

Supervisory Board's report to the 2012 shareholders' meeting.



Top row, left to right: Hermann Josef Becker, Hans-Jürgen Kallmeier, Michael Sommer, Ulrich Hocker, Dr. Hubertus von Grünberg, Dr. Hans Bernhard Beus.
 Middle row, left to right: Lothar Holzwarth, Hans Martin Bury, Michael Löffler, Prof. h.c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelman, Sibylle Spoo, Sylvia Hauke.
 Bottom row, left to right: Dr. Ulrich Schröder, Dr. Wulf H. Bernotat, Waltraud Litzberger, Prof. Dr. Ulrich Lehner, Lothar Schröder, Monika Brandl, Dr. h.c. Bernhard Walter.
 Not pictured: Lawrence H. Guffey.

For Deutsche Telekom, the 2011 financial year was marked by the strategic planning for the U.S. business, a challenging macroeconomic environment, in particular in Southern and Eastern Europe, and persistently high competitive and regulatory pressure. Despite these challenges, the Group generated good results in the 2011 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.



Supervisory Board activities in the 2011 financial year.

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

A document prepared by the Supervisory Board lists all types of transactions and measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This document is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. The Supervisory Board met with the Board of Management for a discussion and thorough review of all the transactions and measures that require the Supervisory Board's approval. The Supervisory Board approved the transactions and measures submitted for resolution. The Audit Committee regularly met to examine a variety of issues, including the quarterly reports, discuss these with the external auditors, and approve them.

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

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

- The business strategy in the United States and the sale of T-Mobile USA to AT&T.
- The development of the OTE group in Greece, with special consideration given to the current state of the Greek economy.
- Implementation of the Group strategy.
- The broadband strategy in Germany.
- The development of the regulatory and competitive environment and implications for Group strategy and planning.
- The development of growth areas.
- The development of the Group's portfolio of shareholdings.
- The establishment of the procurement alliance with France Télécom.
- The appointment of new Board of Management members (Europe, Human Resources).
- Participation in spectrum auctions in individual European countries.
- Monitoring of innovation and technical developments.
- The Group's budget and medium-term planning and shareholder remuneration policy.
- The aggregation of Group-wide IT units within T-Systems.
- The development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- Results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP.

- Corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- The annual financial statements, the consolidated financial statements for the 2010 financial year.
- The motions for resolution to the 2011 ordinary shareholders' meeting, in particular the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of external auditors and the Supervisory Board's recommendation to the shareholders' meeting concerning the reappointment of two members of the Supervisory Board.
- The settlement of disputes concerning claims for compensation from the former member of the Board of Management Kai Uwe Ricke and the former member of the Supervisory Board Dr. Klaus Zumwinkel.
- The efficiency and adequate independence of the Supervisory Board.

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

Organization of the Supervisory Board's activities.

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

The **General Committee** is responsible for preparing the meetings and major decisions of the Supervisory Board, as well as for preparing matters relating to the individual members of the Board of Management. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hans Bernhard Beus (since December 15, 2011), Jörg Asmussen (until December 14, 2011), Waltraud Litzenberger, Lothar Schröder.

The **Finance Committee** deals with complex financial and business transactions that are referred to it by the Supervisory Board or its Chairman for discussion. Members: Prof. h. c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelman (Chairman), Hermann Josef Becker, Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Dr. Ulrich Schröder.

The **Audit Committee's** area of responsibility is essentially defined by German legislation and the German Corporate Governance Code. Amongst other things, it monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors as well as compliance and data privacy issues. After thorough discussion, the Audit Committee issued a recommendation to the Supervisory Board about the external auditors to be nominated by the 2012 shareholders' meeting.

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

In the 2011 financial year, the Audit Committee again held its annual extraordinary meeting on fundamental issues – in addition to its regular meetings. The agenda for the 2011 extraordinary meeting dealt mainly with risk management, compliance, data privacy and data security, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting.



The **Staff Committee** deals with personnel matters at Deutsche Telekom, in particular the Company's staff structure and human resources development and planning. In particular, the Staff Committee discussed matters relating to headcount levels and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Dr. Hubertus von Grünberg (until July 18, 2011), Ulrich Hocker (since July 19, 2011), Prof. Dr. Ulrich Lehner, Waltraud Litzenberger.

