T-Systems Limited

Report and Financial Statements

31 December 2007

Registered No 01668706

Directors
Jan van der Merwe
Constantin Stammen

Secretary
J J L D'Silva

Auditors
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Director's report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends
The loss after tax for the year amounted to £34,014,234 (2006 loss of £3,299,906) The directors do not recommend the payment of any dividends

Principal activities and review of the business
The principal activities of the company are in the fields of computer services and telecommunication services

The company's key financial and other performance indicators during the year were as follows

	2007	*2006*	*Change*
	£	*£*	*%*
Turnover	199,202,199	125,152,325	59%
Operating (loss)/profit	(28,441,035)	(1,176,790)	2317%
(Loss)/Profit after tax	(34,014,234)	(3,299,906)	931%
Capital investment	117,353,678	16,265,000	622%
Average Headcount	719	360	99 7%

The loss for the year amounted to £34,014,234

Turnover for 2007 is significantly higher than that achieved in 2006 This increase in turnover is attributable to new business won, being the acquisition of Gedas (UK) Limited and the winning of the Centrica contract in the year

On 1 January 2007, T-Systems Limited acquired the entire share capital of Gedas (UK) Limited, a fellow subsidiary, for a cash consideration of £7,504,000 The trade, assets and liabilities have been transferred to T-Systems Limited in a phased approach

During the year the company converted £45,000,000 of shareholder loan into equity, leaving a balancing loan payable to group undertakings of £104,000,000

Principal risks and uncertainties
- *Financial risk management* - The company's operations expose it to a variety of financial risks including credit risk and liquidity risk Specific business risks are properly monitored and reported as they arise Where a risk exposure is identified, suitable counteractions will be implemented to mitigate the risk The risk management system is a vital part of the overall company governance system

- *Credit risk* - The company's policies are aimed at minimising credit risk from customers, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures Details of the company's debtors are shown in Note 12 to the financial statements

- *Liquidity risk* - The company has the capability of maintaining debt finance to ensure that the company has sufficient funds for operations The Deutsche Telekom Group will support future operations approved by the Board with additional financing on strictly commercial terms as appropriate

Disabled employees
The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person

Director's report (continued)

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate

Employee involvement

During the year, the policy of providing employees with information about the company has been continued through staff forums, development programs and other company events

Political and charitable contributions

As part of the company's commitment to the communities in which it operates, contributions totalling £3,433 (2006 £5,703) were made during the year to charities

The company made no political contributions in the year (2006 Nil)

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2007, the company had an average of 28 days (2006 36 days) purchases outstanding in trade creditors

Future Developments

T-Systems Limited will show further growth in 2008 due to growth in sales from continuing operations

Directors of the Company

The directors during the year and thereafter were as follows

Jan van der Merwe
Constantin Stammen (appointed 18 October 2007)
Michael Knapstein (resigned 23 August 2007)
Anthony Feeney (resigned 5 October 2007)

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2 Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the board

Company Secretary

29/7/2008

Statement of director's responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of T-Systems Limited (continued)

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report

to the members of T-Systems Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
London

31 July 2008

Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Turnover	2	199,202,199	125,152,325
Cost of sales		(215,315,997)	(119,543,554)
Gross (Loss) / profit		(16,113,798)	5,608,771
Administrative expenses		(12,327,237)	(6,785,561)
Operating loss	3	(28,441,035)	(1,176,790)
Loss on disposal of tangible fixed assets		(851)	(435,739)
Loss on ordinary activities before interest and taxation		(28,441,886)	(1,612,529)
Interest receivable	6	382,976	301,010
Interest payable and similar charges	7	(6,430,607)	(1,988,387)
Loss on ordinary activities before taxation		(34,489,517)	(3,299,906)
Tax on (loss)/profit on ordinary activities		475,283	-
Loss for the financial year	21	(34,014,234)	(3,299,906)

The results of the company reported above relate entirely to continuing operations

