

Compensation system for Board of Management members (item 9 of the agenda)

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1. Objective of the compensation system of the Board of Management and reference to the corporate strategy

The new compensation system of the Board of Management defines the framework conditions in accordance with which the Supervisory Board can grant the members of the Board of Management remuneration components. The Supervisory Board has prepared the new compensation system in line with the regulations of the German Stock Corporation Act (AktG) in the version amended by the Act Implementing the Second Shareholder Rights Directive (ARUG II) as well as the recommendations for

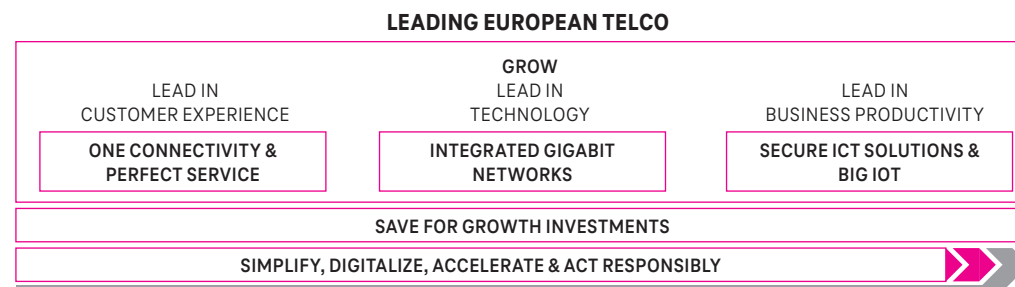
the compensation system for management board members in Section G of the German Corporate Governance Code (GCGC) in the version dated December 16, 2019. The objective is to introduce the rules of the new compensation system with retroactive effect to January 1, 2021, within two months following the 2021 shareholders' meeting and to transfer all members of the Board of Management to this new compensation system.

When drafting the compensation system for members of the Board of Management, the Supervisory Board worked on the basis of the following principles:

- ▶ **Conforming to regulatory/statutory requirements in Germany as well as the principles of good corporate governance**
- ▶ **Promoting the implementation of the long-term strategy for sustainable corporate development**
- ▶ **Determining reasonable compensation levels within market standards**
- ▶ **Strong focus on pay for performance**
- ▶ **Focus on shareholders' interests while accounting for stakeholders' interests**
- ▶ **As consistent as possible with the compensation system for executives within the Group**
- ▶ **Intuitive and easy-to-understand compensation system**

The aspiration and strategy of Deutsche Telekom is to be the “leading European telecommunications company”. Lead in customer experience, lead in technology, and leading in supporting the productivity of other companies. With these aspirations, Deutsche Telekom is targeting further growth and is more than just an infrastructure

company. It is a trustworthy companion to its customers in an increasingly complex world. Simplifying and enriching people's lives, both personally and professionally, everywhere and all the time, is our task. We connect people and companies with the latest technologies. Our strategic areas of operation are derived from this leadership goal:



One connectivity & perfect service

We want to offer our customers a seamless and technology-neutral telecommunications experience. To do so, we offer our customers fixed line and mobile connectivity, as well as other services such as television and smart home products – all from a single source. As a premium provider, our flawless customer service sets us apart from the competition. To ensure this, we will continue to improve service quality and reliability.

Integrated gigabit networks

Well built-out networks are the foundation for our Company motto “Life is for sharing”. Deutsche Telekom wants to offer its customers the best network and the fastest connections at all times, without them having to worry about the technology. The goal is to provide seamless access, regardless of whether they are using smartphones, laptops, tablets, or other devices. To achieve it, Deutsche Telekom has been investing heavily for years, particularly in fiber-optic build-out and the best mobile communications network.

Secure ICT solutions & big IoT

Companies act both locally and globally. We make sure they are connected internationally: with their international sites, with their customers, and with their products in the Internet of Things. With the T-Security business unit, Deutsche Telekom also already offers a full portfolio of the most crucial security services.

To be successful in these areas of operation, Deutsche Telekom will continue to make heavy investments. We generate the leeway for this by making savings in other areas and becoming more efficient for example. It is also for this reason that we want to make Deutsche Telekom

– on the whole – simpler, more digital, and faster. For example, we will simplify our offerings and further automate our internal processes. This will ensure that we can respond to our customers’ needs even more quickly.

The “Act responsibly” addition also sets out that, for all business decisions, the social and ecological consequences of those decisions be taken into consideration from the outset. The strategy applies from digital responsibility and media literacy to climate protection and resource conservation.

Alongside further aspects, the compensation system for the Board of Management greatly contributes to promoting this long-term corporate strategy. By selecting appropriate liquidity and profitability KPIs as financial performance *indicators*, this system creates incentives to generate the required means to be able to successfully implement Deutsche Telekom’s investment strategy. By using KPIs for the customer and employee satisfaction as non-financial KPIs, the stakeholders’ interests – which are also important to be able to be successful in the strategic areas of operation and achieve the financial performance indicators – are also appropriately taken into consideration. The Supervisory Board has also added ecological objectives to the compensation system to ensure that – within the framework of the Company’s sustainability strategy – the “Act responsibly” – and “Enable sustainability” mission is also emphasized via the compensation of the Board of Management.

Through consideration of the share price in various elements of the compensation of the Board of Management and the direct obligation to acquire and maintain shares in the Company, the objec-

tive is to ensure the greatest possible reconciliation of interests between the shareholders and the Board of Management of Deutsche Telekom.

The compensation system should be structured in such a manner that the challenging task of the members of the Board of Management, namely managing a global telecommunications company that operates in a very dynamic competitive field and is subject to intense regulation, is taken into consideration. At the same time, the compensation of the Board of Management should be globally competitive to support Deutsche Telekom when searching for highly-qualified managers.

Through this approach, the Board of Management compensation system provides incentives to successfully implement the corporate strategy, to ensure a sustainable development of the Company, and is also focused on creating long-term value for the shareholders. This meets all requirements of the German Stock Corporation Act and all recommendations of the German Corporate Governance Code 2020 (GCGC).

This compensation system was developed over a period of around two years alongside the regulatory developments. It was continually refined within the context of the General Committee meetings and interim states were also regularly discussed in the Supervisory Board meetings. Alongside this, discussions were held in 2020 with investors and proxy advisors in order to be able to also consider the investors’ perspective regarding the requirements and structure of an effective compensation system. The Chairman of the Supervisory Board used these events to align the opinion of the Supervisory Board with the requirements of the investors, explain the reasoning of the Supervi-

sory Board, to respond to criticisms from the investors, and to notify the Supervisory Board of the investor feedback during the course of the coordination of the compensation system. The new Board of Management compensation system was resolved by the Supervisory Board in the Supervisory Board meeting that took place on February 25, 2021.

2. Procedure to determine the concrete total compensation of the Board of Management and to review of the Board of Management compensation system

2.1 Determination of the compensation amounts

In accordance with § 87 (1) AktG, the Supervisory Board defines the total compensation for each member of the Board of Management. To this end, the Supervisory Board obtains support from the General Committee for issues regarding the compensation of the Board of Management. The General Committee drafts suggestions for the Board of Management compensation system, analyzes further developments, and prepares decisions for the definition of targets and derives the target achievements. These suggestions are then discussed and resolved by the Supervisory Board. In the event that the Supervisory Board would like to call upon an external compensation expert for its discussions, the independence of this person is ensured.

The Supervisory Board defines the concrete target total compensation and the maximum compensation for the upcoming financial year. Here, the Supervisory Board ensures that this compensation is in appropriate relation to the duties and performances of the member of the Board of Management as well as to the situation of the

Company and that it does not exceed the usual compensation without good reason. The Supervisory Board has aligned the compensation structure with a sustainable and long-term development of the Company in which the variable components of remuneration have a basis of assessment lasting several years. With regard to the variable compensation, the percentage of the long-term targets is greater than the percentage of the short-term targets. The performance criteria relevant for the variable remuneration components are defined by the Supervisory Board for each member of the Board of Management. These criteria are based on operational and, primarily, strategic targets. Here, the Supervisory Board determines the extent to which the targets are decisive for each individual member of the Board of Management and for all members of the Board of Management as a whole. It is not possible to retrospectively amend the target values or the comparison parameters.

Following the end of the financial year, the General Committee – in line with the target achievement – recommends the amount of the individual remuneration components to be paid for the relevant financial year. These components are discussed and resolved by the Supervisory Board. In doing so, the Supervisory Board ensures that the compensation of the Board of Management is comprehensible in terms of reason and size.

The level of the total compensation is regularly subject to a review of its appropriateness by the Supervisory Board. Here, the General Committee prepares a horizontal and vertical comparison of compensation. Using this comparison of compensation, the Supervisory Board discusses the appropriateness and the normality of the compensation and makes a decision

regarding a need to amend the compensation if the comparison indicates a need to do so.

2.1.1 Horizontal comparison of compensation

With regard to the horizontal comparison of compensation, Deutsche Telekom primarily aligns itself to the compensations granted by DAX 30 companies. In doing so, the criteria “revenue”, “number of employees”, and “market capitalization” are used in order to perform a statistical comparison of Deutsche Telekom within the reference group. Here, the objective is to ensure that the compensation at Deutsche Telekom represents an offer that is market-standard yet also competitive compared to other DAX-listed companies. According to the statistical comparison, Deutsche Telekom is currently in the upper quarter of the DAX 30 companies and therefore wishes to ensure that the compensation of the Board of Management is also on this level. In addition to the fundamental orientation towards the level of compensation at DAX 30 companies, the Supervisory Board also regularly observes and examines the development of the European and global compensation level in the telecommunications sector. Due to the highly fluctuating sizes of the competing telecommunications companies and the significantly different compensation models and levels in the respective target markets, the horizontal compensation comparison is given a greater weight on the basis of the data from the DAX 30 peer group; the results from the industrial comparison supplement the knowledge gained.

2.1.2 Vertical comparison of compensation

The Supervisory Board also takes the compensation structures within Deutsche Telekom into account when defining the compensation of the Board of Management. With this in mind, a

qualitative assessment is performed of the remuneration components that are offered at various employee levels within the Company, which elements have differences in terms of their structure, and how high the average employee compensation is at the individual hierarchical levels. Within this vertical comparison of compensation, the Supervisory Board limits its assessment to the German workforce and also takes into account senior management and the workforce as a whole, whereby a distinction is made between seven employee levels. In this comparison, the development of the compensations over time is also always taken into consideration.

2.2 Review of the Board of Management compensation system

The General Committee prepares the regular review of the compensation system by the Supervisory Board. Where necessary, the General Committee recommends potential changes to the system to the Supervisory Board. If a change to the system is made, it is presented to the shareholders' meeting once again for approval. If the compensation system remains the same over time, the system is submitted to

the shareholders' meeting not later than four years after the last approval of the system. If the shareholders' meeting does not grant approval for a compensation system, the General Committee will recommend a new, amended compensation system to the Supervisory Board which, following consultation and resolution, the Supervisory Board will present for approval at the next ordinary shareholders' meeting.

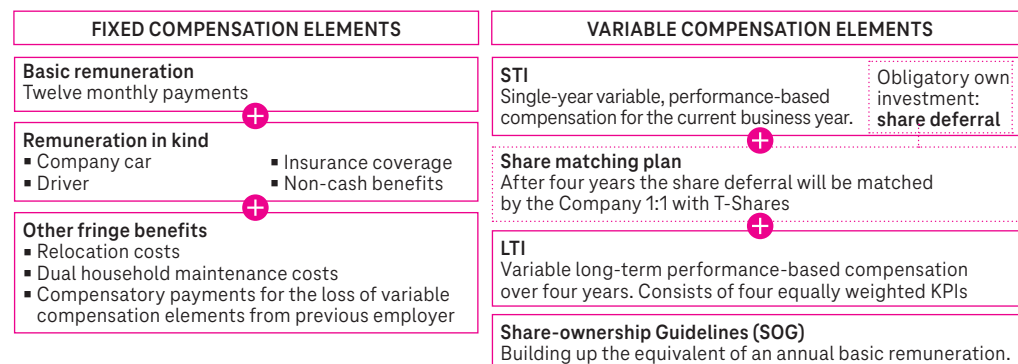
3. Contractual terms, durations of appointment, and age limits

The Supervisory Board takes the regulations of § 84 AktG and the German Corporate Governance Code into account with regard to the appointment of members of the Board of Management and the term of Board of Management contracts.

The initial appointment of members of the Board of Management is for a maximum of three years. The maximum term for re-appointments or extensions to the term of office is five years.

The Supervisory Board has defined a standard age limit of 65 years for members of the Board of Management.

4. Components of the total compensation of the Board of Management



4.1 Fixed compensation components

| Overview of the potential fixed elements of the compensation system for the Board of Management | | |
|---|--|--|
| Compensation component | Structure | Objectives and bearing on strategy |
| Basic remuneration | <ul style="list-style-type: none"> - Fixed agreed compensation - Paid out at the end of each month | <ul style="list-style-type: none"> - Reflects the person's position within the Board of Management, personal experience, and market conditions - Guaranteed element of the compensation of the Board of Management |
| Remuneration in kind | <ul style="list-style-type: none"> - Provision of a company car/Driver - Annual health checkup - Insurances - Consultation on security-related issues and measures for structural and technical security | <ul style="list-style-type: none"> - Assumption of costs which are incurred in the Company's interests |
| Other fringe benefits | <ul style="list-style-type: none"> - Reimbursement of any job-related relocation costs incurred - Time-limited reimbursement of dual household maintenance costs - Compensatory payments for the loss of variable compensation elements from previous employer in the event of a transfer to Deutsche Telekom | <ul style="list-style-type: none"> - Compensation for financial losses which arise as part of Board activities or are incurred due to the transfer to Deutsche Telekom |

4.1.1 Basic remuneration

The basic remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law taking into consideration market standards for compensation and is paid on a monthly basis. It takes the individual role of the member of the Board of Management on the Board of Management, experience, the area of responsibility, and the market conditions into consideration. In the event of temporary incapacity for work caused by illness, accident or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid. The continued payment of remuneration ends at the latest after an uninterrupted period of absence of six months, or for a maximum of three months following the end of the month in which the Board of Management member's permanent incapacity for work is established.

4.1.2 Remuneration in kind

In accordance with market-oriented and corporate standards, the Company grants all mem-

bers of the Board of Management additional benefits, some of which are viewed as non-cash benefits and taxed accordingly. Within the context of a specified budget, members of the Board of Management are eligible for a company car for business and private use. Where necessary, they may also make use of a personal driver. In accordance with the contract, the members of the Board of Management are obligated to have an annual health check. The costs for this check are assumed by the Company. The Company grants the members of the Board of Management accident and liability insurance and bears the allocated non-cash benefits. Required means of communication are made available to the members of the Board of Management – also at their homes – free of charge. Members of the Board of Management can also receive consultation regarding security-relevant measures. If necessary, costs for measures to ensure structural security can be assumed.

4.1.3 Other fringe benefits

The fringe benefits are not a permanent and guaranteed component of the compensation of

the Board of Management and, in fact, are only granted by the Supervisory Board if necessary. The need for the benefits as described below generally arises in connection with an engagement of a new member of the Board of Management who has an active employment relationship with another employer. If a member of the Board of Management moves their main place of residence to Germany at the request of the Company, the Supervisory Board can grant either a full or a flat-rate financial reimbursement for additional services such as those related to relocation, dual household maintenance, accommodation, language courses, and costs associated with international schools for the children of members of the Board of Management. The same applies for assuming the costs for tax consulting services if a member of the Board of Management relocates to Germany from abroad and must pay tax in other countries beside Germany. Furthermore, the Supervisory Board can also define a compensation payment if a new member of the Board of Management is affected by significant losses to their variable remuneration components as a result of their transfer to Deutsche Telekom.

