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# EDITED TRANSCRIPT

DTE.DE - Q2 2018 Deutsche Telekom AG Earnings Call

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## OVERVIEW:

Co. reported 2Q18 results.



AUGUST 09, 2018 / 12:00PM, DTE.DE - Q2 2018 Deutsche Telekom AG Earnings Call

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## PRESENTATION

### Operator

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

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

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

Yes. Thank you. Good afternoon, everyone, and welcome to our second quarter 2018 conference call. With me today is our CFO, Thomas Dannenfeldt. Thomas will first go through a few highlights followed by the quarter's financials. 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 it's my great pleasure to hand over to Thomas.

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

Yes. Thanks, Hannes, and a very warm welcome also from my side here on the call.

Yes, as always, we start with the year-to-date view before we go into greater detail regarding the quarter's trends. And our strong growth continued in the second quarter on both sides of the Atlantic. At the half year stage, organic sales were up 2.2% and organic EBITDA is up 5.2%. Our ex U.S. EBITDA is up 2.4%. And our free cash flow and adjusted earnings are up double digits. All of this is nicely consistent, no surprise, with our new 4 years growth guidance we gave you at this year's Capital Market Day in end of May. Now I'm pleased to say that our operational momentum remains strong across-the-board. We saw the strong numbers and the guidance upgrade in the U.S., which we are passing on in the group guidance today. Germany and Europe are growing as promised, and we are encouraged by an improved systems order book, as we are working to turn around this business as well.



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So let's start with our usual update on customer experience. We are excited about the launch of our super vectoring product last week. As of 1st August, 6 million homes, 15% of Germany, will get speeds up to 250 megabits per second. And as we told you earlier, this great product will be available to more than 1/3 of German homes around year-end. Large majority of the customers will have guaranteed minimum speeds of 175 megabit per second, and this is something obviously you cannot guarantee in any shared infrastructure, I mean cable.

Confirming the quality of our infrastructure, a month ago, we won the connect fixed network test, well ahead of the country's cable operators. And at the beginning of July, we signed a groundbreaking FTTH agreement with the Stuttgart region, 1.3 million homes, 90% of the total will be passed with direct fiber by 2030. All business parts will be connected in the next few years too. The region will assume around 1/3 of the rollout costs, and our costs per home passed will be below EUR 1,000 on average. I think this is a great building block for the fiber strategy that we outlined at our Capital Market Days, and of course, this is baked into our guidance.

In Europe, we launched our revamped digital app, and we are seeing an immediate boost to our app penetration. We're rolling out our successful creation B2B portal to the other NatCos as well. In the last few weeks, we also gained permission from the European Commission to acquire UPC Austria. And we finalized our fiber wholesale agreement with Orange Polska, as we continue to strengthen our converged footprint. We're working to gain the necessary approvals for our planned transactions in the U.S. and in The Netherlands. In both cases, we aim to create much stronger competitors to the market leaders, especially as we move towards 5G.

As you can see on Slide 6, our momentum with customers remain very strong. 11 million German homes subscribe to our high-speed broadband product. In our German and European operations, we added 1 million converged customers and 1.7 million mobile contract customers. And you saw T-Mobile's relentless momentum when they reported results last week. T-Mobile also again raised their netted guidance last week by 350,000 at the midpoint and is now targeting 3 million to 3.6 million branded [post but net adds] in 2018.

Let me also highlight some recent customer service awards. In the U.S., T-Mobile achieved the highest score in J.D. Power Customer Care Survey for any wireless service provider ever. And in Germany, we won the connect test for the best broadband provider hotline. As mentioned earlier, our U.S. colleagues have raised their EBITDA guidance for the year by \$100 million, and we're happy to raise our group EBITDA guidance by the same amount. Actually, it's not exactly the same amount, it's in euro, so it's a bit higher. Our outlook for our ex U.S. EBITDA remains unchanged. Also, our group free cash flow guidance remains unchanged. This reflects T-Mobile's decision to spend CapEx at the high end of the previously expected range of \$4.9 billion to \$5.3 billion. Our guidance for CapEx outside of the U.S. remains unchanged.

Let me now dive a bit deeper into this quarter's performance, starting with key financials on Slide 9. Our reported revenues this quarter declined by 2.8% year-over-year, but these numbers were impacted by an almost 10% weaker U.S. dollar. On an organic basis, revenues would have grown by 1.3%. Our reported adjusted EBITDA was flat, but would have been up 3.9% organically. Our ex U.S. EBITDA grew 2.7% organically this quarter, up from 2.2% last quarter, in line with our full year guidance. Adjusted earnings were flat year-on-year this quarter, and unadjusted earnings were impacted by the EUR 550 million Toll Collect settlement. Free cash flow was up 16.4%, again, well on track for our full year guidance.

