

# Corporate Governance Report

The German Corporate Governance Code establishes a standard for transparent control and management of companies. In accordance with 3.10 of the German Corporate Governance Code, the Management Board and the Supervisory Board of Telefónica Deutschland inform about Corporate Governance as follows. This Corporate Governance Report is also published together with the Management Declaration in accordance with section 315d in connection with 289f German Commercial Code (HGB) on our website at [www.telefonica.de/corporate-governance-report-2017](http://www.telefonica.de/corporate-governance-report-2017).

## Declaration of compliance

The Management Board and Supervisory Board of Telefónica Deutschland feel committed to the principles of transparent corporate governance and regularly consider the principles of the German Corporate Governance Code. On 12/13 /14 and 17 October 2017 they last stated a declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG). The full text of the compliance declaration and its update may also be viewed on the company's website at [www.telefonica.de/declaration-of-compliance-2017](http://www.telefonica.de/declaration-of-compliance-2017).

## The company's governing bodies

As a German stock corporation, Telefónica Deutschland has three governing bodies: the general shareholders' meeting, the Supervisory Board and the Management Board. Their duties and powers are essentially determined by the German Stock Corporation Act, the Articles of Association and the by-laws of both the Management Board and the Supervisory Board.

### 1 / A / Management and governing bodies



German corporate law provides for a clear separation of personnel between management and controlling bodies.

The managing body is the Management Board. It manages the company in its own responsibility in the best interest of the company with the objective of sustainable value creation. The Management Board is monitored and advised by the Supervisory

Board. Management Board and Supervisory Board work together closely in the interest of the welfare of the company. All transactions and decisions that are of fundamental or material importance to the company are carried out in close coordination between the Management Board and the Supervisory Board.

The Management Board informs the Supervisory Board regularly, promptly and comprehensively on all material questions regarding the company, especially on planning, business development, strategy, risk situation and risk management as well as on compliance. Furthermore, the Management Board provides the Supervisory Board with information in case deviations of plans or objectives may occur in course of conducting of business and of the reasons thereof.

Details regarding the composition and the operating principles of the Management Board, the Supervisory Board and the Supervisory Board's committees can be found in the management declaration in accordance with section 315 d in connection with 289f of the German Commercial Code (HGB) (Erklärung zur Unternehmensführung) on the Telefónica Deutschland Holding AG website under [www.telefonica.de/management-declaration-2017](http://www.telefonica.de/management-declaration-2017).

Taking into account the German Corporate Governance Code (GCGC), Supervisory Board amended its Competence Profile on 18 December 2017 in order to ensure an even more qualified supervision of Management Board's actions.

The Supervisory Board is to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly advise and supervise the Management Board. Each member of the Supervisory Board should be prepared and in a position to invest sufficient time and input and have the necessary personal qualities, in particular integrity, motivation and personality to fulfil their office. All members of the Supervisory Board shall consider responsible and ethical behaviour of a reputable business person.

In addition, each member of the Supervisory Board should have specialist knowledge in at least one of the areas relevant for advising and supervising the Management Board. The different professional backgrounds, specialist knowledge as well as the experience and lives of the members should complement each other, so that the Supervisory Board can draw upon as wide a range as possible of experience and varieties of specialist knowledge, e.g. Finance, M&A, Strategy, Marketing & Sales, Legal and Regulatory, HR, Network & Technology.

The Supervisory Board has specified concrete objectives regarding its composition (5.4.1, 2nd paragraph of the German Corporate Governance Code) considering inter alia the specifics of the company, its shareholders' structure and the company's international activities, diversity and taking into account that half of the members of the Supervisory Board are elected by the employees pursuant to German Co-Determination law. In this context, the Supervisory Board has set the following objectives regarding its composition:

- The Supervisory Board is to have at least two independent members (within the meaning of no. 5.3.2 sentence 2 and 5.4.2 German Corporate Governance Code) and should not include any persons who hold an office (e.g. at a significant competitor) which may create a material and not only temporary conflict of interest.
  - At least 30 % of the members of the Supervisory Board should be female, at least 30 % male.
  - At least one third of the Supervisory Board members to be elected by the General Meeting should have international working experience, knowledge of the English language as well as an understanding of global economic contexts ("internationality").
  - The standard term of office of supervisory members should end with the Annual General Meeting following the supervisory board reaching 75 years of age unless an individual member's experience is of special value to the company and the Supervisory Board has approved such exception.
  - A standard limit of 15 years, i.e. three full terms of office, shall apply to members of the Supervisory Board. In the company's best interest and upon approval by Supervisory Board, deviation from the general maximum period is possible, especially in order to fulfil other composition criteria.
- do not have a material shareholding. A material shareholding in this sense means 3 % of the shares of the company and / or
  - are not closely related (in the meaning of art. 3 para. 1 No. 26 of the Market Abuse Regulation) to an executive or non-executive board member of Telefónica Deutschland or its major shareholder or any of the companies affiliated and / or
  - have no material relationship (e.g. commercial agreement like sales, customer/supplier, consultancy or other agreements) with Telefónica Deutschland or its major shareholder or any of the companies affiliated or its governing bodies which could constitute a (not just temporary) conflict with the best interest of the Company and / or
  - are not members of governing bodies of, or exercises advisory functions at, significant competitors of the company.

