

# BOARD OF MANAGEMENT'S REPORT TO THE SHAREHOLDERS' MEETING ON ITEM 10 ON THE AGENDA FOR THE SHAREHOLDERS' MEETING OF DEUTSCHE TELEKOM AG ON MAY 13, 2013

## Report on the authorization to exclude subscription rights in the case of Authorized capital 2013 pursuant to § 186 (4), sentence 2, § 203 (2) sentence 2 AktG.

Authorized capital 2009/I in § 5 (2) Articles of Incorporation is due to expire on April 29, 2014 and therefore probably before the 2014 shareholders' meeting is held. It will – to the extent that it still exists – be canceled and new authorized capital, authorized capital 2013, created, with which new shares can be issued for cash and/or non-cash contributions. This will ensure that the Company always has authorized capital available in future and, with it, the associated flexibility for cash and non-cash capital increases.

The Articles of Incorporation currently include two authorized capitals: As already mentioned, § 5 (2) of the Articles of Incorporation includes authorized capital 2009/I, which provides the authorization to increase the capital stock for non-cash contributions with the possibility of excluding subscription rights to use the new shares for certain merger or acquisition purposes. The Board of Management has so far made no use of the original authorization amounting to EUR 2,176,000,000 from authorized capital 2009/I. However, plans exist to utilize the authorized capital 2009/I to give shareholders the possibility mentioned under agenda item 2 to opt for shares in place of a dividend payment in cash. § 5 (3) of the Articles of Incorporation contains the authorized capital 2009/II with the authorization to issue employee shares for cash and non-cash contributions to the exclusion of shareholder subscription rights. The authorized capital 2009/II still comprises the original amount of EUR 38,400,000 and expires on April 29, 2014.

The new authorized capital requested for 2013 and amounting to EUR 2,176,000,000 constitutes approx. 20 percent of the current capital stock amounting to EUR 11,062,577,167.36. The authorized capital 2013 will give the Board of Management authority to increase capital stock, subject to the approval of the Supervisory Board, by up to EUR 2,176,000,000 by issuing up to 850,000,000 registered no par

value shares for cash or non-cash contributions in the period up to May 15, 2018. The authorization will be exercised as a whole or on one or more occasions in partial amounts.

In the event of capital increases for non-cash contributions, the Board of Management will be authorized, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights when issuing new shares for mergers or acquisitions of companies, business units, or interests in companies, including increases in existing investment holdings, or other assets eligible for contribution in conjunction with such acquisitions, including receivables from 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. In particular, 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 proved that mergers and acquisitions of companies, business units, or interests in such companies frequently involve large units, requiring the provision of substantial considerations. In many cases, these considerations cannot or should not be paid in cash. In fact, to ensure that the liquidity of the Company is not endangered, it may be more beneficial if the consideration that the Company is required to provide for a merger or the acquisition of a company, a business unit or an interest in another company can be provided wholly or partially in new shares of the acquirer. It has been seen in practice both on international and national markets that the acquirer's shares are often requested as consideration for attractive acquisitions. For this reason, Deutsche Telekom AG must



be given the opportunity to offer new shares as consideration for mergers or acquisitions of companies, business units, or interests in companies. In this respect, non-cash contributions include companies, business units, and interests in companies.

Furthermore, the resolution proposal makes express provision, subject to the approval of the Supervisory Board, for the exclusion of shareholders' subscription rights in order to issue new 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 intended acquisition, it can make economic sense to acquire other assets in addition to the actual object acquired, for example those that 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 intended acquisition, and – either to protect liquidity or at the request of the seller – to offer shares as a consideration for this, assuming that the relevant assets are eligible for contribution. In this respect, Deutsche Telekom AG should therefore also have the option of increasing its capital stock against non-cash contributions while excluding shareholders' subscription rights. Non-cash contributions are considered in such cases to be assets in conjunction with the acquisition.

The Board of Management will, in particular, also be entitled, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights when using authorized capital 2013 in order to grant the owners of receivables 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 such cases, non-cash contributions when using authorized capital 2013 comprise receivables against Deutsche Telekom AG.

While the granting of shares in the context of mergers or acquisitions of companies, business units, or interests in companies, including increases in existing investment holdings, or of other assets eligible for contribution in conjunction with such acquisitions, including receivables from the Company, serves the authorization for use provided in g) of the authorization resolution relating to the purchase and use of own shares approved under item 7 of the agenda for the shareholders' meeting on May 24, 2012, one of the requirements for using own shares as acquisition currency is that they have been previously acquired. The use of own shares as acquisition currency may therefore prove

disadvantageous for the use of authorized capital in some circumstances, mainly because of the liquidity needed to buy back the shares. Furthermore, the purchase authorization is limited to 10% of the capital stock. Authorized capital can be used by Deutsche Telekom AG to offer shares as consideration independently of a repurchase of own shares. The proposed authorization will 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 to acquire other assets eligible for contribution in conjunction with such acquisitions. The authorization will enable Deutsche Telekom AG to use the authorized capital to grant new shares as consideration in the context of mergers and acquisitions of companies, business units, and interests in companies, or to acquire other assets eligible for contribution in conjunction with such acquisitions, where this is appropriate.

In order to perform such transactions swiftly and with the necessary flexibility, Deutsche Telekom AG must have the option of increasing its capital stock for non-cash contributions while excluding shareholders' subscription rights. This is why it is imperative that the Board of Management be authorized to exclude shareholders' subscription rights when issuing new shares. Such a decision by the Board of Management shall be contingent on the Supervisory Board's approval, however. When subscription rights are granted, mergers and the acquisition of companies, business units, or interests in companies or other assets eligible for contribution in conjunction with such acquisitions, are not possible in exchange for the issue of new shares, and the Company and its shareholders cannot benefit from the associated advantages.

At present, the Company does not have any concrete merger or acquisition plans for using authorized capital 2013 and the opportunity for a non-cash capital increase with the exclusion of shareholders' subscription rights that such capital entails. 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 in conjunction with such acquisitions, the Board of Management will examine each case to decide whether to use the option of increasing capital for non-cash contributions while excluding subscription rights. It will only use the authorization if it is convinced that issuing new Deutsche Telekom AG shares to make an 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 contribution in kind is commensurate with the value of the shares.

Further, the Board of Management is to be authorized, subject to the approval of the Supervisory Board, to exclude fractional amounts from shareholders' subscription rights. This serves the purpose of enabling the Company to use rounded amounts for authorized capital 2013 in order to establish a practicable subscription ratio and to facilitate practical

implementation of the capital increase. Shares that become free as a result of the exclusion of shareholders' subscription rights are realized by selling them on the stock exchange or in some other way at the best price obtainable for the Company. Due to the limitation to fractional amounts, the potential dilution effect as a result of the exclusion of shareholders' rights is low.

Considering all the above-mentioned facts and circumstances, the Board of Management, in agreement with the Supervisory Board, regards the authorizations to exclude subscription rights, also making allowance for the potential dilution effect arising from the exercise of the authorizations

in question to the disadvantage of the shareholders, as justified and reasonable for the reasons given. The Board of Management will report to the shareholders' meeting on each use of authorized capital 2013.

**Bonn, February 2013**

**Deutsche Telekom AG  
The Board of Management**

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