

Telefonica

Deutschland

CORPORATE RESPONSIBILITY REPORT 2018

The individual at the centre of digital responsibility.



SEPARATE COMBINED
NON-FINANCIAL
REPORT (NFR)



Portrait of the Company

Business Activity

With 47.1 million customer accesses as of 31 December 2018, Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. We offer mobile and fixed services for private and business customers as well as innovative digital products and services in the area of IoT (Internet of Things) and data analysis. In addition, our numerous wholesale partners purchase extensive mobile communications services from us. In the mobile sector, we serve the increasing demand for mobile services as a consequence of the digitalisation of ever more areas of life. We are the only telecommunications provider with mobile communications network of its own that concentrates exclusively on Germany – Europe's most attractive mobile communications market. With a total of 42.8 million mobile accesses as of 31 December 2018, we are a leading provider in this market. More than 80% of our mobile customers have a direct contract with us. In addition, we have already acquired 4.3 million fixed-line customers for our telephony and high-speed internet products. We are a part of Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

The Telefónica Deutschland Group's business model is described in detail in the "Basic Information on the Group" section of the Combined Management Report 2018.



Comprehensive CR strategy serves as a compass

Taking on responsibility is part of the Telefónica Deutschland Group's self-image. Our declared goal is to contribute to solving societal challenges with the help of digital technologies and to promote sustainable development. For us, responsible corporate governance involves keeping an eye on the impacts that all of our business activities have on people and the environment. Our CR strategy aims to anchor responsible corporate governance along the entire value chain and across all management levels. We are constantly developing this strategy in order to meet the rising expectations of our stakeholders, stricter external regulation and our own demands as a company that conducts itself responsibly.

Responsible Business Plan focuses on three key areas

In 2015 the Telefónica Deutschland Group developed a holistic CR strategy that takes into account the business-strategic focus as well as the expectations of our stakeholders. This CR strategy is based on the results of a materiality analysis. The analysis included a stakeholder survey and an evaluation of the impacts of our actions and the relevance to business of potentially pertinent issues. This provided 25 material topics for the Telefónica Deutschland Group, which were transferred into a matrix. Subsequently, the three

key CR areas "Responsible business", "Strengthening life in the digital world" and "Environmental and climate protection" were determined. We developed our Responsible Business Plan 2020 based on this in 2016 to manage our commitment to sustainability. In the plan, CR issues relevant to the key areas were defined along the value chain and respective overarching targets for 2020 were developed. We presented the Responsible Business Plan 2020 in detail in the CR Report 2016.

Regular review and integration of new requirements

The CR strategy is verified annually with regard to the relevant topics that were determined through the materiality analysis. All involved departments are integrated in workshops and the latest developments are enquired about. Current industry activities and studies are also evaluated in order to fully examine the relevant topics. This allows changes to be identified with regard to impacts of the Telefónica Deutschland Group as well as the relevance for our stakeholders and to our business operations. The results of this examination are integrated into our strategy process. You can find more details about how material issues were determined in chapters 6.1 and 6.2.

Integrating non-financial risks into risk management

We aim to achieve positive impacts on individual aspects and minimise negative consequences as fully as possible. The risks associated with the material issues are the focus for the Telefónica Deutschland Group. One of the tasks that our management concepts deal with is how to reduce these risks as effectively as possible.

Against the background of the CSR Directive Implementation Act (CSR-RUG), the material risks in the view of the Group for the 2018 financial year were analysed with regard to the relevant issues for the Non-Financial Report. This was followed by an assessment of the risk scenarios in terms of their probability of occurrence and their potential to have a detrimental impact regarding the defined non-financial subjects. Through this approach, we only discovered potential material risks in accordance with CSR-RUG for the area of customer satisfaction. We have put comprehensive measures in place to respond to these risks (see chapter Customer satisfaction). The detailed methodology for this risk assessment is presented in chapter 6.1 "Materiality according to CSR-RUG".



Customer satisfaction as the foundation for corporate success

Commitment

We offer our customers the best product and service experience, the latest innovations and a modern network infrastructure. By 2020 we will offer one of the best customer services in the industry with a high level of customer satisfaction.

BASIC PRINCIPLE

The focus is on the customer

Advancing digitalisation is changing all areas of our lives. The spheres of politics and business consider it their responsibility to shape this development advantageously for people and customers. One core promise is that digitalisation will lead to further growth and prosperity. As a digital telecommunications provider, we want to enable everyone to participate in digital life and use the advantages of digitalisation as it best suits their wishes and habits. For us, this also means people having complete control over deciding how their data is used.

The satisfaction of our customers is the foundation of our corporate success. Network quality, cost effectiveness and product and service quality are among the decisive factors in guaranteeing satisfaction. Here, we consider dealing with customers fairly and with respect to be self-evident.

Our aspiration is to put at our customers' disposal increasingly appealing, simple self-service offers that suit our customers' habits and needs. Our customers should also always be able to choose the channel of communication that they prefer. We aim to make online customer experiences even better still by further expanding the digitalisation of service formats that we offer.

PROCESSES & MANAGEMENT

Clearly defined key figures to measure customer satisfaction

The Chief Consumer Officer (CCO) of Telefónica Deutschland Holding AG and the Chief Partner and Business Officer (CPBO) of Telefónica Deutschland Holding AG bear overall responsibility for the area of customer satisfaction. The CCO is responsible for the private customer business with a clear focus on the customer experience. The Chief Partner and Business Officer is responsible for business with partners and corporate customers. Central management of customer satisfaction was also embedded more strongly in the organisation with the creation of the directorate for customer experience & transformation in 2018.

We measure customer satisfaction to the fullest extent permitted at all levels – at market, customer journey and contact level (i.e. directly following customer contact). We hope to derive relevant knowledge and measures from this in order to improve customer satisfaction further. We use the Net Promoter Score (NPS), Customer Satisfaction Index (CSI) and churn rate (excl. M2M) as our central key performance indicators. The churn rate (excl. M2M) is the migration rate of von postpaid customers over a certain period of time divided by the total number of customers. The churn rate (postpaid connections excl. M2M) remained nearly stable year-on-year (2017: 1.61%).



