


Corporate governance report.

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its numerous subsidiaries, associates and joint ventures. The Company complies with national provisions such as the recommendations of the Government Commission for a German Corporate Governance Code, as well as with international standards. The Supervisory Board and the Board of Management are convinced that sound corporate governance, taking company and industry-specific issues into account, is an important building block for the future success of Deutsche Telekom. Accordingly, responsibility for compliance with the principles of sound corporate governance is vested in senior management.

In the 2010 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the Corporate Governance Code. During the reporting period just ended, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore released an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2010:

Declarations of Conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG).

- I. The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare that, in the period since submission of the most recent declaration of conformity pursuant to § 161 AktG on January 5, 2010, Deutsche Telekom AG has complied with the recommendations of the Government Commission for a German Corporate Governance Code announced by the Federal Ministry of Justice on August 5, 2009 in the official section of the electronic Federal Gazette (elektronischer Bundesanzeiger), without exception.
- II. The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG complies with the recommendations of the Government Commission for a German Corporate Governance Code, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (elektronischer Bundesanzeiger) on July 2, 2010, without exception.

 This Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) via the following path: Investor Relations/Corporate Governance/Declaration of Conformity. This website also provides access to the superseded declarations of conformity from previous years.

Cooperation between the Supervisory Board and the Board of Management. The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Supervisory Board of Deutsche Telekom AG holds four regular meetings a year. In 2010 there were also one extraordinary meeting and one in-depth conference on the strategic alignment of the Company. The Board of Management keeps the Supervisory Board fully and regularly informed in good time of all relevant business developments, plans, potential risks, risk management, compliance, as well as of any deviations from original business plans. The Board of Management regularly submits written reports. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other issues. The Chairmen of the two Boards exchange information regularly.  For details about the working methods of the Board of Management and Supervisory Board, please refer to pages 24–31 of the Annual Report.

Composition of the Board of Management. In accordance with the Board of Management's schedule of responsibilities, there are eight Board departments: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; Technology and Innovation; and Europe. Each Board of Management member is authorized to manage the spheres of responsibility allocated to him. Certain matters are subject to approval by the full Board of Management. Furthermore, every Board member can submit matters to the full Board of Management for decision. As a rule, members of the Board of Management should not be older than 62 years of age.


Composition of the Supervisory Board. The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, elections to the Supervisory Board were held for each individual member at the last shareholders' meeting on May 3, 2010. The terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity in terms of the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected by the employees at the delegates' assembly on December 4, 2008

according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).  For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the Supervisory Board's report to the shareholders' meeting on pages 24–31 of the Annual Report. The Supervisory Board is convinced that – in accordance with a recommendation by the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and to monitor the Board of Management.

As for its composition, the Supervisory Board has set itself the following objectives:


- Taking into account the Company's specific situation, the Supervisory Board aims to ensure that the candidates they propose to the voting bodies not only have the requisite qualifications but also contribute to making the Board more diverse.
- The Supervisory Board should be composed in such a way that its members collectively have the expertise, skills, and qualifications required for the Board to duly fulfill its responsibilities.
- The Supervisory Board supports the adequate representation of women. Specifically, it aims to increase the proportion of women on the Supervisory Board to 30 percent, the Company's intended share of women in management positions, by the end of 2015. Women currently make up 20 percent of the Supervisory Board.
- To account for the Company's international outlook, international candidates, too, should be sufficiently considered when appointing new members to the Supervisory Board.
- Conflicts of interest should be avoided when appointing new members to the Board.
- Supervisory Board members should not be older than 67 at the time of their appointment.

Tasks assigned to the Supervisory Board. The Supervisory Board advises the Board of Management on issues concerning the governance of the Company and supervises and reviews its activities. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. The work of the Supervisory Board is specified in the Rules of Procedure. To clarify the reporting requirements on the part of the Board of Management, the Supervisory Board has defined a catalog of transactions subject to approval. This catalog forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board assesses the efficiency of its work on a regularly basis. The last self-assessment was carried out in 2009 based on a comprehensive questionnaire and individual discussions with the Chairman of the Supervisory Board. The Audit Committee underwent an external efficiency audit in 2010, with excellent results.


In order to perform its tasks more effectively, the Supervisory Board currently has six standing committees in place. The General Committee deals with personnel matters of the Board of Management and prepares the meetings for the Supervisory Board. The Staff Committee advises the Board of Management on personnel questions not connected with the Board of Management. The Finance Committee deals with complex financial issues and with budgets. The Audit Committee performs the tasks of an audit committee as required by law and in accordance with the German Corporate Governance Code. Amongst other things, it prepares a recommendation for the Supervisory Board's resolution on the annual financial statements, monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. Until the Company delisted from the New York Stock Exchange, the Audit Committee also fulfilled the responsibilities assigned to it under U.S. law. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholder representatives. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, the Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. Between January 1 and May 20, 2010 a special committee was established to monitor the Company's participation in the spectrum auction for the fourth generation of mobile communications in Germany.  For details about the composition and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on pages 24–31 of the Annual Report.

The committee chairpersons regularly report to the Supervisory Board on the work of the committees. The chairman of the Audit Committee, Dr. h. c. Bernhard Walter, is particularly knowledgeable and experienced in the use of accounting standards and internal control procedures. Dr. Walter has never served on the Board of Management of the Company.


To the extent permitted by law, the Supervisory Board makes use of modern communication media to expedite its work and accelerate decision-making processes in the interests of the Company.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. Over and above his organizational duties in the Supervisory Board, the Chairman of the Supervisory Board maintains regular contact with the Chairman of the Board of Management and with the Board of Management as a whole, in order to stay informed about the Company's strategy, business developments, risk management policy, and management measures, and to discuss these with the Board of Management. In this context, the Chairman of the Board of Management advises the Chairman of the Supervisory Board of all events that are significant to the situation, development, and governance of the Company.  For further details of the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to pages 226–227 of the Annual Report.

Avoiding conflicts of interest. Board of Management members and Supervisory Board members are obliged to disclose immediately any conflicts of interest to the Supervisory Board. Any functions assumed by members of the Board of Management that are not covered by the Board of Management mandate are subject to approval by the General Committee of the Supervisory Board.

Risk and opportunity management. The management of opportunities and risks arising in connection with the Company's business activities is of fundamental importance to the Board of Management and the Supervisory Board for professional corporate governance. The Board of Management receives regular reports from the Risk Management department of the Company concerning current risks and their development. In turn, it reports to the Supervisory Board on the risk exposure and the risk management system. The risk management system in place at Deutsche Telekom is evaluated by the external auditors and Internal Audit, and is constantly being expanded and improved. The Audit Committee deals with risk management, which includes monitoring the effectiveness of the internal risk management system. The system is designed to manage a variety of risks, including financial risks and risks to the Company's reputation.  For more information, please refer to the section entitled "Risk and opportunity management" on pages 112–122 of the Annual Report.

Compliance. Deutsche Telekom has a Group-wide compliance organization that is continuously being expanded ( for details, please refer to the 2010 Corporate Responsibility Report under www.cr-report.telekom.de). The first element to be introduced was a Compliance Committee, which supports the Board of Management in setting up and developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, data privacy, corporate auditing, corporate security, and human resources. The Chief Compliance Officer, appointed by the Board of Management, is the chairman of the Compliance Committee. He reports to the Group Board of Management and directly to the Audit Committee and the Supervisory Board. A compliance officer has been appointed in each of the strategic business areas. There are compliance officers/contacts in the business units where required depending on their size and the risk exposure. The decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance reflects the increased significance of compliance.

The compliance program includes the Code of Conduct and the Code of Ethics. The Code of Conduct defines how employees and management should display value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Group Board of Management and persons who carry special responsibility for financial reporting. The Code obliges the above individuals to comply with the principles of honesty, integrity, transparency, and ethical conduct and is expressly acknowledged once a year by those concerned by way of signature.  The Code of Conduct and the Code of Ethics are published on Deutsche Telekom's website (www.telekom.com).

 For more information about the compliance program, please visit Deutsche Telekom's website (www.telekom.com/compliance).

Internal controls over financial reporting. Deutsche Telekom has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. Evidence of its effectiveness throughout the Group has again been provided for the 2010 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

The Audit Committee also monitors the effectiveness of the internal control system, which goes beyond financial reporting and therefore fulfills the requirements of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) that came into force in May 2009. ■ For a description of the main features of the accounting-related internal control system, please refer to the “Group organization” section in the Group management report on pages 51–56 of the Annual Report.

