



LIFE IS FOR SHARING.

**RULES OF PROCEDURE FOR THE  
AUDIT COMMITTEE OF THE SUPERVISORY BOARD  
OF  
DEUTSCHE TELEKOM AG**

Last revised: December 30, 2020

The Audit Committee adopts the following Rules of Procedure in accordance with § 11 (6) of the Rules of Procedure of the Supervisory Board of Deutsche Telekom AG (DTAG):

## **§ 1 General**

- (1) The Audit Committee of the Supervisory Board of DTAG has been formed on the basis of § 7 (1), no. 4 of the Rules of Procedure of the Supervisory Board of DTAG. Where these Rules of Procedure do not stipulate otherwise, the regulations laid down in the Rules of Procedure of the Supervisory Board of DTAG shall apply accordingly.
- (2) The Rules of Procedure of the Audit Committee govern the duties and responsibilities of the Committee resulting from the applicable legal provisions, the Articles of Incorporation, the Rules of Procedure and resolutions passed by the Supervisory Board of DTAG, taking into account the requirements set out in the German Corporate Governance Code.

## **§ 2 Members and Chair of the Committee**

- (1) The Audit Committee shall have equal representation. It shall consist of 6 members. The members and the Chair<sup>1</sup> of the Audit Committee shall be appointed by the Supervisory Board from amongst its members by majority of the votes cast.
- (2) All members of the Audit Committee must be very familiar with the sector in which the company is active. At least one member of the Audit Committee must have expertise in the areas of accounting or auditing.
- (3) Unless there are special reasons for this being the case, the Chair of the Supervisory Board shall not simultaneously be Chair of the Audit Committee. The Chair of the Audit Committee shall be a shareholders' representative on the Supervisory Board and shall have specialist knowledge and experience in the application of accounting principles and internal control processes, as well as be familiar with the audit of the financial statements. He should be independent of the company, the Board of Management, and the controlling shareholder.

## **§ 3 Summary of the tasks of the Audit Committee**

- (1) The tasks of the Audit Committee derive from the applicable statutory provisions, from these Rules of Procedure and from the resolutions passed by the Supervisory Board, taking into account the German Corporate Governance Code.
- (2) The Audit Committee shall deal with auditing the accounts and monitoring
  - (a) the accounting process;

---

<sup>1</sup> For reasons of linguistic clarity, masculine pronouns are used throughout the Rules of Procedure. These pronouns nonetheless refer to both genders.

- (b) the effectiveness of the internal control system, the risk management system, and the internal auditing system;
- (c) the auditing, specifically the selection and rotation, performance, suitability, and independence of the auditor, of the annual financial statements and consolidated financial statements of DTAG, the audit fee, and any additional service provided by the auditor, taking into account the appropriateness of all non-audit services provided for the Group;
- (d) compliance, including the compliance management system.

#### **§ 4**

#### **Preparatory tasks of the Audit Committee**

- (1) The Audit Committee shall prepare the negotiations and resolutions of the Supervisory Board on the audit and adoption of the annual financial statements and the management report, on the proposal by the Board of Management on the appropriation of net income, and on the approval of the consolidated financial statements and the Group management report, the audit of the electronic copies – created for the purpose of disclosure – of the aforementioned financial statements and management reports (“ESEF<sup>2</sup> documents”), as well as the audit of the non-financial (Group) statement. The Audit Committee shall make the relevant recommendations for resolution to the Supervisory Board.

The Audit Committee shall discuss the audit reports with the Board of Management and the auditor. It shall discuss the audit procedure, the main focuses of the audit, and the audit methods with the external auditor, receive the audit reports from the external auditor regarding the audit results, including with regard to the internal control and risk management system for the accounting process, and discuss the findings with the Board of Management and the external auditor. Together with the commissioned external auditor, it shall – where necessary – also discuss his result of the review/audit of the non-financial (Group) statement.

- (2) The Audit Committee shall prepare the negotiations and resolutions of the Supervisory Board on the recommendation to the shareholders' meeting for the election of an external auditor and shall submit a recommendation to the Supervisory Board accordingly. If the audit of financial statements is put out for tender based on legal requirements, this recommendation must contain a minimum of two proposals for the external auditor, stating a justified preference. In such cases, the Audit Committee shall be responsible for the tender process.
- (3) To draw up its proposal in accordance with (1) and (2) above, the Audit Committee shall regularly assess the quality of the audit of the financial statement and the suitability of the external auditor. The Audit Committee shall discuss the risks with regard to the independence of the external auditor, including taking into account the total fees paid to the auditor, as well as the protective measures applied and documented by the external auditor to minimize this risk, with the external auditor.

---

<sup>2</sup> European Single Electronic Format

To this end, the Audit Committee shall receive a written statement each year from the external auditor for the purpose of assessing its independence. This statement shall contain the following information as a minimum:

- (a) A statement that the auditor or the audit company, auditing partner, and the members of the higher level of management, as well as the supervisory personnel responsible for carrying out the audit are independent of the audited company;
  - (b) The extent to which, in the previous financial year, non-audit services were rendered for the Group, and the extent to which such services have been contracted for the current financial year;
  - (c) Confirmation that the external auditor responsible for the audit of the annual financial statements and consolidated financial statements of DTAG in the respective financial year has not provided audit services in a similar function for more than the preceding six business years;
  - (d) Confirmation that no prohibited non-audit services as set out in the Audit Committee's Policy for Commissioning Auditor Services were performed.
- (4) The specific requirements regarding the tender process and the selection process for the appointment of the external auditor are to be dealt with in a separate Audit Committee guideline that is to be adopted on the "Selection process for the appointment of the external auditor" (Annex 1).

### **§ 5 Concluding tasks of the Audit Committee**

The Audit Committee shall deal conclusively with the subjects listed below and shall adopt resolutions on these as required:

- (1) The Audit Committee shall monitor the effectiveness of the internal control system, the compliance management system, and the risk management system by considering the essential questions and significant issues. Alongside financial risks, the presentation of risks should also include reputational risks. In addition, the Audit Committee shall also deal with legal disputes, data privacy, as well as cybersecurity and the resulting risks for the Group. It shall deal with internal auditing and fraud reporting. The Audit Committee shall discuss these topics with the Board of Management, particularly with regard to the accounting process.
- (2) The Audit Committee shall also discuss individual topics of Group-wide significance with the Board of Management, where these are relevant to accounting in the annual financial statements and the consolidated financial statements, to the management report and the Group management report and its functions in accordance with (1).
- (3) The Audit Committee shall audit the accounts and monitor the accounting process. It shall discuss in particular the handling of essential topics such as the use of new accounting standards or the changing

of those used to date, together with accounting options exercised. The Audit Committee can put forward recommendations or proposals to the Supervisory Board for safeguarding the integrity (compliance) of the accounting process.

- (4) The Audit Committee shall discuss the condensed financial statements, the interim report and other financial reports drawn up in the course of the year, including the external auditor's report, with the Board of Management and the external auditor. The Audit Committee shall have information submitted to it by the Board of Management as soon as possible about significant off balance-sheet transactions and other significant financial measures and transactions that are not covered by the annual financial statements or the consolidated financial statements.
- (5) In implementing the resolution of the shareholders' meeting on the selection of the external auditor, the Audit Committee shall commission the external auditor to carry out the audit of the annual and consolidated financial statements, including the relevant management reports, as well as the review of the condensed financial statements and the interim management report, and other financial reports drawn up in the course of the year. The audit engagement shall set out the specific details of the scope of audit, the audit planning and methods, the focal points of the audit set out by the Audit Committee, the agreement on fees, and the external auditor's obligation to provide information.

As part of the audit engagement, the Audit Committee and the external auditor in particular agree

- (a) that the Chair of the Audit Committee shall be informed immediately if, during the financial year at the end of which the financial statements to be audited are prepared or during the audit of the financial statements, reasons – especially relationships of a business, financial, or personal nature – occur that give rise to concerns of bias;
- (b) that the external auditor shall immediately report on all significant findings and incidents which emerge during the audit and which have a direct bearing on the Supervisory Board's tasks;
- (c) that the external auditor shall report on all accounting activities and principles which the auditors consider to be critical and on all alternative accounting options under the accounting standards applying for Deutsche Telekom, which were discussed with the management;
- (d) that the external auditor shall deliver to the Audit Committee any other significant correspondence conducted with the Board of Management, for instance a summary of differences of opinion not yet resolved between the Board of Management and the external auditor;
- (e) that the external auditor shall report significant differences of opinion between the Board of Management and the external auditor if the underlying facts and circumstances have not been documented in writing;

- (f) that the external auditor shall advise the Audit Committee and make a note in the audit report of any facts discovered during the audit which might indicate a discrepancy in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board; and
- (g) that the external auditor shall inform the Audit Committee of all other circumstances which, in particular in accordance with EU Regulation no. 537/2014 on the audit of financial statements, are to be legally disclosed or reported to the Audit Committee.

The Audit Committee is empowered to appoint the external auditor on behalf of the Supervisory Board. In its external relationship DTAG is, in this respect, represented by the Chair of the Audit Committee and the Chair of the Supervisory Board.

- (6) The commissioning of all services of the external auditor and all members of its network<sup>3</sup> shall require the prior agreement of the Audit Committee. The Audit Committee shall set out which audit services and non-audit services are agreed in advance ("pre-approval") in the "Policy for Commissioning Auditor Services" (Annex 2), which is to be resolved separately. In addition, at the start of the financial year, the Audit Committee shall set out the relevant fee caps and shall review the relevant service categories. Specific prior approval by the Audit Committee is necessary before the fee caps set by same may be exceeded.
- (7) The Audit Committee shall receive regular reports on all of the services provided by the external auditor, including those performed at subsidiaries of the Deutsche Telekom Group, the fees agreed for these services, and the cost incurred. In addition, the Audit Committee shall receive regular reports on the scope of the non-audit services provided and the resulting ratio of permissible non-audit services to audit fees for Group companies that are public-interest entities.

### **§ 6 Right to information on the part of the Audit Committee**

- (1) For the purpose of fulfilling the task assigned to it, the Audit Committee is entitled to obtain all necessary information from the external auditor and from the Board of Management and to request the Board of Management to submit the company's business documents.<sup>4</sup>
- (2) The Audit Committee can authorize the Chair of the Audit Committee to exercise the rights assigned to the Audit Committee in (1) alone. It is the obligation of the Chair of the Audit Committee to report in sufficient scope to the members of the Audit Committee on the information provided to him.
- (3) The Audit Committee shall have the right to commission independent advisors insofar as is necessary in connection with conducting the duties of the Audit Committee.

---

<sup>3</sup> For the definition of the term "network," see § 319b of the German Commercial Code.

<sup>4</sup> Further rights to information are regulated in a gatekeeper agreement, most recently from December 12, 2016, between the Chair of the Audit Committee and the Board of Management.

## **§ 7 Meetings**

- (1) The meetings of the Audit Committee shall take place at least four times per year. The procedural rules set out in the Rules of Procedure of the Supervisory Board shall apply analogously to convening and conducting meetings and making resolutions.
- (2) In addition to the members of the Audit Committee, the member of the Board of Management for Finance, the member of the Board of Management for Human Resources and Legal Affairs, and the external auditor of the consolidated financial statements generally attend the meetings of the Audit Committee. The Chair of the Audit Committee may request other members of the Board of Management or other persons providing information to attend the meetings.
- (3) The Office of the Supervisory Board shall produce minutes of each meeting of the Audit Committee, which are to be signed by the meeting chair and provided to the members of the Audit Committee and the members of the Supervisory Board for information.

## **§ 8 Reporting to the Supervisory Board**

- (1) The Chair of the Audit Committee shall report regularly to the Supervisory Board on the work and the meetings of the Audit Committee, and in particular on the results of the audit of the financial statements, the contribution that the audit of the financial statements made to the integrity (compliance) of the accounting process, and the role that the Audit Committee played in the auditing process.
- (2) The Audit Committee shall review the efficiency of its work regularly and shall report to the Supervisory Board accordingly.

## Guidelines for the Tender of the Statutory Audit

Last revised: May 19, 2017



# Contents

	Page	
1	General information	3
2	Responsibilities in the tendering and selection process	3
3	Reasons for a tender	4
4	Criteria for the selection procedure	4
5	Tendering process	5
	5.1 Organization of the tendering and selection process by the Audit Committee;	
	5.2 Decision to tender the statutory audit;	
	5.3 Definition of requirements and corresponding selection criteria;	
	5.4 Preparation of the tender documents;	
	5.5 Queries and briefings;	
	5.6 Written proposal;	
	5.7 Presentations;	
	5.8 Evaluation of other sources of information;	
	5.9 Selection;	
	5.10 Recommendation by the Audit Committee to the Supervisory Board;	
6	Proposal by the Supervisory Board to the shareholders' meeting	13
7	Communication of the selection	13
8	Supervision of the selection procedure	14
9	Documentation	14

# 1 General information

The legal bases for the audit reform entered into force on June 17, 2016. This reform is comprised of four parts: the EU Audit Regulation<sup>1</sup> and the revised EU Audit Directive<sup>2</sup> as well as two national transposition measures, the German Audit Reform Act<sup>3</sup> and the German Auditor Oversight Reform Act<sup>4</sup>.

The EU Audit Regulation contains detailed specifications for public-interest entities, which include publicly listed companies, on the procedure for selecting the auditor (Article 16 of Regulation (EU) No 537/2014). Maximum durations of the period of uninterrupted engagement of the same audit firm or the same statutory auditor are also defined (Article 16 of Regulation (EU) No 537/2014). Some of these specifications have been transposed into national law (German Commercial Code, HGB) through the Audit Reform Act; in other cases, Regulation (EU) No 537/2014 applies directly.

The objective of these Guidelines is to outline the requirements for the tender of the statutory audit introduced by the audit reform and the implementation of the tendering and proposal procedure. The Guidelines also include a concept for practical organization of the tendering and selection procedure.

## 2 Responsibilities in the tendering and selection process

The Audit Committee is responsible for the selection procedure and its organization in conformity with the law (Article 16 (3) subparagraph 2 of Regulation (EU) No 537/2014). Accordingly, the Audit Committee is required to make all major decisions for the selection procedure and take responsibility for these.

The important decisions that the Audit Committee is required to make itself include the questions

- for which financial year a tender is to be carried out,
- which are the key data for the tendering process and its organization,
- which minimum requirements and selection criteria are to be defined,
- to what extent these criteria will be weighted,
- how its personal assessment—at least of the shortlisted applicants—will be ensured and how the report on the selection procedure and the conclusions drawn by the entity will be validated, and
- which (at a minimum) two statutory auditors or audit firms will be recommended to the Supervisory Board.

A clearly defined internal procedure for the tender process is a prerequisite for efficient and proper conduct of the selection procedure. The Audit Committee needs adequate resources to be able to comply with its legal responsibilities. For example, it is possible to transfer the organization of the selection procedure to the entity to be audited, thus drawing on the resources of the audited entity. The Audit Committee is therefore free to delegate certain steps in the selection process to a project group composed of staff/resources from relevant units, e.g., from the accounting, legal and procurement units, at the entity to be audited. The responsibilities of the parties involved in the process should be defined by the Audit Committee and agreed with the people involved.

---

<sup>1</sup>Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (L 158/77 dated May 27, 2014).

<sup>2</sup>Directive 2014/56/EU of the European Parliament and of the Council of April 16, 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (L 158/196 dated May 27, 2014).

<sup>3</sup>Act Implementing the Audit-related Provisions of Directive 2014/56/EU and Implementing the Corresponding Requirements of Regulation (EU) No 537/2014 in relation to the Statutory Audit of Public-Interest Entities (Audit Reform Act – AReG) dated May 10, 2016, Federal Law Gazette I 2016 dated May 17, 2016, p. 1,142

<sup>4</sup>Act Implementing the Audit-related Provisions of Directive 2014/56/EU and Implementing the Corresponding Requirements of Regulation (EU) No 537/2014 in relation to the Statutory Audit of Public-Interest Entities (Audit Oversight Reform Act – APAREG) dated March 31, 2016, Federal Law Gazette I 2016 dated April 5, 2016

However, the possibility of delegating individual steps in the procedure to a project group does not release the Audit Committee from its general responsibility for the tendering and selection process. The Audit Committee is required to ensure at all times that it remains "dominus litis" and makes all major decisions itself.

### 3 Reasons for a tender

One of the reasons for a tender may be that the **ten-year maximum duration of the audit engagement is expiring** and is to be extended by conducting a tender (Article 17 (4) (a) of Regulation (EU) No 537/2014 and § 318 (1a) HGB).<sup>5</sup> In this case, § 318 (1a) HGB calls for a selection and proposal procedure for the eleventh financial year in accordance with the requirements of Article 16 (2) to (5) of Regulation (EU) No 537/2014. Regulation (EU) No 537/2014 sets out that a "public tendering process" is required for the extension option (Article 17 (4) (a) of Regulation (EU) No 537/2014). In a public tendering process, each statutory auditor or audit firm must be given the opportunity to become aware of the fact that the entity is calling for tenders (publication of the tender notice). The form the publication must take is not specified. A notice in the Federal Gazette (Bundesanzeiger) or publication on the company's homepage, for example, might be considered.

Another reason for a tender may be that regardless of whether the maximum duration was reached **a new auditor is to be appointed for other reasons**. In this case, too, a selection procedure pursuant to Article 16 of Regulation (EU) No 537/2014 must be carried out, but here the tender is not required to be "public" within the meaning of Regulation (EU) No 537/2014.

Only in the case of **renewal of an audit engagement** (reappointment of the existing statutory auditor or audit firm within the permissible maximum duration) is the entity not required to follow a selection procedure (see Article 16 (3) sentence 1 of Regulation (EU) No 537/2014). However, this does not prevent a selection process pursuant to Article 16 of Regulation (EU) No 537/2014 from being conducted before the expiry of the maximum duration to assess the capability of the statutory auditor or audit firm versus the competition, for example.

For convenience, the criteria for the tendering and selection process in accordance with Article 16 of Regulation (EU) No 537/2014 are summarized below in Section 4 of these Guidelines. The individual steps in the tendering process are then outlined in detail in Section 5.

### 4 Criteria for the tendering and selection process

Article 16 of Regulation (EU) No 537/2014 sets out detailed criteria for the procedure for selecting the statutory auditor or audit firm. Specifications for the selection procedure are provided in Article 16 (3) subparagraph 1 (a) – (f) of Regulation (EU) No 537/2014. These criteria are summarized below:

1. When statutory auditors or audit firms are invited to submit proposals, care must be taken that an appointment of the statutory auditor or audit firm does not infringe the regulations on external rotation (maximum duration and cooling-off) ((a), case 1).
2. The invitation of statutory auditors or audit firms to submit proposals must not "in any way" preclude the participation in the selection procedure of firms which received less than 15 percent of the total audit fees paid by PIEs<sup>6</sup> in the Member State concerned in the previous calendar year ((a), case 2).

<sup>5</sup>Since Directive 2014/56/EU and Regulation (EU) No 537/2014 took effect on June 16, 2014, entities have also been required to comply with the transitional provisions on maximum durations of the uninterrupted audit engagement (mandatory rotation). Depending on the duration of the existing audit engagement at the time the Directive and Regulation entered into force, entities may only be required to rotate once at most. From then on, only the requirements governing permissible maximum durations are relevant.

<sup>6</sup>Public-interest entities (hereinafter referred to as "PIE")

3. The entity's tender documents must allow the invited statutory auditors or audit firms to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents must contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by the statutory auditors or audit firms (b).
4. The audited entity is free to determine the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure (c).
5. The quality standards to be complied with as stipulated by the Auditor Oversight Body must be included in the tender documents (d).
6. The audited entity must evaluate the proposals made by the statutory auditors or the audit firms in accordance with the selection criteria predefined in the tender documents. The audited entity must prepare a report on the conclusions of the selection procedure. All findings or conclusions of the inspection reports on the applicant statutory auditor or audit firm published by the competent authority must be taken into consideration (e).
7. The audited entity must be able to demonstrate to the Auditor Oversight Body upon request that the selection procedure was conducted in a fair manner (f).

In the case of a tender for the audit of consolidated financial statements, it is important to note that the requirements of Regulation (EU) No 537/2014 also apply to the subsidiaries in the EU Member States provided the subsidiaries there are public-interest entities. Depending on the exercise of Member State options granted to the Member States by Regulation (EU) No 537/2014, different rotation cycles and other national regulations must be complied with, based on where the subsidiary has its registered office.

## 5 Tendering process

### 5.1 Organization of the tendering and selection process by the Audit Committee

For a legally compliant tendering process, the following steps must be followed:

1. Decision to tender the statutory audit;
2. Definition of requirements and corresponding selection criteria;
3. Preparation and dispatch of tender documents;
4. Response to queries and conduct of briefings;
5. Submission of written proposals by the audit firms;
6. Presentations by the audit firms;
7. Evaluation of the proposals and selection.

The Audit Committee is required to ensure that the entire selection procedure is conducted in a fair manner with transparent and non-discriminatory selection criteria (see Article 16 (3) subparagraph 2 in conjunction with subparagraph 1 (c) sentence 3 (f) of Regulation (EU) No 537/2014).

To conduct the selection and tendering procedure, the Audit Committee has three possible options:

1. The Audit Committee independently performs all steps in the process/activities in the procedure.
2. The Audit Committee limits itself to performing all steps/activities for which it has sole responsibility and delegates all of the remaining steps/activities to a project group.
3. The Audit Committee forms a project group and decides in a goal-oriented manner which additional steps/activities it will take beyond the minimum prescribed by law.

In the case of large public-interest entities like Deutsche Telekom AG, given the size and complexity of the tendering procedure it would be advisable to form a project group for proper conduct of the tender.

The entity shall provide appropriate assistance to the Audit Committee with the necessary resources.

The table below expands on the process steps listed above through the addition of activities in the tendering process. Which activities are the responsibility of the Audit Committee and which activities the Audit Committee may delegate to a project group are also specified.

<b>Activity</b>	<b>Responsibility</b>
Decision to tender the statutory audit	Audit Committee
Decision to form a project group	Audit Committee
Development of the scope of the tender and timetable, selection criteria, and selection procedure	Can be delegated to project group
Decision on the scope of the tender and timetable as well as on the selection criteria and selection procedure	Audit Committee
Preparation of the tender documents	Can be delegated to project group
Planning of the proposal presentations	Can be delegated to project group
Publication of the invitation to tender	Can be delegated to project group
Invitation of selected audit firms/ approval of the selection	Audit Committee
<b>Final response date for applicants</b>	
Optional preselection of applicants through a review of the minimum requirements	Can be performed by project group Audit Committee must make decision
Dispatch of tender documents to applicants	Can be delegated to project group Dispatch, following approval by the Audit Committee, should take place on behalf of the Audit Committee
Kick-off date and opportunity for applicants to ask questions	Can be delegated to project group
<b>Specification of written proposals</b>	
Evaluation of written proposals	Can be delegated to project group
Stipulation of applicants on the shortlist and progress report	Can be delegated to project group
Decision on evaluation of the written proposals and shortlisting of applicants	Audit Committee
Presentations by the applicants on the shortlist	Audit Committee and project group, if applicable
Own evaluation based on written proposal and presentation	Audit Committee

Evaluation of inspection reports produced by Auditor Oversight Body and review of independence of shortlisted applicants	Can be performed by project group. Audit Committee must make the decision.
Report on the selection procedure and the conclusions drawn	Can be delegated to project group
Decision on the report and the conclusions drawn	Audit Committee
Justified recommendation to the Supervisory Board with preference for one statutory auditor/audit firm	Audit Committee
Recommendation to the shareholders' meeting	Supervisory Board
Appointment of the statutory auditor or audit firm	Shareholders' meeting
Engagement of the statutory auditor or audit firm	Supervisory Board

## 5.2 Decision to tender the statutory audit

### 5.2.1 Formal decision to tender the statutory audit

To demonstrate the will of the Audit Committee to tender, a formal decision to tender the audit of the annual and consolidated financial statements is recommended. As the body responsible for the procedure, the Audit Committee thus sets the starting point for the tendering and selection process.

It is important to note that the EU Audit Regulation applies to the statutory audit of all public-interest entities (PIEs) in the Deutsche Telekom Group. In this connection, it should also be noted that these PIEs may have to comply not only with requirements from Regulation (EU) No 537/2014, but possibly also with national regulations governing maximum durations of the uninterrupted engagement, the selection procedure, non-audit services, etc. For this reason, in the case of the tender of the Group's engagement for the statutory audit, it is necessary to conduct a separate tendering process for each PIE in compliance with the EU Audit Regulation and the relevant national regulations.

## 5.2.2 Determination of the rotation date

The audit engagement for PIEs must not exceed a maximum duration of ten years (Article 17 (1) subparagraph 2 of Regulation (EU) No 537/2014). After the expiry of the maximum duration, neither the statutory auditor or the audit firm nor, where applicable, any members of their networks, may undertake the statutory audit of the same PIE within the following four-year period ("cooling-off period", Article 17 (3) of Regulation (EU) No 537/2014).

The engagement can be extended beyond the maximum duration if a public tender is carried out (§ 318 (1a) HGB) (extension by a further ten years to 20 years; Article 17 (4) (a) of Regulation (EU) No 537/2014) or, from then on, joint audits by two audit firms take place (extension by a further 14 years to 24 years; Article 17 (4) (a) of Regulation (EU) No 537/2014).

The duration of the audit engagement is calculated as from the first financial year for which the statutory auditor or the audit firm has been commissioned for the first time for the carrying-out of consecutive statutory audits for the same public-interest entity (Article 17 (8) of Regulation (EU) No 537/2014).

It is the responsibility of the Audit Committee not to exceed the maximum duration of the audit engagement and to initiate a tendering procedure in a timely manner.

## 5.3 Definition of requirements and selection criteria

### 5.3.1 Definition of requirements for the future statutory auditor or audit firm

The selection criteria result in part from basic requirements arising from the entity's business model, size, complexity, and internationality. They also arise from the situation-related challenges stemming from structural or regulatory changes, for instance.

The Audit Committee must therefore initially be aware of the expectations and requirements of the statutory auditor or audit firm. The expectations and requirements of the statutory auditor or audit firm will be used to develop the selection criteria on which the tender of the audit engagement and the subsequent selection of the statutory auditor or audit firm are based; there may be criteria that the statutory auditor or audit firm is required to fulfill from the entity's perspective and criteria that are optional. The Audit Committee may lay down the requirements for the statutory auditor or audit firm in agreement with representatives of the business areas involved and members of the project group.

### 5.3.2 Minimum requirements for optimal preselection

A tendering process with a very large number of tenderers increases the amount of effort and the resources needed. Entities are therefore advised to check fulfillment of the minimum requirements in a **preselection** process. This enables them to pare down the number of applicants. Here, it is important to document the reasons why a tenderer did not qualify for the tender.

The minimum requirements result from the question of which criteria an audit firm must fulfill **at the very least** to be shortlisted. The only criteria that shall apply must be criteria that are non-discriminatory in the sense that the tender process does not preclude the participation in the selection procedure of firms which received less than 15 percent of the total audit fees from PIEs in the Member State concerned (Article 16 (3) subparagraph 1 (a) of Regulation (EU) No 537/2014).

Possible sample criteria for the preselection:

- Revenues and number of employees in relevant countries

- Organization of the worldwide network
- Experience with entities of a similar size
- References in the industry
- Revenue generated with group entities/share of total revenue
- Volume of non-audit services provided to date

The Audit Committee is responsible for determining the criteria for the minimum requirements.

### 5.3.3 Selection criteria

When formulating the selection criteria, care must be taken that these are also non-discriminatory and do not put any audit firms with a small market share at a disadvantage.

The selection criteria can be assigned to the following categories, for example:

- **Team and network:**

The composition and structure of the audit team should be presented, detailing the relevant practical experience, qualifications, and expertise of the audit team members. Availability in terms of time, manpower, and space is important additional information. The influence of the German company in the international network and the structure of the international network should be explained. It is helpful to receive explanations of whether and how the statutory auditor or audit firm incorporates expertise into the audit process as needed to evaluate special topics.

- **Industry expertise:**

The statutory auditor or audit firm should be able to demonstrate that the responsible audit team in particular has relevant (possibly similar) industry expertise which enables it to understand the entity's business model and the typical risks.

- **Audit concept:**

The statutory auditor or audit firm should present not only its general audit approach, but in particular the specific audit approach planned for the entity in question. When describing the audit approach, the audit tools used, for example checklists or audit programs, and the scope and depth of the audit must also be explained.

- **Service concept:**

The statutory auditor or audit firm should explain which added value over and above the audit opinion is expected to be created, how the availability of the primary contact is ensured, and how the worldwide statutory audit is organized.

- **Fee:**

The fee for the statutory auditor or audit firm must comply with legal requirements (especially § 55 of the German Public Accountants Act (WPO) on the general prohibition of a performance-based fee) and with regulatory requirements (especially § 27 (2) of the Professional Code for Auditors/Certified Accountants (BS WP/vBP) on the general inadmissibility of a fixed fee). When calculating its proposed fee, the statutory auditor or audit firm must assess the entity's business model and risk situation and take these into account. When assessing the fee requested by the statutory auditor or audit firm, the entity should evaluate the price/performance ratio in light of the proposed scope and depth of the audit. For this, it is necessary to compare the price/performance ratio and composition of the teams in the different proposals.



In these categories, questions can be defined that indicate that the audit firms meet the criteria. The questions should be defined for the applicants to answer as part of the tendering process.

The categories specified are just examples. The Audit Committee is free to choose the selection criteria and categories it considers appropriate.

To be able to assess the statutory auditors or audit firms in a meaningful and comprehensible way using the selection criteria defined and issue a recommendation to the Supervisory Board on this basis, the Audit Committee weights the selection criteria and develops an evaluation procedure for rating the statutory auditors or audit firms. Each category and also individual questions within the categories can be weighted. Applying the weighting and procedure to all applicants in equal measure is a fair procedure.

## 5.4 Preparation of the tender documents

The tender documents to be prepared contain the predefined requirements for the statutory auditor or audit firm and are therefore the information base for applicants. The tender documents can be made available to applicants physically, electronically, or in a data room.

In accordance with Article 16 of Regulation (EU) No 537/2014, the tender documents must contain information about the nature and scope of the statutory audit to be performed and about the operations of the audited entity, as well as pertinent business and legal documents that allow applicants to create their own impression of the entity.

Tender documents should contain in particular relevant information from a business and legal standpoint. These documents shall include:

- an organizational chart of the entity or group to be audited as well as information on the management and divisional organization, including
- the last two sets of annual and consolidated financial statements including (group) management reports,
- an overview with relevant data of the individual group entities, especially total assets, number of employees, and revenue,
- information on the organization of accounting, especially on shared service centers or utilization of external service providers,
- description of the internal audit function and
- available information on the accounting-related internal control system and the risk management system, as well as the IT system and relevant subsystems.

The organizational information recorded in the tender documents should contain the scheduling as well as the names and details of contacts for applicants.

Precise descriptions of services enable a fair comparison of applicants, especially when the price/performance ratio is used. They also entail a list of the subunits to be included in the audit of the consolidated financial statements plus an estimate of the significance of these subunits for the consolidated financial statements and their audit. The description of services must also contain very detailed requirements relating to the nature and scope of the oral and written reporting (e.g., the frequency of meeting attendance).

If the entity expects the statutory auditor or audit firm to provide services beyond what is required by law in the form of other assurance services and other audit services (for example, a review of half-year financial statements and quarterly reports), this should be clearly indicated in the tender documents.

The tender documents should additionally include any quality standards with which the competent authorities referred to in Article 20 of Regulation (EU) No 537/2014 require statutory auditors and audit firms to comply

(Article 16 (3) subparagraph 1 (d) of Regulation (EU) No 537/2014). Since June 17, 2016, the competent authorities in Germany have been the Auditor Oversight Body (APAS) at the Federal Office of Economics and Export Control (BAFA) (§ 66a (2) WPO).

The tender documents should also include a non-disclosure agreement as well as a statement of independence that applicants must submit with their proposal at the latest. In the statement of independence, applicants confirm that they will meet all independence requirements in a timely manner so that these do not prevent the applicants from being appointed as the statutory auditor. However, this statement does not release the Audit Committee from its responsibility for the independence of the statutory auditor and thus from taking its own measures to ensure this.

## 5.5 Queries and briefings

In the period between the dispatch of the tender documents and submission of proposals, applicants must be kept on an equal footing in the interests of a transparent and non-discriminatory selection procedure. This could be achieved, for example, by consolidating frequently asked questions and the answers to these in a document that is made available to all applicants, or by setting up data rooms to which all applicants have access.

It is also advisable to impose a contact ban between the applicants and the entity to prevent any applicant from gaining an advantage.

Giving all of the shortlisted applicants the chance to have a personal meeting is a fair procedure. This opportunity for both sides to get to know each other is particularly helpful for the applicants whom the entity does not know based on prior orders. It is advisable for at least the Chair of the Audit Committee to take part in a personal meeting of this nature with the applicants. Absent members must be briefed on the meetings.

## 5.6 Written proposal

The written proposals shall be assessed on the basis of predefined and weighted selection criteria. A points system can be used for this, with points being awarded for the degree of fulfillment of the individual criteria. Apart from the score, the overall impression of the proposals naturally also counts. It is important to assess whether the proposal is tailored to the entity to be audited and whether careful preparation by the audit firm is apparent.

Based on the evaluation of the written proposals, a shortlist of applicants may be prepared. These applicants should also be invited to present their proposals. During this phase, the project group (insofar as one has been formed and entrusted with this task) shall prepare a progress report that summarizes the results to date and present this report to the Audit Committee. This will allow the Audit Committee to track the status of the tendering procedure and the evaluation of the audit firms to date.

## 5.7 Presentations

The Audit Committee shall define a transparent and non-discriminatory process for how the shortlisted statutory auditors should present their proposals. It shall also set out which of its members and who else from the entity shall attend the presentation of proposals.

The Chair of the Audit Committee should guide the discussions. The duration and content of the presentations and discussion shall depend on what the entity requires of the statutory auditor.

The Audit Committee must personally appraise itself of at least the shortlisted applicants so as to be able to assess these itself and select at least two of these applicants for its recommendation to the Supervisory Board.

The presentations should be evaluated based on the selection criteria according to which the written proposals have already been evaluated. Additional criteria should also be defined such as the presence of and interplay between members of the team, credentials, and communication with the presentation attendees.

An evaluation tool can be used to simplify and objectivize the evaluation. This makes the evaluation more transparent and comprehensible, and thus more objective.

## 5.8 Evaluation of other sources of information

### 5.8.1 Sources of information for an objective selection procedure

To obtain a complete picture of the applicants, further sources of information are needed that must be taken into consideration alongside the proposals. These help to make the selection process more objective.

### 5.8.2 Inspection reports

The Auditor Oversight Body (APAS) shall publish a report on its findings and conclusions from inspections and from transparency reports. The Audit Committee and any project group must take into account any published inspection reports in the course of the selection process (Article 16 (3) (e) of Regulation (EU) No 537/2014. The project group (insofar as one has been formed and entrusted with this task) should consider the inspection reports on all applicants in its assessment. By contrast, the Audit Committee can concentrate on the inspection reports about the statutory auditors or audit firms on the shortlist.

### 5.8.3 Review of independence

Whereas in the past only the statutory auditor or audit firm was responsible for adhering to the independence requirements, under the new rules the Board of Management and the Supervisory Board or the Audit Committee are also responsible for this (Article 39 (6) (e) of Directive 2014/56/EU).

To assess the threats to its independence, before **continuing** an engagement for a statutory audit of the annual financial statements of an entity, the statutory auditor or audit firm must assess and document the following in accordance with Article 6 (1) of Regulation (EU) No 537/2014:

- whether he, she or it complies with the maximum durations of the audit engagement (internal and external rotation duties, Article 17 of Regulation (EU) No 537/2014);
- whether the requirements for audit fees (Article 4 of Regulation (EU) No 537/2014), especially the maximum permissible amount of the total fees for permitted non-audit services (70% cap, Article 4 (2) of Regulation (EU) No 537/2014) and for revenue dependency (Article 4 (3) of Regulation (EU) No 537/2014) are complied with;
- whether the requirements in connection with prohibited non-audit services in the financial year to be audited (Article 5 of Regulation (EU) No 537/2014) are complied with;
- whether he, she or it made sure that non-audit services in connection with the organization and implementation of internal control and risk management processes within the meaning of Article 5 (1) sentence 2 (c) of Regulation (EU) No 537/2014 were not allowed to be performed, also in the year preceding the financial year to be audited (cooling-in), in addition to
- the integrity of the members of the entity's supervisory board and management board (Article 6 (1) (c) of Regulation (EU) No 537/2014).

Where a statutory auditor or audit firm wishes to accept an engagement to audit the financial statements of an entity **for the first time** pursuant to Article 6 (1) of Regulation (EU) No 537/2014, he, she or it must assess and document only the last three of the aforementioned criteria as threats to its independence. During the selection procedure, the statutory auditor or audit firm may also provide the following information on its independence:

- a statement by the statutory auditor or audit firm in the annual transparency report it is required to publish concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence has been conducted (Article 13 (2) (g) of Regulation (EU) No 537/2014);
- a statement of independence in accordance with Item 7.2.1 (1) of the German Corporate Governance Code that the Supervisory Board or the Audit Committee is required to obtain before the Supervisory Board makes its proposal to the shareholders' meeting.

In addition to the provisions of Regulation (EU) No 537/2014 on ensuring the statutory auditor's or the audit firm's independence, this must also be assessed based on the provisions on independence in §§ 319, 319a, 319b HGB as well as in the Professional Code for Auditors/Certified Accountants (BS WP/vBP).

In view of the requirements for the statutory auditor's or the audit firm's independence, especially governing permission for non-audit services, it is advisable to conduct the selection procedure as early as possible.

## 5.9 Selection

The members of the project group (insofar as one has been formed and is entrusted with this task) shall prepare a report on the conclusions of the selection procedure (Article 16 (3) subparagraph 1 (e) sentence 2 half-sentence 1 of Regulation (EU) No 537/2014).

This does not replace the autonomous selection by the Audit Committee. On the contrary, the report must be "validated by the Audit Committee" (Article 16 (3) subparagraph 1 (e) sentence 2 half-sentence 2 of Regulation (EU) No 537/2014).

## 5.10 Recommendation by the Audit Committee to the Supervisory Board

The Audit Committee shall submit a recommendation to the Supervisory Board of the audited entity for the appointment of statutory auditors or audit firms (Article 16 (2) subparagraph 1 of Regulation (EU) No 537/2014). The recommendation must be justified and contain at least two suggestions for the audit engagement. The Audit Committee must express a duly justified preference for one of them (Article 16 (2) subparagraph 2 of Regulation (EU) No 537/2014).

The Audit Committee should consider the following estimates and information in its recommendation:

- The evaluation of the project group, where one has been formed
- The applicants' own evaluations
- The inspection reports issued by the competent authorities
- Information on the applicants' independence

In its recommendation, the Audit Committee must also state that its recommendation is free from influence by a third party and that no clause limiting the selection to certain audit firms has been imposed on it (Article 16 (2) subparagraph 3 of Regulation (EU) No 537/2014).

The selection by the Audit Committee must be documented in the minutes of the Audit Committee meeting.

## 6 Proposal by the Supervisory Board to the shareholders' meeting

The Supervisory Board shall propose a statutory auditor or audit firm to the shareholders' meeting for appointment. The Supervisory Board shall base its proposal on the Audit Committee's recommendation, though it shall decide independently whether or not it will follow the preference of the Audit Committee.

The proposal of the Supervisory Board shall include the recommendation and preference made by the Audit Committee (Article 16 (5) subparagraph 1 of Regulation (EU) No 537/2014). If the proposal departs from the preference of the Audit Committee, the Supervisory Board shall justify the reasons for not following the recommendation of the Audit Committee (Article 16 (5) subparagraph 2 of Regulation (EU) No 537/2014). However, the statutory auditor or audit firm proposed by the Supervisory Board must have participated in the selection procedure to be performed by the Audit Committee (Article 16 (5) subparagraph 2 sentence 2 of Regulation (EU) No 537/2014).

## 7 Communication of the selection

The applicants selected, but also the applicants who have not been selected, should be notified of the selection. As the tender process for the statutory audit is time-consuming and expensive not just for the audited entity but also for the participating applicants, it is only fair that the entity should give the applicants who were not selected qualified feedback on their individual application.

## 8 Supervision of the selection procedure

Infringement of the extended supervisory duties of the members of the Audit Committee (or the Supervisory Board) may lead to sanctions being imposed. The administrative offense will be pursued by the Federal Office of Justice by exchanging information with the Auditor Oversight Body.

According to § 405 of the German Stock Corporation Act (AktG), members of the Audit Committee commit administrative offenses if they

- do not adequately supervise the independence of the statutory auditor/audit firm and/or
- submit a recommendation for the appointment of a statutory auditor/audit firm or its preceding selection procedure which does not comply with the requirements laid down in Regulation (EU) No 537/2014.

The fine imposed may be up to EUR 50,000 per Supervisory Board member.

Pursuant to § 404a AktG, members of the Audit Committee may be prosecuted if they

- persistently repeat one of the acts specified and/or
- gain a pecuniary advantage in return for the specified acts.

Such acts are punished by a term of imprisonment of up to one year or a fine.

A violation of Regulation (EU) No 537/2014 does not make the entity's adopted annual financial statements null and void (§ 256 (1) No. 3 (d) AktG).

## 9 Documentation

The tendering and selection process for the future statutory auditor or audit firm must be documented in a report (Article 16 (3) subparagraph 1 (f) of Regulation (EU) No 537/2014). In the event of an investigation by the Auditor Oversight Body, this serves as evidence that the selection procedure was conducted in a fair manner with transparent and non-discriminatory selection criteria. At the same time, the report provides information and serves as a decision-making aid for the Supervisory Board and for the basis for its recommendation to the shareholders' meeting.

The audited entity is responsible for preparing the report. The Board of Management may delegate this task to the project group responsible for selection of the statutory auditor. Its accuracy shall be confirmed by the signature of the Board of Management and the manager of the project group. This report must be validated by the Audit Committee, which should be clarified through a corresponding explanation in the report.

# Policy for Commissioning Auditor Services

Deutsche Telekom AG, Audit Committee

Version 3.0  
Last revised November 16, 2016  
Status Final version

Classification pursuant to the Group Policy on Information Security and Data Protection: Internal

Erleben, was verbindet.



## Publication details

---

**Published by**

Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn

---

<b>Title</b> Policy for Commissioning Auditor Services	<b>Version</b> 3.0	<b>Last revised</b> Sept. 30, 2016
<b>Author</b> Daniel Franke, F GHS-FTP-6  Bonn, Nov. 16, 2016	<b>Approved by</b> Jürgen Wittland, Senior Vice President Record-to-Report, DTSE  Bonn, MONTH DD, YYYY	<b>Contact</b> Daniel Franke, F GHS-FTP-6  Phone +49 228 181-71252 d.franke@telekom.de
<b>Number of pages</b> 16 pages	<b>Period of validity</b> Through Dec. 31, 2017	<b>Type and location of document</b> DTAG Policies Database ( <a href="http://policies.telekom.de">http://policies.telekom.de</a> )

---

## Change history

---

<b>Version</b>	<b>Last revised</b>	<b>Edited by</b>	<b>Changes/comments</b>
1.0	Nov. 3, 2010	Hermann-Josef Etscheid	Final version: Transition of the "Audit and Non-Audit Services Pre-Approval Policy" to the "Policy on Commissioning the Services of Auditors." Content changes became necessary following the delisting in the United States and deregistration from the SEC. The new version takes account of the Group Policy on the Implementation of Group Policies, version 1.0 dated Jan. 13, 2010.
2.0	Jan. 1, 2014	Hermann-Josef Etscheid	Adjustment of the Policy for Commissioning Auditor Services to the new reporting structure. Reclassification of service types from the "Other assurance service" category into the "Auditing services" category and restructuring of appendices.
3.0	Nov. 16, 2016	Daniel Franke	Adjustment of the Policy for Commissioning Auditor Services to the requirements of the EU audit reform and the German Audit Reform Act

---



N.B.:

Any printout of this Policy may already be outdated. Please always check the Policies Database of Deutsche Telekom AG (<http://policies.telekom.de>) for the current version of the Policy.

## Table of contents

		Page
1	General information	5
2	Specific pre-approval	6
3	Auditing services	6
4	Other assurance services	6
5	Tax advisory services	6
6	Other non-audit services	7
7	Procedures	7
8	Additional requirements	8
9	Entry into force	8

### List of Appendices

Appendix A: Auditing services	9
Appendix B: Other assurance services	10
Appendix C: Tax advisory services	11
Appendix D: Other non-audit services	12
Appendix E: Prohibited services for independent auditing firms	13
Appendix F: Procedure for the commissioning of the auditor	15

# 1 General information

This Policy governs the process at Deutsche Telekom for commissioning auditor services. Under this Policy the Audit Committee, or the Board of Management or persons authorized by the Board of Management will issue orders, if the fees lie within the limits of the budget approved by the Audit Committee.

The German Accounting Law Modernization Act (BilMoG), stipulates legal provisions for the tasks planned for the Audit Committee, whereby the content of the activities is generally in line with the content of the German Corporate Governance Code (GCGC).

The EU audit reform made a further revision of the Policy necessary. The EU audit reform was implemented by means of the revised Statutory Audit Directive and a new EU Regulation (EU 537/2014). Both the directive and the regulation entered into force on June 16, 2014. The directive had to be transposed into national law by EU Member States by June 17, 2016. In Germany the audit-related part of the Statutory Audit Directive was enforced as well as the options granted to the Member States through the regulation were exercised with the Audit Reform Act (AReG). Deutsche Telekom is obligated to apply the new provisions for commissioning auditor services as of January 1, 2017.

The reform and the Audit Reform Act specifically expanded and further specified the list of approved services to be performed by the external auditor. This does not affect the current reporting obligations to the Audit Committee within the Group or the basic tasks of said Committee, however.

For companies listed with the SEC, the local pre-approval rules apply.

## **Specification of the tasks of the Audit Committee**

§ 107 (3) sentence 2 of the German Stock Corporation Act (AktG) as amended sets out in detail the range of tasks of the Audit Committee. These tasks include monitoring the audit work and independence of the external auditors, as well as issuing the audit engagement, and setting and monitoring the audit fees as well as the additional services provided by the auditors.

As before, pursuant to § 314 (1) no. 9 HGB, the total fees for auditors have to be disclosed in the notes to the consolidated financial statements.

The notes to the consolidated financial statements must also include:

The total fee for the financial year charged by the auditor of the consolidated financial statements, broken down into fees for

- a) Auditing services,
- b) Other assurance services,
- c) Tax advisory services,
- d) Other non-audit services.

Since January 1, 2011, services rendered by auditors are managed and reported as prescribed by the German Commercial Code (Handelgesetzbuch – HGB) (auditing services, other assurance services, tax advisory services and other non-audit services).

The auditors are prohibited from providing certain services, for example, they may not carry out any accounting work, assume a management function, audit their own work, or represent the interests of audit clients (see also the IESBA's Code of Ethics for Professional Accountants). Appendix E outlines the minimum scope of prohibited services.

The auditors may render to the company any other auditing services, other assurance services, tax advisory services, and other non-audit services (see Appendices A to D). By defining fee caps for each category at the start of the year, the Audit Committee sets the budget for the financial year.

## 2 Specific pre-approval

To enable monitoring of the fee caps, prior approval is required by the Audit Committee in each case before the defined fee caps may be exceeded ("**specific pre-approval**").

The procedure to be observed for the commissioning is shown in Appendix F. The commissioning of services to be provided by the auditors requires the written form. Services may not be performed before they have been commissioned.

## 3 Auditing services

Auditing services include audits of financial statements and services provided in connection with statutory duties and submissions required for regulatory authorities, including the preparation of audit reports and audit opinions, domestic and international statutory audits, as well as support for the issuance and review of the documents to be supplied.

Auditing services also include **reviews of the quarterly statements, the audit of information systems, and audits and testing of procedures**, which serve to improve the understanding and reliability of the systems and internal controls, including audit procedures to confirm the functionality and effectiveness of the internal control system (ICS). In addition, auditing services also include **monitoring in relation to issues of accounting, financial reporting** and reporting in connection with the audits of the financial statements.

Appendix A exhaustively lists the auditing services.

## 4 Other assurance services

Other assurance services are mainly professional auditing services other than the audit of the annual financial statements performed by the auditors. They also include assurance services in regard to confirming for dealings with third parties that certain figures agree with those in accounting, as well as other audit procedures necessary for meeting the reporting requirements arising from public or corporate provisions.

Appendix B exhaustively lists the other assurance services.

## 5 Tax advisory services

In accordance with EU Regulation No. 537/2014 and § 319a of HGB, tax advisory services may only be provided under certain circumstances. To ensure that the independence of the external auditor is not at risk, tax advisory services may only be provided when such services have no direct or only an immaterial effect, separately or in the aggregate, on the financial statements to be audited, and the independent auditor must document and explain its assessment of the effects on the audited financial statements comprehensively in an additional report to the Audit Committee. Tax advisory services relating to income tax on wages and salaries and to customs duties are prohibited in all cases.

The Audit Committee assumes that the external auditors can provide the company with advice on tax issues, such as compliance with tax law, tax planning, and tax advice in a narrower sense, subject to the requirements listed above, without this impairing the auditors' independence. The Audit Committee shall not permit the commissioning of auditors in connection with the provision of tax advisory services, if the only purpose of such services is to avoid taxes or tax treatment that is not supported by tax law and related regulations.

The EU regulation enables Member States to decide to prohibit auditors from providing tax advisory services (option granted to Member States). Companies must therefore check prior to commissioning tax advisory services whether the stipulations of the EU regulation apply to them in regard to the permission of tax advisory services, or whether the provision of such services has been prohibited by the Member State in which the commissioning company is headquartered.

According to this Policy, tax advisory services are permitted in line with the stipulations listed above, provided that the service is permitted under the law of the country in which the company receiving the service is headquartered.

Appendix C exhaustively lists the permitted tax advisory services.

## 6 Other non-audit services

Other non-audit services that, by their very nature, consist of routine and repetitive tasks and will not impair the independence of the auditors, are listed exhaustively in Appendix D.

## 7 Procedures

On a quarterly basis, all Group companies shall report to the head of Group Accounting & Customer Finance (hereinafter GA-CF) all commissioned services provided by the auditors, all fees agreed for such services, and the costs incurred. The Audit Committee has thus commissioned the head of GA-CF to monitor all services provided by the auditors. The head of GA-CF shall report to the Audit Committee on a regular basis about the results of such monitoring.

The Audit Committee shall be informed on a quarterly basis on the services provided by the external auditors and monitor the services commissioned as necessary, but no less than every three months, and shall also approve, if necessary, any changes in terms, conditions, and fees resulting from changes in the audit scope, the company structure, or other items.

