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PRESENTATION

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(presentation)

Good afternoon, everyone, and welcome to our Live Full Year 2021 Webcast and Conference Call. As you can see with me today are our CEO, Tim Hottges; and our CFO, Christian Illek. Tim will first go through a few highlights followed by Christian, who will talk through our financial numbers, and then Tim will take you through the operations in greater detail. After that, as always, we have time for the Q&A. Before we proceed, please pay attention, as usual, to the disclaimer which you find in the presentation. With that, I hand over to Tim.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Yes. Thank you, Hannes, and welcome, everybody. You can imagine that we are not very happy with our today's environment in which we are offering our great results of 2021, but you can't choose the days. We are totally shocked and appalled by the Russian attack on Ukraine. And I would like to say that our thoughts are with the people and who are suffering in this situation. And I can tell you one thing. It shows us that business is not everything in life. But anyway, I think Deutsche Telekom is well positioned in this environment. We are in the Western world. We are not exposed to the Ukraine and nor are we exposed Russia or the rest of the world. Our business is very well established in this Western environment. So therefore, on the other side, we are as well maybe a little bit on more luckier side here, but let's talk about that later on in our discussions.

We have changed the magnitude here or the order of our today's presentation, and I will start briefly but then Christian will go into the details of the financials, and then I will give you an update about the operational performance of our business. We will also add a few multiyear perspectives of today's fourth quarter and the full year review.

Let me start with an overview chart. And you see that here, it shows our progress against the strategic priorities we laid out at our last year's Capital Markets Day. One year into our new capital market guidance, I think it's fair to say that we are very well on track. We overperformed in most of the KPIs for our stated financial and for our strategic targets. 2021 was a very strong year for us.

Our commercial growth has continued strongly across the board, and we are very proud to announce 7.1 million postpaid customers in addition to what we had 800,000 new broadband customers last year in our operations. We over delivered as well against our old cost saving target, and we are well on track of our capital market commitments. We are on top of that, driving our transformation towards our long-term ambition, the leading digital telco. And our '22 guidance is for around EUR 36.5 billion adjusted EBITDA. And for the first time, a double-digit free cash flow guidance, EUR 10 billion is the number which we lay out here. And we will at least deliver on a EUR 1.25 earnings per share for this year, so another increase on this important KPI.

On the capital allocation and portfolio side, we have also been very active in 2021. As you know, we secured 5.2% stake increase in T-Mobile U.S. We agreed to exit the Netherlands and the Romanian fixed line business. We are working on the strategic review of our towers, and we will talk about that promise later. And we made great progress towards undistributed network leadership in all our markets. And we made great progress both on 5G and on the fiber to the home build-out.

Previously announced, we are proposing a dividend increase to EUR 0.64 and in uncertain times. By the way, it is a payout ratio of about 50%. So it shows you the substance and the solidity of our business, up from EUR 0.60 last year.

So with all this, I hand it over to Christian, who will give you now the deep dive on the financial numbers because today is the review of 2021 and our numbers.

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

Thank you, Tim, and welcome from my side. Look, I got 3 main messages for you. First, 2021 was a good year financially. Second, it's within a series of good years, which you can see in the CMD review, which we're going to provide later on. And we will not stop with our growth trajectory also in the upcoming years, and you can see that in our guidance. So let me start with the usual table.

Obviously, reported financials are impacted by the Sprint merger back in 2020, and we have a lot of organic trends being provided in the backup. Our headline trends are also impacted by the deliberate and accelerated wind down of the Handset lease business in the U.S. But let me have a look at the revenue number first. So revenues on a reported basis were up 4.7% on a quarterly basis in Q4 and 7.7% on an annual basis. Organically, that translates into a 2.3% quarterly growth in Q4 and 4.5% last year.

Let's move to EBITDA. Reported EBITDA was up by 0.6% in the fourth quarter, and the headwind from the handset lease business in the U.S. was approximately EUR 0.5 billion in that given quarter. Organic EBITDA after leases -- without handset leases would have grown by 5% in the given quarter, 7.8% over the whole year. The reported ex U.S. EBITDA was impacted by the sales of the Romanian fixed-line business, where we only accounted revenues and EBITDA for 9 months. Organic growth in the ex U.S. business was 5% in the given quarter and 4.8% over the course of the full year.

Let's move over to earnings per share. The Q4 EPS was down by 24% on a year-on-year basis. And that is very much driven by a EUR 0.06 impact of our valuation loss, both on the options and the forward. For the whole year, the EPS was EUR 1.22, which is actually pretty significantly higher what -- relative to what we said at the Capital Markets Day, which was EUR 1.10. Noteworthy, I think we have in the adjusted EPS to I would say, special impacts. One is the negative impact from the options in the forward, which account for roughly EUR 0.04 over the course of the year. And also, we have some headwinds from the -- sorry, held for sale accounting from the Dutch business, which accounted for EUR 0.02.

Moving on to free cash flow and net debt. Look, we invested EUR 18 billion in 2021, and we were still able to beat the free cash flow guidance of EUR 8 billion, which we have given at the beginning of the year. And that comes with a small FX headwind. And it accounts and also includes a prepayment of T-Mobile US of \$1 billion on leases to American Towers. The growth of free cash flow was very much driven by EBITDA growth. On net debt, without leases, we were up year-on-year. That is all driven by T-Mobile U.S. effects, and I will get into more detail later on.

So let's take a look at the financials on an organic basis. T-Mobile U.S. grew by 0.1% in 2021. If you exclude the accelerated wind down of the handset lease business, they would have grown on the core EBITDA number of around 10% or exactly 10.1%. Germany grew at 3.7%, the European segment grew at 5.4%. Group development grew by 13.5%. But if you take the held-for-sale accounting tailwind out of the equation, it would have been still a 10% growth. And T-Systems grew at 6.1%. So our combined ex U.S. EBITDA after leases on an organic basis grew almost at 5% in 2021.

Germany has now delivered 21 consecutive quarters of EBITDA growth. This is more than 5 years. And in Europe, which is chasing Germany, and hopefully will never catch up, they basically have a consecutive growth of 16 quarters or full 4 years. So for the whole group, we've seen an EBITDA growth of 1.9%, excluding the handset lease unwind that would have been 7.8%. On service revenues, we were up 3.5% over the total year and 4.2% in the fourth quarter. The organic service revenue ex U.S. grew by 2%. So our free cash flow was very much driven by operational free cash flow coming from the operations. And that increase of EUR 2.5 billion was driven by the underlying strength of our commercial engine. Despite the fact that we have leasing prepayments, which I talked about earlier, and also an increase of CapEx by EUR 1 billion coming from the U.S.

On adjusted EPS, the net income grew at 3% and to be honest, it was very much impacted by the U.S. options, which we talked about earlier on. So on net debt and leverage ratios, let me dive into this a little bit deeper. So what you can see without leases, net debt has grown by EUR 11 billion. So there were actually net debt driving impacts coming from the U.S. One was obviously acquisition of additional spectrum, which in total accounted for EUR 8.3 billion and C-band only was EUR 7.5 million and also the acquisition of Shentel which is accounted for EUR 1.6 billion.

Secondly, there is a very strong impact which impacted the increase of net debt driven by the dollar. The dollar was at 1.23 at the beginning of 2021. But at the end of 2021, it was 1.13 and that big impact was largely driven by the U.S. dollar. Including leases, our leverage ratios that roughly 3.1%, excluding leases, it's at 7.1%. Very noteworthy to mention. We're totally committed to deliver the net debt targets and the ratio targets below 2.75 by the end of 2024, as we said it last year at the Capital Markets Day.