The NPS verifies customer willingness to recommend a brand. This value reflects the overall satisfaction with the brand as well as products and services. The NPS is determined by our brand's image, network quality, service quality, value for money, the attractiveness of the product and service portfolio and the degree of innovation attributed to the brand. All measures are aimed at improving these drivers. We launched an NPS task force in 2017 in order to continuously improve our NPS. The task force was transferred to a department in 2018 and it was thereby firmly anchored in the organisational structure.

The Customer Satisfaction Index (CSI) is determined through a telephone survey of our company's and competitors' private customers; these are conducted externally. The survey is carried out several times a year according to precisely defined criteria. The difference between the customers' wishes and their perception of the service can be measured through the arithmetic mean in the answers to three questions. The scale ranges from 1, very low customer satisfaction, to 10, very high customer satisfaction. We are aiming to stabilise the 2017 CSI figure of 7.18 and then improve it annually in the long term. We have managed to as planned stabilise the CSI figure and improve it to 7.49 since December 2017.

In order to keep customer satisfaction high, the Telefónica Deutschland Group responds to incoming queries as quickly as possible and according to defined workflows. We use a continuous improvement process to optimise our procedures in order to also improve the customer experience. We also use among other

things automated speech analysis for incoming telephone calls in order to evaluate the reasons for the calls and the wishes of customers faster and to record them systematically. Employees can also note improvement suggestions and customer wishes resulting from discussions with customers and forward them to the Telefónica Deutschland Group. Through this speech analysis as well as via feedback from the operating units, conspicuous fluctuations in contact or voiced customer problems are reported and we use these to derive concrete improvement measures. These are analysed and implemented promptly where possible as part of the continuous improvement process. Conspicuous topics are respectively assigned to a person responsible and tracked via weekly documentation.

The Telefónica Deutschland Group aims to become "Mobile Customer & Digital Champion" by 2022. To achieve this, we have set ourselves ambitious customer satisfaction targets: we intend to offer customer service that enjoys high levels of satisfaction and that is at least on a par with that of the competition. Target achievement is evaluated using internal key figures and external evaluations such as the hotline test in the specialist journal "connect".

We are also improving and expanding our digital offers and aim to provide the customer with uncomplicated customer service round the clock and independent of location. We intend to make 70% of all customer processes available in the self-service area by the end of 2021.

MEASURES

The customer is the focus

The focus of our measures planning is on improving the customer experience. That is why, in addition to optimising the quality of our customer service, we are also aiming to improve contact possibilities by pushing on with digital solutions based on our Digital Action Plan.

The Digital Action Plan includes among other things the continual expansion and development of digital offers in the self-service area, such as our digital assistant Lisa (chatbot for processing customer queries) and AURA (AI for optimising business processes). The pilot phase for AURA began in 2018 and the company-wide introduction is scheduled for 2019. We have also expanded and developed our O₂ DSL Help App (O₂ DSL Hilfe App). This app allows our customers to solve problems with their DSL connection themselves. We are continually analysing opportunities to use new innovative channels as part of our digital measure planning.

To become simpler, faster and better with our customers in mind, we launched our transformation programme Digital4Growth (D4G) in April 2018. The focus of D4G is the customer and their needs and experiences. The method of what is known as customer journey mapping is used to create the most direct contact possible with the customer. Along eleven defined customer processes, we observe the various customer life cycles in detail – that is to say the individual steps that people go through as customers: from general interest to actual purchase to active user. This allows the Telefónica Deutschland Group to initiate improvement measures for customers in a targeted manner. In this context, we have also worked on standardising and simplifying communication throughout the customer relations life cycle. In addition, the bond amongst employees is being strengthened, as this transformation programme brings employees from all areas together to work on joint solutions.

CUSTOMER SATISFACTION	UNIT	2018	2017
Customer Satisfaction Index (CSI)	Index	7.49	7.18
Postpaid churn rate (churn for postpaid connections) excl. M2M	Per cent	1.65	1.61



PROGRESS IN THE REPORTING YEAR

Network expansion advanced consistently

We have considerably improved the availability of our hotlines in the past year, which has resulted in shorter waiting times, amongst other benefits. The Telefónica Deutschland Group was able to deal with any bottlenecks that emerged by optimising management among other things. We have also introduced more self-service options and innovative tariffs. One example of this is the Connect tariff. This tariff allows our customers to spread their monthly data volume over up to ten mobile devices of their choice at no extra monthly cost and with just one tariff.

We are erecting numerous new LTE stations and increasing existing capacity to provide better network quality for our customers not only in urban areas but also rural ones. This comprehensive expansion of the network means even more customers in more and more places have high-speed Internet access, can stream videos and share images with other people in a matter of seconds. The Telefónica Deutschland Group upgraded more than 6,700 existing locations with further LTE capacity. This means we are increasing the density of the LTE network as planned not only in towns and cities, but also continuing to push on with LTE expansion across the country.

Important groundwork laid for our customers

As part of the merger of E-Plus and Telefónica Deutschland, our focus in 2018 was on completing the network integration, network conversion and LTE network expansion. In the course of this, a high priority was to minimise the network restrictions. It is our aim to make the most of the best locations and improve the quality of coverage using the Telefónica

Deutschland Group's new mobile network. We strive for an optimum network infrastructure that systematically delivers customer benefits. With our network measures, we want to offer our customers a fully integrated high-speed network for mobile calls and surfing.

Our private and corporate customers trust in the reliability of our services. They expect network failures to be rectified quickly. By monitoring our network elements comprehensively and continually investing in our network structure, we aim to ensure that the negative impacts on our customers are kept to a minimum. A specialist department (End-to-End Service Operations) is responsible for efficiently monitoring and resolving problems in the mobile telecommunications and fixed line network. It ensures that the impacts of work in the network are kept minimal for the customer, that customer complaints are analysed and that failures are remedied as quickly as possible. The individual specialist departments then optimise internal processes, taking the technical framework conditions into account.

With regard to our network elements, we want to further raise the level of automation in monitoring and resolving problems. We are using a new evaluation tool, to analyse the network and measure its quality. This will allow us to better understand our customers' data use both technically and qualitatively – and in real time and extensively. This way, for example, we will be able to recognise service restrictions or increased capacity demand at a mobile-network location sooner and react correspondingly.