Requests to raise the fee caps that require specific pre-approval from the Audit Committee, shall be submitted to the Audit Committee, through the head of GA-CF, by the external auditors and the managing director of the subsidiary that requests the services.

The EU regulation on specific requirements regarding statutory audit of public-interest entities states that the scope of permissible non-audit services can also threaten the independence of the external auditor. The EU regulation stipulates that in the case of permissible non-audit services, the total fees for such services shall be limited to no more than 70 % of the fees paid to an external auditor of a public-interest entity. This "fee cap" is obtained from the average of the fees paid over the previous three consecutive financial years and results initially in a fee cap for the fourth year for permissible non-audit services of the aforementioned 70 % of the audit fees. The percentage calculation shall apply to the external auditor of a company, but not to the members of its network. All services provided to Group companies shall be

included in the calculation of the percentage, regardless of whether these companies are headquartered in the EU or not.

The Audit Committee has decided to integrate the monitoring of these quantitative requirements for non-audit services into the existing process for the approval of non-audit services (in line with Appendix F) and that a quarterly report on the percentages shall be submitted to the Audit Committee.

Both the head of GA-CF and the Board of Management shall immediately report to the Chairman of the Audit Committee any breach of this Policy that comes to the attention of the head of GA-CF or any member of the Board of Management.

## 8 Other requirements

The Audit Committee has decided to take additional measures on an annual basis to meet its responsibility to monitor the work of the auditors and their independence. This includes reviewing a formal written statement from the external auditors delineating their independence in accordance with Section 7.2.1 of the German Corporate Governance Code and discussing with the auditors their methods and procedures for ensuring independence.

## 9 Entry into force

Once approved by the Audit Committee, this Policy shall enter into force on January 1, 2017, and replace the prior version from March 4, 2014. Implementation of this Policy shall therefore begin in the 2017 financial year.

## Appendix A: Auditing services

No.	Service
1.	Statutory and voluntary audits of annual financial statements and consolidated financial statements (including supplementary audits, certificate for disclosure, consolidated/reporting packages from Group audits)
2.	Statutory audit of the risk early-warning system and risk management system
3.	Audits within the meaning of § 53 HGrG, § 29 KWG, § 53 (1) GenG, § 44 (5) and (6) InvG
4.	Audit of the dependent company report
5.	Activities connected with DPR/BaFin procedures
6.	Auditing services resulting from the extension of the audit engagement by the company commissioning the auditor ("requested/agreed focal points of the audit")
7.	Audits of quarterly and interim financial statements
8.	(Project-related) audits of the internal control system (ICS), if the findings are utilized in the audit of the annual financial statements/consolidated financial statements
9.	Monitoring in connection with requirements in relation to the internal control system as part of legally prescribed audits of financial statements. This includes in particular the monitoring of process optimization measures
10.	(Project-related) audits in relation to the use of information technology, if the findings are utilized in the audit of the annual financial statements/consolidated financial statements
11.	Other audit services in connection with the audit of the financial statements
	a Examination of accounting-related issues associated with specific events/transactions
	b Monitoring in connection with the clarification of requirements resulting from a change to existing or the introduction of new accounting requirements, recommendations and notes by national and international standard-setting bodies, such as DRSC, FASB and IASB.
	c Other audit procedures
12.	Other services necessary for issuing a certificate for the tax authorities and to be provided exclusively by the auditors.

## Appendix B: Other assurance services

These include other professional auditing services other than the audit of the annual financial statements

No.	Service
1.	Formation, merger, demerger audits; audit of the corporate agreement in accordance with § 293 b AktG, audit of liquidation opening balance sheets (IDW PH 9.400.5)
2.	Audits of interim balance sheets in the event of capital increases using company funds and of closing balance sheets in accordance with § 17 (2) sentence 2 of the German Reorganization and Transformation Act (UmwG)
3.	Audit of pro-forma financial information (IDW PH 9.960.1) and of additional elements of financial statements (IDW PH 9.960.2)
4.	Voluntary special audits of the internal control system (ICS) (if the findings are not utilized in the audit of the annual financial statements, otherwise under A), of the compliance management system (IDW PS 980), and of corporate governance matters other than the audit of the annual financial statements
5.	Assurance engagements of all types
6.	Comfort letters
7.	Environment audit
8.	Review of compliance with the generally accepted principles of accounting for internally generated software and provision of a certificate analogous to the IDW auditing standard PS 880 "Award and use of software certificates" to be applied in the context of third-party use of such software
9.	Project-related audits in relation to the use of information technology (IDW PS 850) (if the findings are not utilized in the audit of the annual financial statements, otherwise under A)
10.	Review of the product cost calculation and IT systems supporting this to ensure conformity with requirements of the Bundesnetzagentur or other supervisory bodies
11.	Assurance services in regard to confirming for dealings with third parties that certain figures agree with those in accounting
12.	Miscellaneous other assurance services.



### Appendix C: Tax advisory services

Where tax advisory services are permissible in line with the provisions set out in (5), above, the following services may be commissioned:

No.	Service
1.	Advisory services related to the submission of tax returns
2.	Pointing out implementation initiatives and alternatives
3.	Advice on tax planning matters
4.	Highlighting the existing tax law situation in specific circumstances.

#### Appendix D: Other non-audit services

This is a catch-all category for all other permissible services provided by the external auditor:

No.	Service
1.	Information and suggestions for eliminating errors or gaps in the annual financial statements
2.	Consulting on accounting matters, if they are not related to the audit of the annual financial statements or compliance management matters
3.	Assessments and tests regarding existing security infrastructure controls
4.	Analysis of the working capital management process to identify weak points and show areas of improvement
5.	Consulting services and assistance in connection with the company's compliance with requirements stipulated by the Bundesnetzagentur and other authorities.
6.	Other non-audit related consulting services.

## Appendix E: Prohibited services for independent auditors

All services not specified in Appendices A to D, in addition to the following:

- Bookkeeping and preparing accounting records and financial statements;
- Payroll services;
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- Estimation or valuation services, fairness opinions, due diligence reviews or reports on non-cash contributions; in particular market valuations, confirmation of adequate valuation, purchase price allocation, property valuations;
- Actuarial services;
- Services related to the audited entity's internal audit function;
- Services that involve playing any part in management or decision-making of the audited entity;
- Services billed through performance-related fees;
- Human resources services (staff selection or development);
- Broker-dealer, investment advisor or investment banking services; in particular promoting, dealing in, or underwriting shares in the audited entity;
- Legal services, with respect to
  - i) The provision of general counsel
  - ii) Negotiating on behalf of the audited entity, and
  - iii) Acting in an advocacy role in the resolution of litigation;
- Non-audit services provided by specialists (preparation of an expert opinion or other similar expert statements for the company or the legal representative of the company, for the purposes of representing the interests of the company in connection with legal disputes or other regulatory or administrative investigations), if such services go beyond the highlighting of structuring alternatives and impact directly and not insignificantly on annual financial statements to be audited by the auditors;
- Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;

- Tax advisory services relating to income tax on wages and salaries and to customs duties as well as tax advisory services that, separately or in the aggregate, have a direct or not only an immaterial effect on the financial statements to be audited.

The non-audit services specified in this appendix must not be rendered within the period between the beginning of the period audited and the issuing of the audit report. Furthermore, services regarding designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems must not be rendered in the accounting year prior to the aforementioned period.

Appendix F: Procedure for the commissioning of the auditor



