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TRANSCRIPT

PRESENTATION

Operator

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Operator

Good afternoon, and welcome to Deutsche Telekom's conference call. This conference is live streamed and recorded on YouTube. May I now hand you over to Mr. Hannes Wittig.

>>Hannes Wittig - Head of IR

Thank you. Good afternoon, everyone, and welcome to our Live 2023 Q3 2022 Webcast and Conference Call. As you can see with me today are our CEO, Tim Hötting; and our CFO, Christian Illek. Tim will first go through a few highlights followed by Christian, who will talk about the segments of our group financials. After this, we have time for M&A.

Before I hand over to Tim, please pay attention to our usual disclaimer, which you will find in the presentation. And now it's my pleasure to hand over to Tim.

>>**Timotheus Hottges - CEO**

Thank you, Hannes. How are you? Hope you're doing all well in these difficult times. We are happy to share with you another very strong quarter. By the way, on both sides of the Atlantic and another increase in our guidance. Of course, our dividend proposal for '22 is coming with the third quarter, which is EUR 0.70, up by nearly 10% year-over-year. T-Mobile U.S. reported strong growth in all metrics and raised their guidance for this year, once more again, but we delivered as well outside of the U.S., quite strong numbers, strong customer and service revenue growth, 4.3% organic EBITDA growth and already over [4] free cash flow after 9 months in the European operations. .

As you, I will go through our year-to-date performance, and Christian will then show you the details of the quarter. Let me start with the organic view on the next page. Our strong growth continued and all segments contributed. Organic service guns for the group are up by 4% so far this year for our European business. Service revenues are up 1.8%. For the group, organic group EBITDA grew by 0.7%. And excluding T-Mobile's handset lease unwind, group adjusted core EBITDA grew by 5.9%. By the way, if you just look to the realistic dollar numbers, we have over the first 9 months, 8.8% growth on the revenues, and 8.5% on the EBITDA growth. By the way, on the core EBITDA, even more, 12.2%. And you see that we are lucky to be in the U.S. It was the right decision to do this. And the strong dollar is helping us big time as well. But nevertheless, we adjust this for the purpose of comparison, but I don't see that the dollar is going back again, but that is a side comment.

T-Mobile U.S. headline is slightly down, but without the ongoing unwind of our handset lease, this would have been 7% growth according to IFRS. Germany remained strong with 3.2% growth. The European segment grew by 3.9% year-to-date, and this despite the headwinds from energy costs and the Hungarian tax. Group development grew by 21%. This would have been around 9% without held-for-sale accounting. [NT Systems] grew by 10% year-to-date.

Germany has now delivered 24 consecutive quarters of EBITDA growth. By the way, this is 6 years and Europe with 19 consecutive quarters. Our network build-out continues at an accelerated pace. We now pass over 12 million European homes with FTTH. Of this now 4.5 million in Germany, we are well on track for the planned 2 million additional fiber homes this year. Our ultra capacity 5G network passes 250 million U.S. homes, way ahead of competition and well on track for the [260 million] by end of this year.

While we extend the reach, we are also increasing the spectrum depth from 120 megahertz currently to 200 megahertz of mid-band in 2023.

Speaking of Networks, T-Mobile substantially completed the decommissioning of the Sprint network this quarter, 1 year ahead of schedule. In Germany, we now cover 94% of the population with 5G in the European segment, we stand at 41%.

Our investments continue to pay off and our customer growth remains strong, was even stronger than last quarter. Our mobile customer growth accelerated on both sides of the Atlantic. Our fixed line growth was a bit slower, partially due to the temporary impact of the new German telecom law. But as you will see later, our broadband customer growth accelerated again this quarter.

Moving on with ESG. On October 12, we hosted our Sustainability Day with the full management team. And by the way, more than 200 investors joined us. We outlined our ambitions, our clear commitment and how we will actually walk the talk. We made a few material announcements, for instance, that we now expect to reduce energy consumption for our European businesses in 2020 to 2024 time frame. Our previous target had been to keep consumption stable.

I'm pleased to report that year-to-date, we achieved an 11% reduction in energy consumption in Germany compared to 2021. We also announced that we will source half of our European electricity from green PPAs by 2025. We -- and that all new business cars in Germany will from now on be electric.

From our Capital Markets Day, you know how we measure ourselves against our financial targets with green, yellow and red traffic lights. I can show you that we will apply the same strict discipline to measure things, to implementing, to execute things, ESG is now a target for all leaders in their compensation, and we will be as disciplined as to the other KPIs on the ESG targets. We will follow up with you as soon as possible.

Going to the U.S. T-Mobile raised their 2020 guidance 2 weeks ago. Today, we are also raising our full year guidance for the group for the third time this year. You can see our new guidance on Page 8. For the group, we now expect an adjusted group EBITDA of more than EUR 37 billion. By the way, if you do take it in dollars, it's more than [EUR 40 billion] and our adjusted EPS of more than [EUR 1.50].

For group free cash flow, we reiterate more than EUR 10 billion. We continue to expect EUR 3.8 billion outside of the U.S. When looking at these numbers, please keep in mind that our '22 guidance is based on a U. S. dollar exchange rate of [EUR 1.18] while consensus is based on EUR 1.5. Also remember that our guidance excludes the first quarter contribution from T-Mobile Netherlands. This was EUR 190 million EBITDA. And it includes any held-for-sale effects.

With that, let me hand it over to Christian for his deep dive into another successful quarter.

>>Christian Illek - CFO

Thanks, Tim, and welcome also from my side. And let me start with a deep dive on T-Mobile U.S., our biggest operation. As you have seen, they provided excellent financial results, 4.3% on service revenue growth on a postpaid basis, even 7%. And according to U.S. GAAP and core EBITDA growth of 11%. All targets for 2022 have been raised again, synergies, EBITDA, customer growth and on top, the mid- and long-term guidance is still valid.

Before I now come to the operational performance, let me recap on a couple of translation items between T-Mobile and DT's EBITDA. The first 1 is, obviously, how do we get from core EBITDA to adjusted EBITDA. And that is obviously that we have to basically include the handset leases if we're using our definition and the core EBITDA, this is excluded. Just to remind you, in the year '21, the handset lease revenue was EUR 3.3 billion, and it is expected to drop by roughly EUR 2 billion to EUR 1.3 billion to EUR 1.4 billion this year.

The second item is obviously the bridge from U.S. GAAP into IFRS, which is basically being driven by 2 effects. One is stock-based compensation and the other 1 is the renewable purchase agreements. And historically, we always were forecasting, let's say, a translation gap of EUR 150 million a quarter, which gets you to [EUR 600 million] over the course of the year, but do some adverse effects on the renewable energy purchase agreements in the U.S., we expect now a bridge somewhere in between EUR 700 million to EUR 800 million for the full year 2022. But let me assure you, it has no impact on the bottom line results nor on the free cash flow.

If you want to see the comparison between '21 and '22, let me refer you to Page #30, where we basically give you an analysis between the 2 bridges. So on the operational performance, very strong customer metrics, more than 850,000 postpaid net adds, as you know, the highest since the Sprint merger, OP was still up, churn is on a year-on-year basis, down, almost 400,000 new postpaid accounts, which is also best in the industry and best ever, and the ARPU was going up by more than 2%, and the fixed wireless is just having a stunning success in taking out of this close to 600,000 of new customers, almost 50% or more than 50% are coming from cable.

So let me move over to the next page, Page 12, and move over to our home market here in Germany. And Tim said it already 24 consecutive quarters of EBITDA growth. The headline financials are really steady with a 2.8% revenue growth and a 3% adjusted EBITDA growth and this growth is coming from very, very strong service revenue growth.

As previously flagged, we had 2 reporting changes in that given quarter. One is we moved the security business from T-Systems into the German unit. And the other one, we switched basically the principal accounting to agent accounting, which basically changes your revenue from a gross basis to a net basis has nothing to do with EBITDA but that obviously affects the numbers and all these numbers have been restated also for the previous year.

So let me note that the beginning of 2021, we had 1 extraordinary contract, which basically gave us on a quarterly basis, roughly EUR 12.5 million of transit revenues, and they will basically terminate by the next quarter.

So -- and then let me just focus on 2 organizational and M&A topics, which we just did. We invested EUR 25 million in an Israeli based global connectivity company or provider, which is called [Teridian] Teridian is operating virtual networks, which are based on software and it actually adds to our service proposition in the B2B space and will also help us to defend our MPLS business.

The second 1 was recently announced that's the move of the DMMS business, which is covering roughly 1,700 digital experts, and we move it from T-Systems towards the German segment. This is also to, a, strengthen the capabilities in the ICT space in the German organization, but b, also to get more traction in the German (inaudible).

Page #13, as you can see, service revenue grew both in fixed and in mobile, both in B2C and in B2B. Mobile service revenues grew by 2% and you know that the [Lebara] contract has come to an end. If you would add in Lebara, it would have been 2.5%. So similar performance relative to the previous quarters.

As promised last quarter, also our fixed line KPIs have improved. You see that the net add additions on broadband have increased from 45% to 63% and at ads and also our TV performance has increased from 21% to 32%. This is coming from a fading effect from the telecoms law the [take or get] effect. And actually, what -- and that makes -- that's really pleasing us that proof that the prediction, which we have given you in the first quarter was actually right.

What you can also see is on the bottom left of the slide that almost 40% of our broadband customer base enjoys now service contracts with at least 100 megabits per second. And that our vectoring platform, not on the chart, has grown to 1.7 million customers, which is a year-on-year growth of 50%.

So the last 1 on the lower right-hand side is obviously a steep increase in the number of fiber connections, and that's coming from a migration, a force migration, which we have done, we force migrate ADSL customers who were in a VDSL area into VDSL, and this is simply that they are getting a better customer experience. That voluntary migration will continue into the fourth quarter. So in the fourth quarter, we expect another 300,000 customers to follow.

So on fixed line, you see that the service revenue growth was coming down a bit despite some stable broadband growth in the retail space, this is obviously driven by the wholesale business and 50% can be attributed to the headwind from the ULL price cut.

Page #16, please. On the mobile customer base, we're really pleased with the results. You see that our net adds on mobile have increased to almost 370,000 customers, which is double the amount from last year and it's 90% better in the second quarter. This is coming from basically 3 sources. One is B2B, which is attributing 50% to the growth and the other 1 is B2C, where we have a significant stronger momentum on our first brand but at the same time that the customer momentum remains pretty much on the historic levels.

So on Page #17, please. We're moving to Europe. And you see another strong performance despite some meaningful headwinds. I'm getting to this one. Organic revenues grew by 5.5% this quarter. The service revenue grew by 3.5% this quarter, and that growth was pretty much driven equally between the fixed line business and the and the mobile business. The organic EBITDA after leases has slowed down significantly. This is due to 2 effects. One is the Hungarian special tax, which costed us 150 basis points. The other 1 was the energy cost increase, which costed us another 220 basis points. Otherwise, that growth would have been well above 4%.

Our commercial performance, as you can see, is very strong and very consistent despite the fact that we have introduced price increases in many of the European markets. So you see that is really a reliable commercial engine, which is running in Europe.

Next page, Page, was that 19? Moving to GD Towers. In total, we have added net 900 towers to the tower portfolio in Germany and in Austria. This is coming from 1,200 new builds while at the same time, we had -- at the same time, we had 300 decommissions. The organic rental revenues grew by 6.7%. I think it's noteworthy to say that with the non-DT customers, so with the external customers, that revenue momentum is close to 9% on a year-on-year basis. The organic adjusted EBITDA grew by 9% and the reported EBITDA is up by 40%, but this is due to a benefit which we get from the held-for-sale accounting.

So we expect that the tower deal will close beginning of next year, and that leads us to a system solution. So order entry was up 6.5%. Revenue was slightly growing. What you see in the pattern of the business is that we're still facing a reduced infrastructure outsourcing business, while at the same time, this is overly compensated with our digital solutions. And 2 days ago, as I mentioned early on, we announced that we're going to move the MMS legal entity into the German business, while at the same time, focusing the T-Systems business on the digital solutions while at the same time on the cloud services space.

So that leads me to the financials and finishing up with the operational review. So if we go into the reported revenues, and Tim mentioned it already, we grew by almost 9% this quarter or 7% year-to-date. Adjusted EBITDA grew by 8.5% this quarter on a year-to-date basis by 7%. The reported adjusted EPS was growing by close to 80% this quarter. On a free cash flow basis, we basically, on the IL basis, we're pretty much stable, and this is due to the fact that we are facing significantly higher CapEx. On the AL basis, free cash flow was growing by 14%.

our financial debt, including leases, is up by 16%. That is a total of almost close to 20 -- more than EUR 20 billion, of which EUR 16 billion can be attributed just to the dollar.

Page 23, please. Here, you see the free cash flow bridge. So on a year-on-year basis, the cash flow from operations was growing by roughly [EUR 100 million]. We have less leasing payments due to a prepayment, which was happening in '21. That was American towers. At the same time, we have due to the network integration, a significantly higher CapEx spend, predominantly driven by the U.S., which gets you to that stable development.

What is really encouraging is obviously the development on the adjusted net profit, you see that net profit actually grew by EUR 1.1 billion or 84%, very much driven by the operational underlying performance of the EBITDA by less depreciation. We're having a better financial result, which is pretty much driven by the stock of the -- come on, while the options we're having with SoftBank on T-Mobile U.S. as well as driven by the increase of the value of the forward. At the same time, obviously, as the business is developing better, we have to face higher taxes of EUR 300 million, and we have a stronger dilution towards minorities coming from the U.S.

Next page on financial debt. I think this is something where I spend a little bit of time on. So you see that the overall financial debt excluding leases has increased by roughly EUR 3 billion this quarter, of which the ForEx effect in itself is [EUR 5 billion.] If we wouldn't have a very strong dollar, which we really appreciate on the EBITDA and the revenue side, obviously, that picture would look differently. So the rest of the bridge is obviously 2.9% EBITDA after leases on a Q-on-Q basis, a little spend on dividends and spectrum. And obviously, we initiated the share buyback on the T-Mobile U.S. side, which attributed basically EUR 600 million to the indebtedness.

So if we're taking a look at the ex lease basis, that the ratio -- the leverage ratio is pretty much stable compared to the last quarter, which was, [2.78x], this 1 year is [2.79x]. And also on the including leases definition, I think we're on a similar level than we were having on the previous quarter.

So I think the last thing I want to mention, which is not on the chart is our pension deficit has declined by almost EUR 2 billion this quarter due to the higher interest rates, which we're having, that obviously reduces our rating debt.

So finally, inflation exposure and then I hand it over back to Tim. On the energy costs, I think on everything remains stable relative to what we said based on the first quarter. So we are well covered in Germany with hatches in the upcoming year and also into 2024 into it. We will obviously enjoy the retirement of the renewable energy surcharge. In Europe, we always said this, we are exposed, and you could see it already in the numbers for Q4. And in the U.S., nothing has changed, 2/3 are basically being covered by the PPAs.

Personnel expenses, the biggest tariff agreement, which we had to close this year is obviously Germany. So that is kind of fairly stable until '24, but we're facing some salary increases also in the European segment. Leases were talked about this one. We have either CPI caps here in Europe or we have basically fixed escalators based on the agreements the U.S. have taken in the previous 2 years. investments. There is one, I would say, slight change. Obviously, the construction companies facing inflation as well. They have increased the salary costs. They have increased material cost, that obviously puts a lot of pressure on the procurement organization and on the interest payments. We are exposed, obviously, on the 50% variable part in the European ex U.S. business, but on all other areas, we have kind of fixed rates, which we're seeing.

So with having said this is, I think we have -- you have seen us confirming our guidance for this year, we're confident that we're going to maintain our Capital Markets Day targets also for the ex U.S. business up until '21. And now I hand it over to Tim.

>>Timotheus Hottges - CEO

Well done, Christian, thank you. Look, no more marketing needed here. I think the numbers speak for themselves. And therefore, my wrap-up is more about this outstanding numbers in this environment, which we are showing, including comparing us with our industry, I can guarantee you we stay grounded. That is definitely the case. And we are very consequently working on IDCs and on the digitization of our activities here and as well on being successful in our marketplace and the execution on the build-out of 5G and fiber.

So companies were on track, very concentrated and focused on what they're doing. I think it is a very, very nice to see the strong execution, which we see in T-Mobile in the U. S. with a new fantastic record quarter, where we were able to guide higher again. The growth story in the U.S. is continuing despite, let's say, all, let's say, the bad mouthing which is sometimes read, think about our second best quarter of B2B net adds are over 2 million fixed wireless customers on top of that in less than 2 years. I think that's an outstanding achievement and even the increase of customers in small and rural market opportunities, which is 40% of the U.S., and we have just started in this area. So our growth optimism is well intact.

T-Mobile was able to announce the first tranche of their promised buyback Initially, we keep our shares. So we don't take cash. We have increased our shareholding during that period. So this helps us, by the way, as well on our EPS, but we can talk about that later again.

We have a very clear path now towards our #1 strategic priority to have a controlling majority in the U.S. And by the way, we said we have to do that by 2024, we will be significantly faster achieving this target. It also shows the power of our free cash flow growth this year, where we made a big step in the U.S., and we will make another big step next year. So there's even some elements of it, which we cannot avoid, yes.

Outside of the U.S., we delivered 4.3% organic EBITDA growth. We should not neglect our European activities. I know that U.S. is always in your main focus, but 24 consecutive quarters in Germany, 19 in Europe, I think it speaks for our brand. It speaks for our network. It speaks for our customer service.

Inflation is a challenge, but we have good visibility for our key cost drivers, and we believe we can largely manage these headwinds in our operations today. And therefore, we are clearly confirming that we are well on track for our midterm targets. The strong dollar, by the way, luckily, we are in the U. S. as the only telco operator here in Europe. With the strong (inaudible), this provides us with additional tailwinds for the upcoming quarters and especially 2023.

I'm very happy that we can propose an increase in our dividend to EUR 0.70. Now there might be people here in the room think why not more? But guys, think about the track record we have over the last years. The guidance is exceeded. I think consensus was something at [EUR 0.68] at the beginning of the year. It's almost 10% year-on-year growth, which we are confirming today for this year. I think a great step forward, and I'm very happy about the whole mix of how we are able to present the set of numbers here.

So we will continue to invest. There's no reason not to innovate and to leverage our opportunities out of the better infrastructure. So our flywheel is going. And with these end remarks, I'm -- we are ready for your questions.

QUESTIONS AND ANSWERS

>>Hannes Wittig - Head of IR

Thank you very much, Tim. Now we can start with the question-and-answer session. (Operator Instructions) And the first question is from Akhil, JPMorgan, please.

>>Akhil Dattani - JPMorgan Chase & Co, Research Division

I've got 2, please. Firstly, if I could just ask about the German competitive environment. As I'm sure you've seen, we've been surprised to see Vodafone raised their broadband prices about a month or so ago. So I guess I'd love to understand how you interpret that and what your own thoughts are on pricing?

And then the second question is just a simpler financial 1 on the guidance. Obviously, it's good to see good numbers again and another nudge up in the guidance. But I was intrigued that the free cash flow guide hasn't gone up, particularly when you're running ahead of your ex U.S. guidance. If you could just help us understand what the moving parts are? And is that just prudent? Or are there any other factors for Q4?

>>Timotheus Hottges - CEO

Okay. So the German fixed line market has historically been always promotional, although this has not much impacted our performance in a noticeable way. And Vodafone has launched new prices as of 15 th of November and raised their cable prices on average by EUR 5 per month for the lower tariffs and EUR 10 for the 1 gigabyte cable DSL prices. And there is a promotion behind that as well for a period of 6 months. But the new grid assumes higher upload speeds and includes an all net flat for the cable tariffs.

So on O2, we have seen -- they have reshuffled their pricing at the beginning of October with an increased focus as well on high speeds and a reduced convergence discount, and the giga promotion on cable was terminated. And our own performance in this market has been steady considering, let's say, the technical hints from the telecom law, which we have, I think, very well digested. So -- and what you have seen in this current quarter as well.

Now this is the market environment. So I -- we see that our competition is fighting with their cost structure. I know that they don't have this favorable situation as we have that more than 90% of our energy prices are hedged at a very affordable level. We have our inflation very much under control. And for us, it's important to see where we are.

Now we have the instrument of price increases as well. And we can consider that. By the way, I will not announce a price increase in an investor call. But we are observing the market and the situation. And we are not total is autonomous when it comes to energy prices and other things. So there is an openness from us as well to raise prices.

But what we do not want to have is raising our prices, increase our revenues but at the same time, spending all the money then into the retention. That is something which -- where we have to -- it should not be a 0 gum game on this place here. So therefore, that said, we know the tool. We see the market going into less price competitive here in Germany on the fixed line side. And we are carefully monitoring what's going on. We are facing the inflation and the challenge from energy price at the same price as well. And we are open as well to price increases in this market.

But for us, customers and customer satisfaction and the retention of our base is the most important criteria. And we will value the different positions. And then you will see how we are addressing the increased cost situation of our environment.

