

# MANAGEMENT DECLARATION IN ACCORDANCE WITH SECTIONS 315d IN CONNECTION WITH 289f OF THE GERMAN COMMERCIAL CODE (HGB)

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## 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 and 15 October 2018, 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.** 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.

**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 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. 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 variable compensation components. This recommendation has been and will be partially deviated from as for several aspects of the variable compensation no 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 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.

**5.** 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.

**6.** 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 2018 at [www.telefonica.de/declaration-of-compliance-2018](http://www.telefonica.de/declaration-of-compliance-2018).

## 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/geschaeftsgrundsaeetze](http://www.telefonica.de/geschaeftsgrundsaeetze).

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 program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behavior. 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 whistleblower system ([www.telefonica.de/ombudsmann](http://www.telefonica.de/ombudsmann)).

The company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the company. The department "Compliance, Corporate Security & Data Protection" and Internal Audit as well as the department General Counsel report directly to the Management Board.

Further details regarding the compliance organisation 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-2018](http://www.telefonica.de/corporate-governance-report-2018).

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

The Management Board of Telefónica Deutschland Holding AG comprises 8 members: Markus Haas, CEO (Vorstandsvorsitzender), Markus Rolle, CFO (Finanzvorstand), Wolfgang Metze (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 "Arbeitsdirektorin").

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 German 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 Supervisory Board determined in December 2017 in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 25% for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2018 (two of eight members are female).

Also 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.

Such targets shall be considered by Supervisory Board for appointment and succession planning of members of Management Board and have been met throughout the reporting period as may also 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](http://www.telefonica.de/management-board).

As part of the diversity strategy and in accordance with section 76 para. 4 of the German Stock Corporation Act (AktG), the Management Board has set targets for the female quota of the management level below the Management Board, reporting level 1 (Berichtsebene 1), voluntarily. The target of 30% to be met by 30 June 2022 shall be achieved via the company's diversity strategy introduced on 1 January 2018. The diversity strategy showed first results in the reporting period, as of 31 December 2018 the share of female members of reporting level 1 was 21.3%. This means an increase of approximately 8% within a year (approximately 13% as of 31 December 2017).

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 Management 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 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.

In the beginning of the financial year 2018, the Supervisory Board comprised the following members: Eva Castillo Sanz (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Laura Abasolo García de Baquedano, Julio Linares López, Peter Erskine, Patricia Cobián González, Michael Hoffmann, Sally Anne Ashford, Enrique Medina Malo, Dr. Jan-Erik Walter, Joachim Rieger, Jürgen Thierfelder, Thomas Pfeil, Marcus Thurand, Christoph Heil, and Claudia Weber.

In the beginning of the financial year 2018, Eva Castillo Sanz was chairperson of the Supervisory Board. She resigned from her office as chairperson and her memberships in the committees of the Supervisory Board on 25 April 2018 with immediate effect. On 3 May 2018, Laura Abasolo García de Baquedano was elected as chairperson of the Supervisory Board.

Moreover, Eva Castillo Sanz resigned as member of the Supervisory Board with effect to the end of 25 May 2018. María García-Legaz Ponce was appointed as her successor as member of the Supervisory Board by court resolution dated 7 June 2018.

Enrique Medina Malo resigned as member of the Supervisory Board with effect as of end of 24 July 2018, Pablo de Carvajal González was appointed by court as new member of the Supervisory Board with effect as of 25 July 2018.

The election of the employee representatives took place on 26 April 2018 as their office period ended with the end of the Annual General Meeting on 17 May 2018. Christoph Braun, Jan-Erik Walter, Thomas Pfeil, Joachim Rieger, Jürgen Thierfelder and Claudia Weber were re-elected. Martin Butz and Sandra Hofmann were newly elected to the Supervisory Board.

The term of office of Marcus Thurand and Christoph Heil respectively ended on 17 May 2018.

As of 31 December 2018, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Julio Linares López, Peter Erskine, Patricia Cobián González, Michael Hoffmann, Sally Anne Ashford, María García-Legaz Ponce, Pablo de Carvajal González, Martin Butz, Dr. Jan-Erik Walter, Joachim Rieger, Jürgen Thierfelder, Thomas Pfeil, Sandra Hofmann and Claudia Weber.

As of 31 December 2018, the Supervisory Board consists of six female and ten male members (i.e. 37.5% female and 62.5% male members). Therewith Supervisory Board continues to fulfill the requirements of section 96 para. 2 German Stock Corporation

Act (AktG) as also determined by the Supervisory Board for itself (30% minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives.

Supervisory Board is convinced that diversity is an important factor to enable its monitoring and steering responsibilities in the best interest of the company and has committed explicitly to diversity and equal opportunities in the company in accordance with the company's business principles. 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 German 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 internet site under **[www.telefonica.de/corporate-governance-report-2018](http://www.telefonica.de/corporate-governance-report-2018)**.

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 were met in the reporting period 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](http://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 material 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 2018.

### **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, as of 31 December 2018 there are four committees of the Supervisory Board. The Supervisory Board may implement further committees if necessary. The Supervisory Board receives regular reports on the work of the committees.

The Audit Committee is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors 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
- Martin Butz (since 13 June 2018).

Christoph Heil left on 17 May 2018.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. Patricia Cobián González is chairperson of the nomination committee. Following Eva Castillo Sanz' and Enrique Medina Malo's resignations, Laura Abasolo García de Baquedano and Pablo de Carvajal González have been further members since 24 September 2018.

### **Management Board**

15 February 2019

### **Supervisory Board**

The Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consists of the following members:

- Laura Abasolo García de Baquedano (since 3 May 2018, Chairperson)
- Christoph Braun
- Julio Linares López and
- Sandra Hofmann (since 13 June 2018).

Eva Castillo Sanz belonged to the Mediation Committee until 25 April 2018, Marcus Thurand until 17 May 2018.

The members of the Remuneration Committee are:

- Sally Anne Ashford (Chairperson)
- Laura Abasolo García de Baquedano (since 13 June 2018)
- Claudia Weber and
- Dr. Jan-Erik Walter

Eva Castillo Sanz belonged to the Remuneration Committee until 25 April 2018.

More details on the composition and work of the Committees of the Supervisory Board are provided in the Supervisory Board Report.