

# Deutsche Telekom Webinar on financial accounting topics

**January 19, 2023**

2PM CET, 1PM GMT, 8AM ET, 10PM JST



# Disclaimer

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents alternative performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA after leases, adjusted EBITDA margin, Core EBITDA, adjusted EBIT, adjusted net income, free cash flow, free cash flow after leases, gross debt, net debt after leases and net debt. These alternative performance measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

# Agenda

**01**

**Towers transaction – impact on DT  
financials for FY 2022**

**02**

**US GAAP / IFRS Bridges for  
TMUS for 9M 2022**

# Towers transaction

## Impact on DT financials for FY 2022

**In July 2022 DT agreed to contribute GD Towers into a new JV with DigitalBridge and Brookfield**

**Closing is expected in Q1 2023**

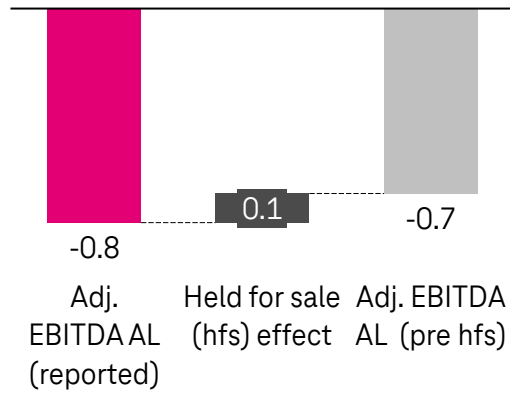
**The following pages provide a detailed view of the pro forma impacts on DT's key financials**

# Impact of GD towers transaction - segment view

## FY 2022e pro-forma impacts on adj. EBITDA AL (preliminary)

### Segment GD

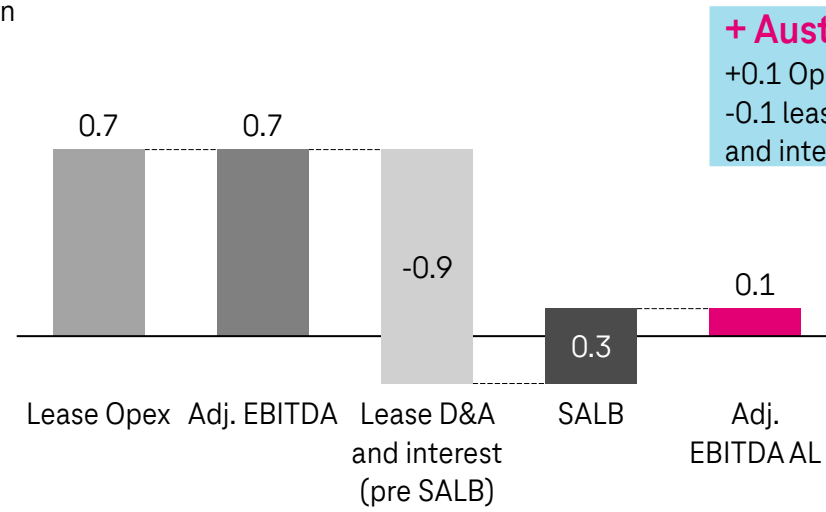
€ bn



- Tower business deconsolidated
- In 2022 partly offset by held-for-sale effects

### Segment GER

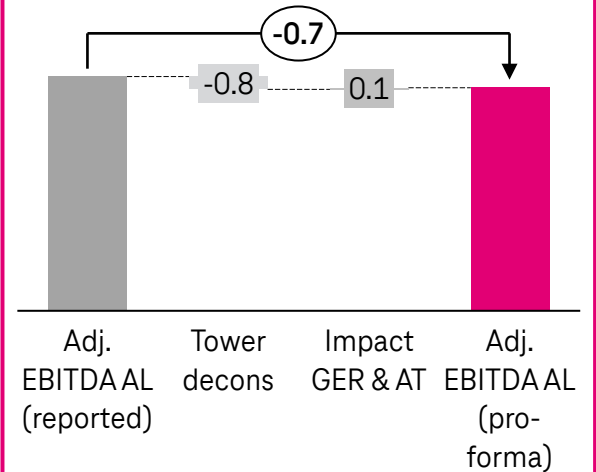
€ bn



- Pre transaction MLA fee treated as Opex (DT internal).
- Right-of-use (RoU) assets with D&A and interest: front-loading of interest expense leads to initially higher leasing costs than before transaction
- Sale & lease back (SALB) related book gain (accrued over 8 years) results in lower leasing costs than before transaction

### DT ex US

€ bn



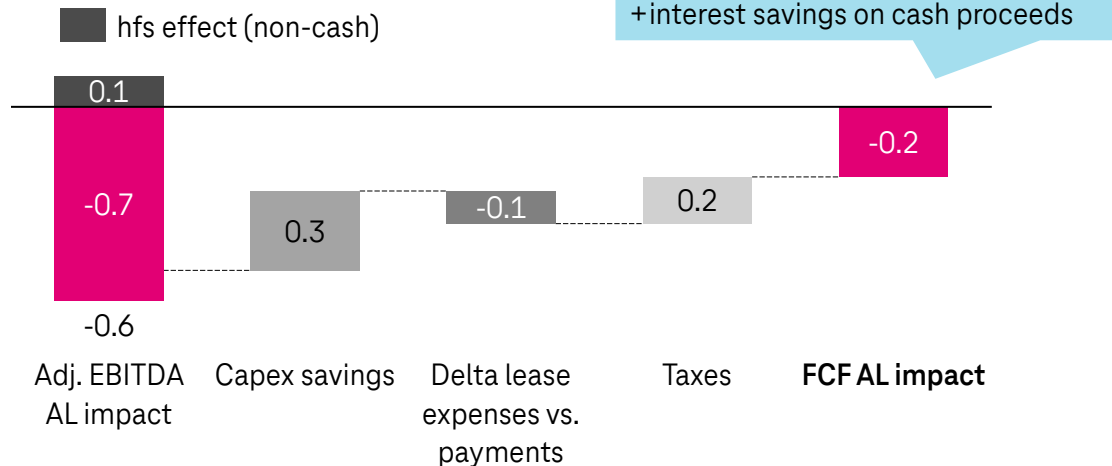
- Excl. held-for-sale impact on FY 2022 pro-forma EBITDA AL equals -0.6bn

# Impact of GD tower transaction: Free cash flow & net debt

## FY 2022e pro-forma impacts (preliminary<sup>1</sup>)

### FCF AL

€ bn



- MLA payments are higher than D&A and interest included in EBITDA AL
- **Overall neutral on FCF AL** including cash interest savings & cash distributions from 49% TowerCo stake
- JV's cash contribution recorded in CF from investing activities in first 2 years, thereafter in CF from operations

### Pro-forma Net Debt & Leverage

€ bn



- Impact on net debt excl. leases (AL) €-10.7bn
- Impact on net debt incl. leases (IFRS 16) €-6.2bn

