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PRESS RELEASE

**REPORT SUPPORTS FEDERAL NETWORK AGENCY'S DECISION:
BROADBAND EXPANSION AND MARKET COMPETITION WELL-BALANCED IN VECTORING DECISION**

Due to the vectoring decision of the Federal Network Agency about 1.4 million households can be initially served with high-speed internet. Broadband supply and choice options will be clearly improved for another 4.3 million households. By combining fiberglass roll-out with vectoring, in short-term, there is a cost efficient opportunity to significantly raise the available bandwidths.

With respect to the broadband expansion, the objectives of stimulating investment while protecting competition at the same time have to be balanced. An economic expertise presented today comes to the conclusion that the modified vectoring decision of the Federal Network Agency takes these aspects into account: investment incentives are preserved by granting exclusive expansion rights and duties and the competitors' interests are accounted for through appropriate network access opportunities. Exclusive expansion rights are not only granted to Deutsche Telekom, but also to competitors. With regard to the objectives of the Telecommunications Act, this is of advantage as investment obligations come with the expansion rights. The current re-notification satisfies the original doubts of the European Commission. In the course of the roll-out of broadband infrastructure, investment incentives are maintained and local competition is strengthened.

The investment plan of Deutsche Telekom contains fiberglass investments and comprehensive investments in vectoring, provided that exclusive expansion rights are granted. These are technically essential but also necessary from an economic perspective because not all areas can be developed economically. Instead, a mixed calculation is required which states that loss-making areas are co-financed by profitable regions. Contrary to the illustration of certain competitors, local competition is not weakened by that. In fact, for the first time it is possible to compete with cable operators who have comparable high bandwidths.

In consideration of the high investment costs, the restrained demand of ultrafast fiberglass up to the end-consumer and hence the consequential expansion commitments of FTTB/H, a comprehensive broadband expansion is not expected soon without the intermediate step of VDSL2 vectoring and the usage of a technology mixture. Competitors' investments in the progressive expansion of fiberglass up to the main distributors and the access points so far and their demand for bitstream access products at the main distributor indicate that FTTC in combination with vectoring is assumed as a reasonable, demand-based and cost efficient path of development also by the competitors of Deutsche Telekom. The strong usage of the access over wholesale products does not imply that re-monopolization occurs. Due to the longstanding operating life and amortization time it can be assumed that the prevalent limited competition between vectoring and FTTB/H has no curb-effects on investment incentives now and in future.

The discrepancy in bandwidth available between rural and urban areas shows the difficulty to implement an economically responsible expansion of high speed connections in sparsely populated regions by several providers. Only by a mixed calculation of profitable and unprofitable rural areas or small towns comprehensive roll-out of broadband networks can be ensured. An omission of the profitable 15 per cent which would be expanded by any competitors makes the financing model for a comprehensive expansion irrelevant. According to this, accelerating the regulatory goal to "speed up the expansion of high-performance public telecommunications networks of the next generation" following section 2, subsection 2, fifth sentence of the German Telecommunications Act would be contradicted and persistent infrastructure differences confirmed.

To prevent further selective investments in profitable regions by alternative carriers, it makes sense to introduce a moving threshold of 40 per cent and an at least 33 percentage points higher infrastructure provision of the respective competitor from which the competitor is allowed to expand in the vicinity. "Cherry picking" would boost the urban-rural gap and hence strengthen the threat of "ghost estates" in rural areas.

The report created on behalf of Deutsche Telekom is available under:

http://www.dice-consult.de/files/gutachten_dtag.pdf

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