

# 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 315 para. 5 in connection with 289a German Commercial Code (HGB) on our website at [WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-REPORT](http://WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-REPORT)

## 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 13/14/17 October 2016 they last stated a declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG) which has been updated by resolution on 11/12 December 2016. 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](http://WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE)

## 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.

## 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 para. 5 in connection with 289a of the German Commercial Code (HGB) (Erklärung zur Unternehmensführung) in the Annual Report or on the Telefónica Deutschland website under [WWW.TELEFONICA.DE/MANAGEMENT-DECLARATION](http://WWW.TELEFONICA.DE/MANAGEMENT-DECLARATION)

The Supervisory Board has specified concrete objectives regarding its composition (5.4.1, 2nd paragraph of the German Corporate Governance Code) considering the specifics of the company, its shareholders' structure and the company's international activities 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 has at least one independent member (within the meaning of no. 5.3.2 sentence 2 and 5.4.2 sentence 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 Supervisory Board considers these concrete objectives as currently fulfilled.

The Supervisory Board has refrained from implementing a concrete objective regarding an age limit and a regular limit of length of membership and has in this regard made a declaration of deviation in the Declaration of Compliance.

### 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-EN](http://WWW.TELEFONICA.DE/INVESTOR-RELATIONS-EN)), 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 reviewed by the external auditor and is continuously improved.

You may find further details in the Section "Report on Risks and Opportunities".

### 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 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.

The compliance program 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 trainings 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 2016, the Management Board held approximately 0.0015 % of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers' transactions (former directors' dealings).

As per 31 December 2016, the Supervisory Board held approximately 0.0019 % of the shares of Telefónica

Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers' transactions (former directors' dealings).

### Managers' Transactions (former Directors' Dealings)

According to section 19 Market Abuse Regulation (former section 15a of the German Securities Trading Act (WpHG)) 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/INVESTOR-RELATIONS-EN/CORPORATE-GOVERNANCE/MANAGERS-TRANSACTIONS.HTML](http://WWW.TELEFONICA.DE/INVESTOR-RELATIONS-EN/CORPORATE-GOVERNANCE/MANAGERS-TRANSACTIONS.HTML)

### Accounting and auditing

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft with seat in Stuttgart, branch Munich, has been appointed auditor and group auditor for the financial year 2016 by resolution of the annual General Meeting on 19 May 2016.