

25-Feb-2016

# Deutsche Telekom AG (DTE.DE)

Q4 2015 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

### Timotheus Höttges

Chairman-Management Board & CEO

#### FY2015 BUSINESS HIGHLIGHTS.....

##### Major Accomplishments

- Let's start today's call with my 2015 highlights
- 2015 was a year of:
  - Double-digit momentum
  - Double-digit momentum with investments
  - Strong momentum with customers
  - And strong momentum with earnings
- At the beginning of the year, at our February Capital Markets Day, we have presented to you our medium-term and strategic and financial targets
- And we believe we strongly executed towards these targets in 2015, and we are very confident that we will keep delivering against them going forward

##### Strategic Initiatives

- 2015 was a good year for Deutsche Telekom
- The first slide is surely familiar to you by now, and it shows our main strategic building blocks, which include:
  - Our focus on the integrated IP networks
  - Our commitment to create the best customer experience
  - And our ambitions to lead in business, and to work with partners where it makes sense
    - And maybe you have seen at the Barcelona Fair, we have after – our partnerships in the Valley, our great partnerships in Israel
    - We have now even a leg in Asia
    - We have announced a partnership with SK Telecom
- I think one of the most innovative operators in the world, and by the way, we're already launching product of these guys in Q2 here in Germany, the Pico Beamer, just to let you know here

##### Demand for Fiber and Converged Offerings

- Slide five summarizes some of the highlights
- We saw a strong and growing demand for our fiber and the converged offerings in Germany in all of our integrated European operations
- In the U.S., we added over 8mm customers for the second year in a row. 2015 was also a year of record investment in network transformation and spectrum
- In the U.S., we invested to support strong growth in subscribers and usage, while here in Europe, we invested in our fiber footprint, in LTE, and in our industry-leading pan-European network transformation

- By the way, in Barcelona, we announced as well that we have now operationally started the pan-IP opening up the first data center for our European network in Budapest

#### Product Innovation

- We also made a number of interesting portfolio moves, but I will talk about that a bit later
- Key focus for us is innovation
- You need innovation for future growth
- And my marketing belief is: never lose the high end
  - So we need something new for our customers every day, especially in this dynamic environment of digitalization
- The main area in this regard is our seamless connectivity, where we want to provide all access to data everywhere ubiquitous for the customers
- Our network transformation will give us a fantastic platform to improve our customer experience
- We have presented that that most of, let's say, especially in the fixed line area of the processes will be automated over the future
- I'd like to highlight another example
- We are very excited about the growth in the cloud area and the new platform, which we have created throughout 2015

#### Financial Perspective

- Our financial results have been very strong with double-digit growth in all major metrics
- This is good news and a real win-win
- Strong EBITDA growth allows us to accelerate our investments while we grow our cash flows and our dividend at the same time
- Based on our strong momentum, I'm happy to reiterate our medium-term financial targets for the group as we have laid them out of last year's Capital Markets Day

#### Customer Milestones

- Page six shows some examples of the strong momentum we are seeing with our customers
- After little more than one year, we recently announced the milestone of 2mm MagentaEins subscriptions in Germany
  - And after only a few months, we had almost 1mm MagentaEins customers in Europe
- In Germany, we added almost 2mm fiber customers within 12 months
- And in the cloud, we achieved 30% revenue growth, even ahead of the launch of some exciting new partnerships and propositions, which go live in 2016

#### Network Projects

- Page seven shows the strong progress we have made with some of our big network projects during the year
- Again, these are only just a few examples
- It took us three press conferences in Barcelona to announce all the innovations Deutsche Telekom presented
  - So we have a lot to say on this innovation piece

#### GERMANY

- In Germany, in our integrated European operations, we have increased our fiber footprint by 24% or by 5mm homes
- We have now passed 55% of German homes with fiber
- You know our stated ambition to pass 80% of homes at the end of 2018, but the new broadband subsidy schemes revealed by the German public authorities late last year will allow us to reach even higher coverage levels while earning a fair return on investment, if possible
- 40% of our German households are already on all-IP and we have fully completed the IP migration in two more European countries, Montenegro and Croatia
- All-IP lays the basis for substantial improvements in the customer experience, for instance HD Voice or much faster provisioning when you subscribe to our try-out new services

#### U.S.

- In the U.S., you know the numbers
- We have extended our LTE network almost nationwide, covering more than 300mm people at year-end
- Our network remains the fastest LTE network in the U.S. for the eighth quarter in the row
- We now cover almost 200mm people with A-Block spectrum
- Just to reiterate that: 200mm people with A-Block
- A-Block is low-band spectrum
  - And as we announced with last week's T-Mobile's results, we have acquired A-Block spectrum covering a further 14mm people
- So before we go into the auction with the transactions on the A-Block, we will reach already 258mm POPs or around 80% of the population with low-band spectrum we have already acquired
  - This will further improve our customer experience and will allow us to enter many new regional markets

#### HUNGARY

- And back to Europe, in Hungary, our LTE coverage has now reached 97% and in Greece 82%
- In Germany, we comfortably won all major mobile network tests, and the perception of German customers is very, very positive

#### Capital Investments

- Slide eight shows the investment momentum
- 2015 was a year of heavy investments to support the network improvements
- Even adjusted for the strong dollar, our CapEx grew by 7% to €10.8B
- We spent almost €4B on spectrum in 2015, mainly in the U.S. and in Germany, where we were also able to acquire 100 megahertz of high-quality spectrum
- Of course, the U.S. spectrum auction is a big agenda point for us in 2016
  - But as we are now in the quiet period, I cannot say much on this subject today
- For 2016, we expect a further small increase in investments, mainly to extend our German broadband rollout as part of the public subsidy scheme, but also to rapidly deploy the additional spectrum we acquired in 2015, especially in Germany and in Poland
- To support our strong investments, we continue our efficiency drive

- While we accelerate our network transformation, we nevertheless were able to reduce indirect costs by €0.4B outside the U.S
- This is broadly on track for our medium-term guidance
  - This reduction was achieved through multiple measures, including increases in IT efficiency and reductions in overhead costs
- Our headcount outside of the U.S. declined by 4% last year

#### Business Innovation

- Moving on to slide 11
- Innovation is very important for us
- I have just come back from Barcelona where we presented some fascinating technologies
- The speed of innovation in our industry is just breathtaking
- And we are at the very forefront of it

#### LATENCY IN MOBILE NETWORKS

- I'm showing a few highlights, but there are, of course, many more things I could talk about
- For instance, latency in mobile networks as low as 1 millisecond
  - This is groundbreaking and will enable new applications in the future for robotics, for health, for autonomous driving
- We have shown in Barcelona that it works, and we're the only carrier who could provide an end-to-end solution on this one already today
- Bandwidth of 70 gigabit per second, 70 gigabit over wireless
  - That is more than 60 times faster than the current fastest mobile connection
- DT just set the world record prior to the Barcelona Fair

#### NETWORK SLICING AND CLOUD-LAN

- Network slicing, a pioneering concept which will enable new services and business model and is set to be fully implemented in the 5G standard
- Cloud-LAN, one of the first services produced with our Pan-Net infrastructure, which provides massive simplification for business customers
- Just ahead of Barcelona three weeks ago, we achieved 11-gigabit-per-second peak speed over copper
  - While this was in the lab, this success nevertheless shows the potential for further significant and capital-efficient speed increases for our customers
- Our passion is to give our customers best-in-class seamless connectivity

#### HYBRID ROUTER

- You know our Hybrid router, which combines fixed and mobile networks and which has been very popular in the German market, has been sold more than 300,000 times
- Our new Magenta tariff, they will include free Europe-wide roaming including Switzerland and Wi-Fi connectivity for free for 1 mm hotspots, which we are enabling, removing both national and technological borders
- As you know, we have an exclusive partnership with Inmarsat to bring seamless LTE connectivity to European air travelers

#### BINGE ON MOBILE VIDEO PRODUCT

- And in the U.S., our innovative Binge On mobile video product has been a big hit with customers
- I have already mentioned our strong growth in the cloud last year, but the best is yet to come

#### Partnerships

- In 2015, we agreed some unique partnerships including our German Data Trustee agreement with Microsoft or our open cloud agreement with Huawei
- These agreements will be an integrated part of what we believe is a highly differentiated and competitive offers, especially for the European customers
- I could move on and continue because it's a really long list and there was even an announcement with will.i.am, which was quite exciting emotionally, but I hope you got the idea that our business is driven by strong technical competence and innovation these days

#### New Deals

- When it comes to our portfolio, there were no major new deals in Q4
- Throughout the year, in a number of years, we have followed a prudent capital allocation process, in line with our stated M&A policy
  - And we are happy with our main transactions, be it our sale of T-Online to Ströer or the acquisition of the government stake in Slovak Telekom at very attractive multiples
- Our big deal was, of course, our exchange of our 50% stake in EE into a 12% shareholding of BT Group, the leading converge player in the UK
- We are happy shareholders in this excellent company and we believe in significant synergies from the EE merger
- Going forward, we've seen multiple opportunities for mutually beneficial collaboration, for instance, in purchasing, technology, or in our international operations mainly in the B2B area

#### FINANCIAL ACCOMPLISHMENTS

- Moving on to our group financials
- We are very happy with our 2015 performance, you could imagine that
- I don't think there is another carrier who has double-digit growth on all KPIs
- And we are very pleased to propose a dividend of €0.55, representing a 10% growth to the previous year
- Our headline revenue grew over 10%
- Despite our high investments, we were able to achieve 10% cash flow growth, driven by 13% EBITDA growth
  - Even adjusted for the strong U.S. dollar, our EBITDA growth was very strong at 8%
- Our EPS grew to €0.90, comfortably covering our proposed dividend
- Our financial metrics were either in line or ahead, sometimes strongly ahead of the run rates we committed at last year's Capital Markets Day
- Also, as my last chart shows, we performed well against our stated targets for 2015
- Our revenues grew faster, and our adjusted EBITDA was ahead of our like-for-like guidance, even adjusted for various noncash items in the U.S. and last year's major settlement
- Our FCF at €4.5B was €0.2B higher than what we had guided

## 2016 GUIDANCE

- Finally, looking at our guidance for 2016, we expect another year of strong revenue growth at the upper end or higher compared to our medium-term guidance range
- We see our adjusted EBITDA at €21.2B in 2016
  - This assumes a net impact of handset leasing and data stash of around US\$700mm
- You've heard the guidance given our U.S. team last week
- To be clear, our group guidance is consistent with our U.S. guidance and it implies a stable like-for-like EBITDA performance for our ex-U.S. business in 2016

## Thomas Dannenfeldt

*Chief Financial Officer*

## FINANCIAL RESULTS

- Let me start with the financial highlights
- My first slide shows the financial highlights for the group as a whole
- And as you can see and Tim mentioned that already several times, but it's good to reiterate
- Our financial momentum remained very strong in Q4
- Our strong EBITDA performance largely explains our strong year-on-year growth in our adjusted EPS
  - So, that picture is extremely positive

## SEGMENT RESULTS

## Germany

- Now, let's have a more detailed look at the segment
- Moving to Germany
- In Germany, our Q4 revenues were down by 1%, but slightly up for the year as a whole due to the higher handset sales
- The 4% EBITDA growth we achieved in Q4 mainly represent cost saving and should not be extrapolated
  - But obviously, we were very pleased with that
- Despite significantly higher investments in our network transformation, we were able to deliver a stable EBITDA for our German business in 2015

## SUBSCRIBER AND MOBILE SERVICE REVENUE TRENDS

- Our Q4 subscriber and mobile service revenue trends remained healthy and they are quite consistent with those reported in the previous quarters
- We gained 362,000 contract customers and the sequential decline in our own branded net adds is fully explained by a large business customer loss that we already talked about in the last quarter and the bigger chunk of that is now in Q4
- Mobile service revenues were down by the same 0.4% as in the previous quarter

## IMPACT OF CONVERGENCE ACCOUNTING

- The next slide shows the impact of our convergence accounting on reported mobile service revenues



- I think you got used to that format already
- And as we can see, our underlying Q4 trend again was very similar to the previous quarters
- As Tim has mentioned, we ended the year with almost 2mm MagentaEins customers in Germany, which is well ahead of our initial expectations
- The resulting convergence track is a little bit bigger than expected at this stage
  - But, of course, we are very happy with that
- It is really a great success

AND WE REITERATE OUR CAPITAL MARKETS DAY TARGET FOR THE MOBILE SERVICE REVENUES BEING PLUS 1% IN THE MID-TERM CAGR

#### Fixed Line Market

- On the fixed line side, in the fixed line market, we added 48,000 broadband customers
- While this was a bit slower than the previous quarters, for the year as a whole, we of course substantially exceeded our initial guidance of 100,000 net additions
  - And as you know, we removed a number of promotions in the recent months, while other players remained aggressive in the marketplace
- Positively, we had the strongest growth in fiber ever with over 0.5mm German homes subscribing to this quarter alone
  - As in the previous quarters, the majority of these customers were on our retail platform
- Line losses ticked a bit sequentially, but the trend remains positive

#### BROADBAND REVENUES

- Our broadband revenues continued to improve, and we saw a 1.3 percentage growth in Q4, up from zero at the beginning of the year
- And I remember well the meetings and discussions I had at the beginning of the year with some of you looking into your face was quiet, lot of question marks whether you really should be convinced
- And as you see, we're moving the needle here towards the 2% CAGR we want to achieve in the midterm perspective

#### TOTAL REVENUES

- Looking at what we call our total German revenues, fixed and mobile, Q4 was down 1.1% in Q4
- The one-off in wholesale that reflect in Q3 fully explains the slight sequential deterioration
- However, the picture is that we have to see ourselves well on track for the medium-term revenue targets that we presented at the Capital Market Days, being at the 1% on the mobile service revenues, the stabilization in wholesale revenues and the 2% on the broadband revenues
- And Tim has already talked about the progress we are making in our own network investments
- We added more than 4mm German households to our fiber footprint and now cover 55%. 40% of access lines are in all-IP platform
  - And we have reached 90% of LTE coverage

U.S.

#### T-MOBILE

- So turning to the U.S

- Let me now quickly present some of the highlights of our U.S. performance
- T-Mobile has already presented very strong numbers last week, and despite much higher -than-expected subscriber growth, like-for-like EBITDA came out in the upper half of the initial guidance range
- Q4 was the sixth quarter in a row in which we won more than 1mm branded postpaid subscribers
- On the following slide, we show some of the underlying T-Mobile performance metrics
- In Q4, churn declined by 27BPS, the biggest year-on-year decline of the whole year
- While our bad debt expense has increased sequentially, this was mainly a reflection of our big vectoring [ph] deal (23:05)
  - While our recurrent bad debt expenses declined, we are confident that this metric will steadily improve during 2016

#### LTE NETWORK

- Our LTE network is now almost nationwide
- And as Tim has already mentioned, we now have access to low-band spectrum, covering almost 80% of the U.S. markets
  - This is great news for our customers and it will allow us to profitably serve additional markets

#### AWARD WIN

- We're also very pleased that we maintained our number one slot in the J.D. Power Customer Care Award, indeed scoring the highest rating of any wireless carrier ever in that study

#### Europe

##### EBITDA

- Now our European performance improved in 2015
- Half of Q4 EBITDA decline was explained by the rollover of the 2014 tax gain in the Netherlands
- The bigger picture is that including the Netherlands – excluding the Netherlands, our European business would have been almost stable in 2015 due to some very strong performances
  - For instance, in Greece and in Austria offsetting some weaknesses elsewhere
- As the next chart shows, in Europe, we now have migrated almost half of our homes to IP
- Our LTE coverage has increased by 24 percentage points to 71%

##### ROMANIA AND NETHERLANDS

- In Romania, we recently agreed a reciprocal deal with Orange, where we gain access to the market leading LTE networks in exchange for access to our high-speed fixed line infrastructure
- And in the Netherlands, we have leveraged our market leading spectrum position to build an excellent LTE network, which now regularly comes top in speed tests

##### T-SYSTEMS

- T-Systems posted revenue and EBITDA growth in the last quarter, but for the year as a whole, fell slightly short of our stated EBITDA target
  - But we are very happy to see that our Market Unit, which deals with the external customers, achieved revenue and EBITDA growth for the year as a whole
- This benefited from a strong year-on-year growth with cloud products

- We are confident that driven by the innovative offers including our new cloud initiative, our momentum will continue to improve

## FINANCIAL RESULTS

### FCF and ROCE

- So, now, that's it I think for the operational part, and now let's have a look at the financials
- On the back of our fourth quarter FCF of €1 B, we achieved €4.5 B FCF last year ahead of our initial guidance
  - While this benefited from a positive settlement, it also benefited our full-year EBITDA
- We also had offsetting negative one-off payments so that the net cash flow benefit from settlement was almost zero
- Adjusted for various one-offs, our ROCE improved from 4% to 4.5%
- The main area here is the Scout in 2014 and 2015, the sales of shares within there

### Net Income

- Our net income grew strongly due to adjusted EBITDA growth and better financial result, partly offsetted by higher depreciation expenses
- For the year as a whole, we achieved adjusted EPS of €0.90, comfortably covering our growing dividend which, as Tim has mentioned already, we have proposed €0.55

### Net-Debt-to-Adjusted-EBITDA

- The next slide shows our financial metrics
- And as you can imagine, I'm pleased to say that at the end of the year, we are back within our target net-debt-to-adjusted-EBITDA range of 2 times to 2.5 times, and our funding situation remains very comfortable

### Strategic Summary

- My final slide summarizes the strategy we presented to you at last year's Capital Markets Day
- As Tim has said, we believe we strongly executed towards these targets in 2015
  - And we are very confident that we will keep delivering against them looking forward

## Timotheus Höttges

Chairman-Management Board & CEO

## BUSINESS PERSPECTIVE

- So, guys, the issue is, I think 2015 was a very good year for Deutsche Telekom
- I think this digitalization is, let's say, heavy hammering on every piece of the business here
- And what we think is very important for investors is the first one, being predictable and reliable on the one side, but at the same time, being very dynamic and it's way going forward
- And, I think, if you see what innovations we have brought forward, the dynamic piece is there

#### Brand Differentiation

- There are a lot of, let's say, growth momentum on the growth areas and we were able to deliver on our – almost, on all parameters as mentioned before
- One of my Stanford professor, she said, don't be market driven, drive the market
- And, by the way, I think that should be our aspiration
- And our aspiration is to differentiate with our brand, with our propositions and the differentiations, namely, about two topics:
  - One is about network
  - And the second is about the customer experience
- So this should exceed let's say, the focus points of management here within the groups

#### Growth Innovations

- And, if you would ask me, tangible, what are the tangible measures you're working on, what is, let's say, happening in 2016, what is on top of your agenda, Tim?
- My answer would be, first, drive relevant growth innovations
- As we have probably shown impressively at the Mobile World Congress that has to go on
- There is a TV platform coming
- There are new cloud offerings coming there, and new security products coming at the exhibit
  - So, this is the one piece

#### Seamless Connectivity

- The second one is for me make seamless connectivity a customer experience
- So, I think the Pan IP has to become real and we have to prove, let's say, the benefit of that throughout 2016 step-by-step
- The monetization of our invested infrastructure is at our main topics and to reiterate what Thomas said earlier, retail is from utmost important in this one
- We are not [indiscernible] (1:22:38) doing wholesale
  - This is an additional business
- Our focal point is retail and the MagentaEins proposition

#### Product Differentiation

- The third one is service attempt
- I think we are good on the differentiation with regards to products
- We are good on the differentiation with regards to innovation and in network
- I think where we could do better, especially in the German environment, is in the service area
- So, I would start a new service attempt for the German operation that we evenly pluck the experience in this area
- So, this is the third area I'm focusing on

#### Cost Transformation

- The fourth one is the cost transformation and the reduction of labor force within the organization

- We have to transform the skill set in this organization according to digitalization, and we will not stop here

