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DTEGn.DE - Q1 2026 Deutsche Telekom AG Earnings Call

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PRESENTATION

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Good afternoon, everyone, and welcome to Deutsche Telekom's first quarter 2026 conference call. Joining me today are our CEO, Tim Hottges; and our CFO, Christian Illek. As usual, Tim will begin by sharing the key highlights of the quarter, followed by Christian, who will take you through our quarterly performance in more detail and group financials as well. After this, we have time for Q&A.

Before handing over to Tim, please take note of the usual disclaimer included in our presentation. Also, please be aware that this conference will be recorded and uploaded to the Internet.

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

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Thank you, Hannes, and welcome, everybody, to today's call. As you have seen our numbers, we are off to a good start in 2026 on all areas on both sides of the Atlantic. In this world of uncertainty, Deutsche Telekom is resilient, and we are keeping delivering the strong growth as promised. As I called in the press this morning, the headline for this quarter is Deutsche Telekom is robust.

Group organic service revenues were up 4.6% year-on-year. Organic EBITDA accelerated to 7.5% growth. We raised our group guidance today to reflect T-Mobile's guidance increase, and we remain on good track with regard to our capital markets targets. This is very, very sufficient. We demonstrated our innovation leadership at the Mobile World Congress, some of you have seen that. This included the announcement of the first in-call AI assistant and an industry-leading autonomous network agent, just two examples where we are the trailblazer of our industry.

Our T-Mobile stake reached almost 54% at the end of April. This is up 2% points from one year ago. We used the time here for increasing our shareholding at T-Mobile. As you can see on the next page, our growth remains broad-based. Most notable this quarter as the acceleration in T-Mobile's EBITDA growth, stunning 12% on US GAAP and 10% on IFRS basis.

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And this is almost doubling with regard to the growth from last year, which was 5.3%. Our ex-US segments all grew and in line with our plans. We keep investing in our market network leadership. In the last 12 months, we passed 3.6 million additional European homes with FTTH. We now reach 13 million homes in Germany. Both in Germany and Europe, we see accelerating fiber customer growth. And by the way, we are very close to be market leader, number 1 with regard to our numbers in Germany and in Europe on the fiber side, which is our aspiration.

In the US, we agreed to create two additional fiber joint ventures, which are expected to pass 1.8 million homes by end of this year. Our mobile networks remain leading across the footprint. And T-Mobile, by the way, just an example, had the highest-ever proportion of switchers who cited network quality as the primary reason to join us.

As you can see on the next page, our growth remains broad-based. Most notable and was the -- I'm sorry, that was already the page before. Let's go to the AI and the digital world. On page 7 here, you can see our regular update on AI and on digitization. On October 5, we will host our promised investor event that is dedicated to AI. It will last the whole day, I will invite all, let's say, my Board colleagues, but more important, we will go through all the cases with the respective leaders of our organization, and will show the broad variety of AI applications and their implications for our financials in a separate Capital Markets Day event.

I don't know whether other companies have done that so far. Even here, I think we are the first one, at least in our industry who is going that deep in showing what we are achieving here and what we aspire for. So for today, I cannot go into all the details. I'm spending -- my number 1 priority in the company is implementing AI and work on AI. So that said, I'll give you a few snippets here.

At Mobile World Congress, we made various industry-leading announcement. We unveiled the first AI call assistant that is native to our voice network and that provides live translation, call summaries and contextual assistance in the call. Hello, Magenta, and then the AI agent is supporting the discussion. We will launch this service commercially very soon, and then you can test it out.

We also presented MINDR. This is a multi-agent network solution that predicts, detects and resolves network issues before they impact the customers. So anomaly detection and autonomous repair, there's always a human interface still in the place, but prospectively, it might be full autonomous.

In Germany, our AI-enabled chatbot deflected 1 million calls in the first quarter, and we plan to double the number of deflected calls in 2026. And AI is heavily used in our German fiber deployment for planning, quantity control and documentation, and it's one of the contributors why our build-out cost for fiber came down now quarter-over-quarter.

Coding, another very important example, with AI support, it's 3 times faster. In some cases, we even are 95% faster than previous ones. And in April, we turned our annual extended leadership team into an AI base camp in Munich, where everyone, the top 250 people of this company were working. It was like a hackathon. We were all sitting there with our laptops and working on it, learning not only ChatGPT and prompting, but we were, for instance, installing our own skills. We were developing on own GPTs and AI agents.

We were working on prototyping MVPs with Lovable, and we were even working on agents with HappyRobots and other partners. So we were deeply in the implementation of AI. We believe that only if the leaders can use the tools personally, the rest of the organization will follow. So therefore, it is on us leading the pack here and showing our own competence.

Let's go to the business. Our customer growth. We had a good market-leading customer growth on both sides of the Atlantic. You have seen the T-Mobile US numbers. We delivered a 6% year-on-year increase in postpaid account net additions. And outside of the US, our customers was a bit lower this quarter due to Germany, but nevertheless, still a stunning 327,000 mobile net adds, which we were able to deliver.

In Broadband, the growth remains driven by Europe. And in Germany, subscribers were stable for a second successive quarter despite recently communicated price increases. I think this is the art of marketing. If you are, on the one side, growing your customer base, growing

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your Net Promoter Score and at the same time, being able to pass through some of the inflation, which we were facing in the past to your customers. Good on its way.

Growth in the TV Triple Play remains healthy. In addition, in Germany, we continue to see strong growth with over-the-top TV subscription. And I can promise you one thing. You will see a significant coming now soon for Germany because the World Championship is coming. And as you know, Deutsche Telekom has all the 144 games on their Magenta TV platform.

Society and Environment. We continue our steady progress towards our societal environmental targets. We further reduced our energy consumption on this side of the Atlantic, and we are successfully leveraging AI to drive these efficiencies. Elsewhere, we have developed an end-to-end Scope 3 solution for the automotive value chain.

And by the way, we are working on a target setting for all our leaders, including us here as Board members, that is our incentive schemes related not only to Scope 1 and 2, but as well to Scope 3. I think even here, we have a kind of unique position.

On May 19, we will publish our corporate responsibility report, which contains various examples how AI applications can contribute positively to society. And you know that we are very proud that we are already carbon neutral with regard to Scope 1 and 2.

Let's go to the guidance of 2026. T-Mobile US raised its 2026 guidance for EBITDA and free cash by $50 million at the midpoint on April 28, and we are passing on this guidance and increase our guidance today. We are well on track for our unchanged DT ex US guidance. And with that, we will now continue for a constant currency group EBITDA growth of around 6% for this year to EUR47.5 billion. Our guidance for the free cash flow is now more than EUR19.8 billion. Our guidance remains based on last year's average dollar exchange of $1.13. As usual, we have a page in the appendix in which we compare our guidance with the consensus using foreign exchange of $1.17.

Ladies and gentlemen, those are the key facts, and as I said, of a very robust start into the year with a good prospects going forward. Some of you may expect me to comment on recent press speculations. I'm afraid I will have to disappoint you. As a matter of principle, we do not comment on market rumors or speculations from the press regarding potential transactions. I trust you will understand that. And I hope you will not take it the wrong way if I do not provide or Christian you with further details or comments in response to related questions later on.

And with that, over to Christian for his usual deep dive.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Thanks, Tim. And let me first quickly recap T-Mobile's strong first quarter results, and I will basically compare everything based on US GAAP. So you know they've grown service revenue by 11.3%, and that is coming from an acceleration in organic growth, but heavily supported also by the acquisitions from last year, especially driven by US Cellular. Core adjusted EBITDA also accelerated from 6.8% in the fourth quarter to 11.9% in the first quarter. And as Tim said earlier on, also the organic EBITDA growth accelerated.

Despite a competitive environment, T-Mobile achieved a higher postpaid account growth than it had last year. It was a 6% increase. And what it looks like it's the strongest in the industry. At the same time, they were able to increase the ARPA by nearly 4%, well ahead of the industry peers. The broadband subscriptions, which we don't show on the chart here, were over 500,000 this quarter with fixed wireless access additions being higher than they were a year ago. Based on all these positive results, T-Mobile raised its customer guidance on account growth by 50,000 to a midpoint of 1 million or a range of 950,000 to 1,050,000.

Moving on to Germany. And I would say Germany actually had a solid quarter. Total revenues grew by 2.1% in the first quarter of this year, and the growth was roughly driven 50% coming from service revenue, 50% coming from non-service revenue. This quarter's adjusted EBITDA performance was 2.5%, pretty much the same -- it's the same like we had in the previous quarter, and it's actually along our expectations.

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The mobile service revenue slowed down a little bit sequentially to 2.1%, but it remained in the guidance corridor, and we are absolutely comfortable to achieve our guidance when it comes to mobile service revenue. Fixed service revenue slowed down sequentially. It was slightly better in the last two quarters, but you know that in Q4 and in Q3, we had strongly -- we had phasing impacts -- negative phasing impacts from B2B.

As you also can see in the next page, the broadband revenue remains subdued. This is mainly an effect of the customer losses we were facing in 2025. The ARPA still remains strong in the consumer side with a growth of roughly 3%. With our back book prices, we're seeing a slightly elevated churn. It's kicking in starting from February. So we expect that this impact will last over the course of the second and the third quarter with a peak in the second quarter.

Wholesale revenue growth remained in positive territory. ARPA growth continues to offset the volume losses. But please keep in mind the annual price increases for the lower DSL tariffs as agreed upon with the commitment contracts back in 2021 will roll over starting from the next quarter. Still, we expect that the wholesale access ARPA will continue to grow in the upcoming quarters.

So let's look at the broadband base and the subscriber base. What you've seen is we were able to maintain a stable subscriber base in the first quarter, and we're also intending to basically stabilize the broadband subscriber base in the second quarter. So in any case, given that we have introduced the back book price increases in April, and we're seeing this that we expect a higher churn in the next coming two quarters.

So that means if we intend to have a stable broadband base for the remainder of the year, and we have the peak churn in second quarter, the second half should give us better broadband revenue growth figures than we've seen it right now. We launched multiple initiatives on broadband performance. And one of the biggest one with the biggest impact is obviously the fiber penetration. What you can see on fiber is we have a 16% increase in fiber net additions to 148,000. And you see also that despite our continuous rollout of 2.5 million households passed, we see an increase in the fiber penetration by 10%.

On the TV side, you see steady growth on the Triple Play. Additionally, we are continuing to add a significant number of OTT contracts. It was 90,000 in the first quarter. So that adds up to close to 120,000, and that compares to a complete increase in 2025 for the full year of 344,000, and we expect obviously the OTT performance, but also the Triple Play performance in front of the World Championship to actually increase.

Moving to the German mobile KPIs. Customer growth remained solid, but it was a little bit slower than on a quarter-by-quarter basis, especially if you compare it to the previous years. This is partly due to the price increase, which we introduced back in February on the multicards on the third and fourth card, but it may also be an effect of the market growth in this given quarter.

We have seen Vodafone, we have seen 1&1. Obviously, Telefonica is coming tomorrow. We will see how this pans out in terms of total growth. The growth in data usage obviously reflects our unlimited propositions, which we feel comfortable with given that we are expanding the capacity of our mobile network.

Moving over to Europe. You see another strong quarter, 33 consecutive quarters of organic EBITDA growth. Service revenue grew by 2.1% on an organic basis, very strongly supported by service revenue growth all up. And here, we had an extraordinary strong performance of IT service revenue coming from Greece. The organic EBITDA grew by 3.5%. And if you extract the relief of the Hungarian telco tax from last year, that is pretty much the same run rate as we had last year. Underpinning our financial results, you see our European commercial momentum remains very resilient and positive. You can take a look on the chart on page 20.

Moving over to T-Systems. Also, T-Systems remains on a positive track according to all relevant parameters. As we communicated, we will have a slower EBITDA growth than last year. That reflects our investments into future growth opportunities like sovereign cloud and artificial intelligence. But in any case, I think we're feeling really comfortable with their performance.

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So that is basically my operational review, and let's look at the reported financials. Obviously, what you see is that the reported financials were impacted by a weaker dollar, and that's been highlighted on this chart here. Despite a weaker dollar, you see that our adjusted earnings per share grew at 8%. So we feel comfortable with the guidance of 10% over the course of the full year.

Moving over to the free cash flow bridge. You see that the free cash flow was supported by a lower CapEx spend, predominantly driven by Germany. And we had kind of a drag on the cash flow from operations, and this is due to ForEx, a weaker dollar and EUR300 million of higher restructuring expenses, which are all related to the US. The adjusted net profit is obviously driven by higher EBIT if you combine EBITDA and depreciation, partly offset by the financial results and taxes.

Moving over to net debt. What you can see is the net debt has increased by -- without leases by EUR1.4 billion. The very strong shareholder remuneration of, in total, EUR5.1 billion basically could be offset by a strong free cash flow momentum. And I think the increase is purely due to the dollar.

And if we take a look at our leverage ratios, including leases, we are well below the comfort zone of 2.75, at 2.64, and I think this continuous performance on the net leverage also led to the decision of Standard & Poor's to increase our rating after 18 years to A-. That makes me happy, as you can imagine.

So that is my review operationally and financially. And I think you, Tim, going to summarize the quarter.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

No, it was robust, Christian. And I'm very happy that after 18 years, we are now A-. So what are we doing with the money? That should be the discussion, and our investors have definitely great ideas. So let them question us.

QUESTIONS AND ANSWERS

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Okay. With that, we swiftly move on to the Q&A section. And I'm sure that's a good topic to debate. So we now have the Q&A session. (Event Instructions) With that, let's begin.

Akhil Dattani, JPMorgan.

Akhil Dattani - *JPMorgan Chase & Co - Analyst*

Hi, good afternoon. Thanks for taking the questions. Tim, maybe I'll take up your offer of starting on the comment about the balance sheet and what you could do with it and maybe reference the reports that I'm sure you saw last month in regards to the possibility of DT considering a transaction with T-Mobile. I'm not sure to what extent you're able or willing to comment on the specifics of that.

But at least conceptually, maybe you could give us some thoughts around the pros and cons of why such a transaction might be of interest? And maybe with that, I'm sure you heard T-Mobile CEO's comments around the dealer requiring minority approvals. So obviously, any comments on that, too, would be helpful.

And then the second one, sticking big picture is on satellites. I'm sure you, like ourselves, have been fielding more and more questions around satellites in the context of the SpaceX IPO process now kicking off. The question, I guess, is just understanding how you think about the value chain that satellites presents within telcos and the juxtaposition between it being a complement with direct-to-device to potentially

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the risk that at some point, could it become a threat within mobile. So if you could sort of talk us through how you think about the opportunities and threats on satellites and so on?

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Good. Thanks for the questions. Look, I said it in my speech. I will not comment on market speculation or hypothetical transactions. Look, what I can say is that our capital allocation framework, which we have is unchanged. And there is nothing which we have beyond that. And there is -- I'm not known for being always very careful in what I'm saying. I'm always speaking up my mind, but I do not want to, let's say, having any kind of speculation around this company and any kind of transactions only because there's a Bloomberg report, which is talking about something. If I start with that, it will never end.

So therefore, I've never done that in the past with regard to Sprint transactions or whatever or other rumors and please respect that not as a kind of hostile attitude, it's just I want to protect the company and protect, let's say, the value of this company going forward. When we have something to say on anything, we will do that. But please give us as well some credits.

I'm now here 2009. I started as a Head of M&A, later on finance CFO. I've done a lot of, let's say, transaction in the past. And please, look in the past and look how accretive things were for our shareholders, always what we have done. There was nothing which was destroying value, the opposite. And therefore, please give us some credit. And when we have something to say and when there's something coming, then we will do this, but not at that point in time.

With regard to the satellites, to be honestly, I'm very proud and very happy to have a partner like SpaceX. I admire Elon Musk and his team in every regard. And in the past, I learned a lot about, let's say, how you play up with this kind of disruptive entrepreneurs in the world. By the way, I'm sitting even in the Mercedes Board, and I can tell you if these guys are looking on Tesla, sometimes I feel that they are sitting in the same situation as our telcos. The telcos are very fragmented small players with low market caps, while Tesla is, I think, cumulative, the value of the whole car industry in Europe or something like this.

So it's an amazing -- and it's a little bit like our industry. So I'm looking into SpaceX and seeing that there is, maybe a $2 trillion IPO standing in front of the door. I'm very impressed about that one. I see the disruption of that company when it comes to the launching capacity and their strong almost monopolistic position here. I see the AI capability, which is built into the telco. I see the disruptive ideas when it comes to the way of approaching customers going forward. So I see all, let's say, the strength, and I'm very impressed about that one.

So the first thing is having these guys as a partner is always a good thing to have because if you can't fight the dragon, ride the dragon. Now is it a dragon? That's the big question, which is in the market? And look, I can tell you, we spend a lot of time on this one. I see that 99% of the traffic is terrestrial traffic and will not be substituted nor it will be even able to handle this from a satellite service, impossible.

So therefore, this is an adjacent service, which we need and which we have and which is 100% fitting into the proposition of our company that we always want to have the best network and that we always want to be best connected for our customers.

Now we have extended our Gen 1 product in the US now from consumers to B2B. You saw the announcements. And we have a Gen 2 deal for Starlink here for Europe. I like it. I like the idea of connecting my customers wherever they are in areas where I can't do it, and that is helping me, but it will be an adjacent service and complementary option for us. And we will make it as easy as possible to use that for our services.

So looking forward, I really want to partner with that customer, but I do not want to throw my destiny into one hand, nor I want to have, let's say, a Starlink, which is a kingmaker of the destiny of our businesses. So therefore, we will be open to other satellite companies as well because that makes sense in the logic. And if you recall in my Capital Markets Day presentation about the long-term strategic view, I was talking about network of networks and that is exactly where this industry is heading to.

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And therefore, we have to build adjacencies here into our functionals, and that is what we are working on. I'm really seeing that as an upside for Deutsche Telekom than rather as a cannibalization or a killer as somebody has written recently.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Mathieu Robilliard, Barclays.

Mathieu Robilliard - *Barclays Services Corp - Equity Analyst*

Good afternoon. Can you hear me? Thank you for the presentation. So probably I'll come back to the capital allocation from a different angle. We've seen during the first quarter of the year, some push on convergent products from your competitors. And of course, we know that in terms of fixed line infrastructure, you have less choice or less assets than the others.

I know you've been saying that you don't think convergence is a big threat for you. But is your thinking evolving? And in that context, again, with keeping in mind the question we can't ask, is cable something that could help you close that gap? I know you've been asked about that, but things can change.

