

# SUPERVISORY BOARD REPORT FOR THE 2019 FINANCIAL YEAR

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*Laura Abasolo García de Baquedano,*

Chairperson of the Supervisory Board of Telefónica Deutschland Holding AG

## Dear Shareholders,

2019 was another eventful year. In the interests of good corporate governance, the Supervisory Board hence 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 topics.

It thus consistently and responsibly performed its duties as set out by law, the Articles of Association and the by-laws.

## Composition of the Supervisory Board

In the beginning of the financial year 2019, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Michael Hoffmann, Sandra Hofmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

The Supervisory Board member Jürgen Thierfelder had resigned from his office with effect as of the end of 31 December 2018. With effect as of 18 February 2019, Sandra Hofmann left the Supervisory Board after having resigned from her office. Cansever Heil and Christoph Heil were appointed by court order effective as of 3 April 2019 as their respective successors and were confirmed in their offices by the employees' delegates on 26 September 2019 and elected to the Supervisory Board.

Moreover, the Supervisory Board members María García-Legaz Ponce and Pablo de Carvajal González who had been appointed by court in 2018 were confirmed in office by the Annual General Meeting on 21 May 2019 and elected to the Company's Supervisory Board until the end of the Annual General Meeting 2022.

As of 31 December 2019, the Supervisory Board members were: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

In the Supervisory Board of Telefónica Deutschland Holding AG, the independent member Michael Hoffmann performs the function of financial expert with the expertise as requested by section 100 para. 5 German Stock Corporation Act (AktG).

On 3 February 2020, Laura Abasolo García de Baquedano resigned from her membership and position as Chairperson of the Supervisory Board with effect of 31 March 2020.

## Composition of the Management Board

In the beginning of the business year 2019, the Management Board of Telefónica Deutschland Holding AG comprised eight members: Markus Haas, CEO (Chairperson of the Management Board), Markus Rolle, CFO (Chief Financial Officer), Cayetano Carbajo Martín (Chief Technology Officer), Valentina Daiber (Chief Officer Legal & Corporate Affairs), Guido Eidmann (Chief Information Officer), Nicole Gerhardt (Chief Human Resources Officer as well as Labour Director (Arbeitsdirektorin)), Alfons Lösing (Chief Partner and Business Officer) and Wolfgang Metze (Chief Consumer Officer).

With effect as of the end of 14 October 2019, Cayetano Carbajo Martín left the Management Board, on 15 October 2019 Mallik Rao (Yelamate Mallikarjuna Rao) succeeded him as Chief Technology Officer. On 1 November 2019, Mallik Rao also took on the business area of Guido Eidmann, who left the Management Board with effect as of 31 October 2019.

On 31 December 2019, the Management Board therefore comprised seven members:

Markus Haas, CEO (Chairperson of the Management Board), Markus Rolle, CFO (Chief Financial Officer), Valentina Daiber (Chief Officer Legal & Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer as well as Labour Director (Arbeitsdirektorin)), Alfons Lösing (Chief Partner and Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Chief Technology and Information Officer).

## Cooperation between the Management Board and Supervisory Board

The Management Board and Supervisory Board cooperate in a trusting manner in all relevant matters within and outside of supervisory board meetings.

In the reporting period, the Supervisory Board monitored and supported the Management Board with advice. When its approval was required by law, Articles of Association or by-laws, the Supervisory Board approved after intensive consideration, analysis and discussion in the Supervisory Board. To this end, the Management Board involved the Supervisory Board in all material decisions in a timely manner, submitted oral and written reports 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. In the reporting period, interested Supervisory Board members also took part in special sessions (so-called Deep Dive Sessions) on some topics outside of meetings – each time with the relevant member of the Management Board, for example in the areas of M&A, Finance and HR. Moreover, a strategy workshop took place in the reporting period once more. In addition, the Management Board also provides the Supervisory Board monthly with a written report, which covers in particular relevant financial key performance indicators (KPIs).

The chairperson of the Supervisory Board maintains a regular exchange of information with the Management Board, especially with the chairperson of the Management Board. Notably, there were weekly alignments meetings between the chairpersons of the Supervisory Board and the Management Board, mostly by telephone. Here they discussed in particular the current status and future development of the Company as well as the progress of current material projects, strategy, corporate policy, business development, risks & chances and their management as well as compliance & governance topics. The chairperson of the Supervisory Board informed the other members of the Supervisory Board of important issues discussed in that context.

## Meetings of the Supervisory Board

In 2019, five regular meetings of the Supervisory Board took place, namely on 18 February (meeting on the financial statements for the 2018 financial year; "Bilanzsitzung"), 7 May, 22 July, 23 October and 16 December 2019.

Furthermore, there were seven internal meetings of the Supervisory Board at which Supervisory Board internal topics like the Supervisory Board's efficiency survey as well as Management Board service agreements and succession planning were discussed.

Moreover, there were two extraordinary meetings on 15 March and 10 December 2019.

In 2020, there was one meeting so far, on 17 February 2020 (meeting on the financial statements for the financial year 2019, "Bilanzsitzung"). In the meeting of the financial statements ("Bilanzsitzung") – next to the financial topics – especially Corporate Governance topics and the preparation of the AGM were dealt with. In context of the meeting, the Management Board and the Supervisory Board thanked the Chairperson of the Supervisory Board, Laura Abasolo García de Baquedano, who leaves by end of 31 March 2020, for the outstanding and trustworthy collaboration.

## Material issues dealt with by the Supervisory Board

The first meeting of the Supervisory Board in the 2019 financial year was the meeting on the financial statements of the financial year 2018 (“Bilanzsitzung”). It took place on 18 February 2019. The main focus of this meeting was on the review and approval of the corporation and group financial statements and the combined management report for the 2018 financial year, as well as on processing of the dependency report and the non-financial report. Moreover, there was further reporting by the Management to the Supervisory Board inter alia pursuant to section 90 German Stock Corporation Act (AktG).

Furthermore, the Audit plan for 2019 was presented. In addition to these topics the Supervisory Board considered the agenda and resolution motions for the Annual General Meeting on 21 May 2019. Furthermore the business strategy, regulatory and corporate governance topics were discussed as well as the upcoming spectrum auction. In absence of the Management Board, the Supervisory Board then considered Management Board remuneration topics and resolved on the contract extension as well as the formal appointment of the chairperson of the Management Board, Markus Haas, until the end of 31 December 2022.

On 15 March 2019, the Supervisory Board addressed the Spectrum Auction and related topics in detail at an extraordinary meeting of the Supervisory Board. At this meeting, it also implemented a resolving committee of the Supervisory Board, the so-called Spectrum Committee, which for the duration of the auction supported the Management Board by providing advice.

The agenda of the Supervisory Board meeting on 7 May 2019 comprised in addition to the financial results for Q1 and the outlook also updates on the Spectrum Auction, HR; network topics and the upcoming Annual General Meeting. Moreover, operational topics like the agreement with Vodafone on cable wholesale access and relevant business developments in the corporate units were discussed. Additionally, the Supervisory Board discussed Management Board succession planning on that date.

This topic was also considered by Supervisory Board at its internal meetings on 16 and 29 May 2019. In view of the expiry of the CTO contract by the end of the year, the Supervisory Board resolved on 29 May 2019 to nominate Mallik Rao as successor of Cayetano Carbajo Martín and approved the respective contractual terms. Moreover an amendment to the Schedule of Responsibilities of the Management Board was approved which assigned the responsibility for the B2B business area directly to the chairperson of the Management Board.

On 16 July 2019, there was a strategy workshop together with the Management Board. There relevant strategic topics from all Management Board areas were discussed in an informal setting. Subsequently, there was an internal Supervisory Board meeting where Supervisory Board continued with its discussions on succession planning held in May.

Among other things, the meeting on 22 July 2019 addressed the half-yearly financial numbers, Audit & Risk Management, Public Affairs, Corporate Finance as well as Compliance topics. At this meeting, the Spectrum Committee was dissolved. At an internal meeting on the same day, the Supervisory Board focused on Corporate Governance topics including the German Corporate Governance Code as of 9 May 2019 as well as other statutory changes to Stock Corporation Law, pre-discussions of the Compliance Declaration as well as the upcoming annual efficiency survey of the Supervisory Board. Moreover, there were discussions on management board remuneration terms – also in view of potential contract extensions – and a new Long Term Incentive plan (LTI) was approved.

On 30 September 2019 there was an internal Supervisory Board meeting at which the Supervisory Board approved the extension of the management board member service agreements and the appointment of Markus Rolle, Valentina Daiber, Nicole Gerhardt, Alfons Lösing and Wolfgang Metzke to the Board (“Organbestellung”) until the end of 23 July 2023. Furthermore, on the same day the Supervisory Board resolved on the Compliance Declaration in accordance with section 161 Stock Corporation Act (AktG).

At the meeting on 23 October 2019 in particular the Q 3 results and the long term business plan were discussed. Additionally, there were updates on NT and B2B topics. On the same day, there was another internal meeting of the Supervisory Board at which the results of the efficiency survey of the Supervisory Board were presented. Furthermore, at this meeting the Supervisory Board considered the termination agreement with Guido Eidmann, who left the Management Board as of 31 October 2019. Mallik Rao was appointed as CTIO effective on 1 November 2019 in the same meeting. Moreover, in this context the size of the Management Board was determined as seven and the Schedule of Responsibilities was adapted accordingly.

At an extraordinary meeting in the evening of 10 December 2019, the Supervisory Board considered relevant financial topics such as dividend options and policy as well as the adjustment of the Financing Policy including the target leverage – in advance of the Investor Relations strategy update of the Management Board which took place the following day.

At the meeting on 16 December 2019, in particular, the budget for the financial year 2020 was approved. Moreover, there was an update on several Management Board departments, including the new CTIO department, as well as on the agenda of the Annual General Meeting scheduled for 20 May 2020. Following this meeting there was an internal Supervisory Board meeting at which the results of the Efficiency Survey of the Supervisory Board and the effectivity of the work of the board and its committees were discussed in detail. Furthermore, information on the statute to implement the second shareholder rights directive into national law (ARUG II) and the status of the German Corporate Governance Code in its version as of 9 May 2019 was provided.

Outside of the meetings the Supervisory Board passed resolutions to the extent required, especially by e-mail. Inter alia the resolution on the final agenda of the Annual General Meeting (including the introduction of a new Conditional Capital 2019/I), Management Board topics (i.a. the appointment of Mallik Rao to the board effective as of 15 October 2019 as well as the termination agreement with his predecessor Cayetano Carbajo Martín) as well as the Management Declaration – following respective preparation at meetings and committees (where applicable). The election of Patricia Cobián Conzález as member of the Audit Committee was effected by e-mail resolution, too.

## Committees of the Supervisory Board

The Supervisory Board has installed the following permanent committees: an Audit Committee, a Remuneration Committee, a Nomination Committee and a Mediation Committee. The Supervisory Board regards the Audit Committee and the Remuneration Committee as Key Committees as they meet regularly.

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 auditing, compliance and the effectivity of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor. As of 31 December 2019, the audit committee consisted of the following members:

- Michael Hoffmann (Chairperson)
- Patricia Cobián González (since 1 May 2019)
- Martin Butz and
- Thomas Pfeil.

Laura Abasolo García de Baquedano resigned from her office as member of the Audit Committee with effect as of the end of 31 April 2019.

In 2019, the Audit Committee met four times, on 18 February, 7 May, 22 July and 23 October 2019. It dealt amongst others with the regular topics financial results, auditing, risk management and Integrity services / Compliance. Furthermore, it prepared the Supervisory Board meeting on the annual financial statements ("Bilanzsitzung") and the respective recommendations to the whole board.

Also outside of meetings, the chairperson of the Audit Committee was in close communication with the auditors and internal (especially Finance) departments as well as with Management Board and informed the other members of the Audit Committee of important issues derived from that communication.

As of 31 December 2019, the members of the Remuneration Committee were:

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

The Remuneration Committee is responsible for preparing topics and details relating to Management Board remuneration. In particular, its preparatory work significantly supports the decision making process of the full Supervisory Board. The Remuneration Committee met eight times in the reporting period. It dealt inter alia in detail with the terms of the management board service agreement extensions as well as with new legal developments regarding management board remuneration. The members of the Remuneration Committee also took part in several preparational meetings (so-called Deep Dive Sessions) outside of meetings of the Remuneration Committee. Moreover, the Remuneration Committee also passed resolutions by e-mail outside of meetings.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

As of 31 December 2019, the Nomination Committee consisted of the members:

- Patricia Cobián González (Chairperson)
- Laura Abasolo García de Baquedano and
- Pablo de Carvajal González.

In the reported year, the Nomination Committee prepared the election proposal for the Annual General Meeting on 21 May 2019 for the election of the members appointed by court in the previous year, María García-Legaz Ponce and Pablo de Carvajal González.

As of 31 December 2019, 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
- Christoph Braun
- Julio Linares López and
- Christoph Heil (since 2 May 2019).

Sandra Hofmann belonged to the Mediation Committee until 18 February 2019.

There was no need for the Mediation Committee to convene in the reported year.

In order to ensure more flexibility in course of the spectrum auction held by BNetzA in 2019, the Supervisory Board implemented a new resolving committee, the so-called Spectrum Committee on 15 March 2019. The Spectrum Committee performed tasks of the Supervisory Board within the framework of the delegation by the Supervisory Board during the spectrum auction.

Members of the Spectrum Committee were:

- Laura Abasolo García de Baquedano (Chairperson)
- Pablo de Carvajal González (Deputy Chairperson)
- Martin Butz and
- Patricia Cobián González.

After the end of the spectrum auction, the committee was dissolved by resolution of the Supervisory Board on 22 July 2019.

## Attendance at Meetings

All members of the Supervisory Board in office for the whole financial year 2019, attended more than half of the meetings in the reporting periods. Insofar as members could not attend meetings of the Supervisory Board or relevant committee meetings in isolated cases, they were excused. They could participate in the passing of resolutions by written vote and used this option in general when they were not able to attend. The individual meeting attendance during the financial year 2019 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Laura Abasolo García de Baquedano	26	25	1	96%
Christoph Braun	14	14	0	100%
Sally Anne Ashford	22	19	3	86%
Martin Butz	21	21	0	100%
Pablo de Carvajal González	17	12	5	71%
Patricia Cobián González	20	17	3	85%
Peter Erskine	14	11	3	79%
María García-Legaz Ponce	14	14	0	100%
Christoph Heil (since 3 April 2019)	12	11	1	92%
Cansever Heil (since 3 April 2019)	12	12	0	100%
Michael Hoffmann	18	15	3	83%
Sandra Hofmann (until 18 February 2019)	1	0	1	0%
Julio Linares López	14	12	2	86%
Thomas Pfeil	18	18	0	100%
Joachim Rieger	14	11	3	79%
Dr. Jan-Erik Walter	22	22	0	100%
Claudia Weber	22	21	1	96%
<b>Total</b>	<b>281</b>	<b>255</b>	<b>26</b>	<b>91%</b>

\* This includes the number of supervisory board and respective committee meetings. The work of the supervisory board which took place outside of meetings, is not reflected herein.

The overview on the individual meeting attendance is also available on the Company's website at [www.telefonica.de/investor-relations-en/company/supervisory-board/members-attendance-at-meetings.html](http://www.telefonica.de/investor-relations-en/company/supervisory-board/members-attendance-at-meetings.html).

## 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 pursuant to section 289f in connection with 315d German Commercial Code (HGB) in the Annual Report and on the company's website at [www.telefonica.de/management-declaration-2019](http://www.telefonica.de/management-declaration-2019) and in the Corporate Governance Report on the company's website at [www.telefonica.de/corporate-governance-report-2019](http://www.telefonica.de/corporate-governance-report-2019).

