Client Id: 77

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DTE.DE - Q3 2019 Deutsche Telekom AG Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2019 / 1:00PM GMT

OVERVIEW:

Co. reported 3Q19 results.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Christian P. Illek *Deutsche Telekom AG - CFO & Member of Management Board*

Hannes Wittig *Deutsche Telekom AG - Head of IR*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Georgios Ierodiaconou *Citigroup Inc, Research Division - Director*

Jakob Bluestone *Crédit Suisse AG, Research Division - Research Analyst*

Joshua Andrew Mills *Exane BNP Paribas, Research Division - Research Analyst*

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

Matthijs Van Leijenhorst *Kepler Cheuvreux, Research Division - Analyst*

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

Polo Tang *UBS Investment Bank, Research Division - MD & Head of Telecom Research*

Simon Alexander Arulraj Coles *Barclays Bank PLC, Research Division - Research Analyst*

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

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

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 Hannes Wittig.

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

Yes. Thank you. Good afternoon, everyone, and welcome to our Q3 2019 conference call. With me today are our CEO, Tim Hottges; and our CFO, Christian Illek. Tim will first go through his highlights and the news of today, followed by Christian, who will talk about the quarter's financial in more detail. And then we have time for Q&A.

Before I hand over to Tim, as always, please pay attention to our disclaimer, which you find in the presentation. And now I hand over to Tim.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Yes. Thank you, Hannes, and welcome also from my side here. Thank you for taking the time for our call today. And let me start by summarizing 3 topics.

The first one is the strong year-to-date results, which we are laying out. The second one is the 2019 guidance upgrade. And the third one is the change to the dividend policy going forward.

First of all, I'd like to stress the strong year-to-date results. I think we have a fantastic operating performance in all business areas. Out of 5 segments, 3 segments are growing double digits. And the others are all positive. This is the best quarter since 15 years at Deutsche Telekom. So just want to keep that in mind for a moment here. On all metrics in all segments, we are growing, at least as far as promised in our Capital Markets Day. And remaining very strong customer growth in all our markets means that we are gaining market share.

Second, based on these results, we are raising our full year EBITDA guidance today. EUR 100 million on each -- on either side of the Atlantic. So we raised it by a combined EUR 200 million at the group level.

And thirdly, we are updating our dividend guidance today. For 2019, we are proposing EUR 0.60, deal or no deal, EUR 0.60 becomes the new minimum dividend, and our dividend policy remains otherwise unchanged.

Let me now go through my usual quick overview of our year-to-date performance, before Christian then provides a deeper dive into the Q3 results.

On 5 slide, you see the foundation of our growth, which other high investments into the network.

In Germany, we now passed 24.5 million homes with super vectoring speeds of up to 250 megabits per second, and we are well on track to our 28 million households by the year-end target.

This year, as outlined at the Capital Markets Day, we are completing our German FTTC footprint as planned, and we are beginning to ramp up our FTTH deployments. Our initial focus here is on the subsidized buildout in white spots and business parks and with collaborations.

We made further significant progress with our IP migration, now reaching 97% of German lines. So the end is clearly in sight.

And our German LTE coverage is at 98%, which is our full year target. Just to comment here, we just saw the new P3 test coming out. And it documents our strong leadership against Vodafone and Telefónica, almost 1/3 better than the Vodafone network and significantly better than the Telefónica network when it comes to coverage and to throughput.

Our telco added 1,500 new sites in the last 12 months. This is on track for our ambitious plans to increase our site footprint by 1/3 by 2021.

We continue to innovate, as we illustrate with a few examples on Slide 6. For instance, you see the launched Europe's first smart speaker. And we further developed our campus network solutions in the B2B space. We won the rights for the 2024 UEFA football championship in Germany, where we are becoming champion. And while this is an exciting opportunity to showcase our MagentaTV platform, let me state very clearly that this does not mark a change in our TV strategy. And we can discuss that later on. I think it was a great opportunity, which we took. We remain primarily a content aggregator, so content ownership is not our primary goal.

Moving on to Slide 7. Our strong momentum with customer continues. 14 million, 1-4, German homes already subscribe to our fiber products, 2.4 million more than a year ago.

Across our European footprint, we added 2.1 million converged customers in the last 12 months. We added 3.1 million mobile contract customers, of which 1.7 million organically.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

T-Mobile U.S. continues to grow strongly and again raised its guidance for 2019. Branded postpaid net adds towards a new range of 4.1 million to 4.3 million net adds. This compares to an initial guidance of 2.6 million to 3.6 million net adds previously.

Moving to Slide 8. Here, you can see that every segment is contributing to our growth and delivering as promised at the Capital Markets Day or better. Honestly speaking, being now almost 20 years at Deutsche Telekom, this is the best quarter we have ever shown.

Based on these strong results, we are raising our full year EBITDA AL guidance by EUR 0.2 billion today to EUR 24.1 billion.

Based on consensus, foreign exchange of 1.11, this would amount to EUR 24.7 billion to EUR 24.8 billion by the end of the year.

We are not only passing on last week's T-Mobile U.S. guidance increase, but we also raised our ex U.S. EBITDA AL guidance here in Europe by EUR 0.1 billion to EUR 13.5 billion total.

T-Mobile has also raised its guidance for 2019 CapEx. At the group level, we pass this on as well and now project EUR 12.9 billion for the full year.

Reflecting this, our free cash flow guidance remains unchanged at EUR 6.7 billion. Based on consensus, foreign exchange, this would amount to just over EUR 6.9 billion.

In the U.S., we have now gained many important approvals. We have been able to convince a number of states of our case, and we remain confident and optimistic that our planned merger will be approved. However, it is still unclear how long this might take, therefore, to provide clarity, we propose a dividend of EUR 0.60 for 2019, irrespective of the merger. EUR 0.60 becomes the new minimum dividend. The existing financial strategy remains otherwise unchanged. We believe this is the right proposal, both in the case of the merger and otherwise.

To avoid any misunderstandings, we reiterate all our 2017 and 2021 capital market targets, especially our promise that ex U.S., CapEx will not exceed the 2008 level.

And of course, as previously mentioned, we raised our 2019 guidance today.

So what has changed since our last update? On the one hand, our merger has taken longer than expected, and T-Mobile has performed very well in the meantime. On the other hand, we now have much greater clarity on 5G auction costs and timelines across our footprint, especially in Germany and in the United States. We also decided to accelerate our 5G launch in the U.S., and we will now launch 5G to 200 million POPs already in 2019. We believe our dividend proposal strikes the right balance, is prudent and between the shareholder returns and prudent funding of the many attractive growth opportunities we have in our footprint.

Yes, I know this was a very tough decision for us. And it wasn't easy to take that. And I know and I appreciate that some of you expected a little bit more dividend payout in 2019. But again, all things considered, we believe this is the right thing for us to do and to give you certainty about what we are doing for 2019.

With this, I'd like to hand over to Christian, who will take you through the third quarter financials in greater detail Thank you very much.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Thank you, Tim, and welcome to you also from my side, and let me start with the key financials on Page #12.

Q3 reported revenues grew 4.8%. On an organic basis, that would have been 1.7%, which is very similar to last quarter.

Q3 reported adjusted EBITDA grew 5.4% this quarter. And again, that would have been 3% organically.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

If we're taking a look at our EBITDA growth outside the U.S., I'm happy to report that our growth is now at 3.4% on a reported basis and 2.9% on an organic basis, which is very much in line with our midterm guidance.

