

# WEBINAR

# PENSIONS @ DT

1<sup>st</sup> of September 2014



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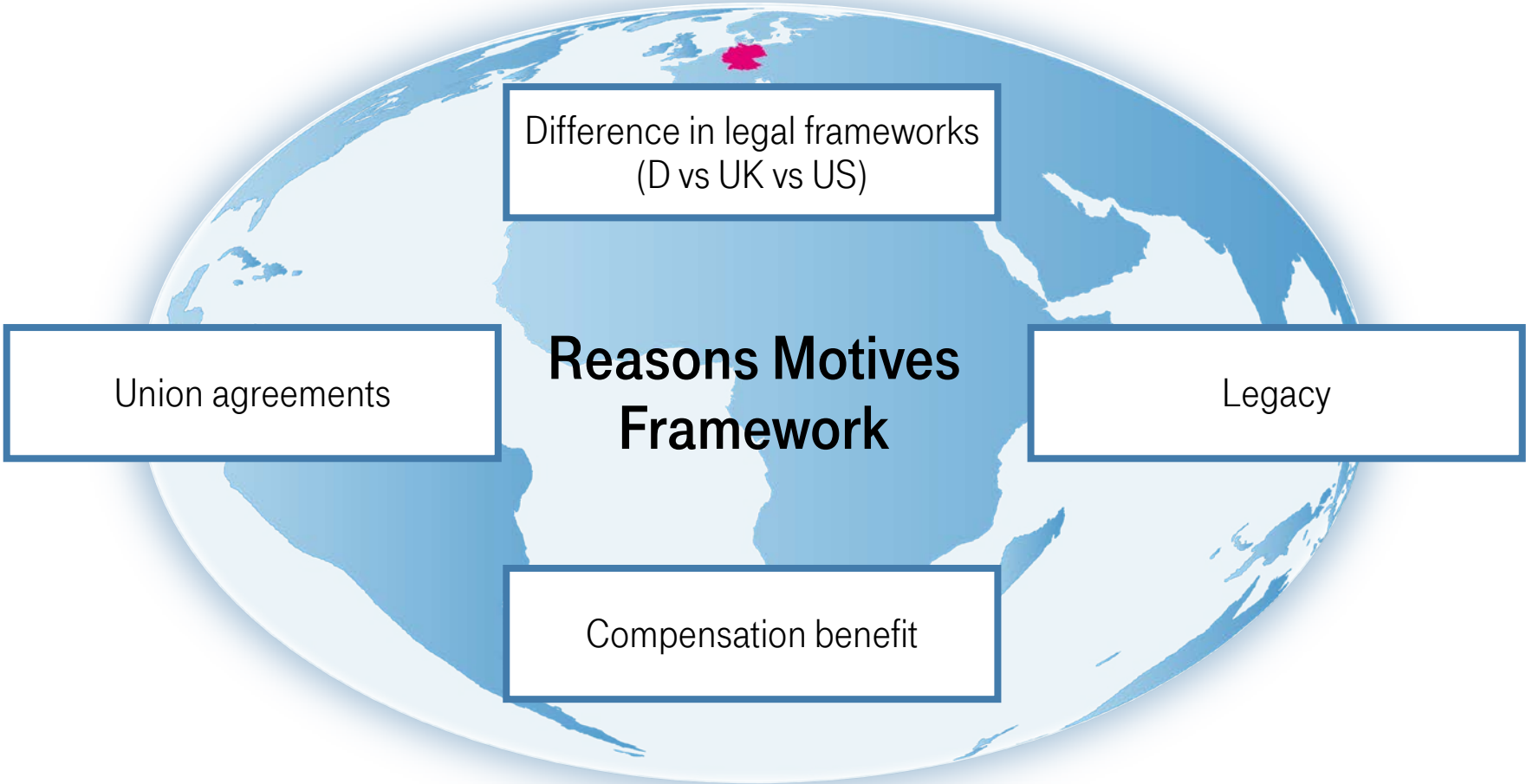
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In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income,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

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

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



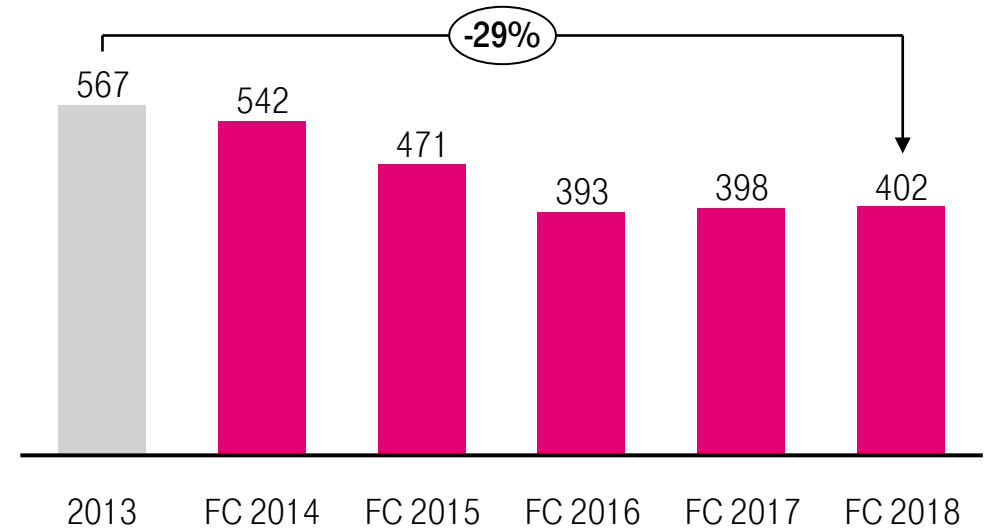
## 2. DEFINED CONTRIBUTION EXAMPLE: GERMAN CIVIL SERVANT PENSION PLAN

### 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

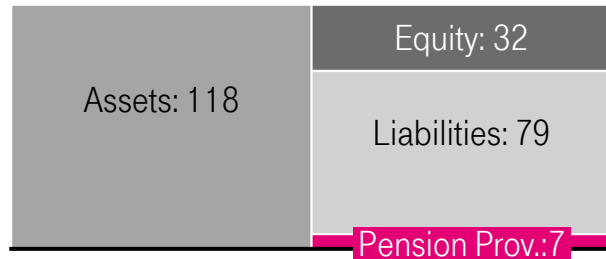
€ million



# 2. MAJORITY OF DEFINED BENEFIT PLANS COME FROM GERMANY

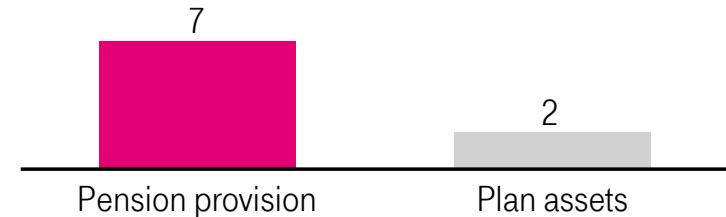
## PENSION PROVISION IN BALANCE SHEET: € 7 BN

€ 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



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# 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 €**