And that brings me actually to the Capital Markets Day review. And starting on Page 9, you can see what we have delivered relative to our commitments. I'm particularly happy that we have delivered our group free cash flow which is EUR 8.8 billion versus the larger EUR 8 billion, which we indicated and also the adjusted EPS targets. And remember, these numbers were all prior to the merger. So what we actually said is we expect this to be dilutive but still we overdelivered on the KPIs. On the dividend, we scored ourselves yellow because we have changed the policy in 2019, which you will recall. And -- so therefore, overall, I would say a very, very good result.

If we move into the next page, Page 10, you can see that especially when it comes to service revenues, EBITDA and free cash flow, you see a consistent performance over the course of 2017 to 2021. And we are completely committed to our free cash flow target, which is supposed to be greater EUR 18 billion by the end of 2024. So let me get to the guidance. No, we have the indirect cost on the CMD target, sorry, I missed that one. So our commitment was EUR 1.5 billion reduction, and we actually delivered on -- we delivered EUR 1.8 billion. We're continuously focusing on indirect costs because direct cost is very much driven with revenue upsides. And you know that we're growing revenues. So therefore, our target is indirect cost. If you reflect our achievements in 2021, we roughly delivered EUR 400 million cost reduction, and that is 1/3 of the total target, which we have given ourselves until 2024.

So now to the guidance. So how has the guidance been structured? First, it reflects the midpoint of the T-Mobile guidance. Secondly, we have U.S. GAAP IFRS adjustments, which account for roughly EUR 0.6 billion. And thirdly, we added the ex U.S. guidance obviously on a pro forma basis because we had to exclude Romania fixed line and T-Mobile Netherlands. So as mentioned, the headline EBITDA is impacted by the accelerated wind down of the handset lease business in the U.S. And as I said, the ex U.S. business does not foresee any kind of contribution from the T-Mobile Netherlands business despite the fact that we haven't closed the deal yet. So our guidance is also based on the dollar exchange, which was last year's dollar exchange on average, which was \$1.18. So if we basically adjust for the current spot rate, that number would look differently.

So let's start with the adjusted EBITDA after leases on the right-hand side. You can see that we're guiding USD 35 billion, of which USD 14.2 billion are coming from the ex U.S. business and USD 22.3 billion from the U.S. business. So on a like-by-like basis, if you exclude the Dutch business and you exclude the Romanian business, that is a USD 400 million increase on a pro forma basis. So the USD 22.3 billion guidance on the U.S. does include a negative adjustment from U.S. GAAP into IFRS.

Our guidance is completely in line with the consensus, if you adjust for currency in the Netherlands. And we also have to bear in mind that the U.S. is actually accelerating the wind-down of the handset lease business. So their plan is to reduce the handset lease revenues on a dollar basis by USD 2.1 billion in this given year. So that is a slight acceleration relative to 2021. So if you exclude the leases out of the equation, and we're getting to the core EBITDA guidance, you see that we're around EUR 35.5 billion, and that would be a 5% increase.

Moving to free cash flow. You see our group guidance is around EUR 10 billion. Again, that accounts for the midpoint of the U.S. guidance plus a 3.7% free cash flow contribution from the U.S., and that is on a pro forma basis, comparable to a delivery of EUR 3.5 billion in 2021. And again, what I said is that is an increase in free cash flow despite the fact, and we talked about this a year ago that we're accelerating the fiber build out here in our European business, especially in Germany.

So if you want to have the details on our ex U.S. financials, I would refer you to Page #49, in the appendix. Everything is being listed in there. So last, not least, the adjusted EPS we guide a greater than 125 contribution. Obviously, we're not assuming anything happening on the options and the forward -- this has not been forecasted. And again, the full overview can be seen in the appendix. Of course, I want to reconfirm that all the commitments we have given last year at the Capital Markets Day remain valid, and that is actually the end of my financial review, and now I hand it over to Tim.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Thank you, Christian. And I'll start with our usual slide on the network infrastructure here. And as you can see, we have now passed more than 10 million European homes with fiber to the home of which 1/3 is Germany. In Germany, we added a record of 1.2 million homes last year. And outside of Germany, we added 1.4 million homes, which is also a record number. We cover over 90% with 5G and 29% of our European footprint outside of Germany. And in the U.S., we cover 310 million POPs with 5G, of which 210 million POPs are coming with ultra capacity, 5G services, which speeds around 400 megabit per second.

We added more than 7 million customers on the mobile net add side in 2021, it's another record number. And you can see how consistent our customer intake has been during the last 5 years. On top of that we added more than 800,000 fixed broadband customers in Europe last year and more than 300,000 TV customers.

Moving on to ESG, where we are always as well showing a few selected and important KPIs on Page 16. Energy consumption and CO2 emission became part of our short-term incentive plan in 2021, not only for the Board members, but for the whole leadership team here. We promised to reach 100% electricity from renewables DT group-wide from 2021 onwards, and we delivered. Our CO2 emissions declined about 90% year-on-year.

Our energy consumption was slightly up compared to 2020, but please keep in mind that this is before the full benefit from the decommissioning of the Sprint network this year. So it shows you the huge productivity increase, which we have because data volumes were increasing sharply as well. Our energy efficiency already improved by 15% in 2021. And -- Going forward, this will improve further, and we reiterate our target to keep overall energy consumption stable from 2020 to 2024. And we were able to improve our overall customer satisfaction in 2021 and to maintain employee satisfaction at the record level achieved in the year before.

Of our many other initiatives, let me also highlight our support for last year's flood victims here in Germany are created as well big reputation for us. T-Mobile's project in the U.S. of EUR 10 million, which has already connected 3.2 million students with 3 subsidized services and our work against hate speech in the Internet well-recognized campaign, which we are running recently.

Now let me deep dive into the operations, starting with Germany. In Germany, our revenues grew by 1% this quarter. Organically, the growth was 2.1%. EBITDA grew by 3.6%, consistent with the strong growth shown all year. Total organic service revenues were up 2.1%, even better than the previous quarters. This was driven by growth both in B2C and in B2B. For the full year, organic total service revenue growth and B2B was 1.6% -- sorry, 2.6%. This would have been 1.6% without just over EUR 90 million nonrecurring public sector revenues that reflect to you throughout the year.

Fixed service revenues growth also benefit from the ongoing strength of our broadband businesses, while roaming and wholesale remained a drag. Underlying mobile service revenue growth adjusted for roaming and termination rate cuts was around plus 2% as in the previous quarters. Our mobile contract intake remains solid, as you can see on the following pages.

Our fixed line commercial remains strong as well, 84,000 broadband net adds, again, almost no line losses anymore. TV net adds plus 34,000 and healthy retail fiber net adds of 204,000. Our wholesale fiber net adds remained a bit soft, largely due to the ongoing Vodafone migration.

Moving on to Page 22. Our strong broadband customer growth, combined with ARPU growth drove 6% broadband revenue growth. This is outstanding. Organic retail fixed revenue growth remained strong at 3.5%. Wholesale revenues improved to minus 3.3%. We expect another year-on-year decline in Q1 '22, but slight growth thereafter as last year switched from the contingent model to the commitment model begins to roll over.

