

SEPARATE COMBINED NON-FINANCIAL REPORT

Telefónica Deutschland Holding AG
for the reporting year 2019

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ABOUT THIS REPORT



Telefónica Deutschland Holding AG prepared a separate combined non-financial report for the financial year 2019 in accordance with the "Act to strengthen non-financial reporting by companies in their management reports and group management reports" (CSR Directive Implementation Act, CSR-RUG) comprising information on the Telefónica Deutschland Group and Telefónica Deutschland Holding AG. This report was published on the website www.telefonica.de/nfs on 3 March 2020.

The Non-Financial Report was audited by the external audit firm PricewaterhouseCoopers GmbH in accordance with the ISAE 3000 (Revised) standard 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.

For comprehensive sustainability reporting in accordance with the GRI Standards ("Comprehensive" option), please see our Corporate Responsibility Report, which will be available at www.telefonica.de/verantwortung from May 2020.

BUSINESS ACTIVITIES OF THE TELEFÓNICA DEUTSCHLAND GROUP



The 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 addition, our numerous wholesale partners purchase extensive mobile communications services from us.

In the mobile sector, we serve the demand for mobile services as a consequence of the digitalisation of ever more areas of life. With a total of 43.8 million mobile accesses as of 31 December 2019, we are a leading provider in this market area. In 2019, at EUR 5,301 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (72% of total volume). In this area, we offer private and business customers mobile voice and data services both on a contractual basis (postpaid) and in the prepaid segment. The basis for this is our mobile communications network. We offer nationwide fixed services to complement our mobile services. Our DSL retail customer base amounted to 2.2 million as at year-end. We belong to Telefónica, S.A. Group, one of the world's largest telecommunications companies.

The Telefónica Deutschland Group's business model is described in detail in the "Basic information on the Group" section of the [Combined Management Report 2019](#).

IDENTIFICATION OF THE MATERIAL NON-FINANCIAL TOPICS AND RISKS

Process of preparing the non-financial report

To prepare the 2019 Non-Financial Report, we have in line with the previous year analysed and evaluated sustainability issues in terms of the legal requirements. This process was based on the materiality analysis conducted in 2015; this saw a structured method being used to identify 25 material issues for the Telefónica Deutschland Group and then assign them to a materiality matrix. The analysis reflected the results of a stakeholder survey, a statistical analysis of the impacts of the Telefónica Deutschland Group all along the value chain, workshops with the senior management and company-, market- and sector-specific studies.

Impact analysis

We verified the impact analysis in 2019 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

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, such as individuals from the departments Risk Management, Investor Relations, Capital Market Law, Compliance, Finance and Corporate Responsibility. 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 the purposes of CSR-RUG as its business relevance

remained below our threshold for this financial year in the analysis. Due to its general sociopolitical relevance, however, we report in detail on our activities and measures in relation to this aspect in our CR Report and online at www.telefonica.de/human-rights. 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 the material non-financial risks

The analysis of business relevance 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, we performed a net assessment of the risks. A detailed description of the processes can be found in the "Risk and opportunity management" section of the 2019 Combined Management Report.

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

MATERIAL NON-FINANCIAL ISSUES

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. One core promise is that digitalisation will lead to further growth and prosperity. As a digital telecommunications provider, we are at the heart of this development technologically and with the services we provide to the customers. We are active in markets which are characterised by stiff competition and ongoing technological developments. Our company faces increasing competition from alternative telecommunications providers. In an environment characterised by momentous technical change, we face the challenge of anticipating and implementing technical requirements and the customers' wishes in good time. We therefore aspire to enabling everyone to participate in digital life and to use the advantages of digitalisation as it best suits their wishes and needs. In this regard, offering our customers transparency at all times regarding how their data is used and allowing them to determine themselves how it is used are top priorities for us.

The satisfaction of our customers is the foundation of our corporate success. We have a vision of becoming "Mobile Customer & Digital Champion" by 2022. 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.

We aspire to seeing the world through the eyes of our customers and providing them with attractive and simple self-service offerings that suit their 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 digitalisation.

PROCESSES & MANAGEMENT

Transparently gauging customer satisfaction

The Chief Consumer Officer (CCO) and the Chief Partner and Wholesale Officer (CPWO) of Telefónica Deutschland Holding AG bear overall responsibility for the area of customer satisfaction. The CCO is responsible for private customer business with a clear focus on the customer experience, the position of Chief Partner and Wholesale Officer has responsibility for business with partners, and the Chief Executive Officer (CEO) is in charge of the B2B division. Central management of customer satisfaction is firmly embedded in the company with the B2C directorate Customer Experience & Transformation.

We measure customer satisfaction at all levels to the fullest extent permitted by data privacy legislation – at the market level, at all the direct and indirect customer touchpoints (customer journey) and at the 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. The central key performance indicators we use are the Net Promoter Score (NPS), which is the most important control parameter, and the Customer Satisfaction Index (CSI) and churn rate (excl. M2M).

The Customer Satisfaction Index (CSI) is determined through a telephone survey of our company's private customers and of our competitors' 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 regarding overall satisfaction, the fulfilment of customer expectations and the gap when measured against a fictional ideal service provider. 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. In 2019 we managed to improve the CSI figure (2019: 7.61) on a year-on-year basis (2018: 7.49).

The Net Promoter Score (NPS) verifies customer willingness to recommend the O₂ brand. It reflects the overall satisfaction with the brand as well as with its products and services. The NPS survey is part of the CSI survey, which is carried out by telephone. All NPS improvement measures have the aim of optimising the customer experience.

The churn rate is the migration rate of postpaid customers over a certain period of time divided by the total number of contract customers (postpaid connections excl. M2M). At 1.51%, we achieved a year-on-year improvement here (2018: 1.65%).