The **Nomination Committee** is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. In accordance with the recommendation outlined in the German Corporate Governance Code, this committee consists exclusively of shareholder representatives. Members: Prof. Dr. Ulrich Lehner, Jörg Asmussen (until December 14, 2011), Dr. Hans Bernhard Beus (since December 15, 2011).

The responsibilities of the **Mediation Committee**, formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **Technology and Innovation Committee** was set up as of July 19, 2011 to closely monitor and promote future innovation and technological developments at infrastructure and product level and to support the Board of Management in tapping new growth areas. Members: Dr. Hubertus von Grünberg (Chairman), Hans-Jürgen Kallmeier, Prof. Dr. Ulrich Lehner, Lothar Schröder.

A **special committee** was also established in January 2012 to deal with U.S. business. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann, Lothar Schröder.

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

Meetings of the Supervisory Board.

In the 2011 financial year, the Supervisory Board held four regular meetings and six extraordinary meetings. The Supervisory Board also met for an in-depth conference with the Board of Management to discuss in particular the development of the Greek OTE group. The General Committee of the Supervisory Board met ten times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held five meetings, the Finance Committee met twice (including one joint meeting with the General Committee) in the 2011 financial year. The Staff Committee of the Supervisory Board held three meetings, the Nomination Committee met twice, and the Technology and Innovation Committee and the Mediation Committee each met once. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2011 financial year, there were no events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

Conflicts of interest.

Ulrich Hocker is a member of the Supervisory Board of Deutsche Telekom AG and is also President of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW). DSW represents and supports the interests of investors vis-à-vis Deutsche Telekom AG in various matters. To ensure from the outset that no conflict of interest could arise in this respect, Mr. Hocker declared before the Supervisory Board that, as a member of the Supervisory Board, he would decline to receive reports or information, vote on resolutions, and attend Supervisory Board and committee meetings that dealt with matters in which DSW was representing or supporting interests against Deutsche Telekom AG. Mr. Jörg Asmussen was State Secretary at the Federal Ministry of Finance and a member of the Supervisory Board of Deutsche Telekom AG until December 14, 2011. Dr. Hans Bernhard Beus has been State Secretary at the Federal Ministry of Finance and a member of the Supervisory Board of Deutsche Telekom AG since

December 15, 2011. Dr. Ulrich Schröder is a member of the Supervisory Board of Deutsche Telekom AG and is also Chairman of the Board of Managing Directors at Kreditanstalt für Wiederaufbau (KfW). The Supervisory Board is aware that Deutsche Telekom AG is involved in various legal disputes in which the Federal Republic of Germany is the opposing party. KfW is also the opposing party in ongoing recourse proceedings with Deutsche Telekom AG (compensation claim relating to the third public offering). No conflict of interests has actually arisen with any of the aforementioned members of the Supervisory Board. Should a conflict of interests arise, Mr. Hocker, Dr. Beus and Dr. Schröder would discuss individually with the Chairman of the Supervisory Board how to handle the respective conflict.

Corporate governance.

The Supervisory Board and Board of Management are aware that good corporate governance in the interests of the Company's shareholders and capital markets is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code in December 2011.  **The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (pages 40 – 45).**

Changes in the composition of the Board of Management.

In its resolution of February 22, 2012 the Supervisory Board appointed Dr. Thomas Kremer as Member of the Board of Management responsible for the Data Privacy, Legal Affairs and Compliance department. He succeeds Dr. Balz effective June 1, 2012.

On February 23, 2011, the Supervisory Board of Deutsche Telekom AG approved Guido Kerkhoff's request to be released from his duties by mutual agreement with effect from April 1, 2011. Niek Jan van Damme, Board member in charge of Germany assumed temporary responsibility for the Europe Board department.

On July 4, 2011, the Supervisory Board appointed Claudia Nemat as the Board member responsible for Europe with effect from October 1, 2011 and Prof. Marion Schick as the Board member responsible for Human Resources and Labor Director with effect from May 3, 2012.