Now let's dig a bit deeper into the segments, starting with Germany. Headline sales were down 0.9%, driven by IFRS 15 effects, which we estimate at around 1% to 1.5% of sales for the year as a whole, while our like-for-like service revenues were strong. Our EBITDA was up 1.9% year-on-year, on track for our full year 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, again adjusted for IFRS 15, remain strong at 2.9% year-over-year, driving continuous growth in overall service revenues. Similar to the last quarter Q1, this is after around 1 percentage point impact from mobile regulation and some offsetting benefit from higher visitor revenues. The main driver for the strong momentum was successful up-selling both in B2C and B2B, based on our More For More approach.

And as you can see on Slide 12, our commercial performance remains steady with 122,000 own-branded contract net adds. We continue to see a favorable gross add mix, driven by up-selling to a more rich rate plans, for instance like StreamOn. And our own-branded ARPU remain stable. For those of you who are potentially concerned about the increased competitive noise at the lower end of the German market, let me reassure you we remain guided by a consistent More For More logic.



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As you now can see on Slide 13, mobile data growth accelerated by 71% year-over-year with the average customer data usage at 2.3 gig this quarter. This was driven by our new unlimited plans and from greater data allowances for our converged customers. 45% of our Magenta-branded mobile contracts are now part of a converged relationship and 20% of our broadband households.

Now moving on to the fixed line side on Slide 14. We were able to sustain our improved broadband customer momentum. If you adjust for losses from our hard IP migration, which were broadly unchanged this quarter, we estimate a netted share north of 40%. This strong performance was achieved even though competition unfortunately did not follow our move at the beginning of February to cut the promotion period from 12 to 6 month.

At the beginning of August, we took a further step towards better broadband monetization by reducing promotional incentives. Demand for our fiber products remains strong. We achieved more than 600,000 additions this quarter. By the way, this is the 11th consecutive quarter of more than 0.5 million fiber net additions. Line losses grew sequentially this quarter but are down slightly year-on-year. This mainly reflects seasonality as well as our IP migration, which drives accelerated cannibalization of legacy B2B lines. Last but not least, this quarter, we added 47,000 TV customers. Here, our run rate remains below target, but at least, we were able to improve the mix, which has become richer.

Continuing with fixed on Slide 15, our retail revenues fell 0.5% year-on-year, which is a bit better than last quarter's minus 0.9%. As you know, since the beginning of this year, we include certain B2B broadband products in our broadband revenues, which largely explains the very strong headline growth of 6.2%. More important, our like-for-like broadband revenues grew 2.5%, up from 1.8% last quarter. Some of you may wonder why this growth doesn't translate into better overall revenue growth. One reason, on top of legacy revenue attrition, is that our broadband revenue definition excludes certain sales incentives, which are instead accounted for in other revenues. From next quarter on, we will adjust this reporting.

We currently expect that this will result in a like-for-like third quarter broadband revenue growth of close to 2%. I think that's helpful because it gives a more complete perspective on what's really going on, on the broadband side. To be clear, this has no impact on our overall financials and our Capital Market Day's guidance for broadband revenue CAGR of 3% to 4% through '21 also remains unchanged. We now cover 34% of German households with our street fiber network. Our LTE coverage has reached 95%, and 77% of our lines have been migrated to IP, up 16 percentage points in the last 12 month.

Moving on now to our usual 2 slides on T-Mobile US where we've already presented very good results last week. In the U.S., we won 1.6 million new customers. This was the 21st quarter with more than 1 million net adds.

On the next slide, as usual, we saw some selected performance metrics for our U.S. subsidiary. Our branded postpaid phone churn improved further and reached a new record low of 0.95%. Bad debt expense remained at a record low of 1%, reflecting the improved customer quality. Our commercial results are underpinned by a strong network, and recent tests again confirm T-Mobile's clear leadership. Cost of service are down year-on-year despite the accelerated buildout of our new low-band spectrum.

Now moving on to the European segment. This was another quarter of strong commercial momentum. We added 334,000 new contract customers, 73,000 broadband customers, 22,000 new TV customers and 229,000 new converged customers. Some of our TV markets are increasingly penetrated and we shift our focus here increasingly towards better monetization.

On Page 20, our European segment has continued on its new growth trajectory, both at revenue and the EBITDA level. Reported revenues were up 1.3%, EBITDA by 0.6%. Organic EBITDA was up 0.7%. At the half year stage, we see ourselves well on track for our full year and our Capital Markets Day's guidance. The next chart shows that we have now migrated 74% of our homes in Europe to IP. Our LTE coverage now stands at 96%. We are passing almost 7 million homes with fiber, so 1.4 -- 1.5% more than 1 year ago. This mainly reflects our great fiber buildout.