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CUSTOMER SATISFACTION

	UNIT	2019	2018	2017
Customer Satisfaction Index (CSI)	Index	7.61	7.49	7.18
Postpaid customer churn rate Churn for postpaid connections excl. machine-to-machine (M2M)	%	1.51	1.65	1.61

Using customers' wishes and feedback for improvements

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 the feedback we receive from our customers and employees in a continuous improvement process to optimise our procedures and therefore the customer experience too. With our customers' consent, we 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. Our employees can also directly make a record of improvement suggestions and customer wishes that arise in dialogue with the customers and then pass these on and implement them as part of the continuous improvement process.

Through the speech analysis as well as via regular employee feedback from the operating units, conspicuous fluctuations in contact reasons or voiced customer problems are reported and we use these to derive concrete improvement measures. These are analysed and implemented as promptly as possible as part of the continuous improvement process. The chosen topics are respectively assigned to a person responsible and the progress made with them is tracked via weekly documentation.

We have set ourselves ambitious targets in the area of customer satisfaction in our bid to become "Mobile Customer & Digital Champion" by 2022: we want to offer excellent customer service with a high level of customer satisfaction. We evaluate the status of our target attainment on the basis of internal performance indicators taken from direct customer surveys as well as from external evaluations such as the regular tests conducted by the special-interest magazine **connect** concerning hotlines, service apps, the advice given in shops, and fixed line network quality. Our hotline for private and business customers has won a number of awards for its availability and quality.

We are also improving and expanding our digital offerings and aim to provide the customer with uncomplicated customer service round the clock and independent of location. Our intention is that by the end of 2021 76% of all contact is digital in the self-service area (2019: 72%).

STRATEGIC PRIORITIES

Digital road map for greater customer satisfaction

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 measures plan. At the same time, we want to inspire our customers to make self-determined use of digital technologies with our products and base our communication measures on this.

The measures plan includes among other things the continual expansion and development of digital offerings in the self-service area, such as our digital assistants Lisa (chatbot for processing customer queries) and Aura (AI for optimising business processes). We launched Aura with some initial applications which we continue to improve and expand. We adopted WhatsApp as a new communication channel that enables the customers to raise an issue with us at any time. We are continually analysing opportunities to use additional innovative channels as part of our digital measure planning.

The focus of our transformation programme Digital4Growth (D4G) is among other things the customer and their needs and experiences. For example, we analyse the individual stages that a person who becomes a customer goes through, from interest to purchase to active use (customer journey mapping). In this context, we have also worked on standardising and simplifying communication throughout the customer relations life cycle.

Innovative solutions for private and business customers

We offer innovative tariffs that are designed to make our customers' lives simpler, faster and better. Our most important new offerings in 2019 included the O₂ You tariff that puts many of the contractual conditions in the customers' hands and allows them to put together their own combinations of mobile communication and smartphone. The mobile communication tariff may be terminated at any time with notice of 30 days to the end of the billing period and the device can be paid off flexibly. We are therefore bringing to an end the era of inflexible contract durations and are aiming to take on a role as a pioneer in the market.

O₂ has also expanded its DSL portfolio for private customers, freelancers and small business owners with a supervectoring tariff. This is DSL technology that offers top speeds of 250 megabits per second (Mbps) for downloading and 40 Mbps for uploading, allowing self-employed people to surf at a reliably high speed and, in particular, to upload and download large files in seconds.

Our extensive LTE expansion programme is benefiting not only mobile communications customers throughout Germany, but also users who do not have a classic DSL connection within their own four walls. With O₂ HomeSpot and the three new O₂ my Data Spot tariffs, we are offering our customers an alternative stationary high-speed Internet connection that enables them to use a Wi-Fi-based home spot to simply and reliably connect all of their devices to and surf in our O₂ LTE network.

Our B2B area features a strong tariff portfolio for our partners and their end customers. This offers our business customers a variety of solutions that make their work easier and which are secure, fair and reliable. With O₂ Free Business, for example, users can enjoy fast mobile Internet access of up to 1 Mbps throughout the EU even after they have used up their high-speed data volume. This is the case irrespective of the device they choose because with the multiscard, the benefits of the O₂ Free Business tariffs can be enjoyed on a smartphone, laptop or tablet or in a mobile hotspot.

The O₂ Unite business tariff is designed for companies who are reliant on maximum flexibility in their mobile communications usage, for example because they need to integrate new employees or plan international activities at short notice. O₂ Unite offers companies central tailor-made mobile communications pools for high-speed data, minutes and text messages that can be variably assigned to all employees. Fluctuations in the use of the employees' SIM cards are balanced out amongst each other and unused data volumes can be carried over to the next month.

The O₂ Digital Phone tariff further simplifies the day-to-day work of our business customers. It allows them to use the complete service portfolio of a fully fledged phone system in the cloud, making it possible for PCs, laptops or tablets to access all functions such as conference calling, call forwarding and phone directories from wherever they are working.

Network infrastructure further strengthened

We continue to equip our locations with LTE technology in both urban and rural areas in order to offer our customers better network quality. In the year under review, 2019, the Telefónica Deutschland Group, moreover, put several thousand new LTE transmitters into operation. Starting in 2020 we intend to above all press ahead with extensive LTE expansion in rural areas as well as swiftly putting powerful 5G mobile communications infrastructure in place in towns and cities to enable an increasing number of customers to surf the Internet at high speeds in more and more places.

In urban areas, the Telefónica Deutschland Group is focusing particularly on densification of the network. In parallel with the LTE expansion, we are starting setting up a 5G network that will in future facilitate higher speeds and increased capacity for private and business customers as well as intelligent linking of their digital devices. By the close of 2022 the aim is to be supplying 30 towns or cities with a total of 16 million inhabitants. In rural areas, the company will forge ahead with intensively expanding the LTE infrastructure as well as laying the technical foundations for the future 5G expansion. In 2020 we will bring further thousands of LTE transmitters into operation. By the end of 2020 99 per cent of Germany's households are to be able to surf with high LTE speeds.