Statement of total recognised gains and losses

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Loss for the financial period		(34,014,234)	(3,299,906)
Actuarial loss on pension scheme		(289,000)	-
Movement on deferred tax relating to pension scheme		80,920	-
Total recognised losses relating to the year		(34,222,314)	(3,299,906)

Balance sheet
at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Intangible assets	9	5,248,046	1,723,034
Tangible assets	10	116,782,591	51,942,014
Investments	11	7,504,000	–
		129,534,637	53,665,048
Current assets			
Debtors			
Amounts falling due after one year	12	1,113,590	–
Amounts falling due within one year	12	74,486,087	46,678,895
		75,599,677	46,678,895
Cash at bank and in hand		5,085,752	1,205,877
		80,685,429	47,884,772
Creditors amounts falling due within one year	13	(51,535,313)	(61,456,241)
Net current assets		29,150,116	(13,571,469)
Total assets less current liabilities		158,684,753	40,093,579
Creditors amounts falling due after more than one year	14	(104,000,000)	–
Provisions for liabilities and charges			
Provisions for liabilities and charges	17	(3,461,107)	(1,077,857)
Net Pension Deficit		(1,430,237)	–
Net assets		49,793,409	39,015,722
Capital and reserves			
Called up share capital	20	550,001	550,001
Share premium	21	14,999,999	14,999,999
Other reserves	21	98,454,502	53,454,502
Pension Reserve	21	(208,080)	–
Profit and loss account	21	(64,003,013)	(29,988,780)
Equity shareholders' funds	21	49,793,409	39,015,722

Director

29/7/2008

Notes to the financial statements
at 31 December 2007

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Cash flow statement
The director has taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Investments
Investments are included at cost, less any required provision for permanent diminution in value The financial statements present the results of the company as an individual undertaking as it is exempt from preparing consolidated financial statements as it is a wholly owned subsidiary of a company incorporated in Germany

Intangible assets
Intangible assets relate to software licences They are capitalised at cost and stated at cost less amortisation

Amortisation is provided in order to write off the cost on a straight line basis over the estimated useful economic life, subject to a maximum of 20 years

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Fixed assets
All fixed assets are initially recorded at cost

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Depreciation
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows

Plant and machinery	-	20% to 33%
Telecom equipment	-	10% to 20%
Office equipment	-	10% to 20%
Software	-	Over the life of the contract and up to seven years

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,

Notes to the financial statements
at 31 December 2007

1. Accounting policies (continued)

- deferred tax assets are recognised only to the extent that the director considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Revenue recognition
Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods

Rendering of services
Revenue from computing and telecommunication services is recognised in the same period in which the service is performed

Interest income
Revenue is recognised as interest accrues

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Hire purchase agreements
Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis

Finance lease agreements
Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments

Operating lease agreements
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Notes to the financial statements
at 31 December 2007

1. Accounting policies (continued)

Pension costs

The company is a member of the group pension plan with an insurance company and makes contributions into employee accounts on a money purchase basis The assets in the scheme are held separately from those of the company in an independently administered fund The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Defined benefit scheme

All retirement benefits are accounted for in accordance with FRS 17 'Retirement Benefits'

Independent actuaries prepare valuations of the defined benefit scheme at least every three years and in accordance with their recommendations the company makes contributions over the expected working life of the employees

These triennial valuations are updated each year to meet the accounting requirements of FRS 17 The valuations are prepared using the projected unit credit method The regular service cost of providing retirement benefits to employees during the year is charged to operating profit in the year The full cost of providing amendments to benefits in respect of past service is also charged to operating profit in the year A credit representing the expected return on the assets of the schemes during the year is included within other finance income This is based on the market value of the assets of the scheme at the start of the financial year

A charge representing the expected increase in the liabilities of the schemes during the year is included within other finance charge This arises from the liabilities of the scheme being one year closer to payment Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions

Share-based payments

The cost of cash-settled transaction is measured at fair value using an appropriate option pricing model Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date Changes in the carrying amount for the liability are recognised in profit or loss for the period

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as separate asset, but only when the reimbursement is virtually certain The expense relating to any provision is presented in the profit and loss account net of any reimbursement If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate

Notes to the financial statements
at 31 December 2007

2 Turnover

Turnover is stated net of value added tax and arises wholly from the company's principal activity

An analysis of turnover by geographical market is given below	*2007* £	*2006* £
United Kingdom	173,108,887	102,703,161
Germany	25,592,051	21,854,895
United States of America	480,328	521,304
Other Europe	20,933	72,965
	199,202,199	125,152,325

Management are unable to determine the contribution of turnover and operating loss of Gedas (UK) Limited, the acquired business, in the year Management have fully integrated the Gedas (UK) Limited business into that of T-Systems Limited and consequently management do not monitor the financial performance of Gedas (UK) Limited separately

3. Operating loss

This is stated after charging/(crediting)

		2007 £	*2006* £
Auditors' remuneration	- audit of the financial statements	112,000	61,777
	- non-audit services – taxation	11,088	6,058
		123,088	67,835
Depreciation of owned fixed assets		44,176,466	18,663,444
Amortisation		2,049,389	1,608,615
Total depreciation and amortisation		46,225,855	20,272,059
Net profit / (loss) on foreign currency translation		321,596	(93,143)
Operating leases	- land and buildings	2,553,303	623,015
	- other	445,972	404,592
		2,999,275	1,027,607

4. Staff costs

	2007 £	*2006* £
Wages and salaries	44,713,562	20,253,336
Social security costs	5,070,124	2,585,235
Other pension costs (note 16)	3,266,977	884,228
	53,050,663	23,722,799

Notes to the financial statements
at 31 December 2007

4. Staff costs (continued)

The monthly average number of employees during the year was as follows

	2007	*2006*
	No	*No*
Management	9	6
Production	511	270
Administration	64	57
Sales	135	27
	719	360

5. Director's emoluments

	2007	*2006*
	£	*£*
Emoluments	338,252	212,892
Company contributions paid to money purchase pension scheme	13,379	10,435

Highest Paid Director

Total amount of emoluments and amounts (excluding shares) receivable in 2007 was £231,781 (2006, £233,327)

6. Interest receivable

	2007	*2006*
	£	*£*
Interest from group companies	382,976	301,010
	382,976	301,010

7. Interest payable and similar charges

	2007	*2006*
	£	*£*
Interest payable to other fellow group undertakings	6,200,913	1,880,479
Other interest payable	206,694	107,908
Pension Interest FRS 17	23,000	–
	6,430,607	1,988,387

8. Tax

(a) Analysis of tax charge in the year

Current tax	*2007*	*2006*
	£	*£*
UK corporation tax on profits of the year	–	–
Tax on (loss)/profit on ordinary activities	–	–

Notes to the financial statements
at 31 December 2007

8. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28%)

The differences are reconciled below

	2007 £	*2006* £
Loss on ordinary activities before taxation	(34,489,517)	(3,299,906)
Loss on ordinary activities at standard rate of tax of 30% (2006 30%)	(10,346,855)	(989,972)
Expenses not deductible for tax purposes	125,041	61,249
Deferred gain on plant and machinery	–	–
Depreciation in advance of capital allowances	9,689,744	856,549
Tax losses carried forward	–	–
Short term timing differences	532,070	72,174
Total current tax	–	–

Deferred tax
The deferred taxation asset not recognised in the financial statements is as follows

	2007 £	*2006* £
Capital allowances in advance of depreciation	16,428,483	8,661,900
Tax losses available	0	–
Other timing differences	279,991	117,369
	16,708,474	8,779,269

(c) Factors that may affect future tax charges

The deferred taxation asset has not been recognised as there is insufficient evidence that the asset will be recoverable The asset will be recoverable once the company generates taxable profits

