

Telefonica

Deutschland

COMBINED SEPARATE NON-FINANCIAL REPORT

Telefónica Deutschland Holding AG
for the reporting year 2020



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ABOUT THIS REPORT



Telefónica Deutschland Holding AG has prepared the Combined Separate Non-Financial Report for the Telefónica Deutschland Group in accordance with Section 315b, c of the German Commercial Code (HGB) in conjunction with 289b - 289e HGB. This report will be published on the website www.telefonica.de/nfs on 3 March 2021.

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 Combined Separate 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/responsibility from May 2021.

We took comprehensive steps during the coronavirus pandemic in 2020 to meet our customers' expectations regarding reliable network operation and basic communication needs. At the same time, we introduced all the necessary measures to protect our staff in these extraordinary times. A detailed account of the pandemic and our handling of its impacts can be found on the [coronavirus information page](#).

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 44.3 million mobile accesses as of 31 December 2020, we are a leading provider in this market. In 2020, at EUR 5,307 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (70.5 % 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 approximately 2.3 million as of year-end 2020. We belong to the 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 2020](#).

IDENTIFICATION OF THE MATERIAL NON-FINANCIAL TOPICS AND RISKS

Process of preparing the Non-Financial Report

To prepare the 2020 Non-Financial Report, we analysed and evaluated sustainability issues in terms of the requirements pursuant to Section 289c HGB – based on the CSR Directive Implementation Act (CSR-RUG). The Telefónica Deutschland Group's CR strategy had initially been laid out up to the end of 2020 in the Responsible Business Plan. The new 2025 CR strategy was developed in the reporting year and will replace the previous Responsible Business Plan from 2021. This was based on a materiality analysis conducted in 2020; here, a structured method was used to identify seven areas of action and 24 potentially material topics for the Telefónica Deutschland Group and then assign them to a materiality matrix.

In the process, the impact of the business activities, the short-term business relevance to the Telefónica Deutschland Group and the stakeholder relevance were ascertained. For this, we drew on quantitative customer and employee surveys, qualitative expert interviews with customers, suppliers, NGO representatives, analysts, investors and association representatives, workshops with senior management and company-, market- and sector-specific studies. The process of identifying the two perspectives of relevance for the Non-Financial Report – impacts and business relevance – is explained in detail below.

Impact analysis and examination of short-term business relevance

In the course of the materiality analysis, an impact analysis was performed that identified the material impacts of the Telefónica Deutschland Group's business activities in relation to the potentially relevant topics all along the value chain, from mining of raw materials and production within our supply chain to sites, usage and waste management. In addition to the impact analysis, we used set evaluation aspects to determine the relevance to business of the topics identified as material. The focus here was on topics that are relevant to the course of business, the business result and the situation of the Telefónica Deutschland Group in the financial year 2020.

The results generated were subsequently discussed with the Management Board and were then approved.

Results of the materiality analysis

The analysis identified the following seven topics as being material:

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MATERIAL TOPICS:

Governance for responsible corporate management

Customer relations, product and service experience

Network quality and coverage

Data protection and information security

Energy and CO₂

Attractiveness as an employer

Anti-corruption and conflicts of interest

Of the seven material topics, the three topics of energy and CO₂, attractiveness as an employer, and anti-corruption and conflicts of interest can be assigned to the aspects of environmental and employee matters as well as anti-corruption/anti-bribery as cited in Section 289c HGB.

Additionally, the topics of customer relations, product and service experience, network quality and coverage, and data protection and information security were identified as being material to the Non-Financial Report. Network quality and coverage as well as customer relations, product and service experience are reported on as part of the customer satisfaction area of action. The topic of governance for responsible corporate management was likewise identified as a material topic. We address this in the introduction to this Non-Financial Report. The other topics stated which go above and beyond the aspects listed in Section 289c HGB are highly relevant to the business of the Telefónica Deutschland Group. Likewise, the company's activities have relevant impacts on these topics.

We again rated the aspect of human rights as not material within the meaning of Section 289c HGB as its business relevance remained below our threshold for this financial year in the analysis. This is due to our estimation that we only have a significant influence in this area within our own operations and those of our direct suppliers. Human rights aspects are also managed and additionally guaranteed within our material topics and by means of our sustainable supply chain management. We nevertheless consider this to be a fundamentally important topic and we recognise its general sociopolitical relevance. We therefore report in detail on our voluntary commitments and measures in relation to this aspect in our CR Report and online at www.telefonica.de/human-rights.

Unlike in the previous year's analysis, sustainable innovations are no longer classified as a material topic. We do, however, report on this topic in our CR Report under "Digital sustainability innovations".

Determination of the material non-financial risks

The analysis of the business relevance of the identified non-financial topics was followed by an assessment of the risk scenarios in terms of their probability of occurrence and their potential to have a detrimental impact. 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 [2020 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 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 Section 289c HGB in the area of customer satisfaction, which we are counteracting with comprehensive measures (see "Customer satisfaction" chapter).

GOVERNANCE FOR RESPONSIBLE CORPORATE MANAGEMENT



Governance for responsible corporate management secures sustainable value creation

We want to use digitalisation for the benefit of people, strengthen the connections between them and contribute to the achievement of climate targets on the basis of digitalisation. At the same time, in the interests of governance for responsible corporate management, we keep an eye on the impacts that all of our business activities have on people and the environment. We want to guarantee this all along the value chain and at all company levels. We aim to use technological innovations to solve societal challenges and promote sustainable development.

The Telefónica Deutschland Group's [Business Principles](#) document our understanding of governance for responsible corporate management on the basis of ethical principles, corporate standards and behaviour patterns. These are derived from the three fundamental values of integrity, reliability and transparency, and serve as a binding code of conduct that sets benchmarks for our involvement in business life. The Business Principles are directed at the employees, business partners, shareholders and the company as a whole. To reinforce the earnestness of our approach, all the staff including the Management Board are given regular mandatory training in observance of the Business Principles.

The Management Board and Supervisory Board of Telefónica Deutschland Holding AG additionally feel they have an obligation to observe the principles of transparent corporate governance and regularly concern themselves with the requirements of the German Corporate Governance Code. The Code stipulates standards for the supervision and management of listed companies. The Management Board manages the company on its own responsibility and in the interests of the company with the aim of achieving sustainable value creation. It is supervised in this and offered advice by the Supervisory Board. All measures and decisions of fundamental significance to the company are executed on the basis of close consultation between the Management Board and the Supervisory Board. The Management Board and Supervisory Board provide information about our corporate governance in Telefónica Deutschland Holding AG's Management Declaration, which includes the [Compliance Declaration](#).

