

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 15, 2014

Report on agenda item 10: 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.

The issue of 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. The previous authorization granted by the shareholders' meeting on May 3, 2010, to issue bonds with warrants or convertible bonds, which has not yet been used, expires on May 2, 2015, and therefore probably immediately before the date of the shareholders' meeting in 2015. Therefore, it shall now be replaced by a new authorization. To service the option or conversion rights, and/or the option or conversion obligations, in the event that use is made of the new authorization, a resolution is to be adopted regarding new contingent capital (contingent capital 2014), along with the corresponding amendment to § 5 of the Articles of Incorporation, subject to cancellation of the previous contingent capital (contingent capital 2010) pursuant to § 5 (4) of the Articles of Incorporation.

In addition to the traditional methods of borrowing and raising shareholders' equity, the issue of bonds offers Deutsche Telekom AG the chance to utilize attractive financing alternatives on the capital market, depending on the market situation, and thus to establish ideal conditions for future business development. The issue of bonds enables the borrowing of funds under attractive conditions. Furthermore, the granting of option or conversion rights provides the Company with the opportunity to retain funds raised through the issue of bonds, in full or in part, as shareholders' equity or, depending on their structuring, to 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 are converted. The option and conversion premiums obtained and classification as shareholders' equity 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 that also provide for an unlimited maturity term and as such the authorization makes no provisions for any limited term for the issue of bonds. Furthermore, the authorization gives the Company the flexibility it needs, depending on the market situation, to tap the German capital market or, in particular via majority holdings, the international capital market.

With regard to the authorization resolution proposed for this agenda item, a distinction shall be drawn in respect of the exclusion of subscription rights: The Board of Management shall primarily be authorized, with the approval of the Supervisory Board, to issue bonds on one or more occasions up until May 14, 2019, and to attach option or conversion rights to the respective partial bonds, which, in accordance with the terms and conditions of the bond, entitle the buyers to subscribe to Deutsche Telekom AG shares with a proportionate share in capital stock of up to EUR 1,100,000,000. Insofar, the authorization shall not affect shareholders' statutory subscription rights. 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 to 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).

Under the terms of this general authorization, the Board of Management shall further be authorized to exclude the statutory right of shareholders to subscribe to the bonds, however only within certain limits, namely only to a limited extent for two specific purposes and to a greater extent only under certain strict conditions. In the case of exclusion only to a limited extent, the subscription right shall only be excluded to the extent required to offset any fractional amounts produced when stipulating the subscription ratio, or to grant subscription rights to holders or creditors (hereinafter collectively referred to as "holders") of bonds that have already been issued. Fractional amounts may result from the respective volume of



issue and the implementation of a practicable subscription ratio. In such cases, the exclusion of subscription rights makes it easier to handle capital measures, in particular subscription rights of shareholders. The exclusion of subscription rights in favor of the holders of issued bonds shall take into consideration the protection against dilution of capital, to which they are generally entitled under the terms and conditions of the bonds. Exercising this authority to exclude subscription rights is an alternative to adjusting the option or conversion price, which may otherwise be necessary. Overall, this approach makes it possible to increase the cash inflow to the Company.

In the case of a further exclusion of subscription rights for bonds carrying option or conversion rights and/or option or conversion obligations, use is made of the possibility provided for by the legislator in § 221 (4) sentence 2, § 186 (3) sentence 4 AktG of excluding subscription rights “if the capital increase against cash contributions does not exceed ten percent of the capital stock and the issue price is not significantly lower than the market price” (hereinafter also referred to as “simplified exclusion of subscription rights”). The number of shares accounted for by bonds for which subscription rights can be excluded pursuant to § 221 (4) sentence 2, § 186 (3) sentence 4 AktG is limited to 10 % of the capital stock. That is currently EUR 1,139,500,826.36. In principle, the Company’s capital stock on the date on which the resolution is adopted at the shareholders’ meeting on May 15, 2014 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 shall be decisive. The authorized volume should be decreased by the proportion of capital stock that is accounted for by 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 possibility of excluding subscription rights in accordance with § 186 (3) sentence 4 AktG.

In the case of the simplified exclusion of subscription rights, the Board of Management shall 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 compliance in this respect with the provisions of § 186 (3) sentence 4 AktG.

The simplified exclusion of subscription rights enables the Board of Management, with the approval of the Supervisory Board, to tap capital markets quickly and at short notice in order to bolster the Company’s capital base and to achieve optimal conditions by establishing standard market terms. Placement under simplified exclusion of subscription rights opens up the opportunity of a higher inflow of cash per bond than in the case of an issue with subscription rights. The decisive factor here is that the exclusion of subscription rights gives the Company the flexibility it needs to take advantage of favorable stock market conditions at

short notice. Although § 186 (2) AktG permits announcement of the subscription price (and therefore the conditions associated with bonds) when subscription rights are granted no later than three days before the expiry of the subscription period, this nonetheless entails a market risk – in view of stock market volatility – in particular, the risk of prices changing over several days, which can lead to safety margins being deducted when fixing the terms and conditions of bonds and hence to sub-optimal conditions. If a subscription right exists, successful placement among new investors is also jeopardized, and in any event involves additional expense, due to the uncertainty about whether this right will be exercised (subscription behavior). Ultimately, when the Company grants subscription rights, it is unable to respond quickly to favorable or unfavorable market conditions due to the length of the subscription period. Moreover, this type of placement using the simplified exclusion of subscription rights can help secure new investors in Germany and abroad. When allocating the bonds to one or more investors, the Board of Management will focus solely on 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 – shall be taken into account by fixing an issue price that is not significantly lower than the market value of the respective bond. This is designed to prevent any significant economic dilution in 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 the bond, simplified 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 exclusion of the subscription right. If, in certain situations, the Board of Management considers it appropriate to seek competent advice, it shall be permitted to 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 the chance to maintain their share of the Company’s capital stock by purchasing the shares needed for this on the stock exchange on approximately the same terms. Around 68 % of the shares of Deutsche Telekom AG are in free float. The total trading volume in the 2013 calendar year corresponded to over 80.5 % of the Company’s capital stock.

Furthermore, an appropriate clause should, in the interest of shareholders, guarantee that the aforementioned authorizations to exclude subscription rights, including all other authorizations to exclude subscription rights, is limited to a share volume equivalent to a total of 20 % of the capital stock of Deutsche Telekom AG.

To the extent that profit participation rights or participating bonds are to be issued that do not carry option or conversion rights and/or option or conversion obligations, 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 are structured in the same way as bonds, 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, unappropriated net income, or the dividend. In this case, the interest and the issue price of the profit participation rights or participating bonds shall also correspond to comparable borrowings under current market conditions on the issue date. 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 of Company profit. Provisions can be made so that interest depends on the existence of net profit, 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. Consequently, the issue of profit participation rights or participating bonds does not modify or dilute the voting rights or the participation of shareholders in the Company and its profits. Furthermore, the market-conform terms of issue, which are mandatory for this case of exclusion of subscription rights, do not result in any significant subscription right value.

The proposed contingent increase of the capital stock by up to EUR 1,100,000,000 (contingent capital 2014) is designed solely to ensure issue of the necessary Deutsche Telekom AG shares when option or conversion rights are exercised and/or option or conversion obligations are fulfilled, insofar as these are required, and authorized capital or treasury shares or other forms of fulfillment are not used.

In consideration of all the aforementioned facts and circumstances, the Board of Management, in agreement with the Supervisory Board, regards the authorization to exclude subscription rights in said cases, also making allowance for the potential dilution effect arising from exercise of the authorizations in question to the disadvantage of shareholders, as justified and reasonable for the reasons given.

Bonn, February 2014

**Deutsche Telekom AG
The Board of Management**



LIFE IS FOR SHARING.