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Deutsche Telekom AG

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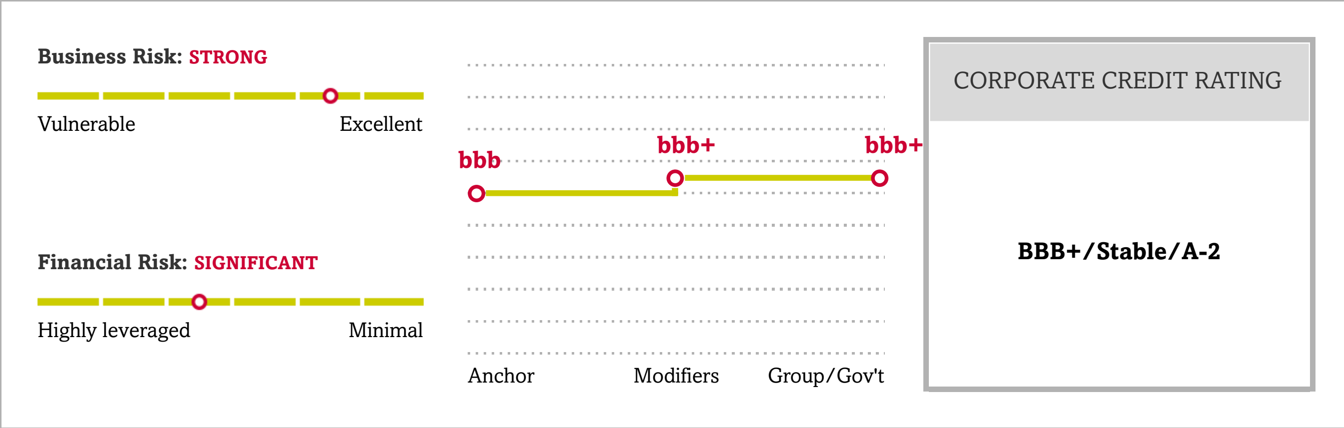

Rationale

Business Risk: Strong	Financial Risk: Significant
• Leading market position and solid margins in Germany, a mature but stable service area. • Diverse footprint of fixed and mobile operations across Europe, mostly with leading market positions. • Strong operating trends and improved market position of T-Mobile U.S. • Intense competition in a number of markets and segments, mitigated by continued significant cost cutting. • TMUS' moderate scale, which will likely result in competitive hurdles in the U.S. market in the long term.	• High S&P Global Ratings-adjusted financial leverage for the current rating level. • Clearly defined and predictable financial policy. • Free operating cash flow constrained by spectrum spending in the U.S. in 2017, high restructuring costs, and substantial capital expenditures for network investments. • Shareholder payouts linked to free cash flow before spectrum costs, partially cushioned by the scrip dividend offer in 2017.

Outlook: Stable

The stable outlook on German incumbent telecommunications service provider Deutsche Telekom AG (DT) reflects S&P Global Ratings' expectations that:

- DT will successfully defend its domestic market positions in mobile and fixed broadband, further stabilize its service revenue trends, and trim its cost base, supporting stable or moderately growing EBITDA in Germany.
- Strong operating trends at subsidiary T-Mobile U.S. (TMUS) will continue, with EBITDA growth in U.S. dollar terms and, as adjusted by DT, of about 9%-11% in 2017 and surpassing 6% in 2018, but excluding further uplifts from handset leasing.
- DT remains committed to maintaining leverage (debt to EBITDA) well within its target band of 2.0x–2.5x.
- DT will maintain adjusted debt to EBITDA and funds from operations (FFO) to debt of no higher than 3.5x and at least 23%, respectively, in the next two years.
- DT will strengthen free operating cash flow (FOCF) to debt, before spectrum payments, to more than 10% of adjusted debt in 2018, compared with about 8.4% in 2016.

Downside scenario

We could take a negative rating action if DT's adjusted debt to EBITDA exceeded or remained at 3.5x and if, at the same time, adjusted FFO to debt declined to less than 23% for more than a temporary period, or if adjusted FOCF to debt, before spectrum payments, did not strengthen to about 10% on a sustainable basis by 2018. In particular, this could result from by stiffer-than-expected competition in Germany or the U.S., material debt-funded acquisitions in the U. S. market, or a combination of higher-than-expected restructuring costs and large increases capital expenditures (capex).