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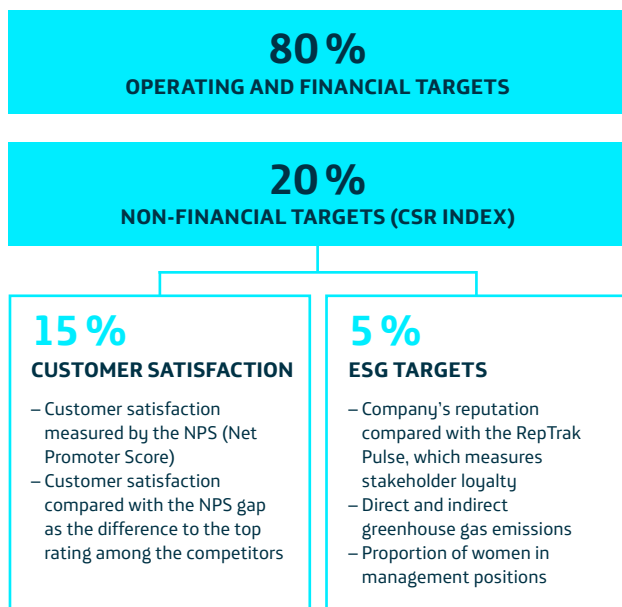
GOVERNANCE				
	UNIT	2020	2019	2018
Proportion of employees and directors given training in the Business Principles and Human Rights ¹	%	95.8	96.8	78.0

¹ Proportion based on the number of employees of Telefónica Germany GmbH & Co. OHG excluding employees on sabbatical and external consultants (employee base 7,717, previous year 7,885). The calculation includes the completed trainings of the last three years. For 2020, this means 7,390 completed trainings from 1 January 2018 to 31 December 2020.

We use management bonuses as an incentive for the achievement of company targets. In addition to financial performance indicators, which have a weighting of 80 %, there are other criteria that apply in the area of corporate responsibility. These are summarised in a CSR index with a weighting of 20 %. They also have specific weightings in relation to the bonuses:

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VARIABLE REMUNERATION LINKED TO SUSTAINABILITY TARGETS:



Our CR strategy is approved by the Management Board, is an integral part of the Telefónica Deutschland Group's corporate strategy and takes into account the global sustainability strategy of the Telefónica, S.A. Group. We have established clear governance structures and processes in order to put the guiding principles and requirements into day-to-day practice. The Responsible Business Plan is the key management tool at the disposal of the CR department which is responsible for sustainability management and serves as the framework for the sustainability targets and activities of the departments and company sites.

As an executive department, the CR department is assigned to the Management Board division Legal and Corporate Affairs of Telefónica Deutschland Holding AG and reports directly to the Management Board member responsible for Legal and Corporate Affairs. The Supervisory Board is integrated into the creation of the Non-Financial Report for the fulfilment of the requirements pursuant to Section 315b in conjunction with 289b HGB. The Supervisory Board discusses the findings of the audit of the Non-Financial Report and the related performance indicators with the auditors and then passes a resolution based on its own audit.

MATERIAL NON-FINANCIAL TOPICS



Customer satisfaction

BASIC PRINCIPLE AND CHALLENGES

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 well as sustainability. As a provider of digital telecommunications, we are at the heart of this development technologically and with the services we provide to the customers. We offer the network within which companies and users realise digital business models and applications.

We are active in markets which are characterised by stiff competition and ongoing technological developments. Our company operates in a continuously dynamic but rational market environment in the German mobile communications market and again recorded solid customer development in 2020. In an environment characterised by momentous technical change, we face the challenge of meeting technical and regulatory requirements, anticipating the customers' wishes as best we can and offering them guidance and assistance in an increasingly complex product world. 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. Aspects such as network quality, value-for-money innovative products and tariffs, a strong brand, and sales and service quality are the key factors. 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 individual needs. We aim to make the online customer experience even better still by further expanding our self-service offerings.

In the course of the materiality analysis conducted in the reporting year, we identified customer relations and the product and service experience as well as network quality and coverage as the material sustainability topics. The decisive factors were, on the one hand, the diverse impacts of our activities all along the value chain. The focus here is on facilitating broad and straightforward participation in digital life for our customers and promoting sustainable consumer behaviour on the basis of information, education and an appropriate product/service portfolio, from the purchasing of mobile phones through to recycling. On the other hand, a high level of customer satisfaction is one of the key success factors when it comes to our company's core business and is something we continuously seek to strengthen with our array of services.

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 CPWO 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 Consumer Experience department within the Customer Marketing directorate. Surveys and market research are the responsibility of the Director of the Digital & Data Competence Center (DDC) within the Finance division. Network quality and coverage are the responsibility of the Chief Technology & Information Officer (CTIO).

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 key performance indicators we use are the Net Promoter Score (NPS) as an important control parameter in the area of customer relations and churn rate (excluding M2M).

The NPS verifies customer willingness to recommend the O₂ brand. It reflects the overall satisfaction with the brands as well as with their products and services. The scale ranges from 1, very low customer satisfaction, to 10, very high customer satisfaction. The NPS is determined through a telephone survey of our company's private customers and of our competitors' customers; this is conducted externally. The survey is carried out several times a year according to precisely defined criteria. All NPS improvement measures have the aim of optimising the customer experience. With regard to a good customer experience, it is also important to us that we identify the difference between the customers' wishes and their perception of the service, assess the customers' overall satisfaction levels, determine whether their expectations are being met and gauge the gap when measured against a fictional ideal service provider. The Customer Satisfaction Index (CSI) has no longer been determined since the beginning of the year and has been substituted with the NPS in order to generate significantly better-quality information regarding how the O₂ and Blau brands are faring compared with the competition. We are noting a positive development in the NPS this year and expect this to remain the case in the future in relation to both private and business customers.

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 excluding machine-to-machine [M2M]). We recorded a historically low churn rate of 1.40 % thanks to our measures designed to boost customer satisfaction, our sustainable quality improvements and the impact of the pandemic. The O₂ brand's implied annualised churn rate improved to 16.80 % compared with 18.12 % in 2019.

Customer-specific strategies and guidelines

We have developed clear customer service guidelines in line with our strategy, to give our employees guidance in their customer contact and in optimising our services. We defined seven strategic principles for the form to be taken by our customer and sales services in the areas of Omnichannel (OC) and Customer Sales & Services (CSS). The focus is on the customer at all times. The principles are defined more precisely with dialogue guidelines for customer contact, a quality handbook, the Internal Audit Score (IAS), quality assurance programmes and various training measures. In the reporting year, we also reviewed the significance of the various channels via which we communicate with our customers and subsequently derived targets and measures to boost customer satisfaction. We want to continue to ensure that customers can reach us using their preferred channel in the future too.

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: 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. In 2020 we achieved good or very good ratings for our mobile communications and our fixed line network quality in the various tests. We are also continuously improving and expanding our digital offerings and aim to provide the customer with uncomplicated service round the clock and independent of

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CUSTOMER SATISFACTION

	UNIT	2020	2019	2018
Postpaid customer churn rate				
Churn for postpaid connections excl. machine-to-machine (M2M)	%	1.40	1.51	1.65

location. Our target is for 76 % of all instances of contact with O₂ and Blau to be digital in the self-service area by the end of 2021 (2020 December value: 73 %, 2019 annual average value: 68 %).

