

Report of the supervisory board for the fiscal year 2012

The supervisory board of Telefónica Deutschland Holding AG has monitored, and advised on, the activities of the management board in accordance with the rules of the German Stock Corporation Act, the Articles of Association of the Company and the by-laws for the supervisory board.

Composition of the supervisory board

The supervisory board was installed by the shareholders' meeting of the company on September 18, 2012.

The following six shareholders' representatives were elected: José María Álvarez-Pallete López (chairperson), María Pilar López Álvarez (deputy chairperson), Angel Vilá Boix, Patricia Cobián González, Christoph Herbert Günter Steck and Enrique Medina Malo.

José María Álvarez-Pallete López and Christoph Steck both resigned from their office by each submitting a resignation letter dated October 3, 2012.

On October 5, 2012, the shareholders' meeting appointed Eva Castillo Sanz and Michael Hoffmann as new members of the supervisory board, and subsequently, Eva Castillo Sanz was elected as chairperson of the supervisory board. The German Stock Corporation Act provides that at least one independent member of the supervisory board of publicly traded companies must have expertise in the fields of accounting or auditing. On the supervisory board, Michael Hoffmann has the required financial expertise and independence and is the financial expert pursuant to section 100 paragraph 5 of the German Corporation Act.

In due course, the supervisory board will consist of twelve members (six shareholder representatives and six employee representatives). Election of the employee representatives to the supervisory board will take place in accordance with the provisions of the German Co-Determination Act (Mitbestimmungsgesetz). The central election committee was constituted in December. Regional election committees were constituted additionally in January 2013. By February the regional committees evaluated and decided about the

voters' registers. The process has continued with the period of candidate proposals. Candidates may be employees and representatives of workers' unions. Two of the six employee representatives will be representatives of workers' unions. The election is expected to take place in spring 2013.

Cooperation between the management board and the supervisory board

The management board provides the supervisory board monthly with written reports. These reports cover in particular relevant financial key performance indicators (KPI).

In addition, the chairperson of the supervisory board, the chairperson of the management board and the other members of the management board were in constant contact outside the supervisory board meetings. Communications dealt with the present status and the future development of the company as well as the progress of ongoing projects. The chairperson of the supervisory board informed the other members of the supervisory board of the main issues discussed.

The management board involved the supervisory board in due time in all actions requiring its approval. The supervisory board made all of its decisions on the basis of the detailed and comprehensive documents provided.

Meetings of the supervisory board

The first – constituent – meeting of the supervisory board took place on September 18, 2012, immediately after the establishment of the supervisory board by the shareholders' meeting on the same day. In such meeting, the supervisory board resolved inter alia on the appointment of the members of the management board and the conclusion of service agreements with the members of the management board as well as on the approval of the by-laws for the management board.

The second supervisory board meeting took place on December 5. The supervisory board dealt especially with Telefónica Deutschland's business and financial situation and discussed the quarterly results as of September

30, 2012. It further addressed fundamental questions of corporate policy, strategy and development, in particular the market environment, competitors and technological investments, and discussed, and resolved on, the budget for the financial year 2013.

Both supervisory board meetings were attended by all members.

Apart from these regular meetings, the supervisory board resolved on urgent matters by way of circular resolution when needed. Such resolutions were passed inter alia on the principles of the remuneration of the management board and the new by-laws for the management board (circular resolutions dated October 3, 2012) as well as on the appointment of Eva Castillo Sanz as chairperson of the supervisory board, the adoption of by-laws for the supervisory board and the formation of committees (circular resolutions dated October 5, 2012). Furthermore, with view to the implementation of the IPO, the supervisory board consented to the conclusion of an underwriting agreement and an indemnification agreement between the company and the underwriting banks by circular resolution dated October 15, 2012, and by circular resolution dated October 29, 2012, to the conclusion of a pricing agreement with the underwriting banks. Finally, by circular resolution dated October 31/November 5, 2012, the supervisory board adopted the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act, having beforehand thoroughly studied the German Corporate Governance Code.

Committees of the supervisory board

Already prior to the admission of its shares to trading on the Frankfurt Stock Exchange and prior to its meeting on December 5, 2012, the supervisory board formed a nomination and an audit committee by way of circular resolution dated October 5, 2012.

