

ANNUAL FINANCIAL STATEMENTS

Telefónica Deutschland Holding AG
for the reporting year 2019

CONTENTS

P. 02–29

02	Reference to the Combined Management Report of Telefónica Deutschland Holding AG
03	Annual Financial Statements
20	Declaration of the Statutory Representatives
21	Auditor's Report
26	Glossary
29	Imprint

REFERENCE TO THE COMBINED MANAGEMENT REPORT OF TELEFÓNICA DEUTSCHLAND HOLDING AG

The Management Report of Telefónica Deutschland Holding AG and the Group Management Report have been combined in accordance with section 315 (5) German Commercial Code (HGB) in conjunction with section 298 (2) HGB and published in the Telefónica Deutschland Annual Report 2019 of the Group. The Annual Financial Statements and the Management Report of Telefónica Deutschland Holding AG for financial year 2019, which is combined with the Group Management Report, will be submitted to the operator of the German Federal Gazette and published in the Federal Gazette. The Annual Financial Statements of Telefónica Deutschland Holding AG and the Annual Report of the Group for financial year 2019 are also available on the internet at:

www.telefonica.de/investor-relations-en/annual-report

ANNUAL FINANCIAL STATEMENTS

for the Financial Year 2019

BALANCE SHEET

As of 31 December

(in EUR)	2019	2018
Assets		
A) Fixed assets		
Financial assets		
Investments in affiliated companies	8,547,241,422.45	9,350,371,270.56
	8,547,241,422.45	9,350,371,270.56
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	135,622,814.92	9,325,129.73
2. Other assets	14,280.00	6,816.05
	135,637,094.92	9,331,945.78
II. Cash in hand, cash at bank	0.00	38,465.83
	135,637,094.92	9,370,411.61
C) Prepaid expenses	157,440.69	144,642.83
Total assets	8,683,035,958.06	9,359,886,325.00

As of 31 December

(in EUR)	2019	2018
Equity and Liabilities		
A) Equity		
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	737,379,114.26	1,542,382,293.55
	8,544,487,435.99	9,349,490,615.28
B) Provisions		
1. Provisions for pensions and similar obligations	2,902,683.00	2,906,048.00
2. Other provisions	4,913,596.42	5,264,884.62
	7,816,279.42	8,170,932.62
C) Liabilities		
1. Trade payables	47,176.10	43,051.78
– thereof with a remaining term of up to one year EUR 47,176.10 (previous year EUR 43,051.78)		
2. Liabilities to related parties	54,305,455.61	1,729,073.57
– thereof with a remaining term of up to one year EUR 53,690,992.72 (previous year EUR 1,598,278.97)		
– thereof with a remaining term of more than one year EUR 614,462.89 (previous year EUR 130,794.60)		
3. Other liabilities	76,379,610.94	452,651.75
– thereof with a remaining term of up to one year EUR 76,379,610.94 (previous year EUR 452,651.75)		
– thereof from taxes EUR 76,159,349.29 (previous year EUR 322,170.35)		
	130,732,242.65	2,224,777.10
Total Equity and Liabilities	8,683,035,958.06	9,359,886,325.00

INCOME STATEMENT

1 January to 31 December

(in EUR)

	2019	2018
1. Revenues	10,620,148.32	9,754,516.77
2. Other operating income	497,949.79	348,036.28
– thereof from currency conversion EUR 146.12 (previous year EUR 1,391.45)		
3. Personnel expenses	(8,574,598.04)	(7,570,768.70)
a) Salaries and wages	(8,115,134.24)	(7,143,726.28)
b) Social security contributions and expenses for pensions and other benefits	(459,463.80)	(427,042.42)
– thereof for retirement pensions EUR -399,224.54 (previous year EUR -368,063.72)		
4. Other operating expenses	(4,165,464.69)	(4,015,456.12)
– thereof from currency conversion EUR -451.62 (previous year EUR -2,575.43)		
5. Other interest and similar income	0.00	2,337.00
6. Interest and similar expenses	(251,054.50)	(270,354.50)
– thereof from accumulation EUR -249,205.00 (previous year EUR -239,149.00)		
7. Income taxes	0.00	12,139.75
8. Profit/(loss) after tax	(1,873,019.12)	(1,739,549.52)
9. Other taxes	(312.06)	(47,419.26)
10. Profit/(loss) for the period	(1,873,331.18)	(1,786,968.78)
11. Profit carried forward from the previous year	739,252,445.44	1,544,169,262.33
12. Balance sheet profit	737,379,114.26	1,542,382,293.55

