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DTE.DE - Deutsche Telekom AG Webinar On Dt Cloud Strategy

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CORPORATE PARTICIPANTS

Hannes Wittig *Deutsche Telekom AG - Head of IR*

Anette Bronder *Deutsche Telekom AG - Director of Digital Division*

Frank Strecker *Deutsche Telekom AG - SVP Global Cloud Computing & Partner Eco-systems*

PRESENTATION

Operator

Good afternoon and welcome to Deutsche Telekom's conference call. At our customer's request, this conference will be recorded and uploaded to the Internet.

May I now hand you over to Mr. Hannes Wittig.

Hannes Wittig - *Deutsche Telekom AG - Head of IR*

Yes, good afternoon everyone and welcome to our Webinar on Deutsche Telekom in the cloud. We believe we have created a highly innovative and differentiated proposition here that fits well with our overall strategy.

With me are Anette Bronder, the Director of our Digital Division and a Board Member of T-Systems International; and also Frank Strecker, who is in charge of our Global Cloud Computing & Partner Eco-Systems. We first want to present for about 30 minutes on our propositions and then we have time for Q&A. Before I hand over to Anette, please let me draw your attention to the disclaimer, which you will find in the presentation.

And now I give the word to Anette. Please go ahead.

Anette Bronder - *Deutsche Telekom AG - Director of Digital Division*

So thank you very much. As Hannes Wittig said already before, my name is Anette Bronder. It's a pleasure for me, together with my colleague and the leader of our cloud business, Frank Strecker, to walk with you through our, I want to say, already success story of cloud and we want to go for more. So I will have the opportunity now step-by-step to make you familiar what we have set it up and what we want to go for.

So we will start with a more, let me say, overall setting the stage intro and definition; then let's have a look on the market and our overview on that. Let's look on trends in the market when we look on what's going on with the cloud business in the B2B sector and what is our answer to that, what we have already in place and how successful this is. With that then we hand over to our portfolio, some use cases. And then we have the opportunity to ask questions.

So, let me start then with the market. What we see actually is, and Mr. Wittig said it already, Hannes said already, I am running the Digital Division. So we were the first operator in Europe. We set up a Digital Division to manage our digital business products and solutions in the proper way for the future. And if we look on the market, we see already, we are in the middle of digitization. And this will happen, and is already happened for all customer segments, not only for the big ones. We see a big, big trend and also a huge demand from small/medium enterprises to come up with standardized products and solutions.

So when we are talking about cloud today, we are not only talking about the big and huge ones, we are also talking about the smaller customers, and we from Deutsche Telekom are able to serve them all.

So everything can be digitized in the future will be digitized, everything will be connected and cloud is one of the main drivers for this digitization and it is a base also for the IoT business we need to go for in the future. IoT business at the moment is let me say more a learning market. But more



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and more we are stepping into more concrete solutions and products. And with the cloud portfolio, we are able to offer to the market, we set already the base for that.

We are able to do secure hosting from our German data center, which is also very important for our customers when they are stepping into cloud, and I will explain a little bit more in the future why is this more important than in the past, because we see a huge trend on the customer side from private cloud into public, and regarding to that a secure network. But also how to handle data in a secure way is a very, very important point for our customers. And we think that with our German data center in Bielefeld, we are able to offer a unique selling point in Europe for our customers.

And with that we are very attractive for big players and partners around the globe, also for US companies. And why this is the case we will explain in the next slide.

So when we are talking about cloud, I think it's important that we have the total picture in our mind. And the portfolio we have set it up for public cloud in Deutsche Telekom for all customer segments will not only mean that we are able to offer and provide infrastructure-as-a-service. We built up also a strong partner and ecosystem for platform-as-a-service and we are also able to offer software-as-a-service, with own products, but also with some strong offers from our partners we have now new in this portfolio.

So if we look at that, let me explain a little bit, level by level, what we have built up. And we have strong partners in the enterprise infrastructure-as-a-service level, and my colleague Frank will come to that later. But for me very important is to pull out that since the CeBIT this year, we launched our own product, which is the Open Telekom Cloud in this area. And with that we have now a European answer, also to what we have seen from the Americans and from other players around the globe. And with that product I think we are absolutely able to compete with strong players and also with the market leader, which is Amazon Web Services. And the reason why we think we are able to compete with them is not only related to technology, it's also related to price, it's also related to go to market, but also related to, let me say, a very seamless and simple customer experience we can offer.

