

Supervisory Board Report for the 2013 financial year_

Dear Shareholders,

In the reporting period, the Supervisory Board of Telefónica Deutschland Holding AG responsibly performed its duties as set out by law, the Articles of Association and the by-laws. In terms of good corporate governance, the Supervisory Board collaborated well with the Management Board on basis of a trustful cooperation and fulfilled its controlling and consulting responsibilities. It has supported intensively the management of the company, in particular in connection with the planned acquisition of E-Plus.

Composition of the Supervisory Board

At the beginning of the 2013 financial year the Supervisory Board consisted of six members, being the shareholder representatives Eva Castillo Sanz, Angel Vilá Boix, María Pilar López Álvarez, Patricia Cobián González, Michael Hoffmann and Enrique Medina Malo. All shareholder representatives are generally appointed until the end of the General Meeting that resolves on the discharge for the financial year ending December 31, 2016.

On May 29, 2013 six employee representatives were newly and in addition elected to the Supervisory Board in accordance with the provisions of the German Co-Determination Act. These are Imke Blumenthal, Marcus Thurand, Thomas Pfeil, Dr. Jan-Erik Walter, Christoph Heil and Claudia Weber. For four of them, substitute members were appointed.

In the Supervisory Board meeting following the election of the employee representatives on June 18, 2013, Ms Eva Castillo Sanz was confirmed in her role as Chairperson of the Supervisory Board and Ms Imke Blumenthal was elected Vice Chairperson of the Supervisory Board.

The Supervisory Board of Telefónica Deutschland Holding AG thus now consists of twelve members of whom six members are shareholder representatives and six members are employee representatives.

The German Stock Corporation Act determines for listed companies that at least one independent member of the Supervisory Board must have expertise in the areas of accounting or auditing. In the Supervisory Board of Telefónica Deutschland Holding AG, Michael Hoffmann has the required expertise and independency and is the independent financial expert within the meaning of section 100 para. 5 German Stock Corporation Act (AktG).

Composition of the Management Board

In the 2013 financial year the Management Board consisted of the following members:

- René Schuster, Chief Executive Officer / CEO
- Markus Haas, Chief Strategic Officer / CSO
- Rachel Empey, Chief Financial Officer / CFO

With effect as of February 1, 2014, René Schuster left the Management Board by mutual agreement and Markus Haas and Rachel Empey took over the responsibilities of the CEO in addition to their other responsibilities.

The Supervisory Board thanks the former Management Board member René Schuster for the successful collaboration.

Cooperation between the Management Board and Supervisory Board

The Management Board provides the Supervisory Board with a monthly written report. These reports cover in particular relevant financial key performance indicators (KPIs).

The Chairperson of the Supervisory Board and the entire Management Board also were in constant contact outside Supervisory Board meetings in order to advise regarding the current position and the future development of the company as well as the progress of current projects – particularly the E-Plus transaction. The Chairperson of the Supervisory Board informed the other members of the Supervisory Board of the main issues discussed thereby.

The Management Board involved the Supervisory Board in due time in all actions requiring its approval. The Supervisory Board always referred to the documents and reports presented by the Management Board and – if required – external consultants.

Meetings of the Supervisory Board

In 2013 four ordinary meetings of the Supervisory Board took place, in concrete on March 22, June 18, July 30, and

November 6, 2013. Meetings of the Audit Committee were also held on these days. In addition, there were five extraordinary meetings of the Supervisory Board, further informative video and/or telephone conferences and resolutions of the Supervisory Board outside of meetings.

So far there have been three Supervisory Board meetings in 2014, two of them being extraordinary ones (on the evening of January 29, 2014 regarding the change in the Management Board and on March 6, 2014 for an update concerning the E-Plus transaction) and an ordinary meeting on March 18, 2014 (meeting on the financial statements for the 2013 financial year; Bilanzsitzung). On February 11, 2014 the annual Declaration of Compliance was resolved upon and on March 6, 2014 the management declaration as well as the Corporate Government Report. They were published on these days respectively.

Fundamental issues dealt with by the Supervisory Board

The first ordinary meeting of the Supervisory Board in the 2013 financial year on March 22, 2013 was the meeting regarding the financial statements for the 2012 financial year (Bilanzsitzung). Next to the items associated therewith, such as the approval of the financial statements and management reports (Group and corporation) for the 2012 financial year and other reporting by Management to Supervisory Board inter alia pursuant to section 90 German Stock Corporation Act (AktG), the agenda and proposed resolutions for the Annual General Meeting on May 7, 2013 were resolved upon.

The ordinary meeting on June 18, 2013 was the first Supervisory Board meeting following the election of the employee representatives with the new composition of the Supervisory Board with its twelve members. Thus in this meeting internal elections took place (including for the Chairperson and Vice Chairperson as well as Committee members). Furthermore, the working efficiency of the Supervisory Board, compliance and corporate governance were dealt with.

