Corrected Transcript

06-Dec-2012

Deutsche Telekom AG *(DTE.DE)*

Capital Markets Day - Day 1

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MANAGEMENT DISCUSSION SECTION

René Obermann
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Very welcome to all of you. I'm very happy that you made the way here and that you didn't get stuck in the traffic. I want to also welcome you on behalf of the entire management team of DT, the most wonderful management team you can imagine. They're all over there. And maybe you will briefly stand up and bow to your owners and say hello. That's my team.

We hope you find these upcoming one-and-a-half days most informative and useful. I can tell you we've put a lot of work into preparing for this. Sometimes I felt there was no bigger purpose in life than to prepare for this day, but I sometimes also get reminded that there are customers out there. So, we hope you find it useful and you take away key messages and like the story and thereafter hopefully buy our shares.

Without much preparation and without much ado, I would like to go straight into the key messages and I want to open my presentation with key points, five of them. Number one, if we look at the 2010 to 2012 period, we have achieved against most of our objectives against the industry trends and we will show you where and to what extent. Second, we are going to make significant additional investments into the German and into the United States market, for good reasons because we see new opportunities.

Third, we finally have reached an agreement with Apple and we will launch Apple product in the United States in 2013. Fourth, overall, we see a chance to return to modest growth in 2014 driven by revenue stabilization in Germany, driven by a return to underlying growth in Europe in 2014 and driven by a return to growth in the United States.

And fifth, as a result of significant investments and as a result of the introduction of the Apple products in 2013, this will lead to a lower free cash flow and the dividends also will be lowered to a prudent and sustainable level. And as we delivered over the last three years against our promises, we intend to do so over the next two years and we will give you guidance for the dividend for the next two years.

The first part is what happened between 2010 and 2012. Back in 2010, if you recall the Investor Day and I think it was in February, if I'm not mistaken, or in March, we gave you a three-year plan strategically and financially as to what we wanted to achieve. Overall, the strategy implementation, which we presented to you in 2012, is well on track. On top of that, the financial strategy and a three-year dividend plan has been executed or we intend for the third year, 2012, to continue to execute with our dividend for 2012 to be paid in 2013.

A couple of key achievements over the last three years, just to recap briefly what happened, what we promised and what we delivered. Four blocks, fix, transform and innovate, plus how did we address the investment side.

On the fix part, if you recall what happened, we had to fix our situation in the UK. It was very difficult. We had to do something about the U.S. market and we had to work hard to keep our broadband market share in Germany and to improve our profitability. Plus we fixed the situation, the ownership situation in Poland.

I will talk about the U.S. in more detail, just briefly addressing the UK. The assets developed into 50% of an outperforming market leader on track for further value generation. Strong contract growth and reduced contract churn, mobile service revenues, ex-regulation, are growing, LTE rollout plan ahead of competition, 33% POP coverage already in 2012 and well beyond 90% in 2014. So, that's a very, very good story in the UK. I think it's fair to say we fixed a big problem and turned it into a big opportunity.

Poland, we had a 10-year ownership dispute. We solved it. Ownership, 100% secured. Rebranding to T-Mobile successfully executed in 2011, good story.

Germany, personally, I find the German team does a very good job. We're defending ourselves against asymmetric regulation against a strong cable competition very well. And not only that, we also increased our profitability. We did a great job on efficiency, defended our market share mostly and we improved our profitability margin by 4%, the most important market.

On the Transform side, the biggest cultural revolution for this company was the amalgamation of the mobile and the fixed business. Nobody thought this would get done. We did it and we did it in the last two and a half, three years. One company was created in Germany and in three other major markets, and gradually, we are seeing cross-selling benefits, one-stop shopping experiences for our customers, churn reduction and so forth, and there is more to come.

On the cost side, we promised a significant efficiency improvement. We over-delivered. We promised over three years €4.2 billion. We accomplished €4.5 billion within two years, one year ahead of plan. And the third big block, also a massive structural reform for DT, we put together all IT resources under one roof and we established Telekom IT.

Now if you're familiar with situation of most telcos, IT systems and legacy systems grew from the various parts of the organization, mobile and fixed, in different directions, a lot of redundant work and stuff going on. We put it all together and the objective is not only to be better in delivery, but also to increase the efficiency significantly. The objective is to save €1 billion IT spend by 2015.

On the innovation side, in Europe, we defined four corporate priorities, Machine-to-Machine, Cloud, Rich Communication Suite and black out 30 seconds that happens to mobile payment. So, these four things are group-wide innovation projects where we intend to roll them out across our footprint, leverage the scale effects and become successful in those areas. The innovation priorities are defined. The growth areas are overall mostly on track, the biggest one being the mobile Internet opportunity in which we believe since many years for which we have made significant investments already and where we are the leader in quality, network performance and also in the market overall in Germany.

The partner program is also accelerating. We realized we cannot do everything ourselves, so we need to collaborate. We are a big electronic distribution engine for content and for services. And therefore, our partnering program has increased, has got traction. And we've collected a number of Internet partner companies which we cooperate with, lookout, for instance, Box which we recently introduced at our Cloud Day or many others, smaller and bigger ones. And our objective is to increase the number of partners and to leverage our distribution, our technology platforms and our marketing.

On the investor side, we promised something which we delivered. We promised a dividend level of €0.70 over three years and we delivered against that. The first three-year shareholder remuneration and dividend commitments which we introduced back in 2010.

We introduced ROCE as a steering mechanism for the group. We didn't accomplish all of what we had intended, but we introduced ROCE as a steering mechanism and we continue to do so. I think we had – it's fair to say we had strict M&A discipline and very good execution over the last three years and I will come to some of those deals in a minute.

As a result, we accomplished a good relative total shareholder return and our valuation performance relative to our peers has been also beyond average.

In more detail, the U.S. situation, what happened over the last 12 months? Five big steps. We were very busy. One, after the AT&T deal broke up, we received spectrum in a number of important markets. We received $3 billion in cash as breakup. And the second step was, we made use of – we invested into network modernization, a significant program. 37,000 sites will be modernized in 2012 and 2013. Spectrum reallocation has largely happened already and we are upgrading our sites in the next 12 months.

The rise in spectrum, we accomplished more spectrum. We achieved more spectrum through a deal with Verizon, which enables us to build a more efficient network and to have a better LTE coverage. Then most recently, we announced the tower transaction, $2.5 billion proceeds from that very transaction, which gives us the chance to maintain our operational flexibility and makes us more cash-rich.

In the last block, the biggest one, MetroPCS, we announced it in October. It creates the leading value carrier in the United States. It delivers an NPV of synergies between $6 billion and $7 billion and it gives us an improved spectrum position. In many markets, two times 20 megahertz for LTE. That is significant. That makes us one of the leading carriers in this regard in the U.S.

However, these are all steps in the right direction, but we are also aware of the market reality and we think that over the next years, the market will need more consolidation. Through this combined entity, through this reversed merger into MetroPCS, we will be a listed company and it will give us more flexibility to participate in further consolidation moves. And we think these consolidation moves will be necessary given the need of scale, the spectrum reality in the market and other circumstances. So, this is something we are aware of and we believe this will happen and we are open and we would not rule out any further moves.

This is the summary of the KPIs, which we introduced to you or which we told you we would strive for back in 2010. Some of them, we have reached fully, some of them we have reached partially, and some of them we have not accomplished.

First, what happened on the group Internet-based TV services? We're about – we are serving about 5 million customers by now. The difference to 5.5 million mostly comes out of Germany. We are still growing and we are growing in Germany with Internet TV, but not yet to the rate which we had targeted. So, we are at about 5 million, but still growing, and therefore, we consider that picture as yellow.

The group-wide mobile customers here, we wanted to get to 140 million. We deactivated over the last 1.5 years quite a number of inactive prepaid SIMs, and this number excludes the number which we have accomplished, 132 million or so excludes the UK, so overall yellow on track.

Group-wide fixed broadband retail, done, 17.5 million so far. And on top, there is wholesale customers in fixed line. Revenues, more than €6 billion mobile Internet revenues, €6.4 billion this year, that's the forecast. So, we are well on track to accomplish our five-year objective to get it up to €10 billion.

However, we did not yet stabilize the German revenue. We still have a small decline in Germany. It's the trend in Europe. And if we compare ourselves to our peer group, we're doing very well, but not yet fully stabilized our revenues in Germany. Our Save for Service program over the last three years, well on track, better than expected, €1.8 billion net savings just in Germany and SEE markets. So €4.2 billion overall, €1.8 billion net savings just in Germany and other European markets.

Free cash flow, our objective was to slightly increase the 2010 level. That has not fully happened, only in one year. But grosso modo, we maintained it at around €6 billion. So overall, strong free cash flow performance.

ROCE, our very ambitious objective, not accomplished. If we exclude the latest depreciation for the U.S., we would've only accomplished 0.5% or 50 basis points. That's not good enough. We keep it on the agenda for the next years. We have, again, set ourselves ROCE objectives and Tim will talk about that in more detail.

Shareholder remuneration, €0.70 dividends paid in two years. And the third year, we will recommend the same thing to our supervisory board and then to the AGM, so far delivered. But the share buyback program was only delivered one-third out of three tranches. The reason is simple. We believe the money will be wisely spent and invested as opposed to now being used for share buybacks. And we believe that the second and third tranche would be invested into Germany and the U.S. will get better returns over time.

What happened as a result? Over the last three years, our shareholder returns are beyond average, worse than Vodafone, but better than the other peer group, with a TSR since 2010 of 13.5% and a relative improved valuation to 4.7 times EBITDA and a fairly stable five-year CDS spread and rating stable. We compare ourselves favorably to most of our peers.

So, that was the result of a stakeholder-oriented approach, and I can already say we intend to continue a stakeholder-oriented approach and also look at the shareholder side, but also at the debt side. Markets and trends, what's the industry situation and how are we going about it in detail. The picture remains mixed. We have pressures, particularly coming from the economy.

We do not think the European situation has resolved. We think Europe will continue to be under much economic pressure for the next couple of years. We are realistic about it. But we see the U.S. recovering. And so, our portfolio in Germany and the U.S. is most important to us because Germany within Europe is a very strong market.

Overall, the market remains under price pressure, particularly in the traditional part of the business, but there are also new growth opportunities by the IP transformation, in particular, quality of service management, which will allow us for tier pricing models, which will allow us for new business models. Virtual PBX solutions, Rich Communication Suite based on IP. Here we call it joyn and more efficient networks where we do run very aggressive IP transformation or all IP transformation programs, particularly in Eastern Europe, in Macedonia and Croatia as test markets.

Changing regulation, probably the most important topic to talk about tonight and tomorrow because that does trigger a new approach to investing into our key market in Germany and potentially in other European markets as a consequence, very, very important.

And growth markets, in particular, mobile Internet, intelligent networks, cloud-based services and so forth. I will only focus – instead of going through all these things, I will focus on two blocks, one, the regulatory environment, and B, the growth markets.

Neelie Kroes, in July, the commissioner, has made a revolutionary speech and announcement. She has said that she will want to change the regulatory framework in Europe because she and her team understand – and we have many conversations, they understand that investment-friendly regulation will eventually lead to needed investments in our infrastructure. They also see Europe falling behind and they understand the reasons. And the reasons clearly are in regulation. She announced a regulatory framework to be stable until 2020. That's a revolution, eight-year planning horizon for the first time.

Second, she said the profit pool, the existing profit pool, the unbundled local loop should remain stable. No more price pressure on the unbundled local loop. So, we have a more stable revenue source to generate enough cash to make these long-term investments with. Third, she said no cost regulation for optical fiber network, for the next-generation access network provided that there is, and I think we can all say there is, it's demonstratable, sufficient competition and non-discrimination practices in the market, which goes without saying.

And fourth, next-generation networks would include VDSL fiber-to-the-curve plus vectoring, and this would also be supported by the European Union. They call it VULA, virtual unbundled local access, which is nothing but – we call it bitstream access. It's the virtual product for our competitors and it replaces the traditional unbundled local loop from the street cabinet to the household. So as opposed to sublocal loop unbundling, we would provide VULA, virtual unbundled local access, which we're happy to do on the basis of commercial negotiations with our potential customer competitors.

The most important point is that this regulatory framework, which I think is revolutionary, which I think is right where Neelie Kroes really understood what this market needs that this gets translated into national regulation as soon as possible.

This is the precondition for us making additional investments into this market, and this should happen hopefully in the next couple of months in Germany and other European markets. It's our basis for our investment plan. If you look at the total market, you see the projections here straightforward. Traditional telecommunications in fixed and in wireless, including text messaging.

Now imagine this, a few years ago, everybody was texting. Now we call it traditional communication. This market moves fast. It's going down, and we need to be realistic. It's going down by 3%. Mobile Internet in our markets, including the U.S., is going up from €43 billion to about €84 billion in our addressable markets. By far, the U.S. is the biggest chunk of that growth. Connected Home, primarily content services, but also additional services, security and whatever you name falls under that category. Triple Play and more is growing slightly by 3%.

On the ICT side, where T-Systems is a cloud pioneer since years, and T-Systems is continuing to build its cloud capabilities, but we are also active in selling to the small and midsize companies. On the ICT side, the cloud is the most important part. Cloud services and virtualized IT grow from what it is today, about €80 billion globally, to about €158 billion in those markets where we are represented, whilst conventional ICT services are growing mildly only by 2%. So, that's kind of the cosmos of the opportunities we're working in.

Our objectives for the next years are pretty much what they used to be a few years ago. We have some changes, but overall, we pursue this grid of numbers consequently. We said a few years ago to you we're striving for €10 billion revenues in mobile Internet. And here I stand today and I say we will achieve that number. We might even overachieve that number. The trajectory looks very good. And to me, we've only scratched the surface of wireless Internet services. The cars get connected. Cameras from Samsung now have a radio interface. You don't need much fantasy to imagine that the connectivity business in wireless Internet is growing like that. It's like an S-curve and the market has just taken off.

Connected Home, our objective is to get up to €7 billion. Online consumer services, for instance, the Scout business, which you may be familiar with, or STRATO or any other of our portfolio, or our portal business even, our multimedia services, et cetera, all small flowers, but they're growing nicely and we intend to get it up to €2 billion roughly. T-Systems external goes up to €7 billion and the intelligent network services. In particular, currently, we are successful in the health sector. That all together will go up to between €800 million and €1 billion. So, we're more or less in line with what we said a few years ago.

Our revenue mix as a result of that is forecast to become more towards these new growth areas. The revenue mix changes from what it was 24% in 2010 to then up to 45% in 2015, coming out of these new areas of growth.

How do we go about it? It doesn't happen by itself. First of all, these are the objectives per segment. We are forecasting to stabilize our revenues in Germany in 2014. We will compete aggressively against not only the wireless players, but also the fixed line players. We are not leaving the turf to them. So far, in Germany, we've defended ourselves excellent. However, the challenges will grow and we need to do something about our network performance in order to remain competitive.

Europe, we're returning to underlying growth. There's a lot of headwind in Europe, economy, state budgets, extra taxes and so forth. And yet stripping these effects off, we believe we can return to underlying growth in 2014.

Reinvigorate growth in the U.S. based on network modernization, based on an aggressive marketing, a clear position on the value side, new distribution channels, B2B approach and the cooperation with Apple, we believe we can get back to growth. And you will hear John later on. I think our morale has increased after the AT&T deal. We are on the right track now to get back to growth.

On the digital business unit, where all the new activities, the small plans are accumulated, we can generate double-digit growth, albeit on a low start level. And on the T-Systems side, our objectives are: the market unit; the external business; profitable growth; improved profitability; decrease our cost structure, because in some cases, we're too expensive currently, particularly in systems integration. And on the internal side, Telekom IT side, our objective is to deliver quality, defined quality at lower spend, very important part of our efficiency program.

How do we go about that? Very simple. We will compete aggressively. We will innovate with passion and we will transform with rigor. Compete, transform and innovate, that's the three building blocks. And we have four key blocks where we go. Seamless connectivity, which means we combine fixed and mobile technologies so our customers are always best connected. When you, as a customer, are with T-Mobile or with Telekom here in Germany, you can use our hotspots and we'll increase the number up to 18,000 in the next couple of years, and you do that seamlessly. You can use the best LTE and HSPA network and you can use the best connectivity service also on the fixed line side. Seamless connectivity for the gigabit people, gigabit society. More innovation, not only by ourselves with more agile methods, but also by cooperation with third parties, secure cloud solutions and best-in-class customer experience. That is one of the most important differentiators.

As of today, in Germany, everybody knows this, Telekom are the best in customer service. A few years ago, none of you, none of our customers, none of the media would have ever thought that would be possible. Everybody was, pardon, criticizing us because of bad customer service. Now, everybody says our service is better. We are winning every test, every [shift environ] test, every turf report, everything. And that is very important to us because we cannot differentiate ourselves by being the cheapest. We have to differentiate ourselves by being the best experience, and we will not rest up until our lead is that big. And therefore, Germany is continuing with very consequent customer experience programs, eliminating the glitches and the problems which we still have because not always everything goes well.

Europe is doing the same thing. We work on the network modernization program in the U.S., as I said before, Apple partnership, integrated network strategy for Germany. These are the compete elements. The transform elements, all IP transformation, continued efficiency program, our target is €2 billion or more. So far, we only identified measures up to €1.6 billion. We'll go beyond that. However, our track record in efficiency, I think, is credible. We've done a great job in the last couple of years in improving efficiency, we always over-delivered. Here's our – so far our target, and we don't want to overpromise and under-deliver, and therefore, we'll go for that again.

On the innovation side, I said it all before, intelligent networks in cloud and corporate innovation priorities: compete, transform and innovate. This is our – the way how we go about it in the next couple of years.

The German strategy is very simple; full steam ahead on LTE. We are exclusive currently with this device on LTE in 1800 because we were aggressive in the auction on 1800 two years ago, and we have rolled out an 1800 network in major German cities, Cologne and other cities. And therefore, currently, the iPhone on LTE 1800 works on our network exclusively. You cannot get it elsewhere. And that advantage hopefully remains for a while.

Now, number one, LTE rollout, boom, full-fledged. Fiber rollout, fiber-to-the-curb, again, based on this change in regulation, we will go for that. And we go up to 65% coverage in the next couple of years with an option to go even beyond that. But that does require some public co-funding because going beyond 60% or 65% is going to be quite expensive, and we hope to find from the Connecting Europe facility to local cooperation with municipalities and regions or even the state, some co-funding programs. They are needed.

On top of the FTTC program, we'll introduce vectoring. Vectoring gives us 100-megabit download. Okay, that's competitive. More importantly, vectoring gives us four times better upload. Vectoring gives us up to 40 – 40-megabit of upload. Why is that important? Cloud. The more people and the more companies and the more small companies go into the cloud, and they will, the more needed is the upload speed. Cable cannot compete. Cable can compete on the downloads, cable cannot compete on the upload. Cable cannot compete on customer service. Cable cannot compete in combination of the tariffs and the service bundles with wireless. So, we will work on competitive differentiation against cable.

And lastly, we are working on something we call hybrid access. Hybrid access means that devices, based on software, can combine the wireless and the wireline/Wi-Fi speed. That is possible. But on the long run, we'd like to see routers to combine the two and then provide even better experience for our customers. Then you combine the characteristics of a wireless network, the speed, but peak speed with the capacity of a fixed-line network. So, we're working on this. The introduction date is not yet clear, but we have it as one of our key objectives for the next two to three years. So, that's our strategy for Germany. With that integrated network strategy, we will compete against cable successfully.

U.S., and John is much more qualified to talk about. He's only here since two months. It feels like he's here since two years. He's already deep in all matters. We are going for a quick rollout of LTE. First half in 2013, we'll cover up to 100 million POPs. The other half in 2013, we'll cover up to 200 million POPs. And more importantly, through the spectrum refarming, we're also increasing the availability of HSPA based on the PCS spectrum and that goes up to 200 million POPs by the end of 2013. Now again, we've entered with Apple in a relationship. I cannot go into more details, I'm afraid, so you'll have to stick to – you have to make your own assumptions.

But the numbers in our free cash flow projections, the Apple introduction is fully baked in. And the only thing I can say is, I'm glad we finally got to an agreement. I'm glad we're going as fast as we can together with Apple to bring products to the market and offer a great customer experience, not a limited one, a great customer experience with our combined network. And our U.S. team is working very hard to bring the network performance to a superior level, including LTE. And the financial guidance incorporates all those elements.

What's the outlook? Two things, one is Germany and the other one is the U.S. That's the focus. Everything else is more details. Today, we're doing €8.3 billion of investments. Next year, we'll raise that up to €9.8 billion. The biggest chunk next year is in the U.S. It's the – it's largely impacted also by the PCS integration, the CapEx, and by the network modernization.

The year after, the U.S. CapEx normalizes to about $3 billion. But then, the German CapEx goes up. In 2013, going into the INS strategy, intelligent network strategy for Germany, integrated network strategy, means we are preparing, but there is quite a lead time. So, the peak CapEx is coming in the years thereafter.

But the U.S. next year will peak in its CapEx. As a result, higher CapEx of €9.8 billion leads to lower cash flow of about €5 billion next year. And then in 2015, we still are on a high CapEx level because of the German program, but our free cash flow is expected to be again on the level like this year, at €6 billion roughly.

So, how does it look like in a financial summary? We're addressing the equity side, we're addressing the debt side, and we're addressing the value creation side by running the business in the right way. On the equity side, the dividends are forecast to be €0.50 for 2013 and 2014. And in 2015, we will revisit them because we believe we have a very good case for 2015 again, yes. So, the free cash flow will be lower for one or two years. But then in 2015, it will definitely go up significantly. The alternative, by the way, is very attractive, is the dividend in kind. So, that is the shareholder side.

On the debt side, we continue to work on having undisputed access to debt capital markets. Even though the rating agencies have moved their – how do you call that, their criteria recently, we reflect that by saying our rating band is between A minus and BBB. That gives us undisputed access to the debt capital market at decent rates. Our net debt to adjusted EBITDA is forecast to be between 2 and 2.5, the equity ratio between 25% and 35% and liquidity reserves recovering maturities of the coming 24 months.

Value creation, efficiency management remains an important element of our strategy going forward because we have to have flexibility, also when economy turns bad, so, we need to have resilience. And therefore we work very hard on the cost side, continue to work on this, by about €2 billion, as I said. And we try to increase the ROCE to 5.5%, again, another attempt. You may be skeptical, but we are committed to do this.

Portfolio management, no big M&A, at least not – no big M&A, not outside footprint, remain disciplined, strategic revenue of Scout and Everything Everywhere. That's also an important message. We see what we do best to create value. And Scout performance has been great over the last years. Now we look at ways to maintain that great growth level. And therefore, we look into these two – particularly two – these two assets and review the options.

Risk management, if you think about it, some of the parts, 85% of our portfolio are in low-risk countries from a value point of view, 85%. And that's, I think, fairly good in these days. So, that's the picture from a financial summary as I can explain it. Tim is much more precise and detailed. And he will give you more details tomorrow, as my colleagues will, on the other topics. I just want to leave you with our guidance. And that looks for next year, between €17.4 billion and €18.4 billion, including PCS. It looks about €5 billion free cash flow, excluding or including MetroPCS, doesn't change much. The dividend per share is at about €0.50, including or excluding PCS, the same thing.

The mid-term ambition goes beyond that. We believe we can grow again in 2014. We also can grow again the adjusted EBITDA in 2014. We can provide a group free cash flow in 2015 of €6 billion. We can improve the adjusted EPS to €0.80 to – the ROCE to 5.5%. And we will review the shareholder remuneration policy in 2015. And we only have visibility for two years, but we believe there is a great opportunity, if we do the right thing now, to stop the trend, to swim against the current a little bit because of the regulation changes and to get back to new growth if we do the right things. And we need to invest something now in order to get there. So, I hope you can understand the logic, I hope you find it appealing. But I think the most important game changer for next year is the U.S.

And therefore, I brought somebody who's really only a few weeks with the company and already very deep in all those matters. And I think I can seamlessly hand over to Stephan Eger. It's not him. All right, thank you very much.

John J. Legere
President & Chief Executive Officer, T-Mobile USA, Inc.

Okay, good evening I'm glad Dragos is in the front row here because we got together last week and he was in unanimous agreement with every aspect of my plan. And so, he'll be certainly there cheering us on. I know there might have been one or two small disagreements we have, but it's great to see you. Just share with your neighbors how compelling this plan is.

Listen, I want to start, as he just said, I'm the new Chief Executive Officer of T-Mobile U.S., and I've been here long enough to know a few things that certainly there has been a period of time here where you've been hearing, I'm sure, about the U.S. business and how it's going to change. And some of the messages you hear today may sound familiar, and I'm cognizant of that.

But I'm going to try to be very specific about what's different, and I'm going to be very clear about some of the issues that we're working on. And I'm very certain that in the coming months, you're going to see dramatic change in the business because most of the variables that are required are in place. There's no overhanging event like there was with the AT&T transaction. There's no major missing components like a network modernization program that needs to be done. And we're in the factor of executing a number of things, including a very, very exciting coming together.

With me on my left, Braxton Carter, who will be the CFO of NewCo and is now the CFO and Vice Chairman of MetroPCS. He'll be talking to you about the financials of the company.