4.2 Variable compensation components

The variable remuneration should establish the right incentives to achieve the operational and strategic targets of the Company, to link the interests of shareholders and members of the Board of Management, and also to support the sustainability drive of Deutsche Telekom in the long-term without, at the same time, leading to temptation to take inappropriate risks. The variable compensation components reflect both the performances of the members of the Board of Management as a collective as well as the individual performances of individual members, and the economic development of Deutsche Telekom. When defining target-relevant success factors, the Supervisory Board ensured that they are in line with Deutsche Telekom's strategy. The financial success factors are derived from the corporate planning and measure the fulfillment of budget values. The Supervisory Board of Deutsche Telekom will retrospectively disclose the concrete ambition level of the used success factors of a variable compensation to be paid out in the compensation report.

Overview of the potential variable elements of the compensation system for the Board of Management

| Compensation component | Structure | Objectives and bearing on strategy |
|--|---|---|
| Variable remuneration that is calculated on the basis of the achievement of short-term objectives (STI) | <ul style="list-style-type: none"> - Term of one year - Disbursement date: after the shareholders meeting of the following year - Possible target achievements: 0–150 percent - The relevant target achievements are; <ul style="list-style-type: none"> 1/3 Group targets 1/3 Segment targets 1/3 ESG targets - Applicability of individual performance factor: 0.8–1.2 - Possible total target achievement taking into account the individual performance factor: 0–180 percent | <ul style="list-style-type: none"> - Achieving single-year corporate targets derived from medium-term planning - Operational successes at Group and segment level taken into account - Continual development of the operating business - Creating the conditions for dividend and investment capabilities - Sustainable and ecological aspects of the Company's business taken into account - Taking stakeholders' interest into account - Performance of individual members of the Board of Management may also be taken into account |
| Obligation to invest (personal investment) | <ul style="list-style-type: none"> - Each year after the STI is defined by the Supervisory Board - Minimum investment volume is 1/3 of the STI - Maximum investment volume is 1/2 of the STI - Holding period of 4 years (from time of investment) | <ul style="list-style-type: none"> - Reaching target figures and short-term corporate targets - Acts as incentive for long-term increase in shareholder value - Synchronizes the interests of members of the Board of Management with those of shareholders - Retention effect for the member of the Board of Management |

| | | |
|---|--|---|
| Share matching plan (SMP) | <ul style="list-style-type: none"> - Requires the personal investment made four years earlier - Each year following the end of the four-year holding period for the personal investment - Matching ratio: 1:1 for each share of the personal investment one share will be transferred as matching share - Limited share price development: at 150 percent of the paid STI. In the event that during the holding period the share price increases by more than 150 percent of the STI relevant for the personal investment, the member of the Board of Management will not participate in any further increase of the share price. In this case the matching ratio is below 1:1 | <ul style="list-style-type: none"> - Acts as incentive for long-term increase in shareholder value - Synchronizes the interests of members of the Board of Management with those of shareholders - Retention effect for the member of the Board of Management |
| Variable remuneration arising from the achievement of long-term objectives (LTI) | <ul style="list-style-type: none"> - Type of plan: cash-settled and share-based - Term: 4 years (rolling) - Target parameters: 4 equally weighted targets <ul style="list-style-type: none"> Return On Capital Employed (ROCE) Earning Per Share (EPS) Customer satisfaction Employee satisfaction - Share-based by mapping as virtual shares during the planned term - Taking into account actual dividend payments - Possible achievement of the targets: 0–150 percent - Maximum disbursement possibilities capped at 200 percent | <ul style="list-style-type: none"> - Achieving multiple-year corporate targets derived from medium-term planning - Acts as incentive for implementation of the long-term corporate strategy - Taking stakeholders' interests into account - Synchronizes the interests of members of the Board of Management with those of shareholders - Retention effect for the member of the Board of Management |

4.2.1 Annual variable remuneration (short-term-incentive/STI) with assessment period of one year

The economic success of the current financial year shall be reflected within the framework of the STI. Furthermore, the Supervisory Board has decided to support the significance of the sustainability strategy by implementing two ESG targets in the variable remuneration with an assessment period of one year. The Supervisory Board considers it important that 1/3 of the STI of the members of the Board of Management responsible for the operative business is assessed based on the success of the

operating segment for which responsibility is assumed. For members of the Board of Management who do not have any operating responsibility, this measurement takes place on a Group level and, depending on the area of responsibility, includes or excludes U.S. business. The objective of this is to reinforce the cross-area collaboration in the Board of Management team and, at the same time, to align a significant percentage of the annual variable remuneration of members of the Board of Management with responsibility for operating business towards the development of the respective operating segment.

| GROUP FINANCIAL TARGETS | | + | SEGMENT FINANCIAL TARGETS | | + | ESG TARGETS | | x | PERFORMANCE FACTOR |
|--------------------------|-----|---|------------------------------|-----|--|--------------------------|--|---|---|
| 1/3 of the target amount | | | 1/3 of the target amount | | | 1/3 of the target amount | | | Personal strategic target + Value adherence |
| Service revenues | 30% | | Service revenues | 33% | Reduction in CO ₂ emissions | 50% | | | |
| EBITDA AL (unadjusted) | 30% | | EBITDA AL (unadjusted) | 33% | Reduction of energy consumption | 50% | | | |
| Free cash flow AL | 40% | | Indirect costs AL (adjusted) | 33% | | | | | |
| 0%-150% | | | 0%-150% | | | 0%-150% | | | 0.8-1.2 |

The suffix AL in the table refers to the respective “after leases” KPI.

Group financial targets

Service revenues

Service revenues are the revenues that are generated from customers by services (i.e., revenue from fixed and mobile network voice calls – incoming and outgoing calls – as well as data services) plus roaming revenues, monthly basic charges and visitor revenues, as well as revenues generated from the ICT business. As a result, the service revenues are an important indicator for the successful implementation of the growth strategy of the Group. Starting 2021, they will form a component of the annual variable remuneration with an assessment period of one year. In contrast to this, the focus has so far been on total revenues. The reason for this change is the intended focus on revenue elements with greater value in order to avoid an inappropriate incentivization of the Board of Management to maximize revenues in the short-term through low-margin terminal equipment business and the expansion of revenues being more valuable in the long-term. When defining the ambition level, the Supervisory Board uses the prepared medium-term planning of Deutsche Telekom. Reaching the budget value of the planning leads to a target achievement degree of 100 percent. When defining the target achievement, the Supervisory Board has the opportunity to amend the service revenues in order to, at the same time, take significant and extraordinary effects that were not taken into account at all or were considered differently in the corporate planning.

EBITDA AL (unadjusted)

EBITDA AL is the most important KPI when it comes to measuring the operating performance of the Company and reflects the result

of our growth strategy on the customer side (consumers and business customers) as well as the savings for promoting investment. EBITDA AL (earnings before interest, taxes, depreciation and amortization) is calculated by adjusting EBITDA for depreciation of the right-of-use assets and for interest expenses on recognized lease liabilities. As a result of the mandatory first-time application of the IFRS 16 accounting standard since the start of the 2019 financial year, this has been taking place i.a. in order to establish the best possible comparability with the KPIs we previously used (in this case EBITDA). As a result, EBITDA AL plays a particular role in capital market communication and, for this reason, is a principle ratio when it comes to the annual capital market guidance (where, as part of the comparability with other telecommunications companies, EBITDA AL adjusted is reported). When defining the ambition level, the Supervisory Board uses the prepared medium-term planning of Deutsche Telekom. Reaching the budget value of the planning leads to a target achievement degree of 100 percent.