Now a second question was about Germany closer to home. So we've seen, of course, in the press that negotiation with the unions in Germany has started for the next two years. I wouldn't expect you to give us your expectation of where it lands, but obviously, they're pushing for quite a big increase.

So maybe if you could give us a bit of color in terms of the dynamics of the personnel costs. I realize you reduce personnel every year. It's not a firm guidance or target, but certainly, you're delivering on that. How should we think about wage pressure on the German business? Because it's quite a big part. I estimate around EUR4 billion per year. Maybe I'm off the ball, but any clarification would be great.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Okay, Mathieu, let me start with your convergence question and capital allocation. So look, if you just take a look -- let's start with the US on their performance in the first quarter, I think both fiber and fixed wireless access were strong. I think the management team reconfirmed the 18 million to 19 million subscribers by the year 2030. You've seen that we have expanded our share buyback program to up to another EUR3.6 billion, which totals then into USD18.2 billion.

I think the US team has announced two fiber joint ventures. And I think that's their strategy. And I think Srini was pretty clear about whether he's interested in cable, yes or no. And I think he said in the Q1 call, no. So from a capital allocation strategy in the US, I don't see any kind of changes.

And when it comes to the ex-US business, you know that we have expanded our envelope for fiber in Germany by EUR800 million over the next three years. I think we are progressing well along the adjusted strategy, having a stronger focus on full build-out of MDUs, but also a stronger build-out of SDUs.

So from this perspective, I think all what we have said when it comes to capital allocation is primary purposes is as we're doing it right now, and we made a very clear statement, increasing the shareholding in the US, conducting our share buyback program in Germany here on the DT side. So there is no change.

When it comes to the tariff agreement, I think it has become public now we have handed in the first offer towards the social partner. And I think we will have to see how they respond to this. The next negotiation round is end of May, where they're sitting together for two consecutive days.

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Look, I have the expectation -- my personal expectation is that we get a balanced agreement on this one. And we have been very clear that we felt the last agreement was too generous. So from this perspective, I think we hope for a better agreement on this one, but it's in the making, and it's hard to basically make comments here from the outside when it comes to the tariff agreement.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

David Wright, Bank of America

David Wright - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I hope you can hear me and apologies for the lack of video or maybe not. So two questions, kind of a detailed one, first of all, just in Germany or a detailed one, I should say. Your fiber adds have stepped up, and obviously, your broadband performance has significantly outperformed your number 1 peer, Vodafone, this quarter and well, for some quarters.

I wondered, is fiber versus cable starting to become a thing, right? Is it starting? Are you seeing the green shoots of fiber versus cable becoming a thing? And then my next question for yourself, Tim, for Christian, and I almost want to sort of take Mathieu's question and kind of double down, which is you talk about the best network, the best connectivity, and that was your Starlink reference too.

I guess if I look at Germany and think about capital allocation, you are lagging on fiber. And okay, I accept the customer demand curve is not there, but there are multiple other reasons to build and you have allowed alternative capital into Germany, which has caused some pain.

And in the US, you don't have scale, let's say, yet in fiber. And there are major chess pieces moving across the board in US fiber right now. Does it concern you that you don't have the scale in German fixed? And how much of a worry is that if this market does move to convergence a little more quickly? So that would help.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Sorry. Let me start with the first question, David. I think it is too early to tell. But if you tear down the customer -- the broadband losses from Vodafone, given what they have presented yesterday, if I'm not mistaken, two-third are coming from the cable infrastructure and one-third is coming from the DSL infrastructure, which they're obviously relying on our infrastructure. So I think it is too early to tell whether this becomes a trend, but there was always our belief that fiber is superior relative to cable.

And at least you can interpret the numbers from Vodafone in that direction. So we clearly believe that this is ultimately the superior infrastructure. And we're building out in rural areas. So we are facing cable competition other than the altnets. And so from this perspective, I think it is an early indication, but we have to watch out whether this trend continues.

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

And Christian, I'd like to add one sense. Look, I was criticizing Vodafone in one of the last quarter calls here because they have reduced their prices so that they were not trying to keep the discipline in this market for a longer time and then really, let's say, trying to connect their customers to the base. And despite these price reductions, they were not able to keep the customer base.

And that has something to do the quality. The only answer for long-term fiber or broadband success in Germany is quality and investments. That's the simple answer. And therefore, if you ask me, is fiber superior to cable? Yes, it is, definitely, and big time.

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And where we deploy it, we have an advantage. And on top of that, we come with our brand, we come with our credibility, we come with our good reputation. We come with a good service, which we just got awarded all, let's say, tests here in Germany. And this all together is then creating an advantage which we are playing out.

Now on top of that, as we have laid out in the last call, Rodrigo and his team, they have done a lot of activities around churn management, proactive using data to anticipate potential churners. They have laid out a new portfolio with fixed mobile convergence, so with kind of mobile substitution here. And on top of that, we have changed our rollout in areas where we are anticipating high churn and even this is paying out.

So this is why our numbers are better than the numbers in the whole industry, but it's hard work, and it's a lot of changes which we have done. And by the way, we are even more optimistic with regard to the next quarters than we are today because don't forget, guys, we are in the middle of a price increase for the whole customer base of our broadband customer base here. So this is something which we are managing at the same time with this positive net adds.

Coming to the next question, look -- are you spending enough on German fiber was the question? And I think Christian said it, we have an additional EUR800 million investments over the next three years. We have now made progress on the build-out and the productivity here and the industrialization of it. This morning, I said maybe a 15% improvements on the costs per line. We have committed rolling out 2.5 million homes passed per year in the coming years, which is the highest rate of all players here in the German market.

We have a lot of, let's say, companies who are working for us. It's a high complex rollout plan, including, let's say, all the approval processes. To be honest, even if we would have more money, I'm not sure whether we can easily accelerate this number beyond our aspiration here. So therefore, when we have more possibilities and see more possibilities, we will definitely consider this and come back to you on this.

The MDU build-out is for us the most important thing and the SDU rollout in rural areas where we have lost against the altnets in the past, these two kind of priorities are super relevant right now, and we want to see the benefit from that.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Okay. MDU is a good word to call our next question from James, but maybe has another topic today.

James Ratzer, New Street.

James Ratzer - *New Street Research LLP - Analyst*

Yeah, thank you, Hannes. And yes, don't worry, I'll stick to being a stuck record. So I will open up with a question on MDUs then because that was where I was going to go with the first question. And specifically on the issue of the (inaudible) rule with the new TKG law draft, I mean, it looks pretty clear that the government wants to do everything it can to accelerate fiber build in Germany.

And given your strong balance sheet, I mean, it looks like you have potentially a huge opportunity here to kind of really strengthen your infrastructure position in Germany at a time when the other challengers can't afford to do this. So is this an opportunity you would like to take advantage of over the next few years to accelerate that build in MDUs, even if it might mean slightly higher CapEx in Germany?

And then the second question is, if I look across your group structure, and you might not like me asking this question, but I see minorities in your assets in Eastern Europe. I see obviously minorities in your asset in the US. Do you think having minorities in your assets leads to any inefficiencies in the cost structure of running Deutsche Telekom Group and you could be running the business more efficiently without minorities in any of those assets?

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Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Let me start with the second question, James. I think you know that we both -- in all three assets you're alluding to [Marga Telecom], Croatia and Greece, we're basically pursuing a combined share buyback and dividend approach. So by not selling into a share buyback, we are automatically increasing our shareholding.

The second piece is these are not the most liquid assets right now. So right now, we -- it is accretive from a net income point of view, but they are not super liquid assets. And it has some advantages if you have joint, let's say, ownership on a given asset also when it comes to regulation.

So from this perspective, I think we're taking the long haul shot by basically accreting our shareholding in all of these three assets by not selling into a share buyback, but we have no intent to actually squeeze out the minorities in either of these three assets.

James Ratzer - *New Street Research LLP - Analyst*

And is that the same for the US as well then, where there's also kind of alternative cost structure as well with minorities?

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

I just commented on the three European assets my dear.

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

By the way, we have said that we are considering always to step up. And what we're doing right now is increasing our shareholding in the US. And we mentioned 54% already. So the answer is in principle, yes, it always depends on our assumption about what is the value of the US and what is the growth prospects and the value. We are investors like you are in this regard and looking to opportunities here as well. I mentioned that already in, I think, two quarters ago.

Let me come to your question, James. You're right. The direction from our policymakers is very clear. Germany wants to accelerate fiber rollout and particularly improve the economics and the execution speed in the multi-dwelling units. And from our perspective, this is fundamentally positive. Germany needs faster digital infrastructure deployment, and we need a regulation which is supporting the investments and not slowing them down.

Now regarding your question, whether this creates an opportunity for us, clearly, scale, operational capability, financial strength matters in this environment. And I haven't answered the question maybe from David in all detail, but you know the reason that we do not have the same ambition to build a fiber network in the US as we have it in Germany has to do with our infrastructure logic. We want to replace our copper infrastructure share by a fiber share in Germany or in the markets where we have already an existing broadband business.

In the US, it's an add-on business. In Europe in most of the markets, it's a replacing business of an existing. And we do not want to end up in a shrinking revenue or EBITDA business on a long term if our infrastructure share in fiber is significantly lower than our infrastructure in copper was. That is always the fundamental strategic imperative, and that is what we are driving here, and that is why we are fully deploying fiber at that point in time.

Now look, it's interesting that you ask me to invest more into fiber. The market looks for me quite dead. If I see the refinancing of some of my competitors, if I see the withdraw from commitments of the smaller outlets, if I see that Deutsche Telekom is now stemming more than 50% of the whole build-out of Germany, you can even ask why the hell are you spending so much money in this kind of damp market? I do this because we believe in the promoters in the net present value. And we believe that on the long term, this infrastructure will have significantly payout for us.

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So if we get the opportunity or if we have, let's say, beyond the EUR800 million, the opportunity to convince you -- and by the way, I will first consult my market and say, is this a wise decision? Would you support that idea? Then we are always open if we have the capabilities and the financial resources which we have to deploy even more. But at that point in time, we are happy with the net add build-out share, which we're currently creating and the speed we are having and all hands on deck.

We have to digest first what our ambitions are. But yes, I'm open to consider this. In Europe, where we have the proof of the concept already, we are doing it. We are investing more in fiber. We're investing more in household, and we are accelerating our build-out, for instance, in Greece already today, as you've seen in the numbers. So therefore, we are always open to these opportunities.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

And James, just a detailed point on the TKG draft. The biggest change we're advocating for is right now, the draft foresees that a landowner or an owner can refuse an in-house rollout over the course of 24 months, and we want to bring this down significantly to nine months because then we can get into faster action.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Andrew Lee, Goldman Sachs.

Andrew Lee - *Goldman Sachs Group Inc - Analyst*

Good afternoon, everyone. I just wanted to follow on from a lot of comments around investment just in the last answer from Tim and Christian. Could you just talk about whether you feel like your balance sheet restricts your strategic flexibility from DT Europe ex US. And if you want to comment on the US as well, great.

But just specifically on DT ex US, you talked a lot about -- you mentioned just on this call that even if you had more money to invest in fiber, you wouldn't necessarily be able to deploy it. You're obviously already building up your stake in TMUS. So is there any sense in which you feel restricted in what you can do strategically by the balance sheet as it stands today?

And then just second question was on US competition. So I think if we think about the three areas that are making investors nervous at the moment are on DT Group. We've touched on two, the combination, the satellite risk factor that people are trying to understand. And I think your answer is very clear on that in terms of your view at least.

And then the third is probably the current US levels of competition. I appreciate that we've heard from Tim a couple of weeks ago, but it would be great to get your take on what you're seeing from -- or any kind of impact or structural change in the competitive intensity in that market with Verizon's shift or tilt or any other change in behavior that you can see?

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

So Andrew, let me ask you -- let me give you an answer on the balance sheet potential restrictions. I don't see them. I think we have been very prudent in the way how we're managing down leverage. Remember, '21, we were at 3.1. Now we are at 2.6. And obviously, I think this is a continuous trend. I'm actually happy that we get this upgrade because you see now not only Moody's sees that we have a very strong balance sheet, but also Standard & Poor's.

And what we said is we create over the course of the full Capital Markets Day period, a surplus on the DT side of EUR15 billion. And we said the primary purposes are the US shareholding and the second one is share buybacks on the DT side. But we have never ruled out if there's an attractive target in Europe, that we will consider this and basically get engaged on this one.

