Deutsche Telekom AG

The ratings of Deutsche Telekom AG (DT) reflect its leading position in its domestic market and a diversified portfolio of international assets, which include the third-largest mobile operator in the US. The combination results in one of the strongest free cash flow margins (FCF, pre-spectrum) in the diversified western European incumbent telecoms sector. A rebase of its dividend to a floor of EUR0.6 for 2019 demonstrates a prudent and potentially prescient approach to future cash flow requirements, which is supportive of the company's ratings.

The completion of the merger between T-Mobile US (TMUS) and Sprint, if successful, will not affect the company's ratings but will remove leverage headroom over the next two to three years. This leaves less capacity for the company to manage operational risks relating to capex acceleration and new network competition in its domestic market. However, the pace at which these risks materialise is likely to be gradual, providing DT with an opportunity to manage their impact.

Key Rating Drivers

Leading Position in Germany: DT has a strong position in its domestic German market with an estimated 37% service revenue share in the mobile market and a 39% subscriber share in the broadband market as at YTD 3Q19. The upgrade of its fixed-broadband network for higher speeds with super-vectoring technology and continued focus on driving convergent product propositions through its customer base will support the company's competitive position and share of service revenue.

Fibre Strategy Trade-Offs: The deployment of fibre in partnership with regional utility companies in certain areas of Germany is helping DT to manage regulatory pressures, share investment risk, and moderate capex while deploying a fibre network. These are tangible benefits for the company particularly while demand for higher-speed fibre services and the rate of their uptake remain uncertain. However, the strategy relinquishes some operating margin on connectivity revenue to its partnership JV.

Medium-Term Domestic Risks Manageable: Competition in the German telecoms market could gradually become more intense over the next two to three years as a result of the acquisition of spectrum by Drillisch, the deployment of 1 Gbps broadband speed by competitor Vodafone over its cable network and the availability of cable wholesale access for Telefonica Deutschland. The combination of these factors could result in pricing and margin pressure while instigating an acceleration in fibre capex spend.

Fitch Ratings believes these risks are likely to materialise gradually as the number of market participants on the retail side is unchanged. We believe that DT may need to continue reducing costs to sustain margins.

Continued US Growth: TMUS continues to grow strongly as a result of increasing scale driven by network, brand and customer service investments. The company grew service revenue by 6.4% yoy in 3Q19 and accounts for about 45% of total group EBITDA after leases. DT's exposure to a growing operator in the large US (AAA/Stable) market provides the company with one of the strongest geographic diversification profiles compared with its western European peers.

TMUS and Sprint Merger: The merger of TMUS and Sprint carries strong industrial logic (see *Fitch Affirms Deutsche Telekom at 'BBB+'/Stable on Sprint US Acquisition*, 30 April 2018). The merger will result in DT retaining a 42% economic stake in the merged entity and board-level control. The transaction has received DOJ and FCC approval in the US but is subject to a lawsuit, the trial hearing having commenced on 9 December 2019.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB+	Stable	Affirmed 13 Nov 2019
Short-Term IDR	F2		Affirmed 13 Nov 2019

Click here for full list of ratings

Applicable Criteria

Corporate Rating Criteria (February 2019)

Corporates Notching and Recovery Ratings Criteria (October 2019)

Parent and Subsidiary Rating Linkage (September 2019)

Short-Term Ratings Criteria (May 2019)

Related Research

Fitch Ratings 2020 Outlook: Western European Telecoms (December 2019)

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Deconsolidated Rating Profile: If the merger with TMUS and Sprint is completed, Fitch would deconsolidate TMUS from the overall group and assess the company's ability to meet debt obligations based on the cash-generation capacity of the company's remaining European operations.

This reflects a combination of factors, which includes DT's minority equity holding in the newly merged entity, a combination of weak legal ties and limited operational ties between DT and the newly merged entity, an intended standalone funding structure for the merged operations and voting control that will not provide DT with sufficient cash fungibility between itself and the newly merged operations.

DT's FFO-adjusted net leverage rating sensitivity will therefore be calculated on a deconsolidated basis. Our rating analysis is also guided by leverage assessed using a proportionate consolidated approach.

Strong Remaining European Profile: Following the deconsolidation of DT's US operations, the credit profile of DT would be anchored around its domestic operations, which would account for around 65% of revenue (excluding T-Systems) with DT's other European operations and group functions accounting for the remaining proportion. Fitch views DT as being well-positioned in its domestic market, which benefits from a sound market structure.

