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## PRESENTATION

### Operator

Good afternoon, and welcome to Deutsche Telekom's conference call. At our customers' request, this conference will be recorded and uploaded to the Internet.

May I now hand you over to Mr. Hannes Wittig.

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

Yes. Good afternoon, everyone, and welcome to our live Q3 2021 webcast and conference call. As you can see, with me today are our CEO, Tim Hottges; and our CFO, Christian Illek. Tim will first go through a few highlights and will be followed by Christian who will take you through the quarter's financials in more detail. After this, we have time for Q&A. And before I hand over to Tim, please pay attention to our usual disclaimer which you'll find in the presentation.

With that, I hand over to Tim.

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

Yes. Thank you very much, Hannes, and welcome, everybody, to our quarter results here. After 9 months 2021, it's a pleasure having you here.

I hope some of you still remember this year's Capital Markets Day. And at the beginning of the Capital Markets Day, I showed you my all-in-one chart with our strategic priorities. I'm very happy to say that only a few months later, less than 6 months, we have already made big progress with our strategic agenda.

Our commercial growth has continued to be strong on both sides of the Atlantic. We overdelivered against our stated cost saving target, EUR 1.7 billion compared to the EUR 1.5 billion. And we are driving our transformation towards our longer-term ambition to become the leading digital telco. Once again, we are raising our 2021 guidance for EBITDA and free cash flow on both sides of the Atlantic and for the group as a whole.

On the capital allocation, which you find in the middle, we have also been very active. Honestly, you know that I'm always criticizing Deutsche Telekom for sometimes being a little bit slow. But I have to admit that this time, I'm very surprised how many things were able to be executed just in these few months after the capital markets.

We took a decisive step towards the majority in the U.S. by securing a 5.2 percentage point stake increase. We exited The Netherlands and Romanian fixed line business as promised. Our exit multiple for The Netherlands was 8.7x EBITDA, and that's after we already monetized the tower -- the Dutch towers earlier this year.

We made great progress towards undistributed network leadership in all of our markets. And as of today, we passed over 2 million new fiber homes so far here in Europe; of this, 1 million in Germany, 1.3 million in Europe. In Germany, we have already achieved 87% 5G coverage. And in the U.S., we already have almost nationwide 5G coverage, and now we cover 190 million POPs with 5G in the 2.5 gigahertz band. This gives us 10x faster speeds.

Our adjusted earnings per share is up 13% year-to-date, and we are well on track for greater than EUR 1.75 target in 2024. To reflect the positive developments of our business and consistent with our stated policy, we will propose a dividend increase from EUR 0.60 to EUR 0.64 for 2021.

On the next page, you can see that all segments contributed to our organic year-to-date EBITDA growth, very convincing, 3% growth overall; 1.9% from the U.S. operation; 3.7% from the German operation; 5% from Europe, 5% really record number. Group Development grew by 10.6%, and systems grew by 6.5%. Germany has now delivered 20 consecutive quarters of EBITDA growth. That's already 5 years. Europe is on 15 quarters growth, and our total ex U.S. business has now grown 13 quarters in a row.

In sum, our organic group EBITDA grew by 3% so far this year. If you compare that on a core adjusted EBITDA level, it's 8.7% growth in this quarter. Without the accelerated unwind of handset leases, T-Mobile's core EBITDA grew by 11.9% organically. So on the most relevant metric for our cash flow, our group EBITDA grew by 9%.

Our investments are up 12% in the first 9 months to almost EUR 13 billion, which is another record number. And still, our free cash flow is up 55% year-to-date to over EUR 8 billion. It's nice to see that our flywheel is still very strongly working.

Let's go to the networks. I already referred to the good progress we made with our fiber and our 5G build-out. In Germany, we passed 700,000 homes with FTTH in the first 9 months and reached 1 million this week. This brings our total to 2.9 million and shows that we are on track for our 1.2 million target this year. We are also well on track to lower our fiber build cost, as promised, by around 1/4. In Europe, we passed 1.1 million homes as of Q3, bringing the total to 6.7 million new FTTH. In sum, we now pass almost 10 million homes with FTTH across our European footprint.

In Germany, we cover 87% of the population with 5G. We are also making good progress with our European 5G networks. And in the U.S., we reached 100 million people with our ultra-capacity 2.5 gigahertz 5G network, on track for our 200 million year-end target.

Our customer growth remains strong. In the first 9 months, we gained 3.8 million postpaid net adds in the U.S.; 1.2 million postpaid net adds on this side of the Atlantic; 488,000 new broadband customers, of which 276,000 is coming from Germany; and 193,000 new TV customers. As already mentioned, today, we raised our group guidance for 2021 for the first time in this year -- sorry, for the third time in this year. We are raising our EBITDA and free cash flow guidance. We do so on both sides of the Atlantic.

Let's start with the EBITDA. We raised ex U.S. EBITDA by further EUR 200 million to EUR 14.6 billion. This is EUR 300 million more than we guided initially. We also raised our U.S. EBITDA again by around EUR 400 million to over EUR 23.2 billion, amounting to over EUR 0.5 billion increase since the beginning of the year. We raised group EBITDA guidance to around EUR 38 billion. This is, and now carefully listen, EUR 1 billion more than what we have guided at the beginning of this year.

When it comes to our free cash flow, we raised our ex U.S. free cash flow guidance also by EUR 200 million to around 8.3 -- sorry, EUR 3.8 billion. This is EUR 300 million more than we guided initially. We raised our U.S. free cash flow guidance also by EUR 200 million to over EUR 4.7 billion. And in sum, we now guide for around EUR 8.5 billion free cash flow. This is EUR 0.5 billion more than what we have guided at the beginning of the year.

And with these great numbers, I hand over to Christian, who will take you through this quarter results in greater detail. Thank you.

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

Thanks, Tim, and welcome from my side. On Page 9, you can see our usual quarterly and year-to-date summary table. Let me also flag that we have provided you with some additional organic disclosure on Page 27.

The reported year-to-date figures reflect, of course, the merger -- the Sprint merger impact starting from April 1, 2020. And it's also impacted by the deliberate wind down -- use the camera, by the deliberate wind down of the lease revenues in the U.S., which has already been mentioned by Tim.

With that in mind, let me move to the quarterly financials, and let's start, as usual, with the revenue. Year-on-year revenue is up on a reported number by 1.8% this quarter. On an organic figure, that's 2.1%. If we take a look at the service revenue in the group, that grew by 2.3%. And if we just take a look at our European business, it actually grew by 2.5%.

Let's take a look at the EBITDA figures. Reported EBITDA was slightly down on a reported basis, slightly up on an organic basis. Again, the headwind of the handset lease business from Sprint accounted for roughly EUR 0.5 billion this quarter. Without the handset leases, and you know that's the core organic EBITDA which the U.S. always reports, we would have grown about 6.7%. Organic ex U.S. EBITDA was very strong with 5.3%.

Moving to the bottom line. Adjusted EPS was down by EUR 0.05 year-on-year, and that is very much driven by a valuation loss which we had to face due to our share call options which we have for T-Mobile U.S. but also which we have to face on the forward. Excluding the valuation loss, we would have seen an increase in EPS.

Free cash flow growth was strong. It grew by 80% this quarter. It was very much driven by the strong EBITDA growth, but there were also some favorable effects on working capital. Finally, on net debt. The net debt number with or without leases is up year-over-year, and that is very much driven by the C-band auction in the U.S.

So let's move over to Page 10, to Germany. In Germany, our revenues grew by 2.5%. The organic growth would have been 3.4% on a year-on-year basis, and the sequential acceleration is driven by the handset revenues. The organic EBITDA is up by 3.7%, pretty much the same number which we are facing -- which we had in the previous quarter. And Germany is currently tracking above the guided 2.5% to 3% adjusted EBITDA CAGR. But bear in mind, next year, we're going to lose the Lebara MVNO business, and that alone accounted for mid-double-digit service revenue and EBITDA figure.

Let's move over to the service revenues. Total organic service revenues grew by 1.6%. In the mix, mobile service revenues were pretty stable. Fixed line came down a bit but not significantly. In the fixed line business, obviously, we're benefiting from a strong B2B -- strong broadband business while wholesale remains a drag. As mentioned in the previous quarters, we had some extraordinary low-margin public sector business, which came to an end in October, which pretty much accounted for EUR 30 million each quarter or a total of EUR 90 million throughout the year. And that will not recur in next year's numbers.

In mobile, our 2% year-on-year growth was positively impacted by a slight increase on the roaming and the visitor revenues. On the other hand, we had a negative drag which we had to absorb between Q3 and Q4. And basically, these 2 effects cancel each other out. And finally, bear in mind that we have to absorb a 0.6 point drag from the termination cuts which we had to face here in Europe. But in any case, we remain confident to keep our 1% to 2% mobile service revenue guidance on the long term. So I think if you take a look at the mobile KPIs, very strong when it comes to the overall number but also to the churn numbers.

Let's move over to the fixed line figures. I like the broadband figures, to be honest, 5 quarters now in a row in the vicinity of 90,000-plus net adds, which basically gets us to more than 50% market share. The line losses remain almost at the same level, which is around negative 10,000. TV net adds, from my perspective, I think we have to work on this one. That is obviously, compared also to the previous year's, a softer number. And we had healthy fiber net adds on our retail business, whereas the wholesale business was subdued because of the Vodafone migration from our network onto their cable network.

Moving on to Page 14. You see that our strong broadband customer growth obviously is responsible for the 5.5% revenue growth which we had this quarter. And if you exclude the one-off effect which we had due to the flood, that number would have been close to 6%. Overall, organic fixed revenues grew by 3.1%.

Revenues on the other -- wholesale revenues, on the other hand, remain a drag at negative 4.4%. And let me remind you what we told you in our May call. We said it's going to be dilutive in '21, it's going to stay neutral or stable in '22, and it will be accretive thereafter. During the quarter, the German regulator approved the tariffs which we have agreed upon with our wholesale partner in our new commitment model, which actually confirms that they are pursuing a light-touch regulation as they were committing themselves towards.

So let me summarize the overall service revenue growth of 1.4%. Very strong broadband growth and associated with strong revenue growth. I think we had some tailwinds from this public sector business and we are facing an ongoing but a slightly declining negative track from the wholesale business. So what we're seeing is a very strong underlying delivery. But please make sure that you don't extrapolate the -- all numbers into next year because, again, as we said, we are losing Lebara and we are losing the public sector business.

So let's move over to Page 15 and the usual 2 charts on T-Mobile. Reported service revenues according to U.S. GAAP grew by 4.1%. As previously noted, the EBITDA AL was down due to the planned wind down of the handset lease business in the U.S. And the core EBITDA according to U.S. GAAP grew by 4.5%.

Total net adds postpaid were up 1.3 million, and the phone churn remained on a low level. I think what is notable, and I think Mike said it in the call, is the account growth. In Q3, we faced the highest account growth in 7 years, and year-to-date, our account growth is double the size it was a year ago. So -- and don't forget, these numbers are happening throughout an accelerated integration effort in the U.S., where still half of the Sprint customers are not fully migrated onto our network and we are only having 1/4 of 5G handsets in the market. So by all standards, I would say this is a very, very strong result from the U.S.

Let's move over to Europe. Organic revenues grew by 1.2%. The quarterly volatility which you're seeing here is related to handset and transit revenues. The underlying service revenue growth is pretty much stable here. And while we're seeing some strong roaming recovery in some markets, we are also faced with some significant termination cuts in other markets. So boosted by the strong service revenue growth in the European market but also due to ongoing cost savings, the adjusted EBITDA grew at a very strong 5.4%. And this is just another strong quarter and compared to the previous quarter where it was 5.3%.

So I think we can see the very good commercial numbers on Page 18 in Europe so I don't have to recall them and move directly to T-Systems. Revenues grew this quarter but there was also a bit of phasing in there. We expect a slight revenue decline for the remainder -- for the whole year in 2021. And the pattern which we're seeing is kind of a recurring pattern. You see that the legacy business, IT business going down while the digital solutions business and the cloud business is actually growing very nicely. EBITDA also grew also on an organic level. So that was a good quarter for T-Systems in Q3.

Moving over to GD, Group Development, on Page 20, strong organic revenue and EBITDA growth. Headline growth benefited from the inclusion of the Austrian towers. We include the Austrian towers but we deconsolidated the Dutch towers.

And let's move over to T-Mobile Netherlands. You see they performed and continue to perform well. The broadband net adds were at a very good 14,000 level for this quarter. The mobile net adds are 52,000 for the given quarter. The organic mobile service revenues grew by almost 5%, and that was driven by the underlying performance but also by some tailwinds coming from roaming.

On the tower business, on the next page, you see that the tower count has changed. We deconsolidated roughly 3,000 towers which was -- which are the Dutch towers. We included 7,000 towers from Austria. And the German tower count increased year-over-year by 1,100 sites. The recurring rental revenues grew 5.5 -- 5.8% this year on an organic basis, and EBITDA grew almost by 5% on a year-on-year basis.

So that brings me to an end of the review of the operating segments, and let me move over to net debt and net income. So both net debt and net income was impacted by the SoftBank fixed price options but also by the floating options and especially by the forward purchase agreement related all to T-Mobile U.S. shares. On an EPS level, on a quarterly basis, that was a drag of EUR 0.07, as you can see, or roughly EUR 500 million. On a net debt level, that accounted for a drag of EUR 1.2 billion. To repeat again, if you take the year-to-date performance in EPS, that was up by 13%, as Tim already said, and that led to the proposal to increase the dividend.

The free cash flow increased, as I said earlier on, 80% year-on-year, driven by strong cash flows from operations. And if you take a look at the net debt excluding leases, that increased by EUR 2.5 billion. And there is some headwinds or some negative effects in here which is obviously the options; which is a stronger dollar; which is accounting, if I'm not 100% mistaken, by EUR 1.4 billion. And there is the inclusion of the Shentel acquisition.

So on my final slide, on Page 24, you can see the ratios on leverage. Including our leases or IFRS 16, leverage is at 3.02. And if you exclude the leases, we are at 2.66. So we remain confident that we enter the comfort zone end of 2024. There is no indication whatsoever which basically brings us to the conclusion of not getting there, as we stated at the Capital Markets Day.

So I would stop here and move over to Q&A. Thank you.

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## QUESTIONS AND ANSWERS

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

Thank you very much, Tim and Christian. Now we can start with the Q&A part. I think you know the basic tools of the trade. (Operator Instructions)

So the first question we have from Polo at UBS, please.

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

I just have 2 questions. The first one is just on share buybacks. So if you look at T-Mobile U.S., they'll be on 2.5x leverage excluding leases around the second half of 2022. Therefore, is there any reason why buybacks at T-Mobile U.S. cannot happen in 2022 rather than 2023?

Also, you've been clear that you can use some of the proceeds from the T-Mobile U.S. buyback for buybacks at the Deutsche Telekom level. But can you maybe just give us a sense of the potential quantum? Because, potentially, you'll be receiving almost \$30 billion at the DT level, so would a significant amount of this be returned to Deutsche Telekom shareholders?

My second question is really just what are your latest thoughts on a mobile network build by 1&1 and how it will impact the German market and Deutsche Telekom? And could you maybe just touch on your expectations for the allocation of the 800 megahertz spectrum?

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

Polo, thanks for the question. Look, we have a share buyback program which we have laid out together with the merger plan which we are planning to succeed within '23, '24. And we have the \$60 billion program which we are planning then in these 3 years following that time. So nothing has changed to this commitment which we have laid out officially on the Capital Markets Day.

Now there might be always circumstances or reasons to pull that forward. There's nothing being decided, nothing being formally discussed at the time. We will decide that at the right time. But there is nothing to be speculated on at the point in time.

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

So on the mobile build-out question on 1&1, look, 1&1 has outlined its plan to collaborate with Rakuten on the build-out. They said that they want to go commercial in 2023. The company has a 25% build-out obligation by end of 2025 and 50% by 2030. So we don't expect that they're going significantly beyond that, but there's still a while to go.

And what's going to be the impact on the market? Look, what I assume and what we always said is they have to defend a significant back book of 11 million customers, and therefore, we don't expect them to act super aggressively in the market. But obviously, their production model will change from where -- procuring from Telefonica towards a model which is obviously provisioning of data based on their own network. This is what we're expecting so far.

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

Look, I see 1&1 is making a lot of, let's say, very clear and very logical steps towards their build-out. It looks like that they are driving an asset-light model by finding partners in that industry and not intensively extending their CapEx envelope. So they are talking to everybody in this industry to get access to their infrastructure.

I think the infrastructure layout is very clever in the way they're doing it. I share Christian's view that we don't see a totally disruptive pricing model coming from that one. But for me, this is a little bit, let's say, the fairytale of the hedgehog and the rabbit, and therefore, we are the hedgehog. And when we talk about the digital telco, when we talk about, let's say, the change in our infrastructure, when we are telling -- talking about the orchestration layer which we are building, and I don't want to repeat what I've laid out at the Capital Markets Day and on our strategy, we are preparing ourselves. Everything will be ready. So this ugly small hedgehog, Deutsche Telekom, will find its way. You will see.

It's a good inspiration, what 1&1 is doing on their modernization. I think the architecture is very smart. And it's not for us to be earlier at the destiny than the others.

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

Okay. And I think you had also a question on the 800 megahertz. So maybe just briefly on that one. There is, of course, only 60 megahertz of 800 megahertz available at this point. We have therefore proposed, like others in the industry and this proposal is public, that there would be extension and a larger auction at a later stage when more low-band spectrum can be auctioned at the same time.

The reasoning is clearly all of this 800 megahertz spectrum is currently in use. So withdrawing it from one of the operators using it and giving it to an operator that may not use it for some time in large parts of the territory doesn't seem to be very wise. So therefore, we will be -- we have stated our proposal. That's where we are right now.

The BNetzA is looking at this stuff. Just to say, I mean, the BNetzA will take a decision. We are open for a number of outcomes. We can even think of an auction -- an earlier auction under certain circumstances. But this is a subject of deliberations currently by the BNetzA, and we expect some proposals probably some time next year.

Okay. With that, let's move on to the next questions. And that's -- those will be from Josh at Exane, please.

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

I'll keep to 2. So the first was on the fiber joint venture with IFM. I know, in the past, you've laid out quite a clear grid of criteria you look for in making these deals attractive. But could you just let us know what made this deal more attractive than others in the market and whether you're seeing scope to do similar deals in the next 6 to 12 months or so in similar areas?

The second question is just around the competitive environment in Germany. I think having looked at your results, United, [Telekom Deutschland], we're still to see Vodafone, but it would appear that your share of retail net adds on the broadband side looks to be quite high still, I think above your -- probably above your target. And mobile net adds is very strong as well. So my question is have you seen any kind of competitive response from Vodafone yet or anything shifting in terms of prices across the fixed and mobile markets?

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

Josh, Christian here. So let me just flesh out a couple of things which is really attractive in the deal. One is there is no minimum commitment which we had to give to the investor. So we're all positive about the build-out figures which we put in the business plan, and we as Deutsche Telekom didn't have to commit to a minimum number.

The second one is obviously that we preserve the active layer and can charge for the active layer out of the joint venture, which is an important value element in that deal. And the third one is obviously, look, we get an additional reach of 4 million customers, but the leverage impact is below EUR 1 billion. It's actually around EUR 500 million.

So I think all in all, this is very good. But also, now we have to get it into play, right? This is the first kind of co-investment which we're doing which is off balance sheet. You have to adhere to certain rules that you keep it off balance sheet. I think now the action is to come, and obviously, I'm positive that this becomes a success.

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

Look, with regard to what's going on in the market, it's always a competitive environment in which we are working, but we have not seen major changes to the basic pricing grid now for some time in this environment. So this market is well segmented in its structure. And therefore -- I have seen even some step-up in promotions, which is normal for the course of -- for the time of the year. Christmas is coming and all this kind of stuff is happening.

Now all operators have these promotions. We had even some promotions in summer. But Vodafone, 6 months for free for switches and those out of contract, this is something which stands out at the time. It is available from the beginning of November for 3 months. And we are looking at it and the impact of this initiative here.

But we are not concerned at the point in time because, look, we have a very clear strategy with always best connected, our superior Internet access. We have a clear kind of leadership with service and with our 5G rollout. And we have a very good, healthy intake of 180,000 branded contract net adds. So why should we -- why change something in our value proposition which we have out there? So I think this is a reaction on their developments here, and I don't see this as a fundamental change in the market structure.



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

Great. Thanks, Tim. And the next question is from Ulrich at Jefferies.

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

I have 2 questions, please. The first one is, with the leverage being high, what made you decide to raise the dividend? I mean the consensus in the market was the EUR 0.60. So there would have been no pain to sort of keep it at EUR 0.60, save the money and work towards the deleverage. What specifically made you increase it?

And the second question is I don't want to make this -- I don't mean this as a difficult question, just as a chance for you to sort of share your thinking about it. But obviously, you raised the stake in TMUS at a point where the share price was sort of peaking out. So could you sort of put that into context, how you think about that timing?

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

Ulrich, yes. Let me start with the divi. I think we have to go back into the year 2019. Look, in 2019, we lowered the dividend from EUR 0.70 to EUR 0.60 because of the uncertainty of the merger. Now we're reporting on a continuous basis that the merger is actually trailing ahead of schedule and that the integration benefits in the U.S. are coming in faster than we anticipated it to be.

The second piece is, if you've taken a look at our EPS expectation, we're expecting a number which will grow around 10% to 12%. So therefore, I think it was time to also have a reflection to what extent shareholders should benefit from this EPS growth. And that led to the decision to actually increase the dividend to EUR 0.64. Actually, if you take a look at the current dividend, we could have gone to EUR 0.68, but we basically decided to stay in the middle ground in between EUR 0.60 and EUR 0.68.

But I think it also should give you an impression how confident we are that the integration process in the U.S. but also that the underlying commercial and financial performance in Europe will allow us to basically pay the divi. But bear in mind, there's no read across. We've got to take a divi decision every year given the situation which we are currently facing. So if there's now a 6.5% growth in there, don't make this kind of a CAGR growth because we decided to take a decision on the divi every year as we're getting towards the third quarter.

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

With regards to the U.S. timing and the deal here, the first thing is we have said on the Capital Markets Day that we are now heading towards a clear 50% ownership. The second thing is when we look into the business, we are looking on our net present value. We're looking on the business model. We are looking on the value which we see inside of the operations than rather looking on a day-to-day share price performance.

This is -- there is some volatility always in share prices going up and down, and therefore, this was not the driver for our decision. Because the pricing which we had on the stock was mainly driven by a fixed price which we had already agreed much earlier. And by the way, on the 45 million shares, the average price which we paid is \$101. This is what we were paying independent from the share price which was trading.

Now for us, it was very important to move quickly because it has a lot of advantages: first, the allocation of proceeds coming from the Dutch sales; second, the opportunity of getting SoftBank into Deutsche Telekom shareholding at a share price of EUR 20 Deutsche Telekom, the opportunity of not getting it all in one single step and being dependent on the share buyback at one point in time so we have now much more flexibility in this regard going forward. And thirdly, the win-win situation which we were able to realize with our partner, SoftBank.

So I think overall, it makes total sense. The valuation of that business, we see much higher than what you see on the current share price, just from the merger plan and the discounted cash flows which we received. And we are long-term investors, so the faster we are, the better it is. I like speed, and I was really impressed about what was possible in the last 6 months.

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

Thank you, Tim and Christian. And so the next question is from Jakob at Crédit Suisse.

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

I'll keep it to one, please. I just had a question around costs. Can you maybe make a little bit of a comment on what are your expectations from the rising inflation, particularly the impact on labor, upcoming negotiations of labor costs? How do you see those being impacted? And also, if you can help us just sort of understand what actually drove the outperformance on the cost side. What specifically is it you're outperforming on OpEx?

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

So obviously, Jakob, you can be assured that we have run a stress test given the inflation rate increases right now. And there are basically 3 areas which you have to take care of. One is obviously the labor cost, and that is always subject to tariff negotiations. And I think in the previous years also, the tariff renegotiations were generous. Remember that we have closed a generous deal back at the beginning of the COVID crisis, so I expect that pays off a bit.

The second piece is actually energy. The energy costs within our portfolio are hedged for the upcoming year in 2022. So more than -- more than 80% of the contracted volume is hedged. So from this, we don't expect a lot of impact. And we have a tailwind in Germany which is the reduction of the renewable energy surcharge, which actually helps us.

And the third one is equipment costs where we have long-term contracts with our vendors. And we don't expect a significant deterioration of that number. So everything is pretty much in line with the plan with or without an increased inflation rate expectation. And the third topic is we expect this to be a temporary effect so that it will come down in 2022 and 2023 onwards and won't stay where it is right now.

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

Look, I'd like to add something to Christian's comment, maybe not only on labor cost but on the indirect cost as a whole. And the older I get, the more agile I become. So the way of leaner and more agile organizations and the way how we operate this company is changing every day. We become much flatter in the hierarchies. We have less silos. We have less leadership positions, and we become more flatter in the way how we get organized. And it always impressed me in the way how our organization is now working cross-functionally in clusters, in organization units which are not always aesthetic.

The second thing is this hybrid working, and we mentioned that already earlier, is creating a new setup of how we organize our headquarter buildings or our organizations. So we are heavily working on reducing our real estate. And I think, listen, it's fair to say that we are making good progress in this regard so that we make more work and -- co-working, sharing here, that we are bringing more people into the same building, that we really utilize in this more hybrid working world the offices which we have, which is helping us on the cost side.

On top of that, we have this comprehensive digitization, which is the head of our strategy. And that is true as well for the internal processes and the way how we operate. So this is another driver of cost saving beyond that one.

