# FINAL TRANSCRIPT



# DT - Deutsche Telekom Investor Day

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## CORPORATE PARTICIPANTS

**Stephan Eger**
*Deutsche Telekom - IR*

**Tim Hoettges**
*Deutsche Telekom - Member of the Board of Management*

**Christian Illek**
*Deutsche Telekom - Member of the Board of Management for T-Home, Marketing*

**Thomas Berlemann**
*Deutsche Telekom - Member of the Board of Management for T-Home, Customer Service*

**Thomas Dannenfeldt**
*Deutsche Telekom - Member of the Board of Management for T-Home, Market and Quality Management*

**Ralph Rentschler**
*Deutsche Telekom - CFO, T-Home*

**Reinhard Clemens**
*Deutsche Telekom - Member of the Board of Management*

**Joachim Langmack**
*Deutsche Telekom - Chief Sales and Service Officer, T-Systems Enterprise Services GmbH*

**Zwezdana Seeger**
*Deutsche Telekom - Chief Systems Integration Officer of T-Systems Enterprise Services GmbH*

## CONFERENCE CALL PARTICIPANTS

**Matteo Novelli**
*BNP Paribas - Analyst*

**Matthew Bloxham**
*Deutsche Bank - Analyst*

**Peter Kurt Nielsen**
*Cheuvreux - Analyst*

**David Strauch**
*Oddo Securities - Analyst*

**Nick Delvas**
*Morgan Stanley - Analyst*

**Stefan Borscheid**
*WestLB Equity Markets - Analyst*

**Louis Hart**
*Dresdner Kleinwort - Analyst*

**John Karides**
*- Analyst*

**Damien Maltarp**
*Cazenove - Analyst*

**Frank Rothauge**
*Oppenheimer - Analyst*

**Simon Duff**
*M&G - Analyst*

**Justin Funnell**
*- Analyst*

**James Bolinker**
*Bear Stearns - Analyst*

**Ulrich Trabert**
*- Analyst*

**Graham Ruck**
*Merrill Lynch - Analyst*

## PRESENTATION

**Stephan Eger** - *Deutsche Telekom - IR*

Hello. Good morning. Welcome, everybody, to the Deutsche Telekom Capital Markets Day. It will be a bit different format than performance we've had in the past. In the past, we had the one-size-fits-all format. We are now trying to educate you and trying to help you on our single businesses in a more diverse way. We are doing T-Home Germany and T-Systems today. We will be doing other businesses like the T-Mobile U.S. and UK business later on in the year.

So what we will be doing this morning is I will show you the T-Home management by Tim Hoettges and the team, and he will introduce the team in a second. We will do around about an hour of presentation, followed by a Q&A session. And we will have a very quick 30-minute lunch break. And after that, we will be doing T-Systems. The management team are doing a presentation on the overall setup of the new strategy, speaking also about the partnership, followed by a Q&A session as well.

Thank you very much, and I will hand over without further any ado to Mr. Tim Hoettges, CEO of T-Home.

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

Thank you, Mr. Eger, Stefan. Good morning, ladies and gentlemen. Welcome to the first part of today's session, which is the T-Home part. What are the objectives of today? Let's maybe start with what are not the objectives of today. In these gloomy times, we don't want to give you any kind of negative guidance for our business today, so that is the good news.

There is more or less a confirmation on what we have announced already in 2007. We are going to show you what we have achieved in 2007 and we're going to show you the program for 2008, the six initiatives with a detailed operational focus behind. We are going to show you the positive and sustainable revenue trend on our domestic business. We are going to show you the EBITDA impact, which is improving as well.

But before I go to the details, I would like to introduce you to the protagonist of our difficult turnaround here in the domestic market, and members of our management team here. There is Christian Illek, this is Christian Illek, who is heading marketing since one year. Then we have Thomas Dannenfeldt. Thomas Dannenfeldt is responsible for market and quality management, and he is running the very detailed Save-and-Service project within T-Home.

Then we have Thomas Berlemann, and Thomas Berlemann is running customer service for the integrated organization in Germany, and by the way, as excellent as he is managing his service, he is managing his private life. He became a father yesterday evening, so he organized it this way so that he is here today. So congratulations, again, to your daughter.

Then we have Ralph Rentschler here, head of the numbers. He is our CFO within the team, and I think it is very, very important that you experience a little bit the team, the new team which is now working since one year, and the power behind, and the detailed work they are doing in their specific areas.

Before I go into my presentation, I'd like to draw your attention that we are talking only about domestic numbers today. We are not talking about let's say the Eastern European business, more in line with what we have on the guidance. Everything is fine with this business. We want to focus on the big business, on the tanker, on the German business. So all numbers are related to Germany today.

Last year, after setting up the new management team, we decided to focus on six focus areas. We called it the Big Six. And you should be quite familiar with these six initiatives because I think in all of the talks we had bilaterally or in other investor meetings, I always walk through these six initiatives. And I want to show you what we have achieved in 2007, and I want to show you what we are doing with these initiatives in 2008.

In 2007, some of you were quite critical whether we could accomplish all of them. And I am quite proud of telling you that we have achieved all of our Big Six targets so far, and in some areas as well overachieved what we have said.

Maybe I go into the details. Very important for us was the broadband market share. One year ago, in 2006, we had overall market share on the new adds of 18% only. By the end of the year, we have achieved 44%, 44%, of all new adds in the DSL environment. This is so important for us, because 2007 was the fastest-growing DSL year so far, and by the way, we believe it was the fastest year ever. We saw more than 4 million net adds in the market and we achieved a market share within our retail base of 44%.

It was the year of launching IPTV. We had a product, but the product wasn't ready for the mass market, and we had a get-well phase to bring all of the qualities in order, and then we launched the product at IFA, which was in September, and by the end of the year we achieved our customer number of 150,000 triple-play customers, IPTV customers, with our Entertain proposition.

We said we have the biggest integrated sales organization and service organization in Germany. And we said we want to be seen from a customer as an integrated provider, and we merged this organization from T-Mobile, T-Online and T-Home into one big service organization. At the same time, we said we are going to expand the salesforce. It is very important in a growing market to have the big distribution in the back.

As you could see, we have overachieved the target of new shops. We have now 804 shops. We have increased our shop base by 181, which is more than 23%. And we had used the T-Mobile T-Partner concept and extended that to the T-Home family as well. So now our T-Partners are selling all products from one hand. We have more than 1000 partners in Germany, all the big distributors are part of it, and a T-Partner is somebody who is selling 50%, 60% only Deutsche Telekom telecommunication products, and we have a very, very strong distribution on hand.

A very, very important point is if you want to, if you want to achieve a higher price or price premium from customers, if you want to create loyalty within the customer base, service is absolutely mandatory. Therefore, one of our initiatives is really to focus on better services, better service quality, and therefore we said we are going to improve four areas, four areas.

First, the achievability of our call centers -- here, we've said that we want to serve 65% of all customers get an agent within 20 seconds. We said the deadlines compliance of our technical field service is critical for the customer experience. We said we want to see an 80% deadlines compliance for the technical field service.

We said we want to reduce our order processing time down to one to two days so that we have let's say fast execution for new customers, and we had a huge, well, backlog, or let's say it is seven days' delivery time by the end of 2006. And what we've said as well as if we want to serve customer, the IT systems in the back have to perform. That was one of the most -- of the biggest criticism of our own people, who said we want to serve customers, but we're not able, because IT stability is not where it should be. And therefore, we focused internally to improve the quality of our 20 core applications and to stabilize them.

In addition to that one, we've said, okay, we have to reduce costs. With the price reductions in the market, with the line losses we are facing from a regular perspective, with let's say the possibilities of automation, we have to reduce our costs. We've said we're going to reduce our costs by EUR1.2 billion on a gross basis and a net saving basis of EUR900 million.

What you could see is we ticked all of them. We ticked all of the Big Six which we have promised. And therefore, I think it's the way how we are running the Company, that we say, okay, we look one year ahead. We have a clear KPI in mind. We have a focus for this more than 100,000-people tanker. We have a very focused program, and we tick them step by step. And therefore, it is really relevant to agree to the new Big Six program for 2008, which is already in execution.

Let's have a look to the broadband market in Germany. Here you find, on this slide, you find the broadband development of all European players, and you find as well on the right side of the slide the fixed line losses in 2006 and 2007.

What you could see is the gray bar shows you the net add situation in 2006. We were, with 743,000 new net adds, we were let's say significantly below market leadership in Germany. We only achieved a market share of 18% in 2006, and therefore we've said if we want to participate in the future market, we have to increase that pace. That is a supercritical point for us, because that is the value add for our business in the future.

And therefore, all our sales and marketing initiatives are focused on these areas, and by the end of the year we had achieved a market share of 44%. We added close to 2 million new customers to our base. This is more than anybody else in the European telecommunication industry. You could see that France Telecom with 1.3 million customers, British Telecom with 1 million customers, Telefonica with 800,000, this is more than anybody else. And what you could see as well, the market share with 44% is at peer level again in the European environment.

On the line losses side, you could see the line losses the industry was first facing in 2006 as well in 2007. You could see the Telecom Italian had a 6% decrease, Telefonica close to zero. British Telecom was 9% in 2006, 4% in 2007, France Telecom with 5% in 2006 and 10% in 2007. Our development was at 6%. So we lost 6% of our PSTN line bases, close to 2.1 million. If you compare 2.1 million line losses on single-play and we gained 1.9 million on double-play, so the relation between old business and new business, they're very, very close. Very, very close.

So I think we are back on par level in the market. That is definitely how we look at the position, and this is a good result, because the background for our business in Germany is different to the one in Europe. In most of the European markets, you have no strong competitors. In most of the markets, three competitors hold more than 80% of the market share.

This is different to the German situation. You know that we are facing strong competition in our markets. We have a very fragmented structure. We have city carriers, we have German-wide carriers, [as ARCO] and others, so the situation from a competitive comparison is different to most of the European markets. So I think the outcome from a growth perspective looks quite optimistic.

If you see the next slide, you see now the T-Home situation. The first chart is showing you the slowdown of our market share in the past. In 2006 and 2007, we were able to stabilize the decrease of our broadband market share in Germany. Today, we hold around 47% of all DSL customers. And by the way, I'm only focusing on retail customers, so I would say magenta customers. I'm not talking about resellers. I'm really talking about the customers, get a bill from us, where we have the possibility to upsell, the possibility to convince with our proposition.

We're not talking about the United Internet, the Freenet customers. They have partly PSTN lines with Deutsche Telekom, but the ISP, the broadband connection, is with them direct. The billing relation and the customer service relation is held by a competitor. So we were able to stabilize our broadband market share at a level of 46%, 47%.

On the right top chart, you see the net at market share. You see the development, Q1, Q2, Q3 in 2006. This was a disaster. And then we launched the Call & Surf proposition, well-perceived by German customers, and from this onwards, we were able in every quarter to achieve a market share above 40%.

You know I'm coming from the mobile business, and you know the mobile business. You will not find every quarter a market share of 40%. Mobile sometimes has a market share of 34%, then it goes up by 40%, then it is going down, so it is always an up-and-down. So it is not easy to steer the distribution always in order to achieve the same share.

Therefore, I was quite surprised that we were able now for five quarters in a row to achieve a market share beyond 40%, and we had a very strong Christmas quarter in the fourth quarter. We gained 526,000 new customers alone in the fourth quarter, where all of our competitors were in the market with new propositions, with huge advertisings. So that shows that German customers gained more confidence in the proposition of T-Home than ever.

Nobody in the German market was expecting that we could act during the strike. The second quarter last year was the biggest strike we ever faced. We had more than 500,000 strike days at this time, and in the middle of that strike, we launched a new Call & Surf tariff, a new proposition. We lowered the price by EUR5. And honestly, at that time, I think our competitor, they thought they could launch whatever they want. They can't leverage this new proposition.

What we did in the second quarter is we approached the entire customer base. The call centers were working, and we approached them, and we convinced the customer at that time to shift from old contracts into the new contracts with a 24-month duration. At that time, we were able -- and you could see that here. In the first quarter and the second quarter, we were able to convince our customer base to enter into 24-month contracts, and by end of the year, we held 85% of all customers within 24-month contracts.

This is helping us significantly to reduce the churn. If you get an impulse by an advertising, EUR9.95, EUR19.95 -- on the High Street, if you go into a new contract with one of the competitors, our customers are not able directly to change their lines. They have a commitment with us, and we have the opportunity to convince the customer to stay with us. We have the possibility to show them our new propositions. And what we see already in 2007, but as well in 2008, is that the churn of our DSL base has significantly been reduced. So I think the broadband, the retained broadband customers, is one of the assets we hold on hand.

In 2008 the business is, in this area, the same as it was in 2007. First, we concentrate our market investment in the first half of the year. This is the area or this is the time of the year where we will see the highest net adds in the markets. So we see that January and February is always strong months from a net add perspective, so we are focusing with new propositions. We have attractive provisions for our distributors. We have new propositions in the market. We have launched at [CBIT]. So we again are at a high run rate first two months, when it comes to our market share. And we hope that we could stabilize that level throughout the year.

Second, we have new portfolio adjustments. We have new prices in the market. By the way, we have regional pricings as well. In markets where we are facing local competitors, we might have some attractive [acciones] pricings. This year, it is about win-back of DSL resale customers.

This is, I think, the very relevant information for you, because this year we are facing that a lot of resale customers are merging into all-IP propositions. So this is the time where we have to approach these kind of customers and to convince them on the Call & Surf packages. So I'm coming to that in a second again.

And then, I think we have established a new salesforce for very small enterprises under the roof of our T-Home sales and service organization, and we have a door-to-door salesforce, but as well a key account salesforce approaching the so-called Mittelstand in Germany. And even here, we have new propositions on hand, so we believe as well here is an area of growth for T-Home.

And then, we have established a new CRM program, more integrated CRM program for the huge customer base we hold already, close to 10 million DSL customers. You know, it is more relevant for the next maybe two or three years to work on retention than working on new net adds.

Coming to the Entertain product, the Entertain product is part of the CRM. It is part of the upselling. Last year, we said, okay, we don't have a countrywide VDSL proposition. We don't have ADSL2+, which is IPTV enabled as well. So we can't run countrywide advertisings.

We had problems with the order management. We had no specific call centers established for the customer base. We had to do a lot of trainings for the base, and we had to work on the functionalities and the quality of our network. That was so-called get-well phase, which we had at the beginning of the year.

At IFA, we launched the product, and since then, we are selling. Yes, we're still focusing on quality, always an issue, but now it is about really, let's say, the year of making it a mass-market product. And since IFA, we had the uptake. You see that on the customer development for our Entertain proposition. This is the name of the IPTV product. And you see as well the high-speed network coverage in Germany. We are covering 17 million already. By the end of the year, we will cover 20 million customers with ADSL2+, which is 16 Mbps, and VDSL up to 50 Mbps.

So we have a very, very strong network on hand. The money is invested. The competition is absolutely jealous about what we have invested here. We have a clear differentiator on hand, not only in the area of triple-play. Think about if this proposition would be able as well for DSL customers. This is a real differentiator. It is the not the last EUR5 which is attracting the customer; it is the bandwidth which is driving revenue in the future.

So we have an impressive network and we get the feedback from the customer as well. The T-Home Entertain customers are the most satisfied customers in our portfolio. We have an independent institute doing this kind of service, and the rate between the T-Home portfolio and the satisfaction of T-Home Entertain is 20 points, and this is, you know, the highest satisfaction within the entire portfolio, and by the way, interesting-wise as well if you compare it with other propositions from competitors.

So what are we doing this year? I think it is now selling. It is about selling, gaining new customers, but as well upselling into our existing base. That is the reason that we launched a new portfolio at CBIT this year. What you could find on the right bottom here of the slide, we have launched a new tariff. The message is you get IPTV for EUR10. That is the message. You get for a single-play and a double-play flat offer you will pay today on High Street EUR39, and with EUR10 extra, you get the full-fledged IPTV and video-on-demand proposition.

That is what we're doing. And this is now a price where we believe we could rapidly ramp up the customer base in this area. In addition to that, we are not only arguing on price, we are arguing as well on the proposition and the features. We have now new features, all propositions are with video-on-demand, with IPTV, with PVR, with timeshift, and we have integrated for the first time the media center so that you could watch your private photos as well as listening to your MP3 songs, that you could do that on the TV set as well. It is linked with the Microsoft world, and this is, by the way, a first step into our vision of the connected life and work proposition we're working on, that all IP-enabled contents are coming together and that you could experience them wherever you are.

We have that now within the Entertain proposition, and please have a look in the break -- we have a demo version out there, and it is an experience -- there is not a single one in Germany, not cable, not one of our competitors who could offer this kind of integrated functionality and this kind of quality of service when it comes to TV channels, when it comes to video-on-demand, when it comes to the integration with your PC environment.

So I think we have a great functionality on hand. We have a good price with EUR10 on hand, and the next important thing you should know is the ease of upselling we have with this proposition.

Think about 2006. The 2006 Call & Surf proposition was at a price point of EUR94.95 (sic -- see presentation). So a huge base, a huge amount of customers in our customer base today still pays EUR49.95. So the moment they come into retention, we approach them by saying, look, you will get IPTV for free. There is not a single euro you have to pay in addition. We avoid that we go down with the price in our base, and we're trying to upsell with this proposition and to enter the living room with T-Home proposition with the new Entertain Comfort pricing. So I think this is a very strong portfolio we hold on hand, and we are very confident that we're going to make 500,000 customers by the end of the year.

Coming to the next Big Six, which is about service, all incumbents in Europe, they are fighting with legacy systems, they are fighting with some negative image about their service quality and they have a lot of challengers who are more let's say loved than the former incumbent. And this was true for Germany, and you might recognize when I started with T-Home, I said we're not happy with the service we're offering. We have to improve the quality of service.

And that was the reason that we had four focus areas to work on, and I am very impressed about the work the team has done on the service side. You could see the call center availability. Today, we have the same service levels in T-Home as we have in T-Mobile, and T-Mobile is perceived as one of the most highly regarded service companies in Germany. That is not a question when it comes to customer service.

We have, in 80% of the cases, customers could get an agent within 20 seconds. And by the way, this level is stable since I would say now eight, nine weeks without any problems. So we are at benchmark level for call centers in Europe. There is no question. And that is something we want to stabilize throughout the year.

So our target level for 2008 is that we achieve this 80%. 90% in 20 seconds doesn't make sense. It is inefficient, and we know from all customer call centers in Europe that this is a level where you get high customer satisfaction as well.

On the technical service side, the deadlines compliance was at 82% by the end of the year, so this is our big technical field forces, 26,000 people in Germany in all areas, not only the majors, in the regions as well, and our target here is to achieve 85%. Now, you would question, why 85%? Why not 90%? Why not a deadline compliance of 100%? You should know that in 10% of the cases at least, the deadline compliance is impossible due to customers, because they change their agenda, they might not be around, or other reasons. So therefore, 85% is what we believe is driving customer satisfaction and is on the other hand cost-productive as well.

So to give you the perspective for 2008, we want to increase the service level to a service benchmark of 80%, the deadlines compliance to 85%. We want to increase the first contact resolution rate to 75%. We want to increase the automation rate in the order management, and we want to reduce the complain rate by 60%. We are well on track with that. I see that with the broad complaints I get every morning, so that is something we are focusing now in 2008, that we really want to reduce the amount of complaints we get in this big organization, and only think about the amount of transactions we're doing every day, and Thomas is telling something about that later on.

The good message, all of this is not coming with higher cost. The opposite is the case. It is coming with lower cost of service, or financially speaking, it is coming with higher productivity. We have less calls than we had in the past because there is no second, third or fourth call needed. We have less complaints. We need less people in the back office to work on this kind of subjects. We have less need to drive to customers, because more of the things get handled within the organization when it comes to (inaudible), to problems within the network. So this is coming with huge cost efficiency. That is the good thing with it.

And last but not least, it is not that we're talking about KPIs of Board members or that we're talking about KPIs of an internal organization. This is now measured as well from a customer angle. I don't want to go into the loyalty index which we measure every week. I only want to show you the customer care awards from the last two weeks.

We were the only call center in Germany, and I'm talking T-Home, the only call center who got the B grade; all the others had C or D grades in Germany. We are a finalist in the European Business Award. And for Germans, very important -- we got a Gut for TUV, TUV Rheinland Independent Institute, which is really relevant for German customers, and we were perceived the best call center in Germany when it comes to tech telecommunication. So I think sustainable improvements in service, undisputable but still ambitious targets and a lot of things to be done in the upcoming months.

The next slide shows you the OpEx savings of EUR1.2 billion or EUR900 million net savings we have achieved in 2007. There were a lot of concerns, especially in this group here, to say, okay, we have not seen it in the second quarter. After the strike, think about -- we had a lot of external suppliers supporting the after-strike phase. So we had to manage the huge cost turnaround in the third and the fourth quarter.

And we delivered on that one. We had an OpEx development of EUR3.4 billion in the fourth quarter, and the year before, we had spending of EUR4 billion, and all of this happened with higher service levels, with a higher run rate for DSL, with more spendings on Entertain and the VDSL proposition at that time. So I think it was a very ambitious target, but at the end of the day, we were able to deliver on that one.

Talking about 2008 and beyond, the good news is, and Thomas Dannenfeldt is talking about that later on, we have identified huge additional cost saving potential and we will realize them within 2008. We are approaching EUR1 billion cost saving as well for this year and beyond. And by the way, we do that without sacrificing services or sales abilities. It is not that it comes at the expense of growth or it comes at the expense of our customer experience.

This is now the Big Six program for 2008, and what you could see is we carry on consistently what we have done in 2007. It is a step-by-step-by-step. It is not an explosion or a vision for 2010 or beyond that, and now we work on that one for three years and then we come with the numbers, whether we achieved it or not. We do that very consistently on a year-by-year approach, with clear KPIs in the back.

We want to expand our broadband market leadership. This is the future business of that company. And therefore, we are going for another 45% market share in Germany. With all the competition we're facing, coming from resellers, coming from alternative carriers, coming from cable, we believe that we are going to be able to make this 45% market share.

We want to significantly reduce, significantly decline in our revenues already this year. For us, the main focus is on stabilizing EBITDA and stabilizing revenue. That is what we want to measure. We are not talking about line losses. We are not talking about let's say single KPIs. For us, the revenue and the EBITDA is the one that counts, and I will come to that in a second.

We want to make IPTV a mass-market product. That is let's say the future. This is the only way of getting things into an upselling mode, not reducing the upper further, further down. We believe in IPTV and provide -- it is the stickiness we could create and generate around the customer which is driving lower churn as well in the future. So therefore, we are the first -- we have a first mover advantage in Germany when it comes to the IPTV proposition, and therefore this year is the 500,000 customer target, our next goal.

On service expectation, we are focusing still on the availability of our call centers. We have a huge restructuring within our call center organization. Thomas Berlemann is talking about that later on a little bit. Deadline compliance, still a way to go to achieve that 85%. Significantly reducing our complain rate by 60%, got already reduced last year. And the further step on the IT stability, it is driving productivity and it is driving customer satisfaction as well.

If we're going to be able to have a very sustainable IT availability, I don't want to go into how we measure that, but these are 20 core applications which have to be stable at a high amount of hours.

Then we have a new block. Last year it was about fix the basic; now it is more about the strategic shift within our Company, but as well in our industry. And therefore, we have a new Big Six which we call the next-generation company -- develop a customer-oriented next generation company.

We are not talking about PSTN substitution, [MSR] and about fiber to the home. This is technology driven. We want to be measured, what is relevant for the customer and what is relevant from a productivity perspective. Therefore, from summer onwards, all our DSL lines we're going to launch on the Gigabit Ethernet standard, so on the future proved standard. We're going to improve our first contact resolution rate up to 75%. What is the prerequisites? A huge automation behind.

We want to automate retail and wholesale delivery, and we are going to reduce the amount of IT systems within this organization. We're going to close down nine core applications within our environment. We have too many ways to Rome. And with these different IT ways supporting a customer, we have a huge risk of additional failures. Therefore, this is as well helping us on the customer satisfaction and on the complain rate, so therefore the number of deactivated IT systems is one of the Big Six for this year.

In addition to that one, we have an ambitious target on Save-for-Service. We go on with tougher restructuring and cost reductions. We approach EUR1 billion cost savings within 2008. And to give you one indication how we want to do that, there is the MTBA, the mean time between assists for DSL lines, the failure frequency for DSL lines, which we want to improve up to 3.5 years. We have then less technical service needed, less investments needed, and this is one of the drivers within the Save-for-Service project to achieve this EUR1 billion cost savings.

I don't want to go into the [win culture] in too much detail. It is a very relevant topic for our people, but it would not be that relevant for you as investors. But health rate gives you an indication. A 95% health rate is relevant for us. 1% better health rate generates EUR40 million more EBITDA. So nothing is changing, but if you could motivate the people to work more or to be less ill, you could improve your EBITDA significantly.

So this is the program, continuity on the one hand, but less fixing the basis, more strategic changes within T-Home environment, and still scope on growth on the one hand, because the market [got] distributed now, but using all potentials to reduce our cost base with higher productivity and other measures on the other hand. This is, I think, the overall program for 2008, and we are already in execution mode when it comes to each of the top Big Six.

This is the turnaround, the turnaround which we see when it comes to revenue and EBITDA. This is domestic only, again, and what you could see is by the end of the year, 2006 to 2007, we had a decline of 5.3% on the revenue side and 7.3% on the EBITDA line. The next quarter, we saw 3.8% and 0.1%.

So what you could see is it is not still the falling knife. It is a little bit going into another slope. And over the next quarters, what you know is we were able to more or less stabilize on the revenue side, and we were able to increase on the EBITDA side.

So please don't take that and extrapolate that now in the future. I know nobody is expecting that we are going to stabilize our revenue and EBITDA in this year. This is unrealistic, and I think everybody knows it, from the competitive environment, from the regulatory environment, that this would not be possible. But the trend is our friend in this regard. What we see is the huge DSL growth is helping us heavily to stabilize the decline we were facing from the line losses in the past. So we see a trend which is helping us in a more stabilized environment.

So what is now the guidance, when you see this development over the last quarter, for 2008 and for 2010? I am now coming to my most important slide for this investor day. It is about the summary, the outcome of our Big Six last year and as well the impact from our Big Six for 2008.

In 2007, on the revenue side, we saw a decline of minus 8% overall. With all the measures we took, with the new propositions, with the net add growth on DSL and Entertain, we believe that at the end of the day, we're going to see a revenue decline of minus 4% to minus 6%. That is the range where we believe. So what you could see is we halved the decline we had in 2007.

In addition to that one, we have to reduce the cost. Last year, we reduced the cost by EUR.1.2 billion. This year, we're going to reduce our cost by EUR1 billion -- EUR1 billion, and Thomas Dannenfeldt is talking about that later on, how we're going to do that. On the net side, we saved only EUR100 million. This is due to the fact that we have new consolidation of pieces within our portfolio. Take the congstar, take the Scout Group, take the active billing part. They are coming not only with their cost; they are coming as well with revenue and with profitable margins into our portfolio.

On the EBITDA, we see a significant improvement compared to last year. We believe that at the end of the day, we're going to see a decrease on our EBITDA, which will be around minus 5% to minus 8%. So half, less than half the amount or more than half the amount of what we have seen in 2007, where we faced a decline in our EBITDA of minus 14%. So with the measures we took in 2006, 2007, we have already let's say a stabilizing on the revenues, as well on the EBITDA side.

At the same time, we are investing into the market. We believe we could gain 40% of the broadband market share. We are going to see that is depending on the market growth. There's still some variance in it, but we believe that 1.6 million new net adds will be in our customer base by the end of 2008.

When it comes to PSTN, to single-play, we had 2.1 million line losses in this year. So customers in our customer base churned, and we had 2.1 million line losses. The customers we hold today, we believe we're going to be able to reduce the churn. So what we're going to see is, we believe, from our direct customer base 1.7 million to 1.9 million customers going to decide on going into a double-play offering.

In addition to that one, we have a kind of extra season for the [OLAP] integrations. That is the amount of customers today are under the control of Freenet or United Internet, and they have now new wholesale partners, because we took the decision not to support their proposition with own wholesale, and they are now migrating to Telefonica, [Corsay] or Arcor, so these are customers now going into all IP migrations.

We believe we're going to see on this extra season 0.8 million to 1.1 million PSTN lines leaving T-Home, so that we're going to end with a market share of 73% to 75% by the end of the year when it comes to the PSTN losses.

If you go ahead with this strategy and with these measures, we believe by 2012 we're going to stabilize our revenues and we're going to stabilize our EBITDA. That is what we see. For that, we has to go on with cost reductions at a run rate we had in the last years, with higher net savings, because we don't see new parts getting consolidated in our portfolio. So we believe we are going to see cost reductions with higher net savings.

The broadband market share should be at the level where it is today, 45% broadband market share, and our goal on Entertain, on the IPTV by 2010 is higher than 1.5 million customers. And we know and we are facing ongoing line losses. This is a logic and mathematical consequence out of regulatory requirements and the discrepancy between our market share on the DSL side, on broadband, and our market share on single-play side.

We have today a market share of 82%, and we have a market share on broadband on 45%, and the difference between the customers moving from single-play to double-play, we only get this 45%. We're not able to get 82%. The moment where we could get 82% of the double-play market, we would not face any more line losses. But you all know from the regulatory environment and as well from a competitive environment, we will never see 82%. We believe we could stabilize at a market share of around 65%. That is, by the way, what we see as well for the other incumbents in Europe from a regulatory perspective, and so that we see ongoing line losses with a market share of around 65% for 2007.

I think that is it from my perspective. And I think we come back to that slide again, because this is a summary of what we're doing today. And I would like Stephan now to moderate.

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**Stephan Eger** - *Deutsche Telekom - IR*

We will be keeping on in a second with our colleague, Christian Illek. I think there has been a couple of misunderstandings in the market right now about the group guidance. The group guidance hereby is reiterated. It was set on the 28th of February, when we presented the full-year results and the fourth-quarter results.

The numbers we're presenting here in terms of our forecast for 2008 and in 2010 are included in our internal planning and are included in the guidance we gave on February 28, so there's nothing to be changed on the guidance for 2008.

And I think we will hand over to our colleague, Christian Illek.

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**Christian Illek** - *Deutsche Telekom - Member of the Board of Management for T-Home, Marketing*

Good morning ladies and gentlemen. Before I start explaining the go-to-market approach for 2008, I would like to quickly wrap up on 2007 and give you a brief outlook in the market development and how we expect the market to develop going forward.

Tim Hoettges already mentioned, the year 2007 was the strongest DSL growth in Germany ever. We actually had 4.4 million net adds in that market. On the flip side, we had strong volume growth, but we had a fierce price competition. The Street price was actually decreasing by more than 25% if you compare beginning of 2007 compared to beginning of 2008.

In addition, what we have seen also is that we have seen some change in the competitive environment. As you can see, cable has actually gained momentum. They increased their net add shares from 6% to 8%. The telecom operators fairly, at least our competitors, fairly kept stable, and the growth happened at the expense of the reseller business.

The resellers completely plunged from 38% net add share to 7%, and this is for two reasons. One is we changed our strategy, and T-Home strategy was retail first. So we put retail in front of wholesale. Secondly, there is a structural deficiency in the resale offering, and I will get into this a little bit later on. The classical wholesale DSL offer is not price-competitive anymore. And that was also a reason why the resellers lost ground.

Our achievements in that market, I think you already know that. We increased our net add share by a factor of 2.5, getting to 44%. We actually got traction with the Entertain portfolio, and especially in the second half of the year 2007. We reached also our guidance with 150,000 marketed products. And what was already mentioned earlier on, Entertain is a clear loyalty driver. The highest customer satisfaction of our customers across all the products we are having is with our Entertain product, and that is also part of our strategy why we want to push IPTV.

So what do we expect in terms of market development going forward? If you take a look at the chart on the left-hand side, obviously the DSL market maintains to be a growth market, but growth rates are coming down. If we compare the growth rates, the combined annual growth rate between 2004 and 2007, we had about 40% growth each year. Going forward, we expect a growth rate of about 12%. This is still robust growth, but it is not at the same pace as it was happening in the past.

On the access line market share, also Tim was giving that introduction. In the year 2008, we had 82% or 31 million lines in our portfolio, which equals a market share of 82%. Until 2010, we expect this market share to decrease to about 65%, and there are two reasons for this, and I'm getting into that detail a little later on. One is DSL growth. The sole source for DSL growth is coming out of our single-play customer base. And the second one is a temporary effect, which is the all-IP migration, where resellers change their technology platform from a PSTN-based resale offering to a non-PSTN-based resale offering.

In terms of competitive landscape, we also expect that the market is going to consolidate. What you're going to see here is a likely scenario for 2010. Obviously, we don't know exactly what's going to happen. But on the left-hand side, in today's situation we are facing about 15 competitors, three in the resale market, about roughly 10 in the telecom operator market, and obviously three major cable operators where we are trying to fight against.

In a scenario looking forward, we expect this marketplace to consolidate to six-plus players. Obviously, there's going to be one to two resellers. We're going to expect about three nationwide operating telecom operators, and obviously there will be some remaining regional players. And we don't know exactly, but we expect that the cable market is going to consolidate to either one or two players.

So what does that mean? Actually, that's going to help us on pricing, because we expect the more the market consolidates, the more the price pressure will reduce going forward, and I think that is going to help everyone in the market.

Let me now get into the year 2008 and what we expect in terms of major trends. But before I'm going to start with that, let me explain that chart first. What you see on that chart, in the columns are the contract relationships we have in the German market by the end of 2007 for single-play, double-play and triple-play. So we had actually by end of 2007 22.5 million contracts, single-play contract, we had 18.5 million double-play contracts and around about 1 million triple-play contracts.

There is one specificity in that chart, and that is highlighted in that gray area, which is the classical resale market because a classical resale market holds two contract relationships. He has one with T-Home on the PSTN side, so the PSTN contract, even with a one-on-one resale contract, remains with us, and obviously the DSL component is with the respective reseller.

And if you now take a look to the market shares, what you're going to see is that still in the single-play market, we have 82% of voice-only customers, meaning customers who don't have a broadband access yet. On top of that, we are holding 60% of the single-play contracts coming from the resale market. So the single-play market is still to 98% belonging to T-Home.

If we now take a look to the first trend that we are saying DSL is going to continue to grow, but from where? It is just coming from the single-play source. So the DSL growth is happening at the expense of single-play customers, and we are owning almost 100% of that market. And that drives line losses, and we will get into that a little later.

Secondly, what you see in terms of market share, we have 49% in the double-play and 15% in the triple-play area. If you combine this as a combined broadband market share, it is 46.5%. So this is one trend. DSL is going to continue to grow.

The second trend is related to all-IP migration. And what does that mean? As I mentioned earlier on, the classical wholesale DSL offering requires a PSTN component and a DSL component. If you are adding up the cost for this, a reseller has to ask for a retail price of about EUR40.

If you now take a look at a typical double-play pricing in today's market environment, this is around about in the area of EUR30. So the pricing for a classical PSTN-based resale offering is absolutely not competitive in the market right now. And we are seeing this right now -- the market is actually decreasing in terms of net adds.

So what resellers have to do is they have to change the technology platform to all-IP because then they can get into the same range of EUR30. Unfortunately, all-IP does not require any kind of PSTN line. So whenever you change a classical resale DSL offering to all-IP, you're going to see additional line losses, and I'm going to explain the effect later on.

The third trend which we're going to expect for the year 2008 is actually a faster acceleration of the triple-play customers, and especially of those who are IPTV based. Our target, as Tim was mentioning, is about 500,000 customers, north of 500,000 customers by the end of the year, and we clearly expect once we meet that target that the market actually expects that IPTV is a relevant and actually better position than cable TV and satellite TV, and I think the year 2008 is critical for us to position IPTV as a very good alternative to cable TV and satellite TV.

So if these are the three trends in the market for the year 2008, how do we want to respond to them? First is we need to drive broadband market share. Our target is that we want to achieve a net add share of north of 45%. Again, as I mentioned earlier on, where are those customers coming from? They're all coming from the single-play area, where we are owning 98% of the market.

So what is the rule of thumb? If we're getting close to a 50% net add share in DSL, for each customer we're adding to our customer base, we're losing an additional line because this customer is becoming a DSL customer of our competitor. And that is forcing and driving PSTN line losses. Or in other words, the faster the DSL market growth, the higher our line losses, because everything is coming from the single-play market. And secondly, the higher our net add share is, the lower is obviously our line losses, and this is why we need to push for a high net add share, that we cannot afford to have similar net adds we had in 2006. This prevents us -- a high net add share in DSL prevents us from even higher line losses than we are predicting.

So how do we want to achieve those kind of net add market shares? And there's four major directions which we're going to focus on in the year 2008. A. is we need to focus on target groups. Definitely price remains a relevant purchasing criteria to get into the broadband market, but remember, we have roughly 20 million customers who have a broadband access. We have roughly 40 million households, so 50% of the households don't have a broadband access, and you can't explain this sheerly by the price difference between a voice customer and a double-play customer, because the price difference is not that high anymore.

There are other entry barriers why customers are not going into the broadband market, and let me give you an example -- elderly people. The entry barrier for elderly people to get into the broadband market is technology. This is not their territory where they feel confident. So therefore, we have to provide experiences which makes it easy for elderly people to get into this new broadband experience, and this is going to be around expanded services. It is more than just installation. It will maintain and support the customer throughout the contract duration period, and we're even considering to train them in a way that they know how to use the Internet.

Second point is congstar. Congstar is addressing a largely different customer group than we are doing it within T-Home. So therefore, we can attack different target groups and we're going to use congstar via their all-IP offering throughout 2008 to actually force the net add share of Deutsche Telecom.

Second point on portfolio, obviously we're continuously working on our portfolio, but what is important to say is what is our pricing strategy. Our pricing strategy is we are always following the market. But let's be clear, we're expecting a stable price development for the year 2008, and this is our planning assumption. But if the market is moving the prices further down in order to achieve our net add market share, and I explained to you why this is so important, then we have to react.

We don't expect this right now. We're seeing good indications from our competitors that they are happy with the price point right now and that they don't want to further drive down prices. So we are having a follower pricing strategy, and this is what we are going to do going forward, but we're reacting fast.

Two additional points on footprint. We have done some extensive sales channel analysis, and we have figured out that in some parts of Germany, we are underpenetrated. So in some parts, we have to actually strengthen our sales network, and Thomas Dannenfeldt is actively managing our sales channel portfolio also in order to optimize our presence towards the opportunity in the German market.

Second point, on infrastructure, we will continuously but selectively expand our DSL network, but even more important, in the summer of this year we're going to introduce a SAT-DSL offering to the market so we can cover 100% of German households. This is going to be a 1 megabit offering. So this is kind of the lower end of broadband, but I would call this broadband, and therefore we can actually address every customer in the German market.

The fourth one is an important one. We will actually even further focus on our churn prevention measures. The plan we are having is that we are reducing our churn within the installed base by another 4 to 6 points in the year 2008. So our customer base is not, let's put it this way, a territory for our competitors. So these are the four major areas how we want to achieve those 45% net add market share.