The Telefónica Deutschland Group's fibre optic strategy relies on successful partnerships in order to cover as large an area as possible and accelerate advancement of fibre optic connections for mobile-network locations. In the process, we are working with several alternative telecommunications service

providers as well as other network operators. We have come to an agreement with Deutsche Telekom to connect a total of at least 5,000 Telefónica Deutschland Group mobile-network locations to Telekom's high-performance fibre optic infrastructure over the long term, and our two infrastructure partners NGN FIBER NETWORK KG and GasLINE will provide fibre optics for 1,500 locations each. The Telefónica Deutschland Group is moreover pressing ahead with the mutual use of fibre-optic-based connections at joint or neighbouring mobile-network locations with Vodafone.

The new Telefónica network is available in an increasing number of towns, cities and regions. This creates the ideal foundation for further network expansion and extensive optimisation work in the coming year, which will further improve network quality. The Telefónica Deutschland Group intends to continue pressing ahead greatly with its LTE expansion in 2019 so that more customers can surf the Internet at high speeds in more locations.



Employees at the centre of the digital transformation

Commitment

In the years leading up to 2020 we will position ourselves internally and externally as an attractive employer and achieve generally good to very good results in our employee surveys.

BASIC PRINCIPLE

Target: high levels of employer attractiveness

The dedication and professional qualification of our employees is fundamental to the Telefónica Deutschland Group's success. Only with their help can the company's digital transformation succeed and sustainable economic success be brought about with it.

Digitalisation is posing new challenges for us, as it is for all other companies. However, it also presents enormous opportunities for the Telefónica Deutschland Group, which we intend to make the most of. This means being ready to react rapidly to changes and remaining flexible yet efficient. It is our task to enable our organisation for this transformation and give our employees roles in this change. This is because the digital transformation is not purely a technical challenge. Rather, it is above all a challenge for our structures, processes and work methods.

We completed the company integration in 2017 so that we can now focus our full attention on the transformation. We have laid the initial groundwork for this in 2018 by focusing on the issues of learning; cooperation and new ways of working; participation; and leadership development within the framework of our HR strategy. How we all work in future – particularly together – and develop our skills is vital to the success of our company and every individual in the digital world. A superordinate target of the Telefónica Deutschland Group is to position itself both internally and externally as an attractive employer against the background of this transformation.

PROCESSES & MANAGEMENT

Systematic processes to achieve targets

In order to gauge the commitment of our employees and the general work atmosphere, we conduct annual Telefónica Deutschland Group employee satisfaction surveys online that can be completed anonymously and voluntarily by any of our employees. All employees are asked to provide open and honest feedback so that the organisation as a whole and individual areas can steadily develop and improve. We have set ourselves the target of achieving good to very good results in the regular employee surveys and raising the response rate to 70%. For that, the employee survey will be announced by the Management Board through various communication channels. The results we obtain from the survey are communicated at all management levels in workshops and discussed intensively. What matters to us most here is analysing the results critically. This is because the executives of all divisions are responsible for planning the measures derived from the results. Employee satisfaction (Result Employee Engagement Index) increased by seven percentage points against 2017 to 74% in 2018. The employee survey response rate stood at 71%, an increase of three percentage points compared with last year.



The Telefónica Deutschland Group's attractiveness as an employer is ultimately determined by means of the number of external applicants. Last year, 7.7 people (2017: 11.9) applied for each vacancy advertised in our company. The decline is primarily due to the reduction in employer branding measures compared to the previous year.

The Chief Human Resources Officer (CHRO) has overarching responsibility for the area of human resources. Several works council bodies also represent the interests of our employees.

MEASURES

Priorities in HR work

To lay the foundations for the Telefónica Deutschland Group's successful digital transformation, we have focused on four important topics within the framework of our HR strategy in 2018:

Continuous and self-managed learning

Lifelong learning is indispensable. We consistently need new skills in order to shape the digital transformation, keep one step ahead of the competition and stay attractive as individuals on the labour market. The Telefónica Deutschland Group encourages continuous and self-determined learning

in analogue and digital form. This allows employees to integrate learning into their everyday work and into their self-image and continue to develop in a manner that is appropriate and steady. What we learn should help us to become more efficient as well.

In addition to digital learning tools, the Telefónica Deutschland Group has also introduced a feedback architecture with initiatives at the individual, team and organisation levels as an important component of the learning process.

Participation

The Telefónica Deutschland Group promotes an environment in which employees can work to their full potential, adapt to changes quickly and actively participate. For that, we encourage dialogue and exchange with each other with the aim of integrating relevant stakeholders in good time and boosting the motivation to shape the future together.

Regular formats support transparent communication and continuous exchange between the Management Board and employees – this includes, for example, the "Vorstand im Dialog" (Management Board in Dialogue) event. Large-group workshop formats with 300 employees and regular exchange formats with executives were also initiated in 2018 and boost the integration of our employees into the transformation.

The works council is also closely involved in all measures. We work together as partners with a high level of co-determination. This is why we among other measures distributed invitations for a kick-off event with the title "Shaping the digital transformation together". About 150 works councils from all locations took part in this. Informal exchange with the bodies also takes place regularly.

New ways of working

We want to create the best solutions for our customers, going beyond team and area boundaries. In order to make our organisation efficient and flexible in the process, we are promoting new working methods that allow us to react to changes fast.

One of the main emphases here is on company-wide training on agile methods and an agile mindset provided by internal coaches and trainers. "Digital4Growth" (D4G) is our company-wide programme on digital transformation, which acts as a hotbed for smart and agile ways of thinking and working methods at the Telefónica Deutschland Group. An increasing number of employees are working according to agile methods; we support this development with D4G. Employees can become part of the D4G team through job rotation and return to their old position after a period of up to six months. Both the employee and the organisation as a whole profit from this.

ATTRACTIVENESS AS AN EMPLOYER IN PER CENT	2018	2017	2016
Employee satisfaction: result for Employee Engagement Index	74	67	61
Employee survey response rate	71	68	65



Leadership development

In 2018 we introduced a programme for senior management designed to make our executives the driving forces behind transformation, change and performance. In several events within the framework of the programme, we have provided impetus for executives to grow, for cooperation within the senior management and for the development of teams. With this tailor-made programme, we also motivated executives to grow and develop emotionally. Our support for executives moreover included standardised training as well as individual specialist training, personality development and coaching programmes. A central component of our executive development is the Telefónica academy "Universitas" in Barcelona, which runs programmes on corporate strategy and culture as well as on management and personal development.

