

## 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, 2011, the capital stock of Deutsche Telekom AG totaled EUR 11,062,577,167.36. The share capital is divided into 4,321,319,206 no par value registered shares. Each share entitles the holder to one vote.

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

2,197,437 own shares were held at December 31, 2011. The Company does not accrue any rights, especially any voting rights, arising out of these company shares. These company 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, 2011. As of December 31, 2011, the number of T-Shares reserved for the stock options still outstanding was 454,436. 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 AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of the acquisition of VoiceStream, Deutsche Telekom AG 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 AG after the closing date may be granted under an agreement between Deutsche Telekom AG 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 AG 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 Company's Articles of Incorporation do not require the transfer of Deutsche Telekom AG shares to be subject to Company 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, 2011, 68.0 percent of the shares were in free float (December 31, 2010: 68.3 percent), 15.0 percent were held by the Federal Republic of Germany (December 31, 2010: 15.0 percent), and 17.0 percent were held by KfW Bankengruppe (December 31, 2010: 17.0 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 32.0 percent (December 31, 2010: 32.0 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 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 cast votes and a majority of the capital stock represented in the resolution. 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:

**2009 Authorized capital 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 exclude shareholders' subscription rights when issuing new shares for mergers 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 Company. 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.

**2009 Authorized capital 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. The subscription rights of shareholders shall be precluded. 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 exclusively for the 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 net income 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, 2011, composed of up to 12,426,988 new no par value registered shares. The contingent capital increase is exclusively for the purpose of meeting subscription rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, executives at levels below the Board of Management of the Company and other executives, managers and specialists of the Company and to Board of Management members, managing board members and other executives of second- and lower-tier domestic and foreign Group companies, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It shall be implemented only to such extent as subscription right holders make use of their subscription rights. It will be implemented only to the extent that the holders of stock options exercise these options.

**2010 contingent capital.** The share capital was contingently increased by up to EUR 1,100,000,000 as of December 31, 2011, composed of up to 429,687,500 no par value registered shares (2010 contingent capital). 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 to reflect the utilization 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 2011 financial year, no shares issued under subscription options were issued from the contingent capital.

**Authorization of the Company to purchase and use own shares.** The shareholders' meeting resolved on May 12, 2011 to authorize the Board of Management to purchase shares in the Company by November 11, 2012, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,716.74, provided the shares to be purchased on the basis

of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e of the German Stock Corporation Act (Aktiengesetz – AktG) do not at any time account for more than 10 percent of the Company'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 own 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 shall also be 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.

The shares are to be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting under item 7 on the agenda on May 12, 2011. The shares are also to be used for purposes for which an exclusion of subscription rights is intended, but can also be withdrawn or sold through the stock market or by way of an offer to all shareholders. The shares are to be available in particular to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing Board of Management remuneration, on the basis of a decision by the Supervisory Board to this effect.

As part of this authorization, the Board of Management decided on May 27, 2011 and September 20, 2011 to purchase a total of 316 thousand shares for a total price of EUR 3 million with an average purchase price of EUR 8.74 per share. These buy-backs were executed on June 6, 2011 and September 23, 2011. As a result, treasury shares of EUR 1 million were openly deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by EUR 2 million.

#### **8. Main agreements of the Company 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 S.A.) 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) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) similarly applies to the allocation of voting rights.

The Hellenic Republic shall have the right to purchase all of Deutsche Telekom AG's shares in the Greek company Hellenic Telecommunications Organization S.A., Athens, Greece (OTE) from Deutsche Telekom AG if Deutsche Telekom AG were to 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 standing to Deutsche Telekom AG. 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.

When establishing the procurement joint venture BUYIN in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. provided in the master agreement that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not part of the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the respective other party can terminate the master agreement with immediate effect.

## 9. Compensation agreements of the Company 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 (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 responsible for independently reviewing the functionality and 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. In addition, the external auditors conduct a risk-oriented audit to verify the effectiveness of those parts of the ICS that are relevant to financial reporting.

The accounting-related ICS, which is continuously refined, comprises the principles, methods, and measures used to ensure compliant accounting. The accounting-related ICS aims to ensure the consolidated financial statements of Deutsche Telekom are 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.

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.

Group Accounting manages the processes of Group accounting and management reporting. 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 ensures that 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. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems, being supported and monitored by Group Accounting.

Operating accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. In this context, the ICS safeguards the quality of internal processes as well as of the interfaces to our customer by means of adequate controls and an internal certification process.

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, and change management.

We have implemented a standardized 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. At the

beginning of the year, specific accounts and accounting processes are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

Bonn, February 6, 2012

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Board of Management

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