STRATEGIC PRIORITIES

Digital programme 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 action 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. An important part of this in the reporting year was the relaunch of the My O₂ service portal offering even swifter and more intuitive access to self-service solutions. The important components here are restructuring of the service pages, an optimised search function featuring free-text input, a proactive phone number porting service, expanded mobile functions via the O₂ my Service app and new artificial intelligence (AI) functions via our application Aura. We have already successfully established a number of applications with the Aura digital assistance function and will continue to expand these. WhatsApp was likewise received well by our customers as a digital communication channel as it allows them to raise an issue with us at any time.

Innovative solutions for private and business customers

Sustainable growth and excellent customer satisfaction are top priorities for Telefónica Deutschland. To achieve these, we offer, among other things, innovative tariffs that are designed to make our customers' lives simpler, faster and better. To mark the beginning of the decade, O₂ became the first mobile communications network operator in the German market to place three unlimited tariffs at the core of its portfolio, each of which has a different maximum surfing speed. At the same time, O₂ upgraded its tariffs that come with a high-speed data volume, providing twice as many gigabytes for the same price. All customers with a higher-end tariff can use the 5G network at no extra charge. 5G is already available in selected locations and the network is gradually being expanded. With the O₂ You configurator, our customers can additionally select their own contractual conditions and decide on prepayments, the contract term, their data volume or smartphone usage. With O₂ TV, we also enable our customers to receive live TV at an affordable price anytime and anywhere. What is more, O₂ provides information on products and services that helps customers evaluate the smartphones offered from a sustainability perspective, from the purchasing decision through to recycling. An example in our portfolio is the Fairphone, which is not only especially long-lasting, but also manufactured in an environmentally friendly manner that meets

high social standards. The customers can also learn about the devices' responsible use of resources by consulting the Eco Index.

O₂ has increased the data volume in its products for the self-employed and small businesses, but not the prices. We offer the self-employed and small businesses a complete product comprising high-data tariffs, top hardware, connectivity of up to ten contracts with up to ten devices per contract, and comprehensive service. We also already guarantee that our customers can use 5G without incurring any extra charges.

In the B2B area, we offer our business customers a variety of tariff solutions that are secure, fair and reliable. In this way, we seek to boost our growth, advance innovations and achieve a high level of customer satisfaction. We have also introduced dedicated contacts within our customer service in order to put the customer at the heart of everything. We launched O₂ Business Unlimited in 2020 as a comprehensive portfolio of tariffs that affords customers unlimited data volumes across all tariffs when working flexibly while on the move. Depending on their use case, the customers can choose different bandwidths (speeds) and select just the right tariff for their employees. As is the case with all other tariffs, this new mobile communications tariff portfolio with talk time and data volumes likewise includes 5G usage.

The O₂ Blue tariff portfolio, which is likewise new, serves business customers who use less data as an alternative since it comes with a limited data volume. All the new tariffs feature a new roaming concept which offers business customers the best possible coverage in terms of their world zone needs. We additionally offer our business customers a comprehensive range of fixed line network products for their connectivity, data security and site networking with our products All-IP and VPN Connect. Moreover, with the new trade-in service, customers can erase their smartphones in accordance with data protection requirements and, if required, have them disposed of in an eco-friendly way.

In the future, the Telefónica Deutschland Group will be offering companies Rich Communication Services (RCS) as an innovative technological solution that enhances messages with media content, brand information and interactive services. We are working closely with other mobile network operators in Germany on this in order to make the customer experience as uniform as possible for all mobile network users.

We are developing new solutions and services for our customers in particular in the area of financial services. For example, O₂ and comdirect are cooperating on O₂ Money and O₂ Banking, thereby offering our customers a smart financial assistant and a current account featuring many free services.

All the major providers of digital services now accept payment via mobile phone bill. With this option too, security comes first for us. By participating in programmes such as the Clean Market Initiative, a joint quality offensive involving all mobile network operators, the Telefónica Deutschland Group has made a commitment to meeting the highest possible consumer protection standards at all times.

Network infrastructure strengthened with a focus on 5G

To make our customers' network experience better and better, we will invest approximately 30 % more in the next few years than we did in 2019 with investments set to total up to four billion euros by 2022. Much of this will be spent on expanding our networks. In spite of supply bottlenecks as a result of the corona pandemic, we met the nationwide supply requirement of the Bundesnetzagentur (Federal Network Agency) in 2020. Thanks to our network expansion drive, more than 20,000 mobile network sites in our O₂ network now have 4G coverage. A 4G network that continues to grow is important because over 90 % of all mobile data flows via this network infrastructure and 4G will remain the backbone of our mobile communications network in the years to come. Our expansion programme focuses not only on towns and cities, but also and above all on the regions of Germany which were previously undersupplied. For example, we are investing among other things in new 4G stations in Lower Bavaria, the Uckermark, the Odenwald, the Westerwaldkreis, Südwestpfalz, the Harz and Lusatia.

As a leading telecommunications provider, we connect millions of people with mobile communications via our O₂ network. We therefore have a particular social responsibility with regard to mobile connectivity, which we are endeavouring to live up to in particular with the roll-out of the 5G standard. With 5G, our customers will benefit in the future from significantly higher data rates and reduced data usage time lags. At the same time, we can interconnect even more devices energy-efficiently, which should further boost our Internet of Things (IoT) business and will promote sustainable digitalisation. Our new 5G backbone can unfold its full innovative capacity above all in combination with modern cloud computing and virtualisation solutions. For the introduction of the 5G technology, we continue to rely on our familiar partners at our more than 26,000 mobile network sites – what is known as the access network – throughout Germany. We will use the technology of the European equipment manufacturer Ericsson for our new 5G backbone, the central and most security-relevant part of our O₂ network.

In October 2020 O₂ launched its 5G network in the country's five largest cities: Munich, Berlin, Hamburg, Cologne and Frankfurt. The network was also activated in a further ten cities, including Düsseldorf, Stuttgart, Essen and Potsdam. The company will install numerous additional 5G sites in the high-performance frequency band of 3.6 GHz by the end of 2021. To develop rural areas, the company will also swiftly adopt the dynamic spectrum sharing

(DSS) technology. The Telefónica Deutschland Group is seeking to have thus provided more than 30 % of the German population with 5G by the end of 2021 and already around half of the population by the end of 2022. The whole of Germany is to have been provided with energy-efficient 5G by 2025 at the latest.

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 network 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 customers, 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 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 site sooner and react correspondingly.

We intend to offer our customers the best fixed line network coverage in Germany based on future-proof broadband cooperation models. Through successful partnerships, we offer our customers the optimal technology for them from a comprehensive infrastructure mix of cable, fibre optics, 4G/5G and DSL. We are working with a number of telecommunications service providers and other network operators, focusing in particular on regional partnerships. In the reporting year, we extended and expanded our existing fixed line network cooperation with Deutsche Telekom. This will make it possible for O₂ to likewise market Deutsche Telekom's fibre-optic house connection services to its customers in the future. O₂ will additionally continue to use Deutsche Telekom's VDSL and vectoring wholesale products. Via the high-performance cable infrastructure of Vodafone and, in future, Tele Columbus, we will reach more households with broadband cable and do this with our 4G-/5G-based O₂ HomeSpot as a complete fixed network replacement product. In addition, we will be able to offer fibre-optic connections in the future through the new company Unsere Grüne Glasfaser (UGG). This is a joint venture which the Telefónica, S.A. Group has founded together with Allianz. As the first major customer, we will be able to market our O₂ broadband products via this infrastructure. In the next six years, the fibre-optic company wants to provide 2.2 million households in predominantly rural and previously underserved areas with fibre optics and invest up to 5 billion euros in the expansion for this purpose. To this end, the company will build a fibre-optic network with a length of over 50,000 kilometres.

Data protection and information security

BASIC PRINCIPLE AND CHALLENGES

Responsible digitalisation calls for rigorous data protection and rigorous information security

Data security is of huge importance to society as the trust of people and their protection from risks serve as the foundations of successful digitalisation. The ongoing digitalisation process challenges us to rethink data protection and privacy, among other things against the background of the increasing general threat of cyberattacks.

The challenges of data protection and information security have been further heightened by the array of digital formats as a visible expression of the changes in the working world, the preferred option of working from home during the pandemic and the digitalisation impetus triggered by this – not only at our company, but also in our collaboration with our business partners.

At the same time, our company has to adapt to rapidly changing legal parameters. In addition to the tightening of the legal situation regarding the transfer of data to non-EU countries as a result of the "Schrems II" ruling, we have to respond to other legislative initiatives that involve considerable advisory and implementation work, such as the amendment of Germany's Telecommunications Act (TKG) and other new regulations regarding data protection and security in the digital world.

We are a company whose core business is generated with data. Every day, millions of customers place their trust in the mobile network and services of the Telefónica Deutschland Group. Data protection and information security are therefore key issues when it comes to our company's responsible business conduct. It is about nothing less than the protection of our company and the trust that our customers place in us. Legal compliance in this area is essential for our reputation and for customer retention, both of which are crucial to business success. It also plays an important part in risk prevention as sanctions such as fines are then effectively avoided.

We therefore make the protection and security of customer data a top priority 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 as well as internal requirements, some of which go above and beyond the legal requirements. We also make a commitment in our Business Principles to data protection and to observing information security and transparency. The Telefónica Deutschland Group treats 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.

PROCESSES & MANAGEMENT

Clear rules and processes established

Clear rules and processes help to systematically safeguard data protection, guarantee information security and ensure that the relevant laws and regulations are complied with. This involves us 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 data protection management system (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 guidelines on data protection agreements, the checklist for the rights of data subjects in accordance with the General Data Protection Regulation (GDPR) regarding the processing of users'/customers' data, the Privacy Consulting Process (PCP), the guidelines on the use of social apps 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 by data and telecommunications secrecy.

The Data Protection Officer and Chief Security Officer are responsible for the management and strategic focus of data protection and information security. They report directly to the Chief Officer for Legal and Corporate Affairs of the Telefónica Deutschland Group (member of the Management Board).

The aim of efficient structures and processes is to prevent violations in the areas of data protection and information security. With our company-wide data protection management system (DPMS) and information security management system (ISMS), we manage the processes that secure 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 data protection and information security audits among other things at our service providers' sites. 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 and security incidents; these are set out in the guidelines on security incidents and in the procedural instructions for data protection incidents and are communicated within the company. Our data protection hotline constitutes a first, conveniently reached point of contact for the reporting of incidents. Our suppliers and their employees can moreover turn to us via the Telefónica Deutschland Group's supplier platform if they have any complaints. We endeavour to answer all data protection enquiries quickly and clearly and have defined clear operating processes for this.

Before data is processed, we perform standardised checks within the IT development and analysis processes and in other division-specific processes.

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
- Presenting data usage transparently
- Being able 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

T 03

DATA PROTECTION AND INFORMATION SECURITY

IN NUMBERS	2020	2019	2018
Proceedings initiated due to data protection violations (Section 109a German Telecommunications Act [TKG]) ¹	3	0	0
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	25	26	36
Penalties in the form of fines paid in relation to security breaches or other network security incidents	0	0	0

¹ Initiated proceedings are to be understood as proceedings that are ongoing and have not been concluded. Concluded proceedings generally lead to a penalty, a fine or an abandonment of proceedings as a result of the authority's suspicion not being borne out. Fines are reported in the indicator "Penalties in the form of fines as a result of data protection violations during the year".

Three proceedings were initiated in the past financial year due to data protection infringements and violations of the legal provisions in this area. The increase compared to the previous year can be explained by the fact that the three open proceedings have not yet been finalised. No penalties in the form of fines were imposed on the basis of data protection violations. In 2020, 25 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 are due to faults with network elements.

STRATEGIC PRIORITIES

Pressing ahead with raising awareness and educating

We provide 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 customers are also provided with data protection information concerning our contracts upon concluding a contract.

Our employees regularly undergo mandatory training in the area of data protection and information security; this also involves the support of external data protection experts. Data protection coordinators who serve as an interface between a department's staff and the data protection team are regularly given especially extensive training.

In the reporting year, we also conducted an employee campaign to raise awareness regarding the processing of personal data in day-to-day business. 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. The aim was not only to raise awareness among all employees regarding the importance of data protection, but also to offer them concrete tips regarding how they can protect our company, our customers and themselves. The campaign was aimed at employees at all of Telefónica Deutschland Group's sites, including its shops and customer service centres. The campaign was accompanied and complemented by educational and informational measures for the employees on the topics of phishing emails and scam calls as well as telecommuting security, such as the use of videoconferences.

In accordance with the GDPR, the effective protection of personal data must already be adequately implemented when a process or application is conceived ("privacy by design") and configured ("privacy by default"). We assist our employees in observing and documenting all the measures required for data protection with our own tools and checklists. The GDPR additionally obliges all division heads to structure and manage their data protection measures in a risk-oriented way. The Telefónica Deutschland Group meets this obligation with the data protection risk management system it newly introduced in 2020. We have also restructured the data protection advice process as a way of boosting efficiency.

Data protection and security standards further increased

In new guidelines issued in the reporting year, we regulated the use of social apps, which are defined by us as applications for accessing and using social media. According to these guidelines, the employees may use social apps for internal communication purposes. Social apps may not be used for exchanging confidential information ("Restricted Access" and "Secret" confidentiality levels) or for communicating with customers or business partners. Communication with customers and business partners via social apps is managed exclusively by the head office and using the official accounts of the Telefónica Deutschland Group.

