

WEBINAR

PENSIONS @ DT

1st of September 2014



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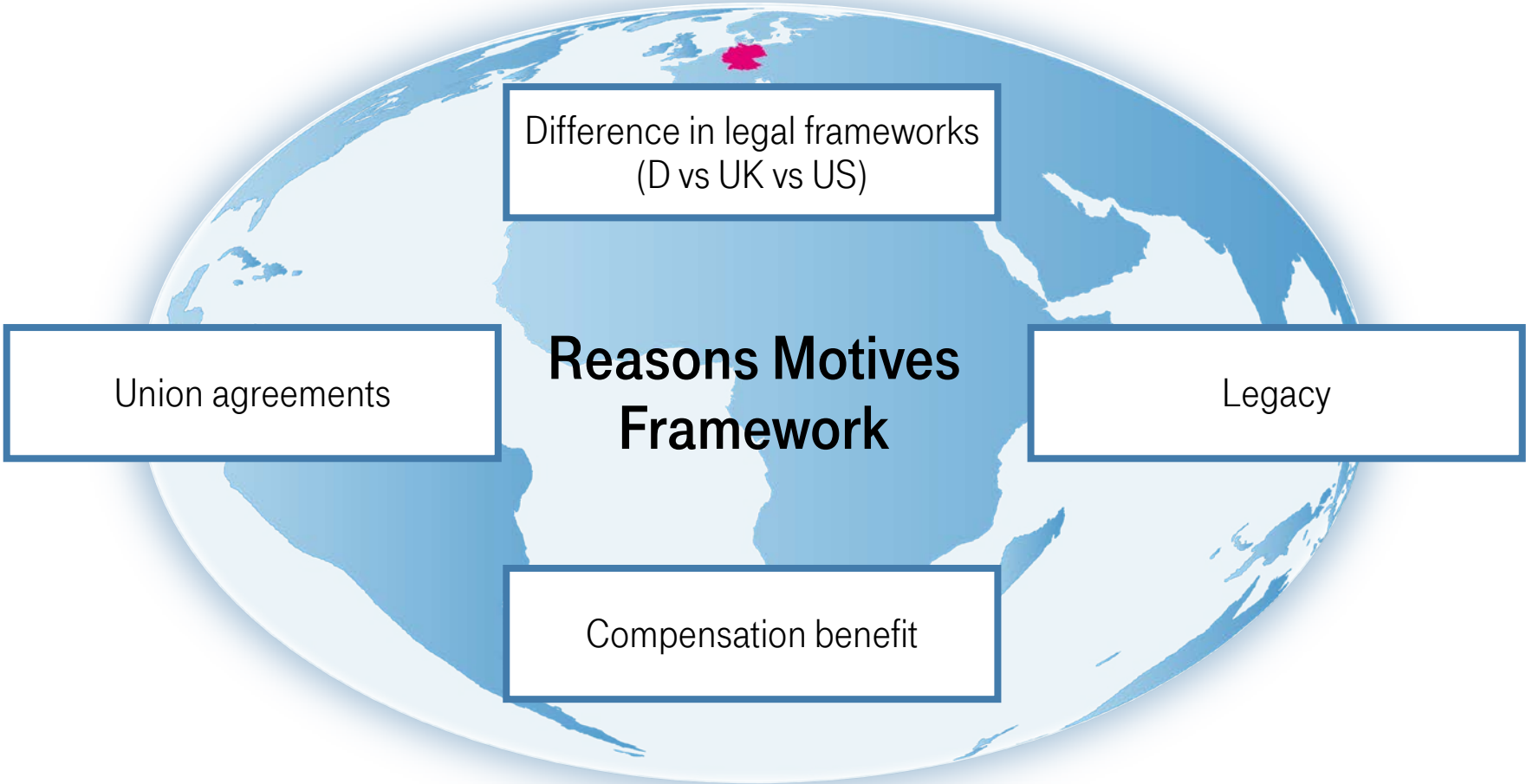
In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, gross debt and net debt. These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



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1. GENERAL REMARKS ON PENSION SCHEMES



