

## Compliance Declaration

The Management Board and Supervisory Board of Telefónica Deutschland Holding AG hereby confirms pursuant to § 161 (1) of the German Stock Corporation Act that since the issuance of the last compliance declaration Telefónica Deutschland Holding AG has complied, and will in the future comply, with the recommendations of the German Corporate Governance Code in the version dated 15 May 2012 ("GCGC") with the following exceptions:

1. The GCGC recommends in 3.4, 2<sup>nd</sup> paragraph, that the Supervisory Board shall specify the information and reporting duties of the Management Board in more detail. As the Company was only created through a transformation of form on 26 September 2012, the Supervisory Board first wished to discuss which particular reports it required, in addition to the reports required by statute, in order to complete its advisory and supervisory tasks. By resolution dated 28 February 2013 the Supervisory Board amended the by-laws for the Management Board and detailed the requirements for the standard reports under § 90 (1) sentence 1 No. 1 Stock Corporation Act as well as determining further reporting obligations, so that the recommendation will be fully complied with in the future.
2. The recommendation in 4.2.3, 2<sup>nd</sup> paragraph, sentence 4 GCGC that both positive and negative developments 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 oriented towards a sustainable company development. The remuneration consists of fixed as well as of short- and long-term components. The relevant parameters for the determination of the annual bonus 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, 3<sup>rd</sup> paragraph, sentence 2, the GCGC recommends that share-based and performance-based remuneration components shall relate to rigorous and relevant comparison parameters. A partial derogation from such recommendation has been and will be made. The amount of the annual bonus depends to a small extent also on parameters regarding Telefónica Europe and Telefónica S.A. In addition, a part of the long-term remuneration components is dependent on the Total Shareholder Return of the Telefónica S.A. shares. The Management Board and the Supervisory Board are of the opinion that no misdirected incentives are created thereby.

4. The recommendation in 4.2.3, 3<sup>rd</sup> paragraph, sentence 3 GCGC that forbids a retroactive change of performance objectives or comparison parameters has not been and will not be followed. The service contracts 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. In deviation from the recommendation in 4.2.3, 4<sup>th</sup> paragraph GCGC, no formal severance payment cap in the event of premature termination of the Management Board mandate is agreed in the service contracts. A combination of various mechanisms in the service contracts ensures that a member of the Management Board in the event of premature termination of the mandate as a general rule receives less, and in no event more than the amount that is recommended by the GCGC as a severance payment cap.
6. The recommendation in 4.2.5, 2<sup>nd</sup> paragraph GCGC that the compensation report shall also include information on the nature of fringe benefits provided by the Company has only been followed in part. The general meeting on 5 October 2012 resolved pursuant to § 286 (5) German Commercial Code, to dispense with disclosure of the compensation of individual Management Board members for the period of 5 years. Therefore the fringe benefits provided by the Company are only disclosed to the extent they are provided to all Management Board members. Where fringe benefits are only provided to individual Management Board members, these are not shown. The Management Board and Supervisory Board take the view that the individualization involved in the disclosure of these individual benefits would contradict the resolution of the general meeting and anyway would represent too large an intrusion on the private sphere of the relevant Management Board members.
7. Contrary to the recommendation in 5.1.2, 2<sup>nd</sup> paragraph, sentence 3 GCGC, the Company has not determined any age limit for Management Board members. A fixed age limit for Management Board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to successfully run a company is not necessarily restricted by reaching a certain age. Rather it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition the setting of a fixed age limit could also constitute discrimination.

8. Pursuant to 5.4.1, 2<sup>nd</sup> paragraph GCGC the Supervisory Board shall specify concrete objectives regarding its composition. The current members of the Supervisory Board elected by the general meeting have been elected until the end of the ordinary general meeting in the year 2017, which resolves on the discharge for the financial year 2016. Under these circumstances there is currently no pressing need to determine the objectives for the composition of the Supervisory Board. Nevertheless the Supervisory Board has on 28 February 2013 resolved on concrete objectives regarding its composition, however without specifying a concrete objective regarding an age limit for Supervisory Board members. Just as for Management Board members, a fixed age limit for Supervisory Board members is not appropriate in the view of Telefónica Deutschland Holding AG, since the ability to control and supervise the Management Board is not necessarily restricted by reaching a certain age. Rather it may be necessary where appropriate in the interest of the Company to appoint persons of advanced age with extensive experience even after they reach a particular age limit. In addition the setting of a fixed age limit could also constitute discrimination.
9. Notwithstanding the recommendation in 5.4.6, 1<sup>st</sup> paragraph, sentence 3 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.
10. 7.1.2 sentence 4 GCGC provides that interim reports shall be publicly accessible within 45 days of the end of the reporting period. In addition quarterly financial reports shall be discussed with the Supervisory Board or its audit committee prior to publication pursuant to 7.1.2 sentence 2 GCGC. These recommendations were not followed in the publication of the report for the third quarter 2012. A prior discussion with the audit committee of the Supervisory Board was not possible for lack of time. The publication deadline could not be complied with due to the public tender of the Company's shares and the admission to listing on the stock exchange which took place on 30 October 2012 and the amount of work involved therewith. It is intended that this recommendation shall be complied with in the future.

28 February 2013

Management Board

Supervisory Board