



## Shareholders' meeting on May 12, 2011

### Board of Management's report to the shareholders' meeting on item 7 of the agenda

#### **Board of Management's report on item 7 of the agenda: Report on the exclusion of subscription rights in the event of sale of treasury shares pursuant to § 71 (1) no. 8 and § 186 (4) sentence 2 AktG, as well as on the exclusion of any right to offer shares.**

Item 7 on the agenda contains the proposal to authorize the Company to acquire treasury shares, with the amount of capital stock accounted for by these shares totaling up to EUR 1,106,257,716.74 - which is 10% of the capital stock - by November 11, 2012, pursuant to § 71 (1) no. 8 AktG. The existing authorization to purchase treasury shares, which was granted by the shareholders' meeting on May 3, 2010, is due to expire on November 2, 2011 and therefore is to be replaced. The authorization granted to the Board of Management by the shareholders' meeting on May 3, 2010 to purchase treasury shares shall expire when this new authorization takes effect; the authorizations granted by the shareholders' meeting resolution of May 3, 2010 on the use of purchased treasury shares shall remain unaffected.

On the basis of the new authorization proposed in item 7 on the agenda of this year's shareholders' meeting, the Company can purchase treasury shares either on the stock exchange or by means of a public offer to purchase or exchange shares that is presented to all shareholders.

Under the proposed authorization, if the Company purchases treasury shares by means of a public purchase offer presented to all shareholders, or a public share exchange offer presented to all shareholders, the shares can be purchased on the basis of the ratio of shares offered (offer quotas), providing the

total number of shares offered exceeds a volume specified by the Board of Management. Only if the purchase is essentially made based on offer quotas rather than on shareholding quotas the technical implementation of the purchase process will be possible under reasonable economic conditions. Furthermore, the possibility is to be provided for preferential acceptance of small quantities of up to 100 shares offered per shareholder. This option is designed on the one hand, to avoid having small remainders of shares, which tend to be uneconomical and may lead to de facto discrimination against small shareholders. It also helps simplify the technical aspects of the purchase process. Finally, provision is to be made in all instances to allow rounding off in accordance with proven commercial practice to avoid arithmetical fractional shares. In this respect, the purchase quota and/or the number of shares to be purchased by the individual shareholder accepting the offer can be rounded off, in accordance with commercial practice, as necessary to represent the purchase of whole shares in the processing system. In the aforementioned cases, it is necessary to exclude any further right to offer shares, and the Board of Management and the Supervisory Board are convinced that such exclusion is justified, and reasonable vis-à-vis shareholders, for the reasons specified above.

The treasury shares may be purchased in accordance with the proposed authorization by Deutsche Telekom AG directly or indirectly through 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 the dependent Group companies of Deutsche Telekom AG pursuant to § 17 AktG.

The authorization in item 7 on the agenda provides for the possibility of resale of acquired treasury shares, either through the stock exchange (in c) of the authorization) or via an offer presented to all shareholders (in d) of the authorization). At the same time, Deutsche Telekom AG is also to have the possibility of selling treasury shares by means other than through the stock exchange or through an offer to all shareholders, and to sell shares for cash payment at a price which is not significantly lower than the market price (in e) of the authorization). In addition, Deutsche Telekom AG is to be able to use repurchased treasury shares to list shares on international stock markets on which the Company's shares have not yet been listed (in f) of the authorization). Furthermore, the Company is to have the option of purchasing treasury shares so that it can offer and/or grant these to third parties in the context of mergers or acquisitions of companies, business units, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including claims against the Company (in g) of the authorization). In addition, the Company is to have the option of using treasury shares to fulfill option and/or conversion rights and obligations from bonds issued by the Company, either directly or by a company in which the Company has a (direct or indirect) majority holding (in h) of the authorization), on the basis of the authorization under item 13 on the agenda for the shareholders' meeting on May 3, 2010. Furthermore, the authorization provides for the possibility of offering and/or granting acquired shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies, as well as to Managing Board members of lower-tier affiliated companies (in i) of the authorization). However, Deutsche Telekom AG shall also have the option of redeeming treasury shares without any further resolution of the shareholders' meeting (in j) of the authorization). Finally, the Supervisory Board is to be able to use Deutsche Telekom AG shares to fulfill rights of Board of Management members to obtain Deutsche Telekom AG shares, which the Supervisory Board has granted to these members as part of the arrangements governing Board of Management remuneration (in k) of the authorization).