The Telefónica Deutschland Group also focuses on recruiting the best employees and retaining top performers in our company. We aim to achieve this above all through fair, respectful and trusting cooperation, achieving high levels of commitment from everyone and a good work atmosphere. An important element of our HR policy is therefore the promotion of a healthy work-life balance for our employees. We support them in reconciling their occupation with their private life – for instance through flexible (both in time and location) working models that we are continuously developing further. In addition, the Telefónica Deutschland Group offers its employees additional benefits such as pension subsidies, discounts on public transport, insurance policies, meal subsidies and employee credits. A new standardised remuneration system has also been introduced for Telefónica Germany GmbH & Co. OHG.

PROGRESS IN THE REPORTING YEAR

New human resources strategy introduced

In the year under review, the Telefónica Deutschland Group realigned its HR strategy, launched initiatives aimed at the key areas and set the ball rolling with regard to the necessary implementation processes. The programmes and initiatives were moreover rolled out to more departments and management levels. By doing this, we have laid an important part of the foundation that we intend to continue building on in the coming years.



Compliance as basis for responsible conduct





BASIC PRINCIPLE

Telefónica Deutschland rejects all forms of corruption

Compliance management is of high importance to the Telefónica Deutschland Group. There is a particular focus on the subject of anti-corruption – this is because incidents of corruption can lead to severe financial damages and considerable damage to reputation. The Telefónica Deutschland Group absolutely rejects all forms of corruption and this is reinforced with its zero-tolerance commitment. We aim to have our compliance management system certified externally by 2020.

PROCESSES & MANAGEMENT

Compliance management that is effective company-wide

Maintaining and building up our customers' trust is important to us. We must avoid financial disadvantages or damage to our reputation resulting from compliance violations. That is why we have established an integrated compliance management system that guarantees our guidelines are kept to. Overall responsibility for this lies with the Director Integrity Services, who reports to the Chief Officer Legal and Corporate Affairs. The Management Board and Supervisory Board of the Telefónica Deutschland Group are regularly notified about compliance activities, particularly as regards the ongoing development of the compliance management system (CMS).

We do not tolerate corruption whatsoever or any form of bribery or corruptibility whatsoever. Suspected cases are rigorously pursued and, if necessary, penalties are imposed. The main emphases of our compliance management system include combating corruption

and preventing unfair competition and conflicts of interest. The system's aim is to ensure that cases of corruption can be detected with sufficient certainty and, using suitable measures, prevented to the fullest extent possible.

MEASURES

Involving all important stakeholders

Keeping our employees closely involved is essential to implementing our compliance measures. We achieve this through explanatory communication as well as surveys and training. Our business partners and suppliers are also subject to binding specifications, such as the Supplier Code of Conduct and an anti-corruption declaration.

We carry out regular online compliance training courses in order to sensitise our employees to this important issue. This is compulsory for all employees. We continually review our training concept and adapt it respectively to current developments and needs. Our executives on the top management level commit moreover on an annual basis to complying with our Business Principles and anti-corruption guidelines. In addition, there is regular communication on topics relevant to corruption, for example emails and information on the intranet.

We carry out occasion-related and process-accompanying examinations and consultations with regard to potential compliance risks. The Internal Audit department and external auditors regularly

audit the compliance management system as well as our measures for preventing corruption. Additionally, our staff are surveyed regarding the quality and effectiveness of the compliance management system.

Our suppliers must sign an anti-corruption declaration. On the basis of a compliance risk assessment, we have moreover examined existing guidelines and processes related to the supply chain and derived measures together with Telefónica Global Services GmbH (TGS) in order to minimise the risks further.

We have additionally defined clear guidelines and specifications for the most important compliance topics that affect daily business. In addition to the Business Principles, they include corruption prevention and competition law guidelines as well as guidelines on how to handle invitations, gifts, conflicts of interest and incentives. Regulations relating to the procurement of services are also included, such as how to conduct business with service providers.

PROGRESS

Important steps taken

We have made it our goal to have the compliance management system certified externally. We completed the first stage of this in the reporting year.

A material breach of our Business Principles took place in 2018. Suitable measures were taken in response. Suspected cases are rigorously pursued and, if need be, penalties are imposed.

ANTI-CORRUPTION IN NUMBERS	2018	2017	2016
Total number of cases of corruption ¹⁾	0	0	0

¹⁾ Confirmed suspected cases that led to measures related to labour law or sanctions.



Sustainable innovations and products for our customers

Commitment

In the years leading up to 2020 we will push technologies to simplify linking up people, devices and machines in the private and industrial world. The goal is to support our customers in the realisation of new digital products and business models.

BASIC PRINCIPLE

People benefit from digital innovations

We want to make people's lives simpler, safer, healthier and more environmentally friendly with our digital products and services. Sustainable innovations are key to achieving this. In this connection, we rely on analysing large amounts of data, networking devices, and innovative products for the end customer with the focus on helping them master everyday digital challenges. Our products unite the triad of "Networking. Analysing. Optimising.". This means machines can be connected to the Internet, data can be analysed and business processes can be optimised.

The Telefónica Deutschland Group is adopting a targeted approach in pressing ahead with innovation in the areas of data analysis and the Internet of Things (IoT). We are tapping the great economic, social and environmental potentials of the IoT and of intelligent data analysis, otherwise known as advanced data analytics (ADA). We are developing new business models in these areas and are at the same time using both agile methods and the strengths of the Telefónica Deutschland Group.

We will develop the area of growth that is the Internet of Things for all market segments that we already address with our core business. We intend to take a leading role in the consumer IoT area.

The Telefónica open innovation hub Wayra acts as a link between our company and start-ups and focuses on the Internet of Things, advanced data analytics and artificial intelligence. Our cooperation with start-ups results in innovative solutions for our various divisions. Wayra's focus is on innovations that are directly beneficial to the Telefónica Deutschland Group's core business. Start-ups in the Wayra programme have the opportunity to test their solutions and products under the conditions of a major corporation. This presents them with huge scaling possibilities.

PROCESSES & MANAGEMENT

Clear targets and data protection compliance

We have set ourselves important strategic targets in the area of sustainable innovations and products. In the years leading up to 2020 we intend to push technologies to simplify linking up people, devices and machines in the private and industrial world. We strive to achieve a market-leading position in the Consumer Internet of Things business area.