In 2019 we signed Germany's mobile communications pact agreed upon by the policymakers and network operators, making a commitment to further expand the LTE network. In this context, we will set up an additional 333 sites in what will have been undersupplied regions by the end of 2021. In the area of network expansion, we want to work closely with Deutsche Telekom, Vodafone and other mobile network operators and will ensure that there is the best possible mobile broadband coverage in particular in rural areas and along traffic routes. To this end, we are planning to establish and jointly use up to 6,000 new mobile communications sites together with the other service providers.

The Telefónica Deutschland Group will also be cooperating with several technology companies where the 5G network is concerned. This enables us to establish diversity in our networks in future and avoid dependence on a single provider. For the expansion of the 5G access network (radio access network), we plan to collaborate with Nokia and Huawei with the reservation that the technology and companies are successfully certified in accordance with the legal regulations in Germany. In doing so, the Telefónica Deutschland Group intends to take into account the still ongoing political process of laying down the security regulations, without delaying the 5G expansion roll-out.

Our private and business 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 is responsible for efficiently monitoring and resolving problems in the mobile communications 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 the internal processes, taking the technical framework conditions into account.

With regard to our network elements, we want to continuously raise the level of automation in monitoring and resolving problems. Since the middle of 2017 we have been using a measurement tool to analyse and gauge the quality of the network. This tool generates comprehensive figures. This enables us 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. For example, we entered into partnerships with the fibre-optic network operator Tele Columbus and with Vodafone in 2019, allowing us to offer our customers additional offerings in the area of high-speed Internet via a fixed line or a cable connection.

Data protection and information security

BASIC PRINCIPLE

Telefónica Deutschland takes data protection very seriously

The digital age brings with it the challenges of rethinking data protection and privacy, among other things against the background of the increasing general threat of cyberattacks. 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 ensure that people remain in control of their data. We guarantee data protection and IT security on the basis of the relevant laws and regulations. We also make a commitment in our Business Principles to observing information security and transparency. The Telefónica Deutschland Group treats all personal and 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 seek to guarantee that the Telefónica Deutschland Group's business activities comply with data protection regulations by means of suitable measures. One primary focus in the reporting period was particularly the internal implementation of clarifications as decreed by the authorities and courts of law of the General Data Protection Regulation (GDPR) regarding processes and documents. We also placed the same amount of emphasis on raising awareness among our employees as to the implementation of the new data protection requirements.

We continue to update our data protection management system (DPMS) and information security management system (ISMS) in the area of corporate security and are developing both systems further in a targeted manner. For example, we restructured the monitoring and reporting of security key performance indicators for the company-wide management of information security. The existing crisis management concept is systematically implemented and put to the test in practice.

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 processes. This involves our regularly revising existing and adopting new guidelines if additional regulatory needs are identified and then implementing these in the company. The decisive frameworks include the Group's data protection standard, which forms the foundation of the DPMS, 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. These include the guidelines for reporting data protection and information security incidents, the guidelines on data protection information obligations, the checklist for the rights of data subjects in accordance with the GDPR regarding the processing of users'/ customers' data, the newly created Privacy Consulting Process (PCP) and various procedural instructions. Our privacy policy contains clear guidelines on the protection of personal data that often go above and beyond the statutory specifications. Our employees receive annual training on this. All employees are additionally obliged to observe data and telecommunications secrecy.

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

Efficient structures and processes are aimed at guaranteeing there are no violations in the areas of data protection and information security. With our company-wide DPMS and ISMS, we manage the processes that secure data protection standards, our targets, responsibilities and training as well as regular checking of measures that have been implemented. Information security managers and data protection coordinators have additionally been established in the departments as fixed points of contact in order to improve management of the DPMS.

We work exclusively with business partners who accept our data protection rules in accordance with the guidelines on data protection agreements and the corresponding agreements. We also conduct audits among other things where our service providers are located. Likewise, the Telefónica Deutschland Group has clear processes and regulations in place for involving subcontractors and sets corresponding requirements for contracts.

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 [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 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 the violation of data protection regulations by achieving the best possible compliance with the 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

No proceedings were initiated in the past financial year due to data protection infringements and violations of the legal provisions in this area. No penalties in the form of fines were imposed on the basis of data protection violations. 26 reportable security breaches or incidents with regard to confidentiality, integrity and availability in connection with network and information security were identified. The events that have occurred are solely relevant to the objective of availability and can essentially be put down to the work carried out as part of the network consolidation or faults with network elements.

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DATA PROTECTION AND INFORMATION SECURITY

IN NUMBERS	2019	2018	2017
Proceedings initiated due to data protection violations (Section 109a German Telecommunications Act [TKG])	0	0	1
Penalties in the form of fines as a result of data protection violations during the year	0	0	0
Reportable security breaches or incidents relating to information and network security	26	36	9
Penalties in the form of fines paid in relation to security breaches or other network security incidents	0	0	0

STRATEGIC PRIORITIES

Pressing ahead with raising awareness and educating

Our priorities include providing regular, targeted and comprehensible information about how we process data. We base our actions on the principles of self-determination, transparency, protecting personal data, and innovation as enshrined in our guidelines regarding data protection.

The most important information tools our customers can access in a direct and targeted manner include the Telefónica Deutschland Group's [data protection website](#) and our brands' respective data protection websites. These explain in detail what types of data the Telefónica Deutschland Group processes, how we protect our customers' data and what they themselves can do to protect their data. Consumers can also exercise their rights in accordance with the GDPR. The project initiated in 2017 to implement the GDPR was continued with the aim of replacing temporary processes with automated ones, for example within the scope of the information provision process. In this way, we take the strain off the customer service staff, who can then focus on responding to customer enquiries quickly and on quality assurance.