Before we move to the other segments, we have a few more charts on Germany. On Page 23, we show our progress with fiber. As promised, we doubled our deployment run rate to 1.2 million last year. We achieved this with an unchanged CapEx budget, but don't extrapolate this. We still expect our CapEx to be EUR 500 million higher by 2024 as we further accelerate the build-out. In 2022, we target close to 5.5 million homes passed. And for 2024, we reiterate our beyond 10 million targets. To this, you can add the incremental contribution from our new joint venture with IFM, which goes live this year. We are well on track to our capital markets targets to take unit deployment costs down 25% on a like-for-like basis, inflation is not affecting us, we have long-term contracts.

We are also making good progress with monetizing our investments. As you can see on the right-hand side, the share of contracts with at least 100 megabit per second is now 1/3, up from a quarter last year. As a result, the broadband ARPU grew by 3% points. We delivered 360,000 broadband net adds, and our broadband revenue growth was 6.1%. And they have super big up-selling potential. Our more than EUR 300 million EBITDA growth in 2021 was driven equally by gross margin and indirect cost savings. A big driver of our performance is our customer service. We further increased our first contract resolution, a key KPI to drive customer satisfaction. Complaints were down by 1 quarter. Since 2017, they are down by 3 quarters. And we dominated German customer service surveys, again with fantastic results.

We also progressed with our digitization. Some examples. We revamped our app bringing it our best-in-class from our segment Europe, now into Germany. We further shortened our IT time to market, and we shifted more calls to digital on track to our 40% Capital Market Day target. Our customer growth and our -- sorry, our customer and employee satisfaction remained at record highs achieved in 2021, but we won't stop here.

Our final chart on Germany shows our service revenue and EBITDA performance from a multiyear perspective. You can see that we are well on track for our stated guidance of 2.5 to 3.5x EBITDA CAGR through 2024. Another strong year of our German segment, led by Srinji Gopalan.

With that, let me move over a few slides on T-Mobile. T-Mobile had a strong result too. U.S. GAAP service revenues grew by 5.5% year-on-year. Core EBITDA was up by 3.2%. Adjusted EBITDA declined by EUR 0.3 billion, but was after EUR 600 million year-on-year decline in handset leasing revenues in Q4, and that is something which we're actively driving.

We added 1.2 million postpaid accounts, a key metric. Our postpaid phone ARPU was up slightly year-on-year as we begin to monetize our market-leading 5G network. Total postpaid additions were EUR 1.8 million. Phone net adds were 840,000 brings the full year to EUR 2.9 million. And as Mike Sievert said during the call, if Sprint customers had shown the same churn like Magenta branded customers, we would have closed with 1.4 million postpaid phone numbers higher. The good news is that we think that we saw the high watermark of Sprint churn last quarter as we accelerated the integration. And we will decommission the Sprint network later this year. You see the network integration is very well on track.

Our final page on T-Mobile shows just how consistently T-Mobile has grown and why we won't stop. T-Mobile remains very well positioned. It leads in the most important purchasing criteria, be it network, be it value for money or be in a customer service. T-Mobile has a unique exposure to growth vectors, including small towns and rural B2B and home Internet. And I was just in the U.S., and we saw impressive number on the way how we are growing in these areas. We have further upside on synergies while merger-related drags are currently at a peak, but these are clearly finite and coming to an end.

Let's go to Europe. Organic revenues grew by 3.6% in the fourth quarter, helped by a further roaming recovery. Organic EBITDA grew almost 7%, even better than the preceding quarters. This was driven by both net margin growth and further indirect cost savings. Our commercial performance remained consistently strong, too, as you can see on the following page. At last year's Capital Markets Day, our European segment laid claim to being Europe's fastest-growing large European telco. Well, they almost missed it, not because they did not grow fast, they delivered 5.4% growth, but because DT ex U.S. in some almost beat them with 4.8%. Good competition in sight.

We are proud of our segment in Europe, led by Dominique Leroy. Organic EBITDA has now shown 16 quarters in a row growth and we track well towards our capital markets guidance. We passed a record of 1.4 million homes with fiber last year to reach 7 million homes on track for our 10 million target. And we recently decided to further accelerate our fiber built in Greece. By the way, I was on Monday, are in the Greek environment and very impressed about the development I'm witnessing in this country, especially in the field of digitization. It was wise from us to early commit to more build out there because we are now riding the wave of this development.

We think the segment is best-in-class when it comes to convergence and digitization. Our app is a great platform for leveraging our Magenta advantage. We have seen strong results in our early trials of our collaboration with SoftBank as well.

Let's move on to group development led by Thorsten Langheim, Strong organic revenue and EBITDA growth continued driven by both Netherlands and the tower business. The total contribution from held-for-sale accounting to our 2021 EBITDA was EUR 40 million. T-Mobile Netherlands continue to perform very well. A clear highlight this quarter was our organic mobile service revenue growth of 6.4%. Moving on to the towers. In Germany, we added 1,100 sites in the last 12 months. This is the net result of 1,400 new builds and 300 decommissions. In the last 4 years, we built 6,300 new sites. This is far more than any other of our peers in Germany or elsewhere. Recurring rental revenues grew by 9.1%, boosted by 12.8% growth in external sales. Organic EBITDA grew by 5.9%. Organic EBITDA after leases grew by 7.9%. Another strong and peer-leading performance in this business.

Finally, let me look at T-Systems led by Adel Al-Saleh. Organic revenue growth was slightly negative this quarter, but EBITDA growth was positive. The decline in the order book is driven by a tough competition. We expect growth in orders in 2022. We are seeing a recovery from the pandemic, but revenue trends remain impacted by an accelerated migration from legacy IT towards cloud-based services, where we are also seeing good growth. Headline trends are further impacted by the planned exit from low-margin activities, such as end-user service and resale. Adjusted for this 2021, organic revenues would have grown slightly year-on-year. The transformation is on a good way. Restructuring activities have been comprehensive. And in preface, as you can see, it's almost EUR 400 million of net indirect cost savings in the last 4 years. We reiterate our 2021 capital markets guidance for slightly revenue growth during the guidance period, and more than 5% EBITDA CAGR.

Now that we have gone through the operating segment in detail, let me show you the group outlook for 2022 once more. EUR 36.5 billion adjusted EBITDA after leases, around EUR 10 billion operating free cash flow and more than EUR 1.25 earnings per share. My final chart shows how our adjusted EPS has steadily increased and how we expect that to continue. Let me remind you once more of our capital market guidance of more than EUR 1.75 adjusted earnings per share in 2024. We have maintained a solid dividend during our peak investment period. Our dividend is linked to our strong earnings growth through the 40% to 60% payout ratio that we have committed. Thank you for your attention. And now we are ready to take your questions.

QUESTIONS AND ANSWERS

Hannes Wittig - Deutsche Telekom AG - Head of IR

Thank you very much, Tim. And now we can start with the Q&A part. (Operator Instructions) So with that, the first question we have is from Ulrich Rathe, Jefferies.

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

Very much. I would like to focus on the fiber activity in Germany. It sounds very much like the old nets are really ramping. And there's certainly a lot of press and announcements and new flow around that. Now obviously, that implies infrastructure share loss. Would you say this is still at the level of, let's call it, uncomfortable pin tricks? Or is there a reason for you to accelerate fiber plants simply to avoid giving up too much market share in this last chance on activity of the old net at this point?

Timotheus Hottges - *Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board*

Look, Ulrich, I don't see that we have a market share losses, the opposite is what I'm seeing. I saw that, by the way, as well in fixed line broadband with vectoring, super vectoring. We have gained market share from Vodafone in this turf. As you can see from the strong growth, around 6% this year. And on top of that, there are a lot of announcements, big numbers are flying around.

Look, our thing is we have doubled the build-out ratio compared to last year, we will double again this year. We have the capacity. We have the tools. We have the people who are building it. So therefore, we go our path. We will have, let's say, more than 50% of the total fiber market in our plan, which is almost the retail market share, which we are offering today. So I don't see the risk of losing infrastructure share here in this regard. On top of that, we are open to collaborations with people who are building infrastructure, we have a whole buy strategy as well.

So I appreciate if others are building infrastructure as well. The only thing what I'm asking for is reciprocity because they are using our infrastructure and we want to use their infrastructure. So therefore, I think I'm not so worried. I even see that some of the commitments from the alt-nets and especially from the municipalities, let's say, stepping back from their high commitments or at least from the execution because they see us moving forward in areas where we have strong market share. So therefore, take the IFM example and our commitments to 4 million households in areas where we have significant market share to lose, where we are now building own infrastructure. I'm not worried. I think we have never been as strong as we are on the fiber side.

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

Yes. And I would say, yes, we're losing some customers to overbuild this, but we're taking more share from cable, and we expect to continue to do so.

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

Okay. And we will reach 12 million homes by the end of the decade on current plans. So that's taking a lot of the market hopefully. The next question we have is from Josh Mills at Exane, please.

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

I've got 2 questions. One is just going back to some of the German KPIs. And I guess a very good revenue and EBITDA performance overall. But if you look at the fiber net adds, both retail and wholesale, I think they're coming in a bit lower than previously. And I just like to get your view on whether this is kind of ongoing unwind of the pull forward in demand we saw during the pandemic and what you should expect or we should expect for the run rate going into 2022? And then the second question would just be to get an update on the carve-out of the tower businesses for Czech Republic and Slovakia. And how that is being factored into guidance next year, both on the European segment and also to development sectors. Thank you.

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

So I would say on the German KPIs, obviously, in line with the new wholesale models, which we have constructed, especially you've probably read the news on one-on-one. We're also getting into a discussion right now how we're moving not only the net adds up, but also the migration from the vectoring network into the fiber network because ultimately, we want to see our wholesale customers sitting on the fiber network. That is definitely a discussion which is in early stages on how to do the copper to fiber migration. And therefore, I think that it's too early to see the results. Do we expect a continuous degradation of wholesale net adds? No, I wouldn't. I would basically assume that is on a similar level as we've seen in the second half of this year. You want to take that?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Yes. Look, on top of that, Christian, I would like to say we have a really significant advantage on customer service. We constantly dominate all the service in this regard. We have a very loyal customer base who is now willing to go with us into the upselling. So we are upgrading, as I mentioned, the 100 megabit, the 250 super vectoring services. For me, I think the biggest issue is how can we accelerate the take-up rates in the fiber to the home services because around 20% is a little bit low from a utilization perspective, I think this is a task which we should be -- should get focused on that one.

I think our customer base is very solid, very stable and loyal and the Net Promoter Scores are very nice. Update on carve-out of tower business in Czech and Slovakia. Look, what we are doing is we will carve out all the businesses and make them independent. The advantage which we have on our TowerCo today is we are not as the others in a very early stage of their business. They are -- every time they are learning, they're carving it out. They have to build a governance, the processes are not professionalized. Now what the big advantage of our TowerCo is that it's highly professionalized. Now this requires prework, and we're doing this in the check and the Slovakian, it's another upside potential for us to monetize passive infrastructure here. It's too early to say. It's not part of the focus of our tower activities at that point in time. But perspective, yes, it is not another option which we are preparing.

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

And when it comes to guidance impact, we assume that the tariffs still remain in the MNOs. That is part of the guidance. If we have changes over the course of the year, obviously, we'll let you know.

Hannes Wittig - Deutsche Telekom AG - Head of IR

It takes about a year between deciding to carve out and actually getting it done or potentially a few months shorter or longer. Next question we have is from David Wright at Bank of America, please.

David Antony Wright - BofA Securities, Research Division - Head of Developed EMEA European Telecoms Equity Research and Director

Look, I might just ask you to add a little bit of granularity if possible on your strategic thinking on the towers. Have you had any discussions, any discussions underway. Just remind us of the absolute priorities in terms of what you could choose to do with your towers business? And then if I might just add a second, a slightly separate question. Europe performed very strongly throughout the year. There's a good acceleration through the year in particular. If I look to the '22 guidance stable revenues, slight increased EBITDA, does that feel a little bit cautious, a little prudent? Or what are the headwinds maybe some of the low-hanging fruit on costs have gone now. Maybe you could just talk through just perhaps if that looks a little bit, like I said, prudent. Thank you.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, first, David, thank you for the appreciation, and I would urge every active investor to just look about the different stocks in the telco sector and compare the growth rates both on revenue and on EBITDA, on free cash flow and benchmark it. We are doing very well in this comparison. And we are constantly monitoring that. And I think our aggressiveness, our activities, our acuity in the way how we are doing this is always being totally awake about what's going out there on there.

With regard to the towers, let me stress one issue, and I do not know you know that I'm not going into details of the ongoing negotiations, which are taking place. But I think we couldn't have chosen a better window for our activities because we have an up and running organization. We have unbelievable growth on building towers in the most attractive market in Germany last year. I mentioned the number 1,400, which is more than -- 1,000 more than our next biggest player here in this environment. This is delivering an 8% overall revenue growth, and it's delivering 13% external revenue year-on-year growth because others -- everybody wants to use our towers for the 5G service and the like. So we have a great upside potential as well for third-party opportunities. Only 25% of our towers are used today. So the upside potential is very nice.

On top of that, we are again in the position of being a kingmaker. So we do not have any time pressure or whatever. And by the way, even if you don't want to make me pressure here, I will not make bad deals. I never did that, and I'm patient like a cat. So we will wait for the right thing for the right optionalities. But I will not exclude any kind of option at one point in time.

Being -- it's creating another alternative to Cellnex as a big operator. Being it, let's say, having an industrial solution or being it, let's say, maybe making one of the companies, one of the biggest telco players in the world are giving an opportunity for somebody who is coming from the outside and want to find his relevance in the most attractive market here. It's a growing market, highly valued. We are ready to deconsolidate, as I said. We want to monetize money for our debt reduction going forward and for our financial options we might see. Our business is very solid and very well performing. And that's where we are. And I can tell you a lot of activities are going on these days, but I am not sharing them with you right now.

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

Let me continue with the question regarding the European segment. I think first of all, we have to bear in mind that the European segment was benefiting in 2021 from a very good roaming recovery, which supported the year-over-year growth between '20 and '21. The second one is we're confident about the commercial trends in the European segment. We have no indication whatsoever that this is coming down. But especially when it comes to EBITDA, there's also, I would say, headwinds coming from inflation, especially when it comes to salaries, which we're facing, especially in the European segment. So this is why I would call this guidance all up, realistic and not prudent.

Hannes Wittig - Deutsche Telekom AG - Head of IR

The next question is from Georgios Ierodionou, Citi.

Georgios Ierodionou - Citigroup Inc. Exchange Research - Research Analyst

Yes. I have 2. The first one is on towers. And just a bit -- maybe a follow-up on the comments you made earlier around the growth trajectory. If you don't mind, can we get a bit of an update on where you are in it to show in 2022. I notice that increasing your CapEx, I'm getting 100% supply side constraints of some of our competitors. And also regarding one-on-one, we a lot more advanced in where they are with our network rollout versus the previous time we spoke to November, just curious to hear from you this somewhere where you see opportunities for (inaudible) growth?