Combined with the product and geographic diversification of DT's other European operations, we believe DT excluding US would have a sufficiently strong operating profile so as not to affect the leverage capacity that it must maintain for its ratings.

Transaction Removes Leverage Headroom: We project DT's FFO adjusted net leverage for 2019 will be about 3.2x and comfortably within the bounds of the company's 'BBB+' rating. If successful, the transaction with Sprint in the US would see this increase to 3.5x on a pro forma basis in 2020, assuming the deconsolidation of the newly merged US entity from DT's financial perimeter.

This will remove the headroom and organic deleveraging capacity of the company on a deconsolidated basis, leaving the rating more susceptible to operational risks in its domestic and European operations.

Financial Summary

(EURm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F	Dec 2022F
Gross Revenue	74,159	75,070	79,667	81,358	82,530	83,356
Operating EBITDAR Margin (%)	32.6	33.2	32.9	33.4	34.0	34.3
FFO Margin (%)	24.1	25.5	25.4	25.6	26.1	26.4
FFO Fixed-Charge Coverage (x)	3.3	3.6	3.7	3.8	3.8	3.9
FFO Adjusted Net Leverage (x)	3.3	3.4	3.2	3.1	2.9	2.8

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

DT has a strong operating profile that is driven by a combination of a strong domestic position in Germany and the growing scale and profitability of TMUS. The company is rated in line with other western European diversified telecoms operators that have similar strong domestic operations and a geographically diversified portfolio of international businesses, such as Orange SA (BBB+/Stable), Vodafone Group Plc (BBB/Stable) and Telefonica SA (BBB/Stable). The combination of a strong domestic position and diversified businesses portfolio enables slightly higher leverage capacity for the ratings compared with operators with limited scale, such as BT Group plc (BBB/Stable) and Royal KPN N.V. (BBB/Stable).

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
BT Group plc	BBB/Sta	aa	a	bbb+	bbb	a-	bbb	bbb+	bbb-	a-
Deutsche Telekom AG	BBB+/Sta	aa	a-	bbb+	a	a	bbb	bbb+	bbb-	bbb+
Orange S.A.	BBB+/Sta	aa	a-	bbb+	a	a	bbb	bbb	bbb-	bbb+
Royal KPN N.V.	BBB/Sta	aa	a-	bbb+	bbb	a	bbb	bbb+	bbb	a-
Telefonica SA	BBB/Sta	aa-	a	a-	a	a	bbb	bbb	bbb-	bbb+
Vodafone Group Plc	BBB/Sta	aa-	a-	bbb+	a	a	bbb	bbb	bb	bbb

Source: Fitch Ratings. Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
BT Group plc	BBB/Sta	6.0	3.0	1.0	0.0	2.0	0.0	1.0	-1.0	2.0
Deutsche Telekom AG	BBB+/Sta	5.0	1.0	0.0	2.0	2.0	-1.0	0.0	-2.0	0.0
Orange S.A.	BBB+/Sta	5.0	1.0	0.0	2.0	2.0	-1.0	-1.0	-2.0	0.0
Royal KPN N.V.	BBB/Sta	6.0	2.0	1.0	0.0	3.0	0.0	1.0	0.0	2.0
Telefonica SA	BBB/Sta	5.0	3.0	2.0	3.0	3.0	0.0	0.0	-1.0	1.0
Vodafone Group Plc	BBB/Sta	5.0	2.0	1.0	3.0	3.0	0.0	0.0	-3.0	0.0

Source: Fitch Ratings. Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- FFO-adjusted net leverage sustained below 2.5x (2018: 3.4x).
- Continued stabilisation of operating performance across DT's main operations with improved visibility on operational risks in Germany.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- An increase in FFO-adjusted net leverage to above 3.5x on a sustained basis. Spikes in leverage may be consistent with the current ratings if the company has a credible plan to reduce leverage within 18-24 months.
- Pressure on FCF driven by EBITDA margin erosion, consistently higher capex and shareholder distributions, or significant underperformance in the core domestic market and at other key subsidiaries.