Strategy number two -- as I said earlier on, resellers have to migrate their customer base from PSTN-based resale offerings to all-IP. We have to mitigate that process. It is noteworthy to tell that if you translate the DSL resale customer base, you are not adding one single DSL new customer, because they are already DSL customers. However, this temporary effect which we expect is going to happen over the next 24 to 30 months and will massively reduce that gray layer here.

We have two measures in place on how to react to this. One is we're focusing on ULL. So we will provide, obviously, ULL to Telefonica and [QOC] as much as they require it. We have the capacity for this. But secondly, we have intensive market research that a significant number of customers are interested to return back to T-Home.

Obviously, this is what we have to do in 2008. We have market research indicating that 1 million customers have interest to return back. Obviously, this is not the number who are actually returning back. But we will massively intensify win-back activities to actually get part of that gray-shaded area and turn them into T-Home's DSL customers.

We now take a look to the line loss development for 2008. How does that look like? When you move from the left to the right, the first two columns, the blue columns, shows you what is going to be the line loss development due to DSL both. Remember, DSL growth is coming out of our single-play customer base, and bottom line, net-net, we expect a line loss of 1.7 million to 1.9 million negative growth in the PSTN customer base, which, by the way, is a 10% to 20% improvement compared to 2007, because in 2007, that was exactly the market, and that was driving line losses.

In 2008, we have an additional new effect, which is all-IP migration. And the forecast we are having on line losses is somewhere in the range of 0.8 million to 1.1 million customers. Our internal forecast is more shooting at the lower figure, but if we are adding up the forecast of our ULL customers, we're getting to a number which is north of 1 million.

The key question is, obviously, how fast can a reseller change his customer base, and is it economical for him, reasonable to do so, because in their customer base they have some pretty significant high ARPU customers, and they're going to move them down to a EUR30-plus offering on the double-play, Anyway, bottom line, what we expect is that we're going to see line losses of 2.5 million to 3 million in the year 2005. Like-by-like, it is an improvement compared to 2007, but the all-IP effect will actually increase the figures on an absolute basis.

Let me now get into triple-play. What I've said is triple-play is a key thrust we're believing in for two reasons. One is obviously our triple-play customers are showing the highest ARPA. The average ARPA of a triple-play customer is north of EUR10 higher than a double-play customer, if you just take a look to the portfolio pricing.

But secondly, even more important, these customers are more loyal. And I told you about the customer satisfaction data we just received from our installed base, but if you take a look to a competitor in Europe likes FastWeb, FastWeb actually proves that the churn rate of their triple-play customer is 30% below their double-play customers. So triple-play is a loyalty driver, and we're completely persuaded once you have Entertain as a product, you don't want to give it away anymore. And that will ultimately drive our economics going forward.

So how do we want to achieve those 500,0000 customers? A. is, and Tim was giving the indication, we change the portfolio. The Entertain or triple-play portfolio is completely based on our double-play portfolio. Let me give you an example. If you want to move from a Call & Surf Comfort to an Entertain Comfort, you get all the same double-play features you used to have as a Call & Surf Comfort customer, plus you get the triple-play features, which are 70 TV channels, which is video-on-demand, which is the TV archive, which is the electronic programming guide.

Since 90% of our customers are coming from the installed base, we expect the upselling process being a very seamless experience, and that is the bet, how we want to achieve those 500,000 customers, is by restructuring the portfolio by obviously making the price points more attractive. And by the way, we did reduce the price point on a product-by-product basis, but if you take a look to the portfolio, since we're basically stopping selling the basic, the average ARPA will increase. It will not decrease, because this is a pure portfolio effect.

Secondly, what we're going to do on triple-play is that we continuously are working on the product. I think I want to highlight two features. One is the remote PVR. So you will be able to program your media receiver on your PC, so you don't have to use a remote control. And the second one is obviously that we're going to provide a low-end box, which helps you to operate more than one television, up to five televisions, depending on the bandwidth you are having. So we're absolutely competitive. Actually, I would say we have a superior product compared to cable and satellite TV.

Finally, what we're going to do is we're going to change the way on how we communicate. Historically, we were used to sell technology. What we're going to do going forward is actually we're selling usage benefits. We are telling people what they can do with the features in IPTV and why this is better TV, and why they should spend an extra EUR10 per month, because it is worthwhile to have video-on-demand, TV archive and all the features I've mentioned so far.

So that is the way how we want to engage in IPTV and how we want to achieve those 500,000 figures. I think if we're going to get this one, I'm pretty confident that we're getting north of 1.5 million customers by the year 2010.

So let me finish my presentation on how the revenue development for the retail business of T-Home looks like. If we make a comparison, revenues 2007 versus revenues 2008, and we just include three factors -- line losses, price reductions in the installed base, and price and volume effects in our connection business -- we would see a price decline of 11%, roughly 11%.

What you can also see is line losses, which is shaded in light blue, only explain about 30% of the total effect. The way how we at least want to partly compensate that effect is through pushing broadband, and you have seen, we're going to push broadband, both on the DSL but also on the IPTV side. By pushing the net add share on DSL, by pushing on triple-play, by selling broadband-related services like hosting, like installation services, like video-on-demand and by pushing congstar, we will at least increase that or close that revenue gap by 4 to 5 points. And we also have some consolidation affects like the [Imogopa], which are going to help us to reduce our revenue decline compared to the year 2007.

So our expectation is that our revenue decline for 2008 is in between 4% to 6% relative to the 8% which have been highlighted by Tim earlier on. So we're going to smoothen the price decline and eventually and hopefully get a stabilized revenue by the year 2010, as indicated by Tim.

So that is it for now from the marketing side. Thanks for your attention, and I would like to hand over to Thomas Berlemann.

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**Thomas Berlemann** - *Deutsche Telekom - Member of the Board of Management for T-Home, Customer Service*

Good morning ladies and gentlemen from my side. I'm happy to acquaint you with the things that we have done on the service side last year, but also we will talk about the things that we have laid out for this year as our targets, and where we are heading.

Service is the core of our business. It is not a hygiene factor. That is our understanding that we have at Deutsche Telekom at T-Home, and therefore we really find it on the listing of our big six list, high on the agenda. And it will help us to drive customer loyalty, customer satisfaction also this year in 2008.

I will talk about the availability. I will talk the deadline compliance. And I will also talk about the combined management, complete management that we're going to focus this year and help really to improve the customer service experience, the reputation that we have, how it will be introduced and proved going forward.

Now the one company approach of Deutsche Telekom in Germany, namely integrating and follow the customer, the sales and the service organization has truly paid back already last year, and we will benefit going forward from that. What does it mean? We see an integrated approach on the customer service side, the field service, the Telekom Shops and our retail partners, and also on the eChannels. Just to give you a ballpark number, we have some 60,000 people working in these areas, and we have 200 million contacts with our customers in Germany every year.

2007 was a year where we would say we have delivered. We have delivered in terms of increasing customer loyalty, customer satisfaction. How did we do that? Yes, we launched a more customer oriented product, but also we improved our service experiences from the customer's perspective big time. We launched a new program which is the Top Customer Service program. You can see here that there was a steep increase with satisfaction in the last quarter of last year. And also T-Home now has caught up with the satisfaction level of our European benchmarks. And they are still very hungry to improve these KPIs, these service experience over the course of the next year.

How did we do this? Last year we were really up to fixing the basis in various areas. If you look at the two KPIs indicated here on this chart, we see that in Q1 and 2 and also in the strike period we were not really delivering good service in our call centers because we were simply not available. After the strike was over, we really in the third and fourth quarter improved significantly. And Tim has indicated that we made up to 65% availability within twenty seconds. A big improvement, and very stable since 38 week last year up to today. We had 80% this year and we're delivering this already over the course of the first month in this year the entire first quarter.

When it comes to the processing time of orders the customer placed with us, also of there was a bad experience for the customer in the first and second quarter, a dramatic ramp up third and fourth quarter. Our target is that we are now again also achieving for the last four or five months that all customers orders are going to be answered within at least 48 hours. That is also of the target on average for 2008.

How id we do that, a little bit more in details. If we look at the single agent in the service arena, he was not really as productive as he should be, if you also compare to our competitors. We increased through various initiatives the productivity of an agent by 22%.

On the right hand side, if you look at the chart, you can easily see that the time an agent needs for an interaction to resolve the query of a customer has also been significantly reduced. It is actual the talk time and the processing time somebody needs after an order has been placed. It comes down from sometimes more than 10 minutes, is now in the neighborhood of 7, which is a steep fall of these numbers.

Why is that important? Again, if you imagine that we have 100 million contacts over the phone with our customers, it is a significant number, also helping us to drive down OpEx and stabilize our EBITDA.

We are convinced that quality and efficiency is not a contradiction. It goes hand-in-hand. It not only applies to the call centers, if also applies to our field services where we see similar development over the course of 2007. We see after the strike in Q3 and Q4 a steep increase of performance. We matched the deadline compliance rate in December, which was 80. We're going to shoot for 85 this year.

That was also achieved by a significant increase of the productivity of our field technicians. Here we saw 35% increase. Mainly that the agent out there in the field really achieves 8 customer queries and interactions to be resolved rather than 6 early in the year 2007. And no surprise accordingly customers satisfaction rose in both of these key processes that are indicated here. The provisioning process and the problem resolution process, we're going to shoot for over 7.7 as far as the quality indicated goals in this year. And we're really bullish on improving this KPI from the customer perspective.

Let's talk about the shops a little bit. The shops really made a big step forward last year. You know that in Germany there is a promise out there in the market that customers in the shops, and our own shops, should not wait longer than five minutes until they are served. That was also improved, you can see easily here on the chart. The goal for 2008 is this number should be reached on average by 91% of the cases. And the team in the shop is very, very eager to accomplish that as well. No surprise that this also translates into higher customer satisfaction on the shop side. You see here are also an increase from 2.4 to 2.2%, which is on average now the ambitious target for this year.

Again, quality and efficiency no contradiction. Also on the shop side we have increased also the figures on the right hand side, which is the sales transactions successfully done per FTE increased double-digit, 40%, in the shops. And also, if you look at the productivity ratios in our shop, due to the change concept of rolling out and adapting our structure, we were in a position to increase the productivity translated into revenues per square meter by 11%.

One big thing to mention that already is reducing the number of complaints. We still see a chance here through a cross functional task force that has been put together by the best people we have in the organization to drive that down. That is also going to translate into mainly two things. One is improving customer satisfaction, and secondly, reduce OpEx over the course of 2008. So this big initiative, one of the big six, will translate into visible improvements on these two KPIs as well.

Now the management team, which is in place now for a year, is going to do -- and that is the message I should give to you is, to do really some dramatic changes, especially in the service arena. This chart should indicate that coming from the legacy organization here on the map, which indicates eight regions in Germany, displaying that service was so far understood as a regional business in Germany. That will translate not into holistic and consistent service experiences across all touch points if it comes to customer service. That is on the way to be changed as we speak.

We came up with a strategy that will offer segmented customer service to all our customers, whether they be mobile customers or broadband customers in Germany. And let me briefly walk you through the top indication of how we define segmentation, and what it gives us, and what it first and foremost gives to the customer.

The three segments in the middle are value segments. So they are defined by the value and the revenue the customer generates with us. And it comes from the top of the Diamond segment down to the Platinum to the Gold segment, which is value based. On the right hand side and the left-hand side, you see the retention segment and you see the starter segment. That means that we're going to treat new customers within the starter segment differently than customers in other segments. And also on the retention side, where the contract management with 85% of our customers running on two years contract, we're going to treat them differently as soon as their contract is up for prolongation, because obviously our goal is to maintain them in our customer base.

That will also help to make sure that we have a proper invest on the service cost to each of these segments. The lifecycle segments will help to drive revenues, but also loyalty with over the course of the time will help us to stabilize our revenue base and our customer base.

And by the way, we don't only have that for the residential market, which you see here on the top of the chart on the left-hand side, we have it to the business segments and we have it here for our very small enterprise companies, which is a very core group of our customer base. We have a proper segmentation in place and that is going to be introduced and implemented over the course of next month.

From this chart I would like you to take away three messages. One is, yes, we are and will be the biggest sales organization in Germany. We have 800 shops, more than 1,000 partners. The satisfaction in our own shops is the best we find in the marketplace on a consecutive basis. The second message, or third message, all partners, both on mobile and on the home side, consider us to be their best partners. They give us the feedback. You guys, you help us most to really perform in front of the customer.

Ladies and gentlemen, I think that we had a strong year on the service experience in 2007. Service, satisfaction and loyalty is truly the core of our business. This management team has demonstrated significant change, and will do exactly that going forward.

We see some dramatic changes. We are about to launch a completely new CRM system which has been developed for T-Home over quite some time. We're going to implement that. A significant change for the whole organization. We're going to have the segmentation on restructuring in place, which is the second step. And the third one is that, yes, we're going to look at OpEx optimizations which will translate into changes on our side footprint going forward. And we're going to adopt here our side footprint, and see a lower number of sites that we're going to operate in in order to save some money and improve customer satisfaction.

Thanks very much for your attention. And talking about cost and OpEx changes, I would like to hand over to my dear colleague, Thomas Dannenfeldt. Thanks very much.

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**Thomas Dannenfeldt** - *Deutsche Telekom - Member of the Board of Management for T-Home, Market and Quality Management*

I will use the next 15 minutes to talk you through basically three things. A., what we're going to do to deliver what Tim mentioned already, the EUR1 billion cost savings on one hand. B., what type of business we're going to reinvest in, because you have seen that there is a chunk in there, a relevant one. And C., give you a short outlook in what you can expect in '09 and '10 from that perspective.

Let me start with the '07 perspective again. You have seen that picture before. And I think it is worthwhile to mention, especially if you look at Q4, we have delivered there EUR600 million of reduction. And in the meantime we improved service, in the meantime we improved quality, in the meantime we improved the reachability for our customers, be it shops or be it the call center.

And this gave us also the guidance for what we want to do in '08. Thomas mentioned that several times, and I think it is important to restate it again and again and again, tell it again. It is not about OpEx alone. Yes, we need to bring down the cost, but we are absolutely convinced we can do that together with better quality and better service. And what I would like to do now is show you a little bit how we're going to do that in '08 and the following years.

Basically besides that guidance of bring down the cost and deliver higher quality, there are two other aspects where we have some guidance to cost situation. One is obviously we have commitment out there for the group. That is a part of running call center service at DT, and we need to deliver in there. But another aspect is we have done detailed benchmarking and looked at our European peers in a very detailed way how they execute on customer service, on field service, on IT, etc. And we found out that there are relevant rooms for improvement for us in these areas. So that was kind of guidelines for us in looking forward in the cost reduction activity.

As you can see here in the chart, basically we think in three work streams. One is the '08 work stream. And this is clear. It is about securing profit, as you can see here, and in parallel optimizing cost and quality. But it is also looking at what is behind '08, what is beyond '08 and '09 and '10. What can we do to already structurally change and deliver a stabilized EBITDA margin, again, with better service quality. And looking at our -- and closing the gaps to our European peer group in the OpEx development.

And thirdly, as you can see on the bottom here, on the long-term perspective bringing an execution program together which gives us answers on key questions for that long-term perspective. We think the secure '08 and the '10 perspective that is kind of -- [no regret] means we can do anyway. In the third work stream we are trying to answer the questions like, what is the best economical way to shut down PSDN? How to use all of our key development in there. How to deal with FTTC versus FTTH. What is the OpEx which is related savings, which is really related to them? But also what does that mean for the Company, for those skills we need there, for the structure of the company, as well as what kind of influence regulation will have on that one.

Please be aware, we're right now in that process of working that through and finding the execution programs behind. We will come back to you in a timeframe of six to nine months to talk that through in detail.

Before I show you what the results of the program are, where we stand in terms of delivery and potentials, I would like to mention that we have completely changed the way we address that topic here. What we have done is we have taken out 50, 55 direct reports to the Board of Management of T-Home. Taken them out for three days a week, put them in a separate building. I think the internal way to talk about it is the barracks. And these guys use that three days a week to find out what they can do to change their business, and looking from a very cross functional perspective, to find potentials they have not seen in the past when there was more of kind of functional perspective on what they have done.

The outcome will be a very detailed and executable program designed by the guys who will afterwards deliver on them. And we think that is a very good approach. We have done that once -- Tim, you and me and some other people here in the room at T-Mobile. It was very successful the way to do that. And we feel that is the right way to do the same here.

Again, back I mentioned we have done detailed benchmarking on the European peers and what we have seen is some areas -- and I mentioned them -- it is customer service, it is field service, it is IT, it is the technology platforms. But it's also an area which we call Zero Touch -- I will come back to that later -- which shows a lot of room for improvement for us where we need to get better. And this is very much reflected already in what you will find on our '08 activities.

The EUR1 billion gross cost savings they are splitted down in the way you see it here on the short. So basically six relevant tickets, and then I will shortly drive you through these tickets. The number one is field service, number two customer service, number three technology. And there is already a clamor around that saying there is headcount efficiency effect in there which is going along these three tickets coming from last year's T-Service agreement. But it is not only that part which will deliver that first three tickets. It is also -- and Thomas has shown in various aspects -- the part of efficiency in terms of doing more work faster and better on one hand, but on the other hand reduce the volumes also.

It was on complaints you mentioned, it was on call avoidance programs, we do a lot of things we found out which bring our customers to call us up and ask things just because we're giving communication out to the customer which is not clear, and giving messages which -- inducing them to kind of call us or other activities from the customer. So it is about volume reduction, it is about what is left doing that better and more efficiently. As I said Thomas has touched on that. And it is also clearly the use and the impact we have from T-Service agreement last year, which is more working time on one hand and it is a salary impact on the other hand.

There is another aspect obviously in there, and also both on all of the three tickets, which is we have outsourcing partners in field service, in customer service, in technology. And obviously what we have done also is renegotiated the contracts and made sure that we come down with the prices in all that three areas.

What I would like to do is give you a little bit more insight in terms of details in IT restructuring and billing, which is as you see representing 30 to 40% of the whole ticket. I will come back to that in a minute and give you there some more insight. The sixth ticket which is called overhead and other cost reductions, just to give you some ideas where this is coming from, this is coming, for instance, from wholesale, automation. Tim mentioned that on the big six activity already -- automation, wholesale will deliver some parts in here. Headcount reduction in central functions like HR and finance will deliver. And also not very sexy stuff, but a reduction of office space will deliver a significant share of that as well.

So before I come to that ticket 4 and 5 to give you a little bit more insight what is behind that and how we're going to drive that cost out, let me just use one slide and two minutes to give you an insight where we reinvest the money. Tim, as well as Christian, already mentioned some areas, but I would like to give you some more insight here.

As you see on the left-hand side, our OpEx was EUR13.8 billion in '07. We will have a decrease of EUR100 million by termination cost. That is what you find here as well. You have seen that EUR1 billion ticket a minute ago on the chart and the split above that. And there are three areas where we basically reinvest the money. A, it is consolidation of businesses, and I touched on that in a minute ago. B., it is to reinvest to stabilize the business. That has a lot to do with what Christian said, bringing the customer base and Entertain up because it drives, A., value and B., loyalty and C., churn down.

And there is bucket C which we have called external driven cost increase. Obviously energy, for instance, is a driver in here. We need to take into account and manage that.

To leave part A because it's a huge chunk, let me elaborate a little bit more on consolidation. Basically we have two types of consolidation in there. The one is -- let's pick the company Immobilienscout 24. That kind of consolidation brings cost in, but it brings also revenue in, and it brings margin in which are similar or close to the classical margins we have in the core business.

That is one type of business we have got to consolidate, and that is true for Immobilienscout 24, but it is true as well for Congstar, at least in the mid-term perspective. Obviously Congstar is more in a startup phase right now. But these types of business will bring margins in which are close to the core business.

