

To our shareholders.



The gigabit society
is fast approaching,
with Deutsche Telekom
as a driving force.





To our shareholders.

Dear shareholders,

Deutsche Telekom stands for stability and reliability in troubled times. While the financial and economic crisis left many companies and industries facing considerable volatility, our shareholders can still count on predictable, solid business results. We increased our revenue slightly in 2010 to EUR 62.4 billion – after adjustment for our UK operations, which were transferred to a joint venture “Everything Everywhere” in April 2010. At EUR 6.5 billion, free cash flow was higher than the EUR 6.2 billion we had forecasted. With regard to adjusted EBITDA, we reached our target for the year of EUR 19.5 billion.

And all this in spite of the fact that the general conditions were often less than optimal. Our business continues to be marked by intense pressure with regard to competition and prices. Also, regulatory decisions lead to shrinking revenues in many of Deutsche Telekom's core countries. Finally, unforeseen special taxes put a strain on results in some countries in Eastern Europe. We will have to continue to live with such outside influences. This is why a disciplined cost management will remain without alternative. Therefore we are continuing our successful Save for Service efficiency enhancement program.

To continue to be successful in the future, we must not only keep costs under control, but we also have to successfully develop growth initiatives and innovations. “Fix – Transform – Innovate” is our strategy for the next years. It is our response to the decisive trends in our industry: Data will flow in ever-increasing volumes and speeds through the networks. The Internet is becoming increasingly mobile.

For us, this means two different things. The operation of infrastructure and IT will remain the bedrock of our business. At the same time, we are focusing on new growth areas: the mobile Internet and the connected home, ICT solutions for corporate customers, our own online services, and intelligent network solutions for other industries, such as the health sector. We aim to increase our revenue from all of these growth areas by 2015 to approximately EUR 29 billion. In the long term, Deutsche Telekom shall again be on the level of the general economic growth. In view of the plunge in the former monopoly business, this will not be an easy effort. Therefore, a major transformation of our company is required. For that, we are concentrating on five strategic action areas:



We are building the networks and processes for the gigabit society.

Operating networks can remain an attractive business under the right conditions. Therefore we are planning to invest further into broadband expansion in fixed-network and mobile communications, but in order to do so, we need a modern regulation and an investment-friendly environment. Last year, we installed fiber to the home for our first pilot customers in Germany, achieving speeds of up to 1 gigabit per second. Nationwide roll-out starts in 2011. Simultaneously, in 2010, we purchased additional mobile spectrum, for instance in Germany, Austria and the Netherlands. We were the first network operator in Germany to put an LTE mobile base station into operation, a step toward improving broadband coverage in rural areas. In the United States, we operate the HSPA+ standard, offering our customers the biggest and currently fastest mobile communications network.

We connect our customers' lives across all screens.

We believe that the greatest opportunities for growth are in the mobile Internet. We expect to generate revenue of around EUR 10 billion in this sector in 2015. This growth will be driven by attractive Internet-enabled mobile devices and corresponding applications. More than eight million customers in the United States now use so-called smartphones. Accordingly, in 2010 our worldwide revenues from the mobile Internet shot up by almost 30 percent to EUR 4.4 billion. Another important cornerstone of our strategy is the European television business. By the end of 2010, more than 1.5 million customers in Germany have decided in favor of Entertain, while a total of 2.3 million customers in Southern and Eastern Europe already use our TV services.

We are connecting the working world with unique ICT solutions.

In 2010, T-Systems could once again increase its revenue with customers outside the Group and secured a series of new orders from companies such as Deutsche Post and E.ON. Cloud services – the renting of infrastructure, software and bandwidth at defined service conditions – are becoming increasingly important. At the same time, T-Systems is positioning itself with intelligent network solutions for the energy, healthcare, automotive, and media distribution sectors. At CeBIT 2010, we presented an infotainment system for the connected car together with Continental. And T-Systems is collaborating with ABB and others on the development of smart grids.

We leverage One Company in integrated assets.

The entry of Telekom Deutschland GmbH in the commercial register at the end of March legally completed the merger of our mobile communications and fixed-network operations in Germany. We can now serve our mobile and fixed-network customers from one source and thus generate additional revenue, further improve our service performance, and leverage synergies. We also view fixed-mobile integration as a model for other markets. In addition to Hungary, also Croatia and Slovakia followed this course last year – and others could follow.

We are improving the performance of mobile-centric assets.

Following the successful launch of the "Everything Everywhere" joint venture in the United Kingdom, our main focus in this action area has been on the U.S. market. We presented our new strategy for T-Mobile USA at the end of January 2011. By 2014 we aim to increase our revenue by USD 3 billion. A high-performance mobile communications network and an attractive device selection of smartphones and tablet computers will help us in doing so. We have now strategically set course to return to growth. Finally, we have reached an amicable conclusion to a long-running legal dispute in Poland. The settlement guarantees our rights to full ownership of PTC, giving us a powerful mobile communications subsidiary in the Polish market.

Dear shareholders, we are laying the foundations for economic success in the so-called gigabit society with our “Fix – Transform – Innovate” strategy. We have made a conscious decision in favor of a long-term perspective. And it is important to us to continue our balanced stakeholder policy and to provide reliability for all of Deutsche Telekom’s internal and external stakeholders. This applies first of all to our employees, without whom we could not carry out the transformation of the Company. We will continue to keep the necessary staff restructuring balanced in the future and shape it in a socially compatible way. Our goal is to offer a job perspective in the company to as many people as possible. In addition, we are also hiring new employees. We took on around 4,000 in 2010, half of them from the ranks of our own trainees.

