

# Board of Management's reports to the shareholders' meeting

## Board of Management's report on item 7 of the agenda: Report on the exclusion of subscription rights in the event of sale of own shares pursuant to §§ 71(1) no. 8, 186(4) sentence 2 of the German Stock Corporation Act (Aktiengesetz - AktG), as well as on the exclusion of any right to tender shares

Item 7 on the agenda contains the proposal to authorize the Company to acquire own shares, with the amount of capital stock accounted for by these shares totaling up to EUR 1,218,933,400.57 – which is 10% of the capital stock – by March 31, 2026, pursuant to § 71(1) no. 8 AktG. The existing authorization to purchase own shares, which was granted by the shareholders' meeting on May 25, 2016, is due to expire on May 24, 2021 and is to be replaced. The renewed authorization is also to have a term of five years. The authorization granted to the Board of Management by the shareholders' meeting on May 25, 2016 to purchase own shares shall expire when this new authorization takes effect; the authorizations granted by the shareholders' meeting resolution of May 25, 2016 on the use of purchased own shares shall remain unaffected.

On the basis of the new authorization proposed in item 7 on the agenda of this year's shareholders' meeting, the Company can purchase own shares either on the stock exchange or by means of a public offer to purchase or exchange shares that is presented to all shareholders.

Under the proposed authorization, if the Company purchases own shares by means of a public purchase offer presented to all shareholders, or a public share exchange offer presented to all shareholders, the shares can be purchased on the basis of the ratio of shares offered (offer quotas), providing the total number of shares offered exceeds a volume specified by the Board of Management. Only if the purchase is essentially made based on offer quotas rather than shareholding quotas will the technical purchase process be economically viable. Furthermore, the possibility is to be provided for preferential acceptance of small quantities of up to 100 shares offered per shareholder. This option is designed on the one hand to avoid having small remainders of shares, which tend to be uneconomical and may lead to de facto discrimination against small shareholders. It also helps simplify the technical aspects of the purchase process. Finally, provision is to be made in all instances to allow rounding off in accordance with proven commercial practice to avoid arithmetical fractional shares. In this respect, the purchase quota and/or the number of shares to be purchased by the individual shareholder accepting the offer can be rounded off, in accordance with commercial practice, as necessary to represent the purchase of whole shares in the processing system. In the aforementioned cases, it is necessary to exclude any further right to tender shares, and the Board of Management and the Supervisory Board are convinced that such exclusion is justified, and rea-

sonable vis-à-vis shareholders, for the reasons specified above.

The shares should be purchased on the stock exchange through a bank or some other company meeting the requirements of § 186(5) sentence 1 AktG (hereinafter jointly: issuing company) in such a way that the issuing company is commissioned, as part of a specific buyback program, on a previously stipulated minimum number of trading days in the Xetra trading system of Deutsche Börse AG (or a subsequent system) and no later than the end of a previously agreed period, either to purchase an agreed number of shares or to purchase shares for a previously stipulated total purchase price, and to transfer these to the Company, whereby the purchase price per share to be paid by the Company must be subject to a discount of at least 0.25% up to a maximum 5% in respect of the arithmetical average of the volume-weighted average price (VWAP) of the share in the Xetra trading system of Deutsche Börse AG (or a subsequent system) during the actual period of the buyback. This purchase price may also effectively be achieved by means of a cash payment and/or equivalent amount in shares to be made at the end of or after the expiry of the actual buyback period. In such cases, the issuing company does not acquire the shares for its own account but for the account of Deutsche Telekom AG. The issuing company must accordingly buy the shares to be supplied on the stock exchange at prices that lie within the range for the usual purchase of shares through the stock exchange in compliance with the principle of equal treatment (§ 53a AktG). In a buyback program structured in this way, Deutsche Telekom AG benefits from a discount of 0.25% to 5%, guaranteed upon conclusion

of the agreement, in respect of the arithmetical average of the volume-weighted average price (VWAP) during the buyback period. The issuing company is willing to guarantee this discount since it recognizes an opportunity to acquire the shares with an even higher discount. On the other hand, it bears the risk of being unable itself to apply this discount. In this situation, Deutsche Telekom AG receives the shares with a guaranteed discount, while the issuing company has to make up the difference. Deutsche Telekom thus ensures a fixed discount over a longer period, even if the markets change in such a way after commissioning the issuing company that it is more difficult for the issuing company to actually achieve the discount.

Own shares may be purchased in accordance with the proposed authorization by Deutsche Telekom AG directly or indirectly through dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties for the account of Deutsche Telekom AG or for the account of the dependent Group companies of Deutsche Telekom AG pursuant to § 17 AktG.

The authorization in agenda item 7 provides for the possibility of reselling acquired own shares, either through the stock exchange (in c) of the authorization) or via an offer presented to all shareholders (in d) of the authorization). At the same time, Deutsche Telekom AG is also to have the option of selling own shares by means other than through the stock exchange or through an offer to all shareholders, and to sell shares for cash payment at a price which is not significantly lower than the market price (in e) of the authorization). In addition, Deutsche Telekom AG is to be able to use repurchased

own shares to list shares on foreign stock markets on which the Company's shares have not yet been listed (in f) of the authorization). Furthermore, the Company is to have the option of purchasing own shares so that it can offer and/or grant these to third parties in the context of mergers or acquisitions of companies, business units or interests in companies, including increasing existing shareholdings, or other assets eligible for contribution for such acquisitions, including claims against the Company (in g) of the authorization). In addition, the Company is to have the option of using own shares to fulfill option and/or conversion rights and obligations from bonds issued by the Company, either directly or by a company in which the Company has a (direct or indirect) majority holding (in h) of the authorization) on the basis of the authorization under item 6 on the agenda for the shareholders' meeting on May 17, 2018. Furthermore, the authorization provides for the option of offering and/or granting purchased shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies, as well as to Managing Board members of lower-tier affiliated companies (in i) of the authorization). However, Deutsche Telekom AG shall also have the option of redeeming own shares without any further resolution of the shareholders' meeting (in j) of the authorization). Finally, the Supervisory Board is to be able to use Deutsche Telekom AG shares to fulfill rights of Board of Management members to obtain Deutsche Telekom AG shares, which the Supervisory Board has granted to these members as part of the arrangements governing Board of Management compensation (in k) of the authorization).

The authorizations under e) to k) shall not only apply for own shares acquired under the new purchase authorization. Rather, own shares of

Deutsche Telekom AG that have been or will be acquired free of charge may also be used for the purposes specified in e) to k) of the authorization (in o) of the authorization). This is so as to prevent own shares acquired free of charge from being first sold – through the stock market or by way of an offer to all shareholders – and then having to be bought back again on the basis of a) of the authorization so as to be able to use them for the purposes named in e) to k) of the authorization. In light of this, however, the relevant use of own shares acquired free of charge shall only be permitted to the extent that the permitted purchase volume under a) of the authorization has not yet been used up, and the permitted purchase volume under a) of the authorization shall be reduced accordingly if own shares acquired free of charge are used for the purposes named under e) to k) of the authorization or if the Board of Management decides that such shares are to be made available for these purposes. With regard to the use of own shares acquired free of charge for the purposes named under e) to k) of the authorization, l) sentences 1, 3, and 4 and m) of the authorization shall also apply accordingly. To this extent, the following comments on e) to i) and k) of the authorization shall also apply accordingly.

The cases in which subscription rights are excluded are listed in l) of the proposed authorization. Under l) the subscription rights of shareholders are excluded if the Board of Management uses Deutsche Telekom AG shares in accordance with the authorizations under c), e), f), g), h) and i), and if the Supervisory Board uses Deutsche Telekom AG shares in accordance with the authorization under k). Furthermore, subscription rights for fractional amounts may be excluded when offering own

shares for sale to the Company's shareholders in accordance with l) sentence 2.

An appropriate provision in l) sentences 3 and 4 of the authorization should, in the interest of shareholders, guarantee that the aforementioned options to sell own shares under disapplication of subscription rights, including all other authorizations to exclude subscription rights, are limited to a share volume equivalent to a total of 10 percent of the capital stock of Deutsche Telekom AG.

Regarding specific aspects of the aforementioned cases of exclusion of subscription rights:

#### **Re. c) of the authorization:**

If the Board of Management sells own shares on the stock exchange, shareholders do not have any subscription rights. Under § 71(1) no. 8 sentence 4 AktG, the sale of own shares on the stock exchange – as well as the acquisition of the same through the stock exchange – is compliant with the principle of equal treatment pursuant to § 53a AktG. The price at which the repurchased own shares are sold to third parties on a stock exchange shall in no case be more than 5% below the market price established by the opening auction in the Xetra trading system of Deutsche Börse AG (or a subsequent system) on the day of the binding agreement with the third party. This is specified under m) of the authorization. If on the day concerned no such market price is determined or is not determined by the time of the binding agreement with the third party, then the last closing price of the Deutsche Telekom AG share determined in the Xetra trading system of Deutsche Börse AG (or a subsequent system) shall be decisive instead. The final price at which own shares are sold is set shortly before they are sold.

