the customers is the right mix of being present at the High Street and giving a fantastic online experience. So you should not expect us to leave the retail scene, so to say, completely and just go on online. For us, it is -- the superior service experience we want to deliver is the right mix of being present on the street and being perfect online. I think that's where, at least, we should be.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Let me add from a strategic perspective. In principle, what we remain committed is the More for More strategy. What means that if there is more competition in the Drillisch segment and from other angles, that we are -- do not want to participate in -- on a High Street pricing level, but really, let's say, creating value for our customers. Our position as Deutsche Telekom in this branded segment is clearly quality leader. You have seen the recent drive test results. You have seen the recent service test results. We are #1, and we have decided to upgrade our mobile network beyond a



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good position as well in our CapEx envelope. We had a run rate -- we have a run rate of 2,000 mobile sites per annual while we were investing 500 sites on an annual basis in the past. So the quality is the key for us, and the More for More logic is the pricing answer. And on top of that, what we are driving is more SIM cards, more mobile connections into the MagentaEINS bundles. So convergence is, for us, the answer. That is why we are driving it across all market segments. And we're talking about Germany only today. Please have a look to what we're doing in Europe, 200,000 mobile net adds and 200,000 MagentaEINS net adds there as well. So great take up there from convergence perspective on all angles. So we are very much committed and focused on the convergence as an alternative to avoid, let's say, this sometimes really ridiculous and crazy price wars on the High Street.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Great. Thanks. Next question is from Emmet at Morgan Stanley.

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

I've got 2 questions, please. The first question is for Thomas. Just looking at German EBITDA growth, this was obviously very strong. I think at the tail end of 2017, I think from memory it was up 4.5%, 5%, but the domestic EBITDA growth has maybe risen by I think about 1%, 1.5% in Q1. I think you said this was due to the phasing of OpEx in Germany. Could you maybe say a few words about that, please, and what to expect for the rest of the year? And then second question, just related to the portfolio. On Slide 25, you've given some updated info on Deutsche mobile Funkturn, which is great to see. Just wondering, in light of the potentially higher leverage at the group following the Sprint deal, have you had any updated thoughts on where you see the German towers business within the portfolio for DTAG?

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Emmet, you raised the question to Thomas, and I will answer this question because I'm even able to answer this question. So on the German EBITDA growth, which was strong at the end of 2017, and now domestically only risen by 1.5%, this is nothing we are worried about at all. This growth rate can really fluctuate, and this is mainly due to the cost phasing, which we have in our businesses on a quarter to quarterly basis. And we are absolutely confident that we will deliver on our stated guidance of EUR 200 million EBITDA growth in our German segment until the end of this year.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

So true. Now I'm going to take the portfolio, the question on DFMG. Tim, by the way, I would never do that. If somebody is asking you a question, I'd never jump in. So Emmet, on your question on DFMG, I think you know that our focus here is maximize the value because what we've seen is a tower company which was not managed as a tower company but rather, more let's say, it was the shop doing -- looking for sites for the tech guys but not professionally managed as a tower company is managed. And this is for us and for myself, it's not a rating question or leverage question. It is -- there is value in there to manage better. I think we're on our way, as you can see, to get tenancy ratios of OpEx down. Whatever is important on a tower company's perspective and whether we're going to keep it in the company or partner it or whatever we do is a question which is not the main driver. The main driver is to maximize value.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

And if I might add, Thomas, what we will do is that we are trying to, as we did already, to add third-party business to it. So wherever we get the opportunity to manage, under the DFMG roof, more assets and creating economies of scales and productivity gains, we will be open to look at that. We are working already with the Sunrise people in Switzerland on this equation in the Netherlands. So there are tenancies that we are Europeanize this business beyond the footprint it has today.



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Hannes Wittig - Deutsche Telekom AG - Head of IR

Great. So next question is from Mathieu at Barclays.

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

Two questions, kind of follow-up from previous questions. In terms of the German mobile, you highlighted that there was no big change in the competitive environment. In terms of what you've been doing, I note that you have now given LTE to Congstar customer. I understand it's a reduced LTE. But that's something that you said you wouldn't be willing to do in the past. So I was wondering what has driven that. Are you targeting new segments with this offer? Or does it reflect any change in competitive offers? And then second, going back at the Vodafone-Liberty deal but from a different angle, which is as you were discussing the FTTH review from the regulators taking place: wouldn't that deal, if it goes through, be a good reason or an additional reason for having no regulation on an FTTH?

