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SUPERVISORY BOARD'S REPORT TO THE 2017 SHAREHOLDERS' MEETING

The 2016 financial year was again 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. Despite these ongoing challenges, the Group generated good results in the 2016 financial year and fulfilled 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 2016 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 different 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.

The Rules of Procedure of the Board of Management and Supervisory Board include a list of transactions and measures for which the Board of Management has to obtain approval from the Supervisory Board. We met with the Board of Management to discuss and thoroughly review the business transactions and measures presented to us in the 2016 financial year 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.

In the 2016 financial year, six Supervisory Board meetings, a one-day off-site conference, and 22 meetings of the Supervisory Board committees took place. The overall average participation rate was 98 percent. Written votes were used where resolutions were required between the meetings.

In the Supervisory Board meeting on February 24, 2016, in the presence of the external auditor, we dealt with Deutsche Telekom AG's annual financial statements and the 2015 consolidated financial statements, as well as the combined management report. Our approval of the 2015 annual financial statements was based on the recommendation of the Audit Committee, which had previously checked the documents in detail. We agreed to the Board of Management's proposal on the appropriation of net income. We also approved the agenda for the 2016 shareholders' meeting and the proposal to the shareholders' meeting that the vacant position on the Supervisory Board following the resignation of Dr. Hubertus von Grünberg be filled by Dr. Helga Jung. In addition, we dealt with the results of the Supervisory Board's self-evaluation for 2015, service quality in Germany, the rights to broadcast German soccer league games, and the development of business at T-Mobile Netherlands. The Board of Management reported comprehensively on the current situation and the most important financial and operational KPIs for the Company and its segments.

In the meeting before the shareholders' meeting on May 24, 2016, 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 2016. We dealt with the most important business developments and in particular with the development of T-Mobile Polska. We also approved the decision of the Board of Management on the utilization of authorized capital in connection with the offer of a share dividend.

In the meeting on June 30, 2016, we dealt with matters concerning the Board of Management and decided to expand the Board of Management with the addition of the new Technology and Innovation Board department. The new department will be headed by Claudia Nemat effective January 1, 2017, who was previously responsible for the Europe and Technology department. We also appointed Srinji Gopalan the new Board member responsible for Europe, effective January 1, 2017.

In the meeting on August 30, 2016, the Board of Management reported on the current situation and the financial and operational KPIs of the Company and its segments in the second quarter of 2016. We also reappointed Dr. Thomas Kremer effective June 1, 2017.

During the one-day off-site conference of the Supervisory Board and the Board of Management that was held 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. We were also given a market and competition analysis by an external expert.

In the Supervisory Board meeting on November 3, 2016, we adopted resolutions on the sale of Strato AG and on a change in the schedule of responsibilities of the Board of Management.

In our meeting on December 14, 2016, we adopted resolutions on a variety of Board of Management remuneration topics, such as target achievement for variable compensation, and on the reappointment of Reinhard Clemens. 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 2016. A further focus of the meeting was the resolution on the budget for the 2017 financial year and on the annual financial plan. We also acknowledged the medium-term planning for 2018 to 2020 and dealt with the Group risk report.

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 system that had been introduced. Based on our own reviews and on the audit reports from the external auditors, we came to the conclusion that the internal control and risk management system is 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 members. The committees' chairpersons regularly reported to us at our plenary meetings on 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
Lothar Schröder

Finance Committee

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

Audit Committee

Dagmar P. Kollmann (Chairwoman)
Josef Bednarski (as of January 1, 2016)
Johannes Geismann
Hans-Jürgen Kallmeier
Prof. Dr. Michael Kaschke
Petra Steffi Kreusel

Staff Committee

Lothar Schröder (Chairman)
Josef Bednarski (as of January 1, 2016)
Dagmar P. Kollmann
Prof. Dr. Ulrich Lehner

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)
Johannes Geismann (as of May 25, 2016, at the close of the shareholders' meeting)
Dr. Hubertus von Grünberg (until May 25, 2016, at the close of the shareholders' meeting)
Lothar Schröder

Technology and Innovation Committee

Lothar Schröder (Chairman as of May 25, 2016, at the close of the shareholders' meeting, previously member)
Dr. Hubertus von Grünberg (Chairman until May 25, 2016, at the close of the shareholders' meeting)
Sari Baldauf
Lars Hinrichs
Hans-Jürgen Kallmeier
Michael Sommer
Karl-Heinz Streibich (as of May 25, 2016, at the close of the shareholders' meeting)

Special Committee for U. S. Business

Prof. Dr. Ulrich Lehner (Chairman)
Dr. Wulf H. Bernotat
Sylvia Hauke
Lothar Schröder
Dr. Ulrich Schröder
Sibylle Spoo (as of January 1, 2016)

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The **General Committee** met nine times in 2016, 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 2016, this also included the question of expanding the Board of Management with the addition of the Technology and Innovation Board department, which was created effective January 1, 2017, and is headed by Claudia Nemat, previously responsible for the Europe and Technology Board department. The committee also dealt with the appointment of Srinu Gopalan as the new member of the Board of Management responsible for the Europe Board department effective January 1, 2017. 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. In the joint meeting with the Finance Committee, the General Committee dealt in particular with the 2017 budget and the medium-term planning for 2018 to 2020.

The **Finance Committee** held three meetings, one of which was together with the General Committee. One meeting dealt with increasing the investment budget in connection with a spectrum auction. In another meeting, the committee dealt with general topics such as interest and foreign currency management, pension obligations, and ratings. In the joint meeting with the General Committee, the Finance Committee discussed the 2017 annual financial plan in particular.

The **Audit Committee** held a total of six meetings in 2016. The external auditor was present at five of these meetings. The Audit Committee's area of responsibility is defined by German legislation and the German Corporate Governance Code. It includes, in particular, the quarterly monitoring of accounting, 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, in particular selecting and ensuring 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 2016 shareholders' meeting. The Audit Committee also regularly discussed the quarterly report on business development. In the 2016 financial year, the Audit Committee again held one meeting on fundamental issues affecting the Group.

At this meeting, the Committee dealt in particular with the effectiveness of the reporting system and the development of the report structure, the effectiveness of the internal control system and the compliance management system, and new legal requirements affecting the Audit Committee as well as current legal developments at German and European level. In addition, as well as its meetings, the Audit Committee also met to discuss the topic of EU audit reform and accounting standards (IFRS 15 and IFRS 16). At the meeting on December 13, 2016, the Audit Committee revised its Rules of Procedure and adapted these to the stipulations of the Audit Reform Act.

Dagmar P. Kollmann, Chairwoman of the Audit Committee, has expert knowledge of accounting and auditing. She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. She is independent, and is not a former member of the Board of Management of Deutsche Telekom AG. Like the members of the full Supervisory Board, the members of the Audit Committee overall are very familiar with the sector in which Deutsche Telekom AG is active.

The **Staff Committee** held two meetings in 2016 and mainly discussed matters relating to headcount and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on the 2017 budget. The committee also dealt with topics including the future training concept, management succession planning, and early retirement for civil servants. In addition, it discussed the Group's diversity strategy.

The **Nomination Committee** met once in 2016, on December 1, 2016. In this meeting it dealt with succession planning for the Supervisory Board.

The **Mediation Committee** to be formed in accordance with § 27 (3) of the Codetermination Act did not meet in 2016.


The **Technology and Innovation Committee** held two meetings in 2016 and dealt with a very broad range of topics from a variety of areas, such as artificial intelligence. 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** did not meet in 2016.

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 CEO 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, 2016. 

CHANGES IN THE COMPOSITION OF THE BOARD OF MANAGEMENT

As of January 1, 2017, the Board departments increased to eight with the addition of the Technology and Innovation Board department. The new department is headed by Claudia Nemat as of January 1, 2017, who was previously responsible for the Europe and Technology department. Europe and Technology continues to exist as the Europe Board department. Srinji Gopalan was appointed new member of the Board of Management responsible for the Europe Board department effective January 1, 2017. Dr. Thomas Kremer was reappointed as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance effective June 1, 2017 as per a resolution of August 30, 2016. Reinhard Clemens was reappointed as member of the Board of Management responsible for T-Systems effective December 1, 2017 as per a resolution of December 14, 2016.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Shareholders' representatives: Dr. Hubertus von Grünberg's term of office on the Supervisory Board expired at the end of the shareholders' meeting on May 25, 2016. Dr. Helga Jung was elected to the Supervisory Board by the shareholders' meeting on May 25, 2016. 

Employees' representatives: Nicole Koch was court-appointed to the Supervisory Board of Deutsche Telekom AG 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 Dr. von Grünberg for his 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 2016 FINANCIAL YEAR

The Board of Management submitted the annual financial statements, the consolidated financial statements, and the combined 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 2016 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, 2016, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the combined management report, as well as the consolidated financial statements as of December 31, 2016, 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 combined 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 non-audit 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 28 and March 1, 2017, 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 March 1, 2017, the Audit Committee informed us about its monitoring of the auditor's independence while taking account of the non-audit services provided, and of 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.



The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report, page 11 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

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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, 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 28, 2017. 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 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, as well as the Board of Management's proposal for the appropriation of net income, on March 1, 2017, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. 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, 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. It followed the Audit Committee's recommendation and approved these documents.

When dealing with the budget and medium-term planning on December 14, 2016, 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 28, 2017 and by the Supervisory Board on March 1, 2017. 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 2,794.4 million and to carry forward EUR 1,000.7 million to unappropriated net income.

REVIEW OF THE DEPENDENT COMPANY REPORT

The Board of Management presented its dependent company report for the 2016 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 28, 2017, the Audit Committee asked 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 statement on the dependent company report, that we pass a corresponding resolution.

We performed the final review at our meeting on March 1, 2017, 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 statement on the dependent company report.

We would like to thank the members of the Board of Management, all of Deutsche Telekom's employees and the works committees for their commitment and dedication in the 2016 financial year.

Bonn, March 1, 2017
The Supervisory Board



Prof. Dr. Ulrich Lehner
Chairman