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# Deutsche Telekom AG (DTE.DE)

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# MANAGEMENT DISCUSSION SECTION

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

May I now hand over to Mr. Hannes Wittig.

## Hannes C. Wittig

*Senior Vice President-Investor Relations, Deutsche Telekom AG*

Yeah. Good afternoon, everyone, and welcome to our 2018 full-year and Q4 conference call. With me today are our CEO, Tim Höttges; and our CFO, Christian Illek. Tim will first go through a few highlights for the year as a whole and also provide the guidance, followed by Christian, who will talk about the quarter's financial in more detail. After this, we have time for Q&A.

Before I hand over to Tim, please pay attention to our usual disclaimer which you'll find in the presentation.

And now, it's my great pleasure to hand over to Tim.

## Timotheus Höttges

*Chief Executive Officer, Deutsche Telekom AG*

Welcome everybody here and I hope you're doing well. You can imagine that I'm pretty proud about the 2018 achievements and even about the full five-year record, which we have closed with 2018. And I'd like to share with you, let's say, the situation where we are. I will start with the full-year review and explain our guidance for 2019. Then Christian will go into greater detail regarding the quarterly trends.

[ph] Q3 (00:01:20) 2018 was another quarter with strong growth on both sides of the Atlantic. Organic sales are up by 3.1%, organic EBITDA up by 7.2%, our ex-U.S. EBITDA is up by 2.4%, and our cash flow, now listen, is up by 18.9% on a like-for-like basis, and the adjusted earnings up by 5%. So, this shows, let's say, how strong we have finalized 2018.

All of this nicely fits into the four-year growth guidance we gave you at our 2015 Capital Markets Day. We met albeit our all guidance we have you at the beginning of the year and also the segments which are delivering growth. T-Mobile US, you have seen the numbers last week, reported strong growth two weeks ago, exceeding market expectation, big time. By the way, from my record, it was the strongest quarter after the MetroPCS merger, so we are even accelerating our performance here. Germany and Europe are growing with EBITDA as promised and T-Systems was [ph] started (00:02:41) growing its EBITDA this year.

Continued on slide 5, the foundation of our strong growth, our consistent investments and to our network. Our fiber network in Germany and Europe is passing now 41 million homes, an increase of 4 million in the last 12 months. In Germany, we already passed 14 million homes and 2 million businesses with super vectoring, which is enabling speeds up to 250 megabit per second and we will double this number in 2019.

In 2019, we will complete our German FTTC deployment and then we will redirect our resources to step up our Fiber To The Home investment in line with the plans we outlined at last year's Capital Markets Day. Our German LTE network already passes 98% of the population. In Europe, we average 97%. We operate the best 4G network in all our major markets and we will not stop here. In Germany, we built 1,300 new sites last year. In 2019, this will ramp up to 1,800 new sites, in line with our stated trends to increase our site footprint by one-third by 2021. In the U.S., we built 2,800 new [ph] macro sites (00:04:14) as we aggressively deploy the 600 megahertz spectrum we acquired in 2017 and get ready for 5G.

And we made further significant process with our IP migration. We confirm that we will finish the German B2C migration this year, the German B2B migration then by next year. So, the end is now clearly inside God Save the Queen. As you know, the IP migration not only involve significant extra costs but also weighs on our fixed line KPIs and on the top line. Please keep this in mind when you assess our current operational performance. But of course, we are looking forward to the benefits once this big project is completed.

Last but not least, when talking about investments, 2018 was a big year for M&A. We gained approval for our takeover of UPC Austria and Tele2 in the Netherlands, strengthening our competitive position in two important Western markets. We are particularly pleased that both transactions were approved without any remedies.

Also last year, we announced the merger of T-Mobile and Sprint to supercharge the Un-carrier. And we remain optimistic that antitrust authorities will also appreciate the significant benefits of this transaction for U.S. consumers.

Next is our usual slide, where we show some of our initiative to improve customer experience. Our German StreamOn product already has over 1.8 million subscribers, by the way we can do much more, and after the [ph] ramp (00:06:03), the penetration of our European mobile app doubled to 41%. Our Austrian chatbot, Tinka, came first in a German large [indiscernible] (00:06:12) survey and our German Magenta service app was top rated as well.

2018 was a big year for improvement in customer service. In Germany, our no-shows and our complaints are each down by one-third. Another key strategic pillar for us is growth in B2B. In Germany, we achieved 1.1% growth in 2018 and in our Europe segment 3.7% growth. T-Systems did better than expected and achieved slight revenue growth and a significant order book growth.

Moving on to slide 7, our momentum with customers remains very strong. By the way in the press I said this morning, I say hello and thank you to 10 million new customers across our footprint for – which we gained in 2018 alone. This is the future and this is the business about. More than 12 million German homes already subscribed to our high-speed broadband products.

In Germany and Europe, we added 1.7 million converged customers and 1.5 million mobile customers and T-Mobile even accelerated.

Slide 8, we compare 2018 results with our initial guidance. And as you know, we always guide on an organic basis using the previous year's average exchange rate. Our organic revenue growth was 3.1%, our organic EBITDA growth 7.2% and our reported EBITDA growth [ph] 5% (00:07:52).

On a like-for-like basis, we beat our initial EBITDA guidance by €0.5 billion. This was driven by T-Mobile US. We also promised ex-U.S. EBITDA growth of €0.3 billion and we delivered the guided €13.2 billion. So, Europe and Germany, they were both strong as well. We also delivered our initial €6.2 billion free cash flow guidance and like-for-like would have slightly beaten it as well.

On the next slide, we show how we have delivered at the group level against the four-year guidance we gave you at the 2015 Capital Markets Day. I think it is fair to say that overall we fully kept our promises on these big KPIs. And now, we work to perform as well against our new four-year guidance.

Let's look at our guidance for 2019. Unfortunately, it is all a bit complicated by IFRS 16. With the introduction of this standard, finance leases and operating leases can no longer be kept apart outside of the U.S. And as we explained in our recent webinar for steering and guidance purposes, we have agreed with our large peers to introduce EBITDA AL, which means EBITDA after leases, and free cash flow AL, free cash flow after leases. I'm glad that I'm not any more CFO. But anyway, in order to minimize the discontinuity and to be as close to cash as possible. Cash is always good.

As always, our guidance is for like-for-like. On this page, you can see pro forma financial for 2018, which are the basis of our 2019 guidance. These are also adjusted for the acquisitions in Austria and the Netherlands.

After this prelude, let us now look at the main act, which is our guidance for 2019. For 2019, we guide for group EBITDA AL €23.9 billion, free cash flow of €6.7 billion and this is based on CapEx of around €12.7 billion. You have already seen T-Mobile US guidance two weeks ago. Our guidance is based on the midpoint of their guidance plus the usual IFRS GAAP translation.

As for our ex-U.S. basis, we expect like-for-like EBITDA AL to grow by €300 million to €13.4 billion. As promised at the 2018 Capital Markets Day, we expect ex-U.S. CapEx to drop below last year's peak. In the appendix of this presentation, you can also find the headline pro forma segment financials and the guidance for each segment as we show it in our Annual Report.

As always, our guidance is provided based on last year's average exchange rate of $1.18 per euro. If we were to use the analysts' consensus exchange rate of $1.14, instead our 2019 guidance would be €24.3 billion of EBITDA and €6.8 billion of free cash flow.

We are proposing a dividend of €0.70 for 2018 as promised. Going forward, the dividend will follow growth in adjusted earnings per share as outlined at our last year's Capital Markets Day. With this, I think you got a good overview about how we delivered on the last four years but as well about the strong 2018 numbers.

And I'd like to hand over to Christian, who will give you now more details, especially to last quarter financials.

## Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

Thank you, Tim, and welcome also from my side. Let me dive a bit deeper into Q4 performance and let me start with the key financials highlighted on page number 12. Our reported revenues on Q4 grew at 5.7% and organically at 3.8%. Our reported EBITDA grew at 12.6% and 2.7% organically. If you take a look at our ex-U.S. EBITDA, that grew at 3.3% in Q4, which is very similar to the last quarter although the segment mix is quite a bit different and that would basically translate to a 2.1% on an organic basis.

You know that free cash flow is always a bit volatile, so in Q4, free cash flow was up 35% on a year-on-year basis, but I think the better number is the full-year growth, which is reported almost 14%. Tim has already mentioned our strong organic full-year EBITDA and free cash flow growth, so let me dive into the adjusted earnings for the fourth quarter.

Adjusted earnings were down by 70% and that is very much driven by the U.S. tax gain, which we were able to book in Q4 2017 and that had a net effect of €1.7 billion in just that quarter that would basically explain €0.36 on the earnings per share in that given quarter. For the whole year, we delivered a €0.96 on the earnings per share, on the adjusted earnings per share to be precise, which is fairly consistent with around €1, which we basically promised you back in 2015.

Let me now move into the segment performance and let me start with Germany in the first place. So headline sales in Germany were down by 1.1%, very similar to last quarter, and that is very much driven by the IFRS effect, which we amounted to be 1.5% for the course of the whole year. So like-by-like we would have seen a slight service revenue growth in Germany. Our EBITDA was up 4% this quarter and we delivered on our full year guidance to grow Germany from €8.4 billion to €8.6 billion and you can expect a similar growth in EBITDA for the upcoming year in 2019.

Before moving to the next slide on page number 14, let's take a look into the service revenue dynamics in the German market. Our total service revenue slowed. They remain positive but due to the IP migration and some phasing in the mobile, you see a negative trend here. Let me start with the fixed first. So in the fixed line, we're seeing a greater B2B line attrition as we enter the final phase of the IP migration. Tim mentioned this before we want to finalize B2C in 2019 and B2B migration in 2020. As a result, the fixed retail revenues were a bit worse compared to the previous quarter, declining by 0.6% this quarter.

As in Q3, wholesale revenues were only stable on year-on-year basis and we're still in the process of having a migration from bitstream 3 to bitstream layer 2. We are almost 80% complete, but we don't see that growth in the wholesale business yet.

On the mobile side, service revenues grew on a 2% basis year-on-year. The sequential slowdown was essentially driven by phasing of visitor revenues. To be very clear, we remain comfortable with our 2% guidance mid-term when it comes to service revenue in the mobile space. In sum, our total service revenues were weaker compared to the previous quarters but we remained – they remained in a positive territory. And despite the IP migration headwind, we remained comfortable with our Capital Markets Day guidance that the service revenue will also grow in 2019.

Let's move into our Germany mobile on page number 15. As you can see, our commercial performance both in B2B and in B2C is steady. We have outperformed competition again and although the revenue trend, the growth trend has come down, we have a decent business compared to our competitors.

Before moving to the next page, take a look at the mobile data usage in the first place, the average mobile data consumption rate has growth by 1 gigabyte year-over-year. It's now at 2.6 gigabyte. And on our converged product, we have added in the fourth quarter another quarter of a million new customers. So, 51% from Magenta branded mobile contract are now part of a convergent relationship, up from 47% last quarter and 42% last year. And 22% of our broadband households have a converged contract, so I would say there are still way to go.

We're moving to page number 17, Germany fixed. You see that we remained with our steady broadband intake. Despite the fact that the net adds have been negatively impacted by the IP migration and this can be shown also by the elevated line losses you see on that graph below that. On the other hand, if you take a look on our fiber customer intake, now the 13th consecutive quarter, we have added more than half a million fiber net additions to our network, and we see that our retail performance remains strong and that the dip which we have seen from our wholesale partners has recovered in Q4.

When it comes to MagentaTV, we've added 62,000 customers, which is a slight acceleration compared to the previous year and the previous quarters, and this is very much driven by the positive consumer response we're getting from our recent rebranding but also and especially due to our enhanced content offering.

Let's move on to page number 18. For continuing with the fixed on page number 18, we're seeing that our retail revenues fell by 0.6% year-over-year, which was worse sequentially but is in line with the trend which we have seen over the course of the year.

As you know, since the beginning of 2018, we included certain B2B products, broadband products in our broadband revenue definition, and this is why you see that very strong headline growth of 5.9% year-over-year on the upper right hand of the chart. If you take this on a like-by-like basis, our broadband revenues would have grown by 2.1%, which is in line with what we have predicted on the Capital Markets Day in 2015.

Let's get out to our usual two slides for T-Mobile US, which already have presented their results last week. I think Q4 was another stunning quarter when it comes to customer net additions, another 2.4 million. This is now the 23rd consecutive quarter where the folks in the U.S. added more than 1 million net adds. The U.S. has now as many customers as we have citizens in Germany.

We're picking some of the performance metrics of the U.S. subsidiary on the next slide. You see that the branded postpaid churn has now come down to a record low of below 1% which is even below AT&T's churn if I'm not mistaken. And you see that the commercial trends, which you see in the U.S. is very much driven by the network performance, still T-Mobile US is outperforming all relevant competitors. And on top, you see that the cost of service has come down despite the fact that they have a massive build-out in the low band spectrum in the U.S.

Moving on page number 21 to the European performance, and you see that the commercial momentum in Europe is quite good. We've added 264,000 new contract customers in the mobile side, 94,000 broadband customers, 53,000 new TV customers and a stunning number of 406,000 new converged customers. And when it comes to convergence, you see that all European NatCos have actually accelerate their trend, most notably that was Greece who allowed to basically open their converged proposition also to prepaid customers and you can book this converged offering now via a [indiscernible] (00:20:55).

On the financial performance, which is shown on page number 22, you see that the European segment continues with this growth trajectory, both on revenues but also on adjusted EBITDA. The reported revenues were up by 4.3%. The EBITDA was up by 5.2% that was obviously also boosted by the consolidation of UPC in Austria.

On an organic basis, the organic revenues were up by 2% and the organic EBITDA was up by 1.2%, which is a bit slower than last quarter and it's very much driven by the operational performance in Romania.

On the other hand, we must say that we have delivered on each of the given quarters in the European segment as well as for the year as a whole. Full-year organic revenue growth was up by 1.5% and EBITDA was growing by 1.8%. So, we're fully in line with the commitments we've given to yourself back in May last year.

Next chart is showing the performance of T-Systems. And as Adel told you back in May, 2018 was a start of a massive transformation in T-Systems. So, there is a big operational turnaround associated with heavy, heavy working on the IP migration, but also with the ramp up for future investments into the growth categories.

If you take a look what is the most notably and positive signal from the T-Systems folks, that is obviously the increase of the order entry, which grew almost 30% on a year-by-year basis. Also, revenue was up slightly and the slowdown in the adjusted EBITDA in Q4 by 25% didn't impact our full-year guidance. We hit the €400 million, which we promised to you for 2018.

For 2019, we expect EBITDA growth of €500 million, delivery on the transformation as we indicated back in May. So, also, for T-Systems we are fully in line with the Capital Market Day guidance.

Let's move on to page number 24, group development. On the next two slides, you can see the performance of the group development. For the segment as a whole, we achieved a 3% revenue growth and a 4.5% EBITDA growth. The underlying mobile data revenue trends remain fairly stable over the quarters and over the years. The commercial momentum in mobile has come down still they are booking the largest number of net ads in the Dutch markets and remains positives. And in addition, the fixed line business added another 14,000 net adds in the Dutch market. Obviously, now, we're looking for a successful integration of Tele2 that we're delivering on the synergies, but also to the promises, which we have made to Dutch customers.

The tower business on page number 25 is also doing well. And Tim already mentioned that we have built another 1,300 sites back in 2018 and that we are well on track to increase our German footprint by 9,000 sites until end of 2021. While there was some cost phasing, especially in the fourth quarter, the unit achieved as a total a full-year EBITDA growth of 3.7%.

So, finally, let me move to the financials. And we see here free cash flow, adjusted net income, net debt, and adjusted EPS. So, on the free cash flow, we have seen a significant growth of 35% in Q4, very much driven from the cash generated from the operations.

If you flip this – if you now move to the net debt development that was almost flat despite the strong free cash flow also on Q4 and you see three negative effects impacting the net debt. One is an additional finance lease from the U.S. in the vicinity of €400 million and some currency translations and negative derivative evaluation effect very much driven by the U.S. As we said early on, the net income was impacted by the U.S. tax reform last year. Without that tax reform, the EPS would have grown by 5% year-over-year.

On the last chart, on the balance sheet, you see that the net debt EBITDA ratio is still in the [ph] chord (00:25:29) of 2 to 2.5, it's now at 2.4. And as we already communicated to you in 2019, we will report on the basis of IFRS 16. And the estimate for 2018 is that IFRS accounting will add another €15.4 billion of net debt to our balance sheet but also that comes with an addition of €3.4 million of EBITDA. As a consequence, we will move our comfort zone from 2 to 2.5 over to 2.25 to 2.75 net debt over EBITDA.

We will report our net debt ratio or debt ratio based on the headline net debt and the headline EBITDA because that very much reflects how the rating agencies look at us. But we will also provide you with the number [ph] after leases (00:26:25) so that you have a like-by-like comparison. So, I would like to leave it as this and open up for question. Thank you.

# QUESTION AND ANSWER SECTION

**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Thank you very much Christian. Now, we can start with the Q&A part. [Operator Instructions] With that I start the Q&A section and we being with Polo at UBS. Polo if we can have your question, please.

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**Polo Tang**
*Analyst, UBS Ltd.*

Q

Yeah. Hi. Just got two questions. So, the first one is [ph] despite (00:27:16) fourth mobile network build, do you think a mobile network build by Drillisch is viable and what do you think the impact on the German market and Deutsche Telekom is, if it does go ahead. My second question is really just on drag factors in terms of German fixed line.

So, you said wholesale revenue is seeing almost new growth, voice line loss remains elevated because of all IP migration. So, I'm just trying to understand that if these headwinds will remain all the way through 2019, can we expect some of these drag factors to ease though the year because specifically on slide 17, you highlighted a tick up in terms of wholesale fiber customers to Q4. So, will this rebalance fee through in the wholesale revenues in the coming quarters? Thanks.

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**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*

A

Hey, Polo. So let's start with the first question. Look, the first thing is, it's a little bit misleading if you talk about the new player in that market because and there's a fourth one registered for this auction process [indiscernible] (00:28:26) and I do not see that as a new entrant, he is already operating with something like 9 million customers in this market, so he is not only coming with customers, but even with back book and other services here in which we have to provide. So, and the second observation is if they were to [ph] put to opt (00:28:47) for an infrastructure award, definitely it would be better to have three operators on this one from a utilization perspective, but if he is showing up I think the biggest risk is not for us, the biggest risk is for Telefónica because they have the wholesale business with this, guys which is then over time then migrating into the perspective for network.

The third one is the utilization of this infrastructure is not easy. Independent from the build-out obligations on 2.1, the build-out obligation is 50% of the population to be covered, in 3.5 it's 25, but there is a billion investments required, which has [ph] a view (00:29:29) on deck. So, therefore look, I think from a commercial perspective, from the market environment perspective, it would be better that the three carriers would want their infrastructures, but for Deutsche Telekom I see the lowest downside from a new player coming into this with all the billion investments he has to take.

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**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*

A

So, let me take the question on the fixed line and the drag. We have actually two areas where we're seeing the drag and you highlighted them. The one is on the IP migration. As we will finalize the B2C migration, I would expect that we see a slower impact, especially when it comes to B2C in the second half of the year. But on B2B, I think we expect that trend to continue throughout the year.

When it comes to the wholesale revenues, I said earlier on, they are still in the migration from layer 3 to layer 2. They are basically 80% down the road, so there's 20% to come. So, finally, we expect a better revenue trend on wholesale. But again, I would also basically postpone this more to the second half of the year rather than the first half of the year.

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**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*
A

Okay. So, the next question – thank you, Chris and Tim. The next question is from Akhil, JPMorgan. Please.

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**Akhil Dattani**
*Analyst, JPMorgan Securities Plc*
Q

Yeah. Hi. Thanks so much. I've got two questions as well please. The first is just a follow-up on the German spectrum auction and this new entrant debate. I guess just keen to understand what your thoughts and feelings are around why the BNetzA is talking so expressly about welcoming a potential new entrant. Do you think it's got regulatory or political motivations behind it? And when you think about the sort of packages and considerations the regulators talking about provisioning for the new entrant, how concerned are you about the national roaming debate? Do you think that something that legally can grow through? What are your general thoughts around that? That's the first question please.

And then the second one was just I guess trying to flush out some press stories you've had recently around the government providing a bit more clarity around the €12 billion of capital they are looking to provide for broadband's coverage expansion in Germany. I guess I'm just trying to understand whether you're seeing that as an opportunity and that it could offer you more subsidy access, or whether you see it as a risk in terms of potential overbuild in the market. Thanks a lot.

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**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*
A

Okay. Let me start with the first quarter on the – of the German spectrum auction and the motivation behind that. Look, the first thing is I think the main reason for this new entrant is I think the difficulties for [indiscernible] (00:32:32) to find an MVNO partner prospectively. And if you would ask me, this is anyhow a way of trying to get access to one of the carriers network on a wholesale side than rather really big commitment to enter into the operator market and to make big fixed investment commitment for build-out.

But that's my personal view on this situation. Anyhow, I think that the 3.5 gigahertz spectrum is not the right spectrum to build a country-wide infrastructure for new entrant because just of the propagation or the physical layout of this spectrum, it requires a lot of let's say additional mobile sites where I would say you cannot build a country-wide network on this [ph] frequent spend (00:33:28). Now, the second thing is, is there a political motivation behind this, yes why not because it always – it's good to have competition in this environment and there is a certain political unhappiness about the current situation about white spots and the connectivity, which we as carriers are providing.

So, therefore, yes, there might be a motivation to say let's get another entrant who is doing it better. All we know is that and that is our position here that having kind of privileged for entrants it's not helping the market. The opposite is taking place.

If you look to Canada, if you look to France and other markets even after new entrants come to the market, years after that, that entrance, there's no improvement from this carrier for the [ph] rule (00:34:29) build-out. And this is the issue about the German politician situation. They want to have a full coverage of the country. That is, let's say, the motivation behind.

Now, that all said, we have the situation as it is. We will see whether there is a fourth entrance really coming serious in this environment. The only issue is that he will need access to the existing mobile sites and that's the discussion around national roaming or local roaming as it has been discussed in Germany.

Now, the condition for this roaming are totally unclear. What we have as a carrier or Deutsche Telekom have offered is to say, look, whoever wants to share his antennas on our sites are welcome. By the way, a lot of the [ph] rule (00:35:23) sites are already shared with Vodafone and Telefónica, so that we can all reduce the fixed costs. It would mean, if you invest into a site, these guys could get access to this site, take an example it cost us €15,000, all three carriers are on this mobile site, everybody pays €5,000 for this site. I have no problem with that at all. Now, active national roaming would mean okay somebody in the Bavarian Forest is using a [ph] call a day (00:35:55), which costs let's say, €0.50.

And he is spending €0.50. You will never amortize the fixed costs for this full antenna if somebody has to pay €0.50 well as somebody else had to pay the €15,000. So, in this case we say if this is coming, if this would be an active roaming, it would stop the [ph] rule (00:36:16) build-out of mobile size in Germany as we've seen it in other markets.

So, that is the concern we have because everybody would wait for the other to build a mobile site. And then [ph] it should say (00:36:28) that we don't believe that national roaming on active component would make any sense at all. Now, there will be areas where nobody of the carriers will be able to buy – to build a mobile site. In this area, we would welcome even state subsidies to offer passive components to build our coverage there.

So, this is an optionality and then everybody could use it. But it's totally unclear where it's going. My readout from the political discussion is that everybody in the political environment, which is by the way not rocket science, understands that an active roaming in the entire network wouldn't make sense at all and would clearly take away the differentiation of an infrastructure competition in Germany.

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Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

Akhil, Christian here. Just two comments from my side. I struggle with the definition of the new entrant because that new entrant in Germany has already 9 million mobile customers. So, I think they – I'm always saying that they may change their production model, but they are not new to the market given their market share they're having in the German market. And the second one with regard to national roaming and I think this is why the language in the auction conditions was pretty vague. The head of BNetzA himself said there is no legal basis for national roaming. So, so far we have a local roaming discussion, but not a national roaming discussion in Germany and I'll take this now as a clear statement also from the BNetzA.

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Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Let me quickly go to the question with regards to the proposal from Minister [ph] Scheuer (00:38:15) for the €12 billion subsidy program. The coalition treaty foresees up to 12 billion fiber subsidies in the fixed hand side and the Ministry has now presented the first proposal how to implement the subsidies program. This includes the concept that not only FTTH and white spot but also in so-called gray spots can be subsidized.

First discussions on this proposal have begun. We, together with the other infrastructure investors, want to make sure that this will reside in a sensible outcome and that the money will be well spend and not overbuilding freshly built out infrastructure. By the way in this regard, we are lined in with the small carriers because they are standing in the same economical challenge as we do. So, I think that is the situation. In principle, we work on this subsidization.

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**Hannes C. Wittig** A
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

Thank you, Tim. And next is Ulrich at Jefferies, please.

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**Ulrich Rathe** Q
*Analyst, Jefferies International Ltd.*

Yeah. Thanks. I have two questions as well. The first one was on the broadband intake in the fourth quarter. I think in the press conference, Mr. Illek, you sort of highlighted this could be attributed to a lower household formation in Germany. Could you comment a bit more about that presenting the outlook into 2019 in particular vis-à-vis instead of overall market developments versus share development and then broadband as you see them.

The second question is on the CTAs on the sort of voluntary engine funding. A couple of years ago, you sort of explained how this works and as I understand it from the time then, the CTAs are funded essentially outside of free cash flow, so that's like you funded – you build up the funding in the CTAs almost like a debt repayment.

Now, in the annual report today, you're saying – you have actually started to pay pensioners out of CTA, so the net effect would be that you're paying this pensioners out of funds that have never paid free cash flow. So, would you agree that free cash flow sort of a slightly overstating the situation and how much would this be in 2019? It looks like this has already been paid for the cash flow boost of around about €100 million in 2018. I was just wondering how this goes forward and how you think about this conceptually? Thank you.

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**Christian P. Illek** A
*Chief Financial Officer, Deutsche Telekom AG*

So, let me start with the broadband intake and let me repeat what I've said this morning, I think there are three factors. Obviously, there's the IP migration effect of the seasonality and I think we're in the middle of what I said of an analysis whether we're seeing a slowdown in the household growth. So, that analysis has not been finalized.

So, I would focus to measure out on the net add percentage, which we're gaining in the market. So, if the market is coming down, then obviously the absolute numbers will come down but we're still targeting around 40% net add share and that's the number we're shooting for independent of how the market is going.

On the CTA funding, that is slightly different. It is we put the BT into the pension fund, and the BT is obviously given as a dividend, and we're basically funding the pensions out of the BT dividend. That's the way how it works. So, we're not basically taking the funds and use this as a source in order to pay our pensions. That's a regular cash inflow, which has basically been delegated to the CTA funds and that's the way we fund our pensions.

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**Hannes C. Wittig** A
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

Thank you, Christian. The next question is from another Christian, Christian Fangmann at HSBC. Please.

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Christian Fangmann
*Analyst, HSBC Trinkaus & Burkhardt AG*

Q

Yeah. Thank you. Christian from HSBC. I have also a couple of questions. One is around the upcoming spectrum auction. So, Vodafone as well as Telefónica fight injunctions. Is it something you are also looking at, I mean, just given that you also want to be heard in that kind of process I guess ahead of the auction?

And then secondly, there's a lot of noise and debate in Germany around local roaming. So, basically, [ph] not necessarily along the local roaming and there are (00:42:29) initiatives by some people across the grand collision. How do you see that developing? What's the risk? And just it would be good if you share your view on that one.

And then, maybe the last question regarding Germany and Fixed Mobile Convergence. So, I was just wondering why you're not growing faster? I mean, 22% penetration it's clearly an increase year-over-year of kind of 4 percentage points, but it's still relatively slow. So, what are you doing to improve that and what is, is there just no demand in the market for this kind of offerings? I mean, if you compare that to other markets, it's still lagging behind in Germany a lot. So, that's just my question on that one. Thanks.

Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Yeah, Christian. Thank you. I start with the 5G stuff. Look, we said from the beginning that the conditions imposed on the auctions are unrealistic in our view with regards to the build-out obligations, the amount of towers we have to build to fulfilling the requirements. And the [indiscernible] (00:43:40) requirements, they are well beyond what even the Federal Network Agency previously described as reasonable and proportionate. They were changed in a political setup after the Federal Network Agency made its proposal.

We also regard the complete unclear regulation on national or local roaming as problematic in the auction design. And therefore we have like other companies we have filed a lawsuit against the auction conditions of the Federal Network Agency. Now, we have the duty and the obligation to develop and expand let's say the 5G infrastructure as quick as possible for our customers, especially in the industry side, and therefore we don't want to delay or to stop something, but we don't want to go into a situation where we are committing to something where we already know that this is going to be impossible from the beginning.

Now, O2 and Vodafone, they have launched the emergency injunction as well and therefore for us the procedure situation has changed as well. And therefore it is more of the question about protecting our legal interest here and therefore we have, therefore, even decided to file an own emergency conjunction, which we announced today in our press conference.

So, this is what we do. Look, I believe that the Federal Network Agency anyhow will try to push through their process and sticking to the timeline. So, we are prepared for let's say every part. And from our auction design and auction teams are working on it, but we hope that they are becoming more reasonable with regards to the conditions, which have been laid out in this 5G proposal.

Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

So when it comes to the convergent offerings, actually, to be honest, we're quite satisfied with the growth rate. Since Q4 2016, we've added more than 1.2 million customers to our customer base. And you always have to basically strike the balance between volume growth and ARPU development. And what we shouldn't forget is that we're adding another €9 of extra revenue per household with our MagentaOne offering. And we don't want to bring this down significantly. We want to maintain that level and that I think is the right balance between volume and ARPU growth.

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**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

And we saw a bit of an acceleration in the fourth quarter in Germany, also in our European subsidiaries, very good development in our converging customer base. So with that, we move on to Sam at Exane, please.

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**Sam McHugh**
*Analyst, Exane Ltd.*

Q

Yeah. Hi, everyone. Thanks for the questions. Just a small technical [indiscernible] (00:46:46) on the dividend. I mean, you're growing in line with adjusted EPS, you have that changed last year. And then at the IFRS 16 webinar, we learned the IFRS 16 will be dilutive to EPS in 2019. So, I was just wondering how dilutive it will actually be or whether you [ph] can give us (00:47:02) a bit more granularity. And then whether the dividend will grow on a like-for-like basis with 2018 rebased on IFRS 16 or that it just doesn't matter?

And kind of related to that, I don't know as you continue to do work on the Sprint deal whether you have a better idea about how slightly dilutive that transaction will be for EPS? [indiscernible] (00:47:21) because lots of investors continue to question what the dividend could go to in a deal scenario? Thanks very much.

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**Christian P. Illek**
*Chief Financial Officer, Deutsche Telekom AG*

A

So when it comes to the dilution effect due to IFRS 16, we expect a slight negative impact in the earlier years but that will turn into a positive in the outer years. So, I think it's not really significant.

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**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*

A

Look on the first question – second question, our dividend policy is the same, both in case of a deal or in case of a no deal in the U.S., so the dividend reflects earnings per share growth and the minimum dividend is €0.50 that's what we have said in the case of a merger. And we expect the deal in the U.S. to be dilutive to earnings per share in the first three years and then accretive in year four. I think the precise impact depends on a lot of factors and now first to the deal, then to the [ph] consolidation (00:48:25), then having a guidance again with you guys here on [indiscernible] (00:48:31).

On top of that, a lot of things can happen between today and the year 2020 when we decide on the dividend for 2019, so therefore please let's now do one step after another. I hope that we get the approval and clear direction in the second half, sorry in the second quarter of this year and then all decisions following that, that is...

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**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Yeah. So there will be an update on the financial situation once we closed the transaction and then on the dividend in due course as you always do. But I think we have a clear track record here and people shouldn't really worry and I think that speaks for itself. In terms of the next question, I would like to ask Robert from Deutsche Bank, please.

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**Robert Grindle**
*Analyst, Deutsche Bank AG*
Q

Yeah. Thank you. My first question is on T-Systems, there was a big jump in order entry. Is there any particular product or sector that that is coming from? And then secondly, on the B2C IP migration as you flagged finishes this year, but the B2B continues into next year. Is it fair then that you wouldn't get any efficiency gains from the B2C ending, you have to really wait for it all to be finished before you get that benefit coming through? Thank you.

**Christian P. Illek**
*Chief Financial Officer, Deutsche Telekom AG*
A

I'll start with the T-Systems questions. Order entry in the fourth quarter €798 million above prior year and this is in high increase by ICT and by the [ph] TCP (00:50:11) business. So, main thing is a big deal, which we have made in the class [indiscernible] (00:50:18). So, that is one piece then we have another success in the automotive industry on this classical IT deals.

And – but we even made progress on the IoT site where we have gained some smaller gains on top of that. Cloud is up by 29%, the SAP business is up by 68%, IoT business by 42% and the Digital Solution which [indiscernible] (00:50:52), the vertical solution space is up as well along the 40%. So, you can see the growth track the areas which we have defined are the ones who are supporting T-Systems growth on the order entry side at this stage and, which is giving us confidence that we are able to turn around the revenue in 2019. You know that our guidance and we are very bullish on that one that we will have growing revenues in all segments and growing EBITDA in all segments.

**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*
A

So on the question with regard to all IP migration, as I said as we're finalizing the B2C migration obviously at the second half of the year, we hope to expect lower forced migration numbers. And we will shut down at least that is the plan by the end of the year the so-called ATM platform, but that will not hit the numbers in 2019 because we're shutting down that platform at the end of 2019.

**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*
A

Okay. Thank you, Christian. And next we move on to Mathieu at Barclays, please.

**Mathieu Robilliard**
*Analyst, Barclays Capital Securities Ltd.*
Q

Yes. Good afternoon. Thank you. First I had a question about German mobile. So, you had again a very strong performance in mobile, both in absolute and in relative terms and data growth is strong. I think spending is low still in Germany compared to other market and the competition seems mostly rational. So, it's all very supportive, but at the same time if I look at the three MNOs' performance in Q4, there seems to be a slight slowdown in trend. And I was wondering if that has to do maybe with some mix effect maybe customers moving to second tier brand or lower brand, or it's just seasonality and there's not much to read into that. So that's the first question.

And the second question with regards to German EBITDA. So, I think Christian you said EBITDA would grow the same in Germany in 2019 than 2018, which is like €200 million. And maybe if you could give us the plus and minuses there because I think you are guiding for basically flat revenue growth in Germany in 2019. So, I guess it's essentially cost cutting. Obviously IP migration [ph] as to (00:53:08) component efficiencies, which you just said would be there in 2020, but I think you guided in the past for lower cost of IP migration, I think they're like €400 million per year. So, maybe that comes down, anyways if you can give a little bit of details on the cost elements that drive EBITDA growth? Thank you.

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**Christian P. Illek**
*Chief Financial Officer, Deutsche Telekom AG*

A

Look, the first we are very happy about our performance in mobile. As we were over the last quarters, I think the brand and the network shows its relevance here. And now going into the numbers and the 2% growth here. Adjusted for the IFRS 15, the effect we see a year-on-year growth of 2%. So, this quarter was in line with our 2017-2021 guidance and so that is absolutely what we expected.

Second, we don't see a change in mix, which was your precise question. We continue to see that we have a very strong performance on the B2B side. Lot of let's say our business customers even from our competition coming back to us. And second, we have even a good contribution from the B2C side. Congstar is still doing very well. And if you want to hear, whether we have some weaknesses to share, I would say, I would be the last to say to love to see a little bit more white card, what is let's say to original Magenta Mobile product, which we should sell a little bit.

In addition, we benefit from growth in visitors revenues, but this is subject to phasing and the Q4 slowdown largely reflects compensation effects. So looking forward, we feel very comfortable that with our capital markets guidance of 2% CAGR that we are very in line with the current trend in the business.

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**Timotheus Höttges**
*Chief Executive Officer, Deutsche Telekom AG*

A

Again, to dwell on this one a bit, the €200 million EBITDA increase are basically broken down. We said we're going to see a slight revenue increase in Germany, but also bear in mind we said we wanted to bring down cost on a net basis indirect cost by €750 million by end of 2021, so there three years to go, so expect that you see a change trend or trend change in the indirect cost development in German market and that's the way how we want to get there.

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**Hannes C. Wittig**
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

At the end of the IP migrations, obviously, a big factor because the cost will fall away, the benefits are coming through. Some of them are coming through today, but this [ph] is a (00:56:00) fairly margin relative to what will happen in 2020 and 2021 as we move forward. And I think it's also important to remember IP migration, not just the cost, OpEx thing is not just a CapEx thing. You can see the [indiscernible] (00:56:14) and so on but it's nice to see that despite that, we delivered the EBITDA growth that we guided for and will deliver similar growth in 2019. And then we will see the benefits more and more.

So, with that, moving on to Jakob Bluestone at Credit Suisse.

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**Jakob Bluestone**
*Analyst, Credit Suisse Securities (Europe) Ltd.*

Q

Hi. Good afternoon. I'll keep it to one question please. So, the question is somewhat a macro level. We've obviously seen a slowdown in the German economy. And I was just sort of wondering what your thoughts are? How that may or may not impact your side of the business? I mean you mentioned a very strong performance in B2B. So, it doesn't sound like it's a major concern there. And I guess T-System is going through major sort of restructuring, which perhaps [ph] insulates (00:56:55) you a little bit. So, just sort of interested and if you can share your thoughts if you expect any impact form the macro slowdown? Thank you.

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Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

The first thing our industry is always [indiscernible] (00:57:09) and I cannot see any kind of – see any slowdown in our business from that angle. So, doing well. [ph] Eastern (00:57:26) European markets are growing as well. And we even see some tailwind here. In some of the market [ph] you know (00:57:33), I cannot just spontaneously here support that [indiscernible] (00:57:39) slowdown. I think what we see and that is something which we have to tackle perspectively, is that the retail and the frequencies in shops and in the main cities is going down. So what we see is a trend to online sales and Internet services. So, this is something – this is one of the trends, which we are facing. But overall, in quality pace, the better the network, the higher the demand. And people are even willing to pay for that. This is what you see, with this – I think as a 6% growth on the fixed-line side. And that [ph] is to see (00:58:21) what the MagentaEINS and [ph] that what (00:58:23) we see as well, keeping our premium on the mobile services.

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Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Thank you, Tim. And the next question is from Georgios Ierodiaconou at Citi. Please.

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Georgios Ierodiaconou
*Analyst, Citigroup Global Markets Ltd.*

Q

Hi. I've got two questions please. And sorry to keep coming back to the problem of the 5G auction. But I wanted to clarify something. When Drillisch expressed their intention to participate, under their interpretation at that time least, they believe that MNOs have to negotiate national roaming based on the current spectrum auction framework and that BNetzA can act as a referee, which provides them [ph] beside their words (00:59:04) with additional [indiscernible] (00:59:06) requirement for all MNO's, so I just wanted to understand whether these referee, let's say, provision is something that has been clarified subsequently or it's something you still wish to be clarified and I guess is an indirect way of asking the [ph] induction (00:59:24) question from earlier?

And then my second question is around broadband pricing. Earlier a few weeks ago, there's been some price moves from one of your main competitors, which was a net increase in prices, I was wondering whether you've seen any more indications of more rational pricing, is it something you've already accounted in your guidance or whether that leaves perhaps some upside as we go into the year? Thank you.

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Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Look, to be very clear, there is – on our side, a lot of, let's say, things unclear and there's no obligation to contract. So that is our understanding and even this is what in the current [indiscernible] (01:00:15) because that's – it's anyhow not mentioned and there has to be changes being enforced. And there's a European interpretation and you know that. And what we say is definitely we will talk to these guys and understand under which conditions they are thinking about, kind of MVNO or, let's say, I mean, access to the roaming and access to our network.

But I do not see a legal obligation at that point in time. Now, the question is whether Germans are changing their [ph] Telefónica law because they could (01:00:47) do that anytime. But here, my understanding is that there's a clear political tendency not to go for overall national roaming but more for a local roaming that is more the idea that in areas where nobody has an infrastructure, people should share infrastructure which is available. How this is defined? What kind of clusters are included? How we define reciprocity in the build-out from the different carriers? And all these questions are still open. Our understanding is that this is only focused on [ph] very rule (01:01:26) on local areas and you should even know that we have no MVNO at that point in time on our network and even a big discussion between Telefónica and a new player like [indiscernible] (01:01:42).

Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

So, when it comes to price movements in the German market, yes, you're right. [indiscernible] (01:01:48) has increased their [indiscernible] (01:01:51) has changed their portfolio some down, some up, to be clear. Please bear in mind, we have taken out our promos already last August. So, we were the first to basically increase prices and we will closely watch the market what's going to happen there.

Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Yeah. Thank you, guys. And next is Steve Malcolm [ph] now at the house of (01:02:18) Redburn.

Steve Malcolm
*Analyst, Redburn (Europe) Ltd.*

Q

Thank you. Thank you very much, Hannes. Indeed I am. Yeah. Three questions, please. One financial and two sort of [indiscernible] (01:02:29) the balance sheet if that's okay.

Just on the financial side, can you help us understand, I mean, on – within your free cash flow guidance, what we should assume for working capital this year? I mean, that's a sort of big guess number every year as we start on the free cash flow journey. It's consumed about €4.1 billion in the last three years. [ph] It will (01:02:49) really help to understand the movements in the U.S. and the movements outside the U.S., obviously, T-Mobile is a big consumer working capital. Just give us a helping hand on that as we look into 2019.

And then on the balance sheet, a couple of quick ones, I mean if I look at spectrum consensus for this year, I think it's about €1.4 billion. Looking to your Annual Report, you've got 10 auctions I think coming up this year. Is it fair to say that number looks a bit low and people should probably thinking about maybe twice that?

And then finally just on the sort of leverage pro forma with Sprint under IFRS 16, it looks like IFRS 16 kind of takes the multiple up 0.2, 0.3 times. Should we just think that the 2.9 times pro forma becomes 3.1 times and the 1.8 times target becomes 2 times, and the glide path is broadly the same over three or four years, or are there any nuances under IFRS 16 we have to think about as you seek to de-lever a merged U.S. business should the deal be approved? Thank you very much.

Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

Let me take the first one, when it comes to working capital management. Given the subscriber growth which we're seeing in the U.S., you can expect some improvement when it comes to working capital management without giving you a distinct number.

Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Yeah. Question two is 10 auction schedules. You know there are some auctions coming on smaller market. I think what we never do is giving any kind of indication about, let's say, the amount of money which we are willing to spend on this one, and therefore, I will not be precise on this one, but I can only tell you one thing. In the past, we were always very good in the way anticipating the total amount of number which we wanted to spend, and therefore, what you get from us with regards to the guidance and the [ph] orientation (01:04:36) going forward, net debts and like, this is anticipated and included in our assumptions.

[indiscernible] (01:04:44)

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Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Thank you, Tim. And I think it's also worth just pointing out when you compare our consensus, we are providing in the consensus spreadsheet what people expect for spectrum and we deliberately make this explicit. But you are also aware that typical U.S. analysts' approach is not to project spectrum payments, therefore, you need to evaluate the consensus in this slide and draw your own conclusions on this.

I think Christian wants to add a little bit on his previous answer.

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Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

No. No. Not on the previous, on the next one, the IFRS impact.

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Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Okay. Please go ahead.

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Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

So, look, we have given you full visibility on the IFRS 16 impact, the €15.4 million additional net debt and the €3.4 billion additional EBITDA. We have limited visibility in the numbers of Sprint so far, so therefore that would be pure speculation if I tell you what's going to happen in case the merger is approved. So, please let's wait until the merger is closed and as soon as we know anything, we will basically report back.

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Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Okay. Thanks, Christian. We take three more questions. The first one is from – I mean three more questions, people with questions. First one is Stéphane Beyazian at MainFirst, please.

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Stéphane Beyazian
*Analyst, MainFirst Bank AG (UK)*

Q

Thank you. Yeah. Just one question, if I may, regarding CapEx. Could you share with us some of the moving parts behind the expected decrease, a slight decrease in Europe in 2019, and also in Germany in 2020 with the 5G build-out and fiber picking up [indiscernible] (01:06:25) expected some decline there? Thank you.

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Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

So – okay. Let me start with that question. So, let me remind you what we said back in May 2018. We said CapEx will peak in 2018 and we were really serious and this is why we have taken down the CapEx guidance by this year for 2019 by roughly €100 million as we have shown in our guidance for 2019.

So, in Germany, again, we said we want to have stable CapEx compared to the previous year. We will see an increase as we also have given you clearance on in the guidance in the U.S., and in Europe, we had quite a bit of pull forwards in 2018, so we basically [ph] spend (01:07:25) a bit more in 2018 relative to 2019. So this is where we're seeing a decrease in Europe, and in systems and in group development, we don't expect an increase in CapEx for the upcoming year.

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### Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Great. And so we are delivering on the message of the Capital Markets Day that 2018 is peak for our ex-U.S. business. Then we now have Andrew Lee at Goldman Sachs, please?

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### Andrew Lee
*Analyst, Goldman Sachs International*

Q

Yeah. Thanks. Afternoon, everyone. I just had a broader question just in light of the [indiscernible] (01:07:58) speculated interest in KPN, so the [indiscernible] (01:08:04) and the increased activism in telcos that we've seen since we last heard from you. [indiscernible] (01:08:11) companies splits out your tower assets [indiscernible] (01:08:15) your thoughts on infrastructure valuation and monetization from a Deutsche perspective, maybe specifically how you plan to – or how you plan or could monetize your network assets? And then just any thoughts you have – is there anything that [ph] pay (01:08:29) or infrastructure funds are seeing public [indiscernible] (01:08:34) markets don't need either visibility of the free cash flow or access to cheaper debt? Yeah. Any thoughts would be much appreciated. Thank you.

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### Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

[indiscernible] (01:08:47) yeah. With regards to the towers, for us, the value of the towers is an opportunity going forward. Moving the German towers into group development has been already beneficial. We have realized our efficiency gains here. We have a much greater focus on the third-party business here. We are more credible for third-party business as well because I have a lot of request lying on the table for this business, and we have even a good and beneficial discussion within the organization about the relevant trade-offs. And then we have even earmarked some of the towers to be golden towers which we will not open for third parties even knowing that this is maybe not the maximum value equation which we will get out of the tower.

We are working to increase our third-party business in this environment while we maintain the network leadership, and we confirm what we have said at the Capital Markets Day that the average tenancy ratio of our tower is [ph] 1.5 times (01:09:55) and 2.3 times for [indiscernible] (01:09:59) towers. So therefore there is a lot of potential to add additional sites on this infrastructure.

Now, going forward, we will expand our footprint. So the more we build out 4G and 5G, the more business is in this tower [indiscernible] (01:10:18) about something around additional 9,000 towers for Germany alone. And don't forget that we even have the international business on that one and we are replicating what we have done for Germany as well in the Netherlands, where we have [indiscernible] (01:10:34) the towers.

So, if it comes to the monetization, I said that earlier if you ask me personally on this one and I [ph] had to take (01:10:42) any decision with my team on this one, I have a lot of, let's say, [ph] I'm in favor (01:10:46) of presenting this at one point in time to the market and understanding the valuation, which is standing behind the telcos from a debt ratings or from a liquidity conservations. This is not a major driver for us at that point in time and we do not need that money at that point in time, and therefore, it would be an upside but not a must have.

Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Okay. Thank you, Tim. I think there was also – you also asked about networks separating the fixed line network and monetizing the fixed line network. I think this is something we regularly investigate and we find no evidence that this would be in anyone's particular interest. In the case of Deutsche Telekom, we believe in our integrated vision and we work with in collaborative manner with our competitors to optimize our approach here. So, that's probably what we can say on this. And then...

[indiscernible] (01:11:52)

Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Hannes, let me add on that one. For Germany, look, we have a highly competitive environment here on the infrastructure side, with the cable operators covering almost 70% of the customers in Germany, so [indiscernible] (01:12:06), our kind of network separation would not make sense at all because the cable [indiscernible] (01:12:11) will never accept that, so you will always [ph] have then a state owned or (01:12:18) whatever company competing with the [indiscernible] (01:12:21), I think that would be even from a legal perspective very difficult.

And second, I think our approach is much more appreciated because we have said, look, there are local players here like [indiscernible] (01:12:36), like municipalities and like. And we said if we can't have access to your infrastructure and we will primarily use a Fiber To The Home build-out from partners, integrate them in our footprint that our customers can get all the services from us, but we do not have to own the network. So before we go into [indiscernible] (01:12:57) for Germany, and we would go into a higher collaboration model and we're waiting for the decision on the [indiscernible] (01:13:07), which is the blueprint for all the other corporation deals which are waiting on negotiation these days.

Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

And on the final note, don't underestimate the technology and infrastructure sharing between fixed and mobile, especially when it comes to fiber backhaul, so there's a lot of infrastructure to be shared between the two different technologies.

Right. So last question I think is from Usman at Berenberg, please.

Usman Ghazi
*Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)*

Q

Hello. Thank you for taking my question. I've got two questions, please. Two on the auction, I'm afraid just to clarify my understanding, and then one on free cash flow. So, the two questions on the auction where – so, again, please excuse my absence of knowledge in German, but if I just Google translate the document that was published by BNetzA, you're right to say that there's no legal obligation on national roaming, but then there is an obligation to negotiate on national roaming with BNetzA playing their role as a referee. So I just wanted to make sure are you seeing that these two things are inconsistent and therefore in your view null and void, or are you saying that the rules of engagement here are unclear? So that was the first question.

I mean, the second question was just if the auction does go ahead under the coverage obligations, what implications does that have for CapEx given your comments [indiscernible] (01:14:32) this is the current coverage obligations are [ph] two owners (01:14:37)?

And then my final question was just on the cash flow. I mean, I can see DTE is optimizing free cash flow to the tune of €1 billion to €1.5 billion with new accruals with finance leases, financing options for trade payables, et cetera. I mean, is the expectation that these financing of these things will stay at the same levels going forward or are they expected to come down? Thank you.

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Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

A

Let me again refer to the current situation. Today, in our German telecommunication law, there is no wholesale access obligation on mobile service at all. Now, in the European law, which has been modified in Germany so far, there is an obligation to negotiate. Now, if you negotiate, there is no obligation to contract and if you contract, there is even no price regulation at all under which conditions you have to regulate.

Therefore, there is a lot of uncertainty in this environment. Now, as long as I do not know, do I have to share all sites or some sites or only the rural sites, not understanding the conditions under which prices I have to share my sites [ph] – no – (01:16:06) to understand exactly whether there is a regulation which is enforcing this process, I think it is by far too early to speculate on that one.

For me, today, what matters is that there is no obligation to contract with somebody and then nobody can, let's say, use all my sites at that point in time. Again, I do not want to be destructive here on this [indiscernible] (01:16:31). I'm open to talk to everybody in this environment. If it makes commercially sense, we can talk about everything.

I talk about fairness in this regard that it cannot be that somebody is paying the full fixed cost for our mobile sites and some other is only using it from a variable cost perspective. This would destroy the business model and this would be investment unfriendly because then everybody would wait for the other to build mobile sites. So this is something which where the regulator has to find a way. My understanding is that he's a moderator of trying to find the optimized way of capital allocation under fair manner.

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Christian P. Illek
*Chief Financial Officer, Deutsche Telekom AG*

A

Okay. The next two questions, one is the implication on CapEx regarding the 5G auction. Look, our capital market guidance ends end of 2021. The massive coverage obligations will kick in in the years 2023, 2024. So therefore, I think we're sticking to our guidance which we have given and – beginning of last year, and is actually way too early to comment on what's going to happen before. I don't know how much spectrum we will acquire in an auction, so – but don't expect any kind of changes until end of 2021.

On the finance leases, look, we don't provide any guidance on finance leasing. What we obviously can tell you that we have entered roughly €1 billion of finance leases in 2018 in the T-Mobile US. On the other hand, we redeemed €1.2 billion. But we don't give you a forward-looking guidance on the finance leases.

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Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

A

Okay. So, I would also highlight in the context of your second question that we have a current build-out rate of 2,000 sites. And it's not LTE installations on sites, so physical sites per year. So it is a significant build-out rate already implied and/or built into the guidance and that actually go through 2021. So, that is something to keep in mind when you assess the future. There will also be collaborations and sharing for sure beyond 2021. And when it comes to the U.S. finances, I think the context also is extremely strong customer growth as well, so please keep that in mind and look at the full picture there.

So with that, I think we're concluding for today. Tim, any final words?

## Timotheus Höttges
*Chief Executive Officer, Deutsche Telekom AG*

Yeah. Look, I think we had a very, very strong 2018 when it comes to the organic development of our business. I like to mention that we sometimes forget that we made three big transactions, of which two got, let's say, approved without any remedies. And I want to just remind you that the biggest legal case, which was threatened our balance sheet, which was the [ph] total collect case (01:19:36) of €9.6 billion potential risk was settled in 2018 as well and it's fully digested now from a legal and in from a commercial perspective.

I'd like to mention that all businesses are growing, which was never the case in the part of Deutsche Telekom and that we are giving a guidance that our businesses are growing as well in 2019, including EBITDA growth of T-Systems as well in the case in 2018.

So, we have a lot of confidence in the ways forward and we are optimistic that we are able, and therefore, if you take it from a like-for-like basis, increasing our revenue by another €700 million – sorry, the EBITDA by another €700 million, increasing our free cash flow by another €400 million, I think this is demonstrating the confidence which we have on 2019 despite the fact that they are always challenges around us. Let's see how we get the merger approved. I think next time we'll have a much clearer sight on that one. Let's see how this [ph] 3.5 (01:20:55) auction is developing in Germany.

Honestly, I don't think that this will have an immediate negative impact on German's mobile market at all, and we are a little bit, let's say, over exaggerated this in the discussion today. And even let's handle the competition in our markets, I think Deutsche Telekom with a financial envelope of €12.7 billion investments is best prepared to keep or grow its market shares in the near future.

So, with this, I'll let you leave alone with the numbers and with the IFRS adjustments, which we all have to digest and I wish you all the good 2019. See you soon guys.

## Hannes C. Wittig
*Senior Vice President-Investor Relations, Deutsche Telekom AG*

Thank you, Tim. Thank you, Christian. And with that, the conference is now about to end. Should you still have further questions, we kindly ask you to contact us in the Investor Relations Department and have a good rest of the day.

**Operator**: We like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing +49-1805-204-7088 via reference number 523155£. We are looking forward to hear from you again. Goodbye.