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Deutsche Telekom AG (DTE.DE)

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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges

Chief Executive Officer

BUSINESS HIGHLIGHTS

Opening Remarks

- By the way, before I start with my long speech, I want to say a Happy Birthday because Deutsche Telekom is turning 25 and therefore we are celebrating our birthday
- Even our press conference today took place with a cake
- So, feel shared with a virtual cake today, but we've made two presents for us today
- The first one is this super performance which we had in 2019 and I think we will go into the numbers in very much detail
 - We are very proud about what we achieved
- And the second one is about the progress we made on the Sprint transaction and we see a light at the end of the tunnel and we are now very confident that this deal is taking place with all the benefits it's going to have for us here at Deutsche Telekom

Europe

- And even for Europe, I think it's very important just having a company like Deutsche Telekom able to be – or to come into the number one position in the US at one point in time
- This is, I think, a historical day for us
- Now, before I go into the detail, let me talk a little bit about what we're doing
- As Hannes said earlier, we have a halfway update of our Capital Markets Day, and we just want to show you where we stand with the execution of that program and what has been achieved so far and how we're looking forward on the things
- And therefore, it's a little bit longer and more detailed and even you have seen we have made a special presentation for you

Hannes

- I will start with some overviews charts followed by the 2020 guidance, and then I go into the highlights of each of the segments, but please there's much more details in this presentations about every single item we address at Capital Markets Day
- So, please have a look into this document again or discuss the topics with our Investor Relations team around Hannes

Telekom Flywheel

- Let me start on page 3, and on the left, you can see what we call here the Telekom flywheel
- Investments are driving growth, customer growth; and customer growth combined with efficiency is driving financial results; and the financial results gives us the opportunity to investments and the investments, customer growth; and the customer growth with the productivity is creating value

- So this is simply what we are doing over the last years
- And step-by-step, we're executing on the big game changers for our operations

Germany

- So, what were my highlights in 2019? The first one we completed two major multi-year and, by the way, even multi-million investment programs in Germany
- The one is our committed FTTC build-out, almost 90% now of Germany covered, low churn
- And the second one is the All-IP migration which we here now formally declare accomplished
 - There are certain smaller things on the B2B side, which are following, but nevertheless the majority is done
- And by the way, we're not talking about Germany, we're talking about seven markets in Europe, six of them are already fully IP and the last one is now following
- We are ramping up 5G at a high space on both sides of the Atlantic, by the way
- For the first time in history, the US team is ahead of AT&T and Verizon because with our 600 megahertz spectrum we were able to deploy 5G in almost 200mm households already which is ahead of the others

KPIs

- We achieved another year of strong growth and financial growth ahead of our capital markets targets
- Look, sometimes, I even can't believe it, but every year we have overachieved the main KPIs in this regard and the segment contributions because we are not growing only in the US, we're growing in all segments
- The growth is confirmed by today's guidance
- And very important because there were some concerns from our shareholders and investors
 - We are back in our debt rating comfort zone
- Christian will talk about that later on
- But you see as promised we are very safe in our BBB+ rating again, which is very important for us

New Buzzword

- And as well, you see later in the presentation we also made good progress with regards to agility
- I thought I'm agile, but that's the new buzzword
- But what I think more important the digitization is something where we did a digital health check within the organization, as we called it, and trying to understand where we stand
- And the outcome is very encouraging
- I didn't know all the digitization efforts within this company and I'm very impressed by the magnitude of these initiatives

ESG

- ESG, we are number one
- And honestly speaking, remember I [ph] was (00:05:55) in Mexico
- I even made it clear here earlier three years ago, we made – we started our sustainability and initiatives here within this company
 - We made good progress, and this one we included ESG into our corporate strategy
- The strategy is more or less stable over the last year, but this is a new attempt that we even strengthened, that everybody thinks that way

- So we will have a big attempt towards ESG going forward, but let's talk about that later

Sprint

- And last, not least, the biggest thing of everything, the merger with Sprint, if you don't have enough to do, which I can imagine, please have a read of the decision from Judge Marrero, the 179 pages
- I'm very impressed
- I'm very impressed how he judged the situation and he's always overseen the competition in this market and I think he did a great assessment
- Very happy about the outcome of this process

U.S Deal

- So page 4, the US deal
- What an incredible journey this has been
- We started – our business was almost dead and everybody told to sell it
 - It was shrinking
- And the Uncarrier came
- Team effort between US and Germany with regard to investments and the Uncarrier strategy
- Huge investments, almost €58B into the assets over the years
- The unprecedented turnaround, historical one, and I'm maybe using this word for the second time, but you know that
 - There hasn't been a turnaround like this in our industry so far

Business Case

- And now, honestly, we have all the pieces strategically in place to supercharge this business and to create an even more upside for our customers and shareholders, and our attempt is going to be to become the number one in the US
- Not more and not less, but this is our attempt
- We are very happy about the decision so far, and we can confirm the enormous benefits of the merger and the business case
- So we are now working through the mining steps to get the merger done; and hopefully in Q2 2020, we are able to close the transaction

Profitability Metrics

- Before we go through the details, let's look a quick summary of our 2019 financial performance, which you can see on page number 5
- It's a simple story, and we grow across the board
- And this is very important because it's not only based on one pillar, it's based on all the pillars which we're operating in
- All the segments are growing and all the profitability metrics are growing too

Revenue ,EBITDA and FCF Growth

- And if you see the numbers, even more impressive
- It is a 6.5% revenue growth

- It's a 7.2% EBITDA growth
- It's a 15.8% FCF growth
- It's almost 78% growth on the earnings; and if you adjust them, it's still an 8.5%
 - These are the numbers from my mind here
- So if I'm not 100% correct on every [ph] secondary (00:09:21) number here, but this is the target
- And I do not know any kind of other telecommunication operator who is even coming close to these numbers

Flywheel

- So let's go through the flywheel in more detail
- Page 6, Germany, we passed 35mm homes with fiber
- We passed 28mm lines with super vectoring. 99% of the lines have been migrated to All-IP.
- In the European Union, in our businesses, we passed 10mm homes with fiber, of which over 3mm are already with full fiber
- And on the mobile network side, we are leading
- There is only one market where we are not perceived the best network in all the markets we have the leadership position in
 - So this differentiation via best quality is paying off
- And thank you for letting us invest a bit more than our competition
- I think it's paying off

5G

- We have, on the 5G side, 450 5G sites which are up and running
- And we will connect all the major cities with 5G by the end of this year
 - So we are well on track in this regard; 20 big cities going to be connected

Customer Growth

- Page 7, our customer growth remains strong
- It is the European footprint where we added 2mm converged customers
- I think 9.6mm, I want to say hello to the number 10mm
- Hopefully, it's coming soon
- So then we have really a big base of our customer in converged; are offerings already. 15mm homes are served by our fiber products in Germany
- As I said, low churn on this one and we saw a very solid mobile customer growth on both sides of the Atlantic

Germany

- Let me spend one sentence on Germany with regards to fixed line
- It is the task of the organization to now better utilize these investments which we have taken
- It's the task of the organization to create less churn because the base is the utmost most important
- And there's one thing clear for us
- If we want to see a reasonable amortization of this infrastructure, the 40% market share is a must-have for our organization

- So the task of fighting back on certain initiatives from our competitors is clearly defined. 40% is the number which I'm expecting from our B2C and B2B heads in the German fixed line environment

Indirect Costs

- Moving on to indirect costs, and by the way, since Thomas Dannenfeldt has left and Christian came into office, we're making big progress on costs, and you see that we had €1.5B net indirect costs in our Capital Markets Day
- Thomas was talking about it, Christian is executing
- I love that, Christian
- We have €800mm run rate savings and we are perfectly on track now for this target as you can see on page 8
- By the way, best greetings to Thomas who sits in Patagonia and all the best for you

Savings

- So all the segments and many activities are contributing to these savings
- Look, I'm making a little bit, let's say, fun here, but this is a very serious effort in the company
- Service efficiency improvements in Germany are helping us big time
 - We have again halved the amount of service complaints and cases here in Germany
- I'll come to that in a second
- We have made big progress with digitization
- I go to that in a second
- And the T-Systems turnaround selling off business which are not profitable, focusing the portfolio, cutting out middle layer management
 - This is paying off, so we see good improvement on the T-Systems turnaround as well
- This altogether is helping us to reduce our costs

