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Start statement René Obermann

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Conference Call on Deutsche Telekom's
third quarter report of 2009
November 5, 2009

René Obermann
Chairman of the Board of Management
Deutsche Telekom AG

Welcome to Bonn and good morning! Thanks for coming to Bonn today. Also good morning to our listeners on the phone or via webcast! Thanks for tuning in so early in the case of our listeners from the US.

Today is a special day – it's the first time we report under our new structure. Tim Höttges and I will lead you through the results of our new segments.

We are very satisfied with our third-quarter results. Let me highlight the following:

- Q3 showed an excellent financial performance with an adjusted EBITDA of 5.5 billion euros, our strongest adjusted quarterly EBITDA ever. Our free cash flow amounted to 3.3 billion euros, bringing the year-to-date total to 5.1 billion.

- On this basis we can reconfirm our full-year guidance for adjusted EBITDA and free cash flow, compensating recent currency headwinds.
- Also operationally we had an excellent quarter, performing at least in line with or better than peers in most of our European markets.
- Our German core business has further stabilized: the mobile business is back to growth with continuing high margins. In German broadband we reconfirm, despite the well-flagged lower Q3 net adds figures, our full-year market share target of at least 45 percent of net adds. We also expect PSTN line losses in 2009 to be about 15 percent lower than last year.
- The US remains a challenging market for us. However, we have made good progress on our roadmap to improve our situation with regard to its main four elements: 3G rollout, improved 3G handset portfolio, enhanced distribution, and sharpening our value positioning. Just last week we launched our new “Even More” and “Even More Plus” tariffs in the US, introducing the concept of SIM-only plans also in the US and demonstrating to consumers the value advantage of T-Mobile USA versus its main peers.
- Regarding T-Mobile UK we started exclusive negotiations with France Telecom on a joint venture on September 8. We want to combine our UK activities with those of Orange UK in a 50:50 joint venture and thus increase our competitiveness in the market.
- And Poland is back to strength, outperforming its peers and showing very good margins.
- And finally, we are particularly proud of that, quarterly mobile data revenues were at 1 billion euros for the first time in Q3.

As mentioned before, we are for the first time reporting under our new regional structure with the six segments Germany, the US, Europe, Southern and Eastern Europe or SEE, Systems Solutions, and GHS. Looking at the revenue and adjusted EBITDA performance across our segments, we generally observed a more resilient adjusted EBITDA performance when compared to revenues. This development is due to the higher cost discipline that was already implemented after the first quarter and that is now paying off.

The adjusted EBITDA margin improved year-on-year in the US and in the Europe segment, which consists of our European mobile only operations, where organic adjusted EBITDA grew by 7.2 percent year-on-year in Q3. In Germany, the margin remained almost stable at a high 39 percent. In SEE it decreased due to the consolidation of OTE, which has been consolidated since February 1 of this year. On a pro forma basis, that is excluding OTE for 2009, the margin would have been stable at 47 percent year-on-year. In our Systems Solutions business the margin improved from 9 to 11 percent.

Let’s have a closer look at the Q3 group financials. Group revenue growth amounted to 5.2 percent to 16.3 billion euros, driven by the acquisition of OTE. More importantly, group adjusted EBITDA also grew by 5.2 percent to 5.5 billion euros. That was our strongest quarterly adjusted EBITDA ever. Adjusted net income amounted to 1.1 billion euros in Q3, slightly below the prior year due to higher D&A and higher net financial expense.

Operationally, we achieved strong IPTV sales in Germany and SEE. iPhone sales were very strong again and we had ongoing strong broadband sales in SEE. We further improved our market position in Germany and SEE in both traditional fixed and in mobile. I will address the US business in a minute.

“Mobilizing the Internet” remains a core strategy of Deutsche Telekom and a key growth driver going forward.

For the first time the mobile data business contributed around 1 billion euros to group revenues in Q3. In Europe, data revenues without messaging grew by 32.5 percent to over half a billion euros in Q3. In the US, the US dollar growth rate amounted to just over 40 percent. Over the last two years, the data ARPU excluding messaging has grown by almost 70 percent in Europe, while total data ARPU in the US including messaging has grown by almost a quarter during the same period. This strong growth demonstrates clearly that we are on the right track with our strategy to expand the mobile infrastructure and therefore the foundation for our mobile data business in Europe and the US.

Ladies and gentlemen,
It is clearly not by chance

- that we are now generating around 1 billion euros of mobile data per quarter,
- that we have leading-edge products in our portfolio, like the iPhone and Entertain,
- that we are early pioneers of technologies like UMTS or LTE, HSPA+ in the US, or open platforms such as Android, and
- that in a recent test of mobile internet plans by Stiftung Warentest, the well-known German test institute, T-Mobile was the only German mobile carrier that was graded “good” or “Gut”.

I am convinced that investing into the future has to be at the heart of our corporate strategy. Therefore, we put a strong focus on innovation in each of our strategic thrusts.

In terms of “improving our competitiveness in Germany and SEE”

- we have launched the first convergence products with Liga Total and the Entertain program manager.
- As part of our “connected life & work” vision, we introduced an innovative media center enabling the seamless exchange of media content between fixed and mobile.

- And we have invested significantly more into the future of our German business in the first nine months of this year than in the same period last year.

With regard to “Grow abroad with mobile,”

- we have been very successful selling the iPhone in many of our markets including the new OTE markets.
- We are further rolling out our 3G network in the US with 200 million population coverage by year-end. In 2009 alone we are building a network bigger than the entire German 3G network.
- We have launched attractive new mobile tariff plans in the US, the “Even More” and “Even More Plus” plans, to sharpen our value proposition in the market.

Finally, in terms of “building network-centric ICT,” T-Systems will be leveraging existing and win new big deals via transformational outsourcing. Here we offer as an add-on service to the traditional outsourcing also the transformation of the legacy IT of our clients into a modern, flexible, and cost-optimized system infrastructure.

Our Systems Solutions business has also been an early leader in Smart Metering and Home Management, where we have a pilot project with our T-City Friedrichshafen, cloud and dynamic computing, and software as a service, for example the “boost SAP” service.

Turning to the segments, I’d like to start with the US since this has obviously been of particular concern to our investors. Afterwards, Tim Höttges will address developments in the other segments.

In the US, we are facing a challenging situation, not least because of the economic crisis, and are clearly not happy with the third-quarter results. However, due to the measures initiated we are confident to further improve T-Mobile's positioning in the US market.

Turning first to the development in Q3, at T-Mobile USA total US dollar revenues grew by 0.7 percent compared to Q2 due to growth in equipment revenues. Year-on-year we saw a 2.3 percent decline, driven by the weakness in ARPU.

On the positive side, the adjusted EBITDA margin remained strong at 29 percent, compared to 28.4 percent in Q3 2008. This good result was due to continued cost discipline, as demonstrated by the continued low cash cost per user or CCPU. As in the second quarter, CCPU amounted to 23 dollars, down from 25 dollars the year before. All components of CCPU – network, G&A, and retention costs – declined in absolute terms compared to 2008.

Service revenues declined slightly sequentially due to weakness in prepaid ARPU, which was down 2 dollars from Q2. Blended ARPU declined by 4 dollars year-on-year, the same decline as in Q2. Encouragingly, contract ARPU remained stable sequentially at 53 dollars, supported by the growth in data ARPU.

Net adds for the quarter were minus 77,000, which is clearly not satisfying. Even though contract gross adds actually improved slightly in Q3 in comparison with Q2, this was more than offset by higher contract churn of 2.4 percent in Q3. This sequential rise in churn from 2.2 percent in Q2 was partially seasonal but also had to do with strong device-driven competition in the quarter, namely the iPhone.

Our roadmap in the US consists of four elements, accelerated 3G rollout, enhanced 3G handset portfolio, enhanced distribution, and strengthening our value proposition. With regard to each element, we made good progress since Q2.

In terms of 3G rollout we increased our 3G coverage by almost 50 percent in Q3 alone to approximately 170 million POPs at the end of September. We will cover 200 million by the end of the year. The number of 3G cell sites on air increased by more than 5,000 in Q3 alone to over 21,000 and we are targeting more than 25,000 sites by year-end.

HSPA 7.2 will be enabled across our entire 3G network by year end and we launched a trial of HSPA+ with a download speed of up to 21 Megabits per second in Philadelphia. Compared to our main GSM competitor in the US, AT&T, we are actually significantly further along in the deployment of HSPA 7.2 and HSPA+. Data traffic volume grew by 45 percent from Q2 to Q3 alone. This compares to a growth rate of 25 percent from Q1 to Q2 this year.

