Vodafone Group Plc

VODAFONE GERMANY: GIGABIT INVESTMENT PLAN

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VODAFONE GERMANY: GIGABIT INVESTMENT PLAN

Nick Read, Group Chief Financial Officer

Thank you operator, and good morning everybody. We appreciate you joining us at such short notice to discuss the Gigabit Investment Plan for Vodafone Germany, which we announced this morning. Joining me from Germany is Hannes [Ametsreiter], CEO of Vodafone Germany, and Andreas [Siemen], the CFO of Germany. I will walk you through a quick overview of the Plan before handing over to Hannes, who will describe this exciting opportunity in greater detail, after which I will explain the financial implications for the Group. Then, the three of us will be available to answer your questions you have in the remaining time available.

So, moving to the overview on page 3, this €2 billion investment spread over the next four financial years will bring Gigabit broadband speeds to over 30% of German households and around 100,000 businesses by 2021. We believe this is not only transformational for Germany's competitive position, but also represents a compelling opportunity to accelerate our revenue growth, generate attractive incremental returns and further improve our strategic position in our largest market. I believe that now is the right moment for us to seize this opportunity. The Group as a whole, and Germany in particular, are growing at a robust pace. Our balance sheet is strong, with leverage comfortably within our 2-2.5x targeted range, continuing to improve post the €1-billion disposal of a 5% stake in Vodacom. And as you saw in FY17, our free cash flow virtually covered our dividend post-spectrum, and free cash flow's guided to grow to around €5 billion in FY18.

There are three main elements to the Plan. First, we will invest around €1.4-€1.6 billion, alongside our strategic partners such as DG, to deploy Gigabit fibre to around 2,000 business parks. Fibre demand in enterprise has doubled year-on-year as relative few of Germany's 32,000 business parks are Gigabit-ready. The business initiative has an estimated IRR above 20%, and a typical payback period, per business park, of less than four years.

Second, we will invest around €0.2-€0.4 billion, in conjunction with municipality partners, to bring Gigabit fibre to around one million rural homes. The municipality initiative also has an estimated IRR of over 20% and a typical payback period, per municipality, of less than six years.

Third, we will spend €200 million to accelerate the deployment of Gigabit speeds across our 12.6 million cable homes. We had originally planned to make these investments over four years, but we have decided to accelerate this to capture rapidly rising demand for high speeds. The case becomes compelling given the extra capacity unlocked by this investment, resulting in a less than four-year payback, thanks to capacity CAPEX savings. As result, we expect our fixed line, market share gains will accelerate, driving a one to two percentage point improvement compared to our prior expectations in our German service revenue growth over the medium term. Given these are infrastructure investments, EBITDA margins are attractive, so the programme will also be margin accretive.

As I have said on many occasions, our mid-teens CAPEX guidance is sufficient to sustain our co-leadership network position, and support our growth. However, we also reserve the right to bring you any compelling incremental fibre-build opportunities on a case-by-case basis. Overall, I'm convinced that we have found a compelling business opportunity in Germany, to achieve greater than 20% unlevered returns with limited execution risk, thanks to the success-based model that Hannes will describe shortly.

Turning to page 4, this Plan is fully consistent with our fixed infrastructure strategy, which aims to optimise continuously between build, partner, wholesale and buy strategies in order to achieve the widest possible NGN coverage at the most attractive economic cost. Our German team has continuously explored these possibilities and concluded that for these customers, a build option together with partners, is the most compelling solution.

So, let me turn the call over to Hannes in Düsseldorf to explain the Gigabit Plan in more detail.

Hannes Ametsreiter, Vodafone Germany CEO

Thank you Nick, and good morning everybody. This is, indeed, a very exciting day for us, and a very good day for the country, and also for our customers and Vodafone Germany.

Let me start by reminding you of our current fixed footprint in Germany. As you can see in the chart at the top of slide 5, our cable network, which is 12.6 million homes in Germany. And including our NGN wholesale agreement with the Deutsche Telekom, we can market to over 26 million homes, basically matching the incumbent's reach. Demand for high speed is growing rapidly. As you see in the chart on the bottom of the page, high speed cable and VDSL now account for 63% of our 6.3 million broadband customers, up from 51% two years ago.