In addition to the legal requirements, the Supervisory Board - taking the recommendations of the German Corporate Governance Code 2017 into account with regard to the independence - determines the following criteria for independence.

Independent members are members who:

- are not directly or indirectly employed by Telefónica Deutschland or its major shareholder or any of companies affiliated with them and / or
- do not currently hold a board function (whether executive or non-executive) at Telefónica Deutschland's major shareholder or any of the companies affiliated with them and/ or

In the Supervisory Board's opinion, the number of at least two independent members of the shareholder representatives is appropriate. One of the independent members shall act as the financial expert pursuant to sec. 100 para. 5 of the German Corporation Act. The independent members of the Supervisory Board of Telefónica Deutschland Holding AG in the financial year 2017 were Michael Hoffmann and Sally Anne Ashford. Michael Hoffmann also was the independent financial expert within the Supervisory Board.

Supervisory Board is convinced that these concrete targets also reflect the shareholder structure appropriately.

Supervisory Board considers these concrete targets and the competence profile as currently met.

The abovementioned competence profile and the composition criteria form the requirements of the diversity concept to be met by the Supervisory Board, see also **[www.telefonica.de/management-declaration-2017](http://www.telefonica.de/management-declaration-2017)**.

## Relationship to shareholders and the General Meeting

The shareholders are generally informed four times a year about the financial and earnings situation and business development.

The company provides for further information on its website **[www.telefonica.de/investor-relations](http://www.telefonica.de/investor-relations)**, especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings take place.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting,

especially by exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor).

## Risk Management

For the management and supervisory board of Telefónica Deutschland Group, internal control and risk management are fundamental tools for the governance. The risk management department reports regularly to the management board and the audit committee on current risks, action plans and developments. Our risk management process is designed to timely identify, evaluate and mitigate company risks through constant communication with the relevant stakeholders. The risk management system is continuously improved and reviewed by the external auditor.

You may find further details in the Section "Report on Risks and Opportunities" within the Annual Financial Statement.

## Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The company has a compliance department that is concerned with the implementation and optimization of the compliance organization within the whole company, the coordination of compliance activities and advises employees on their questions. The approach pursued is preventive, raising awareness and informing employees in order to preclude potential violations of rules. Employees and third parties have the possibility to report suspected breaches of law e.g. via an external whistleblower system, the Ombudsman, in a protected manner.

The compliance programme focuses on behaviours protecting fair competition, avoiding corruption and conflicts of interests as well as on ethically appropriate behaviour. These topics are covered by mandatory online trainings, as are the areas of data protection, anti-discrimination and information security. Each employee is required to complete certain mandatory training sessions in regular intervals based on his or her job responsibilities. Clear guidelines and policies were established for the most important compliance matters.

The existing Compliance Management System is continuously developed further to adjust it to the changing legal and economic conditions. The Management Board and the Supervisory Board (especially the Audit Committee in charge of monitoring internal control systems and Compliance) is informed regularly on compliance activities.

In this overall context, the company has also a Capital Market Law department in the area of the General Counsel which ensures that the insider rules are complied with (including train-

ings and maintaining insider lists wherein any persons who act for the company and have authorised access to insider information are registered).

Management and Supervisory Board deal with the topic compliance on a regular basis.

## Transparency and communication

Telefónica Deutschland shareholders can receive information on the company's website. This includes press releases, corporate news and ad-hoc news. The company's Articles of Association are also published on the website.

## Relevant shareholdings of Management and Supervisory Board

The members of the Management Board hold shares of Telefónica Deutschland Holding AG. No member hold options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2017, the Management Board held approximately 0.0014 % of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers' transactions.

As per 31 December 2016, the Supervisory Board held approximately 0.0007 % of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers' transactions.

## Managers' Transactions

According to sec. 19 Market Abuse Regulation persons discharging managerial responsibilities, as well as persons closely related to them are obliged to disclose transactions in shares or debt instruments of Telefónica Deutschland or other derivatives or financial instruments linked thereto if the value of these transactions reaches or exceeds EUR 5,000 per annum.

Respective declarations can be found on the Telefónica Deutschland website at [www.telefonica.de/managers-transactions](http://www.telefonica.de/managers-transactions)

## Accounting and auditing

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft with seat in Frankfurt am Main, branch Munich, has been appointed auditor and group auditor for the financial year 2017 by resolution of the annual General Meeting on 9 May 2017.