The high environmental, social, and governance standards that guide our business practices are increasingly gaining the respect of the capital market. Nine percent of T-Shares are already held by investors who give priority to sustainable investment. And we know that many of our shareholders are value-oriented investors who are more interested in long-term stability and sustainable dividend payments than short-term growth. To specifically address this very group of investors, we decided a year ago to implement a medium-term shareholder remuneration policy with a projected fixed volume of EUR 3.4 billion for the years 2010 through 2012. Last year, we bought back shares for a total of EUR 400 million. The Board of Management and Supervisory Board will therefore propose to the shareholders’ meeting on May 12, 2011 to pay a dividend of EUR 0.70 per share for the 2010 financial year. Together with the share buy-backs, this brings the total remuneration to the level we had announced.

I would like to thank you for the trust you have placed in me and my team on the Board of Management in recent years and I hope our strategy convinces you to give Deutsche Telekom your continued support.

Bonn, February 2011

Sincerely,

René Obermann
Chairman of the Board of Management Deutsche Telekom AG

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The Board of Management of Deutsche Telekom AG in 2010/2011.

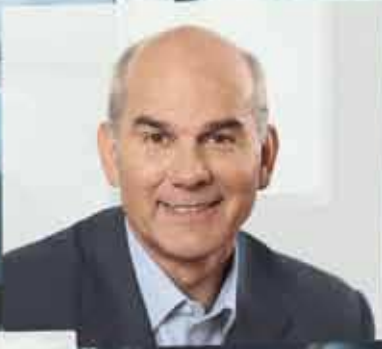


Timotheus Höttges.
Board member
responsible for Finance.


Guido Kerkhoff.
Board member
responsible for Europe.




Thomas Sattelberger.
Board member responsible
for Human Resources.




Edward R. Kozel.
Board member responsible
for Technology and
Innovation.




Niek Jan van Damme.
Board member
responsible for Germany.



René Obermann.
Chairman of the
Board of Management.



Dr. Manfred Balz.
Board member responsible
for Data Privacy, Legal Affairs
and Compliance.



Reinhard Clemens.
Board member responsible
for T-Systems.

The Board of Management of Deutsche Telekom AG in 2010/2011.



“We will invest around ten billion euros in Germany’s broadband future by 2012.”

René Obermann.

Chairman of the Board of Management.

Born in 1963. After training to become an industrial business administrator at BMW AG in Munich, René Obermann set up the trading company ABC Telekom in 1986. He headed ABC’s successor company, Hutchison Mobilfunk GmbH, as Managing Partner and was Chairman of the company’s Managing Board from 1994 to 1998. In 1998 he joined the Deutsche Telekom Group as Managing Director of T-Mobile Deutschland with responsibility for Sales. In April 2000 he became Chairman of the Managing Board and one year later was appointed Member of the Board of Management for European Operations and Group Synergies at T-Mobile International. In November 2002 he joined the Deutsche Telekom Board of Management where he headed the mobile communications department and at the same time was appointed Chairman of the T-Mobile International Board of Management. On November 13, 2006 René Obermann took over as Chairman of the Board of Management of Deutsche Telekom AG.



“For us, data privacy and data security are a firm part of the product development process.”

Dr. Manfred Balz.

Board member responsible for Data Privacy, Legal Affairs and Compliance.

Born in 1944. After studying law at the universities of Tübingen, Munich, St. Petersburg, and Harvard University in Boston, Dr. Balz began his career at the German Federal Ministry of Justice in 1974. He then worked as General Counsel for Treuhandanstalt Berlin and as a partner at the international law firm Wilmer, Cutler & Pickering. From 1997 until his appointment to the Deutsche Telekom Board of Management, Dr. Balz was the Group’s General Counsel. He has been Member of the Deutsche Telekom Board of Management responsible for Data Privacy, Legal Affairs and Compliance since October 22, 2008.



“Information and communication technology are the backbone of our economy – like the supply of power and water.”

Reinhard Clemens.

Board member responsible for T-Systems.

Born in 1960. After graduating with a degree in electrical engineering from Aachen University, Reinhard Clemens launched his career as General Manager of the Association for Industry Automation in 1990. Between 1994 and 2001, he held various positions within the IBM group, before moving to the Board of Management of Systematics AG with responsibility for the sales department. He then became chairman of the Executive Board of EDS in Germany. Since December 2007 Reinhard Clemens has served on the Deutsche Telekom Board of Management, where he is responsible for T-Systems. He is also T-Systems’ Chief Executive Officer.



“Connected life and work is all about making life less complicated.”

Niek Jan van Damme.

Board member responsible for Germany.

Born in 1961. Niek Jan van Damme, an economics graduate of VU University Amsterdam, launched his career at Procter & Gamble in 1986. He joined Floor Heijn Retail as Managing Partner in 1997 before moving to Ben Nederland, later T-Mobile Netherlands, as Director of Marketing Communications in June 1999. In 2004 he was appointed Managing Director of the firm, a post he held until 2009. Niek Jan van Damme has been Member of the Deutsche Telekom Board of Management since March 2009. Since July 2009 he has headed the Germany department where he is responsible for sales, marketing and service in connection with standard fixed-network and mobile products for private and business customers in Germany. In April 2010 he was also appointed Managing Director of Telekom Deutschland GmbH.