In terms of gross adds, the acceleration is even sharper, with 50% of cable customers taking services of 200 Mbps and beyond in quarter one, compared to just 19% a year ago. And as Nick said, the pattern is the same in enterprises, where fibre is now twice as likely to be requested in bids versus a year ago. Digitalisation is an important matter, and therefore also the infrastructure matters a lot. All of these insights support our conviction that this Gigabit Investment Plan for Vodafone Germany comes at exactly the right time.

If we now start with slide number 6, Giga Business. I will start with the logic part of the Plan, our Giga Business initiative on slide 6. There are approximately 32,000 business parks in Germany and today, we estimate that only a few of them are connected with Gigabit speeds. We see this as a huge opportunity and aim to connect around 2,000 business parks over the next four financial years, eventually reaching 100,000 businesses. This will allow our recent fixed enterprise share gains to continue. Remember, we have less than 15% fixed line market share in Germany Enterprise compared to 40% in mobile, and less than 25% of our Enterprise customers are converged. So, still a very good opportunity.

We will select the business parks on a basis of their potential for revenue generation and their proximity to our existing national fibre backbone. We'll take a success-based approach, only building the fibre once around 40% of customers in the park have signed up. Thanks in part to our innovative and cash-efficient partnership model, we expect a typical cash payback period of less than four years per business park, and an IRR of above 20%.

Now coming to slide number 7, Giga Business Partnership Model. On slide 7, you can see how these strategic partnerships will typically work. I will focus on the structure of our agreement with Deutsche Glasfaser who we are working with in our initial trials for Düsseldorf already, which we announced in July. There is no doubt that Deutsche Glasfaser will be an important partner for us, but we also intend to work with other partners across the country, where the model may be slightly different. But in some parks, we will also build on a standalone basis on our own.

One of the benefits of working with DG is their specialist capabilities in low cost and fast build-up of fibre optic networks, which is the result of the extensive experience in the Netherlands, working on their Reggefiber build-out. Clearly Vodafone Group's fiber-to-the-home-builds in Portugal and Spain – and our own fibre build-out in the local cable network, give us the know-how and experience to undertake builds on our own, but working with partners like DG allow us to move much faster to capture this opportunity.

The agreement with DG is as follows: DG will build the passive infrastructure, connecting the business park to our fibre backbone. And then, we'll install the active equipment, sign up the customers and operate the network going forwards. We'll pay DG an upfront fee which, together with our investment, is roughly one third of the build costs, with the remainder of the build costs paid in annual instalments over the following years. Over the long term, Vodafone will typically take ownership of the passive infrastructure.

We are now moving slide number 8, which is the second model we are aiming at, Giga Municipality. Turning to the Giga Municipality opportunity on page 8, you can see on the left of the page – a heat map of fixed networks speeds in Germany. The dark orange parts of the map show the areas in which more than half of the households have speeds below 50 Mbps. So as you can see, very large geographic areas of the country, accounting for around 25% of German homes, cannot get access to high speed internet services, typically as a result of their rural location. The government is preparing substantial subsidy programmes to rectify this shortfall, which we expect to be worth around €3 billion per annum starting from 2018. There's some rumours that in total, it might be a budget of subsidies of €24 billion.

With this announcement today, Vodafone Germany is putting itself in the front line to work with local municipalities across the country to deploy these subsidies effectively, reaching around one million new homes over the next four financial years. The model, which we have already explored with many municipalities, is as follows: the municipality will bid for and win the government subsidy and decide to cooperate with Vodafone. Following a successful presale campaign, in which typically at least 33% of homes need to sign up, the municipality will build the passive local fibre network from the central office to the home. Vodafone will build the link from its fibre backbone to the municipality, and install and operate all the active equipment needed to connect the customers. We will pay a rental fee each month, per connected households, to the municipality. With this approach, and assuming typically high-speed broadband ARPUs and above average EBITDA margins, we expect to realise an IRR of above 20% and a typical cash payback period per municipality of less than six years. To have an alternative infrastructure there, we believe there's a value to that.

