

# MANAGEMENT DECLARATION IN ACCORDANCE WITH SECTIONS 289f IN CONNECTION WITH 315d OF THE GERMAN COMMERCIAL CODE (HGB)

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## 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 30 September and 2 October 2019, 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 German Corporate Governance Code ("GCGC") as amended on 7 February 2017, published in the Federal Gazette on 24 April 2017.

Management Board and Supervisory Board of the Company 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.** 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.

**2.** 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. The Management Board and the Supervisory Board are of the opinion that no misdirected incentives are created thereby.

**3.** 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 for several aspects of the variable compensation no 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.

4. 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.

5. 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.

6. 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.

This Compliance Declaration and previous declarations of compliance are available on the Company's website, for 2019 at [www.telefonica.de/declaration-of-compliance-2019](http://www.telefonica.de/declaration-of-compliance-2019).

## 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/geschaeftsgrundsaeetze](http://www.telefonica.de/geschaeftsgrundsaeetze).

Compliance with the business principles is of eminent significance since the Company'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 functions Compliance, Human Resources, Internal Audit, Corporate Responsibility and Legal.

The Company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behavior. Employees and third parties have the possibility to report potential breaches of law - especially indications of corruption) in a protected manner e.g. within an external whistleblower system ([www.telefonica.de/ombudsmann](http://www.telefonica.de/ombudsmann)).

The Company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. The department "Compliance, Corporate Security & Data Protection" and Internal Audit as well as the department General Counsel report directly to the Management Board.

Further details regarding the compliance organisation of the Company are explained in the Corporate Governance Report which forms part of the Annual Report and is also published on the web site of the Company at [www.telefonica.de/corporate-governance-report-2019](http://www.telefonica.de/corporate-governance-report-2019).

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

In the beginning of the business year 2019, the Management Board of Telefónica Deutschland Holding AG comprised 8 members: Markus Haas, Chief Executive Officer ("CEO"), Markus Rolle, Chief Financial Officer ("CFO"), Cayetano Carbajo Martín (Chief Technology Officer), Guido Eidmann (Chief Information Officer), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director "Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Business Officer) and Wolfgang Metze (Chief Consumer Officer).

Effective as of the end of 14 October 2019 Cayetano Carbajo Martín left the Management Board, on 15 October 2019 Mallik Rao (Yelamate Mallikarjuna Rao) succeeded him as Chief Technology Officer. With effect as of 1 November 2019, Mallik Rao also assumed responsibility for the business area of Guido Eidmann, who left Management Board as of 31 October 2019.

On 31 December 2019 the Management Board comprised 7 members: Markus Haas, CEO (Vorstandsvorsitzender), Markus Rolle, CFO (Finanzvorstand), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director "Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Chief Technology and Information Officer).

In accordance with its business principles, the Company has committed explicitly to diversity and equal opportunities in the Company. Supervisory Board and Management Board are convinced that diversity sustainably serves the Company's best interest. The Diversity Concept for the Management Board consists of the following diversity criteria detailed pursuant to sect. 289f para 2 no 6 German Commercial Code (HGB).

Members of Management Board shall especially provide longstanding leadership from different areas relevant to the Company. At least one member shall have international work or educational experience and the Management Board as a body shall have longstanding experience in telecommunications, finance, sales and staff management.

The Supervisory Board determined in December 2017 in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 25% for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2019 (in the beginning of the business year 2019 two of eight members were female, as of 31 December 2019 two of seven members were female).

Also considering the abovementioned minimum gender quota and taking into account the age limit of 62 years for members of the Management Board as determined in the Management Board service agreements, the Company aims at competencies, skills and experience complementing each other in the best interest of the Company for the administration.

The Supervisory Board ensures together with the Management Board that there is long-term succession planning. In the reported year (e.g. in the Supervisory Board meetings in May 2019 and at a workshop on 16 July 2019), the Supervisory Board concentrated on requirements (skills and knowledge) to Management Board members with a view of a sustainable development in the best interest of the Company. In this context Supervisory Board also made use of external expertise, inter alia for benchmarks. Here they established the criteria (experience and skills) to be considered for each role.

Such targets shall be and were considered by Supervisory Board for appointment and succession planning of members of Management Board and have been met throughout the reporting period. The fulfilment may also be verified via the Curricula Vitae of the members of the Management Board published on the Company's website at **[www.telefonica.de/management-board](http://www.telefonica.de/management-board)**.

As part of the diversity strategy and in accordance with section 76 para. 4 of the German Stock Corporation Act (AktG), the Management Board has set targets for the female quota of the management level below the Management Board, reporting level 1 (Berichtsebene 1), voluntarily. The target of 30% to be met by 30 June 2022 shall be achieved via the Company's diversity strategy. In the reporting period as of 31 December 2019 the share of female members of reporting level 1 could be increased to 22.4% (In the previous year: 21,3% as of 31 December 2018).

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 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 Management 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 by 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.

The Supervisory Board comprises sixteen members, eight shareholder and eight employee representatives.

In the beginning of the financial year 2019, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Sandra Hofmann, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

The Supervisory Board member Jürgen Thierfelder had resigned as of the end 31 December 2018. Sandra Hofmann left the Supervisory Board with effect as of 18 February 2019. As of 3 April 2019, Cansever Heil and Christoph Heil respectively were appointed by court as their successors and on 26 September 2019 confirmed by the employees' delegates in their offices elected to the Supervisory Board. The

Supervisory Board members María García-Legaz Ponce and Pablo de Carvajal González who had been appointed by court in 2018 were confirmed in office by the Annual General Meeting on 21 May 2019 and elected to the Company's Supervisory Board until the end of the Annual General Meeting 2022.

As of 31 December 2019, the Supervisory Board members were: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

As of 31 December 2019, the Supervisory Board consisted of six female and ten male members (i.e. 37.5% female and 62.5% male members). Therewith Supervisory Board continued to fulfill the requirements of section 96 para. 2 German Stock Corporation Act (AktG) as also determined by the Supervisory Board for itself (30% minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives. This quota was fulfilled and even exceeded with two female members on the employee representative side and four female members on the shareholder representative side.

Supervisory Board is convinced that diversity is an important factor to enable its tasks in the best interest of the Company and has committed explicitly to diversity and equal opportunities in the Company in accordance with the Company's business principles. Supervisory Board is convinced that diversity sustainably serves the Company's best interest. The criteria of the diversity concept for the Supervisory Board required by sect. 289f para 2 no 6 German Commercial Code (HGB) consist of the competence profile and the composition criteria (concrete objectives) of the Supervisory Board. Supervisory Board is of the opinion that these criteria ensure the diversity serving the best interest of the Company. Details of the competence profile and the composition criteria (concrete criteria)<sup>1</sup> are described in the Corporate Governance Report, published on the Company's internet site at [www.telefonica.de/corporate-governance-report-2019](http://www.telefonica.de/corporate-governance-report-2019).

In the Supervisory Board's opinion, the number of at least two independent<sup>2</sup> members of the shareholder representatives was appropriate<sup>3</sup> in the reporting period.

<sup>1</sup> Based on GCGC 2017 as the GCGC applicable to the reporting period, the financial year 2019. The composition criteria (concrete objectives) and the competence profile of the Supervisory board meet the requirements of GCGC 2020.

<sup>2</sup> Based on GCGC 2017 as the GCGC applicable to financial year 2019, the reporting period.

<sup>3</sup> Moreover, In the Supervisory Board's (shareholder side) opinion, the number of at least two members of the shareholder representatives independent of the controlling shareholder and a number of five members independent of Telefónica Deutschland and its Management Board is appropriate in future according to the stipulations of GCGC 2020.

One of the independent members shall act as the financial expert with the expertise required pursuant to sec. 100 para. 5 of the German Stock Corporation Act.

The independent members of the Supervisory Board of Telefónica Deutschland Holding AG in the financial year 2019 were Michael Hoffmann and Sally Anne Ashford. Both are independent<sup>4</sup> of Telefónica Deutschland and its Management Board as well as of the controlling shareholder. In the financial year 2019, all further representatives of the shareholder representative side of the Supervisory Board of Telefónica Deutschland Holding AG (Laura Abasolo García de Baquedano, Pablo de Carvajal González, Patricia Cobían González, Peter Erskine, María García-Legaz Ponce and Julio Linares López) were also independent of the Telefónica Deutschland and its Management Board.

Michael Hoffmann was the independent financial expert within the Supervisory Board.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria (concrete objectives) when recommending candidates to the Annual General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the diversity concept were met in the reporting period as evidenced by the Curricula Vitae of the Supervisory Board members detailing professional and personal backgrounds including current mandates, published under [www.telefonica.de/supervisory-board](http://www.telefonica.de/supervisory-board). The standard age limit established for members of the Supervisory Board is 75 years.

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 material 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 by e-mail.

The Supervisory Board reviews the efficiency and effectiveness of its activities and of its committees at least once a year by conducting an extensive survey among all its members thus also in the financial year 2019.

### **Composition and work of the committees of the Supervisory Board**

As of 31 December 2019 there were four committees of the Supervisory Board. The Supervisory Board may implement further committees if necessary. The Supervisory Board receives regular reports on the work of the committees.

The Audit Committee is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectiveness of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor. As of 31 December 2019, the audit committee consisted of the following members:

- Michael Hoffmann (Chairperson)
- Patricia Cobían González (since 1 May 2019)
- Martin Butz and
- Thomas Pfeil.

Laura Abasolo García de Baquedano resigned from her office as member of the Audit Committee with effect as of the end of 31 April 2019.

As of 31 December 2019, the members of the Remuneration Committee were:

- Sally Anne Ashford (Chairperson)
- Laura Abasolo García de Baquedano
- Dr. Jan-Erik Walter and
- Claudia Weber.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

<sup>4</sup> Thus the independence criteria of GCGC 2020 are met as well.

As of 31 December 2019, the Nomination Committee consisted of the members:

- Patricia Cobián González (Chairperson)
- Laura Abasolo García de Baquedano and
- Pablo de Carvajal González.

As of 31 December 2019, the Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consists of the following members:

- Laura Abasolo García de Baquedano
- Christoph Braun
- Christoph Heil (since 2 May 2019) and
- Julio Linares López.

Sandra Hofmann belonged to the Mediation Committee until 18 February 2019.

In order to ensure more flexibility in course of the spectrum auction held by BNetzA, on 15 March 2019, the Supervisory Board implemented a new resolving committee, the so-called Spectrum Committee. The Spectrum Committee performed tasks of the Supervisory Board within the framework of the delegation by the Supervisory Board during the spectrum auction.

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**Management Board**

Members of the Spectrum Committee were:

- Laura Abasolo García de Baquedano (Chairperson)
- Pablo de Carvajal González (Deputy Chairperson)
- Martin Butz and
- Patricia Cobián González.

After the end of the spectrum auction, the committee was dissolved by resolution of the Supervisory Board on 22 July 2019.

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

11 February 2020

**Supervisory Board**