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Deutsche Telekom AG (DTE.DE)

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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges
Chairman-Management Board & CEO

OVERVIEW

- Let's make it quick
- I know all of you have already looked into the deck
- I think, overall, I could say, we have shown a very disciplined execution on what we have showed at the Capital Markets Day; and overall, we delivered a quite solid quarter with the good momentum on the customer propositions and we even are able to confirm our guidance

Earnings Summary

- Financially, we delivered a strong set of results, and we are well on track to reach the full-year guidance
- First, we delivered organic revenue growth of 4.7% for total group
- The headline revenue growth was even stronger at 13% here, benefiting from the strong U.S. dollar
- Q2 adjusted EBITDA grew 11% to €4.6B
 - Organic year-on-year growth was 5.6%

- Our adjusted net income grew 77% to €1 B
- Please note that both our adjusted EBITDA and the net income benefited from €175mm one-timer
- On the FCF level, we delivered €0.9B, well on track for our full-year target of around €4.3B

FY Guidance

- Our full-year guidance for around €18.3B EBITDA and around €4.3B FCF remain unchanged
- Again, our guidance is based on last year's average exchange rate
 - And for this year, we will translate that into €19.3B adjusted EBITDA at today's dollar spot rate
- Please note that our unchanged 2015 adjusted EBITDA and FCF target excludes the €175mm one-timer, I already mentioned

SEGMENT RESULTS

Germany

- To the segments, in Germany, I think, overall, I'd like to say that we are showing a very strong customer momentum, both on mobile and on fixed
 - But for me, especially the performance on broadband, net adds on MagentaEINS was stunning
- We are executing on our integrated network strategy, increasing our LTE coverage to 82% of POPs and our fiber coverage to 46% of all households, which is an increase of eight percentage points, year-on-year

BROADBAND NET ADDS

- Our broadband net adds were the strongest in years, and the numbers of customers on our fiber network increased by almost 0.5mm just in this quarter, which is double the growth of the prior-year
- We further accelerated our total IP migrations to 1.1mm, only this quarter, taking the total to close to seven million IP-based lines, or 29% of the total, up from 14% a year-ago
 - So, even here, well on track for our targets to migrate the whole network by 2018

MAGENTAEINS

- Our MagentaEINS, convergent proposition, which we launched last September, continued to prove very popular here in Germany
- We added 400,000 new Magenta One customers in the quarter taking the total of 906,000 customers here in the base
- And we are able to achieve growth in total household ARPU, which is even something we appreciate

MOBILE BUSINESS

- In mobile, our focus on network quality and upselling is clearly paying off
- We further increased our service revenue market share in a market that has now returned to overall growth

US

- Coming to the U.S., after the announcement of our U.S. team, the share price improved nicely to \$34.6 due to the great development
- The team in the U.S. is doing a great job in all regards

CUSTOMER ACQUISITIONS

- We had another outstanding quarter of customer acquisitions, while achieving record-low churn
- The postpaid phone churn was down to 1.3% in the quarter, so down from almost 1.5% a year -ago, which is the best ever at T-Mobile US
- Our LTE network now covers 275mm POPs, and we will reach 300mm people by year-end

INTEGRATION OF METROPCS NETWORK

- The integration of the MetroPCS network is way ahead of plan, and the new 700 megahertz frequencies covering 60% of the U.S. population, they are beginning to go live
- With 1.8mm net adds, we delivered the eighth consecutive quarter with more than one million net adds and we're able to raise the full-year guidance for branded postpaid net adds
- We now expect 3mm to 3.5mm net additions, up from 2.2mm to 3.2mm from our original guidance

REVENUES AND ADJUSTED EBITDA

- Our U.S. revenues grew 12% in the quarter, and our adjusted EBITDA by 18%
- Despite the substantial increase in our subscriber growth guidance, we remain committed to our EBITDA and CapEx guidance for the U.S. business

Europe

IP MIGRATION

- Now, let me come to Europe
- Our industry-leading IP migration continues at rapid pace, and we will now reach 40% of homes
- Our LTE network already covers 53% of the population in our footprint

MAGENTA EINS PLANS

- We continue to innovate the customer experience, for instance, through the launch of convergent MagentaEINS plans in Slovakia or fully flexible mobile plans in the Netherlands
- Positively, the European business was able to moderate revenue declines to only minus 0.6% and the EBITDA decline to only 2% in this quarter

T-SYSTEMS

- At T-Systems, the master plan, our restructuring program is well on its way
- We are seeing encouraging progress, especially in the market unit
- Revenue momentum is stabilizing accompanied by a meaningful improvement on profitability

FINANCIAL SUMMARY

Sales and EBITDA

- So, to quickly summarize our Q1 headline financials:
 - First, strong headline and organic sales growth driven in particular by the excellent momentum of our U.S. operation and our German mobile business, both in terms of service revenues and handset sales

- Second, adjusted EBITDA growth of 11% continues to reflect strong U.S. momentum and cost-cutting efforts
- While this performance benefited from a one-timer related to a settlement, we believe it is important to appreciate our accelerated investments into our infrastructure, the IP migration and the upselling of our customers towards higher-value services

Net Profit and FCF

- Adjusted net profit grew strongly as well also benefiting from the mentioned settlement, but also, the reclassification of EE as an asset held-for-sale
 - Meanwhile, our reported net income decline is explained by last year's successful disposal of Scout24
- Our FCF of €0.9B reflects a meaningful increase in cash CapEx
- The settlement I already mentioned did not contribute to FCF in this quarter, this coming in the remainder of this year
- The increase in our net debt is primarily driven by the acquisition of spectrum in the U.S., and the strong U.S. dollar
 - You should know this is a translation risk with our self-funding strategy
 - The main part of the obligation is always getting repaid in the U.S

SUMMARY COMMENTS

- In summary, we were all happy with this quarter in operational terms
- We are able to accommodate major long-term investments, while achieving some very strong customer metrics and confirming our full-year financial guidance
- We see that the investments into broadbands are paying off
- Customers are really taking the offers

Thomas Dannenfeldt

Chief Financial Officer

OPERATION AND FINANCIAL RESULTS

Germany

- Let's move to the operation and financial details of the quarter
- And as always, let's start with Germany
- I think we're really happy with our performance in the first – in Germany in the quarter
- German revenues grew by 1.9% year-on-year, driven by particular – by good momentum in mobile
- Positively, the German market as a whole is growing