We've been together since I started. As you have noticed, the week after I started was when we announced the transaction. And Braxton and I were together talking about NewCo. And everything we've been doing since, subject to U.S. gun-jumping rules being honored, have been about NewCo. And I'm very happy, and I think you'll see that the chemistry between us is such that we're a great partnership already.

Neville, over here on the right, you may or may not know that two weeks ago, upstaged most of us in this room where FierceWireless Magazine announced the 25 most influential people in the U.S. wireless industry. I'll have you know that although I've been here for two months, I did not make it into the top 25 nor honorable mention. And well ahead even the Chairman of the FCC, which is probably not a good thing, number six on that list and the only CTO was Neville. So, if he's feeling any pressure, he'll have to show that.

Now I think your charts might be one out of sync with mine. But what I would like to do is talk to you first about the key messages of what we're going to talk about. A lot of these messages were covered by René, but I'll reinforce them. I want to start by telling you that I spent a tremendous amount of time thinking about several variables, including the Challenger Strategy.

Starting with the time that I was negotiating with Tim and René about taking this job, there were a number of critical things that I thought were important for the business that I saw eye-to-eye with them on, and frankly, they've been enacted. And the Challenger Strategy, you will hear me continue to use. It's the right template, the right pillars of the strategy. However, there's some tactics in it that were critically missing and are now very highly visible. First of these, the MetroPCS merger accelerates this strategy. I'm going to lay out for you exactly where it fits and why it's a great enhancement to what we're trying to do.

On the network modernization, there was a message in there today that was a new point. And René amplified it. Neville is going to cover it. We have significantly accelerated our deployment of LTE. Now the original plans were to start the rollout of LTE midyear after we put the clearing of the 1900 band and putting HSPA 270 million POPs. We've now accelerated that deployment for a number of reasons. And by midyear, we will have 100 million POPs already. And then by the end of the year, a really smoking network of 200 million, 225 million in the three key areas of 4G and LTE. And that's a big deal. The 2 x 10 megahertz in 90% of the top 25 markets and then at least 2 x 20 megahertz. And this is something we're going to talk about because it's pinnacle to our overall strategy. The Apple announcement I'll talk about next. It is completely in our financials. I'll talk a little bit about that.

But what I'm really going to focus on today is the initiatives that we're undertaking around, what I call, becoming the un-carrier. And part of the Challenger Strategy is to be different, to be bold. And I think we're going to attack a few age-old areas in 2013, and it's going to be a lot of fun and it's going to be quite different.

But let me talk a little bit more about this. This is very important. Now the good news is, we've become an incredible sales machine of the other very competitive devices from Samsung, Windows models, et cetera. Now, what was missing? It's very clear; a certain number of customers wouldn't come to the store if we didn't have the iPhone. And that's not a matter that they will buy it. There was just a definite churn impact, not only on network, but on the iPhone. And we worked very, very hard for a deal that made sense for us.

Now pointing out, the 2013 financials of this business do include the full impact of this rolling out in 2013. This deal is accretive in cash flow and EBITDA in 2014. And I'll actually go a little bit deeper on this because it's not intuitively obvious that the simultaneous execution of one of the other initiatives we're talking about, which is Value Plans – when you do Value Plans at the same time that you roll out the iPhone, the EBITDA impact in 2013 is almost neutral, okay? Now this is very, very different from what's happened previously and well worth the strategic wait, I think, for the time that we waited. This is not a volume commitment the size of what Sprint agreed to or anything close to it. And I can guarantee you, even though I can't talk about it, the – when this device rolls out, it will be a dramatically different experience. And I can only tell you that of all the reports that have been written about what's going to happen when it comes out, they're all wrong.

And unfortunately, I'm going to have to wait months to point out. But it is different, it is unique and I'll try to cover bits and pieces of it as we go forward. And it's not because it's not exciting, it's certainly because we're not completely in control.

Okay, those are a couple of things. Now let's go back to the recap, as René put in the outline. The recap of what was suggested, now clearly, the period of time that this company was waiting for the AT&T transaction to take place prohibited a lot of activity. There was significant impact on brands, significant impact on churns, significant impact on a number of other items. This was also a period of time where the iPhone impact had already been felt.

But as you can see, even in that period, the contract data ARPU, smartphone penetration, even contract churn moved very well. And I show you here that the EBITDA margin shows that they were very good stewards of this business. So, even in periods of soft revenue and therefore slightly lower free cash flow, the EBITDA margins still – and if you take the first three quarters of 2012 as an example, were generating 29.5% EBITDA margins. And just as a frame of reference, Sprint, over that same period, is about 15.3%. So, we've been good stewards of the business financially while we've been moving through. But we did miss several of the variables here.

Good news is, a tremendous amount of, I would call it, table-setting took place in the Challenger Strategy, and some of what's outlined here of what's already done. I won't go through it too much, but I'll just say, on the amazing 4G services, to go from where we were – at one point with the largest 4G network, introducing the line of smartphones that we did, moving to 10 months now into what Neville's going to talk about in the network modernization, which is not only key for us, it's huge for the merger with MetroPCS. From a value leader standpoint, I'm going to go through in detail a first two or three of the things that we've done, and then I'm telling you, we're going to break some of the age-old images of what has annoyed customers, especially in the branded contract part of the business. But some of what we've done already has been very innovative in stage setting.

From a trusted brand standpoint, we've gone quite a bit of the way in unveiling a new store setup, expanded distribution, multi-segment players. The MVNO strategy is working. The MetroPCS deal is a huge one, and we'll talk about that, and the B2B push has been going strongly. From a Challenger business model, we've done a very good job, I believe, in what we've called reinvent and we've set the stage for a huge amount of synergies coming up in this transaction. So, that's the look back at what's taken place, but more importantly, let's start going through quickly on market trends.

You know this better than anybody, but I'll just reinforce that economically, right now – this is separate from T-Mobile U.S., but economically, the United States is an attractive market to have an opportunity to invest in. I mean, GDP growth is growing at a significantly different rate, private consumption is growing at a different rate. U.S. mobile consumption and data consumption, for example, in the last 12-month period, has gone from 568 million megabytes to 1.16 trillion. And statistics show that over the next four years, there's going to be a CAGR of mobile data growth of 66%. So, the U.S. market is quite vibrant. And smartphone growth year-over-year was up about 50%. So, it's a very positive market from a standpoint of playing in the wireless space if you can be successful.

Now also, subscribers, strangely enough, even in a market that is over 100% penetration, has growth and will continue to grow. And it shows that compared to Western Europe, it's about four times. It's a 4% compound annual growth in connections. Now, connections now is going to move also not only into devices, but certainly iPads and eReaders and other devices. And what we're showing here as well is that it is kind of imbalanced in the growth rate between contract and no-contract. The no-contract space is significantly growing at a 10% compound annual rate. And we think we are uniquely positioned to play aggressively in that space, and I'll talk a bit more about how we've done so far in that piece of the business.

So, let's start looking about how we reinvigorate the growth. This is a slightly cheaper, not as pretty version of the chart that René had because we're reinventing the business, so we need to cut cost. This is some of the things that have happened already. Now, I will tell you without going through all of them, as René did, this is hugely important. So, the 40,000 to 45,000 employees that I've got in the company now, I can tell you, were dejected. I mean, it was a period of uncertainty coming into the middle of last year. And that's a very difficult spot to be in. The network that we're working through now is greatly enhanced by six megahertz of nationwide spectrum from AT&T. This network modernization effort, the Verizon swap with LTE-ready spectrum, as well as allowing better contiguity of our spectrum, the tower transaction and the MetroPCS combination and the Apple partnership, that's all done. And I can tell you that it's got the employee base of the company jumping out of their chairs. So, we've got a very excited, invigorated team which is hugely, hugely important.

Now, let's go through the Challenger Strategy components. And the first piece of that around network, I'm going to turn to Neville to drive you through.

Neville Ray

Chief Technology Officer, T-Mobile USA, Inc.

Thanks, John. Great to be here this afternoon with you and talk through what's a very exciting period of time for transforming the T-Mobile U.S. network. I'd sum it up by saying what a difference a year makes and it's been a tremendous year with progress. The momentum and the accelerating momentum that John just talked about is really starting to kick into gear and we look forward to a very, very exciting 2013.

Before I jump to the future, I do want to say a few words about the network that we have today. And we have a very strong and competitive network on the 4G side in the U.S. with a large footprint, as John mentioned, that was America's largest 4G network up until recently. The work that we've concluded over the last two to three years, upgrading our 4G footprint with Ethernet backhaul, then the HSPA upgrades from 21 to 42, have delivered an extremely strong and very, very competitive experience in the U.S. market.

The chart here just depicts quickly for you an independent study that was run earlier this year. And it highlights and compares the performance of T-Mobile's HSPA+ 42 network against the LTE networks of Verizon and AT&T and the WiMAX network of Sprint. I would caveat that the WiMAX network of Sprint is about half the footprint of the T-Mobile U.S. 42 network. And you can see there that the speed comparisons on downlink show us in a very favorable light. Actually, across a third of the markets that were tested, we outperformed Verizon, and you can see some of those markets there, big markets such as New York and Chicago where we outperformed, with 42 HSPA+, the LTE version that Verizon has launched with. So, message is, we have a big and strong 4G network today, 225 million POPs and a very large number of markets, all of the major markets in the U.S. So we start from a position of strength as we look to modernize this network.

There are really three I talk to – some of you have heard me talk at length about network modernization on multiple locations. So, forgive me if I repeat some brief history here. But there were three key pillars to the network modernization.

The first is that we're upgrading our cell sites with state-of-the-art radio electronics. And what does this do? It really enhances the performance on coverage and capability of the network. So, we're using TeleTOP electronics. We have the largest global deployment of antenna-integrated radios. So, this is where the base station is now moving into the back of the antenna, delivering significant accelerants in terms of deployment as well as the performance we secure with the TeleTOP electronics.

The second pillar, and both John and René have mentioned this, we are introducing HSPA service in the 1900 PCS band. That's where traditionally, we have only run unsupported GSM services. We are now refarming. We've completed the clearance of that spectrum, and we're now introducing, at a rapid rate, HSPA into that 1900 PCS spectrum.

The third pillar is LTE, and both John and René, again, have talked about our position as we move into 2013, and then the excitement that comes with the Metro combination on what we can do with LTE in the AWS band going forward.

René has already shown you this slide on the right-hand side here. Just to reiterate a couple of points here, the Magenta Block is the LTE footprint. And up until today, we've only talked about launching LTE services in the second half of 2013. We're now in a position today where we can talk about half of that 200 million POPs for the end of the year will be available for our customers by midyear. So, we're making strong progress, accelerating rapidly through our deployment on the modernization and the key benefit there will be an early and aggressive launch of LTE services.

At the same time, we've been very busy this year introducing HSPA in the 1900 band. We'll close – the chart shows in the light gray, 100 million POPs of HSPA 1900 coverage by the end of this year, and we're going to beat that number markedly too. Today, we're announcing to the market another three service areas on top of the 15 that we've already launched. They're in Atlanta, Minneapolis and Seattle on top of big markets such as Houston, Washington D.C., Baltimore, Miami. There's a long list of markets where we have already turned up 1900 HSPA service. And that list will be effectively complete across the major markets by the end of this year and continuing to grow in 2013.

So, if you look at our ending year position, an extremely strong footprint already in place on HSPA 42 in the AWS band, supplemented by 200 million POPs now of LTE coverage and 200 million POPs of HSPA in 1900. So a very, very different story for T-Mobile, a huge difference year-on-year from where we were to where we will be at the end of this year and where we will be again at the end of 2013.

The next slide just gives you a quick flavor and look at the performance that we're seeing off of some of the early markets that we've modernized. And it's important, I think, to reiterate, these early markets we are seeing great benefits come through from the work we're doing. The chart on the left outlines what happens. The first two blocks or sets of bars show the increased traffic that we're seeing in areas of the modernized network. And this is net traffic, so just what we're seeing on modernized. We're normalizing, taking out any general increase in data traffic that we're seeing – or voice traffic in those markets. And you can see through the improved coverage, we're seeing approximately 30% more data traffic come onto the network and about 10% more voice.

And so, the coverage benefits that we've talked about on this program are very real. We're very excited by the performance that we're seeing off these TeleTOP electronics, and the numbers are showing us that we are going to see the benefits that we planned and expected to see as part of this modernization effort.

Over on the right of that same chart, you see some of the improvements on blocked calls and dropped calls. Dropped call rates are great today. They're less than 1%, but you can see they will be improved by approximately a third. Adding those carriers in PCS 1900, significantly impacting any form of access challenge that customers have on the network. Our access is very good today. It's going to be even better as we continue to light up HSPA 1900. Over on the right is our estimate of what will happen from a coverage improvement, especially on the in-building front as we complete modernization. And you can see, based on the data we're seeing off the early markets, we forecast a 15% to 20% improvement in in-home coverage, which is a key area.

I'll accelerate quickly here, the MetroPCS transaction, hugely exciting. I think what I'd like to reiterate, many of you have seen this slide before, it's the headline. This is not about integrating a CDMA and a GSM based network. It's about migrating a Metro customer base off of CDMA services and on to the NewCo network, as we call it, one that will provide significant footprint and performance in HSPA and in LTE. If you look at the key enablers on the left-hand side, we have a lot of capacity. I've just talked about it coming online in the T-Mobile network to support that migration. The Metro customer base refreshes very frequently on the handsets up to about 60%.

And so, we can look at a very rapid migration of customers over to the NewCo network over a shortened period of time compared to what you might traditionally expect. And on the right, what we look to see is completion of that migration by the middle of 2015, at which point we will start to decommission and turn off the CDMA network. The great piece is both companies have the same vision of the future. Metro has been executing for a number of years now on an LTE strategy. I think just under 2 million, about 1.7 million of the Metro customers today are on LTE. We will be launching LTE services next year. And so, there's a great synergy opportunity here afforded by both companies skating to where the puck is going.

Okay, the piece that really excites me as a techie guy is the spectrum position. And quickly here, the combination of MetroPCS and T-Mobile affords a very unique combination of spectrum assets in the AWS band. You heard John talk to the fact that we can move from a 2x10 spectrum position in LTE next year to, in 2014 and 2015, a 2x20 spectrum position which will be very, very difficult for almost all of our competitors to match in the U.S. marketplace. Some just simply cannot get there in the timeframes that we are talking about. We're coming through with LTE in Release 10. It will be highly performing, we can double-speed. This network is going to pack a significant punch at a critical time in the U.S. marketplace, one that I think will be the envy of our competition.

The last slide for me, before I hand back to John, there are some great assets within this Metro network that we look to leverage on a go-forward basis. And I'll highlight one. It's the DAS network. So, there's a small tutorial on the left-hand side of the slide here about what a DAS is, Distributed Antenna System. But bottom line, Metro's done a tremendous job of building out spectrum density and reuse using DAS systems in key urban areas of the U.S. We will look to leverage that, upgrade those sections of the network to support more LTE and to support HSPA so that we can ensure that those Metro customers never miss a beat in terms of the experience and performance that they see from the NewCo network. We will look to decommission about 10,000 of the macro sites that come along with the Metro network, about 1,000 we will keep, but the 10,000 decommissioned are a key driver of the synergy numbers that you heard John and René talk to earlier on.

With that, I'll hand back to you John.

John J. Legere
President & Chief Executive Officer, T-Mobile USA, Inc.

Okay. It's a tough audience, by the way. It's the most I've ever behaved in my life. Couple of things to capture as we move forward. One is, all the growing pains of getting this huge modernization and transformation process going are done. It took a while to ramp up. It's at full speed. So, we will hit those targets, and as we've said, accelerate them. This is fundamental to the change of this company.

And as you know, the various qualities of network – network performance was probably my biggest churn variable. And in the plans that we put forward, a big portion of the 70 basis point churn improvement that I'm expecting over time in the contract space is coming from network quality improvement. This also, as you can see, as we get this realm of HSPA and LTE capabilities, as devices over time find the ability to search for the highest quality network capability, we're going to have an incredibly superior experience because most of the other players may have one good quality network, but fall back to an inferior capability, whereas our spectrum of capability is going to be extremely exciting.

And I think you'll hear us target very aggressively Sprint – excuse me, we're not going to target Sprint, we find them easy from a network standpoint. We're going to very aggressively target AT&T, and I'll talk why. And significantly there's some huge perception changes that have already taken in the category called AT&T switchers.

Second point I want to make sure you capture is we've talked about the impact of the Apple deal. We've talked about the costs associated with the network transformation. And I talked – also, I inferred about the Value Plan impact to our financials. I want to make sure you understand that those are 100% baked in to what we're talking about in the MetroPCS NewCo. So, there's no secondary adjustment that's needed.

And as I'm talking now, recently, when we were talking about NewCo, some of these variables, we weren't able to share. And piece by piece, I think it's becoming hopefully clearer why we're so confident in some of the NewCo growth. Now this is the fun part for me. I'm going to talk about value leader and trusted brand together because this is fundamentally going to be the area where we innovate. We're going to innovate on a few things: innovative Value Plans, which I'm going to talk to you about, because that changes things, amazingly affordable hero devices. We are going to get devices into the market, including this one, at a price that beats the rest of the industry. And we'll talk some about that. And we're going to talk about customer experience in a little bit different way than René did and this un-carrier brand.

And stay with me for a second, because you're all customers as well. And what we're finding as a challenger is right now, customers are really still pissed off at very unpredictable billing, very unclear pricing, restrictive and confusing upgrades and unfair treatment of loyal customers in this whole way that we sell them a phone and bury the costs into a long-term contract and tie them in. We think there is huge room for a challenger to change some of that in a way that the larger players will not be able to or will choose not to respond to. So, let me talk a little bit about a few of those.

Now we've launched a few things that each by themself may not seem groundbreaking, but I'm going to start to pull them together for you. First, Value Plans. Now a Value Plan is, in effect, separating the device from the rate plan. What it means is, is that if a customer wants to come in and they're happy with their own device, they can walk in the door, bring their own device and use our network capabilities. Customers that want to come in and buy a device, they want it low upfront out-of-pocket cost. They can finance it. Very low upfront, we can provide equipment installment program, and it's a very low, very clear out-of-pocket price. And then an incredibly low rate plan that together are still much lower than the out-of-pocket cost for the traditional contract businesses.

Customers can upgrade at any time. And that's one of the variables that customers are going to really love. Now by the way, we've tested this, 80% of the activations in our stores right now are on Value Plans. 12% to 15% are Bring Your Own Device. We have 1.7 million iPhones that have already come in to our business. So, the Bring Your Own Device, which is fully made come to life with the Value Plan, is with trade-in options. Okay? So, this is changing. This is a little bit more like the way an iPad's sold or the way you buy a television before you buy your cable TV.

And to customers, especially when we can keep the money out of your pocket lower, they're going to be able to see visibly and transparently what used to be most confusing. When you listen to customer calls, they really don't get that that $99 phone wasn't really $99. That it's baked into being stuck for two years. And they want to upgrade whenever they want.

Now there's a couple of things – and the other thing that we introduced was unlimited 4G, real unlimited 4G. And I can tell you some of the new devices that are out there, customers are already pulling down 3 gigs of traffic and growing. So, this is a big deal. These metered plans that used to sound nice at 2 gigs are not nice. Young people really don't like it. So, as the network quality goes up in the Bring Your Own Device, good smartphones on a quality network, there's something big here we're going to talk about.

Now we are moving – and this is news, we're moving 100% to Value Plans in 2013. Not yet. And what's the value proposition? Fair and simple pricing, low out-of-pocket expenses, equipment installation plan. You want to buy one of the top-of-the-line devices. You can come in, based on credit capabilities, you may pay $99 for the most iconic device in the world, and then you may get 20 months' worth of, call it, $15, $20 a month. So, it's very cheap out-of-pocket, it's very low. At any point in time you want to come back and trade in that phone, we will give you residual value, let you trade in the phone, stay on the contract services that you have. There's a lot of capability in it for us.

We are able to refurbish those devices. We've we got a capability that we can do it lower. We can use those devices in a secondary capability instead of warranty products and we can actually make a margin on the whole EIP process that takes this capability to market.

Now a couple of statistics I'll just tell you as well. We also believe it's going to have significantly better churn. It's going to have a lower device subsidy obviously and overall value. So, what we've seen so far is that there's a two-month longer customer life for our customers that are Value Plan versus Classic Plan. And if you look at the ARPUs, we get about $58.90 ARPU on a Classic Plan, about $43.90 for a Value Plan. So, there's definitely a lower price. Margins: 46, Classic; 33 on the Value Plan. However, device margin, $200 to $250, which we do not have to eat.

And what you end up having over a 24-month period or the customer life, two months longer customer life and a customer life value that is the difference between $550 on a Classic Plan and $600 on a Value Plan. Now this also, of course, will have, in year one, a very positive EBITDA impact because of the recognition of the equipment revenue upfront.

So, this is a big deal. And it's step one of the kind of things that we're going to do to disrupt the industry. And trust me, the way we will roll this out in the unshackling and the lack of being attached and the ability to constantly upgrade devices and to see exactly what you're being charged is going to be a big deal for customers and a big deal for brand and a tough one for people to respond to.

Let's keep moving. So, best smartphones at lowest out-of-pocket prices. Now just a little bit of data for us so far. Smartphone sales, up Q3 about 28%. We've gone from 44% to 57% of our base in smartphones. By the way, average data usage on our smartphones is up 30%. And 77% of the units that we've sold in the U.S. are smartphones.

So, with this Value Plan and the push towards smartphones, this is a continuous – if we believe cheaper smartphones, lower out-of-pocket costs, a very smoking fast network and flexibility is going to be the formula for success. Now customer experience, we slipped a bit here. For about nine years up until 2009, T-Mobile U.S. was the J.D. Power's number one customer service experience company in the United States. We're not right now. In fact, we're third or fourth, and usually fourth right now.

But for some very specific reasons, one was the morale of the company, but secondly, certain things that we did to remove the authority and the accountability of the people in the customer service centers and some changes that we're making policy-wise to focus on allowing the best customer experience, investing in systems between the stores and the call centers, consistency of policies, et cetera, already in the past two months, we've seen a big surge in, what we call, voice of the customer. So, I will tell you that my number one focus as the CEO has been on care. I listen to an hour's worth of calls every day. I take all customer-related escalations personally and reply to them, and it's given me a bond with the service organization. And I can tell you that in the time required in the next six to 12 months, we will retain our leadership in the J.D. Power's assessment of top customer service and customer experience because it's extremely important to us.

Couple of statistics there, calls per customer to care, which is very important, are down 13%, dropped calls down 10%, handset exchanges down. And we'll continue to work these issues as well, resulting all of these things in this ongoing churn improvement.

So, the full range of onboarding, recontracting, smart rate plan migration, et cetera, has caused a year-over-year improvement – and Q3 churn was down 30 basis points. What you can expect here from us is continued churn improvement. Now Q4 of 2011, churn was about 3%. That was the height of our competitive period. We are facing the iPhone in Q4, but we will significantly outperform last year's churn and continue a trend of being on this front. And if you look ahead, the plan is to finish 2013 under 2%, call it, 1.98%, and then in successive years, go down below 1.9%, below 1.8%, and by 2016, get down to 1.7%. And that's one of the biggest variables in our success in the contract side.

Now, aggressively reestablishing a brand. If you've been in the U.S., you may have noticed a significant surge in our brand advertising. And in Phase 1, we focused very heavily on network coverage, network quality and, of course, the 4G, monthly 4G and unlimited 4G services. This has been on purpose. It's a fascinating change. So, we're improving the network, but we're spending tremendous amounts of money telling people we've improved the network.

And what's fascinating is for T-Mobile, the perception of the network was less than the network quality, which was lower than the acceptable level. Already, what we've seen is customer satisfaction on coverage up 10%, customer perception of network dependability up 12% and consideration is up 10%. Now that was Phase 1.

Phase 2, you've seen a little of, and that's the shift away from the nice girl advertising and the kind of nice guy to more edgy, more of a cool un-carrier – and we're going to play with that aggressively, especially as we announce very innovative changes. So, it's a little bit more memorable and cool.

Phase 3, which will be compelling offense and reasons to buy. And we've done trials with this. On the couple of days, the week before Thanksgiving, we put out an aggressive campaign and store traffic was through the roof. We actually had almost a 70% year-over-year traffic increase on the Friday that we launched this. And so, we can move the needle. We've got some things to do.

Here's a couple of numbers I want you to know though. We track AT&T switchers. These are customers of AT&Ts that are likely to switch. And we've had a perception of coverage up 15%, tech leadership up 20%, and affordability up 22%. So, if you're an AT&T switcher right now, your perception of us on affordability is 56 versus 40 for AT&T. And on coverage, we believe the perception is 48 versus AT&T's 40.

So, as I said, when we get this network capability, especially in the key cities, the 2x20, AT&T is very vulnerable to this coverage and quality. And the core of what we're going to play with here is you love your iPhone, you hate AT&T. And we've got an intersection for you. And I want you to get used to that tone because that is the way we're going to play. And I just put this next chart because – and I'm not trying to be cute with you. This isn't a teasing.