Moving on to Systems Solutions on Slide 22. Revenues and EBITDA declined, but our momentum improved sequentially. At the half year stage, we feel good about our full year guidance. We're encouraged by the momentum we have seen in our growth portfolios. And as we said at the Capital Market Day, our earnings this year are impacted by significant investments in transformation and growth such as all-IP, IoT, cloud and health. We are confident these will bear fruit, as well our significant restructuring effort, which we have announced 6 weeks ago.



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The next slide shows the segment Group Development where our Dutch numbers continue to be heavily impacted by accounting and regulation. We had another decent commercial quarter in The Netherlands with 87,000 contract net adds mainly from B2B, by the way, as the consumer market is heavily impacted by high levels of convergence. Adjusted for regulation and IFRS 15, our Dutch service revenues would have been almost stable, and our EBITDA would have been up by EUR 8 million.

On Page 24, we provide some more detail on our German tower business. Recurring rental revenues and EBITDA grew by 4%, similar to last quarter, driven mainly by efficiencies. The last 12 months, we added 1,000 sites to our German footprint. In the second half of 2018, we intend to further accelerate this run rate as we cover wide spots along the Autobahn or in rural areas, proactively addressing one of the key pain points in German politics.

Mainly driven by lower interest cost, our first quarter free cash flow grew by 16.4% to EUR 1.5 billion, well on track for our full year guidance. Our net debt benefited from the additional free cash flow. However, this quarter also saw significant outflows, including from dividend payments, share buybacks at T-Mobile US, and OT and the Toll Collect settlement. Almost all of the remaining net debt increase is due to the stronger dollar. With this, we remain in our balance sheet comfort zone, as you can see on Page 26. Also during the quarter, we made good progress towards the financing agreements for our planned U.S. merger, essentially completing the preparations and necessary content at the DT level.

So then my next 2 slides summarize our strategy and the commitments we presented to you at the Capital Market Days this year in May. And I think Q2 is another good step towards these commitments.

And with that, I think Hannes and myself are ready to take your questions.

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

Excellent. Thank you very much, Thomas. Now we can start with the Q&A part. (Operator Instructions) And with that, we start. And the first question is from Christian at HSBC.

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## QUESTIONS AND ANSWERS

**Christian Fangmann** - HSBC, Research Division - Analyst of Telecoms

I have a couple ones, one which is I guess obvious on the current noise around the fourth mobile player in the German market. So how do you assess the risk of a fourth network operator from your perspective? I mean, you met with the German government recently at the Mobile (inaudible) and would be interested in your view on the current situation there. And then secondly, on mobile performance, are you seeing any impact from the recent noise on the low end? I mean, your net add overall was strong, but just would be interested in your view what you're seeing there, I mean despite the fact that you have a More For More strategy, but would be good to know how you're impacted by the noise there? And then lastly, on fixed. It looks like you had a very strong Q2, also much better momentum against cable, it seems. Are the customers really coming in on higher speeds? Do you see strong demand for these higher speeds? I mean, you're now launching the super vectoring as well. Any, let's say, early indication of interest in those speeds would be interesting as well.

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

So first question was on the noise on the -- regarding, I think, the 5G auction and the discussion around the fourth player, player potential fourth player. I think there was an interview, and you might refer to that of the head of the council authority, and he was basically saying 2 things. He was saying a lot of things, but 2 big relevant elements, I guess, here for us. One is, it would be good to have a fourth player in the market. That was one statement he made. And the other statement he made, that whatever happens there needs to be the right balance of consumer price and competitive-friendly moves and investment-friendly moves. Whatever that means. But there was at least that generic statement. So just to make everyone aware here again on the call, what happens right now is a consultation prior to an auction where you hear all the voices, all the perspectives.