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.

Our employees regularly undergo mandatory training in the area of data protection and information security, including with the support of external data protection experts. Employees tasked with training further employees were given particularly extensive training. There are such data protection coordinators in all of the departments and they serve as an interface between the department's members and the data protection team. The coordinators prioritise enquiries in their area of business, handle standard topics and simple matters themselves and, if necessary, arrange contact with the relevant data protection experts. They are therefore the first point of contact for implementation of the data protection management system.

The topics employee training on data protection and information security is currently focusing on include the responsible handling of the constituent data and traffic data that the Telefónica Deutschland Group uses to provide telecommunications services and in its data analysis processes for the development of new service offerings. We simultaneously implemented a campaign at the beginning of 2020 under review to raise awareness regarding the processing of personal data in day-to-day business; this was aimed at employees in all areas including the shops and customer service. In particular, this concerned the observance of the protection of personal data in email traffic, during phone calls made in public settings and in dealing with documents which can be viewed by external parties.

To raise awareness regarding security, we hold information events and exercises at our sites which aim to teach employees the correct way to handle threat situations in the online sphere. This involves our working closely with security authorities such as the police and the intelligence service. We prepare for material crisis scenarios such as network failures, data misuse and bomb threats with concrete instructions.

We involve both our internal and external stakeholders in a variety of activities in the areas of data protection and information security. We conduct dialogue via our data protection forum to which relevant internal stakeholders belong and discussion takes place on a continuous basis with external partners and the applicable authorities. These include Germany's Federal Network Agency (BNetzA), the Federal Office for Information Security (BSI) and the Federal Commissioner for Data Protection and Freedom of Information (BfDI). The Telefónica Deutschland Group is also represented in global initiatives surrounding data protection, such as the Global Network Initiative, via the Telefónica, S.A. Group. We are additionally members of various professional associations such as Bitkom, the German Association for Data Protection and Data Security (GDD), the Information Security Forum and the Bavarian Association for Business Security (BVSU).

Climate protection

BASIC PRINCIPLE

Telefónica supports UN climate target

The Telefónica Deutschland Group's Spanish parent company has committed itself to counteracting climate change together with the United Nations. The company is part of the [Business Ambition for 1.5°C](#) action alliance. The alliance members intend to use targeted measures and far-reaching changes to limit global warming to 1.5°C above the pre-industrial average. The Telefónica Group already gets 58% of the energy it uses around the world from renewable sources.

Back in 2016 the mobile communications industry was the first sector in the world to support the [United Nations' Sustainable Development Goals](#). In the UN's 2030 Agenda, goal number 13 focuses on climate change. Since 2016 the industry has taken a variety of emergency measures to combat climate change and its impacts. This assumption of responsibility for the environment is also a basic principle of the Telefónica Deutschland Group.

Focus on energy efficiency and CO₂ reduction

The Telefónica Deutschland Group is reducing the environmental impacts of its business activities in a targeted manner as a way of making a contribution to climate protection. 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. Network technology constitutes the largest proportion of electricity consumption at 96%. In this area, the energy reduction goals represent a major challenge in view of the Telefónica Deutschland Group's programme of network expansion (incl. 5G).

We rely on different elements to save energy and reduce greenhouse gas emissions: we invest in energy-efficient technology, use renewable energies and promote low-pollutant mobility, and we are increasingly offering our customers sustainable products and services. 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 of EUR 15 m by 2020 compared with 2016.

We are moreover working intensively on in our own processes using natural resources as sparingly as possible and producing as little waste as possible. Recording and evaluating the relevant waste volumes is being supported with the introduction of the waste management system GreTel, which has been specially developed based on the Telefónica Deutschland Group's needs. The Group's small volumes of hazardous waste in addition to electronic waste are seen as

immaterial, but are nonetheless recorded by our environmental management system in accordance with ISO 14001 and are passed on for disposal or recycling in line with legal requirements. Our water consumption is likewise deemed immaterial as it only occurs in our offices and shops to an extent which is usual for a service company.

PROCESSES & MANAGEMENT

Management systems anchored in the company

Our binding company-wide environmental policy serves as the basis for all activities and is further supported by sustainable energy management guidelines. These are both 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. This particularly seeks 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 and to keep on improving our environmental performance in general.

Climate protection: energy consumption

We have established our own energy guidelines in the company in accordance with ISO 50001. These are based on our environmental management system and specify its principles in the area of energy. Our energy management system including offices and shops was recertified in accordance with ISO 50001 in 2019. The Telefónica Deutschland Group's offices have now been certified in accordance with the environmental management standard ISO 14001 and the quality management standard ISO 9001 since 2004. Our shops' environmental management is likewise based on the ISO 14001 standard, and application of this is verified by means of internal rather than external audits.

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 carbon emissions by 11% by 2020 (base year: 2015).

Another of our targets is to reduce energy consumption per data volume (GWh/PB) by 40% by 2020 (base year: 2015, 0.41 GWh/PB). We already managed to achieve the target in the previous year with a level of 46%; in 2019 energy consumption per data volume totalled 0.17 GWh/PB. Through the use of new and energy-efficient technologies, it was consequently possible to lower the value further. We will endeavour to maintain this level in future in spite of our network expansion and the rising data volumes.

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CLIMATE PROTECTION: ENERGY CONSUMPTION

	UNIT	2019	2018	2017
Energy intensity: total energy consumption per data volume	GWh/PB	0.17	0.22	0.25
Proportion of total electricity consumption from renewable energy sources	%	84	82	71
Proportion of green electricity in own procured and controlled energy	%	100	100	100

The proportion of renewable energies in relation to total electricity consumption increased further to 84% in 2019.

Regarding our company cars, average fleet emissions are to be reduced to 95 g CO₂/km for company vehicles newly registered from 2020. We achieved our target of reducing the carbon emissions caused by business travel by 10% by 2018 in comparison to the base year 2015 with a figure of 12% by that year. We achieved a further reduction of 20% in 2019.

STRATEGIC PRIORITIES

Targeted improvements in energy and resource 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 are also focusing on natural resources being used efficiently and we apply environmental criteria to our procurement processes in order to reduce our ecological footprint further. In order to promote the use of renewable energies, we already procure 100% green electricity where we are in a position to do this. Another focus is on developing products and services that make sustainable behaviour easier for our customers. In 2019, for example, we introduced the new half SIM card carrier

format in our shops and when issuing cards to new O₂ postpaid customers. The new SIM card carrier is half the size and also half the weight of the previous bank card format, which in 2019 produced a saving of almost 3.4 tonnes of plastic for about 1.7 million half SIM cards. In addition to O₂, other own brands are participating in this initiative.

In the course of the merger of the Telefónica Deutschland Group 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 implement by 2020 at the latest. These primarily concern modernisation of the 2G and 3G networks, which we almost concluded by the end of this reporting year. By the end of 2019 we were consequently able to reduce energy consumption by a total of 6.82 GWh (in relation to 2016). Within the framework of the almost completely finished network consolidation through deactivation and demolition of around 14,000 sites in total, we achieved savings of 196 GWh between 2016 and 2019. Delays in dismantling were due to the fact that the locations intended for this are now partly to serve the establishment of the 5G network. The consolidation of the network is managed by measuring the progress of the 2G/3G modernisation project, which we report on monthly.

T 04

CLIMATE PROTECTION: ENERGY CONSUMPTION

IN GWH	2019	2018	2017
Total energy consumption	727	778	791
Total electricity consumption ¹	696	746	752
of which by the network and data centres	668	716	722
of which by offices, shops, call centres	28	31	30
Total fuel consumption ²	31	32	39
Energy from renewable energy sources	584	610	536

¹ The figure for electricity consumption equals the volumes actually billed per electricity consumption point and, in some cases, forecasts of the volumes consumed.

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

Over the next three years, the Telefónica Deutschland Group intends to equip nearly all of its mobile communications sites with smart meters for the electronic logging of electricity consumption. It is planned for 25,000 locations to be equipped at which it is possible to access the meters. This technology delivers maximum energy consumption data transparency and offers a variety of starting points for cost-conscious and environmentally friendly energy management. These include, for example, identifying consumption anomalies as an indication of imminent outage of system components and the predictive maintenance.

We achieved further savings in 2019 through the deactivation of the DSL main distribution frames. In relation to the consumption value of 54 GWh recorded in 2015 the entire 54 GWh managed to be saved following the optimisation measure's conclusion.

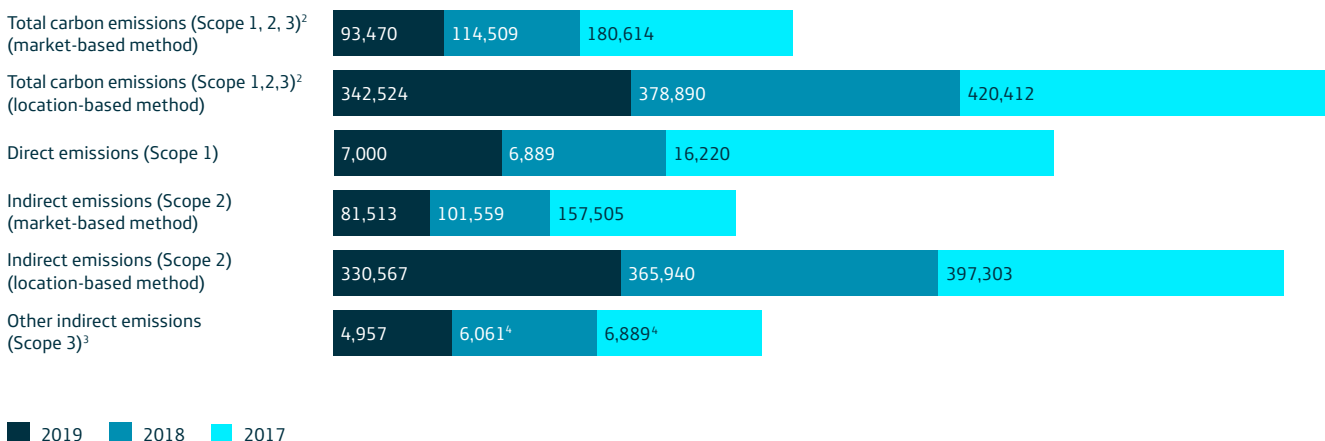
Lowering emissions for company mobility

To achieve our targets in the area of mobility, we use our travel guidelines to promote the joint use of company cars as well as switching to the train. For example, we have made rail journeys more appealing to staff by authorising first-class travel. With regard to travel activities, we have established detailed monitoring based on the data provided by the travel agency and the mobility service provider in order to manage the fleet of company cars. Rail travel, determined on the basis of kilometers driven, increased by 22% year-on-year in 2019 while the use of flights, determined on the basis of kilometres flown, fell by 19%.

In order to attain our target of reducing the average carbon emissions of company vehicles registered from 2020 to 95 g/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. There were initial discussions regarding the deployment of an electromobility charging infrastructure. The carbon emissions of the company fleet rose by 6.1% in 2019 compared with 2018.

G 01

CLIMATE PROTECTION: GREENHOUSE GAS EMISSIONS IN TONNES OF CO₂ EQUIVALENT (tCO₂eq¹)



¹ CO₂eq = CO₂, CH₄ and N₂O.

² Carbon emissions (including Scope 1 and Scope 2) are calculated on the basis of ISO 14064, the Greenhouse Gas Protocol and the ITU-T L.1420. A standard Germany-wide conversion factor is used to convert electricity consumption into carbon emissions, irrespective of the fact that 84% (previous year: 82%) came from renewable energy sources. The Telefónica Deutschland Group uses the electricity conversion factors (development of specific carbon emissions in the German electricity mix during the years 1990–2018) of the Umweltbundesamt (German Environment Agency) and with that 518 g CO₂ as the basis for the calculation in the year under review, 2019. This has, however, not resulted in fundamental changes in trends.

³ Other indirect emissions due to business travel (flights and rail travel).

⁴ The emissions per km for flights and rail travel (Scope 3) for the years 2017 to 2019 were calculated with emission factors applied Group-wide (source: UK National Atmospheric Emissions Inventory (NAEI)). The values for 2017 and 2018 were accordingly subjected to retrospective adjustment. Moreover, the emissions for rail travel for 2017 to 2019 were included.

Attractiveness as an employer

BASIC PRINCIPLE

High employer attractiveness as target

Digitalisation not only poses a challenge for technology; it is also a key one for the organisation and its employees. 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. It is our responsibility to equip our organisation for this transformation and make our employees agents of change. Moreover, we aim to do all of this while jointly bringing our structures, processes and working methods into line with the expectations of the new era.

Following the organisational conclusion of the merger, in 2018 we placed our focus as an employer on the topics of learning, collaboration and new ways of working, participation and leadership development. We consistently pressed ahead with this in 2019 and further developed the individual topics with respect to content. How we collaborate in future, interlinked across divisions, and develop our skills is vital to the success of our company and every individual in the digital world. As part of the transformation process, our overarching goal is to include our employees in changes and be an attractive employer for them and external applicants in future too.

PROCESSES & MANAGEMENT

Systematic processes to achieve targets

The Chief Human Resources Officer (CHRO) has overarching responsibility for the area of staff matters. Several works council bodies also represent the interests of our employees. Our annual global employee survey was further developed in 2019 so that we will in future be even better able to assess the attractiveness of our work environment and our employees' motivation. The "Employee Experience Survey" is conducted online, anonymously and voluntarily among all employees of the Telefónica Deutschland Group. We are measuring our attractiveness as an employer for the first time using the indicator employee Net Promoter Score (eNPS). This KPI assesses employees' likelihood of recommending Telefónica as an employer. No meaningful direct comparison of the results of the new eNPS can be made with the previous years' figures for employee satisfaction (employee engagement score). That is due to differences in the question set and scale. In 2019 we achieved an eNPS of 21.5 points. We aim to increase this to 26 points by 2022. The response rate in 2019 was 79%, equating to a year-on-year increase of eight percentage points. To regularly review our progress and to be able to implement improvements as required, we conduct

short surveys known as pulse surveys a number of times a year. These likewise assess our eNPS and identify key topics for our transformation. The content of these pulse surveys also constitutes part of the annual Employee Experience Survey.

T 05

ATTRACTIVENESS AS AN EMPLOYER: ANNUAL EMPLOYEE SURVEY

	UNIT	2019	2018	2017
Response rate	%	79	71	68
Employee Engagement Index (until 2018)	%	–	74	67
Employee Net Promoter Score (eNPS) (from 2019) ¹	Score	21.5	–	–

¹ Result for attractiveness of the working environment

STRATEGIC PRIORITIES

Priorities in human resources work

The Telefónica Deutschland Group further developed its HR strategy and implemented new measures in the year under review. In particular, thanks to the employee surveys being carried out regularly in the course of the year, the effectiveness of central initiatives was made quantifiable and therefore also more controllable. With this and the progress we have made in all of our focal areas as described below, we have significantly advanced the transformation of our organisation.

Continuous learning and personal development

We ensure that there is an environment in which our employees can prepare themselves in the best way possible for today's and tomorrow's working world while growing personally. The Telefónica Deutschland Group encourages continuous and self-determined learning in analogue and digital form. The employees therefore have the opportunity to incorporate learning into their day-to-day work, develop further and work more efficiently.

All employees can continuously expand their skills profiles and boost their employability in the long term with the help of digital teaching modules, such as LinkedIn Learning, and through networking opportunities in our communities and various dialogue and feedback formats. We also encourage our employees to always be open to adopting different perspectives and to grow with new duties and responsibilities in the form of project assignments or permanent role changes.

Participation and involvement of employees

The Telefónica Deutschland Group creates an environment in which committed employees can work optimally, adapt to changes quickly and actively participate. To achieve this, we encourage communication among each other with the aim of integrating relevant stakeholders early on and boosting motivation to shape the future together. There are regular formats that support transparent and ongoing communication between the Management Board and employees. These include "Vorstand im Dialog" (Management Board in Dialogue), "Kaffee & Croissant" (Coffee & Croissants) and site visits with alternating Management Board members. In addition, a new dialogue format was launched in 2019 called SmartWorking@Telefónica. Here, the Chief Human Resources Officer, executives and staff jointly develop new approaches for our collaboration and for the working world of tomorrow.

The works council is also closely involved in all measures. We work together as partners with a high level of co-determination. Most notably, we ran a number of boot camps in 2019 in order to increasingly shape changes in the company jointly. Informal exchange with the bodies also takes place regularly.

New ways of working and collaboration

We want to create the best solutions for our customers, going beyond team and unit boundaries. To this end, we promote the networking of our employees and new, smart ways of working. With the help of workshops, we have launched a number of initiatives designed to further embed a "smart spirit" as a key principle in the company. These included, for example, the Smart Work Community with over 300 members, barcamps, keynote speeches and company-wide training and coaching for employees given by employees.

In 2019 *FreiRaum*, a new space for creative and agile working, was opened. Employees can book this for workshops and training. The opening week introduced employees to the diverse programme with keynote speeches, agile training, workshops and participation formats. Beyond that, much of our office space has gradually been transformed into a modern and flexible working environment in recent years. We are already operating successfully on the basis of the new concept at five sites. We have also redesigned approximately 4,000 physical workspaces.

