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Statement
delivered at the press conference
on Deutsche Telekom’s FY results 2008
February 27, 2009 in Bonn

Dr. Karl-Gerhard Eick
Member of the Board of Management Finance
Deputy CEO
Deutsche Telekom AG

Thank you, René!

I am very pleased with our full-year financial results. We achieved a turnaround in adjusted EBITDA, free cash flow, and adjusted net income. Adjusted EBITDA grew by 0.7 percent to almost EUR 19.5 billion, driven by Mobile and an improved trend in domestic Broadband/Fixed Network, which came in slightly better than the original guidance range. Free cash flow improved to EUR 7 billion, supported by working capital, lower restructuring payments, and lower net interest payments, more than offsetting higher income tax payments and higher cash capex. Adjusted net income improved by 14 percent to EUR 3.4 billion due, in particular, to lower D&A. Net debt increased only modestly by EUR 0.9 billion to EUR 38.2 billion, despite EUR 4.4 billion spent on acquisitions (net of divestments), namely SunCom and OTE, and despite cash capex of EUR 8.7 billion. This is a reflection of our very strong cash flow generation.

Let me remind you that we were faced with a significant currency headwind last year. Assuming constant exchange rates revenues would have been EUR 1.3 billion higher. Similarly, adjusted EBITDA would have been EUR 0.3 billion higher. Adjusted for these currency effects and changes in the scope of consolidation, organic revenues were flat last year, while organic adjusted EBITDA grew by 0.8 percent.

Coming to the divisions, clearly Mobile continued to be the growth driver for the group, in terms of both revenues as well as adjusted EBITDA. Mobile revenues grew by 2.4 percent or 3.6 percent organically. Adjusted EBITDA improved by 6.2 percent or 6.3 percent organically (including the Q3 one-time gain from an asset sale of EUR 0.1 billion in Germany). In terms of organic growth, T-Mobile USA remained the main growth driver with 10 percent organic revenue growth in 2008 and 12.7 percent organic adjusted EBITDA growth. But the organic mobile revenue growth was also supported by Eastern Europe and T-Mobile Netherlands. In terms of adjusted EBITDA growth, Germany was also a contributor, which is a particularly encouraging development.

In domestic Broadband/Fixed Network we delivered on our guidance from March 2008. Revenues decreased by 5.1 percent, within the guidance range of minus 4 to minus 6 percent. Adjusted EBITDA decreased by 4.9 percent, actually slightly better than the guidance range of minus 5 to minus 8 percent. This good result reflects our progress in terms of cost reduction, with net costs reduced by EUR 0.8 billion, significantly better than our original guidance of EUR 0.1 billion. These results are even more remarkable, considering that we achieved our broadband retail market share target in 2008 and were able to sell almost 500,000 triple play packages by the end of the year in line with our target. In comparing Q4 with Q4 please bear in mind that most of the cost savings last year, namely EUR 0.6 billion of EUR 0.9 billion, were realized only in Q4, which obviously impacts the year-on-year comparison. Q4/08 was also impacted by sequentially higher market investments, especially into our triple play offers, as anticipated. In addition, costs increased sequentially due to seasonally higher maintenance costs, further investments into IT, especially the retirement of legacy systems, and R&D expenses at the product house for new products and features for the triple play offers, for example.

Turning to Business Customers, while reported revenues and adjusted EBITDA showed a strong decline, this was mostly due to changes in the scope of consolidation, namely the sale of Media & Broadcast and the transfer of Active Billing to BBFN. Adjusted for this and currency effects, revenues declined by only 1.2 percent rather than the minus 8.2 percent reported and adjusted EBITDA was essentially flat rather than the minus 20 percent reported. International revenue growth accelerated throughout the year, driven by major deals such as Shell, and reached 7.4 percent. We also saw a positive trend with regard to organic adjusted EBIT. Compared to 2007, organic adjusted EBIT increased more than five times to EUR 61 million.

The trends that we saw for the full year further improved in Q4. Organic revenue increased by 1.5 percent, while organic adjusted EBITDA increased by 27.4 percent to EUR 237 million. International revenue growth accelerated further, reaching 12.6 percent in Q4. And adjusted EBIT improved strongly, both on a reported and organic basis.

In terms of our cost reduction program, “Save for Service”, we made very good progress in 2008. By the end of the year the total run rate of the program had reached a gross cost reduction of EUR 4.1 billion per year, compared to a target of up to EUR 4.7 billion reduction by 2010. Supported by currency effects and the incremental “Save for Service” contribution of EUR 1.8 billion, we were able to achieve net cost savings of EUR 0.8 billion in 2008, despite higher market spend. Broadband/Fixed Network remained the biggest contributor to “Save for Service”, but strong contributions were also made by Business Customers and Mobile.

A key contributor to this cost reduction was the headcount development for the group. In Germany headcount was reduced by 17,200 employees on a net basis, including 9,100 via deconsolidation. The net headcount reduction in Germany easily exceeds the net increase of 3,500 outside Germany. This led to reduction in adjusted personnel expenses of 5.3 percent domestically in Q4 or 1.1 percent for the group as a whole.

Turning to free cash flow, with EUR 7 billion we clearly overachieved our target of EUR 6.6 billion. And we were able to do this despite significantly higher income tax payments, where we received a net tax refund in 2007, and significantly higher cash capex. Cash capex increased due to higher capex at T-Mobile USA, in connection with the 3G rollout, and at Broadband/Fixed Network, driven in particular by growth in DSL and the VDSL expansion as well as by higher IT investments and the optimization of processes. Besides the higher reported EBITDA, cash generated from operations clearly benefited from the change in working capital and accruals. The reason for the improvement is that the usual Q4 optimization of working capital did not re-occur in Q4 2007 and therefore helped us to improve the year-on-year comparison of working capital. Cash generated from operations also benefited from lower restructuring payments, which decreased by EUR 0.3 billion to EUR 1.4 billion in 2008. Net cash was also supported by lower net interest payments. I would like to emphasize that we achieved the higher free cash flow despite a drop in the proceeds from the disposal of assets in 2008.

Let me turn now to the bottom line. Adjusted net income increased by 14 percent, despite higher P&L income taxes and despite higher minorities. The main driver of this, besides higher adjusted EBITDA, was an improvement in D&A, predominantly due to lower depreciation on fixed assets in Mobile Europe, Business Customers, and GHS.

Compared to adjusted net income, reported net income was impacted by a number of special charges. Nevertheless, reported net income more than doubled to EUR 1.5 billion. Let me just mention the main special factors. In total, EBITDA was impacted by EUR 1.4 billion of special charges, including EUR 1.1 billion related to personnel expenses. These include charges for severance payments and early retirement. Net financial expense was impacted by a EUR 0.7 billion charge predominantly due to a special write-down on the carrying value of OTE of EUR 0.5 billion. I would like to stress that this write-down is not the result of a change in the business plans but rather the result of a market-driven change in the discount rates.

Let me conclude my remarks by discussing net debt, balance sheet ratios, our liquidity reserves, and our maturity profile. Due to the very strong free cash flow, net debt increased by only EUR 0.9 billion despite EUR 4 billion in dividends, including minorities, and EUR 4.4 billion spent on acquisitions (net of divestments), namely OTE and SunCom. Including OTE, pro forma net debt amounted to EUR 42.9 billion. Comparing this to the pro forma adjusted EBITDA including OTE of EUR 21.7 billion, the pro forma net debt to adjusted EBITDA ratio would be a very manageable 2 times, at the lower end of our target range of 2 to 2.5. Since OTE has not reported yet, the full-year 2008 figures for OTE are based on the Bloomberg earnings consensus.

Our balance sheet ratios excluding OTE remained very strong in 2008, with net debt to adjusted EBITDA of 2 times, gearing of 0.9 times, and an equity ratio of 35 percent. Each of these ratios was toward the better end our target ratios. Just as a reminder, back in December we narrowed our target net debt to adjusted EBITDA ratio from 2 to 3 times to 2 to 2.5 times. We want to maintain a liquidity reserve of 30 percent of net debt.

At year-end liquidity reserves amounted to EUR 20 billion, equivalent to more than 50 percent of net debt. We have a total of 28 bilateral credit facilities of EUR 600 million each, which add up to EUR 16.8 billion. As of December 31, the average time to maturity of the credit lines was 2.2 years. The loan terms ensure the quality of our liquidity reserve. There are no financial covenants, no MAC clauses, and no rating triggers.

We have a very manageable maturity profile, especially considering our free cash flow guidance and our unused bilateral credit lines. So far we have funded EUR 2.2 billion this year. The 8-year 2 billion Eurobond issued in January 2009 was a very successful offering with a 6 percent coupon and a mark-up of 2.65 percent above the eight-year interbank rate (mid-swap).

In conclusion, I think you will agree with me that Deutsche Telekom is a financially very strong company. We successfully managed the financial turnaround and are in excellent shape in these difficult times. This is demonstrated by the positive net income development, the positive EBITDA development, the positive free cash flow development, essentially stable net debt and net debt to adjusted EBITDA ratio (even after acquisitions), strong balance sheet ratios, and a strong liquidity buffer.

With this René and I are now ready for your questions.