Upside scenario

We currently do not foresee a positive rating action on DT within the next 18 months, given its high leverage for the current rating and our base-case assumption of subdued discretionary cash flow (DCF) generation in 2017-2018. We could raise the rating if DT's credit metrics improved markedly, for example as a result of sizable asset disposals, accompanied by the implementation of a financial policy that corresponds to the maintenance of adjusted debt to EBITDA of less than 3.0x and FFO to debt of about 30%, with FOCF to debt rising toward 15% of adjusted debt.

Our Base-Case Scenario

Assumptions

- Revenue growth, excluding exchange-rate effects, of 2%-4% in 2017 and 2018, thanks to strong service revenue growth at TMUS, flat revenues in Germany, and improved trends in Europe mainly from 2018, compared with 5.6% in 2016.
- EBITDA margins for the group, as adjusted by DT, gradually expanding within the 29%-31% range in the next two years, fueled by margin expansion in the U.S. and supported by cost optimization efforts in Germany and Europe, after 29.3% in 2016.
- Capex, excluding spectrum costs, increasing to about 15%-16.5% of revenues in 2017-2018 after 15% in 2016, linked in particular to fixed network upgrades in Germany and 4G network build-out in the U.S., and capex to sales including spectrum costs of 25.5%–27.0% in 2017.
- Dividends moving in line with DT's measure of free cash flow, with payouts in 2017 partly reduced by its scrip dividend offer.

Key Metrics

	2016a	2017f	2018f
EBITDA margin (%)*	29.3	29–30.5	29–31
Debt/EBITDA (x) §	3.3	3.2–3.4	3.0–3.3
FFO/debt (%)§	24.4	24-26	26-28
FOCF/debt before spectrum (%)§†	8.4	9-11	10-12
FOCF/debt (%)§†	4.8	(1)–2	8—10

a--Actual. f--Forecast. *As adjusted by DT. §S&P Global Ratings' adjusted ratios after captive finance adjustments. †FOCF--Free operating cash flow; defined as cash flow from operations after capital expenditures.

Company Description

Germany-headquartered DT is one of the world's largest telecommunications operators. Mainly offering fixed and mobile telecommunication services, DT's corporate structure comprises the following divisions: Germany (37.8% of company-adjusted EBITDA in 2016, including the segment System Solutions and Group Headquarters), the U.S. (40%), Europe (18%, including about 5.2% from Greece), and, since 2017, a new segment Group Development (4.4%), which includes, among others, DT's operations in the Netherlands and its tower business in Germany. As of March 31, 2017, DT's largest shareholder was the Federal Republic of Germany (unsolicited AAA/Stable/A-1+), which has a 14.5% direct stake and a further 17.5% indirect stake through the German government-owned bank KfW (AAA/Stable/A-1+).

Business Risk: Strong

Our view of DT's business risk continues to be supported by the group's strong market position in both fixed-line and mobile telecoms markets in Germany. Despite intense competition from cable operators and other players using DT's network wholesale products, as of the first quarter of 2017 the group still maintains a leading subscriber market share of about 40% in fixed broadband Internet and is the market leader in mobile service revenues among the three German mobile network operators, with a share of about 37% (data according to DT's estimates). DT also has solid domestic EBITDA margins before restructuring costs of about 37%-39% historically and in our forecast for 2017–2019 (excluding the group's tower business which it moved to a new segment). The margins benefit from ongoing

cost-saving measures, such as initiatives to reduce employee costs and overhead, and the migration to fully Internet Protocol-based networks. In addition, DT is improving its value proposition in Germany, with substantial investments to increase fixed-line broadband speeds and to extend coverage of fourth-generation (4G) mobile technology. As of the first quarter of 2017, DT's 4G mobile network covered 93% of the German population, compared with 90% for competitor Vodafone and 79% for Telefonica O2. The group targets 80% household coverage with broadband download speeds of at least 100 Mbps by 2018 (66% as of March 31, 2017), excluding additional investments that are likely to be made with the help of subsidies from the federal government.