And then there is a last element that we have questioned in our -- what is that, say, thing we have to do on our own? And what can we, let's say, do with partners in a better value chain? And one recent example which is affecting our ERP IT people is that we have structured a deal with Accenture that they're taking over our ERP people. Because our ERP migration is almost accomplished, but they can use this ERP digital expert for third parties as well. And that is a win-win-win situation for Accenture, for us and as well for the people working in this organization.

There were some headlines in the news recently that we are reducing our IT experts. That's not the case. We are building IT experts. We need more nerds to drive our digitization in this organization. We even can't get enough at the point in time. So this is not something where we are reducing our labor force. That's an area where we build labor force across our footprint. But with the SAP outsourcing deal, we found a new partner for a specific activity.

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

Jakob, Christian here again. Sorry for misinterpreting your number. It looks like I have to go to the ear doctor. I thought you were asking a forward-looking question on a backward-looking question, apologies.

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

Okay. So we are happy with where we are on the cost, made good progress, and there were lots of drivers. It was this very broad-based cost reductions that led us to outperform the target across all the segments, all the categories. IP migration was an important part and so on.

So -- but with that, let's move on to the next question. It's from Robert at Deutsche Bank.

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**Robert James Grindle** - Deutsche Bank AG, Research Division - Research Analyst

Two questions from me. Tim, I think hedgehogs are quite cute rather than ugly, by the way.

The first question is Christian mentioned that the growth recovery of T-Systems benefited from some phasing, and there was a favorable comp, I think. So does that mean there's no fundamental change in customer demand at this stage? Is that fair? Are you seeing a pickup in orders yet as business confidence returns? And also, on the retail side, is growing footfall starting to help you on TV in Germany, for example?

And a follow-up on the fiber JV in Germany. How does it work with the external investor proceeds? Do you keep, put straight back in? Or do you inject at various staging points?

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

Yes. I can start with the T-Systems question. So look, first of all, all numbers on Q3 are compared to 2020. And in 2020, obviously, we had a much stronger lockdown than we have this year. So both on the order entry side, you could see some favorable effects this year, and also on the revenue side.

Fundamentally, there is demand in the market. But what we're seeing is a current pattern. It's a rundown of the existing IT business, which continues to be there at the same speed where it used to be because that's all laid down in the contracts to what extent you have to improve your terms and conditions every year. The second one, there is demand in the market which is very much along other areas, which is public cloud, which is digital solutions, and I think we have to manage that balance. All in all, this market is growing. There's no question. But we are getting dragged down by our legacy IT business every quarter, and that pattern continues to be the same.

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

Maybe on the T-Systems side, just because we looked at this is -- we have this transformation which is going on in our T-Systems business where this classical IT outsourcing, which we call MIS business, this business is shrinking, transforming itself into more cloud-based service. So this is something which -- where we are, I would say, more than halfway through already with our organization.

But what I find very encouraging is that we see some really compensating growth on these new businesses, 18% growth year-to-date on the cloud, 13% growth on digital solution, another 4% growth on the security. And on MIS business -- sorry, the MMS business and other entities, we even had double-digit growth. So this is a mix.

And I'm always saying T-Systems should work ambidextrous. It should be, let's say, on the one side, growth; on the other side, the transformation of the classical business. And we have seen that this was working nicely. We have closed some activities globally which were not profitable. This is why we are not having this super high growth ambitions. We are very much focusing on turning around the EBITDA and the free cash flow and growing the margin into a 9% ratio prospectively. And that is, I think, on a good track.

On the fiber side, look, the -- (foreign language)

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

So on your question on fibers, yes, we're getting EUR 450 million from IFM in the first place, and we are basically putting equity in a similar amount into the joint venture. So in a way, it's being injected back.

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

Great. And with that, we move on to the next question, thank you, to James from New Street.

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

Yes. Two questions, please. The first one was just regarding performance in Germany overall. I mean you're putting up some very strong numbers across the board. But if I look at the mix reported between consumer and business, I mean, it looks like revenue growth for business dipped slightly negative this quarter in the German division. I was wondering, is there a specific driver for this? Are you seeing more competition start to come in from some of your alternative carriers? Just interested on your kind of thoughts on what's going on in the business line within Germany.

And then secondly, if you had anything to say on kind of thinking around your tower assets, it'd be great to hear an update. It's obviously 6 months post the CMD now. Are you getting any stronger preference for one structure or another? I mean are you still interested in doing a transaction? Or could it be that you just keep control of the tower assets in their current form?

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

Let me do the one on the B2B revenues, James, because it's a bit -- it's a headline number. It's not an organic number. We have some changes in revenue recognition, which have -- also explain why we actually talk about organic in the German unit. We have some international businesses and currency effects and so on. But from a year-to-date perspective, the organic growth was 2.2%.

So we are growing in B2B as we have done in the past and as we will do going forward. The drivers for this growth have been outlined in our Capital Markets Day, so you can maybe revert back to the presentation. Just to recap very quickly, we are seeing growth in digitization, especially in the SME market and in the public domain. We are hopeful we'll see some adoption of digital products, IoT, campus networks, SDx. We're seeing roaming recovery, of course, although not much yet in this quarter. And -- but going forward, hopefully, that will be the case.

And then we also have the DT specifics. We moved our T-Systems business over to Germany. We expect synergies from that. And we completed the IP migration on the B2B, which will also give us a tailwind. So we feel confident. And as I say, this year-to-date, we can get you -- take you through the drivers here, but we are organically low single-digit positive.

With that, maybe -- unless you want to add something, we move...

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

I go to the towers.

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

Yes, exactly.

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

By the way, I'm still struggling with the question, and it might create a perception which we do not have. Because quarter-over-quarter, we had a 3.8% growth on the EBITDA in Germany, which I found very strong. We had super broadband net adds. We had almost no line losses anymore. What I found very encouraging is the growth which we have seen, especially on the consumer side, on the mobile -- Magenta mobile services. And on top of that, we had a strong service revenue growth as well on the consumer side with almost 2%.

So therefore, this is good.

And as Christian laid out already, the challenge which I see is with all this super broadband which we are serving in Germany, we should do a little bit more TV and Magenta TV. This is something which I'm focusing on these days. And the fiber net adds weren't that strong as in the past, but this is a normal circumstance on the market development. But we are very comfortable in our market share relationship which we are looking for. So I found this -- Sriniv's achievement quite encouraging.

Now coming back to your -- the most hottest question on this call today, which is the question about what is Deutsche Telekom doing with the towers. And look, guys, the answer is simply, there's nothing new to say. Everything has been said already. I can tell you what we have achieved in 6 months was unbelievable and is complex, from the doing and from the approvals and from making that happen in our numbers here. We are considering opportunities here. We are working on this one, but we will inform you when we have something new to tell.

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

Thanks, Tim. And with that, we move to Akhil at JPMorgan.

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

I've got 2 questions, please. Firstly, I just wanted to go back to the U.S. If we look year-to-date, T-Mobile is down about 20% off its peak and Verizon and AT&T are also down 10%, 15%. And it seems that investors are starting to worry a bit about the longer-term competitive outlook with pretty robust momentum in the cable MVNOs and obviously, DISH entering the market, too. I just wonder if you could just give us your updated views on the competitive market in the U.S. and just how you think about that position of T-Mobile US. Obviously, Tim, you mentioned that you're very confident long term, but if you could maybe outline why and obviously, why you disagree where the market is pricing in.

And then the second question was on regulation. In Germany, we've seen the new German telecoms law. And if I'm right, one of the provisions allows for operators to potentially start to raise pricing with inflation. So I was just keen to understand your thoughts around that, if that is a likely change. And if that goes through, whilst you [can't print] what you'll do, what are your thoughts on the potential for operators and the market to accept that sort of shift?

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

Look, I start with the second piece of the question because before I went into the meeting, I did discuss with Srimi exactly on that topic. And the question is twofold. The first one is, when it comes to wholesale prices being cost related, is there an impact on -- from inflation going forward? I believe yes. Have we taken any activities on this one? No. Are we looking into this one? Definitely. So this is, let's say, on this wholesale regulated environment.

Now when it comes to the indexation of consumer prices, we do not have today any kind of indexation in Germany. You know that from the U.K. market. I think we have it in a market like Austria and some smaller Eastern European markets. But in principle, we don't have an indexation for inflation in our retail prices.

There's another element which we should always consider. The moment you have an indexation for your existing customer base and you raise the prices but the high street is not following, you create even a bigger back book. And I have seen some of our competitors in other markets where, at the end of the day, the consequence was that their ARPU was shrinking in this environment despite the fact that they had the possibility of indexation.

So look, the first one is I think we are well positioned with these clever hedging policies and what we have done, even the aggregation of buying power for our build-out, that we have now the inflation risk limited in our -- from our cost perspective here on our cost base. Second, if it is needed that we have to pass them through, we can do that on the high street and can try to do this prospectively. So this is, let's say, a thing which we are working on it. But this is, I think, too early to say how we are acting on this one. This is an action which we have internally, but we haven't found the final answer on this one.

The second question is about the U.S. And look, I think I will never -- by the way, I think the market is very clever. So -- and the market always has their thinkings and how they look at it. But I think the development which we have seen for the whole telco market in the U.S., including the cable cos was not very encouraging over 2021 so far, despite the fact that most of the U.S. telcos has performed broadly pretty well from its operational perspective. So it's more worry about the future and how this market is working.

There is worry about intensive -- higher intensity on the competitive landscape triggered by maybe the offers AT&T is doing in their -- on their customer base. There is a worry which comes from the idea of fixed mobile convergence and the question about is there a development taking place as we have seen in the German and the European markets so far. This as well may be a concern about -- the question about the regulatory impact which comes from the administration.

Honestly, I always understand concerns which are underpinning, let's say, the question about the future. But for us, our business place is very much built on -- first, on the integration of the Sprint infrastructure, which gives us a super high cost advantage, reducing the cost onetime by integration but then having better economies of scale in the way that we produce. It very much comes from the idea of expanding into new markets where we haven't been successful in the past, where we see the big uptake the moment we are opening up our 5G network, rurals, small markets, B2B opportunity as the next.

And even our home broadband opportunity in areas where fiber is not available at the point in time is encouraging. So therefore, I'm not as pessimistic as some of the sell-side investors has underlaid that. I think there is a solid growth in this market. And even it's not as disruptive, it's more focused now on infrastructure. And we are very well positioned on this infrastructure side at the point in time.

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

And there was an interesting scenario which Mike laid out throughout the call. He said if the Sprint churn would be at the same level like the U.S. churn -- T-Mobile U.S. churn, actually, the net adds would have been 1.2 billion rather than 673 million. So you see the underlying impact on that migration effect.

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

And to add, the good news is actually that those customers who have migrated have the same churn. And that's evidence that that's a relevant consideration.

Next question is from David at Bank of America, please.

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

So a couple. I might just follow up on James' tower question. I know you said very clearly there are no developments to announce, but maybe you could just remind us how you are looking at potential partners. What are the priorities for you?

And then on the whole kingmaker topic, have you had any more discussions around your BT stake and how you could see your influence there and potentially evolution with Mr. Drahi? Any insight would be welcome.

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

Next question, please. No, look, David, on Spotify, you can hear my answer, downloaded already 300,000 times. The first -- look, sorry but -- look, on BT, I cannot say something at the point in time. There is -- we have a stake in this company. I think BT has done a lot of things right, solving a lot of issues on -- which were on their plate. Especially, we recently saw their cost reduction coming in earlier. We have seen that a lot of, let's say, this fiber story is doing well. The BT stock is something which we see as a long-term value creation for us, and it's very interesting now to see what's happening around that asset here.

I cannot speculate on Patrick Drahi's intention here in this environment. He has a standstill until the 10th of December. So we are very close to this one, and then we will see. I -- we keep us -- all options open in this regard. It's good to have that stake in this dynamic environment. But please understand that I cannot speculate around, let's say, opening up our hands here to show the market where we are heading to and then suddenly something else is happening. I think we are -- it's wise for you as a shareholder of Deutsche Telekom that we are not discussing too much about what we might do.

On the towers, I think a good question because it is the options which you have. First option, sell it, get the money and run. Second option, sell a piece of that and run the business like Vantage or whatever, fully consolidated in the balance sheet of Deutsche Telekom and develop your business and making the value transparent to the outer community. Third one is find a strategic partner, manage the business and participate in the value creation over the long term, consolidated or unconsolidated.

Look, we do not need the money. We see the deleveraging coming in the U.S. We have stemmed a lot of, let's say, things like Shentel and others in this quarter and spectrum. And we have our guidance on the debt very well under control, so thanks to Christian and his team. Second -- so there is no need for us to urgently sell that asset.

Second, the question about 10% or 20% sale and IPO, I'm not convinced because you are then in a constant conflict. Is the build to suit and the expansion of your TowerCo affecting your debt burden and your rating at the mother co. So you have 2 different business models which it's very difficult to consolidate that in one.

Thirdly, finding a partner. We highly prefer the option of having a strong partner who is working with us going forward. And I even prefer the deconsolidation of that asset, that this company is entrepreneurial, independent on, let's say, participating in the growth of the 5G build-out, the edge cloud environment, the infrastructure business and all this kind of activities which is driving the value and the growth of this entity.

We are participating in that growth these days. You have seen the nice numbers on Group Development which are driven by the towercos. And therefore, we are elaborating on these priorities, as I mentioned them. And the moment we find the right solution, we will share that. It's not something which we don't want, but it's too early to comment that to communities here.

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

Thanks, Tim. And with that, we move on to Ottavio at Soc Gen, please.

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

I have a couple on my side. The first is on financials. And the second, it's a bit broadly on strategy.

First one on financials, I was wondering if Christian can help us in the moving piece of the free cash flow for the next quarter. Looking at the numbers you delivered at 9 months, you've almost done the free cash flow for the full year, and you would have exceeded if you do -- you would have booked an advanced payment of EUR 900 million on cash leases. So considering that you prepay these cash leases, considering the drag on working capital from the U.S. is decreasing significantly because of the change -- this big shift on device financing and the EBITDA growth compensating broadly for the CapEx increase, I was just wondering, is just a matter of management keeping their traditional prudence the reason why you haven't upgraded free cash flow guidance more or there is something that we should be aware for the fourth quarter?

And secondly, as I said, broadly on strategy. Now you have talked significantly about the one -- that you want to share the burden of the rollout of this FTTH, and the JV are instruments to that. But 2 things basically arise. The first one is that if you basically don't have the asset in your balance sheet, on your perimeter, then you need to use it and therefore you have to have a contract. So I was just wondering which sort of wholesale agreement you have. And would that wholesale agreement be open to all the third parties or you have a preferential rate to basically lease back some of these lines?

And the second is on the options. In the last press release, you basically said that you have the option to acquire 1 share from IFM to consolidate the company. And I was just wondering if your ambition is just to consolidate, to control or to own these assets eventually. So I was just surprised about 1 share, why you don't want to buy back the full asset and potentially do the same with all the others, considering that one of the issues is that going-forward free cash flow generation. So this company will be very significant considering the cash coming from the U.S. So why, eventually, you don't want to own the full asset?

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

Let me start with the last question first. So first of all, this 1 share to consolidate the business is just creating optionality. A full consolidation -- if we would lay out this, already in the contract, obviously, it would create a consolidation impact. Therefore, I think we want to keep our options open on this one. This is how I would answer the question, but we cannot give you the details of this contract.

And on the free cash flow question, Ottavio, it's very much around we expect that there is more CapEx to come in the fourth quarter this year, that we have to pay a little bit more cash taxes, that some of the positive working capital effects which we have seen in the third quarter will pass away. And the fourth one, you mentioned yourself, it's prudence.

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

And with regards to the strategic question on FTTH and our joint ventures, look, our joint ventures -- our FTTH infrastructure is always accessible for everybody else. We don't have the contingent model anymore. We have now a commitment model which is helping us to fill the pipes and to make our fiber platform more financially attractive for us.

And you know that we have -- before we went into all this big build-out commitments here, we have signed deals with Telefonica and with Vodafone and with 1&1 so that their volume commitments are already helping us in the build-out which we have laid out. So we had first the contract and the commitment from these guys, and now we have fulfilled the CapEx and the infrastructure commitments which we recently announced.



Now that said, our idea is always to have a wholesale agreement. Today, we have no prices for FTTH which are regulated. It is an [exposed] situation, and we are bilaterally negotiating this contract. Our idea and our ambition is always asking for reciprocity. That means that we get the capacity as well to use infrastructure from third parties in an open access model as well. And every week, we are signing with municipalities this kind of agreements. Recently, I think we found a way for Hamburg as well, which is bringing us forward.

So it's open to all third parties. We want to be open as well to other parties to use their infrastructure, that we do not have this inefficient overbuild. And do we have special rate for leasing back? No, we don't have this kind of special rates for leasing back.

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

Okay. Thanks, guys. And with that, we move on to George at Citi. And I think we have 2 more -- I can see 2 more that have questions. We'll take those and then wrap up. So George, if we can have your questions, please.

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**Georgios Ierodionou** - Citigroup Inc., Research Division - Director

It's a couple that are linked. So the first one is around the EU regulation around artificial intelligence act. I'm just curious to hear your comments whether centralizing some of the antitrust regulation on this front at Brussels level makes sense, whether the initiatives that are taken are in line with what you expect and if you feel protected from these initiatives.

And then my second question is more -- and you mentioned edge cloud earlier. It's more to understand whether it does make sense for you or is necessary in your view for some of the hedgehogs to get together in order to create some differentiation on the edge cloud or whether you think, going your separate ways, you can still find a way to remain relevant within the value chain.

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

So first, by the way, I'm not sure whether I know this AI act. I know the DMA. I know the DSA, and I know this initiative on (inaudible) and especially from Madam Vestager on the antitrust regulation, which is now in the reconciliation with the regional government.

And by the way, to be very clear, the proposal for the digital market, the so called DMA, is something which we highly support, highly support. It is very important that the competition law is adopting the dynamics of the digital markets and the geopolitical realities. That means, on the one hand, effective enforcement as far as abuses by dominant platforms are concerned; and on the other hand, enabling companies in our sector to gain the necessary scale via cooperations or consolidations, especially when it comes to intermarket consolidation. And therefore, we welcome these activities.

I have had recently a conversation with Vice President Vestager as well on these things because I think the dominance of the so-called gatekeeping platforms is visible to everybody of us, and we have to introduce some restrictions on practices like antitrust laws and the like.

I'll give you an example. These big hyperscalers are buying very small companies which we are using to digitize our core infrastructure and our -- the software-ization of our infrastructure service -- network services. And the moment we do that, they get bought by the big hyperscalers. They call this killer applications. But due to the size of them, nobody in Brussels look into that one.

And the second thing which -- I mentioned this one, is the U.S. market has 3 to 4 players, China has 3 players. The big markets are gaining big economies of scale. And what you have seen in the U.S. since we have merged our activities, there is a super activity of building infrastructure. So the opposite of what everybody is expecting, that now there is no CapEx or there's a restriction taking place, the opposite is the case. It's better for the consumers and it's better for the country that we have consolidated. Otherwise, we would never have been in the position to catch up to AT&T and Verizon in this environment.

And we have seen the same in The Netherlands. It was good for the consumers that we were able to -- or allowed to merge with Tele2. And these are 2 good examples that our merger control in the telecommunication environment is by far too restrictive.

I think one of the answers is that antitrust laws should define in Europe the market not by 27 pieces but by a single one and then looking into whether there is sufficient competitiveness. So this killer application and killer acquisition thing is something which we mentioned. I think the intermarket consolidation for the European telco sector is something which we mentioned. But overall, the Digital Market Act looks like it's trying to reduce the power of these gatekeeper platforms. And therefore, I think it's a good initiative for our sector. It's not fully addressing everything what we have looked for but it looks encouraging.

Good. On the edge cloud, makes sense or necessary for hedgehogs, the hedgehogs again, to work together, to go separate ways? Look, if hedgehogs make love, they do it very carefully.

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

Okay. I think we leave it with...

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

So no, no, I give you -- no, it's good day. It's a Friday. Let me say that this way. There are only a few telcos who are still able, from an IT competence, to build managed services around cloud infrastructures. If I look to who has the IT capability and the digitization services like we have under T-Systems, most of the telcos don't have that anymore. So our partners are not the partners which the normal hedgehogs would be, the telco hedgehogs. This is not what is helping me here.

This is more the question about are there other system integrators, managed cloud service providers, are there other infrastructure companies who are providing cloud. Look, I think we need an ecosystem here in Europe where we work better together. We are supporting this initiative because we need a sovereign cloud in Europe. We need -- as well from a legislation perspective, the cloud act and the GDPR, the European -- is not asynchronized at the point in time, so there's a lot of legal uncertainty here which [runs] to decisions. So we need a kind of solution for the European environment.

I think it is not about only infrastructure. It's as well on platform as a service. And therefore, we are supporting this open-source idea based on the Gartner principle to build a kind of cloud edge ecosystem for our infrastructure. I'm open to do this as well with my competitors if they are interested, but I don't see them really investing into this independently.

We have seen recently some announcement from telcos to do this with hyperscalers. We are considering doing this more in our ecosystem with our own competence to keep the control about the infrastructure, especially about the edge of our networks. And if we find partners here in Europe who are driving this Gaia-X or the open-source standard for cloud infrastructure, this might help us as well in the edge environment.

So a very complex question. I think we should dive a little bit deeper into the logic of edge cloud and what it means for fixed line and mobile and how we drive that. I think I'd keep it here for now, and I offer you that we have a deeper discussion on this one soon because there's a lot more to say to this. From a time perspective, I cannot handle it right now.

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

It's nice to have all these animal references. I remember when we were talking about the golden goose and the duck and all these wild geese.

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

This was (inaudible), wasn't it?

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

Exactly. Those -- the wildlife, [wild boar]. So now we move on to Emmet at Morgan Stanley, please.

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**Emmet Bryan Kelly** - Morgan Stanley, Research Division - Head of European Telecoms Research

I've got 2 questions, please. The first question is for Christian. Christian, you mentioned a couple of times on the call that we should not extrapolate the current German EBITDA growth rate due to the loss of Lebara and the public sector contracts. Can you maybe just give us a little bit more detail what kind of magnitude of EBITDA headwind are we looking at? Maybe I missed it on the call, but are we looking at something like 1 to 2 percentage points as an approximation?

And then the second question is kind of technology-related, a little bit like the last question. I just saw an interview with Walter Goldenits a few weeks ago talking about stand-alone 5G trials in Germany. Can you maybe say a few words about what you're seeing on these stand-alone 5G trials? And is that taking us closer to -- with these so-called 5G killer apps like virtual augmented reality? And I have to ask as well, Do you have any kind of early thoughts or early readings on what metaverse traffic could mean for your networks as well?

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

Okay, Emmet. Let me try to answer the first question, which is, by far, easier than the second one. So on the German EBITDA, I think I said it in the call. The Lebara effect is a middle double-digit service revenue and EBITDA figure which is going to come as a headwind. And I said something on the fixed line business with regard to the public sector business, but that is low-margin business. So it's not affecting the EBITDA significantly but the service revenue.

So look, we have a guidance of 2.5% to 3% for Germany out there. We are happy with the guidance. If we're better, obviously, we will report better figures. But all what I'm saying is the 3.8% which you have now seen for 2 quarters in a row have to be basically adjusted for certain effects, and Lebara is the biggest one when it comes to EBITDA contribution.

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

And we, of course, just raised the guidance for ex U.S. by EUR 200 million, and it was solid above consensus, right? So this is not meant to be -- this is mainly line item management, right, that this was about.

So stand-alone 5G, we are working on it, and we will make it live when it will create benefits for our customers. So we are absolutely on it. And at this point in time, it, of course, depends on handset availability and other factors that we will not yet -- we don't see yet a significant benefit. In the U.S., we operate a market-leading stand-alone network.

Last question maybe from -- and now moving on to Usman from Berenberg.

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

I've just got one remaining question, please. It's on the FTTH JV that's been done. So I was hoping -- if you could give any kind of details on what kind of debt load the JV is expected to carry or anything about the penetration growth or the penetration on the infrastructure that's assumed or

returns or any kind of guidance to the economics of the JV and how much volume Deutsche Telekom has committed to the JV in terms of retail versus wholesale, that would be great.

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

Look, Usman, I got to be sure on that -- on the answer. We said it's about 4 million additional rural homes which we want to connect. We didn't say anything about retail and wholesale. Obviously, the JV has to conduct business with other third parties. Otherwise, if it's just relying on us as the only and sole customer, we're getting into a problem when it comes to consolidation. But we don't declare any details on the financial construct beyond what has been said last week.

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

And Usman, we can give you sort of some more deep dives to the extent that is possible right now at the IR level. And I think with that, thank you very much for your attention. I'd give -- pass on to Tim for his closing remarks.

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

Look, guys, it's -- we are approaching Christmas and we are late in the year. And therefore, in Germany, it's normal that you have a small rhyme for ending the day. And therefore, thank you for supporting us throughout the year. This was a very exciting year for us. We are on good track on executing everything on the Capital Markets Day. I'm very encouraged, and I want to repeat what we are doing and where we are going.

I am a little hedgehog, brown and small. But when I feel frightened, I never crawl or curl into a tiny ball. It's autumn '21 and we built a strong nest. Telecom is still the best. Goodbye, guys.

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

Okay. That is -- gets us in the right mood for Christmas, for sure. And the conference, with that, of course, is now drawing to a fitting conclusion. And should you have any further questions, please, we kindly ask that you contact Investor Relations department. And thanks, Tim. Thanks, Christian. And thank you all. And with that, I pass back to the operator.

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