2. DT USES DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS

	DEFINED CONTRIBUTION PLANS	DEFINED BENEFIT PLANS
Applied for	<ul style="list-style-type: none"> German civil servant pensions, US 401k plans, most Eastern EU countries 	<ul style="list-style-type: none"> All other plans (e.g. Germany, Switzerland, Greece, partly UK)
Risk	<ul style="list-style-type: none"> Obligation limited to the amount of fixed contributions paid to a fund – no future payment obligation Risks (actuarial, investment) fall on the employee No liability 	<ul style="list-style-type: none"> Present value of future payment obligation is subject to certain parameters and can change Risks fall to the employer (actuarial + investment) Liability
Balance sheet	<ul style="list-style-type: none"> No recognition 	<ul style="list-style-type: none"> Recognition of the pension obligation, discounted to its present value (DBO) and adjusted for existing plan assets
Profit & Loss	<ul style="list-style-type: none"> Contributions are expensed as staff costs in the period the service is rendered 	<ul style="list-style-type: none"> Net pension expense (service + interest costs – income from plan assets) as staff/finance costs is accrued
Cash Flow	<ul style="list-style-type: none"> Contributions = Cash Outflow 	<ul style="list-style-type: none"> Cash payments into plan assets Cash payout to retired employees against accrual or plan assets

DEFINED CONTRIBUTION PLANS ▶ No Liability and not recorded as balance sheet item!

DEFINED BENEFIT PLANS ▶ Liability and recorded as balance sheet item!



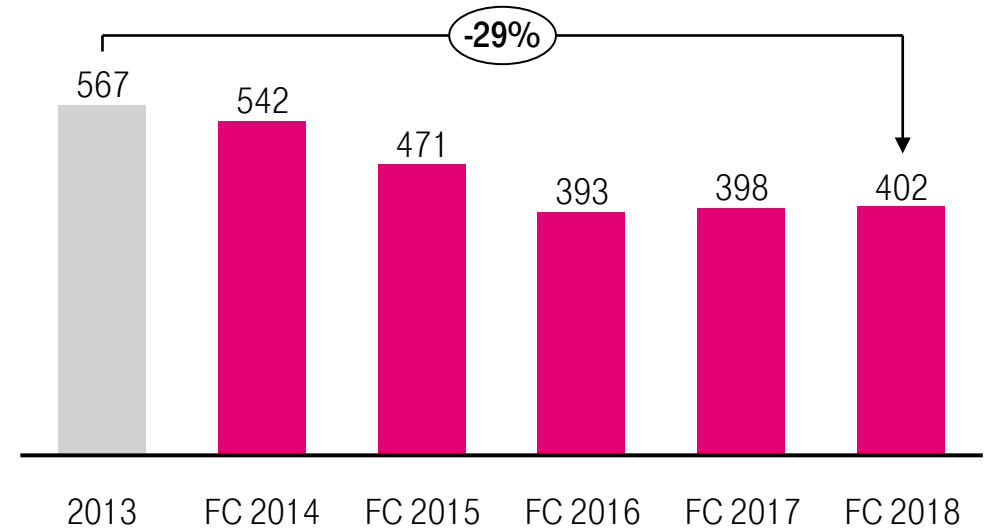
2. DEFINED CONTRIBUTION EXAMPLE: GERMAN CIVIL SERVANT PENSION PLAN

GERMAN CIVIL SERVANTS

- Civil servants included 2013: app. 42.000 FTE
- Annual contribution of 33% of the gross annual salary to the civil servants pension fund (Postbeamtenkasse)
- Annual expenses reported as personnel expenses
- P&L expenses = cash outflow
- No liability, not recorded as balance sheet item
- Potential deficits are compensated by the Federal Government