Free cash flow is up by 17.5% this quarter and adjusted net profit by 7.5%.

Let's move to the next page, 13, revenue and EBITDA in Germany. So revenues were up 0.6% this quarter, and EBITDA was up 2.4% this quarter, which is very much in line with the previous 2 quarters, which we've seen in Germany and is bang in line with the full year guidance.

Next chart. On the service revenue side, we grew at 0.6%, which is the same number as we had in the last quarter, but the mix is different. We're seeing a weaker mobile service revenue growth, and that is offset by stronger fixed line revenues which grow faster than in the previous quarter.

The fixed line revenues benefited from a higher regulated unbundling fee which we introduced to the market in July, plus we introduced a single line price increase in September, and that helped us to show our higher growth number here.

We're taking a look at the mobile side. As we said, our headline service revenue growth slowed down to 0.7% year-over-year, but there were 2 negative impacts. One is obviously the full quarter impact on the regulatory side which accounted to negative 0.9 percentage points. And what we said in the Q2 call, we had a favorable revenue from visitors in the third quarter of 2018, and we don't see this in this quarter, and that impact was around 1 percentage point as well.

So taking all this into account, that leads us to the conclusion that we don't see any change in the underlying trends and that we're going to confirm the midterm service revenue growth of 2% in the mobile service area in Germany.

Next page, if we're taking a look at Page #15, you see that the commercial momentum in mobile is actually pretty healthy. Over the course of the full year, we have experienced a churn rate in the consumer space, which is below 1%, which helps us, obviously.

And what we also see is, on the next page, a strong momentum in data usage. So the data usage grew from the last quarter to this quarter from 3.2 gigabit per month to 3.9 gigabit per month. That is a Q-on-Q growth of 22% or, on an annual basis, almost 60%.

On top, 55% of our Magenta-branded mobile customers and 24% of our broadband homes are now part of a convergent relationship.

Moving to the fixed line side of the German house. What you see is we're happy to report out that our momentum in the net adds in the broadband space has actually improved. And you heard us saying in the last quarter that we were disappointed with the 28,000 net adds. We achieved 47,000 net adds without having any structural price moves in the German market, and we will stay focused on maintaining that momentum.

For now, 16 consecutive quarters, we added more than 0.5 million fiber net adds, of which 300,000 -- more than 300,000 are coming from the retail side. We also added 67,000 TV customers, which is a continuous increase in growth rates.

On the line losses, we had actually a step-up to 231,000. This is obviously driven by the final stages of the IP migration. And most lines are here comparatively low ARPU lines in the B2B space. And for the first time, we highlighted what's going to be the IP migration impact and what's going to be other line loss impacts.

We're continuing to the next page, Germany fixed. You see that the retail revenues in the fixed line fell by 0.7%. That is actually an improvement Q-over-Q because last quarter we had a negative decrease of 1.4%. And that has obviously been supported by a stronger broadband growth, which is 3.5 percentage points year-over-year. Last quarter, we had 2.3%. So that's also pretty much in line with our midterm guidance.

Let's move over to the 2 usual slides from the U.S., who already presented their excellent results last week. Again, another 1.7 million customers, now 26 consecutive quarters with more than 1 million net adds. The EBITDA under IFRS grew by 3.2%. And if you -- including the positive one-off, the hurricane reimbursements in Q3 last year, that EBITDA growth would have been 6.8%.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

On the performance metrics, you see that on the branded postpaid churn rate, U.S. achieved a record -- a new record low on churn rates, which is 0.89 percentage points. The commercial results are obviously being supported by the great network which they're having there and which was again confirmed by recent tests. And what you also see is that the cost of service is slightly up year-over-year. When one result is, we already mentioned, one root cause is, we already mentioned, hurricane reimbursement in Q3 2018. On top, we are facing higher cost of service due to the accelerated 600 megahertz 5G build out in the U.S. And Tim said already, the U.S. is targeting 200 million POPs by the end of the year.

Moving over to Europe. Again, very, very good results in Q3. We added 280,000 new contract customers, 329,000 new converged customers. That takes us to a household penetration of more than 47%, which is an increase of 11 percentage points year-over-year and a solid to good broadband customer growth.

That commercial momentum obviously turns into financial momentum. Q3 reported revenues were up 1%, and EBITDA was up 4%. If you take it on an organic basis, which is mainly an adjustment of UPC Austria and some slight adjustment on the ForEx side, the revenues grew by 0.7% and EBITDA with 3.3%. That growth is actually based -- broad-based across the whole footprint. But to be honest, I think we have to highlight the great team, the team around Michael Chalmers, again delivered an outstanding result in Q3, and we hope that they're continuing to do so in the future.

So when it comes to Europe, we're well on track with the full year guidance and also with our midterm targets, which basically gets me to the next segment, which is Systems Solutions.

And on Systems Solutions, you will hear me saying pretty much the same thing I said in Q2, we're continuing making progress with our turnaround plan, but there's still a way to go. What you see on the revenue side is that revenue is actually coming down by a 4.5%, which is largely driven by a planned withdrawal of low-margin business such as end user business, but we're also faced with some negative growth rate in the classical IT space. So that is -- these are the 2 main reasons why we're basically seeing a lower revenue number.

Meanwhile, if you take a look at the order book, that continues to develop well. We're seeing a 20% or 21% growth in the order book year-over-year and having now basically EUR 2.7 billion on our books.

On the EBITDA side, year-to-date, T-Systems grew by almost 11%, and I think we're well on track to achieve the EUR 0.5 billion EBITDA guidance which we gave you for 2019 and also confirming the midterm targets.

Next chart on Page 24 is Group Development. And obviously, their results remain impacted by this year's consolidation of Tele2, but also by the intrasegment transfer of the Dutch towers into GD towers. Organically, the revenue growth was at 2.7%, and organic EBITDA grew at a stunning 15%. It was very much driven by T-Mobile Netherlands, which benefited from a very strong commercial momentum, but also synergies from the acquisition of Tele2. Like-for-like, mobile service revenue grew about -- grew exactly 2.6% in the third quarter.

On the tower side, and you heard Tim saying this already, we added 1,500 physical mobile sites into the German footprint over the last 12 months. So we're on track with our guidance to add 9,000 sites until end of 2021 over the course of 4 years.

The recurring rental revenues grew by almost 4%, 3.5 -- 3.9% exactly, and EBITDA grew by 3.6% on an organic basis.

Let me now move to the main financial items, and let me start with cash flow. So the cash flow, as I said earlier on, grew during this quarter or the last quarter by 17.5% which gets us to an almost 14% growth year-to-date, which is in line with our guidance despite the fact that we're facing higher-than-expected U.S. merger one-offs.

The net debt increased by EUR 3.5 billion this quarter, and that is mainly due to 3 effects. One is, obviously, we're facing the German auction payment. Secondly, we're facing a stronger dollar that helps us a lot on the revenue on the EBITDA side, but it also adds to the absolute number of net debt. And due to the accelerated 5G build on the U.S., we're also facing additional tower leases in the U.S.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

If you then -- then taking a look to the net debt to headline EBITDA ratio in Q3, we're showing a 2.8, which is outside our communicated range. But let me be very clear with you. By the end of the fourth quarter, we will be back in that corridor. Obviously, we will stay at the upper end of the corridor. But we clearly expect, if we don't see a disaster on the dollar happening, that we're basically returning back into the corridor.