To increase the company's IT security, the Telefónica Deutschland Group developed a shared process model in close cooperation with Deutsche Telekom and Vodafone called Zero Impact to strengthen the telecommunications industry's resilience where cyberattacks are concerned. The focus of this joint initiative is on the network providers' operational security and on establishing a comparable and improved company security level. This involved the companies jointly developing security capabilities and scenarios that map out the characteristics of possible attack scenarios. A corresponding project was initiated within the Telefónica Deutschland Group in 2019 in order for the process model to be rolled out throughout the Group by 2022.

Energy and CO₂

BASIC PRINCIPLE AND CHALLENGES

Telefónica on its way to becoming a climate-neutral company

Up to 37 % of Germany's greenhouse gas emissions could be cut in ten years on the basis of digital technologies¹. This is huge potential that needs to be exploited in particular in the areas of energy infrastructure, mobility and industry. The telecommunications industry can play a key part in combating climate change and in the decarbonisation of the economy. For example, smart grids use artificial intelligence to make load management possible which evens out the unequal distribution of electricity from renewable energy sources and stabilises the networks. Mobile telecommunications additionally make resource-conserving work formats possible such as videoconferences and telecommuting, efficient cloud services and the use of digital instead of physical products. According to the aforementioned Bitkom study, up to 20 % of global greenhouse gas emissions can be eliminated in the industrial sector alone thanks to increasing digitalisation. However, the increase in the volume of data transmitted via the networks as part of this ongoing digitalisation requires additional electricity and causes further carbon emissions. Telecommunications companies therefore need to make their networks and data centres more compatible with climate protection by boosting their energy efficiency.

Back in 2016 the mobile communications industry was the first sector in the world to commit to supporting the United Nations' Sustainable Development Goals (SDGs). 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.

The Telefónica Deutschland Group's Spanish parent company has committed itself to joining the United Nations in combating climate change. 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, S.A. Group already gets 81.6 % of the energy it uses around the world from renewable sources. The Group brought the date set for its global climate target significantly forward in 2020 and now wishes to achieve its target of zero net emissions in its four main markets Spain, the UK, Germany and Brazil by 2025 rather than the original target of 2050.

Ambitious targets for climate neutrality by 2025

The assumption of responsibility for the environment is also a basic principle of the Telefónica Deutschland Group and is at the very heart of its new climate strategy: we have set ourselves the target of achieving zero net carbon emissions by 2025 at the latest. For the company, this means its products or the services it provides and its business activities should not, overall, increase the level of greenhouse gas emissions in the atmosphere. We will also evaluate the Scope 3 emissions caused throughout the Telefónica, S.A. Group, for example in the supply chain, in a coordinated manner and will implement measures and reduce these emissions. The Group's target is to reduce its carbon emissions by 39 % by 2025 (base year 2015). Concrete measures and interim goals will be set for each year up to 2025 to this end:

- Network efficiency increase based on a reduction in energy consumption per data volume of around 82 % by 2025 in comparison to 2015.
- We will also improve our green electricity sourcing on the basis of power purchase agreements and electricity we generate ourselves.
- Total electricity consumption will be covered entirely by green electricity from 2021.
- Emissions which are unavoidable will be offset by high-quality carbon reduction projects, preferably projects that remove carbon from the atmosphere.

We want to at least reduce and ideally avoid carbon emissions and only offset those which are absolutely unavoidable. We aspire to using less and less electricity per byte to transport the significantly increasing data volumes that go hand in hand with digitalisation. With these targets, we are striving to be a sustainability trailblazer in Germany's telecommunications industry. In this way, we want to improve not only our environmental footprint, but also our business figures and our ability to compete. By doing this, we hope to achieve effective risk prevention, strong brand reputation and perception, and high scores for the company in financial market ratings. In view of our far-reaching impact and the unmistakable relevance to business of climate protection that focuses on energy and CO₂, we logically consider this to be a key component of our sustainability strategy.

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. With the help of our infrastructure and services, businesses and people can realise their sustainable business models and thus conserve the environment.

¹ Bitkom study on climate protection through digital technologies: <https://www.bitkom.org/klimaschutz-digital>

Moreover, in our own processes, we are working intensively on 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 GRaTel, which has been specially developed based on the Telefónica, S.A. Group's needs.

PROCESSES & MANAGEMENT

Management systems anchored in the company

In addition to our 2025 climate strategy, our binding company-wide [Environmental Policy](#) serves as the basis for all activities and is further supported by the [Sustainable Energy Management Policy](#). 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. We have enshrined other requirements in the area of the climate and the environment in internal guidelines such as our sustainability-oriented purchasing guidelines, waste guidelines and travel guidelines.

We have also established our own energy guidelines in the company in accordance with [ISO 50001](#). The first certification in accordance with this standard was performed by an external certification body in 2016. The guidelines are based on our environmental management system and specify its principles in the area of energy. 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. In order to manage these processes, we have appointed internal energy and environmental management 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. In cooperation with the Quality Management Officer, the officers report on the management systems directly to the Chief Executive Officer. Climate and environmental strategies and measures are developed in the relevant Management Board divisions Technology, Finance, and Legal and Corporate Affairs and are adopted collectively by the Management Board.

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). We had already achieved this target in 2019 and by the end of 2020 we had succeeded in further reducing our carbon emissions by a total of 39 % compared with the base year 2015. In 2020 we increased the amount of green electricity purchased via the amount of electricity we purchase directly to the extent that the indirect emissions (Scope 2) have fallen sharply according to a market-based method. From 2021 we want to cover all locations – even those where flat rates are charged in electricity purchasing – with 100 % green electricity. As part of this strategy, in 2020 we started and continue to report the green electricity that we purchase at technical sites with infrastructure shared with our competitors.

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 59 %; in 2020 energy consumption per data volume totalled 0.12 GWh/PB. The proportion of renewable energies in relation to total electricity consumption increased further to 96 % in 2020. Regarding our company cars, average fleet emissions are to be reduced to 95 g CO₂/km for company vehicles newly registered from 2020.

Due to the coronavirus pandemic, there was an unusually sharp slump in the Telefónica Deutschland Group's travel activities in the reporting year, which clearly limits the meaningfulness of the figure for further indirect emissions from business travel (air and rail travel) compared with the previous years' figures. Nonetheless, the company intends in the future to generally reduce business travel between the Telefónica sites in Germany by approximately 70 % compared with 2019. This equates to a reduction of around 600 tonnes of carbon emissions a year.

T 04

ENERGY AND CO₂: CLIMATE TARGETS

	UNIT	2020	2019	2018
Energy intensity: total energy consumption per data volume	GWh/PB	0.12	0.17	0.22
Proportion of total electricity consumption from renewable energy sources ¹	%	96	84	82
Proportion of green electricity in own procured and controlled energy	%	100	100	100

¹ Energy from renewable energy sources consists of direct purchases and electricity purchases certified with guarantees of origin. Since 2020, the calculation of the energy from renewable energy sources has included green power from grid and IT infrastructure used jointly with other companies in addition to the amount of green power purchased by the Telefónica Deutschland Group.

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.

This includes the use of the half-size SIM card carrier format in our shops and when issuing cards to new O₂ postpaid customers. This SIM card carrier is only half the size and half the weight of the previously used bank card format. We issued round 5.8 million SIM cards in the new carrier design to our customers and business partners in 2020 and met our target of switching to this new format by 97 %. This avoided at least 11.5 tonnes of plastic waste. Resource efficiency likewise determines how we deal with the DSL routers returned to us by customers. These devices undergo a technical inspection and are refurbished.

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 implemented by the end of 2020. These primarily concern modernisation of the 2G and 3G networks. By the end of 2020 we had made a total saving of 7.96 GWh (compared with 2016).

We expect to see a significant increase in total energy consumption following the switch to the 5G standard, and this presents us with some major challenges. However, energy efficiency is being boosted by our building on the existing and strengthened LTE infrastructure for expansion with the addition of 5G technology over the next few years. The "energy consumption per data volume" performance indicator selected by us will continue to allow us to optimally measure and document our progress in the area of energy efficiency in the future. Our company has set itself the goal of significantly increasing its network power efficiency with the very latest mobile communications standard and technical modernisations. Our aim is to consume 82 % less electricity per byte by 2025 in comparison to 2015. The key factors contributing to boosting power efficiency are above all the planned deactivation of the 3G network, the expansion of 4G, the roll-out of 5G and data centre modernisations. This is because power efficiency increases with every new generation of mobile communications. 5G consumes significantly less energy per data volume than 4G.

Year after year, we are improving our energy consumption per data volume and are achieving the climate targets we set ourselves ahead of schedule. The data volume increased by 196 % compared to 2015. Energy consumption, on the other hand, fell by 14.3 % in the same period. In all, this equates to a reduction in energy consumption per data volume of 71 %.

T 05

ENERGY AND CO₂: ENERGY CONSUMPTION

IN GWH	2020	2019	2018
Total energy consumption	736	727	778
Total electricity consumption ¹	710	696	746
of which by the network and data centres ²	686	668	716
of which by offices, shops, call centres	24	28	31
Total fuel consumption ³	26	31	32
Energy from renewable energy sources ⁴	679	584	610

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 Network electricity consumption equals the number of mobile telephony and fixed line sites multiplied by an average electricity consumption figure per site. This was determined on the basis of historical consumption data. In the future, the values actually measured by smart meters will replace the statistically collected values.

³ Fuel consumption (in the form of diesel, natural gas and district heating) comprises the units provided via a direct contract between a supplier and the Telefónica Deutschland Group.

⁴ Energy from renewable energy sources consists of direct purchases and electricity purchases certified with guarantees of origin. Since 2020, the calculation of the energy from renewable energy sources has included green power from grid and IT infrastructure used jointly with other companies in addition to the amount of green power purchased by the Telefónica Deutschland Group.

Smart metering as the key to efficient network technology

The network technology is responsible for approximately 96 % of the company's power consumption. The power consumed by the network is measured by smart metering systems. In spite of the COVID-19 pandemic, the Telefónica Deutschland Group equipped several hundred mobile network sites a week with smart meters for digital power consumption logging to further increase the energy efficiency of the O₂ network. In all, a good 12,300 sites are currently equipped with a smart meter. The plan is to have equipped 27,000 sites with a smart meter by the end of 2021.

The power consumption of every mobile network installation equipped with a smart meter is recorded every second and is transmitted to a cloud server by an Internet of Things radio unit via the O₂ network. The power consumption of all the sites is then analysed on the basis of alerts when thresholds are exceeded, thus allowing for predictive maintenance and facilitating the early identification of malfunctions. With smart metering, the company is taking another step towards greater energy efficiency, with the real-time data allowing us to manage our energy consumption better. We are striving to reduce our net carbon emissions to zero.

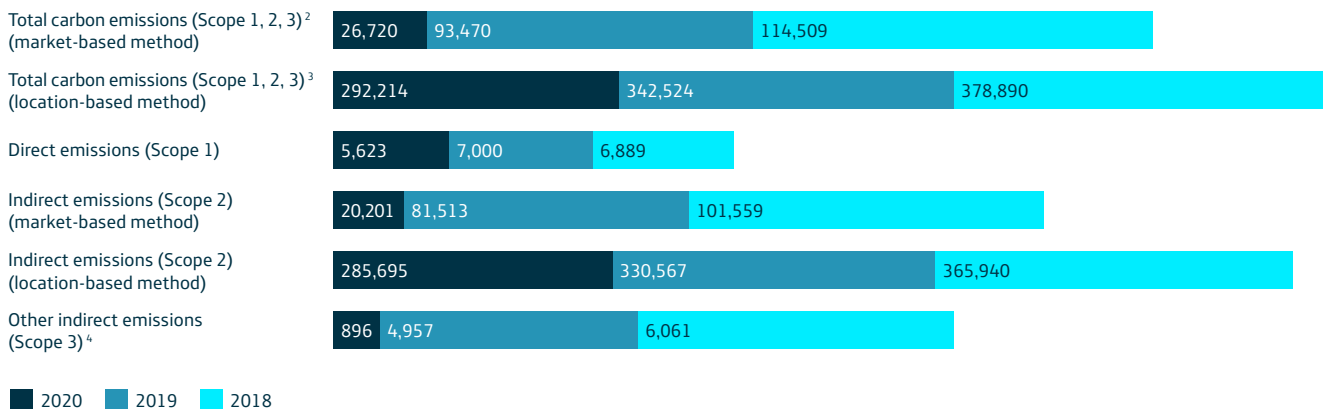
Lowering emissions for company mobility

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. Travel activities fell sharply in 2020 due to the pandemic. This meant that per route when compared to 2019 81 % fewer kilometres were flown and 77 % fewer kilometres were travelled by train. In order to attain our target of reducing the average carbon emissions of company vehicles registered from 2020 to 95 g CO₂/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. Electric charging stations are scheduled to be introduced at the Munich and Düsseldorf sites in 2021. The carbon emissions of the company fleet fell by 23 % year-on-year in 2020.

The Telefónica Deutschland Group also improved its environmental footprint with up-to-date workplace design. The employees are increasingly working from home and using videoconferences, thereby contributing to a reduction in traffic volumes and the corresponding pollutant emissions. This trend in the direction of mobile and digitalised work formats was further accelerated in 2020 by the pandemic. We want to further advance this transformation and significantly reduce business travel with one of the five key initiatives of our HR strategy, 5 Bold Moves. For more information, see the "Attractiveness as an employer" chapter.