If we now move to slide number 9, Giga Cable. The last part of the Plan is Giga Cable on slide 9. With half of our new cable internet customers already choosing to take speeds of at least 200 Mbps or more, we have decided to accelerate the migration to DOCSIS 3.1 technology. We will begin the preparation of the networks in 2018, and we'll complete the deployment within two years as opposed to our original plan of four years. This is expected to cost around €200 million in the incremental network CAPEX, excluding CPEs, which we will fund through our existing CAPEX envelope. In combination with the switch-off of analogue TV services, this will more than double the capacity available to internet customers. Consequently, we estimate a less than four-year payback for this investment, thanks to future capacity CAPEX savings. The technology of cable and DOCSIS 3.1 is also prepared to gain more speed in the future; up to 10 Gigabit can be delivered in future steps. In addition to this acceleration, it gives us the opportunity for further market share gains on our cable infrastructure and to upsell Gigabit speeds to our existing customers.

Now, let me hand back to Nick, who will walk you through the financial implications of the Plan for the growth, before we answer your questions.

Nick Read

Thanks, Hannes. Let me finish on slide 10 by summarising what this means financially for both Vodafone Germany and the Group overall. Due to the success-based nature of the project, the exact profile of the financial impact could be somewhat faster, or possibly slower than expected. So, I will describe the central case.

First, our accrued capital expenditure in Germany will increase by approximately €2 billion over the next four years, with minimal impact expected during the current fiscal year. We expect Vodafone Germany's mid-term service revenue growth rate to accelerate by one to two percentage points compared to our prior expectations, as we capture fixed revenue market share. Given this is an infrastructure investment, EBITDA margins will be materially higher than the 34% overall EBITDA margin we reported in Germany last year. As Hannes described earlier, the partnership model we have agreed is highly cash-efficient, with upfront cash outflows typically just one third of the overall cost required to reach and connect each business park. As a result, we estimate that the annual drag on our cash flows during the early years of the Gigabit Plan will only be around €100-€200 million, depending on the speed at which the three initiatives scale.

Finally, and importantly, we are not changing our underlying guidance for capital intensity for the Group. We remain very confident that a mid-teens level is consistent with maintaining a co-leading mobile network experience and supporting our growth in fixed line, excluding the Gigabit Investment Plan.

Today's announcement is the result of a long process of developing the right partnerships and exploring a wide variety of business cases. We continue to look for attractive opportunities to pursue fibre investments in several of our other markets, but we do not currently have any projects of similar scale on the horizon that meet our strict investment criteria. Going forwards, we will, of course, report back on the key KPIs for the Plan, so you can gauge our progress.

And with that operator, please can we open up for questions.

QUESTIONS AND ANSWERS

San Dhillon, Exane BNP Paribas

Hi guys, two questions if I may. On the Giga Business rollout, did you take control of the infrastructure once you paid the remaining two thirds of CAPEX, or is there a separate negotiation between you and the strategic partner for a payment beyond that?

And separately on the returns profile, if we just simplify: if €2 billion's the return on invested capital, what should we expect the incremental cash flows in the medium term to be? Thank you.

Nick Read

I'll let Hannes and Andreas take those questions.

Hannes Ametsreiter

Yeah, I'll start with the first one, and the second one is taken by Andreas. So, we do have a very clear agreement with our partner, Deutsche Glasfaser. And here, it is foreseen that we are taking full control of the infrastructure. And in the meanwhile, I mean it's structured in a way that there's a payment for Deutsche Glasfaser, then monthly instalments, then we take over after a certain time period.

Andreas Siemen, Director of Finance, Vodafone Germany

Yes, and hi, good morning everybody, this is Andreas speaking. To your second question on the returns on cash flow on the Giga Business business model, let's make sure we understand the underlying business model which is, of course, a long-term lease arrangement that we have with our partners where we pay roughly one third upfront. And then, we pay lease instalments over the following years, and so this gives us very efficient way of investing here.

Accounting treatment, let's not get lost into that. Accounting treatment, they stipulate us to track everything upfront – all the lease payments in future, to have them upfront in CAPEX potentially. But this will be improved CAPEX, non-CAPEX – non-cash CAPEX, and therefore, the important point is understanding the underlying cash flow, which is about one third upfront, and the rest – yearly instalments. And when we point out that this overall will give us a 20% – more than 20% return on our investment, obviously for a total programme of up to €2 billion; you know, this will mean ultimately a €400 million kind of return that we're looking at, after doing this investment.

San Dhillon

Okay, thank you very much, guys. Cheers.

Operator

The next question comes from the line of Akhil Dattani from JP Morgan. Please go ahead. Your line is now open.

Akhil Dattani, JP Morgan

Yeah hi, good morning. I've got two questions as well, please. Firstly, just on the programme that you've announced today, I guess the context is that we've got the German elections coming up later this month. There've been quite a lot of discussions in the press around the sort of subsidy programmes you could get going forward. So I guess what I'm keen to understand here is: is this likely to be the full envelope of what you expect to invest through your German fibre plans, or is it conceivable if the subsidy programme becomes more generous, you could also look to invest more too?

And then the second for Nick is really around some of the points you made on other markets and the intention at this stage is to whether or not you may or may not invest. And I guess specifically, I was just keen to understand on the UK, there's been a bit of speculation in the last week or two around your potential willingness to make proposals around co-investments in the UK. If you could just maybe help us understand what are the parameters, how are you thinking about it and therefore, how we should consider your interest levels there? Thanks.

Hannes Ametsreiter

So then, I'm starting with the first question. You're absolutely right. It is a big discussion at the moment in the forefront of the German elections, about gigabit infrastructure, about digitisation as one of the most important topics, which was also clearly stated by the Chancellor, Angela Merkel. And so therefore, I think the activities – and it's a mix of different activities. The three elements which are presented is, on the one hand, that we are pushing our infrastructure forward in using our cable infrastructure, which is already great, and we see the uptake is there.

On the other hand, building a landing place for subsidies, in being a cooperation partner for municipalities, I think that this can be a politically strong signal that this model can become big. I think that you need to think about the subsidy law, which is in place. There's a discussion ongoing also with the ministers; there's some willingness to change. And I think that combination makes it strong. There's a strong need for the business parks, and 32,000 – it's such a big number of business parks, not being connected well with good infrastructure – a huge opportunity there.

The other one: a landing place for subsidies. Well, we want to be a cooperation partner. And the third element then clearly is our already very strong cable, which we make stronger. And then we'll try to, of course, increase the penetration in that area where we have our cable.

Nick Read

Yeah. Akhil, going to your second question specifically on the UK. I mean, clearly Openreach is out there at the moment consulting with the industry on building fibre, and of course we welcome that, and are actively engaged with them. We are interested in co-build opportunities; however, we have return hurdles, and to achieve some of those return hurdles, you know, our view is we need a degree of exclusivity for a period to market into those homes to ensure that we gain the returns. Now, that's something that's going to need wider consultation, discussion, etc. Ultimately, any agreement is going to need the BT board to sign off, Ofcom probably has a say in this as well. So I'd say very, very early days at the moment about what is the appropriate model, but, you know, we remain active. But I would – I'd just reinforce, I don't see anything of the scale of the German case.

Akhil Dattani

Thank you.

Operator

The next question comes from the line of Mandeep Singh from Redburn. Please go ahead, your line is now open.

Mandeep Singh, Redburn

Okay, thank you very much. I had a couple of questions. One in relation to the 32,000 business parks; I mean why only choose 3,000 would be my first question, and, you know, should we, I think in relation to the earlier question from San, expect a series of more announcements for further business parks in Germany over time?

And the second is, obviously, you know, Virgin is doing Project Lightning in the UK; they think they make even higher returns than you're flagging for this project in Germany. Any plans or any consideration towards an expansion of cable footprint into areas where you're currently not present in Germany and, if not, why not?

Hannes Ametsreiter

Yeah. I'm taking this question as well. First, we mentioned 2,000 business parks and not 3,000 –

Mandeep Singh

Apologies.

Hannes Ametsreiter

– so if you look it up in our document it's 2,000, and we believe it's just a huge opportunity and the feedback we are getting from all our customers is that there's really very big demand, so we believe excellent opportunity.

On the other hand, you mentioned Programme Lightning, and are we increasing our cable network? Yes, we do. We also did that over the last year, so it's a small increase between 25,000 and 50,000 households a year where we are increasing our cable network. It's also clear that we are not planning any overbuilds, which is also important. So, I mean, these models are clearly placed. On the one hand, we still build and grow our cable network; we increase it to DOCSIS 3.1, it's now 1 gigabit. In the future, with full duplex, it'll be 10 gigabit, so that's the cable. Then we have the municipalities, which will be mainly, of course, on the countryside, and clearly outside our cable footprint, and then it's the business parks we just discussed, so that's simple.