Notes to the financial statements
at 31 December 2007

9. Intangible fixed assets

	Licenses £
Cost	
At 1 January 2007	4,802,782
Additions from Acquisition	598,797
Additions	4,975,605
At 31 December 2007	10,377,184
Amortisation	
At 1 January 2007	3,079,748
Provided during the year	2,049,389
At 31 December 2007	5,129,137
Net book value	
At 31 December 2007	5,248,047
At 1 January 2007	1,723,034

10. Tangible fixed assets

	Software £	*Plant & Machinery* £	*Telecom equipment* £	*Office equipment* £	*Assets in the course of construction* £	*Total* £
Cost						
At 1 January 2007	6,169,730	93,552,039	16,312,551	37,029,364	532,640	153,596,324
Additions	–	–	–	–	22,230,591	22,230,591
Acquired from Subsidiary	2,926,598	5,029,480	–	7,516	–	7,963,594
Acquired with new contract	3,649,789	59,031,646	–	–	18,903,656	81,585,091
Disposals	–	(2,496,916)	–	(752,461)	–	(3,249,377)
Transfers	1,901,643	29,417,511	456,033	1,640,857	(33,416,044)	–
At 31 December 2007	14,647,760	184,533,760	16,768,584	37,925,275	8,408,844	262,126,223
Depreciation						
At 1 January 2007	4,833,039	71,771,460	8,309,264	16,740,548	–	101,654,311
Provided in the year	7,260,642	27,375,074	2,283,811	7,256,939	–	44,176,466
Disposals	–	(117,518)	–	(369,627)	–	(487,145)
At 31 December 2007	12,093,681	99,029,016	10,593,076	23,627,859	–	145,343,632
Net book value						
At 31 December 2007	2,554,079	85,504,744	6,175,508	14,297,416	8,408,844	116,782,591
At 1 January 2007	1,336,691	21,780,579	8,003,287	20,288,816	532,640	51,942,014

Notes to the financial statements
at 31 December 2007

11 Fixed Asset Investments
Shares in subsidiary undertakings

	£
Cost and Net Book Value	
At 1 January 2007	–
Additions during the year	7,504,000
At 31 December 2007	7,504,000

The principal subsidiary undertaking is as follows

	Proportion of ordinary shares held	*Nature of Business*
Gedas (UK) Limited	100%	Provision of computer services

12 Debtors: amounts payable within one year

	2007 £	2006 £
Trade debtors	21,252,962	4,997,173
Amounts owed by group undertakings	31,108,735	31,391,455
Other debtors	258,847	110,680
Prepayments and accrued income	22,979,133	10,179,587
	75,599,677	46,678,895

Amounts falling due after more than one year included above are

	2007 £	2006 £
Amounts owed by group undertakings	1,113,590	–
	1,113,590	–

13. Creditors amounts falling due within one year

	2007 £	*2006* £
Trade creditors	3,505,726	1,049,391
Amounts owed to group undertakings	16,855,071	45,686,907
Other taxation and social security	3,367,290	1,476,008
Accruals and deferred income	27,390,305	13,203,935
Other creditors	416,921	40,000
	51,535,313	61,456,241

Notes to the financial statements
at 31 December 2007

14. Creditors: amounts falling due after more than one year

	2007	*2006*
	£	*£*
Loan from group undertaking (Note 15)	104,000,000	–
	104,000,000	–

15. Loans

	2007	*2006*
	£	*£*
Wholly repayable within five years	104,000,000	35,500,000
	104,000,000	35,500,000

Loans repayable included within amounts owed to group undertakings are loans from Deutsche Telekom International Finance B V and are analysed as follows

The rate of interest payable on the Deutsche Telekom International Finance B V loan is 5 8% per annum

16. Pensions

The company operates both defined benefit and money purchase arrangements for its employees and directors which are sections of the T-Systems Ltd Pension Scheme The Scheme is funded and is administered by professional pension administrators Capita Hartstead Limited