“Sound financial governance is vital for sustainable business management.”

Timotheus Höttges.

Board member responsible for Finance.

Born in 1962. After studying business administration in Cologne, Timotheus Höttges started his career with Mummert + Partner, a business consulting firm in Hamburg, moving on to the VIAG group in 1992. He joined Deutsche Telekom in September 2000, where he has held various positions including Chairman of the T-Mobile Deutschland Managing Board and Member of the T-Mobile International Board of Management with responsibility for Sales and Service Operations Europe, before assuming responsibility for T-Home and Sales & Services on the Group Board of Management. On March 1, 2009 he became Member of the Deutsche Telekom AG Board of Management with responsibility for Finance.



“We will continue to boost mobile and fixed-network data usage in all of our existing markets.”

Guido Kerkhoff.

Board member responsible for Europe.

Born in 1967. After taking a degree in business administration Guido Kerkhoff began his career at VEW AG and later Bertelsmann AG. In April 2002 he moved to Deutsche Telekom, occupying various management positions in the Finance department. Between March 2009 and April 2010 he served as Board member for Southern and Eastern Europe with responsibility for all fixed-network and mobile communications subsidiaries in this region, such as OTE, Magyar Telekom, Hrvatski Telekom (Croatia), and Slovak Telekom. In April 2010 he was appointed Board Member responsible for Europe, which extended his remit to include Deutsche Telekom's mobile communications subsidiaries in Austria, the Czech Republic, the Netherlands, Poland, plus the UK joint venture.



“On our way to a cutting-edge, Internet-centric company we are strengthening our innovation culture.”

Edward R. Kozel.

Board member responsible for Technology and Innovation.

Born in 1955. Edward R. Kozel graduated from UC Davis with a degree in electrical engineering. He has held several executive positions in the telecommunications industry, including Member of the Board of Directors at Cisco, Member of the Supervisory Board at Yahoo and Reuters, and Chairman of the Supervisory Board at Telepo. He has also worked for several leading technology firms such as Red Hat, Symbol Technology, and TIBCO Software. Edward R. Kozel joined Deutsche Telekom as Member of the Board of Management responsible for Technology and Innovation on May 3, 2010.



“Talent is everywhere: We need a corporate biosphere of people hungry for cultural change.”

Thomas Sattelberger.

Board member responsible for Human Resources.

Born in 1949. After completing his business administration studies at the Baden-Württemberg University of Cooperative Education, Thomas Sattelberger joined the then Daimler Group in Stuttgart in 1975 and spent 19 years with the company. He also held positions at Daimler's subsidiary MTU-Gruppe, in the Mercedes Benz sales department, and at what is now EADS. From 1994 to 2003, he worked for Deutsche Lufthansa AG, most recently as Executive Vice President Product & Service of Lufthansa Passage Airline. Between 2003 and 2007 he served as Chief Human Resources Director of Continental AG in Hanover. Since May 3, 2007 Thomas Sattelberger has been Member of the Deutsche Telekom AG Board of Management responsible for Human Resources and Arbeitsdirektor (Labor Director).

Supervisory Board's report to the 2011 shareholders' meeting.



For Deutsche Telekom, the 2010 financial year was marked by the implementation of the merger of its fixed-network and mobile operations in Germany, the development of T-Mobile USA and strategic plans for the business in the United States, and the persistently difficult competitive and regulatory environment. Despite the macroeconomic challenges in Southern and Eastern Europe, in the 2010 financial year the Group succeeded in achieving positive results and meeting expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.

Supervisory Board activities in the 2010 financial year.

The Supervisory Board continually monitored the Board of Management's activities to manage the business and the Group as a whole. Specifically, its supervisory role consisted of ensuring that these activities were lawful, compliant, appropriate, and efficient. The primary prerequisites for fulfilling this role were the Board of Management's written and oral reports. The Board of Management regularly reported to the Supervisory Board on the corporate planning, business developments, and significant business transactions of the Company and of principal subsidiaries and associates. The Supervisory Board regularly reviewed the situation of the Company on the basis of the Board of Management's written and oral reports each time the Supervisory Board or one of its committees met. On the agenda of every Supervisory Board meeting was the development of the business, as was a discussion of any deviations from the originally planned course of business. The Board of Management fulfilled its duties to inform the Supervisory Board quickly and in full. The Board of Management's reports met all statutory requirements, the standards of good corporate governance, and the criteria imposed on them by the Supervisory Board with regard to both content and scope. In addition to the reports, the Supervisory Board requested and received supplementary information. The Supervisory Board critically analyzed and verified the plausibility of these reports and this information.

A document prepared by the Supervisory Board lists all types of transactions and measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This document is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. The Supervisory Board regularly reviews the list of items and amends it as necessary. The Supervisory Board met with the Board of Management for a discussion and thorough review of all the transactions and measures that require the Supervisory Board's approval. These meetings served in particular to discuss the benefits and effects of each transaction. The Supervisory Board approved all the transactions and measures submitted. The Audit Committee regularly met to examine a variety of issues, including the quarterly reports, discuss these with the external auditors, and approve them.

Between meetings, the Chairman of the Supervisory Board regularly met with the Board of Management and especially with its Chairman to discuss the Company's strategy, the development of its business, and its risk management, and was informed of the general business situation and significant events.