Empowering executives in their future role

In 2018 we introduced a programme for senior management (Leadership Journey) designed to prepare an initial 60 executives for their role as the driving force behind transformation, change and performance. In 2019 we expanded the programme to include the broader management team with 240 employees, thereby providing stimuli for growth of the executives themselves, the implementation of smart ways of working and further development of the employees and teams. An important aim was also to enhance networking and team building at the executive level. The supporting measures included coaching from professional trainers and a comprehensive guide to feedback and development conversations with employees. Detailed evaluations of the regular pulse surveys for the respective areas were also part of this.

Our support for executives moreover includes standardised training as well as individual specialist training, soft skills 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.

Shaping attractive labour conditions

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 and respectful collaboration, achieving high levels of commitment from all staff and providing an inspirational and motivational work atmosphere. In particular, we support our employees in reconciling their professional life with their private one – for instance through work models that offer flexibility of both times and location. Moreover, 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 standardised remuneration system has been in place for all employees of Telefónica Germany GmbH & Co. OHG since 2018.

Sustainable innovations

BASIC PRINCIPLE

Digital added value for people and society

As one of the largest telecommunications providers in Germany, the Telefónica Deutschland Group sees itself as a pioneer in shaping the digital transformation responsibly. Our declared goal is to advance sustainable development with digital technologies. We therefore give consideration to the impacts that our digital business model has on the environment and society, always with the focus firmly on people.

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 customer with the focus on mastering day-to-day requirements with digital solutions and making them safer. Our products unite the triad of "Networking. Analysing. Optimising."

The Telefónica Deutschland Group specifically advances innovation in collaboration with the public sector and digital companies. In this respect, we are involved in an array of projects run as part of the mFUND research initiative launched by Germany's Federal Ministry of Transport and Digital Infrastructure (BMVI). This focuses in particular on projects that promote efficient and environmentally friendly traffic planning in various regions.

Wayra, the Telefónica Deutschland Group's innovation laboratory that focuses on areas such as artificial intelligence, data analysis and customer service, serves as a link between our company and start-ups. Start-ups in the Wayra programme have the opportunity to test their solutions and products under the conditions of and with the support of a major corporation. The focus here is above all on innovations which can be directly incorporated into the Telefónica Deutschland Group's core business.

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. Development and management of innovative projects and solutions extends across all the divisions. Responsibility for the segment Internet of Things (IoT) together with the business customer area lies with the B2B directorate, which reports directly to the Chief Executive Officer (CEO). The Advanced Data Analytics (ADA) division is overseen by the Chief Financial Officer (CFO) and the Chief Partner and Wholesale Officer.

The prerequisites for digitalisation of the relevant services have been created by offering high-performance network infrastructure and data analysis. 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.

STRATEGIC PRIORITIES

Joint solution for logging into online services

We launched Mobile Connect in cooperation with Deutsche Telekom and Vodafone Deutschland. This mobile-phone-based login process makes signing into online services simple and secure on PCs, tablets and mobile phones. It meets the global GSMA standard and is therefore compatible with the services of all international mobile network operators. All customers need to log in are their smartphone and their mobile phone number. There is no need to enter a username and password, thus making a significant contribution to greater login security and making the login process a lot more convenient for the customers. Together with our partners, we intend to rapidly expand Mobile Connect and establish it as the standard means of logging into online services in Germany.

Future-oriented IoT technologies for the B2B area

The Internet of Things will become increasingly important for the German economy. The number of IoT projects in major and medium-sized enterprises is already increasing significantly, as demonstrated by IDG Research Services' latest Internet of Things Study 2019/2020. The Telefónica Deutschland Group is likewise seeing an increase in demand from SMEs in the area of IoT. The millions of devices and machines that will be interconnected within the Internet of Things in the years to come will need robust, high-performance and reliable mobile communications networks. These are the basis for sustained success of innovative developments such as smart cities, Industry 4.0 and telemedicine.

Our IoT solutions enable automatic data transmission between objects and machines. In this area, we are working on innovative network technologies such as NB-IoT and 5G for the intelligent communication of the future. Our customers are afforded access to all the important information needed in order to manage their machines' connectivity and to analyse processes. We see expanding this interconnectivity as putting us on the right path for creating digital added value for our customers.

With IoT Connect, we have the right tariffs for data transmission and for the intelligent interconnectivity and its management: IoT Connect Deutschland for primarily nationwide use and IoT Connect Europa for usage that includes the neighbouring European countries. With the Vivo-o2-Movistar global SIM card, we guarantee maximum network security and availability for the optimum connectivity of machines and devices in Germany and abroad.

The fundamental component of our IoT offering is the Telefónica Kite platform for the business customer area. This offers our customers a convenient and an effective management system for all M2M/IoT SIM cards. The system thus serves as an all-in-one solution for the management and monitoring of all of a company's IoT and M2M activities. In 2019 the Telefónica Kite platform was named product of the year in the category of "IoT Services and Platforms" in the *funkschau* readers' choice – for the third time in a row.

Data analysis cooperations and models

As a mobile network operator with currently close to 50 million connections, we have access to vast data volumes in our day-to-day business processes. This data – such as mobility data – is often exclusively available to us as network operators. With the line of business Advanced Data Analytics (ADA) and research projects, we are seeking to tap the potential offered to all areas of life by data analysis, from mobility to private consumption.

Involving our stakeholders in our diverse activities is a matter of crucial importance to us here. 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 communications data to calculate traffic flows and show potential for reductions in emissions. This has led to a project for measuring emissions and traffic in exceptional incidents (IncidentAnalyse) sponsored by Germany's Federal Ministry of Transport and Digital Infrastructure (BMVI) as part of the mFUND programme, which we are involved in.

Another BMVI-sponsored project, Extended Mobile Network Data (xMND), is all about the demand-based planning of public transport. The aim of the project is to develop processes that allow public-transport demand data to be generated with high time and space accuracy on the basis of anonymised mobile communications data and for this data to be continually made available to the market. With the help of two use cases, concrete realisation perspectives are being developed together with public-transport companies (including MVG in Munich) to be used for monitoring and planning public transport.

Likewise sponsored by the BMVI, and supported by us, the ProTrain initiative seeks to achieve efficient passenger steering to improve the use of existing rail transportation capacities. Passenger headcounts are combined with anonymised mobile communications data and information on the operating situation, weather influences, current incidents and events in order to forecast demand better. This is being tested on two regional rail lines within the Verkehrsverbund Berlin-Brandenburg (VBB), the integrated public-transport network covering the federal states of Berlin and Brandenburg.

There is another cooperation with the Wayra start-up Mostly AI, which specialises in data synthesising. The cooperation with the start-up seeks to facilitate the use of large data volumes and at the same time comprehensively protect the customers' privacy.

Progress of Aura

Aura, the global Telefónica organisation's artificial intelligence, was incorporated into the O₂ website in 2019 as a direct interface between us and our customers. Step by step, Aura is offering a consistent customer experience across all the relevant channels as well as information and services which are specifically tailored to the customers. In addition, Aura features a large knowledge database which makes answering questions concerning O₂ services easier. Content can, moreover, be updated flexibly on a daily basis, which means Aura can keep people abreast of the latest products and campaigns. What is more, Aura learns every time a customer submits something, thus its understanding of language is constantly optimised.

Wayra promotes innovative start-ups

In 2019 we promoted ten new start-ups in the areas of smart retail, data analysis and lead generation through our Wayra innovation laboratory. The new partner programme "Wayra as a Service" (WaaS) was also further advanced. Here, Wayra helps other companies to find start-ups as partners to assist them in developing new processes or services. The final of the "Be an Innovator Student" programme of the cooperative partner BearingPoint was held at Wayra in Munich in 2019. The winners were Team ReGreen from the University of Vienna, who set themselves the goal of calculating companies' carbon footprints and assisting the businesses in offsetting their footprints.

In 2019 Wayra additionally made a mid-six-figure investment in the Berlin software company MOTIONTAG, which specialises in the analysis of anonymised mobility data and which has developed self-learning software for local public-transport use. Wayra received the Capital Award in the category "Best Innovation Labs" in 2019, thus placing it among the top three in Germany.

Anti-corruption

Our aim is to maintain and increase the trustworthiness of the Telefónica Deutschland Group. Here, the integrity of the company and the sense of responsibility of all our employees play a decisive role. They form the basis for trusting cooperation with our customers and business partners, thereby guaranteeing the good reputation of our company.

Observing statutory requirements, international standards and internal guidelines is a matter of course for us. The Business Principles of the Telefónica Deutschland Group and the Telefónica, S.A. Group additionally guide our conduct. Our principles in turn are based among other things on the UN Universal Declaration of Human Rights and the core labour standards of the International Labour Organization (ILO), which we declare our dedicated support for.

Conducting our business in accordance with the principles of efficient, sustainable and transparent corporate governance is a comprehensive demand for the Telefónica Deutschland Group. We comply with the guidelines of the German Corporate Governance Code (DCGK) for this purpose. The [Corporate Governance Report](#), the declaration of conformity with the DCGK specifications and our [Management Declaration](#) are published in the [Annual Report](#).

BASIC PRINCIPLE

Zero tolerance 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 had our compliance management system (CMS) externally certified by 2020.

BASIC PRINCIPLE

Integrated compliance management system

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 CMS that guarantees our guidelines are kept to. The main emphases of our CMS include combating corruption and preventing unfair competition and conflicts of interest. Overall responsibility for this lies with the Director of Integrity Services, who reports to the Chief Officer for 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 CMS.

We do not tolerate corruption or any form of bribery or corruptibility. Every suspected case is carefully examined. Substantiated accusations are rigorously pursued and penalties are imposed accordingly. The system helps detect cases of corruption throughout the company and prevent them to the fullest extent possible using suitable measures. Here, we define cases of corruption as any form of misuse of a professional position to obtain unauthorised tangible or intangible advantages. Three suspected cases of corrupt conduct were reported to us in 2019 and these were looked into internally. The suspicions could not be confirmed in any of the three cases.

T 06

ANTI-CORRUPTION

	UNIT	2019	2018	2017
Total number of cases of corruption ¹	Number	0	0	0

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

STRATEGIC PRIORITIES**Involving stakeholders in prevention**

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 to which they have to consent in order to be commissioned with work.

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. We completely revised the mandatory online training on our Business Principles in 2019. The training includes topics ranging from data protection and competitive conduct to a special focal chapter on anti-corruption as well as environmental and human rights issues. We also provided our employees with revised mandatory training on Germany's General Act on Equal Treatment (AGG). 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 CMS as well as our measures for preventing corruption. Our staff are also surveyed regarding the quality and effectiveness of the CMS.

We have moreover 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.

INDEPENDENT PRACTITIONER'S REPORT

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting¹

To Telefónica Deutschland Holding AG, Munich

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Telefónica Deutschland Holding AG, Munich, (hereinafter the "Company") for the period from 1 January to 31 December 2019 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors

in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

¹ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the financial statements and in the management report
- Evaluation of the presentation of the non-financial information
- Use of the work of a practitioner's verification of energy consumption and greenhouse gas emission indicators according to ISO 14064

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 14 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad
German public auditor
(Wirtschaftsprüfer)

ppa. Annette Daschner

IMPRINT



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www.telefonica.de/nfs

The Annual Report can be downloaded at
www.telefonica.de/annualreport

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