Strategy

- The digitization is, I say I do not know whether this is a statement or whether this is our ambition, but I was asked, you know, Tim, if I would wake up in the morning at 2 o'clock and I do not know what to do or what the strategy of Deutsche Telekom is, what should I do
- The answer of that would be simple, I would say digitize
- You cannot do enough about that one whether you are in the service, whether you are in the marketing with big data, whether you are in the technical area with the softwarization and the virtualization of our infrastructure, whether you are in the SG&A, wherever you are, just digitize because this is the biggest lever for creating productivity, time to market, best customer experience
 - So it must become the DNA of this organization

Initiatives

- And this slide is complex
- Sorry, guys, for that one
- It is just the peak of the iceberg, of the initiatives
- And I have asked Hannes to give you a day where you are understanding all the initiatives in the segments, in the different functions on how we are driving digitization within [ph] this acquisition (00:14:28), then you can make your own assessment on how good we are

- I think we are doing a decent job here and can [ph] be always more (00:14:38)

Customer App

- We have increasing success with our customer app, for instance
- We have a penetration of 93% for instance in Greece
- In Germany, we are 30%, so we have to do more in this one
- I expect more penetration there
- But nevertheless, I think it's understood in the organization
- In Germany, we are using almost 3,000 bots in different areas, which are helping to become faster and more productive

Leverage Digitization

- And we leverage digitization to improve the efficiency of our FTTH build-out
- This entire planning, the entire rollout, everything is in a new digital tool
- So this helps us significantly to reduce the bureaucracy and complexity of the planning and build phase

Sales

- Sales in T-Systems and service activities are getting digitized with tools from the well-known institutions [ph] where the (00:15:41) ServiceNow or Salesforce and others
- And our German IT has shifted towards an agile delivery
- So, most of our projects are run by eight big tribes in the organization
- And honestly, this is something which sounds easy, but it's a very [indiscernible] (00:16:00) undertaking to integrate all the functions into tribes overcoming the silos in big organizations

Capital Utilization

- On page 10, let me quickly recap how we think about capital utilization, I mentioned that already
- And there's one thing which was driving it and this is sharing
- Life is for sharing, and we do share a lot of our infrastructure already, and we will do more about that one
- We will give others access to our infrastructure, and we will use more third-party infrastructure ourselves
 - So, wholebuy is becoming more relevant in our business
- So this is helping efficient investments in the industry, and it's helping consolidation as well
- So, remember, we called it the [ph] alliance willing (00:16:57) at one point in time
- We are making good progress in this regard whether it's the EWE-Tel deal, whether we have a wholebuy agreement with NetCologne, whether we are having a deal with Deutsche Glasfaser in this regard, or whether it's the 4,000 or 6,000 sites, which we are sharing with our telecommunication competitors here in the German landscape to overcome white spots, which we have to close to offer a very good infrastructure

Business Model

- Page 11, let me talk about sustainability, and I think we do not need sustainability as [indiscernible] (00:17:38) on page 274 on the annual report
- What we need is a sustainable business model

- And a sustainable business model means that everybody in the organization, everybody, is really thinking about how he can address topics like CO2 emission reduction, plastic-free environment, renewables and other topics
- So, therefore, we included that as the major change to our strategy as well to the Capital Markets Day, and we are putting even money where your mouth is and we have put money behind that

U.S

- Look, to give you one example that the US is investing into solar panel companies and using renewable energies to fulfill – or to handle their energy consumption that we have already in Germany 100% of the entire energy consumption based on renewables
- And that by next year, the whole business of Deutsche Telekom, 100% renewables will be used, that we have the task of reducing our CO2 emission by 90%, knowing that we have an increasing energy demand, that we have 25% lower value chain emissions per customer by 2023 (sic) [2030] (00:19:04) as a target, should show you that everybody in the organization should think – should try to understand and improve the situation
 - This has not gone away

ESG Ratings

- We don't want that it's going away
- We have achieved already some achievements here, but we are still at the beginning
- If I talk about plastic-free environment, if I talk about the legacy of 26,000 cars in Germany, we make a big attempt towards e-mobility in our company
- So this should show you that we are on a good track
- And by the way, I'm very happy that the ESG ratings which were recently published, and Christian, you may go into that one later on as well, are showing outstanding performance of Deutsche Telekom
- In a lot of rankings, we are already perceived this number one position

Atlantic

- Let me move on to page number 13, which shows you that we are not only growing in the US.
- For the second year in a row, we are also seeing strong growth on this side of the Atlantic, with all segments contributing last year
- And we are in all the segments ahead of the capital markets guidance
 - So it's not just the US, it's as well the European entities

EBITDA and FCF

- Now if you go to the page number 14, let me reiterate and give you the new guidance on Deutsche Telekom
- We expect EBITDA after lease for the group to grow by 3% to €25.5B and FCF to grow by 14% to €8B.
- We stick to this table ex-US CapEx promise that we gave you at the 2018 Capital Markets Day
- And as usual, you can find the detailed segment-level guidance for our business in the appendix to this presentation
- As you know, this year, we were €600mm ahead of our EBITDA guidance and ahead of our FCF guidance
 - So we took that as a new starting point

- And on top of that, we are now expecting the 3% growth
- So you see us very confident about this very ambitious target in an industry around me, which makes me always [ph] depressive (00:21:32)

German Business

- Now, how are we going to make that? On page 15, you'll see the German business, which is very important for our activities
- And despite all the market noise, we are delivering steady commercial operations
- In 2019, we added more than 0.5mm contract net adds and almost 200,000 broadband net adds
- Our mobile customer churn is down to a record of 0.9 per month. 60% of our own branded mobile customers are converged
- And thanks to our market-leading platform, we added 0.5mm new TV customers in the last two years

IP Migration

- Honestly, I believe even our commercials on TV are very strong, and they're working very nicely
- Just have a look into this one, two comedians are selling the product in a way not seen before
- And we grew in B2B despite the headwinds from the IP migration
 - This was not an easy task because the moment where you are talking about analog to IP, everybody questions why do I need this connection
- And we discussed that in previous calls
- But despite that, we had the net adds just mentioned

KPIs

- Page 16, I think the numbers speak for themselves
- And for me, this is very important to understand what is happening in the machine room, the engine room of this company and – because this is the oil of the machines
- And just three KPIs
- The share of agile projects has grown six-fold to 60% in the organizations
- When we come, for instance, to our OSS for FTTH, this was entirely developed in agile mode and in a very short time to market
- The time to market has halved in 2019, and we will further improve this

reskilling

- We have started to ramp up reskilling, but clearly this is a big challenge for us and we have to go
- We have even adapted our cultural values, our guiding principles in the company where we said that we have to grow our people but everybody has to stay [ph] curious as well (00:23:59) because it's not just about the programs, it has to do as well with our employees
- You should be curious about change and entering into new roles

IT Performance

- And what, for me, the most impressive one is how the IT as an enabler for all our business has improved and has contributed

- Peter Leukert and his entire team here in Europe made outstanding job, and this is something we can see as a consequence of this good IT performance on the next slide
- So, for me very important the service arena, and there are a lot of areas where we made good progress
- Just give me a quick feeling about what's going on
- Waiting times down 43%, complaints down 50% after a year where we reduced it already by 50%, missed appointments are down 84%
- And by the way, we don't measure that the way that we ask our people whether they had missed appointments, and we ask the customers whether they felt we missed the appointment
- Fault repairs are down 19% and first-time resolution is up 30%
- I think the last topic is for us the important one and we want to significantly improve this KPI going forward

B2C Customer

- It's noteworthy that we achieved this improvement in customer experience despite the ongoing IP migration and the associated disruption, which we're coming with that
- And we expect an even further slowdown of complaints and other things in 2020 because of the end of the IP migration for most of our customers, especially the B2C customer side
 - This, by the way, is then driving costs down, and the moment where we have costs down, we have cash flow to invest or even to share that with you guys, so there is the flying wheel again and that shows how we think about things