Accounting and audit of financial statements. An agreement has been reached with the external auditors that the Chairman of the Supervisory Board / the Audit Committee shall be advised immediately of any issues uncovered during the audit that might give rise to statements of exclusion or reservation in the auditors’ report, unless these issues can be resolved forthwith. Moreover it has been agreed that the external auditors shall immediately report any findings and issues that emerge during the audit and which have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditors undertake to inform the Supervisory Board or make a note in their report of any facts discovered during the audit which might indicate a discrepancy in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board. The Audit Committee assesses the independence of the external auditors.

Report on the compensation of the Board of Management.

■ The compensation of each member of the Board of Management is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into fixed and performance-related components and long-term incentives. For details, please refer to pages 213–220 of the Annual Report under “Compensation of the Board of Management and the Supervisory Board.” These disclosures made in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report. A summary of the structure and main features of Board of Management compensation is given below.

Deutsche Telekom AG’s shareholders’ meeting on May 3, 2010 approved a new Board of Management compensation system in line with the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). The Supervisory Board subsequently began to switch the existing Board of Management service contracts to the new compensation system. Effective December 31, 2010 six Board of Management members’ contracts had been transferred to the new system, while two members exercised their right to remain with the old system.

The compensation system for the Board of Management, including the main elements of their service contracts, is defined and regularly reviewed by the Supervisory Board. Since the introduction of the Act on the Appropriateness of Management Board Remuneration and the update of the Deutsche Corporate Governance Code in 2009, the entire Supervisory Board has been responsible for approving the individual provisions of the Board of Management members’ service contracts. Since then, the General Committee has had the function of preparing the resolution for the Supervisory Board. Both the old and the new compensation system for the Board of Management members consists of several elements. Compensation includes fixed as well as short- and long-term variable components, various fringe benefits that are also detailed for each Board member in the notes and which are generally payable in the form of benefits in kind, insurance contributions, or taxable non-cash benefits, as well as Board of Management pension entitlements.

The variable components in both systems include components tied to the annual business results and long-term incentives containing risk elements.

The **annual variable component** (referred to in the new system as Variable I) is based on the extent to which each member of the Board of Management achieves the targets assigned to them by the Supervisory Board before the beginning of each financial year. If the targets associated with the variable elements of remuneration are achieved in full, under the old system around two thirds of the remuneration is variable and one third is fixed. Under the new system, the fixed component accounts for around 40 percent of a Board member’s total annual target remuneration, while the variable components (Variables I and II) account for approximately 60 percent.

Under the new system Board members are obliged to invest one third of Variable I, which is set each year by the Supervisory Board, in Deutsche Telekom AG shares, and to hold these shares for at least four years. After four years Deutsche Telekom AG will match the number of shares by granting Board members who remain with the Company one free stock for every share purchased and held under this scheme (matching shares). This ensures that the shares granted by the Company can only be sold after the four-year period and the members’ continued service to the Company is rewarded.

Under the old system, the **long-term incentives containing risk elements** are based on the Mid-Term Incentive Plan, or MTIP. The Board members also have entitlements from stock option plans (see below for details of the 2001 Stock Option Plan). Deutsche Telekom AG's **MTIP** is a Group-wide long-term compensation instrument for senior executives. The members of the Board of Management have participated in it since the 2004 financial year. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two share-based, additive and equally weighted performance parameters. For the 2010 financial year, as for the years before, one absolute and one relative plan target have been set. The absolute plan target is related to the increase in value of the Deutsche Telekom AG share. The relative plan target requires the total return of the Deutsche Telekom AG share to outperform the Dow Jones Euro STOXX® Total Return Index. The tranche of the 2008 MTIP achieved the relative share price development target but not the absolute share price development target. This means 50 percent of the award amount can be paid out for the 2008 tranche. For details, please refer to the notes to the consolidated financial statements on pages 200–201 of the Annual Report.

Under the new system, Variable II represents the long-term incentive compensation component. Variable II is launched annually on a rolling basis for a period of four years. Its target parameters correspond to four equally weighted performance indicators (adjusted operational return on capital employed (ROCE), adjusted earnings per share (EPS), customer satisfaction, and employee satisfaction). Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment is based on average target achievement across the four years planned at the time the tranche was determined. The amount awarded is not influenced by the other elements and is set for each Board member individually. It should correspond to around 30 percent of their total target remuneration.

The **2001 Stock Option Plan** was closed for the Board of Management in 2004. Options granted to current and former members of the Board of Management from tranches of the 2001 Stock Option Plan can still be exercised, provided the necessary conditions are met. For details, please refer to the notes to the consolidated financial statements on pages 202–203 of the Annual Report. These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

The new compensation system involves a **share matching plan**, which is another variable, long-term incentive containing risk elements. Under this plan, after four years Deutsche Telekom AG will match the number of shares by granting the eligible Board members one free stock for every share they purchased under the binding personal investment scheme using their Variable I as fixed by the Supervisory Board.

The terms of the service contracts of the Board of Management members are linked to the term of appointment as a member of the Board of Management. To account for the Company's entitlement to terminate the appointment without this justifying simultaneous termination of the service contracts, for good cause, the contracts of all the members of the Board of Management of Deutsche Telekom AG contain a clause specifying the maximum severance amount payable to the Board members in the event of their departure in such circumstances.

As a rule, the Board member's agreements stipulate a clause prohibiting them from joining a competitor after their departure.

Service contracts for members of the Board of Management include a provision in case of premature termination without good cause that allows a compensation payment which, in line with the recommendations of the Corporate Governance Code, is limited to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

The members of the Board of Management are in principle entitled to a **company pension**. For members who joined the Board of Management before 2009 the amount depends on their final salary, which means that Board of Management members receive company pension benefits based on a fixed percentage (between 5 and 6 percent) of their last fixed annual salary for each year of service rendered prior to their date of retirement. The maximum pension entitlement, attainable after ten years of Board of Management membership, is 50 (or 60) percent of the last fixed annual salary. The rights to benefits are generally vested in accordance with statutory provisions (or contractually vested immediately, in specific cases). Benefits are paid in the form of a life-long old-age pension, an early-retirement pension, disability pension, and widow and orphans' pension. All other required details can be found in the notes to the consolidated financial statements on pages 213–220 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

Board of Management members who joined the Board in 2009 or later participate in a defined contribution plan with a one-time capital payment upon retirement. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact amount of the contribution is based on a comparison with peer companies that are of a similar size and also offer defined contribution plans.

Members of the Board of Management receive no third-party remuneration for their activity as Board members.

■ For details of the compensation system and a specification of the long-term incentives containing risk elements, please refer to the notes to the consolidated financial statements, on pages 213–220 of this Annual Report under "Compensation of the Board of Management and the Supervisory Board," or to the company website (www.telekom.com) under Investor Relations/Corporate Governance/Incentive plans. These disclosures in the notes to the consolidated financial statements are an integral part of this Corporate Governance Report.

Report on the compensation of the Supervisory Board.

The compensation of the members of the Supervisory Board is specified in § 13 of the Articles of Incorporation. The system was renewed at the shareholders' meeting on May 3, 2010. The compensation is designed to take account of the responsibilities and scope of activity of the members of the Supervisory Board, as well as the financial position and success of the Company. In addition to fixed remuneration, the members of the Supervisory Board receive performance-related remuneration in the form of a long-term incentive element that is based on the development of net profit per share. Special functions such as that of Chairman or Deputy Chairman of the Supervisory Board and chair or member of any of its committees are compensated additionally.

■ The compensation of each member of the Supervisory Board is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into its individual components. For details please refer to pages 213–220 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

No other remuneration was paid by the Company to the members of the Supervisory Board, or advantages extended for services provided individually, in particular advisory services or agency services. Lothar Schröder received attendance fees for his function as Chairman of the Data Privacy Advisory Council.

Share ownership by members of the Board of Management and the Supervisory Board.

Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Securities-based incentive systems.

■ Specific details of the securities-based incentive systems of the Company are contained in the notes to the consolidated financial statements on pages 200–203 under "Mid-term incentive plans (MTIPs)/Phantom share plan/Share-based compensation plans." and on pages 213–220 under "Compensation of the Board of Management and the Supervisory Board" of the Annual Report. These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

Bonn, February 23, 2011
The Supervisory Board and the Board of Management