The cases in which subscription rights can be excluded are listed in l) of the proposed authorization. Under l), the subscription rights of shareholders can be excluded if the Board

of Management uses Deutsche Telekom AG shares in accordance with the authorizations under c), e), f), g), h), and i), and if the Supervisory Board uses Deutsche Telekom AG shares in accordance with the authorization under k). Regarding specific aspects of the aforementioned cases of exclusion of subscription rights:

Re. c) of the authorization:

If the Board of Management sells treasury shares on the stock exchange, shareholders do not have any subscription rights. Under § 71 (1) no. 8 sentence 4 AktG, the sale of treasury shares on the stock exchange - as well as the acquisition of the same through the stock exchange - is compliant with the principle of equal treatment pursuant to § 53a AktG. The price at which the repurchased treasury shares are sold to third parties on the stock exchange shall not be more than 5% below the market price established by the opening auction in the Xetra trading system (or a subsequent system) of Deutsche Börse AG on the day of the binding agreement with the third party. This is specified under m) of the authorization. If on the day concerned no such market price is determined or a market price has not yet been determined by the time of the binding agreement with the third party, then the last closing price of the Deutsche Telekom AG share determined in the Xetra trading system (or a subsequent system) of Deutsche Börse AG shall be decisive instead.

Re. e) of the authorization:

Pursuant to § 71 (1) no. 8 sentence 5 AktG in conjunction with § 186 (3) sentence 4 AktG, the Board of Management is to be authorized, with the approval of the Supervisory Board, to sell repurchased shares of Deutsche Telekom AG representing not more than 10% of the capital stock, excluding the subscription rights of the shareholders, other than through the stock exchange or an offer to all shareholders for a cash payment at a price that is not significantly lower than the market price of Company shares of equal ranking on the date of sale. The price at which repurchased treasury shares are sold to third parties must not be more than 5% below the market price determined by the opening auction in the Xetra trading system (or a subsequent system) of Deutsche Börse AG on the day of the binding agreement with the third party. This is specified under m) of the authorization. If on the day concerned no such market price is determined or a market price has not yet been determined by the time of the binding agreement with the third party, then the last closing price of the

Deutsche Telekom AG share determined in the Xetra trading system (or a subsequent system) of Deutsche Börse AG shall be decisive instead. The final price at which treasury shares are sold is set shortly before they are sold.

This option of selling repurchased treasury shares under the exclusion of subscription rights for cash payment serves the interests of the Company to attain the best possible price when selling treasury shares. The option of excluding subscription rights in accordance with § 186 (3) sentence 4 AktG enables the Company to take advantage of opportunities arising from any given situation on the stock market to place shares quickly, flexibly, and cost-effectively. The amount realized by setting a price close to market levels tends to result in a considerably higher inflow of cash than would be the case if the stock placement included shareholders' subscription rights. Moreover, by dispensing with the processing of subscription rights, which is a time-consuming, expensive process, capital needs arising from market opportunities at short notice can be satisfied in a timely manner. Although § 186 (2) sentence 2 AktG permits, when granting subscription rights the announcement of the subscription price no later than three days before the expiry of the subscription period, this also entails a risk given the volatility of the stock markets, i.e., a risk of a price change over several days, which can lead to safety margins being deducted when fixing the sales price and thus to conditions which are not optimal. In addition, the Company, when granting subscription rights, is unable to respond quickly to favorable or unfavorable market conditions due to the length of the subscription period.

This option of selling treasury shares under the best possible conditions and without a significant subscription rights markdown is especially important for the Company because it must be able to swiftly and flexibly exploit opportunities in rapidly changing and newly emerging markets. In view of this, it can be necessary, or at least useful, to raise capital at short notice.

The proposed authorization is limited to a maximum of up to 10% of the Company's capital stock. In principle, the Company's capital stock on the date the resolution is adopted at the shareholders' meeting on May 12, 2011 is decisive. Should the capital stock be reduced, for example through the redemption of repurchased treasury shares, the amount of capital stock on the date of the

sale of the shares is decisive. The authorized volume is to be decreased by the proportion of capital stock that is accounted for by the shares or that relates to option and/or conversion rights and obligations from bonds issued or sold since the adoption of the resolution on the shareholders' meeting on May 12, 2011 directly pursuant to, in accordance with, or analogous to § 186 (3) sentence 4 AktG. This should ensure that the 10% limit provided for in § 186 (3) sentence 4 AktG is observed, taking into account all authorizations with the option of excluding subscription rights in accordance with § 186 (3) sentence 4 AktG. Due to the fact that the authorization is limited to this level and the sales price for the treasury shares to be granted has to be based on the market price, shareholders' financial interests and voting rights are suitably safeguarded when treasury shares are sold to third parties and shareholders' subscription rights excluded on the basis of the provision in § 71 (1) no. 8 sentence 5 in conjunction with § 186 (3) sentence 4 AktG. As things currently stand, shareholders who wish to maintain their relative interest and share of voting rights have the opportunity to purchase the number of shares required for this on the stock exchange. Around 68% of the shares of Deutsche Telekom AG are in free float. The total trading volume in the 2010 calendar year corresponded to over 109% of the Company's capital stock.

Re. f) of the authorization:

The subscription rights of the shareholders are also to be excluded if the Board of Management uses the repurchased shares of Deutsche Telekom AG, with the approval of the Supervisory Board, to list the Company's shares on international stock exchanges on which the shares have not yet been listed. Deutsche Telekom AG is engaged in fierce competition on the international capital markets. For its future business development, it is of crucial importance that the Company be appropriately endowed with equity capital and have the opportunity to obtain equity capital on the market at all times and under appropriate conditions. For this reason, Deutsche Telekom AG is endeavoring to broaden its base of shareholders in other countries as well and to make investment in the Company's shares an attractive proposition. Deutsche Telekom AG needs to be able to tap into the world's major capital markets. The price at which the repurchased treasury shares are listed on international stock exchanges must not be more than 5% below the market price

established by the opening auction in the Xetra trading system (or a subsequent system) of Deutsche Börse AG on the first day of listing. This is specified under m) of the authorization. If on the day concerned no such market price is determined, or has not yet been determined by the time of the initial public offering, then the last closing price of the Deutsche Telekom AG share determined in the Xetra trading system (or a subsequent system) of Deutsche Börse AG shall be decisive instead.

Re. g) of the authorization:

The subscription rights of shareholders also are to be excluded if the Board of Management, with the approval of the Supervisory Board, offers and/or grants the repurchased Deutsche Telekom AG shares to third parties in the context of mergers or acquisitions of companies, business units, or interests in companies, including increases of existing investment holdings, or other assets eligible for contribution for such acquisitions, including claims against the Company.

Deutsche Telekom AG is engaged in national and global competition. It must therefore always be in a position to act swiftly and flexibly on national and international markets. This includes the opportunity to improve its competitive position through mergers with other companies or the acquisition of companies, business units, and interests in companies. This also includes increasing investments in Group companies.

The optimal use of this opportunity in the interest of shareholders and the Company involves, in individual cases, carrying out the merger or the acquisition of companies, business units, or interests in companies by offering shares of the acquiring company. It has been seen in practice both on international and national markets that the acquirer's shares are often requested as the consideration for attractive acquisitions. For this reason, Deutsche Telekom AG must be given the opportunity to offer and/or grant shares as consideration for mergers or acquisitions of companies, business units, or interests in companies.

In addition, the motion for proposed resolution makes express provisions for the exclusion of shareholders' subscription rights in order to offer and/or grant repurchased shares to acquire assets eligible for contribution in connection with the acquisition of companies, business units, or interests in companies. In the case of an acquisition, it can make economic sense to acquire other assets in

addition to the actual object acquired, for example those which serve the economic purposes of the acquired object. This applies in particular if a company that is being acquired does not own the industrial or intangible property rights relating to its operations. In such and comparable cases, Deutsche Telekom AG must be in a position to acquire assets related to the acquisition plan and to offer shares as a consideration for this - because the seller requests it, for example. A prerequisite according to the proposed authorization is that the assets concerned be eligible for contribution in the event of a non-cash capital increase.

The Board of Management shall, in particular, also be entitled to exclude shareholders' subscription rights in order to grant the owners of claims against Deutsche Telekom AG - whether securitized or unsecuritized - arising in connection with the sale of companies, business units, or interests in companies to Deutsche Telekom AG shares in Deutsche Telekom AG wholly or partially in lieu of the cash payments. In cases where, for example, the Company has initially agreed to pay in cash for the acquisition of a company or an interest in a company, this may give the Company the added flexibility of subsequently offering shares in lieu of cash, thus protecting its liquidity. In individual cases, this procedure may be more beneficial than financing the purchase price through prior disposal of any repurchased shares through the stock exchange, where negative price effects are conceivable.

The authorized capital 2009/I pursuant to § 5 (2) of the Articles of Incorporation can also be used to grant shares in the context of mergers or acquisitions of companies, business units or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including claims against the Company. However, it should also be possible to use repurchased treasury shares as an acquisition currency. The proposed authorization is designed to give Deutsche Telekom AG the leeway it requires to flexibly exploit opportunities for mergers or the acquisition of companies, business units, or interests in companies or other assets eligible for contribution for such acquisitions and in doing so to also provide shares as a consideration without increasing capital - something which is more time-consuming given the need for entry in the commercial register - where this is appropriate.

To be able to carry out such transactions swiftly and with the necessary flexibility, the Board of Management needs to be authorized to grant treasury shares excluding shareholders' subscription rights. Such a decision shall be contingent on the Supervisory Board's approval, however. When subscription rights are being granted, mergers and the acquisition of companies, business units, or interests in companies, or other assets eligible for contribution for such acquisitions in exchange for the granting of repurchased shares, are not possible, and the Company and its shareholders cannot benefit from the associated advantages.

There are currently no concrete plans to make use of this authorization. When specific opportunities arise for mergers or acquisition of companies, business units, or interests in companies, or there is an opportunity to acquire other assets eligible for contribution for such acquisitions, the Board of Management shall examine each case to decide whether to use treasury shares for this, excluding shareholders' subscription rights. The Board of Management shall only use the authorization if it is convinced that granting Deutsche Telekom AG shares for a merger or acquisition is in the best interests of the Company. In such cases, the Board of Management shall also carefully review and ascertain that the value of the non-cash contribution is commensurate with the value of the shares.

Re. h) of the authorization:

In addition, the Company shall have the option of using repurchased shares to fulfill option and/or conversion rights and obligations from bonds issued by the Company, either directly or by a company in which the Company has a (direct or indirect) majority holding, on the basis of the authorization under item 13 on the agenda of the shareholders' meeting held on May 3, 2010. Instead of increasing capital, it may be appropriate at times to use treasury shares entirely or partially to fulfill subscription rights with regard to the Company's shares arising from such bonds, since such action is a suitable way of counteracting the dilution of capital stock, and of the voting rights of shareholders, that can occur to some extent if such rights are fulfilled by creating new shares. The authorization therefore provides for treasury shares to be used in such a way. In such cases, shareholders' subscription rights shall also be excluded.

The authorization granted under item 13 on the agenda by resolution of the shareholders' meeting on May 3, 2010 is available for

inspection at the commercial register in Bonn as part of the notarized minutes of this shareholders' meeting. The resolution can also be found in the invitation to the shareholders' meeting on May 3, 2010, which was published in the electronic Federal Gazette dated March 23, 2010. The wording of the authorization resolution is also available on the Internet at <http://www.telekom.com/hauptversammlung> and will also be available for inspection during the shareholders' meeting.

Re. i) of the authorization:

The Board of Management shall also be authorized to offer and/or grant repurchased shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies. These repurchased shares can also be transferred to a bank, or to some other company meeting the requirements of § 186 (5) sentence 1 AktG, which, along with the shares, assumes the obligation to use the shares exclusively for the purpose of granting shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies. The Board of Management may also acquire shares that are to be granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies via securities loans from a bank, or from some other company meeting the requirements of § 186 (5) sentence 1 AktG, and then use the repurchased shares to repay such securities loans. In all such cases, shareholders' subscription rights shall be excluded.

Deutsche Telekom AG is to be put in a position to promote employee ownership of Company stock by granting shares. Granting shares to employees serves the purpose of integrating employees, increasing their willingness to help shoulder responsibility, and enhancing their loyalty to the Company. The granting of shares to employees is therefore in the interest of the Company and its shareholders. It is in keeping with the intent of the law, and it is facilitated by law in many ways. According to the proposed authorization, however, the beneficiaries should comprise not only employees of Deutsche Telekom AG and of lower-tier affiliated companies, but also Managing Board members of lower-tier affiliated companies. These executive managers have a major influence on the development of the Deutsche

Telekom Group and Deutsche Telekom AG. It is therefore also important to offer them a strong incentive for lasting value enhancement, and to strengthen their identification with and loyalty to the companies in the Deutsche Telekom Group. Deutsche Telekom AG should, in particular, also be in a position to create variable remuneration components with a long-term incentive effect for certain executive staff in the Group as well as for certain or all employee groups.

Offering or granting shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies makes it possible to create variable remuneration components with a long-term incentive effect, which take account not only of positive but also of negative developments. The granting of shares with a lock-up on selling them over several years can, in particular, create not just a bonus but also a genuine penalty effect in the event of negative developments. This instrument can therefore bring about greater financial co-responsibility in the interests of both the Company and its shareholders.

When treasury shares are granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies, special terms and conditions may be conceded - with regard to employees, for example, such that are consistent with the provisions set out in the MKBG (Mitarbeiterkapitalbeteiligungsgesetz - Employee Share Ownership Act) dated March 7, 2009. These may include not only conventional employee/management participation programs but also, in particular, share matching plans, under the terms of which plan participants purchase shares on the stock exchange or from the Company by making monetary payment in a first step and several years later, in a second step, receive a specified number of so-called matching shares for the shares acquired in the first step without the need to make any additional payment. In this respect one concrete plan involves launching a share matching plan for business leaders in the Group, in other words for certain employees of Deutsche Telekom AG at the first management level below the Board of Management and for certain Managing Board members of Group companies. This plan is to largely correspond to the share matching plan already existing as a component of the new system for remuneration of Board of Management members (see below under "Re.

k) of the authorization"), whereby in particular a lower compulsory personal investment is to be provided for. The plan envisages that the business leaders will be obliged to invest 10%, and will be entitled to invest a total of up to (i.e., together with the compulsory component) 33.33%, of their short-term variable remuneration in the form of personal investment in shares of Deutsche Telekom AG, which are subject to a four-year lock-up on selling. Within the framework of the share matching plan, for each of the shares thus acquired Deutsche Telekom AG grants an additional share without further payment, which is transferred to plan participants on expiry of a waiting period of four years. The object is to extend this share matching plan, subject to the results of a feasibility review, to include international business leaders, with the exception of business leaders at T-Mobile USA. A share matching plan for business leaders at T-Mobile USA is to be drawn up with volume, term, etc., adjusted to local conditions by the local Group subsidiary. The total number of business leaders, including those at T-Mobile USA, lies at less than 100 persons. Furthermore, a review is currently examining the extent to which the plan described above or a similar plan can be used for top management staff, meaning employees of Deutsche Telekom AG at the second level below the Board of Management, and for certain Managing Board members in Group companies as well as special top performers at national and international level. However, use of the usage authorization under i) of the proposed authorization should not be confined to the employee/executive participation programs described above that have already been approved or are under review. Nonetheless, no treasury shares can or should be granted to members of the Board of Management at Deutsche Telekom AG on the basis of this proposed usage authorization.

In addition to granting shares directly to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies, it is also to be possible for shares to be transferred to a bank, or to some other company meeting the requirements of § 186 (5) sentence 1 AktG, with the obligation to use the shares exclusively for the purpose of granting shares to these beneficiaries. Shares are then granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies through the company that

has acquired the shares as an intermediary. With this approach, the process can be facilitated, for example, by having a bank largely carry out the procedure.

In addition, the shares to be granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies may be acquired via securities loans from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG, and then the repurchased shares used to repay these securities loans. Using a securities loan to acquire shares also facilitates the process. In particular, this makes it possible to repurchase precisely the quantity of shares that is required to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies at any fixed point in time. The shares acquired in the context of the proposed purchase authorization shall therefore not only be used to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies themselves, but can also be used to meet lenders' claims to repayment of loans. In terms of economic effect, the shares are also used here to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies.

It is true that, pursuant to § 5 (3) of the Articles of Incorporation, authorized capital 2009/II may be used for some of the above-mentioned purposes. In the interest of maximum flexibility, however, it should also be possible to repurchase shares on the basis of § 71 (1) no. 8 AktG, and to offer and/or grant such repurchased shares to employees. Furthermore, as stated in the proposed authorization under i) - as described above - it should also be possible to use the repurchased shares over and beyond the possibilities provided for in authorized capital 2009/II.

Independently of the authorization pursuant to i), it is also possible, without the authorization of the shareholders' meeting, to repurchase shares on the basis of § 71 (1) no. 2 AktG and to offer the repurchased shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies (but not to members of the Board of Management of Deutsche Telekom AG or Managing Board members of lower-tier affiliated companies) for subscription.

Reacquisition on the basis of § 71 (1) no. 2 AktG does not fall within the category of "safe harbor" privileges, however, a category that excludes by law the existence of an insider dealing or a market manipulation are prohibited by law pursuant to provisions of Commission Regulation (EC) no. 2273/2003 of December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programs and stabilization of financial instruments (OJ EU no. L 336 p. 33). For this reason, a pertinent authorization of the shareholders' meeting would be required if safe-harbor privileges were to be claimed for acquisition and granting of shares to employees.

Re. k) of the authorization:

Furthermore, the Supervisory Board shall be authorized to use the repurchased shares to fulfill the rights of Board of Management members to obtain Deutsche Telekom AG shares which the Supervisory Board has granted to these members as part of the arrangements governing Board of Management remuneration. The granting of such rights can be provided for in the contract of employment, or such rights can be granted by way of a separate agreement, whereby the conclusion of a separate agreement may, seen from the viewpoint of the Board member, be (wholly or partially) voluntary or compulsory.

Granting shares to Board of Management members may increase their loyalty to the Company. At the same time, this makes it possible to create variable remuneration components, with management bonuses not being paid out in cash but in shares, which are then, however, subject to a lock-up (at least four years pursuant to § 193 (2) no. 4 AktG), during which time the Board of Management member concerned cannot sell the shares. This is in compliance with the aim of the VorstAG (Gesetz zur Angemessenheit der Vorstandsvergütung - German Act on the Appropriateness of Management Board Remuneration) dated July 31, 2009, as well as the revised wording of item 4.2.3 of the German Corporate Governance Code, which call for not only positive but also negative developments regarding Board of Management remuneration to be considered. The granting of shares with a lock-up on selling them over several years can, in particular, create not just a bonus but also a genuine penalty effect in the event of negative developments. This instrument can therefore bring about greater financial co-responsibility of the Board of

Management members, in the interests of both the Company and its shareholders.

The remuneration system for Board of Management members introduced in the 2010 financial year contains a component that obliges Board members to invest 33.33% of the short-term variable remuneration stipulated by the Supervisory Board in the form of a personal investment in Deutsche Telekom AG shares, which are subject to a four-year lock-up period. Within the framework of the share matching plan, for each of the shares thus acquired, Deutsche Telekom AG grants the Board member an additional share without further payment, which is transferred to the Board member on expiry of a waiting period of four years. This ensures that members of the Board of Management cannot dispose of the shares provided by the Company before the four-year period has expired. The remuneration system for Board of Management members is described in the remuneration report, details of which are available in the 2010 Annual Report on the Internet at:

<http://www.telekom.com/hauptversammlung> and will also be available for inspection during the shareholders' meeting.

Regarding exclusion of subscription rights for fractional amounts pursuant to I) of the authorization:

Finally, the Board of Management is to be entitled to exclude shareholder subscription rights for fractional amounts with the approval of the Supervisory Board when offering treasury shares for sale to the Company's shareholders. The possibility of excluding subscription rights for fractional amounts serves the purpose of making the implementation of the subscription ratio technically feasible. The treasury shares excluded from shareholders' subscription rights as free fractional shares are realized by selling them on the stock exchange, or in some other way, at the best price available for the Company. Due to the limitation to fractional amounts the potential dilution effect is low.

Considering all the aforementioned facts and circumstances, the Board of Management and the Supervisory Board regard the exclusion of subscription rights in the aforementioned cases, also making allowance for any dilution effect arising from the exercise of the authorizations in question to the disadvantage of the shareholders, as justified and reasonable vis-à-vis shareholders for the reasons given. The Board of Management

shall report to the shareholders' meeting on the details of any plans to make use of the authorization to buy back treasury shares.

**Bonn, February 2011**

**Deutsche Telekom AG  
Board of Management**

René Obermann  
(Chairman)

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Guido Kerkhoff

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Thomas Sattelberger