At the ordinary meeting on July 30, 2013, Management Board remuneration including change in the employment contracts with the Management Board members and the potential sale of assets as well as of holding (Telefónica Germany Online Services GmbH) were dealt with.

In the ordinary meeting on November 6, 2013 the improvement of data centers and network technology, as well as the planned dividend for the 2013 financial year were inter alia discussed. Furthermore, the first bond issue was dealt with.

At an extraordinary meeting of the Supervisory Board on July 22, 2013 the planned acquisition of E-Plus was approved. This issue was subsequently regularly discussed at the meetings of the Supervisory Board with changing focus (including also the convening of an extraordinary General Meeting on February 11, 2014).

Furthermore, at extraordinary Supervisory Board meetings information was provided regarding essential operational contracts and – if required – resolutions passed.

At every ordinary meeting, the financial situation of the company including the relevant financial reports, budget, business planning, the market positioning and the telecommunications business were examined and discussed.

All Supervisory Board members have participated in more than half of the meetings.

Outside of the meetings the Supervisory Board passed resolutions, to the extent required, for example electronically. The by-laws of the Management Board were amended in this way, a reporting directive and the (previous) declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG) dated February 28, 2013 adopted.

Committees of the Supervisory Board

The Supervisory Board has a Nomination Committee, a Mediation Committee and an Audit Committee.

The Audit Committee is responsible for advice and the passing of resolutions in accounting matters. This includes questions regarding accounting, internal control system, risk management and internal revision and on the required independency of the external auditors and coordination with the external auditor. The Committee consists of four members. Up until the meeting on June 18, 2013, being the first meeting of the Supervisory Board in its full composition with twelve members including the employee representatives the Committee consisted of the following members:

- Michael Hoffmann (Chairperson)
- María Pilar López Álvarez
- Patricia Cobián González and
- Angel Vilá Boix.

Since June 18, 2013 the following members are members of the Audit Committee:

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

In 2013 the Audit Committee met four times with all members being present. Hereby the issues of accounting, compliance, internal revision, risk evaluation and management, valuation issues as well as the financial, asset and earnings position were dealt with.

The following members belong to the Mediation Committee, constituted in the meeting on June 18, 2013, with the responsibilities in accordance with section 31 German Co-Determination Act:

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

Furthermore, there is a Nomination Committee. The Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for election proposals to the General Meeting. Patricia Cobián González was elected as 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. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration in accordance with section 289a German Commercial Code on page 19 ff. of the annual report or on the company's website at WWW.TELEFONICA.DE/MANAGEMENT-DECLARATION and in the Management Boards' Corporate Governance Report on page 16 ff. of the annual report or on the company's website at WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-REPORT.

On February 11, 2014 the Management Board and the Supervisory Board have approved the Declaration of Compliance in accordance with section 161 German Stock Corporation Act (AktG) and released it on the same day. This declaration can be viewed in the Annual Report on page 19 ff. Such and previous versions can be also found at the company's website at WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE

Five members of the Supervisory Board hold positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board. In the reporting period, no conflicts of interest arose within the meaning of the German Corporate Governance Code.

Review of the Financial Statements 2013

The 2013 annual financial statements for Telefónica Deutschland Holding AG and the consolidated financial statements with the management reports for Telefónica Deutschland Holding AG and the group as 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 (group) auditor for the financial year 2013 by resolution of the annual General Meeting on May 7, 2013.

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 and 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 Bestätigungsvermerk) for the 2013 annual financial statements of Telefónica Deutschland Holding AG with management report and the consolidated financial statements and the group management report.

The financial statements of the corporation and the group and all related documents thereto as well as the Management Board's proposal for the distribution of profit and the respective auditor's reports were submitted to the Supervisory Board in due time prior to the meetings on March 18, 2014 (Bilanzsitzung). The audit committee and the Supervisory Board in its entirety thoroughly examined the reports and discussed them in detail together with the auditor on March 18, 2014.

The Supervisory Board acknowledged and approved the auditor's findings in the audit reports and had no objections.

At its meeting on March 18, 2014, the Supervisory Board approved the annual financial statements of Telefónica Deutschland Holding AG and the consolidated financial statements together with their respective management reports for the 2013 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

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 thanks the members of the Management Board and all employees for their dedication and excellent work in the past year. With their commitment, which was in the reporting period in particular challenged by the competitive market environment and the E-Plus transaction, they have contributed to the success of the company.

Munich, March 18, 2014

On behalf of the Supervisory Board

Eva Castillo Sanz
Chairperson of the Supervisory Board of
Telefónica Deutschland Holding AG