Free cash flow AL

FCF AL is a further important KPI when it comes to measuring the operating performance of the Company that is directly linked to the financial strategy of the Company (ability to pay a dividend and the ability to reduce liabilities). When determining the free cash flow AL, the FCF (cash generated from operations minus payments for investments) is adjusted for the repayment of lease liabilities. As a result of the mandatory first-time application of the IFRS 16 accounting standard since the start of the 2019 financial year, this has been taking place i.a. in order to establish the best possible comparability with the KPIs we previously used (in this case

FCF). As a consequence, FCF AL plays a particular role in capital market communication and, for this reason, is a principle ratio when it comes to the annual capital market guidance. When defining the ambition level, the Supervisory Board uses the prepared medium-term planning of Deutsche Telekom. Reaching the budget value of the planning leads to a target achievement degree of 100 percent.

To improve comparability of our performance indicators with the EBITDA and free cash flow indicators reported in the financial statements of T-Mobile US in accordance with U.S. GAAP, which continues to differentiate between operating and finance leases, expenses and repayments for finance leases at T-Mobile US will not be taken into account when determining EBITDA AL and free cash flow AL.

When defining the target achievement, the Supervisory Board has the opportunity to amend the unadjusted EBITDA AL and the free cash flow AL in order to, at the same time, take significant and extraordinary effects that were not taken into account at all or were considered differently in the corporate planning.

Segment financial targets

Service revenue and EBITDA AL (unadjusted)

The models stated above apply to both target parameters. The members of the Board of Management in the Germany, Europe, T-Systems and Group Development & U.S. segments are given the KPIs broken down for the segments as defined in the corporate planning as their set of targets. In doing so, the Supervisory Board wishes to incentivize the operational responsibility for the respective segment by linking it to a significant percentage of the

annual variable remuneration. The segment targets for the Chairman of the Board of Management and the Chief Financial Officer are the Group targets for both objectives, the non-operating members of the Board of Management responsible for HR as well as Technology and Innovation are given the respective Group targets excl. U.S.

Indirect costs AL (adjusted, Group-external)

The adjusted indirect costs AL are an important gauge for the operational efficiency of the Company and underline our strategic efforts to make savings in order to support investment in growth. Savings made in terms of indirect costs contribute towards the improvement of the operating performance that is reflected in EBITDA AL and free cash flow AL and, consequently, have a positive impact on the valuation of the Company on the capital market. In terms of the incentivization of the members of the Board of Management with operational responsibility, the focus is placed on the Group-external, adjusted indirect costs AL for the respective segment excl. the U.S.; as things stand, setting targets based on the indirect costs in the case of T-Mobile US is not a wise choice as the U.S. Business – as a growth area – is currently not focused on optimizing costs. In a similar manner to the determination of EBITDA AL, the adjusted indirect costs for the adjusted indirect costs AL are also calculated by adjusting for depreciation of the right-of-use assets and for interest expenses on recognized lease liabilities. The segment target for the Chairman of the Board of Management and the members of the Board of Management for Finance, HR, and Technology & Innovation is the adjusted external indirect costs AL for the Group excl. U.S. as the target and the members of the Board of

Management with operating responsibility for Group Development & U.S., Germany, Europe, and T-Systems are given the segment-specific target respectively.

Description of the ESG targets

Reduction of energy consumption

Climate change and the destruction of the environment are existential threats to the world. In the coming years, it is essential to sustainably decouple the economic growth from the use of resources. Companies must therefore significantly increase their energy and resource efficiency and further restrict their absolute energy consumption. This is necessary because even the production of green electricity has a negative impact on the environment. Not only that, there will also be capacity bottlenecks in the production and distribution of green electricity in the foreseeable future that will render it impossible to fully cover the needs of all market participant with green energy. Consequently, the reduction of the absolute energy consumption and, as a result, a decoupling of economic growth and the use of resources will be pursued. For the information and communications technology industry, the aspect of energy and resource efficiency will become increasingly important and it will be expected that the basic consumption of energy remains at least stable in the medium term or even slightly declines despite the build-out of the telecommunications network.

Deutsche Telekom is also aiming to increasingly decouple its growth from the use of resources. Despite an extensive build-out of the telecommunications networks in the coming years, Deutsche Telekom is aiming to keep its absolute energy consumption stable in the

medium-term. To achieve this, the energy efficiency must be significantly increased in light of a high increase in data volume.

The Supervisory Board therefore considers it important to incentivize the Board of Management to at least ensure that energy consumption that is harmful to the environment is kept at least stable in the medium term. This objective is supported by the introduction of programs and investments in energy-saving measures for all energy sources while, at the same time, implementing optimizations and innovations in terms of the future infrastructure and the use of innovative technology components.

Reduction of CO₂ emissions

In addition to reducing the energy consumption when it comes to the actual business model, Deutsche Telekom also fulfills its responsibility in terms of climate and resource conservation by working on various initiatives aimed at reducing CO₂ emissions that are generated within the context of the business activities. Therefore, Deutsche Telekom will switch to using 100 percent green electricity in 2021, thus reducing its CO₂ emissions by almost 90 percent. Furthermore, the focus is now being directed at the utilized fossil fuels. By incentivizing the Board of Management with regard to the target of significantly reducing CO₂ emissions, the Supervisory Board expects to sustainably anchoring the use of 100 percent green electricity, optimizing consumption levels in buildings, and successively switching the Group's vehicle fleet from fossil fuels to emission-free or low-emission engine types.

The Supervisory Board reserves the right to amend the utilized ESG targets in the future if this appears necessary due to updates of the sustainability strategy in order to ensure that

Deutsche Telekom is able to implement its ecological responsibility as well as possible.

In terms of the annual variable remuneration, the Group financial/segment/ESG targets are given an equal weighting and can each have a target achievement of between 0 and 150 percent. Any target achievements for individual targets that exceed 150 percent are not taken into account (as 150 percent is the maximum score) and cannot be used to offset any targets with a poorer target achievement level.

Once the total target achievement of these three targets have been defined, the Supervisory Board will apply a performance factor. The performance factor can be between 0.8 and 1.2. When defining the performance factor, the Supervisory Board assesses the strategic individual targets that were agreed with the respective member of the Board of Management prior to the start of the financial year and also assesses the individual value adherence of the member of the Board of Management. Here, the application of the performance factor acts as a penalty for the member of the Board of Management for everything below 1.0 and acts as a bonus for everything above 1.0.

The strategic targets for the Board of Management may be structured as follows:

Example overview of potential strategic implementation target

- Acceleration of the digital transformation
- Further development of the "new normal"
- Implementation of the workforce strategy
- Minimization of legal and regulatory risks
- Efficiency increase by lowering indirect costs
- Ensuring ability to refinance
- Ensuring ability to finance strategic priorities of the Group
- Transformation of the IT business
- Ensuring a value-oriented portfolio management
- Ensuring the resiliency of the supply chain and improvements to the effectiveness of the partnering approach
- Increasing innovation potential in terms of delivery and networks

The value adherence consists of six categories which are used in order to help evaluate actions in line with the Group's Guiding Principles on the basis of a 10-point scale. The categories used to determine value adherence are as follows:

Value adherence categories

- Delight our Customers
- Act with respect and integrity
- Team together / Team apart
- I am T – count on me
- Stay curious and grow
- Get things done

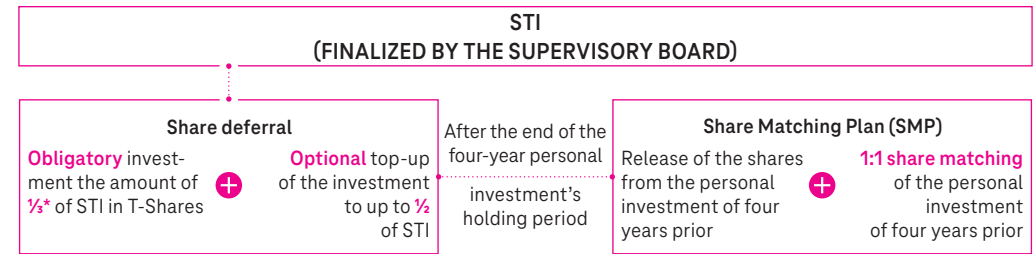
The members of the General Committee discuss their personal impression regarding the performance of each member of the Board of Management in all of the value adherence categories and in relation to the performances of the other members of the Board of Management. With regard to the performances of the ordinary members of the Board of Management, the Chairman of the Board of Management also provides an evaluation of his daily work with his colleagues. At the end of the discussions, the members of the General Committee evaluate each value adherence category on a scale of 1–10 points. Using this evaluation, a mathematical average for all categories is formed which represents the basis of the target achievement for the value adherence. The General Committee then proposes the calculated results to the members of the Supervisory Board for resolution. In the relevant Supervisory Board meeting, the target achievement values as calculated in the General Committee are presented and justified in terms of its content before the target achievement levels are finally defined.

If a top score is achieved in all components of the STI, the highest target achievement level is therefore 180 percent (150 percent x 1.2).

4.2.2 Obligation to invest/personal investment

Members of the Board of Management are obligated to invest a sum totaling at least one third of the annual gross STI as determined by the Supervisory Board in Deutsche Telekom AG shares for every year of their appointment. Members of the Board of Management have the option of extending their personal investment to a maximum of 50 percent of the gross STI. The shares are subject to a four-year lock-up period starting from the date of purchase. The shares acquired by the member of the Board of Management for this purpose are held in a spe-

cial blocked security deposit of the administering bank so that it is not possible to access the shares early. Once the four-year retention period has ended, the personal investment made by the member of the Board of Management is automatically transferred into the depositing account of the member of the Board of Management by the administering bank and is then available for the member to use as they see fit. The personal investment made by the member of the Board of Management then qualifies them to participate in the share matching plan.



4.2.3 Share matching plan (SMP)

The personal investment made by the member of the Board of Management then allows them to participate in the share matching plan. Once the four-year retention period for the personal investment is over, it is not only the obligation to retain the share that is ended, a free additional share is transferred to the deposit account of member of the Board of Management for each share purchased by way of personal investment. The shares transferred in this manner are available for the member to use as they see fit as soon as they are transferred for the member of the Board of Management. However, the transfer of the shares results in a non-cash benefit for the member of the Board of Management and is taxed as income within the context of the salary statement which follows

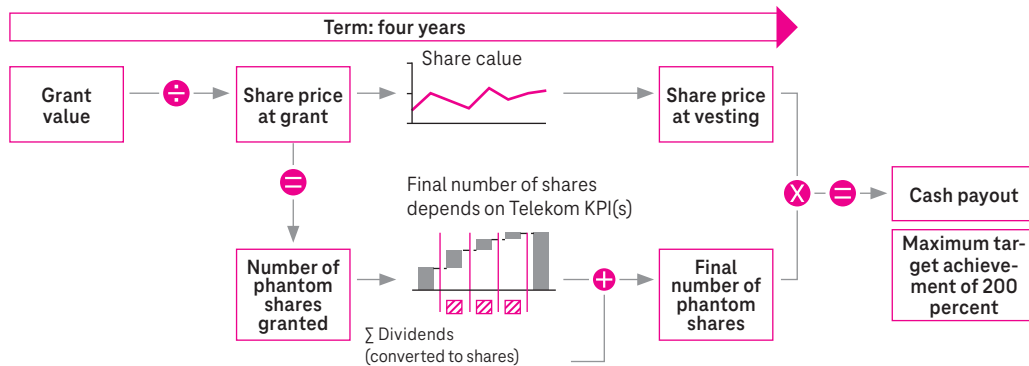
the transfer of the shares. When the matching shares are transferred, the share price development in relation to the equivalent value is capped at 150 percent of the relevant STI in the year of the personal investment. This ensures that, when the matching shares are transferred, the equivalent value of these shares do not amount to more than 150 percent of the relevant STI. If this case should become a reality, the cap would mean that the matching ratio of a share would decrease to the detriment of the member of the Board of Management for each invested share.

4.2.4 Long-term variable remuneration (long-term-incentive/LTI) with a perennial assessment period

Potential payments from the LTI are significantly determined by the strategic success factors derived from the long-term corporate planning in order to ensure that members of the Board of Management orient their actions in particular towards the KPIs that are especially important for the long-term development of the Company. Furthermore, payments from the LTI also depend on the share price development of Deutsche Telekom over the four-year planning period. This ensures that the interests of the shareholders are in line with the interests of the Board of Management. As is the case with the

share matching plan, a further aim of the LTI is to help retain members of the Board of Management at the Company.

All four utilized strategic success factors are given the same weighting and, prior to the plan's start, are given an appropriate ambition level by the Supervisory Board for the entire four-year planning period. Each success factor can earn a target achievement level of between 0 and 150 percent. The impact of the share price development on the amount of the LTI has been capped by the Supervisory Board in such a manner that the maximum payout volume of the LTI cannot exceed 200 percent of the grant value.



The LTI that is exclusively oriented towards the achievement of long-term targets will be issued annually in tranches over a four-year period. The members of the Board of Management participate in the respective tranche to the amount of the grant value as stated in the contract which is converted into phantom shares on the basis of a 100 percent target achievement level at the start of the planning period. During the conversion, the non-weighted averages of the closing prices of the Deutsche Telekom shares in the XETRA trading system of Deutsche Börse during the last ten trad-

ing days before the start or end of the plan are used.

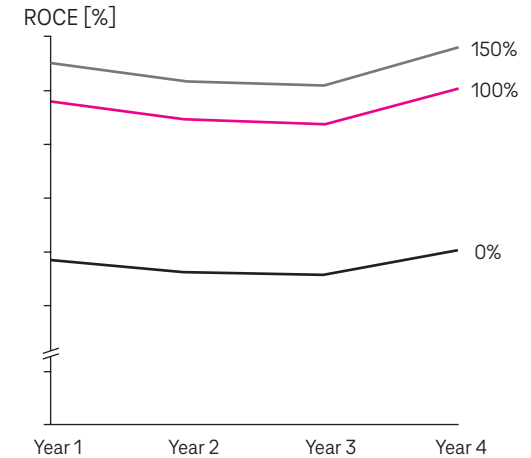
The volume of phantom shares increases over the term of the LTI as a result of the dividends actually paid out by Deutsche Telekom during the planning period. Each dividend payout is converted into phantom shares on the basis of the closing price of the XETRA trading system of Deutsche Börse on the day after the shareholders' meeting and increases the volume of phantom shares held by the members of the Board of Management.

At the end of the planning period, the resulting final number of phantom shares is calculated following the final determination of the target achievement of the strategic success factors from the final plan year by the Supervisory Board. The conversion of the shares into a monetary value is carried out in a similar way to the conversion at the start of the plan. Following the first shareholders' meeting following the end of the planning period, the LTI can be paid out together with the last dividend payout to the members of the Board of Management.

Return on capital employed (ROCE)

A central financial performance indicator at the Deutsche Telekom Group is the **Return on Capital Employed (ROCE)**. ROCE is the ratio of operating result after depreciation, amortization and impairment losses plus imputed taxes (net operating profit after taxes (NOPAT)) to the average value of the assets tied up in the course of the year (net operating assets, NOA). The objective of ROCE is to achieve or exceed the return targets imposed on us by providers of debt capital and equity on the basis of capital market requirements. We measure return targets using the weighted average cost of capital (WACC). The indicator measures how efficiently revenue is generated with the capital employed. ROCE is especially informative when taking a long-term view, because it takes into account both the value of the assets that are tied up in the capital-intensive infrastructure, and their utilization. This reveals the crucial advantage of this KPI. It does not focus on the absolute amount of the earnings generated, but rather how much earnings the capital employed generates.

Example of the ambition curve of the ROCE performance parameter in an LTI tranche:



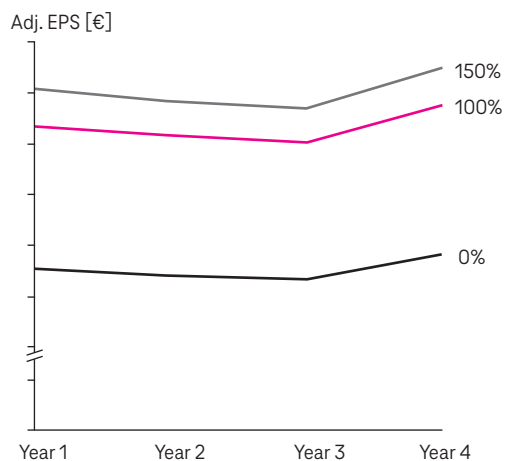
When defining the ambition level, the Supervisory Board uses the prepared medium-term planning of Deutsche Telekom. Reaching the values of the planning (budget as well as following plan years) and the ROCE derived therefrom result in a target achievement degree of at least 100 percent. Positive deviations to the planning values can increase the target achievement for each plan year to a maximum of 150 percent and negative deviations can reduce it to 0 percent. When deriving the target achievement, the Supervisory Board has the option of adjusting the ROCE for significant and extraordinary effects that were not taken into account at all or were considered differently in the corporate planning in order to ensure that the Board of Management does not make decision that could lead to the maximization of ROCE but do not correspond to the long-term interests of the Company.

Adjusted earnings per share (EPS)

A further significant performance indicator at Deutsche Telekom is the adjusted earnings per

share (adjusted EPS). The earnings per share are calculated as the adjusted net profit in relation to the adjusted, weighted average number of ordinary shares outstanding. As the net profit takes all income and expenses as well as the minority interests from the current period into consideration, the earnings per share are a very good gage to determine the level of the dividend (currently anchored in the Group's financial strategy). When defining the ambition level, the Supervisory Board uses the prepared medium-term planning of Deutsche Telekom. Reaching the values of the planning (budget as well as following plan years) results in a target achievement degree of at least 100 percent. When defining the target achievement, the Supervisory Board has the opportunity to amend the adjusted earnings per share in order to, at the same time, reflect significant and extraordinary effects that were not taken into account at all or were considered differently in the corporate planning.

Example of the ambition curve of the EPS performance parameter in an LTI tranche:



Customer loyalty/satisfaction (TRI*M)

At Deutsche Telekom, the **customer loyalty/satisfaction** is determined with the help of the globally recognized TRI*M method. The results of systematic surveys from an external service provider are expressed by an indicator known as the TRI*M index. This index combines questions on customer satisfaction, the likelihood of recommendation to others, the further willingness of use, and the competitive advantage and, consequently, covers the decisive aspects for the evaluation of customer loyalty and, as a result, offers a greater added value compared to other determination methods that, in some instances, only measure customer loyalty via a single category. In doing so, the TRI*M indexes calculated for all the included operating entities are aggregated as an approximation of the respective entities' percentage of total revenue to create an TRI*M Group value. When preparing the ambition level, the Supervisory Board takes the individual competitive situation of the individual units involved into consideration. In principle, the target is to also become the leader in terms of customer loyalty in the markets. With regard to the consolidated units, there are companies that are already the leaders in the markets in terms of perceived customer loyalty so that maintaining this competitive advantage already represents the economically required ambition level. In other markets, the Group companies are significantly behind the market leaders so that the Supervisory Board expects increases with regard to customer loyalty in order to achieve the desired level. The total target achievement of the customer loyalty/satisfaction success factor is determined from the average of the results from the four plan years.

Employee satisfaction

The most important feedback instruments across the Group (excluding T-Mobile US) for assessing employee satisfaction include regular employee surveys and the pulse surveys carried out twice a year. To this end, an "engagement index" – determined from the results of the most recent employee survey – is measured as an employee performance indicator at Deutsche Telekom. From the regularly used set of questions, the Supervisory Board selected some of the questions that it believes are of particular significance when it comes to evaluating employee satisfaction. For these questions, the Supervisory Board analyzes the development of the response behavior from the past and defines target levels that it considers to be worthwhile for future survey results. For each plan year,

| | Target value year 01 | Result year 01 | Determination of the total target achievement | |
|----------------------------|----------------------|----------------|---|------|
| Question 1 | 60 | 60 | Target achievement year 01 | 120% |
| Question 2 | 68 | 70 | Target achievement year 02 | 90% |
| Question 3 | 55 | 57 | Target achievement year 03 | 100% |
| Question 4 | 54 | 61 | Target achievement year 04 | 130% |
| Question 5 | 72 | 71 | | |
| Average | 62 | 64 | | |
| Target achievement year 01 | | 120% | Total target achievement | 110% |

The Supervisory Board considers it important that the response behavior of the employees remains free from opportunities to interfere, i.e., by managers. Therefore, the Supervisory Board does not publish questions it believes to be particularly relevant – either internally or externally – that it has made part of the employee satisfaction success parameter within the framework of the LTI.

4.2.5 Bonus for extraordinary performance

The Supervisory Board reserves the right to, in exceptional circumstances, grant a member

the Supervisory Board consequently generates an ambition level as an average value of the relevant questions whereby all questions are given the same weighting. When deriving the target achievements, the Supervisory Board calculated the average of the relevant questions from the current survey results from the relevant year and compares them to the determined target values at the start of the plan. Every over achievement or under achievement in terms of the plan value by a value of one percentage point increases/decreases the final target achievement by ten percentage points respectively. The total target achievement of the customer satisfaction success factor is calculated from the average of the results from all four tranches. An example of the method used for target achievement is provided below:

of the Board of Management a bonus for extraordinary performance for services that are particularly beneficial to the Company.

The Supervisory Board will only make use of this opportunity provided that it contributes to supporting the business strategy and the long-term development of the Company. The bonus is a one-off payment and does not constitute a legal claim for the future.

5. Components no longer present in the compensation system

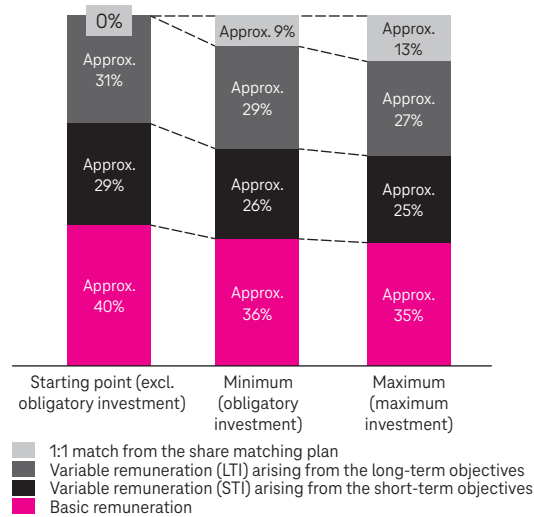
Board of Management pension

With the introduction of the new Board of Management compensation system, the Supervisory Board has decided to no longer commit to granting a company pension scheme for newly appointed members of the Board of Management. As a result, the financing of a pension plan is the sole responsibility of the respective member of the Board of Management. This decision means that, in the future, the individual biometric risks and the interest rate risks to finance the pension commitment for the Company will not apply. A special rule applies for the pension plans that are already in place for the members of the Board of Management who were already on the Board of Management at Deutsche Telekom before this new system was introduced. Please see the explanations under “12. Temporary deviations from the compensation system” for further information.

6. Compensation structure

The relation of the variable remuneration elements to each other at Deutsche Telekom is, in accordance with the regulatory provisions, primarily oriented towards the achievement of long-term targets. This focus ensures that the compensation structure is oriented towards a sustainable and long-term development of the Company and the compensation of the members of the Board of Management contributes towards supporting the Company strategy and the long-term development of the Company. The extent to which the long-term

component exceeds the short-term portion is, among other things, determined by the investment behavior of the members of the Board of Management. The following illustration shows the relation of the remuneration components based on the contractually agreed target values to one another. The non-variable components are exclusively presented using the basic remuneration and do not include remuneration in kind or other fringe benefits.