Vodafone and Telefonica

- Moving onto the network side on page 18, here you can see and in the middle is by the way the chart Christian likes most because this is not our slide
- It's a slide which is always published by German journalists
- And what you can see here is that we always had a significant mobile data speed advantage and that we have extended this advantage over Vodafone and Telefonica
- And by the way guys, these guys are loudly announcing, by the way, we are carrying most of the data traffic in Germany and, therefore, we are the [ph] god horse (00:26:28) of the mobile market
 - Congratulations
- And the other guys like Vodafone says, and we have most of the SIM cards registered in German networks, 50mm
- Congratulations
 - Guys, I give a shit
- The average mobile data speed is what matters and the customers who are coming to us matters and what they're paying as the revenue now willing to contribute to that matters
- And we are by far service market leader, we are by far the quality leader in this network, and we are by far the perceived network leader in mobile
- And this was right and this is going to be right, and I think this slide speaks for itself

FTTC

- On FTTC, in the next slide, it's a little bit different
- But even here, I think we took the right actions here
- At least the customer numbers are supporting this
 - We now serve 80% of German homes with at least 50 megabits per second

- Honestly speaking, Hannes, this number is wrong
- I think it's higher already, the 80%, but that is just I saw a number and 60% with at least 100 megabits per second
 - We have 28mm households serving up to 250 megabits per second
- And combined with this super TV offering, which we currently have, it's helping a lot to convince new customers, but at least – as well reducing the churn in this field

ROLLOUT AND VECTORING

- So, which brings me to page 20 because we can call the FTTC rollout and vectoring almost finalized, and therefore, the big question going forward is now what is happening now on the FTTH side
- And we call it the FTTH factory
- And you can see that, on that slide, what we are aiming for
- First, we want to ramp up our FTT rollout, our own FTT rollout to 2mm FTT [ph] households (00:28:37) per year latest from 2021
- And that's what we are working on

Cost per Home

- We don't want to start from scratch
- We have already done some homework
- The first one, in Germany, everything is expensive including the [ph] FTTH rollout (00:28:52)
- So we had to work hard to reduce the cost of the – cost per home passed
- Now, we are below €1,000 already
 - We are still striving for significant further reductions in the way how we are deploying it
- Most of the costs are construction costs and therefore we are pushing legal-wise but even other things to get this cost reduced

Fiber Collaborations

- I already mentioned our new fiber OSS which we have, which is another piece in the puzzle
- And even here we made important progress how to – this system is digitizing the entire process
- On top of that, we made in part, progress with the fiber collaborations
- We have a 1.5mm line project in Stuttgart which is up and running, and we have a similar-sized project together with EWE Tel, our proud partners in the north, to establish a fiber joint venture here as well
- And we got approval for this deal and for the conditions and the way going forward, which makes it important because this is a blueprint for all the other partnerships which we are striving for going forward

Commercial Framework

- We are also working with the right commercial framework for fiber
- So, we want to be constructive, and we are in a dialogue with a lot of place including the regulator to establish that they are not inefficient [indiscernible] (00:30:24) redundant infrastructures being built
- If we can use an infrastructure of a third-party, we will do so
- We do not have to build it our self, and we will be always open on wholesale as well that somebody is using our infrastructure because it doesn't make sense to overbuild fiber infrastructure in areas
- If there is no access, we're not letting it happen
 - But this is not the problem which we are seeing right now

European Business

- So, page number 21, European businesses
- The EU segment achieved 3% organic EBITDA growth last year
 - This is the eighth consecutive quarter of EBITDA growth
- And guys, do you remember this was one of our problem child's, and we were very brave on the Capital Markets Day to say, guys, we are turning that around and we want to have this value-enhancing storyline [indiscernible] (00:31:23) please have a focus on that one because we always found it a little bit like the orphan child in our portfolio
- I think Srini Gopalan and his team did a terrific job over the last year in the way how they turned it into a real gem
- And I'm very happy

Cost Reduction

- It's not just cost reduction which he drove aggressively; it is even you know convergence, fiber and ICT businesses where he is now driving differentiation
- If you see the fiber-to-the-home build-out, which is aiming in this country – it's significantly beyond 50% penetration
 - So, he has a clear path towards FTTH

Group Development

- Group development
- So our tower business and the Netherlands business, talking of good plans, the next slide is clearly showing that having a good plan is the start point but execution is even more
- They did beyond the improvement of the business, they integrated the Tele2 merger very successful in the Netherlands business
- And without remedies and we proved that it's possible to get one play out of the market and at the same time increasing competitiveness and the profitability of the business

KPN and Vodafone

- So I think, hopefully, some Brussels authorities are listening to this call here and looking at the slide 22 because you can easily find out that it was the right thing to let us run and challenge the status quo of KPN and Vodafone in this environment and we're doing terrific
- The mobile share – mobile service revenue growth is in the vicinity of 3% over the last four quarters, 90% EBITDA growth, €150mm synergies on the merger, realized higher spectrum efficiency and achieving with this, the mobile leadership, we were the winner of the P3 and the Umlaut test for the fifth year in a row

Dutch Business

- And for me, the most important one is, because sometimes you get criticized of a bad network in a country always say, by the way, we know how to build networks because the best network ever measured in Umlaut is the T-Mobile network, which is the T-Mobile network in the Netherlands
- So, that's the Dutch business
- We are very optimistic with regard to the future, a very entrepreneurial management running this
- Going to page number 23, which shows you the towers, and I know you're very curious about our towers

- There's so much noise on towers and sometimes some [ph] voodoo (00:34:03) as well, but let's for a moment focus on the fundamentals of this business

5G Deployment

- First, you know that we have a very large and attractive tower portfolio
- And what you know as well, with the 5G deployment, this growth – this tower portfolio is growing at a high pace
- We are the lead tower operator in the German market, and by the way, even in Europe, if you combine all the European towers, there's no else – no one else bigger than we, but in – let's focus on Germany first
- And this market offers above-average growth opportunities because of sharing and because of new sites, which we are adding to this portfolio
- The 5G build-out obligations are a guarantee for growth of this business

Collocation Ratio

- We collaborate well with our peers and at – the portfolio, we have 2.3 times sharing collocation ratio on these towers already
- And what you can see, we have even strengthened the entrepreneurship in that business on the GD and Thorsten Langheim and his team and Bruno Jacobfeuerborn were able to significantly ramp up the EBITDA from €585mm to €771mm
- So, this is a significantly increased business [ph] of €200mm (00:35:28) within one year which is I think a very impressive achievement

T-Systems

- Now, let's move to one of the problem child's of the past or I would call [ph] a swallow not spring yet (00:35:44)
- So, therefore, we're in the middle of the turnaround but with encouraging results, which is T-Systems
- And let me just pick up a few highlights from this slide here

Overhead Reductions

- First, we have completely revamped our sales approach
- We have massively cut costs to shoring especially to India
- Digitization, massive overhead reductions
- We are aggressively restructuring our portfolio in the way what's in and what's out
- And we decided to integrate the telecom business into our German operations which is then a fully integrated organization for TC, for Mittelstand bid to the large enterprises, which gives us a much more efficient, much more cohesive execution
- We had intercompany targets in between and a lot of complexity which we are eliminating by now giving [ph] it to one head (00:36:48)

IoT and Security

- IoT and security gets carved out to make them even more agile that they can sell via the T-Systems sales pipe, via the key Deutschland sales pipe, but even via their own sales pipe, which is helping us and beyond

- And we are exiting end-user services where we switch to a new model, how to organize our mainframe service with a partner so that we are not running unprofitable or no-margin businesses

Order Entry

- So, this is just a piece of the story
- But I was most impressed by the order entry, which we have seen by the end of the year
- Just from my mind, we have more than 40% more order entry than the year before and our targets
- TMUS, ongoing momentum, moving – seeing what’s happening there
- And guys, it sounds so easy what we are doing here. 2019 had cost a lot of energies – a lot of energies [ph] both on this lending (00:37:58)
- On our side, doing all the negotiations, traveling back and forth, back and forth
- And every night, just yesterday night, we had another phone call until 11:00 in the morning, so to settle up the things

AT&T and Verizon

- So, but despite this second task, which we all had to carry, the US had an outstanding performance
- And we expanded our network, we launched 5G and low-band to 200mm POPs in December
- I mentioned that at the beginning, for the first time, T-Mobile is ahead of AT&T and Verizon
 - So we’re not smaller
- We are ahead of these guys, so much earlier than previously planned
- I know some of you were not happy about the CapEx here but I think it was worth doing it