Complying with the strict data protection requirements for all of our products and technologies is a top priority in our approach. Our anonymisation process, which has been certified by TÜV Saarland, is a good example of this. This makes it impossible for data from digital sources, such as a mobile network or wireless local area network, to be assigned to a specific person. Due to the anonymisation, the customer's consent is not necessary from a legal point of view. The Telefónica Deutschland Group makes it possible, nevertheless, for customers via a simple online form to at any time object to their data being processed for the anonymisation process. This gives every customer the opportunity to weigh up their personal preferences and the benefit that their data may create for the economy and society.

MEASURES AT TELEFÓNICA IN GENERAL

Building up innovative business segments

Our aspiration is to support our customers in the realisation of new digital products and business models. We offer innovative tariffs in the B2C, B2B and B2P areas that are designed to make our customers' lives simpler and better. With O₂ unlimited tariffs, our customers benefit, for example, from considerable digital freedom: tariffs that are very good value for money – and offer data at a genuine flat rate – mean O₂ customers can move freely without having to worry that their data volume will suddenly be used up. Our P2P area features a strong tariff portfolio for our own customers, our partners and their end customers. Our B2B customers likewise benefit from innovative products, such as O₂ Business Fusion with convergent connectivity, M2M and our digital business models.

In 2018 the Telefónica Deutschland Group concentrated on expanding the consumer IoT business area. The focus was on the development of a platform for connecting simple devices and services that are suitable for the mass market. This IoT platform allows us to connect hardware manufacturers in the consumer IoT field with app and service providers. This means new data-based applications and services can be created for consumers that open up new target groups and business models for the partners.

With our advanced data analytics line of business, we are seeking to tap the potential offered to all areas of life by data analysis, from mobility to private consumption. This is how we are trying to develop answers to tomorrow's questions. Through the targeted analysis of anonymised and aggregated mobile telecommunications data, we intend, for instance, to make urban traffic more environmentally friendly by using the results of our analysis to predict traffic demand more accurately and support traffic planning. We supply the retail and tourism industries with need-oriented analyses based on anonymised mobile telecommunications data. This can then be used to derive better understanding of visitor behaviour.

Involving our stakeholders in our diverse activities is a matter of crucial importance to us. The Telefónica Deutschland Group therefore maintains various cooperation partnerships at project level, such as those with South Pole and Teralytics AG who specialise in sustainability solutions. Together with these project partners and the city of Nuremberg, the Telefónica Deutschland Group has used anonymised mobile telecommunications data to calculate traffic flows and show potential for reductions in emissions. This resulted in a project in 2018 that was funded by the Federal Ministry of Transport and Digital Infrastructure (BMVI) to evaluate emissions and traffic for unusual incidents ("IncidentAnalyse").

The Telefónica Deutschland Group is also a consortium partner in the BMVI-funded research project ProTrain as well as xMND (Extended Mobile Network Data) for the initiative mFund. The aim of ProTrain is to optimise the capacity of public transport in the Berlin-Brandenburg region based on anonymised mobile telecommunications data. Intraplan Consult GmbH uses data that we have provided for a more precise basis for traffic planning in Munich.

There is a further cooperation in place with the Wayra start-up accu:rate. The start-up has developed software that simulates people flows and is working with partners such as the Munich Oktoberfest in order to, for example, better plan emergency evacuations.

PROGRESS IN THE REPORTING YEAR

Solutions for responsible data usage

We have made important advances and developed innovations in many areas in 2018. This includes, for example, the O₂ B2C Free portfolio, which has been updated with large data packages. In addition, the Telefónica Deutschland Group has introduced the Connect option. This option offers the opportunity to spread the data volume across different devices.



With AURA, an advanced artificial-intelligence programme, we have moreover brought an innovative service on to the market for our customers. O₂ customers can use Facebook Messenger to query how much data they have used – and AURA provides the answer immediately. Customers can also view their prepaid credit, top up or see a list of their contract options using the same method. This self-learning artificial intelligence was developed by software engineers from across the Telefónica Group over a period of many months. It goes into a customer's data and history and gets to know their preferences. AURA is initially being used in Facebook Messenger in Germany; further functions and implementation will follow.

The Telefónica Deutschland Group also expanded the opportunities of data analysis to cover the tourism industry. The pilot project with the Chiemsee-Alpenland region to examine the visitor structure has been successfully launched.

In 2018 Wayra, the start-up accelerator of the Telefónica Deutschland Group, also made important progress, above all with its global relaunch. With the relaunch, Wayra is rolling out the successful model tried and tested in Germany to the other nine countries in which it is active. Ten new start-ups from areas including IoT, transport analytics, online training, AI and process mining have also received

funding. Additionally, a new cross-sector start-up programme was introduced – together with other industry partners such as Volkswagen and Osram. In the reporting year, Wayra funded a total of ten start-ups that have all successfully implemented projects with the Telefónica Deutschland Group. The positive financial effects generated by these projects at the Telefónica Deutschland Group, such as increased revenue or savings in operating business activities, amounted to approximately one million euros.

The progress we made in 2018 also received external praise: the Telefónica, S.A. Group received an award from the market research company Forrester Research for data analyses tailored to customer needs (specialised insights services). This was the evaluation of "The Forrester Wave™: Specialized Insights Service Providers, Q3 2018"¹⁾.

¹⁾ Belissent, Jennifer/Cullen, Elizabeth (2018): The Forrester Wave™: Specialized Insights Service Providers, The Nine Providers That Matter Most And How They Stack Up, in: The Forrester, Q3 2018 – September 19, 2018.



Increasing trust in data protection and information security

Commitment

We are working to ensure customers retain sovereignty over their data and remain the masters of their digital lives. We protect the data of our clients, employees, partners and investors in all products and processes, and ensure that Telefónica Deutschland's business activities comply with data protection. Our actions in this are straightforward and transparent, and we communicate with all the relevant interest groups about innovations early on.

BASIC PRINCIPLE

Data protection is of great importance to Telefónica

Every day, millions of customers place their trust in the mobile network and services of the Telefónica Deutschland Group. We therefore take the protection and security of customer data very seriously and aim to ensure that people remain in control of their data. Data protection in the Group has the relevant laws and regulations as its basis. We also make a commitment in our Business Principles to observing information security and transparency. The Telefónica Deutschland Group treats sensitive data confidentially and protects this data from any unauthorised access by third parties.

We protect the data of our customers as well as our employees, partners and investors in our processes and products. We have suitable systems in place to guarantee that the Telefónica Deutschland Group's business activities comply with data protection regulations. One of our highest priorities in the reporting year was implementing the General Data Protection Regulation (GDPR). We have moreover made further progress on our data protection management system (DPMS) and information security management system (ISMS) in the area of corporate security and supplemented the existing crisis communication concept.

PROCESSES & MANAGEMENT

Clear rules and processes established

The Telefónica Deutschland Group ensures data protection, information security and compliance with relevant laws and regulations through strict internal rules and standards. We have adopted various guidelines for this purpose. The decisive frameworks include the Group's data protection standards which form the foundation of the data protection management system as well as our guidelines concerning data protection. These present our principles in handling data and in our communication with our customers and the public in a transparent manner.

The internal guidelines concerning security (Security Global Policy) and rules for minimum security requirements (Corporate Rule on Minimum Controls) apply throughout the organisation. These are supplemented by a wealth of additional guidelines, standards and procedural instructions on various aspects of data protection. Our privacy policy contains clear guidelines on the protection of personal data that to some extent go above and beyond the statutory specifications. Our employees receive annual training on this.

The Data Protection Officer and Chief Security Officer are responsible for data protection and information security. They report directly to the Chief Officer Legal and Corporate Affairs of the Telefónica Deutschland Group respectively.



Efficient structures and processes are moreover in place; these are designed to guarantee that there are no violations in the areas of data protection and information security. With our company-wide data protection management system (DPMS) and information security management system (ISMS), we manage the processes that secure standards, our targets, responsibilities and training as well as regular checking of measures that have been implemented. We also perform on-site audits of our service providers to guarantee that our business partners are moreover complying with data protection law. The Telefónica Deutschland Group has clear processes and regulations in place for involving subcontractors and sets corresponding requirements for contracts (commissioned data processing, CDP).

We also have set rules in place for reporting data protection incidents. Our data protection hotline constitutes a first point of contact that can be reached conveniently. Our suppliers and their employees can moreover turn to us via the Telefónica Deutschland Group's supplier platform if they have any complaints. We endeavour to answer all data protection enquiries

quickly and clearly. At the same time, clear operating processes are in place for responding to customer queries and recording customer information.

We perform standardised checks before incorporating data into IT development and analysis processes. Our TÜV-certified data anonymisation platform (DAP) with its three-stage anonymisation process also ensures that all personal references within data are removed prior to the data's statistical analysis.

Our objectives in the area of data protection and information security are:

- Ruling out the initiation of proceedings due to violation of data protection regulations
- Minimising the ratio of initiated processes to actual breaches
- Transparency regarding data usage
- Ability to react swiftly to major disruptions and dangerous situations that may occur, such as network failures, data misuse and bomb threats
- Localising areas of action pertaining to information security

MEASURES

Full sensitisation to data protection

Self-determination, transparency, protecting personal data, and innovation are firmly established in our guidelines in the area of data protection. More information on this topic can be found on our redesigned data protection website. The site explains in detail what types of data the Telefónica Deutschland Group processes, how we protect our customers' data and what customers can do themselves to protect their data. Consumers can also exercise their rights in accordance with the General Data Protection Regulation (GDPR). Anybody wishing to submit an information request to the Telefónica Deutschland Group or start a data portability process can do so using the data protection website.

Our priorities include providing regular, targeted and comprehensible information about how we process data. To this end, we have, in particular, standardised our privacy policies and incorporated the appropriate information into the websites of our Group's brands. Data protection coordinators were in addition appointed in the departments for better management of the DPMS.

DATA PROTECTION AND INFORMATION SECURITY IN NUMBERS

	2018	2017	2016
Procedures initiated due to privacy/data protection breaches (109a TKG)	0	1	4
Penalties in the form of fines due to breaches of privacy/data protection during the year	0	0	1
Registrable breaches/incidents related to information security and cybersecurity	36	9	8
Penalties in the form of fines paid in relation to information security breaches or other network security incidents	0	0	0



There is regular training aimed at various target groups to increase security awareness. This allows us to sensitise individual departments, selected security contact points or even all employees at different locations. In the past year, we have updated our data protection and information security training and trained our employees using mandatory online training as well as additional training on the new regulations. Our cybercrime events that were held in Munich, Düsseldorf and Hamburg are an example of this. The risks posed by new media and technologies were explained, sensitisation to specific dangers in this regard took place and we showed how to effectively take steps against these threats. In addition, all employees are obliged to observe data and telecommunications secrecy.

We moreover developed further new processes and tools over the course of the past year. The creation of concrete instructions for material crisis scenarios (network failures, data misuse, bomb threats, and the like) means we are now prepared for such situations. Training and simulation exercises were also conducted for such scenarios and the whole organisation was sensitised to handling crisis scenarios. Targeted exercises such as “Data misuse in the Telefónica Global Group” and the “Network Cyber Security Exercise” as well as the “Bomb threat at one of our call centres” simulation lead to greater security and safety in dealing with crisis situations and reveal any weaknesses that exist in our processes.

Our stakeholders are integrated into data protection and information security through a large number of measures. One example is the dialogue we have via our data protection forum, where relevant internal stakeholders are represented. Another is the fact we are continuously in touch with external partners and relevant authorities, such as the German Federal Network Agency (BNetzA), the German Federal Office for Information Security (BSI) and the German Federal Commissioner for Data Protection and Freedom of Information (BfDI). Lengthy proceedings with the authorities, for example regarding traffic data retention, were concluded in 2018. The Telefónica Deutschland Group is moreover represented in global initiatives surrounding data protection, such as the Global Network Initiative, via Telefónica S.A. We are also members of a variety of industry associations.

PROGRESS IN THE REPORTING YEAR

Transparency strengthens trust

In the past financial year, none sets of proceedings were initiated due to data protection violations and breaches of statutory regulations in this area. None penalties, in the form of fines, were imposed on the basis of data protection violations. 36 reportable security breaches or incidents with regard to confidentiality, integrity and availability in connection with network and information security were identified. These are the result of improved security management (process optimisations) and relate to availabilities, which can mainly be traced back to the efforts within the scope of network consolidation. The project to adjust to the GDPR launched in 2017 was successfully continued in 2018.