CASH OUTFLOW FOR GERMAN CIVIL SERVANTS

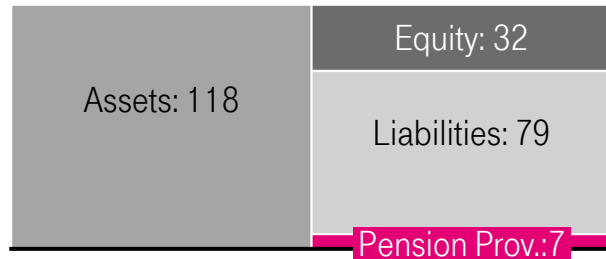
€ million



2. MAJORITY OF DEFINED BENEFIT PLANS COME FROM GERMANY

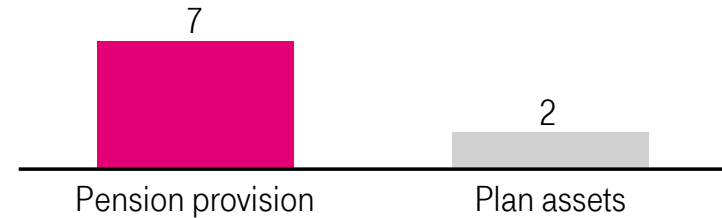
PENSION PROVISION IN BALANCE SHEET: € 7 BN

€ billion



NPV OF ALL DEFINED BENEFIT RELATED ITEMS: APP. € 9 BN

€ billion



REGIONAL SPLIT OF € 7 BN PENSION LIABILITY

€ million	Germany	Switzerland	Greece	Others	Total
Defined benefit obligation	8,254	185	259	267	8,965
Plan assets at fair value	-1,627	-161		-185	-1,973
Net defined benefit liability	6,627	24	259	82	6,992

- Present value of future payment obligation (Defined Benefit Obligation (DBO)) is basis for provision in balance sheet
- DBO is calculated on basis of an actuarial estimate of the future payment obligation
- Plan assets (€ 2 billion) are deducted from the DBO: The result is shown as net provision in balance sheet
- 92% of the DBO stem from Germany

Figures are of 31.12.2013

2. FIXED CONTRIBUTION SYSTEM IN GERMANY LIMITS RISKS

GERMAN EMPLOYEES

- Employees included: 95.000 active and 40.000 retirees
- Annual salary-linked fixed contributions: Contribution factor of 2.5%
- Guaranteed interest rate currently at 3,75% p.a – reflected in the so-called age factor
- Insurance (Pensionssicherungsverein) covers risk of insolvency