Besides the statutory regular reports, the Supervisory Board also discussed and reviewed the following issues in greater depth:

- The way in which the merger of the Company's fixed-network and mobile operations in Germany was implemented.
- The development of the regulatory and competitive environment and implications for Group strategy and planning.
- Implementation of the Group strategy, discussed during an in-depth conference between the Board of Management and the Supervisory Board.
- The development of the U.S. business and strategic planning for T-Mobile USA.
- The establishment of the UK-based joint venture between T-Mobile UK and Orange UK.
- The development of OTE in Greece, with special consideration given to the current state of the Greek economy.
- Issues in connection with the legal dispute surrounding PTC in Poland.

- Participation in spectrum auctions for the 4G mobile communications standard in Germany and other European countries.
- The Group's budget and medium-term planning and shareholder remuneration policy.
- Monitoring of the development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- Discussion of the results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP.
- The introduction of the Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) and its impact on the compensation system for the members of the Board of Management.
- Continual monitoring of the handling of the data misuse affair and protection of the people concerned.
- Corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- Development of the Group's portfolio of shareholdings.
- Deutsche Telekom AG's delisting from the New York and Tokyo stock exchanges.
- Preparation of the Supervisory Board's recommendation to the 2011 shareholders' meeting concerning the appointment of external auditors for the 2011 financial year.

The Supervisory Board and the Audit Committee in particular verified that the Board of Management acted lawfully and ensured compliance with legal provisions and internal standards and policies. For example, a Group-wide compliance organization was set up. The Supervisory Board and the Audit Committee supported the Board of Management's plans to expand this organization. The Supervisory Board also regularly met with the Board of Management to discuss the Group-wide risk management and risk controlling systems that had been introduced. Having conducted its own reviews and discussed the matter with the external auditors, the Supervisory Board came to the conclusion that both the internal control and risk management system and Group-wide risk controlling are effective.

Organization of the Supervisory Board's activities.

To increase the efficiency of its work, and in consideration of the specific requirements it has to fulfill, Deutsche Telekom AG's Supervisory Board has set up the following committees, all of which have an equal number of shareholders' and employees' representatives:

The **General Committee** is responsible for preparing the meetings and major decisions of the Supervisory Board, as well as for preparing matters relating to the individual members of the Board of Management. Members: Prof. Dr. Ulrich Lehner (Chairman), Jörg Asmussen, Waltraud Litzenberger, Lothar Schröder.

The **Finance Committee** deals with complex financial and business transactions that are referred to it by the Supervisory Board or its Chairman for discussion. Members: Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann (Chairman since July 5, 2010), Hermann Josef Becker, Dr. Wulf H. Bernotat (since July 5, 2010), Monika Brandl (since July 5, 2010), Hans Martin Bury (until July 5, 2010), Lawrence H. Guffey (until July 5, 2010), Lothar Holzwarth, Waltraud Litzenberger (until July 5, 2010), Dr. Ulrich Schröder (since July 5, 2010), and Dr. h. c. Bernhard Walter (Chairman until July 5, 2010).

The **Audit Committee's** area of responsibility is essentially defined by German legislation and the German Corporate Governance Code. Amongst other things, it monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors as well as compliance and data privacy issues. Until Deutsche Telekom AG finally delisted from the New York Stock Exchange, the Audit Committee also dealt with all matters that fell under its remit according to U.S. legislation applicable to listed companies that are domiciled outside the United States.



Dr. h. c. Bernhard Walter, Chairman of the Audit Committee, is an independent member and has expert knowledge of accounting and auditing (§ 100 (5) of the German Stock Corporation Act (Aktengesetz – AktG). He is also particularly knowledgeable and experienced in the use of accounting standards and internal control procedures. The other Committee members are Hermann Josef Becker, Hans Martin Bury, Lawrence H. Guffey, Lothar Holzwarth (until July 5, 2010), Hans-Jürgen Kallmeier (since July 5, 2010), Waltraud Litzenberger.

In the 2010 financial year the Audit Committee held its first extraordinary meeting dedicated exclusively to fundamental issues. The plan is to hold such a meeting once annually from now on. The agenda for the 2010 meeting dealt mainly with risk management, insurance cover, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting. The Audit Committee underwent an external efficiency audit in the 2010 financial year, with excellent results.

The **Staff Committee** deals with personnel matters at Deutsche Telekom, in particular the Company's staff structure and human resources development and planning. In particular, the Staff Committee discussed matters relating to headcount levels and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Dr. Hubertus von Grünberg, Prof. Dr. Ulrich Lehner, Waltraud Litzenberger.

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. In accordance with the recommendation outlined in the German Corporate Governance Code, this committee consists exclusively of shareholder representatives. Members: Prof. Dr. Ulrich Lehner, Jörg Asmussen. None of the shareholders' seats on the Supervisory Board became vacant in 2010.

The responsibilities of the **Mediation Committee**, formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. It did not meet in the 2010 financial year. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **special committee** was set up between January 1 and May 20, 2010 to monitor the Company's participation in the spectrum auction for the fourth generation of mobile communications in Germany. Members: Prof. Dr. Ulrich Lehner (Chairman), Waltraud Litzenberger, Lothar Schröder, Dr. h. c. Bernhard Walter.

The committees' chairpersons regularly informed the Supervisory Board at its meetings of the content and results of committee meetings.


Meetings of the Supervisory Board.