G 03

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 ITU-T L.1420. A standard Germany-wide conversion factor is used to convert electricity consumption into carbon emissions. For the market-based method, 609.37 g CO₂ per kWh is used (source: 2019 European Residual Mix).

³ Carbon emissions (including Scope 1 and Scope 2) are calculated on the basis of ISO 14064, the Greenhouse Gas Protocol and ITU-T L.1420. A standard Germany-wide conversion factor is used to convert electricity consumption into carbon emissions, irrespective of the fact that 96 % (previous year: 84 %) 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 1990–2019) of the Umweltbundesamt (German Environment Agency) and with that 401 g CO₂ per kWh from 2019 as the basis for the location-based method calculation in the year under review, 2020.

⁴ Other indirect emissions due to business travel (flights and rail travel). The emissions per km for flights and rail travel (Scope 3) for the years 2018 to 2020 were calculated with emission factors applied Group-wide (source: UK government conversion factors).

Attractiveness as an employer

BASIC PRINCIPLE AND CHALLENGES

Future-proof organisation and high employer attractiveness as targets

The extraordinary global situation caused by COVID-19 presented the Telefónica Deutschland Group with new challenges in 2020. As an employer, our top priority when it came to dealing with the pandemic was the health and safety of our employees. A large proportion of the workforce worked together virtually from their respective homes from the beginning of the crisis. As many nurseries and schools were closed, we granted the affected parents maximum flexibility in the allocation of their work hours. We collected, analysed and evaluated the insights from this new way of working, which continued for months, in a structured process involving both the employees and executives. The aim was to preserve the positive changes for the future and to advance the organisation's ongoing transformation with a decisive step in the direction of tomorrow's digital working world. With our push to productively shape the "new normal" and with other initiatives in the course of the year we were thus able to further accelerate the implementation of our HR strategy. Based on and further developed from the previous years' focuses, it covers the topics of new ways of working and productivity, employee and executive development, and employee engagement. With the appropriate measures and in ongoing dialogue with our staff we wish to remain an attractive employer for our employees as well as for external applicants in the future.

PROCESSES & MANAGEMENT

Systematic processes to achieve targets

The Chief Human Resources Officer (CHRO) has overarching responsibility for the area of staff matters. In addition, several works council bodies represent the employees' interests. We conduct regular employee surveys in order to assess the attractiveness of our work environment and the progress we are making with the core issues regarding our transformation. These include short surveys conducted throughout the year known as Pulse Surveys and an annual global Employee Experience Survey. Both types of survey are conducted online, anonymously and voluntarily among all employees of the Telefónica Deutschland Group. The values measured include the employee Net Promoter Score (eNPS), which is a sign of the likelihood of employees recommending Telefónica as an employer. It is therefore a key indicator of our attractiveness as an employer. We achieved an eNPS score of 53.8 points in 2020, thus more than doubling our score compared with 2019 (previous year: 21.5). The key drivers were the way in which we handled the

coronavirus crisis as an employer and our more flexible ways of working. Other issues that contribute to the eNPS in particular are the employees' general well-being, joint social commitment, and development and career opportunities. The use of agile methods and internal mobility offer potential for further improvements. Other results show that 91 % of our employees still feel they are part of a team in spite of working virtually while the pandemic situation continues and that the core transformation topics were successfully advanced even during the COVID-19 pandemic. In addition, 93 % of the employees confirmed that equal opportunity is pronounced at the Telefónica Deutschland Group (previous year: 88 %).

The response rate for the global survey was 77 % in 2020; this meant it remained stable at a high level year-on-year (previous year: 79 %). Together with the Pulse Surveys conducted during the year, the global Employee Experience Survey helps us to regularly review our progress on our HR strategic focus topics in a data-driven way and to take targeted action. We additionally make the results available to executives in a digital dashboard, where they can see the figures for their division and can work on the improvement potential identified, with the assistance of the HR division and external coaches.

T 06

ATTRACTIVENESS AS AN EMPLOYER: ANNUAL EMPLOYEE SURVEY

	UNIT	2020	2019	2018
Response rate	%	77	79	71
Employee Net Promoter Score (eNPS) (from 2019 onward)	Score	53.8	21.5	–

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. The global COVID-19 pandemic additionally demanded an unforeseeable and longer-term change in the way people collaborate within the organisation, from which we have drawn important lessons for a modernised digital way of working. These learnings were systematically grouped as five key initiatives (5 Bold Moves) in the course of the year, were rolled out in the company and were anchored with ongoing initiatives. They help to accelerate the focus areas of our HR strategy and our transformation.

New ways of working and productivity

The five key initiatives seek in particular to boost efficient and effective collaboration, productivity and individual flexibility. It is essentially a flexible hybrid model that combines the benefits of mobile virtual work with the advantages of on-site collaboration. The five key initiatives are "Working anywhere – working wherever it is most productive", "Working anytime – maximum work time flexibility within the legal parameters", "Outcome-based leadership – systematic focus on results", "Digital by default – virtual meetings as the new standard" and "70 % Less travel – significantly fewer business trips". To support the successful implementation of the key initiatives, they were communicated in an attention-grabbing communication campaign and were complemented with an array of measures. These included specific information events, accompanying materials and coaching to equip the employees and executives with the skills needed for the changed way of working. Other measures to sustainably anchor the initiatives are gradually implemented in cooperation with the employee representatives.

Employee engagement and attractive working conditions

The engagement of our employees is a key factor in the success of the Telefónica Deutschland Group. With the involvement of the executives, we therefore create a work environment to which our employees can actively contribute with their achievements, their ideas and their social engagement, in which they can further develop and also reconcile various areas of life with flexible work models. To promote communication within the company above and beyond this, various formats involving the Management Board and employees are in place such as Vorstand im Dialog (Management Board in Dialogue), Tower Talk, and Kaffee & Croissant (Coffee & Croissants). During the COVID-19 pandemic situation ongoing communication and guidance was made possible thanks to additional special formats such as virtual executive conferences, weekly Management Board updates and a dedicated intranet page. Company-wide team events for a good cause, such as the Digital O₂ Tower Run, likewise played a part in boosting employee loyalty

under changed circumstances, consolidating a feeling of unity and creating a sense of shared social responsibility. To closely involve the works council and increasingly shape company changes together with them, we – among other things – held regular dialogue formats featuring Management Board members in 2020. There is also ongoing informal exchange with the bodies. The comprehensive additional benefits that the Telefónica Deutschland Group offers its employees are considered to be another important component of our attractiveness as an employer. These include pension subsidies, discounts on public transport, insurance policies, meal subsidies and employee credits.