But there are others in like DTKS, Deutsche Telekom Kundenservice, or what Thomas is -- the area where Thomas is responsible for. What we have done there is we have consolidated the mobile part of Deutsche Telekom Kundenservice, which was last year in mobile as well, into the T-Home to ensure -- obviously that does not bring so much EBITDA, but it gives us much more room to use the synergies of the integration and bring that forward.

Christian mentioned already on that eticket with EUR200 million, Entertain is the main driver in here, but there is another one as well, which is selling a richer mix also in double-play, less -- lower price points but more -- and richer price points. And this is the overview of the way we spend the money.

I have seen the signal I have to speed up a little bit. Okay, as I mentioned two tickets. I want to elaborate a little more. One is IT and one is billing. IT you see here, and you see in the gray boxes on the left upper side the number of core and major systems we're going to shut down. That is not the total number. There are small applications, like how are we going to shut down. But this is the major -- these are the major ones. And that all the -- figure you find in the big six.

And I think it is important in a situation I think every incumbent in Europe is facing where you have a big IT legacy landscape. And you have to deal with that in a way that it is vital to retire these kind of systems to drive efficiency up. For us this is a focal point we need to deliver on. That nine systems, 10 in 2006, that nine systems additionally in -- sorry in 2007. That nine in 2008 will deliver already a share of 15, maybe 20% in that range, of the total IT savings we have in that split down of the EUR1 billion.

If you look at 2010 we are expecting that type of activity growing up to 50% share in the IT savings. So that is kind of a cumulative effect you have. We are already gaining momentum here. We have effect from '07 and '08, but this is a mid to long-term gain. Nevertheless 15 to 20%, for instance, is coming from retirement. But as you see here, there is also price and volume optimization. And price and volume optimization feels like, okay, it is just negotiating the price down. It is not. What you need to do and what we have done in the past is make sure that we do a kind of standardization work that you really can bring down the prices. Because if it is not standardized and if it is customized for you, it is more expensive obviously. So we have done a lot of standardization work here to bring prices down, and also to get some upside on volume.

And again it is cost coming with better quality. The more you retire, the less complexity you have in your system, the more stability we will find. And the figures here are, as you see, that we are coming from beginning of last year of roughly 65 hours in mean time between failure to 120 hours ticket.

I think it is also important to tell you that this already incorporates that we have anticipated higher IT spend in development to ensure that we can in a fast enough way retire the systems. The moment you retire a system you need to build up another one to bring that functionality in. Obviously there is a phase of higher IT development cost you have in there. That is already incorporated in that kind of picture, so there will be no surprise on that level. That is the first ticket and a short glimpse on that first IT ticket.

The second one was the billing. I think billing is a classical one. You can do two things. A., you drive down your IT cost which were not incorporated in the one you have seen before. And B., obviously what you also can do is don't print, don't mail, just make sure that the customer has an online bill. Because normally what we find out also in our customer satisfaction surveys that drives customer satisfaction as well.

What we're going to do is, and you see what we have delivered in '07 here already, we will substantially increase the volumes here. That gray bar that calls for roughly 9 million customers, to give you an indication that is more than one-third of the whole base. That is between 35 and 40% of the base. We will have an online or customers being online billed. That is one aspect, so online billing.

The other aspect is, again complexity reduction I have touched on in several of these aspects already before in the IT part, and again here the magic part is on one hand standardization. On the other hand it is mentioned here, product portfolio reduction. I have mentioned, for instance, a huge team has done a tremendous job last year and managed more than 2,500 products from the platforms. Again, this is a huge enabler to come to standardization and bring that cost down.

So that was a fast run through to that [million]. Again, it is EUR100 million ticket on field services, EUR300 million on customer service. Again, EUR100 million on technology. The IT retirement and billing you have seen in the others, summing up to that EUR1 billion. And that is the '08 perspective were we in an execution mode right now. What I would like to show you is also the 2010 perspective. And that magical Zero Touch I mentioned before, what is that, why are we doing that, and give you some insights on that one.

Zero touch, the basic idea of Zero Touch is an easy one. It is more automated processes, a higher degree of automation. It is less volume, avoid volume which don't have value. And it is the volume you have -- you need to manage to do it more efficiently. So that basically is what it is about. So scope is about provisioning for repair and for clearance of all products.

Why is it important to look at that? We found out that changing from a functional perspective to look at provisioning of a product through a cross functional perspective, there's a lot of room for improvement what happens between the functions, A. B., as you see here is representing more than 10% of the total OpEx of T-Home. And C., we knew and we have already defined and very detailed identified that this will bring a triple digit million figure, and meaning a significant triple digit million figure until 2010 in terms of OpEx savings. Last, again, the same sorry, it will deliver on customer satisfaction and support this very much.

The other two parts are a little bit more for background information. It also an enabler for what we need to do beyond 2010 in terms of NGN transformation. And I think very important also it is changing the culture. People start to understand what it does mean if they change their policy here for the other guys somewhere in the provisioning chain, what that really does mean and what the interdependencies between these guys are.

So I mentioned already, and this is again reflected in the big six 2008. It is about on automation, left-hand side -- up left-hand side, and it's about bottom- hand side how we manage then repair and forward. The figure here is the MTBA. You're looking at it.

I think if you look at automation it is -- the question is what delivers automation? Two simple things. One is you need to get the complexity out of the delivery chain. That means retire systems. The story you have seen before. That is one thing. The other one is, consolidate process chains we have. And we can tell you we have a lot of process chains. And consolidate them into the best performing one. A very easy activity.

And to give you a kind of flavor of what that does mean, for instance, for our dealers, dealer structure is representing something between 10 to 20% of the total adds we're doing. That, for instance that chains, the three chains actually delivering provisioning, we have started last year to change that. We started with a 40% automation rate. We're right now on 70ish, and clearly we want to go to 85 by the end of the year and have a clear program in place how to deliver that, by pulling our systems on one hand and bringing that process change together.

In parallel what we're going to do is, for instance, take the ebusiness chain, merge them with that better performing dealer chain, and make sure that we can leverage what we have built in there in terms of efficiency. And obviously as you can see, it delivers quality and efficiency finally.

That picture on the left-hand side, bottom left-hand side, I would like to elaborate a little bit more. This is about repair and for clearing. What you see is the yellow indication is '07 and the green one is '10. And you see we're dealing -- when a customer calls in having an issue, we're dealing with that in three levels, first level, second and third level. The '07 situation is that we -- with a share of more than 50% solve the issues on the third level. Just to give you an indication what that from a cost perspective does mean, the cost on the third level are 10 to 15 times higher than on the third level -- lower than on the third level. So the first level, 10 to 15 times lower than the third level.

Obviously what we need to do is move that third level problem solving into the first level. And first of all, before we're doing that, we do volume reduction. How are we going to do that, to bring that volumes where always truck roads, and a technician comes to a customer into the call center where the first contact is. Two indications here. One is for instance the increase of diagnostic capabilities we have. What we're going to do in the future is the moment the customer calls in and the IDR identifies it is about a for clearance, in that moment, in that specific moment diagnostic automatically would start to check the line. It will check the router to ensure that when the customer is connected to the agent, the agent has all the information already on the screen, can manage all lower call handling time. And in parallel can make sure that the problem is solved in the first instance. That is one aspect.

The other one is as I said adapt steering to process cost. What we found out is, if you manage purely on the front line, in the front first level on call handling time, as an example, yes, you optimize maybe 5% to 10% of the cost of the call handling time, but obviously you drive cost in the back end, which is another department, but a truck rolls. So obviously also the adaption of steering in terms of how we manage call handling time first and second level, versus the share we have in the third level supports this very much, and helps to get that movement from the yellow colored situation to the green colored situation.

So Zero Touch as I mentioned is only one aspect. That should give you flavor of what what we're doing there, of the total program which is running in that 2010 perspective. And you see here basically three areas we're looking at. One is process and platform related initiatives, one is market related initiatives, and the third one is G&A related initiatives. And I think I have come along already during my presentation in process and platform related initiatives a lot of these aspects. Maybe one or two more on the market related and G&A related.

Market related you see here there is retail sales and retail marketing efficiency. It is obvious, and Christian talked about that a minute ago. In the midterm perspective on '10 we will see, and that is good for us, consolidation in the marketplace. In '08 there is a heavy fight around the customers. So what we need to do is carefully ensure that we are -- that we have the best distribution out there. Without building up cost, we cannot manage down fast enough in the midterm perspective. That is one aspect.

For instance, we're managing and we are defining in the retail sales environment. Another one is reduced rent space and energy. We're facing cost increase on energy, that is obvious, but this a lot of room for improvement for us. Relevant tickets to compensate that in rent and space areas.

Okay, so to sum it up, because [Devon] is getting nervous on the timeframe, I think you have seen how the EUR1 billion splits up into various tickets. You have got a flavor of how we will manage that and are going to do that. Where we reinvest the money. And also in '10 what type of classical aspects in the program are running, and also where we change the perspective, meaning Zero Touch, and where we are very confident that we can deliver on the improvements to ensure that we close the gap to our European peers. Okay, Stephan, not let's -- that is it. I think we're coming down to Q&A, right?

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**Stephan Eger** - *Deutsche Telekom - IR*

Yes. Thank you very much, Thomas. I think we now immediately start with the Q&A session. May I ask my colleagues from the T-Home management side to follow-up. We will be ready in a second.

I think we lost some time on the way, so my suggestion is that we start with Q&A and we do Q&A until 2.15, so roundabout 45 minutes. And we will be starting in a second when everybody is ready now. Okay, ladies and gentlemen, I think we can start. May I start with Matteo please.

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**Matteo Novelli** - *BNP Paribas - Analyst*

Matteo Novelli, BNP Paribas. I had a question, just a kind of clarification in your guidance. You indicate that revenues could decrease by 4% to 6%, which if I calculate this right, is to EUR800 million to EUR1.2 billion. Then you indicate that that are net cost savings of around EUR100 million. So basically I get down to an EBITDA decline of minus EUR700 million or minus EUR1.1 billion, which is clearly very different from the EBITDA -- adjusted EBITDA guidance you're giving, which is for a decline of minus EUR340 million to minus EUR540 million. So if I'm getting this right where is the difference? How can you actually have only a low EBITDA decline with these kind of high revenue declines? That is the first question.

The second question has to do with CapEx. You have been investing quite a bit on VDSL. Can you just give us the latest figure, the latest data in terms of what kind of coverage you have? And more importantly, are you expecting to see any slow down or reduction CapEx levels going forward as you move beyond the VDSL investment? Thank you.

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**Unidentified Company Representative**

Okay, I would like to start with the question on the coverage. And there was one slide -- there is one in your presentation. We have a ADSL+ and video (inaudible) coverage by the end of 2007 of 17.6 million. And we're going to see a coverage by the end of the year of close to 20 million of this broadband contractions, which enables IPTV. I think the VDSL coverage only -- this would be your question -- is around 8.9, 8.99 million around customers in Germany. That is the number.

When it comes to the guidance on revenue and cost savings, and as well on EBITDA, I think all the presentation we give today is not any new guidance on the numbers. We had a planning, which we have launched I think at the beginning of the year from Dr. Karl Eick and Rene Obermann. And that was the planning -- always the planning. There is nothing changed to this planning, still reiterated. We have now cushions here between, so we gave ranges because we do not want to commit to one number here. Only there are so many things which could happen throughout the year, we believe we matched what we have planned, and there is no changing when it comes to revenues or EBITDA prospects.

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**Matteo Novelli** - *BNP Paribas - Analyst*

I think I understand the fact that there is no change, but I still do not understand how with this kind of revenue decline, and I'm talking only about the fixed, EUR800 million to EUR1.2 billion, and only EUR100 million of net savings you can only -- I mean you're comfortable to have an EBITDA decline of minus EUR5 million to EUR8 million. I just don't get it. Thank you.

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

I think it has to do with a mathematical effect. On the one hand we have given a certain range for the revenue. On the other side we have given a revised data for the OpEx. So if the revenue is on the lower side, it means it is minus EUR6 million, of course we will not have this EUR13.8 billion of OpEx.

Look at the termination cost then on the personnel cost and then so on. So we bill uses more if we are on the lower side. So maybe we should have given also a range for the OpEx. And on the other hand there is an additional line which is called other operating income, which is also a little bit of improvement. So that is a mathematical explanation.

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**Matthew Bloxham** - *Deutsche Bank - Analyst*

Matthew Bloxham, Deutsche Bank. A couple of questions on the PSTN line losses. Am I right to think that the 2.5 million to 3 million range includes some lines which effectively are staying with DT, but they are moving from PSTN to All-IP? If you can give us some color sense of how big a proportion of the total line loss that is? And I guess presumably that is some kind of ARPU benefit to you of keeping those customers, because they are coming back to you as a fall customer. So if you can't give us a sense of how big that ARPU accretion might be?

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

So on the PSTN line losses, if you consider my bridge, the All-IP migration is considered to have a net effect of 800 to 1.1 million customers, which we actually effectively are going to lose out of our customer base. On the win back, this is what you're alluding to that we are basically getting resell customers back in our portfolio, we're considering a range somewhere between 200,000 to 300,000 customers as a starting point in order to basically make up for the ARPU decline.

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**Matthew Bloxham** - *Deutsche Bank - Analyst*

What is the ARPU benefit you get when -- all those win back customers?

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

The delta ARPU between a PSTN line and DSL customer on average is EUR17. That is the delta ARPU.

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**Stephan Eger** - *Deutsche Telekom - IR*

Right. I think we are taking one more question from the room before we enter into the telecom conference. Over here on the far left-hand side.

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**Peter Kurt Nielsen** - *Cheuvreux - Analyst*

Peter Kurt Nielsen, Cheuvreux. Three questions please. Firstly, you obviously did not give any guidance on the CapEx outlook. Given your comments about the stock situation in the German market, how do you see CapEx developing going forward?

And also a clarification relating to the 2010 guidance. Is this the stabilization of revenues and EBITDA, is this a full-year 2007 target or is it a sort of run-rate by year-end?

And finally the two year uplift you are currently seeing on a customer moving up to IPTV, any indications on the incremental profitability on those EUR10s? Thank you.

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**Unidentified Company Representative**

A little bit maybe on the -- on the question you had regarding the guidance, can you clarify the question, what you mean with full-year '07 versus '10?

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**Peter Kurt Nielsen** - *Cheuvreux - Analyst*

Well, what I mean is you have given a guidance for -- or a target for 2007 of stabilization revenues and EBITDA.

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**Unidentified Company Representative**

2010.

**Peter Kurt Nielsen** - *Cheuvreux - Analyst*

Yes. Is that a full-year target or is a run-rate target by year-end?

**Unidentified Company Representative**

That is a full-year target. Just on the CapEx before handing over maybe to my colleague, Dr. Rentschler, we gave no specific Group CapEx guidance, neither did we on the segments. But what we always said on Group CapEx that is it will be slightly higher than in the year 2007, given two major impacts. The first impact is the second year of the VDSL rollout, and the second impact obviously is the 3G rollout in the US. And maybe Dr. Rentschler can say something additional on the DSL.

**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

That is also true for T-Home. If I take T-Home Germany, and excluding Central, Eastern Europe, we will be higher on CapEx of around about 10%, which is due to the fact that we invest a lot in the IT side to get the benefit out of this automation of the processes which Thomas Dannenfeldt has explained.

**Unidentified Company Representative**

Okay, on the [delta upper] question, obviously with the extra upper there is extra cost coming with. It is too early to tell right now because it very much depends on the mix of the products we are currently selling. Obviously on the content side are profitability is lower than on the excess side, and therefore we have to figure out how the portfolio -- the new portfolio develops, what that means for profitability.

**Stephan Eger** - *Deutsche Telekom - IR*

Now moving on to some of the colleagues we have on the telephone conference call. David Strauch from Oddo, I think you have got a question, David.

**David Strauch** - *Oddo Securities - Analyst*

This is David Strauch from Oddo. Thank you. I have got two questions. The first is in Q4 '07 the margin for broadband/fixed networks in Germany was improving. So I wanted to know why you expect such a drop in 2008? Secondly, are you still considering for the group guidance, even with the eurodollar effect that keeps deteriorating day after day?

**Unidentified Company Representative**

David, just maybe starting again, and just adding toward what Tim Hoettges said, and what I said before, the group guidance is completely unchanged. We gave the group guidance on February 28, bearing well in mind what we were planning for at T-Home in Germany.

You have got all the assumptions you need referring to our US business. You have got how many customers we are wanting to chase this year. You have got where we want to go on the margin. You have got our ARPU in the US. So you have got all the assumptions you plug in to your model. So again guidance as it was given on the 28th of February.

The second question, the margin in the fourth quarter maybe Dr. Rentschler would like to jump in here later on. We always said don't anticipate that this is going to be true also for the full-year 2008, because some of the cost savings we showed in 2007 were very much back-end loaded and occurred in the fourth quarter.

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**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

Maybe I would like to add some word when it comes to the questions for the guidance and uncertainties around that one. Comparing with last year we as a team we're much more confident that we could deliver on the target, which we have. When it comes to the market share on the DSL slide, you know we have confidence of five quarters in the back of beyond 40%. So we believe we could manage it throughout the year.

When it comes to the cost side we have a huge program up and running. We know exactly where to find and where to get the cost out of the system. This is something -- we have a better understanding about the price stability in the market. Everybody in the competition has announced that they are happy with the price points they have currently. So momently we're quite aggressively. So we know where the competition stands at that point. So we feel very, very confident with where we stand with regards to our big six program and the impact, the impact on the revenue line as well on the EBITDA line. And this is then as well contributing to the group guidance.

So don't take something wrong that we want to change anything with regard to the guidance with what we announced here today. We wanted to give a very precise picture of saying, look, what we have made in 2007 is showing already a positive impact on the revenue, on the EBITDA, on the market share already in 2008. And we believe with the track we're going to sustain this development as well beyond 2008. I think that is a clear commitment to our program.

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**Stephan Eger** - *Deutsche Telekom - IR*

Maybe you answer the question on the margin.

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**Unidentified Company Representative**

I think fourth quarter 2007 was a very strong quarter. So you cannot take the EBITDA margin for the rest of the year of 2008. And please take into the account that there are some structural effects like Congstar, the call center business of mobile, which usually not have the margins of our traditional business. So there is also an effect from this side.

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**Stephan Eger** - *Deutsche Telekom - IR*

The next question I think from [Nick Delvas], Morgan Stanley. Nick, do you want to go up?

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**Nick Delvas** - *Morgan Stanley - Analyst*

Just a couple of questions. Sorry, I just want to clarify what you said about the guidance. I think what you said was we have all the information. So essentially you're not saying that EBITDA will still be around the '07 level even if the dollar stays at 159 or 158 for the entire year. So obviously you would expect that to have an impact on the numbers for 2008. That is the first question.

The second question is just on this issue about the guidance for BBFN. I still don't understand if the revenues are down as the first question suggested, I don't understand why there's such a big difference in the other operating cost versus what happened in '07? I mean '07 if you took the revenue change and then compared it to the EBITDA change, the difference was more lesser your number, save for service. Why shouldn't that be the case also in 2008?

**Unidentified Company Representative**

Thanks for the two questions. Again, maybe on the group guidance, what we do -- we don't update you on any occasion on the group guidance. I understand that we have caused some confusion today. Story about that. The group guidance we gave on the 28th of February, and then we said around 19.3. And the difference in the dollar between the 28th of February and today is $0.05. It was 155 versus I think 159 today. So as I said, you have got all the assumptions you have got in your model. The guidance from the 28th of February is completely unchanged. And now maybe my colleague, Dr. Rentschler, wants to jump in again on the revenue EBITDA question on the (inaudible).

**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

You're absolutely right. It is not only other operating income, just as (inaudible) mentioned and there is another line beyond the revenue and the OpEx. This is a smaller effect. As I have mentioned, we have given a (inaudible) number for the OpEx, which is not true if the revenue is at minus 4 or at minus 6. So there is -- that will be also further cost reductions if the revenue is going down further. It is on the personnel cost side, as well as on the termination. So we have [wired up] the cost which goes down according to the decrease in the revenue.

**Stephan Eger** - *Deutsche Telekom - IR*

So I think we move on with the next question then. Here again on the right hand side.

**Unidentified Audience Member**

I'm sorry, this is probably just really nitpicky things that are clear from whatever releases you have put out today. But is that minus 4 to minus 6 apply to the gross domestic revenue or net domestic revenues? That might make a difference to the size of revenue loss we're talking about in absolute numbers.

Could you also talk again about the impact of what appears to be a trend to in the consolidation, where we are putting active billing comps to DTKS and Scout24 into revenues of BBFN? Presumably that accounts for that 1.2 to 1.7% adjustment, which gets us back to the minus 4 to minus 6. Can I ask you to quantify the revenues and EBITDA of those operations so that we know what to take out of the rest of the P&L? Obviously they are coming out of the different parts of the P&L, if my assumption is correct.

And just finally, obviously we're sort of some way through March now. You hinted earlier that your share of DSL adds so far this year seems to be running at least in line, if not ahead, of the 45%. We also have your comments that the market is loaded towards the front end of the year in terms of DSL growth, which is the main driver of your line loss. So do your comments imply that you are half-year at that sort of 2.5 million end of your range of line loss, given the experience so far this year?

**Stephan Eger** - *Deutsche Telekom - IR*

Starting maybe with the question on the consolidation, or maybe Dr. Rentschler again wants to jump in here. But in the presentation of Christian Illek, we actually showed you more basically how the impact of the consolidation could look like revenuewise. So we said what we are expecting in terms of revenue contribution from constant from, for example, Scout24. And so I think what we don't give out is the concrete revenue and EBITDA figures of these operations. But maybe Dr. Rentschler wants to jump in on that.

And secondly before we get towards your DSL question, obviously we cannot make any comment in terms of how our actual DSL run-rate is currently because we're in the middle of a first quarter.

**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

Okay, your first question was is the revenue decline gross or net? It is gross.

**Unidentified Audience Member**

Okay, thank you.

**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

The second question about the structure, as Stephan Eger has said, I will not give a concrete number for the EBITDA for this Company. But it is very clear that on one hand there is the call center business of mobile, which will have not a margin like a traditional (inaudible) business. And there is on the other hand also a business like Congstar which is in a starting phase, which will not produce from the very beginning margins like we are used to have been in our traditional business.

**Stephan Eger** - *Deutsche Telekom - IR*

Moving on to the next question over here on the left hand side.

**Stefan Borscheid** - *WestLB Equity Markets - Analyst*

Stefan Borscheid, WestLB. A couple of questions please. First one, you're still heavily investing in VDSL. Could you give us an idea when we can expect an update on your fiber plans, so whether or not and when you would for example rollout fiber to the building or fiber to the home networks?

Secondly that is a clarification. With your 3 million line losses, you have just recently launched two IP Bitstream products, so one is unbundled. How much of this is in your line loss number?

And then finally on Congstar, so you seem to be investing heavily in Congstar this year, so you must be quite satisfied with the uptake. Could you give us some numbers on that please?

**Unidentified Company Representative**

Well I suggest that Tim takes the first question and Christian the other two. Obviously on Congstar we said what we had to say about the subscriber numbers we are having here on the 28th of February. So again here we cannot tell you in the middle of the first quarter -- we cannot give you any concrete update on how we're doing on Congstar.

**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

The first question was with regards to VDSL and fiber rollout. I think as well here it is clear by the end of the year we said we're going to have rolled out 52 cities. We have announced now for the first half-year of 2008 12 new cities we're rolling out currently. So that we have the footprint of 52 cities with VDSL by the end of 2008. This is still the target. No changes to that one.

Second, fiber to the home, there is no current planning for fiber to the home here for Germany or for the group. And what we're doing as well is we have a pilot in Dresden, Dresden (inaudible), happening in the second half of the year to make some experience with the technology and so forth. No plans with regards to our fiber to home for the upcoming future.

When it comes to the next generation network, next generation sector here, I think Thomas made that clear. We want to come up in six to nine months and say how we transformed that company from let's say a PSTN and DSL Company into an All-IP company, how this transformation is taking place. We have a lot of regulatory requirements. We have a lot of requirements from an investment perspective, a technology driven perspective. I think we're working on that one. That is that clear message. And I think the timeframe of six to nine months we come back how we're going to do that.

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**Christian Illek** - *Deutsche Telekom - Member of the Board of Management for T-Home, Marketing*

On the IP IPBS pricing I think on the reseller market, you have to differentiate between comparative areas which are urban and comparative areas which are rural. Our IP IPBS pricing are likely to be higher to what you can buy from Telefonica and QC, therefore we provide a premium strategy, and we don't expect a lot of volumes in urban areas. So our competitive battlefield is in the rural areas where actually All-IP is not provided by alternative infrastructure players. And there obviously we're planning some figures for IPBS (inaudible) DSL figures, but this is not where the All-IP migration happens. So the All-IP migration was only touching the area which is 60 to 70% of the POPs coverage of the alternative infrastructure players. So rural areas are excluded. So that would be a switch between a T-Home PSTN-based offering to an All-IP offering, within the same customer base.

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**Stefan Borscheid** - *WestLB Equity Markets - Analyst*

But they are included in the 3 million number?

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**Christian Illek** - *Deutsche Telekom - Member of the Board of Management for T-Home, Marketing*

They are included in the 3 million number. All that I'm saying is they are coming from an area where we don't have a lot of focus on, which are the urban areas, but they are included there. But whenever we keep an All-IP line, we count this as an access line. Okay? So to clarify that one.

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**Stephan Eger** - *Deutsche Telekom - IR*

I think we will move on here, on the right hand side.

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**Unidentified Audience Member**

My question is regarding the negotiations with the unions on the salary increase in 2009. Could you give us an update?

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**Stephan Eger** - *Deutsche Telekom - IR*

Will you know in 2009 that is for the DT AG. And these negotiations will start late in 2008, and probably will be finished in the first quarter of 2009. All that we have this year is that we already have achieved an agreement with the unions on the TPG, that is the Telekom Shops. And we are currently negotiating for T-Mobile, which is T-Mobile Germany, which is another 7,000 people. The bulk of the German business is done for 2009. And the negotiations will start probably these December, the year end. Over here in the middle.

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**Unidentified Audience Member**

The question would be what kind of outcome do you --.

**Stephan Eger** - *Deutsche Telekom - IR*

No, go ahead.

**Unidentified Audience Member**

What kind of outcome do you expect from the ongoing -- I'm not sure how you say that in English -- from the regulatory procedure concerning the ULL provisioning? There is a decision to be expected in May sometime?

**Unidentified Company Representative**

So very quickly on this regulatory issue, first, when you talk about the ULL backlog which was claimed by the competitors in the past and the last year, and the backlog is soft. There is not any more tiles or ULLs not delivered from Deutsche Telekom. I guess they had talks with (inaudible) as well. So we got a confirmation that the backlog issue is solved already now.

The second topic was there is no discussion on the price of the ULL for this year. There is a regulation of 1050, so no uncertainties on that one. The third question on ULL might be around there is a requirement of Deutsche Telekom to support 333,000 tiles from April onwards. I could tell you we're delivering since January more than 350 a month. So it is not a capacity issue, and even not a penalty issue for us when it comes to the new regulation from April onwards. We have the capacity already built-up in January. And the new regime that is now negotiated with the competitors how many tiles are ULLs they might get. And this is on its way. I think very constructive to discuss this, nothing boring about it.

**Stephan Eger** - *Deutsche Telekom - IR*

I think the gentlemen behind who was just about to start.

**Louis Hart** - *Dresdner Kleinwort - Analyst*

[Louis Hart], Dresdner Kleinwort. Two questions. One is a bit of a strategic one. Can you just sort of outline your thinking why you are not turning a bit more friendly towards the wholesalers -- the resellers at some point? When you highlighted in stark terms why their business is not sustainable, but ultimately that is driven by your wholesale pricing. So why have you really turned away from them so much, and why are you not sort of reconsidering sort of turning towards them at some point again? That will be my first question.

The second one is with regards to the All-IP side of things on your -- in your retail products. What is your strategy? What is your approach to All-IP on the retail site, and what time scale, and what sort of products, and how do you see that developing?

**Unidentified Company Representative**

So good question. The first answer is simply in the past our retail share was around 10 to 15%. We enabled resellers. They hold the customer contract. They hold the customer interface. You know, they had no All-IP product, and having no All-IP product they at least had to buy a piece to in-line with us. We knew that they are going to change immediately into this All-IP when it would be available, only from a cost perspective. So we knew that over time we would lose entirely the customer contract with these kind of wholesale customers, being free net or being it with [united].

They are not you know Deutsche Telekom customers. They always felt as reseller customers. So therefore we had to say, if we want to control our service business in the future, if we want to have a customer interface, if we want to bill -- a retail bill not only a net (inaudible) wholesale bill, we had to keep or strengthened the interaction with these customers. Via resell this is not possible.

Second, more or less the price is regulated. So the moment we would give them a price which is below what is regulated, the entire ULL pricing as well the Bitstream excess pricing would be lowered for the entire market. And therefore we said it a economically calculation. Knowing that Telefonica or [Corsa] could always offer prices which would be significantly below our wholesale pricing.

So to protect our profit pool on the one hand, but wining -- winning the interaction with the customer on the on-site was our decision to say, look our model is very clear. We go for retail, retail DSL market share, creating a new profit pool. And we go for tile ULL business on the one hand, which is our wholesale business. But not creating something in between.

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**Unidentified Company Representative**

I think what I would like to add to this one is also related to triple-play upsell strategy. If we do not have the direct customer relationship, it is much harder to take a reseller DSL customer and upgrade them to triple-play. So from this perspective we have much better customer control if we focus on retail, and this will help us driving customers up the chain.

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**Stephan Eger** - *Deutsche Telekom - IR*

I think there is one question from the telco conference. There is a question by [John Karides].

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**John Karides** - - *Analyst*

Thank you very much. I have two questions if I may. The first one is of the All-IP lines that you think you'll lose of about 0.8 to 1.1 million, is it fair to assume that, at least from these lines, you will get unbundled local loop revenue?

And then the second question is, as broadband penetration increases in the market and the bandwidth demands for customer are increasing, do you see scope of service differentiation beyond just price, i.e., is it a case that some operators are actually having problems satisfying the demand for increased bandwidth?

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

John, thank you for that question. First question, to the All-IP migrations -- honestly, we are not worried about these All-IP migrations. You know, it's not that we have are losing revenues or risks on our hand; it's only that we have to make it transparent that these customers were under control of our competitors already in the past, and they are now going into All-IP product with another wholesale partner.

Your assumption is absolutely right; these customers will end in an ULL with Deutsche Telekom. You know what we lose, by the way, is, today we get EUR16.35 from a customer PSTN, because most of these resellers have already All-IP products. So they are only paying the PSTN fixed-line price and in the future, everything is going to be on this All-IP product. In the future, we get EUR10.50 net by the way, net. So therefore, this is let's say it's not a tremendous revenue risk which we have on hand with this ULL side.

When it comes to broadband demand and broadband differentiation, definitely the answer is yes. We believe it was right and wise to go for the VDSL roll-out and for the broadband on ADSL 2+ with 16 Mb bandwidth.

There is a price differentiation in the market on bandwidth already today. What we see as well is, with the VDSL acceptance of our customers, they are not only preaching that they could watch videos or TV, they as well preach highly that their access, their DSL access, is much faster than it was in the past. So we clearly believe that, for us, it is a huge upselling and retention opportunity with this high bandwidth network which we have on hand today.

## QUESTIONS AND ANSWERS

**Unidentified Company Representative**

I think we start over here on the far right-hand side. (inaudible) question?

**Damien Maltarp** - *Cazenove - Analyst*

Thanks. It's Damien Maltarp from Cazenove. A couple of questions -- just on the revenue guidance again, you said 36% at the gross level. I think you had a slide as well saying that the retail revenues would also decline by 4% to 6%. So is the implication there that your wholesale revenues will be declining by a similar magnitude? That's the first question.

The second question -- in terms of the outlook for I suppose the size of the DSL market, do you see much risk from mobile broadband becoming a larger threat going forward to the growth in that market? Thanks.

**Unidentified Company Representative**

The first question, -4% to 6% on the retail as well as the wholesale.

**Unidentified Company Representative**

Okay, on the mobile broadband question, I think we expect that both technologies will exist, basically coexist if you want, the reason being as you know mobile is a shared medium and it does not provide the same bandwidth like fixed net. For many propositions, we still feel that the bandwidth of fixed net is superior compared to mobile, but there are certain propositions that will also drive mobile broadband. So there's no substitution; I think it's going to be an additional data access which you're going to see in the market.

**Unidentified Company Representative**

Next question, the gentleman in the last (inaudible).

**Frank Rothauge** - *Oppenheimer - Analyst*

It's Frank Rothauge from Oppenheimer. Three questions -- first, on your Internet portal business, you have a fairly large Internet portal business with T-Online. You've strengthened the business by buying (inaudible) out but you don't say anything on the development of the business. What growth rates do you expect? Where does it go? Some indication of the profitability? You should be aware that this business has twice as high multiple than your core business, so it's value-destructive if you don't report about this business. That's the first question.

The second question is on long-term CapEx outlook. Your CapEx-to-sales ratio seemed to increase in 2008. Can you give us a long-term CapEx target for the fixed-line business in terms of CapEx-to-sales?

**Unidentified Company Representative**

We haven't given any long-term CapEx guidance, Mr. Rothauge. What we always said is, on an absolute basis, we are having slightly higher CapEx for the Group in 2008 than we had in 2007, given the two factors I just mentioned before. Longer-term, on the CapEx-to-sales ratios, Dr. (inaudible), do you want to say anything?

**Unidentified Company Representative**

As we have mentioned before, we are right now in the decision process what we're doing with fibre to the X, Fibre-to-the-Home, Fibre-to-the-Curb or how the coverage will be distributed. This is the main driver for the CapEx, though it's hard to predict right now or to give a precise number what will be the long-term.

I think, in the very long-term, we are, on the average of the benchmark that's our target.

2008 as I've mentioned is a special situation, because we will invest a lot in IT.

**Unidentified Company Representative**

In terms of growth rates on the portal business, I can give you an indication. It's middle double-digit growth rates which we are seeing here, the profitability very much different by the business. As you know, the Scout group has kind of a 30% EBITDA margin, so that's close to what we have on average. There are other businesses who are providing lower profitability but the growth rate is mid-double-digit at the lower end.

**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

But I think it's a good observation. By the way, we have an interesting Eastern Europe business as well. We have some interesting (inaudible) as well. We have the verticals, as you mentioned.

It was our aim today to really focus on the core, on the core of our business which is, let's say, these access and beyond that business. So yes, you're right and we take that with us maybe to give a more precise view on the verticals as well in the future.

**Unidentified Company Representative**

I think there's another question (inaudible).

**Unidentified Audience Member**

Thanks, it's just a question I asked (inaudible) the cracks. Your approach to the All-IP retail side of things, I mean, on what time scale would you start thinking about that, at what price point? Because other incumbents in Europe obviously use that to some degree to sell at a slight discount, to retain lines. I'm just wondering how you see that developing.

**Unidentified Company Representative**

The way how we approach All-IP right now, we haven't finalized on the pricing, as you know -- that we don't have the product in the market -- is that we actually don't see a lot of price differentiation between the technology, All-IP and PSTN-based. But we rather have a regional pricing, depending on the competitive pressure, independent whether you go PSTN or All-IP. That is the way how we approach the market. So wherever we have a very fierce cable competition, we have a different regional pricing regime than we have in other areas, rather than to differentiate between the technology.

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**Unidentified Company Representative**

Further questions here or in the teleco conference? Justin, did you raise your hand? Nope? I think on the back-end side there is another question.

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**Simon Duff** - *M&G - Analyst*

It's Simon Duff from M&G. You talk about IPTV as a mass-market product. I'm just wondering if you can talk about your strategy, how you attack incumbent cable TV bases? Because my understanding is a lot of those are tied in with long-term Level Four and housing association agreements. How churn-resistant effectively do you see those businesses being?

Further out, if you do see this as a true mass-market product, you're covering I think it's 20 million homes passed. My understanding for Germany is that's a total 36 million homes passed. What would be the absolute CapEx spend required to ADSL 2+ cover the incremental 16 million homes?

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**Unidentified Company Representative**

Regarding mass-market readiness of IPTV, as I mentioned earlier on, the main growth trajectory is coming from the double-play installed base.

Second, how to attack cable? I think it's a two-step approach. First, we need to engage with the housing industry on DSL. Once we have the DSL line in the building, then we can upsell into the triple-play. Since they have long-term contracts, it is hard to immediately attack cable operators on a broad basis. So for us, it's a two-step approach and it's coming out of DSL over the double-play.

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**Unidentified Participant**

Justin?

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**Justin Funnell** - - *Analyst*

Yes, I remembered my question. I apologize if this has been answered already. I just wondered if you could elaborate a bit more what assumption you've made on the outcome for the regulated rate for wholesale naked DSL. Again, maybe you've answered this, but I'm not sure you have. The line-loss assumption, this migration of resale to -- specifically resale unbundled lines would suggest you are assuming something that is at a relatively higher rate, so I just wanted to check that assumption.

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

So the question was not answered when we talked about the ULL stuff. You're asking about the regulation on the so-called IT bitstream access. That's what we're talking about. We expect that the regulation is taking place in April on that one. So far, we have approached the regulator with a clear price guidance. It's around EUR24 for a bitstream access product. We expect now that the regulators are looking on that one.

What we've heard from the industry so far is that there is not a huge lobby against a reasonable pricing, so we look quite confident with regard to what kind of price levels might get accepted from the regulator.

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**Justin Funnell** - - *Analyst*

Thanks.

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**Unidentified Company Representative**

Mr. Rothauge, I think you've got another question?

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**Frank Rothauge** - *Oppenheimer - Analyst*

One question on the (inaudible) business. Mr. Rentschler, you said you also expect a 4% to 6% decline of your wholesale business. Can you explain to us a little bit more why you expect that, in light of the strong upward movement of ULL which you obviously expect? So it's a bit hard to understand, because prices are not really going down.

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**Ralph Rentschler** - *Deutsche Telekom - CFO, T-Home*

(inaudible) I think the question was very specific. He said how does this retail, what does it mean for wholesale?

Look, what we have said, when we put this slide together, was to say "what is the overall revenue trend for the group?" And this is 4% to 6%. That is what we are expecting. So there is not you know now a clear different. Percent wise, you know do you have the answer on the wholesale? I don't have that with me right now but maybe --

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**Unidentified Company Representative**

There are two aspects. There are, from revenues to the carriers, to the outside, and on this, yes you're right. There is this (inaudible); there is an increase of this business and there is no price decrease. On the other hand, we are also a supplier within the group and there are of course some price decreases, as well as some less volumes.

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**Unidentified Company Representative**

Any further questions in the room here? On the right hand side.

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**James Bolinker** - *Bear Stearns - Analyst*

It's [James Bolinker] from Bear Stearns here. Have retail DSL prices now fallen as far as they're going to go, as some of your competitors seem to be saying? Then, as a quick follow-up, you seem to indicate that you locked many customers into longer-term contract earlier on in 2007. Does that mean they're locked in at higher prices than currently exist in the market?

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**Unidentified Company Representative**

Sorry, can you repeat that question?