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

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

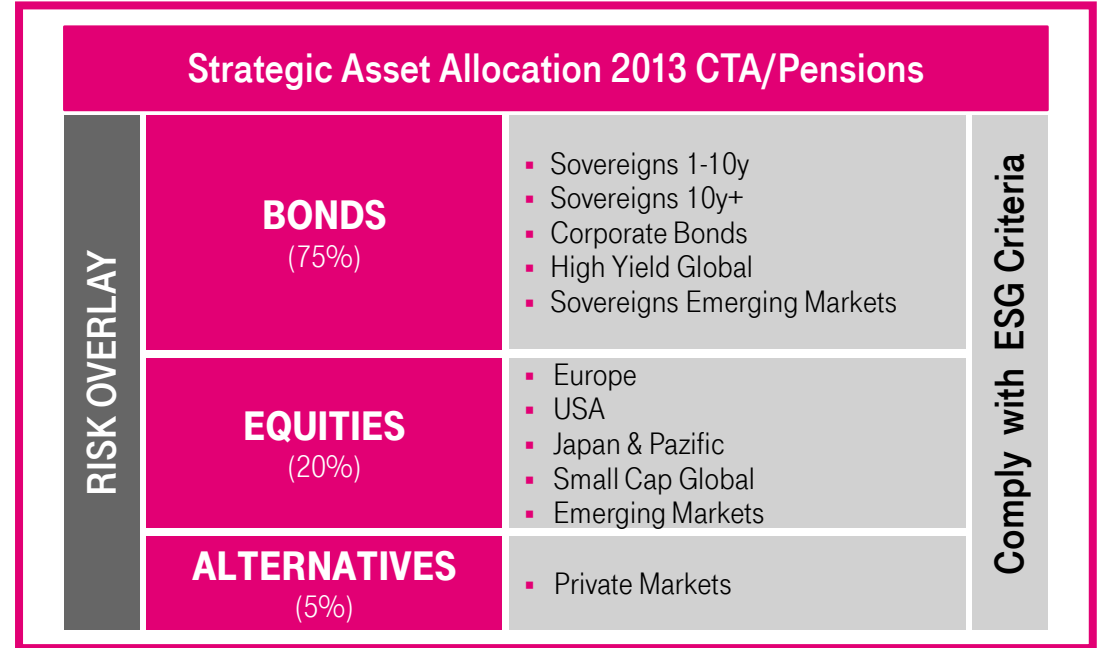
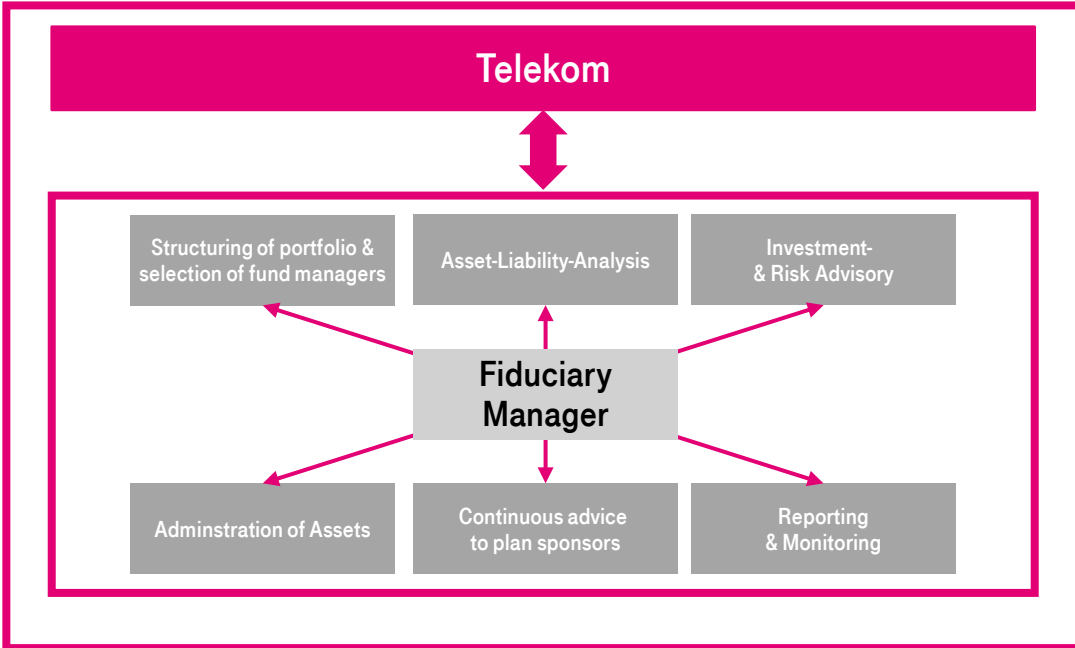
$$\text{Amount Credited:} = 1,975 \text{ €}$$





# **3. FUNDING OF DBO VIA PLAN ASSETS**

# 3. CONTROL AND PROTECT FUNDING RATIO IS KEY INVESTMENT OBJECTIVE



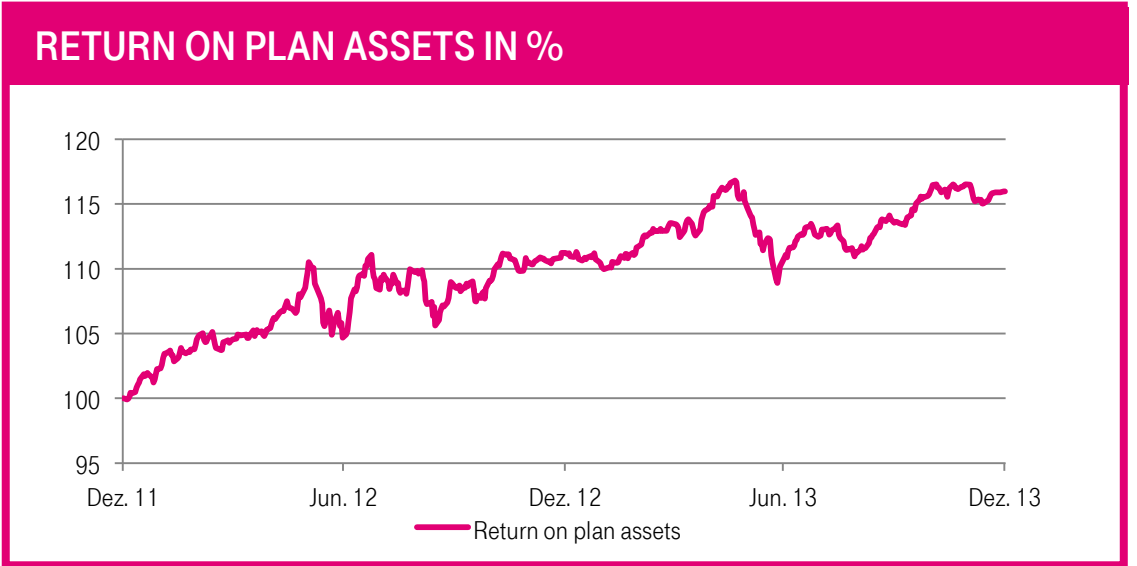
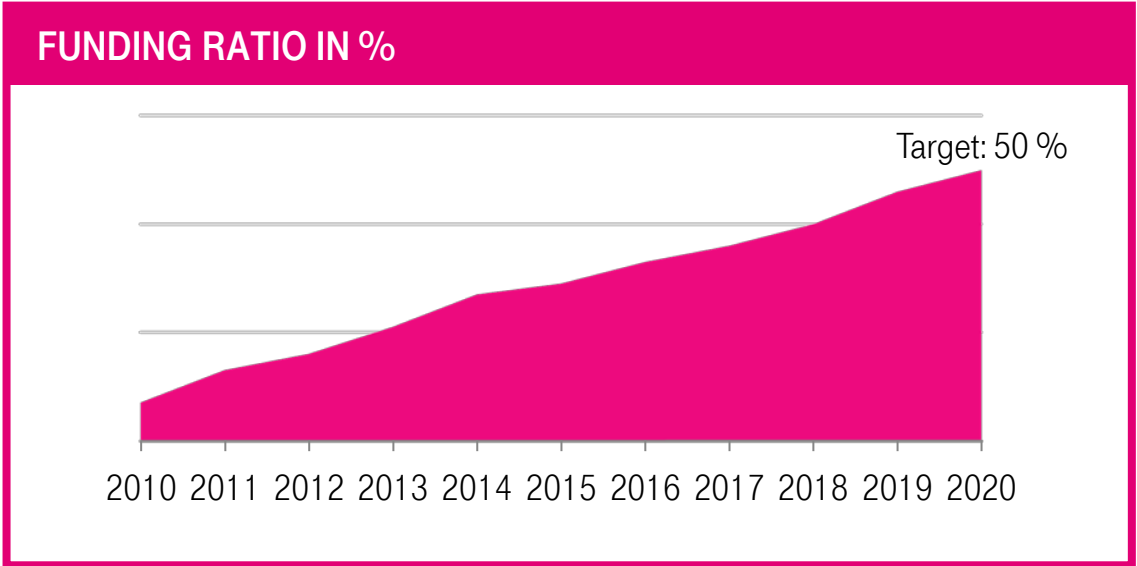
Asset management principles

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



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# 3. DT TARGETS FUNDING RATIO OF 50%

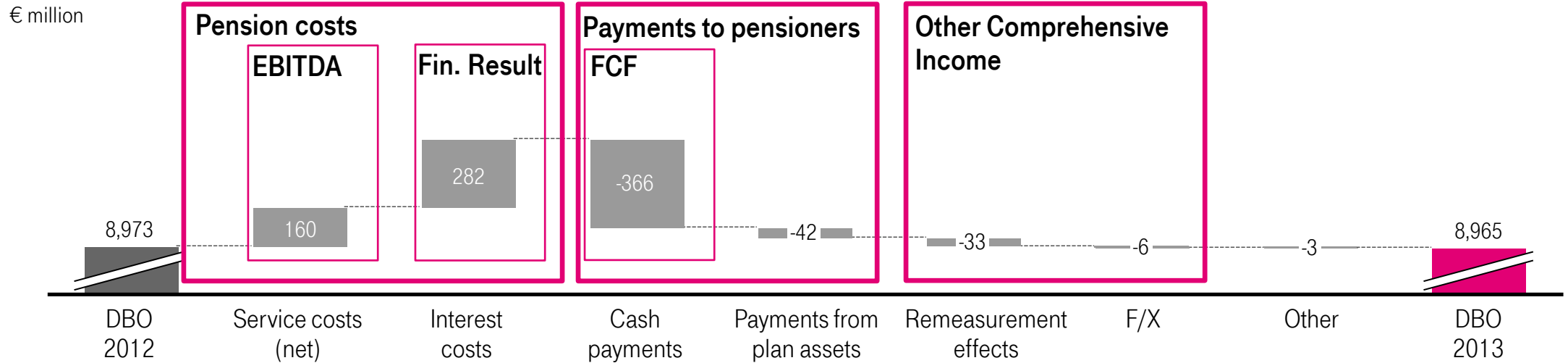


- Funding of plan assets in Germany is entirely voluntary
- Nevertheless Deutsche Telekom will fund approx. 50% of the German DBO until 2020, annual funding of at least €250 million
- 2013 return on assets of 4.6%

# 4. ACCOUNTING TREATMENT

# 4. ALMOST EVEN BALANCE BETWEEN PENSION COSTS AND CASH OUTFLOWS

## DEVELOPMENT OF DEFINED BENEFIT OBLIGATION IN 2013

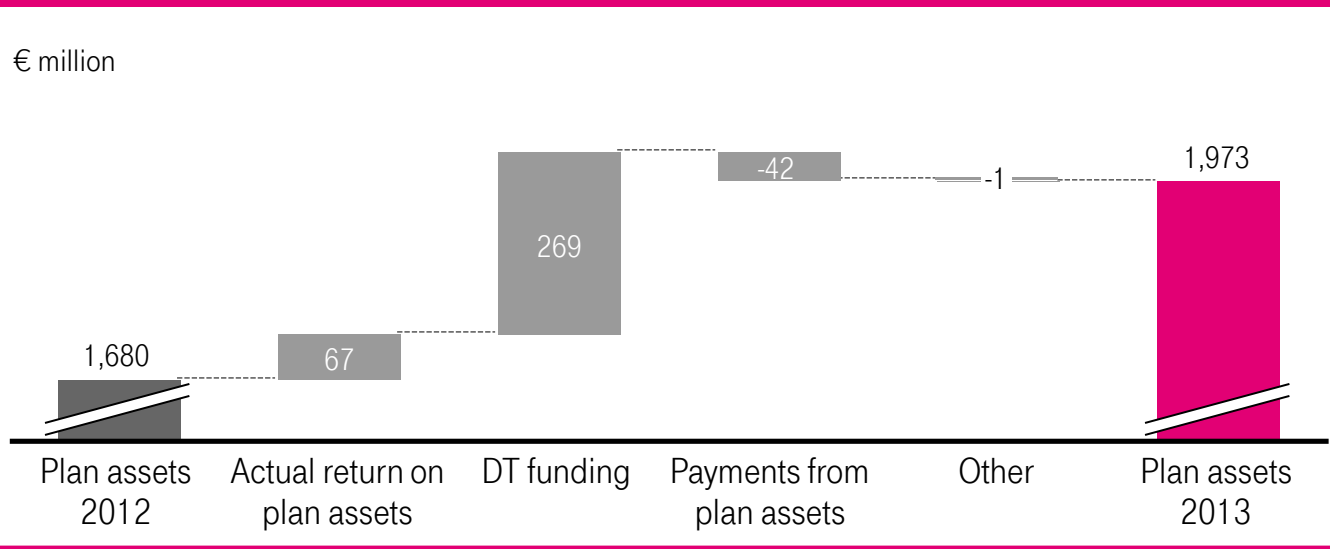


- Pension costs in 2013: 388 million €
  - 160 million € in EBITDA
  - 228 million € in financial result =
    - 282 million € interest costs
    - -54 million € expected return on plan assets
- Cash payments in 2013: 408 million €
  - 366 million € paid against provision (incl. in free cash flow)
 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



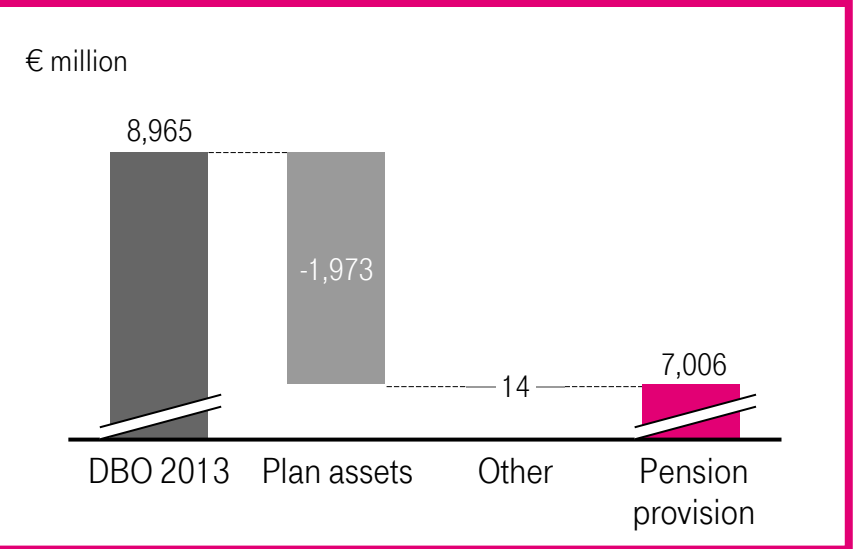
# 4. FUNDING IS MAJOR DRIVER OF PLAN ASSETS

## 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 GERMANY<sup>1)</sup>

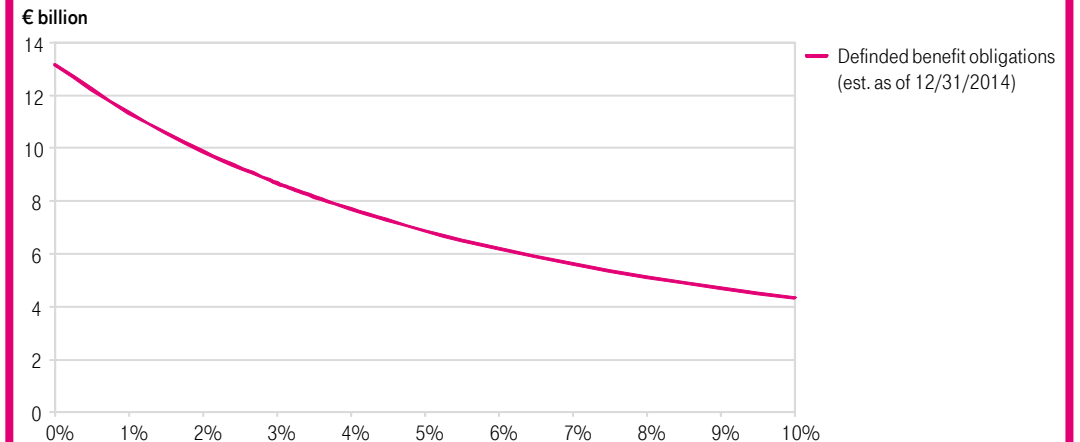
%	2013	2012	2011	2010
Discount rate	3,29	3,26	5,31	5,16
Salary increase rate (pay-scale employees)	2,75	2,75	2,75	3,25
Pension increase rate (general)	1,50	1,50	1,50	1,50

## 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

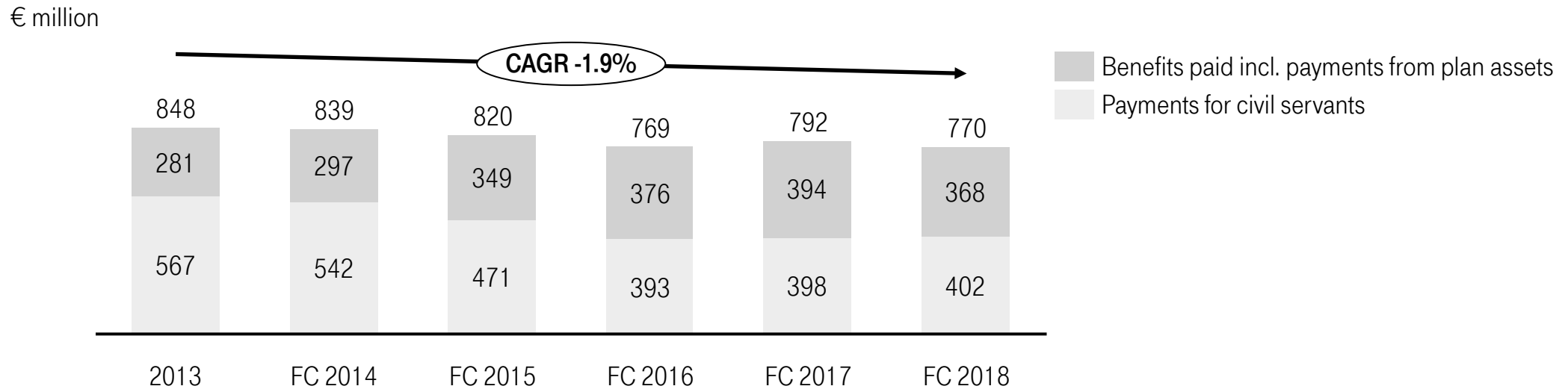




# 6. OUTLOOK

# 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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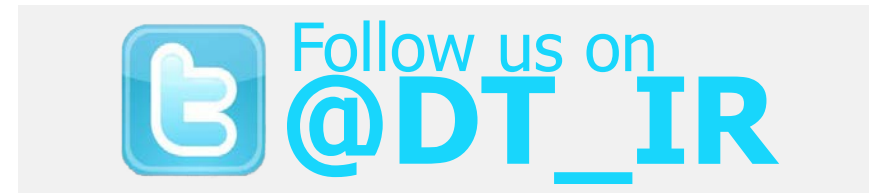
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