If we look on platform-as-a-service, we also put on track. We have a strong mixture of external and internal offerings and we are the data trustee, just to give you one of the examples, for Microsoft here in Europe, especially also here in Germany and this is for the first time that we are acting as a data trustee for a US company. We are owning the data and Microsoft is in that way a strategic partner for us and they handed over their customer data to us. And I think this was a bold step.

And the good thing was, it was the right timing, because I think most of you are familiar with the Safe Harbor announcement we saw. And with that we are very proud that we are, let me say, the premium and strategic partner for Microsoft here in Europe.

On top of that we are also able to offer 60 software solutions in our software-as-a-service portfolio. And I like to stress one of these solutions, because one of our very strategic partners in this area is a strong, strong player, it's Salesforce. Salesforce, from my perspective, really a success story in the last, let me say, 12 to 18 months. They are the market leader in CRM and we have a good customer base already with them and we have some very significant wins with Salesforce already in the last six months.

So with that, I think if we look on all these components, we need to -- able to offer to customers. I think we are an overall cloud player also from a technology perspective, if it comes infrastructure to software.

Let's come to the next. I think if we look on our customers, I think it's very important that we see a huge trend on customer side. And by the way, I said it already, not only for the big ones, we see a trend from private cloud to public cloud.

Why is this the case? Because they also need more flexibility, they need more data sharing in some of the areas. Sales is always a good area of argumentations. Customers are coming up with why they need more flexibility and sharing of data. But public cloud also gives them the opportunity in this digital world to get in a totally different customer relationship and interactions with their customers.

So most of our customers have more cloud solutions in place than one. This is also very important to know, so it's not only from private to public, it's also a hybrid setup we see there. So they have already a multi-cloud environment.



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And what they need on top is not only what I have described before, what kind of products and solutions we have in infrastructure, a platform, and software solution. What they also need is cloud integration and orchestration, which is key for them to come, let me say, from A to B.

Besides the cloud solutions, our ecosystem also consists on big data solutions, which is very, very important. Also, we are here acting with leading companies in the area of analytics. We are working with Talend, as one of the examples, but Frank will show you the overview of our partners also in this area later.

So, we are offering cloud integrations with standard connectors, we have service catalogs, and end-to-end to back-end cloud platforms. We combine our own assets with strengths from our partners, and with that I think we have nearly a uncompeable portfolio in Deutsche Telekom.

If we go to the next slide then, let's have a look, as I said before, on the cloud market. And this market is growing massively. And we showed our portfolio five months ago on the Analysts Summit and we got a very, very positive feedback already.

And we also got, in the last month, top ratings from analysts. One example is that we were ranked as the leading cloud provider from Experton in the Cloud Vendor Benchmark of 2016, by end of last year. And as I mentioned before, the Safe Harbor announcement was also one of the drivers with our security capabilities here in Germany to give us, let me say, that stamp.

If we have a look on market trends, just to capture the most important things, 80% of all business customers prefer a multi-cloud approach. This is out of a worldwide study from RightScale, from 2015 and multi-cloud is absolutely the future. So, if we say it in a nutshell, strong trend from private to public, hybrid multi-cloud.

And we think with our ecosystems, we have built it up and we always call it, not only internal, also external, we have the best of breed solutions and products here, we have the flexibility and no vendor lock-ins. We can offer exactly what the customer needs. With our base of standardized top partners and products, we are able to offer also on top add-on services, we have the complete portfolio.

So let me end up this wrap-up with some key messages, I want to give to you. So, first of all, cloud, main driver for digitization. So Deutsche Telekom wants to go forward to be a strong player in IoT. This will give us the foundation for that.

This cloud portfolio and business is not only a T-Systems portfolio or Deutsche Telekom portfolio. This is a Deutsche Telekom wide approach and portfolio for all customer segments. It is omnichannel. We are also able to provide every single solution and product to our customers online. So we are able to handle different customer touch points and we have also worked out some new areas, how we are serving small and medium customers with that.