So to sum it up, I think that was a strong quarter in Q3. we raised the guidance. We're basically confirming the midterm outlook. And now on a final note, on the dividend from my side, and I think many things have been said by Tim already, I think that was a very, very tough decision for those who have been involved in that discussion. To be transparent, we ran numerous rounds in order to get to basically to today's proposal. But as Tim said, the root causes already, I think it's the best possible balance between having a fair shareholder return, giving us the flexibility to invest into growth, but also remain our rating, which is BBB+.

With that, I'll leave it for questions. Thank you.

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

Thank you very much, Christian. And now we can start with the Q&A. (Operator Instructions) So we start with Akhil at JPMorgan.

QUESTIONS AND ANSWERS

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

I've just got 2, please, both linked to today's decisions around the dividend. The first is on debt. You talked about the EUR 3 billion increase that we've seen this quarter in your net debt. And if we look at the waterfall you provided, half of that is attributable to lease obligations being added to that balance. I guess if you could just talk us through exactly what's going on there, I presume it's still with U.S. towers. And I presume U.S. towers will continue to grow and, therefore, so the leases. So if you could just give us a bit of color on how that progresses and how we should think about it. So that's the first question.

And then the second one is on the actual dividend decision as a whole. I guess it's understandable, your leverage is at the high end of the range or slightly above the range at the moment. And I guess if the deal goes through, leverage goes up. If the deal doesn't go through, you need to buy your spectrum. So I guess, the board's thought process makes sense. But I guess, what I'm trying to understand is, how did you actually arrive at the sort of dividend cut you want to put through? And I guess, just the observation on my end would be that the EUR 0.10 cut is a, I don't know, circa EUR 0.5 billion change in the total dividend cost. So relative to the total debt and your free cash flow, it's not the biggest number. So how did you reconcile these things when you thought to balance all the different demands of the business?

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Let me take the first 2 questions. So first of all, the free cash flow which we're showing is the reported free cash flow, so it does include leases. And the EUR 1.5 billion, which you're going to see is actually an increase in rights of use of EUR 1.1 billion and also financial leases which were added in there. And that basically explains the bridge of the EUR 1.5 billion which you see there.

On the dividend question, on the EUR 0.10. Look, there were a couple of -- I think there's no mathematical equation. I think there was a lot of business judgment in that discussion. What has changed relative to our original announcement of the dividend policy. One is, obviously, we were facing a significantly more expensive auction in Germany. Secondly, what we said is there is an accelerated build out on 600 megahertz in the U.S. and the U.S. was clear that they continue with that acceleration. Thirdly, I think we have, especially when it comes to the U.S., more clarity on what's going to happen to the upcoming auctions, whether it's going to be the millimeter wave auction or whether it's going to be the CBRS auction, which is now announced for June 2020, but that communication happened back in September this year. And also, we're expecting more clarity on the C-band auction in the upcoming weeks and months. And so that was kind of the delta effects which we're seeing. And we were clear that we have to maintain the rating in the upcoming years.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And then there's the third element, and I think Tim said it already. Look, we're confident that we get this deal through and that we get a positive outcome. But without any doubt, it's been delayed. The original plan was Q2 in this year, and now we expect it in early 2020. And I think we have to come up with a proposal which is kind of balanced in a deal or no-deal scenario, what we're going to pay out as a dividend in 2020. And that basically led to the conclusion that we're going to pay EUR 0.60 in any case, deal or no deal, and that EUR 0.60 is also the new floor going forward. So that's kind of the explanation how we got there, but it's not like that we have an Excel spreadsheet who is giving you basically a number which is calling out EUR 0.60.

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

Thank you, Christian. And we might go back to this question later in the call. But next question for now is from Polo at UBS.

Polo Tang - *UBS Investment Bank, Research Division - MD & Head of Telecom Research*

I just have some -- 2 questions. The first question is on network sharing. Can you remind us what your views are in the possibility of mobile network sharing in Germany? So do you think there's scope for a trilateral network sharing from all the operators in large parts of the country? Alternatively, what are your views on the prospects of bilateral network sharing in Germany?

The second question is really just around German mobile service revenues. You obviously highlighted that there was a phasing issue around roaming revenues, but how confident are you that German mobile service revenues will rebound in Q4? And you also talked about what response has been to your new (inaudible) towers that you put through in September.

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

. Let me try to answer your question, Polo. First thing, on the network sharing side. Look, we have publicly said that we are open to collaborate in every regard. And it's anyhow our interest to improve the capacity utilization of our sites here in the German environment. Now the question is, how could this network sharing could look like? The first one are areas where no mobile site is available today. Maybe you've heard about that, the government has started a project which is called MIC, mobile phone infrastructure company, which is providing infrastructure so that everybody can put his antenna actively or passively onto the sites. This is something discussed, and we are supporting this initiative. So I guess, in these white spot areas, a lot of the money is coming from the government, and we just put our antennas, shared or unshared, into these slots.

The second area are areas where one of the operator has a network and another don't. We call that gray areas. In these gray areas, we are open to share as well. Now the situation in Germany is that we have a significant advantage due to our huge investments over the last years with regard to size. We just have passed the 30,000 sites in Germany, so our network is much better than from Vodafone and from Telefónica. So I would not give this access immediately, but I would give that access on a kind of tit-for-tat basis. So if we are getting offered from Telefónica and from Vodafone maybe 20 sites in Brandenburg and we can share 20 sites in Saxony or some -- this is the principle on how we're approaching these guys for the gray areas.

And on top of that, we have our DFMG strategy, which we implement as well, that we are open for network sharing and site sharing here in this area on a commercial basis, which we are doing today. We have a sharing on mass of 2.3% already -- 2.3x already. And we are interested for further tower colocation ratios to get -- to improve here.

So therefore, there are various ways of collaborating. It's our interest to reduce our capital costs. And it's our interest to better fulfill white spot areas. Nevertheless, we keep our network leadership as a target in place. We do not want to give that up for free and too easy here. So reciprocity is the name of the game.

When it comes to the second question, on the mobile market here. Look, we have seen growth in German market. And by the way, which maybe haven't been mentioned yet, is we are very pleased in German mobile market with regard to the net adds in our Magenta product line. And this is a huge uptick. And by the way, I was very pushing -- heavily pushing on this one because I want to see the Magenta product being taken by the

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

customers because that's our premium product, and we have the lowest churn in this area. We have seen in Q1 a growth of 2.8%. We have seen a growth of 2.4% in the second quarter. And we have seen 0.7% growth in the third quarter, and you can say, "Oh guys, is there a decline in these areas?' The answer is no, because there is a sequential decline, which we mentioned already in our previous calls, which is coming from the headwind faced from the international call regulation. This kicked in already in mid-May and had materialized now in this quarter. If we would exclude this effect, we would have seen a growth of around 1.6% in this quarter. So this slowdown is largely due to the quarter -- the visitor revenues and these effects. Nevertheless, this market is quite competitive as it was in the past. We have seen some aggressive movements from O2, which 6 months -- includes a 6 months for free offering and which has resulted as well in gains for their brand. But nevertheless, we have this insight, and we keep ourselves committed that we are aiming for a 2% CAGR growth on -- in this specific German market segment.

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

Next question is from Mandeep at Redburn.

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

So look, first question I really have is on the Sprint deal term, did the deal not actually expire last week? So could you say why you haven't extended the deal terms? That's the first question.

The second question is, there's a lot of noise in the market around life line, contingent liabilities and so on and so forth. Excluding any other factors from the point of view where it may or may not be significant contingent liabilities that you weren't originally aware of, do you have a condition in the negotiation to be able to change the terms of the deal?

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

So look, with regards to the long stop date and the deal terms here, John Legere has commented on this at the team U.S. earnings call. And there's no further comment on this from my side. It is correct that since the beginning of November, both parties can unilaterally cancel the BCA, and that's where we are. But I'm not adding anything to John's comment here.

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

Thank you, Tim. Next question. Next question is from -- I hope we answered Mandeep's questions here. And next question, to the extent that we can answer it right now, and Fred -- next question is from Fred at Bank of America.

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

So 2 questions. First of all, to come back on the first question from my queue on the leverage. So the lease liability seemed to be increasing steadily. There was EUR 16.9 billion in March. Now it's EUR 18.1 billion. And so I think the question was more, if you could discuss the mechanism and the drivers for that going forward. So not this quarter, but if we look in the next few years, should we expect that liability linked to the U.S. to continue to go up?

And then the second thing, sorry to come back on the dividend in a no-deal scenario. We have a permanent reset at EUR 0.60 as you said that after that, your growth will reflect EPS. So if you can share with us a bit, if we stay in that scenario, what has changed beyond the higher cost for spectrum in Germany? I guess your need for mid-band spectrum in the U.S., probably not that new when you presented your full year outlook 18 months ago. If anything, credit conditions have probably improved. So we were just trying to understand here what's new in a no-deal scenario.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Let me answer the question on the leverage. I think the required CapEx and the lease liabilities are part of the new outlook in the U.S. And I think what we also have to bear in mind is, obviously, you add additional rights of use and you have to pay interest for this. But that basically, in parallel, increases your reported EBITDA as well. So from this perspective, we don't see any further significant deterioration. I think, as I said earlier, Q3 has been impacted by the payment of the spectrum which we don't face in the next quarter. And it's also been impacted by a negative dollar when it comes to absolute and net debt numbers. But we don't expect any further deterioration from the U.S. in the future.

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

Okay. So coming to, Fred, to your second question. And let me just reiterate about this dividend discussion which we have heard here internally. Look, we have, since 2009, we have a kind of strategy, we call it, let's say, financial market strategy, which says there are 3 stakeholders which we always have to reflect in a proportionate way. The one is, let's say, the business that we invest sufficiently into the operations. The second one are the debt holders that we keep always our debt rating stable in the range which we have had. By the way, we are the telco with the longest stable rating in the history of Europea and almost 10 years with the BBB+ rating. And we have said there should be an appropriate sharing of the cash flow with our shareholders. So this was the discussion which we had at the beginning of the quarter, to say, okay, it looks like we have a great contribution from the operational side, but on the other side, there's the question around the transaction now. Nobody was expecting that 2019 is a year without a decision on the deal. So there were 2 kind of camps. The one camp, which we met, which are my shareholders, said, "Look, we're expecting the deal comes, and the dividend is going to be EUR 0.50." And the other camp says, "As long if there is no deal, just follow up the old dividend policy and increase your dividend with the earnings per share." Which was the guidance given at the Capital Markets Day.

Now we came to the conclusion that between EUR 0.50 and EUR 0.70, a wise compromise is EUR 0.60. And what we saw as well at the same time, is that we said, "Look, EUR 0.60 should be the new minimum dividend." Why? Because we have, since the last 18 months, we have outperformed in the U.S. We have outperformed in the European market. And therefore, the certainty about, let's say, the underlying free cash flow profile of our business has improved. So that is why we're saying, it's not anymore EUR 0.50 in the merger scenario, it's now EUR 0.60, which is a clear commitment from our side that we believe in the future of our operations and its free cash flow and profitability profile. So that's the first part of the question.

The second one is now, do we see anything which you don't see going forward? When it comes to the investments, look, we have seen the German auction. I think it's a good message to the German politicians to say, "Guys, if you're taking out the money out of our pocket, here is the consequence on the dividend side." So they might not like it in the Minister of Finance here. But this is, let's say, one message, and we have to reflect that. But going forward, we have now higher build out obligations for 5G services. In Germany, we have an accelerated 5G build out of our T-Mobile operations. And on top of that, we have the spectrum auctions, which we foresee and we do not know about the outcome, which is in the mid band area and in the millimeter wave band, which are coming in 2020 as well.

So what we want to give here is kind of stability that we have the financial power, that we have the balance sheet, that we have the rating and, at the same time, a fair and appropriate dividend yield for our investors going forward. And we give a commitment that this EUR 0.60 is now the new basis for what we are doing in the next years. And for me, this is a personal, and for Chris and myself, a personal, strong commitment towards investor community.

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

Okay. Next question is from Christian at HSBC. Christian, please?

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

Coming back to the mobile service revenue. I mean, overall, otherwise, good results in Germany, but it kind of stood out. So in terms of Q4, if we look forward a quarter, is it fair to assume that the whole visitor roaming stuff is kind of going to a normal level again? And yes, generally speaking,

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

you increased prices at the beginning of September, are you seeing any impact from the new portfolio? Would be good to get a bit of color on that on the current momentum, generally speaking.

And then secondly, on the content strategy. You're saying you're not changing the overall strategy when it comes to content. But you're not disclosing numbers, but if you believe the press, they are citing something like EUR 200 million that you may invested in the rights. I mean you get maybe some [sub-license] fees, but it sounds like a big investment for a tournament that's only one month in 2024. So can you maybe explain why you decided to buy the rights? What you believe they will bring to you? And yes, why this is not the new normal in terms of content strategy?

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Can I -- Christian, let me start with the mobile service revenues. And as you know, we don't give any quarterly guidance on the mobile service revenue. What we have given is that we stick to the 2% on a midterm basis. But to kind of bridge the Q3 result, we had 0.7% mobile service revenue, and we had a onetime negative effect on the visitor revenues, which gets you kind of an underlying 1.7%.

Secondly, I think we introduced the new tariffs at the IFA in September. I think it's too early to really say it's -- they're a huge success or they're not working. But what you can see as an early indication is obviously our contract net adds, which have accelerated from Q2 to Q3. So I think I would take this as an early signal that the price moves are moving in the right direction. So -- but I think to make a final assessment on the new tariff strategy, it's a bit early.

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

So on the content side, look, the first thing is that 2024, the world has changed. In 2024, customers will have heavy use of 5G services. Think about a country like Germany, where the leader in the technology is offering its customers a 5G service to watch the games, to enjoy all the content around this, not only in front of the TV service, but everywhere where they want to see it. If you have seen the first folded screens which are now in the market from Samsung, if you see the products coming, I can tell you the way how we will enjoy the championship in Germany will be different. And if the market leader in Germany is with its -- his technology leading this showcase, I can tell you this is playing into our brand, which is already very strong today, but this is the one thing.

