

CORPORATE GOVERNANCE REPORT 2018

In the following text, the Board of Management and the Supervisory Board report on corporate governance at Deutsche Telekom AG in accordance with Section 3.10 of the German Corporate Governance Code. This Corporate Governance Report is published together with the Corporate Governance Statement in accordance with § 289f HGB, which is published on Deutsche Telekom's website. 



www.telekom.com/en/investor-relations/investor-relations/declaration-of-conformity-pursuant-to-161-479770

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its many subsidiaries and associates. The Company complies with legal requirements, national provisions, such as the recommendations of the Government Commission on the 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 AG. Accordingly, responsibility for compliance with the principles of sound corporate governance is vested in senior management.

In the 2018 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 German Corporate Governance Code. During the reporting period just ended, as in prior years, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore issued an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2018:

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

I. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare that, in the period since the issuance of the most recent declaration of conformity pursuant to § 161 of the Stock Corporation Act on December 30, 2017, Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code announced by the Federal Ministry of Justice and Consumer Protection on April 24, 2017 in the official section of the Federal Gazette (Bundesanzeiger), without exception.

II. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) on April 24, 2017, without exception.

The Declaration of Conformity can be found on the website of Deutsche Telekom AG. This website also provides access to the declarations of conformity from previous years. 

Cooperation between the Board of Management and the Supervisory Board. The Board of Management and the Supervisory Board work closely together for the good of the Company and maintain regular contact. The Board of Management agrees the Company's strategic alignment with the Supervisory Board and discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Supervisory Board of Deutsche Telekom AG holds a minimum of four meetings a year. In 2018 there were six Supervisory Board meetings and a one-day off-site conference on the strategic alignment of the Company. In addition, 28 Supervisory Board committee meetings were held. The Board of Management keeps the Supervisory Board fully and regularly informed in good time on corporate strategy, planning, business developments, the risk situation, risk management, compliance, innovation focuses, and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and major Group companies. The Board of Management regularly submits written and oral reports. Between meetings, the Board of Management also informs the Supervisory Board of the current business development of the Group and its segments on a monthly basis. The Board of Management reports to the Supervisory Board on individual issues in writing or in discussions. The information and reporting obligations of the Board of Management specified by the Supervisory Board go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board, as well as the Audit Committee of 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 matters. The Chairmen of the two Boards also exchange information regularly in person. 



www.telekom.com/en/investor-relations/management-and-corporate-governance



For details about cooperation between the Board of Management and Supervisory Board, please refer to the "Supervisory Board's report to the shareholders' meeting," page 7 et seq. of the Annual Report.

4	Letter from the Chairman of the Board of Management
7	Supervisory Board's report to the 2019 shareholders' meeting
14	Corporate governance report 2018
20	The T-Share
22	Sustainable development goals

Composition of the Board of Management. As of January 1, 2019, the Board of Management's schedule of responsibilities states that there are nine Board departments instead of eight: 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. The Board of Management was extended to include the USA and Group Development Board department. Each Board of Management member is authorized to manage the sphere of responsibility allocated to him or her. 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. Members of the Board of Management should not be older than 65 years of age (standard age limit). In September 2015, the Supervisory Board set out target figures for the number of women on the Board of Management. The Supervisory Board set a short initial deadline for implementation at the end of 2015 within which the current proportion of women on the Board of Management (1 of 7) was to remain stable. The Supervisory Board also resolved that the proportion of women should increase to 2 of 7 within the second implementation period by the end of 2020. □

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 for individual members held at the last shareholders' meeting on May 17, 2018. For each candidate proposed to the shareholders' meeting on May 17, 2018, a résumé was included with the agenda containing relevant details of their expertise, skills, and experience, as well as their most important activities next to the Supervisory Board mandate. The standard five-year terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity regarding the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected at the delegates' assembly on November 20, 2018, according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG). □ The résumés of all Supervisory Board members are published on the Deutsche Telekom website and updated annually.

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

- Taking into account the Company's specific situation, the Supervisory Board resolves to consider the aspect of diversity in addition to the requisite expertise of a candidate when issuing recommendations for future appointments to the Supervisory Board to the competent election bodies.
- The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability, and expert experience required to properly perform its tasks.
- The Supervisory Board supports an appropriate degree of women representation on the Supervisory Board. A minimum of 30 percent of members of the Supervisory Board shall be women.
- In view of the Company's international focus, candidates with an international background are to be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- The term of office for members of the Supervisory Board shall end no later than the close of the shareholders' meeting after the Supervisory Board member reaches the age of 75 unless there are special reasons for this not to be the case (standard age limit).
- A regular limit of three terms of office shall apply for membership on the Supervisory Board. Appointments by court order that are limited until the next shareholders' meeting shall not, however, be considered a term of office.
- The Supervisory Board shall include at least sixteen members who are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code. It is assumed that those Supervisory Board members elected in accordance with the Codetermination Act are independent in principle as defined. On the shareholders' representative side, at least six members of the Supervisory Board must therefore be independent.



For further information on the women's quota, please refer to the Corporate Governance Statement at www.telekom.com/en/investor-relations/management-and-corporate-governance.



For details on changes to the composition of the Supervisory Board during the reporting period, please refer to the "Supervisory Board's report to the shareholders' meeting," page 7 et seq. of the Annual Report.

The Supervisory Board considers the following skills, expertise and knowledge to be essential for it to exercise its role (profile of skills and expertise):

1. Strategic skills and expertise

- TC/IT industry, related industries
- Market (competition and customers), sales, and customer business
- Products
- Market participants
- Regulated industries
- M&A processes

2. Financial skills and expertise

- Accounting processes, risk management, audit of financial statements
- Financial KPIs and systems
- Capital and financial markets

3. Control skills and expertise

- Management/CEO
- Supervisory board
- International management experience
- Codetermination
- Legal affairs/compliance
- Regulatory and competition law

4. Innovation skills and expertise

- New technologies
- Digitalization
- IT/NT/telecommunications

5. Sustainability expertise, social skills

- Human resources
- Change management
- Organizational and cultural change
- Diversity
- Sustainability

Regarding the achievement level of the Supervisory Board membership targets and meeting the stipulations of the profile of skills and expertise:

The proportion of women on the Supervisory Board was at least 40 percent throughout the 2018 financial year. This means that the target of reaching the quota of 30 percent, which is now set out by law, was fulfilled.

The Supervisory Board is composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks. The members of the Supervisory Board represent various different professions and many of them have a multinational background. The avoidance of conflicts of interest and compliance with the standard age limit and the regular limit on terms of office were taken into consideration in the appointments to the Supervisory Board.

The Supervisory Board is convinced that, as a whole, it meets the stipulations of the profile of skills and expertise.

Furthermore, the proposals for election took account of the targets resolved by the Supervisory Board for its own composition as well as the skills and expertise profile drawn up by the Supervisory Board for itself as a whole.

The shareholders' meeting elected Margret Suckale to the Supervisory Board. She has a high level of experience in committee work and in leadership roles. Previous seats on the management boards at Deutsche Bahn AG and BASF SE contribute to her extensive expertise in legal affairs, HR, regulation, and corporate governance.

Dr. Günther Bräunig, CEO of KfW Bankengruppe and a recognized expert in capital markets, international financing, legal affairs, and HR, was also elected to the Supervisory Board by the shareholders' meeting. Dr. Bräunig has extensive national and international leadership experience, gained in part during many years on the executive board of KfW Bankengruppe.

In addition, Harald Krüger, a nationally and internationally renowned expert in the fields of innovation management and technology, was elected to the Supervisory Board. He is the CEO of BMW AG and has spent many years in top management roles in areas such as production, sales, strategy, and HR.

Prof. Ulrich Lehner has long-standing experience as the Chairman of the Supervisory Board of Deutsche Telekom AG. He is also a member of other supervisory bodies for global enterprises active in the fields of energy technology, automotive, consumer goods, pharmaceuticals, and manufacturing technology. As a qualified auditor, Prof. Lehner is also particularly knowledgeable about accounting processes and the auditing of financial statements. He has extensive expertise in national and international corporate leadership, including from his previous role as CEO of Henkel AG & Co. KGaA.

4	Letter from the Chairman of the Board of Management
7	Supervisory Board's report to the 2019 shareholders' meeting
14	Corporate governance report 2018
20	The T-Share
22	Sustainable development goals

The Supervisory Board is convinced that – in accordance with the recommendation of the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and monitor the Board of Management.

The Supervisory Board is convinced that Lars Hinrichs, Dr. Helga Jung, Prof. Michael Kaschke, Dagmar P. Kollmann, Harald Krüger, Prof. Ulrich Lehner, Karl-Heinz Streibich, and Margret Suckale are independent Supervisory Board members within the meaning of the German Corporate Governance Code.

The Supervisory Board will continue to ensure that the candidates proposed for election at the shareholders' meeting can dedicate the required amount of time to their Supervisory Board tasks at Deutsche Telekom AG.

Tasks assigned to the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and regularly supervises its management of the Company. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. This involvement is guaranteed through the specification of approval provisos for the Supervisory Board and through the agreement of the strategic alignment of the Company. The work of the Supervisory Board is specified in Rules of Procedure. To clarify the reporting obligations on the part of the Board of Management, the Supervisory Board has drawn up a list of transactions subject to approval. This list forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board and Audit Committee each assess the efficiency of their work every two years, which also provides new impetus for their work on a regular basis. The self-assessment carried out to this end is based on a comprehensive questionnaire followed by intense discussion and consultation on the results by the Supervisory Board and Audit Committee. The Supervisory Board carried out its last efficiency audit in the 2017 financial year. As well as the work of the Supervisory Board as a whole, this also considered the work of all of the Board's committees. A further, separate evaluation of the Audit Committee was carried out most recently in 2018.

The members of the Supervisory Board take on the necessary training and development measures required for their tasks on their own and are supported by Deutsche Telekom AG in doing so with a range of options including information events and workshops with internal and external experts. The Company offers new Supervisory Board members a customized program to introduce them to the industry and the situation of the Company. Furthermore, a meeting extraordinary to regular reporting is held to inform the members of the Audit Committee about the latest changes in the law, new accounting and auditing standards, and any changes in corporate governance issues. The members of the Supervisory Board are also kept up to date about any new requirements for work on the Supervisory Board at the regular Board and committee meetings.

In order to perform its tasks more effectively, the Supervisory Board has nine committees. The General Committee deals with personnel matters relating to the Board of Management and prepares the meetings of the Supervisory Board. The Staff Committee deals with general personnel matters not relating to the Board of Management. The Finance Committee mainly deals with complex financial and business management topics within the Company. The Audit Committee performs the tasks required by law and recommended by the German Corporate Governance Code. These include, in particular, monitoring accounting and the accounting process, the effectiveness of the internal control system, the risk management and internal auditing systems, the audit of financial statements, compliance, and data privacy. The Technology and Innovation Committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholders' representatives. The Nomination Committee is responsible in particular for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. In addition, there is a Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. Furthermore, a Special Committee for U.S. Business was established in May 2014. In view of the planned 5G auction in Germany, a Special Committee on the Acquisition of Spectrum in Germany began its work on January 1, 2019. 



For further details about the composition and working methods of the committees, please refer to the "Supervisory Board's report to the shareholders' meeting," page 7 et seq. of the Annual Report.

The committees' chairpersons report to the Supervisory Board on a regular basis on the work of the committees. The Chairwoman of the Audit Committee, Dagmar P. Kollmann, has expert knowledge of accounting and auditing. She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. She is independent, and is not a former member of the Board of Management of Deutsche Telekom AG. Like the members of the full Supervisory Board, the members of the Audit Committee overall are very familiar with the sector in which Deutsche Telekom AG is active.



For more information, please refer to the section "Risk and opportunity management," page 113 et seq. in the combined management report of the Annual Report.



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For further details on the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to page 270 et seq. of the Annual Report.



For details on conflicts of interest that have arisen, please refer to the "Supervisory Board's report to the 2018 shareholders' meeting," page 7 et seq. of the Annual Report.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. In addition to the organizational tasks relating to the Supervisory Board, he maintains regular contact with the Chairman of the Board of Management and the members of the Board of Management to discuss issues relating to the Company's strategy, planning, business development, the risk situation, risk management, and compliance, and is informed of the general business situation and significant events. In this context, the Chairman of the Board of Management in particular informs the Chairman of the Supervisory Board of all events that are significant to the situation, development, and governance of the Company. 

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 their Board of Management mandate are subject to approval by the General Committee of the Supervisory Board. 

Risk and opportunity management. The Board of Management and the Supervisory Board consider the approach to the management of opportunities and risks arising in connection with the Company's business activities to be of fundamental importance for professional corporate governance. The Board of Management receives regular reports from the Group's Risk Management unit concerning current risks and their development. In turn, it reports to the Supervisory Board on the risk situation and the risk management system. The risk management system in place at Deutsche Telekom AG is evaluated by the external auditor, and it is constantly being expanded and improved. In addition to the responsibilities assigned by law and those recommended by the German Corporate Governance Code, the Audit Committee also deals with risk management, including the monitoring of 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. 

Compliance. Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom AG has a Group-wide compliance organization that is continuously being improved (also published in the 2017 Corporate Responsibility Report ). There is also a Compliance Committee that supports the Board of Management in further 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, security, internal auditing, and human resources. The Chief Compliance Officer, appointed by the Board of Management, chairs the Compliance Committee. A compliance officer has been appointed for each of the operating segments. Individual business units have additional compliance officers/contacts depending on their respective size and risk situation. Clear reporting structures have been implemented throughout the Group. The particular significance attached to compliance is underlined by the decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance.

4	Letter from the Chairman of the Board of Management
7	Supervisory Board's report to the 2019 shareholders' meeting
14	Corporate governance report 2018
20	The T-Share
22	Sustainable development goals

Deutsche Telekom AG has implemented a comprehensive compliance management system. According to this system, a compliance program is set up based on a structured risk assessment process performed once a year throughout the Group. □ The compliance management system also includes the Code of Conduct, the Code of Ethics, and various policies. The Code of Conduct defines how employees and management should practice value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Board of Management of Deutsche Telekom AG and persons within the Group who carry special responsibility for financial reporting. It obliges these individuals to comply with the principles of honesty, integrity, transparency, and ethical conduct. □ The compliance management system in place at Deutsche Telekom AG and other selected national and international companies was certified as being appropriate and effectively implemented by an external auditor in stages from 2016 through 2018 in accordance with IDW audit standard 980 with the focus on anticorruption.

Internal controls over financial reporting. Deutsche Telekom AG has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. This process again provided evidence of the controls' effectiveness throughout the Group for the 2018 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. □

Accounting and audit of financial statements. An agreement has been reached with the external auditor of Deutsche Telekom AG 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 external auditor's report, unless these issues can be resolved forthwith. Moreover, it has been agreed that the external auditor shall immediately report any findings and issues that emerge during the audit and that have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditor undertakes to inform the Supervisory Board or make a note in the audit report of any facts discovered during the audit that might indicate a discrepancy in the Declaration of Conformity submitted by the Board of Management and Supervisory Board with the German Corporate Governance Code. The Audit Committee supervises the independence of the external auditor.

Transparent shareholder communication. We are committed to providing institutional investors, retail shareholders, financial analysts, and the general public with regular, comprehensive, transparent and up-to-date information about the Company's position at the same time and on an equal basis to ensure a high level of transparency and equality of information. Significant information, such as press releases, ad-hoc notifications, presentations from analyst conferences, all financial reports and the financial calendar, is made available on the Company's websites. Additionally, the Chairman of the Supervisory Board once again made himself available to investors to discuss matters specific to the Supervisory Board.

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.

Bonn, February 20, 2019
The Supervisory Board and the Board of Management



For detailed information about the compliance management system, please refer to Deutsche Telekom AG's website at www.telekom.com/en/company/compliance.



The Code of Conduct and the Code of Ethics are published on Deutsche Telekom AG's website at www.telekom.com/en/company/compliance/code-of-conduct and at www.telekom.com/en/investor-relations/management-and-corporate-governance.



For a description of the main features of the accounting-related internal control system, please refer to the section "Accounting-related internal control system" in the combined management report, page 129 of the Annual Report.