In the first column, the remuneration relation is calculated excluding the consequences regarding the members of the Board of Management obligation to invest and the share matching plan. When reviewing the system, the recruitments of new members of the Board of Management, and the monetary-based graduation of the individual members of the Board of Management, the Supervisory Board is guided by this form of presentation. The presentation in the second column shows the relation in consideration of the obligatory investment and

the share matching plan and the third column illustrates the relation in the event of maximum investment.

The existing relation of the remuneration components to each other also ensures that the variable remuneration components are primarily invested in Company shares or are based on shares. The Board of Management compensation system at Deutsche Telekom includes both variants. The share matching plan with the existing prior obligation to invest is based on real Deutsche Telekom shares. The phantom share plan takes into consideration the share price performance on the basis of virtual shares that are converted to cash sums at the start and end of the plan. Based on this, the following relations with respect to the proportion of long-term compared to short-term remuneration as well as share-based compared to non-share-based remuneration of the members of the Board of Management are calculated.

| Taking into consideration the minimum investment | Long-term | : | Short-term |
|--|-------------|---|-----------------|
| | Share-based | : | Non-share-based |
| | 73 | : | 27 |

| Taking into consideration the maximum investment | Long-term | : | Short-term |
|--|-------------|---|-----------------|
| | Share-based | : | Non-share-based |
| | 81 | : | 19 |

In both investment versions, the share of the long-term targets significantly exceeds the share of the short-term targets. The same applies to the share-based components compared to the non-share-based components within the variable remuneration components.

Mr. Höttges is in a different situation as a result of the deviations concerning the compensation system on account of his pension agreement.

7. Limitation of the variable remuneration components and the total compensation (caps)

When defining the target parameters relevant for the variable remuneration components, the Supervisory Board ensures that they are challenging and that they offer a balanced risk and opportunity profile without tempting the members of the Board of Management to take inappropriate risks. All of the variable remuneration components for the compensation of the Board of Management are capped in terms of monetary value.

| Remuneration component | Cap | Structure |
|--|------|---|
| Annual variable remuneration (STI) with an assessment period of one year | 180% | - Maximum of 150% for each KPI used - Through the application of the performance factor, maximum total target achievement of 180% of the STI target value |
| Share matching plan (SMP) | 150% | - Share price performance of the shares to be transferred is capped at a maximum value of 150% of the STI in the year of the investment |
| Long-term variable remuneration (LTI) with an assessment period of several years | 200% | - Maximum of 150% for each KPI used - While taking the share price development of the phantom shares into account, the total target achievement is capped at 200%. |

The maximum threshold level for the total compensation defined in accordance with § 87a (1), sentence 2, no. 1 AktG for ordinary members of the Board of Management is EUR 5,300,000 and EUR 8,500,000 for the Chairman of the Board of Management. The maximum threshold level for the total compensation comprises all of the remuneration components as presented below:

| Elements of the maximum total compensation threshold | |
|--|--|
| Fixed compensation elements | - Basic remuneration - Remuneration in kind - Other fringe benefits |
| Variable compensation elements | - Annual variable compensation (STI) - Share matching plan (SMP) - Long-term variable compensation (LTI) - Extraordinary performance-based remuneration |

8. Clawback rules for variable remuneration components

In accordance with § 87 (2) AktG, the Supervisory Board is authorized to reduce the remuneration for the future to an appropriate level or to amend the structure of the total compensation as well as the structure of the remuneration components in order to ensure an appropriate level of compensation. In doing so, the position of the Company and that of its affiliated companies must be taken into consideration.

In addition to the relevant statutory provisions which stipulate that the Supervisory Board shall – in the event of a breach of duty by members of the Board of Management – minimize the financial damage to the Company and, where necessary, make claims for damages against the members of the Board of Management, the following clawback rule applies for the members of the Board of Management of Deutsche Telekom: The Supervisory Board has the right to reclaim payments made to the members of the Board of Management from the STI and LTI if it is found that the payment was carried out wrongfully, entirely or in part, because the Supervisory Board had received information regarding the decision determining the level of target achievement which was evidently incomplete or incorrect. The reimbursement claims expire three years after the erroneous definition of the target achievement was made.

9. Share ownership guideline – SOG

In order to harmonize the interests of the Board of Management and the sharehold-

ers of Deutsche Telekom as well as to reinforce a sustainable development, the obligations to purchase and retain shares (share ownership guideline) are a significant element of the compensation system for the Board of Management. Members of the Board of Management are obligated to invest a third of the gross amount of the annual variable remuneration as stipulated by the Supervisory Board (STI) in Deutsche Telekom shares (deferral). Members of the Board of Management also have the option of extending their obligatory personal investment to a maximum of 50 percent of the gross STI. The shares purchased in this way will be held in a separate blocked security deposit at the bank responsible for the administration for exactly four years so that the shares cannot be sold early. After this four-year period, the member of the Board of Management receives the shares from the personal investment transferred to a deposit account for her/his free disposal. Within the context of the share matching plan and provided that the member of the Board of Management is still in the role at the Company, the member of the Board of Management receives one share free of charge from Deutsche Telekom for each released share from the personal investment for her/his free disposal. Structuring this share deferral in combination with the share matching plan ensures that the members of the Board of Management establish and maintain a significant amount of shares within the four year rolling lock-up period during their appointment with which they are also participating in the long-term development of the Company – both positively and negatively. In this way, the requirements from the German Corporate Governance Code (GCGC) and all stipulations from the AktG concerning the alignment of compensation towards a sustainable compa-

ny development are met. The member of the Board of Management is given the duration of initial appointment to build up their number of shares. The equivalent value of one annual basic remuneration must be demonstrably held in Deutsche Telekom shares no later than at the time of the payment of the third STI.

The following table illustrates an example of how the personal investments and transfers from the share matching plan respectively develop for an investment of one-third (first table) or half (second table) over a period of eight years (three years for the initial appointment and a reappointment for five years). The calculations assume that, for the period in

question, the STI always remains the same at EUR 1,000,000, that no shares are sold during the eight year period, that the share price remains the same for the entire period, and that the member of the Board of Management receives a basic remuneration of EUR 1,000,000.

Therefore, making an annual obligatory investment amounting to one-third of the STI results in achieving an equivalent value of an annual basic compensation in Deutsche Telekom shares in year 4. Making the maximum investment totaling 50 percent of the annual STI will result in reaching the equivalent value of one annual basic compensation in shares after three years.

Example of the development of the share volume when obligatory investment is made

| | Year 01 | Year 02 | Year 03 | Year 04 | Year 05 | Year 06 | Year 07 | Year 08 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| STI | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Obligatory investment ⅓ of the STI in € | | 333,333 | 333,333 | 333,333 | 333,333 | 333,333 | 333,333 | 333,333 |
| Transfer of matching shares in € | | | | | | 333,333 | 333,333 | 333,333 |
| Value of obligatory investment and matching shares per year in € | | 333,333 | 333,333 | 333,333 | 333,333 | 666,667 | 666,667 | 666,667 |
| Accumulated value over time in € | | 333,333 | 666,667 | 1,000,000 | 1,333,333 | 2,000,000 | 2,666,667 | 3,333,333 |
| Equivalent value of a basic remuneration in % | | | | 100% | 133% | 200% | 267% | 333% |

Example of the development of the share volume when the maximum investment is made

| | Year 01 | Year 02 | Year 03 | Year 04 | Year 05 | Year 06 | Year 07 | Year 08 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| STI | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Maximum investment ½ of the STI in € | | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Transfer of matching shares in € | | | | | | 500,000 | 500,000 | 500,000 |
| Value of obligatory investment and matching shares in € | | 500,000 | 500,000 | 500,000 | 500,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Accumulated value over time in € | | 500,000 | 1,000,000 | 1,500,000 | 2,000,000 | 3,000,000 | 4,000,000 | 5,000,000 |
| Equivalent value of a basic remuneration in % | | | | 100% | 150% | 200% | 300% | 500% |

In both scenarios, the earliest point in which some of the shares from the personal investment and the received matching shares can be sold is in year 06.