NOTES

for the Financial Year 2019

1. General Information on the Annual Financial Statements

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich (hereinafter also Telefónica Deutschland), for financial year 2019 have been prepared in accordance with the regulations of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

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

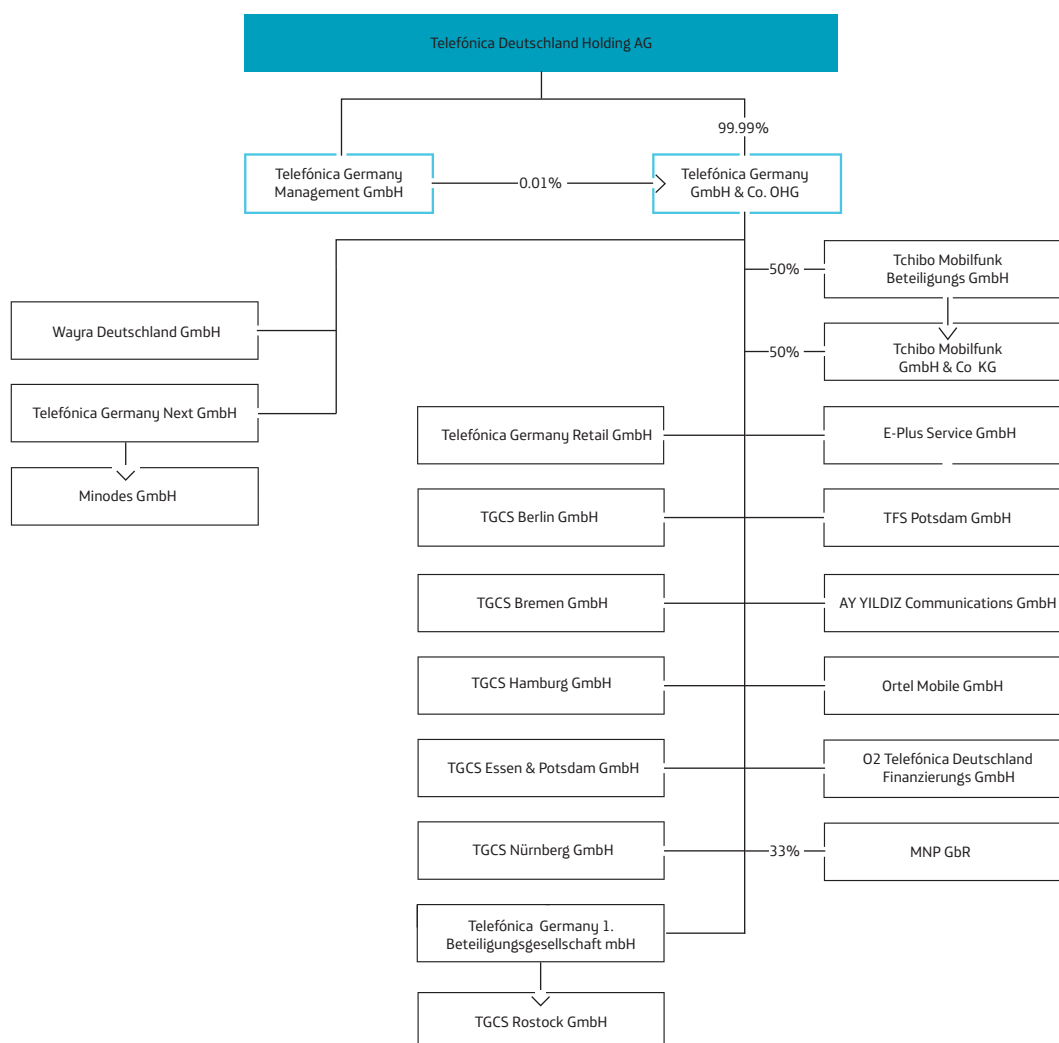
The Company is registered with the Munich Local Court under HRB 201055 and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9. The share capital of Telefónica Deutschland Holding AG as of 31 December 2019 is unchanged from the previous year at EUR 2,974,554,993. It 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 grants one vote at the Annual General Meeting.

As of 31 December 2019, 30.8% 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 of Koninklijke KPN N.V. dated 13 June 2019, all shares held by Koninklijke KPN N.V. in Telefónica Deutschland Holding AG have been sold.

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 operations (together hereinafter also referred to as the 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 2019, the companies of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%.

