

# **Presentation of the new compensation system for Board of Management members under item 6 of the agenda of the Deutsche Telekom AG shareholders' meeting on May 3, 2010**

At its meeting on February 24, 2010, the Supervisory Board adopted the new compensation system for Board of Management members:

## **I. Compensation system for the Board of Management of Deutsche Telekom AG**

### **1. Compensation components**

The compensation for the members of the Board of Management has been defined based on market conditions in accordance with the requirements of stock corporation law. It is made up of the following components:

#### **a) Fixed basic remuneration**

Fixed basic remuneration is paid in twelve equal installments at the end of each month.

#### **b) Variable remuneration**

The variable remuneration of the members of the Board of Management is divided into variables I and II. Variable I (annual variable) contains a short-term component, the realization of budget figures for specific performance indicators, and long-term components (implementation of strategy and behavior in line with the Group's Guiding Principles). Variable II (multi-year variable) is oriented toward the long term. This ensures that the variable

remuneration is oriented towards the sustained development of the company and that there is a predominantly long-term incentive effect.

**aa) Variable I (annual variable)**

The annual variable remuneration for the members of the Board of Management is based on the extent to which each member of the Board of Management achieves the set of targets assigned to them before the beginning of each financial year by the Supervisory Board of Deutsche Telekom AG. The set of targets is composed of corporate targets (50%) and personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the company concerning the implementation of strategy (30%) and behavior in line with the Guiding Principles (value adherence), which accounts for 20%.

The level of target achievement will be determined by the full Supervisory Board following the close of the respective financial year.

Higher levels of target achievement are reflected in steps and limited to 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration.

To further ensure the long-term incentive effect and orientation toward the sustained development of the company, an amount of 33.3 percent of the annual variable remuneration set by the full Supervisory Board is to be

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invested in shares of Deutsche Telekom AG; these shares are to be held by the respective Board member for a period of at least 4 years.

Deutsche Telekom AG will grant one additional share for every share acquired as part of the Board of Management's aforementioned own investment. This share-matching plan also has a term of 4 years, which means that the Board of Management can sell the shares granted by the company after four years at the earliest. Deutsche Telekom AG compensates the dividends paid for shares granted by the company during the black-out period in the form of cash compensation.

In addition, the Supervisory Board of Deutsche Telekom AG has the possibility of rewarding extraordinary performance by individual or all Board of Management members in the form of a special bonus.

**bb) Variable II (multi-year variable)**

The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted success parameters (adjusted operational return on capital employed (ROCE)), adjusted earnings per share (EPS), customer satisfaction, and employee satisfaction. Each parameter determines a quarter of the award amount. Higher levels of target achievement are reflected in steps and limited to 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined. With respect to the determination of the two parameters of customer and employee satisfaction, the assessment logic

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can be adjusted in accordance with legal provisions when defining the specific design.

The award amount is decoupled from other remuneration components and is set for each member of the Board of Management individually.

Deutsche Telekom no longer issues any stock options. Several Board of Management members, however, still hold stock options from the 2001 Stock Option Plan with its two tranches of 2001 and 2002.

**c) Total compensation:**

Fixed basic remuneration  
+ Variable I (annual variable)  
+ Variable II (multi-year variable)  
+ Extraordinary bonus  
= Total compensation

**2. Ratio between remuneration components**

The ratio between the fixed basic remuneration and variable remuneration components is not defined. Above all, there is no connection between the fixed basic remuneration and the variables or between the variables in terms of the amounts involved. A ratio of 40:30:30 is generally aimed for between fixed

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basic remuneration and the Variables I and II, but can be adjusted in individual cases by the Supervisory Board in accordance with legal requirements, where this is deemed necessary by the Supervisory Board on the basis of the tasks and performance of the Board of Management member in question. It is, however, to be ensured that the majority of variable remuneration is oriented toward the long term, i.e. mostly based on a multi-year term, as required by the legislator.

## **II. Transitional provisions**

Board of Management contracts already in effect when the Act on the Appropriateness of Board of Management Compensation (VorstAG) came into force are subject to protection of vested rights. A transition to the compensation system described in section I. is only possible in agreement with the Board of Management members concerned. As long as there is no contractual agreement with the current members of the Board of Management for transition to the new system, the compensation system resolved by the full Supervisory Board of Deutsche Telekom AG on December 2, 2008 will remain in place for this group of individuals.

## **III. Other main contract elements**

### **a) Company pension scheme**

The members of the Board of Management are generally entitled to a company pension.

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**aa) System to date**

The company pension is currently in direct relation to the individual's annual salary. The Board of Management members receive a company pension based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments 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. In the case of the early retirement pension, however, the pension is reduced by corresponding actuarial deductions.

The company pension is calculated by multiplying a basic percentage rate of 5 percent with the number of years of service as a member of the Board of Management. Thus, after 10 years of service, the maximum pension level of 50 percent of the last fixed annual remuneration has been attained.

One existing Board of Management contract grants the basic percentage rate used previously of 6 percent per year of service, which sets the maximum pension at 60 percent of the last fixed salary.

The pension payments to be made increase dynamically, with the growth rates used ranging between 1 and 3 percent.

In addition, the pension agreements include 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 arrangements are in line with market conditions.

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### **bb) New system**

In the future, a defined contribution plan will be operated in the form of one-time capital in the case of a qualifying event (also payable in installments or as a pension, as preferred). A contribution is paid into a pension account for the individual member of the Board of Management for each year of service; this account is subject to an appropriate interest rate. The payment of this annual amount has no effect on cash or cash equivalents. The cash outflow is only effective upon the individual's retirement. As a rule, the date of retirement is the 62<sup>nd</sup> birthday. It is possible, however, for an early retirement pension to be taken from the 60<sup>th</sup> birthday, with the pension reduced by corresponding actuarial deductions.

The amount to be provided annually is individualized and uncoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies, which can be used for benchmarking and also offer defined contribution plans.

A provision for pensions for surviving dependents in the form of entitlements for widows and orphans is only offered for the eventuality that the retirement option is selected, as both the one-time capital and potential installments can be bequeathed to dependents.

### **cc) Transitional provision**

With the current members of the Board of Management whose company pensions are structured under the current system, it is possible in principle for the current system to be continued if individual agreements are reached when

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a new contract is signed.

**b) Continuation of pay in the event of illness or death**

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 for a maximum of three months following the end of the month in which the Board of Management member's permanent inability to work is established.

In case of death during the term of the service contract, the widow and any dependent children will be entitled as joint and several creditors to continued payment of the fixed remuneration for the month of death and the three subsequent months, until the expiration of the service contract at the latest.

**c) Additional contractual benefits**

According to market-oriented and corporate standards, Deutsche Telekom AG grants all members of the Board of Management additional benefits, some of which are viewed as non-cash benefits and taxed accordingly. These mainly include being furnished with a company car, including use of chauffeur services, accident and liability insurance, and being reimbursed in connection with business trips other additional benefits that are subject to taxation.

**d) Severance payment cap**

In accordance with the recommendations of the German Corporate Governance Code, new Board of Management contracts will include a severance payment cap of a maximum of two years' compensation.

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Bonn, February 24, 2010

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