The second thing is, I can tell you, this is something where we could easily today distribute the content via other broadcasters. Everybody is interested to get that. RTL was on it. The ARD and ZDF, the public ones are interested in this one. And we have that on entertain. We always have said that we will not have that exclusively only over our network. We will not exclude, let's say, anything on this content side. But we will have it for us and for our customers and as well for partners, if they have a recent price for that which they're offering. So this is definitely part of the rebalancing of this rights portfolio which we have acquired.

And on top of that, I think we will be able to attract even new customers to our TV platform during this period because sport is a very attractive content and especially if it's taking place in German market. And we have given new commitment that we're going to increase our customer base to 5 million customers in the upcoming year.

So again, our content strategy is an aggregator, a content aggregator strategy, where we, from time to time, a little bit more sexy by having some things that others don't have. And this is, let's say, what we said in the past, and that is how we're moving forward. And I strongly believe that we are going to be able to make money out of this rights prospectively.

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

Thank you, Tim. Next question from George at Citi, please?

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I have two. The first one is around flexibility regarding the balance sheet. And obviously, you've mentioned you plan to go back within the range, but maybe towards the top end. Is it possible to give us an idea of what levers you have to offset any potential outflows with or without Sprint in the next couple of years? And obviously, we're all aware of your tower portfolio, but whether there are other assets that you are perhaps considering, for example, Telecom Italia is looking at data centers. I would be interested to hear more broadly how you think about the different types of assets and also the countries you are in.

And then my second question, to the extent you can comment, I mean there's been a couple of articles in the last month. One, regarding T-Systems and the other one regarding Hellenic Telecom for different renewals of contracts or earlier termination of contracts of the management. And particularly on T-Systems, given the volatility, I wanted to see if you can assure us there's nothing we should worry about in terms of the operational outlook. And with regards to there, whether there's anything in Romania we should read from that?

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Okay. So let me start with the comments on T-Systems and Hellenic Telecom. We are aware of these rumors. To be honest, this is gossip, but there is no fundament behind it. I called out the Greek performance in that quarter as outstanding and is outstanding. I think Michael and his team is delivering very credibly, very good results over the past years, and we're betting on him that they will do the same in the future.

On T-Systems, same story. We're happy that we have an increasing order entry. We're progressing on the transformation at T-Systems, to be honest. Adele has been prolonged in this contract, so -- recently. So there is nothing behind this.

On the first question on the balance sheet. So the biggest thing is what we're betting on is our growth strategy, which is we wanted to continue to grow on the EBITDA line. We wanted to continue to grow our free cash flow around 10% every year. And that is something how we basically want to deleveraging going forward. And as you know, we're not speculating on any kind of M&A activities. What we said on the towers, we're always open to go a different venue, but it's too early and too premature to basically discuss with you whether we have a dedicated plan. And therefore, I think we're just betting on our operational strength in the business we're operating in.

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

Okay. Next question is from -- thanks, Chris. The next question is from Jakob at Crédit Suisse, please.

Jakob Bluestone - *Crédit Suisse AG, Research Division - Research Analyst*

One question on fixed line. You obviously highlighted quite high line loss as a result of the IP migration. It didn't seem to have a particular impact financially just on the KPIs. Can you just remind us what your expectation is? I think you've previously said that the line loss should start to wind down this year. So is this kind of the tail end, or is there any change in that? And then if you can maybe just comment on why the high line loss didn't really seem to have much of a financial impact in the quarter.

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

So maybe going to the line losses here. First, the biggest driver of the line losses is the end of the IP migration. And I mentioned that earlier, it's 97% where we stand at that point in time. And there's another quarter to go, but we are very close to the end. And I can promise you one thing, next year you'll see significantly lower line losses. And by the way, I make a personal statement on that one because otherwise I'm going to kill somebody in the German organization.

So on the B2B side and the B2C side, where are the sources for this line losses? On the B2B side, it's the cleanup effect which we have with customers who are identifying old analog services. And they're just cutting the cord here because they don't need it anymore. So this is one effect which we

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

see which is coming from the closure of this broadband platform here. With B2B customers, they simply reduce the amount of connectivities in their facilities.

On the B2C side, we saw a higher single-play line losses in the consumers end, and that was driven from our price increase in September. As you know, we have increased our single-play prices. And we saw some additional churn coming from that angle. The people are mainly cutting their cords and not using the service anymore, are going to only digital services here. So this is, let's say, the second driver on the B2C side.

Nevertheless, what I want to stress here at that point in time, I'm quite very happy with the Q3 performance on the broadband products because if you take this IP effect out of the equation, our market share and net add market share on broadband progressed close to the 40%. So we are very close to the area where we want to be. And this is mainly driven by the vectoring rollout across the country, aiming for 28 million customers -- households by the end of the year. I mentioned that numbers. We have a good momentum on the TV product side here. And therefore, we see that these new capabilities which go into the network are on the one time driving down the churn, and on the other side, attracting new customers. So this is a very positive development. And next year, this effect is going to be accelerate because we then have no negative impact from the IP migration anymore.

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

Okay. And the next question is from Usman at Berenberg, please?

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

I've got 2 questions, please. Firstly, on the U.S. situation and secondly, sorry to come back on the dividend. I mean in the U.S., I guess you're up against a tricky situation here, right, where the -- if you end up in a scenario where the deal has not completed and the C-band auctions are coming up, how do you balance that? Because obviously, I mean, Sprint has good spectrum, you won't need any C-band if that deal completes, but if that deal doesn't complete then you need that spectrum. So how do you think about your options there?

And then just on the dividend. So I just want to run some math by you, and I'd be interested in your thoughts. I mean if I look at your free cash flow guidance for this year, EUR 6.7 billion. If I look at the accruals for finance leases, the repayments of which are not included in your cash flow, but those accruals are hitting your balance sheet every year, it goes around EUR 1.5 billion to EUR 2 billion. So if I take EUR 6.7 billion less around EUR 1.5 billion to EUR 2 billion for those accruals and then I take off an average kind of annualized spectrum spend over the last 5 years, it's been averaging around EUR 3 billion, EUR 1 billion in Europe, EUR 2 billion in the U.S. Can you land up with a free cash flow all-in which is below the dividend commitment of 3.4 pre the cut, 2.9 after the cut. So -- I mean it just seems like unless that issue is addressed, I mean, leverage pressure is just going to continue to build, right? So just any thoughts on that would be helpful.

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

So Usman, first, by the way, I think, Christian going into the dividend statement on free cash flow guidance is wrong. I just wanted to make that clear. I think your assumptions are wrong, but Christian goes into the detail on this one.

Let me go into the U.S. and the question about the spectrum situation here. And it's right, we have since May seen a number of developments regarding the U.S. spectrum auctions, and we were quite successful in what we did there.

Just starting with the millimeter wave bands. And the 2 out of 4 auctions on the 24 and 28 gigahertz auctions were accomplished, and we gained 500 megahertz of spectrum in this specific band. So we were quite successful in what we have achieved on this area. From December, we will have [3.4] gigahertz spectrum auctions. And in the upper 37 -- 39 gigahertz and I think in the 47 gigahertz area, there will be auctions coming. And as we have always said, we are prepared from our side and anticipated as well, financially, what that would mean in our guidance. So this is something which we knew already when we drafted our 2019 plans and beyond.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Then there's a CBRS spectrum, which is partially licensed and partially unlicensed. This is a complicated spectrum plan which had to be developed over the times. And on September 29, the FCC decided to conduct a CBRS spectrum auction in June 2020, this is 70 megahertz of licensed spectrum in a 3.5 gigahertz area, which is coming to the market, so there's time to go on this spectrum, and we will then definitely know where we stand with regard to the deal and what that would then mean for us going forward, whether we have to participate or not to participate.