Development of employees and executives

The Telefónica Deutschland Group moreover places a focus on targeted investment in the ongoing self-managed further development of its employees and on acquiring highly qualified new employees. In this way, the workforce's employability and the organisation's future viability are strengthened in the long term. With the BEYOND initiative in 2020, the Telefónica Deutschland Group launched a platform based on artificial intelligence which brings suitable development options within the company to the attention of the employees on the basis of their skill profiles. These may be, for example, vacancies, job rotations or project assignments. In this way, we encourage our employees to repeatedly engage in changes of perspective and to grow in new tasks through permanent role changes. The platform additionally features "learning journeys" regarding selected, strategically relevant and future-oriented skills such as data analytics and science as well as access to more than 400,000 videos and 10,000 courses provided by the digital learning platform LinkedIn Learning. This allows employees to incorporate learning into their day-to-day work continuously and on their own terms, in particular building up important data and digital skills and improving the ways in which they work.

To equip our employees with the skills required for the new, oftentimes entirely virtual form of collaboration during the pandemic situation, we also provided special information events and assistance. One of the main focuses here was on supporting the executives with the changed task of successfully managing and leading their teams virtually. Accordingly, additional offerings for executives at all levels were provided as part of our executive development programme known as "leadership journeys". Our leadership journeys are a targeted investment in our executives in order to strengthen them in their role as the drivers of change, performance and engagement, and to make ongoing further development available to them too. Other supportive measures for executives in 2020 included individual coaching and team workshops together with professional trainers.

Anti-corruption and conflicts of interest

BASIC PRINCIPLE AND CHALLENGES

Compliance as the bedrock of our actions

Social and economic life are founded on integrity and legal compliance. Violations of rules and laws have negative economic, environmental and social impacts and can be detrimental to the upholding of human rights and equal opportunity. Abidance by the law is not only an indispensable basic prerequisite for our conduct. It also allows risks to be reduced and our business foundations to be preserved – something which we seriously jeopardise if we fail to observe regulations and rules. These factors contribute to anti-corruption and conflicts of interest being identified as material non-financial topics for our company.

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 additionally guide our conduct. Our principles in turn are based among other things on the UN Universal Declaration of Human Rights, the core labour standards of the International Labour Organization (ILO) and the principles of the UN Global Compact, which we declare our dedicated support for. Our Business Principles are directed at the employees, business partners, shareholders and the company as a whole. As a binding code of conduct, they set standards for our participation in the business world.

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 follow the guidelines of the German Corporate Governance Code (DCGK) for this purpose. The [declaration of conformity with the DCGK specifications](#) and our [Management Declaration](#) are published in the [Annual Report](#).

For us, it is about more than merely meeting requirements. We also want to continue to develop and ensure that we act with integrity in the digital age. The digital transformation with its many legal challenges and the legal development anticipated for 2021 in the

direction of corporate criminal liability present development scope and options here. Germany's new Corporate Sanctions Act (corporate criminal liability) governs the sanctioning of corporations, i.e. of legal persons under private and public law, associations without legal personality and incorporated partnerships. The current draft bill includes rules regarding the consideration of a company's compliance endeavours and therefore offers companies significant incentives to invest in a good compliance management system (CMS). The significance and importance of an effective CMS will therefore increase considerably in the future. The efficient embedding of the CMS within the company and targeted compliance measures are contributing to risks in the area of corporate crime being proactively identified and effectively combated.

PROCESSES & MANAGEMENT

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 not only to severe financial damages, but also considerable damage to reputation. The Telefónica Deutschland Group condemns all forms of corruption and this is reinforced with its zero-tolerance commitment. Digitalisation is also causing companies' business processes to change. Compliance management systems (CMS) therefore have to be adapted to new circumstances in order to be able to proactively identify risks and effectively manage them. We seek to prevent unfair practices such as corruption, corporate crime and fraud as best we can with preventive measures and, should we not manage this in isolated cases, to systematically uncover these practices. We were unable to fully achieve our goal of having our CMS externally certified by the end of 2020. We will strive to conclude the external certification process of our CMS in 2021.

Integrated compliance management system

Maintaining and continuously strengthening our customers' trust is important to us. We absolutely want to 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 and the ongoing development of the CMS.

All suspected cases of unfair practices such as corruption and the taking and giving of bribes that come to our attention are carefully examined. Substantiated accusations are rigorously pursued and penalties are imposed accordingly. The integrated CMS 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. We received no reports of suspected cases of corrupt conduct in the reporting year 2020.

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ANTI-CORRUPTION

	UNIT	2020	2019	2018
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.

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, guidelines on how to handle invitations, gifts, conflicts of interest and incentives, and the Telefónica Deutschland Group's [Human Rights Policy](#). Regulations relating to the procurement of services also apply, such as how to conduct business with service providers. We also produced a new policy for our whistle-blower channel in the reporting year 2020 to guarantee the legally watertight and responsible handling of tip-offs, complaints and anonymous reports from stakeholders who are potentially affected.

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 [Supply Chain Sustainability Policy](#) and an [anti-corruption declaration](#) to which they have to consent in order to be commissioned with work.

To sustainably sensitise our employees to these important issues, we conduct, among other things, compliance training courses online and at set intervals of between one and three years. There is mandatory participation in training on the Business Principles, data protection, information security and Germany's General Act on Equal Treatment (AGG). Our executives on the top management level are likewise required to commit to complying with our Business Principles and anti-corruption guidelines and are given training on this.

Participation in training is monitored by the human resources system Success Factors. All employees receive automatic reminder emails as soon as they are due for mandatory training. Upon completion of the training, an electronic certificate attesting to the employee's successful participation is added to the system. The current level of training is reported to the Audit Committee, a Supervisory Board body, once per quarter. The Management Board likewise receives a quarterly report on the status of the conducting of mandatory compliance training, broken down by Management Board areas of responsibility. We continually review our training concept and adapt it to current developments and the actual needs.

In addition, there is regular communication on topics relevant to corruption, for example emails and information on the intranet. If required, the Compliance department can offer employees and bodies such as the works council advice on all matters concerning ethical conduct and acting with integrity. 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. In 2020 we conducted a risk assessment for the subsections of corruption and conflicts of interest, subsequently deriving measures for further improvement in these areas. For example, we intend to offer e-learning specifically on the topic of anti-corruption and conflicts of interest for certain risk areas in 2021. We will additionally produce FAQ for all the employees on the topic of dealing with officials and will fine-tune the definition of an "official" in the anti-corruption guidelines, as some uncertainty has been ascertained among the employees in this regard. We consider these measures to be important as business-related contact with officials calls for particular sensitivity with regard to possible corruption risks.

INDEPENDENT PRACTITIONER'S REPORT

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

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 2020 (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 2020 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.

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
- Inspection of additional documents and supportive systems
- 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 2020 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, 18 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad
German public auditor
(Wirtschaftsprüfer)

ppa. Annette Daschner

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The Non-Financial Report can be downloaded at
www.telefonica.de/nfs

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

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