

Supervisory Board's report to the 2010 shareholders' meeting.



For Deutsche Telekom, the 2009 financial year was marked by the merger of fixed-network and mobile communications in its standard business in Germany, the effects of the economic crisis, and the continued difficult competitive and regulatory environment. Despite the considerably worsened overall economic environment, the Group continued to stabilize its business in Germany and recorded further successes in its broadband business. The Group grew further with the consolidation of the OTE group and expanded its international business. The Supervisory Board intensively pursued its responsibility to oversee and advise the Board of Management on managing its business activities in compliance with statutory requirements.



Supervisory Board activities in the 2009 financial year.

The Supervisory Board continuously monitored the management of business and the management of the Group by the Board of Management. The benchmark for this monitoring role was in particular to ensure that the management of business and the management of the Group were lawful, compliant, appropriate, and efficient. The written and oral reports of the Board of Management formed the primary basis for complying with the statutory task of monitoring. 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. At the meetings of the Supervisory Board and its committees, the Supervisory Board regularly reviewed the current situation of the Company on the basis of the Board of Management's written and oral reports. In particular, the development of business was discussed in all of the Supervisory Board meetings. Deviations from the originally planned course of business were discussed. The Board of Management fulfilled its duties to inform the Supervisory Board quickly and completely. The reports of the Board of Management met the requirements imposed on them by law, good corporate governance, and by the Supervisory Board with regard to both content and scope. In addition to the reports, the Supervisory Board asked for supplementary information and details to be submitted. The Supervisory Board critically analyzed the plausibility of, and scrutinized and reviewed the reports and other information submitted by the Board of Management.

A catalog produced by the Supervisory Board, which is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management and is regularly checked for any necessary adjustments by the Supervisory Board, lists the types of transactions and measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. The Supervisory Board discussed with the Board of Management and thoroughly reviewed the transactions and measures that had to be submitted to the Supervisory Board for approval. The discussions and reviews regularly focused on the benefits and effects of the transaction concerned. The Supervisory Board approved all the transactions and measures submitted to it for approval. In addition, the Audit Committee regularly looked into relevant issues including the quarterly reports, discussed these with the external auditors, and approved the quarterly reporting.

Between meeting dates, the Chairman of the Supervisory Board at regular intervals discussed the strategy, business development and risk management of the Company with the Board of Management, and especially its Chairman, and was informed about business activities and significant events.

In addition to the issues covered by legally required regular reports by the Board of Management, the Supervisory Board dealt intensively in particular with the following issues:

- The merger of fixed-network and mobile communications in the standard German market, which resulted in the approval or recommendation for decision to the extraordinary shareholders' meeting on the issue.
- The regional focus of operational responsibility, moving away from a business area-oriented structure, and the associated new distribution of responsibilities within the Board of Management, which was approved by the Supervisory Board.
- Monitoring of the integration of the Greek OTE group into the Deutsche Telekom Group.
- Establishment of a mobile communications joint venture between T-Mobile UK and Orange UK in the United Kingdom, which was approved.
- Development of the regulatory and competitive environment, and the resulting actions taken by the Group.
- Budget and medium-term planning and dividend policy of the Group. The necessary approval was given.



- Monitoring of the development of staff requirements and headcount levels with a special focus on human resources quality in the Deutsche Telekom Group.
- Discussion of the risk exposure of the Group.
- Monitoring of the establishment of the Board of Management department for Data Privacy, Legal Affairs and Compliance, combined with the implementation of measures to further improve data privacy and data security.
- Monitoring of the handling of the data misuse affair and protection of the people concerned.
- Corporate governance, particularly with a view to the recommendations and suggestions as outlined in the German Corporate Governance Code, the requirements of U.S. law resulting from the Sarbanes-Oxley Act, and the changes resulting from the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).
- Discussion of changes in the legal environment through the introduction of the Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) and its significance for the remuneration system for the members of the Board of Management.
- Discussion of the development of the Group's shareholdings portfolio and approval of investment activities undertaken by the Board of Management.
- 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.
- Discussion of the results of the Supervisory Board's examination of efficiency.

The Supervisory Board and its Audit Committee monitored the Board of Management to verify that it acted lawfully and ensured compliance with legal provisions and internal policies, for example through a Compliance unit established throughout the Group. The Supervisory Board and the Audit Committee support the further expansion of this organizational unit by the Board of Management. The Supervisory Board requested regular reports from the Board of Management on the Group-wide risk management and risk controlling systems set up by the Board of Management. On the basis of its reviews, which included discussions with the external auditors, the Supervisory Board came to the conclusion that the internal control and risk management system and the Group-wide risk controlling system are effective and adequate.

Organization of the Supervisory Board's activities.

To increase the efficiency of its work, and taking into consideration the specific requirements placed on 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 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 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. Members: Dr. h. c. Bernhard Walter (Chairman), Hermann Josef Becker, Hans Martin Bury, Lawrence H. Guffey, Lothar Holzwarth, Waltraud Litzenberger.

The topics dealt with by the **Audit Committee** include those allocated to it in accordance with German legislation and the German Corporate Governance Code. These include in particular the monitoring of accounting and the monitoring of the effectiveness of the internal control system, the risk management system, and the internal auditing system. The Audit Committee also deals with auditing, in particular with the independence of the external auditors and the additional services provided by the auditors, compliance and data protection issues. Furthermore, within the scope of mandatory German law, the Audit Committee also deals with all those duties which are allocated to an audit committee under applicable U.S. law with respect to listed companies with their registered office outside the United States. In consideration of the imminent changes ensuing from the German Accounting Law Modernization Act, the Audit Committee has extended and detailed its competencies in respect of the duties assigned to it by the Supervisory Board.

The members of the Audit Committee are the same as those of the Finance Committee. Dr. h. c. Bernhard Walter, Chairman of the Audit Committee, as an independent member is knowledgeable in the areas of accounting and auditing (§ 100 (5) of the German Stock Corporation Act [Aktengesetz – AktG]).

The Audit Committee successfully underwent an external examination of efficiency in the 2009 financial year.

The **Staff Committee** deals with personnel matters at Deutsche Telekom, in particular the Company's staff structure and human resources development and planning. The Staff Committee dealt in particular with matters relating to headcount levels and requirement planning in preparation for resolutions by the Supervisory Board 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 recommendation to the shareholders' meeting for election. In 2009, in observation of statutory requirements and the provisions of the German Corporate Governance Code, the Nomination Committee dealt with the filling of the Supervisory Board seats left vacant by the departure of Prof. Dr. Reitzle and Prof. Dr. von Schimmelmann effective January 1, 2010 and agreed with the Board of Management on the Board's application for the appointment of Dr. Bernotat and Prof. Dr. Middelman by court order. 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.

The **Mediation Committee** required pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG) performs the duties incumbent on it under the law. It did not meet in the 2009 financial year. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **special committee** has been established as of January 1, 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 chairpersons of each committee regularly informed the Supervisory Board at its meetings of the content and results of committee meetings.

Meetings of the Supervisory Board.

In the 2009 financial year, the Supervisory Board held four regular meetings and two extraordinary meetings. The Supervisory Board also met for an in-depth conference with the Board of Management to discuss the Group's strategic alignment. The General Committee of the Supervisory Board met seven times during the reporting year. The Audit Committee held five meetings and the Finance Committee one in the 2009 financial year. The Staff Committee met twice. In addition, there was one joint meeting of the General and Finance Committees. There were no events subject to reporting in accordance with the recommendations of the German Corporate Governance Code with regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2009 financial year.

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 in various judicial and extra-judicial proceedings against Deutsche Telekom AG, particularly in appraisal rights proceedings associated with the merger of T-Online International AG into Deutsche Telekom AG and in proceedings connected with prospectus liability claims. To ensure from the outset that no conflict of interest could arise in connection with proceedings conducted or supported by DSW against Deutsche Telekom AG, Mr. Hocker declared to the Supervisory Board that, as a member of the Supervisory Board, he would decline to receive reports or information, participate in decisions or attend Supervisory Board or committee meetings where matters in which DSW was representing or supporting interests against Deutsche Telekom AG were discussed. Mr. Hocker also stated that, where necessary, he would consult the Chairman of the Supervisory Board to determine how to address any conflict of interest.

Prof. Dr. von Schimmelmann pointed out that he is also a member of the Board of Directors at accenture. accenture is an internationally operating company in competition with T-Systems in the field of Systems Integration. In the Supervisory Board's view, this does not automatically represent a conflict of interests that would prejudice Prof. Dr. von Schimmelmann's independent status. Prof. Dr. von Schimmelmann declined to receive reports or information, participate in decisions or attend Supervisory Board or committee meetings which could involve a concrete conflict of interests. Should the need arise in individual cases, Prof. Dr. von Schimmelmann will consult the Chairman of the Supervisory Board to determine how to address any conflict of interest that occurs.

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 are therefore reflected in the Company's statutes. The Board of Management and Supervisory Board last issued their declaration of conformity with the Corporate Governance Code in January 2010.  The Company's corporate governance policy is also presented in greater detail in a separate chapter of this Annual Report (pages 39–44).

The Supervisory Board carried out the examination of efficiency on a regular basis in 2009 in compliance with item 5.6 of the German Corporate Governance Code by means of a written survey followed by in-depth discussions between the Chairman of the Supervisory Board and the individual members of the Supervisory Board. The positive results were dealt with at the Supervisory Board meeting on December 17, 2009.

Changes in the composition of the Board of Management.

In agreement with the Supervisory Board, Dr. Karl-Gerhard Eick resigned his seat on the Board of Management with effect from midnight on February 28, 2009.

At its meeting on February 26, 2009, the Supervisory Board appointed Mr. Timotheus Höttges as the new Member of the Board of Management for Finance effective March 1, 2009 and Mr. Niek Jan van Damme as the new Member of the Board of Management for T-Home, Sales & Service, also effective March 1, 2009. The establishment of a new Board of Management department for Southern and Eastern Europe was also approved at the meeting on February 26, 2009 to account for the growing significance of the Southeastern European region and to bundle responsibility for the existing, integrated operations in the region following the take-over of management control of the Greek company OTE. Mr. Guido Kerkhoff was appointed to the Board of Management effective March 1, 2009 and took over responsibility for this newly created department.

By its resolution dated April 29, 2009, the Supervisory Board transferred integrated responsibility for Sales, Marketing and Service in standard business with consumers and business customers in Germany to Mr. van Damme. At the same time, Mr. Hamid Akhavan was appointed Chief Operating Officer effective July 1, 2009 with responsibility for the mobile communications companies in the Netherlands, the United Kingdom, Austria, Poland, and the Czech Republic, as well as Group-wide responsibility for the areas of Technology, IT, Products and Innovation for standard business, and Procurement.

In December 2009, Mr. Akhavan asked the Supervisory Board to relieve him of his duties to allow him to take on a new professional challenge. The Supervisory Board agreed to this request effective February 15, 2009 at its meeting on December 17, 2009.

The Supervisory Board resolved that effective February 15, 2010 responsibility for the mobile communications subsidiaries in the Netherlands, the United Kingdom, Austria, Poland, and the Czech Republic will be taken over, in an acting capacity, by Mr. Kerkhoff, Member of the Board of Management for Southern and Eastern Europe, and Mr. Akhavan's remaining responsibilities will be taken over, in an acting capacity, by Mr. Clemens, Member of the Board of Management for T-Systems. On February 24, 2010, the Supervisory Board adopted the Board of Management's proposal to permanently extend Mr. Kerkhoff's sphere of responsibilities with effect from April 1, 2010, adding the mobile subsidiaries in the Netherlands, the United Kingdom, Austria, Poland, and the Czech Republic. The department headed by Mr. Kerkhoff will be renamed "Europe" from the effective date.

Changes in the composition of the Supervisory Board.

There were no changes to the composition of the Supervisory Board during the 2009 financial year. Prof. Dr. Wolfgang Reitzle and Prof. Dr. Wulf von Schimmelmann resigned their seats on the Supervisory Board effective December 31, 2009. Dr. Wulf Bernotat and Prof. h. c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelman have been appointed as shareholder representatives on the Supervisory Board by the relevant district court effective January 1, 2010 until the 2010 shareholders' meeting.

The Supervisory Board would like to thank the former members of both Boards for the effort they committed to the good of the Company.

Review of annual financial statements of the parent company and consolidated financial statements for the 2009 financial year.

The Board of Management prepared the annual financial statements and the management report as well as the consolidated financial statements and the Group management report of Deutsche Telekom AG on February 8, 2010 and submitted them, together with the proposal for the appropriation of net income, on time to the Supervisory Board.

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 2009 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, 2009 and the management report prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) as well as the consolidated financial statements as of December 31, 2009 and the Group management report prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB. They issued an unqualified audit opinion in each case. The audit of the consolidated financial statements also included the additional request to express an opinion as to whether they comply with IFRS as issued by the IASB.

Before the resolution by the Audit Committee to recommend to the Supervisory Board the proposal to the shareholders' meeting for their appointment, the auditors confirmed that there were no circumstances that may impair the independence of the auditors. They also reported on services they had performed in addition to the auditing of the financial statements. On this basis the Audit Committee reviewed and confirmed the requisite independence of the auditors. The Supervisory Board was informed of the result of this review before its resolution for the proposal to the shareholders' meeting for appointment.

The 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 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 also reviewed the documents submitted by the Board of Management and the audit reports of the auditors.

In preparation for the Supervisory Board's review and resolution, the Audit Committee first concerned itself thoroughly with the aforementioned documents. At its meeting held on February 23, 2010, the Audit Committee asked the members of the Board of Management to explain thoroughly the annual financial statements, the management report, the consolidated financial statements, and the Group management report, as well as the Board of Management's proposal for the appropriation of net income. In addition, questions posed by committee members were answered. Moreover, the auditors, who also attended the meeting, explained their audits, in particular their key audit areas defined in agreement with the Audit Committee and the Supervisory Board and the significant results of their audits, as well as their audit reports. The 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 took cognizance of and critically reviewed the audit reports and audit opinions, and discussed them, as well as the audits themselves, with the 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, it satisfied itself that the audit reports – as well as the audits conducted by the auditors – met the legal requirements. The Audit Committee shares the opinion of the auditors that there are no material weaknesses in the internal control or risk management systems. The Audit Committee recommended to the Supervisory Board that it should approve the results of the audits by the auditors and, since in its opinion there were no objections to the documents submitted by the Board of Management, approve the annual financial statements and the management report, as well as the consolidated financial statements and the consolidated management report and concur with the proposal of the Board of Management for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, management report, consolidated financial statements, and Group management report as well as the Board of Management's proposal for the appropriation of net income on February 24, 2009, taking into account the report and recommendations of the Audit Committee and the audit reports of the auditors. The members of the Board of Management also attended this meeting, explained the documents they had submitted, and answered the questions of the members of the Supervisory Board. The auditors also attended this meeting, reported on

their audits and their main audit results, explained their audit reports, and answered questions of the members of the Supervisory Board on the nature and extent of the audits and the audit results. This and the report presented by the Audit Committee allowed the Supervisory Board to satisfy itself that the audits and audit reports were compliant. Following the recommendation of the Audit Committee, the Supervisory Board concurred with the result of the audits conducted by the auditors.

Based on the final result of the Supervisory Board's own review of the annual financial statements, management report, consolidated financial statements, and Group management report as well as the Board of Management's proposal for the appropriation of net income, there were no objections to be raised. The same applies to the corporate governance statement insofar as it is not to be audited by the auditors. Following the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and the management report as well as the consolidated financial statements and the Group management report. In particular, the Supervisory Board approved the transfer of EUR 0.0 in profit after income taxes from the single-entity financial statements of Deutsche Telekom AG (income after taxes) to other retained earnings in accordance with § 58 (2) of the German Stock Corporation Act in conjunction with § 19 (3) of the Articles of Incorporation. The approval of the Supervisory Board means that the annual financial statements are approved. The Supervisory Board's assessment of the position of the Company and the Group is the same as that of the Board of Management presented in its management report and Group management report.

In accordance with the recommendations of the Audit, the Supervisory Board approved the Board of Management's proposal for the appropriation of net income and concurred with its proposal. At the time of the approval of the Company's medium-term financial planning for the next three years by the Board of Management and the Supervisory Board on December 17, 2009, the Supervisory Board concerned itself intensively with the medium-term financial and investment plans, in particular with the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal regarding the appropriation of net income, submitted on February 8, 2010, was discussed at the Audit Committee meeting on February 23, 2010 and the Supervisory Board meeting on February 24, 2010, with auditors present at both meetings. The proposal foresaw a total payment to shareholders of around EUR 3.4 billion and a carryforward of the remaining balance to unappropriated net income of around EUR 3.0 billion. The Supervisory Board approved and supported the proposal.

Review of the dependent company report.

The Board of Management's dependent company report for the 2009 financial year was approved by the Board of Management on February 8, 2010 and presented 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 auditors submitted the audit report to the Supervisory Board. The dependent company report and the respective audit report were made available to all members of the Supervisory Board in good time.

The Supervisory Board for its part reviewed the dependent company report of the Board of Management and the audit report of the auditors.

In preparation for the Supervisory Board's review and resolution, the Audit Committee first concerned itself thoroughly with the aforementioned documents. At its meeting held on February 23, 2010, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. In addition, questions posed by committee members were answered. Moreover, the 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 took cognizance of and critically reviewed the audit report and audit opinion, and discussed them, as well as the audits themselves, with the 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 – as well as the audit conducted by the auditors – met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the 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 24, 2010, taking into account the audit report of the auditors. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered the questions of the members of the Supervisory Board. The auditors also attended this meeting, reported on their audit of the dependent company report and their main audit results, explained their audit report, and answered questions of the members of the Supervisory Board on the nature and extent of the audit of the dependent company report and the audit results. This and the report presented by the Audit Committee allowed the Supervisory Board to satisfy itself that the audit of the dependent company report and audit report were compliant. In particular, it satisfied itself that the audit report – as well as the audit conducted by the auditors – met the legal requirements. The Supervisory Board examined the dependent company report above all 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 for recording legal transactions and measures subject to disclosure had been put in place. The review did not reveal any indications of objections to the dependent company report. Following the recommendation of the Audit Committee, the Supervisory Board concurred with the result of the audit of the dependent company report conducted by the auditors. Based on the final result of the Supervisory Board's own review of the dependent company report, there are 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 2009 financial year.

Bonn, February 24, 2010
The Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman