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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.

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

Good afternoon, everyone, and welcome to our live 2022 second quarter and half year 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 for the half year followed by Christian, who will talk about the segments and our group financials in greater detail, and then we have time for Q&A. Before I hand over to Tim, as always, please pay attention to our disclaimer that you find in the presentation. And now I hand over to Tim.

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

Thank you, Hannes, and welcome to our First Half and Second Quarter 2022 Earnings Call. We had another strong quarter, good results on both sides of the Atlantic, and we made continued progress against our strategic priorities.

T-Mobile reported 2 weeks ago. They delivered strong growth in all key financial numbers, strong customer growth and a guidance upgrade, as usual. Outside of the U.S., we also delivered 4.4% organic EBITDA AL growth in the first half, over EUR 3 billion free cash flow and a guidance upgrade, as expected.

A couple of weeks ago, we announced our tower deal with DigitalBridge and Brookfield, great guys. We are top taking EUR 10.7 billion off the table. It's good for the winter. And we keep 49% of a great and well-positioned asset so that we have a lot of, let's say, influence and impact on the future prospects of this entity.

Today, good news for you. We are raising our '22 guidance on both sides of the Atlantic for the group. And so we remain well on track for all our capital market targets. I have to say we are ahead of our capital markets targets in almost every category.

The flywheel keeps working. Moving on to organic IFRS. On the next page, T-Mobile U.S. EBITDA AL was slightly down, but this is intentionally because we are unwinding handset leases. Without this, our growth in the U.S. would have been 7.9% growth. We are a telco, yes, don't forget that.

Germany remained strong as well, growth of 3.3%. And the European segment was another one, another time, very strong 5.7% growth despite the new Hungarian revenue tax, which I really hate. Group development grew 15%, and Systems grew another 15.7%. Even here, we see that our transformation is on a good way.

Germany has now delivered 23 consecutive quarters of EBITDA growth. Europe, 18 quarters. And for the group, organic group EBITDA AL grew by 0.7%. Excluding T-Mobile handset lease, our core EBITDA AL grew by 6.5% year-on-year. I think this is the most important number for us here operationally.

Organic service revenues for the group are up by 4.5%. So far this year, I think even good results. Organic service revenues ex U.S. are up by 1.8%. Now let's look at our market-leading networks.

We now pass over 11 million European homes with FTTH. Of this, close to 4 million already in Germany. We are on track for our planned 2 million fiber homes, which we are passing this year in Germany, and the machine is really scaling up.

Our ultra-capacity 5G network passes 235 million U.S. homes, way ahead of our competition and on track of 260 million by year-end. I think now our brand proposition in the U.S. is paying off more and more. I get the feedback from customers. We win all the network test. We are really leading 5G in the U.S.

This week, T-Mobile agreed to acquire a highly attractive and complementary portfolio of 600 megahertz frequencies to further strengthen our network leadership. And for the ones in this group who are not technicians, the 600 megahertz is backbone. This is really the working band, which is carrying a lot of traffic. In the future, it will significantly help us to extend even our spectrum leadership in the U.S. and the capacity plan, which we're having.

U.S. is really a strategic spectrum play. We cover 93% of Germany with 5G and 37% in Europe, up from 29% at year-end. And there are a lot of discussions going on how we can accelerate as well in this field. Our customer growth remains strong. Mobile customer growth accelerated on both sides of the Atlantic. Our fixed line growth was a little bit slower, partially due to temporary impact of the new German telecom laws. But definitely, and Christian will talk about that later on, much stronger than from our competition.

Coming to ESG. ESG is on the top of our agenda. By the way, not only from strategic targets, but as well on a day-to-day business, when it comes to the energy efficiency of our company. We are making good progress against our environmental targets with a 10% year-on-year decline in energy use in Germany. By the way, it's 14% and a 7% improvement in energy intensity for the group.

We are also delivering on our social agenda with multiple initiatives and please have a look in YouTube, Instagram, TikTok, wherever you want, on our latest campaign against hated speech in the Internet, highly recognized. Company against hate speech, support for refugees, our T-Mobile project for helping 10 million people in the U.S., there are a lot of activities going on in this social category. But we will push further on these topics, especially on greater diversity, which should be recognized.

Given the importance of this, this year, I decided to take over the responsibility organizationally for ESG and be assured that we will now even make an acceleration on this ESG agenda going forward.

We have started by extending ESG targets beyond the Board of management to all DT managers. So this is already implemented. I'm happy to announce that we will host an ESG Day for investors and our media people on the 12th of October to give you very much details about our activities, which we are taking.

T-Mobile raised its guidance 2 weeks ago. Today, we are also raising our full year guidance for our ex-U.S. business and for the group as a whole. Second time this year, by the way. You can see our new guidance on Page 8.

When looking to these numbers, please keep in mind that we are much richer than what you see here because these numbers are based on an exchange rate of $1.18 while consensus is based on $1.08. Also remember that our guidance excludes the first quarter contribution from T-Mobile Netherlands. This was EUR 190 million EBITDA. Ex U.S., we now expect EUR 14.3 billion EBITDA and EUR 3.8 billion free cash flow, both up EUR 100 million and both ex-Netherlands.

For the group, we now expect guidance for adjusted group EBITDA AL of around EUR 37 billion EBITDA. For group free cash flow, we reiterate more than, and more than means more than EUR 10 billion. And for adjusted EBITDA, we reiterate more than, I mean, more than $1 -- sorry, EUR 1.25.

That said, given our strong first half and the strong U.S. dollar, the emphasis here is clearly on the more than. Let me wrap up this overview with the next page. I love it. Here, you can see our strategic agenda that we showed you at our last Capital Markets Day.

We are rapidly delivering on this agenda, both on the operational and on the portfolio side. I'm always surprised how constructive a company can work from its home office perspective and how fast things get executed. But anyway, that's a side comment. We just see that everything is on track or already executed, still some homework to do.

Our leverage is not yet back in the corridor. On the contrary, the strong dollar has pushed things out a little bit further. We now own 48.4% of T-Mobile, not yet the majority, which we desire.

Thanks to T-Mobile Swift and highly successful merger integration, we're getting close to the point where a buyback can be launched. I'm getting so many questions. What will we do when the buyback comes? I think the answer is about balance.

Balanced capital allocation. Surely, we will want a good portion of the TMUS shareholder returns in cash. On the other hand, it would be unwise to rule out some further TMUS stake increases. Our North Star is long-term sustainable growth in DT earnings per share. And again, here, with more than EUR 0.90 after the first half year, I feel in a very good position. With that, let me hand over to Christian, who has worked day and night on getting all the details for you for the Q2 results, and he will guide you now for every single detail, and I have a break.

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

Thanks, Tim, and welcome from my side. Today, we're going to start with a review of the operating segments, and let me start with T-Mobile U.S. As Tim said it already, excellent financial results have been reported 2 weeks ago, 6% service revenue growth in the second quarter and according to U.S. GAAP, more than 10% EBITDA growth.

As a result, guidance was raised. Let me just flesh out some important elements. Synergies were raised by EUR 200 million, EBITDA after leases was raised by EUR 200 million and customer growth was increased by EUR 600 million. Let's focus on the customer growth of the T-Mobile U.S. business.

And what you've seen is 1.7 million of postpaid net adds. That is the strongest results, which T-Mobile U.S. has delivered in any of its history. 380,000 new postpaid accounts. This is best in the industry and best ever for T-Mobile, and a stunning result also in fixed-wireless access with close to 600 million -- 600,000 net adds in the last quarter.

On top, postpaid churn was down by -- was down to 0.8%, which is for the first time below Verizon's churn. So -- and this all happens despite the Sprint integration in the first half of this year.

On top, the postpaid ARPU has increased by 2.8%. That also led to a guidance increase. And ARPA was up by 3.3%, again, led to a guidance increase from the U.S. folks. I think it's amazing results, and they clearly stand out relative to what we've seen from the U.S. competition. Let me move over to Germany.

And Tim said it already, 23 quarters of consecutive growth in EBITDA. EBITDA grew by 3%, and it was fairly largely driven by profitable revenue growth. After a slight depression which we have seen in our fixed business last quarter, you see that our service revenues returned back into solid growth.

And let me note, this contribution is coming from both segments, B2C and B2B. So the B2C growth in the last quarter was on fixed 3.6%. B2B was growing by 1.7%. Mobile revenues grew in total as service revenues by 2.6%. We obviously had headwinds from the termination cuts, but they were offset by a recovery of the visiting and roaming revenues.

The loss of the Lebara MVNO has not impacted our numbers yet, but this will fully materialize in the upcoming quarter and the upcoming quarters after that one. We move into the fixed business. You see that we're seeing a slowdown in the net adds in broadband. And this is coming from 3 effects.

One is we're seeing a slower market growth, which is largely driven by higher penetration. We see a, I would say, an acceleration on this effect by the impact of the telecoms (inaudible). And the headwind which we expect -- or which we have seen in the second quarter is around 15,000 to 20,000 net adds in that given quarter.

On top, there's an additional adverse effect, which is coming from full fiber, the time gap between signing up for a fiber line and getting connected as a new customer is taken much longer than it does at the DSL infrastructure. And we're only accounting customers who have been connected. So these 3 effects basically deflate the net adds, which we have seen in Q2.

But having said this, what you see is very, very nice up-selling effects in the fixed line business in the broadband business. If we just compare Q1 '22 versus Q2 '22, the percentage of customers having a broadband line, which have at least 100 megabit, increased by 2 percentage points. And the number of connections on fiber increased by almost 300,000.

So we absolutely remain comfortable with our CMD guidance, which is above 4% broadband revenue growth every year. Let's move over to retail and wholesale. As promised in the last quarter and despite some ongoing headwinds, our retail fixed revenues returned to growth.

Wholesale, we're showing a 1% -- a 1.5% growth rate, as we promised you in the last call, and that was due to the rollover of last year's headwinds, but also due to price increases in the commitment model.

In the second half, we expect that, that growth will moderate again, and this is due to the regulated reduced unbundling fees. If we go to the next page on mobile. You see we have a healthy intake on mobile net adds, 194,000 this given quarter. This is very much driven by strength in B2B and Congstar. And that offsets the adverse effects coming from the telecom's law in the consumer segment.

So with that, I would conclude on Germany and move over to Europe. And here, again, strong performance. Organic revenue growth was up 4.2%, exactly the same number you've seen in the first quarter. Mobile service revenues grew by 2.4%, same effect. The recovery in the roaming environment basically offsets the adverse effects from the termination rate cuts.

The organic revenue grew by 4.5%, and we had to book the half year impact of the Hungarian revenue tax in this quarter results. If you would exclude that, the EBITDA would have grown by 7.8%. I can only hope that this is a singulated issue, that someone is coming up with this kind of extra tax.

So what we're seeing in Europe, and I think we have some visibility that Europe will see greater headwinds from the energy cost relative to Germany and the U.S. And finally, on the next page, you see the strong commercial results being at mobile net adds, broadband net adds or FMC net adds. So very, very strong and solid results from the European segment. Let's move over to GD/Towers.

GD/Towers added net 900 sites over the 12 months, and this is coming from 1.3 billion new builds. But also, we decommissioned 400 sites in that portfolio. Very nice organic recurring revenue growth at 9% and very nice organic EBITDA growth at 6.5%. I would say another strong and peer-leading performance.

Finally, let's get to T-Systems. And what you see is that the organic revenue basically is flat. We have a nice increase in EBITDA of 14%, which is higher than the previous -- on average than the previous quarters. The order entry was solid and is slightly reduced relative to last year's Q2. But in last year's Q2, we booked a very large deal. So this is not a like-by-like comparison.

So finally, let's get to the financial results on a reported basis. In Q2, you see that revenues grew at close to 6%. EBITDA after leases on an adjusted basis grew by 5%. You see a decline in the adjusted EBITDA ex-U.S. of 3.4%. This is due to the fact that in the meantime, the Dutch and the Romanian business has been deconsolidated.

If we would take an organic view on the adjusted EBITDA ex-U.S., it would have been a growth of 2.7%. Nice 9% growth in adjusted EPS, EUR 0.49 a share in the given quarter. Free cash flow was stable despite the fact that we had 16% higher CapEx and our financial net debt grew by 10%, ex leases and 14% including leases. Now we'll get more into the details later on.

So as mentioned on the free cash flow, free cash flow was stable relative to last year's free cash flow. And the key drivers are more than EUR 0.5 billion more free cash flow from operations, less lease payments of roughly EUR 200,000 and they offset the higher CapEx spend of EUR 700 million in this given quarter.

If we basically take a look at half year results on free cash flow, you see a nice growth of 22% relative to previous year's free cash flow, and we are absolutely well on track. How did you call this more than, we are more than confident to basically meet the greater EUR 10 million.

On adjusted income, we saw a growth of 16% or more than EUR 300 million. It is very much driven, as you can see, by the EBITDA growth. All up, now we basically have in the first half year generated EUR 0.94 per share as a result on EPS.

Also, super confident that we're going to meet our guidance, which is a greater EUR 1.25. So finally, on Page 25, please. You see the development of the net debt. And Tim said it already. Net debt grew EUR 8 billion Q-over-Q. That is basically being driven by 3 effects: the dividend payout of EUR 3.2 billion in Q2, the share increase in the U.S. of 1.7% to 48.4% of -- which costed us EUR 2.2 billion, and there is FX effects of EUR 4.6 billion, which is clearly driven by the stronger dollar.

But I think it is needless to say we are benefiting a lot from a stronger dollar on many other metrics. So if we take a look at our leverage ratio, including leases now, we are close to 3.3%. Excluding releases, which is the metric, which is most often used by our peers, we are close to 2.8. So we still have to do some homework in order to get back into the corridor until end of 2024.

But let me stress out, I'm confident that we're getting there. And you see also support coming, for example, from the Tower transaction, which will basically generate EUR 10.7 billion as proceeds, and that will lower our leverage ratio, including leases by 0.1x, excluding leases by 0.2x.

So finally, a couple of additional comments. First, on the pension deficit. The pension deficit has been reduced by EUR 2 billion -- by more than EUR 2 billion. This is very much driven by the higher interest rates. We have now a pension deficit of close to EUR 4 billion, and we are coming from above EUR 6 billion in the last quarter.

And finally, a couple of words on the inflation. and we had a deep dive in Q1. So let me focus here on the German business. You know that we are well hedged in Germany throughout '22, '23. Very good coverage into '24. We will benefit from the retirement of the renewable energy surcharge. And therefore, we have pretty good visibility in the energy costs up until '24.

Also, we reached a sensible wage agreement with the German Union, which gives us visibility for the next 2 years. And most of the cost items when it comes to procurement, for example, construction cost for fiber, are long-term contracts, which are very well protected. And our leases are being determined with our MLA, which we closed prior to the deal with Brookfield and the other guys.

And therefore, we have an inflation cap in here.

On top, finally, you know that 85% of interest costs are coming from the U.S., 100% is based on fixed. Outside the U.S., meaning DT ex-U.S., half of them is based on fixed terms. So we're only exposed to 50% on the ex-U.S. interest cost.

With that, I hand it over to Tim.

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

Yes. Thank you, Christian. Let me wrap up this and share the main takeaways. These are difficult times for all of us, and a lot of, let's say, black swan events are happening in short term here. And therefore, being the anchor of stability and giving clear guidance in the future, but not even stopping the transformation that is, I think, the main attitude which I'm expecting here from leaders and from the whole organization.

We should not fall into (foreign language) as we say in Germany. Something like German angst here. (foreign language) is the worst advice for the way forward. Innovation and transformation is the path to sovereignty.

Our strong execution in the U.S. continues with many best-ever quarters in a row and guidance was raised for the second time this year. Outside of the U.S., we delivered 4.4% growth organically on the EBITDA, and we are also raising our guidance.

While inflation is a challenge, we have high long-term visibility for the key cost drivers, especially on the energy cost in Germany and in the U.S. We raised our stake in T-Mobile U.S. to 48.4%. It brings us clear sight to our goal of owning the majority in the U.S. And we successfully completed our GD/Tower transaction on a record total valuation here. And we are taking EUR 10.7 billion proceeds off the table while retaining 49%.

We are well on track with regard to our capital markets midterm targets, both operationally and when it comes to our portfolio as well. And with that, we are happy to answer your questions and to get ideas about how we can improve.

QUESTIONS AND ANSWERS

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

Thank you, Tim. And now we'll start with the Q&A part. (Operator Instructions) And we are beginning the Q&A with Andrew at Goldman Sachs, please.

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

I just had a question on macro sensitivity. So not really inflation impacts, but on you specifically, but more on your B2B macro sensitivity and just referencing the context of some pretty aggressive declines at Orange and indeed BT.

So the question is just how you think about your B2B macro sensitivity and what leading indicators do you look at? And can you give us any context in terms of how you think about B2B being more or less sensitive now than B2B was in the previous kind of like downturn such as the global financial crisis?

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

Okay, Andrew, our B2B business performs very well, 1.7% revenue growth this quarter. So not comparable to what we have seen from other European operators here. And this was achieved despite headwinds from big public sector contracts in 2021 and some headwinds in IT.

I think what we can expect is maybe if there is a recession coming that some of the IT spendings of companies will be cut. That is at least what we have seen at the beginning of the lockdown period, but we don't see that in our business.

Our segment is very healthy based on connectivity, where we have a very strong position and we had a very strong first half. Just to give you a number here, first half mobile revenue growth in B2B was 6.6%. So this was a very solid quarter. And based on the connectivity, we have very interesting services customers require for the digital ecosystem, being it SDx services, which is, let's say, the development of our classical MPLS business, and on the other side, unified communication services. So the capability to work from everywhere integrated into the business tools customers require.

On top of that, we have intensively and if you would ask me, what have you done over the last weeks aside of the tower transaction, spend so much time on the development on our B2B portfolio. And you know that we have a strong digital service business within our group. And more and more of our midsized customers are asking for different reasons, mainly driven, by the way, by efficiency to get support for connectivity, including digital services. And that is, let's say, what we are now consulting, what we are developing with the customer, what we are selling to them, including the system integration capabilities, which we have.

So I think we are very well positioned to digitize the Mittelstand, which is one of the growth areas here. We don't see a cut of IT spends yet. So we are growing in this field at that point in time. And we have a lot of new products in the market which will help us to compensate our potential shortfall.

So our B2B perspective is more optimistic than what we have seen from our competition.

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

Thank you. And with that, I'll move on to maybe 2 additions. I think we have the advanced IP migration, obviously, helping us also in Germany compared to our peers. And we also grew B2B very clearly in our European franchises. And also in Europe, we are not seeing IT, let's say, contracts currently being curtailed or anything. So moving on to Polo at UBS, please.

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

Just 2 quick ones. The first one is about use of cash going forward. So you mentioned earlier in the presentation that you will participate in a TMUS buyback to realize cash, but you haven't ruled out increasing your stake in TMUS further. But what are your latest thoughts in terms of buying back shares at the Deutsche Telekom level medium term?

My second question is really about Telefonica Deutschland have announced their intention to raise prices across their mobile portfolio. So is there scope for DT to follow? And how do you think Deutsche Telekom -- sorry, Telefonica Deutschland's move will impact the market?

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

Thanks, Polo. So how we want to use the cash. First of all, we will participate if there's a share buyback coming at the share buyback. We haven't reached the 50.1% yet.

When it comes to buying back our own share, we're absolutely open to this. Look, we have approval from the shareholder Board meeting until, if I'm not mistaken, 2026 in order to buy back up to 10% of our nominal capital from DT. So that is one of the levers. Obviously, that will depend on the development of the DT ex-U.S. business and how this has been valid in some parts relative to the other parts. But that is one of the levers.

Once we have achieved our 3 targets, which is 50.1% in the U.S., deleveraging and continuing with the fiber rollout and the 5G rollout, if there's excess cash, that's part of -- that could be part of the equation, absolutely.

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

Look, with regard to the question about raising prices. First, raising prices and discussing about the prices is not something which we should do over investors' call or with the competition here. It always depends on our ideas how we are gaining or keeping customers.

And let's talk about the mobile business. We have launched a totally new portfolio of mobile tariffs into the market following the idea of family tariffs in the U.S. And our idea is mainly to participate in a market which the big telcos are not focusing on at that point in time, which is this a second brand -- second card business in the German market, which is, by the way, 50% and more.

We want to have all family members in Deutsche Telekom. This is a retention, stickiness, but it is what should be as well affordable for our customers.

So in Germany, the stingy mindset is that father gets the best network, maybe mother as well if she behaves properly, and the kids are getting, let's say, an ILD tariff or something like this. And they're not starting with Deutsche Telekom despite the fact that everybody knows that this is the best network.

