



Board of Management's report to the Shareholders' meeting on item 13 on the agenda of Deutsche Telekom AG Shareholders' meeting on May 3, 2010

Report of the Board of Management on item 13 on the agenda: Report on the exclusion of subscription rights when issuing bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) pursuant to § 221 (4) sentence 2 and § 186 (4) sentence 2 AktG.

Issuing bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) (hereinafter collectively also referred to as "bonds") provides attractive financing options. Since the previous authorization of the shareholders' meeting on April 26, 2005 to issue bonds with warrants or convertible bonds expires on April 25, 2010 without use being made thereof, a new authorization will be created which is tailored to market developments and the Company's current financial circumstances. To service the option or conversion rights and obligations in the event that use is made of the new authorization, a resolution shall be adopted regarding new contingent capital (contingent capital 2010) with the cancellation of the previous contingent capital pursuant to § 5 (5) of the Articles of Incorporation (contingent capital IV).

Issuing bonds offers Deutsche Telekom AG, in addition to the classic options of borrowing funds and raising shareholders' equity, the option of utilizing attractive financing alternatives on the capital market depending on the market situation and thus creating the ideal conditions for future business development. The issue of bonds enables the borrowing of funds under attractive conditions. The granting of option and/or conversion rights also provides the Company with the opportunity of retaining the funds raised through the issue of bonds, in full or in part, as shareholders' equity or, depending on the structuring, classify such funds as shareholders' equity or equivalent to shareholders' equity for creditworthiness checks and for balance sheet purposes even before the option is exercised or the bonds converted. The warrant and conversion premiums obtained as well as any shareholders' equity classification accrue to the Company's capital base. The additional option of combining bonds with warrants, convertible bonds, profit participation rights and/or participating bonds provides even greater leeway for structuring these financing instruments. Hybrid financing instruments increasingly include forms of financing which also provide for an

unlimited maturity term and as such the authorization makes no provisions for any limited term for the issue of bonds. The authorization also gives the Company the flexibility it needs to tap the German capital market or, in particular, via majority holdings, the international capital market, depending on the market situation.

With regard to the authorization resolution proposed for this item on the agenda, a distinction needs to be drawn in respect of the exclusion of subscription rights: The Board of Management shall be authorized primarily, with the approval of the Supervisory Board, to issue on one or more occasions by May 2, 2015 bonds and attach option or conversion rights to the respective partial bonds, which entitle the buyers in accordance with the terms and conditions of the bond to subscribe to Deutsche Telekom AG shares with a proportion of the capital stock of up to EUR 1,100,000,000. The authorization shall not affect insofar the statutory subscription rights of shareholders. To make the process easier, use shall however be made of the option of issuing the bonds to one or several banks or the members of a consortium of banks or issue these pursuant to § 186 (5) sentence 1 AktG to equivalent companies with an obligation to offer the bonds to shareholders in accordance with their subscription rights (indirect subscription right within the meaning of § 186 (5) AktG).

As part of this general authorization, the Board of Management is also authorized to exclude the statutory right of shareholders to subscribe to the bonds, however only within certain limits: on the one hand, only to a limited extent for two specific purposes, and also to a greater extent only if specific narrow requirements are met. In the case of exclusion only to a limited extent, the subscription rights shall only be excluded to the extent required in order to be able to settle any fractional amounts

produced when stipulating the subscription ratio or to be able to grant subscription rights to holders or creditors (hereinafter collectively referred to as "holders") of bonds that have already been issued. Fractional amounts may occur with regard to the respective volume of issues and the implementation of a practical subscription ratio. The exclusion of subscription rights makes it easier to handle capital measures, in particular subscription rights of shareholders, in such cases. Subscription rights in favor of the holders of bonds that have already been issued are excluded, considering the protection against dilution of capital, which is generally granted to them under the terms and conditions of the bonds. The exclusion of subscription rights in the case of exercising this authorization is an alternative to adjusting the option or conversion price, which may otherwise be necessary. Overall, it is possible to increase the cash inflow for the Company with this approach.

With a further exclusion of subscription rights for bonds with an option or conversion right and obligation, use is made of the option provided by the intent of the law in § 221 (4) sentence 2, § 186 (3) sentence 4 AktG of excluding the subscription rights, "if the capital increase in exchange for cash contributions does not exceed ten percent of the capital stock and the issue price is not lower than the market price" (hereinafter also referred to as "simplified exclusion of subscription rights"). The number of shares accounted for by the bonds, for which the subscription rights pursuant to § 221 (4) sentence 2, § 186 (3) sentence 4 AktG can be excluded, is limited to 10% of the capital stock. That is currently EUR 1,116,497,918.20. In principle, the Company's capital stock at the time the resolution is adopted at the shareholders' meeting on May 3, 2010 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 the authorization is exercised is decisive. The authorized volume should 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 authorization was granted 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.

In the case of simplified exclusion of subscription rights, the Board of Management will also not stipulate an issue price that is significantly lower than the theoretical market value of the bonds determined in accordance with recognized financial methods, thus ensuring that insofar the provisions of § 186 (3) sentence 4 AktG are also complied with.

The simplified exclusion of subscription rights will enable the Board of Management, with the approval of the Supervisory Board, to tap capital markets quickly and at short notice to bolster its capital base and achieve optimum conditions by fixing conditions in line with the market. The placement under simplified exclusion of subscription rights of shareholders opens up the opportunity of a higher inflow of cash per bond than would be the case if issuing with subscription rights. It is decisive that the Company obtains the necessary flexibility through the exclusion of subscription rights to perceive short-term favorable stock market situations. Although § 186 (2) AktG permits when granting subscription rights the announcement of the subscription price (and thus with bonds the associated conditions) no later than three days before the expiry of the subscription period, this also

entails a market risk given the volatility of the stock markets - in particular, the risk of a price change over several days which can lead to safety margins being deducted when fixing the terms and conditions of the bonds and thus to conditions which are not in line with those of the market. The successful placement is also jeopardized among new investors, and in any event involves additional expenses, if a subscription right exists due to the uncertainty about whether this right will be exercised (subscription behavior). Ultimately, 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. Moreover, this type of placement can help secure new investors in Germany and abroad using the simplified exclusion of subscription rights. When allocating the bonds to one or more investors, the Board of Management will be geared solely by the Company's interests.

The shareholders' need for protection in the case of simplified exclusion of subscription rights – in addition to the limited scope of the authorization – is taken into account by means of fixing the issue price not significantly lower than the market value of the respective bond. This is designed to prevent any significant economic dilution of the value of the Company's shares. Whether or not such a dilution effect has occurred can be determined by calculating the hypothetical market value of the respective bond according to recognized financial methods, and comparing this with the issue price. If, after the compulsory Board of Management review, this issue price is only insignificantly lower than the hypothetical market price (market value) on the date of the issue of bond, an exclusion of subscription rights is permissible for the purposes of § 221 (4) sentence 2 and § 186 (3) sentence 4 AktG. In this case the value of a subscription right is virtually

zero. Consequently, shareholders do not suffer any significant economic disadvantage as a result of the exclusion of the subscription right. If the Board of Management considers it appropriate to ask for competent advice in certain situations, it can apply to third parties for support. A bank involved in the issue or an expert third party may have a suitable means of ensuring that a significant dilution in the aforementioned sense is not to be expected. Moreover, shareholders have an opportunity to maintain their share of the Company's capital stock by purchasing the shares needed for this on the stock exchange under approximately the same conditions. Around 68.3% of the shares of Deutsche Telekom AG are in free float. The total trading volume in the 2009 calendar year corresponded to over 122% of the Company's capital stock.

If profit participation rights or participating bonds without option or conversion rights and obligations are issued, the Board of Management shall be authorized, with the approval of the Supervisory Board, to exclude subscription rights of shareholders overall if these profit participation rights or participating bonds entail obligation-like terms, i.e. do not constitute any membership rights in the company, do not grant any participation in liquidation proceeds and the amount of interest is not calculated on the basis of the amount of net income/loss, unappropriated net income or the dividend. The interest and the issue price of the profit participation rights or participating bonds must also correspond to comparable borrowing under the current market conditions on the date of issue. If the aforementioned prerequisites are met, shareholders do not suffer any disadvantages as a result of the exclusion of subscription rights, since the profit participation

rights or participating bonds do not constitute any membership rights nor grant any portion of the liquidation proceeds or Company profit. Provisions can be made so that the interest depends on the existence of net income (loss), unappropriated net income or a dividend. By contrast, a provision would be inadmissible under which a higher net income, higher unappropriated net income or a higher

dividend led to higher interest. Hence the issue of profit participation rights or participating bonds neither modifies nor dilutes the voting rights nor the participation of the shareholders in the Company and its profits. In addition, the issue conditions in line with the market, which are binding in this case of exclusion of subscription rights, do not constitute any significant value of the subscription right.

The proposed contingent increase of the capital stock by up to EUR 1,100,000,000 (contingent capital 2010) is only designed to ensure the issue of the necessary Deutsche Telekom AG shares when option or conversion rights are exercised, or option or conversion obligations fulfilled, insofar as these are required, and authorized capital or treasury shares or other forms of fulfillment are not used.

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 the 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.

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