

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, 2015, the capital stock of Deutsche Telekom AG totaled EUR 11,793,028,787.20. The share capital is divided into 4,606,651,870 no par value registered shares. Each share entitles the holder to one vote.

2. RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES.

19,817,283 treasury shares were held at December 31, 2015. These voting rights are restricted in relation to treasury shares (at December 31, 2015: around 1 million) and “trust” shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2015: around 19 million). The “trust” shares, as they are known, relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2015 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts’ existence. The trusts were dissolved at the beginning of 2016 and the trust assets transferred to a custody account of Deutsche Telekom AG.

3. DIRECT OR INDIRECT EQUITY INTERESTS EXCEEDING 10 PERCENT OF VOTING RIGHTS.

The shares of Deutsche Telekom AG are traded on several stock exchanges, including Frankfurt am Main. As of December 31, 2015, 68.2 percent of the shares were in free float (December 31, 2014: 68.3 percent), 14.3 percent were held by the Federal Republic of Germany (December 31, 2014: 14.3 percent), and 17.5 percent were held by KfW Bankengruppe (December 31, 2014: 17.4 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 31.8 percent (December 31, 2014: 31.7 percent). Due to the average attendance at the shareholders’ meeting, the Federal Republic thus represents a solid majority at the shareholders’ meeting. Deutsche Telekom AG is therefore deemed dependent pursuant to § 17 German Stock Corporation Act (Aktengesetz – AktG), which means that the Board of Management must produce a dependent company report in accordance with § 312 AktG, as no control or profit and loss transfer agreement exists with the Federal Republic.

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, in urgent

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cases an appointment shall be made by order of court at the request of one of the parties involved, in accordance with § 85 (1) AktG.

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 subscription rights.

7. AUTHORITY OF THE BOARD OF MANAGEMENT TO ISSUE AND BUY BACK SHARES.

2013 Authorized capital. The shareholders' meeting on May 16, 2013 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 cash and/or non-cash contributions in the period ending May 15, 2018. The authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights when increasing capital stock for non-cash contributions in order to issue new shares for mergers or acquisitions of companies, business units, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution in conjunction with such acquisitions, including receivables from the Corporation. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued (**2013 authorized capital**). Following the increases in capital stock against contribution of dividend entitlements in the 2014 and 2015 financial years, the 2013 authorized capital amounts to EUR 1,777,979,476.48. The remaining 2013 authorized capital was entered in the commercial register on June 17, 2015.

As of December 31, 2014, the share capital was contingently increased by up to EUR 1,100,000,000 composed of up to 429,687,500 no par value shares (**2014 contingent capital**). The contingent capital increase shall 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 option or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the ordinary shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

b) persons obligated under 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 14, 2019, on the basis of the authorization resolution granted by the ordinary shareholders' meeting on May 15, 2014, 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 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Treasury shares. The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of capital stock accounted for by these shares totaling up to EUR 1,106,257,715.20, 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 § 71 d and § 71 e AktG do not at any time account for more than 10 percent of the Company's capital stock. 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 (§ 53a 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 may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or retired. The shares may also be used 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 the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the authorization by the shareholders' meeting on May 24, 2012 described above and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased

the number of treasury shares by 316 thousand and 268 thousand, respectively.

In the 2015 financial year, Deutsche Telekom made use of the authorization by the shareholders' meeting on May 24, 2012. The Board of Management decided on September 29, 2015 to acquire a total of 950 thousand shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787 thousand (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for less than 0.02 percent, or EUR 2,432 thousand, of capital stock as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90 thousand shares were transferred free of charge in the 2014 financial year.

Furthermore, a total of 140 thousand shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2015, sales of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 358 thousand, of capital stock. Retained earnings thus increased by EUR 877 thousand.

In November 2015, Deutsche Telekom sold 1,882 thousand treasury shares from its portfolio. The selling price was EUR 31,274 thousand (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,458 thousand, was allocated to the capital reserves. The sale proceeds received were recognized under cash and cash equivalents. As of December 31, 2015, the disposal of treasury shares resulting from the sale in the reporting period accounted for 0.04 percent, or EUR 4,817 thousand, of capital stock.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options and conversion rights, among others. These options and conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1 a) HGB. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred to a custody account of Deutsche Telekom AG.

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 capital stock or voting rights are held by a new

shareholder and this change was not approved by the other members of the consortium.

The Hellenic Republic shall have the right to purchase all of Deutsche Telekom AG's shares in the Hellenic Telecommunications Organization S.A., Athens, Greece (OTE), from Deutsche Telekom AG or to demand that they be transferred to a third party named by it 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 stature 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 EE 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 for a period of one year. Transferring shares to competitors would remain prohibited even in this situation, however. Upon consummation of the sale of the stake in the EE joint venture to the BT Group PLC on January 29, 2016, these contractual restrictions ceased to apply.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. (a subsidiary of France Télécom S.A.) agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not wholly owned by the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (France Télécom and Atlas Services Belgium only jointly) can terminate the master agreement with immediate effect.

9. COMPENSATION AGREEMENTS OF THE COMPANY MADE WITH THE MEMBERS OF THE BOARD OF MANAGEMENT IN THE EVENT 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 (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of the Supervisory Board of Deutsche Telekom AG 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 inspection 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 comprises the principles, methods, and measures used to ensure appropriate accounting. It is being continuously enhanced and has the following objectives: The consolidated financial statements of Deutsche Telekom are to be 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) of the German Commercial Code (Handelsgesetzbuch – HGB). Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report 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, 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 such as the Intercompany Policy, 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 and in doing so, are supported and monitored by Group Accounting.

Operational 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. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies 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 reconciliations
- The segregation of functions
- The peer-checking principle
- Monitoring controls
- General IT controls 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-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year. If issues are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material issues, the action plans for eliminating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

Bonn, February 9, 2016

**Deutsche Telekom AG
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