Nick Read

Yeah, Mandeep, I'll just build onto Hannes's point. I mean, I know – I love your level of ambition and aggression. There's still a lot to do, a lot of build in this programme, and what we've really done is spent a lot of time targeting the high return opportunities, so proximity to our network, etc. So, yeah, we're very returns focused.

Mandeep Singh

Thank you.

Robert Grindle, Deutsche Bank

Good morning gentlemen. Firstly, when does the project become free cash flow accretive, is that year five? Secondly, how onerous do you think the 40% penetration commitment for the business parks project is? And thirdly, it's a long-term lease arrangement; does the lease obligation get capitalised into net debt immediately? Thanks.

Andreas Siemen

Robert, this is Andreas. Probably can start with the first one. So free cash flow accretive, we gave you a couple of KPIs on a per business park level, right? So less than four years for a business park, typically less than six years, we expect, per municipality. Obviously, as the programme rolls out over the next four years, individual business parks will come within breakeven in the first four years/five years. But as the programme rolls out, the breakeven and the return for the total programme, you know, may stretch and we expect to stretch beyond four years as the programme rolls out. So, most importantly for return, however, is the – on a unitary basis, our business park to business park municipality – per municipality return, and here we expect the KPIs I mentioned, and therefore this will contribute to cash flow also in the first four years. And, as a result, we expect the peak funding for – over the four years more to be in the €100 to €200 million because we see already – as we roll out the programme, we see returns coming in from the first project that we built as we go.

Your question on net debt. Look, we're going through the accounting treatment and we have IFRS 16 coming up, etc. We can talk later about a more detailed programme, the accounting, while we go still through the finance year. Important for today is that you understand the cash flow that we're going to see going forward, and the cash flow will be much lower than, potentially, the accrued CAPEX that we put here in a conservative figure in here.

The second question probably – if you repeat the second question, that didn't come through.

Robert Grindle

Yeah, thanks Andreas. The second question was how onerous do you think the 40% hurdle is for the business parks?

Andreas Siemen

Yeah. We think it's realistic, given that there's – I mean, in the business parks, say for, the companies there, often, you know, working with lines below 50 Mbps or even slower, and we all know what it means to business today. So we expect the demand out there today potentially increasing. We also expect, over the four years, that more and more businesses pick it up. So we – I think it's a realistic threshold. Obviously, there are variances by business park. You know, you may have larger businesses in one business park, more smaller business in the other. Therefore, we're looking at an average here, but we'll make a business park by business park economic analysis, whether we get the return depending on the investment in this specific case, and the revenue that we sign up and the potential that we see. On average, we think the 40% is a good, achievable number.

Robert Grindle

Many thanks.

Nick Read

Robert, just to do one build on the net debt. Just, effectively, we're making the assumption that, as we deploy the fibre, if the fibre is deployed, that effectively goes onto our balance sheet from a debt perspective.

Robert Grindle

Okay. Okay, thank you.

Operator

The next question comes from the line of Andrew Lee from Goldman Sachs. Please go ahead, your line is now open.

Andrew Lee, Goldman Sachs

Yeah. Good morning everyone, thanks for taking my question. Just a couple of questions around the, kind of, broader implications with your competitors. Does this make a tie-up with, you know, the broader cable player Liberty less attractive? Did you discuss a tie-up with Liberty for this specific project at all, and did you discuss an alternative wholesale opportunity for business parks with DT in relation to this opportunity? Thank you.

Nick Read

Can I – I'll just – on the Liberty side, I mean, look, there were no talks with Liberty at all and, in the end, this is about a very discreet project in Germany on our organic plans. There is, as Hannes said, no overbuild of Liberty's footprint, so there's no real implications if there were synergies in discussion, but what I'd say is this is very much focused on our own plans. Hannes, I don't know if you want to comment on the other part?

Hannes Ametsreiter

No. Absolutely, I mean that's why we were stressing that there's no over build, and so we were just focusing on very good return opportunities. So, I mean, what we see in the country is that the infrastructure is really behind, also if you compare it to other countries, and we want to have and make a good contribution. And we believe we focus on pockets which are interesting ones and the money we put in is especially in segments where we believe we can be successful –

Andrew Lee

Thank you.

Hannes Ametsreiter

– and no impact on any other potential M&A, and totally being stand-alone projects which we are running here.

Andrew Lee

Thank you.

Operator

The next question comes from the line of James Ratzer from New Street Research. Please go ahead, your line is now open.

James Ratzer, New Street Research

Yes, good morning. Thanks very much indeed. Two questions, please. First one's just regarding Giga Municipality. Are the agreements with the municipalities actually in place at the moment? I was just trying to understand whether this is an area where Deutsche Telekom could try to counter bid as and when the subsidies are made available.

And, secondly, on Giga Business, I mean it looks like you'll need to get ARPUs per client of around, kind of – I estimate about €300 a month to get a decent payback on the project. I mean, could you confirm if that's about right, and how do those ARPUs compare with the ARPUs you're getting on existing Enterprise customers at the moment, to make us understand how price competitive you need to be to win these customers? Thank you.

Hannes Ametsreiter

So, I mean, starting with the municipality. We did, already, some training before, so we do have some experience with some municipalities; it's working well. What we could see – I mean there's some smaller cities where we could see that the penetration is way beyond what we stated as a percentage, and so we are very positive on that one. We believe it's a good opportunity, especially if the subsidies are coming in. And, as I said before, to have the landing place, to have cooperation with municipalities; they are long-term thinkers, so they like it. It's also clear that every mayor is facing a situation that he wants to provide fibre to his citizen in the cities, and it's also clear that all the companies in the cities also have an interest. So, I mean, that's what we learn about municipalities; we know how it works.

I believe, and there's also an agreement on that one, that the law for subsidies, it will change and evolve, and then it will be clear that this money will be used for fibre, clearly fibre FTTP/H, and not for other technologies. And therefore, it opens up a new opportunity, and we believe it's interesting and that's why we are getting ourselves ready with such plans.

About detailed ARPUs, we don't really want to comment, but it is correct that the prices in that business segment are attractive and, of course, on the one hand we want to achieve a good penetration of that business park, but also we want to win customers with an attractive ARPU. If you just think about the situation, I mean there are many, many regions; they are almost desperate because they know they need to digitise and they don't have the infrastructure ready, but they need better infrastructure. And so, I mean, for them it's really – it's telling them, 'Look guys, we can help you, you now need to just team together and sign up the contracts and then we will build.' And, at the moment, it's a situation that they still wait and see, 'Is it really to come?' And, I think, if we can offer the first successful cases then there will be quite some enthusiasm about this new opportunity on the market. So that's – how we look at that – different locations at the moment.

James Ratzer

Thank you. Could you give – Hannes, thank you – could you give any steer on, I mean, the ARPU; maybe not with its precise numbers, but, I mean, do you need to charge ARPU at a premium to your average Enterprise ARPU at the moment, to make the project get a decent payback, or can you price at similar levels?

Andreas Siemen

Well, look, it's Andreas here. ARPU is a difficult concept here because in a business park you have a mix of businesses; small, SoHo, large companies, sometimes we may have, also, cross-selling into our other product. But in terms of guidance, how to think about it, when we look at the business parks and it's clear there will be variances, yeah? But if you think about how much revenue potential, incremental revenue potential, we can get out of a business park then we're probably looking at around €15,000 per month, yeah, €180,000, give and take, here per year. And whether this is going to come from many smaller businesses with lower ARPU or larger businesses that we may acquire, that remains to be seen. But, in our business case, that's kind of the number of incremental revenue potential that we assume and think is achievable.

James Ratzer

That's great. Thank you very much.

Dhananjay Mirchandani, Bernstein

Thank you very much. Good morning everyone. Two questions. One in terms of timing and one on CAPEX related to Giga Business. So the fact that you're at 15% or sub-15% fixed enterprise market share isn't new. Why now? I mean why is this an initiative that comes to force right now? That's the first half of the question.

The second one is related to the cost per premise for Giga Business. So just – if I get the numbers right, you're looking at €14,000 to €16,000 per premise. Typical cost per premise for consumer-type builds are anywhere between €600 and €1,200, including the cost of connectivity. Can you help us understand the difference into why you're incurring such a high – or expect to incur such a high relative cost differential? Thank you very much.

Hannes Ametsreiter

I will take the first question and Andreas will take the second one. So the answer was why now? The answer is very clear, because, in the month, it's now really significantly and sharply increasing, so we realise that many of our customers want to have fibre. We also realise that there's so many business parks in Germany without decent infrastructure, so it's just a demand opportunity which is there. And, you know, in an environment where digitisation is one of the biggest and most important topics in the country, the infrastructure is the base weight, and so we see that very, very strong demand. And we also could develop our fixed-line business in a pretty decent way. So we were steadily growing and we see the opportunity to grow even stronger if we have the infrastructure ready. And we do that by better leveraging on our cable, so that's what we do while we have business customers in our cable footprint. On the other hand, entering into new opportunities and trying to convince more customers, since our markets share is low, 15%, there's a huge potential for growth, or a nice potential for growth. And that's why we are starting now, because we realise demand, and it's a good opportunity, and also good value which we can generate there.

Andreas Siemen

Yeah, and on your second question, I think we have to be careful in comparing the business park investments with really kind of consumer-like investments. By the way, if you really do consumer business in rural areas you get to significant – you know, €2,000-or-beyond kind of numbers per home, so that's not unusual.

What is driving – when we look at business parks, I think there are two components obviously driving the level of investment. First of all, how far is the business park away from our backbone? And this is one of our considerations in also selecting the 2,000 most prominent or promising business parks out of Germany. You know, where is our network, how much do we have to invest to backhaul the traffic? And then obviously the business park itself, structures there – probably less than sometimes than you may have in city areas, what have you, and therefore how many businesses do we reach? And that gets you to the kind of investment levels that you see per business park here. But the revenue potential of course is also different than in consumer business, and therefore, obviously, the return here quite attractive.

Dhananjay Mirchandani

Thank you.

Jerry Dellis, Jefferies

Yes, good morning. Thank you for taking my questions. First question is really around the regulatory environment within which these fibre builds will proceed. What visibility do you have on how these fibre networks will be regulated? And in particular, the potential need to offer cost-based wholesale access in the future?

And then secondly, in terms of your confidence on the sort of ARPU uplift that you can generate from a specific business park, what is the evidence that sort of informs that estimate of the €15,000 monthly uplift from a business park? What sort of raw data are you basing that assessment upon please? Thank you.

Hannes Ametsreiter

So coming to regulatory, cable is clearly not regulated because we only cover 12.6 million of households with our own cable network, and the rest – so around 70-75% – is of excess infrastructure network is being owned by Deutsche Telekom. So if we – so that's the cable part.

The other part, the municipality part: it is clear if we are using a model which gets subsidy. So if the city is getting subsidies from the government, then it needs to be an open-access model, so that means that if we are a long-term operator of that municipality and city, then we have the obligation to be the operator which also opens up to other potential interested candidates in that area where we built it. So I mean, that's the regulatory environment.

And there is some discussion also about the subsidy law. This is in discussion now, and it looks like in the future that will be more only for fibre FTTP/H, and not like today for VDSL and FTTC. For the business parks we do not expect any regulation there.

Andreas Siemen

On your second question about what gives us confidence about the ARPU assessment and uplift, I mean, look, we are – while the approach that we put out here with the Giga Investment Plan today is a new one, we are not new in the business. We are probably the biggest challenger in fixed enterprise services here in Germany to Deutsche Telekom, although our market share is below 15%. But we see on a daily basis we have tenders. We do already fibre for individual offers for individual customers. We know the pricing levels for various consumers from SoHo to large businesses. We know the pricing in the market. We win business in the market. So we are not inexperienced when it comes to ARPU, and therefore we think our overall assessment of the revenue potential, subject to reaching the 40% of – roughly – customer on average, depending on the structure of the customers – so we think our revenue assessment is quite solid.

Jerry Dellis

Thank you.

CLOSING COMMENTS

Nick Read

Thanks, Operator, and thanks again to everyone for joining this call at short notice. Andreas and Anna, Director of Strategy in Digital in Germany, will be in Venice next week for our Open Office, and they will be able to answer any further questions you may have. We are delighted to have found such an exciting growth opportunity in our largest business, which is already performing well. I have every confidence that Hannes and his team will continue to execute strongly and further accelerate the performance of the business. And overall, I look forward to seeing you – or many of you – in Venice. Take care.

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