European Operations

- And customer churn came down to record lows
- I think these guys are at the same level now as our European operations, the market leader operations
- And we delivered yet another year of strong growth both on postpaid and on profitability
 - We did well standalone
- And if this deal would not have come to a conclusion, I can tell you we would have not recorded bankruptcy but it would have been a different situation
- But nevertheless, we were very confident to find a way then in this space as well but together with the – with Sprint and the opportunities about the spectrum efficiency, we are much better off now

Strategy

- On page 26, we showed some highlights; how we implement the strategy going forward and the first thing is a strategy, is a strategy, is a strategy, and that 82% of our people, of the [ph] 218,000 people (00:39:38) in this organization are giving us the feedback, we understand the strategy and can explain the strategy to a third-party shows me that we have an aligned interest in this organization with regard to implementation
- And having good results give this organization the mental strength and the [indiscernible] (00:39:58) the power to get these things executed and we are now adapting step by step the needs of these different activities along that line and I do not go into every element of this one
 - You can easily find out that there are a lot of priorities which we have to – which we have to do
- But there’s one thing which we changed, and this is the green arrow, which you see under simplify, digitalize, accelerate, act responsibility (sic) [responsibly] (00:40:34), which is the act responsibility

element, and therefore we want to make that clear to everybody that not only a few people should think about sustainability that everybody has the duty on this one

Customer Satisfaction Metrics

- Page 27, we won't stop
- I hate this graph because this is a silly street, but, nevertheless, I like the topics on the right side and these are the priorities going forward
- We made good progress so far but there's still a lot to go
- Despite some improvements, our customer satisfaction metrics are not yet where we want to have them
- I want promoters on the brand more than we have today, we have less distracters, but we need more promoters

Digital and Agile

- We need to become more digital and agile
- I said that digitize should be a headline of what we are doing
- We should become more diverse and even more innovative, to a certain extent braver, braver in the way how we're doing things
- We need to monetize the good infrastructure better, which we have, because the capital efficiency is not where it should be at that point in time
- We should face the best way to get German's FTTH done
 - This is a strategic imperative for politics, but as well for us as well, which we have to solve
- And as mentioned, we cannot wait to deliver the amazing goodness from the T-Mobile US Sprint recharging effort here, the combination which we are totally excited about

Capital Markets Day Results

- In other words, guys, we won't stop until everyone is connected, and that is the purpose of this company
- I think from – if you look to the Capital Markets Day results so far, we had a good year and a good execution around that one
 - There are always things which you can improve and I can tell you, we feel strong today, but if you are having a victory, humility is the name of the game
- And if you suffer or if you lose onetime, you should not lose your self-confidence
- So, we're enjoying that moment just for a second but we know that humility is a good advice not to become complacent
- And I can promise you one thing, as long as I'm sitting here, I will keep these guys awake

Christian P. Illek

Chief Financial Officer

FINANCIAL HIGHLIGHTS

Opening Remarks

- I'm still awake, and welcome from my side
- Look, my presentation looks a bit different today

- We have removed some of the redundant information of the previous presentations and adding more trends analysis
- I hope you're going to find this useful
- So, let me start with the key financials on page 29

Organic Basis

- Reported revenues were up in Q4 by 5.4%, taking us to a full-year growth of 6.4%
- On an organic basis, there would have been a growth on 3.3% in Q4 and 2.8% respectively for the full year
- Obviously, the two biggest effects between reported and organic is Tele2 and foreign exchange rates
- Our reported adjusted EBITDA after leases grew 8.2% in Q4 and 7.2% over the full year
- Organically, we have grown Q4 by 6.5% and 4.2% in the full year

ex-US EBITDA Performance

- Let's take a little bit look at the ex-US EBITDA performance in Q4
- Ex-US, we grew our EBITDA by 9.3%, and that takes us to a full-year growth of 4.7%
- On an organic basis, we grew by 8.8% in Q4 and 3.7% on a full-year basis

European Team

- A couple of peculiarities here
- A, this is clearly ahead of what we said at the Capital Markets Day with regard to our [ph] quarter (00:44:19) 2% to 3%
- B, actually, guys, ex-US in Q4 grew on EBITDA levels higher than the US
 - That is not a usual observation which we're having here, and I think this was coming from all segments
- The contribution was coming from all segments, and I think the European team is really happy to provide this kind of EBITDA growth
- FCF was up 23% in Q4 and 16% on a full-year basis, which is also above our guidance of around 10%
- And the adjusted EPS grew by 8% y-over-y

Adjusted EBITDA Performance

- So, let's go into the segment performance and start with Germany as usual
- Again, if you take a look at the adjusted EBITDA performance, another quarter of 2.4% growth
- So, again, at the upper range of the communicated EBITDA growth corridor of Germany
- The total service revenue improved by 1% year-on-year, and that was supported both from the fixed line and as well as from the mobile side
- And this is what we're going to see on the next page on page 31

FY Basis

- The mobile service revenue actually recovered from the one-off in Q3
- So, we have seen a 1.4% service revenue growth in Q4
- On a full year basis, that was 1.9% despite quite a bit of regulatory headwinds and we still remain comfortable with our midterm guidance of 2% service revenue growth

- Taking a look to the other – to the right-hand side of the chart, fixed service revenues improved to a 0.7% growth
- And that was very much driven by wholesale and also by the broadband growth and that overcompensated the decline in our legacy business, as well as the IP migration headwinds

Mobile

- Moving to the performance in mobile, as you can see, the commercial performance in mobile is really healthy. 57% of our mobile contract customers are now with – within a converged offering
- Our B2C churn has come down to 1%
- We're still seeing a very healthy data usage growth in Germany of almost 60% y-over-y and we have now more than – almost 3mm customers, which basically enjoy the StreamOn service

Commercials

- Next page, our commercials in fixed
- So, what you see is another 47% on broadband net adds in that quarter despite the fact that the market has shrunk by about 30%
- Our fiber net adds dropped below 0.5mm and that was actually due to weaker growth in the wholesale, but our retail net adds remain strong
- By the way, almost 30% of our FTTC subs are already on speeds of 100 megabits and more

TV Space

- Again, a very continuous growth and good growth in the TV space
- So Q4, 74,000 net adds in – on MagentaTV gets us to a growth y-over-y of 265,000
- And also what you see is that the line losses actually have improved between Q3 to Q4 to 170,000 line losses
- And we expect that since we have finalized the B2C IP migration that we'll see further improvements in 2020

Broadband Growth

- Next page, taking a look on 34
- So, what you see is actually we had a very strong broadband growth of 4.9%
- You see a very strong wholesale growth, which is basically being driven by a higher speed up-selling but also due to the unbundling fee price increase which started in Q3
- Despite the fact that our total retail revenues are still shrinking, but this will come to an end as the Single Play migration will finalize and also the connection revenues will finalize
- And you see that positive trend from negative 1.4% to negative 0.4%, and I expect this to continue to improve

T-Mobile US

- Let's move over T-Mobile US
- And as you know, T-Mobile US has communicated both their numbers as well as their guidance on February 6, so let me be short here
- Again, they won 1.9mm new customers, 27 quarters with more than 1mm net adds

- The EBITDA was growing by 3.7%, and this is very much due to some renewal energy derivatives, which actually impact our IFRS, EBITDA performance
- If you compare their performance on US GAAP, they would have then grown by 9.2%
- What you see on page 36 is some of the key KPIs and Tim already talked about them
- A very low churn rate of about 1%
- We have still a very strong network and we are defending this with our 5G build-out strategy, and the ARPU levels remain generally stable

Europe

- Let's move over to Europe
- And again, the performance in Europe was very good from a financial perspective
- Reported revenue was up 3%, EBITDA up 5% in Q4
- On an organic basis 3.8% and 5.7%, this is due to the deconsolidation of Albania to a large degree
- If we're taking a look at the commercial figures of Europe, I would say commercials were strong, are strong and expected to be strong
- If you're taking a look at their contract net adds, another 250,000 which they added
- Another 70,000 on broadband net adds
- FMC net adds, another 300,000
 - Their household penetration with convergent offerings in Europe is now 49%, which is a year-on-year increase of 9 percentage points
- I think it's very impressive
- And also, you see that the TV net adds are trending up

