WEBINAR
PENSIONS @ DT
1st of September 2014
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 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.
# TABLE OF CONTENT

1. General remarks on pension schemes
2. DTAG Pension schemes
   - Defined contribution and defined benefit
   - Arrangement for the German civil servants as an example of a defined contribution plan
   - Defined benefit plans
3. Funding of DBO via plan assets
4. Accounting treatment
5. Sensitivity analysis
6. Outlook
7. Wrap up
1. GENERAL REMARKS ON PENSION SCHEMES

- Difference in legal frameworks (D vs UK vs US)
- Union agreements
- Legacy
- Compensation benefit
2. DT USES DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS

<table>
<thead>
<tr>
<th>Applied for</th>
</tr>
</thead>
<tbody>
<tr>
<td>German civil servant pensions, US 401k plans, most Eastern EU countries</td>
</tr>
<tr>
<td>Obligation limited to the amount of fixed contributions paid to a fund – no future payment obligation</td>
</tr>
<tr>
<td>Risks (actuarial, investment) fall on the employee</td>
</tr>
<tr>
<td>No liability</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>No recognition</td>
</tr>
<tr>
<td>Contributions are expensed as staff costs in the period the service is rendered</td>
</tr>
<tr>
<td>Contributions = Cash Outflow</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>No recognition</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit &amp; Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions are expensed as staff costs in the period the service is rendered</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions = Cash Outflow</td>
</tr>
</tbody>
</table>

**DEFINED CONTRIBUTION PLANS**

- No Liability and not recorded as balance sheet item!

**DEFINED BENEFIT PLANS**

- Liability and recorded as balance sheet item!

---

**DEFINED CONTRIBUTION PLANS**

- All other plans (e.g. Germany, Switzerland, Greece, partly UK)

- Present value of future payment obligation is subject to certain parameters and can change

- Risks fall to the employer (actuarial + investment)

- Liability

- Recognition of the pension obligation, discounted to its present value (DBO) and adjusted for existing plan assets

- Net pension expense (service + interest costs – income from plan assets) as staff/finance costs is accrued

- Cash payments into plan assets

- Cash payout to retired employees against accrual or plan assets
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

<table>
<thead>
<tr>
<th>Year</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>567</td>
</tr>
<tr>
<td>FC 2014</td>
<td>542</td>
</tr>
<tr>
<td>FC 2015</td>
<td>471</td>
</tr>
<tr>
<td>FC 2016</td>
<td>393</td>
</tr>
<tr>
<td>FC 2017</td>
<td>398</td>
</tr>
<tr>
<td>FC 2018</td>
<td>402</td>
</tr>
</tbody>
</table>

-29%
2. MAJORITY OF DEFINED BENEFIT PLANS COME FROM GERMANY

**PENSION PROVISION IN BALANCE SHEET: € 7 BN**

- **Assets:** €118 billion
- **Equity:** €32 billion
- **Liabilities:** €79 billion
- **Pension Prov.: €7 billion**

**REGIONAL SPLIT OF € 7 BN PENSION LIABILITY**

<table>
<thead>
<tr>
<th>€ million</th>
<th>Germany</th>
<th>Switzerland</th>
<th>Greece</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit obligation</td>
<td>€8,254</td>
<td>€185</td>
<td>€259</td>
<td>€267</td>
<td>€8,965</td>
</tr>
<tr>
<td>Plan assets at fair value</td>
<td>-€1,627</td>
<td>-€161</td>
<td>-€185</td>
<td>-€1,973</td>
<td></td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>€6,627</td>
<td>€24</td>
<td>€259</td>
<td>€82</td>
<td>€6,992</td>
</tr>
</tbody>
</table>

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

- **Pension provision:** €7 billion
- **Plan assets:** €2 billion

- 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% (Contribution factor) = 1,250 €
- 1,250 € * 1.58 (Age factor) = 1,975 €

Amount Credited: = 1,975 €
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

Telekom

- Structuring of portfolio & selection of fund managers
- Asset-Liability-Analysis
- Investment & Risk Advisory
- Administration of Assets
- Continuous advice to plan sponsors
- Reporting & Monitoring

Fiduciary Manager

Strategic Asset Allocation 2013 CTA/Pensions

<table>
<thead>
<tr>
<th>RISK OVERLAY</th>
<th>BONDS (75%)</th>
<th>EQUITIES (20%)</th>
<th>ALTERNATIVES (5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sovereigns 1-10y</td>
<td>Europe</td>
<td>Private Markets</td>
</tr>
<tr>
<td></td>
<td>Sovereigns 10y+</td>
<td>USA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate Bonds</td>
<td>Japan &amp; Pacific</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High Yield Global</td>
<td>Small Cap Global</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sovereigns Emerging Markets</td>
<td>Emerging Markets</td>
<td></td>
</tr>
</tbody>
</table>

Comply with ESG Criteria

Comply with ESG Criteria

Comply with ESG Criteria

Comply with ESG Criteria
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)

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

- DT Funding in 2013: 269 million €
- Included in cash flow statement in line: “Cash outflows for non-current financial assets”
5. SENSITIVITY ANALYSIS
# 5. Discount Rate Is Strongest Sensitivity Factor

## Assumptions for the Measurement of Defined Benefit Obligations for Germany

<table>
<thead>
<tr>
<th>%</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.29</td>
<td>3.26</td>
<td>5.31</td>
<td>5.16</td>
</tr>
<tr>
<td>Salary increase rate (pay-scale employees)</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
<td>3.25</td>
</tr>
<tr>
<td>Pension increase rate (general)</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
</tr>
</tbody>
</table>

## Sensitivity Analysis for the Defined Benefit Obligations for Germany As of Dec. 31, 2013

### Sensitivity to Discount Rate

<table>
<thead>
<tr>
<th>€ million</th>
<th>Change in Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase/decrease of discount rate by 100 basis points</td>
<td>(950)/1.160</td>
</tr>
<tr>
<td>Increase/decrease of salary increase rate by 50 basis points</td>
<td>7/(6)</td>
</tr>
<tr>
<td>Increase/decrease of pension increase rate by 25 basis points</td>
<td>5/(5)</td>
</tr>
<tr>
<td>Life expectancy increase/decrease by 1 year</td>
<td>185/(191)</td>
</tr>
</tbody>
</table>

1) Assumptions in the respective year for future years
6. OUTLOOK
### Historic and Expected Cash Outflows for Pensions in Germany

<table>
<thead>
<tr>
<th>Year</th>
<th>€ million</th>
<th>Payments for civil servants</th>
<th>Benefits paid incl. payments from plan assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>848</td>
<td>281</td>
<td>567</td>
</tr>
<tr>
<td>2014</td>
<td>839</td>
<td>297</td>
<td>542</td>
</tr>
<tr>
<td>2015</td>
<td>820</td>
<td>349</td>
<td>471</td>
</tr>
<tr>
<td>2016</td>
<td>769</td>
<td>376</td>
<td>393</td>
</tr>
<tr>
<td>2017</td>
<td>792</td>
<td>394</td>
<td>398</td>
</tr>
<tr>
<td>2018</td>
<td>770</td>
<td>368</td>
<td>402</td>
</tr>
</tbody>
</table>

CAGR: -1.9%
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

Investor Relations
Phone +49 228 181 - 8 88 80
E-Mail investor.relations@telekom.de

For further information please visit
www.telekom.com/investors

IR webpage: IR twitter account: IR youtube playlist:
THANK YOU!