Within the context of the new compensation system, the Supervisory Board can introduce additional share ownership guidelines that go beyond the rules as described here.

10. Commitments in connection with the termination of the Board of Management membership

10.1 Severance payments

The existing rules concerning the payout of a severance payment if the membership on the Board of Management is terminated early at the instigation of the Company do not exceed the value of two annual remunerations (severance cap) and do not total more than the remaining term of the service contract. If compensation is paid for the period of prohibition of competition due to an existing post-contractual prohibition of competition, it is ensured that these compensation payments are set off against the volume of the severance entitlement.

10.2 Processing of the remuneration components upon termination

In the event of termination, the existing remuneration components are significantly defined by the primary reason for the termination. Essentially, the member of the Board of Management will continue to receive the monthly basic remuneration and the ongoing fringe benefits until the point of termination. This also applies to the entitlement to participate in the variable remuneration that is calculated on the basis of the achievement of short-term incentives (STI). The STI is paid out in the same way and at the same time as for the still-active members of the Board of Management in accordance with the respective rules of the Company. The concrete reason for the termination is decisive with regard to the further participation in the variable remuneration calculated based on the achievement of long-term incentives (LTI) and the share matching

plan. Depending on the reason for the termination, the plans may be completely forfeited or the members may be able to continue participating on a full or pro-rata basis. It is ensured that, when outstanding variable compensation components are paid, no deviations from the agreed targets and comparison parameters or from the due dates or holding period as defined in the contract occur.

10.3 Post-contractual prohibitions of competition

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. To this end, the members of the Board of Management are paid a compensation for the period of prohibition of competition. The sum is 50 percent of the most recent basic remuneration and 50 percent from the most recent variable I (STI) assuming a target achievement of 100 percent. Compensation to be paid for the period of prohibition of competition will be set off against the total of a potential severance payment. In the event of an upcoming contract termination, Deutsche Telekom AG has the right to cancel the post-contractual prohibition of competition provided that appropriate notice is observed. If the agreed deadline is observed, the member of the Board of Management would not receive a compensation payment.

10.4 Incapacity for work

Temporary incapacities for work as a result of an uninterrupted period of illness-related ab-

sence up to a period of one month have no impact on the continued payment of the contractually agreed remuneration components. In the event of longer absences due to illness, the basic remuneration will be paid for a maximum of six months and, with regard to variable remuneration components, participation is only permitted on the basis of a pro-rata calculation. Service contracts for the Board of Management will end automatically at the end of the month in which a permanent incapacity for work is determined for the member of the Board of Management in question. In such a case, there is no entitlement to a severance payment.

10.5 Change of control clauses

The service contracts for the Board of Management at Deutsche Telekom AG contain no commitments in relation to the early termination of the employment contract of the member of the Board of Management due to a change of control.

11. Board-related payments

11.1. Group-internal boards

It is expected that members of the Board of Management assume certain Group-internal Supervisory Board or Advisory Council seats within the context of the responsibilities as regulated in the schedule of responsibilities. Wherever legally possible, the members of the Management Board will forgo the compensation payable for such seats. If this is not possible or if the acceptance of the compensation results in an economic advantage for Deutsche Telekom, the compensation payable

can be accepted but, in such a case, it will be offset against the payable basic remuneration so that, ultimately, the member of the Board of Management has no economic advantage.

11.2 Group-external boards

External secondary occupations always require an explicit pre-approval from the Supervisory Board. In every case, the Supervisory Board very closely examines the expected time associated with such a seat on a board and the advantages that such a seat will bring for Deutsche Telekom AG and will also bring for the personal development of the member of the Board of Management. Furthermore, the Supervisory Board also ensures that no member of the Board of Management assumes more than two seats on the Supervisory Board of non-group listed companies or similar roles and that no role is taken as Chair of the Supervisory Board of a non-group listed company. If a seat on the supervisory board of a non-group company is assumed, the Supervisory Board will always decide whether or to what extent the compensation for this seat will be offset against the compensation of the Board of Management.

12. Temporary deviations from the compensation system

12.1 General temporary deviations

In special justified exceptional cases, it is possible to temporarily deviate from individual components of the compensation system as described here if this is necessary for Deutsche Telekom's long-term wellbeing and is appropriate to maintain the incentive effect of

the compensation of the Board of Management. The compensation of the Board of Management will continue to be oriented towards the sustainable and long-term development of the Company and shall not overwhelm the financial capacity of the Company. Such a justified exceptional case could include unusual and far-reaching changes to the economic situation which make it impossible for the originally defined target criteria to be achieved, thus nullifying the incentive effect of the compensation system of the Board of Management if they or their concrete impacts for the Supervisory Board were not foreseeable at the time at which the targets were defined. However, general unfavorable market developments explicitly do not qualify as a justified exceptional case. The Supervisory Board at Deutsche Telekom AG must adopt a resolution for such a temporary deviation. Temporary deviations may occur within the context of the obligatory personal investment if, at the time of the obligation to purchase, information relevant in terms of insider trading policy is available that would make the trading of shares with Deutsche Telekom impossible. In such a case, the period to accumulate shares within the framework of the share ownership guide could also become affected. This guide would also need to be amended. In exceptional cases, temporary deviations may also have to take place within the framework of the STI or LTI performance criteria.

The Supervisory Board plans to switch all of the currently appointed members of the Board of Management to the new compensation system for the Board of Management. However, the Supervisory Board is also aware that amendments to the German Stock Corporation Act as well as the 2020 version of the

German Corporate Governance Code contain rules pertaining to the protection of existing conditions that allow members of the Board of Management to be left in the current compensation system if they do not agree to the switch. If this occurs, the Supervisory Board will respect the rules pertaining to the protection of existing conditions and will only implement the transfer to the new compensation system in the event of a reappointment.

12.2 Chairman of the Board of Management deviations

With regard to the current members of the Board of Management, only Mr. Höttges has a defined benefit pension plan in the form of a lifelong pension payment. Due to the longstanding nature of this commitment and the pension entitlement gained through this commitment, any replacement of this commitment would result in significant costs that cannot be in the interests of Deutsche Telekom. The Supervisory Board has therefore resolved to continue the company pension plan for Mr. Höttges without change for the current appointment. The details of the existing company pension plan of Mr. Höttges will therefore be presented here.

The company pension plan of Mr. Höttges is directly linked to his annual basic remuneration. Up until 2018, Mr. Höttges received a defined percentage of the most recent basic remuneration prior to the qualifying event as a company pension scheme for each completed year of service. The pension commitment may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement

pension scheme is connected with actuarial deductions. The company pension is calculated by multiplying a basic percentage rate of 5 percent by the number of years of service as a member of the Board of Management. After ten years of service, Mr. Höttges had attained the maximum pension level of 50 percent of the last fixed annual remuneration. Following Mr. Höttges' reappointment and the adjustment to his basic remuneration, the Supervisory Board decided to dynamically increase his pension entitlements accrued up to December 31, 2018 by 2.4 percent per year. The primary measurement base for calculation for the dynamization was the basic remuneration valid up to December 31, 2018. Future increases in his remuneration will thus not lead to higher pension payments. The pension payments to be made upon retirement increase dynamically, at a rate of 1 percent per year. In addition, the pension agreement includes arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is ruled out. The standard criteria for eligibility in the pension commitments are in line with market conditions. In the event of a permanent incapacity for work (invalidity), the beneficiary is also entitled to the pension credit accrued.

The Supervisory Board believes that the presented compensation system of the Board of Management corresponds to the national and international standards of good and responsible corporate governance. All of the recommendations of the German Corporate Governance Code (2020 version) and the requirements of the German Stock Corporation Act are met. The success parameters relevant in terms of the compensation of the Board of

Management are in line with the strategy and objective of Deutsche Telekom meaning that the compensation of the Board of Management contributes towards a sustainable development of the Company.