T-Systems

- Moving over to T-Systems, I think we're making good progress on our ambitious turnaround plan
- The plan is obviously strongly supported by the significant cost reductions, which we're driving in that segment
- We're seeing stable revenues, but the underlying trend is moving in the right direction
- So we're basically [ph] withdrawing (00:50:23) from some low margin business but adding some good [indiscernible] (00:50:27) revenue into the revenue mix
- What you also see is a strong EBITDA performance after leases of 36% y-over-y
- And again, T-Systems has delivered more than €0.5B of adjusted EBITDA, which is very much in line with the guidance which we have given at the Capital Markets Day

Group Development

- Next chart is group development
- And again, group development, strong performance
- Organic revenue growth for the segment was up 0.9% and it was very much driven by some intergroup revenue phasing between DFME and Germany
- The organic EBITDA after leases grew by almost 10%
- And the commercial performance, which you're going to see on page 41, is really impressive
 - So, very strong contract net adds in the Netherlands
- Also, very good broadband net adds

- The mobile service revenue growth is 2.8%, plus the market is shrinking by 2%, so you see that they're really performing against the overall market trend
- And you also see that the adjusted EBITDA y-over-y was growing by 13%

Tower Business

- On the tower business, we actually added 1,800 towers in 2019, of which 1,400 were new builds
- The recurring revenue only grew by 2%, but that is due to the intergroup phasing
- And the EBITDA after leases grew on a 7% basis, and that is organically

FCF

- So, let's close out on the key financial figures on page 43
- So, you see the FCF bridge on FCF after leases, which has grown Q over – Q4 2018 over Q4 2019 by almost 23%
- You see it's very much driven by the strong cash flow contribution from the operations
- And we have [ph] met (00:52:23) our FCF guidance despite the fact that we have to absorb some US merger-related one-offs
- The EPS grew by 23% or 24%, which you can see on the lower right-hand side of the chart
- And that is another increase of €0.08 over the year, which means an 8% growth

Net Debt

- And the final chart is obviously the net debt chart
- We reduced net debt from almost – €79B to €76B
- There are two major root causes for this
- The good one is the very strong support from the cash flow out of the operations, and we were a little bit lucky also on the forex side because that helped us by another €1B, reducing the net debt from almost €79B to €76B
- And it got us back into the ratio, as I said it after or during Q3 call into our leverage corridor, which is 2.25 to 2.75, and we're back into a ratio which is 2.65

QUESTION AND ANSWER SECTION

Akhil Dattani

JPMorgan Securities Plc

Q

I just got two please. Firstly, if you can start with towers. Tim, you mentioned the strong growth potential you're seeing in your tower business, but I wondered if you can talk about the strategic thoughts around towers. We've seen Vodafone at their results commenting that you weren't keen to share towers in Germany, so just some comments as to why, is it a structural issue, is it strategic and how you think about monetization of towers in general as well?

And then secondly just a question around Germany pricing, we've seen Telefónica Deutschland very recently move to unlimited plans. Just keen to understand how you think about that, whether you think it's a threat or whether you think it's complementary in terms of more for more? Thanks.

Christian P. Illek

Chief Financial Officer

A

Let me – Akhil, let me start with the tower question. Look, I don't share the point of view that we're not sharing, because I think Tim already presented this. We have an agreement among all three competitors to actually share 6,000 passive infrastructure towers in the white spot area. We also communicated our grey spot sharing agreement with Vodafone where we're basically exchanging 2,000 towers on each side in order to improve the overall network. So, I would say there is a significant sharing already. And so, I'm not sure where this comment is coming from. But what we always said on the tower businesses, let's solve the business model first.

There was one – for us there was a big question on how to basically share the pain in the white spots. We have found a solution for this, how we upgrade our network performance by having grey spot sharing. And bear in mind, there is a big growth opportunity in the German market with all these build-out obligations which we're having and with a fourth player coming in. So, we have a lot of value creation ahead of us. And what we always said is, on towers, we keep the options open. And since we have carved out the business beginning of 2000, you can take a look at the numbers on how they evolved. So, we're not ruling out that we're going to do anything with towers. Everything is basically, for us, possible. But right now, for us it's important to actually get to the [ph] optimal business model (00:56:25) when it comes to developing our tower business.

Tim, do you want to do the pricing? Okay.

Timotheus Höttges

Chief Executive Officer

A

So, [ph] Telephone Germany (00:56:34) has made a few changes recently in their pricing. And the first one is I think the doubling of the data allowances. For [ph] 20 gig (00:56:44), €30 per month. And for [ph] 10 gig – as it was for 10 gigs (00:56:47) before. And they have introduced a speed-tiered unlimited pricing in the market, removing the six months of free promotions. Let's just say what we are talking about.

Now, for the speed-tiering, truly this could appeal to some customers. There's no doubt about that one, but we always thought we are the market leader and it's as you know started as we had a pricing in this regard and we set the high price bar on this one, but this is something which we expected.

We have now to see how attractive 2 megabits unlimited are for the customers and for €30, that is something which we want to carefully watch for us. What we have done is we have doubled the allowances, which was our initiatives in – as a reaction on this one and what we learned from our side is that from a pricing perspective and from our customer service perspective, the customers appreciated let's say our offers. You've seen our decent churn. You have seen even the net add numbers, which we were able to generate in Q4. So, therefore, you will see the convergence numbers which are always including mobile and fixed-line services as well.

We have the StreamOn option in it as another offer. So, we keep confident that with the strategy, which is different to the O2 strategy that we are comfortable to generate our 2% medium-term mobile service revenue growth. So, let's say how we look at that point in time.

Hannes C. Wittig

Senior Vice President, Investor Relations

A

Thank you, Tim. Just maybe also one thought of mine on the Vodafone comment, I think they were also primarily referring actually to the active network sharing side rather than the passive side. And on that, we think that we found the right balance and the right agreement for ourselves to balance network leadership and efficiency considerations with the grey spot sharing that we have agreed and – which is also complemented, of course, by the white spot sharing on the active side.

And then we move on to Polo at UBS.

Polo Tang

UBS AG (London Branch)

Q

Yeah. Hi. I've just got two questions. The first one is on German broadband. What impact are you seeing from Vodafone and [indiscernible] (00:59:24) 1 gigabit broadband speeds? And is there more pressure on you to accelerate your FTTH rollout?

Second question is really just about the German all-IP migration. Now that it's complete, can you maybe talk in more detail about how we should think about voice line loss in broadband net adds going forward? Or another way of asking the question is, how much of a drag each quarter is all-IP on line losses and broadband net adds in Germany? And can you remind us in terms of quantum of cost-saving benefits we should expect from all-IP migration and when should we start to see the speed through into Germany EBITDA? Thanks.

Timotheus Höttges

Chief Executive Officer

A

First question, look, it seems it's an aggressive move from Vodafone. So I got it the way that they have – they are closing down the [indiscernible] (01:00:13) branch and therefore, they have to do some things to attract the attention to the Vodafone brand in this regard. It's by far too early to say what the impact of this one is. They call it the promotion through 5th of April. Let's see how this is working and how is that affecting us.

Look, my assessment is why are – why do they have to reduce their premium product and price cut of almost 50%? That seems to be that they have problems on selling their products. Is that the sign of weakness here? What we see there – so let's wait what – for us, it's very clear. We have an ambition of 40% and I said that earlier with regard to our broadband net adds. We have an infrastructure which can easily be filled with this market share and the churn. And we will react accordingly if we see the impact of this one. So, that's where we are.

I do not see an immediate impact on the FTTH business case whatsoever, because we have a mix calculation. Let's see how this is evolving over time. But today, I would not have sleepless nights because of that.

Christian P. Illek

Chief Financial Officer

A

Okay. On the All-IP migration, let me just repeat what Tim said. In any case, we want to defend our ambition to achieve 40% net add share. And I think, that is important to us. So, if you take a look on how we assess the [ph] forced migration (01:01:54), the negative impact on the net adds on broadband due to the IP migration, we always said that's in the vicinity of around 10%, which basically drags our net add share down. So, that should at least be – should improve to a large degree.

If you take a look on the IP migration, we have now migrated about 99% of our lines. So, the only area which is still left is the more complex B2B area. And I would say, on your specific questions on line losses, take Q4 vs. Q3 as an indication. So, we expect significant improvement over the course of the year. And I think, we should show you these numbers once we have finalized Q1.

