Shareholders’ meeting on May 24, 2012

Board of Management’s report to the shareholders’ meeting on item 8 of the agenda:

Report on the exclusion of any possible right to tender shares for the acquisition of own shares using equity derivatives.

Item 8 on the agenda contains the proposal to authorize the Company to use equity derivatives for the acquisition of own shares in accordance with the authorization proposed under agenda item 7. To this end, the Board of Management should be authorized (1) to sell options which oblige the Company to acquire own shares if the options are exercised (hereinafter: put options), and (2) to acquire options which entitle the Company to acquire own shares if the options are exercised (hereinafter: call options). Own shares can also be acquired in accordance with the authorization proposed under item 8 on the agenda by using combinations of put options and call options (hereinafter jointly: equity derivatives or derivatives). The proposed authorization envisages that all the equity derivatives used under this authorization may relate to a number of shares that does not exceed 5% of the capital stock of Deutsche Telekom AG on the date the shareholders’ meeting adopts a resolution on this authorization.

Usable equity derivatives and their advantages:

The proposed authorization allows the usage of put options and call options as well as combinations of these equity derivatives.

When the put options are sold, the Company grants the buyer the right to sell Deutsche Telekom AG shares at a price stipulated in the put option (exercise price) to the Company. The Company receives an option premium as a consideration. If the put option is exercised, the option premium paid by the buyer of the put option reduces the total equivalent value paid by the Company to acquire the share. Exercising the put option then makes commercial sense for the option owner if the Deutsche Telekom AG share price is below the exercise price on the date of exercising because the option owner can then sell the shares at a higher exercise price. From the Company's perspective, the share buyback using put options has the advantage that it can specify the exercise price when concluding the option transaction, whereas the liquidity will only flow out on the date the options are exercised. The usage of put options for share buybacks can be sensible, for instance, if the Company intends to buy back own shares at low share prices, but is not certain about the optimum buyback date, i.e., the date of the most favorable Deutsche Telekom AG share price. It can be advantageous here for the Company to sell put options, whose exercise price is below the Deutsche Telekom AG share price on the date of concluding the put-option transaction. The usage of put options offers, in particular, the advantage that the buyback — compared with an immediate buyback — takes place at a lower price level. If the option owner does not exercise the option, because the share price on the date of the exercise is above the exercise price, the Company can in this way not acquire equity shares, but still has the collected option premium.

When a call option is acquired, the Company receives the right against payment of an option premium to buy a previously stipulated number of shares at a previously stipulated price (exercise price) from the seller of the option, the writer. Exercising the call option makes commercial sense for the Company if the Deutsche Telekom AG share price is higher than the exercise price since it can then buy the shares at a lower exercise price from the writer. In this way, the Company can hedge against rising share prices. In addition, the Company's liquidity is preserved since the stipulated acquisition price for the shares must only be paid when the call options are exercised.

Term of the usable equity derivatives:

The longer the term of an equity derivative, the greater the probability that the Deutsche Telekom AG share price unpredictably deviates from the share price when the derivative transaction was concluded. The proposed authorization therefore envisages that the term of the individual
derivatives may not be more than 18 months in each case. It is also envisaged that the term of the individual derivatives must end no later than May 23, 2017 and must be chosen in such a way that the own shares cannot be acquired after May 23, 2017 when exercising the derivatives. The reason is that the buyback authorization proposed in agenda item 7 will also expire at the end of May 23, 2017 and subsequently no more shares can be bought back on the basis of this provision. Since the authorization proposed under agenda item 8 supplements this buyback authorization, the timing of the two should occur simultaneously.

Further arrangements of the usable equity derivatives:

In accordance with the proposed authorization, the derivative transactions must be concluded with a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG (hereinafter jointly: issuing companies). In accordance with the proposed authorization, it must also be ensured that the derivatives are only paid with shares which have been acquired from the issuing company previously observing the principle of equal treatment through the stock market at a price that is not significantly higher or lower than the current share price in the Xetra trading system of Deutsche Börse AG (or a subsequent system) on the date of conclusion of the stock market transaction and that is no more than 10% higher or 20% lower than the share price established by the opening auction on the trading day on which the stock market transaction was concluded in the Xetra trading system of Deutsche Börse AG (or a subsequent system). The issuing company must also comply with the requirements in the authorization proposed in agenda item 7 under b) (1) for the Company when acquiring shares on the stock market. To ensure this, a relevant obligation with put options must already be part of the agreement with the issuing company; the Company may only exercise call options if it is ensured that these requirements are met when supplying the shares. As a result of the issuing company only supplying shares that it has previously acquired through the stock market at the current share price in the Xetra trading system of Deutsche Börse AG (or a subsequent system) on the date of acquisition through the stock market, the rule of equal treatment of shareholders should be met in accordance with the provisions in § 71 (1) no. 8 sentence 4 AktG.

The price agreed in the derivative (excluding transaction costs) for the acquisition of a Deutsche Telekom AG share when exercising the derivatives must, both including and excluding a received or paid option premium, not be more than 10% higher or 20% lower than the share price established by the opening auction on the trading day on which the derivative market transaction was completed in the Xetra trading system of Deutsche Börse AG (or a subsequent system). The Company is therefore placed in a position in respect of the permissible acquisition price of the shares in the starting point as if it were to acquire the shares directly through the stock market on the date the relevant derivative transaction was concluded. For the acquisition authorization proposed under agenda item 7 envisages under b) (1) the same lowest and highest equivalent values for the acquisition of own shares through the stock market. Nonetheless, the proposed authorization on the use of equity derivatives also envisages in this respect another restriction whereby the relevant limit values both with and also without inclusion of a received or paid option premium have to be met.

The call option premium paid by the Company must not be significantly higher and the put option premium collected by the Company must not be significantly lower than the theoretical market value of the respective options calculated according to recognized investment mathematics methods, with the agreed exercise price, among other things, taken into account as part of the calculation. This and the limited scope in which own shares can be acquired using equity derivatives, corresponds to the basic notion transferred to any possible right to purchase for shareholders of § 186 (3) sentence 4 AktG which applies to the exclusion of subscription rights.

Exclusion of any right to tender shares:

If own shares are acquired using equity derivatives in compliance with the above provisions, shareholders shall not be entitled under the proposed authorization to conclude such derivative transactions with the Company. To ensure that the Company can conclude the derivative transactions with an issuing company, it shall – unlike with an offer to conclude equity transactions to all shareholders – also be able to conclude these derivative transactions at short notice. This gives the Company the necessary flexibility to be able to respond quickly to market situations.

When acquiring own shares using these equity derivatives, shareholders should be entitled to offer their shares only to the extent that the Company is obliged to accept the shares from them from the derivative transactions. Any further right to tender shares is excluded in the proposed authorization! Otherwise, the use of the equity derivatives envisaged in the proposed authorization as part of the acquisition of own shares would not be possible and the Company would not benefit from the associated advantages.

The aforementioned specifications ensure that the shareholders do not suffer substantial financial loss when acquiring own shares using equity derivatives. Since the Company collects or pays a fair market price, the shareholders, in particular, not involved in the derivative transactions do not suffer any substantial loss of value. The shareholders’ position essentially corresponds to their position with the share buyback through the stock exchange where not all shareholders are actually able to sell shares to the Company. The provisions governing the arrangements of the equity derivatives and the requirements for the shares to be supplied ensure that the principle of equal treatment of shareholders is also ensured with

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this mode of acquisition. It is therefore justified that any claims of shareholders to conclude the aforementioned derivative transactions with the Company are excluded.

Considering all the above-mentioned facts and circumstances, the Board of Management and the Supervisory Board regard the exclusion of any right to tender shares as justified and reasonable for the 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 own shares using equity derivatives.

Usage of shares acquired using equity derivatives:

The provisions contained in the authorization proposed under agenda item 7 in c) through m) shall also apply to the usage of own shares acquired using equity derivatives. For further information see Board of Management's report on item 7 of the agenda.

Bonn, February 2012
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