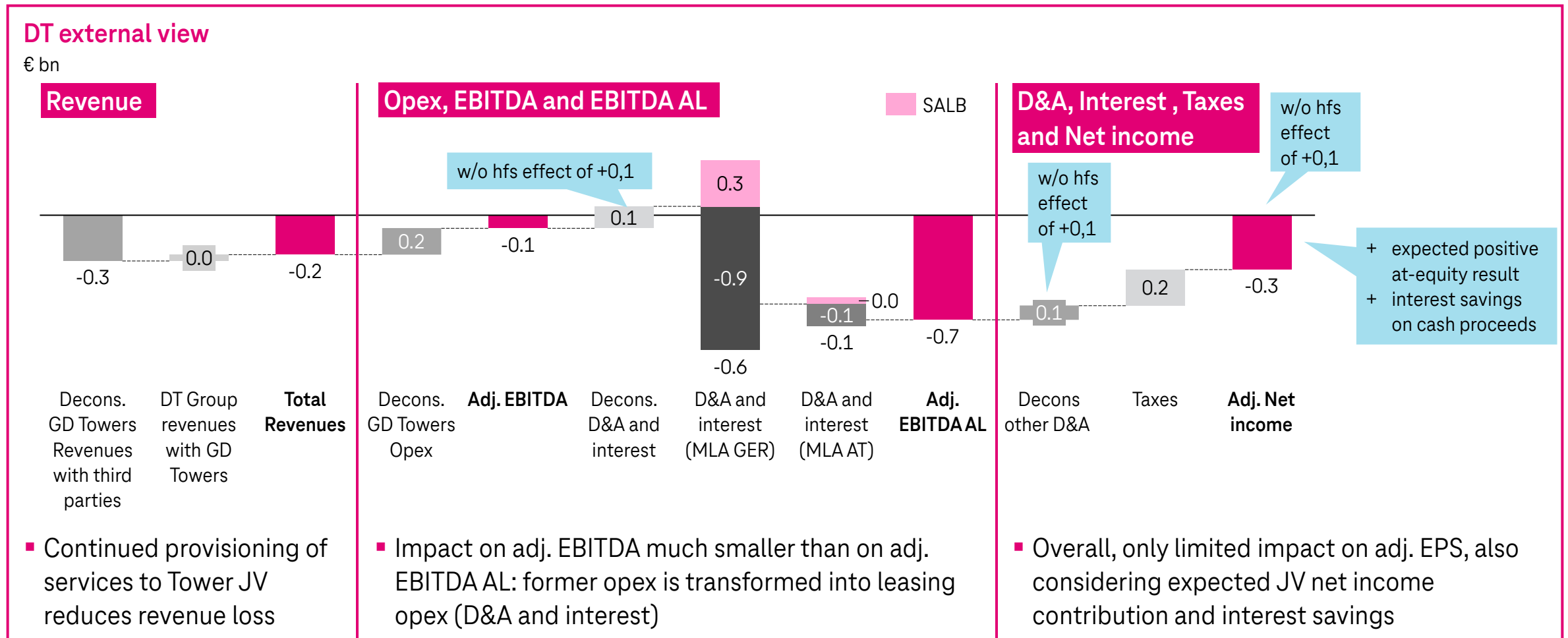
<sup>1</sup> estimated effects for Tower D&A and interest as well as lease liabilities only indicative. We have used a top/down approach for assessing the effects. The final effects will change as they are dependent on the recording of around 30k individual contracts and its effects on P&L and balance sheet

<sup>2</sup> Net debt w/o leases / adj. EBITDA AL

<sup>3</sup> Net debt / adj. EBITDA

# Impact of GD tower transaction on DT's P&L

## FY 2022e pro-forma impacts (preliminary<sup>1</sup>)



<sup>1</sup> estimated effects for Tower D&A and interest as well as lease liabilities only indicative. We have used a top/down approach for assessing the effects. The final effects will change as they are dependent on the recording of around 30k individual contracts and its effects on P&L and balance sheet

