

Compliance Declaration

The Management Board and Supervisory Board of Telefónica Deutschland Holding AG (the “Company”) have last issued a compliance declaration according to section 161 paragraph 1 German Stock Corporation Act on 13/14 and 17 October 2016 as well as updates of the compliance declaration on 11/12 December 2016 and on 20/21 July 2017.

Management Board and Supervisory Board of the Company hereby declare pursuant to sec. 161 para. 1 of the German Stock Corporation Act that since the issuance of the last compliance declaration the recommendations of the German Corporate Governance Code (“GCGC”) as amended on 7 February 2017, published in the Federal Gazette on 24 April 2017, were complied with, and will in future be with the following exceptions:

1. While determining the total compensation, the Supervisory Board shall, according to 4.2.2, 2nd paragraph, sentence 3 GCGC, consider the relationship between the compensation of the Management Board and that of the senior management and the staff over-all, 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 board member service agreements which have been signed in July 2014 and have become effective in October 2014 following closing of the acquisition of E-Plus, the Supervisory Board has deviated from this recommendation. Since the Company did not have, prior to closing of the acquisition of E-Plus, sufficient information regarding the remuneration structure at E-Plus, it could not consider the relationship between the compensation of the Management Board and that of the senior management and the relevant staff because this also would have required information on the remuneration structure at E-Plus. With regard to the board member service agreements that became effective on 1 January 2017 and on 1 August 2017 respectively, the above mentioned recommendation of the GCGC has been followed so that this recommendation will be fully complied with in the future.
2. The recommendation in 4.2.3, 2nd 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.
3. In 4.2.3, 2nd paragraph, sentence 7 the GCGC recommends that the variable remuneration components shall relate to rigorous and relevant comparison parameters. A partial deviation from such recommendation has been and will be made. The amount of the annual bonus depends to some extent also on parameters regarding Telefónica, S.A. In addition, a part of the long-term remuneration components is dependent on parameters regarding Telefónica, S.A. or may be dependent on such parameters. Furthermore, one former management board member received a share award under a restricted share plan which comprised shares of Telefónica, S.A. The Management

Board and the Supervisory Board are of the opinion that no misdirected incentives are created thereby.

4. The GCGC recommends in 4.2.3, 2nd paragraph, sentence 6 that the amount of compensation shall be capped, both overall and for variable compensation components. This recommendation has been and will be partially deviated from as neither for the stock option program nor for the so-called Deferred Bonus nor for the so-called Bonus III caps have been determined. By doing so, 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, some of the board member service agreements do not provide for the exact amount of the Company's pension expenses. The Company has assumed the corresponding pension commitments from the respective Management Board member's former employer and continues them unchanged.
5. The recommendation in 4.2.3, 2nd paragraph, sentence 8 GCGC 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.
6. The GCGC recommends in 4.2.3, 3rd paragraph that, for pension schemes, the Supervisory Board shall establish the level of provision aimed for in each case also considering the length of time for which the individual has been a Management Board member and take into account the resulting annual and long-term expense for the Company. This recommendation has been and will be partially deviated from. There are defined contribution commitments in place for some Management Board members of the Company which do not aim at a specific pension level. Therefore, with regard to this form of the pension commitments, the Supervisory Board does not refer to an aimed level of provision, since these pension commitments have been assumed from the Management Board member's former employer.
7. The recommendation in 4.2.5, sentence 4 GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Company has been up to now only been followed partially, as the fringe benefits provided by the Company were only disclosed to the extent they were provided to all Management Board members. Where fringe benefits were only provided to individual Management Board members, these were not shown. Furthermore, the recommendation in 4.2.5 sentence 5 and 6 GCGC regarding the presentation of the remuneration of the Management Board, especially in accordance with the model schedules, has not been followed up to now. The general meeting on 5 October 2012 had resolved pursuant to sec. 286 para. 5 German Commercial Code, to dispense with disclosure of the compensation of

individual Management Board members for the period of 5 years, i.e. until and including for the financial year 2016. For that period, it was thus not foreseen to comply with the presentation as recommended in 4.2.5 sentence 5 and 6 GCGC. Furthermore, Management Board and Supervisory Board took the view that the individualization involved in the disclosure of individual fringe benefits would have contradicted the resolution of the general meeting. As there was no reiteration of the “opt-out” resolution taken in this year’s general meeting, the remuneration of the Management Board will in the future be presented in accordance with 4.2.5 sentence 5 and 6 GCGC with the qualification that the information scheduled in the model tables for the previous year 2016 will be omitted due to the “opt-out” resolution being still in force for that period.

8. Pursuant to 5.4.1, 2nd paragraph GCGC the Supervisory Board shall specify concrete objectives regarding its composition, considering inter alia within the framework of the specific situation of the Company an age limit and a regular limit of length of membership appropriately. Supervisory Board has resolved on concrete objectives regarding its composition, however so far without either specifying a concrete objective regarding an age limit for Supervisory Board members or a general limit of length of membership to the Supervisory Board. In the view of the Supervisory Board, the ability to control and supervise the Management Board is not necessarily restricted by reaching a certain age and the possibility to build on longtime expertise of individual members in the Supervisory Board may serve the Company’s interest to a greater extent. In order to meet the requirements of the GCGC regarding the specification of concrete criteria for its composition in future, Supervisory Board determined a standard age limit for members of the Supervisory Board as well as a standard limit of membership to the Supervisory Board to be applied in principle, following intense discussions in early October and taking into account the specific corporate situation of the Company, thus ensuring future compliance with this recommendation.
9. Notwithstanding the recommendation in 5.4.6, 1st paragraph, sentence 2 GCGC 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.

12/13/14 and 16 October 2017

Management Board

Supervisory Board