#### Netherlands

- So, this is the fourth topic on my topic
- On the portfolio side, my main area is mobile only in the Netherlands
- We have a good network here
- We have a great spectrum position
- We have an established one, but I think we are not satisfied with the overall market performance here despite the fact that over the last six months we have seen an encouraging trend on net debt
  - But this is not sufficient, so we will consider intelligent measures to improve our position and to utilize the infrastructure

#### U.S. Business Perspective

- And my sixth last point, which I hear off of my lender is definitely continuing the value enhancing story in the U.S
- With this, further growth has been laid out by the team and being very focused and concentrated on the spectrum auction which is in front of us
- Overall, I think improving the governance and to overcome structural hurdles to gain speed and to reduce the complexity in the group is something we are discussing here internally in big projects
  - This is something which we want to share then with you throughout the year
- So, you see the plate is full
- We stay committed, and we won't stop

## QUESTION AND ANSWER SECTION

Polo Tang

*UBS Ltd. (Broker)*

Q

I have two questions. The first one is really just about EBITDA growth in Germany. So, from what I can see, Q4 2015 was the first time that German EBITDA had grown in about 20 quarters. So, can you maybe just talk about any specific one-off factors boosting EBITDA in Q4? Or has Germany reached a turning point and can we see improvements from here on?

And the second question really just relates to your price rises in German mobile. So, €5 increase for all new mobile subscribers. From where I can work at, that's a 10% to 15% price increase. So, how quickly can we expect that to peak through the broader base? And then, when you set your medium-term guidance of 1% growth in German mobile service revenues at your Capital Markets Day, did this factor in price rises? Thanks.

Thomas Dannenfeldt

*Chief Financial Officer*

A

Yeah. Hi, Polo. This is Thomas. I'm going to start with the first one and I think Tim will take then the second one. To be honest, first of all, I'm not aware about the last 20 quarters in a perfect way. But, anyway, Q4 was very much – Q4 performance in the EBITDA was very much driven by indirect cost reduction. Basically, it's a matter of phasing. It seems that the comp in Q3 was very strong last year and it was relatively weak last year, as well. So, that is a matter of phasing more than a matter of principal question whether the business turns around or not.

What we've said is we're going to be stable although we invest heavily into network rollout and transformation. I think that's the remarkable part that there is stability in the EBITDA knowing that we put more and more load in to roll out the network infrastructure and do the IP transformation. And obviously, that gives us room in the midterm perspective for upside.

And I think I'll hand over to Tim on the second part.

Timotheus Höttges

*Chairman-Management Board & CEO*

A

Look, Polo, we always have criticized the environment in which we are working, but nobody is noticing that we are doubling our data volumes y-over-y in the network and not being able to increase our revenues and that we have to do something about. And the initiative which we took for the German market with our new tariff scheme is exactly addressing this. As [ph] always (30:18) mentioned, what we did is we offer – after talking to our customers and their pain points, we offer to these customers' three dimensions.

The first one is, we significantly increased their data volume. Secondly, we stopped any data and voice and SMS roaming across Europe including Switzerland, so he could use his data traffic while traveling. And thirdly the 1mm hotspots which we have are opened to our customers so that he has easy data access.

The philosophy behind that one is the following. Customers at Deutsche Telekom should not bother about data connectivity, they should feel free, and they should be independent from the access point – should get access to it. This is coming with a higher price. So the entry price is now €34.95, the midterm is €44.95 and the large package is €54.95. I think this is a very consequent offering. And by the way, if you would have followed German press, highly appreciated. It was not criticized as a price increase, but it's definitely a price increase.

Now, this is now a kind of initiative for our new customers to attract them with these offers. But what we said as well is every customer in our base could step up immediately as well. So, there is no kind of allowance for the existing base to use the offering unless they are willing to step up on the revenue. So, in our calculation, this is an increasing revenue move. And there is no, let's say, big back book, which we have in mind looking forward, the opposite is the case.

Thomas Dannenfeldt  
*Chief Financial Officer*

A

And maybe to add to the last part of your question was, whether it's included in the 1% midterm guidance. Obviously, it is because that should be a complete number. And I think that price movement as we expect that it will have a slightly positive increase because, remember that the speed of penetration depends on new customers and base customers moving into that plan. So, that is driving then the speed of penetration here.

Hannes C. Wittig  
*Head-Investor Relations*

A

The next question is from Jon Dann from RBC. Jon? Okay. Maybe Jon – we can have the next question and go back to Jon in a moment. Okay. The next question is from Justin from Credit Suisse, please. Justin, can we have your question?

Justin B. Funnell  
*Credit Suisse Securities (Europe) Ltd.*

Q

Yeah, hi. Hopefully you can hear me okay. Couple of questions, please. On the line loss trend, obviously, Q4 line loss picked up again. And that, as you explained, coincided with a cutback in your discounts, which you've been offering on a regional basis. I'm just wondering what your thoughts are about those discounts. It looks like since then actually cut their pricing on fibers at the same time. So, do you see this price move that you've made is a permanent move or rather it's still dependent on what competitors do next?

And secondly, on the new fiber build in these rural areas, the government's supported plan. Could you give us a rough idea about the economics, in particular, what you think the cost per home passed will be for the build once you've netted the government subsidy? Is it going to be similar to urban areas or still, even after subsidy, materially more expensive cost per home passed? Thank you.

Thomas Dannenfeldt  
*Chief Financial Officer*

A

So, Justin, I'm going to start with the second question on the rural areas. I think with the supporting component in here, the economics should be close to those in those areas where no subsidy is available, should not be substantially different. And I think our idea is that the saving of CapEx, additional CapEx we will see related to that activity is 2016, 2017, 2018. Obviously, the time line, 2016 and 2018 were the lower number like a low-triple-digit number and the peak obviously in 2017. So, that's the kind of saving you should expect. And still, we are, in terms of our 10% FCF growth, confident that we will get that covered within that near term perspective.

So that was the second part and, Tim, would you like to have the first one?

Timotheus Höttges  
*Chairman-Management Board & CEO*

A

Yeah. Let me talk about the fiber build-out. Our strategy is following [ph] dimensions (35:47). The first one of network, by the way, always follows first coverage; second, bandwidth; thirdly, latency. Let's say this should be, let's say, our agenda for the upcoming future. And that was, by the way, as well, part of the discussion. And the second statement which I like to give, they are not good and bad technologies. The only thing is they are good and bad speed rates in the infrastructure.

And nobody should dictate us which kind of technology is the good one and which kind of technology is the bad one because we learn every day that there is something new coming from a technology perspective in our industry, just to mention, let's say, the 14 gig which we are now testing in the labs here for the last 50 meters on copper infrastructures, which will definitely, let's say, have an impact to the rollout trends in the future.

Now, going into the fiber build-out in the rural areas. What we have said is there is an investment coming from our side and there are subsidies coming from government. The subsidies both on Germany and from Brussels and the economics of this one are following the pattern of the classical build-out. It's not that we are increasing our costs knowing that the build-out is more expensive in these rural areas. But this is exactly the part which has to get compensated by the governmental subsidization here.

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**Thomas Dannenfeldt**

*Chief Financial Officer*

A

So, we're not going to take the first part of the question as Tim has answered also the second part, which was about the line loss. No problem at all. I think you're right, there was – in some areas in fixed line and in broadband areas, competition is heating up a little bit, but looking at the line losses there, absolutely in line with what we have expected. We think we are doing good here looking out for into 2016. We expect an improvement here so that there is no worries from our point of view in that area.

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**Roshan Ranjit**

*Nomura International Plc*

Q

Just a breaker question for me given the continued progress of MagentaEins, could you just detail what type of upselling you are now achieving given that has progressively increased over the last two, three quarters? Thank you.

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**Thomas Dannenfeldt**

*Chief Financial Officer*

A

This is Thomas again. I think the numbers from last Capital Markets Day was accretive transactions measuring the revenue of a household before and after transaction was plus €4. That was a year ago. We are now talking about €7, €7.20, so continuously – seeing continuous improvement in the upselling area. Basically the split between mobile and fixed and second SIM and first SIM and all that kind of stuff hasn't changed significantly. So, that's the kind of classical split we've talked already several times through. What is really changing is the total number, which is moving up now to €7.2 after end of transaction, plus.

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**Hannes C. Wittig**

*Head-Investor Relations*

A

Thank you, Thomas. And let me just try Jon again. Jon, can you have another go, please. Jon from RBC. It doesn't seem to work, but he has actually been wise enough to send me his questions by e-mail as well, so we are covered. And he asked the following question whether in the U.S. we are changing now from being a kingmaker to being a crown jewel of the Deutsche Telekom portfolio?



And his second question is whether – in fact, he sent me three, so I have a choice. The second question is, how we are looking at the convergence – solution for our convergence situation in Austria, Poland and the Czech Republic?

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**Timotheus Höttges***Chairman-Management Board & CEO*

A

It's always good if a king has crown jewels. So, that said, by the way, John is King Cool. So, that said, I think the U.S. had a fantastic year. And just coming back from the U.S., our team is quite optimistic for 2016 as well. This asset is in great shape. Main metrics like churn, ARPU, everything is trending the right direction. And I think what has been a little bit maybe underestimated from the market so far is the success the team had on acquiring the A - Block spectrum before the auction covering already 80% of the market with low-band spectrum. I think this is really a great opportunity, commercial opportunity for us in the rural areas and for the deep indoor coverage.

Now, we remain open to transaction which could maximize the value of this opportunity for our shareholders. This is not changing this philosophy, but there's nothing which is driving us into a hurry here; nothing which is forcing us into hurry here. We are anyhow now in the phase of the incentive auction and during this process, there are no possibilities of talking among the competitors here. So, I think great momentum with our kingmaker in the U.S. and strategy getting executed for 2016.

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**Thomas Dannenfeldt***Chief Financial Officer*

A

Yeah. And on the second question, a few remarks here. I think, first of all, we need to distinguish between Poland, Czech on one hand side and Austria and the Netherlands you mentioned on the other hand side because we acquired GTS as you know. So, on B2B, we're already in a solid converged situation.

Looking at Poland, we also noticed that it's not that kind of strong fixed mobile converged country like, for instance, the Netherlands is. So, we need to distinguish here between complementing a story like Poland and Czech Republic related to FMC vs. Austria and Netherlands whereas clearly a mobile-only game we're playing here. Austria, I think looking at the market, there is not such a strong movement towards FMC, the Netherlands obviously is.

So, basically, first of all, starting with that remarks, we need to distinguish the situation in those categories. I think in Austria, we – as in other countries as well where we're lagging the B2C fixed line part, we're trying to use wholesale agreement in the first instance, let's see where we end up here. And the same holds true I think for Netherlands. I think that's the perspective on FMC in those four countries.

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**Simon H. Weeden***Citigroup Global Markets Ltd.*

Q

A couple of questions, please. First is on guidance and CapEx. And can you confirm that the broadband subsidy scheme guidance is technically in addition to the CapEx indications you gave at the last CMD but you haven't changed the FCF growth guidance? And could you discuss whether there might be any risk to that if you were to step up on the broadband subsidy scheme next year, say, or in 2018?

And the second question is on G.fast, if you go back to the topic of architecture and technology, particularly given your comments about sharing technology, information or co-operation with BT on that, whether G.fast has made you – or the availability of G.fast has made you think again about that what the right architecture is for the rest of the network deployment or whether it's something you might come back to or something you're deploying anyway?

Thomas Dannenfeldt  
*Chief Financial Officer*

A

Simon, I'm going to start with the first part with the guidance and the CapEx. I think it's quite simple. 2015 was €10.8B. In 2016, you should expect €11.2B. What you also should expect is, as we said, is that we stick to our mid-term perspective on the 10% FCF growth. And the guidance on the FCF for 2016 is €4.9B. So, I guess, that should hopefully answer the first part of the question. And now, Tim, you...

Timotheus Höttges  
*Chairman-Management Board & CEO*

A

Second part of the question is, look, we learned on technology every day something new here. And definitely, we're in contact with our friends from BT on that subject. Our engineers are working very close with them. G.fast is a very interesting technology, which we are looking at. And nothing has been changed in our rollout strategy so far. The question is whether vectoring could be substituted by G.fast immediately. This is a commercial discussion and bandwidth discussion which we have. But it is too early to say that we will consider this. And I expect better economics than rather than a worse economics on any changes in this regard. So, let us work on this infrastructure here and speed up the infrastructure.

Our intention is now to cover most of the country in Germany with vectoring. You have seen these huge numbers, 4.4mm customers covered with fiber last year. Another 531,000 customers only in Q4 using our new technology. This is a record number and higher than all the, let's say, the previous quarter. So, we are on a clear growth track here by catching up and we want to offer that to the population in Germany and not only to an exclusive set of people from technology.

The moment we have built this, that moment, we will then consider vectoring plus, G.fast and even fiber rollout maybe to the buildings here but this is something, which is coming then as a next step. And with the vectoring discussion and the decision, which has been taken, we have gained additional momentum on this. So, we are in good shape rolling out this country and convincing customers on this bandwidth.

Hannes C. Wittig  
*Head-Investor Relations*

A

Simon, also just to explain or give an answer to your question, whether – specifically the broadband rollout plan might challenge our cash flow guidance. Well, we expect the peak of that should be in 2017. So, our guidance is mid-term to 2018. So therefore, it will not really materially impact we expect from today's vantage point the 2018 financial figures.

And the other quick point is that, of course, when you evaluate our investments, you should also keep in mind that we have a very granular street cabinet network, so we have a lot of fiber in the streets very close to the customers. In fact, we have just over 100 customers per street cabinet. So, that's a very dense fiber infrastructure that we already have. And, with that, the next question is from Mandeep at Redburn. Mandeep, can we have your question, please?

Mandeep Singh  
*Redburn (Europe) Ltd.*

Q

I have a question one on the balance sheet, please. With the new IFRS rules coming in with leasing being brought on to the balance sheet, where do you think – what sort of implications does that have for your leverage? And particularly with U.S. spectrum, where do you sort of see the balance sheet constraint? That would be the first question.

Second question is just coming back to your guidance, excluding the U.S. It's been pretty stable at around €13.3B of EBITDA in 2014/2015. Now, you're sort of saying €13B excluding the U.S. Could you just give us a little bit more color on the moving parts there, please? Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

Okay. I'm going to start with the balance sheet. First of all, as you know, I like transparency and I like reliability. So, talking about the new rules kicking in 2019. I don't feel there is any negative about that. As all the information are already disclosed, if you talk with the rating agencies, that's their perspective already. So, I don't think there is any kind of surprise or something the market is not already knowing or anticipating. That is, I think, on the balance sheet side.

On the guidance, I think that the key question is on the €13B – if you do the math, on the €21.2B of EBITDA and you strip out the U.S., you will end up with this €13.0B on the non-U.S. operations. And I think that's a good number, it's a solid number because in 2015, we've seen the same number if you strip out the Liberty effect, you strip out the effect obviously of selling EE, and there is some related money and EBITDA effect on the brand fee and the management fee part, and the same holds true on the sales of T-Online. So, basically, that's kind of technical result of stripping those one-offs out.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG (Broker)

Q

Firstly, on cross-border synergies, you've completed the all-IP migration on in three countries, and you said you just opened the first centralized operation center. And so, do you see more or less synergies than, say, two years ago when you initially planned the project, where are you vs. your own plans?

And then the second question on German fixed Liberty continues to talk about new builds, plans and then Deutsche Glasfaser seems to gain traction as well. Is that sort of a race to build part of our motivation for more rural build and how serious do you take those alternative infrastructure builds, or is it really playing the public subsidies that make you commit to the incremental build? Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. I'm going to start on the cross-border question. Dominik. First of all, let me differentiate again between all-IP migration and our pan-European virtualization effort. You know what we've talked you through last year on the Capital Markets Day was what we call superior production model. And it is about digitization of the customer-facing process. It's the virtualization of the infrastructure, the pan-European infrastructure and all IP. So, it was always just the combination of those four we will bring into the market.

And we said at that moment in time, on stable run rate, we would see €1.2B of savings related to that. Remember, €700mm was allocated to Germany, €500mm was Europe and from those €500mm in Europe, 30% roughly, that was our estimation, is cross-border related and 70% in country-related. And there is no renewals behind the – no renewals after we've made some experiences now on completing all-IP but not completing the complete production models, so to say.

Timotheus Höttges

Chairman-Management Board & CEO

A

The question on the Deutsche Glasfaser and on Liberty – by the way, two-third of the country cable operators are already offering their services, and I think we could be very proud and it shows strength of our brand. It shows the strength of our proposition. If you look to the numbers, which we have gained in 2015 and which we're expecting going forward in 2016, with regard to, let's say, our position here and our net add development.

Do I expect that this is new infrastructure-based competition? By the way, I welcome every infrastructure competition here in Germany. This is overdue. And due to a wrong incentivization on the wholesale access regulation, we haven't seen sufficient infrastructure-based competition. So if these guys are coming and in certain areas they might build infrastructure, we will consider even whole buy as an alternative on their infrastructure, which might then help the smaller players to leverage their asset base.

So, I clearly think this is the right thing. What I think is wrong is that we are fast to open up all our infrastructure immediately that has got built. And that people are benefiting from it without investing into an own infrastructure. They realize return on capital employed, which are beyond 40%. And they do not – the regulation is not giving an incentive for necessary capital investments here. And this is something where I'm fighting on in Germany. This is something where I'm strongly fighting on in Brussels. I was very clear to [indiscernible] (54:28) meeting them in Barcelona. We need a new kind of network, access regulation. And I hope that it's now time for more de-regulation in the entire European landscape. And I hope that this will be considered in the digital signal market package, which is due in Q3 this year in Brussels.

Guy Peddy

*Macquarie Capital (Europe) Ltd.*

Q

Just a very quick question on your CapEx line. You talked about higher number or bigger number in 2016. Can you talk about where that incremental spend is going from a technology perspective and also from a geography perspective? And also, is there any particular change in what you're investing in with regards to, for example, your capacity rollouts in Germany. Is there anything that you're advancing and slowing down? Just trying to get a workout on the shift changes in the total CapEx spend. Thank you.

Thomas Dannenfeldt

*Chief Financial Officer*

A

Yeah. First of all, the increase of €400mm from €1.0.8B to €1.1.2B, you see is 50/50 Germany and Europe. In Europe, it's not one country. It is, basically following the logic where we see customer demand and a good return on investments and an opportunity to utilize the network fast and get a good return on the investment. And, in Germany, basically, it is related to what we mentioned, a part of that is related to – in 2016 already to the subsidized areas. We're going to put some money – additional money on there and go for a higher coverage targets as Tim has mentioned already.

Hannes C. Wittig

*Head-Investor Relations*

A

Yeah. So, no shift in strategy. But, of course, good investment opportunities which we take advantage of and now is the time to go for it.

Emmet B. Kelly

*Morgan Stanley & Co. International Plc*

Q

Just one question, please. I know it's maybe a bit tricky to comment as it is in auction. But could you maybe just give us a few nuggets of insight into how you're thinking about the forthcoming auction of German Bundesliga football rights, please? Thank you.

Timotheus Höttges  
*Chairman-Management Board & CEO*

A

Currently, the conditions of the tenders are defined and proposed by the German Football League Association. And they get examined is the right word, yes, by the Bundeskartellamt. So the Federal Cartel Office is looking into that one. So, therefore, it is not finally clear whether there is one bidder who is able to acquire all the content rights, how are the terms with regards to a no single buyer rule. This is the model which was been taken in the UK, and that is something what the DFL even have in mind here.

German soccer is important to me. It is important to Hannes. And by the way, we have the same club which we have a ninth year. But German soccer is a very, very important content right here as you could imagine, and it is even relevant for the TV platform. So, we will follow the tender very closely. We are open-minded towards the auction here as we have shown in the past and we will act accordingly to our business case logic. So, let's see how that is.

