

## Supervisory Board's report to the 2011 shareholders' meeting.



For Deutsche Telekom, the 2010 financial year was marked by the implementation of the merger of its fixed-network and mobile operations in Germany, the development of T-Mobile USA and strategic plans for the business in the United States, and the persistently difficult competitive and regulatory environment. Despite the macroeconomic challenges in Southern and Eastern Europe, in the 2010 financial year the Group succeeded in achieving positive results and meeting 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 2010 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. The Board of Management regularly reported to the Supervisory Board on the corporate planning, business developments, and significant business transactions of the Company and of principal 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. On the agenda of every Supervisory Board meeting was the development of the business, as was a discussion of any deviations from the originally planned course of business. 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 regularly reviews the list of items and amends it as necessary. 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. These meetings served in particular to discuss the benefits and effects of each transaction. The Supervisory Board approved all the transactions and measures submitted. 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 way in which the merger of the Company's fixed-network and mobile operations in Germany was implemented.
- The development of the regulatory and competitive environment and implications for Group strategy and planning.
- Implementation of the Group strategy, discussed during an in-depth conference between the Board of Management and the Supervisory Board.
- The development of the U.S. business and strategic planning for T-Mobile USA.
- The establishment of the UK-based joint venture between T-Mobile UK and Orange UK.
- The development of OTE in Greece, with special consideration given to the current state of the Greek economy.
- Issues in connection with the legal dispute surrounding PTC in Poland.

- Participation in spectrum auctions for the 4G mobile communications standard in Germany and other European countries.
- The Group's budget and medium-term planning and shareholder remuneration policy.
- Monitoring of the development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- Discussion of the 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.
- The introduction of the Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) and its impact on the compensation system for the members of the Board of Management.
- Continual monitoring of the handling of the data misuse affair and protection of the people concerned.
- Corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- Development of the Group's portfolio of shareholdings.
- Deutsche Telekom AG's delisting from the New York and Tokyo stock exchanges.
- Preparation of the Supervisory Board's recommendation to the 2011 shareholders' meeting concerning the appointment of external auditors for the 2011 financial year.

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 and the Audit Committee supported the Board of Management's plans to expand this organization. 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, Deutsche Telekom AG's Supervisory Board has set up the following committees, all of which have an equal number of shareholders' and employees' representatives:

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), Jörg Asmussen, 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 Middelmann (Chairman since July 5, 2010), Hermann Josef Becker, Dr. Wulf H. Bernotat (since July 5, 2010), Monika Brandl (since July 5, 2010), Hans Martin Bury (until July 5, 2010), Lawrence H. Guffey (until July 5, 2010), Lothar Holzwarth, Waltraud Litzenberger (until July 5, 2010), Dr. Ulrich Schröder (since July 5, 2010), and Dr. h. c. Bernhard Walter (Chairman until July 5, 2010).

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. Until Deutsche Telekom AG finally delisted from the New York Stock Exchange, the Audit Committee also dealt with all matters that fell under its remit according to U.S. legislation applicable to listed companies that are domiciled outside the United States.



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, Lothar Holzwarth (until July 5, 2010), Hans-Jürgen Kallmeier (since July 5, 2010), Waltraud Litzenberger.

In the 2010 financial year the Audit Committee held its first extraordinary meeting dedicated exclusively to fundamental issues. The plan is to hold such a meeting once annually from now on. The agenda for the 2010 meeting dealt mainly with risk management, insurance cover, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting. The Audit Committee underwent an external efficiency audit in the 2010 financial year, with excellent results.

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, 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. None of the shareholders' seats on the Supervisory Board became vacant in 2010.

The responsibilities of the **Mediation Committee**, formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. It did not meet in the 2010 financial year. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **special committee** was set up between January 1 and May 20, 2010 to monitor the Company's participation in the spectrum auction for the fourth generation of mobile communications in Germany. Members: Prof. Dr. Ulrich Lehner (Chairman), Waltraud Litzenberger, Lothar Schröder, Dr. h. c. Bernhard Walter.

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 2010 financial year the Supervisory Board held four regular meetings and one extraordinary meeting. The Supervisory Board and the Board of Management also held a joint in-depth conference to discuss the Group's strategic focus. The General Committee of the Supervisory Board met eight times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held six meetings, the Finance Committee met three times (including one joint meeting with the General Committee). The Staff Committee met twice. The special committee that was formed to monitor the spectrum auctions in Germany met three times. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2010 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 Manager in Chief 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. Hocker also stated that, where necessary, he would consult the Chairman of the Supervisory Board to discuss how to address a potential conflict of interest.

## 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 2010.  The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (pages 32–37).

## Changes in the composition of the Board of Management.

On December 17, 2009 the Supervisory Board approved Hamid Akhavan's request to relieve him of his duties with effect from February 15, 2010 so he could pursue other professional challenges.

The Supervisory Board resolved that from February 15, 2010, Guido Kerkhoff, the Board Member responsible for Southern and Eastern Europe, would temporarily take responsibility for the Company's mobile communications subsidiaries in the Netherlands, the UK, Austria, Poland, and the Czech Republic. These subsidiaries were added to Mr. Kerkhoff's area of responsibility effective April 1, 2010. His Board department was subsequently renamed "Europe."

The other functions in the department previously headed by Hamid Akhavan were temporarily assigned to Reinhard Clemens, Member of the Board of Management responsible for T-Systems, effective February 15, 2010. On May 2, 2010 the Supervisory Board approved the appointment, effective May 3, 2010, of Edward R. Kozel as Member of the Board of Management with responsibility for the Technology and Innovation department that covers the areas of technology, IT, procurement, and products and innovation for the standard business with private and business customers.

## Changes in the composition of the Supervisory Board.

**Shareholder representatives:** At the shareholders' meeting on May 3, 2010, Dr. Wulf Bernotat and Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelman, both court-appointed members of the Supervisory Board since January 1, 2010, were formally 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 2014 financial year.

**Employee representatives:** Owing to his retirement, Josef Falbisoner resigned his seat on the Supervisory Board effective the end of the 2010 shareholders' meeting. The District Court of Bonn appointed Sibylle Spoo as his successor effective May 4, 2010.

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 2010 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, and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which were jointly appointed as auditors of the single-entity financial statements and auditors of the consolidated financial statements ("external auditors") for the 2010 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, 2010, 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, 2010, 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. They issued an unqualified audit opinion in each case. The audit of the consolidated financial statements also included a request to assess their overall compliance with IFRS.

Before resolving on their proposal of external auditors to the shareholders' meeting, the Audit Committee received the external auditors' confirmation that there are no business, financial, personal or other relationships between themselves, their 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 declaration 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 requisite independence of the external auditors. 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 auditors.

The external auditors submitted their reports on the nature and extent as well as the result of their audits (audit reports) to the Supervisory Board. The documentation on the aforementioned financial statements, the external auditors' audit reports, 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 audit reports of the external auditors.

Prior to the Supervisory Board's review and resolution, 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 22, 2011. 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 audits, and their audit reports. The external auditors 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 reports and audit opinions, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audits and about the audit results. The Audit Committee satisfied itself that the audits and audit reports were compliant. In particular, the committee satisfied itself that the audit reports, and the audits conducted by the external auditors, met the legal requirements. The Audit Committee agrees with the external auditors 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 audits by the external auditors and, since it had no objections to the documents submitted by the Board of Management, to approve the annual 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 23, 2010, taking into account the report and recommendations of the Audit Committee and the audit reports of the external auditors. 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 auditors also attended this meeting, reported on their audits and their main audit results, explained their audit reports, and answered questions from the Supervisory Board on the nature and extent of the audits and the audit results. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audits and audit reports were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the audits.

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 auditors. 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 16, 2010, 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 22, 2011 and by the Supervisory Board on February 23, 2011. The external auditors were 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 3.0 billion to unappropriated net income.

## Review of the dependent company report.

The Board of Management presented its dependent company report for the 2010 financial year to the Supervisory Board in good time.

The external auditors 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 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 auditors 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 also reviewed the dependent company report of the Board of Management and the audit report of the external auditors.



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 22, 2011, 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 audits themselves, with the external auditors. The review included questions about the nature and extent of the audit and about the audit results. The Audit Committee satisfied itself that the audit and audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, 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 23, 2011, taking into account the audit report of the external auditors. 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 results, explained their audit report, and answered questions from the Supervisory Board on the nature and extent of the audit of the dependent company report and the audit results. 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 audit report were compliant. In particular, it satisfied itself that the audit report, and the external auditors' audit, 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. Following the recommendation of the Audit Committee, the Supervisory Board concurred with the result of the external auditors' 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 2010 financial year.

Bonn, February 23, 2011  
The Supervisory Board

Prof. Dr. Ulrich Lehner  
Chairman