# US GAAP / IFRS bridges for TMUS for 9M 2022

**DT's reporting is impacted by various differences between US GAAP and IFRS**

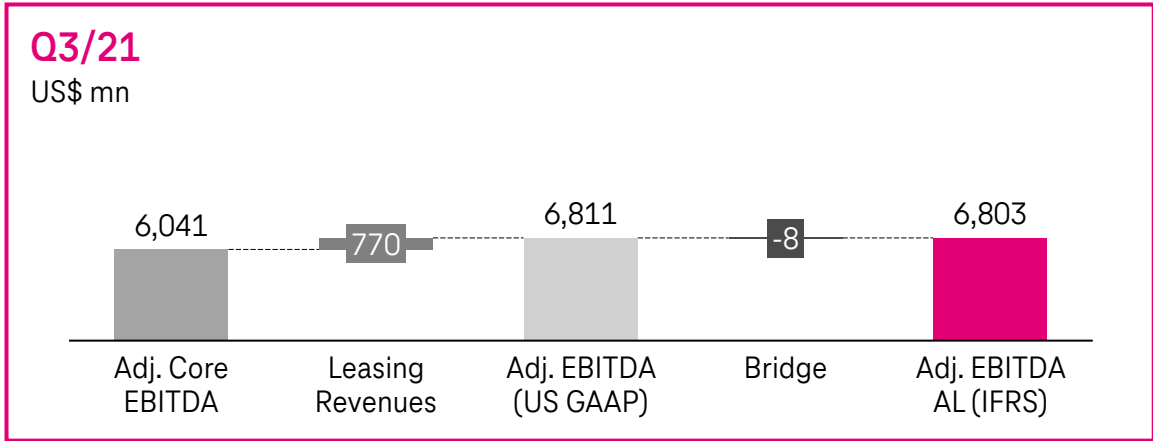
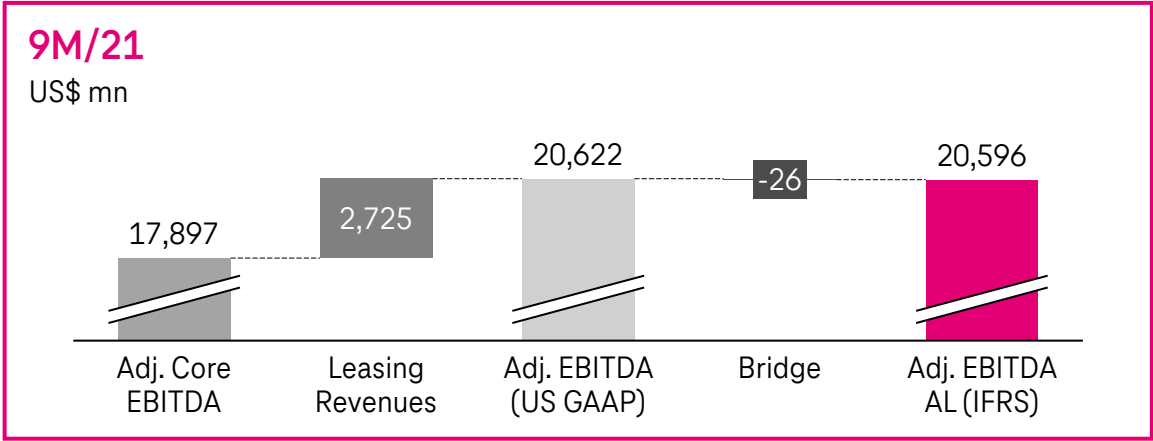
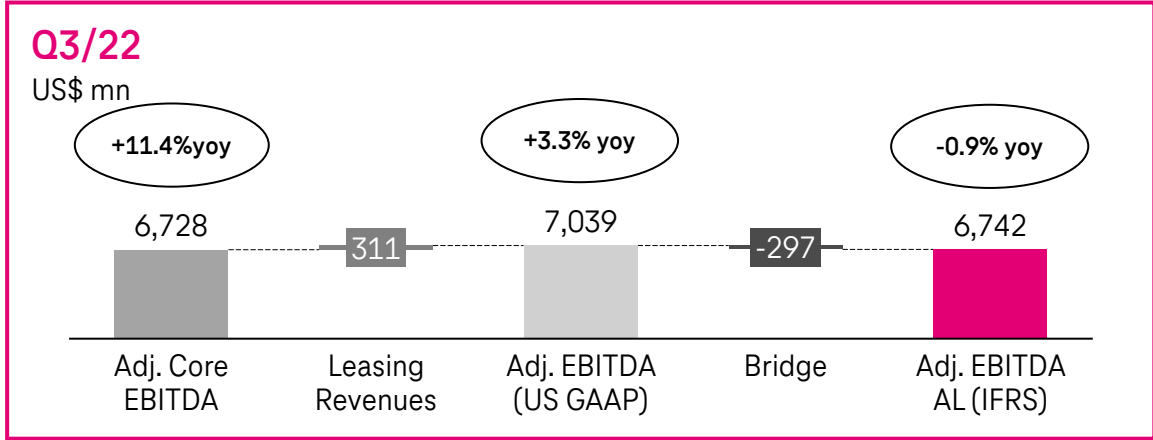
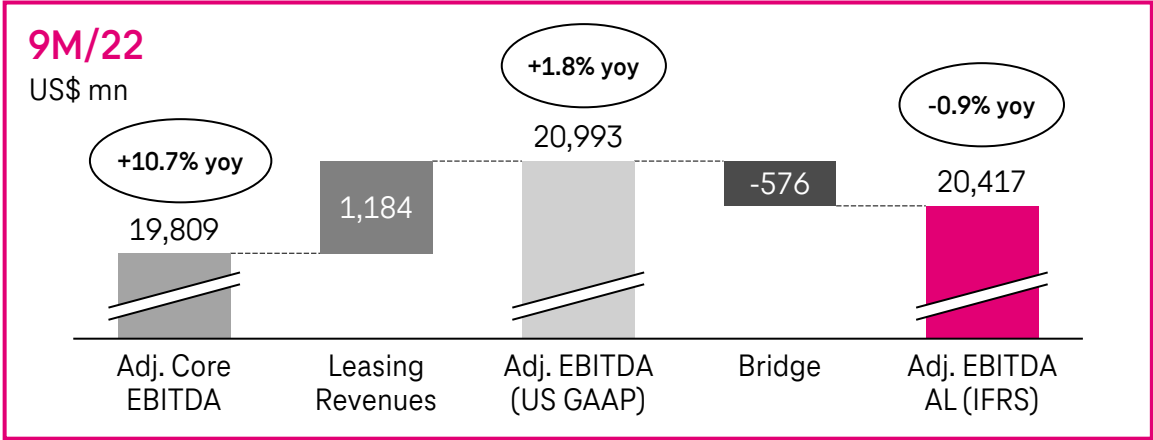
**The following pages provide detailed bridges for EBITDA AL, FCF AL, net debt, and net income**



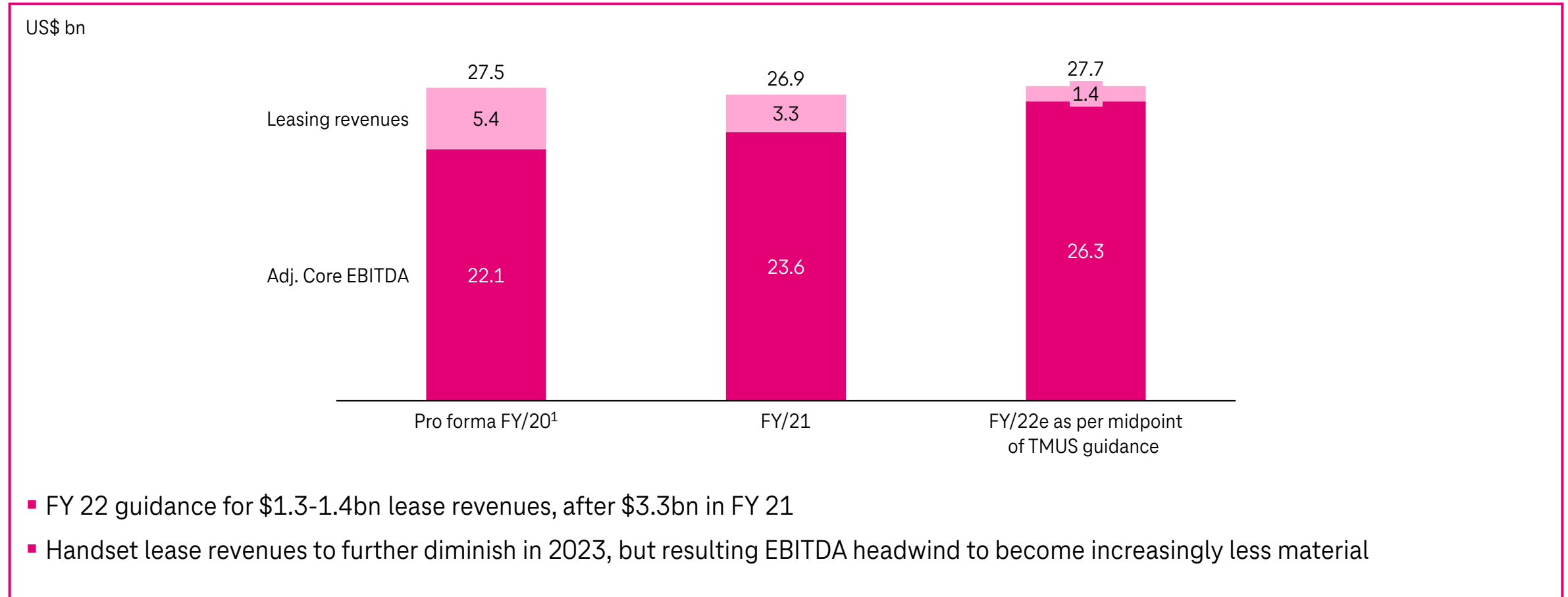
# Various differences in TMUS and DT EBITDA reporting

## TMUS vs. DT EBITDA re-conciliations

Chart as shown in Q3/22 presentation appendix



# Significant impact of handset lease unwind on adj. EBITDA



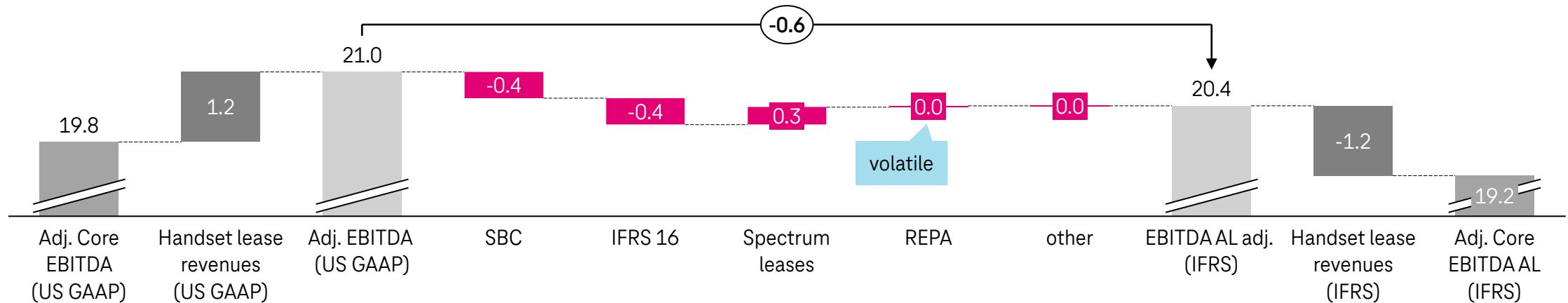
<sup>1</sup> Pro forma LTM Adjusted EBITDA for the LTM period ended December 31, 2020 is calculated as the sum of Q4 2020, Q3 2020 and Q2 2020 actual Adjusted EBITDA of \$6.7 billion, \$7.1 billion and \$7.0 billion, respectively, plus the pro forma Adjusted EBITDA from Q1 2020 of \$6.7 billion. Pro forma LTM Core Adjusted EBITDA for the LTM period ended December 31, 2020 is calculated as the sum of Q4 2020, Q3 2020 and Q2 2020 actual Core Adjusted EBITDA of \$5.5 billion, \$5.8 billion and \$5.6 billion plus the pro forma Core Adjusted EBITDA from Q1 2020 of \$5.2 billion. These metrics are provided for illustrative purposes only and do not purport to represent what the actual consolidated results would have been had the Merger actually occurred on the date indicated.

# DT US EBITDA lower under IFRS than under US GAAP

## Key IFRS vs. US GAAP EBITDA bridge items

### DT US EBITDA, 9M/2022

US\$ bn



### EBITDA AL Bridge items resulting from different EBITDA definition and accounting standards:

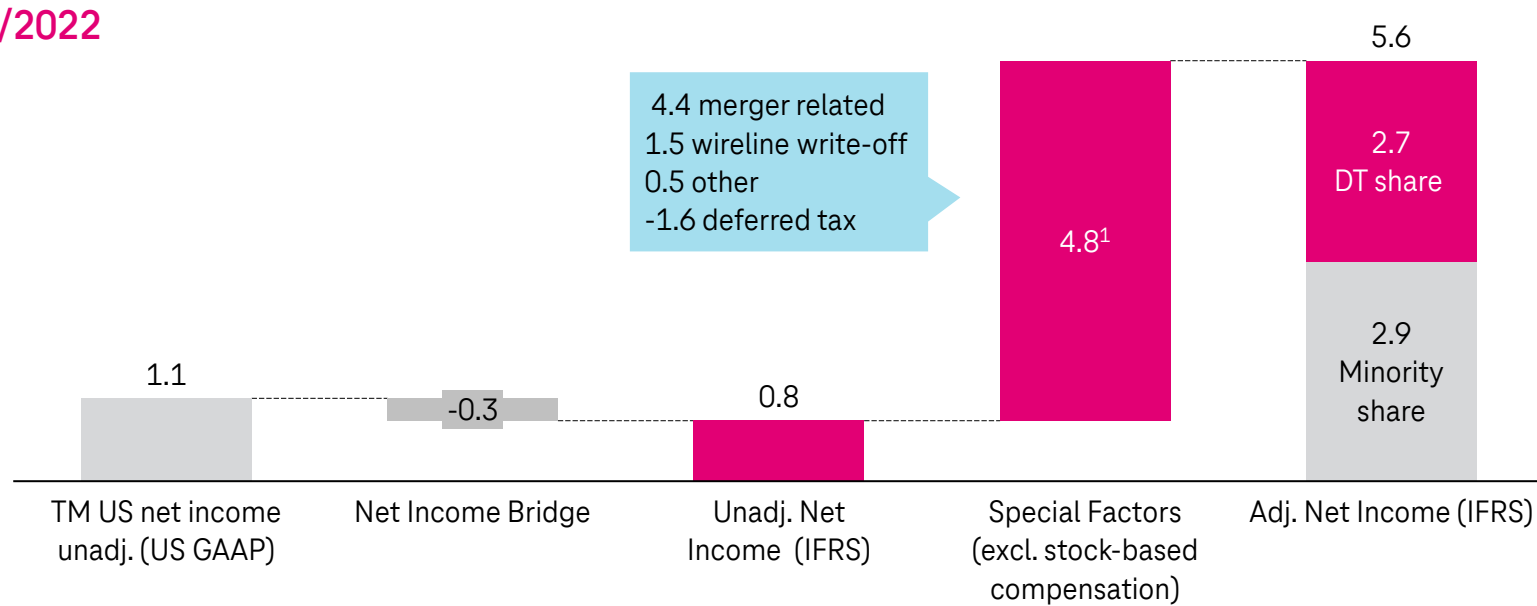
- SBC (Stock-based compensation): P&L effect included under IFRS but excluded in TMUS US GAAP adj. EBITDA definition
- IFRS 16: Due to front-loading interest expense, leasing expenses (D&A and interest) higher under IFRS than in US GAAP (OPEX)
- Spectrum leases: OPEX under US GAAP but D&A and interest expense (non IFRS 16) under IFRS
- REPA (Renewable Energy Purchase Agreements): embedded derivatives recognized under IFRS and not under US GAAP Accordingly fair value changes are included in IFRS OPEX. Difficult to forecast due to unpredictable volatility

# Net income differences mainly related to timing

## Key IFRS vs. US GAAP net income bridge items

### DT US net income, 9M/2022

US\$ bn



- Differences mainly due to timing, i.e. no material differences over multi year periods
- Net Income bridge 9M/2022 of USD -0,3 bn is driven by different accounting of embedded derivatives (mainly due to increasing interest rates)

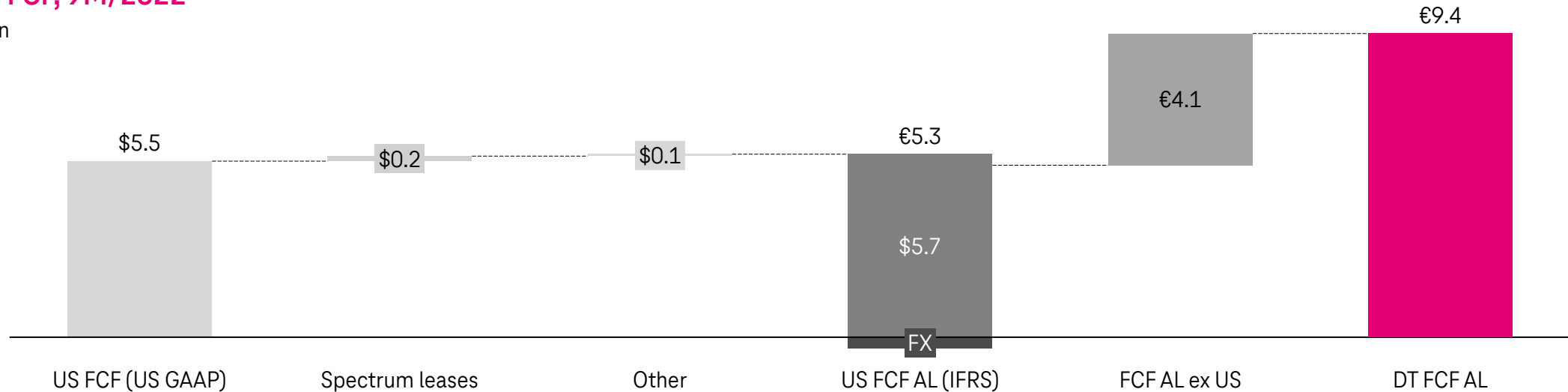
<sup>1</sup> excludes stock based compensation of \$ 0.4bn (pre tax) as it is included in US GAAP unadj. Net Income as well as in IFRS adj. Net Income. Please see also TMUS Factbook Q3 page 25.

# DT US free cash flow higher under IFRS than under US GAAP

## Key IFRS vs. US GAAP FCF bridge items

### DT US FCF, 9M/2022

US\$/€bn



- Spectrum leases: OPEX under US GAAP and intangible asset (D&A, non leasing related) under IFRS. Amortization related cash out shown in financing activity under IFRS and in FCF under US GAAP

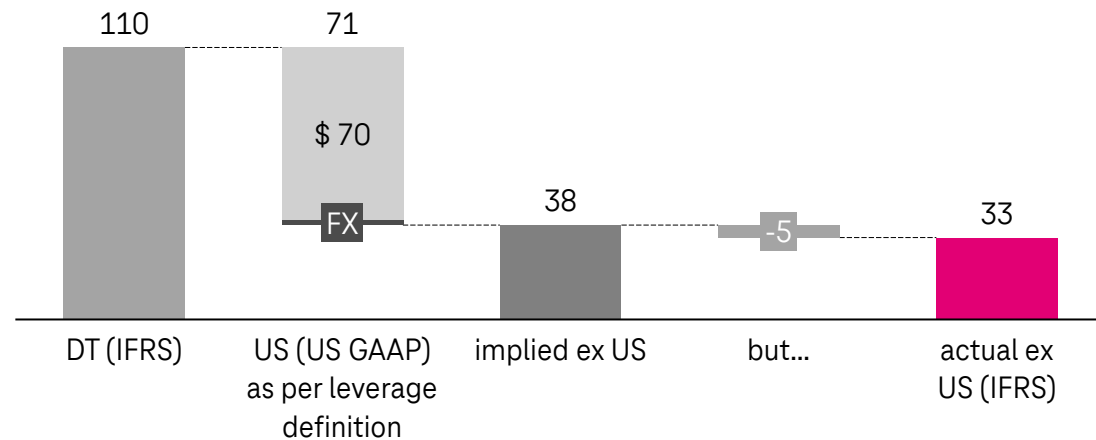
■ = FX - foreign exchange effect, based on average rate of € 1 = US\$ 1.05 USD

# Net debt also impacted by accounting differences

## Key net debt ex leases bridge items

### Net debt excl. leases, 9M/2022

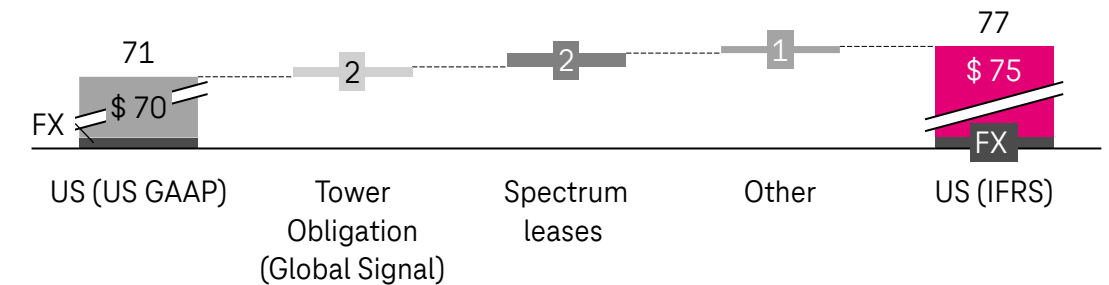
€bn



- Ex US net debt excl. leases is not DT excl. leases minus US (US GAAP) net debt
- Ex US IFRS net debt is lower than implied by US GAAP due to
  - Differences in accounting standards **1**
  - Different net debt definition **2**

### Key US GAAP IFRS net debt ex leases bridge items

€ bn



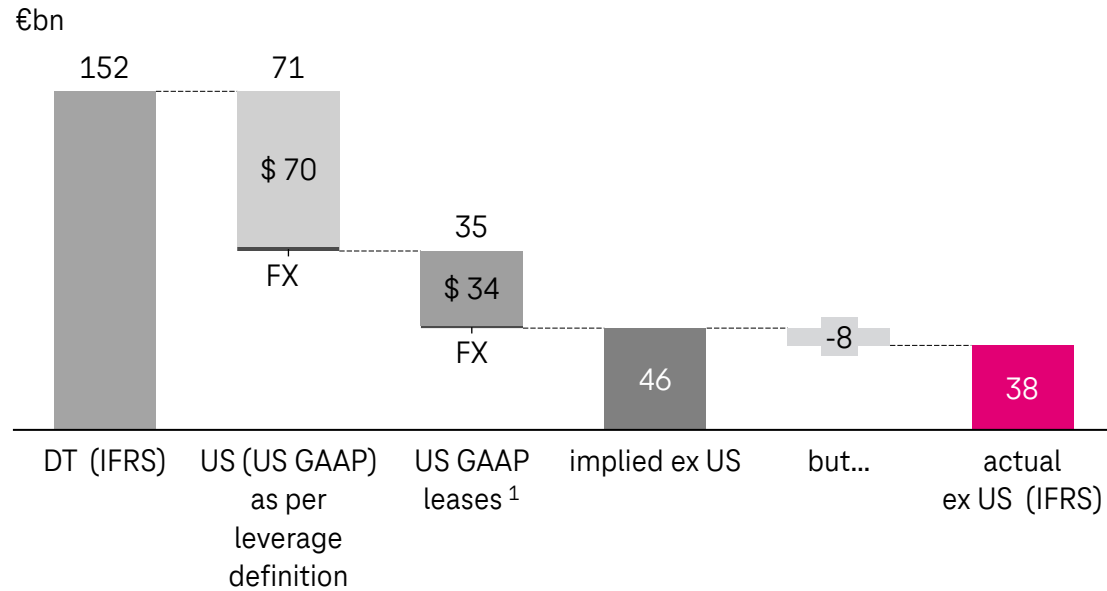
- 2** Tower Obligation (Global Signal): financing transaction - liability shown as net debt (non IFRS 16) under IFRS and as other financial liability under US GAAP.
- 1** Spectrum leases: intangible asset and net debt (non IFRS 16) under IFRS but OPEX under US GAAP.
- 1** Other: e.g. factoring, embedded derivatives