And then my final questions on wholesale and very specific on the revenue trajectory as we passed the anniversary of the reset from the commitment model in March April next year. Just want to get an understanding of what kind of ARPU growth you could see are some of your customers upgrade to higher speed, just to get a bit of an idea of how much of a headwind versus tailwind we could get in next year?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Georgios, first, let me say the first thing. We built 6,300 towers over the last 4 years in Germany. And nobody else is able to do this in this speed. That has to do with the regional organization, both from a construction perspective, but as well from a political organization because the reason why a lot of this towers not being able to be built in Germany is because of, let's say, political considerations. And our, let's say, strong local organization, political organization is helping here big time. On top of that, it's the credibility of Deutsche Telekom. We have more credibility than other investors in this regard, and this made us -- the machine running.

Nevertheless, we were willing to build 2,000 towers on an annual basis over the last -- over the next years. So we are well behind our build-out ambitions. Now if you ask me today, what is our plan for 2022, another 2,000. I think it is a little bit unrealistic to get them all approved because of the federal system and about the concerns of citizens when it comes to the build out here. But nevertheless, we will, again, be the #1 builder here in Germany.

Every kind of new sites gives the opportunity for growth on the third-party businesses. This is part of the TowerCo already today. 25% is where we are. I think we can easily go beyond 30% in this regard over the next years. And so we see further growth even on a double-digit side, possible for this activities in the operations. Is there a CapEx needed for that? No. This is included in our CapEx envelope. So all of this is foreseen. And if we are not able to roll that out, we might have some excess CapEx here, at least in this field to be considered.

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

So when it comes to the wholesale question, Georgios, I would say you see it already the sequential improvement in our quarterly numbers on wholesale. In Q2, they were negative 5.6%; in Q4, they were negative 3.3%. And when it comes to access revenues, in the second quarter, we had a drag in the wholesale business of negative 9%, and in the fourth quarter was only negative 6%. And as the commitment model is rolling over, we're confident that we're going to provide stable numbers for the wholesale business. The second point is, and I think you highlighted already, is obviously the upsell from ULL to VDSL or to vectoring. That is something which we're betting on. And as a subsequent step, as I said early on, we have to discuss with our wholesale partners how to drive fiber utilization and how they can help us on this one.

Hannes Wittig - Deutsche Telekom AG - Head of IR

As we said last year, unit prices, wholesale prices for the midstream products, we did say midstream products will grow by about 10% between 2020 and '24. And then you have the mix effect on top that Christian has referred to. So with that, we have the next question from Simon Coles at Barclays, please.

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

Sorry to go back to towers, but could you just remind us your view on sort of the various options you have for the pros and cons from using, say, a partnership with another listed TowerCo versus, say, merging with another mobile operator given you've already been running your towers, I think, in Germany for over 20 years. So you already have a more developed business. So I'm not sure what merging with another mobile operator telco might bring, and then the last option, obviously, is a strategic financial investor. So it would be great to hear later thoughts on those 3 options. I know you've talked about it a lot in the past.

And then just on leverage, I think last year, you said that leverage should peak in 2021. And I think now with the latest agreement with Crown Castle, it feels like leverage would peak in 2022. So if you could just elaborate on that sort of bridge, that would be great. And maybe some clue on how leases would progress after the Crown Castle deal is factored in, we would assume that should come down given the decommissioning in the U.S.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Simon, long question, a very short answer. I want to see money. I want to see the highest value, full stop. And this depends on the deal. And therefore, we will take the most juiciest deal for us. We're not concerned about Golden sites. We have MLAs in place. Everything has been defined, so this is all solved. We do not need control. We are flexible on the structure. I want to see the money.

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

Simon, first of all, congratulations to your memory. You're absolutely right. A year ago, I said net debt will peak in 2021. And we assume that, obviously, the Crown Castle deal is being struck and being reflected in the numbers in 2021. Now as we're having a slippage into Q1, we -- I have to repeat myself. We're going to see a peak in net debt in this year. But what I expect, to be honest, is that we see in the second half of this given year, and that depends on the timing of the whitespace auction in the U.S., a slight decline on absolute numbers and net debt. So we don't expect another big tower deal to come.

So there's obviously always renewal business happening, but bear with us into the second half and then we should actually see either a complete stabilization or a slight decline on the net debt numbers. But I think we also have to be prepared that we're going to see 3 big impacts in the first half. One is obviously the EUR 7 billion Crown Castle. The other one is spectrum, from the previous auction. And the third one is the dividend payout, which we hopefully get approval from the Annual Shareholder Meeting.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

I'd like to spend one more sentence. When we made our statement, we were not aware that the C-band auction was accelerated that way. So it came much earlier than we expected. So I see that more positive because C-band auction made 1 thing clear. Our strategic advantage with regard to spectrum and capacity is absolutely intact. So I do not know what DISH is doing with that spectrum, but maybe they will roll it out, but it is better to have that in their hands than it is in Verizon's hands. So I was surprised that Verizon was not showing up on this auction, but the advantage is that we have kept our advantage on the capacity side.

Now this auction is now digested or it will be digested now very soon. And then the good thing, if you look forward, there are no significant big things on the spectrum side, which are obviously coming here for the upcome of the years. We still have this wide band, the [110]. But this is the last thing which we had planned. But then there's nothing big to come, and I think that's good for us because then we have a time to reduce our debts in the U.S. as we have foreseen. So the acceleration came a little bit by surprise. We didn't know this. Nobody knew it. We digest it now, and then we go into the debt reduction.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Thank you, Tim. The next question is from Andrew Lee at Goldman Sachs, please.

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

Yes. I have 2 questions. First question was just on the inflation that Christian mentioned earlier. I just wondered if you could talk about your confidence in passing through cost inflation to customers and what the timing or structure of that pass-through would be?

And then secondly, just wanted to follow up on Josh's question. And your comment, Tim, about the super big upselling potential and your ability to monetize your fiber digital infrastructure. And we know you've got the pricing freedom from the regulator now, but I guess what people are asking is, have we got the customer demand, and we've seen good evidence of customer demand through the work from home lockdown era of COVID. But what's giving you the confidence? It's just structure that this is just pull forward of demand and that demand can continue to kick on. What are the data points or evidence that you're seeing that customers are going to be willing to pay more for more?

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

Okay. Andrew, on inflation, let me -- let us remind altogether what are the cost impacts and then the potential to increase prices. So what we said is on energy cost, somewhere in between 75% to 85% of the energy cost for this given year is being hedged. We have a longer-term hedging in Germany. We don't have that to a large degree in Europe, so we have to see how it plays out. But this has, from our perspective, absolutely no significant impact on our guidance. Second one is obviously salary agreements, which are ahead of us. And there is quite a bit of appetite. I think we have to go through the negotiations. And the third one was on raw material pricing or procurement pricing where there was a limited impact.

So this is the cost side. And I think we're -- especially in 2022, I think we're really confident that we can get control over these throw impacts. On the price increase, I would say, a limited opportunity in Germany given the premium pricing, which we're already commanding. But there is an opportunity in European markets, but please respect that I cannot explain where exactly that is obviously to Dominique and her leadership team. But we will basically trying to take advantage out of the inflation by increasing prices in some markets.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

What gives me confidence about customer demand and especially with regard to the upselling opportunities. The first thing is what gives me confidence is the evidence of 2021. We have upgraded 1/3 of our customer base to higher speeds in areas where we can offer it. And we have 70% to go. We see an uptake on 100 megabit, and we see uptake on super vectoring as well. But on top of that, we have 20% utilization on fiber to the home where we have built it. It is a clear focus of our activity to address the base and to offer them higher speed.