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

I'm going to start on the Congstar question and the LTE question. I recall I got this question in the past every second quarter or so. And I think the message I gave 3, 2? Three years ago was basically no, it's not the right time now, but LTE will not be the leading-edge element forever. Somewhere it will hit the mass market and somewhere it will be commodity because 5G will come up and 3G will not be, let me be also be clear, 3G will not be there forever. But basically on the concrete action we've taken here, we've introduced a speed option on Congstar, which is nothing else than the More for More logic again. So what we're doing here is on the Congstar base, we are -- and in the new customers, obviously, as well, we're introducing More for More on the LTE side here as well with a speed option. And I think time is right now, to move forward from, let's say, the only high end being able to use LTE to also this segment.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Look, Germany always are getting criticized for having an FTTH deployment which is lower than from other big European countries. We always hear this example of Spain or Portugal with regard to the fiber deployment to the home. And then the question is always what is the reason for that one? You know that I have a clear position on that one. I believe as long as there is no kind of retail price controllability for an operator or for an investor. And therefore, no possibility to guarantee an amortization of fiber to the home investments over a longer period, as long as this is not somewhere certain, there will be no significantly fiber to the home build-out in the European landscape. And everybody's behaving rational on this one. And therefore, the set-up of the industry, the regulatory landscape has to change. Now if there is no fiber to the home deployment, why do we need regulation at all? Because the regulation is always linked to the question about market dominance. So if there is no market, how could somebody be dominant in this area. So if you ask me, is there a logic to deregulate or for no regulation of FTTH? Definitely, yes. And this by the way was right before the merger, and it will even be more right after the merger because if you read the deck of Vodafone carefully, interesting one. They were always criticizing us for not having a sufficient NGA network. And suddenly, they use us and show we have a dominant NGA network in our Germany. So very opportunistic argumentation. I'm used to that, but independent from that one, I think on FTTH we need new incentives for investment. And this is a serious discussion which is taking place.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

(foreign language)

Hannes Wittig - Deutsche Telekom AG - Head of IR

We have next Ulrich from Jefferies.



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Ulrich Rathe - *Jefferies LLC, Research Division - Senior European Telecommunications Analyst*

I was wondering about the broadband market in particular, the Test the best behavior of customers you are seeing. Do people sort of drop back? Do you see sort of in the big scheme of things, people sort of sticking with it? And then related to that, I think you sort of said during your presentation that your broadband revenue sort of are not underlying because of sort of a definitional change. But it is actually growing underlying. Could you just highlight how much it is because we obviously still have that target from 2015, I think, from the Capital Markets Day out there. And related to that, it would be the final element of that question. Is the fact that this might be tracking a bit below target, is that more related to overall volumes? Or is that related to the dilutive effect of Test the best, which is obviously just a transient issue. That will be the first question. The second one is very quick. The line loss which was sort of a bit high in the first quarter. Is that sort of the volatility? Or is this something more structural? And how should we think about that during 2018 for the other quarters?

Thomas Dannenfeldt - *Deutsche Telekom AG - CFO & Member of Management Board*

I'm going to start on B2B. First of all, to clarify the numbers, reported is plus 5.3, underlying is plus 1.8, which is up from the 0.6, I think, we had in last quarter if I have that right in mind. So we always said once that effect of Test the best is kicking in, we expect ourselves again to see ourselves again in the [1 point x] area, and that's exactly what's taking place now. So there is not really a below target situation from our point of view. It is true and fair. If you address the 2% CAGR we laid out. But in principle, I think that is pretty much in line with our expectation, what we have guided for last quarter's around Test the best impact. So that's number one. It's for sure not a matter of volume. I think we're in a good shape in terms of the volume. It is just a matter that it took a bit longer till that dilution was washing out. That's basically the answer on the broadband market. But for sure, if you take into account that the numbers you've seen are A, strong but B, softened and reduced by our IP migration we're doing proactively, I think we are in a pretty good shape there.