■ = FX - foreign exchange effect, based on period-end rate of € 1 = US\$ 0.97 USD

# The same is true for net debt incl. leases

## Key net debt incl. leases bridge items

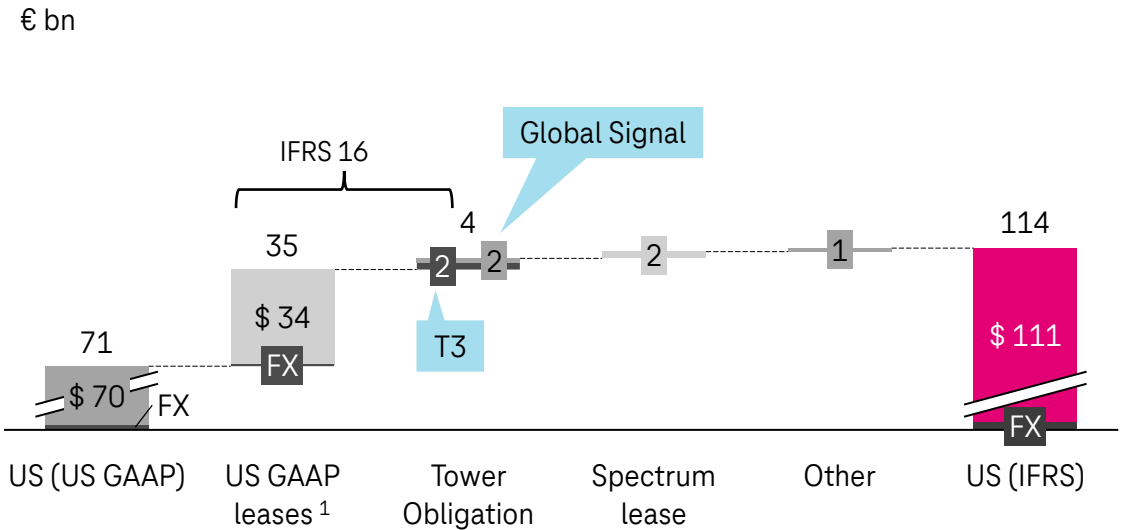
### Net debt incl. leases, 9M/2022



- Ex US IFRS net debt incl. leases is lower than implied by US GAAP due to differences in

- Accounting standards **1**
- Net debt definition **2**

### Key US GAAP IFRS net debt incl. leases bridge items



- 2** Tower Obligation – T3 transaction: Leaseback agreement is a financing transaction not classified as net debt under US GAAP but as a sale and leaseback transaction according to IFRS 16
- 2** Tower Obligation – Global Signal
- 1** Spectrum leases and Other – please see p. 14

**FX** = FX - foreign exchange effect, based on period-end rate of € 1 = US\$ 0.97 USD <sup>1</sup> operating leases - finance leases included in US GAAP net debt

# Appendix

**01**

**US GAAP / IFRS bridges for  
TMUS for FY 2021**

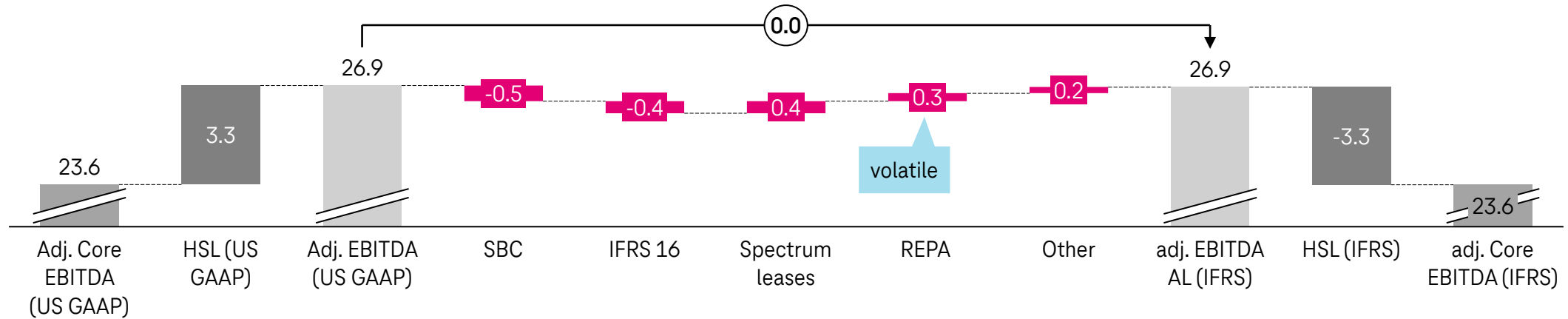


# Various differences in TMUS and DT EBITDA reporting

## TMUS vs. DT EBITDA re-conciliations

### DT US EBITDA, FY/2021

US\$ bn



### Bridge items resulting from different Special factors and accounting standards:

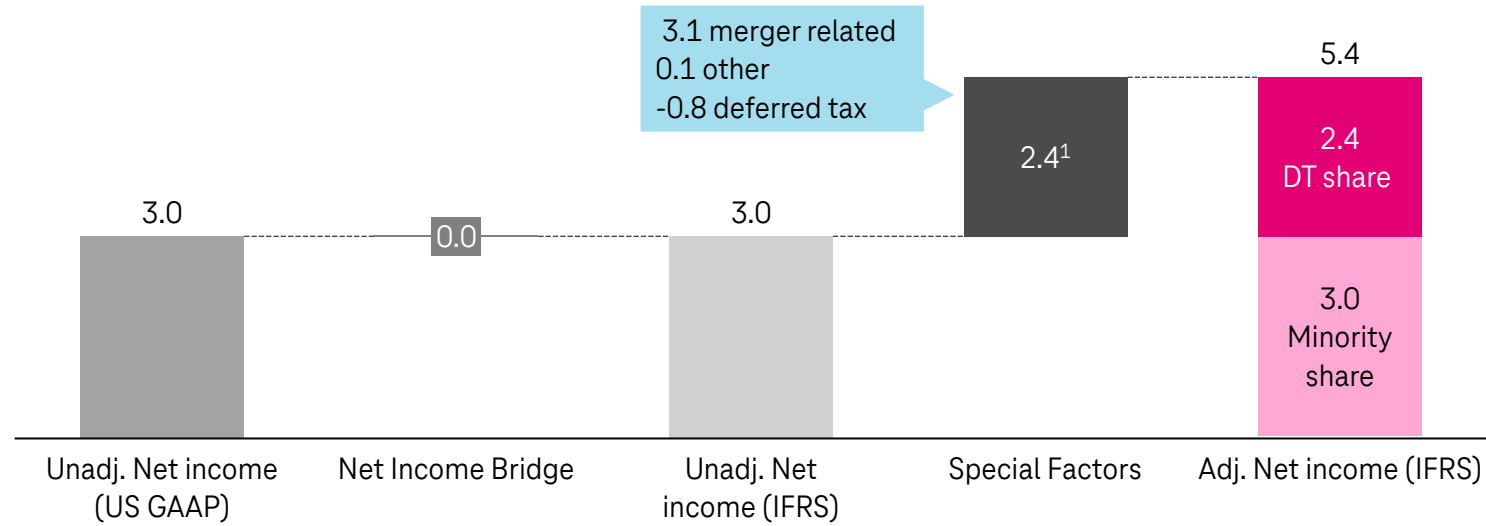
- SBC (Share based compensation): P&L effect included under IFRS but excluded in TMUS US GAAP adj. EBITDA definition.
- IFRS 16: Due to front-loading interest expense, Leasing expenses (D&A and interest) higher under IFRS than in US GAAP (OPEX)
- Spectrum leases: OPEX under US GAAP but D&A and interest expense (non IFRS 16) under IFRS.
- REPA (Renewable Energy Purchase Agreements): embedded derivatives recognized under IFRS and not under US GAAP. Accordingly fair value changes are included in IFRS OPEX. !Difficult to forecast due to volatility.
- Other: e.g. Asset retirement obligation (financial income IFRS, OPEX US GAAP), Demo display devices (D&A IFRS, OPEX US GAAP).