We had a very, very successful go-to-market with this product, especially our own products and I will highlight the Open Telekom Cloud again. We were able, from the idea to the launch with all operations you need to handle that in a proper way, processes fully automated, in 12 months. We are certified from a security perspective with this product. And with that I think we and Deutsche Telekom, we are able to give the European answer to the US colleagues and others around the globe. We are here, we are a strong player and we are able to compete against the market leaders.

So with that I want to hand over to Frank, who is able to give you much more details on that. So, stage is yours, Frank. Thanks.

Frank Strecker - Deutsche Telekom AG - SVP Global Cloud Computing & Partner Eco-systems

Yes. So, thanks a lot. Frank Strecker, my name. I'm running the cloud business for Deutsche Telekom and I hope and I think you have now understood that there is a right to play in the market, because it's growing, and I also want to give you, in our view, more details regarding why we have a right to win in this market, and why we are successful, so give you more details how the cloud strategy fits to our overall Deutsche Telekom strategy, because it's a perfect fit. And on the other hand, how we now transform in detail our clients and ourselves into a digital world and with the cloud and our telco connectivity business as a base and a foundation for this transformation.



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So there are two reasons why we -- this is a perfect fit, our cloud strategy, because first of all, we are transforming ourselves onto cloud and onto a digitalization, because the foundation or the future foundation of our business is based on cloud. So we are doing all this IP network transformation and the base of this transformation and the foundation for that is the cloud infrastructure.

So what we are telling our clients, it's not just to say you have to do that, it's our also transformation. And that's a good story and a good foundation and a good footprint to explain that the transformation we are doing is the same as we offer to our clients.

And as Anette has mentioned, as we have a lot of enterprise clients, and I'll come to that later, it's really about not to just to build up on greenfield something new, it's about how to transform a business in a sustainable and secure way. And that's also the reason why our approach is, say, we are offering these new things, but are based on a secure platform is a unique set of selling proposition we have built up so far here into the market.

So, second, digitalization is all about customer experience, and with this new way of offering solutions, IT and T-car cloud solutions to our clients. This helps us and our clients really to give them a better customer experience.

And then in the third dimension, we strongly believe that to be successful in digitalization is not just based on one solution, it's based to be -- as to be part of a digital environment and a cloud partner ecosystem, or ecosystem, and we have built this foundation with this partner landscape, as you can see in the pages later on. And this is also now our strong foundation, we can use also for the other activities we are doing in the context of transformation.

And then for sure, if you look at the numbers, it's a highly growing market. The cloud business, the T-car and IT business in principle is not growing so high. Therefore, a lot of the growth we want to reach, and we will reach out in the business will come out of our cloud business.

But now let's look on to our clients, what happens at the moment. I'm now on page number 10. So what happens on page number 10, and our clients is, it's about transformation. So they have their existing environment, they have their existing processes, they have their existing back-office systems in place and now they have to -- and they will now and set up this new type of business, which is based on cloud, which is based on big data, which is the base of their digitalization. And the question mark they have for the moment is how they combine these old world activities with the new world activities.

And we can offer now as T-Systems, which are IT knowledge, and as the Deutsche Telekom with our T-car knowledge, we can offer this transformation, because we are offering the old world, and we are offering the new world. And for sure, we can offer with our SI capabilities this transformation from the old world to the new world, and which is very important, the combination of both worlds, because that's the key question mark our clients have for the moment. They have the new things in place, but they have to maintain their legacy; and how can they combine, based on a secure network and cloud infrastructure, how can they ensure a sustainable business in this transformation phase?

And this is something we can offer, as I can show in the next pages. And the importance is that you have something in place which is [unfzable] because you are building your new business as well onto these cloud platforms.

So, if you can see on page number 11 now, this is our ecosystem we had set up. And the footprint and the base is always the same. We will offer these solutions and also the solutions of our partners based on our infrastructure, which is our network, and our data center capabilities. So it ensures that the security requirements the clients have are built always onto that foundation.

And the second good thing is, as you can see on this page, we offer the customers the choice. So we can offer different combinations of infrastructure, of platform, of different infrastructures. As Anette has mentioned, this is exactly what happens at the moment. That for example, they are running their legacy on the VMware technology, but they build new technologies based on OpenStack or based on Azure, or based on other solutions. So it's really the combination to ensure the best choice for the client we can offer at Deutsche Telekom, which is a unique selling proposition in the market.