Christian Fangmann

HSBC Trinkaus & Burkhardt AG

Q

Yeah, a couple of questions. First is actually on the deal, it was rumored that you may renegotiate the price. I mean, can you tell us at least anything on the timing on that process, generally speaking, or whatever you can share in that respect would be helpful. And then, on the German business, there's a huge debate on Huawei in Germany. Is there anything you can share with us in terms of details, what the – let's say, the worst case impact would be? And then also in terms of the political debate, what you're hearing? That would be helpful to get an update from you and your view on this.

And then lastly, Polo already touched on the FTTH point, but I'm asking a slightly different question here. I mean, Deutsche Glasfaser announced that they would roll out FTTH to 6mm homes in Germany. So, what's your take on this? It's a meaningful number, so would be interested in your strategy in that respect. Thank you.

Timotheus Höttges

Chief Executive Officer

A

Okay, Christian. First thing is on the deal, look, as you know, we – the last update in the business combination agreement has expired. So, both parties have the right to walk away. Nevertheless, both parties are very interested to get this thing done, especially after all the efforts we made, and all the approvals we got, and the business case of this company going forward, and the cost synergies. All of this is very well intact. So, therefore, we are quite excited about these deals. Nevertheless, we have a phase now for closing mechanisms. We have discussions among ourselves to formalities. And I'm not disclosing whether we are renegotiating the price here or anything else. It's something which has to take place between partners before something is getting announced here. So, therefore, no comment on M&A.

Second thing is the German business and the Huawei debate in Germany. Look, the assessment is as follows, we have seen recently that Brussels and Thierry Breton, the new commissioner, has offered a toolbox to the industry. I think it's a very reasonable package, and it makes a lot of sense what's in there. It demonstrates one thing. It demonstrates that we have to do something our own with regard to encryption and with regard to the software steering.

Second, it stresses clearly that one of the big negatives why we have these difficulties with regard to different RAN infrastructure is the lack of our OpenRAN and the OpenRAN software. So, enforcing OpenRAN is something. The third one is the idea about [ph] penalty synchronizing mechanisms (01:05:47) which should be embedded into legal enforcement, into the legislation is another topic which makes totally sense.

So, this is the way going forward. I do not see from what is discussed in Brussels nor in Germany, any kind of impact as we have heard that from BT or Vodafone on their regulation, yet we have a clear position that Germany wants to see the core network being Chinese-free. That is, for us, an easy effort going forward to make that possible, and the rest is up for the government decision. The conservative party has come to conclusions on this one, and now there's a debate on the governmental body. But it looks like we'll find a solution here -the German government finds a solution which we are able to implement.

Christian P. Illek

Chief Financial Officer

A

So, let me dwell on the question of Deutsche Glasfaser. So first of all, if I'm not mistaken, currently they're passing around 600,000 homes passed. So, if they want to build out, they will be at 7mm. So that sounds quite like a challenge but we appreciate this to a large degree because we always said, we cannot build out fiber for Germany just coming from Deutsche Telekom.

So, I think there will be some overbuilt also into the – into our vectoring infrastructure which we expect. But bear in mind, we have to a large degree very performing cable network which is already overbuilding our vectoring network, so that would be an additional competitor.

And the third one is I think a point which Tim may claim there at the beginning, we're open for whole buy. So we have struck the first contract with Deutsche Glasfaser in a small city called Lüdinghausen where we have a whole buy contract. But I think you always start small and then you embark from there. So I think it's going to be a combination that we're probably we'll see some overbuild that we will rely also on their infrastructure. But it appears to be quite a big challenge from 600,000 to almost 7mm.

Hannes C. Wittig

Senior Vice President, Investor Relations

A

Yes, and we have super vectoring of course. So, George at Citi is next, please.

Georgios Ierodionou

Citigroup Global Markets Ltd.

Q

Good afternoon. And thank you for taking my questions. Firstly, Tim, congratulations for your [indiscernible] (01:08:32) anniversary the other day. I have two questions. The first one is around Sprint and obviously the closer we get to the deals being approved, the more we have to think about the impact on your financials. So I was wondering if there was anything you could share with us around EBITDA transition from Sprint to TMUS to Deutsche Telekom numbers or whether at least you can give us an idea of whether the impact on leverage you identified a couple of years ago is similar to the one we should expect now, whether something may have changed?

And then my second question is really a follow-up from Christian's earlier question on fiber. I mean your wholesale revenues are now growing over 3% in the last couple of quarters. I just wanted to understand whether you expect that to be 2020 maybe the peak in terms of wholesale tailwinds because of this overbuild.

And then on similar angle, in a way with these agreements with Deutsche Glasfaser, I was just wondering, moving from on-net to off-net for you, do you think the premium you can charge at the retail customers is sufficient to keep the profitability of the customers more or less the same? Thanks.

Christian P. Illek

Chief Financial Officer

A

Oops! There was an echo. Unfortunately, on the impact on financials with Sprint, there is no new news because we don't know anything further. We will have full access to their numbers, to all of their accounting numbers and so forth, whenever we have closed the deals. Prior to that, we are not allowed to talk to them. So, therefore, we can't give you any kind of more transparency on those numbers. We would love to, but we can't.

So – and on wholesale revenues, look, I think – first of all, I'm happy with that 3% growth, which we're seeing in the wholesale area. We have some structural tailwinds which is obviously the ULL pricing increase which we have seen. What we also see, and you see it on the fiber numbers, that the wholesale numbers have come down. So it looks like that the competitors are moving on their platform as well. So we have to closely watch this. But I think, it's too early to tell you whether it's going to be having an impact, a dramatic impact. I think we have to watch out in the upcoming quarters how this evolves.

Steve Malcolm

Redburn (Europe) Ltd.

Q

Just to echo George's comments, congratulations on 25 years of most – sorry, mostly congratulations on not giving a [Obscenity] (01:11:05) about your other competitors in Germany. That was great to hear.

Yeah. A couple of questions. Just coming back to fiber, I saw the slides and heard your comments and I guess like every operator you want to maximize return on fiber, but that they're not always able to do that and that's a sort of modeling challenge that we have. Can you just sort of maybe give some early thoughts on how you go about doing that? Do you think JV is the way forward? Do you think you can charge a premium for FTTH over your current super-vectoring wholesale products? Do you think you need copper switch-off? All these sorts of issues, maybe just give us an idea of when you think you can sort of lay out the enablers and the parameters you think about maximizing returns?

And secondly just on sort of US EBITDA reconciliation, I mean the sort of GAAP's got steadily bigger on the sort of power purchasing agreements in the US. You started the last year at \$600mm and ended up, I think, at \$900mm. You're flagging for another \$900mm GAAP this year. Can you just remind us what this GAAP is and which EBITDA measure you think is better and whether you think EBITDA as a whole for US is trustworthy given the sort of growing nature of this GAAP? Thank you.

Timotheus Höttges

Chief Executive Officer

A

So, Steve, let me start with the fiber question and how we see the world going forward. The first one, I hope you would agree that it was the right thing to deploy vectoring – super-vectoring first and talking about more than 80% of the households being covered with 250 megabits seen the nice numbers on the net add side despite the IP migration which we have seen and on top of that even the revenue development and the integration with TV service, I think you would easily agree from a commercial perspective that this was the right thing to do.

Second, we have to prepare ourselves for the fiber build-out, the fiber factory. And on top of that, the subsidization policy which the government has laid out, there are tons of money which are lying there and not

being freed up yet for subsidization which makes that much more viable for us to invest and to build fiber in these regions.

Now we will burn the chips and we'll move into the fiber factory very soon. And then what we're doing is fiber, wherever it makes sense and wherever it is possible. Up to 2mm households prospectively being deployed on this one. We will drive costs down so that we make it cheaper. That is something – a learning curve issue. And by the way, I saw that at BT as well, how they were able to use this learning patterns here. And there's definitely, definitely our willingness for collaboration. So wherever somebody has built a fiber infrastructure, being it Deutsche Glasfaser [indiscernible] (01:13:46) coming with reasonable terms for us, we will utilize the infrastructure with our customer base.