# Net income differences mainly related to timing

## Key IFRS vs. US GAAP net income bridge items

### DT US net income, FY/2021

US\$ bn

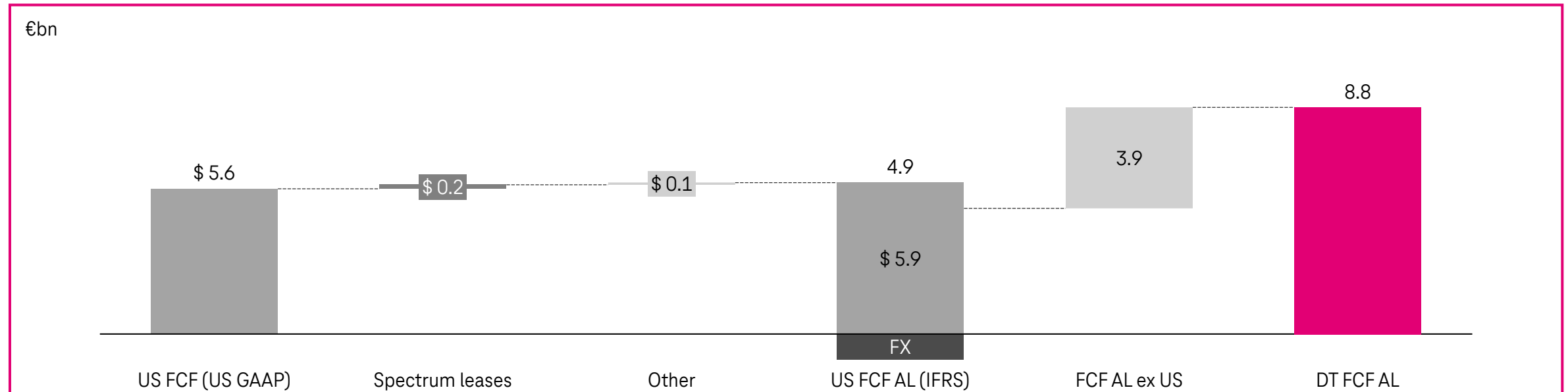


- Differences mainly due to difference in timing, i.e. no material differences over multi year periods (e.g. front loading of leasing related interest expense under IFRS 16, embedded derivatives).

<sup>1</sup> excludes stock based compensation of \$ 0.5bn (pre tax) as it is included in US GAAP unadj. Net Income as well as in IFRS Net Income adj.

# DT US free cash flow higher under IFRS than under US GAAP

## Key IFRS vs. US GAAP FCF bridge items



### US IFRS AL FCF slightly higher:

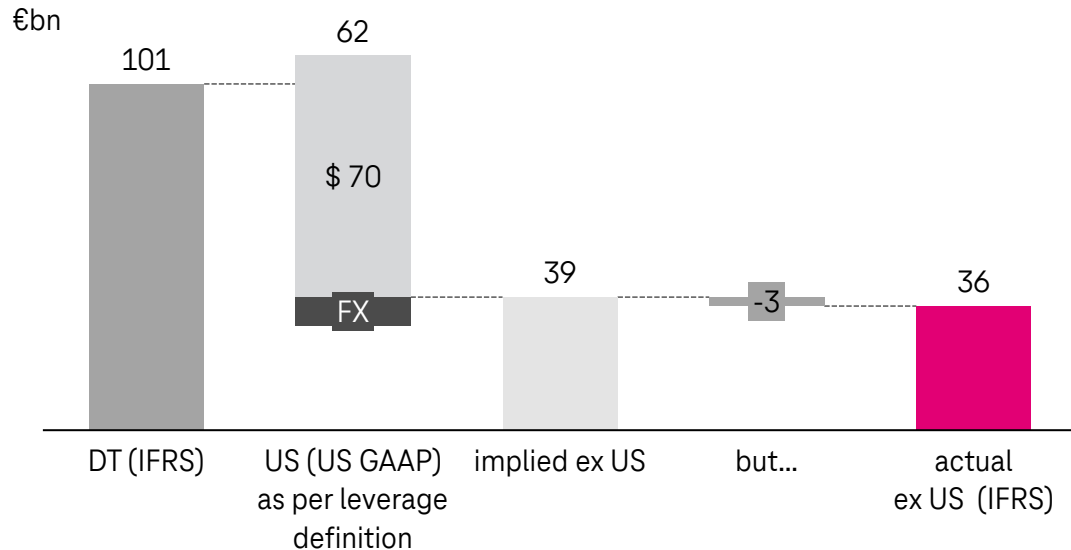
- Spectrum leases: executory contracts (OPEX) under US GAAP and intangible asset (D&A, non IFRS 16) under IFRS. Amortization cash out shown in financing activity under IFRS and in FCF under US GAAP.
- Other: mainly capitalized interest on spectrum

■ = FX - foreign exchange effect, based on average rate of € 1 = US\$ 1.18 USD

# Net debt also impacted by accounting differences

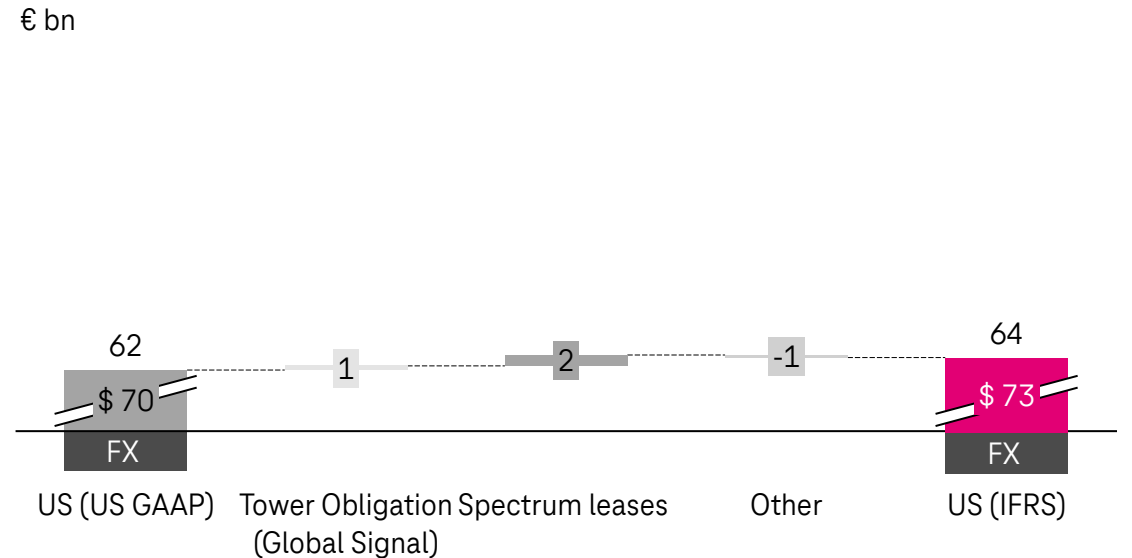
## Key net debt ex leases bridge items

### Net debt excl. leases, FY/2021



- Ex US net debt excl. leases is not DT excl. leases minus US (US GAAP) net debt.
- Ex US IFRS net debt is lower than implied by US GAAP due to
  - Different accounting standards **1**
  - Differences in net debt definition **2**

### Key US GAAP IFRS net debt ex leases bridge items



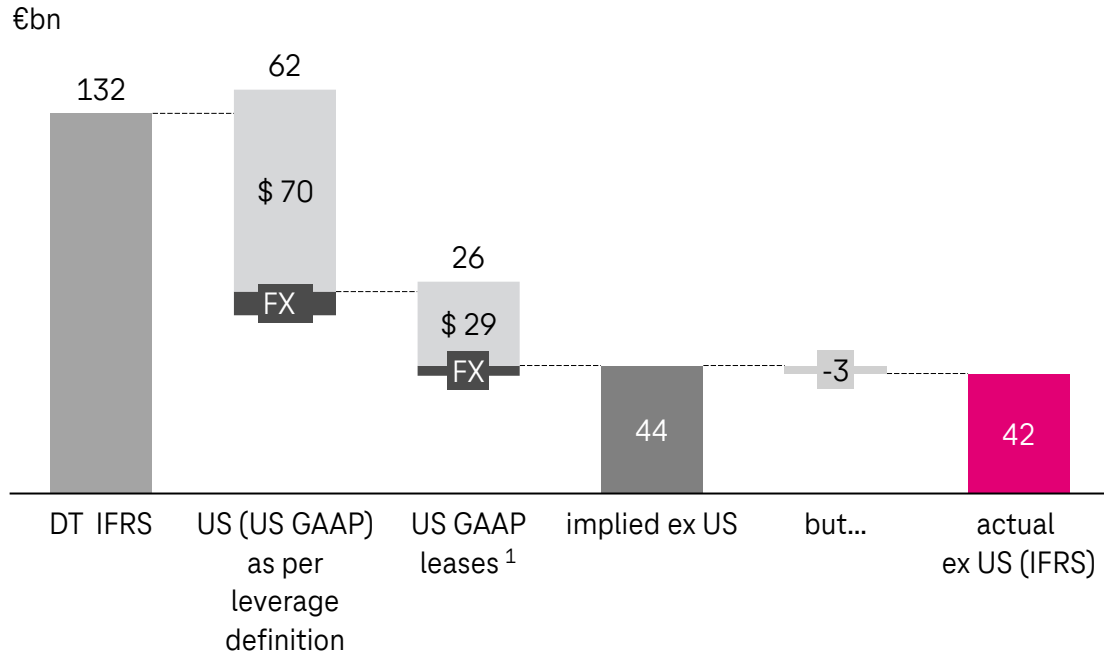
- 2** Tower Obligation (Global Signal): financing transaction - liability shown as net debt (non IFRS 16) under IFRS and as other financial liability under US GAAP.
- 1** Spectrum leases: intangible asset and net debt (non IFRS 16) under IFRS but OPEX under US GAAP.
- 1** Other: e.g. factoring, embedded derivatives

■ = FX - foreign exchange effect, based on period-end rate of € 1 = US\$ 1.13 USD

# The same is true for net debt incl. leases

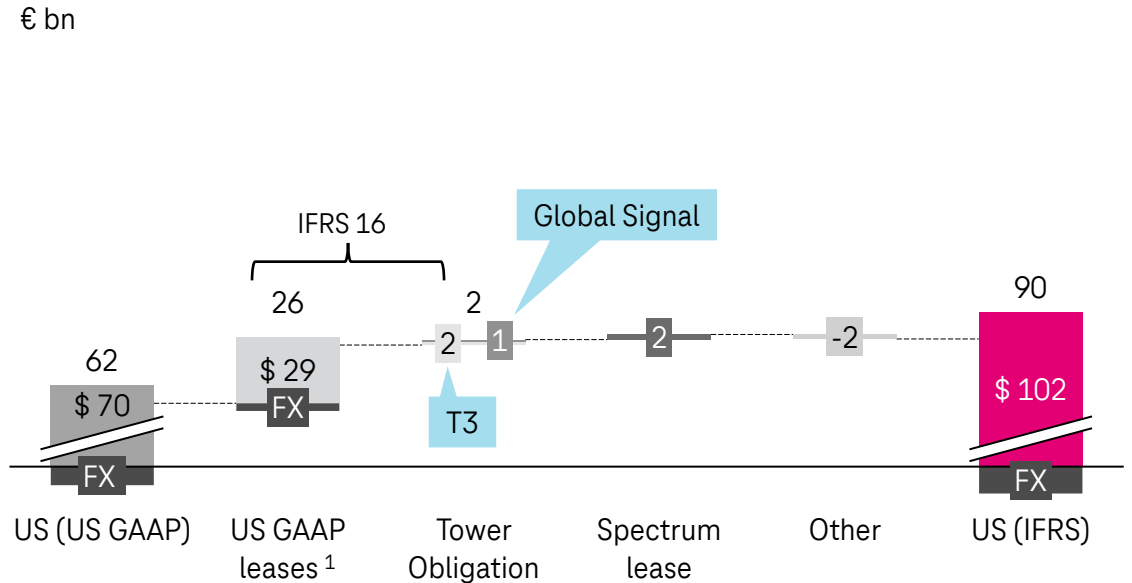
## Key net debt incl. leases bridge items

### Net debt incl. leases, FY/2021



- Ex US IFRS net debt is lower than implied by US GAAP due to
  - Different accounting standards **1**
  - Differences in net debt definition **2**

### Key US GAAP IFRS net debt incl. leases bridge items



- 1** Tower Obligation –T3 transaction from 2012: Leaseback agreement is a financing transaction not classified as net debt under GAAP but a sale and leaseback transaction according to IFRS 16
- 2** Tower Obligation –Global Signal
- 1** Spectrum leases and Other – please see p. 20

FX = FX - foreign exchange effect, based on period-end rate of € 1 = US\$ 1.13 USD <sup>1</sup> operating leases - finance leases included in US GAAP net debt