And it's also the orchestration and the management of these different type of solutions, because [going to] cloud is reality at our clients' side and we can offer these different type of solutions. And based on the fact that we're not a hardware or software company, we have not to offer our own



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software stuff as an example. We have really a good footprint to explain that we are the trusted advisor to offer the best solution, for the best moment, for the best situation to the client.

So on page 12, that gives you some examples now of the reasons why clients are choosing us as a cloud provider. One is which we have announced in CeBIT, which is CERN, which is one of the first clients, now running on to our Open Telekom Cloud.

And it is a typical cloud scenario. CERN is a research organization. So if they are doing their mathematics or their calculations, they need a lot of load on short notice. So it's not very reasonable to build our own infrastructure, which they use and then they don't use that later on. So they are using our cloud infrastructure to do that -- all this calculation. But as we have mentioned again here, based on a secure environment, to ensure that the data, which is provided by us and calculated by us, is based on a secure environment.

Next typical situation, I talk about transformation of our clients. And Heineken is one of our major customers, a global customer. This is a typical solution we are offering, based on our private cloud solution, the SAP assistance to Heineken. Just as a remark, we are offering more than 2.6 million SAP users worldwide to our clients. So we are the largest SAP provider here in the market globally.

And this is a typical example that we can offer this on a global way to Heineken. You share the solutions, and have all what they need. On the one hand flexibility, but on the other hand, something which is up and running, which is secure and which is working.

And then to just give you an example on page number 14, of a new solution, which is based on Salesforce, because this is one of our key drivers at the moment as well is, if client's building something new and that's a good example of building something new, they use new tools like Salesforce to do their campaign management. This is a car manufacturer example I'm showing here, and they do all their campaign monitoring to know what the customer is doing, based on this new app.

And then as well, in this case, we are offering the front end with this Salesforce solution, we are also offering this client and running their back-end, based on their legacy, based on SAP, and we are offering the combination here. So we can exactly offer this transformation and the combination of different solutions, as I've mentioned in the previous folio, on page number 14.

So now what are the reasons why the clients see the benefit to doing business with us? First of all, as I've mentioned, digitalization means you are building your business based on IT. So it has to be secure, it has to be reliable. And based on the fact that we as a managed service provider as T-Systems and as Deutsche Telekom knows how to manage complex environments for clients and manage environments in a way that they are up and running, that they are working, are a preferred partner to doing that. All these type of solutions, our own cloud solutions and our partner solutions, we are able to offer the flexibility, to offer the choice.

For sure, it's all about cost savings also at the end of the day. So, for sure, with this new type of business and those new type of solutions, we can also offer an affordable way to doing all this stuff.

It's about speed and it's also regarding the agility, where digitalization is about question, how fast you are into the market. This has also with this standard applications and the combination of different standard applications.

And then very, very important, it has to work and it's part of the transformation. So we have all this IT and have system integration capabilities as well to transform our clients and set up the systems in a way that they are properly up and running.

And now one of the highlights. As we have shown, we're currently already planning the extension of that. We have filled up this data center space, which is now the largest data center, at least in Germany, where we run all these cloud partners and our own products. And this is also very advantaged, because this helps us to easily combine the solutions and to build our cloud orchestration and cloud integration.

So we have set up these data centers and we have now all these partners into this data center as well, which gives us a unique market position into the market, because nobody else has built up such an environment as we have here in the meantime at Deutsche Telekom. And you also see our



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capabilities, we are running into that. And as I've mentioned, we're already talking about extension of that, because we have such a huge demand for these type of solutions.

So on the next page, on page number 17, it's also about not having something in place, which is new, it's also about, as I've mentioned, our own digitalization. So we've also worked in a way to offer, in a different way, all these type of solutions to our clients.

So we have set up a combined initiative that we offer in a same and seamless way to all of our clients, the large enterprise, SMB clients, as well as the small ones in a way that it's really cloudable or digital. That means they can use this front end, they can just click and buy within four minutes for example, okay? Have a new solution, which is also something that we have understood what are our clients looking for and offer this in a way which really fulfills the demand of our clients on the one hand.

And second, we have combined that with the multi-cloud environment that we can offer this end-to-end sure, meaning these customer interactions and with our expert sales and all the others that we have a way that we are very fast, we can very fast answer the demands of the market with this new front-end and helps us also to do sales in a digital way.