The Telefónica Germany GmbH & Co. OHG acquired Tarifhaus AG on 30 October 2019. In a second step, Tarifhaus AG was merged into Telefónica Germany GmbH & Co. OHG. The merger became effective upon entry in the commercial register of Telefónica Germany GmbH & Co. OHG on 18 November 2019. The transaction was not significant from the point of view of Telefónica Deutschland Holding AG's annual financial statements.

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

The income statement was prepared in accordance with section 275 (2) HGB using the total cost method.

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.

Since 1 January 2019, Telefónica Deutschland Holding AG has been the controlling company for an extended group of controlled companies of the Telefónica Deutschland Holding AG fiscal unity for value-added tax (VAT) purposes.

Annual General Meeting and dividend payment

The Annual General Meeting for the 2018 financial year was held on 21 May 2019. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.27 per entitled share, totalling EUR 803,129,848.11, was approved.

Resolutions were also adopted to elect Maria Garcia-Legaz Ponce and Pablo de Carvajal González as shareholder representatives to the Company's Supervisory Board, to cancel the Conditional Capital 2014/I and to create new Conditional Capital 2019/I. As a result, the share capital of Telefónica Deutschland Holding AG remains conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares.

Agreement on the remuneration of management services

Telefónica Deutschland Holding AG has concluded 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 for Telefónica Germany Management GmbH. Telefónica Germany GmbH & Co. OHG reimburses the cost of remuneration of the members of the Management Board as well as other administrative expenses. 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 reimbursement amount is included in the company's revenues.

2. Accounting Policies

The accounting policies applied in the preparation of the Annual Financial Statements as of 31 December 2019 are in accordance with the regulations of sections 242 to 256a and 264 to 288 of the HGB and the relevant regulations of the German Stock Corporation Act (AktG). The accounting policies are unchanged compared to the previous year.

Financial assets are measured at historical acquisition 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 and cash equivalents are recognised at their nominal value. Appropriate impairments have been made for all risk positions.

Prepaid expenses are expenses prior to the balance sheet date which represent expenses for a specific period after this date.

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 2.71% (2017: 3.21%). The provisions for pensions and similar obligations are calculated on the basis of annual pension increases of 1.75% (2018: 1.75%) and a fluctuation rate of 17.00% (2018: 17.00%) 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.

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 necessary.

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 relate in the amount of EUR 8,536,811 thousand (2018: EUR 9,339,941 thousand) 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 by Telefónica Deutschland of a total of EUR 803,130 thousand on the basis of a shareholders' resolution dated 6 May 2019 in accordance with section 4 (3) of the shareholders' agreement.

As in the previous period, a carrying amount of EUR 10,430 thousand relates to the shares in Telefónica Germany Management GmbH, Munich.

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

(in EUR thousand)	Historical acquisition costs			
	As of 1 January 2019	Additions	Disposals	As of 31 December 2019
Financial assets				
Investments in affiliated companies	9,350,371	–	803,130	8,547,241
	9,350,371	–	803,130	8,547,241

(in EUR thousand)	Accumulated depreciation			
	As of 1 January 2019	Additions	Disposals	As of 31 December 2019
Financial assets				
Investments in affiliated companies	–	–	–	–
	–	–	–	–

(in EUR thousand)	Carrying amount	
	As of 1 January 2019	As of 31 December 2019
Financial assets		
Investments in affiliated companies	9,350,371	8,547,241
	9,350,371	8,547,241

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

Name, legal form, registered office	Country	Share capital in %	Equity 31/12/2018 in EUR thousand ⁽⁴⁾	Result of the financial year 2018 in EUR thousand ⁽⁴⁾
AY YILDIZ Communications GmbH, Dusseldorf ⁽³⁾	Germany	100	5,025	0 *
E-Plus Service GmbH, Dusseldorf ⁽³⁾	Germany	100	78,244	0 *
Minodes GmbH, Berlin ⁽³⁾	Germany	100	4,197	0 *
MNP GbR, Dusseldorf	Germany	33	194	41 –
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	100	25	0 *
Ortel Mobile GmbH, Dusseldorf ⁽³⁾	Germany	100	5,441	0 *
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	50	43	1 –
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50	10,685	892 –
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich ⁽³⁾	Germany	100	85,778	0 *
Telefónica Germany GmbH & Co. OHG, Munich ^{(1) (2)}	Germany	100	6,526,796	-292,876 –
Telefónica Germany Management GmbH, Munich ⁽³⁾	Germany	100	10,803	46 –
Telefónica Germany Next GmbH, Munich ⁽³⁾	Germany	100	33,425	0 *
Telefónica Germany Retail GmbH, Dusseldorf ⁽³⁾	Germany	100	107,050	0 *
TFS Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	25	0 *
TGCS Berlin GmbH, Dusseldorf ⁽³⁾	Germany	100	1,100	0 *
TGCS Bremen GmbH, Munich ⁽³⁾	Germany	100	1,525	0 *
TGCS Essen & Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	3,025	0 *
TGCS Hamburg GmbH, Munich ⁽³⁾	Germany	100	1,775	0 *
TGCS Nürnberg GmbH, Munich ⁽³⁾	Germany	100	3,775	0 *
TGCS Rostock GmbH, Munich ⁽³⁾	Germany	100	15,342	0 *
Wayra Deutschland GmbH, Munich ⁽³⁾	Germany	100	2,393	0 *