>>Christian Illek - CFO

So Akhil, on the free cash flow number, I would call it, a, 1 is phasing, b, there's also prudence in there. You've seen that we have faced some significant headwinds, especially due to the increased energy costs in the European segment. So from this perspective, led us to an assessment that we basically don't change the free cash flow guidance, but I think that would be my 2 explanations phasing and prudence.

>>Hannes Wittig - Head of IR

The next question, please, from Josh at BNP Paribas Exane.

>>Joshua Mills - BNP Paribas Exane, Research Division

I have both my questions on fiber, please. The first would be just to hear about your thoughts on (inaudible) announcement of the potential upgrade of 7 million homes to fiber, any opportunities you see there to partner with them and your thoughts would be helpful as well as any commentary you can give on the broader impact of fibro net in Germany.

And then the second question on fiber is just around recent reports of T-Mobile exploring the creation of a fiber optic network in states. And how this could maybe be up to a \$4 billion investment split between different parties. So I don't expect to get into specifics here, and it's more a question for T-Mobile management perhaps. But given your own experience of similar JVs in Germany and the focus during your presentation on the home broadband opportunity there, I'd be very interested to hear your view.

>>Timotheus Hottges - CEO

Look, the first question on the fiber. And possible partners. First, we are in the 3 new courses or start-up, which is a big start-up by the way. Underway how we are rolling out fiber these days. We are doing our own rollout. We have our own joint venture vehicle. We have partners already across the nation where we are building out. We have whole buy. We have thousands of construction companies who are supporting us by doing this.

So there's a lot of complexity, which we are handling these days. So therefore, we are always open to to new partners and to use infrastructure of other builders, as we have laid out. But nevertheless, we have to manage the complexity as well. I'm always assuming that we have a passive access here on our wholesale side.

I think this EUR 7 million upgrade and (inaudible) and Altice, I think it's a German company who is doing this. This is something where -- it is, for me, too early to say whether this is a partner for us. We do not know the terms. We do not know, let's say, under which conditions. In principle, I'm not interested to use cable infrastructure here. Why should we? We are building out these areas anyhow. So -- but I will not exclude that, but my appetite at that point in time, due as to the complexity of our current efforts is limited.

>>Christian Illek - CFO

Look, I would kind of add 2 things, Tim. One is just from our experience, it's 1 thing to announce and the other 1 is to actually industrialize the rollout process and take a look how long it took us in order to get to that EUR 2 million run rate, right? Two years ago, we were at EUR 600,000.

And the second 1 is our understanding on the joint venture. It will predominantly focus on the existing footprint and not going outside the existing footprint. So we'll upgrade the environment in order to continue to support the housing associations.

>>Timotheus Hottges - CEO

On the U.S. side, look, we are not commenting on any speculations here. And Mike commented how to us thinks about fiber opportunities in their Q3 call. And beyond that, we have nothing to add at that point in time.

>>Hannes Wittig - Head of IR

Thanks, guys. Then we move on to Robert at Deutsche Bank, please.

>>Robert Grindle - Deutsche Bank AG, Research Division

You mentioned the change to T-Systems strategy and the transfer of MMS. Is there some restructuring intention here? Or is that all to address the digitalization opportunity in Germany? And ex U.S., are you seeing any economic impact on the consumer in Q4? There doesn't seem to be 1 in the KPIs, which have been strong in Q3 at least.

>>Timotheus Hottges - CEO

Robert, on to systems. After the Tower deal, we had a very intense discussion in our company about what's the best way of addressing the Access Plus market as we call it, how can we help our B2B customers to create -- to get not only connectivity, but even create an added value out of that. And if I'm talking to customers, and I'm hanging out with them quite intensively, I'm sitting in the room and the first question is not can you provide me with 5G connectivity along, let's say, the motorways.

The first question they're asking is how can you help me that my logistics is fully transparent throughout the whole value chain? How can you help me that my data start once decentral data being aggregated in an interesting way? How can I improve my productivity by using IoT services? So this is always the discussion. And we discussed it. And therefore, for me, it doesn't start with T-Systems. It starts with my customers asking me to help them on their way to gain productivity out of digitization.

And we found out that, look, we have a 10 billion business in Deutschland in the B2B area. And you have seen that most of the German businesses trust in us when it comes to we are, by far, market leader in this field. But we have a lack of capability of system integration of software capabilities, especially when it comes to standardized software or when it comes to platforms within this entity. And then we looked into our portfolio and said, do we have something which we can use internally to fill this gap. And MMS is clearly 1 of the answers. 1,700 people, it's a highly skilled team, very sophisticated software people. And we said we can leverage this. We can even increase this business by enabling MMS into the full ecosystem of our business customers.

The second thing what we discussed was the discussion about if we cannot provide this digital services, how can we build more global platforms. And you have heard me saying and talking about CPaaS, NAS layers these kind of issues, and we can discuss that in more depth here. And therefore, we have invested EUR 25 million in an Australian-based connectivity provider to region. And Teridian operates a virtual software-defined network, which is giving us access to 500 pubs globally. So we do not have to build out pub infrastructure across the globe for our customers. We can provide that with Teridian without high CapEx intensity. So this was a handicap in the past. And here, we suddenly have a global offering.

So we have always global services, but local approaches from our customer base. And that is 1 of the gaps which we are filling by strengthening now the German connectivity piece. The commodization of connectivity we compensate by upgrading the infrastructure to high-speed and high capacities and by digitalization. That's the main reason that.

Now going to T-Systems. On the T-Systems side, we said, look, the system always is perceived a little bit as an orphan child. But is it really, let's say, right to have an orphan child in our portfolio that way. And looking into a potential sale of the asset or a sun down of some of the activities. We worked all this through, and we came to a conclusion to say, look, we have a big demand for digital services with our big corporate customers in Germany and in the European entity.

And we have a very strong foothold. We are with 27,000 people, 1 of the biggest or the biggest digitization company here in the German entity. We can provide secure cloud access. We can provide a very specified application development in the automotive and the health industries. So we said, let's focus this business and focus it on 2 growth areas. One activity is cloud, where we migrate our MIS business, the outsourcing service into cloud. And the second is digital services. This is application development for the customers. These are the 2 businesses.

But then we said, okay, now we have that 2 businesses and they should become, let's say, more entrepreneur in the way how they're acting. How can we do that? And then we agreed to a master plan which includes, by the way, a further transformation of the entities. So there will be even IDC reductions as laid out in our plan.

On top of that, we said we do not have burdens or upticks are wait on that business from the history. So Deutsche Telekom is helping us here by saying we take over cost for a headcount reduction company, which is carrying people from the past. And we said we are carrying about pensions of activities which are not existing anymore.

So by doing this, we clean up the portfolio and give this company with a very focused approach on 2 business units, a more entrepreneurial. And by the way, a legacy cleaned up capability for growth in the future. So this is how we think we will see a more independent tier systems in our portfolio, addressing digitization made in Germany. That's the idea.

Why should we give up that market while there is so much demand for digital services here in Germany and the European activity. So it's an element of everything. That is what I want to say. It's an element of focus. It's an element of strengthening an area which was today, mainly focused on connectivity. It's an element of cleaning up the history of that company. It's an element of becoming more entrepreneurial and way how this operation is acting. And it's an element of transformation and cost reduction as well.

>>Christian Illek - CFO

So Robert, on your customer sentiment question in Q4, I would say, no, we don't see any material changes. We have a robust net inflow you have seen in the Q3 numbers and we don't see any kind of changes as we have entered Q4 already. We don't see any kind of trend that customers are spinning down with their propositions nor do we see right now a significant change in the bad debt behavior. And we have some early warning indicators on bad debt they basically predict whether we are facing a problem here. So gladly, we don't see this yet. .

And on top, we expect that governments, not in every country, but in many countries will continue to help both businesses and consumers to getting -- to going through this crisis.

>>Hannes Wittig - Head of IR

Great. And next, we move on to Stephen Malcolm, Redburn, please. Stephen, can we have your question?

>>Stephen Malcolm - Redburn (Europe) Limited, Research Division

Two, if I may. One is just on cash lease costs it looks like free cash flow has had quite a big tailwind this year from relatively light spending on cash leases. I think your expense is about EUR .7 million. The cash outlay is only about \$2.9 billion. It's about \$1.7 billion down in last year. Can you just help us understand the sort of the moving parts on those cash lease costs to go into 2023. Clearly, you're going to have the GD Taris deal. So maybe excluding that, but I know you took a big prepayment in the U.S. last year, but just trying to get a sense of what the real underlying cash lease costs in the business area. And then just coming back to German fiber. I mean, it looks like you're going to have to do 900,000 homes passed in the fourth quarter. Is that right? And you obviously mentioned the impact of rising costs. Are you still confident that you can sort of fulfill your [EUR 10 million] premise ambition within the CapEx envelope of adding sort of EUR 0.5 billion. And if you are, are you having to make savings elsewhere to accommodate that?

>>Timotheus Hottges - CEO

Let me start with the second part of the question. First, a lot of, let's say, things are under construction these days. So they're not counted yet. Yes, the number is almost correct with regard to what has to be delivered in the fourth quarter. And yes, the confirmation of our teams are pre that call and in the business reviews is clearly that they're going to deliver on the [EUR 2 million] number for this year. So that's what we see.

We do not see a problem with regard to the [EUR 10 million] commitment. The ops the case, I believe, with the financial envelope, we will do a little bit more because the productivity of our build-out is now improving. We learn much faster than we anticipated. So I'm more optimistic how this then bagging away from this commitment. Clear, yes, is the most and maybe a bit more.

>>**Christian Illek - CFO**

So on the cash lease cost, if I'm not mistaken, we're calculating roughly [EUR 1 billion to EUR 1.5 billion] each quarter, which we're going to expect. And then you mentioned the prepayment of ATC obviously helped us this year because it was rolling over from '21 into '22. I think that would be my estimate on the cash lease cost.

>>**Hannes Wittig - Head of IR**

Okay. We can move to the next question, please. Operator, can we have the next question, please? .

Operator

(inaudible)

>>**Hannes Wittig - Head of IR**

Okay. I think the next question is from George at Citi Group.

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

Yes. The first 1 is just understanding PS a bit better, given that going forward, it may be a major driver of your dividend policy. Christian, basically there's 2 things I wanted to understand a bit better. There's been a significant increase in the market for this year to [1.5%]. And if I look on Page 36, I appreciate those disclosures are from the annual report and are not updated. You are expecting significant increase in EPS in 2023. I just wanted to confirm that is still the case. So the upgrade this year is more organic rather than for loading of some of the earnings from next year, just to get a better idea of how to model that because your EPS is quite difficult to really more doubt.

And then the second question is just for (inaudible) Steve's earlier question on fiber and the deployment and procurement costs. I appreciate you are perhaps running a bit ahead initially and you have ways to mitigate some of the inflation. But it will be great for us to have an understanding how it could affect the whole market. If you can give us any indications of what kind of inflation are you seeing today versus a couple of years ago? And also, how long does it take for this cost inflation to actually impact your operators given the programming cycles?

>>**Christian Illek - CFO**

Okay. George, let me start with the EPS question. Look, what we're going to see is we have some one-off effects this year on the EPS on the reported figure. And let me call out those, which we definitely are going to see. It's the held-for-sale effect on towers. It's obviously the EPS impact of the Dutch business in the first quarter. And we're seeing some value increases and our options, which we have from SoftBank, but also on the forward. So these are all, I'd say, components, which were taken out of the reported number because they have nothing to do with the operations. So this is why we're coming to a prediction, which is greater [1.5 0] for the recurring adjusted EPS. .

And yes, I can confirm, we expect that, that EPS has continued to grow in the next year, at least on the recurring basis. Obviously, the nonrecurring effects are hard to forecast on the option side and obviously, the for-sale -- hold for sale effect and the Dutch effect is gone.

On the modeling, I think that is sorry to say, but I think we said it last year, there is no model, which basically gives you an indication on any kind of dividend payments. The way how we get there is that we are applying our policy, which is [4 to 6 years], you know, with that (inaudible) then we have a, I would say, a business discussion what we feel is appropriate, and that led us to that 10% increase this year. But that is no read across

for the payout in next year's dividend because I think we're taking the business performance, we're making an assessment of what's happening in the future. And based on that one, we are calculating the dividend proposal. And this year, it was -- it is 70%.

>>Timotheus Hottges - CEO

With regard to fiber, look, we are definitely seeing the cost inflation in fiber construction. The good thing is that we have long-lasting contracts with almost in every detailed defined price point. So this is the effect base, but nevertheless, some of the construction companies are suffering increased supply cost from their angle, and therefore, they're coming to us and approaching us, and we have to try and to find solutions with this.

But independent from the discussions, we remain confident that we can achieve our stated capital markets targets of getting cost below EUR 1,000 per home passed. The 25% in average cost by 2024. That is, let's say, our assumption, and we are about halfway there already.

What are the reasons for that? Apart from the secured prices, where we have worked to reduce the cost of materials together with the suppliers and even more standardized the products. We see a lot of good willingness from municipalities to allow us shallow digging. So that means that we have not to dig 60 centimeters or more than we are now on 30 centimeters. And we are more confident as well that our learning curve is helping us to deliver with a better time to market.

So therefore, again, we are very optimistic with regard passing the 10 million households by 2024. And we are confident that we are able to manage the cost challenge around us. If there's something new, and we can go in every detail of now the IDC cost elements here, but I think that's not the purpose of that call. If this would not be possible anymore, we will let you know.

>>Hannes Wittig - Head of IR

But generally, when you hear the German competitors discussing the situation, they talk about also increases in costs. They may not have these high

large-scale long-term contracts that we have and they have generally talked about the need for price increases. We've heard that from (inaudible) from Breko and others.

>>Timotheus Hottges - CEO

And look, there's another element, Hannes. We have a running organization here in Germany with a big very regional footprint. So a lot of, let's say, the costs we have already onboard is our people, and they were there already in the past. If you would ask me with regard to the future of this business, I can tell you, I believe that independent from fiber, the municipalities they will have more strategic discussions about rolling out themselves because they are heavily hit by the energy side. And therefore, I would expect that they do not have sufficient funding for this long-lasting fiber investments.

I see that as an opportunity for us then rather an obstacle here. But we have seen some announcement that they are slowing down their investments. And -- but I believe that is just the beginning.

>>Hannes Wittig - Head of IR

Operator?

Operator

And now we will get the question of David Wright from Bank of America.

>>David Wright - BofA Securities, Research Division

Maybe Tim, just a little more sort of conceptually around the U. S. market right now. It does feel like there are 1 or 2 tensions rising. Obviously, TMS has been incredibly successful with its challenger status on the mobile side. We do have reports, obviously, in farther that I know you can't comment upon. But it does feel like the cable guys have been under a lot of pressure. They obviously could look to be more aggressive on the mobile side. And it does feel like this is a playbook that most European investors or management have seen before and doesn't tend to end so well. So just maybe your perspective on the U.S. market right now and how you sort of take the temperature so to speak, of competitive intensity.

>>Timotheus Hottges - CEO

Look, David, I -- look, I always want to say something new year. And I'm sorry, just to disappoint you here. Look, I hear that now for how many quarters that there is more tension more aggressive on mobile side that the market is changing and whatsoever. Look, it is -- this is the U.S. market, it's the U.S. market. It appears that cable is getting most of its customers from Verizon and from prepaid.

On the mobile side, our customers are very interested getting a fully featured postpaid plan, a good value for money, a great brand. And we have this 5G proposition now, which differentiates us to a certain extent. And therefore, we do not see any impact to date from their bundled plans, yes. So look, we're seeing, we're observing it, but that's where we are.

Ultimately, cable has variable costs in a world with high mobile usage growth. So their business model is not unlimited. And therefore, I -- by the way, I would make our strategy ridiculous if I would now speak for the cable cos because we always believe in a certain owner's economics, which you need to play in this mobile and this fixed line world. And therefore, yes, this is a market play. Yes, there is something happening. Yes, it is always in regional play, but how we are positioned, I do not see that there's more worries than they were over the last quarters.

>>Hannes Wittig - Head of IR

Great. Next, we move on to Jakob Bluestone at Credit Suisse, please. (inaudible) Okay. Maybe we take Andrew Lee at Goldman then who is next on the list.

>>Andrew Lee - Goldman Sachs Group, Inc., Research Division

I had 2 questions. So firstly, we have in the last couple of months had a first, which was an incumbent selling a minority stake in running fiber business, it's [Telenor] selling their 30% stake and that's enabled a bit of de-gearing, but also crystallization of value for what are undervalued assets in some instances across the space. Would be really interested just to hear your thinking on that and whether that will be -- ever be an option that you guys would think about for your fixed line fiber assets or broader assets? .

Second question was just on the debt position. So you have been talking in the past few months about potentially changing your disclosure on debt to split out European and U.S. net debt-to-EBITDA. Maybe to buy some extra flexibility in terms of how you think about paying down debt. It would be great to hear the kind of feedback from conversations you've been having with rating agencies on that and also other stakeholders, namely remaining your shareholders. And if any of those conversations change the time line over which you think about actually giving us the shareholder returns update with respect to the team's buyback participation.

>>Christian Illek - CFO

Let me start with the bad debt question, Andrew. And first of all, I'm not sure whether we actually want to be too explicit about the indebtedness of the ex U.S. business versus the U.S. business. Obviously, the key drivers for the increase in the indebtedness is driven by the U.S. And it's very much driven by the U.S. Historically been the network integration and the big CapEx and restructuring expenses, but also going forward, the share buyback. .

Look, all our metrics remain the same. I want to be back in my corridor end of 2024. I know not everyone likes that. Some of you feel that we are too conservative with our net debt ratio. This is why we also have introduced the ex leases number. I think we're going to see a significant cash inflow with the sale of the tower business, which is expected to be roughly EUR 12 billion -- EUR 11 billion by the beginning of this year.

But I'm not sure if this was the question whether we want to become very explicit, but it has no impact on the timing. Look, we always said on the share buyback, which is currently running, we don't want to intend to sell into the share buyback because we haven't secured our 50.1% or 51% shareholding in the U.S., which secures consolidation. And therefore, I think it's a prudent behavior to not selling into the share buyback, and I don't have to.

>>Timotheus Hottges - CEO

Andrew, with regard to your fiber question, it's not our interest in monetization monetizing fiber. The opposite is decade. Our approach is to keep the value add in the house of the network. And our ambition is to have owner's economics in this business. So that is why we are building up in Germany, in Europe on our own. But there are always elements of markets which we cannot cover or there are always elements of the build-out, which is getting beyond that where we are open to partnerships. [Glasfaser Plus] is the exception here. That is where we have a minority partner in -- sorry, a joint venture partner in this vehicle. But this is the -- we might build out with other partners in areas where which we haven't planned to build out ourselves. But monetizing our fiber is not on our agenda today.

>>Hannes Wittig - Head of IR

Okay. Thank you. And maybe we give -- take another shot at Jakob, Credit Suisse. Can you maybe try again?

>>Jakob Bluestone - Crédit Suisse AG, Research Division

Yes. Can you hear me this time?

>>Hannes Wittig - Head of IR

Yes.

>>Jakob Bluestone - Crédit Suisse AG, Research Division

Excellent. I had 2 questions, please. Firstly, Christian, you mentioned that the debt that had come down by EUR 2 billion. Can you just remind us, will that have any impact on your pension costs as well? I think looking from your annual report, you're even to pay about [EUR 600 million] in pension costs next year. .

And then just secondly, you flagged at 900,000 retail fiber migrations in Germany this quarter, so quite a big step up. Can you maybe just comment on the monetization of those migrations. So -- is this more of the same? Or are you going to generate incremental revenue from accelerated migrations?

>>Christian Illek - CFO

Let me start with the second question because that's going to be a quick one. It's more -- it's actually -- it's more for the same price. We migrated xDSL customers on VDSL in order to increase customer experience and also to give them the opportunity to further upgrade in the VDSL network, and you've seen us that we're already have a 40% -- close to 40% penetration in the greater equal 100 megabit per second thing. I think it's prudent because it pays into customer loyalty. We are not monetizing this. And the 300,000, which are yet to come in Q4 will follow the same track.

On the pension cost, look, to be honest, the pension costs have come down because of the interest rate. The interest rate where we basically calculating the pension obligation has now increased to 4%, and that is the key driver, but the payout pretty much remains the same. It's just what you put on the balance sheet.

And on the debt, on the EUR 2 billion question. Look, again, the reduction of the debt is there, it's a EUR 2 billion. Next year, we don't expect that the dollar will further appreciate the same way as it has done this year at [EUR 0.16] over the course of 9 months. And as I want to enter my corridor end of '24, obviously, the debt has -- from a leverage ratio has to come down. But bear in mind, the debt leverage ratio is coming down because of increasing EBITDA. It's not because of significant reduction of the absolute debt.

>>Hannes Wittig - Head of IR

Right. Just maybe also going back once more to the fiber question. Just to be clear that once we have implemented this (inaudible) making customers to turning customers into fair measure. We don't have many customers left on the ADSL platform. Therefore, this metric will lose significance as a forward indicator going forward.

And now we move on to Polo at UBS, please.