And then we have the C-band area, this is this mid-band spectrum and -- which is as well coming to the market. And the FCC has decided finally on the time line. It's coming up in the coming months. So we cannot speculate when that is and how that is going to take place. And whether this is in conflict with our deal approval and the final decisions which we are expecting here, but we do not see a kind of collusion here. We are very confident that we will know at the beginning of 2020 whether we have a deal or whether we end up no deal.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

Okay. So let me add a couple of snippets to this. So first of all, on that EUR 6.7 billion, which you're alluding to, I think what you're seeing right now that we're growing free cash flow, comparatively speaking, more than 10% every year. So that will help us going forward.

On the finance leases, and if you've taken the stronger dollar into account, it's actually our prediction EUR 6.9 billion.

The second one on the finance leases. I think the number is discoverable, I think it's more EUR 1 billion than anything else.

And the third one is, obviously, the dividend decision is taken into account the clarity to the capital markets but also what we expect in terms of outlook. And what we expect in terms of outlook is also factoring in that we were maintaining our ratio. So from this perspective, I think we have factored in all relevant factors, which got us to the conclusion of EUR 0.60.

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

I think it's also fair to say that this year, for instance, our free cash flow guidance is after about 0.5 billion of U.S. deal related expenses. And furthermore, I think it's also fair to say that in the U.S., we have an exceptional growth that's now going on for 5 years, which has a negative working capital impact as well. So maybe part of the evaluation when you next look at those numbers.

When we -- now we move on and next is Andrew -- no, sorry, Ulrich at Jefferies.

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

Can you hear me? Okay, let's try again. Two questions, please. The first one is on the German broadband market. You called out in the second quarter that the market was curiously slow, you highlighted already that this is not a -- it's recovered in the third quarter and it's not a share issue. Could you maybe sort of now with the quarter or 1.5 quarters later sort of describe what your analysis is on this situation, because broadband penetration in Germany is not particularly high. So a bit curious why the market growth should really slow down so drastically, so quickly and so suddenly. That's my first question. My second question is on the sort of wholesale situation in German mobile. Vodafone seemed to have stepped away a bit from stated policy in the U.K. by giving a very large MVNO deal, which came as a bit of a surprise to everyone as opposed. Is that really means they are thinking about it differently across Europe rather than just in U.K.? How do you view the -- your approach to the German wholesale market in mobile. Is this a competitive question, or do you simply look at this and say, "We do what's right by our business, we don't really care what others do?" In other words, if Vodafone starts negotiating with other people in a different way with a different starting point, would that affect your approach to that market as well?

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

So look, Ulrich, I know that you're a little bit bearish about the German fixed line market already for quite some time. Look, I'm a little bit more optimistic. And as usual, on this subject, and I think the Q2 was an unusual quarter. And you saw that, let's say, the third quarter was a very strong one, and we had a fairly steady, over the years, our commercial performance in this one despite the fact that we were impacted by some of the IP migration here.

Now, we were able to improve our net add performance significantly, and what we see as well is that Vodafone and Liberty is focusing increasingly on monetization of their own cable infrastructure. So what we see is that new customers cannot book DSL tariffs anymore with us. They are now -- they are going to cable access only. So this is, let's say, something we expected here, but it's not affecting our net add numbers because we opened new vectoring, super-vectoring areas. And what we even do in cities where we do that, we regain market share from cable operators. And you have even seen some weaknesses of the smaller cable operators in the German market at the same time. So we are doing pretty aware of that one. And if I take the number, on the retail fiber net adds, we had 318,000 additions here. And I think this is quite an encouraging number going forward. So I cannot share that this market is heavily slowing down. I cannot share that Vodafone might change their strategy. We anticipated that. And as I said earlier, we have a lower churn and we have good net adds here at the same time. So therefore, we are very close to the 40%. We are not yet there, but we are absolutely on the right track in this regard. And when the IP migration is being accomplished, I can tell you we have even a less churn expected from our side. So we are very optimistic on this one.

Now second question, look, I can be impolite and say, "Don't ask me, ask Vodafone." But look, I'm trying to be as service-oriented as possible. Here, I don't know what is right or wrong what they're doing in the U.S. -- in the U.K. market, sorry. I think the U.K. market is anyhow different than the German market here, and it was. I saw that Vodafone was suffering a bit from the churn. They were facing with Eins&Eins into the O2 network, but they were very disciplined in the way how they let that happen. So I have a lot of respect for Vodafone in this regard that they're looking on how can they monetize their network leadership in the best way and not to be selling it to everybody. We have anyhow a quality competition here in Germany. That is why everybody is trying to invest so heavily into mobile sites and trying to improve the coverage and always leading the P3 test, blah, blah, blah. So I do not see that Vodafone is changing their behavior in this German market towards a kind of more utilization-oriented strategy. We all have learned the lessons in Germany, what it would mean if you have an uncontrolled excess of an MVNO on your infrastructure at lower prices. So therefore, I do not see that Vodafone is becoming irrational on this one. And for us, what we have said in the past will be as well our strategy for the future. We are very consistent towards MVNOs.

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

Thank you, Tim. And next is Andrew at Goldman's, please?

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

I had just a couple of extra questions on the current infrastructure self-help opportunity in Germany. Maybe I'm wrong, but you sounded quite reluctant on a wider tower sharing deal in Germany. Do you see a risk that your competitors do sign a broader deal away from you? And if that was to happen, would you have to get involved so as not to miss out on the efficiencies there?

And then a second question, since the last quarter's call, we're seeing more of your competitors suggest they're open to infrastructure asset sales, including Orange potentially open to fixed line asset stake sales. Any update on your scope to share investment costs in fixed would be greatly appreciated. And then does any of this, the tower sharing, the infrastructure asset sales, does that present meaningful upside to your free cash flow guidance or downside to your CapEx guidance?

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So on the tower sharing, let me kind of reiterate what has already been said, I think. On the white spot sharing, where there is no opportunity to differentiate, I think the best economic model would be if we share the burden among all operators. So ideally, it's all of us basically working together.

On the gray spot sharing, where we have distinct opportunities to share with other MNOs to basically up to both networks, I think the natural partner for us would be Vodafone because given their quality of their network that is closer than Telefónica's, obviously we have the best one. Secondly, if you've taken a look how they approach customers, especially in the retail space, they have similar price plans and so forth. So I don't know what's happening on Vodafone's and Telefonica side. I assume you're alluding to that potential negotiation, I don't know this. But from a natural combination, I think a better fit would be DT and Vodafone.

And on infrastructure sales, as I said, we have no plans right now which we can communicate whether there is any plan -- whether there is any plan to sell something. As you know, we're totally persuaded infrastructure investors and we want to basically keep our infrastructure leadership where there is possible, and I think that is the strategy of Deutsche Telekom, and selling off assets would be in opposite direction.

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

Look, let me say some additional words, because I do not want to perceive as being a laggard, a laggard on selling assets on noncore activities or whatsoever. The opposite is the case, but it has always to do something, what is the right timing and what's the right way going forward.

Look, it was a very, very wise decision from us not to sell our tower costs. We have already privatized and put them into a different entity almost a decade ago. In 2000, we've established the tower called DFMG as a company. And this company is providing us with an EBITDA of more than EUR 400 million EBITDA today. And by the way, heavily growing.

You have seen on our Slide #8. You have seen the group development segment is growing in a double-digit way. And it's not only the unbelievable successful turnaround in the Netherlands which is supporting that, but as well, the super performance which we have in the DFMG. So the moment we have keep that asset and not selling it yet, we're increasing the value of it.

Now, you're totally right, we should not miss the bus if there is a bus coming, but I'm not afraid about that one. We have 50,000 towers which we are managing. We are, by definition, the biggest tower core. I can tell you everybody is talking to everybody, so let's see how this is deploying. We can run this business on our own prospectively, but we are willing and considering even partnerships, as I mentioned earlier. So I think as long as we are not desperately sitting and have to sell that business, we are looking for the right opportunities in this environment.

And when it comes to future asset sales, I think we haven't made any decision. The Netherlands, with this super turnaround after the Tele2 deal, just to give you another inflection point here, today we passed from #3 and #2 in the Dutch market on mobile because Vodafone has shown slower numbers. So even here, we are now improving our market position significantly. And therefore, this is always an option which we can consider on the asset sales side, but at the right timing and at the right value.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So when it comes to the question on upsides on the free cash flow guidance or downsides on the CapEx guidance, my answer would be neither nor. We are reiterating the 10% free cash flow guidance. And obviously, if we're better, we're better. And what Tim already said in his speech is we're going to keep the CapEx guidance for Deutsche Telekom ex U.S., which was always saying, it's peak 2018, and from there, it's maximum slowdown and keeping this constant. So there is no additional headwind to be expected on the CapEx side.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Thanks, Christian. Next is Josh at Exane, please?.

Joshua Andrew Mills - *Exane BNP Paribas, Research Division - Research Analyst*

Just one question from me. Following the price arbitration we saw 2 weeks ago between Telefónica and Drillisch, have your expectations of a fourth network owner in the German market changed? And likewise, has it changed your view of how mobile competition is going to sell up in Germany going forward?

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

I think, Josh, maybe if I answered that. It's really up to United Internet to decide their strategy here with the fourth network build. We have entered a fourth spectrum. They have entered obligations and what they will do with it is up to them. So I think that's probably all we can say to that.

So next question from Ottavio at SocGen.

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

I have a couple of follow-up questions. The first one is on network. You discussed a lot of details about network sharing as a mean to a purpose. And the purpose is basically to improve your coverage. So my question is actually different. It's -- how big is the coverage requirements, say, how many sites you will need, first, to hit the requirements of the license on rural and for densification in urbans? So if you can tell us -- probably, I don't know if you've already done your plan. How many sites we need between now and 2024?

The second one is also another follow-up, this time on media strategy. You clearly said, at least what I understood, is that the rights to purchase for year 2024 was relatively opportunistic move. That means that on the next round of bidding for the Bundesliga and Champions League rights, you're not going to participate.

And the third, it's -- I know I can ask, it's a very straightforward one. Are you -- what's your lockup on the TMUS (inaudible) if the deal with Sprint goes ahead?

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So let me start on the network question on the number of sites. As we said already, we want to increase our network portfolio by 9k over the course of 4 years, until end of 2021. And I think that, to a large degree, covers at least the network requirements until end of this year.

On that question from now to 2024, I think the biggest demand is clearly sitting in the white spots, and that depends on the sharing model that we're coming across with. So everyone is building out. Obviously, that number is theoretically triple as high as it would be if we are -- if we would share basically with nobody. So from this perspective, it is -- I think it's premature to make a statement on the number of sites. Obviously, it has to be reflected because it's a legal obligation when it comes to the build obligations. And therefore, I think we should actually, from an economic point of view, come to a conclusion that we basically share among all MNOs when it comes to the white spots because that lowers the burden for everyone.

But our commitment, again, is roughly a run rate of 2,000 sites a year. So you can do the equation until 2024, and that would be another 8,000 sites which we would build by our own if we're just maintaining that run rate.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Correct, Christian. This was the number. And on top of that, we have the 10,000 micro sites, which we built in the cities which we established down there to be market leader on the 5G services. All of this is included in our CapEx envelope being laid out. And if there is additional sharing opportunity, this would improve our profitability. So that was not part of the plan at that point in time.

With regard to the media strategy, look, I do not want to be repetitive on this one, but I might be boring. We have not changed our content strategy. It is a little bit, let's say, call it opportunistic, but we smelled some opportunity to differentiate here in this market and to just remind us on where we stand with Magenta (inaudible). We have a lot of, let's say, good features, content aggregated in our TV proposition. And by the way, we extended our classical home TV service with an IPTV proposition and mobile service proposition exclusively, which we have out there in the market as well.

In the so-called mega tick, what is -- there is the content. We have TV series, we have movies, we have all, let's say, the region exclusive. And interesting wise, very easy to access even the big streaming platforms, being it Netflix, being it Maxdome, being it Amazon Prime. This streaming services are accessible very easily via that platform already today.

On the spot side, we have established a Magenta sports channel, and we got some attractive rights here like the basketball league or like the ice hockey league in Germany, which we are able to offering exclusively. And on top of that, we have a deal with Sky, a deal which is enabling us to include Sky services like Bundesliga or Konferenz and other services into our Magenta sports suite. So that's the kind of reselling and partnership deal which we have with Sky, which is working nicely to complement the full set here.

So this is how we see the world going forward. There are no material changes which we have in mind. But if there are opportunistically some series like Handmaid's Tale or whatever, being offered, which we think are fitting into the portfolio, we will add them, and we will buy these rights even exclusively. So nothing to change in principle, but opportunistically, we cannot exclude that we move in specific topics.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So on the lockup question, I think we have a 4-year lockup after closing. So that would be my answer to the question.

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

Okay. We have time for 2 more questions now. So next is Simon at Barclays.

Simon Alexander Arulraj Coles - *Barclays Bank PLC, Research Division - Research Analyst*

Just a quick one on convergence. So you've obviously pushed it quite hard across Europe and in Germany as well, and you had good success in Germany with smaller discounts than some of your peers, but I noticed that you reduced those discounts recently. So I'm just wondering how you think about the balance between convergent discounts and pushing convergence further, because we've seen convergent penetration maybe slow down slightly in the last few quarters.

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

We love convergence. And by the way, the convergence which we have offered so far is very much a tariff convergence. And that means combining a mobile tariff with the fixed line tariff in an intelligent way, now including the family and the like. And we have pushed that. That's correct. Because we see the benefit of that one. We have more ARPU because more members in the family are using it. We have this EUR 9 in addition to the old package, which we know. And the second one is we have a low churn, which is helping us because the value is in the base. And last but not least, we have a higher customer satisfaction. Our TRIM is in the 70s, which is our peak KPI when it comes to customer satisfaction. So the upsetting opportunities on TV is as well something which we strongly believe in this one. And therefore, I think the way how we positioned our MagentaEINS service was very good because people didn't know exactly what it was. So the mobile customers were coming and got a fixed line offer, and the

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

fixed line customers thought there's something on the mobile side and they got a mobile offer. So we were not so specific in the way what convergence really is. Now, we have now a base which is growing. I'm very happy about how Srini Gopalan took that up in the European side and how fast the German -- sorry, the non-German take-up rates are. And they are still on a very high accelerating mode.