The audit committee is responsible for the preparation of advice on, as well as the resolution of, accounting matters. This includes questions relating to accounting and risk management, the requisite independence of the external

auditor and coordination with the external auditor. The committee comprises four members. The chairperson of the committee is Michael Hoffmann. The other members are María Pilar López Álvarez, Patricia Cobián González and Angel Vilá Boix.

In 2012, the audit committee met twice with participation of all its members. At the meeting on November 28, 2012, the audit committee discussed the quarterly results as of September 30, 2012 with the management board pursuant to section 7 paragraph 2 c) of the by-laws of the supervisory board. At the meeting on December 5, 2012 the audit committee discussed and reviewed inter alia the internal control system, risk management and audit activities.

The nomination committee is responsible for proposing to the supervisory board suitable candidates for recommendation to the general shareholders' meeting for election. Patricia Cobián González was elected chairperson of the nomination committee. The other members are María Pilar López Álvarez and Enrique Medina Malo.

Corporate Governance

The supervisory board and the management board are aware that good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Details on the corporate governance of Telefónica Deutschland Holding AG can be found in the management declaration according to section 289a of the German Commercial Code (Erklärung zur Unternehmensführung) on pages 56-59 of the annual report (or on the company's website under www.telefonica.de/management-declaration) and in the boards' joint corporate governance report on pages 54-57 of the annual report (or on the company's website under www.telefonica.de/corporate-governance-report).

Based on a circular resolution dated October 31/November 5, 2012, the boards issued a joint Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act. On February 28, 2013, the supervisory board and the management board issued an updated Declaration of

Compliance. Both declarations, i.e. both the updated and the previous one, are available on the company's website.

Five members of the supervisory board hold positions in administrative, management and supervisory bodies of the company's major shareholder and its affiliated companies. Both the supervisory board members and the management board members disclose possible conflict of interests promptly to the supervisory board. With regard to the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code on the part of the members of the supervisory board arose.

Review of the Annual Financial Statements 2012

The 2012 annual financial statements for Telefónica Deutschland Holding AG and the consolidated financial statements along with the management report for Telefónica Deutschland Holding AG and the group each presented by the management board were audited by the auditing company Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with its seat in Stuttgart, branch Munich. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft had been appointed auditor for the financial year 2012 by resolution of the shareholders' meeting that also resolved on the conversion of the company into a stock corporation as on September 18, 2012.

The Telefónica Deutschland Holding AG's financial statements and the management report were prepared in accordance with the legal requirements of the German Commercial Code (HGB). The consolidated financial statements along with the corresponding group management report were prepared in accordance with section 315a of the German Commercial Code (HGB) and Regulation (EC) no. 1606/2002 on the basis of the International Financial Reporting Standards (IFRS) as applicable in the European Union.

The auditor performed his audit on the basis of German generally accepted auditing principles as promulgated by the Institut der Wirtschaftsprüfer (IDW). The auditor issued an unqualified opinion (uneingeschränkter Bestätigungsver-

merk) for the 2012 annual financial statements of Telefónica Deutschland Holding AG with management report and the consolidated financial statements and the group management report.

All documents relating to the financial statements the management board's proposal for the appropriation of profit and the respective auditor's reports were submitted to the supervisory board's audit committee and to the other members of the supervisory board in due time prior to the respective meetings. The audit committee and the supervisory board in its entirety thoroughly examined the reports and discussed and scrutinised them in detail together with the auditor in their meetings. The supervisory board noted and approved of the auditor's findings in the audit reports and had no objections.

At its meeting on March 22, 2013, the supervisory board therefore approved the annual financial statements of Telefónica Deutschland Holding AG and the 2012 consolidated financial statements together with their respective management reports; the financial statements were thereby adopted (festgestellt).

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the management board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion (uneingeschränkter Bestätigungsvermerk):

"Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high,
3. there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the management board."

The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the supervisory board in due time. Having examined the dependency report and the corresponding audit report in accordance with section 314 of the German Stock Corporation Act, the supervisory board had no objections against the dependency report and the management board's declaration on the relations to affiliated companies contained therein and agrees with the auditor's findings.

The supervisory board would like to thank the members of the management board and all employees of Telefónica Deutschland for their dedication and excellent work in the past year. Our encouraging performance would not have been possible without the commitment of all our employees. The supervisory board sees this as motivation for all employees to remain committed to the course in 2013 and contribute profitable growth.

Munich, March 22, 2013

On behalf of the supervisory board

Eva Castillo Sanz

Chairperson and Chief Executive Officer of Telefónica Europe and member of the board of Telefónica S.A.