>>Polo Tang - UBS Investment Bank, Research Division

I have 2. The first question is just about your tariff divestment. So you mentioned the [Tara] deal is due to complete at the start of 2023. But can you give your latest thoughts on what you'll do with the EUR 10.7 billion of proceeds. So would you consider using the tariff proceeds to increase your stake in T-Mobile U.S. because this would actually allow you to participate in the TMS buyback sooner rather than later and start upstreaming the cash from T-Mobile U.S. .

And my second question is just about German spectrum. What is your view on the proposals from BNetzA to extend the 800 megahertz spectrum and return for putting the 900 megahertz spectrum to [auction]?

>>Christian Illek - CFO

Okay, Polo. First of all, let me tell you what we're going to do with the EUR 10.7 billion. I'm going to send my treasurer on a sabbatical because that will obviously be super helpful to lower the refinancing demand here in the ex U.S. business and that is something how we predominantly want to use this.

Obviously, the second 1 is we want to use it to improve our leverage ratio. And therefore, there is no clear indication when we're going to sell into the share buyback. And you know the announcement up until Q3 next year, we don't intend to sell into the share buyback in order to make sure that we have our 51% or 50.1% shareholding in the U.S. So -- and then we see whenever we launch another share buyback program, how we basically behave then right now, up until end of Q3 next year, we don't intend to sell into the share buyback.

>>**Hannes Wittig - Head of IR**

Okay. With that, we move on to James at New Street, please.

>>**James Ratzer - New Street Research LLP**

Two questions, please. The first 1 was just to come back to the topic of FTTH in Germany. But rather than the deployment, I'd be interested in what you can say about the take-up of the service? What kind of demand are you actually seeing from customers for this product, especially in some of the areas where the fiber has been in place for a little bit longer. .

And secondly, I would love to come back to the point around the dividend. Christian, I hear what you were saying around the EPS this year being affected by some of these onetime items. But I think even adjusting for that and working out that your EPS this year is up around 20% year-on-year. So given that underlying increase, I was wondering just why as a Board, you're only willing to approve the 10% increase. What should we kind of read into that? What was holding you back, let's say, from doing a 20% increase aligned with the underlying EPS?

>>**Christian Illek - CFO**

James, let me start with the dividend question. I think it's a fair question. But to be -- we are absolutely consistent with what we said last year. We have 2 vectors on which we can work on. One is obviously the dividend payout is oriented along the EPS growth. And you're right, there is a significant increase to be expected this year. Other 1 is also the payout ratio.

And I think given the environment we're currently working in, we have a lot of adverse effects hitting us. I think we're performing well, and we expect to perform well. We have taken a more prudent approach. So what you've seen last year, we basically had kind of a payout ratio of 52%, according to the EPS. This year, we will be above 40% definitely, but we will be below 50% because we felt that is kind of a prudent allocation of EPS also to the dividend. But always bear in mind, it's 2 dimensions where we can work on. One is the payout ratio and the other 1 is EPS growth.

>>**Timotheus Hottges - CEO**

With regard to your first question, I'd like to bring that in a bigger context of broadband demand. And 1 or 2 years ago, when we talked about, let's say, broadband demand here, we said, do we need really 100 megabit or 250 megabit per second. And today, most of our customers are on this high broadband speeds already. 80% of the retail broadband base is in fiber infrastructure today. So 11.7 million customers. So you have seen the upgrade of speed at the -- in the customer base.

Now with regard to FTTH and it was your question in specific. The take-up rates today are comparable low in the -- beyond 10%, 11%, 12% utilization rate. That is not what we are aiming for, but this is an infrastructure game. And it's the same true for 5G and other service of 4G and 3G in history. It is coming over time.

But the moment where the demand is there, you cannot build it for everybody. So therefore, you have to do it in front of them. Most of the customers today are going into the 100 megabit tariff, then rather than going into the high gigabit tariffs. But we expect that this is going to change throughout the years, and then we are ready to serve our customers. The interesting way is how we did it in the past was exactly the right way because if you see our churn rate in this environment, it has gone down, down, down since. So therefore, I think the way of upgrading customers constantly into high speeds is the right approach.

>>**Hannes Wittig - Head of IR**

And also maybe let me add, the speed of our deployment, of course, means that we will have lead lag between the build-out and the customer penetration. We are currently accelerating our build. We had last year over 1 million new homes passed this year, it's over 2 million. And that means that since connecting customers takes about 6 to 12 months, you will see a slow out penetration growth, then you see coverage growth.

The other point to make is that we're also building out in cities. So when you compare it to a typical overbuilder who goes -- does premarketing in rural areas where there are long ADSL loops, are also operating in places where we're not doing premarketing where we are just building. And so that's a completely different business case. With that, we move on.

>>Timotheus Hottges - CEO

Yes. Sorry, we had 190,000 fiber net adds in that quarter, of which something vicinity of 50,000 were on FTTH. Now if I think about what's behind James' question, you can argue, you had a step-up from 25 0,000 to 900,000 in that quarter on fiber net adds. So why don't you have more FTTH customers? The question is valid.

But look, I expect now that with this 900,000, we are now able to increase our FTTH retail net adds throughout the upcoming quarter. And that is what I'm expecting. That's what we're steering for. Now filling the pipes. That's the title of our program and I'm ready to report about the numbers.

>>Hannes Wittig - Head of IR

And I think relative to the debates that we used to have 3, 4, 5 years ago, I think we can say the strategy is working, and we are proceeding at the right pace. And with that, maybe we can have the questions from Ottavio at SocGen, please.

>>Ottavio Adorisio - Societe Generale Cross Asset Research

I have a couple of questions on my side. The first is on (inaudible) mobile. You had a pretty good quarter in contract mobile net adds. And combined with the fact that churn has increased, it looks at the gross net adds been even better. During the intro, you mentioned B2B and B2C in a sort of a strong momentum in the premium brand. I just wanted to give a bit more granularity of what really has driven this net hands and how sustainable it will be if we look in the future quarters.

The second 1 is on the EPS and the free cash flow actually. You had, well, 1 of the main drivers on the free cash flow, the CapEx was going up. One of the drivers on the EPS has been the DNA going down. Now of course, this divergence cannot really remain. So you don't guide on DNA, and it's pretty difficult for our side to project because, of course, there is a bit of discretion how you depreciate and amortize. So my question to Christian is, could you give a bit some more granularity how it can (inaudible) D&A future years? Container cap has been going up this year. So the D&A also going back into upward trajectory?

>>Timotheus Hottges - CEO

Good question. So Ottavio, let me say, by the way, first, we are very happy about the development, which we have in mobile because we have these new tariffs. We have exported our idea from the U. S. CO2 to the German environment and this new Magenta tariff portfolio is well taken from the customers.

But your question is interesting because it's not the only effect, which we have seen in that quarter. From the strong growth which we have seen, something like [130,000] were coming from our B2C owned brand. So this is mainly the new piece of it, [70,000] out of the [Congstar] situation. And then interesting wise, [160,000] coming from B2B. So very strong quarter on B2B. Some very new customers like Mercedes or [Deutsche Bahn].

And then on top of that, we had some effects from the telecommunication law, which we had to digest as well in this quarter. So you see that our gross adds were very strong in the environment have 50-50 between B2C and B2B, which I think is good. There is a strong demand for the new tariffs. But a lot of customers are sitting with their second or with the third card in duration contracts, and therefore, they cannot migrate immediately, but the pipes which we see are interesting as well for the next quarters.