Independent from that one, I think it is possible to say that we have signed a contract with Sky already. So, if nothing is changing in the landscape, we will be able to offer the service even in the future the way as we do it today. By the way, this was already approved by the Cartel Office.

Hannes C. Wittig  
*Head-Investor Relations*

A

And also – already as you may have seen, have the right to the German Basketball League, and the Germany Ice Hockey League. And so, we – as you can see, we are not dogmatic on this issue. But I think we also fully appreciate that each market is very different and surely the German market is very different from the UK market, as you all understand.

Frederic Boulan  
*Bank of America Merrill Lynch*

Q

Firstly, on the U.S., if you could come back on the rationale of the self-funding strategy considering it's increasing drag on your cash flow. Your German bonds are currently trading at very low yields, so why not trade a bit more funding in bond and lend to the U.S.?

And secondly, if you could come back on the vectoring activity you've done this year vs. 2014. And if we should expect less of that going forward now that [indiscernible] (1:00:02) probably replace some of the EIP growth. And maybe just a clarification, if I may, on your pricing in Germany. I understood that your existing MagentaMobil customers would get higher data without price increases, but they would not get EU roaming and hotspots. For them, actually no price increase. Can you just clarify that for us? Thank you.

Thomas Dannenfeldt  
*Chief Financial Officer*

A

Yeah, Fred. This is Thomas. I'm going to start on the self-funding question. I think it's a very good question that is raised regularly. And I think based on that, the very good development we see in the business and the positive FCFs we're seeing right now, it's a question which is relevant and it's right to raise that question. I think what we're going to do is review again as we continuously do in that specific element and we'll come back to you.

Hannes C. Wittig  
*Head-Investor Relations*

A

Fred, maybe you can just repeat your second question, sorry.

Frederic Boulan

*Bank of America Merrill Lynch*

Q

Yeah. So, the second question was on the vectoring activity in the U.S., how much you've done in 2015 vs. the year before and to what degree that helped your FCF?

Thomas Dannenfeldt

*Chief Financial Officer*

A

Yeah. The EIP securitization in Q4 was US\$700mm ex – roughly US\$800mm. Remember that there is still – due to the growth in the U.S. and the EIP situation we're having there that there is still a slight negative net effect taking the drag we're having from that growth on working capital including the vectoring. There's still a slight negative effect on the FCF – on the working capital in 2015.

Hannes C. Wittig

*Head-Investor Relations*

A

But we had in 2015 in total a net vectoring effect of €900mm and the previous year of €600mm. And as Thomas has said, the vectoring was – the net vectoring was smaller than the incremental buildup of EIP receivables, and equivalent JUMP! receivables on our balance sheet.

Akhil Dattani

*JPMorgan Securities Plc*

Q

Just two questions, please. Firstly on the question from the beginning on the German price changes. I just wanted to clarify, when we think about the changes that you've made, like -for-like, do you think that that fully mitigates the offset that you have from out-of-bundle dilution from roaming now being effectively captured in bundle? And when we think about it more generally, to what extent have you accommodated these sorts of changes across the rest of our European markets in terms of bundling roaming within the tariff?

And then the second question is just a big picture question around tower sales. We've obviously seen some of the more levered stocks across the sector starting to sell towers. It's not become a bigger theme so far across the other stocks and Vodafone has talked quite dismissively about it. But just interested to get your take on the subject and how you think about that. Thanks a lot.

Thomas Dannenfeldt

*Chief Financial Officer*

A

Yeah. I think on the German price changes, Tim elaborated already the logic behind and the commercial answer on the question is we expect that being slightly accretive. That is number one question.

Number two, on the tower sales. I think it's something we are investigating. It is obvious and very clear that we have a very strong position here. We have something like 40,000 cell sites in our European properties. Looking in the German environment, you see €500mm EBITDA number on the tower. So that's, obviously, an interesting area and it's a kind of element in the cookie jar we have and we are investigating about.

Ulrich W. Rathe

*Jefferies International Ltd.*

Q

The first one is, you mentioned sort of some price competition in the broadband arena. And then, of course, you're setting that with a very strong shift towards VDSL, which is progressing at a rapid rate. But in the bigger picture, do you consider further loss of retail share in German broadband acceptable as long as you – as it is just to a

wholesale and as long as you get the mix shift from ADSL towards VDSL in your retail base. Or do you think there is sort of a magic hurdle where you would sort of really decide that too much is too much and you need to maintain that sort of retail share if only from a scale perspective?

My second question is, in the annual reports, nowadays you are sort of giving two-year outlooks and in the 2015 annual report, you're now talking about decreasing revenues in Germany for 2016, and then the year before you talked for 2016 about unstable revenues. Is this simply the annualization of the higher device sales that helped you on revenues in Germany in 2015? Or is there a weakening of the revenue trend that sort of explains this change in the 2016 revenue guidance for Germany? Thank you.

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Thomas Dannenfeldt

Chief Financial Officer

A

So we're going to start on the first part, Ulrich, on the price competition. First of all, please have a look at the fiber net adds, we're seeing 530,000. And the split, I think it's a kind of fair split in mix you would see from retail vs. the wholesale part. So, that's number one.

And number two is, we are not up for shares, we are up for growing the revenue. But one thing is for clear as well. If you're continuously weak on your net adds, you will also lose the revenue line. So it's not like, we are up for shares; we are up for revenue growth, but obviously continuously taking the market effectiveness into account. And we've been the one who moved three times last year promotions – put promotions out, regional ones, the CPEs for free, et cetera. And one thing is for clear as well, if competition is staying aggressively, we will also bring some promotions back, that's for sure. Without the customer numbers, we will not make it. But again, have a look at the fiber numbers, 530,000 is a clear message, and the majority is – more than 60% is on the retail side.

On the German revenues, yes, it's important to take into account that we expect to change the model on the mobile handsets we're selling there. So, on a like-for-like basis, looking at the valuable revenues, we're talking indeed not about a decline but a stabilization, which was not promised last year. So, yeah, I think that's clear.

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Paul Marsch

Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. It's about the relationship with BT. I guess, there's a lot of doubt out there about the merits of cross-border combinations or cooperation. So I just wanted to ask your thoughts on what might be the primary sources of benefit or upside or synergy, whatever you want to call it, from your relationship with BT. So, specifically, does it make sense to cooperate or combine T-Systems with global services? Does it make sense and is it possible to bring BT into the procurement joint venture? Could BT benefit from your all-IP deployments or being brought into the Pan-Net? And then finally, is there any benefit for Deutsche Telekom from BT's success in premium sports content distribution?

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Timotheus Höttges

Chairman-Management Board & CEO

A

Yes, yes, yes, yes, yes, yes. So, the answer is we are happy shareholders of BT. Now we want to see the merits of the integration of BT with the EE merger. So this is coming along and we're sitting on the table next week at my first board meeting. So, let's say, get used to the UK governance and the UK politics here.