#### **Re. e) of the authorization:**

Pursuant to § 71(1) no. 8 sentence 5 AktG in conjunction with § 186 (3) sentence 4 AktG, the Board of Management is to be authorized, with the approval of the Supervisory Board, to sell the repurchased shares of Deutsche Telekom AG representing no more than 10% of the capital stock, excluding the subscription rights of the shareholders, other than through the stock exchange or an offer to all shareholders for a cash payment at a price that is not significantly lower than the market price of Company shares of equal ranking on the date of sale. The price at which the repurchased own shares are sold to third parties shall in no case be more than 5% below the market price established by the opening auction in the Xetra trading system of Deutsche Börse AG (or a subsequent system) on the day of the binding agreement with the third party. This is specified under m) of the authorization. If on the day concerned no such market price is determined or is not determined by the time of the binding agreement with the third party, then the last closing price of the Deutsche Telekom AG share determined in the Xetra trading system of Deutsche Börse AG (or a subsequent system) shall be decisive instead. The final price at which own shares are sold is set shortly before they are sold.

The option of selling repurchased own shares to the exclusion of subscription rights for cash payment serves the interests of the Company to attain the best possible price when selling own shares. The option of excluding subscription rights in accordance with § 186 (3) sentence 4 AktG enables the Company to take advantage of opportunities arising from any given situation on the stock market to place shares quickly, flexibly and cost-effectively.

The amount realized by setting a price close to market levels tends to result in a considerably higher inflow of cash per share than would be the case if the stock placement included shareholders' subscription rights. By dispensing with the processing of subscription rights, which is a time-consuming, expensive process, the equity required can also be furnished in a timely manner through market opportunities that arise at short notice. Although § 186 (2) sentence 2 AktG permits when granting subscription rights the announcement of the subscription price no later than three days before the expiry of the subscription period, this also entails a risk given the volatility of the stock markets, i.e., a risk of a price change over several days, which can lead to safety margins being deducted when fixing the selling price and thus to conditions which are not optimal. In addition, the Company, when granting subscription rights, is unable to respond quickly to favorable or unfavorable market conditions due to the length of the subscription period.

The option of selling own shares under the best possible conditions and without a significant subscription rights markdown is especially important for the Company because it must be able to swiftly and flexibly exploit opportunities in rapidly changing and newly emerging markets. In view of this, it can be necessary, or at least useful, to borrow funds at short notice.

The proposed authorization is limited to a proportion of capital stock totaling no more than EUR 1,218,933,400.57 – which is 10% of the Company's capital stock on the date the shareholders' meeting adopts the resolution on April 1, 2021. Should the capital stock

be reduced, for example through the redemption of repurchased own shares, the amount of capital stock on the date of the sale of the shares is decisive. The authorized volume should be decreased by the proportion of capital stock that is accounted for by the shares or that relates to option and/or conversion rights and obligations from bonds issued or sold since the shareholders' meeting on April 1, 2021 adopted the resolution directly, pursuant to, in accordance with, or analogous to § 186 (3) sentence 4 AktG. This should ensure that the 10 percent 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. Due to the fact that the authorization is limited to this level and the selling price for the own shares to be granted has to be based on the market price, shareholders' financial interests and interests regarding voting rights are suitably safeguarded when own shares are sold to third parties and shareholders' subscription rights excluded on the basis of the provision in § 71 (1) no. 8 sentence 5 in conjunction with § 186 (3) sentence 4 AktG. Shareholders who wish to maintain their relative interest and share of voting rights currently have the opportunity to purchase the number of shares required for this on the stock exchange. Around 68% of the shares of Deutsche Telekom AG are in free float. The total trading volume in the 2020 calendar year corresponded to around 71% of the Company's capital stock.

#### **Re. f) of the authorization:**

The subscription rights of the shareholders are also to be excluded if the Board of Management uses the repurchased shares of Deutsche Telekom AG, with the approval of the Supervi-

sory Board, to list the Company's shares on foreign stock exchanges on which shares of the Company have not yet been listed. Deutsche Telekom AG is engaged in fierce competition on the foreign capital markets. For its future business development, it is of crucial importance that the Company be appropriately endowed with equity capital and have the opportunity to obtain equity capital on the market at all times and under appropriate conditions. For this reason, Deutsche Telekom AG is endeavoring to broaden its base of shareholders in other countries as well and to make investment in the Company's shares an attractive proposition. Deutsche Telekom AG needs to be able to tap into the world's major capital markets. The price at which the repurchased own shares are listed on foreign stock exchanges must not be more than 5% below the market price established by the opening auction in the Xetra trading system of Deutsche Börse AG (or a subsequent system) on the first day of listing. This is specified under m) of the authorization. If on the day concerned no such market price is determined or is not determined by the time of the initial public offering, then the last closing price of the Deutsche Telekom AG share determined in the Xetra trading system of Deutsche Börse AG (or a subsequent system) shall be decisive instead.

#### **Re. g) of the authorization:**

The subscription rights of shareholders also are to be excluded if the Board of Management, with the approval of the Supervisory Board, offers and/or grants the repurchased Deutsche Telekom AG shares to third parties in the context of mergers or acquisitions of companies, business units or interests in companies, including increases of existing shareholdings, or other assets eligible for contri-

bution for such acquisitions, including claims against 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 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 and/or grant shares as consideration for mergers or acquisitions of companies, business units or interests in companies.

In addition, the resolution proposal makes express provisions for the exclusion of shareholders' subscription rights in order to offer and/or grant repurchased own 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 which serve the economic pur-

poses 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 acquisition plan and to tender shares as a consideration for this – because the seller requests it, for example. A prerequisite according to the proposed authorization is that the assets concerned be eligible for contribution in the event of a capital increase by way of contribution in kind.

The Board of Management shall, in particular, also be entitled to the exclusion of subscription rights to offer and/or to grant the owners of claims 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 individual cases, this procedure may be more beneficial than financing the purchase price through prior disposal of any repurchased shares over the stock exchange, where negative price effects are conceivable.

The authorized capital 2017 pursuant to § 5 (2) of the Articles of Incorporation can also be used to grant shares in the context of mergers or acquisitions of companies, business units or interests in companies, including increasing existing shareholdings, or other assets eligible

for contribution for such acquisitions, including claims against the Company. Furthermore, there shall be also be the possibility to use repurchased own shares as an acquisition currency. The proposed authorization is designed to 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 other assets eligible for contribution for such acquisitions and in doing so to also provide shares as a consideration without increasing capital – something which is more time-consuming given the need for entry in the commercial register – where this is appropriate.

To be able to carry out such transactions swiftly and with the necessary flexibility, the Board of Management needs to be authorized to grant own shares excluding shareholders' subscription rights. 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 granting of bought-back shares, and the Company and its shareholders cannot benefit from the associated advantages.

There are currently no concrete plans to make use of this authorization. When 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 for such acquisitions, the Board of Management shall examine each case to decide whether to use own shares for this, excluding shareholders' sub-

scription rights. The Board of Management shall only use the authorization if it is convinced that granting Deutsche Telekom AG shares for a merger or 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.

#### **Re. h) of the authorization:**

In addition, the Company shall have the option of using repurchased shares to fulfill option and/or conversion rights and obligations from bonds issued by the Company, either directly or by a company in which the Company has a (direct or indirect) majority holding, on the basis of the authorization under item 6 on the agenda of the shareholders' meeting held on May 17, 2018. Instead of increasing capital, it may be appropriate at times to use own shares entirely or partially to fulfill subscription rights to the Company's shares arising from such bonds, since such action is a suitable way of counteracting the dilution of capital stock, and of the voting rights of shareholders, that can occur to some extent if such rights are fulfilled by creating new shares. The authorization therefore provides for own shares to be used in such a way. In such cases, shareholders' subscription rights shall also be excluded.

The authorization granted under item 6 of the agenda by resolution of the shareholders' meeting on May 17, 2018 is available for inspection at the commercial register in Bonn as part of the notarized minutes of said shareholders' meeting. The resolution can also be found in the invitation to the shareholders' meeting on May 17, 2018, which was published in the Federal Gazette (Bundesanzeiger) on

April 5, 2018. The wording of this granted authorization is also available under the following website upon convocation of the shareholders' meeting, as well as over the full duration of the shareholders' meeting:

[www.telekom.com/hv](http://www.telekom.com/hv)

#### **Re. i) of the authorization:**

The Board of Management shall also be authorized to offer and/or grant the repurchased shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies; this shall include authorization to offer the shares free of charge or offer them for purchase under other special conditions. These repurchased shares can also be transferred to a bank, or to some other company meeting the requirements of § 186 (5) sentence 1 AktG, which, along with the shares, assumes the obligation to use the shares exclusively for the purpose of granting shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies. The Board of Management may also acquire shares that are to be granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies via securities loans from a bank, or from some other company meeting the requirements of § 186 (5) sentence 1 AktG, and then use the repurchased shares to repay such securities loans. In all such cases, shareholders' subscription rights shall be excluded.

Deutsche Telekom AG is to be put in a position to promote employee ownership of company stock by granting shares. Granting shares to

employees serves the purpose of integrating employees, increasing their willingness to help shoulder responsibility, as well as enhancing their loyalty to the Company and making it a more attractive place to work. Granting shares to employees is therefore in the interest of the Company and its shareholders. It is in keeping with the intent of the law, and it is facilitated by law in many ways. According to the proposed authorization, however, the possible beneficiaries should comprise not only employees of Deutsche Telekom AG and of lower-tier affiliated companies but also Managing Board members of lower-tier affiliated companies. These managers have a major influence on the development of the Deutsche Telekom Group and Deutsche Telekom AG. It is therefore also important to offer them a strong incentive for lasting value enhancement, and to strengthen their identification with and loyalty to the companies in the Deutsche Telekom Group. Deutsche Telekom AG should, in particular, also be in a position to create variable remuneration components with a long-term incentive effect for certain managers in the Group as well as for certain or all employee groups.

Offering or granting shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies makes it possible, for instance, to create variable remuneration components with a long-term incentive effect, which take account not only of positive but also of negative developments. The granting of shares with a lock-up on selling them over several years can, in particular, create not just a bonus but also a genuine penalty effect in the event of negative developments. This instrument can therefore bring about greater financial co-responsibili-

ty in the interests of both the Company and its shareholders.

When granting own shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies, special terms and conditions may be granted. In addition to conventional employee/management participation programs, these may also include, in particular, share-matching plans, under the terms of which plan participants purchase shares on the stock exchange or from the Company (investment shares) by making monetary payment in a first step and several years later, in a second step, receive a specified number of shares (matching shares) for the shares acquired in the first step without the need to make any additional payment. Arrangements under which the participants receive these matching shares immediately, instead of several years later, and under which all of these shares are subject to a lock-up period, are also conceivable. For the Group's business leaders, i.e., for certain employees of Deutsche Telekom AG at the level just below the Board of Management and for certain members of the Managing Boards of Group companies as well as for the top managers of the Deutsche Telekom Group who, without being business leaders, belong to the levels labeled Management Groups MG 1 to MG 3, there are already share matching plans with a total of some 1,200 plan participants from Deutsche Telekom AG and German and foreign Group companies. These plans are based on the share-matching plan for Board of Management members (see below under "Re. k) of the authorization"). However, in the case of the business leaders there is an obligation to make a personal investment of just 10% (for

the Board of Management it is a third) of the short-term variable remuneration; for the other plan participants, participation is entirely voluntary (no investment obligation). In all cases, the maximum possible personal investment is one half of the short-term variable remuneration. After expiration of the lock-up period, which is four years as for the Board of Management, and continuous employment at the Company, the business leaders (like the Board of Management) shall receive one matching share per investment share. For the other managers of Management Groups MG 1 to MG 3, the right to participate in the plan and the ratio between investment shares and matching shares (which can range from 3:1 to 1:1) depend on a prior personal performance assessment. More information about the share-matching plans is available in the combined management report and Group management report. This report is available under the following website upon convocation of the shareholders' meeting, as well as over the full duration of the shareholders' meeting:

[www.telekom.com/hv](http://www.telekom.com/hv)

Furthermore, there are also plans to establish an employee share ownership plan under which all employees of the Deutsche Telekom Group are generally given the possibility once per year to purchase Company shares for up to an amount of EUR 1,000.00 and receive an additional share for every two shares purchased under this scheme at no additional cost. All shares purchased through this program will be subject to a four-year lock-up period.

However, use of the usage authorization under i) of the proposed authorization should not be confined to the existing or planned employee/

management participation programs described above. Nonetheless, no own shares can or should be granted to members of the Board of Management of Deutsche Telekom AG on the basis of this proposed usage authorization.

In addition to granting shares directly to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies, it shall also be possible that the shares are acquired by a bank, or some other company meeting the requirements of § 186 (5) sentence 1 AktG, with the obligation to use the shares exclusively for the purpose of granting shares to these beneficiaries. Shares are then granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies through the company that has acquired the shares as an intermediary. With this approach, the process can be facilitated, for example, by having a bank largely carry out the procedure.

In addition, the shares to be granted to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies may also be acquired via securities loans from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG, and then the repurchased shares used to repay these securities loans. Using a securities loan to acquire shares also facilitates the process. In particular, this makes it possible to repurchase precisely the quantity of shares that is required to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier

affiliated companies at any fixed point in time. The shares acquired in the context of the proposed purchase authorization shall therefore not only be used to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies themselves, but can also be used to meet lenders' claims to repayment of loans. In terms of economic effect, the shares are also used here to grant shares to employees of Deutsche Telekom AG and of lower-tier affiliated companies as well as to Managing Board members of lower-tier affiliated companies.

#### **Re. k) of the authorization:**

Furthermore, the Supervisory Board shall be authorized to use the repurchased shares to fulfill the rights of Board of Management members to obtain Deutsche Telekom AG shares which the Supervisory Board has granted to these members as part of the arrangements governing Board of Management compensation. The granting of such rights can be provided for in the contract of employment, or such rights can be granted by way of a separate agreement, whereby the conclusion of a separate agreement may, seen from the viewpoint of the Board member, be (wholly or partially) voluntary or compulsory.

Granting shares to Board of Management members may increase their loyalty to the Company. At the same time it is possible to create variable remuneration components, with management bonuses not being paid out in cash but in shares, which are then, however, subject to a lock-up (pursuant to § 193 (2) no. 4 AktG at least four years) during which time the Board of Management member concerned cannot sell the shares. By means of

such or similar arrangements, the aim of appropriate Board of Management compensation in accordance with § 87 (1) AktG and recommendation G.10 of the German Corporate Governance Code can be met, which state that the variable remuneration components granted to a Board of Management member should be paid primarily in Company shares or corresponding share-based components, taking the respective tax burden into account. The granting of shares with a lock-up on selling them over several years or similar arrangements can, in particular, create not just a bonus but also a genuine penalty effect in the event of negative developments. This tool therefore brings about greater financial co-responsibility of the Board of Management members, in the interests of the Company and its shareholders.

Like the previous compensation system for Board of Management members, the new system contains a component that obliges Board members to invest a third of the short-term variable remuneration stipulated by the Supervisory Board in the form of a personal investment in Deutsche Telekom AG shares, which are subject to a four-year lock-up period. The amount of the personal investment may be increased voluntarily up to half of the short-term variable remuneration stipulated by the Supervisory Board. For each share purchased in this way, the entitled Board of Management member receives at the end of four years during which he or she was continuously employed in the Company another share from Deutsche Telekom AG as part of the share-matching plan without the need to make any additional payment. The previous compensation system for Board of Management members is described in the combined

management and Group management report. The new compensation system for Board of Management members is described under "Compensation system for Board of Management members (item 9 of the agenda)". It is also available, along with the combined management and Group management report, under the following website upon convocation of the shareholders' meeting, as well as over the full duration of the shareholders' meeting:

[www.telekom.com/hv](http://www.telekom.com/hv)

#### **Re. l) sentence 2 of the authorization**

Furthermore, the Board of Management is to be entitled to exclude shareholder subscription rights for fractional amounts with the approval of the Supervisory Board when offering own shares for sale to the Company's shareholders. The possibility of excluding subscription rights for fractional amounts serves the purpose of making the implementation of the subscription ratio technically feasible. The own shares excluded from shareholders' subscription rights as free fractional shares are realized by selling them on the stock exchange or in some other way to the best benefit of the Company. Due to the limitation to fractional amounts the potential dilution effect is low.

#### **Concluding remarks**

Considering all the aforementioned facts and circumstances, the Board of Management and the Supervisory Board regard the exclusion of subscription rights in the aforementioned cases, also making allowance for any dilution effect arising from the exercise of the authorizations in question to the disadvantage of the shareholders, as justified and reasonable vis-à-vis shareholders for the reasons given. The Board of Management shall report to the

shareholders' meeting on the details of any usage of the authorization to buy back own shares.