

Supervisory Board Report for the 2015 financial year_



Eva Castillo Sanz,
Chairperson of the Supervisory Board of
Telefónica Deutschland Holding AG

Dear Shareholders,

In the interests of good corporate governance, the Supervisory Board collaborated well with the Management Board on the basis of trustful cooperation, advised it and fulfilled its controlling responsibilities in the reporting period with regard to all significant concerns – not least in connection with the transformation and integration activities since the acquisition of E-Plus Group. The Supervisory Board of Telefónica Deutschland Holding AG consistently and responsibly performed its duties as set out by law, the Articles of Association and the by-laws.

Composition of the Supervisory Board

At the beginning of the 2015 financial year, the Supervisory Board consisted of 16 members, being the shareholder representatives Eva Castillo Sanz (Chairperson of the Supervisory Board), Angel Vilá Boix, María Pilar López Álvarez, Patricia Cobián González, Sally Anne Ashford, Antonio Manuel Ledesma Santiago, Michael Hoffmann and Enrique Medina Malo, as well as the employee representatives Imke Blumenthal (Vice Chairperson of the Supervisory Board), Marcus Thurand, Thomas Pfeil, Dr. Jan-Erik Walter, Joachim Rieger, Jürgen Thierfelder, Christoph Heil and Claudia Weber.

With effect of the end of the Annual General Meeting on 12 May 2015 María Pilar López Álvarez resigned as member of the Supervisory Board. Following the proposition of the nomination committee the Annual General Meeting elected Laura Abasolo García de Baquedano as new member of the Supervisory Board for the shareholder representatives. Her term of office began with the end of the Annual General Meeting on 12 May 2015.

The German Stock Corporation Act determines for listed companies that at least one independent member of the Supervisory Board must have expertise in the areas of accounting or auditing. In the Supervisory Board of Telefónica Deutschland Holding AG, Michael Hoffmann performs the function of the independent financial expert within the

meaning of section 100 para. 5 German Stock Corporation Act (AktG).

Composition of the Management Board

The Management Board comprises three members: Alongside Thorsten Dirks as CEO, Markus Haas is responsible for the operative business as Chief Operating Officer (COO) and Rachel Empey for finance and strategy as CFO. Markus Haas also performs the function as labour Director.

All board members are appointed for the period until the end of 30 September 2017.

Cooperation between the Management Board and Supervisory Board

The Management Board provides the Supervisory Board with a monthly written report, which covers in particular relevant financial key performance indicators (KPIs).

The Chairperson of the Supervisory Board and the Management Board are also in constant contact outside Supervisory Board meetings. Here they discuss in particular the current position and future development of the company as well as the progress of current material projects, in the reporting period among others especially the integration and transformation measures following the E-Plus acquisition. The Chairperson of the Supervisory Board informs the other members of the Supervisory Board of important issues discussed in that context.

In the reporting period, the Management Board involved the Supervisory Board in due time in all actions requiring its approval. For this purpose, it submitted reports and documents to the Supervisory Board and provided additional information when required. When necessary, the Supervisory Board was also able to refer to the expertise of external consultants.

Meetings of the Supervisory Board

In 2015, five ordinary meetings of the Supervisory Board took place, namely on 19 February, 23 March (meeting on the financial statements for the 2014 financial year; "Bilanzsitzung"), 30 April, 24 July, 4 November 2015. Meetings of the Audit Committee were also held on these days. In addition, there were three extraordinary meetings of the Supervisory Board (one of which by telephone) and further resolutions of the Supervisory Board outside of meetings.

So far there has been one Supervisory Board meeting in 2016: on 19 February 2016 (meeting on the financial statements for the 2015 financial year; "Bilanzsitzung").

Fundamental issues dealt with by the Supervisory Board

The first ordinary meeting of the Supervisory Board in the 2015 financial year on 19 February 2015 was held among others to prepare the meeting regarding the financial statements ("Bilanzsitzung") held on 23 March 2015. Furthermore, especially the transformation and integration of the E-Plus Group – in particular the corporate structure – and the annual general meeting 2015 were treated.

The meeting regarding the financial statements for the 2014 financial year ("Bilanzsitzung") was held on 23. March 2015. In addition to the items associated therewith, such as the approval of the financial statements and management reports (Group and of the corporation) for the 2014 financial year and other reporting by Management to Supervisory Board inter alia pursuant to section 90 German Stock Corporation Act (AktG), in particular the final agenda and resolution motions for the Annual General Meeting on 12 May 2015 were agreed and issues of Corporate Governance and Management Board compensation were dealt with. Another important issue in this and the previous Supervisory Board meetings was the upcoming auction of mobile phone frequencies. In addition, individual projects (including shop transfers to Drillisch) were discussed.

In addition to the first quarter results 2015 the agenda of the ordinary meeting on 30 April 2015 included amongst others the upcoming frequency auction again as well as intra-group mergers, the subsequent purchase price adjustment process regarding the E-plus acquisition as well as corporate culture. Furthermore, the Supervisory Board decided to dissolve the Capital Increase Committee after complete fulfilment of its tasks. At the same time, the Supervisory Board established a new Committee, the so-called Spectrum Committee, to perform the functions of the Supervisory Board during the frequency auction.

The ordinary meeting on 24 July 2015 covered amongst others the half-year financial results 2015, company financing and restructuring measures, compliance and the efficiency of the Supervisory Board. Additionally, the Spectrum Committee and the Board of Directors reported on the process and the final results of the frequency auction. The Spectrum Committee was then dissolved as it had completed its task.

The ordinary meeting of 4 November 2015 was inter alia concerned with financial topics (in particular Q3 results and operational investments). The Supervisory Boards also

discussed again the efficiency of the Supervisory Board. Additionally the date for the Annual General Meeting which should be held on 19 May 2016, was resolved.

At extraordinary meetings (sometimes by telephone, sometimes in presence meetings), the Supervisory Board covered the minimum gender diversity quota for the Supervisory Board and the Management Board, financial issues and discussed the new organisational structure, the operational plan and approved the budget for the 2016 financial year.

At every ordinary meeting, the financial situation of the company including the relevant financial reports, budget, business planning, the synergy reports and the market positioning and the telecommunications business were examined and discussed.

All Supervisory Board members in office for the entire 2015 financial year participated in more than half of the meetings in the reporting period.

Outside of the meetings the Supervisory Board passed resolutions to the extent required, especially by e-mail. For instance, inter alia resolutions on the new Declaration of Compliance in accordance with section 161 German Stock Corporation Act (AktG) were passed this way – following appropriate preparation at presence meetings.

Committees of the Supervisory Board

As determined in its by-laws, the Supervisory Board has a Nomination Committee, a Mediation Committee and an Audit Committee. During the reporting period, another committee existed until 30 April 2015, the so called Capital Increase Committee., as well as from 30 April 2015 until 24 July 2015 the so called Spectrum Committee.

The Audit Committee is responsible in particular for advice on and the passing of resolutions in accounting matters. It deals with issues relating to accounting, internal control systems and auditing, risk management, compliance and the financial, asset and earnings situation. It also examines the required independence of the external auditor and is responsible for coordination with the external auditor. The Committee consists of four members:

- Michael Hoffmann (Chairperson)
- Laura Abasolo García de Baquedano (since 21 May 2015)
- Thomas Pfeil and
- Christoph Heil.

María Pilar López Álvarez resigned from the Audit Committee as of 12 May 2015.

In 2015, the Audit Committee met five times. In addition to the regular topics financial results, auditing, risk management and compliance, it dealt in particular with valuation issues as well as financing measures and peculiarities of accounting matters in connection with the acquisition and the integration of the E-Plus Group.

The following members belong to the Mediation Committee with the responsibilities in accordance with section 31 German Co-Determination Act:

- Eva Castillo Sanz (Chairperson)
- Imke Blumenthal
- Angel Vilá Boix and
- Marcus Thurand.

Furthermore, there is a Nomination Committee. The Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. Patricia Cobián González is the Chairperson of the Nomination Committee. The other members were Eva Castillo Sanz (prior to her María Pilar López Álvarez) and Enrique Medina Malo. The Nomination Committee prepared the election proposal for the Annual General Meeting on 12 May 2015, at which Laura Abasolo García de Baquedano was elected as successor of María Pilar López Álvarez.