But as we get into the early spring, call it March, April, especially as we announced our deal closure with MetroPCS, we get ourselves positioned with various other variables and some of these other plans that go along with and possibly after the 100% Value Plans, will be a launch of a very visible, significant, in-your-face campaign that attacks right into this space. So, it's going to be a very, very fun period for us. And you can fill in the blanks. I would fill them in for you, but big campaign, new campaign. And if you think about 100% value, multiply times three, four or five other things that I hope get customers to say, I can't believe they did that. And that's going to be how we play this game.

I'm going to rush up here. Multi-segment player, couple of things that are very important here. One, no contract, just talking mostly about our business here before the unbelievable opportunity we have. By the way, we are the number one player in the no-contract space. T-Mobile had 13.5% share of gross adds and put us in the number one leadership position. We actually had 365,000 positive net adds in Q3, which, as you saw, was a big percentage of what the industry was. And for the year, we have 23% increase in subscribers, 38% and we're targeting 25% growth in 2013. The ARPU for us is about $27 and going to about $30.

So, this is a good business. We'll talk about Metro in a second because the big deal for us is Metro is a highly successful player in this space with a $40 average revenue per user and a unique go-to-market approach, a very successful company, with only 105 million POPs covered. We now – you saw the network capability that we have. And on day one, MetroPCS customers are going to go onto that network. So, their coverage expands, their customers can have international roaming, a much broader network and a wider range of handset choices. And we have shown in our deal that we believe we can grow at that industry growth rate. And we've only shown, in 2017, $300 million worth of incremental revenue from taking PCS to select additional markets; Seattle, Minneapolis, New Orleans.

That, I believe, is a significant understatement of where we're going and the size of the potential opportunity. So, there's a big possible upside as it relates to that piece of the business. MVNO, another piece of the business growing very well. It's growing about 10% compound annual. We got about 11% in subscribers, 15% in revenues. ARPUs here are $11 to $12. You have to be very careful with your cost and where you deploy these, and we're targeting 20% to 25% subscriber growth in 2013.

Business side, very aggressive. 1,000 incremental sales people that we're well underway at adding, B2B presence in the retail. These are some of the customers. We grew 5% last year. We're going to grow about 8% to 10%. We have 5% share of a $65 billion market, 1% to 2% share growth is about $1.2 billion. We're looking to go to 7.5% share over the planning period. Noting some of the offers there, but I won't take you through, but this is a great opportunity for us.

We get the question all the time, do you really think you can compete with AT&T and Verizon on this? The answer is no, no desire to, small and medium, mid-sized customers that feel abandoned in very select areas with international requirements and only looking to go to, call it, 6% to 7% to 8% market share and do it in a way that they'll have a very difficult time responding.

Challenger business model, we're very good managers of the profitability of the business. The Reinvent program at T-Mobile has delivered $900 million incremental in 2012. We will continue to reinvent. It looks like we pushed $300 million of that back into the business last year. Incremental reinvent for next year, $500 million, then $350 million, then $100 million.

I think one of the things Braxton and I agree on, there's a lot more to do here. In addition to the economies from the synergies of bringing the companies together and the network synergies which we're on top here, one of the things we're going to do as soon as we're able to is really look hard at this bottom box because T-Mobile woke up a big company. And there are going to be a lot of better ways, I think, and one of the things I've got a lot of experience in is finding costs. So, stay tuned in that box. But there's an awful lot of business model enhancement that we can make.

With that, I'll turn it over and – you'll get to ignore that one minute, we get a few extra ones. Braxton?

J. Braxton Carter

Co-Vice Chairman & Chief Financial Officer, MetroPCS Wireless, Inc.

Thank you, John, I really appreciate it. It's a pleasure to be here. I'd first like to start by saying that we're very excited about the combination of T-Mobile U.S. and MetroPCS. It is undoubtedly going to create the preeminent multi-segment value leader in the U.S. wireless market. We're very excited about that. $6 billion to $7 billion worth of synergies, we think there is upside to that. And on the techie side, Neville was talking about the 20x20 LTE path. That's going to be absolutely critical in the future to maintaining our cost leadership. There's significant advantages of that configuration and we're very excited about what that's going to do for the combined company.

Now onto the 2013 guidance, I want to reiterate that this includes all of the initiatives that John and Neville have talked about in this presentation and most significantly includes the full impact of the Apple products that will be in the lineup during 2013. I also wanted to reiterate that 2014 on, the full impact of Apple will be accretive to EBITDA and to free cash flow. These are U.S. GAAP numbers on a pro forma basis for the combination of T-Mobile U.S. and MetroPCS. It includes all synergies, and importantly in 2013, it includes the costs to achieve those synergies.

Service revenues, $20.8 billion to $21 billion; EBITDA, $5.8 billion to $6 billion; EBITDA margin as a percent of service revenue will be 27% to 29%; cash CapEx will be $4.7 billion to $4.8 billion. And remember, this is a year of investment. There are significant costs to achieve embedded in this 2013 CapEx guidance. Neville talked about upgrading the DAS systems to support expanded LTE and HSPA+. That is a significant onetime investment that's included in 2013.

So 2013 being a year of investment, we are also investing in working capital. The impact will be an additional $300 million to $600 million. This is a net number. We're looking for multiple opportunities to increase our cash flows and reduce working capital needs. One very important initiative that T-Mobile USA has instituted is a program to change from billing in arrears to billing during the month the service is provided. We're very excited about that opportunity.

Ambition. These are the ambition numbers that we laid out when we announced the transaction in October. They're five-year CAGRs. Revenue, 3% to 5%; we're highly confident that we can achieve this. And let's go through some of the aspects of that. First of all, contract. As John talked about, 2013 will be a year of stabilization, given the significant investment in network modernization, given the introduction of Apple products, we are highly confident that we can achieve this objective over the five-year period.

EBITDA, 7% to 10%, increased scale, the Challenger strategy, driving cost out of the business and really running this business to create EBITDA and EBITDA margins and create shareholder value is what this is all about. Free cash flow will increase 15% to 20%, and we're looking at a targeted profitability level at the end of the five-year period between 34% to 36%.

Going back to the growth story, we talked about the contract part of the business stabilizing in 2013. There's very, very modest growth projected for the remaining period. There is some growth, but given the saturation in the market and given what John talked about, the growth opportunity really is in the no-contract space. The CAGRs that that's projected to grow far outstrip what's happening in the contract area. And we believe really being the value leader that we can take increased share from the other players in the market's contract offerings. The non-contract offers will be 80% to 90% of the growth.

We will also have focused expansion of the MetroPCS brand. And this is where we've been very conservative. What's embedded in these numbers are expansion only to 6 million to 7 million additional POPs. There's three markets in the U.S., major markets, that don't have a MetroPCS-type model deployed in them: Seattle, Minneapolis and New Orleans. We have included that, but we think the opportunity is much more significant.

We think there's an opportunity to expand up to 100 million additional POPs. And what's exciting about this expansion is, we're leveraging the T-Mobile assets that are already in place. So, there's going to be a much different return profile, a very rapid path to EBITDA breakeven, and what we're looking at in a very short time period, two to three years, is EBITDA margins approaching 50%.

Want to spend a few minutes talking about where we stand on closure of the deal. We continue to expect closing in the first half of 2013. The regulatory process is going very well. The FCC, we are on track. We expect approval by the expiration of the FCC's self-imposed 180-day clock, which is April 24, 2013.

The DOJ, we did get a second request that was fully expected. This combination is highly pro-competitive. We don't expect any significant issues with the DOJ. CFIUS, the wonderful thing about our transaction is DT has already been fully through the process with their 100% ownership in T-Mobile U.S. This transaction actually decreases that ownership. We expect no issues there.

SEC, we filed the proxy on November 16. The SEC is in the process of reviewing that. What's unknown at this point is how long that review process is going to take. Once the proxy goes effective, which includes fully S-X compliant financials for MetroPCS, for T-Mobile USA and more importantly the pro forma financials of the combined company with the purchase price adjustments. When that goes effective, there is a 20-day requirement in the State of Delaware where MetroPCS is incorporated and that's 20 business days to give notification to the shareholders to hold the shareholder vote. So practically speaking, you're going to be about 30 days after that proxy goes effective.

At this point, we anticipate best case being able to mail the proxy to the shareholders on the February timeframe, it could go past March 1, it's just really an unknown at this point.

One of the things that I've been really impressed with is the compatibility of the cultures between T-Mobile USA and MetroPCS. And where this is highly evident is what's happening in the integration planning process which is going on: the teams are fully formed, they're very enthusiastic, by the middle of December, we're going to have high level plans completed and we're well on the path of executing to the critical items that have been identified for day one of close.

So in summary, again, it's a pleasure to be here. I'd now like to turn it back over to John.

John J. Legere

President & Chief Executive Officer, T-Mobile USA, Inc.

And we're well over time. I'm not sure I like this process where you can't ask questions until tomorrow, but it was fun this one time, I have to admit. If we could select who could ask questions and who couldn't, it'd have even be more fun.

Summary, now, I won't read the points here, but there's some things that I just want you to take away. We are closing this deal, and we are way down the path. So in spite of what you read every day, this deal is closing and we are way down the path on integrating these companies and understanding how to do it. So we're waiting for no one and that's very exciting.

We are going to launch Apple products, and we're going to do it in a very innovative way and very exciting, and trust me, when we do announce what we're going to deploy, it will clearly be better and more effective than any of the geniuses that have been writing in the last few days. It just makes it that much more fun when people speculate so wrong, because it is going to be one of those retractions.

The network deployment is happening, we are testing products on this new network and it's smoking fast. I mean, when you start to see 45-megabit downloads and 25 uploads and you see some of these capabilities and you know you're going to have them in an unchoked manner, it's very exciting. So that's got to happen.

This deployment of innovative services, is all value and then, trust me, we've got three or four more that are coming and then a customer service experience that matches it, the churn issues to network gone, but then a brand and an employee base that is the uncarrier with attitude and a fighting mechanism both in how we brand and how we sell and how we present ourselves will be a little bit like a David and Goliath and it's going to be really, really fun because remember for us to be highly successful, we need to integrate this company and we need to gain a certain amount of share and it will be really fun to see how they're going to respond when everything we're doing is going to be to cure big pain points that customers can't stand and finally we've got a full bag of weapons, no distractions, no missing devices, no inferior network, good leadership team. I think it's going to be a lot of fun.

So, I really appreciate your time today.

Corrected Transcript

07-Dec-2012

Deutsche Telekom AG *(DTE.DE)*

Capital Markets Day - Day 2

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MANAGEMENT DISCUSSION SECTION

Claudia Nemat

Member-Management Board, Deutsche Telekom AG

Good morning, ladies and gentlemen. Europe and technology as the wake-up session. Like René and John, let me start with the summary of the key messages. First, this year in 2012, we have performed against the historic track record of DT's business segment Europe. We have reduced the historic revenue decline organically; we improved our competitor's position in the majority of our markets and we have also improved the operative ROCE of the segment despite a well known tough environment.

Our focus is to ensure sustainable cash. Our aspiration is, to return to underlying revenue growth by 2014 and the main growth areas are B2B, ICT and mobile data. Our aspiration is also to reduce indirect cost by a transformation of our business model and this is in particular about All-IP transformation, eCompany, further automation of processes and technical services transformation.

Our new leadership paradigm is to do meaningful things together but only those, and to apply a differentiated steering logic according to the market position of the countries.

Coming to the revenue 2010 to 2012. In 2010, targets were set for SEE and the T-Mobile countries. Europe as a segment didn't exist back then. We achieved most of them. In SEE, we have kept the market share stable as well as the EBITDA market share and we overachieved on OpEx reduction.

We did not yet achieve the market leadership position in Poland and service revenue market share increase in Austria.

But, today, I do not want to do a country-by-country, 13-country review. I want to take the chance to explain to you how we improve, how we have improved already, are improving and will improve the performance of the segment more holistically and more fundamentally. I joined the Executive Board of Deutsche Telekom in October 2011 last year. After arriving, we did the business review. The result was that we need to enforce our commercial drive and to apply a smarter steering logic.

In the past, we had a strong focus on quarterly or even monthly EBITDA only. I put more emphasis on cash, on absolute revenues and cost and with regard to the letter on indirect cost. We strengthened the commercial functions. Practically speaking, as a most obvious measure, we implemented customer segment organization across all NatCos and in my leadership team. Until end of this year, we have B2B accountable for business customers and consumer accountables in all NatCos and in my leadership team.

Coming to the second part, we have reshaped Europe as a business segment. I should say we created it and the main thing was to introduce a more holistic steering of the countries and stop functional micromanagement and more holistically steering it via regular business-driven performance reviews with the countries.

Also, we realized that we need to capture more synergies across the NatCos because somehow the parental advantage seems unclear.

And finally as I mentioned before and as I will explain, we started to apply a differentiated steering logic according to position of the NatCos. To show you show some results around the commercial drive, this shows the year-over-year comparison without foreign exchange rates for the first three quarters and as you can see, the revenue decline was reduced actually from 6.2% to 3.3% in spite of a macroeconomic environment which is tough.

Second part around the competitive drive, but here it shows – the chart shows our performance against competitors in the most relevant 11 markets. Left column is the year-over-year comparison for the third quarter of last year. Then we had outperformed our competitors in four markets and underperformed in seven. A year later, 2012 Q3, year-over-year outperformed in eight markets and underperformed in three and as you have the material, you can see the details country by country against competition on the right hand side.

We did not enforce commercial drive at the expense of profitability. We managed to improve the operative ROCE of the segment from 10.8% back in 2010 for the full year to estimated 13% to 14% for this year. If you assume a WACC of 10% due to the higher risk profile, the message is we earn our capital cost. I have a second message which is that it's the highest operative ROCE we have across DTE.

Also a segment, I want to mention that we keep capital productivity. We have kept capital productivity on a benchmarking level, capital productivity measured in terms of CapEx to revenue and the EBITDA margin stable at slightly above 34%.

Coming to the differentiated steering logic, I promise this is the busiest chart in my presentation, but very important, and many of you have asked actually about this. We put the countries into four clusters according to the position they have in the market in order to apply a different strategic and financial steering logic for that, plus the number one are the senior leaders, countries where we have the number one position, both in the fixed line and in the mobile business. The countries are Greece, Croatia, Hungary and Macedonia. Those countries have historically the highest profitability.

The purpose of that countries – of those countries is to be the undisputed most admired industry leader. The source of competitive advantage like in Germany is technology leadership. This is why in those countries with Hungary and Croatia, we have rolled out LTE prior to competition and this is why we are pushing all IP in Croatia and Macedonia.

The strategic target is to conduct a business model transformation which is increase the share of the growth topics, I will come to that, and really do the change of the delivery model, in particular the IP transformation. The main financial performance indicators are: continue gross OpEx reduction, stabilize the top line and increase qualitative Blue Ocean, the growth topics in the revenue share.

I'm coming to the second group, we call them junior leaders with a challenge in mobile: Romania, Slovakia and Montenegro. In these countries, we have the number one position in fixed but number two position in mobile was larger gap to competition. The strategic direction here is to leverage the leadership position in fixed, to improve the position in mobile and for the fixed business can have the similar business model transformation as the leaders. The financial indicators are, of course, increasing the mobile share, increasing the FMC customer base and also radical gross OpEx reduction.

We have third category, I'm now coming to the mobile-only countries which we call the mobile runner-ups. The mobile runner-ups are those countries where we have a co-leadership or close to leadership position in the respective market, Poland and Czech Republic. The strategic direction is to go for leadership and Poland overall leadership and Czech Republic mobile beta leadership. Also here we consider great network as a source of competitive advantage. This is why we are proud to have the fastest network for example in Czech Republic. This is a lot around mobile data micro execution. I don't have to tell you micro execution is a combination of smartphone portfolio, pricing and sales channels and innovation and this is why we have in Poland, as you know, introduced the mWALLET as the first commercial launch. The main KPI is revenue increase, mobile revenue market share overall and mobile data revenue market share.

And finally, we have the so called smart attackers. Those are the countries, mobile-only countries, where we have a position number two or three with a bigger gap to competition and here, the strategy is to really become attacker and by the way that starts by getting an attacker mindset instead of an incumbent mindset and by applying unconventional CapEx-like moves. This might include very far outsourcing, [out of house] managing services and that can also include unconventional marketing measures. The purpose for those countries is to increase their enterprise value and in particular, I'm looking at the overall top line and at the cash to reduce CapEx.

So those are the four clusters and as you see, they have different strategic priorities.

Now, coming to the market, I will run quickly through that sector as I assume most of the facts are well known. It is clear that we are operating in Eastern Europe in a challenging macroeconomic environment. The chart on the left hand side shows the GDP development in 2012. The outlook is more positive but still probably challenging for a while. The right-hand side shows the development of the interconnection fees, and the important message here is that in our footprint in the European markets, with South Germany, the peak, the peak of the MTR cuts is next year, yeah, so around about, as you can see, €1.3 billion market revenue, we'll we taking out of the market.

The next slide, you could get say describes a little bit government behavior in a challenging environment. On the left hand side, you can see that newcomers are increasingly hit. So the number of MVNOs is increasing. On the right hand side, you do see that some governments put additional taxes on the players. And what you also can see at the far right end is that the whole industry has accumulation of spectrum's auditions between 2012 and 2014.

By the way, this is not meant to scare anyone. Facing reality is a good basis for any great strategy and execution. And as a matter of fact, what we are convinced of and what we see when we look at the performance in this year because this year has the most severe crisis that we will emerge stronger from the crisis. As a matter fact, and this is what we see, it seems to be better to be a leader in a challenged market, then a number three in a seemingly more attractive market. And also I must say, we think we have proven that we can do and actually continue to achieve the performance S-curve.

Coming back to the market, even in that market, like René pointed out in his presentation, we have areas that grow. And those are particular the B2B/ICT, IP services, commercial, home and mobile Internet, and we have areas in B2B/ICT, I call then the Blue Ocean, the growth topics, and we have areas that do shrink, that's the telco core business, about mobile, voice and data, roaming, interconnection and messaging.

Yes, we had historically the bulk of revenues in the Red Ocean topics, the revenue transformation is core to what we have done this year, and what we will continue to do in the next years. And that leads over to the next chapter.

This chart summarizes our aspiration for the years 2013 to 2015. Our aspiration, as René pointed out, is to reduce the historic revenue decline in this year, stop it after deduction of certain one-off effects in the next year, and then return to moderate growth in 2014. In order to get there, we need to grow in our growth topics. I'll repeat them again for us here: B2B/ICT, mobile data, TV broadband and then we also have something around adjacent industries like energy. We need to grow in this growth topics by 12.8%, which is significantly above market to achieve a share of revenues of this growth topics of 28% by 2015. That's the revenue side.

Coming to the cost side. Our aspiration is to reduce the indirect cost by 6% to overcompensate potential direct cost increases associated with the revenue transformation. The latter will not be visibly until after 2014 because as the interconnection fees get lower, we have overall net direct cost decrease of 2%. So you see our aspiration has a revenue transformation target and a business model transformation target to address primarily the indirect cost while overall the target is to ensure a sustainable cash, to ensure a sustainable cash. That's the aspiration.

How do we want to achieve this? Yesterday, René said we want to compete with blood. I would add transform with prudence and innovate with focus and execution, to the core of our transformation, which in Europe we call ONE DT Europe is a new collaboration model, a new collaboration model and I need to describe it.

The idea is that going forward we do meaningful things together. Meaningful things together across all 13 NatCos, but only those, only meaningful things to leverage economies of scale, but – and here's the new part of the model – this is not working by head office or bond, creating a product, a platform or a big project and then implementing in Eastern Europe. It's not the idea. What we do since January is we bring the accountability for a topic to the place, to the country with the best infrastructure, the best competences and I should add the highest passion of the management team because that's the guarantee for execution.

We bring it to that country and to make this practical. This is why we did the commercial launch of the mWALLET in Poland. This is why we do the radical All-IP transformation first for Asia and Macedonia and this is why we have piloted the vectoring technology and again we will talk about this later in Germany and in Greece. This new collaboration model could also mean that we choose a place where we consolidate services for the group, shared service center, for example, and practical example which we are currently executing is transfer of IT systems from a country to COSMOTE in Greece, which we are currently doing with the billing system for the Dutch market. This collaboration model can also mean that if we don't have too much time to wait, we request, I request all countries to do the same meaningful thing at the same time and this is what happens with B2B. Yeah? So B2B was about B2B push everywhere and that's the idea of the new collaboration model.

As you can see, this is a huge cultural transformation and I'm utmost convinced that the only way to do it is enforce rotation. International rotation between the headquarter and the NatCos and between the NatCos and also practically speaking, this is what happened. For example, in my management team, Elias Drakopoulos, a Greek person, is now leading the B2B segment and Branka Skaramuča, HR from Croatia is leading HR. We put the B2B head from Slovakia to Poland and people from my team in CXO positions in the countries, yeah? We need to enforce trust and collaboration and I need more international leaders.

That new collaboration model is the basis for getting these things done and by the way it was also the basis for achieving what I showed. Now I'm coming to the content topic.

These four topics which you do see here are the main strategic topics we have chosen for Europe. First, the All-IP transformation which is relevant for all the countries that have fixed line business; second, the B2B Big Bang, as I said, relevant for everyone, obligation to open; third, mobile Internet push and innovation excellence also to be executed in all countries and cost revolution and operational excellence also relevant for everyone but with the biggest potential in the leadership category.

I will start with the All-IP transformation. When we talk about broadband and speeds, we always talk about LTE, fiber, vectoring, hybrid, right? So we're basically talking about the access. We are not talking that often about the non-access part of that. But that's important because if the traffic goes up by more than five times in the next years, by the way which is more than likely, because experts estimate it will go up by more than 15% in the next years. The non-access networks of all operators will be challenged. Challenged, meaning only be able to cope with it at the expense of very high production cost because of the legacy systems. The reason is that in the world's fixed line world we're living in here, you could compare it to a railway system on which you operate steam engines and electrical engines, old and new technology. The All-IP transformation is about getting rid of that.

This chart shows one of the very important elements which we are now doing in Croatia and Macedonia. It is the PSTN migration. In the old world, what you see on the left-hand side, we have different logical networks for voice based on the digital telephone exchanges and for data, the IP network with many obligation switches often from different generations of technology. In the new world, after PSTN migration, we have only one logical network for voice and data. And in the data network, a massive consolidation of these aggregation pieces in a IP router technology. So this is the PSTN migration.

But the All IP transformation does another thing. You can again see the transition from the old to the new world. One thing, as I said, we have different platforms for the different services classes: fixed voice, data, TV, mobile. But also in the old world, you see there is no clear separation between those called OSS systems, which take care of the management of the network and the so-called BSS systems, which take care for managing the customer-related services. As the result of that, most operators have very long innovation cycles for products. In the new world, we have retired these platforms and we have a clear separation between BSS and OSS. Now you might say what is Claudia Nemat trying to tell us, we know this, this is all IP migration, so what is new? Et voilà. We decided to do a radical and fast PSTN migration in two countries, Croatia and Macedonia. I mean, talked about IP transformation for a long time, but this is about execution. In Croatia, by the end of this year, 27% of all customers will be all IP and by end of 2014 beginning of 2015 100% All-IP.

Macedonia, okay, a small country but nevertheless Macedonia, until end of this year, 50% of all customers All-IP and by end of 2013, beginning of 2014, 100%. Just to give you a little bit of a practical flavor what it means in a country like Croatia with 4 million inhabitants, 1.3 million lines, what it means to get rid of steam engines and turn to electrical engines.

First, for Croatia only, the weight of the dismantled old equipment, to make it visible equals the weight of 325 male elephants. The reduced energy consumption per year equals a 1-kilometer long train with 69 vessels of fuel oil. That is the energy we are saving in the electrical engine age. The number you might be most interested in is the PSTN production cost reduction, which is 30% now. So this is what we are doing in this country. By the way the objective is one, to get blueprint and in the next quarter, the next year, we will discuss with the other countries how to roll out the blueprint. But first, we wanted to have a radical blueprint for doing this.

And now I'm coming to a true technology revolution and I must confess being a techie in my heart, I now have a problem to explain a super, super thing to you in two minutes. This is about TeraStream. TeraStream was something for which white papers did exist and the assumption of the experts in the industry was that we can implement it maybe in 2020. And I'm really proud of – we are really proud of and Bruno, where is Bruno here, Bruno, our CTO here. We are really proud of being the first company in the world. The first company in the world that was our Croatian daughter has successfully piloted TeraStream. We will show that to the world to the press next Monday in Zagreb. So who's interested, please watch that, but let me explain what this is and why it is so revolutionary.

As part of the IP transformation, we consolidate IT to provision services to the customers in fewer knots in the networks and that makes it more efficient. The revolution about TeraStream is that, this in a very simplified version gets moved into a cloud in a data center. This is about applying enterprise cloud mechanisms to the NT world. It moves into a cloud and a data center.

Needless to say that you need redundancy and needless to say that you need market competencies about security and enterprise cloud and this is why we believe that on this front, we are in the forefront. But not only in terms of thinking but also in terms of execution because this is what counts. And let me highlight what the benefit of this is once you get it.