The number of 3G-enabled converged devices on our network underscores the soundness of our plans to expand our 3G network. The number grew to 2.8 million, up one third from the end of Q2 alone and compared to zero a year ago.

This success was driven by the excellent progress with regard to our 3G handset portfolio. With the recent launch of the Motorola CLIQ, Motorola's first Android device featuring the innovative MOTOBLUR software, and the upcoming launch of the Samsung Behold II, we will have four Android devices including the original G1, underlining our Android leadership.

Also this month we will launch the BlackBerry Bold 9700, which will be the first 3G-enabled BlackBerry of T-Mobile USA, which has already received rave reviews. In total, we will have 24 3G handsets by year-end, of which 11 are converged devices, up from zero just two years ago.

We have made great strides in improving our distribution. We now have more than 2,000 own stores, up from about 1,750 at the end of 2008 and 1,275 at the end of 2006. We consider our own stores very important, especially in an environment where customers increasingly crave for sophisticated smart-phones that require more explaining than standard handsets. Since August T-Mobile USA is also in 4,000 RadioShack stores. In total, we now have a presence in more than 9,200 national retail and own stores, up almost three quarters from the end of Q2 alone. The recent JD Power awards for Wireless Retail Sales Satisfaction and Wireless Customer Care Performance demonstrate the consistent inherent strength of the T-Mobile brand in the US.

The fourth element of our roadmap is strengthening our value proposition. We continue to position T-Mobile as a consumer-oriented value player. In order to underscore that message, we recently introduced our innovative “Even More” and “Even More Plus” tariffs. The “Even More” tariffs, which include a subsidized handset and require a two-year contract, offer substantial savings of up to 50 dollars per month to customers compared to similar plans of AT&T and Verizon.

The savings are even more impressive for our “Even More Plus” plans. Here the customer who chooses, for example, a T-Mobile myTouch 3G or the new Motorola CLIQ can save 70 dollars per month or almost 50 percent for an unlimited talk, text, and web plan, compared to, for example, an AT&T iPhone customer. In order to get these very attractive plans we are asking the customer in return to pay for an unsubsidized phone most often in monthly installment payments. Subject to a credit test, the customer can pay for the handset in 20 monthly installments with an “Equipment Installment Plan”.

Alternatively, the customer can bring his or her own handset similar to a European SIM only plan. There is no annual contract on the “Even More Plus” plans because the handset is not subsidized, BUT there is still effectively a contract on the handset side for those customers that opt for the “Equipment Installment Plan”. In effect, we have changed the pricing paradigm for the US market.

Now I will give the floor to Tim Höttges for the other segments and the financials.

[Statement Timotheus Höttges]

Thank you, Tim Höttges! Before turning to your questions, let me conclude by reiterating our guidance for 2009. On the basis of the Q3 results and compensating for the currency headwinds in recent months, we reconfirm our guidance of an adjusted group EBITDA down 2 to 4 percent from the 2008 level for DT standalone. To this OTE is expected to add about 2 billion euros. We are also confident to reach our free cash flow guidance of around 7 billion euros including OTE.

Deutsche Telekom also remains committed to an attractive dividend policy for its shareholders. The management board and the supervisory board will propose in their meeting in February a dividend for 2009 which follows the logic of the previous years and will be based upon the two main parameters free cash flow and adjusted net income for the group.

Whereas we had good Q2 and Q3 results making us even more confident to reach our full-year 2009 guidance, there are a few developments at which we are looking very carefully and with caution when it comes to 2010:

- The recent developments in the currency markets, in particular the US dollar.
- The uncertain economic recovery in our major markets in Eastern Europe as well as the yet unknown size and impact of the anticipated increase of unemployment in Germany.
- The late cyclical impact on our Systems Solutions business.
- And the continuously challenging situation in the US.

Because of these areas of uncertainty, we do not yet have good visibility into 2010. Furthermore, we are still in the middle of our planning process which we pushed out closer to year-end. Therefore, we will not give guidance for 2010 at this point, but we will provide guidance together with our full-year results in February and will then also include more detailed statements about the next phase of our Save for Service program and how this fits into our guidance.

In closing and summing up our Q3 results let me repeat:

- This was a very good quarter in terms of market performance, profitability, and free cash flow.
- We reconfirm our full-year 2009 guidance, compensating recent currency headwinds.

With that, Tim Höttges and I are now ready for your questions. We will start with the journalists first and then turn to the analysts.