Second is, yes, we will invite BT to the procurement alliance. Yes, we will consider working with them on the innovation and the technology field. Yes, we are considering working together in the technical field, on cloud services and the like. And yes – and this is the unique situation with BT. There is a huge value when it comes to the B2B area, the global positioning, especially when it comes to the local loops or the fixedline piece of it. So this

is something we have to look on. It's too early to say what we could do there, but definitely, Gavin, myself, Thomas, [ph] Tony (1:10:01), we are discussing how this could look like and how that could be organized. But it's too early to call victory here. We had just started on the conceptual part.

Robert J. Grindle

*Deutsche Bank AG (Broker UK)*

Q

I think your jewel in the U.S. now isn't expecting to pay any tax in 2018 and even beyond that. How relevant – how important is that for your 2018 FCF number? Basically, what did you have baked in and what would be the CAGR without any U.S. cash tax in 2018? And just finishing off on BT in the UK, I assume that Brexit, if it happened, would make virtually no difference to your thinking about future cooperation and work with BT or holding the assets longer term. Is that the case? Thank you.

Hannes C. Wittig

*Head-Investor Relations*

A

Robert, it's Hannes here. Just to state on the first question, our FCF guidance when it was given and as we reiterated today, it does not assume any sort of specific changes in tax regimes in any country. So, to the extent that we have a benefit from the bonus depreciation in the United States, and T-Mobile has talked about this in the conference call, this would be an added bonus in 2018 and beyond. But at this point in time, it's important to say that as we reiterate our medium-term guidance today, that is not predicated on this, but is an underlying and like-for-like reiteration.

Timotheus Höttges

*Chairman-Management Board & CEO*

A

Look, the BT, the Brexit is something – look, we are very experienced with countries within the European Union, without the European Union across, let's say, the Atlantic including European currency outside European currency. So we are a global company with €70B turnover. So, nothing to worry. And I hope that the United Kingdom stays in the European community here and is not swimming away. So, that said, this is not changing our consideration in the global market Deutsche Telekom is operating.

Mathieu Robilliard

*Barclays Capital Securities Ltd.*

Q

First, just coming back to the cost-cutting comment that you made earlier in the call. I mean, if I look at 2015 numbers and adjust for handsets, it does seem that though in Germany, there was some decent cost-cutting throughout the year of around €150mm. And I would just want to confirm that that was kind of the run rate for 2016.

And then a question about the corporate market vs. the consumer market. Obviously, there's a big premium when I look at the data you released between mobile ARPU in the corporate side vs. the consumer side, just increased present consumer so maybe that reduced a bit. But more conceptually, do you think that premium of corporate over consumer is sustainable? Thank you very much.

Thomas Dannenfeldt

*Chief Financial Officer*

A

Mathieu, I'm going to start with the cost development. Last year in Feb we announced that from 2014 to 2018, we will achieve €1.8B indirect cost reduction which is, on average, a €450mm kind of number. Basically, what you have seen last year is a €400mm number, so it's bang in line with what we have intended there and what we laid out as a direction. So, that was on the cost-cutting.



And then the corporate market, I'm not sure whether I got the question right, to be honest.

**Timotheus Höttges**

*Chairman-Management Board & CEO*

A

Look, the question was whether we expect that the ARPU on the B2B side is being unstable or whether there's a certain risk that we might lose this premium, which we have achieved in this area. Let me state one thing. If you look to the German economy, we have gained some really big deals throughout 2015 from corporate customers and they are, by the way, not coming back because of the price. They're simply coming back because they were disappointed with the quality of the service of our competitors and especially when it comes to coverage and when it comes to bandwidth. On top of that, the IT capabilities which we have including our secure cloud service for Germany as an integrated offer is something which customers find quite attractive. So I do not see that this is a kind of risk on the ARPU. I see the upside for new kind of growth areas, which are coming with this development.

**Thomas Dannenfeldt**

*Chief Financial Officer*

A

Hey, Mathieu. This is Thomas. Maybe there is one confusion there. The B2C numbers do include wholesale first brand, second brand. If you do the like-for-like math, the data between the B2B customers and the consumer customers is below 5%. So that's not a big number. It is basically the number you're comparing as a mixture of various segments, you should not really compare, I guess. So there's not that big difference between a telecom branded consumer customer and a business customer in terms of the ARPU.

**Andrew J. Lee**

*Goldman Sachs International*

Q

I had a couple of questions. Firstly, on your fixed investment opportunity. Can you just give us an insight into your view on the latent demands of the fast broadband across your customer base? Is there a latent demand today? And if so, why not roll out Vplus or G.fast when you're rolling fiber-to-the-cabinet and given that it will save on the costly engineer visits.

And then just a second point, to your point that you made on wholesale infrastructure regulation having been poor. Just a question on Layer 2 regulation, when do you expect an announcement for the regulator on this new regulation? And what assumptions do you make on the impact on your wholesale business? Thank you.

**Thomas Dannenfeldt**

*Chief Financial Officer*

A

Yeah, let me start with the first question on the fixed investment opportunity. I think the demand for fast broadband is quite – I think that's quite obvious if you look at the fiber numbers we're disclosing. As we mentioned, more than 0.5mm last quarter. So demand is enormous and the customers do like it. Although they – and that's clear, it's important to understand we're talking about areas where customers obviously have the choice between a cable infrastructure and our infrastructure.

So we see there is demand. We see people like our products and they're coming to us. Why not – and I think what we do is we stick to what we have said. We said we will cover two-thirds of the country by the end of the year with vectoring. We will then introduce – move forward to 80+, we will introduce super-vectoring the next year and so on. So that is our line.

And what we also said is we're not religious about technology discussions. We think there is no wrong or right technology. We think it – what you need to do is you need to have a look at the economics in the various areas and sometimes you will, in a mid or long-term perspective, find FTTH, sometimes you'll find FTTB, you will find G.fast, you will also find 5G. So, the economics are the most important elements here what our customer is willing to pay for and what the competitive situation is. And depending on that, we will choose technology. And meanwhile, as I said, we will deliver what we have announced end of 2016, two-thirds of the country covered by vectoring and then move to super vectoring.

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## Timotheus Höttges

*Chairman-Management Board & CEO*

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Andrew, the question on the Layer 2 regulation, from a timing perspective, the decision, presumably the decision by the Bundesnetzagentur is expected end of April. After that, the national consultation rounds and the notification by the European Commission take place, and a decision should be final when it comes to the product launch of Bitstream Layer 2 1 July, 2016. So, that is let's say the time line. With regards to the implication, I do not see a big implication on that one due to the fact that almost all the volumes are in the contingent model and whether reduction is very, very small, less than €1 here around that one on the VDSL 50, for instance. So, I do not see a big impact on that one coming through the P&L.

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