MOBILE SERVICE AND CORE FIXED LINE REVENUES

- Our mobile service revenues grew by 2.8% year-on-year; again, faster than the peers, and a further improvement compared to an already strong last quarter
 - While these numbers should not be extrapolated into the coming quarters due to more difficult comps and Magenta One discounts, we are confident for the rest of the year, and I think we certainly will outperform the market in 2015 here again

- Our mobile revenues further benefited from very strong growth in equipment sales, mainly due to retention activities, but also an exceptionally high volume of spot handset deals
- Core fixed line revenues declined by 2%, continuing the steady improvement of the previous quarters

WHOLESALE REVENUES

- Our wholesale revenues declined by 1.9% year-on-year, similar to Q4 performance, impacted by the decline in unbundling fees and regulatory effects, while demand for fiber is contributing positively

ADJUSTED EBITDA OPEX

- The adjusted EBITDA declined by just under 1% year-on-year in the quarter
- This is in line with our expectations and should be seen in the context of strong upselling activities, strong growth in fiber, and also, an accelerated all-IP migration
- The adjusted OpEx in Germany increased by 3.6% year-on-year, driven by these investments and the mentioned higher handset sales
 - Importantly, indirect costs declined year-on-year

MOBILE MARKET

- Turning to mobile, we estimate that the market, as a whole, grew more than 1% this quarter
- Within this growing market, we continue to increase our revenue share, based on peer-leading service revenue growth of 2.8% in the quarter
- Due to flat rate packages, it is increasingly difficult to allocate revenues to individual categories
 - But our data growth remained strong, while declines in SMS text continue to weigh on results

MOBILE CONTRACT SUBSCRIBER COUNT

- Operationally, we continued our strong performance in the quarter, while mobile contract subscriber count increased by 289,000
 - Moreover, the split between own branded and service provider customers was impacted by the reclassification of 349,000 Turkcell customers, which are now included in the own branded category
- Under our own Telekom and congstar brands, we added 134,000 contract net adds, slightly below previous quarter's performance
 - But this, again, was impacted by the derecognition of 61,000 internal cards

SMARTPHONE PENETRATION

- Beyond these superficial adjustments, our momentum remains positive, absolutely in line with our expectations
- The smartphone penetration in our own branded retail customer base continued to grow to now 78%, up from 76% at the end of the year, driven by another quarter of very strong smartphone sales
- Also positively, the number of LTE customers on our network in Germany, again grew strongly to 6.4mm, almost double the number one year ago

BROADBAND MARKET PERFORMANCE

- Our performance in the German broadband market was outstanding

- Driven by strongest quarterly broadband growth since Q1 2012, our line losses improved again to only 131,000, our best performance in more than a decade
- Our fiber growth continues to accelerate with 463,000 net adds in the quarter, double the intake of one year-ago
 - Of this, almost two-thirds came from our retail business
- In total, we already have almost 3mm fiber customers on our German network, reflecting growth of more than one million in the last 12 months
- We added 76,000 broadband customers in the quarter, benefiting from a strong demand for fiber and the success of our new convergent proposition, while it's too early to communicate a new target
 - We believe we are likely to exceed our guidance of 100,000 broadband net additions in Germany this year
- Our TV product, Entertain, also had a good quarter with 74,000 net adds
- Encouragingly, in our fiber areas, our take rate has been 40%

FIXED NETWORK REVENUE

- The overall fixed network revenue declined by 2% year-on-year while the fixed revenue fixed line, as per our back-up definition, declined by 2% year-on-year
- Within these fixed revenues, we saw fairly stable year-on-year decline in voice revenues of minus 6.9%
- Broadband revenues are also still declining, but improved slightly to minus 2.5%
 - And meanwhile, our TV revenues grew by 10.4%, similar to the run rate we've seen in Q4

OTHER FIXED NETWORK REVENUES

- In the other fixed network revenues, we saw the following trends
- The decline of 7.9% year-on-year in our variable revenues was in line with the trend of the previous quarters and is mainly driven by price, as well as volume decreases attributable to flat-rate components
- Fixed line add-on options declined by 5.4%, again, similar to Q4

OTHER REVENUES

- Other revenues, mainly from IT services and devices, grew by a similar 3.1% in the whole of 2014, but slowed compared to the previous quarter
- As mentioned, our wholesale revenues declined by 1.9% year-on-year, similar to Q4 performance, impacted by the decline in unbundling fees and regulatory effects, while demand for fiber and network services are contributing positively
- As we discussed at our recent Capital Markets Day, we're accelerating our investments in high-speed infrastructure
 - By the end of the quarter, we achieved 46% fiber household and 82% LTE coverage
- We added 0.7mm homes to our fiber footprint in the quarter, extending the coverage to 19.4mm homes
- VDSL is now available to 3.5mm homes

SUMMARY

- With this, we're well on track towards our stated targets
- In the quarter, we migrated almost 1.1mm retail and wholesale lines to our all-IP footprint
- We now already have 6.9mm retail customers on this platform in Germany, corresponding to 29% of our total lines

- This is double the number of one year ago, and we are well on track towards our 2018 targets

T-Mobile US Results

CUSTOMER ACQUISITION

- Let me now summarize the highlights of the quarter for T-Mobile US as all relevant numbers were already reported and discussed by our TMUS colleagues two weeks ago
- We had another outstanding quarter of customer acquisition, while achieving record low churn
- Postpaid churn was down to 1.3% in the quarter, down from almost 1.5% a year ago, and the best ever at T-Mobile US

PORTING RATIOS

- Porting ratios remain favorable and have improved since the end of the quarter
- Our LTE network now covers 275mm POPs, and we will reach 300mm people by the end of the year

BRANDED POSTPAID NET ADDS

- The integration of Metro PCS network is way ahead of plan and the new 700 megahertz frequencies covering 60% of the U.S. population are beginning to go live
- With 1.8mm net adds, we delivered the eighth consecutive quarter with more than one million net adds, and we're able to raise the full-year guidance for branded postpaid net adds
- We now expect 3mm to 3.5mm branded postpaid net adds, up from 2.2mm to 3.2mm

REVENUES AND EBITDA

- Our U.S. revenues grew by 12% in the quarter, service revenues grew by 9%, despite a one-off accrual related to the launch of our Data Stash proposition
- Without this accrual service revenues would have grown 11% year-on-year
- Despite the strong growth, T-Mobile US was able to grow EBITDA by 18% year-on-year
- Importantly, while TMUS has substantially raised its postpaid subscriber growth guidance, we maintain our stated EBITDA and CapEx guidance for the U.S. business