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And I think it's not a surprise that the head of the council authorities is taking that perspective and role. I think what is more important to us is, if you look in the coalition contract, there's clear messaging and statement that there should be incentives to foster investments. That's number one. I think what's also very important to understand is and feels that in that interview at least, Mr. Mundt hasn't thought too much about is you can spend every euro once. And for the key question we need to focus here right now on the German market and that's clearly the political agenda is to foster further investments in 4G quality, 5G rollout and FTTH or H rollout. It is important to make sure that we spend the money for those investment and that there are enough incentives to spend the money for those investments. So I think there was an analyst giving -- it wasn't one German analyst, but I found giving a very good, let's say, perspective on that. I'm just quoting because I printed it out. There is one part saying, "Aggressive regulatory intervention in the past has led to resellers such as Freenet and 1&1 Drillisch obtaining a combined EV of 13 -- more than EUR 13 billion despite not investing in infrastructure. Compared to mobile network owner, as for instance, Telefónica Deutschland of EUR 10 billion EV. With 5G and FTTH CapEx yet to come, Germany can't afford to have a fourth mobile entrant." So I think that is -- that perspective is very much in line what I believe what the key question here is, how to foster investments for the future infrastructures. And I think that's what should be said about that. Secondly, mobile performance on the low end. I think, yes, competition on the low end in the German market has been more intense. In general, the discounters as well as some of the second brands improve their value-for-money position simply by increasing data volumes. On the other hand, for us, increased data volumes is good, to be very clear; and it's part of our strategy. And you see also the growth we reflected in our numbers here. Because the more people consume, and let's be clear, the additional consumption mainly comes from consumption of mobile music and mobile video, the more a good network experience becomes relevant. So yes, there is that noise. Yes, it's driven by more data volume. But we don't consider that as a -- necessarily as a bad thing, especially as we have a clear and well-aligned, multibrand approach. You know that we have telecom on the upper end of the consumer part and with [Constable] our second brand, I think we remain committed to our -- to innovation and the More For More strategy. And we don't see too much of spillover or impact there, so we're not concerned. On the fixed side, yes, basically, your question was where's that good momentum coming from. And I mentioned that in my speech, what we've seen now is more than 11 quarters of more than 500,000, 600,000 customers moving from old broadband ADSL infrastructure to new one. I have to say, would love to see even more people choosing 100 megabit versus 50. But in principle, the move from ADSL into the new infrastructure demanding higher speeds, that dynamic is very much intact and it's obviously also fueled by the rollout we're doing constantly. We're now having roughly 1/3 of the people taking 100 megabits, that's why I'm saying it could be more. But clearly, that demand is driving, fueling the growth in that area. And as we're still rolling out and we don't see a high level of penetration on the 100 megabits, we're confident on what we said in the Capital Markets Day to foster evenly the development on the broadband revenues.

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

Yes. I think Thomas also said it in his speech that we have one advantage. DSL line is essentially a dedicated line, and it's not a shared line. So with super vectoring, of course, this will become even more, become even more in focus when we can guarantee the first 6 million homes more than 100 and 3/4 of these homes even 175 megabits, and so that's the minimum speed you will enjoy at all times, and that's pretty good. And so we are actually competing well in the network tests. And where we are head-to-head against cable, we are doing well. So that goes back to your question. Next question is from Mathieu at Barclays.

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

I have 2 questions, please. First in terms of FTTH and the fact that you got the approval from the regulator with regards to your joint venture with EWE. Is it now the plan to go around and talk with different players to maybe set up a similar arrangement? And if that's the case, can you maybe give us a little bit of color on how this co-investment model is set up from your end and how that fits into the ongoing FTTH review by the regulator? And another question, I'm afraid, around regulation government. I think DFT was saying the other day that the German government had approved EUR 2.4 billion of subsidy for rural broadband. I had in mind that in the coalition contract, there was something like EUR 10 billion to EUR 12 billion for that, maybe what DFT is referring to is for 1 year and what the coalition is referring to is for 4 or 5 years. If you could maybe clarify that, that would be helpful.



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

Yes, Mathieu, I'll start with the second question. Yes, in the coalition contract, there is that vicinity of EUR 10 billion to EUR 12 billion for the all 4 years mentioned. And then I think what the government did is, so to say, as a starting point to – and it's right what you mentioned, to approve the EUR 2.4 billion, of which I guess roughly half is for the first year. Obviously, there is a thought that also the proceeds of the spectrum auction kicking in next year will be added to that. So it's a starting point. It's ultimately, for sure, not the end. And the vicinity isn't been -- or there's no correction on the vicinity of EUR 10 billion to EUR 12 billion. But as I said, it's a 4-year perspective and more to come. That is on the second question, on the subsidies. On the first question, approved from regulator for the JV, correct. What's still missing now and it's the next step is to get the support of the antitrust authorities, capital authorities. In the same interview, by the way, I quoted a minute ago, Mr. Mundt was, in principle, supportive for that logic and ideas. But now let's see, we need to see that formal process. We are keen to get it done as fast as possible because we're ready to go and want to start doing it as well as our partners EWE. And obviously, our intention is to copy that model. The issue is a bid, if you want to copy the model, you need to find people who are willing to invest. And EWE, from what we have seen last 2 years, is the second-largest fixed line investor in Germany or has been the second-largest fixed line investor in Germany. So what we're doing right now, we're looking down the line of the third, #4, #5, and so on, obviously, and trying to see whether we can copy the model because we believe that model is helpful and would be good. But obviously, that takes 2 to tango, so we need to approach and that's what we're going to do. The partners will find out whether there is a joint way looking forward. I don't know if I missed anything. I think that's all.

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

Okay, thanks, Thomas. So next is Akhil at JPMorgan. Akhil, please.