Liquidity and Debt Structure

Comfortable Liquidity, Well-Spread Maturity: DT's policy is to maintain a liquidity buffer sufficient to cover 24 months of debt maturities. As at end-3Q19, it reported EUR6.5 billion in cash and equivalents and EUR12.6 billion undrawn committed credit facilities versus EUR11.6 billion maturities over the 24 months to 3Q21.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Available Liquidity (EUR Mil.)	2019F	2020F	2021F
Beginning Cash Balance	3,679	6,181	3,587
Rating Case FCF after Acquisitions and Divestitures	1,845	2,006	3,126
plus: Debt issued since balance sheet date (31/12/2018)	*5,457*		
Total Available Liquidity (A)	**10,981**	**8,187**	**6,713**
Liquidity Uses			
Debt Maturities	-4,800	-4,600	-5,100
Total Liquidity Uses (B)	**-4,800**	**-4,600**	**-5,100**
Liquidity Calculation			
Ending Cash Balance (A+B)	6,181	3,587	1,613
Revolver Availability	12,600	12,600	12,600
Ending Liquidity	**18,781**	**16,187**	**14,213**
Liquidity Score	**3.8**	**4.5**	**3.8**

Scheduled Debt Maturities	Original
Statement Date	**31/12/2018**
2019	4,800
2020	4,600
2021	5,100
2022	5,300
2023	4,500
Thereafter	35,028
Total	59,328

Source: Fitch Ratings, Fitch Solutions, DT

Key Assumptions

- Slightly decreasing domestic revenue and modestly improving EBITDA margins over the next three years.
- Low- to mid-single-digit revenue growth in the US and modestly improving EBITDA margins over the next three years.
- Broadly stable revenue within DT's non-German European operations, with modest improvements in EBITDA margins over the next three years.
- Cash capex (excluding spectrum) around 16% of revenue in 2019 and remaining broadly stable thereafter.

Financial Data

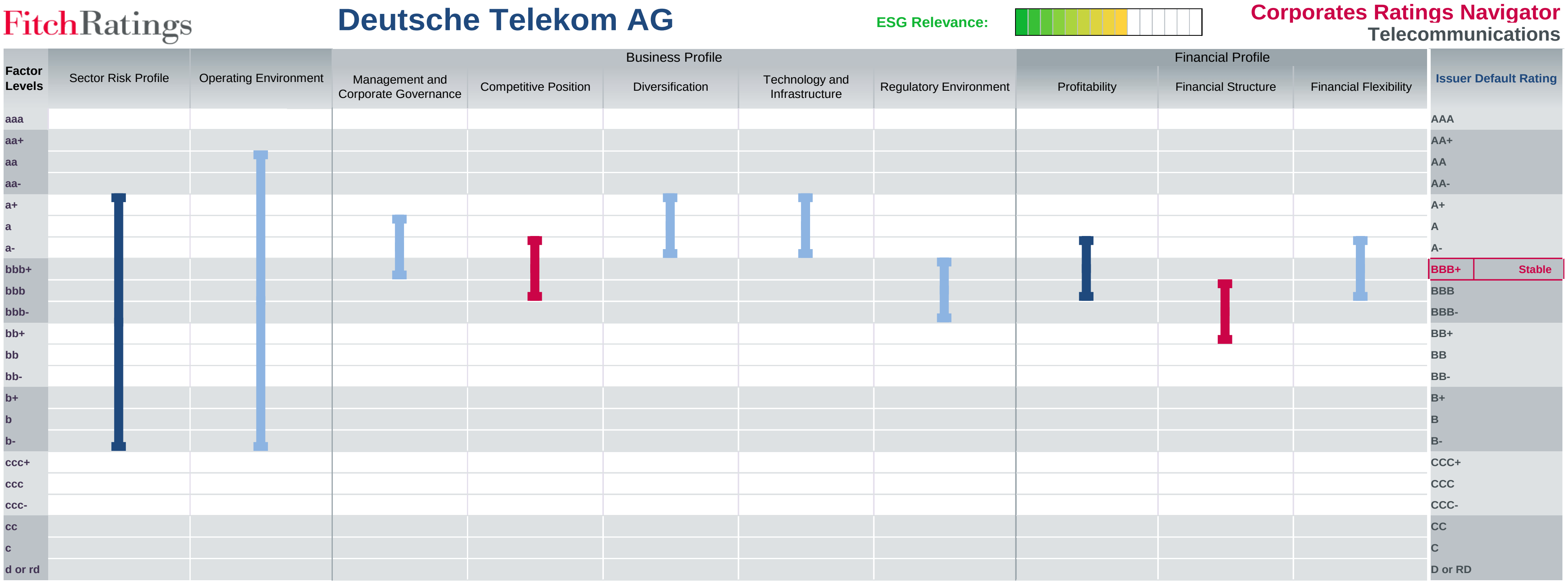
(EURm)	Historical			Forecast		
	2016	2017	2018	2019F	2020F	2021F
Summary Income Statement						
Gross Revenue	71,856	74,159	75,070	79,667	81,358	82,530
Revenue Growth (%)	4.1	3.2	1.2	6.1	2.1	1.4
Operating EBITDA (Before Income from Associates)	18,290	20,752	21,473	22,666	23,488	24,202
Operating EBITDA Margin (%)	25.5	28.0	28.6	28.5	28.9	29.3
Operating EBITDAR	21,703	24,165	24,886	26,171	27,149	28,081
Operating EBITDAR Margin (%)	30.2	32.6	33.2	32.9	33.4	34.0
Operating EBIT	4,910	6,166	7,637	7,478	8,408	9,335
Operating EBIT Margin (%)	6.8	8.3	10.2	9.4	10.3	11.3
Gross Interest Expense	-2,715	-2,517	-2,094	-3,290	-3,273	-3,201
Pretax Income (Including Associate Income/Loss)	4,547	4,994	5,153	5,791	6,545	7,544
Summary Balance Sheet						
Readily Available Cash and Equivalents	7,757	3,319	3,679	5,551	6,578	7,725
Total Debt with Equity Credit	59,811	54,532	58,907	59,207	58,207	56,207
Total Adjusted Debt with Equity Credit	87,111	81,832	86,207	87,250	87,496	87,238
Net Debt	52,054	51,213	55,228	53,656	51,629	48,483
Summary Cash Flow Statement						
Operating EBITDA	18,290	20,752	21,473	22,666	23,488	24,202
Cash Interest Paid	-3,488	-3,783	-3,307	-3,290	-3,273	-3,201
Cash Tax	-527	-634	-697	-737	-763	-787
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	234	119	9	1	-33	-66
Other Items Before FFO	527	116	81	0	0	0
Funds Flow from Operations	15,941	17,844	19,151	20,242	20,829	21,559
FFO Margin (%)	22.2	24.1	25.5	25.4	25.6	26.1
Change in Working Capital	-2,544	-1,858	-1,961	-1,434	-976	-908
Cash Flow from Operations (Fitch Defined)	13,397	15,986	17,190	18,808	19,853	20,651
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-13,640	-19,494	-12,492			
Capital Intensity (Capex/Revenue) %	19.0	26.3	16.6			
Common Dividends	-1,499	-1,437	-3,082			
Free Cash Flow	-1,742	-4,945	1,616			
Net Acquisitions and Divestitures	366	913	-1,622			
Other Investing and Financing Cash Flow Items	1,864	2,128	-1,149	-293	0	0
Net Debt Proceeds	362	-2,531	1,522	300	-1,000	-2,000
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	850	-4,435	367	1,872	1,027	1,146
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-14,773	-20,018	-17,196	-16,943	-17,826	-17,504
Free Cash Flow After Acquisitions and Divestitures	-1,376	-4,032	-6	1,865	2,027	3,146
Free Cash Flow Margin (After Net Acquisitions) (%)	-1.9	-5.4	0.0	2.3	2.5	3.8
Coverage Ratios						
FFO Interest Coverage (x)	5.3	5.4	6.3	6.7	6.9	7.3
FFO Fixed-Charge Coverage (x)	3.2	3.3	3.6	3.7	3.8	3.8
Operating EBITDAR/Interest Paid + Rents (x)	3.2	3.4	3.7	3.9	3.9	4.0
Operating EBITDA/Interest Paid (x)	5.3	5.5	6.5	6.9	7.2	7.5
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	4.0	3.4	3.5	3.3	3.2	3.1
Total Adjusted Net Debt/Operating EBITDAR (x)	3.6	3.2	3.3	3.1	3.0	2.8
Total Debt with Equity Credit/Operating EBITDA (x)	3.2	2.6	2.7	2.6	2.5	2.3
FFO Adjusted Leverage (x)	4.0	3.4	3.6	3.4	3.3	3.2
FFO Adjusted Net Leverage (x)	3.6	3.3	3.4	3.2	3.1	2.9

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Deutsche Telekom AG

Corporates Ratings Navigator
Telecommunications

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bbb			

Competitive Position

a	Market Position	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	bbb	Primary markets characterized by medium competitive intensity and/or moderate barriers to entry.
bbb+	Scale - EBITDAR	a	>$5 billion
bbb			
bbb-			

Diversification

aa-	Service Platform Diversification	a	Operates several service platforms in primary markets.
a+	Geographic Diversification	a	Very good geographic diversification.
a			
a-			
bbb+			

Technology and Infrastructure

aa-	Ownership of Network	a	Owns almost all of its infrastructure.
a+	Network and Service Quality	a	Market leading network in terms of coverage and technology deployment, with good quality of service.
a			
a-			
bbb+			

Regulatory Environment

a-	Regulatory Risk	bbb	Moderate.
bbb+			
bbb			
bbb-			
bb+			

Profitability

a	Volatility of Cash Flow	a	Lower volatility and better visibility of cash flow than industry average.
a-	EBITDAR Margin	bbb	30%
bbb+	FFO Margin	bbb	24%
bbb			
bbb-			

Financial Structure

bbb+	Lease Adjusted FFO Gross Leverage	bbb	3.3x
bbb	Lease Adjusted FFO Net Leverage	bbb	3.0x
bbb-	Net Debt/(CFO - Capex)	bb	20.0x
bb+	Total Adjusted Debt/Operating EBITDAR	bbb	3.0x
bb			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
bbb+	FFO Fixed Charge Cover	bb	3.0x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.
bbb-			

Credit-Relevant ESG Derivation

Deutsche Telekom AG has 8 ESG potential rating drivers

- Energy and fuel use in networks and data centers
- Networks exposed to extreme weather events (e.g. hurricanes)
- Data security; service disruptions
- Impact of labor negotiations and employee (dis)satisfaction
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

FitchRatings

Deutsche Telekom AG

Corporates Ratings Navigator
Telecommunications

Credit-Relevant ESG Derivation

Deutsche Telekom AG has 8 ESG potential rating drivers

- Deutsche Telekom AG has exposure to energy productivity risk but this has very low impact on the rating.
- Deutsche Telekom AG has exposure to extreme weather events but this has very low impact on the rating.
- Deutsche Telekom AG has exposure to customer accountability risk but this has very low impact on the rating.
- Deutsche Telekom AG has exposure to labor relations & practices risk but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	3	Energy and fuel use in networks and data centers	Profitability	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Networks exposed to extreme weather events (e.g. hurricanes)	Profitability	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; service disruptions	Competitive Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Competitive Position; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Social attitudes toward network infrastructure	Diversification; Technology and Infrastructure; Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

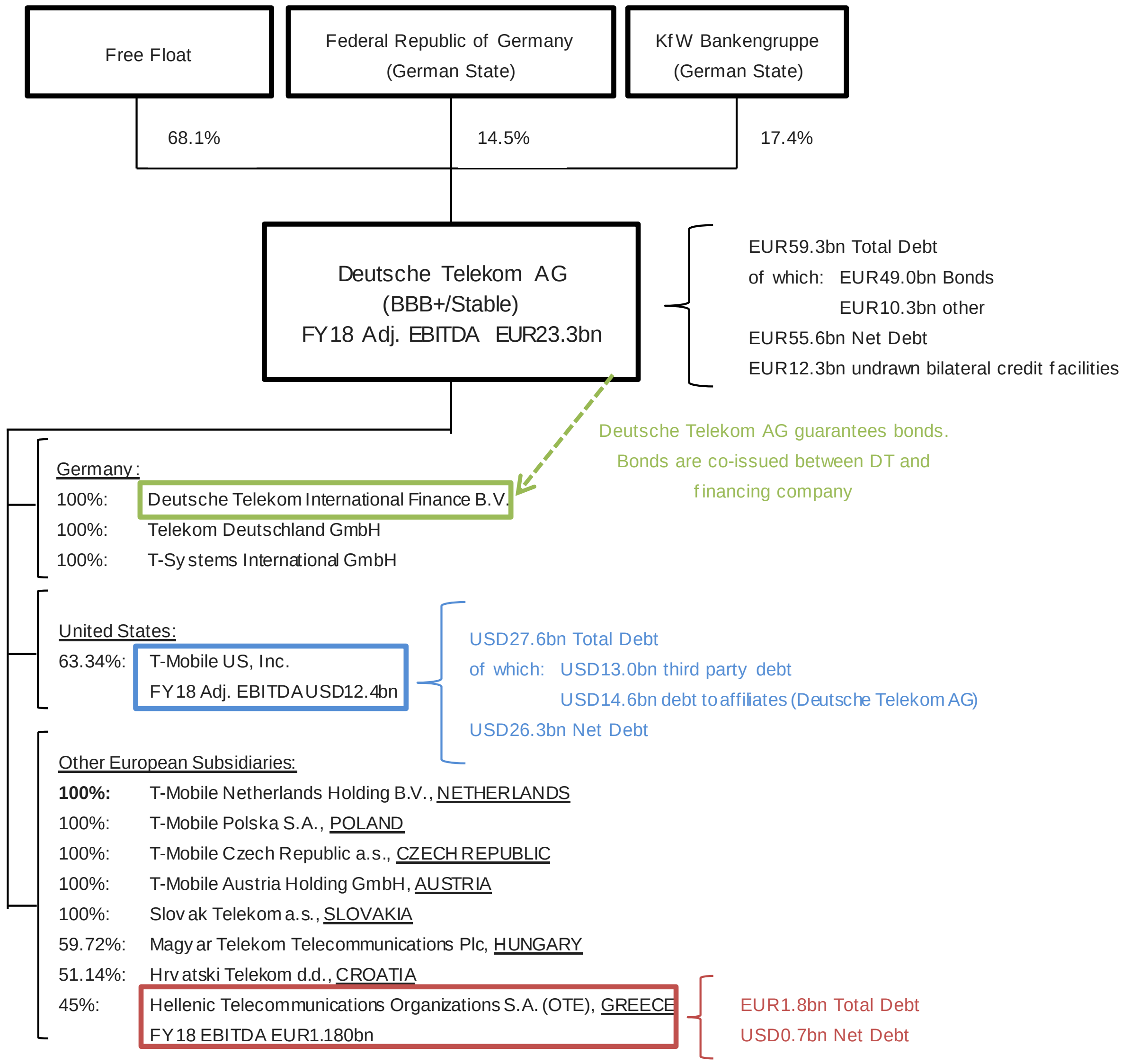
Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



KfW = Kreditanstalt für Wiederaufbau

Source: Fitch Ratings, Fitch Solutions, Deutsche Telekom, as at 31 December 2018.

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (EURm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Net Leverage (x)
Deutsche Telekom AG	BBB+						
	BBB+	2018	75,070	33.2	25.5	3.6	3.4
	BBB+	2017	74,159	32.6	24.1	3.3	3.3
	BBB+	2016	71,856	30.2	22.2	3.2	3.6
BT Group plc	BBB						
	BBB	2019	26,595	34.9	20.0	4.5	2.9
	BBB+	2018	26,910	34.7	20.3	4.7	2.5
	BBB+	2017	28,641	34.6	23.7	5.3	2.1
Orange S.A.	BBB+						
	BBB+	2018	41,381	34.6	22.6	4.4	3.1
	BBB+	2017	41,096	34.1	23.0	4.4	2.9
	BBB+	2016	40,918	33.8	21.6	4.1	3.1
Royal KPN N.V.	BBB						
	BBB	2018	5,639	42.0	33.7	4.4	3.0
	BBB	2017	6,498	38.0	30.1	4.4	2.9
	BBB	2016	6,806	38.1	29.1	3.8	3.0
Telefonica SA	BBB						
	BBB	2018	48,693	33.8	24.0	4.2	3.7
	BBB	2017	52,008	33.6	23.9	4.1	3.6
	BBB	2016	52,036	33.6	23.3	3.6	3.8
Vodafone Group Plc	BBB						
	BBB+	2019	43,666	36.9	28.5	4.5	2.9
	BBB+	2018	46,571	36.6	28.5	4.7	3.1
	BBB+	2017	47,631	34.7	26.6	4.4	3.3

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EUR Millions)			FY16	FY17	FY18
Debt & Cash Summary					
Bonds and other securitized liabilities	Reported		50,090	45,453	49,033
Other Debt	Calculated		14,560	12,076	13,242
of which: Liabilities to banks	Reported		4,097	4,974	5,710
of which: Finance lease liabilities	Reported		2,547	2,635	2,471
of which: Liabilities to non-banks from promissory notes	Reported		535	480	497
of which: Other interest-bearing liabilities	Reported		3,689	1,598	1,878
of which: Other non-interest-bearing liabilities	Reported		1,958	1,443	1,609
of which: Derivative financial liabilities	Reported		1,734	946	1,077
Financial Liabilities	**Reported**		**64,650**	**57,529**	**62,275**
less: Accrued interest	Reported		-955	-692	-719
less: Derivative liabilities	Fitch Assumed		-2,249	-946	-581
less: Financial Services Adjustments	Fitch Assumed		-1,636	-1,359	-2,068
Total debt with equity credit	Fitch Defined		**59,810**	**54,532**	**58,907**
Total off-balance sheet debt	Calculated	(J x 8)	27,300	27,300	27,300
Total lease-adjusted debt with equity credit	Fitch Defined		**87,110**	**81,832**	**86,207**
less: Readily Available Cash	Reported		-7,757	-3,319	-3,679
of which: Cash & Equivalents	Reported		-7,747	-3,312	-3,679
of which: Available-for-sale/held-for-trading assets	Reported		-10	-7	0
Net debt	Fitch Defined	**(A)**	**52,053**	**51,213**	**55,228**
Net lease-adjusted debt	Fitch Defined	**(B)**	**79,353**	**78,513**	**82,528**
Cash Flow Summary					
Revenue	Reported		**73,095**	**74,947**	**75,656**
less: "Jump!" lease revenues	Fitch Assumed		-1,239	-788	-586
Revenue	Fitch Defined		**71,856**	**74,159**	**75,070**
EBITDA adj. for Special Factors	Reported		**21,420**	**22,230**	**23,333**
less: Staff-related measures (Special Factors)	Reported		-1,638	-559	-1,159
less: Non-staff-related restructuring (Special Factors)	Reported		-81	-85	-109
less: Other (Special Factors)	Reported		-171	-45	-6
less: "Jump!" lease revenues	Fitch Assumed		-1,239	-788	-586
EBITDA	Fitch Defined	**(C)**	**18,290**	**20,752**	**21,473**
Cash generated from operations	Reported		**18,116**	**19,706**	**19,663**
less: Net interest paid	Reported		-2,583	-2,509	-1,715
less: Dividends to non-controlling interests	Reported		-97	-122	-172
less: "Jump!" lease revenues	Fitch Assumed		-1,239	-788	-586
less: Factoring adjustment	Fitch Assumed		-800	-300	0
Cash Flow From Operations (CFO)	**Fitch Defined**	**(D)**	**13,397**	**15,986**	**17,190**
EBITDA	Fitch Defined		**18,290**	**20,752**	**21,473**
Net interest paid	Reported	**(E)**	-2,583	-2,509	-1,715
of which: interest paid	Reported	**(F)**	-3,488	-3,783	-3,307
of which: interest received	Reported		905	1,274	1,592
Income taxes received (paid)	Reported		-527	-634	-697
Dividends received	Reported	**(G)**	331	241	181
Dividends to non-controlling interests	Reported	**(H)**	-97	-122	-172
Other items before FFO	Fitch Assumed		527	116	81
Funds Flow from Operations (FFO)	Fitch Defined	**(I)**	**15,941**	**17,844**	**19,151**
Change in Working Capital			-2,544	-1,858	-1,961
of which: Change in assets carried as working capital	Reported		-1,000	-1,874	-1,335
of which: Change in provisions	Reported		-234	265	-100
of which: Change in other liabilities carried as working capital	Reported		-510	51	-526
of which: Factoring adjustment	Fitch Assumed		-800	-300	0
Cash Flow From Operations (CFO)	Fitch Defined		**13,397**	**15,986**	**17,190**
Long-term (LT) lease expense	Fitch Assumed	**(J)**	**3,413**	**3,413**	**3,413**
CAPEX	Reported	**(K)**	**13,640**	**19,494**	**12,492**
FFO Interest Coverage (x)					
(FFO + net interest paid) / gross interest paid	Calculated	**(I - E) / (- F)**	**5.3x**	**5.4x**	**6.3x**
FFO fixed charge cover (x)					
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)	Calculated	**(I - E + J) / (- F + J)**	**3.2x**	**3.3x**	**3.6x**
Net debt / EBITDA (x)					
Net debt with equity credit / EBITDA after dividends paid to NCI	Calculated	**A / (C + G + H)**	**2.8x**	**2.5x**	**2.6x**
FFO adjusted net leverage (x)					
Net lease-adjusted debt / (FFO + net interest paid + LT leases)	Calculated	**B / (I - E + J)**	**3.6x**	**3.3x**	**3.4x**
Net debt / CFO less Capex (x)	Calculated	**A / (D - K)**	**-214x**	**-15x**	**12x**

Source: Fitch Ratings, Fitch Solutions, Deutsche Telekom

(EUR Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	21,473
+ Recurring Dividends Paid to Non-controlling Interest	-172
+ Recurring Dividends Received from Associates	181
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**21,482**
+ Operating Lease Expense Treated as Capitalised (h)	**3,413**
= Operating EBITDAR after Associates and Minorities (j)	**24,895**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**58,907**
+ Lease-Equivalent Debt	27,300
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**86,207**
Readily Available Cash [Fitch-Defined]	3,679
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**3,679**
Total Adjusted Net Debt (b)	**82,528**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	1,592
+ Interest (Paid) (d)	**-3,307**
= Net Finance Charge (e)	**-1,715**
Funds From Operations [FFO] (c)	**19,151**
+ Change in Working Capital [Fitch-Defined]	-1,961
= Cash Flow from Operations [CFO] (n)	**17,190**
Capital Expenditures (m)	**-12,492**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**3.5**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.6**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**2.7**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**3.3**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**3.4**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**11.8**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**3.7**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**6.5**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**3.6**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**6.3**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities
Source: Fitch Ratings, Fitch Solutions, Deutsche Telekom AG

Fitch Adjustment Reconciliation

(EUR Millions, As reported)	Reported Values	Sum of Fitch Adjustments	Adjusted Values
	31 Dec 18		
Income Statement Summary			
Revenue	75,656	-586	75,070
Operating EBITDAR	25,736	-851	24,886
Operating EBITDAR after Associates and Minorities	25,736	-842	24,895
Operating Lease Expense	3,900	-488	3,413
Operating EBITDA	21,836	-363	21,473
Operating EBITDA after Associates and Minorities	21,836	-354	21,482
Operating EBIT	8,000	-363	7,637
Debt & Cash Summary			
Total Debt With Equity Credit	61,556	-2,649	58,907
Total Adjusted Debt With Equity Credit	61,556	24,651	86,207
Lease-Equivalent Debt	0	27,300	27,300
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	3,679	0	3,679
Not Readily Available Cash & Equivalents	7	0	7
Cash-Flow Summary			
Preferred Dividends (Paid)	0	0	0
Interest Received	1,592	0	1,592
Interest (Paid)	-3,307	0	-3,307
Funds From Operations [FFO]	19,728	-577	19,151
Change in Working Capital [Fitch-Defined]	-1,961	0	-1,961
Cash Flow from Operations [CFO]	17,767	-577	17,190
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	-12,492	0	-12,492
Common Dividends (Paid)	-3,254	172	-3,082
Free Cash Flow [FCF]	2,021	-405	1,616
Gross Leverage			
Total Adjusted Debt / Op. EBITDAR* [x]	2.4		3.5
FFO Adjusted Leverage [x]	2.4		3.6
Total Debt With Equity Credit / Op. EBITDA* [x]	2.8		2.7
Net Leverage			
Total Adjusted Net Debt / Op. EBITDAR* [x]	2.2		3.3
FFO Adjusted Net Leverage [x]	2.3		3.4
Total Net Debt / (CFO - Capex) [x]	11.0		11.8
Coverage			
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	3.6		3.7
Op. EBITDA / Interest Paid* [x]	6.6		6.5
FFO Fixed Charge Coverage [x]	3.5		3.6
FFO Interest Coverage [x]	6.5		6.3

*EBITDA/R after Dividends to Associates and Minorities
Source: Fitch Ratings, Fitch Solutions, Deutsche Telekom AG

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.