In the 2010 financial year the Supervisory Board held four regular meetings and one extraordinary meeting. The Supervisory Board and the Board of Management also held a joint in-depth conference to discuss the Group's strategic focus. The General Committee of the Supervisory Board met eight times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held six meetings, the Finance Committee met three times (including one joint meeting with the General Committee). The Staff Committee met twice. The special committee that was formed to monitor the spectrum auctions in Germany met three times. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2010 financial year, there were no events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

Conflicts of interest.

Ulrich Hocker is a member of the Supervisory Board of Deutsche Telekom AG and is also Manager in Chief of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW). DSW represents and supports the interests of investors vis-à-vis Deutsche Telekom AG in various matters. To ensure from the outset that no conflict of interest could arise in this respect, Mr. Hocker declared before the Supervisory Board that, as a member of the Supervisory Board, he would decline to receive reports or information, vote on resolutions, and attend Supervisory Board and committee meetings that dealt with matters in which DSW was representing or supporting interests against Deutsche Telekom AG. Mr. Hocker also stated that, where necessary, he would consult the Chairman of the Supervisory Board to discuss how to address a potential conflict of interest.

Corporate governance.

The Supervisory Board and Board of Management are aware that good corporate governance in the interests of the Company's shareholders and capital markets is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code in December 2010.  The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (pages 32–37).

Changes in the composition of the Board of Management.

On December 17, 2009 the Supervisory Board approved Hamid Akhavan's request to relieve him of his duties with effect from February 15, 2010 so he could pursue other professional challenges.

The Supervisory Board resolved that from February 15, 2010, Guido Kerkhoff, the Board Member responsible for Southern and Eastern Europe, would temporarily take responsibility for the Company's mobile communications subsidiaries in the Netherlands, the UK, Austria, Poland, and the Czech Republic. These subsidiaries were added to Mr. Kerkhoff's area of responsibility effective April 1, 2010. His Board department was subsequently renamed "Europe."

The other functions in the department previously headed by Hamid Akhavan were temporarily assigned to Reinhard Clemens, Member of the Board of Management responsible for T-Systems, effective February 15, 2010. On May 2, 2010 the Supervisory Board approved the appointment, effective May 3, 2010, of Edward R. Kozel as Member of the Board of Management with responsibility for the Technology and Innovation department that covers the areas of technology, IT, procurement, and products and innovation for the standard business with private and business customers.

Changes in the composition of the Supervisory Board.

Shareholder representatives: At the shareholders' meeting on May 3, 2010, Dr. Wulf Bernotat and Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelman, both court-appointed members of the Supervisory Board since January 1, 2010, were formally elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2014 financial year.

Employee representatives: Owing to his retirement, Josef Falbisoner resigned his seat on the Supervisory Board effective the end of the 2010 shareholders' meeting. The District Court of Bonn appointed Sibylle Spoo as his successor effective May 4, 2010.

The Supervisory Board would like to thank the former members of both Boards for their valuable service.

Review of annual financial statements of the parent company and consolidated financial statements for the 2010 financial year.

The Board of Management submitted the annual financial statements and the management report, which was combined with the Group management report, the consolidated financial statements, and the Group management report of Deutsche Telekom AG, which was combined with the management report, together with its proposal for the appropriation of net income, to the Supervisory Board in good time.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which were jointly appointed as auditors of the single-entity financial statements and auditors of the consolidated financial statements ("external auditors") for the 2010 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2010, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2010, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report. They issued an unqualified audit opinion in each case. The audit of the consolidated financial statements also included a request to assess their overall compliance with IFRS.

Before resolving on their proposal of external auditors to the shareholders' meeting, the Audit Committee received the external auditors' confirmation that there are no business, financial, personal or other relationships between themselves, their executive bodies and audit managers on the one hand and the Company and its executive body members on the other, that may cast doubt on their independence. The declaration also states to what extent other services were rendered for the Company in the previous financial year, in particular consulting services, and to what extent such services have been contracted for the following year. On this basis the Audit Committee verified and confirmed the requisite independence of the external auditors. It informed the Supervisory Board of the outcome of this review before the Supervisory Board prepared its resolution to propose to the shareholders' meeting to appoint said external auditors.

The external auditors submitted their reports on the nature and extent as well as the result of their audits (audit reports) to the Supervisory Board. The documentation on the aforementioned financial statements, the external auditors' audit reports, and the Board of Management's proposal for the appropriation of net income were made available to the members of the Supervisory Board in good time.

The Supervisory Board conducted its own review of the documents submitted by the Board of Management and the audit reports of the external auditors.

Prior to the Supervisory Board's review and resolution, the Audit Committee conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail to the members of the Audit Committee at its meeting on February 22, 2011. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, explained their audits, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of their audits, and their audit reports. The external auditors did not identify any material weaknesses in the internal control system, the risk management system, or the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit reports and audit opinions, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audits and about the audit results. The Audit Committee satisfied itself that the audits and audit reports were compliant. In particular, the committee satisfied itself that the audit reports, and the audits conducted by the external auditors, met the legal requirements. The Audit Committee agrees with the external auditors that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems. The Audit Committee has recommended to the Supervisory Board

to approve the results of the audits by the external auditors and, since it had no objections to the documents submitted by the Board of Management, to approve the annual and the consolidated financial statements as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 23, 2010, taking into account the report and recommendations of the Audit Committee and the audit reports of the external auditors. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered the questions from the Supervisory Board. The external auditors also attended this meeting, reported on their audits and their main audit results, explained their audit reports, and answered questions from the Supervisory Board on the nature and extent of the audits and the audit results. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audits and audit reports were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the audits.

Based on the final outcome of the Supervisory Board's own review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income, no objections need be raised. The same applies to the corporate governance statement even insofar as it is not to be audited by the external auditors. The Supervisory Board followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements. In particular, the Supervisory Board approved the transfer of EUR 0.0 in net income from the single-entity financial statements of Deutsche Telekom AG to other retained earnings in accordance with § 58 (2) AktG in conjunction with § 19 (3) of the Articles of Incorporation. The approval of the Supervisory Board constitutes the formal approval of the annual financial statements. The Supervisory Board's assessment of the position of the Company and the Group is the same as that which the Board of Management presented in its combined management report and Group management report. It followed the Audit Committee's recommendation and approved these documents.

When the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 16, 2010, the Supervisory Board conducted an in-depth examination of the medium-term financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 22, 2011 and by the Supervisory Board on February 23, 2011. The external auditors were present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 3.0 billion and to carry forward around EUR 3.0 billion to unappropriated net income.

Review of the dependent company report.

The Board of Management presented its dependent company report for the 2010 financial year to the Supervisory Board in good time.

The external auditors audited the dependent company report and issued the following audit opinion:

"Based on the results of our statutory audit and our judgment we confirm that

1. the actual information in the report is correct;
2. the Company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The external auditors submitted the audit report to the Supervisory Board. The dependent company report and the associated audit report were made available to all members of the Supervisory Board in good time.

The Supervisory Board also reviewed the dependent company report of the Board of Management and the audit report of the external auditors.



Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 22, 2011, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, reported on their audit, in particular their key audit areas and the significant results of their audit, and explained their audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audit and about the audit results. The Audit Committee satisfied itself that the audit and audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditors, as the committee sees no grounds for objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board performed the final review at its meeting on February 23, 2011, taking into account the audit report of the external auditors. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered questions from the Supervisory Board. The external auditors were also present and reported on their audit of the dependent company report and their main audit results, explained their audit report, and answered questions from the Supervisory Board on the nature and extent of the audit of the dependent company report and the audit results. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit of the dependent company report and audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, met the legal requirements. The Supervisory Board examined the dependent company report in particular for completeness and accuracy. In doing so, it also satisfied itself that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. The review revealed no reason to raise objections to the dependent company report. Following the recommendation of the Audit Committee, the Supervisory Board concurred with the result of the external auditors' audit of the dependent company report. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board would like to thank the members of the Board of Management and all of Deutsche Telekom's employees for their commitment and dedication in the 2010 financial year.

Bonn, February 23, 2011
The Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman


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

The T-Share.

Economic recovery and the euro crisis dominated the year on the stock exchanges // Markets impressed by Deutsche Telekom's long-term shareholder remuneration policy

T-Share information.

		2010	2009
Xetra closing prices			
	€		
Share price on the last trading day		9.66	10.29
Year high		10.60	11.39
Year low		8.55	7.93
Trading volume			
German exchanges	billions of shares	4.7	5.3
New York Stock Exchange (ADRs) *	millions of shares	184	356
Tokyo Stock Exchange *	millions of shares	1.4	0.3
Market capitalization on the last trading day		billions of €	
		41.7	44.9
Weighting of the T-Share in major stock indexes on the last trading day			
DAX 30	%	4.7	5.8
Dow Jones Euro STOXX 50®	%	1.1	1.2
T-Share – key figures			
Earnings per share (basic and diluted)	€	0.39	0.08
Proposed dividend	€	0.70	0.78
Number of shares issued	millions, at year-end	4,321.32	4,361.32

* Deutsche Telekom delisted from the New York and Tokyo stock exchanges in the 2010 financial year. The last day of trading at the NYSE was on June 18, 2010 and at the Tokyo Stock Exchange on July 15, 2010.

Capital markets environment.

While the global economy in 2009 went through the worst recession since 1945, 2010 was marked by economic recovery on the one hand and the debt crisis in several European countries on the other.

Economic activity around the globe was revived, in many cases with the help of large-scale fiscal and monetary policy programs. However, fear of national bankruptcy in Greece, Ireland and other European countries put the euro under considerable pressure. The EU and the IMF had to help out with financial aid facilities worth several billions.

Market demand worldwide centered on cyclical stocks, e.g., stocks that depend heavily on economic growth. These, however, were in fact among the main losers in the crisis year of 2009. Consequently, in 2010 defensive

stocks such as health and telecommunications that had not experienced such a pronounced decline beforehand tended to lag somewhat behind the strengthening markets.

Development of international indexes.

Europe's indexes developed very differently depending on their exposure to the euro crisis, on the significance of the financial sector, and on the strength of the respective national economies. For instance, the DAX rose by a total of 16.1 percent, making it one of Europe's best performing indexes in 2010. For the first time since June 2008, it passed the 7,000 points mark several times in December and closed the year at 6,914. By contrast, Spain's IBEX 30 sustained a drop of 17.4 percent while Greece's index lost as much as 35.6 percent.



The euro zone's leading index, the EuroSTOXX 50[®], lost 2.8 percent on a total return basis (share price performance plus dividend), a decline that was clearly attributable to the debt crisis in several euro zone countries, which put considerable pressure especially on bank stocks. These stocks are relatively strongly represented in the EuroSTOXX 50[®].

The main U.S. indexes closed the year 2010 on a solid high, even though fears of another decline in the U.S. economy – known as a double dip – coupled with continued high unemployment caused repeated setbacks throughout 2010. The Dow Jones Industrial Index climbed 11 percent overall, while the S&P 500 rose 12.8 percent and the NASDAQ increased 16.9 percent.

Japan's Nikkei had sustained a 3-percent decline by year-end. This was due to the strength of the yen, a challenge especially for the country's export-orientated businesses that form the backbone of Japan's economy.

T-Share performance.

The T-Share remained stable over the full year. Its annual high was reached very early in 2010 at EUR 10.60, while the low of EUR 8.55 came in May after the dividend payout. Based on total shareholder return (share price performance plus dividend) the share gained 2 percent over the full year and closed at the end of 2010 at EUR 9.66.

Deutsche Telekom impressed the telecommunications markets with its new shareholder remuneration policy: The Company announced that it will remunerate its shareholders with a total of EUR 10 billion over the next three years through 2012. Of this, EUR 3 billion will be paid out as a dividend each year. This makes Deutsche Telekom the first DAX company to communicate a minimum dividend for three years in conjunction with a share buy-back totaling up to EUR 1.2 billion. This policy is subject to the requisite unappropriated net income being posted in the single-entity financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect, taking account of the Company's situation at the time.

The share buy-back program the Board of Management approved on July 27, 2010 was completed on December 3 as part of Deutsche Telekom's aforementioned new shareholder remuneration policy. A total of around 40 million shares accounting for around EUR 102.40 million in share capital were bought back through the stock exchange. The amount equates

to around 0.9 percent of the Company's share capital. The average buy-back price per share was EUR 9.9998, taking the total buy-back value to around EUR 400 million.

The Company's quarterly figures, particularly those for the German business, were in line with expectations.

Delisting of American Depositary Shares from the New York Stock Exchange.

Deutsche Telekom's American Depositary Shares (ADSs) were delisted from the New York Stock Exchange (NYSE) after the close of trading on June 21, 2010. The Company also deregistered from and therefore discontinued its reporting obligations to the U.S. Securities and Exchange Commission (SEC) in accordance with a resolution adopted by the Group Board of Management at its meeting on April 20, 2010.

The delisting did not affect U.S. investors holding ordinary Deutsche Telekom shares. Level III ADSs held by investors in the United States were transferred to a sponsored Level I ADS program with the assistance of our depository bank, Deutsche Bank, so that the shares could be traded over the counter.

The primary aim of delisting and deregistration was to simplify financial reporting processes within the Company and cut costs. However, Deutsche Telekom remains committed to the very highest levels of transparency and maintaining corporate governance standards in its financial reporting. The Company will also continue to maintain a close, open, and direct dialog with its U.S. investors.

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

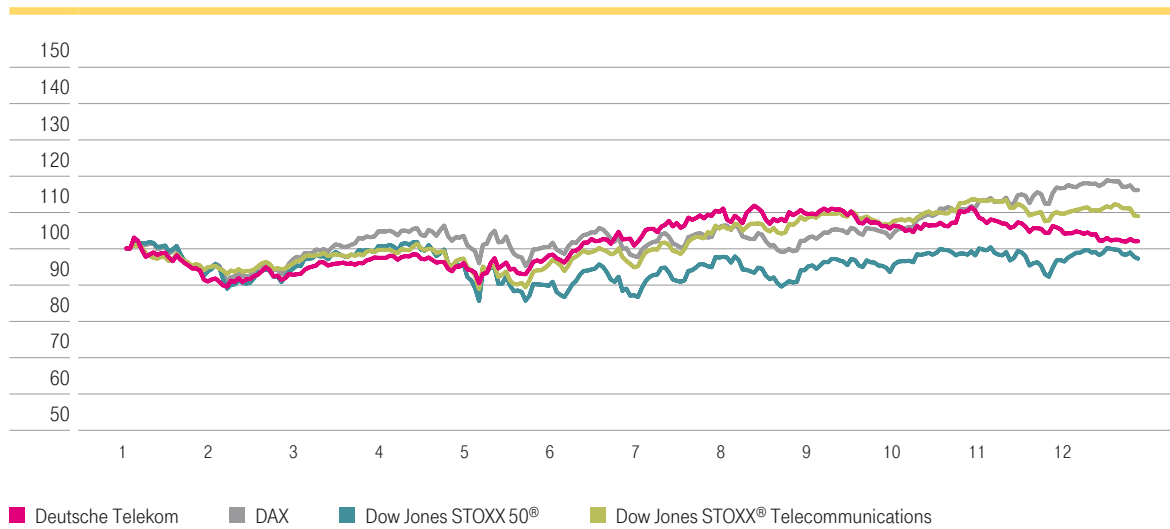
Members of the Deutsche Telekom Board of Management and Supervisory Board bought a total of approximately 160,000 Deutsche Telekom shares in 2010. Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Dividend.

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 12, 2011, the distribution of a dividend of EUR 0.70 per share.