The benefit of TeraStream is instant provisioning of new services and change of features, instant change of access features. The reduction of innovation cycle from two to four years to only a few months or shorter, big advantage is complete elimination of latencies because we create a real time operating system, and for what is that important, when we really want to go in health applications, et cetera, in some of the more critical applications. And finally, I can tell you I'm not going to talk about any specific number today, but what I can tell you it is a radical cost advantage if you would do it at scale.

Now we are at a stage that we have piloted it. It works. And that was to be shown. I really believe it's a fundamental technology revolution, interesting. For companies like ours, it's important that we can show we can do.

So, so much about TeraStream with the pilot in Zagreb. You will see it on Monday next topic. I am coming to the next topic.

B2B Big Bang. Here, the story is more basic. Focus, focus, focus and execution. When I started last year, we realized that the NatCos had planned to reduce that business. So first message was, that is not the aspiration, we are going to grow the business this year by 8%; it's planned to be grown by 18%. So first thing, focus on targets.

Second thing, somewhat no-brainer but clear established accountability. Make sure that we have in every NatCos, as I said before, commercially that we know how to do the business.

And third thing, we selected a few must wins in the MNC area and applied a more consistent pricing approach across NatCos. And companies that saw these advantages were, for example, Henkel, Erste Bank and Generali.

Also, referring to what René Obermann said yesterday, we started business development on machine-to-machine and on cloud. And on cloud, we're very happy to have a business marketplace. In this case, it started also in Croatia, which is actually integrated, not over the top; integrated in the system because this is required to really monetize around cross-selling these things.

And in machine-to-machine, Thomas Kiessling mentioned that the evening we started the launch in Austria actually with the collaboration with this watch manufacturer.

So that is the B2B Big Bang. The story here is around execution.

Next topic, Mobile Internet/Innovation Excellence. To the core of it, it's our strategy to continue LTE roll out across the NatCos. As of today, we have started LTE rollout in four NatCos: Greece, Croatia, Hungary and Austria and on average we have an LTE coverage of 30%. The target is to roll it out to almost all other countries by 2015 with an average coverage of about 60%. I should say when you remember the clustering, the investment priorities in technology also differentiate according to the clusters. Yeah, logical. Main areas, leadership NatCos, mobile runner-ups.

What are the measures? One important thing here is to continue to shift best-in-class portfolio ideas via our BUYIN joint venture with our French friends, which by the way works very well, especially around the mobile device topic.

The second topic is again outstanding micro-execution as the Polish team has recently demonstrated and this is a combination of competitive data, tariff portfolio, superior sales execution and the right smartphone combination and also it is about adding new services. I mentioned the mobile wallet in Poland.

Another topic, which we do on a partnership is the music streaming which René mentioned. We have two partners, Spotify in Germany and Deezer, for example, in Austria, which are basically the same. So that's the notion about the mobile Internet push. It has to do, as I said, with the LTE and the networks. But then it's a lot about execution in the detail.

I'm now coming to the cost topic, the objective is to decrease the indirect cost, as I mentioned before, by 6% to over compensate later increase of direct cost. With regard to the direct cost, they will also increase by 2%. The reason is, as I said, the reduction of the interconnection fees.

Talking about the indirect cost, let me explain the key elements. One thing which is not on this chart, but nevertheless I want to mention is regards to the OTE group because several of you asked me already yesterday. In Greece, in spring this year, the labor law got changed which is the prerequisite for getting more flexibility. And as a result of that, we were able to introduce a voluntary exit scheme most recently which is very well received. I'm mentioning this because the fixed band business of the OTE group is a very important contributor to reducing the overall cost base.

Now, I'm coming to the topics which are relevant for all. Topic number one is the eCompany transformation. For that topic, Hungary and again Croatia have agreed to be the forerunners. This has two components. The first component is to enforce optimization and more collaborative non-linear working modes and more practically speaking, to increase the online share in sales and service significantly by leveraging the experience from countries like the Netherlands or Germany, which are more advanced in that respect.

The second topic is the technical services transformation, the biggest contributor here is Greece and the main lever is to make sure that we put more request in the first level support instead of sending people there all the time and the second biggest lever is to make sure that when technical services people go somewhere, we can also leverage them for selling things.

We will continue to work on the G&A. My pet topic here is called "stop doing." My team knows what I'm talking about, so basically this is the stop doing piece and we are working on decreasing our IT cost and the main lever here is bringing, for example IT, I mentioned the Dutch example, to the group which is best-in-class in terms of leanness and in my group this is the COSMOTE group.

And finally, above all, the philosophy is design to cost. I'm not naïve. I'm very well aware that we are here in an industry which is still at the very beginning of applying design cost methods that are more successfully used in other industries. But I can tell you that the TeraStream design was done exactly on those lean and simple design to cost principles. And also what we are now doing with our TV platforms is based on that principle. The design to cost principle, leanness and simplicity is meant to be the overarching principle upon which we want to do the execution of the cost savings.

The last chapters just summarize what I said before. Revenue aspiration again returned to underlying revenue growth by 2014, increased the share of the growth topics to 28% by 2015. I'm not going to repeat the cost chart because which I said it, but on CapEx. The story in Europe is not about increasing CapEx. The story is not about increasing CapEx. The story in Europe is about shifting CapEx, primarily reducing CapEx in traditional areas significantly, and over proportionately increase the CapEx for the growth areas, LTE, fiber IP transformation.

Overall, this will lead to further increase of the operating ROCE until 2015 by 1.5%. Actually, the underlying operational performance is even higher, but remember what I said about the spectrum auctions.

This leads to my final chart, the ambition level for 2015. In that presentation, you do see two parts. One is about the financials for the business segment, Europe; the other one is about technology leadership. As I said, stable operating free cash flow, total revenue round about €14 billion which is return to growth, return to underlying growth. Cumulative indirect OpEx reduction, €600 million, which equals to 6%. And operative ROCE, further improving. Yeah? We want to be those who outperform on operative ROCE.

Technology leadership, 2015, All-IP migration executed in Croatia and Macedonia and in all other countries launched along that logic. TeraStream, the pilot continued. I have to say that based on the results, we need to see how to scale that up, that at this point in time I cannot say yet because it's just a pilot, but we will scale up. The other topic is BNG introduction. BNG is actually the technical term for the consolidation of the IT for provisioning customer services at certain points in the net. So this is the pre-step to TeraStream, this in Greece.

Also, we want to have introduced hybrid access in at least one country outside Germany and mWALLET, mass market product by 2015. The story around the LTE all out is to as well I just showed in the presentation.

So, let me summarize. Myself and my team, the leadership teams in the NatCos, we are very convinced that we can achieve that. And let me finish before we go into the Q&A by saying that I am convinced that Europe as a business segment is somehow undervalued. This basically it for the first part and I think I hear is now that – tok tok tomp.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

Thanks, Claudia. And we'll now start with a Q&A session. As I told you before, it is embedded in the presentation for the segments Europe and also for T-Systems and now welcome Dr. Rentschler, the CFO of the segment and Dr. Muller who's the Head of Strategy in the segment. And without any further ado, I'd just invite you to shoot away with your questions. I think we've got about 10 to 15 minutes time for it. Who wants to go first? Maybe Justin Funnell on the right hand side.

QUESTION AND ANSWER SECTION

Justin B. Funnell
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Thank you. It was quite interesting, I mean, obviously, there's quite a lot of experiments going on with the business model in Eastern Europe. If you were to apply this to Germany, how much could you improve margins in the German business applying these processes do you think?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

So I would say, Niek Jan, we leave the questions to you. On the specific technology topic, Niek Jan and Bruno will later explain the integrated network strategy in Germany in more detail. The All-IP transformation is also something of course which we do in Germany. The way we will do the consolidation of the IP for provisioning customer services will be the Broadband Network Gateway, so the BNG concept. And Niek Jan will later actually talk about this. So, the principle will be applied as well.

I think we were prudent not to pilot such a very radical approach like TeraStream in the most important market because frankly speaking, the view was that this is future, future, future, and it doesn't work. White paper is great, but it doesn't work. And, therefore, we really started to pilot this one in Croatia and we really need to learn around this.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

A

Well, let's continue. Who is going to be next? Not all at the same time, please. I'm losing [indiscernible] – Mathieu Robilliard in the middle, please.

Mathieu Robilliard
Analyst, Exane BNP Paribas SA

Q

Yes, good morning. Thank you. With regards to spectrum auctions in Europe, can you give us a sense maybe of what kind of amounts you're looking for, you're planning for? I mean, obviously, you don't want to disclose all the details, but in terms of the total package, what could we be thinking about? Thank you.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

If you allow me – as we are in the middle of two very complex auction, forgive me if I do not comment on the value of the spectrum.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

A

I think what we can give, however, is an overview...

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Yes.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG A

...what spectrum auctions will be out there in 2013 and 2014, but we won't put a price tag on it. I think you will understand, Mathieu.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG A

Yes.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG A

So, which ones are out for 2013, 2014 basically, Klaus?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG A

So actually the ones to come, so currently the most important ones are in Czech Republic and in the Netherlands. Actually, the Netherlands is, as you might know, quite a complex one. It's a combinatory clock auctions, and here, we have the timetable maybe Klaus, you can continue with the others.

Ralph Rentschler
Member-Supervisory Board, Hrvatski Telekom DD A

Yes, we have a very important auction upcoming next year in Austria which will be very important because lots of spectrum will be auctioned there. We definitely expect an auction in Slovakia. We will have an auction in Hungary. However, there is lots of uncertainty at the moment because the last auction was not successful. So, the Hungarian government is currently rethinking the way they're going to proceed. Then we will have an auction – maybe an auction in Poland, but this is not clear if this will still be in 2013 or it might move onwards to 2014. This is basically it.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG A

For 2013, yes.

Ralph Rentschler
Member-Supervisory Board, Hrvatski Telekom DD A

For 2013.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG A

Excellent. Ralph, thank you so much. Well let's continue. Well, you maybe Hugh here, Hugh McCaffrey here on the left-hand side.

Hugh I. McCaffrey
Analyst, Goldman Sachs International Ltd. Q

Thanks and I've got two questions. Are there any of the assets you see in the portfolio as noncore in Europe? And then secondly, just in the Netherlands and Austria, changing competitive dynamics in both those markets, potentially new entrants or consolidation. Is it right to think that you're going to reduce CapEx in those markets?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Excellent question. So, first of all to your first question, as I showed, we have significantly improved the operative reality. Therefore at this point in time right now, I'm not considering selling. And nevertheless, of course, we are continuously reassessing the portfolio also in terms of ROCE development. To your second question, actually the dynamic in the Dutch market will be so much driven by the outcome of the auction which is developing in a very complicated fashion, so that's actually difficult to say. What I mean by this is that, in that market, we will intensively also look for models around partnering, joint ventures, network sharings, and by this, of course, reduce this.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

A

Thanks. I'll now continue with Hannes Wittig and then move on to the left-hand side as well.

Hannes C. Wittig
Analyst, JPMorgan Securities Plc

Q

Yes, Hannes Wittig, JPMorgan. Just one question on the relative merits of having an integrated operation in the market and a non-integrated operation since you have the experience of having mobile-only operations in a number of countries. Do you think that's a sustainable proposition? What are the pros and cons of having either one approach, how would you look at those things?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Yeah, thank you. So, actually when you look at the profitability, the highest profitability as I said, in the integrated leaders. The second highest is in the mobile-only markets where we are in a leadership position, then followed by the integrated with mobile in a challenge. And so, therefore leadership is the thing which drive profitability, seems to drive our profitability most. To your question also, we are convinced that fixed-mobile integration in combination with ICT is important, in particular in the B2B segment. Whereas in the consumer segment, you can also do a mobile substitution gain.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

A

We'll continue with the left-hand side here with UBS. Thanks, Hannes.

Andy W. Parnis
Analyst, UBS Ltd. (Broker)

Q

Yes, hi, it's Andy Parnis from UBS. I've got two questions, the first one is just sort of broad question on Europe. Looking at the European footprint, could you give an indication on which specific country you think has most opportunity for either margin stabilization or margin improvement over the next couple of years sort of tying into the cost improvement?

And then secondly, on the IP migration, as you move from PSTN to IP networks, can you give an insight into what sort of cost savings you think you can get particularly on head count, I guess, from running an IP network versus a legacy PSTN network?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG
A

Starting with the first question, and Ralph, then I hand it over to you. The biggest OpEx potential is currently in the fixed line business in the OTE Group, for sure here. And overall you see, and this why we put it as the first KPI, OpEx reduction potential specifically in these integrated companies, Category 1 and Category 2 with OTE fixed leading the pack.

On the IP migration, I must say we have, for the PSTN production, this minus 13%, but the IP migration is more the enabler for doing what we call the e-company transformation which then leads to the real cost savings and then Ralph, I'll hand it over to you to add.

Ralph Rentschler
Member-Supervisory Board, Hrvatski Telekom DD
A

Of course it's clear, clearly, Fixed Net is the biggest cost item in our portfolio. And that's the reason why we can achieve most of our OpEx reduction in – increase. And as Claudia has already mentioned, due to this more flexibility in the labor law, we are happy to have this program right now in place. It's right now running a voluntary exit scheme which means people can apply for going out of the company. And so far it runs pretty well. And coming to the margin, of course the margin in Fixed Net in OTE is the lowest one. So, we are concentrating here, but this does not mean that in all the other countries, be it Hungary, be it Romania, we have all those same programs in place because it's important to get the result as to invest into the market. So, we need to transform this business model.

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG
A

Thanks a lot. Let's continue and maybe with Stefan Borscheid here on the right-hand side, please.

Stefan Borscheid
Analyst, Landesbank Baden-Württemberg (Broker)
Q

Yes, thank you. Stefan Borscheid at LBW. We heard yesterday that your ambition in Germany for 2016 in terms of LTE is to have a coverage of 85%. Could we get the similar number or any number for the Europe segment specifically for your Eastern European assets, so what's the LTE coverage here?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG
A

On average, as I said, 60% on average with huge differences according to the countries. For example, we have already today in Cosmote, a coverage of 45%, which is quite good for Greece, and in the priorities, we always want to, in the leadership countries, Category 1, we want to be strong here, and of course, also in the mobile – but overall, it's 60%.

Stefan Borscheid
Analyst, Landesbank Baden-Württemberg (Broker)
Q

This is for Eastern Europe or for Europe as all?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG
A

Average, that's the average for Europe overall.

Stefan Borscheid Q
Analyst, Landesbank Baden-Württemberg (Broker)

Thank you. Bye.

Stephan Eger A
Head-Investor Relations, Deutsche Telekom AG

Thank you, Stefan, maybe Ulrich Rathe here...

Claudia Nemat A
Member-Management Board, Deutsche Telekom AG

Without Germany, sorry without Germany. So, it's – to be precise, it was – the 13 countries which I have which are all the Eastern European countries plus the Dutch market.

Stephan Eger A
Head-Investor Relations, Deutsche Telekom AG

Ulrich?

Ulrich W. Rathe Q
Analyst, Jefferies International Ltd.

Thanks very much. Ulrich Rathe of Jefferies. So, I have three slightly disconnected questions. The first one is, you mentioned the ROCE improvement, so it's probably fair to say that the EBITDA margins have done quite well. To what extent do you think is the contribution here of DTE's units, but also the competitors hunkering down in difficult operating times and just trying to let the storm pass over their heads?

And to what extent is it really the organic development, if you will, in particular, what's your thinking here about investing counter-cyclically in some of these markets maybe to gain an advantage over a slightly more constrained operator? I suppose one has to differentiate that between the different categories of companies.

The second question is with regards, very specifically with regards to the special taxes in Hungary. Have you actually cut the CapEx budget on the special taxes? And the third one is with regards to the liquidity position in OTE and any news on the current divestment processes? Thank you.

Claudia Nemat A
Member-Management Board, Deutsche Telekom AG

I do start with OTE and then you can take the first question and you the second. Actually in the OTE group, we have made very clear that Deutsche Telekom is not acting as lender of last resort. And therefore, the management team has the key strategic task to ensure refinancing. And the key measures on that one is to ensure a sustainable operating free cash flow which the OTE group has, actually has a strong cash position as the result of that.

The second is to extend obligations we have with Greek banks, and the third, and that goes to your question, is the asset sale of Hellas Sat and Globul, all measures are very well on the track and we expect the asset sale to happen in the first quarter 2013.

Stephan Eger A
Head-Investor Relations, Deutsche Telekom AG

And Tim will have some update on the refinancing, in particular, in his section. So, stay tuned.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Taxes.

Timotheus Höttges
Chief Financial Officer, Deutsche Telekom AG

A

Taxes, yes, okay.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Yes, taxes.

Timotheus Höttges
Chief Financial Officer, Deutsche Telekom AG

A

Regarding the taxes in Hungary, the new taxes which is basically the tax on the infrastructure, they'll help us with roundabout €30 million in 2013. So, of course, we have thought about our investment in Hungary. And of course, we are more reluctant to invest into Hungary.

Nevertheless, there are some IT investments on the way, so we cannot stop this IT investment because it's core of our business transformation, but especially, the infrastructure investments we think about where we can save some money to compensate for these taxes.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

Plus to add to this, I didn't mention in this presentation, but we had thought about where to put the innovation hub for Eastern Europe. Yes, similar concept we have in Berlin and Israel and in the U.S. And we had on our list actually Budapest and Krakow. And government behavior like this made the choice for myself and my team very easy that we do the investment on the innovation center in Krakow now, not in Budapest, so that management team and the history of that company suggests a great innovative track record. And then what's the first one?

Stephan Eger
Head-Investor Relations, Deutsche Telekom AG

A

I think there was one more question out there.

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

It was the...

Ulrich W. Rathe
Analyst, Jefferies International Ltd.

Q

The question, to what extent the ROCE and the EBITDA margin is related to essentially this competitive intensity, just decline because everybody is really trying to save their dollar while the macro pressures are so high?

Claudia Nemat
Member-Management Board, Deutsche Telekom AG

A

So, I would say it's a combination of both, but these commercial measures which we took, yes, we had this program at the very beginning of the year when I came which we called Accelerate Q1. And really, this was looking for any cent in a very structured method. So, we went through all the pricing schemes, we looked at value enhancement methods. We did a big commercial drive in the Cosmote Group.

In Poland, we set up a specific program which we said regain market leadership after the rebranding. We want 200,000 additional customers in Poland and are now number one in customers compared to number three a year ago. This was based on a very dedicated commercial push program led by us here and my new head of commercial management, Mark Klein, who is not here today, but this was a very dedicated effort. And then of course it worked, but then difficult to see for me how much is the own relative strength versus what the others decided not to do here.

MANAGEMENT DISCUSSION SECTION

Niek Jan van Damme

Member-Management Board, Deutsche Telekom AG

Good morning. Also from my side and on behalf of the German team. I'm happy to be here, to tell you this story. I think the team is excited, I'm excited. And I hope you will be excited in the end of the day as well. Of course the votes are with you.

You have heard to the framework of the presentation yesterday and from Claudia. Let me start with a summary upfront. We will promise you a high-speed network quality, which is a key differentiator in the market. It really stands by away from competition. We will massively invest in LTE, in fiber and in vectoring. That's what you heard yesterday from René as well. He gave away some very interesting clues I think of this story.

I'll go in depth and tell you how we are going to use this differentiator which we have in the network, because just building the network is not enough. The network is building. It is a cost-intensive part of our business. And once the network is there, of course, the challenge is how to monetize what we had invested in the network.

The final promise that we make you is we stabilize revenue in 2014 and those are the key, four key elements of this presentation.

I think before you buy my story at the end of the day, it's always good to look back. I've learned that history is a good predictor of what happens in the past – in the future, sorry, after three years, I sometimes have to move from Germany, Deutsche into English. Some patience for that, but let me look at the history, and history, we have summarized as saying we have let a solid basis in a very competitive market. It's not an easy market. I think you're as much aware of that as I am and the team is.

On markets, a mixed picture. To be very honest, on fixed, we promised you to maintain the market share. We are still at a very strong market share, almost 45%. And please keep in mind the different format we do in mobile, we measure here customers. So, it's a customer market share of 45%. It's less than we promised you and it has very much to do with very strong value play. We have focused, not on revenue, but of the value of those customers. It has been a play of retention and not so much of a net add market share.

On mobile mix, we clearly overpromised on mobile data, more than 20% over the €1.5 billion we promised you for 2015. That's of course the future of our business, but and that has much to do with the loss of exclusivity of iPhone. We lost on our revenue. I'll go into more details later on that one.

On Entertain, we missed our target. In 2010, we told you we would end up between €2.5 million and €3 million. We will end the year by €1.9 million and we have strong Christmas sales. I'm still positive we'll get close to €2 million. Also, that is very much a value story. We set, as a clear target, to have a 30% data ARPU delta versus our Double Play product, that's not what we thought in the beginning. We thought we'd go from massive numbers in Entertain, and you said this is a very costly program, once you have customers on, it's very good. But we are very strongly focused on driving value in the segment and that I'm happy with the revenue on EBITDA, but the customer numbers are honestly somewhat under what we promised you.

If you look at the second block, customer, and it's only a small block on this chart, but it is a very important block, we over-delivered. For those of you who are not familiar with our customer loyalty index, we use TRI*M. And that's a total package of what we do in the network, what we do on product, what we do on customer service, on delivery, but also on price. And it goes in kind of a black box and it gives you a value.

We improved by five points, we went from 51 to 56. We have to believe me that at this moment, an increase of three points is a significant increase. So, we made in a significant increase. And when I tell you that also price is part of this indicator, you can imagine we scored very well on network, customer service and product. And we are always being challenged on price because price in mobile and on fixed has a premium from between 10% to 20% for Deutsche Telekom.

If I look at the financials, also, they're a mixed picture. Honestly, we didn't deliver on revenue. We missed by 2.2%. And we had, in 2010, clearly said, we're going to make it. What happened? Also there, a key driver, the very strong focus on value, much more value every time what do we deliver in the end, what cost do we take into account and not so much the absolute customer numbers we have been pushing.

Revenue is very much associated then to customer numbers. We said revenue is less, if we just show you handset revenue, it's very nice, but you know as well, handset revenue in the end of the day doesn't bring the money. Stronger price competition in mobile than we had expected in 2010, and also harsh regulation are the key elements why we couldn't deliver on revenue.

On OpEx, very strong delivery. We overachieved our target by 30%. And I can tell you it's still – it's in our blood. It's part of our DNA. We did a very cost – we're a very cost discipline-driven company, we have still a very strong Save for Service program. And behind that, we had savings of €1.9 billion over the last three years.

Very much driven by process improvements in everything we do, especially in customer service and on the fixed line part of our business. We significantly lowered complaints. We invested a lot of money in automation of services. And for example, we are now able to manage a lot of our devices on a remote basis, saving costs of our technicians having to drive to our customers. Also net of savings, €350 million on IT, we took out a lot of legacy IT systems and we did a lot on standardization of IT.

In the end, that translated into an – I can say I'm proud on that, a 4% point improvement of EBITDA margin. As said, overall, I think a solid performance with some greens, some reds and some of the yellow lights and let me go into some more details of the reasons behind this.

In broadband, by far, still the largest broadband player in Germany with a 45% market share, as said, it's the customer market share, so it's not revenue. The number two in the market, United, with only 8%. Of course those guys are growing especially over the last two years, we have seen massive growth in the cable, and they have become a really strong and challenging competitor. Nevertheless over the past three years, we have been able to win more than 1 million net adds to our broadband bases.

If you consider that gain of 1 million customers at an almost 20%, 25% price premium, you can imagine how much money that brought. I think the price premium alone over the past three years accounts for more than €1 billion which we bond out of that market. Not falling into the trap of playing the price game, reducing prices to massively get new customers that in the end of the day don't bring anything to your business.

Another factor that played into the fixed line is a strong reduction of losses in the fixed line. In the top year 2005, we lost 2.5 million fixed lines. In 2009, we ended the year with almost 2 million. We estimate 2012 to have a loss of only 1 million line losses. Last year was still 1.25 million. So you see, we're still losing, but the trend is significantly improving.

If you look at that on a European basis, I think we stand out clearly as well.

Of course, BT, behind the massive investments they could do in the fiber rollout did better than we. But if you compare to the other big players, I'm proud of what we did in the broadband market. In mobile, as said, a bit more mixed picture. We did grow our revenue since 2009, but we lost market share to competition.

Key reason for that is loss of the iPhone exclusivity at the end of 2010. And what happened then is that our competitors got into a kind of an iPhone catch-up, so they won back new customers. We introduced a new price plan to keep as many of those very valuable iPhone customers out of 2008 on our network and the price plan was very successful in the sense that it massively reduced churn, but it also cost a lot of money because of course in the end of the day, we had to reduce our tariffs.

With that value focus we had in that period and very much on value as postpaid, but value also as iPhone, we lost some focus on prepaid, and we lost in the prepaid market and we had to stop cooperation with one of our important service providers due to a governance issue. And that of course had some effect on the revenue as well. The good thing is, if you look at our Mobile business, it's not on the chart, but if you look at 2012, we are the only operator in the German market that reversed the growth trend in 2012.

Since the first quarter in which we were still minus 1.8% versus last year in that quarter, we improved the trend to minus 1% in the second quarter and minus 0.5% in the third quarter, and while all the others saw a decline in the growth trend. And for those of you who have followed the market trends, carefully got back our market leadership in Q3. Q3, traditionally, a very strong quarter for us, but I think much more important is the underlying structural development that we are back on track to regain market leadership. The program started already last year, strongly focusing on the private segment, but also on the business segment.

If you take a performance, again, also in the European perspective, from my point of view, we clearly outperformed the market. This is a three-year perspective, you'll see only France Telecom did slightly better. But if you would take it on a more short-term perspective, with the introduction of the Iliad's Free in France, the trend for France Telecom is negative, of course, at the moment.

Another thing we did over the past years is very much focused on the One Company program, René told you yesterday already, a massive operation to get almost 70,000 employees integrated with a traditional and much more legacy systems in fixed line network with a modern organization, with modern IT systems and then a different mentality of course, for mobile. I think we have done very successfully. We started of course with one brand, one sales and service organization of which you will see the benefits during the presentation several times, the organizations are now fully put together. We have already integrated a lot of processes and steering, which are very important to benefit from the integration and from cross and upselling.

Many good examples of cooperation and synergies in fixed line and mobile network rollout, just to mention, the fiber rollout which we can use for the fixed line network, but which is also a big asset to the mobile network, and finally integrated IT systems and processes, where we are on the way and who are enabler to the end of the day bring even more.

On the left side, you see what had brought in euros. I think in the end of the day, it's about what did it really bring, more than €950 million additional revenue from cross-selling, up-selling in the past few years, and for 2012 to give you an idea of where we are running, we estimate to have even more than €400 million of additional revenue behind this program.

On the right hand side, it's also a cost saving program. The cumulated OpEx reduction of about €250 million in three years. And One Company is on its way, has also led to a very strong inward focus. I have to be very honest on that one. The team has recognized in 2011, of course, all the focus on this important program. Since then, we have become much more externally focused, very strong focus on customer, on what's happening in the market. And I think the fruits of that, you'll find back in this plan and in the promise we make for the years to come.

There are more indicators of what we – of the success of what we have done in the past years. We massively invested in process improvement, in customer service improvement. You see two examples on the chart, there are many more. In the meantime, between assistance, that's when the technical guys who run out to fix something on the fixed line access, decreased from 10.2 – decreased from 6.7 years to 10.2 years.

So, now only every 10 years, we have to go and assist on the DSL line, perhaps before it was 6.7 years, an improvement of 50%, a reduction of customer complaints by almost 60%. You can imagine that is a major cost saving for us of all. I think that's what you will be interested in as financial guys and you should be interested in, we are interested in that as well. But it's also a massive driver of customer satisfaction. The less we have to assist customers, the less they have to contact us, the more customer satisfaction. We get – I told you our TRI*M value is now at 56%, a significant improvement over the last three years. If we look at the last year, we see a further improvement, three points in mobile, two points in fixed. And we see – and I think that's also important as well, we go up competition both in mobile and in fixed goes down by seven points. So we are on the right way and customer is clearly benefiting from that and we as well.

Why are we benefiting? More customer satisfaction gets reduced churn. Over three years, we've reduced our churn in mobile by 30%, and in fixed line, this is by 24%. And that improvement in churn is also very strongly driven by the One Company program, that's integrated approach you see on the right side. And then to explain what's happening there, if you look in the middle, where we see the churn of fixed-line contracts, customers that only have a fixed-line contract from us had a churn of 6.8% per year. Those who also had a mobile contract had a churn of only 4.9%.

And same logic applies to customers where we see the churn on the mobile, on the right side of the chart. So, all those quality measures, process improvement, cost reduction, customer satisfaction improvement. Bottom-line, that translates, as I've said, into a four percent point increase in EBITDA margin. I think a very solid financial performance, performance, if you compare it on the right, that's inside first with our German colleagues. You see that we do a significantly better job. And I dare to say, if you compare to Vodafone, Telefónica and E-Plus in Germany, very strong mobile – very focused on mobile with a relatively asset-light structure, of course. I think that's an excellence performance. And if you compare us to the European peers, there's still some room for improvement. Also there, please look at the trend. We go up and the orders basically go down. So, I think we are on the right way, we outperform in profitability terms and that over a period of more than three years.

Good. Now let me elaborate on some important market trends, and some of them you heard yesterday already from René. But as they are building blocks for what we're going to do, I would like to repeat that briefly. We strongly believe in mobile data growth. We think this is a tremendous opportunity for the market. We've seen enormous increase in the market, not specifically with us, in smartphones and in tablets, you see the numbers I think they're really amazing on the left side of this chart. And the good thing is that people who are buying those devices are actually going to use them.

And we see the usage going up very fast, iPhone 4S was only introduced 12, 14 months ago and from iPhone 4S to iPhone 5 shows an increase of almost 60% in data usage. We expect that by 2015, 65% of all active mobile users will be using data. And that will result in an increase of data revenues from today to 2015 by almost 50% and in the year 2015, 40% of our revenue will be in mobile data.

At the same point of time, I'd say please, as of now, let us look at the total revenue because it becomes more and more difficult for us as operators to distinguish between traditional voice, SMS business and data. So, I think the key KPI in the market should, in the end of the day, be to look at total revenue and step away a little bit from traditional business in the future, which is mobile data, of course.

In fixed line, we see three very important user cases, customer use cases that drive, from our point of view, the need for high speed and also for capacity, and we think that is very important. It was highlighted yesterday as well. We foresee a massive increase in interest for upload speed and upload capacity.

First on video, it's non-linear TV. It's IP TV and you saw some examples yesterday by Thomas Kiessling in our T-Gallery. HD is already massively driving. 3D will be the next step in TV. On cloud services, that is a big booster for upload. Of course, it's not just our files which we put in today. It's not just our photos, but it will also be many more videos, for example, it will be music. We are, maybe, not the heavy users, but if you see the youth of today, everything is in the cloud. I spoke to someone yesterday who said, yes, I lost my data. I lost my contacts because I lost my phone. That will not happen to the younger generation. They have the data in the cloud.

On browsing, also growing demand, more complex websites, e-commerce, virtual reality are some of the drivers of browsing, but also parallel usage. I mean it's very normal now that a household doesn't have one computer anymore, but with tablets, with more PCs and laptops, we really see an increase in parallel usage in households. Our modeling shows an increase of roughly 370% additional volume in the market over the coming years. And that is about the volume that's also predicted by many of the outside research agencies. In browsing, almost doubling or tripling, sorry, an increase of 180%, in cloud 280%, and in video, even more than 500% increase over that period.

If you take a bit more closer look at the German market, I've taken out three important developments in fixed and three in mobile, which I would elaborate. On cable, growing competition. Let's be honest, those guys are doing a very strong job. They gained 1.8 million new customers over the past three years. But we won 1 million new customers there as well. So, we're not doing not that bad.

This heavy price competition on the broadband product. And what we are forgetting as we're looking at the cable, I think, is that they are massively losing on TV. We lost over the past three years – or we won over the past three years 1.8 million customers on Entertain. Cable in total lost 1.5 million TV customers, and we're simply forgetting that. That's money laying there for those guys and that money is getting away from them. We see increasing TV competition. We saw also other players entering the market and you can imagine that is what we have to have an answer to.

On fixed-mobile substitution, a relatively stable development in Germany, still at low levels, not comparing to anything else that's happening in Europe. In 2012 so far, we lost 224,000 fixed lines in total in the market. It was about 100,000 in 2011 and a little bit higher, 151,000 in 2012. So, stable very stable, and I would say, relatively low level, nevertheless important. Maybe the question why it's so relatively stable in Germany? I think Germans look for certainty. They don't want to take any risk, and of course with mobile, you have more risk than with the fixed line connection, so that helps us at the moment.

What doesn't help us is that our wholesale partners are losing market share at the moment. In Q3 this year, for the first time, the unbundlers had a net development in numbers of customers, but they have been losing market share over the years of course.

We see there a strong demand for technology improvement. We see demand for new business models, and of course, some I think it's interesting when they lose market share, it's good for telecom. They are on our networks as well. They help us to benefit from the infrastructure we have built. They invest in market development as well, so it's in our interest to also keep our wholesale partners in the market.

On mobile, very strong price completion with a lot of discount brands. If you compare price levels of 2009 with April 2012 when Euro Fone came to the market, you see a decrease on the voice full flat of 67%. And can you imagine, people are still discussing that mobile telephony is expensive, especially in Brussels.

I think there's no market, as I've shown, is 67% price decrease over three years. We can say voice and SMS have really become commodity. We never wanted to believe it, but I think it's there.

Second development we see is full flat. Full flats are all over the place. The Allnet Voice has become standard, it becomes more and more difficult for us to sell price plans that don't have full flats.

One good development for us is that network quality is becoming more and more of a differentiator, and has of course everything to do with data usage. People got used to having some coverage on voice, but on data, if speed isn't there, if the capacity isn't there, if you're standing there next to your colleagues and you can't show the video you wanted to show, it's immediately visible. And especially, E-Plus and O2 are heavily suffering from this.

Other important effects in the market as well, regulation, René spoke about it yesterday as well. Mobile termination rate cut off, 80% over the past – or since 2007, accounting only in the last two years for the German market of a total of €1 billion reduction as well in interconnection cost, 21% compared to 2007, looks then very humble compared to the 80% of course. That alone cost us, Deutsche Telekom over the past two years €100 million in revenue.

Every reduction of termination rates of interconnect, we see as a negative signal. All of you know, we have to invest in that market, but I think it's important we see positive development as well. Neelie Kroes has clearly said, it's time now to change the rules of the game. We have been promised a more stable framework until 2020 with stable ULL prices, very good signals on no more [indiscernible] cost regulation for the new network infrastructure, including FTTC, for example. And I think those very important signals for us and for the industry are the bases for what we are promising you today.

As said, it's encouraging, René said yesterday as well. Now we are waiting for the legislation or regulation to be changed. I think Brussels has understood. Berlin, meanwhile, has understood we are now waiting for the

Bundesnetzagentur here and want the regulator to support us as well. And I can tell you, I hear a lot of positive signals. The industry has understood it, the politics have understood it. This is the way forward for Germany and for Europe.

Based on these trends and some developments, and this of course is not a full picture, I want to talk with you about stabilizing our revenues in 2014 and promise you further market leadership. I've put my story in the following framework, which is our Deutsche Telekom strategy. For Transform, I will talk about integrated networks, the integrated network strategy. There has been a lot of speculation about that. The key elements were discussed yesterday, but I'll give you more details.

I'd tell you how we used that to become even more leading in mobile and fixed based on those networks, but also the other elements of our marketing mix. And finally on Innovate, I will tell you what are the innovations we are looking at. Since the networks is, and then what we're doing there is on everybody's minds and it is – we did – that the basis for what we are doing in marketing as well, let me start with the integrated network strategy.

We believe, and we see that already that network quality becomes more and more crucial. Consumers notice it every day. I told you the three key use cases, we see the parallel sessions, the usage on multiple screens, you saw yesterday the TV program, which was transferred to the tablet and from tablet to the TV again. It could be on the handset as well. That parallel use, together with the used cases, will increase the demand for more speed, not only in urban areas, but also in rural areas where we are coping with fixed-mobile substitution for example. There will be an increase demand for coverage, not only on mobile, which was always the focus so far, but also on fixed, it's very high on the political agenda to also offer the coverage on fixed line solutions and on capacity of course.

I've shown you the massive explosion in data usage, some predict even more due to mobile data, but especially to mobile TV and video of course. I dare to say we are the only national player in Germany that can make really a trustful promise on bringing that quality in a network with speed, coverage and with capacity. We will build that superior network. And I tell you we're not starting from zero. All the elements for a superior network are there already.

The four building blocks. We will start with a maximum LTE rollout. That on itself, and I want to stress it as well, is already giving us a major competitive edge in mobile. So, even if we wouldn't do anything on the fixed line, you invest in LTE, it's absolute justified. It allows us to reach high peak speeds in the urban areas, in the rural areas. And we will massively increase the availability of LTE in Germany.

Second step will be the massive rollout of fiber. We promised you 65% where we will go and we'll bring fiber to the street cabinet, we called it so far, VDSL, and this is the last time today I will use that word. As of now, it's called Fiber or FTTC. And if we get the support because that will be necessary in a sense from co-funding, subsidies, we hope to be able to extend the coverage even to 80% or over 80%.

Vectoring, everybody has been waiting for vectoring, will help us to double the bandwidth up to 100 megabit in download and up to 40 megabit in upload. I will go into more depth on that. And then the fourth part of the puzzle bringing everything together is that, I would say, revolutionary combination of fixed line and mobile. We combine the capacity of fixed with the speed of mobile. That will bring better network performance. But as to other elements, I want to mention as well, which I think are important in this resolution. First, it brings a redundant net access to Internet to house. I just told you the Germans are very much no risk, they want to have a certainty. If you have a fixed line solution, if you have a mobile solution, if one of the two might not work occasionally, you always have redundant infrastructure.

Secondly, it will help us to massively improve our sales abilities. It's really a plug-and-play solution, while we still need to do some installation maybe on the fixed line. People can already go buy the product, use it at the same day via the mobile solution, and that same mobile solution will help us if there are problems on the router to install, approach the router or the equipment from the user if I had a mobile or if there's a problem on the mobile, via the fixed line solution.

So, these four building blocks I will explain in a little bit more detail and are key drivers for what will build the best network in Germany. As said, we go from currently 38% POP coverage on LTE to 65%, it will be the fastest rollout in history. And for 2013, we were basically doubling the already enormous capacity we have for 2012.

We will offer peak performance in LTE. You see here the 150-megabit on LTE 1800, that's based on a new type of handsets, the so-called Category 4 handsets with four antennas. We estimate them to be available in the market as of 2013 and they will give an even greater breakthrough in the quality of speech.

What's important as well is that with this very – with the LTE1800 on 20 Megahertz, we are able to also very efficiently roll out this network, and as the last part of this graph shows you, we will have 70% less CapEx per Megabit.

If you go to fiber, on FTTC, we currently have a footprint of around 12 million households in Germany. We will increase, first of all, the footprint in FTTC to another 12 million, which will bring coverage around 65%. With vectoring, we will increase the performance at, say, 200 megabit for the download and 40 megabit for upload. And if we find the co-funding, we will increase our coverage to even 80%.

A word too on this combination of fiber and vectoring. I think it has another attractive element. It allows us to roll out very fast. In basically three years, we will increase the coverage to 65%. Depending on how fast the rest of the money come, we will need five to six years in total as of today to run, to roll out to 80%, has to do a little bit too with the capacity available for construction. It's not unlimited, of course. And if we would build too fast, prices would go up massively.

What is good as well in this solution is that we, and I hope you'll appreciate that, can work with relatively low CapEx. CapEx for FTTC and – and for FTTC, we estimate at the moment around €250 to €350 per household. That is roughly 70% more efficient than what we are paying at the moment for FTTH, where we pay around €1,000 per household. And then please keep in mind that the €1,000 we are paying at the moment is in the most efficient areas which we picked out.

Maybe this is the right point in time also to make a remark about FTTH. Björn said we will build out up to 10% of the country by the end of 2014 with FTTH. We slow down that rollout, but we don't stop the rollout. We still find areas in Germany where we can, on a profitable basis, build out FTTH. And we will do so, first of all, because it's profitable; second, because we don't wanted to lose the experience we are collecting now in building the product and in selling the product, because that's different from what we have been doing. And in the end of the day, we think FTTH is the target solution.

We are building the combination of FTTC with vectoring as an intermediate step towards FTTH. And the good news there is, the current program is a non-regret move. We estimate that more than 50% of what we are investing in FTTC, plus vectoring, we can use later on when we go for the next step and upgrade that network to FTTH. So, it's not sale costs. But very important here as well. Can't repeat it enough, we have to get to the regulatory framework. We have to get the permission for vectoring, on which I'm optimistic that we will get it and it shouldn't take too long as René said yesterday very clearly. If we don't get the support of the regulation, it will be impossible to execute this plan.

The fourth step is the so-called hybrid solution. It will bring the best of the fixed line network and the best of the mobile network together for the customer at home with all the advantages. I mentioned here already fixed very strongly to bring the capacity. For example, if you're downloading a video you can overnight, and you don't need the peaks you can reach in speed in mobile, but if you just want to have some emails or some quick info from the Internet, the system will intelligently try to use as much of the capacity there is of a mobile at that moment of time.

Bringing those pieces together is not just using mobile and fixed, it's really adding up the speed. And that's what we had tried to explain on the right side of the graph. You that we have made a distinction between cable footprint and copper-only footprint. If we take the example, for example, in copper-only which I like, you see that an ADSL we currently offer a maximum of, let's say, 60 megabits in the top, mobile only with LTE Ethernet which offer up to 50 megabits, which is the peak performance you can get there and our solution to hybrid stands out with a speed of over 100 megabit based on 100 megabit on LTE 1800 and on the DSL 16. What you see, and I think that it's good to keep in mind that both on download, but especially on upload, we have a very strong competitive edge. As projected for 2015, I think it has the potential to help us and support us in a competitive environment even longer.

Why? Let me show you here. I think on the one hand, we deliver the best fixed network, we deliver the best mobile network. And what we're trying to show you here is how this relatively overseeable and fast investment we're doing in infrastructure will prolongate the life cycle of our copper network for another 10 years.

What we do here, we show you the number of customer use cases which we can cover with one specific technology. If you'll be with me in the year 2022 or 2023, you'll see that with ADSL, we would only be able to deliver, let's say, 10% of typical use cases, a typical use case being a family with two children who uses Internet, who uses IPTV and maybe by then, some other intelligent network solutions.

If we build, and we will build our infrastructure with FTTC, with vectoring and with hybrid, we will basically be able to cover 100% of the use cases. You see, we are optimistic. We are able with this program to bridge a very long period of 10 years. By then, the world will look different. There will be more demand for FTTH. Maybe we'll have new technologies to build that network more efficiently. And I think the solution we are bringing here answers basically all the customer demand. This is an efficient way to work towards FTTH in the end, with a very sensible step of bringing together what only Deutsche Telekom can, the best in mobile and the best in fixed.

Good. I showed you our integrated network strategy as the building block; let's now see how we exploit it because as said, investment stop when the best network is out there, we have to sell it as well and we have to monetize it.

After the superior network comes, of course, innovative products and tariffs, best-in-class sales and service and benefiting from One Company approach where we invested so much time and money into massive cross- and up-selling.

Let's look at the products. What are our key differentiators? We will end up with high-speed browsing, be it at home, be it out of the house where we offer the same speeds, be it on mobile, be it on fixed. I think that is something nobody else will be able to offer in the market.

Secondly, we continue to invest a lot of time and effort in our TV offer, TV on all screens is what we really believe in. You've seen it yesterday. We combine it with mobile solutions like a program manager which allows you to program new programs underway. We have the remote control. You saw yesterday, didn't work, but I'm sure it works today. And we'll bring you Entertain to go on all screens.

On cloud, I think we are the perfect partner for customers in Germany, not talking only private, but I'm talking SMB as well. I'm talking bigger customers for cloud solutions. First of all, there's the demand. Secondly, we, as Deutsche Telekom, are the most trusted brand with regards to data storage in the German market. Recent studies showed that 49% of the customers would trust us to put a data in the cloud. And that compares to below 30%, for example, for Amazon which, if you ask me, the first partner you would think of, of bringing your data to and even institutes like Deutsche Bank are far away from the 49% trust that we got from the customer.

So massive growing market especially for SMB, of course, for the coming years, you heard the number yesterday. And then we can only get a tiny piece of that. We are well positioned there with our products. It's absolutely something. It's a use case that will drive the usage of our networks and will increase the demand for speed.

What else do we offer? We offer the largest owned distribution network in Germany. We have over 750 owned telecom shops and more than 1,000 distribution partners. They are visited by 40 million customers a year and 80% of the German population lives within 20 minutes away from those stores. Every research time and time again, be it our own, be it independent, confirms that our shops are standard as it comes to mobile or fixed line telecommunications retail business.

Second part, and I gave you some examples already, is on customer service. We managed successfully, over the year, 180 million customer contacts. We have significantly improved. You'll think 180 million is a lot of costs, it is. We are reducing even further. We have a big program out there called K1 Customer First and that program tries or brings into perspective very much the end-to-end solutions in the processes we have, that leads to automation, that leads to better customer satisfaction. But I have to be honest as well, the 180 million contacts with over 10,000 agents is a unique sales opportunity for me as well.

And over the years, our customer service has developed into one of our most important sales channels in Germany. You can imagine, if I have a customer on the phone who only has a mobile contract, excellent opportunity to sell broadband or TV, if he or she only has fixed-line contract, I can sell mobile. So, at the end of the day, I wouldn't want to lose that. But as John said yesterday, we are bringing much more, like in the U.S., responsibility to the agents to bring solution for customers faster with less trouble for them, in the end, to drive customer satisfaction.

Another important customer contact is also the technical service we have. We have more than 10,000 experts out there. It's the biggest field sales force in Europe, have 10,000 who are doing the central work and to make sure that people get their fixed line connection. Those people are out there, but they are not only a cost factor anymore. We have developed over the years more and more services like IT support. If you have a problem, someone calls you and via the fixed line can solve the problems you have on your computer, but also IT [indiscernible] , that's the guy who comes in your home and does the installment of your computer or your TV solutions. And that is meanwhile a business of more than €200 million with aggressive planning to reach €500 million in the next three years.

We are turning that organization not only into a traditional service organization, but also into one of our bigger sales channels. And if you take this, I think it has much to do with the customer contact point. It's one of the big assets we have, we have invested in – both in distribution, but in customer service and in technical service over the years, not only by better process, but also much more customer focus. And that customer centricity really has become, to say, has become the DNA of Deutsche Telekom. It sounds very easy, it sounds a little bit, what is it worth? I think if you really want to take such a massive organization and turn it from a very technical-oriented organization to a customer-focused organization, you'll need years. We have been investing for years, and we have a massive advantage now over our competition.

So strong, so strongly that even a lot of our competitors are talking to us or have already the first contracts for us to give service to their customers. And I'm talking competitors who take part of our service portfolio.

Talking about portfolio, our mobile portfolio. A shift to product, the telecom brand is typically our premium product, as you will imagine and as you will expect from us as well. It has unmatchable LTE performance. It's the only brand on which we offered the 100 megabit speed at the moment. We can do that based on the excellent spectrum, the 1800 spectrum which we acquired two years ago. We're doing it typically with world-class devices. They come with really extras like Spotify, but also not to underestimate our hotspot network. We offer more than 11,000 hotspots in Germany and are on the way to increase that number to over 18,000 in three years. We have a strong partnership with Deutsche Bank, with Lufthansa, with McDonald's, and we see an increasing interest in Wi-Fi over the past year, basically a doubling of the number of users and a doubling of the data usage there as well.

We think it will massively help us to really, at those points, where it could be congesting the network, to secure that customers have access to the network and customers will use it for the high number of downloads they will have, like video. I think if you take your own usage of hotspot, you have to get used to it, but once you know it, you can't do without it anymore.

If we look at the grey parts, those are the fast followers. That is the product we offer to our service provider through discount brands in the German market. And specifically, the ETNO where we had more or less tapped out or didn't have too much interest, strong growth position for smart shoppers and for discount with a good quality at a reasonable price.

Of course we don't hold the customer relationship there. Where we do hold is with Congstar, Congstar for the smart followers, typically online business for the younger customers with a very good offer both on flat fees, but also meanwhile on data. And we see a strong double-digit growth over the years and predict that for the coming years as well.

On mobile, our key focus will also be for the future to look at value. We will not go for maximum revenue without any profit in the end of the day. We will not go for massive customer numbers. Why? Because we see that the approach we have taken for value has helped us in the past. If we look at our acquisition, the new customers we acquire, of course at the moment, a very strong focus again on iPhone 5. We are the only ones who can bring that product really with LTE. We focus on the higher end tariff plans as well. You can see that in one year time, we were able to massively increase the percentage of Double Play customers with the new customers, and it has led to a €4 increase in ARPU in the base retention, partly up-selling, but also defending against the very aggressive offers in the market. It's a different game, of course.

There we're also successful in selling Double Play. You've seen we've gone from 41% to 55% in the base. Only, I would say, stabilizing the ARPU, minus €0.60 ARPU decrease, strongly driven, of course, also by 24 months contract, this whole value picture. But, if you see what's happening in the market, I'm proud that we have followed this value approach and that we will follow this value approach also for the future.

On LTE, we think LTE is really becoming a differentiator in the market, more than 10% of the data volume is already on the LTE network. We expect 7 million customers with an LTE-enabled device in 2015 in our portfolio, on our smartphone portfolio, I should be careful. Otherwise your numbers won't match. And at the same time, with the increase in Double Play, I've just shown you over the past two years in which we expect to even catapult into 2015 to almost 50% increase in Double Play customers. We predict and we calculate a service revenue increase of between 2% and 3%, reaching €7 billion in 2015. 2% to 3% is in some research on the high end, our own research comes to 3% and it's also the Mason research, for example, that predict this – predicts basically – the Mason research predicts basically stable market with our 2% to 3% growth in the market, it would mean that we may outperform the market, that's what you see in this picture.