On December 15, 2011, the Supervisory Board unanimously approved Mr. Kozel's request to relieve him of his duties as a member of the Board of Management effective January 1, 2012. The "Technology and Innovation" unit that had been under Mr. Kozel's responsibility up to that point was dissolved effective January 1, 2012. The Chairman of the Board of Management is now in charge of "Products & Innovation." The "IT" unit was assigned to the T-Systems Board department. The Europe Board department took over responsibility for the strategic management of "Technology" and the management of the procurement joint venture with France Télécom.

Changes in the composition of the Supervisory Board.

Shareholder representatives: At the shareholders' meeting on May 12, 2011, Dr. Hubertus von Grünberg and Dr. h. c. Bernhard Walter, members of the Supervisory Board holding office, were again elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2015 financial year.

Jörg Asmussen resigned from the Supervisory Board effective December 14, 2011. Dr. Hans Bernhard Beus has been appointed as a shareholder representative on the Supervisory Board by the relevant district court effective December 15, 2011 until the end of the 2012 shareholders' meeting.

Employee representatives: No changes took place in the 2011 financial year.

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

Review of annual financial statements of the parent company and consolidated financial statements for the 2011 financial year.

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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2011 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2011, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2011, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document. The audit of the consolidated financial statements also included a request to assess their overall compliance with IFRS.

Before the Audit Committee passed a resolution on its recommendation to the Supervisory Board for the proposal for election to be submitted to the shareholders' meeting, the external auditor confirmed that there are no business, financial, personal or other relationships between itself, its executive bodies and audit managers on the one hand and the Company and its executive body members on the other, that may cast doubt on their independence. The auditor also states to what extent other services were rendered for the Company in the previous financial year, in particular consulting services, and to what extent such services have been contracted for the following year. On this basis, the Audit Committee verified and confirmed the external auditor's requisite independence. It informed the Supervisory Board of the outcome of this review before the Supervisory Board prepared its resolution to propose to the shareholders' meeting to appoint said external auditor.  For details on the content of the agreement with the auditor, please refer to the corporate governance report on pages 40 – 45 of the Annual Report.

The auditor has informed the Audit Committee and the Supervisory Board that there are no circumstances that may give rise to doubt the auditor's impartiality. The auditor also reported on any services performed in addition to auditing services.

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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail to the members of the Audit Committee at its meeting on February 21, 2012. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, explained their audits, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of their audit, and their audit report. The external auditor did not identify any material weaknesses in the internal control system, the risk management system, or the accounting process. The members of the Audit Committee acknowledged

and critically reviewed the audit report and audit opinion, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems. The Audit Committee has recommended to the Supervisory Board to approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, to approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 22, 2012, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered the questions from the Supervisory Board. The external auditor also attended this meeting, reported on its audits and its main audit findings, explained its audit report, and answered questions from the Supervisory Board, in particular relating to the nature and extent of the audits and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit and the audit report were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

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

When the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 15, 2011, the Supervisory Board conducted an in-depth examination of the medium-term financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 21, 2012 and by the Supervisory Board on February 22, 2012. The external auditor was present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 3.0 billion and to carry forward around EUR 1.6 billion to unappropriated net income.

Review of the dependent company report.

The Board of Management presented its dependent company report for the 2011 financial year to the Supervisory Board in good time.

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

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

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



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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 21, 2012, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, reported on their audit, in particular their key audit areas and the significant results of their audit, and explained their audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditors. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditors, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditors, as the committee sees no grounds for objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board performed the final review at its meeting on February 22, 2012, taking into account the external auditor's audit report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered questions from the Supervisory Board. The external auditors were also present and reported on their audit of the dependent company report and their main audit findings, explained their audit report, and answered questions from the Supervisory Board, particularly relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit of the dependent company report and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Supervisory Board examined the dependent company report in particular for completeness and accuracy. In doing so, it also satisfied itself that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. The review revealed no reason to raise objections to the dependent company report. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board would like to thank the members of the Board of Management and all of Deutsche Telekom's employees for their commitment and dedication in the 2011 financial year.

Bonn, February 22, 2012
The Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman