

# SUPERVISORY BOARD REPORT FOR THE 2018 FINANCIAL YEAR

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*Laura Abasolo García de Baquedano,*

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 topics. 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

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

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

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

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

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

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

On 21 December 2018, Jürgen Thierfelder informed the Chairperson of the Supervisory Board that he resigns as a member of the Supervisory Board with effect as of the end of 31 December 2018.

On 4 February 2019, Sandra Hofmann informed the Chairperson of the Supervisory Board that she resigns as a member of the Supervisory Board with effect as of the end of the supervisory board meeting on 18 February 2019.

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).

## Composition of the Management Board

The Management Board of Telefónica Deutschland Holding AG comprises the following 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)  
Guido Eidmann (Chief Information Officer)  
Valentina Daiber (Chief Officer Legal & Corporate Affairs) and  
Nicole Gerhardt (Chief Human Resources Officer as well as Labour Director (Arbeitsdirektorin)).

## 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 supervisory board meetings.

In the reporting period, the Management Board involved the Supervisory Board in due time in all material decisions. 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. Supervisory Board voted –where necessary - on resolution motions and reports of Management Board after thorough assessment and discussion.

The Management Board also provides the Supervisory Board with a written monthly 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 status and future development of the company as well as the progress of current material projects. The chairperson of the Supervisory Board informs the other members of the Supervisory Board of important issues discussed in that context.

## Meetings of the Supervisory Board

In 2018, five regular meetings of the Supervisory Board took place, namely on 19 February (meeting on the financial statements for the 2017 financial year; "Bilanzsitzung"), 23 April, 23 July, 24 October and 18 December 2018. Moreover, there were four extraordinary meetings on 2 February, 25 April, 3 May und 13 June 2018.

In addition, there were further resolutions of the Supervisory Board outside of meetings.

In 2019, there was one meeting so far, on 18 February 2018 (meeting on the financial statements for the financial year 2018, "Bilanzsitzung").

## Fundamental issues dealt with by the Supervisory Board

The first (extraordinary) meeting of the Supervisory Board in the 2018 financial year took place on 2 February 2018 to prepare the so-called Capital Market Day.

On 19 February 2018 the meeting on financial statements of the financial year 2017 (Bilanzsitzung) took place. In addition to the items associated therewith, such as the review and approval of the corporation and group financial statements and the combined management report for the 2017 financial year and other reporting by Management to Supervisory Board inter alia pursuant to section 90 German Stock Corporation Act (AktG), in particular the agenda and resolution motions for the Annual General Meeting on 17 May 2018 were discussed.

The agenda of the Supervisory Board meeting on 23 April 2018 comprised in addition to the financial data for Q1 and the outlook also operation and financial topics, inter alia decisions regarding the issuance of a bond and the merger of co-trade GmbH into Telefónica Germany Retail GmbH. Furthermore, Corporate Governance and Compliance topics as well as Audit and Risk Management were dealt with.

Moreover, there were three extraordinary Supervisory Board Meetings on 25 April, 3 May and 13 June 2018. These concerned the resignation of Eva Castillo Sanz as chairperson of the Supervisory Board, the election of Laura Abasolo García de Baquedano as new chairperson of the Supervisory Board, the re-election of Christoph Braun as deputy chairperson as well as the succession to the committees of the Supervisory Board.

Among other things, the meeting on 23 July 2018 addressed the half-yearly financial numbers, merger of Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH into E-Plus Service GmbH and the transfer of its spectrum to Telefónica Germany GmbH & Co. OHG, Compliance topics as well as the efficiency of the Supervisory Board.

The topics discussed at the meeting on 24 October 2018 included financial issues (especially the Q3 results and the business plan), the results of the Supervisory Board efficiency survey as well as the new version of the By-Laws for the Management Board. The appointment of Management Board member Cayetano Carbajo Martín was extended by resolution of the Supervisory Board by one year until the end of 31 December 2019.

Moreover, the date for the Annual General Meeting for the business year 2018 was determined (21 May 2019).

At the meeting on 18 December 2018, in particular, the budget for the financial year 2019 was approved and the participation in the upcoming frequency auction was covered.

At every meeting, the financial situation of the company including the relevant financial reports, budget, business planning, operational issues including the synergy reports and the market positioning were addressed.

In July 2018, the Supervisory Board also held a strategy workshop together with the Management Board.

All Supervisory Board members in office for the entire 2018 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 the resolution on the Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG) was passed this way as well as the final agenda of the Annual General Meeting (including the conclusion of a control agreement and capital measures) – following respective preparation at presence meetings.

## Committees of the Supervisory Board

The Supervisory Board has installed the following four committees: a Nomination Committee, a Mediation Committee, an Audit Committee and a Remuneration 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 assesses the necessary independence of the external auditor and is responsible for coordination with the external auditor.

Currently, the Audit Committee consists of the following four members:

- Michael Hoffmann (Chairperson)
- Laura Abasolo García de Baquedano
- Thomas Pfeil and
- Martin Butz (since 13 June 2018).

Christoph Heil was a member of the Audit Committee until 17 May 2018.

In 2018, the Audit Committee met five times. It dealt with the regular topics financial results, auditing, risk management and compliance.

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

- 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 was a member of the Mediation Committee until 25 April 2018, Marcus Thurand until 17 May 2018.

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

The Remuneration Committee is responsible for preparing topics and details relating to Management Board remuneration. In particular, its preparatory work supports the decision making process of the full Supervisory Board.

The Remuneration Committee currently has the following members:

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

Eva Castillo Sanz was a member of the Remuneration Committee until 25 April 2018.

The Remuneration Committee met five times in the reporting period.

The Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

The Nomination Committee has the following members:

Patricia Cobián González is chairperson of the Nomination Committee. After the resignations of Eva Castillo Sanz and Enrique Medina Malo, the other members are Laura Abasolo García de Baquedano and Pablo de Carvajal González since 24 September 2018.

In the reported year, the Nomination Committee prepared- by email resolution - the election proposal for the Annual General Meeting on 17 May 2018 for the election of Julio Linares López who had been appointed by court in October 2017.

## 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 315d in connection with 289f German Commercial Code (HGB) in the Annual Report and on the company's website at [www.telefonica.de/management-declaration-2018](http://www.telefonica.de/management-declaration-2018) and in the Corporate Governance Report on the company's website at [www.telefonica.de/corporate-governance-report-2018](http://www.telefonica.de/corporate-governance-report-2018).

On 12 and 15 October 2018 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-2018](http://www.telefonica.de/declaration-of-compliance-2018).

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 2018, 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.

The gender diversity quota for the Management Board is 25% (two members of the 8 person Management Board are female), thus the Company met the minimum gender quota determined at 25% throughout the whole reporting period.

## Review of the Financial Statements 2018

PricewaterhouseCoopers 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 2018 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 2018 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 18 February 2019 ("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 18 February 2019. 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 18 February 2019, 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 2018 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Moreover, following respective recommendation of the Remuneration Committee, the prolongation of the management board service agreement and the appointment of Markus Haas until 31 December 2022 was resolved.

## 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.

Munich, 18 February 2019

On behalf of the Supervisory Board



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

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 18 February 2019 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 thanks the former chairperson of the Supervisory Board, Eva Castillo Sanz, for the long and trusting, successful, dedicated and outstanding work at the top of the Supervisory Board, inter alia during the company's IPO and the merger with E-Plus Group. The Supervisory Board also thanks the former Supervisory Board members Marcus Thurand, Christoph Heil, Enrique Medina Malo and Jürgen Thierfelder as well as the retiring member Sandra Hofmann for their outstanding service in the previous years. Their commitment contributed considerably to the success of the company.