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But we have to see the targets first, and they have to be accretive also in a way that they either have a strong strategic value or a strong financial accretion. But I have absolutely no restriction because we now move to A1, we felt comfortable with BBB+. So I think there's a lot of wiggle room on the balance sheet, and it does definitely not impact the ex US business.

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Look, going further into your question with regard to the market, I talked about satellite already. I don't see that as a threat. I see them as a kind of add-on and even a business opportunity, which is helping our clear strategic proposition, and we will balance the power in this world.

But on the second question, you are talking about my mobile competitors and the concerns, at least you had at the beginning of the year. I would say this has not at all altered our confidence in T-Mobile US. Why should we otherwise not participate in the share buyback? That's the same decision we took because we see a big opportunity.

Now this is our portfolio assessment. You might have another one, but we believe in the US stock in this environment going forward, and we believe in the growth and in the value. And by the way, the first quarter confirmed exactly our aspiration, showing a company with 10% EBITDA growth and let's say, a clear way forward, I think that is very impressive, and it was worthwhile spending money into this.

Second, I see even some kind of cooling off of the heat of the competition in the US these days. Now this is coming and going. There have been maybe at the beginning of the year, more aggressiveness. Now, more there is a bigger value focus in this regard. We are not putting oil in the fire here in the US. And therefore, I see some better improvements even from that angle.

And so therefore, we have a moderated competition, I would say, going forward, but never know what's happening during the course of the year. We are focusing, and we will not change. And the advantage of having me and Christian and Denisa sitting here in the company, we stay focused on a very clear strategy: unique value proposition by always the best network, good value in the US, the best value and the best customer experience.

And this pays off. We're doing always new things around that, supporting with AI, putting network of networks into place, extending our footprint and being, I would say, attractive with partner cards and the like. But the core proposition of our brand stays very, very intact. And that, I think, is a value in itself.

So therefore, I'm very confident that we have a good position how we're doing it today, and therefore, I'm not concerned. And we have even seen that the growth rates of the cablecos have not been that strong. So we have a big opportunity to add additional growth from our fiber net adds, which is not as in Europe, a compensation or a kind of placement for the old broadband world, but it's an add-on opportunity for growth and for EBITDA. So that's how I'm looking at T-Mobile, and that is why we're saying it's an attractive investment.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Josh Mills, BNP Paribas.

Joshua Mills - *Exane Bnp Paribas - Analyst*

Thanks, guys. Two questions from my side. One about where you see the benefits of scale in your business. And then the second, I wanted to come back to the German broadband market. So I start with the first one. Tim, I think in the past, you've highlighted a few reasons why you think DT should be considered separately to other European telcos. And you referred to the scale you have, the free cash flow generation you get as a result of the TMUS ownership.

So I'd be interested maybe if you could a bit more color whether you think that scale is more relevant to your telco business or whether it's more important for unlocking some of these AI opportunities that you're starting to talk about more. The reason is that I know you'll be giving

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an update later in the year, but we've heard a lot of telcos in Europe, even some of the smaller ones talk about AI partnerships. So it'd be great to hear why you think TMUS is a route to getting relationships or partnerships that others may not have would be the first question.

And then the second question, I know you talked about the reports of the German altnets being dead in terms of new build strategy and rollout, but there's a lag effect between them being dead on the rollout and then pushing penetration in the existing infrastructure. So have you seen any change in the rate of retail penetration on the altnets which have been built today?

And have you seen any change in the growth in the overall German broadband market, which I think on the last conference call, you said it slowed down to maybe a couple of hundred thousand net adds a year, which obviously, if the on-net are growing means that some of the existing operators will need to lose?

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

So on the second question, the answer is yes and yes. We see that their penetration is going down. We see even that their growth is slowing down for different reasons. And we see even that the amount of homes passed is slowing down significantly, so their future prospects on higher penetration.

So we see our infrastructure share rising in the German market, being it through our own retail business or being it, let's say, with our wholesale partners. I think our wholesale partners could do more. That is something which we discussed internally, but our market share is growing. And one of the reasons is as well the slowdown of our competition.

With regard to the first question, look, I do not want to repeat what we have said on the Capital Markets Day in all details. But if you ask me a trade-off, the AI opportunities is the biggest opportunity we have in the business, and this is significantly higher than doing everything in a common standardized way. So therefore -- and this is true for the whole organization for the US and for our own European activities.

Now as long as we use AI as a tool, we will get only a fraction of the benefits. The moment where we understand AI as a kind of opportunity, which is taking -- changing the workflow of the way how we are organizing ourselves, how the governance is looking like? That moment, we take the full benefits of it. We see that in our customer service areas where we're already benefiting 30% to 35% cost reductions by just changing the way how the workflow is organized and using the data and the automation here, and that is something which we have to do everywhere.

So I cannot tell you how important I think how telco business is looking like in the future. It will be significantly -- in all areas, significantly different to the world how we are acting today. We are highly headcount and people intensive. We are highly manual in a lot of areas. Still, we have mass market process, which we can standardize and digitize, both in the customer interaction, but even in the internal workflows. And that is, let's say, the biggest task.

Now we can learn from each other, and we should always use the same data model. We should use the same APIs that we can deploy software, which we are -- or algorithms which we're using here in other areas, and that is what we're doing. MINDR, which I like the animal detection and the autonomous network initiative is something which we are playing out in all countries and not only in Germany or in one respective one. So we are standardizing it and then we're deploying it across the countries, but this is one of the benefits.

Now when it comes to scale, there is a scale element, and we are committing to it. We had some discussion about scale in the organization, how we organize it, whether you do that in a centralization mode or whether you do that in a decentral project-by-project approach. And by the way, there is no right or wrong on this one.

The only question is whether people committed to implement that. We are committing EUR400 million for -- within the capital markets envelope just on the scale side already today. And I can now repeat it, but I do not want to eat the time here from everybody. This is network at scale in the main area where we are standardizing certain functions in our operations. And if you have maybe the time later on, I can give you the details of it.

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But Christian, you are now --

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Let me give you three practical Horizon one examples for scale. One is obviously procurement. We're rolling out a common procurement approach across European and NatCos so that we treat and consolidate demand in a similar or same fashion, and we're going to lock this into the IT systems in a way that you really have standardization being built into the machine.

The second one is, look, we have three international traffic networks. There's scope for consolidation across the European focus. Obviously, there's network modernization to come. So there's a big effort underway to standardize this when it comes to how do we basically do multi-carrier aggregation across the different NatCos, but also how do we consolidate vendor demand and standardize this in a certain direction that not only gives you procurement opportunities, but also supply chain opportunities.

So that's the, I would say, very hands-on scale opportunities, which we have to standardize across the organization. The key point is we have to standardize the process. That doesn't mean that we have to centralize the organization.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Carl Murdock-Smith, Citi.

Carl Murdock-Smith - *Citi Infrastructure Investments LLC - Analyst*

That's great. Thanks very much. Two questions on Germany, please. One on ARPU and one on CapEx and FTTH rollout. So in its results yesterday, Vodafone reported that its broadband inflow ARPU is now up 30% year-on-year and is now above back book ARPU. I was wondering if having a competitor making that level of change to its front book pricing, that creates an opportunity for similar increases across the sector. So I was wondering what is happening to your inflow ARPU?

And then secondly, on CapEx and FTTH rollout. I know you've said it's just phasing and will normalize through the year, but the lower CapEx in Germany in Q1 was quite stark. And then also looking at the FTTH penetration ramp-up on slide 17 of the results by 70 basis points in the quarter to 17.1%, that's despite FTTH net adds being within the range of previous quarters.

So it therefore looks like it's something to do with the denominator and that fiber build has slowed in Q1. Is that the case explaining the lower CapEx in Q1? Obviously, Q1 is typically quite cold. So is this simply a weather-related slowdown that you'll catch up on going through the rest of the year?

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Okay. Maybe I start with the inflow ARPU. I mean, so you see our B2C ARPU up 3.1% year-on-year, right? So clearly, we have a positive momentum on the front book versus the back book. Otherwise, this wouldn't happen, and it comes from upselling rather than price increases. There have been some price moves last year. We have cut promotional periods from six months to three months. We had a front book price increase by EUR1 in October.

And of course, now we have a back book increase. So the math gets a bit more blurred in those terms. But we not -- don't have a comparable number specifically to Vodafone, and I doubt it would be that dramatic because our development has been extremely consistent and steady over recent quarters. And -- but the broadband price increase that we have put through for less than half of our customers is going to feed in from April, okay?

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So on the second question, phasing is phasing. So this is cash CapEx, and I wouldn't read anything into it in terms of our full year prospects. I mean we have talked about efficiencies. We are becoming more efficient. We are recycling the efficiencies into a better mix and more connections. And that's what's happening. But for the full year, we continue to see a CapEx increase. Anything to add?

Okay, is that answered?

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Okay. So next up is actually Robert Grindle.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Just a quick question. Was there a question on free cash flow, why the free cash flow was impacted? Because -- so I think we had a drag on the free cash flow, I'm not sure whether there was a question, of roughly EUR800 million coming from the US dollar compared to the previous year and EUR300 million from restructuring costs. That basically was a drag on the operating free cash flow. If this was the question because I was taking the questions and answering them right now, so I wasn't listening accordingly.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Yes. Okay. Thanks for that. Next up, I would like to take a question from Robert Grindle, who had connection problems, and I hope he hears me. But he asked ICT Systems order book growth has slowed again in the first quarter and is at low levels, 1% versus double digit in the first half of the year. Anything to say here? Is this a sign of drag from the German economy, uncertainty geopolitically, the economy weighing? Or should I -- that's basically the question.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

The answer is pretty easy. It's seasonality. We have had some big deals in the first quarter last year. And this year, they are absent. I think we're committed to our guidance when it comes to order entry growth, but this is simply seasonality.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Polo Tang, UBS.

Polo Tang - *UBS AG - Analyst*

Hi. Thanks for taking the questions. I have two. The first one is on AI. So you already talked about the cost saving opportunity from AI. But can you maybe talk about whether you see a revenue opportunity from AI? So specifically, do you think the hyperscalers will pay telecom operators for connectivity? Alternatively, is the revenue opportunity more in software and cloud? Are there any revenue opportunities from AI RAN? And if there are revenue opportunities, will this come at the cost of higher CapEx?

My second question is really just about German fiscal stimulus and infrastructure stimulus. So now that we're one year in, what is your view on how this is affecting both DT, but also the broader German market?

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Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Let me ask for the first question. By the way, you are asking a big question for a long-term perspective of our industry. And if you ask me, do you see that tomorrow, I would say, less of it. If you ask me with regard to the opportunities long term, and now we are talking to the connectivity-related AI volumes, I would say, definitely, yes.

Now let me talk first about the area of connectivity. AI requires super large data movements. It requires low latency. It requires resilience. It requires secure connectivity between users, enterprises, clouds, edge locations, data centers. We see this huge traffic. Every data center is empowered by a 400 gigabit data connection. And we have -- in Munich, we have two of them. So this is all fundamentally positive for telecom networks.

So therefore, I would be careful with the idea that hyperscalers will simply pay telcos a new premium for connectivity in a very generic way. So therefore, we have a kind of arm twist here, which we have to play out. But I believe that enterprise-grade quality and that the security latency, all these issues, they are capabilities, maybe even on a token-based logic to be monetized in this new ecosystem. In the past, we had voice, then we had video and now we have as well AI in the networks, and this is a clear opportunity for our industry.

Second, the area for me is around businesses in AI. Take sovereign cloud, super relevant for us here in Europe. I can tell you, I said it this morning, our Blackwell-200s are sold out in Munich in the data center. Our RTXs are something in the vicinity of 40% utilized after three months. We are considering expanding the data center already today, which requires apart from the chipsets as well energy throughput.

So we see that many enterprises, the public sector wants the benefit of AI. So -- but they want it with a clear requirement on data sovereignty, compliance, security, operational control, which we are offering today. So yes, there's an opportunity for additional growth. And by the way, we are seriously investing into this one.

The third idea is the idea of AI for customers. Look, if you go to a customer and show them a kind of most viable product or a prototyping of a solution which he can enable with AI on his network with Lovable and the like, I can tell you there's an opportunity for our B2B area to develop that. On the T-Systems, we are already monitoring it -- monetizing it. Look, digital services. Digital service at T-Systems, which is the second leg is mainly driven by this AI-driven applications.

On the B2B side, for the SMEs and for the large enterprises, which are not covered by T-Systems, I have to say we are at the beginning. We have to work on this one, but I see even here an opportunity for growth. To be honest, this is something where we have to get a commitment behind that. I hope that until the 5th of October, we can give you a clear guide on this one. I do not want to commit something here, which I, at the end of the day, cannot deliver. But seriously, we see just on these three angles, a big opportunity going forward.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Okay. Let me try to answer the second question on the fiscal stimulus. As you know, we have basically -- we will use this stimulus of roughly EUR0.5 billion over three years by increasing our fiber envelope. So we will utilize this. But if you take a look to the overall German market sentiment, I would say it's not really good. It has come down. So if you take a look at the forecast for the GDP growth in Germany, it's trailing somewhere in between stagnant to 1%. I would say the midpoint is 0.5% growth. Consumer sentiment has not really increased. It's at maximum stable. And what we're going to see is that the number of insolvencies in Germany are on a multiyear high.

So how does that impact DT? I think we're impacted on the insolvencies on the bad debt figures. This is not detrimental to us, but you can see it in the numbers. What we have seen in the previous, let's say, crisis, whether it's been the financial crisis, Ukrainian crisis, we have seen that the total service revenue is not really correlated with the GDP growth. So I would expect that we have some impact on the B2B side. The outlook for Germany is not really good, but it's not that significant that we should change any kind of guidance figures, which we put out for the year.

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Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Ulrich Rathe, SocGen -- Ulrich -- Bernstein.

Ulrich Rathe - *Sanford C Bernstein & Co LLC - Equity Analyst*

That's alright. Just wanted to flag out because your Playmobil alter ego has escaped from the desk since the conference -- since the press conference. I'm not sure where it ran away to. My first question is on Rheinmetall. You mentioned in the press conference that you see significant opportunity that you mentioned the drone defense as sort of the initial one.

My question is about the scalability of this. Is this -- could this become a proper vertical for DT? Can it be scaled outside of the footprint? Or is this really business for DT in Germany and therefore, not necessarily something that can scale in the context of you saying it could be a very significant opportunity for the group, as I understood the comments.

The second question is on German broadband. You highlighted several times that we should look at the net adds currently in the context of the price increase that's working itself through the base. My question is, are you putting significant resources into retention offers? And how do you deal with marketing -- the relative level of aggressiveness marketing for new customers during the time when the back book is seeing a price increase. Point being, if you want to gauge what happens once the price increases in the base, what the normalized level is compared to what we are seeing at the moment during this period?

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

Firstly, a good observer. The Playmobil guy is now standing in my office. So come visit me. I liked it so much. He's bold like me. Anyhow, that said, Rheinmetall, look, we are observing the growing importance of this defense sector. And we recognize the critical role this industry is playing. And by the way, the critical role telecommunication and data infrastructure is playing in this industry.

So therefore, it is not always us pushing. It is even the industry which is approaching us and saying, how can you help us, being it on 5G SA, being it on combat 5G, being it on campus solution, being it on sovereign cloud solutions, being it on our rollout activities which we are doing already with secure data analytics, being it our defense capabilities which we have in our EUR500 million venture capital fund of DT Capital Partners.

Our partnership, for instance, with Quantum-Systems has opened up a lot of new doors in the defense sector for us because they are working with us. And now we even have something to offer with the testing capabilities, which we have opened up in Munich because most of these defense companies, they're testing their AI functionalities in our data center here in Germany. So therefore, I think this is an opportunity.

Now the question is, what is for you Rheinmetall. We have organized it as a vertical in T-Systems. That is why we are building it, plus the EUR500 million defense fund, which is run by DT Capital Partners. We want to be symbiotic in this case so that we are combining the venture capital idea with the established T-Systems as a trusted partner for security, national authorities and certified people.

So therefore, yes, we want to drive that for the DACH region. I do not see that we are now becoming in T-Mobile US suddenly a defense supplier. I see that for the DACH region definitely. And I want to drive it from where the money sits today, and that sits in Germany.

So driving it from the German side. And that is why we are now going for this partnership with Rheinmetall. Now do we have any revenue expectations? Yes, for sure. But it's a little bit too early now to give you a clear revenue projections on this one. Let me see how we are developing it. But we want to develop this into Rheinmetall business model here.

With regard to the German broadband, situation, yes, go ahead.

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Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Yeah. Maybe I take this one because I think you're referring to, let's say, elevated retention offers that we have done. But I think retention is a general -- I mean, I would call it churn management. This is something that we are working on as a matter of good practice and where we see improvements. And generally, we have seen less churn than we anticipated.

So our customers are more loyal and more willing to tolerate these price increases maybe than we would have potentially feared. So I think we are quite happy with the market response so far. The price increases have landed well. Nevertheless, we are seeing some incremental churn, as you would expect. But again, it's less than we were anticipating.

Timotheus Hoettges - *Deutsche Telekom AG - Chairman of the Management Board, Chief Executive Officer*

But Hannes, you're playing -- downplaying that a little bit what Rodrigo and his team changed over the last months. And since we have called it mission critical that we are coming back to growth in the broadband market, which was, I think, in August, this team has really intensively worked on the churn prediction and the churn management here.

So the data models, they show us already today potential churners, which we approach earlier. Yes, there are some benefits which we're giving to the customers like some price adjustments for loyal customers who have been with us for years. Yes, in areas where we see that we do not have an immediate answer on fiber, we are offering a mobile substitute as an alternative.

Yes, in areas where we see customers are churning, we are trying to convince them to stay with us. So there are win-back teams who are specialized on this one. Yes, for these customers, we have always a personal interaction, so less bot interactions. So they flag these customers.

So yes, there is a big initiative which is going on around that. We spent even some money in the envelope which we have laid out here to this one. In a world where you see that Germany's broadband market is slowing down significantly, and you see that all the numbers from the -- you have to focus on your customer base and your customer relationships. And that is what we are doing these days. So therefore, this is an area of focus, and I'm very happy how the team is approaching it.

Hannes Wittig - *Deutsche Telekom AG - Head of Investor Relations Deutsche Telekom (Senior Vice President)*

Excellent. Thank you, Tim. And I think there are no further questions. So that brings us to the end of today's call.

Thank you very much, everyone, for your participation. And should you have any further questions, please do not hesitate to contact the Investor Relations team. We wish you all a very pleasant day and look forward to speaking with you again soon. Bye-bye.

Christian Illek - *Deutsche Telekom AG - Chief Financial Officer, Member of the Management Board, Responsible for Finance*

Bye-bye, guys.

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