

## Explanatory report containing the information required in accordance with § 289 (4) and (5), § 315 (4) German Commercial Code (Handelsgesetzbuch - HGB).

### 1. Composition of capital stock:

As of December 31, 2010, the capital stock of Deutsche Telekom AG totaled EUR 11,062,577,167. The capital stock is divided into 4,321,319,206 registered no par value shares. Each share entitles the holder to one vote.

### 2. Restrictions on voting rights and transfer of shares:

1,881,508 treasury shares were held at December 31, 2010. The Corporation does not accrue any rights, especially any voting rights, arising out of these treasury shares. These treasury shares may be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies (employee shares).

The voting rights are also restricted with the so-called trust shares: 18,577,476 trust shares were held at December 31, 2010. As of December 31, 2010, the number of T-Shares reserved for the stock options still outstanding was 3,042,055. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.

The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of the acquisition of VoiceStream, Deutsche Telekom issued new shares from authorized capital to trusts, in favor of (i) holders of VoiceStream options entitling them to purchase VoiceStream shares, including employees of VoiceStream to whom options to purchase shares in Deutsche Telekom after the closing date may be granted under an agreement between Deutsche Telekom and VoiceStream as an incentive to remain with VoiceStream; (ii) holders of conversion rights on VoiceStream shares; and (iii) former holders of VoiceStream shares who exercised their right to a cash settlement as part of the takeover. Deutsche Telekom also issued around 10 million new shares to trusts in favor of holders of warrants, options and conversion rights entitling them to purchase Powertel shares.

The Corporation's Articles of Incorporation do not require the transfer of Deutsche Telekom AG shares to be subject to Corporation approval. The Board of Management is not aware of any other restrictions affecting the voting rights and the transfer of shares.

### 3. Direct or indirect equity interests exceeding 10 percent of voting rights:

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group and also its largest operating company. Its shares are traded on several stock exchanges, including Frankfurt am Main. As of December 31, 2010, 68.0 percent of the shares were in free float (December 31, 2009: 68.3 percent), 15.0 percent were held by the Federal Republic of Germany (December 31, 2009: 14.8 percent), and 17.0 percent were held by KfW Bankengruppe (December 31, 2009: 16.9 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 32.0 percent (December 31, 2009: 31.7 percent). Deutsche Telekom AG is therefore deemed dependent pursuant to §17 German Stock Corporation Act (Aktiengesetz - AktG), which means that the Board of Management must produce a dependent company report in accordance with § 312 AktG.

The Board of Management is not aware of any other direct or indirect equity interests exceeding 10 percent of the voting rights.

#### 4. Owners of shares with special rights conferring powers of control:

There are no company shares with special rights conferring powers of control.

#### 5. Type of voting control if employees hold an equity interest and do not directly exercise their voting rights:

There is no direct voting control in accordance with § 289 (4) No. 5 and § 315 (4) No. 5 HGB as a result of employees holding an equity interest.

#### 6. Legal provisions and provisions in the Articles of Incorporation on the appointment and discharge of members of the Board of Management and on amendments to the Articles of Incorporation:

The appointment and discharge of members of the Board of Management is in accordance with § 84 and § 85 AktG, and § 31 German Codetermination Act (Mitbestimmungsgesetz – MitbestG). Accordingly, members of the Board of Management are appointed by the Supervisory Board for a maximum of five years. Such appointment may be renewed, or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. A majority of two-thirds of the votes in the Supervisory Board is generally required to appoint members of the Board of Management. If an appointment cannot be made in this way, the special appointment process described in § 31 (3) and (4) MitbestG applies. These rules apply accordingly to the revocation of a Board of Management appointment. The appointment by the Supervisory Board may be revoked if good cause exists.

In accordance with § 6 (1) of the Articles of Incorporation, the Board of Management comprises at least two members. The Supervisory Board may decide freely, after a due assessment of the circumstances, whether additional members of the Board of Management are appointed. If a required member of the Board of Management is lacking, an appointment shall be made by order of court at the request of one of the parties involved.

Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG, and § 18 and § 21 of the Articles of Incorporation. In accordance with § 179 (1) sentence 1 AktG any amendment to the Articles of Incorporation requires a resolution of the shareholders' meeting. According to § 179 (1) sentence 2 AktG and § 21 of the Articles of Incorporation, the Supervisory Board is, however, authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation. § 18 (2) of the Articles of Incorporation envisages in accordance with § 179 (2) sentence 2 AktG that – unless mandatory legal provisions exist to the contrary – a shareholders' meeting resolution that amends the Articles of Incorporation is generally adopted by means of a simple majority of the votes cast and, where the law prescribes a majority shareholding in addition to a majority vote, by a simple majority of capital stock represented at such time as the resolution is passed. The law prescribes a larger majority shareholding of three quarters of the capital stock represented in some cases, for example in the case of amendment to the purpose of the company (§ 179 (2) sentence 2 AktG), certain capital measures and the exclusion of stock options.

#### 7. Authority of the Board of Management to issue and buy back shares:

**Authorized capital 2009/I.** The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against non-cash capital contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' preemptive rights when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other

assets eligible for contribution for such acquisitions, including receivables from the Corporation. The Board of Management is further authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

**Authorized capital 2009/II.** The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. Shareholders' preemptive rights are disapplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the income after taxes that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5), sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

**Contingent capital II.** The capital stock has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2010, composed of up to 12,426,988 new no par value registered shares. The contingent capital increase is exclusively intended for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Corporation, to members of second-tier management, and to other executives, managers, and specialists of the Corporation and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

**2010 contingent capital.** The capital stock has been contingently increased by EUR 1,100,000,000 as of December 31, 2010, composed of up to 429,687,500 no par value registered shares. The contingent capital increase will be implemented only to the extent that

- a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, make use of their option and/or conversion rights or
- b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (5) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Pursuant to § 201 AktG, the Board of Management has to report within a month after the end of each financial year details to be entered in the commercial register regarding the extent to which the shares offered under subscription options were issued from the contingent capital in the preceding financial year. In the 2010 financial year, no shares issued under subscription options were issued from the contingent capital.

**Authorization of the Corporation to purchase and use treasury shares.** The shareholders' meeting resolved on May 3, 2010 to authorize the Board of Management to purchase shares in the Corporation by November 2, 2011, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,918.20, provided the shares to be purchased on the basis

of this authorization in conjunction with the other shares of the Corporation which the Corporation has already purchased and still possesses or are to be assigned to it under § 71 d and § 71 e AktG do not at any time account for more than 10 percent of the Corporation's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased in compliance with the principle of equal treatment (§ 53 a AktG) through the stock exchange. Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment (§ 53 a AktG).

#### **8. Main agreements of the Corporation subject to a change of control as a result of a takeover bid:**

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute SA) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium. § 22 (1) German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) similarly applies to the allocation of voting rights.

Should Deutsche Telekom AG be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to Deutsche Telekom AG, the Hellenic Republic shall have the right to purchase from Deutsche Telekom AG all the shares Deutsche Telekom AG owns in the Greek company Hellenic Telecommunications Organization S.A., Athens, Greece (OTE). For this purpose, a change of control over Deutsche Telekom shall be deemed to have taken place if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquire 35 percent of the voting rights in Deutsche Telekom AG.

When establishing the Everything Everywhere joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares. Transferring shares to competitors would remain prohibited even in this situation, however.

#### **9. Compensation agreements of the Corporation made with the members of the Board of Management or employees as a result of a takeover bid:**

There are no compensation agreements in accordance with § 289 (4) No. 9 and § 315 (4) No. 9 HGB in the event of a takeover bid.

## 10. Main features of the internal control and risk management system with respect to the accounting process

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO framework (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework. The Audit Committee of Deutsche Telekom monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion.

Internal Audit is in charge of independently reviewing the effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit and access rights. It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative certainty, but no absolute certainty that material accounting misstatements can be prevented or detected.

The accounting-related ICS, which is continuously refined, comprises the principles, methods, and measures used to ensure compliant accounting.

The accounting-related ICS aims at the consolidated financial statements of Deutsche Telekom being prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of annual financial statements of Deutsche Telekom AG in accordance with German GAAP.

Group Accounting manages the processes for the preparation of the consolidated financial statements and the management report. Laws, accounting standards and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting uses appropriate processes to ensure these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. They also ensure the compliance and timeliness of their accounting-related processes and systems. They are supported and monitored by Group Accounting.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include IT-based and manual data matching, the segregation of functions, the dual checking principle, general IT checks such as access management in IT systems, change management, and the monitoring of such systems.

Since the 2006 financial year, we have had a consistent process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. To this end, first certain high-risk elements are selected, for which successive self-assessments are performed by all parties involved in the process, including those with lead responsibility for the accounting process through to the Board of Management. Internal Audit is closely involved in all stages of the process in order to ensure the high quality of the accounting-related ICS. For this purpose, it also performs independent spot-checks on the self-assessments.

Bonn, February 18, 2011

Deutsche Telekom AG  
Board of Management

René Obermann

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Guido Kerkhoff

Edward R. Kozel

Thomas Sattelberger