– The spoken word shall prevail –

Conference Call
Deutsche Telekom AG at First Quarter 2009
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Deutsche Telekom AG

Good morning/afternoon, Ladies and Gentlemen,

Nice to have you with us. And if we cannot see each other, then we can at least hear each other.

On April 21, we informed you of the key points in the first quarter and gave you an outlook for the full year based on the composition of the Group to date. Today we want to present those figures in greater detail. We also have the outlook for the full year – including the OTE group for the first time, which has been consolidated since the beginning of February.

But I can say one thing right away: Deutsche Telekom, including the Greek company OTE, is continuing to grow. This fits in with our "Focus, fix and grow" strategy. That's true for our customer base, which received a considerable boost from the first-time consolidation of OTE at the beginning of February. The same can also be said of revenue and operating results. Please remember when looking at the financial KPIs for the first quarter that

OTE is only included for two months, and in the case of the projections for the full year, for 11 months.

To begin with, I will give you an overview of developments in general, which you can see on the first chart. Tim Höttges will then go into detail concerning the figures.

- We recorded revenue growth of 6.2 percent and an increase in adjusted EBITDA of 2.7 percent in the first quarter.
- We also continue to make good progress with our Save for Service program. At the end of the first quarter we had achieved cost reductions of around EUR 4.4 billion compared with EUR 4.1 billion at the end of 2008.
- We have underpinned our competitiveness in the domestic and Europe fixed-network business.
- T-Systems once more achieved positive results. The growth in international revenues is particularly encouraging.
- T-Mobile Deutschland recorded a slight increase in service revenues and stabilized its adjusted EBITDA.
- Most of our mobile companies in Central and Eastern European, with the exception of Poland, have kept their EBITDA margins stable.

We already informed you that we are facing considerable challenges in the United States, the United Kingdom, and Poland. You all know why: a weak economy and intensified competition. On top of this, exchange rates with some European countries have become significantly less favorable.

In the vast majority of areas in the Group, business is stable. But it's clear that we are fighting strong headwinds in some national companies. We have responded to the situation and put in place a comprehensive package of measures.

- Free cash flow in the first quarter was impacted heavily by higher advance costs year-on-year, both for capex and operating costs, as well as extraordinary expenses for restructuring measures.
- Adjusted EBITDA was also burdened by advance costs for customer acquisition and, in the United States, by the network roll-out.
- The impairment of goodwill at T-Mobile UK that we had already announced had an impact of around EUR 1.8 billion on our reported net profit/loss. Adjusted for this effect, net profit was EUR 0.7 billion, around 12.7 percent lower than the prior-year figure of just under EUR 0.8 billion.

The important point, however, is that the Group is growing through the addition of OTE. Here are a few figures we have put together for you on the next chart:

- Our mobile communications customer base increased by almost 20 million following the addition of countries in Southern and Eastern Europe.
- In our fixed-network business, the number of customers has increased by 7.5 million through the addition of Greece and Romania, 1.7 million of them broadband customers.
- The proportion of revenue generated outside of Germany increased further in the first quarter to 56.3 percent, compared with 51.6 percent in the prior year.
- OTE's revenue contribution in the first quarter amounted to EUR 1.0 billion – and we're still only talking about the two months since consolidation.
- Free cash flow totaled EUR 22 million.
- This first-time consolidation had a positive impact of EUR 0.3 billion on adjusted EBITDA.
- And OTE contributed EUR 57 million to the net profit of the Group.

We intend to continue this positive development over the full year. I will come back to that when I talk about our forecast for the full year.

I would now like to take a look at the individual business areas in detail.

The next chart shows the main developments in domestic fixed-network business, where we have further strengthened our position in the broadband market. We gained around 390,000 net additions in the first quarter. This corresponds to 53 percent of new customers, the best figure since 2005. Let me just remind you – that figure was 43 percent in the first quarter of 2008. So we have expanded our customer base by 44 percent within two years to 11 million.

What's more, this was despite the decline – consistent with our expectations – in our line numbers in Germany: more than 40 percent of the line losses were driven by the migration of traditional fixed-network lines to IP-based lines operated by other providers in combination with a resale DSL contract. On top of this were competition- and regulation-induced line losses. This puts the total number of line losses in the first quarter at around 602,000.

As you can see on the next chart, fixed-network business in Southern and Eastern Europe developed similarly. In addition to organic growth of around 0.3 million broadband lines in Eastern Europe, we also boosted our broad-band customer base by around 1.7 million customers thanks to the first-time consolidation of OTE.

This doubled the number of broadband customers compared with the first quarter of 2008 to almost 3.5 million.

The total number of fixed-network customers increased to 12.6 million as a result of the addition of the 7.5 million customers in Greece and Romania. That corresponds to growth of around 130 percent compared with the first quarter of 2008.

Including OTE's contribution of EUR 181 million for the months February and March, adjusted EBITDA outside of Germany increased to EUR 0.4 billion compared with EUR 239 million in the first quarter of 2008. The EBITDA of the business added by OTE is lower than that of the other Group companies. As a result, the overall adjusted EBITDA margin fell 4.8 percentage points to 37.6 percent.

We were, however, able to maintain a stable, high level of adjusted EBITDA margin of around 42 percent for existing fixed-network business in Eastern Europe, thanks to ongoing cost reductions.

I would now like to move on to the next chart and developments in our international mobile communications business.

Overall, our global customer base in this segment – including Germany – grew significantly to around 150 million or, to be specific, 148.4 million, following the inclusion of the OTE Group.

The number of new customers in the first quarter totaled 677,000. This figure was heavily impacted by slower growth in the United States and, in the majority of other countries, by a more intense focus on the contract customer segment.

This figure, the number of net additions in the first three months of 2009, also demonstrates how necessary and right our decision to invest in OTE was and is to enable us to tap additional growth potential: the Cosmote Group's subsidiaries have gained 506,000 new customers just in the two months since consolidation. The customer base of OTE's subsidiaries has grown by more than 20 percent within one year.

This made a significant contribution to mobile communications revenue outside of Germany, which increased by 12 percent in the first quarter to

EUR 7.3 billion. Measured in the same way, adjusted EBITDA decreased 1 percent to EUR 1.9 billion. The organic decline in the prior consolidated Group of around EUR 0.3 billion was largely offset by the first-time consolidation of OTE, which contributed EBITDA of EUR 0.2 billion as well as a positive exchange rate effect with the U.S. dollar.

As you can see on the next chart, virtually all companies in Central and Eastern Europe except Poland stabilized or even slightly increased their high margins.

Our companies in Croatia, Slovakia, and Macedonia recorded positive revenue developments measured in their home currencies.

But whatever we have said so far about the Polish company PTC, you must remember that despite the competitive environment, PTC maintained stable revenues measured in zlotys during the first quarter – a good result considering the current economic environment in Poland.

Our strategy of driving forward the mobilization of the Internet has continued to prove to be the right course of action, as the data on the next chart corroborate.

Revenues continued to climb considerably in both Europe and the United States, and not only in terms of overall volume, but also revenue per customer.

In Europe, data revenue per customer in the relevant countries grew almost 40 percent year-on-year to EUR 1.80. Total revenue – still excluding OTE – increased by more than 44 percent to EUR 432 million compared with the same period last year.

In the United States, data revenue on a dollar basis increased year-on-year by 30 percent to USD 467 million. Revenue per customer including messaging grew by over 10 percent last year.

We want to continue to drive forward this trend by pushing ahead with the 3G network roll-out in the United States. The 1.5 million-plus smartphones sold in the United States since the end of the third quarter of 2008 are clear evidence of the significant growth potential in this area.

In the United Kingdom, we intend to further boost usage of the 3G network with additional services.

We now have 6.5 million customers in six countries across Europe that have booked a Web'n'Walk option. In the first quarter alone, we recorded 636,000 new customers for this service – an increase of 53 percent compared with the same quarter last year.

This brings me to the next chart and Systems Solutions, where we have started the turnaround. International revenue in the first quarter climbed 6.4 percent, a considerable increase, while revenue generated outside the Group remained stable. We have concluded further big deals with, for example, Linde, public sector customers in North Rhine-Westphalia and Baden-Württemberg, and with Continental Tires.