What is lacking today? So subsidization is there, collaboration works, fiber factory is improving. So what is lacking, I think, is a clear regulatory environment in Germany. And it's still unclear on which conditions the German government is [indiscernible] (01:14:13) is willing to regulate. For instance, copper switch-offs and copper switch-off which are driving definitely the profitability of in the fiber network. To which conditions is the German government willing to change the housing association privilege which is a very important point for the profitability of fiber-to-the-home in Germany. Cable is blocking that, but I think if Germany wants to see more fiber deployment, they have to overcome about this restriction in our market.

So I think there's not only us who can do something. There's even the regulator who is forced to give us a constructive competitive-oriented infrastructure piece here, and that is what we are working on in parallel. I'm not worried about this issue because I see that with 250 megabit with a good price offer, you can win and convince customers in a lot of, let's say, areas. In a lot of areas where fiber is needed, we are ahead of the game, take just example of the business parks and schools. So we are moving on.

We are now accelerating our FTTH build-out. We are using more and more money for that, which we free up from the former FTTC build-out and this is helping us. We keep the envelope of €5B stable for the German entities, the footprint here for the upcoming years, but more and more money is going into this one. Collaboration is definitely part of that and we are negotiating with a couple of people at that point in time and [ph] it's just around it (01:16:11).

Christian P. Illek

Chief Financial Officer

A

So, on the second question, US EBITDA reconciliation from US GAAP into IFRS, three major factors, which basically explain for the bridge. One is stock-based compensation, which is around \$400mm; one is different leasing treatment, which is around \$400mm; and the third one is the renewable purchasing agreements, which hit us about \$100mm this year. So this is why the bridge was \$900mm in 2019. In our guidance, we basically planned for a bridge of \$850mm, so we reduced the impact of the renewable energy contract, and that is the explanation on the drivers.

On your question what's the right number, obviously the T-Mobile you ask folks comparing themselves with their local competitors. So, therefore, you have to do it from US GAAP perspective and we have to translate it into an IFRS perspective. So I would say it depends on against which competitive battlefield you compare yourself, and I would always say compete yourself against the relevant competitors which is an AT&T and Verizon, and therefore US GAAP is obviously the adequate accounting principle.

Frederic Boulan

Bank of America Merrill Lynch

Q

Two questions, two follow-ups please. First of all, on the US, we say you need to wait for the Sprint account. But if we look at the performance of both TMUS and Sprint in the last two years, you've seen some pretty large variation. So for instance, you targeted a year one FCF of [ph] €1B to €2B (01:17:47). In year four, it was [ph] €10B to €11B (01:17:49). It is still the right ballpark for new growth. And how can we think about the loss of business from the subscriber base disposed vs. wholesale revenue recovered?

And then a follow-up on the FTTH debate. We've seen a little of your peers like [indiscernible] (01:18:06) fiber-to-the-home to [ph] focus on fast (01:18:09) FTTB rollout and now pushing back towards fiber-to-the-home as the right strategy to [ph] Finnish Cable (01:18:15). So are you still confident with you phasing of up to 2mm lines a year? Do you feel further political pressure to deploy FTTH faster? And from a commercial standpoint, you seem reasonably relaxed about Vodafone pushing [indiscernible] (01:18:32) here as well? Thank you.

Christian P. Illek

Chief Financial Officer

A

So, let me start with the US question. And obviously, that is an M&A-related question which we usually don't comment on. But let me flesh a little bit of data on this. Look, we have redone the case back in summer, July 2019. And the US team clearly said that the whole case stays intact while some line items obviously deviate from the original signing case. For example, the underperformance of Sprint, the over-performance of T-Mobile, yes. Refinancing cost has significantly come down. Ever since then, I think we haven't seen any additional remedies, and what we're doing right now is that we're saying the case is, in total, intact, but we cannot give you more granularity on that one because, again, we have to take a look into the details and look under the hood of Sprint to really figure out how it looks like.

So, obviously, there is a delay in the case. That obviously impacts also the signing case vs. what we're going to see at the end of the day once we are moving over the finish line, but again, bear with us a bit until we have the details in front of us and then we can elaborate more on these topics.

Hannes C. Wittig

Senior Vice President, Investor Relations

A

Just on the FTTH question, I think Tim has addressed these questions largely. I mean, we're not today guiding for anything different than what we have shown in the presentation or communicated in the Capital Markets Day. We have a plan for fiber. We will reallocate resources as stated. We are focusing on the key pain points at this point in time rather than a big headline rate. We have 1.6mm lines passed, and now we leverage all the tools that we have described in the presentation to deliver. We monetize our super-vectoring. We have 28mm homes with speeds up to 250 megs, and that number will also increase further in the coming years. So, let's see how that works. Politically, there's no shift in the debate at this point in time.

James Ratzer

New Street Research LLP

Q

I had two questions, please, following on with regards to potential impact to the Sprint transaction. So when you put the slide up when the deal was announced in 2018, you showed that you would be willing to go above your leverage threshold for two years. I wanted to check if that was still the case that you would be willing to go above the 2.75 times just for a two-year period.

And as a follow-up to that is, could you comment, assuming the deal does go through, on what your appetite would be to buy spectrum in the C-band auction or do you feel that with the 2.5 gigahertz spectrum you would

acquire from Sprint that your spectrum portfolio would be pretty adequate and there would be less need to bid in the C-band auction? Thank you.

Timotheus Höttges

Chief Executive Officer

A

So I think as you're alluding also to the Capital Markets Day, the impact of Sprint and leaving the corridor of 2.75 times, what we said is we are reaching the corridor in year three, absolutely correct. And we have no further indication to deviate from that perspective.

And on C-band, I think it is too early to comment on C-band right now. Let's figure out how the auction design will look like, when it's going to take place. But right now, I think we're [ph] utterly (01:22:08) focused on getting the final things out of the way and get the merger over the finish line.

Ulrich Rathe

Jefferies International Ltd.

Q

My first question would be in the annual report when you sort of break down on the divisional basis the different guidance items, I think the indication is that the CapEx in Germany would actually be down in 2020. Is this in the context of the items you listed earlier, Tim, about the necessary sort of move you expect around the legislative and regulatory front? Is that essentially sort of a signal that you'll cut in CapEx until these things are settled? [indiscernible] (01:22:53) strength or how would you sort of frame a CapEx cut in a situation where I think there's some political debate about the quality of the mobile networks and the needs in Germany to roll the fiber at an accelerated pace? That would be my first question.

The second one is on the sort of 40% market share target, you [ph] haven't (01:23:13) mentioned that for some time, I think this was a very high profile target for some years and then sort of didn't pop up in the communication. Where do you see yourself at the moment in terms of overall market share? And does this actually mean you have a bit of a catch-up to do, i.e., you might potentially get a bit more aggressive at this point, or am I misinterpreting this? Thank you.

Timotheus Höttges

Chief Executive Officer

A

Ulrich, this is very [ph] semantic (01:23:35) your question. But anyway, I would not rate it as a statement. It's a question. Look, our German CapEx is €4.2B for the Deutschland entity, where we are building fiber and the network and 5G service and the like. And this €4.2B stay absolutely flat, €4.2B. There is no decrease on this one. I hope that we can even build even more because of the productivity gains, which we have at the factory and other things that we get more out of the CapEx than what we had so far.

Why have we said in the annual report the prognosis that we have a slight decline? And remember that one, there is in the [indiscernible] (01:24:13) footprint of Germany and we always show the CapEx of the whole German [indiscernible] (01:24:18) the T-Systems activity. This is the €5.5B. We have a decline from €5.5B to €5.4B, so €100mm less in the total footprint. And to be precise, in our German mentality, we said there's a slight decline. So, that is, let's say, how you should understand that.

Christian P. Illek

Chief Financial Officer

A

Tim, let me add to that. I think on this €4.2B, we have a slight decline for 2020 in TDG, but we increased the CapEx envelope in DFMG, and this exactly because we want to comply with the build-out obligations. So, overall, you're right, it's the €5.4B, but there is a shift between DFMG and TDG in 2020, a slight one.

Hannes C. Wittig

Senior Vice President, Investor Relations

A

On the 40% market share target, well, we are pretty close, we are also despite the All-IP migration pretty close in terms of the net add share in 2019. I think you have surely tracked this over the last few years. We have been responsible and steady in our approach to this. We have a chart that shows we have [ph] 300,000 (01:25:27) and 200,000 broadband net adds in Germany. 200,000 last year was severely impacted by the IP migration. And so I think this is a very steady development. Now, of course, we want to maintain our 40%, so we've said that a few times today and we mean it. But we have also shown that we have a good way of managing that and being responsible overall.

Robert Grindle

Deutsche Bank AG

Q

Going back to Chinese matters where there's trouble on a couple of fronts, are you seeing any impact just from supply chain difficulties in China on your German enterprise [ph] group (01:26:11) customers and their ICT plans and spending or even on your own supply chain at this stage? Thanks.

Timotheus Höttges

Chief Executive Officer

A

Robert, look, we took the decision considering the health and the situation for employees to step out of the Mobile World Congress, which was a tough one, but we do not want to see people have a flu being put in quarantine and then isolate in the organization, a lot of concerns of the people. So we took this tough decision despite the fact that there haven't been so many cases in Spain or in Europe yet. So this is to be just caring about our own people here.

The second thing is the coronavirus is definitely something which we should all be worried about. This is touching all value chains because the production of most of the industries is somewhere happening over China. And we have seen that a lot of the companies after New Year breakdown have started much slower and later than previous year.

The [ph] Apple (01:27:22) announcement yesterday is related to the Foxconn situation. Foxconn has started very slowly. Now, we do not have a shortage of Apple handsets at that point in time because of our storage, which we have here, and the products which are on its way to us. So the longer it takes, it might affect us. We do not see any impact on Samsung. We have talked to these guys with our task force. And we do not have even shortage of Huawei or other phones here. So, that is not an issue.

On the network side, the task force gives us the feedback that there might be some components later being affected. You should know that most of the areas, we have at least two vendors. So we have a certain edge in the way how we're doing it. And on top of that, we have storage as well. So, look, the longer this coronavirus will take and the more this will affect the Chinese industry, then it might affect us today. Today, we do not have any shortage nor on network, nor on handsets, and we keep you posted.

Joshua Mills

Exane SA (United Kingdom)

Q

Just two for me. Firstly, on the tower side, you talked about the growth opportunity from building new towers in Germany. I'd love to hear a bit more about the other organic growth opportunities maybe through increasing colocation and specifically whether you're learning anything new via your [indiscernible] (01:28:54) with Deutsche Telekom [indiscernible] (01:28:55) partners and Cellnex in Switzerland.

And then secondly, just on the fiber-to-the-home factory point, you talked around [ph] €1,000 (01:29:03) per home passed number which I see was the average. We've seen that come down already. Given some of the new initiatives, which you've talked about, what is the range of fiber-to-the-home deployment cost now in Germany? Are we looking at €500 to €1,500, €800 to €1,200? Just it would be great to get a sense of where this could fall to longer term. Thanks very much.

Timotheus Höttges

Chief Executive Officer

A

So let me start with the tower question. Obviously, as I said, the biggest opportunity is basically coming, if I may say, opportunity from the builder obligations, which we all have to comply with, which is builder obligations which will heavily touch the white spots but will also affect our rooftops when it comes to 5G.

Look, on the colocation potential, the current colocation ratio of DFMG is 2.3 among three competitors. So there – if you want to reach to full potential, it can be [ph] moved (01:30:01) up towards 3, but that is I think what's been left. And the open question is to what extent the fourth player will get into play whether they basically will be seeking for additional colocation, but we haven't seen a clear indication from this one.

On, look, partnerships, it's part of the option space going forward, but since we haven't defined the option space, I would basically leave it there and say, yeah, that's part of the option space. On FTTH, look, the target is obviously on average to get to below €1,000. But let me be clear. If you take a look to the build-out cost in the different areas, if you go into dense urban areas, obviously we're seeking more towards €500 to €600. If you go into suburban areas, we're more in the vicinity of €1,000 to €1,500. And if you go to rural areas, it can go up to [ph] 30,000 areas (01:30:59), but this is subsidized, obviously, right? So it very much depends on the mix where you want to build out. And I think an average number doesn't tell you a lot. I think you have to really cluster it down in which area you want to build out and you want to have target costing in metropolitan areas which are well, well, well below €1,000 which are more in the vicinity of €500 to €600.

Ottavio Adorisio

Société Générale SA (UK)

Q

A couple of questions. The first is a follow-up from the deal in the US. I appreciate that it's difficult to comment on financials. But it's basically less related to Sprint and more related to other players. When you presented the deal, you basically give a target of \$15B for integration cost, and the reason why it was relatively high is because you actually included all the contractual penalties for breaking the lease for the tower you have to decommission, plus also all the contractual penalty to a negotiated debt. Now, considering you have two years to talk to [ph] tower co (01:32:12) in the US and of course the debt holders, [indiscernible] (01:32:15) \$15B is still relevant or there could be some savings on those integration costs?

And a follow-up also in the intercompany debt with TMUS. When you presented the deal a couple of years ago, you said that you were planning to reduce the intercompany loans by half, [indiscernible] (01:32:31) between €6B to €8B. What's the plan to reinvest this liquidity which [indiscernible] (01:32:39) in Germany?

And the third one, it's on the legal challenge you actually brought to the deal being approved between Vodafone and Liberty Global where you, Tele Columbus, and NetCologne, if I'm not wrong. If you can share the rationale and which sort of remedies do you want to achieve for this legal challenges? Thanks.

Timotheus Höttges

Chief Executive Officer

A

Look, Ottavio, I understand that you have this question with regard to the business integration plan, and I can tell you only one thing. We have to do the closing. We have to pave the plans together. There're a lot of plans still in the cleanroom which we have to also bring together, and then we come back to the market. I'm not now one that Christian or myself are speculating about is this in and this is out or whatsoever. The only thing what I can tell you, what we know, and we had a board meeting last week, I was in the US for four days, we had an intensive discussion about what we see.

The logic of this deal is fully intact with all what we know and it's intact from the cost synergy perspective on what we see, it is even intact from the spectrum position which we have in place. It's intact when it comes to the interest and refinancing cost because when we did the deal, we anticipated a significantly higher interest cost for this high-yield refinancing. It's the best window at that point in time to get this thing up and running.

We had even anticipated our business case, which you probably don't know, that we might have additional remedies or legal costs to carry, which are not foreseen at that point in time. But there's still a little bit of way to go and, therefore, I would find that with – and I like your precision here. I would find it [indiscernible] (01:34:30) to make a pure statement on one single item here. Look, if you ask me for my stomach, my stomach tells me that the case has even improved compared to 22 months ago when we started with our business case here, the communication to the capital markets.

Christian P. Illek

Chief Financial Officer

A

So, on the intercompany debt from T-Mobile US, in the \$8B which will flow in our direction here at DT AG, obviously, we have maturities of about \$5B which we have to refinance every year. And that will probably create a lesser amount of work in the treasury department because this thing is coming back, but, look, we have clear CapEx plans; we have clear net debt plans; and I wouldn't expect any kind of changes even if there are \$8B coming from the US into DT AG.

Hannes C. Wittig

Senior Vice President, Investor Relations

A

Okay, Christian. Thank you very much. I think we also have the question on Vodafone-Liberty Global and potential remedies. We've always said the housing, what the issues are from our perspective is the dominance in the TV market and the dominance in the housing market. And we feel those were not adequately addressed in the merger ruling, and so that's why we feel this needs to be reassessed. And with that, I pass back to Tim.

Timotheus Höttges

Chief Executive Officer

Q4 HIGHLIGHTS.....

U.S Market

- Okay. I just want to say Happy Birthday Deutsche Telekom
- We just crossed the \$100 in the US market
- So, therefore, we started \$15.60 as we all recall. It's an unbelievable story, and we are very confident in the way how we move forward here
 - We enjoy the moment here at Deutsche Telekom as well
- Had a year good year 2019, but a lot of things to be done going forward I think
- I hope you get some more details on where we stand with regard to Capital Markets commitment
 - We're going on a roadshow now
- I'm hopeful to see you all on tour, guys. And thank you for listening and supporting us over the last year.

Christian P. Illek*Chief Financial Officer*

Thanks.

Hannes C. Wittig*Senior Vice President, Investor Relations*

And don't forget we own 63% of T-Mobile, right, which is now at \$100.

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