**Akhil Dattani** - JP Morgan Chase & Co, Research Division - MD and European Telecoms Analyst

Just a few, please. Firstly, just sticking on the subject of fiber, you mentioned earlier the agreement that you've signed in Stuttgart, which obviously raised a lot of interest given the co-investment or even the subsidy I guess, I should say, that the government is offering. I just wondered if you could give us a few comments on, firstly, what the participation was like from other parties, whether you did see other bidders? And if not, what sort of color you have as to why not? And then I guess more broadly, is this starting to raise interest more broadly in Germany, i.e., could we start to see other municipalities in Germany moving down a similar path? The second question is on the U.S., Thomas, there's some headlines on Bloomberg just highlighting that you're expecting some feedback on the T-Mobile US-Sprint merger situation later this month. Just keen to understand what exactly you're referring to and how significant that could be. And then the third thing is that we've seen a number of headlines on Holland where the European Commission stopped the clock in terms of wanting more data from you. I just wondered if you're able or permitted to share any color on exactly what they're after. And just more broadly, if you still expect to complete this by the end of the year?

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

Yes, Akhil thanks for the question. First of all, on the U.S., let me clarify first. I think in terms of timing, what I said is we filed our public interest statement on 18th of June. The FCC has issued the public notice on the 28th of July. And there is so-called merger opponents petitions to deny are due to end of August. So that's the next step of, so to say, of the process. And then later on, mid- of September, our supporters' oppositions are due, and then you have a reply to that later in October. So that's the normal process, and that was what I this morning on the call with the journalist mentioned. So just to clarify that, it's just a simple normal process the FCC is pursuing here. Then on fiber in Stuttgart, yes, I think, basically, the whole deal is about covering with a 5G infrastructure, especially on IoT and for smart cities, the 90% of that region, 90% with FTTB or H and then earlier, also the businesses in that area. We're investing EUR 1.1 billion, and there's EUR 500 million in support by the region. Participation from other bidders, yes, was -- my personal expectation was that more parties with serious willingness to put a stake into the ground, meaning put own money into the ground would show up. That was very limited. I was a bit surprised about, I'm hearing since years about all the money being available in the market, that so little commitment of own money brought to the table was existing as far as we know at least. Anyway, for us, it's a model which we like and we like to copy. We like -- for sure, we have the intention to motivate other cities/areas. It's not only the city. Let's not forget, it's the broader area, to encourage them to talk and think about the same model. And go for the same model as we are willing to put a stake in the ground and put our money, as you know. So that is obviously a hope we have. And as far as I've seen so far, the dynamics in Germany,



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once someone has something the other doesn't have, there's always some good dynamics around that. So then you have the third question was, I think, on Netherlands. That was on the, I think it was that stopping the clock thing in the EU. That was restarted, by the way, retroactively per 6 of August. We don't consider that as a big topic. It happens from time to time in those processes. And so from our point of view, no big topic here.

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

So the next question is from Usman at Berenberg.

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**Usman Ghazi** - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst of Telecom

I've just got 2 questions, please. Firstly, on German mobile, I can see in the report that you've disclosed that B2B mobile was up around 3.6%, which implies that consumer is kind of slightly lagging even though the overall growth is quite strong. I mean, I guess the question is, what is differentiating being able to grow more strongly in B2B mobile with consumer mobile for you in Germany? And is there a potential for you to accelerate the consumer mobile growth as well? The second question was just on German broadband. There seems to be a slight blame game going on here with one of your largest operators indicating that you didn't follow them in raising prices, so while you're saying that someone else didn't follow you in reducing promotions. So I mean, could you just give a bit more color on, is it the smaller operators that didn't follow you? Or what's going?

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

Thanks for the question. I'm going to start with the German mobile. Actually, we don't disclose the split of the mobile service revenues in B2B and B2C, so I'm not sure where you get the numbers from. But what's correct is that B2B over-indexes a bit in the contribution to that growth, and so directionally that's right. By the way, that's a trend we've seen since a lot of quarters. And I think it's actually, because the logic of More For More is you offer more, you spend more, and the willingness to pay in the B2B sector is obviously a bit higher because it helps and supports the business better than it is partially on the consumer side. Potential to accelerate in B2C, you've seen our guidance we've given in the Capital Markets Days for the mobile service revenue, longer-term growth. We are over-indexing a bit, been a bit above that also if you strip out B2C -- B2B, so I'm really happy with the numbers I'm seeing currently. That is on the mobile side. And then on the B2B -- on the broadband side, in terms of raising price. What happened actually is we had -- we offered that promotional activity of you pay EUR 20 for the first 12 months, whatever kind of speed you take to encourage the people to use the highest speed, and then after 12 months, that was the idea you can decide whether you want to have the highest speed, 150 or 160. And the intention was obviously to drive the share of 100 megabit of -- customers choosing 100 bit upwards. So on the other hand, it was obviously you had a strong promotional negative impact also on the revenues. And so we decided to halven (sic) [halve] that period in Feb from 12 to 6, and no one followed. And in April, there was more intense competition again and some promise were put into the sales activities again, which we again took down in August. I don't think it's helpful to talk about the one or the other hasn't followed. Everybody should make up his mind what he believes is right for his own company in the marketplace. We believe there is, again, More For More. There is enough more we're offering that promotional activities can be reduced a bit. That's why we did it again in August. And we feel good about the run rate we've seen so far, so that's where we are.

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

Okay. Great. Next question is from Josh at Redburn. Josh?

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**Mandeep Singh** - Redburn (Europe) Limited, Research Division - TMT Specialist Sales

Actually it's Mandeep on Josh's line. He's actually on the Freenet call. It's regarding the sort of commentary we've seen coming out of the U.S. that the DOJ is reportedly in favor of maybe 3 network players in a 5G world. But clearly, conversations that you had in private with the DOJ, you can't necessarily disclose. But can you just sort of tell us just generally tone, how constructive you think support in the broader sort of political arena, lobbyists, just from all the various stakeholders that you think are contributing to the debate? Where do you think the debate currently is in the U.S. broadly?





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

Yes. I think what's setting the scene, I think, is important. And what's obviously setting the scene this time very differently to back, some years back when we had the AT&T-Mobile merger discussions is that John and the team has shown the market and all players in the market, I mean customers as well as the administration, that T-Mobile is shaking up the market and driving the market to the favor and advantage of the customer. And that the DNA of that company is super clear along that line of thinking and acting. So I think that -- that is obviously setting the scene a bit. That's number one. And I think number two was also setting the scene is the case per se. I mean, the case offers for everyone upsides, I mean, every stakeholder. It is -- I mean, you will see a 5G infrastructure you won't see in the U.S. in that kind of depth and quality without that merger. You will create jobs from day one on. So for, I think for the economy and for the administration, there's a lot of upside. Creating jobs for day one is also upside for the employees, for the shareholders. So I think it's a no brainer that we are extremely bullish about that case. And obviously, those 2 things are influencing the process. But other than this, I think there's nothing I can add to.

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

Great. Thanks, Thomas. And next, we have George at Citi, please.

**Georgios Ierodionou** - Citigroup Inc, Research Division - Director

I have 2. The first one is around the old IP migration and even though the KPIs on the fixed line and other metrics are relatively strong, the line losses remain slightly on the weaker side than what you would've expected a few months ago. So I'm just trying to understand as we go towards the last 10% of customers you need to switch off, is it more business customers, which means the churn driven when you're going to an all-IP migration could be higher? Is it something we should expect to carry on for the next 6, 7 quarters until you continue? And if you could give us an indication of whether you have any idea of what is the kind of the revenue headwind you are now facing because of this process. And my second question is more just to get an idea with all the moving parts you have in mind of how the net debt and the leverage metrics could progress over the next 6 to 12 months? And I know there are a few deals which are not insignificant that may move the numbers around, but on the other things that could be smaller drivers here and there that are of one-off nature that we may be missing.

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

Yes. Thanks for the question. I'm going to start with the all-IP. I think there is -- there are 2 areas where you see impact by the IP migration we're doing right now. The one thing is obviously on the broadband side. And it is the larger extent, of that one nowadays is B2C driven. That's roughly 25,000 per quarter impacting the net adds just by customers we actively canceled, where we actively canceled the contract. It's always hard to say that, it's a shame. Okay, so that's one part. And then you have what also takes place is once you transform business customers. Obviously, what you see is that they switch off some legacy lines very often, not broadband lines, but simply voice lines, they find in their inventory and they switch off. So the larger extent of the impact on the line losses is B2B and the larger one on the broadband lines is B2C. And as I said, B2C is roughly that 25,000 per quarter, which is relatively constant along the last 4 quarters. As our current status in IP migration is 77, the last 12 months have been 16%. You can imagine that there is another round 4 to 6 quarters to go, more 6 than 4 to go to get that done and have a number which is very close to 100%. But in that time line, we'll still see that impact. On the net debt side, I think I've been crystal clear, we need to, first of all, distinguish 2 ways forward. The one way is, no U.S. deal, for whatever reason, let's assume we can't get the deal or we don't get the allowance to go for that deal, then my leverage, my upper end of the leverage is 2.5. That's my -- the level I want to keep, which where we are today as well. I think we shared that with the rating agencies and we'll feel good about keeping that, knowing that the growth profile is very sustainable, we have right now in the company based on the U.S., on Europe, on Germany. So that's where we are and where we will be in case of no deal looking forward. And I was also clear that in case of a deal, we will leave that comfort zone for at least 2 years just simply by the impact of the integration taking place in the first 2 years. Yes.



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

Okay. So with that, the next question is from Ulrich at Jefferies.

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

I have 2 questions. The first one is on the Stuttgart deal. Could you describe what part of the commitment that you've made as part of this agreement are actually ahead of activities that you would have done anyway? So is there really a give of Deutsche Telekom? And sort of almost a slightly different way of asking the same question is, if a very large number of major urban centers in Germany were to now ask for a similar deal with Deutsche Telekom, would that affect your CapEx plans? Or could you fit such deals in large volumes into the current planning? That would be my first question. The second question is on mobile. I mean, there are some initiatives sort of signs that Telefónica's mobile network is getting a bit better at least regionally. And obviously, they do price even on their premium brand below Deutsche Telekom, and that's because of the network quality, I suppose. And I'm wondering, do you feel the price points on Magenta mobile are defensible if really Telefónica networks become small more credible also for premium customers in 4G?

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

Thanks, Ulrich, for the question. First of all, Stuttgart deal, I think the simple answer on the question, what is extra, what we've given is, obviously, if you think about Stuttgart about the depth and of the coverage of FTTB or H, and also 5G, I know, we're talking about 90%. That is something you without having like Stuttgart region someone willing to contribute to it, contribute with money to ensure that there is that level of density of coverage, obviously, without that element, we wouldn't have done that. So part of that, yes, in the long-term plan always. But for sure, that level of quality and consistency along 5G and FTTH and B, no. And the second element is the timing is 2030, so that doesn't mean we are talking about EUR 100 million per year for the Stuttgart region. So you know our CapEx, and we'll -- it's a bit larger, so we can digest another Stuttgart, Munich, Hamburg, Berlin, Düsseldorf, whatever, go, go, go. So it's not like we're desperately sitting here and thinking, "Oh my goodness, what if the other way around is true?" We would love to see more of that. And we are, as I said already, we're also hoping that, that dynamic will kick in. On the mobile side, and your question on the mobile infrastructure, I think, and you know my position, what I do like is a marketplace where the customer has the choice. And where you have high visibility of, for instance, today, if you go with a EUR 10 price point, you can easily get 3, 4, potentially 5 gigs in the marketplace. And you know if you go with our premium brand, you pay EUR 35 upwards to get it and everyone knows. So that transparency of for customers and the customer choice is important, because without that, you will see disruption or regulation kicking in and that's what we don't need. And that also implies that we continuously find new reasons for the customer to spend more money with us than with others. And what I do like is if others start to compete with us on the quality level, that's the game we can play. We know how to play it. And on the mobile infrastructure, you know that it's about backhauling of the infrastructure. It's how fast you transform from 4G into 5G. It's about your spectrum opportunities you have, et cetera, et cetera. And we feel very good about that game because that's our game. And obviously, also, fixed mobile convergence plays a game in here, and I mean not only the tariff plan. Very often people shortcut the whole convergent story to a tariff plan. I'm talking about the convenience. Ultimately, what we want to achieve is sell a subscription to the Internet, you use wherever you are you have the perfect quality. That's the perspective we want to go. And you don't care about fixed or mobile or you are in the plane or you are somewhere on the ground, you don't care about that anymore. So all those components obviously play a role to continuously give a new reason for the customer to buy our products, and that's our game. So we are pleased to see that quality game is the name of the game nowadays in the market. And we are -- we believe we have enough elements in our forecast, in our toolbox to differentiate further on.

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

Just to add, the number, Thomas, assumes you are familiar with, but just to reiterate it, we want to spend EUR 2 billion on FTTB, FTTH related CapEx run rate in 2021 and thereafter. And this is -- and that's also connected with our message at the Capital Markets Day that our CapEx outside of the U.S. will not exceed EUR 7.9 billion, going back to EUR 7.6 billion. So within that EUR 2 billion framework, of course, there is room for a number of projects like Stuttgart, which will cost us about EUR 100 million a year. So the next question is for Ottavio at SocGen, please.



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

A couple of follow-up questions on my side. The first one is actually following on the questions related to the JV and partnership you're doing on the FTTH. And my question is related to the ownership of the infrastructure. The one with the EWE, you've got the JV, so I assume that the infrastructure would be 50%-50% owned by you and EWE. Do you have any plan for some stage to buy out EWE? Or is there anything in the framework agreements on that particular topic? The partnership I believe that you just get subsidies, so there's not any sort of impact on the ownership on infrastructure, but if you can clarify on that? The second follow-up question is on the 5G spectrum auction. The very first question on the call was referring to the comments made by the cartel in the visibility to introduce roaming, composite roaming on all the 3 operators to enable a 4 entrants. My question is a bit different. I heard that there's been a lot of discussions in terms of the buildup requirements for the 5G. And I would just double check if there's been any agreements about what sort of buildup requirements will be your aim to do on 5G over the next 3 to 5 years? And would you believe that it's acceptable that the post makes this point in time?

