

## **Compliance Declaration**

Management Board and Supervisory Board of Telefónica Deutschland Holding AG (the "Company") have last issued a Compliance Declaration according to § 161 (1) of the German Stock Corporation Act on 28 February 2013. From this date until 10 June 2013, the present Compliance Declaration refers to the "German Corporate Governance Code" ("GCGC") as amended on 13 May 2013 and for the period from 11 June 2013 to the GCGC as amended on 13 May 2013, published in the Federal Gazette on 10 June 2013.

Management Board and Supervisory Board of Telefónica Deutschland Holding AG hereby declare pursuant to § 161 (1) of the German Stock Corporation Act that since the issuance of the last compliance declaration Telefónica Deutschland Holding AG has complied, and will in the future comply, with the recommendations of the GCGC with the following exceptions:

1. The GCGC recommends in 4.2.1, sentence 1 that the Management Board shall be comprised of several persons and have a Chairperson or a Spokesperson. This recommendation has been deviated from since termination of appointment of the previous Chairperson of the Management Board of Telefónica Deutschland Holding AG with effect as of 31 January 2014, because no other member of the Management Board has been appointed Chairperson or Spokesperson instead. Management Board and Supervisory Board consider this as advisable in order to emphasize that the two remaining members of the Management Board are equally ranked and that the additional responsibilities they have assumed after the leave of the previous Chairperson of the Management Board are equal.
2. While determining the total compensation, the Supervisory Board shall, according to 4.2.2, 2<sup>nd</sup> paragraph, sentence 3 GCGC (as amended on 13 May 2013), consider the relationship between the compensation of the Management Board and that of senior management and the staff overall, particularly in terms of its development over time whereupon the Supervisory Board shall determine how senior managers and the relevant staff are to be differentiated. With regard to the remuneration increases for the two members of the Management Board dated 29 January 2014 and effective from 1 February 2014, the Supervisory Board has deviated from this recommendation. The Supervisory Board and the Management Board consider that the comparison as recommended by the GCGC cannot lead to relevant results in case members of the Management Board are being granted a remuneration increase because they assume additional tasks for which the previous Chairperson of the Management Board has been responsible.

3. The recommendation in 4.2.3, 2<sup>nd</sup> paragraph, sentence 4 GCGC that both positive and negative developments shall be taken into account with respect to the structure of the variable remuneration components has not been and will not be followed. The Management Board and the Supervisory Board are of the opinion that the remuneration of the Management Board is nevertheless oriented towards a sustainable company development. The remuneration consists of fixed as well as of short- and long-term variable components. The relevant parameters for the determination of the variable remuneration are overall oriented towards sustainable development and structured in a way that they, as a whole, do not provide incentives for business decisions which are opposed to the interests of the Company.
4. In 4.2.3, 3<sup>rd</sup> paragraph, sentence 2 as amended on 15 May 2012, the GCGC recommended that share-based and performance-based remuneration components shall relate to rigorous and relevant comparison parameters. In 4.2.3, 2<sup>nd</sup> paragraph, sentence 7 as amended on 13 May 2013, the GCGC recommends that the variable remuneration components shall relate to rigorous and relevant comparison parameters. A partial derogation from such recommendation has been and will be made. The amount of the annual bonus depends to a small extent also on parameters regarding Telefónica Europe and Telefónica S.A. In addition, a part of the long-term remuneration components is dependent on the Total Shareholder Return of the Telefónica S.A. shares. The Management Board and the Supervisory Board are of the opinion that no misdirected incentives are created thereby.
5. The GCGC recommends in 4.2.3, 2<sup>nd</sup> paragraph, sentence 6 (as amended on 13 May 2013) that the amount of compensation shall be capped, both overall and for individual compensation components. This recommendation is partially deviated from as neither for the stock option program nor for the Deferred Bonus, caps have been determined. By doing to, the Supervisory Board shall be granted the necessary room for manoeuvre to ensure the balance between short-term and long-term variable remuneration elements at any time. Furthermore, one of the two board member service agreements does not provide for the exact amount of the Company's pension expenses. As the Company is not able to unilaterally amend the board member service agreement, the pension expenses will only be capped by amount in future board member service agreements.
6. The recommendation in 4.2.3, 3<sup>rd</sup> paragraph, sentence 3 GCGC (as amended on 15 May 2012) respectively 4.2.3, 2<sup>nd</sup> paragraph, sentence 8 GCGC (as amended on 13 May 2013) that forbids a retroactive change of performance objectives or comparison parameters has not been and will not be followed. The service contracts partially allow a retroactive change of the criteria for the variable remuneration. From the Management Board's and the Supervisory Board's view, this is necessary because the Company is active in an extremely volatile and innovative market environment, and a

change of corporate strategy in the interest of a sustainable company development must also be possible within the calculation period for the variable remuneration components. Such changes of corporate strategy necessary with a view to reasonable company interests shall not be hindered or delayed as a result of monetary interests of the members of the Management Board. Thus, in particular the Supervisory Board is of the opinion that flexibility is required as to performance objectives and comparison parameters.

7. In deviation from the recommendation in 4.2.3, 4<sup>th</sup> paragraph GCGC, no formal severance payment cap in the event of premature termination of the Management Board mandate is agreed in the service contracts. A combination of various mechanisms in the service contracts ensures that a member of the Management Board in the event of premature termination of the mandate as a general rule receives less, and in no event more than the amount that is recommended by the GCGC as a severance payment cap.
8. The recommendation in 4.2.5, 2<sup>nd</sup> paragraph GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Company has only been followed in part. The general meeting on 5 October 2012 resolved pursuant to § 286 (5) German Commercial Code, to dispense with disclosure of the compensation of individual Management Board members for the period of 5 years. Therefore the fringe benefits provided by the Company are only disclosed to the extent they are provided to all Management Board members. Where fringe benefits are only provided to individual Management Board members, these are not shown. The Management Board and Supervisory Board take the view that the individualization involved in the disclosure of these individual benefits would contradict the resolution of the general meeting and anyway would represent too large an intrusion on the private sphere of the relevant Management Board members.
9. Contrary to the recommendation in 5.1.2, 2<sup>nd</sup> paragraph, sentence 3 GCGC, the Company has not determined any age limit for Management Board members. A fixed age limit for Management Board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to successfully run a company is not necessarily restricted by reaching a certain age. Rather it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition the setting of a fixed age limit could also constitute discrimination.
10. Pursuant to 5.4.1, 2<sup>nd</sup> paragraph GCGC the Supervisory Board shall specify concrete objectives regarding its composition, considering an age limit. Supervisory Board has resolved on concrete objectives regarding its composition, however without specifying a concrete objective regarding an age limit for Supervisory Board members. Just as for

Management Board members, a fixed age limit for Supervisory Board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to control and supervise the Management Board is not necessarily restricted by reaching a certain age. Rather it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition the setting of a fixed age limit could also constitute discrimination.

11. Notwithstanding the recommendation in 5.4.6, 1<sup>st</sup> paragraph, sentence 3 GCGC (as amended on 15 May 2012) respectively 5.4.6, 1<sup>st</sup> paragraph, sentence 2 GCGC (as amended on 13 May 2013) that the chair and membership in committees is also to be taken into account in the compensation of the Supervisory Board members, only the chair of the audit committee receives an additional compensation. The Company takes the view that this reasonably takes into account the current composition of the Supervisory Board.

11 February 2014

Management Board

Supervisory Board