



## Supervisory Board's report to the shareholders' meeting 2007.

For Deutsche Telekom AG, the 2006 financial year was marked by the dynamic development of the telecommunications industry and market environment. The change in the Group's forecast for the 2006 financial year announced on August 9, 2006 is one outcome of this development. 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 2006 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 associates. The Supervisory Board also reviewed the current situation of the Company at regular intervals. Decisions of strategic importance were submitted to the Supervisory Board for review and approval. In particular, the development of the business was discussed in all of the Supervisory Board meetings. The Chairman of the Supervisory Board was also informed at regular intervals by the Board of Management, and especially its chair, about business activities and significant events.

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

- The development of the Group's strategy;
- The development of the regulatory and competitive environment, and the resulting actions associated with Group strategy and planning;
- 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 reorganization of responsibilities within the Board of Management and matters relating to the individual members of the Board of Management;
- The development of the subsidiaries and associates of the Group, particularly T-Mobile USA following the acquisition of spectrum to expand the network infrastructure;
- Results of the impairment tests according to FAS 141, 142 that must be carried out in regular intervals under American accounting standards (U.S. GAAP), and review of accounting methods used for intangible assets in accordance with German GAAP;
- Development of staff requirements and workforce levels in the Deutsche Telekom Group;
- Changes in the Group's portfolio of shareholdings, specifically the completed acquisition of tele.ring in Austria, the acquisition of gedas AG, and the legal proceedings to acquire the remaining shares in mobile communications subsidiary PTC in Poland;
- The implementation of the merger of T-Online International AG into Deutsche Telekom AG;
- The status of major projects in the Deutsche Telekom Group, particularly Toll Collect and the Federal Employment Agency project (where Deutsche Telekom employees are assigned to help with the introduction of restructured benefits for the long-term unemployed).

#### **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 all matters relating to the individual members of the Board of Management. It is made up of Dr. Thomas Mirow (from February 3, 2006), Lothar Schröder (from June 29, 2006), Wilhelm Wegner, and Dr. Klaus Zumwinkel (committee chairman). Volker Halsch and Franz Tremel were members of the committee until January 16, 2006 and June 21, 2006 respectively.

The **Finance Committee** deals with complex corporate activities in the areas of finance and business management, which are assigned to it by the chair of the Supervisory Board or the Supervisory Board as a whole for review and advice. The members of the Finance Committee are Lawrence H. Guffey (from September 1, 2006), Dr. Klaus G. Schleder (committee chairman), Wolfgang Schmitt, Lothar Schröder (from June 29, 2006), Bernhard Walter, and Wilhelm Wegner. Dr. Hubertus von Grünberg was a member of the committee from February 3 to August 31, 2006. Volker Halsch and Franz Tremel were members until January 16 and June 21, 2006, respectively.

The **Audit Committee** deals with issues relating to accounting and risk management, the requisite independence of auditors, the award of audit contracts to auditors, the stipulation of the main areas of emphasis of the audit, and fee-setting as well as, within the scope of mandatory German law, all tasks assigned to the Audit Committee under U.S. law for listed companies headquartered outside the United States. The members of the Audit Committee are Lawrence H. Guffey (from September 1, 2006), Dr. Klaus G. Schlede (committee chairman), Wolfgang Schmitt, Lothar Schröder (from June 29, 2006), Bernhard Walter, and Wilhelm Wegner. Dr. Hubertus von Grünberg was a member of the committee from February 3 to August 31, 2006. Volker Halsch and Franz Tremel were members until January 16 and June 21, 2006, respectively.

The **Staff Committee** deals with personnel matters at Deutsche Telekom AG, in particular the Company's staff structure and human resources development and planning. The members of the committee are Dr. Hubertus von Grünberg (from May 15, 2006), Lothar Schröder (from June 29, 2006; committee chairman), Wilhelm Wegner, and Dr. Klaus Zumwinkel. Dr. Dieter Hundt and Franz Tremel (committee chairman) were members of the committee until May 3 and June 21, 2006, respectively.

The **Mediation Committee** required pursuant to § 27(3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG) performs the duties incumbent on it under the law. Its members are Dr. Hubertus von Grünberg (from May 15, 2006), Lothar Schröder (from June 29, 2006), Wilhelm Wegner, and Dr. Klaus Zumwinkel (committee chairman). Dr. Dieter Hundt and Franz Tremel were members of the committee until May 3 and June 21, 2006 respectively.

