

Management Declaration

in accordance with section 289a of the
German Commercial Code (HGB)

1. Declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG)

Under section 161 of the German Stock Corporation Act (AktG), the management board and the supervisory board of a listed stock corporation are required to declare annually that the company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code", as published in the official part of the Federal Gazette by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the company has not followed or does not follow and why not. The declaration shall be published permanently on the company's website.

On 13 /14 October 2014, the Management Board and Supervisory Board issued a declaration of compliance pursuant to section 161 German Stock Corporation Act (AktG):

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 Company has complied, and will in the future comply, with the recommendations of the GCGC 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 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.
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 2 annual bonus depends to a small extent also on parameters regarding 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 (measured against relevant competitors of Telefónica S.A.). Furthermore, one Management Board member receives a share award under a restricted share plan which also comprises 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 individual compensation components. This recommendation has been and will be partially deviated from as neither for the stock option program nor for the Deferred Bonus 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, one of the board member service agreements does not provide for the exact amount of the Company's pension expenses. The Company has assumed the respective pension commitments from the 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 is deviated from. There are defined contribution commitments in place for the Management Board members of the Company which do not aim at a specific pension level, or the Company pays fixed amounts in order to build up private pension benefits. Therefore, with regard to the form of the pension commitments, the Supervisory Board does not refer to an aimed level of provision. 3
7. The recommendation in 4.2.5, 2nd paragraph GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Company has been and will only be followed partially. 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 schedule, is not followed. The general meeting on 5 October 2012 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. As long as such so-called "opt-out" resolution of the general meeting is in place, is not foreseen to comply with the presentation as recommended in 4.2.5 sentence 5 and 6 GCGC. Furthermore 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.
8. Pursuant to 5.4.1, 2nd 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. In the view of the Company, a fixed age limit for Supervisory Board members is not appropriate, 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.
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.
10. The consolidated financial statements and the interim reports are made publicly accessible within the periods defined by law, yet possibly not within 90 days of the end of the financial year or 45 days of the end of the period under review (7.1.2 sentence 4 GCGC). Given the time required for a diligent preparation of financial statements and business reports, it is for the period after the closing of the acquisition of the E-Plus Group, for the time being, impossible to enter into commitments concerning earlier dates of publication. 4

There was an update of the declaration of compliance on 19 December 2014:

Update of the 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 13/14 October 2014. Subsequent to a change made to the Management Board pensions, Management Board and Supervisory Board of the Company update No. 4 and No. 6 of this Compliance Declaration as follows:

4. The GCGC recommends in 4.2.3, 2nd paragraph, sentence 6 that the amount of compensation shall be capped, both overall and for individual compensation components. This recommendation has been and will be partially deviated from as neither for the stock option program nor for the Deferred Bonus 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, two 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.
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 is deviated from. There are defined contribution commitments in place for two Management Board members of the Company which do not aim at a specific pension level, or the Company pays fixed amounts in order to build up private pension benefits. Therefore, with regard to the form of the pension commitments, the Supervisory Board does not refer to an aimed level of provision. For another Management Board member a pension commitment has been assumed from the Management Board member's former employer so that the Supervisory Board did not newly establish the level of provision aimed for. Apart from the above, the Compliance Declaration dated 13/14 October 2014 remains unchanged.

The Compliance Declaration as of 13 / 14 October 2014 remains in the rest unchanged.

This and previous declarations of compliance are available on the company's website at WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its administrative bodies are committed to efficient, sustainable and transparent corporate management as well as to values that form the basis of common business principles described in the company's code of ethics called "Our business principles". This code includes various fundamental principles and guidelines aimed to direct both management and employees in their daily work. It provides valuable help, particularly with respect to business situations in which legal and/or ethical conflicts of interest arise so that decisions can be taken with integrity and professionalism, both in the design and implementation of work processes and in the manner in which the company interacts with customers, shareholders, employees, suppliers and other stakeholders.

The company's business principles are available on the company's web site at WWW.TELEFONICA.DE/GESCHAEFTSGRUNDSAETZE

Compliance with the business principles is of eminent significance since Telefónica's reputation is built on and affected by decisions and actions taken by its administrative bodies and employees. It is therefore carefully monitored by means of close cooperation between the compliance team, human resources management and the departments internal audit, fraud and legal affairs.

The company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures and an external whistleblower system (WWW.TELEFONICA.DE/OMBUDSMANN), competition law and ethically appropriate behavior. The company's data protection officer ensures compliance with data protection legislation. This is a top priority for the company. The functions group compliance, data protection and corporate security – as does the legal department – reported until 1 October 2014 directly to the Management Board and since then to the General Counsel.

Further details regarding the compliance organization of the company are explained in the Corporate Governance Report which forms part of the Annual Report.

3. Composition and working procedures of the Management Board, Supervisory Board and the Supervisory Board's Committees

In the beginning of the reporting period, there were three members on the Telefónica Deutschland Holding AG Management Board (René Schuster, Rachel Empey and Markus Haas). Since February 2014 until the formal appointment of Thorsten Dirks on 9 October 2014, the Management Board consisted of two members (Rachel Empey and Markus Haas). Since 9 October 2014 the Management Board comprises of three members again.

The Management Board has sole responsibility for managing the company's business with the objective of creating sustainable value in the company's interest, taking into consideration the interests of its shareholders, employees and other stakeholders of the company. The work of the Management Board is governed in particular by the by-laws of the Management Board enacted with Supervisory Board approval and by the company's Articles of Association. The Management Board is responsible for corporate strategy, coordinating this regularly with the Supervisory Board, and also ensures its implementation.

Each Management Board member is responsible for managing the area of business assigned to it, but without prejudice to their joint responsibility for managing the company as a whole. All matters of fundamental or material importance for the company and/or its affiliates, in particular matters regarding organization, company policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board are decided by the entire Management Board. Furthermore, every Management Board member can submit matters to the full board for decision. Transactions and measures of particular significance are also subject to the prior approval by the Supervisory Board.

Management Board meetings are held regularly, generally once per week. Meetings may also be held by phone or video conference, and resolutions of the Management Board may also be passed outside of meetings, in particular in writing, by fax or e-mail.

The Management Board reports regularly to the Supervisory Board on the company's course of business, inter alia by providing the Supervisory Board with written reports each month covering key performance indicators for the company's business. Moreover, the Management Board must report to the Supervisory Board any transactions of possible material significance to the company's profitability or liquidity. Finally, the Management Board must report to the Supervisory Board any important events or affairs subject to section 90 para. 1 sentence 3 of the German Stock Corporation Act (AktG). The Management Board performs these measures as required by law.

In the beginning of the reporting period, the company's Supervisory Board consisted of twelve members (six shareholder and six employee representatives). Currently the Supervisory Board consists of sixteen members (eight shareholder and eight employee representatives). The Annual General Meeting of 20 May 2014 had resolved on the increase of the Supervisory Board from twelve to sixteen members and elected Sally Anne Ashford and Antonio Manuel Ledesma Santiago as further members of the Supervisory Board of Telefónica Deutschland Holding AG. Their office started with the registration of the change of the Articles of Association regarding the increase of the Supervisory Board on 18 September 2014.

With resolution of the Local Court of Munich of 31 October 2014 Joachim Rieger and Jürgen Thierfelder were appointed as further employee representatives of the Supervisory Board.

The current members of Supervisory Board are Chairperson Eva Castillo Sanz, Deputy Chairperson Imke Blumenthal and the Supervisory Board Members María Pilar López Álvarez, Angel Vilá Boix, Patricia Cobián González, Enrique Medina Malo, Michael Hoffmann, Sally Anne Ashford, Antonio Manuel Ledesma Santiago, Marcus Thurand, Thomas Pfeil, Christoph Heil, Claudia Weber, Dr. Jan-Erik Walter, Joachim Rieger and Jürgen Thierfelder.

The Supervisory Board advises and monitors the Management Board in the management of the company on an ongoing basis and must be consulted in all matters outside the ordinary course of business which are of particular importance to the company. The Supervisory Board appoints and dismisses the members of the Management Board and determines the remuneration of the Management Board. The Supervisory Board Chairperson coordinates the activities of the Supervisory Board and cooperation with the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are essentially described in the by-laws for the Supervisory Board and in the company's Articles of Association.

The Supervisory Board holds at least two meetings in a calendar half-year. Meetings of the Supervisory Board may also be held by phone or video conference, and resolutions of the Supervisory Board may also be passed outside of meetings, in particular in writing, by fax or e-mail.

Composition and work of the committees of the Supervisory Board

In order for the Supervisory Board to carry out its tasks in an optimal manner, the by-laws for the Supervisory Board provide for three fixed committees. The Supervisory Board receives regular reports on the work of the committees.

The Audit Committee is responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discussing the quarterly reports with the Management Board, monitoring the accounting processes and internal control systems (including compliance, risk management and internal audit systems) and the auditor's review. It furthermore is responsible for the coordination with the auditor for the audit of the financial statements. The following members are currently in the audit committee:

Michael Hoffmann (Chairperson)
María Pilar López Álvarez
Thomas Pfeil and
Christoph Heil

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. Patricia Cobián González was elected chairperson of the nomination committee. The other members are María Pilar López Álvarez and Enrique Medina Malo.

The Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consists of the following members:

Eva Castillo Sanz (Chairperson)
Imke Blumenthal
Angel Vilá Boix and
Marcus Thurand.

Furthermore, in the context of the acquisition of E-Plus, a further committee was implemented, the so-called Capital Increase Committee.

This consist of the following members:

Patricia Cobian González (chairperson)
Maria Pilar Lopez Alvarez
Marcus Thurand and
Thomas Pfeil

24 February 2015