The Capital Increase Committee which was formed in connection with the E-Plus transaction whose members were:

- Patricia Cobián González (Chairperson)
- María Pilar López Álvarez
- Marcus Thurand
- Thomas Pfeil.

was dissolved in the Supervisory Board Meeting on 30 April 2015.

This committee dealt in particular with the specific implementation of the cash capital increase and the capital increase against contribution in kind in connection with the closing of the E-Plus transaction.

The so-called Spectrum Committee performed tasks of the Supervisory Board and under the authorization granted instead of the Supervisory Board at the frequency auction. It consisted of:

- Eva Castillo Sanz (Chairperson)
- Patricia Cobián González
- Marcus Thurand und
- Christoph Heil.

Corporate Governance

Good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration in accordance with section 289a German Commercial Code in the Annual Report and on the company's website at WWW.TELEFONICA.DE/MANAGEMENT-DECLARATION and in the Corporate Governance Report in the Annual Report and on the company's website at WWW.TELEFONICA.DE/CORPORATE-GOVERNANCE-REPORT.

On 13/14 October 5 the Management Board and the Supervisory Board approved a new Declaration of Compliance in accordance with section 161 German Stock Corporation Act (AktG). The Declaration of Compliance was published on 14 October 2015. You can find them in the Annual Report or at the company's website at WWW.TELEFONICA.DE/DECLARATION-OF-COMPLIANCE. Earlier versions thereof can be also found at this website.

Six of the now 16 members of the Supervisory Board held positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies in 2015. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board. In the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code arose.

In September 2015 the Supervisory Board adjusted its concrete objectives for its composition and set a gender diversity quota of at least 30% in accordance with section 96 par. 2 AktG. The Supervisory Board exceeds this quota in the financial year 2015 (37.5% female members).

In September 2015, the Supervisory Board also decided on a minimum gender diversity quota of 20% for members of the Management Board of the company. This quota is fulfilled since the existence of the company as a public limited company. Currently the Management Board consists of one third female members.

Review of the Financial Statements 2015

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, branch Munich, audited the annual financial statements and the consolidated financial statements as well as the combined management report as of 31 December 2015 of Telefónica Deutschland Holding AG and the Telefónica Deutschland Group and each provided with an unqualified audit opinion. The annual financial statements

and the combined management report of Telefónica Deutschland Holding AG and the Telefónica Deutschland Group were prepared in accordance with German commercial law. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are applied in the European Union (EU) and the additional requirements which have to be applied in accordance with section 315a para. 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 HGB considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW) as well as for the consolidated financial statements.

The financial statement documentation of the corporation and the group and the Management Board's proposal for the distribution of profit and the respective auditor's reports were submitted to the Supervisory Board in due time prior to the meeting on 19 February 2016 ("Bilanzsitzung"). The Audit Committee and the Supervisory Board in its entirety thoroughly examined the reports and discussed them in detail together with the auditor on 19 February 2016. The Supervisory Board acknowledged and approved the auditor's findings in the audit reports and had no objections.

At its meeting on 19 February 2016, the Supervisory Board approved the annual financial statements of Telefónica Deutschland Holding AG and the consolidated financial statements together with the combined management report for the 2015 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the Management Board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion (uneingeschränkter Bestätigungsvermerk):

"Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high,
3. there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the Management Board."

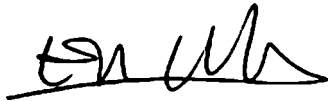
The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the Super-

visory Board in due time. Having examined the dependency report and the corresponding audit report in accordance with section 314 of the German Stock Corporation Act, the Supervisory Board had no objections against the dependency report and the Management Board's declaration on the relations to affiliated companies contained therein and agrees with the auditor's findings.

The Supervisory Board thanks the members of the Management Board and all employees for their dedication and excellent work in the past year. With their commitment, which in the reporting period was influenced in particular by the integration of E-Plus Group, they have contributed considerably to the success of the company.

Munich, 19 February 2016

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'Eva Castillo Sanz', written over a horizontal line.

Eva Castillo Sanz
Chairperson of the Supervisory Board of
Telefónica Deutschland Holding AG