EXAMPLE OF AN ANNUAL EMPLOYEE BENEFIT

Employee A: 50 years of age, annual salary of 50,000 €

$$50,000 * 2.5\% \text{ (Contribution factor)} = 1,250 \text{ €}$$

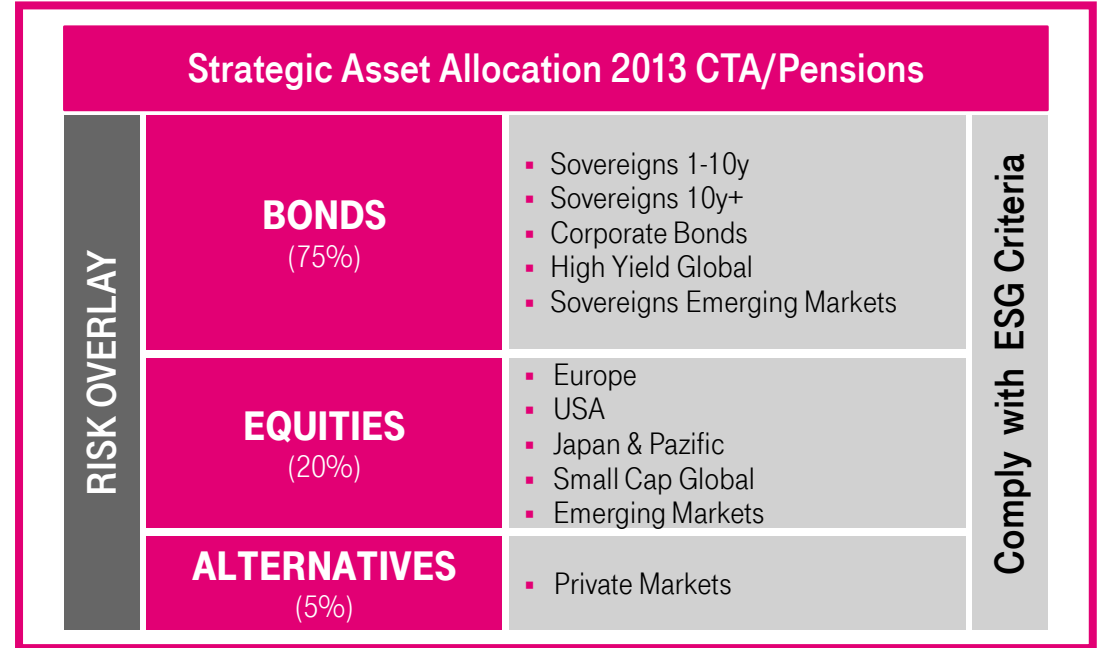
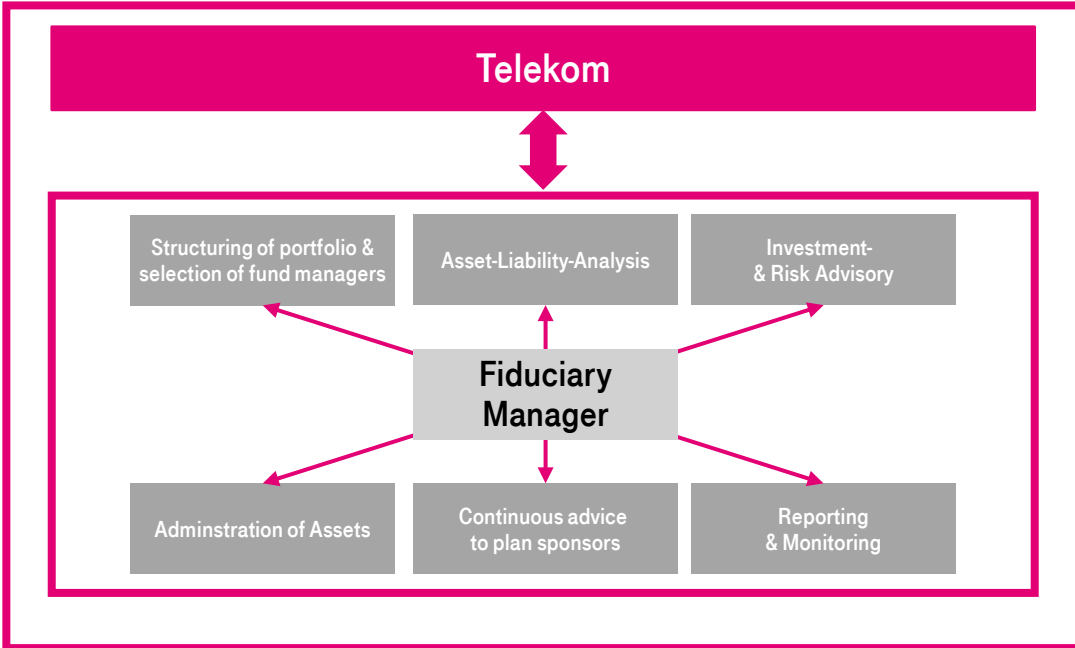
$$1,250 \text{ €} * 1.58 \text{ (Age factor)} = 1,975 \text{ €}$$

$$\text{Amount Credited:} = 1,975 \text{ €}$$



3. FUNDING OF DBO VIA PLAN ASSETS

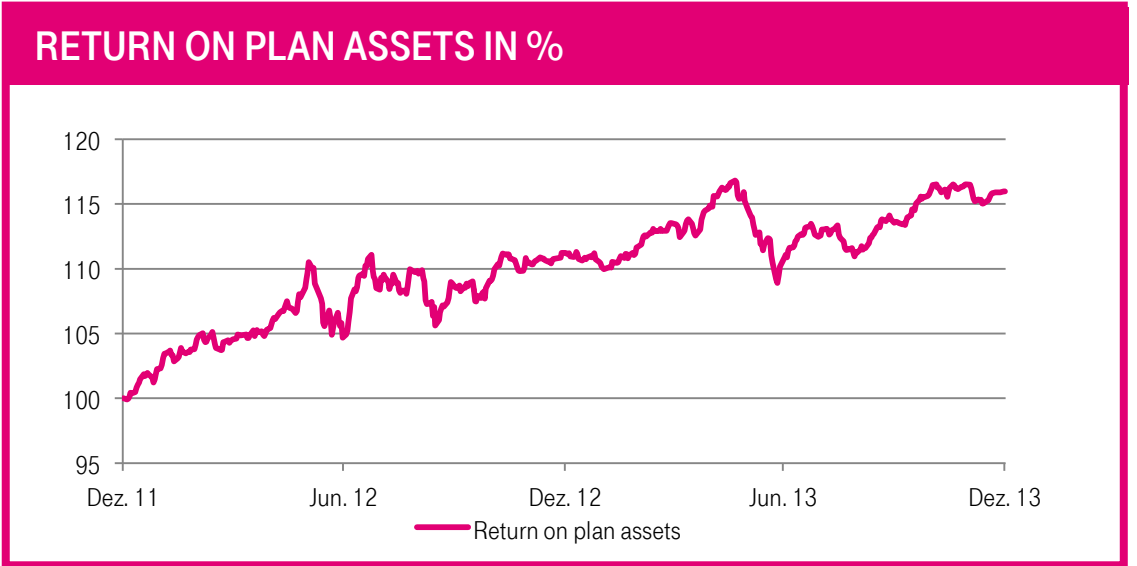
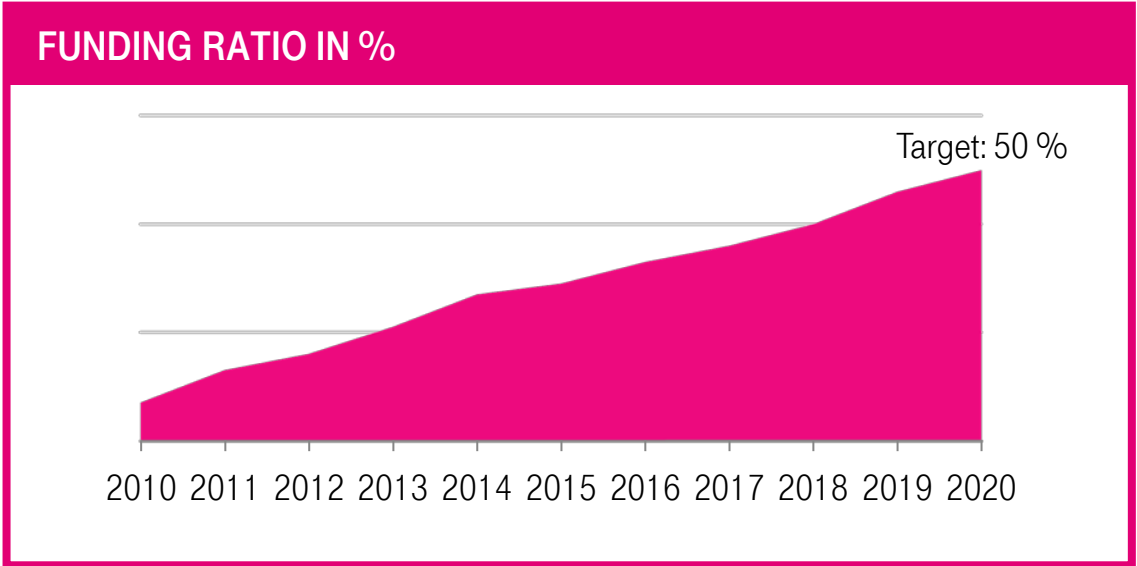
3. CONTROL AND PROTECT FUNDING RATIO IS KEY INVESTMENT OBJECTIVE



Asset management principles

- Investment objective → Improvement of funding ratio
- Risk Management → Control and protect funding ratio

3. DT TARGETS FUNDING RATIO OF 50%

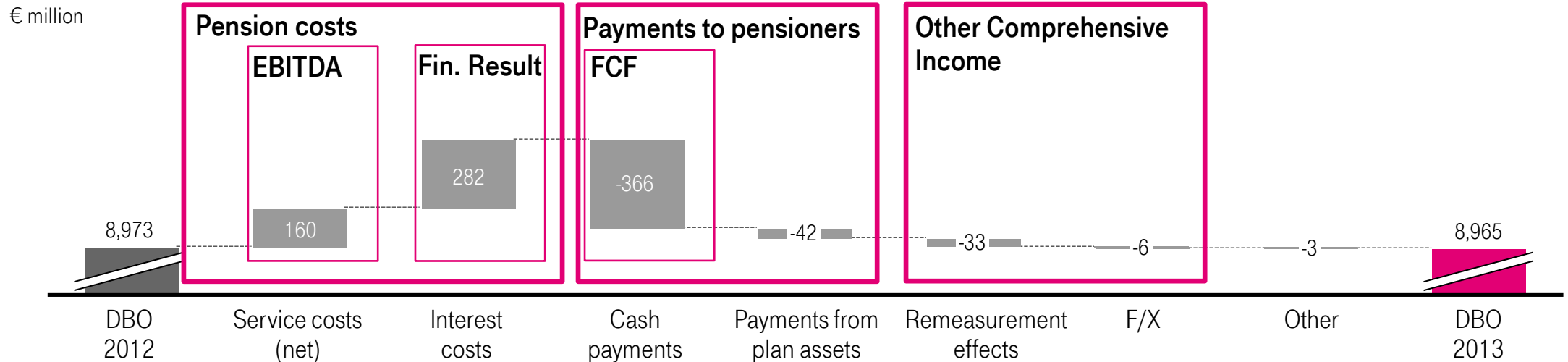


- Funding of plan assets in Germany is entirely voluntary
- Nevertheless Deutsche Telekom will fund approx. 50% of the German DBO until 2020, annual funding of at least €250 million
- 2013 return on assets of 4.6%

4. ACCOUNTING TREATMENT

4. ALMOST EVEN BALANCE BETWEEN PENSION COSTS AND CASH OUTFLOWS

DEVELOPMENT OF DEFINED BENEFIT OBLIGATION IN 2013

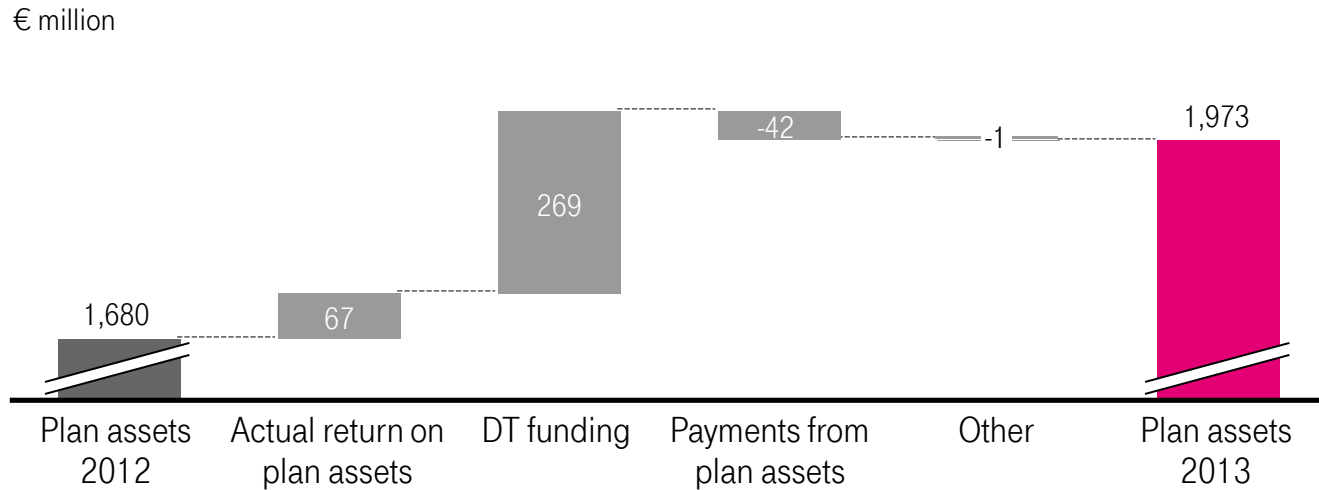


- Pension costs in 2013: 388 million €
 - 160 million € in EBITDA
 - 228 million € in financial result =
 - 282 million € interest costs
 - -54 million € expected return on plan assets
- Cash payments in 2013: 408 million €
 - 366 million € paid against provision (incl. in free cash flow)
 - 42 million € paid through plan assets (not incl. in free cash flow)