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

Yes. First of all, on the joint venture. The joint venture is not an off-balance vehicle. It's a joint venture. And you're right, it's 50-50. We own the infrastructure by 50%, and there is no intention to buy out EWE. The intention is to start and get the infrastructure rollout done, and that's our focus. And the rest is simply I think 2 parties joining forces on delivering a better infrastructure. On the Stuttgart situation, it's quite simple, we get support to create that dense, consistent infrastructure. But the ownership is 100% with us, so there is no impact on the ownership, you're correct. On 5G, I think what you're mentioning, the buildup requirements for 5G is something which took already -- is taking place right now as part of the consultation. Whenever you have consultations, you have various thoughts in the room. And one thought is obviously the thought which was already in the room with the 2015 auction, which was, in principle, the question, shall we reduce expectations on the proceeds and put more, I mean we meaning the regulator, and put higher requirements in terms of the quality of build-out into the license agreements. So basically, as a regulator, you can, from one extreme to the other, tune that. You can give the -- conceptually, you can give spectrum for free and have super-high requirements on the quality later on because you always can spend the one you won, so you spend it there. Or the other extreme, you maximize the proceeds like what has been done back in 2000 or so with the UMTS license, but then you have to deal with the consequences on a delayed rollout and quality of infrastructure. And obviously, the discussion about what's the right balance to that is something which is taking place right now. And potentially, that will have then an inflow into the license agreements or requirements. But there is no agreement so far. Obviously, that will be potentially part of the license agreement. By the way, our position is quite simple. We lobby for lower proceeds for the spectrum and more focus towards the quality of the infrastructure being required to roll out later on. So in principle, we like the second more than the first one, obviously, also here it's about the right balance obviously. But as I said, there are no agreements existing so far on the 5G side.

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

So I'm obviously quite disappointed at Thomas. We thought you can spend the same dollar twice, but that's apparently that magic is not in place. But let me also like add something, just conceptually in the context of this national roaming idea, and it's true also for other countries. If you have access to other people's infrastructure, then you don't build your own. And so if you want to have better levels of coverage, then you don't impose national roaming. It's very simple. It creates a clear obvious investment incentive, and we think enough people understand that in Germany. So we have actually had a meeting with the minister, as you probably read, and there was a conditional agreement to increase the mobile coverage depending on the terms of the auction. So just to add that may be on top of what Thomas has just said. And then next question is from Jon Dann at RBC, please.

**Jonathan Dann** - *RBC Capital Markets, LLC, Research Division - MD and Head of the European Equity Telecoms*

It's 2 questions. On monetizing broadband, if I look at the tariffs, you only charge EUR 5 more for 100 megabits versus 50. So I guess, it seems like if people won't pay EUR 5 more for more, I guess it seems like it'd be a tough environment to raise, to monetize broadband. And then secondly, on the topic of monetizing assets, what's the latest on the Dutch towers and also the German towers? I sensed at the Capital Market Day you might be wavering back towards keeping them.



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

On the towers, there's nothing new. On the monetization of broadband, I think let's just remind ourselves a bit before we started the rollout of the infrastructure last 3.5, 4 years, we've done 3.5 years, retail and wholesale broadband revenues have been significantly declining. Retail was minus 2% and wholesale was minus 5%. They're both growing now 2% to 3% on the wholesale side, and as I said, around 2% on the retail side. So obviously, that monetization works. It is fair to say what does it take to get the share of the people taking 100 megabit again up, I guess that's a bit around also the culture here in Germany. I think people often tend to start with the first step instead of going to the maximum in the first instance. Maybe in countries like the U.S. people would go for the maximum speed immediately. Germans are more slower in adapting that. But as I said, we've seen 11 consecutive quarter of more than 500,000, 600,000 of customers moving from ADSL, to the new infrastructure, and we believe we will see continuous up-selling and upgrading of the people themselves not only to 100, but later on, also, you've seen we start now to offering on super vectoring 175, 250, so that is kind of natural process we believe will take place. And that's why we've laid out our 3% to 4% CAGR for the broadband revenues for the next 4 years until '21.

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

Okay. It actually looks like there are no more questions, which is good on a hot summer afternoon. And so if you have any more questions, please contact the Investor Relations department, and we hope to help you then. And so with that, I give back to the operator. Thank you very much.

**Operator**

We'd like to thank you for participating at this conference. The recording of this conference will be available for the next 7 days by dialing +4918052047088 via reference number 521842#. We are looking forward to hear from you again. Goodbye.

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