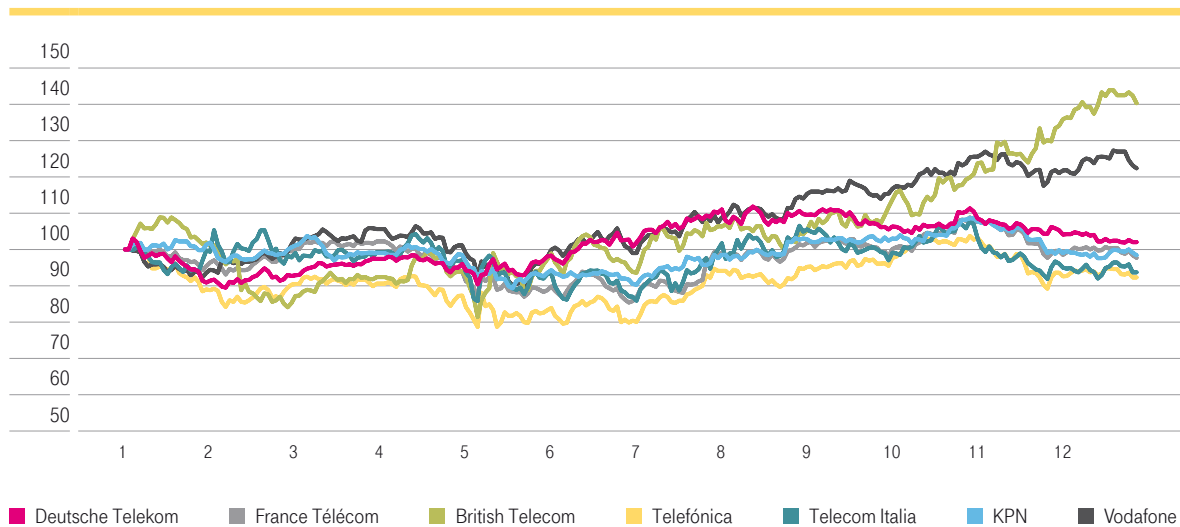
T-Share as compared to DAX, Dow Jones STOXX 50® and Dow Jones STOXX® Telecommunications.

January 1 to December 31, 2010



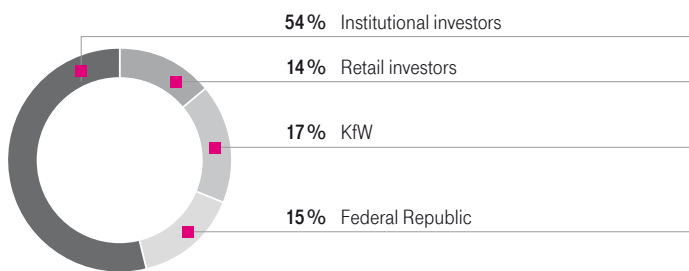
T-Share as compared to other telecommunications companies.

January 1 to December 31, 2010



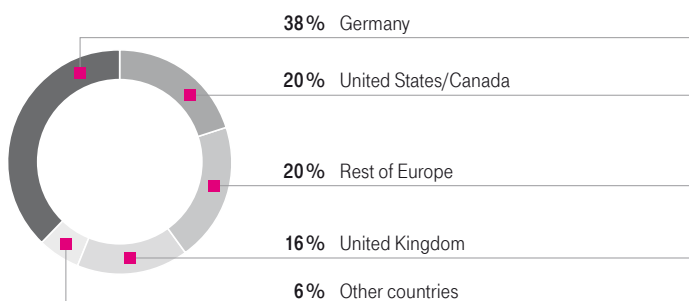
Shareholder structure.

As of December 31, 2010



Geographical distribution of free float.

As of December 31, 2010



Shareholder structure.

The share buy-back and subsequent capital decrease, which took effect as of December 17, 2010, resulted in minor changes to the shareholder structure. The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) is now 32 percent. The percentage of shares in free float consequently decreased to 68 percent. The proportion of institutional investors decreased to 54 percent of share capital, while the share of retail investors increased to approximately 14 percent.

Investor relations.

In the 2010 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors, and financial analysts. In individual and group discussions during its roadshows in Europe and North America, top management personally presented the Group strategy and the Company's financial position along with annual and quarterly results.

Direct contact with the capital markets was also maintained on the occasion of an analysts' conference in Bonn and in London, and international investors' conferences held at various locations including Frankfurt, Barcelona, London, Paris, and New York.

Comprehensive online services were again available to Deutsche Telekom's shareholders in the 2010 financial year. Shareholders can also in future use the option of receiving documents relating to the shareholders' meeting by e-mail, for instance. In addition, Internet Dialog also facilitates the ongoing expansion of electronic communication with shareholders. The personal profiles the shareholders can set up themselves allow them to order tickets to the shareholders' meeting for themselves or for a proxy. If shareholders do not wish to attend in person, they can change voting instructions issued to proxies until shortly before voting begins. For the second year running, the carbon footprint of the shareholders' meeting is being offset fully.

In addition, the "direkt" newsletter (available in German only) reports on the most recent quarterly results and the annual financial statements of the Group. It also covers significant developments and events as well as the Group strategy, and contains special offers for shareholders. The newsletter is available for download from the Investor Relations website. Shareholders can also receive the free newsletter in printed form or by e-mail. Last year, Deutsche Telekom AG shareholders and other persons interested in the T-Share made intensive use of the services for retail investors. In 2010, our team dealt with over 20,000 inquiries.

The IR team provides retail investors with a direct point of contact on + 49 (0) 228 181 88333 (fax + 49 (0) 228 181 88339) or e-mail forum-taktie@telekom.de for questions relating to Deutsche Telekom.