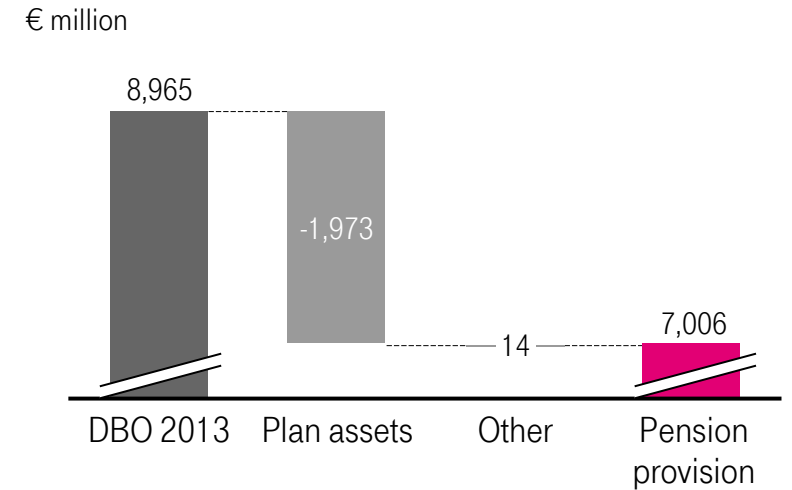
4. FUNDING IS MAJOR DRIVER OF PLAN ASSETS

DEVELOPMENT OF PLAN ASSETS IN 2013



- DT Funding in 2013: 269 million €
 - Included in cash flow statement in line: “Cash outflows for non-current financial assets”

FROM DBO TO PROVISION IN BALANCE SHEET



5. SENSITIVITY ANALYSIS

5. DISCOUNT RATE IS STRONGEST SENSITIVITY FACTOR

ASSUMPTIONS FOR THE MEASUREMENT OF DEFINED BENEFIT OBLIGATIONS FOR GERMANY¹⁾

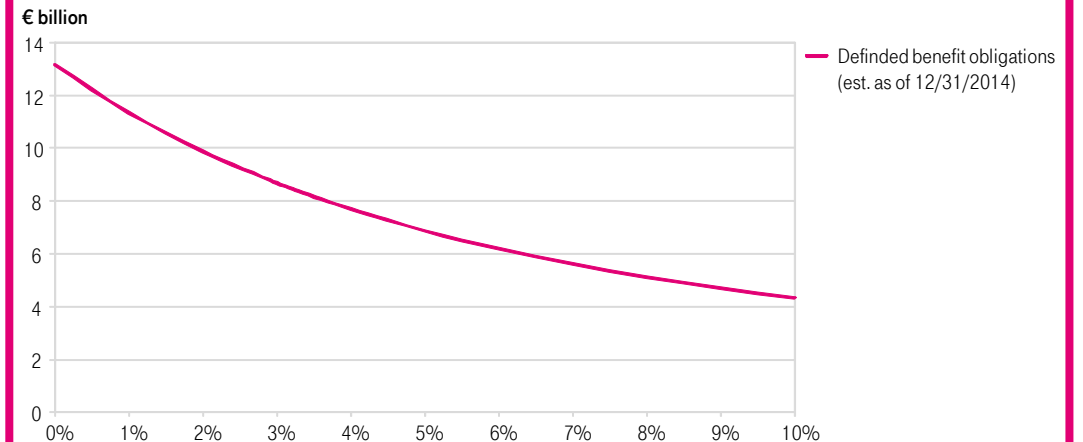
%	2013	2012	2011	2010
Discount rate	3,29	3,26	5,31	5,16
Salary increase rate (pay-scale employees)	2,75	2,75	2,75	3,25
Pension increase rate (general)	1,50	1,50	1,50	1,50

SENSITIVITY ANALYSIS FOR THE DEFINED BENEFIT OBLIGATIONS FOR GERMANY AS OF DEC. 31, 2013

€ million	change in liability
Increase/decrease of discount rate by 100 basis points	(950)/1.160
Increase/decrease of salary increase rate by 50 basis points	7/(6)
Increase/decrease of pension increase rate by 25 basis points	5/(5)
Life expectancy increase/decrease by 1 year	185/(191)

1) Assumptions in the respective year for future years

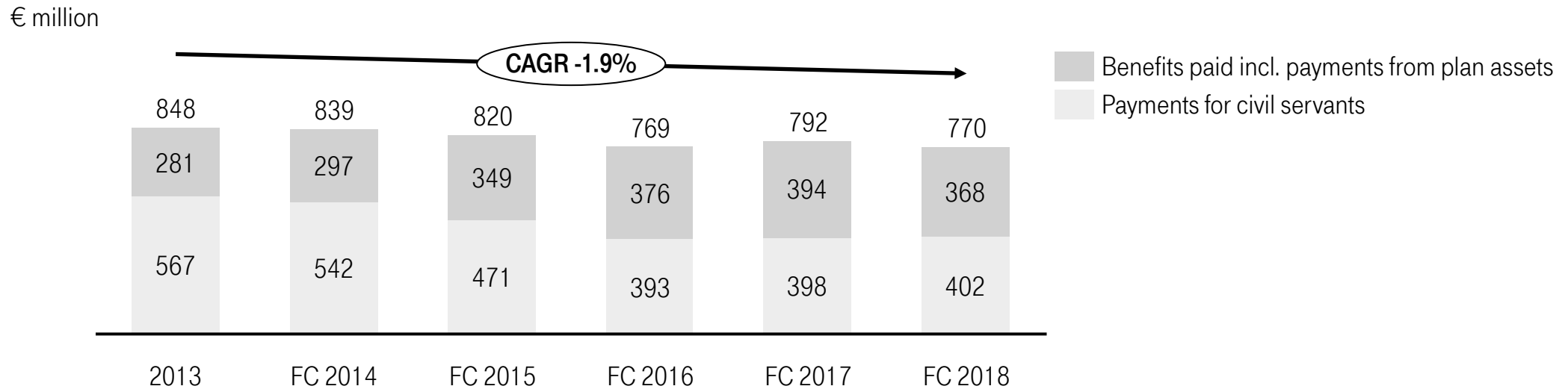
SENSITIVITY TO DISCOUNT RATE



6. OUTLOOK

6. DT WITH DECREASING PENSION CASH OUTFLOWS

HISTORIC AND EXPECTED CASH OUTFLOWS FOR PENSIONS IN GERMANY



7. WRAP UP

7. KEY TAKEAWAYS

DEFINED CONTRIBUTION PLANS

- Defined contribution plans schemes do not constitute a liability

GERMAN DEFINED BENEFIT PLANS

- Different to international standards no funding required by law – unlike BT
- Introduction of fixed contribution model in Germany limits volatility of the DBO predominantly to discount rate

FUNDING

- 50% funding ratio targeted in Germany to further de-risk Deutsche Telekom
- Conservative funding approach: target is not to maximize absolute return but to protect funding ratio

CASH OUTFLOWS

- Pension cash outflows in Germany will decrease over time



Q&A

FURTHER QUESTIONS

PLEASE CONTACT THE IR DEPARTMENT

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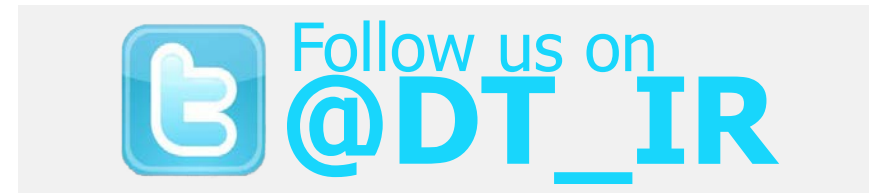
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