

Management Declaration_

in accordance with sections 315d in connection with 289f 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 12/13/ 14 and 16 October 2017, 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. 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 on 1 August 2017 respectively, the above mentioned recommendation of the GCGC has been followed so that this recommendation will be fully complied with in the future.

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 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. 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.

4. 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 neither for the stock option programme 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.

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 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.

7. The recommendation in 4.2.5, sentence 4 GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Company has been up to now only been followed partially, as the fringe benefits provided by the Company were only disclosed to the extent they were provided to all Management Board members. Where fringe benefits were only provided to individual Management Board members, these were not shown. 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 schedules, has not been followed up to now. The general meeting on 5 October 2012 had 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, i.e. until and including for the financial year 2016. For that period, it was thus not foreseen to comply with the presentation as recommended in 4.2.5 sentence 5 and 6 GCGC. Furthermore, Management Board and Supervisory Board took the view that the individualization involved in the disclosure of individual fringe benefits would have contradicted the resolution of the general meeting. As there was no reiteration of the "opt-out" resolution taken in this year's general meeting, the remuneration of the

Management Board will in the future be presented in accordance with 4.2.5 sentence 5 and 6 GCGC with the qualification that the information scheduled in the model tables for the previous year 2016 will be omitted due to the "opt-out" resolution being still in force for that period.

8. Pursuant to 5.4.1, 2nd paragraph GCGC the Supervisory Board shall specify concrete objectives regarding its composition, considering inter alia within the framework of the specific situation of the Company an age limit and a regular limit of length of membership appropriately. Supervisory Board has resolved on concrete objectives regarding its composition, however so far without either specifying a concrete objective regarding an age limit for Supervisory Board members or a general limit of length of membership to the Supervisory Board. In the view of the Supervisory Board, the ability to control and supervise the Management Board is not necessarily restricted by reaching a certain age and the possibility to build on long-time expertise of individual members in the Supervisory Board may serve the Company's interest to a greater extent. In order to meet the requirements of the GCGC regarding the specification of concrete criteria for its composition in future, Supervisory Board determined a standard age limit for members of the Supervisory Board as well as a standard limit of membership to the Supervisory Board to be applied in principle, following intense discussions in early October and taking into account the specific corporate situation of the Company, thus ensuring future compliance with this recommendation.

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.

This Compliance Declaration and previous declarations of compliance are available on the company's website for 2017 at WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE-2017.

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.

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 programme includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behaviour. 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 whistle-blower system (WWW.TELEFONICA.DE/OMBUDSMANN).

In the financial year 2017, the company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the company. The functions compliance, data protection, company security and internal audit form – as does the legal department – part of the department General Counsel 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-REPORT-2017.

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

In the beginning of the financial year 2017, there were two members of the Management Board of Telefónica Deutschland Holding AG (Markus Haas, CEO (Vorstandsvorsitzender) and Rachel Empey; CFO (Finanzvorstand)). Since 1 August 2017, the Management Board consists of eight members, Markus Haas, CEO, Markus Rolle, CFO, Wolfgang Metzke (Chief Consumer Officer), Alfons Lösing (Chief Partner and Business Officer), Cayetano Carbajo Martín (Chief Technology Officer), Valentina Daiber (Chief Officer Legal and Corporate Affairs) and Nicole Gerhardt (Chief Human Resources Officer and Labour Director "Arbeitsdirektor").

The Supervisory Board determined in 2015 in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 20 % for the Management Board. This quota was effective until December 2017 and was exceeded throughout, in December 2017 Supervisory Board resolved on a quota of 25%, to be met by 30 June 2022:

Until 30 July 2017, 50% of the members of the Management Board were female (one member of the two member Management Board was female). Since 1 August 2017, the share of female members is 25% (with Nicole Gerhardt and Valentina Daiber two members of the eight member Management Board are female).

Considering the abovementioned minimum gender quota and taking into account the age limit 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.

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 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 target for a minimum quota for male and female members in the board is 25%.

Such targets shall be considered by Supervisory Board for appointment and succession planning of members of Management Board.

The targets have been met since the beginning of the financial year 2017 and are currently being met as may be verified via the Curricula vitae of the members of the Management Board published on the company's website under WWW.TELEFONICA.DE/MANAGEMENT-BOARD. The 30 % minimum gender quota for the male and female share of the leadership level Reporting Level 1 (Berichtsebene 1) determined by Management Board is also part of the sustainable diversity strategy.

In accordance with section 76 para. 4 of the German Stock Corporation Act (AktG), the Management Board had set goals for the female quota of the two levels below the Management Board in 2015 voluntarily. The minimum gender diversity

quota which had to be fulfilled until 30 June 2017 was determined at 16 %. On 30 June 2017, the quota fell short of the target, the share of female members was 8% for the first management level and 13% for the second management level. The diversity strategy and measures introduced in 2013 already did not show the desired effect, thus the quota could not be met. Nevertheless, the Management Board still pursues the target to promote diversity in the Telefónica Deutschland group and thus has determined a new quota of 30 % for female and male share in management, to be met by 30 June 2022. This target shall be achieved by the company's new diversity strategy introduced on 1 January 2018. Due to organisational changes after the restructuring of the Management Board the relevant management level has now been defined as Reporting Level 1 (Berichtsebene 1). On 31 December 2017 the share of female members of this group was 13 %.

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.

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. Ángel Vilá Boix left the Supervisory Board of Telefonica Deutschland Holding AG with effect of 4 October 2017. Julio Linares López was appointed as his successor by the relevant court with resolution dated 16 October 2017.

The current members of the Supervisory Board are: Chairperson Eva Castillo Sanz, Deputy Chairperson Christoph Braun and the Supervisory Board Members Julio Linares López, 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 consists of 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) as also determined by the Supervisory Board (30 % minimum gender diversity quota) are fulfilled.

Supervisory Board is convinced that diversity is an important factor to enable its monitoring and steering responsibilities in the best interest of the company.

In accordance with the company's business principles Supervisory Board has committed explicitly to diversity and equal opportunities in the company. 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 Commercial Code (HGB) consist of the competence profile and the composition criteria 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 are described in the Corporate Governance Report, published on the company's intranet site under WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-REPORT-2017.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria from an early stage when recommending candidates to the General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the Diversity Concept have been met since the beginning of the financial year 2017 and are still being met 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.

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, thus also in 2017.

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, there are currently four committees of the Supervisory Board. The Supervisory Board can implement further committees if necessary. 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
- Julio Linares López (since 13 December 2017) and
- Marcus Thurand.

Ángel Vilá Boix belonged to the Mediation Committee until 4 October 2017.

The members of the Remuneration Committee 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.

9 February 2018

Management Board Supervisory Board