

A large, stylized 'X' graphic composed of four triangles meeting at the center. The triangles are colored in a light blue and white pattern. Three circular icons are placed at the intersections of the 'X' arms: a blue circle with a white SIM card icon at the top-left intersection, an orange circle with a white bar chart icon at the top-right intersection, and a green circle with a white cloud and network icon at the bottom-right intersection. Thin lines connect these icons to the vertices of the 'X'.

# DIGITAL CROSS ROADS

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# COMBINED MANAGEMENT REPORT

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The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are combined in accordance with section 315 (5) HGB in conjunction with section 298 (2) HGB and published in the 2018 Annual Report of the Telefónica Group. The Annual Financial Statements and the Combined Management Report of Telefónica Deutschland Holding AG for financial year 2018 will be submitted to the operator of the German Federal Gazette and published in the German Federal Gazette. The Annual Financial Statements of Telefónica Deutschland Holding AG and the Management Report of the Group for financial year 2018 are also available on the Internet:

**[www.telefonica.de/annualreport](http://www.telefonica.de/annualreport)**

# ANNUAL FINANCIAL STATEMENTS

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for Financial Year 2018

# BALANCE SHEET

As of 31 December

(in EUR)

|                                                 | 2018                    | 2017                     |
|-------------------------------------------------|-------------------------|--------------------------|
| <b>Assets</b>                                   |                         |                          |
| <b>A) Fixed assets</b>                          |                         |                          |
| Financial assets                                |                         |                          |
| Investments in affiliated companies             | 9,350,371,270.56        | 10,123,755,568.74        |
|                                                 | <b>9,350,371,270.56</b> | <b>10,123,755,568.74</b> |
| <b>B) Current assets</b>                        |                         |                          |
| I. Receivables and other assets                 |                         |                          |
| 1. Receivables from affiliated companies        | 9,325,129.73            | 12,122,917.98            |
| 2. Other assets                                 | 6,816.05                | 335,022.88               |
|                                                 | 9,331,945.78            | 12,457,940.86            |
| II. Cash on hand and bank balances              | 38,465.83               | 38,615.83                |
|                                                 | <b>9,370,411.61</b>     | <b>12,496,556.69</b>     |
| <b>C) Prepaid expenses and deferred charges</b> | <b>144,642.83</b>       | <b>167,976.13</b>        |
|                                                 |                         |                          |
| <b>Total assets</b>                             | <b>9,359,886,325.00</b> | <b>10,136,420,101.56</b> |

As of 31 December

(in EUR)

|                                                                         | 2018                    | 2017                     |
|-------------------------------------------------------------------------|-------------------------|--------------------------|
| <b>Equity and Liabilities</b>                                           |                         |                          |
| <b>A) Equity</b>                                                        |                         |                          |
| I. Subscribed capital                                                   | 2,974,554,993.00        | 2,974,554,993.00         |
| II. Additional paid-in capital                                          | 4,832,539,244.82        | 4,832,539,244.82         |
| III. Retained earnings                                                  | 14,083.91               | 14,083.91                |
| Legal reserve                                                           | 14,083.91               | 14,083.91                |
| IV. Balance sheet profit                                                | 1,542,382,293.55        | 2,317,553,560.51         |
|                                                                         | <b>9,349,490,615.28</b> | <b>10,124,661,882.24</b> |
| <b>B) Provisions</b>                                                    |                         |                          |
| 1. Provisions for pensions and similar obligations                      | 2,906,048.00            | 2,751,089.00             |
| 2. Other provisions                                                     | 5,264,884.62            | 6,503,371.65             |
|                                                                         | <b>8,170,932.62</b>     | <b>9,254,460.65</b>      |
| <b>C) Liabilities</b>                                                   |                         |                          |
| 1. Trade payables                                                       | 43,051.78               | 770,579.31               |
| 2. Liabilities to affiliated companies                                  | 1,729,073.57            | 616,952.57               |
| 3. Other liabilities                                                    | 452,651.75              | 1,116,226.79             |
| – thereof from taxes EUR 322,170.35 (previous year: EUR 1,115,102.23 )– |                         |                          |
|                                                                         | <b>2,224,777.10</b>     | <b>2,503,758.67</b>      |
|                                                                         |                         |                          |
| <b>Total equity and liabilities</b>                                     | <b>9,359,886,325.00</b> | <b>10,136,420,101.56</b> |

# INCOME STATEMENT

1 January to 31 December

| (in EUR)                                                                          | 2018                    | 2017                    |
|-----------------------------------------------------------------------------------|-------------------------|-------------------------|
| 1. Revenues                                                                       | 9,754,516.77            | 14,991,202.41           |
| 2. Other operating income                                                         | 348,036.28              | 773,711.60              |
| 3. Personnel expenses                                                             | (7,570,768.70)          | (6,328,958.60)          |
| a) Salaries and wages                                                             | (7,143,726.28)          | (5,966,197.50)          |
| b) Social security contributions and expenses for retirement benefits and support | (427,042.42)            | (362,761.10)            |
| –thereof for pension scheme EUR 368,063.72 (previous year: EUR 323,479.32)–       |                         |                         |
| 4. Other operating expenses                                                       | (4,015,456.12)          | (11,302,279.08)         |
| 5. Other interest and similar income                                              | 2,337.00                | 0.00                    |
| –thereof from affiliated companies EUR 0.00 (previous year: EUR 0.00)–            |                         |                         |
| 6. Interest and similar expenses                                                  | (270,354.50)            | (63,119.00)             |
| 7. Income taxes                                                                   | 12,139.75               | 0.00                    |
| <b>8. Profit/(loss) after tax</b>                                                 | <b>(1,739,549.52)</b>   | <b>(1,929,442.67)</b>   |
| 9. Other taxes                                                                    | (47,419.26)             | 0.00                    |
| <b>10. Profit/(loss) for the period</b>                                           | <b>(1,786,968.78)</b>   | <b>(1,929,442.67)</b>   |
| Previous year's balance sheet profit                                              | 2,317,553,560.51        | 3,063,121,751.43        |
| Dividend payments                                                                 | (773,384,298.18)        | (743,638,748.25)        |
| 11. Profit carried forward from previous year                                     | 1,544,169,262.33        | 2,319,483,003.18        |
| <b>12. Balance sheet profit</b>                                                   | <b>1,542,382,293.55</b> | <b>2,317,553,560.51</b> |

# NOTES

for Financial Year 2018

## 1. General Information on the Annual Financial Statements

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich (hereinafter also referred to as Telefónica Deutschland) for financial year 2018 have been prepared in accordance with the regulations of the German Stock Corporation Act (Aktiengesetz – AktG) and the German Commercial Code (Handelsgesetzbuch – HGB).

The financial year is the calendar year (1 January to 31 December).

The company is registered with the Munich Local Court under HRB 201055 and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9. The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2018 remains unchanged to the previous year at EUR 2,974,554,993. The share capital is divided into 2,974,554,993 no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00. Each no-par value share has one vote at the Annual General Meeting.