Now, what's the way forward? The way forward is we called it internally true convergence. So the question about convergent products. And think about an home OS, a home operating system which is easily serving all different applications at home. Today, we offer a home -- smart home service, which has its own operating system. We have a TV service, which has its own operating system. We have the classic communication suite, which has its own operating system. So if we have a router which is enabling all this kind of services ideally easily, maybe even cloud-based, if we have one voicification service, which is able to steer each of the services proactively going forward, we really come into converged customer experience at the home. And that is, let's say, for us the true convergence that you have hybrid service, mobile and fixed line, which is enabling higher speeds and better latencies, that you have one operating system which is supporting all different functionalities we just mentioned, and that we can bundle that in an easy way with our tariff structure underlying our tower structure.

So on top of that, one app is supporting as well then mobile and fixed line capabilities. And I promise you, we are working on this one. We have shown already some of the stuff at IFA, and there's more to come during the course of 2020. But the next step is after bundling is now true convergence with regard to products.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So to prolong Tim's answer on the impact on run rates, because we lowered the discount, we had 80,000 in Q2 and 90,000 Magenta net adds in Q3. So we don't see this right now. But I think, again, same answer holds true as for the mobile question, it's early stage to make a final statement here, but we have the opportunity to actually, of course, correct if necessary.

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

Thank you, and that brings us to the last question from Matthijs Van Leijenhorst at Kepler.

Matthijs Van Leijenhorst - *Kepler Cheuvreux, Research Division - Analyst*

Two questions from my side. First one, looking at the Netherlands, it appears that you've quite turned the corner over there. What's the long-term strategic solution for the Netherlands because it's still included in group development?

And the second one is on -- it's a bit of a follow-up on the U.S. spectrum auction. You clarified you get more visibility on upcoming spectrum markets. But just for my understanding, in case you don't get the green light for the Sprint deal, do you need to have the same amount of spectrum, or do things change? And the reason for asking is that, if I'm correct, initially, in case of a no-deal scenario, I had the impression that T-Mobile U.S. would reignite its 9 billion share buyback. But if I look at the press release, it appears that this is also off the table. Those are my questions.

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

Okay. So I like your question with regard to the Dutch market because I remember the day when we were sitting here and there was a discussion about selling the asset, and some of you said, look, better to get this off the balance here -- balance sheet than rather trying to fix it. And that was -- there were offers on the table of EUR 2.3 billion at that point in time. And I said, I will never sell that business. We have the duty to fix that business. Now, this business is super, super strong. They had a very disciplined cost approach. They first introduced affordable unlimited data tariffs. They had a new brand repositioning to become a strong challenger in this market. We built a network which is, by the way, not only the best network in the Netherlands, it's the best and highest Scott network in the P3 test across Europe. So it's #1 in Europe at that point in time. With regard to speed, reliability and consistency, we have done some [inorganic] move with Tele2, integrating this business into our services and being able to offer now even fixed mobile converged services with a very strong B2B offering.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

On 5G, we are ready to go and to move forward. And the synergies are, for the 3 years, are well on head with regards to the integration.

So we have now 600,000 fixed line customers in a growing segment as well. So we are very happy on how the valuation has turned around from maybe EUR 2.3 billion. And I saw some of you guys from the sell side talking about EUR 4 billion for this joint entity here on the way how we're going forward.

Now, do we have another strategy for this company? No. This is the strategy which we want to play out, fixed over convergent and a leading position in mobile. Your question might be, is this long-term strategic piece of our portfolio? We always said this is part of the group development, and we might consider steps going forward. If you think about the cookie jar idea, that might be part of our cookie jar. If we IPO it or sell it, but no decision has been taken at that point in time. But prospectively, this is clearly an optionality for us. So far, we are enjoying the new good performance and the #2 position in the Dutch market, which we recently achieved.

Christian P. Illek - *Deutsche Telekom AG - CFO & Member of Management Board*

So on the U.S. question, 2 things. We don't want to speculate on any potential auctions, although it has become more clear what's going to happen next year in the U.S. And we said that we're going to participate at the gigahertz spectrum auction which will start in December.

And on the share buyback, I think we have a buyback authorization that remains in place.

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

Okay. Thanks, Christian. And I think pass it back to Tim for any final remarks.

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

Thank you, again. And please, again, if some of you were a little bit disappointed with regard to the dividend outlook, I hope that we were clear on why we're doing these things. I think it's a sustainable, well balanced approach which we took here from our side. And we are totally convinced that we will get the deal at the end of the day. And in this situation, we would be all better off than we were before this decision, and we give a clear commitment going forward.

I think if I look to the portfolio, we have seen an outstanding quarter with 3 segments growing double digit. I do not know any time in history of Deutsche Telekom nor in the competition, where we have seen this kind of development. Very proud about the performance here of my organization. Nevertheless, there's a lot of other things to do. I think we have a clear path in Germany with regard to 5G and the way how we are performing. We already fulfilled the LTE build-out obligations which is very good for us. So we are very much focused on 5G, and we are convinced we have a winning strategy on this one.

I think the main topic is now switching our VDSL, our vectoring build-out, which is coming to an end into the fiber factory. And this is for me, on Germany, the #1 priority on how we go into this fiber factory now at affordable economical terms. And secondly, the cost and the productivity improvement of this German organization.

And I'm not rating this too high, but we see already good, good improvements, if you just reflect to the margin which we have laid out this month. So on the cost side, we're making progress as well, but we have to do more.

On Europe, I'm very happy that this FTTH rollout, which we haven't discussed here loudly, is on a very strong track. And this business is growing by an EBITDA performance of 5%. The mobile networks are anyhow leading in 11 out of 13 countries we run the P3 test, but I think we have a very good FTTH build-out plan now for these European countries, so that we can keep our very good market leadership on that one.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

And on the U.S., I appreciate and thank you for the support that we were able to build out 600 megahertz. We are now ahead of the wave. By the end of this year, we will already achieve 200 million households in the U.S. with the 600 megahertz with this 5G-ready band. So it's not investment which we lost, this is investment ahead of the wave to keep our leadership there. And we are convinced that we are going to have, with the deal anyhow, an even better position.

John Legere and Mike [Sievert], they will announce today our attempt for the states what this deal will bring to them. So please have a look at 4:00 this afternoon. We will give more certainty about how -- not about, let's say, building out, we have said, not about the -- but we will say a lot about the competition and how we see that going forward and how we can help American society to overcome digital divide here. So another attempt to convince the leaving states to support the deal.

And last but not least, our T-Systems turnaround is making great progress. Order entry is strong. EBITDA performance improving. And big changes on the governance taken to the telecommunication service being reintegrated into one division within our organization, a big step going forward. So I think even here, I see a lot of light at the end of the tunnel with regard to next year's big commitments on a free cash flow positive development in this area. So you see us in good mood of driving our business further down and further up into the operations here. And we will all -- see us probably on the conference, maybe amongst [any] conference next week, to further detail the topics. Thank you very much for listening today.

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

Yes. Thank you also from my side. So at 4:00 p.m., the German time, that is the Un-carrier One for the new T-Mobile. And if there are any further questions, as always, please contact us directly in the IR department. And have a good rest of the day. I'll pass back to the operator.

Operator

We'd like to thank you for participating at this conference.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS