

## Management Declaration\_ in accordance with section 315 para. 5 in connection with 289a of the German Commercial Code (HGB)

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

Pursuant to 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 and 17 October 2016, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG ("Company") issued a declaration of compliance pursuant to section 161 paragraph 1 German Stock Corporation Act (AktG). The present declaration of compliance refers to the German Corporate Governance Code ("GCGC") as amended on 5 May 2015 and published in the Federal Gazette on 12 June 2015.

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 Management 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 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, two of the Management 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 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.
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, it 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 and a regular limit of length of membership. 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. Supervisory Board has also not specified a general limit of length of membership to the Supervisory Board. The Company is of the opinion that the possibility to build on longtime expertise of individual members in the Supervisory Board serves the Company's interest to a greater extent.
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.

There was an update of the declaration of compliance on 11 / 12 December 2016:

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 with the new management board service agreements the recommendation of no. 4.2.2., 2nd paragraph, sentence 3 of the German Corporate Governance Code ("GCGC") is complied with, a new sentence is added at the end of no. 1 of the Compliance Declaration.

The wording of no. 1 of the Compliance Declaration is updated as follows:

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 Management 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. With regard to the Management Board member service agreements that will become effective on 1 January 2017 the above mentioned recommendation of the GCGC will be complied with.

Apart from the above, the Compliance Declaration dated 13 / 14 and 17 October remains unchanged.

This Compliance Declaration, its update and previous declarations of compliance are available on the company's website at [WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE](http://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/GESCHAFTSGRUNDSAETZE](http://WWW.TELEFONICA.DE/GESCHAFTSGRUNDSAETZE).

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 whistle-blower system ([WWW.TELEFONICA.DE/OMBUDSMANN](http://WWW.TELEFONICA.DE/OMBUDSMANN)), competition law and ethically appropriate behavior. The company's data protection team ensures compliance with data protection legislation. This is a top priority for the company. The functions compliance, data protection, information security and internal audit form – as does the legal department – part of the department General Counsel Office which reports directly to the Management Board.

Further details regarding the compliance organization of the company are explained in the Corporate Governance Report which forms part of the Annual Report and is also available on the web site of the company at [WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-BERICHT](http://WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-BERICHT).

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

During the financial year 2016, there were three members of the Management Board of Telefónica Deutschland Holding AG (Thorsten Dirks, Rachel Empey and Markus Haas).

The Supervisory Board Meeting decided in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 20 % for the Management Board. Since then this quota is effective and is exceeded: In the financial year 2016, one-third of the members of the Management Board were female. Since 1 January 2017, the quota is 50% (one member of the two member Management Board is female).

The Management Board in its own responsibility manages 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 develops the strategic direction of the company, coordinating this regularly with the Supervisory Board, and also ensures its implementation.

Each Management Board member is responsible for managing the area of business allocated 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 have to be 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. Resolutions of the Management Board may also be passed outside of meetings, in particular in writing, by fax, phone or e-mail.

According to section 76 para. 4 of the German Stock Corporation Act (AktG) the Management Board set goals for the female quota of the two levels below the Management Board. The minimum gender diversity quota which has to be fulfilled until 30 June 2017 was determined at 16 %.

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.

The Supervisory Board consists of sixteen members, eight shareholder and eight employee representatives. Antonio Manuel Ledesma Santiago left the Supervisory Board of Telefonica Deutschland Holding AG with effect of the end of the Annual General Meeting on 19 May 2016. Peter Erskine was elected as his successor by the Annual General Meeting on the same day.

In addition, the Deputy Chairperson of the Supervisory Board Imke Blumenthal left the Supervisory Board of Telefonica Deutschland Holding AG on 30 June 2016. Christoph Braun has been a member of the Supervisory Board of Telefónica Deutschland Holding AG as successor to Imke Blumenthal since 1 July 2016. Christoph Braun was elected Deputy Chairperson of the Supervisory Board at the meeting of 18 July 2016.

The current members of the Supervisory Board are: Chairperson Eva Castillo Sanz, Deputy Chairperson Christoph Braun and the Supervisory Board Members Angel Vilá Boix, Laura Abasolo García de Baquedano, Peter Erskine, Patricia Cobián González, Michael Hoffmann, Sally Anne Ashford, Enrique Medina Malo, Marcus Thurand, Dr. Jan-Erik Walter, Joachim Rieger, Jürgen Thierfelder, Thomas Pfeil, Christoph Heil, and Claudia Weber.

The Supervisory Board consisted of six female and ten male members (i.e. of 37.5% female and 62.5% of male members) until 30 June 2016. Since 1 July, the composition is five female and eleven male members (i.e. 31.25% female and 68.75 % of male members). Therewith the requirements of section 96 para. 2 German Stock Corporation Act (AktG) (30 % minimum gender diversity quota) are fulfilled.

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 telephone or video conference, and resolutions of the Supervisory Board may also be passed outside of meetings, in particular in writing, by fax, phone or e-mail.

The Supervisory Board reviews the efficiency of its activities at least once a year.

#### **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 can implement further 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 and half-year 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 of the financial statements. It furthermore is responsible for the coordination with the auditor. Currently, the audit committee consists of the following members:

- Michael Hoffmann (Chairperson)
- Laura Abasolo García de Baquedano
- 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. Further members are Eva Castillo Sanz 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)
- Christoph Braun (since 1 July 2016)
- Angel Vilá Boix and
- Marcus Thurand.

Imke Blumenthal belonged to the Mediation Committee until 30 June 2016.

Sine 7 March 2016, there is a Remuneration Committee. Its members are:

- Sally Ashford (Chairperson)
- Eva Castillo Sanz
- Claudia Weber
- Dr. Jan-Erik Walter

More details on the composition and work of the Committees of the Supervisory Board are provided in the Supervisory Board Report.

30 January 2017

Management Board

Supervisory Board