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

Interesting one was we had yesterday discussion on the line loss and question how we show them going forward, whether this is really let's say, giving transparent good information or whether this is more irritating. Because the quality of the line loss has dramatically changed, in the past we were losing household. In the past, we were losing a customer. Now most of the line losses are coming from the IP migration and from ESDN lines or from sleeping lines at B2B customers which are getting switched off. As you can imagine, the value-add of this is significantly lower as of losing a total household. And therefore, I think the question is how is the market share of single lines compared to the double-play market in the consumer space and what is, let's say, the amount of sleepers from migrations we might see going forward in this segment. But from a value perspective, I would say it's much more relaxing as it was in the past, and there's nothing to worry about this number going forward in our projections here.

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

So next we have Stephane from Raymond James.

Stephane Beyzian - *Raymond James Euro Equities - European Telecoms Analyst*

Two questions, one on Europe and one on the U.S. if I can. Regarding Europe, [GDP] growth from Greece, Czech Republic, Slovakia, Hungary are quite exciting actually in the first quarter. I think you've done a lot of work on the cost there, the all-IP, the digitalization. So my question is how sustainable do you think the first quarter trends that we see here are going forward? And hopefully, could you also expand to Romania and Poland, which remain lagging there? And my second question is relatively open question. The T-Mobile and Sprint shares have traded quite hard since the deal was announced. So in the feedback that you receive, is there anything you think investors have wrong in their perception of the transaction, in your opinion?



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Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Let me start, and then Tom is jumping on that. The first, as we saw the trends already last year from the customer perspective, and we were heavily catching up on the relevant market shares on the net add side. We have seen the strong shift into MagentaEINS and good network quality. The P9 test, we have 1 in 9 or 10 markets. So we are doing very well from a quality perspective here. So is this a sustainable trend in Q1, which we see in this Europe division? Yes, it is. And the good work which has been done under the new regime from Srini prepared by Claudia before that, is really showing success. Good market share on the customer side following sales and now kicking in EBITDA. So you will hear a very encouraging pitch and perspective forward from Srini on Capital Markets Day in the other week. And with regard to U.S., a quick answer on that one. Look, I understand that there is a shift in the shareholder base, which is taking place because the investment profile of our 2 companies are changing. Definitely, that's normal. We have stopped with the share buyback program. At the same time, we are announcing a merger with some uncertainties going forward. But I can tell you, this is a transformational move for Deutsche Telekom for its value creation going forward. I'm totally convinced on that one. And that is why I'm working for 7 years on this thing. This is from a market dynamic, it is from a synergy perspective, it is from a shareholder perspective for Deutsche Telekom, this is the biggest value-creation opportunity which I've seen for a long time. And therefore, I would say yes, there is currently some misjudgment. But Thomas will give you a little bit a flavor of how we see the situation there.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Yes. To build on that what you said, Tim, the interesting stuff on these, all the discussions we had basically with everyone in the market be it Tim or myself or Hannes or whomever, I haven't met anyone who wasn't convinced about the power of that deal. And so by the way, the way the whole synergies are set up, that is it's done in a way where playbook is known. It's been delivered by the team, et cetera. So I don't give you the full story. So to be honest, I'm a bit -- I like to learn a bit from you guys what's going on here because we have a talk. We present a deal. Everybody says we are, wow. And then suddenly, you see that Tim is right. There are elements like the share buyback stopped, et cetera, but guys, looking at that deal, I'm not clear, I'm not sure still. I need to find out together potentially in talks with you what's going on here because, obviously, the power and the upside in that deal is, from our point of view, not reflected in what we see right now in the stock price.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Maybe to just add on Poland, if you look at the numbers this quarter, they are actually improving. We had good customer intake. We've now been delivering good regular customer growth this quarter. I think it's 69,000 or so net adds. And also therefore, revenues have stabilized in EBITDA this quarter. So in Romania, we are -- we had some operational issues last year. But we're also seeing good improvement in the commercial momentum now, which is good to see. So with that, next, we have Sam at Exane, please.

Samuel McHugh - Exane BNP Paribas, Research Division - Analyst of Telecom Operators

Two questions. Firstly, on Germany. I just wanted to try and understand what [battle] was happening between consumer and B2B. If I look at the spread between the revenue trajectory of both those businesses, it's now about 5 percentage point in gap with B2B growing nicely and consumer going backwards. Presumably, partly this is IFRS 15, maybe more handsets in consumer, I'm not sure. But maybe you could you share some metrics on ARPU growth for consumer versus B2B. And then secondly, I'll try to ask you about Liberty and Vodafone again. So sorry. You mentioned that you would love to have access to housing associations and building wiring. But presumably, if you go too far, there's a risk that you do end up with a Belgian-style bitstream style product. Kind of how do you think about not pushing the demand too far? And what do you think would be worse, you getting no remedies at all or having a bitstream style product introduced?

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Yes, this is Thomas. I'm going to start on the German side. I think you're spot on it. The difference basically is related to handset side. So if you just look at the service revenues, you see, as I said in the beginning, it's like 50-50 you see on both sides, B2C as well as B2B. Continuing better trend in the tariff mix that is more and more coming through on as you know, on the consumer side, things like StreamOn as an example where we're now above 1 million customers on that proposition. The same holds true on B2B. So actually it's on both sides, More for More working obviously in



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different ways as they are different segments. And the data is related to the handset side, which is obviously not changing really, the value of what's going on there.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Look, my statement on Vodafone Liberty. I think that I see no reason why this deal should be approved. And therefore -- I know that the Vodafone people know this. And they have to bring something to the table to ease the situation. Now how that looks like from a wholesale access point, they have sweetened the equity story today by saying we might be open on the wholesale model. But I do not know what kind of wholesale model they are thinking of. And there are so many opportunities. So therefore, I will not now ask for something. I will first hear what they will offer. And then we discuss it. And therefore, don't take that as a kind of escape here for me. It's just technically wiser not to comment on that one.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. So next is Christian at HSBC, please.

Christian Fangmann - HSBC, Research Division - Analyst of Telecoms

Yes, it's Christian. I have actually 2 commercial questions. First, on broadband in Germany, I think you lowered your promotions to 6 months from 12 months prior. And I just wanted to see and understand what the momentum since the introduction of the lower promotion was at the beginning of March. And then secondly, you introduced an unlimited mobile offering, and I just wanted to ask what the kind of the reaction in the market from a consumer perspective was and also from a B2B perspective, if that is also driving your mobile service revenue and the pickup is good or not.

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

Look, the first one, it's very early to say how the broadband market reaction is. What you have seen in the first quarter was very strong uptake on broadband. Net adds, as I mentioned in my speech, is that we are very close to the net add market share number which we were fighting for. So I think I'm very proud about what the team is doing there and how they're doing it without ruining the prices in this market. So let's see how this lower promo is working going forward. It is always our intention to get a fair value for our product, and you know that we have to amortize and pay back the investments in our infrastructure. So that's the first thing. The second part is unlimited mobile offer. Before somebody's preempting that space, we are the first one doing it. We did it as a price point which has not ruined the mobile market. It is a fair value for the customers to the old promotions but as well compared to the offered ones in the market. And we are positively surprised about the pickup rates, which we have seen despite the fact that this is not now the low end of price point which we have. We know this. And therefore, having something like 15,000 customers already booked into this service, this is around or even higher than the expectations which we originally had. So I think we are in a good track with the total portfolio which we have in the market.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Maybe one additional element here, Christian. On the lowering of the promotions, unfortunately, what we haven't seen is any reaction in the market at all. So I mean, the good news is we haven't seen a reaction by customers. So the run rates are good still. But what we haven't seen as well is that there is a pricing up development in the market. That's also not taking place, which is a kind of -- it's like it is.

Okay. So next question is from Steve at Arete, please.



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Stephen Paul Malcolm - *Arete Research Services LLP - Senior Analyst*

I'll go for a couple. Sorry to hark back to the Liberty Vodafone announcement. So but could you possibly give us some color on the sort of competitive dynamics in the 2 different cable footprints where you're competing at the moment? Because when one looks, the overall revenue trends of Vodafone and Unity look pretty similar. It's not obvious what benefits Vodafone brings to the party there. So do you find you're less able to sell the convergent offers in the Vodafone footprint? Is your mobile performance significantly better there? Any color that you can provide through operation would be very helpful. And then just on the fiber subsidy program, can you update us how much money you've actually accessed so far and how you think that program may evolve with the government's fiber plans which will be announced I think by the 1st of January, and whether more straightforward allocation to that subsidy would help your own efforts or help the efforts of other operators to accelerate fiber Germany FTTB rather, obviously, than FTTC.

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

So the honest answer on the behavior between Liberty and Vodafone in the German market is very clear. The Liberty people were always behaving, let's say, as professionals, very disciplined in the pricing politics and in the way going forward in their market. But Vodafone was always trying to behave like a mobile cowboy in the '90s. So that was our observation in the cable footprints. So I don't know what that means for the future on this way, but we always found the Liberty people more competent in cable.

Thomas Dannenfeldt - *Deutsche Telekom AG - CFO & Member of Management Board*

And then on the fiber subsidies, I think a few things to mention. The vicinity we're talking so far is in a couple hundreds of millions on a yearly basis, roughly. And it's kind of stable during the course of the last 3 years at least when we've seen subsidies kicking in. We have 2/3, a good 2/3 share of what we take or what we win in terms of the offers, the subsidized offers. And I think the key question here is much more -- it's not a matter of pumping more money in there. That is also helpful for rural areas, don't get me wrong. But the key element is how to make the money flow. As Tim mentioned in one of his speeches, rightfully so, there is enough money available which is not being used. And the issues here are the way you can address -- can grab the money, how fast it's been delivered, et cetera. So it's quite complex administrative process. And for sure, if you want to ramp up and do something more for the rural areas, which is, obviously, the intention here also on the political side, there needs to be a lot of work on simplified access to that money, for sure. But we're ready to go for it in a simplified or also in a nonsimplified version, don't get me wrong.

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

Okay. Thanks, Thomas. Next question is from Guy at Macquarie.

Guy Richard Peddy - *Macquarie Research - Head of Telecommunications, Media, and Technology*

Just 2 very quick questions. Your migration to IP continues to be well, developing in Germany but not going at a very strong pace. It seems like it's still going to take you another 2 years. Is that correct? Secondly, commercially, when there has been a deal in Germany, it's been an opportune moment for competitors to win share. Do you see that now with Vodafone and Unity effectively straddled by trying to get deal approvals. Are there are opportunities for you to actually push a little bit harder commercially?

Thomas Dannenfeldt - *Deutsche Telekom AG - CFO & Member of Management Board*

Yes, I'm going to start on the IP migration. I think you're spot on. On the B2B side, we said end of next year, then finally -- and then B2B at '20. So it's kind of 2 years. You're right. I think what we've underestimated a bit is on the consumer side as well as on the B2B side, it's not hard to get the first 80% to move off the platform. It's hard to get the last 10% off the platform, and it's harder, takes a bit more time and effort. I think the good news is even with more time and more effort it takes here, we are not off what we have promised to you guys in terms of delivery on EBITDA. And we're not off in terms of consensus. So yes, that's true, what you're saying. But I guess we've found enough areas to mitigate the whole thing.



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Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

With regard to the second question, look, we had in the past and we will in the future, always trying to do the right thing for the market and the right thing for Deutsche Telekom so that the value creation is balanced here. Do we see a change due to the announcement of the merger for the phase of the approval to this? No. So we're on the side, let's say, for the most -- best position for Deutsche Telekom in this environment.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

But let me also be clear. We don't need that kind of weak competitors. We are in a good shape in terms of our commercial momentum in Germany and in the broadband arena. And we will make sure that we keep going.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Yes. So the next question is from Josh at Redburn, please.

Josh Hallett - Redburn (Europe) Limited, Research Division - Research Analyst

The first one is just on Vodafone talking about upgrading cable to DOCSIS 3.1 fairly quickly. Could the approval of this merger, if that occurs, potentially move your CapEx budget in Germany over EUR 4.5 billion just for competitive reasons because you might need to respond to them? Or is it the case that you literally can't increase your CapEx any further due to a lack of civil engineers? And then secondly, I know you're guiding for revenues and EBITDA to grow for T-Systems in 2019. But order entry is just 91% of sales in Q1. So is that still realistic? And how would that be possible?

Timotheus Höttges - Deutsche Telekom AG - Chairman of Management Board & CEO

My reading from what has been announced today is that our competition has just repeated old plans. So there's nothing new coming on top of that. And our plans are our plans. And they do not change with this announced merger. And we have a framework for our investments going forward. We have a clear rollout in mind. We have defined, let's say, the envelope in which we are doing that, which is stable on the level, which you know. We will give you all the details and the flavors about the different regions and areas, how we're investing at our Capital Markets Day coming forward. But I do not see that anything is changing from our angle.