And this is exactly the market which we are addressing right now. Second, what you have seen on our ARPU levels by what we have offered in the market is the more for more logic, and we were able to upsell into this one. This resulted in an ARPU growth. So not increasing prices, but increasing the value customers are getting. They are willing to spend a little bit more. Upselling and more for more are the paradigms which we're pursuing.

It is not easy to increase prices. If the costs and all everything is inflationary, I'm ready to increase our prices as well. But you should know, for me, it's more important to keep customers happy with us than forcing them out of Deutsche Telekom because the moment we increase prices, customers have a termination right. And churn is more expensive than developing upselling and more for more strategies in our proposition.

Nevertheless, if our costs are increasing proportionately over the time, new tariffs might become more expensive for new customers here because we have to earn the money for the infrastructure and the investments as other industries are doing it as well. And therefore, I understand that Telefonica is thinking the same way.

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

Okay. Thanks, Tim. And with that, we move on to Emmet at Morgan Stanley, please.

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

Yes. My question is for Christian, please. Question, just coming back to Slide #35 in the appendix. Can you maybe just give us a little bit more detail on the outlook for energy costs, how the increase in spot prices can feed through to higher OpEx and maybe to Germany EBITDA over the next 2 to 3 years, please?

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

Emmet, when it comes to Germany, we don't expect over the next 2 years a significant increase in energy costs because the retirement of the renewable energy surcharge is approximately worth EUR 100 million.

And the second piece is that we have a very good coverage, especially for '23. But increasingly, for '24, when it comes to secured pricing in '23, it's more than 80%. Emmet, where we are exposed, and I think we got to be transparent on this one is we don't have the same coverage in the European business. And obviously, what you're seeing is that the forward prices are fairly aligned among the different countries.

So where I see some headwinds is in the European segment. And that can be north of EUR 100 million. But the way how the European segment is responding to this is they are actually increasing prices to pass on these cost inflation impacts. And net-net, this is so far a net positive.

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

Even if Emmet doesn't want to have an answer from me on this topic, I have to say, Emmet, by the way, for all the investors, Emmet has made a fantastic video interview with some of the leaders of the telco industry recently, and it's worth looking. He's a great interviewer.

So independent from that one, let me go to 2 topics. The first one is due to the fact that we might have a difficult winter in Germany in front of us, we have started already to reduce our energy consumption in the company. And as I said earlier, we have reduced it already by 14%, more to come. We are even considering a consolidation of buildings with regard to heating and other activities.

And on top of that, we're intensively working on PPAs. Last week, we announced that we have a partnership with Statkraft, which is the biggest renewable energy provider here in Germany. And with this agreement, we are committing for 16 windmills parks to take the energy perspective. This will give us a guaranteed price for the energy consumption, which we have.

And on top of that, we are fulfilling our ESG targets. And there's more to come. There's another deal. I'm not sure whether it's announced already, but at least approved, which is in Poland, where we have a partnership as well, a PPA with solar and a windmill park. So this will directly help us to cover our energy supply and to fulfill the ESG targets.

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

Thanks, Tim. Moving on to David at Bank of America, please.

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

I guess, Christian, you mentioned about the leverage, and you're very confident in bringing those levels down. But you have set yourself very high bar with the IFRS 16 target. And when we do talk about after lease, you're already at a level that I think a lot of your peers would like to be at. And you have the benefit of maybe more rapid EBITDA growth. You're past the peak CapEx in the U.S., so there's good cash generation.

It feels like that leverage could be coming down quite quickly. And again, relative to peers, arguably much more prudent. It feels like maybe the wrong question to ask in a rising rates environment, is there any potential to maybe relax those targets?

And I guess my other question, you've obviously got the net proceeds from the Towers deal due on completion. Do you think you would like to own more than 50% of TMUS pretty well ahead of the buyback? You've obviously got a much cleaner route through the options to a lower-priced entry point.

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

So on the first question, maybe we are a little bit more prudent than the other guys, but I want to lead in that direction as well. And what we said at the Capital Markets Day is we want to reach the corridor, which ends at 2.75x by end of 2024. I would much -- I feel much more relaxed if we're getting into 2.5x. So this is why I asked the organizations to stay very focused on the leverage targets.

Secondly, I think take a look what has happened at the interest rates. About 2 years ago, the treasury rate in the U.S. was close to 0%. Now it's 2.25%. So we don't know what's happening on the refinancing market. So it's better to buckle up and stay super disciplined on this one.

And thirdly is, look, I'm coming from 3.3%. So let's have that discussion if I'm getting closer to the corridor, whether we can lose in the target a bit, yes or no. On the 50.1%, I think the answer is we have 3 targets being set and Tim talked about them in the presentation. One is the infrastructure build-out being at fiber or 5G. The other one is 50.1%, and the third one is get back into the leverage corridor. And I think we want to fulfill all 3 of them. And once we have fulfilled them, then there's obviously an open debate, what's the best value creation vehicle, whether it's been increasing the share in the U.S. or whether it's buying back share in -- on the DT level or doing something different. But we are not at this stage yet. So therefore, I think we want to maintain the consolidation. We're super disciplined and focused on this one. Whether we're increasing our share beyond 50.1% is depending on fulfilling the targets, which I basically described.

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

Thanks, Christian. And we move on to Adam at HSBC, please.

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

I wonder, firstly, if you could talk about the fiber to the premise build plans in Germany for the second half, please? Because I think I'm right to say you need to double the pace of your fiber build in the second half. So just kind of any process-related stuff around that would be helpful.

And then secondly, in reference to your prepared comments on the telecom tax in Hungary, I just wondered if you could talk about the level of engagement with the countries that you're working in, whether or not there's more to be done there or whether you just see this as very much a one-off event?

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

Okay. Let me start with the telco tax in Hungary. So we have been super explicit that, obviously, if this is becoming let's say, more persuasive across the footprint that we have to obviously take action on the CapEx level. And that lobbying has taken place on a local level. You can be rest assured that all the NATCO leaders are talking to political stakeholders and tell them, look, we're very dedicated on investing into your company -- into your country and providing best possible networks.

But you have to give us sufficient funds in order to fund this. So that's the way how we're doing this. So it's not like Deutsche Telekom is making a very public speech on what we expect from the different countries more happening on the local level. And I'm hopeful that the Hungarian tax is the only incidence, which you're going to see in this respect. But can I promise this? No.

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

Maybe to get a little bit deeper on this one. First, I'm in personal contact with President Orbán on this subject. I had already 2 discussions on this one.

Second, I left a clear letter on this subject that we think this is anti-investments, what he's pushing forward. And I was very clear that this might have even a consequence on the rollout of fiber going prospectively because the economics stay the same. And therefore, we have to take actions around that one. So there's a very open and clear dialogue around this one.

We have a very good infrastructure in Hungary, and that's no doubt. But this is definitely contra-productive for investments. Second, with regards to the FTTH run rate. By the way, EUR 2 million is not our target. Our target is EUR 2.5 million. And I can tell you, we are trying to get EUR 3 million a year for the same money which we have laid out. So we are even trying to improve the productivity. I have constant discussions with Srini and the technical team on this one because we are now learning how to improve the productivity and the rollout. We have (inaudible) where we don't do the construction alone, we do it with the cities.

I have constant dialogues with the municipalities with regard to when they are open the streets for renovating water pipes and others that we are using this for putting our favor into this one. And on top of that, we have this internal competition with Glasfaser Nordwest and with our GlasfaserPlus activities, where we've created an internal competition who is doing it at a cheaper base. So with regard to the second half of the year, look, this is the normal build-out things. There are a lot of construction going on, but they are not counted yet because they are not installed -- finally installed.

So this is the normal kind of buildup procedure, which you have in every construction. I can tell you, I'm more convinced that we do a little bit more with the money we're having than less with regard to the numbers I have seen. So therefore, this is the seasonality of the build-out our target stays, and I see us even accelerating on it.

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

Last year, we also had the same seasonality, so you can look this up. So we are not -- we are fine with our targets. Jakob at Credit Suisse, please.

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

Two fairly quick ones. One, can you just help us a bit with the outlook for your German broadband adds. You mentioned a few different drivers, the telco law, the slowdown in the market and the fact that it's taking longer to connect customers. I guess just when you sort of net those out, do you think your broadband growth will slow further from here? Or do you think it might actually rebound?

And also if you can maybe just comment specifically whether you're seeing pressure from fixed wireless access within that? And then just very briefly, I think you mentioned very strong growth in Congstar in mobile. Can you maybe comment a little bit on the performance on the Magenta brand?

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

Hang on a second. Thanks. On the broadband trends, which we expect is -- well, the slowdown in the market will not disappear soon. I think that's something we all have to deal with.

But what's going to disappear is the (inaudible) impacts. And we said in the second quarter, there are estimated around 15,000 to 20,000 on net adds, and that will pass away over the course of the second half of the year.

And the third one, the time gap between a presales of a fiber line and the connection is something which is currently a very, very focused activity area, how we shorten that timeframe. That should also help us when it comes to the broadband net adds in the future quarters.

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

Look, we discussed that, Christian. And one of the issues is, in the past, and it was Deutsche Telekom who was offering their customer base to the others to gain new customer net adds. Now our churn is at a record low.

And by the way, you might have questioned where is the line losses number in our presentations. We took it out of our presentation because they're not existing anymore. So the overall market is not anymore feeded (sic) [fed] by the customer base of Deutsche Telekom.

The second thing with regard to broadband is if you look to the net add market share, which we have gained in the first half year, we are significantly above our 40%. So this is more a market issue, how strong the market is growing than rather a performance issue in our company.

And then again, what Christian has said, we had this headwind from the telecommunication law here. But nevertheless, I'm more optimistic, especially if I see orders coming in for the FTTH services, which are coming soon.

There is a lot of interest with regard to higher bandwidth. And that is something which we are fulfilling. So 4% broadband revenue CAGR is something we're expecting. And I'm expecting even a slight increase for the net adds over the next quarters.

Your question with regard to Congstar. Look, it's a great performance of that company in the way how they are coming along, the flexibility, which they're giving to customer segments here. We appreciate that. But nevertheless, our prime focus on the mobile side is the acceleration of our next Magenta proposition. We want to see a significant growth on customers in this field. And the first weeks now starting 1st of July are very encouraging. We have seen 100,000 new subscriptions on (inaudible) Magenta already. And I'm very excited that we found a very interesting proposition, which is replacing our former idea. So therefore, this is the focus area. Congstar is very nice to have, but this was due to the fact that we had no new proposition on the Magenta side until 1st of July, which is now the prime area of advertising.

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

Fixed wireless access, you want to comment on this one?

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

Okay. So on fixed wireless access, Jakob, I would say there's a distinct difference between the U.S. and the German environment. 2 reasons. One is, obviously, we have competitive overlapping fixed infrastructures like cable, like our vectoring network, which is covering 80% of the households. So therefore, that's different relative to the U.S.

And second point is take a look at the price points you have in the fixed line environment. It's somewhere in between EUR 30 to EUR 40 and you don't have the same distinct price advantage if you subscribe to a fixed wireless access relative than you have in it in the U.S. So we don't expect this trend to replicate here in Germany relative to what you've seen in the U.S.

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

And we are not seeing it on the ground. So this is a clear statement from our German field force. And anyway, next, we move on to Robert at Deutsche Bank, please.

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

Tim, with much lower leverage ahead at the (inaudible) level from deals, TMUS buybacks and growth, are your thoughts turning to M&A in Europe at all? 4 to 5 years ago, you said that any spare euros would go to the U.S., and that was a great call. I'm just wondering whether you feel the same now.

And Christian, I heard what you said about the discipline of the leverage target at group level. Might you simultaneously also start talking about net debt and leverage on an ex-U.S. basis, perhaps bringing focus to the undervaluation and dividend cover of the stub.

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

Thank you, Robert. First, there is no M&A European consolidation ambitions we are putting now into the focus, to be very clear. European, from its telecommunication infrastructure, is becoming more nationalistic. There are a lot of, let's say, national interests with regard to the assets there.

Second, I think the Kingdoms are very well protected by their CEOs, and they don't see maybe the bigger storyline behind combination here. They are more focusing on managing their universes.

And thirdly, I'm not seeing big appetite from investors towards European market consolidation. Look, I have to say the world is changing and maybe I see something a little bit earlier than others, but the softwarization of telecom and frame it telecom as a service, global connectivity offers. And I'm not only talking IoT. I'm even talking the business communication service side and the like.

The softwarization of telecoms is for me, a very interesting area, which we have to position ourselves. And the more of the software you're developing, the more interesting the scalability across borders becomes. So there are new cross-border synergies.

And if you -- I'm not sure how deep guys you're in it, but the CPaaS logic. The area around companies like Sinch, Twilio, the areas about Vonage and companies who are defining a software layer based on the vertical last-mile infrastructures, mobile and fixed line last mile offers, telcos are offering it's an interesting proposition, which is growing at high rates in billions.

So this is an area where we have to present. Otherwise, telcos gets cannibalized. And there are more things. Look how we have standardized now across our whole businesses, TV and the Audi car development, home OS, the operating systems for the routers, the one app. You see the software is becoming more and more relevant, and it gets standardized across countries.

So the more countries you are offering, the better the economies of scales are in this regard. So this is something I see coming, but I don't see on the other side from telcos in Europe a big degree of consolidation well.

So to be very clear, I'm not pushing for this. I'm not having this on my priority list, not at all. My next priority list after the U.S. priority, which we hopefully will fulfill sooner than later, is to improve Deutsche Telekom's business into a more digital telco.

With regard to better productivity, lower cost, better customer service, better big data management, cloud infrastructures and the so-called horizontal layers, which we need to provide global connectivity. This Is the area where we're investing. This is the area where we see the biggest benefit for our customers and for our profitability. My appetite to consolidate the European market is limited.

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

Okay. Robert, on your question with regard to leverage, let's put some data to it. So if you take a look at our current leverage, which is 146, including leases, 106 belong to the U.S. and 38 belong to the ex-U.S. business. And if you take a look on the leverage increase, which we have seen from the beginning of the year up until now, more than 100% of the increase was due to activities in the U.S.

So what you can allude to is that the ex-U.S. leverage is actually currently better than the overall average and obviously, the U.S. leverage. The second one is if the Tower deal will close, obviously, the proceeds will be allocated to the stub, how you called it, and that will further drive down the leverage of the ex-U.S. business.

And on the dividend. Look, I think we can have an argument whether you allocate 100% of the dividend only to the DT ex-U.S. business because that would be the assumption that TMUS doesn't play a role for DT AG shareholders. So -- but right now, the way how I described this is that the dividend is completely being covered by the DT ex-U.S. business. I hope that answers your question.

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

And of course, the T-Mobile buyback, as we said, will also be relevant going forward, as you also mentioned. So with that, we move on to George at Citi, please.

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

Actually, a couple of follow-ups. First on the leverage and the TMUS situation. I just wanted to maybe get your views on how you expect to deal with the true-up situation, whether you will proactively try and be above 50% as things stand in case there is the issuance of shares, or whether that's something you expect to address at the time?

And then maybe a second element around the leverage question just asked. In the presentation, you are talking about going into the corridor by 2024. But in your answer earlier around interest because you kind of, I think, crystalline, kind of implied maybe it's good to be prudent earlier. If you don't mind, just help us with putting the 2 things together to maybe better understand your behavior around the TMUS buyback when it starts.

And then my second question is for Tim. And obviously, there's been the contract extension recently, but there's been some press reports, I think a couple of weeks ago in one of the German newspapers suggesting that there is a succession planning already going on at Deutsche Telekom. I know in the past, it's been like very process driven around succession. So obviously, the handover from Thomas to Christian was over period of time. Is it something that already is in your mind and you're considering? Or is the article completely making up stories based on an executive coming over from one of your competitors?

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

Okay. Let me start with the first thing. On the capital allocation. And by the way, I'm not sure whether for everybody the true-up logic is clear. We have agreed with SoftBank that there will be 49 million shares being issued.

If the TMUS share price exceeds $150 on a 30-day VWAP until the end of 2025, that's the logic on this. So in this case, this will dilute us if this is taking place from a shareholder perspective. Now in our consideration, you should always have as well that we still have shares agreed that we can buy them from SoftBank at a price of $101 per share. And on top of that, that we have a swap in the market for shares at a price of $142. I'm not sure whether this is the forward, correct.

So therefore, we have somewhat put some securities around our potential acquisition on shares of the U.S. which makes us independent from the market development. Now for us, and I'm not sure whether this is your question, including true-up, we want to achieve a clear 51% shareholding in the U.S.

Second, timing. Look, we have always made the timing based on observing the market, taking opportunities, trying to understand where our partners stand in this regard. So therefore, we are discussing all options at every time, but I'm not releasing the state of that discussions here. My hope is that we have this problem solved earlier than 2024.

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

George, thanks for the question on the leverage and whether our stated guidance is actually a prudent one. Look, if you compare leverage with leases and without leases, the difference is more than 0.5x.

If you recall it back as we introduced the IFRS leverage number, we assume that the lease impact will be 1/4 of a point and not 0.5 point. So assuming this stays the same, and bear in mind, if we close the deal on Towers, obviously, there will come additional lease liabilities in our balance sheet from the DFMG business and the Austrian business. But let's assume for the time being that delta is 0.5 points. If we get into 2.75x without leases, I would be at 2.25x. And I think that is very prudent. And this is how we want to keep the discipline in the organization.

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

Now there is a question with regard to the -- my personal plannings and my earlier leave of -- leaving the company. Now listen very carefully. Yes, it's true. I'm leaving. I will leave tomorrow for 1 week to Majorca and hang out there. And after that week, I will come back and then I will fight for my tea, as I always have that.

This whole story from Handelsblatt is a summer lull, honestly, which I found amusing because it's a fiction. It's a totally investigated story. I do not know what they are constructing together. It is true that we have hired back. By the way, [Metzer] who did an outstanding job at O2, I have to admit, and he was my personal assistant for years in the past. He's a great marketer. He's very young and very agile and very happy and he's coming home. And therefore, I'm very happy that he's decided to come back to Bonn, into the area and joining Srini's team because we have a loss of one guy there who did a great job as well. But for personal reasons, unfortunately, he had to leave.

Now to construct something out of this for my succession. If now every leader in this organization is already an indication of my leave, then we have a lot of funny stories to talk through. I'm very committed. I just decided to extend my contract here. You know that one of the issues for me is reinnovating the team and building the next generation with the right skills for leading this company beyond our tenures.

I'm excluding Christian as well. He is not the youngest as well. But this -- though you don't look young than me. I'm turning 40 in September. By the way, guys, you should do that. That is around birthday. And I have one wish to all of my investors, which you can do from my round birthday at the 18th of September, give me 20. I need that to reimburse the party.

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

Okay. I hope you remember this. It's 18th of September 20 years. And besides, we would not let you go. So with that, we move on to Josh at Exane, please.

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

As a follow-up on just the broadband (inaudible) on the U.S. spectrum. So if you still basically (inaudible) this quarter. And it does sound like there's some kind of market slowdown. If I look at the numbers also competitive (inaudible) the German fixed open market is actually declining slightly excluding the (inaudible). So my question is, you've seen (inaudible) has been any change in the fiber of net remain?

And the second question just on the U.S. (inaudible) side. So the acquisition, as you said in (inaudible) renting previously, which gives you more visible security. There's a few other sectors, particularly in the 2.5 gig (inaudible). So it would be a question more for (inaudible) yourselves, but are there any plans in the next 6 to 12 months to acquire that spectrum. And if so, (inaudible).

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

Joshua, on which kind of network are you? I'm sure you're not on a Telekom network. That is for sure. If so, I can promise you, there is something which has to get fixed because the connection is very bad.

Anyhow, we're trying to interpret it what you have said because we couldn't follow up on all the elements here. I think I have answered the question on broadband in the second half of the year with regard to the development there. And Christian reflected on this one as well.

We have seen some slower. We see some increase, but we don't see it coming back to the same levels as we have seen it last year. And what we see is that up-selling higher speeds and fiber is definitely something which is supporting our commitment with regard to the service revenue growth, which we are seeing. And our market share is very well intact and beyond the 40%, which we have set out.

So therefore, in principle, from a commercial side, everything is fine. On the net add side, it is slower than what we have seen last year. Second is the U.S., 2.5 gigabit bands. Look, if you're talking about the white band here, we are not talking about that one because we're in the middle of the auction, you can follow the development here. We always have said that we are interested to acquire that spectrum. But let me spend a sentence on the spectrum.

We have now got the 600-megahertz spectrum, which is covering 2/3 of the U.S. It's a very attractive, very interesting spectrum. I said earlier that it's the work band, which you need for big traffic, which is helping us a lot.

It will help us in our mid-band strategy as well. We have 200 megahertz of mid-band in this area, which gives us unique positions towards our competition, and we are playing that out, just giving you a high-speed Internet as one example. The thing what we see is that in the U.S. we do not see, but I cannot 100% promise that, but what the planning is and what we know from the FCC and other institutions, there are no big spectrum options coming after that.

It's very important as well for our financial planning because we have seen a lot of, let's say, spectrum options recently. We went through that We got an interesting fraction of it. We keep or we kept or we even improved our spectrum leadership in the U.S. during this phase. And now we foresee for the next years significantly more quiet period with regard to spectrum acquisition.

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

Excellent. Thank you. Sorry, Josh, you were a bit hard to understand. That's what Tim was referring to. So if you want to follow up, we can do that maybe later. And with that, I move on to Steve at Redburn, please.

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

I'll go for a couple. One in the U.S. and one on sort of broader European energy issues. Just in the U.S., one of the great joys of modeling DT is trying to understand the difference between U.S. GAAP and Europe, the EU IFRS GAAP. And when I look at the IFRS numbers, it looks like U.S. EBITDA was down 3% in Q2. For the U.S., GAAP is a very different picture, up 10%. Can you help us understand what the major differences are this quarter? I guess to those restructuring and special factors. But maybe just help us understand how to reconcile that and why we should broadly ignore the IFRS numbers and concentrate on the U.S. GAAP numbers, that would be great.

And then just coming back to energy. Still, you guys have done a really good job on hedging and well done on getting your energy usage down. It seems like you're ahead of the curve as usual. But I guess we tend to look at this in a kind of one-dimensional way about your costs. When you look across to our territories, are there any ones you're particularly worried about going into the winter with rising costs. I mean, obviously, in the U.K., we're going to see a two or threefold increase, which is going to put a lot of pressure on consumers.

So just to understand your thoughts on the German market, European market, where you might see real pressures on disposable income and the possible changes to consumer behavior. And besides that, are you continually planning thinking about possible blackouts through the winter and how you might shape your strategy if that does happen.

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

So I can start with the -- maybe IFRS bridge. So the IFRS bridge, we have guided at EUR 600 million for the year. This is the normalized number. The guidance stands. The volatility is induced by energy repurchase, forward purchases, the [RevPARs], as we call them, and they have been a drag in this quarter.

Last year, they were a -- last quarter and the year before, there were a tailwind. So that explains the volatility in that number. The normal number you should work with is about EUR 600 million like as per our guidance.

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

Okay. Let me follow up on the energy question. First, what I said is, I think we're pretty confident up until including the year '24 that the energy impact in Germany will be limited for the 2 factors I already mentioned.

One is the retirement of the renewable energy, 1/3 surcharge. And the second one is our hedging coverage, especially in the year '23. And it is absolutely -- I'm absolutely not in the position to forecast now the forward prices in '24. You see there's a lot of volatility.

I think what we also said in Q1 that about 2/3 of the U.S. energy cost has been hedged. And Hannes was alluding to the financial impact of the repurchase. Where we are exposed, and I can only be transparent on the segment level is in Europe. There are some countries where you're not allowed to go for multiyear hedges. And the coverage in Europe for next year is around 50%.

And therefore, obviously, we are running up and down with the forward rates. And as I said, that can be in effect, which is beyond EUR 100 million in the next year.

On the other side, what we're seeing is that you see broad price movements in the Eastern European market, and that's not only coming from us. It's also coming from competition, and they are absorbed. You saw the very strong commercial figures in the European segment. So I don't see kind of an optimization behavior of consumers yet since everyone is kind of moving in the same direction. And on the blackout -- sorry, I'm not in the position to -- you want to do the blackout?

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

Look, in Germany, we have this (inaudible) alert for the (inaudible) the gas supply. This has no direct impact for Deutsche Telekom due to the fact that our -- we are consuming energy and not gas in this regard.

But nevertheless, Deutsche Telekom is under the regulation of [critics], perceived as a critical infrastructure. And therefore, in a high prioritization when it comes to shortage of energy. So this is a governmental and security protection, which has been laid out here.

And by the way, I would expect, I'm not in every detail here that this is as well true for other countries that the communication services are somewhat protected. We should not forget that if there is a blackout of a country or a region, maybe our networks will work because we have, apart from the external energy supply for our networks, a certain degree of independent energy supply and batteries which we then can use.

We have even diesel aggregates for the big switch houses and the like. I cannot release here how long this will take and how long we can operate with our networks independent from energy supply because that is not for disclosure. But we should not forget the moment where the networks are operating, but there is a blackout of certain regions. Customers cannot use their services anymore because handsets require energy as well. So therefore, not an easy scenario, but I can tell you we do not expect blackouts in winter on our energy services, at least not impacting our networks, and we are anyhow more protected from the security laws critics in Germany than other industries.

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

Just maybe following up on the questions Josh had because he sent me the text by e-mail now. And he asked about are we seeing impact from overbuilders in Germany.

So I would say, clearly, there is some activity going on. It's not really the driver, let's say, for the incremental picture that you are seeing and when you look at our situation, of course, maybe you consider there always has been some infrastructure competition that we have dealt with. And one element of is fiber.

One element is cable. One element is regional carriers, et cetera. So there's no fundamental change in the landscape here that we are currently seeing. And now we move on to Ottavio at SocGen, please.

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

I would about the energy and the second TMUS, enough has been said, and focus on fiber and the commercial and the new pricing. On the fiber, I noticed that the fiber net adds has been a really steady decline on the wholesale, more than compensate from the strong retail. If you can basically give a bit of color on what's going on, on the wholesale demand for fiber.

Then the FTTH numbers you provide, I believe they are not including the JV as a [continent] out of the scope. So if you can tell us if any stats, if you've already been rolling out FTTH through the JVs and if you got something in terms of a number of paths and CapEx you've done?

And the third one on the fiber is basically the push, looking on your website, you've given with the Housing Association. I guess with 2 years before the end of the ancillary cost privilege, you basically could spot an opportunity there. So it looks that you are pushing in terms of your offering to proactively your services. And I want to know how it's going in terms of Housing Association, are they registering the property for connections? Have you seen any changes over the last 6 to 9 months? That will be grant.

The second one is on the family plans, and I heard what Tim has said. But I've been looking at Deutsche for a long time, and I was just wondering what you said, it's something that has been ongoing for quite a while. So we've seen family plans for years through -- in the U.S. So it's not new.

And the low market share in the budget segment, it's also something that constantly Deutsche Telekom is so busy in focusing on the premium line in the business. So I was wondering why we've been waiting so long to formulate this offering. It's a great offering, I agree. But why it comes now it's just because the 5G gives you more capacity, more flexibility on pricing or there has been a trigger for that?

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

Okay. Let me maybe start with some factual questions. So our FTTH numbers do include joint ventures except GlasfaserPlus, which is the new joint venture for the rural areas that we agreed late last year and that became -- went live earlier this year.

So the order of magnitude of the contribution that we are expecting from the existing joint ventures is about 10% to the total 10 million target. The family plans, I would also say we are still the first ones to innovate this. Maybe you want to add something on this. But further, and on the first question -- if you can go back to the first question just quickly here.

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

Ottavio is right. Ottavio, you're right. We are too slow. And I have to say that. We are too slow, yes. And that is something where I'm very happy that Srini is now pushing for these things. I think we saw this big market opportunity already. We were very much focusing this market over our Congstar brand in the past and about secondary brands where we had a wholesale agreement with.

And now we have said, no, why shouldn't (inaudible) over indirect channels? We should take them over all Magenta channels. And if you criticize us for this, you're totally right. It was -- we are too late on this one, but now we are there, and we are the first one.

And I can tell you, it's not easy to populate this new logic into the tariff screen. So it took us quite some time to get it operationally here. And that is why I'm not seeing any reaction from the competition yet on this side because they cannot switch it on overnight. They need a couple of months to get that implemented in the same way. So therefore, let's take that as a good learning session that we should early adapt maybe logics from the U.S. or other markets into the German environment.

Let me answer the question on fiber and the discussion here. Look, the simple answer on why is this wholesale market declining while the retail market is growing. First, because we want that. Because the margin on our retail is better than the margin on the wholesale side. Second, you have a direct contact with the customers. You can do upselling. Just think about convergence product.

And that is, let's say, what this company is about, about great service and delivering directly to the customers. Nevertheless, we are forced and we like to do wholesale as well. But we saw Vodafone migrating customers from us a way into their own DOCSIS world. And therefore, this is one of the reasons that we saw some decline in this field. So I think that's a very logical development.

The good thing is, and I just would like to stress that here, please have a look on this page where Christian showed the development of our wholesale revenues with the change from the contingent model into the commitment model.

We had this dip. And now we see positive growth on the wholesale revenues in Germany, again, as promised. With regards to the housing associations. Look, first, this new law, this was related to the housing associations, which has not been only in the contract yet, but for the new ones, for the new installations. Nevertheless, Srini is intensively working with housing associations to connect them to FTTH.

So we are working on this one. And I hope that we can show some interesting names during the course of this year. I know things are going on, but I cannot release at that point in time already done deals.

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

Thanks, Tim. And maybe just as a reminder that we've already gone on for a while and maybe not have -- I could ask that we maybe don't have -- not have 4 questions at a time, and we move on to James at New Street, please.

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

Then I'll try to limit just to 1 question, please. I had a question regarding the dividend. So to look back at what you did last year between the Q2 numbers you've just reported and the next time you spoke to the markets for Q3, you disclosed your plans for the 2021 dividend. So I was wondering if we could -- if you match the same timeframe this year how you're thinking about the dividend for 2022?

I mean if I look at your adjusted EPS in the first half of $0.94 and just keep your EPS flat in the second half, you're heading towards EUR 1.50, I mean, EUR 1.46 for the EPS. So well ahead of the EUR 1.25 target. I know some of that is boosted by the FX rate. I mean, if you keep the payout ratio the same, that's up about EUR 0.76. So quite a bit ahead of consensus.

I mean I was wondering if you could talk through some of the variables there. Does the Tower sale bringing in more cash, make you feel more confident you could go to the top of the 40% to 60% payout range.

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

James, I will not give you a distinct answer on your question. You know that we have an intact dividend policy in place, which is 40% to 60% of adjusted EPS and obviously is linked to EPS growth.

I think your observation is right. We have a very nice development of the EPS happening throughout the first half of the year. And I also gave an indication that we're very confident that we're going to hit that greater EUR 1.25 by the end of the year, meaning I don't see kind of an effect which will massively drag down the EPS in the second half.

Whether it's going to be EUR 0.76, what the consensus says, a little up or a little down, will be decided, as you know, usually at the Q3 numbers when we're presenting them. But I would be positive on the EPS growth reading through the numbers, which you have seen in the first half.

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

Thanks. And we move on to our last 2 questions or persons. One is Usman at Berenberg, if you could go ahead, please.

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

I wanted to touch base on the free cash flow performance, excluding the U.S. over the last -- if I just do a rolling 12-month excluding the Netherlands, you're already hitting something like well over EUR 4 billion. I know the CMD guidance was EUR 4 billion by 2024.

So just with regards to that, is there -- I mean, I guess that does give you with some flexibility, whether you want to pay forward some suppliers, et cetera, to get some savings benefit '23, '24. But just wondering how you're thinking about the headroom that you've created on the free cash flow upside excluding the U.S.

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

Look, Usman, I would stick with the guidance which we have given at the Capital Markets Day. You see that we have a nice EBITDA increase when it comes to DT ex-U.S. growth. On the other hand, you see also that we're increasing our cash umbrella and have increased our cash umbrella with regard to fiber rollout in Germany. So I would stick with the 4 and take it basically as the commitment going forward.

But I don't want to give an indication whether we're going to pay suppliers upfront or not especially -- it's working capital management. It is -- you can benefit it or not, but especially not with regard to '24.

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

But let's say we feel good about it, basically.

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

That's what I said earlier. I say very confident.

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

Yes. Okay. And it's good to be on the prudent side of things. With that, your last question from Simon at Barclays, please.

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

For the price increases or reducing promotional discounts in German fixed, I heard the answer on mobile earlier. You're obviously doing very well on the fixed side and taking share well ahead of competitors. You're flagging that you're seeing strong demand for uptake. So I'm just wondering why we haven't seen necessarily a change in the pricing from Deutsche in fixed in Germany so far, given it feels like this is possibly an opportune time to do that given how strong your position seems to be in the market.

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

Look, the first thing is, please give us some credit for how disciplined we were seeing the price attacks from Vodafone during the course of this year and last year. We were always convinced that good quality of the infrastructure, reliable and secure infrastructure supported by the best service is the best promotion you can have independent from the pricing.

Second, we were able to upsell into higher speeds, which were available. And that is one of the reasons that we have seen this revenue growth on our side, on the ARPU side. Now I'm not excluding that we consider for new tariffs, higher base tariff here. So therefore, I think we should face the realities as well.

Our portfolio should always be smart. Our negative is not service or network. It's always our price worthiness. That is always the challenge which we have. And therefore, how we play it and if we play that, we have to do that in a very wise manner. I can guarantee you one thing. I will not let my customers churn away and let them out of the contracts by giving them a termination right. But nevertheless, we are thinking and working on this one.

And I have to say in Europe, we have already increased prices in markets where we have a CPI indices. We have even changed contracts in the way that we can adapt to this kind of changes in our supply chain and inflation rates matter. In Germany, this is legally not possible. So therefore, we have to do that for new tariffs. And we have a lot of new propositions in the market like FTTH, where we can start at another price point.

And in this area, yes, I take that as a feedback and even as inspiration. We think about it, and let's see how we can implement it.

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

Excellent. So with that, we come to the end of our conference today. Thanks for your interest and even though it's hot and it's the middle of summer, so it's much appreciated. And any further questions, please contact the IR department. Thanks, Tim. Thanks, Christian, and I give back to the operator.

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

Thanks, guys.

Operator

We'd like to thank you for participating at this conference. We are looking forward to hear from you again. Goodbye.