So if you look at page number 18, this leads to the success, Anette mentioned already. So we not only met, we over-achieved our cloud market's numbers last year, in 2015. We have a high growth there and we have just shown some of the big logos. As always, we have won so far also extended business with them, as you can see on page number 18.

But on the other hand, we have more than 3,500 cloud wins last year. So there is a lot of traffic. There is a lot of momentum onto this cloud engine at the moment in the market, which we will now further expand. And you can see here the success and the growth in all areas of our customer segments regarding the cloud business.

And therefore, as I've mentioned, we have a track. So, if you're on a track, you have to continue this track, or [your win can contract]. So that means you want to double our numbers until 2018, and we are in a good way already in 2016. We have continued our sales record now in the first quarter of 2016 and we are in a good way to manage this growth, as we have now, within our ambitions.

And this is also based, as I've mentioned that we have now this private cloud business, but we have also strong growth regarding the market expectation in this public cloud business. And based on the fact that we can position the combination of both scenarios, this brings us in a unique selling proposition to manage the growth as expected the next couple of months and years.

So, as a summary, what is our strategy? As I've mentioned, we build solutions based on a secure environment. We build the combination of our own solutions, of our partner solutions to manage and to offer to our clients an ecosystem of a multi-cloud environment for big data, for PaaS, for SaaS, for infrastructure-as-a-service. And as I've mentioned, there is a huge demand for that and we are on a growth track record at the moment to manage that and to fulfill these expectations.

QUESTIONS AND ANSWERS

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Well, thank you Anette and thank you Frank. We can now start with the Q&A part. (Operator Instructions)

So, we've had one question sent to us by email. So we can start with that straightaway. The question is from Fred Boulan at Bank of America Merrill Lynch. I will just read it out to you.

The first part of the question, or the first question is where is AWS positioned versus Deutsche Telekom and IBM, or Hewlett-Packard, or rather probably how are we positioned compared to AWS, IBM or HP? And how can Deutsche Telekom match the global scale operators from a cost perspective?



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And the second question is, how do you foresee incremental competition from cloud/OTT providers on your legacy enterprise business, or you see them competing in different market segments? So two separate questions. Anette or Frank, who wants to start?

Frank Strecker - Deutsche Telekom AG - SVP Global Cloud Computing & Partner Eco-systems

I can answer I think the first question or two questions. The first is the positioning. So if you look at the market, a traditional Amazon is coming more from a OTT play and also more in the consumer, or SME space. If you look how we have positioned ourself, is on the one hand, for sure, as I've mentioned, to position the Open Telekom Cloud, as an example, in a similar way. And we have lot of demand and we are in a differentiation, based on the fact, as I've mentioned that we offer this out of a German data center with German people, so we ensure data privacy and all that stuff.

But even more important, we have built up a roadmap for that to put additional offerings on to that. And especially if you ask about the enterprise space, the question, and I tried to explain this with the transformation, is how you can combine your existing enterprise IT environment with this new type of environment. And we put a lot of effort to combine then this new part of the business, which is our Open Telekom Cloud with the legacy. The clients are already doing this transformation and doing the combination of a best-of-breed solution.

So, on the one hand, it's about features we have, Amazon do not have, which is really the question, where is my data, is it secure. We are very price aggressive and I will come to that later regarding your question about scale. And so, for sure, we have all the credentials into our hand to doing this transformation for the client, to ensure that he has a proper way to combine different type of solutions, which they have already in their enterprise business.

So, how can we match global scale operations from a cost perspective? If you may have heard, we are building these solutions also in a, let me say, partner-centric approach. So the partners have built with us a model that we can also use their global scale and their global reach. And we have built up to something like, so to say, in a revenue share model that we can also utilize the global scale from these other operations, or operators. So it's not an invest by our own, it's a combined activity of the partner and of us, and therefore, we have two partners who are strong, and this helps us to doing the scale, as questioned here.

Anette Bronder - Deutsche Telekom AG - Director of Digital Division

Perhaps I can add something on top of it when it comes to global. So I think it's not only just about pricing, there is always the question how do you, Deutsche Telekom want to act globally. And I think to say it in one sentence, yes, we are focusing on our core market, which is Europe, but which we have set it up also from a partner's ecosystem. Frank mentioned before we are able to deliver globally.

And if we just look on Europe, and if we look on the assumptions what will be the market potential for 2018, with more than EUR40 billion, I think we have really set it up in a proper way to go for this. But on top of this, I think we are really able to deliver globally, which is very important to know with this partner setup.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay, so let me move to the next question. The first one is from Robert Grindle at Deutsche Bank. He asked that a number of your global competitors are exiting the cloud. According to Robert, presumably this is due to competition from AWS, and how can you compete with the huge scale that AWS has and other potentially huge scale operators?



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Frank Strecker - Deutsche Telekom AG - SVP Global Cloud Computing & Partner Eco-systems

Something is about scale -- for sure scale is very important. And for us, therefore we have decided, as I have shown on my previous pages that we're doing this in a partner-centric approach. So, we do not believe that we can do that with our own. We believe we can do that in the combination with our partners, by building up an ecosystem and then having the strength of this ecosystem to have a way of competition.

And we have a lot of learnings here into the market and we see that there is a demand of this type of solution. As I've mentioned, there is a huge demand in Europe regarding the question where is the data, who is operating the data. I think this is also a question from James Eibisch regarding data sovereignty as a differentiator.

So it's not only about others, those that they have local data centers or German data centers. We have the data center and we are running the operations for this cloud stack. So it's also from a data point of view, done by us. Result, I mentioned, is for sure that based on these partnerships we also offer that we are the contract owner of the cloud here with the partner or with the client; that they have also then in place, let me say, a German contract, a German law and all this other stuff, which is also a huge differentiator we have in place.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Okay. Frank, I think just answered, hopefully, the question that we had from James Eibisch at IDC, who said that data sovereignty may become less of a competitive advantage for Deutsche Telekom, now that most big cloud providers have also a physical presence in Germany. But I think Frank has explained that that alone is not as relevant maybe as it first appears.

And I think at this point we have no further questions. So maybe we give a few seconds before I hand over to Anette for maybe some final words. But let's just pause for a few moments and give people a chance maybe to shoot us some final questions.

Okay, with that I thank you very much for participating. But first, as I said, I want to hand over to Anette for some final remarks.

Anette Bronder - Deutsche Telekom AG - Director of Digital Division

Thank you, Hannes. So, first of all, I take this as a positive on our portfolio that it looks like it is clear. I think, overall, your questions were always related to are we a global player, how can we compete with the global players, and I think Frank answered already these questions.

But what I want to add is, I think one of our strengths is that we are able to deliver and serve from an end-to-end perspective. And this is one of the strengths from our side, if you look on the capabilities of Deutsche Telekom and T-Systems.

And if it comes to be the first choice of customers, what we have seen in the market and this is also the feedback is, we have the capabilities, not only from the security point of view, we have the capabilities from a system integration point of view, we have capabilities now with own global products in the cloud area. We are able to play the game from infrastructure to software, software integration, orchestration. And I think we have already in the data analytics area some strong skills and we are working very closely together in the front, let me say, upfront consulting for our customers.

But if it comes to what is the right cloud strategy for their company, we are working together with KPMG, as an example, and others, to give them the right support in an early stage to come up with their, let me say, dedicated solution and strategy they need to go for. And I think then we can play exactly what I have described, this end-to-end service provider for them.

So with that I hope that with the success we are coming out with from 2015 and the positive feedback we've got from analysts and from the CeBIT, which was a very important event for us and which will push us at the moment a lot, because we have a lot of leads with that I think, and we are fully convinced that we can meet all the commitments we gave internally, but also externally to the market to grow in a significant way also in 2016.



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So with that I want to say let's cross fingers, but it looks very, very positive already what we see after Q1 that 2016 will be the next step of success with cloud. And I don't want to forget what I have said before. This is the foundation also for our digital future of IoT in Deutsche Telekom and we are pushing very hard to come up with the same story we have built up here in cloud.

With that I want to give back to you Hannes. Thank very much for listening. Bye-bye.

Hannes Wittig - Deutsche Telekom AG - Head of IR

Yes, okay everyone. So the conference is now about to end. And as always, if you have further questions, please contact us at the Investor Relations department. And again, thanks for your participation. So I hand back to the operator.

Operator

We'd like to thank you for participating at this conference. The recording of this conference will be available for the next seven days by dialing country code 49 1805 204 7088, via reference number 479021, hash key. We are looking forward to hear from you again. Goodbye.

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