(a) Defined contribution section

The company's contributions to the money purchase section during the year amounted to £1,756,330 (2006 £946,000) There were outstanding contributions at the balance sheet date of £252,645 (2006 £nil)

(b) Defined benefit section

The T-Systems Limited Pension Scheme comprises of two sections

- the Volkswagen section, and
- the T-Systems section

For the period 1 April 2006 to 28 February 2007 T-Systems participated in the Volkswagen Group Pension Scheme With effect from 1 March 2007 the assets and liabilities relating to T-Systems participation in that scheme were transferred into the T-Systems Limited Pension Scheme with no change in the net obligation to T-Systems

Notes to the financial statements
at 31 December 2007

16. Pensions (continued)

Furthermore, on 1 March 2007 T-Systems acquired a number of employees in an outsourcing contract from Centrica Certain of these employees have opted to transfer their past service benefits into the T-Systems Limited Pension Scheme with effect from 1 March 2007 As at 31st December 2007 those transfers had not been finalised and therefore a best estimate of transferring assets and liabilities have been used

The most recent completed actuarial valuation of the Volkswagen section was carried out at 31 December 2006 For the purpose of these financial statements, an updated valuation as at 31 December 2007 has been prepared by Towers Perrin using membership data as at 30 November 2006, rolled forward to 31 December 2007 allowing for cashflows and changes in market conditions

There was a complete actuarial valuation of the T-Systems section as at 31st March 2007, this has been rolled forward to 31 December 2007 allowing for cashflows and changes in market conditions

The defined benefit section of the scheme is closed to new members The age profile of the active membership is rising, and under the projected unit method the current service cost will increase as the members of the scheme approach retirement

The financial assumptions used to calculate scheme liabilities under FRS 17 are as follows

Valuation method	**Projected Unit**
	2007
Discount rate	**5 8% p.a.**
Inflation rate	**3.0% p a**
Increases to pensions	
- Pre April 1997 discretionary	**3.0% p a**
- April 1997 – September 2005 (LPI 5%)	**3 0% p a**
- Post October 2005 (LPI 2 5%)	**3 0% p a**
Salary increases	**4 5% p a**
	2007
Equities (UK and Overseas)	**6 8% p a**
Bonds	**4 3% p a**
Property	**n/a**
Cash/Other	**5 0% p a**

Notes to the financial statements
at 31 December 2007

16. Pensions (continued)

The assets in the scheme at 31 December 2007 were

	2007
	£'000
Equities (UK and Overseas)	11,230
Bonds	7,487
Property	-
Cash/Other	-
Total market value of assets	18,716
Present value of scheme liabilities	20,703
Deficit in the scheme	1,987
Related deferred tax asset	556
Net pension deficit	1,431

The following amounts have been recognised in the profit and loss account

	2007
	£'000
Current Service cost	1,247
Curtailment and settlements	-
Total charge to operating profit	1,247
Expected return of pension scheme assets	1,028
Interest on pension liabilities	(1,051)
Net interest (charged)/credited to other finance charges	(23)

Notes to the financial statements
at 31 December 2007

16. Pensions (continued)

The following amounts have been recognised in the statement of total recognised gains and losses

	2007
	£'000
Actual return less expected return on pension scheme assets	(74)
Expected gains and losses arising on scheme liabilities	56
Changes in assumptions underlying the present value of scheme liabilities	3,213
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	3,195

Movements in the pension deficit (excluding deferred tax) during the year

	2007
	£'000
At 1 January	(3,485)
Current service costs	(2,662)
Impact of settlements and curtailments	-
Employer contributions	988
Other finance (charge)/credit	(23)
Actuarial gains/(losses)	3,195
At 31 December	(1,987)