On 30 September and 2 October 2019, the Management Board and the Supervisory Board approved a new Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG). The Declaration of Compliance was published on the company's website at [www.telefonica.de/declaration-of-compliance-2019](http://www.telefonica.de/declaration-of-compliance-2019). Previous versions of the Declaration of Compliance can be also found at the website.

Six of the 16 members of the Supervisory Board hold positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies. 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.

As of 31 December 2019, the Supervisory Board comprised six female and ten male members (i.e. 37.5% female and 62.5% male members). Thus the Supervisory Board still fulfills the requirements of Art 96 para. 2 German Stock Corporation Act (AktG) which the Supervisory also adopted for itself (a gender diversity quota of at least 30 %) which has to be fulfilled separately by shareholder and employee representatives following a shareholder representative resolution. This quota was fulfilled and even exceeded with two female members on the employee representative side and four female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board is 25%. It was met throughout the whole financial year 2019 (in the beginning of the financial year 2019 two of the 8 members were female, as of 31 December 2019 two of the 7 members were female).

## Support of Members of the Supervisory Board

In the opinion of the Company, the members of the Supervisory Board are adequately supported when taking up their duties. In particular, an introduction to the activities of the Supervisory Board at Telefónica Deutschland takes place upon taking office. As part of this introduction, the Supervisory Board office and the legal advisors to the

Supervisory Board explain the practical and legal principles and also highlight specific issues relating to stock corporation law. Any training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general and legal training courses were held, in particular on corporate governance issues and new legal framework conditions. In addition, special meetings (so-called "deep dive sessions") were held for interested members of the Supervisory Board on specific topics in the areas of human resources and finance.

## Review of the Financial Statements 2019

Pricewaterhouse Coopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the consolidated financial statements as well as the combined management report of Telefónica Deutschland Holding AG and the Group as of 31 December 2019 and provided each with an unqualified audit opinion. The annual financial statement of Telefónica Deutschland Holding AG and the combined management report for 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 315e para 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 German Commercial Code (HGB) considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW).

The financial statement documentation of Telefónica Deutschland Holding AG and the Group, the separate non-financial declaration for Telefónica Deutschland Holding AG for the financial year 2019 as well as the respective auditor's reports and the Management Board's proposal for the distribution of profit were submitted to the Supervisory Board prior to the meeting on 17 February 2020 ("Bilanzsitzung"). The Audit Committee and the full Supervisory Board thoroughly reviewed the Annual Financial Statement ("Jahresabschluss"), the Group financial statements, the combined Management Report for Telefónica Deutschland Holding AG and the Group, the separate combined non-financial declaration, the respective auditor's reports and the Management Board proposal for the distribution of profit and discussed the documents in detail together with the auditor on 17 February 2020. The auditor also reported on scope, material aspects and results of his audit. There was no report on material weaknesses of the internal control system and the risk management system. Management Board explained in this meeting the risk management system besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report and the separate non-financial declaration. The Supervisory Board approved the auditor's findings in the audit reports and had no objections after its own assessment.

At its meeting on 17 February 2020, 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 2019 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, and
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high."

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 Supervisory Board and discussed with in detail in the meeting on 17 February 2020 also with the auditor. Having reviewed the dependency report and the corresponding audit report the Supervisory Board agreed with results of the audit of the dependency report and as the result of its own assessment had no objections against the dependency report and the Management Board's declaration contained therein.

The Supervisory Board reiterates its gratitude for the good cooperation towards the former member of the Supervisory Board Sandra Hofmann who left the Board in the business year 2019. The Supervisory Board also thanks the former Management Board members Cayetano Carbajo Martín and Guido Eidmann for their outstanding service in the previous years. Their commitment contributed considerably to the success of the company.

Munich, 17 February 2020

On behalf of the Supervisory Board



Laura Abasolo García de Baquedano  
Chairperson of the Supervisory Board of  
Telefónica Deutschland Holding AG