European Results

REVENUES

- Back across the Atlantic, our European segment was able to moderate revenue declines to only minus 0.6%, after a decline of 3.4% in the previous quarter
 - This, again, benefited from last summer's first time consolidation of GTS, but also reflected the planned unwind of our hubbing business, which we announced at the recent Capital Markets Day and which negatively impacted revenues by €35mm in the quarter and ongoing regulatory pressures
- Only adjusting for the GTS acquisition, organic revenues declined by 2.9% year-on-year; further adjusting for the unwind of the hubbing business, revenues declined by 1.6% year-on-year

HUNGARY AND AUSTRIA

- On a country basis, we are particularly pleased by our performance in Hungary and Austria

- Despite the challenging macro environment, we were able to generate stable revenues and slight EBITDA growth
 - Meanwhile, our Dutch business is impacted by intense competition and the rollover of the split contract launch
- We are responding to this challenge through innovative product offers and for what we believe is a superior mobile network proposition
- On a reported basis, the adjusted EBITDA on the segment declined by 1.9%
- Organically, the adjusted EBITDA declined by 3.8% year-on-year, after a decline of 4.7% in Q4
 - More than half of the decline was the result of regulation
- We are on track for our full-year targets here
- We made good progress towards the targets we presented at the Capital Markets Day, 40% of the lines are now on an IP platform, up 11% within the year
- And our LTE network now covers 53% of the population, up from 38% one year-ago
- Our TV, as well as broadband customer base are continuously growing, while our mobile contract customer base show a stable y-over-y development
- Moreover, our share of fixed revenues from connected home grew by 3% to 25%, especially driven by Hungary and Greece

Systems Solutions

- Turning to Systems Solutions, our result reflects our ongoing restructuring at the market unit, as well as continued cost savings delivered by Tel IT
- Gross revenues declined by 2.5%, substantially improved from minus 7.1% in the last quarter
- Positive exchange rate effects contributed two percentage points in that quarter
 - Positively, our market unit achieved 1% revenue growth, corresponding to a decline of only 1% without exchange rate tailwinds
- Systems Solutions EBITDA grew by 11.6% year-on-year or 8.7% organically, reflected a positive performance from the market unit, which posted a 44% year-on-year increase, benefiting from an improving product mix, efficiency measures, but also somewhat easier 2014 comparisons

GROUP FINANCIAL RESULTS.....

FCF

- Let's move to our group financials for the quarter
- Turning to FCF first
- Group FCF was down 12% to €865mm in the quarter, while quarterly cash flows can be seasonal and volatile
 - The most important message is that we think we are absolutely on track for our full-year guidance of around €4.3B
- Main drivers were a €428mm increase in cash generated from operations, mainly due to our strong EBITDA growth
 - This was offset by €464mm higher cash CapEx driven by investments in Germany and the U.S. €82mm higher other effects, mainly reflecting higher interest payments
- And, importantly, this quarter's FCF does not include the €175mm we booked in our adjusted EBITDA due to a legal settlement

Net Debt and Net Income

- Group net debt increased as anticipated to over €46B at the end of Q1, with the biggest moving parts being the €1.9B spectrum cost for the AWS spectrum in the U.S. and foreign exchange effect of €1.9B due to the strength of the U.S. dollar
- Our adjusted net income increased by 77% year-on-year in the quarter, was mainly driven by two effects:
 - The contribution of €175mm from the settlement we already mentioned
 - And a €259mm year-on-year impact related to the reclassification of EE as an asset, which is now held-for-sale

Balance Sheet Highlights

- Finally, we turn to our balance sheet ratios
- We are currently at 2.6 in net debt over adjusted EBITDA
- This reflects our investment, but it's also the result of currency and especially the effect of translating the balance sheet at spot rate and the P&L at average rates
 - If we were to use the same exchange rates, then the ratio would be below 2.5 times
- While we expect to stay over 2.5 times for Q2 as a result of our example, given dividend payment for 2014, we clearly expect to return back to our communicated corridor in H2
- Our rating remains stable at BBB+ and are well within our comfort zone with ranges from BBB to A -
- Our equity ratio decreased slightly y-over-y, but improved sequentially
- Based on these ratios, we believe we will continuously get excellent funding conditions in the debt capital markets

Timotheus Höttges*Chairman-Management Board & CEO*

CLOSING REMARKS

- Look, guys, I think this quarter shows that we are well executing in a disciplined collaboration on our strategy within the group
 - And we were able to present a quite solid number set here in the session
- I think all things are on plan
- And for me, the most important thing is that the customers are really taking up the new propositions, even at the high broadband investments which we have taken

QUESTION AND ANSWER SECTION

Stephan Eger

Investor Relations, Senior Executive Vice President

A

As always, if you like to ask a question, please press star one on your touchtone telephone, or hand it in via Twitter, e-mail or via the webcast. I'll announce your name when it's your turn to ask a question. Should you require to cancel your question, please then press star two.

And I think we will be getting started with Emmet Kelly from Morgan Stanley, who asked a question via e-mail. Emmet, you know various modern technology out there as well. So, Twitter and webcast can be used as well.

The first question was on Germany service revenue growth. At the Capital Markets Day, you mentioned broadly flat service revenues for 2014 to 2018. Is this still the expectation given the nice start?

The second question is how much have MagentaEINS discounts impacted the German service revenues in Q1 2015? And I think I'll just hand over, for the first part of the question, to Thomas.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. Thanks, Stephan. I think on the German service revenue growth, at the CMD, I think what we've said is we mentioned that A, we expect a CAGR of roughly 1% on the mobile service revenue from 2014 to 2018, and that we are convinced that we can, as we did last years, outperform the market in our performance.

What we've seen basically in Q1 is that market is doing better than we have anticipated. So, market development is better and we still, as we said, outperforming the market. I think there's an awesome development we're seeing here on our numbers with the 2.8%. And as we also mentioned in the Capital Markets Day, it is obviously a very conservative view, so there might be some upside.

On the Magenta One discounts, I think what we – still it's an early phase, but what we can say is, it's a very successful proposition, number one. Number two, we mentioned in Capital Markets Day that after transaction, we've seen a €4 increase, not a decrease. So, we see overcompensation of the discounts. And what I can tell you is that the trends we are seeing are improving, which is good to see here.

Tim D. Boddy

Goldman Sachs International

Q

Yes. Thanks for the question. I wanted to just focus a little bit on two things. First of all, your broadband net adds, you mentioned that there could be upside to the 100,000 guidance in a year. Do you know, at this point, how much of that weakness can be attributed to the significant jump in churn at Unity media? And, obviously, they've given guidance for a sharp improvement for the remainder of the year, so is this a temporary thing? Or are there some more structural factors?

