



# Supervisory Board's report to the 2005 shareholders' meeting.

The 2004 financial year was a very successful year for Deutsche Telekom AG and was marked as well by preparations for the Group's strategic realignment. At the same time, it was possible to press ahead with the further reduction of debt. The Supervisory Board intensively pursued its responsibilities of overseeing and advising the Board of Management in the management of business activities in compliance with statutory requirements.

**Supervisory Board activities in the 2004 financial year.** As a legal requirement, the Board of Management regularly informed the Supervisory Board in written and oral form about management planning, business developments, and individual transactions of major importance to the Company and its principal subsidiaries and associated companies. Decisions of strategic importance were submitted to the Supervisory Board for approval. In particular, business development was discussed regularly in the Supervisory Board meetings. Furthermore, the Chairman of the Supervisory Board was informed by the Board of Management, and especially its Chairman, about results of business activities and significant events as part of their continuous dialog.

In addition to regular reports, the following issues were discussed in greater detail by the Supervisory Board:

- The strategic realignment of the Group on the business areas of Broadband/Fixed Network (T-Com), Mobile Communications (T-Mobile), and Business Customers (T-Systems), and the resulting distribution of Board of Management responsibilities;
- The merger of T-Online International AG into Deutsche Telekom AG;
- The status of major projects in the Deutsche Telekom Group, particularly developments of the Toll Collect project and the Federal Employment Agency project (where Deutsche Telekom employees help with the introduction of restructured benefits for the long-term unemployed);
- Development of the regulatory and competitive environment;
- Corporate governance, particularly with a view to the recommendations and suggestions as outlined in the German Corporate Governance Code and as required by U.S. law (Sarbanes Oxley Act);
- The launch of UMTS by T-Mobile;
- Business at T-Mobile USA, including development of the network infrastructure and the competitive environment in the United States;
- Results of the impairment tests according to FAS 141, 142 that must be carried out in regular intervals under the American accounting standards U.S. GAAP, and review of the accounting method used for intangible assets in accordance with German GAAP;
- Development of staff requirements and workforce levels in the Deutsche Telekom Group;
- Changes in the shareholdings portfolio of the Deutsche Telekom Group.

**Organization of the Supervisory Board's activities.** To increase the efficiency of its work, and taking into consideration the specific requirements made of the Supervisory Board of Deutsche Telekom AG, the Supervisory Board established the following committees (which all have equal representation of shareholders' and employees' interests):

The **General Committee** is responsible for the preparation of the meetings and major decisions of the Supervisory Board as well as for all matters relating to the individual members of the Board of Management. Its members are Volker Halsch (from October 9, 2004), Dr. Manfred Overhaus (until September 30, 2004), Franz Tremel, Wilhelm Wegner, and Dr. Klaus Zumwinkel (committee chairman).

The **Finance Committee** deals with complex corporate activities in the areas of finance and business management, which are assigned to it by the Chairman of the Supervisory Board or the Supervisory Board as a whole for review and advice. The members of the Finance Committee are Volker Halsch (from October 9, 2004), Dr. Manfred Overhaus (until September 30, 2004), Dr. Klaus G. Schleder (committee chairman), Wolfgang Schmitt, Franz Tremel, Bernhard Walter, and Wilhelm Wegner.

The **Audit Committee** deals with issues relating to accounting and risk management, the requisite independence of auditors, the awarding of the audit contract, the stipulation of the main focuses of the audit and the agreement on fees as well as, within the scope of mandatory German law, with all tasks assigned to the Audit Committee under existing U.S. law for listed companies headquartered outside the United States of America. The members of the Audit Committee are Volker Halsch (from October 9, 2004), Dr. Manfred Overhaus (until September 30, 2004), Dr. Klaus G. Schlede (committee chairman) Wolfgang Schmitt, Franz Tremel, Bernhard Walter, and Wilhelm Wegner.

The **Staff Committee** deals with personnel matters of Deutsche Telekom AG, in particular the Company's staff structure and human resources development and planning. The members of the committee are Dr. Dieter Hundt, Franz Tremel (committee chairman), Wilhelm Wegner and Dr. Klaus Zumwinkel.

A **Joint General and Audit Committee** was set up in 2004 to handle the Supervisory Board's oversight responsibilities in connection with the Toll Collect project and the Federal Employment Agency project. Its members are Dr. Hubertus von Grünberg, Dr. Klaus G. Schlede, Wolfgang Schmitt, Franz Tremel, Wilhelm Wegner, and Dr. Klaus Zumwinkel (committee chairman).

The **Mediation Committee** required pursuant to § 27 (3) of the German Codetermination Act performs the duties incumbent on it under the law. Its members are Dr. Dieter Hundt, Franz Tremel, Wilhelm Wegner and Dr. Klaus Zumwinkel (committee chairman).

The chairman of each committee regularly informed the Supervisory Board of the content and results of committee meetings.

**Meetings of the Supervisory Board.** In the 2004 financial year, the Supervisory Board held four regular meetings and one extraordinary meeting. Furthermore, the Supervisory Board met for an in-depth conference with the Board of Management in order to discuss the Group's strategic realignment. The General Committee of the Supervisory Board met eleven times during the year under review, thus supporting the Supervisory Board's activities. The Audit Committee held six, and the Finance Committee two meetings in the 2004 financial year. The Supervisory Board's Staff Committee met twice. The Joint General and Audit Committee held seven meetings. The Mediation Committee did not meet during the 2004 financial year. There are no events subject to reporting with regard to the frequency of the Board members' participation in Supervisory Board meetings.

**Conflicts of interest.** In order to avoid a conflict of interests, Dr. Overhaus or Mr. Halsch – state secretaries in the German Ministry of Finance – and Mr. Walter – who at the same time is a member of the Supervisory Board of Daimler Chrysler AG, a consortium partner in the Toll Collect project – are not members of the joint General and Audit Committee responsible for handling the Toll Collect project. In addition, the gentlemen did not participate in Supervisory Board meetings dealing with aspects of Toll Collect that could pose a conflict for them.

**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 an essential precondition for corporate success. The German Corporate Governance Code and a number of relevant provisions under U.S. law have therefore been integrated in the Company's statutes. In December 2004, the Board of Management and Supervisory Board issued the Declaration of Compliance with the Corporate Governance Code as amended. In addition, the Company's corporate governance policy is also being presented in a separate chapter of the Annual Report.

**Changes in the composition of the Board of Management.** Josef Brauner, responsible for T-Com on the Board of Management, retired from office on April 30, 2004. On September 3, 2004, Thomas Holtrop resigned as member of the Group Board of Management and as Chairman of T-Online International AG's Board of Management with effect from September 30, 2004. On September 3, 2004, the Supervisory Board appointed Walter Raizner as a member of the Company's Board of Management with effect from November 1, 2004. Mr. Raizner is in charge of the business area for Broadband/Fixed Network (T-Com). At the same time, the strategic realignment of the Deutsche Telekom Group was manifested in a redistribution of the responsibilities on the Board of Management. In addition to Mr. Raizner (Broadband/Fixed Network), responsibility for the other strategic business areas was given to Mr. Obermann (Mobile Communications (T-Mobile)) and Mr. Reiss (Business Customers (T-Systems)).

**Changes in the composition of the Supervisory Board. Shareholders' representatives:**

Dr. Manfred Overhaus resigned from the Supervisory Board with effect from September 30, 2004. He was replaced by Volker Halsch who was appointed to the Supervisory Board by order of court in accordance with § 104 (1) of the German Stock Corporation Act (AktG) on October 1, 2004.

Dr. Wendelin Wiedeking resigned from the Supervisory Board with effect from February 9, 2004. He was replaced by Dr. Wolfgang Reitzle who was appointed to the Supervisory Board by order of court in accordance with § 104 (1) of the German Stock Corporation Act (AktG) on February 10, 2005.

**Employees' representatives:** There were no changes amongst the members of the Supervisory Board representing employees during the 2004 financial year.

The Supervisory Board would like to thank the former members of the board for the effort they committed to the good of the Company over many years.

**Review of annual financial statements of the parent company and consolidated financial statements for the 2004 financial year.** The annual financial statements, the consolidated financial statements, the management report of Deutsche Telekom AG and the Deutsche Telekom Group, and the Board of Management's proposal for appropriation of net income, which were all prepared and duly submitted by the Board of Management, together with the appropriate auditors' reports were presented to all members of the Supervisory Board. The Supervisory Board reviewed the documents submitted to it.

The audit firms, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Frankfurt/Main) and Ernst & Young Deutsche Wirtschaftsprüfungsgesellschaft (Stuttgart), audited the annual financial statements of Deutsche Telekom AG, the consolidated financial statements and the combined management report of the parent company and the Group as of December 31, 2004, together with the bookkeeping system, in accordance with statutory provisions, and issued unrestricted audit certificates. In addition, the auditors reported personally on the above issues, as well as the U.S. financial statements prepared in accordance with 20-F, during the Supervisory Board meeting held on March 8, 2005 and the preparatory meeting of the Audit Committee on March 2, 2005.

During its March meeting the Supervisory Board was also informed about the results of the audit and raised no objections. In compliance with § 171 of the German Stock Corporation Act, the Supervisory Board examined the annual financial statements of the parent company and the consolidated financial statements of the Deutsche Telekom Group, the management

report of Deutsche Telekom AG and the Deutsche Telekom Group, the proposal on appropriation of net income, and the risk report, and approved the annual financial statements of the parent company and the consolidated financial statements. The annual financial statements are thereby approved. The Supervisory Board agrees to the Board of Management's proposal on the appropriation of net income.

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Ernst & Young Wirtschaftsprüfungsgesellschaft also audited the report disclosing relations with affiliated companies ("Dependent Company Report") that was prepared by the Board of Management in compliance with § 312 of the German Stock Corporation Act. The auditors reported on the results of their audit and issued the following audit certificate:

"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 transactions listed in the report was not inappropriately high based on the circumstances known at the time the transactions were entered into."

The Supervisory Board examined the Board of Management's report disclosing relations with affiliated companies. It did not raise any objections to the Board of Management's final statement contained in the report or to the results of the audits conducted by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Ernst & Young Wirtschaftsprüfungsgesellschaft.

The Supervisory Board would like to thank the members of the Board of Management and all the men and women who work for Deutsche Telekom for their dedicated commitment in the 2004 financial year.

Bonn, March 8, 2005  
The Supervisory Board



Dr. Klaus Zumwinkel  
Chairman