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**James Bolinker** - *Bear Stearns - Analyst*

Yes. The first question is have retail DSL prices now reached the floor? Some of your competitors -- Telecom Italia, HanseNet, for example -- seem to think they have. Then secondly, the customers you've locked into the longer-term, 24-month contracts, are they on higher pricing than currently exists in the market, because they were locked in some time ago?

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**Unidentified Company Representative**

So, two answers -- absolutely our planning assumption is the same. We expect that we have a fairly stable price regime in the market for 2008, because for me there was a too-fast price decline in 2007.

The second question is also true, and I've highlighted this in my chart. There is going to be a price decline in my installed base because whenever I renew a contract, obviously it's going to be renewed on the new price point. Obviously, we have customers with higher ARPA in our installed base and that was one reason for the revenue decline, the -11% I told you.

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**Unidentified Company Representative**

If there's no others -- one question here on the right-hand side. (multiple speakers)

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**Unidentified Audience Member**

(multiple speakers) your last question, could you give us an indication of the CapEx per home required to go from ADSL 2+ to VDSL?

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**Unidentified Company Representative**

No, I think we haven't said anything specific here. All that we said in terms of the full program, in terms of IPTV coverage, we said it will be about 3 billion over two years. That includes DSL 2+, it includes the DSL VDSL, and we said nothing more specific number.

Is there one last question? You're hesitating but now -- yes?

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**Unidentified Audience Member**

Hello (inaudible) Equities. I have actually three questions, but short ones probably. It seems to be that the triple-play is going to be the battleground, or one battleground, future battleground in this business. Could you give us your assumption of the price development in this field, in the light of that [Ellis] and [Aqua] tried to tap this market or push into this market as well? Do you believe that you can maintain the premium worth of the cable operators? I got the feeling that the people are attracted by these kind of low-priced triple-play offers. This is the first question.

The second question is do you expect that, once the DSL market has been distributed, that resellers are going to be able to migrate their existing customers to unbundled local loop?

The last question is I was wondering a little bit. So here you have significantly improved the CRM service policy KPIs. Maybe I'm wrong but you are about to install a customer CRM solution. So I'm wondering. So either it seems to be, how did you improve or achieve this kind of improvement, having not installed the system yet? Is it then necessary to install the system if you have achieved this improvement already?

**Unidentified Company Representative**

Okay, let me -- shall I start with the triple-play? On the pricing on the triple-play, I think I was trying to bring across, the triple-play price is linked to the DSL price. So you pay a EUR10 premium over DSL. As our assumption is that the DSL price decline is coming down, we expect the same, stable environment for the triple-play. Actually, we are confident to keep that because we have just a better product than HanseNet and Arcor. By the way, if you take a look at their pricing, their pricing lists at a premium as well.

Secondly, on cable, absolutely if you take a look into the customer base, there's is low-end customer base who is just focused on price. People always forget that they have to pay a cable fee within their rental costs, but anyway there is this element in there. But if you take a look into our customer base, actually the customers we are having right now, having a slightly higher income than the average of Germany, and I think from this perspective we feel confident to keep that EUR10 premium. But it's early to tell because we just have 150,000-plus customers.

**Unidentified Company Representative**

Maybe I can add on the last question, which was about the CRM system, change of the CRM system.

As seen on the chart, there is not one system we're going to change; there's a lot of systems we need to change. It's not one magic thing you change and then you've got a the efficiency rates you've seen on the charts. Yes, we're going to change that CRM system over the next weeks, but there's a lot of things you can do before you touch on that system, and what's running in the process is the nonconsolidated process we have today. You consolidate them, if you optimize the front-end for your touchdown on that CRM system. There's a lot of things you can do, and that's what we've done already; you've seen that on the (inaudible) rate for instance.

**Unidentified Company Representative**

You had a second question on the reseller side. Could you repeat that, please?

**Unidentified Audience Member**

I was wondering if once the DSL market -- I think, in my opinion, accruing DSL market gives the reseller leverage to migrate or to convince customers, new customers, to take unbundled local loop, meaning Voice-over-IP telephony included. Given their customer base, once the DSL market is distributed, do you think is there a high threshold to migrate the existing customer base away from the telephony line to the all-IP solution?

**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

I think that is exactly what we're talking when we talk about this all-IP migration these days. Because what we say is, look, there is a customer -- take a Freenet customer. In the past, he had not a kind of bundled product. He had a single-play product with Deutsche Telekom, paying EUR16.35, and he had a double-play offer with Freenet.

With the new offerings of All-IP, these customers they get a new package, a double flat All-IP product based on the -- take the Telefonica network, for instance. Then they are buying the ULL from Deutsche Telekom for EUR10.50, then they have a wholesale arrangement -- I don't know, EUR4 or EUR5 which they pay for Telefonica, and then United Internet is the provider for this product for this end customer. This is the model which is happening already now, and this is exactly what we described as the All-IP migrates during the course of this year.

**Unidentified Company Representative**

I think we've got a very last question from Justin Funnell and then we move over to a very quick lunch before we start with T-Systems at 2:45 PM. Justin?

**Justin Funnell** - - *Analyst*

Yes, just to come back on that question on wholesale, I mean, looking at my numbers, and they could be wrong or something, but the biggest surprise in this guidance is actually this -- the shape of the wholesale revenues. I mean, the retail revenues are still really falling at a fair degree. Wholesale was growing. Now it's the same, -40, -6 in the current year. Could you give us a bit more detail on that, because I think that's something that we're going to need to understand a bit better?

I mean, obviously you're going to see declining resale DSL revenues, but that's the minority of your wholesale revenues. It's 15% to 20%, and that can't account for all of it, I would guess. So could you explain a bit more what you're talking about in terms of internal pricing? You're saying that you are perhaps cutting pricing to some of the other parts of the DT Group? Is that correct? And can you quantify that, please?

**Unidentified Company Representative**

As I said, there are different trends in the wholesale business. The first trend, yes, there is an increase in the unbundled local loop business. There is a volume increase, and there is no price effect. Second, as I've said, there is a price decrease and also a volume decrease when we are a supplier to the other parts of the company. The third one, there is a price and a volume decline in the connection fees and as you have mentioned, there is also a decline in resale.

**Unidentified Company Representative**

Tim, I think you've got --?

**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

No, I think we are now giving now for the first time a kind of guidance for the domestic market on revenues. And now your question -- okay, now let's split that up and split that down. I think, for us, it's relevant that the guidance we gave on the revenue for the Group, based on the revenue guidance we give now for domestic is exactly the same, has not changed. The wholesale part has not changed as well in this guidance, so you had no guidance in the past and now you might get a guidance if you ask that question, but it simply doesn't change. It's only that we say our story was today to say, "look, come from - 8, we go to -4 to -6 where we ended the year, and over the next two years, we're going to stabilize the EBITDA on it." So we are step-by-step underway with flattening that out. Therefore, I think the split is -- I think it should not be that relevant for that discussion.

**Unidentified Company Representative**

Very last question on this (multiple speakers)

**Unidentified Audience Member**

One last question on that again. Maybe you can give us an idea what type of cost reduction the other parts of Deutsche Telekom get due to the fact that you lower prices because that seems to be one of the issues which is difficult to understand for us, that you allow your sister companies to reduce their costs.

**Unidentified Company Representative**

All that we're saying in terms of cost cutting for the Group -- and there's nothing new here -- is that we always said there will be better, safer service cost initiative on the way where we had achieved cost savings of (inaudible) EUR2.3 billion last year, and that will mount up towards EUR4.2 million to EUR4.7 million per annum in 2010, and there's nothing new on that. There will be no more granularity or guidance upon that.

So, I think we make a break in here and meet each other at 2:45 again for the T-Systems part of the day. Thank you.

(Lunch break)

## PRESENTATION

**Unidentified Company Representative**

So, welcome back. Sorry for the break, quick break. I think we have prolonged it, but think it's more important to answer your questions as well. So now let me introduce you to the management team of T-Systems -- Reinhard Clemens, our new CEO. Joachim Langmack and Zwezdana Seeger will introduce the new strategy of T-Systems, also with reference to the partnering we just announced two weeks ago with Cognizant. And without further ado, please let me hand over to Mr. Reinhard Clemens, CEO of T-Systems.

**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Thanks. So, ladies and gentlemen, let me welcome you today here. My name is Reinhard Clemens. I'm a member of the Board of the Management of Deutsche Telekom AG responsible for the business customer segment and in parallel, CEO of T-Systems. I'm now 20 years in the IT industry in some leading positions with IBM and EDS. So I know so far the IT business and the telecommunication business quite well.

Today -- and I'm now in charge of about 100 days in my new position. I would like to give you a short update on T-Systems, and to give you a feeling where we are and what's our starting position. I would like to address our past growth performance to really give you an overview where do we come from, where we are in the moment, the underlying profit situation, the cost structure which currently sits in the Company, and what's also important, what I believe is really important, is also the customer satisfaction level on which we operate in the moment and what's the way forward into the future. From that, I will move towards the current market environment of T-Systems, so how is the market looking like, and also the actions we will take to improve profitability on one hand and regain growth, and for sure give you a feeling on our aspiration level for the future, and future for me means 2010. So how would probably the numbers look like in 2010?

That was one too far. One back.

So, let me begin with our look upon the past. If I highlight the performance, and even if this is not a good story (inaudible) that was not a good story, I would like to summarize it in four bullet points.

Firstly, I think T-Systems was shrinking in a growing ICT market. Secondly, the EBIT margin was definitely not where it should be. Thirdly, the cost structure compared to our competitors were too high, and the customer satisfaction numbers were far beyond and definitely not optimal compared to our competitors.

I would like to drill a little bit down that you really understand the starting point of the discussion. So if you look at the numbers, and if we look at the revenue side on the equation, what you can see in this chart is that we lost about EUR1.1 billion over the last three years. This is about a 8.4% decline in revenue. At the same time, our competitors in the same market segment gained about 4% revenue.

The reason for the performed -- the insufficiency in the past, what's really behind it? Half of the EUR1.1 million, which we have lost is mainly based on a cost reduction in our captive business. So we reduced the prices for the Deutsche Telekom within the Group by more than EUR500 million. So we shifted over EUR500 million profit, more or less, as a consequence in cost reductions to T-Home and T-Mobile, which for sure improves their results but on the T-Systems side it looks even better. But also, to make it clear, to really understand, there is no real cross-subsidization any more between the different kind of parties inside the group, so there's no funding of T-Systems revenue any more within the group on a different kind of level. So the prices we are delivering our services within the group are now really competitive bottom line and comparable to market conditions.

The other half of the loss was a decline in revenue in the take or fixed-line business, so the legacy, typical legacy piece which is definitely declining in Germany, and for sure that what you also heard this morning stays a declining business in Germany. I think that's a fact. We also have to do with the situation that the telecommunication business, the legacy business will go down and we have to improve in some actions our ability to grow in the IT segment. But I'm coming later on in a little more detail on those points.

On the EBIT side, which you can also see, we are not performing -- well, we had underperformed over the last year. We're currently standing at 1.3%, again 6.5% average EBIT margin of our competitors. Those are three main issues.

Number one is, on the delivery side, we were making or having looking at the benchmark figures, about 10% less gross profit than our competition. So the productivity and delivery is 10% below the average productivity numbers of our competitors. The reason is that the complexity on the delivery side is too high, so we have less degree of standardization, so we have to drive down a lot of those, let me say productivity improvements, in the future. I will show you some figures around improvements we will make on this side.

On the SI side, the System Integration business, we had one of the major problems was the possibility to have access to offshore resources. That's now fixed with the partner agreement which we have signed with Cognizant (inaudible) a little bit later I'll give you more details on the improvements and the partnership agreement which is signed currently.

Number two for this EBIT shortfall is the cost structure in sales. Also, the sales efficiency is about 5 percentage points -- or the cost structure in sales is about 5 percentage points above the benchmark in the industry. The same is for the general and administration piece, which is about 2%, or 2 percentage points higher than the G&A costs structures of our competitors.

So fundamentally, this means, looking in the past, we really have let me say a profitable business, but we really have cost structures which doesn't allow us to make it a profit improvement in the amount of up to 6.5%, and I would share a little bit what we're doing on this side.

On top of all those kind of things, we had a customer satisfaction index based on [TRIM] which is about 10% below the average, which also has something to do with the complexity we are handling in our delivery organization. So personally, I believe there is enough room for improvement. However, we have some what I believe positive effects in the Company.

If you look at those points, customers I have spoken to have more or less confirmed that we really have some excellent people. Excellent people means deep industry knowledge. We have technology skills in the Company. We have some really knew, innovative kind of services developed like dynamic SAP, dynamic desktop and so on, which is what we see in the marketplace, one of the key elements where we can found a foundation for the future on.

On the recent deals, if I look on the IT strategy which was announced last year, I think the recent deals really show that the IT strategy works in the marketplace -- deals like managed desktop services for Audi, EUR17.5 million; WestLB contract extension in computing services, EUR30 million contract. For Bosch, we are delivering a worldwide -- EMEA-wide network, EUR51 million.

We have just signed with OMG in the first quarter here, which is a South African financial services and insurance group, the largest one in South Africa, a EUR150 million deal. You probably also have heard that we signed or have a downselect of [Shell] and the proposed date for contract signature is in the first quarter, so -- and the Shell contract is about EUR1 billion order entry. So overall, the situation on the order entry side looks positive, which also shows that we are on the right track with the ICT, overall ICT strategy.

On top of this, if you look at the European data center operation, so on the pure infrastructure business, we're currently number two in Europe, behind IBM, twice as large as EDS in Europe here. On a worldwide level, we're number five. So there's scale, there's leverage possibilities in this area.

In the automotive sector, we are number three worldwide, and to give you a flavor of what this means, against EDS, which is number one, EUR1.9 billion revenue; IBM number two with EUR1.5 billion in revenue. We are in position number three with EUR1.3 billion in revenue in 2007. With a new announced partnership with BMW which we have recently announced, I think we -- and that's what I really believe -- we will close the gap and I am really convinced that we have laid the foundation to become number two in the automotive industry. So there's a gap which we can close short-term with the partnership with BMW.

If I now go to the marketplace, and if we have a look on the marketplace, where are we in the moment? In 2007, we addressed an ICT service market of about 180 million, so 180 million in Western Europe was the market size of ICT, the ICT service business.

If you look at the different three segments of particular interest to us in this marketplace, you can see growth rates in the first two segments, which is the system integration piece and which is the IT infrastructure piece. We all know that the fixed-line legacy telecommunication business in Europe is pretty stable. Even if it is declining in Germany overall in Europe, it's about zero.

On the other hand, in 2007, which is also important, this ICT market outperformed the U.S. market in terms of growth. So it's the first time that the European market is taking speed and growing much more than the U.S. market did in the past. So we are number two in Europe. We are number one in Germany in this market segment. Germany is important because it's the second-largest market behind the UK. This gives us at least a very good starting position on a competitive scale.

The telco market segment is shrinking, but I believe here we need really to differentiate a little bit. The German market is shrinking at almost 3% for legacy, so for voice data and the legacy business, and definitely it's not possible to compensate this downturn through IP revolution. But if you look at the rest of Western Europe, the telco segment is growing at about 2% on average, excluding voice, so therefore the reason it's a little bit stable.

If you look on an international scale, on the telecommunication infrastructure service business, it's still a growing business. So we can see also, with our customer base, the world is becoming more global. This telco infrastructure service is growing by 6.9%. So it's still I think what I believe, it's a good reason we still have an attractive market and an attractive market segment where we overall can grow our business base.

So, what's now our way forward for T-Systems? If we go further down, I think it's really important with regards of our past performance which we had so far, we need more focus and more efficiency. I think we try to become a global player; you all know this story. I think this story of becoming a global player is over.

We want to focus the Company, which definitely means we can't play everywhere in the world. So our focus is on sales. Specifically in sales it's in Europe, and we all know that we have to deliver services on a global basis, because our customers are global. The question for us is do we really need to have sales offices everywhere in the world? Do we really need to have marketing activities everywhere in the world? So we will focus more or less all of our activities in certain spots in the world. Therefore, we mainly address five main segments.

First is large companies which are headquartered in Europe. That's the sales targets which we have. And only to give you a feeling, 29 of those key customers which we have, have a budget of about EUR26 billion. In the moment, we only get a share of wallet out of those customers of 7%, which means EUR1.8 billion. So there's enough room; if we focus on those customers there's enough room to improve the situation and to grow much faster than the marketplace.

Public institutions, the second area which we would focus on, is today a marketplace of EUR55 million in Europe. It will grow until 2010 up to EUR63 billion, excluding [Helska], so it's a pure public governmental kind of play.

In Germany, I think we are number one in the small and medium enterprise business, and we'll stay in this business because this business also protects a lot of our telecommunication kind of activities in Germany. In the automotive, as already mentioned, in the automotive industry on a worldwide basis with Volkswagen, Daimler and now BMW, I think we are on the best way to become at least number two in the SI business, the System Integration business; we are already number one in the world.

So then the fifth point is the T-Group by itself, where are we with our current cost structures which we deliver within the group, what I call preferred partner already.

So, firstly we said and I have said we have to focus. The big question is now how do we become more efficient? So on the profit side. As you all know, T-Systems so far consisted out of two independent legal entities. Now, we had enterprise, the enterprise services unit; we had the business services unit, which also means we have two separate sales organizations, we have two different deliver units, we have two different -- or had two different HR units and so on, and so on, which resulted in an overblown organizational structure.

As already agreed with the workers' councils and with unions, we will act as one company in the marketplace starting the 1 April, 2008. So the negotiations are done. we move forward; 1 of April we are only one company. On a legal perspective, we keep the legal units in place but the workers councils agreed that we have one leadership team, so we're bringing all these kind of things together. That's the first step in implementing a leaner, more cost efficient and effective organization.

For sales, what does it mean for sales? As you all remember, the old sales structure was too expensive, 5 percentage points above market average. So, we agreed to focus all our sales efforts on customers with high growth potential and with dedicated key account management and a direct sales organization with focus on those customers about which Joachim Langmack will give you some more details in a moment. So that's the part of Joachim.

For the SMEs or the small and medium enterprise customer business, we will implement a multi-channel sales approach, which means inbound/outbound call centers, which is far, far more efficient than the past organizational structure. So we have for this medium enterprise business a very, very efficient sales organization in the future, and you can all imagine that this will result in necessary headcount reductions. So we will go through restructuring programs, and I will comment at the end little bit on numbers, what this really means.

So regarding system integration, we have signed a partnering agreement with Cognizant which will definitely increase our offshore capabilities. Zwezdana Seeger will give you some details on this later on, directly after Joachim Langmack.

On the delivery side, we already have merged two different deliver units, which are in business services and enterprise service, into one ICT factory, which will result in a much more seamless and thus more cost-effective engine for our products, for our solution, and for our service delivery units. So to give you a feeling, this will definitely result in productivity improvements of more than EUR0.5 billion, only based on productivity inside the factory. This is driven mainly out of standardization, process optimization, and headcount reduction. So it's a combination of all of those points.

Now, I would like to ask Joachim to give you some details on sales.

**Joachim Langmack** - *Deutsche Telekom - Chief Sales and Service Officer, T-Systems Enterprise Services GmbH*

Ladies and gentlemen, to improve and become best-of-breed in customer orientation and closing profitable business, we firmly establish clear structures and lines of responsibility for our customers within our organization. Please can you show the next slide?

We overcome the -- as Reinhard said from the past [given] divide between the sales units of enterprise services and business services, and bring them together in a more efficient organization. We focus more on corporate customers to give best possible support to them and to identify leads and opportunities and close business.

For our top key accounts, we introduced key account management with a team dedicated to and serving client, and we establish a key account manager responsible for profit and loss and customer satisfaction for his client worldwide so that he is able to define the strategy with the client, to make trade-offs, to manage the transformation, and overall help us to be more effective within the client and produce more benefits for him. We are convinced that this will result in a better share of wallet. Reinhard told you of the share we have. We will improve that. We want to become the trusted advisor in these top key accounts. That's number one bullet of this file.

Consultative selling to large accounts -- and that's about a volume of 1600 customers -- will happen out of six regions in Germany or our international units. Each head of the region has profit and loss responsibility, it's more profit responsibility, and is empowered to take the right actions for his customer set and to optimize the business. It means that also for these clients, we're close to the business. We operate in the same region, can act with urgency and flexibility. As a result, we think corporate customers will experience better service, and we as T-Systems will be better positioned within these customers to create new business, enlarge our business within these clients, and produce benefits for them.

When we go on the next file, we see additional to the [grow] of the business we do in these new structure, we will focus on four segments.

First of all, the public institutions in Europe -- as a European-based company, we understand this market and industry very good, perhaps best of the IT and telecom providers. We will address this potential more intensively; in another industry I would have said aggressively. We will focus on ITC services, management of applications, network and infrastructure services. Also, here we will benefit from the short decision structure we can establish.

Number two, focus is, as Reinhard said, Deutsche Telekom. Here we optimize landscape, produce savings for the customer, and we're going to improve our partnerships globally in all countries where Deutsche Telekom is providing services.

Number three, focus item is the focus on international business. We want to grow with the multinational companies based in Germany and Europe, and growth then the local business and profit in the countries we are. This is already a proven approach. We will emphasize this and we will have a straighter methodology to manage these international companies.

Number four, and I think that's a very important point, we prepare and focus to win big deals. We invest about EUR50 million to develop a big deal center; it's already in process. We built up dedicated design and negotiation teams and an infrastructure to ramp up when opportunities arrive. To give you an impression, in the last year, there were about 70 such opportunities in Germany, and we want to increase our share and win rate with these big deals.

Overall, you will see us much more customer-oriented, solution-focused, and I'm convinced successful in the market. And we do have more capacity and more capabilities in the system integration business, and that's a point where I want to turn to Zwezdana Seeger.

**Zwezdana Seeger** - *Deutsche Telekom - Chief Systems Integration Officer of T-Systems Enterprise Services GmbH*

Hello, ladies and gentlemen, also from my side. My name is Zwezdana Seeger, responsible for Systems Integration. I have the honor today to explain to you a little bit more about the Cognizant partnership and where we come from and what's the intention of the partnership., what are the main points of it and how do we want to go with it forward, and why is it important for Deutsche Telekom and why is it important for T-Systems.

Well, the first bullet point says the DT strategy gap closed. We've been talking about a partnership since a few months. To be very clear, from our side, we've given ourselves the time to find the right solution and we strongly believe that Cognizant is the right one.

I took this systems integration myself over about two years ago, and the point we went through was the big transformation program to be ready for the changes in the systems integration market and to be ready from a partnership.

What does it mean? It means we came from a lot of very small profit centers, not having really industrial production, and we didn't have enough offshore resources already at that time. It means we were a late enterer of the market.

After we finalized our transformation program, there were three strategic imperatives which came out as a necessary wide field which we needed to cover. These were the bases for our selection of the partner. The three strategic imperatives we've given to ourselves at the beginning of our search for a partnership was, as you see down there, is how to improve our cost position? It means add additional offshore resources which we didn't have at that time, due to the fact that the systems integration was not focused at that point before.

The second point which was important after the transformation program we did is we had three-plus half verticals where we were very good, but we actually needed additional vertical knowledge to be able to address all of the markets. So, the second strategic imperative was to add additional vertical process knowledge into the systems integration sector.

The third strategic imperative which was also very important, while different from IT operations, systems integration needs and a significant part of people of a resources [on site], not only offshore, if we want to deliver all the services to all of our global clients independent where they're placed, and due to the fact that we had a lack of those resources, we were not able to deliver all of the services we could offer but to any place in this world ourselves. It means (inaudible) very strategic imperative was exactly to cover this on-site resources in the geographies where we were not present.

Cognizant is very well exactly complementary feeling into these three strategic imperatives. To point it out very perfectly, we do have 1200 people up to now in India. Cognizant has an additional 40,000, and already the processes how to move with it. That's a first strategic imperative.

The second one, we are very strong in automotive, as Reinhard said (inaudible) we're actually in systems integration number one in the market. We are very strong in telco. We are strong in public services and partly in-service area. Cognizant is very strong in financial services, the area where we are not only being able to address horizontally but not a vertical processes of the market, and Cognizant is also being very strong in pharma industries and in health care, which gives us also a [death] sector additional potential and gives a perfect match.

The third strategic imperative is being addressed by roundabout 15,000 people of Cognizant in the U.S., where we necessarily need to address our Europe-based multinationals like our automotive industry clients, which we are going to be addressed -- going to address in a global model, but having also this necessary on-site component on the systems integration side on this ground. It means taking these three strategic imperatives. It was very clear for us that that's a perfect complementary partner with whom we want to work together.

Our partnership has not only the potential of offshore, as some of the people are telling about, it gives us a real upside potential on different areas. Which are these upside potentials for us? The first thing is definitely our core customers of each side are able to profit from the scale and from the processes we are aligning jointly. The second point it is we are able -- we have a lot of, for example, clients in the financial sector (technical difficulty) at the moment mainly addressing ICT infrastructure services. Jointly with Cognizant, we are able to address all IT services at those customers and it will give us jointly additional upside.

Just reminding, those two examples, you can imagine that they are also additional points where our clients and their first reactions we already have is more than positive. We are looking forward for the first steps we're going to do jointly.

How are we working together? We have (technical difficulty) decided not to go for an opportunistic partnership, to be very clear on that point. We are not going for opportunity by opportunity, because that would be something you could do with a change in partners. We have decided to go exclusively and to exclusively win and I hope never lose together, but if necessary, also that. That's the important point.

We have different layers of the clients and industries we are starting with. We said our first point is Europe, not continental Europe, Europe including the UK and Europe including Eastern Europe, and automotive globally.

We do believe, as Reinhard has told on the beginning and during his speech, that there is enough room for improvement not only in the existing customers of us and of Cognizant who are moving to Europe or who are already in Europe but also improvement on the clients who are at the moment working with our competitors, because we do believe jointly that this partnership, giving us best of let's say three different worlds, best of U.S., Europe and Asian market, is something very significant and first type (technical difficulty) closely and jointly working together on the systems integration market.

We are working on joint and final on a basis of joint opportunities and joint business. It means not only offshore for the scale of costs but also joint sales approach on these markets and on those clients. We do believe that it's going to bring us, until 2010, a double-digit growth. We don't only hope; we are sure that it will bring both of us additional upside.

May I have the next slide, please? It's just to give you a brief overview what this partnership brings together. If you look at those both companies, what is the size of this virtual joint company? As I told before, Cognizant on one side, strong footprint in North America, UK and India. We do have, as you know, a strong footprint in continental Europe. We have built (technical difficulty) market, we are number one in Germany. We have 57,000 people at Cognizant and 55,000 at our site. While it is mainly systems integration partnership, but it in this partnership, we are also the partner of choice for infrastructure services, also for actual Cognizant systems integration customers, which means at the final end, we are more than 100,010 together, and we do believe that -- and we also see the first reactions of the talents in the market that we are now more than interested partner for these talents which are looking for their new opportunities in the market, which are also important in an Indian market. We do have a complementary industry depth, also complementary service portfolio and joint client base is nearly double size of what we have. That's the reason why we decided for Cognizant, and that's the basis for growth in the systems integration. We want to go on for the future.

I guess you're going to address your questions later on, that's why I would like to give back to Reinhard on that point.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Thanks, Nana, and thanks Joachim.

Let me come to the [aspirational] targets 2010. I know it's disappointing for everybody that no numbers are there (LAUGHTER) but however, I would like to give you a flavor.

I think we're turning the Company around. We will definitely start growing again. The conservative picture is that we say okay, we make a mid single digit growth in revenue, and we also will have a mid single digit growth -- not growth but an EBIT result number, an EBIT margin number. The aspiration is very clear; at least we become the most profitable ICT service provider in Europe, which is possible looking at the current cost structures which we have in the moment, so there's enough room to improvement. I will share a little bit some numbers on how we do this. So, that's one piece.

The second piece is that we all know that the telecommunication business is declining, so we will definitely put more effort in growing in the IT segment. So the IT segment -- and I have shared some numbers. We only have a share of wallet of 7% with those key customers. We only have to double our share of wallet with existing customers, which will definitely then result in a double-digit growth in revenue stream in the existing IT service environment.

So, the EBIT margin increase is a result of the I mentioned alignment, sales costs down, productivity up, cost efficiency in the G&A structure. That's a measure across all the different kind of T-Systems function. Only if you look at the numbers, don't be confused, because those numbers exclude media broadcasts, so the baselining is different, excludes media broadcasts and the BPO business, so the comparable starting number, excluding those figures, is EUR11.1 billion in revenue. The EBIT number was negative if you put media broadcast out of the equation. So, that's the starting point, so at least growth and profitability in line with our competition and the average than in 2010.

So, if you have a closer look on planned cost efficiency, I think there's a Save-for-Service program, and it's a group-wide efficiency program which we have initiated so far. The target was a minimum 4.2% -- EUR4.2 billion or a maximum of EUR4.7 billion in savings until 2010. That was the aspiration for DT as a group on savings. T-Systems' contribution is, in 2009, about EUR800 million in savings. So we will produce EUR800 million in savings, and those savings contain three measures. One is productivity, as already mentioned; that's mainly on the delivery side, so more standardization, get complexity out of the systems, also lay off people in this regard; then, efficiency in sales, so less salespeople but more focused on specific customers; and the sales organization for the small and medium enterprise, which is a multichannel approach, so a more efficient go-to-market model there. It also contains G&A costs cuttings, which we will do within the next years. This definitely will lead to redundancies and the estimated figure is about year-over-year for the next year is 3000 FTEs which we're going to restructure. It's a year-over-year number; it's not a total number.

So we're going through the execution, which would then result -- and that's, let me explain this 3000 FTE number. It results in restructuring, which we will do, but it also will have to do something with portfolio alignments. [After] we would start to divest in certain areas which are not key inside the T-Systems business. One example for example was TS India, where we have merged TS India with Cognizant to leverage this situation there. We will start, in different kind of areas in smaller pieces, to exit some of the noncore assets more or less in the next future.

So having said all of the points, that's more or less the summary. What's the overarching goal? I don't want to go through all of the points, but I think it's build a next-generation T-Systems, which means competitive cost structures which are in line with market conditions, profitable growth again, so with clear focus; it's a performance culture which we're going to start, and a clear performance management; and it's about quality and innovation. I think we have laid some very substantial kind of bricks already with dynamic SAP services, with dynamic desktop solutions. We will operate with SAP in the midmarket environment so that we more or less I think are on the way to execute those kind of actions which we have laid out here in the broad overview a few minutes ago.

So with this, I would like to close my presentation. We probably have to answer some questions, but thank you very much for your attention. Thanks.

## QUESTIONS AND ANSWERS

**Unidentified Company Representative**

Thank you. So, I think we can start with a Q&A session in a minute. You can take (inaudible) here, the questions which would be coming from the teleconference. So, why don't we start with (inaudible) again?

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**Unidentified Audience Member**

Thank you. (inaudible) Exane BNP. First, you mentioned that the deal or the cooperation with Cognizant will allow you to outsource some of the jobs and some of the work offshore. Are you talking here about jobs that are in-sourced at T-Systems Germany and that will be outsourced offshore, or that are outsourced by T-Systems Germany and that can easily be outsourced somewhere else?

The question related generally to cost-cutting initiatives -- have you had any new discussions with the unions in terms of reducing personnel following that deal?

Finally, with regards to the guidance, how back-ended is the guidance in terms of improvement of the EBIT margin? Thank you.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

I think let me answer the HR questions first on the SI side. If you look currently on the structure we have in SI, we have about 15,000 headcount in total in SI, 8000, about 8000 in Germany. Out of those 8000, we have 3000 in application development areas. The rest is industry consultants, so more or less a consulting architectural kind of skills. Those 3000 people in application development are questioned in the moment. So, what's the degree of headcount which we're going to reduce over the next months or years? This is a moving process over the next two years.

The clear strategy is move as much work as possible, which is a low-margin business, to India. Now, because the current cost structures in India and the deal which we have negotiated with Cognizant, is extremely competitive, even the benchmark in India we are, from a cost structure, below the benchmark in India. So what we have done is so we will remove those -- [I don't know] the number but somewhere up to 3000 headcount are going more or less offshore into India, or into Cognizant. So that's the structure on the HR figures. Also, you get a flavor what we're planning to do.

There's an equation which we have to do, you know? If we grow in SI and for sure as we are now more competitive in the SI business, there's a clear intention to grow and outperform the market in the SI environment, because we're now at the moment the only player which has a large Indian footprint and a very strong local footprint also here in Germany. That's what the feedback on the customer side is; that's the preferred model, because we're taking complexity out of the system for all our customers in Europe to deal with Indian companies. So, we are the interface for all our customers, we manage the complexity with the Indian players, but we are able to deliver this very competitive cost structures to the marketplace. So this will result in growth, and it's a double-digit growth number in SI. It will reduce costs heavily on our current delivery structure, local delivery structure in Germany as we move forward to move people more or less into this offshore region, which means we lay off people in Germany, or we have to restructure. (multiple speakers)

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**Unidentified Speaker**

Sorry about that.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

It is shared with the unions; it's shared with the work councils. We all have agreed that this is the way forward.

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**Unidentified Company Representative**

On your question regarding the EBIT margin, and also the Save-for-Service, whether that is back-end loaded, and Mr. (inaudible) can jump in in a minute if he wants to, but what we said in the slide as well, 2008 we will be able to save about EUR300 million from the Save-for-Service initiative. And by 2010, we will get up towards EUR800 million. So I guess it's fair to assume a kind of linear path from the EUR300 million to the EUR800 million, because it's a three-year horizon.

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**Unidentified Company Representative**

Yes, let me add a few points. See, a very important point regarding EBIT margin improvement is how is it possible to further reduce the headcount? Systems integration is one important example. Our view on that mainly is that we have to go on with what we did already in 2007 and 2006. If you take our headcount position in 2007, we are able to reduce 3300 people organically. It has nothing to do with divestments. We have to go on in the same way in 2008 and 2009, and also in 2010, and that what we also agreed with the workers' councils.

So if we want to make one big step in saying okay, 10,000 people in one year, besides the fact that our processes and our work does not make it able for us to do it in one year, we would have a big trouble. But do it year by year in a volume of around 3000 to 4000 people, besides any divestments like with media broadcast we did in January of this year on giving back some of the B[O business to T-Home, which in addition means we could reduce our headcount by 2800 people.

So in total, we reduced, in 2007, 3300 plus 2800 organically of the 3000, and we have to follow that in the upcoming years. We are prepared for that and very important is that it is agreed with the workers' council. So we are optimistic that we will see already an EBIT margin improvement in this year, but on total, it is a three-year project or program Reinhard was explaining.

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**Unidentified Company Representative**

Let's move on with the next question, maybe (inaudible) please?

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**Unidentified Audience Member**

Thank you, two questions, one on transfer prices. I was just wondering whether you could give us a sense, both on the revenue side and on the cost side, whether you think the current transfer prices within the Group are fair market value or where you think there could be major or should be major changes. That would be the first question.

The second one is we have seen these Save-for-Service figures before, so I was just wondering. From what you are presenting today, what has changed internally with regards maybe to the revenue CAGR, giving or with regards to the way you want to achieve the savings, or I'm just trying to sort of get a sense what -- you're presenting some of the numbers, which I understand, but what sort of do you see has happened over the last, say, three months? What has changed what we should, how we should think about T-Systems, because of your arrival and your analysis of the strategy and your impact on changing the strategy? Thank you.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Let me start with the first point, fair transfer pricing and fair cost structures within the Group. So if you look at the Group, we are benchmarking our service. We agreed last year -- and it's a continuous process. There's a very clear benchmarking rule within the Group, so we have to deliver competitive pricing structures, which means they are in line with the market conditions. So there's no cross-subsidization any more between T-Mobile, T-Home and T-Systems, so we really have to go -- and that's bottom line which we have.

Now, in my presentation, there was a number that we reduced the revenue stream for those services by EUR500 million last year, which is really important to understand. So, we are on the basis of pure market conditions at the moment. So that's important. So, I say it's a fair market price. We also share within the group what we're doing within the SI side, for sure, which also will have a positive impact on the cost structure of SI services which we deliver to the Group. That's one point.

Perhaps you can comment on this one.

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**Unidentified Company Representative**

Okay. Regarding transfer prices, you have to see both sides. One is the IT services side, Reinhard explained, and what we started in 2006 was a full impact in 2007, was more or less a one-step change. So, we said okay, one tough benchmarking for all our IT services, and we will do it within one year. At the end, it meant that we were losing EUR550 million or more or less 15% of our captive business in 2007. Of course, that had a drastic impact on our total sales and also a drastic impact on our EBIT performance.

So at the end now, we have absolutely fair conditions, within IT services, no doubt about that. It's even tougher, from my point of view, than what we have with some other customers. We closed all internal discussions on that. That was one of the major reasons for us really to stop all this internal discussions; we are too expensive and so on.

The other side is the telcos services. Of course, doing benchmarking on IT services at the supplier, of course we requested also to do a similar thing on the telco services. So there was also, or there is also implemented a benchmarking process. However, what we have to consider is that we have to be within regulatory conditions, so we are limited on that side. It has improved to what we have got two, three or four years before. Everything which is possible regarding benchmarking on the one side and regulatory conditions on the other side we're doing also on the telco services business.

So at the end, we all think we have a fair process and fair prices in both directions.

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**Unidentified Company Representative**

The second question was what's different? So the last three months. I think there are no miracles. I think the IT business -- and I know this business quite well -- the main key point in the IT sector is focus because we -- and it's not changing the strategy. I think that it's a wonderful word, we change the strategy. The reality is we are starting to focus the Company. Because becoming a global player means you have to invest a lot of money in every country, and only to move in America from place or position 1300 to 700-something means nothing in terms of revenue or market share, or market penetration.

So what we do is -- and I personally believe, and I personally believe because I worked for American companies -- we can as T-Systems build a balance against the American penetration of global players, because the European customers are looking for European kind of solutions. You all know that if you look at competitive solutions in some areas, you only have an English version of a specific product. You can't sell it into governments; you can't sell it nowhere in Europe. That's why I personally believe we can build up with the T-Systems European-oriented strategy -- yes, where we have to deliver on a global scale, and we have and work with our customers in those countries, but the sales activities and the focus on what we're doing will be on Europe even if we have now with customers like Shell the potential to deliver data center services around the world. We are in 50 countries already in the world for telecommunications services. So there is a backbone already in place for global delivery, but the sales activities should focus on Europe, because the European market and the total size of this market will grow until 2015 of more up to EUR260 billion. So that's the market size for ICT services in Europe.

So, I believe it's a growing market, it's an interesting market, and we're more or less, in our current position, well positioned to become the leader in Europe with European kind of solution for European headquartered global customers. That's a story around focus in making an organization lean, focus it to the right customers. I think we have set up a new framework in the organization. There's a German phrase which I can't translate into English, perhaps you can -- (speaks German) -- as for the reality is, I think we have to clean up, which is too complicated at the moment in the Company. We have done the first steps within 100 days, and we will execute against our aspiration numbers.

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**Unidentified Company Representative**

Mr. Rothauge here, I think you've got a couple of questions.

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**Frank Rothauge** - *Oppenheimer - Analyst*

I've got two questions. First, on the revenue growth, can we draw, from your presentation, that you can grow from the base of EUR11.1 billion now in the mid single digit basis already from 2008 onwards, so already this year?

The second question is on the cost-cutting. We saw this gross net exercise in the T-Home areas, the EUR300 million of this net cost savings.

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**Unidentified Company Representative**

So first of all, on the cost savings, it's [across] savings because the entire guidance we give for the Save-for-Service product initiative means our cross cost savings.

On the second question, on the revenue, Mr. [Peters]?

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**Unidentified Company Representative**

On the revenue, the question regarding 2008, we will not see a growth starting from the 11.1 mid-sized growth in 2008. We expect that from 2009.

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**Unidentified Company Representative**

But it's topline; it's not declining any more.

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**Frank Rothauge** - *Oppenheimer - Analyst*

Can I have a follow-up question? At T-Home, you had a slide where they showed us how to invest the cost savings. Do you also want to invest the cost savings somewhere?

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

My personal belief is, yes, for sure we have to invest something. We have to overachieve the cost savings and the profitability. But what's important is I'm a personal believer that we have to show a profit which is in average of all of our competitors, and the clear aspiration target is that's those single-digit 6.-something number on EBIT margin.

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**Unidentified Company Representative**

Or mid single digit EBIT margin we want to get towards in 2010, and obviously (inaudible) is right. We have to invest on the EBIT side, but there is no alternative towards a path towards mid single digit profitability, at least.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Because I think otherwise, I wouldn't invest in this business. So it's very clear, that's the target and for sure if you look where are the weaknesses in the moment, to come a little bit on the weaknesses side of the business, data center is okay; the profitability is in line of the expectations which we have, and we have a very clear plan. The number of exit points around the globe is not sufficient. So, we have on the detailed communication infrastructure service side, we have to take some actions to get a higher penetration in Americas an in Asia in certain countries. This is totally mapped to a template which where we find European customers, and that's the good piece. What we found out in our assessment was that European customers have a certain kind of pattern in different countries where they are located. So, you'll find in Texas a lot of European countries; you don't find them so much in Seattle and those regions, so it's more or less the East Coast.

In Asia, it's Malaysia. Also for example the data center of Shell is directly on the other street where the data center of Deutsche [Post] is. So we have a lot of synergies in investing into the right spots in those countries. So what we will invest and we have to invest in is the number of POPs or exit points in those countries, to really ensure that we are competitive on our international telecommunication infrastructure services pieces. So that's the investment piece, to become more competitive, but there must be an immediate payback which we get out of customer situation.

The way is to grow with customer bases. Therefore, it's important that we at least get two mega- deals per year, which is the fundament for additional growth, therefore the investment into megadeals which is important and this year with OMG and hopefully with the Netherlands Oil Company we have a solid fundamental kind of first-quarter results for growth in 2008.

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**Unidentified Company Representative**

Andrew?

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**Unidentified Audience Member**

Can I just ask three questions about the Cognizant joint venture, please?

First of all, I mean what is the basis of costing of the delivery in India for the JV? I mean, I guess the question is how are you sure that you have your costs low and under control in the future?

Secondly, how do you actually split the sales? I mean, I can understand you're probably prime contractor into your own customers and vice versa for Cognizant's customers, but what happens on the other customers that neither of you are already in place, and how do you split the sales between you?

Then thirdly, I guess how do you ensure that this doesn't become a Trojan horse, that Cognizant actually ends up controlling the SI business? Thank you.

**Zwezdana Seeger** - *Deutsche Telekom - Chief Systems Integration Officer of T-Systems Enterprise Services GmbH*

If I can give every answer, I hope I wrote everything down -- just remind me of that.

First, how are we going to keep a control above our cost basis in India when we give our operations to Cognizant? We have clear rate cards in which we are working, which are going to be improved every year, and that's where we clearly see as in every systems integration business on which cost basis we are working. Besides the part that when you're working not time and material but for a closed project, you have a clear way how to go forward and which part is being delivered by them. Because you still have to define who is prime and who is sub for -- subcontractor for every project, which is normal because no one of the clients wants two contracts when he is going for something. And that's what we definitely want to do and know how to go for it. That would be the first answer.

The second answer, we're not splitting sales. We are going jointly for new sales. Yes, there is a clear decision for our key customers and their key customers that we are prime or they are prime.

To give you an example, at Daimler we are always going to be prime and we are always going to be in the lead, as well as Cognizant is going to be at JPMorgan Chase. That's a clear basis we both need. And we have defined -- as I told you, we have a joint executive and operating committee, depending of the structure how are we approaching the customer, are we going for application maintenance? Do we have a bigger knowledge on one or another side? We're going to decide which would be the right approach. That's why we do believe that besides these exclusive customers, this biggest customer of the sides, it's not necessary to decide on it by now, and we have a clear process how to decide it on every project we go for and on every client we go for.

The importance is for both of us to grow. There's so much improvement on the market that I'm not afraid that we're going to have to [low] on both sides if we really gain what we planned for.

The third one -- well, I did expect this question, but that's a reason we went together with Cognizant. We have a similar size. We have different opportunities in the market and we're very complementary. It means wherever they could beat Trojan horse -- that was a -- I know it in German but I haven't heard it before on English, sorry. That's -- well, we could also be that for them at their clients. I do believe, when the fear is the same size of both sides, that's no reason to go for it. That's why we were looking for a very complementary where both could profit on it. By protecting our key customers -- and you should not forget at the moment we're doing nearly at systems integration 70% of our revenue on these five key customers. It means we have protected already the biggest part of that.

**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Let me make one comment because it's important to understand, I think. We had a long discussion with the management of Cognizant. The point is this relationship is a benefit for both of us, because Cognizant was very clear that they are not able to ramp-up sales in Europe. So, all the Indian players tried to build a nonsales organization, penetrate customers, and get a footprint into Europe. And they all failed.

Cognizant found out, with a deal in the Netherlands, that this partnership model is extremely successful because they don't have to invest in sales, but they can use all their leverage kind of delivery functions behind it.

We agreed that, as long as this partnership works for both of us, they will not invest in sales in Europe and we will not invest in building up offshore capabilities in India. This is a relationship where we are depending on each other. That's for me exactly the right way to do it, and that's also something which you can imagine gives us some new ideas how we penetrate markets in the future to expand globally, build more partnerships. I think there were those kind of virtual kind of networks and companies in the past where we had a lot of discussions already about.

So that's the picture. We are depending on each other. So the benefit is we can give them access to 100,000 customers which we have in Germany -- 160,000 customers in Germany. We are strong in Spain; we are strong in France. With share we now have a very good footprint in the Netherlands, started sales in the UK, so we (inaudible) some other opportunities. There's a lot of space where we can grow in the UK. In Germany, we're strong. Eastern Europe, a high degree of penetration. So I think this is a perfect partnership for both of us. We are the sales force; they are the delivery arm.

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**Unidentified Company Representative**

More questions over here?

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**Unidentified Audience Member**

Two questions. One, just on Cognizant deal, is there some kind of minimum term that you've agreed before you reassess the kind of commercial relationship you have in place? Secondly, could you give us a bit more detail on your main competitors across the whole business customers division -- T-Systems across Europe, and who the kind of big players are that you've got to outcompete to kind of deliver on your financial objectives?

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**Zwezdana Seeger** - *Deutsche Telekom - Chief Systems Integration Officer of T-Systems Enterprise Services GmbH*

I can answer the first one. Overall, the duration of the contract at the moment of five years with an option to prolong it. And both sides want to prolong it, but we do believe, when you start a contract, you need to have a timeline.

We have inside a contract as I said on the very beginning, first concentration on Europe, over all verticals and all markets. It means Europe-based multi-nationals, wherever we deliver, just to make it clear. We're not going just sell in Europe. It means whatever Volkswagen and Daimler and whoever needs in the U.S. or in Asia, we're going to deliver. Europe-based multinationals, to wherever -- deliver.

And automotive globally, we have a point, points during the time where we are discussing about increase or changes, but we didn't talk about financial implementation at the moment. We want first to see our first successes and then go probably together for conquering the world because we do believe that the first step is important and the success of this first step is more important than to say from the very beginning "well, we're doing everything; we are conquering the world, we're doing it on every place." And after two years, to say "well, it didn't work."

I mean, Rome was not built up in a day. That's why we are starting on this point. We hope to give you success after twelve months of this partnership, but then also discuss how are we going forward in the future. But there is an option to discuss about.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

Competitors was the other question. And for sure, I think we have the normal kind of competitors, like (inaudible), EDS, (inaudible), Cap Gemini. But the world is changing; the world is changing. I don't know. I think three, five, four years ago, we had a discussion around ASP kind of models. Now, the new discussion started as we have more bandwidth in this system around software as a service. Microsoft is starting those kind of activities. You see it with SAP, if you look at the new SAP solutions and the framework they're building up for the small and medium enterprises, which goes up to the large enterprise customers.

If you look at this kind of strategy, software is not installed on the premises of customers any more -- even on the large customer side. So, the network and the ownership of the network becomes extremely important for customers because we are the only player owning the whole value chain who is able to deliver end-to-end services and is able to guarantee end-to-end services.

Now, there's no break because we deliver the network, we deliver the software, we can ensure [SLAs]. Even contractually we can ensure SLAs, which should normally count if you don't own those kind of things.

We can also optimize -- because we own the network -- we can also optimize solution for a specific kind of product which we own. That's what I personally believe is a real asset in a changing world.

If you then look on the equation, the landscape will change over time. With this regard, and if you look at Microsoft with unified messaging, unified communications, software as a service, everything is starting to become more centralized. It's not only the size of data centers and the technology play any more; it's the whole end-to-end value chain which you have to bring to the table into the marketplace. There, I personally believe the ICT story is the right story for the marketplace and can also be a very good strategy to focus on bringing those kind of things together. You can directly see it. And I think if you have longer discussions with SAP, you will see how far they will go in terms of software as a service kind of solutions.

For sure, there will be a one other kind of solution for extremely large customers, but if you look at the desktop or PC level and the capacity and the power of a PC today, 20 years ago no one had thought that a PC can really replace a whole data center. We are on the way. If you look at the bandwidth and if you look at the new technologies which will come on mobile, on fixed net line, if we start Fibre-to-the-Home as a solution, if we start to roll-out those kind of technologies in the past with huge capacities in the bandwidth, we will see total new structures in the overall game.

So the competitors of today are not necessarily the competitors of tomorrow. I don't know where it ends, but the picture will change over time. The picture will change over time. I personally believe we are good positioned for the time being, but we have to do our homework in really becoming competitive use our leverage, use our scale, because the scale is already there. We have customer access; we have the data centers. If you look at the numbers, we can compete in the marketplace. We are extremely attractive because, in Europe, we own the market.

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**Joachim Langmack** - *Deutsche Telekom - Chief Sales and Service Officer, T-Systems Enterprise Services GmbH*

Perhaps I can add one comment as a sales guy. This innovation, which is going on with the broader band capacities, also creates new business fields. If you think on ICT in the car where you are -- have an IP address running a car, or the office and the (inaudible) value wherever you are plug in and you have your office environment around, or the machine-to-machine communication, this is coming now. I think that's very important (inaudible) asset of the network and the knowledge of the network we have in T-Systems, so there will be a lot of new business opportunities we are already investing in and which we leverage in the market.

This EBIT has shown a lot of examples in this way. If you look on Telematic, where we're doing with BMW in the Formula One, that's a good example on the power, which is able to bring to all our big and smaller clients.

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**Unidentified Company Representative**

I think there was a question from Ulrich Trabert.

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**Ulrich Trabert** - - *Analyst*

Yes, I have a question. What investments are necessary to make the partnership with Cognizant work? You certainly have two greater shared infrastructure and trained teams and so on.

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**Zwezdana Seeger** - *Deutsche Telekom - Chief Systems Integration Officer of T-Systems Enterprise Services GmbH*

To be very honest, there are not any major investments to be done. We can align the delivery models; that's the only thing which is necessary with this situation. We can just use tools and processes Cognizant (inaudible) which we already started at the moment we signed the contract. They are taking over T-Systems India. It means there is no additional invest for us. The question of sales and marketing working together and shared delivery models doesn't need an additional invest.

We're going to invest in the people, and that's an important point, but that's not a major investment. That's what we have to do, especially in Europe on high-end skills. That's why nothing significant what was not already in the plan -- was approved before.

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**Unidentified Company Representative**

I think there's a question over here on the left-hand side.

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**Graham Ruck** - *Merrill Lynch - Analyst*

Graham Ruck from Merrill Lynch. I'm just wondering what percentage of revenues across T-Systems are on the long-term contracts, as opposed to either variable revenues or maybe annual contracts.

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**Unidentified Company Representative**

It depends very much on the business we're talking about. So if you take computing services -- so, mainframe, open-systems business, the real outsourcing deals, more or less 80% have a duration of more than five years.

If you come to telecommunication services, our big projects, we have mainly with our corporate customers we're talking about two to three years agreements on average. If you come to systems integration, currently duration is much lower, so the majority of systems integration projects that we have is between one year and three years. So, it depends very much on what are we're talking about.

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**Unidentified Company Representative**

I think there was a question by Justin.

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**Justin Funnell** - - *Analyst*

Just to confirm that this growth target is an organic growth target, and just sort of a related subject to that, it sounds like you may have opportunities to, as you say, focus the business to maybe assets that you required in the past that you may not need. On the other hand, you may need to acquire assets to, as you say, fill out the points of presence or skills that you might require. I just wonder if you would care to say anything about asset disposals and acquisitions beyond the medium broadcast and active billing, and again, whether that is an organic growth number please.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

I can answer that. I think it's an organic growth number, no acquisitions. For sure, if you look at outsourcing (inaudible) normally take over assets from customers. But that's normally priced into the deal. So what we don't want is signed deals which are not profitable. So, we don't make investments into nonprofitable deals. So it's a pure outsourcing model, organic growth, that's it.

**Unidentified Company Representative**

Did that also answer your questions with respect to asset disposals versus acquisitions?

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**Justin Funnell** - - *Analyst*

Not quite. I'm not just talking about Cognizant but generally, this part of a strategic focus. So are there things you can actually sell within the portfolio (multiple speakers)?

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

That was clearly stated, and maybe Reinhard can jump up on that, but he already stated that part of our effort to increase profitability would also be obviously asset disposals over the next couple of years.

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**Justin Funnell** - - *Analyst*

Sorry to bore on about this. Is that reflected again in that mid single digit growth number? I mean, is this a number net of disposals that you will achieve? Maybe I am being (inaudible) but --.

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**Tim Hoettges** - *Deutsche Telekom - Member of the Board of Management*

Okay. Regarding asset disposal, it is not planned to do a significant asset disposal. The biggest areas for asset disposal we have done was media broadcast, and it was this area BPO. We still have some smaller areas in the various business segments where we will have some asset disposals, but very small areas with maybe a few hundred people. So, they have not taken into account the size of the systems in total; it will not have any significant impact on that.

Regarding the investments, once again this mid-sized growth as Reinhard said, it's organically, but it's absolutely necessary that we win additional big deals like we did last year with [Centrica], we did with OMG and hopefully we will close with this Netherlands Oil Company.

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**Justin Funnell** - - *Analyst*

Thank you and just a follow-up -- sorry -- just on another subject really, I wondered what sort of assumption you've made about the economy in terms of the shape of these forecasts. Obviously, there is a pretty tough macro outlook the moment. What sort of assumptions you've made there for your customers?

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

I can give you my flavor. Normally, if the economy is going worse, the outsourcing business is speeding up because normally the outsourcing business is an enabler for savings for customers, so that's the positive side. Therefore, other businesses which are time and material where you have to invest in systems integrations are slowing down. So in the moment, it's a good play for us but there is uncertainty in the economy. But we haven't assumed huge economic kind of let me say movements in our plan for -- after 2010. So the reality is whatever happens in the balance, I think we're good positioned.

First of all, we don't have so much currency risks in our business, because it's a mainly European Euro-based kind of activity, so the currency risk is limited and we are not so much exposed. If you look at the European community and economy, I think, with our approach and our own market penetration, we have good opportunities for generating savings for customers and having them to compete in their market environments.

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**Unidentified Company Representative**

And there's no sign of budget cutting at the moment in the clients we're working with.

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**Justin Funnell** - - *Analyst*

Thanks very much.

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**Unidentified Company Representative**

I think this one more question by (inaudible).

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**Unidentified Audience Member**

This comes back to an earlier question about competitors. The names you mentioned were sort of the obvious ones, but the one that you left out is BT Global Services. I guess a lot of people in the room are more familiar with that from an analytical perspective than sort of the big IT services suppliers. So maybe it's (inaudible) but they have in the past said nice things about T-Systems, so I was just wondering whether you can reciprocate or do otherwise! (LAUGHTER)

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**Unidentified Company Representative**

The point -- for sure we meet, and for sure we discuss. I think they are -- and I don't want to say anything bad about competitors; I think that's probably not (inaudible) we can do those kind of things. So the reality is -- but the reality is and to make it very clear, if you only provide commodity services into the marketplace, which is telecommunication infrastructure services, and that's currently the play, and put hosting on top of it in something like this, you are under continuous pressure on price. You can only do this if you either have an existing cost structure or you have so much possibility to leverage that you stay far, far away on the competitive landscape, from your competitors.

The reality is that the market in the moment is paying a premium for services, for software-as-a-service, for end-to-end kind of solutions and all those kind of things. So we have much, much less discussions on telecommunication services with customers when we as a service company build up additional services for those customers.

So the strategy -- and that's a kind of play where I say okay, that's a good position; you can do it very clean; you can focus on commodity business. On the long run, on the long run, that's what we see -- is you have to enhance your service capabilities for customers. Because the dominant play in this marketplace is not to deliver DSL connections to customers or fixed-line business on the long run because the fixed-line combination -- and I will give you some flavors -- the (inaudible) so the telecommunication equipment which is normally installed in front of the customer will disappear. It's a pure software piece in the moment. It becomes much more intelligent, and it's connected to applications like SAP. If you look at the Microsoft environment, it's an integrated kind of solution which connects to different kind of software elements in a company.

So it's becoming -- telecommunication was communication, data access and all these kind of things -- it's becoming a much more complex environment than what you see in the moment. It's starting, if you look at projects which we have with insurance companies where we bring intelligence into the overall telephone equipment, voice communication, together with customer data, together with staff information -- who are the right people -- you'll see that the decision-making process is not on price any more in telecommunication. It's around more intelligence, more efficiency, how to access the right people in an overall connected environment, how to access the right people who are at the right spot with the right skills for the customer who wants to have service.

That's the discussion which we have in the moment with a lot of customers. There, the differentiator is the more you know about IP technology, around applications, around those inter-connections between applications, the better you're positioned in the future.

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**Unidentified Company Representative**

A question over here?

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**Unidentified Audience Member**

questions -- the first one would be if you would have the opportunity to buy or to acquire a smaller competitor, for instance in the system integration or consolidating arena, generally would you rule that out? Secondly, just simply could you please clarify again for me, what the headcount reduction, what you said about that? I didn't quite get that. Thank you.

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

So, I'm careful with buying competitors in the moment. Let me say, what's the focus of the Company? The focus of the Company is profitability. If there is a business case within 12 months which makes sense, for sure we will buy. So whatever -- but we don't buy a strategic plan which pays off in ten years. That's what we don't do. That's one piece.

The other piece, on layoffs -- so we don't want to say the overall number, but it's a continuous process where we said year-over-year -- and we already are executing those numbers -- year-over-year, we will lay off about 3000 to 4000 headcount. That's the structure; that's how we go forward over the next years. The end result is really depending on marketplaces. But I think that's, that's what we're going to execute.

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**Unidentified Speaker**

Was that headcount or FTE?

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**Reinhard Clemens** - *Deutsche Telekom - Member of the Board of Management*

It's the same; FTEs is the same, I think.

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**Unidentified Company Representative**

Further questions? Then I think we can close for the day.

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