

SUPERVISORY BOARD'S REPORT TO THE 2016 SHAREHOLDERS' MEETING

The 2015 financial year was characterized by the development and implementation of the Group strategy and the Group's transformation in an age of digitization and technological change. Strong development on the domestic German market, excellent business development in the United States, the ongoing difficult macroeconomic situation in southern and eastern Europe and continued high competitive and regulatory pressure were major features in 2015. Despite these ongoing challenges, the Group generated good results in the 2015 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.



SUPERVISORY BOARD ACTIVITIES IN THE 2015 FINANCIAL YEAR

We continually monitored the Board of Management's activities in managing the business and the Group as a whole. Specifically, this 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 kept us regularly informed in good time on corporate strategy, planning, business development of the Group and its segments, the risk situation, risk management, compliance, and any deviations in the business development from original plans, as well as significant business transactions involving the Company and its significant subsidiaries and associates.

The Board of Management fulfilled its duties to inform 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 us with regard to both content and scope. In addition to the reports, we requested and received supplementary information. We reviewed, critically analyzed and verified the plausibility of these reports and other information.

A catalog prepared by the Supervisory Board lists types of transactions and other measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This catalog is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. We met with the Board of Management to discuss and thoroughly review the business transactions and measures presented to us in 2015 for approval in line with the aforementioned document. We approved the transactions and measures submitted for resolution.

The frequency of plenary and committee meetings mean that we are in close contact with the Board of Management. The Board of Management also reports on individual issues in writing or in discussions between the meetings. In addition, the Chairman of the Supervisory Board is in contact with the Chairman of the Board of Management at regular appointments at which current business transactions, strategy issues, planning, business development, the risk situation, risk management, and compliance, as well as other significant events, are discussed.

A total of seven Supervisory Board meetings took place in the 2015 financial year, consisting of four regular and two extraordinary meetings, in addition to a one-day off-site conference in which the Company's strategy was discussed with the Board of Management. The average participation rate at these meetings was 91 percent. Written votes were used where resolutions were required between the meetings.

The focal topic at our extraordinary meeting on February 4, 2015, was the resolution on the sale of the EE joint venture with Orange to British Telecommunications (BT), following which our Company now in turn holds a 12-percent stake in BT. We also approved the Board of Management target achievement for 2014. In addition, we discussed the current political and financial situation in Greece, and obtained information in particular on the effects on our Company of a potential Greek exit from the euro zone.

In the regular meeting on February 25, 2015, in the presence of the external auditor, we dealt with the Company's 2014 annual financial statements and consolidated financial statements, as well as the Group management report, which is combined with the management report of Deutsche Telekom AG. Our approval of the 2014 annual financial statements was based on the recommendation of the Audit Committee, which had previously analyzed the documents in detail. We agreed to the Board of Management's proposal on the appropriation of net income. We also appointed Dr. Christian P. Illek to the position of Chief Human Resources Officer, set out the key content of his employment contract, and approved the agenda for the 2015 shareholders' meeting. The Board of Management reported comprehensively on the current situation and the most important financial and operational KPIs for the Company and its segments, and on Capital Markets Day, which was to take place the following day. In addition, the Board of Management provided information in particular on the upcoming spectrum auction in Germany. We approved the creation of a temporary special committee to support the auction procedure.

In the extraordinary meeting on April 29, 2015, we approved the acquisition of the remaining 49 percent of shares in Slovak Telekom that Deutsche Telekom did not yet own at that time. After Ms. Kolmsee resigned her supervisory board mandate effective April 8, 2015, and Prof. Kaschke was court-appointed at short notice as a member of the Supervisory Board on April 22, 2015, a resolution on the appointment of members to the Audit Committee also took place at this meeting.

In the meeting before the shareholders' meeting on May 20, 2015, the Board of Management reported in detail on the current situation and the financial and operational KPIs of the Company and its segments in the first quarter of 2015. We obtained information on the most important business developments and on the current status of a variety of portfolio topics, such as the process of selling EE to BT and the acquisition of shares in Slovak Telekom, as well as the development of the service situation in Germany with regard to IP migration. In addition, we looked at the development of T-Mobile US and the situation of the market in the United States.

In the meeting on September 1, 2015, we dealt with the implementation of amendments to the law and the German Corporate Governance Code and set out target figures for the number of women on the Board of Management. We also approved a regular limit on terms of office and an adjustment to the regular age limit for the Supervisory Board, and stated that the Supervisory Board will continue to ensure that candidates can dedicate the required amount of time to their Supervisory Board tasks in our Company. The Board of Management reported on the current situation and the financial and operational KPIs in the Company and its segments in the second quarter of 2015, and on the situation in Greece. We dealt in depth with business development in Europe with a particular focus on the strategic, economic and competitive situation of those national companies that exclusively provide mobile communications services. We also approved the sale of the remaining shares in Scout24 as part of an IPO.

During the one-day off-site conference of the Supervisory Board and the Board of Management that took place the following day, we dealt with the Company's strategy. We debated the status of the strategy, discussed individual aspects, and agreed on focal topics for the coming year. In addition, the management of Magyar Telekom illustrated the importance

of our Hungarian company and reported on prior development and future challenges.

In our meeting on December 16, 2015, we voted on a variety of Board of Management remuneration topics and on the reappointment of Ms. Nemat. The Board of Management reported on the current situation and the financial and operational KPIs in the Company and its segments in the third quarter of 2015. A further focus of the meeting was the resolution on the budget for the 2016 financial year and on the annual financial plan. In addition, we acknowledged the medium-term planning 2017–2019. We then dealt with the acquisition of spectrum in the United States in 2016.

In our plenary meetings and in the Audit Committee in particular, we also regularly verified that the Board of Management acted lawfully and ensured compliance with legal provisions and internal standards and policies, for example by setting up a Group-wide compliance organization. We 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 our own reviews and discussed the matter with the external auditors, we came to the conclusion that both the internal control and risk management system and Group-wide risk controlling are functional and effective.

ORGANIZATION OF THE SUPERVISORY BOARD'S ACTIVITIES

To increase the efficiency of our work, and in consideration of the specific requirements we have to fulfill, we have set up the committees listed below, all of which have an equal number of shareholders' and employees' representatives, with the exception of the Nomination Committee. In regard to committee membership, our aim is to achieve regular rotation among the Supervisory Board members. Our objective is also to ensure that the chairperson roles on the committees are occupied by different people. The committees' chairpersons regularly informed us at our plenary meetings of the content and results of committee meetings.

SUPERVISORY BOARD COMMITTEES

General Committee

Prof. Dr. Ulrich Lehner (Chairman)
Josef Bednarski (as of January 1, 2016)
Johannes Geismann
Waltraud Litzemberger (until December 31, 2015)
Lothar Schröder

Finance Committee

Dr. Ulrich Schröder (Chairman)
Josef Bednarski (until December 31, 2015)
Dr. Wulf H. Bernotat
Monika Brandl
Klaus-Dieter Hanas (as of January 1, 2016)
Sylvia Hauke
Karl-Heinz Streibich

Audit Committee

Dr. h. c. Bernhard Walter (Chairman; deceased January 11, 2015)
Dagmar P. Kollmann (Chairwoman as of February 4, 2015; previously member)
Josef Bednarski (as of January 1, 2016)
Johannes Geismann
Hans-Jürgen Kallmeier
Prof. Dr. Michael Kaschke (as of November 1, 2015)
Ines Kolmsee (February 4 – April 8, 2015)
Petra Steffi Kreusel
Prof. Dr. Ulrich Lehner (April 29 – October 31, 2015)
Waltraud Litzemberger (until December 31, 2015)

Staff Committee

Lothar Schröder (Chairman)
Josef Bednarski (as of January 1, 2016)
Dagmar P. Kollmann
Prof. Dr. Ulrich Lehner
Waltraud Litzemberger (until December 31, 2015)

Nomination Committee

Prof. Dr. Ulrich Lehner (Chairman)
Johannes Geismann
Dagmar P. Kollmann

Mediation Committee

Prof. Dr. Ulrich Lehner (Chairman)
Josef Bednarski (as of January 1, 2016)
Dr. Hubertus von Grünberg
Waltraud Litzemberger (until December 31, 2015)
Lothar Schröder

Technology and Innovation Committee

Dr. Hubertus von Grünberg (Chairman)
Sari Baldauf
Lars Hinrichs
Hans-Jürgen Kallmeier
Lothar Schröder
Michael Sommer

Special Committee for u. s. Business

Prof. Dr. Ulrich Lehner (Chairman)
Josef Bednarski
Dr. Wulf H. Bernotat
Sylvia Hauke
Lothar Schröder
Dr. Ulrich Schröder

Special Committee on the Acquisition of Spectrum in Germany (April 1 – June 19, 2015)

Prof. Dr. Ulrich Lehner (Chairman)
Waltraud Litzemberger
Lothar Schröder
Dr. Ulrich Schröder

The **General Committee** met seven times in 2015, one meeting of which was held jointly with the Finance Committee. The committee focused mainly on preparing the recommendations for decision for the plenary meetings in regard to all of the decisions on Board of Management and Supervisory Board matters. In 2015, this included the matter of the appointment of Dr. Christian P. Illek as Board member responsible for Human Resources and the reappointment of Claudia Nemat as Board Member for Europe & Technology. The committee also reviewed the remuneration system and the appropriateness of Board of Management remuneration as scheduled, and revised and updated the reporting obligations of the Board of Management to the Supervisory Board.

The **Finance Committee** held five meetings. One of these meetings was held as a joint meeting with the General Committee. The subject of the meetings was to discuss and hold resolutions throughout the year on the Group investment budget in regard to major projects, such as the spectrum auction in Poland and the introduction of handset leasing at T-Mobile US, both of which took place in 2015. In addition, the Finance Committee also resolved the sale of t-online.de and InteractiveMedia to Ströer SE, following appropriate delegation by the full Supervisory Board.

The **Audit Committee** held a total of five meetings in 2015, one of which was an extraordinary meeting. The external auditor was present at all regular meetings. The Audit Committee's area of responsibility is defined by German legislation and the German Corporate Governance Code. These include, in particular, the quarterly monitoring of the accounting process, the effectiveness of the internal control system, risk management and the internal auditing system, compliance and data privacy. The Audit Committee also handled matters relating to the audit of the Company's financial statements, verified the independence of the external auditor, and monitored the additional services provided by the external auditor, the commissioning of the external auditor, the stipulation of the main focuses of the audit and the agreement on fees. After thorough discussion, the Audit Committee issued a recommendation to us about our suggestion of external auditor to be nominated by the 2015 shareholders' meeting. The Audit Committee also regularly discussed the quarterly report on business development. In the 2015 financial year, the Audit Committee again held its extraordinary meeting on fundamental Group issues in addition to its regular meetings. The agenda for this year's extraordinary meeting mainly dealt with the effectiveness of risk management, new developments in compliance, in data privacy and data security, new audit standards that are of relevance to the Group, e.g., IFRS 15, new responsibilities of the Audit Committee, and current legal developments at German and European level. Dagmar P. Kollmann, Chairwoman 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)). She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures.

The **Staff Committee** held three meetings in 2015 and mainly discussed matters relating to headcount and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budget planning. The committee also dealt with the new strategic focus of the HR department, on which Dr. Christian P. Illek reported as new Chief Human Resources Officer.

The **Nomination Committee** held a total of five meetings in 2015 and dealt with the appointment of a successor to Dr. h. c. Bernhard Walter. Later in the year, the committee dealt with the appointment of a successor to Dr. Hubertus von Grünberg, who is to step down from the Supervisory Board at the close of the 2016 shareholders' meeting.

The **Mediation Committee** to be formed in accordance with § 27 (3) of the Codetermination Act did not meet in 2015.

The **Technology and Innovation Committee** held three meetings in 2015 and dealt with a very broad range of topics from a variety of areas. The committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas.

The **Special Committee for U.S. Business**, formed in May 2014, held one meeting in 2015. In this meeting it dealt in depth with the spectrum auction that is to be held in 2016 in the United States, and what this means for T-Mobile US.

The **Special Committee on the Acquisition of Spectrum in Germany** existed from April 1 to June 19, 2015, and held two meetings in that period. At the meetings, the committee was informed by the Board of Management on the current situation in the auction procedure at that time, and advised the Board of Management.

CONFLICTS OF INTEREST

Johannes Geismann is a member of the Supervisory Board of Deutsche Telekom AG and, at the same time, State Secretary at the Federal Ministry of Finance. Dr. Ulrich Schröder is a member of the Supervisory Board of Deutsche Telekom AG and is also Chairman of the Executive Board at Kreditanstalt für Wiederaufbau (KfW). We are aware that Deutsche Telekom AG is involved in various legal disputes in which the Federal Republic of Germany is the opposing party. There were no conflicts of interest requiring action with any of the aforementioned members of the Supervisory Board. Should a conflict of interest arise, the Supervisory Board members will discuss how to proceed with the Chairman of the Supervisory Board.

CORPORATE GOVERNANCE

The Supervisory Board and Board of Management are aware that good corporate governance 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 on December 30, 2015. 

CHANGES IN THE COMPOSITION OF THE BOARD OF MANAGEMENT

Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015. Claudia Nemat was reappointed as Member of the Board of Management responsible for Europe and Technology, effective October 1, 2016, as per a resolution of December 16, 2015.



The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (PAGES 43 ET SEQ.).



For detailed information on the Supervisory Board members, please refer to Deutsche Telekom AG's website: www.telekom.com/company/supervisory-board/15692

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Shareholders' representatives: Dr. h. c. Bernhard Walter passed away on January 11, 2015. Ines Kolmsee was court-appointed to the Supervisory Board effective January 31, 2015 and resigned her position effective April 8, 2015. Prof. Michael Kaschke, who had been court-appointed to the Supervisory Board with effect from April 22, 2015, was elected to the Supervisory Board by the shareholders' meeting on May 21, 2015. Due to the short notice of his appointment, he was able to take part in less than half of the meetings during his period of office in the 2015 financial year. The shareholders' meeting on May 21, 2015, elected Dr. Wulf H. Bernotat to the Supervisory Board for another term of office. □

Employee representatives: There were no changes on the employee representative side in the 2015 financial year. Waltraud Litzenberger resigned her position effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board effective January 1, 2016.

The Supervisory Board would like to thank all of the former members for their valuable support. In particular, we would like to thank Ms. Litzenberger for her many years of valuable activities in the interests of the Company.

REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

The Board of Management submitted the annual financial statements and the 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 us in good time.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2015 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, 2015, 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, 2015, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document.

Before the Audit Committee passed a resolution on its recommendation to the Supervisory Board for the proposal for election to be submitted to the shareholders' meeting, the external auditor confirmed that there are no business, financial, personal or other relationships between itself, its executive bodies and audit managers on the one hand and the Company and its executive body members on the other that may cast doubt on its independence. The auditor also stated to what extent other services were rendered for the Company in the previous financial year and to what extent such services have been contracted for the following year. On this basis, the Audit Committee verified and confirmed the external auditor's requisite independence. It informed us of the outcome of this

review before we prepared our resolution to propose to the shareholders' meeting the appointment of said independent auditor.

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on February 23 and 24, 2016, respectively, that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the auditor also reported on any services rendered in addition to auditing services. In the Supervisory Board meeting on February 24, 2016, the Audit Committee informed us about its monitoring of the auditor's independence while taking account of the non-audit services provided and about its conclusion that the auditor continues to be independent as necessary.

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

We conducted our own review of the documents submitted by the Board of Management and the external auditor's audit reports.

In preparation, the Audit Committee had 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 by the Board of Management to the members of the Audit Committee at its meeting on February 23, 2016. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor explained its audit, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of its audit, and its audit report. The external auditor did not identify any material weaknesses in the internal control system at Group level, in the risk management system, or in the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the independent auditor met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems at Group level. The Audit Committee recommended that we approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, that we approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and support the Board of Management's proposal for the appropriation of net income.

We 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 24, 2016, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered our questions. The external auditor also attended this meeting and reported on its audit and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit and the audit report were compliant. We followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

Based on the final outcome of our review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income, no objections need be raised. The same applies to the Corporate Governance Statement even insofar as it is not to be audited by the external auditor. We followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements.

The approval of the Supervisory Board constitutes 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 dealing with the budget and medium-term planning on December 16, 2015, we conducted an in-depth examination of 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 23, 2016 and by the Supervisory Board on February 24, 2016. The external auditor was present at both meetings. We followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 2,522.8 million and to carry forward EUR 1,775.3 million to unappropriated net income.

REVIEW OF THE DEPENDENT COMPANY REPORT

The Board of Management presented its dependent company report for the 2015 financial year to us in good time.

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

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

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

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

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

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 23, 2016, 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 auditor, who also attended the meeting, reported on its audit, in particular its key audit areas and the significant results of its audit, and explained its audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the independent auditor met the legal requirements. The Audit Committee recommended that we approve the results presented by the external auditor and, as the committee saw no grounds for objections to the Board of Management's declaration on the dependent company report, that we pass a corresponding resolution.

We performed the final review at our meeting on February 24, 2016, taking into account the resolution and the Audit Committee's recommendation as well as the external auditor's report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered our questions. The external auditor also attended this meeting and reported on its audit of the dependent company report and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit of the dependent company report and the audit report were compliant. In particular, we were satisfied that the audit report and the audit conducted by the independent auditor met the legal requirements. We did not find any indications of discrepancies, incompleteness, or any other objections as part of our review. We were also satisfied 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. We followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of our review of the dependent company report, we have no objections to the Board of Management's declaration on the dependent company report.

We would like to thank the members of the Board of Management, the members of the works councils and all of Deutsche Telekom's employees for their commitment and dedication in the 2015 financial year.

Bonn, February 24, 2016
The Supervisory Board



Prof. Dr. Ulrich Lehner
Chairman