>>Christian Illek - CFO

Ottavio, potentially, that's a disappointment to you, but we don't declare a lot of details on the D&A. But let me tell you, if you just make a comparison on the EPS in terms of impairment and D&A, we see some significant swings, especially coming from the U.S. And I think they have been explicit about this. So we had an impairment of the fixed line business in the U.S. as we were selling this business to (inaudible). We have some impairments on lease contracts because we are basically retiring mobile sites.

And from this perspective, I think this impact has been very much driven by the integration of T-Mobile US. But I think we have never done a detailed explanation of how we depreciate in the given business and what kind of categories.

>>Hannes Wittig - Head of IR

But what we can say is that the EUR 6 billion or so that we had in the third quarter is a pretty good run rate going forward, we think. So next is Emmet at Morgan Stanley, please.

>>Emmet Kelly - Morgan Stanley, Research Division

Yes. afternoon, everybody. Thank you, Hannes. 2 questions from my side. The first question is on the wholesale access revenues, which you talked a little bit about in the call. So just looking at Slide 15 and the revenue trajectory on these wholesale revenues in Germany. Clearly, 2021 was a tougher year for revenue dynamics in this business. And obviously, the revenue here has taken a bit of a turn downwards again in Q2 -- sorry, Q3. Can you talk a little bit about the outlook for this business as we go into 2023 and maybe tie this into some of the guidance that you gave at the CMD last year?

And then my second question is on your TV business, so an adjacent business in Germany. Are you seeing any kind of tailwinds in this business or any benefits from some of the struggles that Vodafone is having in their German cable business? I see revenue growth here is still trending at around 7% to 8%, but is there any kind of upside here to customer net adds or market share wins on the revenue side?

>>Timotheus Hottges - CEO

No, no, no. I'll start with TV, Emmet. Look, TV net adds increasing in Q3. Strong promotions are ongoing with our partners here, especially the 12 months for free promotion with Disney as 1 example. On top of that, we have advertising going on for all the games of the World Championship. So you would enjoy that, Emmet, being on [Magenta] because you can watch all games from the championship in HD quality on Magenta TV.

On top of that, look, we are #1 in the in the test, and we are the only player in the German TV market with a growing TV customer base. So this is encouraging. I cannot compare -- talk about the -- what -- I think it was something 80,000 TV losses at Vodafone, that is something you have to ask them. Nevertheless, we are -- I'm happy with the new promotion the way how we promote live content, and I'm not trying football only, I'm talking me as well about music and other things on this platform, which is attracted by (inaudible) .

We have won the third [FusabunusLega.] And anyhow now that the first league is a money game, people are really looking for the real football in Germany, which is second and third football league. And therefore, the third football league is important for us. We're happy to have this content now exclusively to make regional attraction on our TV platform. Yes, there is -- we are perceived as a very solid player in the TV market, and we are happy with the development, which we saw recently.

>>Christian Illek - CFO

So, Emmet, on wholesale. First of all, our guidance remain valid. We guided for stable wholesale revenues in between 2020 to 2024. Obviously, we gave you a little bit of an explanation that we had a drag due to the ULL price cuts, which we had to face, which is obviously regulated pricing. But going forward, we also expect that those revenues will increase because you know that we have struck these new contracts with the wholesale

providers. And due to the contract structure, we expect that those revenues will go up again, but we will remain with our stable revenue guidance for wholesale.

>>**Hannes Wittig - Head of IR**

Thanks, Christian and Tim. And then we move on to Usman from the [house] of Berenberg, please?

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

Just 2 questions in German mobile, please. Just coming back to the B2C performance as a result of the family offer acceptance. Are the customers that you're gaining -- are they, I mean like completely new customers, for example, that didn't have a previous subscription, I'm thinking about children, et cetera? Or are these actually coming from customers that had tariffs already with, I don't know, old or some of the value players in the market. The -- are the new tariffs actually helping to increase penetration growth in the German market? Or is this share gain that you see? .

The second question was just going to the spectrum, ongoing kind of spectrum consultations that are going on in Germany and the proposal by the (inaudible) swapping the [800 to the 900] for potential [oxmix] here. Any thoughts on whether this is a reasonable proposal or not would be interesting.

>>**Timotheus Hottges - CEO**

Usman, thank you. Look, first, as I said, we are happy what we see, strong demand for additional household cards. And little down selling and little dilution on our base. B2C contract customer growth on our main brand is what we are aiming for. And that is, by the way, supported by this development to (inaudible) mobile service revenue growth ambition, which we have.

The focus of this activity around this new cards is to upsell multi cards, which are typically provided not from the MNOs. They're typically provided from prepaid or from MVNOs. So therefore, the MNOs is not, let's say, our prime target here. So that is why we are not surprised that there was not much of a reaction from our competitors on this offer yet because we are looking for the 50% of the markets, which are in the hands of MVNOs here in Germany. And that is exactly what we are addressing these days. So right development.

With regards to the consultation with the [Bundesnetzagentur,] I love your chili in the soup now at the end of the the investors call here. And now I can go up like a rocket. Look, I think it is ridiculous what's going on. The telco industry in the basket inflation basket is the only industry which is not contributing to the inflation so far.

Now that's good. But that said, if these guys are now pushing for a very expensive auction, they do the opposite. They give the totally wrong impulse and regulatory indication to our industries. And I can tell you, I find this totally questionable that with all the build-outs, which our industry is carrying with all, let's say, the cost increases, which we have seen from an energy price perspective, with the challenges which we have for -- with our construction companies that on top of that now, the German regulator thinks it's a great idea to have an auction in '24 on this spectrum.

We are totally against it. Look, if they want to play it, we'll play it. But we have the biggest situation. We don't believe it's helping the smaller players, but nevertheless, that's what's I'm lobbying heavily at all, let's say, political deciders to avoid an auction and to extend the spectrum use beyond '24. That is definitely what we think is the better way for our industry that we support noninflationary tens and at the same time, building out this country.

So we are leader in 5G network deployment in Europe. And I think it should be a political purpose to secure this leading position, which we have initially reached. So that's where we are. I don't think that this consultation is ready yet. You have heard my position on that one. And let's see how this is turning out. But another regulatory fight.

>>Hannes Wittig - Head of IR

Okay. So that's a spicy soup at the end to cheer ourselves up, maybe you go back to the -- what page of the presentation. I look at the good things that have come through this quarter. And I think -- thank you, everybody, for participating in the call. Thank you, Tim and Christian. .

Before we end the webcast, I would like to bring your attention to a new feature of our home page. So we have upgraded our YouTube channel and have introduced navigation that allows you to simply go to whatever you're looking for in the recordings. And so you can check what has been said, not just for this call, but also for previous calls in a very convenient way.

And with that, we come to the end of today's call. And should you have further questions, please contact the IR team, and I look forward -- we look forward to seeing you all soon, many of you next week. So thanks again. Have a great rest of the week.

>>Christian Illek - CFO

Thanks, and see you next week. Bye.

>>Timotheus Hottges - CEO

Bye-bye.

Operator

We like to thank you for participating at this

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