In our opinion, DT's business risk is supported by its large and diversified international operations in Europe and the U.S. As of March 31, 2017, DT served about 72.6 million mobile customers through its subsidiary TMUS, and its European operations had about 51.1 million mobile subscribers, 5.4 million broadband retail customers, and 4.1 million TV customers. DT's European subsidiaries are usually among the top two mobile operators in a given market.

We think that after achieving a net gain of more than 8 million own-branded postpaid customers in the past 24 months, as of the first quarter of 2017, TMUS has strengthened its competitive position in the U.S, ranking third among U.S. mobile players in terms of subscribers ahead of Sprint. As a result of record subscriber and service revenue growth, TMUS also managed to expand its historically low EBITDA margins, with EBITDA excluding spectrum gains and the effects of handset leasing plans reaching about 30% of mobile service revenues in 2016, compared with about 25% in 2014. In spite of this operating success, we think some uncertainty remains with respect to its ability to compete with larger U.S. rivals Verizon Wireless and AT&T over the long term. The two rival operators divide between themselves about 71% of U.S. mobile service revenues and about 95% of all of U.S. mobile carriers' combined free cash flow generation (based on data for 2016).

Our assessment of DT's business risk is partly balanced by continued intense competition in a number of DT's service areas, putting a strain on revenues and EBITDA in certain European markets, which is compounded by regulatory headwinds such the phasing out of retail roaming charges in mobile. In Germany, DT continues to be exposed to fierce competition from cable operators for fixed-line telephony, broadband, and TV services. In our view, this could lead to an incremental weakening of DT's market position in the fixed-line segment in the medium term. In addition, DT's profitability remains constrained by continued meaningful restructuring and early retirement-related costs outside the U.S. of about €2 billion on average in the past three years and the significantly lower profitability of its IT services division, System Solutions. Equally, in our opinion, revenues and earnings of DT's European operations are likely to remain more volatile and vulnerable to economic downturns than those of DT's domestic business. Furthermore, we think that the need for fixed network upgrades and investments in 4G mobile is likely to require substantial levels capex of about 15.0%-16.5% of revenues in our forecast for 2017-2018, excluding spectrum. DT continues to be subject to a range of regulatory obligations associated with its incumbent operator position in Germany, notably obligations to provide access to the local loop and other parts of DT's fixed line infrastructure and to make available certain broadband wholesale access products.

Our Base-Case Operating Scenario

- Germany: Approximately flat revenues in 2017 and 2018, as modest organic growth in broadband, mobile, and TV service revenues--before taking into account any regulatory impact--increasingly compensates for the secular decline landline voice. We expect adverse effects on revenues from the ongoing phaseout of retail roaming and lower fixed-line termination rates in 2017, which will fade in 2018. We forecast EBITDA margins, as adjusted by DT, will improve to 38%-39% in 2017-2018, from 37.8% in 2016, thanks to cost savings and improving service revenue dynamics.
- U.S.: Continued strong subscriber growth driven by "un-carrier initiatives" and entry into new market areas in 2017, gradually slowing from 2018, driving mobile service revenue growth (in U.S. dollars) of 9%-11% in 2017 and more than 5% in 2018. We think EBITDA margins based on service revenues and excluding effects from handset leasing will continue to expand moderately in 2017.
- Europe (excluding Germany and the Netherlands): Revenues shrinking by up to 2.5% in 2017 before stabilizing to between zero and negative 1% in 2018, adversely affected by competition in some markets, as well as by the phaseout of EU retail roaming charges in 2017. We project EBITDA margins, as adjusted by DT, of 32%-33% in 2017–2018, lower than 33.8% in 2016, due to pressure on revenues, coupled with commercial investments.
- Significant restructuring costs of €1.7 billion-€2.0 billion in 2017 and €1.6 billion-€1.9 billion in 2018, compared with €2 billion in 2016.

Peer comparison

DT's financials and adjusted ratios in our peer comparison table below are before S&P Global Ratings' captive finance adjustments. See the Key Metrics table above and the Reconciliation section at the end of this report for discussion of and estimates for adjusted debt to EBITDA and FFO to debt after captive finance adjustments.

Table 1

Deutsche Telekom AG -- Peer Comparison

Industry Sector: Diversified Telecom

(Mil. €)	Deutsche Telekom AG	AT&T Inc.	Telefonica S.A.	Orange S.A.	Vodafone Group PLC
Rating as of May 24, 2017	BBB+/Stable/A-2	BBB+/Watch Neg/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
Fiscal year ended	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	March 31, 2016
Revenues	73,095.0	155,213.1	53,799.0	40,918.0	51,691.6
EBITDA	23,183.0	51,593.4	17,175.5	13,201.0	16,432.5
Funds from operations (FFO)	18,728.7	40,285.9	14,147.6	10,412.9	13,937.6
Net income from cont. oper.	2,675.0	12,296.8	2,369.0	682.0	(5,076.7)
Cash flow from operations	17,145.8	38,146.0	14,577.6	9,556.6	13,247.5
Capital expenditures	13,476.0	20,389.8	9,187.0	8,477.0	14,729.2
Free operating cash flow	3,669.8	17,756.2	5,390.6	1,079.6	(1,481.7)
Discretionary cash flow	2,073.8	6,576.7	2,484.6	(629.9)	(5,545.3)
Cash and short-term investments	7,757.0	5,485.0	6,690.0	6,266.0	18,215.0
Debt	79,613.9	159,327.8	62,832.8	34,716.2	53,059.7

Table 1

Deutsche Telekom AG -- Peer Comparison (cont.)					
Industry Sector: Diversified Telecom					
(Mil. €)	**Deutsche Telekom AG**	**AT&T Inc.**	**Telefonica S.A.**	**Orange S.A.**	**Vodafone Group PLC**
Equity	38,845.0	117,613.8	25,126.0	29,958.5	81,452.7
Adjusted ratios					
EBITDA margin (%)	31.7	33.3	31.9	32.3	31.6
Return on capital (%)	6.5	7.3	8.1	7.5	2.4
EBITDA interest coverage (x)	5.5	6.3	6.2	7.1	6.2
FFO cash interest coverage (x)	6.3	7.8	7.7	8.4	8.9
Debt/EBITDA (x)	3.4	3.1	3.7	2.6	3.2
FFO/debt (%)	23.5	25.3	22.5	30.0	26.1
Cash flow from operations/debt (%)	21.5	24.0	23.2	27.5	24.8
Free operating cash flow/debt (%)	4.6	11.2	8.6	3.1	(2.9)
Discretionary cash flow/debt (%)	2.6	4.2	4.0	(1.8)	(10.6)

Financial Risk: Significant

DT's financial risk continues to reflect its high leverage for the rating level, near- to medium-term pressure on its FOCF due to high investments, and its limited DCF. The group has set a leverage target of 2.0x–2.5x net debt to EBITDA, as per its own definition, and we expect it will adhere to this band with the exception of a few modest and only temporary deviations. However, our credit ratios for DT indicate materially higher leverage, particularly due to our adjustments for the group's sizable operating lease and postretirement benefit obligations, which increased our ratio of adjusted debt to EBITDA by about 1x in 2016. Furthermore, we expect DT will continue to incur significant restructuring costs that weigh on adjusted EBITDA and FFO. Combined with the group's financial policy, these factors currently make it unlikely that S&P Global-adjusted debt to EBITDA will improve to less 3.0x and FFO to debt will strengthen toward 30% in the next few years. At the same time, our expectation that DT could be ready to partially monetize minority investments or smaller noncore assets if leverage were to move out of its target range for an extended period offers some downside protection to credit metrics.

Aside from the cash cost of the ongoing U.S. low-band spectrum auction, we expect DT's adjusted FOCF will remain constrained by substantial non-spectrum investments of 15%-16.5% of revenues in the next few years, in particular due to extensive network investments in Germany and further 4G network build-out in the U. S. In addition, DT's dividend policy, which sets a dividend floor of €0.50 per share and links distributions to free cash flow before spectrum costs, may additionally weaken DCF, in our view. Still, we acknowledge that in 2017 the impact may be partly mitigated by the continuation of DT's scrip dividend offer, which was taken up for about 41% of eligible shares in the previous year.

We note that our forecast of 2017 and 2018 leverage is enhanced by about 0.2x in aggregate by adjustments made

according to our captive finance criteria (see "The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published Dec. 14, 2015, on RatingsDirect) and by the effects of the accounting treatment for TMUS' handset leasing programs.

Our Base-Case Cash Flow And Capital Structure Scenario

- Strong cash flow from operations of €16.5 billion-€18 billion in 2017 and €17 billion-€18 billion in 2018, benefiting from lower cash interest, but held back by working capital needs at TMUS, after €15.6 billion in 2016.
- Capex, excluding spectrum costs, of €11 billion-€12.5 billion per year in 2017-2018, compared with €11 billion in 2016.
- $8 billion costs for spectrum acquired in the U.S. low-band auction in April 2017, plus moderate ongoing spectrum costs in Europe.
- Dividends growing in line with DT's measure of free cash flow, which excludes cash spent on spectrum.
- Average U.S. dollar-euro exchange rate of $1.11/€1 in 2017-2018, identical to the exchange rate used by DT in its guidance.

Financial summary

DT's financials and adjusted ratios in our financial summary table below are before S&P Global Ratings' captive finance adjustments. See the Key Metrics table above and the Reconciliation section at the end of this report for discussion of and estimates for adjusted debt to EBITDA and FFO to debt after captive finance adjustments.

Table 2

Deutsche Telekom AG -- Financial Summary

Industry Sector: Diversified Telecom

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenues	73,095.0	69,228.0	62,658.0	60,132.0	58,169.0
EBITDA	23,183.0	22,414.7	19,822.0	19,325.6	20,033.5
Funds from operations (FFO)	18,728.7	18,280.7	15,484.3	15,423.8	16,031.1
Net income from continuing operations	2,675.0	3,254.0	2,924.0	930.0	(5,255)
Cash flow from operations	17,145.8	15,861.7	14,982.3	14,478.8	14,856.0
Capital expenditures	13,476.0	14,396.0	11,749.0	11,017.0	8,405.0
Free operating cash flow	3,669.8	1,465.7	3,233.3	3,461.8	6,451.0
Discretionary cash flow	2,073.8	209.7	1,943.3	1,218.8	3,051.0
Cash and short-term investments	7,757.0	9,774.0	7,812.0	8,280.0	4,026.0
Debt	79,613.9	76,447.7	70,322.4	64,488.3	60,355.9
Equity	38,845.0	38,155.0	34,071.0	32,063.0	30,509.0
Adjusted ratios					
EBITDA margin (%)	31.7	32.4	31.6	32.1	34.4
Return on capital (%)	6.5	8.0	7.0	7.7	7.3
EBITDA interest coverage (x)	5.5	5.4	4.8	5.3	5.3
FFO cash interest coverage (x)	6.3	6.1	5.6	6.3	6.4

Table 2

Deutsche Telekom AG -- Financial Summary (cont.)					
Industry Sector: Diversified Telecom					
	--Fiscal year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Debt/EBITDA (x)	3.4	3.4	3.5	3.3	3.0
FFO/debt (%)	23.5	23.9	22.0	23.9	26.6
Cash flow from operations/debt (%)	21.5	20.7	21.3	22.5	24.6
Free operating cash flow/debt (%)	4.6	1.9	4.6	5.4	10.7
Discretionary cash flow/debt (%)	2.6	0.3	2.8	1.9	5.1

Liquidity: Adequate

We assess DT's liquidity as adequate based on our expectation that the ratio of liquidity sources to uses will exceed 1.2x in the 12 months started April 1, 2017. In addition, we assess DT's standing in capital markets as high and its financial risk management as very prudent. DT also has well-established, solid relationships with its banks.

Principal Liquidity Sources

As of April 1, 2017, we estimate that principal liquidity sources over the ensuing 12 months include:

- Cash and liquid investments of about €9.5 billion.
- Available committed credit facilities totaling €12.9 billion, with an initial term of 36 months. After 12 months, the agreements can be extended by a further 12 months to restore the maturity of 36 months.
- Sizable FFO of about €17.5 billion-€18.5 billion.
- €0.56 billion of inflows from the sale of web-hosting provider Strato.
- About €1.9 billion proceeds from the issuance of bonds and from new loans since April 1, 2017.

Principal Liquidity Uses

For the same time period, we estimate that principal liquidity uses include:

- Scheduled debt maturities, including commercial paper and finance leases, of about €2.2 billion.
- About €6.3 billion of bonds called by TMUS.
- Substantial capex, including spectrum payments, of €17 billion-€18.5 billion, after netting capex with about €2 billion of collateral already paid at the outset of the U.S. spectrum auction.
- Dividend payments of up to €2.8 billion in 2017, likely reduced by the renewal of DT's scrip dividend offer.
- Moderate working capital needs and pension contributions of up to a total of about €1 billion.

Debt maturities

As of March 31, 2017, and including bonds and term loans (bil. €)

- 2017: €6.8 billion, including bonds called by TMUS
- 2018: €2.1 billion
- 2019: €5 billion
- 2020: €4.2 billion
- 2021: €5.1 billion

- 2022: €5 billion
- 2023: €6.4 billion
- 2024: €3.9 billion
- 2025: €2.6 billion
- 2026: €1.9 billion
- 2027: €3 billion
- After 2027: €8.3 billion

Other Credit Considerations

The rating on DT continues to benefit from a one-notch uplift to reflect the group's predictable and measured financial and acquisition policy, its consistent strategy and execution, and our assessments of its management and governance as strong. In addition, we view DT's main service areas, Germany and the U.S., as more resilient than those of its main European peers.

Government Influence

We do not factor in any support from the German government into our rating on DT. This is because we consider that there's a low likelihood that Germany, which directly and indirectly controls about 32% of DT's common shares, would provide timely and sufficient extraordinary government support to DT in the event of financial distress.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)

- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile

- **Related government rating:** AAA
- **Likelihood of government support:** Low (no impact)

Reconciliation

DT includes in its reported debt certain obligations it categorizes as "other interest-bearing liabilities" and "other non-interest-bearing liabilities," amounting to about €1.8 billion and €2 billion, respectively, as of Dec. 31, 2016. We do not treat some of these liabilities as debt, such as cash collateral received in connection with derivative transactions. Removing these items reduced our adjusted debt for the group by about €1.8 billion at year-end 2016.

DT employs fair value hedging for certain fixed-interest securities and hedges parts of the exchange-rate risk associated with debt denominated in foreign currencies. We adjust debt reported under fair-value hedge accounting to reflect the amortized cost method. We also adjust the reported amount of foreign-currency-denominated debt to reflect the actual amount required for repayment as a result of the exchange rate being locked in by way of hedging.

For purposes of computing surplus cash, we reduce DT's reported cash and cash equivalents (about €7.4 billion at Dec. 31, 2016) by the aforementioned cash collateral received in connection with derivatives, which we also subtract from reported debt, as well as by other cash that we think is not immediately and fully available to repay debt. Furthermore, we include in surplus cash liquid and marketable securities reported as "available-for-sale financial assets" in DT's net debt calculation, but exclude "derivative financial assets" and certain items reported within €2.6 billion of "other financial assets."

Off-balance sheet securitization of trade receivables generated in the ordinary course of the telecoms business is an ongoing component of DT's financing strategy. We consider such transactions as being akin to debt financing and reconsolidate them by adding the amount of securitized receivables to debt and total assets. We also neutralize the impact on cash flow from operations by adding or subtracting the net amount of new receivables securitized in any given period.

TMUS offers customers so-called equipment installment plans to finance the cost of their mobile handsets. These plans qualify as captive finance operations under our criteria (see "Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans," published March 30, 2016). In line with our captive finance criteria (see "The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published Dec. 14, 2015), we exclude captive finance operations from DT's consolidated financials. In table 3 below, we do not publish our captive finance adjustments for DT, but we report their impact on selected credit metrics. As of Dec. 31, 2016, our captive finance adjustment resulted in improvements of about 0.1x to adjusted debt to EBITDA and approximately one percentage point to adjusted FFO to debt.

We generally do not adjust our measure of EBITDA for restructuring costs that DT incurs as part of its ongoing

restructuring efforts. However, for 2016, we added back to EBITDA €100 million of costs at TMUS for the decommissioning of the MetroPCS network, because we consider these expenses as truly nonrecurring. We deduct from debt the euro-equivalent of $1 billion mandatory convertible preferred stock issued by TMUS at the balance sheet date, which we consider as having high equity content because the remaining maturity is in less than two years.

Other adjustments relate to our standard adjustments for operating leases, unfunded defined-benefit postretirement obligations, asset retirement obligations, share-based compensation expense, and capitalized interest. In line with our criteria, we view gains and losses on the disposal of businesses (including a €2.6 billion gain on the disposal of DT's stake in EE Ltd. in January 2016) and property, plant, and equipment as nonoperating in nature and remove these items from EBITDA.

DT's financials and adjusted ratios in our reconciliation table below are before S&P Global Ratings' captive finance adjustments. See the Key Metrics table and the discussion above for estimates for adjusted debt to EBITDA and FFO to debt after captive finance adjustments.

Table 3

Reconciliation Of Deutsche Telekom AG Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2016--							
Deutsche Telekom AG reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	64,650.0	29,305.0	22,544.0	9,164.0	2,715.0	22,544.0	15,533.0	13,640.0
S&P Global Ratings' adjustments								
Interest expense (reported)	--	--	--	--	--	(2,715.0)	--	--
Interest income (reported)	--	--	--	--	--	223.0	--	--
Current tax expense (reported)	--	--	--	--	--	(468.0)	--	--
Trade receivables securitizations	3,097.0	--	--	--	97.1	(97.1)	(647.0)	--
Operating leases	14,256.4	--	3,404.0	1,064.5	1,064.5	2,339.5	2,339.5	--
Postretirement benefit obligations/deferred compensation	8,034.0	--	(29.0)	(29.0)	166.0	(195.0)	(100.0)	--
Surplus cash	(6,187.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	164.0	(164.0)	(164.0)	(164.0)
Share-based compensation expense	--	--	255.0	--	--	255.0	--	--
Asset retirement obligations	1,138.2	--	--	--	31.0	(2.7)	184.3	--
Non-operating income (expense)	--	--	--	516.0	--	--	--	--
Non-controlling interest/Minority interest	--	9,540.0	--	--	--	--	--	--
Debt - Derivatives	(2,587.0)	--	--	--	--	--	--	--

Table 3

Reconciliation Of Deutsche Telekom AG Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)								
Debt - Equity component of convertible debt	(948.7)	--	--	--	--	--	--	--
Debt - Other	(1,839.0)	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	(493.0)	(493.0)	--	(493.0)	--	--
EBITDA - Restructuring costs	--	--	100.0	100.0	--	100.0	--	--
EBITDA - Business divestments	--	--	(2,598.0)	(2,598.0)	--	(2,598.0)	--	--
D&A - Impairment charges/(reversals)	--	--	--	471.0	--	--	--	--
Total adjustments	14,963.9	9,540.0	639.0	(968.5)	1,522.6	(3,815.3)	1,612.8	(164.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
Adjusted	79,613.9	38,845.0	23,183.0	8,195.5	4,237.6	18,728.7	17,145.8	13,476.0

PP&E--Property, plant, and equipment. D&A--Depreciation and amortization.

Related Criteria And Research

Related Criteria

- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Rating Each Issue, April 15, 2008

Related Research

- Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans, March 30, 2016

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 24, 2017)

Deutsche Telekom AG	
Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	BBB+
Corporate Credit Ratings History	
29-Nov-2011	BBB+/Stable/A-2
24-Mar-2011	BBB+/Positive/A-2
19-May-2008	BBB+/Stable/A-2
Related Entities	
Deutsche Telekom International Finance B.V.	
Issuer Credit Rating	BBB+/Stable/A-2
T-Mobile USA Inc.	
Senior Secured	BBB-
Senior Unsecured	BB
T-Mobile US Inc.	
Issuer Credit Rating	BB/Developing/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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