

EXPLANATORY REPORT ON THE DISCLOSURES PURSUANT TO § 289 (4) AND (5) AND § 315 (4) OF THE GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

1. COMPOSITION OF CAPITAL STOCK.

As of December 31, 2016, the capital stock of Deutsche Telekom AG totaled EUR 11,972,869,204.48. The capital stock is divided into 4,676,902,033 no par value registered shares. Each share entitles the holder to one vote.

2. RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES.

As of December 31, 2016, the Company held 19,585,211 treasury shares. Deutsche Telekom AG has no voting rights in connection with treasury shares. In addition to treasury shares acquired for a consideration (as of Dec. 31, 2016: approx. 1 million shares), around 19 million trust shares were transferred free of charge to a Deutsche Telekom AG custody account in early 2016. These trust shares relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001. They were deposited with a trustee, among other things, for the benefit of holders of warrants, options, and conversion rights. The fiduciary relationship was terminated once the reason for the deposit ceased to apply. As far as the shares transferred to trusts are concerned, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence.

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 that in Frankfurt am Main, Germany. As of December 31, 2016, 68.0 percent of the shares were in free float (December 31, 2015: 68.2 percent), 14.5 percent were held by the Federal Republic of Germany (December 31, 2015: 14.3 percent), and 17.5 percent were held by KfW Bankengruppe (December 31, 2015: 17.5 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 32.0 percent (December 31, 2014: 31.8 percent). In the last few years, this has resulted in the Federal Republic of Germany representing a solid majority at most shareholders' meetings of Deutsche Telekom AG due to its level of attendance. Deutsche Telekom AG is therefore deemed to be dependent pursuant to §17 of the 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. STATUTORY PROVISIONS AND THE PROVISIONS OF THE ARTICLES OF INCORPORATION ON THE APPOINTMENT AND DISCHARGE OF MEMBERS OF THE BOARD OF MANAGEMENT AND ON AMENDMENTS TO THE ARTICLES OF INCORPORATION.

Appointment and discharge of members of the Board of Management are carried out in accordance with § 84 and § 85 AktG, and § 31 of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), with members of the Board of Management being appointed by the Supervisory Board for a maximum of five years.

Such appointments may be renewed, or the term of office extended, provided that the term of each such renewal or extension does 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 mutatis mutandis to revocation of a Board of Management appointment. The appointment by the Supervisory Board may be revoked for good cause.

In accordance with § 6 (1) of the Articles of Incorporation, the Board of Management shall comprise at least two members. After a due assessment of the circumstances, the Supervisory Board is free to decide whether additional members are appointed to the Board of Management. If a required member of the Board of Management is lacking, § 85 (1) AktG states that, in urgent cases, an appointment may be made by order of court at the request of one of the parties involved.

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. However, under § 179 (1) sentence 2 AktG and § 21 of the Articles of Incorporation, the Supervisory Board is 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. In line with § 179 (2) sentence 2 AktG, § 18 (2) of the Articles of Incorporation envisages that – if no mandatory legal provisions exist to the contrary – a shareholders' meeting resolution that amends the Articles of Incorporation shall be adopted by means of a simple majority of the votes cast and of the capital stock represented in the resolution. In some cases, the law prescribes a larger majority shareholding of three-quarters of the capital stock represented, for example if the purpose of the company is amended (§ 179 (2) sentence 2 AktG), certain capital measures taken or subscription rights excluded.

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

Authorized capital and contingent 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. This authorization may be exercised either in full or in one or more partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude fractional 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 Company. 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, 2015, and 2016 financial years, the 2013 authorized capital amounts to EUR 1,598,139,059.20. The remaining 2013 authorized capital was entered in the commercial register on June 22, 2016.

As of December 31, 2016, the capital stock was contingently increased by up to EUR 1,100,000,000, comprising 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 shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or
- b) those obligated as a result of 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 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 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of capital stock accounted for by these shares totaling up to EUR 1,179,302,878.72, 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 treasury 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 through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). 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 25, 2016 under item 6 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 25, 2016, 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 25, 2016 described above and corresponding authorizations by the shareholders' meetings on May 12, 2011 and May 24, 2012, 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. Further, 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

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 treasury shares were transferred free of charge in the 2014 financial year. An additional 140 thousand treasury shares were transferred in the 2015 financial year.

In addition, a total of 232 thousand shares were reallocated in January, February, March, April, May, June, September, November and December 2016 and transferred to the custody accounts of eligible participants of the Share Matching Plan. Transfers of treasury shares to the custody accounts of employees of Deutsche Telekom AG are free of charge. In cases where treasury shares are transferred to the custody accounts of employees of other Group companies, the costs are transferred at fair value to the respective Group company starting with the reporting period.

As of December 31, 2016, sales of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 594 thousand, of capital stock. Retained earnings thus increased by EUR 2,597 thousand. In the reporting year, 71 thousand treasury shares at a fair value of EUR 1,111 thousand were billed to other Group companies, thus increasing capital reserves by EUR 251 thousand.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001, Deutsche Telekom AG issued new shares from authorized capital to a trustee, among others things for the benefit of holders of warrants, options, and conversion rights. These options or conversion rights expired in full in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom AG. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB. This corresponds to 0.4 percent, or EUR 48 million, of Deutsche Telekom AG's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

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 lines of credit and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the line of credit 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 is entitled 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.

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) may 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 is responsible for defining 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 continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315a (1) 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 its specific structure, 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, form 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, to measure 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 these 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 that depend on levels of risk are embedded in the accounting process. 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 14, 2017

**Deutsche Telekom AG
Board of Management**

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LIFE IS FOR SHARING.