⁽¹⁾ 99.99% Telefónica Deutschland Holding AG, as personally liable shareholder; 0.01% Telefonica Germany Management GmbH

⁽²⁾ Utilisation of exemption in accordance with section 264 b HGB

⁽³⁾ Utilisation of exemption pursuant to section 264 (3) HGB

⁽⁴⁾ Equity and result of the last financial year for which annual financial statements are available

* After profit/loss transfer

For further information on the nature of the shareholdings, see the organisation chart in the section “General information on the Annual Financial Statements”.

Receivables

Receivables from affiliated companies amount to EUR 135,623 thousand (2018: EUR 9,325 thousand). Receivables from affiliated companies in financial year 2019 mainly comprise receivables from

cash pooling from Telfisa Global B.V., Amsterdam, Netherlands, amounting to EUR 54,365 thousand (2018: EUR 4,542 thousand) and receivables from affiliated companies, from the VAT group, amounting to EUR 78,921 thousand.

In addition, there are receivables of EUR 2,327 thousand (2018: EUR 4,344 thousand) from Telefónica Germany GmbH & Co. OHG for management services and of EUR 10 thousand (2018: EUR 309 thousand) from Telefónica Germany Management GmbH.

Deferred taxes

In exercising the recognition option, no deferred tax assets were recognised as of 31 December 2019. 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 a taxable entity for corporate income tax purposes. The tax rate for deferred tax assets for corporation tax and solidarity surcharge is 15.825%, and 17.15% for trade tax.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2019 amounts to EUR 2,974,555 thousand (2018: 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 2019, 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

Telefónica Deutschland Holding AG had authorised capital 2016/I of EUR 1,487,277,496 as of 31 December 2019.

Conditional capital

The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares (Conditional Capital 2019/I). The Conditional Capital 2019/I was resolved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

Additional paid-in capital

The additional paid-in capital as of 31 December 2019 is unchanged at EUR 4,832,539 thousand.

With 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) of the German Stock Corporation Act (AktG) of EUR 14 thousand (2018: EUR 14 thousand).

Appropriation of profits

The Annual General Meeting of Telefónica Deutschland Holding AG was held on 21 May 2019, at which a resolution was passed to distribute a dividend of EUR 0.27 per dividend-entitled share from the balance sheet profit for 2018, totalling EUR 803,129,848.11. The dividend was paid to shareholders on 24 May 2019.

Pension provisions

The provisions for pensions relate to pension obligations in the amount of EUR 2,903 thousand (2018: EUR 2,906 thousand).

In the past, the acquisition of E-Plus in financial year 2014 and the related transfer of the acquired pension obligations at acquisition cost resulted in surplus coverage compared with a valuation based on 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 is retained until an equivalent value is determined in accordance with a valuation pursuant to section 253 (1) sentence 2 and (2) sentence 2 HGB. The settlement amount of the pension obligation exceeded the transfer value for the first time as of 31 December 2019. In the previous year, the amount of the surplus coverage was EUR 290 thousand.

This pension obligations also includes EUR 2,643 thousand in pension obligations to former members of the Management Board.

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

Based on a valuation as of 31 December 2019 in accordance with section 253 (1) sentence 2 and (2) sentence 2 HGB and after offsetting against plan assets of EUR 1,619 thousand (2018: EUR 1,510 thousand) in accordance with section 246 (2) sentence 2 HGB, the total present value of the offset pension obligations amounts to EUR 2,903 thousand (previous year: EUR 2,616 thousand). The difference in accordance with section 253 (6) sentence 1 HGB amounts to EUR 747 thousand (previous year: EUR 840 thousand) and is blocked for 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 (actuarial reserve plus profit participation) in accordance with actuarial reports.

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 1,153 thousand (2018: EUR 921 thousand), which are secured by the "Unterstützungskasse ProFund Unabhängige Gruppen- und Unterstützungskasse e.V." provident fund. To cover this obligation, EUR 1,734 thousand was held in trust for Telefónica Deutschland Holding AG at 31 December 2019 (2018: EUR 1,203 thousand).

Interest income from cover assets in the amount of EUR 16 thousand is set off against interest expenses from the change in the discounting of pension provisions in the amount of EUR 266 thousand.

Other provisions

Other provisions in the amount of EUR 4,914 thousand (2018: EUR 5,265 thousand), EUR 3,974 thousand (2018: EUR 3,387 thousand) mainly relate to obligations arising from the remuneration of the Management Board. In addition, this includes provisions for outstanding incoming invoices for consulting services amounting to EUR 939 thousand (2018: EUR 1,790 thousand).

Liabilities

Trade payables amount to EUR 47 thousand (2018: EUR 43 thousand) and relate mainly to liabilities from consulting services.

Liabilities to affiliated companies amount to EUR 54,305 thousand (2018: EUR 1,729 thousand) and comprise liabilities of EUR 50,000 thousand from a loan granted in the reporting year by Telefónica Germany GmbH & Co. OHG. In addition, there are liabilities to affiliated companies from the VAT group amounting to EUR 2,515 thousand.

The other liabilities of 76,380 thousand EUR (2018: EUR 453 thousand) primarily include EUR 76,159 thousand in VAT liabilities, which the Company is required to pay to the tax authority as the controlling company of the VAT group of Telefónica Deutschland Holding AG.

4. Notes to the Income Statement

Revenues

Revenues amount to EUR 10,620 thousand (2018: EUR 9,755 thousand) and include the reimbursement of costs for the remuneration of the members of the Management Board and other administrative costs (2019: EUR 10,380 thousand; 2018: EUR 9,405 thousand), which are assumed by Telefónica Germany GmbH & Co. OHG in accordance with the agreements for the reimbursement for management services (as set out under "I. General information on the Annual Financial Statements - Agreement on remuneration for management services").

Furthermore, invoiced management services are included in the amount of EUR 240 thousand, (2018: EUR 240 thousand) which Telefónica Deutschland Holding AG provides for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

Other operating income in the amount of EUR 498 thousand (2018: EUR 348 thousand) and mainly results from the release of provisions.

Personnel expenses

Personnel expenses in the amount of EUR 8,575 thousand (2018: EUR 7,571 thousand) include expenses for the remuneration of the Management Board, including social security contributions.

Other operating expenses

Other operating expenses for the financial year amounting to EUR 4,165 thousand (2018: EUR 4,015 thousand) mainly include costs for legal and consulting fees from external service providers.

Other interest and similar expenses

Other interest and similar expenses in the amount of EUR 251 thousand (2018: EUR 270 thousand) mainly include interest expenses from the change in the accumulation of pension provisions.

Out-of-period income and expenses

In total, the financial year 2019 includes out-of-period income in the amount of EUR 517 thousand. EUR 497 thousand primarily relates to income from the reversal of provisions included in other operating income. Other operating expenses include out-of-period expenses in the amount of EUR 285 thousand. These mainly include expenses for consulting services for the previous year.

Proposed dividend for financial year 2019 to be paid in 2020

On 11 December 2019, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of EUR 506 million or EUR 0.17 per share at the next Annual General Meeting, which is scheduled for 20 May 2020.

5. Supplementary Disclosures to the Notes

Additional information regarding the Supervisory Board and the Management Board

Remuneration of the Management Board

The presentation of the remuneration system for the Management Board and the mandatory disclosures pursuant to section 285 no. 9 a) sentences 5-8 of the German Commercial Code (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 2019 amounted to EUR 6,628 thousand (2018: EUR 6,163 thousand).

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

In the reporting year, the total remuneration includes share-based compensation on the free transfer of shares with a fair value of EUR 707 thousand (2018: EUR 559 thousand) at the grant date, for the number of 132,620 shares (2018: 105,556).

Remuneration of the Supervisory Board

The 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 311 thousand in 2019 and EUR 346 thousand in 2018.

The 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

Markus Haas was reappointed as a member of the Company's Management Board and appointed as the new Chief Executive Officer (CEO) of Telefónica Deutschland Holding AG with effect from 1 January 2017 until the end of 31 December 2019 by a resolution of the Supervisory Board dated 11 December 2016. At its meeting on 18 February 2019, the Supervisory Board resolved the further appointment of Markus Haas as CEO with effect from 1 January 2020 until the end of 31 December 2022. With a resolution of the Supervisory Board dated 20 July 2017, the Management Board members Markus Rolle, Valentina Daiber, Nicole Gerhardt, Alfons Lösing and Wolfgang Metze were appointed as Management Board members of the Company with effect from 1 August 2017 until the end of 31 July 2020. At its meeting on 30 September 2019, the Supervisory Board resolved their further appointment with effect from 1 August 2020 until the end of 31 July 2023. The employment contracts were each concluded for the duration of their respective new appointment.

In addition, Mallik Rao (Yelamate Mallikarjuna Rao) was newly appointed as a member of the Management Board of the Company with effect from 15 October 2019 until the end of 31 December 2022. His employment contract was concluded for the duration of the appointment.

Guido Eidmann, appointed as a member of the Management Board of the Company with effect from 1 August 2017 until the end of 31 July 2020, left the Management Board with effect from 31 October 2019. His employment contract also ended on this date.

Cayetano Carbajo Martín, who was appointed as a member of the Management Board of the Company with effect from 1 August 2017 until the end of 31 December 2018 and whose appointment was extended by one year until the end of 31 December 2019 by resolution of the Supervisory Board on 24 October 2018, left the Management Board with effect from 14 October 2019. His employment contract ended at the end of 8 November 2019.

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

Name	Role	Membership of Supervisory Boards
Markus Haas	Chief Executive Officer (CEO) Chairman of the Management Board	Tarifhaus AG, Munich (Chairman) (from 30 October 2019 until 18 November 2019)
Markus Rolle	Chief Financial Officer (CFO) Management Board member	Telefónica Germany Retail GmbH, Dusseldorf TGCS Rostock GmbH, Munich TGCS Nürnberg GmbH, Munich (since 20 February 2019) Tarifhaus AG, Munich (from 30 October 2019 until 18 November 2019)
Valentina Daiber	Chief Officer for Legal and Corporate Affairs Management Board member	TGCS Nürnberg GmbH, Munich (since 20 February 2019) Telefónica Germany Retail GmbH (since 1 December 2019) TGCS Essen & Potsdam GmbH (since 1 December 2019) Tarifhaus AG, Munich (from 30 October 2019 until 18 November 2019)
Nicole Gerhardt	Chief Human Resources Officer (CHRO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam Telefónica Germany Retail GmbH, Dusseldorf TGCS Rostock GmbH, Munich TGCS Nürnberg GmbH (since 20 February 2019)
Alfons Lösing	Chief Partner & Wholesale Officer Management Board member	TGCS Essen & Potsdam GmbH, Potsdam TGCS Rostock GmbH, Munich
Wolfgang Metze	Chief Consumer Officer (CCO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam (Chairman) Telefónica Germany Retail GmbH, Dusseldorf (Chairman) TGCS Rostock GmbH, Munich (Chairman) TGCS Nürnberg GmbH, Munich (Chairman) (since 20 February 2019)
Mallik Rao (Yelamate Mallikarjuna Rao (CTO since 15 October 2019, CTIO since 1 November 2019))	Chief Technology & Information Officer (CTIO) Management Board member	

Supervisory Board

Jürgen Thierfelder had resigned from the supervisory board with effect as of the end of 31 December 2018. Sandra Hofmann resigned as member of the supervisory board with effect as of 18 February 2019.

With effect as of 3 April 2019, Cansever Heil and Christoph Heil were appointed as successors and confirmed by the delegates of the employees at the election on 26 September 2019.

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2019 are listed below:

Name	Role
Laura Abasolo García de Baquedano	Chairperson of the Supervisory Board Occupation: Chief Finance and Control Officer, Telefonica, S.A. Current mandates: Member of the Board of Directors (Trustee), Telefónica Foundation
Christoph Braun*	Deputy Chairperson of the Supervisory Board Occupation: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the European Works Council of Telefónica Europe Deputy Chairman of the General Works Council of Telefonica Germany GmbH & Co. OHG Deputy Chairman of the Works Council Region North-East of Telefonica Germany GmbH & Co. OHG
Sally Anne Ashford	Member of the Supervisory Board Occupation: Chief HR Officer, Royal Mail Group plc.
Martin Butz*	Member of the Supervisory Board Occupation: Director Carrier Management & Roaming, Telefónica Germany GmbH & Co. OHG
Pablo de Carvajal González	Member of the Supervisory Board Occupation: General Counsel & Global Head Regulatory Affairs, Telefónica, S.A.
Patricia Cobián González	Member of the Supervisory Board Occupation: Chief Financial Officer, Telefónica UK Ltd. Current mandates: Member of the Board of Directors, Telefónica Europe, plc. Advisory Board Member, Lumia Capital
Peter Erskine	Member of the Supervisory Board Current mandates: Non-Executive Director, Telefónica, S.A. Chairman of the Strategy and Innovation Committee of Telefónica, S.A.
María García-Legaz Ponce	Member of the Supervisory Board Occupation: Chief of Staff, Telefónica, S.A.
Cansever Heil*, **	Member of the Supervisory Board Occupation: Full-Time member of the Company Wide Works Council (Unternehmenseinheitlicher Betriebsrat), Telefónica Germany Retail GmbH
Christoph Heil*, ** (since 3 April 2019)	Member of the Supervisory Board Occupation: Representative, Vereinte Dienstleistungsgewerkschaft ver.di Current mandate: Member of the Supervisory Board, Capgemini Deutschland GmbH

Name	Role
Sandra Hofmann* (until 18 February 2019)	Member of the Supervisory Board Occupation: Trade Union Secretary Department TK/IT, Vereinten Dienstleistungsgewerkschaft ver.di, Südhessen
Michael Hoffmann	Member of the Supervisory Board Chairman of the Audit Committee, Telefónica Deutschland Holding AG Occupation: Master's degree in Business Administration, self-employed Current mandates: Member of the Supervisory Board and Chairman of the Audit Committee of Westwing Group AG
Julio Linares López	Member of the Supervisory Board Current mandates: Member of the Board of Directors and Chairman of the Strategy Committee, Telefónica Brazil S.A. Non-Executive Director, Telefónica de España, S.A.U. Non-Executive Director, Telefónica Móviles España, S.A.U. Member of the Board of Directors (Trustee), Telefónica Foundation
Thomas Pfeil*	Member of the Supervisory Board Occupation: Full-Time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the Works Council Munich, Telefónica Germany GmbH & Co. OHG
Joachim Rieger*	Member of the Supervisory Board Occupation: Full-Time member of the Works Council of TGCS Essen & Potsdam GmbH Deputy Chairman of the General Works Council of TGCS Essen & Potsdam GmbH Current mandates: Deputy Chairman of the Supervisory Board of TGCS Essen & Potsdam GmbH
Dr Jan-Erik Walter*	Member of the Supervisory Board Occupation: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Works Council Munich of Telefónica Germany GmbH & Co. OHG Chairman of the Group Works Council of Telefónica Deutschland Holding AG
Claudia Weber*	Member of the Supervisory Board Occupation: Deputy Managing Director, ver.di Munich district Current mandate: Member of the Supervisory Board, SWM Services GmbH

* Employee representative

** New member of the Supervisory Board by court order with effect of 3 April 2019, re-elected by delegates of the employees on 26 September 2019

Auditor's fee

Disclosure of the total fees of the auditors of Telefónica Deutschland Holding AG is omitted pursuant to section 285 no. 17 HGB, as the Company prepares the consolidated financial statements of Telefónica Deutschland Holding AG ("Telefónica Deutschland Group") and the corresponding information is contained in these consolidated financial statements.

Number of employees

As in financial year 2018, the Company had no employees in financial year 2019.

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 warranty obligations for its subsidiaries. Within the framework of the issue of the two bonds of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, Telefónica Deutschland has given an unconditional and irrevocable guarantee to each holder of an amount of the two issued bonds in February 2014 and July 2018, respectively, in the amount of EUR 500 million and EUR 600 million, for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the bond terms.

The risk of claims arising from 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 by Telefónica Germany GmbH & Co. OHG. The creditworthiness of O2 Telefónica Deutschland Finanzierungs GmbH is therefore determined by the operational business of the Telefónica Deutschland Group itself.

Telefónica Deutschland Holding AG issued a letter of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH in financial year 2016. The letters of comfort continue to be valid and may be terminated at the end of a financial year of the companies, subject to a notice period of six months.

On 21 January 2019, Telefónica Deutschland Holding AG also issued a letter of comfort for Telefónica Germany GmbH & Co. OHG with a term until 31 December 2040.

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The risk of claims arising from 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 adopted by the EU. These consolidated financial statements are published in the German Federal Gazette. The consolidated financial statements of Telefónica Deutschland Holding AG are 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**.

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

On 31 May 2019, BlackRock Inc., Wilmington, Delaware, United States of America notified us pursuant to section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, exceeded the threshold of 3% on 28 May 2019 and amounted to 3.30% on this date.

On 22 May 2019, T. Rowe Price Group, Inc., Baltimore, Maryland, United States of America, informed 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 3% on 17 May 2019 and amounted to 2.998910634025% on this date.

On 15 May 2019, 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 3% on 14 May 2019 and amounted to 2.98% 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.

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An overview of all voting rights notifications can also be found at **www.telefonica.de/voting-rights-announcement**

Declaration in accordance with section 161 AktG on the Corporate Governance Code

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 30 September and 2 October 2019. 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

On 3 February 2020, Laura Abasolo García de Baquedano informed the Management Board and the Supervisory Board of the company that she was resigning from her position as member and Chairperson of the Supervisory Board effective at the end of 31 March 2020. The Telefónica Deutschland Group is currently in the process of appointing a successor.

No additional events subject to disclosure requirements occurred after the end of the financial year 2019.

Munich, 14 February 2020

Telefónica Deutschland Holding AG

- The Management Board -



Markus Haas



Markus Rolle



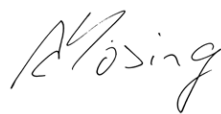
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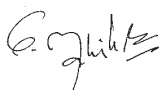
Nicole Gerhardt



Wolfgang Metze



Alfons Lösing



Mallik Rao

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 net assets, financial position and results of operations 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, 14 February 2020

Telefónica Deutschland Holding AG

The Management Board



Markus Haas



Markus Rolle



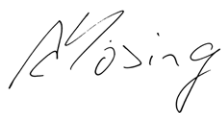
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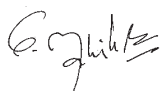
Nicole Gerhardt



Wolfgang Metze



Alfons Lösing



Mallik Rao

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, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. 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, 2019. In accordance with the German legal requirements, 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 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, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 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") 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, 2019. 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:

① Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG

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

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matter:

① Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG

- ① In the Company's annual financial statements shares in affiliated companies amounting to € 8.55 billion (98 % 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 2019, 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.

- ② 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 21, 2019. We were engaged by the supervisory board on November 25, 2019. 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. We also provided other assurance services, primarily in connection with sustainability reporting, and other services in connection with regulatory requirements.

German Public Auditor Responsible for the Engagement

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

Munich, February 14, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Stefano Mulas)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. ppa. Gabor Krüpl
Wirtschaftsprüfer
(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-aided augmentation of reality
GDP	Gross domestic product
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media, Berlin
BMWi	German Federal Ministry for Economic Affairs and Energy
BNetzA	Bundesnetzagentur (German federal network agency)
BOLO	Contribution-based benefit regulations of the Essen Association
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Brexit	British Exit – the act of the United Kingdom leaving the European Union
CAP	Capping limit
CapEx	Capital Expenditure: Investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licences, 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 German 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
GCGC	German Corporate Governance Code
DRS	German Accounting Standard
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EIB	European Investment Bank
EV	Essen Association
EU	European Union
Euribor	Euro Interbank Offered Rate
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
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
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Auditors in Germany), Dusseldorf
IFRS	International Financial Reporting Standards
ICS	Internal control system
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
SME	Small- and medium-sized Enterprises
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTM	Last twelve months
LTE	Long-term evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
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 ₂ My Handy	Monthly payment model for mobile phones and other devices
O ₂ Free	The O ₂ 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
OIBDA	Operating Income before Depreciation and Amortisation
OpCF	Operating Cash Flow
OTT	Over-the-top – IP-based and platform-independent services and application (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
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
RCF	Revolving Credit Facility
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone which identifies the user within the network
Smartphone	Mobile phone with extensive computer and internet functionalities
Smart watch	A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet.
SMS	Short Message Service
SoHo	Small office/Home office
SOX	Sarbanes-Oxley Act: US law on improving 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, S.A.	Telefónica S.A., Madrid, Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
TKG	Telekommunikationsgesetz (Telecommunications Act)
TSR	Total shareholder return (return on shares)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, 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

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