The adjusted EBIT margin climbed year-on-year from 0.7 percent to 1.6 percent. Systems Integration made particularly good progress. This trend was given a substantial boost by ongoing cost reductions under the Save for Service program of around EUR 75 million in the first quarter.

The number of new orders at Systems Solutions also developed healthily in the first quarter, taking account of the fact that the number of new orders in the first three months of 2008 was exceptionally high thanks to the Shell deal.

I would now like to turn once again to the details of the first-time consolidation of the OTE Group with the next chart.

We have worked together with our OTE colleagues to introduce a program of joint value enhancement projects designed to tap significant synergy potential.

From 2012 onwards, we intend to realize annual synergies of around EUR 0.2 billion by implementing these measures, with additional potential of around EUR 50 million. These projects naturally focus on joint procurement as well as on improving customer interfaces and customer care, optimizing roaming services and developing joint initiatives in the end customer product area.

Around one third of the synergies identified so far are related to capex. In terms of business segments, around 70 percent relates to the mobile communications segment.

We expect to make strong and dynamic progress in harnessing the synergy potential, and anticipate savings in the mid-double-digit million euro range in the current year. Following on from this, our savings forecast for the end of 2010 is over EUR 130 million.

Alongside the synergies already identified, the project group continues to work permanently on tapping additional potential that can be realized over the medium term in order to achieve our target in 2012.

Measures in the areas of processes, capex and IT systems have already been identified and are now being evaluated and then implemented on a step-by-step basis. This is, of course, a dynamic development. The project group is working on additional possibilities to harmonize processes, capex and IT systems, for example, to ensure the projected savings of over EUR 0.25 billion in 2012 are achieved.

I would now like to return to the challenges we are facing in the United States, the United Kingdom and Poland, and briefly explain the action we are taking here.

The following chart shows the key measures.

T-Mobile USA is to extensively expand the 3G network in order to strengthen its competitive standing. The network covered 107 million or so residents at the end of 2008; we intend to build up that figure to around 200 million by the end of the current year. Together with an extended range of handsets, this will enable us to join the ranks of the competition. In addition, we will also reduce costs in various areas, such as roaming, thanks to the expansion of our 2G network to include regions where we have previously used our competitors' infrastructure, as well as by renegotiating interconnection charges and content agreements, putting salary increases on hold, and reducing marketing and travel costs.

At T-Mobile UK, the new management team's task will be to reposition the company in a difficult environment.

The new team’s primary aim is now to focus its energies on offering the best 3G network in the United Kingdom. Firstly, we are looking to enhance our position in both the prepay and contract customer segments using, for example, SIM-only offers. Secondly, we are cutting costs – currently in the mid-double-digit million pound range – by introducing a range of measures such as decreasing administration and direct sales expenses as well as reducing the marketing and advertising budgets.

The cost-cutting measures at Polish company PTC are focused on marketing and advertising, staff-related costs, outsourcing and contracting costs, right through to consulting agreements, and lease and travel costs. On top of this, customer acquisition and retention costs are to be reduced.

Beyond those three companies, we have introduced measures for the entire Group to improve cost discipline, optimize working capital and freeze part of capex.

This brings me to the next chart, our projected developments over the full year including OTE.

We have already given you our projections for Deutsche Telekom in 2009 based on the previous composition of the Group.

As I have just outlined, adjusted EBITDA and free cash flow are growing considerably as a result of the inclusion of OTE.

It must be kept in mind that OTE will only be consolidated for 11 months of the current year, meaning the full-year figures for the OTE group are higher than what needs to be added to the previous guidance for Deutsche Telekom.

Including OTE, we expect adjusted EBITDA to be around EUR 2 billion higher than our forecast for the Group in its old composition. Free cash flow, including OTE, is expected to reach around EUR 7.0 billion. The Board of Management considers this a good basis for continuing its policy of paying attractive dividends.

These expectations are based on the ongoing premise that exchange rates do not fluctuate significantly from their current values and that economic conditions do not take another marked downturn.

And with that, I would like to hand you over to Tim Höttges.