Thomas Dannenfeldt - Deutsche Telekom AG - CFO & Member of Management Board

Okay. And then I think on the systems side, yes, actually, as we have 2 or 3 supporting components, I guess, number one is order entry improved on a year-on-year basis. Again, that's number one. That's obviously, as you've seen, that is 18% up compared to last year's quarter. Secondly, there is enough room to improve on the cost side, especially if you look at automatization, digitization, and Adel is aggressively going after it. I think that's second. And third is obviously, we always said the system as you know, is a composition of a classical IT business, which is for sure under margin pressure, and a bunch of growth initiatives and activities we're going for like security, like IoT, where you see the run rates and the growth kicking in. And obviously, that development also supports our assumptions here. So yes, we're confident on that.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Yes. Okay. Thanks. Our next question is from Ottavio from SocGen, please.



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

2 or 3 questions on my side. The first one, it's on the housing association. It's been mentioned quite a few times by Tim and from other people. The question is around 2012, '13, there was an emphasis from Deutsche and you won quite a number of contracts. Then it all went quiet, so I was wondering what's your market shares, and not just in the TV, both on the broadband. And if it's that market share low is to do with the fact that your fiber coverage was not as good as it is now, is the long-term nature of the contract or else? Second is on you have quite a number of deals going on at the moment. You've got the one announced in the U.S. but also 2 deals that you announced back end of last year, Austria and Netherlands. Now the U.S., the regulatory process has just started, but the one in the Netherlands and Austria is already underway. If you can give us just an update, how it's going. And the third is to, I reckon it's to Thomas this one, because it's on the free cash flow. Now something that went relatively unnoticed is the fact that during the deal, in the announcement of the deal in the U.S, is that TMUS also quite announced quite a chunky buyback if the deal doesn't go through. If I look at the cash flow, that buyback almost consumed most of their cash flows. So my question is how much cash you get from the U.S. in 2017? And therefore, how much is the dividend you pay in Germany is reliant on the cash from the U.S.?

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

Okay, let me start with housing associations. Look, as I said, the housing associations are around 20% to 25%, I would define it, of total households in Germany. In these areas, we have almost none, 0, market share. That is to say the situation because it's a monopolized situation of the cable operators. Long history to that one, some legal advantages to promote the private TV services under the Kohl -- Chancellor Kohl area. So long history, but this is where we are, and it is so far, very difficult for us and for others to get into this [step]. That is, by the way, true as well for the regional carriers, and therefore, there is a big alliance here between us and the regional carriers that this segment has to get opened. These contracts are long-lasting contracts, beyond 8 years and the like. Up to 10% to 20% of these households are coming to the market on an annual basis. Around 1.9 million households per year, and these are expiring contracts which can be attacked from our side. Now there are some legal restrictions around that, and this is something we have to fend in the regulatory process that it's easier for us in that parallel infrastructures can be used or that we get a wholesale access obligation for this (foreign language) as we say it. This is definitely something which we find as a target (foreign language) achieving for targeting.

Thomas Dannenfeldt - *Deutsche Telekom AG - CFO & Member of Management Board*

Okay. And then from my side, on the free cash flow or dividend question first of all. First of all, as you know, I pay a dividend as a group. I don't pay it by bits and pieces. So I don't -- I do not tend to think about it that way, what kind of part of your dividend comes from A, B and C because that will fluctuate over the years. So that's number one. Number two, 2, 3, 4 being announced by the U.S. team that program if the deal doesn't take place is not all of the free cash flow. There is room to maneuver built-in for -- partly for deleveraging for CapEx and spectrum activity. So if you look at 2019 numbers, I think the example in the guidance is for -- was 4.5. So you can easily calculate that. Obviously, that is not the sum of the free cash flow being available. That's number two. And I think number three, for a certain level of U.S. share buyback is accretive. If you look at the EPS, it's accretive for DT shareholders as well as it is for T-Mobile U.S. shareholders. So there is a perfect match of alignment of interest between both shareholding groups. And last but not least, if you look at 2018, obviously, there was share buyback taking place. We have used the opportunity to ramp up our shareholding a bit in that sense. And so there is [ample] cash in 2018 coming from the U.S. as a matter of fact.

