

Update of the 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 an update of the compliance declaration on 11/12 December 2016 (compliance declaration and its update together the “Compliance Declaration”).

The wording of number 1, 3, 4 and 6 of the Compliance Declaration is, because of the extension of the management board with new members, 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 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 with regard to the new board member service agreements that will become effective on 1 August 2017, the above mentioned recommendation of the GCGC will be complied with.
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 a small 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.
3. 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 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.

4. 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.

Apart from the above, the compliance declaration dated 13/14 and 17 October 2016 remains unchanged.

20/21 July 2017

Management Board

Supervisory Board