Now the good thing is that we have a customer base who is getting more eligible towards higher bandwidth. And we have seen it. And that is exactly what we are now serving. The good thing is that we are not at risk that alt-nets are really cannibalizing us in this area. Why? Because we have upgraded from 50 then to 100 to 250. In some areas, other operators are coming with 16 megabit and the like. And if then cable -- sorry, fiber is available, then they have really a risk of churn. This is not the case. We do it step-by-step with our customers, offering higher speed and the take-up rates, especially over the last 2 quarters. And you can go to the Slide #23, is very impressive. We went from 17.6% to 33% uptake rate, including the monetization of that, our ARPU is going up. So that is, for me, the best point, the proof point for further potential in this regard. Our teams are incentivized to push this.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Let me maybe add 1 point on the pricing questions. We are not -- Germany is not a market that is -- has a lot of inflation indexing also, but Germany does have significant promotions, operators offering 6 months for free, for instance, and those operators could reduce those promotions that would be a turn demand to a price increase. So we can only encourage them not to sell their products too cheaply. And with that, I think the next question I can't see right now -- okay, here is from Ottavio Adoriso, SocGen, please.

Ottavio Adoriso - Societe Generale Cross Asset Research - Equity analyst

A couple of questions on my side. The first is a follow-up on Tower, I apologize, but is the topic at the moment. It's for Tim. Tim, basically, you said clearly that our key priority is to maximize cash I guess, for cash, I mean, proceeds. So therefore, my question is, whatever a buy of towers, an InfraCo or industrial partner, look at towers. They don't just look at the infrastructure, they look at the contracts. So therefore, the question is, as part of the big picture, are you prepared to review the contracts you currently have between the OpCo and the TowerCo by increasing the rent?

And also, if you can tell us how the contract current structure was the length. Most of your peers tend to have contracts with a lot of renewal. So therefore, they can lower the capitalization of the lease. But normally, when you look at an industrial partner, they're looking for much longer length, something like 15, 20 years. So will you be prepared to basically give away such a length in the contract without options to renew out midterms. And also, you said, and correct me if I -- I didn't really get it right, that control is not a key issue. Now I remember in past calls that control

was critical, especially to some strategic towers. So if you can elaborate if anything changed on that particular strategy. And if the case, how many towers control is critical?

The second question is to Christian, is much quicker. It's basically to do with the operating free cash -- sorry, with the free cash flow AL target you have for ex U.S. In the CMD, your basically target for 2024 around EUR 4 billion. Now I see on Slide 49, that you repeat that EUR 4 billion, but the perimeter has changed. Of course, you have sold T-Mobile Netherlands and the fixed line in Romania. Do we have to read that EUR 4 billion as that you reiterate the EUR 4 billion? And it's not the case. What will be the target adjusted for this -- the consolidation of these 2 business?

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

Let me start with the free cash flow number. Obviously, you have to compare on a pro forma basis. Therefore, you have to deduct the contribution from Netherlands and Romania. I think they're in the vicinity of EUR 300 million to EUR 400 million, right, free cash flow. So this is the one piece, which we have to factor. And the second piece is at the Capital Markets Day where we announced that EUR 4 billion target, there was no increase in the CapEx foreseen. And you know that we accelerate the rollout, especially in Germany in fiber. And we said last year, we're going to increase the CapEx envelope by EUR 0.5 billion, EUR 400 million are kicking in this year. This is why the free cash flow number is moving from [3.5] pro forma to [3.7], and ultimately, we're targeting [4]. And you know that given what we've seen on the Capital Markets Day review, if there's potential to come to a higher number, we will take the opportunity.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Ottavio, trying to be very precise on your questions. The first one is the key priority is not cash. The present is value and proceeds -- cash proceeds is definitely something which we appreciate. Second, yes, we are willing to deconsolidate because we want to leave a business which has the possibility to leverage and to grow the business in a build-to-suit model without affecting our balance sheet fully consolidated negatively.

Thirdly, we are -- we have for strategic golden sites, we have MLAs and independent from the tenure of these contracts these towers are not accessible. By the way, most of the most interesting towers or the antenna places are on rooftops currently, where we have limitations, and this is lesson of the discussion here. Thirdly, -- with regard to control, that doesn't mean that we do not want to have a seat in it. We are not in the -- I don't see us being a full seller here. I see us always being part of this journey. And if you have looked into how we struck the deal in the past. We always made the first end with a partner, and then we were part of the upcoming value with was created in these entities. We call this the strategy of options which we're always creating and then we want to participate in this order.

And the last thing is the question about the passive infrastructure. I think on this area, we are not so focused on. For us, it's more the coverage and the network which we are providing to our end customers. And therefore, we want to monetize this. So in principle, nothing has changed. But I can tell you, everything has its value. And let's have a look to the alternatives, which we are working on these days. And then we come back to you. And hopefully, we have found a clever answer on the value accretion for Deutsche Telekom because that's the main target. We don't want to do something stupid, but now we have to be forced to do something stupid, we really do it from a value-enhancing for the group here and the development of the operating model of towers.

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

And on the MLA question, Ottavio. This is not the first time that we're selling towers, right? Let me remind you that we have sold the Dutch portfolio to Cellnex. And obviously, that comes also with an MLA, and we know absolutely that the value of that transaction is very much based on the predefined MLA.

Hannes Wittig - Deutsche Telekom AG - Head of IR

And just to be 100% clear, the EUR 4 billion free cash flow guidance ex U.S. for '24 stands, right? And we did EUR 3.9 billion last year, and we do EUR 3.7 billion this year after deconsolidating the Netherlands. And next, we have a question from Steve Malcolm at Redburn, please.

Stephen Paul Malcolm - Redburn (Europe) Limited, Research Division - Research Analyst

Yes. I hope you can hear me okay. Just a couple of questions on the guidance, if that's okay. Just coming back to Germany. I guess I'm just trying to understand the sort of basic moving parts between '22 and '23. Your comments on inflation have helped out a bit. But I look at '22, you're expecting a very slight increase, all of which appears to drop through to EBITDA. So I guess the message is no real inflation as you've given what you said with energy costs and everything else.

Looking into '23, you see a bigger increase, but only a slight increase in EBITDA. So should we read that as a sense to the retail business is unchanged through those 2 years. But the wholesale business has a correction in '22 and then growth in '23. You see no real inflation this year, but you're getting pent-up inflation in '23 as those energy hedges roll off. I'm just trying to understand the sort of rhythm of that German guidance, please. And then just on the U.S., I'm kind of surprised you've guided to stable revenues there. I mean, consent, I think has 2% growth. I take the point on leasing revenues, but given the guidance given by U.S. management on volume growth, on ARPU that would imply that handset revenues pleasing are probably down a little bit next year, sorry, this year. Maybe just help us understand why U.S. doesn't grow and Germany does grow in '22, that would be great.

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

Okay. Let me try to answer the first question on the guidance, '22 and '23. So as I said, we're pretty confident that we are a full control of the energy prices. Obviously, the big tariff agreement is still out there. I think what we have done in our prognosis that we basically flagged a slight increase, obviously, is supported by the EBITDA revenue momentum, which we're seeing in the German business. And -- what we haven't guided yet is what's going to be the inflation impact in '23 because I don't know, right? So we know what's happening in this year. I can't give you full visibility in '23. If you know somebody, please let me know. We're more than 80% hedged in 2022 and 75% in '23. That but that only relates to the energy cost. That's true.

The second one is also is also still intact. We expect increasing revenues in the wholesale business. And this is why we are also being a little bit more positive on the '23 numbers with that guidance figure. And all the other things, which at the Capital Markets Day haven't changed. So there is no assumption including our operational reviews, which are deviating from what we have told you in May 2021.

Hannes Wittig - Deutsche Telekom AG - Head of IR

United for T-Mobile's business, I mean, they have provided guidance for '22, as you know. And they have also provided guidance for '23 in the Analyst Day last year and they have confirmed those targets. So you have a fairly comprehensive set of financial forecast for T-Mobile. And I'm not aware that any of these have changed. So next, we have James Ratzer, New Street.

James Edmund Ratzer - New Street Research LLP - Europe Team Head of Communications Services & Analyst

Yes. Two questions, please. The first one, again, just sticking on the U.S. there. I think a number of your minority shareholders in the U.S. business would be quite keen to see you start the buyback this year, if possible. And Christian, you were talking about deleveraging already starting in the second half of the year. I mean is the controlling shareholder -- is that something you would be interested in approving this year? Or do you feel you stick with the original plan that only starts next year?

And the second question I had, please, was just -- obviously, you had a lot of discussions around towers, but maybe you could ask around your stake in British Telecom. What's your latest thinking on that stake? I mean I noticed that actually the value of (inaudible) stake is the same value as

Drahi stake in Atos in the U.S.? Do you think you might even be interested in considering an asset swap with him on that potentially as a route to getting some cable infrastructure in the U.S. as well. So just be your options late thinking on the BT stake?

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

So let me start with a quick reminder. So whenever the T-Mobile Netherlands deal is closed, and we expect this to happen in Q1, we want to reinvest up to EUR 2.4 billion to acquire additional shares in the U.S., which would bring us to 84.4%. Now on the share buybacks, look, I would say the following. First, there's an official statement coming from the Investors Day in the U.S., which basically set up to EUR 60 billion, starting from EUR 23 billion towards EUR 25 billion. The second one is there's a statement for Mike, gave an indication that it may happen earlier. I think these things not be discussed in this kind of call. This has to be discussed within the T-Mobile U.S. Board. And therefore, I want to see how the business is developing. Yes, I'm confident that we have at least stable net debt or slightly decreasing in the second half? Is that good enough for a share buyback? We're going to see how the business evolves. But I will not basically pre-run now on any kind of share buyback discussions in 2022.

And the BT stake, I think we have to better understand what Drahi is doing with that stake. It sits in my pension fund. I expect roughly EUR 100 million dividend coming -- flowing into the pension fund this year. I think this is all we can say so far to BT.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, let me -- I'm still struggling with this question about the T-Mobile U.S. and the service revenue because I think that was a statement and no question. And for me, it was by far too negative. Look, guys, we have said that the revenue overall is stable because we are rebinding or changing the lease policy. We think from a customer perspective, it makes more sense to go into another model. And therefore, we want to reduce the leases, which were accounted in the revenues in the past. Therefore, this number is stable. But the underlying service revenue with all the growth we're having, can't avoid to grow. So therefore, we will see an increase in the revenue in Greece on the service revenue side. And this is the juicy piece.

So please take that clear, yes. There is no expectation that our service revenue is stable. It is going to grow. The second question is, look, we are in discussion with the U.S. management. And yes, we can accelerate a share buyback already this year if we want to do this. But -- this is a decision we have to take. We will see how the year is developing with regards to the integration and with regards to the upcoming white band auction and the like, then we will decide that jointly with the U.S. team. That's nothing which we are discussing here. This is something which we then announced via the T-Mobile U.S. Board.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Thanks, Tim. And with that, we take 4 more questions. And 1 is -- the next one is from Usman Ghazi, Berenberg.

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

I've got 2 questions, please. The first question was just on the BT Group dividend. Obviously, everything seems to be running along quite nicely. You've indicated that there's potential upside to synergies in the U.S. still in the bank. So when you recommend the dividend sometime in Q2, I guess, do you have confidence that the dividend can be at the higher end of the payout rather than at the mid-end of the 40% to 60% as has been the case for the last few years? So that was the first question.

And then the second question was on the open letter that was written by the CEO regarding the network traffic load that has been born as a result of the OTT players. I just wanted to understand, I mean, how I mean, is this a big CapEx risk for sector? Or is it that you are asking for just a further investment share to bear the traffic load?

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

Usman, let me start with the first question and the group dividend. Look, as we said at the Capital Markets Day, we have 2 vectors of dividend growth. One is obviously the growth in EPS. And as we have heavy, heavy investments, in the U.S. so far and aside from special factors, we only see a slight increase in 2022, but a significant one in '23 as we also indicated at the Capital Markets. The other one is basically the payout ratio of 40% to 60%. I wouldn't expect that we're going to change that. And what we said remember in Q3 last year, we said, we always will review according to the business situation, what is going to be our proposal to our Board and to the shareholder meeting when it comes to dividend payout. I think it's way too early to discuss this right now. Expect more communication, as you always expected in the Q3 call, but not earlier than that.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Usman, on the over-the-top discussion and this -- the letter from the CEOs here, we have always pushed for a better level playing field of our industries. And this question about letting the over-the-top help us to build out the infrastructure is part of a big story, which we are driving with our local, but even with our -- with the European policymakers here.

And I'll give you an example. Since 2014, our traffic in the network increased by 13x. At the same time, the ARPU went down by 30% in the western world, something in the vicinity. So it's very difficult for us to increase prices towards the end customers. By the way, even politically, the willingness to let us increase the prices is even something easy. On top of that, we have seen that the digital market in Europe is not existing. It is a 27 player market here. Every membership has his own antitrust roles. So the consolidation -- intra-market consolidation is as well something which is going to be difficult. So apart from the retail prices and the consolidation, the only issue which we can do is to reduce the cost. Our industry is paying off more than 50% of their profits into the CapEx, while in the U.S., it's only around 35%.

And the consequence out of that is that per Capita, the U.S. is investing more into infrastructure and connectivity than European players are doing it. Now if we don't have the capability or the power to build the infrastructure, this has a political dimension. Now the question is where can the money come from? Now 5% of -- sorry, 5 players of the big over-the-tops in the U.S., create 50% of the traffic or if you take the big 11, they are creating 80% percent, 8-0, with their video streaming, gaming, social media platforms and our infrastructure.

Now the risk -- sorry, the ask is now that we say, by the way, if these guys are pushing content on our infrastructure for getting more data of the end customers, they're getting them for free, by the way. Then they should pay for the infrastructure they're using here, simply as that. We have our interconnection fees among the telco operators. We have peering fees within our industry. So tell me one reason why over-the-tops should not reimburse part of the use of our infrastructure, while they're not participating in this one.

By the way, I would be willing to reinvest this money into fiber build-out and other infrastructure build out. But this is something where our political leaders should care about. That doesn't mean I'm not respecting the big over-the-tops, the opposite is the case. I see their success, I see how they're driving their platform models. But this is a friendly ask that they should contribute in the connectivity, which we are offering them that they can provide even better service in the future. It's interesting, most of the politicians are listening to this one. From us, it's an upside. There's nothing which we have in our plans with this regard. But this is definitely an argument, which we are using in the political discussion these days.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Thank you, Tim. And now we have a question from Polo Tang at UBS, please.

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

I have 2 questions. The first one is on spectrum. What are your latest thoughts on the allocation of the 800 megahertz spectrum in Germany? And what do you see is the range of outcomes and impact on the market? And my second question is really just about EU recovery funds. How much impact do you think this will have specifically for the German market? And are you seeing any signs of funds being allocated and released?

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

Okay. So let me try to answer the first question on the spectrum. Look, we're currently advocating to basically prolong the given licenses, and that is not only true for 800 megahertz but also for 1,800 megahertz, which is up for renewal. And 2.6 gigahertz as well, which is up for renewal in 2024. And we're just following the auction from 2010. So ideally, and you have heard the regulator to at least explore different options. So it is unclear on if there's going to be a prolongation, how the allocation will look like. And I think that is subject probably in that speculation. If someone wants to prolong the spectrum by a couple of years. I wouldn't be surprised if the regulators coming back to us and said, okay, clear this and get to an agreement within the participating MNOs, and that would include, obviously, 101. But look, if this is not playing out, we are ready for an auction in '24. That is very clear. And from this perspective, I think we can either go both ways. Obviously, from a financial impact point of view, the first one is the better relative to the latter. But that will require that we have kind of a consensus among the different operators on how to allocate the spectrum, especially what has been provided so far.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

I'm very optimistic on this auction. And I expect that the German government is not making it a full-blown auction with everything to maximize the proceeds here. The German policymakers and regulators never been frontrunners, but they follow trends they're seeing in other European membership states. And we have seen in Spain, the extension of spectrum. We have seen how fruitful the allocation of 5G spectrum was when the money was not given to the government upfront. So you saw then a huge uptake of build-out. Just coming back from Greece and Prime Minister Mitsotakis, he was well allocating the 5G spectrum and he sees now the benefit of infrastructure built in this country. So therefore, I think Germany policymakers are looking at the same way on it these days. So therefore, they will extend the this auction without, let's say, a big proceed expectations here.

With regard to the European recovery fund, my read outlook, the last time I looked at it, it was something in the vicinity of EUR 250 million, what we have gained already in this regard. It's multi project. There is this (inaudible) project on Gaia-X. There is a lot of, let's say, projects around the schooling here in Germany. We have the funding for Open RAN. There is a cloud project, which is called Catena-X, which was funded where we are participating. So in total, the recovery and the money, which we are expecting there is EUR 1.2 trillion, between '21 and 2027. Member state submitted their national recovery and resilience plans to the EU. So they are now in the approval phase. And there is this stimulus package on Germany on top of that, which is very much going into digitization initiatives, strategies such as cloud, which I mentioned earlier.

So we are with an independent organization within our company applying to this one. You know that we had great success serving public in the past. I'm very happy that we were able to announce yesterday, for instance, that the WHO has awarded us to provide global exchange server or pandemic disease for 195 countries, which we are building out of the systems. So it's another very important societal project, which Deutsche Telekom is allowed to drive.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. The European recovery fund, of course, is also a big piece for our Greek colleagues. And then in some of our other European nations. And in Germany, we already have significant public funds to drive digitization, especially the fiber show in one of the roadshows in one of the presentations in which kind of projects Deutsche Telekom is participating because there's anyhow public. I have no problem on releasing that. Okay. And the last question for today is from Adam Fox-Rumley at HSBC.

Adam M. Fox-Rumley - HSBC, Research Division - Analyst of Global Telecoms, Media and Technology Research

I had a question on IoT. I think a short time ago, you moved the business from T-Systems into Germany. And now I see that TMUS has launched an international IoT offer. So firstly, I wonder if that's -- are you seeing that as the better route to a global market. And I guess, by extension, are there other products or services that you think might be better approached from a TMUS perspective rather than from a DT group one?

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, just looking up because I was discussing that with my team the other day. We were a little bit late on this IoT, but now our organization has caught up significantly and is doing very nice on that one. We have more than 45 million IoTs in machine-to-machine subs in Germany alone. This was more than EUR 6 million on a year-to-year basis. We were growing. We have, in Europe, another increase of 4.5 million IoT devices. Revenue growth in this area was more than 10%. And growth drivers for this area is the automotive and the logistics industries using our services.

By the way, all the machine-to-machine subscriptions are shown under the business prepaid customer segment. So that is why you find it. Growing the net adds is the 1 thing, but we have as well, the part of the question is as well that the ARPU for these devices went down as well. So it is getting cheaper for all these IoT devices, there is elasticity on the price here. which we face as well.

Now we have extended our office in 2 areas. The first area is we are now offering for the big global companies together with the U.S. Having this super 5G and having this countrywide LTE network for the first time, we can easily compete with AT&T and Verizon in this regard. And AT&T, the global player. And maybe you have seen the announcement of Mercedes that they are now working with us on a global place in this regard. This was a big win here for us, and there are more to come. So this is the one thing.

And the second thing is, we have as well wholesale partners we are working with, like AWS. And we are the only certified partner with our entity ones certified at Amazon in this one. The third one is, we are now building this platform in a cloud native environment, which is another big differentiation which makes it much easier for customers to register to the services than going via sales and a supply organization here. We want to automate this access to the services to a maximum way perspectively even over blockchain, but it's a little bit too early to say.

So we are investing technology-wise into this field. We see the growth coming. It will be an international offer. And we do that jointly with the TMUS is one of the big synergies projects we are having. I don't differentiate whether this is now coming from the U.S. or from Germany or whomever of onto systems. We are serving the customer out of one hand in the group, and we are able to offer global services with our partner ecosystem. Is that answering your question, Adam?

Adam M. Fox-Rumley - HSBC, Research Division - Analyst of Global Telecoms, Media and Technology Research

Yes, it does.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Good. Have a look into this one. Exciting.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Very good. Thank you, Tim. And I think you wanted to close session with a couple of words.

Timotheus Hottges - Deutsche Telekom AG - Chairman of Management Board, CEO & Member of the Data Privacy Advisory Board

Look, for us, it's not an easy day because we were very proud about 2021 and how we delivered on the services, driving with our year results into this Ukraine crisis. I think what I want to leave with you is that I think Deutsche Telekom is positioned even in this geopolitical conflict are in a very well way because we are serving the Western market. I think that our share price dropped that was today, very much driven by indices and a lot other things. And I think fundamentally, there is no reason to do this. We are very confident with regard to 2022 and where we are. I do not want to be seen as kind of overexcited because this is a difficult environment, and I even want to give you the feeling of dignity and by the way, a stability. I think we can be the anchor for solid dividend payment, for solid free cash flow growth, enabling society for connectivity. And this is the reason why I decided to stay in that company for another 5 years.

The Board asked me to extend my contract earlier than the expected 2023. And I think there was a very clever move of my Chairman to generate a super stability at Deutsche Telekom because we will have a new Chairman coming in at April, which is Dr. Appel, the CEO of DHL. And with me and my team here we have now certainty as well. So I think everything is very well maintained to face all the challenges which are around there. And I hope that we will recover soon from today's results and deliver on another record year in 2022. Thank you very much, guys.

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

Thank you.

Hannes Wittig - Deutsche Telekom AG - Head of IR

And thanks to of you and conference now about to end. Should you still have any further questions, we kindly ask you to contact our Investor Relations department. Thanks again and all the best.

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