Also I wanted to ask a more long-term question. It seems like the pan-European consolidation idea is gaining momentum, both at the regulatory and at the corporate level, and there's more companies talking about it. You were very clear, at your Capital Markets Day, that you want to validate the IP strategy before doing anything. But, at the same time, if possible opportunities could arise quicker, and if that was the case, would you be willing to consider a cross-border transaction? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

Hi, Tim. First question. Indeed, with regard to the weakness and churn of the cable operators. This might have helped us to hit the almost 80,000 broadband net adds in Q1. But look, we are still conducting a detailed analysis of the reportings here and the partings in this broadband area. So, definitely, it might be the case.

The second is, we are not fighting on pricing here. That is, from our side, very important to say. It is about the proposition. It's about the additional functionality. It is about the branding, and it is about even the convenience for consumers and it's even the way how our channels are performing these days. But, we have absolutely stick to our rational pricing strategy we have laid out.

The last topic, we had 3,000 [ph] VOVe (30:26) net adds in Q1, so we cannot confirm taking over of those customers yet. But even here, we see some benefits.

Now, coming to the second part of your question on the Pan-European consolidation idea, is that gaining momentum? Look, I think it was Deutsche who mentioned first that there is more than just the inter-market consolidation. It was always our intention to prove to the market first how cross-border synergies are going to work, and that was the reason that we, as the first player in this Europe environment, started this pan-IP network. By the way, we are moving ahead quite quickly here. And so, things are moving.

That said, there is still some proof out where we are working on. I always say that I believe that at one point in time, the European market consolidation is taking place. I think we threw the first stone into the water with our merger in the UK and bringing a fixed mobile player together where we believe that we should stick to the shareholding in this company than rather buying it up.

And therefore, something is to come, but there's no change to our strategy towards consolidation and acquisitions here in this regard. We have traded optionalities with our minority shareholders. We have said we consider intra-market consolidation. We are considering small acquisitions in this market, and we even consider smart buyouts of minorities, but nothing has changed in our strategy.

Stephan Eger
Investor Relations, Senior Executive Vice President

A

Thanks, Tim. And as you've just mentioned, Deutsche – then I think it will be appropriate to hand over to Robert Grindle from Deutsche Bank. Robert, please?

Robert J. Grindle
Deutsche Bank AG (Broker UK)

Q

Yeah. Hi there. Thanks very much. I'm a bit depressed to be using such a low tech, where I'm asking my question. I'll improve next time. And just going back to the cross-border evidence of synergies, I think some of your European countries were connected with IP since early March. Are there any early lessons for this exercise in the cross-border cooperation?

And secondly, in Germany fixed, your voice revenue growth deteriorated quite hastily, the growth, at least, in Q1. And it pretty much offset the boost you got from broadband. Is this just a MagentaEINS effect, a bundling effect, or is there something more significant going on with your voice revenues? Thank you.

Timotheus Höttges
Chairman-Management Board & CEO

A

Look, Deutsche Telekom is striving very consequently that we – not developing things twice in the group, that we are using the same applications, the same technologies and that we're even developing services within our footprint. I just could talk about the partnering concept as well, but I think this is moving ahead quite nicely. To give another example, we are launching MagentaEINS in a lot of markets, where we have fixed and mobile, as we have it in Germany.

Now, with regards to the cross-country synergies, it's three months ago that we gave you a detailed overview about, for instance, the Cloud VPN services, about the SDN, about, let's say, applications, about the development of our TV platform and the cloudification behind that one. We're still working on this. It's an execution thing here. And I think to add to what we have mentioned here, there's still some more work to do.

Thomas Dannenfeldt
Chief Financial Officer

A

And may I just add. The number we've mentioned at the Capital Markets Day in terms of the synergies, we said there is a €500mm ticket on the OpEx in the steady state on Europe, where 30% roughly is coming from cross-country. So, I think there is no news on that one.

Stephan Eger
Investor Relations, Senior Executive Vice President

A

Maybe I'll take the second question as well. On the voice, there is basically no news compared to the quarters before. So, there's no other development than what we have seen the quarters before.

Dominik Klarmann
HSBC Trinkaus & Burkhardt AG (Broker)

Q

Yeah. Thank you. Just on Liberty Global talking about potentially a significant new build outside its footprint in Germany, similar to what Virgin Media is doing in the UK. I guess, it suggests Liberty is very upbeat about the churn in competitive and regulatory environment, but just interested in your thoughts on that news.

And then, a clarification really on the MagentaEINS and the bundled discount. My understanding from the Capital Markets Day was that you were able to grow ARPU per home by about €4 basically by adding new SIM cards, so gaining new RTUs, but that with the existing mobile and fixed line subs you were only able to offset about half of the €10 headline discount. So, you're basically accepting a €5 revenue loss for those existing customers. I'm just checking if that is the right understanding and how you see these metrics now developing in Q1, as you added another around 0.5mm customers. Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

Yeah, Dominik, This is Thomas. I'll start with the second question, I think, then, Tim comes back to the Liberty Global question.

First of all, your takeaway of how MagentaEINS works, that A, on the existing customers, we're giving discounts and we are not able to completely fully compensate them per se, but the compensation and the better revenue comes from adding SIM cards or adding fixed line products into the complete bundle is correct.

I think at the Capital Markets Day, we said we can offset 50%, roughly, of the discount purely with the add-ons we're selling. That has improved more to a two-third of compensation. And as I said, the cross-selling elements of selling new SIM cards into the household or even also selling to mobile-only customers on fixed line, it has improved as well. So, overall, that €4 has improved and the share of compensation has improved. But, you got the math right at that time, yeah.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG (Broker)

Q

And can I just follow on – I mean, given the pricing from cable and mobile competitors, is there discussions about reducing that headline discount of €10 at all?

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. I think, basically, what we have done is that we were – from a competitive point of view, it was acceptable. We reduced promotions. We stopped those kind of elements in the first instance rather than the discount being on the fixed line side or at the mobile side.

Dominik Klarmann

HSBC Trinkaus & Burkhardt AG (Broker)

Q

Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

I'd like to come back to this Liberty plans and the fiber-to-the-home issue, and I'd like to share some maybe emotional moments with me, which I always witness in Germany. In the summit of our Ministry of Infrastructure, all carriers and operators were sitting there, including the cable operators, and they were asked, what is their commitment towards the broadband build-out in Germany? And there was a number which was thrown into the room and which added up to €8B.

And then the Minister asked the question, okay, who is committing to this number? And there was only one guy in the room who said, I'm investing around €4B into infrastructure in Germany throughout 2015, which was Deutsche. None of the others were really clear on committing a number, because they always have this kind of prerequisites, which they have in their business case.

What I learned now is that people are starting to understand that we are serious on what we have said. And you have seen that even with the uptake in Germany up to €908mm just in Q1 going into infrastructure here in the German environment, we stand to our commitments and we deliver on the targets which we have in mind.

So, we want to achieve 80% fiber coverage by 2018, and we are well on our way in this regard. And by the end of this year – sorry, by 2016, we will have fiber coverage in most of the cable footprint. So, we are catching up on that one.

Now, if now Liberty and some others are coming up with the idea on building their own fiber, look, I'm a big supporter of broadband infrastructure investments in Germany. So, therefore, I'm not afraid about that one.

Second, I'm just coming back from a journey to Israel, where I've met 48 venture capital companies, start-ups and even technology leaders, and I could tell you there's more money these days going into the upgrading of copper

than money is going into fiber development. The last things which I saw in these line cards, which you put into the street cabinets, which are enabling G.fast immediately, offering broadband coverage of 500 megabit per second.

And by the way, with 96 line cards, so with everything is possible in this regard, so I could tell you there are a lot of opportunity to upgrading our infrastructure in the street cabinets quite soon. So, therefore, I'm more convinced that our strategy is totally right now accelerating the broadband build-out across Germany rapidly, first to vectoring – sorry, VDSL with 50 megabit then to vectoring with 150 megabit then to super vector with 250 megabit and then with G.fast, we might achieve more than 500 megabit. And I could tell you what I see is coming quicker than we expect.

On top of that, we combine it with our hybrid router and the bandwidth we have in the mobile network already achieving something around 250 megabit. And then I think – even the cable operators might then start thinking about whether their huge advantage, which they're always trying to claim, on broadband is still valid.

So, I think we have a clear strategy going forward. I think it is even from a commercial perspective and from a time-to-market perspective, the right thing to do. We are not going into the Reggefiber failure example that we're going now and trying to reduce our tariffs just, you know, because we are trying to invest into the infrastructure, upgrading it, and what we see is uptake 12,000 on the hybrid router, more than 560,000 on the broadband side and net adds side. So, we see there is a huge uptake on our promotion these days.

Roshan Ranjit

Nomura International Plc

Q

Just one quick one going back to the domestic mobile service revenue growth. Now, we've seen essentially two step-changes over the last two quarters from flat to 1.8% to 2.8% growth. Could you just detail the main drivers behind that? Clearly, there's an element of offset in there. Some dynamics around the upselling would be good. And also, I saw a couple of weeks ago, you had increased the speeds on offer at the mobile Stariff. Is that to protect against some churn at the lower end of the market that you could be seeing? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, the first thing is, I'm quite happy with the development which we had on service revenues. Not reducing the LTE offers and the prices just because high-speed prices were looking cheaper. We just were trying to sell our quality into the markets. We have this MagentaMobil, easy and simple, tariff grid in the marketplace and this is paying off. The service revenues increased by 2.8%, the voice-only revenues are almost flat. The SMS revenues are, as you might know shrinking, by the way, by 18.9%. Our data revenues – so people using LTE and the bandwidth is increasing by 9.2% and the visitors are increasing by 18% as well.

On top of that, we had huge terminal equipment. Thomas mentioned that in his speech, which is not the service revenue part, but which includes the mobile revenues as total, which was at the peak volume in this quarter. We have sold more smartphones than all of them, and we have a huge amount of customers now on the LTE network. I think more than 6.8mm, just from my head here, was the number.

So, you see that these enabling customers with the right handsets into this high-bandwidth infrastructure, you do not have to reduce the prices to the lowest in the market. You see even the uptake. The only worry which I have had over the last years was the SMS side, which is due to the over-the-top cannibalization, but I think that is something we have anticipated in our model as well, and it's getting rebalanced by the data revenues.

Thomas Dannenfeldt
Chief Financial Officer

A

And to add here on the second part of the question, is there any – whether that change in S tariff scheme was related to churn? There is no churn issue. There is no change in terms of churn development. Basically, I think what we've done is, we've removed some promotional pricing elements at that time, added some more value into the schemes because we removed the promotional pricing.

I think, overall, what you always should expect is driven by technology that year-by-year for the same price points, you will get more volume and more speed. That's the kind of nature of our business, I think. But back to your question, there's no churn issue behind it.

Stephan Eger
Investor Relations, Senior Executive Vice President

A

Thanks, Thomas. Let's move on with Peter Kurt Nielsen from Kepler Cheuvreux. Peter Kurt, please?

Peter Kurt Nielsen
Kepler Capital Markets SA (UK)

Q

Thank you very much. Two questions please on Germany, one on mobile service revenues. As has already been discussed, the revenue growth is accelerating. Can you talk a bit about – give us any data points on what you're seeing in terms of the uplift on a 4G user vs. a 3G in terms of usage or spend? And assuming that growth here in the mobile service revenues will indeed be higher than you have, perhaps, expected, could you envisage yourself accelerating the rollout targets for 4G POP coverage, which you gave us at the Capital Markets Day?

And secondly, just on overall revenues in Germany, obviously strong plus 2% in Q1. I appreciate that the year-on-year comps become more challenging in H2 and, probably, the handset sales in this quarter are unlikely to be replicated in the coming quarters. But, do you now consider realistic to achieve your target for revenue stabilization already this year, a year ahead of your target for stabilization in 2016? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

A

I think I'm going to start with the last part of your question whether we see already revenue stabilization in this year. As we've said after the Capital Markets Day, we've been obviously quite conservative on the mobile side. But on the other hand, don't forget the – let's say, the guidance was given on the broadband revenues in, I would say, aggressive and demanding and challenging. So, overall, I think there is more likelihood that we can get there significantly earlier, I don't think so.

Timotheus Höttges
Chairman-Management Board & CEO

A

Peter-Kurt, coming back to your question on the data usage, on the consumer contracts, we see 405 megabit per customer per month. On the business contracts, we see 260 megabit per customer per month. The B2C contract customers with LTE devices have 59% more data usage than customers without LTE devices. And that is one of the part of our subsidy policy, because we have the best LTE infrastructure. We have attractive handsets. That is one of the reasons that we're even trying to push higher valuable handsets into the base. And then, we even see the uptake and the satisfaction of the consumers.

I could even further go into the Android and the Apple OS and the Blackberry and Windows stuff, but honestly, I would guess that this is something where my team could give you a little bit more insight of the development of this particular element.

Thomas Dannenfeldt

Chief Financial Officer

A

And basically, I think we see also a good progress when it comes to the monetization of mobile data, because there's actually two parts how we do that. First of all, via the migration to higher tariffs with bigger data allowances where we see good uptake, especially when it comes to retaining customers as upselling customers, Magenta One actually helps quite a lot in that. Secondly, full data options like SpeedOn where we actually now sold until Q1 2015, 3.7mm packages which is basically almost doubling y-over-y vs. Q1 2014.

Polo Tang

UBS Ltd. (Broker)

Q

Yeah. Hi. I just have one question which is just on German EBITDA margins, because if you look at EBITDA margins, it seems to have decreased marginally year-on-year. So, I'm just trying to wonder how much of this is impacted by the all-IP migration or was a case of just basically a high level of five and six handsets being sold in the quarter, and how should we think about evolution of the German EBITDA margin going forward?

So, I specifically look at your mobile business in Germany, it seems that potentially, you'll focus more on retention rather than acquisition. So, therefore, can we expect lower mobile SAC going forward and therefore, maybe higher margins that flow through? So, maybe just a question on German EBITDA margins. Thanks.

Timotheus Höttges

Chairman-Management Board & CEO

A

Yeah. Polo, I think I'm going to start. First of all, you're right. We are focusing very much on the retention part and the upselling part of the business. That's why you've seen also on the numbers an uptick year-on-year on the SRC, so the retention costs. And for us, in terms of the steering, we are focused on getting a better payback for customers. So not, per se, getting the SACs and SRCs up or down, but getting a better payback.

So, as the customer pays more per month, we are willing to spend more as long as the payback is declining. And that's what we basically see. We're spending more in absolute terms, but we're getting the payback periods in a better shape. That's one element which was somehow a little bit pressing on the EBITDA margin in the German environment in Q1, which would give us a good momentum on the revenue spend looking forward.

And I think the second element is IP migration volumes. I mentioned that. We've doubled the volumes. We are ahead of what we originally planned in terms of the volumes for this year. It's a little bit like in Germany, if you – sometimes, it takes some time to get the machine run. But once the machine is running, you can't stop it. And that's the situation we're having right now. But obviously, that comes with some costs as well here.

Polo Tang

UBS Ltd. (Broker)

Q

Is it possible to give a bit color in terms of how much the cost was in terms of all-IP migration in the quarter? Thanks.

Thomas Dannenfeldt

Chief Financial Officer

A

Polo, we have to come back to you because we usually don't give that out on a quarterly basis. It also doesn't make sense. But, we'll try to look it up and I'm sure we'll get back to you on that.

Polo Tang

UBS Ltd. (Broker)

Q

Thanks.

Thomas Dannenfeldt

Chief Financial Officer

A

Tim, I think you wanted to add something on the OpEx?

Timotheus Höttges

Chairman-Management Board & CEO

A

No, I just wanted to change roles with Thomas. He made the general question and I'm now playing the CFO. I love that. We had an OpEx increase by €190mm in that quarter, of which €186mm coming from higher direct cost, mainly driven by €64mm from mobile SRCs driven by MagentaEINS and volumes and €111mm driven by mobile devices. As Thomas managed, there is the responding or the – apart from the high volume spot market deals, which we have driven in this market. And then, we had a decrease on the lower indirect costs. Interesting, we had €69mm higher personnel cost, and this is the part that where you refer to which is mainly coming from the IP migration volumes and the MagentaEINS orders.

On top of that, we have even increased our technical field force and the customer service people, because 2014, we had some servicing issues, as you could recall. This thing is healed and handled now properly. All service levels are green. That is due to additional temporary trainees and temporarily workforces, which we have on top of the workforce, which we handled. Now, this €69mm were overcompensated by savings in IT and savings on G&A. So, therefore, the indirect costs went down by €33mm.

Simon H. Weeden

Citigroup Global Markets Ltd.

Q

Yeah. Thank you for taking the question. I wondered if you wouldn't mind if going back to the sort of German broadband market and whether you could give us some more color on the different – the sort of proportionate differences between ARPU for fiber customer, ordinary ADSL retail customer, maybe a wholesale customer, and add some more color on whether you're seeing fiber customers tending to take more RGUs in terms of triple or quad-play.

And the other question was whether you thought the United Internet bids were part of Drillisch, could lead to a change in the dynamic in the industry longer term as you may have another integrated operator sort of emerging after that longer term. Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, I like to start with the United Internet question and the Drillisch part here. It's interesting, by the way, what is happening now. Honestly, you should ask Ralph Dommermuth on the subject or the Choulidis brothers here, what this deal is about and you might get different answers on that one.

Now, I could answer it offensively by saying the complementary nature of their businesses, there are likely to be some operational and commercial synergies over time between these two companies. Drillisch is a company,

which is acting offline. Drillisch is a company at the lower end with their market and branding proposition. And historically, they were always on the SIM-only business. United Internet is the opposite. They are an online player. They are at the higher end of the market, and they are handset-based. So, this could be, let's say a complementary combination of these two businesses.

If I look at this more defensively, I think it could be even a hedging strategy for United Internet for its mobile business, because looking to what's going on there, it is very hard for them to get a 4G proposition. Deutsche Telekom is not offering LTE for wholesale providers. We're even not offering it to congstar. And I do not know what Vodafone is going to do. But so far, I haven't seen that 4G access were given. And therefore, the only remainder player in the market is O2. And if they are not getting this opportunity, it might be that with Drillisch, they could get something off the 30% of the total volumes which were imposed as remedies on the merger of E-Plus and Drillisch recently.

So, therefore, there are different answers to the same situation. I cannot believe that United Internet might be a minority player forever. But, this is my private and personal view on that one, at least, I have seen them acting in the part. But please ask the respective managers on the subject in their companies.

Thomas Dannenfeldt

Chief Financial Officer

A

I take the part on the question of new customers coming in on the broadband side. So, what about the quality and the [ph] part (57:00) they have.

First of all, I think there are two basis drivers for the net adds we're seeing right now. And that's what we already said last year that we expect that to kick in during the course of this year. That is the infrastructure build-out, and it is Magenta One. On the infrastructure build-out, there is an upselling element in the proposition per se, because if you get more speed, you pay €5 more per month. So, that's the first upselling element in the whole game.

Then the second upselling element is the take rate on TV proposition. We have a take rate of – as we said 40%, 50%, last quarter about 40%. So, it's bouncing on that level. And, obviously, that is very much driven here. You've seen that 74,000 net adds on entertain very much driven by the new customers we're adding via the new infrastructure.