On fixed and then, there's always a lot of focus traditionally in these discussions on mobile. I think because our competitors are mostly mobile players, but fixed is still two-third of the business. And therefore we're happy that we can, as we discussed a lot about the integrated network strategy as well for the coming years. Fixed, two-thirds of the business, this chart shows you the key elements to compete especially about – against cable.

First look, I want to repeat, it's being absolutely sure that we have the best network out there. In the cable footprint, I've shown you that we will be competitive. We will be at par or even better on download, we'll be significantly better on upload capacity and speeds versus the cable operators. And then the product kicks in, as said already, we have a superior TV product, I'm really proud, also if we talk about IPTV.

We win every price, every contest there is out in the market, customers clearly appreciate that product and with the increase in coverage behind Entertain or the Sat, I see a bright future. We are reaching the 2 million this year, I want to repeat that once more. We were 500,000 three years ago. So, high growth, I think there's much more to come. There's much more to come in traditional TV as well, traditional TV as a first step into the housing association. We concluded, we finished the contract with Deutsche Annington last year with over 170,000 households in Germany, the leading household – housing association in Germany.

We made a contract with ANTEC in Hannover being on level 3, but also very important with more than 40,000 units. And we are, right now, discussing on a very interesting inroads into the housing association. The housing association in Germany holds kind of a monopoly with a coax infrastructure and thereby cable has that monopoly. I think it's very important we tap into the potential – profit potential of the cable guys there, estimated to be around €1 billion in Germany at the moment with extremely high margins on the TV product. And I think if we step into the TV market which we are basically doing now and which will be a final start in 2013, in February 2013, the first 42,000 households of Annington will be connected to the market. And everybody's waiting for that moment, TV prices will erode, even more on the traditional TV product and that will also mean that there is less money for cable to cross-subsidize their broadband product, giving us a chance to stabilize prices in broadband or even use the upside potential that I will show you in a minute.

Important also is the wholesale strategy. I know it comes with some critic – critical question from your side as well. We foresee in wholesale to offer a competitive wholesale products based on fiber, so, on FTTC and on vectoring and on the Kontingentmodell. There was a request to explain a little bit more about the Kontingentmodell and I'm happily doing that of course. We believe strongly in that model. Why? It is a model that helps us to maximize the revenues from our existing and our future infrastructure. First of all, if we would lose the unbundlers on that network, they would either go to cable or they would totally disappear out of the market.

Of course, we could win some of these customers back, but we think it's a better option to keep wholesale players in the market, together develop that market from a marketing point of view, but also from an investment point of view. And the model we have with the upfront investment of €160 plan is a model with long-term prospective contracts of up to 10-year, where I think with the idea of risk sharing, together investing in modern infrastructure comes to life.

The carrier signs that contract with a commitment for volume, for the number of FTTC access lines they will buy with us. And with that commitment upfront, they get a lower price, and they get a price discount depending on the number of lines they will finally buy with us. Oops, some people say that you're giving away money there at the prices out in the market, €13.38, that is clearly below the €20. We are talking about now for a wholesale solution on FTTC.

Nevertheless on the right, I think you see our perspective on what we think will happen. We're talking now about a, average wholesale ARPU of around €11, €10 on the traditional ULL. But as you know, we also have about 15% of our customers on IP BSA, that brings to the price on average around just €11. And in the Kontingentmodell, people don't only pay the €13.38; they also pay the €160 upfront. They pay €50 for the first-time connection of the customer. And there isn't up – there is a price if customers go over a specific amount of volume. And that altogether brings the average ARPU, we expect, behind the Kontingentmodell around €20, which is 90% more than we currently have in wholesale.

We also think that the wholesale – that this model, this Kontingentmodell is a very credible signal to the regulators. It shows that we're not out there to build a monopoly, that we believe in what we have said for a few years now. Network rollout in Germany can only work if more partners participate in this. We don't have 100% market share. We can't do 100% of the investments, we need partners. And talking about partners, I'm happy to announce today that we didn't only sign a contract with NetCologne, one of the smaller regional players, but an important one for us, but also with Telefónica, the ink has just dried since yesterday. And Telefónica has also stepped into this Kontingentmodell. And I think one of those big players signed such as a contract is a clear signal of the belief in this model for the German market.

Good. How does it further work in the fixed line business, in retail, we think we will be able to compensate line losses. We will prevent further price declines by continuing upselling of the Fiber and Entertain. Fiber is needed for the higher speed. For example, we now have an up price of €5 per month to go from copper to fiber. I told you the user cases are increasing, but people need some more speed as well. We see the same on Double Play to Entertain, up-sell from customers, high-definition kicks in, 3D TV kicks in. And if we compare Entertain ARPU with Double Play, we see an ARPU lift of 20% from €32 to €38. That combination of more fiber, more, let's say, of the value chain we are able to monetize for Deutsche Telekom will lead to a growth of 2% in Connected Home, Connected Home basically being all our fixed line business without the single line – the single – the traditional telephone line.

Good. Why is that so important that we do more than our network, we do more than partly our traditional business? We also need growth business. We have to be realistic as well. And we see decline in traditional voice business. We see a decline in SMS and mobile, for example, and we will see some more fixed line losses over the future.

Thereby, our ambition is to grow as well in what we have called growth business by €1.7 billion over the next few years. You see that there's also an increase in our more traditional growth business or in Connected Home, which I just explained to you, Double Play and Triple Play. And in our mobile data, which you see an increase from €2 billion to €3 billion on an annual basis. But the new really growth business, we expect a growth of 250% over the next three years.

A combination of products, we have developed to ourselves like the e-mail for example, like DeutschlandLAN but also with partnerships like Spotify and joyn. In that combination, we see an increase of €500 million over the next years which will help us to come toward an – and all financially comes to a stabilization of revenue in 2014. You see here that we expect our growing business to increase to 40% of total revenue in 2015. We are currently at 32%. That is behind the 2% growth in Connected Home, that's behind the 50% increase in mobile data and the 250% in our growth business.

So, growth will also come from businesses in which we are strong in yet already next to new products like the e-mail, for example, or energy, which was mentioned by René as well yesterday.

Now, let me see, how are we going to get along with invest? I told you yesterday we will invest until 2020 in INS, Integrated Network Strategy, an amount of €6 billion of CapEx. For that, we build another 12 million households on FTTC to reach 65% coverage until 2016, so we go relatively fast and we will need about €500 million to upgrade our current FTTC network to vectoring.

We will fund that partly by a reduction of basic CapEx by €4.4 billion. That's mainly IT and anti-legacy CapEx. However, we will also invest into mobile. We will invest into LTE, and the investment for the next – for until 2016, at the moment, we have estimated at €600 million on mobile alone. At the same time, I told you as well, we will continue to invest, be it on a relatively low level, in FTTH.

As a result, we will have additional CapEx over the period till 2013 till 2015 of €1.6 billion compared to the 2012 level. If you look more short term for the next three years, the perspective of this day, we will invest €2.4 billion CapEx in INS and FTTC and in vectoring. We will reduce – also here compensate part of that invest by reducing basic CapEx basically by €1.3 billion with the same drivers as I've shown you on the previous page. And that means that we will for the next three years invest a delta of €1.1 billion compared again to the 2012 level.

Further, we will fund this program by savings in indirect cost, which you see on the right side of this graph. We will reduce indirect cost by about 1% to 2% each year over the period of 2013-2015. It might sound like an easy job if you look at our records – track records over 2009 and 2012. And please keep in mind, we have a massive operation out there. We are building INS, Integrated Network Strategy.

We are also in All-IP transformation, Claudia Nemat talked to you about. Those key programs, driver for cost, of course, in the next years will be, let's say, they'll deploy more than 50% of our own employees, which will give us a bridge to work on more efficient employee programs for the years to come. It doesn't mean that we totally step away from personnel reductions over the next years. The focus will be on the central organization, we will cut on overhead structures in all non-operative units, and that effect will contribute to reduction in indirect cost.

At the same time, we will invest in direct costs or we have to partly – part of the direct cost are driven by interconnect that will increase a small usage. They will be strongly customer driven, but we also invest ourselves very strongly to get back on a structural base and to secure the leadership in mobile business and compare to 2012. We will invest another €150 million in 2013, just to give you a feel of where we are going and that compares again of a delta of €300 million to 2010 and we will further invest in growth initiatives. Balancing out what we save with what we invest, we expect a €500 million net OpEx reduction over the three-year period.

Good. Despite those high investments in our broadband networks and in the market, our ROCE will be up by 1.2% points, all behind the stabilization of revenues and a strict cost discipline, reduction in legacy CapEx, which I've told you we will be very strict on where we invest and we are not, we will have high hurdle rates before we give investments free. We will have changes in our restructuring policies, thereby lowering the special factors which you see on the right part of this chart, and we will be very efficient in managing our asset base which will lead to lower depreciation.

Summarizing the ambitions of the German team for 2015, we will secure, but we don't have it yet, broadband market leadership in mobile and in fixed. We will stabilize our revenues in 2014 and these are the most important KPIs we want to share with you.

Clear number one in mobile, in service revenue with a market share – with a revenue share of about 35% in 2015. Clear number one in broadband market share of 43%, but I'm still talking customers because the other data are not available and the strongest player grow in the TV market in Germany.

On quality, a further improvement of customer satisfaction behind initiatives I've shown you. I think that all fits into our company strategy of being the customer's first choice for connected home and work. And finally on finances, stable revenues as of 2014 due to market leadership in fixed and in mobile. Successful up-sell of TV products leading to an increase in connected home by 2%, 2015 over 2012 and I'm happy to say that all comes with maintaining a high EBITDA margin of around 40% over the years to follow.

To summarize, we've built the best network with LTE, with fiber, with vectoring and on top of the hybrid access, we have very strong differentiators in everything we do in the marketing mix, be it in the broadband coverage we offer, be it in products, be it in our distribution network, be it in the service and the sales opportunities we have. If you maximize everything that one company brings us, has brought us already. We will bring revenue stabilization in 2014 and we will do so very solid financial performance of around 40% EBITDA margin.

I know we think – I know you think they promise a lot. I tell you, we do. We think big, this is a big step for the German organization, is a big step for Deutsche Telekom. I can tell you the German team is 100% committed. We have been working very hard to get where we are now. We continue to work hard. There's a lot of energy. I think I have the right thing to do it. It's a very disciplined team, not only on delivering but doing that in a very efficient way and also delivering on the finances. So, it's not just a marketing vision, but it's a very well balanced marketing, technical and financial play. You will meet the team this afternoon where we have time to go into some more details and you have time to prepare enough for the questions for the team. I'm happy they're fully committed we will deliver on this ambitious planning and I want to thank you for your attention.

Reinhard Clemens

Member-Management Board, Deutsche Telekom AG

I just got a challenge so I have to get us back on track in timing. So, we will run through the presentation. I would like to start with a review on how we did and would like to share when we met the last time, our ambition level where we stand in the current performance, focused on three main areas. I think growth, quality, profitability and so how have we done on the external revenue side. I think we increased the external revenue from €6.1 million to €6.7 million, which is a CAGR of around 3.3%. Based on Gartner, global ICT growth in the same time period was about 3%. Looking at the peer group in our footprint I think the growth rate was about 1.8%. So on intelligent networks, currently we started 2009 with zero. We are currently forecasting €121 million and that's more or less the current existing performance around this one, so we at least have builded up the system and I will share a little bit later how is the way forward there.

Then on quality, we reduced the major incidents significantly by 86%, our TRI*M currently from an index perspective went up to an all time high now to 78 points, which is definitely in the loyalty segment on the customer side and it's very clear above the industry benchmark which is currently at 68% – 68 points. So on profitability, you see the numbers. We have moved from 2.6% to 3.5%. However, we've not fully achieved our ambition level there. The clear target was for us to move at least towards peer level which is currently around 7% in the industry.

So, at least I would like to comment a little bit what happened and what was the reason for this shortfall on profitability. First of all, 2008 to 2012 we had a TCV of around €13 billion in big deals alone. And especially in the first years, our delivery organization was not yet mature enough to deliver in such a short time lease amount of deals. So the situation led, during the year of 2010, to some quality issues resulting in 36 major incidents which we had end of 2010, so in Q4 2010, which is always, let me say, a challenging story in front of the customer. So, we immediately took some actions, focused on quality improvements, stabilized the delivery organization, but the impact was, it delayed more or less our profitability ambitions, which we had until 2015 or 2012 which we shared with you.

So after the stabilization phase, we are now facing very clear upward trends and you can see it on the right side of the [foils]. The point is now we are moving definitely now from the seeding phase on those big deals into the harvesting phase. Alone in the last 12 months, we achieved a €60 million positive swing on profitability and this trend, like you see it here, will continue in 2013.

So based on the quality improvement and that the good piece of the story, we were awarded additional business in the top 20 account, which are more or less contributes more than €150 million add-on revenue in 2012.

So, what were the programs which we have to set up to address the quality, but also the profitability improvements which are necessary to then improve further until 2015? First of all, we set up a multiyear – really multilayer program in the organization focusing on quality, utilization of existing infrastructure, which by the way also resulted in less CapEx spend in the organization of more than €200 million, less CapEx which we spended compared to our 2010 figures.

We worked on productivity in our workforce organization and we are running through a very strict cost optimization process. Currently, we raised our offshore quota by 18%. Now the offshore quota totally in the organization is around 40% and we reduced our external workforce by 64% in the delivery organization and in Germany the workforce reduction was 6% and internationally around 18%. In terms of cost contingency, the measures which we had taken, I think we are currently looking at a gross savings of about €2 billion since 2010.

So, how have we done on sales? And that's a picture, the current existing picture out of 2011, so the last 12 months. First of all, we are seeing a slowdown in the moment in 2012 in our industry. Even though we have achieved a CAGR of 3.3% over the last three years, 2012 from a peer industry perspective is under pressure. Coming from 4.5% until 2011, it's now down in our peer group to an average of 0.6%. And if you look at the higher growth rate of our competitors, specifically Atos and Capgemini here, Capgemini and that's more or less an acquisition place and it's inorganic growth which you are seeing here, Capgemini has done an acquisition in Brazil and Atos has made an acquisition with the SIS business which is the spin-off of the Siemen's IT organization. So compared to the over competitive situation here, I think we performed quite well in 2011, mainly driven by outperforming our competition in order entry in Asia-Pacific, where we grew with 83% and in the U.S. where we grew around 75% currently in order entry. However, what we see here in Europe is definitely a lot of pressure based on the financial crisis in countries like France, Italy and Spain in the moment.

So, let me come to Telekom IT, which you probably had read already in the documentation because we made 2011 and analyzed around our IT spends inside the Telekom Group. And from a group-wide perspective, we are definitely significant above benchmark level in the moment and the clear picture was here to bring down the IT spend to benchmark level until 2015. We then decided to, more or less, consolidate all internal activities into one group, which is called Telekom IT and this group has to ramp down the IT spend which we have in total by around €1 billion until 2015, which then will bring the Deutsche Telekom to benchmark level.

So it bundles more or less, now, all the IT activities and its internal – of all the different kind of internal IT departments; from GHS, from Deutsche Telekom and also from the internal IT systems. IT departments, we started beginning of July 1 in this year. We are currently already on track with very promising savings in 2012, which contributes on the other hand on the performance – on the profitability performance of the Deutschland. We now have two business units inside T-Systems with different kind of business models. One is Telekom IT, which is acting and running as pure cost center, so EBIT zero, the number behind it and we have then the T-System's market unit, which we will share from a performance standpoint a little bit later in Klaus Werner presentations, which is acting as a profit center and focusing really on external growth in the marketplace.

So, what are the big trends in the industry? I think the good message here on the picture is very clearly, I think the market is still growing. I think CAGR is around 4.7% overall, but as you can see it's already a very mixed picture between the classical ICT business, like outsourcing and the new scalable kind of services like cloud services, virtualized IT and so on. So, in the traditional ICT business, in our footprint, you see the 2% growth which is anticipated currently. However, the environment is on high pressure in terms of profitability.

I think if you look currently how can we participate there, only if we really have a competitive cost structure in place and the prices in this current traditional segment are more or less determined by the marketplace. So, we really have to work on cost structure improvements in this area.

On the new business side, what I always call the Blue Ocean side, I think, we see a very strong growth by 18%. But it's more or less a scalable service like Cloud, Big Data, Mobility services and so on. It's still a very small market, but it will definitely develop very rapidly. So, to win in this marketplace, I think you really have to focus on some areas. I think it's scalability, it's pay-per-use kind of business models, it's product-related services and bundles which we have to deliver. It's speed, simplicity and convenience for business customers. You got a flavor yesterday evening around marketplace, the Deutsche Telekom marketplace. So how those kind of services are more or less build up and it's all about end-to-end solution which has to be delivered in front of the customer and that all has to be delivered in a very secure environment. So, security will become one of the key measures running forward in this Blue Ocean kind of business.

So, on a global basis, what's happening there? I think there are four major buckets of growth currently in the industry. If you look at those, I think cloud computing, I think we discussed it already yesterday. It's a very, I think, upcoming market in the moment and starts from €1.3 billion and moves very rapidly up to €140 million. It's all about driving down cost for companies and customers, it's increased speed of services, you don't have to invest anymore. I think the real point is 33% growth in this area until 2015. That's currently the expectation in the marketplace. And you saw yesterday evening what we are doing there from a Deutsche Telekom perspective and we will share a little bit later what we are doing from an IT systems on the enterprise side.

Big Data, and to give you a flavor there, 90% of all existing data is currently being produced and start only in the last two years. So, that means 1.8 million zettabytes to give you an idea. It's a number with 21 zeroes behind it. And it's an equivalent of 200 billion HD videos for two hours, so 200 billion HDTV movies only.

So, now every traditional enterprise currently all over the world, in the moment is starting to collect data and is trying to exploit this data. Why? Because you are getting a lot of customer intimacy, you're getting a lot more transparency around customer needs, customer demand and it's a clear target currently for companies because we can optimize go-to-market and supply chain in this areas based on this kind of technology.

But the overall big data technology will help to more or less store and analyze unstructured data because all this data is unstructured in real time from different kind of sources, yeah, so you – if you talk about big data you conclude more or less social media, public data, videos, pictures, Facebook post, Twitter, tweets, all those kind of things. So, the ability in this area to deliver cheap, scalable data storage, automated data collection, and also in combination with intelligent predictive analysis will become one of the competitive – decisive competitive factors in the upcoming years.

Then on intelligent networks, oh sorry, and back on intelligent networks, I think we are already on top of this game, only three areas which we are focusing on, what – those are mainly the drivers while the intelligent network space health is currently facing severe cost pressure and it's also based on an over aging society driving tailor medicine, tailor monitoring services to really to improve more or less remote patient care. Furthermore, I think the cost pressure in the overall healthcare system will lead to better integration and collaboration with all the different stakeholders like pharmacy, healthcare, insurance companies and doctors.

In the energy sector, I think the move to renewable energies is driving the need for smart metering and smart grids. It's now currently all over the place and the need is more or less to manage different kind of volatile energy of power sources, let me say, in real time.

In the automotive space, which we are already addressing, I think we see a very strong trend in in-car communication and in-car real-time services, more or less what I always say is the car is moving into the Internet and the Internet is moving into the car. So broadband connectivity and online services in the car will become the key differentiator for OEMs because security, assembly quality, engines and all those kind of stuff is already seen as a commodity from a customer perspective.

And the last element is security and this aspect is becoming increasingly important. In our industry, 80% of the CEOs and CIOs consider currently the amount of damage caused by cyber attacks to rise over the next years and we experienced by the way also inside Deutsche Telekom, the number of attacks are exploding. Three years ago, we had around 15,000 cyber attacks per month. Currently, we are at 100,000 attacks per day into our systems.

So, the level of threat is increasing and in light of bring your own device, the move of business customers into the cloud environment and the exploding number of mobile devices, security and data protection will become one of the key topics of the future in this totally connected world, which is in front of us.

So with this, I would then like to focus on what are we doing now. From a decisive perspective moving forward, I think three major points. First of all, it's compete, compete is all around Deutsche Telekom and the Telekom IT, bringing down the IT spend for the group. It's about transformation. It's all about – and that's what I already shared, improving our profitability and competitiveness in the marketplace from a TSI market unit perspective so for the external market and it's all about innovation, addressing the four growth buckets, which are in front of us.

So, now let's go through those points in detail a little bit. Telekom IT, what is it? So, Telekom IT currently is the IT service provider for the domestic business units of Deutsche Telekom. So, it's up and running since July 1 this year to about 8,000 internal employees, which we all have merged together from different sources inside Deutsche Telekom and it's all about 2,000 external service providers which we are using to deliver the overall IT services for the group.

And what we have there is an overall IT budget of €2.7 billion in 2011 which we are now planning to bring down to 2015 down by €1 billion. The unit is serving more or less a full range of services for the fixed line and mobile customers, so 23 million fixed line customers in Germany, 35 million mobile customers and it's entirely also operating the share platforms for the European NatCos. So main goal, as already mentioned €1 billion savings which really means bringing down the IT spend to the benchmark level in the industry and for sure increasing in parallel time to market and quality in the IT operation.

So how are we going to do this, it's about demand reduction. So, we are driving down demand in the organization, it's about consolidation of infrastructure which we are using, it's shifting services which are currently local into cloud environments. So our internal cloud, it's about process optimization inside the organization, and it's about reduction of the external workforce and also the internal workforce.

So, we are going for head count reduction in this area and we made a very clear plan how we are moving headcounts out of the organization over the next year. So first step this year already we have achieved a 55% workforce, external workforce reduction over the last six months. So they are out and we already see significant cost savings until yearend 2012. So improvement program on quality has been initiated I think and we already see the first results. I think we have 10% improvement in lead time between failure on the cost systems inside Deutsche Telekom, so quality is going up.

From the external side, external market unit, so that the systems market unit, I think what are our big three steps. One is very clear; we will focus on high margin business. So, we are consequently disengaging on the portfolio side non-profitable portfolio elements, so more or less means that we divest in hosting, printing services and all those kind of stuff. And it's really a shift from lower into high margin over the next years. The next point is we are reviewing the countries, so the focus is every country which is not profitable we are going to divest. And it's very clear in this current situation where more and more services are provided out of the cloud and the cloud business is growing very rapidly currently on our customer base. The local presence in countries is not key anymore for developing a marketplace. So, we either say we restructure the business for sustainable growth on the long term or we exit our activities in those countries. Currently, we have two countries which are under evaluation and review. UK, we have taken our actions, we have restructured UK already, so UK is already done. So we are not exiting UK, but we have reduced significantly the workforce in the UK.

Secondly, I think, and that's a second step, we are going to reduce our production depth. So it's very clear about make-or-buy decisions. We are not doing anything or everything by ourselves anymore. In every area where we definitely are not able to deliver competitive prices, we are going to use partner models to increase our overall profitability in deals, and this will lead to a cost optimization potential, that's the current analysis for 2013, of up to €133 million only in 2013 with the measures we have taken in this area.

Third level is to increase our move to offshore. I think we are on the way. Currently, we are at 40%, a very clear target to move up until 2015 to 50% of our quarter, currently 40% in production. In the system integration area we have 34%. This will in total lead to about 16% workforce reduction and mean savings of about €140 million until 2015.

So, we will also improve our production efficiency through standardization and automation which I think will give us an additional and in total measures an additional €900 million gross savings in 2013. So, then on the innovation side of the business, what are we doing there? First of all, I think yesterday we already started the discussion on cloud and René mentioned it yesterday already. We are a pioneer in cloud computing. We started 2005 and we have constantly more or less extended our portfolio.

We are the first mover to deliver cloud-based services on business applications and you see here the portfolio. We were the first provider who received SAP cloud certification. Meanwhile, 80% of all our cloud businesses – of all our SAP businesses are in the cloud, which means that 2.3 million users and 127 customers are on the SAP cloud environment, which we are operating with our dynamic services for SAP and with this we are now market leader in SAP cloud operation on a global basis.

So, we went 2012, beginning of 2012 we started our cloud collaboration platform called Dynamic Services for Collaboration based on Microsoft Office 365. We now operate the world's largest cloud collaboration platform for enterprises, more than 400,000 users being operated out of the Munich data center. We migrate more than 1,000 users per day into this cloud environment. And the number is constantly increasing now and we are ramping it up quarter-by-quarter in the moment and customers like Daimler, like BP, Shell, BAT, Georg Fischer are all new wins which has started this year.

And the German cloud started with more or less based on the strict data privacy and security rules in Germany. I think that's a real selling argument even for international customers to have a German kind of service provider in their critical application and datas here in Germany. So, it's a real selling argument for us. Then we also, we more or less run infrastructure cloud which we call DSI, Dynamic Services for Infrastructure, and we are going live by end of the year which will be part of the DTAG marketplace, which we have seen yesterday evening and it's more or less a full blown solution from small and medium enterprise business up to big enterprises. We are meeting with those kind of solutions, the price points of Amazon. So, there's no differentiator anymore between our solution and Amazon. Shell made an assessment of our DSI cloud against Amazon and decided in favor for us because better scalability. We can move from low up to high performance computing in this cloud environment and we had a better security concept than Amazon.

So, overall, I think it's a convincing story and if you look at the group-wide ambition level in this area, we are very convinced that we can achieve the €1 billion revenue stream by 2015, which would mean a CAGR of about 30% in this area.

And even the external analysts like Gartner, Forrester, and Experton have positioned us in the leading quadrant. You see it here on the upper right side on the fourth quadrant and the statement from Gartner is very clear. TSI is leading in terms of broad cloud approaches and we have a good level of investor realization and customer value. Experton is saying TSI cloud is leading in the market of business-critical applications. I think that's a good message.

What are the key USPs in our areas and the benefits? I think it's engineered in Germany which is creating trust and by the way, that's a good argument. It's security, I think it's an end-to-end security design which includes the network and our network capabilities, firewall, honeypots, intrusion detection, everything out of one hand. Data privacy, already mentioned. I think it's operated out of Germany under German security, data security laws. It's a proven solution because we have done it already and the other point, it's choice. So, we have a broad spectrum now with our portfolio from medium-sized company up to large enterprises.

So, on the intelligent network side, I think we made considerable progress so far. I think forecast €121 million already mentioned. So what are the key deals? And I only would like to comment shortly on connected car, on healthcare, and on energy. I think on the connected car side, the good story is and you learned yesterday a little bit about our M2M story, which we have as a group. The good story is we have already more than half a million cars brought into the Internet with our M2M and that's the connectivity piece of the story into the Internet more or less with our M2M solutions. But, this year and we struggled in the beginning in connected car because the OEM always tried to develop their solution by themselves.

What happened this year and that's a breakthrough in this connected car, our automotive industry, we just signed last week a deal with Daimler to connect a minimum of 400,000 cars and up to 1 million cars in 2013 and it's not only connectivity. It's a full service for the COMAND Online system inside the Daimler cars from I think operating the backend for it including billing, provisioning and all those kind of things.

It's all about the applications which we are going to deliver into the car and it's the connectivity included. I think it's an amount of about €30 minimum payment per car per year. And the solution we built in from 2014 on into every car, so. And it will also allow us to charge for additional services in the car in a refer model together with Daimler.

So with this, we are now on a Tier 1 level supplier grade inside Daimler and we have a pre-installment of these services done in every car. And also with the other car manufacturers, Lipsia in Germany, like BMW and

Volkswagen, we are all in final negotiations on broadband connectivity in cars with all the different kind of features and services which will popup over the next years in this environment.

So final negotiations also with the German Automobile Club, which has about 40 million members where we are installing, let me say, a very innovative kind of solution on how to control more or less the ADAC fleet in this area. So, fleet services are also already in the marketplace. We will start services next year like eLogbook, driver self services, maintenance management for fleets like EURO Car VI and others and on top we have a corporation now in connected car together with Deutsche Bahn where we have builded up a telematic service infrastructure for car sharing. So, I think we are very confident now that the, I think, connected car business will lift up over the next quarters.

So then on healthcare, healthcare is doing extremely well, and we have builded up an impressive footprint in the healthcare industry, and I've just talked about the challenges in the healthcare industry and that's exactly what we're addressing with those kind of solution, and only I want to mention some of the pieces which we have more or less generated and rolled out over the last year. I think we currently have an exclusive partnership with the German Association of General Practitioners and we are doing billing and telematic services, and the contract just started Q3 2012. You don't see it so far in the revenue stream, but it will go up dramatically, so we are building a whole, let me say, service suite for doctors in this areas.

So the infrastructure tender for the electronic patient record in Germany, so the rollout is by law now given. The insurance industries – healthcare insurance industries have to rollout the electronic patient card, so the tender will come next year and we will be part of this tender process and we definitely will win pieces of the infrastructure tender through roll out, more or less, the whole needed infrastructure for the patient card.

The next piece is in terms of Medicare aid management and T-Systems is in the meantime market leader in this industry. We have signed several kind of contracts with healthcare insurance companies, and we have doubled it up to 40 contracts now over the last two years. We just recently signed a deal with BahamaHealth care insurance for about two weeks ago which was a value of €40 million.

So in Telemedicine, only one key deal – some key deals in Germany which we have signed. I think we have the first statewide heart monitoring installed in Brandenburg, where we monitor more than 500 patients. We are running, I think, next year is the start in January. Contract is signed together with the biggest university hospital in Berlin, the Charité.

We will start the biggest clinical study on heart monitoring in Europe with 1,500 patients and the good piece out of it is every patient contributes €2,600 per month. And it's connectivity, it's running the backbone, it's sharing the information, and that's moving up. By the way, it's paid by the healthcare insurers because I think it really benefits to get an overall coverage, and it's reducing their overall cost structure, which otherwise would be much more higher.

The same happened with the State of Saxony. I think we were down selected to one. We still wait for the European approval, which would come until end of this year with an additional several thousand patients then statewide in Saxony.

Clinic IT, I think we have more, now, than 200 clinics under contract, and not only in Germany, we recently won in the U.S. Presbyterian, the clinical hospital chain in New Mexico and Singapore, we are operating the hospital information system for Raffles Medical Center.

And other pieces, and that's the benefit, now in collaboration within Deutsche Telekom, we also signed a deal for patient entertainment in hospitals together with Asklepios where we deliver entertain into the hospital and its pay-per-use model in hospital, so. And the point is it's a clinical change, Asklepios with more than 130 hospitals, mainly in the U.S. and here in Germany.

So then on Energy, and that's probably the most difficult piece currently because we are struggling a little bit in energy based on a delay in the regulation regime here in Germany. Nevertheless, we have won some deals with RWE, for example, rollout of 15,000 smart meters. There was one piece where we have an overall solution where we installed the meters, we read out the meter data and we are preparing the billing process for RWE, but we are still waiting for the final approval of the data security profile for smart meters in general, so that's a process which already should have been done by the regulator or by the authorities here in Germany. And as soon as this data security profile is defined, then you have really I think planning reliability for further investments, so that's what the utility industries are waiting for in the moment.

By the way, there is a legal obligation now in Germany in place to install smart meters by every meter point where the consumption is higher than 6,000 kilowatt per hour until 2016. So, there's a huge pressure in the marketplace to rollout the meters. The amount of meters above 6,000 kilowatt hours is 6 million meters in Germany. So they have to be rolled out. Every utility we are talking about is currently preparing this rollout and we are in the middle of the game because we started very early to show that we really have the real competence in this game. So it's not a question for me if this would happen? It definitely will happen. The big question is now when will the rollout will be start in this area.

So, if you put those three industries together, and if you look at the current reforms and the recent signings here out of 2012, I think we are more than convinced that we can meet the €1 billion target which we have set ourselves until 2015.

So then on Big Data, let me only share a few facts there. I think the amount of data doubles currently every – each two years. I think it's unstructured data. It's difficult to handle unstructured data and to run analytics through it. So most of the companies are currently failing on how to do it in a very, let me say, efficient way.

So the – currently amount is that or the assessment is that 85% of the top 500 companies will definitely currently fail to exploit this data. And we decided to enter this marketplace with consulting, with vertical solution. We have built it up in Hadoop cluster together with an American company here in Germany already. It's up and running and we are collecting a lot of public available data already, and the clear target is then to run a pay-per-use kind of model on demand, demand-per-use kind of model as a delivery model for the industry.

We already have signed now a proof of concept with Daimler, and general ideas the pilot will start in the U.S. in 2014 for all the S-Class cars. I think the cars will more or less continuously – over the diagnostic interface of our M2M solution, continuously stream the sensor data out of the car into the system, and the benefit for Daimler is it will enable them to identify in a very early stage field issues, get quicker fixing, optimize their supply chain and reduce their warranty costs.

So – and it's not only with Daimler, I think it's the whole story around big data is all over the place. We're on several kinds of discussions with customers to collaborate, to find solutions around this one and our clear target there is together with external partners to create a service around what we call analytics as a service on the long run. So estimated revenue, we are starting from zero in the moment in 2015 to at least generate €80 million revenue in this area.

Then on security and that's currently a market which is changing. We are doing currently already €100 million of revenue in security with classical IT security offerings, which is fine and it's a growing kind of business. But we see an overall trend in the industry which is moving into managed kind of security where people hand over to an overall security approach more or less which is provided by a service provider because security is becoming very specific company-by-company and that's what you by the way also see in the current projection.

Currently a lot investments are done in hardware and software. This will move into service. So the service piece of the security element is very attractive for us, so we decided more or less based on the trustworthiness of DT inside the security space, to really say, we are going to build up the go-to-market story and solutions around it where we really said we are going for security, managed security, security as a service for enterprises, but also for small and medium enterprises.

Here, at least in Germany in the first run, we had a security conference in September, here in Bonn in this room, where we invited more than 90 CEOs from the DAX, the most important DAX companies. The resonance was extremely good in the media, also the feedback from the customer side. So, we are starting to build up our business model around this. We are on the way currently, so we are finalizing it until Q1, so that we then can have a very clear commitment what is the expected revenue target behind it, which we are expecting until 2015. So, it's a little bit too early, but this will be your focus area which we are going to invest in.

So with this, I would like to end up my journey and hand over to Klaus to give you some input into the financials.

Klaus-Jürgen Werner

Controller & Finance Director, T-Systems Enterprise Services GmbH

Yes, thank you very much. Ladies and gentlemen, in the financial outlook, I will start with the effects out of the Telekom IT, on the T-Systems' financials. On the left, you see the so-called T-Systems market unit, where our aim is to increase the external revenue as well as profitability and absolute EBIT. We're talking about a volume of €7.8 billion here. It is a classical profit center and we'll continue to work on the specific topics here.

The Telekom IT, it's the other way around. The starting point was a €3 billion IT spend in Germany after the reduction of the margin, so we are now on a way to work with EBIT equals zero, so without any profit. In our corporation, we start with this €2.7 billion Reinhard mentioned.

We did go live at the middle of this year and it's a focus on Germany. And what is very important, when you evaluate that numbers of the systems, we do not make any profit out of this business, the profit is shown in the Deutsche Telekom Group, and also the reduction in the IT spend will be directly shown in the group of Deutsche Telekom.

What does these mean in figures? You see on the left, that's the systems total numbers in the grey bar before we did the restatement, what is now going to happen. We took over people. We took over assets and contracts from our sister companies, and so the volume we handle into systems is a bigger one. The contrary effect is we're taking out the margin, but overall the systems revenue is the higher number. On EBIT and EBITDA, it's a lower number due to the fact that we took out the margin out of the old Deutsche Telekom account we made. And the CapEx is a higher number because the Telekom IT segment has the aim to invest into the IT services for the whole group and therefore the CapEx is here on the higher level.

On the right, you see the different numbers for market unit and Telekom IT. I will switch now to the EBIT profile. You see on the left that we did in the last year progress on our margin, so coming from a loss in the year 2007 we were able to increase it up to the vicinity of 3.7% in the year 2010. Then we had the dip, the seeding phase

Reinhard mentioned and as well the investments and the quality in the year 2011 and for this year we expected before we did the restatement, the 3.5% in the margin.

Due to the restatements and the profit equals zero mechanism, we are now on a lower level and we have now to start from this lower level, again, into the future. How we will do this? I will show you now in the way forward. The way forward for the T-Systems total coming from the €10 billion revenues in the market unit, we want to grow our revenue of at least a CAGR of 2%. This is in the relevant footprint where we are in and with the relevant services where we are in. This is the expectation of the market and we want to at least grow with a market here. The aim in the Telekom IT is clear, to reduce the revenue. In EBIT, it's clear that we want to grow, the EBIT numbers and absolutes, but also in relative terms, and I'll show how it will work.

I'll now start with the Telekom IT, starting with the €2.7 billion, the restated number 2011. The aim is to reduce this cost to the benchmark level we know of €1.8 billion. How will we do this? We will do it via demand reduction, as well as a reduction of external, but also internal workforces, synergies out of process efficiencies, but as well around infrastructure consolidation and application retirement. There's a clear plan behind how we want to reduce these savings. And again, you do not see the profits due to the EBIT equals zero and the T-Systems P&L you see the effect out of this value generation in the group of Deutsche Telekom.

In the market units, we wanted to grow at least 2%, so starting point is €7.8 million for this year. How will we do this growth? Reinhard mentioned some of these gross initiatives like cloud, big data, network security, but as well we are focusing on systems integration and computing services and as well we are in some markets where actually the growth is much, much higher than 2% for example in Brazil, in China and so on. So we want also to participate out of the market growth in these areas.

In efficiency, it is clear we want to increase the profitability again. I will share this with you on the next slide, but before I do so, the EBIT margin ambition for the market unit is 4%. You may remember the old one of €6.5 million. If you take into consideration that we have lost 2.5% points out of the Telekom IT restatement, if you would add it to the 4%, then we are exactly at the same ambition level we've outlined also in the past.

So we are still at the same aggressive ambition level on the profitability at the T-Systems overall. We will work further on asset utilization. We have reduced the CapEx in the last years from an annual perspective of €200 million, and have also improved our cash profile and we will work on this also in the next years.

Coming to the efficiency piece, Reinhard mentioned the poor nearshore/offshore ratio and this brings us €140 million savings in the year 2015. We work as well on our portfolio. We have done the restructuring in the Nordics in Argentina, but as well in the UK and we have also sold some of our portfolio elements where we are not happy with the profitability, and we will continue to do so, you'll see it in the middle also in the future.

Our overall efficiency program is engaged in strategic initiatives in lighthouse projects and detailed measures. We talk about the reduction of the vertical integration. Last year for example, we sold the storage piece to HDS, so we did an outsourcing on the storage piece to one of our suppliers. He now takes the investment. He now takes the risk of unutilization. So, we talk about the reduction of vertical integration.

As well, we will continue with the reconsolidation of the data centers clear, and the cloud piece that we have the chance to work with Zero Touch, so the customer self service reduces cost in our organizations because we do not have to handle these processes. There is a new procurement approach in Deutsche Telekom in place. We will follow on this and as well we talk about lean and agile company also for sales and G&A. We will optimize here further.

Overall, we did in the efficiency program for the year 2013 a gross measurement's pool of roughly €0.9 billion. With this, we tackle price reduction and some cost increases for example for labor costs in Germany. But overall, with these gross measures of €0.9 billion, we are able to deliver the profits increase which we have shown.

But this is not the only one. When we look at the ROCE of the systems, we are actually burdened due to the fact that we have higher structuring costs bringing the offshore ratio up and running, and what will we do in the future, is starting from the top on the left. With the revenue growth, this is the foundation and the basis for our business. So at least the CAGR of 2%. With the improving margin on the right, we will have also a absolute EBIT number in the higher vicinity and in CapEx to sales, we did the reduction in the last years. We need also some CapEx to feed the revenue growth as well to develop our portfolio further, but we will be very disciplined on CapEx to sales ratio.

And restructuring, we think that we are able to decrease this number in the next years because the big portion of doing offshore, we are actually doing in this year and next year and we are able to do it with a lower number in the year 2015. This – all together will lead and these four levers will all together lead to an operating ROCE in the year 2015 in the vicinity of 5%.

With this I now want to hand over to Reinhard, again.

Reinhard Clemens

Member-Management Board, Deutsche Telekom AG

So then in summary, what's now our ambition level? In the revenue side grow about market growth, I think currently expected 2%. It's a very clear target. We can do better than the marketplace. That's what we have shown so far.

On quality, stay in the loyalty segment with our customers and definitely stay above peer average, what we are doing also in the moment. And then on the margin side, get the margin improvement up to 4%. And Telekom IT, I think around the €1 billion IT spend reduction down to benchmark level for Deutsche Telekom. That's the ambition level until 2015. Thank you.

Timotheus Höttges

Chief Financial Officer, Deutsche Telekom AG

Hello, everybody. I just received the message that all planes and all trains from Cologne Airport to outside are cancelled for today due to the snowstorms. So, therefore, I brought 300 pages and we will stay for the rest of the day talking about finance. I love to stay Friday evening with you here and go in detail on all the measures here.

Anyhow, so let's go into the financial session now as the final round here. And before I start my presentation, let me say over the last three years, I think it would be fair to say that Deutsche Telekom is much more predictable and reliable for shareholders. And we tried to draft the story of prudence here and even of predictability and that is exactly what we are trying to do as well for the upcoming years.

We know that we changed our strategy towards more investments into two areas in Germany and the U.S., but we want to bring that into a financial envelope, which is prudent and which is predictable and which is reliable for you. And no need to do that from the beginning to give you, let's say, what is the story behind the story.

The first thing is our balance sheet is not under pressure. We are not in trouble as some of our peers in Europe. Second, we have 85% of our businesses, as you call it, safe haven markets.

Certainly, we are not under investing in this difficult times. Deutsche Telekom is not investing, the opposite is the case. You could criticize us for investing even more on an average percentage as our peers in a time where a lot of our competitors are very defensive.

Lastly, we are focusing on efficiency. Despite the fact that we are focusing on growth and that we're even focusing on increasing our market shares, we keep our pressure on costs, both on the OpEx, but as well on the return on capital employed.

And lastly, this company is fully financed. We are fully financed at best industry terms, so this gives you an impression where we are at that point in time. We could do things which others can't do due to, let's say, this strong positioning which we currently hold.

Let me go into the review and honestly I got my grades from René yesterday already on this one. So therefore, I know that we have missed the return on capital employed, I go into that one later on again. But I would say on the rest of the things which we have promised, we more or less delivered. So therefore, let me quickly go into maybe in one of the headlines which I want to remember you on the disciplined execution along the last years and very much focusing on financial KPIs here.

The first is in Germany we have the best performing incumbent. That's definitely the case and you saw the numbers. In every category, we are almost leading in Germany and at the same time we were able to improve our EBIT margin by almost 4% points.

In Europe, sustainable cash flow. Despite the macroeconomics, we have kept a stable cash flow which is a philosophy by itself by the way, to trying to manage an environment which is much more difficult to keep, let's say, the contribution of the business which is not easy in Greece I could tell you. But I think the local management take local actions to get to the local situation.

And by the way, the same is right, that we said we are not the deep pocket for the Greek people. They should refinance on their shelf. And I could say today that for 2013 we are fully refinanced in Greece and by the way, without any support of Deutsche Telekom and despite selling Hellas Sat and Globul. This is due to, let's say, new refinancing condition which we achieved with banks beyond 2013. Thirdly, the U.S. You know the story about the U.S., but what is the story behind the U.S.?

The story behind the U.S. is that we have invested almost €10 billion in the U.S. without negatively affecting Deutsche Telekom's balance sheet. Nothing has changed on the over picture of the balance sheet here in Germany, but we have invested €10 billion more into the U.S. How is that? We got left something off from the AT&T break-up fee of €4.2 billion. On top of that, we sold the towers for €2.5 billion which is 20 times EBIT.

And we have with the perspective of the Metro transaction, we own 74% of the projected synergies which is almost €5 billion. In this money we take and reinvest into the competitiveness of the U.S. business. We did the spectrum swap with Verizon, we got spectrum from the breakup and we have the modernization of almost €4.2 billion for the renovation of our LTE infrastructure in the U.S. market.

And on top that, we have the iPhone transaction which is now helping us to invest money, which we have gained in the U.S., into the competitiveness of our prospect position. And this is the philosophy how we think about it, not just borrowing money and invest it, but trying to use the asset, squeeze the asset, change assets to get, let's say, a better competitiveness in the U.S. without increasing, let's say, the pressure on our balance sheet here in Germany.

The fourth example is Save 4 Service. This is a success story. We are now in every category, in every organization, we have learned that we have to improve our OpEx basis. We have big benchmarking across the industry. We know exactly where our disadvantages are, and we have over achieved the target and we will even commit to more with regards to OpEx in the future to close the gap to the best-in-class productivity.

With all these changes in the group over the last year, we even improved our debt situation. We have reduced the net debt by €3.2 billion. So that is giving us a very good balance sheet ratio with regard to our ambition levels here. And this despite the fact that we have invested €1.7 billion into spectrum, that we had a negative foreign exchange effect, and that we did acquisition, PTC, we've acquired OTE, some piece of it, we had the Strato acquisition, so that we invested almost €2.6 billion into new businesses.

And the fourth topic is, we entered into new scale activities. Scale matters in our industry. This is driving economic value. This is driving return on capital employed. This is driving, let's say, the productivity of our assets and the network joint ventures in the UK, in the Czech market and even in Poland. This helped us a lot and the procurement of BUYIN is even contributing to the overall situation. So this is not just fact. This is a little bit of philosophy, how to steer the business of Deutsche Telekom.

By the way, we got appreciation for that one. We got appreciation on how you look at Deutsche Telekom three years after we have started, let's say, even five years after we have started our program. And this is just the fact and I do not want to teach you guys, you know that already, but this is how we look at this. This company is much more capital market oriented than it was three years ago and we really care about your feedbacks and we really care about the feedback we get from the KPIs here.

And one of the feedbacks which we got from this is that we are significantly rerated, by the way, strategically very important for us. Why? At one point in time, consolidation will take place in the European market, and then it's very important that your rating, that your multiples in this industry are ahead of the average of the industry, because that would give us the currency.

And if you could see from the grey line, that was where we were in 2010. The average of the market were traded at €4.5 billion or – sorry, €5.4 billion, while we were trading at €4.8 billion. So we were significantly below the market valuation. The red line is where we are today. On 2012 numbers, the current multiple is €4.4 billion while Deutsche Telekom is traded at €4.7 billion.

So, Deutsche Telekom experienced a significantly de-rating over the last three years in this European environment. The total share of the return of Deutsche Telekom and I compare ourselves with the relevant peers here is better. Vodafone has another business model, both of us is even FTSE, so they have even a better performance than we, but the rest of the industry in Europe was significantly worse than Deutsche Telekom. And this is something where we say we want to be predictable and reliable because in this difficult times this is a brand attribute which we want even to play in the future.

And at the same time we were very lucky, because 60% of our equity value is in Germany and therefore, Germany is much better performing than the rest of Europe and therefore we had significantly better financing conditions than anybody else, and you know that from a spread perspective. Our five year spread currently at 91% while our competitors are at 125%, 170% or even 280%. So therefore, we could refinance at very low conditions which makes our portfolio a very well hedged one.

So, therefore, we are on the right way. Are we happy with the share price? Are we happy with, let's say, the feedback which we currently got? No. And by the way, I personally hold a lot of the shares of Deutsche Telekom and therefore, we are not happy with this development. And the reason for that one is not the dividend or the dividend yield, the reason for us is we have to regain growth. This is the biggest driver for this stock. And therefore our entire ambition, even the feedback which we got from you guys was always what could you do to regain growth of Deutsche Telekom?

And the reason why we are coming with this huge investments into Germany, with this investments into the U.S. market because we think in this two markets, their opportunity to regain significantly more, a value by gross stabilization or even growth. This is why we are – where we have changed our strategy towards more investments into these areas.

So now, how are we going to tackle that from a finance perspective? You have heard a lot of stories today from Niek Jan. You have heard it yesterday from John, from René, about how we want to grow the business and how we invest into the business? The question of my presentation is, how is finance as a function supporting this ambition? And therefore, I'm focusing on our role within the organization and I'd like to mention four areas of activity within the finance organization.

First, onward efficiency management. Efficiency management, it says that it is very important, by the way, both on the OpEx side and on the capital return. I think we're all underestimating the capital return issue.

Second, if the how – if the question of how are we doing things? If it's not giving us the right feedback, we have to question even the – what are we doing? And therefore, we even have to question, do we have areas where with portfolio decisions, with portfolio changes we might improve the value of this company?

Thirdly, we have to stay prudent. Risk management is in this difficult times, with the core business in Europe, is one of the highest priority we have to face, and we have to manage differently in this kind of volatile environments.

And the last topic is about how do we think about stakeholder management? And stakeholder for us is not only the owners of these companies; it is as well the debt holders of this company and it's as well, let's say, the entrepreneurs of this company. So how do we find the right balanced approach from the finance perspective here in this regard?

So you have seen all of the slides for each of the divisions already. Now going up 10,000 feet and giving you the full picture of Deutsche Telekom. We said the driver for value of that company's growth. So therefore, we're investing into the business, but we're even investing into customer growth. So, we are expecting growth not only from our core business. On top of that, we're expecting growth from the integration of Metro and its new markets and what heard yesterday.

So, if we want to see that growth, we have to invest more. This growth is coming not just for free and therefore, we have to agree to, that is on the right side of this slide, we have to increase the CapEx. The CapEx is going up from €8.3 billion to €9.5-ish billion, including the Metro for 2015, and I'll come to the CapEx profile later on. At the same time, if we are investing more cash into CapEx, we could rebalance part of this CapEx by less special factors. How is that working? We employ more people in Germany for building this infrastructure. So we could save some of the special factors, so we balance cash in the group by having less special factors for the upcoming years for the time of the build out.

On the other side, if we want to grow, we even have to increase the variable costs, because growth is always coming in our industry with market invests, subsidies into the handset side. So therefore, if you want to see growth, there is every industry in the telecommunication, automatically an increase on the direct costs, our variable cost side. So if you look into our EBITDA profile, if you look into our cash flow profile, if you want to see growth, you even will see higher direct costs.

So therefore, you cannot just watch the full picture, you even have to look into the details of our cost structure. The direct cost they have to increase. At the same time, we are reducing our indirect costs. So this is, let's say, the focus of every cost measures that we say invest into the market; for instance, €200 million more in Germany next year, into improving our market leadership both in fixed and on mobile, but at the same time, reducing everything what is needed, not needed in this company. Reduce the indirect cost significantly.

On top of that, and I'll go into that one later on, you could say, oh gosh, these guys are investing more, so their net operating asset basis, their capital basis is increasing. So the cost of capital is increasing as well. What you might know from your models is that we have now depreciated a lot of, let's say, assets from the past. And by the way, I'm not talking about the impairment issues here; I'm talking about, for instance, run infrastructure about lean technique from German's infrastructure coming from the reunification. And this has now depreciated this asset base. So in the future, you will see significantly less depreciation of Deutsche Telekom despite the fact that we are increasing our CapEx for the modernization of the U.S. and for improving our broadband infrastructure in Germany.

This together is driving the return on capital employed of this company. This is improving the return on capital employed of today of 4%, we know that is not sufficient, up to 5.5% in 2015, 150 basis points, and by the way, that sounds not big, this is an increase of 40% – 40%. And I will go into this return on capital story after. So this is the picture how this business model will change in this dynamic of more investment into markets, more investment into infrastructure while at the same reducing our indirect costs.

So talking a little bit about CapEx. CapEx, two programs, by the way very focused. We are not investing everywhere. You have heard that from Reinhard and Klaus just in the presentation before. We keep the level of CapEx in Europe where it is today, but we will increase in the two areas where we put our chips on the table which is INS in Germany, and which is the network modernization in the PCS integration in the U.S. €6 billion total program for Germany. We ramp it up now, it will have, let's say, half of a year, 2014, and then kicking in 2014, 2015 and beyond. So we will have €4.1 billion in 2014, €4.3 billion in 2015 and then for 2016, 2017, in this vicinity, even slightly higher.

In the U.S., we have started our LTE modernization already this year. It's a two-year program. So there is another peak coming next year. But then with the MetroPCS even higher, €4.7 billion to €4.8 billion including the CapEx for the synergy realization, but then going down to a normal level. And with these two measurements, which are temporarily little bit, let's say, delayed, we get an over CapEx profile in the vicinity of €9.8 billion, €9.5 billion over the next years.

For the next two years, before the growth the payback of the infrastructure investments, the turnaround of the postpaid business in the U.S. is kicking in. We have a lower CapEx which is the €5 billion number which we already mentioned, and I will show you the cash flow profile of this €5 billion for 2013 in a detail now. 2015 with the growth prospects, with the perspective which we have in the group, we return to a €6 billion number, so if you question how do you come up with your dividend story? The story is that, we foresee a certain high level of investments and free cash flow reduction for the next two years. We link our dividend commitment predictable and reliable to this cash flow, thereafter we see an increase of cash flow, and it would be unfair to already commit to the same level for 2015. Therefore we say with the increase of cash flow in this year, we then will review our dividend again.

How is the free cash flow development? And I think that is very important for you to know. This year we are very comfortable on our way with regard to the €6 billion. You saw that already in the three-quarter numbers. We have a very strong cash profile in the group, how we managed the assets throughout the year.

If I would just forget about our focus investment strategies for U.S. and Germany, and just move on, the free cash flow for next year would increase. Operationally, without investments we would see, on the one hand, the EBITDA impact from the businesses which are slightly declining. On the other hand, the integration of MetroPCS with its EBITDA performance, so an EBITDA improvement of €600 million on the free cash flow profile.

There are measures on operating working capital of €200 million and there are less restructuring cash-outs, which we foresee for next year of €200 million. With the others together, we would be in the vicinity of €7 billion cash flow for the next year. So a very rich cash profile.

Now we took this as a very strong position to say this is the right time to take part of this money and invest it into our infrastructure. And, therefore, we have the investments, which are affecting our cash flow. First, €200 million into market invest into Germany. You saw this great track record which we have on the LTE, on the Apple iPhone here in Germany. You saw, let's say, the 550,000 net adds on postpaid. We want to keep that momentum and invest even more into this valuable postpaid area in Germany €200 million, €300 million on top of is going into the INS half of the year.

Then we have the total effect of CapEx for the U.S. This is now cumulative a lot of areas inside. It is the peak investment into LTE and it is the cost for the synergies which we have to pay in the first year to get them realized over the periods thereafter. This is, let's say, the total area of integrating Metro into T-Mobile and at the same time the LTE modernization. And then we have the gross impact from the value plans including the Apple, including the Apple impact for next year.

Maybe we could later on in the Q&A talk about, let's say, why is that this amount of number and how is this business model of working capital working? It is not SAC, it is a working capital impact which we have with the value plans, and therefore, we have this gross effect, by the way, partially managed by the working capital improvements in the U.S. on the left side.

And then we have some cash savings in Germany on top of that, which is €500 million, by the way. This is due to the fact that we are focusing on INS, while we are reducing investments into legacy systems, less into the old infrastructure, so we are able to refinance part of that INS next year by reducing our overall CapEx burden in it.

So this will bring us in the vicinity of €5 billion and by the way this €5 billion is right including MetroPCS and excluding MetroPCS. So, that is the reason that we say whatever happens next year, this group is going to make €5 billion of free cash flow.

For 2015, two drivers, the first one is the operational turnaround in the U.S., a big driver by the way for 2013 already for the improvement of our story. But this is one of the drivers for the €6 billion number and the second is the improvement on the revenue profile both in Germany and as well as in Europe.

This is the CapEx piece. I mentioned the cost piece as well. On the cost side, and that is now maybe something which we didn't had to communicate in the past. Because in the past, we had always a shrinking business, and in shrinking business both direct and indirect cost went down. Now anticipating growth, the direct costs are going up. 26% of our revenues in 2012 are direct costs, market invest, customer growth. This is going up in our planning to 29%.

Now the good message with this is, if growth is not coming, this cost will not come as well. This is absolutely, let's say, linked to the growth profile of the group. So, if you would not see the growth, this is automatically windfall for the profitability. On the other side, you see the indirect costs which is today 44% of our total revenue and our ambition levels now, they are to reduce this indirect cost from 44% to 42%.

How are we doing? We have a program of €2 billion. Is that enough? No. It's not enough and we are striving for more. We have the benchmarks in the group. We want to close the gap on the performance to the best-in-class peers here, so there is more to come. But we have to talk about things which are predictable. And if I talk about what are the programs, just to mention some high lines, there's €1 billion indirect OpEx reduction in Germany, there is €600 million coming from indirect OpEx reduction in Europe, there's a huge program up and running in Europe, and then we have in our shared service functions, which are mainly yet in the GHS, a 4% annual indirect OpEx reductions for every single year in our planning cycle.

In the U.S., indirect, we save money; direct, we invest the money. So there is a gross impact, there is no net impact, while the €2 billion are net impact. So therefore, there is a balancing effect here which you have to consider. In Telekom IT, only to mention that is another area Klaus, Reinhard on T-Systems laid out earlier.

So to give you a flavor about the content, back office transformation is a big issue. Shape our call, shape our [cool], so shaping headquarter, 40% reduction is on its way here at the headquarters. And we will trigger other programs across the group.

Second, IT modernization, mainly retirement of platforms, it's a big driver, desktop modernization, only to mention one. We have in T-Systems, the master plan business which Klaus mentioned in his presentation earlier, and then we have this eCompany approach, the more automation, the avoidance of certain service issues within the group, which is another driver for these things.

And the last one is the NT transformation, the All-IP transformation which hopefully came across while Claudia presented the technology strategy. I think All-IP transformation is going to be the biggest game changer for our industry in the mid-term perspective, comes with some CapEx, but at the end of it, fundamentally changing the business process how we're operating in an All-IP environment.

So therefore, you see that we are striving for cost savings and I could tell you this is not going to be the end. This is just the extension of our program. We are working on even more savings in our footprint. Yesterday some of you guys said investors don't care about return on capital employed. Honestly, I found that frustrating because I'm caring so much for return on capital employed, but for us return on capital employed, and I thought this morning about why is that not relevant for you? Okay, you take the price of the asset as it is today and you don't care what is in the past.

But if we could improve the return on capital employed, so investing less and getting – squeezing more out of the asset, this must be relevant for you because this is creating value. So therefore, I think it is very important to consider or even to mention that return on capital employed is and stays ultimate and most important criteria for us as a company. I know that we are much more focusing on this one than other competitors but the funny thing with this is, we are benchmarking ourselves and please do that if you have some spare time by waiting on your flight tonight. So, on this return on capital employed, what you will find out is all peers in Europe have lost significantly return on capital employed while Deutsche Telekom at the same time, against the trend, improved their return on capital employed on the assets. So in the benchmark, we see that the efforts behind this initiative is worthwhile doing it. And as I said tell you, we have changed the way our investing. One example, sell first, build later. If you build an infrastructure on the ground which is not used and you're not focusing enough on yield management, this asset is eating money every minute. But if you already sell something which is using this infrastructure, you have a minimum utilization on this asset already from the beginning and this is how we drove the build out of the infrastructure, especially in Germany over the last year.

We always build new platforms. Just think about ATM, [ESD] and all the platforms which this industry built. But how often are we retiring platforms. So reducing our platform is ultimate important because this is capital employed. Resale of unused assets, what could we sell? What is better out of the business? I think this is what the industry already does, but there's still more to come. I have €10 billion of real estate on my balance sheet, €4.6 billion in Germany. I do not need this real estate. So the constant pressure on this one to get it off my balance sheet is helping us on the return of capital employed.

So, therefore, return on capital employed is even part of our portfolio analysis, and if you would say why have you done all the network sharings? We're doing more networking sharings than anybody else, the reason is better utilization of assets. The UK story is a story about scale and even the Metro transaction, we have an empty infrastructure in the U.S., but with – and the utilization which is not delivering on the capital parts, but with Metro, with its customers, we immediately better utilize the infrastructure, improve our return on capital employed. So, I think it is from fundamental importance to further reiterate, to further address this issue.

If you look to the right side, you see the challenges which Deutsche Telekom is facing. These are sensitivities on our return on capital employed. The expensive UMTS license is still burdens on our shoulders. It cost us 0.5 percentage points compared to our peers. Regulatory factors have cost us 0.2% points. The U.S. impairment tower deal cost us 5.9%.

By the way, this is something we haven't foreseen when we started our return on capital employed story, that we are carrying a lot of burdens from unutilized assets from the history, goodwills of €20 billion, which are now down to €14 billion. The cost from the reunification from Germany and to build out which are now depreciated, or you take the personnel cost advantage in Germany which is burdened on us on 0.5% on our return on capital employed.

The good thing is we know exactly where our disadvantages are and I promise we will focus on getting and closing and closing this gap on this disadvantage, which we are carrying. €1billion additional CapEx is affecting our return on capital employed by 0.2% points and 0.1%, €100 million EBITDA is affecting our return on capital employed by 0.1% points.

So, therefore, the growth and even the EBITDA, which is coming to that one, is the biggest driver to improve the return on capital employed of that both. So, therefore, even here, the story of going into an investment, going into this change of our paradigm to regain growth is very much linked to the return on capital employed story, because EBITDA is the biggest driver for improvements. I do not want to go into the areas where we are focusing on at that point in time, because I mentioned them already, but increasing the revenues, improving the profitability margin, reinvestment rate around 1-ish for our industry and an asset turnover of 0.6 times in a minimum is something which could lead you a little bit on how we're going to improve our return on capital employed to give you an impression.

Today I have 0.5 times asset turnover, very low asset turnover. And if I improve it to 0.6 times, this equals €4 billion more revenues, €4 billion more revenues. So, therefore, squeezing the assets in a better way, utilizing it more efficiently, yield management for this industry. This will drive return on capital employed in the future.

And there's another issue I'd like to mention in this regard. I've mentioned that already 100 times to you. I think EBITDA is the wrong way of measuring this industry. Earnings per share and EBIT would be much better for an industry which is almost stable, slightly growing and an industry is carrying around billions of assets. And you can see that all the CapEx which we generate, they increase or decrease your asset base over time. And the EBITDA is just ignoring it. You look at the EBITDA and you just see what is coming out. But nobody is questioning how much asset got invested to gain this EBITDA number. So therefore, the EBIT would be a better steering mechanism to see what kind of costs are these guys carrying around and especially in a carrier where we invest now into Germany and the U.S., this question gets more relevant. So, we don't want to teach the market. You get the EBITDA, but in the future, we will give you a much better insight and transparency about the EBIT as well. Because what we see we have now squeezed, threatened, impaired our asset base big time over the last three years. And what we see now is our EBIT is going up already next year.

We have an improvement on the EBIT just you know by less assets, less depreciation which is a windfall from the history now which is improving our EBIT immediately. And by the way, same happens to our earnings per share.

If you look into the planning, the best KPIs are my earnings per share from our EBIT. They are going up immediately already next year. And the good one we can't fuck it up. You know why? Because the depreciations are slowing down anyhow. We cannot do something about it. So therefore, we have only to give you an impression next year €1.7 billion less depreciation than over the last year.

The old assets are gone, they are forgotten, and now we're investing in a return on capital employed logic which is clearly giving us a better payback and therefore, with the profitability and growth margin, we are able to improve our EBIT, we are able to improve our earnings per share, we are able to improve the return on capital employed. So two areas, the business growth and the less depreciation of the asset base.

The asset base went down from over €120 billion three years ago now down to €100 million next year. So that is I think something you should consider by looking into our numbers and I will definitely look more giving guidance into the markets on EBIT and on earnings per share.

So now we have questioned the "how." Let's talk a little the "what" we are doing? And efficiency cost management and return on capital management is one, but how could we raise value out of the assets. And I think our M&A team, they did a great job over the last time. I think this is a very bright and smart team, and if I compare my ideas since over the last three years, being at the everything everywhere deal, and I'll come to that in a second, even the break-up thing, it was a big frustration for us, don't believe us that was easy to digest. But at the end of the day, I would clearly do that again. The PTC partnership today is a very good cash rich business, BUYIN, the network joint ventures and even some small acquisitions, so done deal.

For the future we should do it the same manner as we did the last three years. Honestly we were heavily criticized, but by the way not from you guys, more from the press. Why are you not expanding into emerging markets? Go to Africa. I'm glad that I am not in Africa. Go to Asia. I know about the impairments and the problems on spectrum and all these issues in Asia. It was wise that we focused our assets where we are, strengthen the strength and not doing big M&A, and we will not do more M&A outside our footprint even in the upcoming future. We cannot waste our sources outside. We will be focused on the U.S. and focused on Germany.

Second, we have to reconsider whether we could create some value out of assets which we hold, and to improve, let's say, the capabilities of Deutsche Telekom and its core. And therefore, everything everywhere is one story. And I'd like to talk about the IPO, a potential IPO or the strategic review of Scout. Scout is a very attractive business grown nicely in the past. But we want to expand that business, should I now put more cash on Scout or should we consider that Scout might be a self-funding business. It will be even value enhancing for us to see how this business might trade. So we might even consider at reasonable prices an IPO for our Scout entity which has nicely developed with double-digit growth over the past.

And what we will do as well without damaging our balance sheet, which we will focus and participate in future activities. I think Strato is a very good example, it's developing nicely in our portfolio, but there are even other areas and we have a lot of, let's say, facilities know how to drive business in the DBU, T-Venture and in the growth areas.

Let me spend some one sentence on everything, everywhere. This is a success story, and by the way, there were lot of people questioned that at the beginning, saying how could that work, that's two loose cannons in this UK market, even German, French, are trying to bring their business together, this will never work. And I could tell you, today, we have the clear number one leader in the UK market. Our contract customer base has grown by 22%, more than 50% of our entire customer base are contract customers. We have a significant uptick on our valuation. Okay, show me the money. Show me the money.

How could we do that? We do not have to sell that business. There's no need. I do not have to refinance my balance sheet by selling assets. Not needed. But to take a piece of that off the table, to bring it back into German's business, to just realize some value and to boost the management to go even beyond that, to be a clear differentiator in the UK market, to be the pure mobile play, British mobile play, I think this is a value. It's going to be some of the most exciting IPOs in Europe, by the way even one of the biggest. It's a number one mobile player, but we would not do that if we would not do a smart year. It should be a good year. There is no need to do it. But should we consider it for value creation? I would say definitely, yes.

And therefore, we have with our partners in France Telecom, we have now agreed to start the process, to talk to investors, to understand how you think about it and then throughout 2013, including the market environment creating additional value for Deutsche Telekom and maybe taking some of the money off the table at that point in time. I think a great success story and I do not mention [VAT]. We will first accomplish our auction on the spectrum and then I think all the maybe question marks around this business are gone, the branding has been taking place, the LTE rollout is on its way and even the spectrum is then digested and guaranteed so that we have a good story to tell.

Let me come back to predictability and reliability. I always said that and you know that from the road shows, I'm always talking about a well-hedged portfolio and that was already one or two years ago. This portfolio is well-hedged because we have not make adventures outside our footprint. If you look to that one, 85% of the portfolio is in market and that is from our risk profile and I do not go into the details here what we call more or less safe havens.

The U.S. is recovering big time and faster than the European footprint, Germany is the safe haven in the Europe environment and Poland is a very nicely growing business in a growing economy. And interesting-wise, if you look to the European pieces, I would say there's huge value inside as well. If I would apply and you'll show us the multiples, this business is traded at a four time multiple, okay, due to the macro economic challenges. But if I would look into the free cash flow yield or the dividend yield of this business, this business is entirely undervalued at that point in time.

So at least you took already some deviation on this asset or some impairment on this asset from your side, but I could tell you, I look different on it from a free cash flow yield. If I just apply our free cash flow yield for Deutsche Telekom. This is already huge value take-up. So we have to more convince you, to more talk about Europe what the value and what the risk profile of this separate entities really is because I believe today this entity is not in your focus and it is more valuable than we see.

We have used this portfolio and at times to really reduce our interest costs. With the low interest rates, we were able to reduce our averaging cost of capital from a lender perspective by 10% since 2010, and I mentioned already, let's say, that our yields are 60% below 2010. So, that gives you an impression even here. This is a hedged company, predictability. It is not a volatile risky asset and by the way, this is what I want to sell here today.

You see the well-balanced maturity profile and I could tell you I have another slide where I compare our maturity profile over the next year with the ones of our peers, and there's not another player who has this well-balanced maturity profile. There are no peak refinancing, not at all. I have a €4 billion to €5 billion refinancing on a yearly basis and only to see that 2013, OTE, just this is maybe news for you, fully refinanced already beyond 2013 increase.

And the last one is the strong liquidity reserve position. We have today 36 months of liquidity reserves in the group, so therefore we are well beyond this – well beyond, let's say, our comfort zones. One sentence on the pension plans because I always get that question from you, is there any kind of risk which I don't know. I want to understand this risk profile. Quickly, our defined benefit obligations are at €8.7 billion in our books, and by the way over 2012, we have adjusted, let's say, the accruals based on an interest rate of 3.5%, which is by the way good average of German industry, if I compare myself with, let's say, the DAX. So this is an increase of accruals which you'll find on the balance sheet.

By the way, they don't matter because at the end of the day what matters is the cash which we have to pay for the pensioners account. This is just an interest effect, the bookkeeping. On the cash side, what you see is that we have a profile which is not increasing, it's going down, it is leveling up for the next year and then going down, why is that? Because the obligation for civil servants, they are going down big time and for the normal employees at Deutsche Telekom, they are slightly increasing. Overall, €0.9 billion cash flow affected over the prospect of the next years.

Now you could question, how much of that is external funded already? If everything would be funded externally, this would not affect Deutsche Telekom's cash flow at all. Today, we have an external funding of 20%, so this is, let's say, outside of Deutsche Telekom, it is managed by a big group. By the way it's reasonable interest rates are interesting-wise, so therefore, we're going to increase this external funding to get this money out of our operation system that we really could say cash is for business over the next year and we're going to increase that up to 50%.So that we really, let's say, have this money safe at the side, that there are no surprises from any kind of cash flow affecting, let's say, the operational business in the future. If you have more question on that one, please don't hesitate to talk to myself or to the team later on.

Coming to the debt market because that is even a very important partner for us and we want to be predictable and reliable for these guys as well. And what you could see here is that the trend over the last years, Deutsche Telekom was very stable, very stable with this BBB-plus rating over the years or A-minus whatever you take, but in this vicinity.

Our planning, including, let's say, the development of free cash flow, including the additional CapEx, will not change, it will even improve. That is what you see at the end of the story, net debt to EBITDA. We keep the comfort ratios as you know from the past.

So, what has changed? The rating agency might change the corridors. And we do not want to come into the position when the corridors are changing for industry that we have to stop our investment programs or that we even have to discuss the dividend again. To make a fair deal out of that, we have said even if the rating might be BBB, it will not affect Deutsche Telekom. We could easily refinance over the next years in this regard. We do not see any kind of changes by the way, but we just want to anticipate whatever happens in this universe that we are predictable for everybody, that we keep our free cash flow commitment, that we keep our dividend commitment, and at the same time, that we keep our undisputed access to the debt market to refinance this company at any time.

I know there was a lot of discussions about dividend and especially about the dividend in kind. Honestly, I thought it was a good idea. I know that some of you are pushing back on that one, but for me, the idea was there are companies who are from a share price affected because they are refinancing capabilities. So the more equity is in a company, the less leveraged the company would be, the more safeguarded is this company even from its shareholding, from its share price perspective. And if there would be shareholders who would be committed to leave the money in the business, they would not only improve our equity, they would even give the signal we believe in the story of this company beyond, let's say, the next two or three quarters. It's a commitment because it's – they're giving their commitment on the stock.

And therefore, we discussed that if we never sweat, it would be the best situation in this big transformation phase. And therefore, we have created this dividend in kind as an option, as an option, that people could decide to leave the money in the company that we are developing this business in the right manner accretive for them as well. And one shareholder, one major shareholder has very seriously considered to opt for this dividend in kind. So therefore, we do not know how the acceptance rate is. The cash, the dividend, will anyhow stay the default option, and there will be no premium whether you decide into a dividend or whether you decide into a dividend in kind.

So, let's see how this evolves over time. It will be, again, tax-neutral, so both instruments will be absolutely equal in the way how we treat it, and this will be already applied for the dividend paid for 2012 in 2013. So, we expected $0.70, which we netted. The cumulative dilution is expected to be very limited. It's just another instrument to foster, to attract customers to go into the growth prospects of our company, to stay in this company, to give a commitment towards our equity.

This brings me to the end. You know the slides, my $10,000 slides. And I'm presenting that even if you do not want to see that again, but this is the comprehensive description on, let's say, a balanced approach how we're looking at it. We have the owners, we have the debt holders, we have in the middle of the company the entrepreneurs and the employees. Compete, Transform, Innovate is the strategy. I hope you got a flavor during the last day on what we mean with this.

I think we were very detailed in the way how we going to drive this growth, but we will not do that just on purpose, we will do that supported with a strong efficiency management, $2 billion commitment and return on capital employed focus.

And we will do that supported by portfolio management. No big M&A, strategic review of Scout and everything, everywhere in this capital market. Not a must, but maybe a good value enhancing story for our stock, and we will do that in an environment where we keep a well-hedged risk profile. So, that we keep, let's say, this low country risk profile.

On the debt side, we'll keep the same ratios as we have laid out in the past. We don't change that, net debt-to-EBITDA, 2 to 2.5 times; equity ratio 25% to 35%, by the way, to currently at 31%; liquidity reserve covering the maturities of the upcoming 24 months; and we keep a rating of A-minus, BBB as an orientation for our debt holders.

On the equity side, we make the third year of our 2010 commitment, and by the way, last man standing. We delivered what we promised. With regard to 2013 and 2014, we thought about, would it be better to give a percentage? Would it be better to give it for one year? Would it be better to give it for three years?

And after a long debate, we decided to say, predictability is a clear commitment. The €0.50 is what we could deliver and our free cash flow is supporting that. You know that. The payout ratio is 42%. For me, it's more important that you believe in the €0.50 that we are always able to deliver than rather having a high number, and the next day you question this free cash flow will not deliver on the dividend.

So, we want to convince you that this €0.50 is safe. And by the way, this €0.50 is in the two years, where we transform the business and this is guaranteed. If you do better, we could always talk, but we expect the investments. In 2015, we see a profile which is increasing and therefore, we say it would be unfair. It would be not a balanced approach if we would say we would make another €0.50. And therefore, we say this is the year where we review our profile, whether we then could go back to the €0.70, whether we would then have another balanced approach towards our free stakeholder groups. So that is why we did it, and hopefully, you could follow the logic that the reliability behind that isn't for me more important than the size.

Next year, €17.4 billion EBITDA, €18.4 billion including MetroPCS, group free cash flow with or without MetroPCS €5 billion. Shareholder remuneration €0.50/€0.50, I mentioned that. Mid-term I think growth growing 2014, turnaround next year in the U.S., growing EBITDA 2014, coming back to €6 billion of free cash flow, improving our earnings per share to €0.80, Group ROCE to 5.5 percentage, 150 basis points up and shareholder remuneration 2015 to be reviewed then on basis on the development on our story.

That's the financial contribution to the story. This is the summary, let's say, of I think, our sessions. Thank you for listening.