Environmental and energy policies set the framework

BASIC PRINCIPLE

Focus on energy efficiency and CO₂ reduction

The Telefónica Deutschland Group aims directly to reduce the impact its business activities have on the environment and protect the climate. Energy consumption and the accompanying greenhouse gas emissions constitute the material impacts that our business activities have on the environment. We intend to reduce these with clear goals. The network technology, accounting for 96% and therefore the largest share of the electricity consumption, plays the most important role here.

We rely on different elements to save energy and reduce greenhouse gas emissions: we invest in energy-efficient technology and buildings, use renewable energies, promote low-pollutant mobility and offer our customers sustainable products and services. We are moreover working intensively on in our own processes using natural resources as sparingly as possible and producing as little waste as possible.

By achieving the targets, we will not only improve our own environmental footprint but also our business figures: increasing energy efficiency in our operating business activities (OPEX) is set to lead to savings compared to 2016 of EUR 15 m by 2020.

PROCESSES & MANAGEMENT

Management systems anchored in the company

Our binding company-wide environmental and energy policy forms the basis of all our activities. This is aimed at our business processes in the areas of the network, office spaces, mobility, responsible procurement and our product and services portfolio with the main emphasis on sustainable innovations.

Our environmental policy is established in the environmental guidelines in accordance with ISO 14001. These particularly seek to promote the identification of and compliance with all relevant laws, norms, standards and other binding obligations. Our environmental management system serves to prevent and minimise any negative effects that our activities and infrastructures may have on the environment.

CLIMATE PROTECTION: ENERGY CONSUMPTION	UNIT	2018	2017	2016
Total energy consumption per data volume	GWh/PB	0.22	0.25	0.30
Share of total electricity consumption from renewable sources	Per cent	82	71	74
Share of green electricity in own procured and controlled energy	Per cent	100	100	100



We have moreover established our own energy guidelines in the company in accordance with ISO 50001. These are based on the environmental guidelines and specify the principles of environmental management in the area of energy.

The Telefónica Deutschland Group's offices and own shops have now been certified in accordance with the environmental management standard ISO 14001 and the quality management standard ISO 9001 since 2004. An external audit in 2018 confirmed once again that Telefónica Deutschland Holding AG complies with the globally applicable standards for the management systems.

In order to manage these processes, we have appointed energy and environmental management system officers, and we have set up both an environmental committee and an energy committee. Environmental issues and targets as well as all measures are subject to an annual management review.

We aim to ensure improvement in our company's performance, products and services from an environmental point of view, primarily by using a systematic performance evaluation on the basis of the defined targets in the Responsible Business Plan 2020. One of our climate protection targets is to reduce direct and indirect CO₂ emissions by 11% by 2020 (basis year: 2015).

Another of our targets is to reduce energy consumption per data volume [GWh/PB] by 40% by 2020 (basis year: 2015). Energy consumption per data volume was 0.22 GWh/PB for the year 2018; this means we have already achieved our target with a reduction of over 41%. Despite the expansion of our network, we strive to keep this level stable in future.

Regarding our company cars, average fleet emissions are to be reduced to 95 g CO₂/km for company vehicles newly registered from 2020. We fully achieved our goal of reducing CO₂ emissions caused by business travel by 10% by 2018 compared with the basis year 2015 with a reduction of 12%.



Lowering energy consumption and emissions continuously

Commitment

We will reduce our energy consumption per data volume by 40% by 2020 compared with 2015 and annually purchase from green electricity sources 100% of the energy we procure and control ourselves.

MEASURES

Modernising networks leads to improved energy efficiency

The Telefónica Deutschland Group is committed to the promotion of a low-carbon economy. We are continually improving our energy efficiency by switching to energy-saving components throughout the company. This enables us to make an active contribution to the reduction of greenhouse gas emissions. We also insist that natural resources are used efficiently and apply environmental criteria to our procurement processes in order to reduce our ecological footprint even further. Another focus is on developing products and services that make sustainable behaviour easier for our customers.

In the course of the merger of Telefónica Deutschland and the E-Plus Group, we implemented comprehensive measures aimed at environmentally friendly network

and office location consolidation. In the network area, progress was moreover made on numerous energy efficiency measures, which we intend to have implemented by 2020 at the latest. These primarily include modernisation of the 2G and 3G networks, which enabled us to achieve total savings of 5.6 GWh by the end of 2018 (based on 2016). A final evaluation is still pending.

Thanks to the network consolidation which is almost completed involving the deactivation and demolition of a total of 14,000 sites we achieved savings of 150 GWh between 2016 and 2018. The consolidation is managed by measuring the progress of the 2G/3G modernisation project, which we report on monthly.

Further savings of 50 GWh should come from the deactivation of the DSL main distribution frames leading up to 2020. This achieved a reduction of 30 GWh by the end of 2018 compared to 2016.

CLIMATE PROTECTION: ENERGY CONSUMPTION IN GWH

	2018	2017	2016
Total energy consumption	778	791	843
Total electricity consumption ¹⁾	746	752	803
of which by the network and data centres	715	722	775
of which by offices, shops, call centres	31	30	28
Total fuel consumption ²⁾	32	39	40
Energy from renewable energy sources	610	536	591

¹⁾ Electricity consumption equals the quantities consumed that were actually accounted for and partly predicted for 2018 per consumption point.

²⁾ Fuel consumption (in the form of diesel, natural gas and district heating) comprises the unit provided via a direct contract between a supplier and Telefónica.



We have implemented various measures in order to achieve our mobility targets. One of these measures was the introduction of new travel guidelines. We encourage our employees to act in an ecologically advantageous manner and, for instance, take the train instead of flying from Berlin to Munich. As a result, the number of train journeys on this route has increased tenfold in 2018 compared to the previous year. The following generally applies to all our travel activities: close monitoring takes place on the basis of data transferred by the travel agency and our mobility service provider for the management of our fleet of company vehicles.

In order to attain our target of reducing the average CO₂ emissions of company vehicles registered from 2020 to 95g/km, we are continually tightening the bonus-malus system for selecting new company vehicles in order to give our employees additional incentives to behave responsibly. The company fleet's average CO₂ emissions fell by only 0.6%¹⁾ in 2018 compared with 2017.

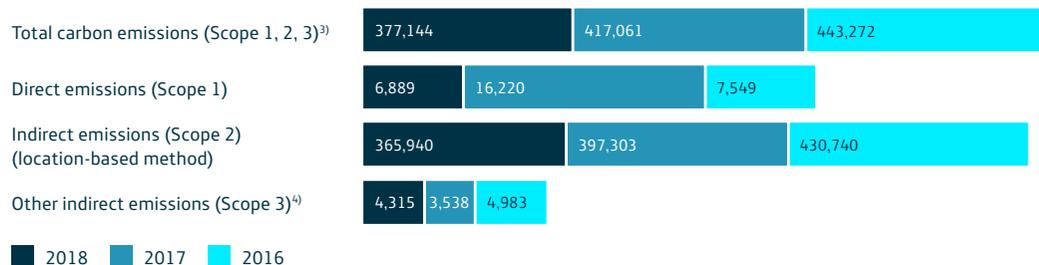
PROGRESS IN THE REPORTING YEAR

Emissions reduction successfully continued

In order to promote the use of renewable energies, we already procure 100% green electricity where we are in a position to do this. We mainly make our savings through network conversion: the continual consolidation of networks leads to both an improved network and energy savings. In addition, we were able to reduce energy consumption per data volume by 10% in the reporting year through the use of new and energy-efficient technologies.

CLIMATE PROTECTION: GREENHOUSE GAS EMISSIONS

In tonnes of CO₂ equivalent (tCO₂eq²⁾)



²⁾ CO₂eq = CO₂, CH₄ and N₂O.

³⁾ Carbon emissions (including Scope 1 and Scope 2) are calculated on the basis of ISO 14064, the Greenhouse Gas Protocol and ITU-T L.1420. A standard Germany-wide conversion factor is used to convert electricity consumption to carbon emissions. The Telefónica Deutschland Group uses the electricity conversion factors of the Umweltbundesamt, the German Environmental Protection Agency (Development of specific carbon dioxide emissions in the German electricity mix during the years 1990–2017) – 489 g CO₂ per kWh for 2016.

⁴⁾ Due to business travel (flight and railway journeys).

¹⁾ The fleet average's slowed reduction can be explained by a rise in the number of newly registered company vehicles with Otto engines, given the uncertainty surrounding the current legislation for cars.



Materiality according to CSR-RUG

Telefónica Deutschland Holding AG prepared a separate combined Non-Financial Report for the financial year 2018 in accordance with the “Act to strengthen non-financial reporting by companies in their management reports and financial statements” (CSR Directive Implementation Act, CSR-RUG) that has been integrated into this CR Report. The following presents the location of material topics for the purpose of CSR-RUG in the CR Report and the procedure for determining these topics.

The non-financial report was audited by the external audit firm PricewaterhouseCoopers GmbH in accordance with ISAE 3000 (Revised) with “limited assurance”.

In preparing the non-financial report, we based our descriptions of the concepts and presentation of the

various key performance indicators (KPIs) in particular on the GRI standards. References to disclosures made outside of the Combined Management Report relate to supplementary information and do not constitute part of the separate combined non-financial report.

Location of material topics according to CSR-RUG in the report

The contents of the Non-Financial Report, which contains information about both the Telefónica Deutschland Group and Telefónica Deutschland Holding are featured on individual pages in the report, which are marked with a light blue bar at the right margin with the icon

The following table indicates on which pages of the CR Report the legally required information can be found.

Process for determining the material issues as per CSR-RUG

To prepare the Non-Financial Report, in 2018, in line with the previous year, we analysed and evaluated sustainability issues in terms of the legal requirements. Our materiality analysis from 2015 serves as the basis for this process. The analysis is set out in greater detail in the chapter CR strategy.

Impact analysis

We verified the impact analysis in 2018 in order to update the materiality analysis. Based on this, we identified 15 of the present 25 issues within the materiality analysis as being subjects upon which the Telefónica Deutschland Group has a significant influence. In the course of this, the topics were above all assessed with regard to the following aspects:

- Significance of the impacts of the Telefónica Deutschland Group
- Ability of the Telefónica Deutschland Group to influence the impacts
- Consequences of the impacts for the Telefónica Deutschland Group

CONTENT RELEVANT TO THE REPORT	CHAPTER IN THE CR REPORT
Business model	Company profile
Customer satisfaction	Customer satisfaction
Data protection and information security	Data protection and information security
Climate protection	Environmental management (concepts) Energy & CO ₂ reduction (measures, results of concepts and KPIs)
Attractiveness as an employer	Telefónica as an employer
Sustainable innovations	Sustainable innovations
Anti-corruption	Compliance



Analysis of business relevance

Following the impact analysis, we used set evaluation aspects to determine the relevance to business of the issues identified as material. In the process, the focus was on topics that are relevant to the course of business, the business result and the situation of the Telefónica Deutschland Group. The relevant internal stakeholders were involved here. Six issues were identified as being material in this analysis, four of which can be categorised as relevant in terms of environmental, social and employee aspects or anti-corruption/anti-bribery. We rated the aspect of human rights as not material for presentation for the purposes of CSR-RUG. The topics of customer satisfaction, data protection and information security were also identified for and incorporated into the Non-Financial Report. These additional topics are highly relevant to the Telefónica Deutschland Group's business, and the company has relevant impacts on these topics.

Determination of material non-financial risks

This was followed by an assessment of the risk scenarios in terms of their probability of occurrence and their potential to have a detrimental impact on the non-financial issues as defined above. In line with the criteria of established risk management (detailed description under risk and opportunity management in the 2018 combined Management Report), we have performed a net assessment of the risks. Based on the probability of occurrence already determined, a conservative approach was adopted in which risks were considered with a probability of occurrence deemed to be "likely" or "highly likely". The potential for the risks to have a detrimental impact on the relevant aspects was determined on the basis of the criteria relating to the severity of the impacts on an aspect, the number of people actually or potentially affected and the possibility of restoring the original condition before the impact occurred.

In this risk assessment, we only identified the potential for material risks pursuant to CSR-RUG in the area of customer satisfaction, which we are counteracting with comprehensive measures (see Customer satisfaction chapter).