And then, the second element, as I've said, is Magenta One, where there is a discount element, and there is a – as Dominik asked already, there is roughly now two-thirds of compensation on the core products of that discount by additional products we're selling. So, basically, three levels of upselling. First one is more bandwidth, €5. Second one is television, €5. And the third one is, if it comes to Magenta One, other additional products we're selling in there.

Stephan Eger

Investor Relations, Senior Executive Vice President

A

Thanks, Thomas. We'll move on with another question coming in via webcast from David Str auch from Oddo. Question is does your expectation of bringing back the net-debt-to-EBITDA ratio in your comfort zone by end of 2015 including an assumption on cash payment for spectrum auction in Germany. Thomas?

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. Thanks, Stephan. First of all, the very simple way to answer is, yes. Maybe some additional explanation around that. First of all, on the spectrum, you need to understand. We all need to understand there is one part, the

700 part, which will not be cash payment-relevant in 2015, at least part of it, because there's clearance element in there, et cetera. But, that's only a minor element.

I think, as I said, it is included. You never know whether you're right or wrong in the level you're expecting, but per se, it's included. I'm quite relaxed on the whole debate. I've seen a lot of noise in the background on – today around that discussion here, and I'm quite relaxed on that one basically because there is no surprise. It is like we mentioned and I mentioned that on the Capital Markets Day, development is exactly like anticipated here. We see and facing in Q1 those effects of the U.S. dollar kicking in at spot rate in – on the balance sheet and only an average rate on the P&L. That's one element.

The second element of the whole equation is that we will hold growth, so to say, the 2.6 back into the range of 2 to 2.5 during the course of the year, by the growth profile we will show this year. And I think number three, as I mentioned also on the Capital Markets Day, is our comfort zone in terms of rating is and was BBB to A -, and I think we are well positioned in there.

Ulrich W. Rathe

Jefferies International Ltd.

Q

Mobile service revenue growth of 3%, there were already several questions on it. What I'm wondering is, you're saying this – in the quarter, this already contains market share gains. You're saying there will likely be market share gains also in the year 2015. If I remember correctly, your four-year plan presented at the Capital Markets Day also included guided share gain. So, given that setup, I'm just wondering at what point do you see a risk of a more violent competitive reaction? Is it not maybe better to simply reduce that share gain element of the growth?

My second question is on the policy announcements from the European Commission. I realize these are very general statements so far, but I'm wondering whether you have any comments either supporting or having additional demands to these indicative policy statements on the commission that came out recently. Thank you.

Thomas Dannenfeldt

Chief Financial Officer

A

Ulrich, just to the first question on the mobile service revenue, first of all, our steering is not towards a share gain. Our steering is towards an increase of the total revenues. That's number one. And number two is, I think what we're still seeing here in the market is that we outperform the market, because there are two big very well-positioned reasons to choose our brand and our propositions, that is the outperformance we see on the network quality side. And that's an integrated proposition like we see it with Magenta One. And people obviously like it.

So, the whole development so far is not driven by a view on how to steal share, but a good and well positioned proposition in the marketplace. So, I guess that the right way to put it is to ask the competitors what they're intending to do to catch up. That's one part of the equation, I think.

I think the other one is, as I mentioned, on the market invest, be it new customers or retaining customers, we are keen on improving the efficiency, so getting the paybacks down and working actively towards that. We've seen that in Q1 as well. So, that's the second part, I think, of the answer.

And thirdly, I think what we've seen, and it's good to see, that's the most important element of the whole debate is the German mobile market, as a whole, is growing again. That's important to see, because that gives all the market players the room to invest into quality. And by the way, that's what we like, competition on quality.

Timotheus Höttges*Chairman-Management Board & CEO*

A

There is this question on the statement from our Commissioner Oettinger and the commission here. I think the commission's priorities here for the new telecom framework review are all, let's say, in the current review process with the different states. On the spectrum policy and management and on tackling regulatory fragmentation to allow economies of scale for operators has been addressed. The ensuring of the level playing field for all market players, so maybe our over-the-top and telecommunication operators under review. And the incentivization of investment in high-speed broadband and the revisions of the institutional framework for telecom regulation is a well part of the statements we have seen – heard from the commission recently.

All these priorities address relevant issues for our sector. So, therefore, this digital single market idea is fairly addressing the topics. But it's even fairly general in substance so far, which shows me that the commission is still seeking the right answer on these pressing issues. But what they do is they, at least, address them openly. And they have an opinion on that one. I'm positively encouraged about the discussions I've had with these guys, and that they see that they should improve the environment, that the telecom sector is promoted for more investments, especially in the broadband networks.

Deregulation and simplification of fixed-line wholesale and these asymmetric ex-ante regulation, which we still have in a lot of markets, and you know that it was historically right, but today, a lot of question marks around it. And even the harmonization of spectrum policy across Europe is definitely needed. So, therefore, I think these are good discussions which are taking place.

Now, what is going to happen? I think the EU comm will start, let's say, first, with the single market package is lying on the table and they get at least you know this issue of roaming and net neutrality addressed during this year or during the summer. And then our suggestion would have been to say, there is kind of fast-track legislation focusing on the topics which I just mentioned.

So, we will do everything to bring our thinking to the tables as well. In this fast-changing telecom market, it is even needed that we need a fast-changing legislation, because we cannot wait for too long before things are becoming effective. So, therefore, good discussion, good headlines, still the position's not been defined in all detail.

Frederic Boulan*Merrill Lynch International*

Q

Firstly, going back to Germany fixed, it's still declining, about 2%. When you think the take up of [ph] entertainment (67:01) fiber will be able to get you back to growth and any thoughts on content ownership as a differentiating factor?

And secondly, I just wanted to have your thoughts on the competitive developments right now in mobile, in consolidated markets, in particular, how are you seeing Vod and O2 behaving in consumer, but probably more importantly in corporate segment? And do you think the current price structure in no-frills segment, so take congstar, for instance, are sustainable? Thank you very much.

Timotheus Höttges*Chairman-Management Board & CEO*

A

I'll start again with the second part of the question, and the question, mobile in a consolidated market, how I believe Vodafone and O2 might be behaving, and is the current price structure in no-frills segments sustainable? Look, I think the primary idea is that everybody is focusing on high quality on the infrastructure. So, this is

something where we always said, this is more value for money and not just a price competition here. So, I even expect that they're trying to offer their latest services on the infrastructure side and on bandwidth at reasonable prices to better amortize the infrastructure.

Second, on O2, there is a lot of focus on the integration, from the network perspective, headquarters and from the sales organization. So, I think we expect that [ph] TIF (68:48) will over time reduce the sub-brands in the same segments as the two brands are operating, when it comes to Türk Telekom and Ay Yıldız, for instance, and that they're going to focus their portfolio maybe to a top brand and a lower brand, O2 and Brent, Blau.de, or something like that.

So, this is something which, I would say, I'm expecting from Telefónica. I even expect that they might tackle the SME market and the business customer market with more focus and they will definitely, let's say, trying to keep their base stable. So, focusing on the churn of this merged entity.

With regard to Vodafone, look, these guys are trying to play the quality game, investing heavily into infrastructure as well. So, overall, I even expect more reasonable behavior even from these guys in the market. This is a quality market and consumers are willing to pay a bit more if they have an outstanding service and outstanding coverage. These are the two main drivers for customer satisfaction, as we know, and they both have understood that. So, I expect no price battle coming into this market.

Thomas Dannenfeldt

Chief Financial Officer

A

Yeah. And maybe some words, Fred, on fixed line as well. I think, first of all, the trend is our friend in fixed line. And I think all the key elements we mentioned a year and two years ago, where we thought improvement needs to be done are now moving in the right direction in terms of looking at the trends. So, one element was line losses. It was clear that we need to improve the line losses. There will not be a zero number, but we need to get it smaller, that number that we can compensate by broadband on one hand.

The second one is on the broadband, so, double-play and television. I remember last year, we had a development in this, as we call them connected home revenues of minus 0.6% driven by – B2B was always stable, but slight declines still in B2C and a decline in wholesale, which was a big issue two years ago and last year a smaller one. And now, what we're facing here is a stabilization in that complete revenues. So, we are now from minus 0.6% last year in the double, triple-play revenues across all segments towards zero. Line losses are improving.

So, I think it's fair to say the trend is our friend. We're doing better than originally expected in those areas, and obviously, getting a little bit faster than expected, also, closer to stabilization here.

Frederic Boulan

Merrill Lynch International

Q

Thanks. I mean, if I may, a quick follow-up on previous question on the EC. What concrete implications do you expect for Deutsche in the medium term, if you talk about OTT, a level playing field or relaxed regulation on fiber? What's the kind of ideal scenario for you in a three-year to four-year view?

Timotheus Höttges

Chairman-Management Board & CEO

A

Look, the ideal scenario which we are looking at is that we get incentive for broadband build-out, so no further ex-ante regulation and a kind of more stable environment in which we are able to operate from a wholesale and pricing perspective. And there are some encouraging moves already active. Just take the German example, we

have now 15 cities here in Germany, where we are able without regulation to offer our promotions and our prices here. So, they are going out of regulations and market, where no dominance is existing anymore. So, this is one of the pieces.

The second one is, with regard to the over-the-top players, I'm always stressing this issue of interoperability with over-the-top services. Just take the Skype service, the WhatsApp services and other services, they are totally operating as telecommunication services, but without all the rules which we have. We have emergency call, rights; we have the number portability; we have this interoperability to all carriers. We have the termination rates, and all of this kind of stuff. So, I think I'm expecting that they're creating a level playing field.

Do I want more regulation? Certainly not. But, I'm a pragmatist here, and I think Brussels and the European environment is always trying to organize things by regulation. So, therefore, I'm hoping that we get in a lot of areas a level playing field where we could operate with the same rules and as the over-the-top industries.

Thirdly, I'm expecting a reasonable roaming regime for Europe. It's not heavily affecting our P&L, but it should be roaming like at home offer so that we could include our tariffs and use them even abroad within Europe. But if we are creating then a single market, where no roaming is existing anymore. Then I even expect that the anti-trust authorities are not looking on a access anymore that they're even trying to deal the market from a holistic perspective, so that we look at Europe, not from 28 perspective, but really from another relevant market definition.

So, therefore, I think this is something which is not coming overnight, but I see the tendency that people in Brussels and even the local regulators and politicians are willing to consider this thought and step-by-step in this kind of a dimension fast-track regulation. This might help us to improve overall the sentiment that not only the consumer prices and the focus, but even the reinvestment capabilities.

Mathieu Robilliard

Barclays Capital Securities Ltd.

Q

Two questions. First, with regard to spectrum in the U.S., how has your view evolved in terms of the chances of revenue reserve spectrum for the next auction?

And the second question has to do with costs. I think I understand well the dynamics of how costs have moved this quarter. It makes all the sense to invest in market growth, but I was wondering if, for the rest of the year, there are some elements that could lead to lower growth in costs or even a decline in costs, ignoring the costs that are linked to revenue trends? Thank you.

Timotheus Höttges

Chairman-Management Board & CEO

A

Let me say we have always said that we intend to be a participant in the broadcast incentive auction. Low-band spectrum remains a high priority for us in the U.S. On the timing of the broadcast incentive auction, we want to see it happen as soon as possible, since this is an event to level playing field here, 75% of the low-band spectrum is in the hands of the big two.

I think Chairman Wheeler seems to be focused on driving this to a success in Q1 2016. And we think that is the likely timeframe we could expect.

We believe that a robust spectrum set is very important for the incentive auction in order to avoid a situation, where the auction is dominated just two carriers. And, therefore, we would like to see a reserve of at least 40

megahertz with no one person getting more than 20 megahertz in this auction. So, this is just to say, what we are working on in the U.S., and I hope that is possible to happen.

Thomas Dannenfeldt
Chief Financial Officer

A

Yeah. And from my side, on the costs, I think, looking at the cost development Q1, there is one very obvious element which is very much driven by seasonality and seasonal effect that is relatively high -cost basis on the development on the GHS, on the headquarters here. I think you should expect that this will normalize during the course of the year and, obviously, will reduce that level. I think there is – on EU, 2014 was a strong decrease vs. 2013, because of a lot of extraordinary programs we started. We will not see the same rate of decline in 2015 like in 2014, but there will still be a relevant one.

And I think on T-Systems, you should expect, what we see in the market unit already a decline. We should expect that to go on as a part of the master plan. So, I think the main and key element, Mathieu, is really on GHS that you should expect that to – not to happen again, so to say, in Q2 to Q4, but change during the course of the year.

Mathieu Robilliard
Barclays Capital Securities Ltd.

Q

Sorry. If I can follow-up, with regards to Germany, would you add any comment there?

Thomas Dannenfeldt
Chief Financial Officer

A

Germany, as Tim mentioned, as it was for a minute again taking over the CFO role, the indirect cost, they have been reduced in Q1. So, there was indirect cost reduction on Germany already. But the direct cost, I think that was the part of increase. And that was not only driven by market invest, but also by a very high level of handset sales and spot deals. And I guess, we will not see that level again. So, there will be decrease here as well, yeah.

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