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

With regard to our transactions, in the Netherlands, we have filed on the 2nd of May. So there was a consultation phase and other things and the final documentation has been sent out on the 2nd of May. And in Austria, we are about to be filed. So it is coming with the next things. The Phase 1 approval is something of a 6 weeks period. And then we have to understand whether there will be a Phase 2 investigation on the respective deals.

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

Thanks, Tim, and the last question today is from Wolfgang at Bankhaus Lampe, please.



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Wolfgang Specht - *Bankhaus Lampe KG, Research Division - Analyst*

Once again on Vodafone, if I may. Couldn't we see it from a more positive side if a deal happens at least with remedies, because Vodafone would be deeply in need to recoup its purchase price and should not be interested in all to lower prices or to become more aggressive on the broadband market? And would it be at all option for you to move at least part of your customers to cable wholesale access? And then one question on the U.S. Is it -- you're asking why some investors didn't like it. Couldn't it be the problem that part of the market believes that it will only be an interim deal, and you need another, let's say, fixed-network infrastructure deal to follow at least in a couple of years?

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

I think with regard to the remedies and the purchase price, you have to ask Vodafone how they're looking forward, how important the realization of that deal is and how valuable that might become. But as I said, at the earning, I will do everything to protect the competitive landscape here in Germany and that Deutsche Telekom is fighting for more fairness in this environment. It is clear that there is somebody building, let's say, a counterplayer to Deutsche Telekom. And I do not understand why in all the regions where these guys are operating, Deutsche Telekom is still fully regulated as long as they are not regulated. So we will see how this is playing off. The trade-off for the company of Vodafone is something they have to decide upon. With regard to wholesale, I think everything has been said already. We should not speculate. I like to understand what the wholesale offer is, on which level of the network infrastructure they are offering wholesale capabilities, and then we will see directions. I expect that something has to come on the TV market as well because this is definitely something which is not only violating our situation, but as well, a lot of interest groups are affected by that one. And there is a good partner ecosystem which is developing to build fiber. Even the small carriers, I think, should be considered in the whole landscape here. So it's not just Deutsche Telekom and Vodafone who are against this. There are a lot of voices. Just today [Braco] made a statement on that one. So therefore, this is, let's say, the equation on -- around wholesale and remedies here on this deal, and it will take longer than just one consideration here in the call to understand the way forward.

Thomas Dannenfeldt - *Deutsche Telekom AG - CFO & Member of Management Board*

And on the U.S., maybe the following thought. What is interim? What's not interim? If you look at the Metro and think about the Metro PCS deal as an interim to that deal, I think it was worthwhile to go that interim step. I don't care whether it's interim, there is never a final thing, whether it's interim or not. What I do care about is there is a clear path forward to achieve EUR 43 billion of synergies and value creation, significant value creation for DT investors. So whether that's an interim or an -- interim, I don't care as long as we make the 43, create the value, and then we go from there.

Timotheus Höttges - *Deutsche Telekom AG - Chairman of Management Board & CEO*

Look, I think this was well said, Thomas. You never know what's coming on. We have now the next way of creating significant value uptake in the U.S. with this transaction. Whether this market is going at one point in time into convergence or whether somebody's coming around want to buy our business, we do not know now. It is not our interest to do another deal than the one which we're announcing. And therefore, let's move on and realize this huge value which we have. Look, guys, I want to say good-bye for today. I think it was a turbulent day for you guys. But please could do me a favor. Don't forget Deutsche Telekom is growing on both sides of the Atlantic with 3.1% organically on the revenue side and 6.6% on an EBITDA. We have an operating net income increase of 26%, and our free cash flow is 12.5% up despite the fact that we are investing on the highest run rate this company ever seen. So you find us all in a good mood to fulfill everything which is lying in front of us and all the challenges which we -- which you might see. And therefore, let's go back to work. All hands on deck, and see you all at the Capital Markets Day to give you the deal -- sorry, the details of our strategy. Bye-bye.

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

So ladies and gentlemen, the conference is about to end. And should you still have further questions, we kindly ask you, as always, to contact us in the Investor Relations department. With that, I give back to the operator.



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Operator

We like to thank you for participating at this conference. The recording of this conference will be available for the next 7 days by dialing +49-1805-204-7088 via reference number 520647#. We are looking forward to hearing from you again. Good-bye.

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