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

#### **Meetings of the Supervisory Board.**

In the 2006 financial year, the Supervisory Board held four regular meetings and one extraordinary meeting. 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 eleven times during the reporting year. The Audit Committee held six and the Finance Committee one meeting in the 2006 financial year. The Supervisory Board's Staff Committee met twice. There were also four joint meetings of the General and Finance Committees, and one joint meeting of the General and Audit Committees. The Mediation Committee did not meet in 2006. There were no events subject to reporting with regard to the frequency of the Board members' participation in Supervisory Board meetings.

#### **Conflicts of interest.**

Ulrich Hocker has been a member of the Supervisory Board of Deutsche Telekom AG since October 14, 2006. He 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 the valuation of real estate held by Deutsche Telekom AG. 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 chair of the Supervisory Board to determine how to address any 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 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 2006, the Board of Management and Supervisory Board issued their annual declaration of conformity with the Corporate Governance Code. In addition, the Company's corporate governance policy is also presented in a separate chapter of this Annual Report (pp. 19–22).

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

With effect from midnight on November 12, 2006, Kai-Uwe Ricke resigned his position as Chairman of the Board of Management. The Supervisory Board appointed René Obermann as the new Chairman of the Board of Management of Deutsche Telekom AG with effect from November 13, 2006.

On December 5, 2006, Walter Raizner resigned his position as Board member responsible for Broadband/Fixed Network. At its meeting on December 5, 2006, the Supervisory Board appointed Timotheus Höttges as Board member responsible for T-Com and Sales & Service, and Hamid Akhavan as Board member responsible for T-Mobile and Product Development & Innovation, both with effect from December 5, 2006.

With effect from January 1, 2007, Dr. Heinz Klinkhammer resigned his position as Board member responsible for Human Resources and Labor Director of Deutsche Telekom AG. At the meeting of the Supervisory Board on December 5, 2006, Dr. Karl-Gerhard Eick was given temporary responsibility for the Human Resources Board department from January 1, 2007.

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

**Shareholder representatives:** With effect from midnight on January 16, 2006, Volker Halsch resigned his seat on the Supervisory Board. He was succeeded by Dr. Thomas Mirow who was appointed to the Supervisory Board by order of court in accordance with § 104(1) of the German Stock Corporation Act (Aktengesetz – AktG) with effect from January 17, 2006. His appointment by court order was confirmed through a by-election at the shareholders' meeting on May 3, 2006.

The shareholders' meeting on May 3, 2006 marked the end of the tenure of Dr. Dieter Hundt, Hans W. Reich and Prof. Dr. Dieter Stolte. The shareholders' meeting on May 3, 2006 voted Prof. Dr. Wulf von Schimmelmann, Ingrid Matthäus-Maier and Dr. Mathias Döpfner to succeed them on the Supervisory Board.

With effect from midnight on May 31, 2006, Dr. Hans-Jürgen Schinzler resigned his seat on the Supervisory Board. He was replaced by Lawrence H. Guffey who was appointed to the Supervisory Board by order of court in accordance with § 104(1) of the German Stock Corporation Act with effect from June 1, 2006. In accordance with the recommendation in item 5.4.3, sentence 2 of the German Corporate Governance Code, this appointment by court order is to be confirmed in an election at the 2007 shareholders' meeting.

With effect from midnight on October 13, 2006, Dr. Mathias Döpfner resigned his seat on the Supervisory Board. He was replaced by Ulrich Hocker, who was appointed to the Supervisory Board by order of court in accordance with § 104(1) of the German Stock Corporation Act with effect from October 14, 2006. In accordance with the recommendation in item 5.4.3, sentence 2 of the German Corporate Governance Code, this appointment by court order is to be confirmed in an election at the 2007 shareholders' meeting.

**Employee representatives:** With effect from midnight on June 21, 2006, Franz Tremel resigned his seat on the Supervisory Board. He was replaced by Lothar Schröder, who was appointed to the Supervisory Board by court order, with effect from June 22, 2006.

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 2006 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 submitted documents.

The audit firms PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Frankfurt/Main) and Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Stuttgart) audited the annual financial statements of Deutsche Telekom AG, the consolidated financial statements, and the management report of Deutsche Telekom AG and the Deutsche Telekom Group as of December 31, 2006, 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 on February 28, 2007 and the preparatory meeting of the Audit Committee on February 27, 2007.

At its meeting on February 28, 2007, the Supervisory Board was 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.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft 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 in the report is correct;
2. the Company's compensation with respect to the transactions listed in the report was not inappropriately high."

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 PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft.

### **Note regarding information pursuant to §§ 289 (4) and 315 (4) of the German Commercial Code (Handelsgesetzbuch – HGB).**

**Composition of issued capital:** As at December 31, 2006, the share capital of Deutsche Telekom AG amounted to EUR 11,164 million, and was composed of 4,361 million no par value registered ordinary shares. Each share entitles the holder to one vote.

**Restrictions on voting rights and transfer of shares:**

- (a) Restrictions on voting rights conferred by Deutsche Telekom shares apply both to treasury shares and to so-called trust shares:

1,881,508 treasury shares were held at December 31, 2006. No voting rights are attached to the treasury shares.

21,519,255 trust shares were held at December 31, 2006. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trust's existence. The shares issued to the trusts can be sold on the stock exchange on the instructions of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of the acquisition of VoiceStream, Deutsche Telekom AG issued 33,701,977 new shares from authorized capital to trusts, in favor of (i) holders of VoiceStream options entitling them to purchase VoiceStream shares, including employees of VoiceStream to whom options to purchase shares in Deutsche Telekom AG after the closing date may be granted under an agreement between Deutsche Telekom AG and VoiceStream as an incentive to remain with VoiceStream, (ii) holders of conversion rights on VoiceStream shares, and (iii) former holders of VoiceStream shares who exercised their right to a cash settlement as part of the takeover. Deutsche Telekom AG also issued 9,917,284 new shares to trusts in favor of holders of warrants, options and conversion rights entitling them to purchase Powertel shares.

- (b) There are also restrictions on the transfer of shares arising from the agreement between shareholders. The Blackstone Group has given an undertaking to KfW Bankengruppe under a lock-up agreement to retain its shareholding acquired in April 2006 for at least two years. In addition, KfW Bankengruppe has agreed to a one-year lock-up with respect to further sales of its shares in Deutsche Telekom.

**Equity interests exceeding 10 percent of voting rights:** Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group and also its largest operating company. Its shares are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. At December 31, 2006, 63.72 percent of the shares were in free float (2005: 62.51 percent), 14.83 percent were held by the Federal Republic of Germany (2005: 15.40 percent), and 16.87 percent were held by KfW Bankengruppe (2005: 22.09 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 31.70 percent (2005: 37.49 percent).

There are no **shares with special rights conferring powers of control**.

There is no **voting control in accordance with § 289 (4) No. 5 or § 315 (4) No. 5 HGB**.

**Rules on the appointment and dismissal of members of the Board of Management and on amendments to the Articles of Incorporation:** Members of the Board of Management are appointed and dismissed on the basis of §§ 84, 85 AktG. Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG; the Supervisory Board is also authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to make changes that merely affect the wording.

**Authority of the Board of Management to issue and buy back shares:**

- (a) The Articles of Incorporation authorize the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,399,410,734.08 by issuing up to 937,269,818 registered no par value shares for non-cash contributions in the period ending on May 17, 2009 (2004 authorized capital). The Articles of Incorporation also give the Board of Management the authority to increase the share capital, with the consent of the Supervisory Board, by up to EUR 38,400,000 by issuing up to 15,000,000 registered no par value shares for cash and/or non-cash contributions in the period ending on May 2, 2011. The new shares are to be issued for the sole purpose of granting shares to employees of Deutsche Telekom AG and lower-tier affiliated companies (employee shares) (2006 authorized capital).
- (b) The shareholders' meeting on May 3, 2006 authorized the Board of Management to purchase up to 419,807,790 shares in the Company by November 2, 2007, with the amount of share capital accounted for by these shares totaling up to EUR 1,074,707,942.40, subject to the proviso that the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71 d and § 71 e AktG do not at any time account for more than 10 percent of the Company's share capital. The shares may also be purchased by dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or by third parties for the account of Deutsche Telekom AG or for the account of the dependent Group companies of Deutsche Telekom pursuant to § 17 AktG. The purchase may take place without prejudice to the principle of equal treatment through the stock exchange or a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of May 3, 2006, the Board of Management is authorized, with the consent of the Supervisory Board, to redeem Deutsche Telekom AG's shares purchased on the basis of the above authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

**Change of control clauses in key agreements entered into by the Company:** The agreements entered into by Deutsche Telekom AG, which include a clause in the event of a takeover of Deutsche Telekom AG (change of control), principally relate to bilateral credit lines as well as to two loan agreements. In the event of a takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice on it or demand repayment of the loan. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the members of the Toll Collect consortium (DaimlerChrysler Services AG and Cofiroute SA) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder who previously did not hold them, and this change was not approved by the other members of the consortium. § 22 (1) of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) applies by analogy to the allocation of voting rights.

There are no **compensation agreements in the event of a takeover bid**.

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 2006 financial year.

Bonn, February 28, 2007  
The Supervisory Board



Dr. Klaus Zumwinkel  
Vorsitzender