Notes to the financial statements
at 31 December 2007

16 Pensions (continued)

Details of experience gains and losses for the year to 31 December

	2007
Difference between the actual and expected return on scheme assets (£'000)	(74)
Percentage of scheme assets at end of year	0%
Experience gains/(losses) on scheme liabilities (£'000)	56
Percentage of the present value of scheme liabilities	0%
Actuarial gains / (losses) recognised in the STRGL (£'000)	3,195
Percentage of the present value of scheme liabilities	15%

17. Provisions for liabilities and charges

	Rationalisation Costs Provision £	*Onerous Lease Provision* £	*Asset retirement obligations* £	*Total* £
At 1 January 2007	–	757,857	320,000	1,077,857
Arising during the year	967,264	–	2,071,978	3,039,242
Utilised	(387,891)	(268,101)	–	(655,992)
At 31 December 2007	579,373	489,756	2,391,978	3,461,107

Onerous Lease Provision
A provision is recognised for lease costs associated with one vacated premises T-Systems Limited has operating lease commitments in respect of this property expiring on 31 March 2009

Asset Retirement Obligations
A provision is recognised for the costs to return leased premises to their original state and condition on the termination of the respective leases Commitments in respect of these asset retirement obligations are due after one year

Rationalisation Provision
The rationalisation costs provision is to cover reorganisation costs to be incurred within 12 months

Notes to the financial statements

at 31 December 2007

18. Commitments under operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below

		2007		2006
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	£	£	£
Operating leases which expire				
Within one year	71,194	79,022	71,194	102,022
In two to five years	–	327,982	–	228,668
In over five years	2,157,166	–	1,002,166	–
	2,228,360	407,004	1,073,360	330,690

19. Related party transactions

The company has taken advantage of the exemption from disclosing related party transactions with fellow group members under FRS8 on the grounds that the group is wholly owned by Deutsche Telekom AG whose consolidated accounts are publicly available

20. Share capital

		2007		2006
	No	£	*No*	£
Authorised, allotted, called up and fully paid				
Ordinary shares of £1 each	550,001	550,001	550,001	550,001

21. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium*	*Capital contribution reserve*	*Profit and loss account*	*Total share-holders' funds*
	£	£	£	£	£
At 1 January 2007	550,001	14,999,999	53,454,502	(29,988,780)	39,015,722
Pension Reserves	–	–	–	(208,080)	(208,080)
Capital contribution in the year	–	–	45,000,000	–	45,000,000
Loss for the year	–	–	–	(34,014,233)	(34,014,233)
At 31 December 2007	550,001	14,999,999	98,454,502	(64,211,093)	49,793,409

Notes to the financial statements
at 31 December 2007

22. Ultimate parent company
The company is controlled and wholly owned by T-Systems Enterprise Services GmbH (formally T-Systems International GmbH) at 31 December 2007 The T-Systems Group is the smallest group in which the results of the company are consolidated for statutory purposes Deutsche Telekom Aktiengesellschaft is the company's ultimate parent company Deutsche Telekom Aktiengesellschaft is incorporated in Germany and heads the largest group in which the results of the company are consolidated for statutory purposes The consolidated accounts of Deutsche Telekom Aktiengesellschaft are available to the public and may be obtained from Friedrich- Ebert-Allee 140, 53113 Bonn, Germany

23. Share based payments
In the 2004 financial year, Deutsche Telekom Aktiengesellschaft introduced its first Mid-Term Incentive Plan (MTIP) to ensure competitive total compensation for the members of the Board of Management, senior executives of the Deutsche Telekom Group, and other beneficiaries mainly from the United States and United Kingdom The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom Aktiengesellschaft and other participating Group entities that promotes mid and long-term value creation in the Group, and therefore aligns the interests of management and shareholders

The MTIP is a cash-based plan pegged to two equally weighted share-based performance parameters – one absolute and one relative If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out, if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made

The carrying amount of the liability relating to the cash-settled share-based payments at 31 December 2007 is £25,242 (2006 £14,777) No cash settled share-based payments had vested at 31 December 2007