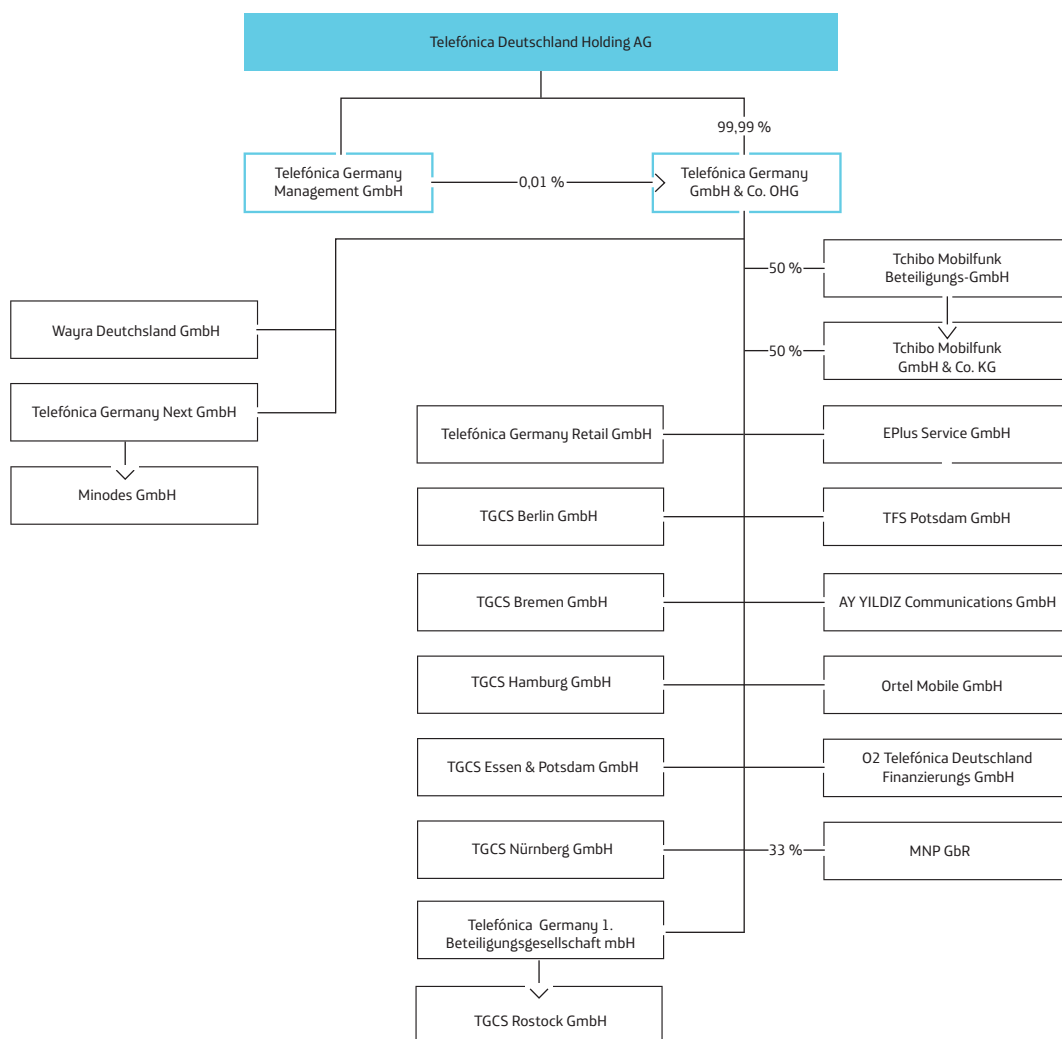
As at 31 December 2018, 26.4% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). According to a press release by Koninklijke KPN N.V. dated 30 January 2019, the remaining 4.4% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group.

The Telefónica Deutschland Group comprises Telefónica Deutschland and its subsidiaries as well as joint activities (jointly referred to hereinafter as Telefónica Deutschland Group).

It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A. The companies of the Telefónica, S.A. Group are related parties as Telefónica, S.A. controls the Telefónica Deutschland Group.

As of 31 December 2018, the companies included in the consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise the ownership interests amount to 100%.

During the third quarter of 2018, co-trade GmbH was merged into Telefónica Germany Retail GmbH and Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH into E-Plus Service GmbH retrospective as of 1 January 2018.

In addition, E-Plus Service GmbH has sold all shares in Shortcut I GmbH & Co. KG in the third quarter of 2018. The sale was formally and legally completed in the fourth quarter of 2018.

As of the reporting date, Telefónica Deutschland is classified as a large corporation in accordance with section 267 (3) sentence 2 HGB.

The income statement was prepared using the nature of the expense method in accordance with section 275 (2) HGB.

The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables.

## Annual General Meeting and dividend distribution

The Annual General Meeting for the financial year 2017 was held on 17 May 2018. In addition to presenting the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.26 per entitled share, totalling EUR 773,384,298.18, was approved. The dividend for the financial year 2017 was paid to shareholders by 23 May 2018. In addition, the control agreement between Telefónica Deutschland Holding AG and Telefónica Germany Management GmbH dated 6 March 2018 was approved. Furthermore, the election of Julio Estebán Linares López as shareholder representative on the company's Supervisory Board and the capital increase from company funds, an equivalent subsequent ordinary capital decrease, the reduction of the Contingent Capital 2014/I and associated amendments to the Articles of Association were resolved. The capital measure was implemented in order to enable efficient equity management in line with capital market requirements and to provide the conditions for a flexible dividend policy. As a result, the restricted capital reserve of EUR 4,535,097,828.00 was converted into a free capital reserve (section 272 (2) no. 4 HGB). The capital measure was entered in the commercial register on 4 June 2018.

## Agreement on the remuneration for management services

Telefónica Deutschland Holding AG has signed agreements with Telefónica Germany GmbH & Co. OHG, Munich (hereinafter also referred to as OHG) and Telefónica Germany Management GmbH, Munich. The agreements include the obligation to provide management services for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. Telefónica Germany GmbH & Co. OHG reimburses the costs of the remuneration of the members of the Management Board as well as other administrative costs. In addition, Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH each reimburse Telefónica Deutschland Holding AG a flat fee of EUR 30 thousand per quarter. The total amount of the reimbursements is included in the revenues of the company.

## 2. Accounting Policies

The accounting policies applied in the preparation of the Annual Financial Statements as of 31 December 2018 are in accordance with the regulations of sections 242 to 256a and 264 to 288 HGB as well as the relevant regulations of the German Stock Corporation Act (AktG). The accounting policies remain unchanged compared to the previous year.

Financial assets are measured at historical cost less the required impairment losses in order to be recognised at the lower fair value as of the balance sheet date. If the reasons for the impairment losses no longer exist, impairment losses are reversed in accordance with section 253 (5) sentence 1 HGB.

Receivables, other assets, and cash on hand and bank balances are recognised at their nominal value. Appropriate impairments have been made for all risk positions.

Provisions for pensions are measured on the basis of actuarial calculations using the projected unit credit method, taking into account the 2018 G mortality tables of Prof. Dr. Heubeck. Provisions for pensions and similar obligations are discounted at a flat rate using the average market interest rate of the past ten years published by the Deutsche Bundesbank, which is based on an assumed remaining term of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 3.21% (2017: 3.68%). The provisions for pensions and similar obligations are calculated on the basis of annual pension increases of 1.75% (2017: 1.75%) and a fluctuation rate of 17.00% (2017: 20.00%) is assumed. Wage and salary increases did not have to be considered.

The assets serving solely to meet the retirement obligations, which are excluded from access by all other creditors (plan assets within the meaning of section 246 (2) sentence 2 HGB), are offset against the provisions at their fair value. As there is no active market on the basis of which the market price can be determined, the amortised costs are carried forward in accordance with the strict lower of cost or market principle pursuant to section 253 (4) HGB (section 255 (4) sentence 3 HGB). The amortised cost of reinsurance claims and thus the fair value within the meaning of section 255 (4) sentence 4 HGB correspond to the so-called cover capital as per the business plan of the insurance policy plus any credit balance from contribution refunds (so-called irrevocably granted profit participation).

Effects on income from a change in the discount rate are recognised in the financial result.

In order to satisfy the indirect pension obligations, funds are invested and managed by the provident fund ProFund Unabhängige Gruppen-Unterstützungskasse e.V. These plan asset is measured at fair value. Telefónica Deutschland Holding AG makes use of the option granted in Art. 28 (1) sentence 2 EGHGB not to recognise indirect pension obligations.

The difference from the conversion to the new 2018 G mortality table by Prof. Dr. Heubeck (previous year: 2005 G by Prof. Dr. Heubeck) amounts to EUR -41 thousand.

Other provisions take into account all recognisable risks and contingent obligations and are recognised in the amount required according to reasonable commercial judgement. Discounting in accordance with section 253 (2) HGB is not required.

Liabilities are recognised at their settlement amount. Liability items denominated in the currencies of countries outside the European Monetary Union are translated at the mean spot exchange rate as of the balance sheet date in accordance with section 256a HGB.

Deferred taxes are calculated on the basis of temporary or quasi-permanent differences between the carrying amounts of assets, liabilities and prepaid expenses under commercial law and their tax recognition, or on the basis of tax loss carry forwards, using the tax rates applicable to the individual companies at the time the differences are reduced, rather than discounting them. Deferred tax assets and liabilities are offset. Deferred tax assets are not capitalised due to the exercise of the recognition option available in section 274 (1) sentence 2 HGB.

### 3. Notes to the Balance Sheet

#### Financial assets

Investments in affiliated companies in the amount of EUR 9,339,941 thousand (2017: EUR 10,113,325 thousand) relate to the shares in Telefónica Germany GmbH & Co. OHG, Munich, of which the company is the personally liable shareholder. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG results from the withdrawal of a total of EUR 773,384 thousand from Telefónica Deutschland on the basis of a shareholders' resolution dated 3 May 2018 pursuant to section 4 (3) of the shareholders' agreement.

As in the previous period, the carrying amount of the investment in Telefónica Germany Management GmbH, Munich, remains unchanged at EUR 10,430 thousand.

For further information, please refer to the enclosed statement of changes in fixed assets.

| (EUR in thousands)                  |                      |           |                | Historical cost        |
|-------------------------------------|----------------------|-----------|----------------|------------------------|
|                                     | As of 1 January 2018 | Additions | Disposals      | As of 31 December 2018 |
| <b>Financial assets</b>             |                      |           |                |                        |
| Investments in affiliated companies | 10,123,756           | –         | 773,384        | 9,350,371              |
|                                     | <b>10,123,756</b>    | <b>–</b>  | <b>773,384</b> | <b>9,350,371</b>       |

| (EUR in thousands)                  |                      |           |           | Accumulated depreciation |
|-------------------------------------|----------------------|-----------|-----------|--------------------------|
|                                     | As of 1 January 2018 | Additions | Disposals | As of 31 December 2018   |
| <b>Financial assets</b>             |                      |           |           |                          |
| Investments in affiliated companies | –                    | –         | –         | –                        |
|                                     | <b>–</b>             | <b>–</b>  | <b>–</b>  | <b>–</b>                 |

| (EUR in thousands)                  | As of 1 January 2018 | Carrying amounts<br>As of 31 December 2018 |
|-------------------------------------|----------------------|--------------------------------------------|
|                                     |                      |                                            |
| <b>Financial assets</b>             |                      |                                            |
| Investments in affiliated companies | 10,123,756           | 9,350,371                                  |
|                                     | <b>10,123,756</b>    | <b>9,350,371</b>                           |

## List of shareholdings in accordance with section 285 No. 11 and No. 11a HGB

| Name, legal form                                                          | Registered office | Share of capital in % | Equity as of 31 December 2017 (in EUR thousands) <sup>(4)</sup> | Results of the financial year 2017 (in EUR thousands) <sup>(4)</sup> |
|---------------------------------------------------------------------------|-------------------|-----------------------|-----------------------------------------------------------------|----------------------------------------------------------------------|
| AY YILDIZ Communications GmbH, Düsseldorf <sup>(3)</sup>                  | Germany           | 100                   | 5,025                                                           | 0 *                                                                  |
| E-Plus Service GmbH, Düsseldorf <sup>(3)</sup>                            | Germany           | 100                   | 206,446                                                         | 0 *                                                                  |
| Minodes GmbH, Berlin <sup>(3)</sup>                                       | Germany           | 100                   | 197                                                             | -3,288 –                                                             |
| MNP GbR, Düsseldorf                                                       | Germany           | 33                    | 205                                                             | 102 –                                                                |
| O2 Telefónica Deutschland Finanzierungs GmbH, Munich                      | Germany           | 100                   | 25                                                              | 0 *                                                                  |
| Ortel Mobile GmbH, Düsseldorf <sup>(3)</sup>                              | Germany           | 100                   | 5,050                                                           | 0 *                                                                  |
| TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg                               | Germany           | 50                    | 41                                                              | 0 –                                                                  |
| TCHIBO Mobilfunk GmbH & Co. KG, Hamburg                                   | Germany           | 50                    | 9,793                                                           | 962 –                                                                |
| Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich <sup>(3)</sup> | Germany           | 100                   | 85,778                                                          | 0 *                                                                  |
| Telefónica Germany GmbH & Co. OHG, Munich <sup>(1) (2)</sup>              | Germany           | 100                   | 7,593,056                                                       | 153,757 –                                                            |
| Telefónica Germany Management GmbH, Munich <sup>(3)</sup>                 | Germany           | 100                   | 10,758                                                          | 44 –                                                                 |
| Telefónica Germany Next GmbH, Munich <sup>(3)</sup>                       | Germany           | 100                   | 33,425                                                          | 0 *                                                                  |
| Telefónica Germany Retail GmbH, Düsseldorf <sup>(3)</sup>                 | Germany           | 100                   | 107,050                                                         | 0 *                                                                  |
| TFS Potsdam GmbH, Potsdam <sup>(3)</sup>                                  | Germany           | 100                   | 25                                                              | 0 *                                                                  |
| TGCS Berlin GmbH, Düsseldorf <sup>(3)</sup>                               | Germany           | 100                   | 1,100                                                           | 0 *                                                                  |
| TGCS Bremen GmbH, Munich <sup>(3)</sup>                                   | Germany           | 100                   | 1,525                                                           | 0 *                                                                  |
| TGCS Essen & Potsdam GmbH, Potsdam <sup>(3)</sup>                         | Germany           | 100                   | 3,025                                                           | 0 *                                                                  |
| TGCS Hamburg GmbH, Munich <sup>(3)</sup>                                  | Germany           | 100                   | 1,775                                                           | 0 *                                                                  |
| TGCS Nürnberg GmbH, Munich <sup>(3)</sup>                                 | Germany           | 100                   | 3,775                                                           | 0 *                                                                  |
| TGCS Rostock GmbH, Munich <sup>(3)</sup>                                  | Germany           | 100                   | 15,342                                                          | 0 *                                                                  |
| Wayra Deutschland GmbH, Munich <sup>(3)</sup>                             | Germany           | 100                   | 2,393                                                           | 0 *                                                                  |

<sup>1)</sup> 99.99% Telefónica Deutschland Holding AG, as personally liable shareholder; 0.01% Telefonica Germany Management GmbH

<sup>2)</sup> Utilisation of exemption pursuant to section 264 b HGB

<sup>3)</sup> Utilisation of exemption pursuant to section 264 (3) HGB

<sup>4)</sup> Equity and result of the last financial year for which annual financial statements are available

<sup>\*)</sup> After profit/loss transfer

For further information on the type of interests, please refer to the organisational chart in the section “General information on the Annual Financial Statements”.

## Receivables

Receivables from affiliated companies amount to EUR 9,325 thousand (2017: EUR 12,123 thousand). Receivables from affiliated companies in financial year 2018 mainly include receivables of EUR 4,542 thousand (2017: EUR 4,155 thousand) relating to cash pooling receivables against Telfisa Global B.V., Amsterdam, Netherlands and receivables against Telefónica Germany

GmbH & Co. OHG for management services in the amount of EUR 4,344 thousand (2017: EUR 6,778 thousand). In addition, there are receivables amounting to EUR 309 thousand (2017: EUR 0 thousand) from Telefónica Germany Management GmbH.

The other assets in the amount of EUR 7 thousand (2017: EUR 335 thousand) relate to creditors with debit balances.

All receivables and other assets have a remaining term of less than one year.

## Deferred taxes

In exercising the recognition option, deferred tax assets were not recognised as of 31 December 2018. Circumstances leading to deferred tax assets result mainly from existing corporate and trade tax loss carryforwards and from temporary differences at the level of Telefónica Germany GmbH & Co. OHG. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for purposes of corporate income tax. The tax rate for deferred tax assets for corporate income tax and the solidarity surcharge is 15.825%, and 17.15% for trade tax.

## Equity

### Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,555 thousand as of 31 December 2018 (2017: EUR 2,974,555 thousand). The share capital is divided into no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid.

As of 31 December 2018, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no-par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

### Authorised capital

As of 31 December 2018, Telefónica Deutschland Holding AG had authorised capital 2016/I of EUR 1,487,277,496.

### Conditional capital

The share capital of Telefónica Deutschland Holding AG is contingently increased by up to EUR 558,472,700 by issuing up to 558,472,700 non-par value registered shares (Conditional Capital 2014/I).

### Additional paid-in capital

As of 31 December 2018, the additional paid-in capital was unchanged at EUR 4,832,539 thousand.

With the entry in the commercial register on 4 June 2018, the part of the tied additional paid-in capital of EUR 4,535,097,828.00 was converted into a free additional paid-in capital (section 272 (2) no. 4 HGB).

### Retained earnings

Retained earnings contain a legal reserve in accordance with section 150 (2) AktG of EUR 14 thousand (previous year: EUR 14 thousand).

### Distribution of profits

The Annual General Meeting of Telefónica Deutschland Holding AG was held on 17 May 2018, at which it was resolved to distribute a dividend of EUR 0.26 per entitled share from the 2017 balance sheet profit, in total of EUR 773,384,298.18. The dividend was paid to shareholders by 23 May 2018.

## Pension provisions

Pension provisions relates to commitments for retirement in the amount of EUR 2,906 thousand (2017: EUR 2,751 thousand).

The acquisition of E-Plus in financial year 2014 and the related transfer of the acquired pension obligations at amortised cost resulted in surplus coverage compared to a measurement on the basis of section 253 (1) sentence 2 and (2) sentence 2 HGB (see section "I General information on the Annual Financial Statements" - "Accounting Policies"). The transfer value will be retained until it corresponds to a measurement in accordance with section 253 (1) sentence 2 and (2) sentence 2 HGB. As of December 31, 2018, the surplus coverage amounts to EUR 290 thousand (previous year: EUR 539 thousand).

At the same time, this pension obligation includes EUR 2,625 thousand in pension obligations to former members of the Management Board.

As of 31 December  
(EUR thousand)

|                                                                                 | 2018  | 2017  |
|---------------------------------------------------------------------------------|-------|-------|
| Cost of acquired pension obligations                                            | 2,625 | 2,625 |
| Settlement amount of offset liabilities in accordance with commercial law       | 2,336 | 2,086 |
| Surplus coverage of cost over the settlement amount                             | 290   | 539   |
| Fair value of offset plan assets                                                | 954   | 936   |
| Amortised cost of plan assets in accordance with section 255 (4) sentence 4 HGB | 954   | 936   |

In financial year 2017, further pension obligations with related plan assets were taken over from an affiliated company as a result of the expansion of the Management Board. The transfer amount corresponded to the present value of offset pension obligations as of 31 December 2017, so that there is no surplus.

On the basis of a valuation as of 31 December 2018 in accordance with section 253 (1) sentence 2 and (2) sentence 2 HGB and after offsetting against plan assets of EUR 1,510 thousand (2017: EUR 1,403 thousand) in accordance with section 246 (2) sentence 2 HGB, the total present value of offset pension obligations amounts to EUR 2,616 thousand (previous year: EUR 2,211 thousand). The difference in accordance with section 253 (6) sentence 1 HGB amounts to EUR 840 thousand (previous year: EUR 720 thousand) and is blocked from distribution.

The plan assets consist of exclusive, pledged and insolvency-protected reinsurance policies. The fair value of the netted reinsurance claims corresponds to the amortised cost (cover capital reserves plus profit participation) in accordance with actuarial opinions or the insurers' notifications.

Telefónica Deutschland Holding AG makes use of the option granted in Art. 28 (1) and (2) EGHGB not to recognise indirect pension obligations in the amount of EUR 921 thousand (2017: EUR 366 thousand), which are secured by the provident fund ProFund Unabhängige Gruppen- und Unterstützungskasse e.V. To cover this obligation, as of 31 December 2018 EUR 1,203 thousand (2017: EUR 468 thousand) was held in trust for Telefónica Deutschland Holding AG.

Interest income of EUR 15 thousand from actuarial assets is offset against interest expenses of EUR 254 thousand from the change in the discounting of the pension provision.

## Other provisions

Other provisions in the amount of EUR 5,265 thousand (2017: EUR 6,503 thousand) mainly relate to obligations arising from the remuneration of the Management Board (2018: EUR 3,387 thousand; 2017: EUR 3,334 thousand). In addition, this includes provisions for outstanding incoming invoices for consulting services amounting to EUR 1,790 thousand (2017: EUR 2,815 thousand).

## Liabilities

Trade payables amounted to EUR 43 thousand (2017: EUR 771 thousand) and relate primarily to liabilities from consulting services.

Liabilities to affiliated companies amounted to EUR 1,729 thousand (2017: EUR 617 thousand).

The other liabilities in the amount of EUR 453 thousand (2017: EUR 1,116 thousand) mainly result from tax liabilities.

Liabilities to affiliated companies include liabilities in the amount of EUR 131 thousand with a remaining term of greater than one year. The remaining liabilities have a remaining term of less than one year and are unsecured.

# 4. Notes to the Income Statement

## Revenues

Revenues amount to EUR 9,755 thousand (2017: EUR 14,991 thousand) and mainly comprise the reimbursement of costs for the remuneration of the members of the Management Board and other

administrative costs (2018: EUR 9,405 thousand; 2017: EUR 14,751 thousand), which are assumed by Telefónica Germany GmbH & Co. OHG in accordance with the reimbursement agreements for management services (as described under "I. General information on the Annual Financial Statements - Agreement on the reimbursement of management services").

Furthermore, invoiced management services are included in the amount of EUR 240 thousand (2017: EUR 240 thousand), which Telefónica Deutschland Holding AG provides for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

### Other operating income

The other operating income in the amount of EUR 348 thousand (2017: EUR 774 thousand) mainly results from the reversal of provisions.

### Personnel expenses

Personnel expenses of EUR 7,571 thousand (2017: EUR 6,329 thousand) include the expense from the remuneration of the Management Board, including social expenses.

### Other operating expenses

Other operating expenses in the financial year of EUR 4,015 thousand (2017: EUR 11,302 thousand) include mainly legal and consulting expenses from external service providers.

### Other interest and similar income

Other interest and similar income amounts to EUR 2 thousand (2017: EUR 0 thousand) and includes interest from tax refunds.

### Other interest and similar expenses

Other interest and similar expenses of EUR 270 thousand (2017: EUR 63 thousand) include mainly interest expenses from changes in the interest rate for pension provisions.

### Out-of-period income and expenses

In total, out-of period income in the amount of EUR 361 thousand was recorded in the financial year 2018 (of which EUR 347 thousand in other operating income) from the reversal of provisions and tax refunds. Out-of period expenses in the amount of EUR 567 thousand

was recorded from consulting services and from personnel remuneration for previous years.

### Proposed dividend for financial year 2018 to be paid in 2019

On 29 October 2018, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of EUR 803 million or EUR 0.27 per share at the next Annual General Meeting, which is scheduled for 21 May 2019.

## 5. Supplementary Information on the Notes

### Additional information regarding the Supervisory Board and Management Board

#### Remuneration of the Management Board

The presentation of the Management Board remuneration system and the mandatory disclosures pursuant to section 285 No. 9 a) sentences 5-8 HGB are part of the combined Management Report.

The total remuneration of the members of the Management Board for the financial year ended 31 December 2018 amounts to EUR 6,163 thousand (2017: EUR 3,884 thousand).

Telefónica Deutschland Holding AG has not currently granted the members of its Management Board any security or loans and has not assumed any guarantees for them.

The total remuneration in the reporting year includes share-based payments for the transfer of shares without consideration with a fair value at the time they were granted of EUR 559 thousand (2017: EUR 0 thousand) with the number of shares 105,556 (2017: 0).

#### Remuneration of the Supervisory Board

The basic principles of the remuneration system and the disclosure of the individual remuneration of the members of the Supervisory Board are part of the combined Management Report.

The members of the Supervisory Board received remuneration for their activities on the Supervisory Board of Telefónica Deutschland Holding AG of EUR 346 thousand in 2018 and EUR 382 thousand in 2017.

Telefónica Deutschland Holding AG has not currently granted the members of its Supervisory Board any security or loans and has not assumed any guarantees for them.

## Management Board

The members of the Management Board of Telefónica Deutschland Holding AG as of 31 December 2018 are listed below:

| Name                    | Role                                                                     | Membership of Supervisory Boards                                                                                                               |
|-------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Markus Haas             | Chief Executive Officer (CEO)<br>Chairman of the Management Board        |                                                                                                                                                |
| Markus Rolle            | Chief Financial Officer (CFO)<br>Management Board member                 | Telefónica Germany Retail GmbH, Düsseldorf<br>TGCS Rostock GmbH, Munich                                                                        |
| Wolfgang Metze          | Chief Consumer Officer (CCO)<br>Management Board member                  | TGCS Essen & Potsdam GmbH, Potsdam (Chairman)<br>Telefónica Germany Retail GmbH, Düsseldorf (Chairman)<br>TGCS Rostock GmbH, Munich (Chairman) |
| Alfons Lösing           | Chief Partner and Business Officer<br>Management Board member            | TGCS Essen & Potsdam GmbH, Potsdam<br>TGCS Rostock GmbH, Munich                                                                                |
| Cayetano Carbajo Martín | Chief Technology Officer (CTO)<br>Management Board member                |                                                                                                                                                |
| Guido Eidmann           | Chief Information Officer (CIO)<br>Management Board member               | TGCS Essen & Potsdam GmbH, Potsdam (since April 2018)<br>Telefónica Germany Retail GmbH, Düsseldorf (since April 2018)                         |
| Valentina Daiber        | Chief Officer for Legal and Corporate Affairs<br>Management Board member |                                                                                                                                                |
| Nicole Gerhardt         | Chief Human Resources Officer (CHRO)<br>Management Board member          | TGCS Essen & Potsdam GmbH, Potsdam<br>Telefónica Germany Retail GmbH, Düsseldorf<br>TGCS Rostock GmbH, Munich                                  |

### Supervisory Board

Eva Castillo Sanz resigned from her position as chairperson of the Supervisory Board with effect from the end of the day on 25 April 2018 and as a member of the Supervisory Board of Telefónica Deutschland with effect from the end of 25 May 2018.

With effect from 3 May 2018, the Supervisory Board of Telefónica Deutschland elected Laura Abasolo García de Baquedano as the new chairperson of the Supervisory Board.

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

By court order of 7 June 2018, María García-Legaz Ponce was appointed to the Supervisory Board as shareholder representative.

Enrique Medina Malo resigned as of the end of 24 July 2018 as a member of the Supervisory Board. With effect as of 25 July 2018, the relevant court appointed Pablo de Carvajal González as his successor.

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2018 are listed below:

| Name                                     | Role                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Laura Abasolo García de Baquedano        | Member of the Supervisory Board (since 3 May 2018: Chairperson of the Supervisory Board)<br><br>Occupation:<br>Chief Finance and Control Officer, Telefonica, S.A.<br><br>Current mandates:<br>Member of the Board of Directors and Chairperson of the Audit Committee (until June 2018), Acerinox, S.A.<br>Member of the Board of Directors (Trustee), Telefónica Foundation                   |
| Eva Castillo Sanz<br>(until 25 May 2018) | Chairperson of the Supervisory Board (until 25 April 2018)<br><br>Current mandates:<br>Member of the Board of Directors, Telefónica, S.A.<br>Member of the Board of Directors, Bankia S.A.<br>Member of the Board of Directors, Telefónica Foundation<br>Member of the Board of Directors, Comillas - ICAI Foundation<br>Member of the Board of Directors, Entreculturas Foundation             |
| Christoph Braun*                         | Deputy Chairperson of the Supervisory Board<br><br>Occupation:<br>Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG<br>Chairman of the European Works Council of Telefónica Europe<br>Deputy Chairman of the General Works Council of Telefonica Germany GmbH & Co. OHG<br>Deputy Chairman of the Works Council Region North-East of Telefonica Germany GmbH & Co. OHG |
| Sally Anne Ashford                       | Member of the Supervisory Board<br><br>Occupation:<br>Chief HR Officer, Royal Mail Group plc.                                                                                                                                                                                                                                                                                                   |
| Patricia Cobián González                 | Member of the Supervisory Board<br><br>Occupation:<br>Chief Financial Officer, Telefónica UK Ltd.<br><br>Current mandates:<br>Member of the Board of Directors, Telefónica Europe, plc.<br>Advisory Board Member, Lumia Capital                                                                                                                                                                 |
| Peter Erskine                            | Member of the Supervisory Board<br><br>Current mandates:<br>Non-Executive Director, Telefónica, S.A.<br>Chairman of the Strategy and Innovation Committee of Telefónica, S.A.                                                                                                                                                                                                                   |
| Christoph Heil*<br>(until 17 May 2018)   | Member of the Supervisory Board<br><br>Occupation:<br>Representative, Vereinte Dienstleistungsgewerkschaft ver.di<br><br>Current mandate:<br>Member of the Supervisory Board, Capgemini Deutschland GmbH                                                                                                                                                                                        |
| Sandra Hofmann*<br>(from 17 May 2018)    | Member of the Supervisory Board<br><br>Occupation:<br>Trade Union Secretary Department TK/IT, Vereinten Dienstleistungsgewerkschaft ver.di, Südhessen                                                                                                                                                                                                                                           |
| Michael Hoffmann                         | Member of the Supervisory Board<br>Chairman of the Audit Committee, Telefónica Deutschland Holding AG<br><br>Occupation:<br>Master's degree in Business Administration, self-employed<br><br>Current mandates:<br>Member of the Supervisory Board and Chairman of the Audit Committee of Westwing Group AG (from August 2018)                                                                   |

| Name                                                 | Role                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Julio Linares López                                  | Member of the Supervisory Board<br><br>Current mandates:<br>Member of the Board of Directors and Chairman of the Strategy Committee, Telefónica Brazil S.A.<br>Non-Executive Director, Telefónica de España, S.A.U.<br>Non-Executive Director, Telefónica Móviles España, S.A.U.<br>Member of the Board of Directors (Trustee), Telefónica Foundation    |
| Enrique Medina Malo<br>(until 24 July 2018)          | Member of the Supervisory Board<br><br>Occupation:<br>Chief Policy Officer, Telefónica, S.A.<br><br>Current mandates:<br>Member of the Board of Directors, O2 International Holdings Limited<br>Member of the Board of Directors, Telefónica Germany Holdings Limited                                                                                    |
| Pablo de Carvajal González***<br>(from 25 July 2018) | Member of the Supervisory Board<br><br>Occupation:<br>General Counsel, Director Public Affairs and Regulation, Telefónica, S.A.                                                                                                                                                                                                                          |
| Thomas Pfeil*                                        | Member of the Supervisory Board<br><br>Occupation:<br>Full-Time member of the Works Council of Telefónica Germany GmbH & Co. OHG<br>Chairman of the Works Council Munich, Telefónica Germany GmbH & Co. OHG (from November 2018)                                                                                                                         |
| Joachim Rieger*                                      | Member of the Supervisory Board<br><br>Occupation:<br>Chairman of the General Works Council of TGCS Essen & Potsdam GmbH<br><br>Current mandates:<br>Deputy Chairman of the Supervisory Board of TGCS Essen & Potsdam GmbH                                                                                                                               |
| Jürgen Thierfelder*                                  | Member of the Supervisory Board<br><br>Occupation:<br>Full-time member of the Works Council of Telefónica Germany Retail GmbH<br>Chairman of the General Works Council of Telefónica Germany Retail GmbH (until June 2018)<br><br>Current mandates:<br>Deputy Chairman of the Supervisory Board of Telefónica Germany Retail GmbH (until September 2018) |
| Marcus Thurand*<br>(until 17 May 2018)               | Member of the Supervisory Board<br><br>Occupation:<br>Director Network Operations, Telefónica Germany GmbH & Co. OHG                                                                                                                                                                                                                                     |
| Martin Butz*<br>(from 17 May 2018)                   | Member of the Supervisory Board<br><br>Occupation:<br>Director Carrier Management & Roaming, Telefónica Germany GmbH & Co. OHG                                                                                                                                                                                                                           |
| Dr Jan-Erik Walter*                                  | Member of the Supervisory Board<br><br>Occupation:<br>Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG<br>Deputy Chairman of the Works Council Munich of Telefónica Germany GmbH & Co. OHG<br>Chairman of the Group Works Council of Telefónica Deutschland Holding AG                                                         |
| Claudia Weber*                                       | Member of the Supervisory Board<br><br>Occupation:<br>Deputy Managing Director, ver.di Munich district<br><br>Current mandate:<br>Member of the Supervisory Board, SWM Services GmbH                                                                                                                                                                     |
| María García-Legaz Ponce**<br>(from 7 June 2018)     | Member of the Supervisory Board<br><br>Occupation:<br>Chief of Staff, Telefónica, S.A.                                                                                                                                                                                                                                                                   |

\* Employee representative

\*\* New member of the Supervisory Board according to court order of 7 June 2018.

\*\*\* New member of the Supervisory Board with effect of 25 July 2018 by court order

## Auditor's fees

In accordance with section 285 No. 17 HGB, the total fee relating to the auditor of Telefónica Deutschland Holding AG is not disclosed because the company prepares the consolidated financial statements of Telefónica Deutschland Holding AG ("Telefónica Deutschland Group") and the corresponding information is included in these Consolidated Financial Statements.

## Number of employees

As in the 2017 financial year, the company had no employees in 2018.

## Contingent liabilities and other financial obligations

### Contingent liabilities

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes guarantee obligations for its subsidiaries. In February 2014 and July 2018, O2 Telefónica Deutschland Finanzierungs GmbH, Munich issued two bonds. Telefónica Deutschland gives each holder of the two issued bonds in the amount of EUR 500 million and EUR 600 million, respectively, receiving an unconditional and irrevocable guarantee for the proper and punctual payment of all amounts to be paid by the issuer on the bond in accordance with the terms and conditions of the bonds.

The risk of any claims arising from the contingent liabilities is considered to be extremely low. This assessment is based on the fact that O2 Telefónica Deutschland Finanzierungs GmbH is an indirect subsidiary of Telefónica Deutschland Holding AG and is fully controlled via Telefónica Germany GmbH & Co OHG. The creditworthiness of O2 Telefónica Deutschland Finanzierungs GmbH is thus determined by the operational business of the Telefónica Deutschland Group itself.

In financial year 2016, Telefónica Deutschland Holding AG issued letters of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. The letters of comfort continue to be valid and can be terminated with six months' notice to the end of a financial year of the companies.

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The risk of any claims arising from these contingent liabilities is considered to be low.

## Parent Company / Consolidated Financial Statements

Telefónica Deutschland Holding AG, Munich, prepares consolidated financial statements for the smallest group of companies in accordance with IFRS as applied in the EU. These are published in the German Federal Gazette. The consolidated financial statements of Telefónica Deutschland Holding AG have been included in the consolidated financial statements of the Spanish parent company Telefónica, S.A. (Madrid, Spain). The latter is the company that prepares the consolidated financial statements for the largest group of companies and these are published on the internet at [www.telefonica.com](http://www.telefonica.com).

### Notifications of voting rights pursuant to section 40 (1) WpHG:

On 1 November 2018, Koninklijke KPN N.V., The Hague, Netherlands, notified us pursuant to section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 5% on 31 October 2018 and amounted to 4.99% on this date.

On 18 October 2016, T. Rowe Price Group, Inc., Baltimore, Maryland, United States of America, informed us pursuant to section 21 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, exceeded the threshold of 3% on 13 October 2016 and amounted to 3.02% on this date.

On 8 October 2014, Telefónica, S.A., Madrid, Spain, notified us pursuant to section 21 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 75% on 7 October 2014 and amounted to 62.10% (corresponding to 1,847,271,219 voting rights) on this date. 57.70% of the voting rights (corresponding to 1,716,390,800 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Attributed voting rights are held via the following companies controlled by it, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more in each case: O2 (Europe) Limited, Telefónica Germany Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting rights are held by the following shareholders, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, Telefónica Germany Holdings Limited, Slough, United Kingdom, notified us pursuant to section 21 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 75% on 7 October 2014 and amounted to 62.10% (corresponding to 1,847,271,219 voting rights) on this date. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG. Attributed voting rights are held by the following shareholders, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, O2 (Europe) Limited, Slough, United Kingdom, notified us pursuant to section 21 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 75% on 7 October 2014 and amounted to 62.10% (corresponding to 1,847,271,219 voting rights) on this date. 57.70% of the voting rights (corresponding to 1,716,390,800 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Attributed voting rights are held via the following companies controlled by it, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more in each case: Telefónica Germany Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting rights are held by the following shareholders, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more: KPN Mobile Germany GmbH & Co. KG.

An overview of all voting rights notifications can also be found at **[www.telefonica.de/voting-rights-announcement](http://www.telefonica.de/voting-rights-announcement)**

## Declaration of Compliance with the German Corporate Governance Code in accordance with section 161 AktG

The Management Board and the Supervisory Board last submitted a Declaration of Compliance in accordance with section 161 AktG on 12 and 15 October 2018. The complete wording of the Declaration of Compliance is available on Telefónica Deutschland's website at **<https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-and-articles.html>**.

## Subsequent Events

Supervisory Board member Jürgen Thierfelder resigned from office at the end of 31 December 2018.

Sandra Hofmann informed the Chairperson of the Supervisory Board that she would be resigning as a member of the Supervisory Board with effect from the end of the Supervisory Board meeting on 18 February 2019.

Telefónica Deutschland Holding AG issued a letter of comfort to Telefónica Germany GmbH & Co. OHG on 21 January 2019 until 31 December 2040.

The letter of comfort does not significantly change the economic substance of the opportunities and risks. The risk of recourse is considered to be low.

No additional events subject to disclosure requirements occurred after the end of the 2018 financial year.

## Combined Management Report

The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are combined in accordance with section 315 (5) HGB in conjunction with section 298 (2) HGB and published in the 2018 Annual Report of the Telefónica Deutschland Group.

The Annual Financial Statements and the Annual Report including the Combined Management Report of Telefónica Deutschland, are made available in the electronic Federal Gazette and on the company's website.

Munich, 15 February 2019

Telefónica Deutschland Holding AG

- The Management Board -



Markus Haas



Markus Rolle



Valentina Daiber



Guido Eidmann



Nicole Gerhardt



Alfons Lösing



Cayetano Carbajo Martín



Wolfgang Metze

# TELEFÓNICA DEUTSCHLAND HOLDING AG DECLARATION OF THE STATUTORY REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the Annual Financial Statements give a true and fair view of the assets, liabilities, financial and earnings position of the Company, and the Management Report of Telefónica Deutschland Holding AG, which is combined with the Group Management

Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

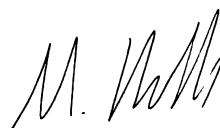
Munich, 15 February 2019

Telefónica Deutschland Holding AG

Management Board



Markus Haas



Markus Rolle



Valentina Daiber



Guido Eidmann



Nicole Gerhardt



Alfons Lösing



Cayetano Carbajo Martín



Wolfgang Metze

## Independent Auditor's Report

To Telefónica Deutschland Holding AG, Munich

### Report on the Audit of the Annual Financial Statements and of the Management Report

#### Audit Opinions

We have audited the annual financial statements of Telefónica Deutschland Holding AG, Munich, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Telefónica Deutschland Holding AG, which is combined with the group management report, for the financial year from January 1 to December 31, 2018. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

Pursuant to [§ [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code]], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

#### Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and standards are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

#### Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

❶ Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG

Our presentation of this key audit matter has been structured as follows:

- ❶ Matter and issue
- ❷ Audit approach and findings
- ❸ Reference to further information

Hereinafter we present the key audit matter:

❶ **Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG**

- ❶ In the Company's annual financial statements shares in affiliated companies amounting to € 9.35 billion (99% of total assets) are reported under the "Financial assets" balance sheet item. The shares in affiliated companies principally comprise the shareholding in Telefónica Germany GmbH & Co. OHG, Munich which holds further shareholdings in turn. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The impairment test performed in relation to the value of the shares in Telefónica Germany GmbH & Co. OHG takes into account the operations of Telefónica Germany GmbH & Co. OHG as well as the fair values of its direct and indirect shareholdings, as these may have a significant influence on the fair value of the shares in Telefónica Germany GmbH & Co. OHG.

In financial year 2018, the fair value of the significant shareholdings of Telefónica Germany GmbH & Co. OHG was calculated using a discounted cash flow model as the present value of the expected future cash flows resulting from the financial projections prepared. Expectations relating to future market developments and assumptions about the development of macroeconomic factors were also taken into account. The discount rate used was the individually determined cost of capital. With respect to Telefónica Deutschland Holding AG's other indirect and direct shareholdings, testing focused on whether there were indications that result in an impairment of the shareholding in Telefónica Germany GmbH & Co. OHG that could be expected to be permanent. Based on the values calculated and other documentation, there was no need to recognize impairment losses in the financial year. The result of the impairment test depends particularly on the assessments of the Company's executive directors regarding the future cash flows, growth rates, the discount rate used as well as the future development of the operations of Telefónica Germany GmbH & Co. OHG and its direct and indirect shareholdings. Due to the assessment relating to the numerous valuation parameters, the impairment test is subject to considerable uncertainty. Against this background and in view of its material significance for the net assets and results of operations of the Company, this matter was of particular importance for our audit.

- ❷ As part of our audit, we evaluated the recoverability of the shareholding of Telefónica Deutschland Holding AG in Telefónica Germany GmbH & Co. OHG also under consideration of the recoverability of the significant shareholdings of Telefónica Germany GmbH & Co. OHG. In this context, we assessed the methodology employed for the purposes of the valuations, among other things. We assessed whether the fair value of this material shareholdings had been properly determined using a discounted cash flow model in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rates applied and the growth rates can have a material impact on the values of the entities calculated in this way, we focused our testing in particular on the parameters used to determine the discount rates applied, and evaluated the measurement models. Furthermore, on the basis of financial information and other documentation we evaluated the executive directors' conclusion that there were no indications that the shareholding in Telefónica Germany GmbH & Co. OHG was impaired, also taking into account the market capitalization of Telefónica Deutschland Holding AG for this purpose. In this

context, we assessed the expected future income from the operating business activities in the light of the business plan of Telefónica Germany GmbH & Co. OHG prepared by the executive directors. For this purpose, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis.

In our view, the assumptions and expectations underlying the executive directors' impairment testing of the shareholding in Telefónica Germany GmbH & Co. OHG have been properly derived and are within reasonable ranges.

- ③ The Company's disclosures relating to the shareholdings are contained in the "Notes to the balance sheet / Financial assets" section of the notes to the financial statements.

### **Other Information**

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance" of the management report.
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### **Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a

management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as auditor by the annual general meeting on May 17, 2018. We were engaged by the supervisory board on November 23, 2018. We have been the auditor of Telefónica Deutschland Holding AG, Munich, without interruption since financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

We have provided the following services in addition to the audit of the annual financial statements to the audited entity and its controlled undertakings, which have not been disclosed in the annual financial statements or the management report: We have audited the consolidated financial statements of the company and performed several financial statement audits of subsidiaries. In addition, we have rendered other contractual attestation services mainly in connection with a capital markets transaction.

### **German Public Auditor Responsible for the Engagement**

The German Public Auditor responsible for the engagement is Stefano Mulas.

Munich, 15 February 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Stefano Mulas  
German Public Auditor

p.p. Gabor Krüpl  
German Public Auditor

# GLOSSARY

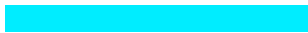
The glossary also contains abbreviations as used in the Group Management Report.

|                   |                                                                                                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ADA               | Advanced Data Analytics                                                                                                                                                              |
| AktG              | Aktiengesetz (German Stock Corporation Act)                                                                                                                                          |
| ARPU              | Average Revenue per User                                                                                                                                                             |
| Art.              | Article                                                                                                                                                                              |
| Augmented Reality | Computer Assisted Reality Enhancement                                                                                                                                                |
| Bitkom            | German Federal Association for Information Technology, Telecommunications and New Media, Berlin                                                                                      |
| BMWi              | German Federal Ministry for Economic Affairs and Energy                                                                                                                              |
| BNetzA            | Bundesnetzagentur                                                                                                                                                                    |
| BOLO              | Contribution-based benefit regulations of the Essen Association                                                                                                                      |
| bp                | Basis points                                                                                                                                                                         |
| Brexit            | British Exit – the act of the United Kingdom leaving the European Union                                                                                                              |
| Broadband         | Refers to telecommunication in which a wide band of frequencies is available to transmit information                                                                                 |
| CAP               | Capping limit                                                                                                                                                                        |
| CapEx             | Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licenses, business combinations and finance leases |
| CapEx/Sales ratio | Investment ratio - reflects the percentage share of investments in revenues                                                                                                          |
| Carrier           | Telecommunication network operator authorised by the federal network agency                                                                                                          |
| Churn             | Loss of customers                                                                                                                                                                    |
| Cloud services    | Dynamic infrastructures, software and platform services, which are available online                                                                                                  |
| CSI               | Customer Satisfaction Index                                                                                                                                                          |
| DAX               | German Stock Index                                                                                                                                                                   |
| DBO               | Defined Benefit Obligation                                                                                                                                                           |
| DRS               | German Accounting Standard                                                                                                                                                           |
| DSL               | Digital Subscriber Line: technology to transmit data in the local loop to private end-customers                                                                                      |
| EIB               | European Investment Bank                                                                                                                                                             |
| EU                | European Union                                                                                                                                                                       |
| Euribor           | Euro Interbank Offered Rate                                                                                                                                                          |
| EV                | Essen Association                                                                                                                                                                    |
| ExComm            | Executive Committee                                                                                                                                                                  |
| FCF               | Free cash flow                                                                                                                                                                       |
| FDD               | Frequency division duplex                                                                                                                                                            |
| FTE               | Full-time equivalent                                                                                                                                                                 |
| FTR               | Fixed network Termination Rates                                                                                                                                                      |
| FttB              | Fibre To The Building or Fibre To The Basement. In telecommunications FttB means that the fibre-optic cable is terminated in the user's house (basement).                            |
| FttH              | Fibre to the Home. In telecommunications FttH means that the fibre-optic cable is terminated right in the user's home or apartment.                                                  |
| GB                | Gigabyte                                                                                                                                                                             |
| GCGC              | German Corporate Governance Code                                                                                                                                                     |
| GDP               | Gross domestic product                                                                                                                                                               |
| GfK               | Gesellschaft für Konsumforschung (consumer research association)                                                                                                                     |
| GHz               | Gigahertz                                                                                                                                                                            |

|                         |                                                                                                                                                          |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Handset                 | Mobile phone                                                                                                                                             |
| HGB                     | Handelsgesetzbuch (German Commercial Code)                                                                                                               |
| IAS                     | International Accounting Standards,                                                                                                                      |
| IASB                    | International Accounting Standards Board                                                                                                                 |
| ICS                     | Internal control system                                                                                                                                  |
| IDW                     | Institute of Auditors in Germany e.V., Düsseldorf                                                                                                        |
| IFRS                    | International Financial Reporting Standards                                                                                                              |
| IoT                     | Internet of Things                                                                                                                                       |
| ISIN                    | International Securities Identification Number                                                                                                           |
| IT                      | Information Technology                                                                                                                                   |
| Joint Venture           | A joint agreement under which the parties having joint control have rights to the net assets of the agreement                                            |
| KPI                     | Key Performance Indicator                                                                                                                                |
| KPN                     | Koninklijke KPN N.V., The Hague, Netherlands                                                                                                             |
| LTE                     | Long Term Evolution: further development of the UMTS/HSPA mobile communications standard                                                                 |
| LTM                     | Last Twelve Months                                                                                                                                       |
| M2M                     | Machine-to-Machine communication: automatic exchange of information between devices                                                                      |
| MBA                     | Mobile Bitstream Access                                                                                                                                  |
| Mbit                    | Megabit                                                                                                                                                  |
| MHz                     | Megahertz                                                                                                                                                |
| Ms                      | Milliseconds                                                                                                                                             |
| MSR                     | Mobile service revenue                                                                                                                                   |
| MTR                     | Mobile network termination rates                                                                                                                         |
| MVNO                    | Mobile Virtual Network Operator: Virtual network operator                                                                                                |
| Net Adds                | Net new customers: new customers for the period less those customers leaving are designated as net additional customers                                  |
| NPS                     | Net Promoter Score                                                                                                                                       |
| O2 (Europe) Limited     | O2 (Europe) Limited, Slough, United Kingdom                                                                                                              |
| O <sub>2</sub> Free     | The O <sub>2</sub> Free data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data |
| O <sub>2</sub> My Handy | Monthly payment model for mobile phones and other devices                                                                                                |
| OIBDA                   | Operating Income before Depreciation and Amortisation                                                                                                    |
| OpCF                    | Operating Cash Flow                                                                                                                                      |
| OTT                     | Over-the-top                                                                                                                                             |
| OTT services            | (WhatsApp, Facebook, etc.)                                                                                                                               |
| PIP                     | Performance and Investment Plan                                                                                                                          |
| Prepaid/Postpaid        | In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment                       |
| PSP                     | Performance Share Plan                                                                                                                                   |
| RCF                     | Revolving Credit Facility                                                                                                                                |
| Roaming                 | Using a communication device or subscriber identity in a different network other than one's home network                                                 |
| SIM                     | Subscriber Identity Module: a chip card to insert into a mobile phone which identifies the user within the network                                       |
| smart watch             | A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet.                                        |
| Smartphone              | Mobile phone with extensive computer and internet functionalities                                                                                        |
| SME                     | Small- and Medium-sized Enterprises                                                                                                                      |
| SMS                     | Short Message Service                                                                                                                                    |

|                              |                                                                                                                                                                                                               |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SoHo                         | Small office/Home office                                                                                                                                                                                      |
| SOX                          | Sarbanes-Oxley-Act: US federal law to improve the reliability of reporting                                                                                                                                    |
| Tablet                       | A wireless, portable personal computer with a touch screen                                                                                                                                                    |
| TDD                          | Time division duplex operation                                                                                                                                                                                |
| Telefónica Deutschland       | Telefónica Deutschland Holding AG, Munich, Germany                                                                                                                                                            |
| Telefónica Deutschland Group | The companies included in the Consolidated Financial Statements of Telefónica Deutschland                                                                                                                     |
| Telefónica, S.A.             | Telefónica S.A., Madrid, Spain                                                                                                                                                                                |
| TKG                          | Telekommunikationsgesetz (Telecommunications Act)                                                                                                                                                             |
| Translation risk             | The risk arising from the translation of accounting items at a later reporting date                                                                                                                           |
| TSR                          | Total shareholder return (return on shares)                                                                                                                                                                   |
| ULL                          | Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile".                          |
| UMTS                         | Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz. |
| VATM                         | Association of Telecommunications and Value-Added Service Providers, Berlin                                                                                                                                   |
| VDSL                         | Very High Data Rate Digital Subscriber Line (see DSL)                                                                                                                                                         |
| Vectoring                    | Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates.                                                                           |
| Virtual Reality              | Computer-generated representation of a world (in real time)                                                                                                                                                   |
| VZBV                         | Federation of German Consumer Organisations, Berlin                                                                                                                                                           |
| Wearables                    | Wearable computers or wearables are miniature electronic devices that are worn under, with, or on top of clothing                                                                                             |
| Wholesale                    | Selling services to third parties who sell them to their own end customers either directly or after further processing                                                                                        |

# IMPRINT



## **Publisher**

Telefónica Deutschland Holding AG  
Georg-Brauchle-Ring 50  
80992 Munich, Germany  
Tel.: +49 89 2442 0  
**www.telefonica.de**

## **Investor Relations**

Telefónica Deutschland Holding AG  
Investor Relations  
Georg-Brauchle-Ring 50  
80992 Munich, Germany  
Tel.: +49 89 2442 1010  
E-mail for private investors: [shareholder-deutschland@telefonica.com](mailto:shareholder-deutschland@telefonica.com)  
E-mail for institutional investors: [ir-deutschland@telefonica.com](mailto:ir-deutschland@telefonica.com)

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**www.telefonica.de**

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